



Initiative for Public Policy Analysis

African Case Study: Palm Oil and Economic Development in Nigeria and Ghana; Recommendations for the World Bank's 2010 Palm Oil Strategy

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African Case Study:

Palm Oil and Economic Development in Nigeria and Ghana; Recommendations for the World Bank's 2010 Palm Oil Strategy

Foreword

Growth and prosperity of an economy are central to the long-term reduction in poverty for both economic and environmental sustainability. Palm oil and palm oil manufacturing represents one of the most effective methods of raising Nigerians from poverty and ensuring food security. It provides employment for millions of unskilled and semi-skilled workers.

The following paper is a unique survey of palm oil production in Nigeria and its impact on poverty reduction, economic diversification and the environment.

In my experience as Chairman of the Edible Oil Processors Section of the Manufacturer Association of Nigeria, it has become clear to me that local capacity of palm oil production in Nigeria must be developed in order to ensure local food security and the potential for future exports.

Nigeria is a net importer of palm oil. It does not produce enough palm oil to meet local demand.

The World Bank Review of palm oil financing must be developed with poverty reduction as the single aim. Policies which restrict effective poverty alleviating investment on environmental or social grounds necessarily diminish poverty reduction.

It is my hope that the following paper will go some way in painting the picture of palm oil development and highlight the potentials of the Nigerian economy.

It is my opinion that undue weight has been placed on environmental outcomes by an organisation whose primary mission is poverty reduction, particularly when sovereign nations have so far been unable to reach international agreement in the UNFCCC.

From the vantage point of secondary industry in a developing nation, I urge the World Bank to invest further in palm oil as a highly effective tool of poverty reduction and economic diversification.

I also urge the World Bank to engage industry in developing nations rather than imposing restrictive investment policies which have the potential to alienate those most in need.

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Executive Summary

African Case Study: Palm Oil and Economic Development in Nigeria and Ghana

Palm oil accounts for 34 percent of the world's annual production of vegetable oil¹ and 63 percent of the global exports of vegetable oils. It is produced in tropical climates and in 42 countries across the world. Palm fruit from which palm oil is extracted is of immense value.

90 percent of global production of palm oil occurs in South-East Asia in Indonesia, Malaysia and Thailand.² Several African nations are currently producing palm oil on a commercial scale. Uganda is currently developing oil palm plantations as tool to eradicate poverty.

Nigeria is currently the third largest producer of palm oil in the world after Indonesia and Malaysia, however it remains a net importer.

The Nigerian experience of palm oil development provides a clear example of how palm oil, as a result of its high yield and low production costs, is a highly effective means of alleviating poverty.

The World Bank has a long historical involvement with poverty reduction efforts in Africa and the developing world. The World Bank's proclaimed mission is "to overcome poverty, enhance growth with care for the environment, and create individual opportunity and hope."³

Agriculture employs 65 percent of the workforce in Sub-Saharan Africa. The continued expansion of productive and high yield agriculture is essential for the reduction of poverty in Africa.

The World Bank has been highly instrumental in promoting and facilitating poverty reduction in developing nations. The Bank is now the largest single donor to the agriculture sector in Sub-Saharan Africa, providing \$US1 billion in assistance in 2010.

However, it has been noted that when World Bank policies for poverty reduction are tailored to serve other goals, such as environmental goals, poverty reduction efforts can suffer.

The World Bank's 1991 Strategy to reduce deforestation in developing nations failed to strike the right balance between poverty alleviation and environmental sustainability. The environmentally risk averse nature of the Bank's criteria for investment stifled innovation and reduced developing nations' engagement with the Bank.⁴

In particular, the Bank's criteria for sustainable forest management being restricted to FSC standards was so rigid that instead of promoting environmentally sustainable practices, developing nations shied away from engagement with the Bank altogether. The result was that both environmental sustainability and poverty reduction efforts suffered.

Conditions placed on developing nations' access to finance which curtail their right to convert forest land to agricultural use are likely to undermine the Bank's principal purpose of poverty alleviation.

It is also likely to support efforts by developed nations to impede imports from developing nations through standards such as the EU Renewable Energy Directive.

Policies guiding IFC investment should not encourage a welfare mentality by paying developing nations to cease land conversion and relinquish the associated economic development. Instead, the World Bank and IFC must be guided by building internal capacity to implement environmentally sustainable policies by focusing firstly on economic growth to support the implementation of environmentally sustainable practices.

It is important to realize that enhancing economic growth will necessarily allow nations to embrace environmentally sustainable policies. However imposing environmental guidelines will not only hinder growth, but in the long term, will push developing nations towards less environmentally sustainable growth.

The Nigerian palm oil industry provides an enlightening example of how the palm oil industry can reduce poverty and provide sustainable economic growth for African nations.

The following survey and analysis makes it clear that environmental sustainability is currently not the defining issue of concern for the development of oil palm plantations in Africa. Issues of greater concern for growth in African nations' agriculture sectors for poor infrastructure, access to finance, property rights and low crop yields.

This survey also makes it clear that palm oil is highly effective at achieving economic growth. Misguided attempts to impose environmental standards are likely to undermine that effectiveness and ignore the real problems facing the fledgling African palm oil industry.

1 United States Department of Agriculture, Oilseeds: World Markets and Trade Monthly Circular, July 2010-11, <http://www.fas.usda.gov/psdonline/psdreport.aspx?hidReportRetrievalName=BVS&hidReportRetrievalID=702&hidReportRetrievalTemplateID=5>.

2 Ibid.

3 Statement by World Bank President, Robert Zoellick, 10 October 2007.

4 Lele, Uma (ed.) (2000). The World Bank Forest Strategy, Striking the Right Balance, A Review of the World Bank's 1991 Forest Strategy and Its Implementation, with Nalini Kumar, Syed Arif Husain and Lauren Kelly, Operations Evaluation Department, The World Bank, 2000.

