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Cereals sector

Overview of cereals availability in sub-Saharan Africa

In July 2014 FAO reported in its *Crop Prospects and Food Situation* that prospects for global cereals production had further improved, to a projected 2,498 million tonnes (including milled rice), less than 1% below the record output recorded in 2013. This was attributed to improved production in the USA and the EU. Improved production prospects saw an easing of wheat and maize prices. Wheat prices fell below the level in the corresponding period in 2013, while maize prices were a third below 2013 levels.

Global cereals consumption is expected to grow by 2.1% (50 million tonnes) to 2,462 million tonnes in 2014/15. Cereals use in food consumption is estimated to increase by 1.3% (or 15 million tonnes), while feed use is projected to increase by 2% (+17 million tonnes).

Stock levels are projected to increase by 5% (+28 million) to 604 million tonnes in 2014/15, with a stocks-to-use ratio of 24.3%, a 12-year high. Wheat and maize stocks are projected to increase by 10% and 3.5% respectively.

FAO estimated in the report that 26 African countries are “in need of external assistance for food due to conflict, crop failures and high domestic food prices” or a combination of these factors. Two ACP African countries are considered to be facing an “exceptional shortfall in aggregate food production/supplies”; 11 are facing a “widespread lack of access” to food; and 13 countries are reported to be facing severe localised food insecurity. Conflicts or insecurity, an influx of refugees, a sustained undermining of household production capacities, high prices and slow processes of post-conflict reconstruction are all contributing factors to localised, widespread or exceptional food shortfalls.

Food availability in sub-Saharan Africa

Exceptional shortfall in aggregate food production/supplies:
Central African Republic (conflict related); Zimbabwe (sustained undermining production base, but with recovery under way)
Widespread lack of access:
Burkina Faso (refugee related); Chad (refugee related); Djibouti (poor rains); Eritrea (economic constraints); Guinea (high prices); Liberia (slow post-conflict recovery and refugees); Malawi (localised production losses); Mali (insecurity aggravating precarious household food security); Mauritania (refugees and high prices); Niger (sustained depletion of household assets following food crises and high indebtedness); Sierra Leone (lingering effects of high prices).
Severe localised food insecurity:
Cameroon (sustained poor weather); Rep. of Congo (economic constraints and refugees); Côte d'Ivoire (post-conflict recovery); DRC (economic constraints and refugees); Ethiopia (economic constraints); Lesotho (economic constraints); Madagascar (localised poor weather and pest losses); Mozambique (localised weather-related damage); Senegal (production shortfall); Somalia (conflict related); South Sudan (conflict related); Sudan (conflict related); Uganda (sustained localised weather-related losses).

Source: Extracted from FAO, July 2014 (see below).

The scope for intra-regional trade in addressing food shortages is highlighted by trade in East Africa. Tanzania experienced a good harvest (some 5.3 million tonnes), generating a significant surplus, and discussions were launched on the possible sale of 208,000 tonnes of maize to Kenya from the Tanzanian National Food Reserve. In July 2014, agreement was reached to supply some 50,000 tonnes of maize to Kenya from Tanzania's strategic reserve, which then stood at 244,830

tonnes. An agreement to supply 24,000 tonnes of maize through the World Food Programme to countries experiencing food shortages was also agreed. (For more details see Agritrade article '[Debate intensifies on Kenyan maize imports](#)', 4 October 2014.)

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Comment

Even in good years of global food production, food insecurity remains challenging in many African ACP countries. In getting to grips with this food insecurity, trade policies potentially have a role to play in addressing both high prices and localised food shortfalls. They can also play a role in supporting the rebuilding of production capacities in post-conflict situations, and even in creating market opportunities to halt the sustained undermining of local production capacities.

The challenge for ACP governments is effectively to design and implement policy tools that address the underlying problem while reconciling the interests of producers and consumers. This is by no means a straightforward task, as the policy debate in Zimbabwe illustrates.

In 2014, it is forecast that Zimbabwean maize production will increase 70% from 1 million to 1.7 million tonnes. This has led to calls for restrictions on imports of maize meal to allow local maize markets to be cleared. However, any restriction on maize meal imports would be likely to increase problems of household-level access to maize meal, since it is likely to drive up maize meal prices.

There are examples of institutional and regulatory frameworks in neighbouring countries (e.g. Namibia) which routinely manage this challenge through the trade policy measures deployed, by regulating imports until local maize markets have been cleared. Developments in Zimbabwean policy threaten to disrupt the development of regional maize supply chains, undermining the potential benefits of the 17% increase in maize production forecast in the Southern African region in 2014, resulting from "public support to improve input supplies" and "favourable climatic conditions", while the transparently managed regulation of the maize trade in Namibia minimises trade disruptions and price rises. There would thus appear to be scope for sharing policy experiences across ACP countries.

Debate intensifies on Kenyan maize imports

According to FAO, cereal production in Eastern Africa is expected to have increased by 0.9% between 2012 and 2014, with a projected annual increase of 4.15% in 2014. However, two of the major cereal producing countries, Kenya and Uganda, will see production continuing to decrease in 2014, taking the cumulative fall over the 2012–14 period to 15.6% and 14.3% respectively. Somalia, Rwanda and Burundi are also forecast to face below-average levels of cereal production. Even in countries where production is growing, some regions will face shortfalls.

Eastern African cereal production, including rice (million tonnes)

	2012	2013 (estimate)	2014 (forecast)	2012/14 % change
Eastern Africa	44.8	43.4	45.2	+0.9
Ethiopia	21.1	23.6	23.6	+11.8
Kenya	4.5	4.1	3.8	-15.6
Sudan	5.9	2.9	5.1	-13.6
Tanzania	8.0	8.0	8.1	+1.3
Uganda	3.5	3.1	3.0	-14.3

Source: FAO, July 2014 (see below).

In June 2014, it was reported in the East African media that the Kenyan government was planning to purchase some 65,000 tonnes of maize (about 720,000 90-kilogramme bags) from within the region to reduce price pressures. In a context where “Kenya consumes 3.72 million bags of maize a month” (334,800 tonnes), it was estimated that imports of around 270,000 tonnes (3 million bags) might be needed to meet production shortfalls up to the end of August.

