



FOOD AND AGRICULTURE ORGANIZATION OF THE  
UNITED NATIONS  
REGIONAL OFFICE FOR ASIA AND THE PACIFIC

MAY 2008

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## Why an FAO regional food situation update?

Developments over the last 12 months or so on food markets prompted the launching of an FAO's Initiative on Soaring Food Prices (ISFP) on 17 December 2007. The FAO Regional Office for Asia and the Pacific in Bangkok consequently held an emergency brainstorming meeting on 25 April 2008 involving senior government officials in charge of food security from five countries (Bangladesh, Cambodia, Indonesia, the Philippines, and Timor-Leste) together with FAO Representatives to those countries. Three officials from Thailand also attended the meeting.

Supported by a multi-disciplinary team of FAO staff, the consultation explored national responses to the rapid rise in international food prices. In addition, regional food security reserve stocks and access to fertilizers were identified as most crucial issues for ensuring food security for countries in the region at times of soaring food prices. The meeting thus urged FAO to promote regional food reserves and assured access by all countries to fertilizers.

Participants expressed special appreciation for the draft prototype monitoring note prepared by FAO for the meeting, and requested that such type of information is disseminated rapidly and regularly to main stakeholders in the region – government officials, embassies, international agencies, media and FAO staff.

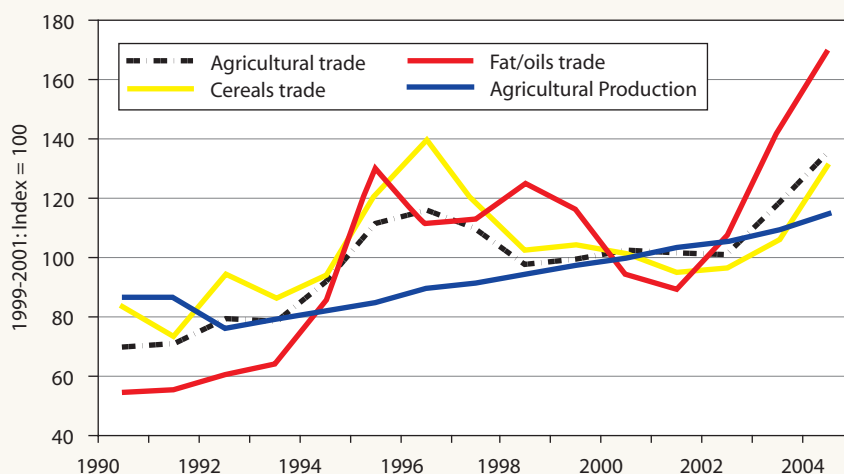
The meeting concluded that the situation in the region can best be described as stressful and advised that stronger terminology – such as “crisis” – should be avoided as food shortages are naturally sensitive and emotive.

**FAO is thus issuing a newsletter aimed at providing facts and information on the regional situation with respect to soaring international food prices. This first note frames the Asia and Pacific food situation in a global context; summarizes the factors behind soaring prices, and reviews the responses of Asian nations to rising rice prices. In future issues the focus will be on selected topics and sub-sectors of the food and agricultural economy in the region. FAO also invites and encourages your feedback, comments and suggestions on this newsletter.**

## The Asian food situation

In Asia and the Pacific region, home to 3.7 billion people, the majority of the population depends on the agricultural sector for employment, especially in low income food deficit (LIFDC) countries. A growing population has led to increased demand for food, prompting the region's food production index to grow from 86 points in 1990 to 120 in 2005, exceeding that in the rest of the world (See Figure 1). Food imports also grew, rising 5 percent annually since the early 1990's to US\$170 billion in 2004, or approximately 30 percent of global totals. Nearly 25 percent

