ASIA PACIFIC FOOD SITUATION UPDATE

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

JANUARY 2011

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Important to consider longer-term effect of policy responses to high food prices, says FAO

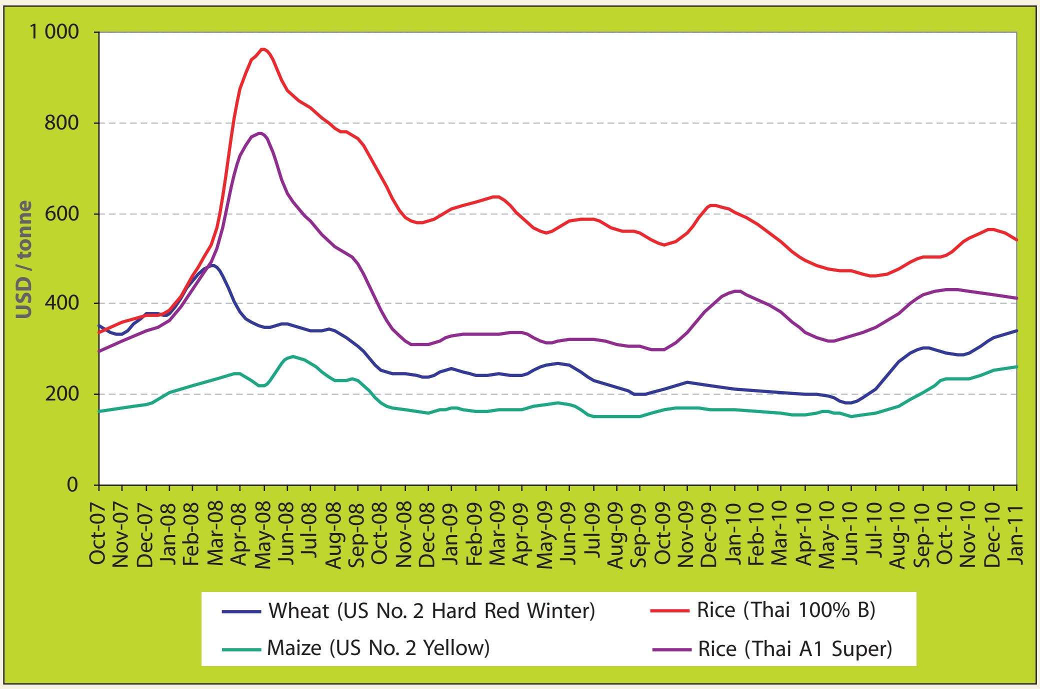
With world food prices surging to a new historic peak in January 2011[1], FAO urged a longer-term view of policy responses to the rise. New FAO guidelines[2] cautioned against "policy actions that might appear useful in the short term but could have harmful, longer-term effects or even aggravate the situation". Countries have been urged to avoid measures such as export bans which "often provoke more uncertainty and disruption on world markets and drive prices up further globally, while depressing prices domestically and hence curtailing incentives to produce more food." FAO attributed the rise in prices of most agricultural commodities since mid-2010 to factors such as unexpected supply constraints caused by adverse weather and natural disasters, currency volatility and policy responses in some countries.[3] The food price surge in January was mostly due to continuing increases in international wheat and maize prices, amid tightening supplies, FAO noted.[4]

Concern over high food prices affects international cereal market

International concern over high food prices affected world cereal markets in January. Algeria reportedly ordered 800 000 tonnes of wheat in late January, after a 600 000-tonne purchase earlier in the month. Tunisia and Jordan, each ordered 100 000 tonnes of wheat. Iraq, Morocco and Qatar too

