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EAC Rice Import Tariffs and Food Security Update

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Report Highlights:

The East African Community (EAC) built a 75 percent ad-valorem common external tariff wall on rice imports in 2005 that established the framework for a “false” rice economy within the EAC: distorting domestic rice production; middlemen profits; imports; and, creating a regressive tax on the poorest-of-the-poor EAC consumers by isolating them from lower-priced rice, much of it produced in other, non-EAC developing countries. Amongst EAC traders, only Kenyans, importing under an EAC temporary exemption that reduces the ad-valorem tariff to 35 percent, will import substantial rice quantities (300+ thousand tons) during the current and upcoming marketing years (assuming Kenya continues benefiting from tariff-reduction requests of the EAC Directorate of Customs).

Executive Summary:

After seven years of producing rice behind the 75 percent ad-valorem tariff wall, EAC rice producers have failed, within the EAC as a whole, to ramp-up sufficient production to meet domestic demand, expanding at about the rate of population growth. The continuing need for non-EAC rice imports signals that national retail rice prices in the major cities and in non-producing areas can climb to levels approaching: the cost, insurance and freight (CIF) value of rice landed at the ports of import, Dar Es Salaam or Mombasa; plus 75 (or 35, respectively) percent of the CIF value, plus a “basis” cost related to the factors noted here below.

EAC Member States opted for the 75 percent ad-valorem common external tariff on rice to protect local rice farmers from lower-cost producers in countries outside the EAC. However, the tariff wall also appears to protect east Africa’s middlemen, who charge for services hereinafter referred to as the “basis,” to source nationally-produced rice and put it into the national marketplace. For this report, the “basis” reflects the difference between that sale of rice to the retailer (wholesale price) and farm-gate price, and includes costs and services such as: profit achieved through negotiating as low a farm-gate price and as high a wholesale price as possible; consolidating; transporting; cleaning; grading; and, packaging of the rice before retail sale.

For the Tanzanian rice producers, now at or approaching the point of satisfying domestic Tanzanian demand, additional production may put them in a position of rapidly diminishing farm-gate prices, further exacerbating their lack of marketing power and potentially threatening their economic stability. The options for selling domestic rice production in excess of current domestic demand include: selling it for animal feed; stimulating demand for rice for human consumption currently estimated at 24 kilograms/person/year; and/or, exporting into neighboring markets. All of these options could theoretically be possible but would likely come at the expense of farm-gate prices. For the middlemen, selling into the export market remains unnecessarily difficult, because of the Government of Tanzania’s (GOT) history of invoking ad-hoc decisions to ban exports that may “threaten” the national food supply.

For this report, FAS/Nairobi considers the rice supply and demand (S&D) situation for the EAC, excluding Burundi and including Malawi for reasons of data availability and country coverage by FAS regional office in Nairobi. This report represents an update of FAS report No. 9036, issued in late January 2010, which was the first FAS/Nairobi rice S&D report from the region. In response to a request from FAS colleagues in Washington, DC, FAS/Nairobi has included individual EAC Member S&D tables in this update.

This report reflects the analysis and opinions of the FAS/Nairobi Office of Agricultural Affairs and does not necessarily represent the views or opinions of the U.S. Department of Agriculture in Washington, D.C.

Production:

EAC rice farmers appear to be increasing area harvested in response to historically-high domestic rice prices, resulting from the imposition of the EAC 75 percent ad-valorem tariff in 2005 and recently-high

world rice prices. The increasing production represented in the S&D tables here below results mostly from increasing area harvested, even while yields over the 2009-2013 series remain relatively stable. The yield uptick for 2012 and 2013 in the table here below relates to an increased estimate and forecast of Kenyan yields based on an expected revision of historical data by the Government of Kenya (GOK).

