

# **UNCTAD Illicit Trade Forum**

*3<sup>rd</sup> to 4<sup>th</sup> February 2020  
Room XXVI, Palais des Nations, Geneva*

## **Case Study: Senator Keg**

Contribution  
by

**Diageo**

A wide-angle landscape photograph of a mountain valley in Kenya. The scene is dominated by dark, rugged mountains with patches of snow or light-colored rock. A winding asphalt road leads from the foreground into the distance, following the curve of the valley. The sky is filled with heavy, grey clouds, but a bright light source, likely the sun, is breaking through the clouds in the center of the valley, creating a strong lens flare and illuminating the scene. The overall color palette is dark and moody, with deep blues and greys, contrasted by the bright light from the sun.

DIAGEO

**SENATOR KEG, KENYA**

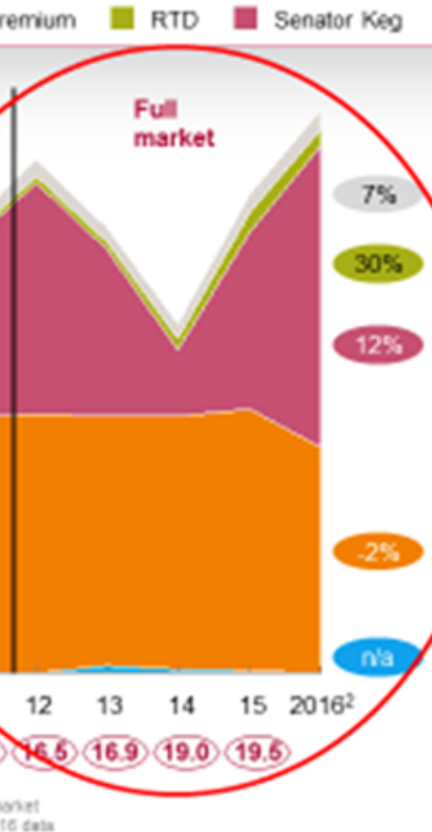


## BACKGROUND AND ISSUE

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- *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.*

## GROWING VALUE WITH EXCISE REMISSION DIAGEO



- 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



## 2013

DIAGEO

- 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.

While we are not expressly opposed to tax, the 50 per cent excise imposition has resulted in a price that has led consumers to choosing other risky alternatives — Kenya Breweries Managing Director Joe Muganda



## High taxes driving Kenyans to drink

CONTINUED FROM PAGE 3

Kenya Breweries Ltd, stated previously that Senator Keg had contributed to the reduction of illicit alcoholism in a segment of the population that consumers have

**FACTFILE**  
Nairobi, Kenya



## New tax cuts Senator Keg outlets sales by a quarter

**TAXATION** Nearly 3,000 outlets fail to pick orders of drink that targets low income earners

BY MUGAMBI MUTEGI

**DR  
TOD**

Tax increase on cheaper beers drives bar patrons to changaa dens >> PAGES 2-4



An attendant measures a mug of Senator Keg at a bar in Nairobi on October 19, 2013. PHOTOS BY MUGAMBI MUTEGI

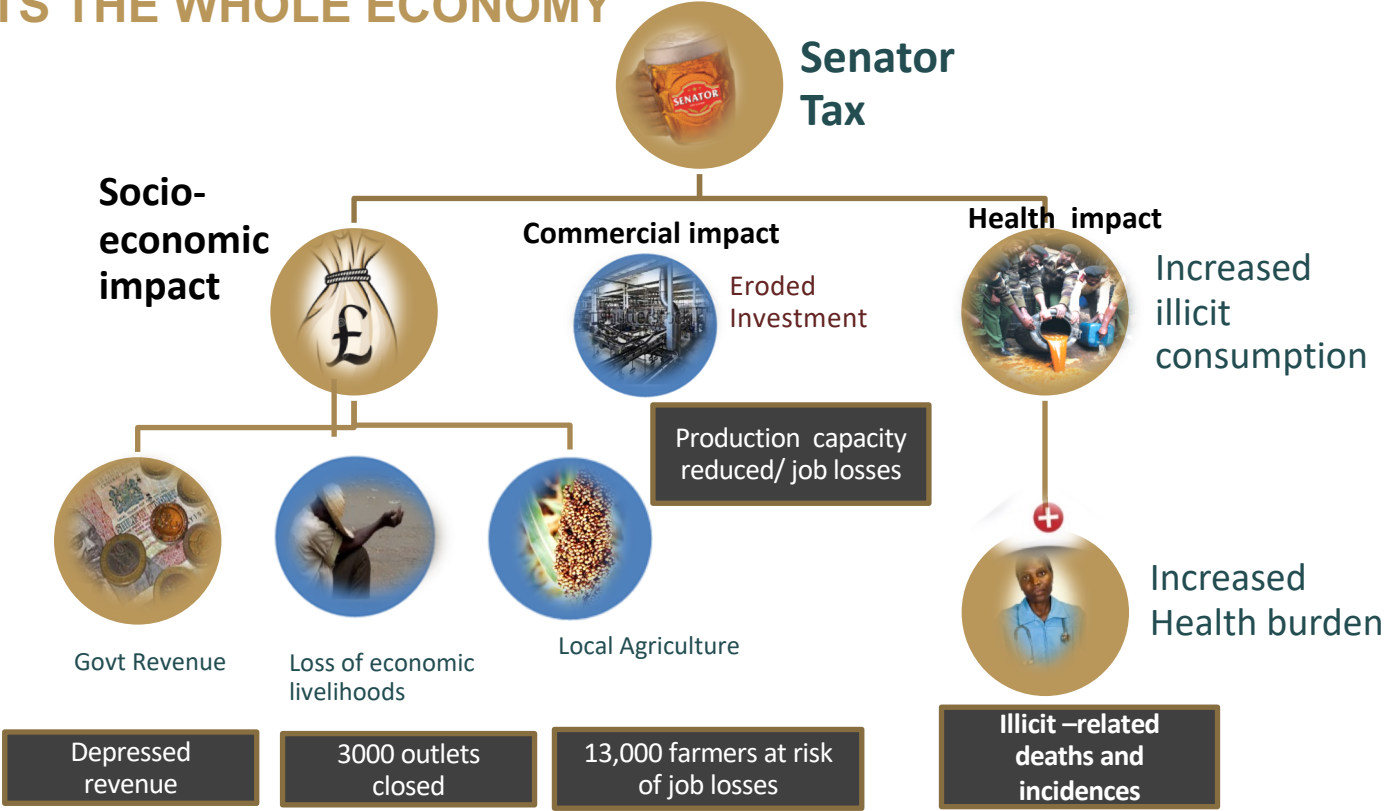
**BY STAR REPORTER**  
THERE are concerns that Treasury may not meet its excise tax targets follow-

