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Sugar

Annual

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Report Highlights:

The sugar industry recorded a decline in yield, area under cane and production during the year 2000. Sugar stocks were low and sugar prices experienced an upward trend. Production is forecast to rise marginally in 2001. The proposed sugar Amendment Bill is due to be presented in Parliament this year.

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

Executive Summary

The sugar sector recorded a drop in yield, area under cane and production during the year 2000 as compared to the previous year. Figures obtained from Kenya Sugar Authority put production, imports and exports at 409,423 118,011 and 2,088 tonnes of sugar respectively. Sugar stocks declined, while sugar prices experienced an upward trend during the second half of 2000.

During the year 2000 the sector experienced a sugar supply shortage due to an acute cane shortage occasioned largely due to unfavorable weather conditions and lack of farmer morale to grow cane. The sector also saw two cash-strapped sugar factories placed in receivership. The proposed Sugar Bill is hoped to be presented in parliament this year, which would lead to privatization and/or rationalization of the sector.

1 USD = ksh 78

Production

For 2000 a total of about 3.9 million tonnes of cane was crushed to produce 410,000 tonnes of sugar representing a sugar recovery rate of 10.48 percent. Sugar production declined by 12.4 percent over the 1999 level mainly due to a shortage of cane. Out of seven factories in Kenya only Chemelil (second largest after Mumias) recorded a slight increase in production from 52,077 to 64,324 tonnes of sugar. Chemelil contributes about 11 percent while Mumias (219,806 tonnes) contributes about 53 percent. Overall, total unscheduled stoppages due to cane shortage accounted for 11,617 hours against 8,446 hours due to factory breakdown. Muhoroni sugar reported the highest stoppage and Mumias the lowest time.

A marginal increase to about 420,000 tonnes is expected for the year 2001. The long rains are expected as scheduled in April and may lead to a small increase in production despite the inherent problems in the industry.

Area under cane, area harvested and cane yields

There was an observed decline in area under cane among the out grower farms. The area went down from 95,248 hectares in 1999 to 94,249 hectares in 2000. The nucleus estates recorded an increase of 1.4 percent from 13,545 hectares in 1999 to 13,736 hectares in 2000. The total area harvested in both the nucleus estates and the outgrowers farms increased by about 10 percent from 1999 to 2000 (57,243 - 51,833 hectares). The outgrower companies contributed over 80 percent of the total cane delivered the balance coming from the nucleus estates and the non contracted farmers. By the end of the year 2000, average yield was 60.52 tonnes per hectare down from 78.42 the previous year. All the sugar zones experienced a decline in cane yields per hectare with the Sony zone recording the best yield at 69.7 tonnes per hectare against 96.04 tonnes per hectare achieved in 1999.

Muhoroni zone recorded the lowest yield with 48.42 tonnes per hectare.

Several reasons have been floated as possible reasons for the depressed cane yields;
The effect of the year 2000 drought was rated as the highest. For most of the year 2000 except April and May the country experienced considerable moisture deficit leading to low growth rates. The bad weather conditions coupled with poor cane maintenance by farmers due to delayed payments(some dating back to March 1999) had a share in the drop in yield. Despite the cane crops having been adversely affected by the drought, the nucleus estates in Mumias recorded higher cane yields as compared to the outgrowers by about 24 percent which could be explained partly due to the farmers frustrations and general low morale to grow cane. Another possibility could be the unbalanced cane crop distribution where ancient ratoons (ratoon 2 and above) constitute over 60 percent of the area harvested compared to the optimum of about 35 percent. This is partly due to reduced annual replanting over the past several years. In some instances the cane crops preceding the current ratoons being harvested were previously cut at ages of 26-28 months as over mature stands. Immature harvest of cane that was necessitated in some factory in order to avoid closure and cane poaching by jaggries are other possible reasons for the depressed cane yields..

Commodity: Centrifugal sugar (1000 MT) (1000 MT Raw value)
Beg. Month/year of marketing: 01/99. 01/00, 01/01

KENYA	Revised 1999		prelim 2000		forecast 2001	
	old	new	old	new	old	new
Beginning stocks	80	80	0	20	0	1
Beet sugar production	0	0	0	0	0	0
Cane sugar production	470	471	0	402	0	420
Total sugar production	470	471	0	402	0	420
Raw imports	0	0	0	0	0	0
Refined imports	57	58	0	118	0	100
Total imports	57	58	0	118	0	100
Total supply	608	609	0	540	0	521
Raw exports	0	0	0	2	0	2
Refined exports(raw value)	0	0	0	0	0	0
Total exports	0	0	0	2	0	2
Human domestic consumption	588	589	0	537	0	516
Feed domestic consumption	0	0	0	0	0	0
Total domestic consumption	588	589	0	537	0	516
Ending stocks	20	20	0	1	0	3
Total distribution	608	609	0	540	0	521

