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PARLIAMENT OF ZIMBABWE

FIRST REPORT

OF THE PORTFOLIO COMMITTEE ON FOREIGN AFFAIRS, INDUSTRY AND INTERNATIONAL TRADE ON THE ENQUIRY INTO COMMODITY SHORTAGES AND THE PRICING SYSTEM

FIRST SESSION – SIXTH PARLIAMENT

Presented to Parliament in May 2006

(S.C. 11, 2006)

ANNOUNCED

Tuesday 17th July, 2005, that the Committee on Foreign Affairs, Industry and International Trade consists of Mr J. M. Gumbo, Chief J. Mabika, Mr A. Malinga, Mr F. Mhashu, Mr L. Mugabe, Mr T. Mukahlera, Mr E. Mushoriwa, Mr W. Mutomba, Mr M.M. Ndlovu, Mr E. Porusingazi, Chief Z. Shana

Mr E. Porusingazi to be Chairman

ANNOUNCED

Thursday 26th January, 2006 that the Committee on Foreign Affairs, Industry and International Trade consists of Hon. Sen. M.M. Chimene, Hon. Sen. G. Georgios, Hon. Sen. R. Hove, Hon. Sen. D.D. Mumvuri and Hon. Sen. T. Ndlovu

Ordered in terms of Standing Order No. 151.

'At the commencement of every session there shall be as many Select Committees to be designated according to portfolios to examine expenditure, administration and policy of government departments and other matters falling under their jurisdictions as the House may by resolution determine and whose members shall be nominated by the Standing Rules and Orders Committee. Such nominations shall take into account the expressed interests, experience or expertise of members and the political and gender composition of the House.

Terms of reference of Portfolio Committees S.O. 152.

'Subject to these Standing Orders a Portfolio Committee shall:

- a) Consider and deal with all Bills and Statutory Instruments which are referred to it by or under a resolution of the House by the Speaker, consider or deal with an appropriation or money bill referred to it by these Standing Orders or by or under resolution of this House and,
- b) Monitor, investigate, enquire into and make recommendations relating to any aspect of the legislative programme, budget, policy or any other matter it may consider relevant to the government department falling within the category of affairs assigned to it, and may for that purpose consult and liaise with such a department.

ACKNOWLEDGEMENTS

Your Committee expresses its gratitude to individuals and organisations that assisted with views during their enquiries. The Committee was impressed by the openness and genuine desires expressed by all to speedily overcome the challenges, emphasis being on each player dutifully playing their respective roles.

The insightful tours of the Zimbabwe Sugar Refineries (Pvt) Ltd, Olivine Industries (Pvt) Ltd and Circle Cement (Pvt) Ltd, written and oral submissions from the following organisations were valuable in the compilation of this report:

- National Foods (Pvt) Ltd;
- Dairiboard Zimbabwe Ltd;
- Lobels Bread (Pvt) Ltd;
- The Zimbabwe Fertiliser Company;
- The Competition and Tariff Commission;
- The Consumer Council of Zimbabwe;
- The Zimbabwe Federation of Trade Union and;
- The Ministry of Industry and International Trade.

Your Committee, however, expresses its disappointment with some organisations that represent industry who, for reasons best known to themselves, continue to shun the Committee each time they are invited for dialogue. Your Committee honestly hopes that in future the industry representative organisations will work with your Committee and are assured that the doors will always be open for dialogue.

TABLE OF CONTENTS

Constitution of Committee	iii
Terms of reference of the Portfolio Committee	iv
Acknowledgements	v
Executive Summary	1-4
1. Introduction	4
2. Findings	5
2.1 Foreign Currency constraints &Raw Material Shortages	5-9
2.2 Transport Logistics	9
2.3 Financial Constraints	10
2.4 Pricing System	11
2.5 Market Distortions	12
3. Conclusion	13
4. Recommendations	13-15
5. Annexures	15

EXECUTIVE SUMMARY

The Zimbabwean economy has been facing many challenges in the past few years. The major challenges have been rising inflation (declared as the country's number one enemy), high interest rates, and low capacity utilization in industry among others and resultantly low economic growth.

