

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Nigeria

### Nigeria Hikes Target on Cocoa Production

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**Report Highlights:**

Nigeria's cocoa production at 300,000 tons in 2013 showed an increase of 7 percent as compared to the previous year. The Government of Nigeria (GON) under its Cocoa Transformation Action Plan (CTAP) has targeted cocoa production to increase by 40 percent to reach 500,000 tons by 2015. GON incentives at attaining production goals remain inadequate. However, increasing adherence by local cocoa farmers in achieving the "UTZ" certification is shoring up demand and prices for Nigeria's cocoa at the international market. These factors have mostly continued to encourage Nigerian farmers to rehabilitate abandoned farms and also increase area under production. Nigeria's suspension of the export rebate (EEG) in 2012 has discouraged local cocoa processing.

**Post:** Lagos

**Executive Summary:**

In 2011, Nigeria's Agriculture Minister, Dr Akinwumi Adesina, set out clear goals in his "Cocoa Transformation Agenda" which among other things, aimed to double cocoa production in Nigeria from 250,000 to 500,000 metric tons by 2015 and achieve a 25 percent processing rate of the national output within 4 years. This can be achieved with the available cocoa farm land.

Nigeria's cocoa production in 2013/14 is forecast to increase to 300,000 tons, up from about 280,000 tons in 2012/2013. The GON holds the reason for the growth is due to the GON's Cocoa Transformation Action Plan for the cocoa sector (called the Cocoa Growth Enhancement Scheme). This was set by the GON to focus on educating and providing local farmers with crucial equipment such as agro-chemicals and imported fertilizer, formulated specifically for cocoa farming, insecticides and hybrid pods, as well as improving farmer skills. However, many farmers are older and their farms need restocking. More of these farmers are also conservative and reluctant to replant their farms with new cocoa varieties, preferring to continue with their existing stock.

GON incentives at attaining production goals remain inadequate. However, farmers and other industry sources indicate that the production increase is due largely to the rising international market prices for cocoa, good weather and improved production practices following UTZ certification requirements, as well as improved seedlings. These factors have continued to encourage Nigerian farmers to rehabilitate abandoned farms and also increase area under production.

Growers' returns increased following the sharp rise in world price levels for cocoa caused by conflicts in Ivory Coast, the leading world producer that is still recovering from civil war losses. Over the last five years, Nigerian grower prices increased more than 50 percent to the current average of 480,000 Naira (\$3,000) per ton.

Local cocoa processing increased in 2010 and 2012, spurred largely by GON's introduction of the Export Expansion Grant (EEG), export incentive rebate program to encourage non-oil exports. However, GON suspended the EEG program by mid-2012 following "sharp practices" in cocoa export reporting by certain exporters and local cocoa processing dropped significantly.

U.S. import of cocoa (beans and processed cocoa products such as paste/cocoa butter) products dropped to approximately \$26 million in 2013 as compared to about \$62 million and \$56 million in 2011 and 2012, respectively. This reflects the market dynamics following the introduction and consequent suspension of the EEG program. The GON is reviewing the scheme to correct the identified inadequacies and Nigeria's cocoa processing and exports are expected to trend back upwards when this is done.

Exchange Rate: US\$1 = 160 Naira

## **Production**

Nigeria's cocoa production in 2013/14 is forecast to increase to 300,000 tons, up from about 280,000 tons in 2012/2013. The projected increase is based on a favorable weather outlook this year and significantly higher grower prices, which are encouraging farmers to increase the cultivated area. Post expects area harvested to increase somewhat, from 640,000 ha in 2013 to 648,000 ha by October 2014, as a result of the rehabilitation of old cocoa fields and improved farmer practices. Improved cocoa varieties and increased utilization of recommended chemicals are also expected to bring in some modest increases in crop yield.

