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SERA Policy Brief

Rules-Based Transparent System for Emergency Food Imports[1]

Tanzania imports large quantities of basic food staples such as palm oil, rice, sugar, and wheat and occasionally has large imports of maize. While imports are needed to meet local demand, they often disrupt domestic markets when quantities imported exceed market requirements or when large imports are authorized by the Government but not anticipated by the private sector. This can lead to price volatility and increased risks for producers, traders, and stockholders. A more transparent and predictable staple foods import policy could encourage increased development of the staple food crops sectors, provide additional tariff revenue to Government, and reduce market uncertainty. It would also reduce the need for ad hoc policy decisions that can lead to regional trade disputes, and provide a more stable market environment for the commodity exchange that is currently being developed.

One of the challenges of implementing an effective staple foods import policy is the difficulty of controlling illegal imports that enter Tanzania from neighbouring countries and through major Tanzanian sea ports. They are illegal in the sense that they don't have import permits as required, and they don't pay the import tariff. The magnitude of these illegal imports is unknown, but they can be estimated by comparing the reported exports to Tanzania from other countries to the imports reported by Tanzania. For example, exports of rice to Tanzania reported by all exporting countries were two to three times as large as imports reported by Tanzania during 2011-2015. That suggests that large imports were unrecorded, but even that may underestimate actual imports because some exports going to neighbouring countries actually get diverted to Tanzania. A similar situation existed for sugar, with exports to Tanzania being reported as about twice as large as imports reported by Tanzania (Table 1). Other staple food crops showed less divergence between reported exports and reported imports.

Controlling illegal imports is difficult because Tanzania has long and porous land borders with neighbouring countries and a long coast which allows easy access for small quantities of food staples. Illegal imports also enter the mainland Tanzanian market through other channels, including transit goods that remain in country and improperly labelled imports that are not detected by customs. However, large quantities of illegal imports

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are also reported to enter through Tanzania's major sea ports. The loss in tariff revenue from illegal imports is substantial and could provide funding for upgrading customs as well as general budget support. The loss of tariff revenue from rice was approximately 60 million USD per year during 2011-2015 based on the difference between reported exports and reported imports, and the loss of tariff revenue on sugar was approximately 62 million USD per year over the same period. If only one-half of this tariff revenue could be collected in the future, it would be a substantial contribution to the Tanzanian budget.

Table 1: Tanzania's Imports of Staple Foods.

		------------ Average Imports (metric tons)-------------	
	Years	*Reported by Tanzania*	*Reported by Exporters*
Maize	2005-2010	53,936	58,811
	2010-2015	44,358	30,062
Palm Oil	2005-2010	262,931	221,619
	2010-2015	286,789	325,130
Rice	2005-2010	51,402	95,343
	2010-2015	50,747	149,045
Sugar	2005-2010	47,472	109,050
	2010-2015	127,793	275,263
Wheat	2005-2010	708,731	538,193
	2010-2015	855,514	738,117

Source: UN Comtrade.

Tanzania has higher import tariffs on food staples than many of its neighbouring countries and that creates incentives to import staple food crops into neighbouring countries and sell them in the Tanzanian market without paying the tariff. Kenya, for example, has a 35 percent tariff on rice imported from Pakistan while Tanzania has an import tariff of 75 percent. That provides incentives for Kenyan traders to import at the lower tariff and sell in Tanzania. Zanzibar also has a lower import tariff of 12.5% on rice compared to the mainland and that encourages traders to import more than is required for Zanzibar's consumption and sell the surplus on the mainland. The approximate magnitude of these surplus imports in Zanzibar can be estimated and have been as much as 30,000 tons of rice per year beyond the quantities required to meet domestic demand in Zanzibar.

