

Briefing paper

Effects of Trade Policy Reforms on Rice & Maize Cross-Border Trade in the EAC

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Summary

Maize and Rice are among the important staple foods in the East Africa Community, and the most widely traded agricultural commodities in the region. Given that the two crops play an important role in production and intra-regional trade, examining the impacts of trade reforms, and how institutional, regulatory and political factors influence their cross-border flow, is essential to addressing food insecurity, which still persists in the region.

Introduction

While there is enough food in the world to feed everyone, undernourishment abides in many parts of the world due to food insecurity, which is deeply rooted in poverty and the lack of adequate policy prescriptions to address the challenge. The East African Community (EAC) is no exception, with undernourishment affecting nearly one third of its population¹. As the agriculture sector employs an important part of the region's population, ranging from 66% to 90%, relevant policies should be well thought-out in order to boost the sectors' competitiveness to ensure enough food and/or incomes to purchase it.

This paper primarily draws from The CUTS international study, *"The Political Dimension of Trade Reform – Impact on Food Security in the East African Community"* and is aimed at providing a brief summary

of its findings on two specific and important staple crops in the EAC: maize and rice which are politically sensitive, and influence policymaking incentives and investment options throughout their trade and production phases.

Maize and rice in the EAC

Growing staple food

In the EAC, maize and rice are uncontested key commodities. This is true for production as well as for consumption. Maize and rice are indeed increasingly being produced, for self-consumption purposes as well as for cash cropping. These foodstuffs are also becoming more appreciated and consumed by EAC inhabitants. However, none of the EAC countries is yet to fully reach self-sufficiency, neither has the region achieved safe and dependable supply of these commodities. Moreover, the EAC population is growing faster than the production

of maize and rice, which will always result in demand for imports of the two commodities in the region.

Despite the existence of the EAC common market, in-country situations are much contrasted. For example, Rwanda is virtually self-sufficient in maize, and imports extra-regional rice. Although the Kenyan food security situation is not the most alarming, the country is highly dependent on food imports, hence very sensitive to instability. On the contrary, Uganda and Tanzania managed through their policies and agriculture programmes to promote, respectively, maize and rice production, to the extent that they can export these food items to other countries. The situation in Burundi is critical, since substantially all foodstuffs are imported and agriculture production is declining. Nevertheless, production and price instability of the two commodities is common for all the countries in the region. This could be attributed to a number of reasons ranging from climate change to disruptive policies.

Trade trends in the EAC

Although the region calls for a deep integration of member countries towards the promotion of food security, official² trade figures show that extra-regional trade in maize and rice prevails over intra-regional trade, especially for imports. In 2012, only about 10% of rice and maize total imports were coming from within EAC countries.

This indicates that the EAC is highly dependent on other countries for their food supplies of the two commodities. Apart from Tanzania, EAC countries are not large rice producers and the community's rice is outmatched by cheap rice imports from Pakistan and Vietnam. What is more worrisome is the fact that so much maize is imported from outside of the region. One reason for this is that it is easier to import maize from South Africa and India (42% and 9% respectively of the EAC maize imports in 2013)³, where producers are more competitive than within EAC.

Secondly, this also shows that EAC countries depend on their neighbouring countries for maize exports. Maize that is not exported within the EAC is mainly exported to South Sudan, Somalia, and Congo (about 6% of exported maize from EAC goes to these countries)⁴. Likewise, more than half of the EAC rice production is exported to Congo-Kinshasa (55%)⁵. This *gravity effect*⁶ of food exports reflects the lack of export possibilities, due to low competitiveness of EAC exports, and the existence of important barriers to trade, with escalating trading costs as the distance grows between the trade partners.

Informal trade

Another feature of food trade within the EAC is the prevalence of informal trade (informal trade of maize is believed to represent 80% of total maize trade in the EAC)⁷. In order to avoid cumbersome trade procedures and to get through restrictive trade policies (export bans and high tariffs), foodstuff are smuggled among EAC countries, as well as from other countries into the EAC. Notably, the 75% Common External Tariff (CET) on rice triggered massive rice smuggling from Pakistan repackaged in the EAC. Likewise, export bans on maize usually lead to increasing informal cross-border trade of maize.

Informal food trade obviously denotes the need for food trade within the region, and one should be careful about enforcing trade policies which do not obviously allow the accomplishment of food security. Hence, "*we should not look at informal trade and markets as realms of underdevelopment, which have to be transformed by all means*"⁸, but rather as a process that cope with an inadequate trade environment.

