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# 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
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## 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
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## 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
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## 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
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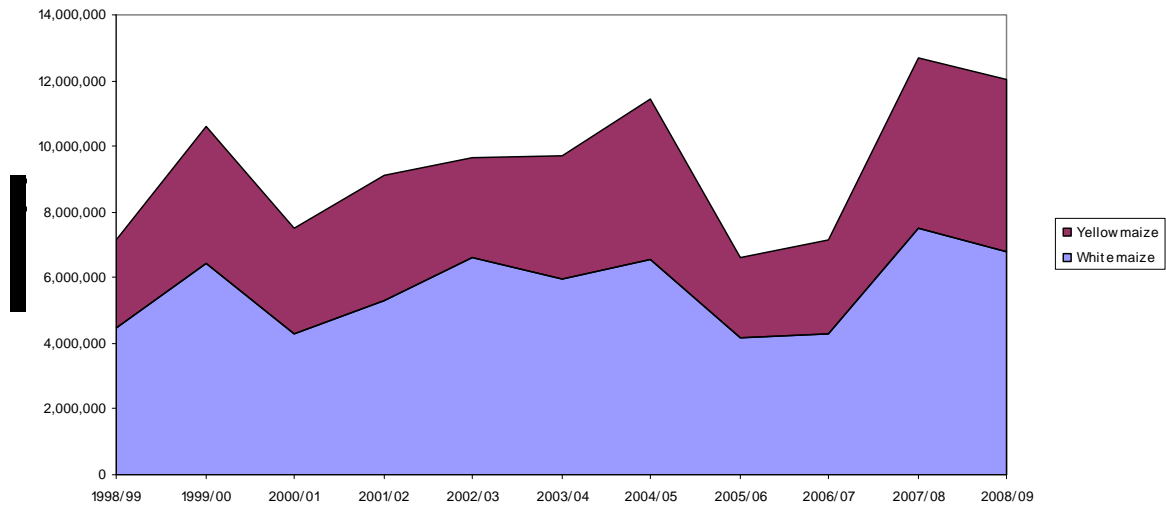
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## Managing Price Risk – Key Ingredients

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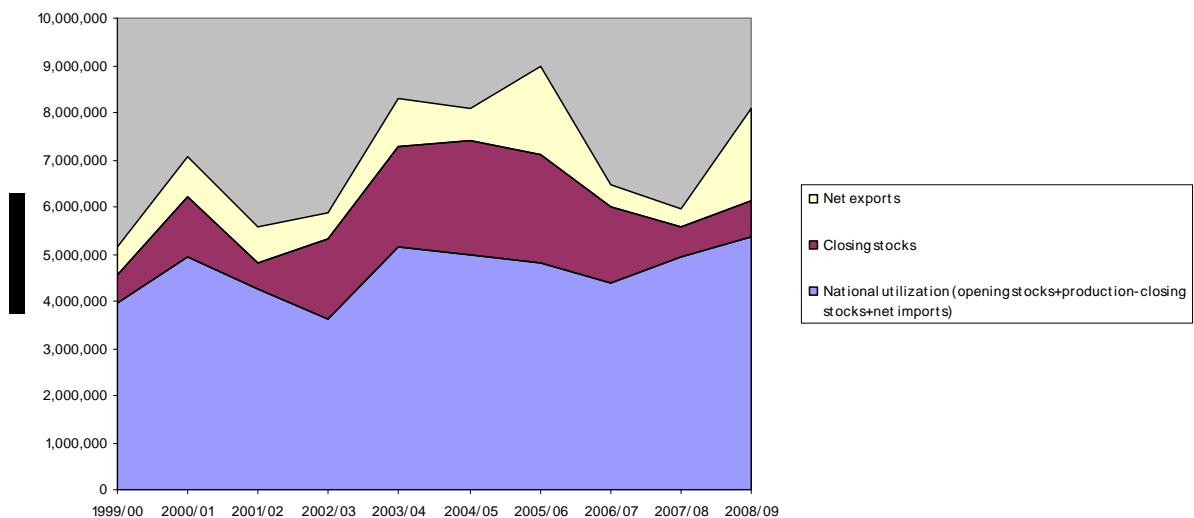
# Experiences in South Africa: Maize Production

