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## China says its grain imports will not harm world food security

The government of the People's Republic of China is attempting to allay concerns that its rising grain imports will exacerbate global food insecurity, saying that its purchases of wheat, maize and rice are at reasonable levels despite expanding rapidly in 2012.

Ministry of Commerce Spokesman Shen Danyang told a press conference in mid-January that China takes grain supply security and possible impacts on global markets into account when setting its import quotas for the three grains. "The overall scale of imports was obviously within a reasonable range," Shen was quoted as saying by the People's Daily newspaper.

The amount of wheat, corn and rice China imported from January to November 2012 increased by 294.5 percent year on year. Citing customs figures, Shen said that China imported a combined total of 10.78 million tonnes of wheat, corn and rice in the first 11 months of 2012. He said imports rose because of low prices on world markets and higher domestic demand for animal feed, adding that imports were weak in 2011 and so provided a low base for comparison.

An article in the *Wall Street Journal* in early January entitled "China Rice Imports

Unsettle Market" quoted analysts debating whether China could produce enough rice to feed its people, and what the impact on global food security would be if it could not. Shen disputed some assertions in the article, saying, "It is groundless to say China threatens global grain security or that the country's grain supplies are insufficient just because it is importing more grain."

For several years, China has set annual import quotas for corn, wheat and rice at 7.2 million tonnes, 9.64 million tonnes and 5.32 million tonnes, respectively, to meet World Trade Organization rules on market access, but has never actually imported those amounts.

## Global food prices steady in January

Average global food prices stabilized in January following three months of declines, with the FAO Global Food Price Index showing no change from December's level of 210 points. A sharp rise in the prices for oils and fats cancelled out the effect of a modest fall in quotations for sugar and cereals, as FAO revised upwards its forecast for world cereals production in 2012 by 20 million tonnes to 2.3 billion tonnes.

Nonetheless, FAO cautioned that cereals forecasts for 2013 were uncertain as output can be affected by many factors. "Given

Figure 1: Selected international cereal prices



the tight supply situation, weather remains an important determinant of prices. For several cereals, production needs to increase significantly this year in order to avoid unexpected price surges," said FAO Senior Grains Economist Abdolreza Abbassian. As of January, FAO is expecting world wheat output to increase by 4 to 5 percent because of increased plantings in the European Union. The FAO Cereal Price Index dropped 1.1 percent in January and has been falling since October, mostly reflecting improved crop conditions.

The FAO Sugar Price Index was down 2.2 percent from December. Sugar prices have fallen for three consecutive months on expectations of a large global production surplus and strong exports in 2012/13, particularly from Brazil and Thailand, the two largest producers.

Offsetting those declines was a 4.4 percent rise in the FAO Oils and Fats Price Index. After four months of falling prices, the rebound was mainly driven by rising demand for palm oil. The FAO Dairy Price Index edged up only slightly in January,

while the FAO Meat Price Index registered a marginal fall. Quotations of all meat categories were generally stable, although a slight weakening in poultry and pig meat prices was evident.

### Domestic rice prices drop in Viet Nam, rise in Indonesia

Domestic rice prices in **Viet Nam** plunged 15 percent from mid-December to mid-January as a result of strong production and weak demand, particularly from importing countries such as **Indonesia** and the **Philippines** that have been increasing their own output. Mixed rice prices in **Cambodia** fell by 6 percent, which is still considered in the range of normal movement, and they also weakened slightly in **Myanmar**. The exception in the region was **Indonesia** where rice prices continued a six-month climb and are at record highs because of flooding on the island of Java, according to the Food Price Monitor from FAO's Global Information and Early Warning System (GIEWS). **China** also saw modest increases in the price of rice and

wheat. Elsewhere around the region, rice prices were generally stable, reflecting good harvests and weaker demand for exports.

Prices for wheat and wheat flour rose by 7 percent and 5 percent, respectively, in **Pakistan** on strong export demand. Wheat flour prices also increased slightly in **Bangladesh**. GIEWS reported that "in major wheat consuming countries, wheat and wheat flour prices continued to move upwards or stabilized at high levels in several markets, mainly reflecting strong prices in the regional export markets."