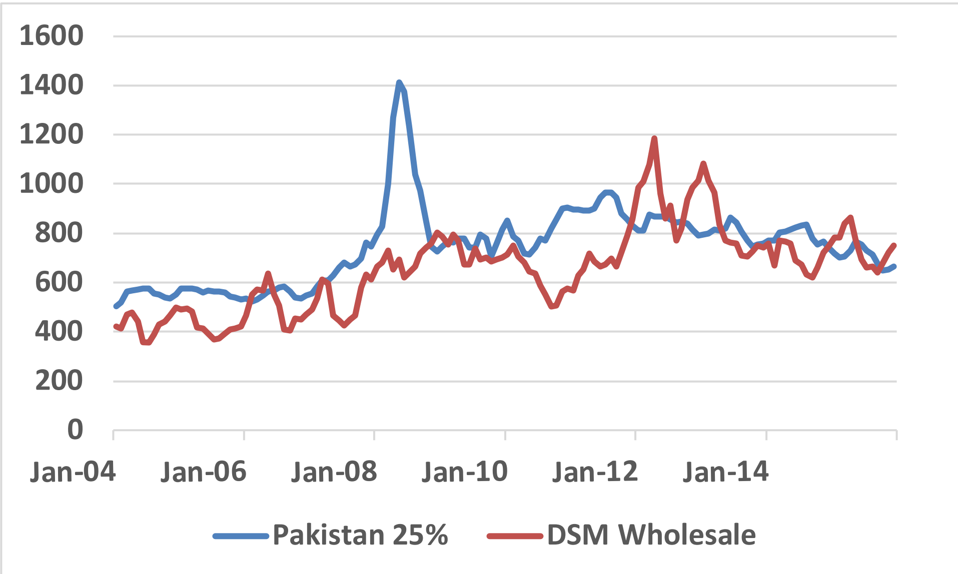
With such large tariff differentials and the relative ease with which illegal imports can enter by land and sea, it is very difficult to control illegal imports from neighbouring countries. In response to this situation, the Government of the United Republic of Tanzania (GoT) has often relied on quantitative controls and occasional bans on imports of rice and sugar (The Citizen, March 15, 2016) in an effort to control illegal imports. Quantitative controls are implemented by restricting the issuing of import permits; however, Tanzania has not been very effective in monitoring and controlling illegal imports. In some cases, import permits were issued for a specified quantity but actual imports exceeded the quantities authorized. This occurred in 2013 when duty-free rice imports were authorized, but the actual imports were much larger than the quantities authorized and the imports disrupted the domestic market causing prices to fall sharply. There are also reports of import permits being issued for larger quantities than required to balance the market (The Daily News, February 19, 2016) which also disrupts local markets. The longer term consequences of such disruptions are to cause greater price volatility and greater uncertainty for producers and other stakeholders and, therefore, less investment.

A staple food import policy that relies on established tariffs would be less disruptive to domestic markets, generate greater tariff revenue to Government, and would operate automatically under normal market conditions. It would also be more compatible with policies of the East Africa Community and less likely to create regional trade disputes. However, in order for such a policy to operate effectively, it would be necessary to control illegal imports. Some illegal imports would continue, but more effective monitoring and enforcement of staple foods import policies and tariffs could reduce illegal imports especially through major sea ports.

A Market-Driven Staple Foods Import Policy

To illustrate how such a market-driven policy would operate, consider the case of rice imports. Figure 1 shows the domestic wholesale price of rice in Dar es Salaam (DSM) compared to the duty-paid landed price of rice from Pakistan, which is the largest exporter of rice to Tanzania.[2] The Pakistan import price is higher than the DSM price in most periods and imports would have been unprofitable for the private sector in those periods. However, when the Tanzanian price increased in 2011 and 2012, imports of Pakistan rice would have been profitable and imports would have moderated the domestic price increases in rice. The margin between the domestic rice prices and imported Pakistan rice prices reached USD 170 per metric ton in January 2012 and should have been sufficient to encourage imports and moderate further domestic price increases. Instead, domestic rice prices continued to rise and the margin between domestic and imported rice rose to USD 320 per ton by April 2012.

Figure 1. DSM and Pakistan Rice Prices.



Source: SERA based on Ministry of Industry and Trade and FAO data.

