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VIEWPOINT: FUTURES CONTRACTS FOR AGRICULTURAL COMMODITIES - IS THE TIME RIPE FOR SOUTH AFRICA?

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Arguing a case for or against a futures contract for an agricultural commodity in South Africa is made exceptionally difficult because of the lack of research and knowledge on the subject locally. This is further complicated because it involves different disciplines as well as a dependence on international experience. Nonetheless, there are certain requirements that are essential for the successful implementation of an agricultural contract. The most important are: A free market, liquidity, structure of the industry and price risk, followed by location, type of market operation, training and public relations, clearing house, product characteristics, international interaction and legislation. Based on these requirements there are at present certain commodities which are more suitable than others. They are wool, mohair, meat and potatoes. However, it will require more detailed analysis to accurately determine their potential.

Termynkontrakte vir landboukommoditeite - Is die tyd ryp vir Suid-Afrika?

'n Debat in Suid-Afrika oor die voor- en nadele van 'n termynkontrak vir landboukommoditeite word bemoeilik deur 'n gebrek aan navorsing en kennis oor die onderwerp plaaslik. Verder behels die onderwerp kennis oor verskillende vakdissiplines en is daar 'n afhanklikheid aan internasionale ervaring. Nogtans is sekere voorwaardes geïdentifiseer wat belangrik is vir die suksesvolle implementering van 'n landboukontrak. Die belangrikste is: 'n Vrye mark, likiditeit, struktuur van die bedryf en prys risiko, gevolg deur ligging, tipe mark operasionele struktuur, opleiding en openbare betrekkinge, internasionale skakeling en wetgewing. Daar is sekere kommoditeite wat huidiglik beter geskik is vir die implementering van 'n termynkontrak naamlik: Wol, bokhaar, vleis en aartappels. Verdere detail navorsing word benodig om met 'n groter mate van akkuraatheid die potensiaal te bepaal.

1. Introduction

The Kassier Committee Report, published in December 1992, recommended a strong movement towards a free market agricultural policy (Kassier, 1992). The recommendations received considerable attention from mainly agricultural and other disciplines. As could be expected reactions were mixed, mainly depending on how a free market agricultural policy would affect vested interests. Old buzz words and phrases such as entrepreneurship, futures markets, import parity, privatisation of existing parastatal functions and/or enterprises, etc., became a reality again. In addition to this, or maybe because of these developments, the South African Futures Exchange has also expressed its intention to apply for a listing of its first commodity futures contracts in the second half of 1993 (Rees, 1993). This viewpoint will address the feasibility of futures contracts for agricultural commodities.

This viewpoint follows the following approach: As background - a futures market and/or futures contracts are put in perspective without explaining the functioning of a futures market or how a farmer or trader can effectively use a futures market to reduce risk. These are adequately dealt with in Van der Vyver (1987), Keyser (1991), Frank (1992), CBOT (1989) and Kaufman (1984). The requirements for the successful implementation of a futures market/contract and how SA agriculture, in general, pertains to this is then dealt with. This is followed by a discussion of the agricultural industries/commodities which at present are most likely to fulfil these requirements. Lastly certain recommendations are made for future action.

2. Background

Discussions of the subject in South Africa encounter two major problems. The first is the very limited source of information locally. Since South Africa does not have a futures market for agricultural commodities all information on the subject has to be obtained from overseas. A second problem is that futures markets abroad have existed for many years, some for generations. The Chicago Board of Trade (CBOT), for example, was founded in 1848. The result is that few publications deal explicitly with the requirements for the creation of a new and successful futures market/contract but rather with the functioning of an existing market as such. More about this later.

When discussing the creation of a futures market it should be remembered that it is not presently intended in South Africa to create a futures market specially or exclusively for agricultural commodities as was the case with many futures markets in the USA. During the 1800's the Chicago Board of Trade was an active spot (cash) market where agricultural commodities were traded. Futures contracts came into existence over time. Initially contracts were traded only in agricultural commodities. As the United States moved away from an agrarian-based economy, trading developed in precious metals, manufactured or processed products and non-storable commodities. But the most dramatic growth, and successful contracts, in the futures industry came with the creation of financial-instruments futures contracts. The most remarkable thing about financial instruments futures and options is that since their introduction in the early 1970's, it took only 15 years to surpass agriculture markets in many ways.

