

Government of Nigeria

Capacity-Building in Support of Preparation of Economic Partnership Agreement (8 ACP TPS 110)

#073 Nigeria

Impact Assessment Final Report©

September 2005



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Executive Summary

Executive Summary

Background

1 Previous ACP-EU partnership accords (Yaoundé I and II, 1963-1975) and Lomé I-IV, 1975-2000) did not sufficiently address the development concerns of the ACP countries, but rather deepened their dependency on the EU. It was against that background that a new ACP-EU partnership agreement, otherwise known as the Cotonou Agreement, was signed on 23 June 2000, placing at its centre the pursuit of development and poverty eradication.

2 The cornerstone of future ACP-EU trade cooperation is the creation of Economic Partnership Agreements (EPAs), which will be based on WTO-compatible free-trade agreements between the EU and different sub-regions in the ACP; and built on existing regional cooperation initiatives. Under the Cotonou Agreement, trade liberalisation will be implemented gradually and in an asymmetrical manner, to take into consideration the different levels of socio-economic development of the two groups of partners. Furthermore, the removal of trade barriers will be made palatable through a number of measures such as: cooperation in matters such as trade in services, competition policy, intellectual property rights protection, standardisation, sanitary and phyto-sanitary measures, environment, and labour standards. Other areas that the EU wishes to be covered in the negotiations include investment promotion, competition policy, trade facilitation and government procurement (the Singapore issues), even though the ACP countries, at the WTO, had succeeded to removing all these issues (except trade facilitation) from the Doha Round.

3 The EPAs are intended to assist the integration of the ACP countries into the global economy, taking into account, on a case-by-case basis, their development priorities, paving the way for sustainable development and contributing to poverty eradication. They also intend to assist EU firms in expanding their business with the ACP, by granting them further access to the ACP markets. It is expected that EPA negotiations will be concluded by the end of 2007; and agreements would be gradually implemented between 2008 and 2020.

4 By allowing the duty free import of substantially all EU goods by the year 2020, EPAs are expected, amongst other things, to reduce the cost of imports from the EU, stimulate competitive production in ACP countries, and lead to improved access to the EU market in areas where residual restrictions remain in place. Whilst the EPAs intended to benefit the EU and all of the ACP countries, its implementation will likely have some downside impacts, referred to as "adjustment costs", for both parties. Therefore, a critical element of the introduction of any EPA is the identification by each partner of its potential adverse impacts and the measures that will need to be taken to mitigate them so that the envisaged benefits of the EPA for both parties are not undermined.

Purpose and Objectives of the Study

5 The purpose of this study is to support an informed national debate in Nigeria as it prepares its detailed positions for negotiating an EPA with the EU, in the context of the EPA for the “West Africa” ACP sub-region. It is designed, among others, to help Nigeria assess the implications of ‘reciprocity’ and to help build a national consensus on the choices that Nigeria will have to make. The overall objective is to facilitate the Government of Nigeria’s preparation for its participation in the EPA negotiations. The process was also designed to build capacity at the level of the government, the private sector and civil society, through a number of combined activities: the conduct of the impact assessment study itself, two national seminars and six regional workshops.

6 The specific objective of this study is to ascertain the overall impact/benefits of the EPA on the Nigerian economy.

Scope and Outcomes of the Study

7 The main results expected from this study are the following:

- a review of Nigeria’s socio-economic, institutional, governance, infrastructure issues from the perspective of the EPA;
- an analysis of the integration challenges facing Nigeria;
- an in-depth analysis of the impact of an EPA, and proposals to develop the supply-side capacity and to increase Nigeria’s competitiveness in the world market to address these impacts;
- development of proposals on negotiating themes, and strategy; and;
- the presentation and dissemination of the findings.

8 The principal output is an EPA sustainability study, aimed at assessing the benefits derived from the current trade and economic provisions of the EU-ACP and the appropriate adjustments that would be required in the context of the new form of relationship that is expected to develop between the ACP and the EU pursuant to the EPA Negotiations. The study should also: indicate the possible impact on Nigeria’s exports to ECOWAS Member States and in other regional markets of importance to Nigeria; identify areas with the potential for export growth that could be developed; the adjustments to be undertaken in existing sectors and industry; the capacity that will have to be developed in terms of human resource development; the measures needed to improve the country’s competitiveness and productivity; and the acquisition of new technology, leveraging both domestic and external resources. It will identify domestic constraints to investment, competitiveness and export expansion and identify new market opportunities for Nigeria in the EU.

9 The consultants have been required to:

- Carry out an assessment of Nigeria’s existing production structures by major sector, production infrastructure, levels of productivity and competitiveness,

level of human resources development, etc. and assess how these are being addressed within the current national sustainable development Poverty Reduction Strategy Paper;

- Examine the adjustments in employment, wages, prices, and other factors that could be envisaged in the current trade and economic policies, as a result of the eventual conclusion and implementation of an EPA with the EU (and the corresponding increased competitive pressures both from the EU and regional partners).
- Provide an analysis of the implications of an EPA on the regional integration processes within ECOWAS and its possible impact on Nigeria's trade with ECOWAS Member States and other countries in the wider region.
- Provide an overview of the linkage between the EPA negotiations and the multilateral negotiations under the Doha Work Programme

Methodology

The methodology of the study involved in-depth analyses of issues related to the project, combined with interviews and discussions with stakeholders^{1/}. A partial equilibrium model and a general equilibrium model were used for assessing the impact of tariff elimination on the economy under varying scenarios. In addition, a Social Accounting Matrix (SAM) Analysis was carried out to gain further insights into the impact of the EPA.

Key Results

Partial Equilibrium Model

Using a partial equilibrium model, scenarios were run to check potential impacts, which each would have on revenue loss for the government, and, through that, on the economy and society in general. Under each scenario, it was assumed that: around 80 percent of EU imports of products is immediately liberalised; tariffs on these products is removed at the beginning of the EPA implementation period in 2008; the rest of EU trade, around 20 percent of EU imports of products, that are considered sensitive, is exempted from immediate trade liberalisation; tariffs on the exempted products are gradually reduced over the period of 2008-20, from their initial value to 50 percent of their initial value. Hence, at the end of the period around 10 percent of the initial value of imports would be partially liberalised; in other words, around 10 percent of the value of trade would still be subject to tariff. The three scenarios are as follows:

- Under Scenario 1, sensitive products are selected on the basis of social criteria; the basket of sensitive products include all agricultural products plus some mineral products.

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The planned workshops at national and regional levels did not take place during the period of the study.

- Scenario 2 considers as sensitive those products that contribute most to government revenue: the basket of sensitive products (investigating at 6-digit level) includes cigarettes, some pressure reducing valves, malt extract and food preparation, plywood; an alternative basket, investigated at more detailed level (8 digit level) would include tomatoes, cigarettes again, motor cars, transmission apparatus.
- Scenario 3 considers as sensitive products those with the highest tariffs (before implementation of the CET). Under this scenario, the basket of sensitive products is large, it includes around half of the products imported from the EU.

10 The revenue effects of EPA liberalisation under these three different scenarios is summarised below:

Table1: Revenue Effects of EPA Trade Liberalisation under Different Scenarios (Million\$)

Scenario/Year	2008	2012	2016	2020
1 – Agriculture	449	407	366	324
2 – Tariff Revenue	401	366	332	296
3 – Highest Tariff	585	524	463	402
Average	478	433	387	341

11 The liberalisation of 'substantially all' products in 2008, based on these different scenarios, results in an average loss of around 42 percent of tariff revenue for the government. Given that tariff revenue accounts for around 7 percent of overall government revenue, this loss would represent around 3 percent reduction in government revenue. This reduction, though small, could have a relatively large cumulative effect on the ability of the Government manage its budget without affecting the economy and social welfare. Various policy options to compensate for this revenue loss are presented in the report.

General Equilibrium Model

12 This empirical framework enables an examination of the impact of EPA on key macroeconomic indicators, labour demand, wages, urban/rural household implications, sectoral output and employment impact, volume of trade differentiated between EU and non-EU, exchange rate, household income distributional issues and fiscal implications. Three scenarios were considered:

- The base case scenario excludes tariff reduction. This option essentially implies that Nigeria does not sign an EPA.
- The second scenario assumes that Nigeria participates in EPA but the tariff reduction on EU products is carried out in four time phases: 25 percent of the tariff is eliminated in 2008; 50 percent by 2012, 75 percent in 2016 and complete elimination by 2020.

- The third scenario assumes that import tariffs remain on agricultural imports from EU because the sector is considered a sensitive while tariffs are eliminated on non-agricultural goods from EU.

13 The results broadly support the partial equilibrium analysis and demonstrate show that tariff reductions would generally impact GDP positively and that protecting agriculture by not reducing the tariffs on EU agric imports is also GDP enhancing, following an initial period of decline. However, the household effect shows that both urban and rural poor would experience significant welfare decline for almost the first half of the period due to EPA. But, the welfare loss is reversed in the later years of the EPA duration. In the Nigerian economy, which in terms of employment is dominated by agriculture and manufacturing, one would expect that tariff elimination that exposes these less competitive sectors to more intense external competition that EPA connotes, would be adverse to rural and urban poor. However, the urban poor experience a positive income change when agriculture is protected. Sectoral output change is no different from output impact of EPA. In all scenarios, import tax revenue and total government revenues decline for most of the period. This result is obvious, given that no there was compensatory fiscal adjustment through other taxes such as VAT or income taxes.

Social Accounting Matrix (SAM) Analysis

14 Macroeconomic and social effects of such an expenditure reduction were further investigated using SAM as a policy tool.

15 Results generated suggest that, at least in the short run, if alternatives were not found to compensate for the loss in government revenue because of the EPA, government expenditure would have to be reduced. Largely, irrespective of where this expenditure reduction is imposed on the economy, this would have implications in terms of losses in sectoral output as well as increased poverty/hardship and welfare loss. The analysis remains valid for whatever assumptions one makes regarding the schedule of the EPA.

Guiding Principles for EPA Negotiations

16 The EPA is going to pose a major challenge to the Government of Nigeria. It remains uncertain that the EPA will entail an actual increase in market access beyond that currently enjoyed by Nigeria. What is sure is that unless the supply-side constraints are addressed, economic development will continue to remain below its potential, irrespective of whether the EPA is in place or not. There is an urgent need to address these constraints and make the economy more competitive. If it is going to embark on the EPA negotiation and considering Nigeria's low level of development and its related vulnerability to external shocks, the country will need a transitional phase, with proper timing and sequencing of tariff reductions and the phasing in of the complementary reforms and adjustments required.

17 Before embarking on EPA negotiations, Nigerian officials should prepare position briefs based on Nigeria's interests and objectives in each of the areas of negotiations. The country's position must be knowledge-based and championed by technically competent experts in the requisite areas under negotiation.

18 The following principles should guide Nigeria's EPA negotiations.

Decision-Making Space

19 As stated in the Cotonou Agreement, the EPA is a development-oriented project. An important guiding principle for Nigeria's negotiators should therefore be to ensure the utmost independence and decision-making space by avoiding locking critical elements of the agreements into external aid packages. The critical precondition here is a sound supply-side infrastructure.

Instrument for Development

20 For EPA to be an instrument of development, as stated in the Cotonou agreement, poverty eradication must be the primary goal of Nigeria's negotiations. Furthermore, the negotiators should ensure that the country receives non-reciprocal and differential treatment; that the EU does not demand liberalisation in sectors where it has not liberalised, or that are beyond WTO agreements; and that EPAs do not neutralise the potency of existing ACP regional integration processes and schemes.

Regional Integration Processes

21 In order to prevent the EPA from taking precedence over, or undermining, the ECOWAS integration scheme, the EPA must be based on, and reinforce, the ECOWAS integration programme.

WTO Compatibility

22 The EPA must be compatible with WTO evolving rules and principles in particular in the context of the Doha Development Agenda.

Preservation of the Lomé and Cotonou Acquis

23 The EPA should preserve and even improve the current ACP preferences into the EU market. For Nigerian negotiators, the objective should be to ensure that following the EPA negotiations the country's situation has not degraded.

Special and Differential Treatment

24 In line with the agreement that special and differential treatment should be provided to all ACP states under EPAs, the rights and privileges of Nigeria, and the need to take into account its specific circumstances and vulnerabilities should be mainstreamed into the negotiations.

Sustainability and Legitimacy

25 To prevent issues of legitimacy becoming a major obstacle, it should be demonstrated to all stakeholders that the EPA will effectively contribute to the sustainable development of Nigeria. All stakeholders should be sensitised, and made to assume ownership of the process, without which the negotiation would not be successfully conducted in Nigeria's interest.

Cost-Benefit Analysis

26 As this study has shown, there is no doubt that the EPA will have significant implications for the socio-economic and political sectors of the Nigerian society. The positive impacts of EPAs need to be maximised and their adjustment costs minimised so that their implementation is sustainable. The EPA's sustainability should specifically be assessed with respect to:

- its expected adjustment costs;
- its socio-economic and political implications;
- its institutional and human resource capacities; and
- the socio-economic stability of the country.

27 In assessing costs and benefits, it is important that they are considered for short, intermediate and long term. In the short term, costs are likely to far exceed the benefits; the analysis and results based on SAM show these clearly. Over the intermediate to the long run, through effects that EPA may have on increased growth and productivity, potentials for substantial benefits exists provided that in conjunction with EPA, institutional and governance issues that Nigeria is facing with are tackled.

28 In addition, EPAs should result in trade-creation and not trade-diversion, to avoid any welfare loss. EPAs should also take into account possible polarisation effects and devise measures necessary to counter them.

Proposed Approach to Negotiations

29 Over the next three years of negotiations, Nigeria's negotiating briefs should have the following objectives in mind: contribute to development and poverty-reduction; expedite the regional integration process within ECOWAS region; improve EBA market access by addressing related TBT and NTBT issues; and increase productivity and competitiveness of Nigerian producers.

30 Nigeria's negotiations must prepare for and focus on certain critical areas:

Non-Reciprocity

31 The EPA negotiations will fundamentally alter the trade relationship between the EU and the ACP. In particular, the ACP group, which used to be the most preferred trading partner of the EU, will be moving from non-reciprocal preferential access to reciprocal trading arrangements with the EU. Because of slow progress at the WTO, the EU would not likely guarantee to offer the ACP states consideration of their development status in these new Partnership Agreements.

32 In the negotiation, however, it is in the interest of Nigeria to seek maximum positive discrimination in its favour. This proposition is plausible, especially in view of the fact that Nigeria will be negotiating the EPA in the group of ECOWAS countries, which would constitute a united front on the matter.

33 Nevertheless, Nigeria has to take into consideration the inevitable general trend in the reduction of tariffs worldwide. In the long term, by keeping bans and high tariffs, it would isolate itself. It should therefore plan a progressive decrease in its tariffs and progressive removal of bans. The strategic way to become more

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competitive is to concentrate efforts of productive sectors towards reaching first the internal market, then the regional market, and then the larger African market. The EU should be the last market that Nigeria should try to reach, as it will always be difficult for it to compete with other countries that are more closely located to the EU. The EU is too far away from Nigeria to represent a lucrative market for Nigeria, at this stage.

Reducing High Tariffs

34 Nigeria still has some high tariffs and other restrictions on trade^{2/}. Granting preferential access to the EU while maintaining high MFN tariffs is likely to displace efficient sources of supply and induce losses in tariff revenues that result in trade and income losses rather than gains for Nigeria. An EPA that would ratify and consolidate high levels of protection in Nigeria would entail severe risks and would likely be counterproductive. These risks could be attenuated if the preferential margin granted to EU imports is limited to no more than 5 percent; and maximum MFN tariff rates lowered to 15 percent while tariffs on imports from the EU are reduced.

Offsetting Revenue Losses

35 Nigeria derives some 7 percent of its revenues from import tariffs. Since the EU is a major source of these imports, there is a need for adjustments to offset the losses, as calculated under the different possible scenarios. We strongly advocate that such revenue losses be not compensated by more European aid, as it might be interpreted as a form of charity on the part of the EU, which Nigeria does not need, and it would weaken the Nigerian position in its negotiation with the EU. Therefore, offsetting revenue losses, in the first place, should be a task of the Government, for which, as already developed in this report, it has a number of tools at its disposal.

Market Access

36 In order to ensure that market access for exports from Nigeria is improved, the country's negotiators must insist on the removal of remaining subsidies, tariffs and quantitative restrictions currently protecting European producers.

