



FOOD AND AGRICULTURE ORGANIZATION OF THE
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Table of contents

Commodity prices declining
but still higher than in 2007

1

Favourable policy
developments

1

Fertilizer prices

2

General Assembly discusses
high food prices

2

Afghanistan

2

Bangladesh

2

India

3

Indonesia

3

Pacific Island countries

3

Pakistan

3

Thailand

4

Asia – the world's new
potato basket

4

Web Links

4

List of figures

1: Decline in commodity
prices

1

2: FAO Food Price Index

1



Commodity prices declining but still higher than in 2007

While agricultural commodity prices have dropped sharply from record high levels earlier this year, aggregate food prices remain significantly higher than in 2007. Indications of increased supplies as harvesting commences in many regions of the world are a contributory factor in the decline (See figure 1). Estimates for 2008/2009 by FAO and USDA indicate record cereals and oilseeds production. The United States is expected to have its second largest corn harvest ever this year. Wheat and maize prices are down 35 and 20 percent respectively from their highs in 2008 while rice and palm oil prices have each eased by 20 percent. Corn and soybean prices have slipped by as much as 37 percent from their peaks.

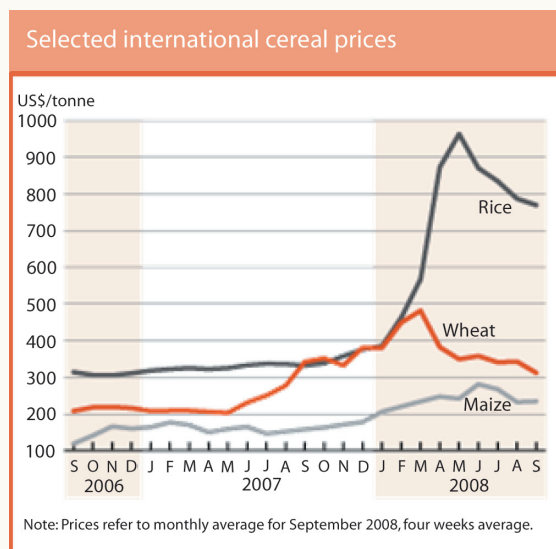
However, aggregate food prices based on the FAO trade weighted price index are 43 percent above early 2007 levels.

Analysts note that commodity prices remain vulnerable to short-term fluctuations in supply availability such as when fears of flood damage pushed corn futures to a US\$7 high in June. Indeed, USDA projections mean that corn prices are likely to be twice as much in the foreseeable future as in the previous decade.

Favourable policy developments

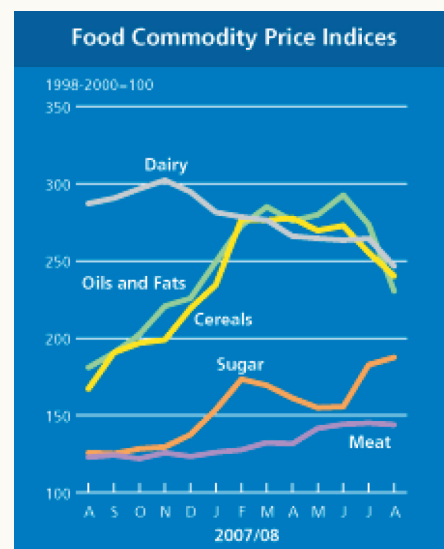
Policy developments in top food-exporting countries augur well for global food supplies with India and Kazakhstan relaxing restrictions on rice and wheat exports. India will allow top-grade aromatic rice exports from mid-October. Thailand is rebuilding strategic commodity stocks with a target of 5.1 million tonnes for rice within the next month, a large part of which will be available for export. However, commodity price movements remain vulnerable to currency fluctuations, such as the recent Thai rice price increases.

Figure 1: Decline in commodity prices



Source: FAO.

Figure 2: FAO Food Price Index



Fertilizer prices

Fertilizer prices have risen more than oil or any other commodity in the past 18 months due to supply constraints and rising demand. The price of diammonium phosphate (DAP) per tonne has risen to US\$1 230 from US\$250 in January 2007. Potash-based fertilizers now cost more than US\$500 per tonne up from US\$172 a tonne, and capacity constraints have pushed the price of nitrogen-based fertilizers up to more than US\$450 a tonne from \$277.

Fertilizer demand has grown among developed world farmers trying to maximise harvests to take advantage of record grain prices. It takes between 5 to 7 years to start a phosphate mine, ten years for a potash mine and three years for a major nitrogen plant. At least 50 new nitrogen fertilizer plants are believed to be under construction, and phosphorous and potassium mines are being expanded.

High fertilizer prices affect developing countries' budgets as governments subsidize costs under political pressure, often at the expense of vital social spending. India expects to spend US\$24 billion in fertilizer subsidies this year compared to US\$4 billion three years ago.

