

TEA & COFFEE INDUSTRY  
IN KENYA 2005



KENYA

EXPORT PROCESSING ZONES AUTHORITY



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## Abbreviations

TCD	Tonnes of cane per day
CBK	Coffee Board of Kenya
CTC	Crush, Tear & Curl
EATTA	East African Tea Trade Association
ICO	International Coffee Organisation
Kg	Kilogram
KPCU	Kenya Planters Co-operative Union
KShs	Kenya Shillings
KTDA	Kenya Tea Development Agency Ltd
KTGA	Kenya Tea Growers Association
MT	Metric Tonnes
NTDC	Nyayo Tea Development Corporation
TBK	Tea Board of Kenya
TRFK	Tea Research Foundation of Kenya
U.K.	United Kingdom
U.S	United States
WTO	World Trade Organisation

## Annual Average Exchange Rates (KShs to US\$)

Year	Rate
1998	60.4
1999	70.3
2000	76.2
2001	78.6
2002	78.4
2003	75.9
2004	80.0 (As at 31 <sup>st</sup> August 2004)

For latest rates click on <http://www.centralbank.go.ke/cbk/FXrates/archives.html>



## 1 Industry overview

Agriculture is a dominant sector in the Kenyan economy accounting for 24% of the country's Gross Domestic Product as at 2003. The sector is the largest contributor of foreign exchange through export earnings from tea, coffee and horticulture. Agriculture also provides employment and livelihood to a large proportion of the population. Currently an estimated 75% of the population depends on the sector either directly or indirectly.

Kenya's principal cash crops are tea, coffee (mainly arabica grown by smallholders), sugar, cotton, pyrethrum, sisal, tobacco, pineapples and wattle. Tea, coffee and horticultural produce provided 55% of merchandise exports revenue in 2003. The combined revenue from coffee and tea of KShs 39,291 million contributed 29% to the total revenue generated from exports in 2003. During year 2003, beverage crops (coffee, tea and sugar) realized a total revenue of KShs 58.36 billion compared to KShs 60.21 billion the previous year.

### 1.1. Tea sub-sector in Kenya

Tea was introduced into Kenya from India by a European settler G.W.L. Caine in 1903. The country has for the last 80 years cultivated tea commercially. Over the years Kenya has grown into a formidable world tea producer, with an annual production of about 300 million Kgs and is rated as the fourth largest tea producer and the second biggest exporter in the world. This formidable growth has seen the tea industry grow into the most important agricultural sub-sector and the leading foreign exchange earner in Kenya.

Tea has put Kenya squarely on the world map with over fifty countries importing Kenyan tea. The country contributes 10% of the total global tea production and commands a remarkable 21% of the global tea exports outside producing countries. With over 3 million Kenyans, approximately 10% of the population, being directly and indirectly employed by the tea industry which is the largest sub-sector in the agricultural sector, tea plays an important role as the economy's main anchor.

Historically, the tea industry is one of the greatest successes in Kenyan agriculture. Tea planting and production have expanded rapidly since independence in 1963, from 18,000 tonnes and 24,448 hectares in 1963 to 294,000 tonnes and 131,000 hectares in 2003.

Kenyan tea is unique in many ways, one being that planting materials released to growers are carefully selected by Kenyan scientists to ensure only high quality, high yielding and pest and disease resistant elite clones are planted. The result is that Kenya tea is natural and pure as no pesticides or other chemicals are used. Kenyan tea has also consistently been certified as meeting the highest standards set by various world bodies.

Kenya prides itself as the producer of the best quality black tea in the world. This is because only the choicest of the upper two leaves and a bud are hand-plucked, followed by skillful manufacture under stringent conditions at source, to ensure maximum quality and cuppage.

In order to meet growing global consumer demand for black CTC (crush, tear and curl) teas, Kenya has specialised in black tea processing and has developed a wealth of expertise to satisfy these needs. Consumers recognize that tea made by the CTC method has more infusion giving surfaces and brews stronger, thicker, brighter and brisk teas, which ensures maximum cuppage per unit weight. Apart from being the world's largest exporter of black tea, Kenya also manufactures limited amounts of green and orthodox tea.



Tea growing regions in Kenya are found in the Great Rift Valley - a spectacular natural geographical wonder that divides the country almost asymmetrically. In the East of the Rift are the cool Aberdare highlands, the home to the snow capped Mt. Kenya and the panoramic Nyabene hills. In the West of the Rift defined by the Mau escarpment are the Nandi Hills, highlands around Kericho, Mt. Elgon and the Kisii highlands. It is on the slopes of these highlands within the altitudes of between 1500, to 2700, above sea level that tea is grown.

These regions are endowed with an ideal climate for tea growing. The tropical, volcanic soils rich in nutrients give the tea a unique flavour and character. The rainfall ranges between 1200mm and 2700 mm annually.

Currently, about 62% of the total crop in the country is produced by the smallholder growers who process and market their crop through their own management agency, Kenya Tea Development Agency (KTDA) Ltd., which is the largest single producer of tea in the world. The balance of 38% is produced by the large scale estates, which are managed by major multinational firms associated with tea in the world. The leading districts in production include Kericho, Bomet, Kiambu and Nyeri.

Traditionally Kenyan tea has been sold to the market in bulk form and is much sought after by leading tea companies to blend and add taste to the most respected tea brands in the world. However, encouraged by Tea Board of Kenya, there is emerging a vibrant value-added sub-sector, led by the Tea Packers Association, which aims to provide consumers worldwide with pure Kenyan branded teas, blended at source.

The main buyers of Kenyan tea are Pakistan who import about 23% of the total exports followed by the United Kingdom, Egypt and Yemen. However Kenya Tea Board in conjunction with other players in the industry are exploring new markets in West Africa, North Africa apart from Egypt, Middle East and Eastern Europe.

The Ministry of Agriculture has the overall responsibility for the tea industry development. The Tea Board of Kenya established in 1950 under the Tea Act (Cap 343) of the laws of Kenya is a government body mandated to regulate the tea industry in all aspects of tea growing, research, manufacture, trade and promotion in both the local and the international markets. The Board also disseminates information relating to tea and advises the Government on all policy matters regarding the tea industry through the Ministry of Agriculture.

The tea sub-sector currently offers a number of investment opportunities for those wishing to invest in the industry. Some of these include investment in tea plantations and processing and packaging of tea for export under the Manufacturing Under Bond (MUB) or the Export Processing Zones programs.

The attractiveness of Kenya as an investment location for the tea sub-sector is further strengthened by the presence of big multinationals operating in the sector in Kenya. Some of these include Unilever Tea (K) Ltd (Previously Brooke Bond), James Finlay (K) Ltd, Williamson's Tea (K) Ltd e.t.c.

### **1.2. Coffee sub-sector in Kenya**

Coffee is one of the world's largest traded commodities produced in more than 60 countries, providing a livelihood for some 25,000,000 coffee farming families around the world. Many of these countries are heavily dependent on coffee, which can account for over 75% of their total exports earnings. Among consumers coffee is a universally popular drink, with over US\$70 billion in retail sales a year. International Coffee Organisation (ICO) exporting members account for over 97% of world coffee production and its importing Members are responsible for 56% of world coffee consumption.

Coffee is produced in various regions of the World including East Africa, North America and the Caribbean, Central America, South America, West Africa and the



Middle East. Brazil is the world's largest producer of coffee, producing both *arabica* and *robusta* types of coffee.

The coffee sub-sector in Kenya is one of the major employers and contributed about 5% of export revenues in 2003. Kenya mainly grows Arabica type of coffee which accounts for almost 100% of its national production. Robusta is also grown but accounts for less than 1% of the country's production.