At the time of writing the report, the economic challenges had manifested themselves in the commercial sector, where goods, especially basic commodities had disappeared from the shelves, consumers struggled to secure mealie-meal, bread, milk, salt, cooking oil, and other necessities.

It was against this background, that your Committee resolved to conduct an enquiry into basic commodity shortages and the pricing system. There was consensus among the Committee members that the matter required urgent attention and solutions had to be found, as there appeared to be growing suspicion between the government and industry as to the real cause of the problems.

During its enquiry, your Committee received oral and written evidence from manufacturers of the goods that are in short supply. Major stakeholders such as the Consumer Council of Zimbabwe, the Competition and Tariff Commission and representatives of labour were also consulted. Your Committee conducted tours of some of the selected manufacturers in order to assess the situation on the ground and expresses its gratitude to all for the hospitality and co-operation extended to the Committee.

From your Committee's findings, a number of factors, all closely linked, need to be addressed so as to overcome the commodity shortages. Manufacturers submitted to your Committee that shortages of locally procured raw-materials, foreign currency constraints for the importation of raw-materials and machinery, fuel problems, electricity interruptions and an inefficient rail transport system were some of the major challenges.

On the pricing system for controlled products such as maize, wheat and flour, it was agreed that there was need for price controls right across the chain of production. On monitored goods, the problem with approval of prices was that it took a long time and given the hyper-inflationary environment, by the time they were approved they would have already been overtaken by events. The Incomes and Pricing Commission should **thus** be constituted urgently.

After considering all the submissions made, your Committee believes that there is need to boost agricultural production through the timeous provision of inputs such as fertilizers and seed. This should be complemented by support services such as research and training programmes and the establishment of long term, low cost finance to the farmers.

Admittedly, foreign currency shortages are real, but your Committee implores the government to prioritise manufacturers of basic commodities in the allocation of foreign currency. The foreign currency used to import commodities manufactured abroad could be used for the importation of products that are not locally available.

There is also need for close monitoring of products exported, at the expense of the domestic market. Your Committee noted that sugar, detergents and other commodities being smuggled out of the country, should be priced reasonably enough to profit the manufacturer and satisfy the consumer.

There is need to prioritise manufacturers of basic commodities in the allocation of fuel and to find a lasting solution to transport problems associated with the provision of services by the National Railways of Zimbabwe.

Your Committee acknowledges that the problems the country is experiencing are not new. Similar solutions have been suggested before at various fora and

have not been implemented. Concerns continue to be raised over the non-implementation of some measures that could address some of the problems the country is facing. Dialogue and collective effort should be part of the process in ensuring that basic commodities are available once again to the people at affordable prices.

1.INTRODUCTION

Following the resurfacing of basic commodity shortages and persistent price hikes in April 2005, your Committee felt duty bound and resolved to enquire into the problems. The major objectives were to identify the causative factors, determine the magnitude, and make appropriate recommendations for the resolution of the challenges.

Your Committee's immediate task was to identify the types of commodities that were in short supply. Milk and milk products, sugar, bread, mealie-meal, cooking oil, soaps and other detergents were some of the basic commodities that your Committee identified. Other commodities considered critical in the daily lives of the people that were in short supply were building materials, agricultural seeds and fertilizers.

Having identified the commodities, your Committee selected a number of companies to engage. These companies were considered as representative of the various industries that are involved in the manufacture and distribution of the commodities that are in short supply.

Your Committee heard oral evidence and considered written submissions, and toured some companies. Not even the shortage of fuel could deter the members of the Committee from pursuing their set objectives, and sometimes lunch was foregone, with your Committee working beyond the normal day's working hours. Your Committee would have loved to carry out the enquiries in other provinces, had it not been for time and financial constraints. Your Committee submits, however, that their findings are common across the different industries. Your Committee now dutifully presents these findings.

