

# Trade and Development Monitor

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### OPINION IN LEAD

#### Non-binding accord in Cancun

The 16th Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC), held in Cancun, Mexico from 29 November to 10 December 2010, reached an agreement, albeit non-binding, on a climate fund and recognized that climate change represents an urgent and potentially irreversible threat to human societies and the planet, and thus requires to be urgently addressed by all countries. Ending a marathon session of talks, 194 countries set a target of limiting the rise in average world temperature to below 2 degrees Celsius over pre-industrial levels, and acknowledged that they should take urgent action to meet this long-term goal, consistent with science and on the basis of equity (Doyle 2010).

Most notably, the agreement included a "Green Climate Fund", with a proposed budget of US\$100 billion a year by 2020 to assist poor countries in financing emission reductions and adaptation. Specifically, the fund aims to help poor countries adapt to climate change, creates new mechanisms for the transfer of clean energy technology, provides compensation for the

preservation of tropical forests, and strengthens the emissions reductions pledges that came out of the climate change conference in Copenhagen in 2009-end.

However, it is unclear how the US\$100 billion a year for the Green Climate Fund will be raised. This means that, as with other global commitments related to aid and technical assistance, the commitment of new flows of aid money might not be fully realized, as so the ambition to keep temperature rises to 2 degrees Celsius. Even if the target were attained, it is nowhere near enough to prevent disasters across Africa, Latin America and Asia. Hastening to get a deal—or any deal—at the end of the summit, gaping loopholes and ambiguities were left in, dates were left out and major issues about the final legal form and the emission cuts all countries will need to make were pushed back another year ( Vidal 2010).

The failure to extend the Kyoto Protocol was a disappointing aspect of the summit. A new treaty has eluded the world since the UNFCCC was agreed to in Rio de Janeiro in 1992. The Convention's 1997 Kyoto Protocol only binds about 40 rich nations to curb emissions during an initial period ending in 2012. Developed and developing nations have long differed over extending the treaty, which applies only to industrialized countries. It was the main cause of conflict in the Copenhagen climate summit, whose organizers had planned to postpone discussion until the next meeting while seeking agreement on less contentious issues. Sadly, it failed to materialize in Cancun and has been left for next year's conference in South Africa.

Overall, though the agreement fell short of the broad changes scientists argue are needed to avoid disastrous climate change, the main success in Cancun after two weeks of talks was simply preventing the collapse of climate change negotiations, promoting support for a shift to low carbon economies and rebuilding trust between rich and poor countries on the challenges of global warming. Major players were relieved there was no repeat of the acrimonious failure seen at the Copenhagen summit last year, but they warned there was still a long way to go.

#### *Citations*

Doyle, Alister. 2010. Climate talks: 19 years, too little action?, *Reuters*, 12 December

Vidal, John. 2010. Does the Cancun agreement show climate leadership?, *Guardian*, 13 December

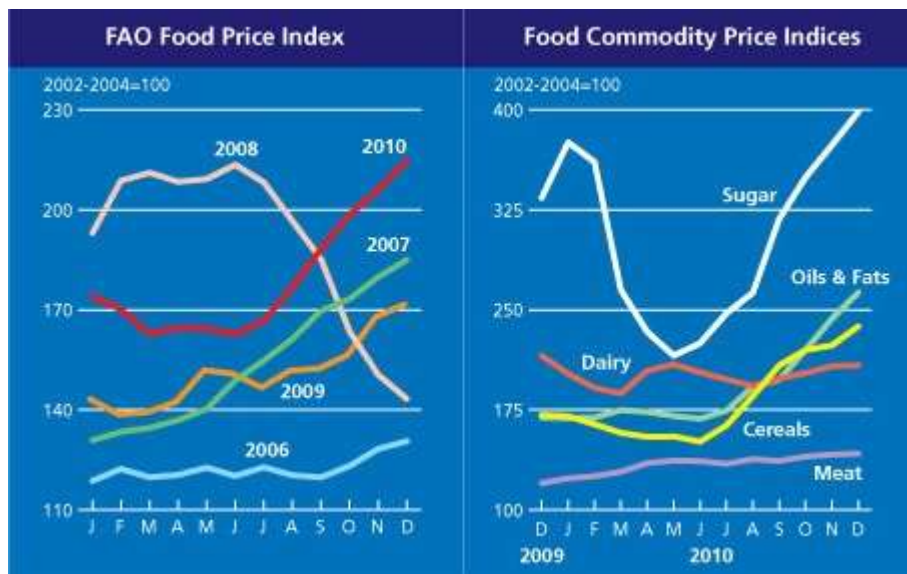
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## **ANALYSIS**

