

China: A Potential Export Market for California Rice

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Background

With over 100 years growing history, rice is one of the state's largest crops and contributes about \$1 billion (production value) each year and 25,000 jobs to the state's economy. Traditionally, 97% of the state's rice crop is grown in the Sacramento Valley including Gridley, Biggs, Colusa, Marysville, Richvale, and Live Oak. With about 550,000 acres California rice production approaches 5 billion pounds. In addition to the economic contribution to the state, California rice industry also provides food and resting places for nearly 230 wildlife species, including internationally recognized shorebird habitat and nearly 60 percent of the food for 7 to 10 million ducks and geese that migrate along the Pacific Flyway each winter. (California Rice Commission, 2018)

California's Rice Industry

California is the second largest rice producer in the United States, next only to Arkansas. However, California primarily produces medium and short grain rice. As such, California is the largest producer for medium and short grain rice in the whole country, see figure 1 (USDA, ERS, 2018).

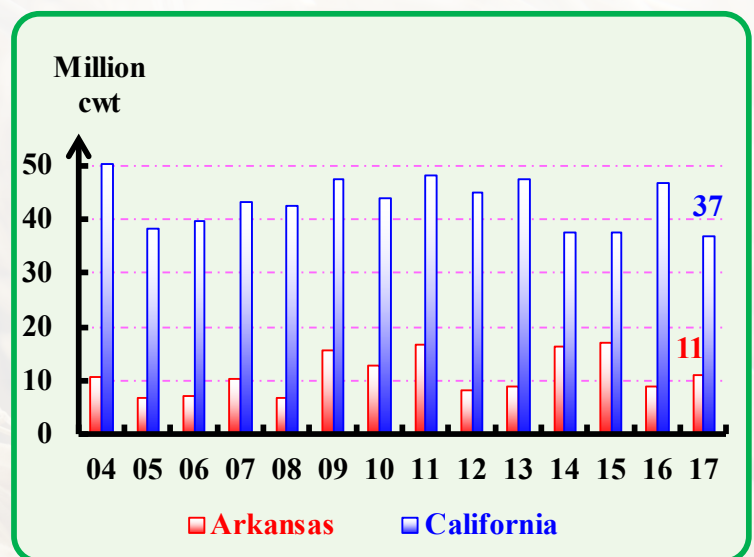


Figure 1. California and Arkansas Rice Production Comparison (Medium and Short Grain)

From the distribution perspective, on average, 48% of California rice is exported to other countries, see figure 2 (University of California, Agricultural Issues Center, 2018). In 2017, almost 60% of California rice was shipped to overseas markets. Currently, the top markets for California rice in 2017 were Japan, Jordan, and Korea (See figure 3) (USDA, FAS, 2018). Japan is the largest overseas market for California rice, accounting for 30% of the total exports in 2017.

