Monthly News Report on Grains

MNR Issue 86 - September 2012

About the MNR:

For a printer friendly version of the MNR, you may wish to use the attached PDF file.

The main purpose of the MNR is to establish a communication vehicle for closer dialogue between the FAO Secretariat and the Members of the Intergovernmental Group (IGG) on Grains as well as the general public.

The MNRs are dispatched electronically on the last working day of the month except in July and December.

To find previous issues of the MNR click here.

To subscribe, send an email to: FAO-IGG-GRAINS@fao.org

Links to our web sites:

FAO World Food Situation

FAO Grains Website

Market News:

- USDA: Corn surplus down 12 percent
- Cargill Says Grain Rally Means No Food Shortage
- Paris wheat prices hold firm after Egyptian order
- Russia Suspends Import, Use Of Genetically Modified Corn
- Morocco Plans to Suspend Soft-Wheat Import Duties as of Oct. 1
- Farm Bill to Take Focus After Election
- US. Sorghum Eyed as a Southern Bioenergy Crop
- Grain market turmoil hits depressed shipping sector
- EU proposal would limit use of crop-based biofuels
- Grain price squeezes Botswana

Reports

- Grain stocks (USDA)
- Global Food Price Monitor (FAO)
- Agricultural Policy Monitoring and Evaluation 2012 (OECD)
- Net Food-Importing Developing Countries (ICTSD)
- Responding to Higher and More Volatile World Food Prices (WB)
- Using Public Foodgrain Stocks to Enhance Food Security (WB)
- What Price of Crude Oil Makes Ethanol Production Profitable?

Monthly Information Sources

- Grain Market Report (IGC)
- Crop Monitoring in Europe (MARS)
- Commodity Price Data (World Bank)

Market News:

USDA: Corn surplus down 12 percent, soybeans down 21 percent

28 September 2012 Des Moines Register

The U.S. Department of Agriculture reported Friday morning that the nation's surplus corn stocks totaled 988 million bushels, 12 percent lower than a year ago, in September. The USDA said soybean stocks totaled 169 million bushels, down 21 percent from this month a year ago.

Iowa's grain stocks reflects the national trend. A year ago 268 million bushels were stored in elevators and farmers' bins. This year the stored total was 226 million bushels.

The numbers represent the last tally of grain stocks in storage before the new harvest is added. The USDA already h as forecast sharp drops in production from the 2012 crop because of t he drought that hit the Midwest this summer, although an exact tally of yields and production for corn and soybeans is not yet available.

Those numbers continue a trend of tight grain stocks, which likely will keep prices high and narrow the operating margins of end users such as livestock feeder and ethanol producers.

"The corn surplus number was lower than expected and reflects still-strong demand for livestock feed," said commodity trader Don Roose of US Commodities in West Des Moines.

Roose said the report Friday "will put a floor" under corn and soybean prices,which have dropped in the last three weeks under the pressure of a new harvest.

"We also have what is potentially a strong soybean crop coming from South America, where they will start planting very soon," Roose noted.

The markets reacted immediately. Corn prices jumped 16 cents per bushel to $7.32. Soybeans were up 3 cents per bushel, to $15.70.

Iowa is the nation's largest producer of both corn and soybeans.

A year ago the USDA reported ending corn stocks of 1.2 billion bushels and soybean surpluses of 215 million bushels.

back to top

Cargill Says Grain Rally Means No Food Shortage

27 September 2012 Black Sea Grain

Cargill Inc. Chairman and Chief Executive Officer Greg Page says the surge in crop prices during the worst U.S. drought in 56 years will encourage farmers to increase production for 2013.

Global food production this year measured by calories likely will be 2 percent less than what was expected at the start of 2012, Page said. Lower forecasts for corn output in the U.S., the biggest grower and exporter, pushed futures to a record $8.49 a bushel on Aug. 10 in Chicago. The most immediate farmer response to the U.S. drought may be with expanded harvests in South America, particularly Brazil, Page said.

