Policy Advisory Note on the

Long-Term Strategy for Regional Grain Trade

1. Background

In good agricultural seasons, Zambian farmers, millers, traders and government benefits from export of grain, particularly maize, to lucrative markets in neighboring countries namely; the Democratic Republic of Congo (DRC), Angola, Malawi, Zimbabwe and Namibia. During such periods, Zambia creates markets in these countries. Owing to its comparative advantage, Zambia's grain competes favorably in these nearby border locations with exports from the Republic of South Africa (RSA), Tanzania and Mozambique. Occasionally, exports are restricted or delayed during surplus years by the Zambian government resulting into loss of revenue and export opportunities established in these countries, at the expense of those involved in the maize value chain, including the government.

In deficit seasons, Zambia becomes a net grain importer, depending on South Africa, Tanzania and Mozambique to fill the local production shortfall. Thus, Zambia benefits from regional trade in both surplus and deficit years. Even in deficit years, it may make commercial sense for Zambia to export small quantities of maize while at the same time importing larger volumes. The 2005/06 marketing season offers a good example, when Zambia imported large volumes from South Africa, smaller volumes from Tanzania yet continued to export maize to DRC. Because of Zambia's locational advantage in supplying Katanga Province, it is possible for Zambia to remain a reliable regional supplier, even in deficit years.

Constraints to regional trade hurt Zambia, in both deficit and surplus years. In deficit years, should surplus countries such as South Africa and Tanzania adopt restrictive trade policies (such as those currently invoked by the Zambian government), Zambian consumers will clearly suffer. In surplus years, constraints on exports will lead to unnecessary price collapse, dampening farmer incomes and incentives to plant maize the following year.

The concern for the 2006 marketing year is to create conditions that allow the market to absorb the surplus crop without disrupting production in the coming seasons. In the long run, conditions should ensure that trade and production are not disrupted even in deficit grain situations. Agricultural growth in Zambia comes from Zambia being seen as a reliable regional source of commercial grain supply and demand in good and bad years.

2. Objective

The overall objective is to develop short and long term strategies for ensuring predictable maize supply and optimum prices for farmers and consumers through local production, imports and reserve releases, for local consumption and export during both surplus and deficit years. This strategy should move and develop grain marketing in the direction of what is good for farmers, traders, millers, consumers, tax payers and government.

3. Situation of regional maize flows relevant for Zambia in deficit and surplus seasons

Inflows

- Cross border flows into Zambia mainly from Tanzania and Mozambique.
- Formal commercial imports mainly from Tanzania and South Africa
- Food aid imports from and beyond the region
- Local production
- FRA & other reserves held from previous season

Outflows

- Cross border exports into DRC, Malawi, Angola and Namibia
- Commercial exports into DRC, Malawi, Angola and Namibia
- Food aid exports
- Local consumption
- Reserves

4. Responsibilities for different actors

Role of government

- Develop and coordinate a mechanism such as a standing committee (consistent with the Agricultural Marketing Development Plan) to allow a process of consultation between government and the private sector in order to develop more concrete and explicit procedures/guidelines and principles of coordinating local and regional grain marketing
- Keep the trading environment stable to allow commercial entities to plan e.g., notify the public 3 months in advance before any changes in import tariff rates, export bans, SPS requirements and procedures and other changes in trade policy
- Produce regional crop forecast estimates by March of each year, and make them available to the general public through the grain marketing committee
- Monitor local and regional price movements, grain stocks and flows and device remedial measures (procurement and/or releases) to protect consumers and farmers equally, while involving the private sector.
- Fund FRA adequately and timely so that purchases are done during the marketing season when prices for producers tend to be lowest and supplies are highest (June to October) to ensure maize security reserves are procured when prices are low
- Notwithstanding regional trading agreements, sign bilateral trade agreements with countries with greatest markets to absorb our surplus grain
- Support regional treaties, to facilitate regional trade.

Role of millers and traders

- Compile information on local consumption, exports and potential imports in surplus and deficit periods, through out the year.
- Monitor and share information on supply, demand and prices in prospective regional export/importing countries.

- Work with government to develop a mechanism for ensuring that adequate grains are available, at optimal prices for all stakeholders, throughout the year for local consumption and exports.

Role of food AID partners

- share information on scale, procurement modalities and timing of relief operations two months before the marketing season opens
- purchase all local requirements and surplus requirements for the region locally whenever the country has a surplus
- minimize disruption of local markets (protect both consumer and farmer welfare during and after emergencies) by distributing most imported grains during the marketing season when consumer prices are highest and supply lowest (November to April).

5. Policy Options and Implications

Allow Maize Meal Exports, but Block Maize Grain Export: This presents an opportunity to export value added products to the region, thereby increasing demand for the local produce which will in turn raise the maize prices for farmers. If Zambia does this to its regional trading partners, it will be difficult to keep exporters to Zambia from doing the same during the years when Zambia needs to import grain for the commercial millers and consumers. While this option is lucrative for millers, it will isolate and exclude farmer organizations and traders from participating in regional trade and risk retaliatory measures against Zambia in deficit years.

Allow Maize exports and imports: This Policy option will encourage the private sector to purchase maize since it can then look for the best market for the maize, whether external or internal. The FRA will be in a position to purchase maize with the resources available for their reserves without having to implement a difficult price support and public purchase program. This option will result into higher prices for maize farmers who will then be motivated to grow more in the next seasons. In addition, the government should encourage the private sector to import maize through out the year where it is cheap and export it where it is needed. This option will enhance Zambia's reputation as a reliable trade partner in the region and thereby protecting local farmer's and consumer's welfare.

Ban Maize Exports: This Policy option will result in reduced sales opportunities for maize farmers and thus lower prices for their maize. For producer prices to go up, it will mean that the Food Reserve Agency should buy maize with government providing the funding. Apart from this option being costly for tax payers in Zambia, it may not be feasible as government funding to the FRA is limited. The end result will be farmers facing low prices and limited markets, thus reducing their incentives to produce maize the following season. If the coming season production is below normal, government may be in the unenviable position of either raising taxes or divert development resources to finance imports.