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Nigeria Can Strengthen Economy via Wheat Trade Liberalization

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Report Highlights:

Nigeria remains a huge export market for wheat with export value of U.S. wheat averaging \$1 billion, about 85 percent share of the wheat market. The high demand is mostly pressured by increasing consumption of wheat flour-based products and insufficient domestic substitutes. The Government of Nigeria (GON) efforts at becoming a major wheat-producing country since 1959 have still not been attained and domestic wheat production has remained at 50,000 metric tons out of 3.7 million metric tons it consumes per year. The country's wheat milling capacity is about 8.0 million tons with capacity utilization at approximately 50 percent. Although not permitted, wheat flour and other wheat-based products from Nigeria worth much more than 400,000 metric tons are also informally exported to its neighboring countries while the GON have continued to introduce measures such as high levies, to cut back on wheat imports. With the country's current position in wheat milling within Sub-Sahara Africa, Nigeria would better grow its economy by dropping wheat import levies and growing its export market

for wheat-based products in the region.

General Information:

Introduction

Wheat cultivation began in Nigeria in the 16th century utilizing local methods and low-yielding seed in pockets of lands where varying temperature permitted its cultivation. The wheat area covers mainly the Sudan/Sahelian zones of Borno, Yobe, Bauchi, Jigawa, Kano, Zamfara, Katsina, Sokoto, Kebbi and Adamawa States where commercial wheat production can be possible through the use of expensive irrigation.

For Nigeria to reach significance in wheat production, the country will need to explore producing the crop under less expensive rain-fed conditions, especially in the highland areas of the country such as the plateaus of Mambila, Jos and Obudu. Also, there is the need to expand areas under production and increase the yield of varieties through improved breeding and management.

Nigeria's efforts at exploiting its wheat growing potential are challenged by inconsistent agricultural policies, poor marketing channels, and weak farming organizations and motivation. Nigeria should drop its wheat import levies to its wheat flour wheat flour and related products export market in Sub-Saharan Africa to permit it grow utilizing more fully its installed capacity in wheat milling currently at 50 percent.

Background of Nigeria's Wheat Sector

The first major Government of Nigeria (GON) intervention on wheat production came in 1959 and was spurred by the development of irrigation schemes for Northern Nigeria and increasing local demand for bread. These attracted many towards growing wheat.

In 1987 the GON initiated the Accelerated Wheat Production Program (AWPP) in order to stimulate local wheat production and encourage backward integration. This was followed by a decline in wheat importation that year and eventually resulted in an outright ban on wheat imports into the country. Wheat production figures increased from 400,000 to 600,000 metric tons whereas the estimated total national demand for wheat stood at about 3.7 million metric tons per year.

The GON lifted the import ban on wheat six years later in 1993. Nigeria's wheat production figures then declined to 50,000 metric tons following this, given that local production was not economically viable.

Economics of Wheat

Nigeria is a huge export market for wheat. High demand for wheat flour for the production of bread, noodles, pasta and biscuits (cookies) contributes to Nigeria's wheat market being worth approximately \$1 billion (over 85 percent market share) in U.S. exports. Nigeria's wheat milling capacity increased in 2012/13 to about 8.0 million tons, up from 6.6 million tons, although local capacity utilization is about 50 percent. Flour Mills of Nigeria (FMN) continues to be the market leader by capacity but other millers, such as Dangote, Honeywell, and BUA, keep increasing market share. Competition among the

wheat millers remains strong on the basis of price and quality.

Wheat in Nigeria was mainly milled into flour for bakery and confectionery as well as domestic pastries and local dishes. Recently, wheat meals such as semovita or semolina, etc., are gaining popularity in our restaurants. Additionally, the Nigerian baking industry (small and large independent bakeries and retail in-store bakeries) continues to expand and upgrade production facilities. The increased competition has resulted in a more diverse product selection and an increase in the variety and quality of fresh baked products available to consumers.

Consumption patterns are changing in line with the strong growth of the middle class. Production of bread continues to expand because it is a standard item in the modern breakfast diet and it is convenient for many Nigerians. The rapid growth in the quick service restaurant industry (fast food) offering savory pastries in recent years has also contributed to increased wheat demand.

At present, Nigeria is experiencing the greatest growth in the production of pasta (noodles) as virtually all flour mills in the country have established noodle production facilities. Noodle production is estimated to use up to 560,000 metric tons of Hard Red Winter (HRW) wheat in 2012/13. Although Nigeria is traditionally a market for HRW, in recent years there has also been a steady increase in demand for other types of wheat such as Soft Red Winter (SRW) for use in cookies (biscuit) production, Hard White Wheat (HWW) for bread and noodle production, and even Durum (wheat) for pasta.

Nigeria Exports Wheat Flour

According to industry sources, Nigerian wheat flour is exported informally to neighboring countries as official exports are not permitted. Trade figures are not available for such exports, but industry sources estimate informal exports of wheat products to far exceed 400,000 metric tons. Branded Nigerian flour can be found in several countries in West and Central Africa. Export figure was estimated much higher except that this trade has been reduced by the “Boko Haram” (BH) insurgent’s terrorist activities as borders have been more tightly controlled and less trade flows over them.

Research for Increased Local Wheat Production

Current domestic wheat production is low at less than 100,000 tons per year and increased production is mostly challenged by the lack of development of heat tolerant wheat varieties that are high yielding and development of rain-fed wheat cultivars that are tolerant /resistant to high temperatures, humidity, pests and diseases.

