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The role of international trading companies in the rice market

Paper presented at the workshop on Commodity Exchange and Food Systems in Developing Countries: Processes and Practices.
CIRAD-CA and Manchester University
Mèze (France), August 31 - September 4, 1992

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— Disponible également en français sous le titre :
"Quel rôle des compagnies de négoce international dans le marché du riz ?" —

SUMMARY :

International trading companies have a key position in the rice market, especially in African imports. Their development since the early seventies has been related to the rise of new markets, African ones in particular, where Asian exporters have no connections. The rice market is very opaque and unstable, and it is impossible to hedge as there is no futures market. So, traders bear a fundamental function as risk takers, which leads to important turn-over among trading companies. Access to information requires an efficient network of personal relations. Futher more, to offset the lack of creditworthiness of many importers, complex and personalised marketing methods must be implemented. All this explains why very few traders deal with rice. And yet, over the past two decades, their number has been considerably increasing and competition has became fierce.

KEY WORDS : rice, international trade, trader, futures market, Africa, Thailand, Vietnam, United-States, risk, market intelligence, marketing strategies.

RESUME :

Les compagnies de négoce international occupent une place clé dans le marché du riz, en particulier pour l'approvisionnement de l'Afrique. Leur essort, depuis le début des années soixante dix, est lié au développement de nouveaux marchés, en particulier africains, peu connus des exportateurs asiatiques. Le marché du riz est très peu transaprent, instable et l'absence de marché à terme ne permet pas de se couvrir. Aussi les négociants assurent-ils une fonction essentielle de prise de risques, qui se traduit par une rapide rotation des sociétés présentes. L'accès à l'information nécessite un réseau fourni de relations personnelles, et la faible solvabilité de nombre d'importateurs des méthodes commerciales complexes et personnalisées, ce qui explique le nombre très réduit de négociants. Toute fois, leur nombre s'est fortement accrus en deux décennies et la concurrence est maintenant vive.

MOTS CLES : riz, commerce international, négociant, marché à terme, Afrique, Thaïlande, Vietnam, Etats-Unis, risque, information sur le marché, stratégie commerciale.

INTERNATIONAL RICE MARKET IN BRIEF

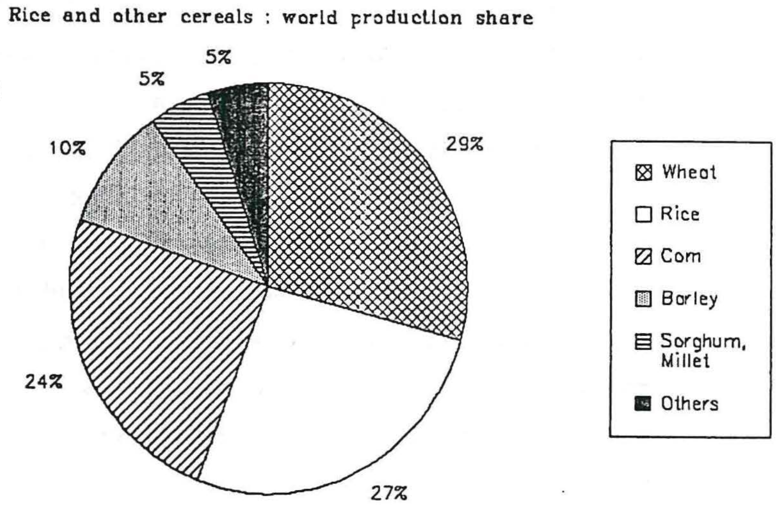
(average 1986-1990, FAO)

PRODUCTION :

Total production : 495 Mt* of paddy
(equivalent 320 Mt of milled rice)

Main producers :

China	: 180 MT
India	: 101 Mt
Indonesia	: 42 Mt
Bengladesh	: 25 Mt



WORLD TRADE :

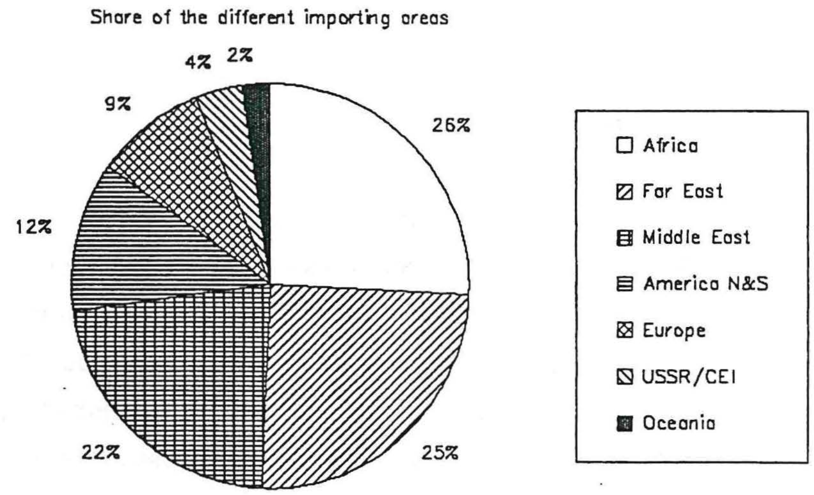
Total trade : 12 Mt milled rice
including 1 Mt food-aid

Main exporters :

Thailand	: 4,7 Mt
United-States	: 2,5 Mt
Pakistan	: 1 Mt
China	: O,8 Mt
Vietnam	: 0,7 Mt
India	: O,4 Mt
Burma	: 0,3 Mt

Main importaters :

Iran	: O,7 Mt
Irak	: O,6 Mt
Saoudi Arabia	: 0,5 Mt
USSR/CEI	: 0,5 Mt
Brasil	: 0,4 Mt
Ivory Coast	: 0,4 Mt
Malaysia	: 0,3 Mt
Hong Kong	: 0,3 Mt
Senegal	: 0,3 Mt



* Mt : million metric tons

International trading companies are generally viewed with supicion by the public and the lack of transparency surrounding their operations only increases this mistrust. Parasite middlemen, political bargainers, speculators, monopolies... traders are readily accused of all world trade misconducts. Economists are reserved on this subject : trading companies operate behind closed doors, making reliable analysises, particularly quantitative ones, almost impracticable. While marketing system approaches emphasize on accurately deciphering the role of operators in national markets, in international exchange analysises, economists tend to revert to neo-classical supply and demand approaches, focused on price fixing, trade policy..., often ignoring the operators.