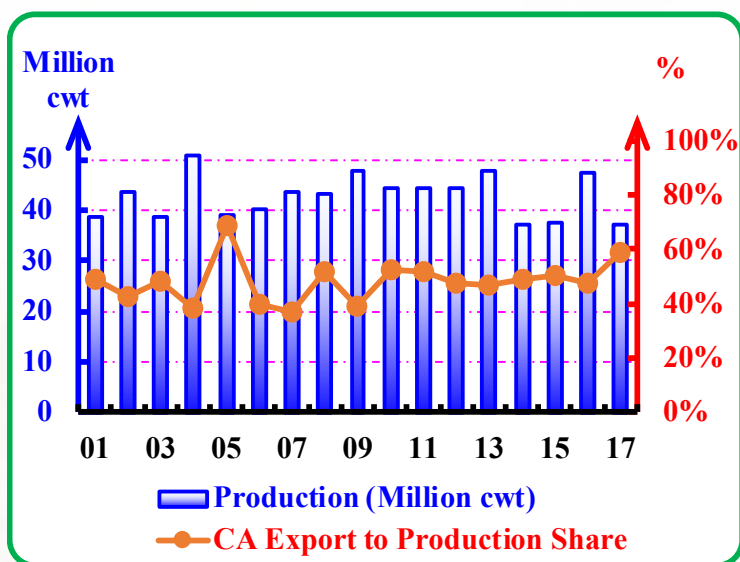


Figure 2. California Rice Production and Export Share

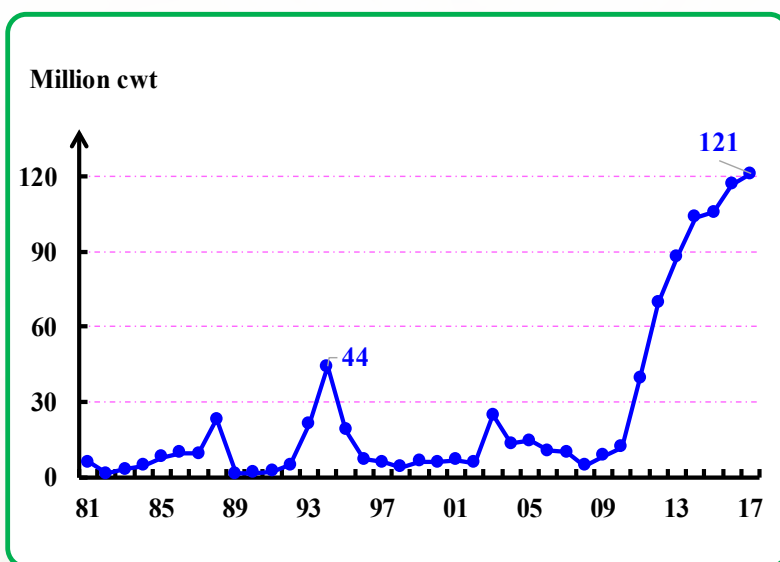


Figure 4. China's Rice Imports

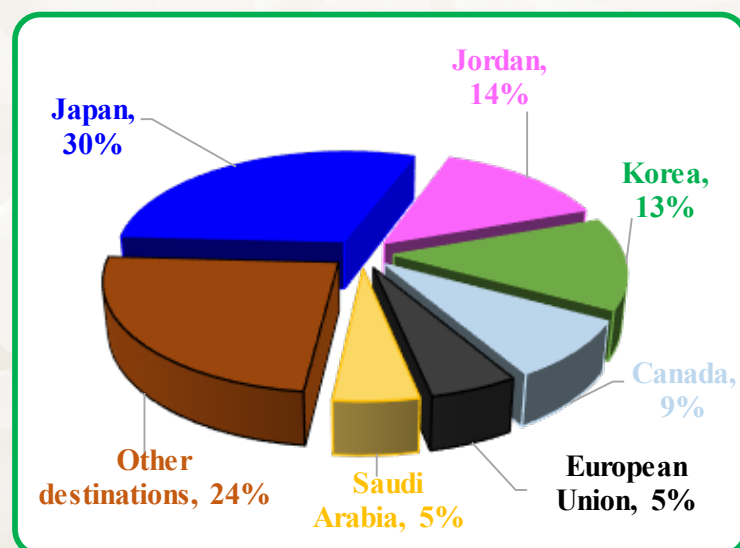


Figure 3. Top California Rice Export Markets

China's Rice Imports

In China, rice is a staple food grain for Chinese consumers. On average, each consumer in China consumes over 220 pounds of rice each year, with a population of over 1.4 billion, China needs about 308 billion pounds (3.08 billion cwt) of rice each year! Although China is the largest rice producer in the world, China's domestic production is not enough to satisfy consumers' need in China. Therefore, China's rice imports have increased dramatically in recent years, see Figure 4. In 2017, China imported 121 million cwt of rice, which was over three times the total rice production of California, indicating a huge potential market capacity for California rice.

In addition, consumers' serious concerns of grain safety in China also provide a great marketing potential for high quality California rice. A Chinese news website (www.163.com) reports that 10% of China's rice are polluted by Cadmium. The report says in some rice producing regions, rice field Cadmium content exceeds 26 times the national standard (Zhang, 2018). The polluted rice, 10% of China's rice production (3.17 billion cwt), is about 31.7 million cwt of rice! With the fast economic growth in China, consumers are demanding more high quality, safe food, including rice. This will also provide a great opportunity for California rice, which are of high quality and safety.

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Price of Imported Rice in China

Traditionally, Chinese consumers with relative high incomes prefer to consume imported rice of high quality. Their tastes and preferences can be inferred from the market price of imported rice in China. One famous online shopping website, www.tmall.com, sells different varieties of imported rice. One variety from Japan, Koshihikami, is a popular choice among Chinese consumers. The retail price on the website is around \$10/pound, which is twice of the highest retail price of Lundberg Organic Rice in the United States. One news outlet (<http://www.qingdaonews.com/>) reported that the 50 metric tons of imported Japanese rice was sold out within two weeks in 2008, indicating the real demand for high quality imported rice.

Opportunity for CA Rice Industries

After 11 years of negotiation and hard work between the US and China, China finally agreed to open China's market for US rice. On July 20, 2017, the U.S. Department of Agriculture reached agreement with Chinese officials on final details of a protocol to allow US rice to enter China's market for the first time ever (USDA, 2018). This is good news for US rice industry, especially for California rice farmers. The majority of California rice is medium and short grain of high quality, which is the favorite variety for Chinese consumers. With this great opportunity, California rice farmers can expect to increase the profit margin by exporting rice to China in addition to maintaining the current overseas markets.

Potential Obstacles

Although, China's opening market for US rice provides California rice farmers a great potential to increase rice production and profitability by exporting rice to China, there might be few obstacles California rice farmers are facing.

1) China's market opening is contingent upon the onsite inspection and approval of US facilities by Chinese inspection and quarantine officials. This regulation applies to individual farms. If you plan to export rice to China, you need to invite relevant Chinese officials to come to visit and inspect your facility. Only with their approval, you can ship your rice to China. The main reason for this practice by the Chinese government is the pest concern. Since rice is such an important staple grain for Chinese consumers, they cannot afford to have any possible pest contamination from imported sources to affect China's rice production.

2) Political conflict or trade war between the US and China can greatly affect this business opportunity. Recent tension between the two Governments and the ongoing trade conflict can potentially change the game significantly. If the two governments cannot reach a trade agreement and the US increase tariffs, China may just close the door again in retaliation. Then California rice farmers will lose this opportunity to access China's rice market.

3) Many California rice farmers may not be ready to ship rice to China. Since this is a new market opportunity for California rice farmers. Most rice farmers are not familiar with this new market. California rice farmers may need to do more homework to know China's market and to understand Chinese consumers' tastes and preferences as well as some special regulations, such as bi-language labeling requirement, which requires the labels on the package to be printed in both English and Chinese.

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