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Kenya

Food Processing Ingredients

2010 Annual Report

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Report Highlights:
Kenyan food processors buy U.S. food ingredients when U.S. landed prices are favorable or when the U.S. ingredients have been positioned "in-country" and the export competition does not have product available for the local market. Importers and processors confide in U.S. quality. The perfect example of the difficulty/opportunity for U.S. exporters has been exemplified in the soy-isolates sector, where since calendar year (CY) 2005, U.S. exports of soy products (to include isolates) have totaled only $550,000, but would likely have been nonexistent had the product not been regionally positioned to serve the sub-Saharan market.

Post:
Nairobi

Executive Summary:

I. MARKET SUMMARY

	2007	2008	2009	2010[3]	2011[4]
ECONOMIC TRENDS					
Inflation (%)[1]	4.3	16.2	9.2	8.5	8
Unemployment (%)[5]	40	40	40	42	41
GDP at Market Prices ($ Billions)[1]	27	31	27	28	31
GDP per capita($)[1]	780	711	692	700	715
Total Agricultural, Fish and Forestry Products ($ Million)[2]	1,107	1,428	1,610	1,550	1,500
Total U.S. Agricultural, Fish and Forestry Products ($ Million)[2]	84.8	76.6	193.6	190	185
Total Agricultural Products ($ Million)[2]	1,059	1,394	1,585	1,450	1,400
Total U.S. Agricultural Products ($ Million)[2]	84.8	76.6	193.6	180	175
Major Competitors[2]:					
Indonesia	242	305	198	269	286
Singapore	85	171	119	174	200
Swaziland	46	70	61	71	76
Pakistan	47	54	111	117	138
Singapore	85	170	119	174	199
South Africa	46	111	355	392	494
Egypt	79	41	21	24	16
Russia	45	63	33	50	52
Ukraine	29	22	94	92	80
India	23	43	65	77	94
Germany	7	22	11	9	6
Netherlands	17	22	11	13	11
Uganda	84	70	50	80	91
Italy	15	13	26	24	27
Tanzania	35	41	24	40	45
Total Fish and Seafood Products ($ Million)[2]	**8.3**	**6.4**	**6.1**	**6.3**	**6.1**
Total U.S. Fish and Seafood Products ($ Million)[2]	0.01	0.01	0.01	0.01	0.01
Major competitors[2]:					
Seychelles	3.1	2.8	3.5	2.7	2.4
Singapore	0.5	1.3	0	0.7	0.7
Tanzania	0.5	0.4	0.4	0.6	0.6
Japan	0.6	0.3	0	0.1	0
Norway	0.2	0.2	0.1	0.2	0.2
India	0.2	0.2	0.3	0.4	0.5
Spain	0	0.2	0	0.1	0.1
Netherlands	0	0.2	0	0.1	0.1

Sources: [1]Kenya National Bureau of Statistics (KNBS), [2]Global Trade Atlas (GTA), [3]2010 FAS

Nairobi Estimates and [4]2011 Forecasts, [5]CIA Factbook

The Kenyan food-processing sector, including food, beverages and tobacco, remains the largest component of the manufacturing industry. In CY 2008, the sector contracted by 3.9 percent from CY 2007, but still generated over a third (33.4 percent) of the total manufacturing production, and provided 89,319 jobs (Kenya National Bureau of Statistics (KNBS) 2009 Statistical Abstract). High production and ingredient costs were partially blamed. During CY 2009 the sector grew 2.1 percent (the 2010 Economic Survey).

