

## The importance of cross-border trade as El Niño may return in 2023

January 2023

Welcome to the monthly food price tracker. This is an initiative of the African Market Observatory (AMO) of the [Centre for Competition, Regulation and Economic Development](#), at the University of Johannesburg, and its partners. It summarises key trends in prices in East and Southern Africa (ESA) for selected staple food products, focusing on highlighted areas. Please also see the [previous trackers](#).

This issue of the AMO price tracker looks at the climate emergency, particularly as El Niño may return in late 2023, and the importance of cross-border trade in the ESA region in the face of climate change.

### Key developments

- There is a chance that the [El Niño weather pattern will return in 2023](#), exacerbating extreme weather around the world, and bringing drought to Southern Africa.
- Tanzania has increased its agriculture budget fourfold, with plans to transform the sector and achieve [more than 10% growth by 2030](#) and ensure food security.
- The president of Tanzania has invited the private sector to collaborate with the government to [mitigate and adapt to the effects of climate change](#) and diversify energy sources.
- Malawi's food systems disruption by droughts, flooding and erratic rainfall due to climate change indicate an urgent need to [increase the resilience of Malawi's food markets](#)
- The current harvest in Rwanda and recent improvements in cross-border trade are expected to increase the availability of food in rural areas and [stabilize food prices temporarily](#)
- The huge margins in prices seen in 2022 between producing and consuming areas persist as 2023 begins

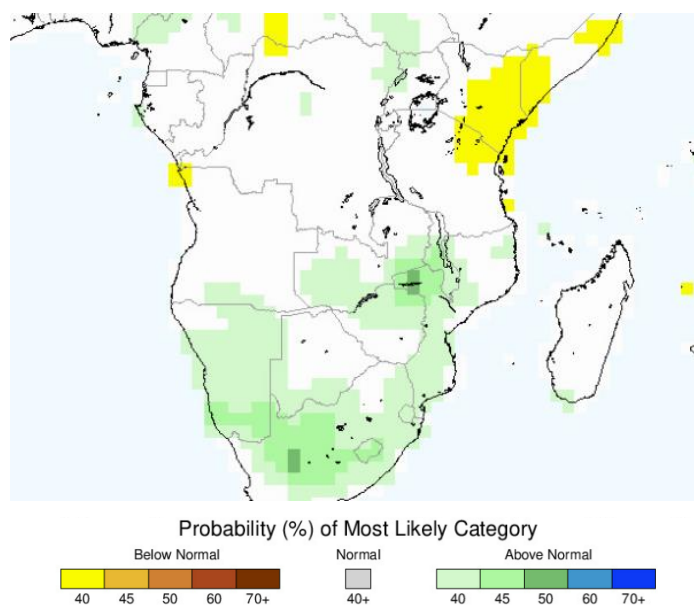
### A shift from La Niña to El Niño?

Climate change compounds the challenges faced by farmers and producers; especially smaller farmers engaged in rain-fed agriculture. In the short term, extreme weather, such as droughts and floods, is more frequent. The El Niño Southern Oscillation (ENSO) is one of the most important weather phenomena which is [characterized by three states](#) - "El Niño", "La Niña" or "neutral".

The climate emergency makes it imperative that concerted actions are taken to [improve the workings of agricultural markets](#) across the region. This is now being recognized by many countries, however, much more still needs to be done. Improved intra-regional trade through broader and deeper markets is essential in mitigating the risks associated with climate change. When one part of the region experiences poor weather, impacting negatively on production, other areas continue to have good conditions for production and can export.

We have been experiencing La Niña conditions for three consecutive years, and conditions are set for it to continue over the next three months. Consistent with this projection, Figure 1 shows higher rainfall forecast in Southern African countries (Zambia, Malawi, Mozambique, Zimbabwe, South Africa and Namibia) and low rainfall in Eastern Africa (Kenya and parts of Tanzania).

