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THE EAST AFRICAN COMMUNITY COMMON EXTERNAL TARIFF ON CEREALS: AN ANALYSIS OF STAKEHOLDER PERCEPTIONS

by

Alessandro Vitale[1]
Jamie Morrison
Ramesh Sharma

[1] Alessandro Vitale is a consultant and Jamie Morrison and Ramesh Sharma are Senior Economists in the Trade and Markets Division and the Regional Office for Asia and the Pacific respectively, of the Food and Agriculture Organization of the United Nations (FAO). The authors would like to thank all the stakeholders consulted during field visits in Kampala, Dar es Salaam and Nairobi for their time and interest in sharing their views, sometimes at a very short notice. The support of the Eastern Africa Grain Council (EAGC) Secretariat and its Country Offices is greatly appreciated. Thanks are also due to the participants of the 4th Grain Trade Summit held in Kampala in October 2011.

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ABSTRACT

This study analyses the perceptions of various stakeholders on the appropriateness of the Common External Tariff (CET) on cereals in the East African Community (EAC). The issues being debated are both the statutory level of the CET and its temporary adjustments. Field interviews were undertaken in three of the five EAC countries to solicit stakeholder views. It was found, as anticipated, that stakeholders do hold different views on these two elements of the CET. These differences are found to be linked to the sizes of the producing and processing sub-sectors, in the case of individual countries, and to the perceived gains and losses in the case of stakeholders within countries. Stakeholders associate the appropriate CET on maize to food security concerns, but with some arguing for high CET (for self-sufficiency) and others for low CET (for low consumer price). For rice and wheat, import dependency is large and so there is some convergence in views towards a lower CET, but with differences among farm and processing sub-groups. Lack of convergence on the issues can be related to the poor functioning of the regional market, both real and perceived due to reasons such as cross-border trade facilitation and export bans. These actual and perceived problems need to be addressed through more consultations of stakeholders from across the region, backed up by good quality analyses on the issues.

1. Introduction

The East African Community (EAC) Customs Union Protocol signed in 2004 set forth an ambitious agenda aimed at further deepening the integration of the economies of the EAC members. This was an important step in a process that began in 1967, when the first attempt was made to establish an EAC, and continued to 1977. Kenya, Tanzania and Uganda were the founding members of the revived EAC established in 1999, and the first signatories of the Customs Union Protocol in 2004. Burundi and Rwanda joined the EAC in 2007 and the Customs Union Protocol was officially launched in 2009.

The Parties agreed to eliminate, by 2010, internal tariffs based on the principle of asymmetry and set a three-band Common External Tariff (CET) - 0% for raw materials, capital goods, agricultural inputs, certain medicines and certain medical equipment etc; 10% for intermediate goods and other essential industrial inputs; and 25% for finished products. Rules of origin have also been agreed to accord EAC preferential tariff treatment to goods originating in the EAC countries.

As part of the EAC Customs Union (CU) agreement, 31 agricultural tariff lines (at HS8 level) are designated as EAC sensitive products (59 lines in total including all products). The CET rates for these products are mostly substantially higher than the 25% maximum rate for non-sensitive products. While these are maximum rates, actual applied tariffs have been lower and varied considerably since 2005 due to the flexibility provision in the CU Protocol, notably the system of "duty remissions" that permits authorities to reduce or eliminate tariffs (this applies to both the sensitive and non-sensitive products).

The determination of an appropriate tariff rate for a sensitive product is a divisive issue even for individual countries. That it is much more so for a CU with five members is not surprising. There are two sources of this divisiveness in the case of the EAC CET. One is the CET rates themselves, i.e. whether the current rates are appropriate given the development objectives of the community. The other is the remissions system, i.e. what are the appropriate timing, levels and durations of the duty remissions.

This paper reviews the experience of the EAC in implementing the CET for the main staple food products, namely rice, maize (grains and flour) and wheat (grains and flour), all sensitive products under the EAC tariff classification. The focus of the paper is on understanding the views and perspectives of various stakeholders on the CET rates and the remissions system. Thus, the substantive part of the paper is based on interviews of various stakeholders along the product value chains. The paper does not provide an economic analysis of the impact of the CETs and their variations, such as undertaken by Castro et al. (2004). Such an analysis is essential and should be the next logical step following this review of stakeholders' views. The paper tries to draw out similarities and divergences in positions among various stakeholder groups. The objective is to contribute to the process of articulating appropriate trade and tariff policy for the staple cereals. One distinctive value added of this work lies in the comparative review of positions of stakeholders from three of the five EAC member countries.

To undertake the field work for this study, one of the authors visited Kenya, Tanzania and Uganda during October and November 2011 , meeting and interviewing various stakeholders in the cereals value chains (Annex 1 lists people met). In addition to a review of statistics, available literature was consulted. Despite much planning and assistance from national and regional partners, the fieldwork was constrained by the limited number of representative informants interviewed.

The rest of the paper is organized as follows. Section 2 provides the background, first by reviewing the implementation of the EAC CET since its launch in 2005, and second, by reviewing the literature. Section 3 then presents the views and perspectives of various stakeholders on the key issues at stake. Section 4 summarizes the study findings.

2. The EAC experience in implementing a CET scheme: the case of rice, maize and wheat

2.1 The application of the CET since its launch

With the adoption of the CET, the EAC average applied tariff is estimated to be 11.6%, compared to the pre-Customs Union (CU) tariff rates of 16.8% for Kenya, 13.5% for Tanzania and 9% for Uganda (EAC 2009, p. 14). As part of the ECA CU agreement, 31 agricultural tariff lines (at HS8 level) are designated as EAC sensitive products (59 lines in total including all products). The CET rates for these products are mostly substantially higher than the 25% maximum rate for non-sensitive products. For 11 of the 31 lines (rice, jaggery and sugar products), the CET is a compound tariff of ad valorem rate or US$200/ tonne, whichever is higher. Table 1 shows that for the sensitive cereal products, the CET rates are also substantially higher than the tariffs applied by individual countries prior to the formation of the CU.

Table 1.

Item	EAC CET	National MFN Tariffs in 2003 (%)		
		Kenya	*Tanzania*	*Uganda*
Rice	75 [1/]	35	15	15
Maize	50	25	25	7
Maize flour	50	15	25	15
Wheat, meslin	35	35	10	0
Wheat, meslin flour	60	35	25	15

[1/] For rice, the CET is a compound tariff of the 75% *ad valorem* rate or US$ 200/tonne, whichever is higher (in addition to rice, there are compound tariffs on sugar and jiggery).

Source: based on Stahl (2005).

Table 2 shows the actual application of the CET since its launch in 2005. The variations observed in the applied tariffs by the three countries reflect the flexibility envisaged in the CU Protocol. It is said in the Protocol that upon the agreement of the EAC Council of Ministers (CoM), the Parties may "review the common external tariff structure and approve measures designed to remedy any adverse effects which any of the Partner States may experience by reason of the implementation." There are two modalities to be followed for the application of the CET rates for a temporary period.

