



The United Republic of Tanzania
Agriculture Sector Lead Ministries

4TH ANNUAL AGRICULTURAL POLICY CONFERENCE [AAPC]

Integrating Food and Nutrition Security into Economic Transformation and Industrialization Agenda:

How can agriculture be the driver rather
than follower of economic transformation in
Tanzania?



New Dodoma Hotel, Dodoma

14th - 16th February, 2018





The United Republic of Tanzania
Agriculture Sector Lead Ministries

4TH ANNUAL AGRICULTURAL POLICY CONFERENCE [AAPC]



Tarif setting for the development of the edible oil sector in Tanzania

Neil Balchin, Josaphat Kweka and Maximiliano Mendez-Parra

Honest Mseri, ANSAF





Introduction

- Despite strong growth in sunflower seed production, the level of edible oil processing in TZ is low compared to prevailing demand (est. at 300,000 – 400,000 tons a year)
- Much of the demand gap is currently met by imported edible oil (60% across all edible oils, 55-70% for sunflower oil) (Salisali, 2017)
- The GoT wants to reduce Tanzania's dependence on imported edible oil by boosting domestic oil seed production and downstream oil processing capacity
- In 2016 the GoT implemented a 10% tariff on imports of CPO as one mechanism to support this objective, but stakeholder views on the merits of the tariff policy are mixed
- This study collected evidence through a literature review, survey, stakeholder consultations and analysis of available data to assess the impact of the tariff on demand and supply dynamics.
- The ultimate objective is to inform future policies to facilitate greater investment in domestic production, processing and refining in Tanzania's edible oil sector



Literature review highlights

- ***Critical productivity challenge*** due a lack of high-yield seed, low level of capacity in addition to outdated machinery/technology for processing
- Evidence from existing studies on the effects of tariffs in Tanzania's edible oil sector is limited, but the TPSF study by Salisali (2017) found that the ***10% tariff on imported CPO did not have a major impact in 2016/17***
- Internationally, tariffs are widely employed as a policy instrument to promote domestic edible oil sectors (e.g. China, India), but the evidence on their impact is mixed and they affect ***different edible oil value chain actors differently***
- International evidence suggests ***domestic production capacity and competitiveness*** are key factors influencing the effectiveness of tariff policies



Recent trends in production and processing

- Sunflower *seeds domestic production has grown rapidly since 2010*, even though farmers' productivity and yields are low
- *Sunflower oil production grown substantially*, and exports of sunflower products have expanded significantly since 2005 (especially *rapid growth in exports of sunflower cake*)
- *Poor quality sunflower oil seeds and limitations in crushing capacity* appear to be key factors limiting domestic capacity to supply sunflower seeds and oil, rather than simply issues with the quantity of oil seeds available domestically

Figure 1: Production of sunflower seeds in Tanzania (in tonnes)



Source: FAOStat

Table 1: Trends in Tanzania's sunflower oil processing (Quantity, MT)

	2009	2010	2011	2012	2013
Sunflower oil	77,706	88,949	200,621	286,831	275,932

Source: MRA (2014)

Table 2: Customs value of imported crude sunflower oil (Tsh)

2015	2016	2017
15.2bn	8.9bn	3.5bn

Source: TRA (2018)

Key findings from field research & interviews

Consumer preferences, demand and substitution

- Our consumer survey results suggest a ***preference for sunflower oil*** over palm oil, more so at higher consumer education and income levels
- Consumer survey also suggests high ***price elasticity for sunflower oil*** (i.e. demand sensitive to price changes) at lower education and income levels
- Most small-scale sunflower oil processors surveyed do not consider producers of other edible oils as direct competitors, suggesting a ***low degree of substitutability***
- Cross-price elasticity estimates suggest a ***degree of substitutability between sunflower oil and palm oil***, in the lowest market segment (based on small sample)

Key findings from field research & interviews

Tariff impacts

- **Awareness of the 10% tariff on CPO was extremely low** among the surveyed sunflower farmers and processors
- Lack of disaggregated, t-series data on prices means **little scope to assess tariff impacts empirically**
- But information from VC actors indicates **average farm gate and market prices for sunflower seed increased before and after the tariff was imposed**, although difficult to disentangle tariff impact from other factors (e.g. inflation)
 - Market price increased by 23%, but the av. farm gate price increased by less than 7%
 - The level of DD for sunflower oil seed also increased significantly according to sunflower farmers
- **Contrasting views across industry associations re** impact of tariff on farm gate prices: SISUPA – positive versus SISUFA – no impact. Large-scale processors believe the tariff *has not* been effective in raising farm gate prices for sunflower farmers.

