Nigeria: From Customs Exceptions to a Regional Trade Policy

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Nigeria stands out in the sub-region for its traditionally protectionist trade policy. This tendency, which is partly in question today, has slowed down the process of West African regional integration.

▸ This article is adapted from an article by E. Olawale Ogunkola, available online at the Inter-Réseaux website.

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Nigeria's trade policy is above all a tool to foster growth, and is framed to be consistent with the country's overall development objectives. This policy is formulated and implemented via legislation and regulation, as well as by directives issued by the federal Ministry of Finance.

Protectionism Is Losing Ground. Although Nigeria continues to use the same trade policy instruments, i.e. tariff and non-tariff barriers,[1] the combinations of the two have changed considerably over time. Export taxes in particular were progressively reduced starting in the 1970s and disappeared altogether in 1980.

Until the middle of the 1980s, Nigeria's trade policy was highly protectionist. Agricultural products, in particular grains and oils, were subject to high customs duties, between 50% and 100%, from 1978 to 1982. Quantitative import restrictions were placed on some 200 agricultural products between 1982 and 1985, and exports of nearly all agricultural foodstuffs were banned.

In 1986, Nigeria was subject to a structural adjustment programme. This marked the beginning of a progressive liberalisation of the trade regime, including agricultural trade. The process started with the setting up of a transitional regime for customs duties, a reduction in the number of products subject to an import ban (from seventy-two to seventeen product categories), and the elimination of import and export licence regimes. A new tariff schedule was then put into place for the period 1988-1994, followed by another schedule for 1995-2001. The latter schedule was finally extended to 2004.

During this period, customs duties on agricultural products also dropped, from an average rate of 37% in 1988 to 33% in 2000. The number of products subject to duty of less than 50% rose between 1988 and 2000, while the number of products subject to duty over 50% fell from 13% in 1988 to 7% in 2000. The agricultural products and foodstuffs subject to the highest tariffs are beverages and spirits (76.4%), tobacco (61.2%), grains (54.2%) and horticultural products (52.5%).

In addition, Nigeria has applied VAT at 5% (the lowest rate in the region) to domestic and imported products since 1993, and excise duty of between 20% and 40% on certain imports.

An Unpredictable and Opaque Trade Policy. Nigeria's trade policy is characterised by unpredictability, lack of transparency and the confusion created by many special regimes. Tariff schedules and lists of banned imports are revised frequently. The Nigerian customs authorities systematically assert the right to modify custom duties or to implement other ad hoc trade measures. Many special-interest groups obtain amendments from the authorities, adding to the perpetual modification of the trade regime.

This situation is likely to come to an end, however. First, because the present trade policy seeks to achieve more systematic application of the official tariffs, and second, because it is likely to be more difficult to avoid procedures that are harmonised at the regional level.

Restrictions that Fuel Informal Trade. As a member of ECOWAS, Nigeria is supposed to apply the trade liberalisation measures that took effect in 2004. Trade in products between countries in the region should therefore be entirely liberalised. This is not the case, and Nigeria's protectionist stance fosters widespread informal trade on the sub-regional scale, particularly in agricultural products.

An analysis of trade data for Benin reveals gaping discrepancies between official statistics and "mirror" statistics.[2] These discrepancies are greatest for products that are subject to import bans or high customs tariffs in Nigeria. It has also been shown that consumption of products subject to bans and/or high import tariffs in Nigeria is much higher in Benin than in Nigeria. On the face of it, per capita rice consumption in Benin appears to be very high, so high that Benin, a country with a population of fewer than 10 million people, imported as much rice as a country with a population of 130 million! Rice imports doubled in Benin between 2004 and 2006. These products subjected to restrictive measures in Nigeria only pass through Benin on the way to their final destination, Nigeria. In the case of rice, subject to a 50% customs duty in Nigeria and 8.75% in Benin, the share of Benin's import of rice classified as "in transit" increased from 79.9% to nearly 100% of total rice imports between 2004 and 2006.

The intense trade between Niger and Nigeria is based primarily on the competitive advantages of the two countries: a very large proportion of livestock raised in Niger is exported to Nigeria, and this country in turn exports grains to Niger. These flows build better food security in both countries, and particularly in Niger.