African Case Study: Palm Oil and Economic Development in Nigeria and Ghana

In Africa, no part of the oil palm is considered waste. The residue after oil has been extracted is called palm kernel cake, which is useful in feeding livestock. The leaves of oil palm are used for making brooms, roofing and thatching, basket and mats. The thicker leaf stalks are used for walls of village huts. The bark of the palm frond is peeled and woven into baskets.⁵

The tree itself can be split and used as supporting frames in buildings. A sap tapped from the flower is processed into a drink called palm wine, which is a rich source of yeast. The palm wine can be allowed to ferment and then distilled into a gin known as “*Akpetesin*” in Ghana and “*Ogogoro*” in Nigeria.⁶ The empty fruit bunch, the shell and fibre that remain after oil extraction are used for mulching, manuring and as fuel.⁷

It is also an essential food item. About 90 percent of the palm oil produced ends in food products, while the remaining 10 percent is used for industrial production.⁸ Because of its many uses demand is growing fast as the world’s population increases and standards of living rise.

Production of palm oil is more sustainable than other vegetable oils.⁹ It consumes considerably less energy in production, uses less land and generates more oil per hectare than other leading vegetable oils — rapeseed, Europe’s leading oil, or soybeans.¹⁰

Despite this, environmental groups are lobbying against production and consumption of palm oil. The EU Renewable Energy Directive restricts the availability of palm oil.¹¹ The campaign is based on contentions that palm oil damages the environment and threatens endangered species, such as the orangutan.¹² The

campaign is part of a broader, long-standing effort by the Green NGO movement to advance their goal of stopping forestry in tropical regions.¹³ European rapeseed producers have folded a protectionist strategy to restrict use and imports of palm oil into this campaign.^{14 15 16} These actions fall under a broader protectionist campaign which seeks to hinder the development of agriculture industries in developing nations and the resulting exports to developed nations by curtailing the conversion of forest land.

The fallout of this campaign is the suspension of lending to palm oil companies by the International Finance Corporation (IFC),¹⁷ an arm of the World Bank. Beyond this campaign and suspension of lending to palm oil companies, there is the need to assess the legitimacy or otherwise of the campaign particularly in Nigeria as well as examine the overall impact of the campaign in Africa.

Methodology

To show that massive palm oil production in Nigeria is all gain — for farmers, their dependents, government and community — questionnaires were administered to palm oil producers in Ondo State and Akwa Ibom state. These states were randomly selected among states that have been identified to have clusters of palm cultivation and processing activities.

Structured questionnaires were administered to sixty-one (61) randomly selected palm oil producers. Field officers met palm oil producers on their farms/hamlets and asked them to fill a two-page questionnaire. Neither Field personnel assisted many who could neither read nor write (about 61 percent) in filling the

5 Komolafe, M. F. and D. C. Joy. *Agricultural Science for Senior Secondary Schools*, Book One. Ibadan, Nigeria: 1990 University Press Ltd.

6 Akinyosoye, V.A. *Senior Tropical Agriculture for West Africa*. First Edition, London and Basingstoke: 1976 Macmillan Education Limited.

7 Soyebbo K O, Farinde A J, and Dionco-Adetayo E: Constraints of Oil Palm Production in Ife Central Local Government Area of Osun State, Nigeria in *Journal of social Science* 10(1): 55-59 kamla-Raj 2005.

8 <http://www.palmoilhq.com/palmoilnews/crisis-after-crisis-only-made-palm-oil-emerge-stronger>.

9 RSPO, “Factsheet – Overview of RSPO,” 2009, at http://www.rspo.org/resource_centre/Factsheet-RSPO-Overview.pdf.

10 RSPO, “One third of European palm oil could now be labeled ‘sustainable.’” In RSPO News Flush. 25 June 2009. Please contact RSPO EU Communications Helpdesk at email: communications@rspo.eu.

11 “EU policies on Renewable Energy,” BirdLife International, at http://www.birdlife.org/eu/EU_policy/Biofuels/eu_biofuels4.html;

Frank Tate, “European Policies on Renewable Energy,” Palm Oil Truth Foundation, 05 February 2009, at

http://www.palmoiltruthfoundation.com/index.php?option=com_content&task=view&id=1098&Itemid=1045.

12 Jonathan Woolfitt, “Palm oil development threatens Aceh’s orangutans,” *Jakarta Post*, 30 June 2009, at <http://www.thejakartapost.com/news/2009/06/30/palm-oil-development-threatens-aceh039s-orangutans.html>.

13 Friends of the Earth International, “REDD myths; a critical review of proposed mechanisms to reduce emissions from deforestation and degradation in developing countries,” December 2008.

14 Constanze Kolbe and Fay Stambuk, “The New EU 20-20-20 Directive on Renewable Energy Sources; GNR Participates Actively in EU Legislative Process,” *Global Natural Resources*, March 2008, p. 12 at http://www.gnr-holding.com/fileadmin/user_upload/medien/Newsletters/Newsletter_e_low_web_1_.pdf.

15 P. Thoens, “Biofuels and Commodity Markets: Palm Oil Focus,” *FAO*, October 2006, p. 5 at <http://www.rlc.fao.org/es/prioridades/bioenergia/pdf/commodity.pdf>. The public support from EU member countries has contributed to rapeseed’s dominant role as a feedstock for biofuel production.

16 EurActiv, “Biofuels, Trade and Sustainability,” 28 April 2008, at <http://www.euractiv.com/en/trade/biofuels-trade-sustainability/article-171834>.

17 <http://www.reuters.com/article/idUSTRE5886OD20090909>.

questionnaire. That was carefully done in such a way that would not interfere with their responses. The data collected were analyzed using simple statistical method.

