

Rice Value Chain Analysis

"Each life starts with a little seed"



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Ir. Corné van Dooren

For IFAT/EFTA/FLO

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1.1 Explaining the front page: Family Pheudphon, Helping to Preserve Rice Diversity

94 Mu 4, T. Kumbaet, A. Kutchum, Yasothorn
Land 30 rai about 17 rai Hom Mali and 7 rai sticky rice
4 cows, ducks, chickens, 7 fish ponds

Mr. Naidaoreuang and Mrs. Suphit (both age 30) live not far from Por Tonguan and Mae Maepun and are members of the same extended family. Michael Commomns (5) walked over to visit their place to speak with them. The first thing he saw was the smiling face of their cute baby boy.

"Mrs. Suphit told me they began to farm organically in 1995, and that before then they were using chemicals. Even so the transition was not difficult. She has seen improvements since the change; the environment is richer with many more fish, crabs, frogs, and toads and their health is better. They used to have rashes and allergic reactions from working in the fields, but no longer. At first they did not see much increase in economic benefits, but as the soil has improved so has their yields. She said now they usually harvest more than they would get when using chemical fertilizers, but even in a rough year they are still better off as they have low investment costs."

She said their investment costs are only about 2000 Baht for labour to help harvesting, 6000 baht for materials such as chicken manure, and about 800 Baht in fuel for the plowing machine. This is little over US\$ 200. They also earn some money from selling fish and vegetables in the dry season.

Speaking with Mr. Naidaoreuang, he told me that he feels satisfied working as a producer in the Fair Trade system. He said, "*Everyone meets together. We look at how things went; what were the investment costs and conditions for the year and we also look at the situation for others in the rice chain. Everyone decides together. It is not a case of one (person or group) deciding for the others.*"

He feels the price he receives for his rice is fair. He is not stressed. He has some debt, but used the money to improve his land and he feels the investment was worthwhile. He also sees the benefit of help from the project's support staff, particularly for farmers new to organics. They work with them to improve their knowledge and techniques and to obtain materials for making organic fertilizers. The cooperative also has a support fund that can be used for low interest loans for such things as buying a cow or a buffalo.

He sees the organic and Fair Trade consumer as helping his situation and his community in two ways. "*First the consumer helps directly (financially) by creating a market for their rice and second the consumer helps improve the environment as the soil and water quality and the ecological diversity increases with the use of organic methods.*" (5)

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1. Summary: The sun is rising for fair rice

This is the story of how the famous Thai Hom Mali gives rice an extra flavour

There is a long chain between a rice farmer in the Northeast of Thailand and a consumer in an average European household. Each step adds value to the chain. But the more that is absorbed by traders and wholesalers, the less is available for farmers. But there is a good and important story to tell about Thai farmers working hard under Fair conditions to serve you with their special Hom Mali rice.

Corné van Dooren

1.2 World production and trade

The world production of rice is 605 million tonnes of paddy per year, equal to 403 tonnes of milled rice. Half of this is grown in China (30%) and India (21%). Only 26.5 million ton is traded internationally. Besides the traditional main exporters (Thailand, Vietnam, India and Pakistan), a limited but relatively important part of rice traded worldwide comes from developed countries in Mediterranean Europe and the United States. Only four countries are responsible for three-quarters of the trade. Thailand is the biggest exporter at 38%, Vietnam is second at 15%, then the United States 12% and India 10%.

Most rice is imported within Asia or to Africa. The Middle East is the leading importer region, accounting for 35 percent of the total. The European Union is a small importer with 3%. The EU is almost self sufficient in Japonica rice (short grain). It only needs to import flavoured rice and its purchases are increasing by 15% a year. 90% of the imported rice is brown or husked rice which is milled within the EU by large milling companies. 17% of the European rice is imported from India and Thailand. Europe is dependent on these countries for flavoured rice.

1.3 Enough to eat

Rice is the world's most common staple food. For more than half of mankind, in 118 countries, rice is the main component of their diet. Consumption per person is 235 gram per day. This is an average of two meals or two full plates each day.

Since the sixties global rice production has increased considerably. Many countries which used to produce limited quantities of rice have become self-sufficient, and have even at certain times exported their surplus. But in many regions where rice is grown people still do not have enough to eat. A report from the UN's Food and Agriculture Organisation (FAO) found that the world will be able produce enough food to meet global demands. This conclusion was reached by FAO experts whose analysis specifically does not allow for any production improvements from genetically engineered crops. FAO reveals that there is a 'drastic deceleration' in world demographic growth in prospect, and that although the annual rate of growth in global crop production is expected to reduce, the projected overall

increment in world crop production to 2030 of 57 percent will exceed population growth. The report also found that by 2030, crop production in developing countries is projected to be 70 percent higher than in the 1990s, and concludes that 'for the world as a whole there is enough, or more than enough, food production potential to meet the growth of demand'.

Again this underlines that hunger is not a matter of production, but of distribution.

1.4 Steps in the rice value chain

There are at least 20 price steps in the rice chain. In this chapter we look at the different steps in the value chain of rice. We are going to focus on the steps in the country of origin, Thailand, and on a special rice variety called Hom Mali. Other steps such as milling and packaging are also mentioned.

1. price breakdown of different types of Fair Trade, organic and Jasmine rice (2003-2005)

	Green Net	Claro CH	FTO NL	Co-op CH	Own label NL
step	Fair Trade/ organic Hom Mali	Fair Trade/ organic Hom Mali	Fair Trade Jasmine	Fair Trade	conventional Jasmine
1 price for farmer	€ 0.20	€ 0.21	€ 0.25	€ 0.09	€ 0.07
2 from paddy to milled	€ 0.30	€ 0.53	€ 0.38	€ 0.14	€ 0.11
3 premium for farmer	€ 0.04		€ 0.02		
4 premium for cooperative	€ 0.04	€ 0.07	€ 0.06	€ 0.02	
5 Milling	€ 0.05		€ 0.04		€ 0.02
6 <i>packaging at local unit</i>	€ 0.17	€ 0.27			
7 transport to Bangkok	€ 0.01		€ 0.04		
8 organic inspection	€ 0.01				
9 overhead for export organisation	€ 0.02		€ 0.04		
10 Export fee and documents	€ 0.02	€ 0.04	€ 0.04		
11 FOB	€ 0.66	€ 1.02	€ 0.50	€ 0.38	€ 0.31
12 European tariffs	€ 0.26	€ 0.26	€ 0.21	€ 0.21	€ 0.21
13 Shipment				€ 0.10	
14 Milling and packing			€ 1.22	€ 0.41	€ 0.23
15 Other costs for importer		€ 0.08			
16 Margin for importer/ wholesaler		€ 1.21	€ 0.77	€ 0.13	€ 0.52
17 fee for Max Havelaar / FLO		€ 0.12		€ 0.12	
18 Margin for shop		€ 0.92	€ 0.48		€ 0.41
19 VAT		€ 0.09	€ 0.20	€ 0.03	€ 0.11
20 Consumer price		€ 3.70	€ 3.38	€ 1.38	€ 1.79

The information in the table is based on calculations received from Green Net, claro, Fair Trade Organisatie and supplementary information from Rice Mühle Brunnen and Hivos.

Some numbers are estimated or based on assumptions (especially for the milling costs in Europe). Prices originate from 2003, 2004 and 2005.

1.5 The link between Green Net and claro

The organic and Fair Trade rice project in Thailand was initiated about 15 years ago through the cooperation of local Thai NGOs and a Swiss-based Fair Trade organization, claro. Local NGOs in Surin and Yasotorn Province and producer groups in Thailand were involved. Around 1996, the project expanded its scope to include organic farming as a central objective. Claro Switzerland is the official importer for Fair Trade rice and all Fair Trade organisations in Europe place their orders for Thai rice via claro to Green Net. Rice is exported through Fair Trade networks in many European countries. The current importers of Fair Trade rice are claro (Switzerland), Solidar Monde (France), Oxfam (Belgium), Oxfam (UK), Gepa (Germany), CTM (Italy) and Eza (Austria).

Established in October 1993, Green Net is a Thai NGO and IFAT member working to promote sustainable agriculture through providing a Fair Trade market service to producer groups, and promoting organic food among Thai consumers. It has one of the few export licenses for rice in Thailand and has now become a large food product exporter to the European Fair Trade Association (EFTA). Local project support staff organizes and facilitate support for the farmers known as "Farmer Field School" and "Participatory Technology Development". In total more than 3500 farmers are involved in the Green Net network, of which 950 are in Yasothorn and 500 in Surin. About 750 farmers are involved in organic farming and certification. These are the main players in the Fair Trade chain. Most of the Fair Trade is organic, but not all and not always certified.

Commercial rice trade between Thailand and the US and Europe is very similar to the Fair Trade partnership between Green Net as the exporting organization and claro as the importing organization.

1.6 Thai farmer cooperatives

Rice farmers belong to the poorest groups in society and need full support. Working on others' rice farms is the main source of employment and livelihood for landless and marginal farmers who constitute one-third to one-half of rural households in developing Asia. Contract farmers become extremely dependent on world market demand becoming factory workers in their own fields: The only difference is that they have no company to take responsibility for securing their jobs, their social welfare, etc.

The establishment of agricultural cooperatives and farmer organizations initiated by the Thai government is linked to the Green Revolution strategy. The main reason for setting up farmer cooperatives and organizations was to facilitate the distribution of chemical fertilizers and pesticides.

The Fair Trade Hom Mali rice is being cultivated by the members of four farmers' organisations in Surin and Yasothorn, two provinces of Isan. Thanks to the promotion of organic farming, the processing and packing of rice where it is produced, and the direct marketing of the finished product, the rice farmers eventually do receive financially rewarding prices.

Saphanfa a Fair Trade cooperative member say: *"Even some farmers doing organic agriculture earn little profit after the investment cost, and this is not even considering (the value of one's own) labour. I do better as I use the mushrooms to pay my material (compost) costs. In any case, all of the organic producers have good food to eat all of the time. If a farmer produces just to sell, he can't live. Only by looking after one's self-sufficiency first can you live."*

From farmers' statements it is concluded that organic and Fair Trade make a positive difference, reduce debt and improve health. Fair Trade and certified organic prices are

better than market prices, providing enough for a living, but earnings are still very low when one considers the time invested.

1.7 *Farm gate price*

The average production cost in Thailand is € 65 to 105 per ton. In reality some calculate the costs at € 25, but these are only direct costs. Two thirds of the cost is labour (of the farmer and his family) and this is not always taken into account. 25% of the expense is for fertilizer, pesticides and seeds.

The average farmer income is around € 450 to 800 per year. This is only a third of the average income in Thailand and beneath the WHO acceptable level of living and poverty level (\$ 2.50 a day). The farm gate price varies year by year and is often less than the production cost. Farm gate prices dropped in the last thirty years to an average of € 0.066 per kg, while farmers' spending increased. The farmer receives only a quarter to half of the FOB price (free on board harbour price in Bangkok). The FOB price is 1.4 to 2 times the farm gate price.

1.8 *The role of the rice mill*

All rice has to go through a rice mill to husk the rice and convert paddy into brown rice. For example, in the northeast of Thailand an exceptionally large mill in Buri Ram province determines the price for the area by monitoring how much rice is entering the mill, how much rice is being sold and how much rice is being held in stocks. This mill will then set the price, and usually indicates this on a notice board in front of the mill for everyone to see. The price drops as more rice flows into the mill, e.g. during the rice harvest (mid-December), the price of rice drops because there is a great supply. At other private mills, farmers can't even be certain of the weight of their produce. They have no right to see how the quality of their rice is determined, nor to examine the scales.

Nuntana Udomkit, (Department of Economics and International Development, University of Bath UK) made a case study on rice in Thailand: *"Mills and not farmers control the price of paddy and they do so on the basis of information provided by rice agents about the price exporters are willing to pay. Mills buy rice at the price that covers their cost of production plus profit. What is left is the price that farmers receive."* When farmers realised that the largest benefits from rice production went to the millers, wholesalers and retailers in the chain, it acted as an incentive for them to work on having their own rice mill.

NAG Rice mill was established in 1991 in order to deal with the problem of price determination. At that time farmers faced two immediate concerns: a) the low price of paddy, and b) the control traders and mill owners exercised over the price of unmilled rice. NAG also established saving and cooperative activities in order to give loans to its members at low interest rates. NAG Rice Mill/ Rice Fund is the only mill for Fair Trade farmers in Surin. It is a small rice mill with the capacity to mill 4 tons/day. After NAG has been allocated quotas for export, the Rice Fund Organisation begins to buy paddy from members. This process usually begins in November or December. It buys paddy at the market price on the day that farmers agree to sell, plus a margin for each group. The next process is to transform the paddy into rice.

More than half of Thai farmers sell their rice to paddy traders or middlemen and 20% sell direct to mills. Middlemen put farmers under pressure, giving them prices below the market price and charging high interest rates on loans. But most of the time they are a necessary part of the chain. Only 6% of Thai farmers sell through their cooperative. Having their own mill is essential for control of the chain. The greater involvement in mills by farmer groups is a big step forward, but it also gives more responsibility and creates more problems.

Within the Green Net network there are a total of 4 mills with approximately 160 tonnes milling capacity. About 50 people work in these mills.

1.9 *Packaging provides extra work*

Rice Fund also handles the vacuum packing process for all export rice of Green Net. The packing unit is located at the office of Kaeyai Farmer Group, Tambol Kaeyai, Muang District, Surin. Purchase orders from Green Net give packaging specifications. The packaging material is provided by Green Net.

Rice processing by Green Net has reached a semi-industrial level. Nevertheless there are still many working steps requiring manual labour. The bottleneck in production is the manual cleaning and sorting. In 2005, claro financed a new concept rice packing unit in Kudchum. This is part of a project with Green Net to raise the quality of production. The older packing unit in Surin does not have enough packing capacity. Thanks to a growing demand there is a need for a second packing unit. Green Net was not able to fulfil all orders on time. The packing unit has capacity for about 2 containers per month, the same as the unit in Surin. There is work for 12 people, mainly women, for nine months per year. Both packaging units have a capacity of 1000 kg per day and give work to around 60 people. The orders of claro alone account for 30 containers per year.

1.10 *Success of rice and buffalo 'banks'*

Some farmer cooperatives, like the Progressive Farmers Association of Ubon Ratchatani in North Thailand, have developed rice and buffalo banks. The rice banks help farmers to become independent from middlemen. They cooperate with a local bank in order to offer low interest loans to rice farmers to buy their fertilizers. They buy the rice from the farmers at a Fair price and store the purchased rice in a central silo for sale later in the year at a higher price. The net profit after sale is distributed to the members of the cooperative. Most Fair Trade cooperatives are paying 10% above the market price. This surplus is not enough to free farmers from debts and poverty.

In Thailand most farmers still plough their fields in a traditional manner with buffalo. Mechanized ploughs are very expensive due to the high cost of fuel. Unfortunately many farmers do not own a buffalo and have to rent one. They can rent a buffalo for 150 kg of rice (middleman ask 500 kg). A good initiative of the PFA cooperative is the buffalo bank. They purchase and raise buffalo and give a fertile female buffalo to a member farmer. The farmer must return the first calf to the 'bank' and subsequent odd numbered calves. The 'even' calves belong to the farmer. He saves the money he would have spent renting a buffalo and acquires an asset that easily can be converted to cash. A buffalo calf when fully raised is worth 15000 baht (€ 300). This is almost as much as the farmers' average yearly income. This shows that other initiatives of Fair Trade have more impact on the farmers' income than the guaranteed price set by FLO.

1.11 *Middleman, traders and brokers*

During milling a third (30-40%) of the rice volume is lost as husk, so the value per kg increases. Most of the time the price between farm gate and wholesaler doubles. Three quarters of this is accounted for by the milling loss; about 24 to 28% of the wholesale price (is nearly FOB price) is margin for mill, middleman and traders. The added value of the exporters and traders is about 217 baht, about € 0.043 per kilo. Most international trade is handled in consignments of 50 kg.

The main channel for selling rice is government-to-government deals. In Asia around half of all annual rice transactions are realised through these kinds of deals. Today, 80% of Thai

exports, for instance, are still controlled by 10 traders, most of them members of rich and powerful families. They still manage large exportable stocks that they usually sell through private exporters. These exporters are in direct contact with private importers from Europe. Two third of the rice is traded from mills to private brokers. Broker's clients will include rice-trading companies who operate through them in order to conceal their identity in the marketplace (for political or commercial reasons), as well as end-users such as Uncle Ben's and Kelloggs. The vast majority of Thai exports are sold through brokers such as Jacksons Son (UK) or Creed (US). Everyone can follow the trade prices on www.oryza.com. Rice trading in Europe is conducted from Paris and Geneva, but importing is controlled mainly by the mills that work brown rice and pack it for distribution. Cargill, for example, is a leading supplier of chemical inputs, a buyer, importer, exporter, transporter, speculator and hedger of rice, as well as a borrower and lender of credit. They buy rice in the country of origin, charter the shipping, and sell the rice in the country where the cargo eventually arrives. International traders make only a few cents profit per tonne. Another example is Van Sillevoldt, a Dutch company with €75 million turnover, handling 100,000 tons of cargo rice per year. The company is mainly packages and distributes its own brand, Silvo, and 'private label' rice types. These private labels include: Fair Trade, Albert Heijn, Superunie, Aldi and Lidl. Around 90% of all white (milled) rice in the supermarkets in the Netherlands originates from Van Sillevoldt. Van Sillevoldt also handles Fair Trade Organisatie rice from the Progressive Farmers Association in Thailand. In the Pandan and Basmati segment Silvo is market leader with a consumer price of € 1.79 per kg. But there is also mainstream rice on the market with a bottom price of € 0.58 per kilo.

1.12 Transport and dealing

Fair Trade rice for Switzerland arrives through Rotterdam, and for EU-members through Hamburg, Rotterdam, Le Havre or Venice. Orders still pass between Green Net and claro - not physically; the orders are only coordinated and invoiced from claro - but the goods go directly from Green Net to the customers in Europe.

There are two types of rice being traded through claro: *Jasmine* rice and an indigenous rice called Laueng-on. Each of these can be further distinguished. This information together with the price quotation is passed by Green Net to claro and subsequently to other members of the European Fair Trade Association (EFTA). Each importer then places orders. Once the orders are finalised, Green Net then allocates the rice quota and informs each producer group. Each producer group has to stock the paddy at the beginning of the year to ensure that they have enough rice to trade.

1.13 Fair Trade (FLO) price

Fair Trade farmers receive an income of about € 1000 per year, varying from € 350 to 2500. This means that they cannot live from rice farming alone.

The price is set by Fair Trade Labelling Organisations International (FLO) in Bonn. This system has been in existence since 2002. FLO ask their licensees to pay a minimum price for the farmers. This price is € 0.114 for rain-fed rice from Thailand, € 0.095 for irrigated farming (because there are two crops per year and higher yields) and € 0.243 per kg for traditional Basmati rice from India. Most traders pay more then the minimum price up to 0.25 per kilo. (step 1)

The organic rice producer is thus guaranteed a Fair premium price. The price is set at a fixed level taking into account the rice farming cost. In 2003 the certified organic paddy was purchased from farmers locally at 10 baht/kg (€ 0.20) and 7 baht/kg (€ 0.14, just above the minimum) for non-certified organic paddy. This was quite a significant premium as conventional paddy cost only 4.7 baht/kg (€ 0.094). In this case Fair Trade farmers receive

4.5 to 10 cents more than the market price. Organic farmers get an extra differential of 0.02 per kilo. (step 3)

FLO also obliges the traders to pay an € 0,015 per kilo for the cooperative. (step 4) This money is for the costs of the coop and special programmes for training, rice banks, etc. For farmers Fair Trade certification costs about € 0.025/kg. Traders also pay a premium to FLO. This is a complex calculation. The costs are about € 0.12 per kilo. (step 17) This is based on € 500 per company, a fee of € 0.005 per kilo and a maximum fee depending on the turnover of € 4000.

The market shows that it is possible to sell Fair Trade rice at € 1.38 per kilo. The consumer price is about 3 to 7 times the FOB price. The price for export involves a bargaining process between producers and buyers; NAG, Green Net and claro

1.14 *Paying a minimum price or more?*

There is a big difference in price policy and calculations. Fair Trade rice is available at the Coop Switzerland for € 1.38/kg. The most expensive is rice from Laos and Basmati from India. This rice is from non-FLO members, so no license fee is paid. The most common rice, Hom Mali organic in a 1kg pack, is sold by different FTOs from € 2.95 to 4.29 (+45%). A question has to be asked about where the difference of € 1.34 per kg has gone. Differing VAT rates is not the reason because the cheapest rice has the highest VAT. The cheapest rice available from FTOs is from claro (normal Thai long grain rice) and costs € 2.45. Even this product is one Euro more expensive than the Fair Trade rice sold by the Coop supermarket! The key to this conundrum lies in scale and quantity.

Monica Mazzocco, Purchase Manager Food claro, comments: *"Rice specialities and varieties can't be compared with "normal" non Fair Trade rice. It depends on whether the farmers can harvest only once a year or two times.*

Supermarkets buy huge quantities and do the processing and packaging in Switzerland which, in the end, will reduce the cost price. Conventional rice products subsidize Fair Trade rice products. In retail you have one more margin step. "

It has to be said that the consumer price for Fair Trade rice is too high and there is too much difference between the prices of FTOs. By enlarging the scale, working more efficiently and reducing the margin of FTOs, it should be possible to lower the price to a regular level. The maximum price should be € 3.00 for organic and € 3.50 for specialties like Hom Mail.

claro explains: *"The price is set by FLO, of which Max Havelaar Switzerland is a member. The licence users, like claro Fair Trade, Migros and Coop, accept this minimum price. They can pay more if they want. This is the policy of claro. The price of FLO is based on the market, the minimum income by country and the real costs of the farmer. Migros and coop pay this price according to the criteria of Fair Trade."*

Vitoon Panyakul, director of Green Net estimates that the FLO minimum price is just enough for mainstream rice that has two crops per year and is not organic. Green Net cultivates varieties with a crop once a year which results in a higher cost price. For this type of rice the minimum FLO price is not enough. This is why claro pays a higher price; they want to provide livelihood security.

Max Havelaar Switzerland has no influence on the consumer price. As long as the minimum price is paid, Max Havelaar has no problems. Wholesalers can work more efficiently by ordering higher quantities. They also reduce costs by importing in bulk and handling and packing the rice efficiently within Switzerland.

Claro's choice is to pack the rice in the country of origin. This requires a lot of labour which results in a higher cost. More people can profit from this chain. Last year the Thai government set a price for aromatic rice. The price paid by claro is not much higher. This underwrites the statement that the FLO price is only useful in optimal conditions.

1.15 *The European threshold*

The EU guarantees its own rice growers a stable price which covers the costs of production. The EU wants to protect its own farmers in Italy, Spain and the other rice growing countries, so it imposes tariffs on imported rice.

For countries like Thailand and Vietnam, EU's tariffs on imports of milled and husked rice were:

<i>Paddy (non milled rice)</i>	€ 211 / tonne
Husked (Brown) rice	€ 264 / tonne
Semi milled or milled (white) rice	€ 416 / tonne
Broken rice (low quality)	€ 126 / tonne

The high tariffs for milled and polished rice are to protect EU millers which, otherwise, would not be not profitable. This is a disadvantage for processing industries in developing countries.

Dominic Eagleton from Oxfam UK: *"In the case of the EU, a complex series of tariff and non-tariff barriers, variable according to the country of origin and world market conditions, are currently deterring rice-producing countries in the South from accessing EU markets. Moreover, higher import duties on white over paddy rice are denying developing countries the opportunity to increase value added through processing rice."*

The EU's tariffs on imports of milled and husked rice will sharply reduce from September 1st 2005 and go to zero in 2009 for the least developed countries. Countries like Bangladesh, Laos and Cambodia will profit from this, but not the traditional rice exporting countries.

1.16 *Reis Mühle Brunnen enlarges scale*

One of the major players in Fair Trade rice is the rice mill, Reis Mühle Brunnen (RMB), Switzerland. The company started in 1956 and is since January 2004 has been a part of the Coop (one of the biggest supermarkets in Switzerland). It is a rice mill and packing company. The company is highly mechanised with modern equipment.

RMB started with Fair Trade products in 2002. This was a big success. RMB began processing organic Jasmine rice from Northwest Thailand and parboiled conventional rice from central Thailand. In May 2004 they added Basmati rice from India. The turnover grew three times in one year. Now 7.5 % of the production of RMB is Fair Trade rice. The biggest growth has been within the Coop supermarket (350%). Part of the rice is exported to Austria (EZA) and Italy. The turnover of Fair Trade rice by RMB was estimated at more than 1100 tonne in 2004.

The milling and packaging costs about € 0.70 per kg. The packing and milling in Thailand is much cheaper, at € 0.27. Milling and packing by Van Sillevoldt in the Netherlands is the most expensive (€ 1.22 per kilo). This company is handling only 65 tonnes of Fair Trade rice per year.

Until 1999 the volume of Fair Trade rice was low (beneath 200 tonnes). The rise came after 2002 when the FLO label was introduced and the sales went to 392 in 2002 and 545 ton in 2003. This means that an amount of € 360.000 went to the Thai NGO's and € 108.500 to the farmers. This provides a better income for more than a thousand farmers. Two thirds of the rice went through the mills of RMB. The latest numbers are not available, but the estimation is that the turnover doubled or tripled in 2004.

1.17 *Hom Mali quality as added value*

Khao Dowk Mali (or *Jasmine* white) rice is the Thai indigenous variety best known worldwide. It is high quality rice and preferred by consumers. Khao Dowk Mali originated from the Chachensao Province, east of Bangkok. Khao Dowk Mali grain is very white (this is where it got the name "*Jasmine* white") and has the fragrance of "*Pandan*" leaf. Many people mistakenly assume that the rice is called "*Jasmine*" due to its fragrance. But true *Jasmine* rice, of which the perfume - as its Thai name Hom Mali, i.e. "Jasmine-smelling" indicates - is similar to the delicate fragrance of Jasmine flowers, only grows on the arid soil of north-eastern Thailand. Any attempt - notably from the Thai government - to introduce it into other more productive regions, has failed. In region of origin, however, producers have succeeded in developing more than 200 varieties adapted to the specific conditions of their land.

Jasmine rice is one of the best quality rice varieties in the world. High demand makes the price of *Jasmine* rice almost double the price of other varieties. Many rice exporting countries have tried to develop *Jasmine* rice in their countries by smuggling Thai *Jasmine* seed to grow or to breed new varieties. But such attempts have not been successful in producing new rice that has the same fragrance and tenderness as Thai *Jasmine* rice, or the yield was too low.

Jasmine rice is intended primarily for export from Thailand to other Asian countries, the United States and Europe. It accounts for 25% of the total rice exports and half of their total value. Jasmine rice was priced by the Jackson Son trading house in London in the summer of 2005 at € 0.52 per kilo, while high quality Thai rice was only € 0.35. But the profit is only pocketed by traders and export companies. Most rice growers in Isan, for whom *Jasmine* rice is the only financial resource; have to live far below the poverty line.

Pressurised by Thai exporters as well as by national NGOs the Thai government has taken several measures aimed at protecting the production and marketing of Jasmine rice. An official "quality certification" for the "Thai Hom Mali, originating from Thailand" has been registered with the USPTO and the main Jasmine rice importing countries.

There are growing opportunities in the export market, particularly in 'specialty' rice: local rice varieties with a special taste, aroma etc. Jasmine and Basmati rice are examples of well-known specialities, but there is also an upcoming trend for less well-known, more exotic, varieties. Some examples are wild rice, black rice, biryani (basmati rice with Indian spices and herbs) and saffron rice.

Fair Trade groups in Thailand are also growing Jasmine rice. This gives them more surplus than ordinary Fair Trade and organic qualities. Rice traded in Europe with the Fair Trade label is Hom Mali rice or Jasmine. Several EFTA members have been importing Hom Mali rice from Thailand for ten years.

1.18 *New channels for distribution*

If the marketing is done well, there are many possibilities for the market to grow and for farmers to receive an extra premium, and not just within Fair Trade channels.

Supermarket initiatives in Switzerland (Coop and Migros), Belgium and France (Carrefour, Intermarché and Monoprix) are selling increasing quantities of Hom Mali, marketed differently as Thai, *Jasmine*, perfumed rice or Hom Mali.

At the moment 70% of the volume of Fair Trade long grain rice from Thailand comes from the central region and is marketed by Coop and Migros in Switzerland. A Fair Trade rice marketing strategy might aim to emulate this success in other European countries. At the end of 2005 Fair Trade labelled rice will be introduced in Dutch supermarkets and the expectation is that turnover will double within a year.

2

2 Introduction

2. *Por Tonguan is proud to be an organic farmer and to be fairly treated*



Por Tonguan (age 53, Yasothorn, Thailand):

"I want my place to be an example for the community for the future, where one can see how I work and learn about how to take care of the soil."

He earns US\$ 400 (€ 335) per year by selling Fair Trade paddy rice:

"To be rich is to eat well, be healthy, and free of debt."(5)

2.1 The Rice Value Chain Analysis project

The rice value chain analysis is part of a larger project being undertaken by IFAT, FLO and EFTA, which aims to enhance the scale and impact of Fair Trade as an instrument to improve the access of low-income and disadvantaged producers to markets and related services and, thereby, to increase the sustainability of their livelihoods. The overall purpose of the value chain analysis being undertaken is to improve understanding of Fair Trade's social and economic context and to make recommendations on how the economic and social situation of low-income producers may be improved.

The specific purpose of the rice value chain analysis is to examine in detail all the value-added steps in rice production and marketing, with the "value" also assessed from a social perspective, resulting in a social value-chain that tracks social costs and benefits from the point of view of small-scale farmers.

"Value" is not just the cash price received by the farmers for their rice: "Value" supposes the fulfilment of several social standards and has to do with preferences for social quality. It is anticipated that the value chain analysis will:

- lead to a set of recommendations on how the economic and social situation of low-income producers may be improved.
- contribute to the development of a quality management system for the whole of Fair Trade
- increase Fair Trade producers' awareness of the need for quality standards and governance in Fair Trade
- provide material for Fair Trade external communications aiming to enhance the credibility of Fair Trade among consumers, the industry and the political world. (0)

2.1.1 Aim of project:

The overall aim of the project is to contribute to more (social) value being received by small farmers from trade in rice with particular emphasis on the role of Fair Trade. (0)

Relevant questions to ask about a chain are 'who is involved in the chain', 'how are the costs and benefits negotiated and divided over the chain', 'what factors influence the relations between the different players', 'how do the different actors influence the relations between the different players' etc. With this information at hand the question following is: how can (small) producers acquire a greater part of the benefits in a sustainable way. (10)

2.1.2 Notes for the readers

Most of the information is based on the situation in Thailand as the main exporter and player in Fair Trade. There is also detailed information available about the Indian situation, taken from the Hivos case study (25). The focus is on the European market.

At the end of the report you will find a list with references and illustrations. The references are numbered within brackets (). I have chosen to use a lot of pictures and tables to make this report more readable.

The report starts with three chapters with common information. After that I analyse three chains: the mainstream, Fair Trade (two chains) and organic. In the last part I analyse three main areas of problems: sustainability, social issues and market politics. Ending up with conclusions and recommendations.

I've used the following calculations, currencies and rates:

3. Calculations

Exchange rates

American Dollar	1 dollar = Euro 0.835
Thai Baht	1 Baht = 0.0199 Euro
Indonesian Rupiah	1000 Rupiah (Rupiah)= 0.085 Euro
Indian Rupiah	1 Rupiah = 0.0192 Euro
Swiss Franc	1 SFR = 0.627 Euro

Date of reference is 1/6/05. Due to fluctuations in exchange rates most there can be a variation of 10% or more. Therefore most of the time also the original currency is given.

Rai

1 rai = 1600 square meters, 1 hectare = 6.23 rai

Paddy-husked

(Lost rate is on average 33,3%). Brown rice is 80% of the weight of paddy rice. White rice is 60-70%. Different millers have different milling rates. (1)

Metric tonne (MT, tonne) = 1,000 kg

Ton = Long ton kg 1016.05/ short ton kg 907.19!

2.1.3 Acknowledgements

I would like to thank the following people for giving me the relevant information and support:

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Marlike Kocken
Stephan Durwael
Monica Mazzocco
Doris Dörig
Lysbeth Holdoway
Michael Commons.*

2.1.4 Methods

- For this report the author interviewed different experts mentioned by IFAT.
- A literature study has been done. Essential parts of the literature are cited in this report. Some data has been collected from the internet.
- A questionnaire was sent to various experts and EFTA-members.
- A review committee gave their comments on the first concept.

2.1.5 About the author/researcher

Ir. Corné van Dooren (40) has a degree as an agricultural engineer from Wageningen Agriculture University, with a specialisation in Nutrition and Health. His working experience is on consumer issues (biodiversity, working conditions, and genetic engineering) at a critical consumers association, organic agriculture at the national platform for organic agriculture and Fair Trade at a wholesaler for Fair Trade and Max Havelaar products in the Netherlands. He has been on the standards committee of Skal (organic standards The Netherlands), license meetings of Max Havelaar Netherlands and the representative within IFAT for 22 Dutch FTOs. He is editor of one of the main food industry magazines in The Netherlands.

He has his own bureau on advising, editing and publishing on food, health and sustainability. He is the co-author of books about Genetic Engineering, The Clothing Industry, Biodiversity, Food Miles, E-numbers and Functional Foods.

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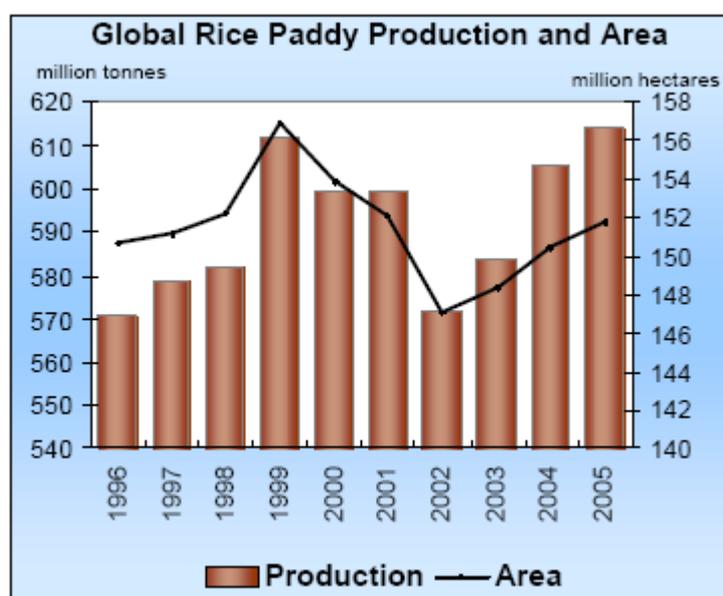
"A western consultant earns per day as much as a Ghanaian rice farmer per year."

3 The world market for rice

3.1 Production

In 2004 the world production of paddy rice was 605 million tonnes (This is equal to 403 milled). The 2004 season ended with a 4 percent increase in production compared with 2003, with most of the expansion concentrated in China, Indonesia, Japan, Pakistan, the Philippines and Vietnam. Egypt, Argentina, Brazil, Uruguay, the United States and the European Union are also estimated to have harvested larger crops in 2004. According to FAO first forecast, global paddy production in 2005 should rise by a modest 1.5 percent to 614 million tonnes. (2) World production totalled 395 million tons of milled rice in 2003 (3) Production is geographically concentrated in Western and Eastern Asia with more than 90 percent of world output. China and India, which account for more than one-third of the global population, supply over half of the world's rice. Brazil is the most important non-Asian producer, followed by the United States. Italy ranks first in Europe. World production has shown a significant and very steady growth, almost exclusively due to increasing production in Western and Eastern Asia.(3)

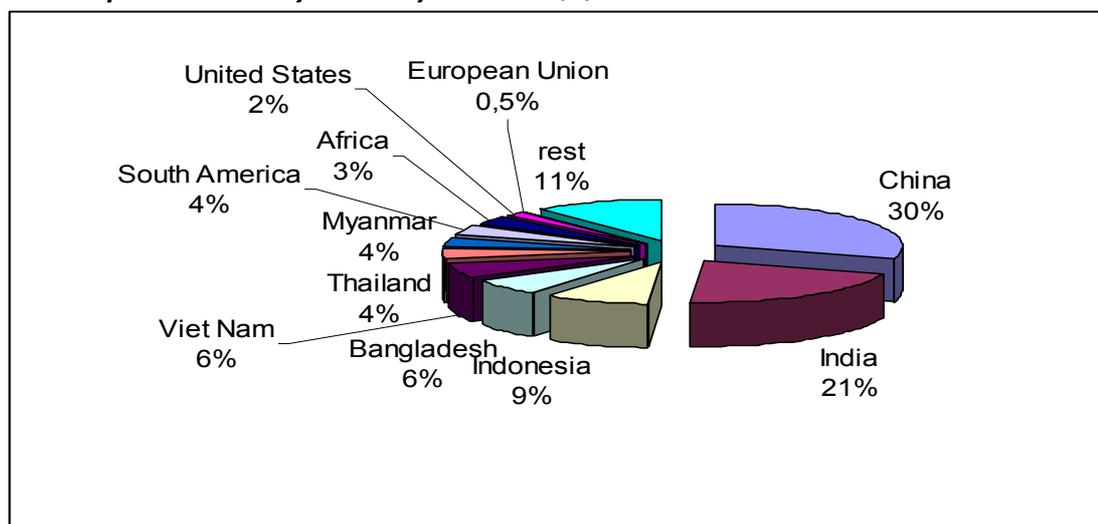
4. *Global Rice Paddy production and area (FAO, 2)*



In contrast, a number of setbacks, in the form of floods and droughts, impaired the paddy seasons in Bangladesh, Cambodia, India, Laos, Malaysia, Myanmar, Nepal, Sri Lanka and Thailand which are all set to experience a contraction. Production in 2004 also fell in Central America as a result of disease problems and drought (2). In Thailand, production in 2004 is set to decline by 7 percent to 25 million tonnes, the lowest level since 1999. (2) The

decrease in Asian production at the end of the 1990s did not get enough attention as it was considered to be a temporary abnormality. However, it has now begun to seriously affect some countries such as China where rice areas have declined as a consequence of water scarcity and competition from more profitable crops (3).

5. *Rice production by country in 2004 (2)*



Production in the United States rose by 15 percent to 10.5 million tonnes in 2004. Production also expanded in the 25 member countries of the European Union (EU), to 2.84 million tonnes or 6 percent greater than in 2003. Most of the increase was concentrated in Italy and Spain, which recorded sizeable yield improvements but also increased plantings. (2).

3.1.1 *Enough to eat*

Since the 60s, global rice production has increased considerably (see graphic 6). A lot of countries which used to produce small quantities of rice have become self-sufficient, and have even at certain times exported their surplus. But in many regions where rice is grown people still do not have enough to eat. For a long time, the causes of hunger have been ascribed to the population explosion and to inadequate food production. Today, most experts agree that the demographic bomb has been defused and that mankind has never had so much food per person. *“People get hungry because they are poor, because they cannot buy any food, because they don’t have access to land and seeds, or because they are forced to sell their crops. Hunger has been born out of injustice and social inequalities. But it is also a formidable political weapon. So, what is urgently needed is a fairer distribution of resources; food sovereignty - or the populations’ right to eat - must be asserted, and an agriculture enabling farmers to secure their food security.”* Elisabeth Piras (1)

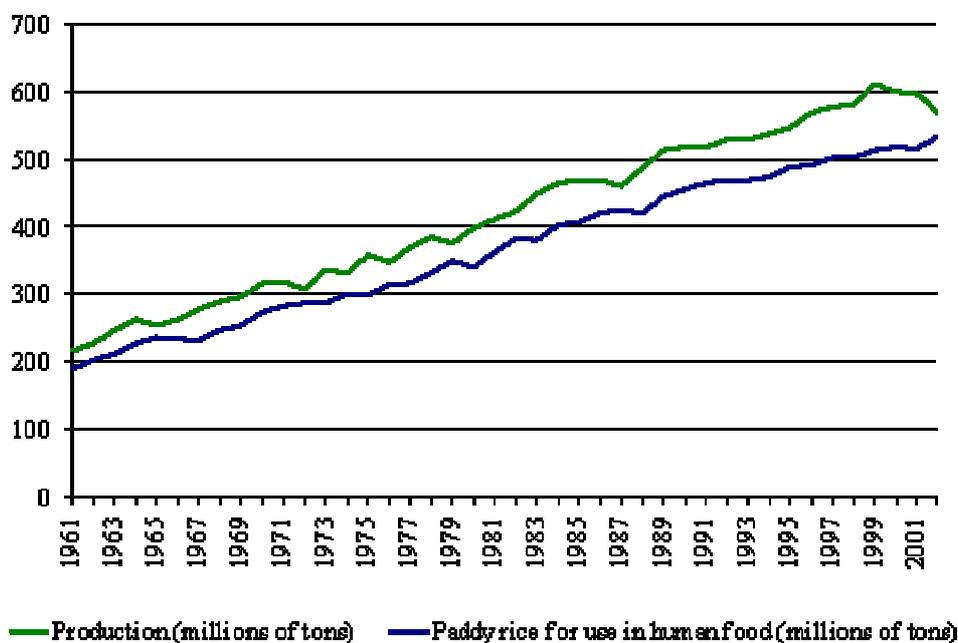
World rice inventories at the close of the 2004/05 marketing seasons are estimated at 97 million tonnes, i.e. 16% of the total production volume (2).

Analysts estimate by 2025, the world will need an additional 300 million tonnes of rice annually. (11) This means an increase in production of fifty percent. This is possible if the trend of the last 25 years continues.

A report from the UN’s Food and Agriculture Organisation’s (FAO) Global Perspective Studies Unit (July 2001) found that the world will be able produce enough food to meet global demands. This conclusion was reached by FAO experts whose analysis specifically does not allow for any production improvements from genetically engineered crops. The report reveals that there is a ‘drastic deceleration’ in world demographic growth in prospect, and that although the annual rate of growth in global crop production is expected to reduce, the projected overall increment in world crop production to 2030 of 57

percent will exceed population growth. The report also found that by 2030, crop production in developing countries is projected to be 70 percent higher than in the 1990s, and concludes that 'for the world as a whole there is enough, or more than enough, food production potential to meet the growth of demand'. (11)

6. Evolution of the world production and human food utilization of Paddy rice from 1961 to 2002 (million tons)



Source: UNCTAD Secretariat from the Food and Agriculture Organization of the United Nations (FAO) data (3).

There is and will be enough rice production to fulfil the nutritional needs of the world population.
Some regions have not enough rice. What is needed is a fairer distribution.

3.2 International trade

•FAO estimates the trade for 2004 at 26.5 million tonnes of milled rice. FAO has slightly raised its forecast for rice trade in 2005 to 25.8 million tonnes, which represents a 3 percent fall. (2)

The trade volume corresponds to only 5-6 percent of world production. It makes the international rice market one of the smallest in the world compared to other grain markets such as wheat (113 million tons) and corn (80 million tons).(3)

The European Union had a share in world production of paddy rice of 0.4% (1998-2002) en a share in imports of 7.7% of which 4.2% is in the internal market, between EU members and 3.5 % from outside. (3)

3.3 Export trends

Besides the traditional main exporters (Thailand, Vietnam, India and Pakistan), a relatively important but still limited part of rice traded worldwide comes from developed countries in Mediterranean Europe and the United States. (3)

Thailand accounts for much of the contraction in global exports. Much of the contraction in rice trade in 2005 is likely to be due to a sharp reduction in Thailand's exports from the

exceptionally high 10.1 million tonnes shipped in 2004. Given the poor 2004 production outcome and the resulting tightening of prices, the country is anticipated to export 8.5 million tonnes, which would be its second highest performance on record. Sales from India may also fall to some 2.5 million tonnes, only marginally lower than last year despite the anticipated contraction in production. (2)

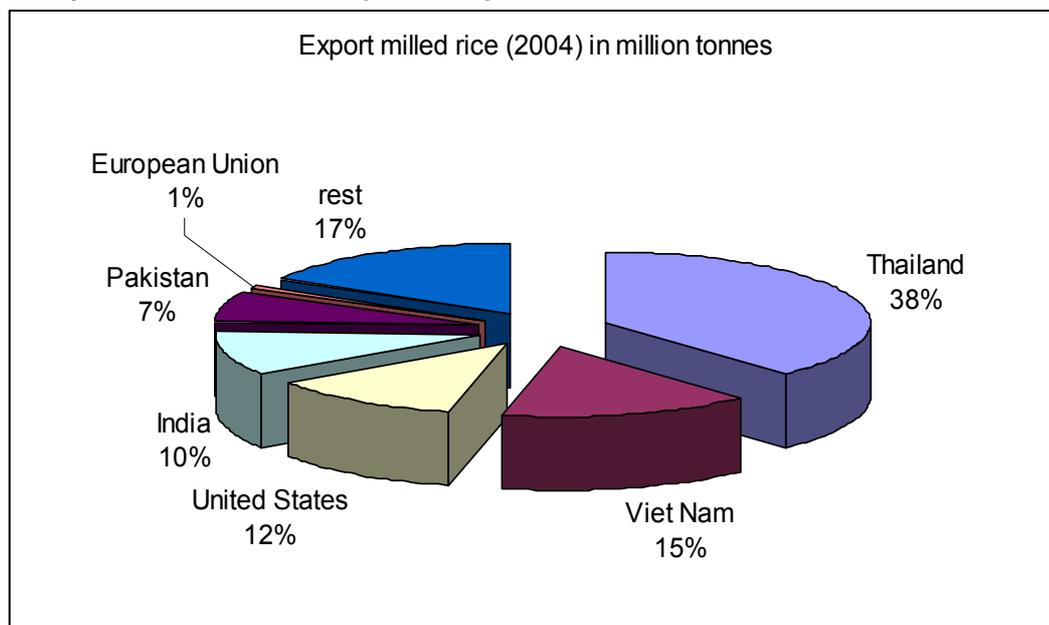
Exports from Uruguay and Guyana may also decline. In the latter, the decline would not only reflect the poor 2004 production, but also lower export prices to the EU, the main destination of Guyana's rice, following the implementation as of September 2004 of the new EU policy regime.(2)

Egypt is anticipated to keep exports high, at 750 000 tonnes. By contrast, FAO foresees that shipments from Vietnam will increase slightly to 4.1 million tonnes this year. (2) The good 2004 season should allow Pakistan to raise its sales abroad, despite a recent hike of import tariffs in its traditional markets of Kenya, Tanzania and Uganda. (2) The share of exports in production in Pakistan has steadily increased during the past two decades, and is now typically 40 percent. (11)

Exports from the United States are also set to rise in 2005, sustained by an expected fall in domestic prices, improved access to Central America and the Caribbean and weak competition from Australia.(2)

Myanmar and Cambodia have yet to return to the world market to play a major role. Nevertheless other exporters have emerged to complement Thailand and Vietnam. (11)

7. *Export of milled rice by country (2004)*



Thailand and Vietnam dominate the export market. Export volumes are under pressure.

