STUDY

Impact of EU Sugar Trade on Developing Countries

A Study with Focus on East Africa (Kenya, Tanzania and Uganda)

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GERMANWATCH

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Contents

Acronyms and abbreviations

ACP	African, Caribbean and Pacific states
AGOA	US African Growth and Opportunity Act
CBO	Community-Based Organization
COMESA	Common Market for Eastern and Southern Africa
CSO	Civil Society Organization
EA	Eastern Africa
EAC	East African Community
EBA	Everything But Arms initiative
EPA	Economic Partnership Agreement
ESA	Eastern and Southern Africa
EU	European Union
LDC	Least Developed Countries
KSB	Kenya Sugar Board
MTI	Ministry of Trade and Industry, Kenya
MTTI	Ministry of Tourism, Trade and Industry, Uganda
NGO	Non-Governmental Organization
PEAP	Poverty Eradication Action Plan
SADC	Southern African Development Cooperation
SPS	EU Special Preferential Sugar Arrangement
SBT	Sugar Board of Tanzania
SCOUL	Sugar Company of Uganda Limited
SME	Small- and medium-sized enterprise
WTO	World Trade Organization

A. SYNOPSIS

The aims of the study presented here are to assess the impact of the European Union sugar trade (with an emphasis on dumping) in developing countries. In particular, the focus was on small farm holders and markets. The study, commissioned by the North-South Initiative Germanwatch and implemented by Consumer Education Trust (CONSENT)[1], was conducted in the three East African countries of Kenya, Tanzania and Uganda.

This study report details findings that portray an industry going through difficulties borne out of adjustment, exposure to contraband products or an ill-regulated market. It also shows that sugar could offer fledgling economies in developing countries an opportunity to expand their earnings from exports. In conclusion, it lays out a number of possible measures, also sought from stakeholders, relevant to producers and policymakers to save the developing country sugar industry from falling over the edge.

The study was commissioned against a background of heated debate and hypotheses that needed closer scrutiny to inform future participation in processes aimed at addressing the concerns. Controversy over the EU's Common Agricultural Policy (CAP) that includes the sugar sector has recently centred on subsidies to farmers. The EU trade regime is blamed for ruining the livelihoods of millions of poor farmers because it dumps cheap products that have an unfair edge over competing commodities from developing countries. Subsidies, in general, are also widely understood to distort and affect global trade.

Concern over EU-LDC trade comes against calls for broader reforms in global trade under the multilateral trading system of the World Trade Organisation (WTO). Concerns also come amidst debate on developing country strategies to fight poverty and promote economic growth and development in a bid to lift millions out of tremendous poverty.

Ultimately, against that background, it was envisaged by the study partners that vital information would be derived that would help contribute to the crafting of mechanisms to protect smallholder farmers and large sections of the population in developing countries that rely on agriculture for their livelihood.

The study that focused on the sugar sector in East Africa under the broader question of dumping of sugar from several producers, including the EU, highlights the various stages the sugar sector has gone through, its current level of production and potential. It also gives an overview of sugar sector stakeholders' views on dumping and the future.

Information contained in the report was obtained through informant interviews of movers and shakers in the industry as well as direct interviews of farmers and other stakeholders. Literature pertaining to the subject matter also provided significant raw material that facilitated deeper appreciation of the status quo.

[1] CONSENT is a civil society organization founded in 1997 and strives for a socially informed, equitable and just society through empowerment of consumers, promotion of ethical practices among businesses and engagement of policymakers to enact pro-people policies for present and future generations. Designs and implements programs on awareness, capacity enhancement, constructive stakeholder dialogue, policy research and advocacy, and advisory services on socio-economic issues through partnerships. CONSENT has a distinguished record in research, policy advocacy and public awareness. The civil society organisation has carried out studies on consumer policy-related issues over the last five years and through collaboration with other organisations, has worked on several social, trade and economics related projects.

B. STUDY OBJECTIVES AND METHODOLOGY

The objectives of the study were:

- To assess impacts of sugar dumping from the EU on smallholder farmers in developing countries in the East African countries,
- To identify the role of sugarcane growing in socio-economic development and to track the division of proceeds in the value chain,
- To identify the role of sugar companies in socio-economic development in their respective locations,
- To identify interventions and alternatives to address challenges faced by smallholder farmers in terms of gender, socio-economic activities, the environment and approaches to poverty alleviation in relation to global economic agenda,
- To write a comprehensive report with recommendations and conclusions to enhance understanding of the impact of sugar dumping on farmers, communities and economies of developing countries for policy advocacy, fair trade campaigning and active engagement for sustainable and equitable development.

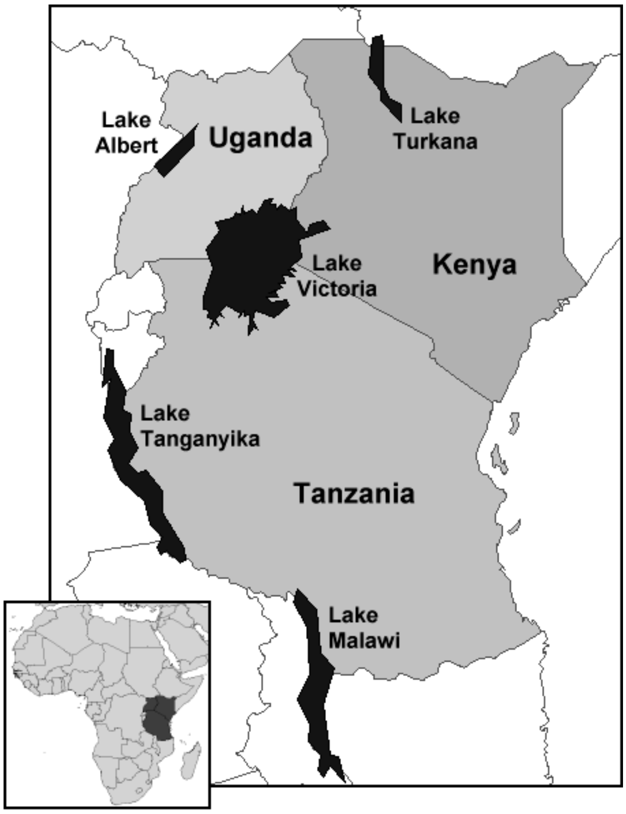
Methodology

The main research tool was direct informant interviews, as well as in limited cases, using questionnaires with the selected stakeholders. The interviews were, for most part, conducted under agreement of non-attributable presentation of the feedback provided. According to the terms of reference for this study, respective informant questionnaires were developed and are annexed. The information gathered through the interviews, meetings and group discussion processes were complemented by literature review.

The respondents (sugar sector stakeholders) targeted during the study included:

- Sugarcane farmers,
- Sugarcane out-grower associations,
- Private sector: sugar industry and traders,
- Government and regulatory authorities,
- Civil society organizations and
- Consumers.

C. EAST AFRICA: COUNTRY PROFILES



Map 1: Map of East Africa
Study Area – East Africa: Uganda, Kenya and Tanzania
(Map produced by Germanwatch)

Table 1: Country profiles

Country	**Kenya**	**Tanzania**	**Uganda**
Capital	Nairobi	Dodoma	Kampala
Population	32.8 million (UN, 2005)	38.4 million (UN, 2005)	27.6 million (UN, 2005)
Area	582,646 sq km (224,961 sq miles)	945,087 sq km (364,900 sq miles)	241,038 sq km (93,072 sq miles)
Life expec-tancy	48 years (men), 46 years (women) (UN 2005)	46 years (men), 46 years (women) (UN 2005)	46 years (men), 47 years (women) (UN 2005)
Main exports	Tea, coffee, horticultural products, petroleum products	Sisal, cloves, coffee, cotton, cashew nuts, minerals, tobacco	Coffee, fish and fish prod-ucts, tea; tobacco, cotton, corn, beans, sesame
GNI per capita	US $460 (World Bank, 2005)	US $330 (World Bank, 2005)	US $270 (World Bank, 2005)
Economic Grouping	EAC, COMESA, ACP-ESA, WTO	EAC, SADAC, ACP-ESA, WTO	EAC, COMESA, ACP-ESA, WTO

Source: World Bank, EAC, United Nations, Uganda, Kenya and Tanzania

1 NATURE OF GLOBAL SUGAR TRADE/MARKETS

1.1 Overview of the global sugar market

Sugar is produced in some 127 countries in the world and consumed in all of them. Only about 30 per cent of world output is traded internationally, implying that the world market for sugar is a residual market. Only 30 per cent of the production is traded worldwide with the rest consumed locally.

Consequently, it is important to recognize that world market sugar prices are not an appropriate benchmark for determining the “fair” price for sugar since these prices represent the market only for residual production and residual demand.

According to industry figures, some 65% of sugar produced worldwide comes from four countries: Brazil, Australia, Cuba and Thailand. The biggest importer of sugar is Russia. Two thirds of global sugar output is produced from cane with the biggest producers: Brazil (20.3 million metric tonnes), India (19.9 million metric tonnes) and the European Union (15.5 million metric tonnes).

Currently, non-sugar factors are known to influence world market sugar prices most times in excess of, and unconnected to market forces. Multilateral corporation policies play a significant role. For example, nearly all exports to the European Union are purchased by the British Company Tate & Lyle.

Sugar is a widely traded commodity with international trade representing about 30% of world production. Therefore, prices on international markets are of significant importance, including for those ACP countries that export at world-market prices. As for many internationally traded commodities, international sugar prices are extremely volatile and subject to long-term price decline.

