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Asia on guard against GMO-tainted US wheat

Japan and **South Korea** have suspended imports of some wheat from the **United States** after American investigators found genetically modified wheat growing on a farm in the state of Oregon. South Korea and the **European Union** have called for the testing of US wheat and some other countries in the Asia-Pacific region, including **China** and the **Philippines**, said they were monitoring the situation.

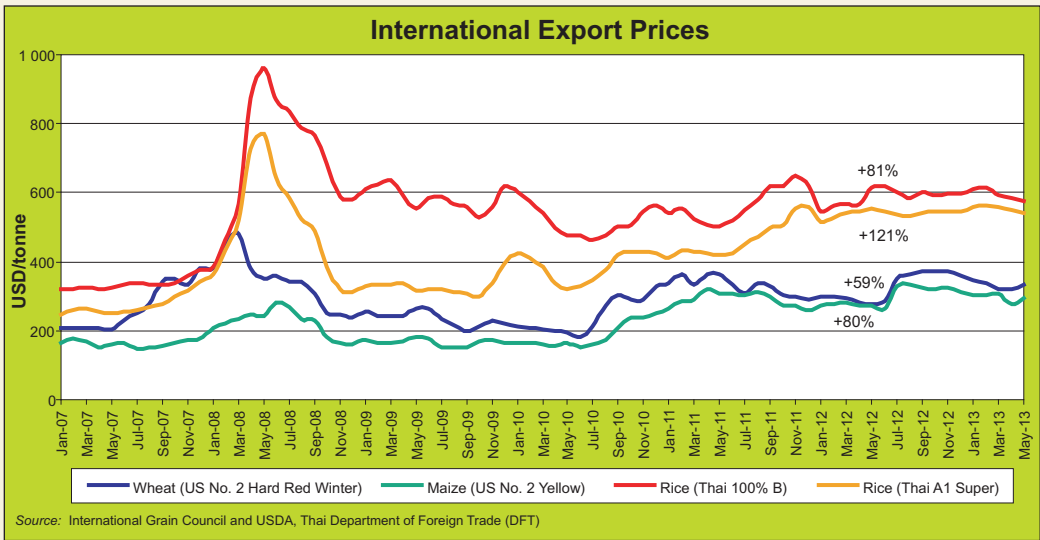
No country has approved the commercial sale of genetically modified (GMO) wheat, derisively referred to as 'zombie wheat' by its detractors. Authorities in the US insisted the wheat is not harmful to humans, but were investigating how the wheat, which was modified by agro-giant Monsanto to resist its own herbicides, found its way onto a farm in Oregon. The farmer who reported the find to the authorities said he did not knowingly plant any GMO wheat, and that only about 1 percent of his crop was tainted. It is not yet known if the GMO wheat is growing on any other farms. According to the US Department of Agriculture, the wheat was tested on farms

in 16 states from 1998 to 2005, but the Oregon farm was not part of the test. Monsanto had originally intended to market the GMO wheat, but dropped the plan in 2004 after opposition from consumer groups and some farmers.

Japan announced it was suspending an import shipment of 25 000 tonnes of wheat from the US after learning of the tainted crop. The Taiwan Flour Millers Association said it was reviewing wheat imports from the US, and the South Korea Millers Association said it would not take US wheat for now. In the US, the National Association of Wheat Growers pleaded with nations not to overreact, saying the find was isolated and that US wheat is safe for consumption. Asia imports 140 to 150 million tonnes of wheat each year, about a third of the global trade. The US is the world's largest wheat exporter.

One country undeterred by the news was China, which in late May purchased 650 000 tonnes of US wheat, its second largest purchase of the US grain this year, according to the Economic Times newspaper. China is the world's top wheat producer, but has bought 1.5 million tonnes of US wheat this year, making the purchases

Figure 1: Selected international cereal prices



selectively when prices are low. US wheat is currently priced lower than China's domestic wheat, and the American grain is meant for replacing stockpiles that are aging and deteriorating.

