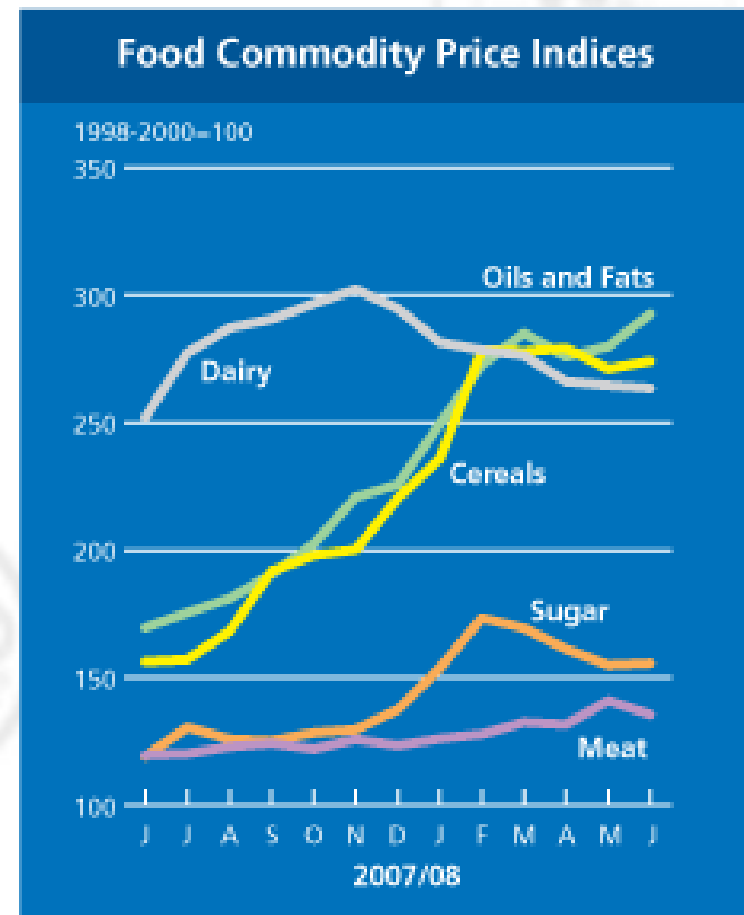
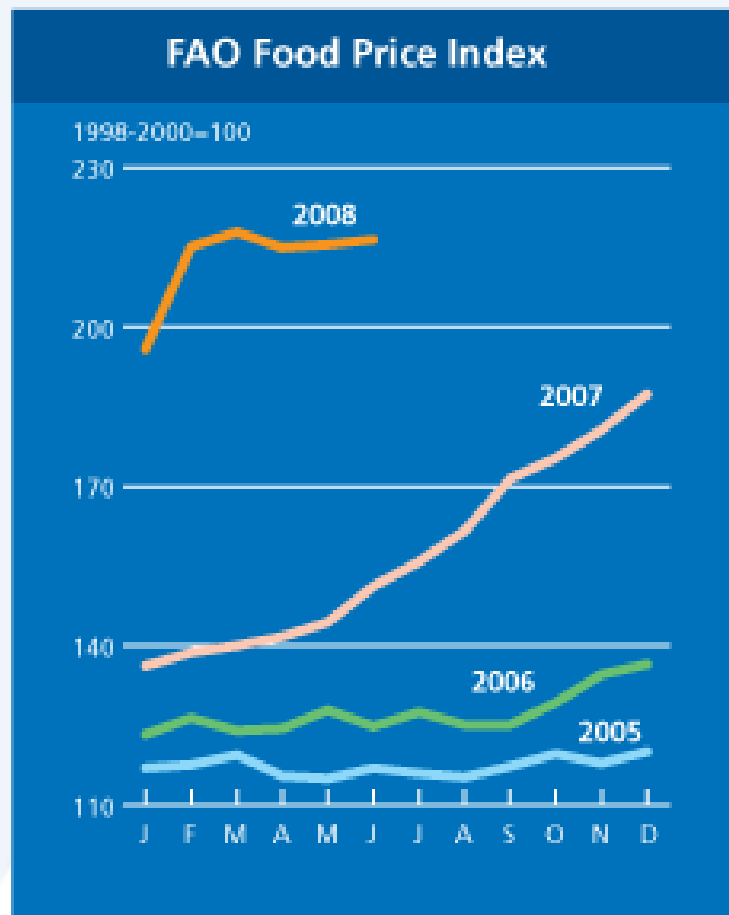


## *Overview of soaring food prices and country policy responses*



**Nancy Morgan**  
**Livestock Policy Officer**  
**FAO/Regional Office, Bangkok**

The price escalator: food commodity prices fall from their peaks....