The world market for sugar is now bullish after over 5 years of depressed prices. The price differential or working arbitrage between the preferential trading regimes such as the sugar protocol of the EU and the world market is diminishing with significant potential for realignment of future trade in sugar. Developing countries account for more than 60% of the current global sugar consumption. These countries, particularly in Asia, are expected to be the primary source of future demand growth.

Table 2: Production, consumption and surplus of sugar in world markets

Location	Production (Million tonnes)	Consumption (Million tonnes)	Surplus / deficit (Million tonnes)
Americas (Cane)	51.8	36.8	+15.0
Africa (Cane)	9.4	13.5	-4.1
Asia (Cane)	41.8	61.3	-19.5
Australia (cane)	5.9	1.5	+4.4
Europe (Beet)	26.3	33.9	-7.7
Other (Beet)	7.7	0	+7.7
Total (tonnes)	**143**	**147**	**-4.1**

Source: FO Litch 2004

Since 1995, prices have been on a decreasing trend which can be mainly explained by an overall excess of production over consumption. Price volatility makes it difficult to forecast world sugar prices but analysts estimate that prices will remain on a decreasing trend over the short and medium term, whether or not reform takes place in the EU. Most international trade takes place under agreements, so the spot trade is considered residual.

The EU is a major player on the export market. The EU is the third largest exporter of sugar, with exports stabilised over the last years, and far behind Brazil which now dominates the export market and whose increase in production and exports accounts for the bulk of the recent decline in world prices.

Internal trade within and among the major economic groupings in Africa like COMESA and SADC is increasing in significance due to deficits that exist in many developing countries with infant or stunted sugar industries. Due to the differing production environments by the various countries, lower cost production settings in Southern Africa now pose a major threat to their Eastern and Central African counterparts. With reduction in both tariff and non-tariff measures that made the traditional wall of protection crumbling, the sugar industry in Africa is expected to be completely realigned in the near future, not withstanding extra Africa market factors.

1.2 Nature of international sugar trade regimes

Sugar is traded in four different ways worldwide: the preferential and quota regimes by developed countries like the United States and EU, accounting for 70% of sugar produced in the world. The rest of the sugar is traded through international sugar agreements and free trade arrangements (such as COMESA, SADC, EAC). The fourth is the residual free market in sugar. Trading in this regime is done under the World Trade Organization's Most Favored Nation (MFN) principle or bilateral commitments by individual countries.

1.2.1 Preferential Sugar Trade Regimes

There are five preferential trade regimes of sugar in the world. Except for the Commonwealth Sugar Agreement, all of them are practically in operation.

1.2.1.1 The United States Quota Arrangements

These cover about one quarter of world trade, with sugar exports to the United States governed by a country quota system. This arrangement, under which exporters enjoy favourable prices, limits US sugar imports to offshore territories like Puerto Rico as well as countries with special trade relations with the USA such as the Philippines. None of the East Africa countries have a quota for preferential access to the US market.

1.2.1.2 The EU Special Preferential Sugar (SPS) Arrangement

Even though they are both under the EU, the SPS is different and not part of the Cotonou Sugar Protocol. A country could have a quota allocation under the Protocol as well as under the SPS regime. Like the Cotonou pact, the SPS agreement is a bilateral (government-to-government) agreement with a fixed duration for an initial six years. Under this arrangement, the EU undertakes to open annually a special tariff quota for the import of raw cane sugar for refining from ACP states.

1.2.1.3 The EU-ACP Cotonou Partnership Agreement

The Sugar Protocol of the Cotonou Partnership Agreement that, also, is part of the EU Common Agricultural Policy Reforms covers this regime. Under this regime, Kenya and Tanzania have a quota of 10,000 tonnes to export sugar at guaranteed high prices to the European Union.

1.2.1.4 The Commonwealth Sugar Agreement (CSA)

Signed in London on 21 December 1951, the CSA guaranteed imports of agreed quantities of sugar by the United Kingdom at negotiated prices to commonwealth producers. The CSA covered about 10 per cent of the world trade in sugar. However, with the accession of the UK to the EU, the country's commitment under the CSA was translated into a EU commitment to the ACP states under the Lome Convention Sugar Protocol. Under the Lome Convention Sugar Protocol, only Kenya in East Africa had a quota (5,000 tonnes). In 1987, the EU distributed Kenya's quota to other ACP countries.

1.2.1.5 Cuba-Russia Sugar Arrangement

Following the diplomatic row that led to trade sanctions imposed on Cuba by the USA in 1960, a special arrangement between the country and Russia came into force. Under the arrangement, Cuba is given price and quantity guarantees on very favorable terms with Russia positioned as the world's largest consumer of sugar. None of the EAC member states has a preferential arrangement with Russia for sugar imports.

1.3 Overview of EU and EAC sugar market

For some time, controversy has raged over the EU agriculture sector instrument, the Common Agriculture Policy (CAP), particularly with regard to the hefty domestic support (subsidies) it extends to farmers in the 25-member bloc. While the interventions are supposed to cushion farmers in the EU against market failures, they cause distortions that hurt developing countries, particularly the smallholder farmers who constitute the backbone of the vulnerable poor economies. Most instructive is the argument that subsidies have no place in free market economies.

However, with the European Commission's (EC) reform proposal, EU exports are expected to decrease, which will open opportunities on the international market. The EU is also amongst the largest importers; its imports come mostly from developing countries and are particularly important for the ACP countries signatories to the Sugar Protocol. With the proposed reform, the EU could, in the long run, become a significant importer of sugar.

The EU is a key player on world sugar markets. The share of EU-15 in world total amounts to 13% for production, 12% for consumption, 15% for exports and 5% for imports. Its share in world production, consumption and exports has declined, whereas southern hemisphere countries have steadily gained importance. While the EU has been the leading world producer for several decades, Brazil and India have dominated the first rank from 1996 onwards, both accounting for 15% of world supply. India has outpaced the EU-15 in terms of consumption.

Countries that are also leading producers dominate the global export markets: Brazil, the EU-15, Australia, Cuba and Thailand. These countries account for 70% of global sugar exports.

International prices of sugar are of significant importance and are extremely volatile, following an erratic path. After the historical peaks of 1974 and 1981, over the nineties monthly world prices for raw sugar have fluctuated between €280 per tonne in March 1990 and €110 per tonne in 1999. Since 1995, prices have been on a decreasing trend. This is mainly explained by an overall excess of production over consumption, as measured by the rise in the stocks to use rate. By 2000/2001 prices had recovered to an average of €240 per tonne.

Still, there are several reasons explaining price volatility. Exchange rate fluctuations can increase or decrease the price volatility of sugar for certain currencies. The steady growth in consumption is a fundamental driving force in the sugar market, but this has not necessarily translated into sustained import demand. Increase in consumption is much more pronounced in developing countries than in others and sugar imports are dependent on macro-economic factors. Sugar production is not necessarily responsive to world market prices but depending on other factors: the perennial nature of sugarcane; the long-time horizon for investments in sugar manufacture. Supply though, is responsive to prices.

However, the various policy instruments used by governments influence both supply and demand. That includes subsidies to farmers which are said to affect global trade. The biggest losers are developing countries, particularly small farmers. Debate on the EU agricultural policies has highlighted their effects on developing countries' strategies to fight poverty and promote economic growth and development programs.

a) The EU Sugar Reforms

In June 2005, the European Commission proposed strong reforms to the Common Market Organisation of sugar, in a set of sweeping changes intended to enhance the competitiveness and market-orientation of the EU sugar sector, guarantee it a viable long-term future and strengthen the Union's negotiating position in the current round of world trade talks. The reforms are intended to modernise the current system, which has remained largely unchanged for some 40 years. The new system will continue to offer preferential access to Europe's sugar market for developing countries at an attractive price well above the world market level.

African, Caribbean and Pacific (ACP) countries which traditionally export sugar to the EU would benefit from an assistance programme. Also, adopted by the Commission, reform proposals include a two-step cut of some 39% in the price of white sugar. Farmers would be compensated for 60% of the price cut through a decoupled payment. This would be linked to the respect of environmental and land management standards and added to the single farm payment, a voluntary restructuring scheme lasting four years to encourage less competitive producers to leave the sector; and the abolition of intervention price. Some €40 million have been set aside to assist ACP countries during 2006.

b) The East African Sugar reforms

The East Africa sugar industry/sector is one of the oldest industries in the region. It is also an industry that has generated considerable benefits for the respective national economies in several ways; it is one of the largest direct employers in the region given that it is labour-intensive. The sector employs over 50,000 direct employees, indirectly over 300,000 small-scale farmers, in addition to over 10 million people employed in indirect and allied businesses.

The annual sugar production within East Africa is over 800,000 tonnes of sugar and it is anticipated to grow. In order to achieve growth targets, the sugar industry has been classified as a sensitive industry that requires effective safeguard measures. The East African Community Customs Union recognized the sensitivity of the Sugar Industry and the need to protect it from dumping of imported sugar. Special tariffs were provided for to ensure that the East African Sugar Industry that is still in its infancy is able to develop. This is based on the fact that return on investments in the sugar industry takes long.

The sugar industry is credited for social economic boost to communities around major production centres through provision of healthcare and education facilities, training, drainage and irrigation, social and community services as well as support to sports in rural districts.

