

Ethiopian Sugar Sector Privatization – Policy and Regulatory Assessment

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Outline

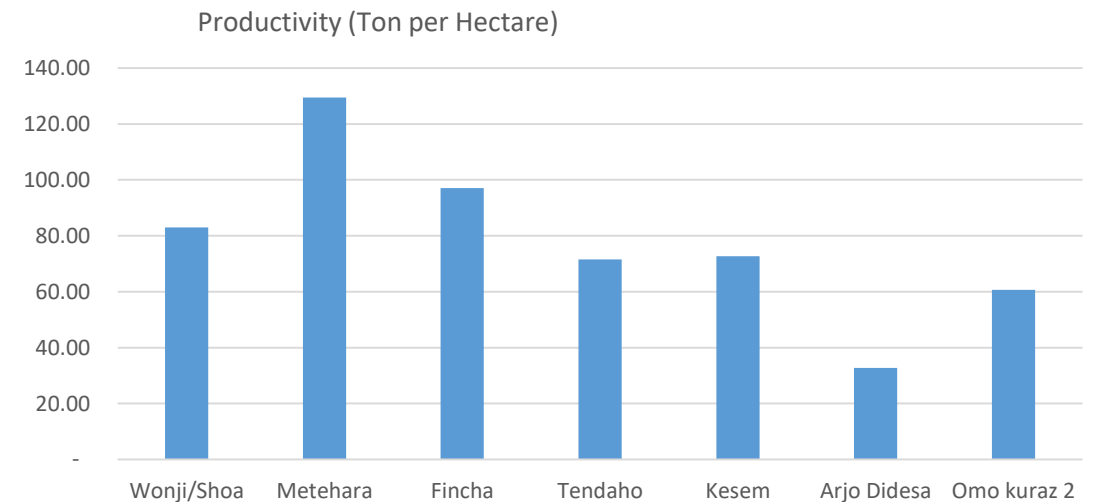
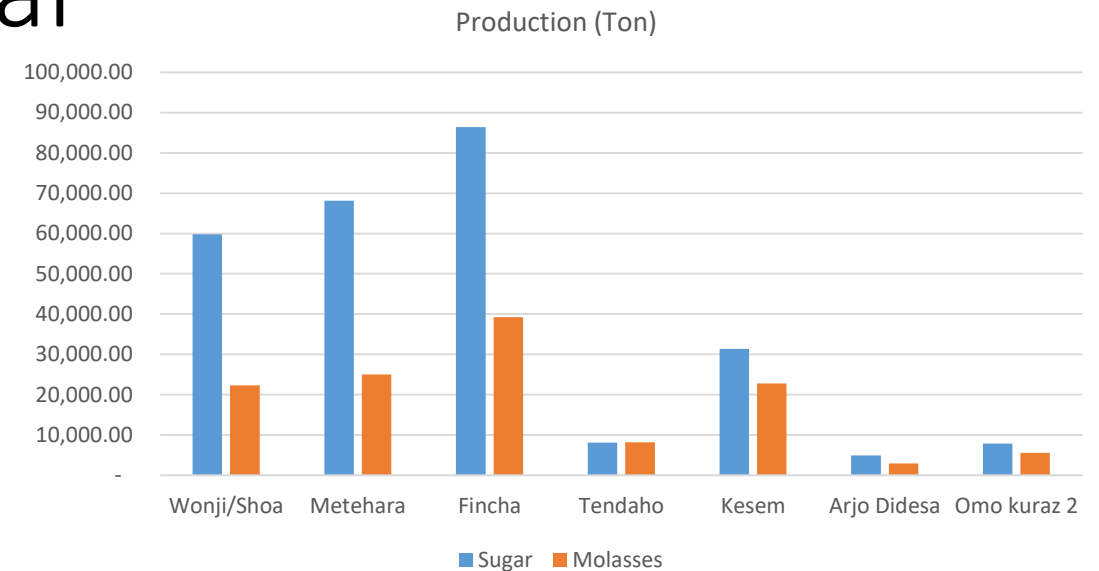
- Overview of Sugar Sector
- Proposed Sugar Policy and Principles
- Proposed Sugar Proclamation