Table 2. 2005-2011 CET application by item and country

HS Code	Item	CET	Country	Applied CET 2005	2006	2007	2008	2009	2010	2011	2012
RICE											
1006.10.10; 1006.20.10; 1006.30.00; 1006.40.00	Rice (including paddy, brown husked, milled and broken rice)	75% or $200/MT whichever is higher	K		35% on rice from Pakistan		25% on rice from Pakistan	35% on rice from Pakistan	35%		
			TZ								
			U								
MAIZE											
1005.90.10	Maize grain	50%	K				0%*	0%		0%	
			TZ				0%*				
			U								
1102.20.00	Maize Flour	50%	K								
			TZ								
			U								
WHEAT											
1001.90.20	Hard Wheat	35%	K				10% **	25%	10% ***	0% ***	
			TZ		Stay application		10%	10%	10% ***	0%	
			U		Stay application		10%	25%	10% ***	0%	
1001.90.90	Other	35%	K				10% **	25%	10% ***	0% ***	
			TZ		Stay application		10%	10%	10% ***		
			U		Stay application		10%	25%	10% ***		
1101.00.00	Wheat flour	60%	K								
			TZ								
			U								

* Kenya and Tanzania authorized respectively 270 000 and 300 000 tonnes of duty free maize imports for their Startegic Grain Reserves; ** or US$ 50 per Tonne, whichever is higher, *** Remission of import duty

Source: Compiled by authors[1]

- A "stay application" scheme, under which the EAC CoM can accept a new CET upon the request of a member, which essentially amounts to a temporary suspension of the EAC CET. The new rate should be published in the EAC Gazette[2].

- The "duty remission" scheme, either for the goods further processed and then exported,[3] or for goods processed for home consumption. In the latter case, a list of manufacturers and the quantities entitled to the duty remission are approved and published in the EAC Gazette.

As noted above, the observed variations in applied rates for the three countries are due to the flexibilities envisaged in the CU Protocol. The following illustrate the factors or reasons for the variations as experienced during 2005-2011.

[1] Accurate information on applied tariffs for specific points in time is not readily available from official sources. The information in the table was collated from various sources – the EAC Gazettes, National Budget Speeches, studies and newspapers and other media sources.

[2] As an example, Table 2 shows the stay application requested by Tanzania and Uganda for wheat products during 2005-2007. This was published in the EAC Gazette but the agreed revised duty was not reported. Presumably, it is a downward revision.

[3] Since 2010, only 20% of the manufactured products using imported (duty-exempted) goods can be resold to other EAC Members. Earlier, there was no such provision on the share exported or sold regionally.

- **Rice** – The desire on the part of Kenya, since the inception of the CU, to provide to Pakistan better market access to its rice market, in return for better access for Kenyan tea to the Pakistani market, has been the main reason for duty remissions on rice. Thus, Kenya applied only 35% duty to Pakistani rice. This was later extended to all rice exporters who were facing the higher CET.

- **Maize** – It was the global food crisis of 2008 that led Kenya and Tanzania to utilize the remission provision and remove the import duty on maize in the first half of that year. Kenya removed the duty again during January 2009 to June 2010 in response to a bad harvest and soaring domestic prices. In the face of a drought and poor harvest, Kenya again announced in its 2011 Budget Speech duty-free imports of maize.

- **Wheat** – Applied tariff on wheat has tended to be lower than the 35% CET for most of the years in most EAC members. This is partly due to the spikes in the world wheat prices but also for reasons related to imbalances in cereal demand-supply in the region.

- **Flour** – Tariffs on wheat and maize flour have not been targeted for revisions, even in times of severe shortages. Instead, governments have supported the utilization of the existing milling capacity in the region by importing raw grains for processing.

The determination of appropriate CETs for sensitive products is always a challenging exercise. Sticking with the determined rates is even more difficult, especially when a CU includes countries at different stages of development, with different production capacities, and public policy objectives, and particularly when issues like food security are at stake. The CET can limit the policy space of individual members.

2.2 Review of literature on the EAC CET on staple food products

The EAC CET is a recent phenomenon and there are therefore relatively few studies on this specific topic. However, the subject of the appropriate level of import tariff on cereals and other sensitive products for individual countries is a long-standing topic. What follows reviews selected literature on these topics so as to get a feel for the types of issues being discussed and analysed.

On the CET itself, Stahl (2005) presents some interesting views on the role of tariff protection to sensitive products before and after the entry into force of the CU. He notes likely trade diversion effects and negative social consequences following the increases in import protection to sensitive products. The CET is also expected to raise prices for final consumers and for producers using the imported products as inputs, particularly in Uganda. Stahl also questions the ability of the EAC members, given their different situations and interests, to maintain a stable and predictable application of the CET and other CU provisions. A further potential risk is the negative impact on food value chains and interests of the private sector, as well as the building of well functioning regional markets. A paper from KIPPRA (2010) takes a regional perspective and places trade policy as an important parameter in the determination of food prices in the region. It points to potential difficulties arising from the disparities in the application of tariffs on sensitive products, which, together with exemptions and duty remission schemes, lead to price disparities in the region and encourage anti-competitive practices such as hoarding and smuggling.

A short paper by the US Foreign Agricultural Service in Nairobi (USDA 2010) looks at the effects of the rice CET and makes three points: i) CET has been partly responsible for keeping domestic prices high; ii) but this has also encouraged production (mostly via area expansion); and iii) higher prices have led to a reduction in per capita consumption of rice in the region. It also notes that the application of different tariffs on rice in the region has led to the substitution of the cheaper Vietnamese rice with Pakistani rice. A recent study by Odhiambo (2011) presents an economic analysis of the rice tariff by simulating the outcomes of replacing the sensitive CETs with the rates in the highest CET band (i.e. reducing tariffs to 20% or 10%). It finds that improvements in consumer surpluses are larger for Uganda than for Kenya and Tanzania, presumably because of the larger production bases in these countries. Lower tariffs also lead to revenue losses. The author points to the limitations of tariff changes and instead suggests that the bulk of the benefits of regional integration comes from addressing supply-side constraints, improving competitiveness, eliminating non-tariff barriers to trade and avoiding policy uncertainty due to multiple membership in regional trading blocs.

Some studies provide a deeper understanding of the issues at the national level, especially for Kenya, and for the maize sector. Nyoro et al. (2007), based on research from the Tegemeo Institute[4], highlights the anomalies in the policy objectives pursued by Kenya's National Cereals and Produce Board (NCPB). Kenya's marketing policy maintains higher producer prices aimed at raising incomes of the maize farmers, while at the same time hurting them as consumers since most of them are net maize buyers. The net effect of the tariff seems to be highly concentrated benefits for a small group of large farmers with anti-poor distributional effects. The authors note that even the pre-CU maize tariff of 25% is redundant because imported maize is rarely competitive even at 0% duty. A 2008 study by Jayne (cited in Ariga & Jayne 2010) also supports this position. This study reviews Kenya's maize import tariffs over the period 1995-2004 and finds that in this period the tariff raised the mean domestic price by roughly 4% on average, although the contribution exceeded 10% for several specific years.