3.4 Import trends

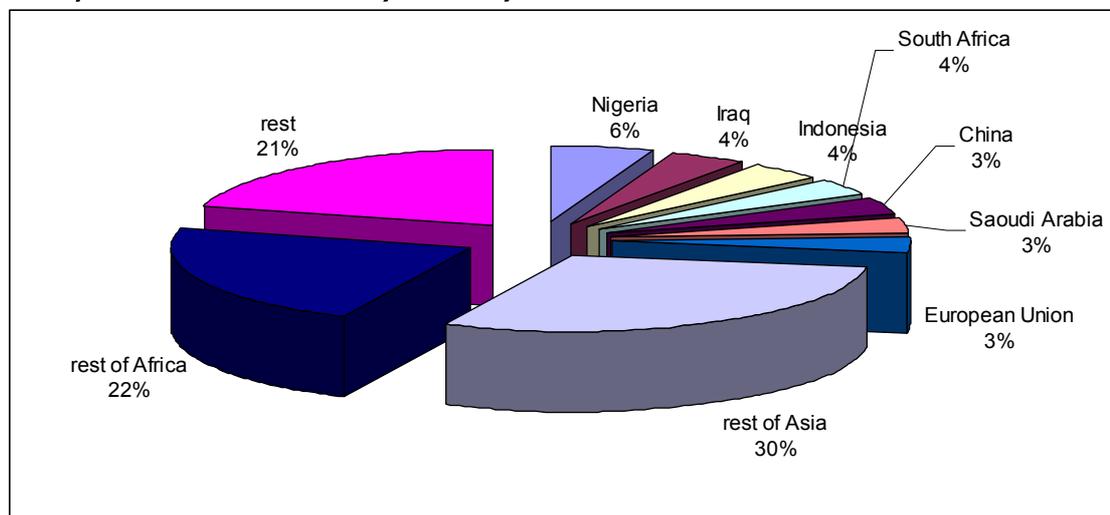
Most of the trade in rice is within Asia or to Africa. The Middle East is the leading import region, accounting for 35 percent of the world's rice imports (3)

The major importers are Nigeria, Iraq, Indonesia, South Africa, China and Saudi Arabia. Demand for rice imports in 2005 is anticipated to remain strong in some of the major Asian markets, in particular Bangladesh, Indonesia and the Philippines (2). The introduction of a new trade regime and lower tariffs in the European Union is also foreseen to give way to a larger inflow of rice to the European Community. By contrast, imports to South American countries are expected to fall, as good crops should be harvested in this region. Shipments to Africa might be checked in 2005 by rising world quotations of Europe and the USA and

freight prices and, in some instances, by local currency devaluations and more restrictive import policies.(2)

In Asia, deliveries to Indonesia, in particular, are anticipated to rise to 1.2 million tonnes. Similar concerns are anticipated to boost imports to Bangladesh, where strong increases in prices have been reported. (2)

8. Imports of milled rice by country (2004) (2).



While *Jasmine rice* accounts for about 25 percent of Thailand's overall yearly rice export, *Jasmine rice* makes up more than 90 percent of the Thai rice that reaches America each year. (66)

3.5 European Import / trade

Imports to the European Union are only 3% of the total and are set to rise to almost 1 million tonnes. This is due to the sharp reduction of the EU tariffs. (See chapter 13.1) (2) Rice production in the EU consists mainly of short and medium grain *Japonica* varieties (67 percent), in which the EU is almost self-sufficient. Long grain varieties such as *Indica* make up the remaining third of rice production. The share of *Japonica rice* production is gradually decreasing due to a growing consumer preference for long grain varieties. The majority of rice imported into the EU consists of long grain brown or husked rice, which is then milled by EU companies. Contrary to imports, EU rice exports consist primarily of *Japonica rice* in semi- or wholly-milled form. Middle East countries and Eastern Europe are important markets for EU rice exporters. (11)

Twelve southern and south-eastern European countries, as well as some regions of the former USSR, produce rice. Among them, five countries of the European Union: Italy (Piedmont) accounted for 60% of EU production, Spain (Andalusia, Murcia) 25%, France (Camargue) 4%, Portugal 5%, and Greece 5% (2001) (9, 11). The production in these countries covered up to 77% of the EU's needs. The production of *Japonica rice*, better suited to the European climatic conditions and soils than *Indica rice*, accounts for more than two-thirds of EU production and also generates surpluses. (1)

On the other hand, production of *Indica rice*, favoured by consumers - especially in Northern EU countries - remains insufficient despite an increase in cultivated areas. The surplus of *Japonica* is exported, particularly by Italy, which accounts for 85% of *Japonica* exports from the EU. Italy accounts for 80% of the total European rice export market. Imports of *Indica* rice account for 90% of imports within the EU; largely, this is brown or husked rice which is milled by EU milling companies. This is imported mainly from the United States, but also from ACP countries and the Dutch Antilles (where it is processed, as opposed to grown), Thailand, India and Pakistan. These last two countries

mainly supply flavoured rice, which has been gaining ground for some time now, with imports increasing by 15% each year.(1)

Leading EU suppliers of rice are: Italy (20%), USA (12%), Spain (11%), Belgium (Antwerp harbour, 10%), India (9%), Thailand (8%) (2000) (9)

9. *Rice import in the European top 7 (9)*

Countries	Rice imports (metric tons)
	2001
UK	471,672
France	435,094
Russian fed.	346,889
Germany	277,744
Netherlands	219,085
Belgium	250,063
Portugal	99,993

The EU is almost self sufficient in *Japonica rice*.

The EU only needs to import flavoured rice. This increases by 15% a year.

90% of the imported rice is brown or husked rice and milled within the EU.

3.5.1 Africa

West Africa is unable to keep up with consumer demand for the crop. This has led to a 400 percent increase in rice imports over the past 25 years, costing these countries US\$1 billion in 1995. Currently, only about 3 percent of around 130 million hectares of land suitable for rice cultivation is being used. This land is divided between the tropical countries in sub-Saharan Africa, including Democratic Republic of Congo, Madagascar, Nigeria, Sierra Leone and Tanzania. (11)

4

4 Rice cultivation systems

4.1 Nutritional value

Rice is the world's most consumed cereal after wheat. It provides more than 50 percent of the daily calories ingested by more than half of the world population. It provides more than half of the world's population with the essential part of their daily calories (up to 80% in Asia). (1)

In 118 countries the average diet is based on rice. (3)

Rice is a source of magnesium, thiamine, niacin, phosphorus, vitamin B6, zinc and copper. Some varieties have iron, potassium and folic acid. (3)

Rice is an important food grain in world consumption and it provides 20 percent of the world's dietary protein intake. (9) Although white rice is one of the poorest cereals in proteins; some improved varieties however may provide 14g of protein per 100g. (3)

White rice contains 80 % starch and lacking most of its nutritional value. (1) About 80% of the nutritional value of rice is in the rice bran. The process of polishing rice eliminates the bran. Manual polishing helps to preserve part of the bran. (10)

Parboiled rice is created by steeping or soaking the rice in water of 60-80 degrees Celsius, then steam it at 100° C and dry it. Parboiled rice has a harder grain, a higher nutritional value and has a reduced oil level.

Brown rice	
Energy	1434 kJ
Protein	8 g
Fat	2 g (of which 1 g unsaturated)
Carbohydrates	72 g
Fiber	8 g
Sodium	1 mg
Potassium	250 mg
Calcium	12 mg
Iron	1 mg
Vitamin B1	0,30 mg
Vitamin B2	0,07 mg

4.2 Species and varieties

Rice occupies 11% of the world arable land. 90% of the global rice field surface area is located in Asia which supplies 92% of the production. (1)

4.2.1 Varieties

Rice has quite a wide genetic diversity. It is estimated that there are 20 rice species in the world at present but there is no consensus of how many varieties exist in the world. Asian rice alone (*Oryza sativa*) is estimated to have over 100,000 varieties. (12) More than two thousand varieties of rice are grown throughout the world. The International Rice Research Institute (IRRI) in the Philippines holds more than 83,000 varieties in its gene bank. (3)

Most countries cultivate varieties belonging to the *Oryza* type which has around twenty different species. Only two of them offer an agriculture interest for humans:

- *Oryza sativa*: common Asian rice found in most producing countries, which originated in the Far East at the foot of the Himalayas. *O. sativa Japonica* grew on the Chinese side of the mountains and *O. sativa indica* on the Indian side. The majority of the cultivated varieties belong to this species, which is characterized by its plasticity and taste qualities. *Japonica* is an irrigated rice of temperate zone, with medium or short grains, also called round grain, and is a rain-fed lowland rice of warm tropical zones. *Indica* is an irrigated rice of warm tropical zones, with long, thin and flat grains. (3)
- *Oryza glaberrima*, an annual species originating in West Africa, covering a large region extending from the central Delta of the Niger River to Senegal.

Glutinous rice (or sweet rice), is grown mostly in Southeast Asia. Like aromatic rices, it sells at a premium to *Indica* and *Japonica*. The bulk of glutinous rice is grown in south-east Asia. The United States grows a very small amount of glutinous rice, mostly in California. (11)

10. Main rice varieties traded (2001) (9)

Rice	Description	Main export countries	Importance in world trade
<i>Indica</i>	Grown in tropical/ sub tropical areas. A long pointy grain. Milled and parboiled rice differentiated by quality based on % broken grains, chalkiness, translucency and odour.	Thailand, Vietnam, China, USA, Pakistan	75%
<i>Japonica</i>	Grown in temperate climates. Is a more rounded grain than <i>Indica</i> .	Australia, Egypt, China, EU, USA.	12 %
Aromatic	Primarily Thai <i>Jasmine</i> and <i>Basmati</i> . Selling at a premium.	Thailand, India, Pakistan	10%
Glutinous	Sweet rice sold at a premium.	South East Asia (Thailand). USA exports little to Japan.	3%

4.2.2 Jasmine quality

Khao Dowk Mali (or *Jasmine* white) rice is the Thai indigenous variety best known worldwide. It is a high quality rice and preferred by consumers. *Khao Dowk Mali* originated from the Bang Klaw District of Chachensao Province, east of Bangkok. *Khao Dowk Mali* grain is very white (this is where it got the name "*Jasmine white*") and has the fragrance of the "pandan" leaf. Many people mistakenly believe that the *Jasmine* was the fragrance of the rice. (12) Hom Mali is the name of the specific mali-variety cultivated by the green net members. In some countries *Jasmine* is named Pandan rice.

Jasmine rice is one of the best quality rice varieties in the world. High demand for *Jasmine* rice makes its price almost double that of any other variety. Many rice exporting countries have tried to develop *Jasmine* rice in their countries by smuggling out Thai *Jasmine* seed

to grow, or to breed new varieties. But such attempts have not been successful in producing new rice that has the same fragrance and tenderness as Thai *Jasmine* rice, or the yield was too low. (12)

Jasmine rice is first intended for export to other Asian countries, the United States and Europe. It accounts for 25% of total rice exports and half of their total value. Between 1997 and 2000 it would have yielded more or less US\$ 2.5 million. Its current price amounts to some US\$ 550 a tonne while prices for non-perfumed Thai rice varieties vary between US\$ 235 and 285 a tonne. But the profit is only pocketed by traders and export companies. Most of rice growers in Isan, for which *Jasmine* rice is the only financial resource, have to make do with a monthly income of barely US\$ 200 and live far below the poverty line.(6)

There is also artificially flavoured rice on the market today. (1) This should be labelled on the packaging with the name of the flavour.

Jasmine rice is of high quality, can only grow in Thailand and the price is almost double that of other varieties.

4.3 Crops

Depending on the weather and the cycle of the varieties, it is possible to obtain from one to four harvests per year. In tropical climates, rice is generally harvested twice a year. Sometimes, there are three harvests as in Vietnam and the Mekong Delta. Up to four harvests have taken place in China. The main harvest normally occurs between December and February.

In temperate and cold tropical climates (in high altitude areas), there is only one harvest per year - from September to October in the Northern Hemisphere and from March to April in the Southern Hemisphere. (3)

Many factors must be combined to ensure a good harvest: Enough water, careful work and adequate temperatures (the zero-physiologic is 12°C for *Japonica* and 13°C for *Indica*). Higher temperatures are absolutely essential during the maturation period (at least 20°C for 25 to 40 days). (3)

4.4 Productivity

4.4.1 Yield

The world average productivity is approximately 3.9 tons per hectare, but there is a big variation in yield. The national maximum productivity is nearly 9.5 tons per hectare in intensive irrigated systems (Australia) and the national minimum productivity is approximately 0,75 tons per hectare in traditional upland rice systems (Congo Republic). In most regions where the upland system predominates (Africa and mountain areas in the Southeast Asia which are characterized by burned areas and long 8-to-15 year rotations) the yields are low, with the exception of Brazil which has intensive mechanized systems. Land easily deteriorates if handling practices (rotations and no tillage) are not quickly adopted. On the other hand, even without intense mechanization, irrigation allows very high productivity as in Australia (9.5 ton per ha) and Egypt (8.7 ton per ha). (3)

In Southern Europe and the United States sowing seed, weeding and fertilising is done mechanically and production figures of 8 to 10 tonnes of rice per hectare are common. Biological farmers produce 6 to 7 tonnes per hectare while Asian countries produce 3 ton a hectare on average. (9)

Rice productivity differs significantly among the major exporters. In 2000, for instance, rice yield in Vietnam was 1.7 times higher than in Thailand, while rice production costs were on the average, respectively, US\$ 220 and US\$ 250 per ton. (€ 0.18 and 0.21/kg) (3)

The average yield per Rai of rice in Thailand is considerably lower in comparison with major producing countries. Although the Northeast is the biggest rice farming area of Thailand, its levels of productivity are among the lowest. For example, in 1994 the yield per Rai for Japan was 1,083 kilogram, South Korea 973 kilogram, China 939 kilogram, Vietnam 554, while yield for Thailand was 376 (for the Northeast, yield was only 262 kilogram per Rai) Two main reasons account for this: a) low quality of soil, and b) a lack of water sources for agriculture. (4)

Nuntana Udomkit found that yields of organic rice and 'in conversion' rice were slightly lower than that of conventional farming. However, the yield of pesticide free rice was among the highest. (4)

The number of crops that can be harvested in a year varies according to climate. Three or four harvests annually are possible in the tropics, two in subtropical zones and only one in temperate and rain-fed climates. (11)

4.4.2 Farm size

Rice farms: In Asia the average rice farm is small (1 to 4 hectare) in comparison with the average rice farm in the EU and the US. The US rice sector is dominated by a few large producers with farms larger than 200 hectares (20% of the production is realised on farms larger than 400 hectares). (9) Rice farm sizes in the EU are smaller, with Italy averaging around 35 hectares, and Spain 10 hectares. (11)

Many Asian farms can be as small as 0.25 hectares, which is just enough to provide the average per capita consumption of rice for a family of five. The mean size of rice farms is less than one hectare in Bangladesh, South Korea, Vietnam, China and Sri Lanka. In Indonesia one hectare is the average, around two hectares in Malaysia, Pakistan, Nepal and the Philippines, and about three hectares in Thailand (though in the northeast of Thailand, the average is no more than one hectare) (11)

11. Average farm size (ha) ('85-'87, 11) and yield ton/ha (1999) (12)

	Farm size	yield	Estimated income
Bangladesh	0.87	2.88	€ 165
China	0.43	6.31	€ 179
India (T. Nadu)	3.54	2.94	€ 686
Indonesia	1.6	4.25	€ 449
Nepal	1.95	2.44	€ 314
Philippines	1.58	2.88	€ 300
Thailand	3.52	2.31	€ 537
World average		3.875	

4.4.3 Land ownership

The most common types of tenure are share-cropping and fixed rent. Share-cropping is widely practised in Bangladesh, India, Pakistan and Indonesia. Fixed-rent systems exist in all countries of the region, and are becoming more widespread with technological progress and growing labour shortages.

Land reform in China, North Korea, Vietnam and Myanmar led to land being transferred to public ownership; in Japan and Taiwan, former tenants were deemed owners. (11)

Rice holdings 1990		
	Number ('000)	Area ('000 ha)
Japan	2,574	1,849
S. Korea	~	1,505
Myanmar	~	1,859
Nepal	2,281	1,481
Pakistan	~	1,355
Philippines*	1,867	3,650
Thailand	3,797	10,067

Source: IRRI, World Rice Statistics 1994.

12. Statistical summary Thailand (12)

Average rice yield	420 kg/rai	2617 kg/ha
Average rice consumption	175.1 kg/person/year	
Average rice product cost	3,249 baht/ton	€ 65/ton
Average paddy price	4,621 baht/ton	€ 92/ton
Number of rice mill	42,532 mills	
Number of total farmers	34.12 million	

4.5 Quality

The market for high-quality rice with a low percentage of broken grains (less than 10%) is dominated by Thailand, Vietnam and the United States growers whose production essentially meets the market demands of developed countries. (3)

The quality and also the price are determinate by four variables. The most important is the variety of the rice, the second is the percentage of broken rice, the third is the country of origin and the fourth the size of the grain.

The market of lower-quality rice (more than 10% of broken kernels) is dominated by exporters from Asia region (Thailand, Vietnam and India) who mainly meet the market demands of developing countries in Africa, Latin America and Asia.

Medium-quality rice has 15-20% broken and low-quality rice has 25-35% broken up to 100% broken. (3)

13. Rice sizes and varieties (3)

Name	Example	Longer than wide	Size
Long grain	<i>Basmati, Jasmine</i> <i>White, Ferrini</i>	3 x	> 6mm
Medium grain	<i>Arborio, Carnaroli,</i> <i>Vialone, Nano</i>	2-3 x	5-6mm
Short or round grain		1-2 x	4x2.5mm

14. FOB price for different qualities (Jackson Son, Spring 2005, 70)

quality	origin	Price per tonne		Price per kg	
100% B white, Bangkok	Thailand	US\$	295	€	0.35
25%	Thailand	US\$	266	€	0.32
A1 super, broken	Thailand	US\$	231	€	0.28
fragrant, 100% (Jasmine)	Thailand	US\$	432	€	0.52
US 2/4% long grain	USA	US\$	325	€	0.39
US 2/4% medium grain	USA	US\$	315	€	0.38

5%	Vietnam	US\$	257	€	0.31
25%	Vietnam	US\$	245	€	0.29
25%	Pakistan	US\$	245	€	0.29
Basmati	Pakistan	US\$	454	€	0.54
Indica 5%	Italy			€	0.30
Round grain 5%	Italy			€	0.32

4.6 Types

At the consumer level there is another differentiation in types:

- Paddy rice is non husked rice as harvested from the land by the farmer.
- Brown rice (husked rice): Paddy from which only the external and non-edible husk has been removed. The bran layer remains, making it more nutritive than white rice. Frequently green kernels are found with the brown rice as grain maturation is not homogeneous.
- White rice: Milled and polished kernel which loses many of its nutrients when the outer layer (the husk and bran layer) is removed. It contains much less niacin, thiamine, magnesium, zinc, iron and fibre than the brown rice. In some countries, including the United States, white rice may be enriched with iron, niacin and thiamine so that it can reclaim part of its original nutritive value. White rice may be covered with magnesium silicate or with a mixture consisting of talc and glucose (also known as "talc-coated rice"). There is no information available about the health risk of using this chemical on food. (3) Most milled rice sold in Northern markets has been milled very hard and has had the broken content removed to below 4%. Less expensive rice sold to export markets may be milled to a lesser degree and may have higher percentages of broken kernels. (9)
- Red rice: Red rice has a red bran covering the kernel (Himalayan, Bhutanese or Thai).
- Black rice: has a black thin bran covering a white grain. It comes from Bali, China or Thailand.
- Arborio rice is a white and round grain, considered one of the finest rices because it can absorb a high quantity of liquid while cooking, without becoming soggy.
- Aromatic rice (naturally aromatized) has more flavour than the other varieties. The Basmati rice, cultivated in India and Pakistan, is the best known and most appreciated. It is indispensable in Hindu cooking, and has a light and dry texture and an aromatic taste. *Jasmine* rice grows in Northeast Thailand (Isan region) and is also appreciated worldwide. (3) They are rice varieties that are naturally aromatic thanks to the soil qualities of a certain region as well as to the selecting efforts of rice growers; but there is also artificially flavoured rice on the market today. (1)
- Parboiled rice is created by steeping or soaking the rice in water of 60-80 Celsius, then steaming it at 100° C and drying it. Parboiled rice has a harder grain, a higher nutritional value and has a reduced oil level. Therefore the grain is less liable to breakages and insect attacks and has a reduced liability to rancidity. (9)

15. *Brown, white and black rice (42)*



16. *Shelf life (13)*

	Months
Long grain white rice	36
Parboiled rice	24
Round grain rice	24
Brown rice	12
Wholegrain rice	12

4.7 Rice farming systems

In the past, farmers mainly practised pluvial farming, which was dependent on unpredictable rainfalls. In many regions, rainwater is stored in natural or artificial ponds, as reserves in the event of dry weather. But this way of rice growing allows only one harvest a year, and the yield is relatively low. Today, pluvial farming accounts for 13% of the global rice field surface area, and is mainly used in Africa (42% of the rice growing areas in this region) and in South America (60%).

A second rice growing method, submerged cultivation, is practised in the alluvial plains and the deltas of rivers. In the course of the centuries, farmers have invented and developed subtle irrigation systems suited to their environment. This cultivation still occupies 32% of the rice field surface area, mainly in south and south-east Asia.

Nowadays, as a result of the Green Revolution, more than half of the global rice field surface area (of which 60% in Asia) is irrigated artificially. The total control of water, achieved through modern irrigation systems, has enabled farmers to practice intensive cultivation that has ensured high yields for a while. However, with the passing years, these systems have affected the environment badly, sometimes irreparably, and, as state-of-the-art and highly water-consuming technologies, they are very expensive. It is therefore not surprising that only rich landowners can bear the costs of such systems in the South, and that the European and American rice come exclusively from irrigated cultivation. (1)

The change from harvesting wild rice to rice farming is very much linked to social development in Asian societies. The upland rice cultivation was believed to be the first rice farming method in Thailand and rice farming later on evolved into lowland farming. (12) Most rice farm in Asia is rain-fed. Irrigated rice farming is minimal; less than one third of agriculture land in Asia is irrigated. (12)

In total contrast, rice production in the USA is highly mechanised. In the large fields belonging to farmers or food corporations, the work is done using ultra-modern machines, electronic instruments and helicopters.

In Europe, the work is generally mechanised but, in some places, intensive manual labour is still common. However, the American model is gaining ground rapidly under pressure from productivity and competition. On both sides of the Atlantic, rice farmers can claim compensation payments. (1)

17. Proportion and yield by farming system (13)

	Of area (3)	Of production (3)	Yield (13)	Yield (12)
Dry upland	13%	4%	1 t/ha	800-4500 kg/ha
Rainfed lowland	25%	17%	2 t/ha	3900-4275 kg/ha
Irrigated lowland	55%	75%	3-3,5 t/ha	5000-10.000 kg/ha
Floating and deepwater	7%	4%	1,5 t/ha	

Calculated and estimated yields differ very much. The average yield is 3.9 ton per hectare.

4.8 Quality systems

4.8.1 Codex

As from November 2003 the EU is a member of the Codex Alimentarius. The object of the Codex Alimentarius Commission is to develop and harmonise world-wide health standards and to issue guidelines and recommendations in order to protect consumers' health and to ensure fair practices in international trade. Within the Codex Alimentarius a specific codex standard for rice (CODEX STAN 198-1995) has been developed which includes the following items:

- o General quality factors: classification of rice types and qualities
- o Specific quality factors on moisture content, filth, other matter
- o Contaminants: heavy metals and pesticides residues.
- o Hygiene
- o Packaging
- o Labelling: name of the product, labelling of containers (9)

4.8.2 EU-regulations

EU regulation includes contaminants: nitrates, aflatoxins, heavy metals (lead, cadmium, mercury) and 3-monochloropropane-1,2 diol (3-MCPD) and pesticides residues: Maximum Residue Levels (MRLs) (9)

The EU has issued a directive for packaging and packaging materials (Directive 94/62/EC) which regulates minimum standards. It regulates, amongst others, the presence of four heavy metals (mercury, lead, cadmium and hexavalent chromium). The maximum sum of concentrations of lead, cadmium, mercury and hexavalent chromium in packaging is 100 ppm. (9)

4.8.3 HACCP

Directive 93/43/EEC concerns the 'hygiene of foodstuffs' and obliges food processors to be working according to Hazard Analysis and Critical Control Points (HACCP). Since EU buyers of food have to comply with this legislation, the HACCP principles might be relevant for suppliers of food products outside the EU. A guidance document on the General Principles of food hygiene, which can also be seen as a basic guide on how to implement HACCP has been developed by the FAO (www.cbi.nl/accessguide). (9)

4.8.4 EUREP-GAP

The Euro-Retailer Produce Working Group, a European organisation of supermarket chains, is engaged in the development of a protocol for Good Agricultural Practices (GAP). The protocol is intended mainly for food safety, but also provides control over the

environmental and social aspects in the chain. In view of the stage in which the protocol now finds itself, it is not yet known what the effect will be. The social criteria of EUREP-GAP do not seem especially strict (newsletter no. 3, January 2002, campaign for the improvement of working and living conditions on coffee plantations). EUREP-GAP has no specific requirements regarding rice. In the light of the recent developments in Europe on food safety, meeting the EUREP-GAP standards will be more and more necessary for retail suppliers of farm products. It is widely believed that EUREP-GAP will become an important international standard. At the moment the EUREP-GAP standards are relevant for the supply chains of the supermarkets that take part in the initiative (www.eurep.org ; www.cbi.nl/accessguide). (9)

Albert Heijn (Ahold, The Netherlands) is actively involved in developing a standard for good agricultural practices known as the EUREP-GAP. This standard is designed to assure product safety, reduced agrochemical use, environmental protection and labour.

Hivos can support activities to improve the access to and participation of producers from developing countries to privately developed CRS initiatives (such as EUREP-GAP) by the corporate sector. (42)

4.8.5 Traceability

Since 2005 there are strict rules for traceability within the EU. Every part of the chain has to maintain files of all their supplier and clients one link up and one link down the chain. The reason is to ensure food safety and trace back the origin if problems occur at the end of the chain.

In order to maintain and monitor the quality within the rice chain LEISA Network for instance marks the bags of rice to identify the producers. This helps in tracing complaints from consumers, if any, back to the producers and in investigating the problem so that corrective action is taken. This system helps to satisfy the consumers by continuously monitoring and improving upon quality. (10)

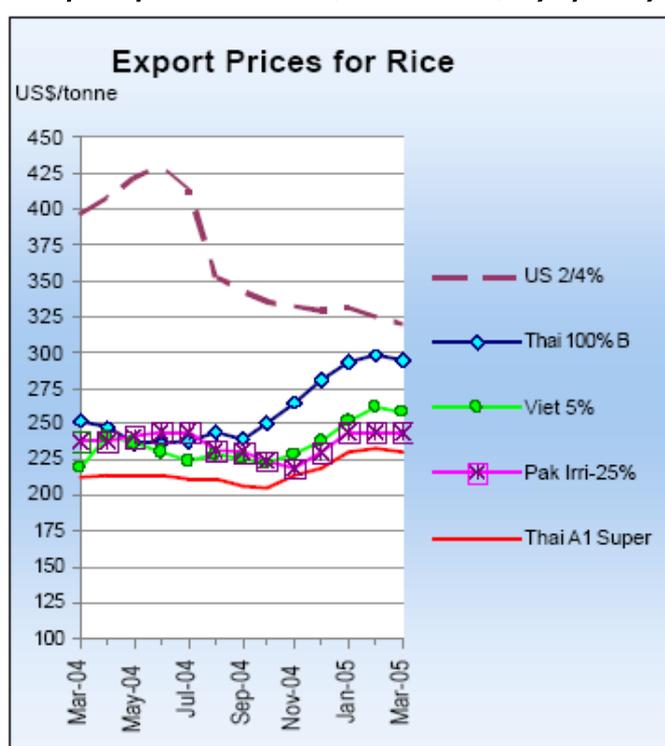
5 Price setting mechanisms

5.1 Development of world price

World Prices in 2004 have reached their highest level since 1998. International rice prices recorded further gains in 2004, with the FAO all Rice Price Index (1998-2000=100) averaging 104 for the whole year, the highest level since 1998 and 22 points more than in 2003. The rise was even stronger in the case of the lower quality *Indica* rice, with prices of Thai A1 Super rising by US\$ 56 per tonne or 37 percent between 2003 and 2004 (2). The FAO declares that world prices will remain on an upward trend in 2005.

In contrast with prices from most other countries of origin, price quotations for rice from the United States fell in the first four months of 2005, in the wake of a 2004 bumper harvest and rising domestic inventories. International rice prices are expected to keep rising during 2005, as supplies in several of the major exporting countries appear rather tight. The increase might be sharper for fragrant rice, reflecting fears of Hom Mali crop failure in the northern provinces of Thailand. This would mean a further narrowing of the price differential between rice from the United States and rice from the traditional Asian exporters. (2) Higher competition between USA and East Asian countries can be expected.

18. Export price for rice (US\$/tonne) by quality (FAO, 2)



The EU price of rice is expected to decrease based on the anticipated changes in the intervention regulations (e.g. reduction of the intervention price by 50% to 150 euro/ ton) and decreasing import tariffs. As a result it is feasible that the price of basic rice products in the EU will decline. However, it is not possible to generalise on this issue since all specialties and varieties that are consumed (e.g. US grain, Basmati, Jasmine, Surinam and Risotto) have different prices. (42)

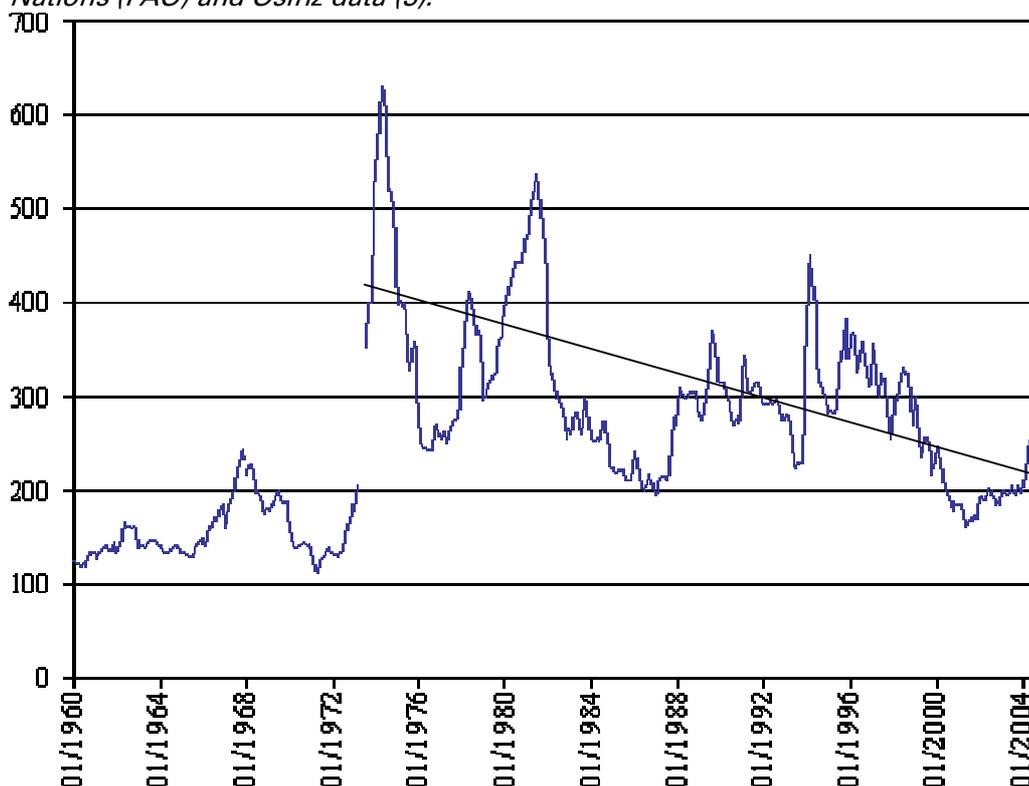
The price difference between US rice and Thai rice is decreasing, which will result in higher competition. However US farmers are producing at a cost level that is not profitable on the world market.

5.1.1 Reference price

The international market is not influenced by referential prices. Thai White Rice, 5% Broken is chosen as a reference for a futures market in Bangkok. The figure shows the development of the price in the last 45 years.

19. Prices of Thai White Rice 5% Broken, in dollars per ton

Source: UNCTAD Secretariat from the Food and Agriculture Organization of the United Nations (FAO) and Osiriz data (3).



This figure shows that international prices are extremely volatile. After the rise in 1976 the long term trend is downward, but may be showing signs of recovery. The downward trend observed since the mid-1980s has continued into the new century. Stock markets explain most of this situation, particularly a reduced demand and an abundance of exportable surplus, notably in the Asian countries. It should be noted that there is a weak correlation between the high-quality and low-quality rice markets. They often move in the same direction (e.g., both of them fell in 2000), however low-quality rice prices tend to fall more. In the case of export prices, the correlation between the different origins is relatively high. (3)

In many countries, the only available prices are domestic ones which indicate the prices that buyers are willing to pay growers. But in many other countries, the price is fixed by government in order to satisfy the (urban) buyers and not in order to support the (small) farmers. (3)

Factors that influence the price are:

- climate risks (e.g., irregularity of monsoons in Asia);
- peaks in supplies after harvesting
- support programs and trade policies of main producing countries;
- Exchange rate fluctuations;

Oil price fluctuations and oil is often the main source of export income for many countries that import rice.

For rice the weekly Thai 100% grade B is an important indicator of the 'world price'. These prices are just an indication for a world price for these qualities of rice. The actual prices for which rice is traded may differ up to 30%. (9)

In the longer term, real rice prices are projected to rise 4.6 percent by 2015 vs. 2003, while most other grains prices are projected to decline (World Bank, 2003). (9)

From 1950 to 1964, world prices were high, averaging US\$860 per tonne. During this period, Thailand, Burma, Cambodia and South Vietnam dominated world rice exports. From 1965 to 1981 there followed a period of high and unstable prices. Then, from 1982-1985, a sharp increase in per capita production in Asia caused world prices to fall by over 60 percent in just four years. The price decline marked a very short transition to a period of low and relatively stable rice prices, in place up until the present, which have averaged around US\$327 per tonne. (11) Global rice prices have been consistently low during the past 15 years, and were in 2001 the lowest in over seven years. (11)

The reference price of rice has declined over the past 30 years, but may be showing signs of recovery.

5.1.2 Causes of instability

The geographical concentration of rice production in Asia is another major cause of supply and price instability in the world market. Over 90 percent of rice is produced in Asia and so production is dependent on the Asian monsoon. This means that poor rice harvests occur at the same time, putting pressure on the world market to cope with rising import demand at the same time as a fall in supply. Rice production and consumption patterns are fairly rigid throughout the world and in practice little substitution occurs. (11)

Much of the literature on price instability in the world rice market posits that extensive government intervention in rice production and trade contributes to the global market's narrowness and to price volatility. As rice is a basic staple, maintaining self-sufficiency in production and price stability are important political objectives in many countries. Most rice-consuming countries therefore shelter their domestic markets by maintaining price stabilisation policies and import controls over rice.

However, by doing so they feed fluctuations in supply and demand onto the world market. A major policy implication of this literature has been a shift towards liberalising the world trade in rice. Some think that the blame for world market instability on insulation policies is overstated however. Instability and price volatility in the rice market is exacerbated by the unpredictable pattern of trade. (11)

Exporting countries may restrict their rice outflows largely to keep consumer prices low and to promote self-sufficiency. Usually this is done through a combination of export taxes, export quotas, and by overvaluing the local currency against the currency of major importing countries. (11)

5.2 Unfair practices

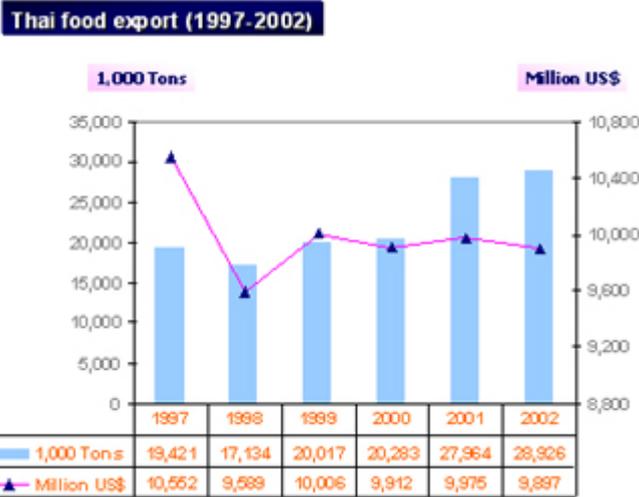
In order to get more into depth this paragraph shows some examples of unfair practices. The world market seems to be an open capitalistic system, with excess for everyone and transparent prices dictated by supply and demand. But “between the lines”, there are stories to tell.

“The promised road to progress via trade is veering dangerously towards the destruction of people’s lives and livelihoods rather than its betterment. This is because the producers of products and services for trade, the very people without whom no trade could take place, are imperilled by displacement, and are suffering from hunger and poverty.” (63)

5.2.1 Income and price relation (Thailand)

Thailand has been opening up to the world market. Under the Agreement on Agriculture of the WTO, Thailand has to reduce import tariffs on agriculture at an average of 24% within 10 years from 1995 to 2005. As a result, farmers are increasingly subject to the volatility and the decline of commodity world prices. For example, from 1996 to 2002, the average price per ton on the world market of Thai rice has plummeted by 42%. Prices are going down because of the competition with cheap products imported from rich countries like Australia, the US and the European Union, but also from China. In Thailand, food imports are rising sharply. From 1993 to 2002, food imports have more than doubled, rising in value from 52 to 133 billion baht (From US\$2 billion to US\$3 billion). (40) Small farmers trying to make a living on local and domestic markets may also have to sell their surpluses at prices below production costs. Even if they do not produce for export, they are de facto involved in the world market economy. (40)

20. In 5 years Thai export volume grows 49%, but the total value decreased (40)



The figure shows that while food exports volumes have increased by 49 % between 1997 and 2002 (from 19,421 thousand tons in 97 to 28,926 in 2002), the total value has decreased slightly (from 10,552 to 9,997 millions dollars). Thailand is producing more for less. Under the current neo-liberal system, because of the constant decline in commodity prices on the world market, the country needs to keep increasing its production only to maintain the same revenue. This obviously puts a growing pressure on farmers’ income and on natural resources such as land and water. (40) However, the export prices have been very volatile. Also, the increase in export quantity was neither reflected in the export prices nor in the farm gate prices. For instance, the

average export price in 2001 was equal to 1993, even though the export quantity increased sharply (46)

In 5 years Thai export volume grew 49%, but the total value decreased

5.2.2 200 disputes each year

The GAFTA is an international organisation with more than 750 member companies in 76 countries. Members of the Association are involved in trading grain, animal feed, pulses and rice at all stages of the supply chain from production to final consumption. The members are made up of trading companies and brokers. GAFTA is recognised worldwide for its expertise in contracts and arbitration. Contractual disputes are adjudicated by experienced, qualified arbitrators. Typically, about 200-250 arbitration cases are registered each year. (9)

5.2.3 NFA warns traders about selling underweight sacks of rice

In May 2005 The National Food Authority in North Cotabato has warned traders about selling sacks of rice weighing less than 50 kilos. NFA North Cotabato provincial manager Fernando Nuñez told DXMS Radio for Peace that underweighing of rice in public markets is a violation of the Philippine Grains Standardization Program (PGSP). He said a sack of rice must contain 50 kilograms and not 48 or 49 kilograms. The PGSP sets the rules on standard specifications of quality, packaging, labelling, including tests and analysis of rice and corn commodities sold in the markets. Nuñez said grain millers; processors or packers have to observe the proper grading, packaging and labelling of their products to avoid confusion among buyers. Earlier, traders in various towns of North Cotabato, including Cotabato City, complained of underweighing activities done by some distributors. (85)

5.2.4 EU rejects Pakistan rice shipments

May 2005: "Rice exports from Pakistan to the European Union have stopped again as the Union is sending back all rice shipments due to the presence of some chemicals in the consignments," a local Pakistani press report said on Saturday May 7th. The News reported in its Saturday May 8th issue that the EU has sent back over 40 containers loaded with the Pakistani commodity. "Complete stoppage of the export of Pakistani rice to the EU is feared if the government does not take immediate steps to redress the situation," the report said, quoting a leading rice exporter. It added that chemical presence in the item is nothing new as it can permeate the entire grain. The chemicals present in Pakistani rice consignments rejected by the EU were also found in commodities reaching Pakistan from China and Turkey, but the government allowed their import, according to the daily. In high moisture, probability of the presence of these chemicals increases in brown rice because it is exported in raw form without polishing, it said. (86)

There are many trade disputes concerning rice.
For instance about the sale of underweight bags or the increase of non tariff barriers.

5.2.5 Corruption at rice mills

"Mrs. Somwang works at the Bak Reua Rice Farmers' Group's rice mill. She is the marketing coordinator there. All of the organic rice farmers in Bak Reua are members of the Bak Reua Rice Farmer's Group, although there are many members who are not farming

organically yet. She too is a member and was chosen by the membership to be the marketing director. (5)

She told me that at other private mills, farmers can't even be certain of the weight of their produce. They have no right or ability to see how the quality of their rice is determined, nor to examine the scale, whereas at her mill, the farmer (and cooperative member) is shown everything. (5)

There must be many honestly run private rice mills, but from her story this is not always the case. She told me that sometimes a non-organic farmer member will want to sell their conventional paddy at another mill rather than the cooperative's mill as the price may appear to be better, or because they will be paid in full from the beginning. The member may come to weigh and grade their paddy at the cooperative mill to know this information before selling it. She told me that in more than one case when there was a 'good' price at another mill; the weight given was much lower, meaning they were actually paying less. For the organic Fair Trade farmers, there is no better price than that which they offer and they have the benefit of a guaranteed price of 10 Baht per kilo no matter how low the market goes." (5)

For example, in the northeast of Thailand an exceptionally large mill in Buri Ram province determines the price for the area by monitoring how much rice is entering the mill, how much rice is being sold and how much rice is being held in stocks. This mill will then set the price, usually displayed in front of the mill, that it will buy rice at. The price drops in accordance to how much rice is flowing into the mill. For instance, during the rice harvest (mid-December), the price of rice drops because there is a great supply. (68)

In Thailand rice mills are setting the price. They have a lot of power and they can use weight and quality to manipulate farmers.

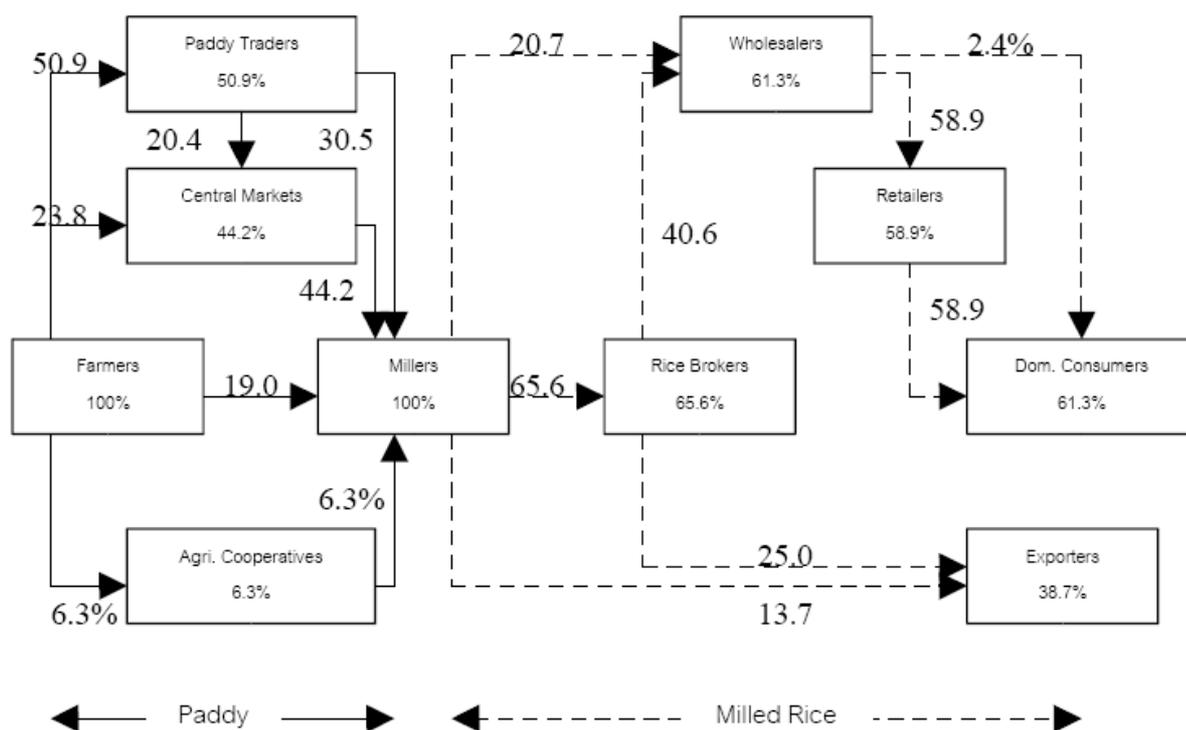
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6 Value chain

Thailand put its total number of rice smallholdings at 3.8 million. Around 20 million tonnes of rice is produced annually by Thailand’s farmers, two-thirds of which is consumed by farmers and their families, used as seeds or sold onto the local market. The remaining third is exported. (11)

This chapter analyses the rice chain. Along the chain the price is developed according to the costs of production, labour, trade and materials. The costs price is not always reflected in the market prices, according to the factors mentioned in chapter 5.1. The chain starts with mainstream farmers in Thailand. Thailand is chosen as example, because the country is the biggest exporter of rice and because there is enough data available. The figure gives an overview of the market players in the rice chain and the percentage of the channel.