Global food prices steady during May

The FAO Global Food Price Index fell marginally in May on lower dairy and sugar prices, but the slide of six tenths of one percent indicated that prices were generally stable during the past month. At 215.2 points, average food prices are five percent higher than at the same time last year, but 10 percent below the February 2011 peak in global average food prices.

The fall in dairy and sugar prices offset a 1.9 percent rise in the average price of cereals caused by tightening exports of maize from the United States. By contrast, prices for wheat and rice were largely unchanged. Although dairy prices slid by 3.5 percent in May, these came down

from exceptionally high levels, the result of dry weather in **Australia** and **New Zealand** that affected production. Milk powder registered its sharpest fall, down 12.2 percent, of all the monitored dairy products.

Sugar prices fell just 1 percent on strong global supplies and weakening import demand. Meat prices were essentially unchanged, moving within a narrow band since October 2012, although poultry prices are at an all-time high. Average prices for fats and oils were unchanged in May compared to April. Palm oil prices rose slightly on lower supplies, but soy prices eased on good production prospects in **Argentina** and the **United States**.

Domestic rice prices steady around the region

Domestic rice prices around Asia were generally steady during the month of May despite new supplies from the recent harvest, according to research by

FAO's Global Information and Early Warning System (GIEWS). Government support programs, particularly in Myanmar and Cambodia, coupled with strong exports, contributed to the stable price scenario. Domestic prices for wheat, however, showed mixed trends, although in general they were higher than one year ago.

In **Afghanistan**, rice prices shot up by 9 percent, while wheat showed modest gains and wheat flour prices fell by 5 percent on ample supplies. Much of Afghanistan's wheat flour is imported because of a lack of local milling capacity. Prices for all these commodities, however, were higher than in May 2012. In neighbouring **Pakistan** trends were mixed as prices for both wheat and wheat flour fell modestly in growing areas, but wheat flour rose by as much as 9 percent in other areas. Government procurement programmes paying prices 14 percent higher than last year helped keep prices high. Rice

