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How FAO is assisting member countries through its Initiative on Soaring Food Prices

About 50 member countries have signalled a need for FAO's assistance in addressing the enormous challenges posed by soaring food prices. Under the Initiative on Soaring Food Prices (ISFP), FAO has allocated US\$17 million to respond to immediate emergency interventions to help smallholder farmers boost production and secure their next harvests through improved access to seeds, fertilizers and animal feedstock. Farming inputs are already being procured or distributed in four critically affected countries: Burkina Faso, Haiti, Mauritania, and Senegal. Other countries will soon follow.

The FAO **Country Guidelines** has been made available to help member countries formulate national action plans to address

soaring prices. It provides an overview of different policy responses to higher food prices, their possible effects, advantages and disadvantages, offers advice on various interventions and when they are most appropriate. It explains why some quick-fix solutions such as export restrictions or tariff cuts may be counter-productive and even harmful in the long run, despite well-meaning intentions.

FAO is also putting in place a more accurate system for monitoring price fluctuations at the local level. Though average prices of food on the international market are skyrocketing, the effects locally can sometimes be even more acute, or have little effect at all. Together with the World Food Programme (WFP), FAO is assessing how vulnerable groups are being affected by high prices. These mechanisms are being studied in order to provide informed policy guidance.

Selected international cereal export prices* (USD per ton)

| | 2007 | 2008 | | | | |
|-------------------------------|------|------|------|------|-----|------|
| | June | Feb. | Mar. | Apr. | May | June |
| United States | | | | | | |
| Wheat ¹ | 231 | 449 | 481 | 382 | 349 | 355 |
| Maize ² | 165 | 220 | 234 | 247 | 242 | 277 |
| Sorghum ² | 166 | 222 | 233 | 243 | 240 | 266 |
| Argentina ³ | | | | | | |
| Wheat | 239 | 365 | 395 | – | – | – |
| Maize | 156 | 206 | 216 | 224 | 207 | 255 |
| Thailand ⁴ | | | | | | |
| Rice white ⁵ | 332 | 483 | 567 | 873 | 963 | 873 |
| Rice, broken ⁶ | 255 | 431 | 522 | 726 | 772 | 683 |

*Prices refer to the monthly average. For June 2008 three weeks average.

¹ No. 2 Hard Red Winter (Ordinary Protein) f.o.b. Gulf.

² No. 2 Yellow, Gulf

³ Up river, f.o.b.

⁴ Indicative traded prices.

⁵ 100 percent second grade, f.o.b. Bangkok.

⁶ A1 super, f.o.b. Bangkok.

Source: FAO, GIEWS International Cereal Export Prices, 20 June 2008.

Outcome of the High-Level Conference on World Food Security: the Challenges of Climate Change and Bioenergy, Rome, 3–5 June 2008

One hundred eighty-one countries participated in the FAO Food Summit – 43 were represented by their Head of State or Government and 100 by high-level Ministers. Sixty non-governmental and civil society organizations were present as well. Overall, 5 159 people attended – 1 298 of them were journalists covering the event.

The Summit on soaring food prices concluded with the adoption by acclamation of a declaration calling on the international community to increase assistance for developing countries, in particular the least developed countries and those that are most negatively affected by high food prices. "There is an urgent need to help developing countries and countries in transition expand agriculture and food production, and to increase investment in agriculture, agribusiness and rural development, from both public and private sources," according to the Declaration.

Donors and international financial institutions were urged to provide "balance of payments support and/or budget support to food-importing, low-income countries" and other measures including reviewing debt servicing as necessary.

On climate change, the Declaration said: "It is essential to address the question of how to increase the resilience of present food production systems to challenges posed by climate change... We urge governments to assign appropriate priority to the agriculture, forestry and fisheries sectors, in order to create opportunities to enable the world's smallholder farmers and fishers, including indigenous people, in particular vulnerable areas, to participate in, and benefit from financial mechanisms and investment flows to support climate change adaptation, mitigation and technology development, transfer and dissemination. We support the establishment of agricultural systems and sustainable management practices that positively contribute to the mitigation of climate change and ecological balance."

