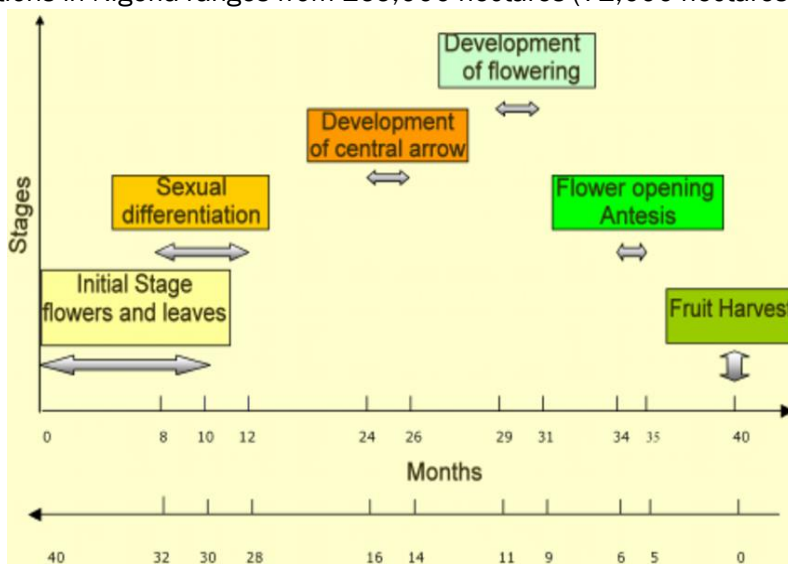


The Oil Palm Industry: Reviving The Nigerian Oil Palm Economy



Oil palm is a typical crop of the rainy tropical lowlands that requires a deep soil, a relatively stable high temperature and continuous moisture throughout the year. Processing oil palm fruits for edible oil has been practiced in Africa for thousands of years, and the oil produced, highly coloured and flavoured, is an essential ingredient in much of the traditional West African cuisine. Palm oil is largely produced in Akwa-Ibom, Abia, Rivers, Edo, Imo, Ondo, Bayelsa, Cross River and Delta.

The estimate for palm tree plantations in Nigeria ranges from 169,000 hectares (72,000 hectares of plantations property and 97,000 ha of small plantations) to 360,000 hectares of plantations. Extensive research has enabled expansion in producing states to about 24 states in Nigeria. Despite this increase in land area, which stands over 3.0million hectares, Nigeria's oil palm yields are comparatively low at 0.39 MT/Ha compared with Malaysia's 3.87MT/Ha, Thailand's 3.72MT/Ha, Indonesia's 3.58MT/Ha and Colombia's 3.4MT/Ha. Oil palm is planted in the main field in triangular system at spacing of 9 m accommodating 140 palms per ha. Planting is preferably done at the onset of rainfall during May-June. First harvest can be taken 3.5 to 4 years after planting.



Nigeria is the fifth largest producer of palm oil in the world producing 1,015,000MT with Indonesia as the largest producer (41,500,000MT), Malaysia as second largest (20,500,000), Thailand as

third largest (2,900,000MT) and Colombia as fourth largest producer (1,530,000MT) (USDA, 2018). Indonesia and Malaysia accounted for an average of 80.1% of global production between 2016 and 2018. This is unsurprising given that plantations in both countries account for 65.0% of land area under cultivation globally.

Economic Importance of Palm oil

In the food industry, palm oil is used as a cooking oil and shortening and in the manufacture of margarine, non-dairy creamers and ice cream. It is also used in products where animal fats are unacceptable on religious grounds. Palm oil has a high resistance to oxidation and therefore a long shelf life. These properties make it particularly suitable for use in hot climates and as a frying fat in the snack and fast food industry.

Palm oil is a very resourceful vegetable oil used in many ways in different cultures, industries and markets. In food, palm oil is used as a substitute for fat in making condensed milk, coffee cream, ice cream and margarine and because of its consistency and ability to resist high temperatures, it is commonly used as cooking oil and is considered one of the best oils for frying.

As a non-food product, palm oil makes an important raw material in the production of soaps, detergents, greases, lubricants and candles. With the growing profile of the biofuels market, palm oil has also proven to be a valuable feedstock for biodiesel and serves as an alternative to mineral oils used in power stations. Palm oil by-products are widely used in the pharmaceuticals and cosmetics industry. It is also used in the production of printing ink, drilling fluids and water-treatment products. Apart from local trade in palm oil, it is heavily sold on the international markets as CPO (Crude Palm Oil) and usually commands a high premium price given its vast capabilities and high demand from several industries.

