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Kenya

Sugar Annual

Kenya Sugar Annual Report

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Report Highlights:

Kenya's sugar production will slightly increase in marketing year (MY) 2012 (January to December 2011). Consumption still remains strong while imports will likely decline.

Industry analysts believe that the Kenyan sugar sector will reform ahead of the Common Market for Eastern and Southern Africa (COMESA) market-opening provisions for sugar. The Government of Kenya (GOK) has embarked on the implementation of a series of measures to improve the sector's competitiveness.

Commodities: Sugar, Centrifugal

Production

Kenya's MY 2011 sugar production has been revised upward, but is still less than MY 2010, due to weather-induced cane shortage, closure of the sugar mills for 6-8 weeks for maintenance and repairs, and poor agronomic practices resulting from delayed payments to sugarcane farmers. However, because of new mills opening, in MY 2012 FAS/Nairobi forecasts that production will rebound to MY 2010 levels.

Area under cane, area harvested and cane produced

Year	2009	2010	2011 (Forecast)
Area under cane (HA)	154,298	165,800	177,302
Area harvested (HA)	64,533	68,738	72,943
Cane delivered (TC)	5,610,664	5,698,585	5,786,506

Data sources: 2009 and 2010-Kenya Sugar Board; 2011- FAS/Nairobi forecast
TC = Tonnage Crushed

Sugarcane matures in 18 to 24 months, and farmers plant and harvest at different times. Therefore, at any point of time, there is cane growing and also cane to harvest.

Consumption

Kenya's sugar consumption continues to grow and outpace production. Domestic production supplies about 70 percent of total consumption. KSB forecasts consumption to grow at an annual rate of 4 percent. The factors driving consumption increase include population growth and industrial use. The use of sugar in industrial activities such as manufacturing soft drinks, biscuits, other beverages and confectionary products is rising steadily.

Currently, Kenyan consumption of alternative sweeteners remains insignificant.

Retail prices per kilogram of milled brown sugar increased by 9 percent to $1.23 (Kenya Shillings (Kshs) 97.43) in MY 2011.

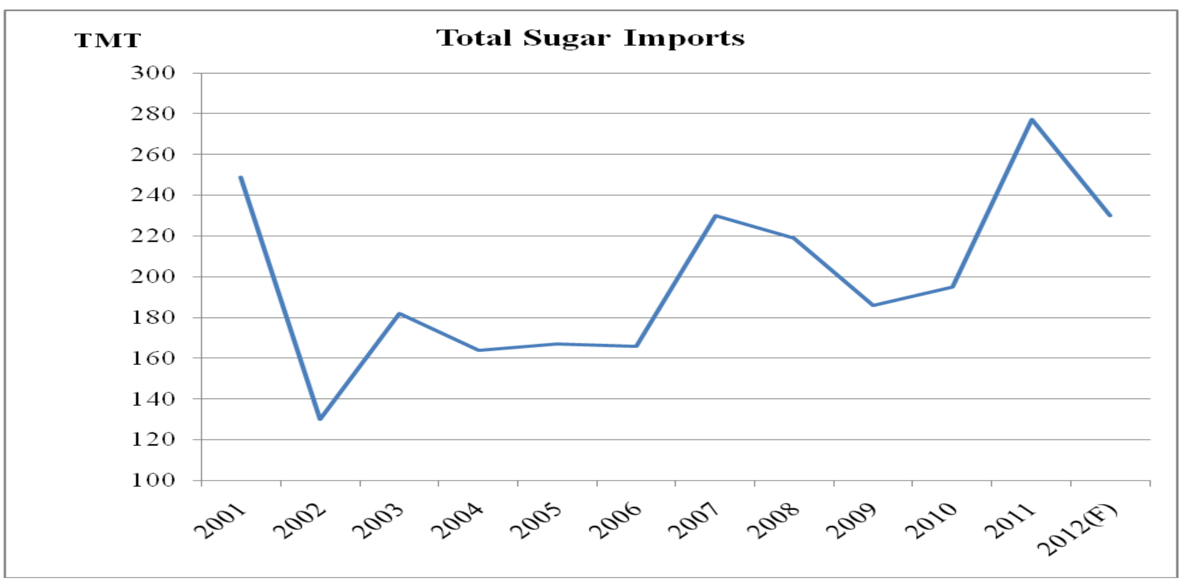
Kenya's Monthly Ex-mill, Wholesale, and Retail Prices of Brown Milled Sugar in MY 2011

2010	**Average Ex Factory sugar price in Kshs per 50 KG bag**	**Wholesale price in Kshs per 50 KG bag**		**Retail price in Kshs per 1 KG bag**	
		Range	**Mean**	**Range**	**Mean**
January	3,844	4,000-4,300	4,196	90-115	101.97
February	3,861	3,800-4,200	3,954	80-110	96.00
March	3,843	3,850-4,200	3,984	80-115	96.00
April	3,935	3,750-4,100	3,886	80-115	92.48
May	4,022	4,050-4,350	4,116	87-100	97.00
June	4,114	4,100-4,450	4,211	85-120	93.68
July	4,107	4,150-4,400	4,288	88-110	97.43
August	4,143	4,150-4,400	4,289	95-110	103.87
September	4,138	4,170-4,450	4,289	84-115	100.29
October	4,024	3,950-4,350	4,264	81-110	100.34
November	3,852	3,850-4,350	4,061	80-120	95.05
December	3,869	4,000-4,050	4,071	90-100	95.00
Overall	**3,979**	**3,750-4,450**	**4,134**	**80-120**	**97.43**

Data source: Kenya Sugar Board

Trade

Kenyan millers sourced 80 percent of their brown sugar from Egypt in MY 2010, while South Africa and Saudi Arabia supplied 47 and 42 percent of refined sugar, respectively.



