

10 October 2022

LATEST NEWS

Kenya to accept GMO white maize. South Africa will be a competitive supplier if import duties are waived.

In a meeting held on Monday the 3rd to evaluate the progress on the national response to the ongoing drought and to address the food security situation in the country, President William Samoei Ruto announced that Kenya would, in future, allow the importation of GMO maize.

The Kenyan Cabinet decided to vacate their earlier decision of ten years ago, which prohibited the open cultivation of genetically modified crops and the importation of food crops and animal feeds produced through biotechnology innovations. This effectively lifted the ban on importing South African genetically modified white maize. This comes after the country endured a three-year-long drought that caused 4 million Kenyans to live in famine.

This decision by the Kenyan Cabinet can open a new market for South African white maize to be exported to Kenya. Kenya is facing significantly higher prices due to the shortage in demand. If South Africa can export white maize to Kenya duty-free, there could be opportunities to export until November 2022, when Kenya's local supply should be sufficient to meet the demand, at which point the price for maize in Kenya is also expected to decrease. The two concerns are whether the duty-free import window will be further extended (the last extension was up to 30 September 2022) and whether there is enough time to export to Kenya by November. Total import duties and taxes currently are 21.5% CIF. The import duty also consists of three components, and it is uncertain if all three components will be waived. Another concern, namely, the decision on the GMOs and the duty, should preferably be gazetted before trade deals can be secured. Alternatively, the buyer should proceed with the transaction and hopes that the duty has been waived by the time the vessel arrives at Mombasa for import clearance.

Below, find an indicative export calculation. Note the duty's importance to determine whether South African WM1 could be competitive. (Keep in mind, if WM2s are incorporated, it is currently trading at a significant discount on the South African market). Current values were used, assuming that shipment will take place this year.

BOARD OF DIRECTORS

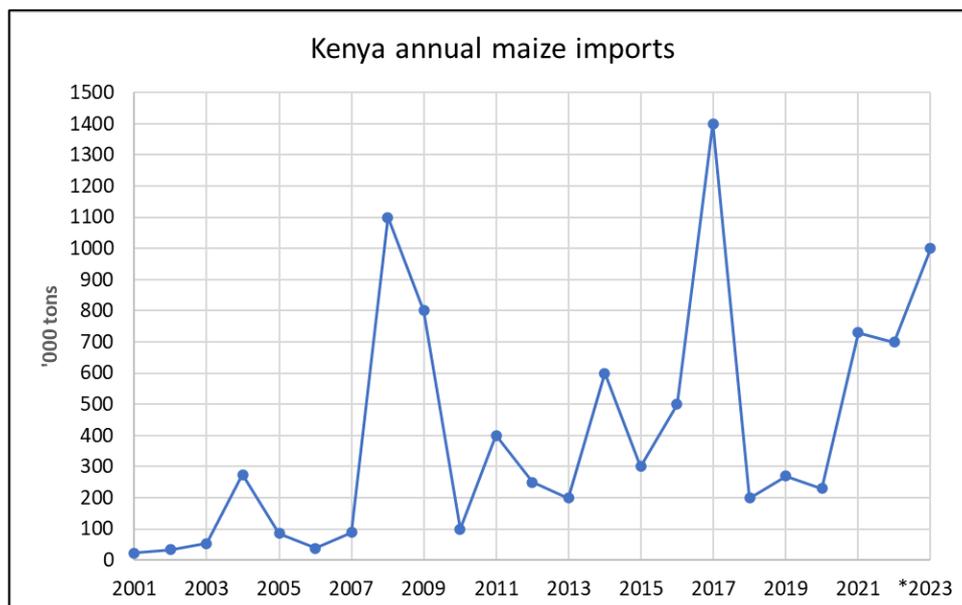
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Export calculation to Kenya 10-Oct-22	
(New bus. source mz Central/West FS)	
(Shipment Oct/Nov 2022)	
Safex WM Nov22	5 080
Deductions, premiums, transport & loading of vessel	850
FOB Durban R	5 930
R/\$	18.10
Fob Durban \$	328
Freight & Ins. (±25-35,000t)	44
Mombasa CIF	372
Duty 21.5%	80
	452
Offloading & transport to Nairobi \$ (indicative)	35
	487
Local Nairobi price \$	483
Over / (under) \$	4

