



Short Article

Biofuel Boom: Great Opportunity or Exploitation?

Last month, I had an opportunity to join a field survey in Indonesia, led by a university which is now conducting a study on the sustainable use of biomass energy. We visited plantations, processing factories and the fields of small-scale farmers of "energy crops", namely, cassava, oil palm, sugar cane and *Jatropha* (*Jatropha curcas*). The former three crops already represent major raw materials of biofuel. Biofuel is liquid fuel which originates from biomass, mostly from starch or oil crops. *Jatropha* is the new face in this field but becoming popular due to its higher potential of oil production capacity and adaptability to less favourable cropping conditions. Indonesia targets biofuel to account for 10 per cent of the country's energy portfolio by 2010 and 6.5 million hectares of idle land will be allocated to these four crops to provide material for biofuel production (Jakarta Post, 2006).

Most respondents we met recognized the current situation as a great opportunity to expand their business. Actually, biofuel is not a new material. Rudolf Diesel, known as the inventor of the diesel engine, demonstrated his invention at the Paris Exposition in 1900 using peanut oil as fuel (Wikipedia, 2006). Biofuel has drawn attention many times since the first oil shock in the 1970s' but unlike previous booms, this time it seems to have a firm footing in society.

However, if we view this phenomenon from a different standpoint, namely, poverty alleviation, it is still unclear whether biofuel development can really mitigate rural poverty. Of course, biofuel production is more labour intensive than petroleum fuel and numerous job opportunities will be created. However, the most serious challenge for biofuel popularity is its higher production costs. Though the current high oil price is a strong push towards biofuel, the major concern of energy starved industrialized countries would be how to secure cheaper biofuel resources. We should be cautious that less attention would be paid to the welfare of small-scale farmers who are nominally the major actors of secondary crop production used for biofuel. It is natural for investors to expect preferable policy packages for large-scale producers with economies of scale in order to procure cheaper energy resources.

Unfortunately, there is voluminous illustrative evidence that large-scale plantation projects tend to impact negatively on the environment and welfare of the rural poor. Of course, large-scale plantations are not necessarily evil in terms of poverty alleviation.

Most interviewees I met proudly explained the vast employment opportunities they provide to local communities. A manager of one of the plantations we visited told us that although they had their own harvesting machines, they do not use them very frequently in order to secure work for the local people. The plantation also endeavours to adhere to local labour and environmental regulations through the provision of benefit packages to its employees and the construction of waste water treatment plants on its premises. These efforts are somewhat effective in changing the negative impression given by many stories reporting environmental degradation and labour exploitation by large-scale plantations. However, I was left wondering whether a comment from our local counterpart may be more apt; "The plantations you visited are the best ones in this region. The others are far behind them and rarely accept foreign delegations like yours".

What is the alternative to find a way for poverty alleviation and cheaper biomass energy to coexist? I found some tips from our visit to an advanced base of an agro-business company which is now constructing a new ethanol plant in a cassava production area. Since they are a late comer to the cassava industry in the region, they are diligently formulating mutual trust with nearby small-scale farmers. While waiting for the completion of an alcohol plant, they started producing improved cassava seedlings which grafted a variety of quality roots (lower side) with one variety having photosynthesis ability. According to their explanation, the yield could be more than double the regional average. While selling seedlings, they also provide credit and technical advice to farmers. It is their strategy to win the hearts and minds of local farmers and foster a supportive atmosphere for future cassava procurement. Such revitalization of the local farming system is an option as well as developing large-scale plantations in maiden lands to meet the soaring demand for energy crops.

It is undeniable that the biofuel boom is an unprecedented opportunity for secondary crop producers. It depends on smart choices if the opportunities are to become a real take-off point out of poverty, or just adding another page to the history of exploitation, which was observed in the previous boom of commercial crops

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(References available upon request)

FlashBREAKING



Seven per cent Growth in Asia

The emerging Asian-Pacific economies are expected to enjoy at least 7 per cent growth for the fourth year in a row, comfortably above the growth of the world economy as a whole. However, risks loom ahead. The rapid growth has done little to help ease structural problems in Asian economies. There is too much capital investment and too little innovation. Although robust growth continues in emerging Asian-Pacific economies, the speed has slowed. Asian countries need to improve their financial systems and strengthen co-operation regarding exchange rates and bonds. Fragile social security systems and inequality in income distribution are also key problems.