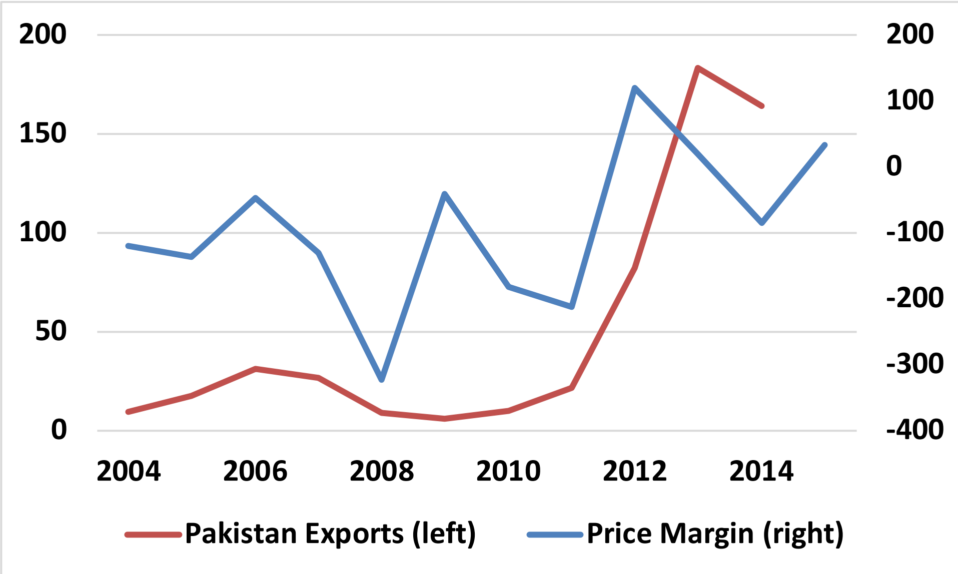
A similar situation occurred in 2013 when domestic prices rose, and the margin between domestic and imported rice rose to USD 285 per metric ton in January 2013. The private sector would have had the incentive to import to moderate the increase in domestic prices and could have done so profitably while paying the 75 percent import tariff. They would have also been cautious to not import more than the market required because that could have caused the price to fall below the level where imports were profitable. The Government would not have needed to intervene in the market and prices would have been moderated by imports. Figure 2 shows Pakistan's rice exports to Tanzania (left axis in thousand metric tons) and the margin between the DSM rice prices and the Pakistan duty-paid landed prices (right axis in USD). When the price margin exceeds USD 100 per metric tons, Pakistan's rice exports increased from less than 20,000 tons to more than 100,000 tons.

The Government responded to the rise in rice prices in 2012 by inviting the private sector to apply for authorization to import rice duty free. More than 70 firms applied and nine were selected and authorized to import 30,000 tons of rice (MAFC 2013). However, actual imports far exceeded the authorized imports and led to sharp price decreases just prior to the domestic harvest. Domestic rice prices continued to rise until April when large imports arrived and then declined by 35 percent over the following four months. Some of

[2] The Pakistan rice price is FOB Karachi for 25% broken white rice plus ocean freight, insurance, and handling to achieve a landed Dar es Salaam price in U.S. dollars. The Tanzanian price is the wholesale price from the Ministry of Industry and Trade expressed in U.S. dollars and adjusted for quality to allow comparability with imported Pakistan rice.

the imported rice was sold to neighbouring countries which led to trade disputes and countervailing import tariffs. If the private sector had been allowed to import at the prevailing tariffs, actual imports would have been smaller and more timely and prices would not have increased as much or fallen as far. It would not have been necessary to reduce the tariff, and the disruption to the market would have been less since the private sector would have been aware of the market conditions in both the domestic and international market. The experience of rice imports in 2013 illustrates the difficulty of implementing an ad hoc policy decision and the importance of careful analysis to understand market demand. A more transparent rules-based policy would have been more effective in moderating the rise in domestic prices and caused less disruptions to the market. And, a better understanding of domestic market requirements and global and domestic food prices would also have shown that it was not necessary to allow duty-free imports.

Figure 2. Pakistan Rice Exports (thousand tons) vs. Import Price Margin (USD/ton).



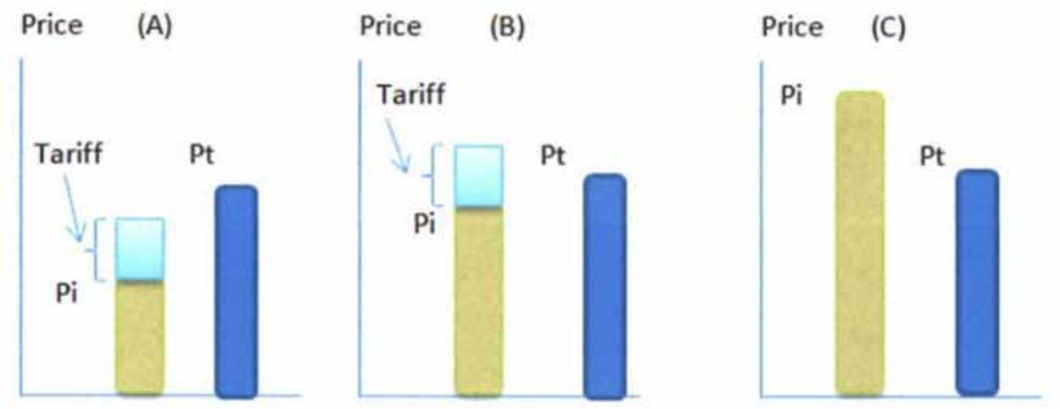
Source: SERA based on Ministry of Industry and Trade and FAO data.

