

# WHAT TRADE POLICY FRAMEWORK TO ADDRESS FOOD INSECURITY?

Jonathan Hepburn and Constantine Bartel ([cbartel@bluewin.ch](mailto:cbartel@bluewin.ch))

International Centre for Trade and Sustainable Development (ICTSD), Geneva

## Abstract

The recent dramatic increases in food prices for a number of key commodities have sparked widespread concern about the relationship between agricultural trade and food security, and the extent to which existing trade policies and rules are adequate. The upsurge in recent interest in the issue has led to disparate initiatives in various areas to address the problem, including the establishment by the UN Secretary-General of a High-Level Task Force on the Global Food Crisis. A rush to implement a number of trade policy measures could end up aggravating and, in some cases, perpetuate food shortages and price hikes. This piece attempts to focus attention on some of the underlying structural causes of the problem, and promote effective action in both the short and long term.

## 1. Background

Media attention to the 'food crisis' – sharply increasing prices since 2006 – has grown considerably in recent months and years. While the price increases do indeed represent a 'crisis' for many poor urban consumers in the developing world, less attention has been given to the structural causes of the more persistent food crisis that has faced rural developing country producers and their communities for three decades, as well as long-standing urban hunger and malnutrition over this period.

Recent price rises can be attributed to a variety of different causes, including the long-term trend of increased demand for food; the declining agricultural productivity and the global financial volatility. While there is still no consensus on the relative importance of these causes, many experts appear to agree on the broad set of factors that are important. Amongst these, it is helpful to distinguish between short and long term trends, temporary factors and those relating to market fundamentals, and to supply and demand side factors.

The long-term decline in agricultural commodity prices since the 1960s has, in the last two years, seemingly been reversed. At this stage it is impossible to know for certain whether this is a temporary price spike, such as that associated with the 1973/74 oil crisis, or a more

enduring paradigm shift. Traditionally, price spikes for agricultural products have tended to be short-lived, while price depressions have been more enduring. However, the increasingly close relationship between agricultural prices and oil prices raises the possibility that the current price rises are part of a longer-term phenomenon.

Oil price rises affect the cost of inputs such as fertiliser, as well as transportation costs (such as for sea and road transport), and other costs related to processing and packaging which in turn affects the final prices of value added products.

The role of biofuels in the recent price increases remains particularly controversial. Some analysts suggest that, as farmers allocate a growing share of production of certain crops (particularly maize, oilseeds and sugar) for biofuels, reduced overall supply for food exerts an upward pressure on prices. Indeed, almost 30 percent of the US corn harvest is now going to ethanol production. However, as US corn exports remain significant in overall terms, some contest the significance of this trend.

## 2. The benefits and drawbacks of biofuels

The production of biofuels derived mainly from agricultural crops may have a number of benefits: it may reduce the total consumption of fuel imports and increases energy security; promotes job creation, diversification and rural development; and reduces greenhouse gas emissions, thus helping combat global warming. The greatest potential for the production of biofuels can be found in the South; whereas developed countries, in meeting their Kyoto commitments, potentially provide the greatest markets.

Biodiesel is the logical contender for best sustainable transport fuel - the limitation being the amount of land required to grow the energy crops. However, some fear that biofuels could become both a humanitarian and environmental disaster. According to George Monbiot, those who worry about the scale and intensity of today's agriculture should consider what farming would look like when it is run by the oil industry. Moreover, if we try to develop a market for rapeseed biodiesel in Europe, it will

immediately develop into a market for palm oil and soya oil. Oilpalm can produce four times as much biodiesel per hectare as rape, and it is grown in places where labour is cheap. Planting oil palm is already one of the world's major causes of tropical forest destruction. Soya has a lower oil yield than rape. A new market for it will stimulate an industry that has already destroyed most of Brazil's cerrado (one of the world's most biodiverse environments) and much of its rainforest.

The extent to which biofuels are responsible for the recent price rises was perhaps the most hotly-contested issue at the 3-5 June FAO high-level conference on world food security in Rome. Experts, as well as governments, differ greatly on this issue. The World Bank has estimated that as much as 65 percent of the recent price rises are due to expansion of biofuel production, whereas the IMF estimates that the figure is closer to 30 percent. While biofuels are a fast-growing sector, they still represent only a very small proportion of total energy use.

