



## Tanzania's Rice Industry Is Under Threat

### Rice Council of Tanzania – Position paper

#### Executive Summary

Rice is a primary staple food crop in Tanzania. According to official Government of Tanzania (GoT) data, annual rice production doubled between 2001 and 2012 as a result of expanded cultivation and now averages about 1.35 million metric tons (MT). In late 2014, the Ministry of Agriculture declared a rice surplus of 700,000 MT.

The Rice Council of Tanzania is the representative of private sector stakeholders in the rice value chain in Tanzania, with membership from all the major rice producing areas of the country. This includes about 70% (350,000) of the half million rice smallholders, three commercial farmers with a total investment of USD \$80 million, as well as traders, millers, processors, service providers and financial institutions in the rice value chain.

The Rice Council greatly appreciates the Government initiatives—the Agricultural Sector Development Programme, Kilimo Kwanza, SAGCOT and Big Results Now—that have increased rice production and market linkages, attracting new investments by donors: USAID's NAFKA; Gates Foundation/GIZ Competitive African Rice Initiative (CARI); RUDI; MVIWATA; Aga Khan Foundation; Oxfam GB; NORAD; AGRA; AfricaRice; JICA; SNV; all these support the National Rice Development Strategy (NRDS) which aims to double rice production by 2018 for increased food security and exports to neighboring countries.

However, all these initiatives are endangered by two consecutive years of Tanzania rice prices being too low for producers to recover their cost of production. This is the enduring effect of the importation of duty-free Asian rice into Tanzania that led to the EAC Partner States imposing the 75% Common External Tariff (CET) on Tanzania rice and ongoing duty-free flows that continue to undermine market prices and impede the export of surplus rice to EAC partner states.

Given the challenges above, the Rice Council of Tanzania suggests the Government take the following actions to restore the sustainability of the rice value chain:

1. Maintain & Enforce the EAC 75% Common External Tariff
  - Stop the Steady Stream of Smuggled Rice from Zanzibar and the Dumping of Transit Rice
  - Oppose the Movement among EAC Finance Ministers to Reduce the CET Below 75%
2. Expand Government Wholesale Rice Price Data for More Informed Policy Decisions
3. Fast Track the *Cereal and Other Produce Board* to establish Grades and Standards for Tanzania rice for Consumers and Export Markets

## 1. Maintain & Enforce the EAC 75% Common External Tariff

Zanzibar does not impose the 75% EAC CET on rice imported to the Island but rather imposes only an effective tariff of 6%. (SERA 2013). A steady stream of this rice, packaged in bags that indicate Tanzania origin, finds its way to the mainland, undermining the market prices needed to sustain smallholders.

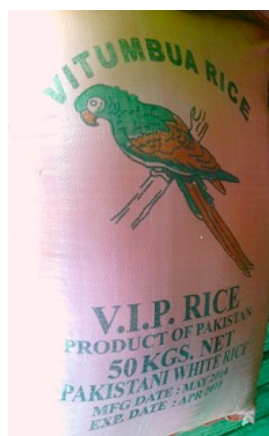


One of the East African region's largest traders asserts that large volumes of Asian rice land in the Port of Dar es Salaam as transit goods to neighbouring countries but are "dumped" in Tanzania. The market appears to confirm this:

The "CHAPA AFRICA" high quality 5% broken, double polished Thai rice was selling in the Dar es Salaam wholesale market at TZS 1,150/kg (Jan/Feb 2015). If the CET had been paid, the trader would be losing TZS 423/kg:

- \$485/ton CIF DAR
- \$364/ton 75% CET
- \$ 25/ton clearance cost
- \$874/ton total cost or:
- TZS 1,573/kg landed cost

Likewise the "VIP VITUMBUA" Pakistani broken rice was selling in Dar es Salaam wholesale markets for TZS 800/kg (Jan 2015).



Had the CET been paid, the price would be a minimum of TZS 1,225/kg:

- \$375/ton CIF DAR
- \$281/ton CET
- \$ 25/ton port clearance costs
- \$681/ton total landed cost or:
- TZS 1,225/kg total landed cost

If the CET had been paid, the trader would be losing TZS 400/kg.