Prices are above the cost of production, which creates an incentive to plant more, Page said. Currently, corn futures for delivery in December 2013 are trading more than a $1 lower than the $7.40-a-bushel cost of grain to be delivered this December.

"We can grow a lot of food at these prices," Page said.

Cargill, the largest closely held U.S. company, dominates the U.S. grain market along with Archer Daniels Midland Co. and Bunge Ltd. (BG) The Minneapolis-based company was founded in 1865 and employs about 140,000 people around the world to produce and trade food and other commodities.

Corn and soybeans have rallied to records since mid-June as damage from the hot, dry U.S. summer became evident. After initially forecasting a record corn crop, the U.S. Department of Agriculture cut its estimates three months in a row. Its most recent prediction is 10.7 billion bushels this season, the smallest in six years.

The effects from higher food prices are being felt from Mumbai to Mexico City. U.S. hog farmers are slaughtering animals at the fastest pace since 2009 as a surge in feed costs spurs the biggest losses in 14 years.

In times such as these, governments start asking whether self-sufficiency will lead to food security, Page said.

So far there hasn't been a repeat of Russia's ban on grain exports that ran for 10 months through July 2011, or India's 2010 halt on wheat sales. Erecting trade barriers isn't the answer, Page said.

"The definition of food security needs to be couched in the aggregate and everybody needs to do what they do best and trade with each other," Page said. "It's not always an easy message to carry."

Page joined Cargill in 1974 and has worked at the company's operations in Thailand and Kansas as well as its financial markets group in Minneapolis. A graduate of the University of North Dakota, he became chairman and CEO in 2007.

Some of what he's advocating can already be seen in the corn market, where some countries are stepping in and increasing exports as estimates for the U.S. crop shrink. "Modest" amounts of corn are now coming into the U.S. from Brazil while sorghum is arriving from Argentina, Page said.

Brazil, the third-largest producer of corn, boosted exports to a record 2.76 million tons in August from 1.52 million tons a year earlier, government data show. Its corn harvest may climb 29 percent this year, the United Nations Food and Agriculture Organization said Sept. 19.

The country is also set to surpass the U.S. as the biggest soybean grower. Its soybean crop may be 23 percent bigger than last season, Hamburg-based researcher Oil World said last week.

Africa is another region that can step in with higher food production in the years ahead, according to the Cargill CEO. He cited the example of Zambia, where “remarkable” productivity gains have taken place in less than a decade because farmers have benefited from higher prices and economic growth driven by the country’s copper mines.

Cargill’s profit from continuing operations fell 56 percent in the year through May 31, a decline blamed by the company on its trading and narrower margins in soybean and beef processing. Reporting the earnings in August, Page said Cargill’s performance didn’t match its expectations.

It had “the worst May in the history of Cargill,” partly because it was caught out by the drop in corn that month that preceded its rally to a record, Page said yesterday. Corn futures slumped in May after U.S. farmers planted the most acres since 1937 and Europe’s sovereign debt crisis intensified.

“The risk-off trade just swamped every other piece of analytic we had done,” he said.

While speculative investors can be blamed for that kind of short-term price volatility, their impact over three to five years is minimal, Page said.

“There are a lot of politicians who say speculators unduly influence the price of food,’” he said. “I don’t subscribe to that.”

back to top

Paris wheat prices hold firm after Egyptian order

26 September 2012 Agrimoney

Wheat futures held firm in Paris on dire day for agricultural commodity prices after Egypt made its largest order of French wheat since at least 2010-11, as prices of Russian supplies soared out of contention.

Egypt's state grain authority, Gasc, purchased 300,000 tonnes of French and Romanian wheat at its latest tender, taking above 2m tonnes its purchases since the 2012-13 marketing year started in July.

For the first time this season, Russian wheat failed to win a place on a Gasc order roster, thanks to spiralling prices – which analysis group Ikar says have reached their highest since the Soviet Union collapsed more than 20 years, lifted by the squeeze put on supplies by a drought-hit harvest.

The only Russian wheat offered, by Glencore, was priced at $372 a tonne excluding freight, more than $23 a tonne above the average price that Gasc paid for the winning French and Romanian supplies.