General Assembly discusses high food prices

High food prices are in focus at the UN General Assembly session this month with many developing world leaders emphasizing the urgency of global action to reverse the trend which is imposing a heavy burden on the poor and threatens to undermine economic growth. They have also called for a reshaping of the global trade architecture.

Afghanistan

Prices of the main staple wheat have more than doubled since last year after a poor 2008 harvest, necessitating increased food imports. The National Consumer Price Index (CPI) in July 2008 was 53 percent higher than in July 2007. Overall, food prices have risen sharply with annual changes in the food indexes as follows: bread and cereals (+144.8 percent); oil and fats (+43.1 percent); vegetables including tubers (+40.6 percent); milk, cheese and eggs (+17.8 percent); non-alcoholic beverages (+14.5 percent); spices (+12.7 percent); fresh and dry fruits (+10.8 percent); cigarette and tobacco (+3.7 percent); meat (+1.5 percent); and sugar and sweets (-0.7 percent). Between June and July 2008, the overall CPI increased by 1.9 percent with an increase in prices of both food and non-food items.

While the average wheat price in July 2008 was 158 percent higher than last year's price, since May 2008 the prices have been declining, reflecting global market trends.

The Ministry of Rural Rehabilitation and Development (MRRD) is giving priority to food-for-work, cash-for-work and national solidarity livelihood projects to tackle the high food prices. The Ministry of Agriculture, Irrigation and Livestock (MAIL) plans a Strategic Grain Reserve with FAO support and a voucher system to assist farmers affected by high prices and drought. The International Confederation of Red Cross (ICRC) will distribute food assistance among 30 000 drought-affected households in four provinces before the onset of winter. The Netherlands, Norway, Sweden, USAID and UK's DFID have responded with contributions and pledges to the July 2008 Joint Appeal by FAO, WFP, MRRD and MAIL.

Bangladesh

The FAO/WFP Crop and Food Supply Assessment Mission estimates Boro rice output to increase this year by 17 percent to 17.54 million tonnes over the 2007 harvest and to be 30 percent higher than the five-year average. The mission's report estimates the national average Boro rice yield to increase by 9.05 percent from 3.52 tonnes/ha last year to 3.78 tonnes/ha this year. Total cereal output for the 2007/08 marketing year, including the 2007 *Aman*, 2008 Boro and *Aus* seasons, is estimated at 28.85 million tonnes, 5.6 percent over the previous year.

It is estimated that Bangladesh needs to bring in about 3 million tonnes of rice and wheat from overseas, of which 2.57 million tonnes are expected to be commercially imported. An estimated 155 000 tonnes of food aid has either been received or committed.

A national Employment Generation Programme launched on 15 September 2008 aims to provide 100 days of work to the poorest during the two lean periods from mid-September to end-of-November and from March to April. Estimated to benefit 2 million people in 2008/09, the Taka 20 billion scheme will focus on farm production activities in regions prone to river erosion, floods and *monga*, *haor baors* and *char* areas.

Positive food security related policy measures and developments include: (i) extension of Boro rice procurement deadline by one month from 31 August to meet target of building 1.2 million tonnes of rice and 300 000 tonnes of paddy stocks; (ii) a bilateral agreement for Chinese assistance in hybrid seeds production; (iii) all local and foreign banks to disburse agricultural credit from

current fiscal year; (iv) import of 100 000 tonnes of MoP fertilizer from Belarus; (v) proposed periodic petroleum price adjustments to reduce government subsidies to the sector; (vi) closure of emergency fair price outlets run by Bangladesh Rifles across the country from September 29 due to reduced demand; (vii) ban on three Chinese powdered milk brands following reports of chemical contamination.

India

Official procurement agencies expect to buy record quantities of rice this year with the 2008 summer rice harvest estimated to be close to last year's production of about 82 million tonnes. There was a 50 percent increase in premium rice cultivation in the key grain producing northern state of Punjab. India will partially lift the export ban imposed earlier this year by allowing top-grade aromatic rice exports from mid-October, although at a minimum of US\$1 200 a tonne. Traders also caution that continuing high inflation levels and national elections due early next year could affect a further easing of the export ban. The 30 percent fall in crude palm oil prices over the past month is good news as the country meets half its edible oil needs from imports.

Indonesia

In his statement to the June 2008 FAO Summit in Rome, the Indonesian President emphasized the importance of increasing production to meet food demand in his country in the long run. Rice production for 2008 is officially estimated to increase by 4.8 percent to 59.88 million tonnes from 57.16 million tonnes last year, which, in turn, had increased nearly 5 percent over 2006. This is based on a 1.96 percent increase in sown area and a 2.76 percent productivity

increase. Consumption is estimated to have risen 5 percent from 53 million tonnes last year.

Pacific Island countries

Nauru, meeting 90 percent of its food needs from imports has seen staple cereal rice prices rise from US\$48 to US\$53 for a 20 kg bag. According to Nauru's Fisheries Representative Ross Cain the government is considering measures like increased wages and promoting local food production and consumption.