21. Marketing distribution channels of paddy and rice (Thailand) (46)



Source: Agricultural Business Research Section, Kasetsart University (1997)

More than half the rice leaving farms goes through traders and middleman and only 6% through cooperatives. All rice has to go through a mill. Two thirds of trade carried out by the mills is via brokers and direct or indirect sales to wholesalers and exporters.

6.1 Farming and labour

Rice cultivation is highly labour-intensive. In low-income labour surplus countries, paddy cultivation is done manually and uses more than 150 days of labour per hectare. To transplant seedlings and control weeds alone requires 80 days of labour per hectare. Working on others' rice farms is the main source of employment and livelihood is one of the main sources of employment in rural areas beside work in rice mills and perhaps other small processing units for landless and marginal farmers who constitute one-third to one-half of rural households in developing Asia (except in China and Vietnam, where land is distributed according to labour units in the household). (11)

According to the table, labour accounts for 55 to 60% of the total costs of the farmer. Most of it is non-cash and is delivered by the farmer's family. This is about 550 to 600 baht/rai, this is 68 to 75 Euro per hectare. For 150 hours of work they calculate less than half a Euro per hour or € 4 per day. The table shows that the average production cost are about € 65 per tonne.

22. Rice Production Cost for Main Rice Crop 1992/93 (baht/rai) (12)

Production cost	Cash	Non-cash	Total	Percentage
Soil preparation	52.28	177.53	229.81	23.04%
Rice seed	8.05	29.05	37.1	3.72%
Seedling and planting	56.00	94.80	150.8	15.12%
Maintenance	3.11	50.22	53.33	5.35%
Pesticides	8.51	0	8.51	0.85%
Fertilizers	43.85	0.34	44.19	4.43%
Harvesting	52.80	101.60	154.4	15.48%
Post harvesting costs	29.99	68.72	98.71	9.90%
Tools and equipment	4.85	0	4.85	0.49%
Tool repair	1.90	0	1.9	0.19%
Interest and opportunity costs	16.95	24.47	41.42	4.15%
Land rent, land tax, land use costs	10.24	152.51	162.75	16.31%
Depreciation of farm tools	0	9.78	9.78	0.98%
Total	288.53	709.02	997.55	100.00%
Yield (kg per rai)			307	kg/rai
Production cost per ton of paddy			3,249.35	Baht/ton
Average paddy price for 1993			3,215.33	baht/ton

Hanny Maas (Hivos, the Netherlands) compared data on cost of production and yield from the Hivos case studies in Indonesia, Sri Lanka and India. Yields of organic rice are comparable to yields of conventional rice. A comparative analysis of the cost of production per ton of paddy shows that organic rice production is cheaper than conventional rice production. This establishes that production of organic rice is more profitable. The exception to this is the case of Java, where yields for conventional rice are higher than for organic rice and cost of production is lower for conventional rice. The data from the case studies on cost of production have also been compared with the world rice statistics on cost of production. (10)

It can be concluded that countries in South Asia and Sumatra (Indonesia) have an efficient production (cost between USD 75 and 85 per ton paddy) (56 -64 Euro),

Followed by Java (Indonesia), Bangladesh and Philippines with a reasonably efficient production (between USD 100 and USD 165).

Countries in Africa, Latin America and USA produce at a cost between USD 280 and USD 405,

Japan has the highest production cost at USD 2290 per ton paddy.

The USA would be unable to compete in exports without income and export subsidies and is, therefore, creating unfair competition for Asian producers. (10) They are producing surpluses, they could never sell without the subsidies.

Jasmine rice is one of the most sought after strains of rice in the world and is grown by over 5 million families in Thailand many of whom are in debt and very poor. In 1999 the average income of farming households was 26,822 baht (US\$600) significantly lower than the average household earning of 78,875 baht (about US\$1800). (66)

Wages in the agricultural sector have been much lower than in the other sectors. In 2000, the average monthly wage in the farming sector was 3000 baht (US\$ 73.7), while it was 5800 baht (US\$ 142) for the manufacturing sector and 6700 baht (US\$ 164), more than the double, for the average wage in all sectors together. (40)

Production of organic rice is more profitable than conventional rice production.

23. *Rice planting is very labour intensive (27)*



Gutekunst calculated the costs of Fair Trade production. His calculation resulted in a cost price of € 101.18 per tonne, or 228.67 per hectare. The costs of production are higher at the rain-fed lowlands in the North East region (104.50) and lower in the irrigated lowland in the Central plain region in Thailand. (86.05). (13)

24. *Total costs of production of rice in Euro (13)*

Per ha	cash	Non cash costs	Total
Variable	88.83	109.36	198.19
Of which labour	55.39	99.04	154.43
<i>Soil preparatory</i>	<i>13.44</i>	<i>31.90</i>	<i>45.34</i>
<i>Planting</i>	<i>8.85</i>	<i>17.45</i>	<i>26.30</i>
<i>Rearing</i>	<i>1.06</i>	<i>9.15</i>	<i>10.21</i>
<i>Harvest</i>	<i>32.04</i>	<i>40.55</i>	<i>72.59</i>
Of which material	33.44	10.32	43.76
<i>Seed</i>	<i>0.72</i>	<i>10.14</i>	<i>10.86</i>
<i>Fertilizer</i>	<i>24.68</i>	<i>0.19</i>	<i>24.86</i>
<i>Pesticides & herbicides</i>	<i>2.94</i>	<i>0</i>	<i>2.94</i>
<i>Fuel</i>	<i>3.04</i>	<i>0</i>	<i>3.04</i>
<i>Farm equipment</i>	<i>1.55</i>	<i>0</i>	<i>1.55</i>
<i>Repairing</i>	<i>0.51</i>	<i>0</i>	<i>0.51</i>
Fixed: land rent and depreciation	10.22	20.26	<u>30.48</u>
Total per ha	99.05	129.62	228.67

Total per tonne	43.83	57.35	101.18
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The average production cost in Thailand is € 65 per 105 /tonne and € 68 to 75 per hectare, with a maximum of € 229, depending on the yield.

Two thirds of the cost is for labour.

The average farmer's income is around € 450 to 795 per year.

6.2 Agricultural multinationals for farmer inputs

At the early stage of the rice production chain, transnational companies (TNCs) such as North-American Monsanto (the second largest seed provider and agrochemical supplier in the world) strive to strengthen their position in seed and input markets. (3)

Since the Green Revolution and the introduction of high-yield hybrid rice varieties – that need massive use of chemical fertilisers and pesticides - several TNCs have started producing seeds and chemical inputs. The turnover of the first 10 TNCs in the agrochemical sector exceeded US\$ 26 billion in 1997. Meanwhile mergers and acquisitions of companies are on the increase. The most recent one is the merger of Novartis and AstraZeneca, which has become - under the name of Syngenta - the first agrochemical corporation and the third largest seed company in the world.

The rapid evolution of biotechnologies and GM seeds has considerably increased the interest of the "Gene Giants" for the sector of rice growing. Moreover the fast growth in the number of patented rice seeds has strengthened their appropriation of the rice production "upstream ", thanks to the provisions of the TRIPs. There were 160 patents in 1998 - more than the half belonged to 13 American and Japanese companies. Since then their number has soared. In 2000, there were 609. It is usually difficult to have access to relevant information in this area. But fortunately different NGOs' and farmers' organisations have alerted the public to some cases such as the patent on perfumed Basmati rice taken out by the US company RiceTec, and more recently the case of a GM Vitamin A rice variety, which combines 70 patents. (6)

According to Gutekunst the multinationals receive from the farmer about € 44 per tonne: €11 for seeds, € 25 for fertilisers and €3 for pesticides. This is nearly 20% of the production costs. Others calculate it lower as 10% of the production costs. (13)

Agrochemical inputs accounts for 10 to 20% of the farmers' costs.

6.3 Farm gate price

Paddy is perceived by farmers as their major asset. Farmers normally utilise paddy in 4 ways. They either:

- a) keep the seeds for the next farming season (Generally farmers keep about 12 kilograms of seed per Rai for the next farming season),
- b) sell the paddy,
- c) pay off debts in kind, or
- d) keep paddy for household consumption.

Usually farmers will sell paddy on the open markets from November until February. Most farmers prefer to sell paddy gradually, depending on how much money they need at the time of selling.(4)

25. *Costs of production, farm gate prices and yields in selected countries, 1987-89 (17)*

	Cost of production (US\$/tonne)	Farm gate price (US\$ tonne)	Paddy yield (tonne/ha)
Japan	1,987	1,730	6.5
S. Korea	939	957	6.6
US	195	167	6.3
Vietnam	100	130	4.6
Thailand	120	141	1.8
Bangladesh	138	180	2.7

The farm gate price in real terms, including deflation, dropped from 205.1 US\$ in 1997 to 88.8 US\$ in 2003. Farm spending increased over the same period. (46)

In Sri Lanka the farm gate price contribution to consumer price is less than 40%. Further, this farm gate price often barely covers the costs of conventional rice farming (labour and inputs), leaving the farmer in desperation. (10) Collective action in buying of inputs and in selling paddy would be highly beneficial to small farmers. (10)

Farm gate prices dropped to a level of € 66 per tonne while spending increased.

6.4 Traders and middleman

The farmers' poor economic conditions make them easy prey for merchant creditors who demand high rates of interest on loans and repayment of past debts in kind. Farmers therefore have an urgent need for money immediately after harvest. While the price of paddy is always at its lowest during that period, cash is badly needed in order to pay rent and debts as well as to buy certain necessities, fertilisers purchased on credit, hired labour at harvest, and to meet other costs (4)

Nuntana Udomkit: "All the farmers I interviewed stated that the price they receive from paddy traders is significantly less than the market price. Having asked farmers about their attitude towards middlemen, 98% of them responded that middlemen take advantage of farmers. All of the farmers interviewed stated that they wanted Fair Trade where farmers could receive a fair price for their paddy" (4)

Paddy traders sometime give loans and farm inputs (seeds, fertilisers, pesticides) to farmers. At the beginning of the farming season, farmers receive money or farm inputs from the traders. Farmers repay their debt with interest as soon as they finish harvesting. They can pay either with paddy or with money. In some cases, payment with both paddy and money is acceptable. The interest rate is considerably higher when compared to the interest charged by formal credit sources. For example, for a loan of 10,000 Baht, farmers have to repay 9-10 sacks (720-800 kilograms) of paddy as interest. One sack of paddy cost about 520 Baht. So the approximate interest that farmers pay is 46.8-52% per crop length. Alternatively, farmers can pay 3 sacks (240 kilograms) of paddy for a loan of 1,000 Baht. This rate includes the loan and its interest. Many money lenders set loan rates at 5% per month. For fertiliser, farmers have to pay 9-10 sacks (720-800 kilograms) of paddy for 10 sacks of chemical fertiliser. The average price for a sack of fertiliser is 350 Baht. Farmers exchange paddy worth 520 Baht for one sack of fertiliser. The interest rate for borrowing fertiliser is therefore 48-65% per crop. (4)

The majority of farmers do not have transportation and in the remote areas it is not easy to move to rice markets so they are dependent of traders. Traders provide important services well particularly where the basic trading infrastructure is not sufficient. While rice farming is small scale and scattered throughout the country, paddy traders collect the paddy from farms and transport it to the mills. Rice agents, similarly serve the function of finding available rice from mills to serve the demands of wholesalers and exporters. (4)

In rural Vietnam, for instance, the Vietnamese government sets a minimum price that middlemen must pay for rice – usually around 7 cents per pound. However, as farmers depend on intermediaries for everything from trucking their crop to market to letting them know the latest rate, rice growers are still vulnerable to exploitation by middlemen. (11)

For Saphanfa, *“Fair Trade allows the producer to live and doesn’t take advantage of the consumer. Each should take care of each other.”* He says, *“Even today many producers are pressured and must sell at low prices often with no profit; they are essentially working for free. Producers are not able to bargain; the middleman sets the price, and we have no right to complain. This is not Fair Trade.”* (5)

Middlemen put farmers under pressure, give them prices below the market price and demand high interest rates. But most of the time they are a necessary part of the chain.

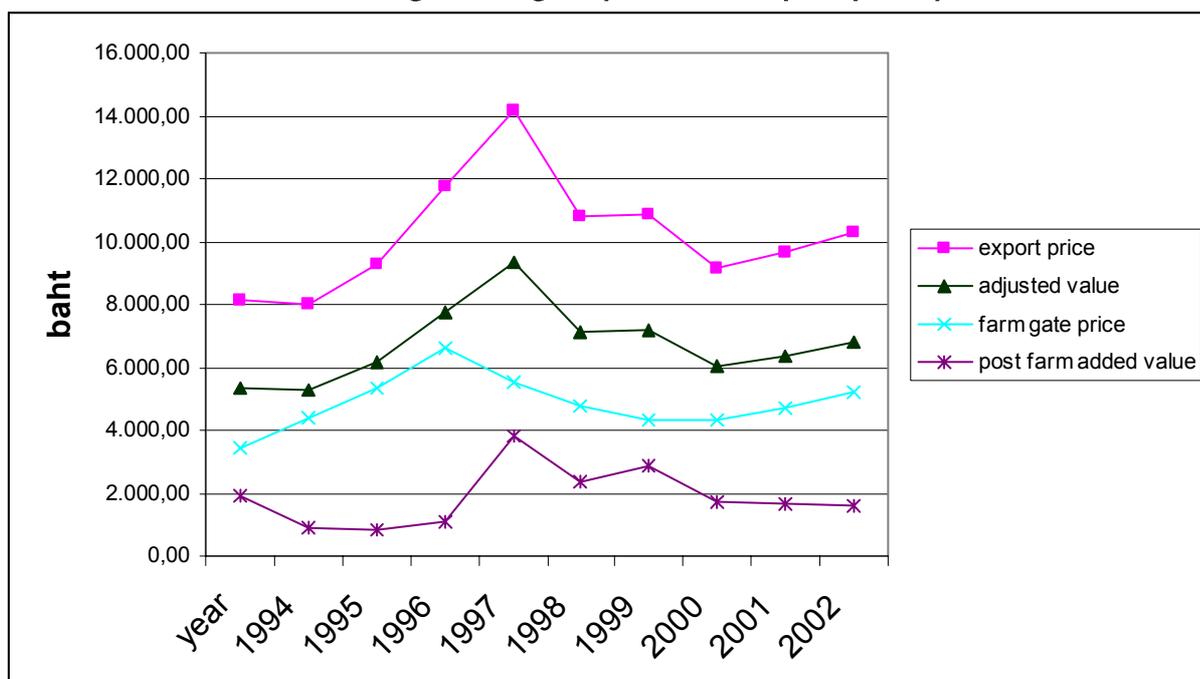
6.5 From farm gate to FOB

An analysis of the rice market shows that even though Thailand has become one of the largest rice exporters in the world, this wealth has not been distributed equally between farmers and traders. (40)

Analysis of Thailand’s rice supply chain reveals that the value increases, which double the price of rice once it leaves the farmers’ hands, serve to enrich only the middlemen, millers, brokers, retailers and exporters. Each year the Thai government spends millions of baht to shore up rice prices, but it is the rice millers and wholesalers who benefit from these price supports. (11)

The farm gate price in paddy is about half of the export price in milled rice. The figure shows that farmers, who are mainly small-scale producers, acquire on average, 72.8 percent of the export value in adjusted value. Importantly, this proportion has not increased in favour of small farmers. It is clear that over the last decade, the distribution of wealth generated by income from exports, in the case of rice, is not improving. (46)

26. Difference between average farm gate price and export price per ton (46)



The average export price over the last nine years was 10.199,06 baht, the adjusted value was 6.731,38 baht (66% from paddy to milled), the farm gate price was 4.860,80 baht (€ 97; 72% of adjusted value) and the added value (post farm gate) was 1.870,58 baht (€ 37; 28% of export price). (46)

The FOB price is 1.4 to 2 times the farm gate price.
About € 37 per tonne is calculated to cover the cost in between.

6.6 Milling

Local dealers, who generally provide transport to collect paddy on the farms, play an important role in paddy trading through private channels. Next to this, rice mills and exporters play an important intermediary role in the rice-chain. (11)

In general the rice is de-husked in a domestic rice mill. Any further refinement such as parboiling, polishing and packing takes place in the producer country or in the importing country. It is quite common for the importer to do the milling and the packing of rice. (13)

The producer's competitiveness is affected by numerous factors, such as processing costs. According to a recent study conducted by Vietnam's Ministry of Agriculture and Rural Development, the processing costs of export rice (for long grain, 5-10 per cent broken grade) is about US\$ 10 per ton for milling paddy into polished rice, and about US\$6 per ton for milling raw rice into polished rice. (3)

27. Small hand mill ... (27)



The majority of successful mills today are large scale mills. These mills need to process around 200 tons of paddy per day in order to make a profit. (4)

Nuntana Udomkit: *“Mills and not farmers control the price of paddy and they do so on the basis of information provided by rice agents about the price exporters are willing to pay. Mills buy rice at the price that covers their cost of production plus profit. What is left is the price that farmers receive.”* (4)

When farmers realise that the bigger benefits from rice production go to the millers, wholesalers and retailers in the chain, it acted as an incentive for them to work on having their own rice mill. Vitoon Panyakul (Green Net, Thailand) warns that shortening the chain is not always feasible: if one is contemplating taking over the work of another actor in the chain, one has to make sure that it can be done more cheaply and without risk. Often some of the skills required are not available in the farmers’ organisations. (10)

With a high degree of competition among milling businesses, most mills openly advertise their buying price on a big notice board in front of their mills. What is more, the price structure of Fair Trade rice is determined from market prices. Therefore farmers automatically know the market price offered by the Fair Trade organisation.(4)

Generally, farmers lack the capital to make adequate investments in their farms. A lack of storage facilities means selling rice quickly in order to repay the money borrowed from middlemen and millers. This arrangement gives farmers little bargaining power as the luxury of hoarding rice until market prices rise belongs solely to the middlemen and millers. Farmers who sell their rice to intermediaries at low prices must later buy rice for their own consumption at prices which are twice as high. Many farmers have to borrow rice from intermediaries or wealthy farmers at an interest rate of 50 percent per growing season (six to eight months). (11)

During milling 33% of the volume is lost, so the value per kg increases. The chart below gives an over view of local rice prices at the farm gate and after milling.

28. Local market: Producer, wholesale and retail prices (current US\$/tonne) of rice, selected Asian countries (1996) (11)

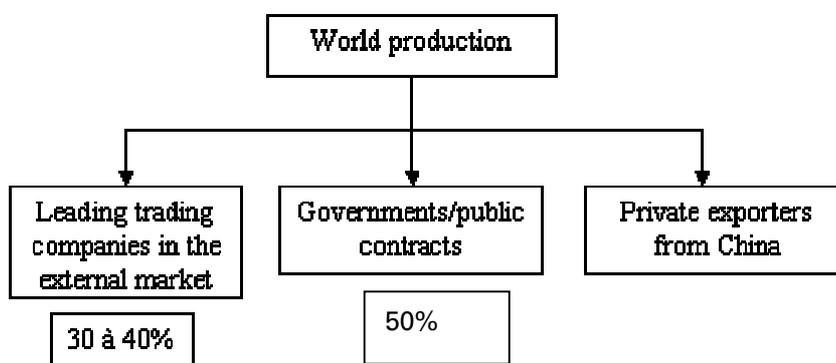
	Producer price (paddy)	Wholesale price (milled)	Retail price (milled)*
Bangladesh	127	240	241
Indonesia	134	101	88
Myanmar	153	356	389
Philippines	131	347	342
Thailand	124	247	451

Small village mills do not provide the quality needed for export. So the farmers are dependent on big mills, because processing is necessary. These big mills are almost seen as the rice-mafia, withholding a free market situation. The situation is more complex, says Gutekunst, because is very hard to get an export licence. It would be impossible for a single coop to be in a position to export rice from Thailand. So they are very dependent on Green Net. (21)

During milling 33% of the volume is lost, so the value per kg increases.
There is a margin of about 24 to 28% between miller and wholesaler.

6.7 Traders and exporters

29. *The rice chain can be divided into three external trading modalities (3)*



Before 1989, more than half of transactions were carried out by governments. For a long time, rice has been almost exclusively traded by the states themselves, or by a few – mainly Chinese - families of private exporters. Today, 80% of Thai exports, for instance, are still controlled by 10 traders, most of them members of rich and powerful families. (1) It was mainly an intra-Asian trade. But from the 1970s, transnational agribusiness firms developed rapidly. At one point they controlled 40 percent of the international rice trade. (3)

The main channel for selling rice is government-to-government deals. In Asia around half of all annual rice transactions are realised through these kinds of deals. The physical trading of rice is organised through rice traders and brokers. (9) Farmers can sell their paddy through both governmental and private channels. The main function of government related bodies is to sell the paddy at the governments intervention prices (in Thailand 10% higher than the market price). (11)

6.7.1 *State trading enterprises (STEs)*

STEs are government agencies, corporations or producer marketing boards that trade agricultural products or contract with private firms to trade. Some agricultural STEs also control domestic production, through procurement and pricing policies, or market imported commodities. Approximately half the world's rice exports are also handled by STEs, although the largest rice exporter, Thailand, does not maintain a STE.

Importers with STE are Japan, Brazil, Indonesia, Egypt, Soviet Union, Iran, Iraq, South Korea. Exporters are Pakistan, Myanmar and China. (11)

Lack of price transparency in STE agricultural trade has generated concern that some countries will use STEs to circumvent their Agreement on Agriculture export subsidy and market access commitments. As STEs control a significant part of trade and/or production of certain agricultural products, they are in a position to influence the market in favour of their commercial interests. (11)

The Thai government has played a major role in rice production and marketing. The price support program was first introduced as early as 1965. At the moment, the government mainly intervenes through two schemes: paddy mortgage and purchasing of paddy. However, so far, many farmers could not benefit from these schemes due to several limitations. (46)

The main channel for selling rice is government to government deals: In Asia this is around half of all annual rice transactions.

6.7.2 Multinationals and family companies

After rice leaves the mill it can be sold directly to local consumers, paddy traders, brokers or the government. The price that rice brokers and paddy traders buy rice at is not always fair, nor clearly determined. In theory, it should be determined by considering supply and demand on a global scale and the information provided by the USDA. In reality, a small number of families control the conventional rice trade in Thailand and it remains extremely secretive. (68) In Asia, the importance of private exporters has also grown. In Thailand, for example, private trading exportation has risen over the past ten years from 20 % to 80%. (3)

As for the main Asiatic public bodies which used to be in charge of international trade, they still manage large exportable stocks that they usually sell through private exporters. These exporters are in direct contact with private importers from Europe, the Middle East and Africa. The liberalization of the commercialization of production chains and the end of cereal import state monopolies have allowed for this transition to take place.(3)

Relative to the importance of Thailand in the global market, the Thai government plays a minor role in rice trading. Therefore a large number of trading companies operate in the country. The Thais are essentially millers who also export rice by delivering it to ships on a free on board (FOB) basis. The two leading companies are Soon Hua Seng and Capital Rice Group, but in practice there are around a dozen leading exporters plus a handful of smaller exporters. (11)

80% of Thai exports are still controlled by about 10 traders, most of them members of rich and powerful families.

6.7.3 Harbour handling: Over packing to 50pk bags

The commercial rice trade between Thailand and the US and Europe is physically very similar to the Fair Trade partnership between Green Net as the exporting organization and claro as the importing organization. The Siam Ka Kao company is an exporter based in Bangkok which exports conventionally grown rice from Thailand to the US. As an export business, they receive orders from consumers (restaurants, grocery stores etc.) and then buy rice from rice brokers in order to meet their needs. Once the shipment of rice has been put together, the export company applies for an export license. If a license is granted, the shipment is inspected to insure the quality of the rice. Currently, there are 23 inspection companies in Bangkok. In order for white rice 100% Grade A to pass an inspection, it must meet, among others, the quality standards. (68)

After the rice has been deemed acceptable, an import company either specifies a shipping company or the exporting company will suggest one. The rice can then be loaded into cartons and put onto the ship. The cost breakdown of this process is as follows for one 50kg bag (68)

The cost of shipment to USA varies from US\$ 1775 for a 20 ft container to US\$ 3.900 for a 40 feet container. This is inclusive bunker surcharges and US\$ 40 of cargo declaration per shipment. A 20 FT container can ship 15.000 Kg of rice. (68)

Shipment costs are about € 0.10 per kg.

The added value of the exporters and traders is about € 4.32 per bag of 50 kg or € 0.087 per kg.

According to one observer, Lathan, the rice trade is characterised as 'unsophisticated'. Methods of marketing and trading are of a very simple nature involving little technological input, with only the US being an exception to this general picture. In Bangkok's traditional rice trading area, occasionally you still see labourers shouldering sacks of rice between lorry and ship. This highlights the low technology of the transport facilities in the trade, and the consequent inefficiency and high costs. Most of the international trade is handled in consignments made up of 50 kg or 100 lb sacks, and is transported in smaller, older ships than the bulk carriers involved in the international wheat trade. This leads to problems for rice traders in securing suitable shipping arrangements. The fact that many of the ships are small and old is another source of difficulty, inefficiency and expense, and imposes extra costs on the final price of rice. As recently as 1995, a situation of near chaos existed in the shipping of rice in Asia. This was due to the inability of the shipping infrastructure to handle a big increase in the volume of rice owing to crop failures in Indonesia, China, the Philippines and other countries. (11)

30. Thailand leads the world in rice exports, shipping 4.5 million tons a year. (26)



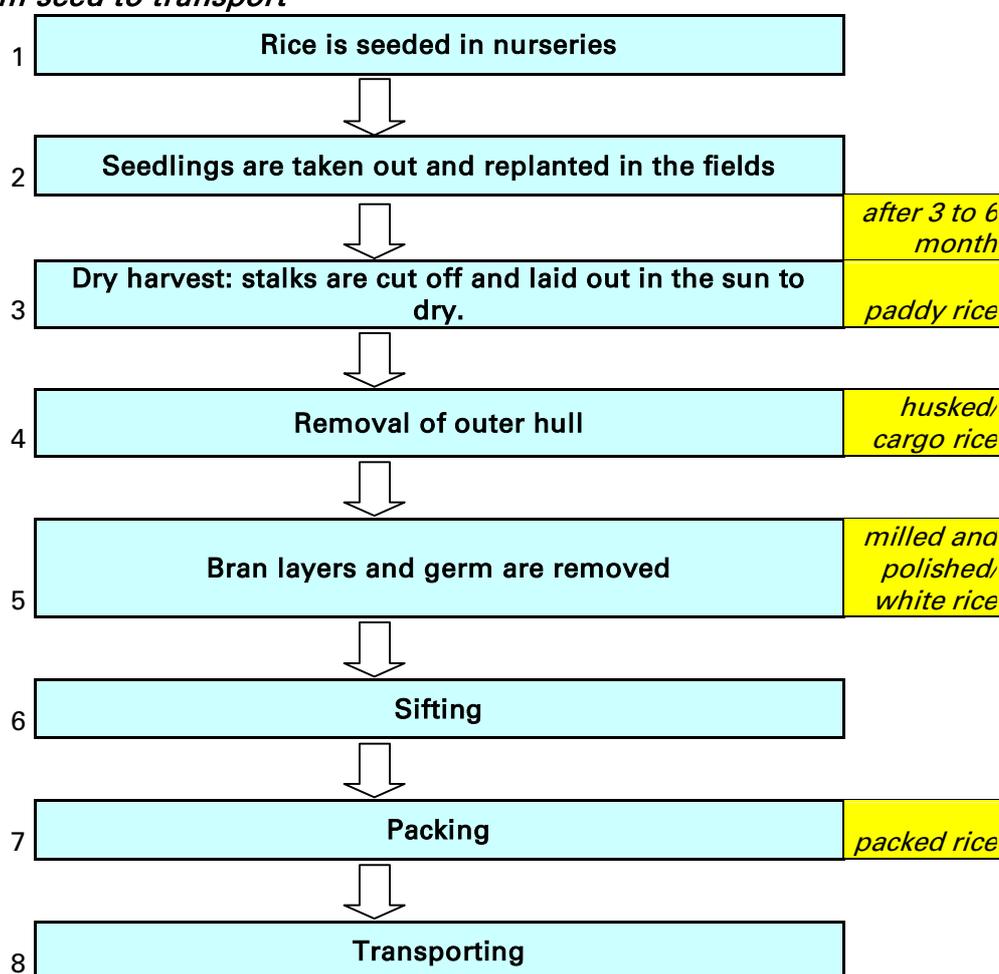
6.8 Rice brokers

Brokers and traders act as intermediaries between exporters and importers and play a pivotal role in the movement of rice as a commodity. As stated, much of the international market is a trade in surplus rice which has suddenly come onto the market, and so participants in the market change on a yearly basis. This makes it difficult to find a suitable partner to buy or sell rice. The search takes time and is expensive, making transaction costs very high. Moreover, the market is characterised by relatively small numbers of traders and buyers. Brokers therefore play a crucial role in the functioning of the market. Their clients may be countries, trading companies, millers and food processors. There are a number of rice brokerage houses in existence, which are located in the EU (Belgium, France and the UK), Hong Kong, Singapore and the US. (9) Broker's clients will include rice-trading companies as Van Sillevoldt, who operate through them in order to conceal their identity in the marketplace (for political or commercial reasons), as well as end-users such as Uncle Ben's and Kelloggs. Brokers operate between traders and traders, between governments and governments, and end-users and exporters. The vast majority of Thai exports are sold through brokers such as Jacksons Son (UK) or Creed (www.creedrice.com, US), and not directly to international trading companies. Analysts state that brokers help to provide the liquidity that is missing from the market. (11)

Owing to market instability, deals must be made very quickly, and transactions are particularly expensive. In order to bring these deals to a good conclusion, traders turn to specialised agencies that operate in the main centres of the world market in the United States, Europe (England, France and Belgium), Singapore and Hong Kong. (1)
 The distinction between brokers and traders is often a blurred one. In essence, traders take 'positions'; buying, holding then selling rice at a later date. Brokers on the other hand, do not take positions but take a commission from their clients on the sale of rice to a customer. (11)

Futures markets do not play a significant role in the international rice trade. The flip side is that the specialised skills of brokers and traders will ensure that supplies are secured from volatile markets. Because rice has so many different varieties and no liquid futures market, there is no certainty that the trader will automatically be able to offload what he has bought. Buying rice is therefore a risky undertaking, and few rice traders take positions further than six months on. (11)

31. Rice from seed to transport



The vast majority of Thai exports are sold through brokers such as Jacksons Son (UK) or Creed (US)

6.9 Transnational traders

There are three types of rice trading companies currently in operation.

1. Firstly there are European traders operating out of Geneva, Paris and London, who tend to specialise in Asian rice.
2. Secondly there are US traders specialising in US rice, and
3. Thirdly there are those who specialise in the internal Asian markets.

6.9.1 European players

Private companies are very active in handling the exports of the United States. In recent years these companies have included Andre, Louis Dreyfus, Comet Rice, American Rice, Continental Grain and Balfour MaClaine. These companies supply Latin America, Africa, the Middle East and Europe. (11).

In Europe, the UK is a key player in the international rice trade. The London Rice Brokers' Association (LRBA) holds a central position in the global market. However, the LRBA does not itself trade in rice but provides contracts for trade (which are accepted throughout the world), and a monthly report. Jacksons, a London based family firm, has many Far Eastern contacts. Charles Wimble is another UK operator, dealing with intra-EU trade. There are one or two other companies that handle the odd shipment.

Rice trading in Europe is conducted from Paris and Geneva, but importing is controlled mainly by the mills that work brown rice and pack it for distribution. Most of the trading is for destinations beyond Europe, the traders having established their domicile on tax and cost grounds. Companies on the continent include Global, ORCO, CIC, Schepens and Real Trading. (11)

In the world market, transnational companies (TNCs) have come into the foreground. At the beginning of the 90s, they accounted for nearly 40% of world trade. The first four companies at that time were the American and Anglo-Saxon companies Continental, Glencore and Cargill, and the French group Riz et Denrées. Since then, TNCs have continued to strengthen their influence.

Their position in the world market is very strong, because they are also the main suppliers of agricultural inputs in several countries. However, when there is a crisis (low yields or, the complete opposite, excessive overproduction resulting in a price fall), most states take over the reins of rice trade (again), or even re-establish the trade monopoly on such an important basic foodstuff. (1)

Contract farmers become extremely dependent on the world market's demand and they become factory workers in their own field: The only difference is that they have no company to take the responsibility of securing their jobs, their social welfare, etc. (40)

The few international agricultural companies include TNCs active in different stages of rice. Cargill, Archer Daniels Midland (ADM) are the two main 'agro-multinationals'. Smaller companies include Charoen Pokphand Group (crop integration, rice fertilizers, <http://www.cpthailand.com>) in Thailand and Hope Group in China (www.easthope.com.cn/english/). (9)

Rice importing in Europe is controlled mainly by the mills that work brown rice and pack it for distribution.

6.9.2 Different roles in the chain

Over the last 20 or so years, transnational corporations have gradually eroded the power of states and private exporting firms to become increasingly important players in the world rice market. They handle an unknown but large proportion of world rice trade and are steadily increasing their influence at every stage of the production and distribution process, from control over seeds and inputs, sales and marketing to importing and exporting. Vertical integration has reduced transaction costs, provides economies of scale and increased TNCs' market power, and is pervasive in the international rice trade. Cargill,

for example, is a leading supplier of chemical inputs, a buyer, importer, exporter, transporter, speculator and hedger of rice, as well as a borrower and lender of credit. They buy rice in the country where it originates, charter the shipping, and sell the rice in the country where the cargo eventually arrives. Profits of the large private traders seem to rely more on market instability than on volume traded. Disruption and instability in trading patterns allows multinationals to use their superior market intelligence to capture the profits and interest resulting from such instability. But volumes are important, as profit margins are narrow; international traders make only a few cents profit per tonne. (11)

6.9.3 Contracts and arbitrage

The Grain and Feed Trade Association (GAFTA) and the London Rice Broker's Association (LRBA) are two main organisations in the international rice trade that provide contracts and arbitrage. (9)

6.10 Dutch situation

As an example the report follows the chain when a shipment arrives at Rotterdam harbour.

6.10.1 Milling and processing

The Netherlands is an important importer and miller of rice, especially brown rice. Most Dutch rice imports consist of long grain rice, also known as the *Indica*, imported from outside the EU.

Between 1993 and 1994 Dutch rice imports almost doubled, but decreased steadily in the years afterwards. During the last couple of years Dutch rice imports have been relatively stable and amount to approximately 220.000 tonne per year, showing a slightly upward trend since the year 2000. (42)

Husked or 'brown' rice constitutes the largest category of rice imports. A large part of the brown rice imports is further processed in the Netherlands. This mainly concerns milling, but may include flavouring, parboiling, or serving as main component for snacks. In the Netherlands there are 4 mills with a production from the 3 big mills of 114.000 ton (99%) (36)

Milled or white rice imports between 1996 and 2002 range from approximately 35.000 tonne (35.258.420 kg) to approximately 52.000 tonne (52.256.426 kg) in 2002. Milled rice imports have increased over the years, with a peak in 1998 with approximately 86.000 tonne (42)

Quite a large part of Dutch rice imports is milled in the Netherlands and re-exported within the European Union. Between 35 and 63 percent of the total Dutch rice imports is re-exported after milling. Husked (brown) rice and broken rice exports fluctuate a great deal. Since 2000 broken rice exports have shown an increase from approximately 10.000 tonne to almost 25.000 tonne in the year 2002.

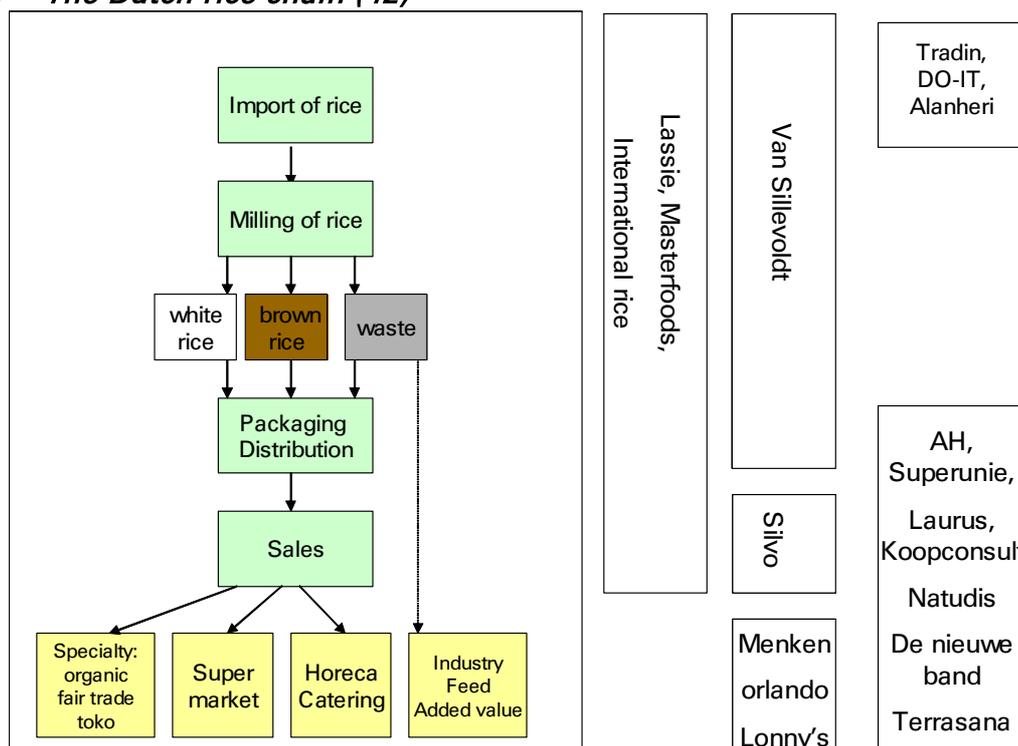
The FAO does not provide specific figures regarding the export of milled or white rice. However, milled or (semi-)white rice constitutes the most important export category. Figures provided by CBS in the Netherlands range from approximately 85.000 tonne in 1996 to 62.000 tonne white rice exports in 2002, with a peak in 1997 and 1998 with respectively 101.000 and 102.000 tonne of white rice exports. (42)

Most rice is imported from outside the EU. In 2001 and 2002 the main import countries for the largest import category, husked or brown rice, are United States of America, Guyana, Surinam (because importations from both countries are tax-free as ex-colonies) and Pakistan, followed by Thailand and India. The main import country within the EU is Italy. Aromatised rice is included in this category. Basmati rice is mostly imported from India and Pakistan and *Jasmine* rice from Thailand. For milled and white rice the main import countries are Italy, Aruba, Thailand and the United States of America.

Fluctuations in import volumes from different countries can be largely allocated to changes in transport and distribution factors like port facilities, but also tariff barriers (import duties

and quotas), the euro/dollar rate and the changing preference of Dutch consumers towards aromatised rice. (42)

32. *The Dutch rice chain (42)*



6.10.2 *European (former) colonies*

French Guyana, the only rice-producing EU overseas territory, produced some 30,000 to 40,000 tonnes of rice. (1) There is still a rice chain coming from the north area of South America to Europe.

International Rice is involved in the whole rice chain as an importer, miller and seller/exporter of rice. Most of the rice is from South America (Surinam, Guyana). In this region (East Coast, Black Bush, Eashi Cubo) International rice has production facilities and plants. International rice is selling most of the rice through the supermarket channel. International Rice is milling and distributing their Surinam rice (Interrice). Next to this, rice is processed and packaged for Private Labels (e.g. Euroshopper, Laurens). The proportion is 50% Interrice and 50% private label. The total amount of rice that is handled by International Rice is around 50.000 to 60.000 ton. The main rice types include Surinam long grain cargo rice for Interrice and Private Labels.

The sustainability of the rice chain in Guyana, Surinam, and Dutch Antilles needs to be improved. Husked (brown) rice in the Netherlands is imported from Aruba, USA, Italy, Guyana, Surinam, Pakistan, Thailand and India. Guyana and Surinam together are responsible for 31.4% of the total imported husked rice in 2001 and 39.6% in 2002. Pakistan, Thailand and India together account for 19,1% of the total husked rice in 2001 and 29.9% in 2002. For milled white rice the main supplier is Italy (30.2% in 2002), followed by Aruba (21.7% in 2002), Thailand (12.4% in 2002) and USA (11.2% in 2002) (42)

Interrice sells their Surinam brown rice for the lowest market price of € 0.58 per kg!

6.10.3 *Van Sillevoldt's monopoly*

Van Sillevoldt is a Dutch company with €75 million turnover handling 100,000 tons of cargo rice per year. Recently the French MARBOUR Group bought 100% shares of Van Sillevoldt Rijst B.V.. Van Sillevoldt is milling around 90% of the total amount of 100.000 ton of rice that is handled every year. Van Sillevoldt is producing Silvo rice. Furthermore van Sillevoldt is mainly packaging and distributing 'private label' rice types. These private

labels include: Fair Trade, Albert Heijn, Superunie, Laurus, TSN, Aldi, and Lidl. Around 90% of all white (milled) rice in the supermarkets originates from Van Sillevoldt. The rice originates from India, Pakistan, Thailand, Guyana, Surinam, USA, and Italy. Van Sillevoldt also handles the Fair Trade rice. Since Van Sillevoldt is dependent on the requirements of the 'private label' owners they can be indirectly involved in activities that improve the sustainability of the rice chain (as is the case for Fair Trade rice and Silvo brown rice EKO). In the Pandan and Basmati segment Silvo is the market leader. (42) Van Sillevoldt is open to projects with specialty rice and can provide support in the field of logistics, food safety requirements, packaging and distribution. DO-IT is interested in initiatives to improve sustainability aspects of trade (including rice) in general.

6.10.4 Supermarkets

Around 60% of the total rice consumption is distributed through the supermarket channel, around 20% is processed further by the industry for feed (waste from the milling process) and rice snacks. The remaining 20% is distributed through specialty shops (Fair Trade, organic shops, toko's and small shops) and the out of home and catering industry. The main supermarket organisations are Ahold (Albert Heijn), Laurus (Super de Boer, Edah, Konmar), Schuitema (C1000), Aldi and Sperwer (Plus, Spar). The total market share is almost 75%. In the Netherlands, around two third of all food is bought through the supermarket channel.

Average Dutch rice consumption over the last decade amounts to 4,6 kg per capita. There are only a few major players in the rice market. This being the case, companies tend to keep their sales figures confidential. Dutch consumption patterns are similar to the general consumption patterns in the European Union, particularly those of other Northern countries. Dutch consumers express a growing interest in fragrant or aromatic rice, such as *Basmati* and *Pandan*. (42)

33. Consumption prices/kg (NL, 2005):

€ 1,45 long grain rice
€ 1,79 <i>Jasmine</i> rice and <i>Basmati</i> rice
€ 1,89 Brown rice

6.11 Consumption

World rice consumption increased 40 percent in the last 30 years, from 61.5 kg per capita to about 85.9 kg per capita (milled rice). This is 235 grams a day.

Three consumption models can be distinguished:

1. Asian model: average consumption higher than 80 kg/person per year (China: 90kg, Indonesia: 150kg, Myanmar: more than 200kg, the record);
2. "PVD subtropical" model: average consumption between 30 and 60 kg/person per year (Colombia: 40kg, Brazil: 45kg, Ivory Coast: 60kg);
3. West model: average consumption lower than 10 kg/person per year (France: 4kg, United States: 9kg).

Most rice is consumed in the same country in which it is produced. This is one of the most important characteristics of the rice production chain. Domestic rice markets are, therefore, very segmented and often one of the most protected. (3)

For Europe most rice is consumed in Italy, Spain, France and Germany. In 2000/2001 Portugal had the highest rice consumption per capita (16.1 kg/head), followed by Spain (6 kg/head), Greece (6.2 kg/head) and Sweden and France (5 kg/head) (Eurostat, 2002). (9)

These consumption patterns are changing with more demand for special rice varieties. Especially in Northern countries the demand for fragrant or aromatic rice such as *Basmati* increases while in Southern European countries the demand for fast-cooking parboiled types is growing (CBI, 2002).(9) The demand for color-rice (red Hom Mali and so on) will also increase in the near future (87)

The general trend in Europe, the US and Australia is that rice consumption is steadily increasing, although in these countries rice comprises only one to two percent of total calorie supply.

Consumption in northern Europe has increased at a faster rate than southern Europe. However these rates are still below the figures for Spain, Italy and the US. Traditionally, Europe has been a consumer of *Japonica* rice. Consumers' tastes have been increasingly shifting to long grain and aromatic *Indica* rice however. It is predicted that rice consumption will continue to rise in northern Europe, and gradually level off in southern Europe. (11)

The annual average consumption is about 85.9 kg per capita milled rice. This is 235 grams a day.