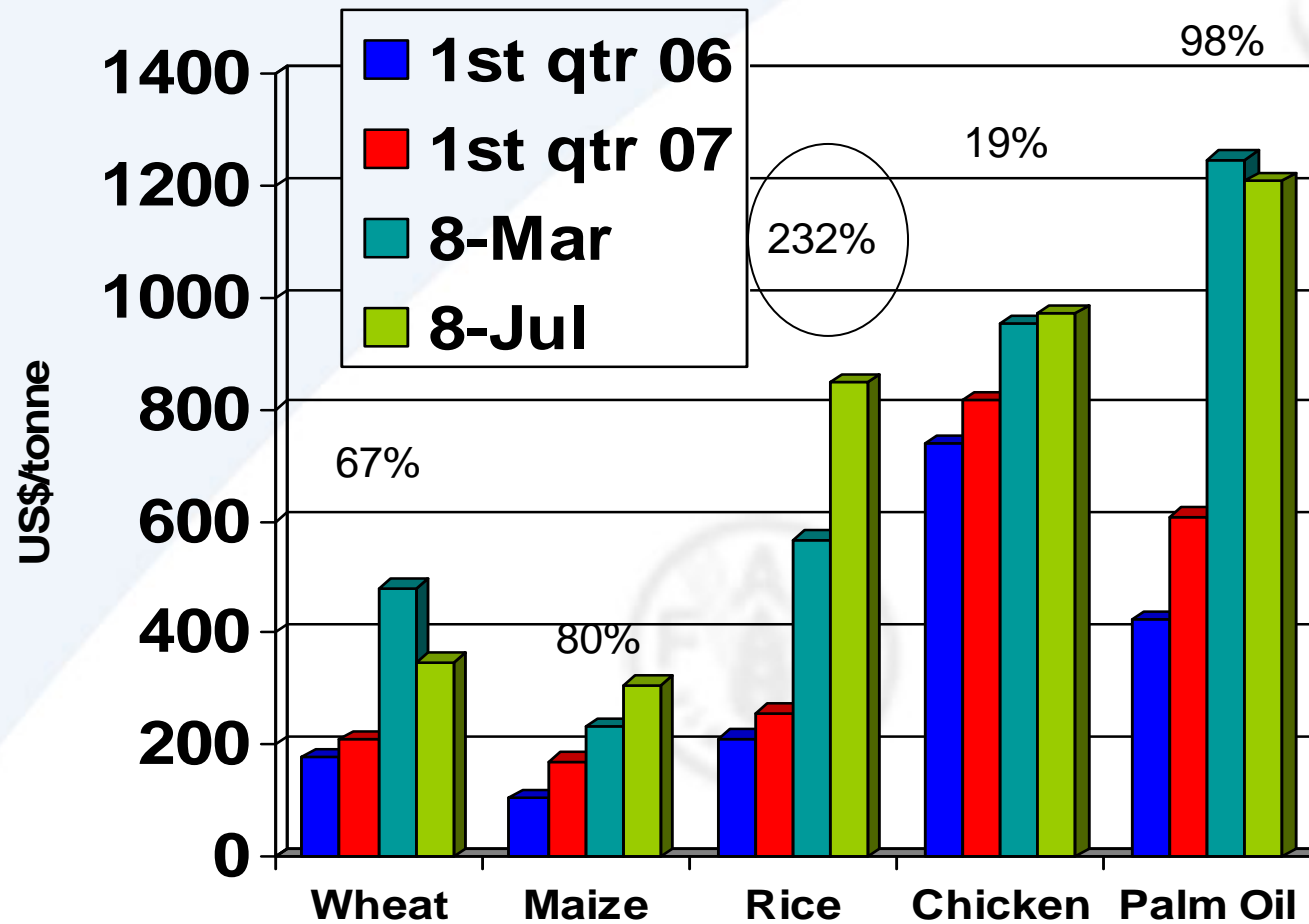


# Factors underpinning rising prices....

- High oil prices and energy costs... with biofuel policies strengthening linkages between food and energy.
- Since 2000, cereal demand has been outpacing demand resulting in lower stocks and increased price volatility.
- Recent droughts have aggravated recent price movements.
- Possible influence of speculators....