Kenya saw two of its seven sugar functional factories, Miwani and Muhoroni, placed under receivership in March 2000. Prior to this the two mills were characterized with poor performance (financial and management problems). The factories were heavily indebted to banks, farmers and employees. Muhoroni owed financiers sh 4.4 billion, farmers sh189 million and employees sh 65 million. Miwani sugar company the oldest and the country owed financiers sh 1.7 billion, the farmers sh 73.6 million and employees sh16 million. The other sugar factories other than Mumias are also heavily indebted. Nzoia sugar Company presently managed by F.C

Schaffer and Associates owes farmers a colossal sum of money (about sh 600 million) and owes financiers almost sh 12 billion. The debt to farmers by Nzoia sugar company dates back to March 1999.

Before going under receivership Miwani was managed by Venessa International (51 percent) and GOK (49 percent) and Muhoroni was previously managed by the Mehta Group (later GOK). The receiver mangers are Delphis Bank and Kenya Sugar Authority(KSA). The Kenya Sugar Growers Association intend to petition against the appointment of the two receivers rating them incompetent and with vested interest. Venessa International and Delphis Bank are greatly related in ownership.

Consumption and Marketing

KSA reported a total of 407,853 tonnes of sugar was sold out in 2000, as compared to 482,206 tonnes in 1999 representing a decrease of about 15.4 percent. The year 2000 was characterized with shortage of sugar a major food item in the household budget of many Kenyans. This was evidenced in the long ques in major retail outlets. Many reasons have been floated as the reasons ranging from absence of a regulatory framework governing the sector, cane shortage to hoarding of the commodity in order to manipulate prices. According to the Kenya Sugar Authority (KSA) most of these imported sugar enters the domestic market as transit sugar destined for neighboring countries. But through fraudulent cancellation of bonds, the transit sugar is released onto the local market without payment of duty

Trade

Exports and imports
Official figures obtained from KSA put imports and exports at 118,011 MT and 2,088 MT of sugar respectively. The exports were entirely to fill the EU quota reinstated in 2000. This year another about 2,000 tonnes will be exported to Eu for the quota. Chemilil exported in 2000 while Nzoia is expected to export in 2001. Data on imports is not accurate due to non recording of transit sugar that find its way into to the local market.

Ex-factory prices
The year 2000 opened with a monthly average price of Kshs 1,925 per 50 kg bag (Kshs 38,500 per tonne) up from Kshs 1,671 per 50 kg bag (kshs 33,428 per tonne) in march 1997. This price was retained until the end of February when it rose to ksh 1930 per 50 kg bag (ksh 38,600 per tonne). The price held for two months (March and April) and short up to ksh 1932 per 50 kg bag. July and August went up further to ksh 39,720 per tonne and even higher in September and October to ksh 47,500 per tonne.

The upward trend of local sugar prices was due to declining local production at its sugar mills due to cane supply shortage. This cane supply shortage prompted huge purchases by some traders. The sudden hike in sugar prices is attributed to some traders who are creating artificial sugar shortage in order to manipulate price.

Wholesale sugar prices
Wholesale sugar prices started at a monthly average of kshs 1996 per 50 kg bag. February March, April and May recorded marginal changes in sugar prices, oscillating within a narrow price range. In consequent months wholesale prices ranged between ksh 2,143 in June to ksh 3678 in October. However the prices are now pushing downward following substantial release of imported sugar into the local market. In November 2000 the wholesale price range was ksh 3,200 to 4500 per 50 kg bag with a mode of kshs 3800 and a mean price of 3600

per 50 kg bag.

The local sugar was traded in the range of ksh 3200 to 4500 ksh per 50 kg bag. While imported sugar was available in the range of ksh 2600 to ksh 3800 per 50 kg bag. The average price differential between local sugar and imported sugar was kshs 250 per 50 kg bag. The stocking price during the week ended November ranged between kshs 2,375 and kshs 3,800 with a mode of ksh 2,375 and a mean price of kshs 2,750 for local sugar compared to imported sugar which was available at the range of kshs 2,600 to kshs 3,650 with a mode of ksh 3,300 and a mean of 3326. It is observed that the imported sugar stocking prices are higher than those of local sugar while the selling prices are vice versa. An indication that there is more demand for local sugar.

In general terms wholesalers are making a gross profit of kshs 975 and ksh 149 per 50 kg bags for local and imported sugar respectively. This explains why dealers wish to stock more local than imported sugar.

