Informal consultation to identify the key issues and results
Consultation III: Trade policy supportive of food security
20-21\textsuperscript{th} April, 2015,
FAO HQ, Rome, Italy
Food Price Dilemma

A never ending Government struggle!!!

Farmers lobby for higher producer prices

Lower consumer prices, usually culminating into unsustainable consumer subsidies
Trade Restrictions on staple grains

- Restrictions often imposed to strike a balance in this food price dilemma. Yet, questions remain:
  1. Do trade restrictions help to keep grain prices within reasonable bounds for consumers and producers?
  2. Can trade restrictions support medium-term objectives of increased grain productivity, agricultural-led poverty reduction, and improved food security?
Do Trade Restrictions Promote More Stable Prices?

- Chapoto & Jayne (2009), Minot (2013) finds that:
  - Maize price volatility is significantly higher in countries that actively intervene in their maize markets than it is in countries that make little or no effort to manage prices.

- Minot (2013)
  - Prices in Malawi, Zambia, and Zimbabwe, which have large state-owned trading enterprises that buy and sell maize, experience food price movements that are more than 50 percent more volatile than in countries that do not have entities engaged in maize trade.
Do Trade Restrictions Promote More Stable Prices?

Source: Chapoto and Jayne 2009
Maize Grain Prices Unpredictability

Mozambique-Maputo

Malawi-Lilongwe
Fig 9b. Maize Grain Prices Unpredictability
When grain prices spike above import parity, consumers are being unnecessarily taxed by an inefficient market.

When grain prices fall below export parity, producers are denied income opportunities from crop sales.
Zambia: Maize market-deficit years

Source: Dorosh, Dradri and Haggblade (2007)
Maize prices vs. import parity, Blantyre, Malawi

USD per metric ton

- Blantyre retail
- cif Blantyre from South Africa
Response to 2007/08 food price crisis

Source: Ministry of Agriculture Market Information Bureau for Nairobi wholesale prices; Kenya Bureau of Statistics for exchange rates; SAFEX and Tegemeo Institute for import parity prices.
Diao et al. (2013) show that maize export bans can have a dramatic effect on the welfare of rural producers, with minimal gains for consumers:

- Marginally lowered the national food price index by about 1%.
- Lowered producer prices by 7 to 26% in surplus regions.
- Lowers the growth rate in maize production by about 2%.
- Increases the number of poor households in those regions.
Conclusion

- Government operations in markets are costly. Not clear that these costs incurred provide any tangible improvements in price stability and food security.

- While private trading systems will always result in some price variability, they tend not to cause the frequent food crises caused by ad hoc government actions that are commonly seen in the region.
Some recommendations

- Government actions should be predictable.
  - Need for setting clearly defined and transparent rules for triggering government intervention with regard to changes:
    - in parastatal purchase and sale prices,
    - import and export decisions,
    - tariff changes
    - stock release triggers
Some recommendations

- Government actions should facilitate regional trade, not provide disincentives because regional trade has potential to:
  - raise farm-gate prices in areas of surplus
  - reduce consumer prices in areas of deficit
Some recommendations

- If governments intervenes too heavily, then markets will not develop
  - We aught to have a system where private sector takes the lead in linking producers and consumers to the market not the other way around.
  - Governments’ role should be limited to providing clear policies and regulations to enhance value chain activities.
Thank You