Memo To The Market

Dangote Vs BUA - The Sugar Wars

April 2021

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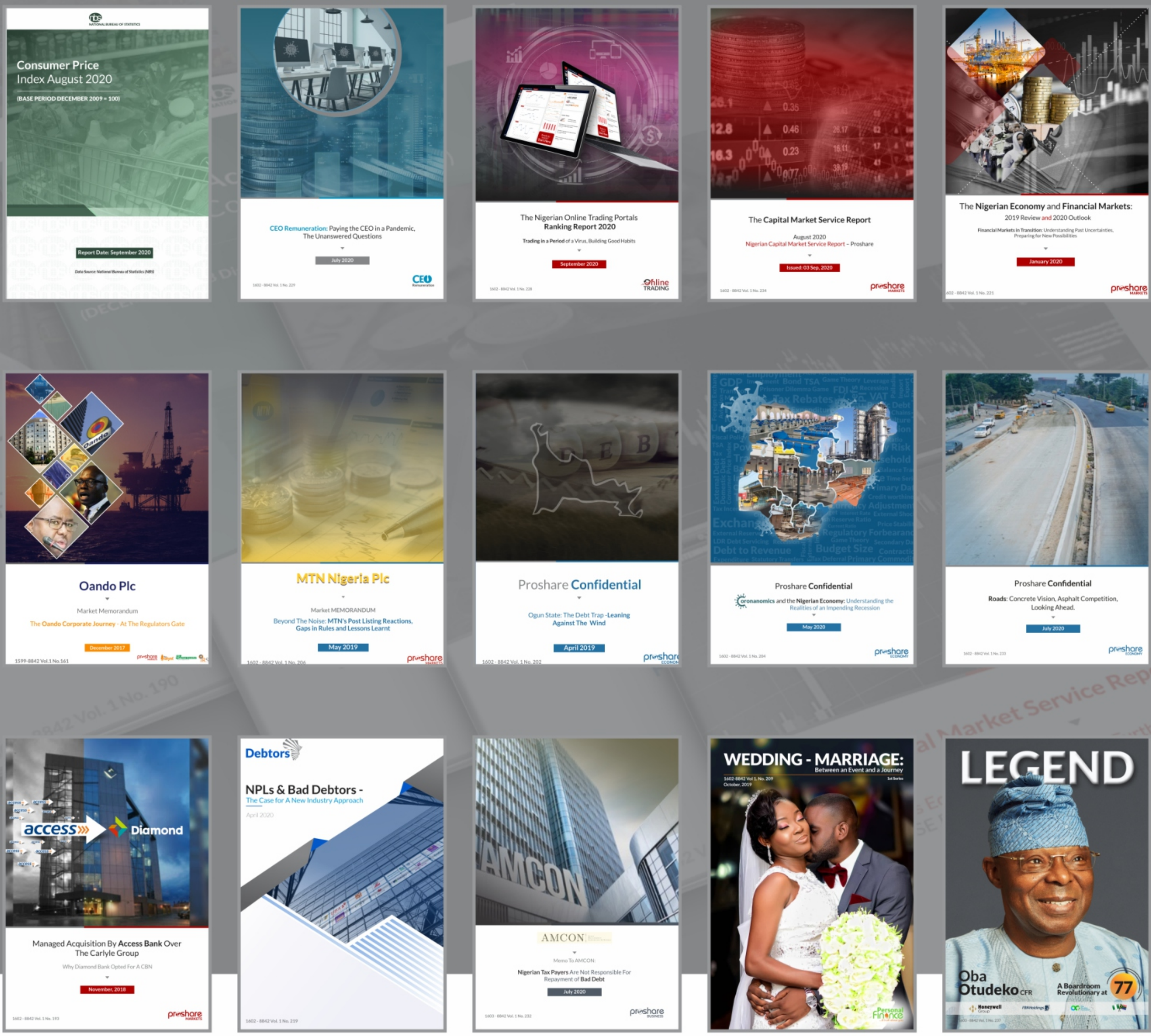

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April the beginning of the second quarter (Q2) of the year is usually a time when companies crank up their businesses after a slow start to the year. However, for Nigeria's sugar industry the month of April has become a bogeyman with two indigenous companies in the business of sugar processing throwing bloody punches at each other while disbelieving onlookers stare at swollen eyes, cracked ribs, and corporate breaths coming in fits and starts as the gladiators, **Dangote**, and the **BUA Group**, extend their war of attrition from the cement and oil&gas battlefields to the sugar killing plains.

> ***"Dangote and the BUA Group, extend their war of attrition from the cement and oil&gas battlefields to the sugar killing plains."***

How it All Began

In January 2021 in a letter signed by the Chairman Dangote Industries Limited, Alhaji Aliko Dangote, and the Chairman Nigeria Flour Mills Plc., Mr. John Coumantaros, both Chairmen raised a joint petition against the activities of BUA Sugar Limited, a member of the BUA Group.

In the petition, the Chairmen alleged that the sugar business of BUA was a threat to the National Sugar Master Plan (NSMP) and would lead to excess sugar production. The softer subtheme of course was that it would lead to a fall in domestic sugar price and a cut in the profit margin of both Dangote Sugar and Flour Mills Nigeria Plc (which also processes and sells sugar) (*See the Economics of the Sugar Battle Section for more details*).

The letter addressed to the Minister of Industry, Trade, and Investment, Chief Niyi Adebayo, mentioned that *"Publicly available information suggests that BUA International, one of the players in the Sugar Industry, has commissioned a sugar refinery plant in Port-Harcourt, Rivers State. With the new refinery, the Country's refining capacity goes from 2.75million metric tons to 3.4million metric tons per annum, or from 170 percent over capacity over the year's import quota of over 210 percent capacity".*

Dangote and his Flour Mills counterpart went further to say that the BUA Sugar production activities defeated the goals of the NSMP and that *"The mid-term review conducted by the NSDC was clear in its conclusions -BUA has failed to invest substantively in local production or comply with its undertakings under its BIP. Even before this surreptitious investment in additional refining capacity,* *Nigeria already has enough refining capacity to satisfy demand today and well into the future. So, the business logic behind this investment is defective. BUA intends only on importing and refining raw sugar whilst claiming to be investing in developing sugar plantations in order to qualify for quotas to import raw sugar".*

The prayers of the Dangote and Flour Mills petition to the Minister were as follows:

- ***That the provision of the NSMP is enforced and no additional allocation of quota should be given for Raw. VHP or defined sugar for the Sugar Refinery in Port Harcourt for local market production.***

