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?

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

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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- **Critical productivity challenge** due to a lack of high-yield seed, low level of capacity in addition to outdated machinery/technology for processing.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.

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

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tonnes</td>
<td>400,000</td>
<td>500,000</td>
<td>700,000</td>
<td>900,000</td>
<td>1,200,000</td>
<td>1,500,000</td>
<td>1,800,000</td>
<td>2,000,000</td>
</tr>
</tbody>
</table>

*Source: FAOstat*

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

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sunflower oil</td>
<td>77,706</td>
<td>88,949</td>
<td>200,621</td>
<td>286,831</td>
<td>275,932</td>
</tr>
</tbody>
</table>

*Source: MDA (2014)*

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

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.2bn</td>
<td>8.9bn</td>
<td>3.5bn</td>
<td></td>
</tr>
</tbody>
</table>

*Source: TRA (2015)*
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 productivity (h-yield seed, low processing 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 productivity 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