"Informal trade can be a deliberate choice or a lack of an alternative, a reaction to high-entry costs and barriers to formal sectors, or resistance to state bureaucracy and corruption or to market subordination. In the end it is certainly too viable and too dynamic to consider it as a refuge for poor people or a relic to get rid of. And it is

certainly a key area if we want to address food security.”

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Trade documents, procedures and infrastructures

Within the EAC, a simple cross-border transaction can become a nightmare for traders and a serious concern for consumers, due to the complexity of the process. In addition, cross-border shipments may take long to travel, be delayed by long control procedures, or get access denied because of a missing document. Eventually, these transactions are very cumbersome, expensive, reduce competitiveness of EAC products, and discourage (legal) trade.

Grades and standards

At the EAC inner borders, like in the majority of other regions, trade in goods is subject to grades and standards which regulate food safety and quality. The grade attributed to rice or maize grains depends on their compliance to standards and reflect their quality. Grades generally range from grade 1 to grade 3¹⁰, and it will impact the price at which a good is sold. In the EAC, standards are compounded of moisture and foreign matter content, broken, insect damaged, rotten, diseased, and discoloured grains content, and also includes packaging and labelling requirements¹¹, to name only a few. As a consequence, exporters have to make sure that every bag of maize or rice complies with these strict mandatory standards in order to legally access the regional market. If traders fail to meet the standards, consequences might be devastating (return of the consignment, quarantine, or destruction). The problem is that meeting sanitary requirements is expensive, and that inspection services are generally not located near borders or food growing areas, but rather in capitals¹².

Infrastructure and procedures

In the region, rice and maize flows are mainly transported through roads, if not made impassable

because of weather vagaries and poor maintenance. Railways could be a more efficient approach, however, lack of predictability and poor rail infrastructure makes it less attractive. Moreover, due to the little amount of production, producers fall back to small-sized shipments that are difficult to make profitable. As a consequence, roads are overflowing, overused, hence in poor condition, but yet preferred over other possibilities (train, lake or airfreight).

Trade procedures are also to be added to the already long list of impediments to regional trade. Procedures such as roadblocks, inspections, and custom documentation, become severe obstacles for a maize or rice producer willing to trade abroad. Fees, charges (official and non-official) and delays increase the total value of traded products, reduces profit margin, and force overpricing.

From the above, one can easily understand that maize and rice are made costly and logistically complex to deliver. There is a procedural market access issue that makes food more expensive for consumers without being more profitable for producers.

Trade Policies

The food price dilemma

Agricultural policies stand among the most complex and controversial issues in the international trade environment. Policy makers are often confronted with the “food price dilemma”¹³:

Given that EAC rice and maize are hardly able to compete on international markets, liberalising trade (i.e. allowing cheap foreign maize and rice in the EAC) would dramatically expose rice and maize producers to poverty, de-capitalisation, and eventually threaten the production of the two food commodities in the region, hence the capacity of food producers (ranging from 66 to 90% of the EAC countries population) to purchase food. However, rice and maize will be less expensive for the entire population (but not necessarily more

affordable), provided that the countries can count on their trade partners.

On the other hand, protecting rice and maize producers of the region from cheaper imports would result in rice and maize being sold at a higher price than it could be in a situation where the agricultural sector is liberalised. However, producers will get higher incomes, securing their access to food in the process. Eventually, they can develop their activity (while investing) and fuel the non-agricultural sector, if they have decent access to trade opportunities. This is where agricultural policies and programmes, trade policies, and regional integration have an important role to play.

Tariff policies

Although the EAC has a common external tariff (CET) applied on a number of tariff lines, both rice and maize are defined as “sensitive products”, meaning that they can benefit from differential tariffs for food security purposes.

Criteria for fixing tariffs are many. Tariff should depend on the use of each commodity for local consumption, on the industrial policy (priority sectors), on what are farmers’ main income sources (are they net buyer or net seller of maize/rice), the use made of the production (local consumption or commercial purposes), current food stocks, and profitability of production (i.e. competitiveness). Finally, tariffs on maize/rice should be accompanied by agricultural policies and programmes (stocks, subsidies, training, adaptation to climate change, etc.)

In the EAC, maize is critical for food security. Except for Uganda, it is a staple food in all the other countries of the region. Additionally, the development strategy of virtually all the EAC partner states is based on maize self-sufficiency, which underlines the will of governments to secure maize availability in the region. In the EAC, maize attracts a CET of 50% in order to safeguard and promote domestic production and farmers’ livelihood. However, being a sensitive product,

country partners are allowed to adjust this rate in case of food supply imbalances or prices instability.

