4. INJURY ANALYSIS: THE INJURY INDICATORS

4.1 Dairy sector

Dry milk powders are "substitutable products" in relation to raw milk since they can be used in the processing of many products that are normally processed from raw milk. As such, increased levels of imported dry milk powders ultimately affect farm-gate or producer prices of raw milk. This is because the increased imports of dry milk powders by the local processing firms that would have constituted the market for the raw milk that is produced locally certainly denies the local raw milk producers a market for their output. Therefore, any surges in the imports of dry milk powders may be expected to affect the domestic dairy industry in two ways: (i) impact on the farm-gate or producer prices of raw milk, and (ii) impact on availability of market outlets for locally produced raw milk.

The period 1985-2001 in Kenya was characterized by a sharp declining trend in the local processing of dairy products and a concomitant increasing trend in the imports of dairy products. Figure 11 demonstrates how the producer prices for the locally produced raw milk in Kenya were behaving during that period.

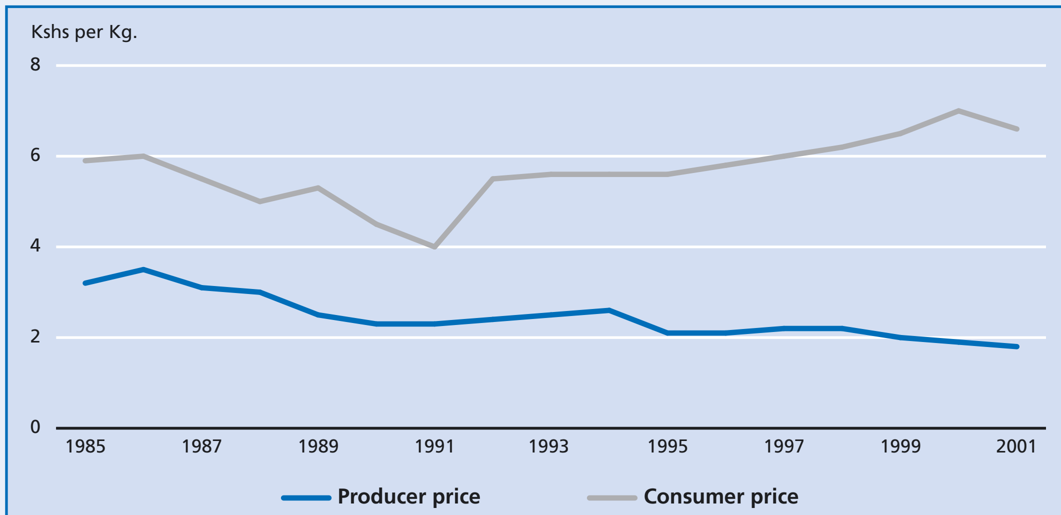
Figure D11 shows that the milk producer prices actually remained relatively depressed during the same period, even though the consumer prices for the processed dairy products were actually rising during that period. Consequently, the producer's share in the retail price of the packaged/pasteurized "fresh liquid milk" actually declined over the 1985-2001 period, as shown in Figure D12.

Hence the surges in the imports of dry milk powders in Kenya that have occurred since 1986 appear to have been injurious to the local dairy industry, primarily by acting as a disincentive for local dairy development through their depressing effect on the producer prices for the locally produced raw milk. The depressed prices have impacted negatively on the incomes of the small-scale farmers who account for about 75 percent of dairy production in Kenya.

4.2 Sugar sector

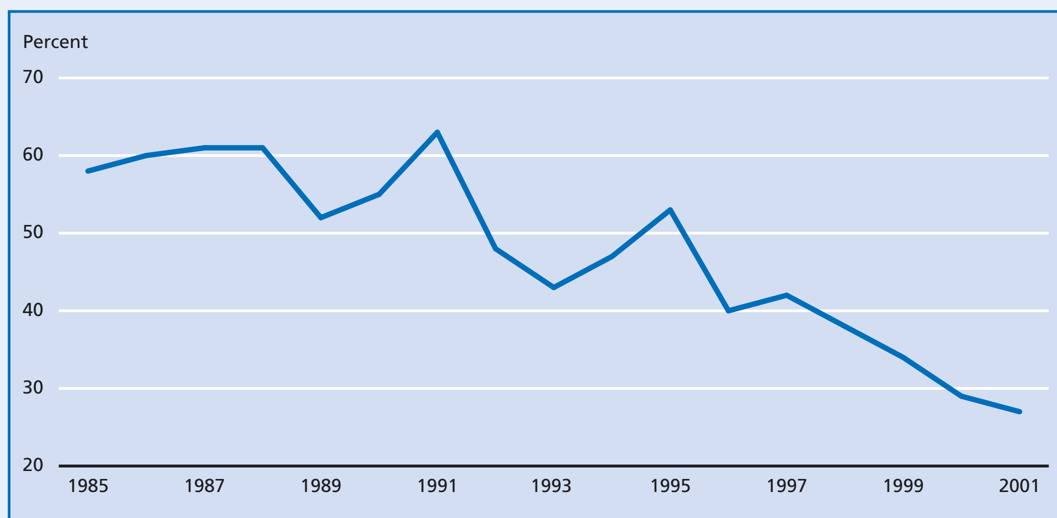
The types of sugar imported into Kenya are basically a "like product" as far as the locally produced product

