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Nigeria Hikes Sugar Tariffs to Swell Domestic Sugar Production

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Report Highlights:
President Goodluck Jonathan announced new tariff measures for sugar and sugar related equipment and machinery in his 2013 Budget Speech. The tariff policy that will take effect starting January 1, 2013 proposes a zero percent import duty on machinery and spare parts imports for local sugar manufacturing industries and also a-five year tax break for investors in the local sugar sector. The total tariff on imported refined sugar will increase to 80 percent from the current 35 percent. Raw sugar tariffs will also increase from the current 5 percent to 60 percent. The GON plans to meet 70 percent of Nigeria’s sugar needs through local sources in the medium term.

General Information:

President Goodluck Jonathan on October 10, 2012 announced a new tariff for raw and refined sugar as well as sugar related equipment and machinery in his 2013 Budget Speech presented to Nigeria's National Assembly. He proposed 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. These measures will become effective January 1, 2013.

Currently, the import duty on refined sugar is 20 percent, and when other taxes, such as the sugar development levy (10 percent) and value added tax (5 percent) are assessed, the effective duty is about 35 percent. Raw sugar imports attract a much lower duty of only 5 percent and are exempted from payment of the sugar development levy. President Jonathan stated that these policies are to provide supporting fiscal policies to help agriculture and local industry; and to protect investments in the local sugar refineries and sugar estates as well as encourage new investments in local refining capacity.

Nigeria's domestic sugar production in MY2011/12 is forecast at 65,000 tons (raw value), up from the revised estimate of 60,000 tons in MY2010/11. The Nigerian Sugar Development Council (NSDC) was established as the GON agency responsible for formulating sugar policies and strategies. NSDC recently refocused towards promoting private sector-led development in Nigeria's sugar industry. Government-owned sugar estates were privatized in 2005. Investment in local sugar production is hampered by the huge funds required to establish a sugar estate as well as the lack of long-term loans for investment purposes. However, the management of these estates improved under privatization, which also mostly accounted for the marginal increase recorded in sugar production.

Nigeria's overall sugar consumption in MY2011/12 is forecast to rise to 1.34 million tons, up from the revised estimate of 1.3 million tons in MY2010/11. Despite international prices, sugar use in industrial activities such as manufacturing soft drinks, pharmaceuticals, biscuits, other beverages and confectionery products is rising steadily and there is no competing High-Fructose Corn Starch (HFCS) in the market. Demand for direct household consumption also remains strong.

Nigeria depends almost exclusively, about 90 percent, on raw sugar imports, shipped mostly from Brazil, which are then refined by the local domestic sugar industry. The bulk of Nigeria's refined sugar supply also comes from Brazil. Post forecasts Nigeria's raw sugar imports in MY2011/12 to rise to 1.5 million tons, unchanged from MY2010/11. In MY2009, Nigeria imported 1.2 million tons of raw sugar and only 100,000 tons of refined sugar.

Two major companies refine sugar in the Nigeria: Dangote Sugar remains the dominant player with a refinery capacity of 1.44 million tons followed by BUA Sugar Refinery with a capacity of 720,000 tons per year. The combined capacity of the two refineries is 2.3 million tons of sugar per year, far exceeding national consumption estimated at 1.4 million tons. More investors plan to establish sugar refineries despite overcapacity. Nigeria's beneficial five percent import tariff on raw sugar makes local sugar refining very attractive.

The proposed sugar tariff regime seeks to boost the development of sugar cane production towards meeting the raw sugar needs of existing and new domestic sugar refining companies. However, Post believes that under the new tariff regime, Dangote Sugar will be the company with the most competitive advantage to meet Nigeria's total sugar requirements by January 1, 2013.

While the proposed tariff increases are expected to provide incentives for investment in local sugar production may help reduce costs for sugar manufacturing, the impact this may have on local food production, especially confectioneries and bakeries, is unknown. If local production of raw sugar (sugar from sugar cane) is not enough and prices increase this will lead to increased prices for many other items that depend on sugar.

Exchange Rate: $1 = 160 Naira