Separately, Arkady Dvorkovich, Russian deputy prime minister, revealed the country may next week start sales of grain from state inventories.

Russia's failure was viewed by many investors as predictable, given the decline in the competitiveness in its offers as its exportable surplus has run low.

"It has been long-trailed that demand will switch away from the Black Sea. It was just a question of when," a UK grain trader told Agrimoney.com.

However, the size of the order, of which French grain comprised an unusually-large 180,000 tonnes, did surprise some investors, after Gasc last week said it had almost seven months of supplies in store.

"It could be for political reasons, to make sure there is enough grain in store at a time when the [Middle East and North Africa] region is not exactly as its most stable.

"Or it could be that it sees prices recovering once harvest pressure on corn eases," and the latter stages of the US corn harvest reduce the opportunity for buyers to purchase straight off the combine.

Paris wheat futures for November delivery closed unchanged at E261.25 a tonne.

That represented a resilient performance on a day when Chicago wheat lost 2.0%, with corn and soybeans falling even further to post their lowest prices since early July.

The drop in Chicago prices came despite evidence from the tender that US wheat is improving its competitiveness on the world stage, with soft red winter wheat offered by merchant Venus at $356 a tonne, only some $6 a tonne from winning bids, excluding freight, and now far cheaper than Russian supplies.

London feed wheat ended 1.6% down at £200.80 a tonne.

back to top

Russia Suspends Import, Use Of Genetically Modified Corn

25 September 2012 Agriculture.com

Russia's consumer rights watchdog, Rospotrebnadzor, said Tuesday it has suspended the import and use of genetically modified corn made by Monsanto Co. (MON) following a study's allegations that the crop causes cancer.

Rospotrebnadzor said the country's Institute of Nutrition has been asked to assess the validity of the study, while the European Commission's Directorate General for Health & Consumers has also been contacted to explain the European Union's position.

The study, conducted by the University of Caen in France, alleged that rats fed over a two-year period with the U.S. chemical company's genetically modified NK603 corn, developed more tumors and other severe diseases than a test group fed with regular corn.

The study also alleged that rats fed with NK603 and exposed to Monsanto's Roundup weed killer suffered from more pathologies than the test group.

Last week Monsanto said it did not think the French study would affect its license to export the NK603 to Europe but would wait to hear from the European Food Safety Authority, or EFSA, which has been asked by the European Commission to also look into the research.

"Based on our initial review, we do not believe the study presents information that would justify any change in EFSA's views on the safety of genetically modified corn products or alter their approval status for genetically modified imports," it said.

back to top

Morocco Plans to Suspend Soft-Wheat Import Duties as of Oct. 1

21 September 2012 Bloomberg

Morocco, North Africa's third- largest wheat buyer, will suspend import duties on soft wheat as of Oct. 1, the Agriculture Ministry said.

Wheat imports starting next month should for a large part be used for blending with local grain in the final months of 2012, and will serve to keep stocks at "a comfortable level," the ministry wrote in an online statement dated yesterday.

Morocco typically taxes soft wheat imports as of June 1 to help local farmers sell their crop to the country's millers, before lowering or lifting the duties as the season progresses and local supplies run out. This year's soft-wheat harvest fell to 2.7 million metric tons from 4.2 million tons in 2011, state grain buyer ONICL and the ministry reported last month.

"The suspension of customs duties on soft-wheat imports comes in a global economy characterized by the surge in global cereal prices," the ministry wrote.

Morocco will also introduce import restitutions next month to make up the difference between the cost for buying wheat in international markets and a government target price, aimed at keeping the price of flour at the same level, the ministry said.

Milling wheat futures have climbed 34 percent on NYSE Liffe in Paris since the start of the year to 262.50 euros ($341.67) a ton on concern drought in Russia and Ukraine will reduce availability.

