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Grain and Feed Update

Nigeria Remains a Huge Export Market for Wheat and Rice

Approved By:
Kurt Seifarth
Prepared By:
Uche M. Nzeka

Report Highlights:
Nigeria's wheat demand continues to rise and is attracting more third-country suppliers of inexpensive wheat. Imports for 2013/2014 have been adjusted to 4.55 million metric tons as compared to 4.21 reported in the annual edition of this report. Imports for 2014/2015 are projected at 4.75 million metric tons and the U.S wheat exports are expected to exceed 2.7 million metric tons in 2014/2015. Levies on imported rice have also been introduced and incentives extended to investors in local rice production/processing to fill market gap. Domestic rice production/processing have shown some increases but they are insufficient to feed the mills and demand for rice continues to rise. Rice imports are expected to contribute more than half of total supply in MY2014/2015. These are fueling informal cross-border rice trade and loss of revenue to Nigerian government (GON). Demand for other grains

such as corn, sorghum, millet, etc. also remains high and no significant changes have been recorded since the last report.

Exchange Rate: US$1 = 170 Naira

Wheat:

Although Nigeria is a major market for HRW, in recent years there has 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 Durum (wheat) for pasta.

The country's consumption of wheat is expected to exceed 4 million metric tons in MY2013/2014 as compared to 3.8 million metric tons the previous year. Consumption is also expected to maintain a steady rise from MY2014/2015 as consumer demand for wheat based foods continues to climb. Nigerian flour millers who are also mostly pasta manufacturers are reporting increasing demand especially for noodles and spaghetti (pasta) and are increasing production capacities to meet demand. Competition among the wheat millers is also intense and is based on price and quality. The Nigerian baking industry also continues to expand and upgrade its production facilities.

The GON began the implementation of a 15 percent levy on imported wheat grains for all origins which pushed the effective duty from 5 to 20 percent in July 2012. The levy brought price increases for wheat and wheat-based products while wheat millers find it challenging to pass the rising wheat prices to consumers. This created opportunity for the entrance of third-country suppliers of inexpensive and lower quality wheat. To lower production cost and stay competitive in the market, some Nigerian flour millers now blend flour from the inexpensive, lower quality wheat with the high quality and more expensive U.S. wheat. The United States had enjoyed greater than 90 percent of Nigeria's wheat market prior to the levy imposition in July 2012. The new levy caused U.S. market share to drop to less than 60 percent as importers moved towards inexpensive and lower quality supplies on the global market in order to become competitive.

Despite domestic price increases the Nigerian consumers' demand for wheat-based products has remained strong due to higher prices and weak domestic supplies for other local staples. Total supply is also expected to exceed 5 million metric tons in 2014/2015. U.S. wheat exports are also expected to exceed 2.7 million metric tons in 2014/2015 from slightly above 2.6 million metric tons in 2013/2014.

The U.S. also has a strong reputation as a consistent and reliable supplier of high quality wheat, especially for HRW. As Nigeria and its neighboring countries continue to demand high quality wheat-based foods usually obtained from flour derived from exclusively U.S. wheat, market analysts hold that over the next few years consumers will insist on demanding more of the higher quality, wheat flour-based products, which will cause U.S. wheat to recapture its lost market share in the next few years.

Production, Supply and Demand Data Statistics:

Wheat Nigeria	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Jul 2012		Market Year Begin: Jul 2013		Market Year Begin: May 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	80	80	70	70	70	70

Beginning Stocks	200	200	200	200	200	200
Production	80	80	70	70	70	70
MY Imports	4,140	4,140	4,550	4,550	4,750	4,750
TY Imports	4,140	4,140	4,550	4,550	4,750	4,750
TY Imp. from U.S.	2,998	3,000	2,631	2,631	0	2,730
Total Supply	4,420	4,420	4,820	4,820	5,020	5,020
MY Exports	250	250	500	500	600	600
TY Exports	250	250	500	500	600	600
Feed and Residual	100	100	50	50	50	50
FSI Consumption	3,870	3,870	4,070	4,070	4,170	4,170
Total Consumption	3,970	3,970	4,120	4,120	4,220	4,220
Ending Stocks	200	200	200	200	200	200
Total Distribution	4,420	4,420	4,820	4,820	5,020	5,020
1000 HA, 1000 MT, MT/HA						

Rice, Milled:

In December 2012, the GON finally imposed a 100 percent levy on imported rice, which combined with the already applied duty of 10 percent under Nigeria's customs tariff regime, brought the total effective tariff rate to 110 percent starting January 2013. Through the use of these tariffs (duties, levies, and additional taxes) and incentives to attract investment in domestic rice production and eventually place total import ban on rice by January 2015 when domestic production of rice will be able to meet demand.

