The Role of Risk Management in Food Commodity Trade

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Outline of Presentation

- Identification of common concerns
- Experiences from southern Africa
  - The role of risk management and structured trading mechanisms
  - Structure of the maize market
  - Market performance – market confidence
- Opportunities for Zambia
  - Building market confidence
  - Opportunities for reducing price volatility
Common Concerns and Risks

- Food shortages, high food prices
- Low producer prices
- Lack of market access by farmers

*Trigger…*

- Government imports and price interventions
- Physical food reserves
- Government price support to farmers

Types of Risk

- Farmers:
  - Production volume risk
  - Price risk
- Traders, processors:
  - Price risk
  - Currency risk
  - Performance risk

Ability to manage those risks are a function of market policy → market confidence
Managing Price Risk – Concepts

- The ability to secure a future sale or purchase of a commodity
  - Commodity Exchange using forward contracts with or without warehouse receipts (ZAMACE)
  - Futures Exchange using futures contracts, or options on futures contracts (SAFEX)
- Guarantees price and volume
- Acts as collateral
- Ensures “fair” market pricing

Managing Price Risk – Key Ingredients

- Requires
  - Market transparency, no non-commercial interventions
  - Financial and legal framework – enforcement
  - An active and competitive market – financial liquidity
  - An overall attractive investment climate
Experiences in South Africa: Maize Production

White and Yellow Maize Production in South Africa

Experiences in South Africa: White Maize Utilization, Stocks, Exports

National Utilization, Stock Levels, and Exports of White Maize in South Africa
Experiences in South Africa: Maize Price Volatility

Experiences in South Africa: Market Confidence

- No food shortages
- Increasing production, sector investments
- Reliable supplier of BNML, Moz, Zim, Kenya, DRC, Zambia, Malawi

**Required: Incentives**

- Market access by farmers
- Free trade: Import and exports
- No government market interventions
- Regulatory framework
Experiences in South Africa: Q and A

- Q: Why does SA have no export ban on maize?
- A: Because Argentina does not have any
- Q: Why does Mozambique have no export ban on maize?
- A: Because SA does not have any
- Q: Where is maize production booming?
- A: You guessed it…

Food Trade:

- Production areas linked to consumption areas
- Separated by borders trade
- Ideally, principle of Communicating Vessels…
- But: trade barriers
Experiences in Zambia: Maize Price Volatility

Building Market Confidence: Key Incentives Required

- Incentives to farmers and other investors
  - Market access
  - Storage (seasonal arbitrage)
  - Trade (spatial arbitrage)

**Requires:**
- Predictable trade policy
- Commercial price discovery – seasonality!
- Public investments to attract private investments
Risk and Volatility Management: The Way Forward

- Private sector will use and develop ZAMACE and WRS – trigger sector growth
- Finance and market liquidity will follow
- Government can secure positions in local and international markets through PPPs – no need for trade disincentives
- Public and private investments will contribute to lower import prices and higher farm gate prices – win win