Morocco's wheat imports are forecast to jump to 5.1 million tons in the 2012-13 season from 3.4 million tons a year earlier, the International Grains Council forecasts.

back to top

Farm Bill to Take Focus After Election

20 September 2012 Wall Street Journal

WASHINGTON—Congress hopes to revive efforts to pass a farm bill after the November elections, although it remains unclear how the House and Senate will resolve agriculture policy differences in the tense atmosphere of a lame-duck congressional session.

The existing five-year farm bill expires at the end of September. Congress this week ran out of time to act and will allow a variety of federal farm subsidies, loans and insurance programs to lapse, although lawmakers have moved to extend some critical programs in separate legislation.

House Speaker John Boehner (R., Ohio) on Thursday said he expects Congress will "deal with the farm bill" in the condensed two-month session at the end of the year. But he declined to say whether he thought a five-year bill, like the one passed by the Senate, or a one-year extension was likely later this year.

Top Democrats, including Senate Majority Leader Harry Reid (D., Nev.) and House Minority Whip Steny Hoyer (D., Md.) both said they hope that Congress is able to pass a five-year bill after the elections to set farm-support policies in place for the next several years. Mr. Reid said he "is not interested" in passing a short-term measure.

The farm bill has been hamstrung in the House because conservative Republicans have been reluctant to support a bill they see as offering needless subsidies to the agricultural industry.

Rep. Collin Peterson (D., Minn.), the top Democrat on the House Agriculture Committee, said there are no negotiations under way about what to do during the lame-duck session as Congress prepares to leave Washington to campaign ahead of the elections.

When the current farm bill expires on Sept. 30 not much will immediately change for American farmers and ranchers. Subsidized crop insurance programs run separate from the farm bill, so the largest safety net for farmers isn't threatened.

"Most of the programs that expire at the end of September don't have a practical impact until after the first of [January] or until spring when the winter wheat harvest begins," said Roger Johnson, president of the National Farmers Union.

The only subsidies scheduled to go out this year after Sept. 30 are a final round of direct subsidy payments to farmers.

Direct payments—a $5 billion a year subsidy program that is one of the largest and most controversial—will cease to exist after the last government checks go out in October, but lawmakers have said for months the program will not be revived.

Most of the $1 trillion cost of a five-year bill are nutrition programs and other aid targeted at low income households. These programs are set to be continued in The $500 billion spending bill to continue funding for the federal government that is expected to soon clear Congress.

back to top

US. Sorghum Eyed as a Southern Bioenergy Crop

18 September 2012 The Crop Site

Sweet sorghum is primarily grown in the United States as a source of sugar for syrup and molasses. But the sturdy grass has other attributes that could make it uniquely suited to production as a bioenergy crop, US Department of Agriculture (USDA) studies suggest.

Sorghum is an ideal candidate because of its drought tolerance, adaptability to diverse growing conditions, low nitrogen fertilizer requirements, and high biomass (plant material) content, according to molecular biologist Scott Sattler and collaborator Jeff Pedersen with USDA's Agricultural Research Service (ARS).
It also produces soluble sugar that can be converted to biofuel. Residual fibers left over from the juice extraction process also can be burned to generate electricity.

Sattler and Pedersen's studies of sorghum are part of a larger effort by ARS-USDA's principal intramural scientific research agency-to answer a government mandate calling for the production of up to 36 billion gallons of biofuel by 2022. Approximately 15 billion gallons of that total will come from grain ethanol, with the remaining 21 billion gallons to come from other sources, or "feedstocks," including sorghum, sugarcane, other grasses like switchgrass, and oilseed crops like rapeseed and soybean.

Sorghum and sugarcane are top candidates for production in the southeastern United States because they are complementary crops that can extend the biofuel production season and utilize the same equipment, note Sattler and Pedersen, who work at the ARS Grain, Forage and Bioenergy Research Unit in Lincoln, Nebraska. However, they are not the only team examining sweet sorghum's energy potential.

