ASIA PACIFIC FOOD SITUATION UPDATE

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

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International cereal prices declining but domestic prices remain high in Asia

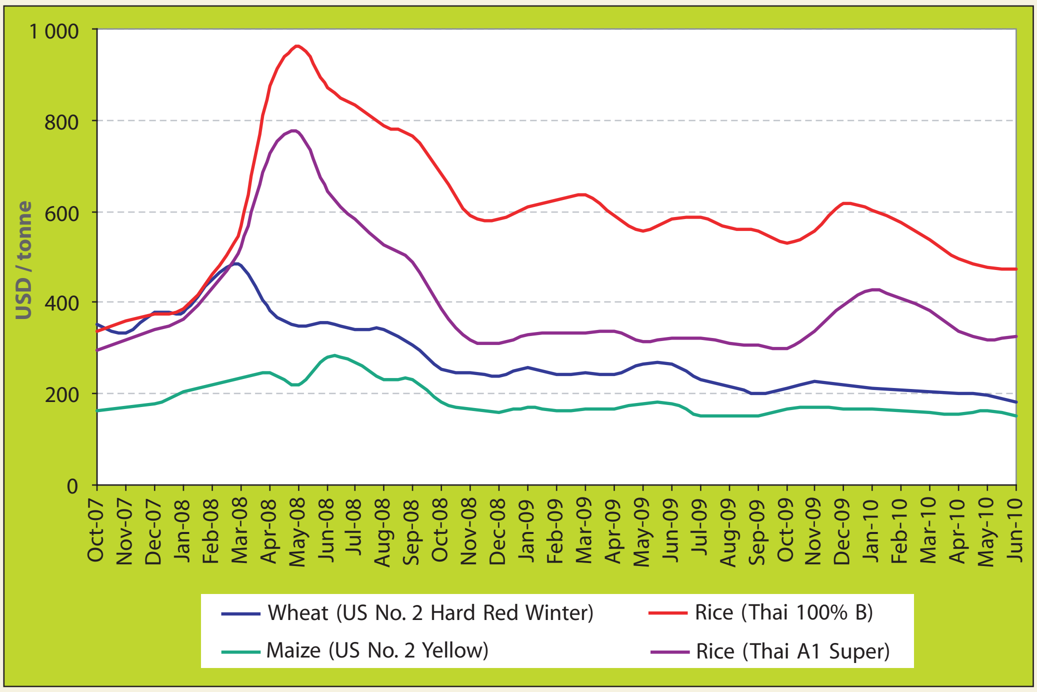
International cereal prices were falling since January 2010 largely due to improved supplies as world farm output increased in response to soaring prices during 2008-09.[1] Trading on futures commodities markets in June saw US wheat and rice prices fall amidst good crop prospects. Sluggish demand and abundant stocks with exporters were pulling international rice prices down. The FAO All Rice Price Index fell from 251 to 201 points between January and May 2010[2] although international rice prices were still well above those of wheat and maize (see Figure 1).

The benchmark Thai 100% B white rice was quoted at US$472 per tonne FOB in the last week of June, slightly below its May price and its lowest level since February 2008, although still US$134 above the October 2007 price (see Figure 1). Thai A1 Super traded at US$325 per tonne, slightly above its May average of US$320 (see Figure 1).

Weakened global demand and the strong Baht affected rice exports by **Thailand** which faced competition from cheaper rice from **Viet Nam** and **Pakistan**. The Thai Rice Exporters Association expected overseas sales this year to fall short of the targeted 9 million tonnes and Thailand's Department of Foreign Trade estimated total rice exports till the first week of June were about 6 percent less than in the same period last year. The Thai Government's plan to resume sales in July of part of its over 5 million tonnes of

