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

AUGUST 2008

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Cereal prices falling

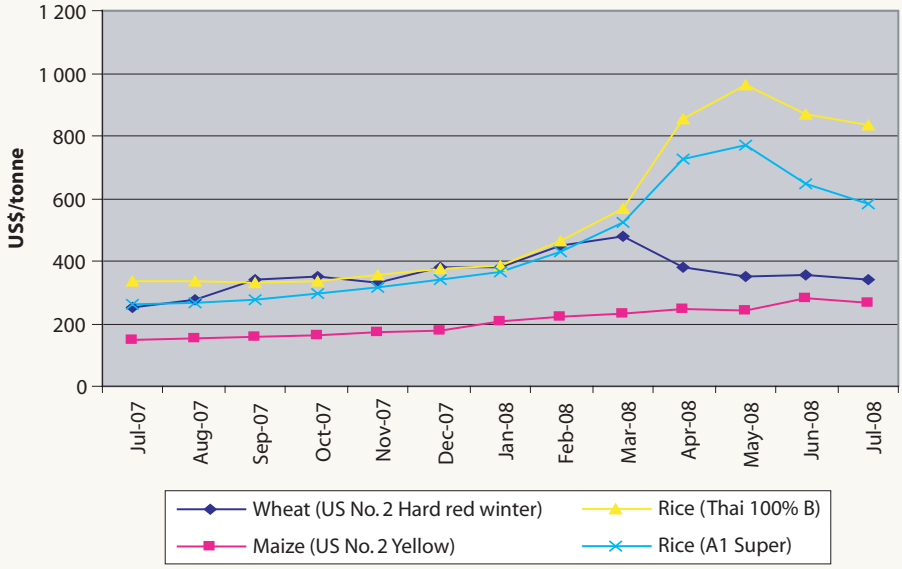
Rice prices fell in June, July and August, after reaching an all-time high in May 2008. Prices for benchmark rice grades have been declining in recent weeks. The Thai white rice 100 percent B quotation, the world's benchmark grade for rice, averaged US$835 per tonne in July. It fell in mid August for the third consecutive week to US$767 a tonne, down from a record US$1 038 per tonne on 21 May. However, the downward price slide slowed substantially by mid-July, reflecting the impact of policy measures to support prices in major producing countries. Thailand's official rice intervention programme has gained momentum since its launching on 15 June, especially as procurement prices were reported to outstrip the prevailing market rates by 30 percent. World prices were also supported in July by Viet Nam's decision to implement a variable export tax. In the coming months international rice prices are expected to remain under downward pressure, especially if wheat prices keep falling.

The **Viet Nam** Food Association (VFA) has petitioned the Government for a waiver of export tariffs, or at least a readjustment in the taxes for rice in view of decreasing prices of goods in the local and global markets, sluggish foreign demand and imminent bumper harvests. Hanoi has revised its projection for paddy rice output this year to 37.6 million tonnes, a 4.7 percent increase over last year's production.

In July, the first month of the 2008/09 marketing season, US **wheat** (No. 2 Hard Red Winter, f.o.b. Gulf) averaged US$341 per tonne, down US$17 per tonne from the June average, but 36 percent above the level a year ago. Similarly, wheat futures also remained under downward pressure from good harvest prospects in major producing regions in the northern hemisphere and more assured prospects for this year's crop in Australia because of timely rains.

Maize prices on the futures market have fallen sharply from their highs in June, influenced by the decline in crude oil and soybean prices and economic slowdown contracting feed demand. US maize (No. 2 Yellow, Gulf) averaged US$267 per tonne in July, down US$14 per tonne from the June average but about 83 percent

Figure 1: Selected international cereal export prices



above the average in July 2007. USDA has now forecast that the corn crop in 2008/09 will be the second largest on record. This has triggered sales of agriculture commodities futures, and corn prices for September delivery dropped about 1 percent to US$4.84 a bushel, the lowest since January 2008.

Outlook for rice in 2008–2009

FAO estimates that total global paddy production in 2008 will rise by 1.5 percent to 668 million tonnes with most of the increase occurring in Asia where paddy production is forecast at 605 million tonnes, 1.1 percent above 2007. Increases are expected in Bangladesh, India, Indonesia, the Philippines and Viet Nam, while decreases are expected in the Islamic Republic of Iran, Japan, Myanmar and Turkey.