Market Situations

There are three market situations that can exist between Tanzanian and world market prices. The duty-paid import price could be below the domestic Tanzanian price and imports would be profitable; the duty-paid import price could be above the domestic price and imports would only be profitable at a reduced tariff; or the import price could be above the domestic price even with a zero tariff and imports would be unprofitable even without tariff. These three situations are shown in Figure 3. The import price includes all transport costs and adjustments for quality differences and is shown as Pi in Figure 3. The import tariff is then added to Pi to obtain the total import price of Pi + Tariff. The domestic Tanzanian price is denoted as Pt in Figure 3. As noted, Pi + Tariff can be: 1) low enough that imports are profitable after paying the tariff (Figure 3 A), 2) high enough that imports are not profitable at Pt unless the tariff is reduced (Figure 3 B), or 3) above Pt even when the import tariff is zero (Figure 3 C). In the first case, imports are profitable when the import tariff is paid and imports will enter the domestic market if allowed and drive down the domestic price to the level where the import price is equal to the domestic price including the tariff. In the second case, imports will not be profitable unless the import tariff is reduced. In the third case, imports from the world market will not be profitable because the world market price exceeds the domestic price even with a zero import tariff (this situation existed in 2008 when world market rice prices rose sharply during the global food crisis).

The normal market situation for most staple foods is depicted by Figure 3A and 3B. Both the import price and the domestic price fluctuate in response to changing demand and supply conditions and imports may be profitable in one period and not in the next. When importers are able to evade the tariff, imports will be profitable most of the time and that is why there is rice from many other countries in the domestic market even when reported imports are zero. The situation depicted in Figure 3C is very unusual and prior to 2008 had not occurred since the 1970s.

Figure 3. Relationship between import and domestic prices.



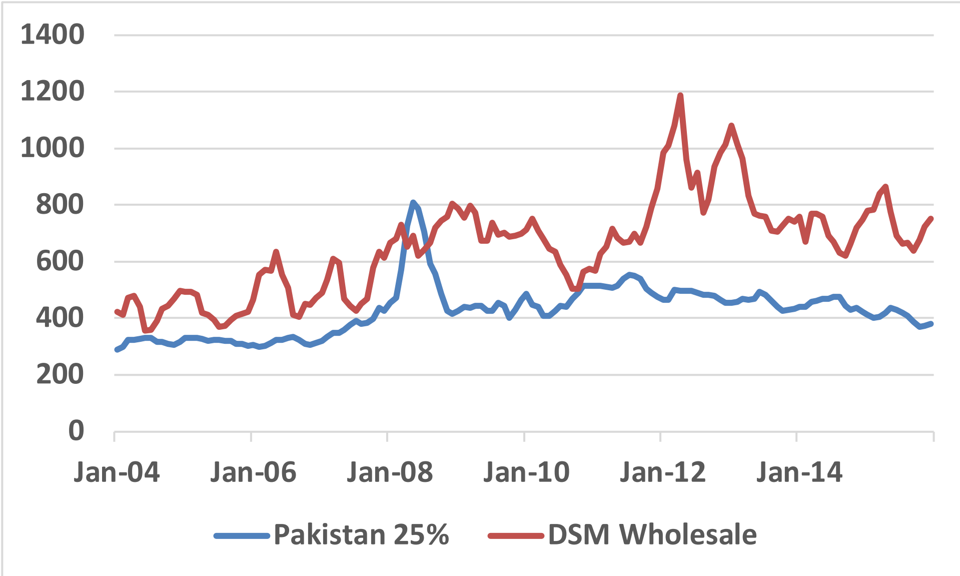
Source: SERA.

Emergency food imports are not needed in case 1) (Figure 3A) when the world market price plus tariff is below Pt, because imports will be profitable by the private sector and, if permitted, they will lower domestic prices and eliminate the need for emergency food imports. At the other extreme, case 3) (Figure 3C), imports will not be profitable even when the import tariff is zero and extreme measures will be required to protect consumers from high prices. This occurred in some countries in 2008 but not in Tanzania because domestic prices did not rise significantly. The situation where emergency food imports should be considered is case 2) (Figure 3B). In that case, imports will not be profitable for the private sector unless the tariff is reduced and the challenge for government is how to reduce the tariff to make imports profitable without unduly disrupting the domestic market or causing a trade dispute with neighbouring countries.

