At a time when domestic production contributes nearly 80% of the total amount of rice consumed each year, the sector faces challenges such as uncontrolled importation of rice with concessions and duty waivers, inconsistent and erratic tax and other policy changes, and a reduced market for domestic rice.

In a meeting with H.E. President Museveni on 16th April 2018, a few millers asked for the following:
1) a reduced import duty on brown rice from $345/tonne to $150 or less,
2) to apply to a quantity of 120,000 MT for an initial 6-month period, after which it may be reviewed upwards, and
3) the reduction on Import Duty and the above mentioned quantities to apply for the next three years.

This is in addition to the concessions and 100% duty waivers already granted for the previous three years. The large quantities proposed for importation have no scientific basis whatsoever.

Consider these facts:
- Uganda’s imports (10 year average from 2004 to 2014) were 15,000 MT from Pakistan (our biggest non-EAC source of rice) and 35,000 MT from Tanzania and other countries until the concessions and duty waivers were granted in 2015.
- The quantity now being proposed is 16 times our annual imports of rice from outside the EAC!
- Uganda’s annual consumption is 215,707 MT (as per MAAIF data of 2014) of which nearly 80% is produced within the country.

Are we proposing to displace Tanzanian imports? How will this imported rice sell in our market, without displacing Ugandan and Tanzanian rice? As evidenced in the last three years, the imported rice will flood the market and depress the price of domestic and EAC rice. As a consequence, farmers will have no choice but to stop farming rice. Our domestic production will fall, necessitating more importation to meet consumption. In other words, importation of duty free rice only leads to further dependence on imports, diverting us from self-sufficiency!

**Billion Dollar Subsidies in Asian Rice Production:**

Rice growers, in Asian countries, pocketed at least $60 billion in subsidies in 2014/15, according to the OECD, twice as much as maize farmers, the second most supported category of farmers.

Rice imported into Uganda comes from a heavily subsidised environment where governments ensure that production is high and market prices are kept low in order to ensure low prices for consumers and to increase exports. Such agricultural subsidies are not available in Uganda. Production in Uganda has increased year on year due to a protective stance taken by regional governments. The EAC CET in 2004 put in place duties that offset the above-mentioned subsidies making all imported rice sell at a price slightly higher than locally produced rice. In Uganda, price (courtesy EAC CET) has been the sole incentive for the growth of the domestic sector attracting both foreign and domestic large-scale and local small-scale farmers into rice farming.

**Current Investments in Rice Sector:**

There has been an upsurge in investment in rice production. The private and public sector investments are as follows:
- Standalone medium and large rice mills: US$ 15-20 million
- Large scale farming including on-site milling facilities: $100-120 million
- GoU investment in rice irrigation schemes: $50-60 million.
- Small scale farmers and single stage mills: $165-200 million.

Overall, the total investments are in the range of US$ 400 million, of which less than 5% is by the millers who are clamouring for Husked (Brown) rice importation with import duty concessions and waivers.

There are several myths about Rice Production in Uganda:

**Myth No.1 -** There is a shortage of rice and therefore we must now begin to import rice to feed the hungry. This is a myth because, in order to address food insecurity in Uganda, the main foods sourced and supplied free of charge are maize and beans. The only time that free rice was ever provided was when the People’s Republic of China donated 5,983 MT of Milled White Rice in February 2017.

For the last three years, reductions on import duty (concessions) have been given to select importers on the condition they develop domestic farming and to various importers in 2017 on the claim that there is a food shortage in the country. The imported rice was never distributed free but was sold in the market at prices higher than the price of domestically grown rice. The importation of rice, as evidenced by prices given below, did not address famine. [http://farmgainafrica.org/]

**Producer subsidies 2014, $bn**

<table>
<thead>
<tr>
<th></th>
<th>Rice</th>
<th>Maize</th>
<th>Wheat</th>
<th>Sugar</th>
<th>Cotton</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>10</td>
<td>20</td>
<td>30</td>
<td>40</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: Economist.com

"To promote and Safeguard the Domestic Rice Sector in Uganda".
Myth No.2 - Rice millers lack rice to mill. This is a myth arising from a lack of understanding of the rice industry. There are about 670 small-scale millers in Uganda and a few medium and large-scale millers. Some of the large-scale millers have farms and mill their own produce. All of these mills operate seasonally or have storage facilities. A handful of millers have complained that during the off-season, their mills remain unproductive and as such importing rice to mill would be beneficial to them during the off-season. Rice is, indeed, a seasonal crop. However, the mill owner, not the farmer, must face the consequences of establishing a rice mill on a faulty business strategy. Mills that do not have storage facilities cannot work during the off-season. We cannot help such minority rice millers to the detriment of the majority rice farmers. If rice farming ceases to be a viable business, rice millers will not have any work to do. If a processor wishes to continue operations off-season, the solution is obvious. Invest in storage and pay remunerative prices to farmers to induce them to grow more and sell sufficient quantity in season. In any case, there has never been any restriction to import any quantities in order to meet any short-term market demand by paying the EAC CET and relevant taxes as applicable, without extraordinary concessions.

Myth No.3 - There is large value addition in importing and processing Brown rice. Importers have made a case for importing 30% processed Brown Rice claiming that the polishing of rice will add value to what is imported from Pakistan. This is a fallacy because:

• Brown rice is actually rice in its second last stage of milling - a stage that is the last 5% of the entire process. In reality, the most significant value addition in the rice sector is in the growing of the rice (80%) and post-harvest processes (15%), totaling to 95%. Polishing of brown rice only accounts for the last 5%.