Weather-related production shortfalls, such as failed harvests in Canada, Australia and elsewhere, have also contributed to the recent price increases. It is still unclear whether this is a short-term or long-term problem. While weather-related risk has always been an intrinsic factor in farming, human-induced climate change may have contributed to recent extreme weather events, such as the Australian drought. Climate change may in the future also lead to increased vulnerability to such conditions, and to productivity decreases, although different global regions will be affected differently.

The fact that commodities are usually priced in US dollars, a currency which has suffered sharp depreciation recently, has also been considered a factor.

Demand-side changes may also be important. In particular, increased consumption, and changes in dietary patterns, in middle-income developing countries such as China and to a lesser extent India, may have contributed to the recent price increases. Growing demand for protein in particular has placed further pressure on animal feed crops such as maize and soy. However, the FAO has suggested that these changes in themselves are not responsible for the sudden price spike that began in 2006.

### **3. Responding to volatility of food prices**

Price volatility has increased dramatically: one contributory factor has been the declining government food

stocks, whilst another has been the speculation from private investors.

The new focus on the immediate food crisis associated with the recent price rises may in fact be an opportunity to draw attention to a number of the more deep-seated structural issues surrounding agricultural productivity in developing countries, the persistence of hunger and malnutrition, and their relationship with trade rules and trade policy. The role of developed country subsidies (as well as IMF and World Bank lending conditionality) in undermining productive capacity in developing countries, and encouraging an economically inefficient allocation of global resources, are clearly relevant in this respect. Although governments at the Rome conference recognised the problems of under-investment in agriculture and declining aid to the sector, the declaration sets out policy responses only in vague and rather general terms.

Debate continues over whether supply will be able to adjust to meet demand, or whether increased agricultural production of commodities like corn will – in the context of continued high oil prices – simply be absorbed by the expanding biofuel industry. Some experts point out that, even if all arable land were devoted to biofuel production, it will not meet the global energy demand. Furthermore, although only some products such as corn, sugar and oilseeds are directly linked to the biofuels market, there are increasingly close linkages between different products and between product categories.

### **4. Trade policy linkages**

Promoting food security in trade policy formulation and negotiations entails addressing issues related to availability, accessibility or affordability, and stability of food. This debate is even more critical to net food importing countries. The smaller a country is, the more open it is to trade in order to expand the variety of resources and food products available to it (FAO 2008). The trade policy linkages are therefore first and foremost related to exports and imports that determine the supply, accessibility and nutritional stability of food. Countries that grow food and may need to increase productivity by improving yields may depend on imported inputs to do so and therefore. There is need for policy-oriented research to define the specific situations facing small and vulnerable economies (SVEs), Landlocked countries and Least Developed Countries (LDCs) on not only how they might be affected by further trade liberalisation but also how they can improve their productivity

and competitiveness. The current realities of global trade and the declining dollar, and rising food prices has encouraged some countries to take short-term trade policy responses including controversial measures such as export taxes and restrictions, as well as consumer subsidies.

#### 4.1 Some observed short-term interventions

Since the intensification of the hikes in food prices, African policymakers have been considering ways to lower prices and make food affordable. The measures that several countries have undertaken so far range from food subsidies for consumers to incentives for farmers to increase production. For example Nigeria, Burkina Faso and Ethiopia, lowered prices by releasing emergency grain reserves onto the market. Senegal and Ethiopia dropped tariffs on food imports, or enacting food subsidies. Ethiopia banned the export of its cereals and added 10 percent surtax on luxury imports to fund wheat subsidies for the poor.

#### 4.2 Medium-term interventions

Those countries that focus to improve domestic productivity include Sierra Leone, Liberia and Ghana. For example, Uganda, Tanzania and Ghana will start growing high-yielding Rice that was developed by the Africa Rice Center in Benin and would release subsidized fertilizer in an effort to increase food production. Senegal's "grand agricultural offensive for food security", programme aims at making the country self-sufficient in grains within seven years by boosting rice production from 100,000 to 600,000 metric tons annually.