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

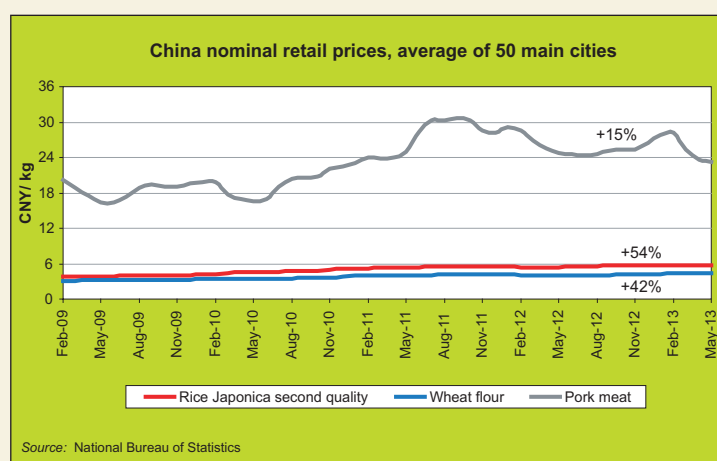
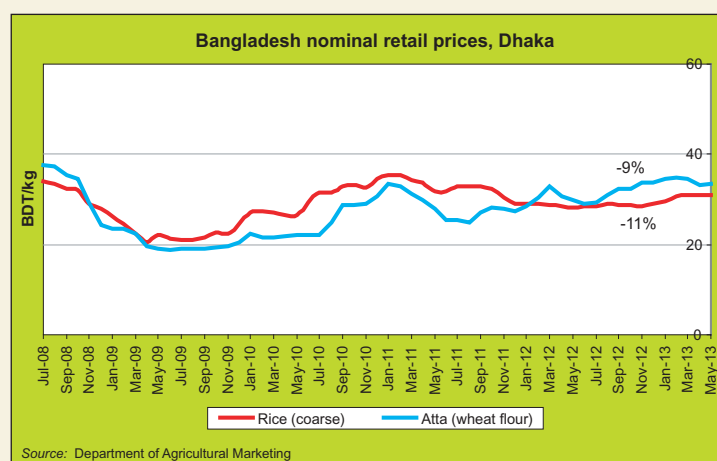
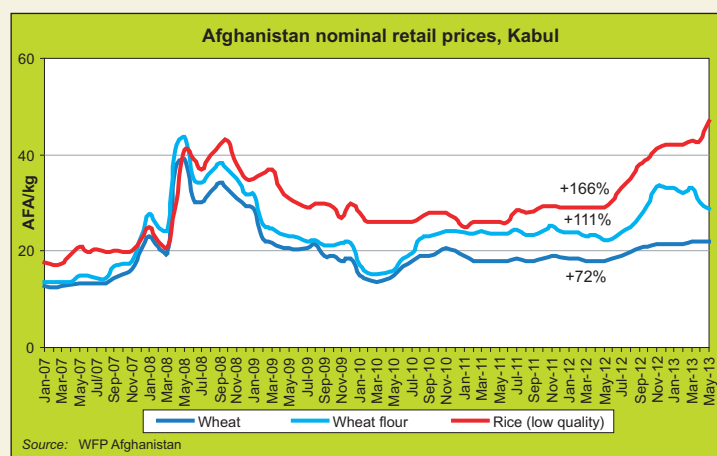
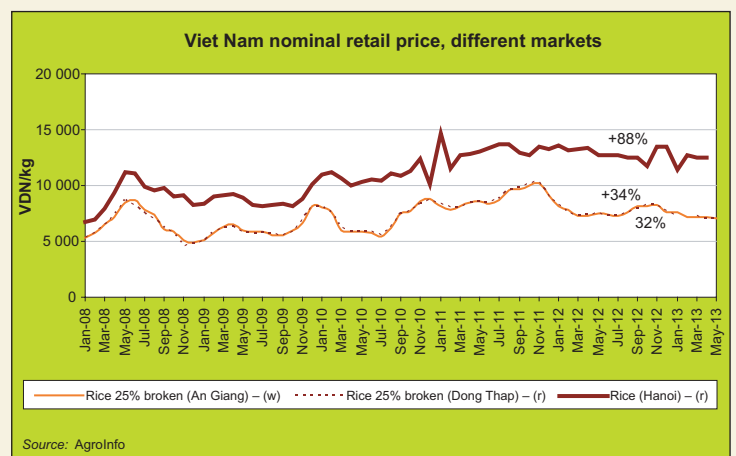
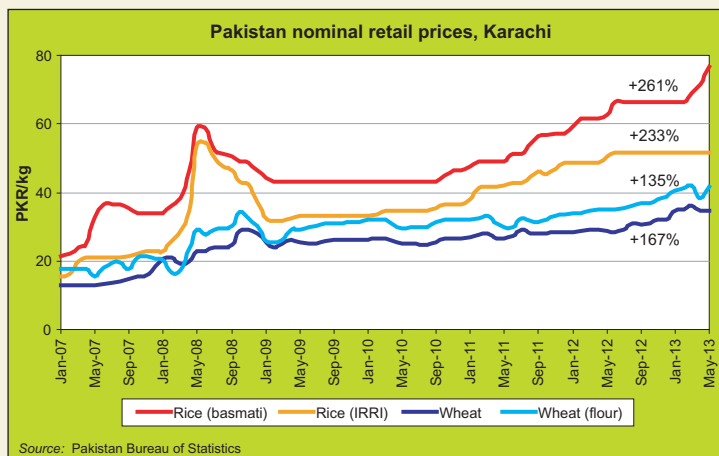