Figure 1: Asian growth in agricultural trade exceeds production gains



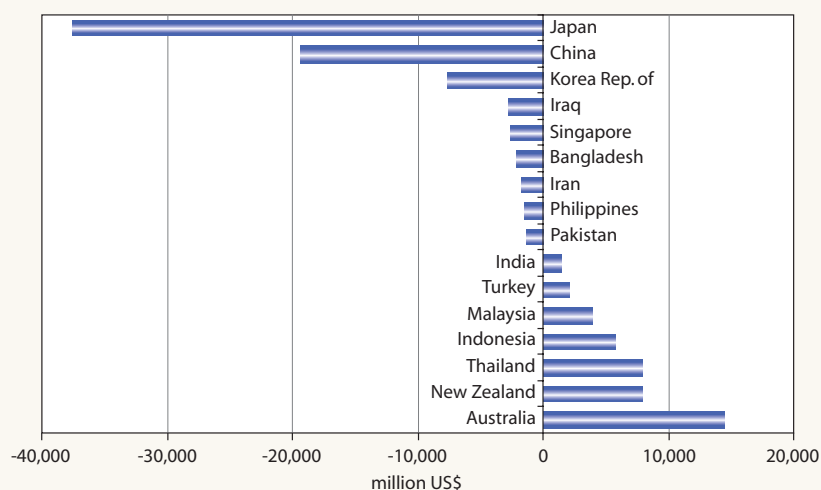
of these imports consisted of cereals and vegetable oils, commodities which are critical to the region's food security. The growing globalization of Asia, characterized by heightened interdependence among nations in both consumption and production of agricultural food stuffs, holds considerable benefits for the agricultural sector. However, Asian markets have recently been put to the test by price

developments in international markets, particularly those Asian countries which are heavily import dependent, such as Bangladesh, Indonesia, the Philippines, and the Pacific Islands (See Figure 2).

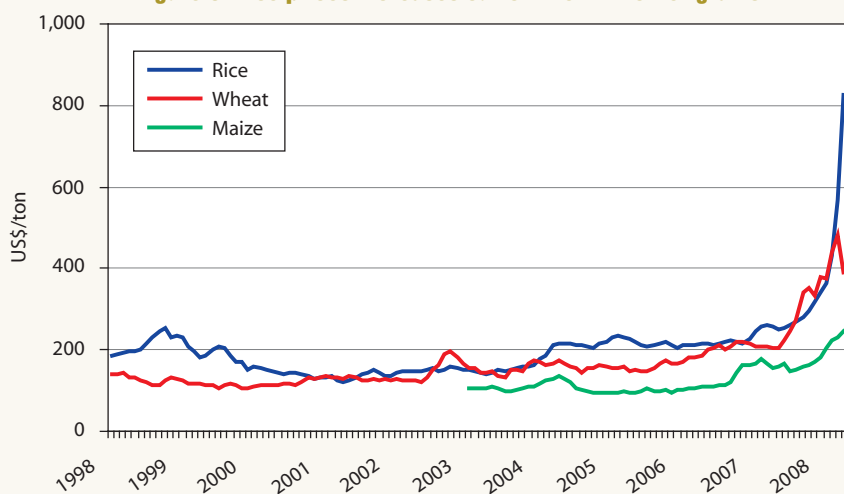
International nominal prices of all major food commodities reached, in the first three months of 2008, their highest level in nearly 50 years (in real terms nearly 30 years). Price

volatility in agricultural markets is not a rare occurrence, although often high prices tend to be short lived compared with low prices which persist for longer periods. What distinguishes the current state of agricultural markets is the concurrence of the hike in world prices of not just a few selected commodities, but nearly all major food and feed commodities and the possibility that the prices may continue to remain high after the effects of short-term shocks dissipate.

