USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 3/31/2008

GAIN Report Number: KE8011

Kenya

Sugar

Kenya Sugar Update Report

2008

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Report Highlights:
Kenya enters into a new tariff/quota arrangement with COMESA and adopts a privatization plan for GOK run factories.

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

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Production

Kenya Sugar Board (KSB) has reported a record sugar production for 2007 at 520,400 tons, about a 9 % increase from the previous year (476,000 tons). The increase in production has been attributed to increased area under cane, more cane delivered, larger area harvested, reduced factory closures for maintenance and favorable weather. Presently, the major challenge facing the sector remains the ability to maintain competitiveness against cheaper COMESA imports.

PSD Table									
Country	Kenya								
Commodity	Sugar, Centrifugal						(1000 MT)		
	2007	Revised		2008	Estimate		2009	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01/2006	01/2006		01/2007	01/2007		01/2008	01/2008
Beginning Stocks	66	66	66	35	35	20	95	0	33
Beet Sugar Production	0	0	0	0	0	0	0	0	0
Cane Sugar Production	495	495	476	525	0	520	0	0	540
Total Sugar Production	495	495	476	525	0	520	0	0	540
Raw Imports	90	90	95	0	0	98	0	0	100
Refined Imp.(Raw Val)	111	111	86	300	0	132	0	0	135
Total Imports	201	201	181	300	0	230	0	0	235
Total Supply	762	762	723	860	35	770	95	0	808
Raw Exports	12	12	14	15	0	21	0	0	30
Refined Exp.(Raw Val)	0	0	0	0	0	0	0	0	0
Total Exports	12	12	14	15	0	21	0	0	30
Human Dom. Consumption	650	650	689	665	0	716	0	0	757
Other Disappearance	65	65	0	85	0	0	0	0	0
Total Use	715	715	689	750	0	716	0	0	757
Ending Stocks	35	35	20	95	0	33	0	0	21
Total Distribution	762	762	723	860	0	770	0	0	808

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

- The Nyando (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 (Muhoroni), one closed (Miwani), one new mill (Kibos) and the other struggling (Chemelil).

- 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 by dwindling land sizes. West Kenya, a privately owned mill portrays good prospects.

- 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. Presently the factory is also struggling.

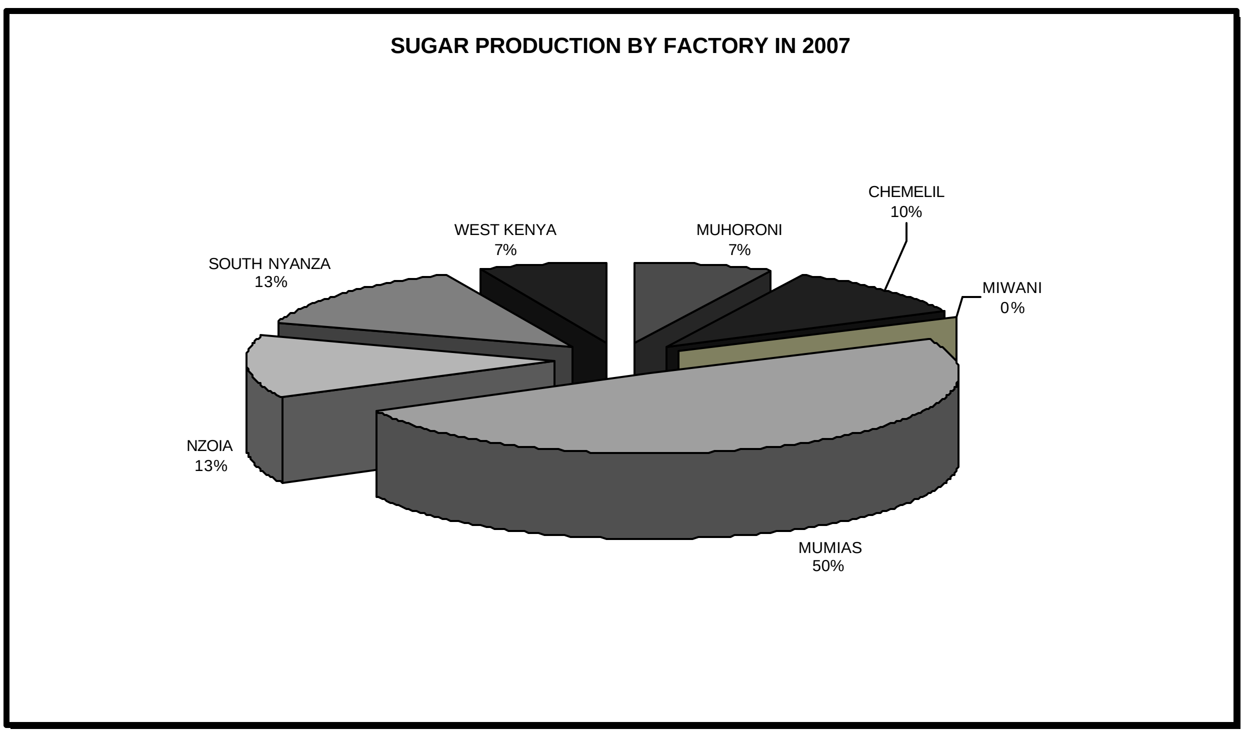
- Soin is a new zone that is upcoming.

