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THE ROLE OF A CENTRAL PROCUREMENT AGENCY IN STABILIZING THE PRICE  
OF FOOD WITH SPECIAL REFERENCE TO JAMAICA NUTRITION HOLDINGS

E.G. Clarke  
*(Chief Economist, Jamaica Nutrition Holdings Limited, Jamaica)*

The world inflationary spiral of the last few years has forced many countries to take a long hard look at their development programmes in a serious attempt to cushion their economies from the disaster which follows in the wake of such inflation. Whereas the industrialized countries, whose economies usually have a more broadly structured base, can recover from the disruptive effects of inflation within a relatively short time, the developing countries usually suffer severe setbacks in their social economic development programmes. This is so because the effect of world inflation bears more heavily on us if for no other reason than that we rely too much on imports, and so find our already adverse trade deficit increasing at a higher rate during a period of world inflation. For example, for 1973 when inflation rocked most of the world economies, Jamaica's Trade Deficit rose to \$249.4 million; as against an average annual deficit for the previous five years of \$151.5 million. This increase of approximately 65 per cent was due mainly to inflation since import restrictions which became necessary, reduced the physical volume of goods imported in many cases.

Further indication of the movement in import prices in recent years is given by a comparison of the actual prices paid by major importers for some basic food items during 1972 and 1973 as shown below:

Table 1. Import Prices for Specified Items, 1972-1973.

Items	C.I.F. Prices Dec. 1972 J\$	C.I.F. Prices Dec. 1973 J\$	% Increase
Rice (per bale):			
U.S. Source	3.44	5.95	73.0
Guyanese Source	2.99	4.66	56.0
Corn (per ton)	59.45	114.69	93.0
Soyabean Meal (per ton)	144.32	268.14	86.0
Wheat (per ton)	68.91	213.32	210.0
Counter Flour (per ton f.o.b.)	74.90	217.89	191.0
Crude Oil (per barrel)	2.33	5.56	139.0

Source: Economic & Social Survey, Jamaica, 1973.

For many years now, Jamaica has had serious problems of price increase particularly in foods; and so the events of the last few years differ only in degree of severity and in our approach to a solution. The answer to the Caribbean food problem lies in increased supplies and proper distribution of what is available.

One aspect of Jamaica's approach to such rapid price increases in some of its basic imports is a comprehensive programme aimed at minimising the impact of these increases in the short term, while long term measures are being developed. The long term aim is to reduce the level of dependence on imports particularly of food stuffs by direct replacement or substitution; but in the meantime to concentrate efforts on the stabilisation of prices.

It was against this background and the realization that the diet of the average low income Jamaican is well below the desired level that the Jamaica Nutrition Holdings Limited (J.N.H.) was established as a fully owned government corporation operating under the Company's Act of 1965. This Company therefore operates as a central procurement agency with a view to improving the country's supplies of basic nutrients within the context of protected and stabilised prices. It was established with the following objectives:

- (a) to engage in bulk purchases of grains and other nutrition related raw materials;
- (b) to operate a stabilisation fund related to these bulk purchases;
- (c) to deal in commodity futures market in order to protect the national economy from rapidly fluctuating commodity prices;
- (d) to research sources of cheaper basic foods for the Trade;
- (e) to assist in the development of a National Nutrition Programme; and
- (f) to establish and manage facilities including:-
  - (i) a soyabean processing plant;
  - (ii) a milk processing plant;
  - (iii) a cassava processing plant; and
  - (iv) a banana processing plant.

The bulk purchasing activities of the Jamaica Nutrition Holdings is at present the most fully developed. This Company is now the sole importer into Jamaica of all corn, wheat, baking flour, soyabean meal and bulk rice. It has also imported a limited amount of skimmed milk, and is actively engaged in researching new sources of basic foods in pursuance of its objective to stabilise prices. The Company started its bulk purchasing activities in September 1974 and up to the end of February 1975 the following quantities of basic items were imported.

Table 2. J.N.H. Imports, September 1974 to February 1975

Corn	33379	short tons
Wheat	16627	metric tons
Baking Flour	211531	100 lb. bags
Soy Meal	4837	short tons
Bulk Rice	2260	short tons
Skim Milk	2000	short tons

J.N.H. operates on strict commercial principles and obtains its working capital through normal commercial channels.

The basic concept behind the expectation of the J.N.H., or any central procurement agency wishing to stabilise the price of basic foods rests on the principles of averaging and bulk purchasing.

Where one central organization is purchasing a number of commodities, it will be found that over a medium to long period, the movements in the prices of these commodities will not all be in the same direction over the same time span, or at the same rate of change. Some will go up while some remain stable or may even go down. The short term example of price movement between 1972 and 1973 shown above, for a period of unprecedented price fluctuations, gives some indication of the varying rate of change that can be expected. The point is that a central agency purchasing a wide range of items, need not pass on each cost change to the consumer in the proportion that it occurs, but can use one commodity to subsidise the other. This is particularly the case when there are substantial differences between the rate of change of the commodities being purchased. Also, it is a fact that some items because of their relative importance to the national diet reflect greater changes in the cost of living when a given price change is applied than is the case with others. A central agency purchasing several items can therefore distribute the increases that do occur in a manner that it bears less heavily on the consumers. This will obviously be impossible in cases where the various purchases are being made by different individuals. The J.N.H. during its short period of operation has found this to be possible and has by this means kept the price of corn below what it would normally have been.

