Voluntary _ Public

Date: 10/5/2011

GAIN Report Number:

Kenya

Post: Nairobi

Kenya 2012 Corn PSD and Trade Forecast Update

Report Categories:
Grain and Feed

Approved By:
Souleymane Diaby

Prepared By:
FAS/Nairobi Staff

Report Highlights:

Kenyan corn imports will likely lag during marketing year 2012, even though the Government of Kenya abated its 50 percent ad valorem tariff on corn imports in June, 2011. Kenyan corn importers currently source corn only from neighboring Malawi, Tanzania and Uganda, rather than Kenya’s traditional supplier, South Africa (when the tariff has been abated), apparently because of concern that Kenya’s National Biosafety Authority may not allow imports of South African genetically-engineered corn. The perceived concern over possible limitations on traditional imports resulted from the recent promulgation of regulations under Kenya’s Biosafety Act-2009.

Executive Summary:

Record-to-near record domestic corn prices will likely fuel imports from neighboring Uganda, Tanzania and even Malawi, even though the Government of Tanzania maintains a corn-export ban and transportation costs from Malawi are reportedly very high. Even so, the expected 500,000 tons of imports from neighboring producers will not likely be sufficient to reduce domestic Kenyan corn prices. Currently Kenyan farmers receive Kenya Shillings (Ksh) 3,000 ($31) per 90 kilo bag, while last year at this time they received Ksh 1,500 ($16)/bag.

As a result of escalating food and energy prices, Kenya's Parliament recently instructed the Government of Kenya (GOK) to impose price controls on essential goods. However, the details of the price control mechanisms have not been enunciated by the Ministry of Finance. Apart from the relatively high corn/product prices, sugar (the most political of crops in Kenya) remains minimally available in the retail market and at record prices, cooking oil prices are at near record levels and fuel oil prices continue to climb weekly.

Prices received by local corn farmers reached record levels of about $550/ton in June but have retreated to about $350 per ton now that the Kenya's most important corn harvest has started. The surging domestic corn prices forced abatement of the GOK 50 percent ad valorem tariff through December 31, 2011 and may have factored into the decision regarding price-controls.

Uncertainty surrounding the new Kenyan National Biosafety Authority (NBA) import-export procedures has limited a traditional import response to the relatively strong domestic prices, because importers cannot be sure that the NBA will accept import permit petitions for corn from South Africa.

FAS/Nairobi forecasts marketing year (MY) 2012 Kenyan domestic corn production at three million metric tons (MMTs), a decrease of about 400 thousand tons from last year's all time record production, down about 600,000 tons from FAS/Nairobi's previous forecast, but still within the top tier of production forecasts/estimates over the last 20 years. Previous forecast: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Kenya%20MY%202012%20Corn%20PSD%20and%20Trade%20Forecast_Nairobi_Kenya_2-25-2011.pdf

Exchange Rate: $1=Ksh 96

Production:

