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Thailand admits it will lose money on rice programme

Thailand will suffer huge losses from its rice support programme, a cabinet minister has admitted for the first time, as the government searches for buyers for approximately 7 million tonnes of unsold rice aging in storehouses. Nawatthamrong Boonsongpaisan, a minister attached to the Prime Minister's Office, told the *Bangkok Post* that Thailand will have to sell the rice at market prices which are substantially lower than the price the government paid to farmers for the grain.

The programme, which was intended to raise income levels for farmers and narrow wealth disparities in the country, began paying as much as 40 percent above market prices for paddy starting in late 2011. Government officials expressed confidence at the time that Thailand could command higher prices on world markets for its rice and that other rice-exporting countries would follow suit and raise prices. Economists warned from the outset, however, that it was unlikely the market would follow Thailand's lead, and the programme would incur losses.

Estimates on the size of the loss so far have varied, but have generally been in the range of about US\$5 billion. A bureaucrat at

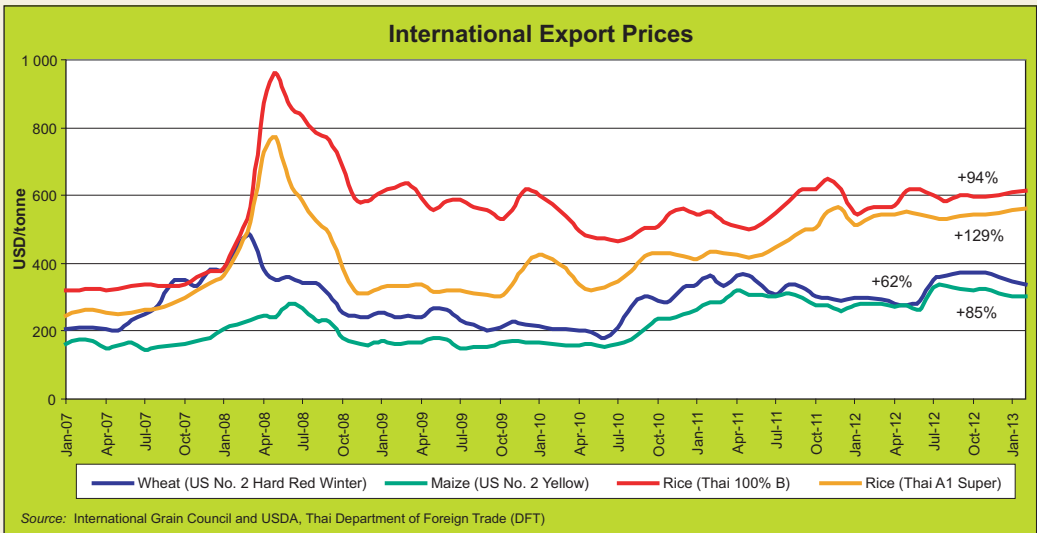
the Ministry of Commerce told reporters in early March that the government was considering lowering the price it pays to farmers for rice, sparking protests from farmers groups and prompting Commerce Minister Boonsong Teriyapirom to assure farmers high prices would be maintained. He told reporters that losses would not be as steep for the coming harvest because drought across several provinces had lowered output, also making it a good time to sell rice on international markets. The Internal Trade Department later confirmed that the pledging price for the 2012-2013 second crop of off-season rice will remain unchanged.

FAO recently said that Thailand was facing a shortage of storage space for rice for the upcoming harvest because rice from the previous harvest remained unsold. Thailand was the world's largest exporter of rice for three decades until last year when it slipped to third place because of less competitive prices.

Global food price index unchanged

Global food prices were stable in February, continuing a four-month trend, as the March FAO Global Food Price Index remained unchanged at 212 points. The index has varied only slightly, moving with a 210-212 point band since November. During that

Figure 1: Selected international cereal prices



period increases in the prices of dairy products and oils and fats have been offset by declines in the prices for cereals and sugar. Average food prices were 2.5 percent lower, however, than in February 2012.