Nigeria's Discordant Policy Is Progressively Aligned with ECOWAS Policy. Today's move to regional integration in West Africa is gradually modifying Nigeria's trade policy regarding agricultural products. Specific measures in the process are the institution of a Common External Tariff (CET), the ➲

1. Tariff barriers are import and export taxes, tariff quotas, etc. Non-tariff barriers are quantitative restrictions on imports and exports such as quotas, licences, prohibited products, etc.

2. Mirror statistics are obtained by comparing the official figures of one country with those of its trade partners to verify their reliability and eventually fill in missing data.

ECOWAS Agricultural Policy (ECOWAP), and the ongoing negotiations of an Economic Partnership Agreement (EPA) between West Africa and the European Union (EU).

In 2005, Nigeria adopted an interim tariff schedule in order to align Nigeria's tariffs with the ECOWAS CET.[3] This was a difficult task for Nigeria, in that the maximum tariff allowed by the ECOWAS CET was 20%, whereas Nigerian customs duties reached 50% for some products. Nigeria pushed hard for a fifth tariff band at 50% under the ECOWAS CET. While Nigeria did not win out in on the issue of the tariff rate, a fifth band was accepted in principle.[4] The designation of products to be classed in this fifth band and the alignment of the new CET structure with the EPA process have not yet been finalised. The current tariff structure is in effect for the period 2008-2012, and comprises five tariff bands: 0% for essential goods; 5% for most raw materials; 10% for intermediate products; 20% for finished products that do not require protection; 35% for finished products that are processed locally. The latter are of strategic importance, notably in terms of customs revenue, and protection is necessary in the interest of local processors.

The results observed to date are mixed: although import tariffs in Nigeria are to a certain degree in line with the ECOWAS CET, in addition to tariffs Abuja regularly announces lists of imports that are banned to reinforce protection of the country's agriculture and industry. The return of these practices is a sign of discordant trade policy in the region, in particular between Nigeria and its neighbours. Nigeria advances several types of arguments to back its import bans: protection of domestic industry, rejection of dumping practices (especially poor-quality merchandise), security issues, sanitary and consumer health concerns, tax revenue, etc. The federal Ministry of Finance's list of banned imports, including from ECOWAS countries, currently contains twenty-seven categories of products: pork, beef, cassava and its by-products, fruit juices, water, cement, a set of seventeen pharmaceutical products, pharmaceutical waste, tyres, used car engines over ten years old, and textiles. A 2004 directive also included fresh fruit and vegetable oils among the banned products.

Towards a Regional Trade Policy. Even though it is an intra-regional process, establishing a Common External Tariff in West Africa is a prerequisite to the signature of the Economic Partnership Agreement between the EU and ECOWAS. The Nigerian position has had a strong impact on the implementation of the EPA. While neither Nigeria nor the thirteen least developed countries (LDCs) in ECOWAS had signed EPAs at the end of 2007, Ghana and Côte d'Ivoire have concluded interim EPAs.

In fact, the EPA talks aimed at regional integration have led to the application of several different tariff regimes in the region. As of January 2008, there were three regimes for trade between the EU and ECOWAS countries:

– non-reciprocal market access applied to "everything but arms" (EBA) for the thirteen LDCs in West Africa;
– the interim EPA regime for two non-LDCs, Côte d'Ivoire and Ghana, that stipulates progressive implementation of a reciprocal free-trade agreement; and
– a generalised system of preferences (GSP) regime, much less advantageous, for Nigeria.

The discordant trade policies of Nigeria and its neighbours can be better understood by analysing the factors that are determinant for Nigeria. Nigeria's need to protect its agriculture from competition with imported products goes beyond economic arguments, and touches upon food security and employment issues.

ECOWAS' current attempts to form a customs union call for not only effective elimination of trade tariffs between member countries, but also for a Common External Tariff to be applied to trade with outside countries. These measures necessitate significant reform of Nigeria's trade policy. ■

3. A single tariff schedule for all the member countries of ECOWAS.
4. The heads of state of the ECOWAS countries formally adopted the principle of a fifth tariff band at 35% in June 2009.