Palm Oil Industry in Nigeria

There is a consensus that the oil palm (*Elaeis Guineensis*) is a native of West Africa. Many reports cited Nigeria among the most probable place where the fruit was first domesticated before the 14th century.¹⁸ Palm tree is found predominantly in southern Nigeria especially in the wet rain forests and savanna belt. It also exists in the wet parts of North central Nigeria, in areas like Southern Kaduna, Kogi, Kwara, Benue, Niger, Plateau, Taraba and Nasarawa States as well as the Federal Capital Territory (FCT).

There are three categories of palm plantation;

- i) Small holding
- ii) Medium size plantation
- iii) Large scale (estate) plantation.

Smallholder farmers control palm cultivation in Nigeria. Smallholding farms cover a range of 1-5 hectares and are sometimes characterized by mixed cropping obviously to maximize the usage of the land. A large chunk of oil palm exists in the wild or semi-wild state, when this is added to those that were cultivated by smallholders, it shows that the small-holding control over 80% of the Nigeria palm oil production^{19 20} (Table 1). Government and few private companies own fairly large plantations.

Table 1. Oil Palm Hectarage in Nigeria

Type	Hectarage
Wild grove	2,3000,000
Small holder	117,625
Estate	96,465
Total	2,514,090

Source: **Oil Seeds Association of Nigeria (OSAN), 2003**, Raw Materials Research and Development Council (RMRDC), 2004

As early as 1901, Nigeria was producing all palm oil sold in the world market and it was a dominant source of foreign exchange.²¹ Up until the 60s, Nigeria was the world's largest producer of palm oil accounting for 43 percent of global palm oil production.^{22 23} Due to over-reliance on traditional production methods, excessive tapping of palm tree for palm wine, break up attempt in 1967-70 which was actually fought in areas where palm activities were predominant, Nigeria's ability to meet up with the global rise in demand was curtailed.

Though production was increasing during that period, it was not increased at a rate that could meet up with rising global demand and consumption. Production sluggishly increased from 640,000 tonnes in 1975 to 898,000 tonnes in 1995.^{24 25} It is now the third largest producer after Indonesia and Malaysia with an annual production volume of 1.28million metric tonnes.²⁶ Nigeria now produces a meager 1.7 percent ²⁷ of total world production which is inadequate for local consumption put at about 2.7 percent.

According to Vegetable and Edible Oil Producers of Nigeria (VEOPAN), palm oil production provides jobs for at least 1.8 million Nigerians. Because the local production is not up to demand, Nigeria at present does not export palm oil. The local shortfall is being supplemented by imports from countries such as Malaysia and Indonesia.

Diversifying Nigeria's Economy

Historically, Nigeria is largely an agrarian society. Agriculture was the mainstay of the economy during the pre-colonial and the colonial period. Despite lack of modern farm implements which undermined the potential for large-scale production, Nigeria emerged in the first decade of her independence as a leading exporter of many major agricultural commodities. Nigeria was a leading exporter of palm kernel, and largest producer and exporter of palm oil. It was also the second largest producer of cocoa in the world.²⁸ During that time, smallholder farmers collectively produced 90 percent of the food needs²⁹ and 70 percent of Nigeria's export earnings — a dominant share of the country's GDP.^{30 31}

18 <http://www.fao.org/docrep/005/y4355e/y4355e03.htm>.

19 The Effect of the Ban on the Importation of Vegetable Oil on the Growth of the Oil Palm Industry in Nigeria. Nigerian institute for Oil Palm Research (NIFOR) Benin City.

20 Vermeulen S.and Guad N(2006): Towards Better Practice in Small holder Palm Oil Production.National Resources Issue Series NO 5 International Institute for Environment and Development (iied) London Uk www.iied.org/pubs/pdfs/13533IIED.pdf.

21 Matthew O. Eshalomi, Chairman, Vegetable & Edible Oil Section of Manufacturer Association of Nigeria, Nigeria Palm Oil Today and Future Outlook, Paper presented at Nigerian Institute for Oil Palm Research Workshop, January 2009.

22 Olagunju F. I: Economics of Palm Oil Processing in Southwest Nigeria. International Journal of Agricultural Economics & Rural Development. IJAERD 1(2) 2008.

23 <http://www.wrm.org.uy/bulletin/47/Nigeria.html>.

24 Federal Ministry of Agriculture and Rural Development. National Programme for Food Security (NPFC) Expansion Phase Project Report 2006-2010.

25 Opeke L.K. Tropical Commodity Tree Crops. Spectrum Books Ltd, Ibadan, Nigeria 2005.

26 NIFOR Report 2008. <http://faostat.fao.org/DesktopDefault.aspx?PageID=339&lang=en&country=159>.

27 Palm Oil World Supply and Distribution. <http://www.fas.usda.gov/psdonline/psdreport.aspx?hidReportRetrievalName=BVS&hidReportRetrievalID=710&hidReportRetrieval-TemplateID=8> USDA 2009 sourced 18th, March 2010.

28 <http://www.unu.edu/unupress/unupbooks/uu28ae/uu28ae0d.htm>.

29 Osembo j. Gbadebo: The Impact of Nigerian Agricultural Policies on Crop Production and the Environment. The Environmentalist. Volume 12, Number 2, 101-108, DOI: 10.1007/BF01266549.

30 http://www.newswatchngr.com/index.php?option=com_content&task=view&id=1157&Itemid=26.

31 Olatomide W. O. and Omowumi A. O.: Sources of Technical Efficiency among Smallholder Maize Farmers in Osun State of Nigeria. Research Journal of Applied Sciences, 2010 | Volume: 5 | Issue: 2 | Page 115-122, DOI: 10.3923/rjasci.2010.115.122. <http://www.medwelljournals.com/fulltext/?doi=rjasci.2010.115.122>.