Kenya PSD

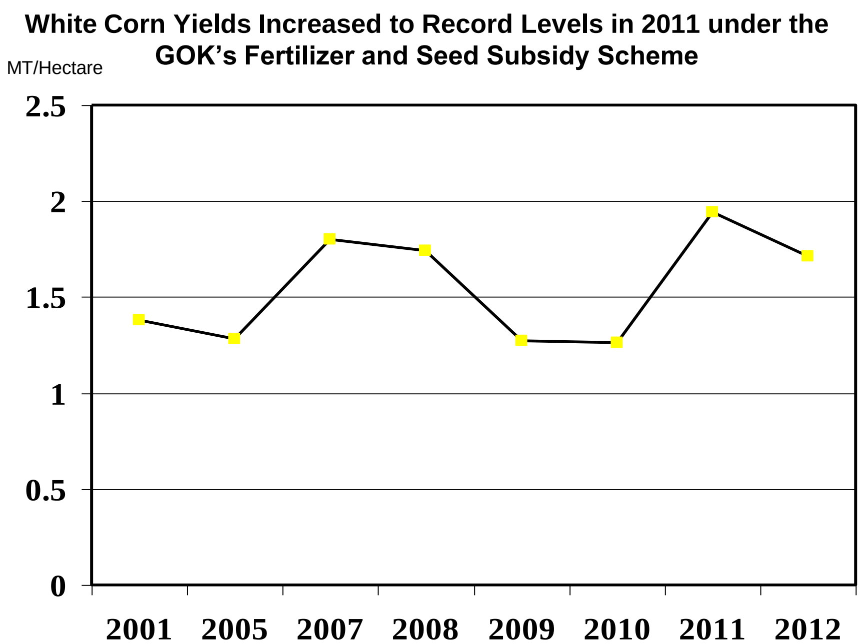
Kenya Corn (TMT)	2010		2011		2012	
	2009/2010		2010/2011		2011/2012	
	Market Year Begins: Jul 2009		Market Year Begins: Jul 2010		Market Year Begins: Jul 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1,800	1,750	1,800	1,750	1,800	1,750
Beginning Stocks	349	349	193	165	258	250
Production	2,200	2,200	3,400	3,400	2,800	3,000
MY Imports	748	1200	75	350	200	500
TY Imports	608	1100	75	300	200	550
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	3,297	3,749	3,668	3,915	3,258	3,750
MY Exports	4	4	10	5	5	5
TY Exports	8	8	10	5	5	5
Feed Consumption	100	300	300	300	100	300
FSI Consumption	3,000	3,280	3,100	3,360	3,000	3,300
Total Consumption	3,100	3,580	3,400	3,660	3,100	3,600
Ending Stocks	193	165	258	250	153	145
Total Distribution	3,297	3,749	3,668	3,915	3,258	3,750
Yield	1.22	1.26	1.89	1.94	1.56	1.71

Data Sources: MY 2012 FAS/Nairobi Forecasts; MY 2011 and 2010 Trade Estimates from Global Trade Atlas (GTA) Data and FAS/Nairobi estimates based on East African Grain Council (EAGC) cross-border trade data, otherwise FAS/Nairobi estimates; and, area harvested and production data from Kenya's Ministry of Agriculture.

The above-noted FAS/Nairobi forecast drop in corn production vis-à-vis MY 2011 and the initial MY 2012 forecast can be mostly attributed to a shortage of certified corn seed and delayed delivery of subsidized fertilizer for the larger of the two yearly crops. GOK officials had difficulty sourcing, paying (prices up and the Ksh weaker year-on-year) and supplying the inputs promised to Kenyan farmers. Otherwise, a combination of appropriate certified seed, sufficient fertilizer at planting time and the relatively good weather experienced thus far would have likely propelled domestic farmers to another record yield and production.

Former Minister of Agriculture Ruto envisaged and championed a GOK-run program to provide subsidized and free fertilizer and seed to medium and small-scale corn farmers during MY 2011. That policy appears to have been one of the major drivers helping Kenyan farmers achieve record corn yields (just under two metric tons/hectare) and record production (3.4 million tons) during MY 2011 (please see graph below).

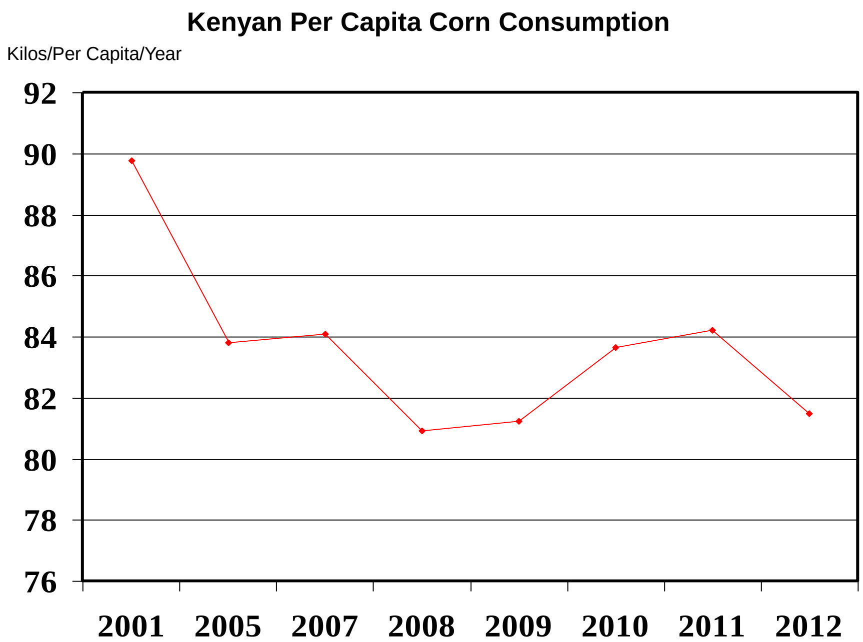
For MY 2012 in a continuation of former Minister Ruto's plan, farmers received 105,000 tons of fertilizer under the GOK subsidy program for the major corn crop that is currently being harvested. In addition, about 400,000 small scale farmers benefited from free seed and fertilizer, which cost the GOK and donors Kshs four billion ($42 million).