Figure 1. IRI Multi-Model Probability Forecast for Precipitation for February-March-April 2023, issued in January 2023



Source: AfriWX

There are now signs of a likely shift to El Niño later in the year. This is especially concerning for countries in Southern Africa which will experience severe droughts during the El Niño episode, while there are heavy rainfall and floods in East Africa. El Niño is a warming of the [central and eastern tropical Pacific Ocean](#). It affects the main growing season across Southern Africa by causing widespread drier-than-average conditions and lower vegetation growth. In 2015/16, it brought the worst drought in 30 years to Southern Africa, resulting in a maize deficit and substantial imports with [maize prices doubling](#) in South Africa from export levels to above import levels.

The International Research Institute for Climate and Society predicts that there is an anticipated transition from La Niña to neutral state by March-May 2023, with the chance for [ENSO-neutral at 82%](#). Tropical Pacific sea-surface temperatures are typically [near to average when ENSO is neutral](#). This will be a favourable weather condition for East Africa as the extreme drought it is currently experiencing will end.

Early forecasts further indicate that [El Niño is likely to emerge in late 2023](#), causing global temperatures to increase and resulting in unprecedented heatwaves. The [probability of El Niño remains low at a 44%](#) chance through May-June 2023, but it becomes more likely thereafter with a 53-57% chance of occurrence.

Investments are therefore urgently required in water management, irrigation, transport, logistics and storage facilities to support resilient food production systems. The African Development Bank Group (AfDB) plans to invest [US\\$10 billion](#) over the next five years in an effort to end hunger in Africa. The funds from the AfDB should be used towards investments to mitigate the impacts of the rapidly developing climate emergency.

The effects of climate change illustrate the importance of cross-border trade. During La Niña, for instance, countries experiencing droughts and therefore poor harvests in Eastern Africa could trade with countries with favourable rainfall and therefore good harvests in the Southern part of the region. This calls for stronger policies that promote regional trade.

## The importance of cross-border trade

In addition to adapting to extreme climate change weather, African countries also face the challenge of growing agricultural production to meet food demand, within and across borders. To improve the efficiency of cross-border trade, improved transport and infrastructure and reduced restrictions on the trade of goods are critical requirements. Intra-continental trade in Africa accounts for less than 13% of the continent's total trade.<sup>1</sup> This compares poorly with intra-continental trade of 67% in Europe, 64% in Asia, and 44% in the Americas.

Commitments to improve intra-regional trade have been made by East African countries. The Tanzanian government has assured citizens that the [borders will remain open](#) for cross-border trade, including the trade of agricultural products to neighbouring countries. The government has also allocated funds to build storage facilities for farmers' crops and to open irrigation centres in every district in the country. To transform the agriculture sector, the government has committed to providing [fertilizer subsidies](#), controlling post-harvest loss, and securing reliable markets for agricultural produce. This set of solutions will address the challenges farmers face and support the resilience of production systems in the face of major shocks, including climate change.

The Kenyan government has [waived the import duty on maize and rice](#) for a period of six months in an effort to ease the shortage of cereals and avert a food crisis. Furthermore, Kenya and South Africa are working to [improve their trade relations](#) which have been impacted negatively by administrative barriers as the two countries belong to different trading blocs. Additionally, trade restrictions between Kenya and Uganda have been eased as Kenya has [lifted restrictions on imports](#) from Uganda.

The decisions by these countries to ease trade restrictions and encourage cross-border trade supports regional integration, however, they must be part of long-term commitments to sustainable agricultural growth in Africa.

There is a long way to go as our research finds that huge margins persist between prices in producing and consuming areas in the region. Cross-border markets effectively remain broken. The difference between maize prices in Lusaka, Zambia and those in Nairobi, Kenya was above US\$300/t in January 2023. This difference more than the price in Zambia and is significantly higher than what would be explained by the efficient cost of transporting maize from Zambia to Kenya. Producers in Zambia should be getting more money for their crops, and buyers in Kenya should be paying substantially less. This would alleviate food insecurity in the region *and* support smaller farmers.

Reliable market information is imperative because it links buyers and sellers. The African Market Observatory plays an important role in supporting agricultural value chains and making the case for investment in infrastructure, water management, logistics and storage and support services.

