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Grain and Feed Annual

Kenya's imports of key food commodities set to increase

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Report Highlights:
FAS/Nairobi forecasts an increase in Kenya's corn, wheat, and rice imports due to a widening domestic supply deficit during the marketing year (MY) 2018/2019. Corn exports to Kenya will remain limited by the existing import ban on genetically modified (GM) products, while the impact of Government of Kenya's (GOK) proposed support to corn and rice production under the "Big Four" food security agenda is currently unclear.

Corn:

Government of Kenya (GOK) targets increased corn production

FAS/Nairobi forecasts a marginal increase in Kenya's harvested corn area in MY 2018/2019 due to incentives that GOK is planning to give to farmers under the "Big Four" program that was announced by Kenya's president in November, 2018. Production is also expected to increase as the country rebounds from a nearly two-year period of erratic weather, the improved management of fall army worm (FAW), and the apparent containment of maize lethal necrosis (MLN). Under the "Big Four" GOK program, corn production is prioritized for acceleration, through a public-private partnerships model that will involve identification and leasing of underutilized medium/large scale farms and dedicating them to corn production. The program targets an additional 50,000 hectares (12,3550 acres) in 2018. In order to increase yield in traditional corn growing areas, both GOK and county governments have increased funding their fertilizer and seed distribution programs. The full impact of these production supporting measures is likely to be realized beyond MY 2018/2019.

In addition to erratic weather, Kenya's corn production is limited by other underlying factors such soil acidification due to continued preference of Di-ammonium Phosphate (DAP) fertilizer, increased harvesting of green maize for roasting, and premature harvesting of maize crop for silage.

Corn: Production, Supply, and Distribution (PSD) Table

Corn	2016/2017		2017/2018		2018/2019	
Market Begin Year	Jul 2016		Jul 2017		Jul 2018	
Kenya	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2100	2100	2100	2100		2150
Beginning Stocks	216	216	179	166		316
Production	3130	3100	2950	2900		3200
MY Imports	488	500	1200	1200		1000
TY Imports	976	1000	1200	1200		1000
TY Imp. from U.S.	0	0	0	0		0
Total Supply	3834	3816	4329	4266		4516
MY Exports	5	0	5	0		0
TY Exports	5	0	5	0		0
Feed and Residual	350	350	350	450		500
FSI Consumption	3300	3300	3800	3500		3800
Total Consumption	3650	3650	4150	3950		4300
Ending Stocks	179	166	174	316		216
Total Distribution	3834	3816	4329	4266		4516
Yield	1.4905	1.4762	1.4048	1.381		1.4884

(1000 HA) ,(1000 MT) ,(MT/HA)						

Table 1

Note: MT = Metric tons; Ha = hectare

Increased feeds demand to contribute to corn consumption growth

Despite efforts by GOK to promote diet diversification, corn will remain the main staple food crop in Kenya into the foreseeable future, ahead of Irish potatoes, and rice. Increase in corn consumption will therefore be largely driven by growth in population, and increased urbanization. The growth of poultry and dairy sectors, and the resultant increase in demand for manufactured feeds will also provide additional growth impetus corn consumption. FAS/Nairobi forecasts a four percent increase in total corn consumption in MY 2018/2019.

Corn imports forecast to increase mid-year

Kenya remains a corn production deficit country, and importations are expected to pick up in the first quarter of MY 2018/2019. Unlike during the previous two years, the bulk of Kenya's corn imports are expected to be from the Common Market for Eastern and Southern Africa (COMESA)/East African Community (EAC) countries. Outside COMESA/EAC, only a few countries, including Mexico, South Africa, Russia, and Ukraine have been able to export their corn to Kenya due to the existing import ban on GM products.

NCPB to hold most of the corn closing stocks

Kenya's National Cereals and Produce Board (NCPB) is by law mandated to purchase and store public stocks under the Strategic Food Reserves (SFR) program. In MY 2017/2018, NCPB opened its purchase program in December, 2017 and had purchased 3.2 million bags (288,000 MT) of corn by end February 2018. The program is, however, faced with budgetary, and storage capacity constraints and further purchases are therefore likely to be limited. Minimal closing stocks will also be held by framers, traders and by millers. FAS/Nairobi forecasts lower closing stocks for MY 2018/2019

Corn prices expected to be volatile

FAS/Nairobi forecast volatile corn prices in the MY 2018/2019 due to a rebound in production, cheaper sourcing of imports from the East African Community (EAC) countries, and the lapse of the GOK consumer subsidy program. NCPB has set the MY 2017/2018 corn purchase price at Ksh 3,000 ($30 USD) per 90 kg bag, and most traders buying directly from farmers are invariably bidding lower driving down the cost of corn and corn products. Kenya's corn pricing regime is the most favorable in the EAC region and therefore provides incentive for trade inflows of corn from the neighboring countries.

