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SUGAR ANNUAL

Kenya 2009 Sugar Annual Report

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Report Highlights:

Kenya's sugar imports during marketing year (MY) 2010 will not likely vary from the normally expected 100+ thousand tons of raw and about the same level of refined sugar, in spite of the Common Market for Eastern and Southern Africa (COMESA) accession market-liberalization opportunity for 300,000 tons of raw sugar imports during MY 2010, as agreed by the Government of Kenya (GOK).

Executive Summary:

Under the COMESA market-opening provisions for sugar, Kenya must provide tariff-free access to COMESA Members of 300,000 tons during marketing year (MY) 2010, with an additional 40,000 tons each year through 2012. In addition, the GOK committed to reducing the over-quota tariff by 30 percent per annum until the tariff zeros at the end of the transition period.

The Kenyan COMESA market access commitment will not likely translate into increasing Kenyan sugar imports originating from other COMESA Member States. The COMESA region remains a sugar deficit market by some 500,000 tons yearly, and the COMESA's 100 percent duty or USD 200 whichever is the higher, which assures that COMESA Member State sugar prices continue above world-market prices. As a result, the probability is low that a COMESA sugar-producing Member exporter would find the Kenyan sugar market, inclusive of significant non-tariff barriers, financially-attractive export market.

Ostensibly, because of the COMESA "threat," the GOK plans to privatize Government-owned sugar mills in an effort to recapitalize the industry, reduce production costs, increase production and reduce consumer prices. However, the sugar sector features prominently in regional and even national politics, so the extent to which the GOK can completely extricated itself from the sector remains in question. The COMESA "threat" may not be sufficient to convince the sugar sector that change is now needed.

Commodities:

Select

Production:

FAS/Nairobi forecasts a very minor uptick in MY 2010 production to 540,000 tons, up from an estimate of about 530,000 tons during MY 2009 and 518,000 during MY 2008.

Sugar, Centrifugal Kenya	2008			2009			2010		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Beginning Stocks	20	20	20	33	33	5			5
Beet Sugar Production	0	0	0	0	0	0			0
Cane Sugar Production	520	520	518	540	540	530			540
Total Sugar Production	520	520	518	540	540	530			540
Raw Imports	98	98	114	100	100	120			115
Refined Imp.(Raw Val)	132	132	113	135	135	120			120
Total Imports	230	230	226	235	235	240			235
Total Supply	770	770	764	808	808	775			780
Raw Exports	21	21	44	30	30	45			45
Refined Exp.(Raw Val)	0	0	0	0	0	0			0
Total Exports	21	21	44	30	30	45			45
Human Dom. Consumption	716	716	715	757	757	725			730
Other Disappearance	0	0	0	0	0	0			0
Total Use	716	716	715	757	757	725			730
Ending Stocks	33	33	5	21	21	5			5
Total Distribution	770	770	764	808	808	775			780