There are eight operating factories - Mumias, West Kenya, Soin, Kibos (new), Muhoroni, SONY, Chemelil and Nzoia. The first four are private owned companies with the rest being GOK owned. Two additional sugar factories are currently under development; Tana Delta (yet to be named) and Ramisi Sugar Company. The envisaged expansion and setting up of new factories in the country is likely to gradually narrow the gap between production and consumption.

Tana and Athi River Development Authority (TARDA) joint venture with Mumias Sugar Company

Mumias Sugar Company entered into a joint venture with Kenya's state run Tana and Athi River Development Authority (TARDA) for the development of a sugar factory in Tana River. The area has land for expansion and the climatic conditions in the area favor fast growing cane variety. The venture is expected to include co-generation and ethanol production. The feasibility study has been completed and a final project status report is expected soon.

Below is a breakdown of sugar production per factory for 2007; Mumias maintained the giant share.



Area Under Cane, Area Harvested and cane yields

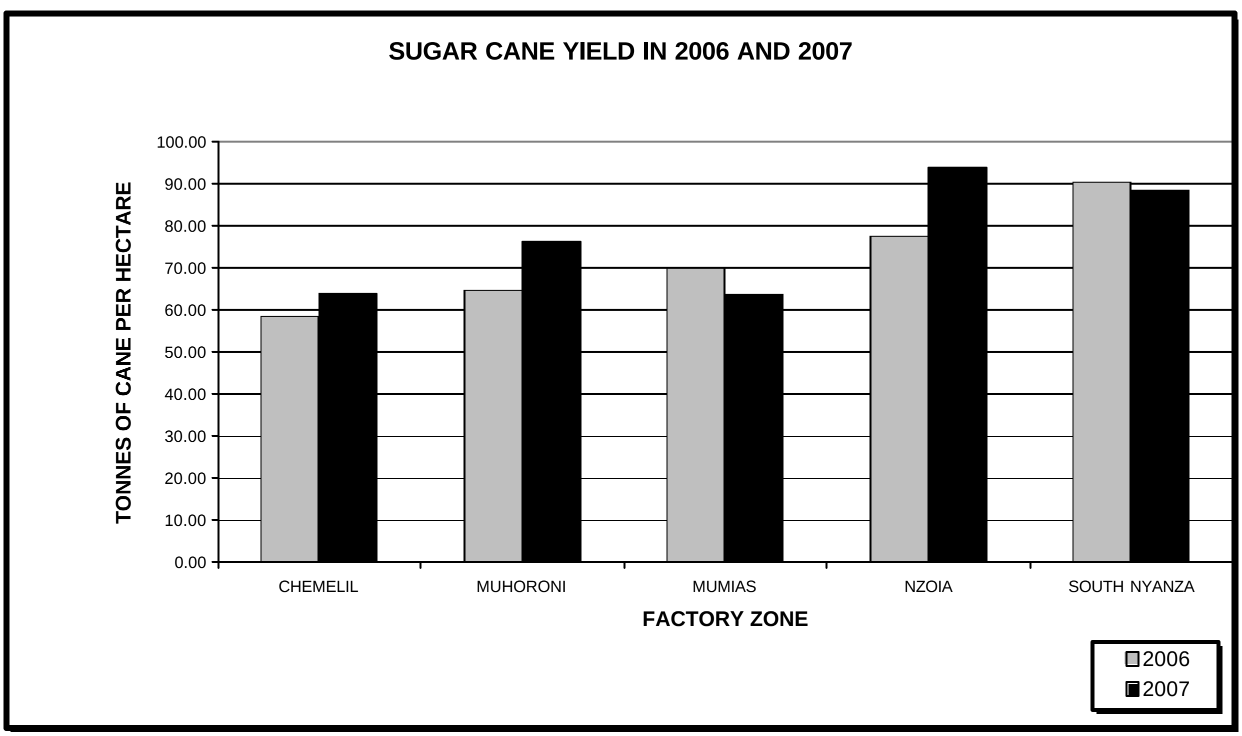
Total area under cane and area harvested went up in 2007 from 2006 levels. There was an overall minimal decline in yield with owned nucleus estates recording an increase and outgrowers reporting a yield decline. Better cane yields are likely to be realized in 2008 as farmers improve on crop husbandry practices (improved cane prices).

