

INTERNATIONAL GRAINS COUNCIL CONFERENCE: 7 JUNE 2011

I would like to express my gratitude towards the Winter Cereal Trust for giving me the opportunity to attend the conference of the International Grains Council (IGC) on 7 June 2011 in London. The experience gave me a valuable insight of the global supply and demand of grains and production trends in some countries.

The conference marked the 20th anniversary of the International Grains Council and was held under the theme *“Global market turbulence: a more food-insecure future?”*

I would like to mention the following speakers that made a greater impact at the conference:

- The conference was opened by the Minister of Agriculture, Food, Fisheries, Rural Development and Spatial Planning of France, Mr Bruno Le Maire who, also within the context of his country's presidency of the G20, addressed the issue of agricultural price volatility and commented that speculation on global markets was not acceptable. He also commented on the action plans of the G20 which included re-investment in agriculture to produce more and better, transparency in agriculture by introducing an “Agricultural Market Information System (AMIS)”, international coordination, managing price volatility and financial regulation. He also mentioned of the possibility of buffer stocks to address insufficiencies in global supply.
- Mr. Khairullah Hasan Babakr, Minister of Trade of Iraq, was a keynote speaker, updating participants on developments in the country's grains economy. He commented that Iraq was too depended on oil and neglected agriculture. The country's demand for wheat is in excess of 4 million tons and through development initiatives (encouraging private investment, cultivar development to suit climatic conditions and support to farmers) Iraq aims to increase wheat production. Wheat production in 2008 was in the region of 628 000 tons and through the initiatives taken it is expected that local production will be in excess of 2 million tons in 2011.
- The Chairman of the United Nations Committee on World Food Security (CFS), Noel de Luna, addressed the issue of food price volatility and contributed this to inter alia a lack of reliable and up-to-date information on crop supply, demand, stocks and export availability, the influence of speculators and mis-informed and panic-induced government policies and decisions as a result of inadequate market information. He was of the opinion that without reliable, accurate and timely data price volatilities cannot be smoothen out. He sees the CFS together with AMIS and International Organizations playing a role in collecting and analysing data, making recommendations to members and the establishment of monitoring mechanisms to see if recommendations are working.
- Mr Rod Gravelet-Blondin delivered a presentation on “The factors driving South African grain futures and options and the main challenges ahead”. He briefly gave details on the establishment of SAFEX and the pillars needed for a successful futures exchange. International supply and demand, the dominant role of international prices, regional supply and demand, Food Aid sourcing, changes in domestic production patterns (impact of

GMO's), changes in usage (exports), logistics, exchange rates and interpretation of market information was listed as factors influencing the South African grains market.

I would like to highlight the following excerpt:

“The factors that influence grain prices on an exchange are varied and diverse and the context of the influence is dependent on the nature and timing of the factor. Obviously some factors play a greater role than others.

It is my firm believe that prices of commodities on a derivatives market are primarily the result of the shift in fundamental factors, particularly supply and demand of the underlying commodity. Prices on an exchange might not perfectly reflect 100% true value of the commodity at every second, but a liquid exchange where willing buyers and sellers, be they hedgers or speculators, participate in the price discovery process, far outweighs the attempts by politicians to accurately determine the value of commodities”

Unlike some of the previous speakers, he stated that the role and influence of speculators in the food market may not be necessarily being bad.

- Mr Weilu Yang, Deputy Director of the National Grain and Oils Information Centre made a presentation on China's Grain Market and The World's Grain Security.

Some interesting statistics:

- Rice production 196 million tons in 2010/11
- Wheat production 115 million in 2010/11
- Corn production 177 million tons in 2010/11 (corn production has increased faster than rice and wheat)
- Soy bean production 15 million tons in 2010/11, while imports were 55 million tons
- Over past 20 years feed consumption of corn down from 84% to 61%, while industrial use up from 8% to 26%.
- Not much corn used for energy production.
- Corn acreage planted in China same as in USA. (Yields however lower than in USA)

China's grain security:

- Policy is to rely on domestic production, mainly for food
- State support for grain production
- Cultivar development for increased yields
- Self sufficiency in 10 years
- Total grain production target of 550 million tons by 2020

- Mr Angelito Banayo of the Philippines National Food Authority made a presentation on the Philippine rice industry, challenges and policy approach to attain self sufficiency.

