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Product Brief

Nigeria's Dairy Market

2006

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Report Highlights:

Nigeria's market for imported dairy products is estimated at 240,000 metric tons, valued about \$600 million in 2005. Whole milk powder, evaporated and condensed milk from suppliers in New Zealand, Australia, South America and EU countries are dominant. The U.S. market share is insignificant. However, the U.S. has advantage over third-country suppliers for higher quality, value-added dairy products such as skimmed and low-fat milk powder, butter, cheese, and milk ingredients for which demand is increasing. Nigeria's recent phased-in adoption of the ECOWAS Common External Tariff (CET) could reduce import tariffs and expand opportunities for U.S. dairy products.

Includes PSD Changes: No
Includes Trade Matrix: No
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[NI]

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SECTION I. MARKET OVERVIEW

Nigeria has a population of 130 million that is growing at an estimated three percent annually. About 70 percent of Nigeria's population is employed in agriculture. Agriculture is primarily subsistence based but holds about 35 percent share of GDP, estimated at \$95.3 billion in 2005 (The Economist, November 2005).

The agricultural sector has seen some growth over the last few years--increased by 4.6 percent, 5.6 percent and 6.2 percent in 2002, 2003 and 2004 respectively. Domestic food products such as corn, sorghum, tubers, cocoa vegetable oil, rice, maize, sorghum, millet, palm produce, dairy products, soybeans, poultry, seafood, etc are the major traditional foodstuffs consumed by the majority of the population. However, basic bulk food needs such as wheat, rice, sugar, milk powder, etc are imported.

Nigeria's total agricultural imports amounted to \$2 billion in 2003 while agricultural exports reached \$400 million. US agricultural exports to Nigeria increased to approximately \$554 million (wheat accounting for approx. 92 percent) in 2005, up from about \$444 million in 2004. A breakdown of US agricultural exports to Nigeria in 2005 shows: bulk agricultural products (\$523 million); intermediate foods, including dairy products (\$22 million) and consumer-ready food products (\$9 million). Exports of seafood and forestry and dairy products were insignificant. Nigeria will likely continue to import wheat, rice, dairy products and HVPs as families demand more convenience and nutrition foods.

Accurate statistics on livestock production and marketing are not available and therefore, detailed projection of the supply and demand of the livestock sub-sector cannot be realistically made. Central Bank of Nigeria (CBN) data however, reported livestock contributed 3.3 percent to Nigeria's GDP in 2004.

The predicted size of the cattle population and the magnitude of milk production for the period between 2001 and 2005 are shown in the table below:

Estimated cattle population and milk production

Year	Cattle Population	Milking Cows (Herd)	Milk Production (tonns)
2001	21,470,800	3,435,328	515,291
2002	22,329,632	3,572,741	535,911
2003	23,222,817	3,715,650	557,347
2004	24,151,729	3,864,276	579,641
2005	25,117,798	4,018,847	606,827

Source: Livestock Sub-sector Review Report No. 102/92/CP-NIR 49 SR/5/8/92.

Estimate annual demand and supply of milk from the national herd, 2000-2005.

Year	Demand (tones)	Supply (tones)
2000	990,000	495,479
2001	1,014,750	515,291
2002	1,040,004	535,911
2003	1,066,050	557,347
2004	1,092,780	579,641
2005	1,120,005	606,827

Source: Livestock Sub-sector Review Report No. 102/92 CP-NIR 49 SR 5/8/92

From all indications, the supply of dairy products has consistently failed to catch up with demand over the last decade. Dairy products were mostly used in Nigeria as complements for tea, breakfast and infant cereals. Recently, they have increasingly gained wider applications as inputs for processing local foods such as ice cream, pastries, yoghurt, biscuits, confectioneries and beverages. Consequently, Nigeria remains a net importer of dairy products due to declining livestock sector, growing population, increasing urbanization and wider use of dairy products ingredients.

The GON's protectionist policies to protect the local food processors over the last five years, has limited outputs to a selection of lower quality products for Nigeria's predominantly mass market. Prices are highly elastic among this consumer segment and many producers are finding it difficult to increase prices but are faced with increasing operating costs. Increasing demand for ice cream, yoghurt and other dairy-based foods and beverages has also increased the search by local food processors for dairy inputs such as skimmed milk powder, milk ingredients and proteins.