Associated with the concept of averaging as a means of price stabilization by a central procurement agency is the establishment of a Price Stabilization Fund. As mentioned earlier, the price of most commodities will fluctuate over time. When the purchasing of these commodities is in the hands of diverse private interests, low commodity prices result in large profits for these interests, while the consumers bear the burden of high prices. By purchasing through a central agency, a stabilization fund can be built up by the addition of a "CESS" when prices are low, and this can be used to subsidise prices to the consumers when prices increase. Thus the consumers can be given some protection from the vagaries of volatile market influences. The build up of a fund is of course a long term operation which develops more rapidly during times of low prices. The J.N.H. has not yet operated in this period of low prices and has therefore experienced only modest successes towards the build-up of its stabilization fund.

A central procurement agency handling various commodities can also benefit from bulk purchases in a manner not available to individual purchasers. quantity discounts through bargaining strength is one of the more obvious benefits. This however need not be confined to the purchase of the commodity, but can be extended to insurance, freight rates and other charges. For example, a central agency buying 150,000 tons of corn may by proper tendering and good knowledge of the market which large scale operation makes possible, be able to purchase at 10 cents per bushel less than say five individuals purchasing the same quantity separately. This would mean a saving of over half million dollars on the total purchases. If the same principle is extended to freight rates,

even more substantial savings could accrue particularly if the quantities being moved justify the charter of a complete ship.

So far the techniques of bulk purchasing have worked very well for Jamaica even though this has been in operation for a relatively short period. This and other long term schemes when fully developed should improve the food supply situation to Jamaica. The J.N.H. is now looking into the establishment of its own bulk shortage facilities for grains so as to maximise the benefits available from bulk purchasing. This is one area in which regional co-operation could in time become very meaningful. It is possible that the experience developed by Jamaica in bulk purchasing of grains could, by agreement reach at a higher level, be made available to other countries within the region so as to enable each country to obtain its imported grains at a price below that which would normally prevail. The establishment of Jamaica's trans-shipment port with free zone and bulk loading and unloading facilities will facilitate the development of such regional co-operation in the bulk purchasing of basic foods, and a wide range of other items. This could result in better utilization of foreign exchange (through savings on direct purchases and freight rates), and also of shipping space and managerial resources. Imports of wheat and corn by the four larger CARICOM partners during 1973 are given below:

Table 3: Grain Imports of Four Major Caricom Countries (in metric tons)

Country	Wheat	Corn	Total
Jamaica	54,112	109,544	163,656
Trinidad & Tobago	78,802	27,221	106,023
Guyana	48,053	7,863	55,916
Barbados	-	1,561	1,561
Total	180,967	146,139	327,156

It may therefore be worthwhile to investigate whether the procurement of all grain requirements for the entire CARICOM Area by one regional purchasing agency working with the various government and private sector interests may not be as important as the marketing of sugar or banana through regional co-operation.

I have so far given a brief outline of one scheme adopted by Jamaica for the improvement in prices and supplies of basic food items. It has the advantage that it is capable of application within a relatively short period mainly because it concentrates on the distributive link in the supply chain. The production link, in the context of the Caribbean, where completely new skills and processes have to be developed and capital equipments established, is of necessity more suited to long term development schemes. In this respect it was indicated earlier that the J.N.H. was from the beginning expected to establish a position in several projects with a view to improving the quality of agricultural and nutritional developments in Jamaica. Once these projects are identified as feasible, (a process in which other government agencies may play a leading role), the J.N.H. will become involved primarily in the equity holdings, and at the marketing and managerial levels. Most of these projects constitute a model example of joint venture ownership between the public

sector, though its link with the J.N.H., and various private sector interests.

The Jamaica Soya Processing Industries Limited is one such joint venture project being established, with an initial capital of \$7.2 million in which J.N.H. is the major equity shareholder. When completed in 1976/77 the plant is expected to have a crushing capacity of 300 short tons of soybean per day and can produce soybean meal and once refined oil in excess of the present import needs of Jamaica. Although the feasibility of this project envisage a start-up based entirely on imported beans, the development and use of local soybeans is seen as an important aspect of the whole operation.

Another project for the development of the cassava industry has also been identified, and will start with the production of an estimated annual output of 8.4 million pounds of "bammies" for local and overseas markets. As an enriched product, bammies are expected to be a partial substitute for bread from wheat flour. Further development of this industry to produce a fortified flour, starch and animal feed will follow in due course.

The development of the dairy industry centred around the operations of a company already established as the Cornwall Dairy Developments Limited is well on stream. This is planned as a three phase development to start with production of pasteurised milk, milk drinks, ice cream and cottage cheese; moving into the production of sterilized milk and finally into butter and cheese. This project provides for the participation of dairy farmers on an equity holding basis with a projected capital requirement of \$1.8 million.

Important features of these projects are that they all have a high import substitution content; they are located in rural areas, and are all expected to improve the level of nutrition within the country.

The establishment and operation of the J.N.H. as well as the projects outlined, have all been conceived as a means of improving the supply of basic foods to Jamaica. Most developing countries however encounter the same problems of shortages in basic food supplies, high prices and a serious problem of malnutrition of large sections of their population. We in the Caribbean have made positive progress in our attempt at regional co-operation, and the holding of this conference is evidence of our mutual desire to continue this progress. Beneficial developments in one country therefore should not be kept as the exclusive preserve of the individual state, but should be made available to the entire region in the true spirit of cooperation.

In this paper, I have tried to give a brief outline of a new approach to an old problem of food supplies. As you will be aware, there are several areas to which resources have to be directed if we are to find a long term solution. In fact there are various other government agencies some of which are represented here and from which you will hear, that are engaged in research and experimentation, production and marketing, with a view to increasing total food supplies. The Jamaica Nutrition Holdings, although primarily oriented towards procurement, is also interested in these areas; but has taken the realistic view that for many years at least, a large portion of

Jamaica's total food requirements will have to be imported. As a central procurement agency, we are therefore charged with the responsibility of ensuring that the necessary imported supplies are available and that they reach the consumers at the lowest possible cost. We believe that we are justifying the trust placed upon us.