Rice Trade in East Africa: Flows, Dynamics and Policy

Ayoki, Milton

Institute of Policy Research and Analysis

October 2012

Rice Trade in East Africa:

Flows, Dynamics and Policy

Milton Ayoki

IPRA Working Paper 24

Institute of Policy Research and Analysis, Kampala

October 10, 2012

IPRA Working Papers contain preliminary material and research results, and are circulated prior to a full peer review in order to stimulate discussion and critical comment. Milton Ayoki is at the Institute of Policy Research and Analysis, P.O. Box 7138 Kampala, Uganda. Any opinions (the views) expressed (herein) are those of the author and not necessarily those of the Institute of Policy Research and Analysis. Contact Email: milton.ayoki@ipraa.org

Table of Contents

1 Introduction

This paper documents the trade patterns and trade policy in the rice sector in the East African Community (EAC) partner states, with particular reference to Uganda. The paper is based on interviews with rice millers, traders, consumers, government agencies, private sector associations and non-governmental organizations supporting the rice sector in Uganda. In addition to this paper, two other papers are available for Tanzania and Kenya, based on the findings from those two countries.

The paper is organized as follows. This section continues in its next sub-sections with a brief contextual background, and outlines research methodology and approach. In section 2, a short discussion on factors shaping supply and demand, and the development of rice trade in Uganda is followed by discussion of trade patterns and trends in section 3, and market environment and trade policies in section 4. Section 5 then concludes with policy recommendations and suggests area of future research.

1.1 Regional economic context and the rice sector

Despite economic progress recorded in the last two decades, Uganda, like other EAC countries, still remains one of the world's poorest countries. In the 2011 Human Development Report (HDR), Uganda ranked 161st, Tanzania 152nd, Rwanda 166th, Burundi 185th, and Kenya 143rd among the 187 countries listed in the report with regard to the Human Development Index measuring human welfare and development. Their situation is roughly the same as the average situation in sub-Saharan Africa. All the five EAC economies, except Kenya, are classified as least developed countries (LDCs) according to the income, human resource, and economic vulnerability criteria of the Economic and Social Council of the United Nations. The gross national income (GNI) per capita in 2011 was USD680 for Kenya, USD110 for Burundi, and USD370 for the EAC (regional average).

During 2011, the proportion of the agricultural value in the GDP was about 34 percent in Burundi, about 42 percent in Rwanda, 44 percent in Tanzania and about 30 percent in Uganda. About 85 per cent of the Ugandan population who live in rural areas derive their livelihood from agriculture either directly, as smallholder subsistence farmers, or indirectly from rural off-farm activities, which in turn are driven by agriculture. The East African Customs Union has facilitated intra-EAC trade, enabling businesses from the five EAC countries to take the most advantage of trade opportunities. The growing demand for food both at home and on regional market due to rising population growth has created more opportunity for agricultural sector. Many food commodities are increasingly being produced with export market in mind.

Rice is considered to be a new industry in Uganda, dating back only to late-1990s, but is growing rapidly. Table 1 reports the top 15 rice producing districts (out of 40 districts producing rice) in the country. Production rose from 42 metric tones in 1999/2000 to 180,000MT in 2005/2006 and 190,000MT in 2008/2009 (UBOS, 2010) and is projected to reach 250,0000 MT in 2012 – holding out the promise of becoming a centre of future agricultural and GDP growth in Uganda, and a linchpin of poverty reduction.

Table 1 The top 15 Rice Producing Districts in Uganda, 2008/2009

District	Area (Ha)	Production (Mt)	
Bugiri	5,853	4,185	
Busia	1,438	11,188	
Iganga	3,676	31,492	
Pallisa	6,247	22,865	
Soroti	2,017	24,689	
Tororo	1,773	16,176	
Butaleja	1,761	3,433	
Kaliro	2,555	2,876	
Namutumba	1,583	2,561	
Lira	6,703	8,009	
Pader	3,036	5,029	
Amuru	7,771	19,042	
Oyam	1,104	3,667	
Hoima	5,919	10,911	
Kibaale	1,762	2,917	
Other districts (combine d)	21,888	21,696	
Uganda	**75,086**	**190,736**	

Source: Uganda Bureau of Statistics – Uganda census of agriculture 2008/2009

Rice has particular relevance for poverty reduction and food security. Uganda population, estimated at 34 million and projected to reach 50million in year 2025 at current population growth of 2.5 percent, will put pressure on energy and natural resources (e.g. land), and food. With food deficit experienced in some EAC countries, increased production and intra-regional trade can go along way to fill the food gap. It is even more significant given that the EAC is prone to natural disaster. This is not all. Other reasons why research on the rice sector is considered a welcome initiative by many stakeholders have to do with climate change and the existing potential that are yet to be exploited. Emerging effect of climate change such as reflected in a number of production setbacks e.g. the case for the 1997 and 2007 in the wake of an El Niño weather anomaly has compelled farmers to diversify into rice production, being less prone to effect of climate change compared to traditional crops such as cassava. Cassava, though is drought resistant, is affected by too much rain as it happened in 2007 (el nino) in Teso.

Secondly, there is a lot of land and infrastructure for rice production, which are still grossly underutilized. Large schemes such as Kibimba, Doho, and Olweny rice scheme are below 15 percent of their potential. Further to these, Uganda has proven to be a leader in research on rice. Uganda's NERICA rice has turned out to be of high demand in Africa. If well supported, research and ongoing initiatives such as 'Bukenya initiative' (success story of former Vice President Bukenya in promoting upland rice) have potential to transform the rice sector. More and more farmers are entering the rice sector because it pays more than other commodities and because of because of testimonies and success stories. It is easy to store and has ready market. Our rice is organic. Tanzania uses fertilizer; Uganda doesn't.

1.2 Methodology and data

As summarized in Table 2, five categories of informants were interviewed: rice millers, traders (retailers, wholesalers, importers and exporters), officials in government ministries/institutions, private sector business associations, and NGOs.

Table 2 Firms and organizations interviewed

Type of informants	**Number of informants**	**Percentage of total**
Millers	6	8.6
Traders	43	61.4
Importers	4	5.7
Private sector business associations	4	5.7
Government ministries / institutions	12	17.1
NGOs	1	1.4
Academic Institutions and think-tanks	0	0.0
Total	70	100.0