Undermining local rice producers who are struggling to survive, the cheap Asian rice is also costing the TRA substantial revenues.

### *EAC Export Markets Closed to Tanzania Rice Producers*

Rwanda continues to charge 75% tariff on Tanzania rice, effectively shutting one of the Tanzania's largest export markets. Uganda, which imposed the CET on Tanzania rice from June 2013 to July 2014, is now stopping trucks of Tanzanian rice at the border and accusing them of carrying Thai rice in a response to the cheap Thai rice in the market. There is a danger Uganda will re-impose a 75% tariff on Tanzanian rice.

### *Maintenance of the 75% CET Necessary for Smallholder Viability*

The EAC currently considers rice a "sensitive product" and levies a 75% tariff because East African rice

producers are decades away from having a low-cost base capable of competing with Asian producers.

East Africa’s main competitors, Pakistan and Thailand, have (i) millions of hectares of irrigation built by their governments and donors over the past 60 years—*Pakistan has 19 million hectares of irrigation given free to farmers*—as well as (ii) a greater choice of seed varieties and (iii) better pest and disease control solutions. They have (iv) better road and power infrastructure, (v) larger fertilizer subsidies, (vi) cheaper loans and (vii) paddy price support. Thai and Pakistani rice farmers can produce rice at a much cheaper cost than their East African counterparts.

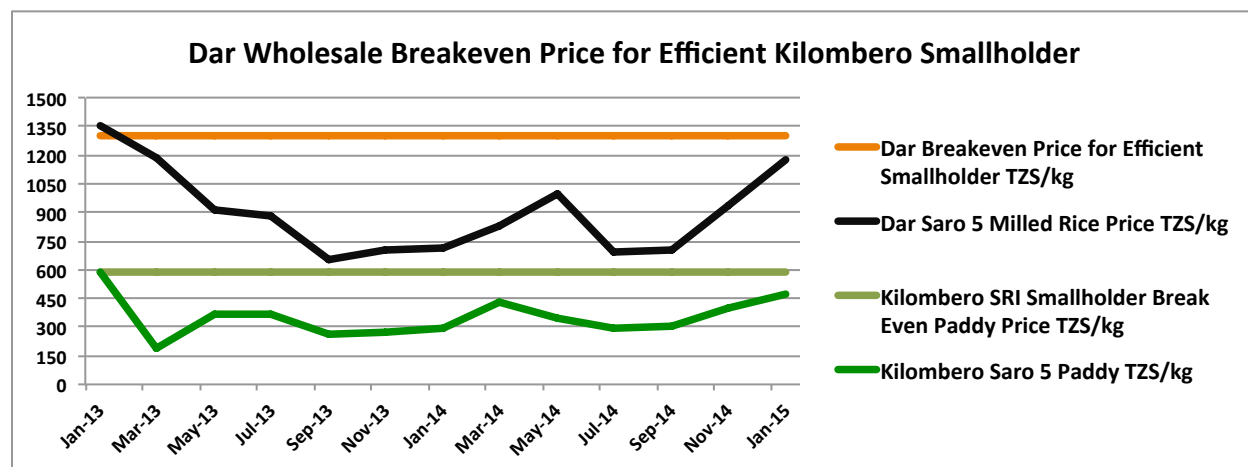
East Africa will take decades to catch up with the Asian low cost base. In the meantime, East African rice producers, whose governments lack the financial ability to provide free irrigation and other subsidies, rely on the CET to attain prices that allow profitability.

### *Tanzania Smallholders Grow the Vast Majority of Tanzania’s Rice*

Smallholders currently grow the majority of rice on 74 percent of the planted area under rain-fed conditions at high production costs not recouped by the past two years’ market prices. This endangers the sustainability of rice sector. For the sector to recover and grow, to achieve the National Rice Development Strategy targets, prices must be high enough to reward the farmers.

### *Smallholder Breakeven Prices—Dar es Salaam Price Links Directly to Regional Paddy Prices*

Since the start of the importation of duty-free Asian rice in January 2013, the Dar es Salaam wholesale prices have been too low to support regional paddy prices. The smallholder farmers have not been able to breakeven as illustrated in the chart below.