• The price difference between Milled White Rice and Husked (Brown) Rice is only US$ $8 to $10 per MT (Brown rice per MT on average is US$392 compared to White rice which is US$400). Therefore, the value addition is less than 2.55% at an additional conversion cost of a mere $5 per MT. The cost of importing brown rice, polishing it, and then marketing and distributing that rice is much higher than US$8 to $10 per MT. In reality, the millers would be adding more cost per MT due to the high costs associated with getting the Brown rice to market. This makes it almost impossible for millers to sell at a cheaper price without making a loss, if indeed brown rice is being imported! This is perhaps the reason that there has never been cheaper rice on the market even with three years’ worth of concessions. This may also be why Milled White Rice is imported and falsely declared as Husked (Brown) Rice.

Myth No.4 - There is value addition by creating more jobs. This too is a myth because the entire milling process including packing of finished goods only employs 1/2 a worker for every tonne, whereas farming employs 100 workers for every tonne of rice produced. The priorities for policy making are obvious as it is evident that there is no job creation. Importation of Brown Rice takes away work and proceeds for those along the rice value chain such as farmers; farm labourers; millers who must do the entire post harvest processes including threshing, drying, cleaning, and milling; agro-chemical suppliers; seed producing companies; agricultural equipment suppliers; and many more. Why then the disproportionate concessions and waivers favouring a single actor in the rice value chain?

Concessions and duty waivers have already been granted for the past three years from 2015 to 2017 on the premise of investment promotion. To bail out companies that did not make business or economic sense at the outset or in the long term, by granting tax exemptions, is wrong. We acknowledge that government support is undoubtedly beneficial to the growth of the domestic rice sector. However, granting pre-investment concessions to prospective investors is unheard of in tax policy anywhere in the world. A pre-investment concession allows an investor to raise funds from the taxpayers of Uganda, rather than bringing in investment capital from outside the economy. If indeed GoU wants to prioritise the domestic rice sector, then it should simply increase its investment in the sector by building more irrigation schemes, providing high quality seeds and investing in extensive education of farmers in Good Agricultural Practices (GAP). These are the priority areas to help increase rice production in Uganda.

**Scientific Formula for Determining Duty Concessions on Rice:**

As an association with a vision for the growth of the rice sector, RAU understands the need for government to promote investments in Uganda. Investment promotional policies are in principle welcome provided they ensure a level playing field and do not stifle domestic growth. Such promotional policies become disadvantageous for existing investments in the domestic sector when a scientific formula is not applied. Due to the challenges faced by the domestic rice sector, and the economic unviability of Brown rice import and milling, ideally no Brown rice should be permitted for import. If at all Brown rice is considered for import, the scientific formula, for the rice sector, should be based on the following:

i) The tonnage permitted for import must reflect the gap between production and consumption, as well as the average annual imports of rice from EAC countries like Tanzania. This requires obtaining current data on imports, excluding concessional imports for the last three years which have distorted the overall import figures. Based on historical data available, import quotas should not exceed 15,000 MT, which is the actual import from outside the EAC. A basic study of the imports using URA data over the last five years can help us arrive at the correct figure.

ii) The reduction of import duty in US$ terms must be commensurate with the actual monetary value addition that polishing of Brown rice will offer. This is to ensure an equitable, fair and level playing field such that imported rice does not displace the market of domestically produced rice. An ad hoc reduction of import duty to US$150 per tonne will not offset the subsidies enjoyed by the rice imported into Uganda. It will be disastrous to the local producers since the imported rice will benefit from a competitive advantage both in profitability and sales price and will in turn displace the domestic market.

iii) Any interventions proposed on the above lines should only be applicable for a very limited period and not coincide with domestic harvest seasons.

iv) If any Brown rice is considered for import, strict mechanisms for monitoring of brown rice imported are necessary to avoid false declaration of ‘Milled White Rice’ as ‘Husked (Brown) Rice’, and to prevent smuggling and tax evasion, which has been a persistent problem over the last three years.

v) If ever the government decides that there is an emergency need for food, then maize and beans are the logical candidates. If rice is to be ever considered, then it should be fully milled white rice importable by anybody for rapid distribution and limited to a total of 15,000 MT for a period of two months at a concession of 50% of EAC CET.

RAU believes that the government’s ultimate objective is import substitution and exports into the EAC. As such we would urge the government, as well as H.E. The President, to afford us audience to discuss how we can come to a mutually beneficial position for both farmers and millers. Our goal as an association is for the rice sector to reach self-sufficiency within the fastest period possible and to begin exports into the region. In the meetings of the RAU in the Northern and Eastern chapters, which represent over 250,000 farmers, three main resolutions were passed. On 5th April 2018 in Nwoya District and on 12th April 2018 in Butaleja District, our members resolved as follows:

- To appeal to the government to retain the existing EAC CET structure to enable the domestic industry to achieve its target of self-sufficiency and surplus for export.
- To appeal to the government to recognise and include the RAU, the majority stakeholder, in all discussions related to the rice industry in the country.
- To appeal to the government to conduct a review of the policy changes and their effects on domestic industry in the last three years, and thereafter to design policies in order to get back on track towards self-sufficiency and the goal of regional exports and rebalancing trade with our partners.

Analysis of the remarkable increase in area and production combined with the consequent decline in imports since 2004 dispels this contention of shortage and Uganda’s lack of capacity to produce rice. What is being misquoted as a shortage is, in fact, a feature of the seasonal nature of rice production worldwide.