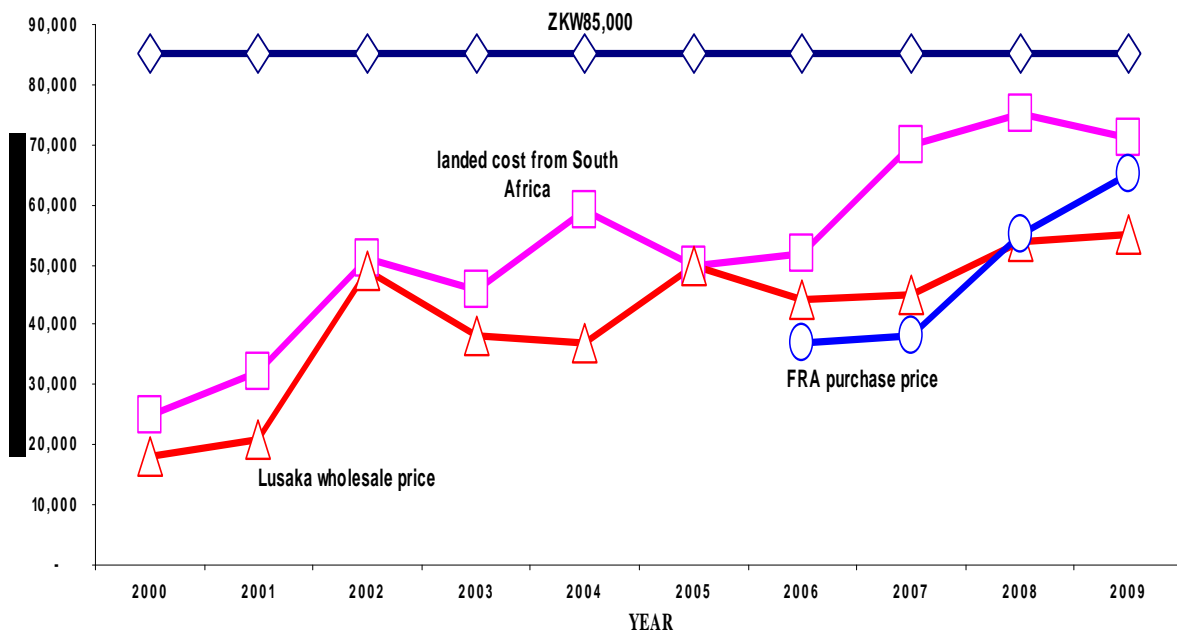


Marketing and Trade in Food Staples

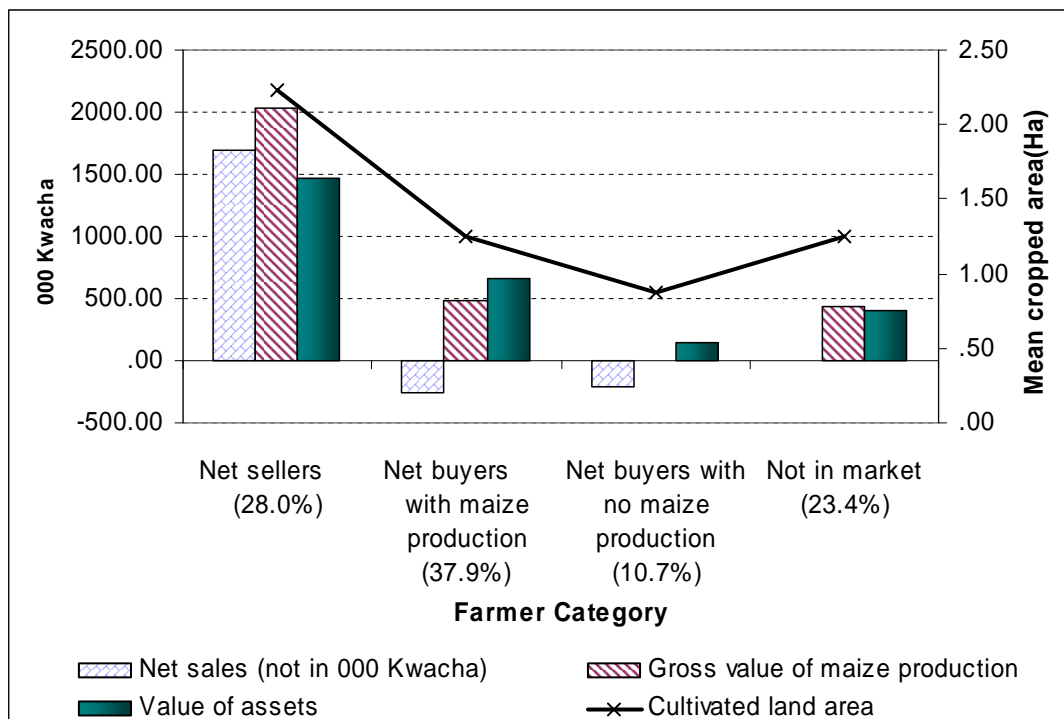
Presented by
Chance Kabhage

FSRP/ACF Agriculture Policy Dialogue
with High Level Government Officials
Protea Lodge, 14-15 August 2009

The Challenge of FRA Pricing



2008 SS - Big Picture Empirical Results – Characteristics of Small & Medium-Scale Farm Households (Maize Production, Sales and Assets all Linked)



2008 (07/08 Crop Marketing Season)

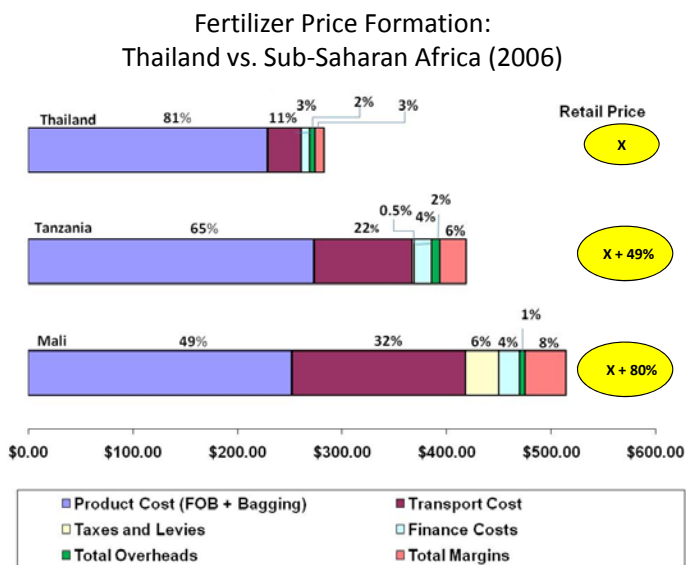
Fundamentals of Maize Prices

- Zambia has a maize surplus:
 - Prices will reflect foreign export market prices less marketing costs
 - Export parity price Zimbabwe at Zambian farm gate ~ K40,000 or \$160**
- Zambia has a maize deficit:
 - Prices will reflect foreign market prices plus the cost of importing
 - RSA import parity Lusaka ~ \$270**

Fundamentals of Maize Prices

- Big difference between import and export parity price levels
 - Reflects transport and other costs
- Farmers will
 - Benefit from high import parity price levels, but...
 - Will have to be able to compete at export parity price levels
- Needed:
 - Investments to reduce transport and marketing costs
 - Investments to increase farmer productivity
- Not solving the problem: Maize price subsidies

Example: How underinvestment in infrastructure causes uncompetitive output prices, negatively affecting productivity



- High prices caused by poor infrastructure
- Contribute to low productivity
- Trigger public market interventions
- Divert resources away from public investments in infrastructure

Public sector policies to keep urban/rural staple food prices at tolerable levels

1. Increase the availability of maize grain and other foodstuffs in public markets during the lean season for net buyers in both urban and rural areas.
2. Expand staple food options available to urban consumers to facilitate substitution in consumption when some retail food prices increase
 - Keep grain available in public markets
 - Promote marketing of cassava, sweet potatoes, etc.
 - Promote urban agriculture
 - Promote irrigation

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Public sector policies to keep urban/rural staple food prices at tolerable levels (cont.)

3. Improved traditional storage for rural sellers and net buyer households – hold more maize grain supplies in rural areas?
4. Strengthen/improve crop forecasting and food balance sheet approach to determine need for imports/exports
5. Facilitate imports in a timely manner when needed

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Other elements of a comprehensive strategy to keep food prices at tolerable levels for urban consumers

1. Investment in agricultural public goods (e.g., research & extension, MIS, infrastructure) to stimulate supply response and ag. productivity growth
2. Facilitate regional trade – plan to supply these key markets
3. Improve incentives for staple food imports/exports by the private sector; engender trust between public and private sectors
4. Expand, strengthen, and improve targeting of safety net programs & social protection