Nigeria's Agriculture Minister Adesina proposes to raise cocoa production to about 500,000 tons by 2015 through the GON's Cocoa Transformation Action Plan (called the Cocoa Growth Enhancement Scheme). The specific goals of the scheme include doubling cocoa production from 250,000 to 500,000 metric tons by 2015 and achieving a 25 percent processing rate of national cocoa output within 4 years.

This implies that the Cocoa Research Institute of Nigeria (CRIN) will continue to increase the distribution of the high-yielding, disease-resistant seedlings which mature in 18-24 months, as compared to 5 years maturity of the traditional seedlings. The average yield of the new cocoa variety is 1.5 tons of cocoa per hectare (ha), about three times more than the older and more dominant old variety. CRIN (<http://www.crin-ng.org/>) is reported to also have developed a number of capacity building activities for farmers in planting, crop maintenance, etc. to boost productivity.

The majority of Nigeria's cocoa farmers are older, above 60 years in age and most cocoa trees are even older, with the diminished production of very mature trees. The farmers are mostly conservative and are concerned about an immediate loss of income if less productive trees are cut and replanted with the recommended new disease-resistant, high yielding, early maturing varieties. As a result, the farmers are reluctant to replant their farms with seedling from the new cocoa varieties at the moment. However, many NGOs and international government agencies, including USAID, are supporting on-farm capacity building activities for farmers to increase productivity and improve quality. USDA has also supported Nigeria's cocoa sector in addressing the many diseases of cocoa through its Cochran Fellowship and Borlaug training programs to Nigerian Researchers.

Following are some other factors limiting cocoa production in the country:

- Inadequate supply and high cost of recommended chemicals;
  - Shortage and high cost of farm labor. Currently, farmers pay laborers on average 1,500 naira per day, as compared to average 500 naira five years ago;
    - Non-availability and low utilization of fertilizers despite declining soil fertility;
    - The duration of the dry months is getting lengthening with climate change and this is affecting crop yields and the establishment rate of new plantings;
    - Poor access roads to the major cocoa production areas;
    - Government subsidies on inputs and seedlings are considered to be inadequate and ineffective in reaching the desired farmers. Such subsidies

rarely get to the target farmers because of the activities of middlemen and politicians.

### **Yield**

Average cocoa yield in Nigeria does not exceed 500 kilograms (0.5 tons) per hectare. The GON's Cocoa Transformation Action Plan, aims to achieve a yield of 600-650 kilogram per ha by 2015. Reports from GON sources state that hybrid varieties developed by the CRIN have yield potential of 1.5 to 2 tons per hectare. Yield improvement in the country is constrained by inadequate extension services, lack of proper farm maintenance, low farm input utilization, farmers reluctance to accept replanting old trees with new cocoa varieties and inadequate GON incentives.

### **Crop Quality**

The quality of Nigerian cocoa has improved somewhat but is below the peak quality of the 1980s as well as the quality offered by other major West African exporters. Most of the industry's quality control mechanisms were also severely compromised following the dissolution of the Cocoa Board in 1986. The Cocoa Association of Nigeria (CAN) and the exporters now play the critical role of enlightening farmers on the appropriate use of chemicals and quality parameters for the fermentation and drying of the cocoa beans. At present, the GON's produce inspectors at State and Federal levels pay attention more to revenue capture rather than to the graded cocoa quality. The grading fee in the country ranges from 3,500 Naira to 5,000 Naira per ton.

In 2011, SARO Agro-Allied Ltd, a Nigerian cocoa exporter, partnered with a leading global cocoa processor, ADM to support about 2,000 Nigerian cocoa farmers to become "UTZ Certified". This certification process has continued to be adopted by many cocoa farmers in Nigeria as a result of the large marketing opportunity and good prices it provides in the international market. The concept of "UTZ Certified Good Inside" is a market-oriented sustainability program developed for the production of better quality cocoa, where farmers are trained to use cost-efficient and environmentally and socially responsible farming practices. Examples of these practices are sustainable use of land, the exclusion of environmentally harmful pesticides, and compliance with labor laws.

