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Sugar Annual

Annual Sugar Report for Nigeria 2013

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Report Highlights:
Nigeria's sugar refining capacity, estimated at 2.1 million tons, exceeds the country's current total demand of 1.45 million tons. The country's sugar refineries depend almost exclusively on brown sugar from Brazil at five percent duty. This situation has assisted with promoting investment in sugar refining rather than in production so far. However, the Government of Nigeria (GON) introduced a new sugar tariff regime at the start of the new year (January) and raw sugar imports began to attract a 10 percent import duty, and a 50 percent levy, effective January 2013. This newer regime is meant to stimulate local sugar production. Even though total privatization of Nigeria's sugar estates was accomplished, the country's sugar production continues to lag far behind consumption. However, industry sources indicate that contrary to the GON expectations, it will take long-term and huge investment in public infrastructure and human/material resources for the country to catch up with the current and fast growing demand.

Executive Summary:

According to the National Sugar Development Council (NSDC), Nigeria has a land potential of over 500,000 hectares of suitable cane fields that can produce over 5 million metric tons of sugarcane that when processed, can yield about 3 million metric tons of sugar. However, the sector has been neglected and depends almost totally on refining imported raw brown sugar from Brazil worth over $500 million.

In order to improve Nigeria's sugar subsector, the Nigerian government (GON) decided to privatize all its sugar estates. The NSDC was set up in 1993 and its first task was to arrange the privatization of the country's nationalized sugar companies. The rehabilitation of these estates has been very slow due largely to the huge capital required and a lack of electricity/power to run the sugar mills.
The privatization process was completed in 2008 and the NSDC next aims to implement an out-grower program that will eventually run in all 14 sugar producing locations in the country. To date the program has only been launched at the Savannah Sugar Company Limited, currently the only active sugar producer in Nigeria, and also at Josepdam Sugar Company. The rehabilitation of the other sugar estates remains stalled at various stages of development.

Nigeria's sugar requirements are mainly met through imports of raw sugar that is refined locally. Dangote Sugar (installed refinery capacity of 1.44 million tons) and the BUA Group (with a capacity of 720,000 metric tons) are the major companies refining sugar in Nigeria. The Flour Mills of Nigeria and other new investors are entering and/or expanding capacities. In total, investments in annual sugar refining have reached 2.3 million tons, exceeding national consumption needs estimated at 1.45 million tons per year.

Despite this overcapacity, more investors have established additional sugar refineries, aiming at future export markets. The increasing investments were spurred by Nigeria's beneficial tariffs on raw sugar (subject to a duty of just 5% and exempted from the development levy). About 98 percent of all imports come in the form of raw sugar and is refined locally while the remainder of imports is refined sugar. More than 90 percent of raw sugar was imported from Brazil.

Effective January 1, 2013, the GON revised the sugar tariff structure to revitalize activities in the sugar estates, boost domestic raw sugar production for the sugar refineries and create jobs. New tariffs for raw and refined sugar were announced, as well as for sugar related production equipment and machinery. The GON also proposed:

- A zero per cent import duty on machinery and spare parts destined for local sugar manufacturing industries;
- A five year tax holiday for investors in the sugar value chain;
- A 10 percent import duty and 50 percent levy on imported raw sugar;
- A 20 percent duty and 60 percent levy for imported refined sugar.

These measures are gradually shifting investment patterns towards backward integration in the sugar value chain.

The Executive Secretary of NSDC, Dr. Latif Busari, recently indicated that Nigeria is targeting production of 1.7 million tons of by 2018. He said production in excess of national consumption will go to the export market. He further indicated that the GON developed Nigeria Sugar Master Plan (NSMP)

would require massive private sector investment of more than $3.1 billion over the next 10 years to cover Nigeria's 28 sugar projects, which include estates, infrastructure, etc. At this initial stage, an import quota for raw sugar has been adopted and the ability of the local sugar refineries to import raw sugar is now strictly tied to their ability to produce raw sugar locally. This part of the NSMP awaits presidential approval on recommendation from the Minister of Industries, Trade & Investment.

However, Post is not expecting any major changes in current domestic sugar supply structure in 2013/2014 based on the continuing state of Nigeria's poor infrastructure which is needed to stimulate local sugarcane production as fast as it is being proposed.