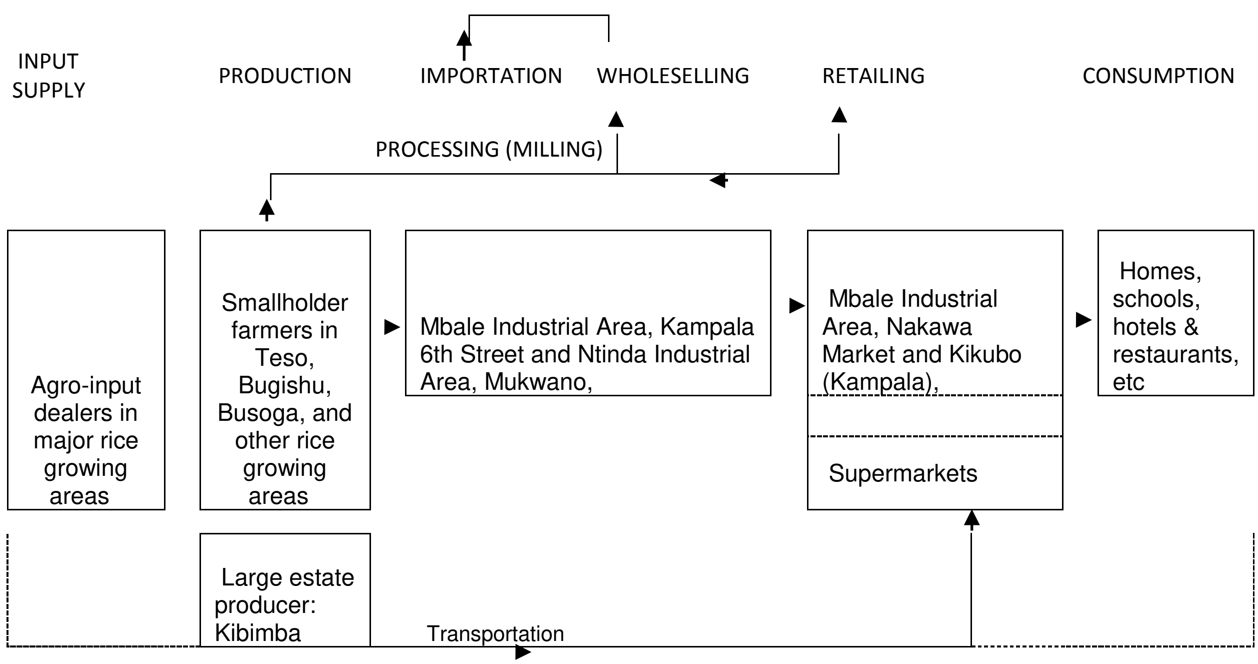
Notes: Details in Appendix Table

2 The scale and nature of supply and demand

2.1 Key players in the rice sector in Uganda

Among leading players in Uganda's rice sector are Tilda Uganda, Doho, and Olweny rice schemes, Vero Foods, PEYERO, Gulu Grain Board, Windwood Millers, and S.W.T. Tanners Limited. Tilda Uganda is the single largest estate producer and exporter of Ugandan rice. Tilda Uganda (proprietor of Kibimba Rice) produces, mills, and packs rice for exports and distribution to Uganda leading supermarkets. Tilda also imports rice, mainly from Pakistan, rebrands it and sells to leading supermarkets. S.W.T. Tanners Limited is the leading importer of Pakistani rice in Uganda. However, the bulk of rice trade is conducted through small firms (Figure 1), which often deal with other grains and foodstuffs too.

Figure 1 Rice Value Chain



Some of the trading firms also deal with rice processing, storage and transportation to the market. These small traders estimated at close to 50,ooo in number, most of whom are informal, and specializing in particular geographical areas, dominate the Uganda's rice market. They depend, for their supplies, on a myriad of small farms, scattered all over the country. These small farms, with mean plot size of 0.4 hectare - under rice (UBOS, 2010), account for over three quarters of total rice production, and close to 60 percent of the rice consumed in the country. Nearly all these small holdings are rain-fed, employing family labor and hand hoe, and are characterized by low productivity (2.5Mt/Ha). Current estimates suggest that there are close to 100,000 smallholder rice farmers in Uganda. Rice is transported from villages where it is produced to township for processing and bulking before it is transported to major towns such as Mbale, Iganga and Kampala. Estate producers such as Tilda Uganda gear their products to specific niches of consumers, the middle class consumers (supply supermarkets) and export markets (mainly Kenya and South Sudan).

2.2 Types of rice, target markets and trends in demand

Uganda's rice market has two distinct segments: local rice, which is of two major types, *Super* and *Kaiso* and imported rice, which appears in various brands, and grades (Table 3).

Table 3 Rice Types and Brands Sold in Kampala

	Source	Supplier	Retail price	Unit
Supermarkets				
Tilda Crystal Long Grain	Domestic	Tilda	20,200	5Kg pack
Tilda KibimbaRice	Domestic	Tilda	21,900	5Kg pack
Tilda Basmati Rice	Pakistan	Tilda	26,000	2Kg pack
Tilda Basmati Wandaful	Pakistan	Tilda	12,550	2Kg pack
Tilda Rice Halves	Kibimba	Tilda	3,300	1 Kg
Pearl Kenya Pishori	Kenya	Kamili Packers	14,900	2Kg pack
Pure Mwea Pishori	Kenya	Kamili Packers	7,000	1Kg
SWT Pakistan Long Grain	Pakistan	S.W.T. Tanners	8,400	2Kg pack
Super Kernal Basmati Rice	Pakistan		39,800	5Kg pack
Tilda Brown Basmati Rice	Pakistan	Tilda	13,600	1Kg
Tilda Pure Basmati Rice	Pakistan	Tilda	26,000	2Kg pack
Cock Brand Punjab Indian Basmati Rice	India		44,600	5Kg pack
IRRI-6 Rice	Pakistan	S.W.T. Tanners	8,400	2Kg pack
Long Grain IRRI-9 Rice (10% broken)	Pakistan	S.W.T. Tanners	25,000	5Kg pack
KPL Long Grain Rice	Kenya	Kamili Packers	9,900	2 Kg pack
Lake Basin White Rice	Tanzania		8,800	2 Kg pack
Nikky Paraboiled Rice		Nikky Africanana Food	8,200	1 Kg pack
PISHORI Rice	Tanzania	Lake Basin	11,800	2 Kg pack
Open markets and shops				
Super	Domestic		3,000-3,500	1 Kg
Kaiso	Domestic		2,500	1Kg
S.W.T -1 Rice	Pakistan	S.W.T	3,500	1Kg
Tanzania super	Tanzania		2400-3000	1kg

Uganda's domestically produced *super* rice is considered to be the best rice in terms of taste and aroma (most consumed in Kampala). The local market does not differentiate according to grades (no emphasis on grades). Broken rice and full grain are mixed, unlike with imported rice. Of the two types, *Kaiso* rice is not as good in taste as *super*, but consumers like it because it expands when cooked than super. Most low income consumers prefer *Kaiso* to *Super* because it is more affordable. Table 4 compares the prices of *Super* and *Kaiso* at selected geographical markets in Eastern Uganda.

Table 4 Domestically Produced rice and Prices in Selected Geographical Markets

Source	Price (100kg) of Super		Price (100kg) of Kaiso ..	
	at source	in Mbale	at Source	in Mbale
Pallisa	230,000	250,000	170,000	200,000
Nawanyandu	200, 000	250,000		
Bulange	230,000	240,000		
Soroti	280,000	310,000		
Bugwere	240,000	270,000	170,000	185,000
Beteleja	2100-2200/kg	2500/kg	180,000	200,000
Bunyole	250,000	270,000	165,000	200,000
Kachonga	250,000	300,000	190,000	200,000
Namutumba	280,000		200,000	
Bunombatya			140,000	150,000
Busia			180,000	190,000
Budaka			180,000	200,000
	Prices in Kampala	3,000-3,500/kg		2,500/kg

However, the trade in *Kaiso* has been hindered by poor post harvest handling (sorting). Rice is dried on the ground and road sides – and the final product is harbored by stones, and husks. Mixing of two types of rice (*Super* with *Kaiso* and lebel it as *Super*) is a very common practice among small traders especially in Mbale. A clear difference in quality between the rice presented in different markets is emerging. That is why there is particular preference for rice from certain geographical areas e.g. some hotels state very clearly to suppliers that they want super from Soroti, Pallisa, etc. where they are sure of genuine type.