37 The rules of origin applied by the EU on exports of interest to Nigeria must be simplified. In this regard, it is of paramount importance that Nigeria should seek to obtain full cummulation with the rest of the ACP group. Similarly, Nigeria should negotiate the use and application of EU standards, in particular sanitary and phyto-sanitary measures, must be simplified.

Agriculture

38 The removal of the extensive support to EU farmers and their products in the form of export subsidies within the Common Agricultural Policy of the EU should form part of the negotiations in so far as they have the greatest bearing on the market-access arrangements established for ACP agricultural exports.

39 Within the negotiations, a strong case should be made for establishing a structured ACP-ECOWAS dialogue aimed at addressing the challenges posed by the

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See the current list of banned products.

stricter EU SPS standards in particular. The economic costs associated with meeting higher hygiene standards could, if not appropriately and quickly attended to, constitute an important trade barrier.

40 Nigeria has the right to declare specific agricultural products vital for its food security, livelihood and rural development as “special products”. Such products should be free from any obligation in future EPAs.

Non-Agricultural Products

41 In view of the importance of tariffs as an industrial and trade policy tool, the country’s position in this area should be to put forth the issues of tariff peaks and escalation for processed products in EU markets since these effectively impede value addition in Nigeria. The case will have to be made that without industrial structure, export diversification and value addition across the key economic sectors of the country, the EPA will not live up to its goal of supporting the sustainable development of Nigeria and its partner countries. Thus, the negotiations should be approached with the aim of obtaining asymmetric reciprocity in favour of ECOWAS countries. The ultimate goal is the provision by the EU of duty and quota free market access for all manufactured products not less favourable than those already granted by the EBA. For these benefits to be effectively enjoyed by Nigerian producers, harmonised, flexible and simplified rules of origin need to be granted by the EU.

Trade in Services

42 The negotiations in this area should specifically build on the on-going discussions and the commitments made at the WTO level, whilst ensuring that the objectives and principles of the Cotonou Agreement – putting as a priority the special development needs of Nigeria - be taken into consideration. The negotiation brief in this area should seek to arrive at the EPA on Trade in Services that supports the growth of the service sectors, including tourism, free movement of natural persons, insurance, and shipping. Taking into account special and differential treatment, the EPA negotiations should recognise the right of Nigeria and other ECOWAS countries to regulate trade in services.

43 Nigeria should also try to draw lessons from the prodigious development of trade in services that has occurred in other third world countries, thanks to liberalisation. See the amazing example of the development of the Distant Call Services sector in India; infinite opportunities are open to Nigeria in the service sector, if Nigeria exploits its competitive advantage of lower cost of labour than in developed countries. As part of the EPA deal, why not conclude commercial agreements for the transfer of part of services carried out in Europe, at high costs, to Nigeria (and other countries taking part in the EPA).

Other Trade-related Issues (Singapore issues)

44 The Cotonou Agreement acknowledges that capacity of ACP countries to handle most of these issues (investment promotion, competition policy, trade facilitation and government procurement) during negotiations and implementation is limited. Nigeria and other ECOWAS countries should therefore continue to reject the negotiation of these issues in the EPA, as they will definitely impede their development.



1 | **Establishing the Baseline**

1 | Establishing the Baseline

Background to Economic Partnership Agreements

1 The purpose of this study is to support an informed national debate in Nigeria as it prepares its detailed positions for negotiating the Economic Partnership Agreements (EPA) with the European Union (EU). It is designed, among others, to help Nigeria assess the implications of 'reciprocity' and to build a national consensus on the choices that Nigeria will have to make^{1/}.

2 In 2000, the Cotonou Agreement committed signatories to replace by 2008 the trade regime that had governed exports from the ACP group to the EU for the last quarter of the twentieth century. Negotiations on a successor regime began formally in 2002. In the past year, these discussions have begun to address the structure and content of EPAs, and there is a great deal of work yet to be done if a new, coherent and developmentally positive regime is to be in place by the end of 2007. All ACP states, including Nigeria, have to prepare positions on:

- their 'offensive' agenda: what they seek from the EU; and
- their 'defensive' position': how they should respond to EU requests.

3 These preparations are needed even by least developed countries (LDCs) which will continue to have access to the EU market under the 'Everything but Arms' (EBA) provisions regardless of what happens to Cotonou. EBA gives these countries a 'safety net' – but without preparation of their 'first best' offensive and defensive positions they cannot know whether they should use it, or could do better by entering an EPA. Nigeria is not classified among LDCs – in spite of being effectively one of the least developed countries in the world, it has oil, which influences the statistics and classifications of countries. However, Nigeria is expected to negotiate jointly with LDCs and must take into considerations LDC strategies regarding EPA negotiations. In the EPA negotiation process, Nigeria will participate as part of the sub-ACP West Africa Region, which includes Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone and Togo.

4 Under Lomé and Cotonou, ACP countries were required to treat the EU no less favourably than any other industrialised trade partner. In contrast, the EPAs will offer duty-free access for 'substantially all' EU exports to the ACP. In other words, ACP members are expected to offer 'reciprocity'. This has been the focus of most discussion so far.

5 The EU has expressed the view that EPAs are required partly in order to justify continuation of preferences for ACP exporters within the World Trade Organisation (WTO). To achieve this, EPAs must be framed in such a way as to fulfil

^{1/} See Dr C. Stevens and J. Kennan, Preparing for EPAs. Trade Analysis Handbook, IDS, May 2005.

the requirements of GATT Article XXIV in relation to goods and the analogous GATS Article V in relation to services. These are the WTO provisions that allow members to discriminate in favour of each other (and, hence, against others) provided they are creating a customs union or Free Trade Area (FTA). Because they would involve reciprocal tariff cuts, the EU claims that EPAs would pass the Article XXIV test. This, it argues, will allow Europe to continue discriminating in favour of the ACP in its trade policy. In return, the ACP will have to discriminate in favour of the EU in their trade policy. A thorough knowledge of WTO requirements is important. They set the standards that EPAs must reach and, hence, establish parameters for what is negotiable. EPAs will not achieve the aim of providing a WTO defence for the EU's preferences towards the ACP if they do not meet the requirements of Article XXIV.

6 The formal requirements for an agreement to be treated as a FTA are straightforward, but in practice this is not so clear-cut. This is because Article XXIV is vague — by design rather than by accident, because members have been unwilling to restrict themselves through a more precise formulation. One salient requirement of Article XXIV is that the FTA must be completed 'within a reasonable length of time' (defined in the WTO as a period that 'should exceed ten years only in exceptional cases'). Another is that 'duties and other restrictive regulations of commerce ... are eliminated on substantially all the trade between the constituent territories'^{2/}. There is a similar difference between the formal requirements for legitimising any proposed regime and actual practice. The formal hurdle for approving an agreement as being in conformity with Article XXIV is high. The agreement must have the universal support of members because of the WTO practice of requiring a consensus for decisions. To date however, failure to achieve a consensus has not proved to be a barrier to those countries wishing to create a FTA.

7 The first step is for the parties to the agreement to notify the WTO following signature of a FTA. Such notification will be followed by the referral of the FTA to the WTO Committee on Regional Agreements (CRTA) for consideration. Membership of the CRTA is open to any country that feels it to be in its interests to belong. In theory the CRTA will produce a report on the compliance, or otherwise, of the FTA with Article XXIV for adoption by consensus of the WTO membership. In practice, definitive verdicts on whether or not a specific agreement complies with Article XXIV are rarely given. This does not mean that countries can sign up to anything and just call it a FTA. In the absence of clear guidance from the Committee, it would still be open to any WTO member to file a complaint under the dispute settlement mechanism. In other words, approval or disapproval of an EPA is likely to happen by default. Unless a WTO member challenges it on the ground that it does not comply with Article XXIV, WTO compatibility will never be tested.

8 In case a challenge is made, it is important that the requirements of Article XXIV be taken seriously in structuring any EPAs. However, it is difficult to be sure what this means for the structure of EPAs in the absence of either CRTA verdicts or 'case law' from dispute settlement. Some guidance on what the EU will push is available from the EU–South Africa Agreement on Trade, Development and Co-operation (TDCA). The EU has stated consistently in GATT/WTO committees that it believes the Article XXIV requirement that a FTA must cover 'substantially all' trade

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GATT 1947: Part 3, Article XXIV, paras 5(c) and 8(b); WTO 1995: 32.

can be fulfilled if both parties reduce to zero tariffs on products that account for 90 percent on average of the current trade between them. It has also indicated that it believes this average figure can be achieved asymmetrically, with the EU liberalising on more than 90 percent and its partners less. In the specific case of the EU–South Africa TDCA, South Africa has liberalised products accounting for 86 percent of its imports from the EU while Europe has liberalised on 94 percent. The agreement also indicates that the EU believes the Article XXIV requirement that liberalisation occurs ‘within a reasonable period of time’ can be achieved through a transitional period of up to 12 years.

Nigeria-EU Trade and Economic Cooperation

9 The Cotonou Agreement sees the effects of trade cooperation and development aid as mutually reinforcing.

The European Development Fund (EDF)

10 With respect to financial cooperation, the European Development Fund (EDF) resources available are channelled through two instruments. The first instrument is one single grant envelope of 10 billion euros for support of long-term development from which each ACP country, or region gets an indication of one lump sum of resources. In addition, there is an allocation of 1.3 billion euros for regional cooperation and integration. With this, ACP countries cover some expenses pertaining to measures directed at achieving regional cooperation and integration, for example, regional seminars, workshops and cross-border investment and trade initiatives.

11 The second instrument is an Investment Facility (IF), which replaces the Lomé IV risk capital and interest-rate subsidy facilities. The IF is managed by the European Investment Bank (EIB) and has been set up through the deployment of 2,200 million euros from the 9th EDF. It functions as a revolving fund and the returns accruing from its operations flow back to the Facility. Loans and risk capital, in principle, are granted on market-related terms, but some concessions are granted for operations that fulfil special criteria.

12 The 9th EDF covers the period 2000-2005 and amounts to 13.5 billion euros, divided between three envelopes of cooperation as follows:

- Long-term envelope (National Indicative Programmes (NIPs): 10 billion euros
- Regional envelope (Regional Indicative Programmes (RIPs): 1.3 billion euros
- Investment Facility (Private Sector): 2.2 billion euros

13 The remaining balances (about 9.9 billion euros) from previous EDFs, i.e. funds not drawn down, are added to this total sum of 13.5 billion euros. In addition, the EIB makes available up to 1.7 billion euros from its own resources from risk capital operations, bringing the aggregate volume of financial resources available to the ACP group under the 9th EDF to 25.1 billion euros.

Nigeria-EU Cooperation

14 In their negotiations with the European Economic Community since joining the ACP countries in 1975, Nigerian exporters have not taken sufficient advantage of

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the opportunities available in the market of the EU countries. Meanwhile, non-signatories to the ACP agreements (Lomé I to IV), in particular, some Asian countries, have gained remarkable entry into the huge market of the EU, notwithstanding the fact that their products were not given preferential treatment in the market.

15 Cooperation between the EC and Nigeria aims to assist in the country's economic, political and social development. In the political area, the EC and the EU member states play a prominent role in helping democratic rule in Nigeria to strengthen and flourish. On trade matters, regular dialogue with Nigeria, the region's trading giant, is critical. Other issues of common concern, including such diverse issues as terrorism, migration and HIV/AIDS, are also subject of regular cooperation with the relevant Nigerian bodies. Nevertheless, it is in development cooperation, with the overall aim of poverty reduction, that EC-Nigerian cooperation is most visible^{3/}.

16 The EU, through the EDF and other sources, has a sum of approximately €650 million (115 billion Naira) available for Nigeria in development funding, over the period 2002-2007, more than for any other ACP country. This reflects the importance the EU attaches to Nigeria, its potential both as Africa's most populous country, and as a key actor in the economic and social development and security of West Africa.

17 The strategy signed in 2002 reflects the unique challenges of Nigerian development. Large funds are available to the Nigerian government, mainly from oil, funding from all donors amounting to about 2-3 percent of government's revenues. However, as this study relates, in the past government programmes failed to translate them into effective services to the Nigerian people, such as schools, healthcare, water supply, roads. Today there is an unprecedented chance to change this, because of the government commitment to reform and the fight against corruption. The agreed EC-Nigeria strategy supports these changes, by concentrating on supporting Nigeria's efforts to use its own funding better, rather than organising stand-alone projects isolated from Nigerian structures.

18 Unfortunately, Nigeria has not taken sufficient advantage of the development finance available to ACP countries in the area of economic cooperation. For example, since 1995, some 850 million euros available to Nigeria, under the 7th and 8th EDF, had been frozen because they were not utilised. With respect to the private sector, there are opportunities in the EU, which Nigeria's organised private sector should be aware of and endeavour to exploit. For example, there are four different facilities of assistance for private sector organisations^{4/}.

19 In summary, the EU is thus more than just a huge market that can be penetrated by Nigeria and other ACP countries; it is now the largest single aid donor from where tremendous opportunities exist for poor countries like Nigeria to develop beneficial linkages. The challenge is for them to construct creative means to exploit those opportunities.

^{3/} See: EC-Nigeria Cooperation: Working together to reduce poverty, 2005.

^{4/} See Alaba Ogunsanwo, "Trade and Cooperation: The Case of Nigeria", Mimeo, 2002.

Focus of the EPA Negotiations

20 After the adoption of the roadmap in August 2004 for the implementation of the EPA for West Africa, there have been three technical meetings and one senior officials' meeting in early February 2005. Following these, the agreed focus of 2005 negotiations is on regional economic integration.

21 With the focus of negotiations in 2005 on regional economic integration, five thematic technical groups have been established to examine: regional markets (free-trade area, customs union and trade facilitation); technical and Sanitary and Phyto-Sanitary (SPS) standards, services and investment; other trade related issues; and to conduct the analysis of productive sectors. The first two groups had their initial meetings in March 2005, and are now working on a joint report. The other groups are about to start now. The study team was not associated with these work groups, which work at regional, not country level^{5/} - and therefore did not benefit from any of their inputs. A ministerial meeting will be held in October 2005 to take stock and prepare the next phase^{6/}.

The Present Study

22 This study is part of a larger project called "Capacity Building in Support of EPA, Nigeria" that targets various segments of Nigerian society, referred to as stakeholders. Capacity building in support of EPA is in two directions: first, a series of seminars and workshops targeted at the stakeholders, second, the present impact study that ascertains the overall impacts/benefits of the EPA on the socio-economic sectors of the Nigerian economy. The two are mutually supportive: the seminars and workshops serve as a platform for consultation and dialogue, the aim being the appropriation, by the stakeholders, of the logic and results of the study. These have not taken place and the Consultant proceeded with the study without the benefit of stakeholder interaction, although the Consultant participated in other workshops^{7/}, independently from the present project.

23 This study on EPA and Nigeria is important for several reasons. First, Nigeria, with a current population of approximately 130 million people, is the most populous country in ECOWAS and the African continent. Second, it is the largest economy in the West African region, and next to South Africa in Sub-Saharan Africa. Third, it is the largest importer of EU goods and services in the region. Fourth, it is the largest exporter of crude oil to the EU. Since the EPA is to have a development-oriented dimension, its usefulness, from the ECOWAS perspective, links to its ability to energise economic and social development in the sub-region. EPA and other free trade initiatives encompass strategic economic and trade considerations. They involve a good understanding of the political economy of the world trading system. For ECOWAS to have greater bargaining power in strategic economic and trade relations, vis-à-vis the EU and the rest of the world, Nigeria, as the dominant regional

^{5/} This was the reason given by ECOWAS not to wish to establish links between the Nigeria EPA study team and the West Africa / ECOWAS EPA working groups.

^{6/} Source: EPA NEWSLETTER N°7, Brussels, May 2005.

^{7/} For example: Nigerian Trade Network (NTN), in collaboration with Oxfam GB. *Consultation on the National Trade Policy*, 20-22 April, 2005, Gubabi Hotel, Abuja.

economic and political power, must assume its proper role as an active player in these processes.

Project Objectives

24 The overall objective of this project is to facilitate the preparation of the Government of Nigeria for its effective participation in the EPA negotiations and to build capacity at the level of the government, the private sector and civil society. The specific objective of the study is to ascertain the overall impact/benefits of the EPA on the socio-economic sectors of the Nigerian economy. This is to be done through the following activities: conduct of an impact assessment study, two national seminars and six regional workshops^{8/}.