On the contentious issue of biofuels, the Declaration said: "It is essential to address the challenges and opportunities posed by biofuels, in view of the world's food security, energy and sustainable development needs. We are convinced that in-depth studies are necessary to ensure that production and use of biofuels is sustainable in accordance with the three pillars of sustainable development and take into account the need to achieve and maintain global food security... We call upon relevant inter-governmental organizations, including FAO, within their mandates and areas of expertise, with the involvement of national governments, partnerships, the private sector,

and civil society, to foster a coherent, effective and results-oriented international dialogue on biofuels in the context of food security and sustainable development needs."

According to the Declaration, WTO members reaffirmed their commitment to the rapid and successful conclusion of the Doha development agenda and reiterated their willingness to reach a comprehensive and ambitious result that would be conducive to improving food security in developing countries.

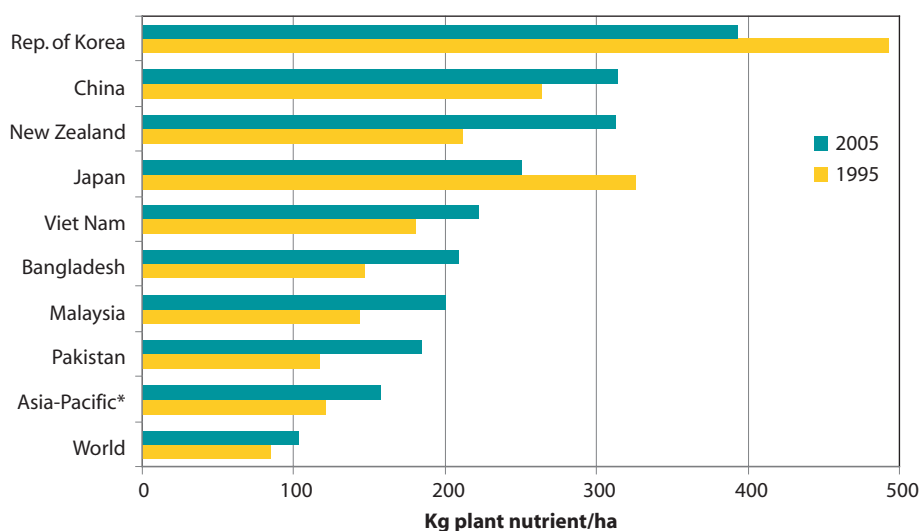
"We encourage the international community to continue its efforts in liberalizing international trade in agriculture by reducing trade barriers and market distorting policies," said the Declaration, adding that addressing these measures "will give farmers, particularly in developing countries, new opportunities to sell their products on world markets and support their efforts to increase productivity and production."

A review of Asia-Pacific nations' responses to rising international wheat prices

Growing Demand

Next to rice, wheat is the most important alternative staple commodity in the region. Asia is by far the largest wheat consuming region accounting for almost half of global wheat consumption. Growth in the consumption of wheat has been driven by increases in income, urbanization and westernization of Asian diets. Some countries in the region have actively promoted diversification in their consumption basket to include wheat-based products. This policy has been partially driven by the fact that rice is a very thin market, with only 7 percent of world production traded, and any supply shortfall in a major rice consuming country would drive up world prices when imports are needed. In contrast, 19 percent of wheat production is traded in the market, making the wheat market less volatile than the rice market. This combination of consumption diversification efforts, rising consumer purchasing power and increasing urbanization has increased the consumption of wheat-based

Countries in Asia-Pacific* region with the most input intensive agriculture (Kg of NPK per ha)



products such as noodles, bread, cookies and other snack items. Moreover, some governments have an interest in wheat flour fortification as part of their efforts to improve the nutrition of their citizens.

As a consequence of surging demand for wheat, Asian countries are expanding imports because of food consumption growth. Asia is the fastest-growing wheat market in the world, and noodles are its fastest growing segment. On average, in Indonesia, Japan, Malaysia, the Philippines, the Republic of Korea, Taiwan Province of China and Thailand, half of total wheat supply is consumed in the form of noodles and steamed breads. These dietary changes have affected trade and production programmes in major wheat exporting countries.