People's Daily Online, 2006. The Prospects Behind the 7 per cent Growth in Asia, <http://english.peopledaily.com.cn/>, (29 July 2006).

The Root of Poverty in Rural China

There are many factors contributing to rural poverty in China: natural conditions, lack of education, etc. However, amid the current conditions, poverty has a lot to do with the unequal treatment of farmers in the system. Although agricultural taxes have been abolished, farmers in many places haven't found their burden lessened: they still face the ludicrous charges of compulsory education, many fees and fines that are hard to explain, shoddy agricultural production materials, encroachment on farmers' land rights, etc. These are the roots of a new round of rural poverty. An effective solution would be to fundamentally change the urban-rural structure and institute legislation to protect farmers' rights. If there were explicit laws in place that protect farmers' rights and if farmers could establish their own rights protection organizations, many problems would be resolved.

Zhao, Michael, 2006. Root of Farmers Poverty: Rights Poverty - Yang Tao. China Digital Times, <http://chinadigitaltimes.net/>, (21 July 2007).

Viet Nam Seeks Billions for Agricultural Development

Viet Nam needs to attract approximately US\$12 billion in official development assistance (ODA) to develop agriculture and rural areas as well as reduce hunger and poverty in the 2006-2010 period. The figure represents 10 per cent of the country's total social investment capital. The ODA will be disbursed in programmes and projects to restructure crops and animal culture, develop production to improve farmers' income, develop rural infrastructure, protect the forests, as well as preserve natural resources.

Agroviet, 2006. Vietnam Needs US\$12 Billion in ODA for Agricultural Development, <http://www.agroviet.gov.vn/>, (25 July 2006).

Global Food Demand Expected to Double, Possibly Triple

Global food demand is expected to at least double - if not triple - over the next 50 years. With a global population estimated at 8.5-9.5 billion in 2050, crop land and/or yields will have to increase to meet the increased demand for food. The greatest population growth is expected to occur in Asia and India, whereas the United States and some South American countries have more arable land, creating export opportunities. Asia, where the largest population surge is expected, has only 30 per cent of the arable land. In addition to swelling populations, greater affluence worldwide is allowing more people to improve their diets. Food is the first change people make as their income rises allowing them to diversify the grains and oils they consume and add more meat, milk and eggs. There is expected to be a marked increase in exports to Asia in the next five years.

Farm Futures, 2006. Global Food Demand Forecasted To Double, If Not Triple, <http://www.farmfutures.com/>, (31 July 2006).

When Will ASEAN Economic Community Become Reality?

After more than 39 years in existence, it is now apparent that the Association of South East Asian Nations (ASEAN) has transformed itself into a key regional organization in terms of development. Through the ASEAN Economic Community (AEC), the group hopes to cut tariffs on goods, services, skilled labour and capital to create a single market in a region with 550 million people with the highest GDP in Asia. ASEAN has formulated a number of plans for deeper economic integration since the early 1990s but how long should the member countries wait to realize AEC and will its integration be successful enough to create a single market? Closer integration would bring many tangible benefits to ASEAN businesses and the community as a whole. Member countries would be able to share regional resources, and enjoy greater stability and resilience. ASEAN citizens will enjoy more choice, more opportunities and, ultimately, improved lives. However, integration will also pose challenges among member countries, with differing priorities and perspectives, as well as wide variations in the level of economic development. For some countries integration also conjures fears of ceding sovereignty to some supranational organization. For others, it also means having to face more direct competition on their doorsteps. These are understandable and legitimate concerns, which member countries must address openly and effectively. As an integrated region, ASEAN will be an attractive investment destination, an important economy which multinational companies cannot ignore, both as a market and as a production base to complement investment in China and India

Based on Tengku Noor Shamsiah Tengku Abdullah, 2006. ASEAN Economic Community, How Soon Will It Be a Reality? Malaysian National News Agency: Bernama, <http://www.bernama.com.my/>, (31 July 2006).