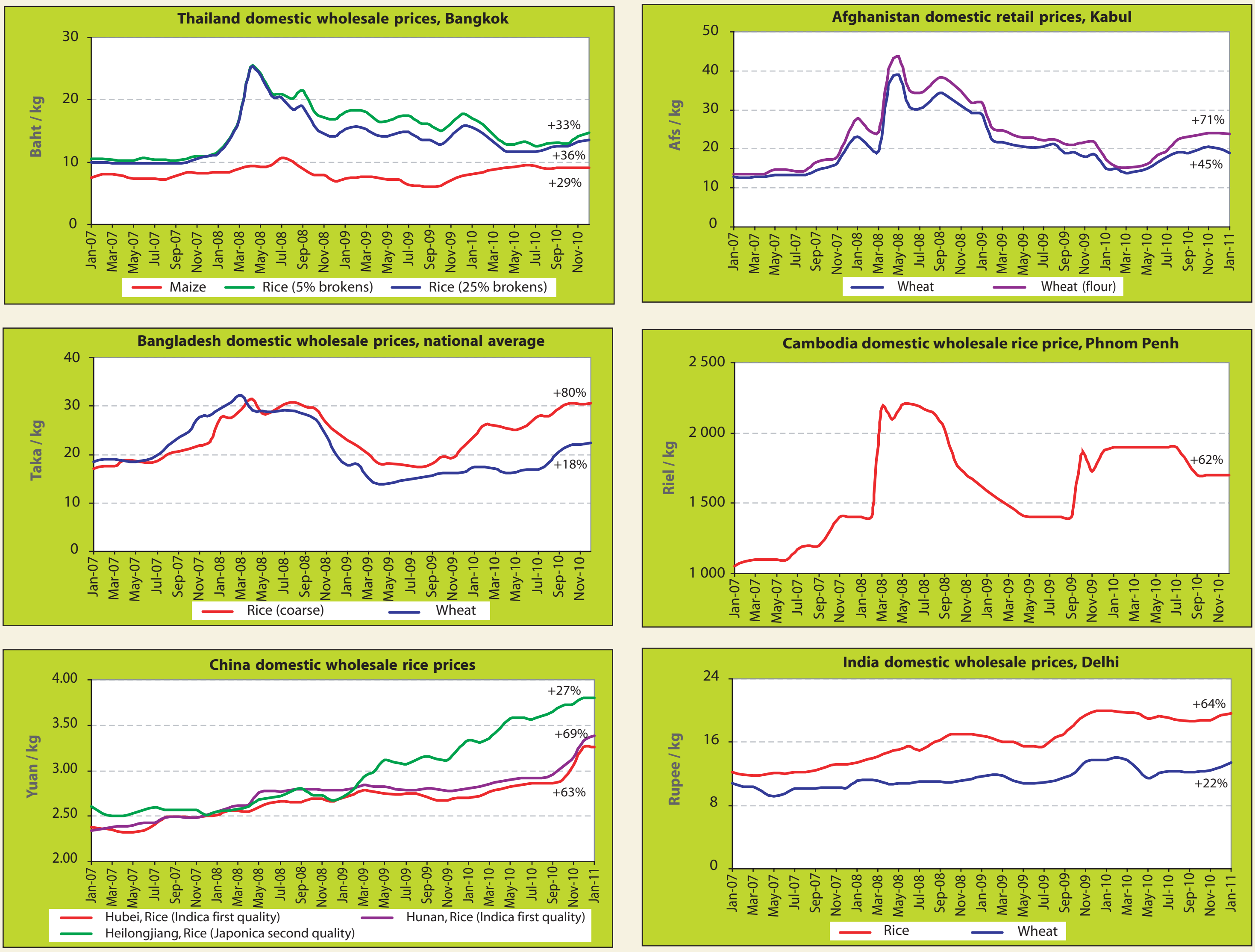
[1] http://www.fao.org/news/story/en/item/50519/icode/
[2] *Guide for Policy and Programmatic Actions at Country Level to Address High Food Prices*, FAO, 2011 http://www.fao.org/fileadmin/user_upload/ISFP/revisedISFP_guide_web.pdf
[3] Ibid
[4] http://www.fao.org/news/story/en/item/50519/icode/

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)

placed orders in the international cereal market in January. Concerned over high food prices, Saudi Arabia was reported planning imports to build up national wheat stocks. **Indonesia** more than quadrupled its earlier order for Thai rice to 800 000 tonnes in late January while **Bangladesh** was reported to have doubled its 2010-2011 rice import orders to 1.2 million tonnes.