EAC* Rice S&D--FAS/Nairobi	2009	2010	2011	2012	2013
Area Harvested (1000 HA)	1,138	1,374	1,700	1,718	1,736
Beginning Stocks (1000 MT)	126	127	103	102	80
Milled Production (1000 MT)	1,181	1,018	1,040	1,354	1,372
Rough Production (1000 MT)	1,793	1,547	1,581	2,056	2,080
Avg. Milling Rate (.9999) (1000 MT)	6560	6560	6560	6560	6580
MY Imports (1000 MT)**	461	508	552	403	440
TY Imports (1000 MT)**	461	508	552	403	440
Total Supply (1000 MT)	1,768	1,653	1,696	1,859	1,892
MY Xtra-EAC+ Trade (1000 MT)**+	5	5	5	15	15
TY Xtra-EAC Trade (1000 MT)**+	5	5	5	15	15
Consumption and Residual (1000 MT)	1,636	1,545	1,589	1,764	1,797
Ending Stocks (1000 MT)	127	103	102	80	80
Total Distribution (1000 MT)	1,768	1,653	1,696	1,859	1,892
Avg. Yield (Rough) (MT/HA)	2.40	2.40	2.40	2.80	2.80

*Includes Kenya, Tanzania, Uganda, Rwanda and Malawi **Trade Data for all tables in this report provided by GTA where available through 2011 and otherwise estimated and forecast by FAS/Nairobi **+Indicates exports outside the EAC countries and Malawi as herein indicated

Kenya

Kenyan rice producers will likely continue to respond to relatively-high domestic rice prices by increasing area harvested and yields. Some growers report that they have begun producing a high-yielding and non-aromatic variety for the Ugandan market, as well as for the “mixed” rice (lower quality) market in Kenya. The Kenyan exports to Uganda will not be noted in the table below, because they remain within the EAC region.

GOK officials are considering a revision to Kenya’s rice statistics, as proposed here below in S&D “Scenario No. 2” for area harvested and rough production 2007 through 2011 (2009, 2010 and 2011 here below). Trade and grower sources indicate that the Scenario No. 2 area harvested and production data represent a more realistic rice situation in Kenya.

Kenyan Rice S&D Scenario No. 1) FAS/Nairobi	2009	2010	2011	2012	2013
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Area Harvested (1000 HA)*	22	20	22	30	32
Beginning Stocks (1000 MT)	126	127	103	102	80
Milled Production (1000 MT)	28	29	30	79	83
Rough Production (1000 MT)*	42	45	45	120	125
Milling Rate (.9999) (1000 MT)	6600	6600	6600	6600	6600
MY Imports (1000 MT)**	296	283	337	300	340
TY Imports (1000 MT)**	296	283	337	300	340
Total Supply (1000 MT)	450	439	470	481	503
MY Exports (1000 MT)**	0	0	0	0	0
TY Exports (1000 MT)**	0	0	0	0	0
Consumption and Residual (1000 MT)	323	336	368	401	423
Ending Stocks (1000 MT)	127	103	102	80	80
Total Distribution (1000 MT)	450	439	470	481	503
Yield (Rough) (MT/HA)	1.90	2.20	2.00	4.00	3.90

Data not otherwise indicated are FAS/Nairobi estimates and forecasts

*Official GOK data through 2011

**GTA trade data 2009-11 and FAS/Nairobi estimate and forecast for 2012 and 2013, respectively

Kenyan Rice S&D Scenario No. 2) FAS/Nairobi	2009	2010	2011	2012	2013
Area Harvested (1000 HA)*	20	29	24	30	32
Beginning Stocks (1000 MT)	126	127	103	102	80
Milled Production (1000 MT)	36	73	64	79	83
Rough Production (1000 MT)*	55	110	97	120	125
Milling Rate (.9999) (1000 MT)	6600	6600	6600	6600	6600
MY Imports (1000 MT)**	296	283	337	300	320
TY Imports (1000 MT)**	296	283	337	300	320
Total Supply (1000 MT)	458	483	504	481	483
MY Exports (1000 MT)**	0	0	0	0	0
TY Exports (1000 MT)**	0	0	0	0	0
Consumption and Residual (1000 MT)	331	380	402	401	403
Ending Stocks (1000 MT)	127	103	102	80	80
Total Distribution (1000 MT)	458	483	504	481	483
Yield (Rough) (MT/HA)	2.80	3.80	4.00	4.00	3.90