Data source: Kenya Sugar Board

Stocks

Sugar stocks are minimal and largely held by private sector.

Policy

Kenya restricts sugar-market access through high tariffs and non-tariff barriers.

Tariffs	
COMESA Member	Over-quota tariff declining by 30 percent per year until zeroed beginning March 1, 2012
COMESA External Tariff	100 percent ad-valorem tariff, but not less than $200/ton
Non COMESA refined sugar imports	10 percent ad-valorem tariff after approved duty remission
Non-tariff barriers associated with the Kenyan sugar market	
Registration as a sugar importer	1. All sugar importers must be registered by the Kenya Sugar Board (KSB) – annual fee of $126 (Kshs 100,000). 2. All industrial sugar importers must be members of Kenya Association of Manufacturers (KAM). KAM is responsible for processing tax remission. KAM membership fee is based on annual turnover. 3. All industrial sugar importers must be listed on the East African Community list of industrial users in order to benefit from 90 percent remission of the above noted external tariff.
Import Permit	Needed for each consignment – approved or denied by KSB
Application of intent to import sugar	The government of Kenya (GOK) requires that all raw sugar importers submit a letter requesting for importation. Refined sugar importers must apply to KAM requesting for sugar importation as a raw material.
Quarterly and annual import returns	Raw sugar importers must submit to KSB quarterly reports and refined sugar importers submit annual returns to KAM and Ministry of Finance. The returns must include quantities and usage.
VAT	16 percent ad-valorem
Development Levy	Four percent ad-valorem. Industrial sugar importers are exempt
Raw vs. refined shipments controlled by GOK	The GOK sets an annual limit on the amount of refined sugar that can be imported under the 90 percent remission of the above-noted external tariff. The GOK grants specific high-value product producers access to this refined sugar.

Beginning March 1, 2012, Kenya will grant duty-free access to the COMESA members under the market-opening provisions for sugar. Once the GOK removes the current sugar import tariffs, Kenyan producers may have to compete with more efficient producers such as Egypt, Swaziland, and Malawi. Reportedly, Kenya has the highest cost of producing of sugar in the region ($550/MT compared to $230-350/MT in several COMESA countries).

Industry analysts believe that COMESA members will likely continue to target lucrative markets (the EU, U.S., and Asia) as world prices remain relatively high. Data from the Kenya Sugar Board (KSB) show that COMESA members supplied only 40 percent of the allotted duty-free import quota in MY 2010.

Kenya sugar industry faces many challenges including mismanagement, fraud, and a lack of government's commitment to reforms. In anticipation of the COMESA safeguards deadline, the GOK plans to privatize five highly indebted state-owned mills, but will retain19 percent ownership. Once the mills become profitable, the government will then sell its share to private mills. Recently, the GOK released $23 million (Kshs18.87 billion) through the KSB for the privatization process.

To enhance competitiveness of the sugar sector, the GOK focuses on the following areas:

- Privatizing the government-owned sugar mills;
- Facilitating access of credit to farmers for enhanced cane development from the Sugar Development Fund;
- Supporting sugarcane research and availability of early maturing, high sucrose varieties; and
- Creating conducive policy environment for production and use of biofuels.

Marketing

Kenya does not have any competitive advantage in the world and regional market. However, regional cross boarder trade remains a common occurrence.

To increase sales and product identification, local sugar mills have not only segmented the consumer market but also branded their products. They have packaged both white and brown sugar in different sizes (2kg, 1kg, 1/2kg, 1/4kg, 100gms, and 5gms) to cater for different markets and different pockets.

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal Kenya	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Jan 2009		Market Year Begin: Jan 2010		Market Year Begin: Jan 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	5	5	13	13		41
Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	550	550	510	524		555
Total Sugar Production	550	550	510	524		555
Raw Imports	70	70	70	147		70
Refined Imp.(Raw Val)	125	125	145	130		145
Total Imports	195	195	215	277		215
Total Supply	750	750	738	814		811
Raw Exports	2	2	2	0		0
Refined Exp.(Raw Val)	0	0	0	0		0
Total Exports	2	2	2	0		0
Human Dom. Consumption	735	735	730	773		800
Other Disappearance	0	0	0	0		0
Total Use	735	735	730	773		800
Ending Stocks	13	13	6	41		11
Total Distribution	750	750	738	814		811
1000 MT						