### **Preventing another global food crisis**

Barely two years after the global food crisis, which pushed millions of people below the poverty line and induced regime change in some developing countries, the Food and Agriculture Organization (FAO) has warned of a new “food price shock” that could lead to yet another “food crisis” (Blass 2010).

The FAO Food Price Index, a basket tracking the wholesale cost of commodities, such as wheat, corn, rice, vegetable oils, dairy products, sugar and meats, jumped to 214.7 points in December 2010, above the peak of 213.5 set in June 2008. Commodity-wise, the price of sugar has been spiking since May 2009. Similarly, prices of cereals, and oil and fats are also going up. The price of meat is stabilizing but is still higher than what it was in December 2008. After peaking in 2008, food prices were coming down due to good harvests of the most basic food items. But severe weather in some of the world's biggest food-exporting countries damaged harvests and led to another spike in the second half of 2010. Flooding in Pakistan, Australia, and Canada, and drought and fires in Russia affected crop yields in 2010. The food prices are expected to reach even higher.



Compared to the spike in 2008, the comforting news this time is that price of rice—which is the staple for more than 3 billion people in Asia and Africa and one of the most important agricultural commodities for global food security, including in South Asia—has been pretty much stable. After hitting a high of more than US\$1,000 per tonne in 2008, rice is trading at around US\$535 a tonne (Blass 2010). The recent rise in FAO Food Price Index is attributable to rising prices of corn, sugar, vegetable oil, and meat.

The main causes of food price volatility are changing petroleum prices, crop yields, food stock levels, exchange rates, lack of reliable information and speculation (Ghanem 2011). High and changing petroleum price translates into food price volatility through high transportation and fertilizer costs. Low supply arising from low crop yields, mainly due to bad weather, would not be able to satisfy global demand, which is fairly inelastic, leading to high price and higher volatility. Meanwhile, lower stock of food increases food price volatility as was seen during the previous food crisis. The changes in exchange rates, especially currency depreciation, lead to higher costs of food for net-food-importing countries. Finally, the lack of reliable, up-to-date information on crop supply, demand, stock and export availability, and food speculation also cause food price volatility.

To efficiently tackle the rising food insecurity and vulnerability due to increasing food prices and lower production, investments have to be increased in agricultural infrastructure such as irrigation and drought-resilient crops; the passage of the Doha Round of multilateral trade talks should end trade-distorting subsidies and include tighter rules on export restrictions; food market transparency on production and prices should be improved; and proper incentives should be instituted so that producers have an incentive to shift to supply of crops for food consumption instead of generating fuel during food crises. Note that if current policies continue, by 2019 about 13 percent of the global production of coarse grains will be used for ethanol, 16 percent of vegetable oil, and 35 percent of sugarcane (Lamy 2011). Also, international trade in rice in 2008 witnessed about a 7 percent decline (down to 2 million tons) from its record 2007 level, largely due to export restrictions. Similarly, the 2010/2011 price rise for cereals has much to do with the export restrictions imposed by Russia and Ukraine, when both countries were hit by severe drought (Lamy 2011).

Furthermore, countries with large food stocks should be willing to release some of their reserves to calm domestic and global prices during crises. For those already hit and are about to be hit by rising food prices, especially the vulnerable groups including women and children, social safety nets should be put in place so that such interventions increase productive capacity and improve nutrition and health of the poor. Also, smallholder productivity-enhancing mechanisms such as investments in agricultural inputs like seeds and fertilizer, as well as financial services and crop insurance programmes should be promoted to reduce hunger and poverty (Fan 2010).