Domestic food processors are beginning to find profitable niche in meeting the tastes of the discerning, high-income and more inelastic consumers through improved product quality and varieties. Non-fat, low-fat milk, milk cubes and milk-based energy drinks are becoming more popular among these consumer segments. Access to value-added, higher quality imported dairy inputs has therefore become a major challenge for local food processors. This could create market opportunity for U.S. dairy products. (See GAIN Report #: NI6003)

Advantages and Challenges:

Advantages	Disadvantages
Nigerian consumers' perception of U.S. foods as higher quality products.	Limited knowledge of the Nigerian dairy market among the U.S. trade.
Nigerian consumers readily adapting U.S. tastes and preferences especially for convenience-typed foods and snacks	Nigeria's mass market characterized by low consumer purchasing power.
Increasing demand for convenience-type dairy products due largely to: a continued massive rural-urban migration, increasing female workers and school children.	Higher price and limited stock of raw and basic dairy products in the U.S.
Growing number of discerning Nigerian consumers demanding more varieties of hygiene, nutritious and differentiated foods.	Competition from Australia, New Zealand, South American and East European countries
Increasing demand for high quality dairy inputs by local processors, to improve outputs and meet the tastes of high-income consumers.	Labeling of "Best Before Dates" on U.S. HVPs is confusing to Nigerian consumers. The "Day/Month/Year" order or a spell-out of months is understood.
Nigerian firms generally see U.S. suppliers as a reliable source, in terms of volume, standards and quality.	Limited local infrastructure; limited operational capital; high local production cost; and unstable GON import policy.
Relatively lower fob prices for higher quality U.S. value-added foods products and ingredients.	Direct U.S. to West African shipping routes is infrequent and adds to freight cost and longer shipping time.
The U.S. more efficient production systems and better capabilities to add value to dairy products.	A lack of knowledge of dairy inputs available in the U.S.
Increasing desire by developing countries to upgrade diets.	Limited contact; negative perceptions about Nigerian businesses among U.S. exporters and a reluctance to do business in Nigeria.
Relatively low import tariffs on dairy products.	GON's inconsistent food import policies.

SECTION II. MARKET SECTOR OPPORTUNITIES AND THREATS

Imports and Distribution Pattern:

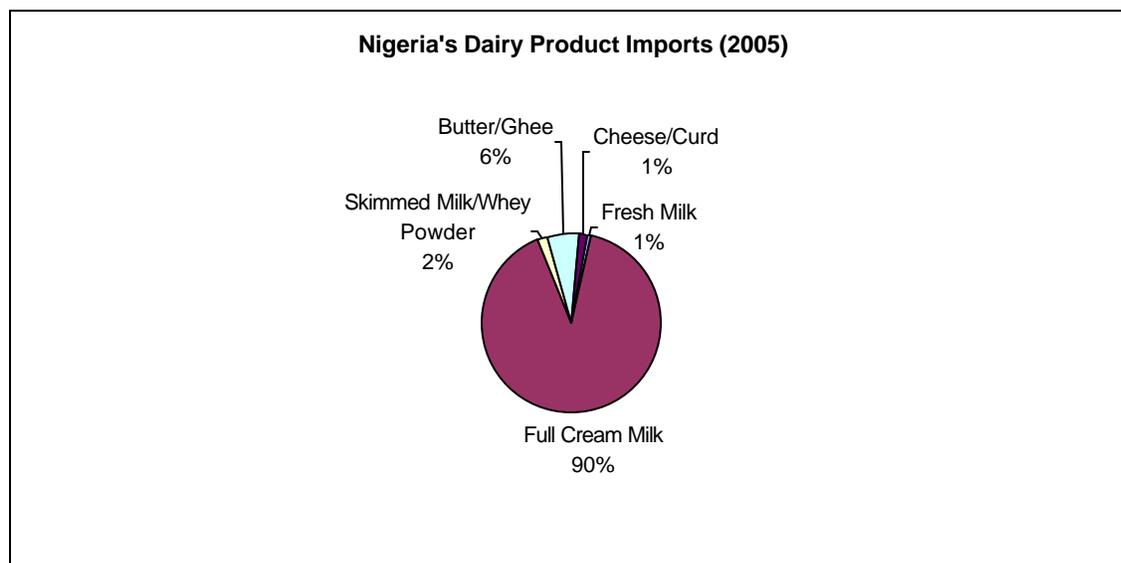
Nigeria's population is growing at three percent per annum; urbanization at four percent; and, average increase in dairy consumption is five percent (Industry source). The World Bank and the National Livestock Project Division had initiated a dairy co-operation program (MILCOPAL) in 2001 for procuring, transporting, processing and marketing milk collections from registered local milk producers. Other milk-collection schemes were also, initiated by both the public and private sectors, including Nigeria's largest dairy firm (WAMCO), for the production of butter, cheese, pasteurized fresh milk and yoghurt. Outputs from these operations, however, had either become extinct or, remained insignificant.