34. Meal time in India



Each region likes a different texture to rice--primarily based on the starch content of the grain--India, along with Pakistan and Sri Lanka, prefer a harder and fluffier rice, the result of a high starch content. (26)

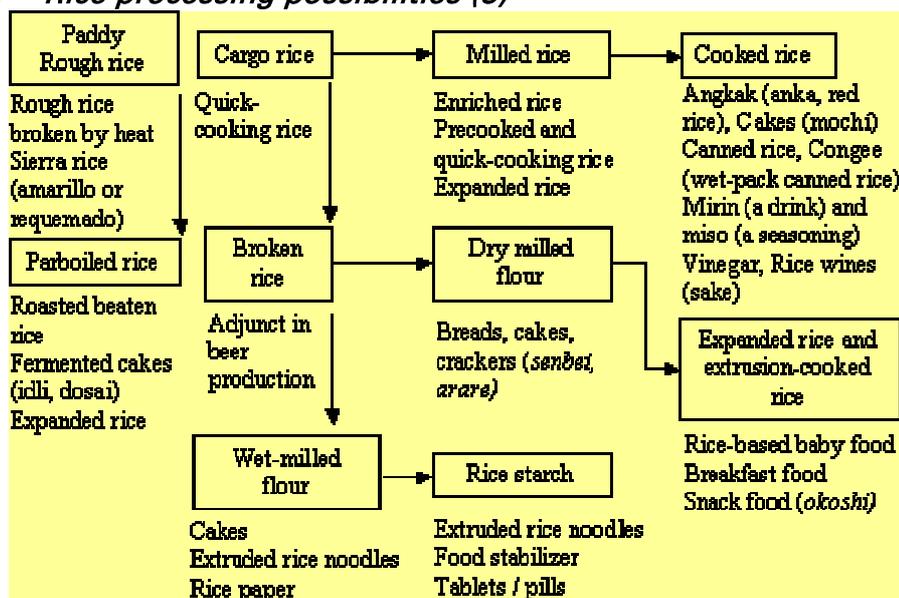
6.12 Processing

The major rice consumers in Europe are the food and drink industries (e.g., pasta and bread industries, beer and other liquor distilleries), as well as the pharmaceutical industry. (3)

Rice products can be roughly divided into two categories, rice and rice that is further processed and used as an ingredient for other food products. Rice products on the Dutch market are:

- Rice (to cook): Indica, Japonica, White, Parboiled, Fast cooking, Brown, Basmati, Wild, Pandan, Black, Red, Sweet and rice mixed with nuts, herbs or flavours
- Rice flour and flakes and rice bread
- Rice drinks and wine
- Rice snacks and crackers
- Rice syrup
- Babyfood with rice
- Ready made meals with rice
- Rice vinegar

35. *Rice processing possibilities (3)*



Some EFTA members are selling (the same) Fair Trade crackers (in Germany, Switzerland and Belgium) based on Green Net rice. These are processed in the Netherlands by Sano Rice in Veenendaal. (87)

Apart from rice, Thailand exports a number of value-added, rice based products to the world market. The rice cracker is the leading value-added rice based product in Thailand that accounts for 37% of total exports in value (51.8 million USD in crackers in 2001) and has an annual growth of 7-10%. Japan is the biggest importer of rice crackers accounting for 40% of the total rice cracker export value in Thailand. Other important importers are Australia, the US and the Netherlands. For rice crackers MenkenOrlando is the market leader in the Netherlands.(42)

7 The Fair Trade chain for rice

Saphanfa a Fair Trade cooperative member: *“Those from the rice mill and the farmers meet and speak. I feel that producers receive enough, but would like to receive more to cover the costs of investment for materials and equipment. Producers must also consider the (cooperative) rice mill’s situation.”* He says, *“Even some farmers doing organic agriculture earn little profit after the investment cost, and this is not even considering (the value of one’s own) labour. I do better as I use the mushrooms to pay my material (compost) costs. In any case, all of the organic producers have good food to eat all of the time.”* He says, *“If a farmer produces just to sell, he can’t live. Only looking after one’s self-sufficiency first you can live.”* (5)

7.1 Market players

There are ten FLO registered producer groups in the rice register (2005). Six groups are located in Thailand, one in Egypt and three in India (see chapter 8). (22) Seven groups are producing under organic conditions. All groups are registered as smallholder organizations. Four exporters, nine importers and five licensees are supporting Fair Trade in Thailand. (13)

Max Havelaar Switzerland and Max Havelaar France and Max Havelaar Belgium are licensing the Fair Trade label for rice in their markets. The main distribution channels are Alternative Trade Organisations (FTOs) and supermarkets. Max Havelaar Denmark and Norway launched rice in 2003. More National Initiatives like Transfair Germany & Austria, Max Havelaar Belgium as well as the Fair Trade Foundation are planning to launch rice (<http://www.fairtrade.net/>).

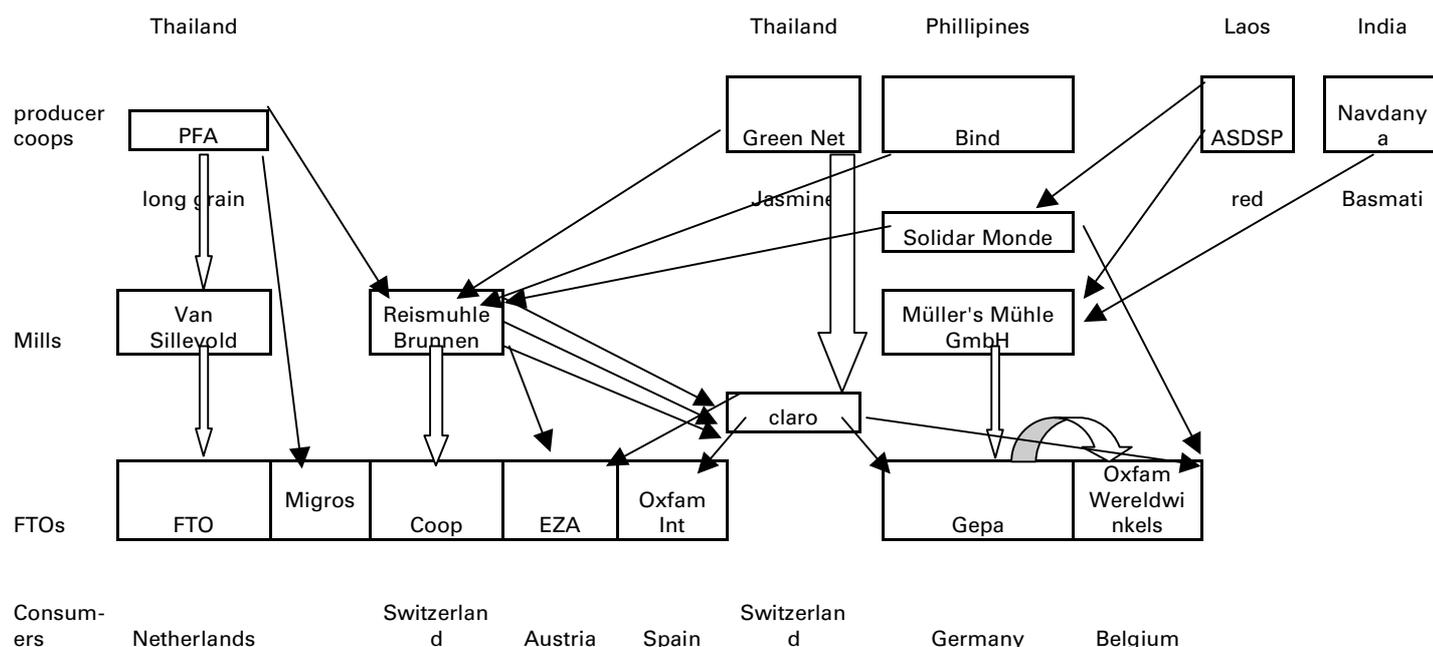
Rice traded in Europe with the Fair Trade label (Max Havelaar in some countries) is mainly *Hom Mali* rice or *Jasmine*. In the Netherlands the Fair Trade *Jasmine* rice is imported from the Progressive Farmers Association. The market for Fair Trade (rice) is relatively small. (9) The biggest market penetration of Fair Trade labelled products can be found in Switzerland and the Netherlands, where the total amount spent per head in 2002 was an estimated 10.16 Euro for Switzerland, followed by the Netherlands with an estimated 2.16 Euro spent on Fair Trade labelled products per head. In the first year of selling FLO labelled rice, 2002, the total Fair Trade volume was 392 tonnes of milled rice. In the Netherlands around 40-60 tonnes of Fair Trade rice is traded. (9)

Several EFTA members have been importing *Hom Mali* rice from Thailand for ten years. This flavoured rice, better known as *Jasmine* rice, grows mainly on the arid soil of Isan, in the northeast of the country. Thanks to its flavour, it sells for a high price in the world market. It is grown especially for export. For most of the 5 million small farmers, it is the only source of income. But this important export product (25 % of all Thai rice exports) mostly benefits traders. The underpaid rice farmers manage neither to earn their keep nor to break out of the vicious circle of debts.(1) claro has been importing two other rice

varieties :since it started trading: *luëng on* and since 2003, "normal" longgrain rice from another green net member, the 'Sanam Chai Keat Organic Agriculture Group' in the Chachengsao province (87).

This chapter describes the chain from four farmer co operatives in Thailand through Green Net and claro to the FTOs in Europe (EFTA members).

36. Flow of different rice chains between rice producing cooperatives, mills and FTOs



7.2 Three levels

The organic and Fair Trade rice project was initiated about 10 years ago through the cooperation of local Thai NGOs and a Swiss-based Fair Trade organization, claro. In about 1996, the Project expanded its scope to include organic farming as a central objective. The first rice organisation involved in Fair Trade export, Surin Farmer Support, focused on organic production for many years, before the contact with claro (87). Currently, the Organic and Fair Trade Rice Project is a cooperative project involving 4 local farmer organizations, local NGOs, Earth Net Foundation, and Green Net Cooperative. (12)

Three organizational levels are involved in the export of Thai rice from Surin and Yasothorn, two of the nineteen "sub provinces" of Isan Province in North-eastern Thailand.

Production: organized groups of small farmers from various villages in the area surrounding Surin and in the Kudchum district (province Yasothorn).

Coordination of rice buying, processing, packaging, marketing and transport to Bangkok: regional NGO, Surin Farmers Support (SFS).

Export: managed by Green Net; after internal restructuring, Green Net has been split into two parts, an NGO (Earth Net) and a business. (8)

7.3 Producer Groups

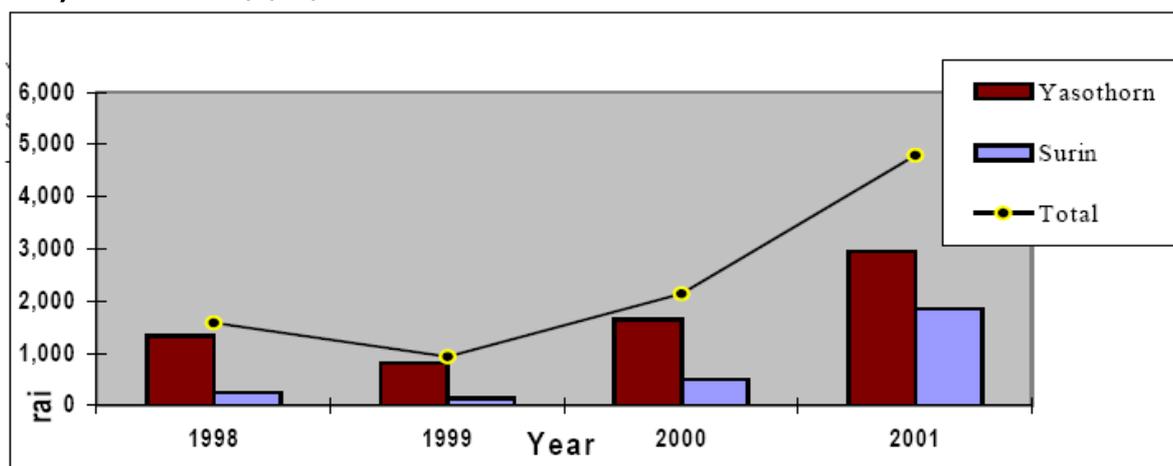
The establishment of agricultural cooperative and farmer organizations initiated by the Thai government (in 1999, 3,344 cooperatives were registered with a total membership of 4.66 million) is linked to the Green Revolution strategy. The main reason for setting up farmer cooperatives and organizations is to facilitate the distribution of chemical fertilizers and pesticides to farmers. (12)

The Fair Trade *Jasmine/Hom Mali* rice is being cultivated by the members of four farmers' organisations from Surin and Yasothorn, two provinces of Isan. Thanks to the promotion of organic farming, the processing and packing of rice where it is produced, and the direct marketing of the finished product, the rice farmers eventually get financially rewarding prices. So they can stay on their land, invest in production and consolidate other activities. The setting up of seed banks, for example, allows farmers to stock their crops and sell them when prices are favourable, to take out loans, and to safeguard local varieties. (1) Fair Trade rice is purchased from 3 farmer groups in North-eastern Thailand, two of which (Sahatam Group and Natural Agriculture Group) are in the Surin Province and the other (Nature Care Rice Mill Group) is in the Yasothorn province. (4) The growth rate in the 2000 and 2001 years has been remarkable with over 2.5 times increase in certified farmlands. (12) The Tatoon Group from Surin is no longer part of the project (87).

37. Overview over the producer groups in Surin and Yasothorn (12)

	Producers in Surin	Producers in Yasothorn
Farmer Organization	Natural Agricultural Group	Yasothorn Farmer Group Network (FGN-Yasothorn)
Founding	11 June 1992	8 March 1996
Areas of operation	10 sub-districts of 6 districts in Surin (Northeast of Thailand)	43 sub-districts of 8 districts in Yasothorn (Northeast of Thailand)
Total members	456 farming families	7,087 farming families
Member applying for organic certification in 2001	113 families	192 families
Total farmer in Province	167,362 families	70,514 families
Total rice land in the province	0.467 million hectare	0.174 million hectare
local NGOs supporting producer	Surin Farmer Support (SFS)	None

38. *The expansion of organic rice acreage organized by the Project (1 hectare equals 6.25 rai) (12)*



Before 2000 the development was slow, but the growth in Fair Trade production of rice really started in 2000.

7.4 Surin Groups

Sustainable organic agriculture in Surin is structured around small and middle-sized farms. Apart from the farmers who find themselves in a transition phase to organic farming and still use chemical fertilizers but no pesticides, there are 243 small scale organic farming families in three districts covering 22 villages; they cultivate a total of more than 300 acres (120 ha) of land for rice production and other organic products. About 75 % of the farms own less than 5 hectares, other farmers own 5 to 10 acres (2 to 4 ha) or have to rent land to grow rice. In the area around Surin - the administrative capital of Surin province - over 100 farming families have established mixed culture or integrated farming and are engaged in raising fish, small animals (ducks) and buffalos to improve the soil fertility. They also plant various types of trees surrounding the land to increase its fertility (e.g. Sesbenya). Until now, three farmers' groups have been active in Fair Trade rice export in Surin. After the quota was allocated in April 1998, Sahadharma was contracted by a local private company to supply rice to domestic market outlets. As a consequence, the producer group decided to give up its Fair Trade export quota to Ta-toom and NAG groups. (8)

The total rice area of the SFS members is 842,4 ha ('97/'98).

Harvest is in December/January. Rice grown in Isan is almost exclusively un-irrigated (rain-fed rice--its water needs are met exclusively by rainfall). Due to the geographic conditions, the soil type and the lack of an irrigation program, it is not possible - in contrast to other agricultural zones in Thailand - to raise more than one rice crop per year. (8)

In 1981, groups of farmers in north east Thailand's Surin province set up their own rice mills. Two medium-sized mills were established that produced rice for sale to local and specific markets including the army. They also attempted to sell abroad, but had to give up as they were unable to compete against market prices; they lacked sufficient capital, and experienced management problems.

At the same time, community-level rice banks were set up throughout the region to address the shortages of rice for consumption. Numerous groups developed into granary-rice businesses which acted as brokers in the purchase of rice. Conducting business according to collective principles, they then speculated on the open market. In addition to the profit earned from the rice banks and collective mills - both of which required participants to pool their resources - farmers had an opportunity to gain valuable lessons concerning internal management and administration.

In early 1990, three groups of rice banks and mills (which by that time had grown in number and devolved into village-level rice mills) were introduced to Organisation Switzerland Third World (OS3, now claro), a network of stores selling goods from developing countries in Switzerland. The village groups worked together to mill and sell rice directly to OS3, and by doing so bypassed all outside intermediaries. The co-operatives earned a profit of approximately US\$ 0.10 per kilogram, which enabled them to purchase paddy from member farmers at two cents per kilo above the general market price, a significant amount considering 51 tonnes of rice were bought in 1991-92. (11)

7.4.1 Bakruea Farmer Group

The BFG is a cooperative of Bakruea farmers which established its own rice mill in 1994. The BFG purchases *Jasmine* paddy from members, mills and sells *Jasmine* rice both for bulk wholesale and retail packing. In 1996 the BFG was supported by the Pilot Project for Community Rice Mill Development, a local NGO funded by the Environment Fund of Science & Environment Department, to promote organic farming among its members. There were about 50 members who are involved in organic rice production. Some of the enthusiastic members also set up the "Sawan Banna Group" to cooperate in producing organic inputs, e.g. compost, green fertilizer etc. for the members in the group. The organic producers of BFG started applying for organic certification in 1999. Although the grant fund was over in 1999, the organic producers still run their own production with the support of the BFG Rice Mill. The BFG Rice Mill plans to purchase the organic paddy from the members and plans to sell the rice to Green Net. (37)

BFG Rice Mill provides technical advice and provides some funding for organic producers to buy organic inputs. The contact person of BFG Rice Mill is Mr. Charoen Sompoa, the manager, and Mr. Prakong Chanthakoon and Ms. Somwong Prakodhan. BFG has two silos and one rice mill. The main silo is located at the rice mill at Donphing village, Tambol Bakruea, Mahachanachai District, Yasothorn. The main silo stores all paddy purchased from members while another silo, a small one, located in the same village, is only supposed to store organic rice. (37)

39. Mrs. Somwang Chomcheun (age 28) Farmer/ Marketing Coordinator/ Rice Quality Assurance at the mill (5)



The quality measures are clearly written down; farmers can observe how measurements are taken. The purchase procedures are transparent. Records are kept of their annual production amount and the quality of their rice, which they can compare with those of previous years. With training organized by the project staff, the farmers learn the best techniques for harvesting, drying, threshing, and storing the rice so that their rice will be of the best quality and they will earn the most money when it is sold. (5)

This attention to quality both benefits the farmers and the rice mill. The marketing coordinator told me that such a relationship where the farmers are also owners of the rice mill requires responsibility on their part as well. For one it would not be too difficult to trick the system. If the rice is not well dried and has yellow grains or grains of other varieties intermixed, it is very costly to remove the under-quality grain. As the farmers are the owners, if the mill loses money trying to improve the quality of the grain, they as members lose out as well. When the rice grade is high, it is easy to process and sell. (5)

She told that they started receiving the Fair Trade premium in 2002 (This is the year in which they were certified by FLO or Fair Trade Labelling Organization International) and in that year they received 90000 baht (€ 1791) of which half went to the local support staff and half went to the Bak Reua Rice Farmers' Group and their rice mill. (In previous years the organic farmers of the Bak Reua Farmers' Group were not separate from the other organic farmers' groups of Yasothorn.) The money for the Bak Reua Rice Farmers' Group is being saved at present for a time of greater need such as a serious flood or drought. Their cooperative had already established a fund that is used for the social benefit of its membership. She gave examples of how this money is being used. For one the group donates brown rice for the lunches of all local school students. The cooperative also gives about 35 scholarships a year to children of members, each valued between 300- 500 baht each (€10). Members may borrow money at a favourable rate to buy fertilizer materials and can borrow rice chaff or green manure seeds and pay back in chaff or seeds from their green manure crop. (5)

Her only problem is that they are not always able to sell the rice fast enough, which starves the mill of cash flow when it still needs to pay its farmers on time. (5)

7.4.2 Rice Fund (former Surin Natural Agriculture Group)

NAG was established in 1991 in order to deal with the problem of price determination. At that time farmers faced two immediate concerns: a) the low price of paddy, and b) the control traders and mill owners exercised over the price of unmilled rice. NAG also established saving and cooperative activities in order to give loans to its members at low interest rates. (4)

The Natural Agriculture Group (NAG) collaborating with the Surin Farmer Support (SFS) had been promoting sustainable agriculture through integrated and natural farming for quite sometimes without involving the market access. But the success was limited and farmers can not continue with sustainable farming. Rice Fund was established in 1995 to be responsible for market service for member. The Rice Fund currently markets the rice locally and for export. The current beneficiaries are around 423 families. (88)

NAG is supported with technical advice by Surin Farmer Support (SFS), a local NGO. The Rice Fund is responsible for purchasing paddy from NAG and running the rice mill. The contact person is Ms. Sompoen Chansang and Mr. Sin Korthong. Rice Fund has one rice mill, NAG Rice Mill, located at Kokmaka village, Tambol Thasawang, Muang district, Surin. NAG Rice Mill is a small rice mill with the capacity of milling of 4 tons/day. The NAG/Rice Fund has replaced its contracted mill with this new one. There is no silo for the group. Paddy is kept in the silos of NAG farmer members. When there is an order for milling, the Rice Fund then purchases paddy from the members.(37)

After NAG has been allocated quotas for export, the Rice Fund Organisation begins to buy paddy from its members. This process usually begins in November or December. It buys paddy at the market price of the day that farmers agree to sell plus a margin for each group. The next process is to transform the paddy into rice. (4)

In 2000, the Rice Fund, a subsidiary of NAG, changed its rice processing from the contracted rice mill to its own rice mill located at Kokmaka village (so-called NAG Rice Mill), and moved the vacuum packing unit from Koriko to Tambol Kaeyai at the office of Kaeyai Farmer Group. This packing unit is the final processing unit to which the rice from all groups is delivered to be packed for the Green Net Project.(37)

Rice Fund also handled the vacuum packing process for all export rice of Green Net. The packing unit is located at the office of Kaeyai Farmer Group, Tambol Kaeyai, Muang District, Surin. (37) (*see the paragraph about packaging.*)

40. Surin packing centre keeps one sample of each order (47)



NAG/Rice Fund partly finances its own activities from its milling and trading operation. It is also supported by Surin Farmer Support (SFS). SFS receives funding support from a foreign organization. (37)

Rice Fund purchases 4 types of rice from NAG members, i.e. pesticide free rice, chemical free and in conversion rice, and organic rice (ACT certified rice). 'In conversion rice' will be purchased separately as another type from chemical free rice, the same as NCRM. Rice Fund had no silo. Rice Fund informed ACT that it now has access to a central silo, located at the same place as the packing unit at Tambol Kaeyai, for storing organic paddy from NAG members. Rice Fund requires its members to deliver all organic paddy to this storage otherwise Rice Fund will not purchase the paddy as organic. (37)

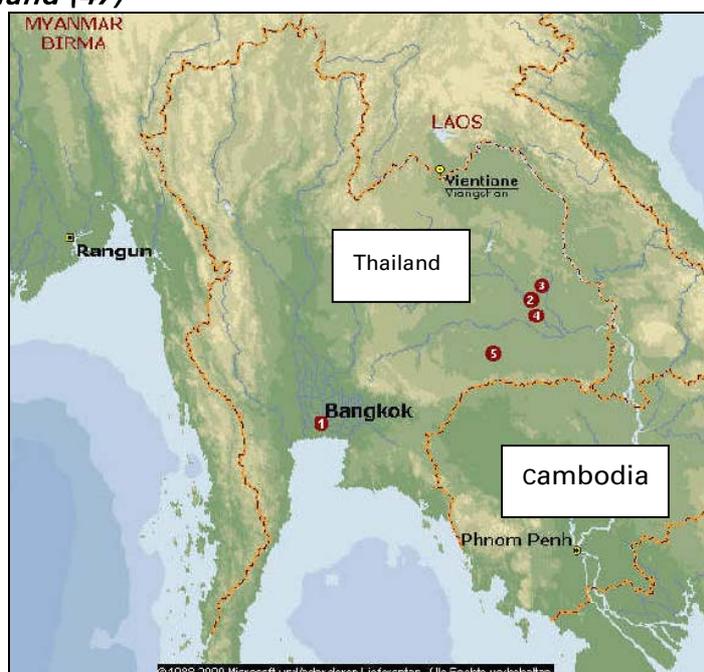
7.4.3 Milling

80% of the rice of all farmer groups is now processed at Koriko mill which is owned by one individual farmer and a leader of the NAG. Koriko is now the main packing facility. So a new packing centre has been installed too. The other 20 % of the Fair Trade rice is milled and packed in the Surin rice mill at Thasawang. SFS dropped out of its management in 1996. Usually, the organic rice is milled before the pesticide-free and conventional ones. It is processed hygienically and in a way that retains its quality and value. (11, 8)

7.4.4 The Surin Farmer Support (SFS)

SFS is a local NGO established in 1985 to promote sustainable agriculture. It offers capacity-building and technical assistant to the NAG and those farmers moving from chemical farming to organic agriculture. Secondly, it supports the development of agricultural processing, which would increase the value of organic products. Finally, it acts as a resource centre and disseminates information to concerned groups and consumers. Five members from NAG are chosen to be members of the Rice Fund Committee. The main task of the Rice Fund Organisation is to deal with buying and selling NAG paddy and allocation of fund for SFS and NAG works. Both NAG and Rice Fund Organisation are under the umbrella of SFS. (4) Looking at farmers who receive or do not receive technical assistance, only 3.6% and 29.8% of Fair Trade farmers and farmers who used to belong to the Fair Trade group find themselves in the same position.(4). From this point it can be concluded that there is still a lot of work to be done.

41. Map of Thailand (47)



Legend:

(1) Bangkok: Head office of Green Net

(2) Yasothon: Province capital

(3) Kudchum: Rice mill of Nature Care Club

(4) Bakruea: Rice mill of farmer group in Bakruea

(5) Surin: Rice mill and packaging unit of Rice Foundation (RF) and Surin Farmers Support (SFS) in Surin

7.5 Yasothon: Kudchum

Since 1996, a farmers' group from the Kudchum District of the neighbouring Yasothon Province has also been active in rice export. It has specialized in organic production of *Hom Mali (Jasmine)* rice. In 1998, it produced 65 tons of certified organic *Jasmine* rice but only managed to export 15 tons. In 1998, this group had 925 members; 36 farmers were certified organic (10 of these were in conversion). (8)

At an Annual General Meeting the farmers discuss the current year's rice crop, the price for farmers, earnings for their rice mill and other issues. The membership is fully involved and does not hesitate to voice differences of opinion. It was decided by consensus after someone's suggestion to deduct the certification fee from the earnings for rice sales of existing members rather than paying in advance as new members must. (This means that the farmers' organization will have to pay for certification first and then collect the fee after the harvest.) (5)

The area of 26 farmers with 73 ha of farm land is producing 136 tons of organic *Jasmine* rice. Ten farmers with 26.36 ha of farm land in conversion produced 50 tons of organic *Jasmine* rice. ('97/'98) (8)

All organic rice from these producers is sold to Green Net. Most of the organic rice is exported to Europe but there is a small amount sold in domestic market. (37)

7.5.1 Nature Care Rice Mill, Kudchum

Each farmer group has its own rice mill. The processing line of the rice mills is similar. It starts from purchase paddy, dry (if paddy is moist), store paddy, mill, store rice, and transport to packing unit. (37)

The Kudchum *Jasmine* rice is milled in the Nature Care Rice Mill. 57.72% of the mill is owned by local rice farmers who purchased shares (mill shareholders), the rest is owned by Bangkok consumers. The mill is operated fully by farmers. It employs 7 people and is managed by an executive committee that meets every two months and a workers' committee that meets twice per month. Most of the operation handles conventional *Jasmine* rice. 1998 total sales were 20.5 million baht and only 1.0 million baht was from sales of organic *Jasmine* rice. The rice is milled in Kudchum and transported to Korke for packing. (8)

NCRM has 2 silos and 2 rice mills. One silo is located at Kudhin village, Tambol Na Soe, Kudchum District, Yasothorn. The Kudhin silo is a contracted silo owned by Nongyao Natural Agriculture Group (Kudhin). The group purchases paddy from producers in Kudhin, and stores it in the silo before selling to NCRM. The main silo of NCRM is located at the main rice mill at Sokkhumpon village, Tambol Nasoe. This silo stores all paddy purchased from members.

There are 2 rice mills operated by NCRM. The main rice mill is used for milling as de-husked rice while a small rice mill, located in the same village, is used only for the polishing process. To produce polished rice, the de-husked rice will be transferred from the main rice mill for further processing at the small rice mill.

NCRM provides technical advice and inputs, e.g. compost and chicken manure pellets, for the producers. The contact person of NCRM is Ms. Chutima Samsri. (37)

One Community Enterprise Programme staff person was placed to work with the Nature Care Rice Mill in 2003 in order to support the capacity building of the organization as well as to draw critical learning issues from this community rice mill. Key lessons learnt are the importance of consistency of quality management of the community rice mill so that there is stability of product and service quality delivered to customers and the high-cost low-efficiency of the operation, compared with private rice mill. (39)

CEP continued to support quality assurance (QA) for organic rice producer organizations in Surin and Yasothorn. The QA action-research project with the Nature Care Rice Mill, Kudchum district, funded by Thai Research Fund, was completed in 2003. The main finding of the research was the participatory model of working with community rice mills to install quality assurance systems. As part of the action-research project, an operating manual incorporating quality assurance management was completed for the Nature Care Rice Mill and is being used to guide its milling operation. The CEP also started Good Manufacturing Practice (GMP) programme with the packing unit at the Rice Fund and the Bak Ruea Rice Mill. External consultants from Mae Fah Luang University, Dr. Sailom Sampanvejsobha of Department of Food Technology, School of Agro-Industry was contracted to conduct GMP pre-audit at the packing unit while experts from BioTech Institute were responsible for GMP consultancy at Bak Ruea Rice Mill. (39)

Having your own mill is essential for controlling the chain. The greater involvement in mills of farmer groups is a big step forward, but also gives more responsibility and problems.

7.6 Farmer Stories

Michael Commons did an excellent job by interviewing Thai organic farmers and writing stories about them.(5) Commons argued: *“There is a lot of promotion and discussion about rice, but too few on the rice producers. The objective was to allow the reader to get to know a bit more of the life and experience of some of the organic/ Fair Trade rice farmers in Yasothorn and to be able to better gauge the effects that the Fair Trade system has brought to this area. The farmers I spoke with are all members of the Green Net Cooperative and their rice is distributed in Europe under Fair Trade and Organic labels.”* He gathered most of his material over a weeklong visit from October 20th to Oct 26th 2004, As he spent more than 3 years living in Thailand and acquired proficiency in Thai

language, he managed to do the interviews directly with the farmers in Thai. He also took a number of digital photos during the trip.

"My overall impressions, I had a wonderful time during my visit, eating fresh, vigorous, and chemical free food, receiving the welcome of the many people I visited. I live in Thailand and appreciate this country most of all for the kindness of its people. The "Issan" or Northeastern region is probably the friendliest of all. The people there generally have less money, but they give all they have. For these farmers this meant much kindness and a lot of good home-grown food. I also can see that the organic farmers who I interviewed and I think this holds true for most of the organic farmers in Thailand are good or excellent at what they do. All of the farmers I met are keen observers of their environment, learning from it and adapting to it. Most of them are both teachers and innovators, passing their knowledge and experience onto others and trying out new ideas of their own or suggestions of others and observing the results. Many of them are very aware of ecological diversity and are increasing the number of varieties of plants they are growing and actively trying to preserve local varieties at risk of extinction. The fact that many of them have only a 4th grade education reflects little of their talent and critical observational skills. I also feel more strongly that organic agriculture and the Fair Trade system is making a positive difference for small farmers in Thailand who are a part of it and those who live near them. All of those I visited spoke of better physical health and spirit, most spoke of better ecological health, many have reduced or eliminated their debt, and all of them have knowledge of the issues and a role in the decision making process that leaves them no longer at the mercy of middlemen." (5)

From farmers' statements it is concluded that organic and Fair Trade make a positive difference, reduce debt and improve health.

The situation is not perfect. Farming is still a tough profession with many risks, such as flood and drought over which one's control is limited. Fair Trade and certified organic prices are better than market prices, providing for a living, but earnings are still very low when one considers the time invested. There are challenges of finding markets for more Fair Trade rice as the movement grows. There is a risk of competition on the organic side as private investors starts moving into the organic fields. (5)

Examples you can find in the full Commons report. (5)

7.7 The Fair Trade price and FLO premium

7.7.1 Cost of Fair Trade certification

According to Conrad Gutekunst, a German consultant for FLO, a Fair Trade farmer has extra production costs. His calculation ends up at 0.025 Euro/kg. The direct Fair Trade costs are mainly the certification and are 0.005 Euro/kg. The Fair Trade investment premium is meant for the investment in empowerment and development of smallholders and workers. It is not a supplement to income. The premium has to be calculated as 15% of the average cost of production. This is estimated at 0.015 euro/kg.

The last part of the costs is the organic differential. These are the assumed production costs of organic products, in average 20% higher; i.e. 0.02 euro/kg. (13)

Fair Trade certification costs € 0.025/kg

7.7.2 Higher income for farmers

The price of rice is very volatile. For instance: At the beginning of 1998, the paddy price shot up to over 10 baht/kg before falling to around 5 baht/kg. With little market experience and also the need to stock enough rice for the Fair Trade export programme, most producer groups started purchasing paddy at the beginning of 1998 (when the price was very high). Many groups lost a lot of money because of this price fluctuation. (8)

The Organic and Fair Trade Rice Project is based on Fair Trade principles. The organic rice produce is guaranteed a Fair premium price. The price is set at a fixed level taking into account the rice farming cost. In 2003 the certified organic paddy is purchased from farmers locally at 10 baht/kg (€ 0.199), 8 baht/kg for in-conversion paddy, and 7 baht/kg (€ 0.139) for non-certified organic paddy. This is quite a significant premium as conventional paddy currently costs only 4.7 baht/kg (€ 0.094). These farm gate prices include both organic and Fair Trade premiums. With such premium price system, the organic rice producers have seen their income double in the last two years. (12) The sale of Fair Trade rice is about 250 tonnes per year (2003) (7).

The economy in Thailand is triggered by deflation. This is extreme and about 3% per month. Most of the farmers have an income of about 50.000 baht per year. This is about € 1000. Many earn less than thousand Euros. (7)

Organic farmers receive 10.000 baht per tonne (€ 200). The normal market price is 7000 baht. The average farmer is producing 3 a 5 tonnes per year (€ 600 to 1000). The farmers are using the extra money for a health fund, to get their children to school (200- 3000 baht per child), needs about 10.000 baht for investments in productivity and can use 1000 baht for improvement of the living standards family. (7)

The farmer only benefits directly from the minimum price. If the market price is higher there is no direct benefit for him from Fair Trade. He/she will receive the Fair Trade / organic differential of € 0.02 (Egypt € 0.027) per kilo (15) only if he/she is working as a certified organic farmer.

Sphanfa (36 years) Yasothorn, He told me that earlier he might earn 10000- 20000 Baht maximum from his harvest; in his first year going organic he earned 30000 Baht from the Fair Trade price and his yields have continually improved. He figures he will earn about 40000 Baht (€ 800) this year from his rice crop alone. Apart from growing rice he cultivates mushrooms. His family has been quite successful with this and they earn about 3000 Baht/ month from sales. In addition he uses his mushroom growing as a way to get double use out of his compost materials. Old mushroom growing material is composted and used to fertilize his fields. (5)

From the farmers' stories collected by Commons (5) there is an insight into the individual incomes from the farmers in Yasothorn. The calculation is done by acceptance of the average yield of 2.088 kg/ha and a minimum Fair Trade price of € 0.134 /kg for organic rice in Thailand. Some farmers stated their income. It's clear that the incomes differ greatly, depending on the size of the farm and the yield. Even under Fair Trade conditions, small farmers have an income of less then € 1000 per year. They rely on being self sufficient and on other sources of income like fish, vegetables, cows, pigs and/or chickens.

42. Farm size and income of ten Fair Trade farmers in Yasothorn (5)

Farm size								income		named income		
total rai	rice	ha	Hom Mali	Sticky rice	investment	debt	yield kg	calculated minimum	sales bath	euro	other income from	
1	8	1.3	4	4	no		2.681	€ 359	16000	€ 318	veg + fish	
2	22	15	2.4			yes	5.027	€ 674		€	-	
3	19	9	1.4		3000-5000	no	3.016	€ 404		€	- fish + cows	

4	30	24	3.9	17	7	8800		8.044	€	1078	€	-	veg + fish (cows, ducks, chickens)	
5	20	15	2.4	10	5			5.027	€	674	40000	€	796	mushrooms (36000)
6	42	28	4.5	27	1			9.384	€	1257		€	-	rice mill, fish, pigs, cows, chickens
7	33	32	5.1	27	5	30000		10.725	€	1437	120000	€	2388	cows, chickens, fish, fruit
8		22	3.5	16	6	20000		7.373	€	988	60000	€	1194	cows, chickens, fish, fruit (cabbage=10000)
9	16	8	1.3	8		no		5.920	€	793		€	-	pigs + veg, cows, chicken, ducks
10	42	37	5.9	25	10	3000-4000	some	12.401	€	1662		€	-	cows, fruit, veg
									€	933		€	1174	

Fair Trade farmers receive an income of about € 1000 per year, varying from 350 to 2500. They cannot live from rice farming alone.

7.7.3 The premium is for the coop

For every kilogram of paddy purchased under the export scheme, one Baht (2 Eurocents) is given to the farmers' organisations to cover operating costs and organisational support. The margin covers long term investment e.g. in infrastructure, machines. Moreover, farmers still have a guaranteed price which is higher than that of the open market. Farmers hence benefit directly from higher prices and indirectly by the one Baht contribution to their organisation. (4). The money is used for the organization's work and to give farmers support for organic farming e.g. loans, cheap inputs. (4)

The cooperative receives a minimum and Fair Trade premium for the rice of € 15 per tonne. This means no more than 1.5 eurocents per kilo. The minimum prices are set at paddy rice at farm gate level. (15).

The Fair Trade premium is income for the cooperative. *"The organisation has the commitment and capacity to administer the Fair Trade Premium in a way which is transparent for beneficiaries and FLO. Decisions on the use of the Premium are taken democratically by the members. The organisation administers and manages the Premium transparently and uses it in line with the requirements outlined in these Standards. The use of the Fair Trade Premium is decided by the General Assembly and properly documented"* On top of that the standards gives progress requirements: *"As soon as Premium is available, there is a yearly Premium plan and budget, preferably these are part of a general work plan and budget of the organisation."* (15)

"The organisation will work towards the strengthening of its business related operations. This could for example be through the building up of working capital, implementation of quality control, training/education and risk management systems, etc." (15)

"Some of the small scale rice growers in FLO target countries have a low income per head. Sometimes the cost of production and cost of living are not covered. This leads to the situation in which farmers have little or negative savings. In addition to the Fair Trade price a premium should be paid to allow producers' investment in their future." (13)

Producer groups are paid at the fixed premium (Fair Trade) price. However, each producer group may pass the premium price on to farmers differently. Each group retains a margin for its own organizational development. The full amount of export premium cannot be paid directly to farmers because it would inflate the domestic Fair Trade price of rice. (8)

According to Vitoon Panyakul the actual situation is that for every kilogram of rice exported under organic Fair Trade scheme, three baht is given back to the producer organisation and NGO's for extension supports and other local development initiatives. (77)

7.7.4 Minimum price differs by country

FLO has chosen a system of minimum prices based on in field calculations of the real costs of production. So the minimum price varies by country, variety and even between irrigated and rain fed production, correlating with the yield. (21)

So the situation at this moment is that there are ten different minimum prices in the Fair Trade market varying by a factor 3 from € 95 to 263 /tonne.

43. Fair Trade price and premium (13)

Fairtrade Price and Premium Information				
Type	Country	Fairtrade minimum farm gate price	Fairtrade Organic Differential	Fairtrade Premium
Rain fed	Thailand	114	20	15
Irrigated	Thailand	95	20	15
Irrigated	Egypt	125	27	15

Fairtrade Price and Premium Information for Basmati Rice				
Variety	Country	Fairtrade minimum farm gate price	Fairtrade Organic Differential	Fairtrade Premium
Traditional	India	243	20	30
Pusa	India	135	20	20

7.8 Green Net

Fair Trade sales have contributed to the implementation of several pilot projects of Green Net, the Thai partner organisation and IFAT member. This has included obtaining an export licence (reserved, up until then, for big trading companies), the creation of a national distribution network of organic products based on Fair Trade criteria, and the foundation of a labelling organization recognised by IFOAM. (1)

Established in October 1993, (but working since the end of 80ties) Green Net is a Thai NGO working to promote sustainable agriculture through providing a Fair Trade market service to producer groups, and promoting organic food among Thai consumers. The objectives of Green Net are:

To serve as marketing channel for small-scale organic farmers with Fair Trade principles in its marketing activities;

1. To provide linkages between consumers and producers for better understanding and co-operation between rural-urban civil movement;
2. To support the sustainable agricultural movement within the country and worldwide;
3. To engage in sustainable development activities, especially those concerned with Fair Trade, food processing, community enterprises, and learning process of producers;

4. To conduct research on relevant issues such as local knowledge in organic farming and gender in agriculture (43)

Green Net is one of the largest organic wholesalers in Thailand. At present, there are over 150 assorted products (e.g. organic vegetables, fruits, rice, teas, dried banana, honey, sesame seed etc.) sold through Green Net and then distributed to approximately 40 retail outlets which are mainly NGO-based shops.

Besides the domestic alternative market, Green Net has diversified the organic rice market to Europe. (43, 8)

Around 1996, the project expanded its scope to include organic farming as a central objective. The participants are small-scale farmers with an average land holding of 4.10 hectares per family. All producers organize themselves into local farmer organizations. The rice is marketed through Green Net Cooperative (GNC) as Fair Trade and organic rice and the project is overall coordinated by the Earth Net Foundation (ENF). The project's development strategy gives emphasis to the 'human' as the centre of development and is comprised of 3 main components: consciousness raising and ethical responsibility; appropriate skills and technology, and grassroots organization. (5)

Practical skills and appropriate technology are seen as key to ecological production. To enhance such skills the project is committed to participatory technology development and learning approaches. Local project support staff organizes and facilitate two such methodologies known as 'Farmer Field School' (FFS) and 'Participatory Technology Development' (PTD) as the main tools for developing appropriate organic farming skills and technology while also incorporating local indigenous knowledge. FFS and PTD usually involve a regular (bi-weekly/monthly) meeting of a group of farmers and a local project staff-member at a field chosen for trial and observation. At each meeting the farmers write down observations about the conditions of the crop, soil, ecology, and environment and as a group summarize the situation and make decisions as to the best plan for future action. (5)

Green Net is an NGO and Fair Trade organisation aiming to serve as a marketing channel for small scale organic farmers and adheres to Fair Trade principals in its marketing activities. Green Net perceives that the marketing problem is a major stumbling block in the development of organic movement. As a consequence, Green Net aims to raise both production and consumption levels of organic foods by establishing a link between producers and consumers and thus fostering better understanding and cooperation between rural producers and urban consumers.

Green Net exports Fair Trade rice to most of the members of the European Fair Trade Association. It has become the largest Thai food exporters to EFTA. (4) Green Net is also a member of several networks that campaign against biotechnology (GMO) and life patenting in Thailand and Southeast Asia and for organic agriculture. Time and perseverance were needed to achieve all this, as was the support that only Fair Trade organisations were willing to give to small farmers who had neither the required expertise, nor the necessary facilities to start coping with the demands of international trade. Increasingly strict health and quality requirements, strict administrative hurdles, deliveries that had to be received within the allotted time or on request - even when badly timed - have all played a part in creating more barriers to trade for small producers. Today, new small rice farmers are starting to take part in Fair Trade. (1)

44. *Thai rice farm of Mrs. Pomtip with fish pond (5)*



Mrs. Porntip Gaewsinuam (37 years) gives a lot of credit to Farmer Field School, (organized by the project staff) which she first attended in 2001. Since then her yields have been improving year by year. She expects to harvest about 740 kilos/ rai this year and she has set a goal for herself of 1000 kilos/ rai. (400 kilos/ rai is already a respectable yield) (5)

She has been asked before (by foreign visitors) why don't the farmers here sell direct? She feels that the language and marketing skills of the farmers here is yet insufficient to work alone and is happy with her relationship with Green Net Cooperative. (Green Net's staff helps to find markets and otherwise facilitate the organic rice chain from farmer to consumer.) She thinks that maybe for the next generation and her son specifically it may be different, as he may have the knowledge and skills needed to play a more active role in bringing their rice to international markets. (5)

Green Net Coop does not have its own mill or packaging unit. This is the result of the aim of Green Net, to promote 'self-reliance' in the basis organization. The local producer partner organisations have a mill. There are a total of 4 mills with approximately 160 tons milling capacity (8 hours' working days). Altogether about 50 people are working in these mills. The packaging units have a capacity of 1000kg per day and give work to around 60 people. (77) Together there is work for 110 people.

Farmers are not yet able to trade direct with Europe; Green Net is a necessary linking organisation.