2. FINDINGS OF THE COMMITTEE

2.1 Foreign Currency Constraints and Raw-Material Shortages

Your Committee observed that all the major producers of basic commodities require foreign currency in their operations. Heavy, specialized machinery such as bore –mills, excavators, front-end loaders and dump trucks are all imported. Ovens and boilers used by the baking industry and oil processors respectively, require large amounts of foreign currency for replacement of obsolete machinery or the acquisition of spares for maintenance purposes.

It was also observed that a significant amount of inputs in most of the industries are imported. Some of the raw materials are potash, sulphates and ammonia required in the manufacture of fertilizers. The other industries submitted that foreign currency was also required for the manufacturing of packaging materials for goods.

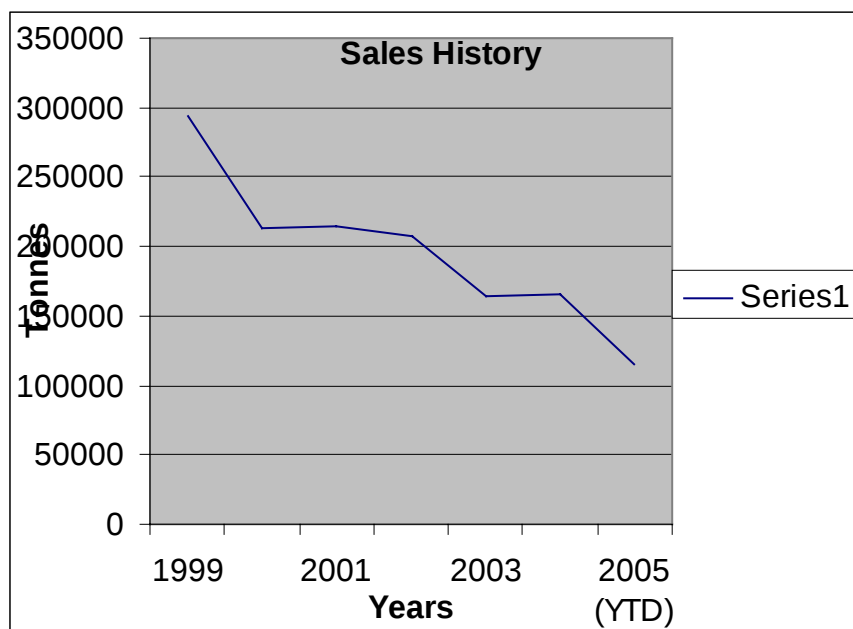
For the majority of firms, limited amounts of foreign currency were made available up to July 2005. Between July and October no foreign currency was accessed by most of the industries, forcing them to either scale down their operations or shut down.

There was also some concern that whilst there was a shortage of foreign currency to import raw materials for local manufacturers, local supermarkets were filled with foreign goods that included cooking oil, soaps, margarine and candles. All of these products could have been manufactured locally had the necessary foreign currency been made available.

Your Committee commends the Reserve Bank of Zimbabwe for disbursing US \$ 5 million to fertilizer companies ZFC, Windmill and ZIMPHOS. It was submitted to your Committee that whilst the amount would enable the companies to satisfy the domestic demand for compound fertilizers for the

current 2005 – 2006 farming season, Ammonium Nitrate would continue to be in short supply. More foreign currency is, therefore, required to enable the fertilizer companies to produce top dressing that would meet the requirements of the current agricultural season.