Jayne & Tschirley (2010) provide a detailed account of the 2008-2009 maize crisis in Kenya, confirming an argument made in Nijhoff et al. (2003) that when a government creates uncertainty over its import intentions or tariff rates during a poor crop season, the typical result is a temporary "under-provision" of imports, which produces price spikes beyond import parity levels and acute food shortages. A key message made is that discretionary use of trade policy instruments reduces incentives of the private sector to investment in agricultural productivity. Kirimi et al. (2011) provide a detailed analysis of the maize value chain in times of shortages. In a normal or good year, the major source of domestic supply is small- and large-scale farmers, with the large-scale milling sector buying grain primarily from large wholesalers and the NCPB, and with the market remaining competitive. In bad years, maize is preferentially sourced from Uganda and Tanzania[5]. When regional sourcing is inadequate, Kenya has to depend on the world market. It is at this point that Kenyan wholesalers and millers lobby for the waiver of the 50% duty on maize imported through the Mombasa port. In years when imports constitute the major share of the marketed supplies, the structure of the maize value chain changes considerably, the most significant change being that the marketing channels become more concentrated and less competitive. Import contracts through Mombasa tend to be large volume orders placed by large millers, wholesalers, and the NCPB[6]. Without competition from the informal milling and retailing sector, large-scale millers and retailers are able to raise their margins which hurt poor consumers. The study also identifies that unpredictable changes in import tariffs create disincentives for seasonal storage.

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4 The Tegemeo Institute also manages and implements a longitudinal rural household survey in Kenya, funded by the USAID.

5 This tends to be the first option pursued by wholesalers and millers because (since January 2005) there are no import restrictions or barriers except for the 2.75% import inspection fee and transport costs, which are relatively low.

6 Small-scale assemblers, itinerant traders, and small millers in the informal marketing channels are less active in drought years because they depend almost totally on small-scale farmers for their supplies, most of whom have little to sell during the drought years. With grain being scarce in local informal markets during such years, consumers increasingly depend on the large-scale millers (who obtain their supplies from world markets or from the NCPB) for their maize meal.

Gitau et al. (2010) address the issue of competitiveness in rice and wheat sectors. They estimate the costs (mainly marketing and processing) at different stages of the value chain and compare the import parity price in Nairobi with locally produced wheat and milled rice. The impact is analysed by grouping farmers in three categories based on production technologies (efficient, average and poor). They find that with import duties rate of 10% and 35% for wheat and rice respectively, both efficient and average producers remain competitive, but if tariffs are eliminated for both cereals, only the efficient producers stay competitive, with average wheat producers barely remaining competitive. The authors present a number of short and long term measures for making production more competitive.

There were relatively fewer similar studies for the other two countries, except for rice in Tanzania. Therkildsen (2011) provides some insights into the political economy of rice development in Tanzania, bringing in governance processes and political transparency issues to explain why the decision to set the rice tariff at 75% did not meet the intended objective, which was to safeguard local production from cheap imports. It finds that after 2005 (when the CET was set) legal imports of rice fell substantially while smuggling rose significantly, notably from Zanzibar and the islands. In the meantime, compliance with the import regime (levying of tariff) remained at low levels both before and after 2005 due largely to the collusion of the politically well-connected large importers.

Minot (2010), in a discussion of the dynamics of staple food prices, notes that a higher tariff benefits Tanzanian rice farmers in two ways. “First, it creates increased demand for local rice among Tanzanian consumers by reducing rice imports. Second, it expands the market for Tanzanian rice in Kenya, since the rice production capacity of Kenya is much smaller than that of Tanzania. In other words, the rice tariff taxes Tanzanian and Kenyan rice consumers and benefits primarily Tanzanian rice growers”. However, the paper does not go into detail in explaining the transmission channels.

To sum up, although the literature is fairly thin, presumably because the CET itself is a relatively recent arrangement, the following seem to be the prominent issues being debated.

- Setting appropriate CET rates for staple food products continues to be a relevant policy issue to be addressed, in view of the lack of consensus on the distribution of gains and losses across the member countries and among various stakeholders. There is also the issue of the impacts over time and in periods of high and low world market prices.
- Having said that, the determination of an appropriate rate is not necessarily the most urgent question to be raised and addressed. An even more contentious issue with a bearing on the very rationale of having a CET in place is the way in which trade policy formulation is managed at the national levels, and how effectively the CET is implemented across the region.

Bearing these points in mind, the pattern of the variation and convergence of the concerns of various stakeholder groups may affect the speed and the way in which these considerations are tackled by the relevant decision makers.

3. Appropriateness of the CET on staple food products: a snapshot of stakeholders' views

This section presents and discusses the perspectives of various stakeholders on the appropriateness of the current CET rates for selected EAC sensitive products, namely rice, maize and wheat. Stakeholders' views are summarized in tables grouped by stakeholder groups and countries covered, i.e. Kenya, Tanzania and Uganda. The stakeholder groups include a large spectrum of value chain operators, and therefore the level of generalization is rather high when secondary sources are reported. The identification of stakeholder groups reflects a synthesis of those stakeholders commonly represented in relevant policy discussions, and that are significant in the respective value chains. More than one view is sometimes recorded, and, when possible, views are differentiated by type of operator. The last sub-section discusses some cross-cutting views, which are the results of shared concerns across stakeholder groups and countries.

3.1 The Case of Rice

In all three countries, as in the rest of Africa, the demand for rice has been growing rapidly while productivity and production growth have lagged behind, leading to sizable and growing imports. Despite large import dependency, rice is typically considered to be a sensitive product in sub-Saharan Africa for two reasons: i) rice substitutes for other locally grown staples and therefore there is the issue of safeguarding the production of these staples; and ii) there is a widely held perception that Africa has the potential to significantly expand rice production.

Kenya lags behind her neighbours in terms of supply capacity, with stagnant yields and insignificant expansion of area harvested, while demand has been rising steadily. There are also serious constraints along the value chain (COMPETE Kenya 2010). In the case of Tanzania, the rice sector has been showing positive results in terms of production, especially after 2005, but in the short to medium term it will likely continue to remain a net-importer to meet the growing demand. Overall domestic supply meets around 10% of local demand, although Tanzania exports some rice, mostly cross-border, informal trade on a seasonal basis. Uganda too has shown a positive performance in rice production over the last few years, boosted by the introduction of NERICA varieties and promotion of upland rice cultivation. Rice demand is growing along with the population, and imports have stabilized, if not decreased while exports have been rising steadily. Major improvements are needed along the value chain in terms of productivity gains through better inputs supply, processing technologies and storage facilities (COMPETE Uganda 2010). Kenya, Tanzania and Uganda have all developed National Rice Development Strategies to coordinate their efforts for boosting local rice production, through the rehabilitation of rice irrigation schemes and introduction of new rice varieties. Table 3 summarizes the views of various stakeholders as recorded during the field survey.

In general, there was a consensus among farmers across the region for using tariff protection for safeguarding the market for local rice, which is seen as having growth potential but is currently still uncompetitive with imported Asian rice. This position seems to be particularly strong in Uganda.[7] An

[7] An article in the Uganda National Farmers Federation (UNFFE) website cites that "the country's decision to increase tariff on rice imports is also partly responsible for increased production. Uganda imposed a 75% duty on rice imports as a way of boosting local rice production. Rice importers on seeing the shift in the government policy thus heavily invested in new rice mills and expanding rice production in the country".