Exchange Rate: $1 = 160 Naira

Commodities:

Sugar, Centrifugal

Production:

Nigeria's domestic sugar production in MY2012/2013 remains unchanged at 65,000 tons (raw value), the same figure as MY2011/2012. Dangote-owned Savannah Sugar has completed the first phase of its rehabilitation program, with about 6,700 hectares of newly planted sugar cane fields. Dangote Sugar Company is also partnering with Nigeria's Taraba State government to establish a sugar processing company in Lau Local Government Area of that state. Josepdam Sugar Company has embarked on an aggressive nursery establishment to produce enough sugar cane seeds for field expansion. Currently it has 1,250 hectares of seed cane but the available raw material is not adequate to start operations. Other sugar estates are in varying stages of rehabilitation. For example, Golden Sugar Company (Sunti), owned by Flour Mills of Nigeria (FMN), has developed 2,000 hectares of land and planted over 1,000 hectares of sugarcane (using a center-pivot irrigation system) but has not reached a minimal level necessary for successful milling. Savannah Sugar reported a decrease in sugar cane yield from 66 tons per hectare in 2010/2011 to 60 tons in 2011/2012. The average yield of refined sugar from a ton of cane is estimated at approximately 0.961 or 9 percent.

With privatization completed, the NSDC has shifted its focus to support the development of the industry, including research and development, promotion of mini plants, support for an out-grower program, and establishing a price support mechanism to ensure that farmers receive a fair price from the newly privatized estates. The NSDC aims to implement an out-grower program that will eventually run in all 14 sugar producing locations in Nigeria. The NSDC, in collaboration with the private operations, aims to assist farmers in the acquisition of fertilizers, pesticides and improved seed cane with the help of the Central Bank of Nigeria (CBN) and local commercial banks. The out-grower program will deliver inputs and credits to cooperatives at a low interest rate of 7 percent compared to up to 28 percent or at more traditional lending rates.

On April 2, 2012, the Minister of Trade and Investment, Dr. Olusegun Aganga, announced that that the long waited Nigerian Sugar Master Plan (NSMP) had been finalized. According to Minister Aganga, the master plan will ensure an increased annual sugar production of 1.797 million tons of sugar.

These are the GON incentives in the sugar sector as stated in the 2012 NSMP:

- low duty of 2.5% on machinery for the industry;
- chemicals for sugar production have zero duty;
- import duty of 20% on refined sugar, as well as a development levy of 10% and VAT of about 5%;
- Provision of infrastructure including access roads, boreholes, power lines, land acquisition, and health care facilities for new sugar estates;
- 100 percent foreign ownership of sugar complexes is allowed;
- Provision of a credit support scheme for sugarcane growers in collaboration with the Central Bank of Nigeria (CBN) and commercial banks.

The success of GON's NSMP hinges mostly on the provision of infrastructure which is long-term. Post is therefore, not expecting any major change in current domestic sugar supply structure in 2013/2014. Poor infrastructure and the resulting high cost of accessing rural sugar farmers will continue to discourage both processors and farmers. On the other hand, Nigeria's sugar consumption will grow significantly in the next five years following increasing middle class and income and as Nigeria's food processing sector continue to show growth.

Consumption:

Nigeria is a large consumer of sugar in but the country's sugar industry still depends on raw sugar imports. Nigeria's overall sugar consumption in MY2011/12 was estimated at 1.32 million tons. Raw sugar imports were estimated at 1.33 million tons with ending stocks of 75,000 tons. Only 100,000 tons of refined sugar was imported for that year. This import figure is expected to remain unchanged for MY 2012/2013. There is also no competing High-Fructose Corn Syrup (HFCS) in the market.

The forecast is based on population growth as well continued industrial demand. Sugar use in industrial activities such as manufacturing soft drinks, pharmaceuticals, biscuits, other beverages and confectionary products demand is steady, while demand for direct household consumption remains firm. Soft drink production alone accounts for about half of total industrial usage. Last year the price of sugar in the domestic market rose from 205,000 Naira (US$1,297) per ton to 230,000 naira (US$1,455) in tandem with rising international prices. During the same period, the price of sugar cane also increased from US$26.80 per ton to US$28.50 to the delight of local farmers.

Trade:

Post forecasts Nigeria's raw sugar imports in MY2012/2013 to be 1.33 million tons, unchanged from the revised estimate for MY2011/2012. In MY2010/2011, Nigeria imported 1.25 million tons of raw sugar and only 100,000 tons of refined sugar. The bulk (over 90 percent) of Nigeria's sugar imports, both raw and refined, come from Brazil. Nigerian sugar exports to neighboring countries are expected to continue in MY2012/13, especially as the Nigerian market still serves markets in the neighboring countries of Ghana, Niger and Senegal. Sugar refined in Nigeria can be found in many West and Central African countries.