The national area under coffee is estimated at 170,000 hectares. Coffee is grown between altitude 1,400 and 2100 meters above sea level. The main production regions include Northern part of Nairobi, High plateau surrounding Mount Kenya, in the Aberdare zone, West areas of Kisii, Nyanza, Bungoma, Kakamega, Rift Valley areas of Nakuru, Trans Nzoia and Taita Hills near Mt. Kilimanjaro.

In recent years, contribution of coffee to the economy in terms of foreign exchange earnings and employment has been steadily declining. The decline can be explained by low coffee production as a result of the uncertainty of outcomes of recent policy changes, low world market prices and lack of credit. In production year 2002/03, coffee production was estimated at about 55.4 thousand tonnes down from 100.7 thousand tonnes recorded in 1999/2000. This could be attributed to a number of small scale farmers reacting to reforms in the domestic coffee industry initiated by the government and industry stakeholders.

Coffee farming is mainly done by small-scale farmers organized into co-operative societies who account for 60% while 40% is done by large scale farmers at plantation level.

Some of the main import markets for Kenyan coffee include the European Union countries and specifically Germany, Sweden and Belgium. Other main markets include United States of America and Saudi Arabia.

The coffee sub-sector is regulated by the Coffee Board of Kenya which also issues licenses for different categories of stakeholders in the industry including dealers, millers, roasters, packers, warehouse license e.t.c.

Competitive advantages exist for current and potential investors in the coffee sub-sector to include availability of both local and export markets, an ideal climate, availability of abundant and affordable labour, attractive investment incentives under Export Processing Zones and Manufacturing under Bond programs, and investment guarantees, among others.

Kenya is one of the most politically stable African countries and provides investors with a conducive business environment. As a member of most of the regional trading bodies and located strategically on the East African coast, Kenya offers a good opportunity for current and potential investors to access regional and international export markets.

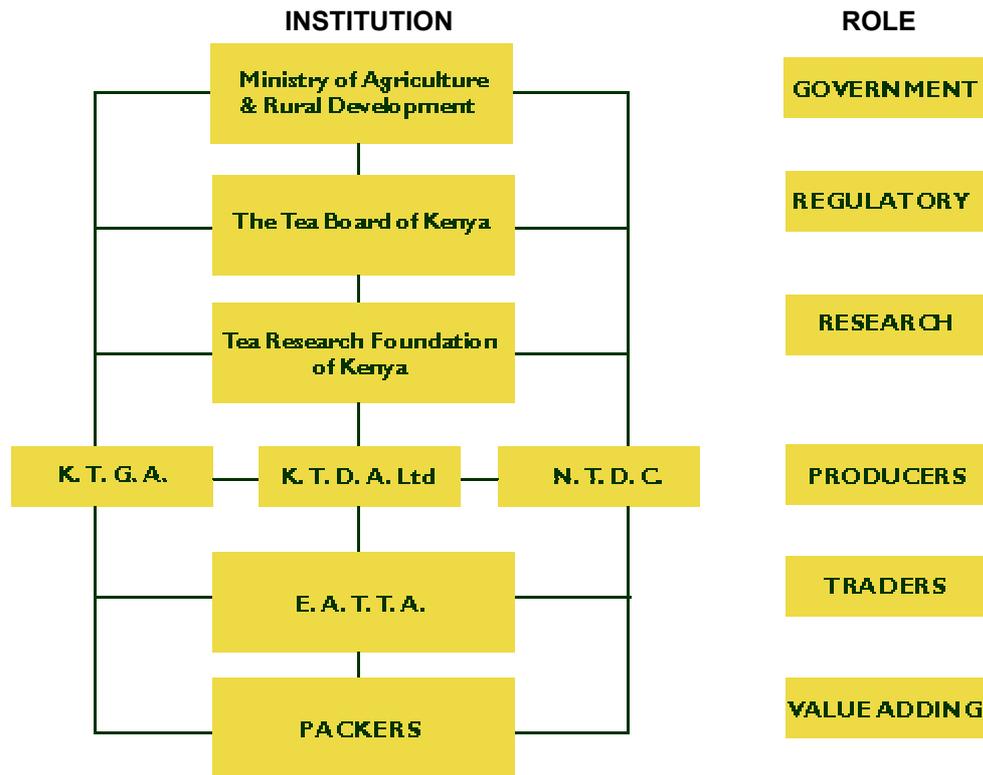
## **2 Industry structure**

### **2.1 Tea sub-sector**

The tea sub-sector is well organised with different sector players having various roles complementing each other. The sector is organised into regulatory, research, producers, traders and value adding operations as detailed in diagram 1 below:



**Diagram 1: Organisational structure of the tea industry in Kenya**



Source: Tea Board of Kenya, 2004

The industry falls under the Ministry of Agriculture which, with the assistance of agencies under it, formulates policies to regulate the sector. The Tea Board of Kenya is the sector regulatory body set up by the government. Other organisations playing important roles in the sector include Tea Research Foundation of Kenya (TRFK), Kenya Tea Development Agency (KTDA) Ltd, Kenya Tea Growers Association (KTGA), East African Tea Trade Association (EATTA).

Small-scale tea growers, estimated at 400, 000, process and market their tea through 53 tea factories under the Kenya Tea Development Agency (KTDA), while large scale tea growers (tea estates) process and market their tea through 39 tea factories operated on individual private basis. KTDA renders managerial, production, transportation and marketing services which include management of tea factories, green leaf transportation, procurement of production inputs, marketing of processed tea and payment of tea proceeds to the growers.

Currently there are about 18 companies/ managing agents in the tea industry with over 90 factories. The companies are involved in production, trading and value addition. The list of companies and the number of factories they run are detailed in table 1 below.

**Table 1: Tea producers /management agents in Kenya, July 2004**

	Company	Factories
1	Eastern Producers Kenya	7
2	James Finlay Kenya Ltd	5
3	Kaisugu Ltd	1



	Company	Factories
4	Karirana Tea Estates	1
5	Kipkebe Ltd (Sasini Tea & Coffee Ltd)	1
6	Koisagat Tea Estate Ltd	1
7	Kenya Tea Development Agency Ltd	53
8	Kiptagich Tea Estates Ltd	1
9	Keritor Ltd	1
10	Maramba Tea Factory Ltd	1
11	Nandi Tea Estates Ltd	1
12	Ngorongo Tea Factory Ltd	1
13	Ceres Estates	1
14	Sotik Highlands Tea Estates	1
15	The Sotik Tea Company	1
16	Tinderet Tea Estates Ltd	1
17	Unilever Tea Kenya Ltd	11
18	Williamsons Tea Kenya Ltd	3

Source: Kenya Tea Board, 2004. EATTA membership list, 2004.

The industry also has other stakeholders in the industry mainly involved in the trade and packaging of tea. All these are members of the East African Tea Trade Association. These include brokers, buyers and packers. The number of players per each category is summarized in table 2 below.

**Table 2: Number of players per category in the tea industry, 2004**

Category	Number
Producers	21
Brokers	12
Buyers	61
Warehouse members	19



Category	Number
Associate buyers	44
Packers	62

Source: Kenya Tea Board, 2004. EATTA membership list, 2004.

Some of the leading packers include Kenya Tea Packers (KETEPA), Unilever Tea and Kikuyu Highlands Tea Company.