Table 3. Rice Stakeholders' views

	Kenya	Tanzania	Uganda
Producers	• Rice producers should be supported with higher than the current 35% tariff, but it is also acknowledged that the interest of other farmers, notably tea exporters, should be taken into account (view of an umbrella organization of local grain producers).	• Demand for tariff protection will continue to be justified and linked to effective measures for raising productivity. • Asian rice is cheaper but local rice is preferred for quality/ taste reason, and so there is a rationale for expanding production, if needed with some import protection. • Rice is a quasi cash-crop and so periodic, ad hoc bans are detrimental.	• Significant protection (75% tariff) is considered an important contributor to the Ugandan success story in promoting local rice production. • There is a widespread support to the view that products with high growth potential should be protected via high tariffs.
Processors	• No major opinion recorded - rice milling is closely linked to producers and therefore the above views of producers may also apply to processors.	• Interview with a small scale processor confirms the perception that local rice production must be provided incentives and protected – thus, maintain 75% tariff. The current retail price spread in Dar Es Salaam between imported Indian rice and local rice ensures this protection.	• Secondary sources report increased investments on rice milling, thanks to the incentive provided by the 75% tariff. • Interview with an agro-food processor confirms that quality rice is available from Tanzania. An interesting point made - some special rice varieties from outside EAC may be desirable for producing some multi-grains blended products.
Traders/Importers	• 35% duty rate appears appropriate for encouraging overall trade growth, and also safeguarding Kenyan tea business.	• A large trader view supports the application of high import tariffs to keep a significant production base	• Interview with a trader reveals that re-export to neighbouring countries is significant, with limited release to local markets only when the price is high because of the high 75% import duty. • Transporting goods on land to Uganda is high, thus reducing the scope for high tariffs on imported rice. • The difference in the applied CET rate in Kenya creates opportunities for unfair competition.
Others		• EAC is a large net- importer and so tariff need to be lowered to 35%; the 75% CET for rice was set mainly upon Uganda's request.	

Source: Authors, based on field interviews.

interview with a membership based organization in Tanzania confirms that the setting of the high CET for rice was mainly on account of the Ugandan Government's firm position on this. The positive developments in the Ugandan rice production over the last few years has given the Government as well as other influential stakeholders in the country a solid basis for defending the status quo. In Tanzania too, farmers seem to favour the status quo although this position is not held as strongly as in Uganda. An interview with a farmers' support organization reveals that in general, tariff issues are not widely discussed in public and that support for tariff protection from farmers' groups arises mainly from low productivity levels of rice.

In Kenya, the perceptions are not that different, in the sense that rice farmers in general would like to see higher degrees of tariff protection. However, the Government has taken a different approach, asking for derogations to rice tariff since the very inception of the CET. The reason is to maintain smooth bilateral trade relations with Pakistan, which is both the main importer of the Kenyan tea and also a rice exporter to Kenya. Pakistan would like a lower tariff on rice in exchange for continued market access for Kenya's tea. This position is held strongly by the Kenyan Government and thus stakeholders in Kenya feel that there is not much room, or value, for them being engaged in debating this issue. Indeed, the National Rice Development Strategy is elusive on the role of trade policy and its contribution to the growth of the sector. According to a media report, after years of poor prices and competition from Asian rice, farmers are shifting to maize and other crops.[8]

One step higher along the value chain, processors/rice millers' interests tend to converge with those of the farmers, as milling operations, especially small-medium scale, are closely aligned with producers. Indeed, a small-scale miller in Tanzania argued for keeping large imports off the local market with high tariffs so as to preserve the market for smallholder rice producers. A somewhat dissenting view to this was the opinion of a food processor in Kampala who while appreciating the availability and quality of the Tanzanian rice said that cheaper imports would be welcome when intended for producing special blended food products, thus contributing to product diversification and value addition. In other words, lower tariff could encourage processors to diversify supplies.

A case for lower tariffs was made by traders in Uganda, but this view does not seem to be shared uniformly across the countries. According to a trader based in Kampala, re-export to neighbouring countries is often a more profitable option than releasing rice to the local market. Only when local wholesale prices reach significantly high levels does the incentive to export to Uganda becomes profitable. The trader made a point for aligning the EAC CET around the applied Kenyan rice tariff of 35%, first to avoid cheaper rice entering through Kenya and resold informally to Uganda, and second because after all Uganda is still a net-importer. A different view was recorded from a Tanzanian large trader, who held a firm position for high tariffs, thus defending the status quo. This view is not surprising as Tanzanian large traders are increasingly investing in domestic production facilities[9]. In Kenya, the

[8] The same source reports also that "the cost of production of local rice is high, thus, automatically, it becomes expensive, and people would rather pick foreign rice from Asian countries which enjoy tax relief and are hence cheaper," said Auma Osolo, a lecturer at the department of agriculture at western Kenya's Maseno University. "When people don't buy your product, the incentive to produce more or less disappears" (IRIN 2011)

[9] The large and established (wholesale) companies like Export Trading, Mohammed Enterprises etc. are increasingly focusing their activities on the local market. Previously, purchases were mostly local (via agents) or from imports in opportune times (i.e. when tariffs are lowered for some reason such as on food security ground). Such opportune moments are rather scarce and as local purchases are expensive, there is an increasing shift to setting-up their own large estates. Export trading, Southern Highlands Company and Kilombero Plantation Limited (Morogoro Region) all have plots of several thousand hectares; others like Bakhresa are planning to set-up large milling facilities. Moreover, there is an increasing interest from other (foreign) investors. For example, Korean and Indonesian buyers are said to be in the process of purchasing large pieces of land. This development will increasingly influence the rice industry and its production (Match Maker Associates 2010, p.13-14).

decision to apply a 35% rate reflects trade diplomacy and it is certainly not against the interests of traders/importers. This arrangement initially contributed to preserve favourable market opportunities for Pakistani rice to the detriment of other, more efficient world rice exporters. Since 2010, the same conditions have been formally extended to all imports, and the Kenyan move to tighten quality standards for imported rice has escalated trade tensions between the two countries. This highlights the sensitivity of rice trade business in Kenya.

A review of the world and domestic price data show that transmission is neither full nor symmetric. Local prices do not neatly follow the changes in the world prices, with considerable local seasonality. Price transmission is also not symmetric – local prices remained at levels higher on average than the pre-2008 price levels even though prices declined in the world market. There are differing views on the role of import tariff on this price behaviour. Some consider high import tariffs as the main reason for the high domestic prices and reduced per-capita consumption of rice in the region (e.g. USDA 2010). This may be true for those regions that are chronically dependent on rice imports. Indeed, the Zanzibar Authorities had requested for the removal of the rice tariff, especially during the 2008 price spike, but this was not complied with by the Tanzanian Government. As pointed out by Therkildsen (2011), this has exacerbated tensions, resulting in lax customs administration and increased smuggling of rice from the islands inwards to the rest of Tanzania.