Duty free corn imports unlikely

During the MY 2016/2017, GOK opened up a duty free import windows up to December 31, 2017 for white corn, and up to June 30, 2018 for yellow corn (mainly for livestock feeds manufacture). The steep EAC ad-varolem common external tariff of 50 percent is to set in after the expiry of the import windows. Due to the favorable weather that is forecast in the COMESA/EAC countries, and likely surplus exportable corn, GOK is unlikely to re-open the duty free importation window in MY 2018/2019.

Wheat:

Wheat production set to recover from effects of drought

FAS/Nairobi forecasts Kenya's wheat production to increase in MY 2018/2019 after a significant decline in MY2017/2018 that was contributed by a ravaging drought in key wheat producing regions. Harvested area is expected to stagnate as most farmers are hesitant to expand their wheat farms due to declining returns on investment. In addition to the unstable weather conditions, wheat yields in Kenya continue to be constrained by widespread use of recycled seed by farmers, and the resultant prevalence of the wheat stem rust (Ug99) disease. Wheat farming in Kenya will in the long term also be constrained by the subdivision of family-owned farms into smaller units for inheritance purposes, and shifts to other more competitive enterprises such as barley, horticulture, dairy, and sorghum.

Wheat: Production, Supply and Distribution (PSD) Table

Wheat	**2016/2017**		**2017/2018**		**2018/2019**	
Market Begin Year	**Jul 2016**		**Jul 2017**		**Jul 2018**	
Kenya	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Area Harvested	175	175	175	170		170
Beginning Stocks	305	305	405	405		340
Production	380	380	450	300		360
MY Imports	1774	1774	2100	2100		2200
TY Imports	1774	1774	2100	2100		2200
TY Imp. from U.S.	87	87	0	70		100
Total Supply	2459	2459	2955	2805		2900
MY Exports	4	4	20	5		5
TY Exports	4	4	20	5		5
Feed and Residual	150	150	160	160		170
FSI Consumption	1900	1900	2300	2300		2400
Total Consumption	2050	2050	2460	2460		2570
Ending Stocks	405	405	475	340		325
Total Distribution	2459	2459	2955	2805		2900
Yield	2.1714	2.1714	2.5714	1.7647		2.1176
(1000 HA) ,(1000 MT) ,(MT/HA)						

Table 2

Wheat consumption to maintain the upward trend

Wheat consumption in Kenya continues to increase due to changing dietary patterns and an expanding and robust food service sector, and the trend is expected to continue in MY 2018/2019. A growing preference for wheat products is evident across the income groups in both rural and urban area and manifests in the increases in both commercial and home-baking. The proliferation of international pasta, confectionery, and breakfast cereals brands in the Kenyan market also points to the new dietary patterns. A limited amount of wheat is also used in the manufacture of livestock feeds.

Increased wheat imports expected

FAS/Nairobi forecasts a surge in wheat imports in MY 2017/2018 due to the widening local supply deficit as local production can only cater for only about twenty percent of the total demand. Currently, the bulk of the Kenya's wheat imports are from Russia, Argentina, Canada, Lativia, Lithuania, Germany, Poland, and Australia. In MY 2016/2017, commercial imports from the U.S. also started coming in, breaking a previous trend where U.S. wheat exports were primarily for Food Aid programs. In addition to the widening local supply deficit, the surge in wheat imports in MY 2017/2018 is attributed to a higher consumer shift to wheat products due to due high corn flour prices, and the removal of value added tax (VAT) on wheat flour. Also attributed is to an increase in local milling capacity by about one million metric tons due to new private investments in the sector.

Wheat exports from Kenya are minimal, and attributable to the limited cross-border trade with the neighboring countries.

Closing wheat stocks expected to decrease marginally

Wheat stocks are mainly held by private traders, and FAS/Nairobi forecasts a marginal decrease. The level of stocks will reflect the net impact of a higher consumption increase compared to total supply.