The supermarket growth will benefit Uganda's rice sector, which is dominated by smallholders, but the only direct suppliers to supermarket channels currently is Tilda Uganda. According to supermarket operators in Kampala, local suppliers cannot satisfy quality standard requirements set by supermarkets e.g. maintaining quality consistency in all consignments. In future, small growers will have a chance to supply the supermarket channels if they can be supported to improve quality, organize themselves into cooperative society for product bulking.

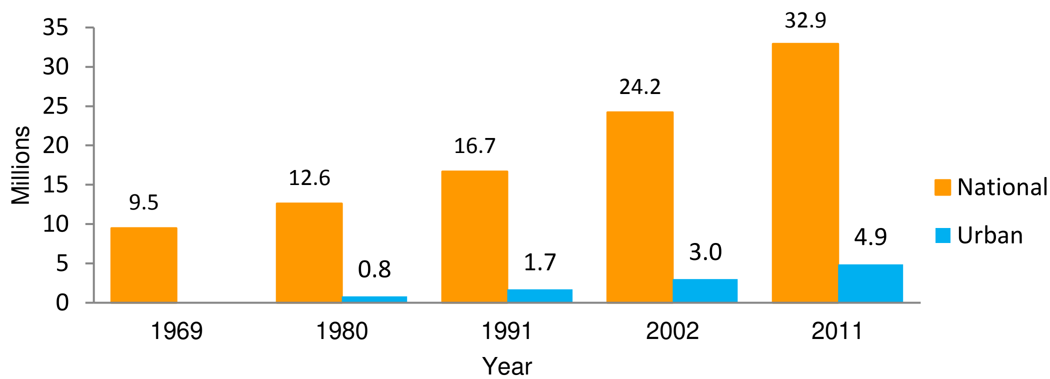
About 40 percent of domestic demand is met by external supplies. Most of these supplies, apart from those that enter the country through informal channels, are geared towards middle class consumers. Table 3 gives a picture of wide diversity of rice brands, brands and types found in Uganda leading supermarkets. If the Ugandan market continues to grow and the Uganda's rice sector is willing to remain its main supplier, then the question should be: what is the realistic capacity of the Ugandan rice sector to follow and to satisfy Ugandan demand? What changes should it undertake? We don't claim to have ready answer, but strong and continuous demand for local rice will attract investment in processing and producers. Supply of quality rice in accordance with market standards will not take long to emerge. However, to seize these opportunities quality initiatives must be supported now.

2.3 Drivers of growth in rice demand in Uganda

All individuals interviewed in Kampala agree that demand for rice is growing, and will continue to grow in the years to come. Demand is expected to more than double in the next 3 to 5 years. There are three main drivers for this potential growth; the first being population growth and change in consumption pattern. Uganda has one of the highest population growth rates in the world (at about 3.2 percent per annum), bringing the population up to 33 million in 2011 from 16.7 million in 1991 (Figure 2).

The second factor that has influenced the demand of for rice in Uganda is economic growth and growth of the middle class. Uganda's strong economic growth reflects the economy's potential to increasingly provide some employment for the growing population and has contributed to Uganda's emerging middle class. As income levels continue to rise, the middle class consumers will continue to diversify their spending, but also increasingly demand better food. They are willing to pay a little extra for quality as a force that encourages product differentiation and suppliers e.g. supermarkets. Besides, the consumption pattern is changing. Rice is no longer considered a ceremonial food associated with religious events and celebration such as Christmas, Muslim festive seasons, etc. Increasing number of people, irrespective of economic status, are now consuming rice.

Figure 2 Uganda's population, 1969 – 2011



Note: Figures for 1969, 1980, 1991 and 2002 represent census population. Figure for 2011 is population estimate.
Source: Uganda Bureau of Statistics

The third factor that has contributed to the demand for rice in Uganda is the expansion of tertiary education EAC integration, which has led to increase in education enrolment. Uganda's expanded tertiary institutions enroll tens of thousands of students every year (Table 5).

Table 5 Uganda's higher education institutions and enrolment, 2006–2007

Country	**Number of education institutions**	**Total enrolment**	
	2006	**2006**	**2007**
Universities	26	81,187	97,049
University colleges	12	81,224	20,033
Technical Colleges	6	1,980	1,960
Commercial Colleges	48	18,839	17,183
Management	8	4,156	3,835
Health/ Medical	15	3,132	3,283
Agricultural & Forestry	6	1,651	1,712
Theological Colleges	2	1,098	1,088
Law Development Centre	1	800	800
Grand Total	**124**	**194,067**	**146,943**

Source: National Council for Higher Education

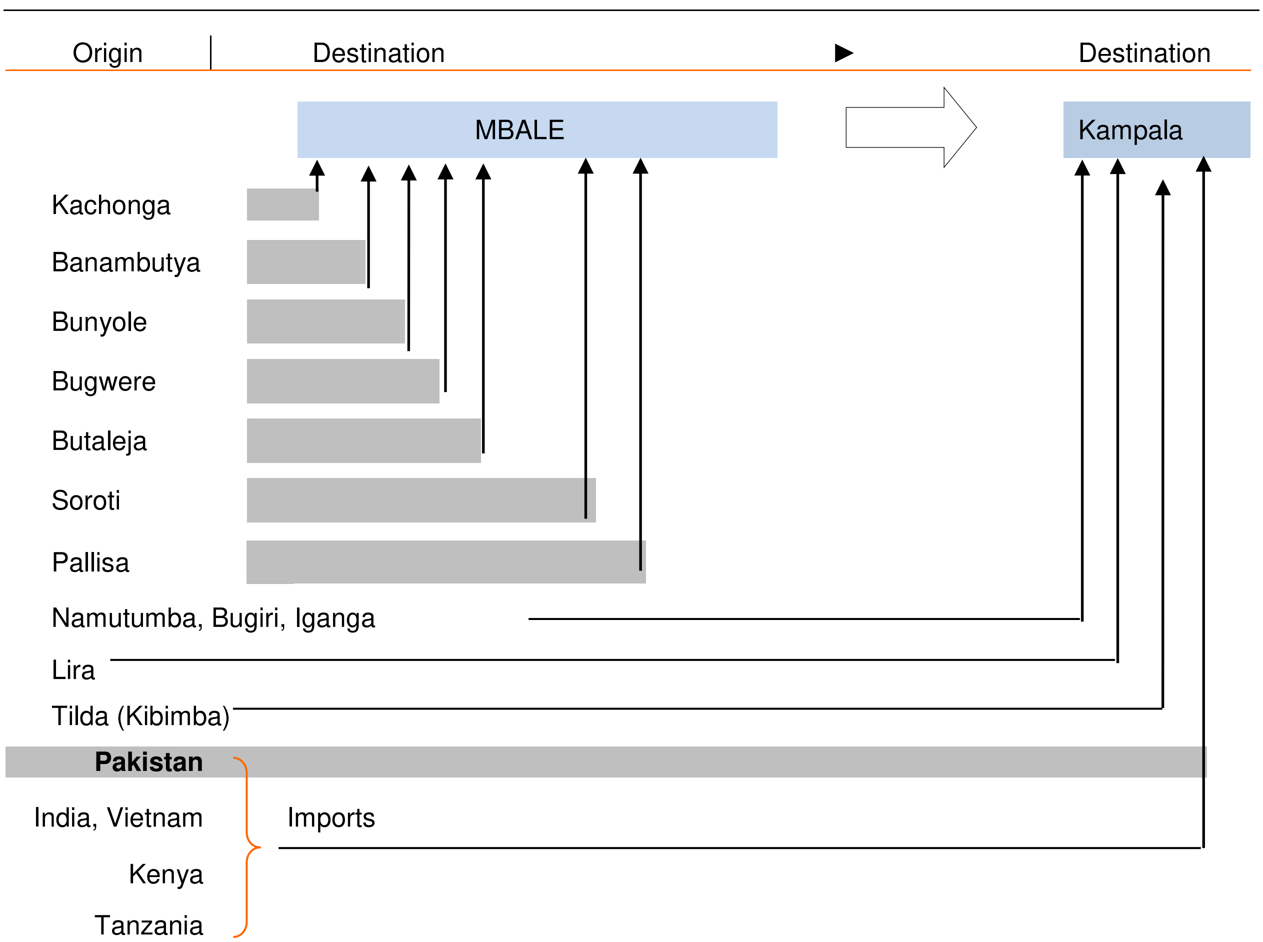
Fourthly, rice is as an alternative to barley and wheat in breweries industries. Its utilization in beer production by Nile Breweries and East African Breweries, among others industries (often arising from shortage of wheat and barley) has created more demand for rice.