Food security and consumer welfare has been one of the arguments made for low tariffs. But views are not uniform on this also. One view is that tariff and resulting higher prices does not impair food security because rice is not the main staple for rural households but is mainly consumed by the better off urban consumers.[10] Despite the ongoing efforts to boost local rice production in the region, imports will continue to play a significant role in meeting the needs of the rising and urbanizing population and evolving food preferences. The position on smooth trade diplomacy (Kenya's case) does not fit well with the interests of many others more strongly committed to boosting local production, although it is recognized that tariffs alone cannot increase productivity without major improvements along the national and regional value chains. Thus, a significant gap persists in the region concerning the perceived appropriate CET for rice.

3.2 The Case of Maize

The development of the maize sector in the region is critically associated with food security concerns. Achieving self-sufficiency in maize has been a common feature of the maize development strategy in the region, mainly in Kenya and Tanzania. This strategy is believed to have provided the rationale for the maize CET. Kenya, Tanzania and Uganda all have significant maize production, which has on average increased over the last years. The production cycle is rather complementary, as the main surplus areas have different harvesting periods, thus increasing the scope for cross-border trade.

Uganda, with major surplus areas in the eastern regions and an average production cost at about half that of Kenya, is well positioned to supply the Kenyan market. Maize is not a primary staple food in Uganda as it is in Kenya, which has encouraged Ugandan smallholder farmers to market their surplus, accounting for up to 75% of maize output and contributing to over 70% of the marketable surplus

[10] Interviews revealed that rice is mainly a cash crop, considering that around 70% of rice farmers have marketable surplus. According to the 2002-203 National Agricultural Sample Census, 42% of rice output is marketed. It is important to note, however, that averages can be misleading because larger rice growers account for the bulk of the sales. The NASC survey of small-scale farmers found that just 13% of rice farmers sold any rice (Minot 2010, p. 4)

(COMPETE Uganda, 2010, p. 23). Ugandan maize is considered price competitive in the Kenyan market – although inferior quality is one reason for the price advantage. In contrast, although Tanzania also exports maize to Kenya, Tanzania has often placed export bans,[11] undermining the reliability of this source. Other emerging exporters in the region are Malawi and Zambia, while South Africa has traditionally been an exporter.

Reflecting these differences in production and trade patterns, stakeholders do not hold uniform views on the maize CET (Table 4). At the producers' level, opinions converge around the need for keeping tariff protection to safeguard and promote domestic production and farmers' livelihood. At the same time, there have been several instances in the past when policy rigidity, namely defending the maize import duty for too long, has exacerbated food supply imbalances into crisis, such as in Kenya in 2008 and early 2009. The 2008/2009 food crisis in Kenya demonstrates how a delayed trade policy response (not lifting the tariff) to an emerging food problem contributed to the crisis (Box 1). This has raised a controversial debate about the appropriate timing and length of the window for duty-free imports. Some stakeholders have called for a time-bound relaxation of the import duty when there is a deficit, to avoid local prices plunging[12].

A similar situation arose in 2011, one year after Kenya resumed application of the EAC CET on maize, when wholesale maize prices soared again as it became clear that a poor harvest in the region could lead to food shortage. World maize prices had also been steadily increasing since late 2010 throughout the first half of 2011 and wholesale maize prices in Kenya and Uganda reached a peak of around $500/tonne in the middle of 2011. Against this background, Tanzania imposed an export ban on maize from May to October 2011, while the Kenyan Government slashed the import duty on maize[13]. These measures often have significant ramifications along the value chain. In Tanzania, farmers complain about the low prices they receive, while marketing margins increase, benefiting mostly those traders willing to take the risk and smuggle maize into Kenya for twice the price they could get in Tanzania.[14] In Kenya, when the tariff is slashed and large volumes are imported, large traders and millers face less competition from small scale millers and retailers, thus improving their margins at the expense of the consumers (Kirimi, et al. 2011).

Positions in favour of lower duties on maize among processors and traders across the region are mixed, with operators in Tanzania and Uganda (traders and millers alike) not seeming to have a particular interest in reviewing downward the maize CET, although – as opined by a trader in Tanzania – they would like to preserve the option of at least temporary waivers in times of shortages[15]. Ugandan traders report that locally sourced maize is available and remains competitive compared to imported maize

[11] Tanzania's policy has been to ban exports until all of its regions are declared food secure.

[12] In January 2010, when Kenya had to decide on whether to continue the duty waiver on maize or to resume the 50% rate, the following view was recorded: "There is a genuine case for import duty waiver but the government should do so in shorter periods of not more than three months each to ensure that it doesn't end up hurting the local industry," John Mutunga, CEO Kenya Federation of Agricultural Producers (Business Daily, 2010).

[13] This comes against a background of complaints by Kenyan millers that farmers are 'hoarding' maize, and flour millers considering whether they need to buy 'expensive grains to plug national shortages' or face a shut-down of their operations (CTA-Agritrade, 2011).

[14] This was confirmed in an interview with a small-scale processor in Tanzania.

[15] In January 2008, the government announced the duty waiver for a period of five months from January to May. This position was reached following an analysis by the Ministry of Agriculture on declining food production, with maize output having dwindled for the 2007/2008 season, coupled with severe food crisis reports from 21 districts. Maize importers, however, said that even after the duty waiver, they were unable to get substantial volumes and attributed this to the fact that most countries that produce grains in large quantities had turned to the lucrative bio-fuel production instead – triggering a worldwide shortage of grains, including maize (NetNews 2008).

Table 4: Maize stakeholders' views

	Kenya	Tanzania	Uganda
Producers	• Farmers' organization representatives consider tariff protection essential for safeguarding production and livelihood. • The low import duty window after the 2008 crisis was left open too long (2009-2010), which depressed local prices; there have been calls to shorten the 2011 duty-free window.	• Same view as Kenya on import tariff. • Occasional export bans are seen as a matter of serious concern.	• Maize production is competitive, and no particular view expressed on tariffs. • A farm organization expressed concern over the risks due to lack of uniform GMO rules in the region, as well as to risks from food aid depressing farm prices.
Processors	• A large-scale miller considered that Ugandan and Tanzanian producers have competitive advantage exporting to Kenya, even with low CET – thus, there is room for lowering maize duty (0-10%).	• There is no need for lowering tariff as this risks large-scale imports, undermining locally produced grain (small scale processor view) • There is no need to review the maize duty rate. In a good year, surplus is exported – indeed, export bans are a matter of serious concern (a view from an organization representing industry).	• Maize milling is predominantly small-scale, with very close linkages with farmers (thus aligning the interests); large scale milling does not seem to be an attractive venture because small-milling is very competitive (view of medium-large scale miller)
Traders/ Importers	• Favour lower duties to ensure timely shipments in times of crisis exacerbated by port bottlenecks (this reflects the negative experience during 2008-09).	• The 50% import duty has benefitted farmers; temporary adjustments are desirable in times of crisis (view of a large trader).	• Traders hold that high transport cost from Mombasa is a significant handicap to import, even if duties are low. • Local maize is available and cheap, and also resold to food aid institutions.
Others	• An influential stream of research from Tegemeo Institute calls for removal of duty on maize (based on the argument that poor households are net-buyers).	• No tariff reduction needed, as local supply normally tends to outstrip demand (view of a membership-based organization).	• Ugandan maize is bought in large quantities for food aid operations (WFP). A lower tariff on maize may contribute to make food aid procurement more cost effective, but worsens price advantage of Ugandan maize exported to Kenya while benefiting Kenyan consumers.

