

VALLIS COMMODITIES LIMITED

OVERVIEW OF THE RWANDAN SUGAR INDUSTRY

1. INTRODUCTION

- 1.1 Sugar is an important commodity for the economy of Rwanda and demand for it is rising to the level where shortages are being reported. This small country has a relatively large population that consumes approximately 6.4 kg of sugar per person annually.
- 1.2 The current level of consumption is roughly half the average for the continent of Africa, but as prosperity increases, and population with it, so does the demand for sugar. It is clear that the Rwandan sugar industry will not be able to meet these increased demands despite increases in domestic production.
- 1.3 The purpose of this report is to provide an overview of the sugar industry in Rwanda.

2. SUGAR CONSUMPTION

- 2.1 Rwanda's population is 11.2 million but is predicted to reach 21.8 million by 2050. It is already the most densely populated country in sub-Saharan Africa.
- 2.2 Current national consumption of sugar is 70,000 tonnes annually. The predicted consumption of sugar by 2020 will be 160,000 tonnes.
- 2.3 With a projected 2.6% increase annually, such population increases mean demand for sugar is going to need to be met by more imports or by enhancing domestic production.

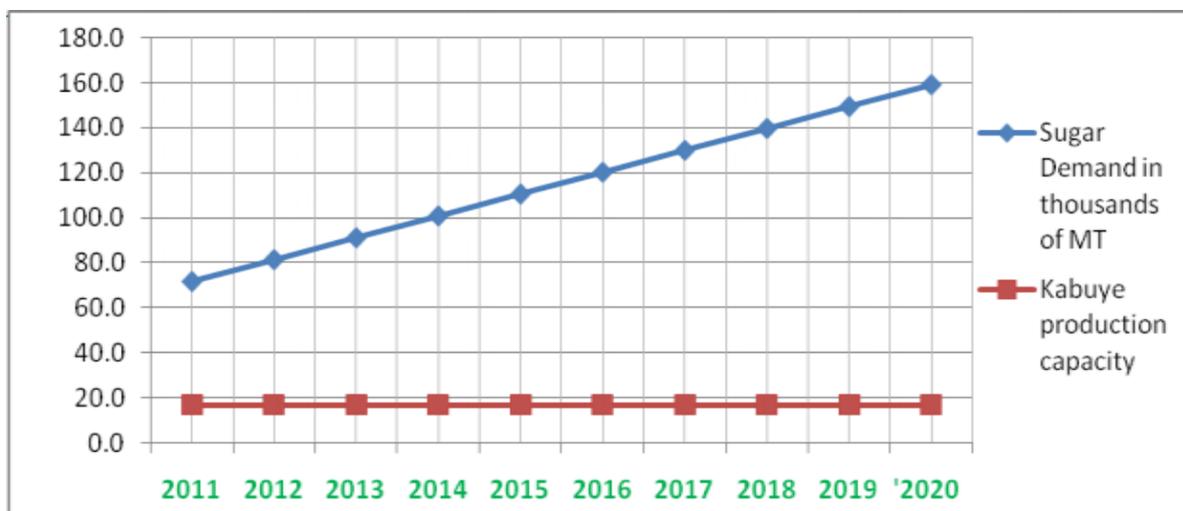


Figure 1 - Sugar demand and local production - Rwanda Development Board

- 2.4 The average annual GDP growth in Rwanda between 2001 and 2014 was 7.5%. Growth in 2015 was 6.9% and is predicted to be 7.6% in 2016. This impressive economic growth has created a growing middle class which is simultaneously bringing an increased demand for sugar.

3. DOMESTIC PRODUCTION

- 3.1 Current sugar production in Rwanda is 11,000 tonnes per annum, which represents only 16% of the figure for demand.



Figure 2 – Sugar cane harvesting

- 3.2 There are currently 1,500 hectares of sugarcane plantations in Rwanda. Capacity needs to be expanded to 8,000 hectares to be able to produce 50,000 tonnes of sugar annually. Even with this level of production, Rwanda will still depend on imports.
- 3.3 Currently there is one sugar mill, The Kabuye Sugar Works (KSW), operated by the Madhvani Group. But the Rwandan government is taking action to increase domestic production of sugar and a second sugar mill managed by Mauritius ACS Limited started production at the end of 2015 under the direction of the government. The country's trade deficit of \$919 million is an obvious driver for this.



Figure 3 – The KSW sugar plant in Rwanda

- 3.4 Mauritius ACS Limited has the potential to produce 100,000 tonnes of sugar annually from an area under cultivation of 10,000 hectares. This will make Rwanda less dependent on sugar imports. This second sugar plant has the potential to provide enough sugar for the rising demand in the short term. However in the longer term, it is likely sugar imports will still be necessary.

4. LOGISTICS AND SUPPLY CHAINS INTO RWANDA

- 4.1 Current imports of sugar are met by neighbouring Uganda as well as sugar originating in India and Brazil. Uganda has the capacity to export 300,000 tonnes of refined sugar. This is more than enough to meet sugar demands in Rwanda but the cost is \$900 per tonne, compared to \$515 for Brazilian sugar and \$470 for Indian sugar.
- 4.2 The relatively high price of Ugandan sugar can be attributed to the use of manual labour and the small scale of plantations compared to the use of advanced mechanized production techniques on a huge scale in Brazil and India.
- 4.3 Links with the ports of Mombasa and Dar es Salaam are critical for Rwanda and its imports. Currently, most of Rwanda's imports come through Mombasa, along the Northern Corridor. The planned upgrades to this route will bring transport costs down further.
- 4.4 Dar es Salaam is now also becoming an important location for bringing imports into Rwanda but Mombasa is a more efficient port. However, Dar es Salaam levies less on transit charges, is 300km closer to Kigali and a planned Tanzania-Rwanda railway will enhance links between the countries further. This route is known as the Central Corridor.

