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Cereals sector

1. Background and key issues

Since the 2007–08 food crisis there has been an increased focus on reducing import dependency. ACP policy responses range from supply-focused interventions (input supply programmes) to trade-focused interventions (either import or export restrictions). Trade policy interventions can have significant consequences for intra-regional trade, while non-tariff barriers (NTBs) may lead to an extra-regional focus to cereals procurement.

“Since the 2007–08 food crisis there has been an increased focus on reducing import dependency”

The EU remains a major global player in the cereals sector, while maintaining a managed trade regime (including variable import duties and tariff-rate quotas). EU financial support has been largely decoupled from production, with intervention buying acting solely as a safety net. This

policy sustains higher EU cereals production than would otherwise be the case. The EU cereals sector is, however, increasingly responsive to international price developments, hence EU biofuel policy is under review. This could slow the demand for EU cereals, with implications for international cereals markets.

In 2012/13 West Africa's cereals supply situation improved, although regional cereals trade remained substantially below its potential. There is considerable divergence on cereals policy in West Africa, where a greater level of policy harmonisation, transparency and consistency in the use of agreed policy tools is needed. Harmonisation of regional cereals standards is also essential to trade facilitation.

Sustained efforts are required to reduce the impact of both official and unofficial NTBs to intra-regional cereals trade, improve physical infrastructure and

reduce post-harvest losses. Although various donor-supported initiatives have been launched to address NTBs, regional commitments are often not internalised at the national level. In this context, informal trade still dominates the intra-regional cereals trade.

In Eastern and Southern Africa, cereals production is rising faster than demand. The establishment of common regional standards for cereals trade is considered important, and a variety of initiatives have been launched. There remain divergent national policies on genetically modified organisms (GMOs), with this emerging as an obstacle to intra-regional trade.

Efforts continue to improve market information to facilitate intra-regional trade and avert trade restrictive responses to food supply scares. However, NTBs must be addressed.

Initiatives are being developed in the Caribbean to boost regional supply chains via contract farming. This is linked both to the livestock industry and value-added products such as brewing. In the Pacific the high import dependency leaves the region vulnerable to rising cereals prices. Efforts to boost local food security largely focus on non-cereals crops.

Across the ACP common issues faced include:

- developing and enforcing common-regional standards for cereals trade;
- ensuring the more transparent and accountable use of trade policy tools;
- establishing efficient and reliable market information systems to support policy decision making;
- strengthening the functioning of local cereals supply chains and developing

backward linkages from value-added processing activities;

- closing the gap between formal and informal cereal sector trade flows by eliminating barriers to cross-border trade that increase costs.

2. Latest developments

Global developments

Wheat market developments

A record crop in 2013 resulted in reduced wheat prices; however, political tension in the Ukraine and a prolonged drought in the US resulted in price increases from February 2014. With wheat production in 2013/14 projected to be 8.4% above the 2012/13 levels and a continuation of production gains projected for 2014/15, receding tensions in the Ukraine saw prices ease back from April 2014.

"A record crop in 2013 resulted in reduced wheat prices – but political tensions overhang markets"

Developing countries are expected to account for the bulk of wheat used for food in 2014/15, consuming 73% of total food wheat consumption. Growth in wheat demand in Asia continues, as traditional rice consuming countries turn to wheat. However, overall Asian wheat imports will fall in 2013/14, given China's bumper crop.

Stock levels of wheat are projected to increase by 1.1% in 2014/15, with the stock-to-use ratio remaining steady at 25.2% (well above the historic low level of 20% registered in 2007/08). However, according to the FAO in May 2014, the "ratio of major wheat

exporters closing stocks to their total disappearances" (domestic use plus exports), is projected to fall from 15.3 to 14.2% in 2014/15, suggesting a tightening of global wheat supplies.

Coarse grain market developments

Coarse grain production in 2013/14 was up by 13% in 2012/13, but is projected to fall back by 4% in 2014/15. This was attributed by the FAO in May 2014 to reduced plantings of maize in the US and lower production in Argentina, Brazil and Ukraine.

Trade in coarse grains is projected to fall by 3% in 2014/15, following the 10% increase in 2013/14. This is attributed to a fall in EU maize imports, given higher EU maize and wheat production. Imports into other major destinations are likely to remain at the peak levels estimated for 2013/14, with a strong growth in feed demand. Rising feed demand has seen China transformed from a net exporter to a net importer of coarse grains.

Reflecting rising incomes and growing demand for meat, the rate of growth in feed use in developing countries is 3.5 times that of developed countries. In developing countries the rate of growth of coarse grain consumption for food is less than 25% of the rate of growth in feed use. Bearing this in mind, the largest growth in coarse grain food consumption is in Africa.