FIGURE D11
Real milk producer and consumer prices, Kenya, 1985-2001 (1986=100)



Source: Central Bureau of Statistics, Kenya, Records

FIGURE D12
Trends in the producer's share in the retail price of packaged/pasteurized liquid milk, 1985-2001



Source: Karanja, A. M. (2003).

is concerned. In Kenya, sugar import surges in the past have been manifested through the existence of high levels of the inventory of sugar stocks in the domestic sugar factories. This study shows that the surges in sugar imports in Kenya do not arise directly from price competition, but from difficulties related to the administration of the duty-free quota allocations. The other likely contributor to sugar import surges in Kenya is the influx of illegal and unrecorded sugar imports due to cross-border trade in sugar. This factor reflects a trade surveillance problem, but it is a problem that is difficult to solve.

The difficulties in the administration of the import (i.e. duty-free) quota allocations cause delays in the importation of sugar when needed, and the subsequent late arrivals of the imported sugar when it may not really be needed in the country. The late arrivals of imported sugar often create serious domestic sugar marketing problems. The domestic sugar marketing problems arise because the traders who end up trading in the imported sugar are the same people who would be expected to get their sugar trading stocks from the warehouses of the local sugar millers. The result is that the local sugar millers end up with huge stockpiles of local sugar with limited outlets. Consequently, it takes time before they are able to sell off their sugar stocks and thus be in a position to pay for the sugarcane deliveries made by the farmers. Such sugar stockpiles and domestic sugar marketing problems in the recent past were experienced in 2002.

The delayed payments to sugarcane producers hurt the domestic economy in various ways, but primarily through a chain of causation in which the local cane farmers are unable to meet their financial obligations on time. The result is that their debt burden increases. For example, they find themselves unable to pay their children's school fees on time, or clear the credit for their farm inputs in time. Therefore, the difficulties related to the administration of the sugar industry safeguard quota allocations end up causing serious injuries to the domestic economy.

The sugar sector in Kenya is known to have suffered a serious injury as a result of the failure by the sugar millers to make payments to the farmers for their cane deliveries as a result of the surges in sugar imports in 2002. Equally, the sugar millers were unable to make payments to the suppliers for the services rendered, and the entire sugar sector accumulated heavy debts. The high levels of the industry indebtedness following the surges in sugar imports in 2002 are undoubtedly a tangible indicator of injury.

4.3 Maize Sector

The correlation of domestic producer prices of maize and quantities of imported maize in Kenya gives a mixed picture: since 1989, producer prices have exhibited an upward trend, but maize imports exhibit a lot of variation during the same period - see Figure M6.

As expected, Figure M6 shows that the periods of high producer prices actually coincide with the periods when there are internal commodity shortages, and that is when commodity imports are required. The figure also indicates that high levels of imports in a given year have normally been followed by lower producer prices in the following year. Even though not conclusive, this outcome suggests that the high levels of imports tend to depress domestic producer prices, which is an indicator of injury to the domestic economy because depressed prices tend to discourage local production.

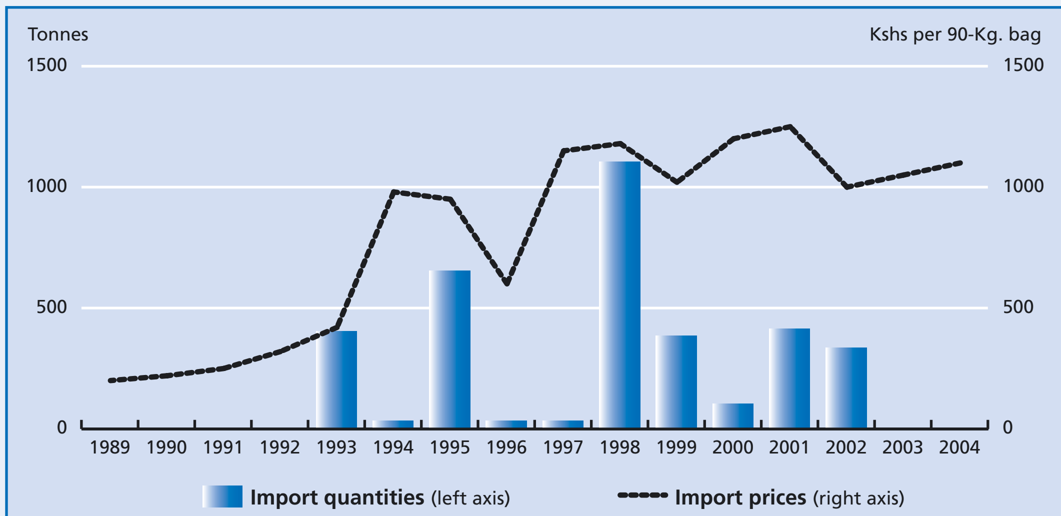
Just like in the case of the surges in sugar imports, the surges in commercial maize imports in Kenya are primarily attributable to the problems in the timing of the arrival of the imported maize into the country. The difficulties related to the approval and sanctioning of the maize imports on concessionary terms (i.e. duty free) by the government on food security grounds lead to delays in the placing and processing of the orders for maize imports. This delay results in late arrivals of the imported maize, and the imported maize may actually get into the country when it is not really needed, especially if some improvements in local supply have occurred.

