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AGRICULTURAL COMMODITY STABILIZATION IN UGANDA

(Paper submitted by the government of Uganda)

Note by the Secretariat:

This paper was submitted in response to a note by the Executive Secretary inviting participating governments to contribute papers on the topics included in the provisional agenda.

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AGRICULTURAL COMMODITY STABILIZATION IN UGANDA

Introduction

1. The purpose of this paper is to outline and discuss the principal policies and measures operative in Uganda relating to agricultural commodity stabilization. The paper will deal both with stabilization measures, namely, those which are intended to reduce price fluctuations, and with support measures which are designed to affect the level of prices. The paper will not be concerned with agricultural support measures which do not directly influence prices, but which seek rather to reduce costs and to raise farm incomes by, for instance, increased productivity.

2. In Uganda in 1960 about two-thirds of the value of agricultural commodities that entered the market were exported outside East Africa; of the remaining third, two parts were consumed internally and one part was sold in Kenya and Tanganyika. Cotton and coffee dominate the entire agricultural economy, with the value of these two crops amounting to about £25 mn., or half the value of all marketed agricultural output. A further 10 per cent of the value of agricultural output is represented by sugar production. Between 1951 and 1960 the combined value of the exports of cotton and coffee were never less than 75 per cent of the total value of all exports. The prices of each of the three aforementioned crops to growers and, in the case of sugar, the price to the consumer as well, have in recent years been influenced to a considerable degree by measures of Government policy. Given the importance of these three crops in the economy, a large part of any discussion on commodity support measures in Uganda must clearly be devoted to a consideration of the stabilization measures employed with respect thereto. However, other crops which are produced locally either for internal consumption, for inter-territorial sale, or export outside East Africa may also be controlled by Government under various enactments. Mention will be made later of these controls.

3. As a result of the operation of the aforementioned measures, there thus exists in Uganda a mixture of pricing arrangements in the agricultural sector. Prices for some stable commodities are freely determined in the open market, while other prices are fixed by Government. In some parts of the field administrative decisions relating to purchases and sales affect the prices received by producers in respect of certain food crops and a wide range of other crops is subject to such interference in various circumstances. The composition of national output which results from the interaction of these measures may not necessarily have been the best possible.

Outline of Recent Position Cotton and Coffee

4. The origins of the present system of pricing in respect of the two major export commodities, cotton and coffee, are to be found in the war years and the immediate post-war years. During the war years cotton and coffee were sold under bulk agreements to the United Kingdom Ministry of Food and the Ministry of Supply, and to the Government of India. The Uganda Government established a market control system whereby it purchased all the cotton and coffee and re-sold it. In so doint it fixed the internal prices of these two commodities. The prices paid to the producers were not necessarily in line with those received by Government. In the post-war period, Government continued its policy of price fixing in relation to these two commodities. World prices rose rapidly immediately after the war for these two crops, reaching a peak for cotton of sh.7/50 per lb. in 1951, and for coffee of slightly over £500 per ton in 1954. Internal prices to the growers, however, were held during this period well below the price equivalent appropriate to world market prices. The motives for keeping down the price to producers were, firstly, a desire to avoid inflation in circumstances when consumer goods were very short in Uganda on account of severe limitation of port handling facilities. A second motive was a desire to accumulate a fund which could be used for internal price stabilization purposes in the event that export prices should fall

sharply. As a result of this policy of holding down producer prices, by 1953 about £30 mn. had been accumulated in the Cotton and Coffee Price Assistance Funds.

5. Since 1953 prices to growers in respect of these two main crops have been fixed in the light of the latitude allowed by the existence of these large price assistance funds. The policy which has been adopted has comprised two elements. From the outset the price assistance funds have been used as a means of guaranteeing fixed forward prices of cotton and coffee over the crop season, irrespective or world price fluctuations and trends. This policy was explicitly stated in the Despatch of the Governor to the Secretary of State on the subject of the Royal Commission on East Africa (Sessional Paper No. 4 of 1956/57).

6. The policy of having fixed intra-sessional prices for coffee, however, encountered a severe setback in 1955 when world prices fell sharply after the initial price was established in Uganda. As a result the Price Assistance Funds were drawn down by about £4½ mn. to meet losses on exports. Subsequently policy in relation to coffee was changed so as to permit greater flexibility. Guaranteed prices were continued but these could be altered three times a season.

7. The policy for cotton also was based on guaranteeing growers fixed prices over a season. However, the policy in this field was more cautious than that adopted in relation to coffee, in as much as it provided a guaranteed minimum pre-planting price, modified where necessary by a revised pre-harvesting price. The pre-harvesting price could not however be less than the guaranteed minimum pre-planting price. The differential in pre-planting and pre-harvesting prices has on occasion been very wide. Thus in 1957/58 the pre-planting price was 52 cents a lb. while the pre-harvesting price was 58 cents a lb. In 1960/61 they were 46 cents and 55 cents respectively.

