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Grain and Feed Update

Grain and Feed

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Report Highlights:

MY2016/17 imports of wheat, rice and corn, combined, are estimated at nearly 6.8 million tons. Post's MY2016/17 wheat consumption estimate is noted at almost 4.2 million tons; approximately 2.5 percent higher than USDA's forecast of about 4.1 million tons. Bread consumption continues upward as prices are considered to be affordable. MY2016/17 rice consumption is estimated at 5.0 million tons as consumer purchasing power declines in the face of continuous price increases for imported rice. Corn and sorghum prices doubled. Inflation remains on the rise, with an average price increase of 40 percent in staple foods from June to August. Access to forex continues to be the biggest constraint for importers in Nigeria.

Post:	Commodities:
Lagos	Wheat
	Rice, Milled
	Sorghum
	Corn

Executive Summary:

Nigeria's Grain Prospects

In previous government regimes, farmers received public sector support, such as subsidized improved seeds, fertilizers and on-the-farm training. Sources note that, due to the Government's budget constraints, these incentives have not been available over the last year and under the current administration. For instance, the GON recently announced that it would not subsidize fertilizers and other inputs. Access to fertilizer also remains a challenge, and its distribution is currently controlled at the ports and producing regions because of ongoing security measures.

Nigeria's combined cereal imports of wheat, rice and corn is expected to reach nearly 6.8 million tons this year. Domestic wheat production remains limited. Most of Nigeria's farmlands for wheat are rain-fed and are inadequate to bring production needed for self-sufficiency. In June 2016, by the request of Nigeria's Federal Ministry of Agriculture and Rural Development, a Memorandum of Understanding was signed for the Flour Millers Association to offtake domestically produced wheat by the Wheat Farmers Association at a predetermined price of ₦160, 000 per ton (equal to \$610 per ton). At that time, the predetermined price agreed to under the MoU was \$610 per ton, a noticeable difference than market price of imported wheat at \$420 per ton. Three months into this agreement, the wheat market price increased and, reportedly, WFA reneged on its commitment due to higher market prices which reached \$660 per ton, an increase of \$50 per ton over the MoU's agreed price.

Lack of improved seed coupled with limited and deteriorating infrastructure remain to be the major challenges for Nigeria's grain prospects, especially for rice producing areas. Forex scarcity and the removal of fuel subsidy in May 2016 also contribute to the increasing costs of domestic production. Post lowered its MY2016/17 rice imports by 100,000 tons to 2.0 million tons, compared to that in MY2015/16, largely due to continued restrictions to foreign exchange. Post raised its MY2016/17 corn production by 3 percent to 7.2 million tons as more farmers increased corn acreage due to the observed surge in corn prices. Sustained demand and consumption for sorghum is expected to support the current MY2016/17 production of 6.5 million tons.

Continued Constraints to Foreign Exchange

Nigeria's foreign exchange reserve continues to slide, reaching about \$26.7 billion as of June 2016 compared to \$42.8 billion in January 2014. Declines in the average monthly inflows also subsists—

dropping to current levels of below \$1.0 billion per month, from about \$3.2 billion within the same period of roughly two-and-a-half years.

In June 2015, the GON introduced a dual forex policy, comprising formal and informal rates of exchange. The Naira to Dollar exchange rate was pegged at about ₦200 to \$1 and an average of ₦300 to \$1 under the formal and informal rates, respectively. Additionally, importers were not allowed access to foreign exchange at the official window to purchase 41 items, including essential food and agricultural products.

After one year of implementation, in June 2016, the GON replaced the abovementioned forex policy with the current ‘single rate flexible’ forex policy. Despite this policy change, sources note that the Central Bank of Nigeria can provide only less than 50 percent of the country’s forex demand. To date, the Naira continues to depreciate in the informal market, with the current drop nearing ₦500 to \$1 compared to ₦300 to \$1 in June 2016. Likewise, substantial depreciation has been observed on the formal market. The current rate averaging ₦320 to \$1, compared to ₦200 to \$1 in June 2016.

Ongoing insurgencies in Grain Producing Areas

High-level insecurity across the country continues to impede food and agricultural production and distribution. Various sources note that the GON is operating on limited funds for rehabilitation of massively destroyed farmlands and essential infrastructure. For this reason, government procurement of grain supplies by farmers has diminished, which pose threats to Nigeria’s food security.