Note: The chart, showing the link between Kilombero paddy and Dar rice prices, also reflects the trend in other rice-growing regions. The Annex on page 6 explains breakeven prices and the regional-paddy/milled-Dar link in more detail.

Conclusion: The 75% CET must be strictly enforced to assure Dar es Salaam price rises are high enough to support smallholder farmers and assure duty-free trade with our EAC partner states.

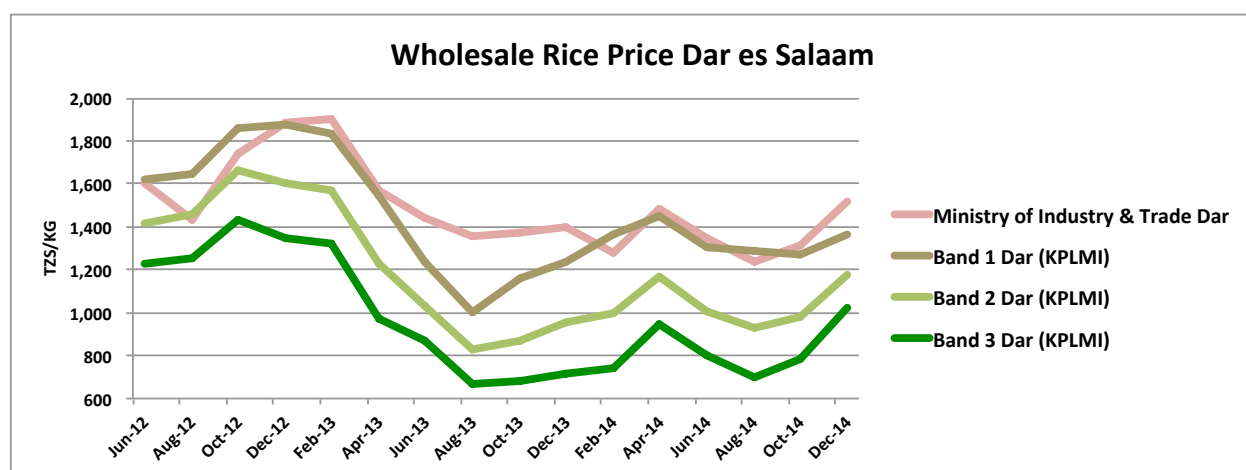
## 2. Expanding GoT Wholesale Rice Price Data for Better Informed Policy Decisions

The Ministry of Industry and Trade appears to report only the top price in the market—Mbeya Supa, which commands a price premium in the market.

Reporting only the top price in the market unnecessarily increases the headline inflation rate and results in inaccurate data on which the GoT bases interventions in the market.

Since 2010, KPL’s market intelligence system has tracked numerous brokers in several Dar wholesale markets, each of whom is selling a range of rice from Mbeya Supa to Morogoro Saro 5; the varieties and regional rice fall into 3 broad “price bands”.

The chart below compares MIT data with KPL data. Note that price Band 1, as identified by KPL market intelligence (KPLMI), roughly tracks MIT’s price over time.



MIT and KPLMI Band 1 report the top price Mbeya Supa. But Mbeya Supa accounts for as little as 15 to 25% of the rice in the market. A weighted average price would reduce the official government rice price by some 25% to 30%.

There are large volumes trading below the MIT wholesale price data; for example, KPL sells annually 10,000 tons in the Band 2-3 price range. Thus, in January 2015, when the Ministry of Industry and Trade reported a Dar es Salaam wholesale rice price of TZS 1,625/kg, the majority of Dar es Salaam residents were actually eating rice from Shinyanga or Morogoro that was wholesaling from TZS 1,177 to 1,390/kg; i.e., 15 to 25% less than the official government price.