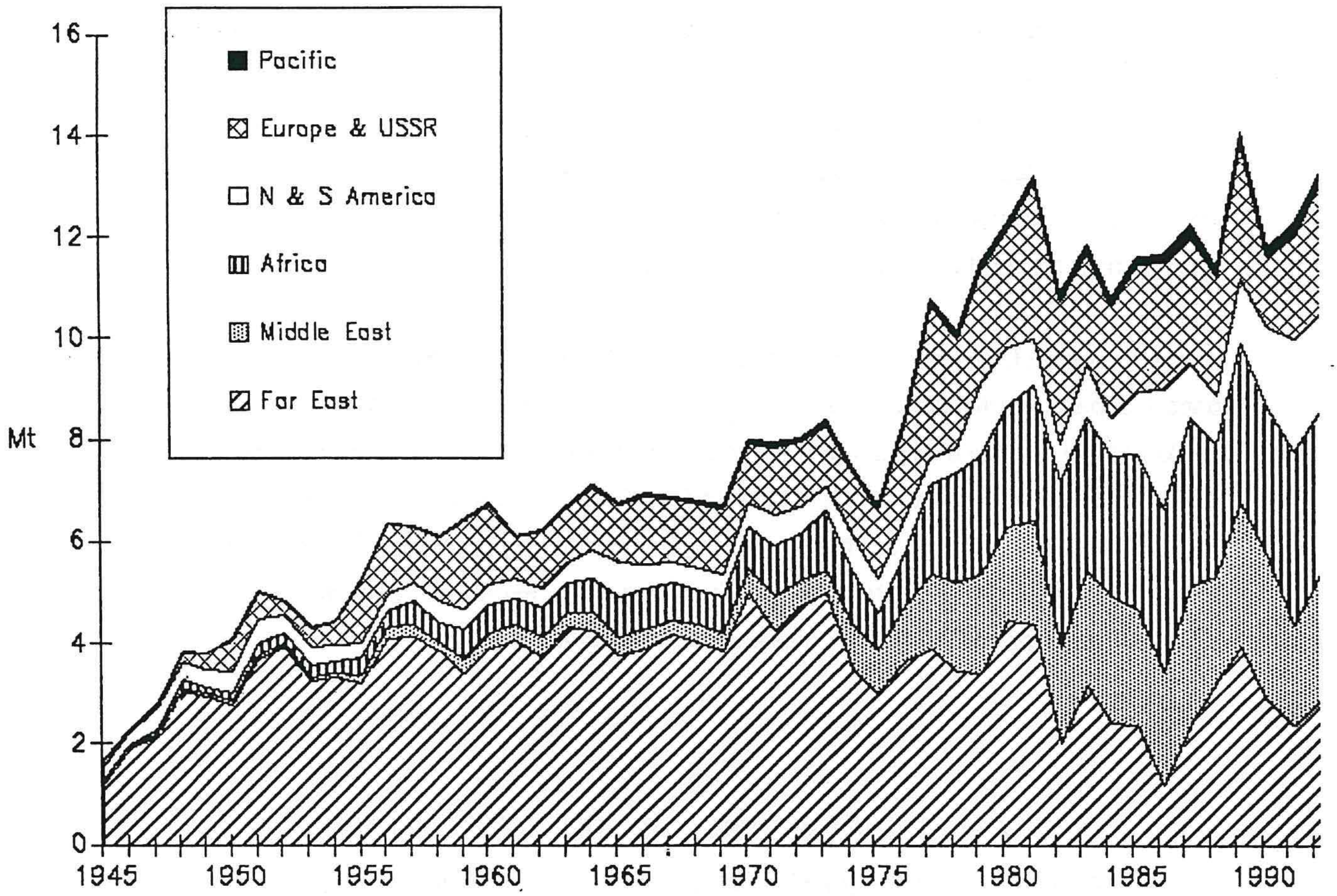
In the rice market, international rice traders have played a major part over the past two decades, particularly where the African market is concerned. How did they entered the market? How has the evolution in international exchanges influence their development, their functioning? To what extent is rice trade different from trade in other agricultural commodities? By retacing the history of trading companies in rice market, we shall try to understand their role, their impact in the market evolution, and whether their intervention tends to increase or moderate its instability.

I - A HISTORICAL VIEW : MARKET EVOLUTION AND THE DEVELOPMENT OF TRADING COMPANIES

1.1 - A Traditionally Asian Market, Completed by Colonial Networks

Rice trading has long been mainly intra-Asian, with exchanges controlled by Chinese merchants. Rice was not among the tropical products Europeans had coveted for centuries: silk and spices, and later coffee, cocoa and sugar, all of which were long been traded at a transcontinental scale and under European control.

Figure 1 : EVOLUTION OF RICE IMPORTS BY MAIN WORLD AREAS



Source : FAO, Trade Yearbook.

Up until the World War II, the supply of rice was almost exclusively Asian (93% between 1930 and 1938). Burma was the first exporter, followed by Thailand, Indo-China and Korea. If the demand was already somewhat atomized, Asia nevertheless represented three quarters of the whole. The remaining quarter concerned trade between South-East Asian colonies and Europe. In the thirties, European countries imported about 1.5 million tons per year, a level not reached again before the second half of the seventies. These imports mainly concerned rice for animal feed, especially in France where two thirds of the imports were used for livestock : low quality rice, brokens or brown rice. This trade was handled by colonial companies (in France: *Les Rizeries Indochinoises, Franco-Indochine, Denis frères, La Lucia*). During the same period, a small volume of rice was imported for human consumption : high quality long grain rice from Madagascar and the United States, short grain rice from Italy.

Louis Dreyfus was the first important trading company, which was not a colonial one, to become involved in Asian rice. It set up in Indo-China in the mid-thirties. Instead of loading small quantities of rice on regular "liners", it chartered whole vessels for shipment to major French ports. The reduced shipping cost allowed for lower sales prices and even cut-rates on remaining unsold cargo. Such operations, which concerned corn and rice, created stark competition for the other companies and even threated their existance.

After the war, the shape of the market changed. Thailand and Burma resumed exports, and supplied 50 to 60% of the market from 1948 to 1957. At the same time Indo-China and Korea, former competitors, were paralysed by war. Trading between France and Indo-China was stopped, and imports of Asian rice for animal feed to other European countries was extremely reduced. Argentina and the United States were becoming the main sources of grain supply to Europe to feed livestock. Thus rice was substituted by soya beans and corn.

As a consequence of the war, a new leading rice exporter emerged : the United States. The blocus of Japan by the Americans after Pearl Harbour (1942) and the trade monopoly imposed on the countries belonging to the "Japanese area of coprosperity" paralysed exchanges in the whole Far-East. Besides providing food to their own military forces in that region, the United States became the main rice supplier in the world. The governement stimulated the production through public programs and reserved 40 to 80% of the crops for the army and for exports, which doubled their volume between 1940 and 1945.

Up to 1955, the Far-East still represented two thirds of exports and three quarters of the world demand, and about two thirds of it during the ten following years.

From the end of World War II to the end of the sixties, *Continental Grain* was the major trading company to be active in rice. It's clients were mostly Asian countries : Indonesia, Bangladesh, Philippines... and Latino-America (selling American rice to the latter).

1.2 - The Seventies : Emergence of Middle Eastern and African Markets, and the Rise of International Trading Companies

In 1973, the oil producing countries in the Middle East started importing large quantities of rice, thanks to their sudden increase in income. In the mid-seventies, African imports also increased rapidly : consumption was growing faster because of urbanisation and stagnant production was not able to cover demand. Concurrently, Asian demand was on decline : the Green Revolution had brought about self-sufficiency (or near) several traditional major importers (see figure 1). The rise of international trading firms finds its starting point here, with the emergence of these new destinations, and of a historical destabilisation of world prices (which was observed, more or less pronounced, for all commodities).

In the case of Africa, the market development and the part trading companies were to play in it, can be most directly linked to one name, *Action* company, and to one man, B.C. [1], who set up this company in 1968. His knowledge of African markets takes roots in his former experience with *Goldschmidt*, a company founded in the 19th century, which was the leading French trading company from World War II up to the sixties. Until 1968, when *Goldschmidt* went bankrupt, B.C. was the director of the African department of the company. With *Action*, he started developing operations handling EEC and French food aid, and its prosperity was first mainly due to its handeling of nearly the whole food aid during the 1973-74 drought (mainly corn and wheat). This was first conducted in collaboration with *Soulès*, grain traders since 1930. The latter used to regularly export Italian rice to the Comores and Reunion, and gave B.C. the benefit of its long experience

[1]. We are going to allude to several trading companies, but we chosed not to mention any operator personally, else than by their initials: "discretion, indeed, has probably always been the most estimated quality in grain world" (MORGAN, 1979).

in restitution mechanisms of the CAP[2] and of its good relations with the ONIC[3].