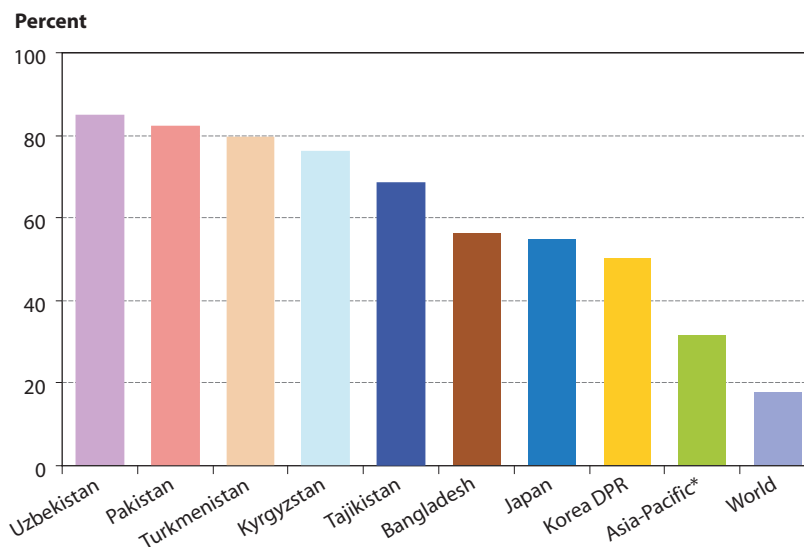
Wheat prices

According to the June 2008 issue of FAO's Food Outlook, by mid-May international wheat prices stood at about 50 percent below their peaks in late February. In Asia, despite favourable prospects for this year's wheat crops in several major producing countries, the region's total output could slip back a little from last year's record level because of dry conditions affecting some countries. Production is forecast to decline slightly in Pakistan because of dry conditions in some areas and a reduced use of inputs, but may nevertheless remain slightly above the average of the past five years. In India, the attainment of good yields has resulted in a more favourable outlook indicating that this year's crop could turn out to be a record one, close to 77 million tons. In China, despite drought in some eastern parts, increased plantings and higher yield expectations in areas not afflicted by dry conditions point to another slight increase this year, reaffirming the country's upward trend in wheat production.

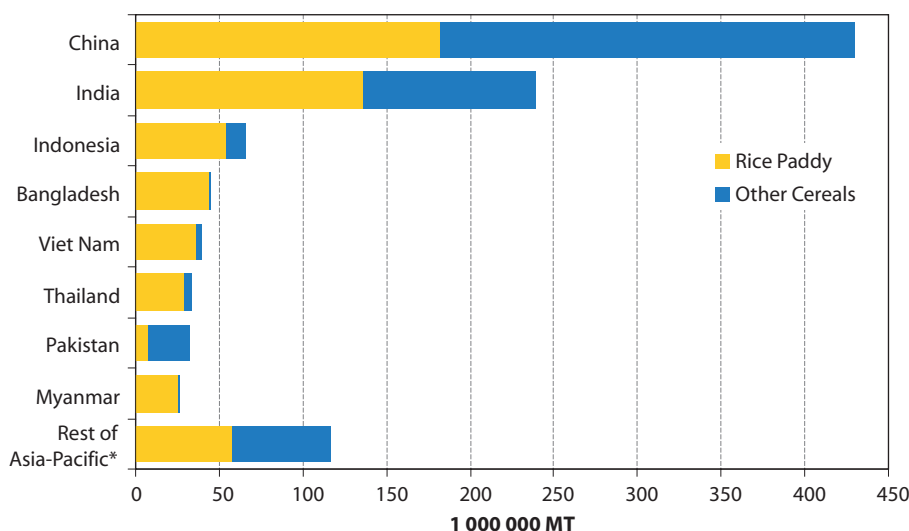
Policy responses

In **Bangladesh**, wheat imports are currently duty free. However, there is a 3 percent advance income tax. There is no quantitative restriction on wheat imports.