The various activities of the Nigerian dairy industry are unorganized and traditional dairy supply from the national herd is insignificant except for the relatively few dairy processing firms that produce and market reconstituted milk products from imported powdered milk. Domestic dairy products [Fresh/Sour milk (88%); Butter (7%); and cheese (5%)] contribute less than five percent of total market. The low-level output is resulting from declining production of the national herd; high logistical involvement and operation costs; non-competitive products compared to the imported milk powder; and long distance between the markets and the local collection centers.

The major dairy products traded internationally can be broadly placed under dry milk powder and ingredients, butter and cheese. Within these categories are a large number of differentiated dairy products such as cheese varieties, dry milk powder with a wide range of fat contents or milk proteins. Non-fat dairy products and dairy ingredients are gaining wider food applications.

Nigeria's market for imported dairy products in 2005 was estimated at 240,000 metric tons of milk powder [approx. 1.8 million kg of Liquid Milk Equivalent (LME)] valued approximately \$600 million. This represented more than 95 percent of the total dairy market in 2005. Full cream milk (including bulk whole milk powder packed in 25kg bags), Evaporated and Condensed milk, constituted about 90 percent of Nigeria's total dairy product imports in 2005. The high-income and expatriates urban dwellers however, consume imported and expensive butter, cheese and other specialty dairy products.

Shares of major dairy product imports are shown in the chart below:



Three marketing and processing channels exist for dairy products in Nigeria:

1. Traditional marketing of milk and products processed on-farm (milk products mostly distributed in rural areas and they include: sour milk, fresh milk, ghee, yoghurt, local butter and cheese)--2%
2. Collection and processing of raw milk in dairy plants (milk supply from national herd supplied by commercial dairy farms located in the catchment areas)--3%
3. Distribution of dairy imports (evaporated milk, powdered milk, butter, cheese and cream usually in the urban areas)--95%.

Nigeria's imported dairy products were mostly supplied from New Zealand, Australia, South America and EU countries as well as some Asian countries (especially India). The Eastern European countries such as Ukraine and Poland also supplied low price dairy products such as skimmed milk powder used mostly in ice cream, yoghurt and beverage production. The U.S. dairy exports to Nigeria are insignificant. The U.S. exported about \$1.031 million worth of dairy products to Nigeria in 2005. This represented a drop of approximately 59 percent compared to 2004.