Subsequently, this company was the first one to purchase low quality rice in Asia aiming to set up a large scale market with Africa[4]. In order to control the supply, *Action* started this activity in association with *Louis Dreyfus*, settled for a long time in Asia. In 1973, the shortage of rice was drastically felt all over the world, prices were rocketing as Thailand withdraw from the market during three months, after two years of poor harvests. The same year, Pakistan found itself for the first time with important surpluses : since the creation of the independent Republic of Bangladesh, it has lost its more market for its low quality rice. *Action* took advantage of this opportunity and shipped this rice to Africa. This continent became one of the major consumers of Pakistanese non-Basmati rice. The venture between Action and *L. Dreyfus* lasted only for a short time. However, the commercial links beings established, B.C. went on making business with Pakistan, Thailand, China and Burma.

During these first years of African imports expansion, *Action* took advantage of its monopolistic position, with very agressive strategies and very profitable results (the profit margins reached 60-70$/t and up, on aproximately 300$/t). Many traders today in activity have been working with B.C. and have learned from him.

One member of *Action* left to form a partnership with a businessman from a rich Brazilian family and set up in 1975 the company *Riz et Denrées*. They were willing to give rice trade a different image, less aggressive than B.C.'s, more based on analysis, and hired traders with university degrees rather than self-made men. Both of these styles are still notable among today's traders, many of them having worked with one of these companies or both. During the late seventies, *Action* and *Riz et Denrées* were the leading rice trading companies. A merciless competition developed between them and the fantastic margins they had enjoyed very quickly decreased.

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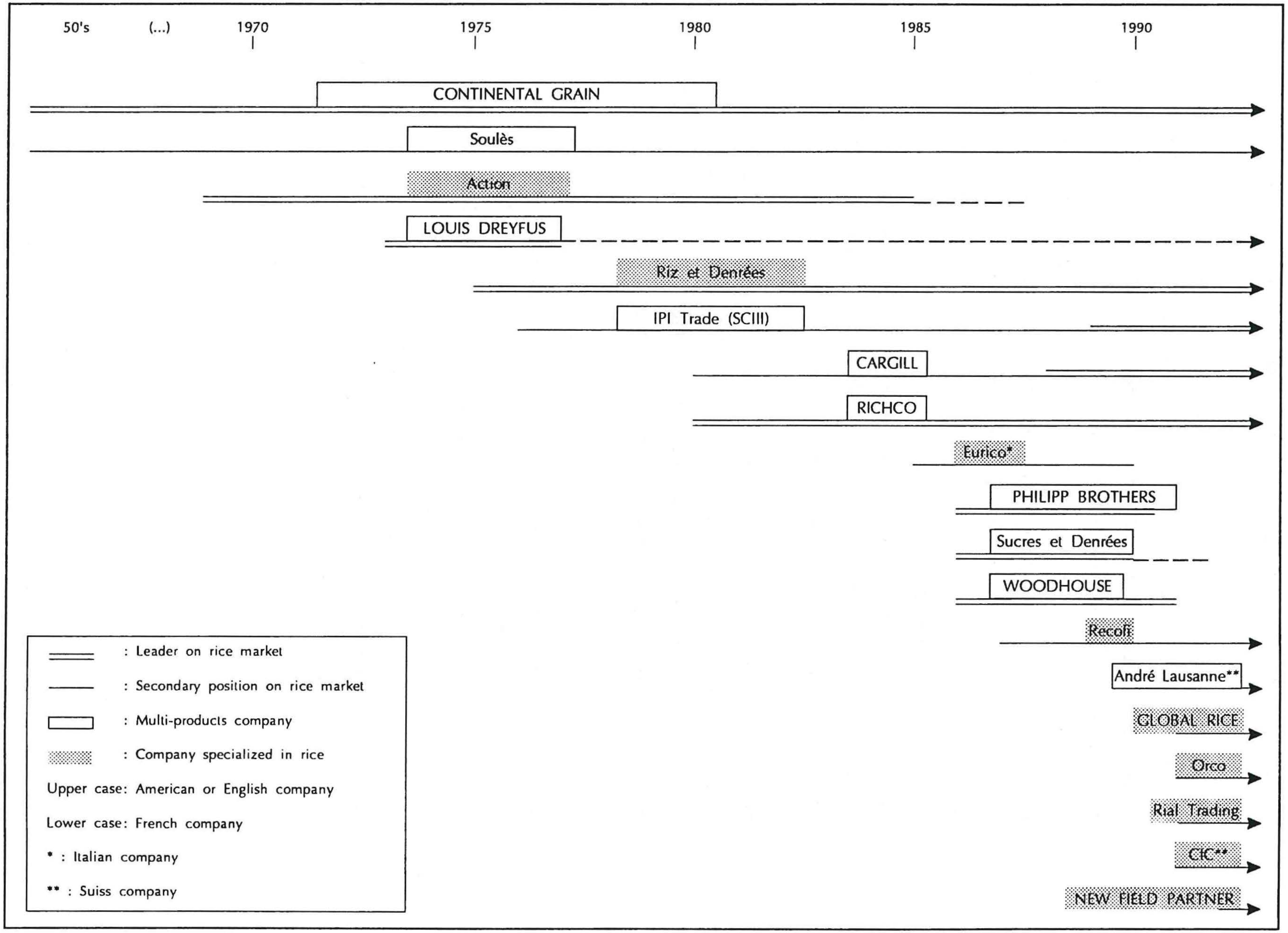
2. CAP : Common Agriculure Policy.

3. Office National Interprofessionnel Céréalier: French grain growers board.

4. Senegal was the only African country importing large quantities of Asian rice from the colonial period up until 1970's. As early as the twenties, colonial authorities had counted on the import of Indo-China broken rice to cover decrease of food crop caused by the development of peanut production. From 1965 to 1969 Cambodia took over, and later on, Thailand (DO REGO, 1988).

Figure 2. Evolution of the main international trading companies working on rice



1.3 - The Eighties : The Increasing Number of Rice Traders Makes Competition Harder

The boom of rice market and the success of these two young companies prompted several major trading firms to get involved in rice (see figure 2) : *Cargill* and *Richco* opened a rice department in the early eighties ; *IPITrade,* a division of J.P. Doumengue's *Interagra* turned towards Asia, taking advantage of its political contacts in communist countries and developed as early as the seventies, a compensation trade between Vietnam[5] and Thailand (barter between medium quality rice and brokens). *Continental Grain* also started trading with Africa as well as *Louis Dreyfus*, after it built a rice mill in the United States (*L. Dreyfus* sold mainly to the Ivory Coast, where the company was well introduced thanks to the successful erection of a wheat mill).

In 1986, three major trading groups set up in the rice market : *Woodhouse, Philipp Brothers* and *Sucres et Denrées.* Adopting a very agressive policy, they reached a leading position within the following year. Competition between traders was then at its height, whereas traded volumes (on the world scale) were stagnant. Marketing methods became more and more agressive and risky, whereas the economic situation in African countries was worsening.