Viet Nam's Agricultural Sector to Integrate

Although Viet Nam is opening its door wider to the world, many Chinese and Thai farm products such as fruit, sugar and rice have flooded the local market, causing numerous difficulties for local producers and exporters. In the globalization process, agriculture is considered the most sensitive issue for both developing and developed countries. So how have state agencies and farmers prepared to join the World Trade Organization (WTO)? Farmers will certainly be affected first after the country joins the world's largest trade body. Paradoxically, farmers are unaware of their interests and the risks in the post-WTO period. In the context of globalization and trade liberalization, the thinking of self-sufficiency will drive Vietnamese agriculture to a non-plus and farmers will be the first to suffer the consequences. The situation seems to be less severe for exported farm products. Many Vietnamese farm products, including rice, coffee, pepper and cashew nuts have secured a niche in the world market. As a result, after joining the WTO, these products will overcome the challenges thanks to competitive advantage in terms of price. Viet Nam's agricultural sector does not benefit from long-term planning, citing a paradox between production factories and material growing areas. Once material competition is on the rise, it is impossible to raise the quality of farm products and lower their prices. To ensure successful integration, experts insist that the agricultural sector invests in large-scale production, alongside applying sci-tech advances to produce highly competitive products. The government is encouraging and supporting models of larger farms and industrial parks, which have proven successful in Thailand, Indonesia, the Philippines and China

Based on Agroviet, 2006. Agricultural Sector Braced for Integration Process, <http://www.agroviet.gov.vn/>, (17 July 2006).

Why Does Poverty Persist in the Philippines?

The persistence of poverty in the Philippines has to do largely with its inability to achieve and sustain income growth above population growth. The Philippines's unenviable record in poverty reduction in recent years is the outcome not only of its comparatively low per capita GDP growth rate but also of its weakness in transforming any rate of income growth into poverty reduction. The quality of economic growth has to be improved to enhance the benefits of growth to the poor. Even given the fiscal bind, there are a range of avenues to improve the response of poverty to overall income growth, for example, a strong connection between agricultural and rural development as well as poverty reduction. The very high spatial diversity in the Philippines is quite remarkable. In recent years some regions have performed quite well in attaining high per capita income growth and reducing poverty, but others have experienced drops in their average per capita income and an increase in poverty. Viewed from an international perspective, such disparities could breed regional unrest, armed conflicts and political upheavals, thereby undermining progress in securing sustained economic growth and national development. Infrastructure, human capital, the economic climate, trade regime and agricultural relations are the key drivers of provincial income growth. What is disturbing, however, is the finding that certain policy levers that have often been identified as tools to achieve equity - human capital and asset reform through the Comprehensive Agrarian Reform Program (CARP) - have no discernible direct impact on poverty reduction; their effects are felt mostly indirectly through the income growth process. The implementation of such programmes has actually been poorly targeted. There is evidence to support this proposition as regards many of the country's direct anti-poverty programmes such as food subsidies, credit subsidies, irrigation and seed subsidies, as well as housing and schooling subsidies

Based on Balisacan, Arsenio M, 2006. Why Does Poverty Persist in the Philippines? Facts, Fancies, and Policies. Paper presented at the "Whither the Philippines in the 21st Century?", 13-14 July 2006. SEAMEO-SEARCA, <http://web.searca.org/home.asp>, (2006).

Still a Long Road to Marketable Biofuel

Biodiesel and gasohol are the two most common forms of biofuel. Nowadays, with declining oil production and ever increasing fuel consumption, the Government of Indonesia has decided to promote biofuel to reduce soaring fuel subsidies. The country might consider itself lucky to have been blessed with vast fertile land for the various crops required to produce biofuel. As for jathropa, it can be planted anywhere and requires less attention than oil palm. However, there are only a few refineries extracting castor oil from jathropa seeds. The production of gasohol is constrained as the crops are not widely cultivated in Indonesia. The country is still importing sugars as the domestic production of sugarcane is not sufficient to meet local demand. Farmers are also backing away from cultivating tapioca as the crop cannot provide a stable income and the price invariably drops during harvest time. Efforts to produce gasohol would certainly help farmers, not only those planting sugarcane and tapioca but also other starch crops. Farmers can choose which crop they wish to grow provided their soil is suitable. All the government needs to do is maintain the prices of the crops at profitable levels for the farmers to harvest, for the refineries to procure and process, and for the end customers to buy. However, since the process is long, the price will not be much lower than that of petroleum-based fuels. The government should offer tax incentives to promote eco-friendly fuels. Some companies also sell biofuel as an "additive", to be mixed manually by customers

Based on Santosa, Novan Iman, 2006. Still a Long Way before Biofuel is on the Market. The Jakarta post, <http://www.thejakartapost.com/>, (10 August 2006).

Flash EVENTS



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Book Review

The Impact of Trade Liberalization on Poverty

Summary of Proceedings from a Conference, held on April 15, 2005. USAID and the Woodrow Wilson International Center for Scholars, N.W. Washington, DC, USA, 2006.