Area under cane / harvested / yield 2006 and 2007

Area under cane / harvested / yield	**2006**	**2007**
Area under cane (HA)		
Area Harvested (HA) • Nucleus Estates • Outgrowers • Total	 • 6,975 • 47,926 • 54,621	 • 6,695 • 52,226 • 59,201
Cane delivered (TC)	• 4,932,839	• 5,204,214
Cane Yields (TC/HA) • Nucleaus Estates • Outgrowers • Mean	 • 75.69 • 70.22 • 70.89	 • 79.69 • 69.69 • 70.87

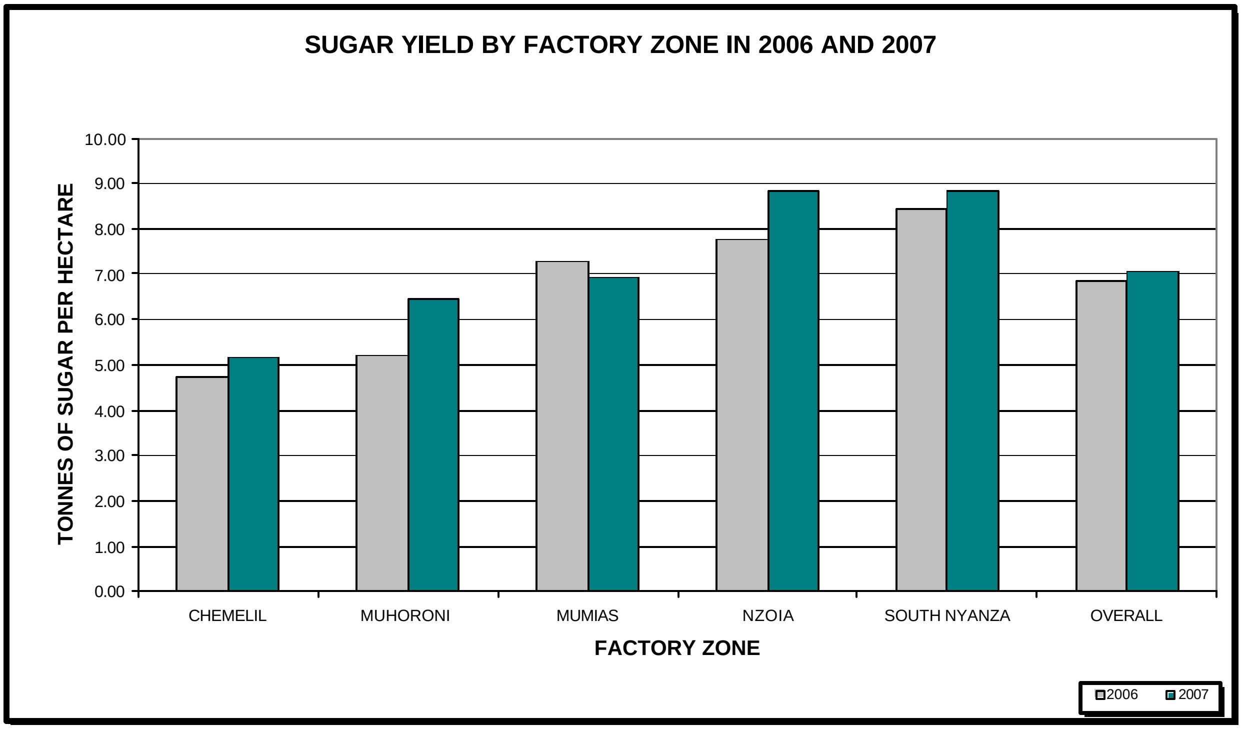
Source: Kenya Sugar Board

Sugar Cane Yield 2006 and 2007 per factory



Source: Kenya Sugar Board

Sugar Yield per factory



Source: Kenya Sugar Board

Cost of Sugar production Kenya VS COMESA

The Kenya sugar industry is relatively high cost compared to COMESA sugar producing countries. The higher costs are associated with the reliance on smallholder farms (high variability in agronomic practices) total dependency on rain for water, poor road networks within the sugarcane catchment areas, old outdated machinery and high fuel costs among other factors. Cane transport costs account for about 37 – 40 % of cane production costs with the main cost being associated with poor road networks, increased fuel prices and dwindling land sizes. Another impediment is the location of all the sugar factories in Western Kenya with high altitudes resulting in longer growing cycles of 15 – 18 months per crop as compared to 10 – 12 months in the COMESA sugar growing countries.

There are calls for the GOK to privatize and recapitalize the GOK run (Chemelil, Muhoroni, Sony and Nzoia) sugar factories to allow Kenya to remain competitive. Muhoroni Sugar Company, that went under receivership in 2000, appears to be back on track with promising prospects; the main challenge is the restructuring of GOK debt to get out of receivership.

Kenya Sugar Research Foundation (KESREF)

The Sugar Research Foundation has developed six new varieties ready for commercialization. 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.

