Accessing export markets: a developing country producers' perspective

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Abstract

This paper reviews several of the principal driving factors in export-orientated agriculture in developing countries. There is sometimes debate over developing countries that may be food deficient having segments of their agricultural sector focusing on export instead of producing food entirely for domestic markets. Export-orientated high-value agriculture maximises returns (price) to smallholders, which in turn improves their food purchasing power, leading to poverty alleviation. It also facilitates adoption of international best practices through trade interaction between importing and exporting countries, leading to improved efficiencies and competitiveness. Foreign exchange earned from export trade helps stabilise local currencies against hard currencies, and that contributes to macroeconomic stability.

This paper also highlights the realities of the market access challenges that export traders of fresh produce face routinely. These include capacity to meet the multiple stringent standards demanded by developed countries. There is no question that standards are necessary — they are an essential passport to all trade, local or export, but the farmer bears the costs of compliance and certification. That smallholders in developing countries such as Kenya do meet the official control market standards demanded by supermarkets in developed countries is shown by Kenya's horticulture exports of about US$1-billion-worth of fresh produce annually, 82% of it to the European Union, one of the most demanding markets in the world.

For developing countries' exporters, there can sometimes be 3–5 steps between a producer in developing countries and a consumer in a developed country, leading to low value retention at the developing country level. Pricing and contracting mechanisms by supermarkets for fresh produce limit the capacity of exporters and growers in developing countries, particularly smallholders, to enter into binding contracts. There is insufficient risk sharing along the value chain, leading to smallholders bearing the highest risks in supermarket fresh produce trade. There are development issues in developing countries accessing export markets.

This paper examines the case for capacity-building among smallholder producers to be treated as a 'public good' in the interests of improving best practices and competitiveness, of building export infrastructure such as facilities for testing and certification. Agriculture research is important in developing production efficiencies, controlling pests and diseases, better land-use management and better informing farmers on economics/market trends of key commodities. Ultimately, export trade from developing countries should contribute to Millennium Development Goal 1: Eradicate extreme hunger and poverty.

I speak to you as a representative of farmers from Kenya. I'm talking about small-scale farmers, defined that way not just by their scale of operation but also by economic considerations. I also speak very strongly from a developing country point of view. In brief, the Fresh Produce Exporters Association of Kenya (FPEAK) and the Horticulture Council of Africa (HCA) represent farmer groups. The HCA works with farmer groups that are dealing especially with fresh produce, in 11 countries, extending all the way from Ghana through east Africa to South Africa.

Food security: the famine in eastern Africa

Before I begin, I must touch on the food security situation in the Horn of Africa, where I come from, and which is of concern to Australians and internationally. Although the famine is partly in Somalia which has some challenges with security, frankly there are also many many people hungry in northern Kenya, in southern Ethiopia, in Djibouti, in northern Uganda, and in a few other countries in the region. It is a serious situation and I think we need to see how to make sure that this does not happen again.

We are very excited about the fact that in addition to international aid there has been a strong local response. Very ordinary Kenyans — teachers, policemen and others — have been able to raise quite a lot of money to help deal with this situation, equal to about A$7 million so far. This is really good, and the first time that we have contributed locally, in addition to international aid.

The question, of course, is why famine is happening again, in the 21st century. We thought that the issues that cause hunger were well understood. Why are we in this situation? The problem is that there was no rain this year, 2011. There was no famine last year because there was rain last year. There has not been rain this year and there is famine — but that is only part of the answer. In reality, there are some three factors that would be important in making sure that food security is addressed in a more permanent way.

The first factor is having a food security system in place. There are many aspects to that, but just as a quick example, a year ago, exactly, from now, there was a bumper harvest in some eastern parts of Kenya that are now in famine. The harvest was so big that we lost 40% of the grain to post-harvest losses, to aflatoxins and moulds. That grain is actually still stored in some government stores at the moment, because, of course, it is poisoned grain that cannot be consumed by human beings. If that grain had been saved, it would have been the first point of call for addressing the current situation.

This shows that in addition to fixing the production system, it is very important to make sure there is proper and safe bulk-handling post-harvest to ensure that we can avoid this situation in future.

Perhaps the most important factor is making sure that the market system works, making sure that farming pays, fixing the market system. Very often, farmers get much less from their farm, from their produce, than what they put in. The inputs of fertiliser, agro-chemicals, and so on end up being more expensive than the returns they get from the farm.

Figure 1. An outline of Kenya showing some of the high-quality fruit and vegetables grown by the country's smallholders and other producers

The other factor, obviously, is improving productivity. We all have heard about the decreasing fertility of soils in this region, and I think something needs to be done about that.

However, the big issue is that the aim should be food security and not food self-sufficiency. Farming must be a business, even when it is at small scale.