There are two policy instruments that can be used to allow emergency imports in case 2. The import tariff can be reduced and import quantities can be limited through quantitative restrictions, such as import permits. If the reduction in the tariff is just sufficient to allow imports, but not so large as to encourage excessive imports, then the quantitative restrictions may not be needed because imports will cause the domestic price to fall until imports are no longer profitable. However, if the reduction in the import tariff is larger than required to allow sufficient imports to cap the price increases then the quantitative restrictions will be needed to limit imports and prevent disrupting local markets. These two policy instruments can be combined to allow emergency imports without unduly disrupting domestic markets. Regardless of which policy instruments are used, it is important to obtain approval for the use of these instruments from the East Africa Community to avoid trade disputes as occurred when rice was imported duty-free in 2013 and then exported to neighbouring countries. Such approval should be agreed before the emergency food imports are needed in order to avoid delays in implementing the rules-based system for imports. Figure 4 shows the Pakistan rice prices landed in Dar es Salaam without duty. Imports would be profitable in all periods except during the global food crisis in 2008.

The reduction in the import tariff that is sufficient to encourage imports without unduly disrupting the domestic market or causing trade disputes should be based on the differential between the domestic price and the import price. It should be large enough to encourage imports but not so large as to disrupt the domestic market. As shown in Figure 2, rice imports from Pakistan surged when the price differential exceeded USD 100 per ton and that should be sufficient to encourage imports. The tariff reduction should be for a specified period such as three months and renewed if necessary.

Figure 4. DSM and Pakistan Rice Prices (Ex Tariff).



Source: SERA based on Ministry of Industry and Trade and FAO data.

The third case as shown as Figure 3 (C) is when the import price Pi is above the Tanzanian domestic price Pt with a zero import tariff as occurred in 2008. In such a situation, imports are not profitable for the private sector. This is unusual and occurred during the global food crisis in 2008-2009. In such cases, Tanzania should rely on its own food reserves, and appeal to the international community for assistance. Such assistance will quickly become available as was the case during the global food crisis of 2008-2009, when the World Bank launched the Global Food Crisis Response which mixed fast-track funding with trust fund grants totalling US$1.6 billion to 49 countries mostly in Africa (World Bank 2013). There are also other measures that can be taken to reduce the burden of higher prices on consumers, including increased food assistance to the lower income segments of society and reducing tariffs on other food crops such as wheat.

A Government Regulated Staple Foods Import Policy

A market-driven staple foods import policy is preferred for many reasons, but it requires that the Government be able to control illegal imports especially through major sea ports. If that is not possible, then an alternative approach is for the Government to use quantitative controls to limit imports instead of tariffs. Under this approach, the Government would authorize imports only when needed to meet domestic demand and prevent large price increases. Better monitoring of domestic demand, supply, and prices would be required; and the decision to authorize imports would need to be made in a timely manner to ensure imports arrive when needed without depressing prices in the following season. It would still be important to prevent illegal imports, but authorizing imports only during certain periods or circumstances would make that easier. The Government would need to decide 1) when to authorize imports, 2) the quantity of imports to authorize, and 3) the tariff and other conditions that applied. Improved monitoring of domestic, regional, and global markets would be important. The mechanism (trigger) that would be used to authorize imports should be based on both domestic prices and an assessment of the demand-supply situation. The quantities of imports to authorize should be based on an assessment of the market shortfall, and the import tariff that would apply should be based on the prices in the global or regional markets and quantities required to meet domestic demand.

The mechanism (trigger) that would indicate that imports are needed should include an analysis of prices since they reflect market conditions and are available on a timely basis. If prices are rising following harvest, that is an indication that production was not adequate to meet market demand for the following year and that imports may be required. It is not sufficient to rely exclusively on a price mechanism without further analysis, but is a signal that a potential shortage may develop and it should be followed with a review of the market situation.

Complying with East African Community Regulations

The Common External Tariffs (CET) of the East African Community (EAC) are published in the Import Duty Rates of the EAC CET and are adopted by the Council of Ministers. However, under the Duty Remissions Scheme, a member state can apply for a stay of the prevailing CET. If granted by the Council of Ministers, the member state is given a waiver that allows it to apply a rate that is different from the CET. A waiver is normally granted for a fixed period of time such as one year. The official notification of a waiver is published in June. Once a waiver is granted, a request can be made to extend it and that is normally approved on an annual basis. Goods imported at the lower import duty under the waiver and then re-exported to other EAC members are subject to the import tariff rate applicable in the importing country. This may be the CET rate, or if the importing country has its own wavier, the prevailing rate of the country. The process through which waivers or an extension of a waiver are requested is through the pre-budget consultation meeting of the Ministers of Finance.