However, in 1956 crude oil was discovered in commercial quantity. This paved the way for the gradual neglect of agriculture by successive governments especially in the 70s. Crude oil became the dominant source of revenue while agricultural production nose-dived considerably. From over 60 percent in the late 60s, the contribution of agriculture to the GDP plummeted to 22.2 percent in the 80s.³² Recent data put the contribution of agriculture to the country GDP at 42 percent.³³ Many farmers engage in farming at subsistence level.

This in turn has contributed to food insufficiency and subsequently led to importation of food to supplement local production. Nigeria has also lost its place in agricultural exports even in area it once dominated. In palm oil supply for example, Nigeria now produces a meager 1.7 percent³⁴ of total world production which is inadequate for local consumption which is put at about 2.7 percent. Malaysia, a country Nigeria gave palm oil seedlings to, has overtaken Nigeria as one of the largest producers and leading exporters of palm oil. Malaysia and Indonesia produce 83 percent of total world production of palm oil.³⁵

At the same time, shortly after independence the government depressed agriculture production because of the policy it put in place. The marketing board that was established regulated the buying and selling of some commodities within a specified area. The marketing board also performed promotional services and outright control of output and sales.³⁶ The policy effective undermined many farmers' ability to get appropriate prices for their farm produce.

The current reality is that Nigeria relies on oil and gas as the main source of government's revenue. In spite of oil exports accounting for over 80 percent of its income, it is contributing only 5.5 percent to the gross domestic product (GDP).³⁷ This fact questions the utilization of resources and also exposes how vulnerable the country is to the vagaries and fluctuations in the price of oil exports.

The latest ominous sign that there are fiscal problems is the depletion of the excess crude account in the last two years.³⁸ Since the crash of crude oil price in late 2008, the government has successively drawn from the excess crude oil account to augment state finances even for recurrent spending. From \$20 billion in January 2009, the account has a balance of \$4.2 billion in March 2010.³⁹

The frequent recourse to the excess crude account to redress the shortfall in expected oil revenues undermined the reason the account was set up. It further makes Nigeria to be vulnerable to volatility associated with crude oil prices. It becomes worrisome if one imagines what would happen in case the balance is exhausted.

The above facts strongly indicate the need to diversify the economy. Two important factors that could help the decision to diversify: First, whether Nigeria has enough potential for the production of any product in commercial quantity; and second, whether the product has a market that is big enough to generate income that is sufficient to justify the investment.

Admittedly, Nigeria has untapped potential for massive agricultural production is incontrovertible. The critical issue is that policy makers should rescue agricultural production in areas where the potentials for massive production exist. Take palm oil, which was once a major source of foreign exchange for Nigeria, its importance in world economy is still sacrosanct. In today's world, palm oil remains one of the veritable means of reducing the uncertainties in the oil and gas sector.

This is because in measurable terms, palm oil trade has shown improvement that outstripped its closest alternatives. Its production has shown an increase of 26 percent over its common rival; Rapeseed and Soyabeans oil.⁴⁰ Similarly the consumption of palm oil has been on the increase globally. The medium term projections for the sector published by FAO and OECD projected that global demand, supply and trade will rise by around 30 percent between now and 2015.⁴¹ All these point to the direction that palm oil could be a veritable source of revenue earnings for the country.

Property Rights and Land Tenure

Customary land tenure basically governs land use in Nigeria. Under the system, land is considered a community property. An individual has "rights" to the land he farms in his lineage or community area. However such an individual could only possess the land as long as he uses it for his family's benefit, and could pass the land on to heirs, but could not sell or mortgage it. The right to dispose of a land is within the ambit of the affected community or family. The head of a family or community administers and exercises ownership for and on behalf of the family or community.

32 The National Bureau of Statistics. <http://www.nigerianstat.gov.ng/index.php/pages/sectorStatistics>.

33 Oni Omowale, Nkonya Ephraim, Pender John, Dayo Phillips, and Edward Kato: Trends and Drivers of Agricultural Productivity in Nigeria. Nigeria Strategy Support Programme Report 001 2009. International Food Policy Research Institute.

34 Palm Oil World Supply and Distribution. <http://www.fas.usda.gov/psdonline/psdreport.aspx?hidReportRetrievalName=BVS&hidReportRetrievalID=710&hidReportRetrieval-TemplateID=8> USDA 2009 sourced 18th, March 2010.

35 Brown E and Jacobson M F (2005) quoted in Sustainability of Smallholder Palm Oil Production in Indonesia. Roskilde University, Department of Society and Globalization-International Development Studies Project. 2009.

36 <http://www.britannica.com/EBchecked/topic/365749/marketing-board>.

37 National Bureau of Statistics <http://www.nigerianstat.gov.ng/>.

38 The Excess Crude Proceed Account was established in 2004 to safe keep any increase in global oil price over the price benchmarked for budget. The account had a balance of \$20 Billion as at January 2009. The account was meant to fund power and other infrastructural projects.

39 <http://allafrica.com/stories/201002160320.html>.

40 Thoennes P: Biofuel and Commodity Markets-Palm Oil Focus. Commodities and Trade Division. FAO 2006.

41 Ibid.

Under customary land tenure, land ownership is characterized by several challenges. Notable among the challenges under the customary land tenure was land fragmentation. This is encouraged by the customary land inheritance where land devolves to beneficiaries on the demise of the former owner or holder, and multiple and dubious sale of the same land to different people resulting in litigations.⁴²

Based on the problems inherent under the customary land tenure, the Nigerian government in 1978 enacted the Land Use Act. The primary aim of the law is to provide a uniform system of land tenure that would guarantee equitable and reliable access to land for production purposes throughout the entire federation.⁴³ Basically the 1978 Land Use Act is meant to democratize land ownership and address some of the encumbrances under customary land tenure. The Act vested the power to alienate land exclusively to the state governor where the land is situated.

