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Kenya

Sugar

Kenya Sugar Update Report

2006

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Report Highlights:
The Kenya Sugar Industry faces an uphill battle to gain a competitive advantage over COMESA imports

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Nairobi [KE1]
[KE]

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Production

Kenya Sugar Board (KSB) registered production for 2005 at 489,000 tons, about a 5 percent decline from the previous year. The decline in production is attributed to reduced cane yields, area harvested and cane deliveries in the Nyanza sugar belt and decreased efficiency in some factories. Cane fires, drought and delayed payments in some areas also led to a decline in performance (reduced production and quality).

PSD Table						
Country	**Kenya**					
Commodity	**Sugar, Centrifugal**				(1000 MT)	
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]
Market Year Begin		01/2003		01/2004		01/2005
Beginning Stocks	146	146	135	175	130	119
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	430	517	450	489	450	500
TOTAL Sugar Production	430	517	450	489	450	500
Raw Imports	100	108	75	87	75	80
Refined Imp.(Raw Val)	90	74	100	80	100	100
TOTAL Imports	190	182	175	167	175	180
TOTAL SUPPLY	766	845	760	831	755	799
Raw Exports	11	0	10	22	10	10
Refined Exp.(Raw Val)	0	0	0	0	0	0
TOTAL EXPORTS	11	0	10	22	10	10
Human Dom. Consumption	520	550	520	590	520	590
Other Disappearance	100	120	100	100	100	100
Total Disappearance	620	670	620	690	620	690
Ending Stocks	135	175	130	119	125	99
TOTAL DISTRIBUTION	766	845	760	831	755	799

Kenya sugar is produced largely in western Kenya in three zones:

- The Nyanza sugar belt the oldest producing zone suffers heavy clay soils that make operations very expensive, and relatively low rainfall that reduce yields. The mixture of large and small-scale producers in the area are served by struggling sugar factories with one under receivership, one closed and the other struggling.

- Western Kenya, a small-scale production zone is served by the profitable and efficient Mumias sugar Factory and Nzoia sugar Company. But the area is constrained with the dwindling land sizes.

- The South Nyanza belt is served by one factory that has a current crushing capacity (3,000 tons cane a day (TCD)) that is below the region's requirement. It has the best potential for expansion in the sugar industry. Plans are underway to increase the factory capacity to 6,500 TCD.

Kenya's state run Tana and Athi River Development Authority (TARDA) and MAT International signed a partnership agreement to build the Tana Delta Sugar Company ($ 300 Million) using financing through a consortium led by Switzerland UBS Bank. The sugar factory expects to initially produce 160,000 tons. The area has land for expansion and the climatic conditions in the area favor fast growing cane variety. GOK is still negotiating with MAT International and the project status still remains unclear at the moment.

Area Under Cane, Area Harvested and cane yields

As indicated in the table below area under cane increased, area harvested/cane delivered declined and cane yields increased.

	2004	2005
Area under cane (HA)	131,507	144,465
Area Harvested (HA)	54,537	56,537
Cane delivered (TC)	4,660,995	4,800,820
Cane yields (Mean) (TC/HA)	73.81	71.46

Source: Kenya Sugar Board

Better cane yields are likely to be realized in 2006 as the farmers improve on crop husbandry practices if prompt payment and weather conditions remain reliable.