Within one year the three new rice trading giants faced tremendous losses : the rice department of *Sucden* almost stopped its activities in 1990 and *Phibro* suspended its business in agricultural products by the end of the same year. As for *Woodhouse*, one of the oldest trading companies dedicated in tropical products, it closed shop in 1991.

All this left room for a full-force return of *Continental, Richco* and *Cargill.* In 1991 and 1992, they were the leading companies. At the same time, whereas some of the most important multiproduct trading companies gave up on rice trade, several specialised junior one were established : *Recofi* in 1986, *Global Rice*[6] in 1990, *Orco* and *Rial Trading* in 1991, *New Field Partner* in 1992. With the exception of *Recofi* whose traders came from *IPITrade*, all of them were founded by rice traders from *Phibro* and *Sucden.*

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[5]. In 1989, when Vietnam started exporting important quantities of rice, IPITrade and two companies set up by former traders from IPITrade: Recofi and Orco, took advantage of these long-time dealings with this country, and handled a large share of exports (usually by compensation with flour, pesticides and urea...).

[6]. This company is the conjunction of the experience of the former manager of the rice department at Phibro and of the capital of Tokyo Menka, one of the big Japanese commercial trusts.

Thus, in the early nineties, the scene of rice trading was occupied by several types of operators :

- The major world-wide trading groups, American or Anglo-Saxon, with rice as one activity among many others : *Continental*, *Richco* and *Cargill*. They are the market leaders : respectively in first, second and fourth place in the rice business in 1991[7].

- Companies specialised in barter trade, that appeared in the market at the end of the 80'S with Vietnamese rice which they obtained by barter operations :

. In France, SCIII (ex Interagra / IPITrade) an Recofi (an offspring of the former).

. In Switzerland, André, specialised in barter since the sixties.

- Two "atypical" French companies which on different scales are considered senior traders :

. *Riz et Denrées*, specialised in rice, a market leader since its foundation in the mid-seventies (third one in 1991).

. *Soulès*, grain trader, specialised in selling rice in the Indian Ocean islands for several decades.

- Two American companies :

. *Incotrade,* part of *Riz et Denrées* group. The latter signed a joint venture with *Balfour Mac Laine*, a major American trading company, to open a rice department in 1983. *Incotrade* later set up as an independant company.

. *Connell Rice & Sugar*, that used *to* export brand name rice to Nigeria but has now considerably reduced its activities, apart from sales of American rice to Senegal in 1992.

- New small scale companies, specialised in rice, born from the failures of larger ones : *Orco* and *Rial Trading* in Paris, *Global Rice* in London, *New Field Partner* in Miami.

- A few Asian companies :

. *G Premjee*, the most active one, founded by an Indian familly in Burma in the twenties and then settled in Bangkok since 1962. Originally a rice trader, it has

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[7]. From the datas given by traders.

widely diversified its activities.

. Some large Japanese "sogo sosha" are somewhat interested in rice, but essentially to subcontract food aid[8] : *Marubeni, Mitsui, Mitsubishi, Toyo Menka* (*Toyo Menka* extended the fields of its rice activities providing the funding of *Global Rice).* But rice being a small and risky market, it is of little interest for these big trusts[9].

. Three companies from South Korea, which appear in rice market when Vietnam started to export, because they handled barter trade with this country.

We must add to this panorama, companies which launched in trade because of their rice milling activity. For example Feruzzi in Italy or Louis Dreyfus in the United States. The latter, which used to be a pionner in rice trading before Word War II, came back to the market in the early seventies but interrupt this activity by the end of the same decade. It turned towards trading once again in 1988 when it built a rice mill in the United States. Besides, it must be noted that among the major American rice millers, several export directly their rice (*Uncle Ben's* or *Riceland Food*, for example), but they only handled they own production and cannot therefore be considered as traders.

II - RISK AND INFORMATION : AT THE HEART OF TRADING

Looking at different trading companies from a historical viewpoint, one is struck by the transiance in the rice sector, even among the major ones (see figure 2) :

- *Action*, the pioneer and uncontested leader in the seventies, has been absent since 1984-85.

- *Woodhouse, Sucden* and *Phibro*, started to be involved in rice in 1985-86, quickly came to dominate the market, only to collapsed five years later.

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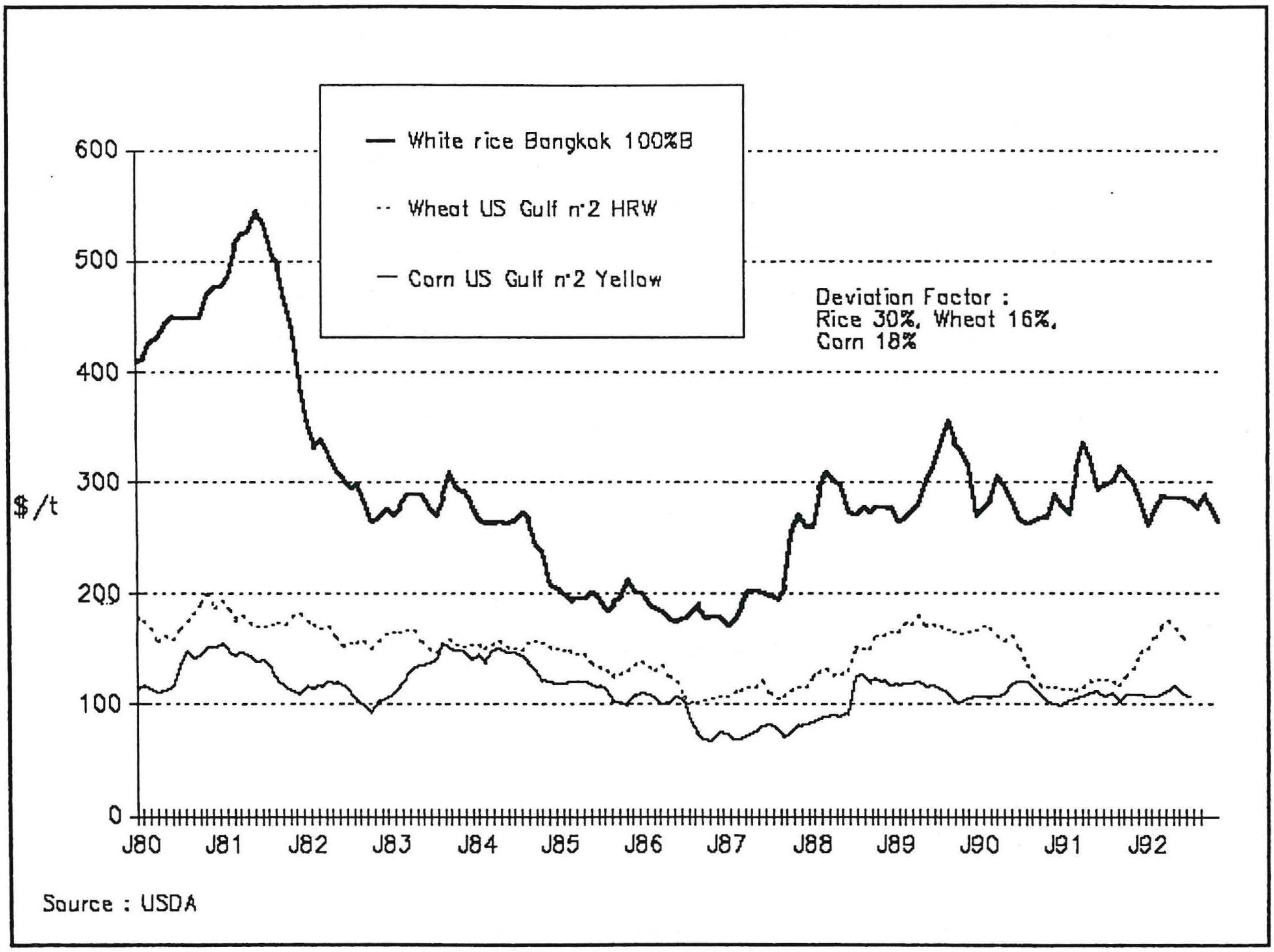
[8]. Japan strictly protects its rice production. This allows the price of japanese rice to be eight to ten times higher than the price in the world market. So, to send food aid to foreign countries, Japan buys rice from Asian exporting countries, and mostly from Thailand.

