





Nigeria's oil palm development: The potential and the threat

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Nigeria's oil palm development: The potential and the threat

Crusoe Osagie discusses how effective deployment of the federal government's import substitution policy has positioned oil palm production for rapid growth; but warns that the duty concession in free trade zones threatens all the gains so far made

When the policies are right in an economy like Nigeria with undeniable economic growth potentials, investments will invariably flow in.

In the case of the Nigerian agricultural sector, funds and actual investment seem to be spewing so rapidly that it is becoming an uphill task for the federal government to keep pace with the tracking and supervision.

One notable outcome of the sound policy of import substitution, being implemented by the Dr. Akinwumi Adesina-led federal ministry of agriculture, is the over \$500 million being injected by multinationals, PZ Wilmar, which is a company formed through a joint venture between renowned consumer goods producers PZ and the world's largest oil palm plantation developers and palm oil producers.

Huge Plantation Investment

Adesina who understandably has a busy schedule had to fly back from Geneva, Switzerland, where he was on an international assignment almost the same day, just to make the visit to the palm oil plantation being put up by PZ Wilmar in Cross River State.

The visit to the 5,500-hectare, previously defunct Calaro oil palm estate formerly owned by Cross River government and recently bought by PZ Wilmar; the 12,805-hectare Kwa Falls oil palm plantation, formerly owned by Obasanjo farms and also taken over by the same company; the 5,450-hectare Ibiae oil palm estate as well as another 8,000 hectares estate in Biase, which is still being negotiated certainly did appear to have excited the ever ebullient minister.

Critics and activists fighting against multinationals operating in Nigeria, simply for the purpose of taking advantage of a vulnerable economy with vast potential, may doubt PZ Wilmar's commitment to long term business capable stimulating massive economic growth and development in Nigeria, for only as long as he or she has not physically visited the company's 50,000 hectares oil palm plantation in the South-eastern state of Cross River. Although, just above 50 per cent of the projected plantation size is currently being cropped with oil palm, standing in the midst of this colossal green investment will confound anyone.

FG's Comments

The minister, during his visit last week, commended the effort of PZ Wilmar. However, he urged that the model used in helping the host communities be refined so that they will tap into the wealth created as a result of associating with the giant agribusiness company.

"Though an agreed amount is paid per hectare as royalty or compensation to locals, I think there should be a model, where the community has a shareholding within the entire operation, so as your operation grows, and you have more mills and refineries, the community will see itself as part of the business," he said.

Though the Cross River state Commissioner of Agriculture, Mr. James Aniyom revealed the compensation structure was already on ground, Adesina urged the company to look into modifying that plan to apply a newer model.

The Agric Minister said: "I am quite excited at the project especially having reached 26,000ha and pushing to reach 50,000ha and as expansion continues in the mill and refinery operation, certainly government will provide a lot of support to help you succeed.

"I believe there should be sustainable, viable communities that generate wealth even as private sector wealth grows. At the end of the day, we must revive our communities; that's how to share prosperity. We cannot do that by giving handouts.

"It is important for the company, the families in the communities and the children, who may come back and work for the company. I do this because large scale businesses like this risk being labeled land grabbers, but we don't have that in Nigeria. However, we should develop vibrant outgrowers' scheme for the people as part of being equity holders as the business grows."

Adesina said, in the last three years, the Federal Ministry of Agriculture has distributed nine million sprouted nuts (tenera seedlings) to farmers. In Cross River State, particularly, since it lost its oil wells, it is more important to have a more diversified source of income; the Akamkpa local government has so much land and the state could as well be a true food basket, he said.

According to the minister, for this to happen, the private sector should be continually supported to drive a lot of things. Oil palm seedlings to the tune of 290,000 have also been given to small holders free of charge in Cross River State and this is about 20 per cent of the 1.4 million sprouted nuts that have been



Large scale businesses like Wilmar risk being labeled land grabbers, but we don't have that in Nigeria, says Nigeria's Minister of Agriculture Dr. Akinwumi Adesina.

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given to farmers in the South south zone alone .

"We have done about 490,000 sprouted nuts free to private estates in the state. The reason for this is that if you ever want to want change, look at what others are doing - Indonesia, Malaysia; there is massive investment and recapitalisation of plantations. As a government, we want to recapitalise all the oil palm estates.

Adesina commended the PZ Wilmar partnership as impressive, committing, in principle, \$650m into oil palm plantation estate including mills and refining facilities though only \$165m investment has been done so far. He urged them to speed up the project, while stating that Calaro Oil Palm estate would be declared a Staple Crop Processing Zone (SCPZ) in the country.

In doing this, the Minister said power, water and roads would be given attention in the area as concentration of infrastructure would be around the area. He commended the technology transfer from Malaysia, which the technical management brings along, noting the introduction of higher-yielding varieties that give as much as 30 fresh fruit bunches (ffb) per tree as against 17ffb that is locally available. Consequently, it is expected that 5.5 tonnes oil per hectare compared to 1.5tonnes per hectare will be achieved.

Adesina noted that Africa holds the ace in terms of the availability of land required to feed about 9.4 billion people even by 2050 in that the continent would contribute 65 per cent of arable land. This is why he said President Jonathan is very keen on the Agricultural Transformation Agenda (ATA) to unlock the nation's agriculture.

