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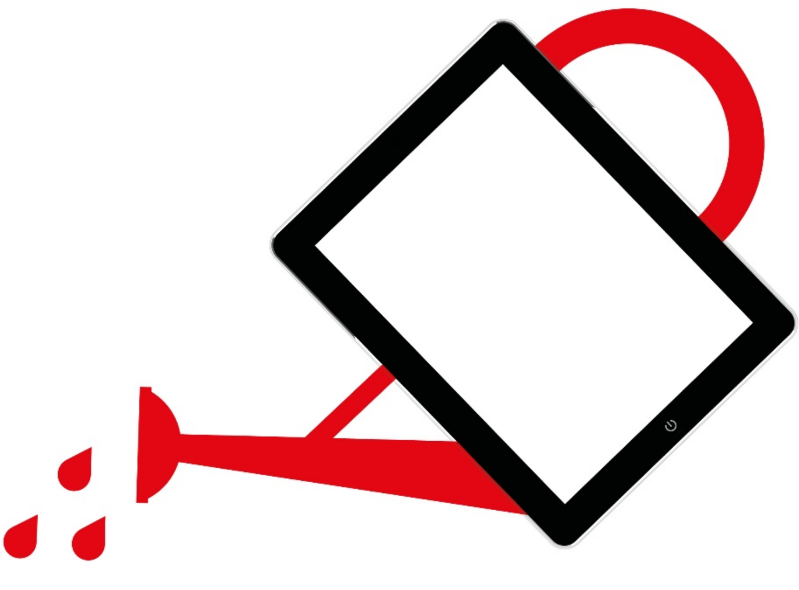
Commodities bulletin: grains & oilseeds

Keeping you up to date on the legal issues affecting the commodities industry in Africa



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Wheat, rice and maize

Wheat, rice and maize continue to be the three most imported grains into Africa. The tables below set out the projected importation volumes for 2018 for the top ten African importers.

Wheat

	Imports	Domestic production	Domestic consumption	% of wheat imported
	1000 MT	1000 MT	1000 MT	%
Egypt	12500	8450	20000	60
Algeria	7500	3000	10600	71
Nigeria	5500	60	5160	99
Morocco	3000	8200	10500	27
Sudan	2700	400	3125	87
Kenya	2450	275	2670	90
Ethiopia	1900	4500	6600	30
Tunisia	1800	1250	3000	59
South Africa	1700	1800	3380	49
Angola	1300	3	1225	100

Rice

	Imports	Domestic production	Domestic consumption	% of rice imported
	1000 MT	1000 MT	1000 MT	%
Nigeria	3000	3780	6900	44
Cote D'Ivoire	1600	1450	3000	52
Senegal	1250	612	1825	67
South Africa	1000	0	860	100
Mozambique	750	234	984	76
Kenya	750	79	820	90
Ghana	680	510	1150	57
Cameroon	675	221	896	75
Benin	650	179	829	78
Burkina Faso	580	244	810	70

Maize/Corn

	Imports	Domestic production	Domestic consumption	% of maize imported
	1000 MT	1000 MT	1000 MT	%
Egypt	9700	6400	16100	60
Algeria	5000	1	4900	100
Morocco	2600	150	2800	95
Tunisia	1100	0	1100	100
Kenya	1000	3200	4150	24
Libya	800	0	800	100
Zimbabwe	700	1000	1800	41
Nigeria	400	11000	11300	4
Mozambique	300	2000	2300	13
Botswana	220	10	230	96

*Data from IndexMundi
https://www.indexmundi.com/agriculture/

Zimbabwe

US$12 million investment into corn snack facilities

On 10 June 2018, President Mnangagwa officially opened the Davipel Group of Companies, an indigenous agro-processing company in Harare. The group consists of Davipel, a corn snack manufacturing company; and Agri-Milling, a maize-meal and stock feed production company. According to the Herald, with the investments, the group has become the third largest snack producing company in the Southern African Development Community (SADC).

The Davipel Group of Companies made its first investment of US$12 million for the construction of two state-of-the-art snack facilities as it increases its mileage in snacking, milling and feed production. The facilities (sourced from South Africa and Turkey) will be a useful addition following the governments recently imposed statutory controls on imports (Statutory Instrument 64 (SI 64) of 2016), whereby traders are required to obtain an import permit from the government before importing basic commodities into Zimbabwe. The government's strategy is to promote local production while restricting importation of goods that are already produced locally.