[9]. Except if in the future Japan have to lift its import ban on rice under the pressure of GATT.

Figure 3 : MONTHLY F.O.B. PRICES FLUCTUATIONS OF RICE, WHEAT AND CORN



Even if the collapse of the last three companies was more tied to their cocoa and coffee trade than to that of rice, these examples point out the peculiar risks of the trading business.

2.1 - A Structurally Unstable Market

The risk of the rice trading business is linked mainly to unstable prices and a lack of transparency in the market. The origin of this instability is found in the characteristic features of rice production and of international exchanges :

- The geographic concentration of production : 90% in Asia (China and India supplying together approximately 55%).

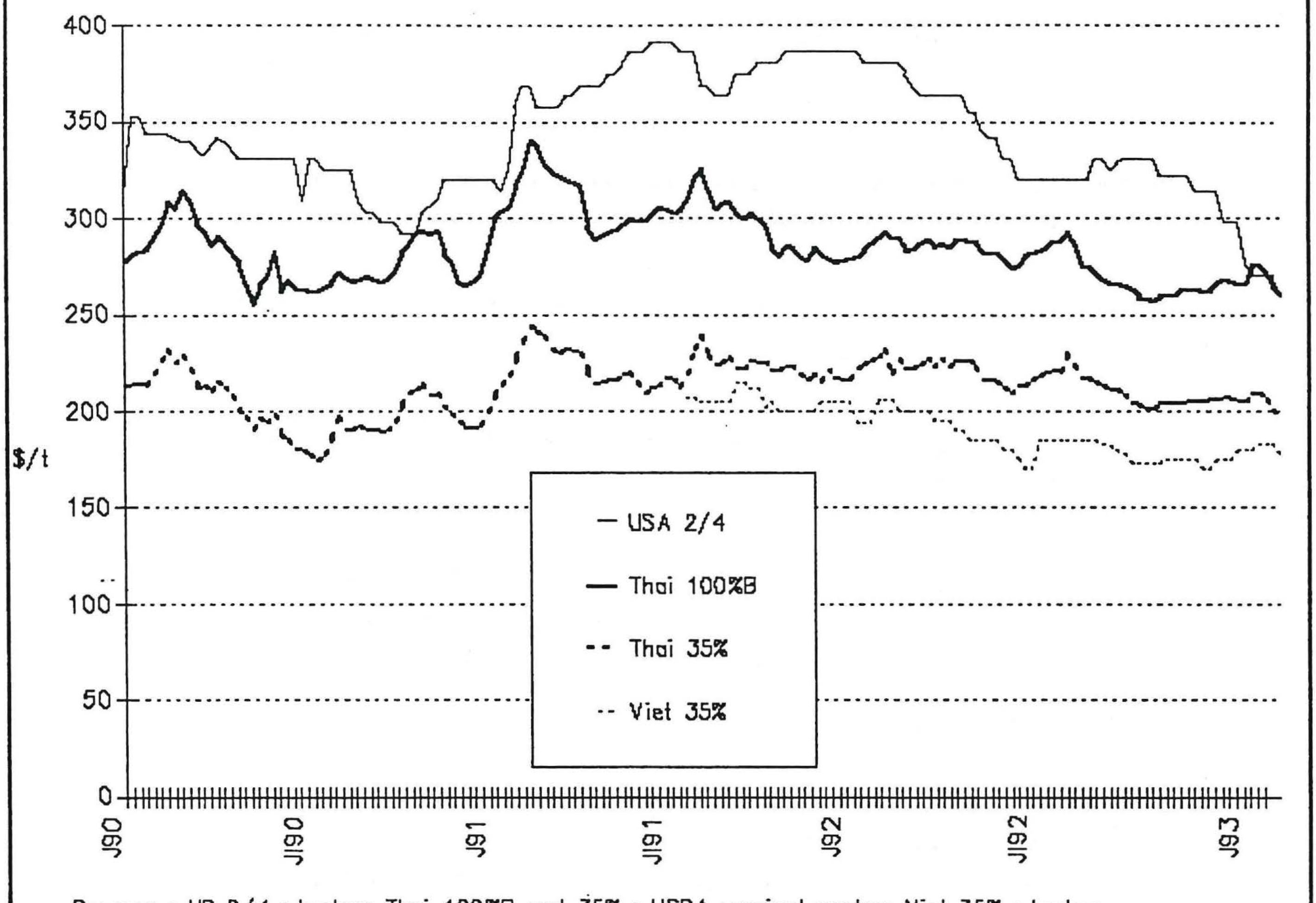
- The important share of sensitive cropping system, hlghly dependant of climatic conditions (45% of the rice area is not irrigated).

- A narrow market (11,5 to 14 million tonnes) subdivided into several qualities with specific outlets, which limit the possibility of subsitution between different qualities ; and very marginal volume exchanged compared to the total quantity produced (approximately 4%).

- Uncertainty about the situation of the major producing countries, barely self-sufficient, which alternate from year to year, from being exporter to being importer or both at the same time, with significant effects on the market (China, India, Philippines, Indonesia).

All these elements make the rice market particularly unstable ; much more than the two other major cereals markets, wheat and corn, especially on the short term (see figure 3).

Figure 4 : WEEKLY F.O.B PRICES FLUCTUATIONS OF DIFFERENTS QUALITIES OF RICE



Sources : US 2/4 : broker; Thai 100%B and 35% : USDA nominal quotes; Viet 35% : broker.

2.2 - The Lack of a Futures Market

Rice is one of the very few commodities for which there is no futures market. This makes the problem of risk all the more acute, as operators cannot "hedge" (cover the risk of price fluctuations). However, several attempts to create futures markets deserve mentioning :

- The New-York Mercantile Exchange opened a futures market for white rice in the early sixties and then for paddy in 1969. Neither succeeded.

- The American rice business made another attempt between 1985 et 1986, in New Orleans ; also unsuccessfull.

- The Chicago Board of Trade opened a futures market for paddy, delivered in Arkansas. It is now the only existing market. However it concerns essentially American operators, and remains marginal.

- At the end of November 1990, the London Fox[10], supported by some traders from some of the main European companies, set futures contracts on Thai 100% B white rice, by 50 ton sets, that could be replaced by American rice n°2/4, with a 5% premium. But all the operators remained on the side line, and finally the market had to close by the end of the following year, for lack of activity.

According to most traders, market conditions do not favour the creation of a futures market for rice. The first constraint is the size of the market : for a correct fluidity, an important volume of exchange is necessary. Besides, the heterogeneity of rice qualities would necessitate dozens of various quotations to be set in order to cover the rice diversity[11]. Indeed prices of different grades and origines do not always fluctuate in the same way (see figure 4).