Producers are represented by brokers at the Weekly Tea Auction held in Mombasa every Tuesday. The factory/farmers who own the registration mark send a sample of their produce to brokers in Mombasa who then send the samples to buyers for evaluation before the auction day. They then meet with the buyers at the weekly auction for trading

### 2.1 Coffee sub-sector

Coffee Board of Kenya is mandated to regulate the coffee industry in all aspects of coffee growing, research, manufacture, trade and promotion in both the local and the international markets. The Board also disseminates information relating to coffee and advises the Government on all policy matters regarding the industry through the Ministry of Agriculture.

The board also:

- Issues different category licenses for trading, milling, roasting, warehousing and packing.
- Is involved in organizing the weekly coffee auction held at Wakulima house Nairobi every Tuesday.
- Collects and fills in the ICO certificate of origin forms which it then forwards to the International Coffee Organisation.

The coffee producers are mainly small-scale farmers with farms of less than 5 acres while the estates have farms of over 5 acres. The small-scale farmers form co-operative societies who market and distribute their produce. The co-operatives and the estates send their produce to commercial millers for milling and grading. The commercial millers then send the graded coffee to marketing agents who prepare, classify the coffee, prepare catalogues and put a reserve price.

The sample of the coffee is then sent ten days before the weekly auction to the buyers/dealers for evaluation before the actual auction day. The licensed coffee dealers buy coffee at the auction for export and for local roasting for the domestic market.

Number of licensed companies per category are detailed in table 3 below.

**Table 3: Number of players per category in the coffee industry, 2004**

Category of license	Number
Trade license holders	57
Roaster license holders	19
Packers license holders	19



Category of license	Number
Warehouse license holders	23
Coffee auctions license	5
Management license certificate	6
Commercial coffee milling license	3
Private coffee milling license	2

Source: Coffee Board of Kenya, February 2005

The major players in the coffee industry in Kenya are Kenya Planters Co-operative Union (KPCU), which is involved in almost all the processes of coffee production and marketing. KPCU currently holds a packer's license, a warehouse license, a coffee auction license, management agent certificate and a miller's license. The Coffee Board of Kenya (CBK) is the other major player in the industry and is involved in licensing and regulating the sector. CBK is an arm of the government and falls under the Ministry of Agriculture.

Tables 4a to 4f below detail the current holders of coffee licenses in Kenya.

**Table 4a: Roaster & packers license holders, 2004-2005**

	Name of Company		Name of Company
1	KPCU Coffee Exporters	10	Excellent Roaster & Grinders Ltd
2	Malaika Coffee & Tea	11	Juja Coffee Exporters Ltd
3	C. Dorman Ltd	12	Kenya Nut Co.
4	Nairobi Java House	13	Kwacha Ltd
5	Bico Ltd	14	M.A. Pandit & Co. Ltd
6	Stevkam Enterprises	15	Mombasa Packers Ltd
7	Gold Coffee	16	Mwangi Coffee Exporters
8	Raki Investment	17	Shigog Investment Ltd
9	Cejo Investment	18	United Food Products
		19	Moka Coffee & tea Agencies

Source: Coffee Board of Kenya, February 2005

**Table 4b: Warehouse license holders, 2004-2005**

	Name of Company		Name of Company
1	Diamond Coffee Ltd	13	Mombasa Coffee Ltd



	Name of Company		Name of Company
2	African Trade Consultants	14	Mumbi Coffee Ltd
3	Allanwood Ltd	15	Raki Investment
4	C. Dorman Ltd	16	Rashid Moledina & Co. Ltd
5	Cetco Ltd	17	7DV Transami (K) Ltd
6	Dewgi Coffee Washing Co	18	Sea Air Fowarders Int. Ltd
7	Febo Holdings Ltd	19	Servicoff Ltd
8	Gold Coffee Ltd	20	SGS Kenya Ltd
9	K.P.C.U. Ltd	21	SOCFINAF Co. Ltd
10	Kauka Services Ltd	22	Speedway Clearing Co. Ltd
11	M.A.Panju & Bros Ltd	23	Thika Coffee Mills Ltd
12	Mbaraki Port Warehouse		

Source: Coffee Board of Kenya, February 2005

**Table 4c: Coffee auction license holders, 2004-2005**

	Name of Company		Name of Company
1	Lion Coffee Co. Ltd	4	KPCU Marketing Services Ltd
2	African Trade Consultants	5	Nairobi Coffee Auctions 7 Consultant Ltd
3	Hesco International		

Source: Coffee Board of Kenya, February 2005

**Table 4d: Management agents certificate holders, 2004-2005**

	Name of Company		Name of Company
1	Producers & systems Ltd	4	Nyambene Coffee Estates
2	Esca Consultants Ltd	5	SCEM Farm Management Ltd
3	KPCU Ltd	6	Thika Coffee Mills Ltd

Source: Coffee Board of Kenya, February 2005

**Table 4e: Commercial coffee milling license holders, 2004-2005**

	Name of Company
1	KPCU Ltd



	Name of Company
2	SOCFINAF Co. Ltd
6	Thika Coffee Mills Ltd

Source: Coffee Board of Kenya, February 2005

**Table 4f: Private coffee milling license holders, 2004-2005**

	Name of Company
1	Mbumi Coffee Mills
2	Komothai Coffee Growers Co-operative Society

Source: Coffee Board of Kenya, February 2005

### 3 Tea & coffee production

#### 3.1 Tea production

Kenya is one of the leading producers of tea in the world. Productions rose by 2.3% from 287.10 thousand tonnes in 2002 to stand at 293.67 thousand tonnes in 2003. The remarkable production was mainly achieved in the first and last quarters of the year. The increase could be explained by the favorable weather and well distributed rainfall in the tea growing regions. In addition, five new tea processing factories were commissioned in the tea growing areas during the 2002- 2003 period. Smallholder sub-sector recorded a 2.8% increase to stand at 180.8 thousand tonnes in 2003 while the estates sub-sector registered increased production of 1.5% to 112.88 thousand tonnes. The total area under tea increased by 0.85% from 130.34 thousand hectares in 2002 to 131.45 thousand hectares in 2003. Table 5 below details 5 year production by district.

**Table 5: Annual production by district (Kgs)**

DISTRICT	1999	2000	2001	2002	2003
Kericho	68,385,065	57,550,463	70,158,619	70,130,878	68,968,247
Bomet	-	12,217,657	15,378,550	15,108,187	16,490,068
Nandi	27,183,144	24,589,211	33,795,776	31,404,875	33,333,046
Nyamira	14,680,030	16,046,664	18,971,196	16,940,414	17,954,641
Kisii	10,963,020	12,126,392	12,358,547	12,077,410	13,175,532
Sotik	13,764,663	13,475,667	15,811,010	14,429,196	14,907,143
Kakamega	2,651,131	2,738,262	4,311,451	3,323,750	3,392,533
Trans-Nzoia	560,812	627,302	445,421	671,142	594,261
Nakuru	1,457,185	1,025,083	1,364,978	1,811,625	2,026,454
Kiambu	24,110,272	12,989,509	16,984,691	17,203,904	19,461,062
Thika	-	9,853,373	13,379,211	13,364,935	15,557,648
Maragwa	-	10,184,141	13,297,750	13,365,994	8,825,734
Muranga	29,806,944	12,460,566	13,795,094	13,623,752	15,512,689
Nyeri	16,337,266	15,728,907	19,043,827	18,035,657	18,188,491