Expected Outputs

25 The main results expected from the study are the following:

- Nigeria's background put in perspective^{9/} (in the context of the study);
- the challenges facing Nigeria because of the integration process analysed;
- following an in-depth sector analysis, proposals to develop the supply-side capacity and increase Nigeria's competitiveness in the world market;
- proposals to the Nigerian Government, on negotiating themes and issues; and
- results presented and disseminated.

Main Tasks

26 The Consultant was required, *inter alia*, to:

- Carry out an assessment of Nigeria's existing production structures by major sector, production infrastructure, levels of productivity and competitiveness, level of human resources development, etc. and assess how these are being addressed within the current national sustainable development Poverty Reduction Strategy Paper.
- Examine the adjustments (e.g. in employment, wages, prices, etc.) that could be envisaged in the current trade and economic policies, because of the conclusion and implementation of an EPA with the EU (and the corresponding increased competitive pressures from both the EU and regional partners).

^{8/} Under the present contract, the project team was supposed to participate in the two national seminars and possibly in the regional workshops, but it would not be involved in their preparation or organisation, as these are the subject of a separate contract.

^{9/} This covers socio-economic, institutional, governance, infrastructure issues.

- Provide an analysis of the implications of an EPA on the regional integration processes within ECOWAS and its possible impact on Nigeria's trade with ECOWAS Member States and other countries in the wider region.
- Provide an overview of the linkage between the EPA negotiations and the multilateral negotiations under the Doha Work Programme (sector analysis, e.g. looking at agriculture in the WTO and an EPA, services, intellectual property rights, competition, rules of origin).

Methodology

The present study presents a number of simulations of the impacts of the EPA for Nigeria. The Consultant had to take into consideration, in elaborating the scenarios, the constraints imposed by article XXIV that an FTA must cover 'substantially all' trade. Initially, the partial equilibrium model was used to conduct three scenarios:

- Scenario 1: Immediate complete tariff liberalisation
- Scenario 2: Minimising Competitive Effects on Domestic Industries
- Scenario 3: Minimising the Effect on Government Revenue.

27 The first scenario (full immediate liberalisation) was inspired from the HWWA EPA study "The Impact of the ACP/EU Economic Partnership Agreements on ECOWAS countries; an Empirical Analysis of the Trade and Budget Aspects", July 2004. The HWWA EPA study was conducted using data at 4-digit level because it is the one most used by ECOWAS to conduct its works and statistics on ECOWAS trade. We updated the exercise conducted by the HWWA EPA study on Nigeria, using 2003 data instead of initial 2000 data, kept all hypotheses of the HWWA EPA study unchanged, and provided the results. We followed the same method as used by the EPA impact study for Gambia, to which we had full access. In the HWWA EPA study, (led with financial and intellectual means far beyond the present study), it was written: "We have assumed a complete tariff liberalisation at the time of the base year and focused on the final stage of trade barrier elimination instead of calculating the effects at each stage. Thus, our figures are likely to be upper bound estimates of the static trade and budget effects, depending on how many products will be excluded from the agreement".

28 In this final report, scenario 1 has been removed, since, as rightly observed by the reviewers, it will certainly not happen. Scenarios 2 and 3 were conducted at the four-digit level, the most detailed for which we had tariffs. The results are in Annex 1, including explanations on their limitations.

Scenarios used with the General Equilibrium Model

29 Regarding the general equilibrium model, three scenarios were considered in this analysis. At a minimum, the general equilibrium model provides an upper boundary on the economy-wide effects of the EPA. The base case scenario excludes tariff reduction. This option essentially implies that Nigeria does not participate in EPA. The second scenario assumes that Nigeria participates in EPA but the tariff reduction on EU products is carried out in four time phases: 25 percent of the tariff is eliminated in 2008; 50 percent reduction by 2012 and 75 percent in 2016. By 2020 there will be 100 percent elimination of tariff on imports from EU. The third scenario

assumes that import tariff remains on agricultural imports from EU because the sector is considered a sensitive sector (for food security purposes), while tariff is eliminated on non-agricultural goods from EU.

Structure of the Report

30 The structure of the report is as follows:

- Chapter 2 presents an analysis of the Nigerian economy and its major economic sectors, focusing on the expected consequences of the EPA.
- Chapter 3 examines the impact of the EPA and proposes several alternative EPA scenarios. It presents the models to measure the impacts of an EPA and an analysis of the impacts of the EPA on trade and on the economy, under the alternative proposed scenarios. It examines the adjustments that could be envisaged in the current trade and economic policies, because of the EPA. It examines the implications of an EPA on the regional integration processes and its possible impact on Nigeria's trade with ECOWAS Member States and other countries in the wider region. It presents an overview of the linkage between the EPA negotiations and the multilateral negotiations under the Doha work programme. It presents the adjustments that would be required in the Nigerian economy because of the impact of the EPA.
- Chapter 4 provides recommendations to the negotiators and a framework of strategies to guide them.



2 | Establishing the Counterfactual

2 | Establishing the Counterfactual

The Economic Policy Framework^{1/}

The objective of this section is to carry out an assessment of Nigeria's economy, focussing on the specific assessment of existing production structures by major sector, production infrastructure, levels of productivity and competitiveness, and levels of human resources development, and to assess how these can be expected to influence any EPA.

Social and Demographic Trends

31 Nigeria's population is approximately 130 million. This population size makes it the most populous country not only in ECOWAS but also in Africa. The demographic trends^{2/} describe two striking features with serious implications for economic and social progress. These are rapid population growth rates, among the fastest in the world; a population structure that is highly skewed towards young people, resulting in a high dependency ratio and a high level of urbanisation.

32 Contending with the consequences of the emerging demographic trends in terms of creating rapidly increasing employment opportunities and incomes, and adequate provision of such basic services as housing, transport, energy, has remained a major policy challenge.

33 In such a context the key issues/challenges in relation to EPA/WTO liberalisation processes are the following:

- How to insure that increased volumes of imported products do not stay in the big cities but are distributed all over Nigeria so that they do not contribute to aggravated migration of population from rural to urban areas and subsequent increased urban poverty?
- How to bring the young generations into the market system so that the young effectively benefit from increased opportunities linked to Nigeria opening its borders?

Macroeconomic Performance

34 In the early 1970s, Nigeria became a major world exporter of crude oil. This period coincided with sharp escalation in the price of crude oil in the world oil market.

^{1/} The information in this section draws on the IMF Country Report N° 05/302, August 2005.

^{2/} At projected annual growth rate of 2.8 percent, Nigeria has one of the highest population growth rates in the world. Its demographic characteristics describe an almost even distribution between male and female. The population structure is dominated by youth below the age of 30. Life expectancy at birth is 54. Infant mortality is 75.1 per 1000 live births, while maternal mortality is 10 per 1000.

Since then, there has been a high correlation between macroeconomic trends in Nigeria and developments in the world oil market.

35 Nigeria had an average growth rate of less than 3 percent per annum for most of the three decades following the discovery and exploitation of oil until 1999. With the return to democracy in May 1999, hopes were rekindled about the prospects of jump-starting the economy. However, aggregate growth rates have been low, and the sector distribution of growth has been uneven. While some sectors like telecommunications recorded high growth rates, others, like mining, were decelerating. The unstable nature of economic growth trends in recent years is illustrated in the 5.6 percent growth in 2000, 3.3 percent in 2001 and 1.4 percent in 2002. The trends reflect the over-dependence of the economy on crude oil. Income per capita is estimated at about US 400 in 2003. This makes the country one of the poorest in the world.

36 Government revenues doubled between 1999 and 2003, driven by rising crude oil revenues. Oil revenues contributed over 70 percent of government revenues in 2003. This has been the trend since Nigeria became a major oil exporter. Inflation in the past three years has been in double digits, ranging between 12.9 and 14.6 percent. In general, inflation has been on the increase in the past year. Two main factors explain the inflationary trends. These are fiscal expansion associated with expansionary macroeconomic policies and fuel price increases following the partial price deregulation of the domestic fuel market. These developments illustrate the lack of a robust and sustained economic growth over the past three decades.

37 The main factor in the volatility in economic growth is the dependence on natural resource production and exports, particularly oil. Hydrocarbons extraction, which for 90-95 percent of export revenues, over 90 percent of foreign exchange earnings and nearly 80 percent of government revenues. A major feature of Nigeria's economic experience since becoming a major world exporter of crude oil is the close correlation between major turning points in the economy and price developments in the world oil market. World oil price volatility fuelled unstable domestic economic performance and macroeconomic policy instability.

Macroeconomic Policies for 2005

38 After protracted negotiations, President Obasanjo signed a highly expansionary 2005 appropriations bill into law on April 12, 2005. Full implementation of the appropriations act, along with the distribution of higher oil revenue to state and local governments would lead to a sharp widening of the consolidated non-oil deficit and could threaten macroeconomic stability. The sharp spending increase reflects government's desire to address the country's development requirements, consistent with NEEDS^{3/}.

39 In early February, the Central Bank of Nigeria (CBN) announced that it was revising its monetary framework for 2005. It would limit the fluctuation of the Naira to a range of (+/-) three percent against the U.S. dollar to anchor inflation expectations; immediately cut the Minimum Rediscount Rate (MRR) by two percentage points to

3/

NEEDS is discussed in paragraphs 47-48.

13 percent; and begin to review, on a quarterly basis, the appropriateness of the MRR in view of developments in inflation. Such decisions are also trade supportive.

40 Key macroeconomic issues to be addressed are: how to solidify progress made on macroeconomic stability; how to strengthen public expenditure management to ensure public spending is pro-poor and pro-growth; how to lower significantly the cost of doing business and boost productivity and external competitiveness; and how to upgrade public sector governance, tackle deep-rooted corruption, and secure property rights.

Economic Outlook and Vulnerabilities

41 The current positive outlook puts Nigeria in a favourable position to negotiate the EPA. Real GDP is projected to grow by three and a half percent percent. Crude oil and gas GDP would remain almost constant. The non-oil economy would grow by 5 percent as a result of higher infrastructure spending, new investment commitments, and policies aimed at accelerating agricultural output. Year-end inflation should be contained to a range of 12-15 percent, above the authorities' initial target range (7-9 percent). Tight monetary policy, and the stable exchange rate, should help dampen inflationary pressures in spite of the fiscal expansion. However, some crowding out of private sector demand is likely to occur, with the ratio of the latter to non-oil GDP falling further. Given the favourable terms of trade, the external current account surplus is expected to widen, despite higher import demand, and gross international reserves to increase by about US\$11.5 billion to US\$28.5 billion at the end of 2005 (equivalent to 10 months of imports of goods and services).

42 Downside risks bear close monitoring. In addition to the uncertain external outlook caused by highly volatile oil prices, social tensions in the Niger Delta oil-producing region could disrupt oil production and agricultural output is vulnerable to climatic conditions. Furthermore, the expansionary fiscal stance, as envisaged in the 2005 appropriations act, could jeopardize the inflation objective and exert pressure on real interest rates and the real exchange rate, undermining prospects for higher growth in the non-oil economy. Fuel prices could weigh on the inflation outlook. Finally, there is some concern that enforcing banks' new minimum capital requirement by year-end, if not properly managed, could exert pressures on the financial system and impact capital flows.

43 The medium-term outlook hinges on the government's ability to consolidate the progress it made in achieving macroeconomic stability in 2004, strengthen public expenditure management, and progress significantly on structural reforms. In this context, the medium-term macroeconomic framework under a range of scenarios, illustrates the economy's vulnerability to an expansionary fiscal stance, lower oil prices, and policy slippages. In the baseline scenario, the non-oil economy grows at 5-5½ percent a year, benefiting from growth-oriented and business-friendly policies and improvements in the investment climate. The main growth drivers are expected to be agriculture, light manufacturing, solid minerals, and services. Inflation is projected to decline to 3 percent by 2010, and the non-oil primary balance to improve gradually as the authorities implement an oil price-based rule, limiting the budget deficit to 1-2 percent of GDP at US\$25 per barrel in constant 2002 U.S. dollars.

44 There are two alternative scenarios:

- The “high growth” scenario reflects the authorities’ aim to increase annual average growth for the non-oil economy to 7-8 percent, the rate deemed necessary to produce 2 million new jobs a year, and achieve the poverty MDG. To accelerate growth significantly, private investment would have to rise to about 25 percent of GDP from the baseline scenario level of 13 percent, equivalent to about US\$4-5 billion a year in additional foreign savings. Faster reform implementation and productivity gains than assumed in the baseline could significantly accelerate growth over time.
- The “muddle through” scenario reflects domestic policy slippages, notably the failure to implement a prudent fiscal framework and control spending. The economy grows below potential as fiscal spending increases as a percent of non-oil GDP, private sector investment is crowded out, and there are delays in implementing the growth-oriented reform agenda. The external current account weakens sharply in the face of aggregate demand pressures. International reserves fall rapidly as the monetary authorities attempt to defend an overvalued exchange rate.

Current Macroeconomic Challenges

45 The National Economic Empowerment and Development Strategy (NEEDS) document published in 2004 contains the present government’s economic reform programme, including the States Economic Empowerment and Development Strategy (SEEDS).

46 Nigeria’s current official poverty reduction strategy is embodied in the NEEDS document. NEEDS was written by the Nigerian Government upon request from the international community, without public consultation. NEEDS does not explicitly refer to trade liberalisation as a means for Nigeria to reduce poverty. The word liberalisation appears only twice in the document, when reference is made respectively to the liberalisation of the electricity sector and the liberalisation of the telecommunications sector. Trade liberalisation as a concept does not appear in NEEDS. However, Nigeria hopes to get some gain from concessions it may obtain from its partners through various international agreements, such as ‘the ECOWAS Treaty, the US–AGOA, the ACP-EU Cotonou Agreement and impending economic partnership agreement’. No further detail is provided, so that we may conclude that trade liberalisation is not central to NEEDS. Stronger emphasis is put on other concepts such as the fight against corruption.

47 Some of the problems identified as inhibiting growth in the Nigerian economy include macroeconomic policy inconsistency, instability and policy reversals, conflicts of macroeconomic policy goals, public sector dominance in production and consumption, pervasive rent-seeking and sometimes corruption facilitated by the fact that government is the hub of economic activities. Others are decay and inadequacy in infrastructure, high volatility of major macroeconomic aggregates, weak institutional capacity for economic policy management and coordination, non-sustainability of public finance at all levels of government, lack of effective coordination among the tiers of government, and a large debt overhang. A number of these problems are institutional while others are the results of disharmony between

goals and means. Government aims to redress these imbalances. This, however, has to be based on a general consistent macro framework, whose overall goal is to ensure predictability and sustainability of the macro-economy, and high, but broadly shared, pro-poor growth.

48 With respect to the EPA, the negotiators have to bear in mind the weakness of Nigeria's economy as compared to its potential, and the EPA should be used to develop and implement scenarios to boost the economy and help Nigeria accelerate its transformation.

49 There is also concern about the significant relaxation of fiscal policy as envisaged in the 2005 appropriations act, stressing that its full implementation would entail serious macroeconomic risks. On this basis, the consolidated government non-oil primary deficit would widen by about 4.5 percentage points to about 41 percent of non-oil GDP in 2005.

Medium-Term Fiscal Reform

50 A primary challenge facing the government is to strengthen public expenditure management (PEM) to ensure that spending is effective, efficient, and clearly linked to the objectives of NEEDS. While substantial progress has been made to improve budget formulation and overall expenditure control, the current federal government budget system does not allow for adequate monitoring and tracking of budgeted and actual outlays or for assessing pro-poor and pro-growth content. To this end, the authorities should move to further strengthen overall financial management by increasing automation, moving more quickly to functional and program budget classification, developing an effective medium-term expenditure framework (MTEF), undertaking a public investment review, covering the capacity to assess, prioritise, and manage public investment, and moving to a single treasury account, which should strengthen cash control and improve budget transparency.

Trade Reforms

51 A major tariff reform is scheduled to take effect in July, 2005^{4/} ^{5/}. The new tariff system, which will be based on ECOWAS' common external tariff (CET) has four tariff bands (0, 5, 10, and 20 percent). A temporary 50 percent tariff band will be applied to select locally produced import-competing goods. Duty concessions will no longer be granted. Import bans will be phased out by end-2006 and the 50 percent tariff band by end- 2007, respectively.

52 The tariff reform will enhance growth. The average unweighted tariff will drop to below 20 percent from about 30 percent, the tariff structure will be simplified, and the medium-term predictability of trade policies enhanced. Furthermore, the reform

4/ The reforms were postponed from mid-2004 to mid-2005 in order to build consensus within the private sector. Nigeria's trade system has been among the most restrictive in Africa.

