

Impact Assessment and Policy Responses to the Coronavirus Pandemic on Agricultural Exports

Nigerian Export Promotion Council

09 April 2020

Key messages

- The covid-19 pandemic is likely to cause significant hardship to not only the oil sector, but also the non-oil export sector.
- Agricultural exports, especially cocoa, are predicted to suffer. A fall in exports of over US\$100 million in the cocoa sector in Nigeria is predicted as a result of declining prices due to falling demand in Europe.
- Sesame exports are likely to prove more resilient, owing to a smaller decline in prices, and more diversified export markets.
- Cashew exports are at risk owing to the Viet Nam Cashew Association's guidance to enterprises within the country to carefully consider before importing raw cashew. A fall in exports of close to US\$90 million for Nigerian cashew exporters is likely.
- The recommendations made by the Nigerian Governors' Forum on special clearance for producers, suppliers and distributors of essential goods and services at the nation's ports, should be extended to exporters of goods who had secured orders before the pandemic and are seeking to execute them.

1. Background

The outbreak of covid-19 across the world has had a seismic impact on the global economy. Estimates from McKinsey suggest that Africa faces an immediate decline in GDP growth by three to eight percentage points. However, in Nigeria, the negative economic impact is likely to be even more profound following the crash in international oil prices, reaching as low as \$22.58 a barrel. This has been extensively analysed given that as of 2019, 87% of Nigeria's foreign exchange earnings came from crude oil exports. However, with non-oil exports rising year on year prior to the outbreak, the Nigerian Export Promotion Council (NEPC) has identified an impact assessment of covid-19 on the agricultural export sector as crucial.

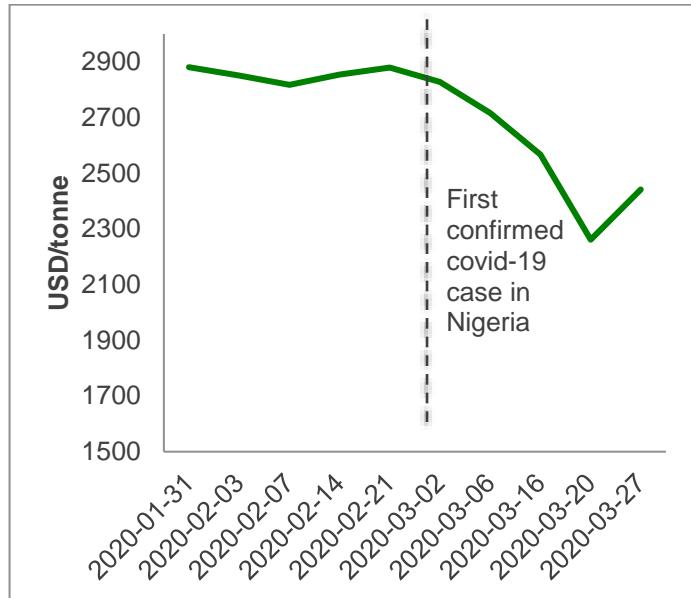
2. Agricultural exports

Whilst many countries are prohibiting exports of certain food products, Nigeria's agricultural export sector can ill afford to do this. The top 3 Nigerian agricultural exports in 2018, cocoa, sesame and cashew are produced to cater for foreign demand. Demand within the domestic market for these products does not exist in large enough quantities for the Federal Government to require a ban or quota on their exports. Exports of these three agricultural commodities in 2018 led to foreign exchange earnings of close to US\$800 million for Nigeria, accounting for over 70% of all agricultural exports. Exports of all three will be affected by the outbreak of covid-19.

a) Cocoa

With around 280,000 metric tonnes of cocoa beans produced annually in Nigeria, and around 90% of this exported, the sector is particularly vulnerable. Consistently, over the last decade, cocoa has been the top performing non-oil export product in Nigeria. Commodity markets have taken a major hit, and this does not apply solely to crude oil. The price of Nigerian cocoa beans stood at US\$2880.63/tonne on 03 February 2020 (source: ITC market price information). It has now fallen to US\$2440.94/tonne as of 30 March 2020 (source: ITC market price information). This is a fall of US\$439.69 per tonne, or 15.3%. This information is presented in figure 1 below.