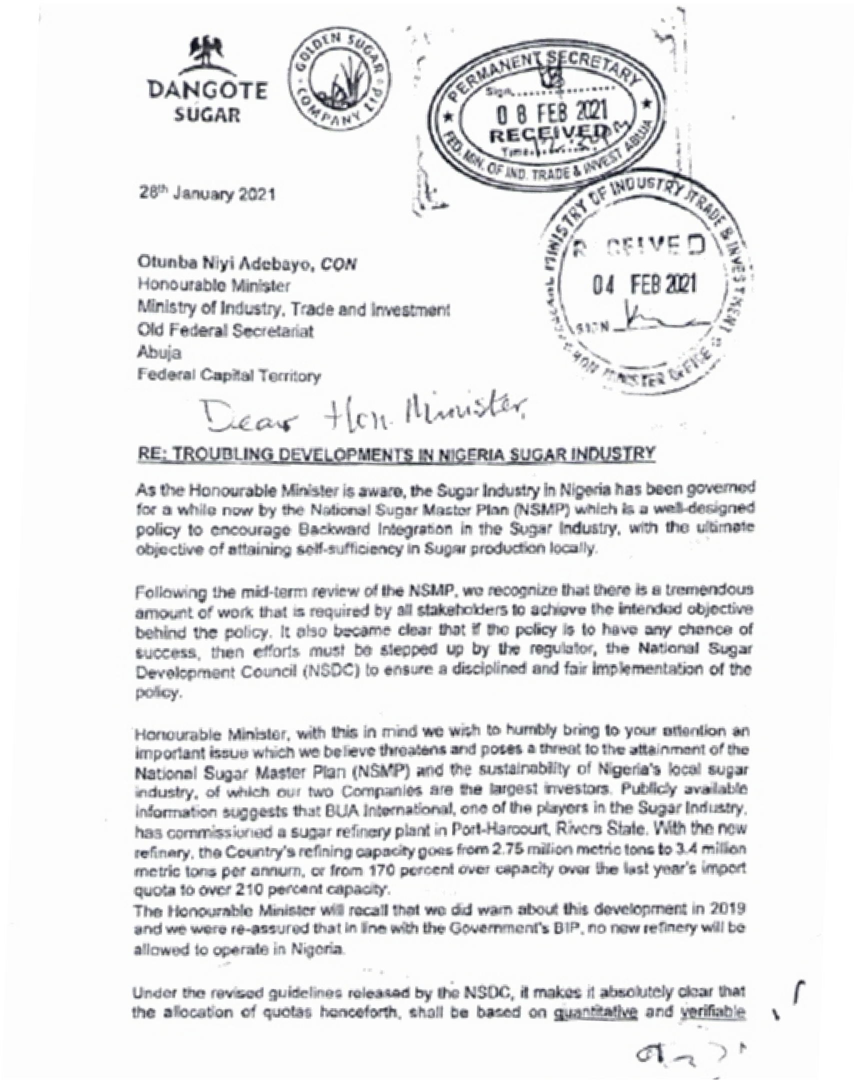
- ***That no allocations are issued, or applications considered for quota intended for re-export of Sugar as this would be difficult to monitor and may be open to abuse.***

- ***That the Nigeria Customs Service should be mandated to comply strictly with the authorized quota allocations in clearing cargoes and administering levy and duty.***

- ***That the Central Bank of Nigeria be requested to monitor the registration of "Form Ms" in line with the quota allocation.***

- ***An investigation should be conducted to determine the quantity of Raw sugar imported by the Refinery in Port-Harcourt and the appropriate penalty in terms of duty (60%) and level (10%) be lived on the company.***

Re: Troubling Developments in Nigeria Sugar Industry



DANGOTE SUGAR

GOLDEN SUGAR COMPANY LTD

PERMANENT SECRETARY
08 FEB 2021
RECEIVED
FED. MIN. OF IND. TRADE & INVEST. ABUJA

MINISTRY OF INDUSTRY, TRADE & INVESTMENT
RECEIVED
04 FEB 2021
MINISTER OFFICE

28th January 2021

Otunba Niyi Adebayo, *CON*
Honourable Minister
Ministry of Industry, Trade and Investment
Old Federal Secretariat
Abuja
Federal Capital Territory

Dear Hon. Minister,

RE: TROUBLING DEVELOPMENTS IN NIGERIA SUGAR INDUSTRY

As the Honourable Minister is aware, the Sugar Industry in Nigeria has been governed for a while now by the National Sugar Master Plan (NSMP) which is a well-designed policy to encourage Backward Integration in the Sugar Industry, with the ultimate objective of attaining self-sufficiency in Sugar production locally.

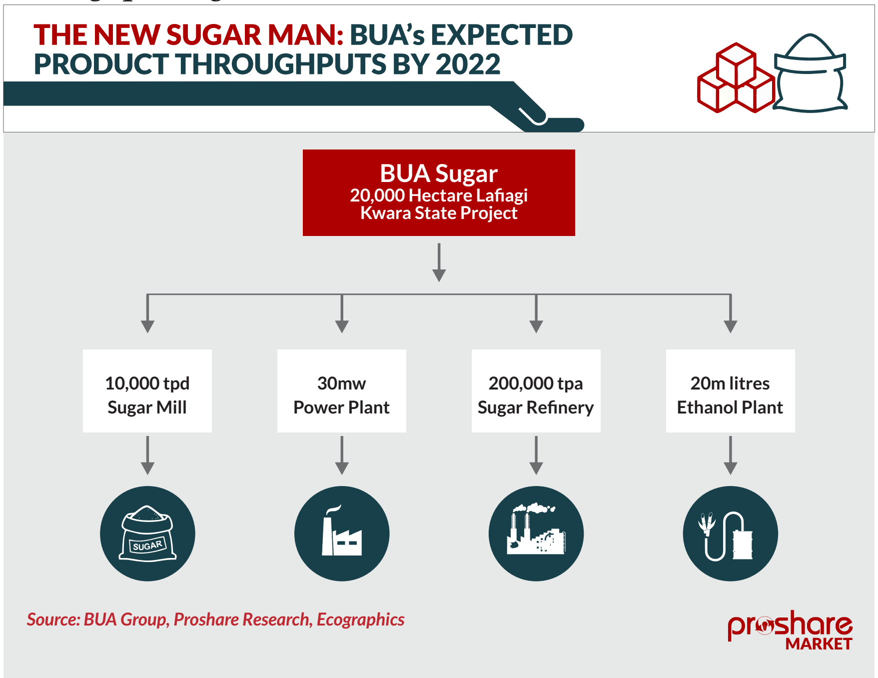
Following the mid-term review of the NSMP, we recognize that there is a tremendous amount of work that is required by all stakeholders to achieve the intended objective behind the policy. It also became clear that if the policy is to have any chance of success, then efforts must be stepped up by the regulator, the National Sugar Development Council (NSDC) to ensure a disciplined and fair implementation of the policy.

Honourable Minister, with this in mind we wish to humbly bring to your attention an important issue which we believe threatens and poses a threat to the attainment of the National Sugar Master Plan (NSMP) and the sustainability of Nigeria's local sugar industry, of which our two Companies are the largest investors. Publicly available information suggests that BUA International, one of the players in the Sugar Industry, has commissioned a sugar refinery plant in Port-Harcourt, Rivers State. With the new refinery, the Country's refining capacity goes from 2.75 million metric tons to 3.4 million metric tons per annum, or from 170 percent over capacity over the last year's import quota to over 210 percent capacity.
The Honourable Minister will recall that we did warn about this development in 2019 and we were re-assured that in line with the Government's BIP, no new refinery will be allowed to operate in Nigeria.

Under the revised guidelines released by the NSDC, it makes it absolutely clear that the allocation of quotas henceforth, shall be based on <u>quantitative</u> and <u>verifiable</u>

The accusations, if true, would have meant that BUA Sugar company had embarked on a deliberately orchestrated national programme of economic sabotage with possible speculative currency roundtripping as inferred by the statement that the company only set up its sugar plantation to qualify for "quotas to import raw sugar" reminiscent of the notorious import armada of the late 1980s to mid-1990s when import quotas were the magic key to stupendous wealth as beneficiaries of import allocation certificates sold their certificates to actual users of imported goods at huge premiums. In more recent times (and more contemporary language) import license allocations would be equivalent to non-fungible digital tokens (NFTs) or paper instruments traded at a speculative intrinsic value that would likely hamstring other legitimate raw material importers. Nevertheless, Proshare investigations indicate that the Dangote and Flour Mills claim that BUA was not investing sizably in local sugar plantations but simply using its local farm spread to gain access to raw sugar import quotas, was subjected to physical validation. A visit by Proshare's ***theAnalyst*** to BUA's sugar plantation at Lafiagi in Kwara state on the 12th of April 2021 revealed a sprawling hectarage of sugarcane under cultivation. The company's management said that it had so far, invested US$300m in setting up the plantation and its adjoining ethanol processing plant. BUA's production facility in Lafiagi is expected to produce 10,000tpd milled sugar, 200,000tpa refined sugar, 20m litres of ethanol, and 35MW of electricity by the end of 2022 (*see illustration 1 below*).

