

Role of BERNAS as Government Linked Company (GLC) – Supporting and Complementing National (Malaysia) Food Security Food Policies

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Abstract

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As the privatized foodgrain management agency, BERNAS plays its roles in supporting and complementing the national food security policy of Malaysia. These include: (1) promoting market stability and thereby stabilizing rice prices, making them affordable to the consumers; (2) ensuring sufficient supply of rice of various grades and qualities anywhere in the country, making rice easily accessible to all; and (3) supporting the sustainability of domestic rice production which is deemed important to the national food security. These roles have established BERNAS as a “rice institution” rather than a “rice shop” whereby its main function is not to compete with other players in the market, but to make sure that all players in the industry would have sufficient margin to enable them to continue with their respective businesses. In doing so, BERNAS serves the interests of all stakeholders in the paddy and rice industry, including farmers, industry players, consumers, government and the nation as a whole. Due to these roles, BERNAS always has to balance between its commercial interest, since it must make reasonable profit in order to survive, and the interest of the nation as a whole. It is a delicate task in ensuring the confidence of the public and various stakeholders.

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1. Introduction

Like many countries in Asia, rice is the staple food to the population of Malaysia. It is an important crop since time immemorial, and the records show that it was one of the items being traded at the Malacca Port in the fifteenth century. Its place as a food security item can be considered ancient, but there was no unified policy on rice as a food security concern, although the Kingdom of the Malaccan Empire did encourage for its cultivation. With the fall of the Malaccan Empire in 1511, rice cultivation became the concern of individual independent states in Malaya, or more properly the Peninsula of Malay

Land (*Semenanjung Tanah Melayu*), or the Golden Chersonese as it was called by the West in antiquity.

This changed by the early twentieth century, when all the independent states were unified under the British rule. But the British did not accord special importance to rice until the 1930s, focusing more on rubber which brought lucrative income to the colonial government. For the supply of rice, the British Government relied on the rice bowls in their colonies such as India and Myanmar, in addition to Thailand, which was not under their rule.

The formation of Rice Cultivation Committee (RCC) in 1930 with the purpose of determining the best steps to be taken in order to encourage rice cultivation in the then Malaya, sparked

the effort towards a comprehensive and unified policy concerning rice as a food security concern. This was followed by the establishment of the Department of Irrigation and Drainage (DID) two years later, whose main task was to undertake the infrastructure development for paddy cultivation. In the subsequent year, the Rice Commission (RC) was set up to oversee the industry. With the establishment of RC, the Paddy and Rice Industry was born in the then Malaya (now West Malaysia) and rice was accorded its due importance as a food security concern.

The British Government took the rice industry seriously. As the price of rubber increased in that era, many paddy farmers converted their paddy lands into rubber farms. In 1939, the colonial government took measures not only to restrict labor movement out of paddy sector, but also apply restriction on transfer of land titles so that lands gazetted for paddy could not be converted for other uses. Triggered probably by the memory of rice shortage during the Japanese Occupation, and alarmed by the development in the Korean Peninsula at that time, the British Government took additional measures to ensure food security by setting up a policy of Guaranteed Minimum Price (GMP) as well as stockpile scheme. Both were initiated in 1949. Three years later, fertilizer subsidy program was also introduced.

As the country gained her independence in 1957, the paddy and rice industry took greater importance with Self Sufficiency Level (SSL) of one hundred per cent being seriously considered, linking food security with domestic production. This led to the launching of Muda Agricultural Development Authority (MADA) and Kemubu Agricultural Development Authority (KADA) projects in 1961. In 1967, Paddy and Rice Marketing Board (PRMB) was also established under Federal Agriculture Marketing Authority (FAMA) to undertake the marketing of paddy, which hitherto had been the playground of private millers.

By 1971, an agency dedicated to the paddy and rice industry was formed. This agency, National Paddy and Rice Board, better known with its Malay acronym as LPN (*Lembaga Padi dan Beras Negara*), was the amalgamation between the Supply Division of the Ministry of Commerce and Industry, and Paddy and Rice Marketing Board of FAMA. By 1974, even the role of rice importation, which had been the playground of private importers, was given to LPN, acting as the sole rice importer. Riding the tide of privatization, LPN was corporatized in 1994 into BERNAS and was subsequently privatized two years later.