Global rice trade in 2008 is estimated by FAO to be about 30.2 million tonnes, some 4 percent below the 31.3 million tonnes traded in 2007 owing to high prices and export bans. Bangladesh, Indonesia, Saudi Arabia, the United Arab Emirates and Yemen will have lower purchases this year while Iraq, the People's Democratic Republic of Korea, Malaysia, the Philippines and Sri Lanka will record increased purchases.

The 2008 paddy season has reached a critical stage, as, by now, planting of the main paddy crops in all the major producing countries is underway or already completed. Barring major shocks in the coming few months, global paddy production may rise by 1.4 percent to 668 million tonnes (444 million tonnes in milled rice equivalent), 9 million tonnes above the excellent 2007 season results. Unlike in 2007, when much of the gain was concentrated in Asia, in 2008 producers in all regions have responded to high market prices in the first half of the year by increasing rice cultivation.

In Asia, significant to strong production increases are anticipated in several countries, as producers have also benefited from intensified government support to increase production. The main exceptions are likely to be China, where only a marginal rise in output is expected in 2008, partly reflecting the impact of the devastating earthquake in Sichuan Province where 7 percent of national output is produced, and Myanmar, where output may fall in 2008 due to the passage of cyclone Nargis through the most important rice producing area at the beginning of May.

According to Thailand's Agricultural Economics Office, the country produced 8.8 million tonnes of paddy in the 2008 second crop, the highest yield in the 20 years for which records have been kept, owing to high prices, plantation expansion and good irrigation.

The final outcome will hinge on the weather patterns in the coming months, in particular the timing and distribution of precipitation in the western part of the region. Thousands of hectares of rice fields have been flooded in Laos, threatening the capacity of the country to achieve rice production targets. But the Ministry of Agriculture and Forestry said that the flooding has so far only affected a small share (just over 10 000 ha) of Laos' 800 000 hectares of rice fields.

With a view to becoming the biggest rice exporting country in the region, Cambodia is planning to spend US$400 million on irrigation schemes. The projects range from the US$200 million (Qatar funded) dam across Svay Rieng province's Valco River to a Government of India funded project of US$30 million for building dams. When completed, the country will increase its coverage of irrigated rice fields to 60 percent from the current 44 percent and enable Cambodia to export as much as 4 to 5 million tonnes of rice annually.

Colombo statement on food security

At the SAARC Summit in Colombo, held from 2 to 3 August 2008, it was decided to convene an Extra-ordinary Meeting of the Agriculture Ministers of the SAARC Member States in New Delhi, India in November 2008 to evolve and implement people-centred, short- to medium-term regional strategy and collaborative projects that would, among others, lead to:

- increased food production;
- investment in agriculture and agro-based industries;
- agricultural research and prevention of soil health degradation;
- development and sharing of agricultural technologies;
- sharing of best practices in procurement and distribution; and
- management of the climatic and disease-related risks in agriculture.

The Summit also directed that the SAARC Food Bank be urgently operationalized and urged greater cooperation with the international community to ensure food availability and nutritional security in South Asia.

ASEAN and partners agree to tackle food crisis

Towards the end of July, foreign ministers of the ten ASEAN nations and their counterparts from China, Japan and other key dialogue partners agreed on the need to improve crop productivity in the region to overcome the looming food crisis and create a mechanism to deal with rapidly growing energy consumption amid soaring fuel prices. They agreed to launch a US$3 million ASEAN-plus-three Cooperation Fund, in line with plans endorsed by the nations' leaders last November under the 2nd Joint Statement on East Asia Cooperation. The fund will finance cooperation in such fields as politics and national security, business and finance, energy and the environment, and social development as stipulated under the 10-year guideline.

During the one-day meeting, the ministers discussed the growing challenges of rising oil and food prices, calling for greater information sharing and collaboration among member countries. They also concurred on the importance of joint research efforts to improve food productivity, of providing

clean energy resources for developing nations through technological transfers, and of ensuring that the production of biofuels does not disrupt the food chain.