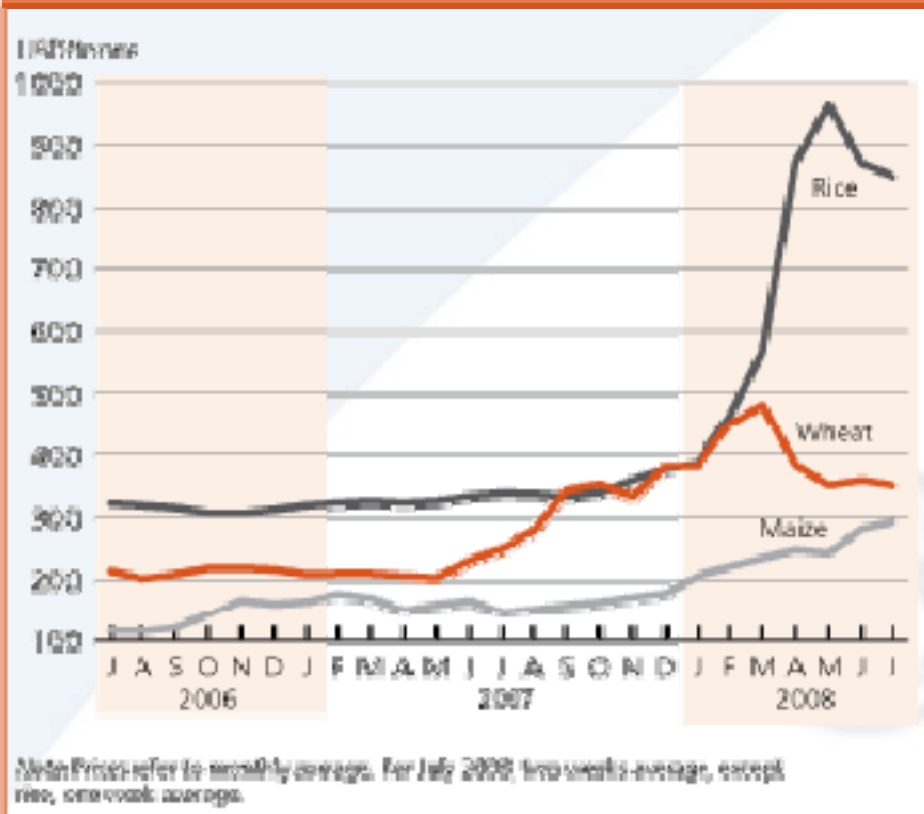
# The magnitude of the price changes

Since early 2007 prices rose.....



# Recent easing of cereal prices....

Selected international cereal prices



.....except maize which is rising because of flooding in the US corn belt

But maize prices shifted down nearly 25% in TWO Weeks!

Markets characterized by incredible price volatility

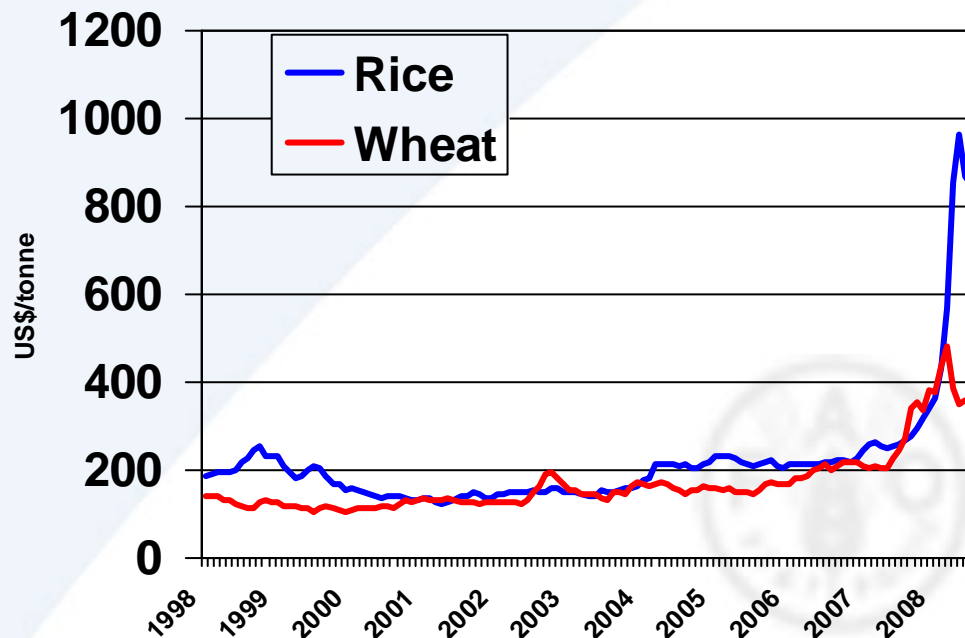


# Let's take a look at rice in Asia

RICE	1980-2	1990-2	2005-7
<b>Share of world: %</b>			
<i>Output</i>	91	92	91
<i>Imports</i>	49	41	46
<i>Exports</i>	65	71	81
<b>Trade as share of Consumption (global)</b>	<b>4%</b>	<b>3%</b>	<b>7%</b>
<b>Import volumes (share of consumption) in 2007</b>			
<b>Asia</b>	7.9mmt (4%)	4.1mmt (3%)	14mmt (4%)
<b>Philippines</b>	.1 (2%)	.8 (10%)	1.9 (17%)
<b>Indonesia</b>	2 (11%)	.05 (5%)	1.5 (6%)
<b>Bangladesh</b>	.4 (1%)	.4 (1%)	.8 (3%)

# A clear disconnect between wheat and rice price movements: what is going on?

## Wheat and rice prices are linked



What happens to rice prices depends on the outlook for wheat.

Wheat output to rise to 647 mmt (up 7%) in 2008.