Nigeria’s Newly Imposed Agriculture Promotion Policy

In August 2016, the GON launched its Agriculture Promotion Policy (APP) for 2016 – 2020. The APP will partner with the private sector to refresh the Agricultural Transformation Agenda (ATA) initiated and implemented by the former GON agricultural regime. The APP proposes to build on the successes of ATA by closing the domestic demand and supply gaps for both crops and livestock, while exporting at quality standards required for the international market.

The APP is also created to improve value chain activities of selected agricultural enterprises, namely rice, wheat, maize, fish (aquaculture), dairy milk, soybeans, poultry, horticulture, and sugar.

Details on the APP can be found on this official website:

http://fmard.gov.ng/wp-content/uploads/2016/03/2016-Nigeria-Agric-Sector-Policy-Roadmap_June-15-2016_Final.pdf

Wheat Production, Supply and Demand Data Statistics:

Wheat	2014/2015		2015/2016		2016/2017	
Market Begin Year	Jul 2014		Jul 2015		Jul 2016	
Nigeria	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	85	70	60	60	60	60
Beginning Stocks	200	200	200	200	200	200
Production	90	70	60	60	60	60
MY Imports	4244	4244	4410	4410	4400	4500
TY Imports	4244	4244	4410	4410	4400	4500
TY Imp. from U.S.	1844	1844	1450	0	0	0
Total Supply	4534	4514	4670	4670	4660	4760
MY Exports	400	400	400	400	400	400
TY Exports	400	400	400	400	400	400
Feed and Residual	50	50	50	50	50	50
FSI Consumption	3884	3864	4020	4020	4010	4110
Total Consumption	3934	3914	4070	4070	4060	4160
Ending Stocks	200	200	200	200	200	200
Total Distribution	4534	4514	4670	4670	4660	4760
(1000 HA) ,(1000 MT)						

Important Note: Post estimates are not official USDA figures.

Production

Post estimates its MY2016/17 wheat area and production figures at 60,000 hectares and 60,000 tons respectively. Although substantial progress was recorded in reclaiming farmlands from Boko Haram insurgents, many returnees including wheat farmers require rehabilitation as homes and basic infrastructure were largely destroyed by the insurgents.

Most of Nigeria's wheat farmlands are rain-fed and insufficient to bring about increased production needed for self-sufficiency while available irrigation infrastructure is largely inadequate for acreage expansion. Irrigation projects are capital-intensive and, given the present availability of government support, it seems unlikely that funds will be made available for required irrigation projects. The wheat variety produced by Nigerian farmers is high in protein content but low in gluten, a characteristic that is unsuitable for producing the bread preferred by Nigerian consumers.

Consumption

MY2016/17 FSI Consumption is noted at 4.1 million tons, approximately 2.5 percent above USDA's official estimate of 4.0 million tons. This will be driven by sustained increase in bread consumption as prices of domestic staples generally increased by an average of 40 percent over the last three months (July through September), making wheat flour products relatively cheaper. Bread is a major staple in Nigeria and it remains comparatively the less expensive staple eaten by majority of consumers despite a 20 percent price increase recorded over the same three-month period of review.

Wheat flour, produced entirely from U.S. Hard Red Winter, remains the most preferred by Nigerian consumers. However, the U.S supplied HRW wheat is also the most expensive compared to other types of wheat sourced from third-country suppliers. U.S. suppliers controlled over 90 percent of Nigeria's

wheat market share in 2011. Given the falling currency and higher-than-normal market prices, consumers' purchasing power has weakened, thereby preventing wheat millers to raise market prices to help offset production costs. To remain operational and financially viable, millers are increasingly blending and adjusting their wheat milling formulas to achieve bread flour that is acceptable to Nigerian bakers while maintaining favorable profit levels.

Wheat products, especially bread, will continue to be widely consumed in Nigeria as a major staple. Consumption of pasta, noodles, and semolina are, however, on the decline as they are now being considered to be luxury items. Traditionally, in Nigeria, 70 percent of the total wheat flour produced by the mills goes into bread manufacturing, with 15 percent being utilized for pasta production, and all other wheat products including semolina accounting for the remaining 15 percent. This year, these percentages are expected to shift to more than 80 percent for bread and dough production and the remaining shared equally between the production of pasta (10 percent) and other wheat products including noodles and semolina (10 percent).