Figure 1: International market price Nigerian cocoa beans



Assuming production stays the same this year, this translates to a loss in export earnings of around US\$110.8 million across the year. However, if the lockdown in Nigeria in Lagos, FCT and Ogun state, spreads to cocoa producing states such as Ondo and Cross river, then production will evidently fall, generating a further loss in foreign exchange. Moreover, demand for Nigerian cocoa is at risk of declining further. Europe remains the epicentre of the covid-19 pandemic and over 81% of Nigerian cocoa was exported to Europe in 2018, with 65% going to the Netherlands and Germany alone. This lack of diversified export markets for cocoa puts Nigeria at further vulnerability, especially as

more chocolate manufacturers shut their factories across Europe. The crisis has therefore earmarked the importance of exploring other potential markets for cocoa. Using the International Trade Centre's Export Potential tool, NEPC has identified Indonesia, Malaysia, Japan, and Turkey as major untapped markets for Nigerian cocoa. These four countries imported approximately US\$1.75 billion worth of cocoa beans in 2019. However, only 7.5% (US\$132.5 million) of this was from Nigeria, highlighting the significant untapped potential.

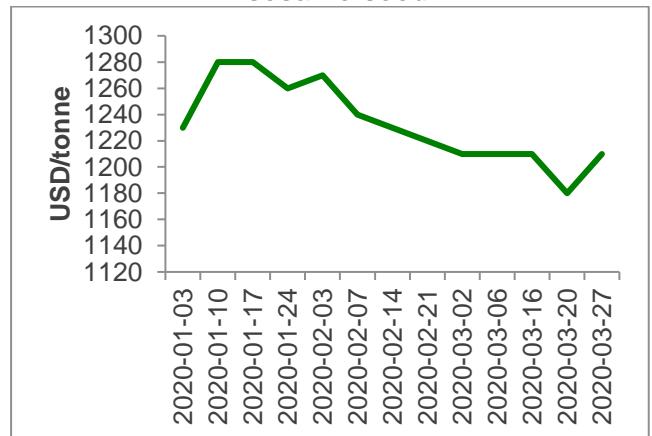
The silver lining to the current crisis for Nigerian cocoa producers, is that a potential decline in production in West Africa will raise the international commodity price of cocoa. Yet, this depends a lot on the picture in Côte d'Ivoire and Ghana, whose production levels are far higher.

b) Sesame

Sesame exports have been one of the fastest growing non-oil exports in the last five years, rising by 170% since 2016. In 2019, the value of sesame exports stood at US\$289 million, compared to US\$107 million in 2016. However, this growing trend is at risk following the outbreak of covid-19.

The price change for Nigerian sesame seed has not proved as drastic as cocoa. In fact, since the start of February 2020, the price has fallen by only US\$60 per tonne (i.e. 4.7%) from US\$1270/tonne to US\$1210/tonne (source: ITC market price information). This information is presented in figure 2 below.

Figure 2: International market price Nigerian sesame seed



Production for sesame seed is estimated to be around 250,000 metric tonnes annually, and approximately 70% is exported. Assuming the price of sesame does not drop further, the current fall would translate to a loss of around US\$10.5 million in foreign exchange earnings across the year, significantly smaller than the predicted drop in earnings for cocoa.

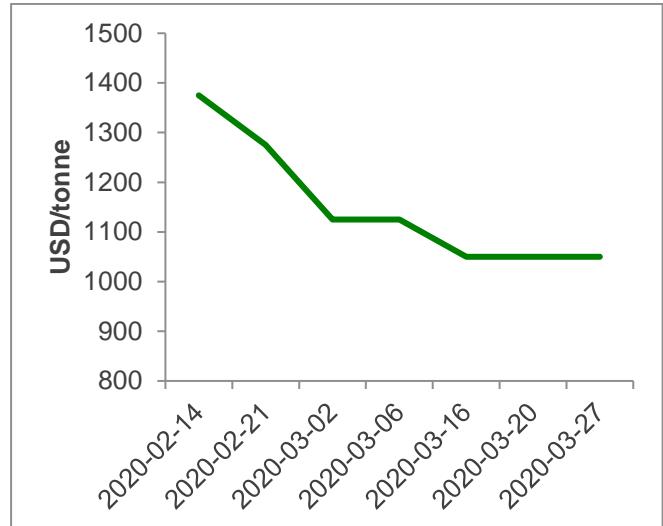
Besides the relatively small drop in price, there are other reasons to be positive that the sesame industry in Nigeria is strong enough to withstand the pressures from the covid-19 pandemic. The export markets for Nigerian sesame seed are relatively diversified, with Nigeria exporting over US\$10 million worth of sesame to seven countries in 2019. Moreover, the pandemic has not reached the same levels seen in Europe in the top three export destinations, Japan, Turkey, and China. This gives hope that demand will not fall significantly. On top of this, the five main producing states of sesame in Nigeria, Nassarawa, Benue, Kebbi, Taraba, and Jigawa, currently only have one positive covid-19 case between them. If the spread of the virus continues to be prevented in these states, then production is likely to remain high.