The 2009 Statistical Abstract of KNBS provides the following specifics:

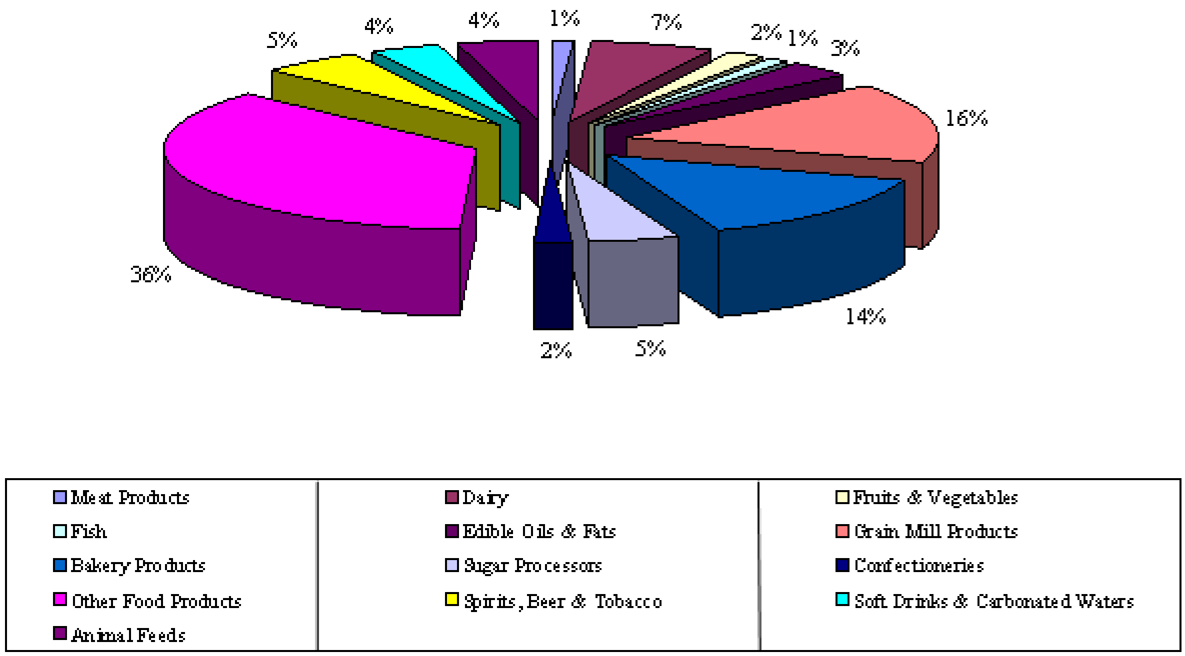
- Major segments of the sector include grain milling, bakery, dairy, spirits, beer and tobacco, sugar, soft drinks and carbonated waters, animal feeds, and edible oils and fats;
- Total production amounted to $3,461 million, of which $2,706 million was exported;
- Corn meal, wheat flour and other milled grain products led the market with production valued at $848.5 million, followed by canned vegetables, oil and fats at $794 million, and bakery products totaling $294 million;
- There were 1,070 registered food processing companies, mostly small companies;
- Regarding the relative size of the domestic processors, 46 percent employed more than 49 people; 19 percent employed between 20 and 49 people, 35 percent employed fewer than 20 people; and,
- Processing inputs were valued at $2,613 million.

The Kenya Food Processing Sector

	2004	**2005**	**2006**	**2007**	**2008**
Total Output ($Million)[1]	2,064	2,420	2,844	3,550	3,461
Total Inputs ($Million)[1]	1,582	1,847	2,164	2,695	2,613
Total Number of Registered Food Processors[1]	1,124	1,232	1,038	1,031	1,070
Labor force in Registered Companies[1]	83,750	85,297	86,569	89,356	89,319
Total Exports of Agricultural Products ($Million)[2]	N/A	N/A	1,746	2,050	2,706
Exchange Rate (Kshs./$)[1]	79.17	75.55	72.10	67.32	69.18

Sources: [1]KNBS (Statistical Abstract, 2009), [2]GTA

Kenya's Food Processing Industry - 2008
(Number of firms)



Source: KNBS (Statistical Abstract, 2009)

Value of Food inputs ($ million) Used in Kenya's Food Processing Sector, 2007-2010

Sub-Sector	2007[1]	2008[1]	2009[2]	2010[2]	2011[3]
Meat and Dairy Products	191	190	186	199	208
Canned Vegetables, Fish, Oils and Fats	611	627	664	742	802
Grain Mill Products	798	670	687	716	716
Bakery Products	204	232	234	260	289
Sugar and Confectionery	235	220	221	236	249
Miscellaneous Foods	266	260	253	264	261
Beverage and Tobacco	389	412	428	476	513
Total	2,695	2,613	2,674	2,892	3,039

