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# GAIN Report

Global Agricultural Information Network

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## Nigeria

**Post:** Lagos

### Nigeria Cocoa Production Increases

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**Report Highlights:**

**Nigeria's cocoa production is growing steadily, spurred by record high grower prices of recent years. Growth falls far short of set goals because farmers are older and their farms need replanting. There is a growing global interest for cocoa farming and production activities to meet the "UTZ certified" status in the production of better quality and cost efficient cocoa adhering to internationally acceptable models and practices.**

**Executive Summary:**

Nigeria's cocoa production in 2011/12 is forecast to increase to 300,000 MT, up from 280,000 MT this year. Rising international market prices for cocoa have continued to encourage Nigerian farmers to rehabilitate abandoned farms and also increase area under production. Growers' returns have increased following the sharp rise in world price levels for cocoa caused by the conflict in Ivory Coast, the leading world producer. Over the last 5 years, Nigerian grower prices increased more than 50 percent to the current average of 460,000 Naira per MT. The U.S. imported cocoa products estimate at \$40 million from Nigeria in 2010.

Local processing is also expected to increase, spurred by increasing demand for cocoa powder and the Export Expansion Grant (EEG). The EEG is GON's export incentive rebate program to encourage non-oil exports. Cocoa exporters in Nigeria are demanding higher quality cocoa from agents and producers. For the first time a Nigerian cocoa exporter won the "UTZ CERTIFIED Good Inside" award in 2011. UTZ certification is an international standard which sets sustainable models for the production of better quality cocoa using cost efficient and environmentally and socially responsible farming practices.

Exchange Rate: US\$1 = 155 Naira

**Production:**

Nigeria's cocoa production in 2011/12 is forecast at 300,000 MT, up from 280,000 MT this year. 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. Price rises caused by the conflict in Ivory Coast is stimulating renewed interest in cocoa farming. Field visits to the major cocoa producing areas of the country revealed that new farms are being acquired and old ones rehabilitated. A few new corporate organizations are investing in cocoa production and young school leavers in Nigeria's Cross River State are taking to cocoa farming with the active support of the government of that state. Post expects area harvested to increase somewhat as a result of the rehabilitation of old cocoa fields. Also, increased farmer education, improved cocoa varieties and increased utilization of recommended chemicals are expected to result in some modest increases in crop yield and outputs.

A major problem with cocoa production in Nigeria is that the majority of Nigeria's cocoa farmers are above 60 years and most cocoa trees are even older with diminished production. Farmers are concerned about an immediate loss of income if unproductive trees are cut and replanted with the recommended new disease-resistant, high yielding and early maturing varieties. New varieties have a gestation period of only three years, as compared to five years for traditional varieties.

According to the results of a national survey conducted by the (NCDC), there are 14 cocoa producing states in Nigeria and a total planted area of 640,000 hectares. Annual production has fluctuated between 250,000 and 320,000 tons over the past five years. 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 1,000 naira per day, as compared to 400 naira five years ago;
- Non-availability and low utilization of fertilizers despite declining soil fertility;
- The duration of the dry months is getting longer with climate change and it is affecting crop yield and the establishment rate of new planting;
- Poor access roads to the major cocoa production points;
- Government subsidies on inputs and seedlings are considered to be inadequate and ineffective. Such subsidies rarely get to the target farmers because of the activities of middlemen and politicians.

Area planted in 2011/12 is forecast at 643,000 hectares, up from about 640,000 hectares this season. The seedlings raised and sold to farmers go partly to replanting over-aged cocoa fields and partly to planting of new farms. 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.

## **Yield**

Average cocoa yield in Nigeria does not exceed 500 kilograms per hectare. Hybrid varieties developed

by the Cocoa Research Institute have yield potential of 1.5 to 2 tons per hectare. Yield improvement in Nigeria is constrained by inadequate extension services, lack of proper farm maintenance, low farm input utilization, and old trees.

### **Crop Quality**

The quality of Nigerian cocoa has improved somewhat but is below the peak quality of the 1980s and that offered by other West African exporting countries. Most of the industry's quality control mechanisms were 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, government produce inspectors at States and Federal levels pay attention to revenues rather than the quality of graded cocoa. The average grading fee in the country is 5,000 Naira per ton. There are still isolated complaints about the use of banned chemicals by farmers and the attendant issue of Maximum Residue Limits (MRLs) with Nigerian cocoa despite sustained enlightenment campaigns.

For the first time, however, a Nigerian cocoa exporter, SARO Agro-Allied Ltd, in partnership with ADM, a leading global cocoa processor, supported about 2,000 Nigerian cocoa farmers to become UTZ CERTIFIED in 2011. '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. In the past, ADM and other organizations had assisted countries such as Ivory Coast, Ghana, Indonesia, and others to establish sustainable cocoa programs and to become UTZ certified.

### **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 have triggered an upward spiral in grower prices by more than 50 percent over the last 5 years from 300,000 naira per MT in 2005 to 460,000 naira per MT in mid-2011.

Ivory Coast has been 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 many more years for the country to rehabilitate its cocoa sector to reach previous production levels. Industry sources have indicated that Nigeria, with vast land resources suitable for cocoa production, is capable of tripling current production within the next five years and moderating the spiraling global prices, simply by implementing its existing cocoa development policies. It is estimated that only about 20% of Nigeria's 3.0 million hectares of land suitable for cocoa productions is currently in use.