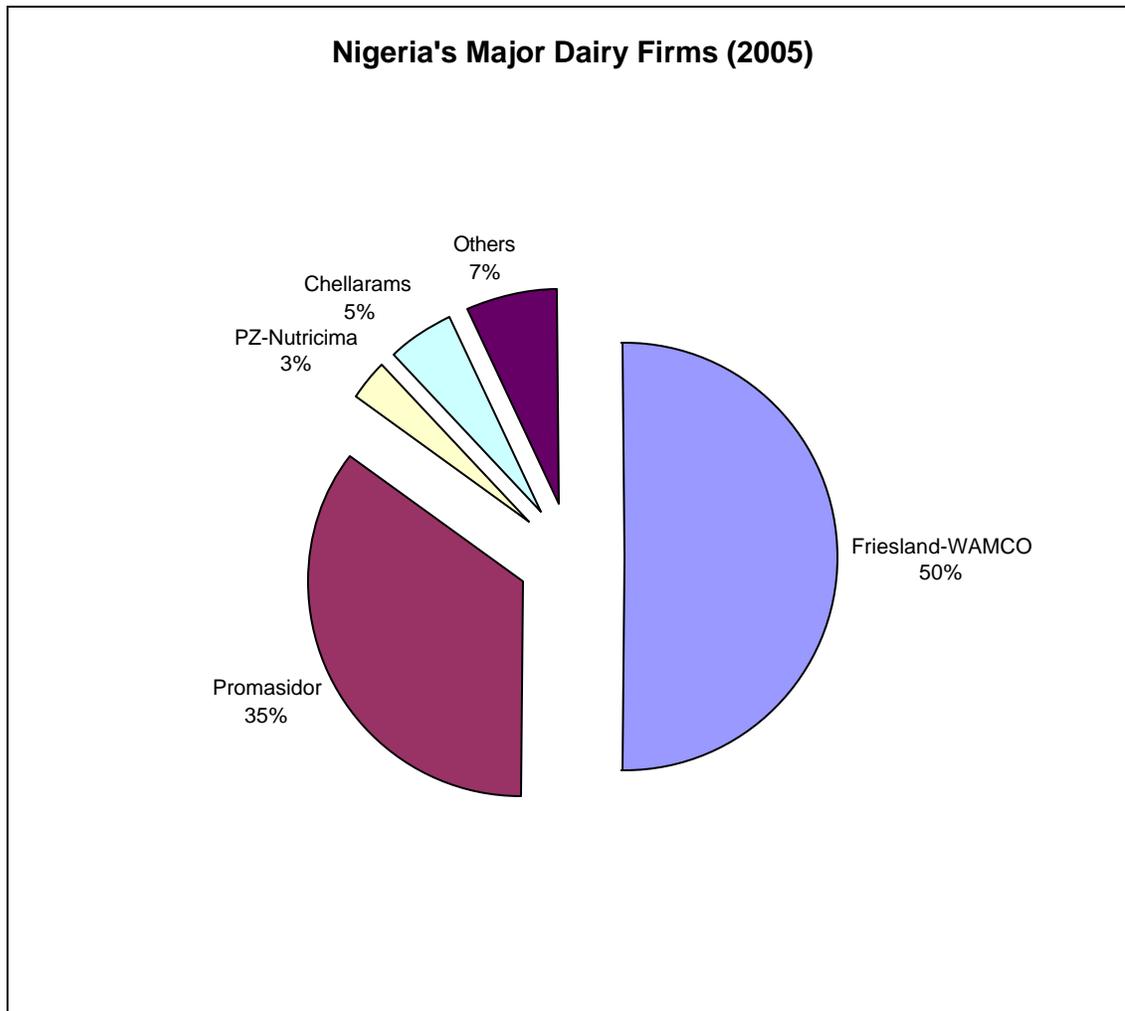
The key constraints for expanding US dairy product exports to Nigeria include: GON's general anti-import measures for high-value food, including high tariffs; competition from Australia, New Zealand, South American and East European countries; dumping of unwanted surplus dairy commodities by some third-country suppliers; low purchasing power of the average consumer; relatively higher US freight cost and lack of knowledge of US products in the food processing sector.

Market Structure & Profiles:

A dairy industry exists in Nigeria with its principal raw material coming in the form of imported powdered milk:

- Two or three major companies dominate the industry. They bring in powdered milk from their technical partners outside the country and re-constitute them into liquid milk for direct sale.

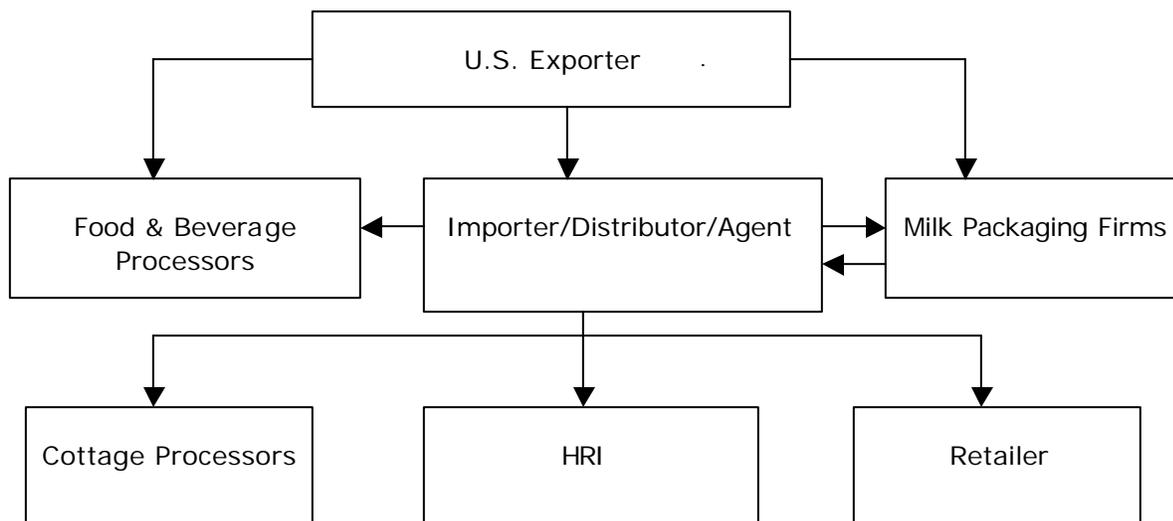
- Nigeria's leading dairy firms and market share are shown in the chart below:



- Some dairy firms also process imported milk products to produce yoghurt, ice cream and confectioneries.
- A number of the companies (marketing) bring in powdered milk, and repackage into small convenient sachet affordable to low-income consumers and for one-time use. Many of these firms register sister companies that import dairy products for their own use and for sale to other firms requiring the products.
- Only one dairy farming and processing firm in Nigeria (Integrated Dairy Farm, Vom-Plateau State produces yoghurt and cheese (under the brand name "Farm Fresh").
- There are numerous small family-based companies involved in the production of yoghurt. Most of the products often do not meet health standards as stipulated by the authorities.
- Output from domestic dairy producers accounted for 3-5 percent of the market supply.

Imported dairy products basically enter the market through channels as shown below:

Exporter Entry Flowchart for Intermediate Food & Ingredients



Large multi-national firms around the world are now beginning to form alliances with the larger Nigerian dairy packaging and marketing companies, for selling their products in Nigeria. Glanbia (an Irish dairy group), has created a joint venture with PZ Cussons (a British Group with a large Nigerian subsidiary) to build a new \$20 million (35,000 tons per annum) facility in Nigeria which will produce evaporated milk and milk powder for the local market from powdered milk sourced primarily from Glanbia's plants in Ireland. PZ, the importer-distributor of "Olympic" milk brand in Nigeria, partnered with Nutricima to establish a \$30 million manufacturing plant in Nigeria producing "Nunu" milk brand. Promasidor, another player in the world dairy market has consolidated with Nigeria's Wonderfoods for marketing the "Cowbell" brand; Frieslandfoods of Netherlands is working with Nigeria's biggest dairy firm—WAMCO.

The growing number of consumers seeking higher quality and specialty dairy products in Nigeria is increasing; globalization effects and the increasing number of consumers adopting western lifestyles and consumption patterns is resulting in increasing demand for dairy products such as ice cream, yoghurt, butter and cheese. U.S. dairy firms have more efficient production system over third-country competitors, and therefore, have the advantage of producing and increasing export market share for high-value dairy products (including skimmed milk powder, butter, cheese and milk product ingredients), to Nigeria within the next few years.

Entry Strategy:

- New-to-market U.S. dairy firms can enter the market through:
 1. Strategic marketing alliance with full-line dairy processors
 2. Direct sale to dairy packaging firms
 3. Direct sale to Importer-Distributors or local representatives
- Entry through local processors and semi-processor or local representatives is necessary as GON's food and drug regulatory agent (NAFDAC) requires that "foreign manufacturers or exporters must be represented in Nigeria by a duly registered

company or individual with the capacity to effect product recall, if necessary". Refer to FAS Lagos FAIRS report #NI5015 for further details.

- U.S. exporter should contact the Agricultural Attaché, American Consulate, and Lagos-Nigeria for assistance in finding an importer for their products.

SECTION III. COSTS AND PRICES

Average FOB prices (per ton):

- Whole Milk Powder (\$2,220); Cheese (\$2,800); Butter (\$2,200); Skimmed Milk Powder (\$2,050); and, Fresh Milk (UHT)--\$1,800
- Imported WMP are loaded in bags of 25 kg and costs approximately \$56 per kg bags. Average Resell Price is \$86 per 25 kg bag.
- Clearing, including duty, port inspections charges and land haulage (to warehouse) costs for one 20' container is estimated at \$7,000 (Industry source).
- Average warehousing, processing and marketing/distribution costs for concentrate total \$6,160/ton.