Sources: KNBS (Statistical Abstract, 2009), [2]FAS/Nairobi Estimates and [3]Forecasts

Advantages	Challenges
• Kenya has a relatively well-developed food-manufacturing sector • Kenya's agricultural product exports within the East African Community trade bloc grew at an annual average of 21 percent between calendar years 2006 and 2009 (GTA data) • Local ingredient production does not always	• Kenya imports relatively few ingredients • Competition from low-priced suppliers like China, South Africa, and regional trade-bloc member countries that have preferential tariffs

meet processor' demand especially for high-value ingredients like protein, malt extract, vitamins and minerals • Existence of a significant humanitarian assistance market needs high-quality food ingredients such as dry milk powder and peanut paste	• U. S. exporters are generally at a freight disadvantage

II. ROAD MAP FOR MARKET ENTRY

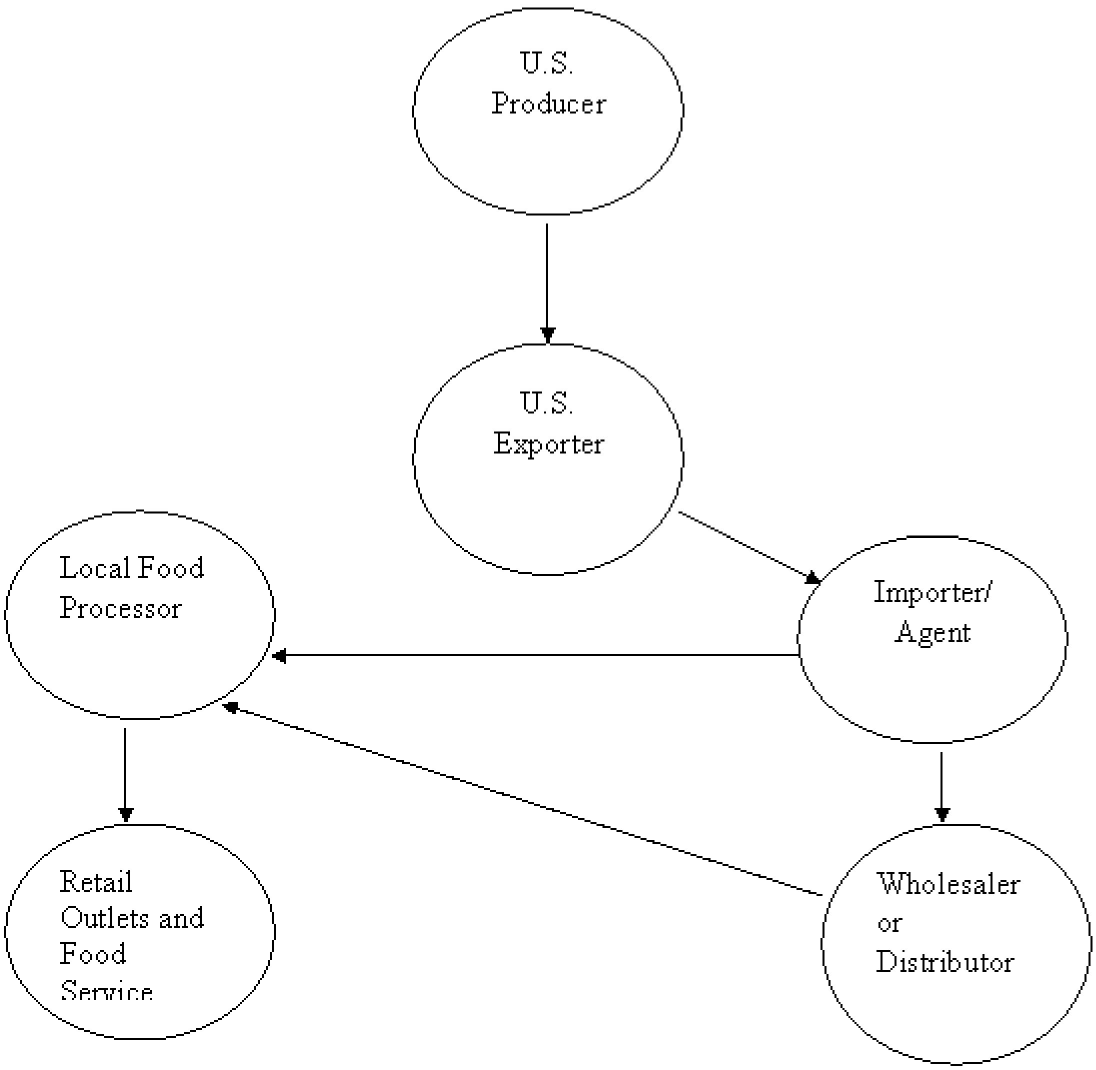
A. **Entry Strategy**

To get into the Kenyan market, U.S. suppliers of food ingredients should consider consulting U.S. cooperators active in the region; namely, the American Soybean Association/World Initiative for Soy in Human Health (WISHH), U.S. Dry Beans Council, USA Dry Peas and Lentil Council, American Peanut Council, U.S. Wheat Associates, and the U.S. Grains Council.

U.S. cooperator' market development activities include in-country technical seminars, trade-servicing visits, and short-term specialized trainings in the United States. Through these initiatives, Kenyan food processors may come to better understand the advantages of buying U.S. food ingredients.

B. **Market Structure**

The chart below shows how most U.S. food ingredients reach Kenyan food processors and the consumer market.



Large companies such as Nestle and East African Breweries may be exceptions to the above model, in that they may purchase in quantities sufficient to permit imports directly from exporters.