Conclusion: The Ministry of Industry and Trade should expand its rice price coverage to capture a weighted average price of all regional varieties—all price bands—in the market as that would:

- Lower the headline inflation rate
- Provide more accurate market data on which to base decisions

### **3. Fast Track the *Cereal and Other Produce Board* to establish Grades and Standards for Tanzania rice for Consumers and Export Markets**

As stipulated in Section 6(1) of Cereals and Other Produce Board Act, the main function of the Board is to carry out commercial and other activities for the development of the cereals and other produce industry, including the rice crop. Also according to Section 8(2) of the act, the Board will promote the quality and competitiveness of the cereals and other produce industry within and outside Tanzania.

After first repairing the market by the enforcement of the CET, fast-tracking the operationalization of the Board to provide appropriate rice grades and standards would facilitate the production of a rice crop suitable for export and of better quality for local consumers. Given the depressed rice market and large surplus, the RCT suggests the rice crop be prioritized for the establishment of standard grades to improve rice marketing locally and to regional markets.

## Annex

Table 1: Kilombero Rain-Fed Smallholder Rice Production Model shows a Kilombero Valley smallholder's average production costs and revenues in 2013 and 2014.

<b>Kilombero Rain-Fed Smallholder Rice Model</b>			
<b>Traditional Farmer Family</b>	<b>Acre</b>	<b>SRI Farmer Family</b>	<b>Acre</b>
64 kg Supa @ 500 TSh/kg	32,000	12 kg Saro 5 2,000 TSh/kg	24,000
Ploughing	55,000	Ploughing	55,000
Harrowing		Harrowing	50,000
Planting - broadcasting	5,000	Planting on Grid	150,000
Harrowing (covering seeds)	40,000	NPK Fertiliser @ Planting	70,000
Hand Weeding	125,000	Weeder weeding	100,000
		Urea Top Dressing	70,000
2nd Hand Weeding	125,000	2nd Weeding with Weeder	100,000
3rd Hand Weeding	125,000	Hand Pull Final Weeding	50,000
Bird Scaring	60,000	Bird Scaring	60,000
Storage Bags (1000 TSH/bag)	7,000	Storage Bags	20,000
Hand Cutting & Threshing	109,750	Hand Cutting & Threshing	100000
<i>Total Operating costs</i>	<i>683,750</i>		<i>849,000</i>
Yields Tons/Acre	0.65	Yield Tons/Acre	1.45
<b>Break Even Paddy Price KG/TZS</b>	<b>1052</b>	<b>Break Even Paddy Price KG/TZS</b>	<b>586</b>
<b>Average Supa Paddy Price 2013 &amp; 14</b>	<b>435</b>	<b>Average Saro 5 Paddy Price 2013 &amp; 14</b>	<b>335</b>
Revenue TSh	282,750	Revenue TSh	485,750
<b>Net Profit TZS</b>	<b>(401,000)</b>		<b>(363,250)</b>
Margin per kg TZS	<b>-617</b>		<b>-182</b>

Main points of the table:

- Traditional rain-fed farmer family growing high-quality Supa yielding 6.5 bags/acre (1.47 tons/ha)—who represents the vast majority of Tanzania rice smallholders—needed a local paddy price *141% higher than achieved in 2013 and 2014 simply to breakeven*
- System for Rice Intensification (SRI) farmer family growing higher yielding Saro 5 yielding 14.5 bags/acre (3.6 tons/ha)—who are now some of the world's best rain-fed rice farmers by yield—needed a local paddy price *75% higher than achieved in 2013 and 2014 to simply breakeven*
  - The SRI farmer families needed a paddy price of TZS 586/kg just to breakeven but in 2013 and 2014, the average local price was only TZS 335/kg.

CARI, in its smallholder farmer model, expects a local paddy price of TSh 650/kg—*94% above the Saro 5 and 50% above the Supa paddy prices seen in the Kilombero Valley in 2013 and 2014.*

