Food Commodity Trade

The Need for a Regional Approach to Stimulate Agricultural Growth and Enhance Food Security

Introduction

Economic growth and poverty reduction can only be achieved by developing the agricultural sector. And agricultural sector growth can only be achieved by creating a favourable investment climate with national and regional market access, and supportive public policies.

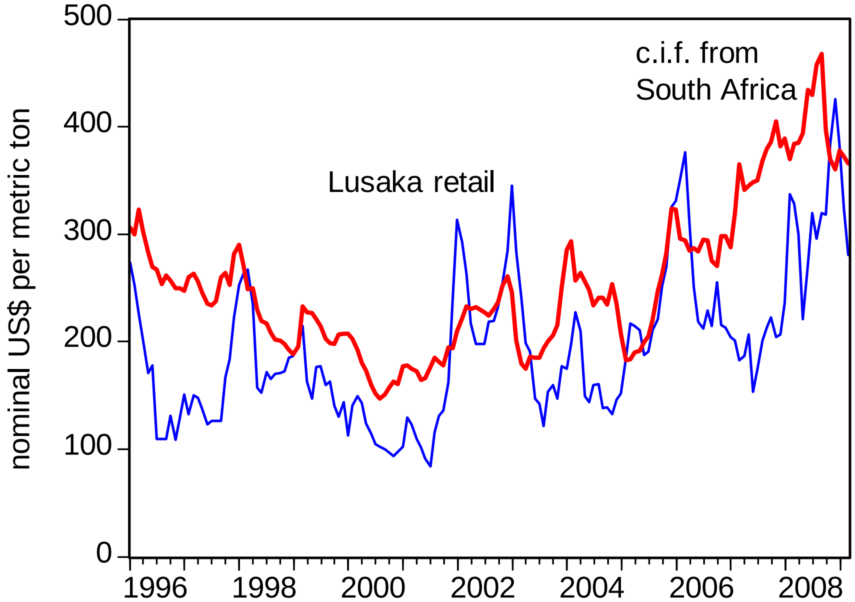
Production and price instability

Food price fluctuations in the region are a result of domestic, regional and international production and market conditions. For example, inter-seasonal fluctuations of maize production in southern Africa are substantial, ranging from -65% in 1992/93 to +15% in 2005/06 relative to the 1990-2005 mean production.

The level of price volatility should theoretically be confined to export parity price levels at the lower end and import parity price levels at the upper end of the price band, reflecting supply and demand conditions during surplus and deficit marketing seasons respectively. A greater gap between these export and import parity prices will reflect high marketing costs, often representing high transport costs to and from distant export and import locations. Regional infrastructure investment programs would have great potential to significantly reduce the cost of transport. For producers this would result in increased profitability and competitiveness due to lower input and marketing costs, while consumers would benefit from lower prices due to reduced import costs of food.

Although in theory food prices should not exceed the cost of importing food, in practice they often do. For example, retail prices of maize grain in Lusaka frequently exceed the retail value of maize grain imported from South Africa, the nearest and most competitive source of maize imports.

Lusaka maize retail prices vs. import parity from South Africa



Such price spikes exceeding import parity levels in most cases reflect an absence of regional trading activity. Various obstacles have either discouraged private sector imports, or impeded trading capacity by government (FRA), or a combination of both, resulting in a supply vacuum during critical periods of extremely low local food supplies.

It is estimated that allowing and promoting regional trade to and from Zambia would have the potential to enhance supplies and thus reduce price spikes by as much as 50%.

The same way trade impediments can cause domestic prices to exceed import parity during a period of food deficits, domestic market prices can fall below export parity prices during a period of surplus with export trade barriers in place. Although poorly documented, there have been cases of tariff and non-tariff trade barriers on exports causing domestic surpluses and deteriorating market prices, in some cases causing major private investors to abandon their maize trading enterprises.

Import and export trade barriers

During times of perceived food deficits, maize and mealie meal exports are typically banned, while imports from within the region or from the world market experience various other complications.

