Date: 3/17/2010
GAIN Report Number:

Kenya

Post: Nairobi

EAC Rice Import Tariffs and Food Security

Report Categories:
Grain and Feed

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Report Highlights:
"Food security" in the East African Community (EAC) will not likely be achievable through implementation of protectionist tariff policies. As a case in point, after EAC rice imports were subjected to a 75 percent ad valorem tariff beginning 2005, EAC per capita rice consumption has plummeted. The resulting high EAC rice prices have degraded "food security" in the EAC region, because many potential consumers can no longer afford to buy the most widely eaten food grain on earth.

Executive Summary

Beginning in 2005, the EAC Member States Kenya, Uganda and Tanzania (Rwanda and Burundi followed) agreed to an EAC common external rice import tariff at 75 percent ad-valorem. Apparently in lock-step with a regionally-held notion that "food security" can be achieved by producing all food locally, EAC negotiators opted to protect farmers rather than consumers by agreeing to this relatively high import tariff.

Subsequent record-high world rice prices and rapidly escalating EAC domestic transportation costs have spurred additional area dedicated to rice production in the EAC, but the resulting high rice prices appear to have dampened EAC per capita consumption. The current estimate to bring imported Thai rice (please see price chart from the International Rice Research Institute below) into Nairobi runs about $1,130 per ton and to Entebbe, Uganda about $1,220 ton. Of the Nairobi/Entebbe CIF landed price, nearly $460 per ton are EAC import tariff payments. In the graphs and tables below in this report, please note that EAC per capita rice consumption has declined from a high of almost 13 kilograms per year in 2005 to an estimated 11+ kilograms during calendar year 2009.

Further, EAC rice imports have declined during the intervening 2005-2009 period. EAC rice imports that reached a record high of 450,000 during CY 2004 now stand at an estimated 350,000 for CY 2009, even while the region sustains high wheat and maize prices due to a prolonged and ongoing drought.

General Information: Please note that this is the first-ever EAC rice report from the FAS Nairobi office.

Rice trade between EAC Member States and between EAC Member States and their non-EAC Member State neighbors has always been, and remains today, regional, fluid, and underreported. EAC rice imports, however, at the ports of Mombasa, Kenya and Dar Es Salaam, Tanzania are very well documented and flow from those two ports into the EAC Member States, with the Mombasa-to-EAC Members surrounding Lake Victoria remaining the more important of the two routes.

In addition, there are known regional rice-consumption differences among EAC Member State populations. Some of the region's populations consume mostly white corn, with very little rice substitution when maize prices are relatively high, while other regions substitute very quickly depending on local food-grain prices. However, for the purpose of this report, FAS/Nairobi chose to consider the entire 130 million EAC consumer base as having a single per capita consumption pattern.

Production:

Until recently, increasing world (and EAC domestic) rice prices (please see the International Rice Research Institute price table below) combined with the 75 percent ad valorem tariff have lead to increased rice area harvested since 2005. Rice yields however have remained very low, and production has only increased moderately over the period (please see the graphs here below).

Supply and Demand Data

EAC Rice in TMT (Milled Equivalent)	2007			2008			2009		
	Market Year Begins: Jan 2007			Market Year Begins: Jan 2008			Market Year Begins: Jan 2009		
	Post Old		New Post	Post Old		New Post	Post Old		New Post
		Estimate	Data		Estimate	Data		Estimate	Data
Area Harvested		0	835		0	851		0	864
Beginning Stocks		0	165		0	165		0	125
Production*		0	1196		0	1143		0	1169
MY Imports** (Jan/Dec)		0	377		0	360		0	350
TY Imports**		0	377		0	360		0	350
TY Imp. from U.S.**		0	25		0	8		0	0
Total Supply		0	1738		0	1668		0	1644
MY Exports** (Jan/Dec)		0	24		0	50		0	50
TY Exports**		0	24		0	50		0	50
Non-FSI Use		0	0		0	0		0	0
FSI Consumption		0	1549		0	1493		0	1495
Total Consumption		0	1549		0	1493		0	1495
Ending Stocks		0	165		0	125		0	99
Total Distribution		0	1738		0	1668		0	1644
Yield	NA	NA	1.43	NA	NA	1.34	NA	NA	1.35