At the ARS Crop Genetics and Breeding Research Unit in Tifton, Ga., geneticist William Anderson and his colleagues are working to identify desirable sweet sorghum genes and their functions so improved varieties can be developed. In studies, they selected 117 genotypes from the ARS sorghum germplasm collection at Griffin, Ga., and evaluated them for their ability to mature quickly and resist fall armyworms and the fungal disease anthracnose.

back to top

Grain market turmoil hits depressed shipping sector

17 September 2012 Maritime Sun

Falls in global grain trade after searing droughts in Russia and the United States will bear down hard on a depressed dry cargo freight market and pile pressure on ship owners, already reeling from a four-year slump.

The seaborne cereal trade accounted for at least 10 percent of total dry bulk commodities transported last year and has traditionally provided a seasonal earnings boost for ship owners.

But the worst U.S. drought in more than half a century and persistent dryness in other major grain-producing countries including Australia is already weighing on cargo business.

"The grains freight market is very depressed at the moment and ship owners are leasing their ships if they can for peanuts just to cover costs," a Europe-based grain trader said.

Fears had grown of a repeat of the unrest and hunger seen in the 2007/08 food crisis as benchmark prices of corn, soybeans and wheat soared this summer.

Food officials are now saying there is no need for panic on the recent spike in global prices, but with lower crop estimates, less grain will be transported.

"The weaker volumes are pushing down freight rates amid oversupply in general. Owners have positioned their vessels to take advantage of the seasonal upswing which is now unlikely to materialise. This is leaving charterers spoiled for choice," said Peter Sand, chief shipping analyst with trade association BIMCO.

The Baltic Exchange's main sea freight index, which tracks rates to ship dry commodities and is a bellwether of market sentiment, fell this week to 661 points, its lowest since February's 647 points, which was the biggest drop since 1986.

"If you have a bad market when a better market was expected, not only working capital gets depleted, but also there is emotional distress to compound the anxiety and pain," said Basil Karatzas, chief executive of consultancy and brokerage Karatzas Marine Advisors & Co.

"There is no catalyst in the near future for freight and people are starting to get more serious about selling vessels as you can't afford to keep bleeding cash in this market."

Last month world cereal body the International Grains Council slashed its global trade forecast for wheat and coarse grains in 2012/13 July/June to 249 million tonnes from 269 million in 2011/12.

Grains purchases are traditionally made months in advance, with traders using their market knowledge to calculate whether supplies will be plentiful or tight when the grain has to be bought and ships loaded.

The U.S. government said this week the droughts in the United States and Russia would deplete harvests of wheat, corn and soybeans, even though global food supplies were not as badly hurt as feared.

"The grain season out of the U.S. Gulf starts around this time of year, September-October, and already we are seeing fewer stems coming out of the U.S. Gulf and the explanation is the drought," said Fotini Karamanli, chief executive of Greek dry bulk shipping group Hellenic Carriers.

"It's a very negative development for the panamaxes, the supramaxes and the handysizes as well," said Karamanli, whose fleet ships grain.

Grains are normally transported on panamax class vessels as well as smaller supramax and handysize ships. Average earnings have slid to around $4,000 and $8,000 a day for panamaxes and supramaxes, respectively, versus operating cost levels estimated at $5,600 and $5,100 a day.

"This year, the dry bulk market will benefit much less, if at all, from the traditional surge in U.S. soybean cargoes that normally come flooding into the market," said Jeffrey Landsberg, with U.S. consultancy Commodore Research.

"Only 28.7 million tonnes of U.S. soybeans are expected to be shipped this year, well below the 37 million tonnes estimated to have been exported last year. This is going to put even more pressure on panamax and supramax rates."

Dry bulk shipping companies ordered large numbers of new vessels between 2007 and 2009, when freight rates hit record highs. But the extra shipping capacity arrived just as economies were slowing down, sending rates tumbling.

The slump, one of the worst ever faced by the sector, has sunk a number of dry bulk firms including Britain's oldest, Stephenson Clarke Shipping Ltd, and one of Italy's top players, Deiulemar Compagnia di Navigazione.

"The main problems now (in dry freight) are linked with supply and very poor sentiment," Karamanli told Reuters.

Iron ore shipments account for just over a third of total seaborne volumes and are typically transported on larger capesize vessels. Coal also accounts for just under a third of total volumes. While demand for those commodities has helped support the larger capesizes, the outlook is still seen tough.