Illustration 1: The New Sugar Man; BUA's Expected Product Throughputs by 2022



Indeed, in response to the letter sent to the Ministry of Industry, Trade and Investment by Alhaji Aliko Dangote and Mr. John Coumantaros, the Chairman of BUA Group, Alhaji Abdul Samad Rabiu, made a few observations in his letter to the Minister dated 11th February 2021. Rabiu's later was written after a letter was issued to the BUA Sugar company from the office of the Minister of Industry, Trade, and Investment and signed by him.

"Rabiu's later was written after a letter was issued to the BUA Sugar company from the office of the Minister of Industry, Trade,"

The minister's letter among other things noted as follows:

"We are in receipt of a letter which alleges that BUA aims to circumvent the NSMP's framework and jeopardize its objectives by taking advantage of the location of its Port-Harcourt Refinery in a Free Trade Zone. ***Find enclosed a copy of the Letter".***

"Given the significant investment which the Federal Government has made in the BIP and its expected returns in job creation, foreign exchange savings and wealth creation for the associated farming communities, these are the profoundly serious allegations which cannot be taken lightly."

The letter went on to say:

"Accordingly, please provide detailed information on BUA's plan to service the Nigerian and export markets from its refineries on or before Friday, 19th February 2021, failing which we shall be forced to take necessary remedial action."

FEDERAL MINISTRY OF INDUSTRY, TRADE AND INVESTMENT, ABUJA

OFFICE OF THE HONOURABLE MINISTER

OLD FEDERAL SECRETARIAT COMPLEX, GARKI - ABUJA

P.M.B. 88, GARKI. PHONE: 09-6718989

HMITI/GEN.CORR/008/VOL.I/ **10th February, 2021**

Alhaji Abdulsamad Rabiu, CON,
Chairman, BUA Group,
BUA Towers,
PC 32, Churchgate Street,
Victoria Island,
Lagos.

Dear Alhaji,

REQUEST FOR INFORMATION ON BUA SUGAR REFINERY, PORT-HARCOURT

As you are aware, Nigeria's Sugar Industry is governed by the Nigerian Sugar Master Plan (NSMP) which motivates investment in the local production of raw sugar by securing the market for investors in the Backward Integration Program (BIP).

2. We are in receipt of a letter which alleges that BUA aims to circumvent the NSMP's framework and jeopardize its objectives by taking advantage of the location of its Port-Harcourt Refinery in a Free Trade Zone. **Find enclosed a copy of the Letter.**

3. Given the significant investment which the Federal Government has made in the BIP and its expected returns in job creation, foreign exchange savings and wealth creation for the associated farming communities, these are profoundly serious allegations which cannot be taken lightly.

4. Accordingly, please provide detailed information on BUA's plan to service the Nigerian and export markets from its refineries **on or before Friday, 19th February, 2021,** failing which we shall be forced to take necessary remedial action.

5. Please accept the assurance of my regards.

Otunba Niyi Adebayo, CON
Honourable Minister

In response, BUA's Group Chairman, Alhaji Rabiu, observed that the company was not in breach of the national sugar master plan (NSMP) and that its plantation in Lafiagi Kwara state and its ethanol plant was moving at a programmed pace to ensure full operation by the end of 2022. He observed that the 20,000-hectare Lafiagi sugar plantation was covered by the backward integration policy (BIP) of the federal government and was fully plugged into the sugar self-sufficiency strategy of the administration.

Rabiu pointed out that the export of sugar through the Port-Harcourt export processing zone (EPZ) was approved by the President on application and processing through the Ministry of Industry, Trade and Investment and that the issues raised by BUA's competitors appear to challenge the authority of the President to grant such approval even though one of the competitors, the Dangote Group, benefitted from a similar approval to processes crude oil and fertilizer products at the Lekki Export Processing Zone (EPZ) in Lagos.

Rabiu in his letter to the Minister observed that the approval of the EPZ sugar plant was done by *"the same department responsible for recommending and seeking Mr. President's approval for any project of this sort under the same Ministry that has now written us. We are wont to believe that the Ministry is aware of the entire process leading up to this approval. As you are aware, Honourable Minister, the approval went through a rigorous two-year process before it was finally assented to by Mr. President. The attempt by Messrs. Dangote and Coumantaros to call the Presidential approval upon which that project is sited to question-is to call to question the authority of the President's powers and the diligence of your Ministry"*.

Still clearly unhappy with what appeared to him to be competitor collusion against his business interest, Rabiu, mentioned in his letter to the ministry that *"The same NEPZ Act upon which this project [the Port Harcourt Sugar Refinery] is based, gives the permission to process, add value and export at the same time. Companies under this act are allowed to process and if they wish, sell 100 percent of their production in Nigeria with payment of duties based on the current raw materials tariff (see attached memo from the Federal Ministry of Finance). Aliko Dangote of Dangote Industries, who is one of the complainants alleging and attacking this approval has also applied and obtained the same approval for his Refinery Project in Lekki, Lagos State, where he is currently enjoying the same benefits of being in an EPZ"*.

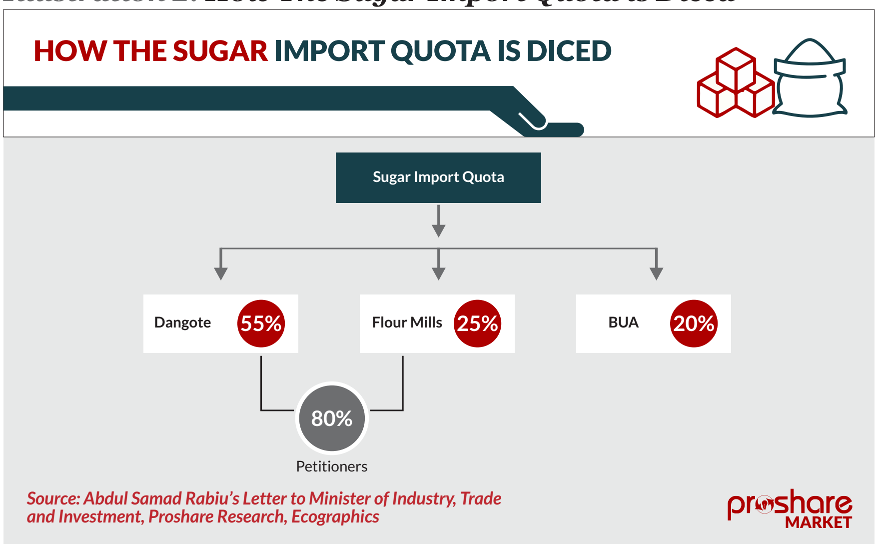
"He observed that the 20,000-hectare Lafiagi sugar plantation was covered by the backward integration policy (BIP) of the federal government and was fully plugged into the sugar self-sufficiency strategy of the administration."

The Economics of a Sugar Battle

"All warfare is based on deception. Hence, when able to attack, we must seem unable; when using our forces, we must seem inactive; when we are near, we must make the enemy believe we are far away; when far away, we must make him believe we are near." – ***Sun Tzu***

At the heart of the fistfight between Dangote and Flour Mills in the blue corner and BUA Sugar Refinery in the red corner has been the desire for market dominance, pricing control, and business sustainability. Aliko Dangote's standard business philosophy has, allegedly always been, to be the single most important supplier or manufacturer in any market he chooses to invest in, where he cannot be number one, he must be a number two breathing hotly down the neck of whosoever is, in his opinion, the temporary number one. The corollary of this market mindset is that the business maven would not permit a corporate rival either eat into his pre-eminent market share or cut into his usually sizable business margins (for example before 2019 Dangote's operating margin on cement was stable at roughly 60% (or approximately the same percent as its market share), but the margin has more recently collapsed to below 55% mainly because of aggressive market share acquisition by? Yes, you guessed it, BUA). Nevertheless, concerning sugar import quota the current quota appears to be shared along the lines of Dangote 55%, Flour Mills 25%, and BUA 20%, reflecting the perceived market share of the business when certain operational factors are ignored (for example, the Sunti sugar product was brownish and could not be directly converted into white sugar and was, therefore, used as base raw material as of December 2019).

