



**MINISTRY OF AGRICULTURE, LIVESTOCK, FISHERIES AND
COOPERATIVES
OFFICE OF THE CABINET SECRETARY**

**PRESS STATEMENT BY HON PETER MUNYA, EGH, CABINET
SECRETARY, MINISTRY OF AGRICULTURE, LIVESTOCK FISHERIES
AND COOPERATIVES ON REVIEW AND UPDATE OF THE SUGAR
CANE PRICES IN THE COUNTRY**

PERFORMANCE OF THE SUGAR INDUSTRY, 2020

The sugar industry has steadily expanded over the years. To meet the expanding mill crushing capacities, the area under cane has increased from 126,826 hectares in 2002 to 202,616 hectares at the end of 2020 signifying an increase of 60%.

In 2020, total area harvested was 89,803 hectares compared to 71,935 hectares in the period January to December 2019, signifying a 26% increase. This increase was attributed to the fact that most private mills were operating almost at their optimum capacities due to improved availability of mature cane for harvesting.

The sugar industry reported average cane yields of 61.64 tonnes per hectare in 2020 compared to 51.26 tonnes per hectare in 2019 representing a 20% increase.

The total cane deliveries in the period January to December 2020 was 6,799,923 tonnes against 4,605,102 tonnes recorded during the same period in 2019. This represents a significant increase of 48%. The increase is partially attributed to favorable weather conditions and optimal operations of the private mills.

Ladies and Gentlemen, allow me to comment on sugar production.

The Sugar Industry has witnessed a steady increase in sugar production due to enhanced investments by both Government and private players. In 2020, a total of 603,788 metric tonnes of sugar was produced compared to 440,935 metric tonnes in 2019. This signifies an improvement of 37% in local sugar production. The sugar cane availability survey conducted by AFA in December 2020 established that there will be enough cane to produce at least 660,000 metric tonnes of sugar this year. True to this projection, the first two months of 2021 have recorded production of 119,552 Metric tonnes of sugar indicating the capability to achieve this forecast.

SITUATION OF EXCESS SUGARCANE IN SELECTED SUGAR CANE CATCHMENT AREAS.

Ladies and gentlemen as you are aware there has been a lot of concern from the farmers on the inability of the millers to harvest their cane on time. This in turn led to delay in cane harvesting and in some instances sugarcane of up to 48 months still stayed unharvested in the fields. The

Ministry of Agriculture, Livestock, Fisheries and Cooperatives through AFA, held consultative meetings with millers from the affected areas with a view of coming up with agreeable solutions. The highlights were as follows;

- There was an urgent request by the millers for the government to roll out implementation of the Crops (Sugar) (General) Regulations, 2020 whose impact would be coordination of the sugar sector, thus linkages between millers and growers;
- The Directorate to lead a sensitization cum registration exercise of growers through print and electronic media in a bid to reach out to the so called “independent growers” whose cane is not captured in the mill harvesting program. In the meantime, the millers agreed to individually contact such farmers who are most affected within their area of operation with a view of having their cane harvested;
- Millers were encouraged to enhance their capacities where possible with special request for the government to fund the rehabilitation of state-owned mills which would otherwise lead to absorption of the excess sugarcane;

The Directorate also sampled a few growers from the affected areas to confirm the existing situation. It was observed that the problem was slowly being addressed through continuous identification and incorporation into the harvesting schedule.

We further confirmed that some farmers who had their cane in the farms for as long as 48 months were already being harvested by the millers in the affected areas.

Enhanced capacities by some private millers through setting up of new sugar mills, for example, West Kenya Sugar Company – Naitiri Unit in Bungoma County, is 80% complete and targets commissioning in August 2021. This would greatly enhance absorption of cane in the area and neighboring catchment.

On the same note, my Ministry notes that there are other applications for setting up of new sugar mills in Siaya, Kilifi, Kisii, Uasin Gishu and Tana River Counties.

Ladies and Gentlemen the engagement with affected farmers also revealed a glaring lack of enforceable contracts between the growers and the millers.

The Crops (Sugar) (General) Regulations, 2020 specifies the various contracts/agreements that are supposed to be entered into between the growers and millers for the farming or supply of sugarcane as well as harvesting or transportation of sugarcane. Further, the sample agreements in the gazetted regulations have clearly indicated the obligations for each of the parties involved, for example,

- Plant crops harvested within twenty-four (24) months and twenty-two (22) months for the subsequent ratoons;

- Harvest to mill time for green sugarcane shall not exceed seventy-two (72) hours while accidentally burnt cane shall not exceed forty-eight (48) hours;
- Payment of the grower by the miller within seven days of sugarcane delivery and the sugarcane price derived through the payment formula provided by the **Sugarcane Pricing Committee**; and
- These regulations have spelt out the applicable penalties in case of breach of the conditions of the contract/agreement, for example, 1.5 % interest per month on the outstanding sum payable to growers by millers in case of delayed payment.
- There is also a clear exit clause on the termination of the agreement as well as *force majeure*.

A review of the current contracts/agreements entered into between the growers and the millers show that most agreements are skewed towards the miller and are not easily enforceable due to various omissions and/or commissions.

In view of the aforementioned, it is therefore important that the roll out of implementation of the Crops (Sugar) (General) Regulations, 2020 be fast tracked in order to create a level ground for all industry players.

I have hereby instructed the Authority to engage in full blown sensitization for growers to enter into contracts with millers within the framework of the regulations, and the same shall be deposited with the Authority for

enforcement. This sensitization shall be done in consultation with the respective County Governments through electronic, print media and farmer field days' among others. The contracts by millers and farmers should be drawn and deposited within the next two months.

