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COVID-19 to disrupt Kenya's grains supply chains

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Report Highlights:

COVID-19 to disrupt Kenya's grains supply chains. FAS/Nairobi forecasts the evolving COVID-19 pandemic will disrupt Kenya's domestic and international corn-, wheat-, and rice- supply chains, with the no clear end. Corn and wheat production is forecast down in marketing year (MY) 2020/2021, while rice production is expected to stagnate. Whereas import options for wheat and rice are clear, corn exports to Kenya will be impeded by the import ban on genetically modified (GM) products. The ongoing exploration of alternative feed ingredients by Kenya's feed manufacturers provides an option that could sustainably alleviate the supply gap. Commercial wheat imports from the United States are expected to rise after U.S and Kenya signed the certification protocol for export of the Pacific Northwest (PNW) wheat.

Corn:

Harvested area and production expected to decrease

FAS/Nairobi forecasts a drop in MY 2020/2021 harvested area, leading to less production, due to labor and inputs supply disruption occasioned by measures by government of Kenya (GOK) to curb community transmission of coronavirus disease (COVID-19). The measures that took effect in mid-March 2020 coincided with the main corn planting period, and included a "stay home" advisory, and a country-wide dusk-to-dawn curfew. The disruption of labor supply has mainly manifested in the North Rift Valley region, which accounts for over 80 percent of Kenya's commercial corn production. Opening of the corn planting season was also affected by delayed land preparation due to an unusually wet first quarter of 2020. The desert locust infestation, that has ravaged crops and pasture in parts of Northern and Eastern Kenya has not extended to the higher altitude commercial corn production regions of Kenya.

Corn: Production, Supply, and Distribution (PSD) Table

Table 1

Corn	2018/2019		2019/2020		2020/2021	
Market Begin Year	Jul 2018		Jul 2019		Jul 2020	
Kenya	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2200	2200	2000	2000	0	1800
Beginning Stocks	563	563	303	403	0	393
Production	4000	4000	3400	3800	0	3000
MY Imports	250	500	1300	900	0	1200
TY Imports	150	500	1300	900	0	1200
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	4813	5063	5003	5103	0	4593
MY Exports	10	10	10	10	0	0
TY Exports	10	10	10	10	0	0
Feed and Residual	400	450	500	500	0	450

FSI Consumption	4100	4200	4200	4200	0	4000
Total Consumption	4500	4650	4700	4700	0	4450
Ending Stocks	303	403	293	393	0	143
Total Distribution	4813	5063	5003	5103	0	4593
Yield	1.8182	1.8182	1.7	1.9	0	1.6667
(1000 HA), (1000 MT), (MT/HA)						

Post-harvest losses

High post-harvest losses (estimated at between 30-40 percent) continue to depress Kenya's corn yield, due largely to low investment in storage, especially at farm and community. At the national level, effective corn storage and handling is constrained by poor maintenance of facilities under the National Cereals and Produce Board (NPCB), a GOK agency. In addition, there is a major misalignment in terms of the siting of current storage capacities and surplus production areas. Opportunities, therefore, exist in Kenya for private sector investment in and operation of corn storage and handling facilities.

Corn demand forecast to decrease

Whereas white corn remains the main staple food crop in Kenya, FAS/Nairobi is forecasting decreased demand in MY 2020/2021, due to increased substitution with other carbohydrates sources such as Irish potatoes, in response to an anticipated a surge white corn prices. In addition, Kenya's feed manufacturers in are actively exploring alternative feed ingredients such as sorghum, and distillers dried grains with solubles (DDGs), to optimize on feed quality, cost-reduction, and pricing.

Corn imports forecast to increase

Corn demand, though depressed, is still expected outpace production; and imports will be inevitable in MY 2020/2021. In view of Kenya's preference for white corn, and with the import ban of GM products still in place, Kenya's import options will be very limited. The progression of COVID-19 situation will also influence a great deal of Kenya's corn import decisions; given that some of the potential source countries may lock-in their grains. Barring deliberate trade restrictions, Kenya's corn pricing regime will nevertheless continue to favor trade inflows of corn from the Common Market for Eastern and Southern Africa (COMESA)/East African Community (EAC) countries.

Corn stocks to dip

FAS/Nairobi forecasts a significant drop in MY 2020/2021ending corn stocks. The stocks will be held by farmers, traders, and millers following the decision of GOK, to stop purchasing corn from farmers, as they embark on restructuring both NCPB and the Strategic Food Reserves (SFR).

Increased volatility of corn prices expected.

The exit of GOK from the purchase of corn from farmers is expected to accentuate volatility of corn prices in MY 2020/2021. Generally a pricing regime of over Ksh 2,500 ($25 USD) per 90 kg bag is expected to prevail due to expectations of lower production, and until import guidelines by GOK become clear. GOK has, however, cautioned traders and retails of its intervention to protect the consumers in the event that prices surge, especially during the time COVID-19.