### FAO raises forecast for Asia paddy production

Robust production in several Asian countries has prompted FAO to revise upwards its forecast for 2012 paddy production across the region by 1.6 million tonnes, or 0.9 percent, to a total of 662 million tonnes (441.6 million tonnes on a milled basis), according to its latest Rice Market Monitor released in early February.

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

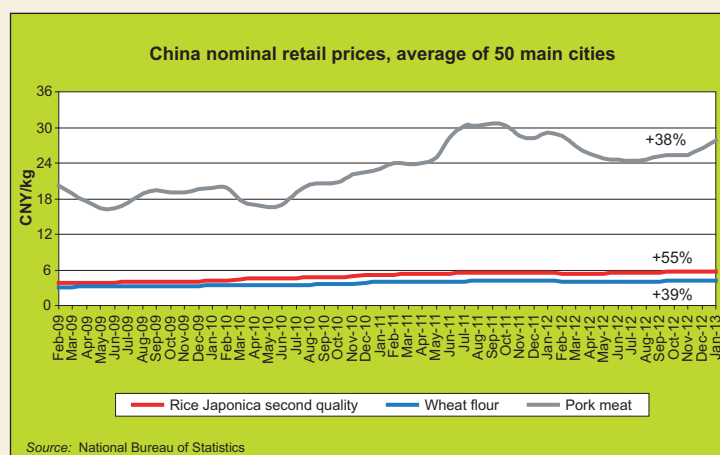
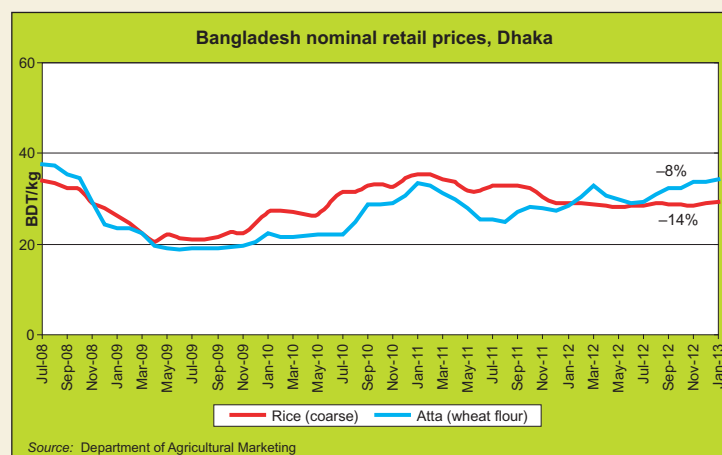
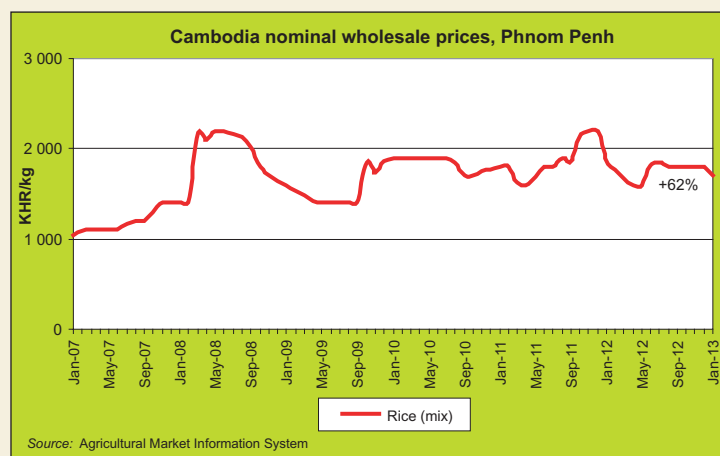
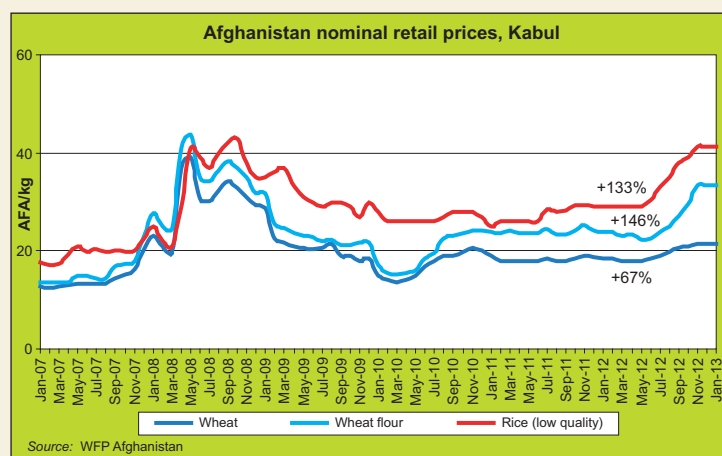
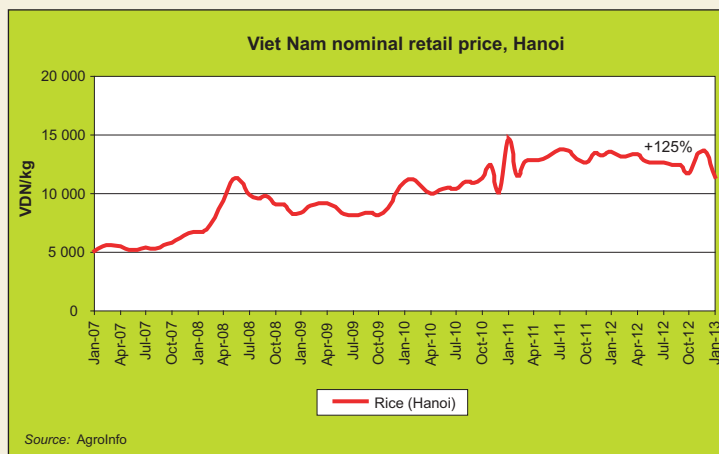
