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Market Development Reports

Nigeria's Cocoa Processing Industry

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Report Highlights:

Nigeria produced about 11 percent of the world's 3.5 million Tons cocoa beans supply in 2005. Together, sub-Sahara Africa (SSA) countries (including Nigeria) accounted for more than 75 percent of the world supply. SSA countries export about 98 percent of their cocoa mostly as beans to the EU and other developed countries for processing into butter and powder. Recent Government of Nigeria (GON) export rebate, improvements in GON support to farmers and increased cocoa-consumption initiatives/promotions in Nigeria, etc., have begun to increase activities in Nigeria's cocoa processing sector.

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SECTION I: MARKET OVERVIEW

Nigeria produced an estimated 385,000 tons of cocoa beans worth more than \$570 million in 2005 (industry sources). This accounts for about 11 percent of world total cocoa production (3.5 million tons). About 60-70 percent of Nigeria's cocoa production and processing activities are located in the southwestern Nigeria and 20 percent in Cross River State, Southern Nigeria. Others are spread across other regions of the country.

Côte d'Ivoire and Ghana produced 39 percent and 19 percent of the world total cocoa respectively in 2005. They are followed by Indonesia and Brazil, with 18 percent and seven percent, respectively. Cameroon and other African countries contribute five percent each. The cocoa-producing sub-Sahara Africa (SSA) countries however, consume about two percent of their production. Local stakeholders are indicating that the low domestic consumption allows foreign buyers to influence the low pricing for cocoa products in international markets.

Production costs in the region (especially Nigeria) is high and product quality differs. About 80-85 percent of Nigeria's cocoa is exported as beans mostly to the EU where they are processed into butter, paste, liquor, etc (75 percent) and powder (25 percent). Belgium, UK, Germany, the Netherlands, etc are the principal destinations. The U.S. imported cocoa beans worth nearly \$50 million from Nigeria in 2005 (USDA's BICO report).

The GON recently initiated export rebates and tax exemptions for local processors, which are resulting in lowering Nigeria's cocoa prices in the international markets. This is reportedly attractive to the EU firms (major buyers) including the EU manufacturers of final products such as chocolate.

Marked improvements in GON support to farmers towards utilization of agrochemicals and subsidized cocoa seedlings, the gradual increase in local demand for beans by domestic processors as well as the GON approval of the 30-percent Export Expansion Grant (EEG) on exported processed cocoa products (only five percent rebate on exported cocoa beans), are resulting in increasing production and local processing. Local growers also earn higher income from their output.

SECTION II: INDUSTRY STRUCTURE

Cocoa beans are purchased by local buying agents and consolidated by cocoa merchants. Cocoa beans are graded at the merchant's facilities by state inspection and grading agents. Graded beans are sold to exporters and local processors. Ghana's cocoa is said to be the best quality and sets the standard for grading other basic, raw cocoa in the SSA region. Grading is assessed by the count of defective beans as follows:

- | | |
|------------|--|
| Grade I | -Have less than 3 percent of mouldy beans, less than 3 percent of slaty beans and less than 3 percent of insect-damaged, germinated or flat beans. |
| Grade II - | -Beans must satisfy counts of 4 percent, 8 percent and 6 percent respectively. |

According to industry sources, proportion of cocoa products exported from the SSA region in 2005 are shown in the table below:

Forms	Proportions (%)
Beans	57
Cocoa paste, powder and cake	25
Cocoa butter	16

Source: industry

Cocoa products are traded at both the London Futures/Foreign Exchange Market and the New York Commodity Exchange. Average per ton values of cocoa products are \$1,500, \$2,400 and \$3,500 for cocoa beans, cocoa paste/powder/cake, and cocoa butter respectively.

Nigeria's cocoa growers obtain the highest prices in the SSA region yet Nigeria's cocoa products sell at lowest export prices. For example, Nigerian beans reportedly trade at a discount to Ivorian beans of between 2 to 5 percent of the London price. This is due mainly to exporters' concessions of, some part of the EEG to the growers to encourage regular bean supplying and some part to the buyers, which makes their offers more competitive at the terminal markets.

Cocoa Marketing Boards and similar agencies were handling exports of cocoa in the region. Except in Ghana, recent liberalization in the region has resulted in the privatization of both the internal and external marketing structures in Nigeria, Cameroon and Côte d'Ivoire. Ghana's cocoa marketing is 80 percent controlled by the government while Nigeria's Cocoa Marketing Board was replaced by a 100-percent liberalized marketing system in 1986.

The foreign exchange benefits of the EEG also attracted inexperienced businessmen into the cocoa market--contributing to the high grower prices. Contract reliability has also declined with cocoa beans quality. Buyers now rely more on the fewer- and better-organized businesses mostly owned by foreigners. Some European trading houses have also established buying operations of their own in Lagos.

Except Côte d'Ivoire and Ghana, other African countries (including Nigeria) export most of their productions as raw cocoa beans. Cameroon, to a lesser extent processes cocoa beans into paste. Nigeria has about 20 processing factories with total installed capacity of more than 220,000 tons bean capacity per year. Collapse of basic infrastructure (especially inadequate power supply) and inconsistent GON policies forced the factories to close down in the 80's.

Local processors enjoy Export Processing Factory status under the more recent GON policies for supporting domestic industries. This exempts them from payment of all taxes and other levies imposed by federal, state and local governments. Also, the EEG on exported cocoa beans and processed cocoa products is five percent and 30 percent respectively. This wide rate differential combine in stimulating Nigeria's local cocoa processing.