Analysts and traders say more than $150 billion worth of infrastructure projects, including the building of highways and ports, approved by China in recent days are unlikely to provide much relief for shipping in the near-term.

"You can't just turn the tap on with infrastructure investment. You often have to design projects, make calculations. It's not an immediate thing," said Peter Fish, managing director with UK steel consultancy Meps.

back to top

EU proposal would limit use of crop-based biofuels

11 September 2012 Euractiv.com

The European Union plans to impose a limit on the use of crop-based biofuels over fears they are less climate-friendly than initially thought and compete with food production, according to draft EU legislation.

The new rules, which will need the approval of EU governments and lawmakers, represent a major shift in Europe's much-criticised biofuel policy and a tacit admission by policymakers that the EU's 2020 biofuel target was flawed from the outset.

The plans also include a promise to end all public subsidies for crop-based biofuels after the current legislation expires in 2020, effectively ensuring the decline of a European sector now estimated to be worth €17 billion a year.

"The [European] Commission is of the view that in the period after 2020, biofuels should only be subsidised if they lead to substantial greenhouse gas savings ... and are not produced from crops used for food and feed," the draft said.

The policy u-turn comes after EU scientific studies cast doubt on the emissions savings from crop-based fuels, and following a poor harvest in key grain growing regions that pushed up prices and revived fears of food shortages.

Under the proposals, the use of biofuels made from crops such as rapeseed and wheat would be limited to 5% of total energy consumption in the EU transport sector in 2020.

Crop-based fuel consumption currently accounts for about 4.5% of total EU transport fuel demand, according to the latest national figures for 2011, ensuring that there will be little room to increase current production volumes.

Such a limit will throw into doubt the EU's binding target to source 10% of road transport fuels from renewable sources by the end of the decade, the vast majority of which was expected to come from crop-based biofuels.

To make up the shortfall, Brussels wants to increase the share of advanced non-land using biofuels made from household waste and algae in the EU's 10% target.

"It is appropriate to encourage greater production of such advanced biofuels as these are currently not commercially available in large quantities, in part due to competition for public subsidies with now established food crop based biofuels," the draft says.

The Commission has proposed that the use of such advanced fuels should be quadruple-counted within the EU's 10% target, in an attempt to at least meet it on paper.

But with commercial production volumes expected to remain low up to 2020, it is doubtful whether the goal can be met.

The proposals are contained in long-awaited EU plans to address the indirect land use change (ILUC) impact of biofuels, a subject that has split officials, biofuel producers and scientists, delaying legislative proposal for almost two years.

ILUC is a theory that states that by diverting food crops into fuel tanks, biofuel production increases overall global demand for agricultural land. If farmers meet that extra demand by cutting down rainforest and draining peatland, it results in millions of tonnes of additional carbon emissions.

The draft law includes new ILUC emissions values for the three major crop types used to produce biofuels: cereals, sugars and oilseeds. These values must be included when calculating emissions savings from biofuels under an EU fuel quality law designed to encourage fuel suppliers to cut emissions from road transport fuels by 6% by 2020.

While low values for ethanol made from cereals and sugars are expected to have little market impact, a much higher value for oilseeds is likely to exclude most biodiesel made from rapeseed, soybeans and palm oil from counting towards the fuel suppliers' targets.

The Commission says its proposal will protect existing investments until 2020, but biodiesel producers fear that by removing any incentive for fuel companies to use biodiesel, it will put the future of the entire sector in doubt.

“Three years after the EU made biofuels a central plank of its policy to promote renewable energies in transport, the Commission's current proposal threatens an industry that arose as a response to its policies, supports 50,000 jobs and would have provided the next generation of biofuel technologies,” said Jean-Philippe Puig, chief executive of Sofiproteol, which owns the EU's largest biodiesel producer.

Environmental campaigners welcomed the proposal to limit the use of crop-based fuels, but said the plans should have gone further.