Reduced wheat import tariff percent expected to continue

Kenya's wheat imports are by registered millers, and are assessed a 10 percent ad-valorem tariff; otherwise the EAC common external tariff of 35 percent applies. In addition, the GOK maintains an understanding with Cereal Millers Association (CMA), a key industry association, requiring that their members to mop up local produce before they can be granted import licenses.

Rice:

Rice production part of GOK's food security "Big Four"

FAS/Nairobi forecasts a modest increase in Kenya's rice area in MY 2018/2019 due to the ongoing promotion by both GOK and county governments of New Rice for Africa (NERICA), rain-fed rice variety in the upland areas. The Mwea Irrigation Scheme that is managed by National Irrigation Board (NIB), and produces mainly the Basmati, an aromatic variety of rice, is also planned for expansion through the support of the Government of Japan. In addition, GOK has prioritized rice production in its "Big Four" food security agenda, and more resources are expected to be directed towards farmer support programs. The anticipated production expansion is however likely to be constrained by lack of adequate suitable land, and inadequate water in the irrigated rice schemes. These measures are, however, medium- to long-term, and may not significantly impact on production in MY 2018/2019.

Rice consumption to increase

Rice consumption in Kenya continues to increase rapidly due changing dietary preferences, higher incomes, and urbanization. Kenyans prefer the aromatic rice varieties and retail prices invariably reflect this preference.

Rice: Production, Supply and Distribution (PSD) Table

Rice, Milled	**2016/2017**		**2017/2018**		**2018/2019**	
Market Begin Year	**Oct 2016**		**Oct 2017**		**Oct 2018**	
Kenya	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Area Harvested	40	40	40	40		45
Beginning Stocks	100	100	150	160		200
Milled Production	70	70	100	100		115
Rough Production	106	106	152	152		174
Milling Rate (.9999)	6600	6600	6600	6600		6600
MY Imports	650	650	700	700		720
TY Imports	675	675	700	700		720
TY Imp. from U.S.	0	0	0	0		0
Total Supply	820	820	950	960		1035
MY Exports	0	10	0	10		10
TY Exports	0	10	0	10		10
Consumption and Residual	670	650	760	750		800
Ending Stocks	150	160	190	200		225
Total Distribution	820	820	950	960		1035
Yield (Rough)	2.65	2.65	3.8	3.8		3.8667
(1000 HA) ,(1000 MT) ,(MT/HA)						

Table 3

Asian countries dominates rice exports to Kenya

Local production has not been able to meet demand and the resultant deficit is offset by imports by private traders. The key countries that export rice to Kenya are Pakistan, Thailand, India, and China (Chart 1 below). Kenya does modest rice exports to neighboring Uganda and South Sudan.

Rice retail prices expected to stabilize

Retail prices for Basmati rice have typically ranged between Ksh 110 per kilogram ($0.45 USD/lb) in January to Ksh 125 per kilogram ($0.57 USD/lb) in December, and mirrors the rice production/ supply cycle. Due to the tight supply situation, MY 2016/2017 was characterized by unprecedented price volatility, with a record price for Basmati rice at Ksh 200 per kilogram ($0.90 USD/lb) in November, 2017 (Chart 2 below). The supply situation has since improved, after harvests at the Mwea irrigation scheme, and the retail price is down to Ksh 130 per kilogram ($0.59 USD/lb) in March, 2018. FAS/Nairobi expects prices to stabilize moving forward into MY 2018/2019.

Key rice exporting countries to Kenya, MT - (MY 2016/2017)