Most cocoa-based product manufacturers (e.g. chocolate) in the EU and USA require a blend of cocoa butters from different sources to produce consistent specifications of their products and therefore, would prefer mixing butters in their plants. This gives them additional advantage while negotiating prices with cocoa suppliers located in different countries.

SECTION III: COMPETITIVE FACTORS

According to industry sources, Cocoa-producing SSA countries can effectively influence international cocoa prices by significantly increasing domestic consumption,

finding/developing new markets and increased government support to farmers. The major constraint to implementing these strategies is the predominantly low-income populations of these countries, including Nigeria (More than 70% population of these countries live on less than \$1 a day).

In May 2006, eight major cocoa-producing African countries met in Nigeria's capital—Abuja to find ways of increasing local consumption of cocoa in their respective countries. The following are part of their resolutions: developing cocoa consumption habits; raising awareness amongst citizens of the nutritional and health benefits of cocoa products; developing more varieties of cocoa products; being proactive in stimulating consumption in countries like China and India (through international campaigns), to increase international demand; etc.

The Cocoa Research Institute in Nigeria has developed more varieties of cocoa products—cocoa cream, liquor, bread, cakes and biscuits. It is also initiating strategies and mobilizing resources to commercialize as well as sell patent rights for these products to investors.

The GON has proposed to offer cocoa beverage consumption as supplement for school children at no charge as part of its Universal Basic Education (UBE) program. The aim was to increase enrolment under the program and upon the realization from research, that a greater number of primary school pupils (especially, in the public schools) were not eating enough for proper school attendance and performance whereas more than half of the Nigeria's children under age 15 were underweight. The assumption is cocoa beverage consumption habit among the Nigerian youths and eventually adults can be built and a projected 50 percent of cocoa beans harvested in the country can be locally processed into beverages for domestic consumption.

The GON is also implementing a National Cocoa Development Project, which aims to double Nigeria's cocoa bean production within the next few years. The program aims to persuade growers to replant by supplying cocoa seedlings capable of improved yields, with early bearing and disease resistant seedlings. The uptake appears to be poor because growers cannot afford to absorb the reduction in income and the costs of planting that they have to incur until the replanted cocoa variety starts to yield and eventually outperform the old variety. Cocoa production is unlikely to increase substantially without the GON's direct intervention.

There are also reports of a plan to promote intra-African trade in cocoa products through the New Partnership for Africa's Development and regional blocs. According to the report, this is considering that over 20 million people across the cocoa-producing African countries rely on the produce for their livelihood.

The Cocoa Association of Nigeria (CAN), the only African member of the International Cocoa Organization (ICCO) is working with the GON and other stakeholders to increase local consumption of cocoa by highlighting that cocoa contains more than 300 minerals and vitamins. The organization is reportedly set to launch a campaign slogan—"A Cup of Cocoa a Day Keeps You Away from The Doctor".

SECTION IV: MARKET OPPORTUNITIES & ENTRY

Industry players estimate that Nigeria's cocoa processing (grinding) would increase to 60,000 tons and 100,000 tons by the end of 2007 and 2008 respectively. Recently, both

local and foreign investors as well as local banks (mostly attracted by the EEG) begun purchasing and leasing abandoned cocoa processing facilities.

Cocoa processing factories in operation have risen to six from one since the introduction of EEG. These factories are processing about 20 percent (45,000 tons) of beans to powder, butter, liquors and cake per year. Contract manufacturing has also increased. Demand for Nigeria's butter in the international market is also increasing due to its relatively lowered prices. There are also reports of some major increases in local consumption of cocoa powder beverages, especially among children as Nigeria's income increases.

U.S. agribusiness firms can find export opportunities and entry strategies in this sector through:

- Partnering for human capacity building in Nigeria's cocoa processing as means of promoting the export of U.S. cocoa processing ingredients to Nigeria
- Partnering with the local processors to improve input quality and specifications for the U.S. manufacturers of final cocoa products such as chocolate.

U.S. agribusiness firms interested in exploring business opportunities in Nigeria's cocoa processing sector, can seek assistance of USDA/FAS office in Nigeria to develop business relationships with credible local firms.

SECTION V: POST CONTACT AND FURTHER INFORMATION:

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APPENDIX I. KEY TRADE & DEMOGRAPHIC INFORMATION

Agricultural Imports From All Countries (\$b) / U.S. Market Share (%)	2.5 / 20
Consumer Food Imports From All Countries (\$m)/ U.S. Market Share (%) *1	290/ 10
Edible Fishery Imports From All Countries (\$m) / U.S. Market Share (%) *1	N/A
Total Population (Mil) / Annual Growth Rate (%) *1	140 / 3
Urban Population (Mil) / Annual Growth Rate (%) *1	69 / 3.5
Number of Major Metropolitan Areas *2	26
Size of the Middle Class (Millions) / Annual Growth Rate (%) *3	7 / 2.5
Per Capita Gross Domestic Product (U.S. Dollars)	640
Unemployment Rate (%)	N/A
Per Capita Food Expenditures (U.S. Dollars) *1	260
Percent of Female Population Employed *4	Not Available
Exchange Rate (US\$ 1= 128) *5	128

Footnotes

*1/ Industry/FAS Lagos Estimate (2005)

*2/ Population in excess of 1,000,000

*3/ Middle class is the proportion of the population earning an average annual income of \$600 to \$2,000

*4/ Percent of total number of women (15 years old or above)

*5/ Exchange rate the previous year was US \$1=130).