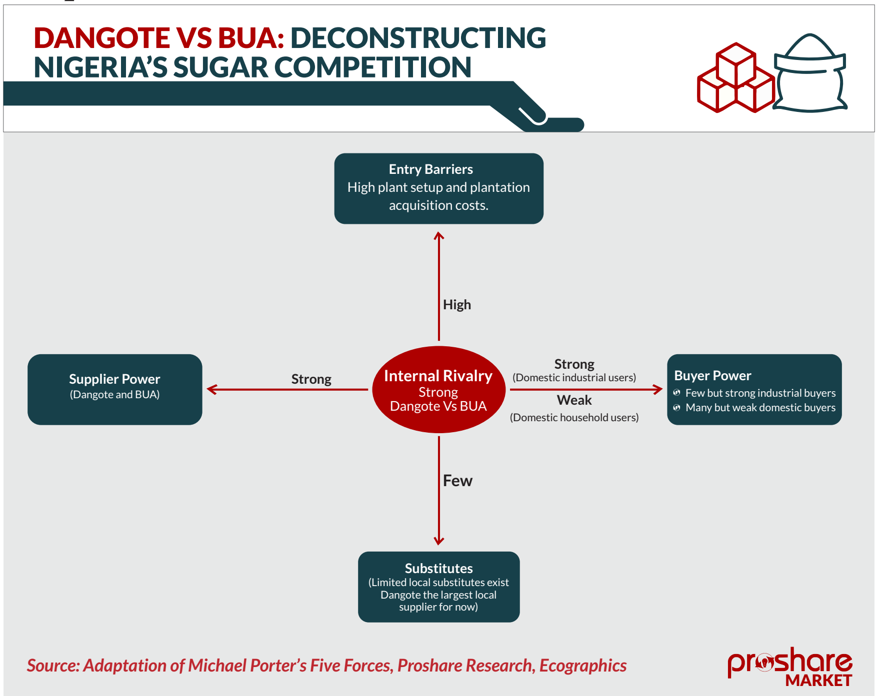
***Illustration 2:** How The Sugar Import Quota is Diced*



The Dangote business model has traditionally involved rapid business growth and sizable profit margins, but this has sometimes come at extra cost to the consumer. Markets dominated by Dangote have appeared to show monopolistic or oligopolistic tendencies. This means that where Dangote stands alone as the sole market supplier of a good or service or where he leads a shortlist of smaller or much weaker competitors who see him as their price leader such markets allegedly tend to see higher average product prices than in other non-Nigerian markets. In this situation, users or consumers of Dangote products or services are typically price-takers with weak buyer'-power and lower abilities to resist upward price adjustments as has recently been mentioned concerning cement. This trend is reinforced in product markets with no close substitutes and high entry barriers, hence making 'product substitution' either difficult or impossible. In such situations, a firm like Dangote becomes the equivalent of what America's investment sage, Warren Buffet, once called a business 'toll gate' or a safe investment bet (*see illustration below*).

> *"Markets dominated by Dangote have appeared to show monopolistic or oligopolistic tendencies."*

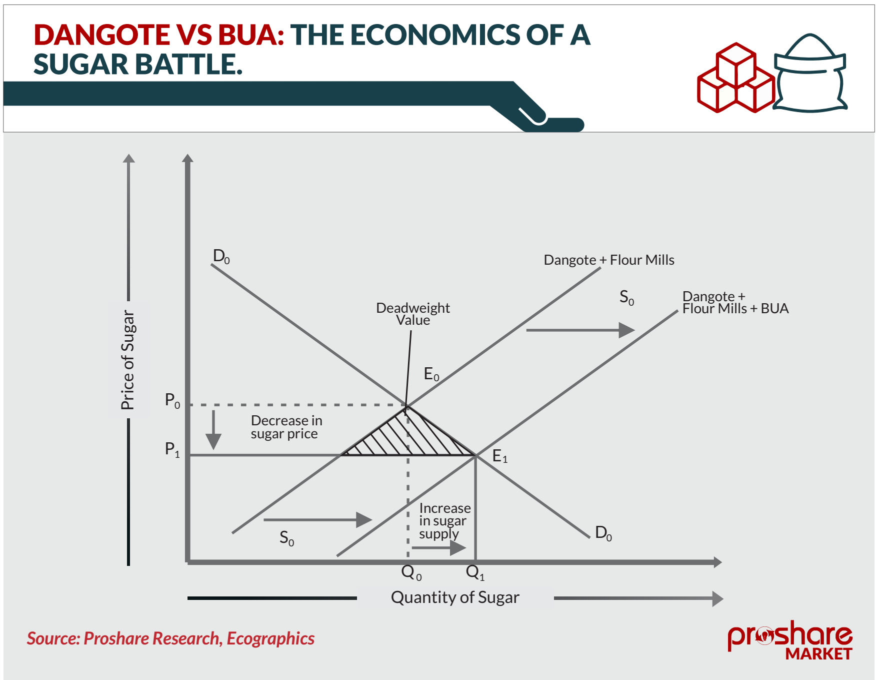
Illustration 3: Dangote vs BUA: Deconstructing Nigeria's Sugar Competition



Against this background business analysts have observed that dominant companies like Dangote in the cement and sugar businesses rarely take the emergence of new entrants lightly as has also been seen in the cases of American companies like Apple, Microsoft, Google, and Facebook, all of whom have had regulatory and non-regulatory challenges to their massive market influence. The situation in Nigeria is no different. The emergence of BUA as a credible, even if a smaller market competitor has led to some potential industry disruption. BUA could potentially disrupt pricing in sectors such as cement, sugar, and oil & gas. By increasing local supply in certain product lines and changing the dynamics of price determination of older rivals may lead to the operating margins of these competitors taking a knock as turnovers slide and sales, general, and administrative (SG&A) expenses stay sticky upwards as the market values of the competing companies listed on the **Nigerian Exchange Group (NGX)** begin to dip as investors decide to go 'short' (or sell) their equities in expectation of lower future earnings per share (eps) and a probable fall in return on shareholder's funds (ROSHF) (*see chart below*).

> *"The Dangote-BUA bust-up is a case of pain in the face of hopeful market gain."*

Chart 1: ***Dangote vs BUA: The Economics of a Sugar Battle***



Beyond the Noise

Following the previous argument that BUA could disrupt market pricing and volume (as was the case in the cement market where BUA acquired CCNN and unleashed an attack on its rival's market shares), is the fight for market positioning. At the heart of the battle in the sugar market, is the competition between the Dangote group and the BUA group across other market segments. The ongoing sugar war appears to be a bruising proxy battle for a bigger market presence across a range of consumer and non-consumer industries. The Dangote-BUA bust-up is a case of pain in the face of hopeful market gain.

The dispute between the two companies over the ownership of the Okpella cement mines in Northern Edo state together with the dispute over the status of BUA's sugar plant in Port Harcourt's EPZ has pitted the two government-supported businessmen against each other in unnecessary ways.

Dangote's petition against BUA's Port Harcourt refinery being used to import raw sugar into the country to be processed and sold in local markets is tenable. Such business action would be a kick in the gut of the country's backward integration strategy or programme (BIP) and hurt the capacity of local markets to develop. Aliko Dangote's reference to the need for BUA to either use domestically sourced sugarcane for production in its Port Harcourt refinery for sugar export or pay all required charges relevant to importing raw sugar into the country for onward sale in the domestic market is consistent with proper market governance. The BUA counter-arguments about the Dangote Oil Refinery in Lekki, Lagos having the same terms as the BUA sugar refinery is slightly askew. The Dangote refinery in Lagos is designed on the model of off-takes (the purchase) of oil from Nigeria which is then processed for sale to Nigerian and foreign market buyers, but if BUA's Port Harcourt sugar refinery does not use locally sourced sugarcane as input for its output but imports raw sugar from abroad then the equivalence argument breaks down. For the BUA argument to be tenable the Port Harcourt refinery must source its raw materials domestically in line with the country's sugar master plan (NSMP).

