

WILL ZONING SWEETEN

Millers are pushing for zoning to ward off encroachment by newcomers who are said to be poaching on their sugarcane

By Faridah Kulabaka

Sugar millers and outgrowers once enjoyed a good symbiotic relationship. This has, however, been put to the test by the heightened fight for raw materials from the growing number of millers on one hand and the desire for reasonable returns by outgrowers.

Outgrowers are said to be lured by new millers who do not have outgrower schemes to sell them sugarcane that was supposed to be sold to old millers.

According to old millers, the fight for raw materials with new firms has resulted in inadequate sugarcane supply, slicing their cane crushing capacity, dwindling sugar production and soaring sugar prices.

The current wrangles are believed to be threatening the sugar industry, whose viability and sustainability is premised on the good coexistence



Poaching doubled sugarcane prices due to competition, resulting into increased production costs and high sugar prices

between millers and outgrowers.

However, while millers are pushing for zoning to ward off encroachment by newcomers, outgrowers strongly oppose it, saying the move will create monopolistic tendencies and cheating of farmers.

Zoning is mapping out sugarcane

territories within which each miller is expected to develop their raw materials and work with farmers without encroachment from another operator.

It is based on the nucleus estate model where a sugar producer grows sugarcane on a plantation surrounding the processing plant and provides guarantee of input for the plant. According to millers, zoning assures reliability of raw materials.

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Kakira has capacity to produce 74,000 tonnes of molasses annually, 63.5 litres of ethanol.

Although it signed agreements to supply Barungi says it has recent fall in raw materials. This has seen the company pay millions of shillings to government in penalties for failure to honour the terms of the agreement.

Why millers want zoning

Old sugar millers, including Kakira Sugar Works, Kinyara Sugar and Sugar Corporation of Uganda (SCOU) say that there has been an increase in the number of sugar producers in the country from three about a decade ago to 11 millers, yet majority have neither developed outgrower schemes nor own sugarcane plantations.

Although having many millers in a given area is good for farmers because they get access to alternative buyers for their produce, old millers say it brings about competition for raw materials, which is not good for business and threatens to suffocate the industry.

Kakira Sugar deputy managing director Kenneth Barungi says new entrants are taking advantage of absence of a law governing the setting up of sugar mills to reap from ventures they did not invest in.

"We have invested a lot of money over the last 25 years to supply us cane. Why don't the new millers also develop their own outgrowers instead of encroaching Barungi questions.

He adds: "We give farmers cane seed, tractors, fertilisers and also train and supervise them to produce sugarcane cane but they divert it. Most of the factories do not have a nucleus and sugarcane outgrower and this has caused scramble for the raw materials. We are currently operating at 47% of installed capacity as a result."

Barungi adds that poaching doubled sugarcane prices from sh80,000 per tonne in 2016 to 160,000 due to competition among immature cane. This has led to the current experience of

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Clause 22(3) of the Sugar Bill 2016 provides that sugar mills be separated by a radius of 25km

Immature cane harvested

Scramble for cane has seen farmers harvest immature cane due to the allure of short term gains and immediate cash.

Although it takes between 18 and 20 months for the sugarcane to mature and accumulate adequate sugar content, outgrowers are said to be harvesting it at between 10-14 months as they rush to sell it to new millers before the millers that contracted them take it.

This, according to the Chairman of the Uganda Sugar Manufacturers Association (USMA) Jim Kabeho, has resulted in low sugar recovery levels of 6% instead of about 10% from a mature cane.

Kabeho says harvesting immature cane has seen sugar production reduce from 450,000 tonnes in 2014 to 400,000 tonnes last year, despite the big more factories being in operation.

Selling immature cane also impacts farmers, who incur a five metric tonne loss per hectare for each month lost to maturity. Barungi said that average income for farmers has reduced to sh5.2m per year from sh9m in 2014.

Apparently, the absence of a law makes it hard to hold the farmers accountable for selling cane which was meant for a particular miller to a different one.

The USMA secretariat manager, Wilberforce Mubiru, also emphasises that harvesting immature cane is a big problem and is likely to cause more trouble to sugar production and supply in Uganda in the short to medium term if not checked.

"These new mills, without making any investment in outgrower schemes are offering various incentives to farmers thus leading to harvesting of immature cane. This has led to the current experience of

THE SUGAR INDUSTRY?



Uganda's sugar production is expected to increase to 535,000 tonnes by 2020

the extremely low recoveries and loss of profit on grounds that it restricts farmers to a specific miller where they live off territories and claim ownership and control hindering competition.

The Masindi District Sugar Growers Association chairman, Cosmas Byaruhanga, says outgrowers are strongly opposed to zoning, saying that it will create monopoly.

He notes that Masindi currently faces the lowest sugarcane prices at sh141,000 per tonne delivered yet Kinyara Sugar plans to reduce the price further to sh100,000 per tonne.

He explains that Kinyara management claims that sugar prices have dropped drastically in the market from sh162,000 per 50 kg bag (factory gate price) to sh105,000 due to low exports and low local demand.

Kabeho attributes the low demand in sugar markets, especially Kenya to the country having imported a lot of duty-free sugar prior to the recent general election.