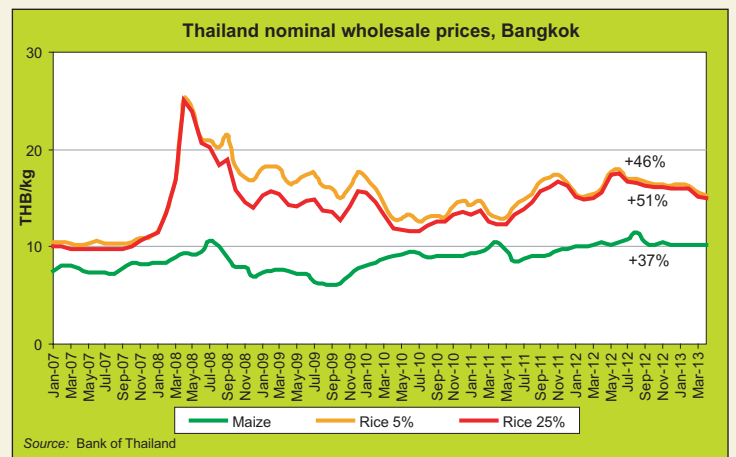
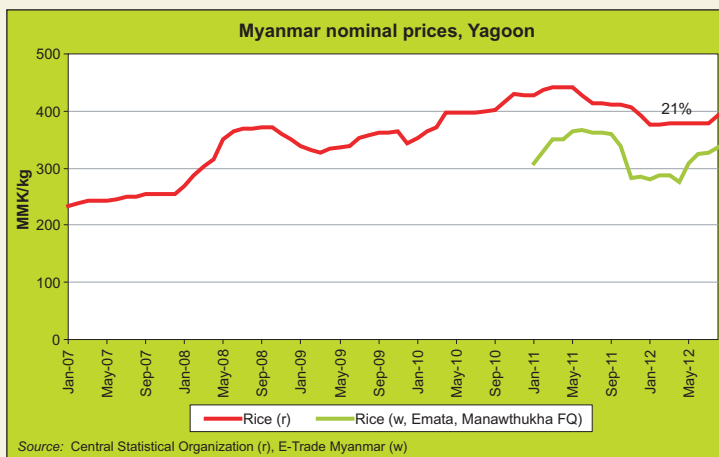
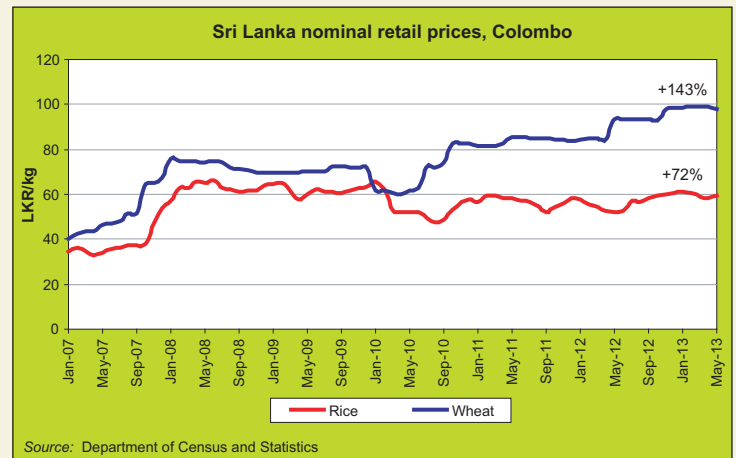
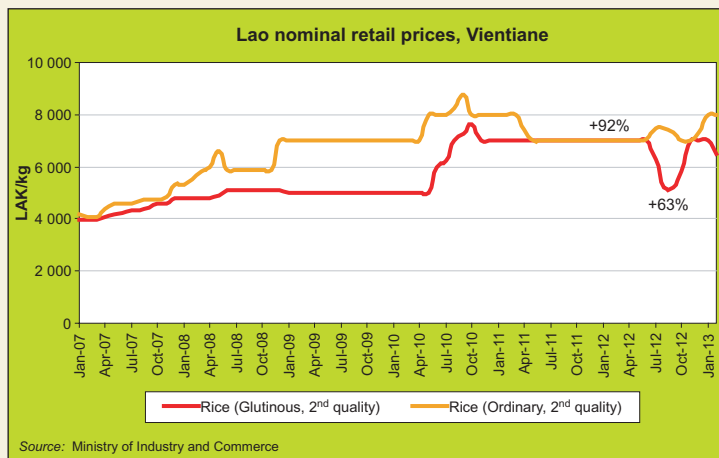
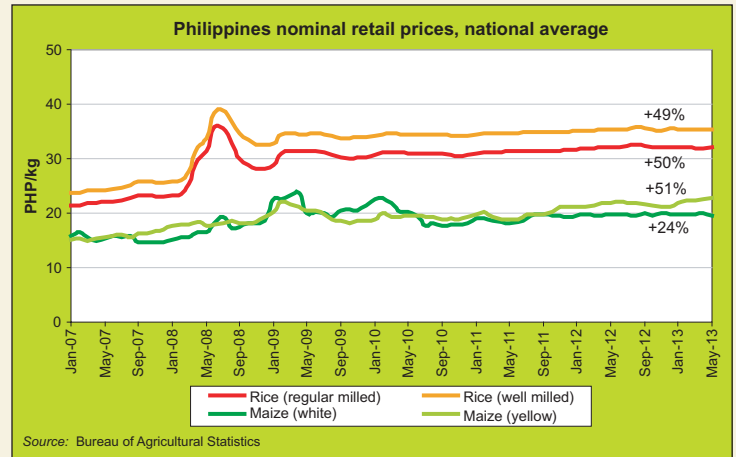
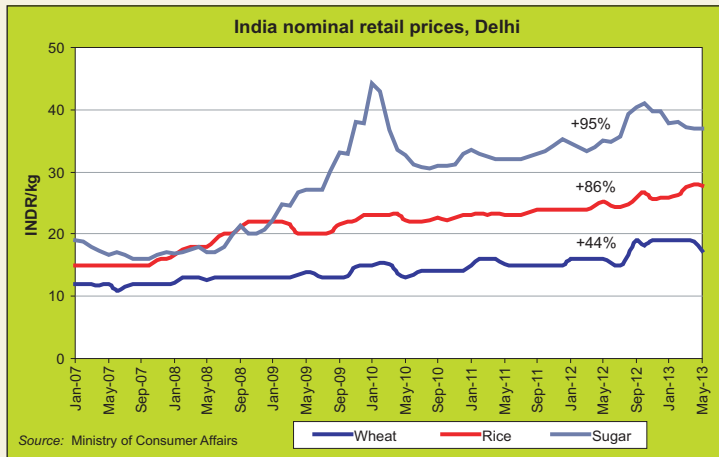


