Understanding the Effects of Maize Trade Restrictions on the Development of Maize Markets

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Parliamentary Policy Seminar: Reviewing the Impacts of Import and Export Bans on Food Security in ESA
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Outline of Presentation

- Background: The importance of coordinated investment in market development
- What are the costs of trade bans to national treasuries?
- Trade restrictions and informal trade
- Opportunity costs of trade restrictions on private sector investment in maize markets
- Review of policy options for improving maize market performance in the region
Background: What do the markets need and can trade restrictions get us there?

- Regional maize markets face a host of challenges:
  - Low yield and rain-fed dependent production systems
  - High marketing costs
  - Limited public resources

- Improvement requires coordinated investment from public and private sectors in:
  - Productivity enhancement
  - Roads, rails, and ports
  - Storage infrastructure

- How do trade restrictions affect investments in these critical areas?
What is the Role of the Public Sector in Market Development?

- Provide public goods for which there are limited profit incentives for the private sector:
  - Roads, rails, and port
  - Agricultural research, development, and extension
  - Rule of law
- Financed through taxes, government borrowing, etc…
- Trade restrictions can cost countries substantial foreign exchange and tax revenue
## Foregone Foreign Exchange and Tax Revenue: Zambia

<table>
<thead>
<tr>
<th>Production year</th>
<th>Production (1000 MT)</th>
<th>Production + carryover stocks (1000 MT)</th>
<th>Domestic Consumption (1000 MT)</th>
<th>Expected Exports (1000 MT)</th>
<th>Exported Formally (1000 MT)</th>
<th>Not Exported Formally (1000 MT)</th>
<th>Forgone Foreign Exchange Earnings through Trade ($US)</th>
<th>Lost Tariff and Licensing Revenue (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008/09</td>
<td>A=1,887</td>
<td>B=1,950</td>
<td>C=1,700</td>
<td>250</td>
<td>E=173</td>
<td>F=77</td>
<td>G=F*US$220</td>
<td>H=F*$20</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$16,940,000</td>
<td>$1,540,000</td>
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<td>2009/10</td>
<td>2,795</td>
<td>3,094</td>
<td>2,000</td>
<td>1,094</td>
<td>3</td>
<td>1,091</td>
<td>$240,020,000</td>
<td>$21,820,000</td>
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<tr>
<td>2010/11</td>
<td>3,020</td>
<td>3,450</td>
<td>2,500</td>
<td>950</td>
<td>30</td>
<td>920</td>
<td>$202,400,000</td>
<td>$18,400,000</td>
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<td>2011/12</td>
<td>2,853</td>
<td>3,550</td>
<td>2,500</td>
<td>1,050</td>
<td>358</td>
<td>692</td>
<td>$152,240,000</td>
<td>$13,840,000</td>
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<td>2012/13</td>
<td>2,532</td>
<td>2,988</td>
<td>2,500</td>
<td>488</td>
<td>73</td>
<td>415</td>
<td>$91,300,000</td>
<td>$8,300,000</td>
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<tr>
<td>Sub-Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3195</td>
<td>$702,900,000</td>
<td>$63,900,000</td>
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<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$766,800,000</td>
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</tr>
</tbody>
</table>

Source: MAL/CFS, COMTRADE on formal exports
Trade Restrictions Encourage Informal Trade

- National boundaries often separate natural markets:
  - Many surplus and deficit areas separated by national borders
  - Examples:
    - Northern Mozambique and Southern Malawi;
    - Northern Zambia and Katanga Province DRC;
    - Northern Tanzania and Kenya
Trade Restrictions Encourage Informal Trade

- Trade restrictions do not stop trade
  - Long and porous borders between surplus and deficit areas
  - Supplies will find ways of meeting demand

- Informal trade is expensive and untaxed
  - Cost of loading and unloading, payments to border guards, etc...
  - Drives up prices and deprives governments of revenue
Example of Effects of Trade Restrictions on Informal Trade

- In September 2013, Malawi witnessed an unprecedented surge in informal maize trade from Zambia, coinciding with the imposition of a formal export ban in Zambia.

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Observed Malawi Informal Maize Import Trends (MT)

Source: FEWNET Cross-border monitoring
Effects of Trade Restrictions on Private Sector Investments

- Reliable cross border trade is a critical precondition for unlocking private sector investment in maize marketing and production
  - *Ad hoc* trade restrictions and other state interventions in grain markets increases price uncertainty
  - High price uncertainty makes private sector unwilling to invest significantly in grain markets

- Vicious cycle of private sector underinvestment in grain infrastructure and procurement, leading to pressure on the public sector to continue to intervene in markets.
Foregone Investments in Grain Storage

In Zambia

- **Members of Grain Traders’ Association currently have:**
  - $US 30 million in 550,000 mt storage in 11 districts

- **With greater policy predictability:**
  - Additional US $45 million to increase to 825,000 mt storage in 18 districts.
    - Particular interest in investing in northern corridor to tap into east Africa market.

- **Instead 2013 Ag budget allocated K179.7 million for construction & rehabilitation of silos**
  - Greater than the combined spending on R&D (86.6 million) plus rural feeder roads (63.5 million) in ag budget
Conclusions

- The current market situation:
  - Supplies are incapable of meeting demand requirements
  - Maize prices frequently trade outside of the bounds set by import and export parity prices
  - Stagnant yields
  - High levels of rural poverty
  - There is need to chart a new path

- Unlocking the agricultural potential of the region will require:
  - Farmers are given the price incentives and tools to raise yields,
  - Public sector has resources and will to invest in public goods to raise yields and lower transaction costs;
  - Private sector complements public investments to increase storage capacity and to better link producers to consumers.

Evidence summarized shows that trade restrictions do not aid in achieving these goals.
Options to Consider

- What are the options?
  - Predictability in the market is CRITICAL
    - Development of a policy framework that enhances the predictability of government actions in the market through a process of consultative and rules-based interventions.
    - State interventions in the market are pre-defined, well-known to all interested parties, and based on prevailing market conditions.
  - Predictability does not necessarily mean full liberalization of trade or the loss of control over food supplies by the government.
    - Rather it is a shift in policy towards a more rationalized system in which governments set the rules of the game to encourage participation by all interested stakeholders.
Options to Consider

1. Information is Power:
   - Governments and regional bodies should support the development of professional agencies for generating and disseminating accurate crop production forecasts and price information.
   - These can be developed at a national level, but ideally would also be housed in a regional database.
Options to Consider

2. Link information to consultation:
   - Price and production data used in consultative dialogues aimed at determining governments’ intended actions in maize markets in the coming year.
   - Dialogues should be used to solicit insights from a wide range of stakeholders, including farmers’ associations, trade groups, consumer advocacy groups, and policy makers.
3. The rules of the game: determining the price and supply triggers for specific actions:

- If domestic wholesale prices drop below a predetermined price what steps will be taken?
- If prices rise above a predetermined price what steps will be taken?
- If prices remain within predefined range, government will allow private sector to operate without restrictions.
Options to Consider

4. Explore alternative means for managing national strategic reserve stocks. This can include:

- Issuance of quotas to the private sector to buy on behalf of the government.
  - Government has the right of first refusal to the grain at predetermined prices and locations.

- Governments can use call options on SAFEX to manage a portion of their reserves through financial instruments.
  - Call options give the buyer the right, but not the obligation, to a commodity.
  - Buy options for multiple delivery dates and announce at what domestic price these options would be exercised.
Options to Consider

5. Reallocate revenue generated through maize trade and decreased expenditure on strategic reserve management or imports
   - Increase public investment on public goods to lower transactions costs and increase farmer productivity.
Thank You