Trade

Imports

MY2016/17 wheat imports are projected to increase by 2 percent from 4.4 million tons to 4.5 million tons. Regardless of the current situation of forex scarcity in Nigeria, depreciation of the Naira and the high inflation over the economy, wheat products are now deemed cheaper by most Nigerian consumers as compared to other staples. The modest increase in wheat consumption is mostly stimulated by continued increase in demand for bread, whereas the country's domestic wheat production remains grossly under-developed.

U.S. wheat price is the highest compared to that of competitors. In MY2015/16, the difference between the export price per ton for U.S. wheat compared to that of Russia, Canada and Australia was \$82.13, \$30.90, and \$10.19 respectively. Given Nigeria's current scarcity of foreign exchange and rising market inflation, the U.S. wheat prices are challenged by competitors, particularly those in the Black Sea region. This is resulting in an accelerated loss of market share—from over 90 percent in 2012 down to 33 percent in 2016, according to trade statistics. Over this same period of review, Russian supplies made appreciable gains from less than one percent to an astounding 28 percent. This remains a challenge for U.S. wheat and other higher-priced wheat as Nigerian consumers increasingly seek inexpensive substitutes. The current import tariff is five percent, plus a 15 percent levy. Imports of flour pasta, including noodles, remain banned.

Exports

MY2016/17 export remains at 400,000 tons; cross-border trade persists despite the insecurity across the north-eastern Nigerian borders, which are the major export routes for wheat flour and products.

Stocks

MY2016/17 wheat stocks are unchanged. Millers continue to maintain low supplies on hand.

Policy

In June 2016, Nigeria's Federal Ministry of Agriculture and Rural Development (FMARD), the Flour Millers Association (FMA), and the Wheat Farmers Association (WFA) signed a Memorandum of Understanding on sourcing domestically produced wheat from the WFA at a predetermined average price of \$610 per ton, compared to \$420 per ton of imported wheat. This MoU provided a market for WFA members and encouraged them to remain in wheat production. However, three months into this agreement, the wheat market price increased to about \$660 per ton and WFA members ceased selling to FMA— resorting to selling to the open market at prevailing market prices. Sources report that FMARD is yet to bring both WFA and FMA together to renegotiate the terms of agreement based on current market prices. Nigeria's new agricultural policy (APP) indicates that the GON will aim to reduce wheat imports by 50 percent by 2017. However, analysts are skeptical about government policies, implementation, and funding.

Bread millers prefer cost-efficient blending with inexpensive wheat from Russia and other third country suppliers rather than compete with local mass market for less quality cassava flour used to blend with wheat flour. The GON's cassava inclusion policy remains, although the inclusion percentage is much lower than initially envisaged. Cassava consumption and prices increased significantly among the mass consumers.

The GON also lacks the fund to continue with the Government Enhancement Scheme program, initiated by the preceding administration, which assisted farmers with seeds and subsidized inputs (including fertilizers). On the other hand, production is constrained because much of the planted seeds distributed to farmers under GES were largely from the stock of low-yielding old varieties (yielding an average of one ton per hectare). Availability of fertilizers is limited because distribution is still restricted to help prevent the manufacturing of explosives by insurgents and militants.

Rice Production, Supply and Demand Data Statistics:

Rice, Milled	2014/2015		2015/2016		2016/2017	
Market Begin Year	Oct 2014		May 2015		Oct 2016	
Nigeria	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2700	2700	2500	2500	2500	2500
Beginning Stocks	957	957	992	957	601	566
Milled Production	2835	2835	2709	2709	2700	2700
Rough Production	4500	4500	4300	4300	4286	4286
Milling Rate (.9999)	6300	6300	6300	6300	6300	6300
MY Imports	2600	3000	2100	2100	2000	2000
TY Imports	2100	2500	2000	2000	1900	1900
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	6392	6792	5801	5766	5301	5266
MY Exports	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0
Consumption and Residual	5400	5835	5200	5200	5000	5000
Ending Stocks	992	957	601	566	301	266
Total Distribution	6392	6792	5801	5766	5301	5266
(1000 HA),(1000 MT)						

Important Note: Post estimates are not official USDA figures.