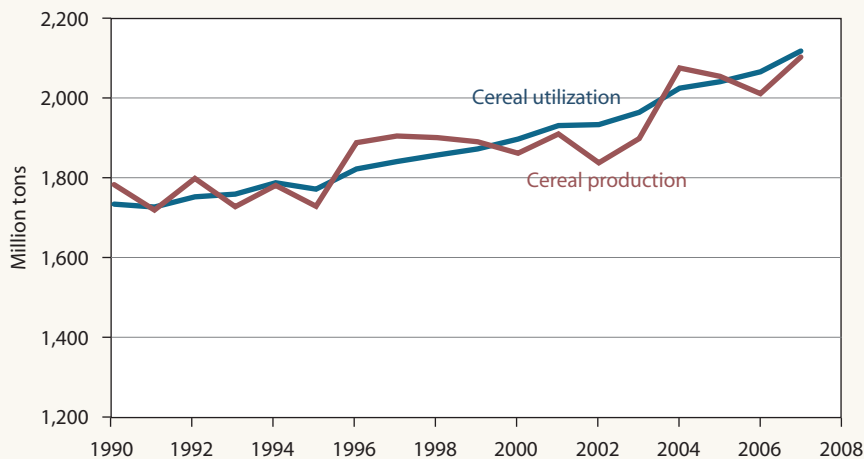
**Figure 2: Net Food Trade Status of Selected Asian Countries, 2005**



**Figure 3: Rice prices increases out-of-line with other grains**



**Figure 4: Cereal Production fell below utilization**



Utilization is the sum of food, animal feed and other uses.  
Source: FAOSTAT

Asia, a region which accounts for nearly half of global cereal consumption, is particularly challenged by the considerable divergence of rice prices, suddenly and recently escalating out of range with its normal substitutes, wheat and maize (See Figure 3). Rice is distinguished by its unique nature in Asia. The region accounts for over 90 percent of global output and consumption while supplying more than 80 percent of global exports. It is a dominant food staple throughout the region, accounting for nearly 40 percent of total cereal consumption. More than double that in other regions, rice consumption in Asia often accounts for more than half of normal food energy intake. Consequently, understanding food price developments, the market impact and the implications of policy responses by countries in the region, particularly those related to rice, are the first steps in designing effective policy responses to: (a) mitigating the adverse impacts of higher prices; and (b) identifying suitable responses to allow rural populations to enhance livelihoods and benefit from higher prices.

## Why did food prices rise?

Whilst the root cause of price increases are being widely debated there is general agreement that aside from cyclical factors such as drought and disease, structural factors related to both demand and supply are also involved. The available facts reveal the following:

Firstly, world cereal production fell below world cereal utilization for food, feed, industrial use, etc. for four years in a row, beginning in 1999 (See Figure 4). Cereal production recovered briefly from 2003 to 2005 but has since fallen below utilization. During most of the 1990s, cereal production had exceeded utilization and large cereal stocks had accumulated. These were gradually depleted to the point where the cereal to utilization ratio for 2007/08 is expected to be 18.8 percent, the lowest level for three decades (See Figure 5). This has heightened price volatility in cereal markets, with sharp price reactions to

unexpected developments. Rice prices have more than trebled between early 2003 and early 2008, while wheat prices have almost trebled over the same period.

Secondly energy prices started rising sharply from early 2002 onwards – between then and April 2008, crude oil prices rose near six-fold. (See Figure 6). A close relationship has historically been observed between petroleum prices, fertilizer prices and food prices for obvious reasons. This link has become tighter with the growing energy intensity of modern agricultural production. Not only do higher petroleum prices result in higher diesel and electricity costs, they also drive up the costs of chemical fertilizer and other inputs, as well as transport and freight costs.

Thirdly as petroleum prices rose and biofuels began to look more attractive. The demand for biofuels did drive up cooking oil prices and undoubtedly played a role in driving up cereal prices.

Another explanation for soaring food prices that is often heard is that growing demand for food – and cereals in particular – in China and India is responsible. FAO's analysis indicates that this explanation is highly implausible where cereals are concerned, as cereal utilization in the two countries has grown more slowly than in the rest of the world, which is inconsistent with this argument (See Figure 7).