EAGC countries

The launch of the 9 new product standards for staple foods

- The Eastern Africa Grain Council (EAGC) has launched nine product standards for staple foods trading between the EAGC countries (Kenya, Uganda, Tanzania, Rwanda, Burundi, DR Congo, Zambia, Malawi, Ethiopia and South Sudan) and two standards for sampling and test methods. The nine priority product standards reviewed were for maize (corn), wheat, milled rice, dry beans, dry soybeans, maize flour, wheat flour, sorghum flour and millet flour.

- The new standards are expected to become legally binding in all EAGC partner states in June 2018. The grain standards are expected to boost and increase grain trade between the EAGC countries by reducing technical barriers related to standards which had previously hampered such trade. The new standards should allow farmers better and greater access to markets within the EAGC, and at the same time the new standards should ensure that consumers receive safe and high-quality food grain products. The unified implementation of the standards across the EAGC countries should ensure a level playing field in the sector. The risk of food shortages in the EAGC region should be minimized owing to: (i) the easy movement of grains between EAGC countries; and (ii) the ready market access for farmers in the region.

South Africa

Wheat import tariff increases to R437.20/tonne

- South Africa's wheat import tariff has been triggered again. Following the double decrease in the import tariff in February and March 2018, reducing the tariff to just R293.74 per tonne, the import tariff has now increased by 45% to R437.20 per tonne.

- The tariff change was triggered on 10 April 2018, but only became effective once published on 25 May 2018. There is hope that this will instil some stability back in the market after a quiet two-month period of activity whilst the adjustments were pending.

Algeria

Government considering lifting recently introduced import ban

- At the beginning of 2018, the Government of Algeria temporarily suspended 851 products for import into Algeria, 576 of them were agricultural products. These included various meat products, dairy products, confectionaries, pasta, couscous, muesli, bulgur wheat, corn flour and corn starch, corn grits and sweet corn (prepared or cured). Wheat and pulses, two products on which Algeria is heavily reliant, were fortunately excluded from the ban. The import ban replaced the licensing system which had been in place since 2016, whereby importers had to apply for a licence to buy from overseas suppliers. The rationale behind the ban was an attempt by the Algerian government to encourage domestic production and shield it from foreign competition. The ban, however, resulted in a shortage of raw materials in Algeria and thus jeopardized, rather than helped, local businesses. As a result, in April 2018, the Government of Algeria partially reversed the ban on some raw materials needed for some food categories including biscuits, chocolate, confectionery, juice and yoghurt.

Algeria cont…

- On 30 April 2018, Reuters reported that the Government of Algeria was now considering lifting the ban in its entirety and imposing additional customs duties for finished goods instead. The indicative duties range from between 60% and 200%.

- The government has indicated that further discussions around lifting the import ban and imposing new duties will take place in June/July 2018 alongside deliberations about improving domestic production and a 5-year plan aimed at diversifying exports. The Government of Algeria has made no secret of the fact that development of the agriculture sector (particularly cereal production) is a priority for its domestic policy. The government has already outlined plans to expand irrigated agricultural areas, with priority given to cereals. According to the USDA GAIN Report issued on 4 April 2018, irrigated areas are expected to increase from 1.3 million hectares to 2 million hectares, of which 600, 000 ha (rather than the current 250,000 ha) will be devoted to cereals by 2020. The government, through the Algerian Office of Cereals (OAIC), is also seeking to achieve self-sufficiency in durum wheat and pulses production by 2020.

Nigeria

14 new mills to attract N250 billion (US$ 695 million) investment into Nigeria

- The Government of Nigeria will attract N250 billion investment in rice production following plans to establish an additional 14 rice mills in the country, according to Nigerian Minister of Agriculture, Chief Audu Ogbeh in an interview with CNBC Africa in April 2018. There is speculation that most of the investment will come from Thailand which has indicated its interest in establishing rice mills in Nigeria following Nigeria's reduction in rice importation from Thailand.

- This new investment into the Nigerian rice industry is just one of the many ways in which the Government of Nigeria is seeking to increase rice production in Nigeria and negate the need to import produce which it can produce domestically. Nigeria is one of the largest producers and consumers of rice in Africa and yet, it is also the largest rice importer in the continent. Given the countries fertile and vast areas of available arable land, it is understandable why the government of Nigeria is pushing hard to redirect funds away from importation and into long-term investment in the agricultural sector.

  Following the construction of the 14 new mills, Nigeria will have a total of 35 rice mills across the country. 21 large integrated rice mills are already up and running in Nigeria, with a total annual processing capacity of 1.22 million metric tonnes. The existing rice mills are owned and operated by a variety of investors including: The Government of Nigeria, indigenous groups, Nigerian High Net-Worth Individuals and Corporations (e.g. Dangote, Alhaji Muhammad Abubakar Maifata, Flour Mills of Nigeria) and multi-national companies (e.g. The Stallion Group, Olam, Milan, Golden Penny Rice, the Wicklow Group etc.)

