
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

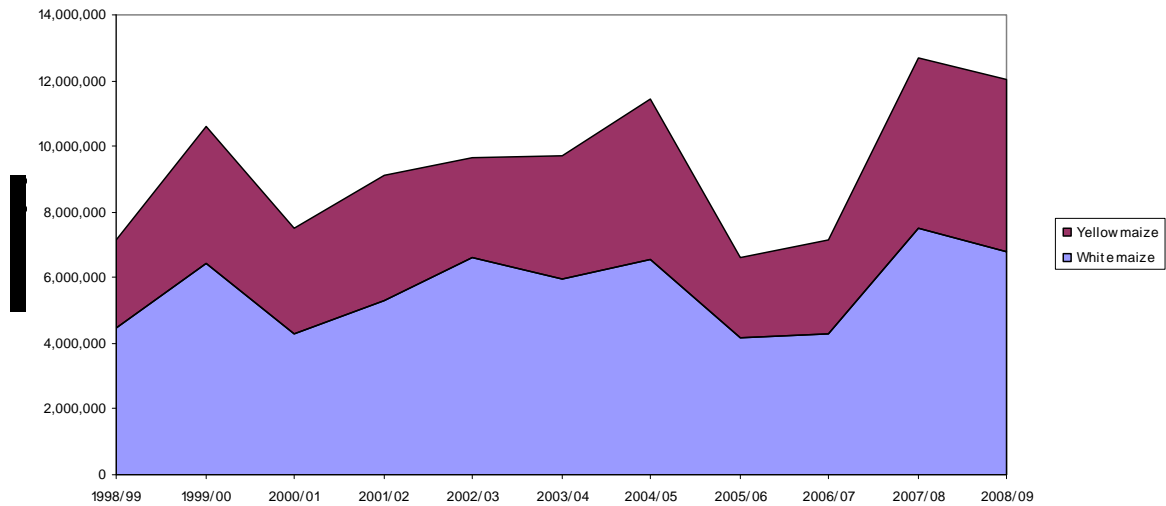
- The ability to secure a future sale or purchase of a commodity
 - Commodity Exchange using forward contracts with or without warehouse receipts (ZAMACE)
 - Futures Exchange using futures contracts, or options on futures contracts (SAFEX)
 - Guarantees price and volume
 - Acts as collateral
 - Ensures “fair” market pricing
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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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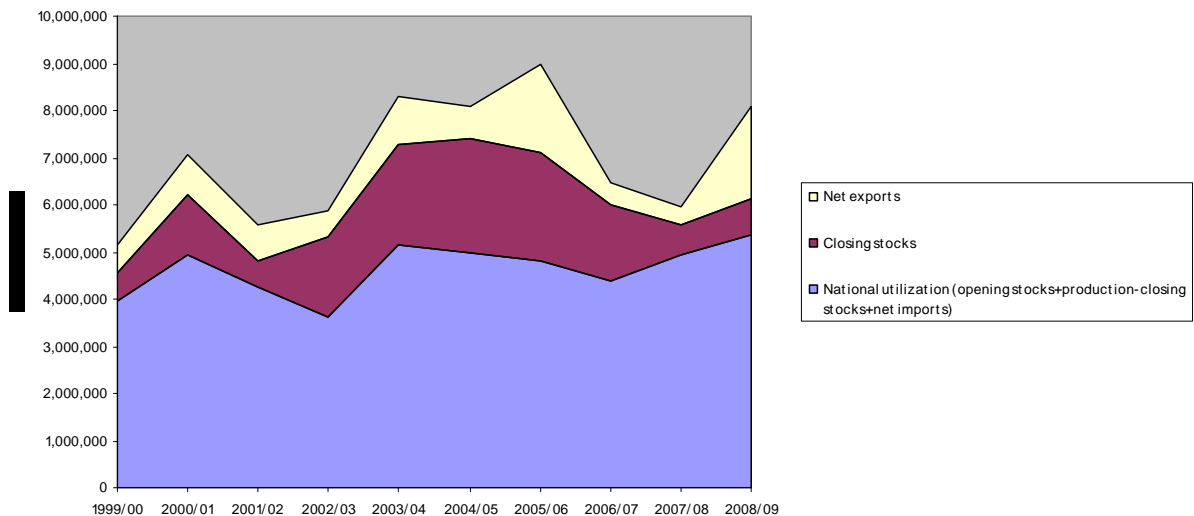
Experiences in South Africa: Maize Production