***Area Harvested and Production:** Kenya-Ministry of Agriculture (MOA) 2000 – 2007, FAS Nairobi 2008 – 2009; Tanzania-MOA 2000 – 2007, FAS Nairobi 2008 – 2009; Uganda-MOA 2000 – 2008, FAS Nairobi 2009; Rwanda and Burundi--FAO 2000 – 2007, FAS Nairobi 2008 – 2009

****Trade:** Global Trade Atlas (GTA) 2000 – 2008 (except Tanzania for 2008), FAS Nairobi 2008 – 2009.

All other data have are estimates from the FAS/Nairobi analytical team.

The following table lists the area harvested and production for each of the EAC Member States 2000-2009. EAC Member State Governments tend to provide relatively more reliable area harvested and production data when compared to the other data factors in the rice supply and demand table. As a

result, we provide the following table and associate the previous table's footnote regarding area harvested and production.

EAC Rice Area Harvested (,000 hectares) and Production (,000 Metric Tons)												
MY	KE Area	KE Pro	TA Area	TA Pro	UG Area	UG Pro	RW Area	RW Pro	BU Area	BU Pro	EAC Area	EAC Pro
2009	17	46	680	857	130	175	15	42	22	49	864	1,169
2008	17	36	675	851	125	165	14	42	20	49	851	1,143
2007	16	47	665	897	119	160	14	42	21	50	835	1,196
2006	23	65	650	872	113	151	14	44	21	48	821	1,180
2005	16	58	688	805	102	150	14	44	20	48	840	1,105
2004	13	49	650	759	93	120	12	32	20	46	788	1,106
2003	11	40	570	688	86	130	8	20	20	43	695	921
2002	13	45	500	713	80	120	6	15	19	44	618	937
2001	13	45	530	640	76	114	5	11	19	43	643	853
2000	13	44	500	564	72	109	4	8	17	35	606	760

Monthly export price (US$/t free on board) of Thai rice 5% broken, 2001-2009.
International Rice Research Institute (IRRI)

YEAR	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2001	184	185	175	164	164	168	169	168	173	171	174	179
2002	192	195	189	190	198	203	200	190	187	186	187	186
2003	201	199	197	195	198	203	199	195	198	196	193	197
2004	213	213	238	241	232	229	231	239	235	244	259	278
2005	287	290	293	297	294	285	277	283	285	286	278	281
2006	291	302	304	302	308	313	315	313	309	301	296	305
2007	313	315	323	317	318	323	329	328	325	329	342	361
2008	376	465	594	907	902	757	732	694	684	609	552	532
2009	580	591	588	550	533	575	572	…	…	…	…	…

a Data relate to quoted prices. b ... = data not available.
Source: 1961-94: Rice Committee Board of Trade of Thailand. Market Report. SGS Far East Limited (various issues).
1995-2009: The Pink Sheet. World Bank, online

As noted earlier, increasing EAC rice prices and the 2005-applied increased import tariff have lead producers to increase area harvested (second graph here below), with as resulting increase in the production noted in the graph immediately here below. EAC rice yields, however, remain very low, most years below two metric tons per hectare (third chart here below). Kenya's yields appear

especially affected over the period by drought, reflecting the marginal conditions for rice production in most of Kenya.