Cereals prices fell by just 1 percent, but were still 8 percent higher than in February 2012. Dairy product prices rose, however, by 2.5 percent and reflected production shortfalls in Oceania, a result of hot dry weather. Oils and fats prices edged up by just 0.4 percent. Sugar prices dropped by 3 percent since January, largely on strong expected output from Brazil and Thailand, the top two exporters. Meat prices were unchanged.

Domestic rice prices jump in Viet Nam

Rice prices in **Viet Nam** followed mixed trends in February. Prices rose by 11 percent in markets in Hanoi, the second-largest city, but fell in markets in Dong Thap and An Giang, the largest rice-producing province in the Mekong Delta. The reasons behind these

movements were unclear, but the government recently started buying more paddy from the winter-spring harvest for stockpiling in Mekong Delta provinces, and Viet Nam is forecast to export 16 percent more rice than the average for the past five years. Various economists have estimated national inflation in 2013 will be between 7 percent and 10 percent.

Neighboring **Cambodia** also saw the price of rice rise by 6 percent in mid-February, while trends in **Lao PDR** were mixed, with prices for ordinary rice jumping 9 percent, but glutinous rice selling for 7 percent less. Rice prices in Cambodia vary widely depending upon the season, but more Cambodian rice is also being shipped to **Thailand, Viet Nam, China** and **Malaysia** as part of increasing trade with those countries. Exports of rice rose 165 percent in January compared to a year earlier, and exports to **Malaysia** represented 27 percent of all Cambodian exports in January.

Demand from **China** also pushed up local rice prices in **Myanmar** to levels approaching the peak reached in

September 2012. Rice rose by 5 percent in **Bangladesh** on higher fuel and transport costs. Regular rice climbed by a mere 2 percent in **India**, but are substantially higher than one year ago. Although prices barely rose in **Indonesia**, floods in Java and rising energy costs had already driven prices higher in previous months.

Elsewhere around the region, domestic prices were relatively unchanged reflecting the recent stability of international food prices. Wheat prices were in line with that trend, with what little movements there were remaining narrow, dropping just 3 percent in **Afghanistan**, while edging up 2 percent in **China** and 1 percent in both **Pakistan** and **Sri Lanka**.

FAO forecasts record wheat crops in China and Pakistan

FAO is forecasting record wheat harvests in **China** and **Pakistan** in 2013 as part of global wheat production that should be the second largest on record, according to the organization's most recent *Crop Prospects and Food Situation* report. FAO