Initial discussions launched with Tanzania led to an agreement between Kenya and Tanzania for the sale of 50,000 tonnes of maize from the Tanzanian National Food Reserve, following a good Tanzanian harvest and the emergence of “a huge surplus”.

The agreement between the Tanzanian and Kenyan governments was seen as an important way “to cool down runaway maize and flour prices” in Kenya. Press reports indicated that “the price of a 90-kg bag of maize in Kenya has risen 30 per cent in the last nine months, driven by a shortage ahead of the harvest season.” The cost of the maize and transport to Kenya is estimated at US\$73 million (approx. KSh6.5 billion at current rates). The maize imports were to be halted “after the harvest season in mid-August to cushion local farmers from low prices”.

Representatives of the Kenyan milling industry welcomed the move, commenting that it would “go a long way in containing high prices of maize in the country, hence [reducing] the cost of flour”. However, Kenyan cereal farmers criticised the deal, arguing that delivery would coincide with the harvest period and would depress prices, undermining the investments made by the farmers in maize production. They maintained that the government was permitting imports while the National Cereals and Produce Board (NCPB) had still not paid farmers for deliveries made in the last season (see Agritrade article ‘[Kenyan NCPB to be restructured amid shortcomings of current operations](#)’, 4 October 2014).

In addition, Tanzania has concluded an agreement with the World Food Programme (WFP) to supply 24,000 tonnes of maize to countries experiencing food shortages.

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Comment

The variable patterns of cereals production in East Africa in 2014, alongside the current maize supply agreements negotiated between the Tanzanian and Kenyan governments and between the Tanzanian government and the WFP, would appear to highlight the importance of increasingly regulating the cereals sector on a pan-regional basis.

This could greatly enhance the security of food supplies across the region, by cooling down price volatility, while allowing the development of a structured trade designed to minimise local price disruptions which operate to the detriment of maize producers.

This could help to square the circle of concerns arising from current Kenyan government initiatives to import maize from Tanzanian food reserve stocks. Critical to any effective regional regulatory framework will be the transparency and predictability of the cereals sector trade framework established, and the accommodation of all relevant pan-regional factors. In this regard, it should be noted that the combined effect of purchases by Kenyan millers and increased demand from South Sudan led to maize meal prices rising in Uganda at the same time as it served to cool down price rises in Kenya.

A well-functioning and reliable regional information system on the regional supply and demand situation, price trends and import requirements could assist in improving maize trade flows and avoid inconsistencies in efforts to promote local production and import regimes. Existing information systems such as the Regional Agricultural Trade Intelligence Network (RATIN) run by the Eastern Africa Grain Council could potentially play an increasingly important role.

Kenyan NCPB to be restructured amid shortcomings of current operations

In June 2014 it was reported that Kenya's National Cereals and Produce Board (NCPB) was failing to buy maize from farmers because of "Sh 5.9 billion owed to it by the government". It was also reported in early July that Kenya's strategic maize reserve stocks held at the NCPB had "dropped to half of the optimum level of five million bags", given the absence of financial resources to replenish stocks.

In mid June, Newton Terer, Managing Director of the NCPB, announced government plans to restructure the NCPB, involving the creation of a Grain Corporation of Kenya with a more commercial orientation; the establishment of a National Food Security Agency "to replace Strategic Grains Reserve and focus on strategic food reserve"; and the creation of a commodity exchange (COMDEX) to strengthen trade in grains.

The creation of a grain sector regulator to "supervise and license market players in the grain industry" has also been proposed. According to Mr Terer, "the regulator will be important to farmers who have always encountered challenges while selling their produce to millers and NCPB, because they will be aware of the preferred market pricing." The creation of a grain sector regulator is also intended to "ensure compliance with the standard rules and regulations" governing the sector.

Mr Terer maintained that the Board had faced "numerous challenges occasioned by the government's failure to replenish the Strategic Grain Reserve on time as well as a dysfunctional warehouse receipting system".

Representatives of the Kenya National Farmers Federation (Kenaff) and the Kenya Farmers Association both strongly implied that the failure of the NCPB to pay farmers for grain delivered last season was a critical factor behind farmers holding back maize sales. They considered that priority should be accorded to bringing stocks held by farmers to the market, and that these, along with stocks held by millers and the government, should be sufficient to reduce the need for imports. They implied that it was shortcomings in the functioning of the NCPB that had led the Kenyan government to seek maize supplies from regional partners (see Agritrade article '[Debate intensifies on Kenyan maize imports](#)', 4 October 2014).

Sources

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Comment

The financing problems faced by the NCPB, along with farmers' suspicions of the operations of private contractors, appear to have contributed to a breakdown in the smooth functioning of the cereals supply chain in Kenya.

Reform of the operation of the NCPB is now on the table. Critical issues will be not only the structure of the reformed entities, but also the resources made available to facilitate their effective operation.

In this context, questions arise regarding the importance that the proposed grain regulator will attach to strengthening the position of producers within cereals value chains, and how the regulator's activities are to be financed without imposing additional costs on the cereals sector. Institutional questions also arise, such as how stakeholders will be represented in these new institutions and the role they will play.

Questions also arise regarding how the reformed NCPB will relate to efforts to strengthen the functioning of intra-regional cereals supply chains in the EAC. Institutional changes clearly need to take into account developments at the regional level, since resolving problems at national level without due consideration of regional cereal production and trade dynamics will only lead to partial solutions that might benefit certain value chain actors while disadvantaging others.

How, for example, will the commodity exchange being proposed under the reform of the NCPB work with that being proposed at the regional level?