Fresh produce from Kenya

Many Kenyans earn their livelihood by growing fresh produce. In Figure 1, in the outline of Kenya, you see some of the foodstuffs grown by our farmers. There are 4.5 million people involved in horticulture in Kenya; 1.5 million of them directly as farmers, and another 3 million indirectly. They total about 11% of the population. The value of their production amounts to about US$3.2 billion, growing at about 9–14% in the last 5 years. It is a significant activity.

The bulk of the production is for the domestic market: 95% in terms of volume and 60% in terms of value. A huge component is also traded, US$1 billion to be exact, in the last three years, with 82% of that going to the European Union (EU). So standards are extremely important to what we do.

Most (70%) of the fruit and vegetables are grown by smallholders, in a sustainable system, with no subsidies into the sector. However, smallholders and large-scale producers co-exist; they need each other for the whole production system for fresh produce to continue working.

As a way of ensuring smallholders meet standards, we run a quality-standard system called 'Kenya-GAP' (Kenyan good agricultural practice), which is benchmarked to Global-GAP. By so doing we are able to ensure that farmers meet the standards that are required.

Export (super)market realities — the good

Turning to the topic of supermarkets and accessing external markets, I will start with the good, and then I will go to the bad and the ugly.

The 'good' has already been very well explained today. In Kenya, as elsewhere in Africa, we believe that supermarkets are important for creating convenience, not just for the consumer but also for the producer. If you don't believe me, try selling a 14-foot-long (over 4 metres) container of water melons in the middle of some town like Nairobi, just by hawking it. It might take you several days to do that as a farmer, and much of the produce might actually be spoiled by then because it is too difficult to sell that volume in small amounts to many consumers as a farmer at one site. Therefore, we find it very convenient to trade with supermarkets.

In Europe, we are big traders with supermarket companies such as Carrefour, Tesco and METRO. The advantage for us as small-scale producers is that we are able to pull together our produce and deliver it at once at one point. The advantages are in convenience and in lowering costs.

A second advantage is that by interacting as producers in Africa with the supermarket system, in Europe for example, and in Australia and USA, we are able to develop 'best practices'. By exposing African farmers to the requirements and the standards and the systems in use in developed countries we are able to improve the efficiency of production and, most important, the level of compliance with standards.

Standards compliance is a very important marketing tool. If a country with a small-scale production system is known to meet standards, there will be consumer demand, because the consumers know that farmers are doing things right. For example, from Kenya we trade huge volumes of beans to the UK market, and that means other countries such as Australia or USA or elsewhere will also take our produce, because of our trade with UK.

The third advantage of trading with supermarkets is, of course, the price. The only reason why farmers export their produce is because they get a better price. There is no point in exporting if you are going to get the same price in the local markets; and obviously that has a huge knock-on effect on food security. The income earned by farmers must be about eight times the income they would receive from selling staple foods in their own area. Export prices give farmers more disposable income to use when they have to provide for their own needs.

Exports — the 'bad'

I have just talked about the good things about standards. Standards are important; they are good; they are a passport to trade, especially international trade. If there is an issue with standards, it is not whether we should have standards but, rather, how the standards are applied.

The first point to note is that there is a range of official control systems or government standards. When you are trading out of countries such as those in Africa, and one consignment is going to the EU, one to USA, one to Australia, one to Japan, you need to meet four different standards. You have a logistical nightmare in setting up your farm systems to comply with all four very different standards.

To complicate the situation further, you have government standards and private standards for the same aspect; for example, pesticide use. At the outset you would be checked by government officials to see that your consignment does not exceed maximum residue levels of the pesticide in question. Then, when you reach the door of the supermarket they not only want to see you have passed the government check, they also want to check you against their own standards, different from those of the government.

Making it a bit more complicated still, there are many different private standards — we deal with 17 of them. Try putting some of these stickers on your box of produce — and paying for the stickers.

That is the last point, the cost issue. Meeting the standards can sometimes cost more than production.

On top of that, there is the issue of unpredictable demand. Yes, things do change in the market, as Australia knows very well, just as we do. All of us were challenged by the volcanic ash, and also by the heavy snowfalls last December. These can be very bad when you are export-dependent.

The ugly

Issues I call 'ugly', not merely 'bad', are 'ugly' because something can be done. I think it is important to see how best to move this debate forward in the coming discussions.

The first issue is that in this trade of fresh produce, and certainly with supermarkets, the farmer takes all the market risks. There is no risk sharing between the farmers and the supermarkets.

Say, for example, you have been asked to supply a certain volume of produce. If something should change, the volume required may be revised downwards, even if the crop is already growing on the farm. It is up to you to know how to deal with your farm produce; never mind that it is very perishable, and market deflection is very difficult at short notice. You are told "I want 20 tonnes, not 40, and that is final". You have to see what to do with the rest. Then, say that for whatever reason there is another change. Again, the farmer will be asked to accept that. Situations like this make it very difficult for farmers, especially small-scale farmers. To supply a particular market we may have over 1 million small farmers organised in a methodical way to produce a particular crop. All of them are sure that their produce is for market X — and then they are told "Sorry, it's not going to go. Plough it down.".

