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Kenya

Sugar Annual

2013 Kenya Annual Sugar Report

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Report Highlights:
Kenya's sugar sub-sector seems unprepared for market liberalization ahead of the expiry of Common Market for Eastern and Southern Africa (COMESA) safeguard measures, beginning March 2014. High cost of production and taxation makes Kenya's sugar-subsector uncompetitive compared to other sugar producers within the COMESA trade bloc. Kenya will continue to rely on imports to meet increased demand for sugar. FAS/Nairobi forecasts imports to about 270 thousand metric tons and a modest increase in domestic production to 515 thousand metric tons in 2013/2014 marketing year (MY).

Executive Summary:

Kenya's sugar industry will need to become more efficient to remain competitive before COMESA safeguard measures lapse in February 2014. Upon expiry, COMESA member countries will have duty-free access into the Kenyan sugar market. Since October 2011, COMESA secretariat has allowed Kenya to limit the amount of duty free sugar imports to 340,000 tons and ten-percent tariff above the quota. The safeguard measures were stipulated to allow Kenya enhance its competitiveness in sugar production. However, local millers appear unprepared to compete with other sugar producers in the region due to high cost of production and taxation compared to the largest sugar producers within COMESA trade bloc such as Mauritius, Egypt, Malawi, and Zambia. For example, the Kenyan government taxes its sugar producers an overall 24 percent of total production cost. Most sugar producers within COMESA trade bloc abolished such rates a long time ago.

Analysts estimate Kenya's cost of sugar production at about $600 per metric ton, far above the world average of between $300 and $400. Normally, high retail prices reflect the high cost of production. However, due to illegal sugar imports in the Kenyan market in the last six months, retail prices have slightly fallen compared to the same period last year.

Production

FAS/Nairobi forecasts sugar production in MY 2013/2014 (January to December 2013) to continue the upward trend, experienced in MY 2011 and MY 2012, year-on-year per 'New Post' data. New cane growing areas and varieties, increased and planned investments in crushing capacity, and improved producer prices mostly explains the expected increase in production.

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

Sugar, Centrifugal Kenya	2011/2012	2012/2013	2013/2014

	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	22	22	19	15		14
Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	490	490	550	494		515
Total Sugar Production	490	490	550	494		515
Raw Imports	80	39	50	50		50
Refined Imp.(Raw Val)	220	142	200	200		220
Total Imports	300	181	250	250		270
Total Supply	812	693	819	759		799
Raw Exports	15	0	20	0		0
Refined Exp.(Raw Val)	2	0	5	0		0
Total Exports	17	0	25	0		0
Human Dom. Consumption	776	678	780	745		779
Other Disappearance	0	0	0	0		0
Total Use	776	678	780	745		779
Ending Stocks	19	15	14	14		20
Total Distribution	812	693	819	759		799
1000 MT						

<u>Data Sources</u>: Kenya Sugar Board (KSB)-- 2011 and 2012 production data; Global Trade Atlas (GTA) –2012 Trade Data; FAS/Nairobi Estimates for all other data

<u>Note</u>: Refined sugar multiplied by 1.07 to convert to raw value basis

Following table shows increase in area under cultivation, area harvested, and subsequent increase in cane for crushing expected in MY 2013/2014.

	2010[1]	***2011[1]**	**2012[1]**	**2013[E]**	**2014[F]**
Area Under Cane (Hectares)	157,583	179,451	213,710	240,000	260,000
Area Harvested (Hectares)	78,517	79,000	84,916	87,000	90,000
Total Cane for Crushing (Tons)	5,695,085	5,307,341	5,822,633	5,740,000	5,800,000

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

[*]Two sugar factories started operations in December 2011 hence the difference in data reported in 2012 annual sugar report

Weighted raw cane price averaged Kshs. 3,792 per metric ton (US$ 45) in MY 2012/2013, a nine percent increase from the previous year (MY 2011/2012).

Consumption

Kenya's sugar consumption continues to grow and to outpace production. FAS/Nairobi forecasts consumption to remain above 770 thousand metric tons in MY 2013 as shown in the PSD table below. Domestic production supplies about 70 percent of total consumption. The factors driving increased consumption include population growth and increased industrial use. Industrial demand for sugar to manufacture soft drinks, biscuits, other beverages and confectionary products keep on rising as Kenya's food processing industry continues to grow.

Consumption of alternative sweeteners remains insignificant.

Following table indicates average factory, wholesale, and retail prices as reported by KSB.

Kenya's Monthly Ex-mill, Wholesale, and Retail Prices of Brown Milled Sugar in MY 2013

Kenya Sugar Prices						
	Average Kshs. Price per 50 Kilogram Bag					
	Ex-Factory		**Wholesale**		**Retail (Per I Kilogram)**	
Month	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**
January	3,683	5,890	3,797	5,920	96	151
February	3,644	4,482	3,871	4,544	94	121
March	3,693	4,736	3,781	4,810	90	120
April	4,019	4,458	4,206	5,225	92	123
May	4,048	4,615	4,237	5,140	94	125
June	4,140	4,569	4,450	4,822	100	116
July	4,760	4,659	6,161	4,891	134	114
August	5,862	4,571	7,434	4,827	159	112
September	6,202	5,140	8,423	5,250	184	115
October	6,922	5,282	9,450	5,356	205	118
November	7,808	5,272	9,282	5,558	197	127
December	7,656	5,256	8,356	5,575	175	127
OVERALL	**5,203**	**4,911**	**6,121**	**5,160**	**135**	**122**

Data Source: KSB; Exchange Rate (Kshs/US$ = 88.90 in 2011 and 84.50 in 2012)

Stocks

The Kenyan government has no programs or incentives for sugar mills to keep stocks. However, industrial users, retailers, and the sugar mills appear to hold some stocks as sugar imports increase.

Policy

Last year, the Cabinet approved privatization of five government-owned sugar mills in readiness for the expiry of the COMESA safeguards, but this is yet to happen. The newly-elected government will likely complete the process. The COMESA safeguards were first granted 10 years ago to allow Kenya enhance its competitiveness in the sugar sub-sector through privatization and product diversification. However, the country has repeatedly extended the safeguards while putting off the privatization process.

Kenya Sugar Board (KSB) is lobbying the government to reduce or abolish the taxes and cut the cost of production (for example, through subsidized farm inputs) by 40 percent to make the sub-sector competitive ahead of the planned market liberalization.

Marketing

Kenya does not have any competitive advantage in the world and regional market.

Local sugar mills have not only segmented the consumer market but also branded their products to increase sales and product identification. They have introduced both white and brown sugar into the local market to cater for different consumer preferences. To penetrate the consumer market, the millers have packaged sugar into 2kg, 1kg, 1/2kg, 1/4kg, 100gms, and 5gms packets.

In addition, most local sugar mills have diversified their product range to include ethanol, power, and bottled water production.