c) Cashew

Cashew exports have been steadily rising as NEPC has targeted scaling up production in Nigeria. Production is now around 300,000 metric tonnes, with semi-processing plants common around the country. However, as of 2018, 90.5% of cashew exports were still raw cashew nuts, accounting for over US\$162 million. For both the raw and semi-processed cashew, the exports go almost entirely to Viet Nam and India. This puts Nigeria at major risk should these two countries choose to limit their imports of raw and semi-processed cashew, due to fears over falling demand for the final product. Indeed, the Standing Committee of the Viet Nam Cashew Association (Vinacas) has warned enterprises in the country to carefully consider before buying raw cashew from West Africa due to implications of the pandemic.

This has translated in a steady decline in the price of Nigerian raw cashew since mid-February from US\$1375/tonne to US\$1050/tonne, as shown in figure 3.

Figure 3: International market price Nigerian raw cashew



This fall of US\$325 per tonne or 23.6% is worrisome, although over the last two weeks it seems the price has stabilised somewhat. Even if the price does stabilise, the initial drop could translate to losses of up to US\$90 million in foreign exchange given that around 90% of raw cashew produced is exported.

The hope is that Viet Nam and India are able to stay open for business so that their processing factories will still import large quantities from Nigeria. Although, given India's current nationwide lockdown, and the Viet Nam Cashew Association's warning, this is unlikely. This will mean continuous low prices, and might force cashew farmers in both Nigeria and West Africa as a whole into difficulties.

3. Short-term Policy Responses

Whilst many of the effects of the crisis on agricultural exports are outside of the Federal Government's control, there is a need to highlight some of the internal challenges that must be quickly addressed to reduce the negative impact of the pandemic on non-oil exports.

a) Logistics

In Nigeria today, all terminals in Lagos are between 90 - 95% full with uncleared cargo. Most of the cargo is non-essential. If nothing is done to address this issue, there will be no space

in the terminals to discharge other important imports and exports. The Nigeria Governors' Forum in their letter to the Presidential Task Force on Covid-19 dated 30 March, 2020, recommended several measures to provide special clearance for producers, suppliers and distributors of essential goods and services from the Ports to all parts of Nigeria. This measure should equally be extended to exporters of goods who had secured orders before the pandemic and are making all efforts to fulfil contractual obligations to their customers.

In addition, there is need in this period, to allow full movement of cargo across the country to ensure their operations are not hampered. The Seaport Terminal Operators Association of Nigeria (STOAN) have made some allegations on the number of government agencies at the nation's ports. The Association has identified that even after cargo is release in the terminals, government agencies, including customs, conduct another round of checks. STOAN have made an appeal to the CG of Customs to ensure that custom officials and everyone involved in the cargo release process and the logistics chain, sacrifice any personal interests at this time. NEPC supports these moves and asks that they be applied to exports as well. All logistical challenges that have the tendency of slowing down exports have to be tackled quickly.

b) Acceleration of Export Expansion Grant Claims

The Federal Government has designed a new post-shipment incentive payment system, the Export Credit Certificate (ECC), replacing the old Negotiable Duty Credit Certificate (NDCC) under the Export Expansion Grant Scheme. This is in the form of a tax credit and increases in percentage terms (up to a maximum of 15%) depending on the level of processing for the good exported.

NEPC will look to accelerate Export Expansion Grant claims from exporters who secured export orders before the pandemic, and are making efforts to fulfil contractual obligations to their clients. This will bring much needed support for exporting companies in these uncertain economic times.

4. Long-term Policy Responses

Longer-term, Nigeria must look at two main factors to ensure its agricultural export sector is better prepared to deal with major economic downturns such as the one witnessed today following the covid-19 pandemic.

