Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Required Report - public distribution

Date: 4/9/2002

GAIN Report #KE2003

Kenya

Sugar

Annual

2002

Approved by:
Fred Kessel
U.S. Embassy
Prepared by:
Mary Onsongo

Report Highlights:
Kenya Sugar production reported a 6 percent decline and a marginal 5 percent increase is forecast for 2002. Kenya consumes more than it produces with the balance being met through imports(mainly COMESA countries. In a move to pre-empt the recurrence of the unprecedented sugar crisis the GOK has passed a Sugar Act. The Act has been received with mixed reactions from the millers and the GOK itself. Mumias Sugar Company the largest was privatized. Investment opportunities exist in technical management, farm inputs and equipments.

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

Table of contents

Executive Summary

Sugar production for 2001 reported a decline of about 6 percent to end with 377,400 tons against 401 279 tons in the previous year. It is forecast that 2002 will experience a marginal (about 5 percent) increase in production.The sugar prices experienced a declining trend throughout the year with stocks remaining high throughout the period. The year closed with about 52,042 tonnes. The decline in sugar production can be attributed to the closure of Muhoroni and Miwani sugar factories early 2001.

In a move to pre-empt the recurrence of the unprecedented sugar crisis in Kenya, the GOK has passed a sugar Act to liberalize the sector and empower the farmers. The future of the Act to regulate the sector is uncertain as millers shift from the fight against imported sugar to issues arising from the Sugar Act and GOK declaring it flawed.

During 2001 the sector saw Mumias Sugar Company (the largest) privatized. Privatization of the other six remains uncertain as they remain trapped in a myriad of financial and management problems. The future lies in financial restructuring, expansion and privatization of the sugar mills.

Investment opportunities exist in technical management, farm inputs and equipment.

Exchange rate 1 USD = 78 ksh

Production

Area Under Cane

The total area under cane as at end of December, 2001 was about 102,900 hectares against 108,000 hectares in the previous year, representing a 4.6 percent decline. The decrease in area under cane could be attributed to the closure of Muhoroni and Miwani sugar factories at the beginning of 2001. Mumias, Chemelil, Nzoia and West Kenya Sugar cane zones reported an increase in area under cane mainly from the outgrowers' farms.There was a decline in area harvested (about 16 percent) while about 80 percent of all the cane deliveries was from the outgrowers'.

2002/3 is forecast to have substantial increase in area under cane mainly in the fallow caneable land that is available in the Nyando and Sony zones[1]

Cane Yields

The sugar industry registered an improvement in yield of about 5 percent from 60.51 tons per hectare in 2000 to 63.71 tons per hectare in 2001. The best cane yields were realized in the Mumias Zone with 66.87 tons per hectare up by about 3 percent from 64.6 tons per hectare the previous year (2000). The lowest cane yields was reported in Nzoia Zone with 56.90 tons per hectare. It is forecast that the yields will increase during the year 2002/3 for Mumias (70 tonnes per hectare) and reduce for the others as they to struggle in the industry with a non clear legal framework.

[1]Subject to how Sugar Act is implemented.

Kenya sugar production

PSD Table						
Country	Kenya					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Beginning Stocks	20	1	1	50	3	58
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	402	377	420	385	0	370
TOTAL Sugar Production	402	377	420	385	0	370
Raw Imports	0	80	0	40	0	13
Refined Imp.(Raw Val)	118	103	100	95	0	100
TOTAL Imports	118	183	100	135	0	113
TOTAL SUPPLY	540	561	521	570	3	541
Raw Exports	2	11	2	2	0	3
Refined Exp.(Raw Val)	0	0	0	0	0	0
TOTAL EXPORTS	2	11	2	2	0	3
Human Dom. Consumption	537	400	516	415	0	420
Feed Dom. Consumption	0	100	0	95	0	100
TOTAL Dom. Consumption	537	500	516	510	0	520
Ending Stocks	1	50	3	58	0	18
TOTAL DISTRIBUTION	540	561	521	570	0	541

Busia Sugar Company(BSC)

The long awaited Busia sugar project appears to be bearing fruit. The plans include the construction of a sugar factory producing syrup for sale to the Mumias Sugar Company, and an associated power generation plant, which would sell electricity to the National Grid.