Production

Post's MY2016/17 estimate for area harvest and milled production is 2.5 million hectares and 2.7 million tons, respectively. Lack of improved seed coupled with poor policy implementation and limited infrastructure remain the major challenges for rice production in Nigeria. Also, domestically milled production is still associated with high cost. Investment in infrastructure and increased private sector participation are required to be self-sufficient. The worsening forex scarcity and removal of fuel subsidy are also contributing to increasing cost of domestic production.

Although rice millers support local farmers with finance and input needs for production, locally produced rice is not so popular with most consumers in the urban and second-tier cities due to poor processing. As a result, much of the locally produced rice is sold and consumed within its producing areas. Donor/humanitarian organizations are large purchasers of the locally produced rice to help feed the nearly 2 million Nigerians dislodged by insurgency and still living in IDP camps.

Consumption

MY2016/17 consumption is placed at 5.0 million tons. A shift in demand caused by lowering purchasing power is anticipated, in the face of continuous price increases for imported rice. Consumers are expected to shift to the less expensive foods, such as bread, yam, beans, millet, cassava, and sorghum as purchasing power decline. Domestic market price for imported rice hiked by almost 50 percent, increasing from about ₦12,000 (\$60) to about ₦21,000 (\$105) per 50-kg. All other locally produced rice, apart from the highly priced "Ofada" variety, sell in the urban markets at averagely ₦14,000 (\$70) per 50-kg but enjoy less patronage due to lack of consumer preference. The "Ofada" rice, considered a delicacy, is more expensive because of its nutritional value and limited availability. It is worth noting that, despite the price, Nigerian consumers prefer to pay the higher unit price of imported rice than the locally produced rice because of its better quality.

Imports

MY2016/17 imports are estimated at 2.0 million tons mainly due to the difficulty with accessing foreign exchange. Rice imports through Nigerian ports attract a 70 percent duty, which makes the venture less attractive. On the other hand, imports through land borders are also banned, although rice is still traded informally across the borders at fluctuating prices that reflects the prevailing exchange rate. Nonetheless, imported rice still dominates, and is the more noticeable on the market as compared with locally produced rice. Most urban consumers prefer imported rice.

Policy

The newly-imposed Agriculture Promotion Policy is to help Nigeria become self-sufficient in rice production by 2017. Government sources indicate that agricultural loans at single-digit interest rate are available for paddy production (under Anchor Borrowers Program). However, some farmers report that they have not been able to access these rates. Processors also indicate that milling costs and local rice prices are relatively expensive, largely due to low-yielding seeds/seedlings, limited transportation to/from milling facilities, and poor infrastructure (such as roads and electricity). Many analysts are

skeptical about the government's ability to provide the required support for attaining self-sufficiency in rice, especially under the current economic situation.

Rice continues to be listed as one of the 41 items prohibited from official access to foreign exchange for importation, even under the current GON's single rate flexible forex policy. There have not been official changes to the dual customs tariff rates, which are 70 percent and 30 percent for regular rice importers and the importers who adopted the GON's backward integration concept, respectively.

Corn Production, Supply and Demand Data Statistics:

Corn	2014/2015		2015/2016		2016/2017	
Market Begin Year	Oct 2014		Oct 2015		Oct 2016	
Nigeria	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	4150	4150	3800	3800	4000	4000
Beginning Stocks	246	246	361	361	161	161
Production	7515	7515	7000	7000	7200	7200
MY Imports	300	300	300	300	300	300
TY Imports	300	300	300	300	300	300
TY Imp. from U.S.	0	100	0	0	0	0
Total Supply	8061	8061	7661	7661	7661	7661
MY Exports	200	200	200	200	200	200
TY Exports	200	200	200	200	200	200
Feed and Residual	1900	1950	1800	1800	1800	1800
FSI Consumption	5600	5550	5500	5500	5500	5500
Total Consumption	7500	7500	7300	7300	7300	7300
Ending Stocks	361	361	161	161	161	161
Total Distribution	8061	8061	7661	7661	7661	7661
(1000 HA),(1000 MT)						

Important Note: Post estimates are not official USDA figures.

Production

Post estimates its MY2016/17 corn area harvest and production figures at 4.0 million hectares and 7.2 million tons, respectively. This represents increases of about 5 percent and almost 3 percent over MY2015/16 figures. Given favorable corn prices, more farmers are shifting to corn production and away from other grains (such as cassava, millet, and other relatively inexpensive commodities). Corn farmers indicate that there is currently no government support. Sources note that the Agriculture Promotion Policy has yet to be implemented due to lack of government funds.