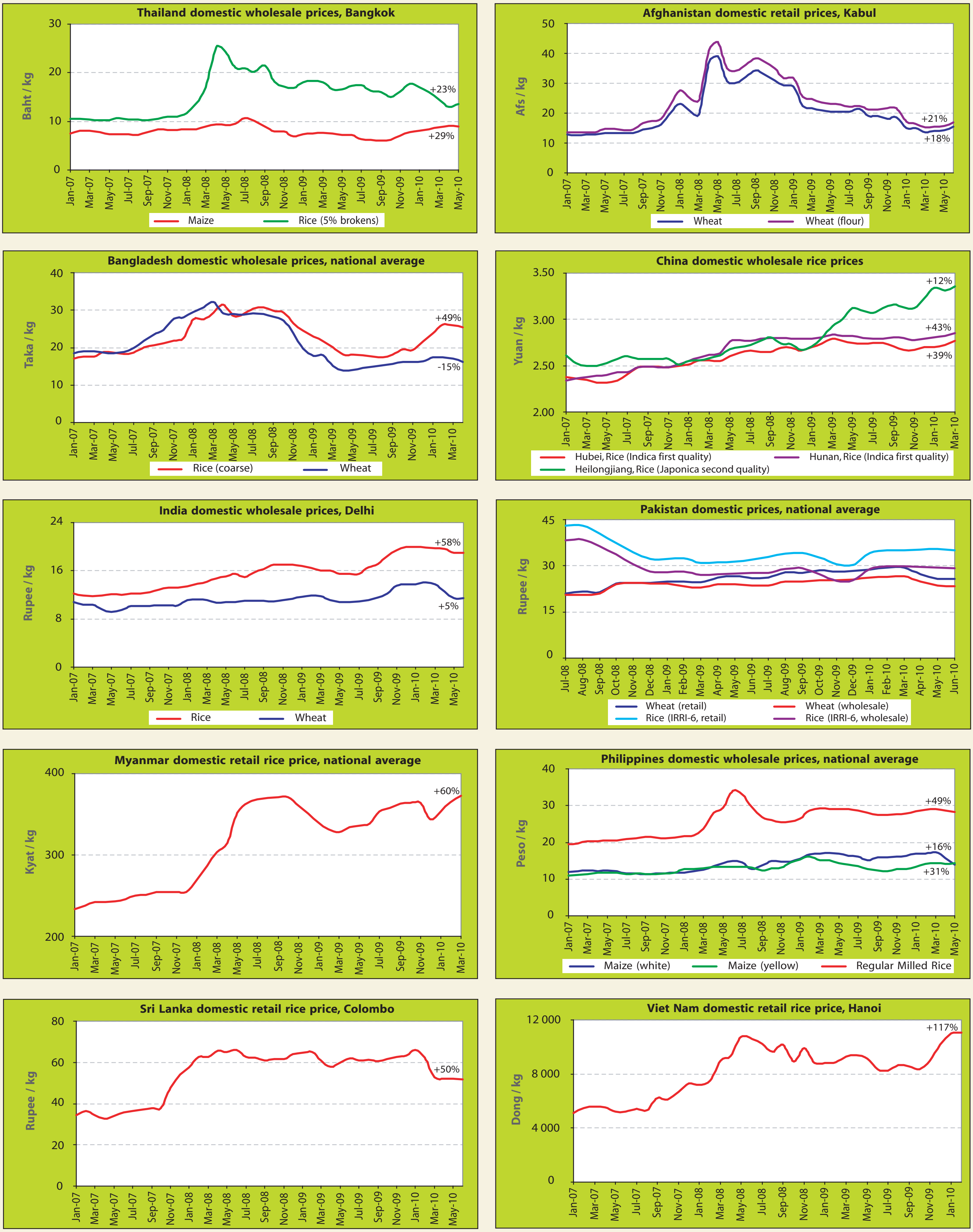
[1] *Food Outlook, June 2010*, FAO http://www.fao.org/docrep/012/ak349e/ak349e00.pdf
[2] Ibid

Figure 1: Selected international cereal prices



Source: *FAO Regional Office for Asia and the Pacific*

Figure 2: Trends in domestic prices for key commodities in selected countries



Source: *FAO Regional Office for Asia and the Pacific*
(Percentages indicate changes in prices from pre-crisis levels in January 2007)

rice stocks was not expected to push prices down with the second paddy crop harvested and market sentiment dampened by the country's worst drought in nearly 20 years which affected key paddy growing areas in the north and northeast. The government-set weekly reference price for white rice averaged 7 650 Baht per tonne in June, against the average market price of about 7 800 Baht. Some 3.5 million Thai rice farmers registered under the government's price guarantee scheme were entitled to state compensation equal to the difference between the white rice guarantee price of 10 000 Baht per tonne and the reference price if they sold at market prices below the guarantee price, up to a maximum of 25 tonnes per farmer household.

Rice prices in **Viet Nam** declined with exporters delaying purchases as the summer-autumn harvest got underway in the Mekong Delta where farmers were reportedly affected by falling prices. The Mekong Delta Rice Research Institute estimated farmers in the region were holding 2 million tonnes of unsold rice. The Ministry of Agriculture and Rural Development estimated the Mekong Delta summer-autumn paddy harvest to be nearly 8 million tonnes. However, a prolonged dry spell threatened rice production in central Viet Nam where paddy farmers were being advised to consider alternate crops.

El Niño-induced drought conditions were expected to reduce the second quarter harvest in 11 of 16 rice-growing regions in the **Philippines**. Paddy production in the country during the January-September period this year was projected to decline by almost 1 million tonnes to 9.99 million tonnes compared to last year while corn production was projected at 4.64 million tonnes, 17 percent below the same period in 2009. The National Food Authority (NFA) said reserve rice stocks were sufficient to meet national needs till the end of this year. Wholesale rice and yellow maize prices remained stable in the Philippines since the beginning of the year (see Figure 2).