The Syrup will be transported about 40 kms by road to MSC where exhaust steam presently unutilized will be used to crystallize the syrup into sugar. The Concept is said to improve efficiency and increase its sugar production by over 100,000 tons per annum.

The electricity generation will rely on baggase from a million tonnes of sugar cane grwon by over 20,000 farmers in the District. The plant will produce around 13.5 MW of electricity for export to the national grid, enough power for a small town. Projects anaysts believe that there will be no adverse environmental impacts of significant magnititude that cannot be mitigated and that the project will result in a number of social and economic benefits to the people in the areas of its influence.

It is estimated by the management of BSC that the project will be operational by November 2003. BSC is managed by Booker Tate (BTL) a British company who were appointed to develop the project and arrange financing. BTL also manges MSC Kenya's most succesful sugar Company. BTL has managed the Company for the last over 30 years a period during which Mumias has grown into the largest and most profitable sugar company in Kenya.

Mumia Sugar Company

MSC is Kenya's largest sugar company with a capacity to produce about 250,000 tons of sugar per annum. This capacity has been designed to match the potential cane supply from the firms nucleus estate and from all the outgrowers within a 40 km radius of the factory. Expansion within this radius is limited due to the need to ensure production of food crops and and the idea that much of the productive is already allocated to sugarcane. Outside this radius it becomes uneconomical due to escalated cost of transportation.

To increase capacity of MSC's extraction plant would require a massive investment and cane availability will pose a serious constraint. Raw material availability around the Mumias zone is becaming scarce. Mumias wishes to buy syrup from BSC and introduce it at its intermediate stage by passing juice extraction presently a limitation in the factory. The management claims that it is this "low cost" method of increasing production that makes a syrup supply contract with BSC so attractive.

Nzoia sugar Company

Nzoia Sugar Company entered in an agreement with F.C. Schaffer & Associates in November 1998. A Technocal Management Team (TMT) was put in placeseconded and has since seen critical parameters improve (crushing capacity, factory time efficiency, and the ratio TC/TS).
F.C Schaffer contract has expired and negotiation for renewal with the GOK is ongoing. TMT has proposed a financial restructuring to the Board of Directors (accepted) and to the Ministry of Agriculture and Rural Development(MOARD). Nzoia has over kshs 400 million debt to farmers as arrears dating back to July 199 harvest.

Issues of non payment are occasioned by poor sales, high overheads and operating costs and the resulting cash flow crisis within the sugar companies. Delayed payment has led to abandonment of cane, cane poaching, poor crop husbandry and general negative attitude by farmers towards farming as a business.

Financial restructuring, expansion and privatization is one possible way forward for the sugar industry

Sugar Research Foundation (SRF)

The long awaited SRF was constituted and plans underway to undertake sugar research. Their goal is to come up with varieties that are early maturing and drought resistant varieties. This will have an advantage of having short, more frequent harvesting cycles that will benefit the farmer and provide cane to the factories avoiding unnecessary closures and utilization to the rated capacities. Another area targeted is reduction in cane losses/waste due to undetermined pre-harvesting and post harvest. Reduction of cost of production while maximizing profits forms the core of Research.

Consumption

It is assumed that the country consumes all the sugar that is produced locally and imported sugar that enters the country (normal imports or transit sugar that finds its way into the country). It is estimated that annual consumption is in the range of 600,000 tons.

Trade

Kenya charges an 18 percent value added tax and a 7 percent sugar development levy on all sugar imports from COMESA members. Importers from outside the COMESA region have to pay an additional 100 percent duty. The industry (more specifically the millers) have been negotiating with the government to impose a 30-40 percent duty on all imports across the region. Imported and smuggled sugar retails at a lower price than locally produced sugar.

