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Note to Readers

The editors of the Asia-Pacific Food Situation Update have taken the opportunity to shift the newsletter's publishing date towards mid-month to capture the most recent food price data, which tend to be released early in the month. Because of the delay in publication due to the shift, we have datelined this issue May-June. Future issues will carry a single month dateline.

Food prices will remain high into 2012

Although the FAO Global Food Price Index registered a slight decline during the month of May, the Organization forecast that food prices will remain high for the rest of this year and into 2012, according to the half-year Food Outlook report released in early June.

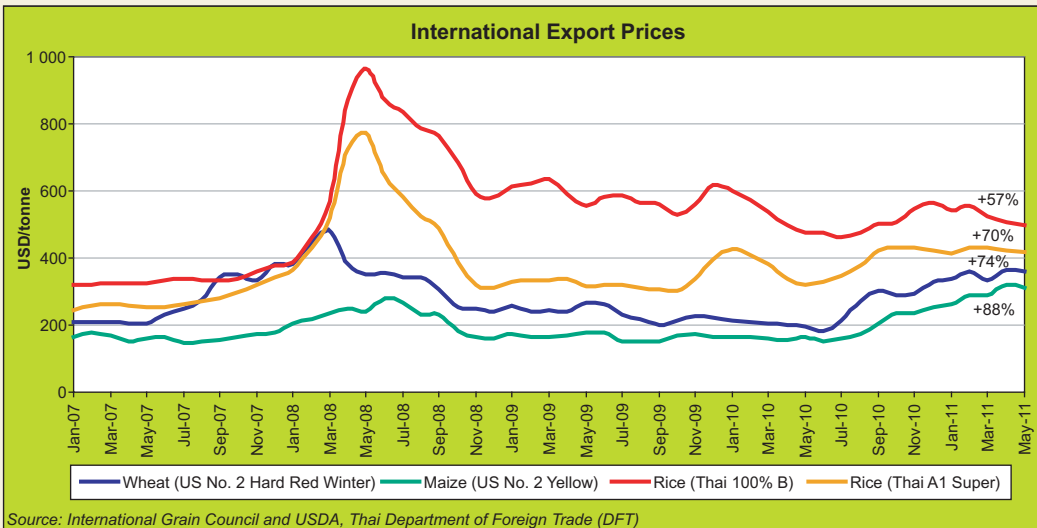
The index slipped to 232 points from 235 points the previous month, indicating a fall in average world food prices of about one percent (See Figure 1). The decline was attributed to lower prices for cereals and sugar that offset increases in prices for meat and dairy products.

Nonetheless, high and volatile agricultural and commodity prices will keep food prices at what were called "stubbornly high levels," by David Hallam, Director of FAO's Markets and Trade Division. With high prices inflicting more hardship on the poor, he added that they would pose a threat to low-income, food-deficit countries.

The report predicted a record global harvest for cereals – mainly wheat, rice and maize – this year at 2,315 million tonnes, a 3.5 percent increase over 2010. World cereals stocks, however, are expected to rise only 2 percent to 463.8 million tonnes. World wheat output should rise by 3.2 percent on the back of a better harvest in the Russian Federation.

World meat prices hit record highs, and with strong import demand and limited export availability they will likely remain high. Fish and fishery products also saw sharp rises because of increasing demand and limited supply. This included supplies of several types of farmed fish including Atlantic salmon, trout, seabass and tilapia. In late 2010, farmed shrimp registered its highest prices in a decade.

Figure 1: Selected international cereal prices



The global price surge for rice began to wane late last year, the report said, while noting that prices in January 2011 were still 22 percent higher than in July 2010. That was reflected in FAO's Monthly Rice Monitor, which chronicled a continuing fall in the price of the benchmark Thai White 100 percent B Second Grade. The May price was US\$ 500 a tonne, down from US\$507 in April and US\$542 in January.