Longer-term trends

"The period of high and volatile cereal prices may be ending, according to analysts"

The UK-based Overseas Development Institute's (ODI's) analysis, based on United States Department of Agriculture (USDA) data, argues that the production response of developing

Table 1: Wheat and coarse grain production, consumption, trade and ending stocks (million tonnes)

	Wheat			Coarse grains		
	2012/13	2013/14	2014/15	2012/13	2013/14	2014/15
Production	659.7	715.1	701.7	1,156.4	1,306.7	1,255.4
Trade	140.8	150.5	149.5	132.2	146.0	142.0
Total utilisation	685.6	687.9	699.2	1,163.4	1,242.4	1,264.2
Food	474.4	480.1	485.4	198.4	201.7	205.7
Feed	132.1	128.6	133.4	656.6	715.6	735.2
Other uses	79.0	79.1	80.5	308.4	325.1	323.4
Ending stocks	156.9	177.5	179.5	171.0	215.5	206.3

Source: FAO, Food Outlook, May 2014, pp. 12 and 19.

Table 2: Average monthly prices July 2012 – May 2014 wheat and maize (US\$/tonne)

	Wheat ¹	Maize ²
July – December 2012	352.5	314.0
January – June 2013	317.5	298.0
July – December 2013	306.9	219.9
January – February 2014	283.9	204.0
March – May 2014	327.7	220.5

1. Wheat, No.1 Hard Red Winter, ordinary protein, FOB Gulf of Mexico

2. US No. 2 Yellow, FOB Gulf of Mexico, US price

Source: *Indexmundi.com*, 'Wheat daily price' and 'Maize (corn) daily price', see below

country farmers to the 2008 food crisis is seeing a new equilibrium created on global cereals markets. World grain production has increased more than twice as much since 2008 compared to the preceding 7 years, with poorer countries accounting for 74% of this increase. While prices will remain above pre-2008 levels, prices should stay below recent high levels. The period of high and volatile cereal prices may be ending, since stocks have been rebuilt and governments are less prone to panic responses given improved information on supply and demand trends.

Sub-Saharan Africa, where it was feared that the production response would be muted, "has increased its grain production by over 24 million tonnes since 2008, three times more than it achieved in the seven years before the spike" and some 7.6% of the total increase. According to ODI, "increased production comes partly from farmers reacting to higher prices, but also from successful international and national efforts to boost supply."

In early 2014 the EU agreed new rules designed "to curb speculation in food commodities", but implementation of these rules is to be left to member state governments. This has prompted

"In early 2014 the EU agreed new rules designed to curb speculation in food commodities"

concerns that divergent national implementation could lead to a "race to the bottom" in terms of the trading rules applied (see *Agritrade* article '[Trilogue process agrees new rules on curbing commodity market speculation](#)', 24 February 2014). However, given wider trends, ODI suggests that the significance of such regulation is likely to be reduced.

EU cereals sector developments

Production and price trends in EU cereals markets

In recent years, the EU's cereals market balance has been tight due to production shortfalls and difficulties in sourcing imports on the world market, giving rise to high prices in marketing year (MY) 2012/13. However, in 2013 EU cereals production was expected to increase by 8% compared to 2012, and from early 2014 prices began to fall. Production is expected to be consolidated in 2014 although some 1.25% below 2013 production levels.

The ongoing effects of EU policy reforms

While EU Common Agricultural Project (CAP) reforms saw a 4% decline in the area under cereals production, yield improvements meant an increase in overall EU cereals self-sufficiency from 104.3 to 106.8% (although production of durum wheat remains in deficit).

EU cereals production is now far more responsive to price signals. Given that production largely takes place on mixed farms alongside sugar beet, the abolition of the EU sugar

Table 3: Cereals: EU production, consumption, exports and ending stocks 2010–23 (million tonnes)

	Production	Total consumption	Food and industrial	Feed	Bioenergy	Imports	Exports	Ending stocks
2010	280.5	279.8	102.8	167.5	9.5	13.1	31.7	36.7
2011	291.6	279.5	102.3	167.0	10.3	14.3	25.6	37.5
2012	281.2	276.0	102.8	163.2	10.0	16.6	31.7	27.6
2013	304.3	279.8	104.3	165.4	10.1	14.0	27.41	38.7
2014	300.5	284.2	104.5	168.2	11.5	9.9	25.71	39.1
2015	302.5	285.7	104.7	168.5	12.4	10.0	26.81	39.1
2016	303.9	287.5	105.0	168.5	14.1	11.5	25.7	41.3
2017	305.2	289.9	105.7	168.6	15.6	11.8	26.1	42.3
2018	306.9	292.2	106.2	168.2	17.8	13.4	26.0	44.3
2019	308.8	294.7	106.7	168.2	19.7	13.2	26.4	45.3
2020	310.7	297.5	107.4	168.2	21.9	13.1	27.5	44.1
2021	312.8	297.7	107.9	168.3	21.4	12.9	28.6	43.6
2022	314.8	297.7	108.3	168.4	21.0	12.7	30.1	43.4
2023	316.1	297.9	108.9	168.3	20.6	12.4	31.1	42.9