BUA's claim of investing US$300m in its Lafiagi sugar plantation would require further validation as no evidence of payment for equipment and other construction commitments were sighted by ***The Analyst***.

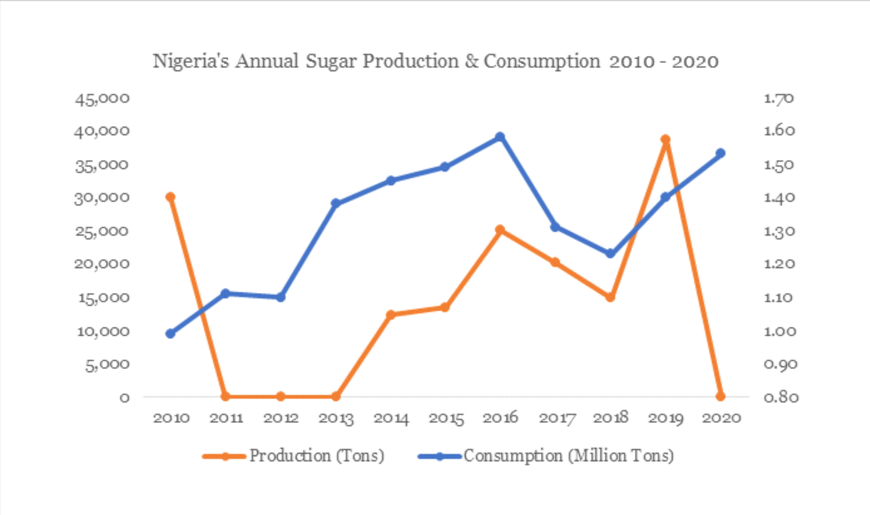
"BUA's claim of investing US$300m in its Lafiagi sugar plantation would require further validation as no evidence of payment for equipment and other construction commitments were sighted by The Analyst."

Data and the Master Plan

The Nigerian Sugar Master Plan is a bust. The goals of the plan appear to have fallen flat as consumption has continued to rise with rising importation and sadly inadequate local production (*see chart below*).

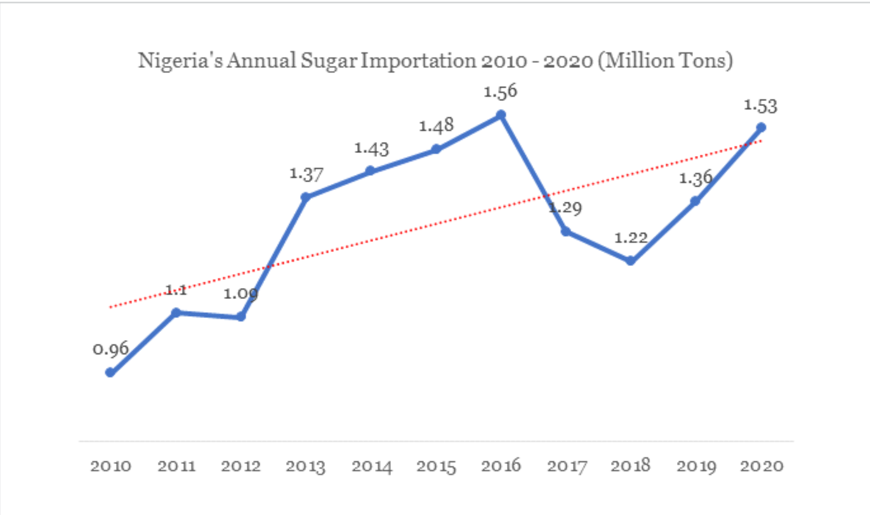
Chart 2: Nigeria's Annual Sugar Production & Consumption 2010 - 2020

Chart 2: Nigeria's Annual Sugar Production & Consumption 2010 - 2020



Only two years in the last decade saw sugar production exceed consumption, 2010 and 2019. In other years sugar consumption far outstripped production leading to a steady rise in sugar import (*see chart below*)

Chart 3: Nigeria's Annual Sugar Importation 2010 - 2020 (Million Tons)



The latest data (March 2020) by the National Sugar Development Council (NSDC) showed that the average price of local retail sugar stood at N18,895/50kg which is +24.72% higher on a year-on-year basis (Y-o-Y) than the price in 2019. However, on a year-to-date (YTD) basis, the local retail price of sugar has dipped slightly by -1.13%.

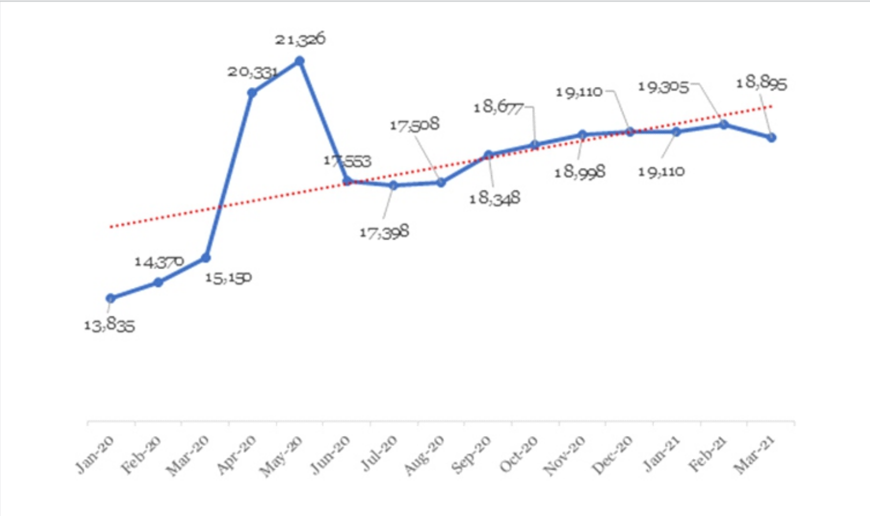
> ***"The retail price of sugar was at its highest between March 2020 and May 2021 at the peak of the COVID-19-induced lockdowns and movement restrictions."***

The average local retail price of sugar was volatile between January 2020 and March 2021, this was on the back of severe macroeconomic challenges and erratic market forces.

The retail price of sugar was at its highest between March 2020 and May 2021 at the peak of the COVID-19-induced lockdowns and movement restrictions.

The gradual reopening of the economy and businesses in June 2020 reflected in the falling price of the commodity, although not to pre-COVID levels (*see chart and table below*).

Chart 4: Average Retail Price of Sugar Jan 2020 – March 2021 (N/50kg)



Source: NSDC, Proshare Research

Table 1: ***Average Local And International Raw Sugar Price Jan 2020 - March 2020***

AVERAGE LOCAL AND INTERNATIONAL RAW SUGAR PRICE JAN 2020 - MARCH 2020

Period	Retail	Retail	International Raw Sugar Average Price	
	N/50KG	N/MT	US$/MT	N/MT
Jan-20	13,835	276,700	310.98	95,458.25
Feb-20	14,370	287,400	323.65	99,348
Mar-20	15,150	302,999	258.083	85,782.75
Apr-20	20,331	406,616	227.945	82,288.15
May-20	21,326	426,520	242.61	87,629.37
Jun-20	17,553	351,050	267.618	96,609.92
Jul-20	17,398	347,960	271.264	97,926.06
Aug-20	17,508	350,150	288.278	108,191.94
Sep-20	18,348	366,950	281,283	106,887.35
Oct-20	18,677	373,546	301.594	114,907.31
Nov-20	18,998	379,950	312.69	118,822.20
Dec-20	19,110	382,200	306.287	116,388.93
Jan-21	19,110	382,200	313	119,054.95
Feb-21	19,305	386,100	358.373	136,181.55
Mar-21	18,895	377,400	343.83	130,655.15