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

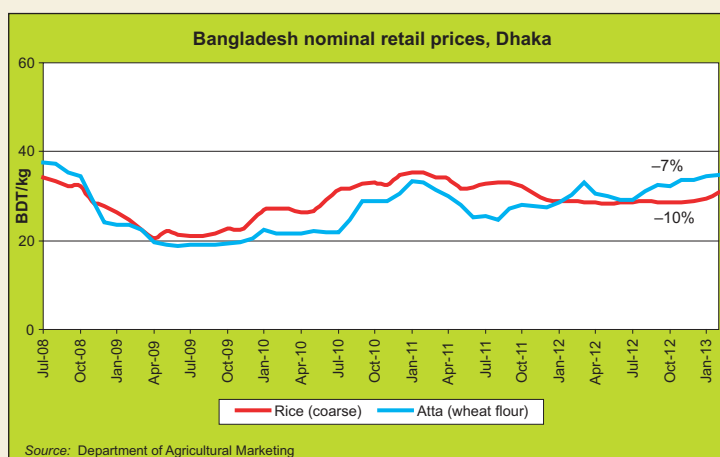
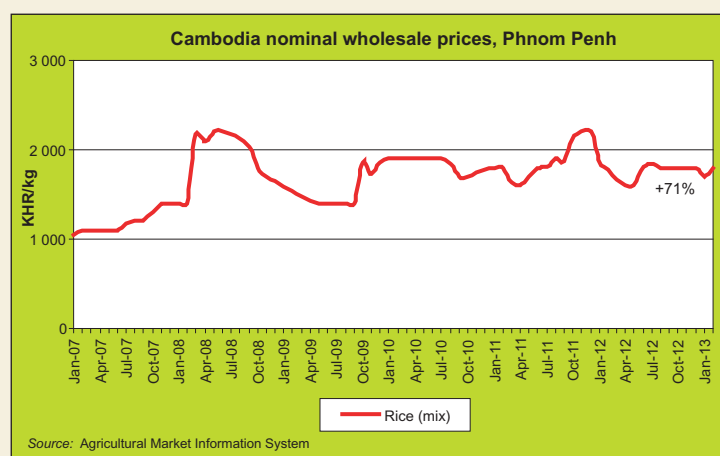
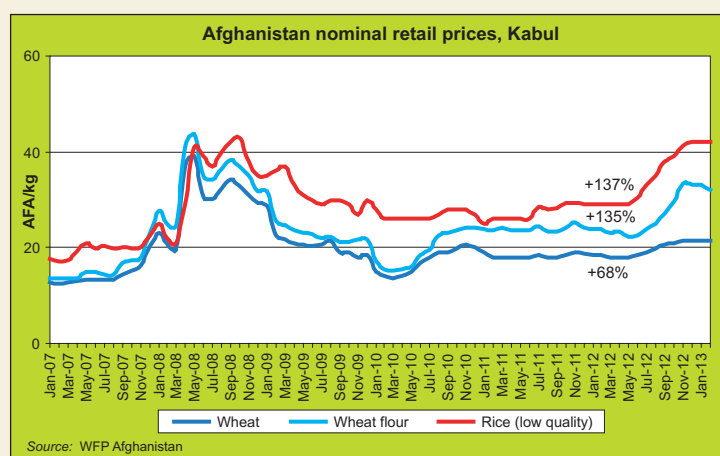
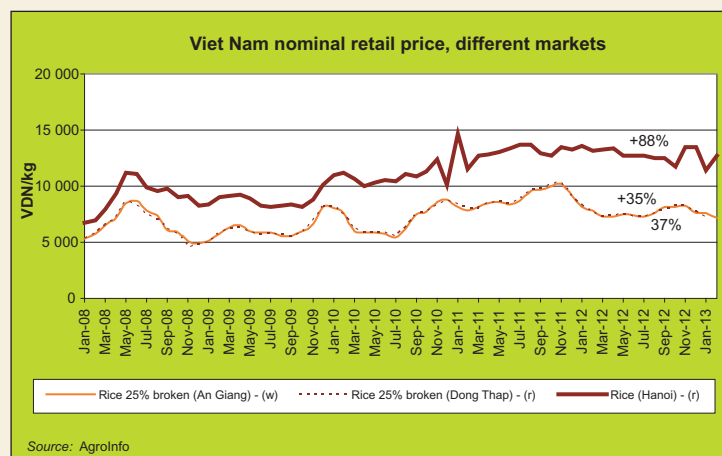
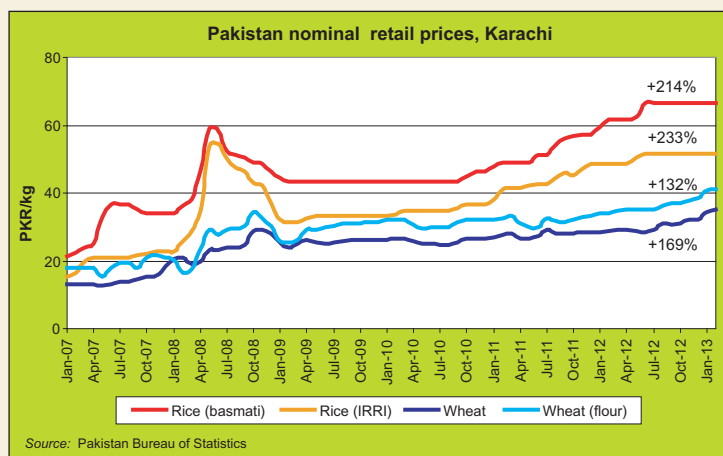
