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Nigeria

Sugar

Annual

2000

Approved by:
David Rosenbloom , Agricultural Counselor
U.S. Embassy
Drafted by:
Ali Michael David, Agricultural Specialist

Report Highlights:
Sugar production will increase this year but Nigeria will continue to rely on imports to satisfy consumer demand for this basic food staple. A new sugar refinery went on line in March 2000 which will process imported raw sugar. This will redirect much of Nigeria's imports from refined to raw sugar. The principal investor in this refinery is moving forward with a feasibility study for 2 new sugar mills in Nigeria.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

Post forecasts an increase in domestic sugar production in 2000/2001 to 50,000 tons, up from 20,000 tons a year earlier. The forecast is largely based on the rehabilitation of cane fields after two consecutive years of fire and flooding on one of the GON-owned estates. The rehabilitation and expansion program for Nigeria's 2 sugar mills and surrounding cane fields, financed by the African Development Bank, (ADB) is back on course following the resumption of the GON's financial contributions to the project. At present, both mills are functioning but at limited rates. One mill will produce less than 500 tons of sugar this year while the second mill's output probably will not exceed 15,000 tons.

The National Sugar Development Council (NSDC), the GON's agency for sugar policy implementation has published a new investment code to encourage private investment in domestic sugar production in Nigeria. Indications of new investment are evident for both existing mills as well as proposed projects.

A new sugar refinery came on line this month with a capacity to produce 700,000 tons of refined sugar. This factory is expected to significantly alter the structure of sugar production and trade in the coming years. Imports of refined sugar in 2000 are forecast to fall markedly from last year, while raw sugar imports will rise dramatically. The refinery was granted reduced duty payment from 10 percent to 5 percent and a complete exemption from the 5 percent assessment from the sugar development levy for its raw sugar imports.

Exchange Rate : US$1 = 101 Naira

PSD Table: Centrifugal Sugar

PSD Table						
Country:	Nigeria					
Commodity:	Sugar					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin		11/1998		11/1999		11/2000
Beginning Stocks	85	85	106	106	156	156
Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	16	16	20	20		50
TOTAL Sugar Production	16	16	20	20	0	50
Raw Imports	20	20	120	120		500
Refined Imp.(Raw Val)	680	680	630	630		300
TOTAL Imports	700	700	750	750	0	800
TOTAL SUPPLY	801	801	876	876	156	1006
Raw Exports	0	0	0	0		0
Refined Exp.(Raw Val)	20	20	20	20		100
TOTAL EXPORTS	20	20	20	20	0	100
Human Dom. Consumption	675	675	700	700	156	750
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	675	675	700	700	156	750
Ending Stocks	106	106	156	156		156
TOTAL DISTRIBUTION	801	801	876	876	156	1006

Production

Nigeria's sugarcane harvest normally begins in late October/early November and runs until the rainy season brings cane cutting/movement to a halt in late April/early May of the following year. This past year, fields in the Bacita area of Kwara State in western Nigeria serving the Nigerian Sugar Company Mill (NISUCO) were flooded for the second consecutive year by heavy rains during June/July 1999. Fields were ruined, with growers required to replant. NISUCO's sugarcane growing areas were again hit with disaster in September/October by extensive fires and reports of sabotage to field operations by employees of the mill who were protesting working conditions under NISUCO. According to NISUCO, these factors resulted in a limited production run this season. The mill reports that their output does not exceed 400 tons. Milling operations ceased in February, approximately 3 months earlier than normal. The reduction in sugar output experienced by NISUCO is being offset by an increase recorded by Savannah Sugar Company which is located in Adamawa State in northern Nigeria. This mill will increase its intake of sugarcane this year significantly thanks to a successful rehabilitation of its equipment. Savannah's processing season continues and will come to an end in about 2 more months. Taking everything into account, Post estimates Nigeria's sugar output in 1999/2000 will reach 20,000 tons, up from 16,000 tons a year earlier. We anticipate that the ongoing rehabilitation and expansion of mills together with improved growing weather and the absence of worker strike activity will allow for an expansion in milled sugarcane volume and a sugar production level of 50,000 tons for the upcoming 2000/2001 season which will begin next October.

Sugarcane utilized for sugar production in Nigeria comes almost exclusively from 4 large growing operations, 3 of which have associated milling operations. The table below provides our estimates of planted sugarcane area in 1999/2000 and sugar output capacities for associated mills. The first 2 companies produce sugarcane on estates belonging to the sugar mills with the help of both salaried field employees and contracted labor referred to as "outgrowers" who receive a negotiated amount per ton of cane delivered regardless of its sucrose content. In the case of Lafiaji, this mill is supplied sugarcane by its own estate which is worked exclusively by its employees. Sunti Sugar Company does not have a dedicated mill. Its sugarcane is delivered to NISUCO. All four of these companies are owned exclusively by the GON.