Stemming from the crisis that led to the near collapse of the regional industry in the late 1990s, safeguard measures have been devised both in the short and long run that could protect the industry from predatory influences. Nevertheless, the regional sugar industry still suffers from effects of dumping partly caused by weak policy and administrative structures.

In the short run, the industry plans to scale up production to cover the domestic consumption deficits. However, the EBA window could provide a trade window for producers who would export to the EU to make higher profits like Kenya currently does. Close to 10 new sugar mills with nucleus plantations are expected to be established over the next three years alone in East Africa, half of them in Kenya. Thus, production could rise by over 30-50 percent.

Table 3: Socio-economic benefits of the sugar industry

Area	Uganda	Kenya	Tanzania
Employment (Poverty Reduction)	Has enabled household improvements in income, infrastructure, skills development, diversification and engagement in other economic activities like vegetable growing, piggery, zero grazing and poultry. Engaging mainly the women.	Has enabled household improvements in income, infrastructure, skills development, diversification and engagement in other economic activities like vegetable growing, piggery, zero grazing and poultry. Engaging mainly the women.	Has enabled household improvements in income, infrastructure, skills development, diversification and engagement in other economic activities like vegetable growing, piggery, zero grazing and poultry. Engaging mainly the women.
Environment	Agro-forestry Re-afforestation	Agro-forestry Re-afforestation	With reference to Kyoto Protocol on Climate Change are engaged in research for clean fuel production
Healthcare	Over 250 beds for in-patients in the medical facilities accessed by staff and non-staff	Over 250 beds for in-patients in the medical facilities accessed by staff and non-staff	Over 250 beds for in-patients in the medical facilities accessed by staff and non-staff
Education	From their merger incomes they contributed about 1 Euro per tonne for schools, road maintenance among others. Have built 20 primary & Secondary schools in response to the community education needs.	From their merger incomes they contributed about 1 Euro per tonne for schools, road maintenance among others. Have built 20 primary & Secondary schools in response to the community education needs.	From their merger incomes they contributed about 1 Euro per tonne for schools, road maintenance among others. Have built 20 primary & Secondary schools in response to the community education needs.
Water	Have sunk bore holes, installed water pumps and provide piped water	Have sunk bore holes, installed water pumps and provide piped water	Have sunk bore holes, installed water pumps and provide piped water
Technical support & Skills development	Extension services and training for the youth through apprenticeship programs in IT, mechanical engineering among others.	Extension services and training for the youth through apprenticeship programs in IT, mechanical engineering among others.	Extension services and training for the youth through apprenticeship programs in IT, mechanical engineering among others.
Infra-structure Development	Have constructed roads	Have constructed roads	Have constructed roads
Alternative energy	Adding value to molasses for ethanol production rather than pumping it into the rivers	Power co-generation	Ethanol production
Animal Feeds	Feedstock for animals from leftovers and mollases	Feedstock for animals from leftovers and mollases	Feedstock for animals from leftovers and mollases
Import substitution	Mill white sugar, Industrial sugar	Mill white sugar, Industrial sugar	Mill white sugar, Industrial sugar

2 STATE OF THE EA SUGAR INDUSTRY

2.1 Kenya sugar industry

The Kenyan sugar industry, largely situated in the western part of the country adjacent to Lake Victoria, dates back to 1922 when the first white sugar production mill, Miwani Sugar Company Limited (near Kisumu) was established. However, sugar cane as a crop was introduced in the country in 1902. This was followed by Ramisi Sugar Company Limited (in the coast province) in 1927. The industry supports over 6 million people and holds a significant position in Kenya's agricultural sector: it is the second largest contributor to agricultural Gross Domestic Product (GDP) after tea.

After independence, the Kenya government established five additional sugar factories namely: Muhoroni in 1966, Chemilil in 1968, Mumias in 1973, Nzoia in 1978 and South Nyanza Sugar Company in 1979. As well as supporting 6 million Kenyans, it is a source of income to over 200,000 small-scale farmers who account for over 85% of cane supply.

However, the industry has suffered from disorders that have undermined policy objectives aimed at bringing about important changes: self-sufficiency, creation of wealth, employment and rural development. Disorders that largely precipitated a crisis in the late 1990s are linked to mismanagement and policy implementation weaknesses that smugglers and traders took advantage of to nearly wreck the otherwise promising industry.

2.1.1 Sector regulator

The Kenya Sugar Board that is under the oversight of the Ministry of Trade and Industry regulates the sugar sector in Kenya. The Board provides sector policy and regulatory guidance, forward planning and monitors project pre-feasibility. It is also mandated to regulate, provide and promote a competitive environment in the sugar sector, encourage research and development as well as quality assurance among others. The 13-member Board that is dominated by the producers is constituted thus: 7 farmers, 3 millers, 3 representatives from government and 1 ex-officio (the Chief Executive officer of the Board).

2.1.2 Reforms in sugar industry

Thanks largely to reforms instituted to turn round the once ailing industry, production shot up by 15% in 2005, the highest production realised in the industry's history. A similar decrease (15%) in the costs of production were realised during the same period under review. Further reforms are being undertaken in the overall supply chain management in a bid to make the country's products more competitive so as to stave off expected competition when the COMESA safeguard regime expires at the end of 2008.

With 6 companies and crashing capacity of 6.1 million tonnes and a potential to produce 610,000 tonnes of sugar, there is optimism that the country's sugar sector could emerge on top as the most productive (as percentage of GDP and employment) segment in the country's agricultural sector. Most of the reforms have been instituted under the aegis of the Kenya Sugar Board (KSB), established at the height of the ongoing reforms in 2002.

In order to improve the financial base of the industry, the Sugar Development Fund was established in 1992 with the objective of creating a revolving fund to finance the activities of the sugar industry in Kenya.

Table 4: Sugar companies in Kenya at glance

Company	Miwani (closed)	Muhoroni	Chemilil	Mumias	Nzoia	West Kenya	S. Nyanza (Sony)
Location	Western Kenya	Western Kenya	Western Kenya	Western Kenya	Western Kenya	Western Kenya	Western Kenya
Ownership	Government of Kenya	Government of Kenya	Government of Kenya	Government of Kenya 38%; others 62%	Government of Kenya	Government of Kenya	Government of Kenya
Established	1922	1966	1968	1973	1978	1981	1979
Installed capacity	1,500	2,200	3,500	8,400	3,250	900	2,400
Sugar cane tonnage				2,348,019 (2005)			
Sugar tonnage				269,184 (2005)			
Product range	White sugar, molasses	White sugar, molasses	White sugar, molasses	White sugar, mollases, raw sugar	White sugar, molasses	White sugar, molasses	White sugar, molasses
Health care	Health unit with doctors & nurses	Health unit with doctors & nurses	Health unit with doctors & nurses	Health unit with doctors & nurses	Clinic & maternity – with doctors & nurses + ambulance	Health unit with doctors & nurses	Health unit with doctors & nurses
Company policy	Demand-driven production of sugar for local consumption	Demand-driven production of sugar for local consumption	Demand-driven production of sugar for local consumption	Demand-driven production for local consumption and export of sugar	Demand-driven production of sugar for local consumption	Demand-driven production of sugar for local consumption	Demand-driven production of sugar for local consumption

2.1.3 Employment in the sector

The six companies employ about 100,000 workers as permanent, contract and casual in various levels and sections in the sector. The industry supports over 6 million Kenyans and is a major source of income for over 200,000 small-scale farmers who account for 85% of cane supply to the six companies (mills).

2.1.4 Out-grower schemes

The out-grower schemes in Kenya are part of the production structure of the sector and were 19 in number by the end of 2005. Given that out-grower literally undertake all the production activities in the country's sugar industry, they play a crucial role in the planning, production and channelling of resources to the communities in the production zones.

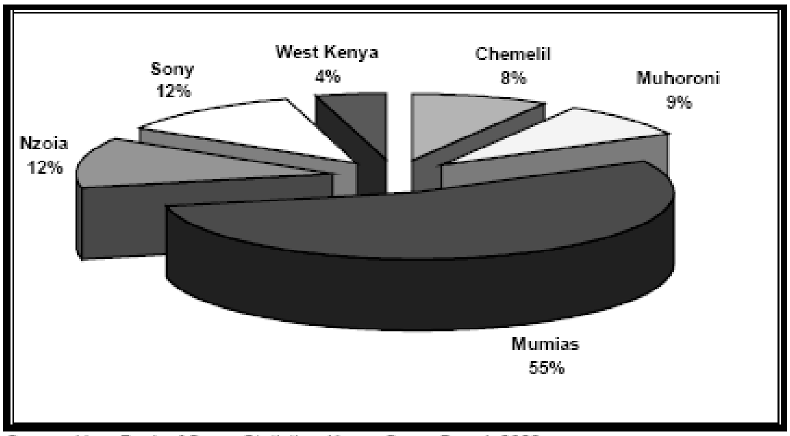
2.1.5 Present sugar mills

Kenya has seven operational sugar factories, namely: Miwani, Muhoroni,, Chemilil, Mumias, Nzoia, Busia Sugar Company and South Nyanza Sugar (see table above).

2.1.6 Sugar production trend and forecast

For the last three years, sugar production on average amounted to 440,000 tonnes, with Mumias Sugar Company contributing 55% of the total production while West Kenya has had the least, at 4% (see chart below).

Chart 1: Breakdown of zonal cane production in Kenya



Source: Year Book of Sugar Statistics, Kenya Sugar Board, 2003

Given the current rate of growth in production, forecasts indicate a progressive pattern maintaining 15% which could move above 20% when the five new sugar companies start crashing cane over the next two years. Production costs are likely to drop further following implementation of policies aimed at improving efficiency and competitiveness.