With an estimated 30 percent of its people food insecure, current high food and energy prices are hurting the poor in **Papua New Guinea**, mainly cash-strapped small farmers, hindering agricultural investment. FAO will provide US\$500 000 worth of rice seeds, planting material, small farm equipment and rice processing equipment to thousands of small farmers in the country.

As higher food prices force rural poor in **Samoa** to reduce basic food consumption, FAO will provide vegetable seeds, fertilizers, 100 breeding sows, five boars and other pig breeding material valued at US\$250 000 to farmers and vulnerable households. Rice seeds, fertilizer, power tillers and rice milling equipment worth an equal amount will be given as rapid assistance to farmers and vulnerable households in the Solomon Islands for cropping by next year. In **Tonga**, small farmers and rural households will receive FAO Emergency Assistance of US\$250 000 including sows, boars, vegetable seeds, fertilizer and cassava production and processing equipment. In **Vanuatu**, FAO assistance of US\$250 000 will promote small-scale household agriculture with short production cycles such as vegetables, yam, sweet potato and banana.

In **Fiji**, FAO will provide rice production inputs – 40 tonnes of seeds, 30 tonnes of fertilizer, 5 power tillers and 3 portable rice milling units – worth US\$250 000 to small farmers in the Northern and Central divisions to boost rice production by at least 800 tonnes next year. Small farmers, women's groups and schools in **Kiribati** will be assisted to increase vegetable and pig production with US\$250 000 in FAO support including 1.5 tonnes of vegetable seeds and planting material, 100 breeding sow pigs, five boars and pig breeding material.

The short-term emergency assistance measures are part of FAO's Initiative for Soaring Food Prices (ISFP) launched late last year.

Another FAO project will provide US\$500 000 in assistance to small farmers in the **Cook Islands** (vegetables and root crops), **Marshal Islands**, **Niue** and **Tuvalu** (vegetables, permaculture chicken production), **Nauru** (vegetables); **Federated States of Micronesia** (banana, tapioca and tapioca flour) and **Palau** (vegetables, bananas and sweet potatoes).

Pakistan

While stabilizing in US Dollars terms since May, food prices in local currency increased till August and have shown a mixed trend since the beginning of September, varying from market to market. In some instances a decrease in prices of some essential commodities has been accompanied by quality degradation, e.g. wheat flour. The Benazir Income Support Programme (BISP) launched in September offers Rs.1 000 a month to 3.4 million poor households.

Meanwhile, the State Bank of Pakistan has set an indicative credit disbursement target of Rs.250 billion for the agriculture sector for fiscal year 2009.

Thailand

Rice prices are expected to stay above US\$700 per tonne with the government paying farmers to shore up paddy prices during the harvesting period. The scheme was due to end on 30 September and rice prices are likely to drop. Internationally, Thai medium-quality rice, the global benchmark, was quoted at about US\$730 a tonne, down from a record of more than US\$1 100 a tonne in May, but still significantly higher than the US\$300 to US\$200 range seen during the period 2000 to 2007.

Asia – the world's new potato basket

Asia and Oceania account for nearly half of the world's 19.2 million ha potato farms. China has the largest area under cultivation, i.e. about 5 million ha which account for 72 million of the global 320 million tonnes potato harvest in 2007. China exported some 440 000 tonnes of potato in 2005. India's annual potato harvest of 26 million tonnes is the world's third-largest. In comparison, South America, the original home of the potato, is now the smallest producer. Potato consumption has

increased dramatically in Asia, particularly in China and India, in a relatively short period due to population growth and changing customer preferences. In contrast, demand in industrialized countries is declining.

In China and India, the potato is both a staple food and a source of rural livelihood, accounting for more than half of rural household earnings in northern China's Inner Mongolia and Shanxi provinces.

Web Links:

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

For weekly cereal prices updates: <http://www.fao.org/giews/english/ewi/cerealprice/2.htm>

Global expenditures on food imports could surpass USD 1 trillion in 2008. <http://www.fao.org/docrep/010/ai466e/ai466e15.htm>

2008 aggregate cereal production of LIFDCs forecast to increase marginally for second consecutive year. <http://www.fao.org/docrep/010/ai465e/ai465e07.htm>

Online Fortnightly Food grain Outlook for Bangladesh

Since the beginning of August, FAO, with EC and USAID funding is supporting the National Food Policy Capacity Strengthening Programme (NFPCSP) in Bangladesh for the production of a Fortnightly Food grain Outlook which provides a brief, easy-to-read update on domestic and international food grain markets and public food grain management operations. The report can be used by policy-makers, development partners and other food security stakeholders for short-term planning and decision-making. The Outlook sheds light on changes in domestic prices, public and private imports as well as international price movements and market prospects for rice and wheat. It summarizes the performance of internal food grain procurement activities (during relevant periods) and major distribution programmes under the Public Food Distribution System. (<http://www.nfpcsp.org/about%20FPMUpub.htm>)

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