3 Trade patterns and trends

3.1 Domestic (intra-country) rice trade

Figure 3 illustrates the pattern of trade flow in the domestic market, drawing from selected districts of Uganda. Direction of trade flow is influenced by arbitrage prices. For example, Mbale is not an important market for rice produced or milled in Namutumba, Bugiri and Iganga, but Kampala (Figure 3). The reason is that prices are higher in Namutumba than in Mbale, and is much higher in Kampla than in any of the regional markets.

Figure 3 Spatial structure of the rice market in Uganda – direction of trade flow



Kampala is the market hub, from where distribution is made to other parts of the country such as central and western Uganda. However, some traders buy directly from source e.g. traders from Kasese sourcing from Namutumba and other district in eastern Uganda.

3.2 Rice export

Exporting firms

Reliable information on export activities is hard to come by. Before export licensing requirements were abolished in 1990s, the Ministry of Trade used to keep record of all exporters. Rough estimates put the number of formal exporters at less than twenty. Even then, only one or two firms (notably, Tilda Uganda) might be exporting Ugandan rice, the rest re-export rice coming from Pakistan, Tanzania, Vietnam and other countries. However, there are hundreds of small informal cross-border traders, who often deal with other grains and foodstuffs too (besides rice). Some traders interviewed in Mbale, e.g. Doko Millers mentioned that they exporting local rice to Kenya and South Sudan, which presents a significant export opportunity.

3.2.1 Recent trends in rice exports

Table 6 shows the trends in rice exports, from 2007-2011. Two important points emerge from this table. First, rice exports in Uganda do not provide a very clear trend. The share of exports to total exports has stagnated around 0.9 - 1 percent range for the last three years, with volume of exports recorded in 2011, falling below the 2009 exports (in metric tones).

Table 6 Formal Exports of Rice, 2007 – 2011

	2007	2008	2009	2010	2011
Exports in Metric Tonnes	24,739	25,426	38,289	33,323	38,254
Value of exports ('000 US $)	6,950	10,435	16,736	16,456	18,442
Exports as percentage of total exports	0.5	0.6	1.1	1.0	0.9
Re-exports by value ('000 US $)	5,077	8,075	16,467	14,361	18,241

Source; Uganda Revenue Authority

Second, viewed from the supply side, much of the trade expansion was on account of surging rice imports from Pakistan. About 99 percent of the exports recorded in 2011 were re-exports, which shows that very little formal exports of domestic rice is happening. It also suggests that Uganda's export sector/trade is still in many ways, inchoate and vulnerable. The fact that the bulk of rice exports originates from imports makes trade in rice particularly susceptible to changes in both the government policies in the exporting countries and in Uganda. The key exporting countries are Pakistan, India and Vietnam. Rice re-exports are made to South Sudan, DR Congo and Rwanda. Kibimba rice (produced by Tilda Uganda) is exported to Kenya, Rwanda, Burudi and South Sudan. In Table 7, we see that exports to rest of COMESA countries is about double the exports to EAC between 2005 – 2007, which shows that although EAC may provide a significant market opportunity, Uganda's exporters are looking else where. Such markets could include South Sudan and eastern DR Congo.

Table 7 Regional Distribution of Exports (Rice) in '000US$, 2007 – 2011

Destination market	2005	2006	2007
EAC	915.600	1,691.140	2,328.472
Rest of COMESA countries	2,785.368	2,520.381	4,609.341
European Union	--	-	12.042
Rest of the world	29.357	1.932	--

Source; Uganda Bureau of Statistics

However, the data in Table 7 gives a clear indication that rice exports to the EAC market is rising steadily, and is likely to continue doing so for some years to come. One possible explanation is the liberation of the intra-EAC trade and penetration to new markets such as Burundi. Second, we should not forget that significant volume of trade is conducted through informal channel, which might even be bigger than the formal exports. As one informant mentioned, there are interesting dynamics surrounding EAC trade. A lot of rice is imported into Uganda through Busia (Uganda border with Kenya), and at the same time, large volume of rice is exported to Kenya through the border point in Kapchorwa. Some of this rice as we heard goes to Kenya just for sorting and cleaning where they are packed in nice bags and returns to Uganda as Kenyan exports.

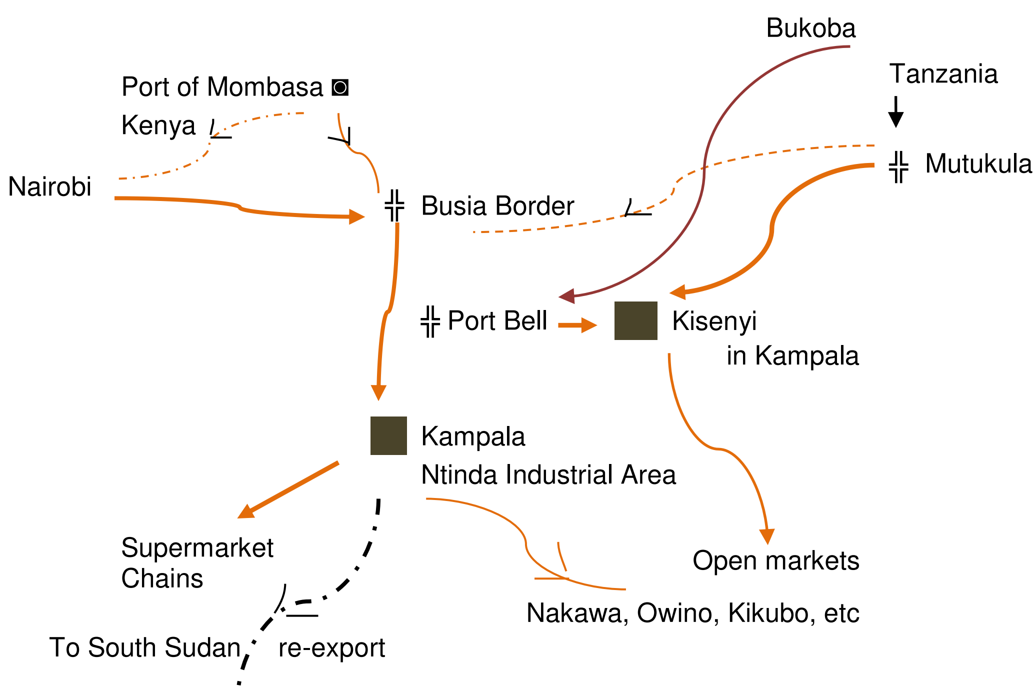
3.2.2 Key drivers of Uganda's rice exports