An appropriate trade policy response would need to incorporate a coherent approach to biofuel production, adaptation to climate change and mitigation, measures to ensure that price increases actually benefit the small farmers, and measures to enhance productivity and competitiveness in developing countries (potentially including, but not limited to, the existing 'aid for trade' mechanism under discussion at the WTO). Ongoing Doha Round negotiations, such as on new food aid disciplines, are also relevant.

### 5. Adaptation and trade policy

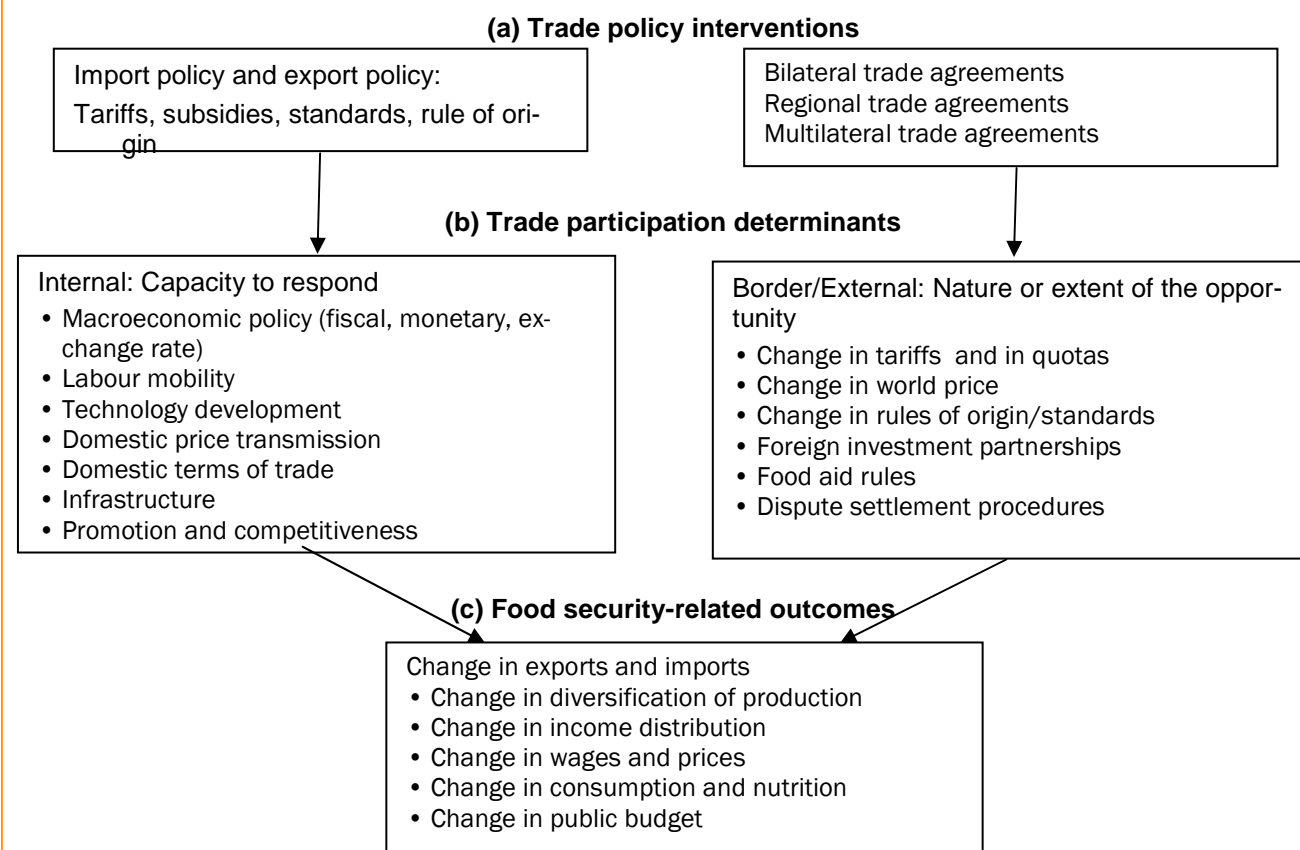
While the task ahead for governments and the development community is to enhance the adaptive capacity of the poor and poor countries, a number of areas in trade policy could contribute to addressing climate change and its impacts on agriculture. The trade policy areas that could be addressed include properly internalising into transportation of goods and service the costs greenhouse gas (GHG) emissions.