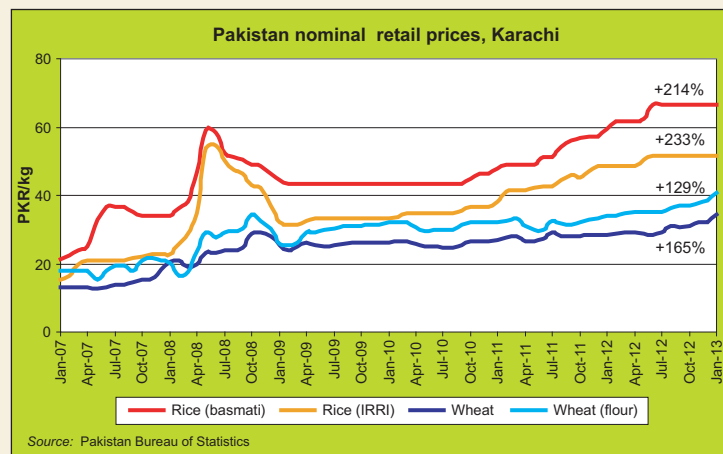
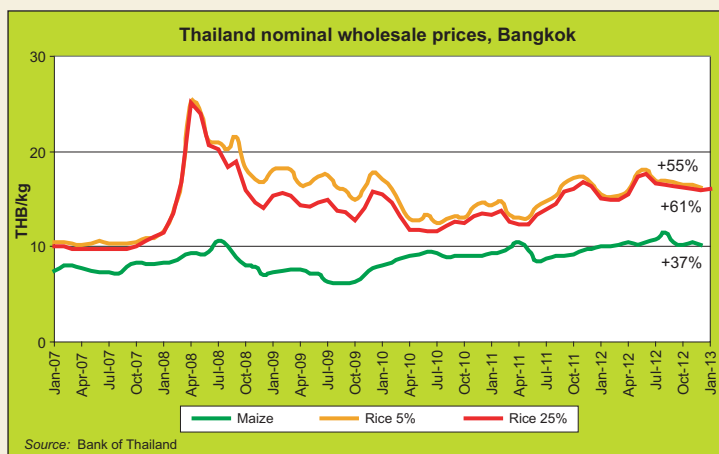
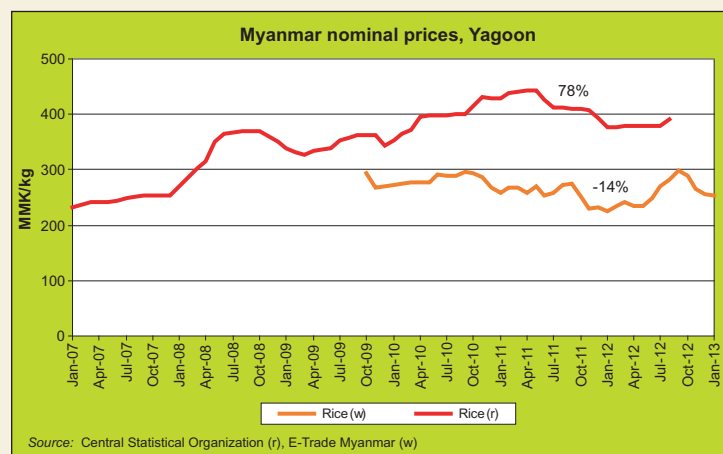
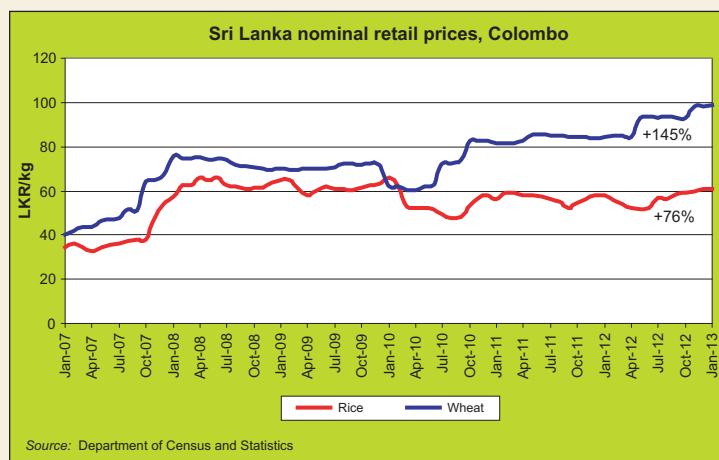
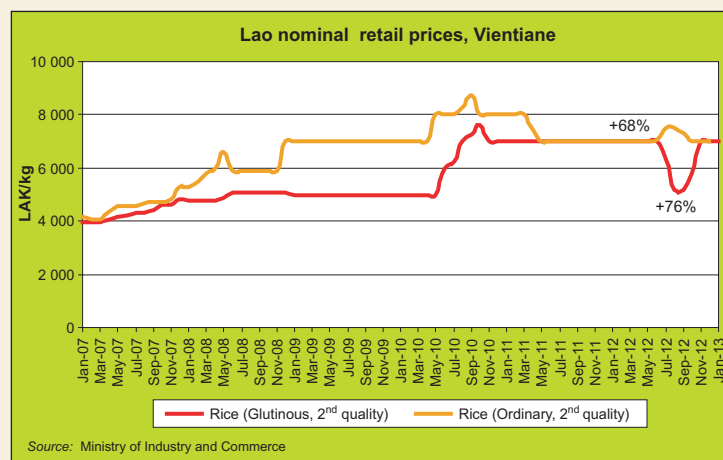
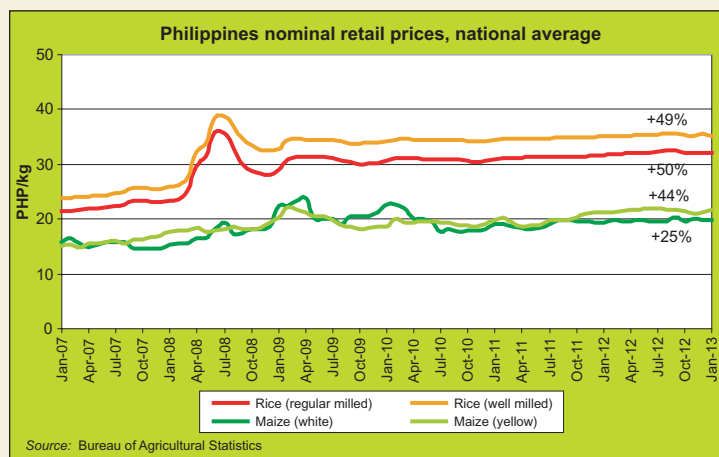
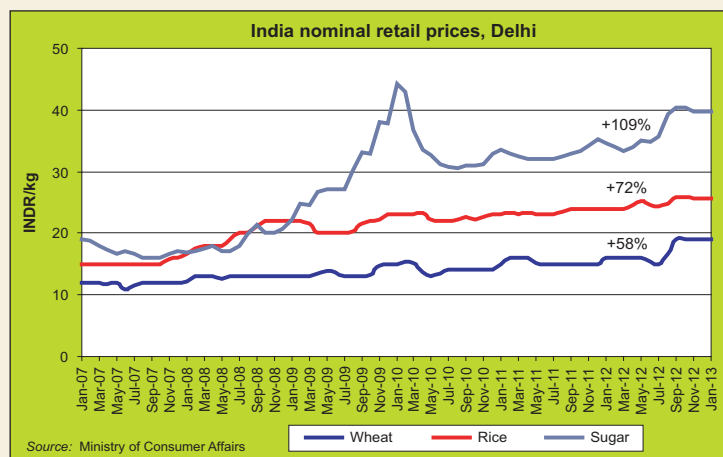


