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Kenya

Grain and Feed Annual

Kenya Imports of Corn, Wheat, and Rice Expected to Surge

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Report Highlights:

FAS/Nairobi forecasts a surge in Kenya's imports of corn, wheat, and rice in the marketing year (MY) 2019/2020 due to widening local supply deficit. Corn and wheat production are both expected to dip on account of reduced planted area. Rice production, on the other hand, is forecast to stagnate, due to delays in anticipated rehabilitation and expansion of the irrigation infrastructure. Consumption of the three commodities is expected to continue increasing.

Corn:**Corn production to dip**

FAS/Nairobi forecasts a dip in Kenya's harvested corn area in MY 2019/2020 due to low morale among farmers caused by a marketing crisis that engulfed the sector in the MY 2018/2019. Whereas the sector recovered significantly from the drought of MY 2016/2017, the Government of Kenya (GOK) through the National Cereals and Produce Board (NCPB) reduced the budget allocation for the Strategic Food Reserve (SFR) purchases to cover only two million bags down from the previous four million bags. Corn production is also expected to be adversely impacted by the delay in importation of GOK subsidized fertilizers. In addition some of the farmers have resorted to premature harvesting of their corn and converting it into silage for livestock.

Corn: Production, Supply, and Distribution (PSD) Table

Corn Market Begin Year	2017/2018		2018/2019		2019/2020	
	Jul 2017		Jul 2018		Jul 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Kenya						
Area Harvested	2100	2100	2200	2200		2000
Beginning Stocks	236	236	326	326		416
Production	2950	2950	4000	4050		3600
MY Imports	1400	1400	700	700		1000
TY Imports	1000	1000	700	700		1000
TY Imp. from U.S.	0	0	0	0		0
Total Supply	4586	4586	5026	5076		5016
MY Exports	10	10	10	10		10
TY Exports	10	10	10	10		10
Feed and Residual	350	350	400	450		500
FSI Consumption	3900	3900	4200	4200		4200
Total Consumption	4250	4250	4600	4650		4700
Ending Stocks	326	326	416	416		306
Total Distribution	4586	4586	5026	5076		5016
Yield	1.4048	1.4048	1.8182	1.8409		1.8

(1000 HA) ,(1000 MT) ,(MT/HA)

Table 1**Post-harvest handling remains a major challenge**

Kenya's corn sector is faced with huge post-harvest losses (estimated at between 30-40%) due to low capacity in farm, and community level storage and handling infrastructure. At the national level, storage

and handling functions are dominated by NCPB, with is a major misalignment of storage capacity and surplus production areas. Some private companies, such as Cargill, are however, stepping in to invest in alternative storage and handling facilities.

Corn consumption expected to increase

Corn remains the main staple food crop in Kenya, ahead of Irish potatoes, and rice. FAS/Nairobi forecasts an increase in total corn consumption in MY 2019/2020, largely driven by the growth in population. The growth of the livestock sector, especially poultry and dairy, and the resultant increase in demand for manufactured feeds will also provide additional growth impetus for corn consumption.

Corn imports forecast to surge

Kenya's corn local supply deficit is expected to widen in MY 2019/2020 due a decrease in production, against a growth in consumption. Due to the existing import ban of GM products, and Kenya's preference for white corn, the bulk of the imports are expected from Uganda and other countries in Common Market for Eastern and Southern Africa (COMESA)/East African Community (EAC) regions.

Lower ending stocks expected

Kenya's National Cereals and Produce Board (NCPB) is by law mandated to purchase and store public stocks under the Strategic Food Reserves (SFR) program. The program is, however, faced with budgetary, and storage capacity constraints and uptake is therefore limited. Stocks are also be held by famers, traders and by millers. FAS/Nairobi forecasts lower ending stocks for MY 2019/2020 compared to MY 2018/2019

Increased volatility of corn prices expected

FAS/Nairobi forecast volatile corn prices in the MY 2019/2020 due to a dysfunctional marketing system, cheaper sourcing of imports from the East African Community (EAC) countries, and the lapse of the GOK consumer subsidy program. NCPB has set the MY 2018/2019 corn purchase price at Ksh 2,500 (\$25 USD) per 90 kg bag, and most traders who buy directly from farmers are invariably bidding lower driving down the price of corn and corn products. Nevertheless, Kenya's corn pricing regime remains the most favorable in the EAC region, creating an incentive for inflows of corn from the neighboring countries.