Source: Authors based on field interviews

BOX 1: The Kenya maize crisis of 2008/2009

In 2008 it was becoming clear by the end of the year that Kenya was about to face a serious maize shortage, the deficit estimated to be one million tonnes. Clearly, Uganda and Tanzania could only marginally satisfy this deficit (and Tanzania had an export ban in place). Traders were calling for the removal of the maize import duty, saying that the duty made commercial imports uneconomic. But the Government decided to slash the duty only in January 2009 when the emergency was fully recognized and a massive call made for food aid. Although the world maize price had started to decline following the spike, maize prices in Kenya continued to climb in the face of an expectation of a large shortage. When the duty was finally lifted, millers and traders started placing orders for imports but local prices continued to rise well over import parity prices despite the removal of the tariff.

Besides the tariff and delayed imports, the crisis was also blamed on the limited capacity of the port of Mombasa, as well as road/transport-related constraints to move large volumes of imports from Mombasa to Nairobi and the rest of the country. This created a situation akin to the rationing of the supplies. These events point to the importance of concerted measures that include transparent trade policy, early warning and logistics management.

Source: Adapted from Jayne & Tschirley (2010)

from outside EAC, because of the transportation costs. WFP is a large buyer of maize in Uganda for food aid operations. It is held by some that, on the one hand, a lower tariff might contribute to make food aid operations more efficient, also benefitting Kenyan consumers, but, on the other hand, it might lead to welfare losses in Uganda[16]. This would be by reducing maize wholesale prices in Kenya and thus lower profitability for the Ugandan farmers selling to western regions of Kenya. As milling in Uganda and Tanzania is predominantly small-scale, they tend to be exposed to the same price effects faced by farmers through trade policy.

In contrast, in Kenya where a large scale milling sector exists, and traders periodically engage in significant maize import operations, their concerns over the maize import duty are articulated better and expressed far more strongly, notably through the well organized Cereal Millers Association. An interview with a large scale miller confirms the position of the industry, which is very much in favour of reduced import duties. For example, in early 2011, as crop forecasts pointed to late and poorer harvests and expected upward pressures on prices, the industry was calling for a prompt waiver of the duty (Daily Nation 2011). Such calls do not always result in a decision to reduce or eliminate tariffs because there are also strong views on the other side, namely that lower tariffs do not necessarily result into lower prices for consumers, farmers' welfare may be at risk, and revenue losses for the government.

Maize production is considered to be increasingly volatile due to weather/climate reasons. If so, large-scale imports from outside the EAC are likely to be more frequent than before. This means that import

[16] Interview with Mr. Daniel Molla (WFP Uganda)

duties are also likely to be adjusted more frequently. In that environment, the policy debate will more likely be on the timing and length of the concessional import windows rather than on the appropriate level of a single EAC CET rate on maize.

3.3 The Case of Wheat

The debate over tariffs on wheat products is mainly driven by farmers' and millers' concerns, with respective views largely diverging. This is especially so in Kenya, presumably because of its higher production level (20-30% of consumption needs with good harvest) versus 5-10% in Tanzania and Uganda. Wheat is predominantly a cash crop and large scale farmers tend to provide most of the marketed output, especially in Kenya, which still remains relatively uncompetitive without adequate tariff protection (Gitau, Mathenge, & Mburu, 2010). There has been a steady growth in wheat consumption in Kenya, as well as in Tanzania and Uganda although less markedly. Thus, a significant volume of wheat grain is imported for industry needs for processing into various wheat products. Addressing this requirement of the fairly significant milling industry across the region is one key factor driving the periodic adjustments of the CET rates for wheat and products.

The import duty on wheat has seen the most frequent adjustments since the inception of the CET. Kenya is seen as the country with most notable resistance to downward revisions. This is attributed to better articulation of farmers' interests and the larger size of the sector, relative to the situation in the other EAC countries where millers typically faced much lower resistance from farmers when asking for reduced tariffs.

Interviews with wheat millers in the three countries revealed what they claimed to be their main and common concern, which is the capability of the milling industry to supply uninterruptedly wheat products at fair prices from imported grains (Table 5). Given large import needs and quality requirements for processing (e.g. protein and moisture content), they all feel that tariffs should be as low as possible. Yet there are some differences in their views. For example, some held the view that the industry needs hard wheat not available locally and so hard wheat should be removed from the sensitive list. In Kenya, the concern was with industry competitiveness in the face of duty-free imports of wheat flour from the COMESA countries, notably Egypt and Mauritius, while wheat grain faced the higher EAC CET. This has undermined incentives to invest in maintaining industrial capacity.[17] A similar attitude vis-à-vis imported wheat flour was noted in relation to imported wheat flour from Tanzania, which was rejected at the Kenyan border stating that the product did not meet the EAC rules of origin (East African 2011).

In Tanzania, it was not uncommon to hear some positions in favour of removing wheat (particularly hard wheat) from the EAC sensitive list. This argument, also supported by the Confederation of Tanzanian Industries, reflects the concerns of local millers, who have to face higher production costs mainly on account of high electricity cost[18], and overhead transport costs imposed by the security situation in

[17] This view is particularly supported by Kenyan Association of Manufacturers (KAM) "As a result of these disparities in the duty structures between the countries, there have been increasingly large quantities of flour and its by-products being imported into Kenya from neighbouring countries resulting in disinvestments in the wheat milling Industry in Kenya, thus the loss of major export markets such as Rwanda, Burundi and Eastern Democratic Republic of Congo which have traditionally been the major destinations for Kenya's wheat flour exports. Unfortunately, the aforementioned conflict in trade policy arrangements within EAC and COMESA, have negatively affected Kenyan Millers and we have actually observed decline in capacity utilization and the relocation of millers to Tanzania, Uganda, and Rwanda" (KAM, 2010). However, field surveys also revealed that it is also not uncommon for millers in Kenya to import the said duty-free flour, repack it and sell to the market with a local brand.

[18] A miller reported a drop in its milling capacity down to 30% from as high as 95% because of a recent severe power outage, apparently a recurring problem in Dar Es Salaam.

Table 5 Wheat stakeholders' views

	Kenya	Tanzania	Uganda
Producers	• Farmers typically strongly oppose tariff cuts on wheat grains; but accepted cuts when prices soared in the world market during 2010/11.	• No major views recorded, but presumably similar to Kenya.	• No major views recorded, but presumably similar to Kenya.
Millers/Importers	• Millers have usually advocated for lower tariffs on grains for two reasons – large deficits and quality concerns for processing local wheat. • Also concerned with duty-free imports of flour from COMESA area (e.g. Egypt, Mauritius).	• An Association opined that local wheat is neither sufficient nor suitable for industrial use (flour production), and so wheat (especially hard wheat) should be removed from the sensitive list. • One medium-sized miller expressed concerns with price fluctuations, high production cost (also due to electricity), transport cost (bypassing Suez Canal costs an extra 10 $/t) and exchange rate risk. Thus, import duty has to be low (0-10% range). • Export of wheat flour to other EAC partners has been resisted for fear of undermining their own industrial capacity.	• The milling industry needs to be organized and represented in debates; a cereal millers association suggested • Harmonization of import duties and other taxes across EAC is needed for creating a level playing field. • Industry operators agree that local wheat lacks quality for processing, making large-scale imports at low cost essential. • Price fluctuations are a major source of instability; low duties required for millers to avoid passing high wheat import prices to consumers of processed products.