The Oil palm Economy

In Nigeria, oil palm production and export historically contributed substantially to Nigeria's external reserves and agricultural GDP as palm oil and palm kernels exports composed 15.0% to 20.0% of the country's total exports. The sector in Nigeria has since witnessed a downturn with contribution to global market share tapering to a meagre 1.4% as at 2018 according to data from the United States Department of Agriculture (USDA).

In the early 1960s, crude palm oil was one of Nigeria's major sources of foreign exchange. Sadly, Nigeria has rested on her oars such that the country is now referred to as being the "once upon a global leader" in the production of palm oil. Today, Nigeria massively imports 350,000MT (USDA, 2018) of palm oil majorly from Malaysia and Indonesia to fill the deficit in consumption.

This production downturn and consequently, Nigeria's market share, may be attributed to the sustained use of traditional and crude production methods by small holder farmers, the country's focus on exploration and export of crude oil (for generation of revenue and foreign reserves), persistent low yields per hectare as well as the impact of the civil war on oil palm producing communities. This culminated in the country becoming a net importer of the commodity in the 1980's as rising domestic consumption could not match the sluggish growth in production. Nigeria has sustained this net importer status with sector deficit averaging 393,000 MT over the last ten years based on USDA's estimates.

Smallholder farmers are responsible for 80 percent of output in the industry. Smallholder own over 400,000 hectares of oil palm plantations across the country but produce two to three tons per

hectare in contrast with Malaysia where smallholder farmers produce 18 to 20 tons per hectare. Some of the smallholder oil palm farmers are untrained and neither knows when to apply fertilizers nor do they know crop spacing (usually seven to nine metres) and most of them depend on family labour and lack knowledge of healthy agronomic practices.

Oil palm prices in Nigeria are relatively higher than international prices primarily due to import restrictions on the commodity following the introduction of the Central Bank of Nigeria's (CBN) list of 42 FX excluded items. This policy, when introduced in 2015 led to a surge in oil palm prices as local demand for CPO soared while importation and total industry supply tapered. Consequently, average local CPO prices jumped 54.4% and 58.9% in 2016 and 2017 respectively as local demand expanded without a commensurate increase in supply. Based on this, listed companies Okomu Oil Palm Plc (OKOMUOIL) and Presco Plc (PRESCO) witnessed notable and faster pace of improvements in revenues and profitability even as growth in production expansion has been slower.

A lot of money is needed to invest in oil palm plantations, which many smallholder farmers do not have. Oil palm also requires four to seven years to fruit and eight to 13 years to yield profits which makes the industry less attractive to impatient youths and populated by middle-aged and old women. Huge working capital requirements restrict new investments alongside sparse distribution of skilled and knowledgeable agricultural personnel across the country and Nigeria's large infrastructural deficit.

Investment Initiatives

PZ Wilmar

Around 2010, PZ Cussons Nigeria entered into a joint venture (JV) agreement with Wilmar (Wilmar International Limited is an Asian major oil producing company with headquarters in Singapore became a major investor in Cross River State, Nigeria since 2011.) with a view to reawakening dead oil palm estates across Nigeria, particularly in Cross River State. The JV became a reality in 2012 when PZ Wilmar acquired the defunct Calaro Oil Palm Estate, formerly owned by Cross River government. The estate, also known as Biase plantation, located in Akampa/Odukpani area of the state, has 5,549 hectares (ha).

The firm also acquired a proximate area known today as Calaro Extension with 2,369 ha. It also acquired Ibiae plantations with 5,595 ha; Ibad plantations in Akampa with 7,805 ha; Kwa Falls in Akampa Akpabuyo with 2,014 ha, and Oban plantations, also in Akampa, with 2,986 ha. PZ Wilmar plantations in Cross River are altogether estimated at 26,318 ha. Target is to hit 50,000 ha in a few years.

The mill is expected to be completed by the end of April, 2018. Full operations will start in early May. The palm oil mill (POM). PZ Wilmar's Ibad oil palm estate produces 20 tons per hour of fresh fruit bunches (FFB). PZ Wilmar's investments in oil palm plantations and associated infrastructures in the Cross River State are estimated at N45 billion. About N20 billion has also been pumped into an oil palm refinery in Lagos.

Presco

Presco Plc is another major player that is plugging the huge gap in the industry. Located in Edo State, the firm has total land bank of 40,000 hectares of which planted areas are 20,136 hectares of oil palm and 138 hectares for rubber. Presco's investment is valued at N75 billion. Its capacity

is 63 percent in the peak season and 24 percent in the lean season. The firm's estimated production for 2018 is 47,000 MT of CPO.

Felix Nwabuko, managing director of Presco, said "Included in our long term business plan is capital expenditure (capex) investment of N46 billion over the five year period of 2018-2022 in plantations development, processing facilities, energy infrastructure and other supporting machinery, equipment and infrastructure,".