### **Price**

Cocoa production and trade in Nigeria are completely liberalized. Grower prices are determined by movements in the international prices for cocoa and fluctuations in the exchange rate of the naira. Record high international prices for cocoa had triggered an upward spiral in grower prices by more than 50 percent over the last 5 years from 300,000 Naira per ton in 2005 to 450,000 Naira per ton in mid-2011.

Current average price is 480,000 Naira per ton and prices have moved as follows between 2010 and 2014:

<b>Year</b>	<b>Average Per Ton Prices in Naira</b>
2010	520,000
2011	450,000

2012	450,000
2013	570,000
2014	480,000

Ivory Coast remains the leading world cocoa producer/supplier, but production has been disrupted due to many years of political crises and civil war. Although the war has ended, it will take some more years for the country to completely rehabilitate its cocoa sector to reach the pre-war production levels. Industry sources indicate that Nigeria, with vast land resources suitable for cocoa production, is capable of meeting its cocoa production of 500,000 ton by 2015 and contributing to stabilizing spiraling global prices if the country would fully implement its existing cocoa development policies. However, only about 20 percent of Nigeria’s 3 million hectares of land suitable for cocoa production is currently in use. Farmers have also continued to state that they were yet to receive the provision of GON’s Cocoa Growth Enhancement Scheme.

### **Consumption**

Nearly 90 percent of total cocoa production is exported as cocoa beans while the remaining 10 percent is processed locally into butter, liquor, powder and cake before being mostly exported. Domestic consumption of cocoa products is very insignificant and consists almost exclusively of cocoa powder used in breakfast beverages. The Cocoa Association of Nigeria (CAN) has continued to intensify campaigns towards increasing domestic consumption of cocoa products over the last decade by mostly emphasizing the health benefits of consuming cocoa. Although local consumption remains small, these CAN efforts have assisted in the continued growth of domestic demand for cocoa powder over the last five years.

### **Processing**

There are about 17 cocoa processing facilities across the country with a combined annual processing capacity of 220,000 tons of cocoa beans. Presently only seven of these, with total installed capacity approximating 150,000 tons, are crushing cocoa beans. They process about 60,000 tons annually, about 30 percent of total national installed capacity in 2014).

In January 2005, the GON approved an Export Expansion Grant (EEG) of 30 percent of the FOB value for cocoa butter and processed cocoa products and 5 percent for cocoa beans. This is targeted at increasing local cocoa processing. Although local cocoa grinding showed some increases with the EEG, exporters still find it more profitable and convenient to sell cocoa beans than export cocoa in processed forms. Nigeria’s higher cost of local processing as compared to the same activity in the developed and consuming countries accounted for this. In mid-2012, GON suspended the EEG program following prevalent abuse through over-declaration/other corrupt practices by exporters and local cocoa processing dropped significantly.

Industry players state that cocoa processing operations in Nigeria has become increasingly challenging and takes operational efficiency (a minimum standard yield of 82 percent) as well as increased efforts at market development, to remain in business. The GON also introduced a new category of “Export Processing Factory” in 2007 which exempts listed processors from payment of all taxes and other levies imposed by federal, state and local governments.

### **Trade**

Post forecasts Nigeria's cocoa beans exports at 250,000 tons by the end of MY2013/2014, up from approximately 240,000 tons in MY2012/2013. Local prices for beans are very close to the international market prices and with the high cost of domestic processing, Nigerian processed cocoa products are not competitive in the international market. Processors revealed that Nigeria's trade in processed cocoa had hinged on the EEG. Trade in processed cocoa products is expected to further drop in the subsequent years if the GON further delays the review and re-introduction of the EEG.