**Source (State): Lagos, Kano, Abuja, Adamawa, Kwara.*

**Sugar (Brand): Dangote, Golden Sugar Company, BUA.*

**USD Currency Conversion: CBN Rate, Average for the Month.*

Source: NSDC, International Sugar Organization Market Report, Proshare Research, Ecographics

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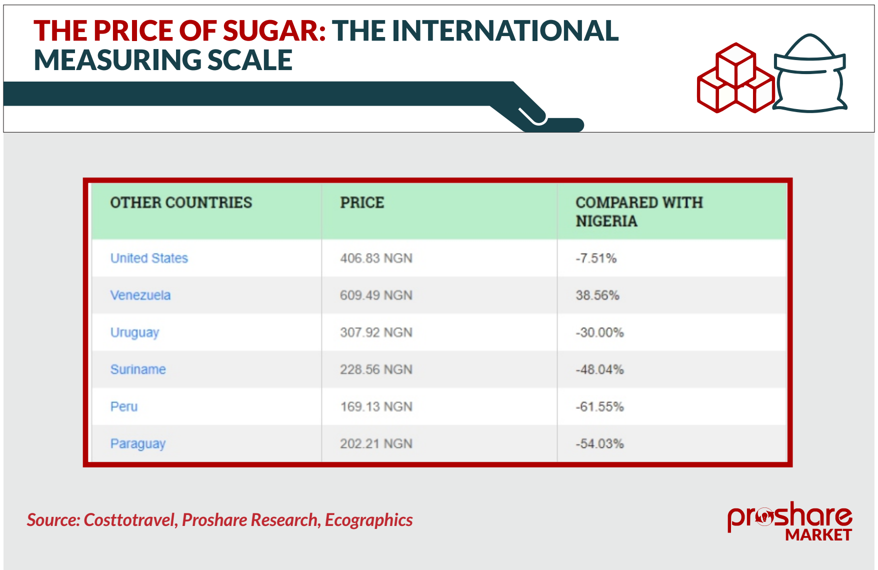
The price of sugar in Nigeria is higher than most Latin American countries except Venezuela (currently in the grips of a crippling economic crisis caused by the United States of America's trade sanctions and COVID-19-induced disruptions) and reflects the fact that the national sugar masterplan initiated in 2013 and which targeted a ten-year horizon for sugar self-sufficiency has become unstuck (*see table below*).

Table 2

*Table 2: **The Price of Sugar; The international Measuring Scale***



THE PRICE OF SUGAR: THE INTERNATIONAL MEASURING SCALE

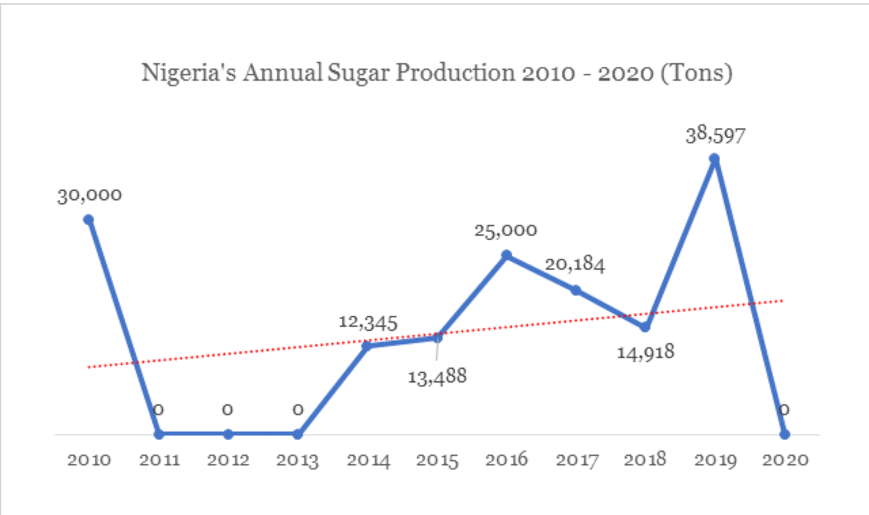
OTHER COUNTRIES	PRICE	COMPARED WITH NIGERIA
United States	406.83 NGN	-7.51%
Venezuela	609.49 NGN	38.56%
Uruguay	307.92 NGN	-30.00%
Suriname	228.56 NGN	-48.04%
Peru	169.13 NGN	-61.55%
Paraguay	202.21 NGN	-54.03%

Source: Costtotravel, Proshare Research, Ecographics

Indeed, barely two years away from 2023 the sugar production situation in Nigeria in 2021 is unimpressive. The master plan projected the country's sugar consumption to be roughly 1.75m tonnes in 2020 and production to be roughly 1.797m tonnes in the same year. The plan equally projected that by 2020 the country's sugar import would have evaporated to zero. Unfortunately what went up in mist was confidence in the country's domestic sugar vision (*see chart below*).

"Indeed, barely two years away from 2023 the sugar production situation in Nigeria in 2021 is unimpressive."

*Chart 5: **Nigeria's Annual Sugar Production 2010 - 2020 (Tons)***



Source: NSDC, Proshare Research

NB:

2020 Crushing season is still ongoing; and Consumption is taken as the simple addition of yearly production and importation, although there are ending stocks that are not captured. (as stated by NSDC).

Nigeria's sugar production over the last ten years has trended upwards but with large variability with some years being largely more productive than others. However, none of the years over the last decade has produced anything close to the expected production output of Nigeria's Sugar Council's planned backward integration programme (BIP). Annual production between 2010 and 2020 has been in tens of thousands rather than hundreds of thousands which would have led to millions of tonnes in both 2019 (1.5m) and 2020 (1.797m). All players in the manufacturing ecosystem washed out over the decade necessitating the NSDC to take a new look at the plan to do the following:

- Identify the reasons for the low domestic production of sugar despite rising domestic consumption.
- Independently establish the amount of investment in the sector by each local sugar manufacturer.
- Determine the investment gaps in the sector.
- Review the National Sugar Master Plan (NSMP) and its recommended policies.
- Adopt a fresh 'sunset' period for meeting the sugar self-sufficiency target and put in place punitive measures for manufacturers unable to meet expected milestone production goals.
- Review sugar sector financing, costing, and pricing.
- Publish a review of the state of the sugar industry in Nigeria and a revised NSMP with a milestone-based implementation roadmap.

Matters Arising-The Competition Playbook and FCCPC's Missing Actions

"There are not more than five musical notes, yet the combinations of these five give rise to more melodies than can ever be heard. There are not more than five primary colors, yet in combination, they produce more hues than can ever been seen. There are not more than five cardinal tastes, yet combinations of them yield more flavors than can ever be tasted." – **Sun Tzu**

The previous section reviewed the data available on sugar production and consumption in the country which confirms the country's huge dependence on importation despite the gradual rise in domestic production. This is of particular concern since the import concessions are expected to end in 2023. The Dangote, Flour Mills, and BUA dust-up appears to be more a matter of product market structure and competitiveness than national policy interest, but surprisingly, the Federal Competition and Consumer Protection Council (FCCPC) has not thrown its hat into the ring to review the domestic sugar market structure and pricing of the commodity in the local Nigerian market and assess local production against planned import substitution targets.

> *"Indeed, barely two years away from 2023 the sugar production situation in Nigeria in 2021 is unimpressive."*

The difference between nations that do well and those that just get by or even decline is the strength of institutional or oversight bodies, the integrity these agencies bring to play in market promotion, and the proactiveness of these public agencies in translating plans into actionable programmes and delivered results. In countries where governance structures are weak and ineffective, economic challenges such as corruption, market gaming, and rent-seeking become public strategy-destroying liabilities.