To be efficient, a futures market needs five or ten times more "paper" exchanges than real, "physical", exchanges. These "papers" are mostly exchanged between speculators, that never handled the product it self. And in the case of rice, the market is too hermetic

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[10]. Futures and Options Exchange.

[11]. However this is not an insurmountable problem : for many products such as cocoa and coffee, there are various quoted bonus, for each quality, in addition or substraction to the base quotation.

and unpredictable to be interesting for speculators. Moreover, such a market could be relevant only if the Asian exporters, and especially the Thais, owning the "reference" rice, were to get involved. But futures lie very far from the traditional business behaviour of Thaï exporters in spite of the fact that new generations, which tend to take over the family business, are often trained in American universities.

It is interesting to note that the oldest futures markets appeared either in production areas or in consumer areas : Chicago Board of Trade for wheat, corn and soya bean ; New-York Coffee, Sugar and Cocoa Exchange, and London Commodity Exchange, for sugar, coffee and cocoa. Now, one of the characteristics of rice is that it is produced, consumed and exchanged mostly by L.D.Cs, and until a relatively recent period, by Asian countries. Their traditional marketing methods were very different from those prevailing in markets dominated by Western countries ; they were often based on family or ethnical networks, verbal agreements, and reliable individual relations (among Chinese diaspora in particular) whereas future markets are the product of Occidental trading methods.

As for the Occidental traders, their reluctance in entering into futures market can be partially explained in the same way : by the fact that they are not used to working with futures.

Finally, it is most likely that the key operators see no advantage in increasing the market transparency. Indeed, their performances depend very largely on the possession of an efficient information network, and their privilaged position depends on their control over access to this information to new comers. If thanks to futures, prices were to become more predictable and hedging against fluctuations were to become possible, then more operators, even occasional ones, would be able to make their way into the market, to the detriment of the handful of present traders.

2.3 - Information Witholding and Trade Personalisation

"Obtaining and acting on information has always been central to trading", writes ATKINS (1992). So, when there is no future's market, information has to be almost totally collected from informal sources and an important network of personal relations becomes something fundamental. Therefore, rice trade practice requires a high professional know-how and years of experience. "No one is really professional in rice, without at least ten years of practice in that business", insists an experienced trader. According to him, the policy of most big trading companies, consisting in shifting their traders from one department to another, is one of the reasons of their failure in rice.

Consequently, although we see companies involved in rice, going in and out of business, one after the other, the activity is in fact based on a relatively stable handful of men who shift from one structure to another. For instance, *Recofi* was founded by ex-traders from *IPITrade*; in order to develop its rice department, *Sucden* engaged people from *Action*, *Richco*, *IPITrade* and *Riz et Denrées* ; *Global Rice, Orco*, and *Rial Trading* were born from the collapse of *Sucden* and *Phibro*, set up by their former traders.

The geographical orientation of a company is often linked to individuals and may change with the movements of the latter. For instance, *Richco* became the second largest supplier of Guinea in 1991, whereas it had been completely absent prior to that year : a former trader from *Sucden*, with key relations in Conakry, had been taken on by *Richco* and brought with him his experience and ties, and just carried on his job with another label. The case of *Cargill* is similar: its importance in the African market dates back from the second half of the eighties, coinciding with the arrival of an African trader.

2.4 - Size of Activity and Differentiation of Strategies

As shown by ATKINS (1992), large size and diversification are sources of numerous advantages in trading business : economies of scale in the information network, in transportation and storage, easy access to credit, importance of working capital, risk diversification... And yet, we are witnessing more and more small companies, specializing in rice and prospering, while some of the leadering companies have suffered dismal losses. Actually, a trading company, even a small one, which has experienced traders, may succeed, and indeed be very profitable, regardless of its size.

Trade may be conducted at two different paces and on two different scales : either it is speculative and focused on volumes maximisation, even to the detriment of net benefits, or it is based on the long term and confident relations, relative security and targeted geographic areas. The choice in strategy depends on the company's general policy, but also on each traders' personality and past. Let us examine two examples of these opposed strategies, *Sucres et Denrées* and *Soulès* :

- *Sucres et Denrées* undoubtedly belongs to the first type. The rice department was founded in 1985 by a former trader from *Action*. Within a few months, about a dozen people, attracted by higher salaries, were hired. Coming from *Action, Riz et Denrées* or *IPITrade*, all were experienced rice traders. By 1987, *Sucden* had asserted itself as one of the leading rice traders. In 1988 it was handling about 600,000 tons of rice, in 1989 1,000,000 tons; in 1990, 800,000 tons, but 1991 ended only with 250,000 tons in sales, 600 million dollars losses all sectors included and a credit restriction by its bankers. Why was this success so sudden and short-lived? *Sucden*'s aim was to win market shares at any cost and to handle a maximum volume. This was carried out at the expense of monitoring and controlling the profitability. The rice department was quickly provided with a number of "young ambitious traders", coming from companies in which each person's work was under strict surveillance, in order to limit risk. With *Sucden*, provided as they were with considerable means and autonomy and pushed by competition, traders were tempted by risky speculative operations. Each trader acted independantly (or even compete co-traders) on his own geographical and relational niche. Present for a long time on the African market for cocoa trade, *Sucres et Denrées* benefited from important political support on both the African and the French side. Its most successful achievement was the conclusion of the Ivory Coast embargo on cocoa at the end of 1989. By buying 400 000 t from the Ivory Coast stocks, *Sucden* confirmed its monopoly in the Ivory Coast, which repercussions benefited on rice also. The affair caused a scandal, because the French government had financed it, through the CCCE[12], whereas Sucden had been accused of making over profit on it and of not respecting its engagment to keep part of the cocoa in stock to support world prices (GOMBEAUD, MOUTOUT, SMITH, 1990). In April 1990 another scandal broke out : Sucden was suspected of having sold 250 000 t of Pakistanese rice at 280 $/t, where as the C.I.F. price in Abidjan was at about 180 $/t. The head of the department firmly denied this, situating the salesprice between 230 and 240 $/t. In any case, *Sucden*'s profit was situated between 50 and 100 $/t. According to certain sources, this overpricing was linked to an agreement involving the purchase of 100 000 t of cocoa, at a price slightly higher than the market price (SMITH, 1990). Such operations, possible only with very good political connections, allowed *Sucden* a quick rise in rice business. But too many risks were taken, in order to treat, at any cost, as much volume as

[12]. Caisse Centrale de Cooperation Economique : financing structure of the French Ministry of Cooperation.

possible. And in the beginning of 1991 its bankers had to bring one of the leaders in rice-trade into line.