The US No. 2 Hard Red Winter wheat traded at an average of US$340 per tonne in January 2011, its highest level since August 2008 (see Figure 1). The FAO Cereal Price Index averaged 245 points in January, its highest level since July 2008.[5]

However, international rice prices declined with the benchmark Thai 100% B grade white rice at an average of US$542 per tonne in January 2011 against US$563 in December 2010 (see Figure 1). The world's largest rice importer **Philippines** was expected to buy less this year. Market analysts noted that rice supplies were adequate with the latest FAO assessment revising upwards the 2010 global paddy crop by 3 million tonnes to 700.7 million tonnes.[6]

[5] Ibid

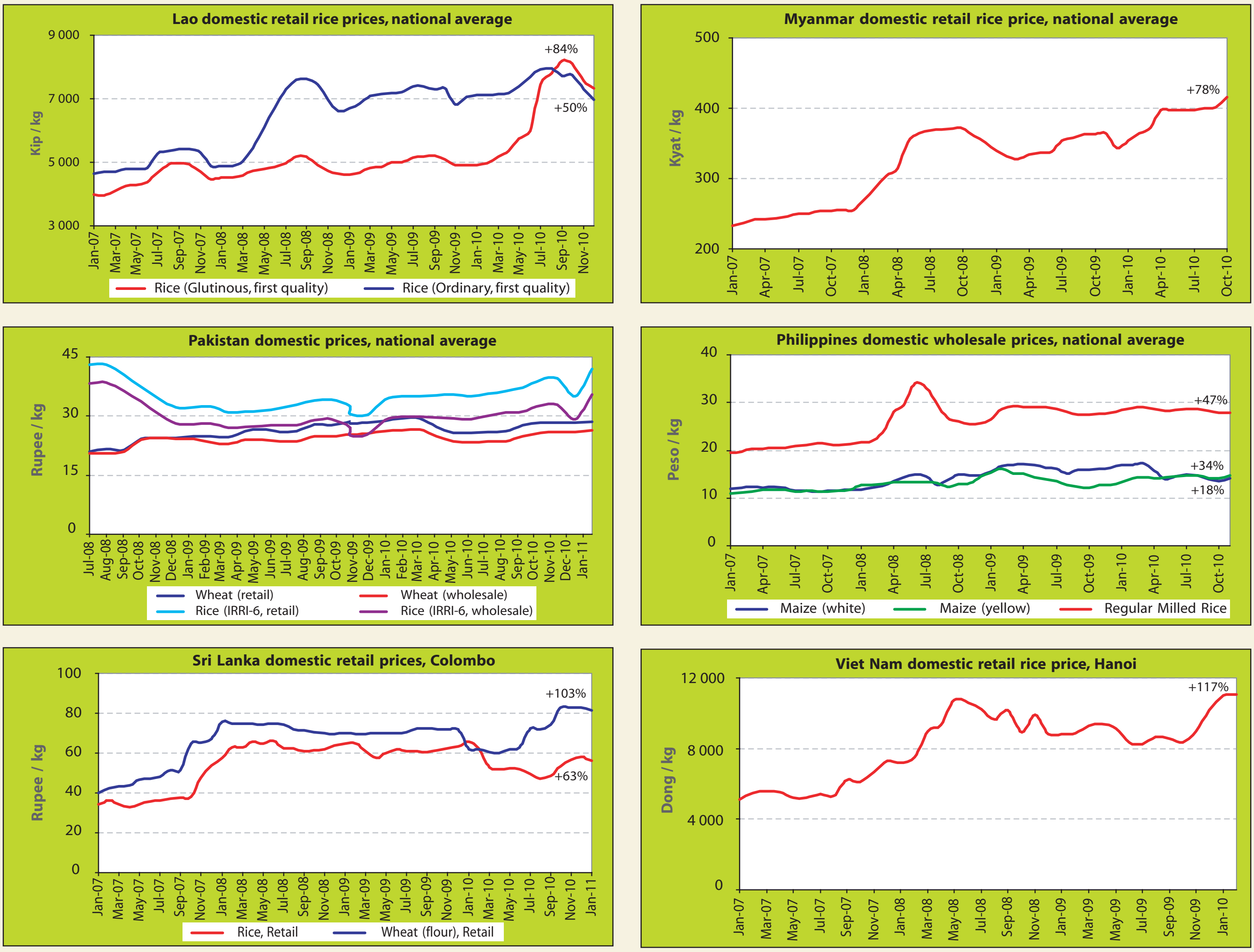
[6] *Rice Market Monitor, January 2011*, FAO http://www.fao.org/economic/est/publications/rice-publications/rice-market-monitor-rmm/en/