Uganda is known for producing the best rice, in terms of aroma and taste especially *Super* - the most popular rice in the region – is purely organic (no fertilizer/chemicals use) and has nice aroma (taste). It is only surprising that this has not translated into significant exports, although informal cross-border trade in this product seems to thrive. Asked what motivates them to sell outside Uganda other than serve local markets, all the traders cited better prices as the driving force, with South Sudan being the most targeted market.

3.3 Rice imports

3.3.1 Flow of imports and major exporting countries

Rice imports satisfy more than 40 percent of domestic requirements in Uganda. Large importers operate bonded warehouses in industrial area in Kampala – from where products enter Uganda market, with some re-exported to South Sudan and DR Congo. The major exporting countries as mentioned before are Pakistan, India and Vietnam. Pakistan has kept the leading exporter position for the past 10 years, accounting for about 80 percent of rice imports, while India and Viet Nam ranked second and third largest sources of supplies in 2005-2012. Outside of Asia, Egypt, Uruguay, and the United States are also exporting rice to Uganda.



Large shipments of rice through Kenya in recent years have converted Uganda into a major destination of trade especially for Pakistani rice. Uganda continues to absorb one of the largest shares of imports (through the Kenyan territory), which enter Uganda through three major channels: as direct imports by Uganda based importers; Kenyan exports consisting of Pakistani rice that is repacked in different bags with trade marks of Kenyan registered companies – disguised as products originating from Kenya. The objective is to evade tax in Uganda. The third channel consists of Kenyan rice produced in Kenya. Besides the formal channel, previous studies have revealed that for three consecutive years 2005 – 2007, rice ranked first, among agricultural informal imports into Uganda from Kenya through the border point at Busia (reported in Table 8). Table 8 also reports the volume of informal imports through Mutukula border. The main border point between Tanzania and Uganda is at Mutukula (about is 220 kilometers from Kampala), but large volume of rice is also shipped across Lake Victoria from Bukoba in Tanzania to Port Bell (as illustrated in the chart above). Some rice, which enters Uganda through Mutukula is re-exported to Kenya via Busia. The rest continues it way to Kampala (the main hub is Kisenyi).

3.3.2 Recent trends in imports

Table 8 shows the trends in rice imports from EAC countries, COMESA, EU and rest of the world, between 2005– 2007. Imports are of the types summarized in Table 3. Although Table 8 does not cover imports in the last four years, it is easy to see that imports are steadily growing. Across the regions, the rest of the world account for over 80 percent of total imports, which reinforces the earlier findings that EAC originated trade constitutes account for a minute share of intra-EAC trade.

Table 8 Rice imports, by source in US$, 2005 – 2007

Origin of imports	**2005**	**2006**	**2007**
EAC	910,272.00	372,764.00	2,652,079.00
Rest of COMESA countries	--	17,105.00	2,053.00
European Union	541,990.00	532,395.00	62,259.00
Rest of the world (mainly Asia)	16,002,000.00	12,497,354.00	16,409,158.00
Informal imports from Kenya through Busia border	98,641.35	3,164,114.21	746,325.15
Informal imports from Tanzania through Mutukula border	196,087.00	395,998.00	123,745.8 0

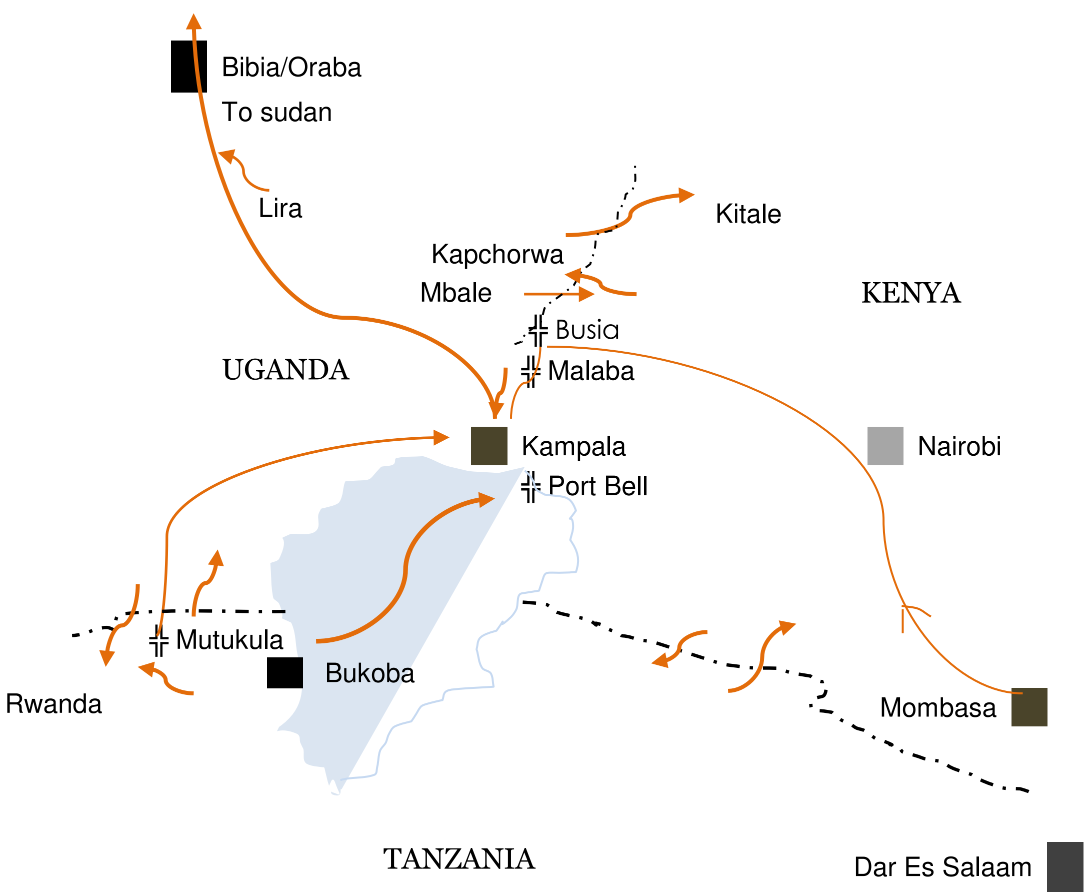
Source; Uganda Bureau of Statistics

3.3.3 Key drivers of Uganda's rice imports

Examine key drivers of trade (including a commentary on whether these may be changing). To include: Why do producers in the region currently export, rather than serve local markets? What is the main opportunity for importers –low-cost or high-quality products? What other factors drive the nature and growth of the rice trade in the EAC?