Following this, some significant investment in rice production and processing by large and medium-scaled firms as well as some state governments in the rice-producing areas of the country were recorded. Olam Rice Farms, Stallion Foods, Best Foods, Tara Rice, Lumana Rice, Umza Farms, Ebonyi Rice as well as the Dangote Group have committed resources for domestic rice farming and processing. According to GON sources, investment in domestic rice processing has reached nearly $5 billion (for processing about 4 million metric tons of processed rice per year) in 2014, from an approximate $3.5 billion investment in 2012.

However, the immediate impacts of the new tariff policy were higher rice prices in Nigeria and increased informal cross-border rice trade (coming in is from mostly India, Thailand and Brazil) along the Nigeria-Benin border; resulting to lower customs revenue. As a result, the GON reduced the rice tariff effective July 8, 2014 to 10 percent duty and 20 percent levy on imported husked brown and semi-milled or wholly milled rice designed for "investors with rice milling capacity and verifiable backward integration" program in Nigeria. A levy of 60 percent was also added to the 10 percent duty rate for the same type of rice for the "pure rice traders" (exclusively rice importers without backward integration program in Nigeria).

Post also visited some rice farms and rice milling facilities in September 2014. Some increased domestic production of paddy rice and new ultra-modern rice processing mills were observed. However, the rice milling facilities visited were not operating at the time of visit but were reported to be running at far below capacity due mainly to a combination of: 1) high-cost of production and scarcity of paddy 2) high-cost of processing/distributing and 3) low consumer acceptance of domestic rice. Domestic rice prices also retain a 20-30 percent premium over the prices for imported rice, except for rice sold locally within the rice-producing communities.

Information also obtained during the field trip indicated that Nigeria will consume approximately 6.5 million tons of parboiled rice in MY2014/2015, about 400,000 metric tons higher than earlier projected. More than half of consumption (about 60 percent) will be imported. Rice has become a regular item in the Nigerian diet, largely because of the convenience it provides and the variety of ways it can be prepared. Imported parboiled rice meets consumer demand in urban areas where incomes are highest, while locally milled rice is consumed mainly in the rice-producing rural areas.

The GON lacks the resources to police its borders effectively and will be distracted from doing so especially at this period of election campaign in Nigeria. Nigeria has important national elections in early 2015. Rice is also an important vote-winning tool during elections as wide use rice donations to influence voters has almost become traditional especially in the rural and semi-urban areas where majority of Nigeria's voters live. Investors in local rice production also see the new rice import window as a way of recovering as much part of their investment in domestic rice production and milling as possible. This is mostly so for fear of the usual change of policy if a new government happens to come into power after any election.

Production, Supply and Demand Data Statistics:

Rice, Milled Nigeria	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Oct 2012		Market Year Begin: Oct 2013		Market Year Begin: Oct 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2,000	1,575	2,500	2,500	2,300	2,300
Beginning Stocks	1,015	1,015	885	885	657	657
Milled Production	2,370	2,370	2,772	2,772	2,550	2,650
Rough Production	3,762	3,762	4,400	4,400	4,048	4,206
Milling Rate (.9999)	6,300	6,300	6,300	6,300	6,300	6,300
MY Imports	2,800	2,500	3,000	3,000	3,500	3,800
TY Imports	2,400	2,600	3,000	3,000	3,500	3,800
TY Imp. from U.S.	0	12	0	10	0	15
Total Supply	6,185	5,885	6,657	6,657	6,707	7,107
MY Exports	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0
Consumption and Residual	5,300	5,000	6,000	6,000	6,100	6,500
Ending Stocks	885	885	657	657	607	607
Total Distribution	6,185	5,885	6,657	6,657	6,707	7,107
1000 HA, 1000 MT, MT/HA						

Population growth, urbanization and rising incomes are expanding rice consumption in Nigeria. Urban consumers prefer long grain, polished and de-stoned imported rice over local varieties. Imported parboiled rice also competes effectively against other basic food staples. This also explains the reason import volumes have remained large and will continue to increase for a long time. Local rice producers are also finding it increasingly challenging to gain market share especially in the urban areas where income is higher. A recent and common practice among local rice producers and distributors is to package the local rice in branded bags of the popular brands for higher quality imported rice and sell them to unsuspecting consumers.

Post:
Lagos