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Harvesting the benefits of a rice futures market

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Rice farmers across Asia work hard to produce rice for Singapore and other countries that depend on rice imports to meet national demand for the grain. Most of Singapore's rice comes from Thailand – the world's biggest exporter of rice and home of Singapore's favorite rice – Thai Jasmine rice.

Thai rice farmers are currently battling one of the most destructive pests of rice that is wreaking havoc across their paddies – brown planthoppers. Not only do they eat their way across rice crops, but they also transmit two viral diseases that can severely stunt and discolor the plant and prevent grain formation.

This year's brown planthopper outbreak in Thailand follows outbreaks in 2010 that were described by Khun Mani Luecha, director of Thailand's Chainat Rice Seed Center, as, "the worst outbreak of BPH [brown planthopper] I have seen in my career since 1977."

Pesticide misuse is one of the main culprits in outbreaks of brown planthoppers because it kills their natural predators, which can lead to population explosions. Moreover, brown planthoppers can develop resistance to pesticides. Thai rice farmers and their government need practical ways to reduce this pesticide misuse and manage pests in more effective ways that don't harm the environment.

The good news is there is a solution – integrated pest management, which, through the use of pest-resistant varieties and a smarter understanding of pest dynamics, uses a mix of strategies to minimize pest damage while eliminating or reducing pesticide use.

Singaporeans are increasingly acting to create a greener world. But how can Singapore help Thai rice farmers – and other rice farmers around the world – use less pesticide, become "greener", and still deliver rice to the tables of billions of people who depend on it everyday as their staple food?

For farmers to invest in ecologically sound management practices they need to receive a reasonable price for their crop. Sadly, today's rice markets – both national and international – are opaque. Prices are decided by a chaotic mix of flawed government price policies, import and export restrictions, secretive trading practices, and smuggling.

Because of these challenges, when rice prices rise they do not usually translate into increased income for farmers, yet consumers still have to pay extra. As was the case in Thailand, spikes in rice prices can motivate farmers to try and grow rice continuously, fertilize their rice more in an effort to boost yields, and attempt to protect their investment by spraying more pesticides to keep pests at bay in the short-term. One result in Thailand was devastating crop losses due to brown planthopper damage. And of course, when prices fall, farmers carry the burden.

Singapore has a unique capacity to do one thing better than any other country in the world to help create a better rice market – host an international rice futures exchange. It may seem odd in this time of unstable commodity prices to suggest that such an important food crop be opened to speculators. But, historically it is just such markets that have stabilized commodity prices, or at least allowed all to see price movement and participate fairly in the market. It is no surprise that the world's first futures market was invented to stabilize rice prices in Japan in 18th century Osaka.

Singapore is the natural home for an international rice futures market because it has political stability, a reputation for high integrity, strict banking regulations, good infrastructure, and trading experience and capacity. It has an interest in rice, with Singaporeans eating about 60 kilograms of rice every year, yet it is not a producer. This is critical because most other Asian countries produce rice and therefore may have a vested interest in adversely influencing a futures market through regulation that may restrict the sale of rice.

International rice trade volume more than tripled between 1978 and 2008, so there is good reason to expect further growth in trade – but will farmers benefit? Rice futures markets already operate in the United States, China, India, Japan, Thailand, and other Asian countries, but they primarily cater to domestic traders and play a minimal role in price discovery at the international level.

During the rice price crisis of 2007-2008 the world saw rice prices go from US\$350 to nearly \$1,000 per ton in one year. Short sighted national policies resulted in more controls on the flow of rice in and out of countries, which has included many secret government deals reducing rice price transparency further.

An international rice futures market in Singapore could help in price discovery and stabilization of the global rice market. Farmers would benefit indirectly through the participation of market intermediaries' such as cooperatives, traders, input suppliers, and credit organizations. And, market price information disseminated through a futures market could also directly help farmers negotiate better prices and make crop management decisions based on market data.

This is good news for farmers, consumers, and governments. Rice prices are more volatile now than they have ever been, yet stable rice prices help farmers manage their crop more strategically and allow them to plan crop management in the long term, giving them increased capacity to avoid rash pesticide-use decisions.

Singapore already has two well-functioning exchanges – the Singapore Commodity Exchange Limited and Singapore Exchange Limited where agricultural futures are traded. Adding a rice futures contract would be cost effective and convenient.

In establishing an international rice futures market, Singapore could also play its part in helping the world achieve food security, keeping rice prices affordable for poor rice consumers and stable for rice farmers, and ensuring its own supply of affordable rice into the future.

A transparent and vibrant international rice futures market is one critical factor that would help Thai rice farmers make strategic decisions to manage their rice in a more environmentally sustainable and far-sighted way and provide Singapore with "greener" Thai Jasmine rice.

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