Figure 1: Production

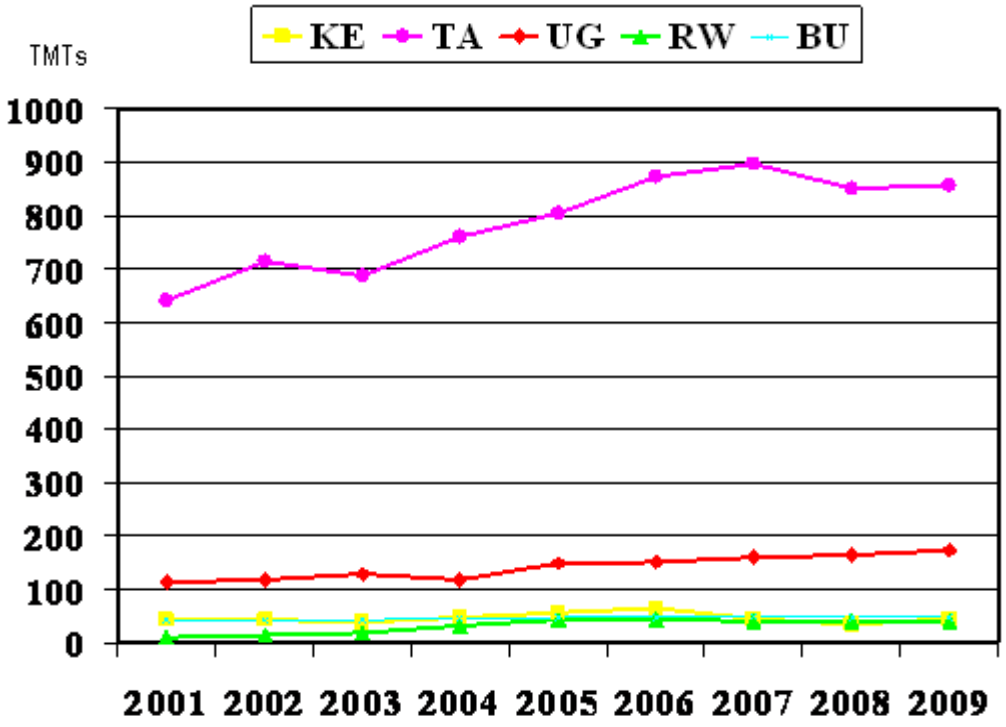


Figure 2: Area Harvested

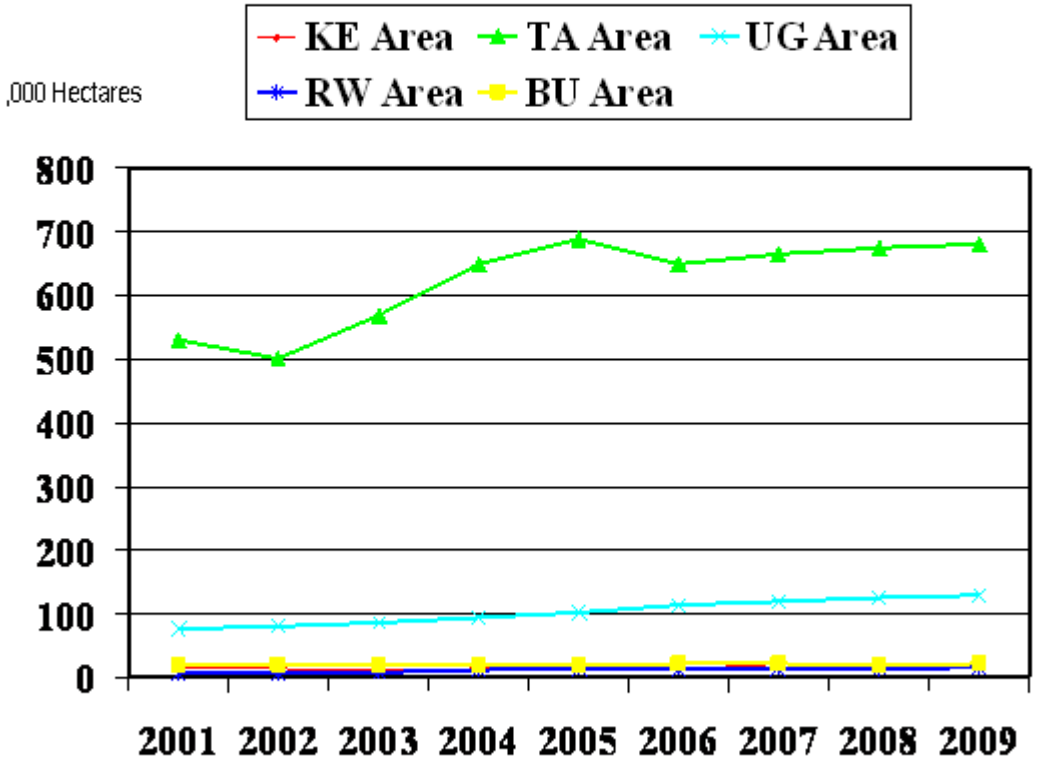
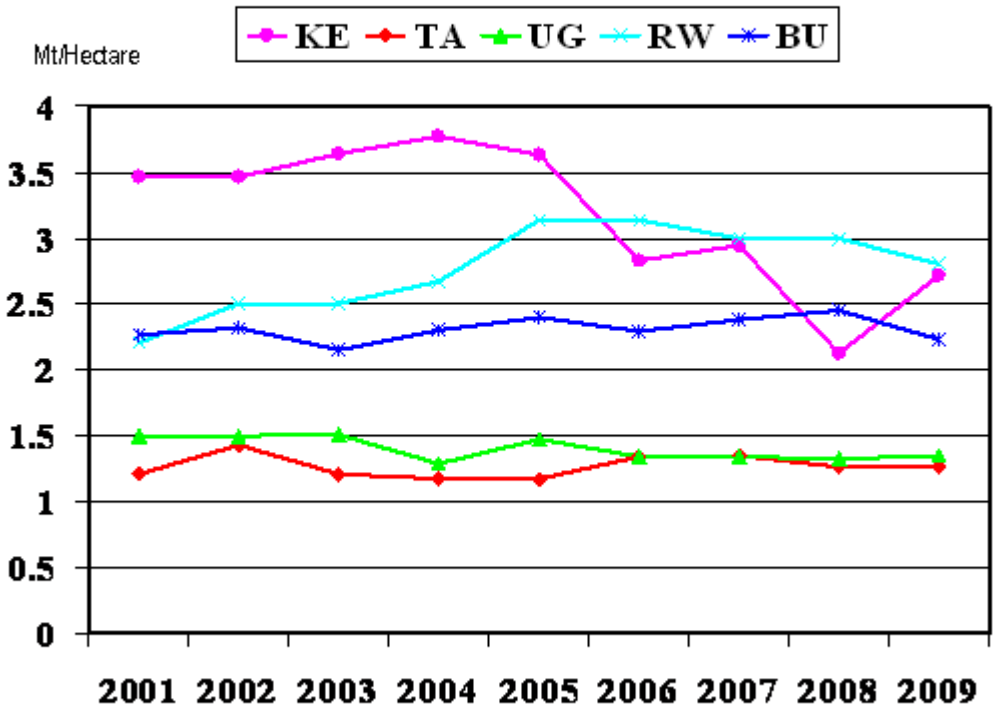


Figure 3: Yield



Consumption:

With increasing world and EAC domestic rice prices (partly resulting for the 75 percent ad valorem import tariff) EAC per capita rice consumption has plummeted. During the same period, world and domestic maize and wheat prices have also risen (Please see IRRI chart immediately below), but the addition of the 75 percent ad valorem tariff appears to have been the deciding factor in forcing reduced per capita rice consumption (first graph here below).