Cocoa merchants usually consolidate their purchases from local buying agents before delivering beans to state government produce inspection services for grading. Graded cocoa beans are later sold to exporters and/or processors. About 90 percent of Nigeria's cocoa is exported as beans, mostly to the EU where they are eventually processed into butter, paste, liquor, etc. (75 percent) and powder (25 percent). Belgium, UK, Germany, the Netherlands, etc. are the largest destinations. In 2013, the U.S. directly imported from Nigeria cocoa beans and processed cocoa products (paste/cocoa butter) estimated at more than \$20 million and \$5 million, respectively.

The global drive for cocoa farming and production activities to meet the "UTZ certified" status is also a major interest among global stakeholders, including food producers. Nigeria's cocoa sector will greatly benefit from increased support to increase production, improve quality and ensure cost-efficient cocoa production in compliance with internationally acceptable models and practices.

### **Policy**

In Nigeria, cocoa production and trade are completely liberalized. The National Cocoa Development Committee (NCDC) was established in 1999 by former President Obasanjo with the goal of increasing Nigeria's production substantially to 600,000 tons within few years, improving quality and increasing farmer's income. However, stakeholders indicated that the momentum of support for the sector had waned under recent administration.

In 2011, the Cocoa Transformation Action Plan, called the Cocoa Growth Enhancement Scheme (CGES) replaced the earlier GON policy on cocoa when Dr. Akinwumi Adesina became Nigeria's Agriculture Minister. Specific goals of the scheme include doubling cocoa production from 250,000 to 500,000 metric tons by 2015 and also achieving a 25 percent processing of national output within 4 years.

Recently, Nigeria's Agriculture Minister Adesina had further explained the scheme as quoted: "Our effort is not just concentrating on production; it is along the whole value chain in terms of marketing, processing and adding value right here. There are a lot of efforts in that regard. So, the strategy we are adopting in Nigeria is not about competing with some countries. We adopt a different strategy that gives our farmers, that gives our value chain operators, greater share of the market value of the global market".

The CGES also includes increasing processing. This involves grinding cocoa locally and processing it into cocoa liquor, cocoa butter and cocoa cake to increase the market value and marketing for ensuring that cocoa farmers and the entire cocoa value chain operators gain better market share of the global value of cocoa. Cocoa policy under CGES also promotes local cocoa

utilization and consumption which has remained low.

### Production, Supply and Demand Data Statistics :

Country	Nigeria					
Commodity	Cocoa Beans					
	2012	Revised	2013	Estimate	2014	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		10/2012		10/2013		10/2014
Area Planted (1000 HA)	0	640	0	643	0	648
Area Harvested (1000 HA)	0	635	0	640-	0	642
Bearing Trees (Millions)	0	650	0	655	0	600
Nonbearing Trees (Millions)	0	39	0	40	0	40
TOTAL Tree Population (Millions)	0	689	0	695	0	640
Beginning Stocks (MT)	0	9500	0	9500	0	9500
Main Production (MT)	0	230000	0	230000	0	250000
Mid Production (MT)	0	46000	0	44000	0	460000
TOTAL Production (MT)	0	270000	0	280000	0	300000
Bean Imports (MT)	0	0	0	0	0	0
Liquor & Paste Imports(MT)	0	0	0	0	0	0
Butter Imports (MT)	0	0	0	0	0	0
Powder, Cake, Choc. Imp. (MT)	0	0	0	0	0	0
TOTAL Imports (MT)	0	0	0	0	0	0
TOTAL SUPPLY (MT)	0	279500	0	289500	0	309500
Bean Exports (MT)	0	222360	0	240605	0	250432
Liquor & Paste Exports(MT)	0	17000	0	17000	0	16665
Butter Exports (MT)	0	20240	0	21695	0	23000
Powder/Cake/Choc Exports (MT)	0	2000	0	2000	0	2000

<b>TOTAL Exports (MT)</b>	0	261600	0	271300	0	291097
<b>Domestic Consumption (MT)</b>	0	8400	0	8700	0	8903
<b>Ending Stocks (MT)</b>	0	9500	0	9500	0	9500
<b>TOTAL DISTRIBUTION (MT)</b>	0	279500	0	289500	0	309500