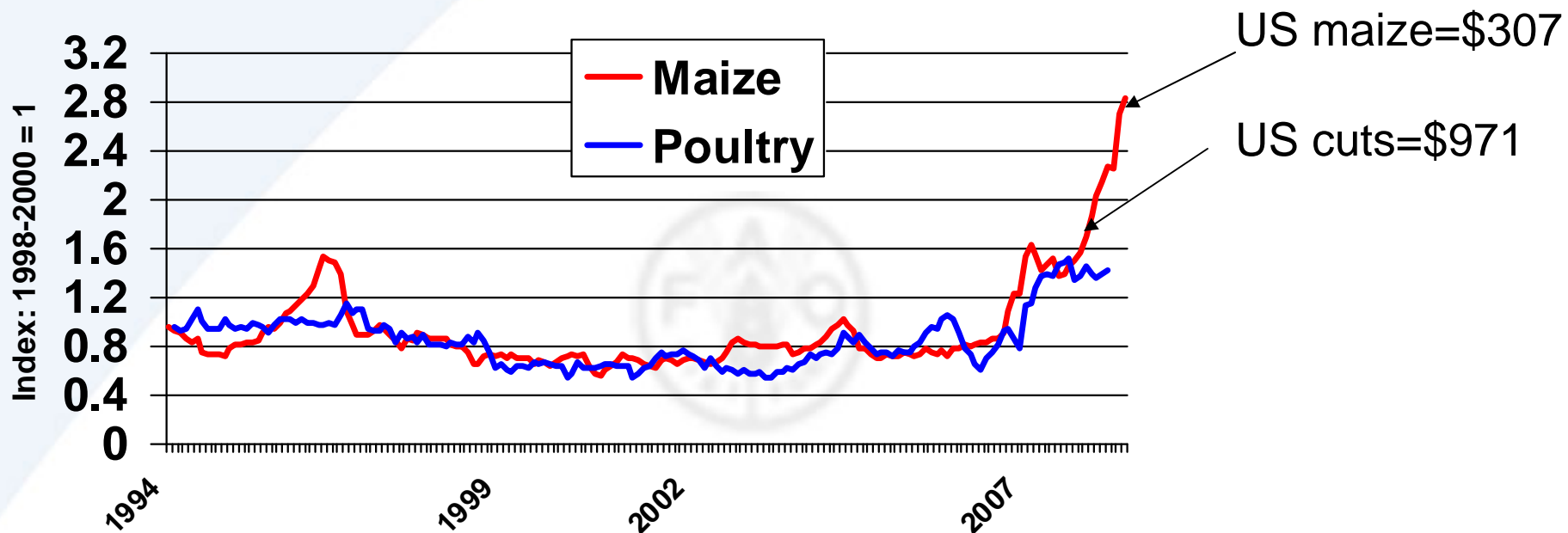
Influence of policies by major traders leads to the question.....

An example of panic buying in a thin market

Is this a food crisis or price crisis?

## Anticipating price movements based on knowing relative relationships: The case of maize and poultry prices

Poultry prices will need to rise if maize price continue increasing





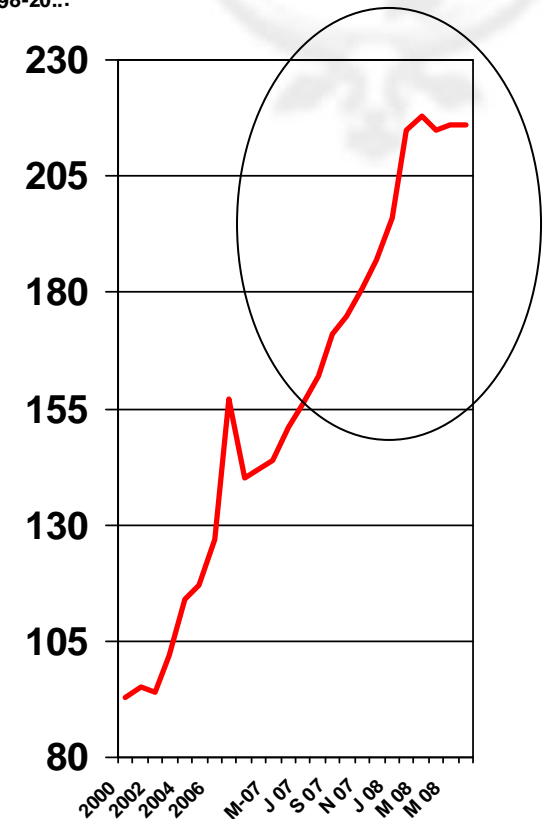
# The linkages are clearer between commodity prices increases and high energy prices

Index for light crude oil



With additional pressure put on feedstock prices because of biofuel policies in selected countries

FAO Food Price Index  
1998-20...