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Food Reserve Size

- Key factors
 - Early maize (200,000 tons when needed)
 - Winter maize
 - Early warning (shortage now predicted early)
 - Regional markets (RSA always exports)
 - Sophisticated trading systems
- Implications
 - “3 months consumption” method outdated
 - Need for modest physical stock for calamities
 - Call options on SAFEX more economical and self-financing for larger strategic positions

Stock versus Options

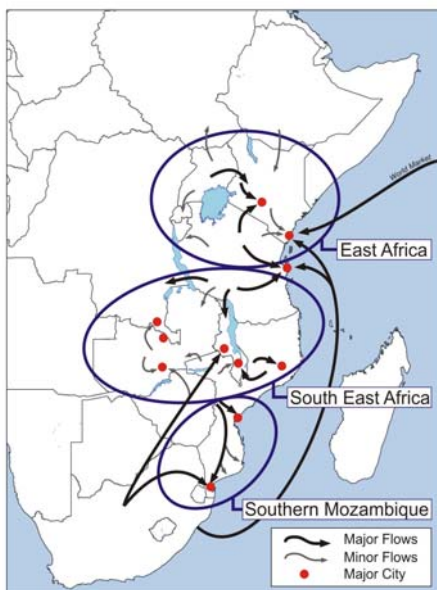
- Stock (100,000 mt) for 16 months
 - Cash flow requirement K130b
 - Storage, losses, management K46b
 - Interest/opportunity cost K26b
 - **TOTAL COST K72b**
- Option (100,000 mt) for 16 months
 - Cash flow requirement K130b
 - Interest earned -K26b
 - Option premium K13b
 - Management K7b
 - **TOTAL COST -K7b**

Trade in Food Staples

Benefits of Trade

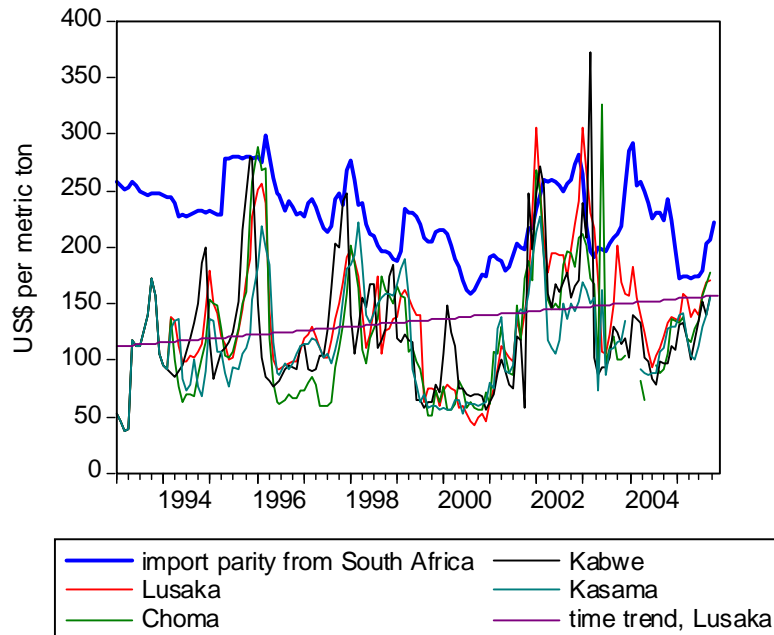
- Provides markets to producers
- Triggers production
- Provides food to nearby consumers
- Reduces prices to consumers
- Provides national food security
- Provides business options and facilitates business planning
- Enhances efficiency
- Reduces the need for costly interventions
- WTO, COMESA, SADC, SACU acknowledge benefits of trade

Regional trade in food staples



- Surplus food production zones lie across national borders from deficit markets they serve
- Natural market-sheds cut across national boundaries

Example of consequences of trade barriers: high consumer prices



Key Action Areas

Investments (both foreign & domestic) in the agric. sector has not been rising as expected. We have not put up certain things right.

Recommendations:

- Open up borders during lean and surplus years
- Improve investment incentives in surplus zones (feed and truck roads etc)
- Implement the Agricultural Marketing Plan which should have a Marketing Council (South Africa)
- Amend the Credit Act to accommodate the Warehouse Receipt System (WRS)
- Link the WRS to the Input Voucher System
- Promote institutions and initiatives such as ZAMACE, Forward Contracting
- Develop grain trading through establishment of a financial credit institution (Land bank in South Africa; Equity bank in Kenya; Rabo bank in the Netherlands)
- Irrigation Fund needs to be implemented by a specialised agency
- Encourage value addition to agricultural raw materials