Higher dairy prices: An opportunity for the resource poor in Asia

Mirroring price developments of the major agricultural commodities, dairy product prices in July 2008 remain approximately 60 percent above historical levels. Rising faster and sooner than those of any other commodity, dairy prices began plateauing in late 2007 and have witnessed some recent declines. While the sudden increase in dairy prices certainly took the market by surprise in late 2006, it should be viewed as an opportunity for producers in developing countries, particularly in Asia and Africa, to benefit from structural changes in the global market place for dairy products.

In the case of Asia, both milk production and consumption growth has been the strongest in the world. Nearly 80 percent of the 238 million tonnes of milk produced in 2007 was supplied by smallholder dairy producers with between one and five cows. These tens of millions of households over the breadth of Asia are some of the poorest in the world, in many cases landless, but they hold the capacity to respond quickly to economic signals, specifically to higher prices. This is particularly true of those smallholder producers who are scaling up, administer their dairy operation as a small enterprise and have access to market information.

Figure 2: The background and opportunities from rising dairy prices

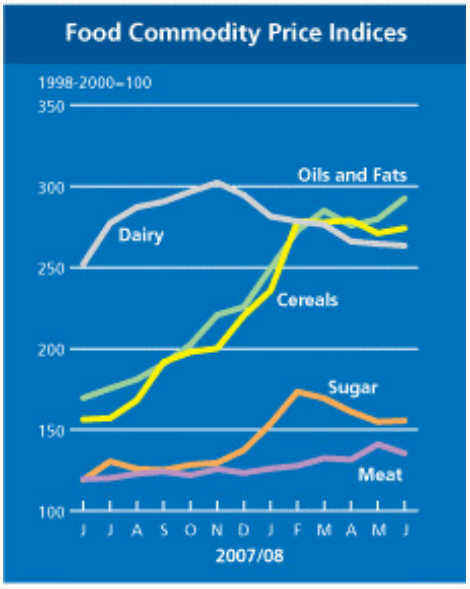
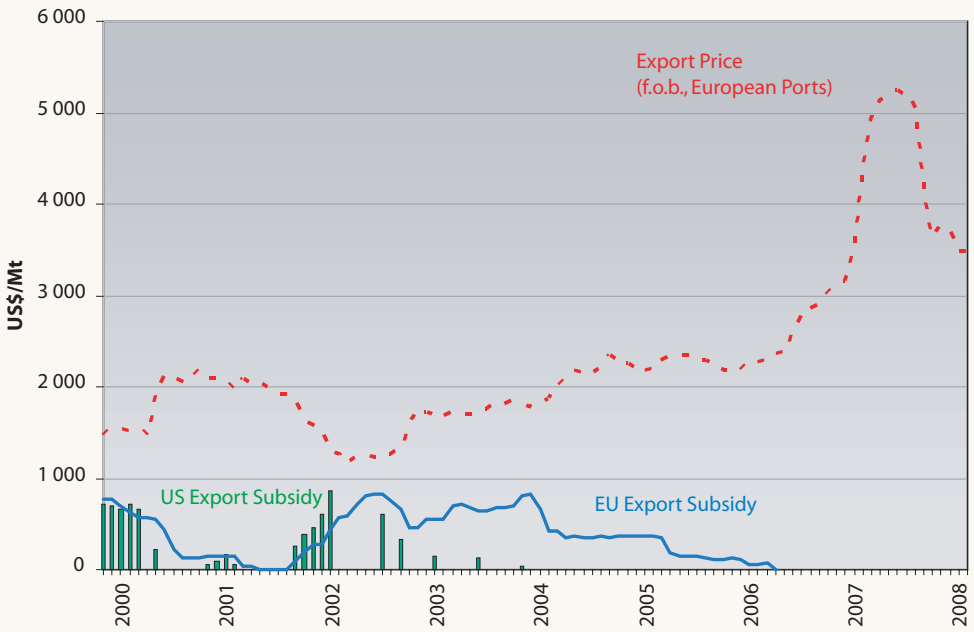


Figure 3: Export subsidies and export prices for Skimmed Milk Power



Historically, high support for dairy products in OECD countries has led to structural surpluses which, combined with the use of export subsidies and high tariffs in developed countries, have led to excess and low priced dairy products being directed to many developing countries in Asia and Africa. While milk consumption in developing countries is estimated at only 40 percent of global totals, nearly three-quarters of global shipments of dairy products were destined for these countries. In fact, 90 percent of milk powder exports from developed countries are destined for developing countries where they are estimated to supply as much as half of the formal or processed dairy markets.