- The working methods of *Soulès* demonstrates the second type of strategy : it deliberately chose to operate in different niches from those of the big rice trading companies. *Soulès* began its activity between the two World Wars, and from that time on has been trading rice, but within a limited greographic region : Madagascar, the Reunion and Comores. It became big importer of cattlefood and oilcakes, now covering 50 % of the French imports. It started selling rice to Africa in 1977-78, when the volumes imported by this continent were steadily increasing. In the mid-eighties, it started developing a new business strategy in order to adjust to the rising competition between trading companies and the worsening economic situation in Africa. During the first half of the eighties, bank systems were deteriorating in several countries. Meanwhile liberalisation policies had lead to the proliferation of private operators whose financial possibilities were not always sufficient. *Soulès* method consisted in placing the goods at the disposal of importers on location, while keeping only small stocks available (maximum 4 or 5 000 t), and only accepting cash in payment. In this way, the company eliminated major constraints for small importers : capital immobilization and access to credit, as well as conflicts on qualities. This method has been particularly developped in Cotonou, since 1987. The key to this system is that *Soulès* carries out business with only one importer, the *N&D* company, with a mutual exclusive relationship (which makes the difference with ordinary sales from bounded warehouses). The importer purchases only according to needs (for distribution, or for reselling to other importers) and *Soulès* remains the owner of the rice, stored in the port in bounded warehouses (before clearance through customs). *Soulès* reserves the right of inspection of his partner's activities and the trust involved in this type of relationship allows N&D to act in the name of Soulès. For instance, in hiring warehouses and for certain administrative steps, *N&D*, being a Beninese company, has the advantage over foreign companies. Finally, *Soulès* set up a repacking unit in the port of Cotonou, that permited it to buy high quality rice in 50 or 100 kg bags in Asia, to repack it into 1 or 5 kg bags and to sell these packs along the West African coast with a "de luxe" brand. Small packs require containers, so transporting the rice in bulk (in 50 or 100 kg bags) from the departure port to Cotonou means significant savings.

2.5 - *A High Specialization in Trade, without any Integration in Production Process*

One of the characteristics of the rice trading companies is their little involvement in the upstream and downstream activity. Indeed, the big traders in agricultural products diversify their activity from the production of input to the distribution of food products, in order to guaranty their leading position in wheat, corn and oilseeds. But as far as rice is concerned, they are only interested in trading. Even the Thai exporters are very little involved in activities of production and transformation. However, some of them own rice mills, but here it is rather a question of keeping part of the first activity of the company in the family, for sentimental reasons, more than part of a strategy of vertical integration. For them, it is essential to get supplies from different regions, so as to ensure the largest choice possible in quality, all year long. Owning mills in several regions would be too important an investment in term of financial cost and management. And the efficiency of the market does not justify it : brokers between rice millers and exporters permits exporters to benefit from a very diversified supply.

For international trading companies, to invest in rice production or rice mills in LDCs would probably involve more risks than advantages, and any way, is impossible in many exporting countries (because of national investment policies for example). On the other hand, rice is one of the raw products requiring the simplest transformation process before final consumption, so there is often no point in investing in processing plants in importing countries (with the exception of the EEC, where import duties favour brown rice imports to the detriment of white rice, to protect European rice mills).

The United States is a case apart, since it is the only industrialized country producing and exporting rice on a large scale. But even this fact has not been sufficient enough to encourage trading companies to get more involved in rice processing. The existing integration was initiated by the rice industry. Rice milling industry is very concentrated (a dozen ricemills process two thirds of the American crop) ; most of them are organized as cooperatives, have a strong influence on farmers, often have their specific brands, and are also exporters. Actually, the power of the rice millers' lobby is partly due to the fact that they control the whole production and marketing ; and the strength of their position does not allow the traders to get involved in these activities.

III. ADJUSTMENT OF MARKETING METHODS TO THE ECONOMIC ENVIRONMENT : THE CASE OF IMPORTS IN AFRICA

We have seen that the increasing African demand for imported rice has played a major role in the soaring rise of international trading companies. In the seventies, Asian exporters knew nothing whatsoever about these new horizons. Naturally, it was the operators who were already doing business in that region, either importing wheat and wheat flour, or exporting tropical products (especially coffee and cocoa) who launched out into rice trading. Although rice production and consumption is quite marginal in France, it is worth pointing out the presence of French companies in rice trade. Indeed, the links inherited from the colonial times allowed French companies to capitalise on a valuable experience and precious relations in politics and business, that gave them a significant advantage in many African markets.

3.1. From Sale against Shipping Documents to Sale from Bounded Warehouses

Traders' methods of work on the African market have considerably evolved, in response to the soaring demand and to the increasing competition between trading companies, and also to the deteriorating economic and political situation in African countries.

In the early seventies, when *Action* was almost the only one on the market, shipping was handled in the classical way : destinations and purchasers were already known at the departure point, letters of credit granted by African banks and confirmed by international banks.

With the arrival off *Riz et Denrées*, followed by other companies, competition increased and vessels began leaving departure ports with only a partly sold freight, so as to cut delivery time and to reduce the immobilization time of the ship at the departure point. In that way, the holds were used at their full capacity, and additional customers were found on route. As competition grew, the part of the rice for which a destination had not been defined from the departure gradually increased and eventually reached the total freight. This rice "afloat" became a common practice from 1981-82. As a result of the "race for volume" between traders, it was also well adapted to the low financial capacity of the buyers. On an average, two months are necessary between the decision to purchase and the arrival in an African port, and two and a half months from the intention to purchase. Such an immobilization of capital is a heavy burden for most African importers, who have poor possibilities of credit. In the case of "afloat", shipping documents may be sent only a few days before delivery.

The next stage was to sell the product once delivered to the destination port. The rice unsold during the travel was unloaded and sold from the warehouses to importers from the country or from neighbouring countries (the cost incurred by a stand-by ship is too expensive, three to five thousands dollars per day, to allows the vessel to wait until finding a buyer). Such a practice implies a very active market and reliable storage conditions. This developed mainly in Cotonou and Lomé, the re-exportations towards Nigeria[13] and Niger offering wide outlets. In order to manage these bounded warehouses, several companies located their traders in the main importing ports (*Sucden, Phibro* and the Thai exporter *Soon Hua Seng* did that in Lomé). Otherwise, these sales from bounded warehouses were often handled under the responsability of a forwarding agent, who delivered the rice only once it was paid (the buyer had the possibility to pay part of the goods at the time of the order, before the arrival of the ship, or to buy directly from the warehouse).

But such operations are risky, exposing the traders to punctual crisies of the local markets :

- In Benin, such a practice was very actively carried on during the years 1985-88. But the important build up in stocks and the illicit crossing of the Nigerian borders attracted too much attention. Nigeria responded by tightening the custom controls, and severely repressing smuggling. In November 1987, after violent border incidents, one of the most active border markets was destroyed by the Beninese authorities. The re-export market lost its fluidity, but the traders went on unloading their ships in Cotonou anyway. By the end of 1988, up to 150,000 tons of rice had been stored in that town. The market was in a glut and prices sharply dropped on the local market. The simultaneous drop of the U.S. dollar and of the exporting prices caused heavy losses for the traders. The crash of the banking system in Benin worsened the situation and the market remained

[13]. In 1981, Nigeria started to increase import taxes on rice and wheat and finally prohibited any import of these products in 1988, in order to limit currency expenses. Since then, to bypass the legislation, rice and wheat are imported by Benin and Cameroon and re-exported illicitly to Nigeria (the import ban was suppressed for wheat at the end of 1992). So Benin became within a few years one of the major rice importing countries in West Africa.

saturated throughout 1989. *Sucden*, especially involved in these operations, suffered severe losses, which were, by the way, related to the interruption of its activity in the rice business.

- In Guinea, where rice imports rapidly increased after the trade liberalisation in 1984, several trading companies began selling from bounded warehouses, but storage conditions and, even more, robbery forced them all to give up.