Some interesting statistics:

- World rice production - 455 million tons
- Philippines composed of 7 100 islands
- Tropical weather – rainy season May to October
- On average 22 typhoons per year
- Total land area 30 million ha, agricultural land 14 million ha of which rice is 4,5 million ha.
- Local production 10 million tons while consumption is 12 million tons

Challenges:

- Severe effects of weather conditions
- Increased population
- Increase in paddy production by at least 10% per annum
- More farmer access to credit and capital
- Intensified government support through agricultural technologies, extension, irrigation facilities and information
- Opening local market to foreign goods and services
- Reducing or eliminating protective tariffs and trade barriers (Quantitative restrictions to be eliminated by 2012)

Policies:

- Strategic rice reserve – 15 day supply at any given time
- Government rice buffer stock – good for at least 30 day supply inclusive of SRR; must be available by 1 July or start of lean season
- Paddy procurement from individual or organised small farmers at government support prices
- Controlling stocks through provision of marketing support services
- Importation only when there is actual or projected shortage

Regional linkages for food reserve

- Regional cooperation scheme to strengthen food security and reducing poverty in east Asia
 - Asean countries - 87 000 tons
 - Asean countries plus China, Japan and Korea – 787 000 tons
- Mr Alan Tracy of US Wheat Associates made a presentation on “The Coming Expansion of Global Grain Trade”. This is based on a study conducted by US Wheat Associates which

concluded that there will be a growth in wheat consumption particularly in countries/regions with minimal wheat production.

- World population growth is set to increase from 6.8 billion in 2010 to 9.5 billion in 2050
 - Total grain trade growth from 2010 to 2030 to increase to 465 million tons of which wheat is expected to be 190 million tons, corn 125 million tons and soy beans 150 million tons
 - Implications for buyers – higher price volatility, risk management, reliable sources of supply; relationships
 - Implications for shippers and handlers – growing business, volume will strain facilities
 - Implications for producers – competition for acreage, price volatility, no one area can meet demand alone
 - Implications for governments – price volatility, pressure to “protect” consumers, pressure to “protect” trade, infrastructure investment needs
- Mr Abdellah Ait El Cadi, the Director of Marketing, ONICL (National Cereals Office) in Morocco, made a presentation on the “Green Morocco Plan” that aims to build an agricultural strategy that ensures food security, strengthen agriculture’s contribution to the country’s GDP, stimulate private investment, consolidate the interaction between investment and productivity, enhance regions and territories, safeguard natural resources and respond to the significant issue of low farming revenues.

The Plan is based on two building blocks. The first involves the development of a modern, high added value and high productivity agricultural system that can respond to market forces. This is to be achieved by funding projects through private investment. The second building block consists of supporting small-scale farming in a concerted manner through improving income by providing mainly State subsidies. The aim of the Plan is also to make agriculture the primary driving force for economic growth over the next 10 to 15 years.

Some interesting facts:

- Grains accounts for 75% of total land used for agriculture
- Domestic consumption 10 million tons per annum
- Grain imports 70% of all agricultural imports
- 70% of farmers on less than 2 hectares – grain growing is out of habit
 - Low levels of mechanisation
 - Low rates of usage of good quality inputs
 - Few farmers using supplementary irrigation systems
 - Lack of organisation of producers
- Lack of high performance storage infrastructure

- Flour mill sector at overcapacity and significant performance difference between individual mills
- Free trade through traditional selling (rural markets/small-scale millers) and organised selling (private traders/sales cooperatives/industrial mills)

One of the main objectives of the Plan is to improve productivity through upgrading of the grains sector by 2020, by carrying out the following:

- reducing the land area under grain crops by around 20% while at the same time improving productivity by 50%
- obtaining grain production of 7 million tons per annum on 4.2 million hectares

CLOSING REMARK

It is apparent that accurate and reliable global supply, demand and stock figures is a necessity for transparency and decision making in the international grain markets.

In this regard the South African grains industry can be proud of the establishment of SAGIS that provide this information to the domestic market. It is however important that the services of SAGIS be extended to also include other associate market information that has been neglected since the Competition Commission raised concerns over the provision of such information by industry associations. It is foreseen that the Winter Cereal Trust will play a valuable role in this regard.

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