Development in South Africa has reversed the usual pattern. Trading in financial futures began when Rand Merchant Bank started trading contracts based on the Johannesburg Stock Exchange Actuaries All-Share, All-Gold and Industrial indices in April 1987. It introduced a long bond future in 1988. In May 1988 the JSE and a

group of banks and discount houses came together to define and design a formal futures exchange. In September of that year, the JSE and 21 banks became founder members of the South African Futures Exchange (Safex). The Safex rules were approved by the Registrar of Financial Markets in August 1990, and the Exchange was licensed in terms of the Financial Markets Control Act of 1989 to trade in futures and in options on futures (Safex, 1992). The need for a SA futures exchange originated more specifically in the financial world, where large sums of money are freely traded and high risks are at stake. Although Safex is targeted towards financial contracts and stock index futures, its long term objective is to add additional contracts, including agricultural commodities. At its creation the initially proposed name of "South African Financial Futures Exchange" was rejected in favour of the present name in order to allow for the eventual inclusion of commodities.

The issue at stake for South African agriculture is therefore not whether to create a futures market - it already exists. The basic infrastructure is in place. The question is whether the time is ripe to add a contract for an agricultural commodity and what will it take to succeed?

3. Requirements for the successful implementation of a futures market

According to Sanders (1973) there are numerous speculations concerning the prerequisites for a successful commodity contract. There is, however, no definitive evidence that a particular set of prerequisites is either necessary or sufficient for success. A number of conditions frequently appear in the literature that seem to be satisfied by commodities currently being traded successfully. These include price variability of the commodity, a market where price is competitively determined, homogeneity (or the close movement of prices of different grades of the commodity), a pattern of forward contracting which breaks down, and the existence of a viable cash market (a market for immediate delivery in order to facilitate the delivery procedure). An additional requirement of proper contract specification must be added. Sanders (1973) quoted sources in support for all these prerequisites . In addition, Gray (1978a) and Working (1977) have presented a limited amount of evidence that success depends on the ability to attract and keep "hedgers" in the market , indicating that speculators will follow them.

In addition to the prerequisites mentioned above, Working (1977:277), lists four conditions necessary for a futures market to survive and prosper:

- The contract terms and commission charges must be such as to attract appreciable use of the futures contract for merchandising purposes.
- There must exist a possibility of attracting enough speculation to provide at least a reasonably fluid market.
- Handlers of the commodity must have reason to make substantial use of the futures contracts as temporary substitutes for merchandising contracts which they will make later.
- There must exist adequate public recognition of the economic usefulness of the futures market.

Based on the above and information pertaining to the South African situation, this paper develops a list of requirements, divided into two broad categories: Firstly, those that are crucial to the success and need to be overcome before the implementation of a contract can even be considered. This group involves a free market, liquidity, structure of the industry and a need to eliminate price risk. Secondly, this set of requirements are also important, but more from an operational point of view and can be overcome if the first set is fulfilled: Location, type of market operation, training and public relations, clearing house, legislation, international interaction and the product.

3.1 Free market

As was briefly mentioned in the previous section, a futures market naturally came into existence as the result of an unstable cash market. It was the private sector's (producers and traders) solution to avoid unacceptable high risks mainly due to excessive price swings. Note - the objective of a futures market is not to curb price swings but only to secure a price for your commodity in advance. There are many other ways to prevent producers from being exposed to unacceptable high risk situations.

South Africa, like many other countries, opted for high government interference with mixed success. One could even say that over the long term it met with less and less success, therefore the move away from government interference. However, what matters is that large scale government intervention and the futures market are two different ways of addressing the same problem. Both can therefore not be in place at the same time. A futures contract has an essential requirement that the commodity is traded in a free market environment. Government should not influence the price determination process significantly by means of price fixation, one channel regulations or similar drastic interference in the market. This does not, however, preclude effective functioning of futures markets under certain conditions of price support such as those practiced in the United States. There should be multiple buyers and sellers who determine a new price continuously or as often as needed.

Another point that needs to be clarified is the simultaneous existence of a cash market and a futures market. A futures market is not an alternative for a cash market. The two exist side by side. In fact a futures market can not exist without a well developed cash market. An easy way is to compare it with the stock market: The trade in gold shares on the stock exchange is comparable to the trade of futures contracts. The actual mining and selling of gold still takes place and needs to take place otherwise no gold shares can be traded. The gold shares value is determined by the underlying commodity today and in the future.