Within a century or so, the Paddy and Rice Industry of Malaysia has gone full circle. It began mostly as a subsistence occupation, planted by the natives to feed their hungry stomachs. Although in the rice bowl state such as Kedah its cultivation was encouraged and supported by their feudal lords, there was no policy on rice cultivation, or on its importance as a food security concern. The first unified policy was formulated by the Colonial Government. Upon Independence, the new Government not only played active role to develop the industry through infrastructure developments and support extension services, but also gradually undertook active role in the marketing of paddy and rice milling, which all the while had been the playgrounds of private players, until subsequently even the role of rice importation was also “nationalized.” Over time, however, the role played by LPN was handed back to the private entity through the formation of Padiberas Nasional Berhad (BERNAS), with the Government retaining the regulatory function.

Despite going full circle, the crux of the matter never changes. Whatever projects undertaken, policies devised, programs implemented, tools and instruments employed, or rules and regulations enforced, the objectives of the industry remain. The main objectives of the paddy and rice industry in Malaysia, as summarized in *The Review of Paddy and Rice Industry in Malaysia (2004)*, are threefold, namely;

- Ensure food security;
- Raise farm incomes and productivity; and
- Ensure food supply to consumers at fair and stable prices.

Regardless whether the Government took over some of the functions played by the private entities, and established a dedicated institution to serve this purpose (which is what LPN was all about), or privatized this institution to play its role as a commercial entity, with the Government focusing on policy, infrastructure development, support services and enforcement of the law, all these are done with the interest of the industry objectives at heart. For this reason, although LPN has been privatized into BERNAS, this company continues to be viewed as an institution, not as a rice shop; and to the public, it is still largely viewed as an extension of the Government institution. What it does, or does not do, rarely escapes the scrutiny of the public eyes.

This paper will highlight the role played by BERNAS as a privatized Government agency, or a

Government linked company (GLC), in supporting and complementing the national food security policy of Malaysia. To achieve this purpose, this paper is divided into two main sections:

1. The first section briefly highlights major milestones in the industry chronologically in terms of addressing food security concern; and
2. The second section talks about how BERNAS plays its role in supporting and complementing the national food security policy of Malaysia.

2. Chronological Overview On Food Security Concern

Before Independence

1900s – 1930s

Rice industry was largely ignored by the Colonial Government. The focus was more on rubber, which brought lucrative income. For supply of rice, the British Government relied more on cheaper imports, with large surpluses from Thailand, India, and Burma. Rice security level was very low and there was serious rice crisis in 1918.

1930s – 1940s

The Colonial Government began to take notice of the importance of food security and measures taken to increase self-sufficiency level (SSL). This period was characterized by medium security level. Among the milestones of the era as follows:

- 1930: Rice Cultivation Committee (RCC) was set up by the then British High Commissioner to determine "the best steps to be taken in order to encourage rice cultivation in Malaya."
- 1931: RCC published its report. One of its main recommendations was to establish the Department of Irrigation and Drainage (DID).
- 1932: DID was established. Its first effort was to improve the irrigation of Barat Laut Selangor, Tanjong Karang, taking over the task from the Public Works Department.
- 1933: Rice Commission (RC) was set up to oversee the rice industry.
- 1939: Measures taken to restrict labor movement out of paddy sector. Land gazetted for paddy could not be converted for other uses and restriction on transfer of

land titles applied.

1942 – 1945

During Japanese occupation, there was overall shortage in rice, due to wartime.

1945 – 1956

Overall, prior to Independence, SSL was about half of the nation's requirement. At the point of Independence, it was 54 percent. Among the milestones of the era:

- 1949: Rice stockpile scheme was introduced to provide a reserve stock to meet emergency requirements. This became very costly due to quality degradation and ultimately the loss in stock. It was administered by the Ministry of Commerce and Industry until the formation of LPN.
- 1949: The Guaranteed Minimum Price (GMP) at RM248/metric ton was introduced to serve as incentive to production as well as to raise farm incomes. The rate has been progressively revised and still continued until present time.
- 1952: Fertilizer subsidy program was introduced with rates ranging from 10 to 50 percent of per-acre value of input in Malaya.