Figure 2: Trends in domestic prices for key commodities in selected countries (continued)



prices, meanwhile, rose by 7 percent. Wheat prices in **India** fell by as much as 9 percent, the second consecutive month of falling wheat prices, while rice prices rose in some areas but were steady on others. In **Sri Lanka** rice prices rose slightly at just 2 percent, supported by government procurement, but wheat flour prices weakened. Wheat flour prices were unchanged in **Bangladesh** as government procurement programmes kept rice prices stable despite a strong harvest.

Prices for rice and wheat in **China** remained stable with the help of larger imports, although they were higher than one year ago. China twice raised its rice support prices, helping to keep prices relatively high. Strong exports helped push wholesale rice prices higher in **Cambodia** despite a good harvest. Rice prices in **Indonesia** were stable after several months of declines, although they were still higher than one year ago. In **Myanmar** rice prices remained at an all time peak, in spite of good production, because of growing exports and a fall in the value of the local currency in relation to the dollar. Rice prices in the **Philippines** were stable and at about the same level as one year earlier with procurement by the National Food Authority helping to keep price levels steady. **Thailand** saw its rice prices fall slightly for the fourth straight month on abundant supplies related to the government's rice pledging scheme. Rice prices were unchanged in **Viet Nam** for the third consecutive month with government buying programmes blunting downward price pressures from a good harvest.