5/ This reform was postponed again to October 2005, and it is not sure that Government will be able to have the calendar for removing bans (end 2006) and the fifth tariff band (end 2007) effectively respected. (There have been many postponements so far). Nor do we know how exactly the government will move from the previous tariff to the new tariff, starting October. (Will the new tariff effectively be applied on 1st October, or gradually applied starting from 1st October?)

will redress the anti-export bias in the current regime and diminish incentives for smuggling and parallel market foreign exchange transactions. The authorities have also introduced a three-year programme to improve customs administration. Administrative inefficiencies constitute a major trade barrier and have a negative effect on investors' perception of Nigeria. Recognising this problem, the authorities established a task force on customs reform in June 2004 and replaced management. The program aims at lowering costs, expediting the movement of goods, and making customs procedures more predictable and transparent. In addition, a separate revenue-collection plan has been put in place. Customs restructuring together with establishing port concessions and tariff reform aim to reduce the time needed to clear cargo from over 3 weeks to 48 hours by 2007.

53 Therefore, Nigeria now has an opportunity to carry out difficult reforms that could considerably enhance its medium-term prospects for more rapid and sustainable growth. Indeed, its 2004 performance, the improved outlook for its economy, relative political stability, and the strong reform commitment of the president and his team provide a unique opportunity to deepen and broaden the reform process and make it difficult to reverse. Nigeria's main policy challenge will be to build on the progress it made in 2004 and broaden the reform agenda.

54 The creation of the virtual poverty fund and the cost-benefit analysis unit for large investment projects are welcome but there is a need to introduce expeditiously budget classification systems that will allow it to track poverty-alleviating spending. Sub national governments should be encouraged to undergo similar reforms. In this context, the Fiscal Responsibility Bill is of critical importance. The bill's passage and full implementation would markedly enhance fiscal transparency and accountability at all levels of government, introduce formal fiscal rules into the budget process, and lay the foundation for medium-term fiscal sustainability.

55 In light of the envisaged fiscal expansion, more of the burden of controlling inflation will fall on the CBN. Given the sharp increase in monetary aggregates in early 2005, the CBN needs to take prompt action to limit broad money growth and use market-based instruments to sterilise excess liquidity, notably short-term interest rates and the exchange rate should be allowed to adjust to meet monetary targets.

Poverty

56 Nigeria is one of the twenty poorest countries in the world even though it is a major oil producer and exporter. Poverty is deep, pervasive and growing. The poor, as a proportion of the population, has grown from a mere 26 percent in 1980 to about 70 percent in 2000. A striking fact about Nigeria's kind of poverty is the paradox that it is present in the midst of plenty. Between 1970 and 2002, Nigeria earned about \$350 billion in oil revenue alone, but the country's income per capita also fell from about \$1000 in 1980 to about \$300 in 2000. Poverty is also unevenly spread among states and gender. There is a wide disparity of poverty among the states of the federation with some states having over three times the size of the poor in others and the majority of the poor being women and children.

57 Of greater significance is the fact that the average real per capita income is less than the poverty threshold of \$1 a day (World Bank; 1996). The collapse in per capita income was accompanied by a rise in the proportion of people living in absolute

poverty. Nigeria's development path has been highly unstable, and sustained social and economic progress has been elusive despite the large inflow of foreign exchange from crude oil. Living standards have fallen sharply since the 1980s as annual growth in real GDP barely kept pace with population growth. In fact, for much of the 1990s, real per capita income growth stagnated. Three basic statistics illustrate clearly the magnitude of the poverty problem in Nigeria:

- two out of every three Nigerians live below the poverty line (FOS 1999),
- the average Nigerian is poorer than majority of people in other parts of the world. (Nigeria's Human Development Indicators, UNDP, 2004), and
- the size of the core poor in Nigeria quintupled between 1980 and 1996 to reach 30 million people (FOS 1999).

58 Table 2.1 shows the poverty profile for Nigeria between 1980 and 1996. Three key observations emerge from the information. First is the dramatic escalation in poverty at national, urban and rural levels. Second, the non-poor halved in size, while the size of the core poor tripled. Third, rural households are poorer than their urban counterpart is, although the gap has narrowed considerably. All occupational categories experienced sharp increases in poverty levels.

Table 2.1: Trends in Poverty Levels in Nigeria 1980-1996

Year	Urban Households			Rural Households			Poverty Level
	Non-Poor	Moderately Poor	Core Poor	Non-Poor	Moderately Poor	Core Poor	
1980	82.8	14.2	3.0	71.7	21.8	6.5	27.2
1985	62.2	30.3	7.5	48.6	36.6	14.8	46.3
1992	62.5	26.8	10.7	54.0	30.2	15.8	42.8
1996	41.8	33.0	25.2	30.7	38.2	31.6	65.6

Source: Federal Office of Statistics (1999), pages 25 and 26

59 The situation is compounded by global economic and social developments epitomised by globalisation. A key challenge is that Nigeria must grow at rates that far exceed its historical experience in order to achieve the MDG. In fact, an exponential growth at 7 percent is suggested by MDG. The urgency for a more robust and sustained growth is the level of youth unemployment and restiveness both in the Niger Delta and the nation at large.

Trade Liberalisation

60 The impressive economic performance of South East Asia, which was propelled by export-led growth, has reinforced the view that, for Nigeria and other poor countries in the sub-region, an outward oriented development strategy is a sine qua non for transforming their economies within a relatively short period. There were other factors at work but the scope of this study precludes such analysis. Suffice it to state that debate still rages as to whether market orientation was the key factor or government intervention. A number of questions are imperative if Nigeria desires to commit to a model based on the economic transformation experience of South East Asia, which was achieved within a generation. These are:

- What role should private-public partnership play in the production of goods and services and the creation of wealth? Clearly, increased production and wealth creation anchored on a more efficient utilisation of resources backed up by market-driven incentive structure is essential to achieving sustainable development. The NEEDS document articulates government policy in this direction.
- Acknowledging the risks and opportunities offered by globalisation, what changes in public policy and institutions are required to maximise the chances of a favourable outcome, given that Nigeria has no choice but to be an effective participant in the rapidly changing world economic and financial environment?
- What roles can the EPA and adoption of such regional trade initiatives as ECOWAS Common External Tariff (CET) play in Nigeria integrating into the World economy?

61 Nigeria, which has not been committed to tariff liberalisation in ECOWAS, will soon^{6/} join other member countries in making the region more prepared as a unit in its external trade and financial relations. This action will reduce transaction costs of doing business in the region and consequently boost intra-regional trade.

62 While admitting different and complex interpretations, the assessment of the effects of earlier economic and social policies and performance of diverse countries in the last half a century has produced a new development paradigm broadly characterised by radical shifts from: from extensive and pervasive government intervention and control to acceptance and reliance on more decentralised economic decision-making based on markets; state ownership and control of means of production to private ownership; economic and financial controls to liberalisation with greater focus on market competitiveness; from highly restrictive to a more open trade and investment regimes. In addition, there is greater attention to macroeconomic stability; and greater awareness and concern about environmental sustainability of production and consumption activities.

63 Among the basic pre-conditions a country to maximise the opportunities offered by globalisation:

- competitive domestic cost base and a market responsive production system,
- good infrastructure services,
- high level of human capital,
- good institutions,
- macroeconomic stability,
- information technology, and
- good governance.

64 The prospects of converging into the global economic level are uncertain for Nigeria, in view of the mono-cultural economy's exposure to great external shocks, including a small, inefficient and uncompetitive manufacturing sector. A critical part of

6/

October 2005.

dealing with this problem is to implement an incentive structure (unencumbered by high tariff and non-tariff barriers) for producers to produce competitively for both domestic and export markets in an enabling environment in which they can get their products to both markets in time and relatively cheaply.

Employment

65 The official rate of unemployment declined from 18 percent in 1999 to 10.8 percent in 2003 (with estimated 3.5 million new jobs created during the period)^{7/}. Unemployment is still high (at 10.8 percent in 2003 meant that about 6.4 million people were actively looking for jobs).

66 At about 5.3 percent annual growth, the urbanisation rate is one of the fastest in the world and, with a stagnant secondary sector, urban unemployment is acute. As at March 1999, 23.2 percent of the rural labour force was unemployed while 12.4 percent of urban dwellers were without job. In March 2003, the rural unemployment rate had dropped to 12.3 percent and urban rate to 7.4 percent (giving a composite unemployment rate of 10.8 percent). These are large numbers given that the labour force is about 61 million in Nigeria.

67 If the secondary sector, especially the manufacturing and services sectors do not grow sufficiently to absorb the migration of the labour force to the urban areas and rural areas are not sufficiently transformed to stem the rate of rural-urban migration, the prospective rate of urban unemployment could be chaotic. The natural resource base is depleting fast, and the process of diversification is slow. The educational system is rapidly decaying with the result that an increasing proportion of graduates are unemployable. All these have grave implications for poverty and unemployment, and hence grave consequences for crime, conflict and sustenance of democracy.

Government Revenue and Expenditure

68 Table 2.2 presents the evolution of Government Revenue over the period 2001-2004, with a projection for 2005. The high rates of growth since 2003 are essentially due to the increase in the price of oil.

Table 2.2: Evolution of Government Revenue, 2001–05

	2001	2002	2003	2004		2005
			Est.	CR 04/239	Proj.	Proj
(Annual percentage changes, unless otherwise specified)						
Consolidated government operations 1/						
Total revenue and grants	13.1	-9.7	35.5	50.4	38.2	37.7
Oil revenue	5.3	-14.8	42.7	58.7	46.8	43.0
(In percent of GDP; unless otherwise specified)						
Consolidated government operations 1/						
Total revenues and grants	42.1	36.1	36.5	44.8	40.9	44.8
Of which oil and gas revenue	32.5	26.2	28.0	36.2	33.2	37.8

7/

See NEEDS.

Sources: Nigerian authorities; and Fund staff estimates and projections.

1/ Consists of the federal, state, and local governments.

69 Tables 2.3 to 2.4 provide a summary of Government revenue and expenditure over the period 1998-2003. As a share of GDP, both revenue and expenditure over the period are relatively large, over two thirds of total expenditure (income) in the economy in Nigeria is attributed to the Government of Nigeria. This figure is relatively large, even by developing country standards. As far as the different components of government revenue/expenditure are concerned, percentage figures reported for different categories have remained relatively stable.

Table 2.3: Consolidated Government Revenue and Expenditure, 1998-2003

	1998	1999	2000	2001	2002	Prel.2003
	(In millions of naira)					
Total revenue 1/	496,892	1,010,583	1,986,949	2,247,884	2,037,763	2,752,107
Total expenditure 1/	723,635	1,118,505	1,706,562	2,509,965	2,334,566	2,853,918
Tax revenue	250,939	320,269	636,082	876,376	711,542	1,029,791
Taxes on net income, profits, and capital gains	113,436	155,588	436,442	560,110	401,532	658,596
Petroleum profits tax	44,050	68,933	332,542	405,941	225,193	437,964
Company income tax 2/	33,500	44,241	51,147	68,726	89,104	114,770
Education tax	2,223	3,622	7,444	16,214	9,570	9,704
Personal income tax 3/	33,663	38,793	45,308	69,230	77,665	96,157
Domestic taxes on goods and services	73,193	70,711	83,937	121,522	108,601	136,402
Value-added tax	38,415	48,232	58,470	91,789	108,601	136,402
Taxes on petroleum products	34,778	22,479	25,467	29,733	0	0
Taxes on international trade and transactions	64,310	93,970	115,703	194,744	201,408	234,793
Import duties, excises, and fees 4/	58,475	85,175	101,521	170,549	181,408	195,462
Customs levies 5/	5,835	8,794	14,182	24,195	20,000	39,331
Non tax revenue	245,953	690,314	1,350,867	1,371,508	1,326,222	1,722,316
Oil crude export proceeds	102,399	518,605	1,001,068	954,816	724,144	966,716
Royalty	0	108,312	192,531	206,593	170,143	245,517
Autonomous foreign exchange market profits	82,158	0	0	0	0	0
Domestic crude 6/	56,585	42,321	96,430	134,037	304,238	386,351
Federal government independent revenue 7/	3,112	14,602	37,828	44,335	68,134	54,164
Upstream gas proceeds/Other oil	1,700	6,474	23,010	31,727	59,562	69,568
Memorandum item:						
Privatization proceeds	0	0	18,104	85,800	19,698	0

Sources: Federal Ministry of Finance, and IMF staff estimates.

1/ Includes the Federal, state and local governments.

2/ Mainly company income tax collected by the Federal Inland Revenue Service Revenue.

3/ Consists of personal income tax, other taxes and fees collected by state governments. The Federal Inland Revenue Service also collects a small amount of personal income tax from armed forces personnel and inhabitants of the Federal Capital Territory.

4/ Consists of import duties, excise duties, and fees that go directly to the Federation account.

5/ Consists mainly of earmarked import levies of a 5 percent port development surcharge, a 1 percent Nigerian Shippers Council surcharge and a 1 percent Raw Materials Research and Development Council surcharge.

6/ Proceeds from the sale of crude oil to domestic refineries.

7/ Consists of dividends from public enterprises, directors' fees and loan recoveries.

Table 2.4: Structure of Consolidated Government Revenue and Expenditure, 1998-2003

	1998	1999	2000	2001	2002	Prel.2003
(In millions of naira)						
Total revenue ^{1/}	496,892	1,010,583	1,986,949	2,247,884	2,037,763	2,752,107
As percentage of total GDP		29	42	42	36	36
Total expenditure ^{1/}	723,635	1,118,505	1,706,562	2,509,965	2,334,566	2,853,918
As percentage of total GDP		33	36	47	41	38
(Revenue components, in percentage of total revenue)						
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0
	0.0	0.0	0.0	0.0	0.0	0.0
Tax revenue	50.5	31.7	32.0	39.0	34.9	37.4
Taxes on net income, profits, and capital gains	22.8	15.4	22.0	24.9	19.7	23.9
Petroleum profits tax	8.9	6.8	16.7	18.1	11.1	15.9
Company income tax ^{2/}	6.7	4.4	2.6	3.1	4.4	4.2
Education tax	0.4	0.4	0.4	0.7	0.5	0.4
Personal income tax ^{3/}	6.8	3.8	2.3	3.1	3.8	3.5
Domestic taxes on goods and services	14.7	7.0	4.2	5.4	5.3	5.0
Value-added tax	7.7	4.8	2.9	4.1	5.3	5.0
Taxes on petroleum products	7.0	2.2	1.3	1.3	0.0	0.0
Taxes on international trade and transactions	12.9	9.3	5.8	8.7	9.9	8.5
Import duties, excises, and fees ^{4/}	11.8	8.4	5.1	7.6	8.9	7.1
Customs levies ^{5/}	1.2	0.9	0.7	1.1	1.0	1.4
	0.0	0.0	0.0	0.0	0.0	0.0
Non tax revenue	49.5	68.3	68.0	61.0	65.1	62.6
Oil crude export proceeds	20.6	51.3	50.4	42.5	35.5	35.1
Royalty	0.0	10.7	9.7	9.2	8.3	8.9
Autonomous foreign exchange market profits	16.5	0.0	0.0	0.0	0.0	0.0
Domestic crude ^{6/}	11.4	4.2	4.9	6.0	14.9	14.0
Federal government independent revenue ^{7/}	0.6	1.4	1.9	2.0	3.3	2.0
Upstream gas proceeds/Other oil	0.3	0.6	1.2	1.4	2.9	2.5
<i>Memorandum item:</i>						
Privatisation proceeds						
(Expenditure components, in percentage of total expenditure)						
Total expenditure	100.0	100.0	100.0	100.0	100.0	100.0
Recurrent expenditure	32	44	38	31	37	32
Goods and services	18	18	21	16	20	18
Federal government personnel costs	8	12	16	11	16	13
Federal government overhead	10	6	4	5	5	5
Customs levies	1	1	1	1	1	1

Establishing the Counterfactual

	1998	1999	2000	2001	2002	Prel.2003
	(In millions of naira)					
Education Fund	0	0	0	1	0	0
Interest payments due	13	24	16	13	15	12
Domestic interest	6	8	6	6	7	6
Foreign interest	6	16	10	7	8	6
Other (local contractors)	0	0	0	0	0	0
Capital expenditure	30	17	15	18	11	9
Domestically-financed budgetary	29	16	14	17	11	8
Foreign financed	1	1	1	0	1	0
NNPC operations	10	19	17	17	15	16
JVC cash calls	8	16	16	16	15	16
NNPC priority projects	2	2	1	2	0	0
Extra budgetary outlays/Other/NDDC	0	0	0	0	1	2
Judiciary	0	0	1	1	1	1
Net lending	0	0	0	0	0	0
State and local governments	28	20	30	34	34	41
Memorandum item:	0.0	0.0	0.0	0.0	0.0	0.0
Privatization proceeds	0.0	0.0	0.9	3.8	1.0	0.0

Sources: Federal Ministry of Finance; staff estimates. Consultants' calculations

Revenue

70 In terms of revenue, the petroleum profit tax as well as oil export proceeds over the period exceed half of total revenue of the Government of Nigeria. Non-tax revenues, in fact, account for over 60 percent of total revenue of the Government of Nigeria over the period. Adding the tax on petroleum profit, the Government of Nigeria raises over 70 percent of its revenue through these methods. The weight of tax revenue in total revenue sharply declined in 1999, and then fluctuated over the years in the range of 32 to 39 percent; for 2003, it is estimated at 37.4 percent. As far as the import tax in general is concerned, its contribution over the period to overall government revenue has generally declined. VAT's contribution to government revenue has been fluctuating around 5 percent. Similarly, income and company income taxes have also been fluctuating; each contributed around 4 percent towards government revenue in 2002. In 2003, taxes on international trade and transactions are estimated at N 235 billion, that is 8.5 percent of total revenue, of which import duties, excises and fees amount to 7.1 percent of total revenue.

