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Kenya

Trade Policy Monitoring

Kenya's Corn and Wheat Import Tariffs and Policies Increase Food Insecurity for the Kenyan Poor

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Report Highlights:
The East African Community (EAC) imposes common external ad-valorem import tariffs on food grains that result in increased prices on these basic-survival foodstuffs in this relatively poor, developing region of the world. In addition, some EAC Members, Kenya for example, apply non-scientifically justified, trade-restrictive measures that further limit the availability and increase the prices of imported food grains. Such policies, if not reversed immediately, could contribute to a significant food-corn shortage by early calendar year 2009 for Kenya's poor.

Includes PSD Changes: No
Includes Trade Matrix: No
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Corn for human consumption is the most important food grain for Kenya's poor. Many analysts believe that the 2008/2009 corn imports needed to cover the domestic corn production shortfall will be some 800,000 metric tons, or some 300-to-500 thousand tons more than normally imported needed to meet domestic consumption (we will soon submit an updated corn supply and demand analysis with more definitive projections). However, the Government of Kenya (GOK) does not currently permit the import of biotechnology-produced corn. Furthermore, the GOK applies a 50 percent ad-valorem tariff on the corn imports, and as a result, international trade houses can't afford to source the very expensive identity-preserved (IP) (non-biotechnology) corn, pay the 50 percent ad-valorem import tariff, and sell it into the Kenyan market place at a profit. The market reportedly will not bear the high price.

The GOK has stepped into the market through its State buying agency to attempt to source "acceptable" internationally-produced corn for the domestic Kenyan market. However, the task of sourcing 800,000 metric tons of IP corn (white corn is preferred) under the criteria established by the GOK will be economically daunting at best and more probably, logistically "impossible." Tanzania imposed an export ban on corn and Uganda appears to have experienced a poor harvest, which will force the GOK to look outside the normal regional trading pattern.

As an additional example of flawed, protectionist agricultural import policies, the GOK maintains a restrictive wheat import scheme that force Kenyan millers pay is higher price for comparable-grade milling wheat than millers pay in the United States, Europe and many of the other wealthiest nations around the world. While the Governments of Tanzania and Uganda took steps to reduce-or-eliminate the 35 percent ad-valorem wheat import tariff agreed under the EAC common external tariff, the GOK is just now moving to a partial reduction of that trade-restrictive tariff, but only for registered Kenyan millers. Until now and for many years, the GOK charged 35 percent ad-valorem and an additional 2.5 percent ad-valorem import declaration duty for all wheat imports.

For the vast majority of Kenyans, who are relatively poor and even food insecure, this 37.5 percent ad-valorem duty on imported wheat (on roughly 80 percent of the wheat consumed domestically) has jeopardized their ability to sustain day-to-day food security. As an example, during calendar year 2007, the GOK charged an ad-valorem tariff/duty on approximately 600-to-800,000 metric tons of imported wheat. The average 2007 CIF wheat price at the port of Mombasa was about $400 per metric ton. The additional expense resulting from applying the import duty and external tariff on 600,000 metric tons was approximately $90,000,000, which was passed directly on to Kenyan wheat millers, bakers and ultimately Kenya's most food-insecure consumers.

The GOK just initiated a new tariff reduction scheme that will allow Kenyan millers to import wheat for milling at a reduced import tariff. The new measure does not appear to be an attempt to bring down prices of wheat-based products for the poor of Kenya, but rather an attempt to placate Kenyan domestic wheat millers who have been forced to compete with legally and illegally imported wheat flour milled from wheat imported under reduced external tariffs in neighboring countries. The Kenya tariff-reduction scheme reportedly will not be available to international commodity trade houses, unless they have milling operations in Kenya, which further reduces its effectiveness.

These are examples of GOK policies that exacerbate domestic inflation (currently estimated at about 30 percent for 2008 in Kenya), increase personal economic insecurity and food insecurity for the vast majority of the Kenya's poor, and increase the need for food aid in this developing country.