Source: Authors based on field interviews.

Somali waters, adding a 10 $/t surcharge on imports. World market price volatility and exchange rate fluctuations contribute to exert additional pressure on millers' balance sheets, when trying to absorb the cost items and moderate the negative effects on retail prices to consumers. Similar concerns arise in Uganda too, where some positions on import substitution supported by the Uganda Manufacturers Association are thought not to comprehensively represent the interests of Ugandan wheat millers, calling for cheaper imports and advocacy for a more uniform tax regime across the region, considered necessary to create a level playing field. A view in favour of establishing a membership-based organization to better represent the interests of (wheat) millers was also recorded.

After years of applying non-uniform duties rates across the region following the inception of the CU, the Kenyan tariff reduction described in Box 2 eventually led to a convergence towards a uniform 10% duty, and 0% since July 2011. This is telling in that the agreed CET seemed to match only partially the desired regional needs. Kenya is apparently the most reluctant partner when it comes to reviewing the current tariff structure, presumably due to its relatively significant production base. Even when it does so, the preferred mode of intervention is usually through a duty remission scheme, under which imports by traders and millers enjoy a different treatment. Despite the recently achieved convergence of the EAC revised rates, it may not be taken for granted that this convergence translates into a common position for the revision of the EAC sensitive list for wheat products. In part, this seems to be due to the high and

BOX 2: The 2010 wheat import standoff in Kenya

The decision by Kenya to lower wheat import duty to 10% from the applied rate of 25%, announced in the Budget Speech of June 2010, provoked a fierce reaction among stakeholders. The government decision was a response to the soaring price in the world market. Farmers and millers reacted differently. The price trend led the Kenyan wheat farmers, mostly large producers, to ration their deliveries to mills in anticipation of higher prices. On the other hand, importers were not willing to empty their cargos at the port in order to avoid the 35% duty, which they expected to be reduced. Eventually, the EAC Council of Ministers agreed to Kenya's tariff reduction to 10% under the duty remission scheme. However, importers were not confident that the agreed reduction would be enforced automatically, pending a Gazette communication detailing the names of importers/millers and quantities entitled to the remission.

An importer did indeed pay the full 35% CET. In mid-August 2010 the Kenya Revenue Authority warned importers to clear the standing cargos (by paying the higher tariff) or face forced removals. In the meantime, while the industry associations, particularly the Cereal Millers Association and Kenya Association of Manufacturers, repeatedly voiced their concerns over transmitting higher prices of the products to consumers, the Cereal Growers Association was pushing for a compromise in terms of setting up a guaranteed farm price scheme for marketed wheat. Eventually, the Government released the list of approved manufacturers entitled to remission and allotted quantities, while the grain farmers' umbrella organization accepted the floor price of 2,700 Ksh/bag for the season, a level comparable to the price of imported grain.

Source: Compiled from field interviews

volatile wheat prices in the world market. How the countries', and stakeholders', positions will change if the world prices were to return to a level of 100-200 $/tonne is yet to be seen. It is very probable that these positions might still diverge notably when import prices are low, as when prices are high.

3.4 Cross-Cutting Concerns

Besides the product-specific views highlighted above, it stands out from field consultations that some key concerns at stake are indeed shared across the region, directly or indirectly related to import tariffs. These are mainly of two types: a first group deals with the trade and market environment for grains, and a second has mainly to do with the trade policy formulation process. Within the first group, exchange rate fluctuations are perceived as a major source of uncertainty and complication when it comes to the design of policy responses. Exchange rate risk can easily counteract the intended benefits of tariff reduction undertaken to mitigate rising import prices when local currency heavily depreciates against the US dollar. This leads to another common concern, which is the transmission of the effect of the reduced tariff on the consumer price. Major bottlenecks exist, especially in complex value chains as in the case of the maize sector, preventing policy measures such as temporary tariff reductions to yield lower prices for consumers. Central to the question of value chain development is the competitiveness of local production. There is a widespread concern over competitiveness due to the generally low productivity levels of the cereals, a prominent factor supporting arguments for the status quo EAC CET rates.

A second group of cross-cutting concerns is related to the process of trade policy formulation, notably the revisions of the CETs. Interviewed stakeholders typically blame this process – eventually culminating in the decision by respective ministers at the EAC CoM meetings - as being opaque and not based on consultations with major in-country stakeholders with little indication of the likely positions of the members. As usual, the process is considered to be highly politicized and influenced by vested interests. The end outcome, according to stakeholders interviewed, is that trade policy becomes *ad hoc* and unpredictable, such as frequent revisions/remissions in tariffs and export bans. There is thus a big scope for improving the process by undertaking objective analysis of the issues and effective stakeholder consultations.

4. Summary and conclusions

The purpose of this study was to understand the views of various stakeholders on the appropriateness of the EAC's CET on sensitive cereal products. The study is based on field surveys for soliciting views as well as on a literature review. It was found, as anticipated, that various stakeholders in different EAC members often held different views on the appropriateness of the CET. This was so on both aspects of the CET – the statutory level of the CET and the built-in flexibilities that allowed temporary adjustments to the CET. What follows summarizes the main findings under three categories: i) on the three individual cereals covered; ii) cross-cutting issues; and iii) the way forward to improve processes of policy formulation and implementation.

In the case of **rice**, positions were found to be relatively wide, with somewhat firm official stances in Uganda and Tanzania on keeping the 75% CET and a desire for a lower (to around 35%) tariff in Kenya. The former position is largely driven by the desire to expand rice production capacity while the later view is influenced by market access terms for tea and rice between Kenya and Pakistan. Within each country, stakeholders do not necessarily hold similar views pointing towards a more complex challenge for greater consensus. Despite current growth rates, there is a widely held perception that the EAC region has significant potential to expand rice production and that tariff protection is essential for this. Many stakeholders related the Ugandan success in rice production to the high protection.

Although the CET on **wheat** has been adjusted more frequently than on maize and rice, there is a sense of convergence in national positions towards having a low tariff. This reflects a very high import dependency as well as concerns over the full utilization of the processing industry. The recent spikes in the world price have further supported this position. There were some nuanced differences in positions, e.g. Uganda's preference for duty free import, Tanzania's for a low tariff (e.g. 10%), and Kenya's for retaining current, higher CET (35% on grain, 60% on flour) together with duty remissions when needed. There is a consensus that hard wheat should not be taxed although administering this at the customs is a problem. Serious concerns were expressed over the duty-free wheat flour imports from the COMESA area undermining the competitiveness of the local milling industry.