Dairy sector

Global dairy price volatility could exacerbate challenges faced by Eastern and Southern Africa dairy sectors

In August 2014, the Dairy Association of Zambia (DAZ) called on the Zambian government to “consider zero-rating milk products for value added tax in the 2015 National Budget”. DAZ’s executive manager Jeremiah Kasalo maintained that the VAT levied was “making it difficult for processors to sell products at competitive prices”. DAZ also called for VAT to be removed on ingredients used in feed manufacture. This echoed calls made by the Zambian National Farmers’ Union (ZNFU) in their 2014 submission to the Ministry of Finance. In 2013, ZNFU estimated that keeping VAT on milk increased prices by 16%.

ZNFU, in their submission, reiterated their calls for the removal of a 21% minimum tax value levy on UHT products. Similarly, DAZ called for these levies to be removed in order to encourage increased throughput and reduce unit costs, and also asked the government to raise the import duty on full-cream powdered milk from 5% to 15%. ZNFU, however, called for a 15% duty on all powdered milk, from all sources, including SADC and COMESA countries where preferences are extended. ZNFU’s 2013 submission claimed that this move would “increase the costs of reconstituted milk... thereby making the locally produced milk competitive and [creating] jobs”.

It appears from online commodity analysis websites that concerns over the competitiveness of reconstituted milk and dairy products have been exacerbated by recent movements in global dairy prices. In 2013 global dairy prices were generally high, but analysts at Rabobank have noted that “in the first quarter of 2014 high farm gate prices and lowering feed costs have brought a surplus of milk onto the international markets, and prices have fallen.” Indeed, GlobalDairyTrade auction prices have reached their lowest in 21 months, with whole-milk powder (WMP) prices down 38% in the 5 months to July 2014, reaching levels below the long-term average.

This has been attributed to a weakening of Chinese import demand, but USDA figures published in their July 2014 report on dairy world markets and trade show that Chinese imports of skimmed-milk powder (SMP), WMP, cheese and butterfat to May 2014 increased by 89%, 70%, 67% and 121% respectively, compared to the corresponding period in 2013. Production growth in New Zealand and the EU therefore appears to have been a major driving force behind price declines.

EU28 milk production rose by 6% from January to March 2014 compared to the corresponding period in 2013, as EU producers responded to the high global dairy prices in 2013 and geared up for the abolition of EU milk production quotas. The EU projects a 12.6% increase in EU exports of SMP in 2014 to 535,000 tonnes, following the opening of new drying facilities in Germany. Indeed, by April 2014 EU SMP exports were up 66% compared to the same period in 2013.

The Russian ban on imports of certain products from the EU (including dairy products) is however leading to severe milk price declines in some EU member states. This has resulted in the EU reintroducing emergency measures to assist EU milk producers and an intensified quest for new export markets.

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Comment

With lower milk powder prices making imports and reconstitution more commercially attractive, the competitive position of Zambian milk producers is likely to be made more difficult. Questions arise over the consistency of the level of protection afforded by *ad valorem* tariffs in the context of such volatile price movements (WMP prices have fallen by 38% in 5 months). In East Africa, in the rice sector, *ad valorem* duties have been supplemented by minimum import duty specifications, which effectively stabilise the level of tariff protection accorded to sensitive sectors (see Agritrade article 'Debate intensifies around EAC rice tariff', forthcoming 2014).

Global dairy market price volatility and surging milk powder exports from traditional trade partners add a further complicating factor to the equation of fiscal management in the interests of agro-food sector development in Zambia.

In terms of regional trade, the South African dairy industry has very effectively integrated milk powder imports into its Africa-focused export strategy (see Agritrade 'Executive Brief Update 2013: Dairy sector', 18 December 2013). In this context, lower global milk powder prices can serve to further boost the competitiveness of South African dairy export to the Zambian market. This however potentially raises rules of origin issues in the application of regionally agreed tariff preferences.

The issue of managing global dairy sector price volatility is an issue not only in Zambia, but also in any African country seeking to develop its commercial milk production to feed growing consumer demand. Given the differing strategies adopted by different regional partners with regard to dairy sector development, this is likely to raise increasingly complex issues related to national tax policy and regional trade arrangements, not only in regard to tariffs, but also rules of origin, product standards and production process issues (e.g. use of growth hormones).

Production process issues raised in dairy sector in Southern Africa

The Dairy Association of Zambia (DAZ) maintains that the government's regulatory framework for dairy products is de facto applying double standards with regard to use of both the growth hormone recombinant Bovine somatotropin (rBST) and the use of GM crops in animal feed. DAZ, according to the Zambia Post newspaper, points out that while prohibiting their use in Zambia, the government allows imports of "dairy products from countries that allow use of bovine somatotropin hormone and GMOs in milk production". Representatives of DAZ appeared to argue that the higher yields arising from the use of rBST and the lower costs of feed arising from

the use of GM crops in dairy feed are leading to price advantages for external producers, resulting in “an influx of imported long life milk and other dairy products” (imports are reported to be 40–50% cheaper than locally produced dairy products).

DAZ has therefore called for “a ban on the importation of dairy products from countries that allow use of bovine somatotropin hormone and GMOs in milk production”. The Association noted that the EU already has a ban in place on dairy products produced from milk derived from cows treated with rBST, and maintains that the EU ban was based on “consumer health risks and inhumane treatment of animals through the use of hormones”. Wikipedia notes, however, that while the EU placed a moratorium in 1990 on the sale of milk from rBST-treated cows by all member states (which became a permanent ban from 1 January 2000), “the decision was based solely on veterinary concerns, laws, and treaties”, and not on scientific evidence of the health effects, on which no clear evidence apparently yet exists.

Discussions that took place in Namibia in July suggest that trade issues form an important factor in considerations as to whether to allow the domestic use of rBST or similar growth hormones. In the face of efforts to protect the Namibian milk sector from dairy imports from South Africa, where rBST is used extensively, it has been pointed out that while “the use of hormones would lower production cost”, it would “result in EU export bans and harm the red meat industry”.

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Comment

The use of rBST in milk in the production of dairy products in South Africa for export to Namibia formed part of the Namibian Dairy Producers Association’s application for quantitative restrictions on imports of dairy products, which were duly introduced by the Namibian government on 16 September 2013. In challenging this Namibian government measure in the court, Clover Industries maintained that it periodically obtains “undertakings/confirmations” from its milk producers confirming that “no raw milk supplied to Clover had originated from animals which had been treated with synthetic hormones such as recombinant bovine somatotropin (rBST).”

