



*“Regional Impacts of the Market Situation of Grains and
Oilseeds”*

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The world market has seen the prices of grains and oilseeds increase enormously in the last year. There are many reasons that have been advanced to explain these developments. On the demand side, there has been increased demand due to manufacture of bio-fuels, long-term income and population growth in China, India and other developing economies and probably some degree of speculation and panic action in the markets because of low reserve stocks. On the supply side, adverse weather conditions in major exporting countries like Australian, dwindling reserve stocks (which reached their lowest levels since 1980's), high oil prices (has led to increased prices for agricultural inputs & high cost of transport, processing and storage) and limited investment in agriculture because of decreasing trend in agricultural prices since the 1980's acted as a disincentive for increased agricultural production.

Consequently, this should imply that farmers in the Southern Africa region, especially from countries that are net food exporting countries, have improved opportunities for income generation since returns to production should improve and they have comparative advantages in their production. Currently statistics indicate that there are dwindling levels of grains in the region which invariably has reduced the volumes of grain trade between countries in the region. For instance, the total amount of maize traded as captured through the monitoring system in February 2008 amounted to 3,655 MT, almost half of what was traded in January 2008. Total maize, rice and beans traded through informal cross-border trade among the monitored countries, in February 2008 amounted to 5,644 MT, down by about 45 percent from over 10,000 MT traded in January 2008¹.

As indicated earlier, some of the increases in producer prices for grains are due to rising in input costs. Fuel prices have increased which implies correlated increases in nitrogenous fertiliser prices and transport costs of all inputs and outputs. For landlocked countries where long distances are to be covered the fuel costs are a significant added cost to production. However, they are also a significant component of the cost of importing food, which means that there is added incentive for land locked countries to expand production to achieve self-sufficiency and exports into deficient markets in the region.

However, higher producer prices should stimulate production world-wide, which implies higher demand for inputs. In a world of limited supply of inputs, supply response in developing countries (who are dependant on imported inputs) will be constrained by limited supply of inputs, the high prices of those inputs and consumer resistance to rising food prices.

¹ Fewsnet- Informal cross border trade in Southern Africa; February 2008 publication

A possible policy response to higher demand for food, in Europe, is the reversal of the “set-aside” policy that means that the 15% of agricultural land that was taken out of production will now be returned to production. This extra 15% of production in Europe is probably equal to more than the whole of Southern Africa production. It also means that there is a 15% increase in demand for inputs which is also probably equal to more than the demand for Southern Africa. Therefore availability of these inputs in Southern Africa will be reduced and the price will be increased.

Producer prices in some Southern Africa countries have been depressed by various policy measures such as export bans and price control in order to protect the consumers who are predominantly urban based which has perpetuated urban migration. Several countries in the region have a majority of their populations living in urban areas. Now is an opportune time to reverse this trend, if the rewards to farmers are allowed to rise to a level where farming becomes a viable income generating opportunity through crop and livestock production. Inevitably, there could be an increase in incidence of urban poverty and child malnutrition which should be mitigated against by strengthening targeted programmes for vulnerable households. In a nutshell, the policy option should be to turn the rising food prices into an opportunity for wealth creation by enlarging the participants at the production level to achieve self sufficiency in food production and surplus for exports.

In the case of oilseeds, the rising costs of production of field crops may favour palm oil production, which can deliver 40 tonnes per ha from a mature plantation. This implies that there should be more incentive to produce palm oil in Africa with long-term implications for deforestation. In the short-term there will be greater incentive for imports from Asia which would undermine the production capacity in Africa for soya, sunflower and groundnuts, thereby depriving small-scale producers of their income earning opportunities and the beneficial effects of soya and groundnuts on soil fertility.

By way of concluding, there are potential opportunities in higher producer prices for countries that have available land and appropriate infrastructure, so long as they are able to reduce costs of production faced by farmers. A country that is able to make land available to producers and ensure that input costs and all transaction costs are competitive will be able to supply regional and even international markets profitably. These opportunities will apply not only to large-scale commercial operators but also to small-scale producers who adopt appropriate conservation farming methods that generate high yields, are efficient in their use of inputs and sustainable in their use of natural resources. However, these opportunities will only accrue to Southern Africa producers under a level playing field and in the absence of distortions in the markets arising from

subsidised imports of agricultural products from the west. For instance, a lot of subsidised wheat finds its way into Malawi, it is then milled and finds its way into Zambia and other neighbouring countries in the region, branded as originating from Malawi and enjoys preferential terms under COMESA (Rules of Origin).

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