Severe drought conditions were projected to reduce paddy production in **Cambodia** by 22 percent this year.[3] Cambodia exported about 5 000 tonnes of rice till May, including 1 500 tonnes to Europe. Domestic rice prices in Cambodia were stable since the start of 2010, but remained high with prices in the capital city in May being slightly above those of Thai A1 Super rice.[4] Some 2.8 million people in Cambodia remained food-insecure and 39.5 percent of children suffered from chronic malnutrition.[5]

The Government of **Lao PDR** was initiating a study, funded by **Kuwait**, on the feasibility of expanding irrigated farming in the Southeast Asian nation to grow rice for export to the Gulf kingdom. In 2009, paddy farmers in Laos produced over 3 million tonnes of rice. The World Bank provided Vientiane US$15 million to improve food security of upland farmers by demonstrating improved rice-based farming systems.

Malaysia was planning to build a rice buffer to meet 45 days of consumption and reports said Kuala Lumpur was considering swaps of its palm oil exports for rice imports.

[3] Ibid
[4] *Price monitoring and analysis country brief*, EC/FAO Programme – Linking Information and Decision Making to Improve Food Security http://www.foodsec.org/programme.htm
[5] Ibid

India deferred again a decision on lifting its two-year-old ban on non-basmati rice exports in view of the uneven advance of the monsoon and persisting high food inflation. Till mid-June, nationwide rice plantings covered 1.1 million ha against 1.17 million ha last year, according to official data. The Government was to sell 5 million tonnes of wheat and rice from its stocks at prices below market levels through a new Open Market Sales Scheme that was to be launched early July and run till March next year. India's state-run food silos held an estimated 60 million tonnes of wheat and rice, well above food security buffer norms and the Government targeted the 2010 milled rice output at 100 million tonnes. State-guaranteed prices for purchase of the pulses crop were also hiked to boost output of the key dietary staple. Retail prices of pulses had been at record highs since mid-2009 and India imported about 4 million tonnes last year. Wholesale wheat and rice prices were little changed in Delhi in June (see Figure 2).

Bangladesh estimated a record 2009 paddy output of nearly 50 million tonnes but cereal imports for 2009-10 were projected at 3.2 million tonnes, 200 000 tonnes more than the preceding year.[6] Ration cards were being issued to 2.2 million 'ultra poor' households in the country, entitling them to 20 kg of subsidised rice every month. In **Nepal**, more than 3 million people faced food insecurity due to high food prices, the severe winter drought and political instability.[7] Although rice retail prices in Kathmandu were below pre-food crisis levels, the 2009 paddy harvest was expected to be significantly below the preceding year's and

[6] Ibid
[7] Ibid

wheat prices in the capital city in May were well above international prices.[8]

Rice retail prices in **Sri Lanka**'s capital had declined from about 66 Rs/kg in January to 52 Rs/kg in June, although this was still about 50 percent above the price in January 2007 (see Figure 2). Rice retail prices in Colombo had remained well above 50 Rs/kg since December 2007 and the Government planned to reopen closed state rice mills across the country and sell rice through cooperative outlets to tame prices. Sri Lanka's 2010 rice import requirement was estimated at 40 000 tonnes with food insecurity persisting in the northern and eastern areas.[9]

Wheat retail prices in Kabul increased by about 3 percent to Afs 15.4/kg in mid-June (see Figure 2) although wheat prices in most major markets in **Afghanistan** continued their decreasing trend since January 2010 following the record 2009 wheat harvest. The national average price of wheat in mid-June was 13.3 Afs/kg compared to 13.4 Afs a month earlier and 13.9 Afs in April 2010. Wheat and flour prices in the Afghan capital were well below their peaks two years ago, but were still 18 and 21 percent higher, respectively, compared to their January 2007 levels (see Figure 2). The Ministry of Agriculture, Irrigation and Livestock (MAIL) procured 70 000 tonnes of wheat for the new Strategic Grain Reserve. Afghan wheat farmers were concerned about low prices for local wheat and faced competition from subsidised wheat imports from Central Asia.

There was little change in wholesale and retail wheat and rice prices in **Pakistan** (see Figure 2). While wheat prices remained significantly higher than two years ago, wholesale and retail prices of the staple IRRI-6 rice were 24 and 19 percent, respectively, below their July 2008 level (see Figure 2). The world's fourth largest rice exporter, Pakistan saw rice sales to Malaysia grow by 155 percent in the first four months this year.

[8] Ibid

[9] Ibid

Hunger in Asia and the Pacific

The following is a statement by Hiroyuki Konuma, FAO regional chief for Asia and the Pacific, highlighting the challenges to food security in Asia and the Pacific

Asia needs to wake up to the enormous challenge to feeding its population of 5 billion people by 2050. Gross annual investments of US$209 billion are required for primary agriculture and downstream services in the developing countries of the world for future food security.