## A Review of Asian nations' responses to rising rice prices

Given the political importance of food prices to governments throughout Asia most countries have responded rapidly with measures to contain the growth and adverse impacts of rising food prices. The responses of some of the Asian countries with respect to rice, the main food item of concern in Asia, are summarized below:

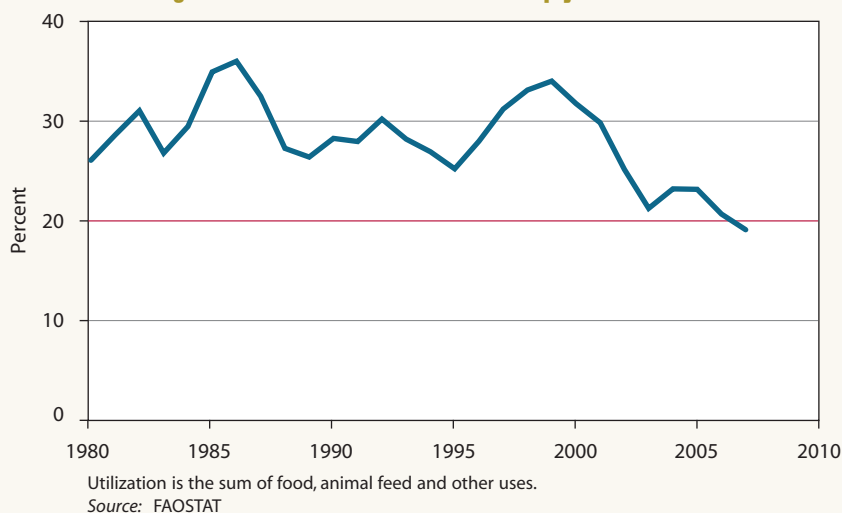
**Bangladesh**, on April 16, announced an increase in the procurement price from 18 to 28 Takka/kg and set a target of procuring, between May and September 2008, 1.5 million tons of rice to boost its emergency stocks. At the same time a ban on export of non-aromatic rice was imposed.

In 2007, **India** banned trading in rice and wheat futures and in May 2008 futures trading in soybean oil, potatoes, rubber and chickpeas were also suspended. Concerned over the slow procurement of rice, the Indian government announced a Rs. 1,000 (US\$25.3) per ton bonus in

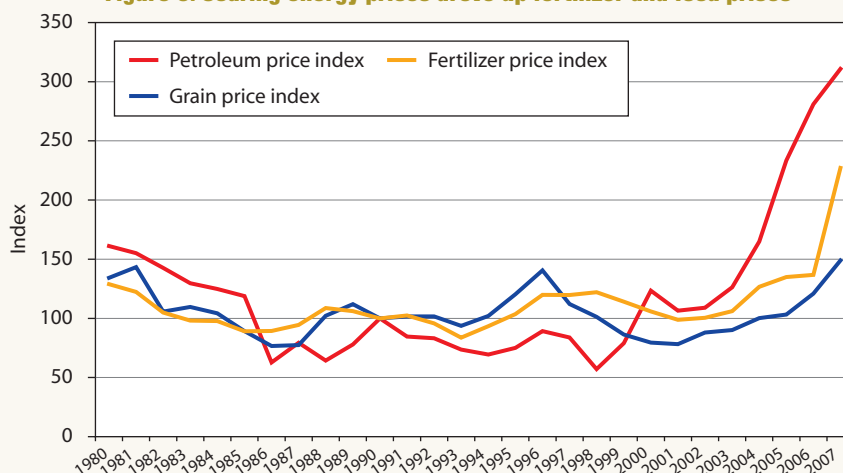
two instalments over and above the previously established higher support price of Rs. 6,450 per ton for Common varieties and Rs. 6,750 for Grade A varieties of paddy (un-milled rice). This has lifted the effective support prices to Rs. 7,450 (US\$188.6) and Rs. 7,750 (US\$196.2) per ton respectively for Common and Grade A

varieties. This compares to support prices in the marketing year 2006/07 of Rs. 6,200 per ton for Common varieties and Rs. 6,500 per ton Grade A varieties. As in the case of wheat, the government has not increased the sales price of rice distributed since July 1, 2002, although the support price has increased by around 44 percent. In late