45. Green Net producers Network at 2003 (88)

Province	Main Crop	Name of Participating Organization	No. Producer Families	Involved in Fair Trade export
Yasothon	Organic rice	Nature Care Club of Na So Farmer Organization	149	Yes
	Organic rice	Bak Rua Farmer Organization	141	Yes
	Organic rice	Song Preub Farmer Organization	59	Yes
Surin	Organic rice	Rice Fund (former Surin Natural Agriculture Group)/ NAG	193	Yes
Chaing Mai	Organic soy bean	Agriculture Development Cooperative	6	No

	Organic baby corn	Mae Ta Sustainable Agriculture Cooperative	53	No
Trad	Organic tropical fruit	Trad Saving Group	2	No
Khon Kaen	Organic rice	Khon Kaen Sustainable Agriculture Network	65	Yes
	Organic mulberry green tea and silk	Isan Mulberry Silk Network	37	No
Sakolnakorn	Organic cotton	Ban Guan Boon Sustainable Agriculture Group	5	No
Chachengsao	Organic rice	Organic Agriculture Group	38	Yes
Prajanburi	Organic herb	Dong Bang Herbal Group	20	No
Prajuab Kirikhan	Organic pineapple and aloe vera	Song Pee Nong Saving Group	3	No
	Total rice farmers (involved in export)		603	
	TOTAL		770	

Under Green Net there are about 600 farmers involved in Fair Trade rice production and 110 people in milling and packaging.

7.8.1 The Earth Net

The Earth Net Foundation received registration as non-profit organization on 12 October 2000. The Foundation's main objective is to promote and support initiatives related to production, processing, marketing and consumption of organic food, natural products and ecological handicrafts. Among the staff there are one person for rice quality testing and two persons for farmer field school training. In 2003 there were 731 farmers involved with organic certification. In 2003, ENF expanded collaborating producer organizations from 14 to 16 groups, of which 7 deal with rice. (39)

46. Training by Earth Net staff (39)



Earth Net also runs the Internal Control System for the Organic Project. Two training workshops were held in 2003, one on managing the internal control system and another is the internal control skills. The first workshop was aimed at capacitating responsible persons in producer organizations to improve the management of organic internal control system (ICS) for organic certification. The second training workshop was designed for extension staffs responsible for extension activities as well as farm monitoring. (39)

Almost all the groups are interested in the premium price of organic farming. Organic agriculture has started to shift away from development-oriented organizations to commercially-concerned groups. This is in a way a sign of the mainstreaming of organic agriculture. It is therefore crucial that ENF continues to play a leading role to ensure that organic farming serves the interests of small-scale farmers. This could be done either through strengthening farmer organizations and/or encouraging the incorporation of social justice issues into the organic certification system. With regard to the quality of support systems, e.g. extension services, ENF has managed to handle the situation quite well. In all groups, ENF has managed to maintain a fair proportion of extension staff to organic farmers of less than 1:50. (39)

In 2003, three books were published, titled

1. *"Organic Rice: The Best Rice for Health and Environment"*,
2. *"Situation of Organic Agriculture in Thailand and the World"*,
3. *"Markets of Organic Products"* (39)

The Social Justice Workshop organised by Earth Net in 2003 discussed various global and local initiatives addressing economic and social justice issues in agriculture sector, including Fair Trade certification by FLO, organic agriculture certification with a focus on the section on social justice, the IFOAM's Code of Conduct for Organic Trade, and the International Federation for Alternative Trade (IFAT) membership monitoring system. The meeting also looked at initiatives with fair relationships with producers like community supported agriculture schemes (CSAs). Also discussed were local markets for Fair Trade in developing countries and indigenous rights. (39)

7.8.2 Adding value

The focus of the product development in 2003 was rice-based processed food. The reason is that ENF is working with many organic rice projects and there are already organic rice and rice by-products available as raw materials. Developing rice-based products would therefore help to further reinforce the organic rice projects by utilizing rice by-products in a more efficient manner. Potential rice-based products identified by the ENF include - Rice snack - Instant rice porridge - Rice vinegar - Baby food. (39)

For every 50 farmers there is one staff member to support and train them. Developing rice-based (processed) products would help to further reinforce the organic rice projects by utilizing rice by-products in a more efficient manner.

7.9 Packing Group

Once the rice is milled, it is sent to the Kor Koh Women Group at Kor Koh (or Koroko) sub-district, Surin province for vacuum packing. After this, the rice is partly stocked for local consumers at Kauw Hom shop which is owned by SFS, while the rest is delivered to Green Net in Bangkok. Green Net then distributes it to retail shops, the Green Net Shop, and exports to Europe. The entire export process is managed by Green Net. (4, 8)

Vacuum packing is operated by Rice Fund. The responsible person is Mr. Sin Korthong. The packing is done when purchase orders are received from Green Net. The packaging material is also provided by Green Net. (37)

Rice Fund moved from its previous location at Koroko to Kaeyai around the middle of 2000. The packing area is the large open meeting room of Kaeyai Farmer Group which is also used for the Annual General Meeting. Rice Fund rents the building for packing. In the same area, there is a silo which ACT has just been informed is used for storing organic paddy of NAG members.

Although the packing unit is operated by Rice Fund, it is practically supported by Green Net. The packing runs only when there is order from Green Net.

The packing record is well designed and can be used for traceability by the lot number. On the colour box for export, there is expired date indicated. This figure can be tracked back to the packing record where the lot number is recorded. After packing, Rice Fund is responsible for transporting to Klong Taey Port where the products are loaded for export. No treatment is used during transportation. (37) Transportation to the packing unit is done by each rice mill by its own truck or hiring service while the transportation to the export point is the responsibility of the Rice Fund. (8) The cost of transport to the processing and packing plant at Koriko is not paid by the farmers but is covered by NAG. Green Net covers further transport to Bangkok. (8)

For packed rice in comparison to bulk there are no extra costs of transport, but a container with a fixed space take less packed rice than bulk rice. There is no special import quota for packed rice. (77).

47. Packing department in Surin (39)



The rice processing of Green Net has reached a semi-industrial level. But still lots of manual working steps are in place. The staff performs extensive control procedures in order to reach the quality grade. E.g. every vacuumed bag is checked for leaks. But the bottleneck of the production is the manual cleaning and sorting.

Green Net is working on a proposal for a new packing unit in order to increase production capacity. Also included would be sorting machines for colour and broken sorting. A sorting machine for metal detection is too expensive. It's clear that such investments will need special funds. Unfortunately no budget for the investment is available up to now. At the moment Green Net is also following the option to outsource the packaging partly to a organic rice processor in Bangkok.

As the order quantity will increase next year claro urges Green Net to find a solution as most of the orders concern vacuumed packed rice. (47)

In 2005 claro financed a new realisation of a rice packing unit in Kudchum. The unit is not yet in production. This is part of a project with Green Net to raise the quality of the production. The older packing unit in Surin does not have enough packing capacity. Thanks to a growing demand there is need for an other packing unit. Green Net was not able to fulfil all orders on time. The packing unit has a capacity of about 2 containers per month, the same as the unit in Surin. There is work for 12 persons, mainly women, for nine month per year. The orders of claro alone are already 30 containers per year and the packaging has to take place direct after the harvesting and milling. Claro invests SFR 4560 and gives also a loan of SFR 3100 (45).

48. New rice packing centre in Kudchum (45)



49. Quality control at the place of production (45)



7.10 Export handling

The price for export involves a bargaining process between producers and buyers. Ie SFS, NAG and Green Net and claro (4) Coen van Beuningen of Hivos comments that an open information process is needed for Fair Trade. This is a crucial point of Fair Trade practices and FTOs try to follow the criteria with all their partners.

The procedure for ordering goes as follows:

- o December: all producers must inform Green Net of available supply.
- o January: Green Net informs claro.
- o February: Claro, in return, informs Green Net of the total order.

The FLO minimum price is set as follows:

1. Compilation of information from producer groups regarding annual rice production capacity. The information should specify the quantity of rice of various qualities, e.g. pesticide free, non-certified organic, and certified organic.
2. With the total rice order placed by EFTA (through claro), the quota is allocated according to the production capacity of each type of rice.
3. Survey of price quotation from the Thai Rice Export Association plus extra premium price set separately for each quality of rice.

The same price structure setting mechanism should be employed for future price setting.

The present orders, spread throughout the whole year as they are, entail high storage costs for the rice farmers and Green Net. (8) The trade started in 1991 with 15 tonnes.

Market development for Fair Trade export was:

1996: 170.0 t

1997: 152.5 t

1998: 88.0 t (= 10 % of total production capacity). (15 Yasothorn, 63 Surin)

The rice production surveys by producer groups indicate that there were a total of 1757.7 t of paddy (around 878.8 t of milled rice) available for Fair Trade (both export and domestic markets) (8) There is still an overcapacity for producer groups (87).

A total of 195 tons of rice (13 containers) was exported in 1999. This made an annual turnover of 6.45 million baht. (8) This is € 128.000 or € 0.658 per kilo.

50. The rice was purchase from 4 farmer groups as follow (8):

	Quantity of rice (kilo)	Value(m baht)
NAG-Surin	81.176	1.77
Bak Rua Rice Mill	52.500	1.08
Friend of Nature Club Rice Mill	54.000	1.34
of which 24.000 was organic rice		
NAG-Tatoon	7.324	0.14
TOTAL	195.000	4.33

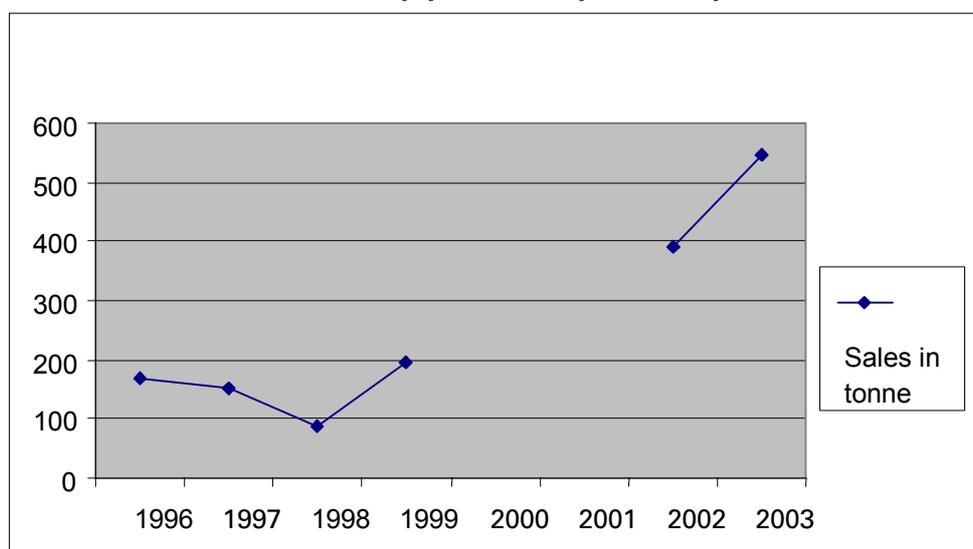
Estimated capacity for bulk for sale of Hom Mali is 4000 tons of rice per year (8) Fair trade orders are 3 % of total volume (in Kudchum).(87)

The main market of the organic-Fair Trade rice is in Europe through the European Fair Trade Association and consumer cooperatives. Annually, an estimate of 250 tons of rice is sold through this channel. But not all the in-conversion and non-certified organic rice can be absorbed by the Fair Trade system, even though the project must buy the product (with premium price) from farmers. The excess supply is sold on the conventional market at local prices (without any premium).

The loss is absorbed by the project. (12)

The Fair Trade system cannot absorb all the in-conversion and non-certified organic rice grown by producers. -The excess supply is sold on the conventional market at local prices (without any premium). The loss is borne by the project.

51. Sales of Fair Trade rice by year (first years only Thailand) (50)



7.10.1 HACCP quality assurance system

Because of the high loss of rice in the previous year, in 2003 Green Net began to urge the rice mills and the packing unit to follow the quality standards already in place for 100% 2nd grade rice, set by Thai ministry of commerce. In October of that year the producer groups confirmed that they would follow that standard.

Now a quality dependent deduction of payment has been introduced, so that the farmers are encouraged to take responsibility for standard compliance. In order to reach the 100% 2nd grade level, the milling yield is tested and the moisture (14%) is measured at the point of entry of the paddy rice into the rice mill. At the packing unit the final grade and purity is checked before packaging. A team of women clean and manually sort the rice.

During control visits the inspectors observe that standard operational procedures do exist and that quality forms are used in order to monitor the quality of the rice. There is also a system in place of samples of rice from each order being kept in order to trace back the origin of the rice in case of complaints. For each delivery, samples are taken and sent to the laboratory in order to check moisture, foreign bodies and aflatoxin content.

Inspectors speak with the managers of the rice mills and the packaging units to ensure that they are aware of quality issues and willing to improve then. (47)

7.10.2 Export Control

In 1999 Green Net developed a manual for export handling. It is divided into 8 sections as shown below. The Manual provides a step-by-step guide for Export staff to work step-by-step in handling the export work. This has helped to improve the efficiency and accuracy of the work. (38)

The Rice Export Manual (as of 31/12/99)

- 1●● Rice Export Licence Registration
- 2●● Export Card Registration
- 3●● Rice Quota Allocation
- 4●● Planning and Management of Packaging Materials
- 5●● Planning and Management of Rice Packing
- 6●● Quality Control on Rice and Packing
- 7●● Export Shipment Procedure
- 8●● Documentation for Buyers

7.11 Fair Trade price break down

Udomkit did an in depth research in the cost of farming with 55 farmers. (4)

52. Comparative output, variable costs and gross margins for rice farming, 1999-2000 (Udomkit, 4)

Items	Value (Baht/Rai)						
	Conventional Rice Farming (n=51)	Fair Trade Rice Farming					
		Organic (n=1)	Relative (conv=100)	In con- version (n=8)	Relative (conv=100)	Pesticide-free and Partly- Organic (n=46)	Relative (conv=100)
<i>Output</i>							
Yield per Rai	355.86	257.14	72.26	331.55	93.17	399.54	112.27
Price per Kilogram (without premium)	6.06	6.06		6.06		6.06	
<i>Total (without premium)</i>	2156.51	1558.27		2009.19		2421.21	
Price per kilogram (with premium)	6.06	9.00 (or mp+ 2.00)		8.00 (or mp+1.50)		mp + 0.20	
<i>Total (with premium)</i>	2156.51	2314.26		2652.40		2501.12	
<i>Variable Cost</i>							
Labour cost	1225.84	1032.86		1808.40		1412.71	
Chemical fertilisers	265.15	0		0		220.50	
Pesticides, insecticides	4.32	0		0		0.65	
Manure	0	0		13.75		36.21	
Fuel	30.50	0		77.54		40.26	
<i>Total</i>	1525.81	1032.86	67.69	1899.69	124.50	1710.33	112.09
<i>Gross margins per Rai</i>							
Without premium	630.70	525.41	83.31	109.50	17.36	710.88	112.71
With premium	630.70	1281.40	203.17	752.71	119.35	790.79	125.38

Without the premium the gross margins are lower, but with the Fair Trade premium the farmers have more profit.
Fair Trade/ Organic farmers have higher labour costs than conventional farmers. Labour costs are their biggest expense.

As many organic inputs e.g. manure, seed and bean are provided or partly subsidised by NAG. However, there are some cases where farmers have to purchase compost and other organic fertilizers due to lack of in-farm organic inputs. (4)

40.5% of those interviewed sell paddy to mills, 28.6% to middlemen, 23.8% to NAG and 19.0% to the Office to Agricultural Extension. Meanwhile 50.0% of conventional farmers interviewed sell their paddy to mills, 39.5% to middlemen and 10.5% to the Office of Agricultural Extension. Of those farmers who used to be with Fair Trade group, 54.3% sold their paddy to mills, 40.0% to middlemen, 2.9% to the Office of Agricultural Extension and Bank of Agricultural and Cooperatives. From these figures, it is clear that Fair Trade farmers have less contact with middlemen, and sell their paddy to other sources.(4) But they are also not independent.

Fair Trade farmers also get paid more for their paddy. 50% of Fair Trade farmers are in the highest quartile. Those facts can be interpreted in 2 ways. Fair Trade does not give benefits to all farmers because half of the farmers involved still do not get higher prices. (4)

Fair Trade does not give benefits to all farmers because half of its members still do not get higher prices

Fair Trade importers used to pay 10% above the FOB price. As the FOB price is above US\$ 350/tonne the premium is 10%. If the FOB was below US\$2350 the premium would be 12%. The price for the farmers was set at as minimum plus an a premium of 10% above the local market price. For organic rice the premium was 15%. (7) This system was replaced in 2002 by the new FLO system, but there are still many farmer co-operatives that are not member of FLO using other calculations and FTOs using the old price system, paying better prices. For instance Green Net is also selling rice to Konsum Sweden, El Puente, Germany, Oxfam Quebec, Canada, and Sackäus, Sweden. (76)

Vitton: The farm gate price for the last season is 10,000 baht/ton paddy. The FOB price, including all retailed packaging costs and export handling, is around 41 to 49 baht per kg, depending whether its white or brown rice. (77)

53. Green Net price structure in Baht and Euro for Fair Trade rice export 1999 (43)

	non-certified organic			EC organic rice			
Milled Rice	17.65	€	0.35	17.65	€	0.35	52.7%
Premium Price to farmer	1.50	€	0.03	2.00	€	0.04	6.0%
Premium Price to farmer organization	1.50	€	0.03	2.00	€	0.04	6.0%
Packing wage	1.00	€	0.02	1.00	€	0.02	3.0%
Storage and electricity	0.05	€	0.00	0.05	€	0.00	0.1%
Plastic bag	2.40	€	0.05	2.40	€	0.05	7.2%
Colour box	3.72	€	0.07	3.72	€	0.07	11.1%
Insert leaflet	0.18	€	0.00	0.18	€	0.00	0.5%
Carton box	1.20	€	0.02	1.20	€	0.02	3.6%
Land transport from Surin to Bangkok	0.58	€	0.01	0.58	€	0.01	1.7%
Farm inspection costs by ACT/IMO		€	-	0.50	€	0.01	1.5%
Export fees for Nature Food Coop	1.10	€	0.02	1.10	€	0.02	3.3%
Management Fee by Green Net	1.12	€	0.02	1.12	€	0.02	3.3%
TOTAL	32.00	€	0.64	33.50	€	0.66	100.0%

The price breakdown of Green Net makes it very clear that the farmer received nearly half of the FOB price. Cost of packaging is about 25% (€ 0.17).

The overhead cost of Green Net at 3.3% is very low. The same can be said for the organic inspection cost of only € 0.01 per kg. The difference between organic certified and non certified is small and is about 4.5% (€ 0.03/kg).

"His investment cost for labour, fuel, and compost last year was about 30,000 Baht, and his earnings from rice sales were about 120,000 Baht. This is high compared with other farmers in his village." (5)

7.12 Claro

Claro is the official EFTA importer and the EFTA partner attendee for the Fair Trade rice from Green Net and all Fair Trade organisations in Europe have to place their orders via claro.

- For Navdanya, the EFTA partner attendee is Gepa.
- For Laos, Solidarmonde.
- For BIND: currently, only Switzerland.
- PFA : only FTO

Rice is exported through Fair Trade networks in many European countries. The current importers of Fair Trade rice are claro (Switzerland), Solidar Monde (France), Oxfam Wereldwinkels (OWW) (Belgium), Oxfam -UK, Gepa (Germany), CTM (Italy), Eza (Austria) and El Puente (Germany) (4, 5)



For Switzerland the rice arrives through Rotterdam, for EU-members through Hamburg, Rotterdam, Le Havre or Venice. There is a difference between EU and CH: CH custom duty is based on gross weight, and tariffs are quite low. In the EU custom duties are high, due to the fact that the EU does also cultivate rice; duties are paid based on value and not weight and for white rice especially they are high (76) Orders still pass between GN and claro, not physically - the orders are only coordinated and invoiced from claro, but the goods go directly from Green Net to the customers in Europe. (76)

The assessment of 10 years of partnership with the farmers' organisations of Surin and Yasothorn, which is being carried out, the dialogue between EFTA members and their new rice suppliers, and the introduction of a Max Havelaar label launched in Switzerland in 2002, and in Belgium and France in 2003 helped the newcomers to gain access more easily to European markets. Meanwhile Fair Trade organisations will go on supporting their partners' fight for the basic human right: the right to eat. (1) Max Havelaar Switzerland and Max Havelaar France are selling the Fairtrade label for rice in their markets. The main distribution channels are ATOs and supermarkets. More National Initiatives like Transfair Germany & Austria as well as the Fairtrade Foundation are planning to launch rice. (www.fairtrade.net)

54. Sales volumes of FLO Rice in MT:

	2002	2003	%
Belgium		37.0	
Denmark		20.0	
France	23.0	71.0	208.7
Switzerland	369.3	416.9	12.9
TOTAL	392.3	544.9	38.9

There are three types of Thai rice being traded through the Fair Trade market: Jasmine rice and another indigenous rice called Lüeng-on; recently, Green Net started the export of organic long grain rice Lueng Prathew from the eastern province Chachengsao, Sanam Chai Keat area. This information together with the price quotation is passed by Green Net to claro and subsequently to other members of the European Fair Trade Association

(EFTA). Each importer then places orders. Once the orders are finalised, Green Net then allocates the rice quota and informs each producer group. Each producer group has to stock the paddy at the beginning of the year to ensure that they have enough rice to trade.
(4)

55. Price break down given by claro (2005) (58)

Price 2004 per kg THB = 0.034 CHF, guaranteed price 9.5 THB/kg paddy 1 Container with 16'000 kg Rice	FT-Rice Coop (non organic)		FT-rice claro (conversion) Lüeng Praw Taw white (baht)		FT-Rice claro (Bio) Hom Mali white (baht)			
Local market price (Paddy)	0.135	€ 0.08	5.800	€ 0.12	7.000	€ 0.15		4.0%
FT-premium for farmers (min. 10%)	0.012	€ 0.01	0.580	€ 0.01	0.700	€ 0.01		0.4%
Bio premium			0.120	€ 0.00	2.300	€ 0.05		1.3%
Price for farmers (1 kg Paddy)	0.150	€ 0.09	6.500	€ 0.14	10.000	€ 0.21		5.8%
Milled rice: processing, cleaning, sorting (40% loss)	0.300	€ 0.19	20.000	€ 0.43	27.000	€ 0.58		15.6%
Packing	0.027	€ 0.02	3.000	€ 0.06	3.000	€ 0.06		1.7%
Export Handling services (Documents, Analysis, etc.)	0.024	€ 0.02	2.000	€ 0.04	2.000	€ 0.04		1.2%
Overhead export organisation (Green Net)	0.045	€ 0.03	1.150	€ 0.02	1.150	€ 0.02		0.7%
Total FOB (vacuum)	0.54	€ 0.34	26.15	€ 0.56	33.15	€ 0.71		19.1%
10% FT-premium over FOB for cooperative (Max Havelaar)	0.054	€ 0.03	2.620	€ 0.06	3.320	€ 0.07		1.9%
5% Bio-premium over FOB for cooperative (Max Havelaar)			1.310	€ 0.03	1.660	€ 0.04		1.0%
Total FT FOB-Price (1 kg vacuum)	0.60	€ 0.38	30.07	€ 0.64	38.12	€ 0.81		22.0%
Packing costs			9.68	€ 0.21	9.68	€ 0.21		5.6%
Organic certification by ACT/KRAV			0.20	€ 0.00	0.20	€ 0.00		0.1%
TOTAL FOB-Price (1kg vacuum)			39.95	€ 0.85	48.00	€ 1.02		27.7%
Transport costs Bangkok-CH incl. EU tariff and insurance	0.500	€ 0.31		€ 0.25		€ 0.25		6.8%
Design costs				€ 0.19		€ 0.06		1.7%
Analyse costs				€ 0.01		€ 0.01		0.2%
Pallet costs				€ 0.01		€ 0.01		0.3%
Price by entrance	1.100	€ 0.69		€ 1.31		€ 1.36		36.6%
DB 1 (incl. 0.12 MH-licensee)	0.690	€ 0.43		€ 0.47		€ 1.33		36.0%
Bruto price claro (without VAT)				€ 1.78		€ 2.69		72.6%
Shop marge claro (25%)				€ 0.61		€ 0.92		25.0%
Consumer price excl. VAT	2.15	€ 1.35		€ 2.39		€ 3.61		97.6%
Consumer price inclusive VAT	2.20	€ 1.38		€ 2.45		€ 3.70		100.0%

Claro is one of the few FTOs which gives insight into their price calculations. First of all it can be concluded that the prices have risen compared with the prices given by Green Net in 1999. Most of this rise favours the farmer. The FOB-price is a quarter of the consumer price. The difference is due to transport costs (€ 0.25), costs/margin of claro (€ 1.33, 36%) and the margin of the World Shops (€ 0.92, 25%). By looking to the price calculation of Coop it can be concluded that the farmer price is almost half of the organic Hom Mali, that the packaging is cheaper and that the margin in Switzerland is much lower. This is partly explained by the fact that the rice is not organic and that Coop wholesale and shops are part of the same organisation.

It is possible to sell Fair Trade rice at € 1.45 per kilo. The consumer price is about 3 to 4 times the FOB price.

7.13 Reis Mühle Brunnen

One of the major players in Fair Trade rice is Reis Mühle Brunnen (RMB). The company started in 1956 and is since January 2004 has been a part of the Coop (one of the biggest supermarkets in Switzerland). It's a rice mill and packing company. The turnover is 17 million SFR, the packed volume of end products is 12.000 tonne of rice and there are 17 employees. 55% of the turnover is for Coop and other big clients are Best Foods (Unilever) and Hero. The company has its own brand.

The company is highly mechanised with modern equipment. The packing part has a capacity of 9 tonne per hour! Thanks to a clean production chain the company use 82% of the brown rice and 18% ends up as animal feed. (57, 58)

The parboiled rice is partly processed in Thailand. The brown rice has been lain down in water. The vitamins and minerals in the husk are diluted and pressed under high pressure in the kernel of the rice. The rice is sealed with the use of water damp, dried under vacuum and hardened. In Switzerland the brown rice is cleaned, selected and polished. The other white rice is sorted by length, colour and has any foreign bodies removed. Finally the rice is packed. (57)

56. *Packing and polishing machines*

Packing machine with a capacity of 100 consumer packaging per minute and a lane with six rice polishing machines with a capacity of 400-600 kg/ hour each. (57)



The company is very socially and environmentally aware and all their suppliers are audited SA 8000. They have licences for organic production (BIO SUISSE) and for Fair Trade (Max Havelaar Switzerland). The trade in Fair Trade products started in 2002 has been very successful. RMB started with organic Jasmine rice from Northwest Thailand and with parboiled conventional rice from central Thailand. In May 2004 they started with Basmati rice from India. The turnover grew three times in one year. Now 7,5 % of the production of RMB is Fair Trade. The biggest growth has been within the Coop supermarket (350%). Part of the rice is exported to Austria (EZA) and Italy. (57, 58) The sale of Fair Trade rice is estimated 1.144 tonne in 2004.

57. *Turnover of Reis Muhle Brunnen and Fair Trade part (58)*

year	total import	Milled (82%)	Fair Trade part	tonne	growth
2001	21400	17548	0.0%	0	

2002	22200	18204	1.7%	309	
2003	17800	14596	2.5%	365	18%
2004	18600	15252	7.5%	1144	213%

Claro is also an important client of RMB. Only their 1kg packaging is done by Green Net (Surin)

All other packaging is done in Switzerland. Also the rice from ASDSP in Laos and Bind in the Philippines is transported in bulk bags to rice mill Brunnen in Switzerland and packed in portions of 500gram. (58) The Rice Mühle Brunnen is the packer for the 500g packages for claro in CH market. Rice Mühle Brunnen themselves are importing large quantities of FT Rice from Thailand and India for Coop Switzerland. (76)

Now 70% of the volume of Fair Trade long grain rice from Thailand is from the central region and marketed by Coop and Migros. (21)

The number of employees of RMB is the same as that for the packaging units of Green Net, but the capacity and productivity is about 50 times higher, exclusive on milling alone. It a matter of choosing between efficiency and local work.

58. RMB own brand parboiled rice with Max Havelaar label (48)



7.14 FLO fees for traders

Certification of Fair Trade brings fees at different levels of production.

The fees for the initial Fair Trade Certification vary according to the number of farmers or workers (permanent plus seasonal) registered with the applicant. The price includes the evaluation of the initial questionnaire, the initial inspection and a certification decision on the application. An application is against the FLO Standards by an independent Certification Committee. Payment therefore does not automatically guarantee certification. (53)

For the renewal of certification FLO-Cert GmbH charges an annual fee. The annual fee is a combination of two elements, the annual basic fee and the annual volume fee.

1. Basic Fee: Each certified producer pays an annual fee of 500.00 Euro per calendar year. The fee has to be paid in the beginning of each year. Payment is due immediately (within 5 banking days) after receipt of the invoice from FLO-Cert GmbH.

2. Volume Fee: In addition to the annual fee, each certified producer pays a yearly fee based on the volume sold under Fair Trade conditions in the previous calendar year. Its level is related to the value of the product. The fee has to be paid in the second quarter of each year. Payment is due immediately (within 5 banking days) after receipt of the invoice from FLO-Cert GmbH. The rice fee is 0.005 Euro/kg. (52)

Traders have to calculate 0.25% of the FOB value of their FLO Fair Trade purchases / sales in 2003. There are Minimum and Maximum Fees for Traders. The Minimum and Maximum Fees depend upon the size of the company. There are three company size categories. The size of the company is based on the all operations, FLO Fair Trade and other non FLO Fair Trade trade.

Category A Less than 1.0 million Euro in annual sales

Category B Less than 2.5 million Euro in annual sales

Category C More than 2.5 million Euro in annual sales

Traders do not have to pay a rated fee on all sales. Total sales are only considered in order to determine the size of a company and hence which minimum and maximum fees will apply. Determine if the Minimum and Maximum Fees applies to you

	Minimum Fee	Maximum Fee
Category A	Euro 500	Euro 1,000
Category B	Euro 1,000	Euro 2,000
Category C	Euro 2,000	Euro 4,000

If companies are instructed by FLO to skip Step 1 (that is, if they are not an Exporter or Importer for the purposes of FLO Fair Trade) then their Trader Fee is the Minimum Fee for their category.

Importers and Exporters: If the figure they calculated in Step 1 is lower than the Minimum Fee for their category, then their Trader Fee is the Minimum Fee. If the figure they calculated in Step 1 is higher than the Maximum Fee for their category then their Trader Fee is the Maximum Fee. (54)

59. *Alter Eco, France is successful in high volumes with 133 tonnes in the first half of 2004, thanks to sales points in the Carrefour, Intermarché and Monoprix (50)*



7.15 Price politics claro, FLO and Max Havelaar

Monica Mazzocco, Purchase Manager Food claro, comments: *“The price is set by FLO; of which Max Havelaar Switzerland is a member. The licence users like claro Fair Trade, Migros and Coop accepts this minimum price. They can pay more if they want. This is the policy of claro. The price of FLO is based on the market, the minimum income by country and the real costs of the farmer. Migros and Coop pay this price according to the criteria of Fair Trade.”*

Vitoon Panyakul, director of Green Net quotes that the FLO minimum price just is enough for mainstream rice that has two crops per year and is not organic. Green Net cultivates varieties with a crop once a year, which results in a higher cost price. For this rice the minimum FLO price is not enough. For this reason claro pays a higher price that gives security for living conditions. Max Havelaar Switzerland has no influence on the consumer price. As long as the minimum price is paid, Max Havelaar has no problems. Wholesalers can work more efficiently by ordering higher quantities. They also reduce costs by importing in bulk and handling and packing the rice efficiently within Switzerland. Claro's choice is to pack the rice in the country of origin. This involves a lot of handwork, which results in a higher cost. More people can profit from this chain. Last year the Thai government set a price for aromatic rice. The price paid by claro is not much higher. This underwrites the statement that the price of FLO is only useful in optimal conditions. (44) Claro also invests a lot in the chain:

- Quality Management project from claro CH 14'000 CHF for quality staff at GN in 2002/2003.
- CBI project 10'000 CHF Quality improvement 2003.
- Contribution of 7000 CHF for a new packing unit at Kudchum in 2005. (76)

Part of this money comes from funds outside the chain, but one part is paid from the margin of claro. From an economic viewpoint these costs should be calculated in the consumer price. But on the other hand these investments do not give an adequate ratio of profit to capital. Fair Trade production is more or less subsidized.

7.15.1 Distribution among FTOs

There are a lot of alternative trading organisations involved in the certified Fair Trade chain. The table gives an overview. There are also some bigger wholesalers and supermarket chains involved, like Coop.

The total volume of paddy rice of Hom Mali in 2004 was 2680 tons, the part which claro bought for EFTA and CH was 1000 tons paddy. (76)

In 2004 Oxfam Wereldwinkels ordered 33 15 tonne containers of rice. The rice is sold in the OWW shops in the Flemish part of Belgium and in the Oxfam-Magasins du Monde in the French part (7). In Belgium there are 4 packages available with the Max Havelaar label: Thai rice, red rice, white rice and organic rice. They are available in the supermarkets: Carrefour-GB, Dalhaize and Cora. (7) In the World Shops "only" the Hom Mali rice, the Basmati from Navdanya and the Laos rice mixture (violet) are being sold. (87)

60. Overview of the FLO registered traders, their license and trade volume (50)

Country	Organisation	FLO registered (50)				sales in kg		
		Importer	miller	packer	licensee	2002	2003	2004
Belgium	Oxfam Fair Trade cbva	●	.	.	●		38.712	20.090 (1st half)
Canada	Commerce Equitable Oxfam Quebec Inc	●	.	.	●			
France	Alter Eco	●	.	.	●	6.240	60.298	132.896 (1st half)
	Bongran	●	.	●	.			
	Echange Equitable	●	.	●	●			
	Soufflet Alimentaire	●	.	.	●			
Germany	Gepa, Fair Handelshaus	●	.	.	.			
	Müller's Mühle GmbH	●	●	.	.			
Italy	Commercio Alternativo	●	.	.	●			
	Conapi S.c.r.l.	●	.	.	.			
	Progetti e Qualita P.s.c.a.r.l	●	.	.	●			
	Riso Scotti Spa	●	.	.	●			
Switzerland	Claro Fair Trade AG	●	.	.	●	22.095	30.029	80.600
	Reismühle Brunnen	●	.	●	●		45.828	

	<i>Coop-Basel</i>	40.705	154.575	62.745	(1st half)
	Riseria Taverne	•	.	•	•				
	Rizerie du Simplon Torrione & Cie S.A.	•	.	•	.				
	Subtotal					69.040	329.442	296.331	
FLO (51)	Total sales annual report					392.000	545.000		
Netherlands	Fair Trade Organisation					40.000	58.000		
Austria	EZA (claro, Gepa)							56.000	
Spain	Intermon Oxfam (claro)							6.000	

8 Other chains in Fair Trade

The chain between Thailand Green Net and claro Switzerland is the biggest, but not the oldest one. Another chain is growing fast, between PFA and Fair Trade Organisatie, The Netherlands and Migros Switzerland. But there are more, for instance between India and the USA, Laos and France and between Egypt and Italy. Not all farmer groups are registered by FLO.

61. *Actual FLO registered farmer groups (50).*

Cooperative	Country	farmers	area	Export
Green Net Cooperative (4 subgroups)	Thailand	603		(see chapter)
The Rua Agricultural Cooperative	Thailand	250		Switzerland
Organic Agriculture Cooperative Surin	Thailand	142	302ha	France
Organic Farmer Group Dong Chiang	Thailand			
Sustainable Farming Group Nam Om	Thailand	311	600ha	
OJRPG- Organic Jasmine Rice Producer Group (part of PFA)	Thailand			The Netherlands
Agrocel- Basmati Fair Trade Self Help Farmers Group	India			
KRBL – Bhagarathi Aligarh Farmer Federation	India			
Sinstar- Federation of Small Farmers of Khaddar Area	India			
Farmer Development Group - DNSC	Egypt	126	55ha	Italy

Another Thai organisation of *Jasmine* rice producers, the Progressive Farmer Association (PFA), has found outlets in the Netherlands. Thanks to the profit, its members can bypass middlemen and finance, among other things, the purchase of buffaloes and investment in a fish-breeding project.

In India, two organisations have started exporting *Basmati* rice: Agrocel from the Kutch district in Gujarat to England and Navdanya (founded by Vandana Shiva) from Uttar Pradesh to Germany and Belgium. Through its exports Navdanya also aims to broaden the scope of its fight against bio piracy and the patent taken out by RiceTec on Basmati. A third organisation, POKS, still hopes to sell rice from Orissa in Europe. (1)

Fair Trade rice from Laos is sold by Solidarmonde, France. Rice from BIND in the Philippines is only sold in Switzerland. (87)

8.1 Progressive Farmers Association

The Progressive Farmers Association of Ubon Ratchatani (PFA) is a farmer's cooperative self help group. Thanks to the support of Fair Trade Assistance (linked to the Fair Trade Organisatie in The Netherlands) they work with internationally recognised standards like

HACCP and the Safe Quality Food concept. PFA grows both conventional and organic rice. (78)

The PFA was founded in 1986 and assists over 7,000 farm families. The average farm size of its member farmers is about 15 rai or 2-3 hectares. Farmers consume a sustainable proportion of the rice. The remaining produce is sold for an average yearly income of 10.000 baht (€ 200). (78)

The Progressive Farmers Association (PFA) in North Thailand pays around 10% more than the world market price. Furthermore the PFA is able to organise inexpensive credits for the farmers. The Fair Trade Assistance and PFA are planning to build a silo to enable the farmers to store rice for future export contracts. Fair Trade principles are focussing on social and economic issues. However, environmental matters and organic farming are receiving increasing attention. (42)

The PFA has four main components:

- Rice Bank
- Community Agro-Forestry
- Cow and Buffalo Bank
- Fish Breeding (82)

8.1.1 Other income sources

The farmers have developed a rice bank and a buffalo bank. With the rice bank project PFA assists farmers to become independent from middlemen. They cooperate with a local bank in order to offer low interest loans to rice farmers to buy their fertilizers. PFA gives training in new methods for rice farming and increasing productivity. They buy the rice from the farmers at a fair price and stores t the purchased rice in their central silo for sale later in the year at a higher price. The net profit after sale is distributed to the members. The total production in 1995 was 1.147 ton by 3750 farmers for a price of 4.53 baht per kg (1995). PFA pays 10% above the market price. When the farmers bring the rice by themselves they receive 10 baht per 50kg for transport up to 60 km. The farmers pay their workers 80 baht/day plus a free lunch. The province states that the minimum wage is 145 baht / day. (82)

In Ubon farmers still plough their fields in a traditional manner with buffaloes. Mechanized ploughs are very expensive due to the high cost of fuel. Unfortunately many farmers do not own a buffalo and have to rent one. They can rent a buffalo for 150 kg of rice (middleman ask 500 kg). (78)

Cooperatives can double the farmers' income by setting up rice and buffalo banks.

PFA recently undertook a highly innovative program of planting rubber trees to assist in reforestation of the area. Member farmers have now 2394 rais of rubber tree plantations under successful cultivation. The income of the farmers whose plantations are mature has increased on average 83,000 baht per year for rubber production. (78)

8.1.2 Support

PFA supports Women's Self-help Groups to enhance the role of women in development especially in the rural community. (78) 70% of the farmers are women. (82)

FTO was the first ATO importing from PFA. Now Traidcraft UK and Agrocél are also clients. Since some years Migros Switzerland is a big client. The Jasmine rice is certified by BioSuisse. (73)

PFA is not a FLO registered co-operative.

FTO have set up and financed a training programme for organic farmers. In 2002 118 farmers took part of the programme. In 2003 this was raised to 187. Now this group is organised as ORRPG, a sub group of PFA. This group of organic Jasmine framers was certified by FLO in 2003. Now there are 400 farmers certified.

In 2003 236.5 ton was exported to Switzerland. In addition 64.5 ton was sold to The Netherlands and 21.5 ton to France. (81)

Fair Trade Assistance is supporting PFA in different ways. They supported the rice bank project and the rice farming training project. They also support the set up of a production of organic seeds and a program to enhance the soil which experiments with green manure (mung bean) and effective micro organisms. (84)

FTA invested heavily to set up a quality system according to HACCP, Safe Quality Food (SQF 2000) (84)

8.2 Fair Trade Organisatie (FTO)

In the Netherlands around 40-60 tonnes per year of Fair Trade rice is traded. This is mainly Jasmine rice. The Fair Traded rice is imported from the Progressive Farmers Association and milled and packaged through Van Sillevoldt. The Fair Trade Organisatie is responsible for its distribution and the sales through its own Fair Trade stores. (42)

Van Sillevoldt

FTO import the rice in bulk from the PFA. Van Sillevoldt in The Netherlands is doing the milling, cleaning and packaging. Van Sillevoldt is a mainstream rice miller with a big market share. FTO knows that this is not an added value for the Fair Trade rice chain. (73) Van Sillevoldt has a process certificate for organic processing of brown rice. However they can not process organic white rice. All organic rice has to be treated to kill small insects and eggs that may be found in the rice. The treatment method is not allowed for organic rice. Therefore the rice has to be treated in a special location in Germany before it can be packed at Van Sillevoldt and transported to FTO. It is not cost effective for van Sillevoldt to process organic white rice. If PFA wants to sell organic white rice the rice has to be milled in Thailand before transport. A big disadvantage of this is the much higher import duties. (83)

8.3 Price Breakdown

62. The price breakdown of the Jasmine rice traded between PFA and FTO(73)

	FTO baht	price per kg in euro	
Price of white <i>Jasmine</i> rice from PFA and FTO			
Farm gate price (1 kg Paddy)	12.60	€ 0.25	7.4%
Milling	2.00	€ 0.04	1.2%
Transport	2.00	€ 0.04	1.2%
FLO fee farmer group	1.25	€ 0.02	0.7%
Margin PFB (10%)	2.00	€ 0.04	1.2%
Export handling	2.00	€ 0.04	1.2%
Total FOB	21.85	€ 0.43	12.9%
10% FT-premium for cooperative	3.25	€ 0.06	1.9%
Total FT FOB-price (1 kg)	25.10	€ 0.50	14.8%
	Euro per 400g		
Shipping			
EU tariff			
CIF price Rotterdam harbour		€ 0.71	21.1%
income Sillevoldt and costs of milling and packing		€ 1.22	36.1%
Cost price FTO	€ 0.77	€ 1.93	
Margin FTO	€ 0.31	€ 0.78	23.0%

wholesale price FTO	€ 1.08	€ 2.70	
Margin for shop (15%)	€ 0.19	€ 0.48	14.1%
consumer price excl. VAT	€ 1.27	€ 3.18	
VAT (6%)	€ 0.08	€ 0.20	5.9%
Consumer price	€ 1.35	€ 3.38	100.1%

The yield of the organic rice is about 2.9 ton/ha. The traditional Jasmine rice yield of PFA is in average 3.3 ton/ha. The costs for organic rice production are about 30% higher than traditional; PFA pays the organic farmers 1 baht per kg extra. This is 20 to 30% more. When the additional labour costs are not taken into account the cost for organic production are 2220 baht per rai (11% higher). These costs are mostly for green manure seed and bio fertilizer. (83)

The cost for inspection of the 200 farmers for PFA is about 375.000 baht per year. Van Sillevoldt indicates that the costs for importing and processing of organic brown rice will be 20% higher than normal brown rice. (83) In summary the extra costs for organic production are € 0.015 for the farmer, € 0.05 for PFA and € 0.15 for Van Sillevoldt. It could be interesting for Fair Trade to find another miller outside the Netherlands able to process both organic brown and white rice. (83)

The PFA price in paddy for the farmer is lower than the Green Net price, possibly due to the difference between organic and non-organic. Farmer prices are respectively € 0.25 and 0.35/kg. Claro pays € 0.21 for organic and Coop 0.09 for non-organic for the rice.

The packing and milling cost for the claro rice is much cheaper (€ 0.31) than Van Sillevoldt (1.22).

Claro receives more margin than FTO.

The Swiss claro shops earn almost double (0.92) that earned by Dutch world shops.

8.4 India

8.4.1 Rice production

In 1999 India was the second biggest rice producer in the world with 132.5 tm. - i.e. 22 % of the global volume. Meanwhile it accounted for nearly 11% of global trade - i.e. 2.7 tonnes - which made it the fourth biggest rice exporting country.

If large sections of the population do not eat their fill, it is not due to some shortage of basic foodstuffs but because the people are poor, because they cannot find enough food even in rural areas, because they do not have the means to produce any, or because they are forced to sell their crops. More than 50% of the people survive on less than US\$ 1 a day. More or less two thirds of the farmers depend on subsistence farming, based on the conservation of farm seeds.

As a WTO member, India must comply with the minimum access clause and open its market to agricultural imports. Here like elsewhere, the increase in (generally cheaper) agricultural imports is inevitably going to ruin several millions of rural families.

On the global market, the most prized and best-known Indian rice variety is the *Basmati* - "the queen of perfumes". It is grown in several northern regions close to the Himalayas. Although its yield is far lower than that of many other rice varieties, rice growers in Punjab, Kashmir and Uttar Pradesh still prefer growing it, because of the high prices it fetches on the national and international markets. Its annual production volume is estimated to more than 1.5 million tonnes. In 1999 India exported some 600,000 t, totalling US\$ 387 million. 10 to 12% of the exports are intended for the North American market, some 65 % for Saudi

Arabia, and 15% for the EU, which pays, on average, US\$ 850 a tonne. While high duties are imposed on the import of Thai Jasmine rice, the EU grants some import duty reduction for Indian husked Basmati rice. (6)

Unlike organic farming, Fair Trade is a new concept in India. It is not much known among Indian producers and is not popular even among the scientific and researchers community. There is a certain degree of commonality between organic agriculture and Fair Trade as both aim for sustainable development. Development can be sustainable if it is economically profitable, environment friendly, socially just and technically feasible. Organic agriculture addresses the issue of environment and Fair Trade addresses the issue of social justice. There are also some overlapping areas of concern. There is some organic production which is under a Fair Trade certification, while there are Fair Trade products which are also organically certified. (25)

Organic standards include social criteria, and Fair Trade standards include environmental concerns. International Federation of Organic Agriculture Movement (IFOAM) has introduced a voluntary code of conduct for organic trade, which encourages self monitoring of social criteria by the traders in organic products. There is a joint research project on Social Accountability in Sustainable Agriculture (SASA) launched by organic and Fair Trade organizations. This project is exploring the possibilities of bringing synergies in the two movements. (25)

There are states where labourers are not getting fair wages and where there is a huge difference between the wages paid to men and women and from district to district. There is a need to work on this issue both at policy level and at field level. There are some NGOs and other professional organizations which have started working on Fair Trade in India but the initiatives are few. Some international organizations like Oxfam are doing some campaigning and awareness raising in the area of Fair Trade in cotton cultivation. (25)

Agriculture is the backbone of India's economy, providing direct employment to about 70% of working people in the country. It forms the basis of many premier industries of India, including the textile, jute, and sugar industries. Agriculture contributes about 31% to GDP; about 25% of India's exports are agricultural products. Rice is the staple food of 65% of the total population in India. It constitutes about 52% of the total food grain production and 55% of total cereal production.