Overview of Sugar Sector

- Production
- Logistics and Distribution
- Trade Policies for Sugar
- Pricing
- Tariffs and Taxes

Production Below Potential

- High Potential (Dry Days and Irrigable Land)
- Variance in productivity across factories (32-129 ton per hectare)
- Total 2017/18 reached 266 thousand tons
- More than 3 million ton cane crushed in 2017/18



Infant Outgrower Schemes

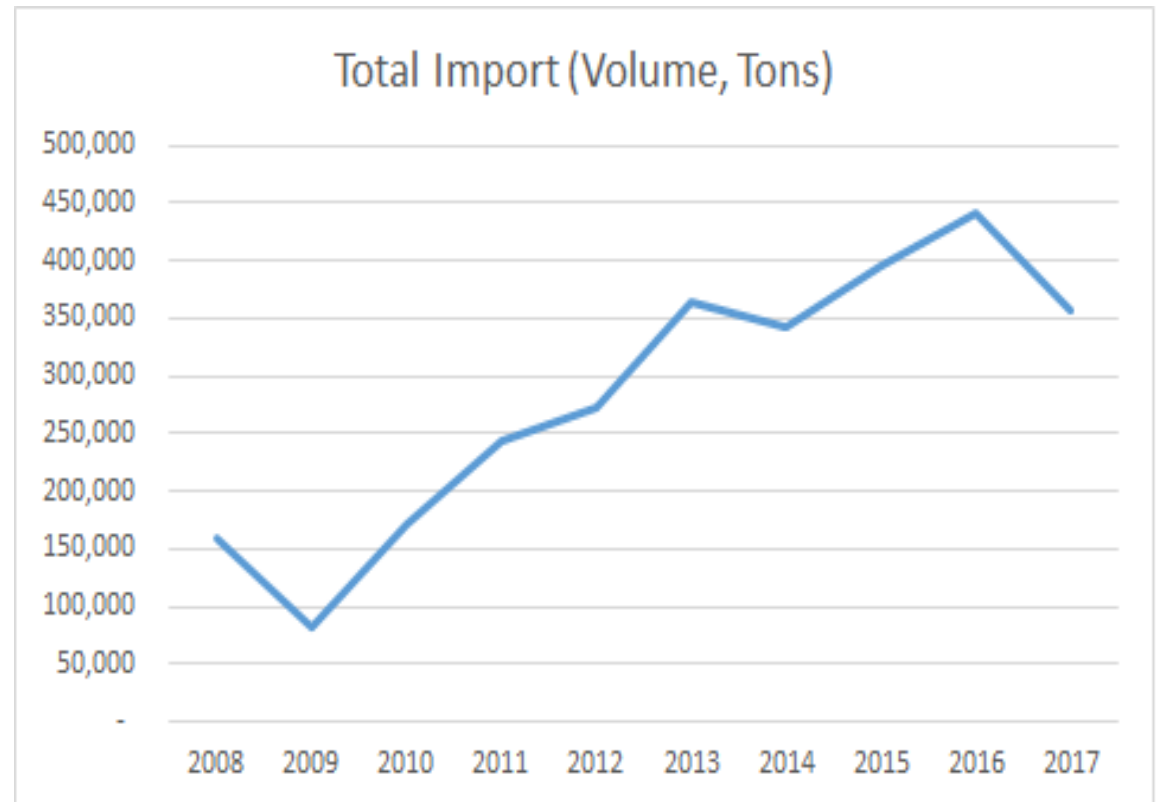
- Sugar Cane production is largely undertaken by factories
- Only 2 factories use outgrower schemes (Wonji and Kesseme)
- Even in these cases the factories manages the harvesting of sugar cane
 - Outgrowers get wages and profits based on set prices
 - The prices set doesn't depend on the quality of the cane (sucrose level)