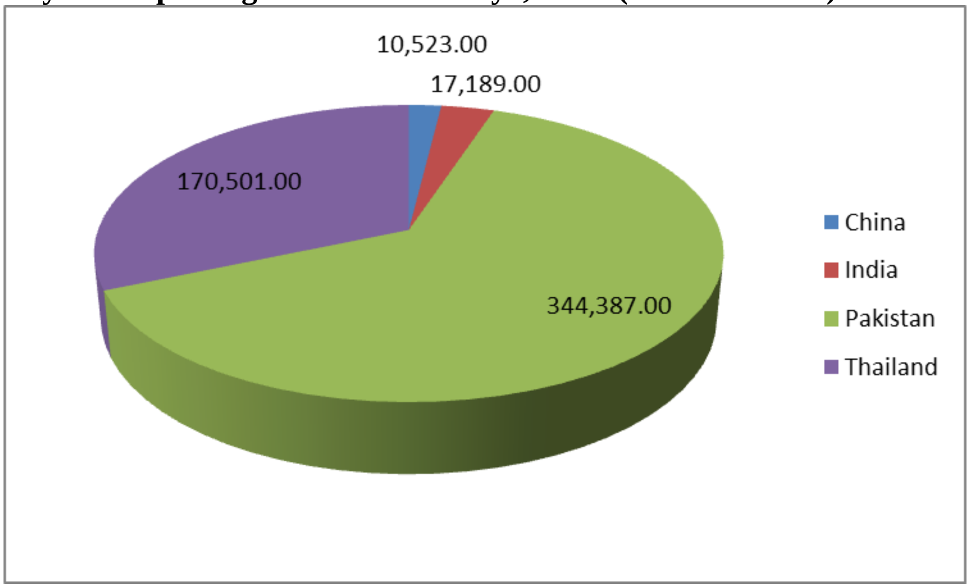

Chart 1

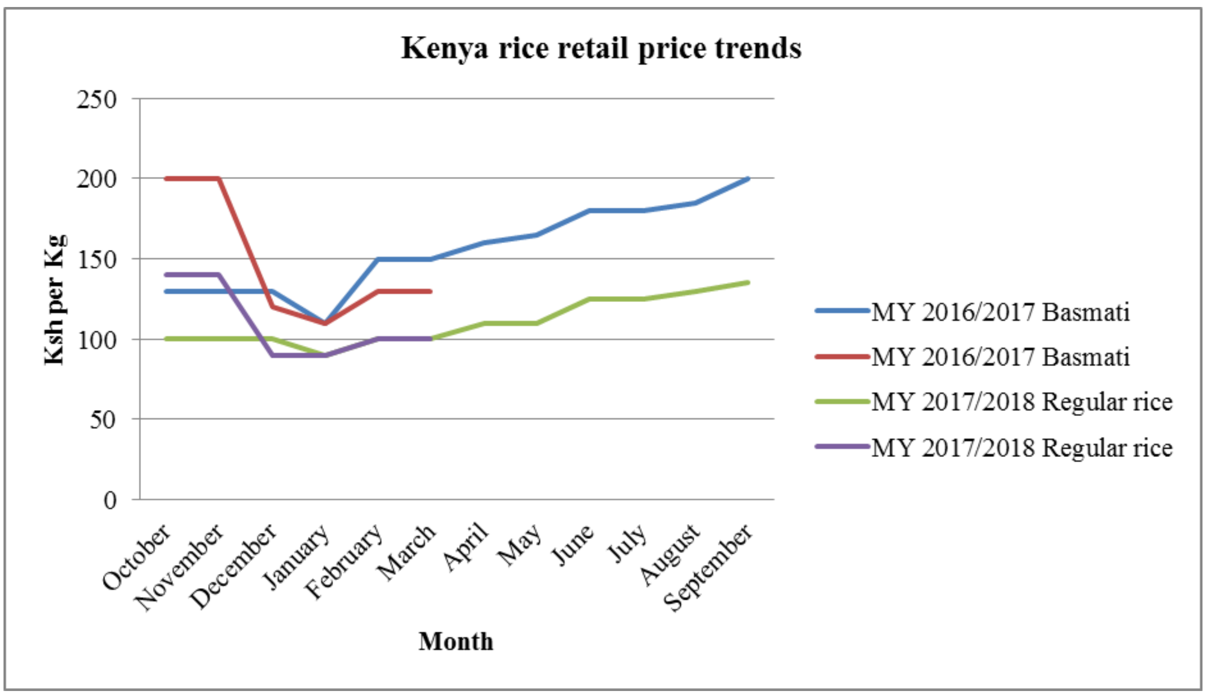

Chart 2

Closing rice stocks to increase marginally

FAS/Nairobi forecasts a marginal increase in closing stocks. All rice stocks are held by private traders.

Kenya’s “stay of application’ on rice imports tariff expected to remain

Since July 1, 2015, EAC has maintained a common external tariff of 75 percent ad-valorem or $345 USD per MT, whichever is higher for rice imports from non-EAC countries. Kenya has, however, been granted by EAC “the stay of application”, based on limited local production, and therefore applies the previous tariff structure of 35 percent ad-valorem or $200 USD per MT, whichever is higher. This waiver is reviewed every year by the EAC secretariat.