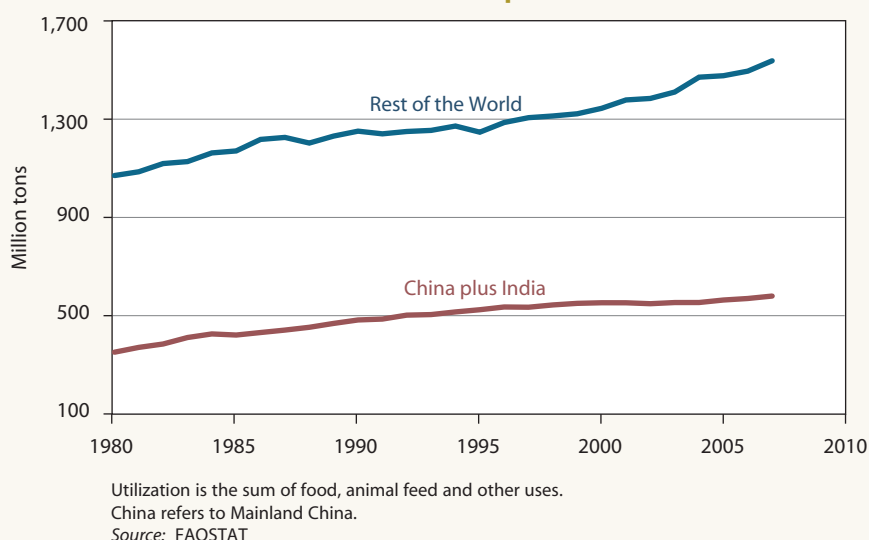
**Figure 5: Cereal stocks declined sharply after 2000**



**Figure 6: Soaring energy prices drove up fertilizer and food prices**



**Figure 7: But demand from India and China were not the main cause of food price increases**





March India banned non-basmati rice exports and set minimum export prices at US\$1,200/ton. This measure was introduced after the government imposed a minimum export price of US\$425 per ton for non-basmati rice as of 31 October, 2007, which was further raised to US\$500 per ton on 27 December, 2007.

Responding to higher prices, the **Malaysian** Government is providing all rice farmers with a subsidy of RM 25 per 100 kg of paddy delivered to a licensed mill or drying facility. The government also announced a US\$1.3 billion plan to ensure self-sufficiency in rice production.

The **Philippines**, the world's largest importer of rice, responded to rising domestic prices since January by banning conversion of farmland for development and rice hoarders became liable for life imprisonment. The government also announced that the National Food Authority (NFA) will buy un-polished rice from smaller farmers at a higher price (17 pesos instead of 12 pesos/kg) through the end of December 2008. The Department of Agriculture (DA) is working with the International Rice Research Institute (IRRI) on a programme to attain 98 percent self-sufficiency in rice by 2010, through a Memorandum of Agreement.

As of 5 May the Government of **Philippines**, through the National Food Authority (NFA), had contracted/bought some 1.7 million tons (equivalent to a 32 day national buffer stock) of rice from the world market. Of the contracted volume, 700,000 tons had arrived while the balance was expected to arrive by the end of June in time for the start of the traditional lean months from July-September. NFA continues to sell rice at subsidized price of 18.25 pesos/kg to the poor. NFA has also started selling a 25 pesos/kg commercial grade rice (5 percent broken mostly imported from the US) to middle-income earners. The Department of Social Welfare and Development has also started issuing family access cards which entitles the card holders to the subsidized (18.25 pesos/kg) rice.

The **Thai** Government, to ease pressure on domestic prices, approved, in early May, the release of rice intervention stocks for domestic sales at prices 20 percent lower than market prices. The stock release is expected to ease domestic prices of white rice with millers recently offering to sell rice at prices 1,400 baht/ton (US\$48/ton) lower than previous weeks. In addition, domestic and export white rice prices declined slightly by 1-5 percent in early May in response to the cancellation of the May 5 Philippines tender. To maintain stocks at

2.1 million tons, the Government plans to buy paddy, to maintain, at farm-gate prices of 12,000-13,000 baht/ton (US\$381-413/ton). The initial stock release (1,500 tons) will be packed into 5-kg bags for distribution and will be sold in designated government outlets. While, the prices of this rice will be 15-20 percent lower than market prices, the stock release is expected to have a minimal impact on domestic prices due to the gradual nature of releases.