Corn trade policy

EAC common external ad-valorem tariff for corn is set at 50 percent. However, member countries are allowed to seek permission for lower tariffs for specific quantities of corn, for particular period of time. Previously, GOK utilized this window in MY 2018/2019, and Kenya's Cabinet Secretary (CS) for Agriculture has recently expressed GOK's intention to allow the importation of 360,000 MT of corn (comprising 180,000 MT of white corn at 14 percent tariff, and 180,000 MT of yellow corn at 10 percent tariff) starting May 2020. It is very likely GOK will utilize a similar window in the MY 2020/2021 to bridge the supply deficit.

Wheat:

Wheat production to decrease

FAS/Nairobi forecasts that Kenya's wheat production will continue to drop in MY 2020/2021 due a decrease in planted area as farmers continue their shift to other more competitive enterprises such as barley, horticulture, dairy, and sorghum. In addition, production will be compromised by low yields occasioned by the continued recycling of seed by farmers, and the resultant wheat stem rust (Ug99) disease infestation. Kenya's continued viability in wheat farming is also undermined by land tenure and lease systems (especially in the Narok region) that discourage long-term investments in production capabilities. The subdivision of family-owned farms into smaller units for inheritance purposes has also led to unviable production units.

Wheat consumption to remain flat

FAS/Nairobi forecasts that wheat consumption in Kenya will remain flat in the MY 2020/2021 due to decreased demand for wheat products in the hotel and food service sector. Hotels, restaurants, and tourism/hospitality events were the first casualties of COVID-19 pandemic around the world. Yet this is the sector that has over the last decade, been the main driver of demand growth for wheat products in Kenya. Whereas subsectors like home-baking may sustain their growth, they will not sufficiently compensate for the COVID-19 pull-down, while full recovery may most likely take a long time.

U.S. wheat exports to Kenya expected to increase

FAS/Nairobi forecasts a dip in wheat imports in MY 2020/2021 due to disruption of the export supply chain, and cautious posture by importers as markets recover from the impact of COVID-19. It is expected that bulk of the Kenya's wheat imports will come from traditional origins, mainly Russia, Ukraine, Argentina, and Canada. Commercial imports from the United States are also expected to increase, after U.S and Kenya signed the certification protocol for export of the Pacific Northwest (PNW) wheat.

Wheat: Production, Supply and Distribution (PSD) Table

Wheat	2018/2019		2019/2020		2020/2021	
Market Begin Year	Jul 2018		Jul 2019		Jul 2020	
Kenya	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	170	170	125	160	0	150
Beginning Stocks	142	142	197	247	0	362
Production	360	360	200	320	0	300
MY Imports	2000	2000	2300	2300	0	2000
TY Imports	2000	2000	2300	2300	0	2000
TY Imp. from U.S.	139	139	0	0	0	100
Total Supply	2502	2502	2697	2867	0	2662
MY Exports	5	5	25	25	0	0
TY Exports	5	5	25	25	0	0
Feed and Residual	150	150	150	180	0	180
FSI Consumption	2150	2100	2300	2300	0	2300
Total Consumption	2300	2250	2450	2480	0	2480
Ending Stocks	197	247	222	362	0	182
Total Distribution	2502	2502	2697	2867	0	2662
Yield	2.1176	2.1176	1.6	2	0	2
(1000 HA), (1000 MT), (MT/HA)						

Table 2

Ending wheat stocks expected to decrease

FAS/Nairobi forecasts a significant decrease in ending stocks; reflecting the net impact of lower overall supply against a flat consumption. Wheat stocks will be held mainly by private traders, millers. GOK does not hold wheat stocks.

GOK expected to maintain the lower wheat import tariff

Kenya's wheat imports are by registered millers and are assessed a 10 percent ad-valorem tariff; otherwise the EAC common external tariff of 35 percent applies. In addition, the GOK maintains an understanding with Cereal Millers Association (CMA), a key industry association that their members must mop up local produce before they can be granted import licenses.

Key wheat exporters to Kenya (Year ending June)

Source Country	Unit	2017	2018	2019
Russia	T	439,462	838,276	579,765
Ukraine	T	212,628	191,156	246,160
Argentina	T	394,376	371,322	234,484
Canada	T	160,257	140,330	172,932
EU 28 External Trade	T	341,656	389,964	164,579
United States Consumption	T	86,508	83,545	139,093
Australia	T	81,006	43,766	44,469

Source: TDM

Rice:

Rice production expected to stagnate

FAS/Nairobi forecast a flat rice production in MY2020/2021 due to the lack of significant progress in the previously anticipated production expansion of GOK controlled rice irrigation schemes. In the MY 2019/2020, Mwea Irrigation Scheme (an open channel irrigation scheme that produces 80% of Kenya's rice) had a jump in production, following the recovery from the previous year's drought that led to inadequate water supply, and the introduction of new hybrid rice variety by African Agricultural Technology Foundation (AATF), in collaboration with Kenya Agricultural and Livestock Research Institute (KALRO). The National Irrigation Authority (the regulatory successor of National Irrigation Board) has projected that with the current irrigation infrastructure, production at the scheme can be sustained at the MY 2019/2020 levels. Mwea irrigation scheme produces the premium-priced aromatic rice – Basmati. Other smaller irrigation schemes are in Ahero (in Kisumu County), and Budalangi (in Busia county). The New Rice for Africa (NERICA) program, that was meant to promote rain-fed rice, is yet to have any significant impact on the overall rice production in Kenya.