Domestic prices mixed around the region

Despite the slide in international rice prices, domestic prices around the region were mixed (See Figure 2). Cambodia saw a 0.74 percent increase in the price of rice in May compared to April, the Philippines by 0.32 percent and Sri Lanka by 0.14 percent during the same period. Pakistan saw the sharpest rise at 1.2 percent for regular rice, although Hubei variety rice in China rose by 2 percent. On the other hand, the price of ordinary rice dropped by

7.5 percent in Laos, and Bangladesh saw rice prices drop 5.6 percent. Rice prices in Thailand fell by 2.47 percent in April compared to March.

Wheat and wheat flour slid by 6.5 percent in Bangladesh where prices have been volatile for several months, 2.97 percent in Pakistan, and 2.77 percent in India, all in May compared to April. But it rose by 3.09 percent in Sri Lanka, which has some of the highest food prices in the region.

China's drought worst in 50 years

The months-long drought in central China has been labeled the worst in 50 years by the state-run China Daily newspaper in late May. More than 34 million people have been affected by the drought which has parched a major grain producing region, left farmers and livestock without water, threatens to lead to power shortages, and pushed water levels on the Yangtze River to record-low levels forcing a halt in shipping.

More than 4.23 million people lack adequate supplies of drinking water, according to the Civil Affairs Ministry, which in a statement said: "The special characteristics of this drought disaster is that it has persisted a long time. Secondly the losses to the agricultural and breeding industries have been severe, while drinking water for people and livestock have been seriously impacted."

Study shows climate change reducing yields of wheat and maize

Climate change has driven down global yields of wheat and maize while driving up prices over the past three decades, according to research released in May by the Program on Food Security and The Environment at Stanford University in the United States.

The study *Climate Trends and Global Crop Production Since 1980* is the first to analyze and link rising global temperatures to food prices increases. The research, led by David Lobell,