Institutional cooperation at the multilateral level between the United Nations Environment Programme (UNEP), the Climate Change Convention and the WTO can seek to address issues related to renewable energy and efficiency, and their connection to energy security. This could entail re-evaluating the WTO rules on trade defence measures, such as the rules on anti-dumping or subsidies to take into account social and environmental agreements. Environmental protection clauses in trade agreements could include the transfer of energy efficient and other environmentally friendly technologies to developing countries and put in place measures to combat deforestation caused by international trade.

#### **Case of Vietnam and Mozambique**

Vietnam initiated the agricultural reforms process with a gradual liberalisation of small-scale agriculture. Family business was encouraged in agriculture, forestry and fishery, while households were made the basic unit of production, and finally land tenure reform was implemented in the early 1990s. Restrictions on trade in major agricultural products were removed in the late 1990s, making direct export possible. At the same time, new cash crops such as coffee and cashew were effectively introduced. This made possible a broad-based increase in rural household incomes before wholesale market liberalisation and privatisation of the large state-owned sector was addressed in the context of Vietnam's process of accession to the WTO.

Mozambique has been able to increase production in agriculture, the main source of livelihood. However, the growth was a return to normal production levels after a long war. Important development potential exists for various cash crops (e.g. cotton and cashew) as well as for aquaculture and timber plantations, but the production is only barely competitive on the international markets except for sugar and tobacco with efficient private sector investment in productivity. Production of food crops for local and regional markets is also potentially an important source of rural income, but remains underdeveloped. Small-scale agriculture was practically neglected by the government even after the official reversal of the collectivisation policy in the mid-1980s.

**Figure 1. Trade and food security linkages : policy interventions, determinants and food-security outcomes**

Source: J. R. Deep Ford and Gregg Rawlins (2007) Trade policy, trade and food security in the Caribbean, FAO 2007

## Conclusion

There is a need to look closely at the theory and practice of trade measures such as export bans, price controls and subsidies and how they have impacted on the availability and affordability of food especially for the poorest populations in developing countries with a special emphasis on a number of Asian and African countries. In response to the latest price rise, a number of governments have implemented some of these trade policies. While these measures might help temporarily at the domestic level, it might not be true in the long run and may even push world prices up even higher.

## Authors:

**Jonathan Hepburn** is a Programme Officer, Agriculture, at the International Centre for Trade and Sustainable Development, Geneva,

**Constantine Bartel** is the Assistant Programmes Director, ICTSD.

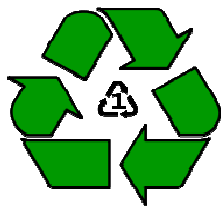
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Fuel for nought: George Monbiot biofuels = disaster, Guardian (UK), 23 Nov 2004



## PETREC ZAMBIA LIMITED

P.O Box 33964, Ebenezer Road, St. Bonaventure, Makeni, LUSAKA  
 Telephone: + 260 212 618457 Cell: +260 955 100285, +260 966 783895  
 Fax: +260 212 618457  
 E-mail: petrec@zambia.co.zm

### COMPANY STATUS AND BUSINESS PLAN

#### COMPANY STATUS

PETREC Zambia Limited was incorporated in September 2007 to provide two core services to the Zambian market:

1. Manufacturing of preforms for the packaging industry in Zambia.
2. Recycling of (polyethylene terephthalate) PET post-consumer bottles to produce granules.

The site location has already been identified and negotiations with the current land owners are in progress. Once the negotiations with the current land owners are concluded, the Environmental Impact Assessment will immediately be carried out. Environmental Council of Zambia has already been approached and its views have been incorporated in the determination of the impact the project will have on the community environmentally.

PETREC Zambia Limited is looking for partners locally and internationally that could provide support for advanced technology, raw materials and market the products.

#### BUSINESS PLAN

The increasing utilisation of plastics in industry and consumer application, combined with increased consumer awareness and environmental legal requirements surrounding solid waste recycling has led to an increased demand for recycled plastic products. PETREC Zambia Limited intends to capitalise on these opportunities in Zambia in the production of granules from recycle materials and preforms from recycled materials and virgin resins.