The Land Use Act also gives state governors excessive power. This enables each governor in every state to act as absolute landowner and the beneficiary is completely left at the mercy of the trustees.⁴⁴ Most state governors who are entrusted with land do not make land accessible to people. Nevertheless, because of their vantage positions, many of the state governors have over-night become multiple landowners and consequently compete with private land speculators.

In order to alienate customary land and get the statutory rights of occupancy, governor's consent is mandatory. Because of the governor's pecuniary interest in land matters, the process is unduly delayed which made many people to evade the provisions thus leading to multiplicity of imperfect titles.⁴⁵

A large proportion of farming land in Nigeria is still governed by customary land tenure. Palm oil producers are of no exception. Palm oil production activities take place in either inherited land, communal land, or acquired through family land. From the survey, 38 percent of palm oil farmers inherited the land where they source and process palm oil.

Seven percent (7%) of the respondents rent their farm through a leasehold agreement. Another 38 percent communally acquired the land for palm cultivation. 12 percent and 3 percent operate on communal/family land and acquired/family land respectively. In view of this, 86 percent of palm oil farmers said that their ownership rights are transferable to their children.

With 38 percent of the respondents who said they acquired/bought the land where they source and process palm oil, this should not be construed to mean that those who bought the land where they source and process palm oil have appropriate titles to the land.

The land is held under a defective form and ownership rights are not recorded. In view of this the land cannot be traded outside the local circles where people know and trust each other and above all cannot be used as collateral for a loan.⁴⁶

A possible explanation that accounts for unregistered land is that the procedures for land registration in Nigeria are watertight and time consuming. Most palm oil producers are not well lettered. It will be cumbersome for them to wade through the required 13 steps that will take 82 days in order to have their land registered.⁴⁷

Also two-thirds (66 percent) of palm oil producers reported that their farm was an existing farmland when they took over. 87 percent including another 16 percent said that they purposely cultivated the land for palm tree plantation and that they have made direct effort in improving the farm such as planting of new palm trees and pruning of existing ones to increase yearly yields. However, those that rent the land reported that they did not bother to make any improvement on the land. This is probably because the land they produce palm oil is not theirs and as such cannot exercise control on the land forever.

Table 2. Land Ownership and Rights

Mode	Percentage %
Inheritance	38
Rent	7
Acquired	38
Communal/Family Land	12
Acquired/Family Land	3
No Response	2
Total	100

Source: Field Study, April 2010

Benefits of Palm Oil Industry

Despite being below par, palm oil production is a major vocation in many communities. It provides income for many farmers and their dependents. It is also one of the modest revenue sources to some state and local governments. This connotes that an efficient and strong palm oil sector in Nigeria will enable the poor to be part of the solution to poverty challenge through provision of employment and a means of livelihood. The justification for this is the numerous ways in which oil palm can be used and many would be employed in the process.

42 Martin Dada: Nigeria: Land reforms – the lingering debate: <http://desertification.wordpress.com/2010/01/18/nigeria-land-reforms-the-lingering-debate-africafiles/>.

43 N.O. Adedipe et al: Rural communal tenure regimes and private landownership in western Nigeria: <http://www.fao.org/sd/ldirect/LR972/w6728t13.htm>.

44 The Compass: Monday, 25 January 2010: Afe Babalola: Expunge these clogs in the Land Use Act http://www.compassnewspaper.com/NG/index.php?option=com_content&view=article&id=39452:afe-babalola-expunge-these-clogs-in-the-land-use-act&catid=72:property&Itemid=710.

45 Thisday Newspaper, 16 March 2009: Amending the Land Use Act: <http://www.thisdayonline.com/nview.php?id=138313>.

46 Hernando De Soto: The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else, 2000, Swan Book P. 6.

47 The World Bank Doing Business 2009: <http://www.doingbusiness.org/ExploreTopics/RegisteringProperty/Details.aspx?economyid=143>.

From the survey carried out among palm oil producers, the modal monthly income ranges between N35 000 and N40, 000 (\$233 and \$267).^{48 49} In a country where majority lives on less than \$1 a day, the monthly income of palm oil producers competes favorably with the monthly salary of a fresh college graduate in government job. This shows that an average palm oil producer lives well above the poverty line. Despite the tendency for producers to under-declare their income because of the fear of tax officials, the lowest monthly income reported is N8000 (about \$53) and this is more than the national minimum wage which stands at N7, 500 (\$50).

Moreover, because of the usefulness of every part of palm tree, many other low cost and low technology economic activities will spring up around the oil and non-oil elements of oil palm thereby creating employment for others. Aside from the above, palm oil producers have large number of dependents who not only earn their living from palm oil revenue but also have their future hinged on income derivable from palm trade. Seventy-eight percent (78%) of palm oil farmers have more than six (6) dependents, of these, 29 percent have more than 10 dependents.

Table 3. Number of Dependents

No of Dependents	Percentage
1 – 5	15%
6 – 10	49%
Above 10	29%
No Response	7%

Source: Field Study, April 2010

The above simply confirms the fact that palm oil is not only a food staple in Nigeria but also a major generator of jobs and prosperity.^{50 51}

Those that would have otherwise been a burden on the society or rely on government administered programs found employment and means of livelihood for both themselves and their families in palm oil production. In spite of the high dependency ratio, more than two-thirds (77 percent) of palm oil farmers reported being comfortable, only 12 percent think otherwise. In a follow up question, 72 percent said they have never contemplated leaving the trade, with only 20 percent reporting that they will leave if they see better opportunity.

Table 4. How Comfortable are Palm Oil Producers?

