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Kenya Wheat Report

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Grain and Feed

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Report Highlights
Record quantities of commercial U.S. Hard Red Winter and Hard Red Spring wheat will likely be purchased by Kenya's wheat millers during marketing year (MY) 2011 July/June. The high quality of U.S. wheat has long been acknowledged by Kenyan millers, but has rarely been priced advantageously, landed at the Port of Mombasa, to accommodate price-sensitive Kenyan miller' cost-minimizing strategies. However, a confluence of events, including the drought in Russia, relatively attractive freight rates from the United States to east Africa, attractive U.S. wheat pricing vis-à-vis competitors supplying the region, and the Government of Kenya's (GOK) successful effort to increase domestic wheat prices (to the benefit of domestic producers and detriment of the food insecure), present a potentially record-setting opportunity for exports of U.S. wheat into this market.

Executive Summary

For the first time in recent history, Kenyan wheat importers may have an opportunity to buy as much as a record-setting 150,000 tons of high-quality U.S. hard wheat, CIF Port of Mombasa on commercial terms, during the MY 2011. The U.S. wheat will likely be a mix of Hard Red Winter, which will compete with most origins of high-quality wheat and can stand alone to produce most flour types in Kenya, and Northern Spring/Dark Northern Spring that will be needed to mix with the lower-quality, domestically-produced wheat to produce acceptable wheat flour.

The GOK has embarked on a MY 2011 duty remission scheme for imported wheat. The scheme could could reduce the effective wheat tariff from 35 percent-to-10 percent ad valorem. On the face of it, this would appear to be an important step to securing food for Kenyans at world prices. In reality, however, the GOK has effectively precluded wheat imports since announcement that a tariff remission scheme would be forthcoming, effectively increasing domestic wheat prices and forcing local millers to source domestic wheat only.

Reportedly, until the GOK formalizes the remission scheme by sending it for publishing by the East African Community (EAC), Kenyan wheat importers would need to pay the normal 35 percent ad valorem tariff to the GOK at the time of import. The remission reduction has already been included in the EAC MY 2011 tariff schedule, but importers don't believe that this is sufficient to permit them to receive the 25 percent reduction in the tariff. They are waiting for the formal (Gazette) notice where the importer will receive an allotted tonnage from the GOK (a negotiated quantity) for which tariff remission can be claimed. The disincentive to import, just described, however, should evaporate once the EAC publishes the Gazette notice that makes official the details of the remission scheme, permitting sanctioned importers/millers to import up to their allotted quotas, paying the ten percent ad valorem tariff at the time of import.

Ultimately Kenyan consumers, most affected among them being the food insecure, will be forced to pay higher-than-necessary prices for wheat flour and products. Because the GOK has delayed the determination and announcement of the tariff remission details, Kenyan millers have been unwilling to to commit to imports from the world market, because, without the remission scheme securely in place, they could be denied the 25 percent remission of the 35 percent ad valorem tariff. Some market analysts suggest that the delay forced local millers to purchase the domestic wheat crop before turning to imports to satisfy wholesale and retail demand for wheat flour and products.

While this GOK tariff-remission announcement delay continues to play out, the world market, rocked by the drought in Russia and the Russian wheat export ban, has shot up and in turn lent tremendous upward pressure to local wheat prices. Domestic wheat producers, previously very vocally against the remission proposal, have now gone silent. Reportedly, they are harvesting an "average" crop and now with the price escalation, are harvesting robust returns from this year's harvest.

Reportedly, the GOK has indicated that it will only allow 600,000 tons of wheat imports during the MY 2011 under the tariff-remission scheme. However, FAS/Nairobi forecasts that, either under an expanded remission-scheme or at full tariff, Kenyan millers will need to import at least 700,000 tons to meet local wheat flour demand. The MY 2011 import forecast is based on slightly reduced per capita demand, because domestic wheat-flour prices are likely to rise, and a domestic harvest of 250,000 tons (about 30,000 tons above last year's crop, but below the MY 2009 record crop of about 340,000 tons and well below the 380,000 currently forecast by the GOK).