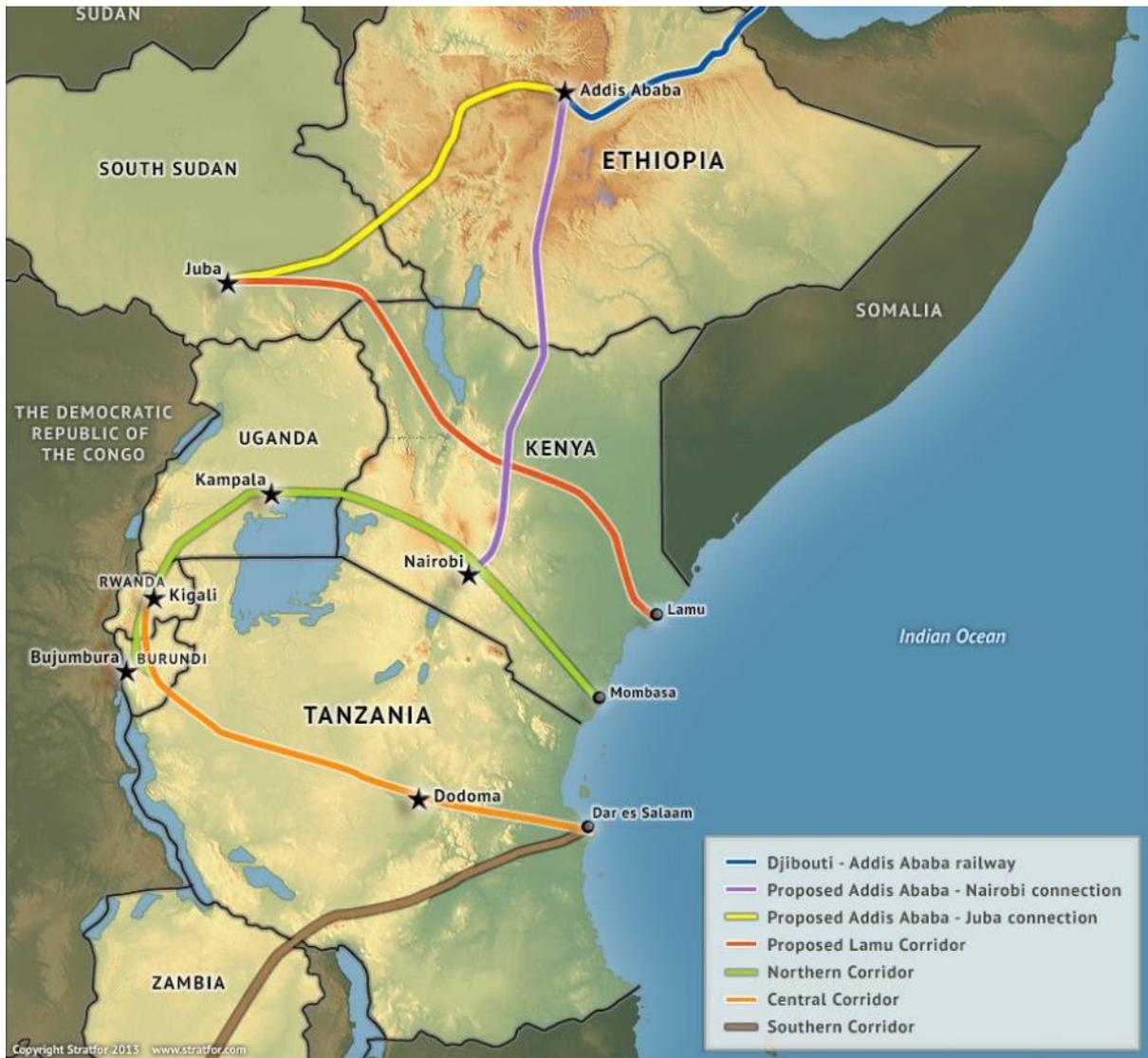


Figure 4: Existing and Proposed Transport Arteries of East Africa (Source: 2016 Stratfor)

- 4.5 The competition between the 2 ports for Rwanda's business could drive prices down further and indirectly encourage both countries to invest further in improving infrastructure into Rwanda.
- 4.6 The East African Community (EAC) has set tariffs on goods coming from outside the EAC region. This could make it difficult for Rwanda to import sugar from the global market if it were not for an exemption from this duty granted on an annual basis. In the 2015-6 budget, the Rwandan Finance Minister announced that the exemption would continue on the first 70,000 tonnes of sugar imported to the country from outside the EAC.

5. CONCLUSIONS

- 5.1 Rwanda is currently heavily reliant on sugar imports and this looks set to continue for the foreseeable future. The demand for sugar is rising not only as the population increases, but also as prosperity grows.
- 5.2 Measures are being taken by the Rwandan government towards self-sufficiency in sugar production: its commitment to achieving this goal is reinforced by the establishment of a second sugar production plant.
- 5.3 However in 2017, the EU is due to remove the current cap on sugar production in Europe. This decision looks set to depress the price of sugar on the global market. Therefore, sugar prices will

remain low for the foreseeable future leading to the import of sugar rather than domestic production being the more cost-effective option for the supply of sugar in Rwanda.

- 5.4 This presents excellent opportunities for importers of sugar to Rwanda. Nevertheless, this must be balanced against the government's commitment to domestic sugar production and to protect its market from imports. Therefore companies need to be cautious about importing into Rwanda in the mid to longer term.

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