Production levels in the various companies revealed a sharp decline over the last four to five years. The sales pattern of fertilizer by the Zimbabwe Fertilizer Company, for example, demonstrates the declining levels of production as illustrated below:



The period under review (1999 – 2005) clearly indicates a marked decline of the output, with 293 354 tonnes of fertilizer having been produced in 1999, 215 297 tonnes in 2001, 163 513 tonnes in 2003 and 115 000 tonnes by September 2005. For the fertilizer industry to operate at full capacity, the monthly foreign currency requirements were indicated as being US \$ 5 950 000. Your Committee concluded that the low output of fertilizer had an adverse effect on crop output in general leading to the shortages of basic commodities.

One of the major raw-materials required for the manufacture of cooking oil, soya beans, had declined from a peak production of 170 000 tonnes in 2001 to about 45 000 tonnes in 2005. Seed cotton production, on the other hand, had witnessed an upward and downward movement over the last four years (See Annex 1). The declining production pattern is mainly due to the poor rains and late provision of seed, fertilizers and chemicals.

Another area that has been adversely affected by the shortage of raw materials is the dairy industry. It was submitted that the demand for milk far outstripped supply. Of the two hundred and forty (240) million litres required for the market, only ninety-four (94) million litres were being supplied per annum. The declining quantities of milk produced are explained by the declining numbers of registered milk producers (See Annex 2). The national herd has gone down from about one hundred and four (104) million to about forty (40) million.

Whilst the picture painted in the dairy industry is gloomy, your Committee was informed that great potential to revive the industry exists, and should be exploited. Research institutions such as Henderson Research Station in Mazowe and Grasslands Research Station in Marondera, should be quickly revamped so that they could assist in the rejuvenation of the dairy industry. An option for their revival could be leasing them to organisations such as Dairiboard Zimbabwe Limited and other interested companies with the requisite resources and expertise.

Your Committee was informed that the baking and milling industries had been adversely affected by the critical shortages of wheat and grain. These shortages had resulted in small quantities of flour and maize meal being produced. At the time of your Committee's visit to one company, it was submitted that the company's maize mills were operating at fifteen percent (15%) of capacity. The same company's flour mill in Bulawayo had been closed due to unavailability of wheat.

Your Committee also gathered that at times commodities were produced but could not be delivered to consumers because of the shortage of packaging materials. An example that was given was that of cement bags that are made from imported granules that are not readily available because of foreign currency constraints. When your Committee conducted a tour of Circle Cement it observed that the bags that were being used were imports. Bakers were facing similar problems as they sometimes packed bread in sub-standard packaging material, or sold bread in plain packaging that did not have their logo for identity.

Many manufacturers, who are exporters, had welcomed the policy that allowed them to retain 70% of their export earnings and selling the remaining 30% at a market-determined rate. The percentage retention applicable prior to the pronouncement of the monetary policy statement had proved to be inadequate for industry to meet their import requirements. It is hoped that this new exchange regime will make more foreign currency available, and contribute towards the resolution of commodity shortages by increasing capacity utilization, which averaged 50% at the time of the enquiries.

Your Committee also gathered that, apart from the shortage of foreign currency and raw materials, production had been negatively affected by shortages of fuel, coal and electricity interruptions. Most of the industries do not have these necessary inputs, and their non-availability has, to some extent, resulted in shortages of goods.

The coal supply situation was not encouraging, as witnessed by your committee during its tour of industries. It was submitted that the inadequate supply of coal had forced some companies to import coal from Botswana and Mozambique. This importation of coal has huge ramifications on costs related to production. Other firms had resorted to augmenting their energy requirements by purchasing coal from local merchants in spite of the fact

that the prices were prohibitive and some companies were being forced to transport coal from Hwange by road at great cost

The baking and cement manufacturing industries require large volumes of diesel for their ovens and plant operations. The three cement manufacturers require about 330 000 litres of diesel per month to sustain their operations, a quantity which NOCZIM has not been able to supply. To continue with limited production, the industry was forced to procure the fuel on the black market. This alternative has led to high production costs.

Your Committee was informed that Circle Cement (Pvt) Ltd is the largest consumer of electricity in Harare. Some machines are better maintained if they are allowed to run continuously. Operations are greatly affected when industry experiences between 14 and 26 electricity interruptions per month, as has been the case.