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

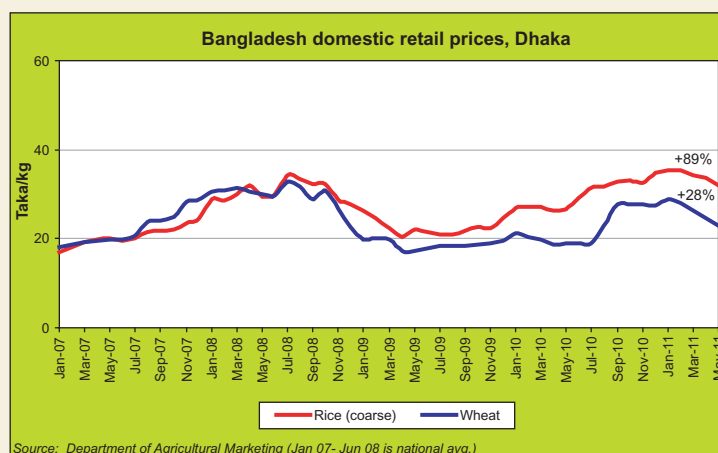
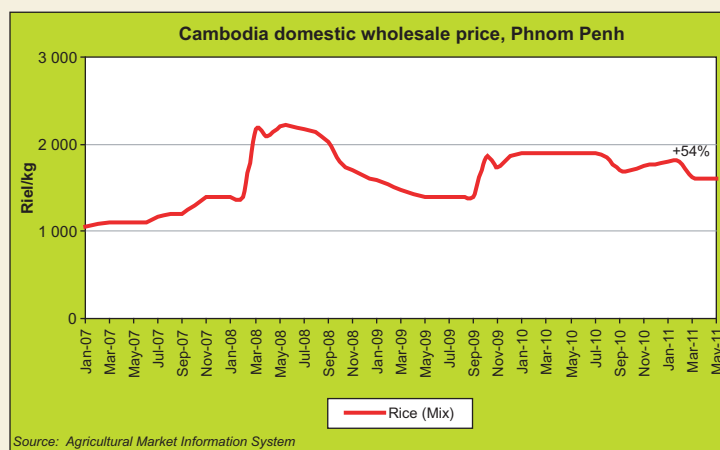
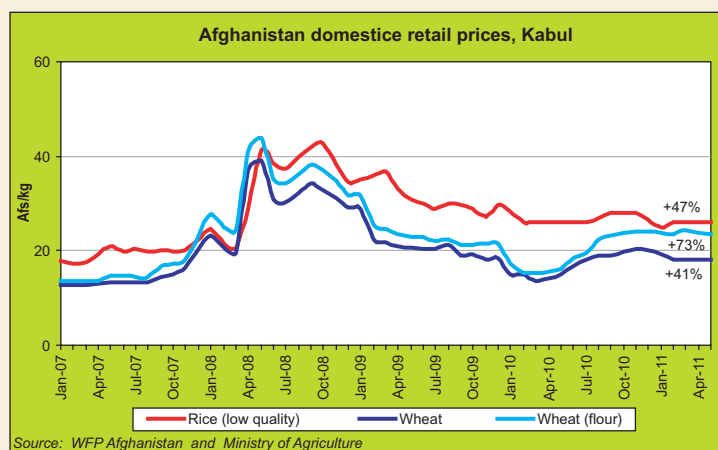
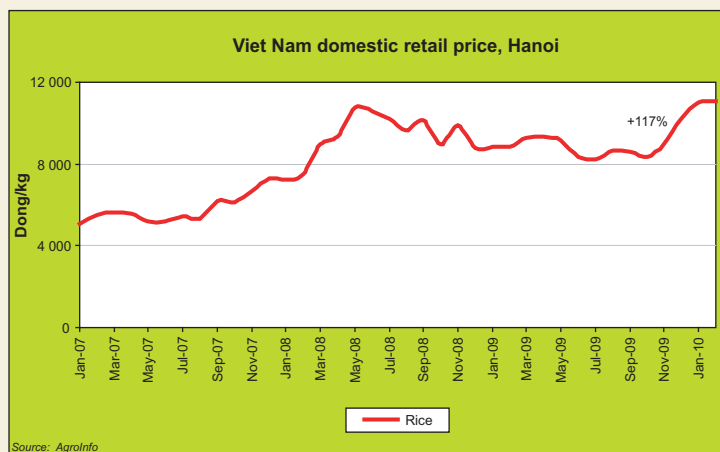