1. Updated estimates from the EC Winter 2014 short-term forecasts, put exports from the EU28 for 2013/14 and 2014/15 at the higher estimated level of 37.2 million tonnes and 32.5 million tonnes, with lower domestic use for food and industrial purposes and biofuel, http://ec.europa.eu/agriculture/markets-and-prices/short-term-outlook/pdf/2014-03_en.pdf.

Source: EC, 'Prospects for agricultural markets', December 2013 (see below), Table 6.2, 'Total cereals balance sheet in the EU, 2010–2023'.

“EU cereals production is now far more responsive to price signals – although the EU maintains a managed trade regime”

production quota will further reinforce the price responsiveness of EU cereals producers (see *Agritrade* article 'Impact of CAP reform agreement on the sugar sector', 6 August 2013). EU sugar prices are projected to fall by 34% between 2013 and 2023, with this potentially increasing the attractiveness of EU cereals production. The EC projects a steady expansion of EU cereals production over the period 2016–22 (+4% overall).

Prices for EU cereals are expected to remain high, although below 2012/13 levels. EU cereals markets

are expected to be tight, with volatile prices and possible price spikes in the event of production disruptions.

The EU maintains a managed trade regime, designed to protect the internal market from lower-priced world market imports, with the main direction of impact of EU policy changes affecting the level of EU exports of cereals and cereal-based products. Wheat exports comprise about two-thirds of EU cereal exports. The CAP reform process has supported an expansion of EU exports of wheat, wheat flour and, increasingly, wheat-based products. This has largely been to traditional EU markets in North Africa, the Near East and sub-Saharan Africa (see *Agritrade* article 'Impact of reforms on the EU cereals sector', 12 May 2013). This trend is projected to continue but at a slower rate.

Trends in value-added cereal product exports

EU corporations involved in production of value-added cereal products are actively seeking to position themselves in rapidly growing markets, including in Africa. In February 2014, United Biscuits (UB) acquired the third largest

biscuit manufacturer in Nigeria (A&P Foods), further expanding its market presence in this major growth market (biscuit consumption +18% in value terms in 2013, with projected growth of 20% in 2014). While this reflects a long-term aim of expanding local production, in the short term it improves access to distribution channels for UB brands. UB has a strong position in West Africa and is expanding into Angola and Kenya (see *Agritrade* arti-

cle 'United Biscuits acquires Nigerian biscuit company', 11 April 2014).

These corporate market positioning strategies need to be balanced against the impact of CAP reforms and EU free trade agreements (FTAs) on the competitive position of EU exporters. The evolution of EU food and agricultural exports to South Africa, where an FTA is fully in place, illustrates this point. Since 2002 EU food and agricultural exports to South Africa have grown 2.5 times faster than overall EU food and agricultural product exports, while South Africa's food and agricultural trade surplus with the EU fell from €1,378 million in 2002 to €567 million in 2011 (see *Agritrade* article 'South African guidelines on use of agricultural safeguard provisions under the EU trade agreement', 5 August 2013).

Impact of the debate on EU biofuel policy

The EU biofuel policy review resulted in the establishment of a cap of 6% on the use of 'first generation' biofuels produced from maize, palm oil and rapeseed, and agreement on a 7% cap on biofuel use in the transport sector – higher than the EC recommendation of 5%. This has been criticised by some development non-governmental organisations (NGOs) for failing to provide a lead in halting the use of food crops for biofuel production, in the context of a projected 36% increase in food prices by 2020. Other NGOs argue that the recent agreement puts a lid on biofuel production, but that more could be done. The debate on biofuel policy in the EU thus continues, with the prospect remaining that policy changes could freeze the use of cereals in biofuels at 2013 or 2014 levels (rather than the earlier projected doubling by 2023).

The EU cereals sector and EU poultry sector exports

Given how the EU poultry regime works (see *Agritrade* 'Executive Brief: Poultry sector', 2014), price developments in the cereals sector generally only have an impact at times of falling cereals prices by increasing the competitiveness of EU poultry exports.