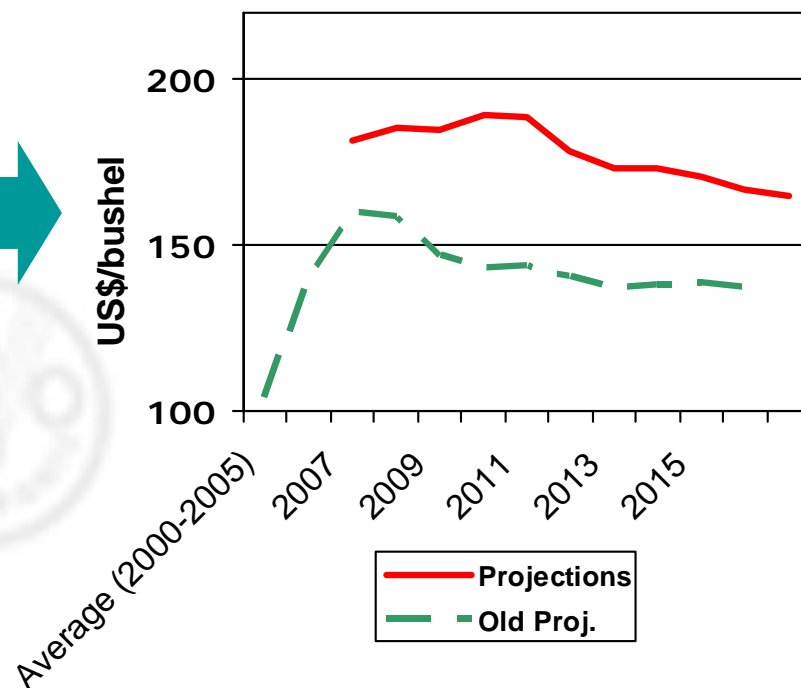
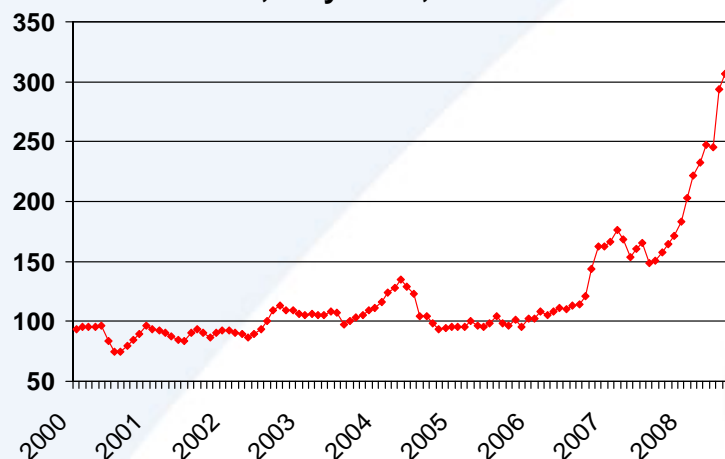


## The issue of fossil and biofuels: linkages affect commodity prices

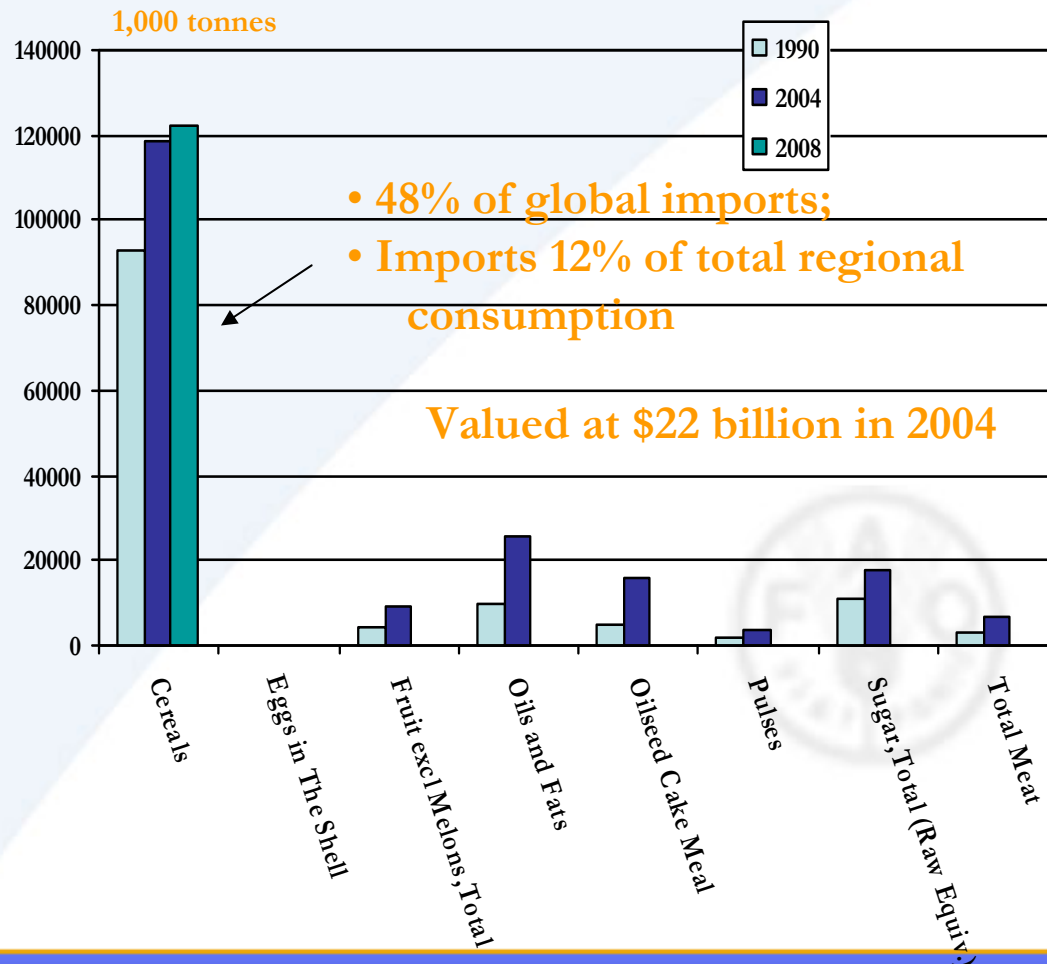
High oil prices, increased demand for maize for ethanol production pushes up feed prices

