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Nigeria

Cotton and Products

Annual

2005

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Report Highlights:

Nigeria's lint cotton production is forecast to decline by three percent to 92,000 tons, in response to the prevailing low prices. The price of seed cotton in 2004/05 fell markedly due to the weak demand by the local textile companies and the suspension of GON's Export Expansion Grant. The EEG was reinstated in April 2005 but was reduced from 40 percent to 20 percent for lint. Exports are forecast to increase.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Lagos [N1]
[N1]

Executive Summary

Cotton production in Nigeria goes through a vicious circle low production in one year followed by high production the following year. Nigeria's lint production in 2005/06 is forecast at 92,000 tons, down from 95,000 tons this year. The lower forecast in crop size is largely based on a projected three percent decline in cotton area. The prevailing low seed cotton prices, scarcity and high cost of fertilizer and attractive grower prices for competing crops are encouraging farmers to switch from cotton to corn in the upcoming 2005/06 season. Crop yield levels will remain low due in large part to poor seed quality and low input utilization.

The GON banned all textile imports in January 2004. Nigeria's textile industry is struggling to cope with imports of 'illegal' Asian products and reduced consumer demand. Textiles products often enter Nigeria in an undocumented fashion and are sold to consumers at prices, which reflect the avoidance of import duty payment. Industry sources report that, several textile companies have closed operations, with the number reducing from a peak of 175 in the mid-1980s to just about 35 and employment in the sector from 250,000 to 35,000 currently.

In MY2005, Nigeria imported 15,000 MT and exported 21,127 MT of lint.

Exchange Rate: \$1 = 133 Naira

PSD Table: Cotton

Nigeria Cotton							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		08/2003		08/2004		08/2005	MM/YYYY
Area Planted	0	375000	0	390000	0	378000	(HECTARE S)
Area Harvested	375000	375000	380000	390000	0	378000	(HECTARE S)
Beginning Stocks	31353	31353	28087	28087	31353	31353	(MT)
Production	90357	90357	91445	95000	0	92000	(MT)
Imports	15241	15241	15241	15421	0	15421	(MT)
MY Imp. from U.S.	0	0	0	0	0	0	(MT)
TOTAL SUPPLY	136951	136951	134773	138508	31353	138774	(MT)
Exports	19595	19596	21773	21773	0	24774	(MT)
USE Dom. Consumption	89268	89268	81647	85382	0	86382	(MT)
Loss Dom. Consumption	1	0	0	0	0	0	(MT)
TOTAL Dom. Consumption	89269	89268	81647	85382	0	86382	(MT)
Ending Stocks	28087	28087	31353	31353	0	27618	(MT)
TOTAL DISTRIBUTION	136951	136951	134773	138508	0	138774	(MT)

Production

Post forecasts Nigeria's lint output in 2005/06 at 92,000 MT, down from the revised 95,000 MT in 2004/05. Grower prices are unattractive this year and it is encouraging farmers to switch from cotton to alternative crops for the upcoming season. Cotton farming in Nigeria is a smallholder crop and farming systems are mostly rain-fed, mixed cropping. The average cotton farm size is no more than 2 hectares. A major threat to Nigeria's lint production is the lack of good quality planting seeds. The demand for cottonseed by the oil crushers is growing and has a direct effect on seed availability for planting purposes.

The average crop yield in 2004/05 was approximately 240 kilograms of lint (about 650 kilograms of seed cotton) per hectare, same as a year ago. The low crop performance is because farmers routinely rely on mixed seeds from the gins in carrying out their planting programs. Seeds from the gin go directly for planting without any germination test or certification for quality. The ELS and transgenic cotton varieties are not grown in Nigeria. Although opinion on transgenic cotton in Nigeria is divided, Post participation at a recent national cotton forum revealed that Nigeria generally favors the product.

