

# Rice Pledging Scheme: A High-Stakes Risk for the Big Players

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## Abstract

After the Yingluck's government won the election and came to the office in 2011, many policies were announced and formed including economic policies. One of the largest economic policies in terms of the government budgeting involved was rice pledging scheme. Government committed pledging prices of 15,000 baht per ton for white rice paddy starting from October 2011 without limit of rice quantity to buy. The key mechanisms for the government to implement this policy included Bank for Agriculture and Agricultural Co-Operatives, Public Warehouse Organization, Marketing Organization for Farmers, etc. The estimated budget was set to 410,000 million Baht.

One year after approval, the project faced many problems and various criticisms. Inevitably, rice pledging was one of the hottest issues in the censure motion in November 2012. Among many problems including government high debt to support the program, the protest from foreign countries against the Thai government free trade intervention, and the lost of the number one world rice exporter, corruption in different levels related to the pledging process put the government in a difficult situation.

**Keywords:** Rice Pledging Scheme, Policy Development, Policy Implementation, Thailand

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# โครงการรับจำนำข้าว: เดิมพันครั้งสำคัญ ของรัฐบาลยิ่งลักษณ์ ชินวัตร

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## บทคัดย่อ

หลังจากนางสาวยิ่งลักษณ์ ชินวัตร เข้ารับตำแหน่งนายกรัฐมนตรีในปี พ.ศ. 2554 ได้มีการประกาศนโยบายทางเศรษฐกิจจำนวนมาก หนึ่งในนโยบายขนาดใหญ่ของรัฐบาลในแง่ของงบประมาณที่ใช้จ่ายคือโครงการรับจำนำข้าว ที่รัฐบาลประกาศรับจำนำข้าวเปลือกในราคา 15,000 บาทต่อตันเริ่มต้นเมื่อเดือนตุลาคม พ.ศ. 2554 โดยไม่มีการจำกัดปริมาณการรับจำนำ กลไกสำคัญในการดำเนินนโยบายของรัฐบาลคือ ธนาคารเพื่อการเกษตรและสหกรณ์การเกษตร (ธกส.) องค์การคลังสินค้า (อคส.) องค์การการตลาดเพื่อเกษตรกร (อตก.) เป็นต้น ซึ่งมีการประมาณการงบที่จะต้องใช้งบถึง 410,000 ล้านบาท

หลังจากโครงการรับจำนำข้าวได้ผ่านการรับรองและนำไปสู่การปฏิบัติเป็นเวลา 1 ปี ได้เกิดปัญหาและถกวิพากษ์วิจารณ์ในหลายประเด็น ยิ่งกว่านั้นโครงการนี้ยังเป็นวาระร้อนในการอภิปรายไม่ไว้วางใจนายกรัฐมนตรีและรัฐบาลในเดือนพฤศจิกายน พ.ศ. 2555 ปัญหาที่สำคัญของโครงการนี้ได้แก่ หนี้จำนวนมหาศาลที่เกิดขึ้นจากการดำเนินโครงการ การประท้วงจากนานาชาติต่อการแทรกแซงกลไกการค้าแบบเสรีของรัฐบาลไทย การเสียตำแหน่งผู้นำอันดับหนึ่งของไทยในฐานะประเทศผู้ส่งออกข้าวสู่ตลาดโลก และปัญหาการทุจริตในระดับต่าง ๆ ในการดำเนินโครงการ ปัญหาเหล่านี้ทำให้รัฐบาลตกอยู่ในภาวะที่ยากลำบาก

**คำสำคัญ:** โครงการรับจำนำข้าว การพัฒนาโครงการ การนำโครงการไปปฏิบัติ ประเทศไทย

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*“The economic re-balancing, if successful, would add an estimated Bt250 billion to the Bt10-trillion Thai economy. This would represent 2.5 per cent of annual GDP, largely resulting from more purchasing power for the grass-roots population, whose incomes will be increased by higher rice prices and minimum wages.”* Kittiratt Na-Ranong, Deputy Prime Minister, speaking in support of the new rice pledging scheme proposed by the government of Prime Minister Yingluck Shinawatra [The Nation, September 18, 2011.]

*“Whew!”* the Prime Minister sighed as she returned to her office from the floor of the House of Representatives of the Parliament of the Kingdom of Thailand. *“That was one grueling ordeal, so unlike anything that I’ve ever encountered in the corporate world! I hope I never have to go through that kind of interrogation, again – ever!”*

Prime Minister Yingluck Shinawatra, the first female prime minister in the history of Thailand and the leader of the Pheu Thai Party (PTP), was referring to the just-concluded censure debate during November 25-27, 2012, that the opposition parties, led by the Democratic Party (DP) of Thailand, had earlier brought about. As it turned out, on this day, November 28, the last day of the process, she had easily survived a no-confidence vote after the lengthy and intense censure debate concerning alleged failings, including the charge of widespread corruption and outright fraud, in her one-year-old rice pledging scheme. However, even with this big win made possible by her party’s massive parliamentary majority, the debate, all the publicly aired allegations leading up to it, had garnered so much critical attention from both members of parliament and the general public that the government’s public image had taken a nosedive, especially among those voters who were never her party’s supporters.