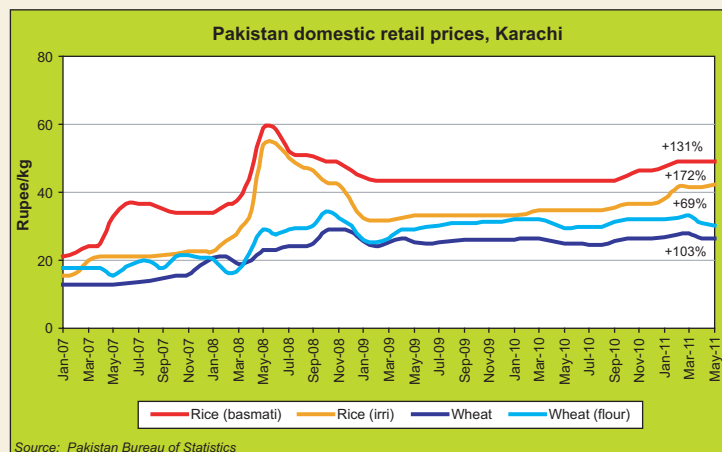
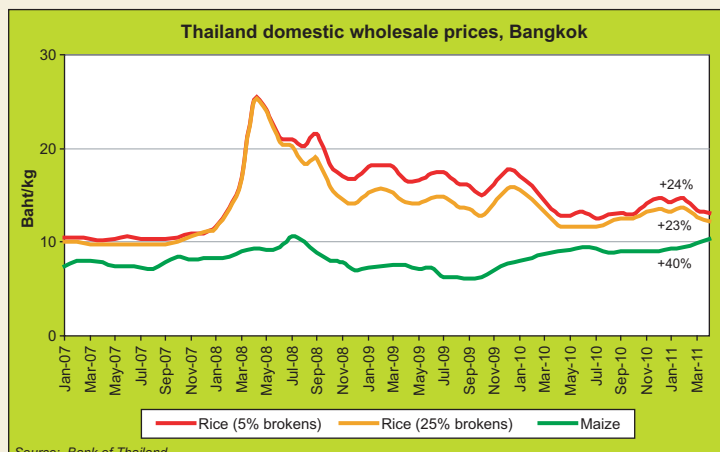
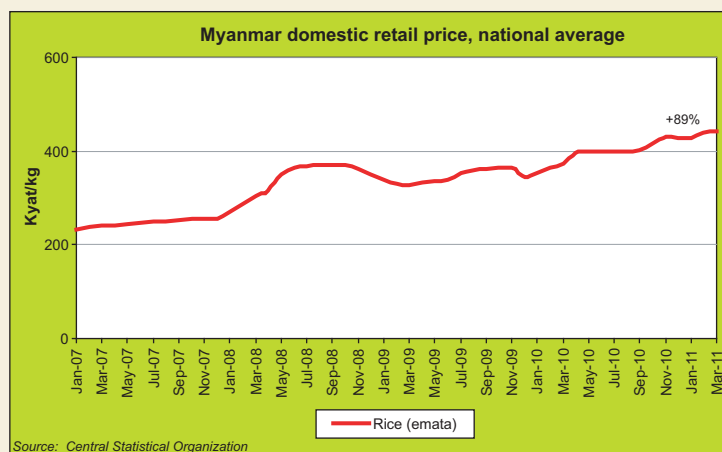
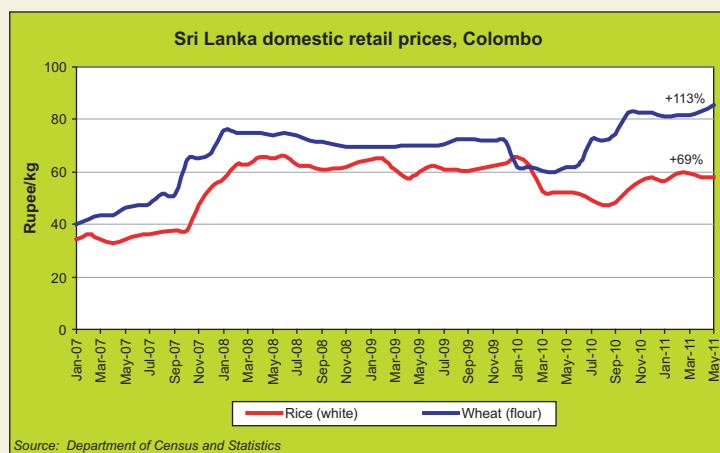
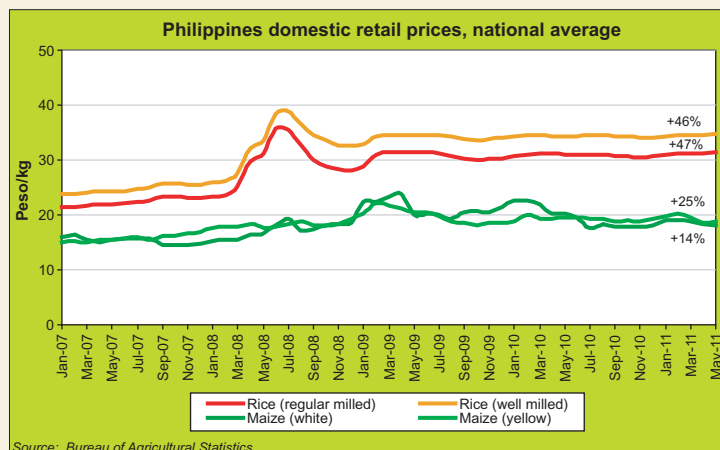
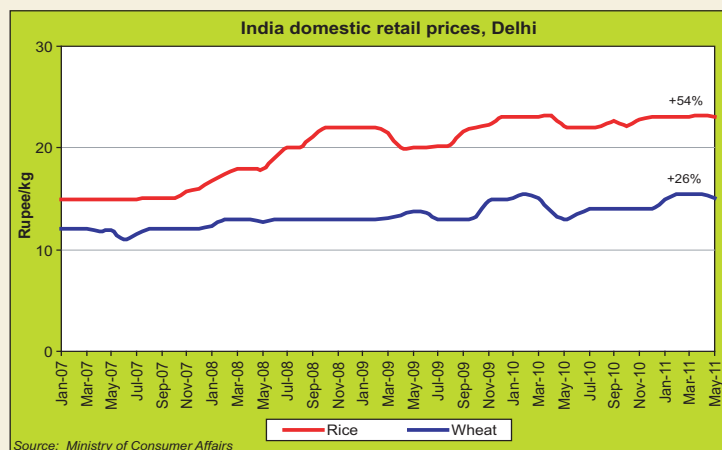