Policy:

The GON aims to move quickly from dependence on raw sugar imports to 100% self-sufficiency, reaching at least 70 percent of domestic sugar production in the medium term. The privatization of government-owned, fully integrated sugar companies is a key element of GON's overall strategy of achieving this goal. Privatization has undoubtedly improved the management of the sugar refineries, but it has not stimulated substantial new investments in production, infrastructure, etc. Domestic raw sugar production has not begun to show any production increases.

The GON recently dramatically revised its sugar tariff structure announcing new tariffs for raw and refined sugar as well as sugar related equipment and machinery. These became effective January 1, 2013 and were followed by a sudden imposition of an outright import ban on refined sugar (announced in mid January 2013). The objectives of this action were to revitalize activities in the existing local sugar estates, boost domestic raw sugar production for the local sugar refineries, and create jobs.

Following are the new tariffs and incentive measures:

- A zero per cent import duty on machinery and spare parts imported for local sugar manufacturing industries;
- There will also be a five year tax holiday for investors in the sugar value chain;
- A 10 percent import duty and 50 percent levy on imported raw sugar while refined sugar will attract 20 percent duty and 60 percent levy.

The refining industry is further helped by the government's public health policy of requiring all sugar intended for direct consumption to be fortified with Vitamin A as part of a national effort to eradicate Vitamin A deficiency, which costs about 750 Naira ($5) per ton. However, local refineries are allowed to supply non-fortified sugar to industrial users, such as the Coca Cola Company, as a result of the industrial users' complaints that fortified sugar induces undesirable changes in color, taste, and appearance in their products.

Going by Nigeria's population (about 170 million people growing at 3 percent per annum) and the recommended daily sugar intake, the country is a potential market for 1.7 billion tons of sugar per year while current national demand is about 1.5 million tons, making it the 2nd largest consumer of sugar in Africa following South Africa. Of the current huge domestic market, Nigeria can only produce about 2 per cent of the raw sugar for this production while over 75 per cent is imported and refined by the few investors in the country's sugar sector. It will require long-term massive area expansion and enormous funding in sugar cane production research, stock and technology for the country to make some impact in meeting the current and fast growing demand. Not much has happened in these areas and Post is not expecting any major changes in the current sugar supply and consumption in 2013/2014.

However, industry watchers indicate that there are some improvement in the management and operation of the privatized sugar estates and some commensurate increases in sugarcane production with the impacts of NSDC and NSMP. But they remain insignificant compared with what the sector requires. A major producer of biscuits, chewing gums and sweets in Nigeria recently said: "The three main raw materials required for biscuit production are flour, sugar and palm oil. The long-term policy of encouraging local sugar cane plantations and growing of sugar cane locally is a fantastic policy but it needs time. Sugarcane planting and harvesting cannot just start overnight."

Also, the expectation is that the NSMP policy document will bring industrial infrastructure development, an improvement of the business environment through simplified regulations, development of appropriate technologies, and a focus on creating a structure for institutionalized capacity building and skill development that will provide jobs to youths. However, Nigerian sugar farmers are reported to be discouraged from increasing or even continuing their sugar production as they cannot find industrial buyers, resulting in massive post-harvest wastage. Industry analysts also indicate that local sugar refining firms are not able to site processing factories in rural major producing areas due to poor infrastructure such as bad road networks and electrical shortages.

Production, Supply and Demand Data Statistics:

Sugar, Centrifugal Nigeria	2010/2011		2011/2012		2012/2013		2013/2014	
	Market Year Begin: May 2010		Market Year Begin: May 2011		Market Year Begin: May 2012		Market Year Begin: May 2013	
	USDA Official	New Post	USDA Official	USDA Official	New Post	New Post	USDA Official	New Post
Beginning Stocks	75	75	75	75	75	75		75
Beet Sugar Production	0	0	0	0	0	0		0
Cane Sugar Production	60	60	65	60	60	65		70
Total Sugar Production	60	60	65	60	60	65		70
Raw Imports	1,253	1,253	1,325	1,253	1,253	1,325		1,320
Refined Imp.(Raw Val)	146	146	125	146	146	125		125
Total Imports	1,399	1,399	1,450	1,399	1,399	1,450		1,445
Total Supply	1,534	1,534	1,590	1,534	1,534	1,590		1,590
Raw Exports	0	0	0	0	0	0		0
Refined Exp.(Raw Val)	200	200	200	200	200	200		200
Total Exports	200	200	200	200	200	200		200
Human Dom. Consumption	1,209	1,209	1,265	1,209	1,209	1,265		1,295
Other Disappearance	50	50	50	50	50	50		50
Total Use	1,259	1,259	1,315	1,259	1,259	1,315		1,345
Ending Stocks	75	75	75	75	75	75		75
Total Distribution	1,534	1,534	1,590	1,534	1,534	1,590		1,590
1000 MT								