Staple Food Trade in the COMESA Region

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

by
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Background

- Food staples trade 30% of intra-COMESA trade
- Agriculture is engine of economic development
  - Brings about food security and poverty reduction
- Agriculture development involves:
  - Trade
  - Infrastructure
  - Private sector development and investment
- Resolving food trade issues can have high economic pay-off – needs trade professionals
CAADP Framework – Pillars 2 and 3

- Reduction of poverty and food insecurity requires
  - A favourable investment climate
  - Demand at the farm-gate – market access
  - Access to food at tolerable prices
  - Supportive public policies

Objectives of Presentation

- Examine the role of food trade in
  - Mitigating food insecurity
  - Stimulating agricultural growth
- Identify challenges in regional food trade faced by
  - Public sector
  - Private sector
- Identify elements of a regional approach to enhancing food security through trade
Outline of Presentation

- Examine the role of food trade in
  - Mitigating and preventing food insecurity
  - Stimulating agricultural growth

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Production and Price Instability

- Production fluctuations substantial
- Results in price volatility
- Public investments (e.g., transport infrastructure) reduce marketing costs
- Lower marketing costs shrinks gap between import and export parity
  - Import parity lower: Increases food access
  - Export parity higher: Encourages production
Example: South Africa Maize Prices

Example: Lilongwe Maize Retail Prices
Example: Blantyre Maize Retail Prices

Blantyre retail cif Blantyre from South Africa USD per metric ton

Example: Lusaka Maize Retail Prices

Lusaka retail c.i.f. from South Africa nominal US$ per metric ton
What Causes Such Price Spikes?

- Absence of trading activity – ‘market paralysis’
- Various reasons:
  - Import restrictions
  - Export restrictions in source countries
  - Subsidy programs on imports or domestic supplies discourage private imports
  - Import programs delayed

Food Staple Trade to Double in Next Decade

- Due to urbanization and population growth
- Biggest growth opportunity for farmers
- Surplus production zones supplying deficit consumption zones:
  - Requires well functioning markets…
  - …often with borders between surplus and deficit zones
  - ‘Foodsheds’, or ‘market basins’ approach
Population Density in SE Africa

- People = Markets
- Highly concentrated
- Market opportunities across borders
- Compatible with corridor development

Foodsheds

- Market basins:
  - Major production zones linked to deficit zones - ‘Natural markets’
  - Ideally, principle of Communicating Vessels:
Market Access Reduces Price Volatility and Spurs Agricultural Growth

- Regional food trade can
  - Reduce price spikes by 50%
  - Stabilize supplies

- Regional market access will attract investment and boost production

- Requires
  - Predictable and transparent marketing and trade policy
  - Public investment in infrastructure and services

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Staple Food Trade Barriers

- Examples:
  - Import restrictions
    - Variable and unpredictable tariff measures
    - NTBs
  - Export restrictions in source countries
  - Subsidy programs on imports or domestic supplies discourage private imports
  - Import programs delayed

- Often unpredictable

- Imposed for fear of a national food stock-out

The Need for Public – Private Partnerships

- Food security requires public-private partnerships
- But public and private sectors have different objectives and expectations…
- …and are unable to offer ‘credible commitments’ to one-another – lack of trust

- Analysis and dialogue are needed to
  - Understand priorities and expectations
  - Reach policy consensus on food trade
Public and Private Sector Objectives

- **Public sector**
  - Food security – avoid price spikes and stock-outs
  - Fair prices for farmers and consumers
    - Buy high, sell low
- **Private sector**
  - Return on investment
    - Buy low, sell high
  - Minimize risks
  - Maximize turnover - working capital, liquidity
  - Competitiveness

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Ingredients of a Regional Approach to Enhancing Staple Food Trade

- **Public sector:**
  - Address national food security concerns
  - Address needs of vulnerable populations

- **Private sector:**
  - Exploit existing and new trade and production opportunities
  - Competitive environment will reduce costs and enhance competitiveness
  - Production supply response to new opportunities

- Manage national food stock-out risk, e.g.
  - Establish multi-stakeholder fund
  - Create portfolio of domestic and international call options

- Conduct (sub-)
  - Regional market analysis and identify trade flows and trade opportunities...
  - …thus contributing to a (sub-)
  - Regional policy consensus process that enhances food trade
**Recommendations**

- Technical Committee on Trade and Customs to include staple food trade as a recurring item on its agenda. A detailed work plan is to be developed and submitted to member states by December 31, 2009.

**Possible Components of Work Plan**

- The COMESA Secretariat, ACTESA, and its partners continue to identify and document current constraints inhibiting regional staple food trade.
- ACTESA to design a program that aims to improve national and regional supply and demand estimates, information on trade flows, market price information, and relevant household-level data.
- Develop a high-level regional working group that aims to reach short and long term policy consensus on regional staple food trade.
- Development of alternative food security guarantee instruments are developed, in partnership with the private sector and cooperating partners.