Nigeria cont...

On 10 May 2018, Nigeria's Lagos State (in partnership with Switzerland's Buhler AG) revealed that it was planning to commission and start production for its newest rice mill in Imota in February 2019. It is anticipated to have an hourly processing capacity of 32 metric tonnes which, according to a statement made to the Guardian Nigeria by the Commissioner for Works, Adebowale Akinsanya, is "the biggest in Africa".

- The Central Bank has also contributed approximately N55 billion (US$ 153 million) in loans to 250,000 farmers (most of whom grow rice) to support the country's push for self-sufficiency. In addition to investment, to make rice production more attractive and profitable, on 5 June 2018, the Government of Nigeria together with the World Bank announced that it would be opening new doors for local rice farmers by connecting them with local off-takers and other players in the value chain (such as financial services providers, logistic consultants; inputs providers). The government has organised the Kano Business Forum to which rice farmers and other stakeholders will be invited to initiate business deals for the 2018 rainy season. The government is targeting the production of 8 million tonnes of paddy by rice farmers across the country in the 2018 wet season.

- The Nigerian government has also hiked up import tariffs and duties on rice. In October 2016, the Government of Nigeria increased customs duties on rice from 10% to 60% to encourage farmers to plant more. Nigeria also maintains import bans on rice through land borders. Recently, the Nigerian government initiated a policy of preventing the entry of imported rice into the country without official approvals irrespective of whether or not the foreign exchange for the purchase was approved by the Central Bank or sourced from the informal forex market. All these measures reinforce Nigeria's outward message to the world: "We must produce what we eat!" - the slogan which is entrenched in the Government of Nigeria's economic drive to achieve self-sufficiency in rice production by 2020. But is it a realistic goal?

- Notwithstanding all the investment, tariff protection and recent claims by government ministers that self-sufficiency is on track, Nigeria is still expected to import 3 million metric tonnes of milled rice in 2018 to meet domestic demands. And, given the continual increase in Nigeria's population, this figure is only expected to rise. Claims of corruption are rife. The money allocated to Nigeria's self-sufficiency policy seems to have been distributed but not funnelled down to the farmers, raising anger amongst the farming communities who claim that the programme has been hijacked by local politicians. In a survey conducted in 2016 by NOI Polls, farmers cited the lack of fertiliser as their biggest problem. Nearly three quarters of respondents said they were unaware of any government interventions aimed at helping them, despite the long-running government input programme. According to the USDA Gain Report published in April 2018, Nigerians continue to prefer imported parboiled rice from Thailand and India to domestic rice. Many consumers also see the imported rice as better milled, more convenient to prepare and less expensive compared to rice produced locally. Despite import barrier being in place, non-fortified milled rice is still entering Nigeria illegally through cross-border trade with Benin (which, ironically, is now the world's biggest importer of rice from Thailand).

- Self-sufficiency seems a long way off for Nigeria, but the government's drive is still there, and for so long as Nigeria continues to import over half of its domestic consumption requirements, there remains plenty of opportunity for investment in the Nigerian rice production industry.

Ethiopia

Ethiopia secures additional port access

- The Ethiopian president, Abiy Ahmed, has recently cemented relationships with Djibouti, Sudan, Kenya and Somaliland to secure Ethiopia's access to the sea.

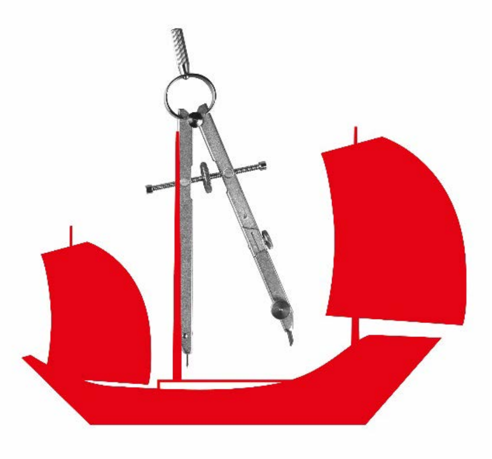
- As a land-locked country and heavily reliant on agricultural imports (wheat, palm oil and sorghum) and exports (green coffee and sorghum), it is imperative that Ethiopia maintains good trade relations with its neighbouring countries to ensure year-round port access.

- President Abiy's first "port" of call was Djibouti. Djibouti port currently accounts for 95% of Ethiopia's imports and exports. Djibouti has been seeking investors for its port since January 2018 when it terminated Dubai's state-owned DP World's concession to run the port due to a six-year contractual dispute. It is alleged that the rationale for Ethiopia's willingness to acquire an undisclosed share in Djibouti Port is to enable Ethiopia to reduce its reliance on this port for imports/exports, reduce congestion and cut costs. The agreements are due to be finalized in July 2018.