White and Yellow Maize Production in South Africa

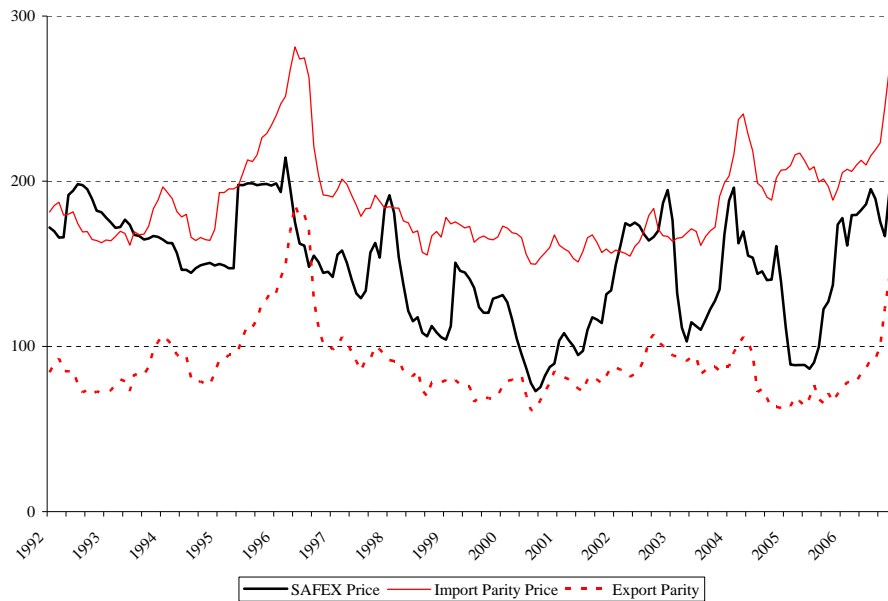


Experiences in South Africa: White Maize Utilization, Stocks, Exports

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

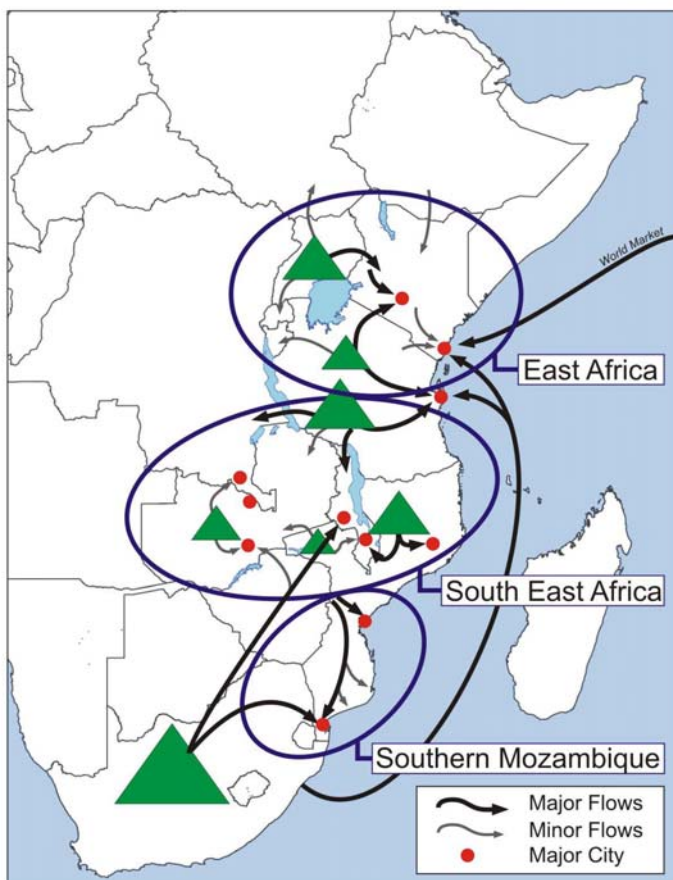
Required: Incentives

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

Experiences in South Africa:

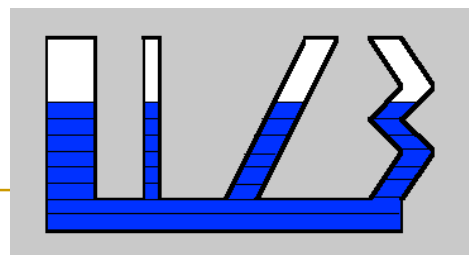
Q and A

- 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...

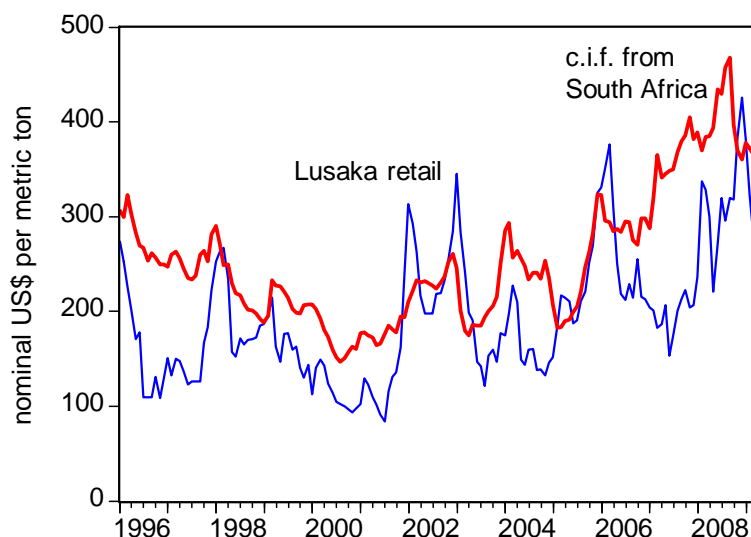


Food Trade:

- 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

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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