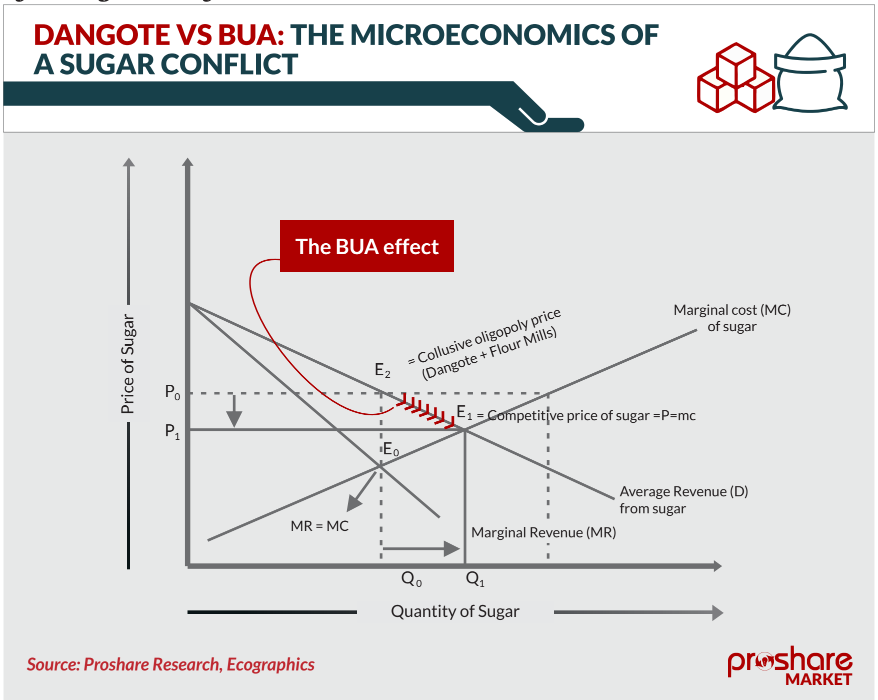
For example, even in bureaucratic China, the high public sector governance standards and tight oversight over private sector activities have driven the country's growth and development regardless of transactional corruption typically associated with the country's political elites. This contrasts with what economic analysts see in places like Nigeria where Public sector oversight of private sector enterprises has broadly been limp, reactive, and choked by the corruption of an extractive nature with public officers taxing businesspersons and transferring the money abroad for conspicuous consumption, in sharp contrast to the progressive under-the-table Chinese model of 'heung yau' ('fragrant grease' or 'bribe') and 'guanxi' (contacts).

In her second book titled **'China's Gilded Age: the Paradox of Economic Boom and Vast Corruption'** Associate Professor of Political Science at the University of Michigan, United States of America (USA), Dr. Yuen Yuen Ang points out that China has been able to sustain economic growth despite corruption because corruption in China is transactional and growth-supporting, meaning that corruption is propelled by a vision of corporate and business growth in contrast to countries like Nigeria where corruption feeds a notion of elite decadence involving petty bribery, official skimming and the airfreighting of foreign currency to favourite offshore havens of public officers. This primitive accumulation of wealth by emerging market public officials weakens the market economy and hurts sustained growth. The eye closing habit of oversight institutions to systemic manipulation by private entrepreneurs in 'soft state' economies needs closer attention if such countries are to grow more inclusively and at faster rates.

Institutions like Nigeria's FCCPC need to be proactive, assertive, and dispassionate to be relevant. The bust-up in the sugar market is a sign of potential competitive stress that has resulted from a new player potentially adding to the market volume and market price adjustments thereby increasing the **consumer surplus** of sugar users.

The **co-opetition** (as distinct from collusive competition) expected in the domestic sugar market is missing thereby resulting in a tight collusive oligopoly. Analysts note that Flour Mills and Dangote Industries Limited seem to have merged their trading interests in such a way as to make them vulnerable to accusations of collusive price setting, hence creating marginal and average industry revenue curves like that of a monopolist (*see illustration below*).

***Illustration 4* - Dangote vs BUA: The Microeconomics of a Sugar Conflict**



Proshare's ***TheAnalyst*** raised the fears of economic bystanders concerning industry concentration of the sugar business in Nigeria with an official of the FCCPC who requested anonymity. The officer assured Proshare that the Dangote/Flour Mills and BUA sugar disagreement was receiving the agency's attention and that the organization was carefully sifting through data and the laws governing the Nigerian Sugar Master Plan (NSMP), the Nigerian Export Processing Zone Act (NEPZA) and the Backward Integration Programme (BIP) as well as issues centred on market competition and domestic pricing of sugar.

The officer noted that the original letter of the petitioners was not addressed to the FCCPC and so it could not make public comments on the matter he, however, agreed that the broad issues touched on matters the government would require early resolution in the interest of the overall economy and the sugar industry.

When to Jaw Jaw is Better than to War War

"The supreme art of war is to subdue the enemy without fighting."
-Sun Tzu

The battle between Dangote/Flour Mills and BUA is unnecessary and an uncomfortable distraction to the serious business of preparing Nigeria's sugar industry for the competitive challenges of the African Continental Free Trade Area (AfCFTA).

The smart money move would be for all players in the business to engage in co-opetition with collaborative (rather than collusive) competition enabling partnerships, especially in the application of cutting-edge business processes and procedures to reduce costs and leverage technology to improve the different value chain linkages.

As recently as Q3 2020 the country spent N73.77bn in importing raw sugar meant for domestic refining. In a country with a sprawling savannah plain suitable for sugar production, the import bill for sugar was disturbing and represented 1.37% of total imports for the quarter.

The bickering between Dangote, Flour Mills, and BUA is best sorted out by both parties accelerating the completion of their separate BIPs and commencing aggressive domestic production of their various retail and wholesale product lines at competitive prices hence supporting intra-continental export. Giving each other blackeyes is not likely to do both parties any good other than to end up with swollen faces, medical bills, and deflated egos. The two companies and their Flour Mill tag-along need to rise to higher standards of corporate engagement, reflecting the maturity, wisdom, and temperance usually associated with both Aliko Dangote and Abdul Samad Rabiu, the fact that they are both eminent businessmen from the same Kano State with illustrious trading and manufacturing pedigree makes their recent public bruising unacceptably petty.
The big picture requires the suspension of small skirmishes and the Minister of Industry, Trade and Investment, Chief Adebayo, needs to be the distinct adult in the room or umpire on the playfield; a profitable and vibrant sugar industry in Nigeria could create

thousands of new jobs, flip forward foreign exchange earnings, and potentially bring down the retail costs of a few fast-moving consumer goods (FCMGs).

Analysts have, therefore, argued that FCCPC needs to jump into the fray, regardless of whether it was sent a copy of the letters of Dangote/Coumantaros and Rabiu to the Industry Minister and review the state of play in the sugar market to provide administrative guidance on the regulation concerning competitive practice and pricing in the sector. The FCCPC should also look at the governance of the different companies concerning their plans for meeting timelines for the BIP and the attainment of milestones of the NSMP. The Ministry, for example, should execute a sunset programme for the importation of raw sugar and impose penalties on the companies that fail to meet the targets, except where unavoidable events such as the COVID-19 pandemic occur, in which case the timelines would be adjusted and reset over a fresh timeframe.

The sugar market needs to be reworked to clear distortions and structural frailties. Nigeria is a relatively low sugar-consuming nation compared to other African countries in the North and Eastern parts of the continent, meaning that a rise in joint domestic sugar production would create an exportable surplus that would improve the economy's overall sustainability and diversity. The Industry Minister and the FCCPC need to patiently navigate frail egos and heated passions to call a detente and resolve the conflict between brothers in the best of African village square traditions.

According to China's ancient military strategy genius, Sun Tzu, the best generals are those that win battles without firing a weapon. The arsenals fired so far by Dangote and BUA have had body impact but the few aches and pains from the exchanges could be treated comfortably and if handled properly lead to a better approach to the development and growth of Nigeria's sugar sector. After all, no heavyweight boxer after losing his front teeth looks truly pretty, regardless of the size of the match-purse.