Figure 2: Trends in domestic prices for key commodities in selected countries (continued)



concludes that global wheat yields have decreased by 3.8 percent and maize yields by 5.5 percent from 1980 through 2008. The lower yields accounted for roughly a 5 percent increase in the prices of these commodities over that period, and led to an additional US\$50 billion a year spent on food. Prices for the two commodities have seen huge increases during the same period because of a variety of factors including loss of agricultural lands, higher input prices and general inflation.

The study noted that the impact of climate change on rice and soybeans created winners and losers, and these essentially balanced out making the effects statistically insignificant. Although yields decreased in some areas, they increased in others. The increased carbon dioxide in the atmosphere associated with global warming had a positive fertilization effect on these crops in certain regions. Rice grown at high latitudes actually benefited from climate change. Increased carbon dioxide has no fertilization effect upon wheat and maize. Together, the four crops account for roughly 75 percent of the calories humans consume.

Among large wheat producing countries, Russia suffered the most from climate change with a 15 percent drop in yields. The United States, the world's largest wheat producer, saw no significant losses as climate change has had less of an impact on temperatures there. India, France, Turkey and Mexico also suffered significant losses in wheat yields, while maize yields in China and Brazil were also negatively affected.

Temperature trends had a more dominant effect upon crop yields than precipitation patterns except in countries where rainfall patterns have altered significantly. In those countries, changing precipitation patterns had a much more severe impact than rising temperatures. "These results imply that efforts to adapt national production to climate change should focus primarily

on heat-related impacts," the study said.

"We are not saying climate change is the only or even a major cause of price increases for major commodities. Most people would say biofuel and trade policies are probably more important for food price rises. But what we are saying is that climate change is also a factor," Lobell was quoted as saying by SciDev.net, a website devoted to science, technology and the developing world.

One third of world's food lost or wasted every year

About 1.3 billion tonnes, or one third of all food produced worldwide for human consumption, is lost or wasted each year. That was the conclusion of a study commissioned by FAO and conducted by the Swedish Institute for Food and Biotechnology, and released in May.

The finding should make consumers and policy makers aware that reducing food loss and waste would be more effective in feeding a growing world population than trying to produce more food, given diminishing natural resources, the study said.

It also noted that each year consumers in rich countries waste almost as much food as the entire net food production of sub-Saharan Africa. The amount of food lost or wasted is roughly equivalent to half the world's annual cereal crop. Fruits, vegetables, roots and tubers have the highest wastage rates. The amount of loss and waste was generally the same in developed and developing countries.

Loss and waste are different phenomena. Food loss takes place during the production, harvest, post-harvest and processing phases, and is more common in developing countries. Factors that affect food losses in these countries include poor infrastructure, low levels of technology and low investment in food production, storage and processing systems.