Tariffs:

Nigeria began the phased-in implementation of the ECOWAS Common External Tariff (CET) agreement in January 2006. Accordingly, the GON plans to phase out all import bans by 2007 and reduce Nigeria's existing 20 different tariff categories to the following five:

BAND	ITEMS DUTIABLE
0%	Necessaries, special medicaments, industrial machinery and equipment (industrial machineries and equipment will attract 0% for one year only).
5%	Raw materials and other capital goods
10%	Intermediate goods
20%	Finished goods
50%	Finished goods in industries that the government wants to protect

Please see Appendix II, for current tariff details of different dairy products.

The Nigerian Customs Service is GON's agency for import duty collection. Total tariff payable on dairy products are (like other products), assessed at 5 percent Value Added Tax (VAT) on CIF value plus (+) import duty (+) a port surcharge assessed at 7 percent of import duty (+) 1 percent of import duty (called Customs Service inspection charge).

SECTION IV. MARKET ACCESS

Regulations:

NAFDAC (Nigeria's food and drug regulatory agency) inspects and approves imported dairy products prior to delivery to processor's or importers facilities for storage and processing. NAFDAC also, inspects the storage and processing of the products and also issues approval for marketing and consumption of the processed dairy products. Dairy imports are also subjected to destination inspection at any of Nigeria's port of entry effective March 2006.

Please refer to GAIN report #: NI5015 (FAIRS Report), for further details of NAFDAC's requirements.

SECTION V: POST CONTACT AND FURTHER INFORMATION:**1. Agricultural Affairs Office (USDA/FAS)**

American Consulate General
#2, Walter Carrington Crescent
Victoria Island, Lagos-Nigeria
Tel/Fax: 234 -1 - 261-3926, 775-0830
e-mail: - aglagos@usda.gov
Website: www.fas.usda.gov/

2. National Agency for Food & Drug Administration & Control (NAFDAC)

Plot 204, Olusegun Obasanjo Way
Wuse Zone 7
Abuja - Nigeria
Telephone: (234) 9 234-6383, 234-6405-6
Fax: (234) 9 269-5163, 234-8382
e-mail: nafdac.lagos@alpha.linkserve.com
Website: www.NAFDAC.org
Comptroller-General

3. Nigeria Customs Service

Customs Headquarters
3-7, Abidjan Street
Off Sultan Abubakar Way
Wuse Zone 3
Garki-Abuja, Nigeria
Tel: 234-9-5236394, 2534680
Fax: 234-9-5236394, 5234690

Appendix I: Nigeria's Economic Structure (Annual Indicators)

	2001*	2002*	2003*	2004**	2005**
GDP (US\$ bn)	48.0	46.7	58.4	74.0	95.3
Real GDP growth (%)	4.6	3.7	10.2	6.1***	4.8
Consumer price inflation (av; %)	18.1	13.6	14.0	15.0*	15.6
Population (m)	126.6**	129.9**	133.2**	136.5	139.8
Exports of goods fob (US \$ m)	19,598	17,672	27,250	37,326	51,897
Imports of goods fob (US\$ m)	-11482	-13,631	-17,193	-19,133	-25,995
Current account balance (US\$ m)	1,256	-5,400	-1,569	2,914	9,318
Foreign exchange reserves excluding gold (US\$ m)	10,457	7,331	7,128	16,956*	30,181
Total external debt (US\$ bn)	31.0	30.5	35.0	37.1	36.8
Debt service ratio, paid (%)	11.1	7.3	5.4	4.1	3.2
Exchange rate (av.) N: US\$	111.23	120.58	129.22	132.89	131.20

Notes: *Actual. ** Economic Intelligence Unit estimates. *** Official Estimates.
'N', represents Naira (Nigeria's currency).

Source: Economist Intelligence Unit, Country Report (Nigeria)—November 2005.

Appendix II: Tariff for Dairy Produce; birds' eggs; natural honey; Edible products of animal origin, Not elsewhere specified or included.

Notes.

1. - The expression "milk" means full cream milk or partially or completely skimmed milk.
2. - For the purposes of heading 04.05:
 - (a) The term "butter" means natural butter, whey butter or recombined butter (fresh, salted rancid, including canned butter) derived exclusively from milk, with a milk fat content of 80% or more but not more than 95% by weight, a maximum milk solids-not-fat content of 2% by weight and a maximum water content of 16% by weight. Butter does not contain added emulsifiers, but may contain sodium chloride, food colors, neutralizing salts and cultures of harmless lactic-acid-producing bacteria.
 - (b) The expression "dairy spreads" means a spreadable emulsion of the water-in-oil type, containing milk fat as the only fat in the product, with a milk fat content of 39% or more but less than 80% by weight.