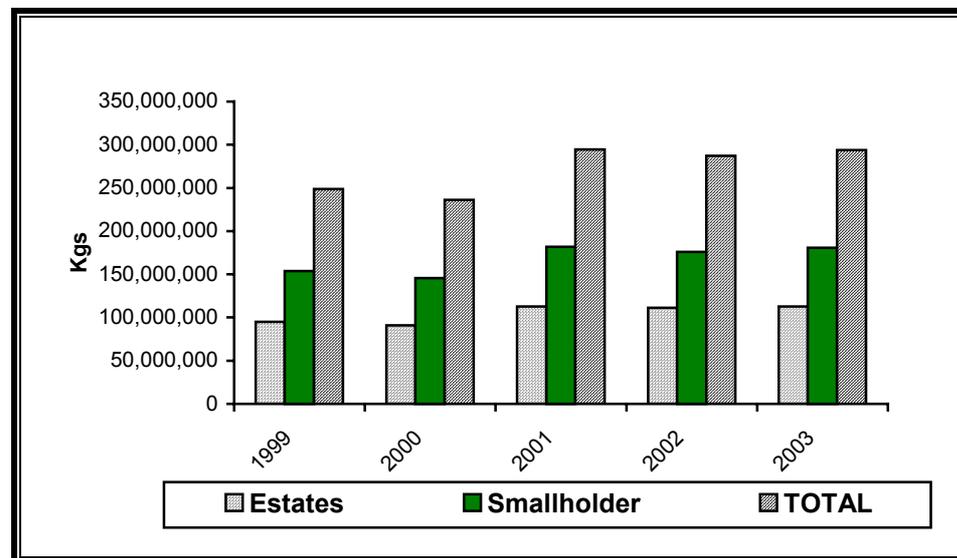
DISTRICT	1999	2000	2001	2002	2003
Kirinyaga	13,384,716	12,096,785	15,066,448	14,855,617	14,055,651
Embu	8,227,083	7,900,506	10,207,483	10,278,438	9,707,498
Nyambene	-	5,350,637	6,653,893	6,793,722	6,881,372
Meru	17,306,687	9,324,943	13,607,393	13,682,737	14,638,171
<b>TOTAL</b>	<b>248,818,018</b>	<b>236,286,068</b>	<b>294,631,338</b>	<b>287,102,233</b>	<b>293,670,241</b>

Source: Tea Board of Kenya, 2004

As seen in table 5 above, the leading districts in production of tea as at the year 2003 were Kericho, Nandi, Kiambu, Nyeri and Nyamira respectively. The five districts produced over half of the total production in 2003.

Small holders have continued to dominate production producing about 60% of the total production from 1999 to 2003. Production trends for both small holders and estates are shown in chart 1 below.

**Chart 1: Production by sector (Kgs)**



Source: Tea Board of Kenya, 2004

In 2003, production stood at 293,670,241Kgs with small holders producing 180,788,713 Kgs and estates producing 112,881,528 Kgs.

The total area under tea stood at 131.45 thousand hectares as at 2003. Estates covered 45.08 thousand hectares while small holders covered 86.37 thousand hectares. Average yield per hectare was 2,136 Kg/Ha for small holders and 3,331 Kg/ha for estates.

#### *Production by factory*

KTDA was the major producer, producing about 60% of the total production in 2002. Other leading factories were Unilever Tea (K) Ltd (formerly Brook Bond), James Finlay Kenya Ltd, Eastern Produce Kenya Ltd and Williamsons Tea Kenya Ltd.

### **3.2 Coffee production**

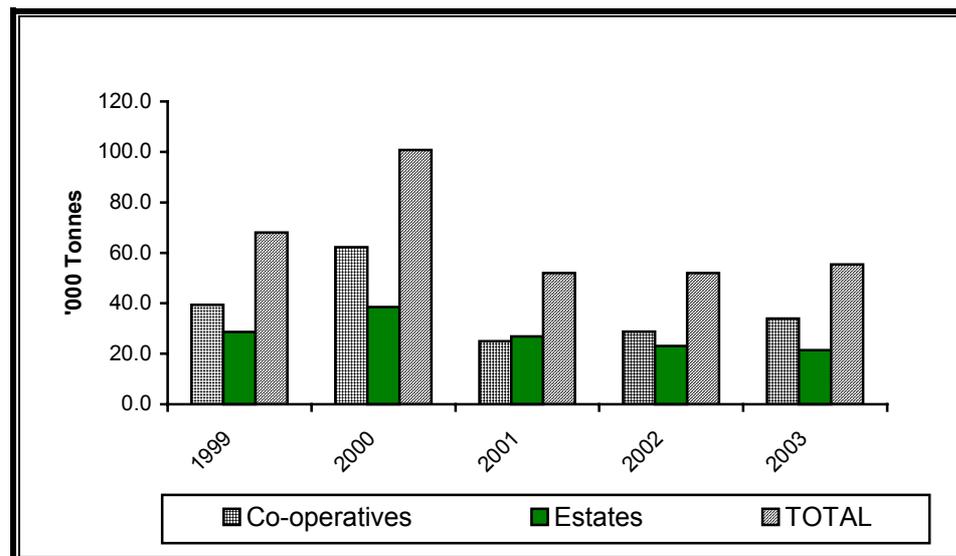
The national area under coffee is estimated at 170,000 hectares. Coffee production trends have continued to decrease over the last five years but have started to pick up due to governments efforts to revive it. The downward trend witnessed since 1990/00



crop year were reversed in 2002/03 crop year albeit with an increase of 6.7%. Coffee production in 2002/03 crop-year was 55.4 thousand tonnes from 51.9 thousand tonnes produced in 2001/02 crop-year. The increase could be attributed to a number of small-scale farmers reacting to positive reforms in the domestic coffee industry.

Co-operatives which bring together smallholder farmers with less than 5 acres continued to dominate production, producing about 60% of the total production for the period 1999 to 2003. Co-operatives also have more areas under coffee than the large estates though in terms of yield per hectare, estates harvested more coffee at 509.9 Kg/ha in 2003 compared to 265.8 Kg/ha from co-operatives.

**Chart 2: Production by sector ('000 tonnes)**



Source: Economic Survey, 2004 by Central Bureau of Statistics, Ministry of Planning & National Development

As seen in chart 2 above, in the last 5 years, production was highest in the year 2000 when it stood at 100.7 tonnes. In the year 2001, production dropped to 51.9 tonnes but picked up again in 2003 to hit 55.4 tonnes.

The coffee harvesting season falls shortly after the two rainy seasons i.e. long rains from March to May and short rains from October to November.

## 4 Market conditions

### 4.1 Tea sub-sector

The tea industry in Kenya is fully liberalized and the marketing of tea is independently carried out by trade members. However, the Tea Board of Kenya in its capacity as the apex body in the industry plays a pivotal role in strengthening the traditional markets for Kenyan tea as well as diversification into new markets. For this reason the Board is involved in both local and international promotion of Kenyan tea through participation in local and international fairs, symposiums, seminars and as well as subscribing to membership of various Tea Councils and Associations across the world.

Over 84% of Kenya tea is sold through the Mombasa auction, which is the second largest tea auction in the world. Auctions take place every Tuesday all year round, except on public holidays. Teas are offered at the auction by Brokers on behalf of the producers by garden marks manufacturing factories situated within the growing field, with each mark depicting the respective catchments area for the tea grown around it.



Buyers who basically export the tea bought, bid against themselves with the highest bidder buying the whole lot bid for. The auction is conducted under the auspices of the East African Tea Trade Association (EATTA) whose membership consists of the brokers, buyers, producers, warehousemen and packers.

