UNCTAD Illicit Trade Forum

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Case Study: Senator Keg

Contribution
by

Diageo
During the 1990’s following tax increases, aimed at reducing consumption and raising excise revenue, the legal alcohol market in Kenya shrank from 400 million litres in 1991 to about 240 million litres in 2001.

By 2003, the informal alcohol market was around 56% of total and growing.

Affordability was a key factor, and the challenge was to develop a low-cost alternative to illicit alcohol. Diageo was supported by the Kenyan Government through an excise tax remission.

In 2004 EABL launched Senator Keg targeted at low income consumers as an affordable alternative to illicit alcohol.

The consumer had a safe affordable product, the government had a product that addresses problem drinking and grew tax revenues and EABL reached a new part of the market.
• A key factor to the successful launch of Senator was the partnership with government to ensure a favourable excise regime.
• Products such as Senator aimed at drawing consumers away from cheap illicit alcohol are highly price sensitive.
• The remission was critical in sustaining the local value chain.
• Beer volumes have fluctuated with changes to the remission - reflecting Senator Keg volatility and price sensitivity
• Senator Keg brought a range of benefits; socio-economic, health and commercial.

• These included
  – employment of 12,000 sorghum farmers.
  – 12,000 retail outlets
  – 65 designated Senator distributors
  – KSH 1.5 billion VAT revenues.
  – Illicit alcohol fallen to around 50%

• This was threatened when the Government announced it was reducing the remission from 100% to 65% which had an immediate impact.
New tax cuts Senator Keg outlets sales by a quarter
REMOVING THE EXCISE DUTY REMISSION HAD A WIDE RANGE OF SOCIO-ECONOMIC AND COMMERCIAL IMPACT THAT AFFECTS THE WHOLE ECONOMY.
THE IMPACT EXTENDED WIDER THAN TAX REVENUES

Farming
• The increased volumes led to increased demand for sorghum from 2060 metric tonnes in 2015/15 to 21,500 metric tonnes in 2015/15.
• The number of contracted farmers increased from a low of 2500 in 2014/15 to 30,000 in 2015/16.
• Farmer revenues increased from Kshs 67million in 2014/15 to Kshs 709 million in 2015/16, an increase of 1043%

Distribution & Retail
• Following the collapse of volumes in 2013 a number of partners in the distribution chain withdrew from Senator keg sales. Some stopped trading, others resorted to illicit brew, or selling cheap spirits.
• The number of outlets fell from a high of 12,900 at the beginning of 2013 to a low of 6,750 by the end of the year. Following the return of the remission KBL recruited many back and by December 2015 the number of outlets had risen to 13,500

Employment Creation
• Return of the remission saw the creation of over 98,000 direct jobs throughout the value chain.
• In 2017 Diageo announced that it was investing KSH 15 billion in a new Senator keg brewery in Kisumu – to make further inroads into the illicit alcohol market and bring over 110,000 direct and indirect jobs through the supply chain.
The Journey of Our Beer
From Grain to Glass we are Growing Value Together

1. Research
- Where science is redefined in research and development. Discoveries that shape today’s society and tomorrow’s future.

2. Planning & Innovation
- Where our operation is designed to work across marketplaces, serving over 170 countries.

3. Sourcing Matter
- Where we continuously invest in better technologies. By reducing our carbon footprint, we can deliver higher public value.

4. Responsible Drinking
- We have invested over $500M in sustainable projects to improve the quality of life in the communities in which we operate.

5. Brewing
- We are committed to reducing our environmental footprint.

6. Packaging
- We are constantly looking to improve, using recycled content and developing innovative packaging solutions.

7. Return to Consumers
- We are passionate about providing consumers with the best possible experience.

8. Returnable Glass
- We are committed to reducing waste and increasing sustainability. The returnable glass bottle is a perfect example.

9. Post Consumption
- We are dedicated to ensuring that our consumers are well taken care of. We have invested in waste management and recycling initiatives.

19,000 SENATOR KEB OUTLETS
- Focused on providing a healthy alternative for those who enjoy beer.

80%, 80,000 ENTERPRISES
- Our goal is to provide 80% of our organizational needs from sustainable sources.

2.5 million
- Committed to reducing our footprint, we have reduced our carbon emissions by 24%.

52 Billion
- Global commitment to no harm in 2019.

600 million
- We are committed to sustainable waste management.

1.7 BILLION
- We have 470 million consumers, who value our commitment to sustainability.

PLANTED OVER 1,000,000 TREES IN KENYA
- Building thriving communities.

85% of our operations are traceable, enabling us to track our impact on the environment.