C. **Company Profiles**

Company	**Sales ($ Mil/Yr)**	**End-use Channels**	**Production Location**	**Procurement Channels**
Farmer's Choice Ltd. (meat and meat products) www.farmerschoice.co.ke	N/A	RFS[1]	Nairobi	Direct Importers
Alpha Finefoods Ltd. (meat and meat products) www.alphaafrica.com	N/A	RFS	Nairobi	Direct Importers

Brookside Dairies Ltd. (dairy products) www.brookside.co.ke	N/A	RFS	Nairobi	Direct Importers
Delmonte Kenya Ltd. (fruit juices)	N/A	RFS	Thika	Direct
BIDCO Ltd. (edible oils and fats) www.bidco-oil.com	N/A	RFS	Nairobi Nakuru Kampala Dar es Salaam	Direct
Mombasa Maize Millers Ltd. (wheat, corn, and animal feeds)	N/A	RFS, and livestock farmers	Mombasa Nairobi Nakuru Kitale Kisumu	Direct Importers
Pembe Millers Ltd. (wheat, corn, and animal feeds) www.pembe.co.ke	N/A	RFS, and livestock farmers	Nairobi Arusha	Direct Importers
Unga Group Ltd. (wheat, corn, and animal feeds)	N/A	RFS, and livestock farmers	Nairobi Nakuru	Direct Importers
Corn Products International (corn starch, corn sweeteners, refined corn oil, and corn gluten feed) http://www.cornproducts.com/locations/kenya.php	N/A	Food manufacturers	Eldoret	Importers
Cadbury Kenya Ltd. (Confectionery and dairy products)	N/A	RFS	Nairobi	Direct
Deepa Industries Ltd. (snack foods and spices) www.tropicalheat.co.ke	N/A	RFS	Nairobi	Direct Importers
Nestle Company www.nestle.com	N/A	RFS	Nairobi	Direct
Proctor and Allan(E.A) Ltd. (breakfast cereals) www.proctor-allan.com	N/A	RFS	Nairobi	Importers
East African Breweries Ltd. (alcoholic and soft drinks) www.eabl.com	N/A	RFS	Nairobi	Direct

Trufoods Ltd. (sauces, jams marmalades, peanut butter etc.) www.trufoodsltd.com	N/A	RFS	Nairobi	Importers
Jambo Biscuits (K) Ltd. (Bakery products)	N/A	RFS	Nairobi	Direct Importers
Coca Cola Ltd. (soft drinks) www.cocacola.co.ke	N/A	RFS	Nairobi	Direct