Maize prices expected up 20% over previous estimates, to \$164/tonne by 2017

US, #2 yellow, Gulf



## Impact of market shocks depend on trade situation: Asian agricultural imports double since 1990



- Asian agricultural imports exceeded \$165 billion in 2005, more than double 1990's level.

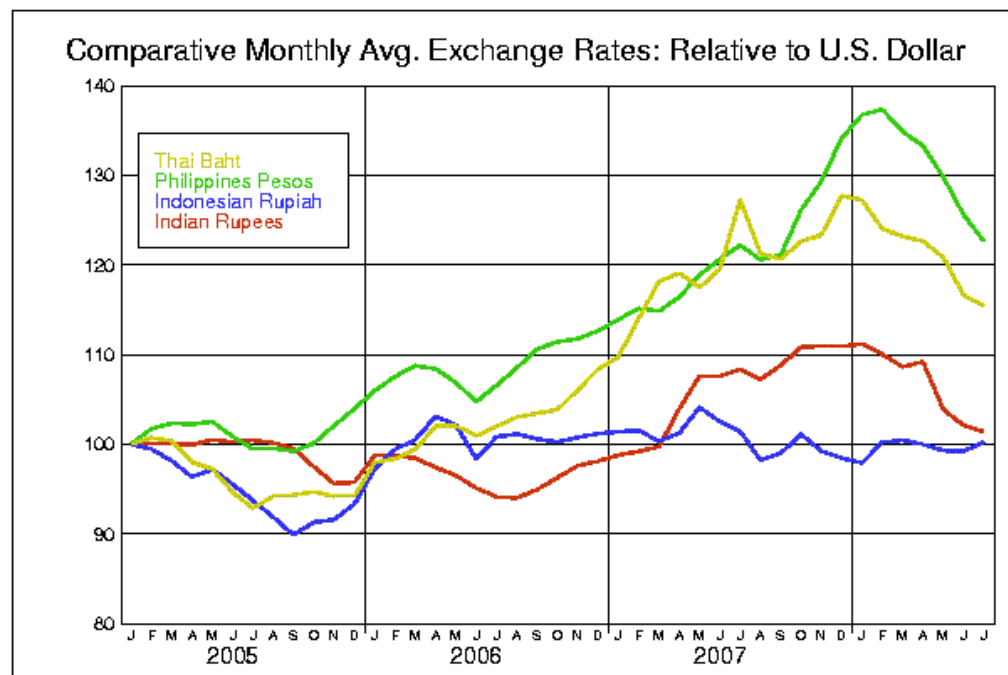
- Cereals dominate imports but growth has also been driven by increased imports of oilcrops, fruits, vegetables, and meats.

## Vulnerability to higher cereal prices linked to dependence on international trade

	Net Trade Position	Imports as share of consumption
	(average: 2005-2007)	
<b>Bangladesh</b>	(3,282)	10%
<b>China</b>	2,530	1%
<b>India</b>	1,471	2%
<b>Indonesia</b>	(6,873)	13%
<b>Korea, Rep</b>	(12,744)	72%
<b>Myanmar</b>	397	0%
<b>Pac. Islands</b>	(16)	100%
<b>Pakistan</b>	3,342	2%
<b>Philippines</b>	(4,921)	24%
<b>Thailand</b>	7,474	8%
<b>Vietnam</b>	3,490	5%
<b>Asia</b>	(51,011)	9%

# A reminder: domestic prices don't necessarily rise as much as international prices

## The exchange rate factor



The Philippine peso rose by 33% since early 2006, making imports cheaper; recent devaluation...

In an exporting country, such as Thailand, the appreciation reduces exporters earnings.