Given the seriousness of the accusations that had been leveled, coming as they were shortly after the one-year anniversary of the assumption of power by the governing Pheu Thai party, the continued popularity of the prime minister, along with several cabinet ministers, was now on the line. The Prime Minister herself – together with the deputy prime minister, Police Captain Chalerm Ubumrung; the deputy minister of the interior, Police Lieutenant Chatt Kuldiloke; and, the defense minister, Air Chief Marshal Sukampol Suwannathat – had been required to respond to the opposition’s

often strident questions and accusations during the three-day period (i.e., November 25-27, 2012) set aside for the House of Representatives to debate the censure motion. While the prime minister had become inured to the customary ongoing criticisms from her parliamentary opponents over the course of her first year in office, this censure motion debate was the first time she and her party had to defend their policies before the entire nation.

The main theme for the debate, aired live by the National Broadcasting Services of Thailand (Channel 11), had been the alleged corruption in many projects under the administration of the Yingluck Shinawatra cabinet, with the rice pledging policy as the focal highlight of the debate. Indeed, nearly two of the three days of debate had been devoted to the data presentation concerning the rice pledging scheme. The main opposition party, the Democrats Party (DP) had spent months gathering evidence and planning for the upcoming debate. They had raised several major and explosive charges. First had been what the DP believed to be documented instances of non-transparent exportation of rice from the government warehouse under the so-called government-to-government (“G to G”) arrangements. Second had been the charge that large quantities of rice in the project had been fraudulently brought back to the project for a second round of pledging. And, finally had been the issue of alleged fraud in the pledging documentation process, whereby rice-pledging documentation had been issued to some farmers for rice pledging without rice actually being input into the system. These issues were indicated by the opposition parties to be the principal, albeit not sole, reasons for their motion.<sup>1</sup>

During the three days and three nights of debate set aside for the censor motion (30 hours for the opposition parties and 12 hours for the majority parties), the opposition parties had left no stone unturned in excoriating the Prime Minister and her party for these alleged improprieties. Yet, she sought to assure herself, the rice pledging scheme had elevated the standard of living for Thai rice farmers – farmers, who at approximately 3.8 million households, were by far the largest portion of all farmers in the Kingdom.

Of course, with the voting outcome of 308 “no’s” to the motion against 159 “yes’s,” she felt exonerated of the slew of charges that the opposition had hurled at her and her cabinet. She certainly had more than enough power in the parliament to keep her many populist policies going. For the future

of this rice pledging scheme, however, she could not help but be disheartened by so many hurdles at the budgetary and implementation levels, as pointed out factually-- but with exaggeration, she felt -- by the opposition during the debate. Clearly, she had a hard decision to make – i.e., what to do about the rice pledging scheme. As the issue ricocheted around in her mind, several possibilities flashed by. But, she needed time to collect her thoughts before thoroughly pondering each one and arriving at a firm decision.

## **Origins of The Pheu Thai Party**

Prime Minister Yingluck Shinawatra's Pheu Thai Party was a direct lineal descendant of the Thai Rak Thai Party (TRP) of former Prime Minister Thaksin Shinawatra, her elder brother. Following the coup d'état of September 19, 2006 which terminated the administration of former Prime Minister Thaksin Shinawatra, the erstwhile ruling party had been in a highly untenable position, with many members of the party's executive committee<sup>2</sup> resigning shortly after their leader, Shinawatra, sent his letter of resignation from his initial place of self-imposed in London. A year later, the Thai Rak Thai Party was dissolved by a Constitution Court ruling that found the Party guilty of having committed electoral fraud in the national election on April 2, 2006.

If any of his political adversaries had thought that that dissolution ruling would be the end of Thaksin Shinawatra's political prominence, they were soon to be sorely disappointed. To wit, not long after the Court's dissolution of the TRT Party, most of TRT members agreed to coalesce under the umbrella of a new party, the People Power Party (PPP). A phone call from the deposed former prime minister (who had been out of the country at the time of the September 2009 coup) was all that it took to summon executive leadership for the TRT replacement party. Specifically, former Bangkok Governor Mr. Samak Sundaravej accepted the former premier's invitation to lead the PPP, and upon the PPP's election victory in December, 2007 became prime minister on January 29, 2008. His premiership was doomed by a September 9, 2008 ruling by the Constitution Court held that certain of his actions had breached Section 267 of the Constitution of the Kingdom of Thailand (2007), thus terminating his incumbency. As fate would have it, Sundaravej's cabinet had ruled over the government administrative apparatus for just 223 days.

Following Sundaravej's termination, Somchai Wongsawat, a former

permanent secretary in the Ministry of Justice (the highest non-elected rank in the civil service) and Thaksin's brother-in-law, was nominated and assumed office as the next leader of PPP. Alas, it was to be his fate to remain as prime minister for a mere brevity-setting record of just 75 days before the PPP also fell victim to dissolution by way of a December 2, 2008 ruling by the Constitution Court that the party had engaged in electoral fraud during the national election of 2006.