Consumption:

The above-noted Kenyan supply and demand table presents higher food, seed and industrial use of corn for the three years noted. The higher levels result from previously unaccounted cross-border corn trade with Uganda and Tanzania (please see "Trade" section here below). This cross-border trade has not been completely captured in the Global Trade Atlas data used to track all other trade. As a general rule of thumb, most local analysts expect that every Kenyan will eat approximately one 90-kilo bag of corn per year.

However, Kenyans will likely consume less corn/products during MY 2012 when compared to recent years. Domestic corn farm-gate prices reached a record high of Kshs 4,800 per 90 kg bag ($556/ton) this year, compared to Ksh 1,500 ($174 /ton) offered by the GOK last year. Similarly, corn flour prices have nearly doubled from Ksh 70 ($0.73) per two-kilo bag in January 2011, to Ksh 110 ($1.15) today. While most Kenyans prefer maize meal, they find it difficult to afford current prices but will continue to eat all they can afford, even while they look to other calories to sustain normal daily activities.



Trade:

The EAGC, in collaboration with FEWSNET, has developed a reasonable method of estimating corn trade between Kenya and its neighbors, Tanzania and Uganda. The methodology doesn't provide for "complete" coverage at all border crossing points, but does provide for monitoring of cross-border trade at the major crossing points. And for the first time, FAS/Nairobi has included the EAGC cross-border trade in the above supply and demand table for Kenya. The resulting additional corn supplies will have been and will be consumed by humans rather than used in the feed sector.

Policy:

The GOK recently published regulations regarding import-export (Legal Notice No. 97), environmental release (Legal Notice No. 98), and contained use (Legal Notice No 96) of genetically engineered (GEs) crops and products; however, uncertainty continues regarding specific regulatory details. Kenyan importers of GE commodities/products must receive written permission from the NBA via an import permit application to import corn. The NBA will communicate its final decision to the importer within 150 days but not earlier than 90 days after receiving all necessary documentation and clarifications from the importer, to include a certificate of analysis regarding GE content. Previous report on Kenyan biotechnology:
http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Agricultural%20Biotechnology%20Annual_Nairobi_Kenya_8-2-2011.pdf

To add uncertainty to uncertainty, the NBA has proposed mandatory labeling of GE-containing products. Even though new labeling regulations have not yet been agreed, notified to the World Trade Organization and printed in the Kenya Gazette, the NBA has published notice in local Kenyan newspapers telling importers that they must now label all GE-content food/products.

Concerned Kenyan stakeholders have pushed back, proposing voluntary labeling in lieu of mandatory labels. The voluntary approach would likely provide a more consumer, researcher and farmer-friendly methodology for addressing the lack of Kenyan knowledge of GE products. While the NBA has not taken a formal-final decision, the initial labeling requirement that all incoming shipments and their products be labeled as “containing GMOs” along with the uncertainty of gaining import permits has corn importers and traders taking a very cautionary stance.

However, regarding the importation of food products produced from GE commodities, including food for humanitarian food aid, the NBA has now approved the first applications and shipments have begun. Taking a science-based approach, the NBA found that corn-soy blends and corn meal originating in the United States are safe for human consumption. Their important decision provides that safe food will continue to flow to refugees and other food insecure people in the east Africa region.