Farmers planting rice again near Fukushima

For the first time since March 2011, when a devastating earthquake and tsunami triggered one of the worst nuclear accidents in history, farmers in the Tamura district of **Japan's** Fukushima prefecture have begun planting rice for eventual sale to consumers, Jiji news agency reported. The area had been previously designated a "no-go zone" by the government because of the high levels of radioactive fallout from the damaged nuclear power plant.

Three farms in the district about 15 kilometers from the stricken plant began replanting late last month. The government lifted the ban on entering the area in April 2012, but people are still not permitted to stay there over night. The area under cultivation totals just six hectares. Farmers have been using fertilizer that contains potassium to help reduce the amount of cesium absorbed by the plants. The government said all the rice will be tested for radioactivity before being approved for sale. Researches in Japan are still studying the accident's effect upon the area's soil, plants and animals, but little is known at this point about its implications for agriculture.

Prior to the nuclear accident, Fukushima was known for its high quality agricultural produce and fisheries, particularly its rice, fruits and vegetables. The prefecture had the fourth-largest area of land under cultivation. Fukushima is among the leading producers of such fruits as peaches, apples and pears and such vegetables as tomatoes and cucumbers, as well as tobacco and raw silk.

The farmers have been lobbying government officials to allow them to remain in their homes overnight so they can better tend to their fields. They say that rice farming requires constant water management and that it is difficult to raise the crop when they must commute back and forth to their farms every day.

Can China's soil problems help Thailand's rice programme?

Consumers in China are increasingly turning to imported rice from Thailand and higher-quality rice from the north of their own country following reports that rice from southern provinces has been tainted with cadmium and other toxic heavy metals that have seeped into the soil and water from industrial plants, according to Bloomberg news service.

Since reports surfaced in May about the contaminants, 70 percent of mills in Hunan province have ceased operations and sales of rice from Hunan, Guangdong and other areas in the south have drastically fallen off. Wang Shutong, a commodities analyst with Sublime

China Information Co., told Bloomberg that China's water and soil conditions are "frightening," and that "the immediate reaction of consumers is to buy rice from places relatively free of pollution, and that points to imports and the country's far-north."

China sources most of its rice imports from Thailand, **Viet Nam** and **Pakistan** with Thai rice occupying the higher-quality market niche. Thai rice can command prices as much as nine times higher than domestic Chinese rice. However, imports of Thai rice have been declining. China imported 175 351 tonnes of rice from Thailand last year, down from 325 620 tonnes in 2011. Imports of less expensive rice from Viet Nam, meanwhile, were on the rise.

Unless China relaxes its strict import quotas, Thailand will not be able to take advantage of the increased demand. Larger purchases of Thai rice by China would be a boon to the Thai government's troubled rice programme. In a bid to raise incomes for farmers, the Thai government began paying farmers as much as 40 percent above market prices for their paddy in late 2011. The result is that Thai rice has become less competitive on world markets and exports have dropped. In early June, Moody's Investors Service said losses from the programme were a credit negative for the country's sovereign debt rating, and the meant it was unlikely the Thai government could achieve its goal of a balanced budget by 2017. The agency issued its statement after a leaked Finance Ministry report said losses from the programme were in the range of US\$7-9 billion, higher than earlier government estimates.

Invest remittances in agriculture: World Bank and IFAD

If even a small fraction of remittances, the money migrants send home to their families, was invested in agriculture it would have a dramatic effect on growth and poverty reduction, according to a recent report by the International Fund for Agricultural Development and the World Bank.

Migrants from the Asia-Pacific region accounted for the majority of remittances in 2012, sending an estimated US\$260 billion back to their families. But high fees and a lack of financial services in rural areas lessened the impact of the funds on alleviating poverty. "If only a small fraction were used to invest in agro-industry, it could conceivably have a bigger impact on growth and poverty reduction in Asian countries than all of the aid put together," said Kevin Cleaver, associate vice-president of IFAD at a press conference in Bangkok.