FAS/Nairobi estimates and forecasts 2012 and 2013, respectively, and where elsewhere not indicated here below

*Unofficial GOK data 2009-2011 from a data update currently under consideration for 2007-2011 data

**GTA trade data 2009-11 and FAS/Nairobi estimate and forecast for 2012 and 2013, respectively.

Small-Scale Rice-Producer Economic Incentives under the Ad-Valorem Rice Tariff

According to a recent Tegemeo Institute of Agriculture Policy and Development report entitled:

TRADE AND AGRICULTURAL COMPETITIVENESS FOR GROWTH, FOOD SECURITY AND POVERTY REDUCTION: A CASE OF WHEAT AND RICE PRODUCTION IN KENYA.

Kenya’s small-scale rice farmers only have incentive to grow rice, if the ad-valorem tariff persists at 75 percent: “Rice farmers were classified using the Mwea Irrigation Agricultural Development (MIAD) input use guide. At a price of US\$ 440 per ton of imported milled rice and using a 35% import duty, only average and high input users remain competitive. If imported rice were duty free, only high input users would be competitive. At an import duty rate of 75%, all three farmer categories would compete favorably. Inefficiencies along the rice value chain include high labor costs, high rates of rural-urban migration, and water borne disease[s]. Costs of fertilizer, chemicals and seeds are high, while yields were low. Changing weather patterns have reduced the amount of water flowing to the schemes. Among transporters, traders and millers, major constraints were high cost of electricity and labor, fuel and maintenance costs, and the poor state of the roads.

The two scenarios here below (not associated with the abovementioned Tegemeo study) provide the reader a snapshot of the “basis” (middlemen) costs that feature so prominently in the viability of Kenya’s small-scale rice producers. In both the low and high-input scenarios here below, the “basis” costs per kilogram increase from the low to the high-input farmer with a range of almost 3 x farm-gate price, in the case of low-input, to 5 x farm-gate price for the high-input farmer. For small-scale rice farmers with very little market power, the high-input scenario may present a case where, because the added profitability through the adoption of high-input techniques, the middleman may be able to buy the rice at a lower farm-gate price (shown below in the high-input scenario). Anecdotally, unless farmers have production contracts or competition amongst middlemen for their production, the farm-gate prices may decrease dramatically when farmers realize high yields and/or when there are difficult weather-related delivery conditions for the middlemen at the time of harvest.

Estimate of a low-input rice farmer’s income stream based on a yield of 1.9 tons per hectare from one crop of rice per year

Production (Kilograms/Hectare)	1,900
Avg. Consumption/Kilos/family/year	600
Exportable on-farm supply (Kilos)	1,300
Farm Gate Price (Kenya Shillings (Ksh)/Kilo)	45
Gross Revenue (Ksh)	58,500
Production Expense (Ksh)	39,000
Net Income to producer (Ksh)	19,500
Net Income/day (Ksh)	53.42
Net Income/day (\$)	\$0.59
Estimated Costs from Farmer-->Retailer	
Farm Gate Price (Ksh/Kilo)	45
Nairobi Wholesale Price (Ksh)/Kilo	175
"Basis" (Ksh) Producer-->Retailer	130
Farm Gate Price (\$/Kilo)	\$0.50
Nairobi Wholesale Price (\$)/Kilo	\$1.94
"Basis" (\$)/Kilo	\$1.44

Estimate of a high-input rice farmer's income stream based on a yield of four (4) tons per hectare from one crop of rice per year	
Production (Kilograms/Hectare)	4,0
Avg. Consumption/Kilos/family/year	6
Exportable on-farm supply (Kilos)	3,4
Farm Gate Price (Ksh/Kilo)	
Gross Revenue (Ksh)	102,0
Expense (Ksh)	68,0
Net Income to producer (Ksh)	34,0
Net Income/day (Ksh)	93.
Net Income/day (\$)	\$1.
Estimated Costs from Farmer-->Retailer	
Farm Gate Price (Ksh/Kilo)	
Nairobi Wholesale Price (Ksh)/Kilo	1
"Basis" (Ksh) Producer-->Retailer	1
Farm Gate Price (\$/Kilo)	\$0.
Nairobi Wholesale Price (\$)/Kilo	\$1.
"Basis" (\$)/Kilo	\$1.

