Current Agricultural Trade Policy & its Effects on Agribusiness in Zambia: Trade & Exports Restrictions

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Workshop on Public Spending in Zambian Agriculture: Myths Versus Facts
Chita Lodge, Samfya
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Huge Potential to become the regional grain basket!

In 2016, Zambia earned $172 Million from maize exports or 28% of total agricultural exports.

In 2012 maize exports were $414 Million or 34% of total agricultural exports.
Why trade restrictions and bans?

- Export bans/restrictions to ensure food security
  - Keep prices low

- Does this hold?
- Although well intended, the unintended effects of trade restrictions and bans can be dire!
Government has an interventionist approach to the grain sector, including trade restrictions.

Historical perspective

Source: MoA/CSO Various years; Nkonde et al., 2011
Effects of maize trade restrictions and bans
I. Increases in price volatility

Source: MoA Various Years; GTAZ Various Years; SAFEX Various years.
2. Loss of potential Foreign Exchange and losses to the National Treasury

<table>
<thead>
<tr>
<th>Production Year</th>
<th>Production (1,000 MT)</th>
<th>Production + Carryover Stocks (1,000 MT)</th>
<th>Domestic Consumption (1,000 MT)</th>
<th>Expected Exports (1,000 MT)</th>
<th>Exported Formally (1,000 MT)</th>
<th>Not Exported Formally (1,000 MT)</th>
<th>Foregone Foreign Exchange Earnings through Trade (Million US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008/2009</td>
<td>1,887</td>
<td>1,950</td>
<td>1,700</td>
<td>250</td>
<td>173</td>
<td>77</td>
<td>16.9</td>
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<tr>
<td>2009/2010</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>240.0</td>
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<tr>
<td>2010/2011</td>
<td>3,020</td>
<td>3,450</td>
<td>2,500</td>
<td>950</td>
<td>30</td>
<td>920</td>
<td>202.4</td>
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<tr>
<td>2011/2012</td>
<td>2,853</td>
<td>3,550</td>
<td>2,500</td>
<td>1,050</td>
<td>358</td>
<td>692</td>
<td>152.2</td>
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<tr>
<td>2012/2013</td>
<td>2,532</td>
<td>2,988</td>
<td>2,500</td>
<td>488</td>
<td>73</td>
<td>415</td>
<td>91.3</td>
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<tr>
<td>2013/2014</td>
<td>3,351</td>
<td>3,948</td>
<td>2,500</td>
<td>1,448</td>
<td>231</td>
<td>1,217</td>
<td>267.7</td>
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<tr>
<td>2014/2015</td>
<td>2,618</td>
<td>3,964</td>
<td>2,500</td>
<td>1,464</td>
<td>895</td>
<td>568</td>
<td>116.5</td>
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<tr>
<td>2015/2016</td>
<td>2,873</td>
<td>3,541</td>
<td>2,500</td>
<td>1,041</td>
<td>221</td>
<td>820</td>
<td>270.6</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,357.7</td>
</tr>
</tbody>
</table>

Source: MoA/CSO Various years; CSO Various years

Zambia could have earned US $1.36 Billion from maize exports
Another implicit loss to the national treasury is the cost of holding exportable maize.
As at 13\textsuperscript{th} February, 2019

Total estimated maize stocks amounted to 761,463.57 MT

Exporting 20,000 MT at export parity price

Could earn Zambia $5.4 Million or K64 Million

Exporting 100,000 MT could earn Zambia K321 Million or $27 Million
3. Increase in informal and often illegal cross border trade

Trade restrictions difficult to implement as informal trade flourishes instead

Currently mealie meal trading at an average of K145/ 25kg bag at Kasumbalesa (Zambian side) and K190/ 25kg bag (DRC side)
Effects of maize trade restrictions and bans

4. loss of export markets to competing suppliers

Source: CSO various years; and SAGIS various years.
Effects of maize trade restrictions and bans

- Export bans harm producers by limiting their ability to gain maximum revenue from their sales
  - Creates disincentive to produce in future
  - Lose markets to other countries
Examples of reduced investments by the private sector

Cargill closes oil refinery

By Staff Reporter on November 1, 2018

Notice to all AFGRI clients, suppliers and other stakeholders on the ongoing operations of AFGRI in Zambia

This Notice serves to clarify the current position of AFGRI's operations in Zambia. As you may be aware there have been a number of changes to our operations recently which have been necessitated by the poor financial performance of the agricultural sector in Zambia at large, as well as other operational challenges.

AFGRI Leasing Services - providing finance to primary producers, we are simply not able to secure the correct level of funding required to support local farmers in line with their growth expectations going forward, and accordingly will discontinue operations as of the end of February 2019.

Grain Management Services - we have embarked on a process to reduce the number of depots we operate for the storing of grain, and this process will continue as certain identified sites are emptied. It is however envisaged that other sites will remain open for the foreseeable future. In future trading will also only be executed on a mandate and back-to-back basis. The downscaling of the trading operations and the closing of a number of depots will unfortunately result in employment losses.

Equipment Division is being transferred to a separate legal entity styled AFGRI Equipment Zambia Limited which will bring the structure in line with other countries AFGRI operates in. The operations of the Equipment business (John Deere and other brands) will however not be impacted at all and both our Lusaka and Mkushi branches and Mpongwe parts depot remain fully operational.
Conclusions

Maize can be a significant earner of foreign exchange BUT

• Export restrictions and bans have been a prominent feature in maize marketing policies in the country.
• These restrictions/bans have increased even when Zambia has become a consistent surplus maize producer
• Unpredictable and inconsistent export restrictions and bans have negative impacts on the ag. Sector
Conclusions

Consistent trade policies promote private investment, supporting growth and ensuring food security.

- The private sector invested in storage facilities.
- Strong demand for Zambian maize in the region.
- Consumption patterns today are different from many years ago.
- The country’s irrigation capacity has improved since the 1990s.

Making the conditions for maintaining open border policies favorable.

Zambia’s agricultural landscape has transformed over the years.

These transformations entail that Zambia needs to explore different maize marketing policies in line with the changes that have occurred over time.
Grain trade can be a winner for Zambia but requires certain conditions to be in place, e.g.

- Open trade is not at variance with government’s aspirations of attaining food security
- Having consistent open border policies
- Trade facilitation and simplification of export procedures
- Creating conditions that enable trade
- Harnessing large-scale commercial farmers’ potential to produce early maize
- Establishment of the Grain Information System
Thank You