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Kenya

Sugar

Annual

2003

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Report Highlights:
The Kenya sugar industry is experiencing a series of problems/constraints ranging from production, processing, marketing and policy issues. During the year 2002 the country recorded a 31 percent increase from 377,438 to 494,312 tons. The future appears uncertain as the sector is reeling from a myriad of problems and a 30 percent production drop is forecast.

Includes PSD changes: Yes
Includes Trade Matrix: No
Annual Report
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Executive Summary

The sugar industry has found itself in a series of problems/constraints ranging from production issues (farmers dissatisfied with cane prices), processing issues (factories making losses as farmers reject the cane price structure), marketing issues (competition from sugar imports from COMESA region) and policy issues (the implementation of the flawed Sugar Act is problematic).

Amidst this confusion the industry recorded a 31 percent increase in sugar production from 377,438 tonnes of sugar to 494,312 tonnes in 2002. The increase was attributed to cane availability and reopening of Muhoroni in late 2001. The future appears uncertain as the sector is reeling from a myriad problems and a 30 percent drop is forecast for 2003.

The main constraints are high costs of production (the main source of cane for sugar factories being small scale farmers with low yielding cane varieties and uneconomical units), political interference and complete disconnection between policy and reality.

Production

Presently Kenya has six running factories namely Muhoroni (under receivership for crippling debts, unsold stock piles and hundreds of excess staff), Chemelil, Mumias, Nzoia, Sony and West Kenya. There are several jaggary factories operating, especially in the Western Kenya sugar belt area. The jaggaries produce brown sugar (production estimates not captured) mainly used for making illicit brew. A few jaggaries have been licensed but the need for appropriate rules, as with the millers are still necessary.

Mumias the largest factory, was closed for about a month (March) following a strike by the tractor drivers contracted to private cane transport firms in the mumias sugar belt. It has soared to a major industrial crisis, with the closure spreading to Nyando and Awendo belt. The farmers joined with complaints over the controversial cane pricing formula. The farmers have opposed the millers decision to cut cane prices from ksh 2,015 to kshs 1,700 Mumias, kshs 1,535 (Chemelil), kshs 1,540 Muhoroni and the other factories adopting a similar pricing formula. During the closure of the factories jaggaries had a booming business with some cane already cut being converted to firewood.

Besides the massive loss to the millers due to the closure the farmers had by the end of march lost crop estimated at half a billion shillings (source: Kenya Sugar Growers Association). Another worry to the industry was the plantation fires that had consumed several hundreds of acres of mature cane with the Busia, Miwani, Muhoroni and Chemelil outgrowers being the worst hit. Mumias, Chemelil the second largest after Mumias and Sony were by early April crushing at half capacity. They are buying cane from non contracted farmers to supplement harvests from their own nucleus estate, with threats from striking farmers who have promised to paralyze the arrangement.

Despite the on going problems the sugar industry recorded 31 percent increase in sugar production from 377,438 tonnes sugar in 2001 to 494,312 tonnes in 2002. All the sugar factories registered an increase in sugar production as compared to the previous year. This was mainly attributed to the cane availability for crushing and reopening of Muhoroni sugar factory in the late 2001. Mumias accounted for 52 percent of total sugar produced. The year 2003 is forecast to have a 30 percent drop in sugar production mainly due to unavailability of cane from the Nyando belt (Chemelil and Muhoroni)/the Sony belt during the first half of the year 2003 and the on going sugar pricing problems and closures of the factory.

PSD Table						
Country	Kenya					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised	2002	Preliminary	2003	Forecast	2004
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	50	60	58	99	18	118
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	385	494	370	350	0	400
TOTAL Sugar Production	385	494	370	350	0	400
Raw Imports	40	70	13	130	0	250
Refined Imp.(Raw Val)	95	80	100	70	0	80
TOTAL Imports	135	150	113	200	0	330
TOTAL SUPPLY	570	704	541	649	18	848
Raw Exports	2	15	3	11	0	11
Refined Exp.(Raw Val)	0	0	0	0	0	0
TOTAL EXPORTS	2	15	3	11	0	11
Human Dom. Consumption	415	510	420	420	0	450
Other Disappearance	95	80	100	100	0	100
Total Disappearance	510	590	520	520	0	550
Ending Stocks	58	99	18	118	0	287
TOTAL DISTRIBUTION	570	704	541	649	0	848

Area under Cane and area harvested

Total area under cane went up by 2.6 percent from 117,133 hectares at the end of 2001 to 120,556 hectares. The year 2003 is forecast to have a marginal drop in hecatarage (about 5 percentage) due to the prevailing low farmer moral (the proposed decline in cane price). In 2002 area harvest increased by about 12 percent from the previous year which had 47,794 hectares. A 28 percent increase of cane deliveries was recorded in 2002 and is forecast to drop by about 30 percent in 2003 due to the on going closures of the factories (farmers /transporters strikes) and lack of motivation to grow cane by the farmers.