Based on the implications in the scenarios above, Kenyan farmers will likely continue to slowly increase rice production but may never be able to produce enough to satisfy domestic Kenyan demand. The two scenarios above demonstrate the lack of rice producer market power; but, also indicate the symbiosis between the farmer and middlemen around the EAC tariff wall; because the rice farmer needs the middleman to sell her rice into the marketplace, and the middleman can't make a profit without the farmer's rice. Reportedly, the most progressive middlemen do, in fact, offer services to farmers to help them move into the high-input rice-growing bracket.

Tanzania

Tanzanian rice producers may be approaching the point of satisfying domestic demand for rice at current per-capita consumption rates. The import estimate and forecast in the S&D table here below indicate only about 40,000 metric tons of rice imports during CY2012 and 2013, which represents supply for Zanzibar and some domestic food-aid needs. We can expect that as rice growers produce in excess of domestic demand, retailers will begin to pressure middlemen for lower prices and middlemen will pressure farmers for lower farm-gate prices, even while attempting to augment sales opportunities in "export" markets. Tanzanian rice farmers, faced with diminishing price prospects, will reduce inputs and production and thus stabilize production at about the level of domestic demand.

Tanzania middlemen almost always look to Kenya as a potential "export" market opportunity. Theoretically, Kenyan retail rice prices should be lower than Tanzanian, because the GOK applies only a 35 percent ad-valorem rice tariff. But, when middlemen compare the potential profitability of selling into Kenya versus selling into major Tanzanian population centers, the Kenyan market appears perpetually attractive. All of the Kenyan consumers we interviewed for this report indicated that they are pleased with the quality of Tanzanian rice versus rice that imported under the Kenyan tariff reduction from non-EAC exporters and buy it whenever it becomes available in their local markets.

Regarding Tanzanian rice availability in the Kenyan marketplace, the GOT continues to use export bans and/or threat of export bans as a "tool" to accomplish a broader national policy goal of providing sufficient food for Tanzanians from domestic production. These ad-hoc and trade-threatening GOT

decisions appear at odds with the price-support afforded Tanzanian farmers under the highly-protective 75 percent ad-valorem tariff wall but are consistent with the isolationist leanings intrinsic with tariff protection.

The GOT threat of a ban on Tanzanian rice exports or the ban itself decreases the amount of rice that would otherwise trade across the border with Kenya and increases the “basis” associated with the reduced trade, even while not providing any particular price advantage to Tanzanian farmers nor to Kenyan consumers. Middlemen recognize that Tanzanian exports of any scale may be viewed by the GOT as “threatening” to the Tanzanian food supply. As a result, they may export to Kenya, even after the GOT imposes an export ban, but will likely do so as discreetly as possible and at a higher “basis” cost than would be required without the GOT export-ban/threat of a ban.

As noted above, Tanzanian rice production will likely stabilize at or about the level of domestic consumption, in spite of the tremendous untapped productive potential highlighted in the graph here below. Tanzanian producers will adjust inputs and area harvested so as not to produce more than needed for the domestic market. Otherwise, given their inability to access “export” markets for reasons previously discussed, they would produce an economic disaster for themselves. They know the economic hard-facts and won’t be convinced to produce in excess of domestic market demand--astute Tanzanian farmer financial decisions will continue to prevail.