Figure 2: Trends in domestic prices for key commodities in selected countries (continued)





**China, Indonesia and Thailand** drove the increase with greater-than-expected production, but record-breaking crops are also predicted in **Cambodia**, the **Philippines** and **Viet Nam**. The report called the outlook favourable in **Iran**, **Japan**, the **Democratic People's Republic of Korea**, **Lao PDR**, **Malaysia**, **Pakistan** and **Sri Lanka**. But bad weather will likely result in production drops in **India**, **Taiwan** (Province of China), the **Republic of Korea** and **Nepal**.

Globally, FAO raised its paddy production forecast from its last report in November by 1.5 million tonnes to 730.2 million tonnes (486.9 million tonnes on a milled basis). That total would be 5.7 million tonnes more than what was produced in 2011, a modest increase according to FAO. The organization lowered its forecast for the international rice trade in 2013 by 600 000 tonnes to 37 million tonnes on a milled basis. But global rice utilization is projected to rise to 476 million tonnes, 1 million tonnes more than previously anticipated and a 1.5 percent increase.

### **Looming storage problem in Thailand for rice**

Thailand's rice-pledging programme has created a looming shortage of storage space for its grain. FAO's Rice Market Monitor is forecasting a new 5.2 million tonne build-up in stocks, which will create a record 18.2 million tonnes of rice that needs to be warehoused.

"The 2012/13 main-crop round of the paddy pledging programme in Thailand has progressed with renewed strength since its launch in October 2012, with up to 8.8 million tonnes reported mortgaged by 10 January 2013, double the amount pledged during the corresponding period in 2011/2012. Moreover and notwithstanding a looming shortage of storage space, Government stock release plans have progressed slowly, further aggravating the supply situation for an export sector that is faced with little offshore demand and unattractive prices," the FAO report said.

In an attempt to remedy income disparities, the government's programme has been paying rice farmers above-market prices for their paddy. Consequently, Thailand's high rice prices had importers looking elsewhere last year, and the country slipped from the world's leading rice exporter to third place.

Various Thai economists have estimated that the programme incurred between US\$5 billion and US\$10 billion in losses last year.

### **Russia letting grain markets work despite drought**

Russia's decision not to ban grain exports despite a devastating drought that drastically reduced output last year shows that the country's leaders have gained greater faith in market mechanisms, *Gulf Times* newspaper has reported.

Suffering from a similar drought in 2010, President Vladimir Putin banned exports of wheat and other grains in August of that year, with the ban lasting until mid-2011. The action contributed to sharply rising cereals prices at that time. But the ban rebounded on Russia in negative ways with food price inflation more than doubling to 14 percent in 2011, and prices for grain-fed imported meat soaring, according to the paper. When drought struck Russia again in 2012, markets were jittery, as analysts feared a new ban would be imposed, but Russian officials took a different approach and a ban never materialized.