3.2 Liquidity

Liquidity could probably be considered the most serious problem in successfully creating an agriculture futures contract. Liquidity implies that there are always buyers and sellers willing to do business should a trader wish to buy/sell a contract. A trader should never be in a position where he can't find a buyer or seller. If this happens the contract fails. It also applies to a situation where a trader wishes to offset large quantities of a particular contract. The market should absorb such volumes without it being possible for a single transaction to cause excessive price swings.

Many agricultural experts are under the impression that the potential market size in South Africa is too small and have therefore shot down the idea of an agricultural

futures contract outright. No scientific study has, however, yet been done to determine how much liquidity exists at present and how much is needed. A futures contract would draw its liquidity from mainly two sources: The financial world and the agricultural industry (For the latter see 3.3). Rees (1993a), Chief Executive Officer of Safex stated: "The similarities between various derivatives even when the underlying assets differ vastly, mean that our existing regulatory structures and systems could be readily translated for use in the commodity futures market. Our membership would provide an immediate source of the necessary speculative trade volume to drive the new markets". Rees (1993b) also said that many people were of the opinion that South Africa's financial and equity markets were too small when existing futures contracts were started and today they are successfully traded.

Rennie (1993), futures trader on the Johannesburg Stock Exchange and member of SAFEX, also expressed the opinion that traders would readily switch between contracts. He however stressed a few points namely: A contract should be designed in such a way that it suits the needs of traders (including speculants) and clients; constant movements in prices attract traders who view it as a profit opportunity; a new contract needs to somehow generate activity - only then would it attract more business; a contract with an international connotation appears to be more acceptable among traders.

Few, if any, agricultural economists can claim to have a sound knowledge of South Africa's financial and equity markets. Such knowledge is essential before agriculture in general, or a particular industry can make a sensible decision on the potential for a futures contract. Needed information includes:

- How much money is traded on the financial markets and on the stock exchange?
- How many buyers and sellers are there? Whom do they represent?
- How often is money transferred between existing markets?
- Do traders trade in more than one market at the same time, or alternatively how often do they switch/transfer between different markets?

It would also be necessary to do an in-depth study on how other countries have succeeded in creating a futures market or adding a contract. It would be preferable to examine a fairly recent example of a market which is somewhat similar to SA. Brazil and Australia are two possibilities. In addition to this, the author also supports the view of Frank (1992) that SA will have to study the reasons why certain contracts have failed on foreign futures markets.

3.3 Structure of the industry

The structure of the industry is in some ways coupled to the free market condition discussed in section 3.1. An industry should ideally have a large number of buyers and sellers of more or less equal strength. There should alternatively at least be a healthy balance in terms of market power or influence. Unfortunately, in reality this is seldom the case and due to various reasons even less so in SA. Nonetheless, the current structure does not have to be ideally suitable, but should at least show some "free market" characteristics which makes it acceptable. The better the structure of the industry, the more people might participate, thereby ensuring the success of the contract. With structure of the industry is meant a large number of producers, of which some should be highly sophisticated, supported by a fair number of intermediate storing, processing, distribution and marketing companies.

In order to determine whether this will be the case, sufficient information on the industry will have to be collected and studied. Questions that need to be answered include the following:

- The size of the industry.
- Numbers of buyers and sellers, and the type and size of their operations.
- The basis on which sales take place, e.g. forward contracting.
- The extent to which the industry is layered. In other words do you have a large number of producers that market their produce to intermediate players that process and distribute it or are there a small number of large producer companies that sell directly to a few large retail companies?
- The extent to which international trade takes place, and its importance to the industry. What about other international influences - do they affect the industry e.g. the price of inputs?

The amount of hedging business that could be generated is, among others, an important function of the structure of the industuy. According to Working (1977), three facts that could have been used to predict what happened to futures trading at Kansas City appeared clearly from the history of futures trading. The most important one is: In the case of products in which there is much public interest, such as wheat, the volume of business on a futures market depends primarily on the amount of hedging business that it attracts. Oddly, this fact escaped recognition for as long as it did. During the earlier history of futures trading there was much excuse for believing superficial indications that futures markets were supported primarily by speculators, but for at least twenty-five years there had been evidence available to show rather clearly that in fact the size of futures market, at least in the US and among the more prominent commodities, had depended on the amount of hedging business available.

Gray (1978a:234) summarised the important interaction between the agricultural industry (hedging) and liquidity (speculating) as follows: The chronic threat to futures trading is the lack of understanding of the more subtle point that effectiveness for hedging depends upon speculation. Without hedging, it is true, there would be no futures trading; and the higher the level of hedging the higher the level of business on futures markets. But the higher the level of business on futures markets the larger will be the proportion which is speculation, because the larger this proportion the more effective will be the market for hedging.