The use of hormones and GM crops in feed used in dairy products is thus already a hot issue in trade in dairy products in Southern Africa, forming part of legal disputes that challenge the use by governments of trade policy measures.

Currently, there would appear to be a trend towards court battles setting the parameters for important aspects of government trade and production process policies in the dairy sector in some Southern African countries. The question arises as to whether production process issues in the dairy sector would not be better addressed through sector-based regional trade negotiations, rather than an accumulation of customary law.

However, the experience in East Africa suggests that setting regional production standards for dairy products is far from straightforward. In 2011, it emerged from World Bank-supported analysis that proposals for regional standards based on international norms were “unrealistic”, with the required microbiological levels “unreachable for nearly the entire EAC industry”. It was argued that the application of these draft standards could lead to “most EAC dairy products... [being] denied entry with reference to the harmonized EAC standards” (see Agritrade article [‘Initiatives to establish an EAC regional dairy development strategy’](#), 6 October 2011)

Against this background, national policy decision making, which may then be contested in the courts, is likely to be the principal terrain on which these production process standard issues are fought out.

Horticulture sector

Promoting local fruit and vegetable sourcing: Aspirations and experiences in Southern Africa

In August 2014, Zambia’s President expressed concern over the continued import of fruits and vegetables, when “Zambian farmers have [the] capacity to supply the local market.” The Zambian government, looking at how it can reduce imports of fruit and vegetables, has initiated a dialogue with major distributors and supermarket chains about how to achieve “a reduction in the importation of agricultural products such as fruit and vegetables that could easily be grown and sourced locally”.

At present, most fruit and vegetables imported into Zambia come from South Africa. With increasingly difficult market access conditions on traditional European exports markets for fruits, South Africa is pursuing a major export drive to penetrate African and Asian markets (see Agritrade article [‘South Africa seeks to diversify its fruit export markets’](#), 12 October 2014).

In Botswana a new protected horticulture project was launched in July to produce for the local market. Currently up to 80% of Botswana’s fresh produce is imported. The new greenhouses are designed to supply horticulture products for the local market on a year-round basis. The initial production of 300 tonnes of Grade-1 vegetables will include tomatoes, cucumber, peppers, lettuce, herbs and strawberries. Leaders of the initiative maintained that the high quality of production will be good enough to target the local 5-star tourism sector market.

In neighbouring Namibia, where a long-standing local horticultural promotion scheme has been in place, the Namibian Agronomic Board (which manages the scheme) has been urged by potato and onion producers to consider extending the Namibian Horticulture Market Share Promotion Rules and Regulations to potatoes and onions. Under these regulations, “wholesalers, retailers and catering companies are encouraged to source their produce locally.” This encouragement is provided by the fact that under this regulatory regime, all importers are “obliged to source a minimum percentage of their purchases from local producers of fresh fruit and vegetables”.

It is reported that Memorandum of Agreement between the Potato and Onion Producer Association and the Namibian Association of Traders in fresh produce should be signed before the end of the current financial year.

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Comment

The Namibian regulatory framework for the local horticultural promotion scheme works effectively because it is based on a transparent system for the allocation of import licences, based on a company's performance as regards realistic local sourcing targets (see Agritrade articles '[Horticulture development programmes under way](#)', 29 August 2009 and '[Efforts under way to consolidate gains in local horticultural production](#)', 27 September 2010).

These targets are established after a thorough analysis of the potential for commercially viable production of specific products. The targets are progressively increased as commercial deals are made, investment mobilised and production expanded.

This is supported by a restricted access market information system that allows producers, traders and retailers to exchange information on supply and demand on an ongoing, regularly updated basis.

The system operates smoothly, with minimal price-increasing effects, and has over time led to a shift in the mindset of retailers, who increasingly provide dedicated shelf space to locally grown fruit and vegetables, displaying them as "proudly Namibian". This is in distinct contrast to the earlier centrally orientated procurement systems operated by largely South African-based multiple retailers.

In the 10 years since it started up, the Namibian scheme has seen local sourcing of vegetables covered by the initiative increase from less than 5% of national consumption to 35%.

This approach of systematic analysis of what products are commercially viable, the setting up of market information systems which link producers to buyers, and the transparent use of import licences within a realistic and predictable framework, could potentially hold lessons for the Zambian horticulture sector, as it intensifies its dialogue with local distributors and retailers over how more fruit and vegetables can be sourced locally.

South Africa seeks to diversify its fruit export markets

According to press reports, the markets of Africa, Asia, the Middle East and the USA are growing in importance for South African exports of both citrus and deciduous fruit. The EU markets account for 46% of grapefruit exports, 40% of orange exports and 66% of soft citrus exports, but "other regions such as the Middle East, Asia and Africa are also becoming increasingly significant markets for South African citrus exports." Growth in exports to non-EU markets in 2014 is expected to continue, given the stricter application of EU SPS regulations on citrus products.

In the deciduous fruit sector USDA reports that South African industry sources are highlighting how, in the face of their 70% dependence on the EU export market, there is a "growing focus to diversify South African exports to other markets, especially Africa, Middle East and Asian markets, which are believed to have less stringent import standards than Europe".

The USDA report noted strong demand in non-EU markets for apples in 2013. Apple exports to the seven main sub-Saharan African destinations have shown steady growth since 2011, increasing 35% by 2013. Within this trend in apple exports, Nigeria has emerged as the leading African market, from the least important identified market in 2011, increasing by a factor of 17

over this period. Exports to Kenya and Zambia have also seen steady growth since 2011 (+52% and +35% respectively).

However, it looks as though this process of diversification may be held back in 2014 by the adoption of unilateral trade restrictions, for example the introduction of an “immediate ban of fresh fruits and vegetables by the Zimbabwean government in April 2014”.