Key findings from field research & interviews

More stakeholder views on Tariff impacts

- **SUFA** does not believe the tariff has helped farmers, mainly because fundamental productivity challenges constrain them from responding to price incentives
- **Large-scale sunflower oil processors** feel that tariff could be more effective as part of a long term strategy on developing the sunflower industry; and that it has not been effective to farmers
- **Large-scale CPO processors** (incl. refiners of CPO) feel the tariff has undermined their competitiveness versus Kenyan producers, and contributed to the loss of the DRC market; and that the tariff has resulted in **reduced profit margins and higher prices for consumers**
- **The tariff has adversely impacted the downstream bar soap manufacturing industry** in Tanzania (through supply shortages and higher prices for raw materials)
- But these **views are not held by all** - **TASUPA** believes the tariff has been ineffective because it is **too low**; TCCIA in Dodoma argues the **tariff has benefitted processors** and is in favour of a higher tariff to protect small-scale processors

Key findings from field research & interviews

Challenges and Constraints

- **Poor quality, low yield seeds** (compounded by low farmer productivity)
- Lack of warehousing facilities and Limited **access to markets** for sunflower seed farmers (incl. due to high transport costs, distance from markets) and a **lack of vertical integration** in the sector
- High **input costs** and low **processing capacity** (sunflower seeds account for more than 60% of the cost of producing sunflower oil)
- Differences in **VAT structures** across the sunflower VC affect competitiveness (e.g. VAT on seed cake but not animal feed) and **disadvantage small-scale processors**
- A lack of **policy coherence**.
- **Lack of finance and low processing capacity** limit ability of the small scale processors from importing crude sunflower or oil seeds
- **Middlemen take advantage of these constraints** by buying cheaply from farmers and selling at high prices to processors

Key findings from case studies of other countries

- The experiences of different edible oil industries in Argentina, Indonesia and Ukraine suggest focusing on a ***bouquet of industry support policies is more effective than a narrow focus on tariff policy***
- These countries have applied (differential) ***export taxes on raw materials*** as a mechanism to stimulate supply of raw seeds for downstream processing, but this is ***unlikely to be effective in the Tanzanian context***
- But the Argentine experiences in soybeans and sunflower demonstrate the value of ***government investments and R&D to support seed research*** (for improved varieties) and multiplication
- The Indonesian example (palm oil) shows the value of ***government support for smallholders*** (plantation development, institutional support, agricultural extension services) in the context of large anchor plantations.
- The cases also highlight the importance of ***government action to improve capacity and productivity in downstream crushing and processing*** (Argentina)



Conclusions and recommendations

- ***The 10% tariff on CPO has been ineffective*** largely because of:
 - existence of key constraints limiting prodvty (h-yield seed, low proc'ng capacity etc.);
 - Low level of substitutability between SF and PO
- ***But it led to price increase of refined Palm oil***, -vely affecting low income consumers (no evidence on cross price effects to sunflower oil)
- ***Sunflower industry has great potential***, but its realisation requires strong Gov. support to address prodvty challenges (esp. availability of h-yield seeds):
 - Strong willingness to expand production (support to farmers by large scale processors, 96% of s-s processors plan expansion in the immediate term)
 - Strong consumer preference for SF oil but affordability is the main constraint
- ***Contrasting views among main SHs re impact of tariff*** across the VC (large palm/SF processors; farmers/processors associations etc.)



Conclusions and recommendations

- Maintaining the 10% tariff has arguments in favour and against:
- ***In favour –***
 - Substitutability between palm-based edible oil and unrefined sunflower oil may drive increased demand and prices for small scale processors and producers (Short term)
 - Tariff provides incentives for large scale investments which can produce refined sunflower that competes with palm based products (set time limit)
 - Long term health benefits
- ***Against -***
 - Higher prices for consumers of palm-based edible oil
 - Higher prices for consumers of non-food products (30-40% of CPO uses)
 - Impacts on competitiveness of Tanzanian manufacturers (downstream production, bar soap manufacturers)

Conclusions and recommendations

- A wider array of policy interventions, than a narrow focus on tariff policy:**
- Impose **import tariff on crude sunflower oil** (3-5yrs)
 - **Zero-rating VAT** on sunflower oil and seed cake (3-5yrs)
 - Benefits small scale processors as well as incentives for large scale manufacturing
 - High quality seed –
 - Support imported hybrid seeds (short term)
 - Incentives for seed importers to invest in local production (medium term)
 - Seed research, breeding & multiplication (long term)
 - Unlock **finance and investment capital** to boost domestic crushing capacity
 - Eliminate producer cess on sunflower oil and cake (*exports of SF oil cake increased from just US\$ 60K in 2005 to US\$ 7 mil in 2015 and more than US\$ 20.4 mil in 2016*)
 - A dialogue process among key SHs to build consensus around reform priorities

THANK YOU



MICHIGAN STATE UNIVERSITY



Dalberg



Scaling up for food security in Africa