“The good news is that this proposal, if adopted, would stop further expansion of current types of unsustainable biofuels, which is an important step. But the bad news is that it fails to do anything about the current volumes of these fuels,” said Nusa Urbancic, clean fuels campaigner for Transport and Environment.

If confirmed, the rules are expected to boost European consumption of ethanol, which currently accounts for just over 20% of the EU biofuel market, compared with biodiesel's 78% share.

But with diesel cars accounting for about 60% of Europe's fleet and rising, it is unlikely that increased ethanol consumption will be able to completely offset the likely decline in biodiesel consumption.

The International Council on Clean Transportation has predicted that any emissions savings from the EU's biofuel policy are likely to come from ethanol, while crop-based biodiesel has a worse carbon footprint than normal diesel.

back to top

Grain price squeezes Botswana

7 September 2012 Mail and Guardian

Although cereal prices eased in 2011, the Midwest of the United States, the maize and wheat basket of the world, has been hit by the worst drought in 50 years. The bad news is the risks are high that the world prices of basic staples such as wheat and maize will increase even more. In July and August, wheat prices rose by as much as 45% above April levels. Now, with relatively poor harvests in Australia and Russia threatening to cut back on supply, the prospects are that prices could reach levels similar to those in 2008.

The good news on wheat prices … well, there just is none.

Bad harvests in the US are a problem for all the South African Customs Union countries, although Botswana has a unique problem that will see the price of bread rise even higher – a 15% import duty is levied on all wheat flour entering the country, irrespective of whether it comes from the customs union (that is, South Africa), or elsewhere.

If you are looking for the wheat farmers in Botswana the government might be trying to protect with the levy, you will not find them – they do not exist. What is being protected is the milling industry.

Although there are other producers, it is Bolux, a part of the South African NMI Group, that states publicly that it needs protection.

In 1986 Bolux agreed to establish a milling firm in Ramotswe. The maize and wheat milling industry employs about 800 people.

At the beginning, the Bolux business model did not require protection by the Botswanan government because South Africa, its main competitor, protected wheat prices, which were well above world levels. Bolux could import wheat at world prices, which were considerably below South African prices, and it could produce flour and pasta cheaper than its South African competitors, which not only gave it the Botswanan market, but also potentially a good market in South Africa.

But South Africa liberalised its wheat market in the mid-1990s and set the price at world market levels. This made the Bolux business model obsolete and the company could not compete with much larger South African millers, which were also able to buy wheat at close to the world price. In response, to protect the Batswana jobs in the milling industry, the Botswanan government applied for infant industry protection for eight years, which is the maximum allowed under customs union rules.

For the first five years, the government imposed quotas on imported flour, which was followed by a massive 75% import duty imposed for another three years. In 2003, the government finally imposed a 15% levy on imported flour, which has stayed in place since then.

The milling industry has now been protected by quotas and tariffs since 1995 and, although at 17 it is not legally an adult, it is now far from what can be called an "infant industry".

What are the consequences of this duty? Ask any baker in Gaborone and he or she will tell you: higher bread prices because they cannot import wheat flour freely from South Africa.

But the consequences are far greater than this. Raise the flour price and biscuit-makers cannot compete with South African bakers. That is what happened last year. The Botswanan industry asked for protection for its biscuits, but the government refused it.

Moreover, when millers are given a margin on wheat, they can use this to cross-subsidise their maize milling, which distorts competition in that sector as well.

Perhaps the most pernicious effect is that this raises the price of bread, which is particularly hard for low-paid working people and means wages have to be kept at relatively higher levels. This, in turn, makes it more difficult for other firms in Botswana to compete internationally.

In 2009, South Africa officially complained to the Southern African Development Community (SADC) about the 15% duty. In May this year the Botswanan government reported that the matter had been "resolved", although some analysts believe the matter has been deferred rather than resolved.

Although the customs union and SADC countries maintain these so-called "non-tariff barriers" to trade, the question is: How long can the government possibly sustain them in the face of what appear to be international legal obligations to the contrary?