Export bans and its consequences

An extreme case of adjusting maize trade in the EAC is the repeated use of export bans, mainly coming from Tanzania and Kenya. Export prohibition was aimed at preventing maize exports from the Tanzanian market, in order to prevent price soaring. However, such a measure is not only ineffective because of informal trade, but brings further instability for the neighbouring countries that can be tempted to adopt retaliation policies, like Kenya did while restricting the exports of maize seeds to Tanzania. Moreover, while these policies do not guarantee that Tanzanian maize producers will be able to sell their maize surpluses, it also gives them a disincentive to produce more maize. Export bans are contra effective on all sides and reduce the availability of maize quantities on the local level in the long run.

Food prices

One can identify other factors that play a role in shaping the quantity and prices of maize and rice flowing in the EAC.

On the policy aspect, unpredictability has a negative aspect on production and prices. For instance, export bans on maize are not a consequence of an explicit level of scarcity but rather of the fear that consumers and government have about scarcity, and that producers and traders have about low prices¹⁴.

Adding to the policy aspect, producers have low level of information about prices and trade lacks organisation. Climate change and extreme weather being also unpredictable, producers have to deal with chronic anxiety during the planting season.

Nevertheless, rice and maize producers need stability to produce and to develop their business. That not being the case, food production is not stable either, thus prices, incomes and access to food.

Recommendations

At the regional level, EAC members should desist from imposing trade restrictions and related government interventions, which distort markets, and thereby result in lost opportunities for farmers and traders in the commodities, as well as promoting informal trade.

There is also need for better coordination of the various actors in the production and trade of the two commodities at the regional level. This may require a dedicated unit at the EAC Secretariat to coordinate and handle matters to do with food security in the region, including the trade of rice and maize.

There is need to strengthen Public-Private-Partnerships in order to address infrastructure challenges that remain a major hindrance in the production and trade of these two important commodities of rice and maize in the EAC. Improved infrastructure would enhance access to inputs and output markets especially for the smallholder farmers. Connecting farmers to markets through rural feeder roads, credit institutions, information and communication technologies, and vertical coordination along the food supply chain is essential to reducing farmer's risks and marketing costs.

Expediting harmonization of food safety standards and measures is critical, since quality of products is one of the major challenges to staple food value chains integration and competitiveness in the region. Inconsistencies within the region constrain effective trade of the commodities in the region.

In this regard the harmonization of rice and maize sanitary and phytosanitary standards endorsed by the East African Standard on December 2013, is a positive step in the right direction towards increased production and trade of the two commodities.

EAC member countries should ensure transparency and promote private sector participation in reaching decisions on food security and related policies. This would for instance include commitment to notification

procedures at both national and regional level, before any government interventions are implemented. In addition, while national governments would retain the right to act in times of short-term food crises, such interventions should not be arbitrary purchase or distribution of staples with subsequent impacts on prices and profitability.

Access to timely and accurate market information on food staples in the region is another necessity. Lack of such information has often resulted in hasty, ill-defined and uncoordinated policy responses to crises that in turn spark even greater volatility.

Endnotes

¹ According to the FAO, in 2012, the prevalence of undernourishment was of 67.3% in Burundi, 25.8% in Kenya, 29.7% in Rwanda, 30.1% in Uganda, and 33% in Tanzania ; data were found on FAO stats website <http://faostat.fao.org/site/291/default.aspx>

² Considering the importance of informal trade, official figures should be taken with a grain of salt. However, one can assume that official figures reflect to some extent that actual situation.

³ Data found on <http://unctadstat.unctad.org/>, calculation made by the author

⁴ Ibid.

⁵ Ibid.

⁶ The “Gravity Model” draws from the physicist Isaac Newton, claiming that the force of attraction between two entities depends on their size and the distance between them. Applied to economics, bilateral trade is more likely to occur when two countries are close to each other

⁷ GIZ (2012), Harmonisation and Mutual Recognition of Regulations and Standards for Food Safety and Quality in Regional Economic Communities - The case of the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA)

⁸ Joost Nelen (2013), *Flourishing Informal food trade*, The Broker Online, February

⁹ Ibid.

¹⁰ Grade 1 being generally suitable for animal consumption and grade 3 being suitable for human consumption

¹¹ EAC (2011), East African Standard – rough (Paddy) rice – specification, HS 1006.10.00

¹² <http://www.ifpri.org/sites/default/files/p06Summaryregionalmaize.pdf>

¹³ http://www.tegemo.org/images/downloads/Working%20papers/tegemo_workingpaper_10.pdf

¹⁴ http://pdf.usaid.gov/pdf_docs/PDACM545.pdf

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