Trade policy

Barring any request by Kenya to request a temporarily "stay of application", duty free importation of corn to mitigate local production shortfalls, the EAC common external tariff (CET) at 50 percent *ad varoem* is expected to apply to all corn imports MY 2019/2020 outside the common EAC and Common Market for Eastern and Southern Africa (COMESA) countries. In addition, Kenya has since 2012, maintained an import ban of genetically modified (GM) products, effectively restricting U.S. corn exports to the country.

Wheat:

Wheat production to decrease

FAS/Nairobi forecasts a decrease in Kenya's wheat production in MY 2019/2020 due a reduction in planted are, as farmers shift to other more competitive enterprises such as barley, horticulture, dairy,

sorghum, and pyrethrum. Besides, Kenya's wheat yields are constrained by widespread prevalence of the wheat stem rust (Ug99), soil degradation, and use recycled seed by farmers. Long-term viability of wheat farming in Kenya is also undermined by the continuous subdivision of farms for inheritance purposes.

Wheat consumption to maintain the upward trend

FAS/Nairobi forecasts an increase in wheat consumption in Kenya in MY 2019/2020, consistent with the trends in past years, and driven mainly by an expanding and robust food service sector. A growing preference for wheat products is also evident in both rural and urban areas and manifests in increases in both commercial and home-baking. The proliferation and growth of international pasta, confectionery, and breakfast cereals brands in the Kenyan market also points to favorable demand trends wheat and wheat products. A limited amount of wheat is also used in the manufacture of livestock feeds.

Increased wheat imports expected

FAS/Nairobi forecasts a surge in wheat imports in MY 2019/2020 due to the widening local supply deficit, with local production accounting for less than twenty percent of the total consumption. The bulk of the Kenya's wheat imports are from Russia, Argentina, Ukraine, Canada, and Latvia. U.S. wheat exports to Kenya are currently hindered by Kenya's long-standing restriction of Pacific Northwest (PNW) wheat due to the lack of an export certification protocol for *flag smut*, between Kenya and the United States. Kenya's wheat exports are minimal, and attributed to the limited cross-border trade with the neighboring countries.

Wheat: Production, Supply and Distribution (PSD) Table

Wheat Market Begin Year	2017/2018		2018/2019		2019/2020	
	Jul 2017		Jul 2018		Jul 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Kenya						
Area Harvested	150	170	150	170		160
Beginning Stocks	141	141	241	241		206
Production	275	275	300	360		320
MY Imports	2157	2157	2000	2200		2400
TY Imports	2157	2157	2000	2200		2400
TY Imp. from U.S.	84	84	0	100		100
Total Supply	2573	2573	2541	2801		2926
MY Exports	22	22	25	25		25
TY Exports	22	22	25	25		25
Feed and Residual	160	160	170	170		180
FSI Consumption	2150	2150	2200	2400		2500
Total Consumption	2310	2310	2370	2570		2680
Ending Stocks	241	241	146	206		221
Total	2573	2573	2541	2801		2926

Distribution						
Yield	1.8333	1.6176	2	2.1176		2
(1000 HA) ,(1000 MT) ,(MT/HA)						

Table 2

Ending wheat stocks expected to increase marginally

FAS/Nairobi forecasts a marginal increase in ending stocks. Wheat stocks are mainly held by private traders, and reflect the net impact of consumption increases compared to total supply.

Reduced wheat import tariff percent expected to continue

Kenya's wheat imports are assessed at 10 percent ad-valorem tariff for registered millers; otherwise the EAC common external tariff of 35 percent applies. In addition, GOK maintains an understanding with Cereal Millers Association (CMA), a key industry association, that their members must provide a mop-up plan for local produce before they can be granted import licenses.