Food security related waivers are handled differently from waivers on other goods. When there is a food security concern, the Coordinating Ministers of a member country writes to the secretariat and requests an extraordinary meeting of the Council of Ministers to be convened. The written request specifies the product and the proposed change to the CET or wavier. This request is copied to the Coordinating Ministers in the other member countries so that they are aware of the issues. The secretariat then arranges for an extraordinary meeting, which can take from one to three weeks. The Council of Ministers almost always approves the request for a waiver if food security concerns are the justification. Countries applying for a waiver will specify a time period and specific rate (usually zero) and a specified quantity. If products imported under the food security concern are re-exported, the importing country will apply whatever rate it applies to imports from outside the EAC. When a country imports food under the food security concerns, there is some question about when it is free to export to the rest of the Community without paying the tariff that would apply to re-exports. The secretariat is working to improve the audit schemes in order to address this problem.

Conclusions

A transparent rules-based system for staple food imports would have several advantages for Tanzania. It would reduce the need for ad hoc policy decisions on staple food imports that are subject to influence from powerful business and political interests. It would reduce uncertainty and price risk about the magnitude and timing of food imports and thereby encourage investments in staple food crops production, trading, and storage. It would provide more stable food prices and more reliable food supplies for consumers, and it would increase tariff revenue collections for Government. It would also reduce the risk of trade disputes with neighbouring countries resulting from staple food imports, and it would provide a more stable business environment for the commodity exchange that is currently being developed.

There are several ways that such a system could operate. However, it is essential that large-scale illegal imports be controlled or it will not be possible to operate any transparent rules-based system effectively. According to international data sources, imports of some staple foods, such as rice and sugar, were two to three times larger than reported by Tanzanian customs during 2011-2015. Those imports represent the large-scale imports that come through major sea ports, but there are many other sources of illegal imports that are not recorded such as imports across porous land borders with neighbouring countries, imports through established border posts that are unrecorded, imports brought on small dhows from countries with lower tariffs, and transit goods that remain in country. It will not be possible to eliminate illegal imports, but greater efforts are required in order for a transparent rules-based system to operate. The focus should be on the large-scale imports that enter through sea ports while monitoring cross border and small dhow traffic will be much more difficult.

If large-scale illegal imports can be controlled and the designated tariffs collected on legal imports, then imports could be at the discretion of the private sector under normal market conditions. When the margin between domestic prices and landed imports from the world market are favourable, the private sector will have an incentive to import to supply the domestic market and that will moderate domestic price increases. Decisions on the timing and magnitude of imports will be made by the private sector and the Government's role would be to monitor markets and the operation of the private sector. An alternative approach would be for the Government to take responsibility for determining the magnitude of imports and issuing import permits for the required quantities. This would require the Government to monitor domestic food markets and develop better procedures for estimating food import requirements. It would also need to devote additional resources to monitoring regional and global markets in order to anticipate future market developments.

On occasion global food prices will be too high to allow the private sector to import food staples profitably. In those conditions, the Government should be prepared to reduce the import tariff in order to increase incentives for imports and ensure national food security. Such actions should be coordinated with the East Africa Community and prior approval negotiated on the grounds of food security. If the reduction in tariffs is not sufficient to make imports profitable for the private sector (which has only occurred once in the past 40 years) then domestic food reserves should be used, and the Government should approach the international community for assistance. Such assistance was provided during the global food crisis of 2008-2009 and would likely be available in the event of a similar global food crisis.

Next Steps

In order for the Government to adopt a rules-based system for staple foods imports, it must strengthen its ability to monitor and control illegal imports, and develop the capacity to monitor regional and global food markets. Controlling illegal imports should focus initially on large-scale imports through major sea ports and border posts. This must involve customs and get Government support for new procedures to control illegal imports. Once this is done, efforts should focus on reducing imports through informal panya routes and coastal trade using dhows from neighbouring countries and Zanzibar. A Market Intelligence Unit should be created and tasked with analysing domestic and regional staple food markets and prices in order to support a rules-based system. Then the specific approach and rules of operation must be developed and procedures agreed to with the East Africa Community.

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