## Maize prices

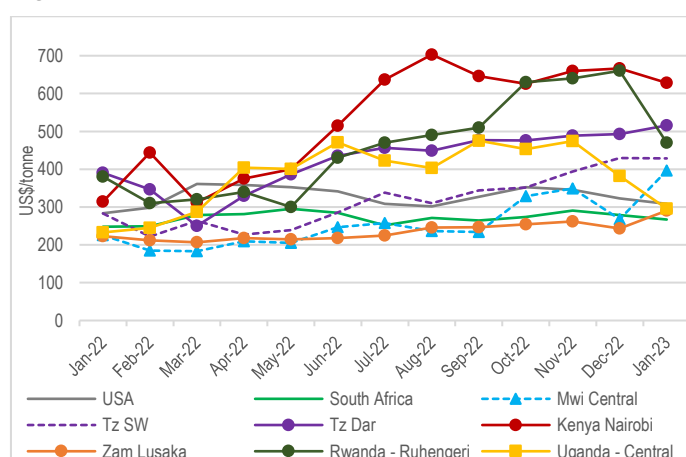
As 2023 begins, the huge margins seen in 2022 between producing and consuming areas persist in the region. Maize prices in Kenya remain extremely high, above US\$600/t, and prices in Dar es Salaam have also increased to above US\$500/t (Figure 2).

By comparison, Rwanda prices showed a notable 29% decline from above US\$600/t in the last quarter of 2022 to US\$470/t in January 2023. This is below Dar es Salaam prices and in line with southwest Tanzania prices, which have been rising consistently over the past six months.

The harvests have started in Uganda and Rwanda, with prices falling as a result. Rwanda is in its [Season A harvest](#), the first of two harvesting periods, which accounts for 60% of its annual staple food production. Uganda prices have also dropped sharply to US\$300/t, however, this has not yet impacted on prices in Nairobi even while trade is meant to be flowing.

Prices in both Malawi and Zambia increased above South African prices. Malawi prices, however, showed a larger increase and are almost US\$400/t, exceeding international levels of around US\$300/t, which Zambia prices are now in line with.

**Figure 2. Maize prices, ESA and international**



Source: based on price tracker data from multiple sources; South Africa is SA Futures Exchange price; USA is fob prices from SAGIS.

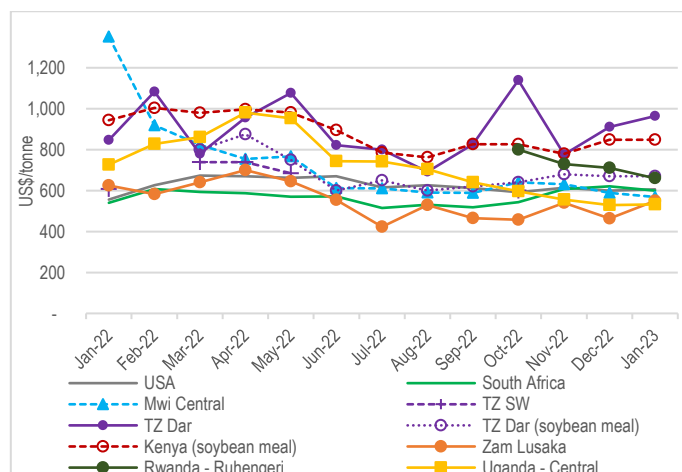
## Soybean prices

Soybean prices have shown similar trends to maize prices, with high prices in Dar es Salaam and Nairobi (Figure 3), and further emphasise the need for improved cross-border trade from surplus areas with low prices. Prices in Dar es Salaam are high at US\$970/t, while prices in producing areas of Malawi, Zambia and Uganda are all around US\$550/t. Rwanda prices dropped to US\$660/t, closer to international benchmarks.

Notwithstanding what the Tanzanian government has said about encouraging cross-border trade, prices in Tanzania are still high. Massive profit margins continue to be made by soybean traders into Dar es Salaam, although soymeal prices are more reasonable at less than \$700/t. Rwanda prices have also come down due to increased trade.

<sup>1</sup> 2022 Ibrahim Index of African Governance, Index Report, January 2023.

