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Kenya

Sugar

Kenya Sugar Update Report

2004

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Report Highlights:
The Kenya sugar industry, outturn for MY 2003 was 448,000 tons, a 9 % production decline from the previous year. The decline in performance is attributed to low farmer morale, reduced prices, outdated machinery and technology among other factors. A modest production decline (4%) is forecast for 2004.

The industry is pre-occupied with controversies on modalities of COMESA sugar quota import. The COMESA safeguards were extended for four years (up to 2008) to cushion the local industry from competition by low cost producer member states. In a move to pre-empt the recurrence of the present unprecedented sugar crisis in Kenya, the GOK has promised to review the flawed Sugar Act.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
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Executive Summary

The Kenya sugar industry recorded production for MY 2003 at 448,000 tons, a 9 % production decrease from the previous year. The decline in performance is attributed to low farmer morale, reduced prices, outdated machinery and technology among other factors. A slight production decline (4%) is forecast for 2004. Presently the industry is characterized with COMESA sugar import conflicts between the Kenya Revenue Authority and Kenya Sugar Board. The COMESA safeguards were extended for four years (end 2008). In a move to pre-empt the recurrence of the present unprecedented sugar crisis in Kenya, the GOK has promised to review the flawed Sugar Act and make workable recommendations.

Production

Kenya Sugar Board registered production for 2003 at 448,489 tons a 9 % decrease from the previous year. A marginal decrease (430,000 tons) is forecast for 2004. The decrease is attributed to low farmer morale, reduced prices and reduced yields and area harvested.

Kenya PSD Table

PSD Table						
Country	Kenya					
Commodity	Centrifugal Sugar				(1000 MT)	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	60	60	99	99	118	146
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	494	494	350	448	0	430
TOTAL Sugar Production	494	494	350	448	0	430
Raw Imports	70	70	130	130	0	100
Refined Imp.(Raw Val)	80	80	70	90	0	90
TOTAL Imports	150	150	200	220	0	190
TOTAL SUPPLY	704	704	649	767	118	766
Raw Exports	15	15	11	11	0	11
Refined Exp.(Raw Val)	0	0	0	0	0	0
TOTAL EXPORTS	15	15	11	11	0	11
Human Dom. Consumption	510	510	420	510	0	520
Other Disappearance	80	80	100	100	0	100
Total Disappearance	590	590	520	610	0	620
Ending Stocks	99	99	118	146	0	135
TOTAL DISTRIBUTION	704	704	649	767	0	766

Area Under Cane and area harvested

A marginal increase in area under cane (2%) was experienced during 2003 and a further increase is expected during the year 2004. Presently area under cane is recorded at about 122,600 hectares. During 2003 area harvested and cane delivered declined by about 6.4 % and 6.6 % respectively. Both are expected to have a marginal increase during the year 2004. The Sugar Act requires that farmers be paid promptly and if sustained this will boost farmers morale and consequently their participation in sugar farming. The 2003 controversial cane pricing formula yielded an average cane price Kshs 1,800 per ton.

Cane yields

The sugar industry recorded a marginal increase in yield for 2003. Better cane yields are likely to be realized in late 2004 and 2005 as the farmers improve on crop husbandry practices if prompt payment is maintained.

Sugar Research Foundation

The Sugar Research Foundation has developed six new varieties, ready for commercialization (adoption on going). The new varieties are high in sugar content, have improved yield prospects and can withstand resistance to pests and are early maturing. The varieties are for different agro ecological zones and yield 10-13 % more than the conventional varieties. Research activities are operating below expectations at present.

Consumption and Trade

COMESA quota system

Kenya received the first COMESA safeguard in 2002 for sugar, which was extended in 2003 and 2004. On realizing that the three-year safeguard had achieved little GOK negotiated for a final four-year extension ending in 2008 in order to allow the sugar industry to recover and restructure and attain self-sufficiency. The country will import the difference between production and consumption, which is estimated at 200,000 tons comprising of 110,000 tons of plantation white sugar and 90,000 tons of refined sugar.

Export quota

Kenya is negotiating for an export quota to EU (temporary at the moment). Mumias Sugar Company is delivering the EU temporary quota requirements from Kenya (11,300 tons).

Sugar Consumption

Demand is difficult to measure and is estimated at 600,000 tons by Kenya Sugar Board, a figure that has received a lot of criticism by industry analysts. FAS estimates sugar consumption at about 510,000 tons of sugar and other disappearance mostly industrial, at 100,000 tons.

Imports that are mainly from COMESA member states are difficult to capture as the sugar comes in containers and is not declared by the traders. Import irregularities are still a common occurrence at the port of Mombasa. Efforts to curb them are being instituted but will take time before the practice is completely erased.

Policy and Marketing

During 2003 the sugar industry was on the blink of collapse with the sector characterized with reduced performance due to high production costs, old machinery, low investment, and lack of credit and general mismanagement of factories. On this strength a four-year COMESA safeguard period was negotiated to cushion local industries from competition by low cost producer member states and work has began tentatively on reducing the cost of sugar production. Kenya imports the sugar deficit estimated at 200,000 tons (110,000 industrial sugar and 90,000 table sugar). Efforts by the GOK to resuscitate the sub sector have rocked the industry between the Kenya Sugar Board (KSB), Kenya Revenue Authority (KRA), Ministry of Trade and sugar traders. The main reason for the disagreement is the modalities of regulating the 90,000 tons COMESA sugar imports. Ministry of Agriculture and KSB wish to monitor and control sugar imports, an issue the Ministry of Trade argues risks breaching the COMESA protocol and the Treasury insists the KSB and the Ministry of Agriculture have no business with sugar imports regulations.

The sugar industry is characterized with directives that are nearly always partially implemented. GOK is making efforts to review the flawed Sugar Act. In line with the Sugar Act GOK has released Kshs 800 million loan from the sugar development fund to pay farmers for arrears due from the mills. Arrangements to pay the balance estimated at Kshs 900 million are underway. Arrears due to farmers a common feature in the past seems to be coming to an end. The major challenge is maintenance of prompt payment by the milling companies.

The industry has also witnessed a wave of technical management changes with F.C. Schaffer and Associates of USA (Nzoia Sugar Company) and Booker Tate of UK (Mumias Sugar Company) relieved of technical management. Government recruited local technical managers have been put in place at both mills.

Controversy over the proposed cane price reduction from Kshs 2,015 to Kshs 1,800 per ton precipitated a crisis in the industry in 2003 with some farmers abandoning sugar cane farming and going on strike and refusing to deliver sugar cane at their respective factories. It is hoped that with the new price structures the sugar mills that are predominantly government owned will make operational profit.

Sugar Industry Challenges

The industry is faced with a major challenge of reducing the cost of sugar production if they have to compete with the other COMESA member states, after the expiry of the safe guards in 2008. The factories are considering the following options as cost cutting measures;

- Co-generation of power and consequent contribution to the national grid
- Adopting the new released sugar varieties that are early maturing, rich in sugar and high yielding.
- Improving or boosting technology i.e., diffuser systems, modern boilers, powerhouse etc.
- Branding sugar to claim ownership and market segmentation.
- Fortification with vitamin A and other minerals.

Most of the six functioning factories have branded their sugar except Muhoroni (under receivership) and West Kenya. Mumias, the industry flagship, has embarked on market segmentation and product positioning.