government will not meet its Sh6.2 billion annual target because of the slowing sales and the fact that many consumers are are

taxes on low-end beer is a zero sum game because the end result is predictable," says the director of economic policy think tank,

KRA may miss excise tax target

# 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

DIAGEO

## 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.



**1 Research**  
We have invested heavily in research and development programmes such as: new brewing materials which include base concentrate process technologies, brewing technologies, liquid product development for both alcoholic and non-alcoholic beverages, development of new packaging and technology solutions.

**2 Planning & Innovation**  
To ensure we are well positioned for continued growth, quality controls are applied at every stage from the quality of seeds, to the knowledge applied on the farm, to harvesting, storage, malting, production and the distribution chain.

**3 Seeds Matter**  
We are continuously investing in better seeds and varieties while encouraging farmers to adopt new farming practices which will provide higher yields on a small acreage and drought resistance.

**4 Responsible sourcing**  
KBL has built a solid ecosystem and barley value chain that comprises of farmers, research institute, seed companies, financial institutions, fertiliser providers, mechanisation companies as well as sector service providers.

**5 Brewing**  
KBL has three operational plants in Nairobi. Two of these are in Ruwaka catering for our urban and one in Industrial Area that caters for export.

**6 Packaging**  
We are constantly looking to innovate, finding ways to optimise the production of our packaging materials, such as light-weighting and increasing the recycling and reuse proportion.

**7 Route to Consumer**  
Getting to our consumer, through our route to market program is an important facet of our strategy. We work together with qualified partners to ensure that our customers get our benefits on time.

**8 Returnable Glass**  
When you look at the glass side of the business, you'll notice that we use returnable glass. That ensures that we do not pollute the environment.

**9 Post Consumption**  
By 2020, we aim to have sterilised waste from our operations. We're finding new and better ways to reduce, reuse, returnable and recycle. We have introduced an environmental awareness campaign that is geared towards making sure KBL employees become environment ambassadors.

**WE ARE A COMPANY THAT IS BUILT AND SUSTAINED BY INNOVATION AND A SENSE OF PURPOSE.**

**80% OF OUR MATERIALS ARE LOCAL**

**52 Billion**  
Overall contribution to tax revenues in 2017

**660 MILLION**  
KES REVENUE

**1.7 BILLION**  
PAID TO BARLEY FARMERS

**19,000**  
SENATOR KEG OUTLETS  
purposed to provide a healthy alternative for illicit brew drinkers.

**250**  
scholarships given out to bright and needy students

**2.5 million**  
with access to clean safe water

**PLANTED OVER 1,000,000 TREES IN KENYA**

**Building thriving communities**

**80,000**  
ENTERPRISES  
Our value chain supports over 80,000 businesses which include retailers, farmers, distributors and agents. These enterprises further employ 8 households, amplifying KBL's direct impact in the economy.

**95%**  
of our waste water is recycled. We have invested in a 1,000,000 ltr water treatment plant on site. The biggest in the region.

**ZERO HARM**  
Safety standards are adhered to all the time, every single moment. Our Zero Harm programme is designed to ensure that all employees go home safe, every day, and is based on four pillars - prevention, culture, compliance, and capability.

**WE MAKE A QUALITY PROMISE TO OUR CONSUMERS EVERY TIME THEY BUY OUR BEER. TO KEEP THIS PROMISE WE ALWAYS MEET OR EXCEED OUR CONSUMERS EXPECTATIONS. AND WE ARE PROUD OF THE APPROACH WE HAVE TAKEN OVER THE YEARS.**

**DO NOT FORWARD TO PERSONS UNDER 18 YEARS. EXCESSIVE CONSUMPTION OF ALCOHOL IS HARMFUL TO YOUR HEALTH. STRICTLY NOT FOR SALE TO PERSONS UNDER 18 YEARS**