8. While an important facet of cotton and coffee price policy has thus been to provide stability in prices over a crop season, the amount of finance in the Funds was, in the early years of the decade, much

more than sufficient to provide such guarantees, having regard to the ordinary range of price fluctuations, and the degree of accuracy of price forecasting. The opportunity has therefore been taken to use the Price Assistance Funds for other purposes on an ad hoc basis. In the first place some millions of pounds have been transferred from the Funds in order to finance development expenditures. More importantly, they have been used on several occasions to maintain growers' disposable incomes in the face of a severe fall in prices or production. Thus, in 1958 and 1959 as world cotton prices fell, prices to growers were raised above world price equivalents. This step involved a departure from earlier policy according to which the Funds were used simply to make up any difference between the fixed internal prices based on price projections and the price actually realized. This policy has thus involved a deliberate drawing down of the Funds, not for intra-seasonal price stabilization, but for income stabilization. Growers' prices have been raised above forecast market price equivalents in order to maintain income in the country at large.

9. So far as concerns cotton and coffee, it should be noted that export duties are levied. These represent important ingredients in Government revenue and in the prices paid to growers. At the time of writing these two taxes are levied on the following basis. Export duty on robusta coffee becomes payable when the price reaches £120 a ton f.o.b. Mombasa. If the price of coffee falls below this figure there is no duty, while for every rise of £3 a ton above this figure, there is a duty of £1. Cotton duty commences at the low level of 50 cents East Africa per pound f.o.r. Uganda, and is based on a flat increase of 1, 2 or 3 East African cents per pound, for every 10 cents increase in the price of cotton lint f.o.r. Uganda, until the price of 120 cents per pound is reached, when the duty amounts of 13 cents per pound. After that the duty is increased by 2 cents a pound for every increase of 10 cents a pound in the value.

10. The following table illustrates, for the two crops taken together, the aggregate net withdrawals or payments effected by the factors which have just been discussed, namely, export taxes and payments into or out of the Price Assistance Funds on account of the difference between the price received by the Marketing Boards for the crops, and the price paid to the grower.

Cotton and Coffee	
Withdrawals and Supplementary Payments (Export Taxes, and Marketing Boards) surpluses or deficits)	
Year	£ mn.
1950	− 8.7
1951	−17.1
1952	−13.6
1953	− 2.2
1954	− 1.9
1955	+ 4.0
1956	− 0.1
1957	− 0.3
1958	+ 2.1
1959	+ 3.7
1960	+ 3.7
1961	+ 2.9

It can be seen that over the period 1950 to 1957 there were net withdrawals, on a diminishing scale, except for 1955 when, as mentioned already, a large unexpected loss was made on coffee sales. From 1958 to date supplementary payments on a substantial scale have been made to growers of these crops. Gross withdrawals over the period as a whole amounted to £43.9 million. Gross payments during the period

amount to £16.4 million. If operations in respect of the two crops are distinguished, then it can be seen that the net withdrawals from cotton growers over the period has been substantially larger than the net withdrawal from coffee growers.

Sugar

11. East Africa is a protected market for sugar, with East African production given preference in the three territories. In 1961 production in East Africa totalled 135,000 long tons of centrifrugal sugar, which was 51,000 tons below the requirements of the region. Uganda's production in 1960 was 91,000 tons, of which 31,000 tons were exported to Kenya and Tanganyika.

12. At present the price paid to millers in Uganda (who also grow the great bulk of the sugar) is based on the Commenwealth Sugar Agreement (CSA) price of raw sugar landed in the United Kingdom, from which is subtracted the cost of moving sugar to the cost from the plantations in Uganda, and the cost of pre-war ocean freight to the United Kingdom. The price to the consumer is fixed by adding to this base price a fictional refining margin of £5½ per ton, plus transport and handling charges required to move sugar to the region where it is to be sold, together with a 1 per cent manufacturer/agent's margin, a 2 per cent wholesaler's margin and a 10 per cent retailer's margin.

Other Commodities

13. Apart from the policies just described, which operate to influence the level or stability of the prices of the three major cash crops, cotton, coffee and sugar, there exist a number of regulations capable of being applied to a wide range of other food crops and commodities. These measures can have an important influence on the prices and production of the commodities in question.

14. In the first place, under the Produce Marketing Ordinance of 1953, provision is made for the control of movement of foodstuffs

between districts within Uganda in circumstances of shortage. Under this Ordinance, foodstuffs may be "declared". Declared foodstuffs may not be removed from any district without the permission of the District Commissioner. Moreover, the District Commissioner may make orders laying down the maximum prices at which all or any declared foodstuffs may be sold. Declared or scheduled foodstuffs include currently cassava, finger millet, sweet potatoes and their products, sorghum, matoke (in Busoga), pigeon peas (in Northern Province), field peas (Kigezi only), bulrush millet (Karamoja only), and European potatoes (Kigezi only).

15. In addition to controls on inter-district movements within the territory, provision exists under the External Trade Ordinance (No. 8 of 1952) for prohibiting the export of any class of goods without a licence. Such licences are issued by the Ministry of Commerce and Industry.