### *Tight Trader Margins & Efficient Market*

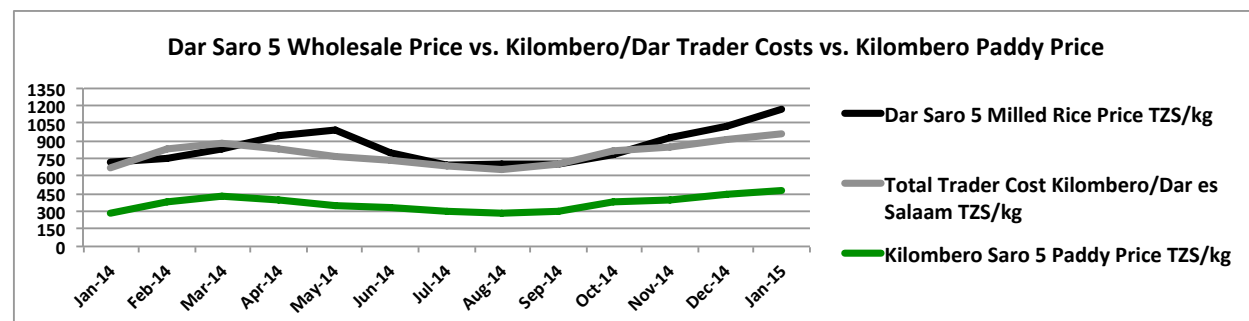
These farmers were not the victims of unscrupulous traders, other than the handful of large traders who enter the Tanzania wholesale market only when the GoT allows large-scale duty-free imports or when they are able to devise ways to circumvent the CET.

Typically, the national Tanzania rice market is dominated by thousands of small-scale transporters/traders who deliver goods to the rice growing regions and then return to regional cities' and Dar es Salaam wholesale markets with milled rice in 100kg bags rather than return with empty lorries. These traders operate on very thin margins—about 15%—as indicated in the table below:

<b>Small Trader Margins Supa</b>	<b>TSh</b>	<b>Small Trader Margins Saro 5</b>	<b>TSh</b>
Average 2013 & 2014 Paddy Cost @ 65% Millout;		Average 2013 & 2014 Paddy Cost @ 65% Millout;	
Trader needs 1.54 kg paddy for 1 kg rice	669	Trader needs 1.54 kg paddy for 1 kg rice	515
Local Transport to mill 625 TZS/bag 8 km	5	Local Transport to mill 625 TZS/bag 8 km	5
Local Milling (2500 TZS/120kg bag)	21	Local Milling (2500 TZS/120kg bag)	21
Bag (1000 TZS)	10	Bag (1000 TZS)	10
Loading/Unloading 500 TZS bag	10	Loading/Unloading 500 TZS bag	10
Crop Cess 3000 TZS bag	30	Crop Cess 3000 TZS bag	30
Transport to Dar 100,000/ton	100	Transport to Dar 100,000/ton	100
Unloading Dar 500 TZS bag	5	Unloading Dar 500 TZS bag	5
Brokers Commission 50 TZS/kg	50	Brokers Commission 50 TZS/kg	50
Traders' Total Cost/Kg	900	Traders' Total Cost/Kg	746
<b>Average Morogoro Supa Price Dar 2013 &amp; 2014</b>	<b>1075</b>	<b>Average Morogoro Saro 5 Price Dar 2013 &amp; 2014</b>	<b>866</b>
<b>Trader's Margin per Kg</b>	<b>175</b>	<b>Trader's Margin per Kg</b>	<b>120</b>
<b>Trader's Margin %</b>	<b>16%</b>	<b>Trader's Margin %</b>	<b>14%</b>

The table indicates the cost of the trader to acquire 1.54 kg of paddy to mill into 1 kg of rice, the milling, transport, loading and commission costs to sell the rice through a broker in a wholesale market in Dar es Salaam.

A comparison of (i) the Dar es Salaam milled rice price, (ii) the traders' total costs, and (iii) the local Kilombero Valley paddy price illustrates a very efficient market. When the Dar wholesale market prices rise, the Kilombero Valley local paddy price rises more or less in sync:



No doubt some traders are buying rice in the low price season at harvest and storing it until the high price season to improve their thin margins, and farmers with access to warehouse receipt systems are seeking to improve their margins through storage, but the chart illustrates an efficient market. When the Dar es Salaam wholesale price is high enough for paddy to be sourced at TZS 600/kg, the local paddy price will consequently be TZS 600/kg—high enough for a smallholder to breakeven.

Therefore, the best way to assure a profitable paddy price for the smallholders is to enforce the CET, assuring a high enough milled rice price to support the paddy price.