Both food and non-food crops are grown. Food grains consist of cereals such as rice, wheat, jowar, bajra, and maize as well as pulses. Food crops grow on nearly 70% of the gross sown area. Important non-food crops are cotton, jute and tobacco. (49)

India became self sufficient in rice in 1977. That was achieved through a combination of increasing the area under cultivation and increasing cropping intensity. With the adoption of modern varieties (MVs) in 1966, an average annual increase of 2% in rice yield has been attained. About 55% of the rice area was planted to MVs in 1985. Rough rice production has exceeded 100 million tons annually since 1988; total production in 1994 was almost 120 million tons, with an average yield of 2.6 t/ha. India regularly exports a small amount of high quality Basmati (aromatic) rice. In 1995 India exported nearly 4.2 million tons of rice in response to the large increase in demand in the world market. (49)

Rice environments in India are extremely diverse. India has the largest area under rice in the world. Of the 42 million ha of harvested rice area, about 33% are rain fed lowland, 45% irrigated, 15% rain fed upland, and 7% flood-prone. In some areas, such as Punjab, Haryana, and Tamil Nadu, yields have increased by 55-98% in the past two decades. Much of these areas are irrigated with rice yields of 5-6 t/ha, due to higher input use. Farmers in these states have much higher per capita income than do the traditional rice-growing states of eastern India. (49)

8.4.2 Navdanya

Oxfam Wereldwinkels (OWW) Belgium, Gepa and EZA are trading with Navdanya. Navdanya was set up by the well-known radical ecological activist Vandana Shiva. Her

focus is on biodiversity. She makes the link between liberalism and globalism. *“Through a policy of subsidies a lot of governments pushed their farmers to change to commercial export crops. At the same time the price of food grew enormously. This was not due to bad crops but due to the policies of the IMF and the WTO to break down the subsidies on basic food and raise food prices to the level of the world market.”* To show that an alternative was possible, Vandana Shiva started Navdanya at the beginning of the nineties. It’s a network of farmers who have given up with the agrochemical industry. Navdanya collects traditional knowledge and seeds. They register them and make them available for the farmers. The foundation promotes free exchange of seeds and organic agriculture. (62) OWW is working with some of these farmer groups located in the Dun Valley and the Gharwal Hills. This area is north of New Delhi. The farmers have different crops. They sell their Basmati rice through the Fair Trade channel in Europe. Oxfam is paying a price above the world market price. Milling is done in the area. (87)

“The Basmati rice is maybe not as beautiful as the rice from supermarkets coming from big plantings in Punjab, but our rice has much more aroma and is totally organic”, says the farmer. (62)

8.4.3 Structure

What makes Fair Trade a problem in India is the structure of the farms. There is no solution available in the generic standards of FLO. FLO needs a cooperative structure which is legal at national level. In the Indian situation the government is involved in the boards of cooperatives. So FLO had to find a solution. Now they are working with micro credit groups. An organised structure is made up of a group with a maximum of 20 members each with a farm of 1 hectare. Different consultants have looked at how to combine these groups into an export organisation. There is now a pilot project with a ‘godfather’ coordinating it. He runs a promoting body which signs the production contracts for rice. (21)

8.4.4 Pricing

The data on cost of production were gathered at field visits to FLO producer partners in February 2004 in India. More data will be available after research in the field at the different producer sites in 2004. The daily wage per unskilled man day is 50 RS/day. This is even higher than the basic daily wage of a worker in the Darjeeling tea estates. At organic and non organic farms the mechanization level is the use of tractors. The tractors are not owned but rented from other villagers.

The land lease per acre is 6000 RS/year. As there are normally two harvests, it was estimated by the farmer that 60 % of the land lease has to be calculated to the Basmati rice production. Therefore a total of 3600 RS/year has to be calculated as land lease for the production of Basmati. The costs in the table listed above are including labour costs.

(49)

63. Costs of farming in India

	Average cost (Rs/ha)
Land lease*	8896
Ploughing	2471
Transplanting	1544
Hand weeding	1544
Irrigation	2965
Pesticide	865
Fertilizer	3388

Harvesting	1544
Threshing	1421
Total	24638

	Yield/ tonne	Costs (RS/kg)	Costs (€/kg)
Traditional Basmati	1.98	12.4	0.22
Pussa Basmati	4.19	5.9	0.12

The farming conditions of rice in India are quite complex. Therefore it is recommended by Gutekunst to FLO to introduce three prices: a price for traditional *Basmati* rice € 0.258/kg, a price for *Pusa Basmati* rice € 0.15/kg and a price for non-aromatic rain fed rice varieties € 0.095/kg. The price for rain fed non-aromatic rice is calculated by using the element of purchasing power parity of the generic pricing methodology. (49)

8.5 Laos

In Laos, the '*Association pour le Soutien au Développement des Sociétés Paysannes*' (ASDSP) is financing the building of small gabions dams by selling jams and fruit juices within the network of World Shops. Its members, small indigenous farmers, are also marketing a mixture of three traditional varieties of Laotian rice: white flavoured rice, glutinous rice and purple rice. All these organisations have fought for years to promote small-scale farming, the small farmers' food sovereignty, and the sustainable development of their regions. But they are newcomers to the field of export and they haven't yet acquired the necessary expertise, facilities and knowledge. As they have no export licence, they must use the services of a third party. And as their technical facilities are inadequate, they are still forced to export their rice in bulk.(1)

The cooperative has between 200 and 300 members. 70% of them are Women. One of the clients is Oxfam Wereldwinkels and other EFTA members. The main crop for export is fruit (pineapple) and marmalade. Every family has 1 or 2 hectares for rice farming. ASDSP is financing dikes and irrigation. This makes it possible for farmers to have two crops a year. The surplus of the rice is exported to Belgium, (62) France, Switzerland and Germany.

Some of the initiatives, such as the one in Laos, are not registered with FLO. This means in the opinion of Conrad Gutekunst that they are not fulfilling the criteria and working according to the Fair Trade standards. They have a different approach. One of the limitations is that they cannot be labelled as Fair Trade, because the labels belong to the national FLO-initiatives. That they are not entering the FLO system is a shame for the Fair Trade movements, comments Gutekunst. FLO is underwriting this. FLO has to mention that Laos and Cambodia are in the pipeline for going in to the certification system. (21, 22)

8.6 Egypt

In Egypt FLO is working with Delta and North Sinai Cooperative (DNSC). This cooperative is connected with the Egyptian Biodynamic Association. It consists of 126 farmers located in the delta region and in newly acclaimed desert areas in the North Sinai. So they are very dependent on irrigation. There are medium sized farms and a number of them have their private tractor and lease it to small farmers in the region. A lot of work is still done by animals. Egypt has a system of governmental official cooperatives which supply farmers with tractors, pesticides and fertilisers. Some of the biodynamic farmers get their seed from the official coops. All farmers are organic certified. The cooperative supplies credits

for the farmers, because this is a big problem in Egypt. The farmers also form saving circles for themselves.

In the region there is a lot of landless, hired labour.

The family farms range from 0.5 to 5 hectare. They are still big enough to make a decent living. Most villages offer schooling and basic health care, which are accessible to most members of the communities.

In contrary with Thailand the Egyptian farmers produce Philippine rice. This is round rice which suits the taste of Italian consumers. The harvest is in May and October.

This cooperative works only on demand. The FTOs have to order in April and then the necessary area is seeded. This rice is exported to organic shops in Germany as well as to the Italian FTOs. (80).

8.7 Vietnam

Conrad Gutekunst: *"Long grain and Jasmine rice are the two varieties available under Fair Trade. There is a high demand for organic long grain and Jasmine rice. The supply of organic Fair Trade rice has improved since the end of 2002. But as a matter of fact there are not enough organic certified rice producers. A second supply chain was set up by FLO and Max Havelaar in Vietnam in 2005. A first inspection took place in 2003. There is also a strong demand for Basmati rice from India. A pilot project is being carried out in order to be able to work with disadvantaged producers, who are not organised democratically as is required for the standards. Possible producer groups have already been identified."* (13)

9 Evaluation of the Fair Trade chain

In this section the Fair Trade chain is viewed in depth with the example of the Green Net rice project. There are comments on the practices plus an overview of the critical points found.

9.1 Benefits for farmers

Udomkit interviewed 59 farmers between September 1999 and April 2000. She described the results (4) and the benefits they had achieved through the Fair Trade project. 57.6% said that the cost of production had been reduced and this meant more income. 39% said that the quality of land had improved and they enjoyed a better environment. 28.8% said that they had improved their own situation and that of their community e.g. they were respected for their farming knowledge; the value of their work was more appreciated; they helped their fellow members and learned how to work in groups; some had given training to other farmers. 23.7% of farmers said they had gained knowledge from being members of the group. 22% spoke about better health. 5% said there had been no change. (4) According to the research of Udomkit (2001) the majority of farmers (61.9%) sell rice to traders for convenience reasons. An important aspect of the convenience is that farmers do not have to pay transportation costs because traders collect the paddy. The second main reason (21.0%) why farmers sell to traders is price satisfaction. Interestingly, price satisfaction is the first concern of Fair Trade farmers (41%). It is significant that farmers from Fair Trade groups are more satisfied with the price they receive for paddy than the other two groups. 16.2% of Fair Trade farmer's trade with NAG because of some sense of group belonging. This can be interpreted as an achievement of Fair Trade development. The other reasons stated were that: they need money immediately (6.7%), they prefer selling in one place regularly (1.9%), and they are indebted to a particular trader (1.0%). (4) *"Buyer and seller are interested in a long term relationship, fair and stable prices; to that end buying/sales commitments are negotiated at the beginning of the harvest season among the parties and fixed in a letter of intent that specifies quantities, quality and price with respect to the conditions for Fair Trade transactions"* (15)

Another important economic benefit is the farmer's control over the production process. This means that farmers not only manage and take control at the farming level, but also of the processing (i.e. rice mill) and to a lesser extent of the market through Green Net Cooperative. The production control implies that farmers can directly exert their influence on how the different steps of production should be organized to ensure maximum benefits are retained and how these benefits are distributed. (12)

There are a number of benefits gained from working in a cooperative under the Fair Trade system including:

1. A return of profits to the producers
2. Being both a member of the cooperative and a shareholder
3. A portion of benefits (from the Fair Trade premium) goes to the local cooperative
4. A portion of benefits goes to the local support staff

5. Members can borrow money when they really need it at low interest from the cooperative fund. (5)

From Green Net project internal evaluation, it is clear that producers participating in the project have earned higher income but they also incur more debt during this period. Most of the debt is not related to organic farming but more on increased personal consumption, including motorcycles (for youngsters), refrigerators, televisions, ploughs, etc. Though it is understandable that farmers can and should enjoy new technological goods that make their life more convenient and comfortable, it is not clear where the line of 'appropriateness' is to be drawn. The rise in farmers' income as a result of this project is welcomed but the unintentional result of greater farmer debt is not justifiable as a sustainable development objective. The project therefore decided in 2001 to start addressing consumerism issues in rural communities through a 'self-reliance and self-sufficiency' scheme. The scheme is aimed at supporting farmers to produce what they 'need' and to cut down on what they 'want'. This will include analysis of family income-expenditure, collective production of organic fertilizers (e.g. compost), developing local markets, and direct community-to-community trade. (12)

Another important constraint is related to the food security issue. At present, almost every farmer sets aside part of their land to grow local rice varieties for family consumption. Rice supply is therefore secured at family level. The project will focus on other food production, e.g. vegetables and fish, so that food security can be enhanced at family and community levels. (12)

Por Puang said for him Fair Trade is a relationship in which the traders and consumers do not take advantage of the producers and the producers receive enough to live on. He is happy to sell at the Fair Trade prices he is currently receiving, although he says that they may ask for more if fuel prices and other investment costs continue to rise. The Fair Trade premium money that goes to his cooperative he says is important as well. He explained that this money can be used by members when they are ill or borrowed to buy organic material or to help pay for a child's education. It is lent to members in need at a very low interest rate. He once borrowed some money to buy molasses, to use in his liquid organic fermentations.

The Fair Trade premium is important for this transition by helping to support farmers who are suffering from illnesses, sometimes a result of pesticide and chemical use, to make the shift to organic methods and recover physically at the same time. (5)

An important economic benefit is the farmer's control over the production process. This means that farmers manage and take control of the processing (i.e. rice mill) and to a lesser extent of the market through Green Net Cooperative.

Fair Trade gives the farmer more satisfaction on price, control over the production process and incentives from the cooperative.

The Fair Trade premium money can be used by members when they are ill or borrowed to buy organic material or to help pay for a child's education. It is lent to members in need at a very low interest rate.

9.2 Advance payments

The role of Fair Trade is "At the request of the seller the buyer has to make available pre-finance for the buyer of up to 50% of the contract value. Pre-finance is meant for the financing of the buying operation of the producers' organisation at the local level." (15)

All producer groups request 50 % advance payment. The issue of advance payment becomes very critical when serious price fluctuation occurs. As rice in an annual crop (one harvest a year), producer groups must stock the organic paddy for the Fair Trade order. Individual farmers have different sale patterns. They normally sell their rice whenever market price is high or when they need cash (e.g. to pay school fees for their children, health bills, loan payments due). With little advance payment, it is impossible to purchase the paddy when farmers want to sell. Without the paddy stock, it is also difficult to mill and pack the rice on schedule for shipment. (8)

The 50 % advance payment is needed upon the confirmation of order at the beginning of the year is necessary for farmer groups to stock the paddy and for Green Net to order packing materials. (8)

Por Puang feels the decision making process within the cooperative is fair and democratic. He said that he benefits from and enjoys the exchange in monthly PTD (Participatory Technology Development) sessions. The only problem he mentioned although it is more of a factor for those in debt is that they receive half of their money when selling their paddy and the other half two months later. If they could receive all of the money when the rice is sold this would be better. (5)

Advance payments should be made available for the farmers also.

9.3 Quality problems

The decisive initiative towards professional Quality Assistance came from claro in 1993. The whole process of milling, packing, and shipping has become more controllable as a result of better skills and an improved management system. A regular monthly packing material stock report is prepared by responsible person in the packing unit. This helps to plan the stock management of packing materials. Independent quality inspection is done before each container shipment. (8)

9.3.1 Packing quality (underweight and leakage).

Inconsistent specification of the expiration date on individual packages in the same lot continues to be found.

There are too many parties (with, in some cases, ill-defined responsibilities) taking part in the overall production process; clearly defined quality management is still lacking.(8)

The demand for rice milling facilities seems to be high, so mills are quite independent of farmer groups. Development of a quality payment system for mills is necessary. Simple criteria, which can be assessed in Surin, have to be applied, such as percentage of broken rice, percentage of extraneous matter, weight of packages, etc. From 1999, the milling and packing quality was brought in line with EU requirements. This was a top priority for local NGOs and Green Net. (8)

/Some of the issues with regard to product quality are lack of proper storing, drying and cleaning facilities and the lack of availability of 'good' varieties. Improvements on such aspects can ultimately lead to better prices. (10)

The registration of the farmers with Green Net is progressing. Around 40% of them are registered now. At the beginning of 2004 a FLO inspection was announced. A Fair Trade committee was set up in 2003, which decides how the Fair Trade premium should be spent. In 2003 a part of it was used to cover the loss of an organic rice container, which was stored in a village fumigated with insecticides against malaria. (47)

There is still too much loss of rice due to bad drying, lack of storing and cleaning and human failure.

The visits and the audit, carried out by the external consultant in October 2003 showed weak points in the processing:

- The rice stock at the rice mills was not optimal. There was still a risk of infestation by pests and rodents which causes a loss of rice. But also the moisture content was considered a problem. The conclusion was that training for organic pest management is necessary and regular cleaning has to be enforced.
- The cleaning and sorting of rice, which strains the eyes.
- Besides existing manuals further procedures should be put in place such as a cleaning program, waste management, personnel hygiene program, pest control program and glass control program.

However claro was happy about the progress made in 2003. The communication between claro and Green Net on quality and delivery problems had improved significantly. The conclusion was that the HACCP quality concept (Hazardous Analysis of Critical Control Points) was necessary as further a confidence-building measure for customers and in order to manage increasing rice quantities. An initial HACCP analysis has already been made. (47)

In 2004 Green Net focussed on the further implementation of GMP/HACCP system of rice milling and packing. (47)

The implementation of the HACCP system can reduce quality problems

9.4 Internal Control System

Hivos is very much in favour of the ICS system. The new guidance manual for producer's organisations is a very helpful instrument. (6) FLO and organic standards have at least two hundred standards. It is not possible for small farmers to know all standards. The ICS points out the weak, critical points of the production. An external auditing body can concentrate on the weak points and the risk assessment. This system is used in HACCP and works well in practice. FLO should not exclude small producers by the complexity of the standards. Hivos is working on a three years program to set up training and management systems for small producer groups. (71)

A solution could be a modular system for organic, social and Fair Trade standards. This could be combined with a central control system together with FLO and IFOAM. (71)

An Internal Control System could lower the costs of certification and integrate different certification systems.

Hivos has set up an excellent guidance manual for Producer Organizations to set up an ICS. (6)

9.5 Working conditions

Working hours is a critical issue and includes the number of working hours in each day and the number of days worked without a rest. According to Thai Labour Protection Act, 1998, the number of working hours in one day shall not exceed 8 hours and employees shall have at least one day off per week. (31)

This issue cannot be applied to the farm level as working hours are not recorded and controlled because the farmers work for themselves. The four auditors of SASA agreed the issue is mostly not applicable and extremely difficult to inspect for smallholders.

This issue can be applied in the mill where it was found that workers could work (and were working) 8 hrs a day or less. However, interviews found that normal orders may include

20- 30 days worked in a row, with no free days, and that could lead to 2 - 3 months without a free day in peak times. (31)

Farm owners hire help for transplanting and harvesting. The other group is mill workers, including both the administrative staff and the workers who carry out tasks and manual labour related to mill processing. At certain times of the year, there are additional workers hired for carrying sacks of rice, and packing bags for sale. Women generally make up this latter group of workers.

Short-term hired help is slowly replacing the traditional Thai agriculture labour exchange system. Under this system, farmers would help each other during critical times of the year, the only cost being that the 'host' farmer had to provide food for the workers. (31)

Although the daily rate for hired labourers is less than the legal daily minimum wage the rate seems to be generally accepted in the area. Almost all of the hired labour comes from the community and is comprised of local farmers and their families who have smaller plots of land making working on other farms a welcome source of income. During transplanting and harvest season, trucks carrying these workers travel through the communities, stopping at farms to offer hired help. The audit team found that farmers prefer to use local labour. (31)

Mill labourers receive from 100 to 120 Baht per day and a free meal. Workers receive free Medicare and have accident insurance. Cooperative members also receive funeral benefits and a dividend at year's end based on a share of profits. Workers are not paid extra for working more than 48 hours per week. Mill administrative workers have higher salaries. Bag packers work collectively at their different packing tasks, so there is no competition among them. They receive an average of about 80 baht per day, quality control being the biggest impediment to their working faster and receiving more money.

Both the SAN and SAI representatives agree that a minimum wage would need to be paid to mill workers as a requirement for certification. For the FLO auditor this would be a process requirement. The SAN and SAI auditors felt that better documentation was needed at the mill, such as pay stubs for workers. It would also be necessary to pay overtime if workers work more than six days without a rest. (31)

In the case of smallholders who hire seasonal labour, contracts may not be applicable. All four standards address this requirement and although they make no specific demands at the farmer level, all require clear contracts to be provided at the mill level.

At the farm level, farmers have records of their expenses in inputs and farm activity but there was no labour contract for the so-called hired or exchanged labour. At the smallholder farm level the four auditors agreed that labour contracts are not required. (31)

The mill has records such as weighing bills, stock records, milling records and delivery records for the rice. However, labour contracts were not observed as everyone knows who works in the mill and how much they receive, as they are all shareholders of the mill. Salaries and wages are paid into account books and no slips are used when paying. The number of working days is recorded by supervisors. Workers never questioned their payment.

The SAI and SAN standards both stipulate the need for contracts and the FLO auditor suggested that FLO would require a legally binding labour contract as a process requirement. (31)

At the rice mill no case of discrimination has been heard or reported.

Documentation such as manuals, registers and occupational health and safety related documents were not examined.

Interviewed farmers expressed that they could not remember any injuries beyond minor cuts or strains that were inherent to agriculture fieldwork when heavy equipment was not involved. Risk of exposure to toxic substances was almost nonexistent because the farms were organic, or used a minimal of chemical fertilizer (in case of pesticide free members). The SAI auditor stated that SA8000 would require a health and safety committee, and some type of system to detect, avoid, and respond to risks.

Mill workers indicated that they did not recall any serious accidents beyond minor cuts or strains. A mill office worker reiterated this and outlined the accident response procedure.

The administrative worker also said that no register of accidents was kept but they were planning to establish one. Interviewed workers indicated that there is some training as part of monthly meetings, although no training program is documented. Occupational health and safety training is focused on machinery operations. Workers receive annual checkups as part of their Medicare package. (31)

There is no insight in the working conditions at farm level.
Hired land workers and workers at the mills possibly may be underpaid.

9.6 Environment protection

“Producers are expected to protect the natural environment and to make environment protection a part of farm management. Producers will implement a system of Integrated Crop Management (ICM), with the aim of establishing a balance between environment protection and business results, through the permanent monitoring of economic and environmental parameters, on the basis of which an integrated cultivation and protection plan is devised and permanently adapted. FLO and others encourages producers to work towards organic certification. Claro and other EFTA members are promoting organic agriculture as the solution for ‘environmental’ reasons but also for social criterias (higher prices, and also healthier food for the farmers) ICM minimises the use of fertilisers and pesticides, and partially and gradually replaces them with organic fertilisers and biological disease control.” (15) Organic agriculture is not a minimum standard (ICM also is not) and not even a progress requirement.

Organic agriculture is not a minimum standard for Fair Trade

9.7 Findings of the KRAV organic inspection in 2000

In 2000 the organic auditing body of Sweden, KRAV visited Thailand groups and reported some critical points. From the report it can be concluded that:

At some point not all farmers follow the organic rules

There is a big risk of mixing organic with non organic rice, because there is not enough separation within the chain (storage, packing, labelling, and milling).

One of the mills is not organic certified.

There are possibilities to set up an ICS.

Packaging is a weak point because of lack of packaging material or defects in the bags.

Green Net does not always fulfil the requirements of its customers

Por Tonguan wants to tell the consumers abroad to have confidence in his organic produce and that of Yasothorn that the farmers there are supporting and monitoring each other all of the time to see that they are complying with the organic regulations. He said, *“The certification body comes once a year, but we are here every day. We know the signs such as if there are no insects where there should be and can tell if a farmer has been using chemicals.”* The organic farmers in his community meet regularly, at least once a month, to exchange ideas, techniques, and to discuss problems. (5)

9.8 Disinfection as main problem

The main critical problem for rice is the disinfection technology to prevent insect infestation during storage. The conventional practice of chemical fumigation is not acceptable by organic standards and no other effective and cost efficient alternative method is available. At present, organic rice must be vacuum packed or sold within a few months before rice beetles infest the products. (63)

In 2003 claro made comprehensive investigation into the export of organic bulk rice from Thailand. There is no permanent CO₂ station in Thailand, which fumigates rice in an organic way. Usually rice is treated with Phostoxin gas before shipping in order to prevent pest infestation during transport. However claro expects that the demand for organic bulk rice will increase.

Claro's investigations showed that two options are of interest:

a. 5kg Vacuum bags: Green Net says that it would be possible to vacuum pack rice in 5 kg bags at the packing unit. The problem is, that a minimum quantity of 10'000 bags (= 50 tons of rice) has to be bought beforehand. This option is too expensive as long as the order quantities are low. In addition a trial should be done in order to find out if this method is effective.

b. Cargo container with a controlled atmosphere system (CA): Controlled atmosphere (CA) means removal or addition of gasses resulting in an atmospheric composition around the commodity that is different from that of air. This container is usually meant for perishable food products like fresh vegetables. With CA low O₂ (0.5 percent and lower) and/or elevated CO₂ (40 to 80%) could be applied for insect disinfection in rice to meet quarantine requirements of importing countries. According to Green Net this container is available in Thailand but would cost about 40% more than a normal one. Therefore the feasibility of the option depends on whether further disinfection treatment is necessary in the importing country. Claro will try to import bulk rice with a CA-Container. (47)

Methyl Bromide container fumigation for exportable rice is a common method and potential scope should be identified whether some plant botanicals, which are internationally accepted, can be used for fumigation. (25)

Disinfection is in conflict with organic production. There is no good solution yet for bulk trading of organic rice.

9.9 The policy of FTOs

EFTA sent a questionnaire to its members in order to provide data for this report. (58, 59, 60, 61).

The results are summarized in the table.

64. Consumer products available by FTOs and their consumer price

	Brand	Name	Producer coop	Country	Sales	volume	VAT	Consumer price	
Claro	Hom Mali White	Hom Mali white organic	Green Net Cooperative	Thailand	64.600	1kg	2,4%	5,9	€ 3,70
Claro	Hom Mali brown	Hom Mali brown organic	Green Net Cooperative	Thailand		1kg		5,9	€ 3,70
Claro	Hom Mali red	Hom Mali red (brown rice)	Green Net Cooperative	Thailand		500g		3,3	€ 4,14
Claro	Lüeng-On	Lüeng on yellow brown rice organic	Green Net Cooperative	Thailand		1kg		5,9	€ 3,70
Claro	Lüeng Pra Taw	White longgrain rice	Green Net Cooperative	Thailand		1kg		3,9	€ 2,45
Claro	Bind	White longgrain rice	BIND	Philippines	10.000	500g		2,6	€ 3,26
Claro	Vangvien	Purple-rice mixture	ASDSP	Laos	6.000	500g		4,4	€ 5,52
Gepa	Gepa	Hom Mali, white	Surin	Thailand		1000g	7%	4,29	€ 4,29

Gepa	Gepa	Hom Mali, white	Surin	Thailand		500g		2,49	€	4,98
Gepa	Gepa	Hom Mali, brown	Surin	Thailand		500g		2,49	€	4,98
Gepa	Gepa	Bio Hom Mali, brown	Surin	Thailand		500g		2,99	€	5,98
Gepa	Gepa	Basmati, semi-polished	Navdanya	India		500g		2,99	€	5,98
Gepa	Gepa	Blue Rice	Laos Farmers	Laos		500g		2,99	€	5,98
Oxfam Intermom	Claro	HOM MALI WHITE	Surin	Thailand	6.000	1000g	16%	2,95	€	2,95
Oxfam Intermom	Claro	HOM MALI BROWN	Surin	Thailand		1000g		2,8	€	2,80
EZA	Claro	Hom Mali	Green Net	Thailand	50.000	1000g	10%	4	€	4,00
EZA	GEPA	Violet Rice	ASDP	Laos	3.000	500 g		3,2	€	6,40
EZA	GEPA	Basmati Rice	Navdaniya	India	5.000	500 g		3,2	€	6,40
Oxfam WW	Oxfam	Brown	Green Net	Thailand		1000g		2,97	€	2,97
Oxfam WW	Oxfam	white aromatic	Green Net	Thailand		1000g		3,2	€	3,20
Oxfam WW	Oxfam	Purple	ASDSP	Laos		500g		1,8	€	3,60
Oxfam WW	Oxfam	Basmati	Navdaniya	India		500g		2,45	€	4,90
Coop	Coop	White	Progressive Farmer Ass	Thailand		1000g	2,4%	2,3	€	1,44
FTO	Fair Trade Org	Pandan	Progressive Farmer Ass	Thailand		400g	6%	1,35	€	3,38
FTO	Fair Trade Org	Pandan zilvervlies	Progressive Farmer Ass	Thailand		400g		1,4	€	3,50

There is a big difference in price policy and calculations among FTOs. Fair Trade is available at the Coop for € 1.44/kg. The most expensive rice is from Laos and Basmati from India. This rice is from non-FLO members, so no license fee is paid. The most commonly sold rice, Hom Mali organic in 1kg packs, is sold by different FTOs at prices ranging from € 2.95 to 4.29 (+45%). How may the difference of € 1.34 per kg be explained?. Differing VAT rates do not provide the reason because the country with the cheapest FT rice has the highest VAT. The cheapest rice available through FTOs is from claro (normal Thai long-grain rice) and costs € 2.45. Even this product is one Euro more expensive than the Coop rice! Issues of scale and quantity are the key to this.

Gepa comments: *“Most of our rice is imported in bulk and packed in Germany, only Hom Mali 1000g is imported already packed in Thailand. The price can be reduced by negotiation with the shipping lines on container prices; always transport of full container loads, always packaging of bigger quantities to reduce lost during milling and reduce costs of label production”* (59).

EZA comments: *“If quality is good, higher prices are possible. Relief is needed from customs duties. (61)*

Monica Mazzocco, Purchase Manager Food Claro, comments: *“Rice specialities and varieties can't be compared with “normal” non Fair Trade rice. It depends whether the farmers can harvest only one time per year or two times.*

Supermarkets buy huge quantities and do the processing and packaging in Switzerland, which at the end will reduce the cost price. Conventional rice products subsidize the Fair Trade rice products. In the retail business you have one margin step more.” (58)

Conrad Gutekunst comments that there is no equal balance between the different chains. Packaging in the country of origin is not efficient, because you have waste of volume during transport. Also the packaging is not labour intensive and can also be done in Europe. Only the selection by hand is creating a lot of work. You have to review whether it is possible and positive. This has an influence on the consumer price and the income of the workers and groups. (21)

The consumer price for Fair Trade rice is too high and the difference in price between FTOs is too great.

By enlarging the scale, working more efficiently and reducing margins, it would be possible to lower the price asked by FTOs to a ‘regular’ level.

Maximum price should be € 3.00 for organic and € 3.50 for specialties like Hom Mail.

Coen van Beuningen (HIVOS): *"The price mechanism is too strict. It should be possible to make a price per country and variety. The real transfer price should be constantly evaluated. With information about stocks and prices, traders can anticipate on the market and make their positions. This should result in a lowering of prices."* (71)

The transactions between claro and Green Net should be transparent.

9.10 Discussion of the standards

In 2001 FLO developed Fair Trade standards for rice. These were reviewed in 2004. (15)
One of the standards discussed in particular depth was the organisation of small farmers. The first groups Fair Trade worked with were co-operatives in Thailand. The standards require a monitoring plan to be developed based on a democratic decision, a general assembly and a transparent planning of business. (15)

A cooperative is not the only model for Fair Trade. Their structures can in practice be undemocratic and possibly even corrupt. Other organisational models should be allowed within Fair Trade. There are small farmers within co-operatives who cannot fulfil the requirements. By being part of the group they have the chance to develop fair practices, but they are not yet Fair certificated. The coop has the power to distribute the premium among the farmers. FLO makes a difference between small farmers and big plantations. But there should be no differentiation in the standards, in the opinion of Coen van Beuningen. Both have their strong and weak points. (71)

Gutekunst researched the situation in India, where there are no rice co-operatives. According to Indian law, cooperatives are not allowed to trade. FLO has found room for other organisational structures for trade in Fair rice. (20)

The standards are not clear about the position of children: *"Children are not employed (contracted) below the age of 15."* (15)

"Fair Trade rice must be handled by all actors through the supply lines in such a way to avoid mixing with rice from other non Fair Trade certified producers. Processors and Exporters introduce the necessary procedures to guarantee that Fair Trade rice that is bought and processed as such is not mixed with other rice and document their Fair Trade transactions in such a way that the full traceability of every transaction is given." (15)

One of the priorities for all Fair Trade partners is the creation of steady sources of income. This usually involves the production of finished goods and local packaging to add value and it is of course preferable if this can be done in cooperation with processing, transport and export operations which also subscribe to the Fair Trade ethos.

Fair Trade supports, with a fair price policy and long-term business relationships, farmers who use or are planning to use ecological cultivation methods. (1)

FLO standards are a point of discussion in the way farmers are organised, child labour, traceability and processing in the country of origin.

Coen van Beuningen has an other comment on FLO. He has internal information from farmer co-operatives that FLO delays a number of applications from farmers. The application for certificates takes too much time. As a result the farmers are prevented from selling product to Fair Trade organisations. (71)

The systems of generic and specific standards can change. Van Beuningen suggests incorporating social values in the FLO generic standards. It is possible to make the price

dependent on the social quality of the farmer's co-operation. This is a more mainstream model for social reward. HIVOS is very much in favour of systems like SA8000, EUREP-GAP and Utz Kapeh. All these are based on social auditing.

By making an internal control system farmers organizations can fulfil the requirements of all standards and reduce the auditing costs. (71)

9.11 Future perspective

In comparison with conventional trade, the system operated by Fair Trade shortens the trading chain quite significantly. However, Fair Trade in organic rice may not necessarily and always increase incomes for farmers. Shifting from conventional farming to organic farming contains some risks of yield drop, and the cost of conversion is high. (4)

Fifteen years have passed since the initial contacts with the rice farmers in North-eastern Thailand. In this time, Green Net and claro, working closely together, have managed to create functional structures in the areas of production, marketing and export; they have successfully promoted Fair Traded rice and, especially, organic Thai perfume rice in the European Fair Trade market. Their obtaining of their own export license and founding of the national organic certification organization ACT, which is already capable of conducting inspections and certifications, are largely autonomous and pioneering achievements; (8) The task today is to introduce Thai *Jasmine* Rice under the same producer- and environmentally-supportive conditions into commercial marketing channels as well. If Fair Trade is to survive the stiff competition of world trade, it can no longer remain restricted to its niche market. In this context, it is essential to promote, in addition to the export of packaged rice (whose premium price assures vital employment and income), the export of bulk rice as well. The chief requirement for such a decisive expansion of the market is to meet commercial requirements for product quality. Green Net is entirely capable today, as are many other Fair Trade organizations, of meeting the quality requirements of EFTA and other Fair Trade partners. (8)

To quote a representative of a Thai NGO: "*Our future - and the future of the poor farmers in the Northeast - will rely on sustainable management of the Jasmine rice sector and our collective heritage.*" (8)

Fair Trade is good practice and an example for big rice trading companies. Somehow we must bridge the gap between the two worlds. The whole market should look at minimum social standards. There could also be higher progress standards which should be applicable to FTOs, combined with a higher consumer price. (71)

Fair Trade shortens the chain, but does not necessarily give more income. Trade in organic and specialty rice gives more income security. Farmers should no longer be dependent on World Shops; there are a lot of growing possibilities within supermarkets.

10 Social issues

The main aspects of the social component of sustainability are:

- o Employment: rice production provides an employment opportunity especially for Asian countries and it is basic food to many people.
- o Health and safety: potential exposure to pesticides used in the production of rice.
- o Gender: important factor due to the relative importance of women in rice production (25-70%) (9)

10.1 Poverty

Surveys carried out by the IRRI in key rice-farming areas during the mid to late 1980s found the average farm income to be around US\$1,000 per annum, of which 40 to 60 percent came from rice cultivation (€ 300-450) (11)

In countries with a per capita income of US\$500 or less, rice can account for 20 to 30 percent of the gross domestic product and 30 to 50 percent of the agricultural gross domestic product. Because poor people in many countries spend half or more of their food budget on rice, volatile international and domestic prices can have a significant effect on food security. (11)

Rice prices have fallen dramatically over the last 15 years with no significant increase in yields to compensate. It can be inferred therefore that since the 1980s, average rice incomes have declined with the fall in prices. For instance, a farmer in Bangladesh with 0.9 hectares (the average for Bangladesh) would make only US\$133 per year from rice production if they received the government procurement price of US\$153 per tonne. (2001, 11)

Green Revolution may help to increase rice yields and allow farmers to grow rice more than one crop a year, but rice farmers have not gained any other benefit from the change. In fact, they are even more impoverished.

Poverty continues to be the main feature of the Thai agricultural sector. The income gap between farmers and non-farmers has widened. The worsening of the income gap can be clearly seen from the ratio of GDP per capita of agriculture population compared with non-agriculture population which has risen from 1:7.98 in 1982-86 to 1:10.35 in 1987-1991. This shows that farmers had income of less than one tenth of that of the non-farm people. When we consider farm production in detail, it becomes clear why rice farmers are poorer every year. In main rice cropping, production costs are higher than paddy price that farmer can sell their produce. This means that the more farmers increase the production, the more loss they will incur. The situation is worse still if we consider the fact that actual paddy prices vary daily, often during the harvesting period the price is very low, then once the farmers have sold their paddy, the price starts to rise. There is no surprise that almost all rice farmers are indebted. (12)

Topographically, the north-eastern region of Thailand, locally known as Isan, is dominated by the Khorat Plateau. The northern and eastern border is marked by Mekong River. The north part has some high mountains and various plateaus ranging from 300 to 1,200 meters above sea level.

Soil is poor, predominated by entisols, incepticols and ultisols. In various part of the region, salt deposits can be found in subsoil level. An estimate of 2.848 million hectare of lands (16.9%) is estimated to be affected by soil salinity. Rice is predominantly grown in low land during the rainy season. An estimate of 68.6% of agricultural lands in the Northeast are cultivated with rice. Local rice varieties are cultivated for family consumption while high-yield or high value rice varieties are for sale. On upland areas, different type of cash crops are grown, including tapioca, sugar cane, maize, bean, jute. North-eastern region is also the poorest region in the country. The average annual income is around one third of the national income, i.e. 19,331 Baht (€ 483.28) compared to an average national annual income of 56,336 Baht (€ 1,408.40). Almost three quarter of population in the Northeast is in agricultural section, i.e. 71.9%. (12)

Rice farmers belong to the poorest groups in society and need support. In Thailand they earn only one tenth to a third of the average incomes.

10.1.1 USA

The US rice sector in particular is dominated by relatively few large producers, with large farms of over 400 hectares increasing in number over the past decade. Based on the value of all farm sales, 77 percent of rice-producing farms in the US had sales of US\$100,000 to US\$1 million and above in 1997. (11)

10.2 Price crisis

10.2.1 India and Indonesia

The Indian government removed the import restriction on 10,000 products in 2002 including rice and since then the price of Indian rice has gone down. While the Food Corporation of India (FCI) procures rice with the help of respective State Governments at a minimum support price fixed by Commission for Agriculture Costs and Prices (CACP), small farmers often do not get this price. In the whole chain, from public seed distribution, to research, to extension and access to credit, the government policies and their implementation is conducive to resource rich farmers and encourages mechanisation. Even if policies are supportive of the poor, for example the labour laws stating minimum wages and equal wages for men and women, these laws are not enforced, with men earning up to 3 times the wages of women in some of the areas. (10)

In **Indonesia** a system of village cooperatives existed to support farmers and ensure food security (KUD). However this system has been handed over to local governments and subsidies have been withdrawn. At present the KUD only facilitates the sale of agricultural tools and provides rice-hulling services. (10)

Within two years of Indonesia's economic crisis in 1997, the cost of a kilogram of rice in Jakarta had more than doubled, from 2,000 to 5,000 rupee (US\$ 0.23 to US\$ 0.58). With families reserving every rupee possible for food, many children dropped out of school as parents could not afford fees. According to international organisations, malnutrition has become widespread as a direct result of the price increase, with more than half of children under two on the island of Java reported to be malnourished. (11)

A 20 percent rise in rice prices may reduce rice consumption by 10 percent and adversely affect poor people's nutritional status, as illustrated below. Conversely, low prices favour

poor consumers, but they result in financial hardship for farmers and their families, as well as farm workers. Low prices deplete the assets of producers, depress their long-run income and employment prospects, and encourage rural to urban migration. (11)
As incomes increase, people diversify their diets to consume more vegetables, bread and meat, and resources are shifted from rice production to other food products with stronger markets. Moreover, gains in productivity and efficiency in rice production have on the whole been captured by consumers through a decline in real rice prices. As traditional rice farming is highly labour-intensive, growing labour scarcity and higher wages have increased production costs and reduced farmers' profits and incomes, and make it more attractive for farmers and labourers alike to join the industrial labour force. (11)

The local price fluctuates so much that even rice farmers cannot sell rice.

10.3 Child labour

10.3.1 Vietnam

As an empirical example there is information about Vietnam, a country which indeed has opened to international markets. The economic boom in the 1990s coincided between 1993 and 1998 with a 25 % decline in children from rural households participating in labour and with the net primary school enrolment rate of the poorest quintile increasing from 72 % to 82 %. Edmonds and Pavcnik have provided some empirical evidence on the relationship between trade liberalization and the incidence of child labour in a poor, relatively unskilled-labour abundant economy (Vietnam). They found that the inter-temporal increases in the relative price of rice result in declines in child labour. Rice price increases in their calculation accounted for 45 percent of the decline in child labour experienced in rural Vietnam between 1993 and 1998. The policy implications, Edmonds and Pavcnik (2003) argue, are the following:

The increased earnings opportunities associated with globalization for children working in export-oriented sectors do not necessarily lead to more child labour. In the present case, households that are large net producers of rice appear to have taken advantage of higher income after the rice price increase to reduce child labour despite increased earnings opportunities for children. The pure income effect is large enough that child work declines in agriculture in households that are large net producers of rice. There are a number of caveats here.

In the first place, the assumption of the authors is that 'relative price changes are at the core of the debate on child labour and globalization', and a decline in child labour, if it occurs, is then easily associated with the observed price rise. That focus may be less appreciative of the fact that Vietnam happens to have been one of the first developing countries (in the late 1980s) to officially ban all forms of child labour and to have achieved universal levels of education.

The second caveat is that only households that are net producers of rice experience larger reductions in child labour when rice prices increase. It is important to notice that this would not be the case in many developing countries. In Vietnam, given the specific land usage, which is based on the principle of land to the tiller, most rural families will equally benefit from a substantial increase in prices of agrarian products. In countries with considerable landlessness and near-landlessness –the countries in South Asia and Latin America for example-, agricultural price rises could rather lead to more poverty and thus possibly to more child labour.

In the third place, integration in the world market (and the demand for export-oriented goods) does not always lead to higher prices and higher incomes. That effect will very much depend on the vagaries of the world market.

Finally, as the authors also indicate, the sign of the effect of international market integration on local prices is obviously of great importance. Lowers prices of import-

competing goods might have different implications for child labour in households associated with the production of an import-competing product.(29)

A higher rice price reduces child labour among rice farmers.

Child labour has declined sharply in Vietnam in recent years, but it remains a significant problem especially in rural areas. The information contained in the Vietnam Living Standards Surveys (VLSS) 1992-1993 and 1997-1998, supplemented by surveys conducted by the two institutions ILSSA and CLSSI in 1998, shows that the estimated number of full-time child labour indicates a fall from 4 million to approximately 1.6 million over the period 1992-1993 to 1997-1998. This is in line with the rise in school enrolments over the period. The studies indicate that child labour is not a significant problem among 6-10 year old children. In the age group 11-14, child labour has fallen remarkably during 1992-1993 to 1997-1998.

The most notable decrease in child labour has been in urban areas, and the situation has also improved in rural areas. There are regional variations with the child labour problem, especially different in the North Center Coast, Northern Mountainous Regions and Red River delta. The rural child-labour problem is somewhat greater among girls than it is among boys.

One aspect of the child labour estimates is of particular concern for the future. There has been a rise in the number of 'nowhere' children - defined as children neither in school nor at work, especially in the 11-14 age group in urban areas. Although the number is still estimated to be relatively small, these children are particularly at risk of becoming street children or of being placed at moral hazard. There has also been a definite rise in the number of 'nowhere' children aged 6-10, which is a concern for school authorities.

There is a very large group of marginal part-time child workers, children who are engaged in work but who are also at school. This work is legal for the 11-14 age group, provided it does not exceed 4 hours per day. This type of work is not only legal but is often encouraged because it provides children with skills acquired on the job for later life. However, if the hours are excessive, it may reduce the benefits of education, so it is a category that needs to be carefully monitored and regulated by the government. The proportion of marginal part-time child workers remained unchanged between 1992-1993 and 1997-1998. The estimated proportion declined from 20.8 per cent to 19.5 per cent during this period.

There was a fall in the absolute number of children in the age group 6-10 who were marginal part-time child workers from 9.1 per cent to 7.4 per cent of the age group. Marginal child workers aged 6-10 are overwhelmingly found in rural areas, with only a small minority (18,148) in urban areas in 1997-1998. There has been no change in marginal part time child workers in the 11-14 age group.

The biggest rise in marginal part-time child workers has been in the age group 15-17, which has increased from 15.1 per cent. (This age group is encouraged to go to school but, due to certain circumstances, children have to go to school and to work simultaneously, but their work is not violating the regulations of the Labour Code related to juvenile labour.) This is a result of the large increase in school attendance amongst this age group from 13.9 per cent in 1992-1993 to 34.1 per cent in 1997-1998 (Table 21). Part-time work enables students to continue education who otherwise would have had to drop out of school for economic reasons.