Discussions on the **maize** CET were found to be much more closely linked to food security concerns. Producer groups, and small-scale milling sub-sectors, typically supported the current high tariff (50%)

but the perception on the role of tariff on food security is not uniform, with some groups considering a high tariff essential for self-sufficiency/food security, but others arguing for a lower tariff to allow a lower consumer price. As above, stakeholders held different views, presumably reflecting differences in volumes produced and processed locally. The use of occasional export bans by Tanzania was found to have lent support to the "low-tariff" camp, arguing that regional sources are not reliable. The increasingly episodes of maize supply imbalances and price spikes have complicated decision making on temporary duty waivers. For many stakeholders, the more crucial debate is the appropriate timing and duration of duty remissions (during shortages) rather than the level of the CET itself.

The study also brought to light the following cross-cutting issues that deserve analytical and policy attention.

The field surveys revealed that stakeholders continue to firm up their positions on the CET and flexibilities based on considerations of national cereal markets rather than a regional market. This obviously points to the urgency of taking measures that strengthen the regional market. These include prohibiting export bans, facilitating trade across the countries (e.g. with trade finance) as well as cross-border exchange, and basing trade and related policies on regional cereal balance sheets. Studies would be needed to identify impediments to speedy transmission of price signals (and trade flow) across the main regional and cross-border markets. This should include addressing why market prices transmit in an asymmetric manner.

The size of the milling sector, notably installed capacity, was also found to be an important force in influencing the debate on the CET. This was for two reasons – one, because of the clout of the industry to influence policy (there is no clout when no such capacity exists), and two, because installed/excess capacity is actually taken into account in the duty remission scheme. Interviews revealed that stakeholders in the region thought that the Kenyan milling industry exerted larger influence on the regional policy process in view of its larger size and better organization as an association.

The experience of the past 4-5 years since the global food price spikes of 2007/08 has complicated stakeholder positions and policies. One question typically asked was whether the cereal markets work as efficiently during a spike period as when prices are normal. Given that spikes and volatility are likely to be more frequent, the real and perceived worries with the functioning of the markets during shortages need to be addressed urgently. The often experienced congestion in moving large-scale imports inland from the Mombasa port also came up frequently as an issue. All of these issues will require studies and stakeholder consultations in order to identify appropriate response measures.

Yet another cross-cutting issue relates to improving the understanding of the role and limitations of import tariffs in addressing multiple goals. In theory, it is very difficult to address multiple and conflicting goals with a single instrument. Some discussion is taking place on addressing various goals with instruments, such as safety nets for poor consumers, targeted price/marketing support for small farmers and strategic reserves in selected locations for avoiding panic buying and hoarding.

Likewise, the policy complication due to membership of the EAC members in multiple RECs, such as the COMESA and SADC, was also seen as needing to be resolved. One immediate issue was duty-free imports of flour from the COMESA region while the CET from outside the region was positive and often high. Stakeholders expressed some apprehension over the uncertainties associated with the move towards a large REC, e.g. from Egypt to South Africa.

The third category of issues to be addressed is the process of policy formulation and implementation. It is clear from the above that there are often marked differences in views among countries and various stakeholders. The only way forward is to improve the process of articulating trade policy through consultations among various stakeholders in the value chain from across the region, based on data and evidence-based analyses (Sharma and Morrison 2011). This should address both the statutory rate of the CETs as well as *modus operandi* for flexibilities when faced on identified external and internal market imbalances.

First, there is a need for raising awareness on the role of tariffs. Field surveys revealed that stakeholders held different, often markedly, views on their impacts. This would also require being clearer about the objectives, e.g. of making the regional market more integrated and effective, rather than focussing on the national markets. Second, for this awareness to work, a systematic process of policy analysis needs to be launched. The various aspects of such analyses were noted earlier. These should be based on data and evidence and capable of identifying losers and gainers of alternative policies, including estimates of the magnitude of the gains and losses to various stakeholders. Third, stakeholder consultations are essential, bringing together all stakeholders along the value chain and from all five EAC members. As noted earlier, stakeholders complained about the lack of transparency in the process of policy formulation, notably on decisions on duty waivers and remissions. And lastly, effort is needed to build the capacity of the stakeholder groups (e.g. associations of farmers and processors, as well as of the civil society) in appreciating the results of the analyses.

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Annex: List of people consulted during field surveys in Kenya, Tanzania and Uganda

Alex Sejjuta	Msganjo miller/Assistant General Manager, Kampala, Uganda
Rajesh Amin	Export Representative/SRS (U) Ltd., Kampala (Uganda)
Mr. Singh	Director/ SRS (U) Ltd., Kampala (Uganda)
Stephen Magera	AC-Trade (Customs Dept.)/Uganda Revenue Authority, Kampala (Uganda)
Robert Nowere	Manager (Customs Dept.)/ URA, Kampala (Uganda)
Deo Bitariho	Supervisor-International Affairs (Customs Dept.)/ URA, Kampala (Uganda)
Amenya Adams	General Manager/Unga Millers, Kampala (Uganda)
Suresh K. Menon	Director/Akhcom Ltd, Kampala (Uganda)
Ssali Gadfrey	Trade Policy Officer/Uganda Manufacturers Association, Kampala (Uganda)
Daniel Molla	Head of Field Operations/WFP, Kampala (Uganda)
Kartik Patel	Finance manager/Bajaber Millers, Kampala (Uganda)
Rahul Aggarwal	General Manager/Coast Millers Ltd, Dar es Salaam, Tanzania
Abel P. Lyimo	CEO/RUDI, Dar es Salaam, Tanzania
Mboka Mwanitu	Policy Analyst/Agricultural Council of Tanzania, Dar es Salaam, Tanzania
Dominique Leclercq	P4P Programme Coordinator, Dar es Salaam, Tanzania
Hussein S. Kamote	Director of Policy & Advocacy/Confederation of Tanzania Industries, DSM
Julius Wambura	CEO/Frabho Enterprises, Dar es Salaam, Tanzania
Gulam Dewji	Chairman/Mohammed Enterprises Tanzania Limited, Dar es Salaam
David Njamenyo	CEO/Ceral Growers Association, Nairobi (Kenya)
Stephen Hammond	Agricultural Counselor/USDA FAS, Nairobi (Kenya)
Bilha Maina	Director/Kenya Promotion & Marketing Company Ltd, Nairobi
Milton Maingi	Project Manager/ Kenya Promotion & Marketing Company Ltd, Nairobi
Said Abubakar	Finance Manager/Pembe Flour Mills Ltd, Nairobi (Kenya)
Adrian W. Mukhebi	Chairman/Kenya Agricultural Commodity Exchange, Nairobi
Isaac Tallam	Private Sector Grain Trade Advisor/USAID Compete, Nairobi
Isaac Kiprop	Statistics Section (Customs Dept.)/Kenya Revenue Authority, Nairobi
Pauline Kipkulei	Policy Unit (Customs Dept.)/Kenya Revenue Authority, Nairobi
Gerald M. Masila	Executive Director/Eastern Africa Grain Council, Nairobi
Janet Ngombalu	Marketing Information and Communications Manager/EAGC, Nairobi