Key countries exporting wheat to Kenya

Country	Unit	Quantity/ (%)		
		2016	2017	2018
Russia	T	454,152(29%)	439,462(26%)	838,276(41%)
Argentina	T	-	394,376(23%)	371,322(18%)
Ukraine	T	150,061(10%)	212,628(12%)	191,156(9%)
Canada	T	90,999(6%)	160,257(9%)	140,330(7%)
Latvia	T	210,570(13%)	-	131,240(6%)

Table 3

Rice:

Rice production expected to stagnate

FAS/Nairobi expects a stagnation in Kenya's rice production due to delays in rehabilitation and expansion of irrigation schemes that produce the bulk of the rice in the country. For instance, new production from Mwea Irrigation Scheme - that produces about 80% of Kenya's rice and is currently undergoing expansion – is not expected until 2021. GOK's "Big Four" program has also prioritized increasing rice production under the food security pillar. Overall Kenya's rice sector will, however, continue to be limited by lack of suitable land, and inadequate water.

Rice consumption to increase

Kenyans prefer aromatic rice varieties and retail prices invariably reflect this preference, with aromatic rice fetching a higher price. In order to satisfy a wide range of consumers, blending of aromatic and non-aromatic, and repackaging are common. Rice consumption in Kenya is expected to maintain an upward trend, driven mainly by increasing household incomes, and urbanization.

Asian countries to continue dominating rice exports to Kenya

Kenya's local production meets only about 20% of consumption and the resultant deficit is offset by imports by private traders. In MY 2017/2018, key rice exporting countries to Kenya were Pakistan, Thailand, China, India, and South Korea. Kenya exports modest amounts of rice to neighboring countries (Uganda and South Sudan).

Key rice exporting countries to Kenya

Country	Unit	Quantity/ (%)		
		2016	2017	2018

Pakistan	T	468,001(88%)	631,595(76%)	443,903(60%)
Thailand	T	55,647(10%)	170,500(21%)	207,027(28%)
China	T	-	10,523(1%)	34,912(5%)
India	T	10,789(2%)	17,189(2%)	31,380(4%)
South Korea	T	-	-	18,000(2%)

Table 4

Retail prices expected to stabilize

Kenya's rice retail prices reflect demand and supply trends and vary between rice types (aromatic vs non-aromatic). In a typical year prices range between Ksh 110 per kilogram (\$0.45 USD/lb) in January to Ksh 125 per kilogram (\$0.57 USD/lb) in December, mirroring the rice production/ supply cycle. FAS/Nairobi expects this cyclical movement in price to be maintained in the MY 2019/2020.

Closing rice stocks to increase marginally

FAS/Nairobi forecasts a marginal increase in closing stocks. All rice stocks are held by private traders.

Kenya's "stay of application" on rice imports expected to remain

The EAC common external tariff for rice for rice imports from non-EAC countries is at 75 percent *ad-valorem* or \$345 USD per MT, whichever is higher. EAC has, however, granted Kenya "the stay of application", based on limited local production, and the applicable tariff is therefore 35 percent *ad-valorem* or \$200 USD per MT, whichever is higher. The waiver is subject to review every year by the EAC secretariat. FAS/Nairobi expects the tariff structure to remain in MY 2019/2020.

Rice: Production, Supply and Distribution (PSD) Table

Rice, Milled Market Begin Year Kenya	2017/2018		2018/2019		2019/2020	
	Oct 2017		Oct 2018		Oct 2019	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	30	40	30	45	0	45
Beginning Stocks	145	145	149	140	0	160
Milled Production	79	80	79	80	0	80
Rough Production	120	121	120	121	0	121
Milling Rate (.9999)	6600	6600	6600	6600	0	6600
MY Imports	675	675	750	750	0	760
TY Imports	700	700	750	750	0	760
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	899	900	978	970	0	1000
MY Exports	0	10	0	10	0	10
TY Exports	0	10	0	10	0	10
Consumption and Residual	750	750	820	800	0	820
Ending Stocks	149	140	158	160	0	170
Total Distribution	899	900	978	970	0	1000
Yield (Rough)	4	3.025	4	2.6889	0	2.6889

(1000 HA) ,(1000 MT) ,(MT/HA)

Table 5