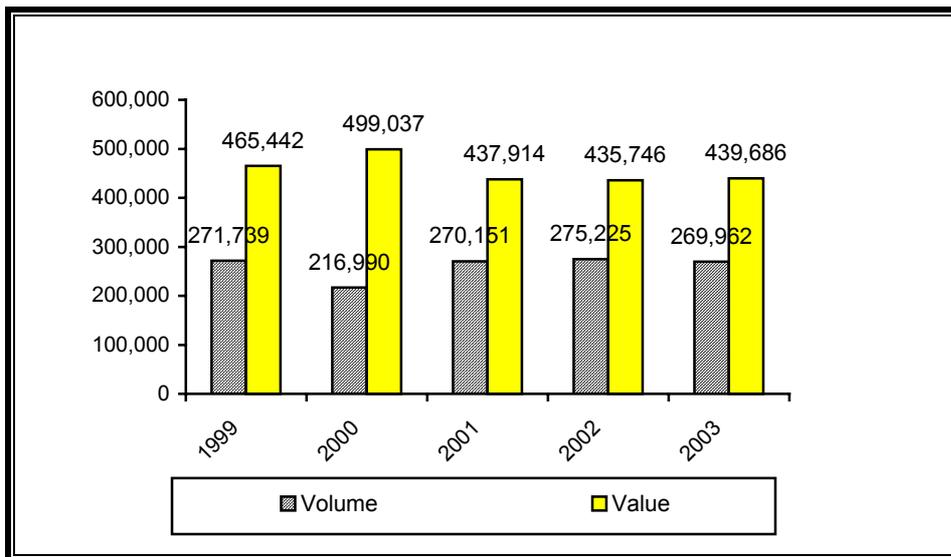
Producers also sell some of their tea directly through private arrangements with tea importers across the world. This forms about 10% of the total production.

The local tea market absorbs only 5% of the total production. In an endeavor to develop this market and tap its full potential, the Board has embarked on a rigorous Local Generic Tea Promotion Campaign which aims at growing the local per capita consumption from the current 500g to 805g in the next five years. This strategy will reduce over reliance on international markets and create a fall back position.

### Exports

In the year 2003, Kenya exported 269,962 tonnes of tea valued at KShs 33,394 million mainly to Pakistan, Egypt, U.K, Afghanistan, Yemen and Sudan. 5 year export trends show that export volumes have been stable averaging about 260 thousand tonnes. In the period 1999 - 2003, the highest export volume was in 2002 when 275,225 tonnes of tea were exported and the lowest was in the year 2000 when 216,990 tonnes of tea were exported. Export volume trends are detailed in chart 3 below.

**Chart 3: Volume & value trends in tea exports (Volume in metric tonnes, value in '000 US \$)**



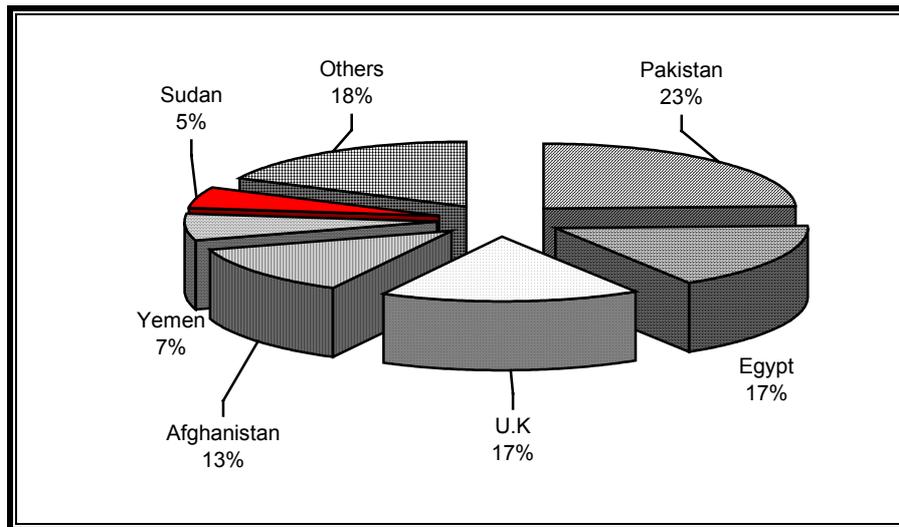
Source: Tea Board of Kenya, 2004

In terms of value, Kenya exported tea worth US\$ 439.7 million in the year 2003. The highest value of tea exported over the five year period 1999 – 2003 was in the year 2000 when tea valued at US\$ 499 million was exported, the lowest was in 2002 when tea valued at US\$ 435.7 million was exported. The value of export trends are detailed in chart 3 above.

Chart 4 below indicates share of export destinations by country.



**Chart 4: Export destinations by country**



Source: Tea Board of Kenya, 2004

Kenya is also currently exploring new markets apart from the traditional export destinations. These include West Africa, North Africa (apart from Egypt), Middle East and also the Eastern European countries and especially the CIS countries including Russia, Hungary, Czech Republic and Bulgaria.

#### **4.2 Coffee sub-sector**

Kenyan coffee is traded at the auction held normally on Tuesdays at the Nairobi Coffee Exchange. Licensed exporters assemble and bid for the various lots listed in the catalogue for that particular day

Coffee to be auctioned at the Nairobi Coffee Exchange is sent to the dealers and the marketing agents 10 days before the Tuesday auction day so that they can evaluate and decide on which coffee to bid for on the auction day.

After bidding for coffee in the auction, the dealers (exporters) are required to pay for it in seven days. For export purposes, dealers adopt their own unique names for different coffee grades. The names are known to their customers. The marketing agency receives the coffee proceeds from the dealers and passes the same to the growers less marketing expenses and statutory deductions.

Kenyan coffee is regarded as one of the best coffees in the World. The country exports its coffee to Europe mainly Germany, Sweden, Belgium, Finland, Netherlands, UK and Norway as well as USA.

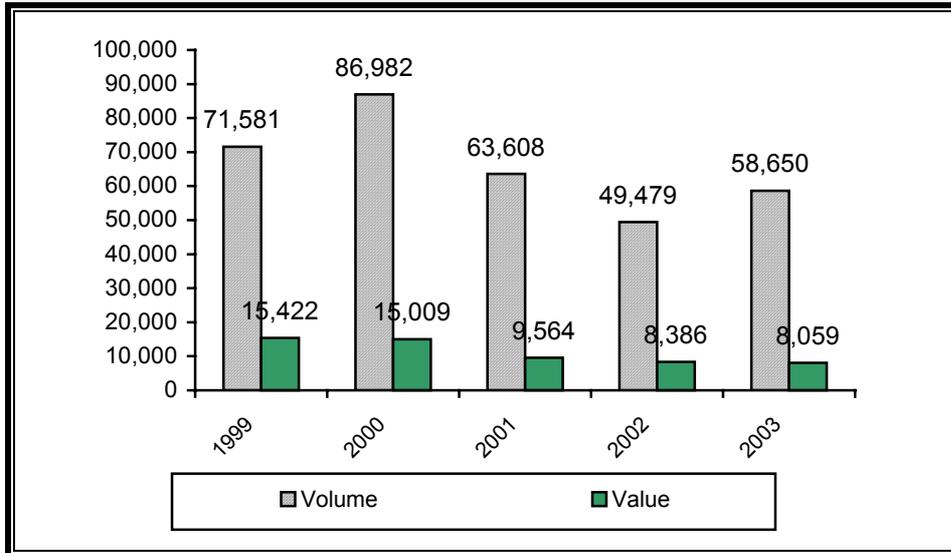
Coffee is mainly traded on the New York and London futures (terminal) markets, which exert a strong influence on world coffee prices. These prices are notoriously volatile - they vary daily, hourly and even by the second, depending on factors such as the size of coffee stocks worldwide, the weather forecast, insecure political conditions and speculation on the futures markets.