2.1.7 Exports

Kenya exports an estimated 11,300 tonnes (USDA FAS, 2004) of sugar to the EU under temporary quota requirements. Studies indicate the country does not have any comparative advantage in production of sugar and therefore doesn’t enjoy any market advantages in the conventional markets in the region.

2.1.8 Consumption

Sugar consumption in Kenya stood at 600,000 tonnes in 2004, or about 14 kg per capita. Some industrial sugar used by Kenya’s breweries, soft drink manufacturers and confectionery plants is made locally with the bulk imported.

2.1.9 Sugar industry challenges

Kenya does not produce enough to meet its domestic demands and has to gap the deficit through imports. Tracking domestic needs and monitoring of imports has proved a major challenge with industry suggesting that a single desk marketing system (see conclusions) should be set up for long term solutions.

2.1.10 Imports

The Kenya sugar sector produces some 490,000 tonnes annually which is inadequate to meet its domestic demands of 600,000 tonnes and therefore, the country imports some 120,000 tonnes to meet the shortfall.

2.2 The Tanzania sugar industry

The Tanzanian sugar industry is one of the oldest industries in the country with a history dating back to the late 1920s. The first sugar factory was established and production started in 1934 at Tanganyika Planting Company Limited in Moshi. In 1960, a second factory was established in Mtibwa and production started in 1963 in Morogora. In 1962, another factory was established and commissioned at Kilombero in Morogora.

The sugar sector since its inception has gone through different phases that have impacted on it both positively and negatively over the last 70 years. The industries have witnessed different managements and policies from government. Today three of the four sugar industries are managed and owned by private entities.

The sugar industry has gone through different phases of rehabilitation within and outside the respective estates also benefiting the outgrowers and their communities.

Table 5: Sugar companies in Tanzania at glance

Company	**Kilombero Sugar Company Ltd**	**Mtibwa Sugar Estates Limited**	**Tanganyika Planting Company Limited**	**Kagera Sugar Limited**
Location	Morogoro Region	Morogoro Region	Moshi	Bukoba
Ownership	Illovo Sugar Group	Tanzania Sugar Industries Limited	Sucrerie des Mascaraeignes Ltd 60% & 40%	Sugar Industries Limited
Area	13,000 ha 7,900 ha under cane	6,000 ha 5,400 ha under cane	16,000 ha 6,000 ha under cane	
Commissioned	1924			
Sugar cane tonnage	660,000	240,000	560,000	250,000
Sugar tonnage	60,000 tonnes			
Products	Sugar, spirit, vegetables & cut flowers			Sugar, molasses, spirit
Permanent & Contract Staff	825	1,550	4,000	
Casual workers	3,000	1,500		
Outgrowers	9,697	4,686	-	-
Cane of Outgrowers	588,051 tonnes	241,063 tonnes	-	-
Primary and Secondary schools	14			1
Health care	Hospital with 60 beds with doctors & nurses + ambulance	Clinic & maternity – with doctors & nurses + ambulance		

2.2.1 Sector regulator

The sugar sector in Tanzania is regulated by the Sugar Board of Tanzania under the Ministry of Tourism, Trade and Industry. The Board provides sector policy guidance, plan, development and growth. It is also mandated to regulate, provide and promote a competitive environment in the sugar sector, empower small holder farmers, quality assurance among others. The Board has a stakeholder representation that includes farmers, the industry, consumers and business.

2.2.2 Rehabilitation of the sugar industry

Sugar production in Tanzania has been greatly affected by the natural conditions and economic trends globally. What is needed is rehabilitation of the sector at all levels to make it competitive for the benefit of the stakeholders and their respective communities.

With Government's Economic Recovery Program and Policies of the 1990s, the industry and sector in general witnessed rehabilitation and privatization that has lead to a number of changes positively and negatively all aimed at improving sugar production by prioritizing changes in the organization of production and the increase of competitiveness through searching for ways to lower labor costs and to increase labor productivity.

2.2.3 Employment in the sector

The three sugar companies employ about 25.000+ employees as permanent, contract and casual in various levels and sections in the sector.

2.2.4 Outgrower schemes

The outgrower schemes in Tanzania date back to the early 1960s at Kilombero and Mtibwa sugar estates in the Morogoro region. Outgrower schemes in the respective areas have played a crucial role and impacted positively on communities and national economy as in providing employment, social development, and infrastructure roll out plus diversification in activities in respective areas.

2.2.5 Present sugar mills

Tanzania has five operational sugar factories, namely: Kagera, Kilombero (2), Mtibwa and TPC (see table above).

2.2.6 Sugar production trend and forecast

The production trend and forecasts in Tanzania indicate a progressive pattern after years of rehabilitation. The rise is attributed to better management of factories after the industry's privatization. The industry is likely to have increased investments and productive over the period of five years and output to reach 300,000+ tonnes by 2005/06 and 440,000 tonnes by 2009/10.

2.2.7 Exports

Tanzania exported 22,643 tonnes in 2002, all of which went to the EU under the EBA scheme.

2.2.8 Consumption

Sugar consumption in Tanzania stood at 164,518 tonnes in 2002, or about 12 kg per capita (Kegode 2005). All industrial sugar used by Tanzanian breweries, soft drink manufacturers and confectionery plants is imported. Kilombero started refining sugar for the industrial sector and negotiations are in advanced stages for it to start supplying major beverage companies.

2.2.9 Sugar company challenges

Tanzania produces enough to meet its domestic demands though experienced trade constraints in ways similar to Kenya and Uganda emanating from sugar imports.

2.2.10 Imports

In 2002, imports amounted to 81,556 tonnes, the bulk of which was smuggled into the country.

Recently factories have had difficulty in selling their produce because of cheaper imported sugar. As a result, the three major sugar factories, including Kilombero, Mtibwa and TPC, were close to being shut down. Local producers were lobbying to impose a duty of $390 per tonne or to ban sugar imports altogether. Currently, sugar importers have to pay 25 per cent import duty, 20 per cent suspended duty and 20 per cent Value Added Tax (VAT).

Due to irregularities in the issuance of the licenses to import sugar which in the past caused scandals, the government took action that allowed the marketing of local sugar, stopped issuing licenses to sugar importers. The directives boosted the local sugar sector with prices spikes of more than 100% in months that followed.

2.3 The Uganda sugar industry

The Ugandan Sugar Industry was a world leader in the 1950s and 1960s with production of more than 140,000 tonnes of sugar per year, most of which was for domestic consumption. At the same time, over 20,000 tonnes of sugar per year were exported to the United States of America and regionally to neighbouring countries.

The Sugar industry in Uganda is one of the oldest industries in the country with a history dating back to 1924. The first factory to be established in Uganda and the whole of East Africa was Uganda Sugar Factory Limited, now the Sugar Corporation of Uganda Limited – Lugazi. It was established by the late Naju Kalidas Mehta who came to Uganda in 1901 from India.

The second sugar factory begun operations at Kakira in 1930 by the late Muljibhai Madhvani who also came to Uganda in 1908 from India. In about 1920, he acquired 800 acres of land near Jinja to start cotton cultivation. The cotton project was not largely successful so he started planting sugar cane for jaggery production in 1921.

Another two sugar establishments at Sango Bay in Rakai District and National Sugar Work Kinyara near Masindi were initiated in the 1960s and implemented in the early 1970s. The Sango Bay sugar factory in Rakai District started production in 1972 but was shut down in 1973 immediately after the expulsion of the Asian community. The Kinyara Sugar Works factory started production in 1976.

The progressive trend and prosperity was reversed in early 1971 when Idi Amin overthrew Milton Obote and in August 1972 the Asian business community was expelled from Uganda. The political turmoil that followed hit the economy and industrial sector as a whole. A period of rapid industrial decline followed which severely affected the entire industrial sector. Sugar production rapidly plummeted and by 1983 it was next to nothing, leaving Ugandans initially without sugar at all and then later at the mercy of profiteering traders. Uganda's political history led to huge losses of foreign exchange.

2.3.1 Sector regulator

The sugar sector in Uganda is regulated by the Ministry of Tourism, Trade and Industry.

2.3.2 Rehabilitation of the sugar industry

Sugar production in Uganda was greatly affected by the political events of the 1970s and early 1980s when it declined to near zero. The country became dependent on imported sugar. From 1986, the government based on the drive of building an independent and self sustaining economy embarked on the rehabilitation of the economy as well as the sugar industry. The Mehta Group which had repossessed SCOUL rehabilitated the factory which was commissioned in 1988. Kakira Sugar Works 1985 Ltd also underwent rehabilitation between 1986 and 1995 while Kinyara Sugar Works was rehabilitated from 1986 to 1996. During the period 1985 to 1988 all the sugar factories were under rehabilitation and therefore could not produce sugar.

Uganda Government's Economic Recovery Program followed by the Structural Adjustment Policies of the early 1990s, boosted the Sugar industry and sector in general as both programs promoted the rehabilitation of the agricultural sector both in the export-oriented crops and domestic food sector. The prescriptions to the sugar industry rehabilitation were aimed at improving sugar production by prioritizing changes in the organization of production and the increase of competitiveness through searching for ways to lower labour costs and to increase labour productivity.