Changing patterns of South African fresh apple exports (tonnes)

	2011	2012	2013
Nigeria	1,882	7,857	32,317
Angola	16,769	21,929	19,789
Benin	25,891	29,771	14,599
Zimbabwe	15,039	13,449	12,154
Ghana	8,028	13,551	11,250
Kenya	6,830	7,881	10,384
Zambia	7,436	8,195	10,072
Sub-Saharan Africa: Sub-total*	81,875	102,633	110,565
South Africa total exports to the world	335,239	388,728	454,499
Sub-Saharan Africa share (%)	24.4	26.4	24.3
Middle East and Asia: Sub-total*	62,960	71,881	83,011
Middle East and Asia share (%)	18.8	18.5	18.3

* Sub-total of countries cited in South Africa’s top 12 export destinations.

Source: Global Trade Atlas, cited in USDA, ‘Fresh deciduous fruit semi-annual’, Table 1, 14 May 2014 (see below)

Exports of apples to Middle East and Asian markets are also growing (+31.8% between 2011 and 2013).

In contrast to the apple sector, in the pear and grape sectors sub-Saharan African markets are of marginal importance (1.69% and 1% respectively in 2013).

The markets of Russia, the Middle East and the Far East accounted for 29.1% of South African pear exports and 20.5% of South African grape exports in 2013.

It should be noted that in 2012/13 the average export value of apples was 79% higher than the average local price on the South African market, up from 44% in 2010/11. For pears, export prices in 2012/13 were 90% higher than domestic prices. In the grape sector, prices on the EU market are 3.5 times higher than those on the domestic South African market.

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Comment

A significant transition is under way in the patterns of South Africa fruit exports in certain products. The most significant development of intra-African fruit exports has been in the apple sector, where one-fifth of South African apple exports now go to sub-Saharan African markets. This has contributed to a decline in the importance of the EU market from 60% of South African apple exports in 2005 to 33% in 2012.

However, it should be noted that exports to sub-Saharan Africa are variable, with strong and sustained growth in some markets (Nigeria, Kenya and Zambia), but with exports to other African destinations showing more volatility. In contrast, exports to Middle Eastern and Asian markets have shown lower but more consistent levels of growth.

In the grape and pear sectors, making the transition away from traditional EU markets is more difficult. Taking domestic South African prices as indicative of prices obtainable on most other African markets, traditional export markets would appear to offer significantly higher returns than African markets (with the possible exception of the Nigerian market).

Similar problems of the relative commercial value of alternative sub-Saharan African markets are also likely to arise in the citrus sector. The issue is not simply one of market diversification, but one related to securing equal or better returns than on traditional markets. Without this, while traditional export market destinations remain open, the fostering of increased intra-regional trade is likely to prove commercially unattractive.

Investment in market development in sub-Saharan African markets is also likely to be limited if unilateral trade measures routinely disrupt trade.

Livestock sector

Livestock trade between Namibia and South Africa reopened by Court ruling

On 26 August 2014 the South African Feedlot Association (Safa) announced that the new livestock regulations introduced by the South African authorities in May had been “suspended with immediate effect”. The Namibian Agricultural Union described this as “good news”, since the stricter SPS measures introduced in May 2014 had reportedly been resulting in daily losses of N\$2.3 million to the Namibian livestock sector. This was a consequence of the loss of a market for 160,000 animals which on average delivered “a 20% higher price than what they allegedly fetch locally”.

However, it was reported that the economic losses to farmers have not been as bad as they could have been, since “good and sufficient grazing in the bigger commercial area of Namibia and in most communal areas” enabled producers to keep their livestock in a healthy condition during the current recent market disruptions.

According to Safa’s director general, “Safa’s objections to the revised import requirements have been upheld by SA’s Ministry of Agriculture, Forestry and Fisheries,” with recent acknowledgement from the South African Minister that “there was insufficient inclusive consultation.” In this changed context, a new process of more inclusive consultations will shortly be initiated.

According to press reports, it is expected that the trade situation “will return to normal in about three months”, with exports taking place on the basis that existed prior to the introduction of the new regulations in May. This means that livestock:

- must originate from Foot and Mouth Disease (FMD) Free Zones and must not come from areas within a “5km radius of any farm under restriction for Rift Valley and may not transit through a Rift Valley Fever infected zone”;
- must not originate from a farm under veterinary restrictions;
- must be identified by a permanent mark or eartags and must be identifiable on the Namibia Animal Identification and Traceability System (NamLITS).

In addition, the exporters “are also required to obtain a permit from the Registrar of Livestock Improvement of South Africa except if the animals are intended for direct slaughter”.

According to the Meat Board of Namibia, the suspension of the new requirements “leaves opportunities for further negotiations between the Veterinary Services of Namibia and its counterpart in South Africa”. In the interim, the Meat Board is proceeding with the compilation of “dossiers for submission to the International Health Organisation via the Directorate Veterinary Services to declare Namibia free from rinderpest (small stock), lung sickness (cattle) and tuberculosis, thereby raising the national animal health status” of Namibian livestock.

It remains to be seen what will now become of plans to extend feedlot production in Namibia. (See Agritrade article [‘New South African livestock import regulation highlights challenges in establishing nationwide SPS import regimes’](#), 21 August 2014 and ‘New investment in value addition in Namibian beef sector stimulated by secure market access’, forthcoming 2014.)

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Comment

Once again, legal challenges by stakeholders have led to the overturning of trade regulations in Southern Africa – in this case new SPS regulations. The use of legal means to challenge government regulations, while an expression of a dynamic democratic society in which the rule of law protects against arbitrary action by the state, raises important policy issues related to the establishment of regional rules and regulations for the conduct of trade in agro-food products that reach beyond simply tariff negotiations.

The first preparatory stage of the SADC tripartite FTA negotiations (in which basic information was exchanged) is now coming to an end, and more detailed negotiations need to get under way. At this stage, establishing appropriate modalities for ensuring the inclusive involvement of stakeholders in standard setting is likely to gain in importance across the Southern and Eastern African region.

This will pose major new challenges for private sector producer associations, the strength of which varies from country to country. As a consequence of different economic levels of development or trade orientations, national associations may hold very different policy perspectives.