According to Byaruhanga, poaching was caused by excessive sugarcane that farmers could not buy.

"Farmers could have come for as long as four years because Kinyara could not crush given its installed capacity. There was also rejected cane which other millers were willing to buy. Farmers were losing revenue while government was also losing taxes. This was an opportunity," he says.

Additionally, he says, Kinyara was offering farmers low prices, yet other millers were offering higher prices. "Someone drives a long distance to Buryoro and offers a higher price for cane yet Kinyara, which is not incurring transport costs offers a lower price. Farmers had to sell to one that offered a higher price. And now implementation of zoning, farmers will be cheated because of lack of competition," he says.

According to Barungi, however, millers base their pricing on an international cane pricing formula that balances between recovery, sugar price, profitability and cane quantity. However, the commissioner for industry and technology at the trade ministry, Peter Baimwile says zoning has to be enforced so as to bring back order in the sugar industry.

Experts, however, indicate that relocating the new factories that are capital intensive says zoning will cost the taxpayer nearly sh200b.

their own outgrower schemes and are surviving on the already established plantations whose yields have also stagnated over the years. Middlemen are ferrying cane from Buryoro region to the East, offering higher uncompetitive prices which is neither economically viable nor sustainable," Magoola says.

Barungi also notes: "The industry is mired in chaos due to the Government's failure to enforce zoning. We need zoning urgently to save the industry from collapsing. The lack of it is exerting enormous pressure on sugarcane supply, especially in the Busoga region."

The 2010 National Sugar Policy also indicates that for a new sugar factory to start, one must have sufficient acreage of cane and that every factory should have a 25km radius for it to achieve economies of scale and while growing sugar cane.

The policy further indicates that only 30% of land within that radius should be used for cane growing so that you have food security.

Additionally, for every new factory that is going to be licensed, the policy requires that it first grows a minimum of 500 hectares of sugarcane. However, none of these is enforced because of lack of a law.

The Sugar Bill 2016 is currently in Parliament, but millers want it expedited and passed into law to streamline the industry.

The Bill attempts to resolve the challenges in the sugar industry by creating zones and dictating an acceptable distance between millers. Clause 22(3) of the Bill provides that sugar mills be separated by a radius of 25km.

Magoola says zoning will provide answers to all the current woes in the sugar industry, streamline operations, create a more viable industry, ensure predictability of government taxes and support sector growth.

Kabeho also notes that zoning will ensure sustainable sugar and sugarcane production as it will provide a stable environment and long-term planning due to the long gestation period of sugarcane as a crop.

Farmers oppose zoning

Farmers have, however, criticised the zoning on grounds that it restricts farmers to a specific miller where they live off territories and claim ownership and control hindering competition.

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INVITATION FOR BIDS

PROCUREMENT REFERENCE NO: UCC/SUPPL/IT/16/0042
SUPPLY, DELIVERY AND INSTALLATION OF QUALITY OF EXPERIENCE MONITORING TOOL

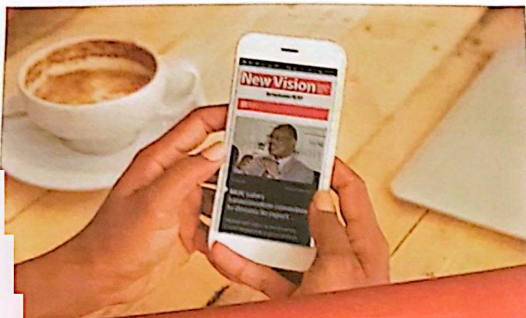
- The Uganda Communications Commission (UCC) has allocated funds to be used for monitoring quality of experience for voice and broadband services delivered to end users.
- The Commission invites sealed bids from eligible bidders for supply, delivery and installation of a Quality of Experience Monitoring Tool.
- Bidding will be conducted in accordance with the Open Domestic Bidding procedures contained in the Government of Uganda's Public Procurement and Disposal of Public Assets Act, 2003 and is open to all bidders.
- Interested bidders may obtain further information and inspect bidding documents from UCC at the address given below at 8.30 hours to 17.00 hours during working days.
- The Bidding Documents in English Language may be purchased by interested bidders on the submission of a written application to the address below at 8(b) and upon payment of a non-refundable fee of UGX 100,000 (Uganda Shillings One Hundred Thousand Only). The method of payment will be by payment to a bank account, the details of which shall be advised by Uganda Communications Commission.
- Bids must be delivered to the physical address below at 8(c) at or before February 15, 2018 at 10:00am. Late bids shall be rejected. Bids will be opened in the presence of the bidders' representatives who choose to attend at the address below at 8(d) at 10:15am on February 15, 2018.
- Documents may be inspected at: Procurement and Disposal Unit; Uganda Communications Commission

| Activity | Date |
|--|-------------------|
| (a) Publish bid notice | January 22, 2018 |
| (b) Date of pre-bid meeting | February 1, 2018 |
| (c) Bid closing date | February 15, 2018 |
| (d) Evaluation process (completion) | February 28, 2018 |
| (e) Disposal of Best Evaluated Bidder Notice | March 2, 2018 |
| (f) Award of contract | March 23, 2018 |

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Cover Story



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