- The deal with Djibouti followed Ethiopia's agreement back in March 2018 to acquire a 19% stake in the Port of Berbera in the breakaway Somali region of Somaliland. DP World originally acquired a 65% stake in the port as part of a joint venture with the government of Somaliland under a 30-year concession. DP World continues to hold a 51% stake in the port with the remaining 30% being held by the Somaliland government.

- Ethiopia and Sudan have subsequently agreed to jointly develop and manage Port Sudan. On 3 May 2018, the two countries announced that Ethiopia would acquire a stake in Port Sudan (the shareholding is yet unclear). Sudan's President Al-Bashir and Ethiopia's Minister of Foreign Affairs, Dr Workneh Gebeyehu, also agreed to implement a free trade agreement at border areas to improve relations between the two nations.

Port Sudan is divided into two components; the north quays (which mainly handle general cargo, edible oils and molasses) and the south quays (which handle containers, petroleum and bulk grains). Sudan and Ethiopia are the 9th and 11th largest wheat importers in Africa. Indexmundi predicts Sudan's importation figure for 2018 to be in the region of 2.7 million MT and Ethiopia's to be 1.9 million MT. Ethiopia will increase its use of Port Sudan as a gateway for its northern and north-west regions.



- President Abiy's final meeting was in Kenya with President Uhuru Kenyatta, a meeting which led to an agreement to grant Ethiopia a lease at Kenya's new Lamu Port for logistics purposes. It comes with a joint commitment to improve the road and rail links between Addis Ababa and the Kenyan border.

- The presidential trip was an overwhelming success and Ethiopia's power and influence over the East African region is becoming more and more apparent. With Ethiopia now securing access to 4 ports for its seagoing trade, and enhancing its security and strategic economic interests, it will be interesting to see where President Abiy takes the country next: will he seek to rebuild bridges with Eritrea to further enhance Ethiopia's security? Will he open up areas such as infrastructure to the private sector? Or will his focus be on increasing foreign direct investment in Ethiopia?

Kenya

The appeal of sorghum starts to soar

- East African Breweries Limited (EABL), East Africa's largest alcohol beverage company (which is 50.2% owned by Diageo), is seeking local farmers support to ensure EABL can achieve a steady supply of sorghum for the new brewing facility opening in Kisumu, Kenya. EABL secured a US$123.5 million long-term loan for the construction of a US$148.2 million brewing facility, expected to be completed by July 2019. The projected annual production capacity for the facility is 100 million litres.
- It is understood that EABL has already sourced 3,500 acres of land from 500 members of the community in Siany Okana Farm in Kisumu County, where it targets to harvest over 12,000 tonnes of white sorghum by August 2018. EABL is said to be covering all costs of production up to harvesting as well as paying farmers US$0.32 per kg for the sorghum.

Recent M&A activity

Nigeria

On 23 March 2018, Sahel Capital (the African-focused private equity fund which oversees investments for Agricultural Finance of Nigeria) concluded negotiations with Coscharis Group for an investment into Coscharis Farms Limited - a Nigeria-based rice grower and processor. Coscharis Farms has 2,500 hectares of land for rice cultivation and intends to install a new 40,000 MT/Year rice mill and irrigation system to enable multi-cycle rice cultivation.

Egypt

On 26 February 2018, Archer Daniels Midland (ADM) and Cargill agreed to launch a new soybean joint venture in Egypt. Subject to regulatory approval (which is imminent), the joint venture will own and operate National Vegetable Oil Company (NVOC) soy crush facility in Borg Al-Arabt and will also participate in related commercial and merchandising operations which will supply soybeans to the crushing plant. ADM and Cargill will have equal ownership of the joint venture. The joint venture will not include Cargill's grain business and port terminal in Dekheila, or the ADM-Medsofts joint venture at the Port of Alexandria and each company will continue its separate business activities in Egypt and Northern Africa.

Rwanda

In April 2018, DOB Equity, a Dutch family-backed impact investor, made its first investment in Rwanda's Sarura Commodities – a grain trading company. The funds seek to help the grain trader improve its storage infrastructure, promote its sourcing platform and expand its operations in Rwanda's premium grain market. Sarura Commodities connects smallholder farmers to dependable service and input providers to boost the quality of grains and farmer productivity. Sarura Commodities supplies grains such as beans and maize to local and international markets. The company also supplies to the World Food Program and African Improved Foods, a joint venture between the Government of Rwanda and a group of international partners that manufacture nutritional foods.

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