Expenditure

71 As far as government expenditure is concerned, over two third of total expenditure is accounted for by recurring expenditure; interest payment accounts for around 15 percent and capital expenditure 11 percent in 2002; the latter has been declining over the period.

Structure of the Nigerian Economy

72 Table 2.5 provides a broad perspective on the economic structure in Nigeria between 1999 and 2003. Primary production (agriculture and mining) dominates the

structure of output. Since 2000, the oil sector has become the key sector in the economy. It rose sharply from 31 percent in 1999 to its all time peak of 48 percent in 2000. The sharp rise in world oil market prices explained the significant rise in the sector's share of GDP. In 2003, it constituted 45 percent of GDP. Agriculture and related activities contributed about 26 percent of GDP in 2003. This is considerably lower than 34 percent in 1999. Agriculture is increasingly losing its dominance in domestic production. This trend should continue as natural gas production increases. However, the sector employs over 70 percent of the labour force gainfully employed. The share of the service sector in 2003 was about 25 percent.

73 The continued dominance of agriculture and mining in the three indicators show lack of significant change in economic structure in the post-independence period. The volatile nature of the world oil market and the weak inter-sectoral linkages between the oil sector and the rest of the economy combined with policy failure have made the oil sector a weak vehicle of sustained economic growth and change.

Table 2.5: The Structure of the Nigerian Economy, 1999-2003

Sector	1999	2000	2001	2002	2003
Primary sector	65	74.6	73.7	69.6	71.1
Agricultural activities	34.0	26.3	30.6	31.2	26.4
Agriculture	28.6	22.0	25.7	25.9	22.1
Livestock	3.4	2.6	3.0	3.2	2.6
Forestry	0.5	0.5	0.5	0.5	0.4
Fishing	1.5	1.2	1.4	1.5	1.2
Mining and quarrying	31.0	48.3	43.1	38.4	44.8
of which: crude petroleum and gas	30.9	48.2	42.9	38.3	44.7
Secondary sector	5.4	4.4	4.7	5.4	4.7
Manufacturing	4.6	3.7	3.9	4.6	4.0
Utilities	0.1	0.0	0.0	0.1	0.1
Building and construction	0.8	0.7	0.8	0.7	0.6
Tertiary sector	29.6	21.0	21.6	25.0	24.2
Transport	3.5	2.8	2.8	3.3	3.3
Communication	0.0	0.0	0.0	0.1	0.0
Wholesale and retail trade	14.7	11.6	12.4	14.2	14.1
Hotel and restaurants	0.2	0.1	0.1	0.2	0.1
Finance and insurance	1.2	1.0	1.1	1.5	1.0
Real estate	4.0	3.6	3.3	3.8	3.8
Other private services	1.1	1.0	1.1	1.2	1.2
Government services	4.8	0.8	0.8	0.9	0.7
GDP at factor cost	100.0	100.0	100.0	100.0	100.0
Oil	30.9	48.2	42.9	38.3	44.7
Non-oil	69.1	51.8	57.1	61.7	55.3

Source: Calculations based on data from IMF (2004)

74 Over time, the industrial base has grown increasingly weaker, losing some of the small share of total domestic employment. The value-added of the manufacturing sector has particularly fallen from close to 11 percent of GDP in 1980 to less than 6 in 2003 and its share of exports since the 1990s has remained less than 1 percent of total exports. Support infrastructure for the sector has massively decayed over time

and most businesses literally cater for their own infrastructural needs, thus drastically raising the cost of doing business in the country.

75 With respect to the EPA (and the WTO negotiations), such a situation has led to great apprehension. Today the majority of representatives of the industrial sectors are opposed to the EPA/WTO, and their opposition is shared by most traders associations and representatives. The liberalisation of trade that already took place so far in Nigeria is considered – rightly or wrongly - as responsible for the decay of a number of industrial sectors (food industry and textiles for example) that had grown primarily through import substitution rather than in view of export potential.

76 Given this situation countrywide campaigns (including workshops, media, exchange programmes, research, education, etc.) we recommend in order to convince Nigerian people to shift from protected import substitution oriented industry to a modern new competitive industry oriented both towards the internal and external markets. Most industrialists are convinced that this is the only way out. However, with respect to the specific EPA they are saying that they need more time to conduct this revolution than permitted within the EPA rules. It is unlikely that international aid can suffice to fill the gap in time.

77 It is expected that the issue of delays in the liberalisation process will be central not only in the EPA negotiations but, more widely, that they will be at the core of the Hong Kong DDA negotiations.

Oil

Key Features and Trends

78 Since the early 1970s, when Nigeria became one of the world's major producers and exporter of crude oil, the economy has become dependent on oil. In 2003, crude oil production generated 45 percent of GDP. Oil exports accounted for over 90 percent of export and 81 percent of government revenues. Adding revenues from liquefied natural gas, the dominance of the upstream oil and gas sector in fiscal revenues is more pronounced.

79 Highly capital-intensive production technology results in the sector employing less than 0.1 percent of the country's labour force. Hence, the sector has minimal impact on the high level of unemployment in the country. The capital-intensive nature of oil production technology and the labour cost cutting strategies adopted by the international oil companies that dominate the sector, account for the sector's low employment creation potential and direct poverty-reduction capacity. The sector has weak backward and forward output and employment linkages with the rest of the economy.

80 The investment boom in the sector and the large crude oil reserves indicate that in the near future the Nigerian economy will be dependent on oil. Broadly speaking, the sector remains volatile in performance because of the increasing volatility of the world oil market. Yet, economic growth in Nigeria in the medium term will be shaped by the development in the oil sector. This prospect explains why diversification of the sector is crucial for sustainable development in Nigeria. To the extent that the EPA can contribute to facilitating such diversification, it will have a direct positive impact.

81 According to the Government, proven crude oil reserves in Nigeria are currently estimated at 35 billion barrels^{8/}. Oil occurs both onshore and offshore with about 65 percent of output currently coming from onshore production. Deep offshore has become the focus of vigorous exploration activities in recent years^{9/}. The current production capacity of 2.5 million barrels per day is expected to rise to 3 million barrels in the next two years. Given the current investment boom in the sector, proven reserves are expected to reach 40 billion barrels, and production capacity of 4 million barrels per day in 2010. Nigeria has approximately 28 percent of Africa's proven oil reserves, about 3 percent of OPEC and 2 percent of global oil reserves. The two Nigerian crude oil export blends, Bonny Light and Forcados, are attractive in the world market because they are light (37⁰ and 31⁰ API respectively) and have low sulphur content.

82 Table 2.6 provides some selected statistics on the sector. Production and export volume are closely correlated. Current production and export are above two million barrels per day. However, domestic consumption is beginning to make inroads into export sales.

Table 2.6: Key Petroleum Sector Statistics in Nigeria 1999-2003

	1999	2000	2001	2002	2003
Price of Bonny Light \$/barrel	17.93	28.4	24.24	25.04	29.2
Price of UK Brent	17.70	28.31	24.41	25.00	28.85
Production*, million barrels per day (mbd)	2.110	2.261	2.238	1.960	2.453
Domestic Use (mbd)	0.300	.302	0.389	0.447	0.431
Total Export (mbd)	1.844	1.952	1.849	1.513	2.31
Export to EU (annual in mb)	161	142	154	121	150
Total Export (annual in mb)	702	604	675	545	673
Export Revenues (\$million)	11,943	20,151	16,574	13,834	21,415
Proven Reserves (billion barrels)	29	29	31.506	34.349	35.255

* includes condensates.

Source: CBN (2003) and OPEC Statistical Bulletin 2003 (adapted by the Consultants)

83 The competitiveness of the fiscal regime is a determinant of the amount of investment committed to exploration, discovery and production by prospecting oil companies, as well as future production. To attract foreign oil investment and reverse the declining trend in reserves and production, the government, in a Memorandum of Understanding (MOU) signed in 1986 changed the fiscal terms governing government-oil company exploration activities. It guaranteed a profit margin of \$2 per barrel for oil companies. In the revised MOU the Reserve Addition Bonus provided further incentive for oil companies to encourage greater exploration activities and new reserve discoveries. A further revision increased the margin to \$2.70. The cost allowance of oil companies is \$6.20 a barrel. Nigeria's current oil and gas fiscal

8/ There are seven oil basins in Nigeria. These include the Niger Delta, where most exploration and commercial activities take place, Anambra, Benue, Chad, Dahomey, Sokoto, and the South Eastern shelf with deposits of oil condensates.

9/ Nigeria is one of the world's leading oil and gas provinces, but there are no giant oil fields as found in the Middle East. The majority of its oil fields are small in size having on the average less than 50 million barrels of recoverable oil. The gravities on Nigerian crude oil lie in the range 15⁰ API and 58⁰ API with 65 percent with 35⁰ API or above.

regime guarantees a large profit margin for international oil companies exploring and producing oil in Nigeria. This explains the boom in investment activities of international oil companies, in the last decade.

84 The Petroleum Profit Tax (PPT) is 85 percent. Royalties range between 0 and 20 percent depends on whether oil is extracted onshore or offshore. Offshore, it ranges from 16.67 percent for oil found in less than 200 metres of water to zero for deep offshore oil. Revenues from PPT and royalties dominate the structure of government revenues from crude oil. These two revenue sources constituted 68 percent of total government receipts from crude oil in 2003 (CBN 2003).

85 The Nigerian government has two major funding arrangements for oil production in the country, namely, the Joint Venture (JV) and production sharing contract (PSC) arrangements. Under the JV arrangements, the Nigerian government and its partners contribute to projects according to their equity holding. A major problem facing Nigeria's upstream oil sector has been insufficient government funding of its JV commitments. Under the terms of PSC, oil companies fund the operations, and, when oil production begins, they are allowed to recover their expenditures, and then share the profit according to the agreed terms.

86 Currently, production from joint ventures (JV) accounts for nearly all (about 95 percent) of Nigeria's crude oil production. The largest JV, operated by Shell, produces nearly 50 percent of Nigeria's crude oil. The state-owned oil firm, NNPC, has a 55 percent interest in the Shell JV. NNPC also has 60 percent share in JV with Exxon Mobil, Chevron Texaco Conoco Phillips, AGIP and Total. PSC has begun to assume some importance in recent years.

87 Nigeria can be described as one of the most attractive investment areas in the global search for oil and gas since the mid-1990s. This is despite the region's perceived high political risks on the one hand, and the global cost-cutting efforts of major oil multinationals. The attractiveness of the particularly rich offshore waters of the region spanning Angola to Nigeria is demonstrated by the estimated hydrocarbon investment worth \$40-60 billion that oil companies are expected to commit in the West African region in the next decade. Already major oil discoveries have been made across the region, justifying the enormous investment in the regional oil industry. Two major factors are driving the strong investment trends in the West African oil regions: the increasingly competitive oil fiscal regimes in the region and the price rebound of the last few years^{10/}.

88 The upstream oil industry is truly global in nature, unlike the natural gas industry. Investment and demand in the industry are determined by global economic trends and oil market conditions exemplified by price trends. However, a basic characteristic of the world oil market is uncertainty highlighted by significant price volatility. This has led to considerable industry restructuring and consolidation manifested in mergers and acquisitions as well as the important role of the future market in oil market operations. With the limitation in spare production capacity worldwide in the medium to long term, Nigerian and West African oil will remain highly attractive to oil investors.

10/

Reaching 65\$USD per barrel by mid August 2005.

89 Nigeria is the sixth largest world exporter of crude oil. In the last four years, EU oil imports from Nigeria constituted between 22 and 25 percent of total Nigerian crude oil exports. The main export markets in the EU are France, Spain, Italy and Portugal. In the EU, the tax on crude oil has traditionally been low, at 5 percent, given its strategic importance. Therefore, the EPA will have little impact on oil trade flows from Nigeria to the EU. However, in the aftermath of the ratification of the Kyoto Protocol, environmental considerations will have an increasing impact and slow down the growth in oil demand, especially in the EU.

Nigeria's Prospects for Oil Exports to the EU

90 World crude oil demand rose from 76.5 million barrels a day in 2000 to 82 million barrels per day in 2004. Based on stronger world economic growth, it is expected to reach 83.8 million barrels per day in 2005. Spot crude oil prices have experienced dramatic increase in recent times. Nigeria's Bonny Light peaked at \$49.91 in October 2004 before falling to an average of \$44 in January 2005. North Sea Brent Crude prices for the same period were \$49.74 and 44.01 per barrel respectively. In North America, prices were even higher. West Texas Intermediate peaked at \$53.32 in October before falling to an average of 46.64 in January 2005. Gasoline prices shot up to reflect higher crude oil prices.

91 Despite the high nominal prices, it is expected that continued world economic growth will induce increased demand for crude oil fuelled by Asian demand, as has occurred in recent years. In recent years, world oil demand grew at an average yearly growth of 2 percent. Assuming this recent growth rate continues, world oil demand would reach 100 million barrels per day by 2010. Assuming a lower growth of 1 percent a year, thereafter, due to environmental consideration arising from the impact of the Kyoto Protocol, world oil demand would reach 104million barrels per day by 2015.

92 EU oil demand is expected to be 15.8 million barrels per day in 2005, compared to 15.7 million barrels per day in 2004. This must be viewed against the global oil demand and supply trends, crude oil prices, the high level of taxes imposed on the consumption of petroleum products in the EU, and the global concern about energy-induced climate change.

93 If we project world growth rate, oil demand in the EU region will be 17 million barrels per day in 2015. To meet part of this demand, Nigeria's current production capacity of 2.5 million barrels per day is expected to rise to 3 million barrels in the next two years. Furthermore, by 2010, proven reserves will rise to 40 billion barrels, and production capacity to 4 million barrels per day.

94 Overall, Nigeria's location advantage vis-à-vis its competitors in the EU region, the down-trending of oil discoveries and production capacity in the North Sea and the significant presence of EU oil companies in Nigeria suggest a steady flow of crude oil from Nigeria to the EU. This notwithstanding the unimpressive prospect for oil demand in the region; but, more importantly, other regions, especially Asia, are likely to absorb any decline in reduced EU oil consumption and its impact on oil export from Nigeria. Globally, in the post 2000 period, EU oil demand growth has been lowest. High taxes on petroleum products for revenue and environmental

factors will continue to weaken oil demand in the region. It is worthy to note that the EU imposes the highest tax on oil in the world.

95 The abundant supply of crude oil and natural gas should provide an incentive for EU investors to join in adding value to crude oil in Nigeria through refineries and petrochemical industries.

Refining

96 Nigeria has four domestic refineries, namely, Port Harcourt I and II, Warri, and Kaduna and they are state-owned. They have a combined capacity of 445,000 bbl/d distributed as follows: Port Harcourt 210,000 barrels per day, Warri, 125,000 barrels per day, Kaduna 100,000 barrels per day. Problems, including poor management, lack of regular turnaround maintenance and sabotage including pipeline vandalism contribute to their extremely poor capacity utilisation record, which has made government import a large amount of petroleum products almost on a regular basis for the past three decades. Recently NNPC stated that all the refineries are fully functional.