16. If the former control on inter-district movements of produce is exercised with foresight, it should, in principle, be possible to prevent or at any rate limit large price fluctuations within districts. In the absence of arrangements for equitable distribution of the produce in question, however, such controls are likely to be ineffective for their fundamental purpose. Moreover, the existence of such restrictions on inter-district movement may, in so far as they prevent a more effective country-wide distribution of certain types of products, contribute to larger price fluctuations in other districts than would have occurred in their absence. These controls, taken in conjunction with the export controls, by making the marketing prospects for the crops in question depend on administrative decisions, which inevitably can be made only at short notice and often at a late stage in the crop year, operate to hinder the expanded production of these crops for the market.

Future Prospects

17. So far as the two major crops, cotton and coffee, are concerned the future scope of stabilization policy is limited narrowly by the size of the Price Assistance Funds which are currently available. At the end of the 1961/62 crop season it is estimated that there will remain in the Cotton Price Assistance Fund approximately £9.5 mn. Of this £1.25 mn. is invested in local securities and about £3.5 mn. is required for crop financing purposes. The uncommitted liquid balance of the Fund at the season's end, therefore, will be of the order of £4.75 mn. This would be sufficient to make it possible to pursue a price support policy designed to keep prices to growers above the price equivalent represented by world market prices for a few more years. However, finance is urgently required to pay for the Five-Year Development Plan, the consideration may have to be given to the use of this liquid balance for this purpose. The recent IBRD Mission to Uganda in fact recommended that about £5 mn. should be withdrawn from the Price Assistance Funds and used for financing that part of Government's five-year development programme which is designed to yield direct benefits to agricultural producers. If this were done it would not be possible to do more than provide intra-seasonal price guarantees for cotton. So far as coffee is concerned it is estimated that at the end of the current crop year there will be a balance of about £4 mn. This is estimated to be no more than is required for crop financing, leaving nothing over to support coffee prices above what is indicated by world market prices.

18. For the forthcoming cotton and coffee seasons, prices have been fixed as follows. The price of coffee to the grower is to be 48 cents. This is approximately equivalent to anticipated world Market prices over the period. The fixed pre-planting price for cotton, on the other hand, of 55/56 cents per lb. is in excess of what is justified by reference to anticipated world market prices and will call for a further withdrawal from the Funds in the absence of a favourable

development in prices. This comparison for cotton, however, is after deducting export tax. If export tax is ignored the aforementioned price is not greatly out of line with the break even price which could be paid on the basis of present world market prices.

19. The present position, therefore, is that the price to the grower of cotton and coffee is roughly in line with world market price equivalents. On general grounds of resources allocation it is desirable that the relative prices for these two crops should have this relationship and similarly it is desirable that the level of these prices should approximate to world market prices. For some years in the past neither of these relationships have been satisfied. The position for the forthcoming year, which on general grounds is satisfactory, will be achieved only by withdrawing further resources from the Price Assistance Funds to offset the cotton export duty. There is no prospect in the present state of Government's finances that revenue from the cotton export duty could be foregone. In the short run, therefore, the only way of enabling the relative prices of coffee and cotton to align with world market prices will be by reducing the level at which coffee export duty becomes payable. This step was indeed recommended by the recent IBRD Mission to Uganda, notwithstanding its objections on general grounds to export taxes. It is likely that this matter will receive consideration by Government in due course.

20. One further aspect of cotton price stabilization policy may be mentioned here. This concerns the differential between pre-planting and pre-harvesting prices. It is arguable that in order to provide the maximum incentive for planting that this differential should be as small as possible. To do this, of course, involved lessening the safety margin viz-à-viz the forecast of cotton prices. It appears to be accepted, however, that this risk will have to be taken in the interests of expanding production.

21. The only other field in which changes are in prospect concerns the controls on other crops, both food and non-food, where some

consideration is being given to the policies underlying the present regulations which were discussed on pages 5 and 6 above. The policies there discussed are essentially based on the view that it is desirable to encourage and promote localized self-sufficiency in relation to a number of crops. Policies of this kind inevitably operate to limit the growth of the exchange economy and can be expected to retard the specialization of production, the best use of resources and the promotion of an appropriate division of labour. Moreover, even when these measures are operated by a large expatriate staff they are to a large extent recognized to be ineffective. It is necessary, of course, to recognize that in some parts of East Africa they may still be good reasons to impose restrictions of this sort in the absence of adequate transportation and distribution facilities. So far as Uganda is concerned, however, these reasons appear to be inoperative. There is now a fairly widely accepted view that the present regulations are outmoded and positively harmful to the development of the economy, and moreover provide only limited protection to producers and consumers. It is also felt that the regulations are operating in such a way as to hinder the emergence of a progressive farming community, and a pattern of production which is based squarely on comparative advantage. It is anticipated that the whole doctrine of self-sufficiency which, of course, underlies the regulations now under discussion will shortly be reconsidered with a view to elaborating a policy which is more in line with the requirements of an expanding economy.

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