After Independence

Pre LPN Era: 1957 – 1970

Rice became an important commodity after Independence. It was equated with food security. 100 percent SSL was targeted.

Expenditures on infrastructure development for agriculture were undertaken. Two major projects were Muda Agricultural Development Authority (MADA) and Kemubu Agricultural Development Authority (KADA)

Institutional organizations were also set up to oversee the development of the industry, such as Malaysian Agricultural Research & Development Institute (MARDI) for research and development, Federal Agriculture Marketing Authority (FAMA) for marketing, and Bank Pertanian Malaysia (BPM or Agro Bank) for credit extension to farmers.

Other than infra expenditures to improve SSL, other major tools employed to ensure food security were stockpile operations and GMP. These tools were not only meant to provide supply sufficiency, but equally important was price stabilization. Due to high costs of maintaining stockpile operations and to reduce losses, the

Government had linked rice importation with the purchase of this buffer stock. In the 1960s, rice importers were given quota for rice importation based on their purchase of buffer stock.

Import control was also introduced in the 1960s to strengthen the support program (for paddy prices) in periods of prolonged world price decline and to correct for miscalculations in the control of imports by variable tariffs. For example, when the authority realized in October 1970 that the quota had been exceeded, it placed a ban on all imports of rice during November and December of that year.

In addition to the above, the setting up of cooperative rice mills was also encouraged in this era, although most of these mills did not grow to be commercially profitable. Furthermore, the frequent market failures at postharvest had led to the formation of Paddy and Rice Marketing Board (PRMB), a division under FAMA.

Among the milestones of the era:

- 1961-1965: MADA and KADA projects were initiated
- 1967: PRMB was set up under FAMA to oversee the rice industry, especially on the marketing of paddy. PRMB also acquired four cooperative rice mills before this entity was transformed into LPN.
- 1969: MARDI and Agro Bank were formed to undertake research and development as well as to provide credit to farmers, respectively.

LPN and BERNAS Era: 1971 – Present

Among the milestones of the era:

- 1971: LPN was formed through the amalgamation of Supply Division of Ministry of Commerce and Industry and PRMB of FAMA.
- 1973-1974: World rice crisis led to LPN taking over the role of rice importation.
- 1974: LPN became a single importer of rice.
- 1980: Paddy Price Subsidy was introduced and managed by LPN.
- 1994: Corporatization of LPN into BERNAS.
- 1996: Privatization of BERNAS.
- 1997-1998: Rice crisis due to regional financial crisis.
- 2007-2008: Acute rice crisis due to sudden and escalating international prices of rice.

The Government had to introduce Government Subsidized Rice (GSR) scheme.

- 2009 – Present

3. BERNAS's role in supporting and complementing food security policy

BERNAS's Duties and Food Security

In the Food and Agriculture Organization (FAO) Policy Brief, June 2006, Issue 2, it states that "Food security exists when all people, at all times, have physical and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life." This definition was derived from World Food Summit, 1996. This brings with it the dimensions of availability, access, utilization and stabilization into the definition. In 1983, FAO simply defines food security as "ensuring that all people at all times have both physical and economic access to the basic food that they need." The change in definition reflects the change of times. People should not only have access to affordable food, but it must also be fit for use and that choices should be made available to them.

Although worded differently, BERNAS's duties to consumers and the nation capture the essence of this definition. As a rice institution, as opposed to rice shop, BERNAS has to make sure that rice is available in sufficient quantity at all times; the price of rice has to be affordable and stable; and that people shall have choices as to the grades they desire.

In addition to the above, since food security is also linked to domestic production, policies are made by the Government of Malaysia to ensure that domestic production is sustainable. Other than infrastructure development and support services, domestic production can only be sustained if it can find ready market for its product; hence the policies of a Guaranteed Minimum Price (GMP) and the Buyer of Last Resort. Hitherto it was LPN which undertook this role. As LPN was privatized into BERNAS, this role was taken over by BERNAS. Thus any farmer anywhere in the country can sell his paddy if he so chooses, and that if no rice miller would want to purchase it, then BERNAS has to play its role as the buyer of last resort and purchase it at a price no less than GMP.