"Our domestic goal is to provide people with good food at reasonable prices – to do this we need to increase production. Exports and free prices are good economic incentives for producers," Arkady Dvorkovich, the deputy prime minister responsible for farm policy, told Reuters. The policy has also benefitted Russian farmers who are getting prices for their wheat sold domestically that are closer to export prices, and food price inflation has eased.

### **Viet Nam rice expert calls for higher prices**

Viet Nam's leading rice expert has said the country needs to raise its export prices for the grain, as the Viet Nam Food Association (VFA) warned that 2013 would be a difficult year for exports, the state-run news agency VNA reported.

Viet Nam exported 7.72 million tonnes of rice worth US\$3.5 billion in 2012, a new record for the country that made it the world's second-largest rice exporter behind India. But despite an 8.2 percent increase in quantity, the country earned 2 percent less than the year before

because of lower prices. VFA said local farm experts believe that if agricultural policy does not change, then the more rice Viet Nam's farmers grow, the less they will earn from it. According to FAO, Viet Nam's 5 percent broken rice was selling for US\$404 a tonne in January, compared to US\$595 a tonne for comparable rice from Thailand and US\$398 a tonne for 25 percent broken rice from India. Viet Nam exported 540 000 tonnes of rice in January, more than double the amount in the same month in 2011, according to its Ministry of Agriculture. In early February, the ministry set a new floor price for 5 percent broken rice of US\$410 a tonne, up from US\$390 a tonne.

Viet Nam's leading rice expert Vo Tong Xuan said the country should strive to sell higher-quality rice at higher prices, following the lead of Thailand. Policy should be geared to benefitting rice farmers, who make up 70 percent of the population. Xuan said, however, that increasing the price alone is not enough. More harmonization is needed in all phases of the production process, including negotiating export contracts. Viet Nam will not be able to obtain prices similar to Thailand, however, because Viet Nam's rice is not as strong a brand at this point in time.

### **Nepal millers claim Indian imports hurt domestic rice industry**

India's re-entry into the rice exporting market is threatening the survival of neighbouring Nepal's domestic rice industry, *The Himalayan* newspaper reported. Rice millers told the paper that many mills are finding it difficult to survive and are on the verge of closing because they can not compete with Indian rice. The millers, who are mostly small entrepreneurs, complained that rice smuggling from India is rampant, making it cheaper because customs taxes are not paid, and that the Indian government's subsidizing of its rice farmers gives them an unfair advantage. Rice millers are demanding the government of Nepal ban the import of rice from India.

### **Pakistan ready for wheat rust with resistant strain of grain**

Crop scientists in Pakistan have developed a strain of wheat that is

resistant to the UG99 wheat stem rust disease, averting what they believe is an impending disaster to the country's wheat crop. UG99 originated in Uganda in 1999 and has migrated beyond Africa, recently reaching Iran and emerging as a regional threat in South Asia. Crop scientists warn that Pakistan and India are most likely to be the next countries affected.

Experts say it is only a matter of time before wind carries the deadly wheat stem pathogen into Pakistan, the ninth largest wheat-producing nation in the world. According to Iftikhar Ahmad, chairman of the government-run Pakistan Agricultural Research Council, "UG99 could potentially decimate the country's highly vulnerable wheat crop and cause a huge food security problem."

Ahmad said 72 tonnes of UG99 resistant wheat seed is available for farmers on demand. Every year, the seed is multiplying and soon the country will be able to fully protect against UG99, he added.

### Sharp rise in meat prices in Indonesia

Consumers and traders are grumbling over a doubling of the price of meat in Indonesia in recent months, as the government strives to make the country self-sufficient in staple food products, Voice of America (VOA) reported. Prices began rising after the government began steadily cutting meat import quotas in 2011, with a goal of achieving 90 percent self-sufficiency in meat production by 2014. The government is planning further cuts in 2013, VOA reported.