At this point, with an abundance of caution as the guiding principal, the Pheu Thai (PTP) party, the latest reincarnation of the former Prime Minister Shinawatra's original TRT party, was in process of formation even before the PPP was dissolved. Thus, the day after the Court's dissolution of their ill-fated PPP, the majority of the PPP members made the move to PTP in anticipation of being in a position to form the next government. But, the pressure of their party being dissolved twice proved to be too intense for many PPP members, leading to their decision to defect and -- along with other small coalition parties -- throw their support to the Democrats to form a new government.<sup>3</sup> Hence, Mr Vejjajiva succeeded to the premiership on December 17, 2008 and continued in the post until he ended his term by dissolution of parliament on August 5, 2011 -- at which time, the PTP, with Yingluck Shinawatra at the helm, contested the general election and contended with Vejjajiva for the premiership. The PTP again won an outright majority of the seats in the House Representatives, i.e., 265 out of 500 in total -- aided, many observers believed, by her brother's long-lasting political influence, her own charisma and charms, and the anti-Democrat voters' fervent desire to not let Mr. Vejjajiva back in as the country's leader.<sup>4</sup>

During the campaign, Ms. Shinawatra -- who had been tapped by her elder brother, the former prime minister, Thaksin, to vie for the premiership -- was quite active in presenting the party's platform of policies and appearing at rallies for PTP parliamentary candidates to lend her support. She was the first female politician to strive for position of head of government in the Kingdom of Thailand. Some observers attributed her choice to lead the party to her brother's assessment of her as someone with a compromising character which was deeply needed for the situation that time.<sup>5</sup> This was due to the fact that by the time of the July 3, 2011 general election, the battle between the yellow and red shirts that had been raging since before the 2006 putsch (and, indeed, had led to the coup that ousted the government of former Prime Minister Thaksin Shinawatra) had reached

fever pitch. Thus, one of the main PTP policies emphasized in the 2011 election was to resolve the conflict between the two sides and to start reconciliation in Thai society.

However, the espoused desire to effect reconciliation in Thai society did not extend to political competition on the campaign trail. The PTP's economic policy team was not diffident in asking voters to take sides between PTP and DP, as was evident in a seminar held by Thai Journalist Association. Averring that the economic policy of PTP would increase the country's economic growth to at least five percent per year and position Thailand to eventually catch up with China and India, one PTP economic policy team member was quoted as having stressed the criticality of voters making a "a clear decision which party, PTP or DP, they will vote for." Emphasizing the party's intention to eliminate joblessness and elevate the income of the poorer segments of the population, he went on to declare that the very survival of the Thai nation depended on voters making a clear choice and "taking sides."

In short, the PTP's strategic bid for long-term victory was quite simple: they would have to make peace happen in a politically polarized country while succeeding in boosting the country's economic growth and at the same time make good on their many promises to help the economically challenged electorate out of their poverty.

## **PTP Government Policies Pertaining to Farmers**

Following her election as the first female PM in the history of Thailand, Ms. Shinawatra was obliged to deliver the policy statement of her council of ministers to the National Assembly on August 23, 2011. It proved a challenge because unlike her elder brother, Ms. Shinawatra's career experience had been exclusively in business management, leaving her almost totally bereft of political experience. Nonetheless, knowledgeable observers held that she acquitted herself well.

The policy statement was composed of two parts – specifically, "*priority policies*" to be implemented in the first year of her administration and those policies to be carried out during the four-year administrative term of the government. Consistent with PTP's statements and promises during the recent campaign, the policy would aim, *inter alios*, to "raise the price of agricultural products and enable farmers to gain access to sources of

investment.”<sup>6</sup> This objective was designed to benefit the “grass roots” people of Thailand, the PTP’s main support base. The strategies to reach this goal were set as follows:

- 1) Utilize marketing management and futures markets;
- 2) Support farmers to sell their produce at reasonably high prices compared to costs;
- 3) Implement a crop insurance scheme to provide income security for farmers;
- 4) Provide relief to farmers whose crops are damaged by natural disasters; and,
- 5) Establish a registration system for farmer households and issue credit cards to farmers.

With respect to the strategy of supporting rice farmers (the predominant farming segment) in their quest to sell their produce at a reasonable price, there were two long-established alternatives from which to choose: (i) a rice price guarantee system and (ii) a rice pledging scheme. Both options aimed to increase household net income by enabling farmers to realize the benefit to be gained from reasonable agricultural prices; and, both options had previously been implemented in a series of predecessor governments. For example, the DP government under the Vejjajiva premiership had adopted a rice price guarantee system, while the earlier TRP and PPP governments had chosen a rice pledging scheme. The PTP again opted to pursue the same route as its political progenitor parties – i.e., a rice pledging scheme incorporating the offer to buy long grain rice and fragrant Hom Mali rice with moisture not exceeding 15% at 15,000 Baht and 20,000 Baht per cart, respectively. Table 1 summarizes the asset, gross income, and net income for farmer households before and after the rice pledging scheme started in October, 2011.

**Table 1: Trend of Farmer Income per Household (in THB)**

Year	2011	2010	2009	2008	2007	2006
<b>Asset</b>	58,792	32,197	30,359	27,931	26,232	24,934
<b>Income</b>	37,752	24,350	22,175	21,610	18,833	15,918
<b>Net Income</b>	4,385	2,295	1,725	1,662	1,244	1,323

*Source:* Matichon Weekly (April 13-19, 2012) p. 25.

## **Rice Price Guarantee *versus* Rice Pledging Scheme**

Even though the two approaches to enhancing rice farmer incomes had the same goal, they were significantly different with respect to their processes of implementation and consequently resulted in different price outcomes as well as policy beneficiaries.