Roles to Ensure Food Security

It is the job of any government to ensure that the desired level of food security of its nation is

attained, but the government does not have to do everything itself. Long before Adam Smith, it is known that, being a social animal, man needs each other in order to survive, for he cannot produce all his needs all by himself. Adam Smith only posited that by being selfish, man is actually being altruistic. In getting what he wants (being selfish in Adam Smith's lingo), he helps others to get what they want. The place where he gets what he wants, and in the process helping others get what they want, is called the market.

On the other hand, it is also known that man's greed is limitless. Left to himself to devour his greed, he would have no qualm about overstepping his limit. The government therefore needs to draw the line that separates this limit and regulates the behaviours of the people. In so doing, the government will formulate the policies and establish the mechanisms that will promote the positive behaviors and suppress the negative ones. In short, the job of the Government is to regulate the market.

In the past, before LPN was privatized into BERNAS, this job was wholly done by the Government. The Government of Malaysia was the policy maker, law enforcer as well as market player. With the privatization of LPN, the Government of Malaysia retained its role as policy maker and law enforcer, but ceased to be the player to regulate the market. The role to regulate the market as a player was given to BERNAS.

For that reason, although BERNAS is practically a private company, as measured by shareholding, it cannot behave like any other private companies. While BERNAS has to make money in order to survive, it has to balance this commercial interest with its duty to the industry as a whole. This duty to the industry, and by extension to the nation as a whole, transcends the conventional corporate social responsibility (CSR) as embraced by other corporations. While it is desirable for other companies to be socially responsible, in the case of BERNAS it is a mandated requirement.

While BERNAS is a private entity, and therefore has to be commercially viable in order to survive, its main job is not to compete with other players, but to "regulate" the market so that industry stability can be achieved. With stability, the interests of all stakeholders in the industry, ranging from farmers, service providers, millers, wholesalers, retailers and consumers, as well as the government and the nation as a whole would be served. In short, BERNAS main duty is to do the balancing act to the industry as a whole, to regulate the various and often conflicting interests of various stakeholders, through market mechanism.

This is done through a combination of three mechanisms, namely: (1) gatekeeping mechanism, (2) price mechanism and (3) stockpile operation.

Balancing Act

Gatekeeping Mechanism

As the name suggests, this refers to the mechanism to regulate the inflow of rice into the country. It is done through the control of smuggling on the one hand, and the approved permit for rice importation based on quota on the other hand. The quota is measured by the deficit required by the country. Although the quota based importation scheme is a thorny issue in the international trade, the volume and the quantum of the rice imported into the country is large enough to defuse whatever complaints that may have arrived from the rice exporting countries.

The purpose of this mechanism is to protect the desired SSL of the country, which is directly linked to food security policy. As the single gatekeeper, BERNAS, in conjunction with the Government, will determine the deficit required by the country, and will import only the amount required. This includes the determination of grades and varieties required to cater for seasonal requirements, such as festive seasons. In exchange for the privilege of being the single gatekeeper, BERNAS plays the role as the buyer of last resort, ensuring that any farmer anywhere in the country will always have a means to market his paddy if he so chooses, and that if no other miller would purchase it, then BERNAS, either through its own mills, or its agents, will purchase it. The control of smuggling—the other side of gatekeeping mechanism—is solely under the Government purview.

Price Mechanism

Rice is a controlled item in Malaysia but its prices are rarely fixed. In cases where prices are fixed by the Government, these are only applicable to a few grades. In most cases, rice prices are controlled through market forces with a view to keep them stable and therefore affordable to all strata within the society.

The first essential in the price mechanism is differential pricing, which has two elements. The first of these is the benchmark price. A certain grade of imported rice is used as the benchmark price. This imported grade will be priced at a certain level and will serve as the benchmark price for domestically produced rice. Thai White Rice (TWR) will generally be used because it is being perceived

as slightly better than the domestic rice, whereby the price of domestic rice would not go above it, and therefore at least the majority of rice being consumed in the country would remain stable. This benchmark price would be used when rice prices are floated (i.e., ceiling prices are not fixed).