Tanzanian Rice--FAS/Nairobi	2009	2010	2011	2012	2013
Area Harvested (1000 HA)	905	1,142	1,461	1,470	1,480
Beginning Stocks (1000 MT)	0	0	0	0	0
Milled Production (1000 MT)	880	729	739	990	990
Rough Production (1000 MT)	1,334	1,105	1,119	1,500	1,500
Milling Rate (.9999) (1000 MT)	6600	6600	6600	6600	6600
MY Imports (1000 MT)	100	150	150	40	40
TY Imports (1000 MT)	100	150	150	40	40
Total Supply (1000 MT)	980	879	889	1,030	1,030
MY Exports (1000 MT)	0	0	0	10	10
TY Exports (1000 MT)	0	0	0	10	10
Consumption and Residual (1000 MT)	980	879	889	1,020	1,020
Ending Stocks (1000 MT)	0	0	0	0	0
Total Distribution (1000 MT)	980	879	889	1,030	1,030
Yield (Rough) (MT/HA)	1.50	1.00	0.80	1.00	1.00

Published 2001 -2009 area harvested data at

http://www.countrystat.org/tza/cont/inctables/pageid/1_core/a_production/en

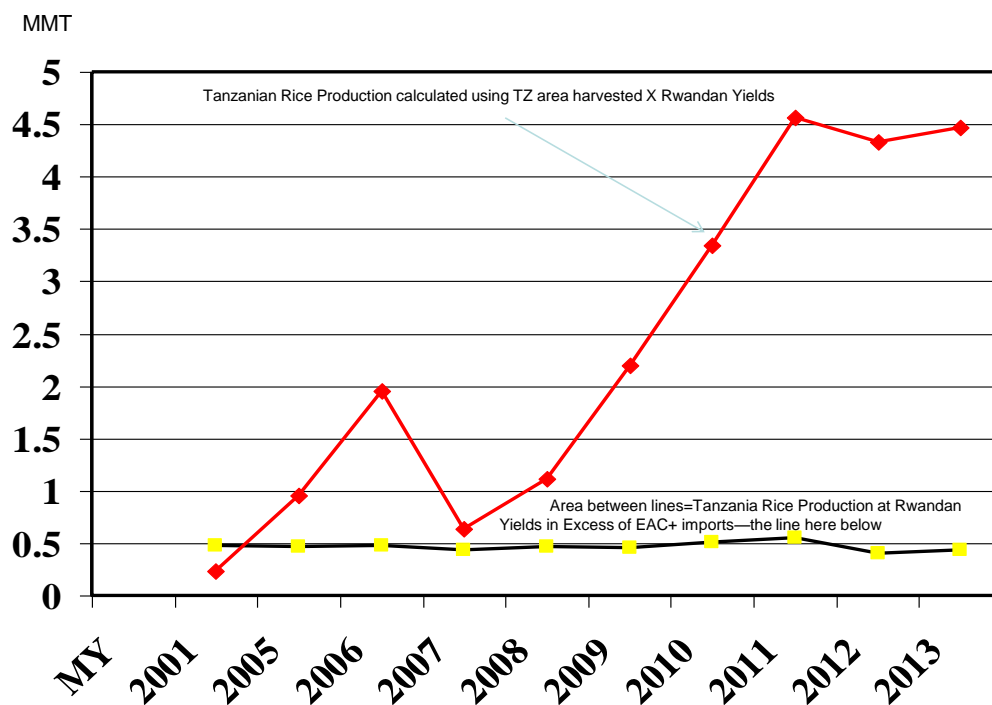
Unpublished 2010 and 2011 area harvested data from the Ministry of Agriculture, Food Security, and Cooperatives

Published 2001-2010 Production data at <http://www.countrystat.org/tza/cont/pxwebquery/ma/215cpd010/en>

Unpublished 2011 production data from the Ministry of Agriculture, Food Security, and Cooperatives

In the graph here below, please note the potential productive capacity of Tanzanian rice farmers using their current area harvested but obtaining Rwandan yields.