### *The Rice Price Guarantee Approach*

Under the rice price guarantee approach, the government first had to do a national survey to gather information regarding the size of areas under rice cultivation and the expected amount of annual production. This step involved providing an opportunity for farmers to register and submit information to the Bank for Agriculture and Agricultural Cooperatives (BAAC) operated by the Thai government. The survey information was then double-checked by way of public hearings in the local areas of rice cultivation before being used to calculate the budget needed to operate the project each year. The calculated budget, then, was a statement of the amount of money the government needed to pay to farmers as a function of the market price of rice. If the market price was lower than the guarantee price, the government would pay the difference between the two prices. For example, the government might set a guarantee price at THB 10,000 per ton while the reference market price at that particular time was THB 7,500. The farmers would then get the difference of THB 2,500. However, if the market price was higher, no additional support would be forthcoming from the government. Each family could be compensated up to 30 rai (or 4.8 hectares) of paddy fields or up to 30 tons of rice paddy.

There were several strengths or advantages that pertained to this option. First and foremost, it resulted in no distortion of the market mechanism because there was no intervention in the market by the government. Further, many held that, compared to its rice pledging alternative, it entailed fewer opportunities for fraud and corruption activities, such as produce adulteration by farmers, missing rice at the warehouses, and smuggling in rice from the neighboring countries to take advantage of higher prices in Thailand. Finally, farmers would receive government payments of the difference between the market and the set price, regardless of what externalities might impact the production side of the arrangement, e.g., a natural disaster, and even when there was no production at all.<sup>7</sup>

### *The Rice Pledging Approach*

There were three main players involving in the rice pledging scheme: farmers, rice mills, and the government. The farmer's role was to harvest their rice and take it to pledge at the government-approved mills. The mill's role was to stock the rice and, at a guaranteed price, issue vouchers to farmers. Then after a certain period of time passed without the farmers redeeming the rice, the government would then appropriate the rice and sell it to domestic and/or international buyers.

The first step of rice pledging involved the registration of the rice mills willing to participate in the project with the Marketing Organization for Farmers (MOF) or Public Warehouse Organization (PWO). Farmers who desired to participate in the project would bring their product, paddy, to pledge at the participating rice mills at the set price which was set by the cabinet's approval. The rice mills checked the quality of the paddy with respect to the amount of moisture in the grain product. If the paddy brought to pledge exceeded the 15 percent moisture standard, the farmer would receive a proportionately reduced payment.<sup>8</sup> The pledged paddy then was kept in the rice mills until BAAC or PWO issued orders to mill the paddy. On behalf of the government, the milled rice then was kept for additional periods of time, pending orders from the BAAC or PWO to ship rice to a specific buyer.-

Like the rice price guarantee option, this rice pledging scheme had certain strengths, albeit somewhat different ones. First, it has the not inconsequential advantage that farmers received quick payment according to the pledging price, often at the rate of 50 percent above the prevailing market price. Moreover, there was no limit on the amount of paddy that could participate in the program. Finally, as the government became the country's biggest rice trader with rice stock in over 2,500 warehouses around the country, this alternative gave the government price control for export and domestic rice trade and subsequently raised the price of paddy in the market.

The decision of the government to support rice farmers in Thailand is not isolated. In other countries, governments are also doing the intervention to keep the price of a certain item higher or lower than it should be resulted from the market. Agricultural price floor, for example, is the way a government sets an agriculture product price above an equilibrium price to assist farmer.

An agricultural subsidy is commonly used in many countries around the world. The European Union spent 39 billion Euros on direct subsidies in 2010 alone. The United States paid somewhere around 20 billion dollars per year for its farmers for direct subsidies in the form of “farm income stabilization.” Also in Asia, Japan spent USD46.5 billion in order to subsidize its farmers in 2009. Corn, cotton, wheat, and rice are examples of commodities that received high share subsidies from the U.S. government.

### *Lessons from the Operating Histories of the Two Options*

In the past, the implementation of both alternatives had occasionally resulted in often thorny and unsolved problems. For example, the price guarantee option was sometimes stymied by the problem of inaccurate data from the survey. Although the data was checked with the local people, in one instance the size of cultivated area from the survey was nearly 15 percent higher than the data generated by the GPS maps and aerial photographs, i.e., 67 million Rai (survey) and 57 million Rai (GPS maps and aerial photographs), respectively. This big discrepancy resulted in a huge unanticipated amount of money for the government that had to be paid from the fiscal budget. Other problems included varying subsidy payments (depending on the actual market prices), the tendency of the rice price in the market to not increase because everybody knew that the government would pay the difference, and the limitation on the amount of rice and the rice production per area that could receive the money from the government.

On the rice pledging scheme side, the problems that surfaced mainly were in the processes of pledging and then storing the pledged paddy and rice. The scheme provided a big window of opportunities for corruption among local authorities, traders and millers. The participating rice mill might pay less money to the pledger than it should by alleging the failure of the product to meet standard paddy quality. Past experience with the scheme also included problems arising from the distortion of the market mechanism from government intervention; the expense that the government incurred to keep paddy and rice during the duration of the overall process; and, the cost of the paddy which either originated in neighboring countries and was fraudulently input into the pledging process in order to receive government money under the pledging scheme.