Source: 2008 production and trade data: Kenya Sugar Board

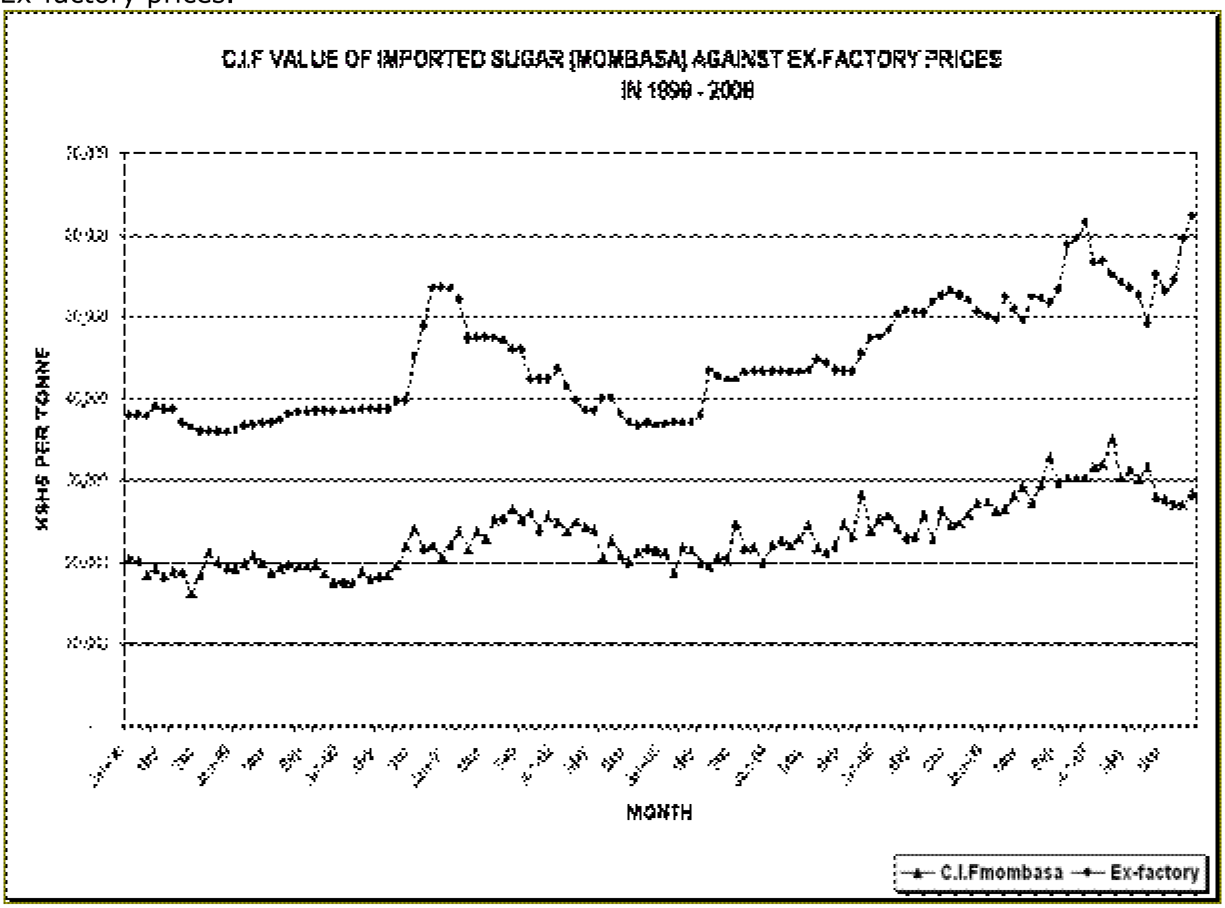
2009 & 2010 production and trade data: FAS Nairobi estimate.

Consumption:
MY 2010 sugar consumption will increase slightly to 730,000 tons, even though per capita domestic consumption will be down. Presently, the domestic price of locally produced sugar averages about Kenya Shilling (Ksh) 80 per kilogram, up from KSh 69 in 2008. The increased price certainly deters per capita consumption. Kenya's population grows at an annual average rate of about three percent.

Kenyan consumption of artificial sweeteners remains inconsequential.

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. Kenya's breweries, soft drink manufacturers and confectionary plants prefer imported white sugar.

The graph below demonstrates the variability in value of imported sugar as compared to Ex-factory prices.



Source: Kenya Sugar Board

Stocks:
The stocks are minimal and privately held.

Policy:

Kenya restricts sugar-market access through high tariffs and non-tariff barriers.

Tariffs

COMESA Member	Declining by 30 percent per year until zeroed in 2012
COMESA External Tariff	100 percent ad-valorem tariff, but not less than $200/ton

The following table lists the non-tariff barriers associated with the Kenyan sugar market:

NTB Table

import permit	Needed for each consignment—approved or denied by GOK-board
VAT	16 percent ad-valorem
Development Levy	Four percent ad-valorem. Note: The ministry of finance proposed to zero rate this levy for refined sugar imports in the 2009/10 budget
Clearing Fees	Two percent ad-valorem
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 hired a consultant to determine a privatization plan for the six GOK-owned sugar mills. Privatization will be a tremendous challenge given the local politics of sugar and current debts estimated at over Ksh 58 billion.

The European Union (EU) provides a 15,000 metric ton tariff-rate quota to the East African Community (EAC). The in-quota tariff on that quantity is zero. The EU access provisions can be examined at http://register.consilium.europa.eu/pdf/en/08/st17/st17462-ad01.en08.pdf. However, given the high production and transport costs, it is unlikely that Kenyan sugar producers will export sugar to the EU market.

Marketing:

Kenyan sugar traders export raw sugar as part of normal cross-border trade. The GOK has no marketing plan for exports to the world market or to any of the neighboring countries.

Local sugar producers brand their sugar production, while imported refined sugar enters in 50 kilo bags for industrial use. Some sugar mills, in an effort to differentiate their products, have introduced color gradations (dark-to-light brown) to carter for different populations.