Consumption

MY2016/17 corn consumption stays unchanged at 7.3 million tons. The MY2015/16 consumption figure also remains; however, it's lower than the previous year due to increased market prices and weakening purchase power of consumers. Over the last three months, prices increased from about \$165 per ton to \$310 per ton for domestic corn and remained at \$255 per ton for imported corn.

Trade

MY2016/17 corn import remains at 300,000 tons. Separate from limited access to foreign exchange, high exchange rates will continue to push import prices upward. Nigeria's poultry farmers, the dominant users of corn for animal feed, are unable to transfer the additional costs to consumers and, as a

result, small stakeholders are either downsizing or shutting down their operations.

Policy

Currently, there is no government program directed at supporting farmers to increase corn production. Nigeria's import policy on corn remains unchanged at a five-percent tariff. Corn is included under the GON APP's prioritized agricultural products and is over 60 percent of poultry feed inputs.

Many farmers and industry analysts are doubtful about the following program's feasibility; however, the Government of Nigeria is expected to partner with local poultry farmers to supply eggs for GON's school-feeding program, effective January 2017. Under this program, about 24 million public primary school children will be expected to consume at least 4.3 billion eggs per year. This, the GON believes, will increase domestic egg production by 2.6 billion. According to the farmers and key stakeholders, they want to see the program commenced before investing more in corn production to meet expected increased feed demand for the poultry industry. Details are noted at:

<http://guardian.ng/news/developing-local-agriculture-using-school-feed-programme/>).

Sorghum Production, Supply and Demand Data Statistics:

Sorghum	2014/2015		2015/2016		2016/2017	
Market Begin Year	Oct 2014		Oct 2015		Oct 2016	
Nigeria	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	5500	5500	5300	5300	5300	5300
Beginning Stocks	200	200	150	150	200	200
Production	6700	6700	6150	6150	6500	6500
MY Imports	0	0	0	0	0	0
TY Imports	0	0	0	0	0	0
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	6900	6900	6300	6300	6700	6700
MY Exports	100	100	50	50	100	100
TY Exports	100	100	50	50	100	100
Feed and Residual	150	150	150	150	150	150
FSI Consumption	6500	6500	5900	5900	6250	6250
Total Consumption	6650	6650	6050	6050	6400	6400
Ending Stocks	150	150	200	200	200	200
Total Distribution	6900	6900	6300	6300	6700	6700
(1000 HA),(1000 MT)						

Important Note: Post estimates are not official USDA figures.

Production

MY2016/17 area harvest and production remains unchanged at 5.3 million hectares and 6.5 million tons respectively. Post will continue to monitor private sector investors who claim to partner and achieve more efficient production by expanding out-grower schemes, investing in improved seeds/ seedlings, storage and processing techniques. Sorghum malting by beverage processors and investments in sorghum flour processing (for both human and animal consumption) continue to support potential production increases, despite the slowing economy.

Consumption

MY2016/17 consumption is expected to increase by 350,000 tons to 6.4 million tons, largely due to poultry farmers utilizing sorghum as a corn substitute for animal feed. In Nigeria, the poultry industry recently overcame the challenge with sorghum tannin levels, so it's now accepted to be included as a feed ingredient. Sustained demand, in addition to expected shift from perceived relatively expensive grains by consumers to patronize sorghum flour foods would also contribute to the projected increase in consumption for this year.

Considering the challenges posed by limited forex for wheat importation, sorghum flour is deemed as the more suitable alternative (for blending bread flour) than cassava flour. Millers note that the protein content of sorghum (which is an important characteristic for producing high quality bread flour) is at a better level for bread flour compared to other available wheat flour substitutes. Other sorghum uses include beverages, both alcoholic and non-alcoholic. Currently, Nigeria's per capita consumption for sorghum is 40 kilograms, according to sources.

Trade

MY2016/17 sorghum export is estimated to 100,000 tons. Sources indicate that there is drought in neighboring countries, Niger and Chad, and that the higher prices in those markets will induce an increase in Nigeria's exports. GON removed its sorghum export ban in 2011.

Sorghum is imported into Nigeria at five percent tariff.