Countries in Asia-Pacific* with largest proportion of irrigated agricultural land in 2003



Largest producers of cereals in Asia-Pacific* region in 2006

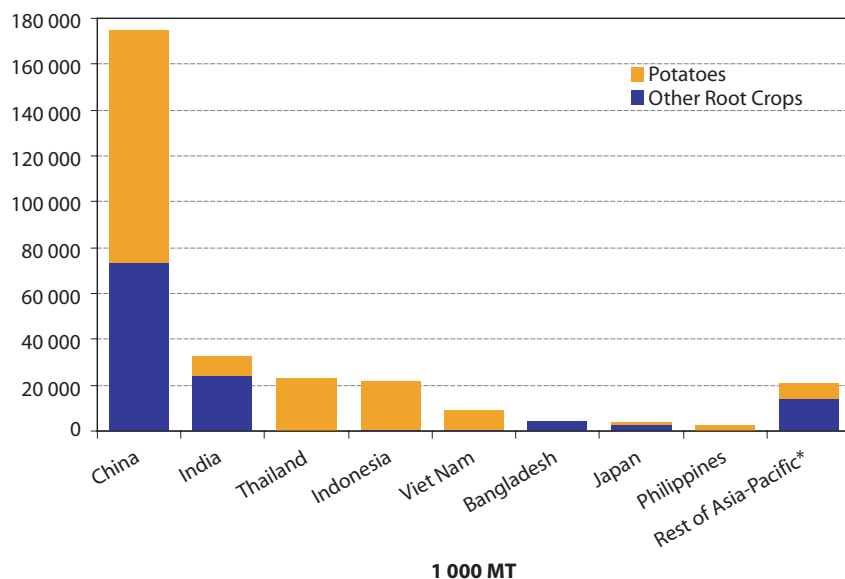


The Government of **China** put in place a series of policies, including direct payments, price supports and a machinery subsidy, to encourage wheat production even though annual wheat consumption in China has dropped by over 14 kg per person over the past decade to currently around 64 kg per annum. This decline has been driven by a slow but continuous shift away from wheat to high protein food.

The Government of **India** has announced a support price for wheat of Rs. 10 000 (US\$253) per ton for the 2008/09 marketing year (MY), compared with Rs. 8 500 per ton in MY 2007/08. The prevailing market prices are 10 to 30 percent above the support price for milling quality wheat ranging from around Rs. 11 000 (US\$279) per ton in

Delhi to Rs. 12 500 (US\$316) per ton in South India. At the same time, the Government has asked large trading companies operating in India to declare their stock levels. Despite the increasing support prices, there have been no revisions to the official sales price of wheat under various food programmes since July 2002. Government wheat sales prices are Rs. 6 100 (US\$154.4) per ton for the Above Poverty Line (APL) clientele, Rs. 4 150 (US\$105.1) for the Below Poverty Line (BPL) clientele, and Rs. 2 000 (US\$50.6) per ton for the poorest-of-the-poor clientele against the Government's cost price of Rs. 12 326 (US\$312) per ton in 2006/07. Rising procurement costs, without an increase in the sales prices, are pushing up food subsidy spending, budgeted at Rs. 257 billion (US\$6.5

Largest producers of root crops in Asia-Pacific* region in 2006



billion) in the Indian fiscal year 2007/08 (April–March). On 26 December 2007, India began duty-free imports of wheat flour until 31 March 2009. The Government has permitted states to impose stock limits on private wheat trade under the Essential Commodities Act and has banned futures trading in wheat to stabilize the price.

In February 2008, the **Indonesian** Government temporarily reduced the import duty on wheat flour to zero. In addition, they will temporarily adjust the value added tax (VAT) for wheat and wheat flour. The import duty for wheat flour was previously 5 percent and the VAT for wheat and wheat flour was 10 percent. However, the duration of the measure is unclear. In addition, on 24 January 2008 the Ministry of Industry issued a regulation temporarily lifting the Indonesian National Standard (SNI) on wheat flour. Under this regulation, importers can import unfortified wheat flour.