In Botswana there are two milling firms, Bolux and Bokomo (partly owned by Pioneer), which have market shares of 70% and 30% respectively. There are also reports that the Botswanan supermarket chain Choppies, which has many shops in South Africa, is considering entering the milling industry. Surprisingly, neither Bokomo nor Choppies are reported to want the 15% levy and can live without it.

This is curious. Why does Bolux need it and Bokomo and Choppies do not?

The reason is simple. Bokomo is a diversified business in Botswana involved in poultry, maize and sugar and, thanks to a bad decision by the Competition Authority, it also owns a big stake in the day-old chick business. Choppies, an increasingly integrated supermarket chain, is even more diversified. But Bolux is primarily a milling firm and relies heavily on that sector for most of its revenue.

If Bolux goes belly up, it would simply mean a bigger market share for Choppies and Bokomo. Business is not for the faint-hearted and, if a change in government policy hurts your competitor more than it hurts you, or better still, kills it outright, then those left standing see it as a positive development.

For the government this is not an easy call. Bolux will claim that jobs will be lost if the levy goes and this may be true. But what about the price of bread and the rights of two million consumers?

This is always a tricky balancing act but, based on the experience of other countries, the decision almost invariably goes to the loudest, which in this case is Bolux.

But perhaps the most important question for those policymakers drawing up the government's economic diversification drive, which is based on giving preference to locals so that they can become internationally competitive, is how to move from the first stage of protection of the local industry to the second stage, at which point firms are supposed to be competitive globally. Based on the milling industry, the answer is a long way off.

back to top

Reports

Grain Stocks

September 2012 IFPRI

This full-text report, issued four times yearly, contains stocks of all wheat, durum wheat, corn, sorghum, oats, barley, soybeans, flaxseed, canola, rapeseed, rye, sunflower, safflower, mustard seed, by States and U.S. and by position (on-farm or off-farm storage); includes number and capacity of off-farm storage facilities and capacity of on-farm storage facilities. Continues Stocks of Grains.

Link to report

back to top

Global Food Price Monitor

September 2012 FAO

This short report describes current food prices at world, regional and country level with focusing on developing countries.

Link to report

back to top

Agricultural Policy Monitoring and Evaluation 2012

September 2012 OECD

After an increase in 2009, producer support in the OECD area declined in 2010 and remained rather stable in 2011. In the longer term perspective OECD estimates confirm the downward trend in support to farmers. This report is a unique source of up-to-date estimates of support to agriculture in the OECD area and is complemented by individual chapters on agricultural policy developments in OECD countries.

Link to report

back to top

Net Food-Importing Developing Countries

September 2012 ICTSD

High and volatile food prices pose new challenges to poor, net food-importing countries. This paper seeks to identify which countries may be most vulnerable to recent price trends, and identifies tools that domestic decision-makers could use to promote food security.

Link to report

back to top

Responding to Higher and More Volatile World Food Prices

September 2012 World Bank

Following the world food price spike in 2008 and again in 2011, there has been increased attention on better understanding the drivers of food prices, their impacts on the poor, and policy response options. This paper provides a simple model that closely simulates actual historical food price behavior around which the analysis of the drivers of food price levels, volatility, and the associated response options is derived

Link to report

back to top

Using Public Foodgrain Stocks to Enhance Food Security

September 2012 World Bank

The recurrent global food price spikes in 2008 and 2010 rekindled interest in the use of national foodgrain stockpiles ("stocks") to enhance food security. They were a commonly used instrument in government responses to these food prices spikes.

Link to report

back to top

What Price of Crude Oil Makes Ethanol Production Profitable?

September 2012 University of Illinois

There has been a great deal of interest this summer in the ethanol market, RFS mandates, and corn use for ethanol production. This reflects the impact of the historic drought of 2012 in the Midwest and concerns about how reduced corn supplies will be allocated across consumption categories.

Link to report

back to top

Monthly Information Sources

Grain Market Report

September 2012 IGC

Link to report

back to top

Crop Monitoring in Europe

September 2012 MARS

Link to report

back to top

Commodity Price Data

September 2012 The World Bank

Link to report

back to top

Manage your profile | Forward to a friend | Un-subscribe from this mailing