PETREC Zambia is setting up a PET recycling plant to be located in Lusaka, Zambia. Its initial production capacity is 4,000 tons of granules per year and 1,500 tons of preforms per year. The raw material will be the post-consumer PET bottles currently being generated throughout the country as well as virgin resins for preforms.

Market for the resultant products is locally available. Local manufacturers of plastic containers will form the biggest consumer of PETREC Zambia products. Sufficient potential buyers of the product have already been identified.

#### (a) Revenue and Capital

As indicated above, production capacity of the plant is 4,000 tons of granules and 1,500 tons of preforms per year. PETREC projects to generate a combined revenue of \$2.8Million per year with a net profit of over 22 percent.

A thorough market research by independent organizations has been done to ascertain the viability of the project. The total capital required to start operation is \$1.76Million, composed of site preparation, production equipment purchase and installation, mobile equipment and initial operating expenses components.

All the required production equipment has been identified and, the trip to visit the equipment suppliers has been organized for September 2008..

#### (b) Financing partners

As stated above, PETREC requires capital investment of \$1.76Million to start operation.

PETREC Zambia is therefore seeking external financiers in form of:

1. equity partnership
2. lease financing
3. debt financing or
4. a combination of any of the three financing options

PETREC Zambia is more than willing to avail a comprehensive business plan to would be financiers for consideration.

For more information contact:

#### **OBERT MAMBWE**

*Managing Director, PETREC Zambia Limited*

## ATDF CORNER:

# THE PROPOSED ATDF-ZDA INCUBATION AND BUSINESS CENTRE

ATDF Entrepreneurship Hub Ltd, 16 Chakeluka Road, Olympia Park  
P.O. Box 31484, Lusaka, Zambia

### Overview

Many potential entrepreneurs and start-ups often need face challenges in accessing finance, communication, company registration, land and contracts as well as space. For this reason, ATDF and ZDA are partnering to launch two Business Centres (BC) in Lusaka and Kitwe to expand the pool of firms supported and enabled a few more Zambians to consider entrepreneurship as a viable, secure and exciting career option.

Zambia Development Agency (ZDA) is has six main divisions: Investment Promotions and Guarantees, Small and Medium Enterprises, State Enterprise Restructuring, Monitoring and Privatisation, Export Promotions, Multi-Facility Economic Zones and Research and Policy. As a strategic partner, ZDA will help ATDF access facilities while ATDF will offer management and basic office equipment.

ZDA would help attract appropriate partners and donors in Zambia while ATDF will bring in partners from abroad. The Pilot incubators will also help ATDF and ZDA identify key elements that could be used in the design of future incubators outside Lusaka. ATDF has already acquired some experience in managing an incubator in Zambia, established a network of mentors and established relations with key technology developers and business services providers. In addition, ATDF, through its Entrepreneurship Hub, has also learnt how to fund and manage start-ups in none high-tech sectors.

This incubator will help ATDF expand its assistance to SMEs, especially in the informal sector, and entrepreneurial youths from universities and colleges.

### Objectives

1. Help potential entrepreneurs develop their ideas in firms and products through mentoring and attachments to established institutions and private firms.
2. Reduce cost of firm formation through the use of pool resources (e.g. telephones, faxes, internet, and secretarial and managerial services).
3. Assist research centres and universities as well as municipalities establish incubator facilities and pro-

grammes.

4. Accelerate innovation delivery to the market.
5. Mobilize financial resources for our participating individuals and institutions.

### Products and Services

#### **A The incubation centres will offer:**

1. Office space, communication, secretarial and administration services;
2. Company and intellectual property rights registration and maintenance ;
3. investment, taxation and financial advisory services to SMEs and start-ups.

ATDF's target is to graduate at least 100 firms a year by the fifth year from our various incubator facilities. Enrolled candidates have to be interested in forming firms or commercializing technologies.

#### **B Products for banks, financing institutions and agencies**

The BC will help financiers in the following ways:

1. Screen candidates for third parties;
2. Oversee the development of a team of SMEs over the financed period;
3. Co-finance a pre-qualified group of SMEs growth and market their services;
4. Manage the funds for an agreed number of SMEs or start-ups; and
5. Help structure the financing of slightly large projects (above \$50,000 per project)

**For more details contact: [kondev@atdforum.org](mailto:kondev@atdforum.org)**