Crop Quality

Nigerian cotton is similar to American upland variety and the intrinsic quality is generally good. The staple length ranges from 1 1/32" to 1 1/8", the micronaire ranges from 3.6 to 4.4 and the tenacity measured on 1/8 stelometer range from 19 to 22 gms/tex. However, the International Cotton Organization in a survey conducted in 2002, rated Nigeria's cotton to be the poorest in quality largely because of its trash content, which sometimes goes as high as 8 percent. Also, the use of polypropylene bags by farmers often results in Nigerian

lint being contaminated with bag fiber, which creates problems for textile spinning and dyeing. Local textile manufacturers now classify lint either as polypropylene-free or polypropylene-contaminated. The poly free lint attracts 10 naira per kilogram price premium over the poly contaminated lint. Nigerian lint exports attract discounts of up to 20 percent because of its poor quality.

Consumption

The average price of local lint fell from 175,000 naira per ton in 2003/04 to 115,000 naira per ton in 2004/05. The lower price this year reflects the impact of GON's suspension of the Export Expansion Grant (subsidy) in 2004. Industry sources also attribute the lower prices to declining demand by the downstream textile-manufacturing sector.

Following are the major constraints to growth in Nigeria's textile manufacturing sector:

- A depressed domestic demand due to weak consumer purchasing power.
- Stiff competition from undocumented Asian textile imports.
- A large and growing import volume of used textile products despite an import ban on such imports.
- High production costs and a non-supportive operating environment for the general business community.
- Poor state of infrastructure in Nigeria, which often requires mills to provide their own electricity, water, feeder roads, and telecommunication facilities. This renders Nigerian textile products uncompetitive.

AgOffice field visits revealed that several textile manufacturers have stopped production.

Price Table: Cotton Lint

Country Nigeria

Commodity Cotton

Prices in per uom

Year	2003	2004	% Change
Jan	130,000	180,000	38%
Feb	132,000	160,000	21%
Mar	140,000	140,000	0%
Apr	140,000	130,000	-7%
May	150,000	120,000	-20%
Jun	160,000	110,000	-31%
Jul	165,000	105,000	-36%
Aug	170,000	100,000	-41%
Sep	170,000	90,000	-47%
Oct	165,000	90,000	-45%
Nov	180,000	90,000	-50%
Dec	185,000	90,000	-51%

Exchange Rate Local Currency/US \$

Date of Quote MM/DD/YYYY

Trade

Despite its low quality (high trash content and polypropylene bag contamination), Nigeria's lint exports are forecast at almost 25,000 MT, up from the revised estimate of 21,000 MT in 2004/05. The anticipated increase is based on the decision of the GON to reinstate the EEG. The GON suspended the EEG in 2004 following widespread abuses, but reinstated the grant in April 2005, albeit at a reduced rate of 20 percent from 40 percent in 2004. The subsidy more than compensates for the discount pricing of Nigerian cotton in terminal markets. There are no official figures for lint exports. Estimates used in this report are obtained from the local trade. Major export destinations for Nigeria's lint are China, Bangladesh, Indonesia, Pakistan, India, Taiwan and Italy. A breakdown of lint exports by destination is not available for a trade matrix.

Typically, Nigeria imports about 15,000 MT of cotton lint largely through undocumented cross-border trade. Although most textile mills in Nigeria use the locally produced lint with satisfaction, some of the modern mills require the longer staple lint, which is available from the neighboring Chad and Niger Republics to blend with the medium staple cotton available locally for finer prints.

Policy

In January 2004, the GON implemented a ban on all textile imports to support local manufacturers. However, cross-border smuggling of the products is expected to continue despite recent efforts at stricter enforcement. The GON's export subsidy program, the EEG, has been reduced from a flat rate of 40 percent to 20 percent and 30 percent for lint and fabric, respectively.

Marketing

U.S. lint exports to Nigeria were discontinued more than two decades ago, largely because it could not compete with the cotton lint available from the neighboring Benin, Chad and Cameroon Republics. Lint from these countries are either imported duty free or smuggled into Nigeria, while U.S. imports attract a 50 percent duty. AgOffice is provided training in the US to a cotton merchant/ginner under our Cochran Fellowship Program in 2004 primarily to re-open contacts between the Nigerian textile industry and U.S. lint exporters.