**Figure 3. Soybean prices, ESA and international**



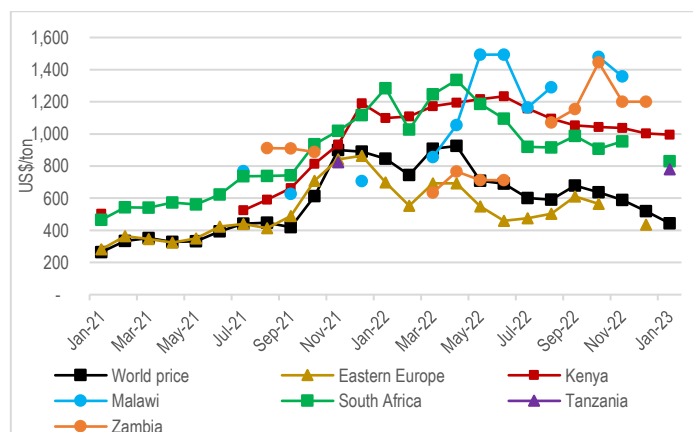
Source: based on price tracker data from multiple sources. South Africa is SA Futures Exchange price; USA is fob prices from SAGIS.

**Fertilizer prices**

International prices continued to fall in January 2023, settling at US\$444/t in January (Figure 4). Prices in South Africa decreased somewhat but at US\$829/t are still very far above world markets and by much more than reasonable import costs. Prices in Kenya are even higher at almost US\$1000/t.

Tanzanian prices averaged at US\$781/t, in line with South African prices and above the world price. The subsidised price is US\$600/t while the market price was much higher at US\$960/t.

**Figure 4. Urea prices**



Source: World price is from the World Bank. Eastern Europe & South Africa prices are from Grain SA. Kenya and Uganda are from AfricaFertilizer. Malawi, Tanzania and Zambia are from AfricaFertilizer and from POKET app users.

The high fertilizer prices add a further strain to production volumes in the region. In 2022 high fertilizer prices meant lower usage, impacting on yields and farmers' profits across the ESA region.

Countries in the region have been looking for ways to ensure an adequate fertilizer supply at reasonable prices. To guarantee an adequate supply of fertilizers at reasonable costs, the Tanzanian government has [revived the Tanzania Fertilizer Company \(TFC\)](#). TFC had ceased its involvement in the sale of fertilizers due to financial and economic reasons. However, TFC is received funding from the government and is now operational again, sourcing fertilizer in bulk from world markets and on-selling to farmers at a set price.

In an attempt to revolutionise the agricultural industry of Tanzania, [Tanzania has allocated US\\$64.2 million](#) in order to promote farmers' access to fertilizer and reasonable prices. Additionally to this, Tanzania is to finalise negotiations on a [fertilizer blending facility in Kisarawe](#) with Morocco. The country asserts that the facility will assist Tanzania farmers as well as farmers in East Africa to achieve food security. Tanzania is taking steps at ensuring adequate supply of fertilizer for its farmers.

Fertilizer subsidy schemes have generally not been working well. Historic data on Kenya's fertilizer subsidy indicates that it was [not successful](#). Currently, Malawi faces numerous challenges in their fertilizer market. In addition to the fertilizer donation from a Russian company arriving as the planting season ends, a large portion of the Affordable Inputs Programme (AIP) beneficiaries have not received fertilizer. In Karonga, [only 13% of beneficiaries under the 2022/2023 AIP](#) have accessed NPK fertilizer. Additionally, police have confirmed that K54 million from the Smallholder Farmers Fertilizer Revolving Fund of Malawi (SFFRFM) was [stolen in Chitipa](#).

If fertilizer availability and prices in the region does not improve rapidly then the next harvest will be negatively affected like the previous one, resulting in high food prices. This will see even more people fall into severe poverty, increased hunger and malnutrition. Countries need to take urgent steps in response to the high fertilizer prices to support agricultural markets in the region.

**African Market Observatory**

Centre for Competition, Regulation and Economic Development, University of Johannesburg; [www.competition.org.za](http://www.competition.org.za).

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