Cane yields

The sugar industry recorded a yield improvement of about 10 percent from 63.71 tonnes of cane per hectare in 2001 to 70.80 tonnes per hectare in 2002. The improvement was realized in all sugar zones except Muhoroni with Mumias reporting the highest at 75.40 tonnes and Chemelil reporting the lowest with 59 tonnes per hectare. Cane yields are forecast to drop as farmers pay little attention to the sugarcane fields.

Nzoia Sugar Company

The Nzoia sugar company presently managed by F.C. Schaffer and Associates of USA has come under criticisms from the farmers, politicians and the GOK. F.C. Schaffer took over the management of Nzoia in early 1999 on a three year contract with conditions. Since the inception of Nzoia in late 1978, the factory has faced financial constraints with closing and reopening being the order of the day. F.C Schaffer could only could only source funds on condition that the GOK restructured the capital base of the company and make available a clean balance sheet for borrowing. The GOK did not assist with any financial restructuring and the problems of Nzoia continued. The problem at Nzoia remains financial and not management. Renewal of the F.C. Schaffer contract remains uncertain.

Consumption

Demand is difficult to measure and is estimated at 600,000 tons by the Kenya Sugar Board, a figure which has received a lot of criticism by industry analysts (who estimate 550,000 tons). The estimated requirement for industrial sugar is 70,000 tons. Imports over the years have exceeded demand i.e in the year 2001 imports from COMESA was 240,000 tons and production was 377,400 tons.

FAS estimates human consumption at 510,000 tons, industrial sugar requirements and other disappearances at about 80,000 tons.

Trade

Figures obtained from the Kenya Sugar Board give imports for the year 2002 at 130,000 tonnes. The imports are mainly from the COMESA region. FAS estimates imports at 150,000 tons. Import irregularities are still a common occurrence at the port of Mombasa. Efforts to curb them are being instituted and remains a wait and see concern.

Sugar Duty Structure

Kenya charges an 18 percent V.A.T and a 7 percent sugar development levy on all sugar imports from COMESA members. Imports from outside COMESA have to pay an additional 100 percent duty. Sugar imports from COMESA are blamed for the present low sugar prices and by extrapoliation the low cane prices being disputed by the farmers. Analysts argue that COMESA's tariff policy is not to blame for the woes afflicting the industry and most of the problems lie in the internal inefficiencies in the sugar industry. Unchecked importation of sugar from COMESA member states keen to take advantage of the zero tariffs under the Free Trade Area (FTA) aggravates these inefficiencies. Zimbabwe, Malawi and Sudan are the main sellers to Kenya.

Kenya has one key concessions to protect its sugar industries from COMESA origin imports. Kenya was granted a one year extension on safeguards it had taken last year to cushion local industries from competition by low cost producer member states. The COMESA FTA which Kenya is a signatory aims at an eventual tariff free trade within the bloc. There is a provision within COMESA to employ a tarriff and other barriers if they prove that a tax less regime would hurt the member country. The concession allows Kenya a maximum quota of 200,000 tons, a figure which faces criticism from millers (it surpasses the import requirement estimated at 100,000 tons). This protection is unlikely to continue beyond the current extension.

Export quota

Kenya faces the risk of loosing its export quota to Europe due to the prevailing unrest presently facing the sub- sector. Swaziland or South Africa are likely to export Kenya's share of 11,300 tons should this happen. This is ironic since the millers have stocks in their warehouses.