General Information

Kenya Wheat PSD

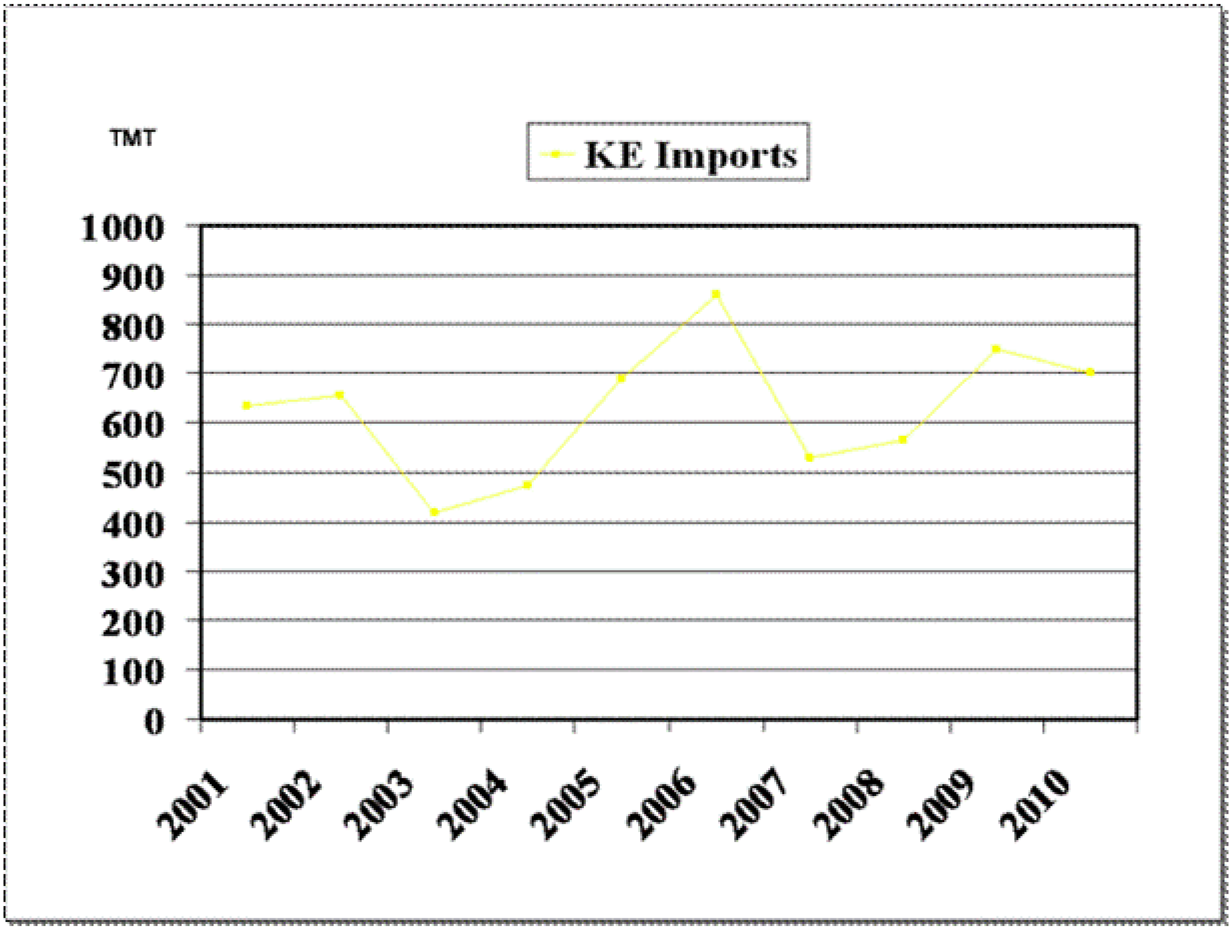
Kenya Wheat in TMT	2009			2010			2011		
	2008/2009			2009/2010			2010/2011		
	Market Year Begins: Jul 2008			Market Year Begins: Jul 2009			Market Year Begins: Jul 2010		
	Post Old		New Post Data	Post Old		New Post Data	Post Old		New Post Data
Area Harvested	120	120	130	120	110	132	120	0	150
Beginning Stocks	195	245	145	231	145	116	451	0	285
Production	225	225	337	220	210	219	225	0	250
MY Imports (Jul/Jun)	736	600	564	1200	700	900	800	0	700
TY Imports	736	600	645	1200	600	720	800	0	800
TY Imp. from U.S.	3	60	15	0	30	20	0	0	150
Total Supply	1,156	1,070	1,046	1,651	1,055	1,235	1,476	0	1,235
MY Exports (Jul/Jun}	0	0	0	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0	0	0	0
Feed Consumption	0	0	0	0	0	0	0	0	0
FSI Consumption	925	925	930	1,200	910	950	1,025	0	950
Total Consumption	925	925	930	1,200	910	950	1,025	0	950
Ending Stocks	231	145	116	451	145	285	451	0	285
Total Distribution	1,156	1,070	1,046	1,651	1,055	1,235	1,476	0	1,235
Yield	1.88	1.88	2.59	1.83	1.91	1.66	1.88	NA	1.67