Response	Percentage
Yes, I am comfortable	77%
No, I am not	12%
Don't Know	11%

Source: Field Study, April 2010

The survey further lends credence to the fact that palm oil industry offers poor countries in Africa the opportunity to build significant palm oil industries and subsequently raise the standards of living the way the industry has helped in providing incomes for the poor in Malaysia and Indonesia.⁵²

Obviously, this is bound to have a considerable impact on worldwide poverty reduction considering the fact that around 89 percent of the world's palm oil is produced in poor countries. The campaign by green movements to restrict palm oil production worldwide and limit access to European markets would undermine an important way by which developing countries could raise living standards and ultimately reduce poverty.

Alleged Threat to the Environment

Despite its many and varied uses, environmental issues have been lately dogged palm oil plantations. In Indonesia, palm oil plantations are regarded as the reason for forest depletion, high carbon dioxide emissions and land speculation by local people. This ultimately has led to the World Bank to suspend funding to palm oil projects.⁵³

It is important to note that the majority of claimed environmental impacts are over-inflated or misleading. Furthermore, any environmental damage pinned to palm oil is a function of economic growth in developing nations — not a function of palm oil as a discrete product.

In Nigeria many of the local owners of palm oil plantations as well as those who are involved in palm oil business do not experience any environmental harm as a result of palm oil production. This is confirmed through the survey. One of the noticeable complaints by the respondents is that many of the local mills use locally fabricated and outdated machine to process palm oil.

As a result there is a tendency for the machine to make some unusual sounds while processing. About 39 percent reported there are environmental problems relating to oil palm plantation.

48 \$1=150 Naira.

49 For fear of tax, some are unwilling to disclose their actual income. In cases like this, we estimated their income by multiplying the number of keg of palm oil they usually produced in a month by the market price.

50 Ratnajyoti Dutta, "India's May edible oil import to jump, stocks up," 5 June 2009, Reuters, at <http://www.livemint.com/2009/06/05155227/India8217s-May-edible-oil-i.html>.

51 Arif Simeh and Tengku Mohd Ariff Tengku, "The Case Study on the Malaysian Palm Oil," United Nations Conference on Trade and Development (UNCTAD), 3 April 2001, at Tai Beiping, "Chinese agribusiness company in DR Congo to offer thousands of jobs for locals, Xinhua, 10 July 2009, at http://news.xinhuanet.com/english/2009-07/10/content_11686244.htm.

53 Strategic Risk: Do your homework, 6 May: 2010: <http://www.strategicrisk.co.uk/story.asp?sectioncode=27&storycode=384308&c=2>.

However when prodded further, they indicated that the problems merely related to noise from processing machine.

Almost half of the respondent (43 percent) however reported not receiving such complaint. This tends to suggest that the noise from the mills might have been more common and frequent in some locations than others. Again, it could be that where sounds do not occur it might be that palm producers in the area still extract palm oil manually.

With respect to a potential environmental harm (widespread clearance of forests, massive CO2 emissions and the theft of indigenous peoples' lands) three-quarter of palm oil producers surveyed (75 percent) have never noticed any potential environmental harm caused by the palm oil production. In addition, they are not convinced that palm oil production can be a potential threat to the environment. As already indicated, the farmland in which palm oil activities take place is largely inherited or acquired legitimately which foreclosed the possibility that others' land are illegally annexed or occupied as it is the case in Indonesia.

Table 5. Is Palm Oil Production a Potential Environmental Threat?

Mode	Percentage %
Yes	8 %
No	75 %
No Response	17 %

Source: Field Survey, April 2010

Majority of the palm oil plantations in Nigeria is inherited. A substantial numbers of farmers said their farm was an existing farmland when they took over.⁵⁴ Only a handful of farmers planted new palm trees on a large scale. Governments at various tiers do not invest heavily on palm oil plantation aside from plantations made between 1960s and 70s.^{55 56} Nigeria palm oil production relies on a few organized private and public holdings and plantations of improved yields.⁵⁷ With exception of Ondo State that has recently partnered with a Malaysian firm, Agro Bayu, to revolutionize its oil palm plantations in the state,⁵⁸ other state governments have been lackluster in investing in palm oil plantation.

Thus it is impossible for forest to be depleted because of palm oil plantation. In addition, the installed capacity of palm oil processing companies is 900,000 tonnes per year. Out of this figure only 300,000 tonnes are processed with only single company having the highest processing capacity of 700 tonnes per day out of 26 companies. The palm oil produced by the smallholdings contains fatty acid of more than 12 percent. They are thus not appropriate for large scale commercial processing because the fatty acid is beyond the international recommended standard of 5 percent.⁵⁹

Deforestation is prevalent in the Northern part of Nigeria where there is no palm oil production. The deforestation in northern part is occasioned by weather problem and the level of poverty that made people to chop down trees for cooking. The deforestation that occurs in southern part of Nigeria is related to illegal logging which is estimated to have cost Nigeria about \$6 billion per year.⁶⁰ The desire of government to get more revenues has led to granting of logging license in government reserved areas without a commensurate re-forestation. Also various government reforestation programs have not been successful.⁶¹

The palm oil industry does not hamper forest biodiversity in Nigeria. Studies have shown that palm oil produces two to three times more oil from the same amount of land as the other major sources of vegetable oil – rapeseed and soybean.⁶² In actual fact, take a biggest producer, Malaysia, palm oil is restricted to the 20 percent of the land which is allocated for agricultural purposes. Fifty six percent of Malaysia's territory is reserved for forest (the average in Europe is 25 percent).^{63 64}

Also, in Indonesia, one of the world's most densely populated countries and the second biggest producer, 25 percent of the country has been set aside for forest conservation. Palm oil is only cultivated in areas set aside for commercial production. In both countries, the Palm Oil industry is an important contributor to programs to protect endangered species, such as the orangutan.⁶⁵

The current pressure to limit production of palm oil will simply enable consumers to switch to other available alternative crops that are less efficient producers of vegetable oil. In terms of land use, only 0.26 hectares of land is required to produce one tonne of oil from Palm Oil while soybean, sunflower and rapeseed require 2.2, 2 and 1.5 hectares, respectively, to produce one tonne. Palm oil producers also expect to increase their yield per hectare.⁶⁶

54 Field Study, April 2010.

55 <http://www.wrm.org.uy/bulletin/47/Nigeria.html>.