Export prices (US$/t fob) rice, wheat, and maize, 2000-2009

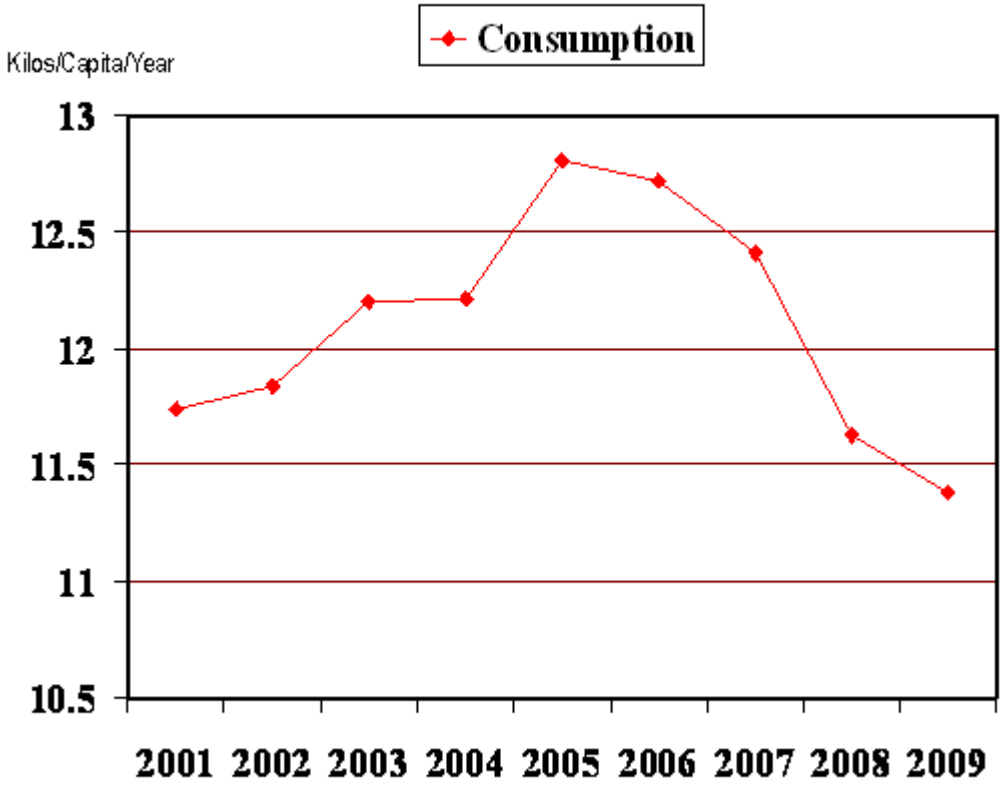
YEAR	Rice[b]	Wheat[c]	Maize[d]	G5-MUV[e] (index 1990=100)
2000	202	147	89	97.18
2001	173	152	90	94.32
2002	192	176	99	93.14
2003	198	177	105	100.12
2004	238	187	112	107.03
2005	286	198	99	107.03
2006	305	217	122	108.74
2007	326	300	164	114.72
2008	650	455	223	125.05
2009 (Jan-Jul)	570	319	169	…

a fob = free on board. b 5% broken, milled, fob Bangkok. c Canadian No.1 Western Red Spring 13.5%, in store Thunder Bay, domestic, from 1985 St. Lawrence export. d US No.2 yellow, fob Gulf ports. e This index (weighted average of export prices of manufactured goods for the G-5 economies (the United States, Japan, Germany, France, and the United Kingdom), with local-currency based prices converted into current U.S. dollars using market exchange rates) is generally accepted as a proxy for the price of developing country imports of manufactures in U.S. dollar terms. Weights are the relative share in G-5 exports of manufactured goods to developing countries in a base year. The November 4, 2008 file contains the revised time series history 1960-2007; projections 2008-2020

Sources: World Bank. 1984: Commodity trade and price trends, 1983-84. The Johns Hopkins University Press, Baltimore & London. World Bank. 1992: Revision of commodity price forecasts and quarterly review of commodity markets. Washington. IMF. International financial statistics, February 1994, Washington, D.C. 1995-2009: Compiled Data from Development Policy Group (Pink Sheet) www.worldbank.org.