Food security, market and policy developments in the region

Latest FAO projections estimated Asia's 2010 rice paddy harvest to touch a new high of 633.5 million tonnes, up from 616 million tonnes in 2009 and above the 2005-2009 regional annual average of 599 million tonnes. The increase was attributed to better harvests in **China** and **India**. Increases were also expected in paddy crops in **Bangladesh**, **Cambodia**, **Indonesia**, **Iran**, **Japan**, the **Democratic People's Republic of Korea (DPRK)**, **Malaysia**, **Philippines**, **Sri Lanka** and **Viet Nam**.[7]

[7] Ibid

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



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

Rice prices, which reportedly soared to a record high in **DPRK** in early January, had fallen sharply by the end of the month.[8] The Government of DPRK had requested food aid and agriculture support from the international community. A joint UN assessment mission was to travel to the country in February to assess the food security situation. Latest FAO assessments projected improved yields to boost DPRK's 2010 paddy crop by 4 percent to 2.4 million tonnes.[9]

In **China**, Indica first quality rice was between 63 and 69 percent costlier at the beginning of the year compared to four years ago while Japonica second quality rice was 27 percent over its January 2007 wholesale price (see Figure 2). Extended drought conditions in China had affected more than 5 million ha of crops with more than 2 million people and over 2 million livestock facing drinking water shortages, official estimates showed.[10] The Chinese Government said water conservation would be a key priority in 2011 with a reported targeted investment of US$12 billion in irrigation and related schemes.[11]

Thailand's rice export prices declined in January due to the weaker Baht which averaged 30.6 against the US dollar, compared to 30.1 and 29.9 in December and November 2010, respectively. The world's largest rice exporter shipped more than half a million tonnes of the cereal in the first three weeks of January 2011, about 16 percent over the same period last year, according to official estimates. The Government's rice stocks of over 5 million tonnes, built

[8] http://english.chosun.com/site/data/html_dir/2011/01/31/2011013100948.html
[9] *Rice Market Monitor, January 2011*

[10] *FAO Global Information and Early Warning System on Food and Agriculture (GIEWS), Special Alert*

[11] http://www.wsj-asia.com/

up by the intervention programme between 2009 and 2010, had been reduced to 1 million tonnes by early January 2011. The domestic price of Thai white rice fell from over 8 600 Baht/tonne at the start of the year, stabilising at 8 350 Baht/tonne by mid-January.[12] The Thai Government had to increase the 2011 budget for its price guarantee scheme due to its growing popularity with farmers. The programme, covering five rice varieties, pays registered farmers, the difference between the government guarantee price and the market price, if the latter is below the reference price set every week by the government.

Viet Nam, the world's second largest rice exporter, anticipated lower overseas sales this year after record exports in 2010 estimated at about 6.7 million tonnes. The Government of Viet Nam was reported[13] planning distributing rice free to the needy in 11 northern and central provinces during the current between-harvests period when the poor are most food-insecure.

Rice prices in **Cambodia** and **Lao PDR** were between 62 and 50 percent over their January 2007 levels at the start of the year (see Figure 2). FAO increased earlier estimates for Cambodia's 2010 paddy crop by nearly 700 000 tonnes although erratic rainfall was projected to reduce Lao PDR's 2010 paddy output by 5 percent to 3 million tonnes compared to 2009.[14] Cambodia's rice exports were growing, aided by European Union (EU) rice import quotas for Least Developed Countries. Phnom Penh reportedly aimed to increase national rice exports four times in 2011 from 50 000 tonnes last year. Although the EU quotas were due to end on 31 December 2011, Cambodia's agriculture minister was reported saying Brussels would be requested to extend the exemption for Cambodian rice.[15]

Rice exports for 2011 by **Myanmar** were projected to double to 800 000 tonnes from last year.[16] The country was also reported to be exporting yellow maize, mostly grown in northern Shan state, to China, Malaysia, Singapore and South Korea.

High food prices in **Indonesia** saw the Government suspending import tariffs on wheat, soybean and fertilizer until the end of 2011. Earlier, Jakarta quadrupled its rice imports to reduce concerns over a supply shortfall that had driven up domestic prices.