Government imposed tariffs on wheat exports exist in **China** and **Pakistan**, while **Kazakhstan**, on 15 April, halted foreign sales. On 21 May, the Government of **Pakistan** made two major policy decisions related to wheat trade. The private sector is now permitted to import wheat and the 10 percent import duty on wheat was waived. Over the past two years, wheat imports have only been allowed through the state owned Trading Corporation of Pakistan (TCP). In early

May, the Government approved the import of 2.5 million tons of wheat to bridge the gap between supply and demand and to build strategic reserves. The measures were taken because of deep concerns that last year's wheat crisis could continue through the current marketing year.

The **Republic of Korea** cut import duties on wheat while the **Japanese** Government decided to start charging flour millers about 30 percent more for imported wheat in April. On 26 March, **Taiwan Province of China** announced plans to cancel customs duties with the aim of reducing inflation. This is in addition to the previous 50 percent cut put in place for a period of one year.

Effective 12 September 2007, the **Thai** Government cut the tariff rate on imported wheat to zero. Previously, the tariff was 0.1 baht/kg (around US\$2.5/MT). Meanwhile, the tariff on wheat flour remains at 5 percent (0.5 baht/kg). However, feed manufacturers are proposing to the Government that this tariff be cut to zero in order to lower aqua-feed costs for shrimp farms.

Update on rice markets and policies

In **Bangladesh**, the Boro rice crop has been harvested and the Department of Agricultural Extension (DAE) estimated total production at about 19 million tons, which will be 25 percent higher

than in 2007 (15.96 million tons). The Government has signed a contract with the rice millers to procure 550 000 tons of rice. The Ministry of Food and Disaster Management has recommended procurement of 3 million tons of food grains, mainly for safety-net programmes in the next fiscal year (July 2008 to June 2009). The central bank published guidelines allowing hedging the price risks of commodities in Bangladesh.

At the end of May, **Cambodia** lifted a ban on rice shipments that it had imposed two months earlier and became the first major Asian exporter to roll back curbs that were put in place to protect domestic supplies in the face of soaring international prices. Meanwhile, the **Vietnamese** Government said that it might lift its export ban in early July as an extra third crop comes to harvest. Although several exporting countries are preparing to lift bans on foreign shipments of rice, the price is expected to remain at relatively high levels because demand is still strong.

India recently announced that it may review bans on exports of wheat and basmati rice, but shipments of other grades of rice will not be allowed until at least November. In 2007, India exported about 4 million tons of rice, equivalent to around one-eighth of global trade, much of it to big Middle Eastern buyers like Iran, Iraq and Saudi Arabia. Earlier this year it allowed exports of about 400 000 tons to Bangladesh, and smaller quantities to Nepal and Bhutan despite a ban on non-basmati rice exports.

Japan's decision to sell 300 000 tons of rice to the Philippines in late May led to a drop in world market prices of rice, as predicted by many analysts.

In June, **Malaysia** announced that it would initiate two programmes to ensure food supply in the country. While it currently grows rice on some 680 000 hectares, it has major plans to increase acreage in its eastern states of Sabah and Sarawak on Borneo Island and in the north-eastern state of Terengganu. Malaysia's rice imports are likely to jump by almost a third to 900 000 tons this year.

Many Malaysian companies have asked the **Thai** Government's permission to rent plots of deserted farmland in the three Thai southernmost provinces. Like Malaysian companies, investors from Bahrain have also requested permission from the **Thai** Government to rent farmland in the central region. Paddy exports are prohibited by law, but the ban does not cover rice exports. The Thai Agriculture and Cooperative Minister Somsak Prissanantakul said that the two countries planned to employ Thai farmers to do the farming and ship the harvest back to their respective countries.

The **Philippines**, one of the world's largest rice importers, has started talks with Pakistan and China to broaden its sources of supply beyond Thailand and Japan. On 28 May 2008, President Gloria Macapagal-Arroyo signed Administrative Order 226 suspending the processing and approval of all land conversion applications for rice lands for two years. The order is aimed at ensuring sufficiency in rice supply by protecting all lands utilized and intended for rice production from any other land use or conversion.