Policy

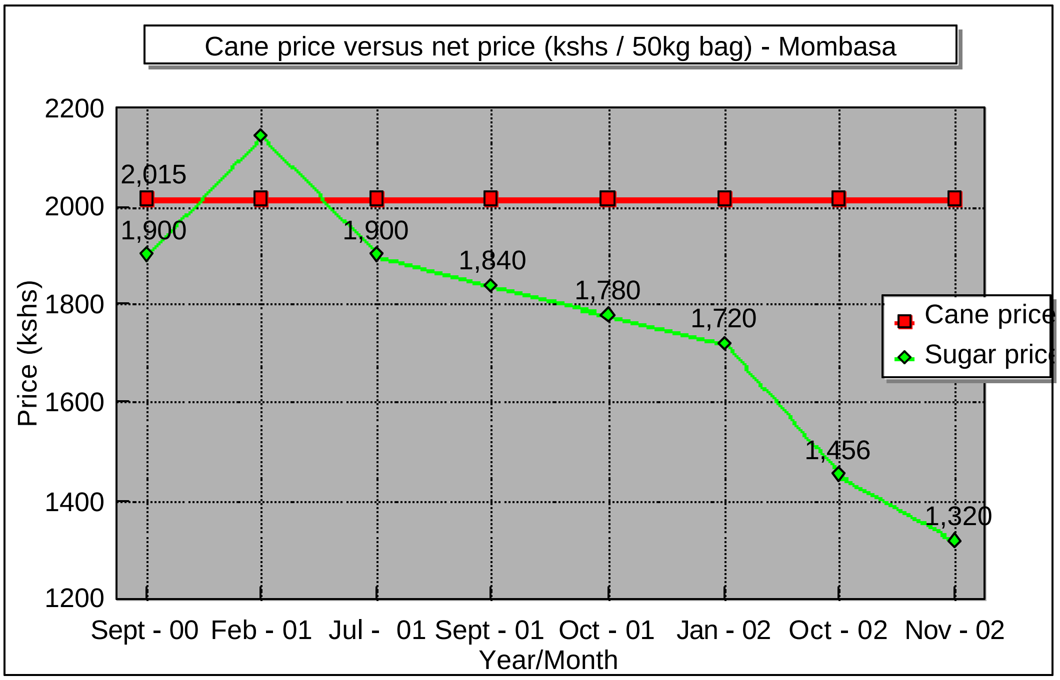
It was hoped that the enactment of a sugar legislation about two years ago would help sort out the problems presently afflicting the industry. The future of the Sugar Act is still uncertain as millers continue their opposition to it and the farmers remain dissatisfied with decisions being taken by millers. Revisions are being being undertaken amidst confusion and disagreements among the stakeholders. Issues of controversy revolve around Board representation (presently seven farmer representatives and three miller representatives). Other controversial issues include weighing cane at the farm level and payment based on sucrose content. The Ministry of Agriculture (a member of the Board) seems undecided on the way forward of the sub sector. The industry faces uncertainty and the need for the GOK to step in and sort out the problem before it gets out of hand is vital.

Controversy over the proposed cane price reduction from kshs 2,015 to kshs 1,700 per tonne is spreading among farmers and if not well handled could precipatitate a crisis in the industry. The millers are pushing to reduce the price as all of them are making losses under the prevailing sugar price per tonne.

The biggest constraints for the industry are high costs of production (with the main source of cane for sugar factories being small scale farmers with low yielding cane varieties), political interference and complete discordance between policy and reality.

Marketing

The GOK embraced market liberalization and removed sugar protective tarriffs allowing price to vary with supply, demand and buyers expectations. However they maintained price control for sugarcane (kshs 2,015 per ton of cane). In the meanwhile, import volumes exceeded the gap between production and consumption. With the continued in flow of imported sugar (mainly from COMESA), it became a buyers market and the millers and traders continue to battle for sales.



With the downward trend of prices as shown in the graph the millers continued making losses. Mumias trading position has continued to deteriorate and is presently operating at a loss as it remains with all other milling companies. On the other side the farmers are protesting low and delayed returns. The need for an agreed pricing formular was necessary. The cane pricing committee agreed upon a formula (price cane per ton is equal to price of sugar per ton /10 multiplied by 50 %) and implemented it amidst resistance from the farmers (to levels of boycotting deliveries). The sugar price used in the formula is the ex-factory net price per 50 kg bag and 10 is the total cane/total sugar and 50 percent is the farmers share.

There is an immediate need for the farmers and the millers to agree if the industry is to move forward. With the present problems in the industry going unresolved chances are industry will continue to experience severe problemscome to its knees.