3.4 Intra-EAC trade

One of the outstanding developments in the rice sector in the past 10 years has been a fast expansion of intra-regional trade. Much of the trade expansion has been as a result of surging rice imports by Pakistan, India, Viet Nam and Thailand. The increase in traded volumes witnessed after 2005 was facilitated by a reduction of border protection, as the EAC Customs Union came into effect.



Intra-regional trade in rice is projected to record a fast pace of growth in the next decade, reaching perhaps 1 million tonnes by 2015. The forces sustaining the expansion are likely to remain substantially the same as those which propelled trade after 2005, namely a strong import demand by EAC countries and a continued expansion of production in Pakistan, India, and Viet Nam.

As mentioned noted, over 40 percent of intra-regional trade is informal in nature. It comprises day-to-day transactions between traders living in locations on either side of the borders. Most commodities crossing borders are absorbed by the local markets along the border e.g. *Sofia market* and *Market Square* – usually delivered on bicycles and heads, and hands in 'caveras' (polythane bags) normally in small quantities. Identifying cross-border traders of this nature is not so straightforward because they could easily be mistaken for goods for own personal use or gift from relatives. Bicycle transporters at times act as assemblers for big traders. In some cases, commodities are diverted through "panya routes" (unofficial routes) to avoid official border-entry at Busia. On the Ugandan side, these unofficial routes include Sofia, Marachi, Red Carpet, Bulumba, Alupe, Mawelo, Jambura and Kalitunsi among others.

3.5 Illicit trade, and business malpractices

In Obwona and Ayoki (2005), illicit or illegal trade (as some prefer to call it), is any trading activities carried out with the aim of evading taxes, gaining 'abnormal' profits and taking unfair advantage over law-abiding participants in the same industry. These activities take the form of smuggling; counterfeiting of products; concealment of information – about the origin, intended destination, quantity, value and even the real name of the product. By definition, illicit trade cannot easily be quantified because it is not included in official national statistics and the national income convention.

In the case of rice trade, informants narrated surprising situations whereby (i) rice from Pakistan is re-labelled in Kenya and exported to Uganda as Kenyan rice, and (ii) Tanzanian rice is exported in Vietnam bags through Mutukula and enters Uganda as goods on transit to DR Congo or South Sudan only to be offloaded and sold in Uganda as Uganda, sometimes, as Uganda

Super. In the first case, Uganda's imports (sourced directly) face unfair competition from low-taxed rice re-exported from Kenya, with some traders suggesting that such imports should be banned. In the second case involving Tanzanian rice, it is not very clear what the intention might be because under the Customs Unions and the Practice Notes of November 2007, rice from Tanzania is not liable to tariffs or import VAT in Uganda.

Although informants did not clearly explain why this particular case, corroborating their responses with those from other sources point to the cumbersome border process. The EAC Partner States have made significant progress towards harmonizing their border requirements, but to cut down on amount of paper work at the border will take some time. At the least, for agricultural commodities passing through Busia and Mutukulu customs, a trader must satisfy most or all of the following requirements/conditions:

Table 9 Customs documentations /requirements

Requirements	Other conditions
1. Phyto-sanitary certificate (certificate of inspection)	2. Withholding tax
3. Pre-inspection certificate	4. Use of clearing agents
5. Certificate of incorporation (company registration)	6. Health certificate
7. Tax identification number	
8. Trading license	
9. VAT registration	
10. Commercial invoice	
11. Customs forms for entry/export (single bill of entry)	
12. Import/export permit	
13. Import commission/declaration form	
14. Certificate (evidence) of origin of commodity	
15. Standards certificate	

Again, there are people who hold the view that the zero tariffs on intra-EAC trade is "on paper", the reality is that there are taxes being paid or barriers, which are silent. Rice ranges from first to third grade, and reflected in prices. The tendency has been for traders (Tanzania middle men mainly) to mix the three grades and labeled them as first grade rice. At the customs, the rice is classified under high tax category. Rwandan importers pay high tax and soon discover that it is sub standards products which they end up selling far below the expected price.

3.6 Trade routes and import costs

Freights from Karachi, in Pakistan, as of December 2011, was about US$ 40 per tonne of rice, if delivered to the Kenyan port of Mombasa, or Tanzanian Port of Dar Es-Salaam.

Freight rates from Karachi Port in Pakistan to:				**From Mombasa/Dar-Es-Salaam**	
Country	Port	Freight	Freight	Freight	Freight
		Per 25 tone container	Per tone	Per 25 tone container	Per tone
		US $	US $		
Kenya	Mombasa	1000.00	40.00		
Tanzania	Dar-Es-Salaam	1000.00	40.00		

On top of the freight costs, imports are subject to insurance, bringing the cost to about US$ 90 per tone i.e. CIF (FOB price plus freight and insurance). He pays additional 75 percent of the value of imports in tariffs, and offloading costs (US$ 10 per tone).

Over 90 percent of Uganda's overseas imports and exports transit through Mombasa each year – i.e. pass through the Northern Corridor, which consists of road routes from Mombasa via Malaba and Busia to Kampala (Mombasa being Uganda's closest ocean port). The long distance from Mombasa and Dar Es Salaam ports, add substantially to the total cost of the imported rice.

4 Market Environment and Trade Regulations

This section looks at the market environment, focusing particularly on the opportunities for public sector reform or intervention to facilitate market growth. It reviews development of policy in recent years towards both rice imports and exports. It inquires into the objectives the policy was intended to achieve and what impact it exerts on upon production and investment, as well as how effective the policy has been, and how effectively it has been implemented. Considered also in this section is the question of how common trade policies and removal/lowering of internal EAC trade barriers has been implemented.

4.1 EAC common trade policy

The EAC Common External Tariff (CET) regime, which entered its eighth year in January 2012 (having come into effect on 1 January 2005), harmonized tariffs under three bands: 25 per cent for finished goods, 10 per cent for semi-processed or intermediate goods and zero-rate for raw materials and capital goods. This common policy (CET) applies to 5,429 tariff lines (at the HS 8-digit level), of which 99.8 percent carry ad *valorem* duties. Exception to this rule applies to 1 percent of the overall tariff lines (i.e. 58 tariff lines)—allowed to accommodate politically sensitive sectors. Among these *sensitive products* are rice, which attracts 75 percent duty or US $200 per MT; wheat, dairy products, matches, maize; cigarettes; cement; *kangu*, *kikoi*, and *kitenge* fabrics; crown cock; sack and jute bags and battery cells 35 percent duty, and sugar 100 per cent duty.[1]

With regards to non-tariff barriers (NTBs), Article 13 of Protocol on the Establishment of the EAC Customs Union states that "except as may be provided for or permitted by this Protocol, each of the Partner States agrees to remove, with immediate effect, all the existing non-tariff barriers to the importation into their respective territories of goods originating in the other Partner States and, thereafter, not to impose any new non-tariff barriers. The Partner States shall formulate a mechanism for identifying and monitoring the removal of non-tariff barriers" (EAC, 1999).

[1] Annex I to the EAC Customs Union Protocol. In case of rice, it includes rice in the husk (paddy or rough), husked (brown) rice, semi-milled or wholly milled rice, or broken rice.