Thailand is urging rice millers to support government-to-government deals to prevent a fall in domestic rice prices starting with a deal with Malaysia. Meanwhile, on 4 June the Government launched a rice-pledging programme for 3 months. Under this scheme, the Government will purchase up to 2.5 million tons of grain at a guaranteed price of 14 000 baht per ton. At the same time, a decision was taken to sell 2.1 million tons of stockpiled rice to foreign markets in order to prepare for the purchase programme. The decision followed widespread protests by farmers who claimed they were being taken advantage of by rice millers who have offered low prices at a time when world prices have been soaring.

The Asian countries are not the only ones affected by increasing food prices. Pacific Island Countries (PICs) are also feeling the impact of high food prices, especially when combined with high fuel costs. **Fiji** has set up a special government taskforce to monitor the impact of fuel and food price increases on the Fiji economy. The interim

Government decided this month to raise the income tax threshold from F\$9 000 to F\$15 000 (US\$6 000 to US\$10 000) from 1 June and extend the list of basic food items on which duty and value added tax will be removed to provide some relief to the poor.

An assessment of the current food situation in the Pacific Island Countries

Rising fuel costs, remoteness and the increasing shift from a traditional diet towards consumption of imported food has made food security in the Pacific Island Countries highly vulnerable to external factors. This is especially true for atolls where limited land, water and poor soils make it difficult to grow much beyond breadfruit, taro and coconuts. Domestic transportation within the smaller PICs is now more expensive than international freight while food transport and trade in the large nations is constrained by inadequate inland road and infrastructural links. The global rise in food and transportation fuel prices has led to a surge in the cost of staples in the PICs, which in some countries are now significantly costlier than in Australia.

The PICs also face inflationary risks from potential currency depreciation resulting from rising import bills and wage hikes necessitated by increasing prices. The Asian Development Bank (ADB) projects that the region is entering a period of inflation of between 5 to 10 percent.

Rice and wheat, mainly imported, account for a larger share of household expenditure in rural areas than in urban ones. In Samoa, the price of Australian flour has increased by more than 50 percent since January 2008. Costlier food imports can increase demand for traditional staples, pushing up their prices and affecting the predominantly rural population in the PICs. Low-income households, with limited land and productive assets, are the most vulnerable.

High food prices also offer an opportunity for the PICs to give higher priority to production and consumption of nutritionally beneficial traditional staples.

Nauru, Kiribati and Tuvalu are the most vulnerable to increasing food prices. PIC governments must identify and support social groups at risk of food insecurity, consider interim waiver of levies on food imports and fuel, provide free planting material for home gardens and promote consumption of locally produced food.

The food security situation in the PICs and national responses are summarized below:

Higher fuel costs are raising food prices in the **Cook Islands** where food is shipped across several small islands. Cereal prices, mainly bread, have increased by 8.6 percent. Domestic food production and consumption needs to be promoted for which farmers need agricultural inputs.

Responding to increasing prices of cereals, fish and dairy products, **Fiji** reduced tariffs on most imported food items in May, set up a taskforce to monitor fuel and food prices, warned profiteers and is encouraging people to take up home gardening. Fiji has to balance flour exports with local demand. The FAO Food Security and Sustainable Livelihoods Programme (FSSLP) will help increase rice production, promoting the transition from subsistence to commercial agriculture.

Socio-economic conditions make **Kiribati** highly vulnerable to high food prices and in likely need of emergency support. Migration from the outer islands into Tarawa has seen the proliferation of squatter settlements in the main urban centre. Lack of tools, seeds, fertilizers and pesticides are a constraint to home gardening. Excessive consumption of imported food has increased non-communicable ailments and infant mortality. FAO will support development of integrated farming systems across the islands with non-governmental organizations working on home gardening projects.

A 2.84 percent increase in the consumer price index in the **Marshall Islands** in the first quarter of 2008 – the highest since the last quarter of 2005 – was mainly driven by high prices of fuel, electricity and some food items. The country is a major food importer with remote atolls/islands and isolated from

overseas markets, which undermines the competitiveness of agricultural products with export potential. There is a need to promote local food production and consumption, especially involving youth. The Compact of Free Association Agreement with the United States covers food security support.

Inadequate attention to traditional farming in the **Federated States of Micronesia** has increased reliance on food imports with a significant rise in nutrition and lifestyle diseases. As higher fuel costs have led to an increase in food prices, low-income households may have to cut back on basic needs. The Government has urged increased local food consumption for improved nutrition.