The PZ Wilmar investment at Calaro Oil Palm estate, he said underscores the robust nature of Nigeria's economy thus attracting private sector funds. Agriculture in country has now been able to pull in about \$5.6bn in the past three years in diverse areas of the sector. He added that the ATAs are not politically motivated, but that every part of the country harness crops or livestock where it has competitive and comparative advantage.

PZ Wilmar's Commitment

PZ Wilmar's Managing Director, West Africa, Santosh Pillai, told THISDAY that there are five communities in the area of the Calaro Oil Palm Estate, which have scholarships offered their young people.

"Every year, two candidates are selected, but this is not limited to the immediate catchment area, it is spread in the entire Cross River state. Nineteen communities in the state benefit from this to bring to a total of 38 scholarship slots given.

"We have ensured that employment opportunities are filled by the people from the immediate communities as a matter of priority. Also, all contracts like in drainages, roads, boreholes, harvesting, etc go to them as well. This is to ensure that they are totally aligned to development. As part of our social responsibility to them, we do roads, boreholes to give drinking water and build school blocks and compliment primary health care," he said.

According to him, the PZ Wilmar joint venture was formed in 2010 and since then "we have acquired over 26,000 hectares of plantation land in Cross River State. Much of this is previously State-owned plantation land which we are working to revitalise while the remainder is new plantation capacity for Nigeria.

"We have also built a state-of-the-art refinery in Lagos State where we produce and package our new high-quality Nigerian cooking oil brand, Mamador, and where we have started local production of the internationally-acclaimed Devon King's brand. Our refinery also produces palm oil derivatives for other PZ Cussons products and for household and food products manufactured in Nigeria."

"We launched the Mamador brand in 2013 and today we employ over 300 people in our refinery and packaging facility. Once we are operating at full capacity we expect this figure will be higher", he added.

He hailed Nigeria, which he said possessed a very strong history in creating investment to spur industry, adding that in particular, through backwards integration a revolution has begun in the Nigerian economy. "The Nigerian cement industry is a perfect illustration of how the federal government's policy of backward integration can turn an industry around.

"From 2002, when around 9m tonnes of cement were imported each year, at great cost, Nigeria is now a net exporter of cement?? and as a result, 2 million new jobs have been created.

"This was achieved by incentivising investment in cement manufacturing. This included fiscal incentives, a levy on cement imports, and the creation of import permits for machinery and other materials required for cement production.

"The sugar industry is another great example of an industry with great ambition. In 1993, Nigeria was producing only 50,000 tonnes, but required 700,000 - that's a deficit of over 92 per cent.

"The Nigerian government has supported the National Sugar Master Plan, with fiscal measures and consequently Nigeria is looking forward to a booming sugar industry with a projected 170,000 jobs and 1.7m tonnes produced by 2018.

"We see palm oil as an industry with long-term potential as significant as the cement and sugar industries," he said.

The PZ Wilmar boss explained that the Nigerian government's Oil Palm Value Plan has the potential to encourage investment to transform the domestic palm oil market, ultimately enabling Nigeria to again become a net exporter of palm oil.

He added that PZ Wilmar is a global beacon agricultural project investing \$650 million in the Nigerian palm oil industry and generating an estimated 30,000 new jobs (direct & indirect).

"We believe that with the support of the Federal Government formally adopting backward integration measures to support the entire palm oil industry there is the potential for up to 250,000 new jobs and an end to Nigeria's reliance on imports.

"We feel that palm oil is a key commodity that, if it receives adequate support, will help ensure Nigeria meets its agricultural transformation agenda objectives.

The Threat

Having successfully ignited the flow of investment into the nation's agricultural sector, there is need however for the federal government to watch carefully, to avoid tearing down the edifice it is trying to build with its own hands.


When investors have staked their money in a long tenured enterprise one thing the need seriously is a guarantee of policy consistency and a level playing field in the market place.

Unfortunately, the operators as a result of a new development are on the edge of the abyss, stricken with fear that their investments may go down the drain.

One of the reasons for the morbid fear that has now gripped operators of oil palm plantations and palm oil production business such as PZ Wilmar is the lopsided (import) duty reduction being enjoyed by

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crude palm oil processors in free trade zones most of who do not own any plantation.

After receiving this duty cuts from government on the ground that they operate from within free trade zones, instead of taking their finished product to the international market, the turn around to sell their processed vegetable oil and other finished products in the same local markets where producers who did not receive free trade zone discounts sell their finished products

THISDAY gathered that current free trade zone (FTZ) policy provides for a 75 per cent duty rebate on importation of Crude Palm Oil (CPO).

FTZ companies pay 8.5 per cent import duty on CPO against the 35 per cent paid by operators outside the zone.

Government losses N24 billion (\$150 million) annual revenue (assume domestic deficit of 600,000 tons and CIF of S900-S950)

If encouraged, agricultural commodities can be imported, processed in the zone and sold directly into the Nigerian Customs Territory at low prices, stifling the impact of the Transformation Agenda in boosting primary agricultural production.

The Government's agenda to make Nigeria self-sustaining through backward integration will therefore be impossible.

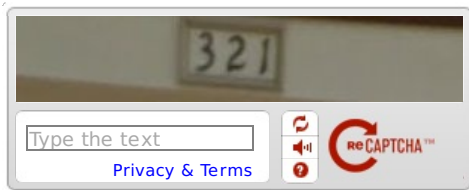
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