In 1959, some increased research in promoting local wheat production resulted in the introduction of some improved and high-and early-yielding local wheat varieties for better bread making. The Lake Chad Research Institute [Nigeria’s science and research institute covering wheat for high quality breeder and foundation seeds for seed companies, state agricultural development projects (ADPs) and lead farmers, who produce certified seeds for farmers] collaborated with International Maize and Wheat Improvement Center (CIMMYT) to do so.

Poor extension services, inadequate capital, weak infrastructure, insecurity and myriads of other limiting factors restrain Nigeria’s efforts at increasing local wheat production for addressing the country’s food security challenges.

Nigerian Press Report Wheat Ban

Nigeria's media recently reported that the GON had concluded plans to ban the importation of wheat into the country in order to create markets for farmers involved in the production of the grain and save the country a reported \$2.86 billion in foreign reserve. Nigeria Minister for Agriculture, Akinwunmi Adesina was referenced to have announced this plan during a meeting he had with Nigeria Agribusiness Group (NAG) in Abuja, the country's capital. According to the report, he stated that the country has the potential to meet about 68 percent of its wheat needs by 2015.

The media also stated that the GON has begun to consider the local production of wheat in the Northern part of the country with the Lake Chad Research Institute of Nigeria releasing new high yielding tropical and heat tolerant wheat varieties that can yield up to 6 tons per hectare which will translate to about four times the yield of temperate wheat varieties that was utilized in Nigeria in the 1980s.

According to the media reports, Minister Adesina was also said to have explained that with the new tropical wheat varieties Nigeria would be capable of growing economically-viable wheat. He calculated that "21,000 MT was harvested in 2012 from the new varieties, which would be used as seeds. The target would be to plant 212,000 ha of wheat by 2014, with expected production of over 1 million MT, and a projection to expand the cultivated area to 215,000 hectares by 2015, with an anticipated production of 1.2 million MT". He analyzed that Nigeria would be able to should be able to produce 2.2 million MT of wheat if the country accelerates investment in production. However, the news on import ban has since been refuted by GON's officials.

The GON's Wheat Policy

Nigeria imports about 4 million tons per year and this is expected to continue to increase due to increasing prices for wheat flour and flour-based products. The GON has initiated an Agricultural Transformation Agenda (ATA) to increase agricultural productivity by 2020. But this effort relies upon taxes and import bans to stimulate import substitution. In order to cut back on wheat imports, the GON began the implementation of a 15 percent levy on imported wheat grains which pushed the effective duty from 5 to 20 percent in July 2012 and led to the price increases. The GON also started enforcing its policy that millers must include cassava flour in wheat flour beginning with a 10 percent cassava flour inclusion rate, increasing steadily to 40 percent by 2015.

Flour millers and bakers are reluctant to invest to comply with this directive, generating a rift between them and the GON agencies responsible for enforcement. This has had a negative impact on wheat purchases by the millers this year. However, the shortfall in the domestic food supply resulting from Nigeria's flooding last year continues to hold up demand for wheat as more consumers turned to the available flour-based products.

Nigeria remains a growth market for wheat imports because of its huge population of about 170 million people, with annual population growth of 3 percent and the United States has enjoyed a dominant market share averaging 85 percent of Nigeria's wheat market through the last decade. Increasing prices for wheat flour and wheat flour-based products has been a major challenge for flour millers as they have not been able to pass the rising wheat prices to consumers. This is resulting to the recent dropping of market share for the higher quality U.S. wheat. Nigeria's wheat imports from the United States fell over 12 percent from an average 3.2 million tons to 2.9 million tons estimated in 2012/2013 as wheat flour millers and other facilities that utilize wheat as input are gradually shifting to inexpensive wheat from

third-country suppliers.

Nigeria's Agriculture Minister Adesina was quoted as expressing great happiness that these wheat import substitution policies initiated by his regime reduced the importation of wheat flour into the country from about 4 million metric tons in 2010 to 3 million tons in 2012 and has saved "scarce foreign exchange". However, industry analysts' view is that if cassava inclusion into bread would actually be feasible, Nigeria would still be unable to meet the demand of the wheat flour milling industry due to the country's lack of adequate cassava production, weak existing infrastructure and unstable policies.

The U.S. Competitive Advantage

The demand for wheat flour-based products has remained strong because of high prices for other local staples and weaker domestic supplies. The U.S. has a strong reputation as a consistent and reliable supplier of high quality wheat, especially for HRW.

Market analysts view that over time consumers will insist on demanding higher quality, wheat flour-based products which will cause U.S. wheat market share to rebound.

U.S. Wheat Associates is active in Nigeria in providing training opportunities and trade servicing support for the Nigerian milling industry. They have a representative located in Lagos.

Recommendations

Nigeria has the potential to serve a huge export market for wheat flour and wheat-based products in the sub-Saharan region covering West Africa, Central Africa, North Africa and even beyond. According to industry sources, branded Nigerian wheat flour estimated at far over 400,000 metric tons are exported informally to countries in these regions.

Unfortunately, the GON is neglecting this existing huge export market for Nigeria's wheat flour while Nigeria's wheat flour milling capacity utilization remains woefully underutilized at only 50 percent. The GON should drop the recent levies on imported wheat to encourage wheat flour millers produce more at affordable and internationally competitive prices.

The wheat millers and the Nigerian Export Promotion Council should develop this huge regional wheat flour market. This would represent a boost to regional food security and assist local wheat flour millers to maximize capacity utilization. It would also create many Nigerian jobs and earn foreign exchange.