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## **Nigeria**

## **Cotton and Products**

## **Annual**

## **2002**

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### **Report Highlights:**

**Nigeria's textile sector is coping with stiff competition from low-cost imports and reduced domestic demand resulting from weakened consumer purchasing capacity. Cotton prices have fallen markedly over the past few months. Nigeria's cotton exports continue to be constrained by poor quality and low international prices.**

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
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## Executive Summary

Nigeria's textile industry is struggling to cope with rising production costs, stiff competition from Asian textile imports, and a reduced sales volume resulting from weak consumer purchasing power. Several textile manufacturing companies reportedly are in distress, with no less than 20 plants (about 12 percent of the total textile operations in Nigeria) having closed down over the past year. Imported textiles often enter Nigeria in an undocumented fashion and are sold to consumers at prices which reflect the avoidance of import duty payment. The illegal import flow increased markedly following an upward adjustment made by the GON in import duty levels for a range of textile products from 35 percent to 65 percent in 1999. Local trade sources estimate average capacity utilization within the local textile sector at less than 25 percent.

Nigeria's lint production in 2002/03 is forecast at 85,000 tons, down from 98,600 tons this year. Poor grower returns for cotton cultivation is encouraging farmers to switch to corn and sorghum. Both cotton farmers and merchants are reportedly holding large stocks due to low demand by textile manufacturers and sharply lower international prices which discourage export sales. Post's lower crop forecast for the upcoming season is based largely upon an anticipated reduction in crop area. Crop yield levels remain low due in large part to poor seed quality and low input utilization.

Exchange Rate :      \$1 = 114.20 Naira

**PSD Table: Cotton**

PSD Table						
Country:	Nigeria					
Commodity:	Cotton					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		08/2000		08/2001		08/2002
Area Planted	350000	350000	375000	375,000	0	340,000
Area Harvested	350000	350000	375000	375,000	0	340,000
Beginning Stocks	31353	31353	33530	14290	35707	35700
Production	87091	87,090	93622	98,600	0	85,000
Imports	15241	15241	19595	15,000	0	10,000
TOTAL SUPPLY	133685	133684	146747	127890	35707	130700
Exports	29394	29394	29393	10,560	0	10,220
USE Dom. Consumption	70761	90000	81647	81,630	0	85,000
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	70761	90000	81647	81630	0	85000
Ending Stocks	33530	14290	35707	35,700	35707	35,480
TOTAL DISTRIBUTION	133685	133684	146747	127890	35707	130700

**Production**

Post forecasts Nigeria's cotton lint production in 2002/03 at 85,000 tons, down from 98,600 tons this year. The decline in output is largely based on a projected 10 percent decrease in cotton area. Weak lint demand by textile manufacturers coupled with a decline in lint exports have dampened grower prices this year. Poor grower returns have encouraged farmers to switch from cotton to other 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 2-3 hectares. Post's recent visit to northern cotton growing zones revealed that farmers and merchants are holding large stocks and as a result, many growers have elected to plant less cotton in 2002/03.

**Inputs**

An inadequate supply of quality planting seeds is the most important constraint to increased cotton production in Nigeria. The GON's collaborative efforts with major stakeholders to procure and distribute pure seeds to farmers have been ineffective largely due to inadequate program funding. The industry no longer is able to direct cotton seed varieties to specific zones where yield results can be maximized. Ginneries today are processing mixed seed cotton types purchased from all parts of the country. Farmers routinely rely on mixed seeds in carrying out their planting programs. As a result, crop performance tend to show low yield levels and poor resistance to outbreaks of pests and diseases. Chemicals are readily available, but utilization is limited by high costs. Average crop yield in 2001/02 was approximately 780 kilograms of seed cotton per hectare compared to a yield potential of approximately 3 tons for locally-developed varieties.

## Crop Quality

Staple length of locally produced cotton is 1 1/16" compared to longer staple cotton (1 1/8") available in other West African countries. Nigerian cotton is handpicked which makes it clean and most textile manufacturers in the country use local lint with satisfaction. Nigerian lint exports attract a discount of up to 20 percent due largely to the use of polypropylene bags by Nigerian farmers. The use of such bags often results in Nigerian lint being contaminated with bag fiber which creates problems for textile spinning and dyeing. Efforts at persuading farmers to use jute bags in place of polypropylene have not been successful.

## Consumption

The textile industry at present is best described as distressed, with no less than 20 textile plants and several ginneries having closed their operations over the past year. Over the past 7 months, seed cotton prices have fallen markedly from 40,000 naira per ton during the last quarter of 2001 to 25,000 naira per ton in May 2002. The average price of local lint fell from 110,000 naira per ton to 95,000 naira per ton during the same period due largely to a declining demand by the downstream textile manufacturing sector. Poor grower prices this year also reflect lower cotton export sales. Domestic lint consumption in 2002/03 is forecast to increase 4 percent to 85,000 tons in response to lower prices and better GON control measures at ports of entry. 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 results in high production costs and renders Nigerian textile products uncompetitive.

