SEATINI

Strengthening Africa in World Trade

POSITION PAPER

POSITION PAPER ON THE REMOVAL OF THE 18% VAT EXEMPTION ON RICE IMPORTS TO UGANDA

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Introduction

On April 21, 2022 a letter from the State Minister of Trade, Industry and Cooperatives was addressed to the Commissioner of Customs at Uganda Revenue Authority (URA) to reinstate the 18% Value Added Tax (VAT) levy on imported rice as a remedial intervention to protect the local rice sector. As a result of this directive, traders importing rice especially from Tanzania have decided to suspend their operations which has resulted into an upsurge in prices of rice in the short period of time since the directive was issued.

Background

Agriculture contributes about 24% to Uganda's Gross Domestic Product (GDP) and it is the primary source of food and income for most Ugandans. The Agricultural households constitute about 79.7% of total households. The National Development Plan (NDP) III in the FY2020/21-2024/25 identified commercialization of Agriculture as a major development strategy to link farms to the market with the goal of increasing household incomes.

Currently, rice has become a major food security crop as well as a cash crop in a number of districts in Uganda and its cultivation is increasing, especially with the introduction of upland varieties. We acknowledge that much of this demand comes from the urban markets that look for quality rice that competes with imported rice. More so, unlike most of the food crops grown to satisfy household consumption and food security requirements, rice is also one of the major foodstuffs at public institutions such as nursing homes, universities, schools, hospitals, prisons and military facilities among others. In spite of this, the rice sub sector faces various challenges especially across the rice value chain which include lack of reliable input and output markets, high transport costs, limited access to finance, presence of low quality/fake agro inputs, pests and diseases, weather uncertainties, lack of appropriate post-harvest handling facilities, high electricity tariffs among others.

Current status of rice production and consumption in Uganda

Africa is increasingly becoming important in global grain trade as evidenced by cross border trade volumes of over 568,000 Metric Ton (MT) of maize, 486,000 MT of beans and 259,000 MT of rice traded across East African Community (EAC) borders since the second quarter of 2020. However, the pressure to feed the fast-growing and rapidly urbanizing populations has resulted into a food production and productivity growth lag, widening Africa's import gap which was projected to reach US$90 billion by 2030 from US$ 43 billion estimated in 2019.

Over the last decade, the consumption of rice in the EAC has increased and as a result, supply of rice in Uganda and other EAC Partner States cannot keep-up with the rapidly expanding regional market demand. Trading of rice in Uganda is completely under the private sector. The price of rice has risen with Rice traders having halted importations from Tanzania in protest over the reinstatement of the 18% value added tax (VAT) levy, pushing a kilogram of rice to Shs 4,000 from Shs 3,500 of locally produced rice.

Given the above, below are our observations and recommendations:

We commend the Government for the strategies put in place and programs such as launching of the Rice Millers Council of Uganda, the Plan for Modernization of Agriculture (PMA), National Agricultural Advisory and Extension services, the Parish Development model (PDM) and others to support farmers towards producing for their own consumption and for the market.

As SEATINI Uganda, we support the position to reinstate the 18% VAT Levy on imported rice in the interest of; (i) promoting food sovereignty (ii) supporting local production and enhancing sustainability of production (iii) increasing local incomes. We recognize the anticipated welfare loss in the immediate terms such as the likely increase in prices of rice and shortage of rice supply.

Following this directive, it is imperative that Uganda embarks on boosting the capacity of its local production so as to achieve the market demands and address the pre-existing challenges in the rice sub sector. We observe that there is a need for the following issues to be keenly addressed;

1. Uganda's Taxation regime on the rice sub sector

Before 2019, cross-border trade in rice attracted a 6% Withholding Tax (WHT) and 18% VAT rates for Uganda's rice imports from the EAC region member countries. However, currently, rice grown and processed within the EAC region has been attracting no import duty or VAT, but paying a 6% Withholding tax.

In 2021, URA trade statistics show that Uganda imported over 11.088 million MT of goods valued at more than UGX 34 trillion while exports stood at 3.108 million MT valued at over UGX 15 trillion. Of these trade volumes, rice volumes constituted 515,417 MT valued at over UGX 833 billion generating revenue worth over UGX 14.65 billion.