## **Comments at the Beginning of the Project**

Even before the Council of Ministers delivered the policy statement concerning the rice pledging scheme to the National Assembly in August 2011, criticisms of the government's policy emerged from diverse quarters, including the academic sector, public organizations, and foreign institutions. An especially important voice among the critics was that of the Thailand Development Research Institute (TDRI), the highly respected private non-profit foundation famed for their research on a wide variety of public policies, which publicly and vehemently urged the government to cancel the project due to the "enormous" amount of money that government would need to administer the project. The TDRI estimated that the government would spend two trillion baht to run the project in the course of its four-year term. At that level of expenditure, the Institute averred, Thailand's public debt would be at the level of 60 percent of its GDP, which would put the country at high risk of bankruptcy like a number European countries.

For its part, Bloomberg, the premier global provider of 24-hour business and financial news, weighted in with the prediction that the high price of rice pledging upon which the new Thai government was about to embark would result in a rice price increase throughout the region because, according to the USDA, Thailand had been the biggest world exporter of rice since 1981. Moreover, pointed out an economist from the Singapore branch of the Bank of America-Merrill Lynch, the high price of rice could push up the inflation level and potentially bring both risk and confusion to monetary policies throughout Asia because the high price of food would exert upward pressure on interest rates. The critics were in agreement that when the Thai government set the paddy price of pledging at 15,000 baht per ton for Thai White Rice 100%, it simply meant the price of rice in the country was arbitrarily fixed at this price as farmers would not be inclined to take the paddy back after pledging when it was impossible to get sell their stock anywhere at a price competitive with what the government was offering. Table 2 compares the paddy prices in the market between 2011, when the rice pledging scheme was implemented, and 2012, at the time that the censor motion was to be debated.

**Table 2: The Paddy Price before and after the Rice Pledging Program**

Time	Price of Hom Mali Paddy	Price of Paddy
August 2011	14,169	9,612
August 2012	15,333	10,401
Changed (%)	+1,164 (8.2)	+789 (8.2)

Source: The National Rice Policy Committee of Thailand <http://www.dit.go.th/contentmain.asp?typeid=8&catid=145>

Even the non-partisan Office of the Auditor General of Thailand was sufficiently alarmed by the PTP rice pledging scheme to prompt them to send a “reminder” to Prime Minister Yingluck Shinawatra, describing the problems and risks encountered by the earlier PPP government’s rice pledging scheme project. Among those problems had been corruption in the project, the losses incurred from running the project every year and selling pledged rice at low prices,<sup>9</sup> and the 1.86 million sacks of deteriorated rice in the PWO that had to be dealt with in many forms, including dumping and selling at a severe discount.

Notwithstanding these criticisms and demands for reconsideration, the Prime Minister’s PTP government had resolved to forge ahead. The rice pledging scheme had been a major part of PTP’s 2011 election manifesto and, regardless of what problems the critics were predicting, the Prime Minister and her party were committed to following through on their election promises.

## The Implementation of The Rice Pledging Scheme

The PTP’s rice pledging scheme project got underway with an August 30, 2011 announcement by Mr. Boonsong Teriyapirom, Minister of Commerce, that the government had lifted the budget ceiling for fiscal 2012 by 16 percent to 2.4 trillion baht. The budget increase was effected to prepare the way for the government’s implementation of its “priority policies,” foremost among which was the rice pledging scheme, which was projected to cost 140,000 million baht. After that, the National Rice Policy Committee, chaired by the prime minister, announced the price for in-season rice pledging for the 2011/2012 fiscal year. The Committee also decided that the rice pledging project would start several weeks earlier than its initially scheduled date of November 1. Table 3 shows the time tables for the project for the years 2011 through 2013.

**Table 3: The Schedules for the Rice Pledging Program in 2011-2013**

Rice Pledging Project	Date of Cabinet Approval	Schedule
2011/2012 In-season paddy	September 9, 2011	October 9, 2011-February 29, 2012
2012 Off-season paddy	February 13, 2012	March 1-September 15, 2012
2012/2013 In-season paddy	September 3, 2012	October 1, 2012-September 15, 2013

*Source:* The National Rice Policy Committee of Thailand <http://www.dit.go.th/contentmain.asp?typeid=8&catid=152>

The Minister of Commerce also announced, after meeting with the Rice Mill Association, the Thai Rice Farmer Association, and other related organizations that the project would be ready to start in the mid-October, 2011 and end on February 29, 2012 for an unlimited amount of all paddy produced in that period. Table 4 exhibits the pledging price that farmers were scheduled to receive for each ton of paddy.

**Table 4: Price of Rice Pledging**

Item	Price for Rice Pledging (Baht per Ton)
Thai Hom Mali Rice	20,000
Thai Pathumthani Rice	17,000
White Rice 100%	15,500
White Rice 5%	15,000
White Rice 10%	14,500
White Rice 25%	13,500
Sticky Rice (RD 6)	17,000
Sticky Rice Mixed	15,000

*Source:* Matichon Weekly (September 23, 2011) p. 41.

## Post-Implementation Criticisms by The Intelligentsia

Implementation of the rice pledging project did not proceed as smoothly as its supporters had hoped. First came the opposition parties' criticism, led by the DP during the November 9-10, 2011 debate on the 2012 budget, that the government's budget reflected the PTP's pronounced preoccupation with enhancing its popularity, as opposed to addressing truly pressing social

concerns such as allocating adequate resources to alleviate the suffering of those who were trying to recover from the damage caused by the “Great Flood” of 2011. The PTP’s focus on funding so many unabashedly “populist” programs – e.g., rice pledging scheme, tax reduction for first houses and first cars, one tablet computer per child, increasing the salary of new bachelor degree graduates to 15,000 baht per month, etc. – was both shortsighted and fiscally irresponsible, the opposition party spokespersons asserted. Such policies initiatives, the opposition alleged, seemed to reflect the PTP’s greater concern with solidifying their electoral base than with taking a long-term view of the country’s problems, prioritizing them, and then designing policies and programs aimed at addressing them in a fiscally responsible manner.