The rising prices have led to an uproar as local media reported that street vendors selling popular meatball and noodle soup have been quietly mixing in pork with the

beef in their meatballs because of the steep cost of beef. Indonesia is the world's most populous Muslim country, and eating pork is against Muslim dietary laws.

A kilogram of beef in Indonesia now costs an average of US\$13, according to VOA, and the government is planning to reduce the import quota for cattle this year by 30 percent, and by 6 percent for beef. Beef consumption, however, rose by 13 percent last year. The government has defended the cuts, saying achieving self-sufficiency is important for national food security. The United States recently filed a complaint against Indonesia at the World Trade Organization for allegedly restricting trade in plants and animals.

### Philippines hoping to export rice this year

President Benigno Aquino of the Philippines is hoping his country will export rice for the first time in decades by the end of this year providing the weather remains favourable, the Philippine *Daily Inquirer* reported, noting that the island archipelago was once the world's largest rice importer.

"From importing almost two and a half million metric tonnes of rice in 2010, now, if the weather permits, we are looking at full rice self-sufficiency-and even the possibility of exporting it by the end of this year," Aquino said at a meeting of the World Economic Forum in Manila.

A research report published by the Asian Development Bank last year said the Philippines has long grappled with food insecurity without making much of a dent in the problem. Since Aquino took office in June 2010, his administration has shifted its focus from importing rice and other foodstuff to investing in irrigation, arterial

roads, research into higher-yielding varieties and other technologies to try and achieve the goal of self-sufficiency.

### China scientists have high hopes for 'heirloom' rice

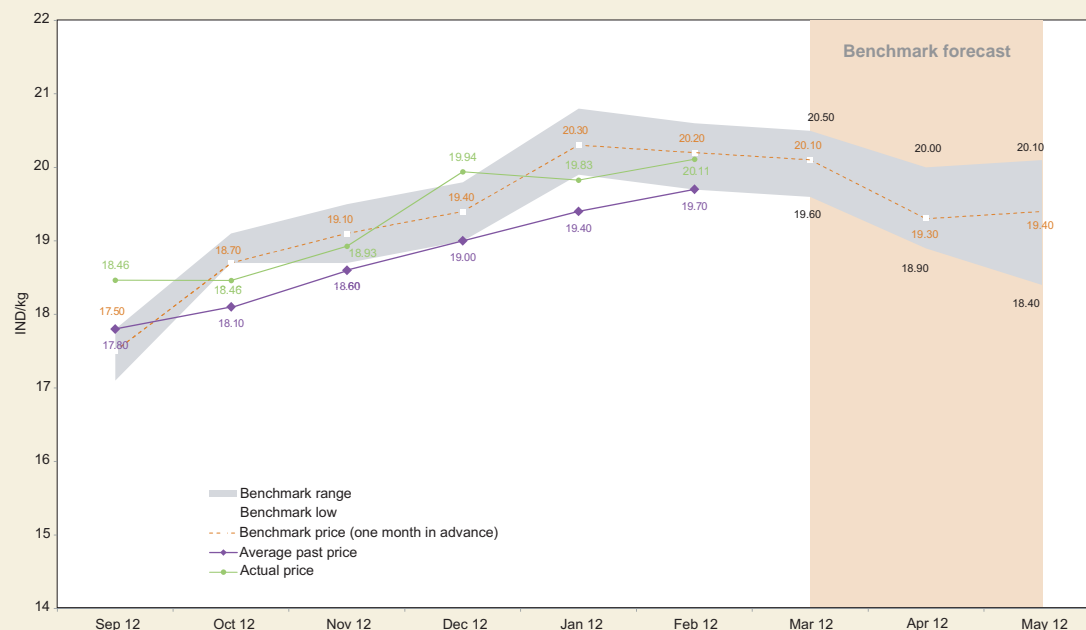
Crop scientists in China have high hopes for an ancient strain of rice that grows in just one small pocket of the country, believing it could improve yields for other strains of rice, thereby improving food security, if they can successfully cross-breed it, the *China Daily* reported.