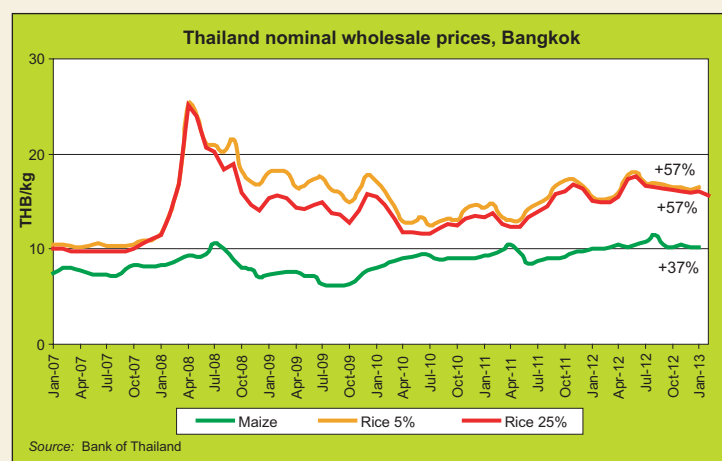
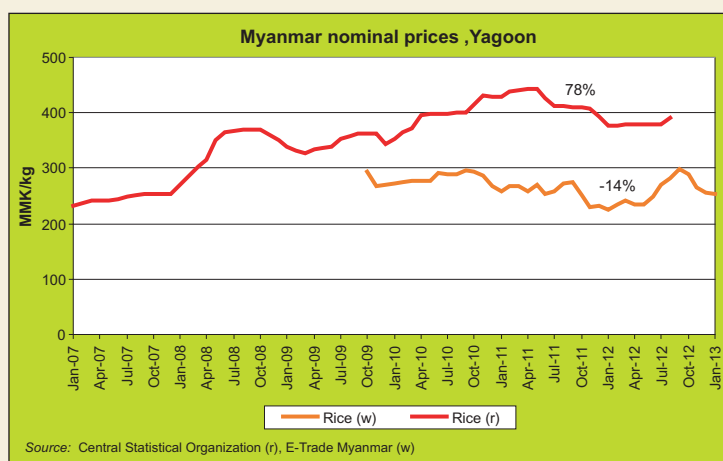
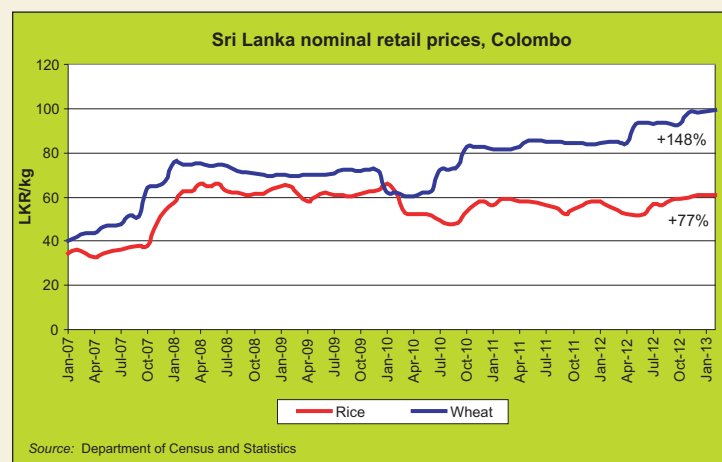
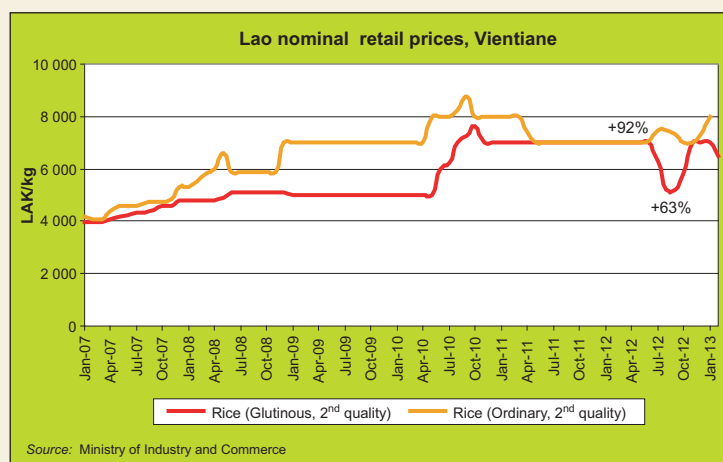
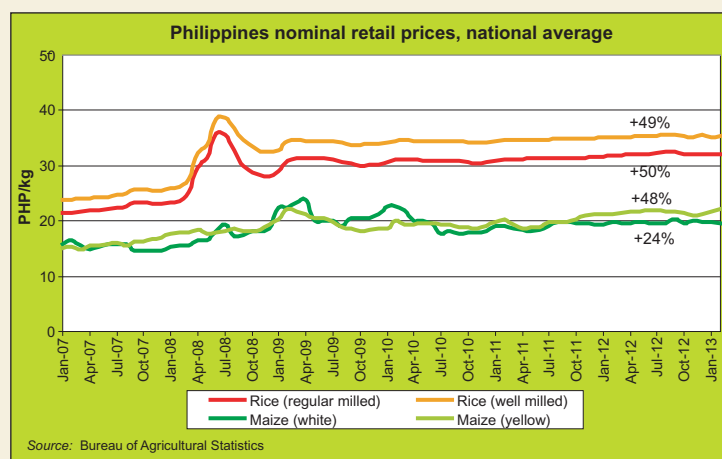
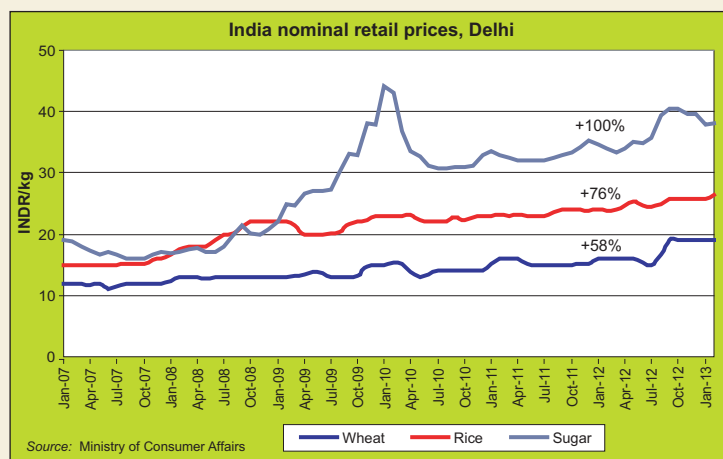