Now you can do that if you are a large-scale farmer because you have reserves. But a small farmer will grow a crop of grain to guarantee that he receives enough to provide for planting the next crop. If the crop is not sold, that can be the end of his farming career. This reality we have to live with.

I know that there are efforts in Australia, as well as in UK and France in the EU, to create some kind of fair-price mechanism. We have been involved in some of this, because it is important to find a mechanism that works both for the supermarkets and also for the farmers. Of course the supermarkets' word is final on the pricing mechanism. For the process of setting standards there may be some little consumer influence but supermarkets decide what it should be. The mechanism will need to apply the principles of free economics whereby there is enough demand and enough supply to counterbalance every aspect at present. However, at the moment there is a vacuum there.

It is also true that 30–50% of fresh produce is wasted, either at the supermarkets, or in the home after people buy the fresh produce. The waste in the home is already paid for by the consumer when they go shopping in the supermarket. Quite a lot of goods also get spoiled on the shelves of the supermarket, and being fair to the supermarkets I agree that they have to absorb that — and of course sometimes the pricing mechanism reflects some of those kinds of frustrations.

Environment, not protectionism

New emerging trends introduce another sad aspect. I am sure you are all familiar with 'carbon footprint' and 'food miles'. Please do not misunderstand me: I agree we must preserve and protect the environment. The farms must pay their rightful share, whether they are small-scale, in Africa or wherever they might be, and also if they are large-scale. Everybody should contribute in protecting and conserving the environment, but it is very dangerous to single out some parts of commerce and leave out others.

Take food miles. You can have food miles being seen as quite important when, say, carrots are imported from Australia to UK; there will be a sticker somewhere on them to say that they came from afar. However, there is no sticker on electronic goods that took the same flight to make some electronic components which are then flown from somewhere to the UK. I think this is ugly.

So I think the movement should be renamed 'fair miles' and they should be noted both on food and on other goods. In other words, taking care of the carbon footprint is much better than worrying about *food* miles. That would be a much fairer way of assessing this concept than singling out food, as though you can trade this but you cannot trade that.

I am fully aware of 'buy-local' convenience, and debates about it, which, I'm sure, are also strong in Australia. We are told that 50% of Australian food is actually exported. I think for countries like Australia it is very important to export food;

but 'buy local' is important too. I just hope that people can understand that 'buy local' is very very protectionist. Why is it protectionist? Because if you stretch it to the logical conclusion — say, buy local food, buy local electronics, buy local pharmaceuticals, buy local everything — you would kill international commerce as it is known today. Let us be real. There will be countries that trade in food, there will be countries that trade in oil, there will be countries that trade in technology, and therefore it is important to balance that debate: very very important.

Why not grow food for local consumption?

Finally, I know you may want to ask this question and I would like to answer it before you ask. The question is: Why not grow food for local consumption? Why export it? Why is it logical for an African country to be trading in food in some big supermarkets in Europe when there is often no food at home?

In answer, the first point is that farmers are rational thinkers. Say you are a farmer and all the land you have is 1 hectare in a place where there is a bit of water. From that, you get your school fees and medical costs and food for your family, so you must seek to maximise the returns on that hectare. It is all you have for income, and you have needs like everybody across the world.

Therefore, you move into high-value agriculture, which by definition most of the time means horticulture. That is why you might find situations where horticulture is increasing in parts of Africa while in some other parts of Africa there are food scarcity issues, because farmers are business people. They may not know how to do it very well but they actually want to be very business orientated.

The second point is that the best bet for food security is wealth creation and not food self-sufficiency. If you want to feed that farmer who has only 1 hectare, you could ask him to produce enough food for their homestead on his hectare, but if you look at the price of what they are growing you will find that they will be trapped into some form of poverty. If you can multiply that by 8 times by growing high-value agriculture, you can make sure that they have not only a better capacity to access food but that they are also able to meet their other basic needs (school fees, medical bills) which are also extremely important.

So it is very important that food security is seen not as food self-sufficiency. I think economists in this room will agree that there is a very big difference between the food in the pocket and the food in the granary. The reason why Africa has hunger problems is not because they do not have food but because they are not able to access food. That is the difference between Africa and Dubai. In Dubai they do not grow food, but they have food in their pockets.

Farmers in Africa do not seek to export. They seek a market, any market. If the market happens to be local and is paying well, there is no reason for the farmer to go through the headache of exporting. Please understand that. Exporting is a price-seeking mechanism.

For some countries, only agricultural exports are successful, enabling them to globalise other parts of their economies, and providing the foreign exchange they need to balance their reserves.

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