USDA Foreign Agricultural Service
GAIN Report
Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 4/15/2019
GAIN Report Number:

Kenya

Sugar Annual

Kenya's Sugar Production Stagnates as Consumption Rises

Approved By:
Shane Townsend

Prepared By:
Kennedy Gitonga

Report Highlights:
FAS/Nairobi forecasts stagnant sugar production in marketing year (MY) 2019/2020 due to delayed privatization of Kenya's state-owned sugar mills, poor investments in production technology, and poor cane harvests. Sugar consumption, meanwhile, is expected to rise. The resultant deficit will be met by carryover stocks and duty-free imports from Common Market for Eastern and Southern Africa (COMESA) countries.

Sugar production to stagnate

FAS/Nairobi forecasts stagnant sugar production in MY 2019/2020 due to delays in the privatization of state-owned mills, a move that was anticipated to spur the sector. Cane production will remain constrained by poor crop husbandry practices, low access to inputs, and delayed harvesting. State owned sugar mills – which dominate Kenya's milling capacity – remain inefficient due to obsolete technology and huge debts to farmers. But, private mills are increasingly offering a marketing alternative to producers in regions once controlled by state-owned mills. Recent attempts to enforce such zoning has been opposed by farmers. Kenya's production cost is estimated at more than $600 USD per metric ton (MT), twice that of other key sugar producing COMESA countries, making Kenya an attractive export market for COMESA and challenging the business case for domestic sugar production.

Production, Supply, and Distribution (PSD) Table

Sugar, Centrifugal	**2017/2018**		**2018/2019**		**2019/2020**	
Market Begin Year	**May 2017**		**May 2018**		**May 2019**	
Kenya	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Beginning Stocks	151	151	281	411		361
Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	380	410	500	500		500
Total Sugar Production	380	410	500	500		500
Raw Imports	500	500	200	200		200
Refined Imp.(Raw Val)	200	300	230	230		230
Total Imports	700	800	430	430		430
Total Supply	1231	1361	1211	1341		1291
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	950	950	980	980		1000
Other Disappearance	0	0	0	0		0
Total Use	950	950	980	980		1000
Ending Stocks	281	411	231	361		291
Total Distribution	1231	1361	1211	1341		1291
(1000 MT)						

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

Sugar consumption to increase

Kenya's consumption is expected to rise due to increases in usage by domestic, industrial, and food service subsectors. This growth is supported by the increase in consumer purchasing power and the diversification of sugar-based products. Nearly seventy percent of total consumption is expected to be met by local production and stocks, while imports will meet the remaining shortfall.

Sugar imports forecast to stagnate

Sugar imports in MY 2019/2020 are also forecast to remain flat, and will be mainly from the COMESA countries due to steep import tariff for imports from non-COMESA countries. Kenya does not produce refined sugar, and all its sugar for the industrial food and beverages sector is imported. Key non-COMESA countries that are top exporters of sugar to Kenya include: Brazil, Thailand, India, and Mauritius. Egypt, on the other hand, is the main import source within the COMESA region. Sugar imports from non-COMESA and East African Community (EAC) countries are assessed at ten percent duty *ad varolem* if imported under the Tax Remission for Exports Office (TREO), a GOK program that promotes of export manufacturing; otherwise 100 percent duty *ad varolem* is applicable.

Key sources of Kenya's sugar imports (2016-2018)

Exporting country	Unit	Quantity (%)		
		2016	2017	2018
Brazil	T	2,790 (1%)	35,059 (9%)	377,349 (48%)
Thailand	T	24,121 (9%)	35,273 (9%)	111,065 (14%)
Egypt	T	65,710 (24%)	149,747 (38%)	87,059 (11%)
India	T	138,899 (51%)	100,912 (25%)	84,817 (11%)
Mauritius	T	31,458 (11%)	49,000 (12%)	78,463 (10%)

Ending sugar stocks to dip

FAS/Nairobi forecasts a drop in ending stocks in MY 2019/2020 compared to MY 2019/2018. All sugars stocks will be held by millers and distributors as Government of Kenya (GOK) does not operate any stock-holding program for sugar.

COMESA imports safeguard extended

In July, 2018 the COMESA secretariat (under Article 61 of the COMESA treaty) extended Kenya's sugar import safeguard. This extension lasts to 2021 and allows Kenya to limit duty-free imports from COMESA countries to a maximum of 350,000 MT per year. This grant of import safeguards has now been in place for fifteen years. The grant requires Kenya comply with conditions, such as the privatization of the state-owned sugar mills, introduction of a sucrose-content-based cane payment to farmers, and provision and maintenance of transport infrastructure in the sugar growing areas.

Sugar prices expected to remain stable

Sugar retail prices are expected to remain stable, reflecting the supply and demand situation. During the first half of MY 2018/2019, a GOK clampdown on fraudulent import practices disrupted shipments at the port of Mombasa, which lead to sugar shortages at retail level, and a surge in sugar prices. The situation, however, has since normalized and prices are stable at an average Ksh 100 per kilogram ($0.5 USD per lb).