The real problem lies in duty evasion by unscrupulous business people who in the pretext of sugar enroute to Kenyan neighbors end ups in the market. Efforts to avoid fraudulent cancellation of bondsand evasion of duty is long overdue.

Stocks

The millers are sitting on thousands (about 70,000 tons as per march 2002) of tons of unsold sugar. This is being blamed on unchecked importation of imported sugar from COMESA member states, keen to take advantage of the zero-tariff under the Free Trade Area(FTA). The main originss being Malawi, Zimbabwe and Sudan.

The situation of increased stocks is bound to continue and possible recovery will be expected towards the end of the year as checks and balances are put on transit sugar and evasion of duty.

Policy

The Kenya Sugar Act

During the years there have been policy shifts. The latest development is the implementation of the Sugar Act amid much opposition from the millers. Thorny issues have arisen ranging from Board representation, sugarcane management from the farm gate to the mill to payment based on sucrose content. The millers have continued with their complaints and the GOK though implementing the Act beliefs it is flawed and is not industry driven.

The main areas of concern are;

- 5 percent penalty on late payment of sugar development Levy per month
- 3 percent penalty on late payment of farmers dues per month
- Growers to receive 51 percent representation on the Board of Directors of Privatized Sugar milling companies
- Weighing cane at farm gate and payment to be based on sucrose content

These development shows a dramatic shift by the millers from the fight against imported sugar to issues arising from the sugar Act. The millers hold that if the act is implemented it will have far reaching adverse implications on the future of sugar millers. The sugar Act which was implemented in April 1st 2002 has been dogged with controversy since it was passed by parliament with farmers throwing their support behind it. With the Act also came the conversion from Kenya Sugar Authority(KSA) to the Kenya Sugar Board (KSB).

Analysts argue that the millers are being selfish and not taking into consideration the fate of the farmers who have heard to bear with risk of the production process and suffer long periods of delayed payments. The millers have been seeking the Government to protect them from imported sugar by imposing duty and at the same time they want protection from the farmers taking over the operations of the industry.

Relief Sought by GOK

The Kenyan government is hoping to get increased quota to the EU as the industry players blame the situation on failure to enforce quotas. With the world prices of sugar going down and large crops expected from major producing countries Brazil, India and Thailand etc it is unlikely that Kenya will get increased quota. The sugar destined for EU estimated at 11,700 tons (Mumias) is undergoing tests for GMO at the Kenya Plant Health Inspectorate Service (KEPHIS).

Pricing of Sugarcane

The price for cane is kshs 2015 per ton. It is not clear from the proposed act what the price shall be since the farmers will not be involved in transportating the raw material to the millers. Presently payment to the farmer is less the cost of materials and services previously supplied, including harvesting and transportation services

The Kenya Sugarcane Growers Association (KESGA) has bowed to pressure to restructure the organisation.

Privatization

The listing of Mumias Sugar Company Limited (MSC) on the Nairobi Stock Exchange marked the culmination of a process which began more than five years ago. As a result of privatization and listing of MSC, approximately 65,000 outgrowers were allocated shares on an individual basis, with the number of shares allocated to each being determined by the funds they had saved in the intervening years. Other stakeholders with board representation include Booker Tate Limited, CDC group Plc, Kenya Commercial Group and representatives of various ministries and agencies within the GOK.The government has 38 percent ownership.

The potential commercial relationship between MSC and Busia Sugar Company Limited is being doubted with many analysts saying that it will have effects on market share and profit of MSC. MSC fears that the Sugar Act will impact negatively on its share price.

Marketing

Stocks of sugar worth billions of shillings continue to pile up in warehouses following continued imports from COMESA countries. This has forced sugar firms to change their packaging and pricing strategies to enable products to compete with imported types. Chemelil introduced a 1 kg sugar pack to sell a alongside its two kg pack. Mumias has also adopted a similar strategy. At Chemelil a new plant with a capacity of packing 30 sachets a minute was installed at the cost of sh 15 million.