This does not just happen in Zambia. In 2008, Kenya's projected maize deficit called for the importation of over 600,000 tonnes of maize, much of which could have been satisfied with imports from Uganda and Tanzania. However, Tanzania had an export ban in place, while Kenya maintained a 50% import duty. As a result, market shortages occurred and prices increased sharply. Despite the official export ban, 120,000 tonnes of maize was imported informally from Tanzania.

The imposition of ad hoc export bans on maize in Zambia (in the form of export licences not being issued) during perceived maize deficit seasons has been a deterrent for private sector investment by large firms who conduct formal trade. For informal trade, export bans rarely achieve their objectives. Large truck loads are converted to smaller loads on pick-up trucks, wheelbarrows, bicycles, or human backs, in order to circumnavigate official border posts. Transaction costs increase due to the inefficiencies of extra handling and low capacity transportation, and the end result is increased food prices.

In Zambia, maize price subsidy programs were implemented to keep consumer prices under control, involving local and international traders and millers. In 2002/03, operational problems caused a subsidized import program to be delayed, and Zambian traders who were not included in the programs refrained from commercially trading maize for fear of being uncompetitive in the market once the subsidized maize reached the market. Maize and mealie meal shortages occurred in the meantime, and local market prices exceeded import parity (see above figure). In 2005, uncertainty surrounding the removal of import duties paralyzed commercial market activity and resulted in market shortages. More recently, FRA imported and subsidized maize, a decision made partly on the basis of unreliable supply and demand data. It has been argued that the price reducing effect of the subsidy did not trickle down to the consumer.

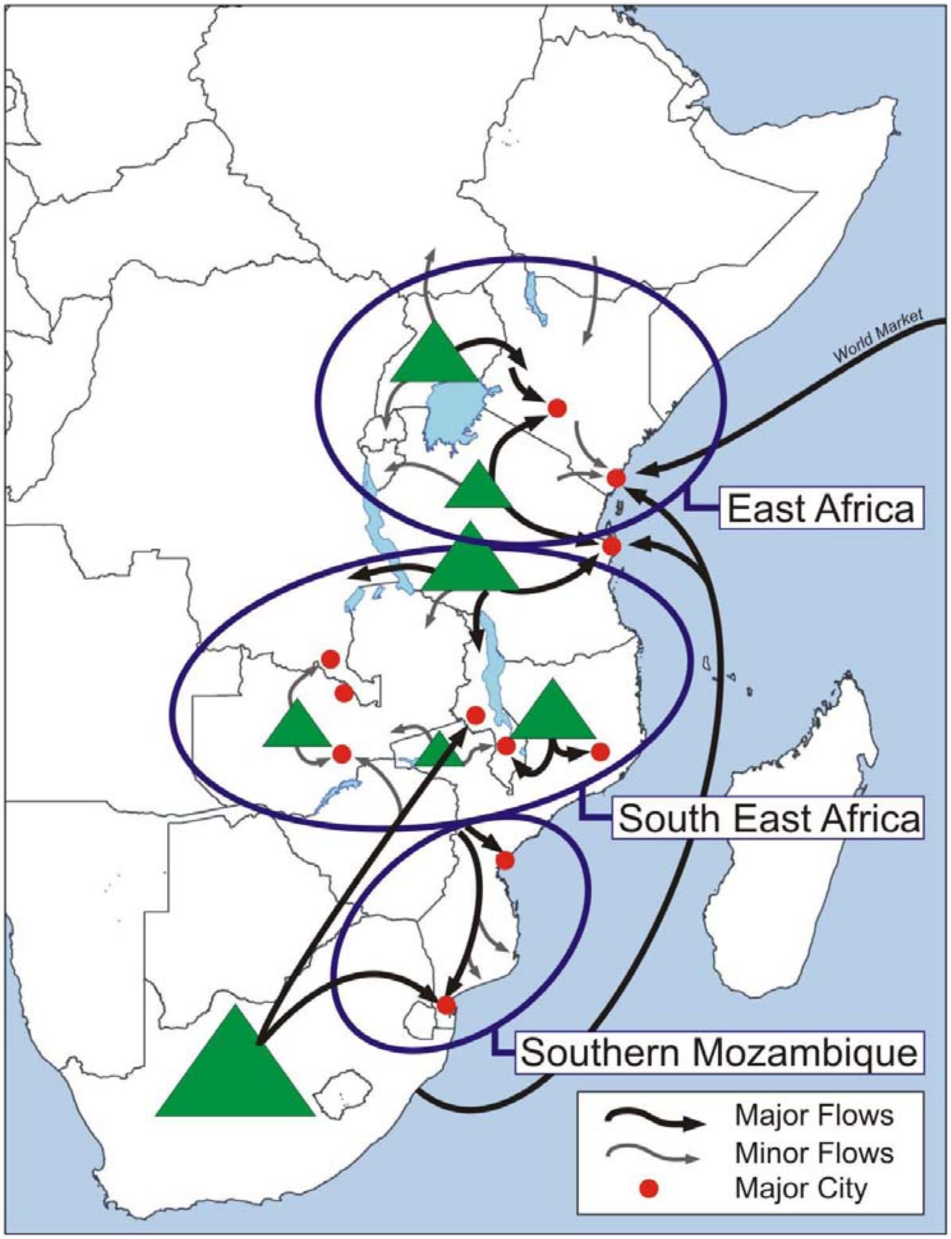
The relationship between agricultural growth and trade