USDA maintains that EU poultry producers can pass on feed cost increases to domestic consumers without imports from lower-cost suppliers taking a market share. This enables EU poultry exporters to maintain price competitiveness on export markets. Falling cereal prices, however, serve to boost the profitability of EU poultry production and allow export prices to fall (see *Agritrade* articles 'Continued growth in EU poultry meat exports targeting some African markets', 3 March 2014, and 'Continue growth projected for EU poultry meat exports to Africa', 24 November 2014). African markets are increasingly being targeted. By 2012 the three leading African markets took over 25% of EU poultry meat exports up from only 12% in 2009. Therefore, if in the future EU biofuel policy is reviewed and the need for alternative market outlets results in a reduction in EU feed costs, this could further stimulate poultry meat exports to African markets.

Developments in Eastern and Southern Africa

Recent production trends

Trends in cereals production vary across the Eastern and Southern Africa region. In 2013, 10 of the 20 countries reviewed showed reduced levels of coarse grain production compared to the 5-year average. Overall, however, in 2013 there was a general upward trend in coarse grain production: Ethio-

pian production was 27.3% above the 5-year average, production in Malawi 5.5% higher, in Zambia 5.7% higher and in Tanzania 10.8% higher, with these increases more than balancing reductions elsewhere.

Eastern and Southern Africa also includes significant wheat producing countries. In 2013 wheat production was above the 5-year average in Ethiopia (+26.7%), Zambia (+31.1%), Kenya (+9.6%), Tanzania (+34.1%), Rwanda (+3.9%), but below in South Africa (–4.2%) and Sudan (–36.2%).

For coarse grain the trend looks set to continue into 2014 with production in Southern Africa projected to increase by 10%. Production in South Africa and Zambia is forecast to increase by 9.3 and 32% respectively, while Ethiopian production is expected to consolidate the 12% production gain made in 2013. In contrast, poor rains and disease outbreaks in Kenya will result in a much lower maize harvest (–8%), while conflict in South Sudan and the associated displacement of people could increase the food-aid-dependent population by 100,000. Conflict-related production and trade disruptions therefore affect supplies and price levels on regional markets.

Against the background of this broadly favourable picture, a number of issues came to the fore in 2013–14:

■ Use of import and export restrictions and intra-regional trade

Export and import restrictions (including bans) continue to be used in Eastern and Southern Africa. The trade restrictive use of import and export measures can interact in unfortunate ways. This is illustrated by recent developments in Zambia and Zimbabwe.

“Export and import restrictions – including bans – continue to be used in Eastern and Southern Africa”

In April 2014 the Grain Traders Association of Zambia warned that delays in lifting the ban on maize exports could “result in Zambia missing out on current regional demand”. Because of subsequent projections of a 32% increase in coarse grain production, the Zambian government announced the lifting of its ban on maize exports in late April, but kept in place an export permit system.

This coincided with the Zimbabwean government decision to suspend all import permits and calls from the Grain Millers Association of Zimbabwe (GMAZ) for a suspension of all maize meal imports “to allow millers to mop up as much maize as possible from local farmers”. This occurred despite maize production in Zimbabwe being less than half of pre-land invasion output levels and the Grain Marketing Board facing major financial challenges in its purchasing operations.

This has left Zambian maize exporters looking for alternative markets beyond the existing Southern African regional markets. To avoid similar problems in future, Zambia’s Centre for Trade Policy and Development (CTPD) has called on the Zambian government to “develop a regulatory mechanism for maize exports that is transparent and accountable”, based on guidelines jointly developed with the private sector. The prospect of reduced global price volatility would make such a review timely.

■ Improving market information in Eastern Africa

The importance of improved market information to more consistent and

targeted policy implementation is widely recognised. In July 2013, USAID announced the launch of “a regional information portal to track production and export of grains in the five East African Community (EAC) states”, with the aim of supporting the movement of cereals from surplus to food deficit areas within the EAC. Improved market information, more efficient trading operations and greater price stability could help avert the use of export bans in response to supply scares. However, the fact that the initiative only covers EAC countries means it does not take into account the impact of wider demand trends (in South Sudan and the Democratic Republic of Congo) on the functioning of EAC cereals markets. Equally, it does not take into account wider supply availability from Zambia, Malawi and South Africa, all of which are potential major regional grain exporters.

“The importance of improved market information to more consistent and targeted policy implementation is widely recognised”

The initiative in the EAC is similar to earlier market information system initiatives launched in Eastern and Southern Africa. These include the Regional Agricultural Trade Intelligence Network, a service launched by the Eastern Africa Grain Council, and the Food and Agriculture Market Information System set up by the Common Market for Eastern and Southern Africa (COMESA) over the period 2005–10. This suggests a need to harmonise and coordinate these initiatives, and promote mechanisms to foster their effective use in national policymaking processes (see *Agritrade* article ‘[New regional grains information portal launched in EAC](#)’, 29 September 2013).