Wholly undeterred by these and other criticisms and warnings from different sectors of Thai society, the government was insistent on forging ahead with each of the above-listed “urgent” problems, and in particular the rice pledging project. One and a half months post-implementation, the BAAC announced that as of December 2, 2011, government rice-pledging had reached the vicinity of 12,800 million baht. The number of farmers participating with the program was 120,000 households, and the amount of rice pledged was 800,000 tons. Then, as shown in Table 5, the amount of pledged in-season paddy in 2011-2012 went up to 6.5 million ton (or 30% of country production) and to 14.65 million ton for off-season paddy in 2012. The number of participating farmers was rapidly approaching 1.39 million in early-November 2012.

**Table 5: The Amount of Paddy Participate in the Program**

Amount	2011/2012 In-season Paddy	2012 Off-season Paddy
Amount of pledged Paddy	6.5 million ton (30% of country production)	14.655 million ton
Participated farmers	1.294 million households	1.392 million households
Number of pledging points		
• Rice mill	697	665
• On field	228	248
Number of warehouses	319	418

Source: The National Rice Policy Committee, as of October 2012.

Despite rice farmers' enthusiasm for it, as the PTP rice pledging scheme proceeded apace, things that had gone relatively smoothly at the outset began to become much less so. Troubles began with the increasing amount of rice coming into the project after the great flood in 2011, and continued with a budget cut by the cabinet that reduced the rice pledging scheme budget to THB 359,000 million (or 12.44%), and then further accelerated as allegations of widespread corruption under the scheme began to bedevil the government. The biggest hit, however, came with a confrontation with the anti-Shinawatra networks that had helped overthrow PM Yingluck Shinawatra's brother back in 2006.

The anti-Shinawatra forces were a loose, but interconnected network of people and organizations that had been former Prime Minister Thaksin Shinawatra's nemeses, and who, as they monitored the implementation of the rice pledging scheme became increasingly concerned and vocal about what they viewed as serious flaws in the design and operation of the program. The intellectual force of these networks was what could be colloquially described as an "elite group" comprising scholars from both academic and government organizations -- for example, TDRI researchers and professors from National Institute of Development Administration (NIDA) and Thammasat University, among others. As they observed and began researching the rice pledging scheme, they came forth with a litany of problems and flaws that they deemed practically endemic in the program.

First, they pointed out, it was inevitable that the program would result in a higher rice price in the market as farmers would have no motivation to redeem the paddy once it had been pledged because at the PTP-decreed price of 15,000 baht per ton for white rice paddy not exceeding 15 percent in moisture level, was significantly higher than the market price. Hence, for all intents and purposes, the pledge was tantamount to a sale of the paddy to the government -- leaving to the government, ultimately, the burden of finding final customers willing to buy the product at above-market prices, lest the government lose money on each ton sold. As it turned out, their prediction was quite on target. As the end of 2012 approached, the government's guaranteed prices were roughly 40-50% above the actual market prices. Also, a subcommittee overseeing the rice pledging scheme's accounting under the Finance Ministry reported a THB 136.9 billion loss for the 2011-2012 in-season crop and the 2012 off-season crop (excluding rice that was still in the process of being handed over) for 21.78 million tons of paddies, and 13.42 million tons

of rice. Table 6 shows the official deficit figures from the rice pledging scheme in its first operating year.

**Table 6: Deficit from the Rice Pledging Scheme 2011-2012**

Round	Amount
2011/2012 In-season Paddy	42,963.13 million
2012 Off-season Paddy	93,933.67 million
Total	136,896.8 million

Source: The National Rice Policy Committee of Thailand, 2012.

Further, warned these scholars and researchers, the increased rice price posed a serious threat of a higher inflation rate in the near future. Moreover, the high price of rice could make it difficult for Thai rice exporters to compete with their counterparts in other countries in selling rice in the world market. Indeed, the Thai Rice Exporters Association had already reported that the rice exported from Thailand during the first-year rice pledging scheme had decreased by 35.5% from 10.7 million ton in 2011 to 6.95 million ton in 2012, resulting in Thailand losing its status as the world's champion rice exporter to India and Vietnam.<sup>10</sup>

Second, this group argued that, in consequence of the high price of rice, pledged rice production would end up staying in the warehouse for a long period of time due to the difficulty of selling above-market-price product both domestically and internationally. Over time, the rice would deteriorate, necessitating government expenditure of additional sums of money to improve the quality before selling it. Also, meanwhile, government needed to pay storage fees to keep the huge amount of pledged rice before being able to sell it. If the amount of pledged rice constituted a very high proportion to the amount of sold rice, the money that the government would need to spend to support the program would steadily accumulate year after year. The total money spent for the program would end up being *huge*, far surpassing the sum set forth in the government's budget. In the view of Dr. Veerapong Ramangoon, chairman of the economic council to the prime minister, it was not inconceivable that the scheme bring the country to the doorstep of bankruptcy as the government took on increasing amounts of debt to fund it. The consensus view of economists was that programs like the rice pledging scheme were not sustainable, as the amount of money that would have to be sunk into them made their longevity and liquidity

highly problematic.