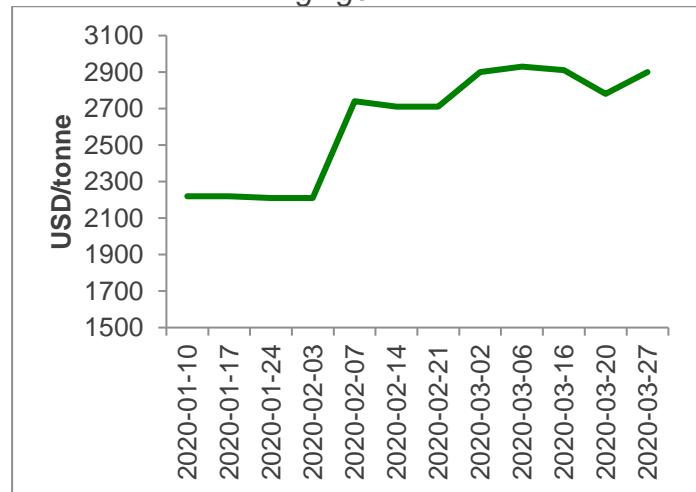
a) Diversify products

Nigeria's agricultural exports can be expanded in the long-term and this diversification will help avoid the ill effects of commodity price shocks. Looking at three agricultural products where Nigeria has the potential to expand its exports, illustrates why a wider export portfolio is crucial.

In 2019, Nigeria exports of ginger amounted to US\$10.4 million, which is by no means insignificant. However, in a market of close to US\$1 billion, there is evident space for Nigeria to increase its exports.

Moreover, figure 4 below highlights that the price of Nigerian ginger has actually risen with the outbreak of the pandemic. This, in part, could be explained by a rise in demand for products with high nutritional value such as ginger. Nigeria would evidently benefit from scaling up the production of ginger to take advantage of this opportunity.

Figure 4: International market price Nigerian ginger



The same goes for rice and soya beans. In the case of rice, we have seen an increase in the price of rice from major exporters such as Thailand since the start of the pandemic from

US\$445/tonne to US\$564/tonne (source: ITC market price information). Whilst Nigeria has made notable strides regarding the import substitution of rice, it is imperative that the country now begins to look to export.

Soya bean is another product where Nigeria has significant comparative advantage, yet is currently not exporting in large quantities. Furthermore, the prices of soya beans for major export countries have remained fairly stable during the crisis. The largest exporter of soya beans, the United States, has seen prices fall by around only US\$15 per tonne (source: ITC market price information).

What these three products show us is the importance of having a diverse agricultural export portfolio. If Nigeria was exporting ginger, soya beans and rice in large quantities, then the ill effects of covid-19 on the agricultural export sector would be far less. NEPC will continue and indeed prioritise the emergence of new agricultural export products to ensure that Nigeria is more robust to shocks such as the covid-19 pandemic.

b) *Value Addition*

The future of Nigeria's agricultural export sector lies in agro-processing. Value addition to our major exportable products is critical as it helps absorb excess supply resulting from low demand from traditional markets. It would also reduce exposure to the volatile price shocks of commodities as witnessed in this pandemic. Most importantly, however, value addition ensures greater foreign exchange generation and employment within Nigeria itself.

Looking at the example of cashew, Nigeria exports thousands of jobs to Viet Nam every year, where the raw cashew is processed. This puts Nigeria at the mercy of the decision of Viet Nam cashew processors and as has been discussed, these processors are likely to be reluctant to commit to significant orders in this pandemic. If more processing was done within Nigeria, this type of situation and overreliance on one traditional market would be avoided (not to mention the increase in employment and foreign exchange earnings).

NEPC will support SMEs and MSMEs looking to move away from exporting agricultural raw materials and into processed goods through a variety of interventions including certification training, facilitating market linkages, and partnerships with both State and commercial banks.

5. Conclusion

This impact assessment by NEPC has shown that the agricultural export sector is at major risk following the covid-19 pandemic. Nigeria's biggest non-oil foreign exchange earner, cocoa, is particularly vulnerable with a dramatic fall in prices. With the bulk of Nigerian cocoa going to Europe, prices could fall further as demand plummets, meaning the anticipated loss of US\$110.8 million could in fact, worryingly, become larger in magnitude. Sesame exports are likely to prove more resilient due to diversified export markets and more stable prices, whilst cashew exports are vulnerable to falling demand in Viet Nam.

The Federal Government should as a matter of urgency commence full implementation of the Zero Oil plan as a precondition for sustainable economic growth and diversification of the economy. NEPC will continue its efforts in addressing the logistical challenges facing exporters currently, as well as promoting a diversification of Nigeria's agricultural export base. We are putting all our manpower into implementing policies that will ease the burden on exporters.

Comments welcome to ceo@nepc.gov.ng