The late arrivals of imported maize create some marketing problems, especially if the imports had been undertaken by the traders and the millers who would ordinarily be expected to get their maize stocks from the local producers and/or the warehouses of the NCPB. The resulting stockpiles of imported maize lead to limited maize marketing outlets for the local maize producers at the harvesting time. Even if the local farmers were able to deliver their maize to the NCPB as the buyer of last resort, the NCPB would not be able to sell its maize to the millers. A direct outcome of these marketing problems is the fall in producer prices of maize in the country, as was witnessed following the significant surges in maize imports in Kenya in 2001.

The inability of the NCPB to dispose of its maize stocks locally due to maize import surges also implies

FIGURE M6

Comparison of variations in maize producer prices and the level of maize imports in Kenya, 1989-2004



Source: Charts based on NCPB Records.

that the NCPB would not be able to pay for the maize delivered to its depots on time, even under conditions of declining producer prices. The delayed payments to the maize producers certainly cause injury to the domestic economy because the local farmers find themselves unable to meet their financial obligations on time. Hence the injury to the domestic economy that can be attributed to the delayed payments to the maize farmers is generally a result of reduced producers' purchasing power.

The reduced producers' purchasing power due to delayed payments triggers a number of problems with serious ramifications on the domestic economy, including the inability of the farmers to purchase enough quantities of improved farm inputs which results in the use of inputs at sub-optimal levels. The use of farm inputs at sub-optimal levels, among other effects, usually leads to poor farm yields, which further weaken the farmers' capacity to improve their earnings. Hence the maize import surges can have significant negative impacts in terms of destroying the rural economy in the maize growing areas of Kenya.

5. FOOD IMPORT SURGES: ATTRIBUTION AND NON-ATTRIBUTION FACTORS

5.1 The major factors that influence food imports in Kenya

Undoubtedly, many factors interact to influence the level of food imports in a given country. It is thus important that a discussion of food import surges gives an overview of the major factors that could influence the levels of the food imports in any country, and that an attempt is made to try and attribute these factors to the surges in the imports of the commodities covered in specific case studies.

The following are postulated to be the critical factors that influence the level of food imports in Kenya:

(i) the general economic environment and the consumers' purchasing power;
(ii) the general policy framework;
(iii) trade policy, particularly with regard to food imports in general and particular food commodities;
(iv) customs and other statutory requirements;
(v) other related economic and non-economic factors.

The above factors are reviewed briefly hereafter.

5.1.1 General economic environment and the consumer purchasing power

Economic theory suggests that per capita incomes and the general price levels are the key determinants of demand for consumer goods, but the level of demand may be expected to be modified by consumer tastes/preferences. Despite the high incidence of both rural and urban poverty in Kenya, estimated at over 56 percent by year 2000 (NWMS, 2001), demand for maize, sugar and liquid milk in Kenya still remains high, especially in urban areas. Any national shortages of any of these three commodities are fulfilled through imports, and this factor helps to explain why Kenya has normally experienced increasing levels of the imports of maize, sugar and dry milk powders whenever prolonged droughts that occasion shortfalls in the local production of these commodities have occurred.

The foreign exchange rate policy pursued by any country is expected to influence the country's domestic and international trade (Commodity Exports and Imports) policy. Rising exchange rates that reflect local currency depreciation tend to make exports cheaper while the imports become relatively more expensive, and vice versa. Available data on the monthly movements in the nominal exchange rate in Kenya between 1998 and 2004 show that there were significant monthly exchange rate fluctuations between January 1998 and December 2004. The exchange rate actually rose from a low of KShs 59.06 per USD in July 1998 to a high of KShs 81.27 per USD in October 2004 *(IMF International Financial Statistics)*.

The Central Bank of Kenya (CBK) attributes much of the inflationary pressure that Kenya has experienced in recent times to the shocks in oil prices (Governor, CBK, June, 2005). The rising exchange rate in Kenya since the 1980s must have decelerated the rate at which Kenya's commodity imports could