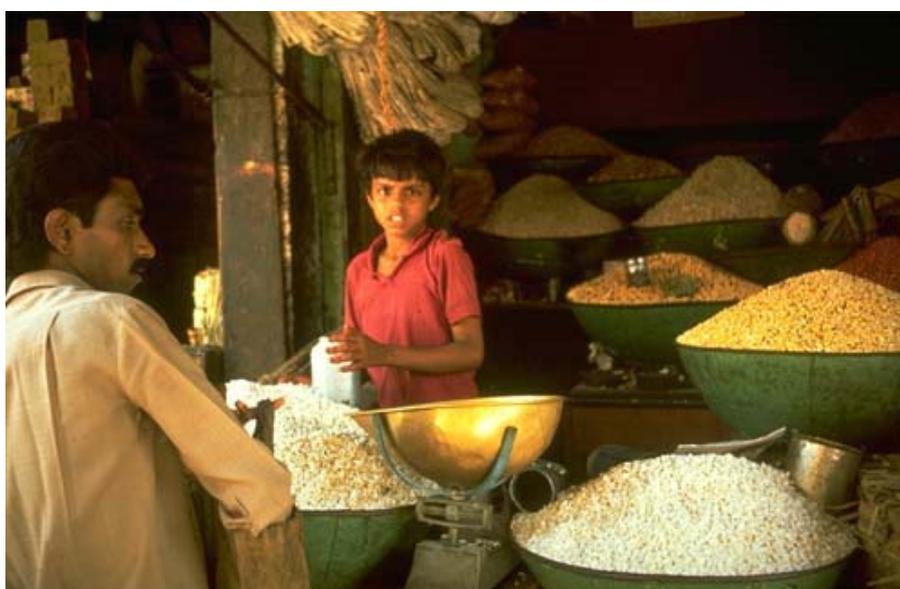
Vietnam has always had very high participation in basic primary education. School enrolments are now rising in lower and upper secondary schools. These levels of school attendance compare very favourably with other ASEAN countries such as Thailand and the Philippines. Singapore is the only ASEAN member ahead of others. (30)

Child labour is mostly found in households and small enterprise sectors mainly in rural areas. Most do not receive a wage - their parents are often paid in rice or other goods for the children's work. This pattern is also similar for marginal part-time child workers who

may also work on family rice plots. Only a small amount of child labour receives a wage or is self-employed.

A small number of children are employed in the industry/construction and services sectors. There is no evidence of child labour in the export-oriented manufacturing industries. However, this will have to be carefully monitored as industrial employment increases as self-employment in the service sector, which could place children at risk of moral hazards in the future. At present, this type of work is most common for the 15-17 age group, with fewer child workers 11-14 and almost no children 6-10 employed in these occupations. The incidence of child labour is greatest amongst the poor although working children can be found in all income groups. The greatest reductions in child labour have come in income expenditure groups 3 and 4, which reflect the influence of rising incomes in recent years in reducing child labour.

There is a need for the National Strategy on Poverty Alleviation to remain focused on child labour and school attendance especially in rural areas which have not yet begun the demographic transition to slower population growth, and which have not experienced significant rises in income per head.(30)



65. Rice market scene in India... still room for child labour (28)

There is still a lot of child labour in rice producing countries, especially among the age group 11 to 14 years and in rural areas. They receive no cash income, but are paid in rice.

10.3.2 Thailand

Child and youth labour is a critical issue in many low income countries and is a key question raised by consumers concerned with social justice and Fair Trade issues. However, for child and youth labour in agriculture and the household, traditional, regional and economic aspects should be taken into consideration. As long as the workload is adequate to the child's physical development and does not jeopardize normal development, the participation of children in family farm systems contributes to traditional learning and integration into society. A common understanding is that formal education (attending the official schooling system) should not be jeopardized by any working conditions.

Thailand has an obligatory and free schooling system. The farmers interviewed by auditors emphasized the importance of education and schooling. Farm children in Thailand do participate in harvesting, household work and probably in small farm level processing (the last was not directly observed) but as school attendance is observed, child labour is not seen as a problem in the region visited (and probably in rural areas of Thailand in general). At the smallholder farm level, auditors of KRAV found no problem with the current situation in which children take part in family production systems and processes. School attendance is common and is guaranteed by the families. In an audit, which would happen during harvest season, there might be a visual inspection to ensure that children do not carry heavy loads.

By the SASA audit for Green Net in 2003 in Thailand the inspectors concluded; *“Although there were two youths working at the mill, the Manager said that it was not normal policy to recruit young workers and these were exceptional cases. The mill offered a fund for their education but neither had accepted it. At the mill level the employment of two workers between 15 and 18 years of age (youth labour) would cause SAI and SAN to take a closer look to check certain specific requirements have been complied with.”* (31)

Farm children in Thailand do participate in harvesting, household work and probably in small farm level processing. As school attendance is observed, child labour is not seen as a problem by Fair Trade organisations.

10.3.3 Four hundred child labourers found in puffed rice factories in India (2004)

SP Alok Kumar said, despite several laws at national and international levels, child labour could not be eliminated due to socio-economic obstacles. Inevitable reasons are forcing the many poor children to work in hazardous conditions to earn their livelihood; Superintendent of Police Alok Kumar expressed concern. Inaugurating a month-long public awareness rally organised under UNICEF-NORAD Karnataka Action Plan to Eliminate Child Labour in the City on Thursday, the SP called for the rescue and rehabilitation of more than 400 child labourers still working in puffed rice factories as early as possible. “Not only the children trapped in puffed rice factories, we have a responsibility of freeing children working in many more industries in the district. Because, they have a right to enjoy their childhood and to study in schools”, said Alok Kumar. He felt that the socio-economic factors were the major stumbling block in the eradication of child labour. It was because of this reason that the problem had not been solved despite formulating laws at national and international level, he said and stressed on the concerted efforts to end the menace of child labour for ever. The SP promised that Davangere police would make sincere efforts to persuade the puffed rice factories and other industries in the district not to employ children and urged the industrialists, government departments and the general public to join hands. Speaking on the occasion, Assistant Commissioner Dr C G Betasuramutt said, 189 countries had signed an agreement with the United Nations promising to create conducive atmosphere for the development of the children. At the same time, children from all the countries had announced that they were the victims of inherent flaws in the society and that a suitable atmosphere for the children would benefit everyone in the world, he remembered. “We have a responsibility to make these announcements come true”, he said. (90)

10.4 Working conditions at rice mills

Rice mills should be located in a place where good drainage to facilitate run off without causing flooding. Installation of interceptor traps for solids, oil and fuel to control the release of the water via surface drains is needed. Adequate ventilation including exhaust

fans to prevent the dust pollution in the mill is also required. Chimneys and vents should be more than 80 feet height and using appropriate technology to prevent dust and smoke emissions. In parboiling units soaking tanks should be located nearer to the drying area and steaming tanks should be located to the soaking tanks and should be made up of non-corrosive material, effluents from this area should be treated with known organic and chemicals before going to the natural environment. Husk from the paddy and waste from cleaning process can create health hazards for workers handling the paddy. Release of dust to the atmosphere and internal and external noise may cause health hazards. Odour release from parboiling stored water is also a health concern for workers. Training of workers in environmentally safe practices and procedures, occupational health and safety procedures should be considered in every rice mill. (25)

Regular hygiene checks should be carried out at different stages of milling for the presence of chaffy grains, inert materials and for insect and rat faecal material which is sometimes lethal to human beings. (25)

Workers at rice mills are at risk from unhealthy working conditions due to dust, odour, noise and smoke.

10.5 Employment

Rice-based production systems and their associated post-harvest operations employ nearly 1 billion people in rural areas of developing countries. Almost 80% of the world's rice is grown by small-scale farmers from low-income countries. Rice is a staple food of over half of the world's population which underlines its importance for food security, poverty alleviation and improved livelihoods. It is estimated that in Asia around 250 million farmers depend on rice cultivation for their livelihood. Most of the rice in Asian countries is produced on rice farms with a mean size of less than 1 hectare. Many Asian farms are even smaller and used to produce rice for family consumption (0.25 hectare can provide for a family of 5) (11). Rice is the backbone of India's economy, providing direct employment to about 70% of working people in the country.

Rice cultivation is highly labour intensive. Paddy cultivation is done manually and requires more than 150 days of labour per hectare. Transplanting seedlings and weed control account for 80 days of labour per hectare.(9)

In Laos, Nepal, Bangladesh and Vietnam the value of rice production as a percentage of Gross Domestic Product is around 25%. (9)

Often the entire family will be involved in production, which typically relies on traditional technologies and manual labour. Usually over half the production of rice is used for consumption by members of the farm households, with the marketable surplus variable according to the size of the farm and the rice growing environment. The surplus for the urban population and the rural landless is generated mostly on irrigated land in farms with holdings of more than two hectares. Rice farms in upland and rainfed ecosystems tend to be smaller and more subsistence oriented (11).

All family members are involved in the production process. Some tasks, like the setting of the young plants, are done by hand; others, like the tillage, are done with the help of draft animals. Even in the big fields belonging to rich landowners, the work is done by hand by cheap seasonal labour, (consisting of landless people and small-scale farmers), and also uses animals. (1) Recent studies have found migration from rice-farming households to off-farm jobs such as in the textiles and garments industries common. This can have benefits for farming households, as income generated through off-farm work is typically spent on health and education services for children. However, other commentators have pointed out that off-farm work often involves exploitative conditions, and that a common alternative to farm labour is (child) prostitution. (11)

In the 1990s, almost 60% of the total Thai labour force was engaged in agriculture and most produced rice as a main or subsidiary crop. (4)

Thai law governing labour protection has been revised to comply with the conventions of International Labour Organization (ILO) of which Thailand is a member. A new law called "Labour Protection Act, B.E. 2541 (A.D.1998)" was passed in 1998 to establish basic standards of employment and payment.(31)

In Thailand and India 60-70% of employment is in rice farming. Rice-based production systems and their associated post-harvest operations employ nearly 1 billion people in rural areas of developing countries.

Rice farming is a (unpaid) family business and half of the production is for own household consumption.

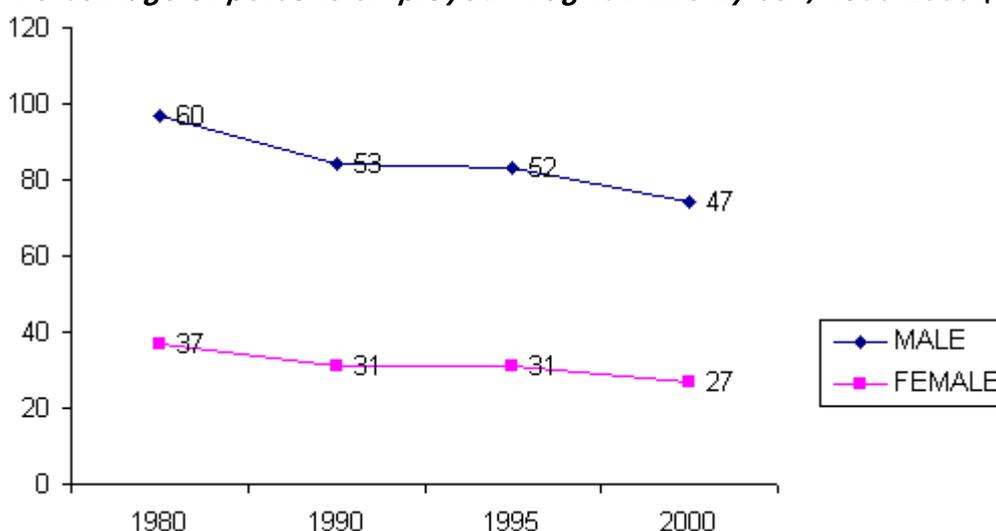
Self sufficiency is more important than income.

10.5.1 Unemployment

In 1998, the unemployment rate in Thailand was estimated at 5.7% of the total workforce of 32.7 million people. This means 1.8 million unemployed workers, of which 12 % are in the North Eastern region. Moreover, the North Eastern region has the highest seasonal unemployment rate, which is 5 % or 0.6 million people. The unemployment rate of graduates is also increasing and may reach 4.1 % or 100,000 people in 1998 (8)

Employment in agriculture in the Philippines has continuously decreased for both males and females, but more alarmingly for females. Women are very vulnerable in the destruction brought about by the effect of the policy of the WTO. Even before the implementation of the WTO, women were already miserably discriminated against. Half of the labour force are women however barely half are employed (47% against 84% for men) (63)

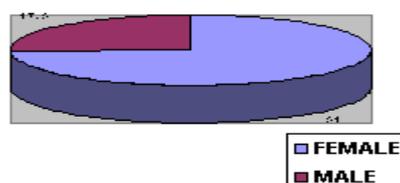
66. Percentage of persons employed in agriculture by sex, 1980-2000 (63)



And if women are lucky to be employed at all, the majority are employed as unpaid family labour, defined by the government as members of the family who assist another member in the operation of the family farm or business enterprise and who do not receive wage or salary for their work. (63)

67. Percentage of unpaid family workers in the Philippines (63)

Figure 2. PERCENTAGE OF UNPAID FAMILY WORKERS, BY SEX, 1997-2002



10.5.2 Landless

Market oriented agriculture has pushed thousands of farmers out of their land. (40) Today, well over a million rural households are landless. Large estates have been bought by rich landlords and speculators who leave most of it idle or underused. The Land Institute Foundation estimates that about 70 % of Thailand's total area is underused, accounting for an annual economic loss of 127,384 millions baht (or around US\$ 3 millions). (40) For trade to work for the benefit of the people and most especially for the women, their access and control to the basic resources for livelihood particularly the land must be ensured. Landlessness is the primary problem of the Filipino peasants, half of whom are women and comprise 70% of the population. Sixty percent of the total agricultural lands are controlled by only 13% of the population leaving 7 out of 10 farmers landless. This situation forces the farmers to enter into exploitative arrangements with landlords, such as exorbitant land rents or sharing systems going as high as 70-30 or 60-40 all in favour of the landlords.(63)

The landless involved in rice cultivation do not have employment/income security/guarantee (livelihood) and thus also do not have food security. Low wages paid to both men and women labour, the landless and marginal farmers have inadequate livelihood opportunities at the local level that leads to migration. (25)

Because of indebtedness, many farmers have lost their lands and have to work as labourers. More than one million farmers are landless, with an increase rate of 4.05% a year. (40)

Landlessness is a major problem in rice producing countries.

10.6 Cycle of debt

In 1999 each Thai citizen has a 70,000 baht debt (8). Farmers have remained poor and marginalised, the price offered for their produce not always covering the cost of production, and their families now rely heavily on the income supplements remitted by members sent off to work in factories, bars, and construction sites in the city.(4)

From 1988 to 1995, while food exports were shooting up in Thailand, the percentage of indebted agricultural households rose from 22.45% to 60% and the average debt by agricultural household increased more than 10 fold, from 3,777 baht to 37,231 baht (US\$151 to US\$1478). A research report by the Thailand's Bank for Agriculture and Agricultural Cooperatives in 2002 states that the total debt of the agricultural sector was about 411 billion baht (US\$ 9 billion). According to the Bank for Agriculture and Agricultural Cooperatives (BAAC) in Thailand there are currently 4.65 million farming families whose total debt to various lending banks comes to 300 billion baht (about US\$7 billion). That means on average each family's debts

of about 64,000 baht (about US\$1500) is more than twice the 27,000-baht average annual income of farming households (€ 537). (66)

in some of the years, farm spending tends to be higher than farm income. Thus, it is fair to say that farmers, in general, are worse off than before. The introduction of cash crop production directed by market demand increased the farmers' need for credit to finance each production cycle. Although the government provided farmers with "low interest rate loans" through the Bank of Agriculture and Agricultural Cooperative (BAAC), farmers have to earn a profit at least equal to the interest that they have to pay on their investment, which means nine to twelve per cent. However, a large part of them who could not access the formal lending system have to borrow from informal lenders at interest rates as high as six per cent per month. (46)

The Pilanoi family stopped using chemicals entirely in 1997 and had their farm certified organic since 2000. Mrs. Latree said that she was content to be in charge of her life. They work hard but are not stressed and can feel good about what they are doing. Her only bother is that they still have debt remaining from long ago. She also said as this year has been dry without raining when it should, their harvest looks to not be too good. Mr. Taworn explained that he didn't have the money for fuel to operate their pump often to bring water to the fields. They also have a bicycle operated pump, but this too takes time and energy. She said that they may ask for more for their rice this year as a result. Even so they say they are better off now than they were before being involved in (Green Net's) Fair Trade and organic rice project, with a higher guaranteed price, lower investment costs, and a healthier environment. (5)

60% of the rice farmers have debts.

The average debt in Thailand is about € 1250 , more than two year incomes.

Also Fair Trade farmers have debts.

10.6.1 The rice bank

The rice bank in Kaeyay sub-district is a good example. It started in the year 2528 with 23 members and has now 112 members, 50.000 kg of rice and 200.000 baht in cash. *"We started it because we didn't have enough rice to eat, even though we are the people producing rice! If someone wants to become a member, he has to put 80 Kg of rice in the bank. He becomes a share holder. When someone becomes a member, he can borrow rice whenever he needs some. The interest rate is 25% a year for rice. At the beginning there was no cash in the bank, only rice. After a while, we made some profit with the interest, we sold the extra rice and we got some cash as well. Now, people can also borrow money for an interest rate of 1.5% a month. If you borrow rice, you have to pay back in rice. If you borrow money, you pay back in money."*

The bank is managed by an elected committee. People in the committee can not give any special conditions to their relatives because the committee is controlling what everyone is doing. They work on the principle of transparency: any one can check the transactions. SFS helped them to organise themselves but they didn't receive any money from outside. They are only working with our savings. (69)

Indebtedness is a major problem for those farmers. Farmers usually borrow money from the middle man who also buys the paddy. They borrow for rice, for seeds, for fertilisers, land rent or social life. The interest rate is very high, about 5% a month. (69)

The market price for rice is lowest at harvest. To help its member farmers get better price for rice Progressive Farmers Association in Thailand purchase rice from its member farmers at harvest at a set mark-up above the market price. The mark-up is based on funds available to PFA for rice purchase in accordance with the budget and market forecast. PFA

warehouse then the rice and sells it later in the year when the price rise. The surplus pays the administrative expenses and the rest is distributed to the farmers. In addition PFA makes seed loans to the farmers at very low interest rates. PFA has also made arrangements with National Fertilizer Company Limited to purchase chemical fertilizer on an eight month interest free credit arrangement. (78)

10.6.2 Credits

Farmers' poor economic conditions make them easy prey for merchant creditors who demand high rates of interest on loans and repayment of past debts in kind. Farmers therefore have an urgent need for money immediately after harvest. While the price of paddy is always at lowest during that period, cash is badly needed in order to pay their rent and debts as well as to buy certain necessities, fertilisers purchased on credit, hired labour at harvest, and to meet other costs (4).

Problems encountered in getting credit are at the farmer level as well as at the level of the farmers' organisations. The farmers often lack access to independent credit, both for farming as well as post harvest credit. The lack of post harvest credit forces them to sell immediately after harvesting, when supply is abundant and prices low. (10)

Credit is also a problem at the level of the farmers' organisations. Green Net (Thailand) for example exports organic Fair Trade rice. As the Jasmine rice is harvested once a year at the end of November, Green Net needs to have large cash reserve at the end of December to pay the farmer members. Especially now that the project is successful and expanding, the cash-flow problem becomes more serious. Local banks are not willing to provide a credit facility for this purpose.

Credit needs for organic farming are different from credit needs in conventional farming. Credit is needed in different periods, purposes and thus quantities. (10)

The causes of debts can be sorted out by cost covering prices, setting up rice banks, pull out middleman and giving credits.

10.7 Malnutrition

Growing rice by no means assures one of having enough to eat, as rice producers can also be net food buyers. The low-income status of many rice farmers means there is a pressing need to generate cash, and so many have to sell their crops directly after harvesting when prices are lowest, and then buy rice later when prices are higher. It has also been observed that a change in food habits is contributing to malnutrition levels, as consumers in developing countries are eating more milled rice and less in the more nutritious brown form. According to a 1986 report, farm children in Central Luzon, the Philippines' 'rice bowl', had at that time among the highest rates of malnutrition in the country. In Thailand, where rice is bountiful, a significant number of rice farmers and their families suffer from malnutrition. (11)

Despite Thailand's position as the largest exporter of rice and the high income it accrues from the rice trade, rice producers remain poor and food insecure. A significant number of rice farmers do not have enough rice to eat and their families suffer from malnutrition. The FAO estimates that 25 to 30 percent of Thailand's population is chronically undernourished. Many families are burdened by massive debts and are forced to send their working-age children away from home to seek employment. (11)

Vitoon Panyakul: "*Nowadays, more than 2 billion of the world population eats less diversified foods than 30 years ago (before the Green Revolution), causing microelement deficiency such as iron, iodine, vitamin A etc. The Green Revolution that promotes monoculture cultivation has led to a decline in plant diversity as well as an increase in malnutrition among the poor population.*" (12)

The FAO and WHO have come to realize that micro-nutrient deficiency can not be tackled with technological solution, but by local empowerment. The FAO-WHO's international conference entitled 'Nutrition Jointly Organized' in 1992 came to an interesting conclusion that *"Establishment of sustainable nutrition by convincing the local people to consume local foods is the first strategy to be used to solve iron and vitamin A deficiency"*. (12)

Thailand is becoming the kitchen of the world, but alarming reports show that malnutrition remains rampant in the country, especially in the rural North-East. The United Nations Food and Agriculture Organisation (FAO) estimate that 19% of Thailand's 62.8 millions people are chronically undernourished. The Ministry of Education conducted a survey in primary and pre-primary schools to assess the number of children suffering from malnutrition. In 2003, out of 6,633,809 students surveyed, more than one million suffered from malnutrition. This had a devastating impact on children's development and learning capacity. (40)

Trade should protect the local food sources as primarily used for the people's consumption, and the protection of the lands where these foods are grown and must not destroy the food security of a community. (63)

Malnutrition is common between rice farmers (20-30%).

10.8 Empowerment

Social benefits appear to be the major achievements of the Fair Trade project. It creates a learning environment for producers; nurtures farmers' confidence and self-esteem; and encourages cooperation. In her research Nuntama Udumkit found that Fair Trade members have significantly better opportunities than conventional farmers. For example, they can sell their rice to Fair Trade markets, they have more bargaining power regarding the price of paddy, they are more secure in terms of income, and they also receive assistance from the Fair Trade project. (4)

Of the Fair Trade organisation are better informed of prices. For 55 cases interviewed, 82 different sources of price information were identified. (4)

59.7% claiming that farming is not a good job. 40.3% had a more positive attitude towards being farmers. More than half of responses from each group were not satisfied with the financial situation of their household. 68.1% of conventional farmers expressed dissatisfaction, while for both other groups, the figure was 58%. (4) The interesting point is that farmers from the Fair Trade group are significantly more satisfied with their quality of life compared to the other two groups. (4)

Interestingly, the majority of farmers who quit the Fair Trade group are negative about being farmers (72.9% from this group). This can be explained by the fact that these farmers did try to find ways to improve their life by joining Fair Trade group; however, difficulties such as debt and landlessness, made it impossible for them to convert to organic farming. (4)

Trade must result in the development of the so called productive forces, the real producers of food and other products for trade: development of their livelihood, improvement of their health, their educational level, and their organizations. For women, trade must not become an instrument for driving them into greater poverty and misery. Trade must become an instrument for the empowerment of the poor women. (63)

Although the claim 'equal partnership' might not be totally true, producers are respected and have significantly more bargaining power than these in conventional trade networks. (4)

Although at this stage, there is a high degree of dependency of SFS towards Green Net regarding Fair Trade market as SFS and other producer groups does not have enough managerial skills to manage the whole export process by itself. (4)

10.9 Access to information

Farmers (and others) have very little insight into the division of the added value (benefits) along the rice chain. There are many actors in the chain. Some are very powerful and benefit more from this lack of transparency. The era of economic liberalisation is going to further reduce government's protection to small producers. These small producers can only survive when organised and if the processing and trading is more efficient. Information on the value addition in the chain and on the competitiveness of local producers as compared to other countries/regions is, therefore, crucial to determine the best areas for production (areas which have comparative advantage), the necessary scale of production, processing and trading etc. Information is also necessary to identify areas where marginalized farmers will never be able to earn a living wage from rice farming alone. Providing them access to information about possible ways of earning additional income on the farm (e.g. fish production, vegetables, rice/ rice straw production) or outside farming is important for their sustenance. (10)

In order to inform farmers in developing countries about relevant developments in the rice sector it is important to have access to information 'disseminators'. For example local Non Governmental Organisations (NGOs) in developing countries could operate as an information-centre. This is in line with the strategy of Hivos in which local NGOs or Trade Promotion Organisations (TPOs) play a key role since they support groups of citizens who defend their own interests and who fight for human rights and democratisation, thus helping to shape an active and resilient society. An inventory of relevant organisations, initiatives and databases that can be used to provide the information centres with relevant information would be a first step in this process. Examples are the OXFAM campaign, the International Year of Rice, Via Campesino (World Social Forum), the access guide of the Centre for the promotion of Imports from developing countries (CBI www.cbi.nl/accessguide .) and the recently launched EU helpdesk on tariffs for developing countries (<http://export-help.cec.eu.int>). (11)

Hivos, a private Dutch donor agency, commissioned six case studies in India, Sri Lanka and Indonesia to analyse rice chains. The major objective of these case studies was to understand the cost of production, how and at what price paddy and rice are traded, who are the actors in the chain and (changing) government policies. Farmers often have little insight into the exact division of the added value (benefits) along the rice chain. (10) Presently, the volume of rice traded by co-operatives is much greater in national and local markets than in international trade. Co-operatives do not play a large role in international rice marketing for numerous reasons. Commentators cite a lack of experience and expertise; a lack of access to export facilities; economies of scale favouring the multinationals and inferior market intelligence. (11)

How can available information be shared with farmers? Possible means are translation of documents into local languages, and also dissemination through means such as radio, street theatre, video, and CDs. People requested to exchange good examples of information sharing methods, popularised information in the form of leaflets, drawings etc. India has the example of Call Centres where producers can get technical information on production methods, on tackling production problems etc. from experts within a relatively short period. (10)

According to Consumers International, Malaysia made an analysis of added value in the chain for paddy farmers in Nepal over a period of time. Farmers' incomes have decreased compared to 2001. At the same time the margin for millers has gone up, through increase in price and reduction in costs. The case study further shows that most farmers (70%) don't know the paddy price at different trading points and are not aware that there is a fixed government price for rice. (10)

Farmer co operatives need to be more informed about the rice chain.

It is necessary to identify areas where marginalized farmers will never be able to earn a living wage from rice farming alone. Providing them access to information about possible ways of earning additional income on the farm (e.g. fish production, vegetables, rice/ rice straw production) or outside farming is important for their sustenance.

10.10 Gender balance

In light of the fact that 25 to 70 percent of rice production is carried out by women, further research on rice needs to be structured to deal with complex gender issues. In its background study, Oxfam UK has not been able to examine in detail how the current low rice prices are affecting rice producers, and therefore recommends further micro-level research on the ways in which, and to what extent, depressed world prices are affecting rice farmers' livelihoods. Finally, further research could focus on rice marketing channels in order to 1) help identify possible ways of increasing the prices captured by small producers, and 2) investigate how much of the benefits of greater trade liberalisation will accrue to the transnational grain traders, processors and retailers. (11)

Trade must not displace women from their sources of livelihood and must not emasculate their role as nurturers and providers of food for their children and their families.

Take the case of rice production where peasant women play a key role performing such tasks as planting, weeding, transplanting and harvesting. With the deluge of cheap imported rice into our market, rice farming is slowly becoming non viable, and it goes with it the various farm jobs that the women are performing. Furthermore, with their displacement from the direct production of rice, the staple food of Filipino families, so is their control of their source of food, in this case rice, weakened. (63)

Unable to find jobs in the formal agricultural labour, and displaced from their lands because of bankruptcy and massive land use conversions into other uses, women are forced to find off farm jobs in the informal sector. Jobs which are low paying, involving long hours of work, like doing laundry, selling food, working as house helps, working as waitresses cum entertainers in beer houses and other entertainment establishments, which has mushroomed in the rural areas, and where a kind of trade has undoubtedly flourished: the flesh trade. (63)

The situation have even engendered a shifting value of children of peasant families, long treasured as extra hands in the farms. Daughters and even young wives have assumed a special value. Pretty and good looking daughters for example, are specially taken cared of (i.e. they are not allowed to work in the farms as their skin/complexion might darken, not allowed to do household chores as these may blemish their skins and make their hands rough, etc.) as they are being prepared for a job in Japan or married off to foreign men. While there could be positive experiences of young girls married off to foreigners, achieving better lives, a lot have gone through tragic experiences. There are even cases, where children sent off with recruiters, with a promise of good job and pay in Manila, are lost to their parents as no contact is maintained.

(63)

Green Net is also active in promoting gender equality; this is all the more important as 65% of rice production is carried out by women. (8)

Gender division of labour in the existing form contributes to the undervaluing of Women's work in rice production. In rice production women get lower wages and have additional responsibilities in the home and in their reproductive role. Their tasks in the rice production are plain drudgery. Women are excluded from the market, processing and acquiring new knowledge. (25)

Any intervention aimed at improving the women's situation in the rice chain needs to be based on a systematic gender analysis of the whole system of production. This has to also include women agricultural labour as major contributors in production. It should cover the

improvement of the working conditions of women from small farmer households and the landless through drudgery reducing and not labour replacing technologies; lobbying for clearer and more focused policies addressing women's marginalisation in the rice chain; exploration of organisational and other tools such as self-help groups, labour unions, women co - operatives for processing and marketing for effective improvement of women's condition in the rice chain;

Increasing the role of local people – especially women in the processing thus increasing chances for value addition and share in consumer currency; and exploration of the possibility of women groups processing and marketing (25)

The situation of women in rice farming needs to be paid attention. They are paid less than men or not at all and do not always participate in decision making.

11 Market politics and mechanisms

People like Elisabeth Piras and Vitoon Panyakul consider market mechanisms as the main obstacles in trading rice. The EU raised import barriers; higher import costs for processed rice and quality standards (HACCP, etc).

The WTO policies resulted in very low producer prices and low local demand due partly to dumped import rice (especially in the framework of the WTO “minimum access clause”. Europe has cheap rice imports from US. Due to consumer trends EU is producing big volumes of *Japonica* rice but as the demand is low, we have to export them (under a special price regime) and to import *Indica* rice. (58)

Policies in most producing countries aim at self-sufficiency by increasing seeded areas and productivity. But for the USA, Thailand and Vietnam rice is also a very crucial cash crop. FAO estimates that the threshold of food security for rice corresponds to 18 percent of projected annual consumption. The main measures used in price policies consisted of applying minimum prices at the production level, making official purchases with guarantees and controlling imports through semi-public facilities. Market liberalization, however, has caused a reduction in policies that regulate domestic production and international trading (mainly subsidies and price regulations).

Thailand: Subsidy to exports. Domestic price support through governmental purchases and buffer stocks/seasonal storage.

Viet Nam: Minimum export price fixed by the government Minimum domestic price

India: Production support. Purchases above the minimum price. Exports tax or incentive, depending on the rice volume available in domestic market. (3)

The United States, Japan and the European Union have adopted specific policies to support production, while still conforming to WTO rules (reduction of both import tariffs and export incentives, as well subsidies).

The policies of the other countries, generally leading producers, are based on the following principles:

- export tariffs if domestic market has rice deficit;
- export subsidies if domestic market has rice surplus by supporting producers with direct income supplements. (3)

These payments are exempt from WTO even though they are trade distorting. According to one estimate, direct payments amount to the equivalent of a 49 and 30 percent agricultural subsidy in the US and EU respectively (11)

Input subsidies enhance producers’ net returns and encourage increased production.

Certain marketing subsidies, such as those on transportation, can also enhance rice producer returns and stimulate production. Marketing credits, however, may raise wholesalers’ incomes rather than producers’. Almost all rice-producing countries provide some form of credit assistance, which can greatly enhance productivity, especially in developing countries, but exacerbates the supply-demand imbalance. In developed countries, input subsidies have a negligible effect on rice production relative to other direct price and income supports. (11)

11.1 European Union

Consumers in the EU pay slightly more than world prices. In the US consumer prices are not affected much by producer supports as the country relies on direct income payments to farmers. (11)

11.1.1 General policy in details

In 1971 the European Community implemented a Generalised Scheme of Tariff Preferences (GSP) that grants trade preferences to all developing countries. Since 1995 the GSP provides for tariff preferences which vary according to the sensitivity of the product. The latest scheme entered into force on 1 January 2002 and is laid down in Council Regulation (EC) No. 2501/2001. (9)

Since 1995 the general policy on rice consisted of four elements:

- o compensatory payments to growers
- o a system of intervention storage, guaranteeing a floor price for rice
- o export subsidies allowing EU exporters to compete on third markets
- o import duties gradually decreasing over the GATT Uruguay Round implementation period. (11)

The system of import duties is gradually decreasing in the WTO. However, direct income payments (i.e. subsidising domestic rice farmers) are not seen as a trade barrier by WTO legislation because it is argued that they do not encourage overproduction which can be trade distorting. Direct payments in industrialised countries amount to the equivalent of 30% agricultural subsidy in the EU. For the financial year 2000, EU expenditure for rice was budgeted to US\$191 million: US\$ 115 million was expected to go to direct payments, 51 million to intervention and 25 million to export subsidies. The system for imposing tariffs on EU imports is designed to bring the price of imported rice (after tariffs have been paid) to the basic price of EU rice raised by a percentage depending on the type of rice. (9, 11) in the Margin of Preference System the duty paid price for rice shall not exceed a ceiling depending on the type of rice:

- o Brown indica rice: 180% of EU intervention price
- o Brown japonica rice: 188% of EU intervention price
- o White indica rice: 263% of EU intervention price
- o White japonica rice: 267% of EU intervention price

The intervention price for long grain paddy was between 298 euros m/t and 306,35 m/t in 2001/2002. The "ceiling price" for brown *Indica* rice is 536 euros m/t. The final "theoretical" duty that is payable is computed by taking the difference between the ceiling price and a world "reference price" (9) These payments were set up to compensate producers for a 15 percent fall in the intervention price for rice, and for a drop in import duties as part of CAP reform. (11)

The EU guarantees rice growers a stable price which covers the costs of production. If the price goes below the agreed level, farmers can decide to offer their crop to intervention. However, given the high cost of accessing intervention, rice prices would have to fall some way below the intervention price in order to make it an attractive option. (11)

68. Summary of the European system in 2001 (13)(9)

	Tariff rate €/tonne	Basmati	ACP states	Ceiling (max import price) Indica/japonica
Paddy rice	211		69.51	
Milled rice	264	250	88.00	180/ 188%
Polished rice	416		133.21	263/ 267%
Broken rice	126			

11.1.2 Marrakech agreements

A common organization of the market (COM) for rice was created as a consequence of the Marrakech agreements. After the latest WTO negotiations on agriculture, the European Commission proposed the COM reform. The main points of the COM for rice are An intervention price of € 120/tonne and a support platform of € 150/t. in between a market price zone which gives right to benefit of rice private warehouse aid.

Trade with third countries, the intervention price is replaced by the support price.

The subsidies (compensatory payments) are higher to compensate the reduction of the support price. A unique payment is granted at € 120/t plus a direct payment per hectare as before of € 75/t.

This aid is according to the yields in Spain € 476.25/ha and Italy €453/ha.

Intervention price is fixed by the EC at € 298.50/t since 2000

Source: UNCTAD Secretariat, from Regulation 395R3072 (3)

The initial tariff quotas for the marketing year 2001/2002 shall be equal to 2 517 tonnes, husked rice equivalent, for products of tariff heading 1006. For each of the following marketing years, the quotas shall be increased by 15 % over the quotas of the previous marketing year. (9)

In Europe direct payments were introduced at a rate of € 52.65/t, which equals an average of € 325.7/ha. (13)

11.1.3 Example of tariffs

India, Indonesia and Sri Lanka are selected as an example because Hivos is investigating the rice chains in these countries. (9)

69. EU tariffs applicable for rice products from India, Indonesia and Sri Lanka (9)

Description	Preferences: tariff/ quota	Tariff (after quota)
Rice in the husk (paddy or rough) for other purposes.		211 eur/1000 kg
Rice in the husk (paddy or rough) for sowing		Third country duty 7.7% of customs value
Husked indica/japonica Including Basmati rice	88 eur/ 1000 kg	244,77 eur/1000 kg 250 eur reduction
Semi-milled or wholly milled rice	0 eur/ton	365,83 eur/1000 kg
Milled Indica rice (...of a length/width ratio equal to or greater than 3)	0 eur/ton	416 eur/1000 kg
Broken rice	100 eur/1000 kg	128 eur/ 1000 kg
Rice flour		138 eur/1000 kg
Groats and meal of rice		138 eur/1000 kg

Source: <http://export-help.cec.eu.int/thdapp/taric/TaricServlet> (February, 2004).

11.1.4 Market protection

In 1996 the EU set annual Tariff Rate Quotas (TRQ) for milled rice at 63,000 tonnes; brown rice at 20,000 tonnes, and broken rice at 80,000 tonnes. Quantities are broken down country by country. These import controls were designed to offer EU millers protection against milled rice imports from third countries. The EU is committed to gradually reducing its subsidised exports in rice in both value and volume (11)

The EU's regime offers considerable protection to rice processors as well as producers. The import duty for semi- or wholly-milled rice is almost twice the duty levied on unprocessed rice. It should be pointed out that the escalation in tariffs according to the level of processing is denying developing countries employment opportunities that could be gained through processing, as well as preventing them from capturing value-added.(11)

In 2002 there was a public intervention in a total of 372,000 tonnes, which accounted for 35% of the total production of the EU. Intervention costs rise with time passing by, as rice loses quality in storage and there is a risk of forfeiting value after 3 or 4 years. (13)
The EU also has in place a number of administrative and customs procedures which can be considered barriers to trade, such as the obligation to get an import certificate in the EU, and the financial guarantees needed to obtain certification. (11)

The European millers are united in The North European Rice Millers Association.(NERMA, Belgium, Germany, UK and The Netherlands). The core objective is to block the reduction of the tariff rate for polished rice. Because this reduction will result in the closure of the North European rice mills. Otherwise the result would be that packed rice for the end consumer would be produced in the producer countries. (13)

Dominic Eagleton from Oxfam UK: *"In the case of the EU, a complex series of tariff and non-tariff barriers, variable according to the country of origin and world market conditions, are currently deterring rice-producing countries in the South from accessing EU markets. Moreover, higher import duties on white over paddy rice are denying developing countries the opportunity to increase value added through processing rice."*(11)

Eagleton: The consequence of restricting imports is lower world prices as more rice becomes more available, which means lower import bills for importing countries, but lower revenue for exporting countries. Restricting imports entails higher producer prices owing to less outside competition for producers, which means higher production and consumer prices. In order to off-set the increase in consumer prices, governments may use the revenue gained from import taxes to subsidise consumers. (11)

EU's tariffs on imports of milled and polished rice are € 264 and € 416 per tonne respectively.

The high tariffs for milled and polished rice to protect the EU millers. Otherwise they are not economically viable.
This is a disadvantage for processing industries in the developing countries.

11.1.5 ACP countries

The fact remains that the rice market is subject to countless and very complex exemptions that make it difficult to understand. ACP countries have enjoyed preferential tariffs until 2000; the duty they pay on the exports of Paddy rice amounts to € 76.44 per tonne while the normal duty amounts to € 230.80 per tonne. But this reduced duty only applies within the restricted framework of a set quantity (125,000 tonnes in total for Paddy, cargo and processed rice) and in instances where an export duty is collected by the exporting country. Some countries therefore export their rice to the EU via the Dutch Antilles (where there are many processing facilities) to benefit from the customs duties exemption granted to that European overseas region, and to bypass the obligation to impose an export duty on rice farmers stipulated in the Lomé Convention. Since the joining of three new members (Austria, Sweden, Finland), the EU has also recently authorised the duty-free import of 63,000 extra tonnes of whitened rice from third countries, as well as quantities of husked rice with reduced duties. These imports come from the former rice suppliers of the new members: the United States, Thailand and Australia.

It is estimated that nearly 60% of EU imports enter without paying any customs duty (essentially from the United States, the Antilles and the ACP countries). Today, the organisation of the Community rice market is on its way to conforming to the WTO tariffs on imports and export aids. But the “minimum access clause” that forces industrialised countries to open their market to imports from third countries - 3% of their domestic consumption at first, then 5% by 2000 - has had no impact on the EU, as the EU is already importing more than 10% of its consumption (which accounts for 3% of the global imports). (1)

11.1.6 Everything but Arms

The EU starts by 1st September 2006 with reduction of the tariff rate by 20% to 80% by 2008 for least developed countries.

According to the FAO the EU’s tariffs on imports of milled and husked rice will sharply reduce to € 65 and € 175 per tonne respectively, following a 50 percent cut in the official paddy procurement price. Ensuing negotiations with some trading partners led the EU to agree to further tariff cuts as of 1 March 2005. According to the agreement, husked rice imports will be subject to a tariff which will vary according to the actual level of rice imported given a reference import level originally set at 431 678 tonnes (or 215 839 tonnes every six months). Effective imports will be reviewed 10 days before the end of each semester running from 1 March to 31 August and from 1 September to 28 February. Whenever the volume imported in the semester exceeds by more than 15 percent the volume of reference (or 248 215 tonnes), the bound rate of € 65 per tonne comes into effect. If it falls below the reference volume by more than 15 percent (or 183 463 tonnes), the rate will be lowered to € 30 per tonne. Finally, within the two limits (between 183 463 tonnes and 248 215 tonnes) an average tariff rate of € 42.5 per tonne will be applied. (2)

70. Under the EbA agreement the zero duty for rice to the EU will apply in 2009. Until then the following duty reductions and quota are relevant for all rice products (2001):

o From 1/9/2006-31/8/2007: 20%
o From 1/9/2007-31/8/2008: 50%
o From 1/9/2008-31/8/2009: 80%
o From 1/9/2009: 100% (i.e. duty free)

Since the EU is expecting an increase of rice imports due to the implementation of the EbA in 2009 it is not clear how EU regulation will develop. (9)

It is thought that the gains from the EBA will be greatest for non-ACP LDCs as the status quo is less favourable to them than it is to the ACP states. (11) There have also been concerns raised over the impact of EBA on other rice exporters such as Vietnam, Guyana, Egypt and Suriname, which although not classified as LDCs, but they are nevertheless low-income countries. Guyana exports around one-fifth of its rice production to the EU. (11) LDCs have a limited supply capacity, and even if all LDCs, including ACP countries, could divert to the EU their entire rice exports (which in any case is extremely unrealistic), they would make up only 5 percent of total EU rice imports. (11) This means that from a development point of view their have to be attention of buying rice from least developed countries as well as from traditional rice countries with a developed Fair Trade chain. There is enough room for both of them.

In the EbA agreement the export opportunities of (milled) rice to the European Union by Least Developed Countries will be gradually increased by decreasing the tariffs. As a result the LDCs can directly compete with EU millers in the near future. The expectations are that EU milling activities will move to LDCs and that EU (and Dutch millers) will not be able to

compete efficiently. In preparation to this new competition, Dutch millers are already looking for other value added activities that can be performed if the EbA agreement would be fully operational in 2009. These activities could for example relate to regulations on EU food safety and the introduction of company specific guidelines such as the Good Agricultural Practices of a group of supermarkets. (42)

Most Least Developed Countries already had preferential access to the EU based on the Lome/ Cotonou agreements. Forty (of the total of 75) ACP countries are also included in the LDC list. Next to that, nine countries have been added to the LDC list: Afghanistan, Bangladesh, Bhutan, Cambodia, Laos, Maldives, Myanmar, Nepal and Yemen. In the Cotonou agreement the tariff preferences are replaced by the Economic Partnership Agreements (EPAs) in 2008. (9)

71. *The zero duty Tariff Rate Quotas for LDC rice exported to the EU (9)*

Year	Volume (tonne)
2002/03	2895
2003/04	3329
2004/05	3828
2005/06	4402
2006/07	5062
2007/08	5821
2008/09	6694

Other preferences include:

- o Husked Basmati rice imported from India and Pakistan: duty reduction of € 250/t.
- o A concession for 4000 tonne of brown rice at a 50% duty reduction for Bangladesh
- o Egypt has a 25% duty reduction for a concession of 32,000 tonne of rice
- o ACP countries have Tariff Rate Quotas for 160,000 tonne (125,000 for ACP and 35,000 for countries overseas) and 20,000 tonne of broken rice with a 65% duty reduction. (9)

The ACP countries (sub-Saharan African, Caribbean and Pacific) are subject to a reduced duty of € 69.51 per tonne on paddy rice exports. This concession applies to a limit of 125,000 tonnes in total for paddy, brown and milled rice. Bangladesh and Egypt also benefit from exemptions, as do India and Pakistan from a \$235 per tonne reduction in import duty for basmati rice, which is gaining in popularity amongst EU consumers. However the EU has recently proposed ending basmati's preferential access, a move that could have serious implications for small producers in India and Pakistan. In 2000, India and Pakistan exported to the EU 88,000 and 64,000 tonnes of basmati respectively. The EU argues that preferential access has resulted in a flood of basmati into the EU. Indian farmers maintain that they are not in direct competition with European rice farmers, as basmati is not grown in the region.(11)

Benefits for importing are for least developed countries (€ 0 from 2009), ACP countries (-65% = € 69.51), India and Bangladesh for Basmati (€ 250) and Egypt (-25%) and Bangladesh (-50% on brown rice), combined with maximum volumes.

11.1.7 *Storage*

Around 20 percent of EU rice production goes into storage, resulting in significant expenditure.