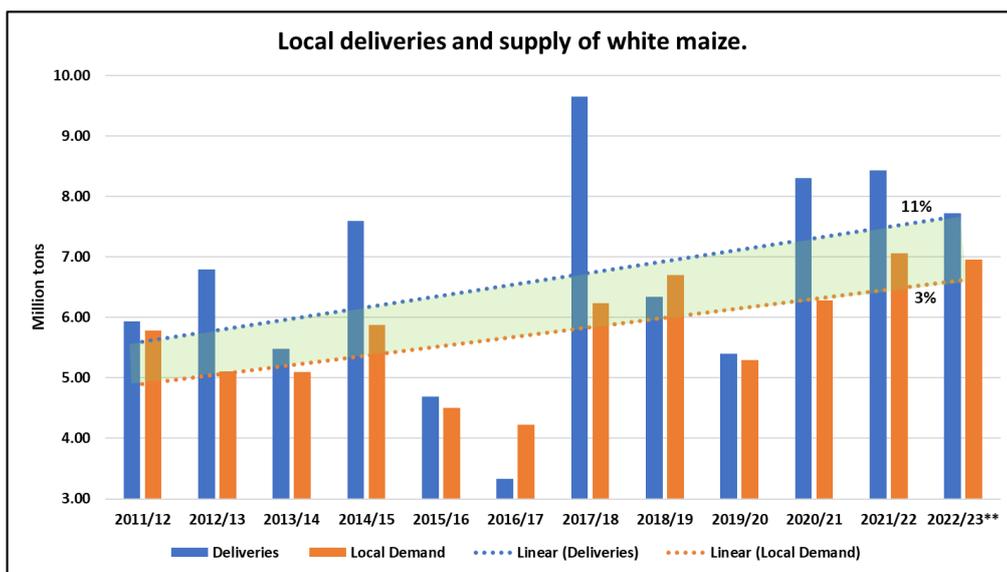
The calculation shows that the trader will be slightly over price by \$4. However, this excludes any reward for the risk associated with such a transaction. It is critical that the import duty is waived for South African white maize to be competitive.

Kenya's upcoming crop is expected to be sufficient for local demand from November 2022 until April 2023. It is estimated that Kenya will import between 700 000 and 1 000 000 tons of maize in the 2022/23 season, which amounts to 21% of the imports for the region's expected imports of 3.4 million tons. However, the timing of the imports is critical – can Kenya wait for the local crop to be harvested or do they need to supplement available stocks with additional imports between now and when harvesting commences in November 2022? If they need to import before harvesting, what volume do they require? What portion of this will they be able to secure from their immediate neighbours, and what portion will need to be imported from abroad? Options on the international market are limited. South Africa is one of the few options, others would have included Mexico and the USA, but this year, South Africa is already exporting to Mexico. South Africa is also exporting elsewhere to countries such as Italy and Portugal.



Traditionally Tanzania has been one of the major suppliers of maize to Kenya, but with the fall in the maize production of Tanzania, the preliminary estimates by the United States Department of Agriculture are that Tanzania maize exports will decrease significantly from 800 000 tons to 100 000 tons in the 2022/23 season. Other traditional suppliers include Zambia and Uganda, which will also be competing for the business, but these countries are also facing some challenges exporting to Kenya. Zambia has an insufficient supply of trucks for the transportation of maize to Kenya, while Uganda is looking at increasing trade to South Sudan at the expense of Kenya due to better prices.

The Kenyan market could be a long-term opportunity for South Africa as the statistics show that South Africa’s white maize production is increasing faster relative to the growth in local demand (South Africa has seen an average increase of 11% in deliveries of white maize annually for the past ten years with local demand only increasing by 3% annually). This is a good indication that South Africa would remain a net exporter of white maize for the foreseeable future.



However, for the next two months, the challenge is that South Africa has already booked several yellow and white maize vessels through Durban harbour, and there are hardly any export slots left. It will probably require swapping around existing commitments or adding another vessel somewhere. East London harbour could be another option for exporting white maize, but it comes with its own challenges and limitations.

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