2.2 Transport Logistics

Traditionally, industry has relied on the National Railways of Zimbabwe (NRZ) for the transportation of raw materials from various sources to the points of production. Your Committee was informed that the NRZ had not been reliable in the movement of products such as coal from Hwange. Individual firms were forced to switch to using road transport which was not only very expensive, but also has its own problems such as shortages of diesel, lower haulage capacity and time consuming. It has also contributed to the damage on the road infrastructure which has outlived its lifespan. Turning the fortunes of the National Railways of Zimbabwe is a matter that needs to be addressed as a matter of urgency as a large percentage of the economy is dependent upon the railways for transport. It is hoped that the newly appointed Board of Directors would move with speed to improve the operations of the parastatal.

2.3 Financial Constraints

One of the most important sources of business finance is borrowing. The rate of interest generally increased during 2005. This has come against the background of the termination of the Productive Sector Facility [PSF] from which businesses were borrowing at a concessionary rate of 50%. Whilst it is not viable to borrow money from the open market, some firms had placed orders for machines, spares and raw materials when the PSF was still operational. These companies were then forced to raise financial resources from the open market to pay for the orders because the PSF has since been discontinued.

Your Committee shares the same views with those proponents of long-term finance facilities, rather than the short-term schemes. Investment, for example in the dairy sector, takes up to five years before realizing any returns from the investment. The Productive Sector Facility should, therefore, have been extended to Industry for a longer period to enable companies to pay back their loans.

In addition to long term financing schemes, your Committee proposes that targeted support should be extended to the production of other crops such as soya beans and sunflower. It should also be noted that by-products of these crops are vital to another critical industry, the livestock industry. An observation was made that targeted support has been limited to crops such as tobacco and cotton production at the expense of other crops. It would be ideal to broaden such schemes so that raw materials are obtained locally, so that shortages of raw materials can become a thing of the past.

2.4 The Pricing System

The pricing structure, to a large extent, has been blamed for the current commodity shortages. Of the three categories of price- controlled, price-monitored and uncontrolled products, the first two categories, it was submitted, needed urgent reviewing. There was a general consensus that price controls are not out rightly undesirable. In an economy where there are market distortions the need for intervention, in the form of price controls or monitoring, was recognized by most manufacturers. The manufacturers were, however, unanimous in expressing their concerns that the controls should not be targeted at the end product only, but should be applied to the entire production chain for business to remain viable.

With regards to commodities whose prices are monitored, your committee was pleased to note that there are agreed formulae used to determine price levels. The major cause for concern was the time it took the Ministry of Industry and International Trade to approve proposed price increases. Manufacturers submitted that by the time the ministry approved price increases, the situation on the ground would have changed so dramatically as to make the approved prices irrelevant. The Ministry of Industry and International Trade, on the other hand, submitted that the inter-departmental and inter-ministerial consultations that are carried out before price increases were approved were the major cause of the delay. Your Committee endorses Vice President Mujuru's calls for civil servants, including Ministers, to work expeditiously in order to meet deadlines. The idea of setting up an Incomes and Pricing Commission was welcomed by the manufacturers who felt that the Commission could address the problem of price controls in a meaningful way.

In adjusting prices it was noted that there were two cases in which price reviews had to be periodic and automatic. Periodic reviews had to be done, for example, at the beginning of the farming season for commodities such as

fertilizers and seed, and at the beginning of the year for others. The second case related to automatic adjustments triggered by exchange rate movements whose rates are easily known and indisputable.

2.5 Market distortions

The Grain Marketing Board, as an organization mandated with ensuring food security, was working hard to fulfill its mandate. Your Committee was informed that government was mobilizing financial resources for the procurement of wheat and maize imports. The imports were meant to fill in the gap created by the persistent droughts. It was submitted that shortages on the market had resulted in some unscrupulous dealers diverting supplies to other areas where the products were being sold at exorbitant prices. Some milling companies had resorted to milling super-refined mealie-meal whose price is not controlled, instead of Roller meal.