Nigeria has a fairly large and well-developed textile industry. At full capacity, the industry can produce 1.4 billion meters of cloth per annum. Less than 25 percent of this capacity was utilized in calendar 2001. The textile industry is the second largest employer of salaried labor in the nation following the Government. At present, the sector employs 65,000 individuals. Operating at full capacity, the textile sector offers potential employment to 300,000 workers.

There are 51 cotton ginneries in Nigeria with a combined installed processing capacity of 700,000 tons of seed cotton per year. Average capacity utilization for Nigeria's ginneries in 2001/02 reached 42 percent, up from 37 percent a year earlier. Most of Nigeria's cotton gins operate on a toll basis due to inadequate working capital and prevailing high interest rates.

## Trade

Nigerian textile manufacturers often require better quality cotton available in neighboring Benin, Cameroon and Chad for blending to produce finer prints. Local textile manufacturers pay a price premium of as much as 20 percent for imported lint because of higher quality and the various practices employed by Nigerian farmers. Water often is added to seed cotton by growers to gain weight and price advantage. Recent distress in the industry has reduced demand for imported lint. Nigeria's lint import volume is forecast at 10,000 tons in 2002/03, down from 15,000 tons this year.

Nigeria's lint exports in 2001/02 fell markedly to an estimated 10,560 tons, down from 29,393 tons a year

earlier. Discount pricing for Nigerian cotton in terminal markets coupled with markedly lower international lint prices have reduced export sales. Trade matrix import and export figures in this report are post estimates.

Industry efforts geared at repositioning Nigeria's textile manufacturing sector to exploit market access benefits offered to Nigeria under the African Growth and Opportunity Act (AGOA) are hampered by a lack of organization within the industry and inadequate capital investment. Some textile manufacturing companies may opt to import U.S. yarn for processing into garments that can be exported to the United States under AGOA.

**Table : Cotton Lint Import Matrix**

Import Trade Matrix			
Country:		Units:	Tons
Commodity:			
Time period:	Aug-Jul		
Imports for	2000		2001
U.S.		U.S.	
Others		Others	
Cameroon	5,000	Cameroon	3,000
Benin	5000	Benin	3,000
Niger	4,000	Niger	2,558
Chad	1240	Chad	2,000
Total for Others	15240		10558
Others not listed			
Grand Total	15240		10558

**Table : Cotton Lint Export Matrix**

Export Trade Matrix			
Country:		Units:	tons
Commodity:			
Time period:	Aug-Jul		
Exports for	2000		2001
U.S.		U.S.	
Others		Others	
India	9,000	Singapore	5,000
Bangladesh	5,000	Korea	
Singapore	7,000	Malaysia	4,000
EU	8,393		
Total for Others	29393		9000
Others not listed			1560
Grand Total	29393		10560

## Stocks

Stock figures in this report represent a residual of estimated production, consumption, and trade. Post has raised stock estimates for the 2001/2002 season to reflect lower domestic utilization, an increase in domestic output and a decrease in cotton exports.

## Policy

A liberalized market for cotton production and trade exists in Nigeria. Government involvement in the cotton sector is limited to providing limited grower input subsidies. In 2000, the GON commissioned a consulting firm to perform a detailed study of Nigeria's cotton production and marketing. Recommendations from the study are currently being implemented by the GON's Cotton Consultative Committee. Activities of the Committee are currently focused on:

- ' Improved funding for cotton research, extension services, and a systematic multiplication program for improved seed varieties.
- ' Establishing formal cotton markets which will ensure the enforcement of quality control standards.
- ' Ensuring that the GON's Cotton Revolving Management Fund live up to its mandate of selecting, procuring, and distributing planting seeds to farmers in a timely manner.

Textile manufacturers under the umbrella of the Nigerian Textile Manufacturers Association have intensified their lobbying efforts with the GON for the re-imposition of a ban on the importation of all textile products. Realizing that the GON is not likely to re-impose the ban, which was lifted in 1997, they are urging the

government to increase the duty on imported fabrics from 65 percent to 150 percent and to implement measures which will curb smuggling activity. In March 2002, the GON instructed customs that the CIF value for imported textiles should be based upon internationally accepted prices and that all imports should arrive in 20 foot containers. This directive is intended to reduce undocumented trade and illicit importer practices of under-invoicing and under-declaration.

## **Marketing**

In January 2001, the GON reduced its import duty on cotton from 35 percent to 25 percent. The lower tariff rate offers some limited marketing opportunities for U.S. exporters, especially of long staple cotton. Nearly all lint imported from the Benin Republic, Chad and Cameroon enters Nigeria through undocumented channels (smuggling) and therefore avoids payment of Nigeria's import duty. There are indications that some textile manufacturing companies may opt for importing U.S. yarn for processing into garments that can be later exported to the United States under AGOA