Regional trade has the potential to not only reduce price volatility and food insecurity; it also has the potential to stimulate agricultural growth in production zones. The production of food staples – for growing urban markets and food-deficit rural areas – represents the largest growth opportunity available to African farmers. Currently, the market value of Africa's food staples amounts to over $50 billion per year, or nearly three-fourths of the value of all agricultural production. The International Food Policy Research Institute estimates that this figure will almost double by 2015. Given population growth and growing urbanization, Africa's market demand for food staples will grow dramatically in coming decades. Facilitating expansion of these markets will, therefore, be critical for efforts aimed at stimulating agricultural production, broad-based income growth and poverty reduction and for ensuring food security of vulnerable populations in deficit zones.

Throughout the region, rural food surplus production zones supply major deficit urban consumption centres as their natural markets. When mapping food production and consumption zones in southern Africa, it becomes clear that large breadbaskets exist that have the potential to supply deficit urban and rural areas, even in years of drought in some parts of the region.

As depicted in Figure 5 below, trade flows within a number of production and consumption involve border crossings. For example, surplus maize produced in Nampula province in Mozambique has reliably supplied dense population centres in Malawi, especially during seasons when Malawi was experiencing the effects of a drought. Likewise, other opportunities exist for intra-regional trade to supply maize to food deficits areas during partial drought in the southern Africa region. In eastern Africa, maize produced in Uganda has been supplying the Kenyan market, and various other cross-border trade flows occur in that region.

Maize production and consumption zones in eastern and southern Africa



The need for regional policy consensus

As government consider free trade scenarios, they require a certain "food security comfort level". Some governments in the region see a need for food security stocks to act as a buffer in times of vulnerability to food insecurity. However, the operations and maintenance of such reserves are extremely costly and require substantial national resources. Hence, a key challenge is to design instruments and mechanisms that, on the one hand, require only limited physical food stocks and, on the other hand, have the capacity to provide a guaranteed supply of sufficient food in the event that market mechanisms break down or non-market requirements are greater than expected.

Enhancing regional food commodity trade by opening borders requires commitments by multiple governments as well as other stakeholders. A single country cannot open its borders on its own and expect food commodities to flow freely in and out. A consultative process is required, allowing governments and the private sector to reach consensus on mutually agreeable and workable policies and programmes. Our regional economic communities, COMESA and SADC, would be well placed to facilitate such a trade enhancement and negotiation process.

Summary

The need for food commodity trade both at national and regional levels for economic growth and food security cannot be overemphasized. The challenge lies with national governments and regional economic communities to bite the bullet and open up borders for food trade (imports and exports), which would lead to sustainable food production and market supplies and even out price spikes.