97 The perennially poor performance of the state oil company PPMC and the economic restructuring programme since the adoption of SAP has finally brought deregulation and privatisation to the industry. The deregulation of retail prices of products, coupled with increased domestic supplies from NNPC's refineries and massive fuel imports, has ended Nigeria's perennial crisis. The establishment of an efficient refinery and product distribution system in the country is essential to cheaper transportation and rapid economic and social development.

98 The government-owned refineries are scheduled for privatisation this year. Progress made toward the eventual privatisation of the Port Harcourt refineries stalled in late 2003 after organised labour objections forced a review of the entire process. In parallel, the government in recent years made a major effort to encourage private domestic entrepreneurs to establish their own refineries. However, after more than four years since 18 private refinery licenses were awarded to domestic investors by the government in the process of opening up the downstream sector to private investment, none has taken off. Phase 1 of the Akwa Ibom refinery project is, so far, the only plant of the 18 licenses that has received the required technical and financing approvals.

99 Possibly a new initiative may be emerging with joint venture operations downstream as occurs more extensively in upstream operations. Chevron and NNPC are extending their joint venture downstream with the plan to build a mini refinery that will have an initial capacity of 11,000 barrels a day and eventually reach 30,000 barrels a day at a cost of \$50 million. The project will meet the fuel needs of the JV crude oil operations and the local needs in the Niger Delta. In fact the first Port Harcourt refinery became a joint venture between the multinational oil companies and the government. More of such initiatives should boost the effort to add more value to crude oil before export than currently obtains. Export refineries based on such collaboration would benefit from the marketing externalities associated with the market infrastructure of these oil companies in the major consuming areas of the world including the EU.

100 Globally, the refining industry is most troubled in the chain of production from upstream to downstream. The profitability of downstream oil export ventures is constrained by high feedstock prices, decline in the share of oil in electricity generation and home heating, and excess capacity in the world refining industry. In short, low demand, high input prices and exacting environmental standards have squeezed profit margins. Continuing low margins are forecast for the industry given these considerations. Against this background, refinery upgrading has in many cases substituted for the construction of new and expensive refineries. This further supports the need for joint venture refinery projects to overcome the initial market access problem in world petroleum products marketing networks. With stricter environmental regulations confronting the establishment of new refineries in Europe and North America, the potential for profitable export of refined petroleum products to the EU should induce private sector ventures from EU into the Nigerian industry.

101 The government is proposing that the major crude oil producers operating in the country refine a significant proportion of their production in the country. If EPA facilitated this, it would be a catalyst for the trade liberalisation policy. However, a major constraint against such a proposal in the short term is the investment lag in building new refineries. In the medium term it should be feasible, the question is whether the political will to carry such a policy through to its logical conclusion exists. Although the refining industry is generally capital intensive, the construction of export refineries would boost domestic employment prospects in the industry, a key concern of oil industry labour unions in resisting current privatisation plans and their attendant job losses associated with down sizing in the oil industry.

102 According to NNPC officials, the company's goal in the short to medium term, even when it is privatised, is to focus on establishing a competitive domestic refinery system that meets local needs efficiently before exploring the more competitive regional and global products markets.

103 The sharing of this substantial rent between the government and oil companies has historically been contentious though less so in recent years. Understandably, governments of both developed and developing countries have tried to extract a sizable proportion of this rent. A major point of dispute between OPEC countries and the major consuming countries of the OECD is the larger share of the oil rent the latter collects by imposing high taxes on petroleum products at retail resulting in artificially high pump prices of fuel.

104 Lack of precise data at this stage does not allow an estimation of the potential improvement in production and profitability of downstream oil export ventures. However, with environmental regulations confronting the establishment of new refineries in Europe and North America, the potential for profitable export of refined petroleum products to EU should induce private sector venture from EU into the Nigerian industry.

105 The establishment of an efficient refinery system in the country is the panacea for solving the perennial fuel scarcity problem that has haunted this major oil exporting country for so long. If this solution can be achieved through the mechanisms of the current EPA between Nigeria and the EU, it will have far-reaching impacts on the lives of the people as the availability of fuel affects just about every facet of the society, including transport costs, prices and distribution of food.

106 Nigeria will require the major crude oil producers operating in the country to refine a significant proportion of their production in the country, in the short term. The plan is supposed to save NNPC the \$2 billion per year that it currently spends on oil imports and guarantee supply to Nigeria's four state-owned refineries. It is thought that guaranteed feedstock will also improve domestic employment prospects, alleviating the concerns of oil industry labour unions that have resisted privatization plans and their attendant job losses.

Environmental Considerations

107 The environmental impact of oil development is of local, regional and global interest. Sustainable economic development implies that exploitation of Nigeria's crude oil resources must recognise the linkages between petroleum extraction and the ecosystem. Just as the oil wealth has kept the economy going, its exploration, production and transportation, based on a network of pipelines, storage and other facilities and road infrastructure, have resulted in significant degradation of the environment in the oil producing areas, offshore and onshore, through either gas flaring or oil spillages. Evidence on the magnitude of the problem has been discussed^{11/}. Though oil company operations have become more environmentally conscious, oil industry pollution remains a serious problem. Over the past forty years, oil production has polluted the region's rivers, waterways, air and land.

108 The serious social conflict in the Niger Delta area derives principally from the prolonged negative environmental impact of oil on the livelihoods of people in the area. To minimise oil pollution and improve environmental quality in the area involves a trade-off for both the government and the oil companies. Government tax revenues (through royalties and PPT) must be forgone while oil company expenditures must rise to mitigate or reverse the degradation process. The associated economic trade-off must be recognised in policy design. The social conflict in the region is beginning to force more oil wealth to be channelled to addressing this serious problem. The Niger Delta Development Commission (NDDC) has been given the responsibility of undertaking development projects in the oil producing regions that had been systematically neglected over the years, despite being the source of the country's oil wealth. The key focus of the Commission is infrastructure construction.

109 The government's commitment to check oil-based environmental degradation is illustrated in its signing the Kyoto Protocol. Yet, over the years, government policy has not been consistent with sustainable use and management of this natural resource. The challenge of policy reform in this area is for government to recognise that its claims on oil wealth must always factor in the environmental pressures and substantial environmental cost of extracting that wealth on the people in the producing area.

110 In concluding the discussion on this leading sector, it must be recognised that oil wealth can be a liability rather than an asset, as the example of Nigeria and other natural resource dependent countries have shown. The contention that oil wealth may be a curse rather than a blessing was the subject of much discussion in the

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See S.A. Awobajo, "An analysis of oil spills in Nigeria, 1976-80", paper presented at NNPC Seminar on the Petroleum Industry and Nigerian Environment, 1981

literature on Dutch Disease^{12/}. This discussion attempts to capture the great tendency for countries well endowed with natural resources to make poor economic decisions that weaken their long-term economic sustainability. Nigeria and other oil exporters who had the Dutch disease syndrome were characterised by lax macroeconomic policies, over-valued exchange rates, fiscal disequilibrium, distorted trade regimes, debt overhang, inefficient state control over the commanding heights of the economy and marginalisation of agriculture and manufacturing exports. Using oil wealth to support the diversification of the Nigerian economy remains a key challenge to policy makers. Opportunities should be found in the context of the EPA and other trade liberalisation forums to seek to maximise value added in this important sector, beyond crude oil exports, as has so far been the case.

Natural Gas

111 Nigeria is well endowed with natural gas resources that are located mostly in the Niger Delta. According to recent official estimates^{13/}, proven reserves are 176 trillion cubic feet, of which about 70 percent are located onshore. 85 trillion cubic feet is associated gas while the rest is non-associated. Sixty percent of the gas deposits are situated east of the Niger and the rest west of the Niger. Also, notable is the fact that Nigeria has more gas resources than oil. In terms of global ranking, Nigeria has the ninth largest gas reserves. In addition, second to Algeria, it has approximately one third of total African reserves.

112 The fiscal incentives for gas are more generous than for oil, in order to attract more investors into the field and accelerate the process of stopping gas flaring on a massive scale (ADCG Industrial Survey). The fiscal incentives for upstream gas activities include: the removal of royalties payable to government when the gas is for downstream use; gas projects attracting company income tax at 30 percent instead of PPT of 85 percent in the case of oil. Other incentives include a generous five year tax holiday, accelerated depreciation with 60 percent in the first year and 20 percent subsequently, investment tax credit of 20 percent and royalty of 5-7 percent. Gas prospecting firms are exempt from import duties and VAT.

113 Due to a lack of utilisation infrastructure, Nigeria still flares about 40 percent of the natural gas it produces and re-injects 12 percent to enhance oil recovery. The World Bank estimates that Nigeria accounts for 12.5 percent of the world's total gas flaring. Shell estimates that about half of two bcf/d of associated gas -- gaseous by-products of oil extraction -- is flared annually. Official Nigerian policy is to end gas flaring completely by 2008. The government has over the years not succeeded in inducing oil companies to collect and process oil-associated gas, thereby greatly enhancing the utilisation of the depletable natural gas resources, while simultaneously reducing carbon dioxide emissions from gas flaring. The weakness of the policy so far has made it possible for multinational corporations to flout them, preferring to pay token fines instead of investing and establishing the necessary gas utilisation infrastructure.

^{12/} A. Gelb and Associates, "Oil windfalls, blessing or curse?", (Oxford: World Bank Research Publication, 1998); and Akin Iwayemi, "Nigeria's fractured development", University of Ibadan; 2001.

^{13/} By the Nigerian Liquefied Natural Gas Company (NLNG).

114 The expanding domestic market and increasing interest in gas, and the fact that natural gas demand is set to experience rapid growth over the next two decades because of its environmental advantages, have boosted investment prospects in the industry^{14/}.

115 In general, the high cost of transporting gas means that investment in gas infrastructure and markets have to be jointly developed. Gas investment is through either LNG, or pipeline. Currently, gas export is through LNG containers and ships. However, Algeria and Nigeria are considering an alternative pipeline route through the Sahara Desert, via Algeria, to Southern Europe. This should also be of interest to EU investors.

116 Apart from Shell, EU oil companies are not featuring prominently in these export projects. Yet the EU is a major destination of Nigeria's gas exports. Clearly, there are attractive prospects for EU investors in the gas business in Nigeria in the context of EPA.

117 An innovative regional gas investment project in ECOWAS is the West African Gas Pipeline, jointly owned by Nigeria, Benin, Togo, Ghana and multinational oil companies led by Chevron. This project, expected to be operational by 2006, would fuel power supply in the ECOWAS sub-region. It will be a major regional energy investment project in the region. Overall, there are enormous investment opportunities for gas in the aftermath of the ratification of the Kyoto Protocol. Joint venture between domestic and EU entrepreneurs, in the context of the EPA, could be a catalyst for this to be more fully realised.

118 Since 1999, when the Bonny LNG plant started production, LNG export has become increasingly significant in Nigeria's export structure. In 2004, it was the second largest export revenue earner, after crude oil and displacing agricultural exports. When the investment projects discussed above become operational, gas export revenues are expected to close the gap with oil export revenues. Propelled by global concern about environmental quality and the choice of gas as the emerging preferred fuel for generating electric power, private entrepreneurs are becoming more active in the gas sector.

Domestic Gas

119 The industry is currently dominated by a state company, the Nigerian Gas Company (NGC). The Escravos gas pipeline to Lagos, which is the gas supplier to the largest power plant in Nigeria (Egbin near Lagos), is also set to supply gas to

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Major international companies are beginning to see gas as an attractive investment in Nigeria. The expanding domestic and global demand caused a significant shift in the attitude of the international oil companies. The 3-train Bonny LNG plant is the first LNG facility in Nigeria. It produces yearly 397 billion cubic feet of LNG. It is expected to increase to 5-train plant in 2005 and a six-train facility by 2007 with plant capacity of 1.1 trillion cubic feet per year. Other major LNG projects are Exxon Mobil plans a second LNG plant on Bonny Island that will produce 4.8 million metric tons per year. This is scheduled to become operational by 2010. Conoco Phillips, Chevron Texaco and Agip in conjunction with NNPC plan a \$3 billion Brass River project for late 2008. Chevron Texaco plans a \$6 billion Olokola LNG plant in the western part of the country. The plant should be completed in 2009, and will have an initial capacity of 11 million tons per year. At full capacity, the plant will produce 33 million tons of LNG per year. Chevron is also involved in the Escravos gas to liquids project. This project is expected to cost \$1.9 billion.

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other users in the south-west and northwestern parts of the country in the near term. A pipeline network is planned to transport gas to the steel mill at Ajaokuta, Abuja the capital, and Kaduna the industrial hub of the northern part of the country. A major review of policy has been under consideration by the Bureau of Public Enterprise (BPE) that is given the responsibility of designing and implementing the set up of a viable and competitive gas sector. NGC will be privatised and the industry will be more fully opened to private enterprise and market competition.

Other Minerals

120 Nigeria is rich in mineral deposits^{15/}, which include solid minerals, a variety of precious stones, and industrial minerals. Proven coal resources are put at 600 million tonnes with possible recoverable endowment of 3 billion tonnes. Iron ore reserves are estimated at 3 billion tonnes, and lead and zinc deposits of 10 million tonnes. Other solid minerals with large deposits include talc, barite, bentonite, kaolin, marble, gold and limestone. These solid minerals offer investment opportunities for investors from the EU to capitalise on the proposed EPA.

121 Solid minerals production includes columbite, cassiterite, coal limestone, gypsum and iron ore. Coal used to support a power generating plant in the 1960s. However, several attempts in the last two decades to revive the industry, which used to export coal, have not yielded much fruit. It is currently grossly under-exploited.

122 The mining of solid minerals is largely in the hands of small-scale poorly financed mining entities. In recognition of the underdevelopment of the solid mineral sub-sector and its potential for, *inter alia*, stimulating industrial growth, diversifying the economy, eradicating poverty, and generating revenue and foreign exchange through exports, the Government has undertaken a number of measures to develop it. Incentives available to the sub-sector include tax holidays, lower income taxes, deferred royalty payments; capital allowances, investment allowances and the exemption of payment of import duties. Currently bentonite and barite, the main constituents of the mud used in the drilling of oil wells, are listed amongst goods subject to import prohibition. The average tariff in mining and quarrying in 2003 was 30.4 percent, with a maximum tariff of 150 percent on gypsum.

123 The solid minerals sector is one of the best bases for instituting the diversification of the Nigerian economy, away from oil. Nigeria is endowed with so many strategic minerals that would have good export potentials. This is an excellent avenue, which can be exploited for negotiating market access into the EU, as many of the resources would be of industrial interest to the EU when developed.

124 The mono-product situation in Nigeria remains unjustifiable, given the vast deposits of mineral resources, which remain largely unexploited. The challenge of developing this sector should be a collective responsibility of both the public and private sectors of the economy.

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WTO, Trade Policy Review, Nigeria, Report by the Secretariat, 13 April 2005; see also Chibuzo N. Nwoke, Poverty amidst Plenty: Towards a Strategic Programme of Solid Minerals Development in Nigeria (forthcoming).

125 The Ministry of Solid Minerals Development with its parastatals should concentrate on putting infrastructures in place to facilitate private sector investment in the sector. For policy consistency, government should not be involved in direct mining activities. Moreover, there should be a proper interface between the Solid Minerals and manufacturing sub-sectors with respect to relevant vital information. The Solid Minerals Sector should receive proper and adequate funding to ensure the realisation of its full potentials and a wide publicity campaign concerning the opportunities in solid minerals exploitation should be undertaken.

The Agricultural Sector

126 Agriculture has always remained at the subsistence level in Nigeria, even when the income and livelihoods of a significant percentage of the population are dependent on it. Over reliance on crude oil and gas (accounting for about 98 percent of foreign earnings and over 80 percent of Federal budget, a bulk of which is spent on civil service salaries)^{16/} has weakened investment in other vibrant sectors of the economy including agriculture. Whereas the petroleum sector provides employment to about 1 percent of the population, agriculture provides jobs for more than 70 percent. A net exporter of cocoa, oil palm and rubber at the time of independence, Nigeria today is a substantial importer of several agricultural products, including rice worth about \$750 million annually^{17/}.

127 Nigeria's agricultural exports are dominated by a few crops, including cocoa beans (\$5,000 in 2003), groundnuts (\$0 in 2003), cotton^{18/} (\$279,000 in 2003), rubber (\$1.5 million in 2003)^{19/}, kola nuts (\$0 in 2003), gum Arabic (\$21,000 in 2003), ginger (\$275,000 in 2003) and garlic (\$13,000 in 2003). Altogether, in 2003, agricultural products accounted for 0.03 percent of Nigeria's exports (\$7 million).