Okomu

Okomu is also a major player/investor producing 40,000 tons of CPO. It plans to move to over 80,000 tons with its current investment. With operational headquarters in Edo State, Okomu is a member of Socfinal group of Luxembourg which owns 62.6 percent of the Company's shares with Nigerians owning the balance of 37.47 percent.

It recently acquired 11,400 hectares of land and plans to establish 10,000 hectares of oil palm plantation within three years. Okomu is setting up a palm oil mill that will cost N15 billion, according to Graham Hefer, managing director of the company.

Okitipupa Oil Palm Plc is now ready for business after five years of closure. The firm has two mills—one at Okitipupa and the other at Ikpokemuyi in Ondo State. The former has 20 tons per hour capacity while the latter's capacity is estimated at 22 tons per hour, senior officials of the firm told BusinessDay.



Old and non-functional milling plants at Okitipupa Oil Palm in Ondo State

The mill is currently old and needs total overhauling. Already, a multinational oil company Victory Crystal Investment is interested and wants to pump \$13m to resuscitate the mills. Okitipupa has plantations at Ikoya, Ilitutun, Igbotako, and Omotosho, all in Ondo State, and the plantations have been active even while the mills were abandoned. BusinessDay gathered that Araromi-Ayesan Oil Palm, which was a shadow of itself early last year, is now on. It has 10, 468 hectares of plantations and already has a board chaired by Femi Okunniyi.

Challenges in the Industry

- ✧ Smuggling and sabotage: Due to Nigeria's porous borders and corruption by Nigeria Customs officials, palm oil worth 400,000 tons per annum is smuggled into the country.
- ✧ Poor funding: financial institutions wants palm oil producers to take its loans and return it in five years but players say it takes 10 to 13 years to even make a profit in the business.
- ✧ The industry needs policies to curb smuggling, unbridled importation and excess taxation.
- ✧ High cost of palm oil processing.
- ✧ Inaccessibility to processing technologies
- ✧ Lack of extension contact

- ✧ Lack of Proper Scaling of Milling Technology: The lack of proper scaling of locally fabricated milling technology adversely affects the extraction rate and volume of palm oil production. Most of the available mini-processing mills are fabricated locally by local artisans without proper scaling, which results in high level of palm oil waste or low oil extraction rate.
- ✧ Proliferation of Adulterated Seeds and Seedlings: Smallholder farmers expressed difficulty in accessing sprouted seeds and seedlings from NIFOR. Over the years, the absence of regulation on the marketing of sprouted seeds and seedlings has created the opportunity for the informal sales of adulterated, low-yield sprouted seeds and seedlings at lower prices to the detriment of unsuspecting farmers.

Next Step

To prevent further collapse and growth of the industry, government and relevant stakeholders should make sure to consider and act upon the following:

The Federal Government must as a matter of urgency embark on a series of interventions to save the industry from an impending collapse. Specific interventions geared towards protecting the industry from importers and smugglers must be initiated if Nigeria must sustain her position as part of world's top producers. For instance, where the Central Bank's Anchor Borrowers' Programme does not cover oil palm because of its maturity period, government must seek alternative ways of incentivising plantation owners.

There must be increased security for oil palm plantations which have recently come under increased attacks from the herdsmen. Hunters have in their search for game, set bushes on fire, which sometimes get out of control and raze hectares of oil palm plantations.

Poor infrastructure has also been a bane in the quest to achieve growth in the sector. Government must approve and execute infrastructural projects such as roads to reduce transportation costs which add to the huge production costs for palm oil.

Enforcement of existing tariffs and duties on CPO imports must be pursued vigorously now more than ever if the move to save the industry from extinction would be achieved. Serious actions must also be taken to stop the importation of refined products like vegetable oil because such would amount to smuggling as the commodity is on the Federal Government's Import Prohibition List.

Similarly, government must do away with import waivers usually granted some importers. The mischievous application for the ECOWAS Trade Liberalisation Scheme (ETLS), by oil palm importers which grants them 'waivers' to import palm oil must be properly scrutinised by the government. This is even more important when considered from the angle of revenue generation for the government. Such frivolous applications and approvals deny the government of monies it would have made from duties imposed on the importation of such produce.