3.4 Price risk

As mentioned in the beginning, the objective of a futures market is to reduce price risks. Thus, needless to say, if the industry and its products are not exposed to significant variations in price, there is no need for a futures contract. Any exogenous factor which reduces the need for hedging, such as government stockpiling, impairs futures markets by reducing the need for them (Gray,-1978a:234). As the need is reduced, so is the use reduced, and reduction in use impairs usefulness. This is the acute, immediate and unsubtle threat to futures trading.

According to Gray (1978b:240) the really vast potential for futures market lies with those commodities whose

supply is erratic and of which vast inventories must be carried because consumption is fairly stable, and which are only lightly processed prior to consumption.

Agriculture's exposure to climatic conditions renders most agricultural industries susceptible to large fluctuations in product prices.This applies, however, to some industries more than to others which means that it can not simply be assumed but SA analysts will have to confirm that this conditions is satisfatorally fulfilled.

3.5 Location

Due to the fact that Chicago and therefore the Chicago Board of Trade originally acted as a major physical collection and distribution centre of grain, suggestions have in the past been made that a futures market should be located in or central to the major production areas. This, of course, is incorrect and usually stems from ignorance on the subject. Futures trading, when successful, is essentially a "paper market." It mostly does away with the need to match physical deliveries against claims because most claims are offset before they become due (Paul, 1982). The only place in SA where a agricultural contract could at present be traded and maybe succeed may be is in Johannesburg as part of the existing operations of Safex.

3.6 Type of market operation

Futures contracts can be traded in one of two ways:

- Through an open outcry auction process. Traditionally futures exchanges around the world have and are still operated in this way. Activities are centralized on the trading floor. While all market participants have indirect access to the floor through their brokers, only exchange members have the privilege of actually trading in the floor.

- By means of a decentralized computer trading system. Modern technology has made it possible for trading to take place through computer terminals which are hooked up to a central computer system. Transactions take place by means of a sophisticated computer programme, which accepts bids and offers which are logged in by traders on their computer terminals. Terminals are linked up through modem lines and can be located anywhere in the world.

Each of the two operational methods have certain advantages and disadvantages. In a new exchange or contract the main advantage of an open outcry system is that it generates a market atmosphere - of something important that is taking place - which feeds on itself. As mentioned before the most difficult requirement to fulfill would be to generate enough liquidity. If the atmosphere of an open outcry system can draw enough attention from other traders it would be a big advantage. On the other hand computer trading's biggest advantage is that it provides easy access to hedgers and speculators, which could also increase activity and liquidity. Frank (1992) makes out a strong case why SA should choose this option.

However, Safex has, for the better or worse, already chosen a method of trading. One can therefore assume that any new contract, including a possible agricultural contract, will be traded in much the same fashion. In other words, the method of trading is probably no longer an option, but already predetermined as part of the broader infrastructure in existence. Transactions between members take place over the telephone in much the same fashion as on the foreign exchange market and the money market, for example. There is no central market place where members meet to trade, though members advertise their bids and offers on a Reuters Screen. A fully automated computer trading system is scheduled to be implemented before the end of 1993 which would futher enhance computer trading. Safex also provides an online service to the public whereby the Reuters Screen prices can be fed into the user's computer in his/her office.

3.7 Training and public relations

In South Africa, a rather small number of people in the agricultural industry are knowledgable on the subject. Futures contracts are a somewhat specialized field and "foreign" to many people. In many respects it is similar to teaching capitalism in a communist country. Once a commodity has been identified as being suitable for a futures contract, a substantial effort will have to be undertaken to convince the industry of the long term advantages and to accept this challenge. Training and public relations will be an ongoing project with many different phases. First, the industry leaders will have to be convinced of the benefits, then producers and traders, and every potential particpant will have to be taught how to actually participate.

The financial sector also needs training in this respect. Current traders and speculators might have plenty of financial expertise, but it might need to be redirected. In addition, a certain knowledge of the underlying commodity is required.

Lastly, a positive image will also have to be portrayed to the general public. Food prices have become a sensitive issue in SA.