The sugar industry undertook the rehabilitation process as follows:

1) Rehabilitation of the sugarcane yields of the nucleus plantation,
2) Evaluating current systems and methods of sugarcane production and setting up methods and means to achieve improved production of sugarcane at minimum costs,
3) Examination and advice on options for the diversification of the sugar industry,
4) Advice on the institutional and legislative requirements to improve management of the sugarcane industry where the government is a shareholder.

2.3.3 Employment in the sector

The three sugar companies employ about 21,749+ employees as permanent, contract and casual in various levels and sections in the sector. About 80-90% of the sector employees are members of the National Union of Plantation Workers of Uganda.

2.3.4 Outgrower schemes to boost production

As the main strategy to boost production, the three sugar companies mooted the introduction of outgrower schemes. Instead of expanding production on their 'nucleus' plantations (the plantations directly operated by the sugar companies), the companies contracted production to outgrowers with land within a reasonable geographical distance of the nucleus plantation.

The outgrower schemes have played a crucial role and impacted positively on communities and national economy as in providing employment, social development, and infrastructure roll out plus diversification in activities in respective areas. The outgrower scheme was adopted from India as an outsourcing strategy to boost production and cost efficiency. The outgrower production strategy has allowed the industry to expand sugarcane production – almost to double its production in 10 years since its initiation in the sector. Currently there are about 5000 outgrowers supplying approximately 40% of the total sugar company production requirements.

2.3.5 Present sugar mills

Uganda has three operational sugar factories, namely; Sugar Corporation of Uganda Limited, Kakira Sugar Works (1985) and Kinyara Sugar Works Limited (see table below). The rehabilitation of the Sango Bay Sugar Factory is in progress with sugarcane fields being replanted.

Table 6: Sugar companies in Uganda at a glance

Company	**Sugar Corporation of Uganda Limited (SCOUL)**	**Kakira Sugar Works (1985) Limited**	**Kinyara Sugar Works Limited (KSWL)**
Location	Lugazi, Mukono District	Kakira, Jinja District	Kinyara, Masindi District
Ownership	Mehta family (76%), Govt of Uganda (24%)	East African Holdings Limited (100%)	Booker Tate Limited, United Kingdom for GoU (100%)
Area	15,000 ha	22,000 ha	11,000 ha
Commissioned	1924	1930	1976
Sugar cane tonnage	480,000	900,000	500,000
Sugar tonnage	44,000	90,000	64,000
Products	Sugar, spirit, vegeta-bles & cut flowers		Sugar, molasses, spirit
Permanent & Con-tract Staff	6,000	2300	3,900
Casual workers		4200	
Outgrowers	700+	3600+	800
Cane of Outgrowers	160,000 tonnes/year		200,000 tonnes/year
Primary schools	13		1
Secondary schools	1		1
Health care	Clinic & maternity with 20 beds		Clinic & maternity – pri-mary health care only, 2 doctors, midwives & nurses + ambulance
Company policy	Against child labor in the fields		

2.3.6 Sugar production trend and forecast

The production trend and forecasts in Uganda indicate a progressive pattern after years of rehabilitation. The table below shows the sugar production trends since 1996 when all the factories were operational. Production has risen from 96,264 tonnes of sugar in 1996 to 205,762 tonnes of sugar in 2004 for the 3 factories. Forecasts show a bright future for the sector. In addition there is some rehabilitation activity going on at Sango Bay with an estimated 280 hectares of new cane planting underway.

Table 7: Uganda sugar production and forecast 1996-2006

Year	Kakira	Kinyara	Lugazi	Total
1996	53,486	17,756	25,022	96,264
1997	65,814	15,842	25,350	107,006
1998	49,450	35,478	17,599	102,527
1999	61,234	41,700	23,248	126,182
2000	58,650	50,209	28,091	136,950
2001	56,504	52,948	24,528	133,980
2002	75,268	57,900	32,795	165,963
2003	87,296	53,799	35,579	176,674
2004	95,000	63,962	46,800	205,762
2005	110,000	65,646	60,000	235,646
2006	125,000	71,254	60,000	254,254

Source: Uganda Sugarcane Technology Association

2.3.7 Consumption

Sugar consumption in Uganda stood at 200,000 tonnes in 2004, or about 9 kg per capita (Kegode 2005). All industrial sugar used by Uganda breweries, soft drink manufacturers and a confectionery plant is imported.

2.3.8 Import

The Uganda sugar sector produces some 160,000 tonnes annually, which is inadequate to meet its domestic demands of 200,000 tonnes and therefore, the country imports some 40,000 tonnes to meet the shortfall.

2.3.9 Sugar company challenges

Uganda as a net sugar importer has experienced trade constraints, in ways similar to Kenya and Tanzania. In 2002, Uganda has seen an influx of imported sugar, which, according to domestic producers, is smuggled sugar, on one hand, and, on the other, undeclared sugar that pays no import duties. The difficulties to apply import regulations is exemplified by the official figures quoted by the International Sugar Organization, which report imports of 20,000 tonnes in 2000 from “unknown” origins.

According to industry analysis, in 2001 and 2002 Uganda’s sugar industry faced stiff competition from these sugars (smuggled and undeclared), which were offered at 10 to 15 percent discount prices against the domestically produced sugar.

In spite of the challenges, the three sugar industries have shown determination to expand production and minimize costs of production in order to be competitive in the liberalized sugar market by meeting national needs, diversification and export.

Industry analysts point to weaknesses in importation, marketing and distribution of sugar in Uganda as behind the pressures against local producers (including allegations of smuggling). Reforms in this direction as well as improvement in production efficiencies (so as to improve competitiveness of local products) are expected to precipitate.

3 STUDY FINDINGS: IMPACT OF SUGAR TRADE ON EA SUGAR MARKET

Even when the various benefits associated with the sugar industry are considered, the sector faces challenges as a result of several factors, including incoherent economic and trade liberalisation, regional integration and inefficiency in production that renders EAC sugar relatively uncompetitive. The biggest threat is external, stemming from the expected opening up of the sector to competition against products from either low cost producers in the region or considerable stocks of dumped products from a host of sources with surplus production. Already, dumping has had a near-fatal effect on the region's sugar industry.

3.1 Prevalence of external threats: Global industry and trade dynamics

Given the residual nature of the global sugar industry, sugar prices are unstable in the world market as prices outside of the preferential and quota market are often affected by the vagaries in the production and supply chain.

The East Africa region, part of the tropical producers belt, have limited and regulated access to the markets of the industrial countries. This state of affairs stems from the highly protected markets of developed countries that are surrounded by safeguards and countervailing measures.

Given the low elasticity of supply of cane exports, the result is often in the form of sharp fluctuations in free market sugar prices. These affect forecasting, especially for tropical producers who highly depend on rain fed systems.

Production cost and efficiency is not the determinant of supply and market access conditions in the world market. Although high cost producers would ideally be disadvantaged in a free market, the sugar market is not governed by these basic precepts.

3.2 Prevalence of internal factors

In addition to the global problems, the sugar sub-sector faces what locally is described as 'home-grown' problems. These considerably spread out and are linked to low competitiveness of the industry.

Challenges relate to the production process and affect sugar factories and outgrowers. According to studies carried out over the recent years, the balance sheet of the milling and sugar factories reveal accumulated debt and losses across the East African region, save for a few recently restructured concerns with new management.

It is widely held amongst stakeholders that the existence of a ready domestic market in East Africa (90 million people) as well as political factors is behind the decision to continue in cane production despite the fact that the high cost of production relative to prices makes it unprofitable to produce sugar. In the face of declining international sugar prices and stiff competition from low cost producers, the problems facing the sugar sub-sector in the region include high cost of production and high debt burden on the part of the millers.

A huge debt overhang also threats many millers in the region. Debts are either to farmers for unpaid cane deliveries or debts to various commercial, development banks or sugar Development Fund (SDF) in the case of Kenya. Consequently, many sugar firms in

Kenya and Tanzania are technically insolvent with debts amounting the bulk of their assets (91% for Kenya 2 years ago) of total assets.

With the reality that sugar is made on farms, poor planting materials / seed varieties that yield low sucrose content and have long maturity periods have considerable implications on competitiveness. Kenya and Tanzania are disadvantaged; their cane (from the core production zones) have long maturity periods (18 to 24 months) compared to some of Uganda's and Sudan's (majority) sugar varieties that mature within 14 months. In high efficient, low production countries like Malawi, Zimbabwe, Mauritius and South Africa, the maturity period is 12-14 months. Due to management weaknesses, some regional millers take up to 36 months to harvest and crush their cane.

Policy, legal and administrative weaknesses are also behind the management and efficient running of state-owned mills, core values like professionalism and accountability are sometimes flouted. Far-reaching policy and market reforms have also been awaited.

3.3 Effects of external factors, including dumping on EA sugar industry

Import and export of sugar produced within the East African region is affected by events in the world market; the various sugar trade regimes used around the world. Kenya and Tanzania are the most active in the external markets and Uganda is indirectly involved in sugar exports (traders carry it mainly to the DRC and Southern Sudan and some to Burundi and Rwanda).

Markets that are supplied by the East African industry include the residual free world market on sugar and the preferential and quota regime given by developed countries particularly under the EU-ACP Cotonou Partnership Agreement. The others are the EU Special Preferential Arrangement on Sugar (SPS) and the Free Trade Arrangement of COMESA and the East African Community.

Within the residual free world market for sugar, prices are below the cost of production in several countries particularly including all the EAC countries. In East Africa, the cost of production averages US $550 per tonne while the consumer price of sugar on average amounts to US $560-580 per tonne. This contrasts sharply with the consumer prices in the United States and the EU.