This move is consistent with the agreement under the WTO. In Paragraph 27 of the 2001 Doha Ministerial Declaration, WTO Members "recognize the case for further expediting the movement, release and clearance of goods, including goods in transit, and the need for enhanced technical assistance and capacity building in this area…"

4.1.1 Policy /political economy of rice trade in the EAC

The EAC Partners States have harmonized their duty and tax exemptions and concession schemes – under the EAC Customs Management Act. Annex I to the EAC Customs Union Protocol, puts the tariffs on rice entering the territories of any of the EAC Partner States at 75 percent. As a special case, the EAC Partner States allowed exception for Pakistani rice, which would enter Kenyan market at 30 percent tariff as opposed to 75 percent. This concession was to be phased out by 30 June 2008, but has since been renegotiated keeping the rate at 35 per cent to date. Pakistan is an important market for Kenyan tea. So for Kenya, keeping the tariff low would be in its best interest.

However, listening to some of the government officials in Kampala, they would want the preferential treatment on Pakistani rice to end, saying that it is of great disadvantage to other partner states. Rice is imported from Pakistan at 35 per cent duty. Kenyan traders repack (re-label) the imported rice and re- export as Kenyan product thorough Kenyan supermarket chains and other outlets in Uganda. The same resentment is shared by some of the traders interviewed, who feel that the exception creates unfair trade (in favour of Kenya) and therefore, must be discontinued. However, this is unlikely to be the case soon.

There is a trade off; other EAC countries enjoy similar flexibility. For instance, Tanzania can derogate from the common policy on wheat and barley (i.e. charges lower tariffs than 35 per cent, on imports of wheat and barley). The same applies to Uganda on wheat imports. The two countries see this as an opportunity to develop their local industry, which rely on imported raw materials (wheat and barley), and their politicians would wish to see a status quo. Burundi and

Rwanda are not left out either; taken care of in the Rwanda list of exemption of taxation and Burundi list of raw materials.

There are two major reasons why Uganda government supported 75 percent tariffs on rice imports and why the sector remains to be one of the most protected agricultural sectors. They have to do with the need to promote domestic rice production and satisfy national demand (and guarantee food security and improved household incomes). Rice impacts large number of people in Uganda, being produced in over 40 districts in the country, continues to spread to other parts of the country. It has been viewed as an important sector for poverty reduction. Some success has been recorded as current statistics show that the gap between domestic demand and domestic production is slowly closing. Two, they are associated with promoting local varieties, which are not always available on world markets, as well as the generation of earnings to producers and to develop agro-industries through local processing. The 75 per cent tariffs aimed at shielding domestic industries from competition of imported products.

The government of Tanzania, for its part, was also interested in promoting domestic production and value addition, along side the objective of ensuring food security which leads it to unilaterally ban the export of rice. Whenever Tanzania or anticipate possible food shortage, it imposes ban on rice export. While Tanzania is able to enforce the ban, the Tanzania–Uganda border has always been characterised by a certain porosity which seemed to prevent the strict enforcement of legislative and regulatory regime. In fact, it has facilitated border corruption.

Enforcement officers (police) stationed at the borders use the directives from Ministry of Agriculture to enrich themselves by extracting TS 500,000 or more, per truck from traders and allow them to pass with truck of rice. In EAC the food deficit country is Kenya, and Rwanda. Kenya is a net importer of rice. The disruption of cereal flows from Tanzania towards Rwanda seems to expose the deficit in Rwanda, but the impact, if any, is negligible because Rwanda has over the past years developed new sources of supply from the region.

There is ample evidence that the circumvention of regulations and the unilateral policies pursued by EAC partners, added to lower-tariff exceptions continue to create a challenge for EAC common policy e.g. implementation of CET. Burundi, for its part, does not tax agricultural imports/exports.

4.1.2 Import and export inspection and certification procedures

In a few areas there are some restrictions or impediments, the removal of which would help facilitate exports. First, while export procedures are relatively simple[2] and are further being facilitated by the new customs automation system (ASYCUDA++), the requirement for physical inspection of export shipments unnecessarily slows down the operations of the exporter. The EAC partners states have adopted (or are expected to adopt) the EAC harmonised standards of goods traded within the region (and supposed to be enacted into law – a mechanism that ensures mutual recognition of national quality marks on products by national standards agencies (Bureaus of Standards). The mechanism agreed by the Partner States exempt the goods from vigorous verification upon importation once they bear the quality marks.

This has not been implemented, and could affect rice exports. Clearly, the concerns are on: product verification and inspection (that have continued despite quality marks or certificate by national agencies) and inspection fees (on goods in transit). Ugandan tea is transited through Kenya to countries outside the region like Pakistan. At the Kenyan-boarder, an inspection fee of $400 is levied in disregards of inspection that was done in Uganda before tea left the country.
Second, in some instances, depending on export product and destination, an exporter may require other documents such as phyto-sanitary certificate, certificate of origin, veterinary health certificate, commercial invoice, etc. as we saw in Table 5.

4.2 Business environment

The Ease of Doing Business report 2011 ranked Uganda 122nd out of 183 countries (Table 10). It is easier to do business in Uganda than in Tanzania or Burundi. Uganda scores relatively well in the area of regulatory quality and rule of law categories, but had worse score than the regional average in the control of corruption category.

Uganda's performance in the *trading across borders* subcategory deteriorated from 141st position (out of 178 countries) the previous year to 148th position (out of 183 countries) in 2011, but was much better than the 2006 ranking (162nd position out of 178 countries). The customs administration reform program under the URA modernization program partly attributed to this

[2] Export enterprises are required to have a certificate of registration, a trading license, and a tax identification number, on presentation of which to MTTI, the exporter is issued an application form for export permit, which is usually issued in 24 hours at a cost of USh 1500 (less than US$1). Source: WTO, 2006.

improvement. Due to improvement in investment climate, inflows of FDI (excluding workers' remittances) rose from less than US$ 100 million in 1990 to US$ 848m in 2010.

Table 10 **Ease of doing business ranking and the business competitiveness index**

Country	Business Competitive Index	Doing Business Ranking			
	2003/04	2005	2006	2010	2011
Kenya	67	80	83		98
Uganda	74	103	107	112	122
Tanzania	68	150	142	142	128
Rwanda	na	158	158	158	58
Burundi	na	160	166	166	181
South Africa	27	28	29	29	34
Mauritius	44	32	32	32	20
Namibia	55	39	42	42	69
Botswana	54	44	48	48	52

Source: The World Bank. Note: Doing Business rankings covered 175 – 178 countries between 2005 and 2010 and 183 countries in 2011. The Business Competitiveness Index, prepared by the World Economic Forum, covers 171 countries.

5 Conclusions and recommendations

This paper set out to document the trade patterns and trade policy in the rice sector in the East African Community (EAC) partner states, with particular reference to Uganda. Using various sources of information, including key informant interviews as well as past studies and available trade statistics, the paper derived results that have been discussed in sections 2–4. From the discussions, the following conclusions can be made:

First, there is a lot of potential for import substitution opportunity in the rice sector in Uganda as evident in the volume of imports flowing into the country every year. Uganda's rice import bills amounting to over US$30 million annually is sufficient to support at least 10,000 acres of production. Second, Uganda's export sector/trade is still in many ways, inchoate and vulnerable given that over 90 percent of the exports are re-exports. The fact that the bulk of rice exports originates from imports makes trade in rice particularly susceptible to changes in both the government policies in the exporting countries and in Uganda.