Just 5 percent of the remittance flow, or about US\$13 billion, would be more than all of the official development assistance for agriculture in 2012, which was US\$8.5 billion, Cleaver said. The average fee for sending money home for an Asian migrant is 8.35 percent of the value of the remittance. Those fees totalled over US\$16 billion last year. Lowering fees would put more money in the pockets of the rural poor, increasing food security for families across Asia.

Indonesia grappling with inflation and food insecurity

Inflation in Indonesia could reach as high as 7.7 percent this year after the government raises fuel prices as planned, the country's central bank governor told reporters. The rate could fall back to 7.2 percent, however, if the government can control volatile food prices and transportation costs, Bank of Indonesia Gov. Agus Martowardojo said, according to Kyodo.

Rising fuel prices sparked street demonstrations in Jakarta earlier this year, and are a sensitive issue, having played a role in the social unrest that led to the downfall of President Suharto in 1998. An increase in fuel prices invariably leads to higher food prices because of the role of fuel in the production and transportation of food. Indonesia has been limiting imports of many foodstuffs as part of its goal of becoming self sufficient in food production.

However, a new report by British hunger relief agency Oxfam and the Institute of Development Studies said that five years of rising food prices have put a strain on Indonesian workers and their families. The report, entitled *Squeezed*, examined the effect of higher food prices on communities in ten countries, including **Bangladesh, Indonesia, Pakistan and Viet Nam**. "In February 2012, increased food and fuel prices were putting additional pressure on Indonesian workers' already weakened wages," said the report. "The implications of high and volatile food prices go way beyond the dinner table and are driving social change that must be better understood and addressed if communities are going to survive intact," Oxfam's policy research adviser, Richard King, said at a press conference in London.

Rice and wheat export from India forecast to fall

Total rice exports from India could fall by as much as 32 percent because of a global rice glut and fierce competition on price from **Viet Nam, Myanmar** and other countries, according to a senior economist with the International Rice Research Institute (IRRI) in the **Philippines**. India was the world's leading rice exporter in 2012, toppling **Thailand** from a three-decades long reign as the number one exporter. Reports from Bloomberg news agency also forecast a fall in wheat exports because farmers are hoarding the grain to take advantage of rising domestic prices, and international buyers are opting for more affordable wheat from **Russia** and the **Ukraine**. Citing analysts from agro-trading companies, Bloomberg reported that India might only export 1.5 million tonnes of wheat in the year that began in April, compared to 5.3 million tonnes last year.

Total rice exports, including Basmati rice, could fall to as low as 7 million tonnes this year after reaching 10.25 million tonnes last year, said Samarendu Mohanty, a senior economist with IRRI. "There's a lot of surplus globally and this is a buyer's market at present and this will continue

until the end of this year," Mohanty told Bloomberg. Rice from Viet Nam, the second-largest exporter last year, and Myanmar are selling for lower prices than rice from India. According to FAO's Rice Price Update, from January through May the average price of a tonne of 25 percent broken rice from India was US\$414, a 7.3 percent increase over the same period the previous year, compared to US\$365 a ton for 25 percent broken rice from Viet Nam, a 7.1 percent drop from the same period last year. Mohanty predicted that competition for markets in the Middle East and Africa would also come from Thailand, which he said would be forced to sell some of its stocks at a loss. Thailand's 25 percent broken rice had been selling for an average of US\$570 a tonne during the first five months of 2013.