Source: 2009 and 2010 Area and Production data – Ministry of Agriculture
2009 and 2010 Trade data – Global Trade Atlas
2011 Area, production and Trade data – FAS Nairobi

Wheat Production, Imports, and Food Self-Sufficiency

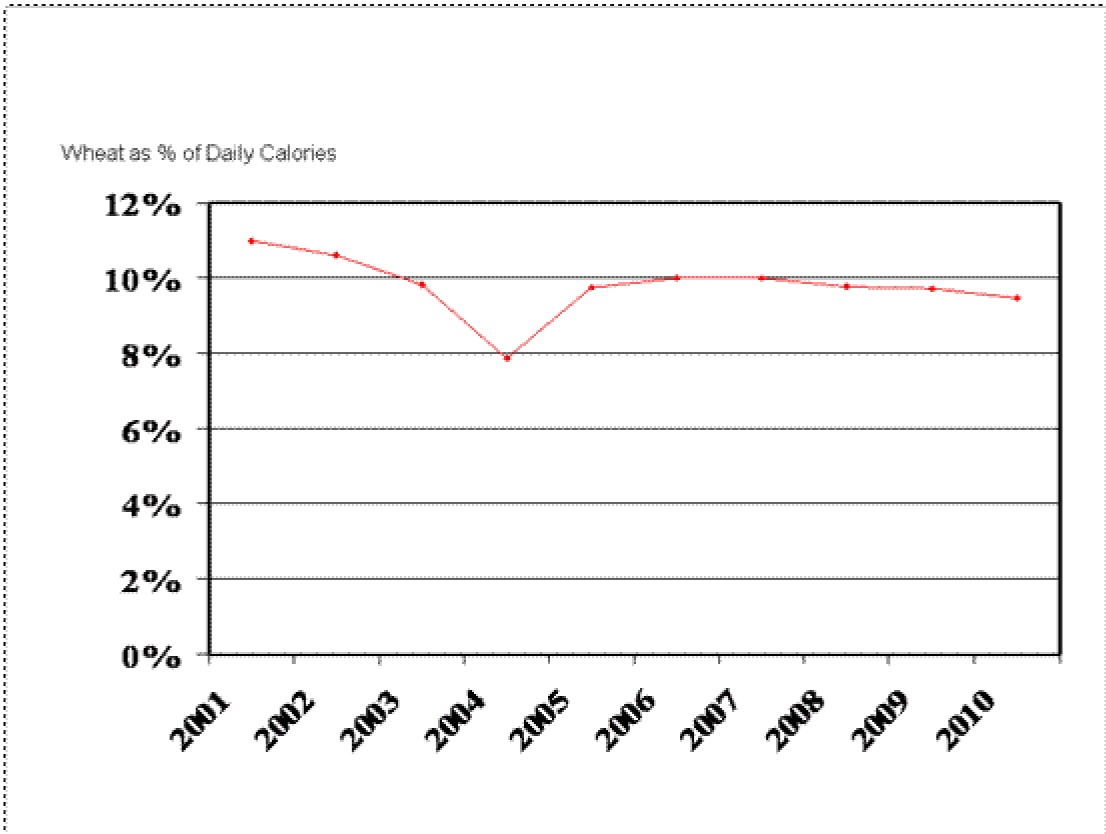
In spite of all the GOK attempts to support domestic wheat producers, Kenya remains a wheat-deficit country. GOK planners and members of the "development" community speak of Kenya becoming self sufficient in food by the year 2020 or 2030 (depending on the document), which would include wheat self-sufficiency. However, the prospects of Kenyan wheat farmers producing sufficient wheat to feed the entire Kenyan population are remote-to-highly unlikely during any period of time considered. Add the stem-rust problem plaguing domestic production and the word "impossible" comes to mind.

Kenya does not have a comparative advantage in wheat production. And, propping up domestic wheat prices with high ad valorem tariffs and restrictive duty remission schemes will not help domestic producers achieve a comparative advantage. Instead, these restrictive trade policies add to the economic burden shouldered by Kenyan consumers and increase the risk of continued spreading wheat stem rust to the rest of the world.



Wheat Products Consumption

Wheat flour and other wheat products don't figure prominently in the Kenyan diet, as evidenced by the following chart. In addition, the types of wheat-based products commonly consumed in Kenya only require relatively low-quality flour. As such, domestically-produced wheat and wheat imported from the Black Sea have been very acceptable in the Kenyan market, except where a very limited amount of higher-quality baking flour has been needed. The percentages in the chart here below are based on 2,200 calories per day, per person.


Wheat as % of Daily Calories
12%
10%
8%
6%
4%
2%
0%
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010