*Citations:*

Blass, Javier. 2011. UN body warns of 'food price shock.' *Financial Times*, 5 January

Ghanem, Hafez. How to stop rise in food price volatility. *International Economic Bulletin*, 12 January, Carnegie Endowment for International Peace

Lamy, Pascal. 2011. Trade is part of the answer, not part of the problem. Speech delivered at Berlin Agriculture Ministers' Summit, 22 January

Fan, Shenggen. 2010. Five steps to prevent a repeat of the 2007-08 food crisis. 1 October, IFPRI

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## **OTHER NEWS**

### **South Asian countries among most vulnerable to food insecurity**

Asian countries, including Bangladesh, Pakistan, Sri Lanka, India and China, are among the most vulnerable when it comes to food security, according to the Nomura Food Vulnerability Index (NFVI).

The experts that developed the index explained that water scarcity, possibility of another drought year after 1997 and rising inequalities in these economies may deprive large segments of populations if the ongoing surge in food rates continued on 2007-2008 patterns. "Countries that experience a steep rise in food prices may experience a sharp decline in GDP growth, a surge in CPI inflation, worsening fiscal finances, higher interest rates, a depreciating currency and widening credit spreads," the report presenting the index warned.

The index takes into account national per capita incomes, household spending on food as percentage of total household consumption and the net food exports/imports of a country. Bangladesh, with per capita income of US\$497, has been rated the most vulnerable country on access to food as its households on average spend 53.8 percent of their total consumption on food and its food imports account for 3.3 per cent of its GDP. Sri Lanka is ranked 7th in food vulnerability though its per capita income is US\$2013 and its households spend only 39.6 per cent of their total consumption on food. However, the country imports food products worth 2.7 per cent of its GDP.

Pakistan is the third South Asian economy among the 25 countries that have severe food security problem. It is ranked 15th among these countries. Its per capita income is US\$991, its households spend 47.6 per cent of their income on food and its net import of food is 0.4 per cent of its GDP.

India is ranked 21 and China 22 on the index. India is a net exporter of food equivalent to 0.3 per cent of its GDP while China is a net importer of food equivalent to 0.4 per cent of its GDP.

Source: *The News*, 26.01.11, <http://www.thenews.com.pk/>

### **Global trade critical to reduce poverty**

International trade will only help fight global poverty if rich countries turn their rhetoric into action, participants stressed in the Global Poverty Summit in Johannesburg on 19 January. "It is time to bring the talks to a close. Successfully doing so requires courage and sacrifice by the rich countries," said Nobel Laureate Professor Joseph Stiglitz, chairman of the Brooks World Poverty Institute, in a speech prepared for delivery. "They've got to accept that they are going to have to pay for the change." Such a change meant "turning the tables" to some extent on how the world currently trades.

According to a statement issued after the event, delegates argued such a bold action was justified given the ever-growing gap between rich and poor nations. The summit heard that over a billion people, around a fifth of the world's population, lived in absolute poverty, despite inhabiting a world rich in resources, knowledge and technology.

Significant progress had been made in reducing global poverty since the Union Nations' Millennium Development Goals were agreed to in 2000, but it was not enough.

Delegates proposed that governments had to be key players in the global economy, and not sit on the sidelines in a world of unfettered markets.

"No industrial country got to where it is today without significant state intervention," said Rorden Wilkinson, research director at the Brooks World Poverty Institute. "The burning issue of food security underscores the case for state intervention."

Summit participants endorsed a proposal that countries should have the right to implement measures to combat food price volatility, and that global rules should be adopted to limit insecurity in this sector.

Another key point was that trade rules could not all be applied willy-nilly to rich and poor countries alike. "There should be serious, substantive and meaningful differentials and complementary provisions for countries at different stages of development," delegates said in a joint statement.

Source: *Independent Online*, 19.01.11, <http://www.iol.co.za>

### **Agricultural trade and food security tops agriculture ministers' meeting**

Speculation and price swings in agricultural markets may threaten food security, 48 farm ministers meeting in Berlin said a month after a United Nations gauge of global costs reached a record.

There is a risk of more food riots unless the surge in prices is contained, including through trading regulations, French Agriculture Minister Bruno Le Maire told reporters during the meeting on 22 January. France chairs the Group of 20 this year, a group created in 1999 to stabilize global financial markets.