Company	Area Planted	Land Available	Mill capacity
The Nigerian Sugar Company(NISUCO)	5,600	12,500	60,000
Savannah Sugar Company, Numan	4,500	29,000	100,000
Lafiaji Sugar Company	560	7,500	100
Sunti Sugar Company	420	15,000	No mill

NISUCO and Savannah have been undergoing extensive renovation in recent years. NISUCO's sugar capacity was increased from 35,000 tons per year to 60,000 tons for the 1999/2000 with the completion of its expansion funded by the African Development Bank. NISUCO maintains that it could have produced more than 25,000 tons of sugar this year if not for the weather and labor problems detailed above. Savannah is in the process of increasing its sugar production capacity from 60,000 tons per year to 100,000 tons. According to the mill, the ongoing rehabilitation/expansion delayed the initiation of milling operations this season and has limited its processing activity in recent months. Although milling operations will continue until early May 2000, total sugar output will not exceed 15,000 tons this year because of a cap on sugarcane intake.

All of Nigeria's sugar companies receive financial support from the GON generated by a 5 percent development levy assessed against imported refined sugar. Sources indicate that the GON is slow is releasing available funds from the levy for the development of the local sugar industry for which it is meant. Sugar production also suffers from poor estate and mill management, government interference and inconsistencies in government policies. With imports of raw sugar not subject to the development levy, local sugar producers fear that GON financial assistance may be curtailed.

Investment in Nigeria's sugar sector in recent years has to a large extent been based on a $155 million loan secured from the African Development Bank. This loan financed expansion of NISUCO and Savannah operations. Investment in Lafiaji and Sunti was financed by the National Sugar Development Council with funds collected from the development levy assessed against imports.

NISUCO	-Field and factory rehabilitation and expansion program which will increase the factory crushing capacity from 2,400 to 6,000 tons of cane per day (tcd).
	-Re-habilitation of about 3,000 hectares of sugarcane serving this mill.
Savannah	-2,000 Expansion of the sugarcane areas supplying the mill.
	-Rehabilitation and expansion of factory processing capacity .
Lafiaji	-Expansion of factory capacity to 2,500 tons of sugar per season.
	-Development of infrastructure to irrigate an additional 600 hectares of sugarcane.
SUNTI	-Construction of a sugar mill capable of producing 3,000 tons per year. -Development of an additional 450 hectares of sugarcane.

Nigeria has the potential to be self-sufficient in sugar production given that virtually all of the country is well suited for sugarcane cultivation. A recent study by the GON identified 40 potential sites which if developed can amply supply all of Nigeria's sugar requirements as well as creating a surplus volume which will be available for export. Currently, large-scale, commercial sugarcane cultivation in Nigeria is confined to 4 government-owned estates. Private participation in sugar production is limited to the out-grower schemes of the big estates and a few small-scale farmers.

The GON has announced that intends to privatize the NISUCO and Savannah sugarcane estates. Private investors, both foreign and local, are being encouraged to look at the sector by incentives provided by the GON in its new sugar investment code. There are indications that investors will take advantage of the incentives to invest in local sugar production.

Incentives available to investors in the sugar industry under the new investment code include:

- Government provision of infrastructure facilities, such as access roads, boreholes and electric power.
- Allowance for 100 percent foreign ownership and management of newly-formed operations.
- Imported machinery, capital equipment and inputs for sugar production enter duty-free.
- Sugar producing plants will enjoy a tax holiday for a minimum of 5 years after initiating operations.

Proposed Investment Activity

Supported by the USDA Agricultural Trade Mission to Nigeria in February 2000, the local Dangote Group, in collaboration with Schaffer & Associates of Baton Rouge, Louisiana, have embarked on pre-investment study to establish integrated sugar factories and estates in Bauchi and Jigawa states of Nigeria. The Group has the support of State Governments to establish plants in Bauchi and Jigawa states. The project when completed, will complement Dangote's recent investment of more than $200 million in his newly commissioned sugar refinery located in the port of Lagos.

Yields

Both sugarcane and mill yield levels tend to be low by international standards due to poor farm management and low factory efficiency. Most growers continue to plant varieties which are low yielding and have low sucrose content, fertilizer application falls far short of optimal levels and general cultivation practices are common. Six new varieties which have proven to be high-yielding, disease resistant, early maturing, and demonstrating good ratooning characteristics are on trial at mill estates. In Nigeria, the average sugarcane yield on most estates is close to 80 tons per hectare, while 12 tons of sugarcane per ton of sugar is an industry average factory ratio.