It will also pose challenges to national and regional agricultural and trade policy decision makers, who will need to get to grips with complex technical and scientific issues, against the background of often severe local capacity constraints.

Rice sector

Guyana successfully boosts rice production and finds new markets

Press reports in June 2014 put Guyana's rice production in 2013 at 532,000 tonnes, 25% more than the 425,000 tonnes produced in 2012. According to the reports, the rapid expansion in rice production has created storage problems in the country, requiring major government investment in drying and storage facilities. The Guyana Rice Producers Association (RPA) commented that there was "nearly 80,000 tons of rice from 2013 and about 150,000 tons of rice from the minor crop (January–June) of 2014... lying in warehouses", with a crop of around 250,000 tonnes expected during the main crop season (May–November). The situation has been exacerbated by delays in shipments to Venezuela.

These considerations have led to mounting pressure in 2013/14 to find new markets. Sustained public and private sector efforts have been launched to find new export markets and expand traditional markets, but have been complicated by increased competition from Asian exporters on regional markets. This competition has also put pressure on prices, resulting in Guyanese rice exports to the region barely breaking even.

A number of successes have been achieved in 2014 to date, however:

- a market of 60,000 tonnes was secured in Jamaica in January;
- an extension of the deal with Venezuela was announced in early February;
- private traders struck a deal in March for the export of 50,000 tonnes of rice to Haiti;
- in the first 5 months of the 2013/14 season, exports of husked rice to the EU (which had fallen by 83% between 2006/07 and 2012/13) increased more than threefold.

In August 2014, press reports indicated that Guyanese government officials were projecting rice production in 2014 of 614,000 tonnes, with an exportable surplus of around 461,000 tonnes (an increase of 17%). Guyana's Minister of Agriculture commented that the capacity existed to "sell all 600,000 tonnes of rice produced almost immediately". But he noted that rice exporters had become used to premium prices, and that these were now under pressure from Asian competitors.

In the same month, a new multi-annual government-to-government deal was concluded with Panama to supply 50,000 tonnes of Panama's annual 150,000-tonne rice import needs. Guyanese private sector operators gained rights to bid on equal terms for contracts to supply the remaining 100,000 tonnes of Panama's import requirements. The Panama deal took 18 months to negotiate: it formed part of a wider agricultural cooperation agreement, and was described by the Minister of Agriculture, as "a concrete example of how south–south cooperation can be accelerated".

The deal is held to increase the prospects of Guyana's government hitting its export target of 500,000 tonnes of rice exports by 2020. Indeed, the government of Guyana expects to achieve exports totalling between 475,000 and 500,000 tonnes in 2014, rising to 550,000 tonnes in 2015, well over the 2020 target.

Suriname, meanwhile, has continued its steady growth in rice production and, alongside Guyana, has succeeded in displacing US rice exports from the Jamaican market. Like Guyana, Suriname faces the challenge of finding new markets and expanding its existing ones. This has included a shift (from husked rice) to exports to the EU of milled and semi-milled rice, which offers better prices. These exports increased by 93% between 2006/07 and 2012/13, accounting by the end of the period for 29% of total rice exports to the EU (up from 14% in 2006/07).

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Comment

As Guyana's Minister of Agriculture has noted, the Guyanese rice sector has become accustomed to premium prices on its traditional markets, first in the EU and then in Venezuela. The challenge faced has thus involved not only finding new markets, but finding new markets that offer sufficiently remunerative prices to sustain the expansion of production. This challenge has been compounded by growing competition from Asian rice exporters.

This makes the public policy rice sector decisions of major Asian rice producers/exporters a matter of considerable concern to Guyana. The Thai government's decision to sell rice from its stocks exerted a strong downward pressure on rice prices (of between -23.6 and -41.5% from July 2013 to May 2014, depending on variety and quality), while the decision to halt such sales reversed this price decline (with prices increasing between 6 and 10%).

This suggests a need to carefully monitor the implementation in the rice sector of the WTO so-called peace clause on public stockholdings for food security purposes. ACP governments may need to activate the consultation provisions included in the December 2013 agreement, in terms of ensuring that measures adopted on food security grounds by major exporting economies do not "adversely affect the food security of other Members".

Accessing secure markets from which regular payment can be secured is also important, since the difficulties in securing export markets have resulted in some millers experiencing cash flow problems and delaying payments to farmers, with potentially serious implications for growth in production.

In the case of Suriname, efforts are in progress to move into higher-value rice products. Potentially this offers an important long-term solution for exports to both regional and EU markets. In the EU, for example, imports of pre-packed retail-ready rice have grown rapidly in recent years, with this market component now accounting for fully 20% of all EU rice imports in 2012/13.

Quality-differentiated, retail-ready packaged rice could offer an important means of responding to commodity price volatility and sidestepping the rising challenge from Asian rice exporters on regional markets and responding to processes of preference erosion on the EU market.

Trade policy reforms and investments in Nigerian rice sector continue

Nigeria's revised rice sector policy, which offers lower tariffs on imports of rice to companies investing in domestic rice production and processing, is currently being implemented (see Agritrade article [‘Nigeria further extends levy concessions to support rice sector backward linkages’](#), 24 August 2014).

In July 2014, this led to further announcements of investment by both local and international commodity companies in rice production. Dangote Industries announced an expansion of its rice sector investments from US\$300 million to US\$1 billion, covering 150 ha spread across five states. Dangote Industries envisages expanding rice production in association with smallholder growers, who will provide production inputs from the company and have a ready market for the growers' production.

Similarly, at the opening of the integrated rice milling facility's 6,000 ha greenfield project in Nasarawa state, Olam's managing director for Africa and the Middle East announced a scaling up of rice sector investments to a total of 10,000 ha. Some 3,000 ha of land is already under irrigated and mechanised rice production, reportedly producing 36,000 tonnes, with a further 3,000 ha to be developed in 2015.