This prediction also turned out to be factual. By 2012, the government was feeling financial and management strains from storing and maintaining a huge amount of paddies (and rice), comprising 2.3 million tons of paddies from the 2011/ 2012 in-season paddy program and 7.2 million tons from the 2012 off-season paddy program. The Public Warehouse Organization (PWO), Ministry of Commerce, reported that the cost of storage (renting a warehouse) was about THB 20 per ton of paddies per month and that the cost of maintaining the stock was approximately THB 100 per ton of paddies per month.<sup>11</sup> Table 7 shows a breakdown of costs for storing and maintaining paddies (and rice).

**Table 7: Breakdown of Costs for Storing and Maintaining Paddies (and Rice)**

<b>Cost</b>	<b>Amount (per Ton and per Month)</b>
Warehouse rental fees	THB 20
Maintenance	THB 100
- Labor	
- Quality control	
- Fumigation	
- Insurance fees	
<b>Total</b>	<b>THB 120</b>

*Source:* Public Warehouse Organization, 2013.

Third, the critics alleged, there were a lot of opportunities for corruption by many players in the process. They argued that any rice mill owner would want to be included among the participating partners in the program because of many corruption-abetting loopholes, worsened by the government's lack of proper project monitoring mechanisms. In some instances, it was alleged, some rice mill owners would covertly pay to be included on the list of participating mills. Then, to recoup some of the "pay-to-play" money, these same mill owners would be tempted to push hard on pledging farmers to accept less money than they deserved for their pledged paddy, while mill owners received the higher established sum of money from the government. Also, any rice mill owner would want to be a partner with the government to buy rice in government stock, usually at a low price because of its generally inferior condition, and then turn around and sell it at a high price.

Even more worrisome from the standpoint of corruption opportunities was the temptation presented by the fact that the Thai-decreed rice price was higher than the market price in neighboring countries. Rice from other countries was in fact being illegally transported to be pledged at an unknown number of Thai rice mills. A variation on this avenue for garnering government money through fraud was the ruse of secretly bringing back into the program rice that had already been pledged and pledging it a second time. Since paddy looked the same, it could be clandestinely retrieved from the government stock and re-pledged. Some farmers, it was alleged, were in fact cooperating with rice mill owners in devising fraudulent documents certifying that paddy had been pledged. For their part, the farmers would receive some money for their cooperation in the deception, while the rice mill owner would later claim a larger sum of money from the government than was actually paid to the crooked farmer.

For corruption issues, however, allegations were much easily found than hard evidence of crime. As revealed by the Director of Bureau of Security Crime, Department of Special Investigation (DSI), even though corruption actually took place throughout the entire value chain of rice trading -- from rice pledging, to storage at the mills, to public warehousing, and to trading at domestic and international levels -- as of April 18, 2012, there had been only two cases (from two provinces, Kanchanaburi and Nakorn Nayok) under prosecution by the DSI, both of which involved individuals charged for subrogating local farmers. At a later press release on August 20, 2012, the Director of Bureau of Security Crime added that he had been receiving fraud tips from as many as 19 provinces (out of 77 provinces in Thailand) for cases such as rice adulteration or mixing of off-season paddies with in-season loads to get better prices from the government. How many such tips actually translated into criminal cases remained unclear.

### **The Opposition's Censure Debate on Rice Pledging Scheme**

Just as the anti-Shinawatra networks were guided intellectually by the above mentioned elite group, so the DP and other small opposition parties were their political arm. The censor motion to remove the cabinet ministers, including the Prime Minister, was submitted by this politically motivated group, and scheduled to be debated on November 25-27, 2012, with the vote on the censure motion on November 28.

During the debate, the opposition's allegations had focused on two areas: economics and ethics. They shared the same economic view as the intelligentsia elite and vehemently stressed that the government's rice pledging scheme would destroy market mechanisms, thereby damaging the country's competitiveness as a top rice exporter in the world, while also irresponsibly spending an outrageous amount of tax-payer money to subsidize the government's populist scheme.

Turning to issues of ethics, the opposition charged that the rice pledging policy contained loopholes for irregularities and corruption at every step of the value chain, aiding rice millers and traders to take advantage of the subsidies that were supposed to go to poor farmers. Then moving into what became the most heated part of the debate (i.e., alleged corruption in G-to-G rice deals), the opposition questioned the legitimacy of trade deals that the government had previously made with other countries. Dr. Varong Detkitvigrom, a Democrat MP from Pitsanulok, presented information to the House of Representative, showing that the deal between the governments of Thailand and China, in which Thailand had agreed to sell 7,328 million tons of rice, was a fraud. He asserted that the rice broker, Siam Indica Co. Ltd., that had ostensibly arranged and delivered the rice to China, was in fact just a Thai company buying rice from the government at a very low price and then reselling it within the country at a normally high price. The DP went further to claim that the company's owner had a close relation with one of the cabinet members. As the debate raged, this same company, Siam Indica Co.Ltd., was repeatedly mentioned and placed under an accusatory spotlight by several DP members. Indeed, another DP member, Mr. Prasert Pongsuwansiri from DP claimed that this company had also been awarded another G-to-G contract deal the between the governments of Thailand and Indonesia, but that he did not believe the said rice was really delivered to Indonesia.