■ Regional standards policy harmonisation and GMOs

With the EAC biosafety policy scheduled to complete its approval process during the course of 2014, the debate on GMOs is intensifying. The proposed new biosafety policy framework is anticipated to cut costs and reduce duplication in testing and approval procedures for GMOs.

The Kenyan government, which has banned the importation of GM products since 2012, has established a task force to review and evaluate its GMO policy. Many submissions have been made to the task force urging the lifting of restrictions on GMO imports and the use of GM seeds, in order to combat disease outbreaks and boost yields. Other submissions have expressed concern over the Kenyan government’s institutional capacity to regulate GMO use, with cross-contamination then undermining markets for GMO-free agricultural production. Similar concerns have been expressed in Tanzania, where little progress has been made on the GMO review announced in 2012.

According to a report launched in Tanzania by the International Service for the Acquisition of Agri-Biotech Applications, in addition to countries already allowing the use of GM seeds, six further sub-Saharan African countries “are conducting genetically modified crops field trials”, prior to formal approvals, including Kenya, Malawi and Uganda.

The government of Zimbabwe, meanwhile, has committed itself to maintaining a GMO-free agricultural sector, in order to target markets for GMO-free products. Analysts in Zimbabwe note that foods containing GM crops have long been on sale in Zimbabwe due to the dominant role GM seeds play in South African maize and soybean

production (90% of total). It was argued that the higher yields gained from GM seeds could be adding to the competitive edge South African food manufacturers enjoy on regional food product markets.

This illustrates the diversity of policy positions and consequent trade policy measures adopted across Southern and Eastern Africa with regard to both the production and trade in GM crops. This is significant since governments are seeking to harmonise policy positions within regional trade initiatives. A key benefit of the East African biosafety policy is held to be the mitigation of the potential impact of GMOs on inter- and intra-regional trade. However, trade aspects of GMO policies reach beyond simply the technical aspects of biosafety.

For example, Zambia and Malawi's GMO-free maize production status provides its exporters with a significant competitive edge over their South African counterparts, in a context where the Kenyan government restricts maize imports to GM-free suppliers. Any revision of this Kenyan policy would intensify competition for Zambian and Malawian maize exports on the Kenyan market.

Beyond the GMO issue, regional efforts continue to harmonise standards and facilitate trade. For example in July 2013, harmonised regional standards for 18 grains were approved by the national regulatory authorities of the EAC (see *Agritrade* article '[New regional grains information portal launched in EAC](#)', 29 September 2013).

■ Strengthening the functioning of cereals supply chains through contract farming

Initiatives have been launched in both Ethiopia and Zimbabwe to strengthen

the functioning of cereals supply chains through the introduction of contract farming. In Ethiopia this has involved the introduction of "innovative grain supply contracts between the cooperative union and the local food processing industry", which established reference prices and quality standards for wheat on which price premiums were paid and which covered the costs of transport to the mill. The initiative increased yields by a third in its first year of operation. Since less than 1% of Ethiopian wheat production was covered by the initiative, there is enormous scope for expansion of such contract arrangements, in response to growing consumer demand for wheat products. This, however, is likely to require complementary initiatives to strengthen farmer organisations and enhance their negotiating power within such supply chains (see *Agritrade* article '[Strengthening supply chains could boost cereals production in Ethiopia](#)', 26 May 2013).

In a similar initiative, GMAZ is to expand its contract farming scheme from its initial pilot target of 100,000 tonnes to 500,000 tonnes in 2014/15, with favourable contract prices being offered. However, in May 2014, GMAZ also called on the government to suspend maize meal imports (see *Agritrade* article '[New regional grains information portal launched in EAC](#)', 29 September 2013).

Developments in West and Central Africa

Cereal sector trends

While coarse grain production dominates, growing wheat import bills have become a policy concern, notably in Nigeria. According to FAO in 2013, a relatively good coarse grain season was enjoyed, with production above the 5-year average in most of the

countries reviewed. Notable exceptions included Senegal (20% below the 5-year average), Mali (-14.1%),

"In West Africa growing wheat import bills have become a policy concern"

Gambia (-9.4%) and Niger (-3.2%). The combined shortfall of just over 1 million tonnes on the 5-year average in these four countries was balanced by production expansion elsewhere (in Nigeria alone an increase of 1.68 million tonnes). This suggests considerable scope for expanding intra-regional cereals trade in West Africa.

In Central Africa two of seven countries saw production in 2013 above the 5-year average (Cameroon +7.7% and Chad +3.6%), three were estimated to have stabilised production, while there was a contraction in Central African Republic (-10.8%), to take production below domestic food and feed consumption levels. Overall, in Central Africa in 2013, coarse grain production was on track to reduce the region's coarse grain deficit. However, civil conflicts served to disrupt national and regional supply chains, creating pockets of severe cereals scarcity.

