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Sugar Annual

Kenya Sugar Annual Report

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Report Highlights:
Kenya extended the Common Market for Eastern and Southern Africa (COMESA) Members tariff-free access to its sugar market (over a transition period), as part of Kenya's accession agreement with COMESA. The market-access concession appears to have been a relatively "safe bet" by Government of Kenya (GOK) negotiators vis-à-vis protection of their domestic sugar industry (where the GOK is heavily invested), because COMESA, a trading bloc of 19 African Nation, remains and will likely remain a sugar-deficit region with tremendous intra-Member trade infrastructure problems that limit intra-Member sugar trade. As a result, Kenya's most favored nation 100 percent ad-valorem sugar tariff serves as the real border-protection measure, effectively decoupling Kenya sugar producer's economic relationship with the world market.

Executive Summary:

COMESA Members currently have 340,000 tons of tariff-free (add 30 percent to CIF value to cover fees and handling) access to the Kenyan market, however, Swaziland and Egypt appear to be the only COMESA Members with any potential to access that tariff-free tonnage. During the second half of 2009, the Government of Egypt put in place a sugar export ban, effectively removing Egyptian exporters from COMESA-access preferences. Swaziland sugar exporters have preferential access to European markets for their limited exportable surpluses and those markets pay substantial premiums to the world and COMESA markets. As such, Swaziland exporters did not have economic interest in shipping to the Port of Mombasa.

Now, however, as prices in the world sugar market plummet and domestic Kenyan sugar prices remain at relatively high levels, some/some interest may be generated from Egyptian exporters to re-export sugar south to the Port of Mombasa during marketing year (MY) 2011. Kenyan sugar consumers will hardly notice, however, if Egyptian exporters export to Kenya, because with the addition of about 30 percent of the CIF value to pay for entry duties, additional “transaction” fees and adding the relatively high transport costs, the wholesale cost of COMESA sugar in Nairobi will not be substantially different from prices of domestically-produced sugar (please see section on prices).

The minimal-to-no residual trading margins for COMESA sugar referred to in this report were verified by the GOK in an attempt to auction the “right” to import COMESA sugar. The auction system devised and implemented during late 2008 did not yield any revenue for the GOK. As a result, the auction was abandoned for a first-come-first served system in March 2010 (please see the “Trade Policy” section of this report for more information).

The GOK has said that it will privatize its economic interest in the Kenyan sugar industry, but has thus far not crafted a viable exit strategy. The current GOK privatization plan calls for local-farmer ownership of some of the sugar factory “shares.” However, the plan does not envisage an acceptable share payment scheme for local farmers. In addition, under the current plan, the GOK would retain 19 percent ownership in the various sugar mills identified for privatization. This requirement does not help create the type of investment climate that most private-sector investors would be looking for in the Kenyan sugar industry (please see the "trade Policy" section of this report for additional information).

Commodities:
Select

Production:

As shown by the Production, Supply and Demand (PSD) table below, FAS Nairobi estimates a 10,000 tons sugar production increase during MY 2011. The increased production will likely come from the newly revived sugar factory along the Kenyan coast.

The table here below shows area under cane, area harvested and cane delivered for 2007, 2008 and 2009

Area under cane, area harvested and cane produced			
Year	2007	2008	2009
Area under cane (HA)	158,568	164,788	154,298
Area harvested (HA)	59,201	54,465	64,533
Cane delivered (TC)	5,204,214	5,125,821	5,610,664

Source: Kenya Sugar Board

Consumption:

Kenya's MY 2011 sugar consumption is forecast to remain above 700 + thousand tons as shown by the PSD table below. Despite the high domestic retail prices during MY 2009, sugar consumption in Kenya remained strong; Kenya's sugar board estimates sugar consumption to grow at 4 percent. During MY 2009 sugar prices went as high as Kenya Shillings (KSHS) 120 per kilogram (KG).

The relatively high domestic sugar price continues to be a challenge to Kenya's manufacturing sector that rely on locally produced sugar (i.e. brewery and confectionary) as Kenya is a price sensitive market.

However, the plummeting global sugar price may offer some reprieve to white sugar users in the manufacturing sector (Kenya does not produce white sugar).