Figure 2: Trends in domestic prices for key commodities in selected countries (continued)



predicts global wheat output will be 690 million tonnes, a 28 million tonne increase over 2012. Weather conditions in China have been favourable so far this year, supporting expectations of a good harvest, while increased plantings and yields in Pakistan should produce a similar result. A slight decline is expected in **India** because of scant post-monsoon rainfall.

Secondary rice harvests in the region are promising in **Bangladesh, Cambodia, Indonesia, Myanmar, the Philippines, Thailand** and **Viet Nam**. But planting delays and the effects of a cyclone are expected to reduce paddy output in **India**, while floods will cause declines in **Sri Lanka**. With most final figures in for 2012, FAO believes the paddy output for the region was a record at 1.214 billion tonnes, an increase of 3 percent over last year's record. Larger crops in **China** and **Indonesia** were the main drivers of the increase. Regional cereals exports for the 2012-13 marketing year are expected to rise by 16 percent, or 5.9 million tonnes, to 43 million tonnes.

Record paddy yield by Indian farmers divides analysts

A world record yield for paddy per hectare recently achieved by a community of poor farmers in India using an organic growing technique has divided analysts with some praising the method as a breakthrough for all farmers and others cautioning that more research and tests are needed to confirm the success of the technique.

A farmer in the Nalanda district of Bihar, the poorest state in India, harvested 22.4 tonnes of rice from one hectare, and his neighbors achieved similar results, according to the British newspaper *The Guardian*. The previous record was 19.4 tonnes per hectare achieved by a Chinese agricultural scientist. More remarkable was that the Indian farmers did not use pesticides or fertilizers, but instead relied upon an organic technique known as SRI for System of Rice (or Root) Intensification. In SRI, farmers plant rice seedlings in dry ground when they are younger and space them further apart, rather than the traditional method of clumping them close together in watery fields when they are three weeks old.

SRI was introduced to Nalanda by a government extension worker and was first developed in Madagascar in the 1980s. The newspaper said the technique has also increased yields for other crops

including wheat, potatoes and sugar cane. "Farmers use less seeds, less water and less chemicals but they get more without having to invest more. This is revolutionary," said Surendra Chaurassa of the Ministry of Agriculture. "I did not believe it to start with, but now I think it can potentially change the way everyone farms."

