Required Report - public distribution

Date: 4/17/2012

GAIN Report Number:

Kenya

Sugar Annual

Kenya Sugar Annual Report

Approved By:
Stephen Hammond

Prepared By:
FAS/Nairobi Staff

Report Highlights:

Kenya will likely import about 250 thousand tons of refined sugar during calendar year (CY) 2012, when compared with 300 thousand tons imported during CY 2011, in spite of record setting cane and wholesale and retail sugar prices and Government of Kenya (GOK) reported efforts to encourage greater domestic production to meet domestic demand.

Executive Summary:

The GOK asked and received permission from the Common Market for Eastern and Southern Africa (COMESA) for a market-access safeguards extension until March 2014. The extension, granted in October 2011 effectively bars open competition between Kenyan and COMESA sugar producers and, as such, was a clear victory for domestic sugar producing interests, including Government-owned interests, who claim to need additional protection while they restructure and upgrade operations.

For CY 2012, cane wholesale and retail prices remain historically elevated, which will likely lead to additional sugar production, even though most analysts don't expect the record-high price levels reached during CY2011 to persist through CY2012. During the later part of CY2011, wholesalers and retailers rationed sugar both by prices (double those of CY2010) and through physical rationing. The consuming public, from the rich to the poorest-of-the poor, felt the relatively high prices and shortages.

However, the public disappointment with the high prices did not rise to the level that consumers effectively demanded action from the GOK. The GOK could certainly have short-circuited high prices by seeking an abatement of the 100 percent ad-valorem tariff or by opening the market to greater COMESA market participation. Nonetheless, vested domestic sugar-industry interests appear to have prevailed and consumers clearly paid the resulting hefty price increases (please see price chart here below).

Production:

Kenya' sugarcane farmers will likely increase production during CY2012 for the reasons noted in the summary through adoption of improved cane varieties and slightly increased area harvested. In addition, sugar refiners have increased crushing capacity through new and renovated facilities.

Sugar, Centrifugal Kenya (Thousand Metric Tons)	2010		2011		2012	
Calendar Year (CY)	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	13	13	41	22		19
Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	524	524	555	490		550
Total Sugar Production	524	524	555	490		550
Raw Imports	147	137	70	80		50
Refined Imp.(Raw Val)	130	130	145	220		200
Total Imports	277	267	215	300		250
Total Supply	814	804	811	812		819
Raw Exports	0	0	0	15		20
Refined Exp.(Raw Val)	0	9	0	2		5
Total Exports	0	9	0	17		25
Human Dom. Consumption	773	773	800	776		780
Other Disappearance	0	0	0	0		0
Total Use	773	773	800	776		780
Ending Stocks	41	22	11	19		14
Total Distribution	814	804	811	812		819

Data Sources: 2010 and 2011 production data: Kenya Sugar Board (KSB) --2010 KSB trade data--all other data: FAS/Nairobi estimates

The table here below indicates the very moderate increase in area harvested and subsequent minor increase in the cane for crushing expected for CY2012.

Kenya	2010[1]	2011[1]	2012[F]
Area Under Cane (hectares)	157,530	179,451	180,000
Area Harvested (hectares)	68,738	69,128	70,000
Total Cane for crushing (TC)	5,698,585	5,339,506	5,400,000

Data Sources: [1]Kenya Sugar Board (KSB); [F]FAS/Nairobi Forecast

The GOK and the private sector operate a total of 11 sugar refineries ranging in crushing capacity from about 500-to-9 thousand tons per day (TCD). Total capacity of all 11 mills reaches about 30 thousand TCD and, as such, capable of milling the entire Kenyan area harvested in about 200 days. Some analysts estimate that industry owners will invest on the order of one half Billion Dollars between now and 2014 to build new and refurbish old refineries.

Consumption:

KSB forecasts Kenya per capita sugar consumption will increase. However, the estimate of increase, about four percent, coincides with the annual rate of population growth.

FAS/Nairobi notes that Kenyan middle-class consumers are becoming aware artificial sweeteners. The annual consumption growth rate may be higher than for sugar, but that rates starts from almost no/zero consumption in previous years.

Please note that the KSB-supplied prices here below reflect the precipitous price increase that led to price and physical rationing of sugar from about July of 2011 through today. The GOK allowed few imports during this period of escalating prices, reportedly because of a law suit regarding the legality of importing COMESA sugar.

Kenya Sugar Prices (average $ price per 50 Kilogram Bag)									
Ex-Factory				Wholesale			Retail		
Month	2010	2011	% Change	2010	2011	% Change	2010	2011	% Change
January	42.71	40.92	96%	46.62	42.19	90%	1.13	1.07	94%
February	42.90	40.49	94%	43.93	43.01	98%	1.07	1.04	97%
March	42.70	41.03	96%	44.27	42.01	95%	1.07	1.00	94%
April	43.72	44.66	102%	43.18	46.73	108%	1.03	1.03	100%
May	44.69	44.98	101%	45.73	47.08	103%	1.08	1.04	97%
June	45.71	46.00	101%	46.79	49.44	106%	1.04	1.12	107%
July	45.63	52.89	116%	47.64	68.46	144%	1.08	1.49	138%
August	46.03	65.13	141%	47.66	82.60	173%	1.15	1.76	153%
September	45.98	68.91	150%	47.66	93.59	196%	1.11	2.04	183%
October	44.71	76.91	172%	47.38	105.00	222%	1.11	2.28	205%

November	42.80	86.76	203%	45.12	103.13	229%	1.06	2.18	207%
December	42.99	85.07	198%	44.63	92.84	208%	1.06	1.94	184%
Average	44.21	57.81	131%	45.88	68.01	148%	1.08	1.50	139%

Data Source: KSB; Kenya Shilling 90 to the $ in 2011

Trade:

During CY2012, Kenyan sugar traders will likely import about 250 thousand tons from traditional suppliers, including Egypt, Saudi Arabia and South Africa and export about 20 thousand metric tons during CY2012, the majority to the European Union under the African, Caribbean and Pacific trade preferences act. Remaining exports will go to non-EAC/COMESA borders, principally Sudan.

In 2011, Kenyan sugar traders imported both low and high-polarity sugar and exported low-polarity sugar. Over 80 percent of the low-polarity refined sugar came from Malawi, Madagascar and Egypt; just less than 90 percent of high-polarity sugar originated in Saudi Arabia, South Africa and Egypt; and, exported about 17 thousand tons of low-polarity sugar to the European Union.

Stocks:

No new policies or trends of note--

Policy:

During CY2011 the GOK petitioned the COMESA Directorate to extend Kenya's sugar import safeguards through CY2014. COMESA agreed to the request in October, paving the way for the GOK to retain a COMESA Member import tariff-rate quota of 340,000 tons at zero tariff and ten percent above-quota tariff. Reportedly, the GOK agreed that Kenya will reduce sugar production costs by about 40 percent, approaching the costs in Swaziland, Malawi and Zambia.

Importers of non-COMESA Member country sugar must scale tremendous hurdles to access the Kenyan marketplace. They must pay an ad-valorem tariff of 100 percent, receive permission from the KSB, pay VAT and development levies and submit extensive quarterly and annual records to the KSB.

The GOK, through the Kenyan Ministry of Agriculture (MoA) reportedly plans to privatize five Government-held sugar refineries by 2014. Some reports indicate that three GOK-held refineries have become profitable with aid from record high sugar prices. Nonetheless, the GOK may have to write off some or all of the accumulated massive debts in any deal with sugarcane growers and/or other refiners.

Marketing:

Nothing new or significant to report—