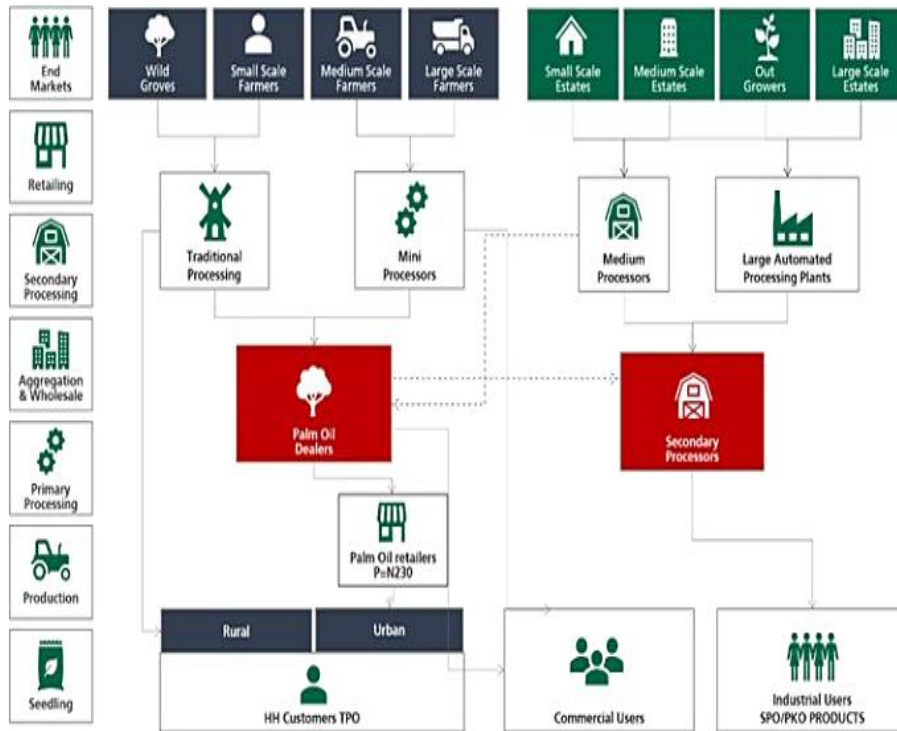
It becomes counterproductive where government on one hand encourages Nigerians to go into agriculture and on the other hand, disincentivises them through improper and haphazard implementation of enabling policies and plugging loopholes where they exist. The conspiracy is certainly taking its toll on the industry and it requires concerted efforts on the part of government and key industry stakeholders to address. This is certainly the time when plantation owners need all the support they can get from government.

SWOT Analysis of the Oil Palm Industry

<p>STRENGTHS</p> <ul style="list-style-type: none"> • Long economic life of the Oil Palm Tree. Hence, high return on investment over a long period. • Premium pricing on industry SPO brought about by the government's inclusion of oil palm on the list of 42 banned items for FX. 	<p>WEAKNESSES</p> <ul style="list-style-type: none"> • The process for getting land permits for oil palm plantations is lengthy and involves several procedures. • Local communities around farming settlements acting as impediments to production through militancy and demands over land ownership. • Lack of infrastructures is a key impediment to production especially in bad road networks for moving FFBs from SHF farms to oil palm mills.
<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> • Huge demand deficit in Nigeria which is currently estimated at 375,000 metric tonnes of CPO. • Huge potentials for newer companies and incumbents in refining CPO. PRESCO Plc owns the only major CPO refinery in Nigeria. • Expected increases in Nigeria's population poses an opportunity for continuous demand for CPO and its variants. • Several government policies support financing to the agricultural sector. New players can easily access additional finance. 	<p>THREATS</p> <ul style="list-style-type: none"> • Limited supply of high-quality seeds especially for small holder farmers. • Local players are threatened by Nigeria's intention to join AFCTA and the likelihood of a removal of oil palm import duties. • Environmental issues such as erosion constitute a threat to farming and destruction of oil palm plantations.

Source: Afrinvest Research

Oil Palm Value Chain in Nigeria



Source: PIND, Afrinvest Research

Farming Estates in Nigeria

Small Sized Farming Estates		Medium Sized Farming Estates		Large Sized Farming Estates	
Name	Capacity	Name	Capacity	Name	Capacity
Augustine Efonayi Oil Palm	500 hectares	A & Hartman	4,000 hectares	PZ Wilmar Ltd	26,000 hectares
Iyare Oil Palm	500 hectares	Ore-Irele Oil Palm Plc	3,103 hectares	Presco Oil Palm Plc	16,650 hectares
Satum Farms	465 hectares	Investment Holding Araromi	1,271 hectares	Risonpalm Estate (Siat Nig Ltd)	16,000 hectares
Obotme Oil Palm	350 hectares	Investment Holding Company Irele	1,220 hectares	Okomu Oil Palm Plc	14,463 hectares
Oka da Wonderland	125 hectares	Aden Rivers	1,050 hectares		

Source: Afrinvest Research

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