In countries like Indonesia and Bangladesh with stable currencies, the impacts on local prices are highest



## Also market impact linked to country policy responses

**Bans on rice exports:** India, Vietnam, Cambodia, China

**Minimal Export Prices:** Vietnam

**Increasing minimum purchase price** (wheat and rice):  
China/India/**Thailand**

**Increase agricultural input subsidies:** India/China

**Reducing import tariffs:** Pakistan for wheat, Philippines considering for rice

**Selling rice stocks** at subsidized prices:

**Subsidizing rice prices:** Bangladesh

**Releasing public stocks:** Indonesia



Some policy interventions more market distorting than others



## Higher cost of imports and potential food security concerns

FAO May 2008 estimates (billion US\$)

	World		Developing		LIFDC	
YEAR	2007	2008	2007	2008	2007	2008
TOTAL FOOD	820 466	1 035 382	284 995	356 040	121 026	168 922
Cereals	274 463	382 086	126 065	153 637	42 261	62 988
Vegetable Oils	116 873	186 167	64 462	99 538	38 836	61 293
Dairy	83 805	85 041	24 695	24 660	9 322	9 392
Meat	90 466	99 544	17 422	18 751	8 227	9 731
Sugar	23 591	29 303	12 539	15 106	5 820	7 078

25 in Asia

24%  
increase

Cereal imports by Asian LIFDC to increase from US\$13 to US\$19 billion in 2007/2008

# Rice and food security: Global => Household Using Thailand as an example

## Assume that:

- 30-40% of income of households below the poverty line is spent on rice (IRRI)
  - ⇒ In Thailand, nearly 10% of population, or 6 million people earn less than 1,386 baht/month (NESDB).
- A 25% percent in the price of rice lead to a 7-10% decline in real incomes (IRRI)
  - ⇒ In Thailand, the retail price of rice increased from 1,355 baht/100 kg to 1,847 (Jan-March) = 36%. April 23<sup>rd</sup>: 2,700 baht/kg

This implies that for those households, especially the urban poor (6% of the Central Province-disabled, students, elderly, migrants, refugees), real incomes will decline 10-40% (depending on magnitude of price increases).

## WHAT ABOUT PRODUCER'S RESPONSIVENESS TO HIGHER PRICES?

# Policies to support Net Food Buyers

(urban residents, smallfarmers, fisherfolk, foresters, pastoralists and agricultural laboureres)

- Remove VAT, road blocks/taxes
- Tax reduction on fuel for transport
- Increase imports (compensaotry finance arrangements by World Bank, IMF?)
- Food aid in kind
- Requisition of private stocks
- Releasing stocks
- Price controls
- Cash transfers or food vouchers
- Food distribution in kind
- Food subsidies
- **RAISING THE MINIMUM WAGE RATE!!!!!!**

## Responding to High Commodity Prices; Potential Impact of Policy Interventions

Types of Policies	Short Term								Long Term	
	Impact on:								Production	Food security
	Farm Income	Production	Government costs	Consumer prices	Urban food security	Rural food security	International markets- price volatility			
<b>Production</b>										
• Input subsidies	↑	↑	↑	?	?	↑	?		↑	↑
• Allow producer prices to rise (supply=demand)	↑	↑	NI	↑	↓	↑	↓		↑	↑
• Increase ceiling prices/administered prices for producers	↑	↑	↑	↑	↓	↑	NI		↑	↑
• administered prices (keep prices low)	↓	↓	↓	↓	↑	↓	NI		↓	↓
<b>Marketing and Trade</b>										
• Limit retail price increases	↓	↓	NI	↓	↑	↓	NI		↓	↓
• Release public stocks	↓	↓	↑	↓	↑	↓	NI		↓	↓
• Lower import tariffs for the commodity —	↓	↓	↓	↓	↑	↓	↓		↓	↓
• Lower import tariffs for input —	↑	↑	↓	NI	↑	↑	↓		↑	↑
• Export bans/increase export taxes	↓	↓	↓	↓	↑	↓	↑		↓	↓
<b>Consumption</b>										
• Vouchers to vulnerable populations	NI	NI	↑	NI	↑	↑	NI		NI	↑
• Consumer/food subsidies	↓	↓	↑	↓	↑	↓	NI		↓	?
<b>Other</b>										
• Reduce VAT	↑	↑	↓	↑	↑	↑	N.I.		?	?

↑	Increase
↓	Decrease
N.I.	No impact
?	Not clear

**Recognizing the differential impact of policies on different stakeholders at different times**

## The example of dairy price movements....

### Changes in dairy prices

	Units	Currency	Oct-06	Dec-07	Change
<b>World prices SMP</b>	<b>tonnes</b>	<b>US \$</b>	<b>2263</b>	<b>4400</b>	<b>94%</b>
<b>Philippines:</b>					
SMP			2300	6200	170%
<b>Sri Lanka</b>					
WMP			184	275	49%
Fluid milk			22	27.5	25%
<b>Vietnam</b>					
WMP	tonnes	US \$	2800	4400	57%
Fluid milk	tonnes	US \$	300	400	33%
<b>Pakistan</b>	liter	US \$	0.3	0.38	27%
<b>Nepal</b>					
WMP	kg	Local	185	225	22%
Fluid milk	liter	Local	24	28	17%
<b>Mongolia</b>					
WMP	kg	Local	3000	5000	67%
Fluid milk	liter	Local	450	700	56%