128 Apart from over-reliance on petroleum, the core problems facing agricultural development in Nigeria include low productivity, lack of competitiveness, an inconsistent policy framework and unfavourable environment for investment and enterprise development, lack of information, coordination and collaboration between the farmers and the traders who market the produce locally or internationally. Owing to poor incentives, Nigerian youths have deserted agriculture. The typical Nigerian farmer is over 50-years old, illiterate, lives on less than \$1 \$1 a day and farms less than two hectares of land with hand tools, producing a narrow range of crops. He neither uses productivity-enhancing inputs nor receives reliable extension advice, thereby producing only about three-quarters, or less, of household food requirements.

129 Constituting two-thirds of the poorest of Nigeria's population, women farmers are naturally more handicapped, having lower education, less access to land, labour, information and technology, and yet they are most affected by changes in trade policies and agreements. Unfortunately, amidst the foregoing, coupled with limited

16/ Agu and Oduh, *ibid*.

17/ WARDA and USAID, Nigeria Country Strategic Plan 2004 – 2009.

18/ Classified in manufacturing, textile, not agriculture.

19/ Classified in manufacturing, plastic and rubber and articles thereof, not agriculture.

access to, and control over, income, credit, technology, training and resources, it is appalling that agriculture still receives insignificant attention in the budgetary allocation of the nation. For instance, in the 2005 budget, whereas the Appropriation Bill is based on rural agriculture and its development, only N2.3 Billion were allocated to that sector while N22 billion was allocated to the running of the state house^{20/}.

130 Traded rice may be a small part of the total produced, but for many countries across Africa that grow rice at home and also import it, changes in the international market are highly significant. Imports help to keep rice affordable for low-income consumers who depend on it as a staple food, but imports can also undermine prices for domestic farmers. This can be due to dumping, premature cuts in import tariffs, and depressed or volatile world market prices. Using trade policy and domestic interventions to get the right balance between production and imports is crucial for rural development. For countries as diverse as Ghana and Nigeria, importing rice is important to meet consumption demand beyond domestic production. Table 2.7 shows that countries with significant domestic rice sectors can have widely differing ratios of imports.

Table 2.7: Milled Rice Equivalent, '000 Tonnes in 2002

Country	Production	Net imports	Imports as percent of domestic supply*
Nigeria	2,129	1,203	36
Ghana	187	330	64
Senegal	119	785	87

Source: FAOSTAT

131 Nigeria is a country with the potential to be self-sufficient in rice production. Nevertheless, it spends some \$750m in hard currency each year to import this staple food, mainly from Thailand, India, and Vietnam.

132 Much of the debate on agricultural trade liberalisation focuses on its potential harm to producer groups, neglecting to recognise that consumers can expect to be better off since increased imports should provide them with cheaper food. This is the assumption made in trade theory and, in many contexts, it will hold as higher imports lead to lower prices, placing consumers among the winners from trade liberalisation. In ACP countries, in particular, the relationship between import prices and consumer prices can be ambiguous, and the distinction between consumers and producers is largely artificial. Above all, when a few large importers control the market, because of weak domestic competition, consumers may not realise the benefits of lower-cost imports. In other words, trade liberalisation may not always have the expected developmental impacts usually ascribed to it.

133 These concerns present complex policy choices for the government. How to balance the benefits of cheap imported food for urban consumers against the loss of income and livelihoods to poor rural producers, while considering the interaction between the two groups? That balance would clearly vary from country to country,

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Agu and Oduh, *Trade policy, Poverty Reduction and Gender Balance in Nigeria*, African Institute for Applied Economics, Background Paper Prepared for the Nigerian Trade Network, with Support of Oxfam, April 2005.

depending on the balance of urban and rural poverty in each, and so needs to be found on a case-by-case basis.

Expected Impact of EPA on Agriculture

134 The liberalisation of agricultural trade is a complex challenge in any underdeveloped country. Governments must not only consider the potential impacts on consumers but also on the larger national food security and tax revenue issues, on the vulnerable groups and on the environment.

135 Agricultural business in ACP countries like Nigeria is different from what obtains in EU countries. This disparity is not reflected in EPA's trade rules, to take into account the plight of the millions of small-scale farmers who, in Nigeria, produce 95 percent of the nation's food crops in small plots of land with rudimentary technology. Their ability to sell on the local market can be undercut by a rapid international trade liberalisation scheme that will open up the way for the influx of cheap and highly subsidised food imports.

136 The concern is that the direction of EPA negotiations, coupled with other pressures for rapid trade liberalisation, is increasingly constraining the policy space of ACP countries to decide their own trade and agricultural priorities, with potentially devastating consequences especially for poor communities.

137 The reciprocity that the EU is demanding in EPA –even if it is asymmetrical - would be damaging in the area of agriculture, which is so central to most ACP countries' economies and livelihoods. The EU's overall spending on the CAP will remain at around 40 billion euros per year until 2008. The average EU farmer receives 100 times more in agricultural support than the average earnings of an African peasant farmer. The average European farmer receives an equivalent of \$ 16,000 annually in agricultural support while the average income of an African peasant farmer is \$163 per annum^{21/}.

138 Since the beginning of the present study (February), the EU has moved in its position vis-à-vis agriculture in the WTO –DDA negotiations (and, as a result, the EPA negotiations as well): the EU is now ready to remove its domestic agricultural subsidies, provided its partners accept to do the same. When will this happen? Will this highly sensitive issue be solved in Hong Kong? Supposing EU agricultural products were no longer subsidised, this would change the conditions of the EPA negotiations. However, at this stage, such changes are only envisaged, there is no guarantee that they will effectively take place, and therefore we do not take into account this possible change. We stick to the current situation, while advising Nigeria to be as active as possible in such negotiations.

139 More than 80 percent of the world's poor people live in rural areas, and so ensuring that agriculture works for poor people must be at the heart of the international agenda. The EPA negotiations and December's WTO Ministerial meeting in Hong Kong will be important occasions for putting into action the promises of the Doha Round Development Agenda (DDA).

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Sustainability Impact Assessments (SIA) of Trade Negotiations of the EU-ACP Economic Partnership Agreements, Mid-Term Working Draft, 1 October, 2003, www.sia-gcc.org.

140 Agricultural trade rules at the WTO and EPAs pose critical challenges to domestic policy in Nigeria. Nigeria started to liberalise its agricultural sector before the Uruguay Round. However, this was done without adequate attention to the support necessary to account for market failures and the need to address social problems, such as food supply, rural development and environmental sustainability. The domestic barriers limiting full realisation of the benefits of the EPA's trade liberalisation include the prevalence of peasant farmers, inefficient technology, fragmented farmlands and frequent policy changes.

141 Because of resource constraints, Nigeria has not been able to play a significant role in setting international standards in the area of agriculture, even where its own interests are directly affected. There is a need to be more involved in international standards setting. The technical wherewithal must be acquired, and small-scale farmers organised in cooperative groups for ensuring the quality of their products.

142 A large percentage of imported industrial raw materials needed as input in the manufacturing sector could be produced locally with comprehensive agriculture and rural economic reform. This will also enhance the success of the national food sufficiency programme, as well as reduce levels of unemployment.

Special Possibilities in EPA Regarding Agriculture

143 As already pointed out, it may be possible to exclude some agricultural items entirely from liberalisation, as illustrated by the case presented below. Special Agricultural Safeguard Clause in the EU-South Africa TDCA. ARTICLE 16 Agricultural Safeguard^{22/}. "Notwithstanding other provisions of this Agreement and in particular Article 24, if, given the particular sensitivity of the agricultural markets, imports of products originating in one Party causes or threatens to cause a serious disturbance to the markets in the other Party, the Cooperation Council shall immediately consider the matter to find an appropriate solution. Pending a decision by the Cooperation Council, and where exceptional circumstances require immediate action, the affected Party may take provisional measures necessary to limit or redress the disturbance. In taking such provisional measures, the affected Party shall take into account the interests of both Parties".

Fisheries

144 Nigeria's fish output comes from small-scale and industrial production^{23/}. In 2003, the total fishery catch was 514,000 tonnes. Fishing contributes only about 5 percent of the value of Nigeria's agricultural output, some 20-25 percent of per capita animal protein intake, and offers employment to some 8 million people. This makes it an important sub-sector in Nigeria's bid to reduce poverty. The sub-sector also contributes to foreign exchange earning, as exports from fish and shrimps amounted

^{22/} Council of the European Union, Brussels, 9 July 1999. Agreement on Trade, Development and Cooperation between the European Community and its Member States, of the one part, and the Republic of South Africa, of the other part.

^{23/} See WTO, Trade Policy Review, Nigeria, 2005, op cit.

to \$52,000 in 2003. Exports of fish over the period 1999-2003 are shown in Table 2.8.

Table 2.8: Export of Fish and Shrimps, 1999-2003

Period	Trade Value
1999	\$10,097,361
2000	\$1,992,393
2002	\$203,888
2003	\$52,039

Source: Customs, ECOWAS, Comtrade database

145 The deficit of fish and fishery products is met by imports (\$403 million in 2003). In 2003, the average applied MFN tariff on fish imports was 23.7 percent, while crustaceans attract a tariff rate of 25 percent.

146 The Government's efforts in the fisheries sub-sector are geared towards fish supply security. There exist four main programmes in pursuing these objectives: the Fish Production Development Programme; the Aquaculture Development Programme; the Fisheries Infrastructure Development Programme and the Fisheries Resource Management Programme.

147 In 2002 and 2003, fisheries production grew by 6.3 percent and 2 percent respectively. These growth rates were attributed to Government's support for restocking initiatives, establishment of fish farms and financing through loan disbursements. Challenges the fisheries sub-sector is facing include: high costs of fishing inputs such as outboard motors or fishing nets; over-fishing of coastal resources; declining catch; environmental degradation; and a lack of technical innovation. Inland fisheries and aquaculture have been identified to have the greatest prospects for substantially increasing fish supply, predicated on the availability of appropriate technology, infrastructure supply, adequate supply of needed species, quality fish feed at affordable prices. There is also a potential for prawn farming. In recent years, exports of prawns and shrimps have risen on average by 10 percent.

213 Procedures have been put in place by the authorities to enable exporters of seafood to meet international Sanitary and Phyto-Sanitary (SPS) standards. All exporters of fish and fishery products are required to register with the Nigerian Export Promotion Council (NEPC) as exporters of seafood. Before a certificate is issued, the product must conform to the requirements of good manufacturing practices and pass National Agency for Food and Drug Administration and Control (NAFDAC) laboratory tests. The results go to the Federal Department of Fisheries (FDF) and the Federal Ministry of Agriculture and Natural Resources for action and issuance of certificate. Before the issuance of the certificate, the FDF would have to observe that:

- fishermen and fish handlers at the landing beaches have been trained in basic hygienic and sanitary procedures;
- fish at the landing beaches is placed in sanitary containers with ice;
- vehicles used for transporting fish are ice cold and dust proof;

- fish is maintained in an unbroken cold chain from production to market; and
- all establishments intending to export fish are to be inspected by a competent authority.

148 Further procedures are required for export to the EU: For example, EU inspectors have to approve processors and issue EU export numbers; establishments should implement Hazard Analysis and Critical Control Point (HACCP) and Good Management Practices (GMP) principles, in their construction and routine operating procedures.

149 As Nigeria is a net importer of fish products, in the short term the EPA will facilitate further fish imports and may have a negative impact on the fragile Nigerian fisheries sub-sector. If, in the long run, Nigeria is able to export more fish, this negative impact may be cancelled. However, the prospect that in the near future the EU could represent an important export market for Nigerian fish does not look bright, as it will probably not be able to satisfy EU's SOS standards or to compete with European fisheries. Nigeria's fish export market, should in the first place, target landlocked West African countries.

The Manufacturing Sector

150 Nigeria's manufacturing sector is currently highly import-dependent, with an average import content of 55 percent. The sector contributes only 7 percent of GDP. It generates 1.4 million jobs and had a growth rate of 5.8 percent in 2003. Manufacturing remains Nigeria's lead sector of growth, which presents the country with the best opportunities, prospects and potential for employment creation and export-led growth, especially within the ECOWAS sub-region. Given the country's enormous resource endowments and human capital, manufacturing should be its lead growth-sector. It is currently constrained by policy inconstancy, lack of economic infrastructure and extremely high costs of business.

151 The Manufacturing Association of Nigeria expects the manufacturing sector to step up efforts to improve capacity utilisation and achieve high growth rates, based on export-led growth with greater domestic investment, instead of relying on foreign direct investment (FDI). The Government is committed to a private-sector-led growth, and has increased the tempo of its privatisation and deregulation exercise. The manufacturing sector should then pursue greater and deeper investment through domestic value addition, instead of export of oil, gas, solid minerals and agricultural commodities in their crude and raw forms.

152 One important challenge facing Nigeria's potential exports of industrial goods is that the products of the Western world have taken over even its proximate markets in ECOWAS countries and elsewhere. The challenge is to develop and strengthen Nigeria's manufacturing base through competitive production based on the efficient transformation of the country's abundant natural resources endowments.

153 The manufacturing sector has been grouped into three categories as follows:

- Finished good producers, comprising food, beverages, tobacco, textiles, apparels and leather;

- Intermediate goods producers, including wood and wood products, pulp paper and paper products; chemicals and pharmaceuticals, and non metallic products; and
- Capital goods producers, consisting of electrical and electronics, basic metal, iron, steel and fabricated products and motor assembly plants.

154 The high import-content that characterises these three categories of manufacturers in Nigeria is due to the non-availability of the required raw materials locally and the inadequate supply and low quality of domestic substitutes. Cost of production also continued to rise for the three categories of producers. Nigeria's manufacturing sector suffers about 30-35 percent disadvantage on cost over its competitors in Africa and Asia.

155 Infrastructural deficiencies involve problems in power supply, telecommunications, transport, and other utilities. Companies have to make alternative arrangements for all these utilities, resulting in high production cost and uncompetitive export goods in the world market.

156 It is this lack of competitiveness, characterising the Nigerian manufacturing sector, which has made the OPS wary about the liberalisation scheme of the EPA. In fact, leaders of OPS organisations, including the Manufacturers Association of Nigeria (MAN), National Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA), Nigeria Employers' Consultative Association (NECA) and Lagos Chamber of Commerce and Industry (LCCI), National Union of Textile, Garment and Tailoring Workers of Nigeria (NUTGTWN), National Union of Chemical, Footwear, Rubber, Leather and Non-Metallic Products Employees (NUCFRLANMPE), Nigeria Labour Congress (NLC), Trade Union Congress of Nigeria (TUC) are unanimous in their opinion that the Nigerian economy is not ready for trade liberalisation à la ACP-EU EPA, at this time. They assess the potential impact of the EPA to be harmful to their sector, the hub of the Nigerian economy.

157 These OPS groups suggest various periods (10-20 years) of exclusion or protection from the EPA's impact to allow the nation time to develop its international competitiveness. This position does not mean that Nigeria will stop relating to the rest of the world, especially in the international trade arena. What it simply means is that the key players in the OPS fear that because of the Nigerian economy's present disadvantage in international competition, the EPA's call for broad opening up of the economy will, on balance, only erode the surviving bases of the remaining and fledgling economic activities in the country. The large, medium and small-scale enterprises would be similarly impacted by the EPA.

158 Annual changes to the tariff schedule since 2002 have increased the level of protection of local industries, as tariffs on several industrial raw materials and intermediate goods were reduced, whereas tariffs on several finished goods were increased. Since 2002 all industrial machineries attract tariffs of no more than 2.5 percent, but are exempted from the VAT. Manufactured products attracting the highest tariffs (between 40-150 percent) include tobacco and related products; wine; spirit and beer; cosmetics; motorcars and vehicles; textile apparel and clothing; articles of paper pulp; articles of iron and steel; pocket lighters; furniture; and soap.

159 In addition, several manufactured goods are on the import prohibition list. These include cement in bags; printed fabrics; textiles; exercise books and envelopes; footwear and bags of leather; plastic; soaps and detergents; and assembled bicycles. Other trade measures benefiting domestic industry include the policy to inspect physically all imports; and the intensified efforts to clamp down on the dumping of sub-standard goods on the Nigerian market.

160 Under the NEEDS programme, the Government's target growth for the sector is 7 percent per annum; and a capacity utilisation rate of 70 percent is expected by 2007. This is to be achieved through removing the remaining infrastructure constraints; providing appropriate institutional support; improving access to finance; providing adequate fiscal and investment incentives in support of export-oriented manufacturing activities; fostering the growth of SMEs; providing targeted expenditures for science, technology, and research and development; and providing incentives to facilitate joint ventures between foreigners and local entrepreneurs.