90% of the world coffee trade is in green (unroasted) coffee beans. The main traders of green coffee worldwide are the Neumann Gruppe GMBH, Volcafe, Cargill and E.D. & F. Man. The four leading manufacturers who dominate the world coffee market are Nestle, Procter and Gamble, Kraft and Sara Lee.

In the year 2003, Kenya exported 58,650 tonnes of unroasted coffee valued at KShs 6,286 million. The trend in export quantities and value are detailed in chart 5 below.



**Chart 5: Volume & value trends in coffee exports (Volume in metric tonnes, value in USD 10,000) USD=Kshs 78**

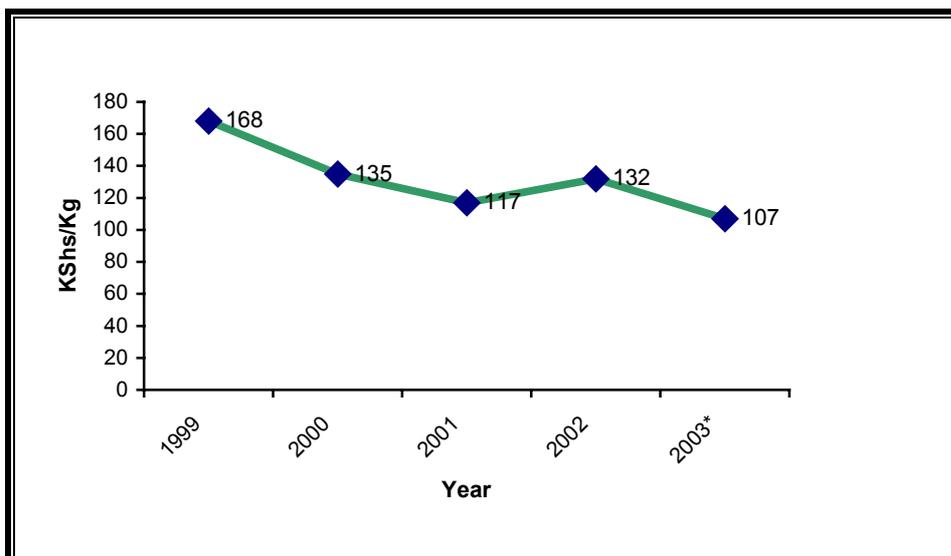


Source: Economic Survey 2004 by Central Bureau of Statistics, Ministry of Planning & National Dev.

*N:B Data available indicates that export volumes are higher than production volumes and this could be as a result of coffee export holdings from previous years being reflected in the current export volumes. Holding is a market timing with expectation of better price opportunity and is practicable in coffee due to global coffee price sensitivity.*

The price of Kenyan coffee has continued to decline over the last 5 years hitting a low of KShs 117 per Kg in 2001 before picking up to stand at KShs 132 per Kg in 2002. However in 2003, the prices dropped again to hit the lowest price range in the period under review of KShs 107 per Kg (the 2003 figures were however provisional). The trend in prices of Kenyan coffee from 1999 – 2003 are detailed in chart 6 below.

**Chart 6: Price of Kenyan coffee exports (KShs/Kg)**



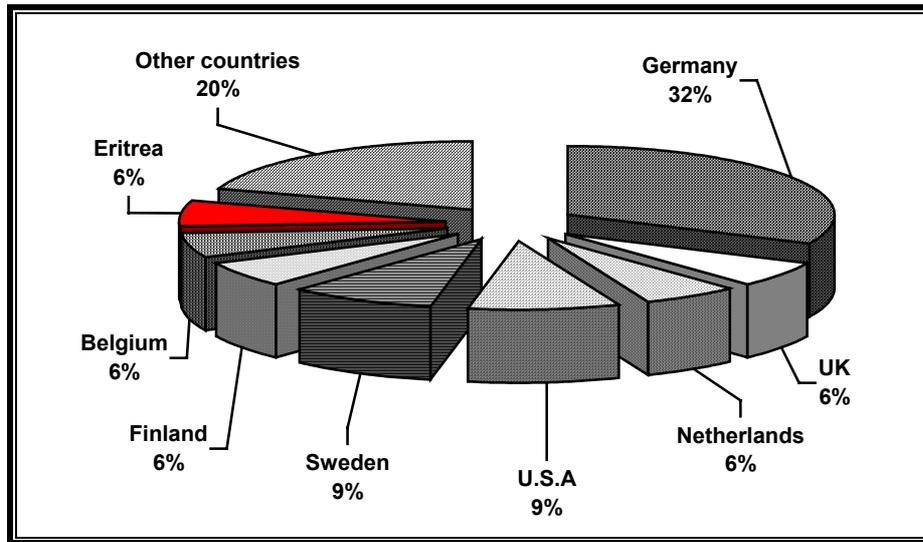
Source: Economic Survey 2004 by Central Bureau of Statistics, Ministry of Planning & National Dev.  
\* Provisional

Almost 99% of Kenyan coffee is exported and the domestic market only consumes less than 1% of the total coffee produced in Kenya.

Kenyan coffee exports by destination are detailed in chart 7 below.