After a century of phosphate mining and reliance on food imports, and with little subsistence farming, poor water resources and soil, **Nauru** faces a food deficiency crisis unless local agricultural production is promoted with farming inputs and infrastructure support.

The least populated among the PICs, **Niue** will not be greatly affected by high rice and flour prices due to wide availability and consumption of local staples, although the country is a net food importer. It is cheaper for **Palau** to import rice than cultivate staples like taro, tapioca and sweet potato, but excessive consumption of imported food has led to high levels of obesity. **Papua New Guinea** has a high level of self-sufficiency in staple production. Prices of rice, wheat flour, milk, eggs and fish increased in 2006–2007, but maize, potato and meat became cheaper. There is a need for improved agricultural research, extension and information systems to improve small farmer productivity.

Expensive fuel has raised food prices substantially in **Samoa** since December 2007 and a special taskforce is monitoring the situation. Growing dependence on rice and flour imports and rising prices of local staples highlight the need for stepping up local food production. Rice prices are increasing in the **Solomon Islands**. With 80 percent of households engaged in smallholder, mixed subsistence-cash crop farming and high unemployment,

there is need to improve smallholder productivity and incomes.

Imported food costs 20 percent more in **Tonga** than in Australia. The price of rice is at a 20-year high and more and more people are returning to traditional staples. The focus on agricultural exports may need to be revised. Home gardening is prevalent in **Tuvalu**, but imported food largely makes up the staple diet. Rising food and fuel prices highlight the need to revive local food production and consumption. Farmers in **Vanuatu** sell fresh produce to buy rice which has become a main staple. Growing urbanization and unemployment means that high rice prices will have a far greater impact, requiring increased local food production and consumption.

Links to materials on food prices

The weblink to FAO's **World Food Situation** has changed to: <http://www.fao.org/worldfoodsituation/wfs-home/en/>

Food Outlook is a biannual publication (June and November) of FAO focusing on developments affecting global food and feed markets. The sub-title "Global Market Analysis" reflects this focus on developments in international markets, with comprehensive assessments and forecasts on a commodity by commodity basis. Visit: <http://www.fao.org/GIEWS/english/fo/index.htm>

Visit <http://www.fao.org/giews/english/policy/index.htm> for a **summary matrix of the policy measures** being taken by various governments by type – trade, consumption and marketing.

Visit http://www.fao.org/fileadmin/user_upload/foodclimate/HLCdocs/

[declaration-E.pdf](#) to download the **Declaration of the High-Level Conference** on World Food Security: the Challenges of Climate Change and Bioenergy.

Address by Dr. Jacques Diouf, Director-General of the Food and Agricultural Organization of the United Nations to the High-Level Conference on World Food Security: the Challenges of Climate Change and Bioenergy. Visit: http://www.fao.org/fileadmin/user_upload/foodclimate/statements/fao_diouf_e.pdf

Address by Mr. Ban Ki-moon, Secretary-General of the United Nations to the High-Level Conference on World Food Security: the Challenges of Climate Change and Bioenergy. Visit http://www.fao.org/fileadmin/user_upload/foodclimate/statements/un_ki_moon.pdf

IFAD, **Soaring food prices and the rural poor: feedback from the field**. Visit: <http://www.ifad.org/operations/food/food.htm>

World Bank, **Food Price Crisis**. Visit: <http://www.worldbank.org/html/extdr/foodprices/>

For an update on **International Cereal Export Prices**, visit: <http://www.fao.org/GIEWS/english/ewi/cerealprice/2.htm>

For an update on **Wenchuan Earthquake** – Impact on agriculture, livestock and food security in affected areas, and implications for China visit: <http://www.fao.org/GIEWS/english/shortnews/china080530.htm>

IFPRI, Poverty, Climate Change, Rising Food Prices and the Small Farmers. Visit: http://www.ifad.org/gbdocs/repl/8/ii/e/presentations/IFAD_21-04-08.pps#256,1,Poverty,ClimateChange,RisingFoodPrices,andtheSmallFarmers

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