The United Republic of
TANZANIA
MAFAP POLICY BRIEF #2
February 2013

MAFAP SPAAA
Monitoring African Food and Agricultural Policies

Improving sugar cane processing in the United Republic of Tanzania to increase prices for farmers while lowering prices for consumers

Main Findings and Recommendations

Consumers of sugar in the United Republic of Tanzania pay prices that are high when compared to the price of sugar in international markets. However, prices for sugar cane producers remain low due to inefficient sugar mills and high marketing costs. MAFAP analysis suggests that the following measures would improve prices for both producers and consumers:

- eliminating the 100 percent import tariff or reducing ad-hoc import tariff waivers would allow imported sugar to reach domestic markets at lower prices;
- facilitating investments aimed at making sugar mills more efficient;
- fostering higher utilization rates of sugar mills;
- increasing investment in fertilizer production and irrigation; and
- implementing the Southern Agricultural Growth Corridor of Tanzania (SAGCOT) approach to the sugar industry in the Kilombero region through improved partnerships and infrastructure.

SUMMARY

While the price consumers pay for sugar is higher than international market prices, this does not translate into higher prices for domestic sugar cane producers. Although farmers gain some benefit from tariffs on imported sugar, it is not enough to offset the impact of inefficient sugar mills and high marketing costs.

Sugar cane farmers (figure 1) are receiving lower prices than they would get with improved policies and markets. Disincentives are mainly due to excessive processing costs.

On the other hand, sugar wholesale prices (figure 2) are higher than those that would exist without current policies and with better functioning import markets. High prices are mainly related to the East African Community's common external tariff for sugar (100 percent *ad valorem* or USD 200/per ton, whichever is higher). Although sugar import tariffs have been partially suspended or reduced since 2008, this has had little impact on reducing the domestic price of sugar. Indeed, domestic prices have remained on average 32 percent higher than import prices.

Figure 1. Producer price of sugar cane in the United Republic of Tanzania (in TZ shillings/ton), 2005-2010

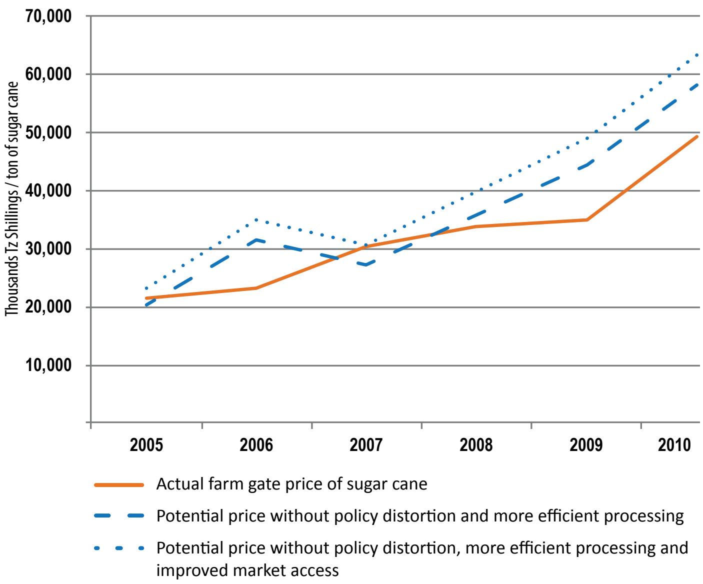
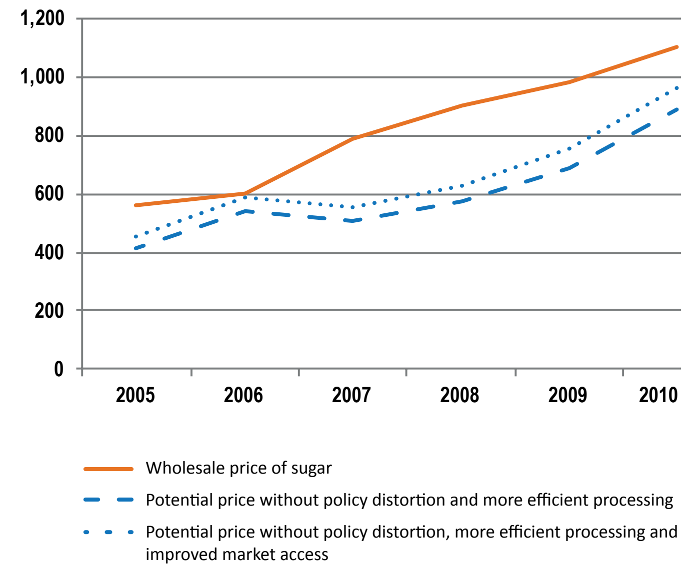


Figure 2. Wholesale price of sugar in the United Republic of Tanzania (in TZ shillings/ton), 2005-2010



KEY ISSUES

Excessive processing costs prevent farmers from benefiting from the protection offered by import tariffs

MAFAP analysis shows that excessive processing costs are the main reason sugar cane producers do not receive better prices. Indeed, processing costs in the United Republic of Tanzania are twice as high as the average cost for Africa. Since access costs (which include processing, profit margins and transport) are higher than sugar producers' gross profit margins, sugar factories cannot cover their overall costs in most years.