3. - Products obtained by the concentration of whey and with the addition of milk or milk fat are to be classified as cheese in heading 04.06 provided that they have the following three characteristics:

- (a) Milk fat content, by weight of the dry matter, of 5% or more;
- (b) A dry matter content, by weight, of at least 70% but not exceeding 85%; and
- (c) They are moulded or capable of being moulded.

3. - This Chapter does not cover:

- (a) Products obtained from whey, containing by weight more than 95% lactose, expressed as anhydrous lactose calculated on the dry matter (heading 17.02); or
- (b) Albumins (including concentrates of two or more whey proteins, containing by weight more than 80% whey proteins, calculated on the dry matter) (heading 35.02) or globulins (heading 35.04).

Subheading Notes:

1. - For the purposes of subheading 0404.10, the expression "modified whey" means products consisting of whey constituents i.e. whey from which all or part of the lactose, proteins or minerals have been removed, whey to which natural whey constituents have been added, and products obtained by mixing natural whey constituents.
2. - For the purposes of sub-heading 0405.10 the term "butter" does not include dehydrated butter or ghee (subheading 0405.90).

HEADING/ H.S. CODE	DESCRIPTION	SU	NG DUTY RATE
04.01	Milk and cream, not concentrated nor containing added sugar or other sweetening matter.		
0401.1000.00	- Of a fat content, by weight, not exceeding 1%	kg	20
0401.2000.00	- Of a fat content, by weight, exceeding 1% but not exceeding 6%.....	kg	20
0401.3000.0	- Of a fat content, by weight, exceeding 6%...	kg	20

0402	Milk and cream, concentrated or containing added sugar or other sweetening matter: - In powder, granules or other solid forms, of a fat content, by weight, not exceeding 1.5%:		
0402.1000.11	-- In powder form.....	kg	5
0402.1000.19	-- In granules or other solid forms.....	kg	20
	- In powder, granules or other solid forms, of a fat content, by weight, exceeding 1.5%:		
0402.2100.22	-- Other containing added sugar or other sweetening matter:	kg	5
		kg	20
0402.2100.23	--- Whole milk powder, 28% fat content.		
0402.2900.24	--- Other, including granules or other solid forms.		
	-- Other:		
0402.2900.29	--- Instant full cream powder, 26% fat content	kg	5
0402.9100.00	--- Other.....	kg	20
	- Other:		
0402.9900.00	-- Not containing added sugar or other sweetening matter.....	kg	20
	-- Other.....	kg	20
04.03	Buttermilk, curdled milk and cream, yogurt, kephir and other fermented or acidified milk and cream, whether or not concentrated or containing added sugar or other sweetening matter or flavoured or containing added fruit, nuts or cocoa.		
0403.1000.00	- Yogurt.....	kg	20
	- Other:		
0403.9000.91	-- In powder form	kg	5
0403.9000.91	-- In other forms	kg	20

04.04	Whey, whether or not concentrated or containing added sugar or other sweetening matter; products consisting of natural milk constituents, whether or not containing added sugar or other sweetening matter, not elsewhere specified or included.		
0404.1000.00	- Whey and modified whey, whether or not concentrated or containing added sugar or other sweetening matter.....	kg	20
0404.9000.00	- Other.....	kg	20
0405	Butter and other fats and oils derived from milk; dairy spreads.		
0405.1000.00	- Butter.....	kg	20
0405.2000.00	- Dairy spreads.....	kg	20
	- Other:	kg	5
0405.9000.91	-- Anhydrous Milk Fat	kg	20
0405.9000.99	-- Other.....	kg	20
04.06	Cheese and curd.		
0406.1000.00	- Fresh (un-ripened or uncured) cheese, including whey cheese, and curd.....	kg	20
0406.2000.00	- Grated or powdered cheese, of all kinds....	kg	20
0406.3000.00	- Processed cheese, not grated or powdered.....	kg	20
0406.4000.00	- Blue-veined cheese.....	kg	20
0406.9000.00	- Other cheese.....	kg	20

Source: Nigerian Version of ECOWAS Common External Tariff (CET) tariff book