Figure 4: EAC Per Capita Consumption

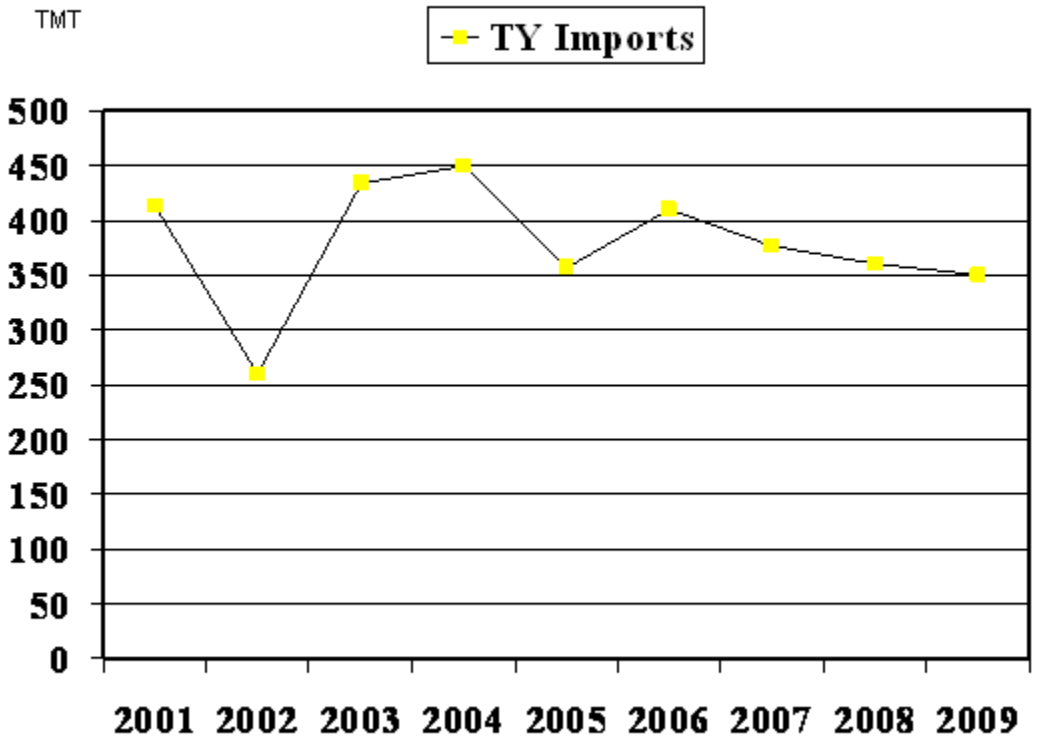
The graph here below clearly demonstrates the implementation of the EAC's 75 percent ad valorem rice tariff in 2005. While the higher domestic rice prices associated with the tariff may have been meant to increase domestic production, they clearly can be associated with declining domestic rice consumption.



Trade:

EAC rice imports (please see graph here below) have declined in response to the increased EAC rice production noted earlier and the rapidly declining per capita consumption. The origin of those imports has also changed in favor of Pakistan at the expense of Vietnam, reportedly because of a "side agreement" on tariffs between the Governments of Kenya and Pakistan (more in subsequent reports).

Figure 5: EAC Rice Imports



Stocks:

EAC rice stocks for this first-ever rice report were estimated at a level thought to be sufficient to cover all of the pipeline and storage tonnages that might occur at the end of the calendar year.

Policy:

"Food security" within the EAC will likely remain elusive as long as the EAC Member States continue to protect farmer interests in lieu of consumer interests. Forcing some of the poorest of consumers on earth (EAC poor) to cope with some of the highest food-grain prices on earth (true also for corn and wheat) does not fit logically within a "food security" framework and may also perpetuate tremendous inefficiencies within the EAC food grain sector that will lead to ever growing "food security" difficulties in years to come.