**Chart 7: Export destinations by country, October 2002 – September 2003**

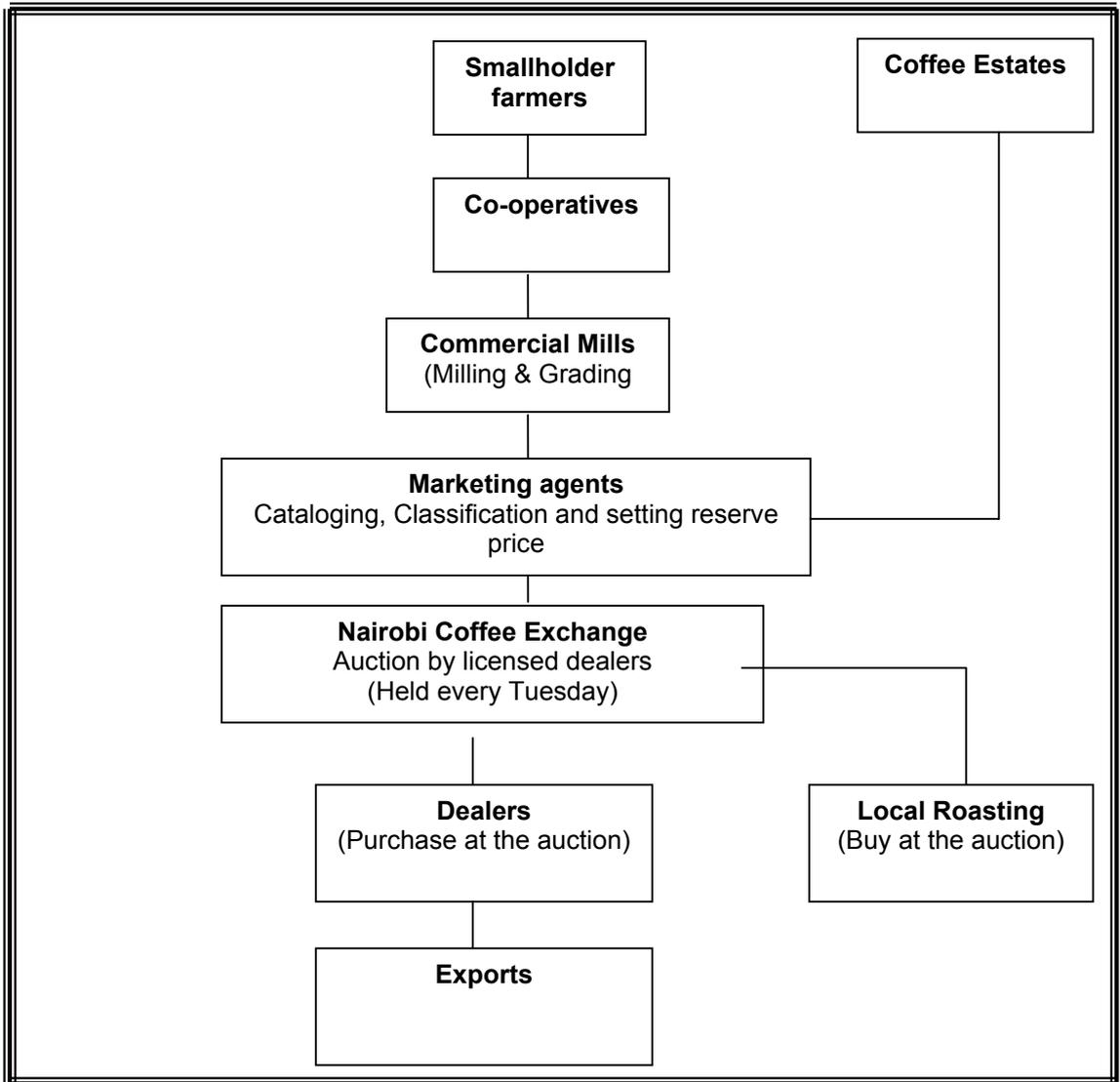


Source: Coffee Board of Kenya, 2004.

Coffee in Kenya is marketed through a marketing structure as detailed in diagram 2 below.



**Diagram 2: Marketing structure of the coffee industry in Kenya**



Source: Coffee Board of Kenya September 2004

## 5 Legal & regulatory framework

### 5.1 Tea sub-sector

The legal framework of the agricultural sector is spelt out in the Kenya Agriculture Act, (Cap 318). The laws governing the tea sub-sector are the Tea Act (Cap 343) and the Kenya Tea Development Authority Order, established under the Agriculture Act to control and regulate smallholders tea. Initially these acts were based on a policy of government control. With policy reform towards liberalized markets, some modifications have been made but they have not yet been done comprehensively. It's within this legal framework that the mandate for various stakeholders is spelt out.

**Tea Board of Kenya (TBK)** - Established in 1950 under the Tea Act (Cap 343) of the laws of Kenya, it is mandated to regulate the tea industry in all aspects of tea growing, research, manufacture, trade as well as promotion in both the local and international markets. The board also disseminates information relating to tea and advises the government on all policy matters regarding the tea industry through the ministry of Agriculture.



**Tea Research Foundation of Kenya (TRFK)** - Located in the lush green tea carpet of Kericho is the technical arm of the Tea Board of Kenya, with a mandate to carry out research on tea and advise growers on the control of pests and diseases, improvement of planting material, general husbandry, yield and quality. The Foundation has so far developed and released to growers over 45 well-adapted clones.

**Kenya Tea Development Agency (KTDA) Ltd** - Previously a state corporation, KTDA was incorporated as a private company in June 2000. KTDA Ltd currently manages 53 tea factories in the smallholder sub-sector serving over 400,000 growers.

**Kenya Tea Growers Association (KTGA)** - Established by large-scale tea producers to promote the common interests of the members in the cultivation and manufacture of tea and promote good industrial relations and sound wage policies for the workers. The plantation sub-sector maintains 39 tea factories.

**Nyayo Tea Zones Development Corporation (NTZDC)** – It is a state corporation established to manage the tea belts around the forest zones, planted to create buffer zones meant to protect the natural forests from human encroachment.

**East Africa Tea Trade Association (EATTA)** - brings together tea producers, brokers, buyers and packers and is the auspices under which the Mombasa Tea Auction is conducted.

## 5.2 Coffee sub-sector

Coffee Board of Kenya is the regulatory and marketing agent of all coffee produced in the country and operates under the Ministry of Agriculture. The legal framework for regulating the coffee sub sector is spelt out in the new Coffee (2001) Act CAP 333, which provides for the regulation of the industry and control over production, marketing and export of coffee, as well as incidental and connected matters. All these functions are undertaken or supervised by the Coffee Board of Kenya.

The current Act was revised in 1997 to allow the agriculture reform policy and a special legislative supplement was published in 1999 which facilitated the repeal of coffee Act 1933. These altered coffee marketing rules to fit with liberalized market policies. The Coffee Act remains the only legal document that provides the framework for controlling and regulating the coffee sub-sector.

The liberalized coffee sub sector now provides more opportunities in coffee processing and milling. Farmer's have more control of coffee factories unlike before. More millers are also now involved in coffee processing as opposed to the past when the Kenya Planters Co-operative Union enjoyed monopoly. The Coffee Act, through the Gazette supplement No. 7 of 1999, allows coffee agencies to pulp, mill and market coffee.

**Coffee Board of Kenya (CBK)** - Set up in 1933 by an Act of parliament which has been replaced by Coffee Act 2001, CBK regulates the Kenyan coffee industry. The Board's functions include production services, monitoring of processing, marketing, production research and publicity. It also issues and renews the various coffee trading licenses and is composed of all relevant stakeholders with government representation.

**Coffee Research Foundation (CRF)** - Undertakes coffee research services and is financed by Coffee Board of Kenya through a levy on coffee proceeds.

**Kenya Planters Co-operative Union (KPCU)** - Before liberalization KPCU, controlled coffee milling services though it still dominates the same due to earlier monopoly with easy access to coffee factories through district unions. Currently, KPCU holds a number of licenses which allow it to dominate the coffee sector. These licenses



include coffee trade license, roasters license, packers license, warehouse license, coffee auction license, management agent certificate and coffee milling license.

**Thika Coffee Mills** - Coffee millers, processors and marketers.

**Socfinaf** - Coffee millers, processors and marketers.

**Mild Coffee Trade Association of East Africa (MCTA)** – Regional association of coffee dealers with mandate of propagating, promoting and providing information to members on matters related to coffee marketing and coffee sector globally.

## 6 Reasons to invest in Kenya's tea & coffee sub-sectors

Kenya's competitive advantage as an investment location for the coffee and tea industry is supported by various investor friendly factors that include:

### *Availability of a well established export market*

Over the years, Kenya has established a traditional export market for its tea and coffee, which are some of the finest in the world. There are also intensified efforts to explore new markets. The availability of the traditional markets and potential for new export destinations gives current and potential investors a ready market for their produce.

### *Good climate*

Kenya provides an ideal climate for the growing of coffee and tea especially in the central, Rift Valley and western regions of the country. With above average rainfall and good temperatures, these regions produce adequate and quality coffee and tea for processing and export.

### *Availability of multinationals in the sector*

Kenya currently hosts a number of multinationals dealing in the coffee and tea sector including Unilever Tea Kenya Ltd, James Finlay Kenya Ltd and others like Nestle who buy quality Kenyan coffee. The availability of multinationals in the industry re-affirms Kenya's reputation as an ideal investment location for the coffee and tea sub-sectors.

### *Availability of affordable labour*

Coffee and tea production requires a supply of relatively affordable labour mainly at harvest time. Kenya offers potential investors with an abundant supply of affordable labour in the coffee and tea growing areas.

### *Regulatory framework*

With the setting up of the Coffee Board of Kenya and the Tea Board of Kenya, the country provides investors with one stop regulatory institutions which ensure entrance of investors into the sector is made easy as the institutions mentioned are charged with licensing, facilitation and provision of necessary advice with regard to the sector.