Sugar sold in the residual market is primarily from three main sources: subsidized sugar from Europe, which when considered against the considerable expansion of EU quota production, has had an impact on the world market, influencing the world market price through subsidized exports. The other is dumped sugar from other producers in the world (reportedly from South Africa and Brazil) and surplus sugar from low cost sugar producing countries like Australia.

Products from these sources pose the biggest threat to the East African sugar market as they could out-compete or even undercut locally produced sugar that is made under a higher cost production regime.

While efforts have been instituted by way of tariff barriers, this has not prevented some of the sugar from the residual market from entering East Africa. Stakeholders have suggested more measures including anti-dumping legislation, high tariffs and quotas and countervailing duties among other safeguard measures.

However, in the long run, they are not feasible as they can only be done within the bound tariff and quota limits that the individual East African member states would have committed themselves to at the WTO. The EAC only has observer status at the WTO. In addition to the above trade regimes, developments at the World Trade Organization will affect the future of the regimes identified above.

Prevalence of Sugar Dumping

The East Africa region has since the late 1990s been faced with major instabilities in the sugar industry that are blamed on cheap or dumped sugars reportedly from a host of sources, including the EU.

Accordingly, preliminary findings of the study established that imported cheap sugar has an impact on households of sugarcane farmers, their communities, the industry and national economies. However, the contribution of EU sugar in particular could not be established and, generally given available information, could be construed to be indirect and, if it exists, to have limited effect.

However, the impact of sugar from southern producers is significant and affects farmers and the sugar sector in the East African region. Sugar, mainly from Latin America, Asia and Southern African countries with low cost production normally finds its way into the region and is blamed for causing the biggest market distortions that have been dubbed the "South to South Impact".

3.4 Effects on individual countries

Market/industry distorting sugar from the south is broadly classified by stakeholders as "Cheap imported sugar" or "Illegally imported sugar". Although the stocks find their way to the market through formal channels, in many cases the study heard, the sugar is illegally imported in some cases using political protection. There have been cases were stocks were imported as industrial sugar for the beverages sector but ended up on the market.

Cheap sugar and illegal imports greatly affect sugarcane farmers and their communities mainly due to cash-flow bottlenecks they create for smallholder farmers. Because markets would be flooded with imports (including illegal stocks), locally made processed sugar sometimes takes long to be sold leading to delays in payment for the supplied cane. The effects in general include:

- Stagnation in sector productivity – delay in farmer payments and no purchases of cane normally affects production of cane for future harvests and production cycles,
- Increase in cost of local production,
- Reduction in employment levels and implementation of development plans,
- Reduction in social amenities and infrastructure development,
- Welfare reversals, as small households may have to sell some property to off-set short term cash flow benefits.

3.4.1 Kenya

Between 1998 and 2001, Kenya suffered from what was perceived as the biggest crisis to hit its sugar sector in modern times. This was characterized by the near-collapse of the industry as most sugar mills were thrown in financial crises. The cause was unregulated importation of sugar as well as dumping and outright smuggling.

Until government interventions were instituted, mainly because ownership of the country's sugar industry is in state hands, most mills were under the threat of being placed under receivership.

The country carried out far-reaching policy reforms leading to promulgation of new legislation, complete with a new institutional framework under the aegis of the Kenya Sugar Board (KSB). Administrative reforms have followed backed by tough trade measures to control the conduct of players in the trade and distribution chain.

Although normalcy has largely set in, reports still exist of smuggled and dumped stocks on the market. Government insists it has done all it could to address the major problems and the rest of the challenges would require a stakeholder sector-wide approach.

3.4.2 Tanzania

The sugar industry in the largest and most populous East African country, also the second largest cane producer in the area under study, has also suffered turmoil in its sector, with ‘after shocks’ continuing to the present day. By 2002 (Leonela Santana Boado 2002), smuggled stocks made the bulk of the country’s sugar imports.

Until recently, cheap imported sugars exerted considerable pressure on locally made sugar leading to the near-shutdown of the leading sugar factories in the country because stocks continued piling with no buyers in sight. The strength of sugar imports was linked to irregularities in the issuance of licenses to importers. A moratorium on importation and a freeze of issuance of new licenses had a positive effect on locally made sugars, leaving stores at factories empty for a long time.

Tighter enforcement of the recently enacted sugar act also helped although failure to provide for representatives from traders and importer organizations on the Tanzania Sugar Board, is thought by stakeholders to contain seeds of potential discord with attendant negative ramifications on the industry. This shortcoming, viewed against a concentrated distribution network over which traders have effective control, could lead to reversal in gains made.

3.4.3 Uganda

The country’s sugar sector collapsed during the years of turmoil that came to a close in the early 1990s. The country’s sugar industry was therefore filled by imported products, a significant proportion of which were imported by state trading enterprises. The bulk, however, was through stocks imported by smugglers and an assortment of channels, facilitated by corrupt customs officials and politicians.

Although local production was later reinstated, reports of smuggling and dumping continue to the present day, largely made possible as the country is a transit corridor for goods destined for the DRC, Southern Sudan, Rwanda and the Northern Western parts of Tanzania.

Uganda doesn’t have legislation to regulate the industry and relies on administrative measures as well as fiscal policy instruments. With importation left to many unlicensed traders, industry stakeholders argue that many traders engage in dumping, as they are able to falsify transaction documents with ease. Authorities deny this assessment.

Table 8: Stakeholder concerns and recommendations

Stakeholder category	**Internal/household issues (Land, infrastructure & internal capacity constraints)**	**Localised issues (administrative, management, industry (millers) & service delivery concerns)**	**External issues (economic environment, national, regional and international challenges and concerns)**	**Political issues (policy, law and regulations affecting or absent including concerns)**
Sugarcane farmers	• Inadequate farm machinery and equipment • Land rights and ownership bottlenecks • Rundown of absence of needed Infrastructure • Limited advocacy skills and capacity	• Limited transparency by millers during procurement of cane • Poor extension services • Establish comparative testing and weighing facilities for farmers as they uncertain of the accuracy of the sugar companies' facilities.	• Limited access to affordable credit finance • Market constraints leading to low prices and monopolistic	• High taxation regimes • Lack of legislative support: Absence or ill enforcement of anti-dumping, enabling safeguard measures, or a regulatory framework to check malpractices in sugar import.
Sugarcane out-grower associations	Empower farmer association to champion sector issues through advocacy.	Value adding and diversification should be encouraged: ▪ Co-generation and sale of power to the national grid; ▪ Use of biogases and molasses to make feed block; ▪ Use of bagasse to produce newsprint, paper, building hardboard and Briquettes; ▪ Alcohol distillation	Preservation of local and export preferential markets by using safeguard and anti-dumping measures;	• Lowering bank interest rates and removing penalties on outstanding debts; • Revision of the sugar importation policies;
Private sector: sugar industry and traders	Need for research into production to get short maturity, high yielding varieties, more land to expand acreage,	It is doubtful whether many of the ACP countries would export sugar to the EU at this price without reforming their sugar sectors.	It is not yet clear how the EC will adapt the sugar reform proposals to take into account the WTO Panel.	The EBA countries have asked that the current raw sugar quota be maintained until 2015/16 and that a second TRQ be opened in 2004/05
Government and regulatory authorities	Smallholder farmers need protection to ensure food security and decent earnings from their produce.	Private sector investments in production to improve efficiency and seek new markets.	Renegotiation for a longer period of the application of the COMESA safeguard measures.	Need for information and support from stakeholders to accelerate enactment of enabling policy and laws
Civil society organizations		Long-term sustainability of the sector is the primary concern: the availability of decent jobs and the use of environmentally sound production practices	Sufficient transitional period is needed for ACP countries to benefit better from preferential markets	Joint advocacy to draw international attention to the plight of small farmers and their communities
Consumers			Trade policies and instruments at the national, regional and international levels should be to encourage and support the long-term sustainability of producing sugar.	

4 KEY OBSERVATIONS AND CONCLUSIONS

Conclusions are derived from views that emerged and main lessons learned from the consultation process with stakeholders.

Balancing between local production and importation: Overall there is optimism, albeit cautious, among stakeholders that there is a lot of potential for expansion and development of the sugar industry within East Africa.

Producers: The expansion is premised on the expectation that the development would ensure that factories within the region enjoy economies of scale and reduce production costs which would make the sugar industry competitive regionally and globally.

Smallholder farmers: According to smallholder farmers, local production that covers the demand deficit should help reduce the need for imports. This is a short-term view, as safeguards in place would have to be lifted to open the market to imports.

Measures to Address Sugar Importation Bottlenecks

Reports of smuggling, dumping and illegal importation are associated with uncoordinated importation of sugar. These imports are procured at world market prices, many times below the cost of locally (regional) made sugar. Developing country (including East Africa) markets attract good prices on the open market. Industry stakeholders were of the view that some measures should be put in place to address the problems including:

- Strict control measures on importation under a transparent system to be controlled by government,
- Institute safeguard measures like application of uniform tariffs and duty in the region,
- Monitoring raw sugar imports for use in the respective sectors.

Marketing Reform

Existence of a regulatory framework in Kenya and Tanzania resulted in very significant changes in the sugar industry but was not a panacea to the marketing bottlenecks. It is through loopholes in the marketing chain that smuggling and dumping take place. Reforms in this regard should buttress the restructuring process. The prevailing systems in the region are structured in favour of importers, distribution agents and brokers at the expense of millers and farmers. Stakeholders want a single desk marketing system that involves vesting powers in a marketing entity to export sugar and import the deficit quantity, and share proceeds among the industry stakeholders.

