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Wheat Policy to Cost Kenyans Six Billion Shillings - \$ 75 Million

Report Categories:

Grain and Feed

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Report Highlights:

The Government of Kenya (GOK) just announced its 2009/2010 budget that includes a four billion Kenya Shilling (Ksh), or about \$50 million tax on wheat, an important food-staple commodity consumed by most Kenyans, including the food-insecure. The focus of the rhetoric surrounding the announced 25 percent ad-valorem tariff on wheat imports relates to potential economic benefits for domestic wheat farmers. But, the real financial benefactor of this tariff will likely be the GOK—not domestic producers, and the financial losers will be all wheat product-consuming Kenyans, the vast majority already struggling under food prices that reportedly rose 30 percent during the last 12 months.

General Information:

While the designed focus of the newly-announced 25 percent ad-valorem wheat import tariff appears to be financial support to domestic wheat producers, the reality is that the GOK will likely be the only beneficiary, and at the expense of Kenya's food-insecure. From the ad-valorem tariff on imported wheat alone, the GOK stands to reap over four billion Ksh in additional taxes during the new, one-year budget cycle. The total additional consumer-borne cost of Kenya's wheat policy must include an additional two billion Ksh to fund domestic wheat prices paid by the GOK

National Cereals and Produce Board (NCPB) to farmers. The NCPB currently offers domestic wheat growers Ksh 2,800 per 90 kilo bag or about \$386 per ton, while the C&F Mombasa price of Black Sea wheat is about \$280 per ton (please see table here below).

The GOK could continue the \$106 (\$386-280 from paragraph above) per ton GOK support to Kenya’s wheat producers without the newly-announced wheat import tariff. The GOK could zero (0) rate the wheat import tariff without reducing Government support to domestic wheat farmers, because the NCPB could continue to offer Ksh 2,800 per bag, or any other specific price per bag to domestic producers for the domestically-produced wheat. But, a zero (0) tariff would mean about a Ksh 750-800 per 90 kilo bag reduction in the price of all wheat delivered to domestic mills. Under this tax scenario, the domestic millers would likely pass on the reduced wheat prices to purchasers of wheat flour.

The GOK recently announced that it will extend the current abatement of the 50 percent ad-valorem tariff on white corn imports through the end of this calendar year, because of the ongoing food shortage; so why an increase in the wheat ad-valorem tariff at this critical food-shortage moment? Kenyans derive most of their carbohydrate and calorie intake from corn-flour products, potatoes and wheat-based products such as “chapatti,” respectively, in the order of importance in the Kenyan diet. At present, Kenyans are reportedly struggling to buy enough food to meet minimum daily caloric needs, because corn flour prices have doubled from 45 Ksh per two-kilo bag one year ago, to 95 Ksh today, and potato prices, while very erratic, have increased by as much as a reported 6,000 percent at one point during the same reference period. However, wheat prices for the low-quality wheat needed to make “chapatti” flour, consumed by most food-insecure Kenyans, while comparatively high vis-à-vis world wheat prices, remain a bargain when compared to local corn and potato prices.

As a result, the GOK may have sensed a tax opportunity on wheat to capitalize on the high prices of competing food starches, while appearing to support domestic/local food production. Annually, domestic producers harvest about 225 thousand tons of acceptable-quality wheat and importers bring in about 725 thousand tons, mostly from the Black Sea region and South America to meet domestic demand. The imports will all be brought in through the Port of Mombasa in relatively large ships, which means that the Kenya Revenue Authority will have a clear point for tax collection.

Kenya Wheat Support Dynamics					
	Tons	Metric Ton C&F in \$	Metric Ton C&F in Ksh	90 Kilo Bag Ksh	Tariff Ex. Rate
Price per/ C&F Mombasa		280	22,588	2,033	25%
Tariff per/		70	5,647	508	
Price with tariff per/		350	28,235	2,541	80.67
Domestic offered by NPCB		386	31,111	2,800	0.0124
Diff. Domestic vs. Imported		36	2,886	260	Bags/ton
Diff NCPB and C&F Mombasa		106	8,533	768	11.11
Additional Cost of 25 percent ad-valorem policy to Kenyans					
Imports*Tariff =		50,750,000	4,094,002,500		
Local Production*Diff NCPB vs. Imported Price=		23,799,132	1,919,875,978		
Total Additional Cost of wheat program=		74,549,132	6,013,878,478		

Local Production	225,000			
Domestic Consumption	950,000			
Imports	725,000			