56 http://www.compassnewspaper.com/NG/index.php?option=com_content&view=article&id=39670:okitipupa-oil-palm-a-company-still-in-the-woods&catid=38:life-a-style&Itemid=689.

57 Jimoh Ayanda Oladipo: Agro-Industry as Strategy for Rural Development: An Impact Assessment of Nigeria oil Palm Industry, European Journal of Social Sciences Volume 7, Number 1, 2008.

58 Ondo State Government of Nigeria Press Release: Palm Oil Revolution in Ondo State Soon: http://www.ondostate.gov.ng/press_release/palm.pdf.

59 Author's Interview with Matthew Eshalomi, Chairman, Vegetable & Edible Oil Section of Manufacturer Association of Nigeria.

60 http://www.illegal-logging.info/approach.php?a_id=102.

61 Ibid.

62 Yusof Basiron and Yew F.K., "The Potential for Palm Oil for Developing Countries and its Role in Food and Fuel Debate," MPOC, p.5.

63 Agence France Press, "Malaysian palm oil struggles to promote 'green' image," 3 May 2008, at <http://afp.google.com/article/ALeqM5gUEZ4hezQ94B6SLnYGA8PDx8n2nw>

64 Ministerial Conference on the Protection of Forests in Europe 1 (MCPFE) et. al, "Sustainable forest management in the Pan-European region - achievements, challenges and planned actions in relation to issues to be addressed at UNFF8," November 2008, p. 13, at http://www.un.org/esa/forests/pdf/national_reports/unff8/Pan-European5.pdf.

65 Yusof Basiron, "MPOC Reply To The Daily Mail," 2 April 2007, at http://www.mpoc.org.my/MPOC_Reply_To_The_Daily_Mail.aspx.

66 Oil World in Statistics Update, 27 March 2009, pp 1 World 2-8. Calculations are made based on vegetable oil production and harvested area data.

Compared with other oil, palm oil generates nearly 10 times the energy it consumes, compared to a ratio of 2.5 for soybeans and 3 for ripe oilseed.⁶⁷

In Nigeria, there is no evidence to suggest or indicate that palm oil industry or palm oil related activities have a negative environmental impact. This is because Nigeria has a vast land compared to a country like Malaysia which produced higher palm oil volume more than Nigeria. Moreover, over 80 percent of palm oil production is from 2.3 million hectares of wild/semi wild unproductive grove population.⁶⁸ To date, there has not been any proven or observed environmental hazard caused by palm oil industry in Nigeria.⁶⁹

With the world's demand for vegetable oil growing steadily, doubling since the late seventies, increasing by one third in the last decade (palm oil doubling in that period), the demand is projected to increase by another third between 2000 and 2010. The campaign to slow production of palm oil worldwide would result in more land being given over to production of other, less productive oils.

Ghana's Palm Oil Industry

Like most other countries in Africa, Ghana has a long history of palm oil production. It was its primary export in later part of the 19th century and the early part of the 20th century.⁷⁰ Like other countries in the region, Ghana has failed to take palm oil production beyond mere potential. This is due to the use of traditional methods of production coupled with the low quality of palm oil produced which could not make Ghana to meet up with the rising global and domestic demand.

Its current annual production is put at 109,000 metric tonnes down from 121,000 in 2006.⁷¹ The domestic consumption level is estimated to be around 230,000 tonnes. The shortfall is being filled by import.

Ghana has recently signed a deal worth \$21.6 million with Chyuan Chya Food and Beverages Limited (CCFB), and the China-Africa Economic Trade Limited. Under the deal, Ghana will export 36,000 metric tonnes of palm oil to China this year.⁷² Although the deal would create over 100,000 jobs, the palm oil to be exported will be sourced through small and medium-scale palm oil producers in Ghana. That is however dependent on the ability of small and medium-scale producers to increase production.⁷³

Malaysia has also planned to build silos in Ghana through which palm oil will be exported to Nigeria and possibly other West African countries and the silos would employ 1,000 youths.⁷⁴

Land is relatively abundant but access is curtailed by cultural practices. Out of a total land area of 238,537 km², 57 percent of which is suitable for agricultural production, only 39 percent is under cultivation. This tends to show that if the palm oil sector is well exploited and modern production technology is introduced, the sector has the potential of lifting many out of poverty.

Though deforestation is seen as a problem in Ghana. Its virgin forests is said to have reduced to 1.84 million from 7.44 million hectares.⁷⁵ However the main cause is illegal logging and chain-saw operations.⁷⁶ Just like in Nigeria, the main reason why forest and orangutans population are being lost is not due to palm oil production but poverty. The best way to prevent environmental degradation is to first of all reduction in poverty level in poor communities.

Moving Palm Oil Industry Forward

The problems with palm oil production in Africa are largely government induced rather than environmental. The challenges being faced by palm oil producers are aggravated by inappropriate agricultural policies that have stifled agricultural potential. Over the years little has been done to address low yields, on the contrary it seems government has gone out of its way to stifle production. For instance smallholders who constitute majority of palm oil producers cannot access government administered credit facilities.

Government and private organisations should assist those willing to set up palm plantation. About 85 percent of palm oil producers noted through the survey that they have never benefited directly from any loan assistance be it from government, commercial banks or any organisation. That means the working capital used are sourced through loans from relatives and members of the community.

Import tariffs have put fertilizer out of many palm oil producers' reach thus leading to low yields and hard manual labor. The removal of tariffs on fertilizers and other agricultural inputs is crucial for increased productivity.