Such risks now incite operators to sell from bounded warehouses only in a few specific places, and to limit the "afloat" as much as possible. However, this last practice remains very common, and it is almost the exclusive way of supplying some countries such as Guinea, where the continually falling exchange rate creates enormous risk for importers and forces them to try to minimize the immobilization of their capital. More over, in the case of Guinea, the exchange of local currency is limited by weekly quotas. This imposes strong constraints on importers : they are now forced to open letters of credit day by day, only as the rice is being unloaded.

3.2 - Is the Mediation of Traders Unavoidable ?

Even though trading companies experience fast turn over, they remain in a key control position between Asian exporters and African importers. However, Thailand has attempted in different ways to get rid of these intermediaries, in order to improve the margins. From 1981, the Thai government launched a real offensive strategy towards African markets, shifting much of its public contracts to that continent (previously these contracts had been mostly oriented to traditional Asian importing countries). As a result, direct relations started to be built up. The Thai Ministry of Commerce tried to support private exporters as well, and common missions were organized to visit main African importing countries, with governement representatives and private operators. Some of the leading Thai rice exporters (*Soon Hua Seng*, *Chaiyaporn*, *Capital Rice*, *Laemthong Rice*, *Riceland International*) started to export directly between 1982 and 1984, without dealing with international traders. Some of them settled permanent representatives in some of the main destinations or built warehouses for transit or local sales. But at the end of the eighties, this trend towards closer relations between Thai exporters and African importers reversed. Financial and banking situation had been getting worse, political crisies had followed one after the other, making these direct sales more and more hazardous with each passing day. Besides, Thailand had been drastically reducing its government-to-government sales, after eliminating all the export taxes. Moreover, Vietnam had developed into a major exporter of cheap rice, Pakistanese and Chinese offer had remained at a steady level, and so Thailand was faced with tough competition on low quality rice, and saw its share of African markets being cut off.

This mediation of international traders is easy to explain. Asian exporters who want to sell directly to African clients face numerous constraints :

- Historically, there have been very few relations between African countries and rice exporting countries.

- Language barrier and cultural differences are hindrances not to be underestimated.

- Lack of experience in each other's commercial practices, practical difficulties in communication (telephone, fax, air links ...), make the negociations cumbersome.

- African banks are seldom reliable, Asian banks do not want to deal with African importers, and it is easier to be covered by an international bank through an international company.

Thus, traders all over seem to be coming back to their intermediary role. They have good experience in the African markets, where generally they have business in products other than rice (so, their rice transactions can be covered by other operations). More over, they deal with Thailand as well as with Pakistan, China and Vietnam and so can always find the type of rice requested, at the best price, from one or another of their suppliers. They can benefit easily from financing facilities and low interest credits. And above all, they assume a great part of the risk in this unpredictable market.

3.3. Are we Going towards an Integration of African Importers by International Traders ?

With trade liberalisation spreading throughout almost all African countries, the problem of private financing of imports is growing. Sophisticated payment methods are used but the risk is always high, thus enhancing the position of traders. All this seems to have led to the first steps towards integration of importers by trading companies. The former are handicaped by their limited financing capacities ; the latter are not able to manage their operations on the long term, because of instability in African countries. To solve these problems, some cases of associations between importers and traders are emerging, with exclusive mutual engagements. A few examples can be mentioned :

- In Conakry, *Cargill* works with *SIC*, a company set up by two brothers from Tombouctou. They established a relationship based on mutual confidence that allowed them to facilitate and speed up banking operations and to forsee local needs and schedule deliveries. Thanks to this, in 1991, *Cargill* became in 1991 and 1992 the first rice supplier of Guinea and *SIC* the first rice importer. Freight being very large, *SIC* usually shares deliveries with other importers (mostly with *Safricom*, with whom *SIC* has tight links). Here, the contract is first negociated between *SIC* and *Cargill*, but the final buyers pay directly to *Cargill*[14].

- In Senegal, an importer (who prefers not to be named) works in joint-venture with *Chayaporn*, a major Thai exporter. He either imports directly high quality rice, which has been liberalised, or supports *Chayaporn* to submit in CPSP[15] tenders (*Chayaporn* is the only Thai exporter to have sold directly to CPSP since 1990). In the latter case, this importer does not limit himself to lobbying but also shares the risk of the deal.

- In Cotonou, as we mentioned bfore, *Soulès* works with a local company, *N&D*, to import rice and run a repackaging unit.

What is the chance of this kind of relation spreading as a response to structural market instability and economic weakness and insecurity of most African countries ? Is there not a risk of generating captive markets, as they have been observed for wheat ? For this cereal, the USA and EEC share the major part of African markets benefiting from monopolistic positions thanks to the capital they have placed in African mills (DAVIRON, 1991). Whereas liberalisation aims to favor competition, does it not actually risk, on contrary, to lead to monopolies and captive markets?

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[14] By the end of 1992, situation has already changed, giving an other example of the overwhelming importance of individuals and the rapide rotation among the leading companies : Cargill has lost its position in Conakry. The key trader who used to handle these operations left Cargill, set up his own company, Englewood and is carrying on his business with SIC.

[15]. Caisse de Péréquation et de Stabilisation des Prix : public structure which has the monopoly for importing brokens (that represent about 90% of total rice imports in Senegal).

AS A CONCLUSION...

...we will stress some of the main points to be kept in mind.

Price instability (related to supply and demand structure at international level), impossibility to hedge and lack of easy access to information (because of no futures market) makes international rice marketing a risky activity. Taking on these risks is one of the major function of traders, above and beyond the simple physical handling of goods and information links between suppliers and buyers. Professionalism required in risk management, complex information networks and high level connections, make this function too dangerous for non-specialists (namely exporters and importers) and explained the high level of personalization of this business.

This risk, as well as the strong concentration prevailing in rice trade, suggests that oligopoly and/or oligopsony situations can easily occur, bringing about very large margins. This was undoubtedly the case when Africa suddenly increased its imports in the seventies, because at that time, information and contacts were in the hands of a very few. But strong competition developed rapidly (as it had in trade in other major commodities, as stressed by CHALMIN (1985)). Nevertheless, if one is prepared to speculate, there are still opportunities for big benefits, or for tremendous losses. Rapid turn-over among market leaders is proof. Although there is no absolute oligopoly or monopoly, captive markets will continue to be developped in certain countries, especially when political support is guarantied. This last point should be emphasized if one is to understand the outlook of rice imports management in Africa. The atomization of African merchants and deterioration of the economic environment, seems to favor closer relations between importers and international traders. If such an integration were to develop, it could lead to the emergence of captive markets.

The utility and efficiency of traders in the rice market is unquestionable, and the [1]negative effects that could ensue from their concentration are countered by the level of competition. It is up to the client, if he wants to negociate in satisfactory conditions and to obtain sufficient access to information. At this level there is undoubted biais : the main information sources available for both exporters and importers are the traders with whom they are dealing, who are capable of turning the information to their own advantage. Here appears the inherent value in information structures, independent of traders and easily accessible for operators. Even if such structures depend on traders for information, one can at least hope for an optimisation of this information thanks to the multiplying and comparing of different sources[16].

[16] In this way, we can mention the Rice Market News of USDA, OSIRIZ database set up jointly by the Caisse Française de Développement (ex-CCCE), CIRAD and ONIC in 1990, the information service on rice market set up in 1991 by the International Trade Center (UNCTAD/GATT), the project initiated by the FAO in 1992 to create a worldwide information and analysis service on the rice market and the very professional weekly bulletin "The rice trader", privately edited by T. SLAYTON.

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