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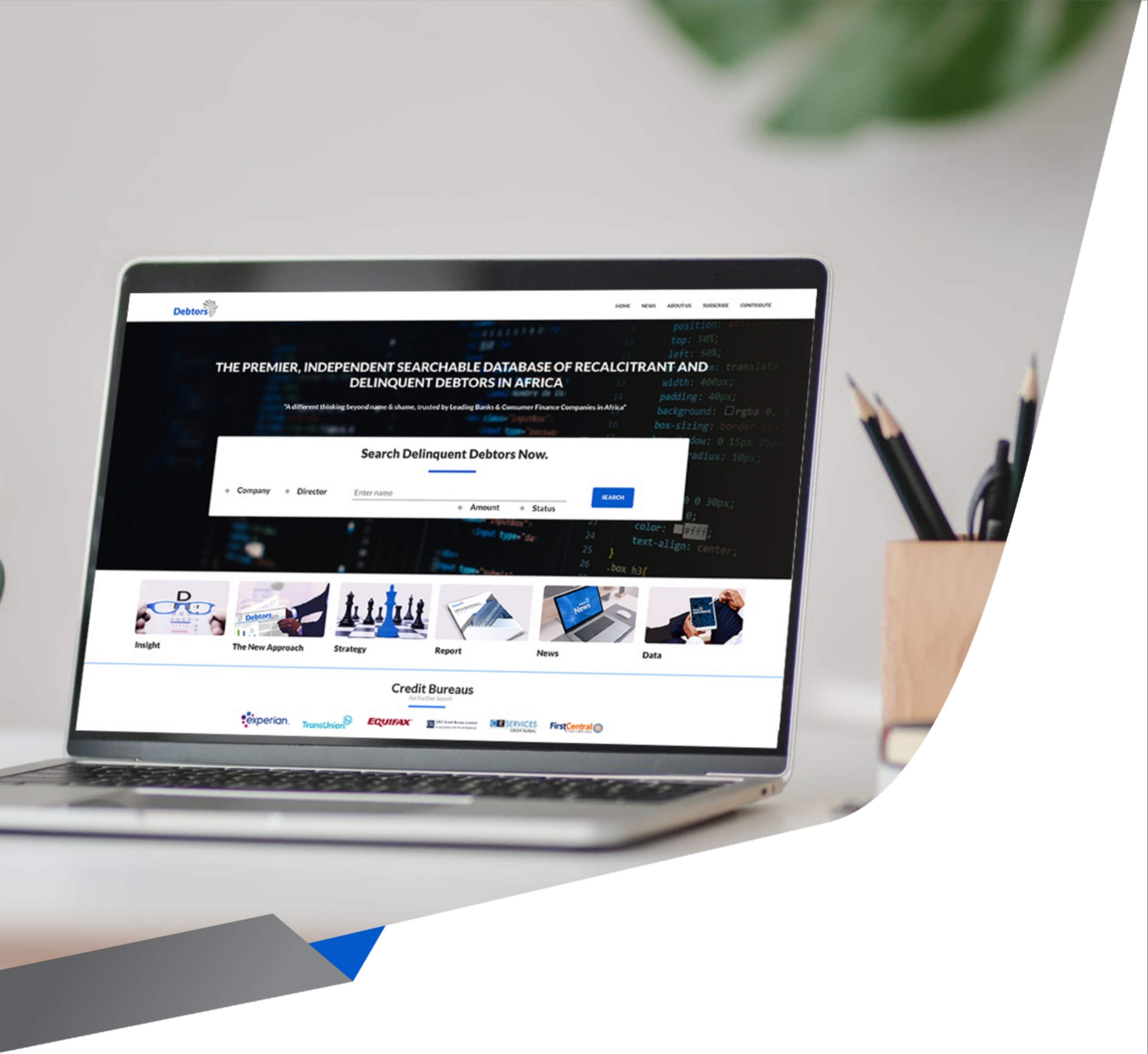

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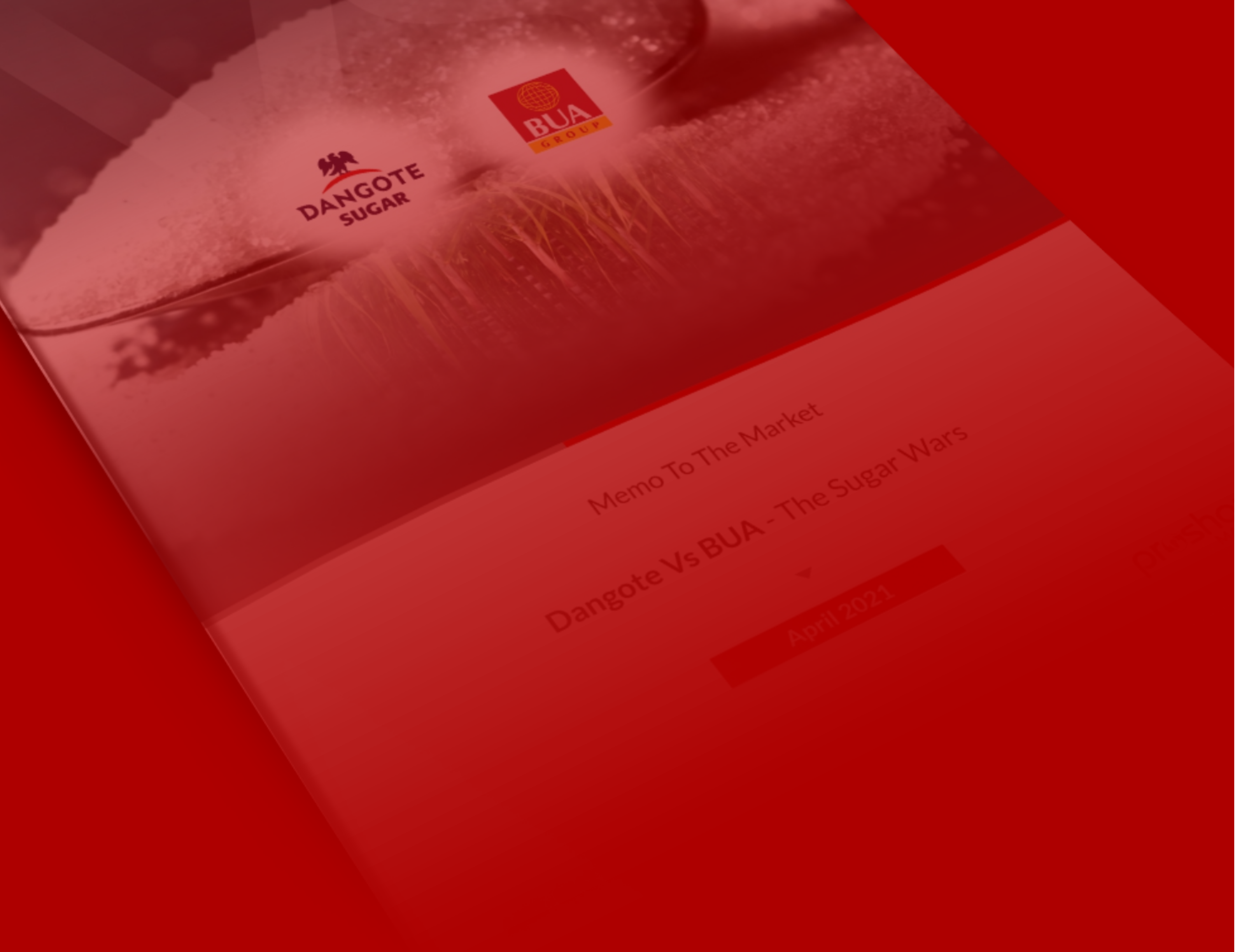
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