3.8 Clearing house

Clearing houses are an integral part of futures trading. They act as third parties to all futures and options contracts - theoretically acting as buyer to every seller and as seller to every clearing member buyer, thereby facilitating trade. Their responsibilities include settling accounts, clearing trades, collecting and maintaining margin monies, regulating delivery, and reporting trading data. In addition to guaranteeing that all trades and accounts are checked and balanced before the next trading session opens, clearing houses ensure the financial integrity of the marketplace (CBOT, 1989).

Simultaneous to the establishment of Safex, the JSE and the 21 banks already mentioned created The Safex Clearing Company (Pty) Ltd (Safcom), of which they are the shareholders. Safcom is the recognised clearing house for Safex. At present Safcom delegates much of the risk management and operating functions to the clearing members in order to keep the clearing house structure streamlined. Besides clearing all transactions, Safcom supplies compliance and surveillance and other exchange services to Safex (Safex,1992). Any new futures contract, including a possible agricultural contract, would probably use the existing structure.

3.9 The product

Grains were originally the only commodities traded on futures exchanges. In the late 19th and early 20th centuries more commodities were added, including cotton, cattle, butter, eggs, coffee and cocoa - some with mixed success. It was originally thought that the physical characteristics of the commodity were crucial to the long term success. Today it is well accepted that other factors

are more important; a combination of factors often determines success or failure. Nonetheless, certain requirements in terms of the product remain important.

It is essential that standardization of the product is feasible. When a ton or bushel of wheat is traded everybody should know exactly what is involved in terms of weight, type, quality, age, etc. There should also be stable price differentials between the different grades of the commodity as well as age differentials for example, this year and last year's wheat. For this reason some commodities like wine can hardly be suitable. Its characteristics vary too much and the process of judging its quality is too subjective. Since buyers and sellers usually have the right to deliver or accept delivery, a process that ensures that the futures market stays in touch with the spot market, a high degree of perishability is a drawback, unless, of course, the product can be successfully stored under frozen conditions or cool storage like frozen concentrated orange juice and beef, in contrast to flowers.

3.10 International interaction

This requirement could be crucial in South Africa. Because of the relatively small size of the industries, international interaction could significantly contribute to liquidity. Unfortunately current forex control restrictions limit the free flow of money. Only certain people in certain categories can obtain Reserve Bank permission to hedge on overseas markets. If a South African trader hedges on an overseas futures market either directly or through arbitrage and loses money in the process, he needs to transfer the money abroad.

While forex control might be an obstacle to be overcome at present, the Governor of the Reserve Bank has already indicated that the financial rand might be done away with in a few years time when South Africa has again reached political and economic stability. Fortunately, in the meantime at least enough foreign interaction can take place to facilitate the much needed minimum international participation.

Another alternative for South African agriculture, should it decide not to pursue the option of establishing a local contract is to hedge on international contracts. An important pre-condition, is, however, that the local price should be a function of, say, the Chicago Board of Trade price, which is seldom the case. Nonetheless, according to Kuhn (undated) there is evidence that international futures markets can be used by less developed countries (LDCs) for hedging international commodities more successfully than domestic futures markets. The limitations forthcoming from foreign exchange control are even more severe should this option be pursued.

3.11 Legislation

Most, if not all countries where futures markets are operative, have over time found it necessary to enact special legislation to deal with futures markets. The specialized nature and the size and importance of the industry usually necessitates this. South Africa is and will be no exception. The central regulatory authority is the Registrar of Financial Markets, who is also the executive officer of the recently formed Financial Services Board (FSB). The FSB is a privately funded body and has statutory powers to regulate the activities of insurance companies, pension funds, unit trusts and financial markets such as the bond market, futures market and the stock exchange.

The Registrar is responsible to the Minister of Finance who appoints the Financial Markets Advisory Board to advise the Registrar (Safex, 1992). The governing legislation is the Financial Markets Control Act of 1989.

4. Which SA agricultural industries/commodities will most likely fulfil the requirements of a futures market?

This section mainly deals with the first four requirements mentioned in section 3. These are considered to be crucial: Free markets, liquidity (pertaining to agriculture), structure and size of the industry, and price risk. Table 1 lists a number of commodities that could be suitable for a futures contract as well as a few other that have been mentionend in the past. The following commodities at present appear to be most likely to suit these requirements: Wool, mohair, meat and potatoes. A relatively free market exists, or appears to be forthcoming in these commodities provided one channel arrangements for wool and mohair are done away with. These products are traded on well developed cash markets, wool and mohair respectively in one centralised market, meat and potatoes in regional markets. The products are freely traded, on a well organised auction system, or over the counter in the case of potatoes, which also means that the products are standardised.