Developing a regional policy consensus and harmonisation

The World Bank has highlighted the absence of large-scale intra-regional cereals trading operations in West Africa, with existing trade dominated by small-scale informal transactions. The situation is attributed to a number of existing NTBs (both official and unofficial), which raise the costs of sourcing cereals regionally and lead to a strong extra-regional sourcing orientation (see *Agritrade* article '[Constraints on regional cereals trade in West Africa reviewed](#)', 12 May 2013). A critical policy challenge is unlock-

ing intra-regional trade potential, by addressing key constraints such as “poor transport networks, excessive regulation and conflicting trade policies”. This requires building a consensus on what “policy and market incentives” are needed and the design and implementation of such policy and market incentives at national level (see *Agritrade* article ‘[FAO/IFAD publication sets out potential route to greater food security in West Africa](#)’, 3 March 2014).

However, according to FAO, there is little incentive for farmers “to increase production if they can’t sell their crops because of cheaper and easily accessible imports.” Policy and market incentives are therefore needed “to improve the competitiveness of locally grown crops and increase their share in the consumer market”. FAO also attaches importance to strengthening the capacity of farmers’ organisations to negotiate with suppliers and buyers and engage in policy dialogue with governments.

The West African Economic and Monetary Union (UEMOA) and the Economic Community of West African States (ECOWAS) have agreed a variety of initiatives at the regional level aimed at improving both the ‘soft’ and ‘hard’ infrastructure required to facilitate agricultural trade. However, to date, progress has been uneven, despite a range of promising area-specific initiatives. A critical challenge remains in establishing mechanisms to ensure the day-to-day application of policy commitments. In the short term this is resulting in programmes being established through such initiatives as the USAID-supported ‘borderless’ initiative, to help traders cope better with the constraints faced (see *Agritrade* article ‘[Constraints on regional cereals trade in West Africa reviewed](#)’, 12 May 2013). It is essential that such initiatives

become internalised by West African governments and not simply donor-led initiatives.

Evolving consumer demand and policy response to the trade challenges arising

As the region becomes more affluent, consumer tastes are changing, increasing consumer demand for wheat-based products. In the largest regional market, Nigeria, this saw wheat consumption increase by 16% between 2011/12 and 2012/13. Rising import bills have increased the policy attention paid to increasing local production of both wheat and wheat alternatives. This has involved the adoption of different approaches. In Nigeria the government has raised import levies on wheat (from 5 to 20%) in an effort to stimulate local production of both wheat and wheat flour alternatives.

Ambitious plans to develop 212,000 ha to yield 1.2 million tonnes of wheat by 2015 were announced in 2013 (see *Agritrade* article ‘[USDA argues for revision of Nigerian wheat sector policy](#)’, 26 August 2013). However, according to USDA, Nigerian wheat production fell by 10.5% in 2012/13 to 85,000 tonnes, following “unfavourable local climatic conditions” and continued threats of Boko Haram activities in the main wheat growing belt (see *Agritrade* article ‘[USDA renews implicit criticism of Nigeria’s wheat sector policy](#)’, 19 January 2014).

“Policies to promote the blending of cassava flour with wheat flour have faced challenges”

Policies to promote the blending of cassava flour with wheat flour have also faced challenges, with problems of supply of high-quality cassava and technical challenges along the whole

cassava supply chain, restricting the progress made (see *Agritrade* article ‘[Nigerian traders survey the challenges involved in the cassava bread initiative](#)’, 17 February 2014); but 2 years after the launch of the cassava blending initiative there has been no significant reduction in the Nigerian wheat import bill. While Nigeria’s Minister of Agriculture maintains that imports of wheat flour have been reduced from 4 million tonnes in 2010 to around 3 million in 2012, USDA figures show imports of wheat increasing from 3.9 million tonnes in 2011/12 to 4.2 million in 2012/13 (see *Agritrade* article ‘[FAO/IFAD publication sets out potential route to greater food security in West Africa](#)’, 3 March 2014). Equally, none of the employment creation and livelihood enhancement effects of the initiative have yet materialised.

Given this lack of progress, reports in April 2014 suggested that the cassava initiative would be quietly abandoned. These reports were denied by government officials involved in the programme, who asserted that the regulatory framework for pushing ahead with the initiative was now in place (see *Agritrade* article ‘[Nigeria to abandon cassava blending policy?](#)’, 23 May 2014). However, given the strong underlying growth in demand for wheat products, it is unclear whether the cassava blending policy can actually reduce wheat imports, rather than simply slowing the rate of growth in wheat imports.