Tanzanian (TZ) Rice Farmers have the Potential to “Over Supply” EAC+ Region at Current Per-Capita Consumption



Uganda

Ugandan Rice--FAS/Nairobi	2009	2010	2011	2012	2013
Area Harvested (1000 HA)	128	138	140	140	145
Beginning Stocks (1000 MT)	0	0	0	0	0
Milled Production (1000 MT)	116	134	142	151	158

Rough Production (1000 MT)	178	206	218	233	240
Milling Rate (.9999) (1000 MT)	6500	6500	6500	6500	6600
MY Imports (1000 MT)	55	50	40	40	40
TY Imports (1000 MT)	55	50	40	40	40
Total Supply (1000 MT)	171	184	182	191	198
MY Exports (1000 MT)	5	5	5	5	5
TY Exports (1000 MT)	5	5	5	5	5
Consumption and Residual (1000 MT)	166	179	177	186	193
Ending Stocks (1000 MT)	0	0	0	0	0
Total Distribution (1000 MT)	171	184	182	191	198
Yield (Rough) (MT/HA)	1.40	1.50	1.60	1.70	1.70

Published 2001-2010 Area Harvested Data from FAO;

<http://faostat.fao.org/site/567/DesktopDefault.aspx?PageID=567#ancor>

Ugandan government does not record area harvested data; no FAO area harvested data for 2011

Published 2001-2011 Production data at

<http://www.countrystat.org/uga/cont/pxwebquery/ma/226cpd010/en>

Rwanda

Reportedly, Rwandan Government officials now predict that domestic rice producers will produce sufficient rice to satisfy domestic demand by 2015/17. Rwandan yields (table below) reflect a Government of Rwanda effort to increase domestic agricultural production and may also add a certain level of bias towards overestimation of production and/or underestimation of area harvested, leading to overinflated yields. Regardless, the Rwandan yields noted here below represent economic and political conditions under which Rwandan producers take great benefit from the EAC rice tariff wall.

Rwandan Rice--FAS/Nairobi	2009	2010	2011	2012	2013
Area Harvested (1000 HA)	20	15	15	16	17
Beginning Stocks (1000 MT)	0	0	0	0	0
Milled Production (1000 MT)	67	53	53	55	62
Rough Production (1000 MT)	103	81	81	85	95
Milling Rate (.9999) (1000 MT)	6500	6500	6500	6500	6500
MY Imports (1000 MT)	5	20	20	18	15

TY Imports (1000 MT)	5	20	20	18	15
Total Supply (1000 MT)	72	73	73	73	77
MY Exports (1000 MT)	0	0	0	0	0
TY Exports (1000 MT)	0	0	0	0	0
Consumption and Residual (1000 MT)	72	73	73	73	77
Ending Stocks (1000 MT)	0	0	0	0	0
Total Distribution (1000 MT)	72	73	73	73	77
Yield (Rough) (MT/HA)	5.20	5.40	5.50	5.50	5.60

Published 2006-2009 area harvested and production data at <http://www.countrystat.org/rwa>

Unpublished 2010 and 2011 Data provided by Rwanda's Ministry of Agriculture

Malawi

Malawi Rice--FAS/Nairobi	2009	2010	2011	2012	2013
Area Harvested (1000 HA)	63	59	62	62	62
Beginning Stocks (1000 MT)	0	0	0	0	0
Milled Production (1000 MT)	90	73	78	78	79
Rough Production (1000 MT)	136	110	118	118	120
Milling Rate (.9999) (1000 MT)	6600	6600	6600	6600	6600
MY Imports (1000 MT)	5	5	5	5	5
TY Imports (1000 MT)	5	5	5	5	5
Total Supply (1000 MT)	95	78	83	83	84
MY Exports (1000 MT)	0	0	0	0	0
TY Exports (1000 MT)	0	0	0	0	0
Consumption and Residual (1000 MT)	95	78	83	83	84
Ending Stocks (1000 MT)	0	0	0	0	0
Total Distribution (1000 MT)	95	78	83	83	84
Yield (Rough) (MT/HA)	2.20	1.90	1.90	1.90	1.90

Published 2001-2009 area harvested and production data at

http://www.countrystat.org/mwi/cont/inctables/pageid/1_core/a_production/en

Unpublished 2010 and 2011 area harvested and production data provided by Malawi's National Statistical Office