Other scientists have cautioned that farmers in other areas have tried SRI and abandoned the method because it did not provide similar results. They are calling for more research to confirm and determine the source of the farmers' success.

Arsenic-eating plants cited by Bangladeshi scientists

Scientists in Bangladesh have identified five plants that they say are super consumers of arsenic from the surface layer of soil and could offer a powerful weapon to combat arsenic pollution in food. Scientists outside of Bangladesh, however, have not confirmed the findings. Arsenic is a toxic substance found in the ground water of many countries and can lead to a variety of diseases including cancer.

The scientists claim the plants can completely remove arsenic from topsoil two years after being planted on farmland, the *Financial Express* newspaper reported. The arsenic-eating properties of the plants were discovered by scientists at Sher-e-Bangla Agricultural University (SBAU), Dhaka jointly with Jahangirnagar University (JU). Although aromatic rice grown in Bangladesh has been shown to eat up arsenic, the scientists said the five plants can consume 70 times more arsenic than rice. The scientists told the paper they would not name the plants until their research is complete.

An FAO report from 2006 stated that "arsenic contamination of groundwater in Bangladesh threatens the health of up to 30 million people. Levels of arsenic in drinking water are so high that WHO describes arsenic contamination of Bangladesh's water supply as the largest poisoning of a population in history. Where concentrations of arsenic in soil and water are high, we found a correlation with high arsenic content in crops." A 2011 study by researchers at the University of Guelph in Canada said that tests on 21 arsenic-eating plants in Bangladesh had shown that all could

reduce arsenic levels in water to levels regarded as safe.

Indonesia advised to abandon food import quotas

Indonesia's government has been told by a panel of its own advisers to end food import quotas because they encourage bribery, price spikes, discourage investors and cause friction with trading partners, *Reuters* reported. The advisers urged the government to adopt import tariffs in their place.

"Just open these markets," said Hermanto Siregar, an economist and a commissioner at Bank Rakyat Indonesia who is a member of the panel. "Excess demand drives prices very high, and importers see a good prospect for profits and are willing to bribe to get licenses or quotas." He added that quotas and a limited number of importers with licenses leads to price fixing.

Trading partners and the Organization for Economic Cooperation and Development (OECD) have criticized Indonesia's trade policies. Meat producers in the United States have also filed a complaint with the World Trade Organization about Indonesia's restrictive policies on meat and plant imports. Indonesia is striving for self-sufficiency in food production, but tight restrictions on imports have caused prices for commodities such as beef to rise sharply, upsetting consumers. As wealth is increasing in Indonesia, consumers are eating more meat and the country is importing more grain to feed livestock.

Russia and Kazakhstan to partner in wheat exports to Asia

Russia and Kazakhstan will team up to export more wheat to Asia. With no customs barriers between them, and both governments working to harmonize railway tariffs and further integrate transport networks, the two countries are well positioned to cooperate on trade and exports. Russia is the world's fifth-largest wheat producer and Kazakhstan is the eleventh.

"We are interested in multiplying our efforts to push our grain products to the world market," Andrey Slepnev, the Eurasian Economic Commission's trade minister told *Bloomberg*. He added that the two countries were particularly keen on exporting more grain to Asia. Russia has committed to developing its eastern

ports and economic zones with an eye towards capitalizing higher levels of trade with Asia.

FAO estimates that the combined wheat production of Russia and Kazakhstan in 2013 will total 68.2 million tonnes. The US Department of Agriculture is forecasting that their combined wheat exports will reach 17 million tonnes in the fiscal year ending June 30.

China buys US, Australian and Canadian wheat

China purchased at least 850 million tonnes of wheat from the United States, Australia and Canada during the month of February, according to traders interviewed by *Reuters*. The largest purchase was from Australia at 400 000 tonnes, followed by the US at 350 000 tonnes and Canada at 100 000 tonnes. China is the world's largest consumer of wheat, the news agency said. Some traders said they believed the amount bought from the US was even higher than reported, pushing the total purchases in February to over 1 million tonnes.

