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COVID-19 to slow Kenya's sugar production and trade

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Report Highlights:

FAS/Nairobi forecasts a slowdown in Kenya sugar sector in the marketing year (MY) 2020/2021, with a decrease in sugar production, imports, and consumption, due to the impact of local and global measures to contain the spread of coronavirus disease (COVID-19). Sugar production activities will be hit by disruption in labor and inputs supply, while imports will be affected by disruption of shipping logistics both in Kenya and at source markets. Consumption is also expected to dip due to depressed demand in the food and beverage service and manufacturing sectors.

Sugar production to decline

FAS/Nairobi forecasts a drop in sugar production in MY 2020/2021 due to the disruption of labor and inputs supply for critical activities such as planting and harvesting, occasioned by measures to contain COVID-19. The impact of COVID-19 will overlay on a production system that is already reeling from both technical and governance challenges, including poor agronomy, poor access to inputs, delayed cane harvesting, and delayed payments to farmers. At the processing level, state owned sugar mills still dominate the landscape, after the apparent stalling of the privatization program. The mills run on obsolete technology and have accumulated huge debts to farmers. In February 2020, Kenya's President promised that GOK will implement recommendations of the task force (from 2019) to investigate the challenges in the sector. Task force recommendations include the establishment of production zones for particular mills, and the merging of some underperforming mills. Both proposals have however been opposed by sections of the industry including farmers and private sugar millers.

Production, Supply, and Distribution (PSD) Table

| Sugar, Centrifugal Market Begin Year Kenya | 2018/2019 | | 2019/2020 | | 2020/2021 | |
|--|---------------|----------|---------------|----------|---------------|----------|
| | May 2018 | | May 2019 | | May 2020 | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Beginning Stocks | 411 | 411 | 441 | 441 | | 346 |
| Beet Sugar Production | 0 | 0 | 0 | 0 | | 0 |
| Cane Sugar Production | 500 | 500 | 500 | 475 | | 450 |
| Total Sugar Production | 500 | 500 | 500 | 475 | | 450 |
| Raw Imports | 283 | 283 | 200 | 200 | | 150 |
| Refined Imp. (Raw Val) | 227 | 227 | 230 | 230 | | 200 |
| Total Imports | 510 | 510 | 430 | 430 | | 350 |
| Total Supply | 1421 | 1421 | 1371 | 1346 | | 1146 |
| Raw Exports | 0 | 0 | 0 | 0 | | 0 |
| Refined Exp. (Raw Val) | 0 | 0 | 0 | 0 | | 0 |

| | | | | | |
|-------------------------------|------|------|------|------|------|
| Total Exports | 0 | 0 | 0 | 0 | 0 |
| Human Dom. Consumption | 980 | 980 | 1000 | 1000 | 950 |
| Other Disappearance | 0 | 0 | 0 | 0 | 0 |
| Total Use | 980 | 980 | 1000 | 1000 | 950 |
| Ending Stocks | 441 | 441 | 371 | 346 | 196 |
| Total Distribution | 1421 | 1421 | 1371 | 1346 | 1146 |
| | | | | | |
| (1000 MT) | | | | | |

Note: Refined sugar multiplied by 1.07 to convert to raw value basis.

Sugar consumption to decline

Kenya's consumption is expected to decrease in the MY 2020/2021 due to dampening of demand due to GOK COVID-19 containment measures, which have led to closure of hotels and restaurants, and the scale-down of food and beverages manufacturing. Sugar consumption at the household level is also expected to be hit by reduced incomes, due to job losses and a drop in sugar in the typical consumer purchase basket.

Sugar imports forecast to decrease

Kenya's sugar imports in MY 2019/2020 are also forecast to decrease, due to disruption of shipping logistics both at source markets and in Kenya. The bulk of imports will remain largely from the Common Market for Eastern and Southern Africa (COMESA) countries, due to steep import tariff for sugar imports from non-COMESA countries. Duty for sugar imports from non-COMESA and East African Community (EAC) countries is assessed at 100 percent *ad valorem*, and at 10 percent *ad valorem*, for imports under the Tax Remission for Exports Office (TREO) - a GOK program that promotes export manufacturing. Kenya does not produce refined sugar, and all its sugar for the food and beverages manufacturing sector is imported. Non-COMESA countries that are key exporters of sugar to Kenya include: India, Thailand, and Guatemala.

Key sources of Kenya's sugar imports (2017-2019)

| Source Country | Unit | 2017 | 2018 | 2019 |
|----------------|------|--------|---------|--------|
| Zambia | T | 5,066 | 21,589 | 38,842 |
| Mauritius | T | 13,977 | 16,344 | 37,984 |
| Egypt | T | 80,361 | 30,725 | 36,852 |
| Thailand | T | 32,573 | 106,325 | 25,365 |
| India | T | 1,055 | 20,693 | 5,592 |
| Guatemala | T | 12,943 | 9,975 | 2,908 |

Source: TDM

Ending sugar stocks to dip

FAS/Nairobi forecasts a significant drop in ending sugar stocks in MY 2020/2021 to nearly half of the preceding marketing year. GOK does not operate any stock-holding program for sugar, and all stocks will therefore be held by millers, importers, and traders.

COMESA imports safeguard up for review

Kenya's sugar import safeguard grant by COMESA, which was renewed in July 2018 and lasts up to February 2021 is up for review under Article 61 of the COMESA treaty. The import safeguard, which has been in place since 2003, allows Kenya to limit duty-free imports from COMESA countries to a maximum of 350,000 MT per year, as the country strives to improve its local sugar industry. The extension of the grant was predicated on several conditions including privatization of the state-owned sugar mills, introduction of a sucrose-content-based cane payment to farmers, and provision and maintenance of transport infrastructure in the sugar growing areas. Kenya is, however, yet to fulfill most of the conditions.

Sugar prices expected to remain stable

Though supply from both local sugar production and imports are expected decline, sugar retail prices in Kenya are expected to remain stable during the MY 2020/2021, due to the expected dampening of sugar demand. A quick recovery of the food and beverage manufacturing and service sectors from the impact of COVID-19 could however see a spike in retail price. Retail sugar prices in are expected to remain in the range of Ksh 120 - 130 per kilogram (\$0.55 – 0.59 USD per lb.).

Attachments:

No Attachments