The second element in the differential pricing is price gap. This refers to the price gap in the domestic market versus the Free on Board (FOB) price. The purpose is to keep smuggling activities within control. This is a market mechanism to control smuggling. The second essential is single pricing. BERNAS sells a given grade of rice to all wholesalers in the country, whether within or outside the group, with a single price. This not only promotes healthy competition in the market, but also serves as the natural price cap in the market especially when all prices are floated.

In some extreme cases, especially when international prices of rice are extremely volatile, the third essential would be used. This is price cap, or ceiling price. BERNAS would advise the Government to put ceiling price to domestically produced rice to inhibit inflationary pressure on the price of rice. This will also ensure that some segment in the society would always find rice they can afford.

Through a combination of these pricing mechanisms, rice prices in the domestic market are kept stable and affordable to the population. In most cases, these are done without the general public being aware of the interplay.

Stockpile Operation

Rice stockpile is often viewed as most closely related with food security, for its main purpose is to cater for emergency needs. But Malaysia has not experienced any real emergency since independence, except for social riot of May 1969. While Emergency Ordinance is provided for by the law, in practice this has not been used. Stockpile operation, therefore, is more of a tool to regulate price stability and to provide psychological security to the nation.

Upon privatization, stockpile operation was handed to BERNAS and BERNAS has to manage it on its own cost. BERNAS has to maintain a specified quantity at specified locations at all times. Price stability from stockpile operation is done through two methods. In cases where the market is considered “hot” (price is increasing beyond normal), BERNAS will flush its stockpile to the market to dampen the price increase. When market is experiencing glut, BERNAS will purchase the rice from the rice millers so that these rice millers can continue purchasing paddy from the farmers.

Interplay of Mechanisms

All these three mechanisms have to work together to achieve the desired effect in terms of food security (supply accessibility, sufficiency and utilization as well as price stability and affordability). These mechanisms may be simplified as Figure 1. At its base is gatekeeping mechanism, whose main purpose is to protect the desired level of domestic production, deemed to be desirable in the food security equation. This involves import restriction and control of smuggling activities. At the center is price mechanism, and is the most dynamic tool used to maintain price stability and ensure that it is affordable by the population. At the tip is stockpile operation, which is generally used only in extreme circumstances, namely, when the market is too hot or too cold.

Most of the times, however, the interplay of these mechanisms managed by BERNAS with the support from the Government is hardly noticeable by the public.

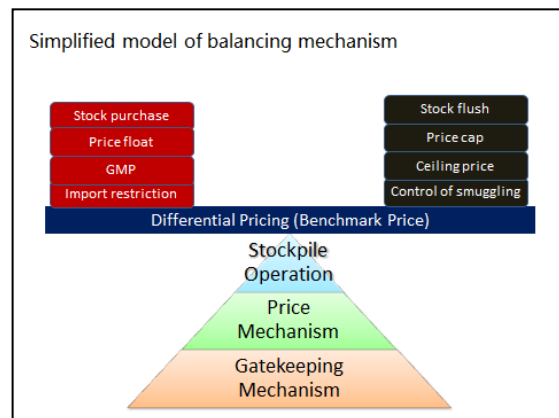


Figure 1: Simplified model of balancing mechanism

4. Conclusions

Food security is the responsibility of the government, but in the case of Malaysia, the Government focuses itself more on policy, enforcement of the law, providing funds for infrastructure development and maintenance, as well as various incentives, and support services. In the case of rice as a food security item, practically all rice that is being planted, milled, imported, stored, packed and distributed are done by the industry players. The majority of these players do not come into the foray for altruistic reason, but because there are some margins that can be made along the

process. The farmers continue to plant paddy not because they want to feed the nation per se, but because it is the occupation that can bring some returns to their labor. So are the service providers, the millers, wholesalers and retailers.

While BERNAS does not enter into the picture solely for social functions, unlike any other players in the industry, BERNAS is playing a dual role in the industry. On the one hand, it is a rice institution, whose job is being a custodian to the rice industry. On the other hand, it is a commercial entity which has to make reasonable profit to continue surviving.

In playing this dual role, BERNAS has to delicately balance its institutional role and its commercial interest in the way that will promote price stability and industry harmony, and, in the process, help ensure that the food security of the nation is not threatened. In crisis situation, its institutional interest will take precedent over its commercial necessity.

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