Regional Level Safeguards

Recognising that the economic integration process in the region has had positive effect for some sectors but negative effects for other sectors, the industry was of the view that during implementation of the COMESA FTA and the EA Customs Union, some fairly longer term safeguard measures should be extended to the sugar sub-sector while awaiting it to fully adjust to the changes.

Improve border control measures

With the reality that the regions' borders are porous, there is need for increased cooperation to ensure that the sub-sector is not harmed by dumping and unfair competition. Alongside this is the need for the development of a surveillance mechanism that ensures that there are proper controls both within individual countries and within the region for adequate enforcement of regulations that should support and protect the industry.

Lack of transparency in the sub-sector

Ongoing reforms have been considerably affected by the lack of vital production-related information that conclusions on, e.g., cost of production is normally made relying on assumptions and incomplete data. Importations (including illegal imports) is also shrouded in considerable information gaps. Kenya and Tanzania have measures in place to monitor importation, however Uganda operates a laissez faire regime that is open to abuse. Nevertheless, the whole region still needs to take additional measures, including collaboration, to address import bottlenecks.

Empowerment of smallholder farmers

Smallholder farmers' voices and livelihood options need to be strengthened through empowerment. Although out-grower entities exist, they have been able to amplify the voice of smallholder farmers but not to explore ways and means of ensuring social and economic insurance to the vulnerable households. In the event of market failures, the poor households are hit hardest with no recourse for succour.

Increase local production capacity

Overall there is a lot of potential for expansion and development of the sugar industry within East Africa. The expansion and development will ensure that the factories within the region enjoy economies of scale and reduce production costs, which will make the sugar industry competitive regionally and globally. This calls for investment capital into the industry.

De-politicisation of the sugar industry

It needs to be said, however, that some traditional exporters have found in the EU reform a convenient explanation for their inability to maintain an efficient and well-run sugar sector, which, despite the preferential agreement with the EU, has been run-down by government policies and heavy political interference.

ACP-EU reforms

Although the WTO ruling and, specially, the EU process of reform are primarily policy issues related to the EU, they will have a major impact on the sugar industries in the Africa, Caribbean and Pacific countries (ACP) and the Least Developed Countries (LDCs). The EU provides, along with the US tariff-rate quota system, one of the two preferential sugar markets, after the collapse of the Soviet Union and the ending of the USSR-Cuba sugar arrangements. What is important for workers, unions and policy makers to understand and act upon is the nature and characteristics of the connection between trade and development, between trade and decent jobs in these countries.

ANNEX

Newspaper clippings

Ugandan sugar industry hit by dumping

Topic: *D - Goods - Anti-dumping*
Author: *New Vision (Kampala)*
Published: *10/12/2003*
Region: *Uganda*

The Kakira Sugar Works (KSW) in Uganda has appealed to the parliamentary committee in Kampala to protect local sugar producers. Low import duties were seen as the key concern in that a 30 percent duty on imported sugar was insufficient when compared to massive import duties imposed by the EU and the US.

Sugar exported to the United States currently attracts an import duty of 156 percent, while sugar being exported to the European Union gets charged a whopping 250 percent duty. KSW was also being hit by increasing interest rates from a World Bank loan of million as a result of the local currency depreciation.

Of all its neighbours Uganda has the lowest sugar consumption at 9 kilograms per person compared to Tanzania which stands at 12 kilograms and Kenya which is at 14 kilograms per person.

Source: New Vision (Kampala)

Ugandan sugar industry being damaged by smuggling

Topic: *D - Goods – Agriculture*
Author: *New Vision (Kampala)*
Published: *22/10/2004*
Region: *Uganda*

The Ugandan sugar industry is being undermined by cheap imports which are smuggled into the country. This emerged last week from Enoch Nkuruho, the Senior Executive and Director of the Madhvani Group. The Group own the Kakira Sugar Works in Jinja.

According to Nkuruho there is normally a surge in illegal sugar around Christmas time, which in turn puts pressure on the Ugandan sugar industry to compete even though the sugar being sold is illegally obtained.

But the Madhvani Group has nonetheless reacted to the pressure by decreasing its wholesale price of sugar to sh54,990 for a 50-kg bag.

"Despite the smuggling going on mainly through Arua in West Nile, the Madhvanis are determined to keep production high because we are aware that sugar is a sensitive product to all stakeholders," Nkuhuro said.

While the Madhvani Group has stepped up to the plate to face the challenge, Nkuhuro also called for a level playing field. This could be achieved, he said, by enforcing the 1998 Floor Price Duty Value for customs valuation of 0 per tonne and imposing stringent anti-dumping and safeguard laws.

"This safeguard measure has been valuable for Uganda and Tanzania industries, which has grown at a rate of 15 percent compared to Kenya where the sugar industry has been in decline leading to the closure of two factories," Nkuruho said. This protection of these sensitive industries was necessary, he argued, until such time as all developed countries removed their trade barriers which protect their framers.

Farmers benefit from Kakira scheme

By Kiganda Ssonko
New Vision Wed, 7 Dec 2005

FARMERS in Busoga are benefiting highly from the Kakira Sugar Works Outgrowers Scheme that has seen most of them move away from traditional crops to sugarcane-growing because of the assured market and good earnings.

The farmers, under their umbrella body, Busoga Sugarcane Growers Association, with a membership of 4,000 farmers in the districts of Jinja, Mayuge, Iganga and Kamuli grow the crop on 11,000 hectares combined, producing 50% of Kakira's sugarcane needs.

The agricultural manager of Kakira Sugar Works, Raju Kalidindi, says the company advises farmers about the proper growing of the crop and supports them in meeting the costs of cultivation up to the harvesting period.

"Our extension service managers carry out a big campaign among farmers around Kakira. We give tractors to those who who accept sugarcane growing to plough, harrow and open furrows in the gardens. We also supply sugarcane seeds and fertilisers," says Kalidindi.

With a good response from farmers, Kakira management projects that its sugar production will increase from 90,000 tonnes per year to 150,000 tonnes between 2007–2009.

Kinyara's sweet success story

Zurah Nakabugo

The Monitor

Business & Finance | January 17 - 23, 2006

It has been a long, winding and sometimes unsugary journey for the sugar producer Kinyara Sugar Works Limited.

Although the mark of success has been in the offing overtime, the announcement last week that the firm had surpassed its production target of 64,000 tonnes of sugar per year by 958 tonnes in financial year 2004/05 was a breakthrough.

Since 2001 Kinyara has consistently beaten its annual targets an amazing feat for a factory whose annual capacity has been above 52,500 tonnes.

"This is not only a record for Kinyara but no sugar manufacturing company in Uganda has achieved this cane to sugar ratio over a crop campaign," General Manager Jack McLean told Agriculture Minister Janat Mukwaya on January 9.

He said 800 farmers had produced 233,618 (36 percent of total input) tonnes of sugar cane an increase of 36 percent on the previous year's supply making the sugar to annual cane ratio a record 10 percent. Mukwaya was last week on a tour of the factory and its environs.

DOING WELL: The Minister of Agriculture, Animal Industry and Fisheries, Ms Janat Mukwaya (L), listens to Kinyara Estate Agronomist Andrew Mugalula (R), as the Chairman Board of Directors, Mr George Abola (C), looks on during a tour of Kinyara Sugar Plantation recently. Photo by Zurah Nakabugo

Unsugary times

Before the factory was commissioned in 1995 it had been in a 12-year redundancy due to the civil war in the 1980s. Most of the factory components were either looted or left to rust away.

Between 1974 and 1984 the factory could only manage to produce 12,000 tonnes of sugar. But since it was re-opened in 1996 under new management Booker Tate Limited, a management consultancy firm, the entire factory has been on a single file journey of success.

Revenue contribution

McLean said the company makes Shs15 billion contribution annually to the national treasury in tax remittances. Of this over Shs 9,594 million is paid as VAT; Shs 1,020 million remitted as PAYE; Shs 3,200 million as exercise duty and a further Shs1,200 million paid as contribution to NSSF.

The local administration of Masindi district also makes about Shs14.4 billion per year as payment of local taxes, salaries and wages to farmers and employees. With a total annual turnover of about Shs62 billion, the sugar company saves the government approximately $35 million in foreign exchange annually. McLean also said the sugar company has remitted over Shs8.8 billion since 1999 to the government as dividends.

Community service

The company recruits and trains workforce at its training center that provides industry specific and general skills through the apprenticeship scheme that now forms the backbone of efficiency.

McLean said the firm had committed over Shs200 million to the construction and expansion of a secondary school, which started operating in March 2004.

In her speech to residents Mukwaya called for a proactive approach to maintaining stability and security. "Political instability is a threat to any economy. As Ugandans the biggest challenge to any leader is unemployment. Masindi people should be reminded of 12 idle years during civil war and be ready to protect Kinyara which employees over 4,000 people," she said. Over Shs550 million in earnings is also paid out to employees each month by Kinyara. She said the government would privatise 51 percent of the company and retain 49 percent of the shares. "I will also create a desk of sugar cane research in National Agricultural Research Organisation (NARO)," she pledged.

The future

McLean said the company remains steadfast in its commitment to commercial expansion with annual production target of 93,000 tonnes per year. "Survival is the objective of any business. With the professional management practices and training programmes put in place by Booker Tate and a dedicated work force, Kinyara has not simply survived but has gone from strength to strength," he said.