### **Consumption:**

About 85 percent of total cocoa production is exported as cocoa beans while the remaining 15 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. Plans are in the offing to establish the first ever chocolate factory in the next year. The Cocoa Association of Nigerian (CAN) and NCDC have intensified campaigns to

increase domestic consumption of cocoa products over the last decade—mostly emphasizing the health benefits. Although local consumption remains small, these efforts have assisted in the continued growth of domestic demand for cocoa powder and other cocoa-based products over the last five years.

### **Processing**

There are about 17 processing facilities in Nigeria with a combined annual processing capacity of 220,000 MT of cocoa beans. Presently only eight of these processing facilities, with total installed capacity approximating 150,000 MT, are crushing cocoa beans at about 30 percent of installed capacity (processing volume of 50,000 MT) in 2011.

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. However, this effort is limited by the scarcity and high cost of cocoa beans as farm-gate prices are only marginally lower than the international market prices. With high costs for local processing as compared to the developed and consuming countries, exporters find it more profitable and convenient to sell cocoa beans than export cocoa in processed forms.

However, local cocoa grinding is likely to increase marginally from the current 15 percent of total bean production to 16 percent in the next year due largely to expected increases in bean production and improved power supply for processors.

To further encourage local cocoa processing, the GON introduced the category of “Export Processing Factory” status in 2007 which exempts processors from payment of all taxes and other levies imposed by federal, state and local governments. Cocoa farmers in Nigeria receive close to 80 percent of world market prices, which is the highest average return to growers in the region. Local cocoa grinding therefore can only increase marginally next year. Industry sources attribute the low processing output to processors’ inability to compete with exporters for available cocoa beans. Thus the relatively high grower prices have a negative impact on Nigeria’s cocoa processing profitability.

### **Trade:**

Post forecasts Nigeria’s cocoa beans exports at 247,000 MT, up from 230,000 MT this year. 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. Field visits to a number of the processing facilities revealed that most processors survive on 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 85 percent of Nigeria’s cocoa is exported as beans, mostly to the EU where they are processed into butter, paste, liquor, etc. (75 percent) and powder (25 percent). Belgium, UK, Germany, the Netherlands, etc. are the largest destinations. Recently, U.S. cocoa imports from Nigeria have been trending upwards and imports of cocoa products from Nigeria were estimated at \$40 million.

The global drive for cocoa farming and production activities to meet the “UTZ certified” status is also a major interest among all 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. Farmers, farmer groups and traders surveyed during the field visits were unanimous in their request for support all through the cocoa value chain.

**Policy:**

Cocoa production and trade in Nigeria 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 in the near term, improve quality and increase farmer’s income. The committee has the Minister of Agriculture as the Chairman and Deputy Governors of the cocoa producing states as members. It collaborates with the Cocoa Development Units of all cocoa producing states in providing improved seedlings and approved chemicals at 50 percent subsidy. Stakeholders indicate that the momentum of support for the sector has waned under recent administrations and need to be revitalized.

**Production, Supply and Demand Data Statistics :**

<b>Country</b>	Nigeria					
<b>Commodity</b>	Cocoa Beans					
	2009	Revised	2010	Estimate	2011	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
<b>Market Year Begin</b>		10/2009		10/2010		10/2011
<b>Area Planted (1000 HA)</b>	0	634	0	640	0	643
<b>Area Harvested (1000 HA)</b>	0	630	0	635	0	640
<b>Bearing Trees (Millions)</b>	0	645	0	650	0	655
<b>Nonbearing Trees</b>	0	38	0	39	0	40
<b>TOTAL Tree Population</b>	0	683	0	689	0	695
<b>Beginning Stocks (MT)</b>	0	9500	0	9500	0	9500
<b>Main Production (MT)</b>	0	230000	0	230000	0	250000
<b>Mid Production (MT)</b>	0	40000	0	50000	0	50000
<b>TOTAL Production (MT)</b>	0	270000	0	280000	0	300000
<b>Bean Imports (MT)</b>	0	0	0	0	0	0
<b>Liquor &amp; Paste</b>	0	0	0	0	0	0

<b>Butter Imports (MT)</b>	0	0	0	0	0	0
<b>Powder, Cake, Choc. Imp.</b>	0	0	0	0	0	0
<b>TOTAL Imports (MT)</b>	0	0	0	0	0	0
<b>TOTAL SUPPLY (MT)</b>	0	279500	0	289500	0	309500
<b>Bean Exports (MT)</b>	0	222360	0	230605	0	247432
<b>Liquor &amp; Paste</b>	0	17000	0	17000	0	18665
<b>Butter Exports (MT)</b>	0	20240	0	21695	0	23000
<b>Powder/Cake/Choc</b>	0	2000	0	2000	0	2000
<b>TOTAL Exports (MT)</b>	0	261600	0	271300	0	291097
<b>Domestic Consumption</b>	0	8400	0	8700	0	8903
<b>Ending Stocks (MT)</b>	0	9500	0	9500	0	9500
<b>TOTAL DISTRIBUTION</b>	0	279500	0	289500	0	309500