White and Yellow Maize Production in South Africa

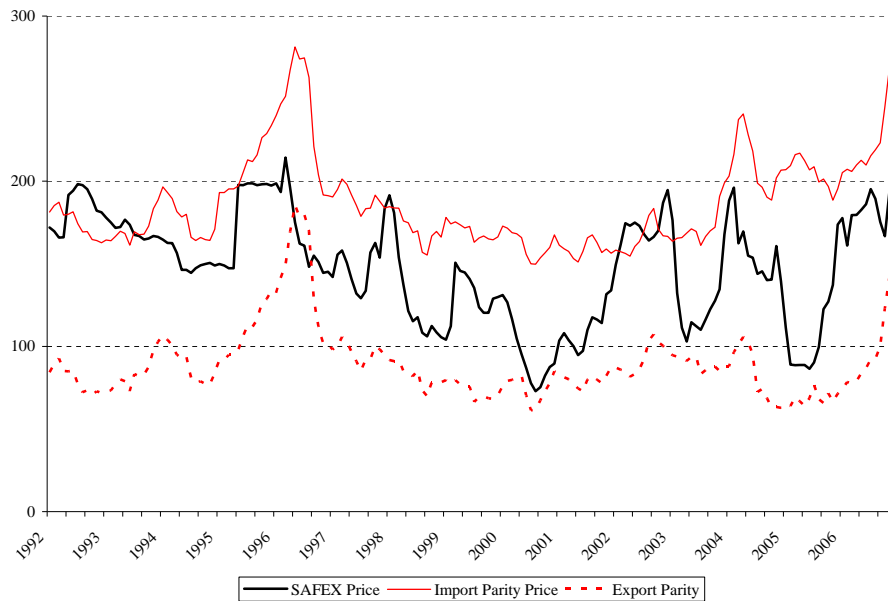


# Experiences in South Africa: White Maize Utilization, Stocks, Exports

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

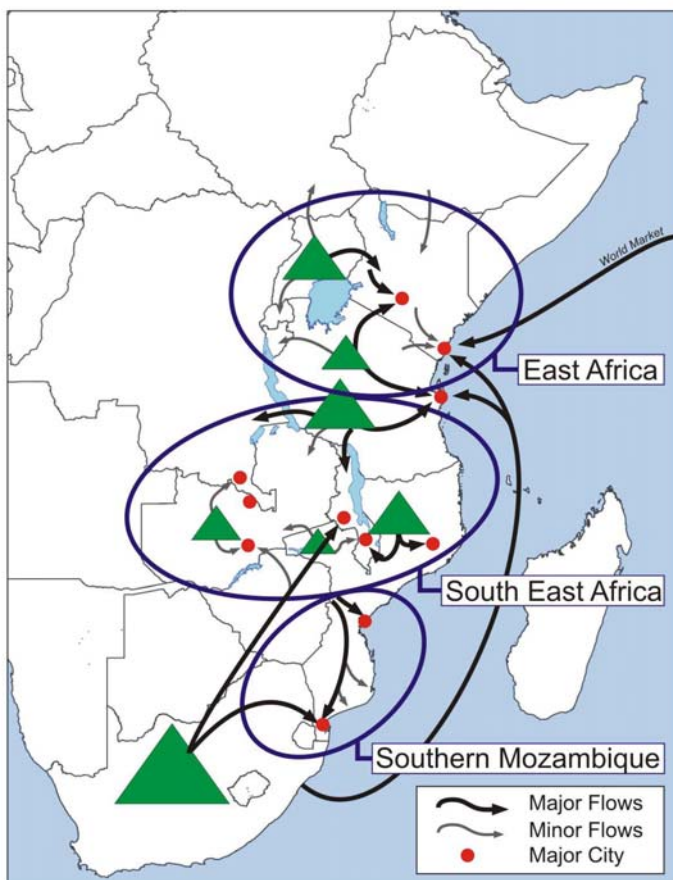
### ***Required: Incentives***

- Market access by farmers
- Free trade: Import **and** exports
- No government market interventions
- Regulatory framework

## Experiences in South Africa:

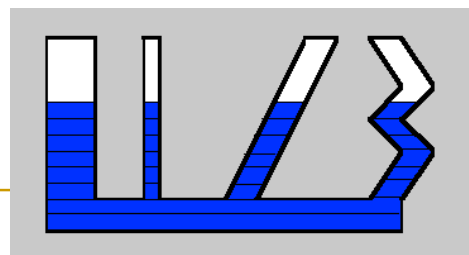
### Q and A

- 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...

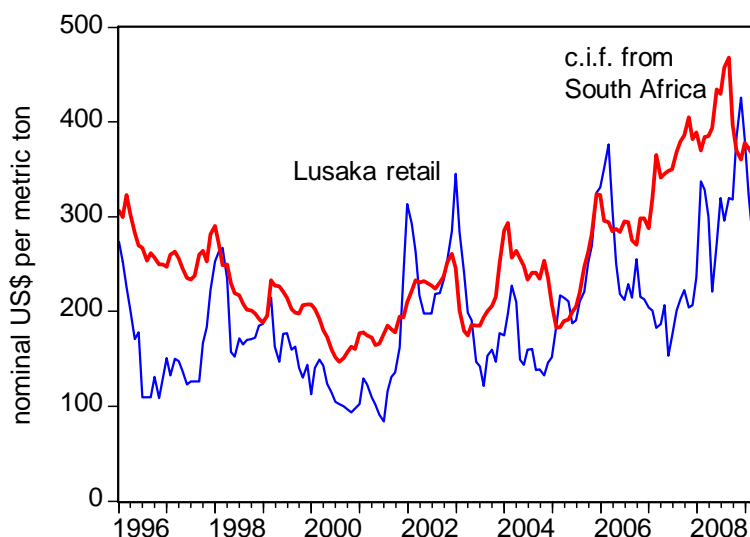


## Food Trade:

- 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

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## 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
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