Inefficient Logistics and Distribution

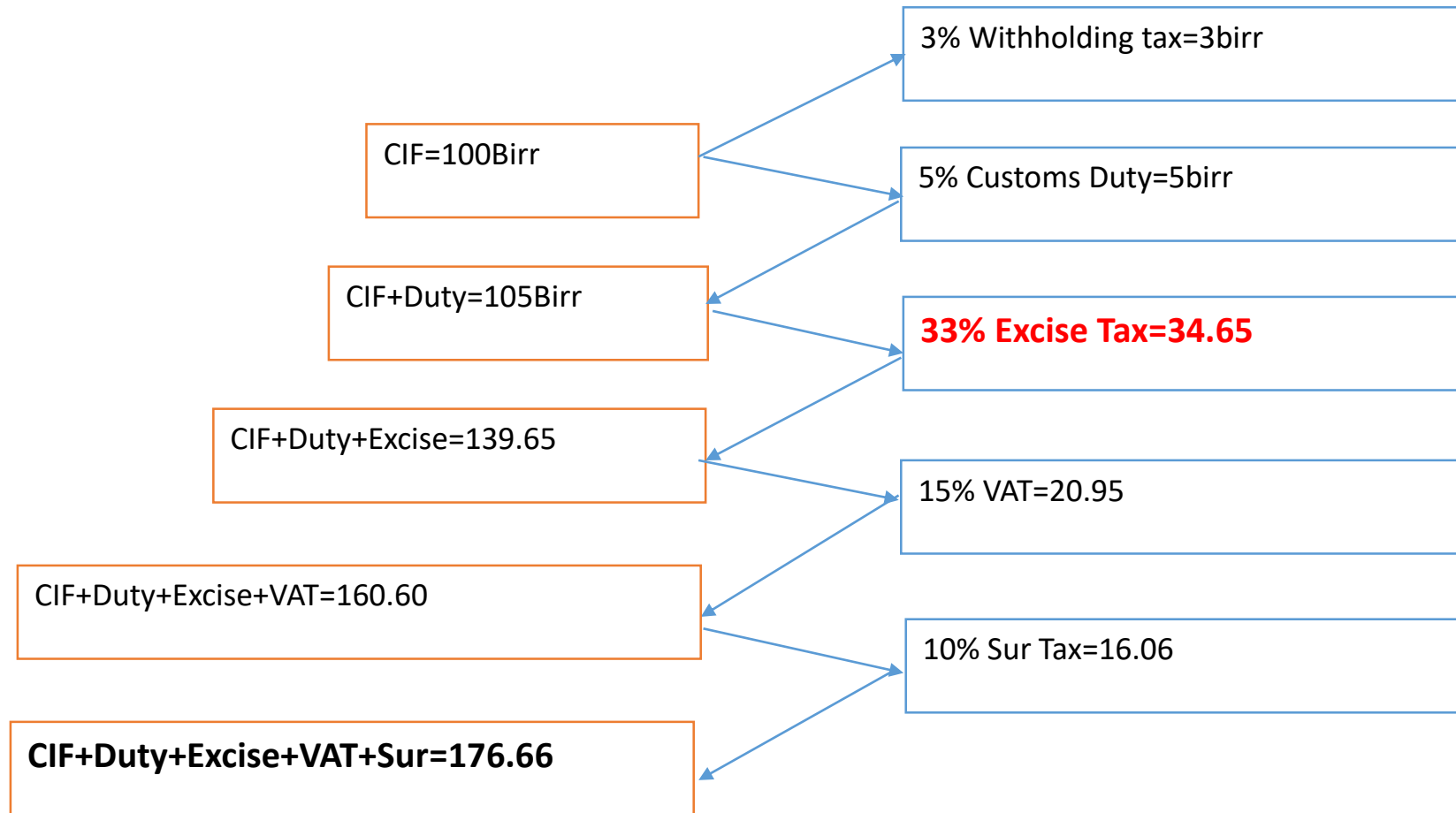
- Prior to 2010 the Ethiopian Sugar Development Board conducted auctions for import and production.
 - Distribution- Wholesalers and Retailers
- Currently the government undertakes the activities across the value chain of sugar
 - Production- State Owned Factories
 - Imports – Ethiopian Sugar Corporation
 - Distribution – Ethiopian Industrial Inputs Development Enterprise, consumer associations
 - Quota (based on Population and eating habits) – Ministry of Trade and Industry