In response to these rather damning allegations, PM Shinawatra, who was also the chairperson of the National Rice Policy Committee, stressed that her rice-pledging policy had been implemented with transparency. She explained the intent and purpose of the rice pledging scheme and then went on to state that the government had spent THB 410 billion on the scheme, received 21 million tons of paddy (equivalent to 11 million tons of rice) and that, with an increase in rice price, she expected THB 210 billion to circulate back to the Ministry of Finance by the end of 2013. On the G-to-G

allegation, however, there was no clear answer from the government, except the familiar one of “cannot reveal the information regarding the G-to-G deal to avoid damaging international relationships.”

## **A “Victory” or a “Reprieve”: Where to from Here?**

Notwithstanding her party’s easy defeat of the no-confidence motion against both her government and the targeted cabinet ministers, Prime Minister Shinawatra knew that issues concerning the rice pledging scheme were far from settled. Like most such parliamentary debates, this was, too, was likely to have an aftermath in the form of a long legal battle outside the Parliament. And, that was likely to be just one of several post-debate eventualities that would demand time, attention, and resources.

Equally concerning was the question of how long a very expensive policy like the rice pledging scheme could last, given the very real budget constraints likely to pertain for the foreseeable future. “From where will the budgetary resources come?” she wondered. In addition, she knew very well that critics of the scheme would never be quieted unless and until Thailand could recapture its long-held perch atop the rice export chart. “Is this truly realistic and attainable?” she further wondered.

She knew that a sensible decision concerning the rice pledging scheme would have to be made sooner rather than later. Mentally returning to the initial ideas that had ricocheted through her mind immediately following the no-confidence vote, she could now discern the broad contours of three options: (a) call a brief halt to the rice pledging scheme in order to regroup and revise her cabinet’s strategy, with a view to minimizing the damage; (b) adopt a “wait and see” posture by abstaining from early intervention if she really believes that the rice pledging scheme would eventually unfold successfully, albeit perhaps slowly; or, (c) seriously re-evaluate the whole pledging scheme immediately and order a make-over, maybe including firing the responsible minister, as well as instituting new implementation mechanisms.

Managing a faint smile of exasperation as she contemplated all the deliberations and endeavors that would necessarily precede whatever decision would ultimately be taken, she knew that there would be no shortage of meetings, dialogues, and tasks in the weeks and perhaps months ahead. With those final thoughts, she closed her briefcase, walked out of her office, and proceeded toward her chauffeured car for the ride home.

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## Endnotes

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- <sup>1</sup> Other motivating factors behind the motion, they had stated, was the alleged corruption in the expenditure of the 120,000 million baht budget that was allocated for the 2011 “Great Flood,” as well as the government’s allegedly intentional disregard of the arrest warrant for apprehension of former PM Thaksin Shinawatra.
- <sup>2</sup> A party’s executive committee composed of key players within the party, and is responsible for the party’s general management and decision making.
- <sup>3</sup> Without the dissolution of parliament, the government’s leadership could be changed without calling for a new general election.
- <sup>4</sup> The results of July 3, 2011 general election surprised many experts who had predicted that the big two parties, PTP and DP, would run very close and that no one party would take more than a half of the seats in the parliament. However, PTP won the election with more than half of the seats, while the opposing DP took just 159 seats of the 500 available. The constituency was 75.03 percent.
- <sup>5</sup> PTP members discussed the choice of their new party leaders at the party’s meeting on election campaign framework on January 4, 2011 [Thairath, January 5, 2011 <http://www.thairath.co.th/today/view/139064>]
- <sup>6</sup> Policy Statement of the Government of Ms. Yingluck Shinawatra, Prime Minister, to the National Assembly, Tuesday 23 August B.E. 2554 (2011) [http://www.cabinet.thaigov.go.th/eng/acrobat/pol\\_60.pdf](http://www.cabinet.thaigov.go.th/eng/acrobat/pol_60.pdf)
- <sup>7</sup> The main criticisms of this rice subsidy option, however, were that registered landowners could claim the subsidized money from the government without having to show the actual paddy and that landless rice farmers were left out of this scheme as they did not have the ownership of the land.
- <sup>8</sup> In general, for the main in-season crop, the government would buy paddy with no more than 15% moisture content at 15,000 baht a ton and would buy jasmine paddy rice with no more than 15% moisture content for 20,000 baht per ton. For the second off-season crop, the government will buy paddy with no more than 15% moisture content at 13,000 baht per. Each 1% increase moisture meant that 15 kilograms would be deducted from the weight of a ton of paddy at the mills.
- <sup>9</sup> The government had incurred debt in the amount of 94,105.2 million baht for the PPP’s rice subsidy program, plus the accrued interest for 37,606.16 million baht.
- <sup>10</sup> In its defense, however, the government averred that despite the drop in *quantity* of rice export in its first year of rice pledging scheme, the value of rice exports did not drop. Based on the Royal Thai Customs Report of 2012, the value of rice exports actually *increased* from THB 13,834 million in 2011 to THB 18,072 million in 2012.
- <sup>11</sup> 9.5 million tons of rice x THB 120 storage and maintenance fee = THB 1140,000,000 per month.