France, in its role as head of the G20, will propose to regulate the "financial-agricultural" markets, Le Maire said.

Wheat traded in Chicago, a global benchmark, rose 65 percent in the last 12 months, while corn jumped 79 percent and soybeans advanced 50 percent. Prices gained after crops were ruined by Russia's worst drought in at least a half century, flooding in Canada and parched fields in Kazakhstan, Europe and South America.

More disclosure on agricultural-commodity trading would help "eliminate those who conduct these transactions only to speculate and make short-term profits, without really having the goods being traded," said Dacian Ciolos, the European Union's agriculture commissioner.

The officials called on the G20 leaders to "improve market transparency" and to "fight the abuse and manipulation of prices" in agriculture.

Source: *Bloomberg*, 24.01.11, <http://www.bloomberg.com>

### **Turning agriculture from problem to solution**

Global agriculture contributes 17 percent to the greenhouse gas emissions that cause climate change, but according to the World Bank, climate smart agriculture techniques can both reduce emissions and meet the challenge of producing enough food for a growing world population.

"As much as agriculture is part of the problem, it is also part of the solution," said Inger Anderson, the World Bank's vice president on sustainable development. Agriculture experts

are punting a scenario in which farming delivers a "triple win", sequestering carbon in soil and biomass, gaining greater resilience to drought and higher temperatures, and improve food security and farmers' incomes.

Diana Liverman, a researcher from the University of Arizona, said smallholder farmer have long relied on indigenous knowledge to adapt to conditions, but escalating climate change may exceed their capacities. "To use indigenous knowledge at this point, when the climate has drastically changed, could be a challenge because it might not be able to cope with the present realities of the phenomenon," said Liverman. Instead, she said, modern science should help advance indigenous knowledge to help farmers adapt. But she stressed that farmers should be at the heart of deciding which course to take.

Source: IPS, 05.12.10, [www.ipsnews.net](http://www.ipsnews.net)

### **Indian state to study climate change impact on crops**

Prompted by the onion supply shortage, caused by unseasonal rain, the government of the Indian state of Maharashtra has decided to study changing cropping patterns and their impact. "We are writing to agricultural universities to research climate change, which damages crops. The current problem is related to global warming and we need to take note of the change in crop patterns it forces," said Agriculture Minister Radhakrishna Vikhe-Patil.

Onion prices have been a big worry for the state government in December. Prices hit an all-time high, angering consumers. Following the damage caused by unseasonal rain in November, the state announced a compensation package of 1 billion rupees for farmers.

Farming is a round-the-year activity in Maharashtra and crop damage often causes loss of habitat. Chief Minister Prithviraj Chavan suggested such research during the legislature's winter session in Nagpur. While replying to a debate on compensation packages for farmers, Chavan said weather patterns had changed significantly in the past five decades, disrupting the monsoon. This needs to be studied, he said.

Universities will be assisted by the state in the study. It will try to identify what is causing the change in cropping patterns and farm practices. A plan will be drawn up to see how the patterns can be reworked to suit farmers.

Source: Hindustan Times, 23.12.10, <http://www.hindustantimes.com/>

### **Address poverty to achieve food security: IFPRI**

Tackling poverty remains the single best way to help poor people in developing countries achieve food security and adapt to climate change, said International Food Policy Research Institute (IFPRI).

According to researchers at IFPRI, when families have more income, they are better able to cope with drought, floods, and other climate shocks, says the report, Food Security, Farming, and Climate Change to 2050: Scenarios, Results, Policy Options.

"Many have made the case that we have to address climate change to fight poverty. We are saying you must address poverty as a key part of climate change adaptation, and you must do it now. Once the most serious effects of climate change kick in, it will already be too late to respond effectively," said Gerald Nelson, IFPRI senior research fellow and report co-author.

The severe drought in Russia and devastating floods in Pakistan in 2010 offer a glimpse of a future negatively affected by severe weather. Using sophisticated computer modelling, the study assesses the harmful impact of climate change on food security through 2050. It presents 15 different future scenarios based on various combinations of potential income growth, population growth, and possible climate situations that range from slightly to substantially wetter and hotter.