Trade: Low Export Competitiveness and high import demand

- Imports of Approximately 450 thousand tons annually
- Import parity prices around 0.96 USD/kg
- Export parity prices around 0.7 USD/kg
- High factory gate prices and taxes make Ethiopia uncompetitive without significant productivity Increases



Taxes and Tariffs: 87% effective



Consumption Subsidies

- Many stakeholders characterize sugar as a **politically sensitive product**
- Few consider it as an **essential good**
- Per-capita sugar consumption official **6-7kg** per annum (some estimates put it as high as 12kg based on inward smuggling of sugar)
- Low per-capita consumption compared to 25kg in Africa
- **Supply shortage** and **consumption culture** determine the low per capita consumption
- We expect consumption to reach African averages with increase in **population, income, urbanization**

Proposed Sugar Policy Principles

- Major Considerations

- Government's announced intention to privatize sugar factories
 - Requires a policy framework to accommodate all stakeholders
- Located in a sugar deficit region with high production potential
 - Presents an opportunity to enhance production and productivity to become competitive
- The need to develop out-grower schemes
 - Need for sustainable production of sugarcane and protect interest of farmers
- The need to develop market based distribution
 - There are efficiency gains that can be obtained by commercialization of sugar distribution
- The need to ensure confidence and predictability for investors and outgrowers

Proposed Sugar Policy Principles

- Major Considerations (continued)
 - The need for a better governance framework for Sugar factories
 - Efficiency and productivity require better governance structures and framework
 - Rapid growth of domestic demand due to population and income growth
 - Job creation and production expansion needed to satisfy domestic demand
 - The need to keep fiscal sustainability through revenue neutral tax incentive
 - High excise taxes require revenue neutral adjustments

Production Policies

- Out-grower development schemes
 - Efficient coordination
 - Modern agronomic practice
 - Focus on high quality sugarcane
 - Cane quality standards (based on content)
 - Linking out-growers to sugar markets
 - Separate from the Sugar Board (regulatory body)

Production Policies

- Out-grower miller relationship
 - The sugar board to play an important role
 - Setting up production standards
 - Price setting
- Production Taxes
 - Excise taxes (33%) are too high and affects competitiveness of the sector
 - Reasonable adjustment
 - Revenue neutral options
 - Halving of excise taxes can be compensated by the increase in productivity and production to double current production

Trade Policies

- Global sugar prices are distorted by net sugar exporters heavily subsidizing their sugar industries
- Thus global sugar prices reflect the market demand only partly
- Domestic Trade Policies
 - Improved Competition Policy to avoid unfair trade practices
 - Frequent price adjustment to reflect excess demand
 - Using both public and private outlets (consumer associations reach remote areas)
 - Keeping in mind no special consideration to public outlets
 - A level playing field for state owned and private firms

Trade Policies

- International Trade Policies

- Taxes are relatively high to protect domestic producers due partly to high excise taxes. We suggest to keep this protection in the short to medium term
- Competitive logistics service (part of reform program)
- Overhaul import auction system
 - Make auction approval processes efficient
 - Allow private shipment and with robust monitoring

Pricing Policy

- Price Stabilization

- We suggest for the board to set prices with the aim of stabilizing it and improve predictability
- Minimum price levels should be set during times of sugar market depression in the global markets
 - Investment in land and factory is large and requires stability to ensure returns to investment and confidence
 - Domestic resource costs have to be considered
 - The board will regularly calculate domestic resource costs and propose minimum prices
- Guarantee gross margins for out-growers to maintain productivity of the irrigated land

THANK YOU