Sugar Research Foundation

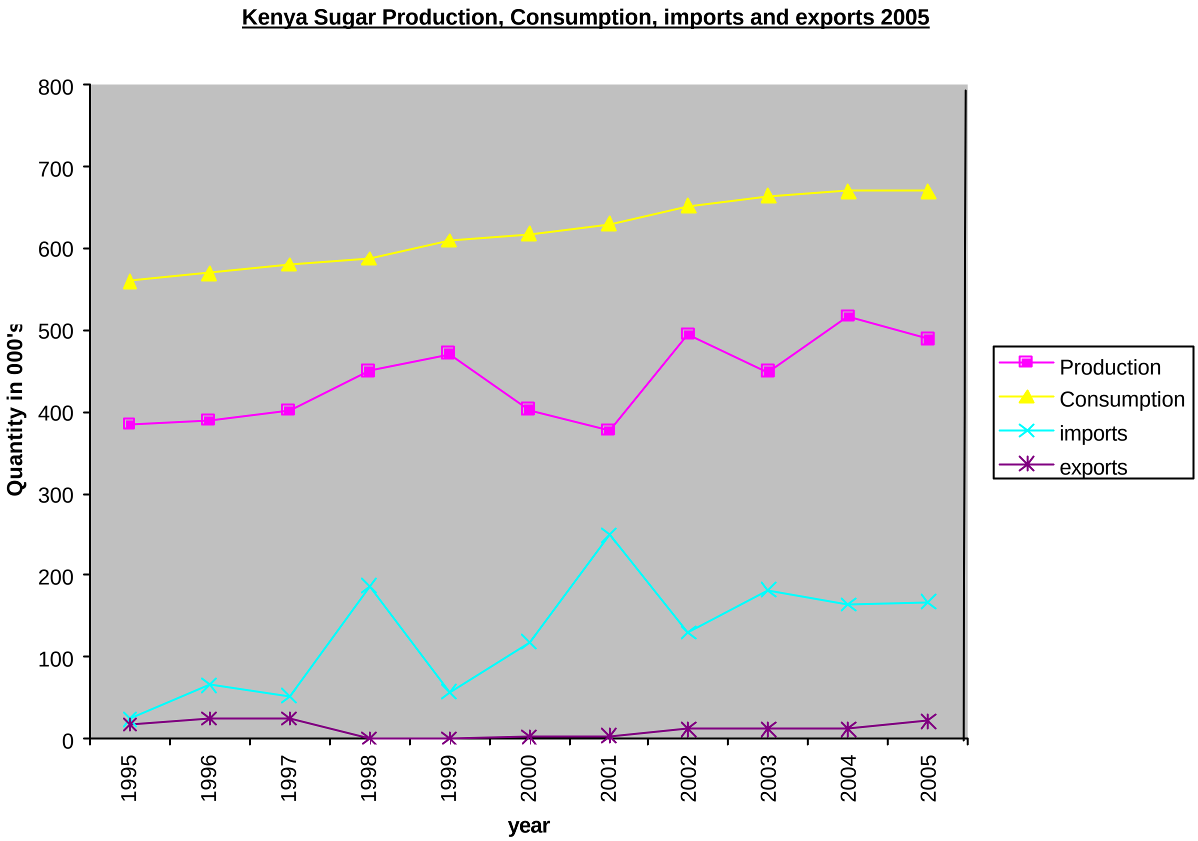
The Sugar Research Foundation has developed six new varieties, ready for commercialization (adoption on going). The new varieties are high in sugar content, have improved yield prospects and can withstand resistance to pests and are early maturing. The varieties are for different agro ecological zones and yield 10-13 % more than the conventional varieties. Research activities are operating below expectations at present.

Consumption and Trade

COMESA quota system

Kenya received the first COMESA safeguard in 2002 for sugar, which was extended in 2003 and 2004. On realizing that the three-year safeguard had achieved little, the GOK negotiated for a final four-year extension ending in 2008 in order to allow the sugar industry to recover and restructure and attain self-sufficiency. Due to its WTO commitments Kenya is unable to ban sugar imports i.e. fear of retribution by other COMESA member states like Egypt and Malawi.

Imports, mainly from COMESA member states, are difficult to capture as the sugar comes in containers and is often not declared by the traders.



Policy and Marketing

During 2003 the sugar industry was on the brink of collapse due to high production costs, old machinery, low investment, and lack of credit and general mismanagement of factories. As a result a four-year COMESA safeguard period was negotiated to cushion local industries from competition by low cost producer member states. Work has begun on reducing the cost of sugar production. Deliberate efforts have been made to develop the sugar industry through seeking new markets, generating novel uses for cane and it's by products, researching better cane varieties and developing infrastructure in sugar cane growing areas.

Sugar Industry Challenges

The industry is faced with a major challenge of reducing the cost of sugar production if they are to compete with the other COMESA member states, after the expiry of the safe guards in 2008. The factories are considering the following options as cost cutting measures;

- Co-generation of power and consequent contribution to the national grid
- Adopting the new released sugar varieties that are early maturing, rich in sugar and high yielding.
- Improving or boosting technology i.e., diffuser systems, modern boilers, powerhouse etc.
- Branding sugar to claim ownership and market segmentation.
- Fortification with vitamin A and other minerals.

Only Mumias has evolved various strategies to face the challenge of losing the temporary protection offered by COMESA. Regulatory and industry changes to embrace production of ethanol and core generation remain a challenge.

Most of the six functioning factories have branded their sugar except Muhoroni (under receivership) and West Kenya. Mumias, the industry flagship, has embarked on market segmentation and product positioning. The South Nyanza sugar Company has aggressively been involved in brand building initiatives to increase brand visibility and develop new markets. A major achievement being recorded in the development and launching of sugar sachets (SONY Sugar), previously unavailable from the local sugar industry.