The distribution and marketing of fertilizer is controlled by politicians who use it to amass patronage. In the end, genuine

67 B.J Wood and R.H.V. Corley, "The energy balance of oil palm cultivation. Proceedings of 1991 PORIM International Palm Oil Conference," Malaysian Palm Oil Board, Kuala Lumpur, (1991), pp. 130-43.

68 Nigerian Institute of Oil Palm Research, 2008 Report .

69 Op Cit.

70 Gyasi E A: Emergence of A New Oil Palm Belt in Ghana. Journal of Economic and Social Geography Vol 83 2008.

71 <http://faostat.fao.org/site/339/default.aspx>.

72 http://www.chyuanchya.com/2009_news/ghana2china.htm, Ghana To Export Palm Oil To China September 14 2009.

73 Ibid.

74 <http://www.ghanaweb.com/GhanaHomePage/NewsArchive/artikel.php?ID=182506>.

75 www.wrm.org.uy/plantations/material/impacts5.html.

76 <http://www.ngonewsafrika.org/2010/01/ghana-president-mills-to-launch-forest.html>.

farmers are left out. Farmers would have to buy at exorbitant price at the secondary markets. In this regard, there is a need to make fertilizer distribution process less political and farmer friendly. Fertilizers that could have helped farmers increase yields have instead become a political weapon. The present mode of fertilizer distribution is cumbersome and open to manipulation, as sizeable amounts of fertilizers end up in the hands of politicians and their cronies who rake in profits at the expense of farmers.⁷⁷

The main problem that hinders increased in palm oil production, to at least meet the local demand, includes land acquisition, infrastructure, finance and out of date production techniques. Palm oil producers indicated through the survey that infrastructure and finance rank higher among the problems encountered by palm oil producers.

Table 6. Problems Inhibiting Palm Oil Production

Problems	%
Infrastructure	73%
Inadequate Finance	73%
Bad Policy (land, fertilizer, etc.)	13%
Marketing and price	40%

Source: Field Survey, April 2010

It is not accidental that 73 percent of palm oil producers indicated poor infrastructure and lack access to finance are their biggest challenges. This is understandable. Massive productive activities cannot take place in the absence of good infrastructure and capital. They are necessary ingredients for sectoral development.

Land acquisition for whatever purpose constitutes a problem. This problem is accentuated by the 1978 Land Use Act which gives unlimited power to state governors at the detriment of prospective land users. It stifles large-scale acquisition of land in palm oil producing belt. This also explains the frequent communal crises over land control.

A study conducted in 2005 to determine and situate why oil palm producers are not growing oil palm on plantation bases but rather rely on producing oil palm in its wild groves state⁷⁸ reported that 81 percent is traceable to land issues. It takes a long time for palm tree to become matured. Unceasing fragmentation of land due to inheritance discourages many farmers from cultivation if ownership of land is not secured.⁷⁹ It behooves on policy makers to amend the Land Use Act in a way that will favor land acquisition for development purposes.

Palm oil producers desire to increase their production. This could only be done by growing high yielding variety, improving efficiency in milling, crushing and refining and balancing the rising costs of land and labor. The Nigerian Institute for Oil Palm Research (NIFOR) is now producing hybrid seedlings capable of matching Malaysian Output of 4 tonnes per hectares. What is necessary now is to improve capacity to use the most modern processing techniques and also improve the infrastructure. All these will combine to boost production.

Some state governments that set up plantations have not been successful in running them and cannot lease them to private firms prepared to run them properly. Granting rights on government plantations to private company would be helpful in increasing palm oil production in Nigeria. Also, out of the exiting commercial palm plantations, there are only two major commercial operators with respectable hectares which are public limited company.

However, the operators of the plantations suffer from excessive pouching both by the villagers and runagates. Security on the plantations usually involves day and night patrol especially during harvesting time. This compounds plantations operators/ owners' problems and drive up the overhead costs. In fact, pouching has driven many small land holdings producers to abandon their plantation.⁸⁰

Because of costs associated with running new plantations, government can grant pioneer status certificates to new palm plantation for some quality period. This should be accompanied by granting tax-free holiday and negotiated a low interest rates loan with banks.⁸¹

The Nigerian government has evolved a strategy to establish three milling plants in each of the palm oil producing states. This will not at the end increase production in the sector. The exiting 2.3 million hectares of palm trees has become sterile and are now in the low productivity stage.⁸² There is the need for government and private organisations to commit more funds into research for improving palm seedlings, the establishment of nurseries, crop protection and other inputs to improve cultivation and production.⁸³

The campaign to halt palm oil production through the freezing of support to companies would only succeed in achieving one thing: diverting attention away from real issues that affect palm oil trade. While significant environmental problem is non-existent in Africa over palm oil production, cultivation and production of palm oil should however be made sensitive to standard environmental management practices.

77 Thompson Ayodele, This Day Newspapers: Food Crisis and Restrictive Trade Practices, May 19, 2008: <http://www.thisdayonline.com/nview.php?id=111893>.

78 Soyebó K O, Farinde A J, and Dionco-Adetayo E: Constraints of Oil Palm Production in Ife Central Local Government Area of Osun State, Nigeria in Journal of social Science 10(1): 55-59 kamlá-Raj 2005.

79 A man may have two children and on his death the land may be shared equally with each of the sons having a different purpose for the land.

80 Mattew O. Eshalomi, Chairman, Vegetable & Edible Oil Section of Manufacturer Association of Nigeria, Nigeria Palm Oil Today and Future Outlook, Paper presented at Nigerian Institute for Oil Palm Research, January 2009.

81 Interview with Mattew O. Eshalomi, Chairman, Vegetable & Edible Oil Section of Manufacturer Association of Nigeria.

82 <http://allafrica.com/stories/201002090167.html>.

83 Ibid.

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