According to Olam, "together the farm and the mill are expected to boost smallholder rice production in the region through a 'nucleus and outgrower farming model'", under which Olam provides "training, pre-finance, agri-inputs and marketing linkages" designed to improve the rice yields of smallholder farmers, while providing a ready market at "a fair market price".

While 3,000 farmer are currently involved, the aim is to involve some 16,000 farmers by 2018 and ultimately 20,000, when smallholder farmers will be expected to provide between 30 and 40% of the rice mill's needs.

According to Olam representatives, the scheme "demonstrates how large-scale commercial farms could work hand in hand with smallholder farmers to achieve the government's agricultural transformation agenda." The scheme is held as evidence of the validity of the Nigerian government approach to treating "agriculture as a business, while enabling the private sector to drive growth of the sector". It is also seen as evidence of the impact of the policy of providing incentives to firms that contribute to the attainment of government sector policy objectives.

According to President Jonathan, "the private sector is responding strongly to our rice policy, as the number of rice mills has grown from just one three years ago to 18 today." It is maintained

that “these mills are producing high quality local rice that meets international standards and competes well with imported rice.”

However, according to FAO, in 2014 “Nigeria is forecast to harvest 4.6 million tonnes (2.8 million tonnes, milled basis), 2 percent less than the 2013 high, largely on expectations of a less favourable climate”.

Nigeria's rice production and imports (tonnes milled basis)

	2012/13	2013/14	2014/15
Production	2,370,000	2,772,000	2,550,000
Imports	2,400,000	3,000,000	3,500,000

Source: USDA: ERS, ‘Rice outlook’, 14 August 2014, Tables 9 and 11, <http://www.ers.usda.gov/media/1547831/rcs-14h.pdf>

In terms of the Nigerian government trade policy, local rice sector players maintain that the continued import tariff differential on rice between Nigeria and the neighbouring countries of Benin and Cameroon will continue to encourage smuggling and undermine efforts to develop backward linkages in the rice sector.

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Comment

The Nigerian government policy of linking reduced tariff import to investment in the rice sector appears to be yielding success. However, it will be some years before this translates into a sufficient expansion of rice production to curb growing rice imports. USDA figures highlight how the Nigerian surging demand for rice will promote a continued growth in official imports of rice (a projected increase of 25% in 2013/14 and a further increase of 16.7% in 2014/15).

These US Department of Agriculture (USDA) projections may in part reflect the tariff changes which the government has introduced. On the one hand, these are likely to reduce the volume of rice being landed in neighbouring countries and smuggled into Nigeria; while, on the other, they will increase the volume of rice officially imported into Nigeria.

Nevertheless, USDA projections suggest that rice sector self-sufficiency in Nigeria is still a long way off, a reality that appears to have been recognised through the recent tariff changes introduced. The trade policy adjustments taking place in Nigeria may well offer lessons to other

West African governments considering the more active use of trade policy tools in support of national rice sector development efforts.

Prospects for sub-Saharan African rice sector

While sub-Saharan Africa is growing more rice than ever before, as a result of government and donor-supported rice development programmes, the region's rice consumption is growing even faster. According to representatives of the Africa Rice Center (AfricaRice), rice is now “the third most important source of dietary energy in sub-Saharan Africa”. Growth in paddy rice production has increased from an average of 3.2% per annum before the rice price crisis of 2007/08, to an average of 8.4% per annum since 2007/08.

According to AfricaRice, average rice yields in sub-Saharan Africa increased by 30% between 2007 and 2012, a growth rate “higher than those obtained under the green revolution in Asia”, and a rate of increase faster than the global average. However, as AfricaRice points out, given “the surge in rice consumption, rice production will have to double the current growth rate to satisfy increasing consumption”.

In 2012 rice production in sub-Saharan Africa was put at 12 million tonnes, with an equivalent import requirement of 12 million tonnes.

Rice paddy yield 2013/14 (tonnes per hectare)

Eastern and Southern Africa		West and Central Africa	
Rwanda	5.56	Niger	5.0
Kenya	4.6	Mauritania	4.04
Sudan	3.5	Senegal	3.98
Swaziland	2.5	Benin	3.05
Madagascar	2.49	Togo	3.02
Uganda	2.38	Mali	2.98
Somalia	2.00	Ghana	2.94
Tanzania	1.95	Sierra Leone	2.01
Malawi	1.94	Burkina Faso	2.00
Zambia	1.50	Guinea	1.91
Mozambique	1.46	Côte d'Ivoire	1.78
Angola	0.89	Nigeria	1.76
		Guinea Bissau	1.48
		Cameroon	1.21
		Chad	1.19
		Liberia	0.95
		Gambia	0.84
		Democratic Republic of Congo	0.75

Source: Oryza.com (see below).

Press reports indicate that among sub-Saharan African producers, Rwanda enjoys the highest rice yield at 5.56 tonnes of rough rice per ha. This is attributed to improved irrigation, better quality seed and access to fertilisers. However, it is noteworthy that “many of the countries in the very dry, arid Sahel region, like Niger, Mauritania, Sudan, Senegal and Mali actually have some of the

highest yields.” These countries are also seen as having some of the greatest potential to increase yields, given the scope for access to improved water management.

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Comment

The rapid rate of growth in rice consumption in sub-Saharan Africa poses some very real policy dilemmas. Consumers are requiring more rice than current rates of expansion of domestic rice production can supply, yet domestic producers require protection from volatile rice prices. (Thai rice prices fell by between 23.6% and 41.5% from July 2013 to May 2014, depending on variety and quality in the context of a rapid expansion of exports to West Africa.)

A critical policy challenge across Africa is how to reconcile these conflicting interests. More specifically, the question arises: what type of trade policy regime offers the best option for meeting rising consumer demand for low-priced rice, while preventing efforts to promote local rice production from being undermined by sudden price collapses linked to a surplus of low-priced rice imports?

This is not just a national trade policy issue but also a regional trade policy issue, given the scale of illicit cross-border movements of rice which take place. This requires closer harmonisation of regional rice sector trade policy, which will be an important issue in the implementation of the planned ECOWAS common external tariff to be introduced in 2015.