Domestic policies = price setting discourages local dairy development

# Comprehensive Framework for Action

(High-Level Task Force on the Global Food Crisis)

- \$US 1.2 billion –WFP to support assistance in 62 countries
- Reserve of US\$100 million for food related emergence response
- Nutrition assessment/interventions UNICEF; US\$50 million
- FAO: procurement and distribution of seeds, fertilizers and other inputs.
- IFAD: \$200 million provides smallholder farmers access to inputs/services
- US \$1.2 billion of rapid financing for expansion of safety nets, input distribution, financing of imports through World Bank Food Crisis Responses Programme
- Additional balance of payments support under IMF's existing Poverty Reduction and Growth Facilities (PRGF), around \$180 million.



# Activities undertaken by FAO

## Immediate emergency interventions in 48 countries:

- Value of US\$ 21million
- Provide farmers with agricultural inputs to ensure success of next planting season
- Objectives: increase production and demonstrate that improved inputs increase yields

**11 countries in Asia-Pacific: Afghanistan, Bangladesh, Bhutan, Cambodia, DPR Korea, Mongolia, Nepal, Pakistan, Philippines, Sri Lanka, Timor-Leste**

## At the end of the day.....

National Governments are the center of the response because the specific intervention has to be tailored for the context.

### Priorities:

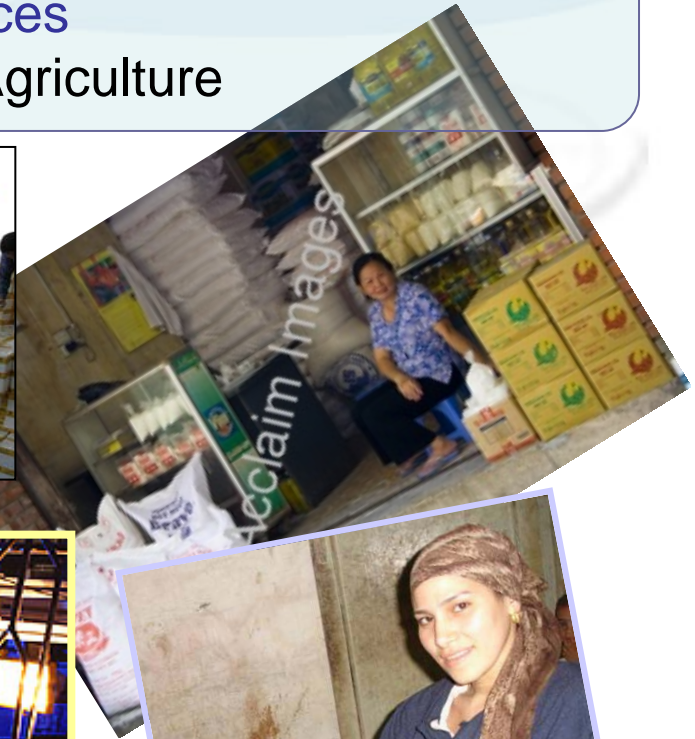
- Response to needs for food assistance and broader social protection
- Distribution inputs/other ag. support=sustainable interventions in the medium term?
- Influencing policies=nothing will work without an enabling environment.

**FAORAP: Our challenge is to identify sustainable initiatives which draw on regional lessons but are tailored to national/sub-national contexts**

# FAO Regional Office for Asia and the Pacific

Revitalizing the Asian Agricultural Sector through Benefiting from  
Higher Commodity Prices

=> Wealth creation through Agriculture

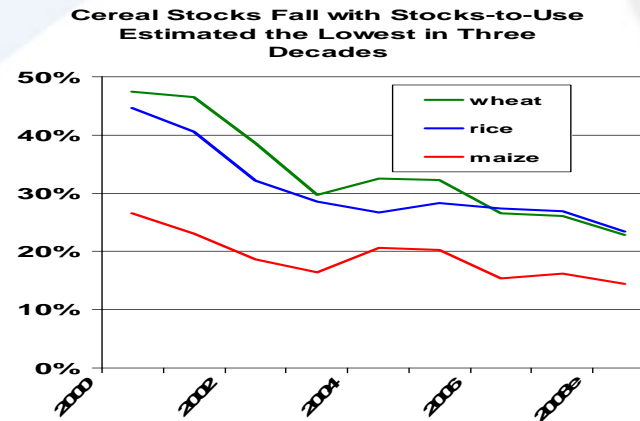


Thank You !!!



## Strong commodity demand leads to lower stocks

- **Cereal production lower than demand since 2000**
- **Lower stock availabilities, stocks-use declines especially for rice and wheat.**
- **Policies have changed over the past in major exporting countries and it's expensive to carry stocks**



**Who is holding cereal stocks?**