Sugarcane diseases in Kenya are many and varied. The following have been reported: smut, mosaic virus, ratoon stunting disease, pineapple disease, brown spot, eye spot, rind disease, ring spot, red stripe, streak, leaf scotch and leaf scald.

Consumption and Trade

Though the sugar industry dates back to 1922, Kenya has not gained much ground in terms of competitiveness. The country has recorded a record increase in production but Kenya sugar consumption outstrips production. The GDP growth rate of 5.8 % in 2005 was the highest recorded in the past ten years. It also coincided with the highest sugar consumption growth rate in the period. The 2006/2007 projected GDP of 5.8 % may sustain the high sugar consumption rate, all other factors held constant. The increase in disposable incomes and cultural changes among the middle-income group has led to increased sugar consumption.

COMESA quota system

Effective March 2008, Kenya has approved a new tariff arrangement with COMESA; the safeguard extension was granted on the basis that the import quota covered under COMESA be enlarged gradually and the tariff applied on the import quantities above the quota declines each successive year of application until 2012. The safeguard will see a steady rise in the sugar import quota in tandem with a graduated fall in duty. By 2012 Kenya will import 340,000 tons of sugar and charge 10 % duty; culminating into full liberalization. With the sugar international prices nearly half domestic prices (Kenya is a high cost producer), the sugar industry will be severely undercut unless drastic changes are made. Besides the tariff/quota arrangement, COMESA also insisted that GOK adopt a privatization plan for the GOK run factories, research on high sucrose and early maturing cane varieties, change the cane pricing formula (based on sucrose content) and adopt an energy policy aimed at promoting co-generation and other forms of bio-fuel energy production and the industry changes the cane pricing.