### *Access to the regional market*

Kenya's membership in regional trading bodies such as COMESA, African Union and the East African Community provides potential investors with a large potential market for their products. As a member of the COMESA Free Trade Area (FTA), Kenya is allowed duty free exports of its commodities to other COMESA FTA countries.

### *Investor friendly arrangements*

The Kenya government can guarantee investor friendly arrangements such as:

- The Export Processing Zones (EPZ) program which offers attractive incentives to export-oriented investors and EPZ Authority to provide one-stop-shop service for facilitation and aftercare
- The Investment Promotion Centre (IPC) to promote all other investment in Kenya including in Manufacturing under Bond (MUB) program



- The Tax Remission for Export Office (TREO), a program for intermittent imports for export production
- Generous investment and capital allowances
- Double taxation, bilateral investment and trade agreements

#### *Investment protection and insurance*

The Constitution of Kenya provides guarantees against expropriation of private property. In addition, capital repatriation, remittance of dividends and interest are guaranteed to foreign investors under the Foreign Investment Protection Act (FIPA) (Cap 518).

Kenya as a member of MIGA (Multilateral Investment Guarantee Agency) provides investors with an opportunity to insure their investment in Kenya against a wide range of non-commercial risks. Kenya is also a member of the African Trade Insurance Agency (ATI), a multilateral export credit and political risk agency for COMESA member states as well as the International Council for Settlement of Investment Disputes (ICSID).

#### *Strategic location*

Located on the East African coast and having the port of Mombasa, Kenya is strategically located for investors wanting to access the East and Central African markets. Kenya is also a regional hub for airlines allowing for easy access from and to any part of the world.

#### *Good quality of life*

Kenya hosts a number of international organizations and foreign embassies and provides very good and up to standard living conditions for foreign investors wishing to reside in Kenya. With recognized international hotels, airports and entertainment centres, Kenya provides as much comfort for foreigners as in any European capital.

#### *Stable political climate*

Kenya has been one of the very stable countries in Africa since independence. The country has had three presidents with smooth transition taking place from one government to the next and peaceful elections held regularly. This is also manifested in the number of international and regional organizations headquartered in Nairobi including the UNEP, IGAD etc.

## **7 Investment opportunities**

The following are some of the investment opportunities available in the coffee and tea sub-sectors in Kenya: -

#### **Tea**

- Investment in tea plantations
- Processing and packaging of tea for export especially under the Manufacturing Under Bond and Export Processing Zones Programs
- Development of infrastructure e.g. roads in the tea growing areas
- Research and development
- Provision of finance to the smallholder farmers.

#### **Coffee**

The coffee industry also provides a number of investment opportunities for investors wishing to take advantage of this lucrative industry. Some of the main opportunities currently available include the following:

- Coffee processing and packaging to final products
- Processing of instant coffee
- Growing of Robusta coffee, which can be used to support the blending of Arabica coffee



- Manufacture of coal from coffee husks
- Research and development
- Provision of finance services to small holder farmers
- Development of infrastructure in coffee producing areas
- There also exists a good opportunity to market Kenyan coffee in the international markets and especially in the United States.

Value addition still remains the main investment opportunity for the coffee and tea sub-sectors in Kenya. Multinationals should take advantage of the numerous investment incentives Kenya offers to set up their processing and value additions enterprises in Kenya for export and for local consumption.

## 8 Useful contacts

Ministry of Agriculture & Rural Development  
Crop Development Division  
Kilimo House, Cathedral Road  
P.O Box 30028 Nairobi, Kenya  
Tel: 254-20-2718870  
Fax: 254-20-2720586  
Web: [www.agriculture.go.ke](http://www.agriculture.go.ke)

Ministry of Trade and Industry  
Telposta Towers, Kenyatta Ave.  
P.O. Box 43137 Nairobi, Kenya  
Tel: 254-20-315001-4, 331030  
Fax: 254-20-315011  
Web: [www.tradeandindustry.go.ke](http://www.tradeandindustry.go.ke)

Investment Promotion Center (IPC)  
National Bank Building, 8<sup>th</sup> Floor  
Harambee Avenue  
P.O. Box 55704-00200 Nairobi  
Tel: 254-20-221401-4  
Fax: 254-20-336663  
Email: [info@investmentkenya.com](mailto:info@investmentkenya.com)  
Web: [www.investmentkenya.com](http://www.investmentkenya.com)

Export Processing Zones Authority  
Administration Building  
Athi River EPZ, Viwanda Road  
Off Nairobi - Namanga Highway  
P.O Box 50563, 00200 Nairobi  
Kenya  
Tel: 254 45 26421-6  
Fax: 254 45 26427  
Web: [www.epzakenya.com](http://www.epzakenya.com)  
Email: [info@epzakenya.com](mailto:info@epzakenya.com)

Coffee Board of Kenya  
2<sup>nd</sup> Floor, Coffee Plaza  
Haile Selassie Avenue  
P.O Box 30566, 00100 Nairobi, Kenya  
Tel: 254-20-332896-8  
Fax: 254-20-330546

The Tea Board of Kenya  
Tea Board Hse  
Naivasha Rd – Off Ngong Rd  
P.O Box 20064, 00200 Nairobi, Kenya  
Tel: 254-20-572421, 572497, 574445/6  
Fax: 254-20-562120, 576337  
Email: [teaboard@kenyaweb.com](mailto:teaboard@kenyaweb.com)  
Web: [www.teaboard.or.ke](http://www.teaboard.or.ke)

The East African Tea Trade Association  
Tea Trade Centre – Nyerere Rd  
P.O Box 85174, 80100 Mombasa  
Kenya  
Tel: 254-41-315687/315245  
Fax: 254-41-225823  
Web: [www.eatta.co.ke](http://www.eatta.co.ke)

Kenya Tea Development Agency Ltd  
KTDA Farmers Building  
P.O Box 30213, 00100 Nairobi, Kenya  
Tel: 254-20-3227000  
Fax: 254-20-245773/210636  
Email: [info@ktdateas.com](mailto:info@ktdateas.com)  
Web: [www.ktdateas.com](http://www.ktdateas.com)

Kenya Tea Growers Association  
P.O Box 320, 20200 Kericho, Kenya  
Tel: 254-52-20039  
Fax: 254-52-32172  
Web: [ketegro@africaonline.co.ke](http://ketegro@africaonline.co.ke)

Tea Research Foundation  
P.O Box 820, 20200 Kericho, Kenya  
Tel: 254-52-20598/9  
Fax: 254-52-20575  
Email: [tearfk@insightkenya.com](mailto:tearfk@insightkenya.com)  
Web: [www.tearesearchkenya.org](http://www.tearesearchkenya.org)

Kenya Planters Co-operative Union Ltd (KPCU)  
Wakulima House, Haile Selassie Ave  
P.O Box 72309, 00100 Nairobi, Kenya  
Tel: 254-20-210258  
Fax: 254-20-210288  
Email: [kpcu@swiftkenya.com](mailto:kpcu@swiftkenya.com)



## 9 Sources of information and glossary

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- Tea Board of Kenya – [www.teaboard.or.ke](http://www.teaboard.or.ke)
- The East African Tea Trade Association – [www.eatta.co.ke](http://www.eatta.co.ke)
- Tea Research Foundation of Kenya – [www.tearesearchkenya.org](http://www.tearesearchkenya.org)
- Coffee Board of Kenya
- Investment Promotion Center (EPC) – [www.investmentkenya.com](http://www.investmentkenya.com)
- Central Bureau of Statistics (CBS) - [www.cbs.go.ke](http://www.cbs.go.ke)
- Export Processing Zones Authority – [www.epzakenya.com](http://www.epzakenya.com)

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