Consumption

Per capita sugar consumption in Nigeria is estimated officially at 8 kilograms, which is among the lowest in Africa. Due to the country's large population, total consumption is projected to reach 750,000 tons in next season. Locally produced sugar supplies no more than 3 percent of Nigeria's total domestic consumption requirement. The vast majority of the sugar consumed in Nigeria is imported. Most enters through the port of Lagos, although some quantity filters in as undocumented, cross-border trade.

Industrial usage accounts for 35 percent of total consumption, with soft drink bottlers and manufacturers of confectionaries being the largest users. Household consumption continues to be the driving force in the market. The low international market price of sugar and a decline in real purchasing power experienced by many consumers have kept retail prices stable at about 34,000 Naira per ton during the past year.

Trade

The Nigerian trading firm, the Dangote Group, recently diversified its operations to include sugar refining. The company recently completed construction if its refinery in the port of Lagos which has an installed capacity to produce 700,000 tons per year. The refinery, which is the first of its type in Nigeria will produce white sugar from raw sugar to be imported from Brazil and Australia. Trade sources indicate that the company took this decision as a strategy to regain absolute control of sugar importation and distribution in Nigeria. In the early 1990's, Dangote enjoyed a virtual monopoly on refined sugar imports. Although he has continued as the dominant importer of refined sugar, others entered the import picture in recent years. The opening of his sugar refinery will allow him to switch his import activity from refined to raw sugar and will allow him to regain his control over the sugar import business.

As a manufacturer, the company is being allowed under Nigeria's investment laws to import raw sugar paying only a 5 percent import duty compared to a 10 percent rate for refined sugar. He also has been exempted from paying the 5 percent sugar development levy assesses against refined sugar imports.

The Dangote Group received its first shipment of raw sugar in December 1999, taking 35,000 tons from Brazil. Nigeria's imports of refined sugar are forecast to decline from 630,000 tons in 1999/2000 to 300,000 tons in

2000/2001, while imports of raw sugar will rise from 120,000 tons to 500,000 tons over the same period. The bulk of refined and raw sugar imported into Nigeria comes from Brazil, Australia and the European community. Ultimately, the Dangote Group may take advantage of the ECOWAS trade liberalization scheme to export as much as 100,000 tons of refined sugar to countries within the region.

Policy

The stated policy of the Nigerian Government is to move Nigeria quickly from complete dependence on imports to at least 70 percent self-sufficiency in domestic sugar production. The GON through the Nigerian Sugar Development Council encourages private investment in the local sugar industry. In this vein, the GON has published a new investment code detailing incentives to investors. Additionally, existing government-owned fully integrated sugar companies have been listed for privatization as a means of reducing corruption, improving management, lowering costs, and raising returns to the sector.

Tariffs

Imported refined sugar attracts a duty of 10 percent ad valorem, a development levy equivalent to 5 percent of the cif value for bagged sugar, plus port surcharge of 7 percent of the duty amount. The effective duty on refined sugar imports is therefore slightly below 16 percent. Dangote Group however, obtained a concession from the GON to import raw sugar categorized as industrial raw materials which attracts a duty of only 5 percent. We have also learned that the GON is considering raising the duty on refined sugar to 40 percent.

Effective November 1, 1999, Nigeria re-instituted pre-shipment inspection of all imports after a brief (April to October, 1999) but unsuccessful experiment with destination inspection.

PSD Table : Sugar Cane Centrifugal

PSD Table						
Country:						
Commodity:	Sugar Cane Centrifugal					
		1999		2000		2001
	Old	New	Old	New	Old	New
Market Year Begin						
Area Planted	20	20	20	20	0	24
Area Harvested	13	13	18	14	0	24
Production	240	195	300	240	0	600
TOTAL SUPPLY	240	195	300	240	0	600
Utilization for Sugar	240	195	280	220	0	540
Utilizatn for Alcohol	0	0	20	20	0	60
TOTAL UTILIZATION	240	195	300	240	0	600

Table : Import Matrix

Import Trade Matrix			
Country:		Units:	tons
Commodity:			
Time period:	JAN-DEC		
Imports for	1998		1999
U.S.	5	U.S.	60
Others		Others	
Brazil	500,000		500,000
EU	100,000		49,940
Australia			200,000
Total for Others	600000		749940
Others not listed			
Grand Total	600005		750000