He, however, warned that for this to continue the government should help sugar producers to fight off cheap imported sugar, which makes competition a nightmare for local producers.

Poor road network has also been a problem. Most main and feeder roads leading to and from out-growers are so dilapidated making the expansion programme very difficult.

SCOUL to produce 48,000 tonnes

By Joel Ogwang

The New Vision Tuesday, 7th February, 2006 - Business

SUGAR Corporation of Uganda (SCOUL) targets an increase in production from 44,000 tonnes last year to 48,000 tonnes this year, the chief executive, S.C. Khanna, has said.

However, he said the sugar industry is facing stiff competition from sugar mills that are buying much cane from outgrowers.

The mills pay outgrowers before the cane is ready. As a result, we shall rely much on cane from our shambas, Khanna said.

He said 500,000 tonnes of cane would be secured from SCOUL's plantations and 100,000 bought from outgrowers in order to meet this year's target. Khanna said due to the frequent load shedding, they plan to generate electricity from cane residue (biogas).

We are using 4MW of electricity from Umeme. We expect to produce about 6MW as soon as the project starts, he said in an interview recently.

Khanna said SCOUL, that employees about 6,000 people, would sell the surplus power to Umeme.

He said the outgrowers would be boosted with tractor services, seed canes and funds for bush clearing.

Ends

Interview questionnaires

Informant Questionnaire for Sugarcane Farmers

1. Is sugarcane growing your fulltime job and do you enjoy it?
2. How many people do you employ on your farm? ……… men and ……….. women
3. Is sugarcane your major household income? How much do you earn per year? What is your acreage?
4. Are you engaged in any other form of farming or economic activities apart from sugarcane growing?
5. Does income from sugarcane meet your basic needs like: food, healthcare, education for children, shelter etc.
6. Do you think any changes at the sugarcane factory affect you? Yes or No
7. How? or Why?
8. Have you ever been affected by any changes at the sugar mill? How?
9. Have you heard about low cost sugar on the market?
10. Do you know about dumping of sugar on the local market?
11. Do you think sugar dumping can affect you and the sugarcane price offered by the sugar factory?
12. Is there evidence that dumping of sugar affects the benefits from the sugar companies to the community and nation?
13. In your opinion what should be done by the following stakeholders to stop sugar dumping?
    a. Government
    b. Businesses
    c. Sugar companies
    d. Farmers
14. Apart from buying the sugarcane from you, how do you benefit from the sugar companies as?
    a. Household
    b. Community
    c. Women
    d. Youth
    e. Vulnerable groups
    f. Nation
15. What should be done to eradicate or mitigate effects of sugar dumping?
16. Has sugarcane growing in your community improved living standards and helped reduce poverty?
17. Low sugar productivity has been noted to affect competitiveness and general performance of the local sugar sector. What measures do you think could address the problem?
18. How would you describe your relationship with millers and other stakeholders?
19. Internal organization is vital for sharing synergies that inform horizontal and vertical growth. Is your internal organization sufficient to realize this? Yes or No
20. If Yes or No, what needs to be done?

Informant Questionnaire for the Sugar Producers

1. How do you rate the sugar sector in terms of economic growth and sustainable development?
2. What are the associated costs of production of sugar?
3. How do they affect the sugar sector competitiveness and profitability?
4. What are the major internal factors affecting the cost effectiveness of the sugar sector?
5. How can they be addressed to make the sector competitive and more profitable?
6. What are the major external factors affecting the cost effectiveness of the sugar sector?
7. How can they be addressed to make the sector competitive?
8. What is the profile of the sugar company?
    a. acreage of sugar estate:
    b. production capacity
    c. employment:
        i. professional staff: ……… men and ……….. women
        ii. skilled staff: ……… men and ……….. women
        iii. unskilled: ……… men and ……….. women
        iv. casual labors: ……… men and ……….. women
    d. community service or social amenities by the company:
9. Are you aware of acts of sugar dumping on the local market?
10. How has sugar dumping affected you and the sugar industry at large (short and long term)?
    a. How?
11. What measures or interventions should be done to address sugar dumping and its effects?
12. In your opinion what should be done by the following stakeholders to address the effects of sugar dumping?
    a. Government
    b. Private Sector Associations
    c. Development Partners
    d. Civil Society Organizations
13. What effect does sugar dumping have on community programs in your area of operation?
14. In the event sugar dumping was not addressed, what affect would it have on your short and long term production regimes and community programs, in terms of:
    a. production capacities
    b. production costs
    c. employment levels and plans
    d. social amenities and infrastructure
15. Has your company ever been affected by sugar dumping?
16. How?

17. Are you in position to join other sugar stakeholders to address the effects of sugar dumping?
18. Dependency on single output (sugar) and limited value addition have been noted to curtail growth of the local sugar industry. Have you explored other alternatives/options?
19. Are alternatives like co-generation, carbon trade and Ethanol production viable?
20. What are the other viable economic activities in the sector in order of priority:
    a.
    b.
    c.
    d. others:
21. Sustainable development is key to the sugar sector, are environmental aspects of importance to you as a major stakeholder?
22. Do you have programs to promote sustainable natural resource use, restoration visa visa sugar production?
23. Do you have a formula or format approach to division of proceeds from sugar produced at your factory?
24. What is the breakdown in terms pf proportions to the respective beneficiaries?
25. Internal organization is vital for sharing synergies that inform horizontal and vertical growth. Is your internal organization sufficient to realize this? Yes or No
26. If Yes or No, what needs to be done?

Informant Questionnaire for the Sugar sector Regulators, Policymakers, Private Sector Associations, Civil Society Organizations and Workers Organizations

1. How do you rate the sugar sector in terms of contribution to economic growth and sustainable development?
2. Is the sugar sector regarded priority to the national economy?
3. Do costs of production have a major effect on the sugar sector's development and competitiveness?
4. Do developments (positive or negative) in the sugar sector affect the national economy in terms of: private sector growth, community development, household incomes, and poverty reduction among others?
5. What are the major internal factors affecting the cost effectiveness of the sugar sector?
6. What could be done to make the sector competitive?
7. What are the major external factors affecting the cost effectiveness of the sugar sector?
8. What could be done to make the sector competitive?
9. Are you aware of sugar dumping on the local sugar market?
10. How does it affect the local sugar market?
11. What kind of initiatives should be taken to address sugar dumping and its effects on farmers, communities and national economy?
12. What should the following stakeholders do to address the effects of sugar dumping?
    a. Government
    b. Sugar companies
    c. Private Sector Associations
    d. Workers associations
    e. Development Partners
    f. Civil Society Organizations
13. How could sugar dumping affect sugarcane farmers and the wider dependant communities?
14. Have you ever been involved in any interventions on your own or with other sugar stakeholders aimed at addressing the effects of sugar dumping?
15. If Yes, what were the resultant effects?
16. Does the existing policy, legal and institutional framework sufficient to support growth and check emerging challenges in the sugar sector?
17. Do you have a formula or format approach to division of proceeds from sugar produced at your factory?
18. What is the breakdown in terms pf proportions to the respective beneficiaries?
19. Dependency on single output (sugar) and limited value addition have been noted to curtail growth of the local sugar industry. Have you explored other alternatives/options?

Informant Questionnaire for Traders

1. How do you rate the local sugar sector in terms national socio-economic growth and development?
2. Are you happy with the locally produced sugar in terms of:
    a. quality,
    b. availability,
    c. cost
3. Do you have any problems or concerns about the local sugar industry in general?
4. What are the problems/concerns?
5. How could the above be addressed?
6. Are you happy with imported sugar in terms of:
    a. quality,
    b. availability,
    c. cost
7. Do you have any problems or concerns about imported sugar?
8. What are the problems/concerns?
9. How could the above be addressed?
10. Are you aware of sugar dumping on the local market?
11. Are you aware of its extent and effects?
12. Do you buy locally produced sugar or imported sugar?
13. Do you question the source of your sugar stock to ascertain whether it is dumped sugar or not?
14. Do you think imported or dumped sugar affects the locally produced sugar's market?
15. How? or Why?
16. Are you aware that sugarcane farmers and millers are affected by sugar dumping?
17. How? or Why?
18. Do you think the sugar industry and economy are affected by sugar dumping?
19. How? or Why?
20. Internal organization is vital for sharing synergies that inform horizontal and vertical growth. Is your internal organization sufficient to realize this? Yes or No
21. If Yes or No, what needs to be done?

Informant Questionnaire for Consumers

1. How do you rate the local sugar sector in terms of contribution to the national socio-economic growth and development?
2. How do you rate the locally produced sugar in terms of:
   a. quality
   b. availability
   c. affordability/cost
3. Do you face any problems or concerns about the local sugar and sugar companies?
4. How can the above be addressed?
5. How do you rate the imported sugar in terms of:
   a. quality
   b. availability
   c. affordability/cost
6. Do you face any problems or concerns about imported sugar?
7. How can the above be addressed?
8. Do you buy the locally produced sugar or the imported sugar?
9. Have you heard about sugar dumping on the local market?
10. Have you ever questioned whether the sugar you buy is dumped or not?
11. Do you think imported or dumped sugar affects the locally produced sugar's market?
12. How? or Why?
13. Do you think the sugarcane farmers or millers are affected by sugar dumping?
14. How? or Why?
15. Do you think the national economy is affected by sugar dumping?
16. How? or Why?
17. Would you be in position to join other sugar stakeholders to address the effects of sugar dumping?

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