Following the multiple crises of fuel, food and finance over the last four years, domestic food prices have increased dramatically and are at present still much higher than before the crisis.

Despite all the progress this region has made over the last three decades, the Asia-Pacific region is still home to the largest number of poor and hungry people in the world: of the 1.02 billion hungry people in the world, 642 million live in this region.

FAO's latest estimates are that last year alone an additional 54 million in the Asia-Pacific region have been pushed into chronic malnutrition.

Besides escalating food prices, concerns about climate change and overseas leases or purchases of farmlands in developing countries have dominated headlines.

Investment needs

Lack of investment in agriculture over decades has meant continuing low productivity and stagnant production in many Asian developing countries. Investment in agriculture is a major answer to these problems as food production needs to double in Asian developing countries between now and 2050, in particular in South Asia.

FAO estimates that gross annual investments of US$209 billion are needed in primary agriculture and downstream services in developing countries to meet global food needs by 2050.

During the Green Revolution, food production was doubled over a period of 20 years only – based mainly on scientific breakthroughs. Considering the 40 years time span and the ever increasing pace of technological breakthroughs, FAO is convinced that science-based solutions are needed and possible, in particular to respond to new challenges such as climate change.

Investment in agriculture will not only help those who make a living from agriculture, but will also ensure that food remains affordable to the poor and hungry, thereby preventing millions of human tragedies.

Land grab

The recent surge of interest in foreign investment in agricultural land has aroused substantial international concern.

Complex and controversial economic, political, institutional, legal and ethical issues are raised in relation to property rights, rural development, technology and access to land and water.

Foreign direct investment in developing country agriculture could make a contribution to realizing the hunger and poverty goals.

FAO stresses the need for appropriate regulations, and well-informed agricultural and food policies, and is developing relevant guidelines for land governance, or a code to regulate international investments to improve decision-making and negotiations. FAO and its partners are currently working together to develop such guidelines.

Partnerships

Asia is experiencing the changing nature of poverty and food insecurity; increasing pressure on the natural resources base; the need to adjust to globalization and coping with external shocks to food and nutrition security; and coping with the impact of climate change.

The evolving socio-economic and political contexts will eventually drive progress in the fight against hunger and poverty.

1BillionHungry campaign

FAO has launched an innovative online petition which aims to harness grassroots concern over the scale of world hunger and bring pressure to bear on world leaders to do something about it. The petition asks anyone who "finds it unacceptable that close to one billion people are chronically hungry" to sign on. "We call upon governments to make the elimination of hunger their top priority until that goal is reached," it says.

Already more than 100 000 people have visited the petition website at www.1billionhungry.org and done just that. The movement is now spreading virally online through the use of innovative networking software that allows petition signers to recruit friends and family into their "personal impact network." As they enlist more friends, and those friends in turn bring more people onboard, signers can monitor the growth of their network on an interactive map.

Food prices over next ten years to remain above pre-crisis level, say OECD and FAO

Agricultural commodity prices are now well below the unprecedented peaks of 2008 but are unlikely to return to their pre-food price crisis levels in the coming years, according to a new assessment by FAO and the Organisation for Economic Co-operation and Development (OECD). Average prices of cereals, vegetable oils and dairy products over the next decade will be significantly higher, in real terms, compared to the 1997-2006 period, according to *OECD-FAO Agricultural Outlook 2010-2019* (http://www.agri-outlook.org/dataoecd/13/13/45438527.pdf). Over the next ten years, average wheat and coarse grain prices are projected to be 15 to 40 percent higher compared to the decade ending 2006, taking into account inflation. Likewise, the inflation-adjusted prices of vegetable oils are expected to be more than 40 percent, and of dairy products, between 16 and 45 percent above their 1997-2006 averages. While global agricultural production growth would be slower in the next decade, it would be on track to meet the target of increasing food output by 70 percent by the year 2050, according to the OECD-FAO report. Farm production in **Brazil** is expected to increase by more than 40 percent during 2010-19, the fastest in the world, followed by **China**, **India**, the **Russian Federation** and **Ukraine** where agricultural output is projected to grow by well over 20 percent during this period.

European Union (EU) boosts funding for farm production in developing countries

The European Union (EU) has pledged an additional €13.2 million support to FAO to boost small farm production in developing countries most affected by rising food prices. The EU's financial support to FAO, now totalling €228 million, is part of the EU Food Facility initiative launched in 2009 in response to the 2007-08 food price crisis. The additional EU support was announced ahead of the G-8 and G-20 meetings in late June which were to discuss development aid to agriculture, highlighting the urgent need for increased investment in small farmers in poor countries. Despite falling from the record levels of two years ago, food prices remain high in developing countries, adversely affecting the food security of vulnerable population groups, said an FAO statement.

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