CANE PAYMENT FORMULA IN THE INDUSTRY

Ladies and Gentlemen as you may be aware; The Ministry constituted an Interim Sugarcane Pricing Committee in line with the AFA and Crops Act (2013) and the Crops (Sugar) (General Regulations), 2020.

The Terms of Reference was to among other things, review the sugarcane prices to farmers which has stagnated at Kenya Shillings 3,700 since the last review by a similar Committee in 2018.

The Sugarcane Pricing Committee uses a simplified formula to ensure that farmers benefit directly from improved sugar prices in the market. The adopted simplified cane pricing formula is as given below: -

Price of cane per tonne = Net Sugar price per tonne X Farmers sharing ratio

TC/TS

Where:

- 1. The farmers sharing ratio was adopted at 50%*
- 2. TC/TS (Tonnes of cane used to produce a tonne of sugar) was set at 10, being the industry average.*

3. Net sugar price = Average Ex-factory price of sugar in the preceding month excluding VAT

This formula gives the **minimum recommended cane price** to be paid to the farmer.

In the 26th meeting of the SCPC on 29th May 2009 the Committee resolved that the simplified formula be fully adopted by all millers. Consequently, the 1st July 2009 was taken as the commencement date for implementation.

Having considered that the prevailing sugar ex-factory prices over the past three months was Kenya Shillings 4,659, the Committee approved an increase in the price of cane from the current Kshs. 3,700 per tonne to **Kshs. 4,040 per tonne** effective April 1, 2021 in line with the industry cane pricing formula.

The Ministry directs the millers to adhere to the new prices while making payments to the farmers. Any farmer being paid less should report to the Authority. Any cases of noncompliance will attract a fine of not less than Kshs. 500,000 or one year imprisonment as per Section 37 of the Crops Act, 2013.

QUALITY BASED CANE PAYMENT SYSTEM (QBCPS)

Ladies and gentlemen;

Since the inception of the Kenya Sugar industry in the early 1900's payment of sugarcane deliveries has been based on tonnage. Sugarcane weight is determined using weighbridges and then farmers are paid based on total tonnage. Cane weight is a function of various factors including variety, harvesting age, soils, crop management practices, environmental factors as well as cane handling after harvest. Given the wide dynamism of the above factors affecting cane weight, this payment system does not drive quality improvement in sugarcane production and processing. Hence the need to explore other systems of compensating farmers for cane delivered to the mills.

The weakness in the weight-based cane payment system include:

- a) Inequitable sharing of benefits
- b) Does not encourage efficiency
- c) Concerns on sustainability
- d) Lack of competitiveness
- e) Does not capture the intrinsic value of cane

Where Millers and growers are independent economic entities payment systems aim at sharing sugar industry revenues. These revenues are from the sale of sugar and by-products like molasses and bagasse among others. There are nearly as many payment systems as there are sugar producing countries.

Payment systems are designed to create incentives to increase productivity and improve milling efficiency. They may be based on equitable share of industry earnings based on their respective costs of production while ensuring a reasonable return on investment. A farmer who supplies good quality cane is rewarded while the factory is induced to maximize efficiency. Payment based on cane quality is one such system. Sucrose content is the most ideal form of determining how much the cane is worth for extraction of sugar.

The rationale for a quality-based cane payment system is as follows;

- a) Support Government policy on improvement of industry productivity
- b) System meant to assess the value and compensate the grower accordingly
- c) Benchmarking on best practices in other crops nationally and internationally e.g tea, coffee.
- d) Incentive for high quality management in production process
- e) Fulfilling trade agreement for COMESA safeguards where a cane pricing formula based on sucrose content was to be introduced as a conditionality for the safeguards
- f) Legal requirement to support the gazetted Crops (Sugar) (General) Regulations 2020 that provides for payment based on quality

Ladies and Gentlemen

The Ministry is happy to note that a roadmap for implementation of the Quality Based Cane Payment system is at an advanced stage and we hope to roll it out in July 2021.

The roadmap involves

1. Upgrade of the two pilot CTUs by June 2021 and 11 units will be in operation by July 2021.
2. Approval of CTU Operations Manual
3. Validation of Cane Payment Formula
4. Calibration of the CTUs
5. Installation of CTUs at Naitiri, Olepito and Busia Sugar Mills
6. Laboratory Information Management System integration with mills ERPs

Industry sensitization on the same is ongoing.

Sugar Importation

Finally, Ladies and gentlemen; allow me to briefly touch on the issue of sugar importation.

As earlier mentioned; the Sugar Industry has witnessed a steady increase in sugar production due to enhanced investments by both Government and private players. However, on the other hand, increase in population has

had an upward push in sugar consumption, outpacing domestic production. The country has not reached self-sufficiency in sugar production. For this reason, the country will this year be filling the deficit by importing sugar, especially from the COMESA region.

To bridge the gap, in January - December 2020, a total of 442,393 tonnes of sugar was imported which includes 140,123 metric tonnes of industrial sugar. COMESA countries supplied 343,087 tonnes, which represents 78% of the total imports in this period. All brown/mill white sugar originated from the COMESA region while the balance (22%) was imported under duty remission scheme from the rest of the world.

With an anticipated production of 660,000 tonnes and a consumption of one million and sixty-seven thousand and ninety-nine tonnes (1,067,099), our annual sugar deficit for the year 2021 stands at **210,163 tonnes** of mill white/ brown sugar which the country shall import to bridge the gap. This figure represents a drop in importation by 40,000 metric tonnes from 2020 projected deficit of 250,000 metric tonnes.

My Ministry has put in place systems in place to ensure that only the deficit quantity shall be imported by registered and licensed importers. All sugar importers are therefore encouraged to comply with the Crops (Sugar) (Imports, Exports and By-Products) Regulations, 2020.

Hon. Peter G. Munya, EGH
Cabinet Secretary

Dated: 30th March, 2021