Clearly considerable scope exists for improving yields, yet this will require investment, which could be undermined if periodic inflows of cheap imported rice impact on market prices. For example in Tanzania in 2013/14 it was claimed that imports of cheap rice from Asia had resulted in a fall of 54% in local Tanzanian wholesale prices for rice, making sales of locally produced rice unprofitable and resulting in an accumulation of rice stocks (see Agritrade article ‘[Tanzanian rice sector stakeholders call for consistent application of rice import tariffs](#)’, 21 July 2014). The Tanzanian government petitioned EAC ministers for an adjustment to the import tariff on rice, and in June the EAC ministers agreed to increase the applied EAC tariff from 25 to 35% (with a minimum tariff of US\$200/tonne, up from US\$100/tonne in the face of falling global rice prices). Only Uganda exempted itself from this decision, preferring to maintain its 75% duty in order to promote domestic rice production (see Agritrade article ‘[Debate intensified on EAC rice tariff](#)’, forthcoming 2014).

These moves in East Africa to close (but not eliminate) the gap between nominal tariff policy commitments and actual tariff policy practice, in the interests of sustaining the gains in rice production, potentially offer some lessons. They suggest that a step-by-step approach to harmonisation of policy practice could offer a way forward in reconciling consumer/producer interests and the interests of different countries within a single regional configuration. In this context, the use of tariff-rate quotas, reviewed throughout the year in the light of the market situation, could prove a useful tool.

Roots and tubers sector

Different approaches to promoting cassava processing and trade

Recent press reports from Southern Africa and West Africa have highlighted the very different approaches that can be adopted in promoting cassava processing and trade.

In Malawi, the production of high-quality cassava flour (HQCF) has been developed by a farmer's association, Nkhotakota Cassava Processors Association (NCPA). This has required a high level of organisation and training to ensure that appropriate strains of cassava are produced, handled and delivered for processing in ways that allow for the production of HQCF. It has also required sustained efforts to identify and develop reliable markets, which was seen as the key to expanding production of HQCF. The Association developed local companies, including bulk buyers Maldeco Fisheries and Universal Industries.

NCPA has focused on local market development in order to provide a reliable outlet and reliable income to farmers growing cassava within the framework of the association, which manages the milling and market of HQCF. Demand is now growing, and a national association of cassava processors is being created to bring together the five existing processors' associations in order to meet this growing demand. Efforts are under way to improve basic infrastructure in production and processing zones (e.g. ensuring access to potable water), improve the technologies being used, and enhance the skills of farmers and processors' associations, including in the vitally important area of marketing.

If the production of cassava flour in Malawi stands at one end of the spectrum, cassava production and processing in Nigeria is at the other end, with Nigeria being the largest producer of cassava in the world (18% of global supply). In Nigeria, efforts continue to promote the blending of cassava flour with wheat flour through mandatory blending requirements in bakery products. However, these efforts are running up against not only technical constraints but also commercial competition. Press reports at the end of July 2014 highlighted how Nigeria was set to "earn at least \$1.3 billion from cassava chip exports in 2014" out of current production, which was valued at US\$18 billion in Nigeria's *Business Day* online news.

According to the Nigerian Minister of Agriculture, contracts for the export of 3.2 million tonnes of cassava chips were secured in 2013. In 2014, it appears that a broader range of export market opportunities are arising. According to the Minister, "if we move that to Europe, we can earn \$1.3 billion, if we supply China, we can earn \$803 million." The Minister has therefore expressed "great interest in seeing how [Nigerian exporters] can penetrate" these potential markets.

This competition from export markets highlights the increasingly diverse uses to which cassava is being put. In Asia, cassava is being used for both industrial and energy purposes. Moves towards "developing cassava for industrial purposes for the domestic and export market" are now under way in Nigeria.

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Comment

The increasingly diverse demand for cassava, locally and globally, potentially opens up real opportunities for cassava producers in Africa. The question arises: what path for the development of cassava production and processing offers the best returns for cassava farmers?

Clearly issues related to the scale of production come into play here. With 18% of global production, Nigeria needs to find a market for 45 million tonnes a year. In Malawi producer associations are seeking to find markets for HQCF totalling only hundreds or thousands of tonnes. The marketing challenges are thus quite different.

This can pose a dilemma for national policy makers. Trade officials may be primarily concerned with immediate balance-of-payments issues and may wish to focus on readily available export markets for cassava chips, rather than investing in long-term processes of local market creation for higher-value cassava products.

Agricultural and rural development officials, by contrast, may wish to promote greater local processing and the development of local cassava value chains. This, however, can require considerable investment in local infrastructure, training, processing equipment, market development and the establishment of harmonised quality standards.

These factors can give rise to difficult policy choices. Failure to achieve a balance between the development of particular markets can see efforts to move up the cassava value chain undermined by the commercial gains to be made from serving rapidly expanding global demand.

The very different revenue estimates put forward by the Nigerian Minister of Agriculture for supplying the EU, compared to supplying Chinese markets, highlight the very real commercial pressures that exist in terms of targeting the highest-priced export markets.

Such a short-term export focus may not, however, deliver the long-term rural development gains potentially opened up by the growing commercial use of this versatile root crop.



Launched by CTA (Technical Centre for Agricultural and Rural Cooperation ACP-EU) in 2001, the Agritrade website <http://agritrade.cta.int> is devoted to agricultural trade issues in the context of ACP (Africa, Caribbean, Pacific) - EU (European Union) relations. Its main objective is to better equip ACP stakeholders to deal with multilateral (World Trade Organization – WTO) and bilateral (Economic Partnership Agreement – EPA) negotiations. Thus it provides regular and updated information and analysis on technical aspects of the trade negotiations, developments in the CAP and their implications on ACP-EU trade, as well as on major commodities (banana, cereals, sugar, fisheries, etc.).

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Technical Centre for Agricultural and Rural Cooperation (ACP—EU)

PO Box 380

6700 AJ Wageningen

The Netherlands

Tel: +31 (0) 317 467 100

E-mail: cta@cta.int - www.cta.int