Overall, questions remain regarding the efficacy of current wheat sector-related policy measures, considering the huge shortfall in production relative to consumption of wheat in Nigeria.

Meanwhile, in neighbouring Benin, a policy on expanding domestic production has emerged, which focuses on boosting yields by addressing supply-side constraints through donor-sup-

ported input supply programmes. This is linked to efforts to develop exports to regional markets.

The Benin cereals sector is highly regulated, with private sector operators effectively acting as agents between producers and government agencies on the input side (ONASA) and marketing side (SONAPRA), and international agencies providing financing. It is significant that the African Development Bank estimates that only 17% of arable land is currently farmed. USDA maintains that the combination of systematic intervention by the government and support by international donors has resulted in increased cereals production (see *Agritrade* article '[Cereals sector policy in Benin and the impact of regional trade](#)', 22 April 2013).

Although world market prices are considered to have little effect on local prices in Benin, the activities of regional traders strongly influence prices. USDA estimates that in the north, about half of domestic maize production is exported to Niger and Mali (according to USDA spot checks, traders from Niger offer prices on average 37% higher than local prices), while in the south, Nigerian traders push up local prices. Indeed, Benin is well placed to serve the huge Nigerian market and sits astride the transit routes for landlocked countries.

This again highlights the need for policy harmonisation given the porous nature of borders and the dominance of informal trade networks in the cereals sector.

Scope for cereals value-added process

USDA continues to advocate a reorientation of Nigeria's wheat sector policy. It argues that given current capacity underutilisation, Nigeria's "flour mill-

ing and other wheat food processing industries can be developed quickly and [can] strongly contribute to the nation's economy" by serving growing domestic and export markets. Such a policy, it is argued, would address foreign exchange concerns by boosting exports of value-added wheat products, thereby reducing the net foreign exchange cost.

However, it is unclear how realistic such a policy is in Nigeria's current context. Since 1985 the share of manufacturing in gross domestic product (GDP) has shrunk from 6 to 4%, suggesting that there are still serious constraints on competitive manufacturing in Nigeria. In addition, agricultural production is far more important to GDP and employment in Nigeria (accounting for 30.9 and 70% respectively) than in the US (1.2 and 2.3% respectively) or the EU (1.8 and 4.9% respectively), reducing the scope for shifting the focus away from agriculture to value-added processing.

In other West African countries, the balance of calculation may be somewhat different, with the relative economic gains being greater from becoming a processing and trading hub serving an economically far larger regional hinterland. These underlying differences in perceived opportunities available at the national level are likely to complicate regional trade policy formulation for cereals and cereals products.

Consistency of current cereals policies with trade agreement commitments

Farmers' organisations have expressed concern at the low level of tariff protection accorded to agricultural products under the ECOWAS–UEMOA common external tariff (CET) adopted in December 2012. The ECOWAS Trade Commissioner maintains that "agricultural

products should not be too protected," and that the main focus needs to be on improving competitiveness (see *Agritrade* article '[ECOWAS CET finally adopted while producer organisations raise concerns](#)', 22 April 2013).

It is unclear whether the trade restrictive policies adopted by Nigeria and other member states are consistent with commitments entered into through the ECOWAS–UEMOA CET. Similar issues arise regarding how consistent the existing use of agricultural trade policy tools in the cereals sector is with EU Economic Partnership Agreement (EPA) commitments on the elimination of quantitative restrictions and measures that have an equivalent effect to tariffs (e.g. Article 18 of the Ghana–EU Interim EPA) (see *Agritrade* article '[Review of Ghana's poultry sector trade policy under way](#)', 23 June 2014).

Developments in the Caribbean and Pacific

Developing value-added processing: The experience in the Dominican Republic

Despite having no domestic wheat production, the Dominican Republic (DR) has a large milling industry based entirely on imports. In addition to serving the national market, the DR milling industry received a major boost following the earthquake in Haiti. Overnight this created a market for 200,000 tonnes of wheat-equivalent flour and saw a 40–50% expansion of the local DR wheat milling industry.

"Despite having no domestic wheat production, the DR has a large milling industry based entirely on imports"

In 2013 Haiti took 80% of DR wheat-product exports. However, with the reactivation of Haiti's own wheat mill,

this market is shrinking as efforts to diversify export markets are only having limited success. This saw a 10% reduction in the DR's wheat imports in 2013, after an expansion of imports by 53.6% between 2008 and 2010 (see *Agritrade* article '[Dominican Republic cereals sector policy could hold lessons for Nigeria?](#)', 2 June 2014).

At the policy level, "the DR applies no tariffs on the importation of wheat, but there are duties in place on wheat flour (5.6%) and pasta products" (8%). In the maize sector the DR, however, maintains a standard tariff of 40%, but also a duty-free tariff-rate quota of 1,091,000 tonnes, which fully accommodates maize import requirements. It thus provides de facto duty-free access, but through a system that requires import licences.