2009	Average Ex Factory sugar price in KSHS per 50 KG bag	Wholesale price in KSHS per 50 KG bag	Retail Price in KSHS PER KG

		Range	Mean	Range	Mean
JANUARY	2,972	2850-3150	2,975	60-85	73.55
FEBRUARY	2,828	2800-3400	3,004	60-95	70.00
MARCH	2,959	2800-3350	3,120	65-80	72.10
APRIL	3,209	2950-3400	3,365	65-85	75.20
MAY	3,480	3350-3900	3,510	68-95	78.00
JUNE	3,610	3700-3870	3,821	78-100	83.22
JULY	3,871	4400-4760	4,550	86-115	102.21
AUGUST	4,063	4400-4600	4,493	86-120	103.37
SEPTEMBER	4,227	4500-4800	4,659	94-120	104.15
OCTOBER	4,237	4250-4600	4,465	88-120	103.39
NOVEMBER	4,153	4380-4750	4,549	95-120	105.00
DECEMBER	4,140	4350-4650	4,480	90-115	102.00
OVERALL	3,646	2800-4800	3,916	60-120	89.35

Source: Kenya Sugar Board

Presently, Kenyan consumption of alternative sweeteners remains insignificant.

The GOK has partnered with PureCircle to produce about 20,000 tons of Stevia for export to Europe. http://www.purecircle.com/purecircle-announces-latest-stage-of-stevia-leaf-supply-expansion-in-africa-_1177/

Trade:
Kenya imports brown sugar from Egypt, Malawi, Swaziland, Sudan, all COMESA Member States, and refined sugar mainly from South Africa, Egypt and United Kingdom.

Stocks:
Sugar stocks are minimal and largely held by private sector.

Policy:

In March 2010, The GOK suspended the 2008 sugar regulations on COMESA sugar auction "rights". The new regulations led to a stand off between government of Kenya and sugar importers, the court case that ensued locked out COMESA sugar between October 2008 and July 2009. The auction system faced several challenges with COMESA saying that it amounted to a non tariff barrier. Presently COMESA origin sugar imports to Kenya are first-com, first-served as they were prior to the attempt at auctioning.

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 zerod in 2012

COMESA External Tariff	100 percent ad-valorem tariff, but not less than $200/ton
Non COMESA origin 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 Kenya Sugar Board (KSB) – annual fee of 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	GOK requires that all sugar raw 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 sugar 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 90 percent remission of the above-noted external tariff. The GOK grants specific high-value product producers access to this refined sugar

The GOK privatization plan to sell off 51 percent of each of the five factories to the private sector with 30 percent reserved for the relevant farmers and the remaining 19 percent staying with the government remains muddled, with vested political interests interfering with any short-term progress.

Reportedly, the European Union (EU) and the EAC Economic Partnership Agreement Framework is expected to be concluded soon; presently the EU provides a 15,000 metric ton tariff-rate quota to the EAC.
http://trade.ec.europa.eu/doclib/docs/2009/january/tradoc_142194.pdf
However, given the high production and transport costs it is unlikely that Kenya sugar producers will export sugar to the EU market unless GOK plans to produce sugar along the Kenyan coast materialize.

Marketing:
Presently, the GOK does not appear to have any competitive advantage in the world sugar market. However, regional cross boarder trade will remain a common occurrence.

Locally produced sugar is branded while imported raw and white sugar enters the market in 50 KG bags.

Sugar producers are making deliberate efforts to package sugar in different sizes (50 kg bag, 2kg, 1 kg, half kilogram, quarter kilogram and sachets) to cater for different markets and different pockets. Kenyans in the rural areas prefer dark brown sugar.

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal Kenya	2009			2010			2011		
	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			Market Year Begin: Jan 2010		
	USDA Official Data		New Post	USDA Official Data		New Post	USDA Official Data		Jan
			Data			Data			Data
Beginning Stocks	5	33	5	5		5			5
Beet Sugar Production	0	0	0	0		0			0
Cane Sugar Production	530	540	530	540		550			560
Total Sugar Production	530	540	530	540		550			560
Raw Imports	120	100	113	115		70			70
Refined Imp.(Raw Val)	120	135	112	120		125			120
Total Imports	240	235	225	235		195			190
Total Supply	775	808	760	780		750			755
Raw Exports	45	30	35	45		2			15
Refined Exp.(Raw Val)	0	0	0	0		0			0
Total Exports	45	30	35	45		2			15
Human Dom. Consumption	725	757	720	730		743			730
Other Disappearance	0	0	0	0		0			0
Total Use	725	757	720	730		743			730
Ending Stocks	5	21	5	5		5			10
Total Distribution	775	808	760	780		750			755

Source: 2009 production and trade data: Kenya Sugar Board
2010 and 2011 production and trade data: FAS Nairobi estimates.

Note: Multiplied refined sugar by 1.07 to convert to raw value basis