The report finds that between now and 2050 staple-food prices could rise by 42-131 percent for maize, 11-78 percent for rice, and 17-67 percent for wheat, depending on the state of the world's climate, economy and population.

Climate change will cause lower rice yields all over the world in 2050, compared to a future without climate change. One of the climate change scenarios results in substantial declines in maize exports in developed countries, but small increases in yields in developing nations. Wheat yields will fall in all regions, with the largest losses in developing countries.

The report also finds that improving crop productivity can counteract the negative effects of climate change on food production, prices and access.

Source: *Commodity online*, 04.12.10, <http://www.commodityonline.com/>

## Early warnings of flooding in Pakistan

What Pakistan experienced last summer in terms of extreme weather and economic cost is currently being faced by four countries—Australia, Brazil, the Philippines and Sri Lanka. Floods have hit four Australian states since December and they look set to be the costliest natural disaster ever in the country's history. And the damage bill is still rising fast as record flooding continues to rage.

On 12 January, Pakistan was warned at a seminar in Islamabad, organized by Pakistan Water Partnership in collaboration with the Planning Commission, that the country, especially its Indus Basin, will face severe and frequent extreme weather events of both floods and draught in the near future. The problem is that Pakistan is not prepared enough, nor trying to prepare itself, to combat such events, and was caught unawares last July.

The Global Change Impact Studies Centre (GCISC) and Pakistan's Meteorological Department have predicted more floods in the coming years as average temperature over the country is expected to increase in the range of 1.3-1.5 degrees Celsius by 2020. Besides, the glaciers of three mountains, which feed Pakistani rivers, have been predicted to melt faster due to global warming, causing abnormal increases in rivers' water outflow.

In last year's floods, the Indus River inundated an area of 100,000 square kilometres while another 60,000 square kilometres was flooded by other rivers such as the Kabul and the Swat, according to National Disaster Management Authority.

On 15 January, a meeting of officials of environment department of Punjab and federal environment ministry and various stakeholders was called to discuss Pakistan's first national climate change policy draft, recently developed by the ministry. It is a major step forward at a time when the country is already on the frontline facing severe climate challenges. The goal of the policy is to ensure that climate change is mainstreamed in the economically important and vulnerable sectors of the economy and take the economy towards a low-carbon path. The main objectives are to integrate climate change policy with other interrelated national policies, place equal emphasis on both mitigation and adaptation, as these are integral parts of the strategy to cope with climate change; and minimize the risks to the population and national economy, arising from expected increases in frequency and intensity of extreme weather events.

Source: *Dawn*, 21.01.11, <http://www.dawn.com/>

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## ACTIVITIES

### 3rd South Asia Economic Summit

SAWTEE and South Asia Centre for Policy Studies (SACEPS) organized the 3rd South Asia Economic Summit in Kathmandu, on 17-19 December 2010. It was organized in partnership

with the Asian Development Bank (ADB), the Commonwealth Secretariat, Oxfam Novib, the United Nations Development Programme-Regional Centre in Bangkok (UNDP-RCB) and the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), and in collaboration with Centre for Policy Dialogue (CPD), Institute of Policy Studies of Sri Lanka (IPS) and Research and Information System for Developing Countries (RIS). The Summit was participated by representatives of governments, policymakers, political parties, business community, international and intergovernmental organizations, development partners, civil society, academia and media. Details about the Summit are available at [www.sawtee.org](http://www.sawtee.org).

### **Launch meeting of project on Aid for Trade**

The launch meeting of a research project on Evaluating Effectiveness of Aid for Trade in Nepal was held in Kathmandu on 18 January 2011. About 50 stakeholders, including policy makers, academics, economists, private sector representatives, donor community and media persons, participated in the meeting. The project is part of a global project initiated by SAWTEE and Geneva-based International Centre for Trade and Sustainable Development (ICTSD), in collaboration with several other organizations, in six countries in Africa, Asia and Latin America/Caribbean. Details about the project and the meeting are available at [www.sawtee.org](http://www.sawtee.org).

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