In the **Philippines**, the national average wholesale price of regular milled rice at P 28.6/kg in the fourth week of January was marginally below the price one year ago[17], although this was well above the price four years ago (see Figure 2). The country's 2010 paddy harvest, affected by drought followed by heavy rains, was officially projected at 16.8 million tonnes, up from 15.5 million tonnes in 2009 and the 2005-2009 annual average of 15.9 million tonnes, due to higher productivity and increased plantings, supported by the government's seed subsidy programme.[18] Manila was reported planning to scale down rice imports this year, buying just enough to ensure the minimum 30-day food security reserve stocks.[19]

Paddy production in **Bangladesh**, a major South Asian rice importer, was expected to be 50.3 million tonnes in 2010, compared to the 2005-2009 average of 43.7 million tonnes, and nearly 2 million tonnes over 2009, latest FAO estimates said. Dhaka stepped up rice purchases overseas to keep a check on rising domestic prices which were reportedly affected by panic buying.

Wholesale rice and wheat prices rose in **India** in January and were 64 and 22 percent, respectively, above their January 2007 levels in the capital city (see Figure 2). However, the high food inflation level, among the highest in Asia, was mainly driven by soaring prices of staple vegetables, particularly onions and tomato. More commodities were added to a list monitored by government agencies for price volatility. FAO lowered its estimate for India's 2010 monsoon paddy crop by 1.5 million tonnes in view of the irregular rains last year, although at 123 million tonnes, this would still be 8 percent above the 2009 drought-hit crop.[20] India's total 2010 monsoon and winter paddy crop was estimated at 145.5 million tonnes.

The heavy floods in **Sri Lanka** were estimated to have affected more than 121 000 ha of rice crop and the Government revised downward, the 2011 main paddy harvest by 7 percent to 2.45 million tonnes.[21] The UN and humanitarian partners launched a US$51-million flash appeal to help over 1 million flood-affected Sri Lankans. Rice and wheat retail prices in January 2011 in Colombo, at Rs 56 and 81/kg, respectively, were lower than in December 2010, but still 63 and 103 percent higher, respectively, over their January 2007 levels (see Figure 2).

In **Afghanistan**, wheat and wheat flour retail prices declined in the capital from December 2010 (see Figure 2), although at Afs 18.8/kg, the

12 *Thailand Rice Price Weekly, 26 January 2011*, United States Department of Agriculture, Global Agricultural Information Network
13 http://vietnamnews
14 *Rice Market Monitor, January 2011*
15 http://www.phnompenhpost.com/
16 *Rice Market Monitor, January 2011*
17 http://www.bas.gov.ph/
18 *Rice Market Monitor, January 2011*
19 http://www.bworldonline.com/
20 *Rice Market Monitor, January 2011*
21 Ibid

price of wheat in Kabul was higher than the national average of Afs 17.2/kg in mid-January.

With the worst floods in **Pakistan**'s history causing large-scale agricultural damage, FAO lowered its estimate for the country's 2010 paddy crop by 40 percent over the preceding year to 6.3 million tonnes. Rice exports by Pakistan, the third largest exporter of the cereal in 2010, were projected to be nearly halved to 1.8 million tonnes in 2011.[22] Wheat retail prices increased marginally in Pakistan from December 2010 but those of the staple IRRI-6 rice jumped by over 20 percent (see Figure 2).

Drought threatens China's winter wheat production

Poor rains since October last year in China's main winter wheat growing area in the North China Plain have put at risk the country's winter wheat crop to be harvested in June, according to an FAO assessment[23] based on Government estimates. The provinces of Shandong, Jiangsu, Henan, Hebei and Shanxi, which together account for 60 percent of the area planted and two-thirds of national wheat production are the main affected. An officially estimated 5.16 million ha out of the total winter wheat crop of 14 million ha is facing the water shortage which is also causing distress to more than 2.5 million people and 2.7 million livestock.

The drought can push up domestic wheat prices further, FAO noted. The national average retail price of wheat flour in China in January 2011 rose by more than 8 percent compared to two months earlier and was 16 percent above the level one year ago.

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[22] Ibid

[23] *FAO Global Information and Early Warning System on Food and Agriculture (GIEWS), Special Alert*

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Prepared with the generous support of the European Union through the EC-FAO Food Security Programme
Linking Information and Decision-Making to Improve Food Security