Figure 3. Comparison of access costs for sugar cane in the United Republic of Tanzania, (2005-2010)

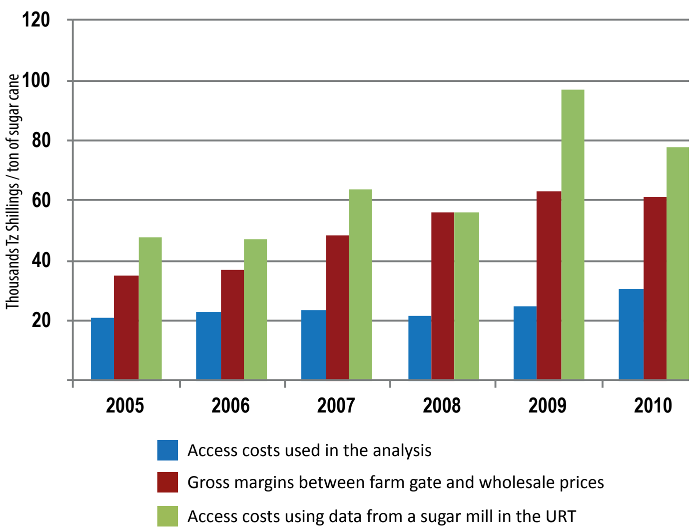


Figure 3 compares the estimated cost for processing a ton of sugar cane and selling it as sugar in the Dar es Salaam market. Gross profit margins are included. Figures are based on domestic market data and actual costs reported by the sugar mill.

Import tariff waivers have had little impact on reducing the price consumers pay for sugar

Since 2008, the United Republic of Tanzania has partially or totally suspended the 100 percent common tariff. Nonetheless, the difference between domestic prices and import prices increased. This suggests that waiving tariffs does not lead to lower sugar prices. Part of the problem may be a lack of coordination between the Tanzania Revenue Authority and the Ministry of Agriculture, Food Security and Cooperatives which has led to imported sugar being stranded at the border for long periods.

Despite government incentives, sugar production is not increasing enough to meet domestic demand

Domestic production appears to be stagnating. Although the production of both sugar cane and sugar more than doubled between 2000 and 2005, it remained constant between 2005 and 2010. Moreover, domestic production falls short of meeting domestic demand. Existing policies no longer appear to have an impact on increasing production.

Public expenditure to support sugar and sugar cane processing is very limited.

Less than 0.2 percent of agriculture specific budget is targeted exclusively to sugar. Only one percent of the budget goes towards the processing (of any commodity).

The SAGCOT initiative's new approach to agricultural investment may help increase sugar production and lead to higher prices for producers

Sugar has been identified as one of the three key commodities for the initial phase of the Southern Agricultural Growth Corridor of Tanzania (SAGCOT) which will be implemented in the Kilombero region. The initiative's approach is based on clusters of commercial farms and agri-businesses in areas with high agricultural potential and access to backbone infrastructure. SAGCOT's newer, more efficient processing facilities and stronger partnerships with smallholders may help overcome current price disincentives.

CONCLUSION

Currently sugar cane producers receive lower prices than they could, despite high domestic demand, due to elevated processing costs. The tariffs on imported sugar keeps prices high for consumers without boosting prices for farmers. A new policy approach based on liberalized trade and increased competitiveness of sugar processing could lead to higher prices for producers and lower prices for consumers.

Further Reading

MAFAP Technical Note on Incentives and Disincentives for Sugar in the United Republic of Tanzania (2012) by Nkonya, N. and Barreiro-Hurle, J.
Available at: http://www.fao.org/mafap

CONTACTS

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This note was prepared by the Monitoring African Food and Agricultural Policies (MAFAP) team at FAO and at the Economic and Social Research Foundation (ESRF) and the Ministry of Agriculture, Food Security and Cooperatives (MAFC) of the United Republic of Tanzania. MAFAP is implemented by FAO in collaboration with the OECD and the financial participation of the Bill and Melinda Gates Foundation (BMGF) and USAID. MAFAP supports decision-makers at national, regional and pan-African levels by systematically monitoring and analyzing food and agricultural policies in African countries.