Third, as much as growth of intra-regional rice trade are evident, it is increasingly becoming dominated by informal and illicit trade (as evident by the case studies and testimonies for Busia and Mutukula), in part because other taxes and barriers other than duty appear excessive to traders. There is a need therefore to examine the various barriers and taxes or charges and costs incurred by traders at the various borders within EAC to understand the liabilities that small traders face, and to estimate the amount of tax revenues governments lose under current conditions.

Fourth, the circumvention of regulations and the unilateral policies pursued by EAC partners, coupled with lower-tariff exceptions continue to create a challenge for EAC common policy e.g. implementation of CET. This, in part is responsible for the illicit trade across the EAC common borders.

References

Obwona, M. and Ayoki, M. (2005). Illicit Trade in East Africa, IPRA Working Paper 8, Kampala: Institute of Policy Research and Analysis.

UBOS. (2010) Uganda Census of Agriculture 2008/2009, volume IV: Crop Area and Production Report.

Appendix 1: Organisations, firms, and individuals interviewed in Uganda

Category & name	Business/ Location	Tel. Contact
Government Ministries /Agencies		
1. Mr. Rashid Kibowa (Hajji) Commissioner Economic Affairs	Ministry of East African Affairs	+256 414 340100
2. Mr Silver Ojakol Commissioner/External Trade	Ministry of Trade, Industry and Cooperatives	+256 414 314280
3. Okilangole O. Patrick Ass. Commissioner/ External Trade	Ministry of Trade, Industry and Cooperatives	+256 414 314281
4. Ms Florence Kata Executive Director	Uganda Export Promotion Board	+256 772 459134
5. Mr. Kahima Sam Domestic Tax Dept	Uganda Revenue Authority	+256 772 890189
6. Mr. Ronald Nyenje Manager – Research Statistics and Policy Analysis, CG's Office	Uganda Revenue Authority	+256 717 440055
7. Mr. Patrick Okello Principal Statistician	Uganda Bureau of Statistics	+256 414 321472
8. Mr. Koire Lugya Statistician/External Trade	Uganda Bureau of Statistics	+256 772 434350
9. Ms. Aliziki Lubega External Trade Unit	Uganda Bureau of Statistics	+256 414 321472
10. Mr. Deo Muhwezi Assistant Commissioner	Ministry of Agriculture, Animal Industry and Fisheries	+256 772 501761
11. Mr. Moses Ogwapus Ass. Commissioner/Tax Policy Dept	Ministry of Finance, Planning and Economic Development	+256 414 707137
12. George Oumu Director Information	Enterprise Uganda	+256 414 251810
Private Sector Association and NGOs		
1. Lillian Bazaale Country Manager, Uganda	Eastern Africa Grain Council	+256 312 112854
2. Banjamin Aijuka Program Officer	Eastern Africa Grain Council	+256 312 112854
3. Mr. Allan Wayira Research and Training Officer	Uganda National Farmers Federation	+256 712 195208
4. Ande Okiror Ongura Coordinator, Public-Private Partnership and Market Access	Sasakawa – Global 2000	+256 392 948136
5. Chemusto Wilson Board Chairman	Uganda National Agro-Input Dealers' Association	+256 312 293475
Rice Importers		
1. M. Faraz Ahmed, Commercial Manager	S.W.T. Tanners Limited, Plot M566, S.W.T. Close, Ntinda Industrial Area - Kampala	+256-41-4222027

2.	Mohsin Abdul Karim, Sales Executive	S.W.T. Tanners Limited - Kampala	+256-772-711023
3.	Grace Alimo	Tuskys Supermarket	+256-782 377554
4.	Procurement Department	Ntinda Industrial Area	

Rice Millers

1.	Hirya Shabani	Faluja Producers, Plot 6, Bugwere Road, Mbale	0782881223
2.	Hussein Wafula	Jeri co Co, Plot 14 Bugwere Road, Mbale	0752887340
3.	Namulondo Rehema	Namutumba Posho/Rice Millers	0700608489
4.	Waswa Asan	Namutumba	0703482532
5.	Luuka Shitali	Plot 6 Bugwere Rd, Industrial Area, Mbale	
6.	Faluja Producers	Plot 6, Bugwere Road – Mbale	

Rice Traders /2

In Kampala

1.	Manager, Cynibel	Cynibel Supermarket, Ntinda	--
2.	Grace Alimo Procurement Department	Tuskys Supermarket Ntinda Industrial Area	+256-782 377554
3.	Bicandu Wun Robert Manager	Windwood Millers (U) Limited, Shop No. 406, Nakawa Market	+256-701 090149
4.	Caesar Wandera	Nakawa Market	+256-751 283377

In Mbale

5.	Judith Nambozo	Jordan Shopping Centre, Pallisa Road	0771449818
6.	Muzamilu Wosemba	Industrial divion Pallisa Road Mbale town	0782560742
7.	Nayanya Yassin	Industrial division Plot 4 Bugwere road	0771895002
8.	Umar Abdul	Bam Shopping Centre	0712879512
9.	Badun Mungule	Yellow industrial area	0701573516
10.	Yusuf Nabende	Uganda Basic Food Stores, Plot 14 Bugwere Road, Industrial area	0782552446
11.	Jackline Kamesi	Industrial Area, Pallisa Road-Container	
12.	Charles Peter Okol	St Joseph Stores Plot 29 Pallisa Road	0575856979
13.	Charles Bulafu	Lorry Park Market	0758251468
14.	Wandera Bosco	Nkoma Stage	--
15.	Mangeni Ken	Nkoma Stage	--
16.	Nanfuka Shamim	Kumi Road Market	--
17.	Stephen Nagwere	Pallisa Road Market	--
18.	Musoga Habibu	Pallisa Road	--
19.	Mutwalib Mafabi	Kumi Road Market	--
20.	Aumo Stella	Busamaga	--

21. Hajjati mastula	Mission Road	--
22. Nabuzale Beth	Mission Road	--
23. Nekesa Azida	Mission Road	--
24. Kiganga Robert	Kiteso Trading Centre	--
25. Nambozo Loy	Kiteso Trading Centre	--
26. Walimbwa Monje	Mission Road	--
27. Wokwaba Rose	Midland	--
28. Wobomba jack	Midland	--
29. Mauso Martin	Kikindu Market	--
30. Mubiru swaibu	Kikindu Market	--
31. Madanda Yusuf	Kikindu Market	--
32. Wettaka samson	Kikindu Market	--
33. Kataike Bernard	Mission Market	--
34. Ajok Rosemary	Busamaga	--
35. Wandukwa P	Busamaga	--
36. Magomu Abdu	Kumi Road Market	--
37. Jamada	Kumi Road Market	--
38. Sulaiman Madete	Kumi Road Market	--
39. Nangoli Peter	Kumi Road	--
40. Mugoya Hatib	Kumi Road	--
41. Sulaiman	Kumi Road Market	--
42. James Gudoi	Kumi Road Market	--
In Namutumba		
43. Isima Gutta	Namutumba Trading Centre	0751958804

Academic Institutions and think-tanks