Uganda has in the previous years lost a lot of revenue in terms of taxes. According to a report by URA in March 2022, there is a growing desire by importers to dodge taxes especially the 75% import duty and as a result, there has been increased smuggling of rice in the country hence leading to a huge loss in revenue. This largely impacts the local producers as it creates an added advantage to the importers who sell at a cheaper price as opposed to the local producers hence creating unfair trade.

Recommendation

- We recommend that the Tax is reinstated as per the directive following the recent Common External Tariff (CET) tariff band of 35% that was adopted by the EAC partner states to cater for the sensitive goods where cereals i.e. rice is catered for be implemented across the EAC.

- We note that the production and supply of rice varies with the different seasons. We therefore recommend that tariff peaks be adopted to cater for the negative impacts of price instability during the short periods of high or low food prices, thereby directly helping the most vulnerable.

2. Capacity of local producers in Uganda

i) Production challenges

Uganda is a net importer of rice yet local consumption is growing fast. The increased local consumption of rice presents huge economic opportunities for smallholder farmers, who produce 90% of the rice in Uganda. These smallholder farmers grow rice mainly as a cash crop because of its significantly higher gross margins compared to other cereals. The demand for rice in Uganda stands at about 680,000 tonnes, but the total local production is approximately 350,000 tonnes as of 2021, leaving a deficit of 230,000 tonnes. This notwithstanding, Uganda will continue to be a net importer unless domestic production improves significantly.

Despite the existing economic opportunities for smallholder farmers in rice farming, productivity is still low. This is mainly due to the challenges in access to yield-enhancing inputs, limited farm access to the seed of improved varieties, coupled with the limited use of time/labor-saving technologies, lack of proper post-harvest handling facilities leading to production of low quality rice, lack of storage facilities as many farmers have limited storage facilities and so they are forced to sell their rice immediately after milling, irrespective of whether the prevailing market price is low.

ii) Climate Uncertainty

The EAC region is well endowed with water resources but availability varies from place to place and generally the resource is poorly managed both nationally and at farm level. Rain fed cropping still dominates the rice sector and so the erratic and unreliable nature of rainfall and uncertainties that climate change may bring a serious threat to the viability of the sector.

Uganda has laws and policies for safeguarding the environment. Most rice interventions in place have undergone basic Environmental Impact Assessments. The responsible agency however (NEMA) does not have enough capacity to track the activities of smallholder farmers.

Recommendations

We recommend that;

1. Government should invest in constructing warehouses where farmers can store their rice until such a time when prices are appreciably high.

2. Government should build on climate-resilience strategies such as promoting better on-farm water management in order to make best use of available resources.

3. Government through its agency i.e. NEMA should carry out more substantial Environmental Impact Assessments for rice interventions.

iii) Economic and social uncertainty

Small-scale farmers and small rural enterprises are the backbone of rural economies and national and regional food systems. It is vital that rural areas continue to be supported in order to help Uganda avoid food shortages. The closing of borders and lockdown of regions affects rural services including local and regional markets and may lead to a disruption of food supply chains which would have adverse effects on both producers and consumers.

Recommendations

1. Food reserves are important for Uganda to have sustainability and to avoid dependency on other neighbouring countries.

iv) Exemption of the 15 companies from paying the 18% VAT Levy

We note that this decision was taken by the government after 14 rice trading companies petitioned court against the 18 per cent Value Added Tax (VAT) charge in 2014. Court declared an injunction and since then the case has never been resolved, leaving the 14 companies to import without paying tax.

However, this promotes unfair competition as the trading ground is not leveled for legitimate trade to occur.

Fair, transparent and equitable tax measures for all are necessary to ensure citizens appreciation and to promote a fair tax regime.

Recommendation

1. We call upon government through the Attorney General to expeditiously dispose of the pending petition in court which has taken close to eight years.

Conclusion

Uganda's potential in the rice sector can be harnessed and unlocked by exploring the aforementioned prospects of rice production, storage and cultivation and this shall play a key role to enhance Uganda's competitiveness especially for the small holder farmers.

Signed by:

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