The Zimbabwe Sugar Refineries (Pvt) Ltd informed Your Committee that in a normal season the output of the sugar crop was around (500 000) five hundred thousand tonnes. The tonnage for domestic consumption stood at three hundred thousand tonnes per annum. The current shortages of sugar were being caused by some people who were diverting sugar meant for the domestic market to foreign markets where the returns, in foreign currency, from the sales were higher.

It was evident to your Committee that the shortages themselves had created the parallel market for basic commodities. The unofficial market prices paint an artificially bad picture that is divorced from the real situation. The distortions created can be effectively dealt with by ensuring that goods are available on the market in sufficient quantities.

3. CONCLUSION

Your Committee submits that the basic commodity shortages and the pricing system were real challenges that are affecting both manufacturers and consumers. Real in the sense that the challenges contained in this report were identified by the affected constituencies through the consultations with your Committee as alluded to earlier on. The solutions to these problems, therefore, are within the Zimbabwean borders and with Zimbabweans as submitted to your Committee. It is on this basis that your Committee believes that the recommendations made should be implemented, cognisant of the fact that every Zimbabwean, whether in business or as consumers or government, has a role to play in turning around the fortunes of the country. Your Committee believes that the time is over to blame each other, so is the time for talk shows. All efforts should now be focused at practical solutions to overcoming basic commodity shortages and the problems with the pricing system.

4. RECOMMENDATIONS

Your Committee, having thoroughly considered the above, recommends the following;

1. That the agrarian reform be fully supported through provision of foreign currency to manufacturers of fertilizers, seed and chemicals to ensure that these inputs are made available to the farmers timeously and in adequate quantities.
2. That targeted support to the agricultural sector be extended to Soya bean production, coupled with the establishment of a Soya bean Trust to spearhead this programme. The shortage of soya bean cake, for example, can eventually lead to the shortage of chicken and eggs since it is a vital ingredient in chicken feed.

3. That Government provides dairy farmers with long term loans and support services and considers leasing ARDA dairy farms in Mutare and Bulawayo to Dairiboard Zimbabwe Limited. The Government should also seriously consider leasing the research institutions at Henderson Research Station and Grasslands to Dairiboard Zimbabwe and other interested companies with the requisite resources and capacity in order to assist in the turnaround of the dairy industry.
4. That Government re-capitalises the National Railways of Zimbabwe to enable it to improve on its efficiency in the provision of transport services to industry.
5. That Government, through the relevant ministries, expedites the establishment of the proposed National Incomes and Pricing Commission so that it can start to execute its mandate.
6. That the Tripartite Negotiating Forum be revived to provide a forum for Government, Labour and Industry to dialogue and remove suspicion between them.
7. That Government, in the interim and through the Grain Marketing Board, speeds up the importation of wheat and maize to augment local supplies and, in the long term, announces attractive producer prices of these commodities to encourage their planting by farmers.
8. That Government strictly monitors the source of the foreign currency used for the importation of goods that can be manufactured locally to ensure that there are no leakages of foreign currency from the country.

9. That ZIMRA and the security agents strictly monitor the export of goods to ensure that unscrupulous dealers do not export products meant for the domestic market.

5. ANNEXURES

Annex 1

Cotton and Soyabeans production in Zimbabwe

Year	Seed Cotton (in tonnes)	Soyabeans (in tonnes)
2001	337 000	170 000
2002	196 000	84 400
2003	250 000	70 000
2004	331 000	65 000
2005	196 000	45 000

Annex 2

Milk producers and milk production in Zimbabwe

Year	No of milk producers	Milk production (in litres)
1980	364	150 million
1990	514	256 million
2004	279	75 million