Rice consumption to increase

FAS/Nairobi forecast an eight percent increase in rice consumption in Kenya, contributed by increased preference for easy- to- cook foods, especially in the urban areas. Rice is also now a choice substitute, in instances when prices of either corn or wheat products surge – a scenario that is anticipated to pan out in the MY 2020/2021. Unlike before when aromatic rice was highly preferred, Kenyans are increasingly embracing the non-aromatic rice, and other types of rice, including long grains, for specific recipes, and for blending. Affordability is also a major consideration in Kenya's rice consumer decisions.

Asian countries to dominate rice exports to Kenya

Kenya's local production can only meet about 15% of demand and the resultant deficit is offset by imports by private traders. The key countries that export rice to Kenya are Thailand, India, and South Korea. Kenya does modest rice exports to neighboring Uganda and South Sudan. Kenya's rice imports dipped in 2019, due to a GOK clampdown on duty evasion by some importers at the port of Mombasa.

Key rice exporter to Kenya (Year ending September)

Source Country	Unit	2017	2018	2019
Thailand	T	170,500	207,027	157,112
India	T	17,189	31,380	18,821
South Korea	T	-	18,000	15,000
China	T	10,523	34,912	4,325
Myanmar	T	875	-	2,045
EU 28 External Trade	T	125	89	66

Source: TDM

Retail prices expected to stabilize

Unlike in the MY 2018/2019, and before, rice retail prices in Kenya have remained relatively stable at about Ksh 125 per kilogram ($0.57 USD/lb.) in MY 2019/2020, mainly due to amalgamation and strengthening of rice producer groups, investments in efficient communal milling facilities, and joint marketing strategies. In February 2020, Kenya's President, while visiting Mwea irrigation Scheme, announced a GOK rice purchase program, that included the enhancement of the rice producer price from Ksh 45 to Ksh 85 per kilogram of raw rice. The program is yet to be fully implemented, and therefore it has had no impact on retail rice prices yet. The price of non-aromatic rice has been stable at Ksh 100 per kg ($0.45 USD/lb.). FAS/Nairobi forecasts that an increase in rice prices in the remaining part of MY 2019/2020, mainly in response to the COVID -19 disruption of the import chain.

Marginal decrease in ending rice stocks expected

FAS/Nairobi forecasts a marginal decrease in ending stocks. All rice stocks in Kenya are held by private traders.

EAC grant to Kenya of "stay of application' on rice imports expected to remain

Rice imports to Kenya from outside the East African Community (EAC) are charged a tariff of 35 percent ad-valorem or $200 USD per metric ton (MT), whichever is higher. This is lower than the general EAC common external tariff of 75 percent ad-valorem or $345 USD per MT, whichever is higher. Kenya has since 2015 been granted by EAC "the stay of application", based on the justification of limited local production of rice, this waiver is reviewed every year by the EAC secretariat, and FAS/Nairobi expects the tariff structure to be retained going into MY 2020/202.

Rice: Production, Supply and Distribution (PSD) Table

Rice, Milled	2018/2019		2019/2020		2020/2021	
Market Begin Year	Oct 2018		Oct 2019		Oct 2020	
Kenya	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	30	45	30	45	0	45
Beginning Stocks	87	87	91	82	0	57
Milled Production	79	80	80	105	0	105
Rough Production	120	121	121	159	0	159
Milling Rate (.9999)	6600	6600	6600	6600	0	6600
MY Imports	625	625	600	600	0	650
TY Imports	575	575	625	625	0	700
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	791	792	771	787	0	812
MY Exports	0	10	0	10	0	10
TY Exports	0	10	0	10	0	10
Consumption and Residual	700	700	700	720	0	750
Ending Stocks	91	82	71	57	0	52
Total Distribution	791	792	771	787	0	812
Yield (Rough)	4	2.6889	4.0333	3.5333	0	3.5333
(1000 HA), (1000 MT), (MT/HA)						

Table 3

Rice: Production, Supply and Distribution (PSD) Table

Rice, Milled	2018/2019		2019/2020		2020/2021	
Market Begin Year	Oct 2018		Oct 2019		Oct 2020	
Kenya	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	30	45	30	45	0	45
Beginning Stocks	87	87	91	82	0	57
Milled Production	79	80	80	105	0	105
Rough Production	120	121	121	159	0	159
Milling Rate (.9999)	6600	6600	6600	6600	0	6600
MY Imports	625	625	600	600	0	650
TY Imports	575	575	625	625	0	700
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	791	792	771	787	0	812
MY Exports	0	10	0	10	0	10
TY Exports	0	10	0	10	0	10
Consumption and Residual	700	700	700	720	0	750
Ending Stocks	91	82	71	57	0	52
Total Distribution	791	792	771	787	0	812
Yield (Rough)	4	2.6889	4.0333	3.5333	0	3.5333
(1000 HA), (1000 MT), (MT/HA)						

Table 3

Attachments:

No Attachments