The sudden and unprecedented rise in dairy prices can be attributed to a number of factors which include higher feed prices, drought, policy changes, etc. However, in various studies it has been estimated that decades-long dairy product policies and support for the sector in OECD countries have depressed international milk equivalent prices by some 25–35 percent. Consequently, while price rises may have been unexpected, they may likely reflect the reality of markets adjusting to a situation less distorted by government interventions.

Opportunities, policy responses and potential challenges for the dairy sector in Asia

The noteworthy opportunity and challenge for Asian smallholder dairy producers is to share in the opportunities afforded by rising demand in the region for milk and dairy products over the next decade. This is particularly obvious for Asia which is a region with the largest net trade deficit, importing, in 2007, approximately 19 million tonnes of dairy products (50 percent of global totals).

Ensuring that the dairy sector in Asia benefits from structural changes resulting from higher international prices requires that these prices are transmitted to national markets and then, subsequently, to producers. In many developing countries, higher milk payments to smallholder dairy producers can lead to strong productivity responses. This is because, unlike developed countries where average yields are almost 5 tonnes/animal/year, yields in developing countries in Asia average less than 1 tonne/year, with only China, India

and Pakistan exceeding that level. Most smallholders feed their animals well below potential. Therefore, there is ample scope for rapid increases by improved feeding with the use of locally available crop by-products.

Technical support to milk producers on feeding, on-farm management, and a reduction of post-harvest losses can play a major role in enhancing rural livelihoods. However, this potential can only be realized through a favourable enabling environment which assures price transmission down to farmers. Unfortunately, in many cases in Asia, pricing and other policies are not conducive to allowing producers to respond and benefit from higher domestic prices.

The gap between price movements of wholesale prices in countries compared to those for producers (see Table 1) can be an indication of inappropriate pricing policies which implies that government policies need to be implemented with a broader understanding of their direct and indirect implications. This is particularly true of any policy where fixed and administered prices constrain dairy producers, both big and small, from responding quickly to price signals. In several countries in the region the control of milk prices may be counter-productive to general pro-poor objectives of enhancing rural development and supporting incomes of smallholders.

The recent and rapid escalation of commodity prices is a call for policy-makers to examine the environment that is most conducive to sector development. Low prices over the past 20 years have led to an under-investment in agriculture, dairy included. In Asia, dairy products – unlike rice and other food security crops – do not benefit from many support programmes. Hence ensuring enabling and fair pricing policies are the first step to sector development. It is in response to the critical need for timely and targeted intervention in the smallholder dairy sector that FAO has elaborated an Asian Smallholder Dairy Development Strategy and Investment Plan:[1]

Table 1: Changes in dairy prices

	Units	Currency	Oct-06	Dec-07	Change
World prices SMP	**per tonne**	**US$**	**2 263**	**4 400**	**94%**
Philippines					
SMP*			2 300	6 200	**170%**
Sri Lanka					
WMP**			184	275	**49%**
Fluid milk			22	27.5	**25%**
Viet Nam					
WMP**	tonnes	US$	2 800	4 400	**57%**
Fluid milk	tonnes	US$	300	400	**33%**
Pakistan	litres	US$	0.3	0.38	**27%**
Nepal					
WMP**	kg	Local	185	225	**22%**
Fluid milk	litres	Local	24	28	**17%**
Mongolia					
WMP**	kg	Local	3 000	5 000	**67%**
Fluid milk	litres	Local	450	700	**56%**

SMP* = skimmed milk powder; WMP** = whole milk powder

Some important web links:

For the latest issue of FAO's *Food Outlook* visit: http://www.fao.org/giews/english/fo/index.htm

To download the latest issue of FAO's Crop Propsects and Food Situation, No. 3, July 2008 visit: http://www.fao.org/giews/english/cpfs/index.htm

For the July 2008 issue of the Rice Market Monitor visit: http://www.fao.org/es/ESC/en/15/70/highlight_71.html

[1] For more information visit: http://www.aphca.org/reference/dairy/Relevant%20Documents/Dairy%20development%20strategy.pdf

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