



PRIVATE SECTOR PERSPECTIVE ON RISING FOOD PRICES IN NAMIBIA

“CAN WE STILL AFFORD OUR DAILY BREAD?”

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This is indeed an opportune session to reflect on the social and economic challenges emanating from the global food crisis. Food, which accounts for roughly 30% of the average consumers' basket in Namibia, is becoming more expensive by the day. Recent inflation figures for Namibia shows that average food prices increased by over 15% on an annualised basis since January this year. This is by far the fastest growing component of the average consumers' expenditure basket followed by transport.

Economists and analysts are informing us that the key culprit in this global crisis is the demand for fuel and specifically the price of crude oil. Why is this important? Globally, the excess demand for fuel has prompted farmers to plant crops for ethanol production thus taking a significant portion of staple production away from direct consumption. Secondly, as most of you are aware, there are a number of developing economies such as India and China with growing middle classes whose demand for food is growing rapidly. For example, as China develops, helped by its massive exports, millions of Chinese citizens have started to eat better. Better means not just more food but more proteins such as meat, the new luxury. This has added some momentum to prices of these products. For example, the price of corn has increased by 60% between 2007 and the current year. Global wheat prices have also risen on a similar scale.

What is important to note is that to produce a kilogram of meat takes approximately 6 kilograms of grain. Thus livestock production in some parts of the world (particularly in feedlots) has become a major consumer of grain - thus exerting additional upward pressure on prices.

What is really concerning is the fact that global demand is simply outpacing supply with little sign of relief globally. Subsidies and other forms of support have made it attractive for farmers to produce for ethanol or bio-fuel production, thus reducing land that can be used for food production. As a result it is not feasible to adjust supply speedily to effect downward pressure on prices. Some people are referring to this as the 'silent tsunami'. Going forward we will as a global village not be able to feed the rising numbers of the poor and hungry.

Namibia is largely a net-importer of staples and food in general and is feeling the price pressure more. As was pointed out earlier food prices have soared because agricultural production has not kept up with the rising demand of cereals for food consumption, cattle feeding and biofuel production. For the first time in decades, worldwide scarcity of food is becoming a problem. Global cereal stocks are falling rapidly. But cereal demand for the feeding of cattle is increasing even more rapidly as consumers in both rich countries and fast growing economies are eating more dairy and meat. The most important factor behind the sudden spike in food prices, however, is the rapidly growing demand for biofuels, particularly in the EU and the US. Of total corn production, 12% is used to make biofuel, and that share is growing fast. Because of the high oil prices, fertilizer prices have sky-rocketed by increasing in excess of 100% for some variants. Indications are that seed availability is also a major challenge across the world.

According to the Food and Agricultural Organization (FAO), world production of cereal, vegetables, fruit, meat and dairy increased in 2007. But, prices will remain high or grow even further in the coming years, as production is not growing fast enough to keep up with rising demand. Moreover, financial investors speculating in commodity prices aggravate prices and increase volatility in the market.

Analysts generally consider higher food prices beneficial to poor countries that depend on export of agricultural goods. But Namibia is largely a net-importer of staples, with the exception of meat. And, net importers of food are not benefiting from the current price hike. However the only credible response to food inflation, both here and elsewhere, is to increase the supply of food. There, higher food prices should encourage agricultural production in countries like Namibia where it makes economic sense. But with an impending food crisis and no time and resources for a major transformation of the agricultural sector, import-dependent countries are instead attempting to boost imports by reducing import duties and tariffs, and providing subsidies to importers. Meanwhile, exporting countries are implementing export restrictions such as export quotas, export duties, minimum export prices, and even export bans of certain commodities.

The acceleration of the Green Scheme could provide some relief in the medium to long term to provide domestic food security. But food security is no guarantee of price stability if pricing regimes of import-parity is maintained. For poor households, the real impact of the current food inflation depends on whether a poor household is a net seller or buyer of food (that is, whether it grows more or less food than it consumes).

In the long term, the whole question of food security in Namibia will prove to be inextricably linked to the issue of access to land and the productive use of such land. It is high time that Government actually conducted a credible audit of the productive use to which all private commercial farms and all Government resettlement farms in Namibia are subjected to.

Unless we decide to address the fundamentals of our socio-economic situation head-on, rather than to merely apply short-term first-aid measures like zero-rating certain basic food items from VAT, etc, we are unlikely to afford our daily bread in the not too distant future!

I thank you!