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Kenya

Sugar Annual

Kenya's sugar production to recover after drought

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Report Highlights:
FAS/Nairobi forecasts a thirty percent increase in Kenya’s sugar production in marketing year (MY) 2018/2019 following a recovery from drought in the main sugarcane growing areas. Local supply will, however, still fall short of rising consumption and Kenya will rely on imports to cover the shortfall. Kenya’s safeguard that limits duty-free sugar imports, which is granted by Common Market for Eastern and Southern Africa (COMESA) Secretariat, will expire in early 2019, and the sugar sector will be eager on a decision of a possible extension.

Sugar production to recover from effects of drought

FAS/Nairobi forecasts Kenya's sugar production in MY 2018/2019 to increase due to a recovery from drought in MY 2017/2018. Sugar farmers, however, remain constrained by poor crop husbandry practices, late harvesting, and delayed payment for cane delivered to the mills. Area under production will largely remain constant at about 190,000 hectares (469,500 acres). At the processing level, state-owned sugar mills - which account for the bulk of milling capacity - are characterized by obsolete technology and huge debts that limit their uptake capacity. Privately owned mills are consequently encroaching and providing farmers alternative cane marketing outlets in areas that were previously zoned-off for state-owned mills. Currently there are fourteen sugars mills (five state-owned and nine private), with a combined capacity of about 650,000 MT. According to the Kenya's Sugar Directorate, locally produced sugar (average production cost: $870 USD per MT) cannot compete with sugar imports from some key Common Market for Eastern and Southern Africa (COMESA) countries (average production cost: $400 USD per MT).

Production, Supply, and Distribution (PSD) Table

Sugar, Centrifugal	2016/2017		2017/2018		2018/2019	
Market Begin Year	May 2016		May 2017		May 2018	
Kenya	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	151	151	160	151		281
Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	520	520	580	380		500
Total Sugar Production	520	520	580	380		500
Raw Imports	200	200	180	500		200
Refined Imp.(Raw Val)	230	230	200	200		230
Total Imports	430	430	380	700		430
Total Supply	1101	1101	1120	1231		1211
Raw Exports	0	0	0	0		0
Refined Exp.(Raw Val)	0	0	0	0		0
Total Exports	0	0	0	0		0
Human Dom. Consumption	941	950	960	950		980
Other Disappearance	0	0	0	0		0
Total Use	941	950	960	950		980
Ending Stocks	160	151	160	281		231
Total Distribution	1101	1101	1120	1231		1211

(1000 MT)						

Note: Refined sugar multiplied by 1.07 to convert to raw value basis.

Sugar consumption to surge

Kenya's sugar consumption is forecast to increase due to growth in the retail-, industrial-, and food-service sectors. The growth in these subsectors is supported by an increase in consumer purchasing power and the diversification of sugar-based products. The combination of local production and beginning stocks is expected to meet about 80 percent of the total consumption, with the shortfall being offset by imports.

Overall sugar imports to decrease, but refined sugar imports to increase

FAS/Nairobi forecasts a decrease in Kenya's sugar imports in MY 2018/2019 after record imports in MY2017/2018. Raw sugar imports will most likely come from COMESA countries due to steep import tariff for imports from non-COMESA countries. In May 2017, Government of Kenya (GOK) removed duty on imported sugar from outside COMESA to protect consumers from a surge in retail prices. The waiver was extended for three months in August 2017 but was limited to millers on a "need to" basis. The tariff waiver was also informed by sugar production deficits in COMESA countries. Kenya does not produce refined sugar and imports all sugar for the industrial food and beverages sector. Countries outside COMESA that have lately exported sugar to Kenya include: Brazil, India, Mauritius, and Thailand.

Lower sugar ending stocks forecast

FAS/Nairobi forecasts a drop in ending stocks in MY 2018/2019 compared to MY 2017/2018. All stocks will be held by millers and distributors as GOK does not operate a stock-holding program for sugar.

COMESA imports safeguard expires in early 2019

Since 2004, GOK has used the import safeguard granted by the COMESA secretariat under Article 61 of the COMESA treaty to limit duty-free imports from COMESA countries to a maximum of 350,000 MT per year. The latest two-year extension of the safeguard expires in February 2019. Kenya has not met most conditions attached to the extension, including privatization of the state-owned sugar mills, introduction of a sucrose-content-based cane payment system, and provision and maintenance of transport infrastructure in the sugar growing areas. Sugar imports from non-COMESA and East African Community (EAC) countries are assessed at 10 percent duty *ad valorem* if imported under the Tax Remission for Exports Office (TREO), a GOK program that promotes of export manufacturing; otherwise 100 percent duty *ad valorem* is applicable.

Sugar prices expected to stabilize

Kenya's sugar retail market is highly segmented and sugar prices react quickly to supply and demand. Packaged sugar brands have proliferated and most retail stores now undertake in-house packaging and branding. In MY 2018/2019 local retail sugar prices are expected to stabilize after the volatility in MY 2017/2018, which saw sugar retail price at a record high of Ksh 220 per kilogram ($1.00 USD per lb.).