The proceedings are based on a conference "The Impact of Trade Liberalization on Poverty" organized by the Woodrow Wilson International Center for Scholars on 15th April 2005 and sponsored by the US Agency for International Development (USAID). It is a summary of the four sessions of the conference agenda, namely: (1) The Basic Links between Trade, Growth and Poverty; (2) How the Poor Respond to Opportunity and Adversity; (3) Contrasting Country Experiences; and (4) Challenges for Policymakers.

The findings of the first session are that freer trade should reduce poverty in the long run, but the available cross-country data provides unclear evidence of such, at least in the short run. Some critics of liberalization are concerned that poor farmers will suffer if freer trade reduces the prices of staple foods. The immediate result is to adjust the prices of different products at the border. Internal transport and marketing costs tend to insulate local markets from the adjustment of border prices, especially for the poorest farmers in the most remote areas.

Evidence from the labour market implies that the impact of freer trade on wages, sectoral employment or total employment would be "remarkably small". Greater caution might be advisable in countries where natural resources dominate exports, and thus do not have comparative advantage in unskilled labour-intensive exports. In such cases, unskilled workers may not benefit from trade liberalization.

To enhance the impact of trade reform for the benefit of poor people, the government should ensure the poor fully share the benefits, as well as minimize transitional income and employment losses. Accordingly, complementary measures to improve education, rural roads and other infrastructure investment, agricultural research and extension support, and setting up effective social safety nets for the poor, are necessities.

The conclusions of the panelists for the second session - How the Poor Respond to Opportunity and Adversity - are as follows: (a) The largest part of the agricultural market that is currently distorted would be strongly affected by multilateral trade reform; (b) The changes in most poverty-friendly trade policies for developing countries are to reduce the countries' own high tariff rates that currently pose severe barriers to the growth of South-South trade; (c) The suggested policy for countries facing weak trade performance due to agricultural and demographic pressure as well as poor farmer ability to produce a marketable surplus is to develop improved crop varieties to reverse the negative trends; (d) Women in poor countries who generally bear the primary responsibility for family survival face an unequal economic and social status which undermines their ability to respond the opportunities and challenges that emerge from freer trade.

The third session - Contrasting Country Experiences - examined the country and regional impacts of trade liberalization. In Ghana, trade

and other reforms have spurred economic and export growth. Poverty has declined in many parts of the country, but inequality has increased. Bangladesh epitomizes a success story of trade liberalization as well as export oriented growth and its impact on poverty. However, Bangladesh demonstrates the limit of relying on trade liberalization and export-driven growth to reduce poverty.

Export growth within trade agreements helped economic recovery in Latin America in the 1990s after the region faced an economic crisis and stagnation. Conversely, the said achievement was unsustainable due to high inequality and economic volatility that increased the vulnerability of the poor in the region. In the Philippines, trade liberalization contributed to the "production of poverty" including high rates of unemployment and bankruptcies in small and medium enterprises and on small-scale farms. The constraints of the Philippines include lost tariff revenue that widens the government budget deficit, foreign borrowing, and reduced ability to support essential social services such as education, health and others. In addition, a mismatch exists between the skills created by the school system and those required by the market.

The final session (the fourth session) Challenges for Policymakers recommended: (1) The potential of trade liberalization to stimulate economic growth as well as reduce poverty should be supported by complementary measures such as good governance to foster a fair, open and rules-based trade system; (2) Developing countries should increase their global export share to ensure the extensive transfer of resources as a result of modest gains in trade; (3) Development measures to help developing countries deal with currency fluctuations are necessary due to the high appreciation of foreign exchange of export-oriented commodities; (4) Trade liberalization and complementary policies should not be artificially operated because the higher the level of human resource development, the more likely a country is to benefit from trade; and (5) Developing countries should have more access to the agricultural global market and make trade part of their overall agenda for economic growth and poverty reduction.

The proceeding are composed of presentations by thirteen panelists and three discussants in the four sessions. The presentations are separately compiled in a simple way to be digested and connected. The editor very capably integrates the notion of the panelists of every session into the executive summary of the proceedings. However, the editor does not reconcile the four sessions in the context of trade liberalization. For a developing country: what is the impact of freer trade on growth and employment? how the poor respond to opportunity and adversity? and what type of policy options? were not addressed thoroughly ■

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