This maize is used primarily as an input into the livestock sector, with government policy requiring every licensed maize importer "to purchase locally produced sorghum" equivalent to "5% of national sorghum production in exchange for the importation of corn". This creates a market for local sorghum production, but leaves it to the private sector to develop commercial initiatives to profitably utilise the locally purchased sorghum.

Developing backward linkages from expanding poultry production in the Pacific

In the Pacific the main cereals-related issue concerns the use of imported grains and other major inputs in poultry production targeting regional poultry meat markets. This leads to questions being raised as to the true 'origin' of this poultry meat. Efforts to promote backward linkages along poultry production chains could create opportunities for local producers of cereals, roots and tubers for use in animal

feed, reducing the growth in cereals import bills arising from expanding poultry production in the Pacific.

3. Implications for the ACP

Consolidating improvements in market information services

Improved cereals market information systems appear to be reducing policy-induced price volatility at the global level. In some ACP regions, the challenge now arises of consolidating market information systems, in order to improve the transparency and predictability of national and regional cereals trade policy frameworks, with a view to fostering smoother trade flows and reducing price volatility on national and regional markets.

In some ACP regions this will need to take on board the impact of political conflicts and population displacement, which can generate surges in demand that need to be addressed through internationally financed feeding programmes, which have their own procurement procedures and requirements.

This could contribute to reducing extra-regional sourcing, given the improvements in cereals production which have taken place since 2007/08.

Meeting growing demand for feed

There would appear to be considerable scope for developing national and regional cereals supply chains to meet increasing demand for animal feed in response to increased levels of meat consumption in ACP countries.

The policy experiences of the use of internal and external regulation of feed input supply chains in ACP countries could usefully be shared, given the growing commercial demand for feed. This relates both to the production and trade of cereals, roots and tubers and other inputs to animal feed compounds, as well as to the policy experience of promoting local feed production.

Meeting the challenge of value-added cereal products

Changing consumption patterns towards wheat-based food products not only boost imports but also raise intra-regional trade challenges. In some ACP regions, the question arises over what relative weight should be given to boosting domestic cereals production rather than supporting increased production of value-added products, based on competitively priced sourcing of raw materials. If member states within a regional trade arrangement have different priorities in this regard, it can generate tensions in regional trade in cereals and cereal products. This suggests a need for some level of policy consensus building to reconcile, if not harmonise, national policy frameworks for trade in cereals and cereal products, in order to establish a solid basis for the development of intra-regional supply chains.

The GMO debate and trade policy

Any revision of government positions on the use of and trade in GM cereals and cereal products will need to take on board the knock-on effects on intra-regional cereals trade flows of such changes. Equally, in some countries, any revision of national cereals sector trade policies will need to consider the implications for cereals procurement of changes in national GM policies within any given regional trade integration initiative.

Strengthening the functioning of cereals supply chains

In a number of ACP countries initiatives have been launched to strengthen contract farming in the context of different cereals sector trade policy frameworks. These experiences could usefully be shared and evaluated to determine:

- the effectiveness of different initiatives in raising net returns to farmers, stimulating investment, boosting production and improving grain quality;
- the policy measures and institutional arrangements that need to be set in place to facilitate the effective implementation of successful schemes;
- the lessons that can be drawn in terms of strengthening the functioning of intra-regional cereals supply chains.

Reducing import dependency and fostering backward linkages

A number of ACP countries are seeking to promote the use of locally available alternatives to imported cereals such as wheat and barley (cereals and root- and tuber-based alternatives). Policy experiences across the ACP on how to promote market development for locally available alternatives to wheat and other cereal imports could usefully be reviewed, given the differing approaches adopted. In this context, for example, the DR's approach of linking the allocation of import licences for maize to an obligation to purchase a set proportion of national sorghum production, while leaving it to the private sector to provide the commercial outlets for sorghum based products, could potentially hold lessons for other ACP countries (such as Nigeria) seeking to promote the development of backward linkages to local cereals production.

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About this update

This brief was updated in December 2014 to reflect developments since September 2013. Other publications in this series and additional resources on ACP–EU agriculture and fisheries trade issues can be found online at <http://agritrade.cta.int/>.



The Technical Centre for Agricultural and Rural Cooperation (CTA) is a joint international institution of the African, Caribbean and Pacific (ACP) Group of States and the European Union (EU). Its mission is to advance food and nutritional security, increase prosperity and encourage sound natural resource management in ACP countries. It provides access to information and knowledge, facilitates policy dialogue and strengthens the capacity of agricultural and rural development institutions and communities.

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