Sources estimate EU rice stocks are at around half a million tonnes and are set to increase by a further 200,000 tonnes in 2001 at a cost of around €2 million per month. (11)

11.2 Asia

11.2.1 Asian Free Trade Area

The Asian Free Trade Area (AFTA) plays a significant role since most rice is traded in the Asian market. Under the AFTA agreement, the tariff on rice should fall to 0% within the period 2010-2015. (9)

In contrast with high-income countries, developing countries' rice policies are typically aimed at fostering self-sufficiency and food security rather than supporting farmers' income. Most middle- and low-income developing countries such as Pakistan and Indonesia tend to tax rice producers in order to subsidise consumers. Some countries such as Indonesia may provide subsidised distribution, use buffer stocks or overvalue their currency to lower the domestic price of rice. High-income developing countries such as South Korea and Taiwan support producer prices above border prices and make direct payments to farmers. (11)

The rice sector represents a classic policy dilemma for developing countries: how to balance the interests of poor producers with those of poor consumers. (11)

The market access provision and the removal of domestic subsidies are the crucial provisions for the small Filipino farmers. The removal of restrictions on foreign agricultural products' entry into our market, would spell the bankruptcy of the small Filipino farmers, as they can never compete with the cheap, and highly subsidized crops from other countries. The withdrawal of domestic subsidies' provision is also a bane as the government is unable to provide the needed subsidy of the small farmers. As per WTO requirement, the country is still allowed to provide up to a ceiling of 10% subsidy but because the government is bankrupt and corrupt, it is able to provide only up to 5% subsidy. This has left the small farmers in the Philippines in the cold: no subsidies, backward farming technologies, while being required to fight the well equipped and well supported and prosperous farmers mostly in rich countries. (63)

Instead of the promised surplus in agriculture, the reverse occurred. From 1990-1994, the Philippine agricultural trade registered a trade surplus amounting to US\$1.2B. However, after its entry to the WTO in 1995, agricultural trade registered an accumulated trade deficit amounting to US\$5.2B from 1995 to 2001.

Also, their capacity to produce their own food was threatened, their food security greatly weakened. This is shown in the increased importation of their basic staple food such as rice and corn. From 1994-1998, rice importation increased by 540%, while corn importation increased by 520%. (63)

According to the Government, imports to the Republic of Korea should rise to 226 000 tonnes. Early this year, the Government concluded an agreement with nine WTO country members to retain rice under the WTO 'special treatment provision' for another 10 years. In exchange, it pledged to widen progressively the minimum import quota to the equivalent of 7.9 percent of domestic consumption, or 408.7 thousand tonnes, by 2014 and to immediately let 10 percent of imports to be marketed at retail shops.(2)

11.2.2 Thailand rice policy

In countries where rice is vital for combating hunger and reducing poverty, governments use agriculture and trade policies — such as import tariffs — to build up the sector's competitiveness, as in Viet Nam; to generate rural growth, as in Indonesia; or to provide a livelihood safety-net to smallholders.(33)

Thailand's government sets its rice policy on a yearly basis through the Rice Policy and Measures Committee. In recent years, the government's primary aims have been to stabilise domestic prices through a price support programme and to promote rice exports through the private sector. The principle policies used to achieve these goals are:

- o a paddy mortgage scheme;

- o paddy and milled rice purchases, and;
- o packing credit for exporters.

Under the paddy mortgage programme, farmers can obtain a loan by mortgaging their crop to the Bank for Agriculture and Agricultural Cooperatives (BAAC). Farmers are given loans worth up to 90 percent of an officially set target price. The value of paddy pledged under the scheme in 1999 amounted to 3.2 billion baht (\$75 million). Various government agencies are authorised to buy paddy and milled rice – worth \$44 million in 2000/01 – to be sold on the local market or to military personnel.

In addition to the rice purchase programme, the Bank of Thailand provides a packing credit to rice exporters and millers to liquidate paddy stocks for export. For 2000/01, monies allocated to the scheme totalled \$460 million.

While Thailand, as a major net agricultural exporter, in theory ought to benefit from the tariff reductions mandated under the Agreement on Agriculture, experience shows that these benefits will be concentrated among a few large export farmers and Bangkok-based middlemen and will not be shared by small rural producers, especially those who do not cultivate for the export market. (11)

Much like the US, Thailand subsidizes its rice farmers, but on a far smaller scale. It is estimated that within Surin Province, the largest rice producing province in Thailand, only 7.7% of farmers receive subsidy payments. It obviously not by subsidization that Thailand mainly controls the price of rice, but by controlling the volume of rice stocks entering the market. In October 2002, Thailand, China, India, Vietnam and Pakistan, the largest rice producers in the world, formed the Rice Council and a partnership to control the world rice price by setting production quotas and stabilizing the world rice price. It has been argued that their partnership is far more of a cartel, than a legitimate agreement. This cartel would allow member countries to agree on how much rice each country would produce and export. By keeping supply down in response to demand, the price of rice would rise (68) If the Rice Council is able to raise the price of rice 30% to the 1997 average price, as desired by Prime Minister Takhsin, consumers will be the first to suffer. It is believed that a 20% increase in the price of rice would constitute a 10% drop in consumption amongst poor consumers. (68)

11.3 Rice Commission

The International Rice Commission (IRC) was established by the FAO in January 1949 with the object of promoting national and international action in respect to the production, conservation, distribution and consumption of rice. Matters relating to trade are under the responsibility of the Intergovernmental Group On Rice (GIR). The Commission is open to all FAO Member Nations and Associate Members who accept the constitution of the IRC. Currently there are 61 members that represent all the rice-producing regions of the world. (3)

11.4 WTO

Rich countries have long used the IMF and World Bank, and aggressive bilateral trade deals, to push open the door of poor countries' markets to a flood of cheap rice, including heavily subsidised rice from the US.(33) But increased imports do not always translate into lower retail prices. (33)

In 1995 the World Trade Organisation (WTO) created by the Uruguay Round (1986-1994) has replaced the General Agreement on Trade and tariffs (GATT).

In 1995, current and minimum access opportunities combined represented at least 3 per cent of base-period consumption and are progressively expanded to reach 5 per cent of that consumption in the year 2009 for developed country members or 2004 for developing

country members (9). Starting from 1995 Uruguay Round participants agreed that industrialised countries would reduce tariffs by 36% (average cut for all agricultural products) and 15% (minimum cut per product) over a six year period. Developing countries, excluding the Least Developed Countries (LDCs), would have to reduce subsidies by 24% in ten years (11).

The introduction of the Uruguay Round Agreement on Agriculture (AoA) is beginning to change this picture however, as countries begin to reduce agricultural subsidies and barriers to international trade. Industrialised countries that support their agricultural exports must now reduce subsidies by 36 percent in value terms and 21 percent in quantity terms over a six year period. All non-tariff border restrictions on agricultural products have to be converted into tariffs. (11)

All WTO members have committed themselves to opening their markets to minimum levels of agricultural imports at low tariffs for food staples such as rice. This 'minimum access' is defined as three percent of domestic consumption of the product in the first year, rising to six percent in the tenth year. (11)

72. Post-Uruguay Round tariffs on milled rice imports from developing countries to high- and middle-income countries (%)

Country	%
EU	71
Japan	900
USA	0
Canada	1
Brazil	10
China	114
S. Korea	5
Malaysia	0

Four countries used a 'special treatment' provision to restrict imports of particularly sensitive products (mainly rice) during the implementation period. (9) For rice this included Japan (as of 1 April 1999 Japan has ceased to apply special treatment), Republic of Korea, the Philippines and Chinese Taipei.

The results have been incorporated into a broader agenda launched at the WTO conference in Doha, Qatar (November 2001). The deadline for the negotiations is 1 January 2005. (9)

December's 2005 WTO Ministerial meeting in Hong Kong will be a key moment in putting into action the promises of the Doha Round development agenda. (33)

11.4.1 Effects of the WTO

David Dawe, an agricultural economist of the Philippines, stated that the WTO politics to decrease government involvement in trade of agricultural products may cause famine: *"Imagine what would have happened to the Indonesian consumer if the government in 1997 had not had control over the import and export of rice. The devaluation of the rupee (from 2.500 to 10.000 rupee per dollar) would have caused a quadruple rice price within a few months. Most probably the Indonesian restraints towards free international trade have prevented a serious famine in the third most populated country."* (9)

The USA and EU, in particular, have repackaged their agricultural subsidies so that they appear to be legitimate under WTO rules, allowing them to continue dumping products such as rice, corn, milk, sugar, and cotton at prices far below their true costs of production. (33)

Current negotiations at the WTO will determine the extent to which developing countries must lower their tariff ceilings. Oxfam has calculated, on the basis of one proposed tariff reduction formula known as the Harbinson formula, the implications for poor countries.

Thirteen rice-growing countries — including India, China, Nicaragua and Egypt — would be forced to cut their current rice tariffs. These 13 countries produce over half of the world's rice and are home to a total of 1.5bn people who depend on agriculture for their livelihoods. In the face of rising imports, they would not be permitted to increase their rice tariffs in order to protect farmers and the rural economy. (33) This is already the reality, in India, Philippines, and elsewhere. (89)

11.4.2 The case of Haiti

Developing countries have long been under pressure to open up their markets for rice and other basic foods, from the international financial institutions (IFIs) and from major agro-exporters. Since the early 1980s, the IMF and World Bank have used formal loan conditionality and informal arm-twisting to force developing countries to deregulate and liberalise their agricultural markets.

In 1995 the IMF forced Haiti to cut its rice tariff from 35 per cent to 3 per cent, with the result that imports increased by more than 150 per cent between 1994 and 2003. Today, three out of every four plates of rice eaten in Haiti come from the USA. This is good news for Riceland Foods of Arkansas, the biggest rice mill in the world. Riceland's profits jumped by US\$ 123m from 2002 to 2003, thanks in large part to a 50 per cent increase in exports, primarily to Haiti and Cuba. But it has devastated farmers in Haiti, where rice-growing areas now have some of the highest levels of malnutrition and poverty.

In Ghana, deregulation under World Bank and IMF pressure likewise led to a surge in rice imports. This prompted the parliament, in 2003, to approve a tariff increase. But the IMF, driven by its 'interest in pursuing an open trade policy for Ghana', pressured the government into making a U-turn on that commitment.

As tariffs fall, Nicaragua's 17,000 rice farmers will face a flood of heavily subsidised US rice coming into their market. (33)

11.4.3 Proposals

Developing countries have put forward two proposals for special and differential treatment:

- o A 'special products' category, which would allow developing countries to designate certain crops — those vital to livelihoods, food security, and rural development — as exempt from tariff cuts;
- o A 'special safeguard mechanism', which would allow poor countries to increase tariffs temporarily in the face of fluctuating import prices or volumes.

In negotiations to date, rich countries, and some developing country agro-exporters, have aimed to limit the number of products and flexibility granted under these proposals. In contrast, a group of import-vulnerable countries, known as the G33, has argued for the right of governments to decide for themselves how many products need to be classified as 'special products' and when to invoke the special safeguard mechanism. Oxfam supports the G33 case. (33)

11.4.4 WTO negotiations

According to Oxfam the new Agreement on Agriculture should include the following:

- o A sentence in the preamble to clarify that: 'Nothing in this agreement shall prevent developing countries from promoting development goals, poverty reduction, food security, and livelihood concerns'.
- o A tariff-reduction formula that allows developing countries to cut tariffs in a way that does not undermine their development strategies.
- o The full exemption from tariff reductions of food security crops — food that people depend on for their lives — and a special safeguard mechanism for developing countries.

Maintaining adequate flexibility is particularly important for developing countries, since export dumping is very likely to continue for some years to come, preventing fair competition in agricultural markets. (33)

Developed countries should stop negotiating regional trade agreements (RTAs) with developing countries. (33)

More investment in agriculture is needed — at a time when international aid for agricultural development has fallen to one third of its 1984 value, as agriculture has fallen out of favour with donors. (33)

“ The GATT and the Structural adjustment programs (SAPs) imposed by the IMF are present day mechanisms of the rich countries particularly the United States to maintain, expand and intensify extraction of profits from our countries at the expense of our poor people, especially rural women.” GATT and SAPs are depleting our food sources, are making us slaves to MNCs for our seeds and other agricultural inputs, are eroding what meagre income we have, are forcing us to work longer and harder. (63)

11.5 Dumping and food aid

Eagleton indicates that developed countries are increasingly supporting producers with direct income payments, which are not covered by WTO legislation even though they are trade distorting. Such payments circumvent WTO regulations because richer, more powerful nations argue they do not encourage overproduction which distorts world trade in agricultural products. However, Eagleton highlights experience from the US which shows that direct payments increase farmers' investment and therefore can lead to overproduction. (11)

Eagleton: *“The reluctance of the industrialised countries to reabsorb the surpluses gained from price support measures and direct payments, and the political pressure on states to maintain high farm income levels, often results in ‘dumping’. Agricultural subsidies allow countries to export at prices so low (often below the cost of production) that staple food producers in developing countries cannot compete with them. For example, the United States’ PL 480 food aid exports, while often providing cheaper food for urban residents in poorer countries, have led to reduced demand and lower prices for small rice producers in developing countries, with the concomitant effects of reduced incomes and employment, less investment in agriculture and increased rural to urban migration.”*(11)

An example is the United States' PL 480 food aid programme, which has been criticised for using food aid more as a tool to dispose of surpluses and promote sales in foreign markets, rather than as a development tool tailored to the needs of recipient countries. The fact that the amount of food aid donated by the US has increased significantly now commodity prices are low is particularly revealing. Donations were much lower when prices were high – and food aid was most needed (11)

In 2000, 45 countries received a total of 401,470 tonnes rice food aid from the US worth \$99.7 million. Under PL 480 Title I, rice is sold to developing countries on concessional terms for dollars on credit, or for local currencies. 135,000 tonnes of rice worth \$37 million was exported from the US under Title I in 2000. From the 3299 total US rice exports in 2000, 12% (401,000) were direct food aid shipments en 19% (626,000 tonnes) export programmes. (11)

On www.abcburkina.net you can find many other documents on rice, especially linked to the issue 'dumping versus auto-production'.

Rich countries provide heavy subsidies to agriculture: in 2002 Japan, the USA, and the EU combined provided support worth \$16bn to their rice producers alone. Among them, the USA, particularly, is riding high on hypocrisy when it comes to the rice trade. It is the

world's third largest rice exporter — even though US rice costs over twice as much to grow as it does in export-leading Thailand and Viet Nam. This is only possible because of lavish state funding: in 2003 the US government ploughed \$1.3bn into rice sector subsidies, supporting farmers to produce a crop that cost them \$1.8bn to grow — effectively footing the bill for 72 per cent of the cost of production. Between 2000 and 2003, it cost on average \$415 to grow and mill one tonne of white rice in the US. But that rice was dumped on export markets for \$274 per tonne, 34 per cent below its true cost.(33)

The United States is a vociferous critic of rice protectionism in the EU and Japan, and a strong advocate of liberalising the global trade in rice. But US complaints appear hypocritical given the massive payments to farmers and export supports, and its persistent dumping practices. Given the United States' level of expenditure on support for its rice sector, and its heavy reliance on the world marketplace to sell its rice, it comes as little surprise that the US is pressing to open up the international trade in rice. (11)

Jagadish Pradhan (India) points at food dumping within India. He explained how the state of Orissa was providing 'food for work' after a natural disaster. The timing coincided with the harvest season and made the price of rice fall. This was bad for local paddy farmers. (10)

'If I had my own way, I'd stop US rice coming into the country — and I tell you, if it didn't come in, we would have prospered and we'd be out of poverty.' Al-Hassan Abukari, a rice farmer in northern Ghana (33)

12

12 Conclusions

Production

- 1) Rice is the world's most common staple food. For more than half of mankind, in 118 countries, rice is the main component of their diet.
- 2) The annual average consumption is about 85.9 kg per capita milled rice. This is 235 grams a day. This is an average of two meals or two full plates each day.
- 3) There is and will be enough rice production to fulfil the nutritional needs of the world population.
- 4) Some regions have not enough rice. What is needed is a fairer distribution.
- 5) World rice inventories at the close of the 2004/05 marketing seasons are estimated at 97 million tonnes, i.e. 16% of the total production volume.
- 6) Analysts estimate by 2025, the world will need an additional 300 million tonnes of rice annually. This means an increase in production of fifty percent.
- 7) Calculated and estimated yields differ very much. The average yield is 3.9 ton per hectare.

Export/Import

- 8) Thailand and Vietnam dominate the export market. Export volumes are under pressure.
- 9) The EU is almost self sufficient in Japonica rice.
- 10) The EU only needs to import flavoured rice. This increases by 15% a year.
- 11) 90% of the imported rice is brown or husked rice and milled within the EU.
- 12) Jasmine rice is of high quality, can only grow in Thailand and the price is almost double of other varieties.
- 13) The price difference between US rice and Thai rice is decreasing, which will result in higher competition.
- 14) However US farmers are producing at a cost level that is not profitable on the world market.
- 15) The reference price declined over the past 30 years, but tends to recover.
- 16) In 5 years Thai export volume grew 49%, but the total value decreased
- 17) There are a lot of trade disputes in rice, for instance about the sale of underweight bags or the rising of non tariff barriers.

Prices and costs

- 18) The rice leaving farms is going for more than 50% through traders and middleman and for only 6% through cooperatives.
- 19) Middlemen put farmers under pressure, give them prices below the market price and require high rent. But most of the time they are a necessary part of the chain.
- 20) All rice has to go through a mill. In Thailand rice mills are setting the price. They have a lot of power and they can use weight and quality to manipulate farmers
- 21) Mills trade for two third with brokers and sales direct or indirect to wholesalers and exporters.
- 22) The average production cost in Thailand is € 65 per 105 /tonne and € 68 to 75 per hectare, with a maximum of € 229, depending on the yield.
- 23) Two third of the cost is for labour.
- 24) The average farmer's income is around € 450 to 795 per year.
- 25) Agrochemical inputs accounts for 10 to 20% of the farmers' costs.

- 26) Farm gate prices dropped to a level of € 66 per tonne while spending increased.
- 27) There is a margin of about 24 to 28% between miller and wholesaler.
- 28) The main channel for selling rice is government to government deals: In Asia this is around half of all annual rice transactions.
- 29) 80% of Thai exports are still controlled by about 10 traders, most of them members of rich and powerful families.
- 30) Fish ponds can give farmers an extra income.
- 31) A western consultant earns per day as much as a Ghanaian rice farmer per year.

Between farm gate and shops

- 32) The FOB price is 1.4 to 2 times the farm gate price.
- 33) Rice farmers in Sumatra earn about € 33 per month. Other partners in the chain earn 3 to 80 times more.
- 34) About € 37 per tonne is calculated to cover the cost in between.
- 35) During milling 33% of the volume is lost, so the value per kg increases.
- 36) Shipment costs are about € 0.10 per kg.
- 37) The added value of the exporters and traders is about € 4.32 per bag of 50 kg or € 0.087 per kg.
- 38) The vast majority of Thai exports are sold through brokers such as Jacksons Son (UK) or Creed (US)
- 39) Rice importing in Europe is controlled mainly by the mills that work brown rice and pack it for distribution
- 40) Interrice sells their Surinam brown rice for the lowest market price of € 0.58 per kg!

Trade barriers

- 41) EU's tariffs on imports of milled and polished rice are € 264 and € 416 per tonne respectively.
- 42) The high tariffs for milled and polished rice are for protecting the EU millers. Otherwise they are not rentable.
- 43) This is a disadvantage for processing industries in the developing countries.
- 44) From a development point of view they have to be attention of buying rice from least developed countries as well as from traditional rice countries with a developed Fair Trade chain.
- 45) The expectations are that EU milling activities will move to LDCs and that EU (and Dutch millers) will not be able to compete efficiently.
- 46) Benefits for importing are for least developed countries (€ 0 from 2009), ACP countries (-65% = € 69.51), India and Bangladesh for Basmati (€ 250) and Egypt (-25%) and Bangladesh (-50% on brown rice), combined with maximum volumes.
- 47) USA invests a lot to support the income of their farmers, but it results in a disasters situation for the farmers in developing countries through dumping, aid and selling under the production price.
- 48) The GATT and the Structural adjustment programs (SAPs) imposed by the IMF are present day mechanisms of the rich countries particularly the United States to maintain, expand and intensify extraction of profits from our countries at the expense of our poor people.
- 49) Between 2000 and 2003, it cost on average \$415 to grow and mill one tonne of white rice in the US. But that rice was dumped on export markets for \$274 per tonne, 34 per cent below its true cost

Organic and Fair Trade

- 50) Production of organic rice is more profitable than conventional.
- 51) Even some farmers doing organic agriculture earn little profit after the investment cost, and this is not even considering (the value of one's own) labour. If a farmer produces just to sell, he can't live. Only looking after one's self-sufficiency first you can live.
- 52) Before 2000 the development was slow, but the growth in Fair Trade production of rice started really in 2000.
- 53) Having your own mill is essential for controlling the chain. The greater involvement in mills of farmer groups is a big step forward, but also gives more responsibility and problems.

- 54) From farmers' statements it is concluded that organic and Fair Trade make a positive difference, reduce debt and improve health.
- 55) Fair Trade certification costs € 0.025/kg
- 56) Fair Trade farmers receive an income of about € 1000 per year, varying from 350 to 2500.
- 57) They cannot live from rice farming alone.
- 58) The situation at this moment is that there are ten different minimum prices in the Fair Trade market varying by a factor 3 from € 95 to 263 /tonne.
- 59) Cooperatives can double the farmers' income by setting up rice and buffalo banks.
- 60) A third of the organic farmers in Thailand deliver to the Fair Trade market.
- 61) Organic farmers' income is about € 2390, due mainly to a bigger farm size and a good yield.
- 62) Organic farming generates higher employment opportunities than conventional farming and gives better health and income to farmers.
- 63) Organic farmers in Java earn € 135 per season, double of the income of non organic farmers.

Green Net's support

- 64) Under Green Net there are about 600 farmers involved in Fair Trade rice production and 110 people in milling and packaging.
- 65) Farmers are not yet able to trade direct with Europe, Green Net is a necessary linking organisation.
- 66) For every 50 farmers there is one staff member to support and train them.
- 67) The bottleneck of the production is the manual cleaning and sorting.
- 68) There is still an overcapacity for producer groups. The excess supply is sold to conventional market at local prices (without any premium). The loss is absorbed by the Project
- 69) Fair Trade does not give benefits to all farmers because half of its members still do not get higher prices
- 70) There are still a lot of farmer co-operations that are not member of FLO using other calculations and FTOs using the old price system, paying better prices.
- 71) The price breakdown of Green Net makes it very clear that the farmer received nearly half of the FOB price. Cost of packaging is about 25% (€ 0.17).
- 72) The overhead cost of Green Net is with 3.3% very low. The same for the organic inspection cost of only € 0.01 per kg. The difference between organic certified and not certified is small and is about 4.5% (€ 0.03/kg).

Other chains

- 73) It is possible to sale Fair Trade rice at € 1.45 per kilo. The consumer price is about 3 to 4 times the FOB price.
- 74) Now 70% of the volume of Fair Trade long grain rice from Thailand is from the central region and marketed by Coop and Migros.
- 75) The number of employees of RMB is less than the packaging units of Green Net, but the capacity and productivity is about 50 times higher, exclusive milling. It a matter of choosing between efficiency and local work
- 76) The PFA price in paddy for the farmer is lower than the Green Net price, possibly through the difference in organic and non-organic. Farmer price is respectively € 0.25 and 0.35/kg. Claro pays € 0.21 for organic and Coop 0.09 for non-organic for the rice. The packing and milling cost for the claro rice is much cheaper (€ 0.31) than Van Sillevoldt (1.22).
- 77) Claro gets more margin than FTO.
- 78) The Swiss claro shops earns almost double (0.92) than Dutch world shops.

Impact of Fair Trade

- 79) It is clear that producers participating in the project have earned higher income but they also incur more debt during this period.
- 80) An important economic benefit is the farmer's control over the production process. This means that farmers manage and take control of the processing (i.e. rice mill) and to a lesser extent of the market through Green Net Cooperative.

- 81) Fair Trade gives the farmer more satisfaction on price, control over the production process and incentives from the cooperative.
- 82) The Fair Trade premium money can be used by members when they are ill or borrowed to buy organic material or to help pay for a child's education. It is lent to members in need at a very low interest rate.
- 83) Advance payments should be made available for the farmers also.
- 84) There is still too much loss of rice due to bad drying, lack of storing and cleaning and human failure.
- 85) The implementation of the HACCP system can reduce quality problems.
- 86) An Internal Control System could lower the costs of certification and integrate different certification systems.
- 87) Hivos has set up an excellent guidance manual for Producer Organizations to set up an ICS.
- 88) There is no insight in the working conditions at farm level.
- 89) Hired land workers and workers at the mills possibly may be underpaid.
- 90) Packaging is a weak point because of lack of packaging material or defects in the bags.
- 91) Green Net does not always fulfil the requirements of its customers

Problems with organic rice

- 92) Organic agriculture is not a minimum standard for Fair Trade
- 93) In some point not all farmers follow the organic rules
- 94) There is a big risk of mixing organic with non organic rice, because there is not enough separation within the chain (storage, packing, labelling, and milling).
- 95) One of the mills is not organic certified.
- 96) There are possibilities to set up an ICS, a combined audit system for fair and organic.
- 97) Usually rice is treated with Phostoxin gas before shipping in order to prevent pest infestation during transport.
- 98) Disinfection is in conflict with organic production. There is not yet a good solution for bulk trading of organic rice. At present, organic rice must be vacuum packed or sold within a few months before rice beetles infest the products.
- 99) The main quality problems for organic farmers are to get organic seeds, to use the right fertilisers, to get into the right distribution systems, to have high quality rice and to fulfil the standards.
- 100) Farmers' organisations should set up internal control systems to have a systematic way to check quality

Creating a bigger market

- 101) The consumer price for Fair Trade rice is too high and the difference in price between FTOs is too great.
- 102) By enlarging the scale, working more efficiently and reducing margins, it would be possible to lower the price asked by FTOs to a "regular" level.
- 103) Maximum price should be € 3. - for organic and € 3.50 for specialties like Hom Mail.
- 104) The transactions between claro and Green Net should be transparent.
- 105) FLO standards are a point of discussion in the way farmers are organised, child labour, traceability and processing in the country of origin.
- 106) Fair Trade shortens the chain, but gives not necessary more income. Trade in organic and specialties rice gives more income security. Farmers should no longer be dependent on world shops, but there are a lot of growing possibilities within supermarkets.
- 107) To support small farmers the combined approach of organic farming and Fair Trade marketing obviously is not sufficient to address the income problem.
- 108) Producers benefit most when they have a stake in the organisation which markets their product.
- 109) Marketing of organic rice is not well developed. Farmers' organisations, in the absence of professional marketers in their organisations, do not have the required expertise.
- 110) Organic agriculture shows examples of successful marketing initiatives by building direct linkages between producers and consumers.
- 111) There are better market opportunities for organic products than for Fair Trade products.

- 112) The best is to link organic and fair.
- 142) Developing rice-based (processed) products would help to further reinforce the organic rice projects by utilizing rice by-products in a more efficient manner.

Sustainability

- 113) The Green Revolution in rice farming has successfully increased rice yields but it also has brought about socio-economic, environmental and health impacts to society
- 114) Thai rice farming uses an average of 0.875 kg/ha of pesticides, most of them are extremely hazardous.
- 115) Farmers generally do not care or are not aware of potential pesticide hazards, or if they are it does not modify their behaviour when handling pesticides.
- 116) The use of fertilizers is up to 180 kg/ha but does not help to increase rice yields by the same proportion.
- 117) Green manure and compost can replace fertilisers if enough resources and knowledge are available.
- 118) Golden rice is in no way a solution for shortage of vitamin A. Eating enough vegetables is the answer.
- 119) Biodiversity is the answer to genetic engineering. It spreads the risk of disease and climate change and gives farmers and consumers a much more choice
- 120) Jasmine rice has a very high value on the market. There were several attempts to copy the rice and grew it outside Thailand. Thai farmers fight to protect their habitat.
- 121) As much as 5,000 litres of water are needed to produce one kilo of irrigated rice.
- 122) An important byproduct of rice production is methane gas emission in the rice fields. Wetland or paddy rice farming produces around 20%-25% of global methane emissions.
- 123) The reuse of rice husk as biomass source for electric power is a solution in areas where fuel costs are high and processing is electric powered, for instance for larger rice mills.

Social issues in rice

- 124) Rice farmers belong to the poorest groups in society and need support.
- 125) In Thailand they earn only one tenth to a third of the average incomes.
- 126) The local price fluctuates so much that even rice farmers cannot sell rice.
- 127) A higher rice price reduces child labour among rice farmers.
- 128) There is still a lot of child labour in rice producing countries, especially among the age group 11 to 14 years and in rural areas. They receive no cash income, but are paid in rice.
- 129) Farm children in Thailand do participate in harvesting, household work and probably in small farm level processing. As school attendance is observed, child labour is not seen as a problem by Fair Trade organisations.
- 130) Workers at rice mills are at risk from unhealthy working conditions due to dust, odour, noise and smoke.
- 131) In Thailand and India 60-70% of employment is in rice farming. Rice-based production systems and their associated post-harvest operations employ nearly 1 billion people in rural areas of developing countries
- 132) Rice farming is a (unpaid) family business and half of the production is for own household consumption.
- 133) Self sufficiency is more important than income.
- 134) Landlessness is a major problem in rice producing countries.
- 135) 60% of the rice farmers have debts. The average debt in Thailand is about € 1250 , more than two year incomes. Also Fair Trade farmers have debts.
- 136) The causes of debts can be sorted out by cost covering prices, setting up rice banks, pull out middleman and giving credits.
- 137) Malnutrition is common between rice farmers (20-30%).
- 138) Farmer cooperatives need to be more informed about the rice chain.
- 139) It is necessary to identify areas where marginalized farmers will never be able to earn a living wage from rice farming alone.

- 140) Providing farmers access to information about possible ways of earning additional income on the farm (e.g. fish production, vegetables, rice/ rice straw production) or outside farming is important for their sustenance.
- 141) The situation of women in rice farmer needs to have attention. They are paid less or not and don't participate always in decision making.

13 Recommendations and opportunities

13.1 Recommendations of Hivos

Increase access to quality markets like specialties, convenience, processed food and sustainable chains.

Comments:

One of the main aims of Hivos is to improve the position of poor and marginalized women and men in a sustainable way. The Hivos policy document '*Civil voices on a global stage*' (see: www.hivos.nl), focuses on three main strategies to improve the position of poor and marginalized women and men:

- a. Improve their access to mainstream or conventional markets, to resources, to information on e.g. production and marketing
- b. Improved quality of the production processes with regard to product, ecological and social (including gender) aspects to gain access to markets (including niche markets such as Fair Trade, organic) to obtain better prices
- c. Increase their share in value addition (shorten the chain, increase productivity) (10)

Based on the current findings ten recommendations are formulated by Hivos:

1. Recognise the importance of rice as a food crop: '*Rice is Life*'
2. Operate within the current dynamics that influence the rice chain.
3. Affiliate with the International Year of Rice (IYR).
4. Treat rice as a '*holistic product*'.
5. Engage in the discussion on trade liberalisation both internationally and at EU level.
6. Create access to information on the international and European market for producers in developing countries.
7. Further investigate market opportunities for specific products and consumers. 7a: More in depth analysis of specific rice chains at country and company level. 7b: Further analysis of consumers in markets with a link to sustainability.
8. Intervene to increase access through quality markets. 8a: To improve the quality of rice production in developing countries. 8b: To increase and improve access of rice in the EU.
9. Investigate possibilities to stimulate the reduction of methane emissions, e.g. under the framework of 'joint implementation programmes'.
10. Investigate possibilities within HIVOS to finance a change towards a sustainable rice chain. (9)

Opportunities are mentioned:

- o Development of specialty rice
- o Rice usage in '*convenience products*' (ready made products)
- o Rice in specific horeca/ catering outlets: specialised restaurants & work canteens
- o Improving sustainability in the rice chain of supermarkets
- o Development of 'value added' rice products
- o Support an integrated and functional approach to rice
- o Support the developments of (new) distribution channels
- o Further investigation of energy reduction in the rice chain

- o Development of rice related agro tourism initiatives
- o Improve sustainability of the rice chain in Guyana, Surinam and the Dutch Antilles, Pakistan, Thailand and India (42)

13.2 Specialties: Hom Mali

Use Hom Mali as a specialty and protect its name.

Comments:

There are also growing opportunities in the export market, particularly in 'specialties' rice: local rice varieties with a special taste, aroma etc. Jasmine and Basmati rice are examples of well-known specialties, but there is also an upcoming trend for less well-known, more exotic, varieties. (10)

But true *Jasmine* rice, of which the perfume - as its Thai name (Hom Mali, i.e. "jasmine-smelling") indicates it - is similar to the delicate fragrance of jasmine flowers, only grows on the arid soil of north-eastern Thailand. Any attempt - notably from the Thai government - to introduce it into other more productive regions, has failed. In its original region, however, producers - some 5 million small rice growers - have succeeded in developing more than 200 varieties adapted to the specific conditions of their land.

Pressurised by Thai exporters as well as by national NGO's such as Forum of the Poor and BIOTHA, the Thai government has taken several measures aimed at protecting the production and marketing of Jasmine rice. An official "quality certification" for the "Thai Hom Mali, originating from Thailand: "has been registered with the USPTO and the main Jasmine rice importing countries. A national law on the geographical indication was also passed in March 2000.(6)

The demand for specialty rice in Europe (and the Netherlands) is rising. The consumer has a growing interest in aromatic rice such as Pandan (= *Jasmine*) and Basmati. Furthermore the consumer is searching for variety, diversity and (rice) products with a 'story'. Also the organic and Fair Traded rice are a kind of specialty rice. It is expected that the organic market will grow and stabilise at around 10% of the market. Specialty rice has specific 'niche markets' with specific costumers. Due to the changing consumption preferences, growing opportunities to export specialty rice exist. Some examples are black rice, biryani (basmati rice with Indian spices and herbs) and saffron rice. (42)

UK is especially fixed on basmati rice and counts for 35% of the imports. (21)

13.3 Organic

Producing organic rice gives more added value and more market growth.

Comments:

The main market is for conventional rice. HIVOS: "*Although we have chosen not to promote conventional rice farming, we do on the other hand want to improve living conditions for conventional small farmers and labourers. Our strategy here is to start from the other side of the chain, the trading companies, and try to promote implementation of social standards and environmental standards to improve living conditions on the producer side of the chain.*" (10)

Further analysis of consumers in markets with a link to sustainability is done (72). The markets for fair-traded and organic rice are relatively small but growing. Especially the market for organic products is expected to increase to 5% market share in the long run. (9)

13.4 Set up Internal Control Systems

Combine certification systems at a local level in order to reduce certification costs and work.

Comments:

In some areas there is a lack of local certification bodies for rice. And convergence of different certification systems (Fair Trade, organic, product quality, etc.) - to make them less costly and thus more accessible for small-scale producers - is yet at an initial stage. (10)

It is important to use national control bodies like in Thailand. These are cheaper than European ones and they know the local situation and the language. (21)

Is important to note that not all farmers want to work in an organic way. They often work with other environmental standards and FLO have also some standards on environment and pesticide use. Farmers take a risk by converting towards organic. There is also a difference in markets. In Germany consumers are very organic orientated and in the UK they want more social standards. There should be choice at producers and consumers level for organic, Fair Trade and the golden combination. (21) It is necessary for the sector to define minimum generic standards and extra choices above.

An advantage often associated with Internal Control Systems is that participants are able to deal with the risks associated with increasing quality production in a better way (see also www.ifoam.org: IFOAM developed a training curriculum for producer organizations on small holder group certification). (10)

Hivos has set up a Guidance Manual For Producer Organisations to set up and harmonize an Internal Control System (ICS) (16).

FLO is setting up liaison offices in each country. Their will be in the next future 20 of them.

They verify the prices and calculate there market price, costs analysis and country data.

The FLO-price is set for at least one year and evaluated thereafter. They will be ISO-certificated. They can play a role in certification of the producer and trade audits, strengthen the commitments and give more transparency in the chain. (22)

13.5 Financing

Use credits and funds to better the position of the farmers and the quality of the products.

Comments:

Access to timely credit at affordable terms and conditions is often limited. Credit is often only provided by traders, not in cash, but as a package of seeds, fertilizers and pesticides. The credit is repaid to the trader by selling the harvest to him, generally at very unfavourable terms. This can lead to indebtedness, especially when the harvest is low. While banks and Miss may be prepared to provide agricultural loans for production, this is often limited to conventional farming. (10)

It is necessary to improve the availability of credit, especially:

- for capital investments by producer groups
- (post harvest) credit for rice farmers
- for organic rice production.

Being at the grassroots of society makes it hard to obtain credit from a 'normal' bank in many countries around the globe. Oikocredit was created for groups that need credit to develop their productive enterprises, but have difficulties receiving credit through conventional financial institutions, because they simply lack collateral.

A cooperative, financial intermediary, a small or medium-sized enterprise, Fair Trade organisation or other NGO based in one of the focus countries and comply with the criteria and have a business plan that conforms to Oikocredit's ethics, may be qualified for a loan.

Oikocredit gives loans instead of grants, because they believe that loans are more effective for achieving economic productivity. Where grants may make organisations dependent on the friendly benefactor, loans will create a real business partnership based on mutual respect.

If your project is economically viable, a loan will stimulate sustainable development in your community. Still Oikocredit feel it is important that a loan matches the needs of a project. In case the loan sum exceeds the actual need, it could become a millstone around the neck instead of a stepping-stone towards a better future. That is why their regional offices closely monitor all projects. If a problem arises, the regional office works with the organisation towards finding a solution. (74)

Funds

Although financing primary producer and processing organisations is not the core business of Hivos, in some cases Hivos may be willing to provide a grant to support changes in the production process to increase sustainability.

Hivos is engaged in organisations that have specific funds to support farmers in developing countries financially. Since October 2000 the International Federation of Organic Agriculture Movements (IFOAM) is carrying out a four year I-GO program. This programme is funded by Hivos and the Biodiversity Funds of the Dutch Government. Through the program I-GO, IFOAM will strengthen the development of organic agriculture in Developing Countries, and enhance the influence from these countries in the global development of the organic movement as well as on regional and national level. Next to this, Hivos has launched a fund to provide credit to poor farmers in developing countries in cooperation with Triodos. In this respect, it can be interesting to integrate organic rice from developing countries in the I-GO program and to provide credits to Asian rice farmers from the Triodos/Hivos Fund.(9)

13.6 Quality standards

Support farmers to meet the highest possible quality standards in order to get access to European markets.

Comments:

Internationally there is growing interest in ecological and social implications of rice production and marketing: 2004 has been designated as the UN International Year of Rice. Several international (non-governmental) organisations have developed programmes focusing on rice (e.g. Oxfam, PAN AP, CI-ROAP, IFOAM ASIA). (10)

Vitoon Panyakul (Green Net, Thailand) plaid for the concept of a quality chain, which stresses the importance of taking up issues of quality throughout the whole chain starting from the seed, and continuing through farming, harvesting, storing, milling, packing and marketing to the final sale to the consumer. He also highlights the importance of a management plan as well as a financial plan in maintaining quality control for each step in the quality chain. The presentation can be used as a checklist by farmers' organisations to check their quality system and design an action plan for improvements. (10)

Starting from a consumer perspective in Europe, the international trade companies do not adhere to social and/or environmental quality standards when trading rice (except for rice traded under an organic or Fair Trade label). It is expected that the position of small farmers and labourers on big farms can be improved by working with the trading companies in Europe on introducing social quality standards (e.g. EUREP-GAP, SA 8000, Fair Trade) and on increasing interest in organic or environmentally friendly rice (organic labels). (10)

Support is needed to:

- Assist producer groups to build up a quality chain

- Assist producer groups to work on an internal control system (through an external service provider)
- (Continue) work on bringing convergence between organic and fair-trade certification for rice (and other crops) e.g. in the form of supporting trainings for local auditors/inspectors. (10)

13.7 Transparency

Make transparency and traceability as core values of the Fair Trade rice chain.

Comments:

Make information available on the comparison between organic and conventional farming for the farmers to make an informed choice Make information available on value addition as a tool for collective action. This could be through participatory analysis of the chain. (10) There seems to be unwritten rules in the trade system. The price is set in a bit monopolistic way. The structure between claro and Green Net is hard to change. Every part of the change grasps their own part. In the beginning there was a shortage of organic rice and there is no open view about how it is distributed. The market is growing and there is more pressure on the supplies. So there need to be changes. (21)

Coen van Beuningen suggests operating with a more transparent system within Fair Trade. Not only in formulating the price at a basis on demand and supply, but also on the level of traceability. Fair Trade can learn a lot about initiatives like Utz Kapeh and Eosta's Nature and More for transparent traceability for consumers. (41)

Eosta offers a wide range of fresh fruit and vegetables - both within our Nature & More programme, as well as under other brand names. All of our products are fully certified organic and/or biodynamic, grown according to official national and international standards. The aim of the Nature & More Forum is to provide the marketplace with greater transparency related to the quality of organic products sold by Eosta.

Products will be rated according to three categories: outstanding organic agricultural methods, socially responsible business practices and comprehensive products analysis, including residue tests, assessment of nutritional values and evaluation of sensoric aspects. Results from these examinations are available to trading partners as an overall summary indication, as well as broken down per category.

Further details may be provided upon request. Traders and retailers are thus able to select products based on their own selection criteria, in order to differentiate themselves further in the marketplace. In addition to these quality indicators, grower practices are communicated in a picture story to provide the emotional context which consumers are looking for in relation to the food they eat. (www.natureandmore.com) (71)

There are more examples available from the food industry, meat production and organic agriculture.

13.8 Campaigns

Support and develop as Fair Trade movement campaigns to raise awareness about the position of rice farmers and to lower trade barriers.

Comments:

Many countries attach great importance to a sustainable rice development, and there are a growing number of global initiatives aimed at promoting it. These include the Agenda 21 chapter on Sustainable Agriculture and Rural Development (SARD) approved by 1992 Rio Summit; the 2002 World Conference on Sustainable Development; the 1996 Declaration on World Food Security and the World Food Summit Plan of Action; and the United Nations Millennium Declaration in 2000. (9)

The International Year of the Rice (IYR), organised by the Food and Agricultural Organisation (FAO), envisions rice as a focal point through which the interdependent relationships among agriculture, food security, nutrition, agro-biodiversity, the environment, culture, economics, science, gender and employment can be clearly viewed.

The IYR challenges and opportunities are:

- o Improving food security and nutrition
- o Enhancing the productivity of rice-based systems
- o Managing water resources
- o Environmental protection
- o Traditional rice-based systems as part of world heritage
- o Partnerships in the institutional context
- o 'Information broker' for a synergetic approach to rice development (75, 9)

The Oxfam Trade Campaign launches aims to change the rules that govern world trade in order to unleash the potential of trade to reduce poverty. It is motivated by a conviction that it is time to end double standards and to make trade fair. (9)

13.9 Marketing

Put efforts in a good marketing concept, with good looking products, strong brands and a personal touch.

Comments:

Recently EZA, Austria got into a big supermarket chain with the white hom Mali jasmine rice because of an effort of FAIRTRADE-Austria, but mainly because the quality of this rice is excellent. So quality is the key. (Frank Denk, EZA) (61)

Throughout the year Gepa runs special product weeks where the promotion and advertising is concentrated on one product. Since 2002, rice has also been one of these products involved.

There are present bags with food items for donors of blood. Rice is one of the items in these bags. (59)

Claro developed new rice products bags: Khao Sarn: 5x200g rice gift box and UNO Khao Sarn in the International Year of Rice in 2004. The Khao Sarn rice gift box which contains 5 different rice specialties was a good marketing idea. This product sensitizes consumers to different rice varieties and to Fair Trade – a very successfully selling product (58)

73. Successful triangle gift box of claro with 5 types of rice



13.10 Supermarket channel

Get into the big supermarket channels and make Fair Trade a broadly accepted issue.

Comments:

The success of rice in Switzerland is only possible through the channels of Coop and Migros and thanks to the pioneer work of claro and Green Net. These contracts with big supermarket chains where more important for Fair Trade then the work of all FTOs together. Their sales are more than half of the total turnover in Fair Traded rice. (21) Fair Trade Netherlands launched rice in the supermarkets in December 2005. For that reason, they ordered more then double the quantities of the previous year.

One of the hurdles is the cooperation of the national FLO initiative, Max Havelaar the Netherlands. They had a long period rice not as priority and where only focussed on coffee and bananas. Now there are national implementations of the FLO rules for rice and support of Max Havelaar for the marketing. Different supermarket will put the labelled rice in their assortment. (73)

These experiences need to be replicated in other European countries.

13.11 View of the author

- **Rice is a symbol, an icon, for Third World agriculture and the poor position of small farmers. For that reason alone rice needs a place in the Fair Trade market.**
- **Farmers are partly supported by a higher market price. But a higher price is not enough. They were kept beneath the poverty line.**
- **The farmers really need support with other income generating projects, like creating fish ponds, buffalo banks and setting up cooperative mills and market chains.**
- **Only by enlarging scale at the milling, transport and distribution levels, can rice develop into a sustainable product.**
- **The costs of the Fair Trade chain are the biggest in this part of the ocean. Therefore Fair Trade organisations need first to look for reductions in costs in their own operations and distribution channels. Most added value in the chain goes to traders, millers, FTOs and shops.**
- **A new strategy is needed to enter new markets and to speed up growth. The organic rice channel has the most possibilities in the short term. A different suggestion is to develop Hom Mali into a strong brand.**
- **From the point of view of environment and sustainability, organic rice is a must. It's the only way to keep pesticides and genetic engineering outside the chain.**
- **Milling and packing in the country of origin is a nice project. But when you look from the efficiency point of view, it can be better done in Europe.**
- **There is a strong need to combat the WTO and the European Union to reduce trade barriers, to lower the differences between types of rice and to open up their market for Third World farmers. Europe and the USA are now controlling the market by false competition. Small farmers have no opportunity to enter the market on their own. There is also a strong need to end dumping practices.**
- **The efforts made by Green Net, Thailand and claro, Switzerland are good examples to learn from. They have shown that the Fair Trade rice chain can be made profitable. It is important to share this experience with other countries and other farmers and organisations.**
- **The last recommendation is to give Fair Trade farming a face by using personal stories of farmers in the marketing.**

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