"The Chinese appear to have a larger requirement for wheat than thought and were today again making inquiries about, and checking prices for, large purchases running into hundreds of thousands of tonnes for May shipment," one trader told the news agency. Falling global prices for wheat, set against high domestic prices for the grain, have prompted China to source more wheat from overseas.

India will prioritise government wheat exports

With government warehouses overflowing with wheat stocks, India will prioritise government-bought wheat for exporting rather than supplies from the private sector, *Reuters* reported. Industry experts said, however, that government will need to allow grain exports from more of its ports or the grain will run into transportation bottlenecks at the country's already congested ports.

The Indian government has already approved 4.5 million tonnes of wheat for export, and government sources told the news agency that they expect an additional 5 million tonnes will be

approved soon. Some dealers said, however, that they doubted India could export that much wheat as the tendering process is time consuming and the country has never exported that volume of wheat before. With a bumper harvest and limited storage capacity, the Indian government is anxious to step up exports to prevent wheat stocks from rotting in warehouses or in the fields.

Pakistan donates wheat to World Food Programme

The government of Pakistan has announced that it will donate 75 000 tonnes of wheat worth US\$25 million to the UN World Food Programme. The donation comes as the country and international agencies are striving to assist nearly one million displaced people in Pakistan's northwestern region, a tribal area where security has been an issue and assistance has been difficult to deliver. Furthermore, a shortage of resources had forced WFP to reduce rations to those in the area since January.

"This very timely contribution is greatly welcomed and demonstrates the government's ownership of the development process and commitment to helping its people," said WFP Country Director and Representative in Pakistan Jean-Luc Siblot. "The last thing we want to do is to cut assistance for the poorest and most vulnerable, and this wheat will help us to restore the food basket to a level that fully meets basic needs."

Viet Nam rice exports rising rapidly

Viet Nam's rice trading companies had signed contracts by the end of February to export 2.9 million tonnes of rice, about double the amount of export contracts at the same time last year, according to the Viet Nam Food Association, a private industry group. Rice exports for the first six months of 2013 are expected to total 3.5 million tonnes, the Association said. Viet Nam was the world's second-largest exporter of rice in 2012, with exports approaching 8 million tonnes. But industry analysts had said it would be difficult for Viet Nam to match or exceed last year's total because of issues related to capacity in production and storage, and pricing.

Indonesia's rice production grows by 5 percent

Striving to achieve self-sufficiency in food production, Indonesia's rice crop grew by 5 percent last year, according to the government's Central Statistics Agency, as reported by the *Jakarta Globe*. The country's rice farmers produced 69.05 million tonnes of paddy in 2012, which converts to somewhere between 39.3 and 46.4 million tonnes of milled rice depending on which conversion formula is used. The figures are preliminary and will be finalized in June.

"The increase in production is based on the expansion of planting areas by 239,800 hectares and an increase in productivity by 1.56 quintal a hectare on average," the Central Statistics Agency said in a report. The country's paddy field area expanded by 1.8 percent to 13.4 million hectares last year, the agency said.