D. Sector Trends

- Between CY 2004 and CY 2008, the number of registered food processors declined by 4.8 percent. As examples of the rationalization, Mombasa Maize Millers Ltd. reportedly purchased five smaller milling companies, and Brookside Dairies Ltd bought Spin-Knit Ltd. and Ilara Dairies Ltd. Some Kenyan-based processors have also expanded operations in neighboring countries.
- Between July and December 2008, Foreign Direct Investment (FDI) in Kenya amounted to $1.04 billion according to Kenya Investment Authority. FDI inflows in food processing industry sector were unspecified.

III. COMPETITION

The following table summarizes the competitive situation facing U.S. suppliers in the food-processing sector from other suppliers in the world.

Product Category (2009 calendar year)	**Major Supply Sources in 2009**	**Strengths of Key Supply Countries**	**Advantages and Disadvantages of Local Suppliers**
1. Wheat Net imports: 781,712 MT* valued at $174,400,409	1.Ukraine: 52.17% 2.Russia: 18.71% 3.Argentina: 9.06% The United States supplied 6.58% of Kenya's total wheat imports mostly through food aid channels.	Ukraine, Russia and Argentina offer better prices for wheat than the United States due to their proximity.	Local production does not meet industry demand
2. Protein Concentrates and Textured Protein Substances Net imports: 231 MT valued at $585,024	1. China: 63.43% 2. United States: 29.13% 3. South Africa: 4.63%	Low landed costs compared to protein concentrates imported from the United States	Not sufficient local production
3. Milk Powder	1.New Zealand: 47.10% 2. Switzerland: 29.38%	Nestle imports milk powder directly to control quality	Not sufficient local production of the quality

Net imports: 2,320MT valued at $5,834,998	3. Uganda: 13.22%	and price	needed in specialized foods such as infant formulas

Source: [1]GTA, MT* = Metric tons

IV. BEST PRODUCT PROSPECTS

A. Products Not Present in Significant Quantities but Which Have Good Sales Potential

Product category	2009 Market Size (Volume) Metric Tons	2009[1] Imports (Sales)	5-Yr Average Annual Import Growth (%)	Import Tariff Rate (2009) %	Key Constraints Over Market Development	Market Attractiveness for USA
Wheat	825,000[2]	$174,400,409	18	25	Competition from lower cost suppliers Freight disadvantages	High-quality hard wheat needed for blending
Peanut Paste	142[1]	$ 256,283[1]	* 34	25	Very limited market	Potential use in quick recovery foods

Sources: [1]GTA, [2]FAS/Nairobi Estimates, Industry Estimates

*No data prior to 2006; only four year average annual growth

B. Products Not Present Because They Face Significant Barriers

- Meat and meat products
- Poultry and poultry products
- Dairy and dairy products

In addition, phytosanitary requirements restrict the following products in the Kenyan market

- Lentils must be free of contamination with darnel weed seed
- Peas must be split to reduce the risk of planting and spread of pests and diseases (*Pseudomonas syringae pv. Pisi*)
- Beans must originate from an area free of *Corynebacterium flaccumfascien*
- Wheat must originate from an area free of karnal blunt and flag smut

V. POST CONTACT AND FURTHER INFORMATION

If you have any questions and/or comments regarding this report or need assistance exporting to Kenya and the east African region, please contact the office of Agricultural Affairs in Nairobi, Kenya at the following address:

Office of Agricultural Affairs
U.S. Embassy, Nairobi
United Nations Avenue, Gigiri
P.O. Box 606-00621
Village Market-Nairobi, Kenya.
Tel : (254-20) 363 6340
Fax : (254-20) 363 6349
Email : Agnairobi@usda.gov
Website : www.fas.usda.gov/itp/Kenya/Nairobi.asp

The following reports provide more information on exporting U.S. food products into the Kenyan market:

Exporter Guide Report
Food and Agricultural Import Regulations and Standards Report
Food and Agricultural Imports and Regulations Export Certificate Report