With regard to the structure of the industry it would not be appropriate to comment on its suitability without analising the industry in more detail. It could however be pointed out that wool and mohair are two internationally traded commodities. This is a plus point in terms of generating additional activities on a possible futures contract. When it comes to size, all four industries are relatively large in South African terms, although some vested interest groups have argued that the South African market is too small. However, even from an international perspective, and bearing in mind some smaller futures markets, this must be regarded as an unsubstantiated argument. This view is also supported by Groenewald (1993). All these commodities are exposed to significant price fluctuations throughout the year as well as seasonally. So much so that players, especially from the producer side, wish that they could fix the price to eliminate the price risk that they are exposed to.

It is an open question whether any one of these commodities could generate enough liquidity. Even if more detailed analysis were done on a commodity basis it is still doubtful whether one can say for sure. Unfortunately, analysis could probably point out potential failures much more accurately than predicting the success of a new futures contract. However, if one of the commodities were chosen and did not succeed due to a lack of liquidity, probably no other agricultural commodity in SA is likely to succeed. (This is excluding commodities that are not considered suitable at present).

Other commodities that could potentially qualify, such as maize, wheat, sugar and cotton, are at present disqualified on the basis that they are not being traded within a free market system. Others, such as the grainsorghum industry, are too small in size.

5. Summary, conclusions and recommendations

Arguing a case for or against a futures contract for an agricultural commodity in South Africa is made exceptionally difficult because of the lack of research and knowledge on the subject locally.

Table 1: An evaluation of agriculture commodities to determine their present suitability for a futures contract[#]

Product	Free market	Liquidity	Structure of industry	Price risk	Product suitability
Wool	4	4	4	4	5
Mohair	4	3	4	4	5
Potatoes	5	4	5	5	5
Meat	4	5	4	5	5
Maize	1	5	4	3	5
Wheat	1	4	4	3	5
Sugar	2	4	4	3	5
Cotton	1	3	3	3	5
Decidous fruit	5	4	3	3	2
Citrus fruit	5	4	3	3	2
Wine	5	4	5	1	1
Grain sorghum	5	2	3	5	5

[#] Commodities are judged on a point scale of 1 to 5 where 1 means not suitable and 5 highly suitable.

This is further complicated because it involves different disciplines which means not only should the parties involved be knowledgeble on the subject itself but should also acquire a reasonable knowledge on the other disciplines involved.
In the process of negotiating a successful contract for an agricultural commodity South Africa would also heavily depend on experience from abroad.

Notwithstanding the above limitations on knowledge and experience, it could already be said that there are certain requirements that are essential for the successful implementation of an agricultural contract. The most important are: A free market, liquidity, structure of the industry and price risk, followed by location, type of market operation, training and public relations, clearing house, product characteristics, international interaction and legislation.

Based on these requirements there are at present certain commodities that are more suitable than others. They are wool, mohair, meat and potatoes. However, it will require more detailed analysis to accurately determine their potential. If the trend of deregulation continue in agriculture other products, for example, maize, wheat and sugar, might also become suitable.

Agricultural futures contracts are successfully traded in a number of countries abroad. At the end of the day, irrespective of the number of analysis that have been done on the potential locally, South African agriculture might still not have a definite answer for or against the likely success. Rees (1993b) said "one would never know unless you have tried". Maybe this is the right approach since Rees added that SAFEX is prepared to take the initiative and act as the driving force in trying to determine the potential and finally implementing the contract. Maybe agriculture should use this opportunity, it has nothing to lose and could only benefit on the long run.

According to Gray (1993b:237) there is, among others, one important reason for the failure of a future contract: "The establishment of futures trading will have to overcome the reluctance, and sometimes the resistance, of those who hold the power and naturally prefer keeping it instead of supporting a competitive market". South African agriculture should therefore be careful that it does not cause the failure of a contract before it has even begun trading.

If any recommendation could be made, it would be that agricultural institutions, specially those that are neutral such as the Department of Agriculture and universities, should actively support any work being done in trying to determine the real potential for a contract as it pertains to a specific industry. Preferably a mini-analysis should be done of several suitable industries to determine the industry where a contract is at present most likely to succeed. If SAFEX, for example, decides to go ahead with the establishment of an agricultural contract the success of the first contract would be crucial in determining the future for agricultural futures contracts in South Africa.

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