Myanmar farmers face credit squeeze

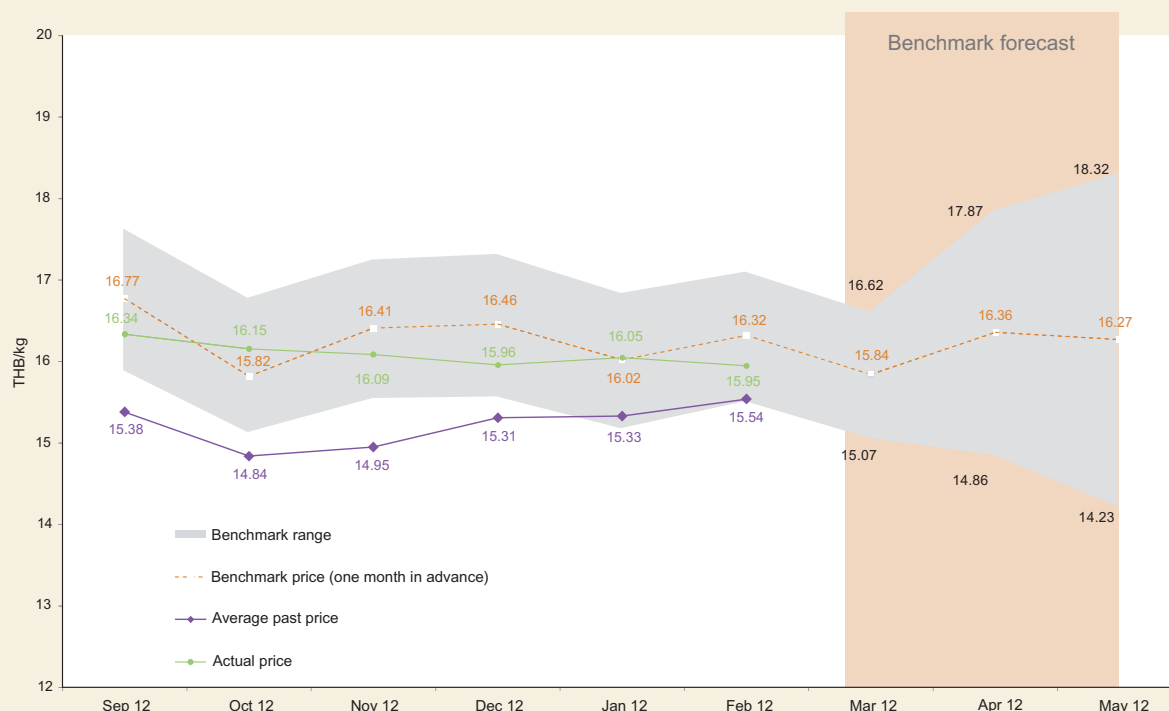
Myanmar's Minister of Agriculture is planning on offering low-interest loans with long repayment periods to farmers, but those who have not cleared their debts with the Myanmar Agricultural Development Bank or specialist rice companies will not be eligible for them, the *Myanmar Times* reported.

Minister Mying Hlaing said the new loans would have repayment periods as long as 15 years and could be for as much as 30 percent of the value of a farmer's land. "Farmers will not need to pay back the loans after one harvest. Seasonal loans are not enough for farmers," he said. He reiterated, however, that those with outstanding debts would be granted new credit.

Many farmers in Myanmar are in debt. "Our main challenge is unstable paddy prices, which mean that as harvest time nears the price drops. But when the paddy is in the hands of traders it rises, so we never see the fruits of our labour," Thant Zin, a farmer with 12 hectares told the paper. "We will take money if they [state and private lenders] give it to us. But if they can help us to buy machinery, clear old loans, buy quality fertiliser and help us to solve transportation problems that would address all of our needs."

In focus: Recent Price Movements for Thai Rice (rice 25%, Bangkok market)

Rice prices in Thailand during February were 2 percent below the benchmark price. The benchmark price for March is THB 15.84. If prices follow normal seasonal patterns during the next three months, wholesale nominal prices for 25% broken rice are likely to slightly move upwards (+3%) within a benchmark range of THB 14.23-18.32 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 are not in line with those typically observed over the past 7 years: From October to February, prices usually increase by 5 percent (purple line) but this time they dropped by one percent instead (green line). This difference may be partly explained by two main factors: the recent selling of additional stocks by the Ministry of Commerce to repay THB 180 billion (USD 6 million) to the Bank of Agriculture and Agricultural Cooperatives (BAAC); and the record level of 2012 aggregate paddy output at 39.1 tonnes, 6 percent above the flood-affected harvest of 2011 (36.7 tonnes).** From January to February, average past prices normally increase by 1.4 percent but actual prices dropped by half percentage point instead.

* USDA, Weekly Rice Price Update (5 March 2013).

** Bank of Thailand, Agricultural production (retrieved on 18 march 2013).

Economic, Social and Policy Assistance Group (ESP)

FAO Regional Office for Asia and the Pacific

39 Phra Atit Road, Bangkok 10200, THAILAND

Phone: +66-2-697-4250

E-mail: FoodAsia@fao.org

To subscribe, please e-mail listserv@listserv.fao.org, leave the subject blank and type subscribe Food-Asia-L

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