Food waste is more associated with developed or industrialized countries. Retailers and consumers are responsible for throwing away edible food. Consumers in rich countries are encouraged to buy more food than they actually need through promotions, oversized meals and restaurant buffets. Consumer awareness needs to increase and attitudes need to change.

The study found that consumers in Europe and North America throw away 95-115 kilogrammes of food a year, compared to only 6-11 kilogrammes by consumers in South and Southeast Asia, and sub-Saharan Africa.

Resources are also wasted when food is wasted or lost, including water, land, energy, labour and capital. Greenhouse gasses are needlessly produced if food that has been grown or manufactured is not consumed, contributing to climate change.

Russia will lift grain export ban in July

Russian Prime Minister Vladimir Putin announced at the end of May that his country will lift its ban on grain exports on July 1. Severe drought had led Russia's government to impose a ban on grain exports last August.

Russia is a major exporter of wheat, and the ban, along with a similar ban imposed by Ukraine, contributed to rising global food prices. The ban was originally slated to be lifted in December, but fears of another poor harvest and resulting grain shortfall convinced Russian leaders to extend it.

But a Russian government website said the winter wheat harvest was good, farmers had planted 10 percent more acres of grain this year, and have stockpiled more than 6 million metric tonnes. Russia expects to harvest 85-90 million tonnes of grain this year, a significant increase on last year's 61 million tonnes, but still below the 97 million harvested in 2009.

The news sparked a 4.4 percent drop in wheat prices on the Chicago Mercantile Exchange at the end of May with a bushel trading for US\$7.84. Before drought destroyed crops and the government imposed the ban, Russia had been the world's second-largest wheat exporter.

Viet Nam rice production and prices rising to record levels

Viet Nam, the world's second-largest exporter of rice following Thailand, is poised to set a new record for production this year, according to an FAO Global Information and Early Warning System (GIEWS) report released in May.

FAO forecasts a 1.5 percent increase in rice production during the winter/spring harvest, for an estimated total of 19.5 million tonnes. The winter/spring harvest accounts for about half of yearly production. For all of 2011, the Government has set a target of 40 million tonnes, a 3.3 percent or 1 million tonne increase over last year's record crop.

Rice exports also set a new record of 7 million tonnes in 2010, and are expected to exceed that in 2011. Viet Nam must import other grains, such as wheat and maize (1.8 million and 0.5 million tonnes respectively in 2010), but with carry-over stocks still available from 2010, imports are expected to be lower this year.

After falling for several months, rice prices registered a 6 percent increase in April, reaching levels just slightly below the record set in December. Although export prices also rose, their increases were muted to some degree by the declining value of the US dollar.

While rising prices benefit farmers, they can have an adverse affect on domestic consuming households, especially low-income households. FAO recommended stronger safety-net programs to mitigate the price rises, especially for the poor and vulnerable.

Wage and price squeeze in Cambodia

A decline in real wages for unskilled workers coupled with rising rice prices are proving a challenge for some consumers in Cambodia, according to the World Food Programme's Cambodia Wage and Price Bulletin.

Wholesale mixed rice prices rose 3.2 percent month-on-month in April. Rice prices rise seasonally, but this rise came earlier than expected. The rise in wholesale prices translated into a 4.5 percent retail price increase in urban areas for the lowest quality rice, and a 2.8 percent increase in rural areas. Food items make up 44.5 percent of the consumption basket used to measure the consumer price index, which rose 1.1 percent month-on-month and has risen 5.2 percent year-on-year.

Government officials said the rising price of rice was not caused by any shortage, but rather transmission of higher year-on-year prices of rice from neighbouring Thailand and Viet Nam, the world's two largest producers.

The government's Terms of Trade, a formula used to determine food purchasing power for households, showed an 11.5 percent decline for urban households where the chief earner was an unskilled labourer purchasing the lowest quality rice, and a 2 percent decline for similar households in rural areas. Declining wages for unskilled labourers were cited as the cause of their falling purchasing power.

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