Meanwhile, **Thailand** still maintains the intervention programme for 2007/08 main crops. Intervention prices were set around 300 baht/ton (US\$9/ton) higher than the previous year. However, with market prices more attractive than the intervention prices, most farmers are selling their paddy directly to local paddy traders and rice mills. The Government bought only 243,742 tons of paddy, far below the previous year's levels of 3.1 million tons of paddy. Meanwhile, the Government did not run the 2007/08 second-crop intervention programme, as farm-gate prices of newly harvested second crop paddy surged 9,500-10,000 baht/ton (US\$310-320/ton), as compared to 6,500 baht/ton (US\$185/ton) in the previous year. However, the Government is considering policy steps should domestic shortages occur.

In **Indonesia**, the Bulog will distribute in 2008 a total of 2.8 million tons of rice to 19 million families under a rice for the poor programme (Raskin). Each family will receive 15 kg of rice for the price of Rp. 1,600/kg (US\$175/ton) over 9 months starting February 2008. In January 2008 Bulog distributed 10 kg per family. This compares to 2007 when the Bulog distributed 1.7 million tons of rice to 15.8 million poor families. Each family received 10 kg at Rp. 1,000/kg for 10 months.

In an effort to stabilize rice prices in the domestic market, the Government in January 2008 lowered the import duty of rice to Rp. 450/kg (US\$49.3/ton), followed by a February 2008 decision to allow the Bulog a license to import 570,000 tons of rice to meet Bulog's procurement target of 3 million tons of rice milled equivalent.

Meanwhile, in **Cambodia**, after inflation reached 24 percent in March, the Government banned rice exports for two months. This is after **Vietnam** banned rice exports, effective until June 2008, and announced in late March that total rice available for export in 2008 would be cut to 3.5 million tons from 4.5 million tons last year.

The **Sri Lankan** government has imposed price control over retail sales.

## Links to materials on food prices

**The International task force on global food crisis** has a website: <http://www.un.org/issues/food/taskforce/>

FAO's **World Food Situation** homepage provides the latest news on world food prices, analyses and reports of a short, medium and long term nature with regard to commodities and markets, international prices and food security indicators. It also has links to similar websites. <http://www.fao.org/worldfoodsituation/home.html>.

The ten most **Frequently Asked Questions** about the recent rise in food prices are answered at: <http://www.fao.org/worldfoodsituation/wfs-faq.html>.

FAO will host a **High-Level International Conference on World Food Security and the Challenges of Climate Change and Bioenergy** in Rome from June 3 to 5, 2008.

[http://www.fao.org/foodclimate/home1.html?no\\_cache=1](http://www.fao.org/foodclimate/home1.html?no_cache=1). The documents for the Conference are available at: <http://www.fao.org/foodclimate/conference/regform.html>. See especially "HLC/08/INF/1: Soaring food prices: facts, perspectives, impacts and actions required"

Through its **Global Information and Early Warning System (GIEWS)**, FAO monitors global markets continuously. FAO issues updates on the world food situation and provides early warnings on emerging food crises in most affected countries. See <http://www.fao.org/giews/english/cpfs/index.htm>.

The Rice Market Monitor provides an analysis of the most recent developments in the global rice market, including a short-term outlook. See [http://www.fao.org/es/ESC/en/15/70/highlight\\_71.html](http://www.fao.org/es/ESC/en/15/70/highlight_71.html).

The **FAO Rice Price Update** provides monthly rice export prices from major origins and is released monthly. See [http://www.fao.org/es/ESC/en/15/70/highlight\\_533.html](http://www.fao.org/es/ESC/en/15/70/highlight_533.html).

**Cyclone damage could hit Myanmar rice exports**

<http://www.reuters.com/article/topNews/idUSSP23811220080507>.

David Dawe, Have Recent Increases in International Cereal Prices Been Transmitted to Domestic Economies?

**The experience in seven large Asian countries.** *ESA Working Paper No. 08-03*, April 2008. See <ftp://ftp.fao.org/docrep/fao/010/ai506e/ai506e00.pdf>.

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