Retail sugar prices

Retail sugar prices started the year at kshs 41.70 per kg. During the year both imported and local sugar retail prices shot up. The margins were ksh 57 to ksh 110 and ksh 57 to ksh 90 for local and imported sugar respectively. The increase in prices is attributed to increased ex factory and wholesale prices. Some retailers are blending imported sugar with local sugar in order to improve their turnover since most consumers prefer local sugar to imported sugar.

The price of cane per tonne went up in September 2000 to ksh 2,015 from ksh 1,730 from the previous two years. It is unlikely that the price will go up this year.

Stocks

The year 2000 ended with closing stocks of 1,291 tonnes against 20,185 tonnes in 1999. Reduction is sugar stocks this year was as a result of lack of cane in the sugar industry for milling. Due to this supply shortage the Common Markets for Eastern Africa (COMESA) countries took advantage and exported sugar. Presently the sugar mills have a lot of stocks that they are unable to sell due to the cheap sugars from the COMESA countries. The situation is expected to continue and a possible recovery in the later half of the year.

Policy

During the years there have been several policy shifts. In mid 1998 the GOK imposed a 40 percent sugar development levy on sugar imports a move the GOK defended on the grounds that local sugar producers had been unable to sell their sugar due to the flooding of the local market with cheap imported sugar. Presently, domestic sugar attracts 100 percent duty while importers of raw sugar pay 40 percent. Industrial sugar attracts 70 percent duty. The whole idea of the high duties is to ostensibly bring price parity between local and imported sugar. Most of the recent imports were under COMESA attracting zero duty. The only charge they had to pay was administration fee. All local sugar mills other than Mumias cannot compete with the incoming sugar hence the need for the matter to be addressed amicably.

There is need to increase the area under cane to cover the fallow caneable land that is available in the Nyando and Sony zones. Expansion should be with early maturing and or 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. The need to improve cane productivity should also be addressed. Redress the cane crop class distribution imbalance, fill gaps and improve cane agronomic and husbandry practices. Another area could be reduction in cane losses/waste due to undetermined pre-harvesting (on farm chewing and grazing) and post harvesting(poaching by jaggeries and en route spillage and chewing).

Privatization

The sugar sector is still predominantly GOK owned. The interest to divest its interest has been indicated for the last several years. Mumias and Chemelil have been identified for privatization this year. The process has been initiated with Mumias taking the lead. The farmers under Mumias Outgrower Company (MOCO) have raised about sh 824 million in preparation for the privatization process. The rest of the other sugar outgrower companies have no capacity building (resources, personnel) to take off.

Privatization remains the only way forward for most of the sugar companies in Kenya. The future of the industry rests on the GOK's implementation of the proposed sugar Bill. It still remains difficult to privatize the others due to their indebtedness.

Annexes

Table 1

SUGARCANE AREA AND YIELD(HA, TONS/HA)

YEAR	AREA UNDER CANE	AREA HARVESTED	CANE DELIVERED	CANE YIELDS
1998	117657	50111	4661361	85.51
1999	108793	51812	4415801	78.42
2000	107985	57243	3941525	60.51

Source: Kenya Sugar Authority

Table 2:

SUGAR PRODUCED BY FACTORY(MT)

FACTORY	**1997**	**1998**	**1999**	**2000**
MUMIAS	193483	229098	253724	219806
SONY	59870	65004	63845	46403
NZOIA	43219	37769	49713	41924
MUHORONI	16164	21940	24742	12640
MIWANI	14043	12800	9824	8970
W.KENYA	15583	17273	16863	7917
CHEMELIL	58805	65532	52077	64324
TOTAL	401167	449416	470788	401984

SOURCE: KENYA SUGAR AUTHORITY

Table 3

FACTORY PERFORMANCE OF SUGAR COMPANIES
(TONS OF CANE PER DAY)

FACTORY	**CAPACITY**	**1998 ACTUAL**	**1999 ACTUAL**	**2000 ACTUAL**
MUMIAS	350	283	341	313.6
SONY	125	127	127	120.1
NZOIA	125	112	120	121
MUHORONI	75	73.7	73.7	62.9
MIWANI	62.5	52.4	50.6	53.8
W.KENYA	50	43	45	35
CHEMELIL	129.6	124.9	127.9	133.3
TOTAL	**917.1**	**816**	**885.2**	**839.7**

RATED CAPACITY FOR THE YEAR 2000
SOURCE: KENYA SUGAR AUTHORITY

Table 4

AMOUNT OF CANE CRUSHED PER MILL(MT)

FACTORY	1998	1999	2000
MUMIAS	2197224	2200191	1908806
SONY	732154	677408	465181
NZOIA	440428	521095	417705
MUHORONI	292254	337916	187050
MIWANI	212215	167806	154652
W.KENYA	212867	207600	106581
CHEMELIL	752938	561231	667860
TOTAL	**4840080**	**4673247**	**3907835**

source: Kenya Sugar Authority