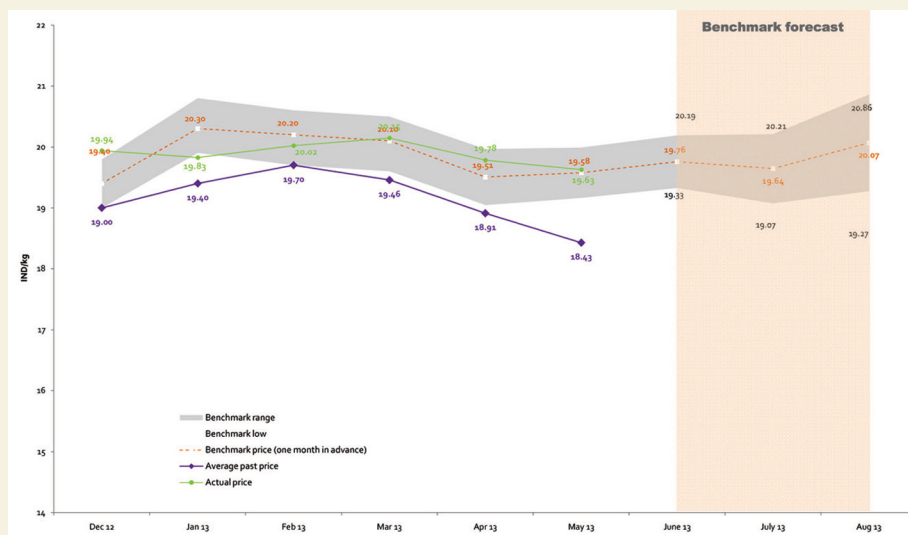
Cambodia rice exports see dramatic growth

Cambodia's milled rice exports have increased by 43 percent during the first four months of 2013, compared with the same period last year, according to FAO's Rice Market Monitor. FAO has predicted that Cambodia's rice harvest could total 9.5 million tonnes, surpassing the 9.2 million tonnes reaped in 2012, should normal weather conditions prevail.

Cambodia exported 118 500 tonnes of milled rice from January through April. Thon Virak, director of state-owned rice exporter Green Trade, told the *Cambodia Daily* that much of the increased exports were destined for the **European Union**. "Right now, we have a market. They know our milled rice is good quality. We need to produce more rice," he said. Thai agro-companies were also investing in Cambodia's rice industry, he added, to take advantage of the competitive pricing of Cambodia's rice and its preferential access to the EU market. Most of the 200 000 tonnes of rice Cambodia exported last year was unmilled paddy sent to **Thailand**. Prime Minister Hun Sen has set a target of exporting 1 million tonnes of rice a year by 2015.

In focus: Price Movements for India (Wheat wholesale prices, National average*)

Wholesale prices for wheat in India were observed at INR (Indian Rupees) 19.63 per kilo in May 2013 – representing a decrease of 0.8 percent from the previous month and a 21.2 percent increase from the previous year. From February to May 2013, actual prices have remained inside the benchmark band with an average 1.8 percent difference from the benchmark price (one month in advance). While actual retail prices for rice have been in line with the previous benchmark forecasts, they have also remained consistently above the average past price** since September 2012 by a margin of 0.32 to 1.20 INR per kilo.



Moving forward, the benchmark future price for June 2013 is forecast at INR 19.76 per kilo (within a benchmark band of INR 19.33 – 20.19 per kilo) indicating a slight increase of 0.7 percent from May 2013 or 24.1 percent from the previous year. If prices follow normal seasonal patterns during the next three months, the model forecasts that retail prices for rice in India are likely to increase slightly within a benchmark band of INR 19.27-20.86 per kilo.

The Food Corporation of India has announced as of June 1st that wheat stocks in the central pool have reached a high of 443.89 Lakh Tonnes (1 Lakh tonne = 100,000 metric tonnes) – representing an increase of 3.9 percent from the previous month and a decrease of 11.5 percent from a historical high in the previous year**. The rise in wheat stocks for June 2013 are seen to be consistent with seasonal trends of previous years and is in line with lowered production estimates for MY2013/14 based on harvest reports of lower yields***. Based on these lowered production estimates, the Food Corporation of India has likewise scaled back its procurement targets from 44 to 33 million tonnes in May 2013 and it is likely that the revision may place some pressure on wheat prices in the domestic market – depending on the level of demand from private players and key export markets.

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

** Food Corporation of India: Central Stocks <http://fciweb.nic.in/upload/Stock/6.pdf>

*** USDA GAIN: India Grain and Feed Update – May 2013

Technical notes

The ESA 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 band. 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/>.

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