The rice, which locals call Wuyuanzao, has been cultivated for 12 000 years, the reason it is referred to as an 'heirloom' strain of rice. Wuyuanzao is only grown in two villages in the Wannian district of Jiangxi province. Scientists believe the unique combination of cold spring water, special soil conditions and microclimate in the villages allows the rice to thrive. Scientists claim it is resistant to most insects, does not require fertilizer, grows nearly twice as tall as most other rice plants, and is richer in protein and vitamin B than other types of rice.

Scientists hope that cross-breeding the ancient rice with varieties that grow faster and adapt to a wider variety of climate conditions can produce a commercially viable hybrid rice that can feed many more people. "Wannian rice's original germplasm resource needs to be protected for rice breeding in the future," said Min Qing-wen, an agricultural researcher from the Institute of Geographic Sciences and Natural Resources Research under the Chinese Academy of Sciences. The rice in Wannian county and its affiliated culture system were listed as an FAO global protection project in 2010, the paper said.

## In focus: Price Movements for Wheat (wheat wholesale prices, National average)

Wheat prices in India during February (INR 20.20) are largely similar to the benchmark price (INR 20.10). The benchmark wheat price for March in India is forecast at INR 20.10 per kilo (within a benchmark band of INR 19.6-20.5 per kilo). Over the past six months, actual wheat prices in India moved outside the benchmark range four times (in September, October, December and January). If prices follow normal seasonal patterns during the next three months, wholesale nominal prices for wheat in India are likely to move slightly downwards (-4%) within a benchmark range of INR 18.4-20.1 per kilo.



### Technical note

The FAO Price Monitoring Model is a simple tool designed to assist policy makers, farmers and traders in assessing whether recent price trends are in line with those typically observed in the past. The purpose of the model is to determine whether short term price movements of a commodity exceed a benchmark which takes into consideration seasonality, inflation and historic variability. The model uses only data on past prices and the consumer price index (CPI) to capture these characteristics. It establishes an expected level of price for the following month along with a range of uncertainty generated by past deviations from expected prices. Price movements can be interpreted as "excessive" if prices fall outside the benchmark range. The difference between the actual price and the "benchmark price" (1 month in advance) that was forecasted for that same month is also calculated by the model although not shown in the graph. An additional feature of the model is to show the current level of prices relative to an average of past prices during the past four years (adjusted for inflation). For details on the model, please see: <http://www.foodsec.org/web/publications/briefs/>.

The graph shows that recent price movements in India are in line with the general trend observed in the past seven years. It also shows that actual prices have been consistently above average past prices. During the sowing period of the *Rabi* (winter) season, from September to March, wheat prices typically increase on average by 11 percent. This time, however, actual prices increased by 9 percent.

The graph also shows actual wheat prices "peaked" from November to December 2012. During this time, there was a sudden surge in international wheat prices, and the Commission for Agricultural Costs and Prices (CACP) put in place a bonus of INR 40 per quintal (US 0.7) on the Minimum Support Prices of wheat, intended to clear excessive wheat stocks (15 MMT), but contingent to limit government wheat purchases in states where the bonus policy was applied and also in those with high taxation and levies\*\*.

In early February, the Ministry of Agriculture released its second advance estimates of crop production for 2012/13 indicating that wheat production (92.3 MMT) is likely to be one percentage point below last year's record (94.88 MMT), but 9 percent above the average wheat production output over the past five years, despite deficient and late rainfall during September/October 2012 \*\*\*.

As part of World Supply and Demand Estimates released by the USDA in February 2013, India remains a major producer of wheat in the global market holding an estimated 12 percent of global stocks and producing up to 14 percent of global output in 2012/13. India is also estimated to have contributed up to 5 percent of total global exports in 2012/13\*\*\*\*.

\* Retail nominal prices have been averaged from 4 market points (Chennai, Delhi, Mumbai and Patna).

\*\* Commission for Agricultural Costs and Prices (CACP), 14 November 2012. <http://cacp.dacnet.nic.in>

\*\*\* Public Information Bureau, 8 February 2013. <http://pib.nic.in/newsite/erelease.aspx?relid=92103>

\*\*\*\* World Supply and Demand Estimates (WSADE), USDA, February 2013. <http://www.usda.gov/oce/commodity/wasde/>

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