Sugar Imports

Imports, mainly from COMESA member states, are difficult to capture as the sugar comes in containers and through porous borders and is often not declared by the traders. In the COMESA region Sudan, Egypt, Mauritius, Zimbabwe and Swaziland dominate sugar production. Other significant producers include Zambia, Madagascar, Uganda, Malawi and Kenya. Exports of sugar from COMESA is mostly to the European Union (EU) under the ACP – EU Special Preferential Sugar (SPS) Agreement. Under the ACP – EU quota agreements, Kenya exports about 10,000 tons of its raw sugar to European Union at preferential prices.

Kenya Sugar Imports 2006 and 2007

KENYA SUGAR IMPORTS (Tons)		
Country of Origin	2006	2007
COMESA FTA		
Egypt	59,507	108,959
Malawi	7,025	7,549
Zambia	0	484
Zimbabwe	2,343	7,540
Sudan	2,322	0
Mauritius	0	0
Total	71,197	124,532
COMESA NON FTA		
Swaziland	43,089	19,636
NON COMESA		
South Africa	33,829	65,875
U.A.E	4,389	3,283
Brazil	0	1,951
UK	6,523	4,258
India	6	5,237
Others	22,000	5,300
Total	66,747	85,842
Grand Total	**181,033**	**230,072**

Effective November 2007, Sugar Development Levy (SDL) for imported industrial sugar and locally produced sugar; was reduced to 4 % down from 7 %. GOK further abolished SDL on industrial sugar imported by authorized manufacturers for use in the manufacture of goods. The U.S. sugar exports to Kenya are minimal but has potential in sugar sweeteners and bases for industrial use.

		U.S. Exports to Kenya; Values in 1000 USD/Quantities in MT							
		2004		2005		2006		2007	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
SUGAR, SWEETNER, BASES		**13**	**28**	**709**	**271**	**5347**	**1420**	**1077**	**468**
CN/BT,BV BASE RT	1701911020	**0**	**0**	**11**	**20**	**56**	**108**	**75**	**142**
MPLE SUGAR/SYRUP	1702200000	**2**	**4**	**0**	**0**	**0**	**0**	**0**	**0**
GLUC/DEX,SOLID	1702300020	**0**	**0**	**695**	**247**	**224**	**121**	**17**	**8**
GLUCOSE SYRUP	1702300040	**0**	**0**	**0**	**0**	**5040**	**1160**	**886**	**229**
SUGARS AND SYRUP	1702904500	**0**	**0**	**0**	**0**	**1**	**3**	**0**	**0**
OTH BEVRGE PREPS	2106906573	**11**	**24**	**3**	**4**	**26**	**28**	**98**	**90**
TOTAL		**13**	**28**	**709**	**271**	**5347**	**1420**	**1077**	**468**

Source: Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics

Policy and Marketing

The Mumias Sugar Company joint venture with TARDA if actualized will boost the countries sugar production and narrow the gap between consumption and production. The sugar factory expects to initially produce about 150,000 tons. The area has land for expansion and the climatic conditions in the area favor fast growing cane varieties.

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 2012. 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.

Mumias factory expansion is underway (currently processing 380 tonnes of cane per hectare) and expected to attain 500 TCH by the end of 2007. The cogeneration project presently generates about 12 megawatts (MW) and is expected to generate 35 MW, 25 of which will be available for sale to the national grid by end of 2007. Mumias has also entered into a ten-year agreement with Japan Carbon Finance Company (JFC), which will allow the company to sell its Certified Emission Reduction Credits (CERS). Muhoroni has developed and entered into an agreement with EcoSecurites (UK firm) for the purchase of CERS. EcoSecurities will purchase the Carbon Emission Reduction at US $9 per tonne of carbon dioxide (CO_2).

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. There is need for GOK to write off debts and divest from the sub sector to give room for private capital inflows. Efforts by GOK to resuscitate the sub sector has often created conflict between the Kenya Sugar Board, Ministry of Finance, Ministry of Agriculture and sugar traders. The main reason for the disagreement is the modalities of regulating COMESA sugar imports. However, in a move to save the sugar industry from collapse the GOK rallied behind the industry for the renegotiated extension of the safeguard measures. GOK has also promised to fast track the COMESA recommendations with the purpose of revitalizing the sugar industry and prepare it for the full liberalization in 2012.

Market segmentation and branding

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 and Mumias Sugar), previously unavailable from the local sugar industry.