Chemicals

161 The need to diversify the oil and gas sector and bring more value to the product explains why the government established three petrochemical plants in the late 1970s and early 1980s. The three petrochemical plants are located at the refineries or close to them: Eleme, near Port Harcourt, Warri and Kaduna. Eleme Petrochemical plant is close to the Port Harcourt refinery. It has the capacity to produce 300,000 tonnes of ethylene, 126,000 tonnes of propylene, 250,000 tonnes of polyethylene, 80,000 tonnes of polypropylene and 22,000 tonnes of Butene per year. At Warri, polypropylene capacity is 35,000 tonnes and carbon black 18,000 tonnes. In Kaduna, there is the linear Alkyl Benzene (LAB) plant, which is currently not functioning. All three petrochemical plants are scheduled for privatisation after more than two decades of dismal performance. The Nigerian chemical industry is as yet relatively under-developed.

162 Developing the petrochemical industry to its potentials as occurs in the Middle East is essential to adding value to the oil industry in Nigeria as well as meaningfully diversifying the sector and the economy. It is hoped that the privatisation of the industry will usher in private domestic and foreign investors. EPA should provide some incentives for the development of the industry. Production and trade diversification in the oil and gas sector are a sine qua non for a sustainable development of the economy through the generation, to generate increased incomes and employment opportunities.

163 As in the case of refineries, environmental regulations are confronting the establishment of new petrochemical plants in Europe and North America. Therefore, the potential for profitable export of petrochemicals to the EU should induce private sector venture from the EU into Nigerian industry. The export processing zones should serve as an additional catalyst in the effort to increase foreign EU investment in the industry.

Textiles

164 The EPAs between the EU and ACP countries are expected to be WTO-compatible. Under the WTO regime, the expected lowering of tariffs on industrial goods by the industrialised countries with the objective of benefiting underdeveloped

countries that have a manufacturing export capacity has remained mostly unattained. Instead, “tariff peaks” for import duties on certain products are sustained in the industrialised countries for many industrial products that underdeveloped countries can export^{24/}.

165 Textile-exporting developing countries have been disappointed and frustrated that five years after the phase-out period, they have not yet seen any benefits. This is due to the end - loading of the implementation of developed countries’ commitments (that is the liberalisation with regard to most of the products they buy from developing countries will take place only in the final year or years), and the benefits will accrue only at the end of the 10-year phase-out period. Although developed countries have legally complied with the agreement, by phasing out quotas proportionately, in fact they have chosen to liberalise on products that are listed but which they have not actually restrained in the past. As a result, developing countries have not benefited. They have made proposals several times that the developed countries improve the quality of their implementation of the Agreement on textiles and clothing^{25/}.

166 According to Nigeria’s Minister of Commerce, the Nigerian delegation to Doha (2001) mentioned its inability to engage in negotiations for tariff reductions in industrial goods. With respect to Nigeria’s textile industry, following the negative impacts of the liberalisation measures undertaken under the Uruguay round negotiations and autonomous liberalisation within the structural adjustment programmes of the International Monetary Fund, capacity-utilisation has fallen considerably. In addition, despite government’s ban on the importation of textiles^{26/}, most textile industries have closed down; those that are still in operation are not expanding production; over 30,000 workers have lost their jobs^{27/}.

167 The concern of the Nigerian Delegation to Doha, with respect to the liberalisation of the textile sector, was expressed in their request that the WTO conduct a study of the implications of the existing liberalisation measures on industrial products and the development concerns of Third World countries. With respect to the impact of EPA’s liberalisation scheme on Nigeria’s textiles industry, that concern remains germane today.

168 Nevertheless, there are lessons for Nigeria to learn from the current news about the influx of textiles from China (which claims to be a Third World country) into the same highly protected EU market. This development is causing some anxiety in

24/ As Khor has pointed out, the ten-year phase-out period intended to ensure progressive opening up of access of the developed countries to the textiles of the Third World have not really materialised.

25/ See Martin Khor, *Globalisation and the South: Some Critical Issues* (Ibadan, Spectrum Books, Ltd, 2002) p.30.

26/ In the Nigerian delegation ‘s view, this does not contradict the WTO’s anti-dumping measures.

27/ Chris Nwachukwu, “Ban on textiles yet to yield results”, *This Day*, April 25, 2003, p.17. See also Osita Eze, *Nigeria and the World Trade Organisation* (Lagos, NIIA, 2004)

European quarters. The question is, despite the obstacles, why would Nigeria, the giant of Africa, not put up a similar fight as China in international trade^{28/}.

Infrastructure and Services

169 Inadequate provision of economic infrastructure constitutes one of the major factors responsible for high business costs in Nigeria. This problem needs to be addressed with all the seriousness it deserves.

170 The EPA will not have a favourable impact on investment or reforming and upgrading Nigeria's infrastructure, especially because government revenue will be reduced, thus reducing further its capacity to mobilise funds for other development programmes. Until infrastructure has been fully upgraded and brought to international standards, Nigeria will not be in a position to compete effectively in the global market.

171 This is why the current liberalisation and deregulation in the telecommunications and air transportation sub-sectors, as well as the ongoing proposal to privatise the electricity sub-sector (NEPA) are welcome. The same strategy should extend to other infrastructures, such as roads, railways, and water supply. There is indeed the need to encourage private capital into building infrastructures, which is a high-cost and slow-profit-yielding venture. Government should develop a systematic and viable framework for attracting private investors in the provision of good roads, electricity, air transportation, railway system and potable water supply in Nigeria. The recently developed "high growth" scenario, jointly envisaged by Government, IMF and World Bank, takes these issues into consideration.

172 In 2003, the services sector accounted for 27.2 percent of GDP. It includes wholesale and retail trade, real estate, transportation, banking and insurance, communication, hospitality business, tourism, business, and government services. In general, the service sector is characterised by the dominance of public ownership over private. Ongoing reforms seek to deregulate and liberalise the sector, thereby opening it to inflows of private investment. Services serve production and trading activities and hence they play a key role in the competitiveness of locally produced goods. Nigeria is a net importer of services from the West, in particular consultancy, business, travel, freight and communication services; in 2003, net service imports amounted to about \$3 billion.

173 The country has undertaken commitments under GATS in four of twelve service sub-sectors. These are communications, financial services, transport services, tourism and travel-related services^{29/}. Foreign services providers must incorporate or establish the business locally in accordance with the relevant provisions of Nigerian laws and regulations.

28/ For another "fight" over the textile issues in world trade, see the India-Turkey Textiles Case in Annex 5 of this study.

29/ There were areas where restrictions were imposed on market access such as cross-border supplies and presence of natural persons.

174 The asymmetry existing in the services sector between the EU and the ACP countries would be further enhanced if the desire of the former, through the WTO and EPA regimes, to gain free and unhindered access for their service providers in ACP countries, is actualised, because it will impede the efforts of ACP countries to develop capacity in these areas. Recently, Nigeria's insurance regulatory authority, the National Insurance Commission (NAICOM) had to cry out to EU countries to reverse their policy of obtaining their insurance contracts overseas, without regard to existing local laws and capacity. In a particular area such as where services can be provided by natural persons, there is a reluctance on the part of the EU countries to enter into agreements that would allow free and unhindered access to ACP labour.

Telecommunications

175 Though telecommunications services^{30/} account for less than 1 percent of GDP, they remain a key element in the improvement of transaction costs in Nigeria^{31/}. The formulation and oversight of the implementation of telecommunications policy are the responsibility of the Ministry of Communications. The Nigerian Communication Commission (NCC) exercises direct regulatory oversight over the telecommunication industry. The Nigerian Telecommunications Limited (NITEL), the dominant national carrier, and other licensed private operators and service providers supply telecommunication services.

176 In 2000, the Government set out a National Policy on Telecommunications, with the overriding objective of modernising and rapidly expanding the telecommunications network and services in Nigeria. This was pursued by allowing additional private operators in the sub-sector. Furthermore, various incentives were put in place to encourage investment in the sub-sector. These include:

- the removal of restrictions on the level of foreign equity participation in the sub-sector;
- reduction in the level of import duties on telecom equipment, from 25 percent to 5 percent, over the period 2000-2003;
- simplification of procedures for the importation of telecommunications equipment and development of related software;
- granting of pioneer status (i.e. five-year tax holiday) to qualified investors; and
- fiscal incentives to encourage local manufacture.

177 In September 2003, Nigeria launched into orbit its first satellite, Nigeria SA(T-
J)^{32/}.

30/ See: WTO, Trade Policy Review, Nigeria, 2005, op cit.

31/ Growth effects in telecommunications have both static and dynamic innovation dimensions. Economy-wide gains from improved telecommunication services stimulate overall growth and contribute to poverty reduction.

32/ This is intended to help in data-gathering for use in disaster management, agriculture and urban planning.

178 The nature and effectiveness of Government regulation remain crucial for reaping the benefits from telecommunications liberalisation. In July 2003, a new Telecommunications Act was adopted. Under the new act, NCC's authority has been extended to enable it grant communication licenses, monitor and enforce compliance with license terms, promote fair competition in the sub-sector, and promote the widespread availability and usage of network and application services throughout Nigeria.

179 The reforms have a favourable impact on Nigeria's telecommunications sub-sector. Teledensity has increased considerably with the number of connected fixed lines increasing from 400,000 to over a million in 2004 and the number of connected digital mobile lines increasing from zero as at 2000 to over 7 million in 2004.

180 Improvements to the telecommunications infrastructure were possible mainly due to inflows of private investment, following the liberalisation reforms of the sub-sector. It is estimated that between 1999 and 2003, private investment in the sub-sector amounted to some \$4 billion. The GSM operators alone have employed some 5000 people and 400,000 indirect employment opportunities have been created through the GSM operators. In general, the expansion in the usage of telecommunications has had a favourable impact on production and trade activities and government revenue from license fees alone has been over \$1.1 billion over the period 2000-2003. NCC estimates the contribution of growth in telecommunications industry on Nigeria's GDP at some 1-3 percent. Nonetheless, despite its significant improvement, the level of tele-density still remains low and the demand for telecommunications facilities is expected to continue rising. However, the high costs of international calls negatively affect competitiveness and constitute a constraint to exports, particularly for SMEs.

181 Massive amounts of investment are still required to expand capacity (both human and physical) and improve the still weak infrastructure base. Further alignment of telecommunications tariffs to costs and the locking in of reforms within commitments under GATS could give reforms further credibility, stimulate further competition, and attract more investment. The future expansion in facilities would be contingent on supply of reliable electric power; reliable databases for names and addresses; trained labour and strong financial regulatory regime amongst others. Other challenges include the need to ensure competition in all segments of the market; improvement in the quality of service; decrease in network congestion and interconnection bottlenecks; maintaining a favourable regulatory and investment regime; and supporting rural access. In 2002, a bid to privatise NITEL was not successful; it is however to be privatised in December 2005.

182 The EPA is likely to have a positive impact on the telecommunication sub-sector by decreasing the cost of some of those imports needed by the sub-sector, which are still faced with significant import duties.

Electricity

183 Nigeria has approximately 5.9 gigawatts of installed electric generating capacity -- three hydroelectric plants and five thermal power stations. However, the power sector as a whole is currently generating less than 3 GW. Nigeria faces a serious energy crisis due to declining electricity generation from domestic power

plants. According to NEPA's own information, 13.9 percent of NEPA's installed capacity is more than 20 years old, 57.1 percent of installed capacity is more than 15 years old, and 79.6 percent of installed capacity is over 10 years old. Long periods of power outages are frequent and the power sector operates well below its estimated capacity.

184 Currently, only 10 percent of rural households and approximately 40 percent of Nigeria's total population have access to electricity. NEPA has announced plans to boost access to 85 percent by 2010; its plan calls for an additional 15,000 kilometres (9,000 miles) of transmission lines, 16 new power plants, and new distribution and marketing facilities.

185 The Nigerian power sector is dominated by the state-owned NEPA. However, radical changes are expected in the sector in the next few years following the recently passed Power Sector Reform Act. The privatisation of NEPA and deregulation of the industry is well advanced with respect to the new legislation. NEPA, as a public company (state monopolist) has been dissolved, replaced by a new structure consisting of generating companies and distributing companies; under the plan, the transmission network will remain a single entity -- the Nigeria Transmission Company -- but the generation sector will be split into six independent companies.

186 Eleven companies have been created from NEPA's current distribution operations. Under the legislation, and following the Bureau of Public Enterprise's plan, there should be a significant turnaround in the industry, as happened in the telecommunications sector when it was deregulated and privatised a few years ago.

187 According to the Government's projections, the power supply situation will significantly improve in the next three to four years as the privatisation and deregulation of the industry serve as incentive to private independent power producers to be more active in the industry. The Nigerian government is hoping to increase foreign participation in the electric power sector and is looking for independent power producers to generate and sell electricity to NEPA. Several oil majors have shown interest in entering the power generation sector. They are set to be active players in the power industry based on their huge natural gas assets. Shell, Agip, ExxonMobil, Chevron Texaco are about to become major participants in the industry.

188 The Nigerian President has conceded recently that the electricity situation, marked by regular power outages and the preponderance of power generating systems in public and private businesses, is now a national embarrassment. China is now being consulted to bring solution to the problem. The power outage situation is one of the elements making the cost of business in Nigeria high.

189 The break up of the National Electric Power Authority into several units prior to its privatisation would facilitate the efficiency of the sector, serve to enhance power generation and distribution, enhance rural electrification and eventually lead to economic growth. It would also open up opportunities to private sectors, both domestic and foreign, to invest in the energy sector.

190 Privatisation of NEPA is needed to guarantee efficiency in electric power supply nationwide. However, one may be worried about the huge liability of NEPA,

amounting to over N733 billion. Government should resolve this issue before the unbundling, to ensure successful privatisation of NEPA. Moreover, proper operational guidelines should be in place, to allay the fears and scepticism of how the regulatory body, the Nigerian Electricity Regulatory Commission, would ensure that the units ran as articulated in the Electricity Power Reform Act.

Tourism

191 Nigeria is endowed with several natural and cultural tourist attractions, including beaches, land safaris, national parks, game reserves, water sports, archaeological monuments, and festivals. Tourism holds potential for generating employment and contributing towards poverty reduction in rural areas.

192 The Federal Ministry of Culture and Tourism (FMCT) is responsible for policy formulation and monitoring and cooperates with state governments on all tourism matters. The National Council on Culture and Tourism coordinates the planning and development of tourism in the Federation. The Nigerian Tourism Development Corporation has responsibility to regulate and supervise the registration and grading of tourism enterprises, including hotels and restaurants, and to promote, market and disseminate information to the industry.

193 Proceeds from hotels and restaurants account for only 1.2 percent of services GDP and 0.15 percent of overall GDP. The under-performance of the sub-sector is due to lack of awareness of its potentials, inadequate and underdeveloped facilities at tourist centres; a low level of the tourist attractions in Nigeria; security concerns; and a low level of investment.

194 The government has renewed its determination to develop the sub-sector by setting a tourism policy, which seeks to, *inter alia*, make Nigeria a prominent tourism destination in Africa, generate foreign exchange, promote tourism-based rural enterprises, and generate employment.

195 As mentioned earlier, tourism is one of the areas where Nigeria has undertaken commitments under GATS. This area is quite underdeveloped, like the other services, and will therefore suffer similar disadvantages under EPA, as discussed in section 5.6 of this study.

Banking and Insurance

196 The Nigerian financial system is one of the largest and most diversified in sub-Saharan Africa. It consists of 89 deposit banks, 532 community banks; six development finance institutions; one stock exchange; one commodity exchange; 5 discount houses; 118 insurance companies; 88 primary mortgage institutions; 100 finance companies, and 90 bureaux de change. The deposit banks overwhelmingly dominate financial services.

197 Liberalisation and deregulation reforms of financial services have been current since 1987. Supply of services by banks is improving with the adoption of the Nigerian Automated Clearing System, the introduction of debit cards, thus reducing dependency on cash in the economy. All banks are required to meet performance criteria such as N25billion minimum paid-up capital requirement (as of December 2005).

198 In spite of reforms, the role of banks in financial intermediation remains weak. The level of interest rates remains high; the allocation of funds is skewed toward large borrowers. Many small and medium-scale enterprises, including exporters of non-oil products, do not have access to funds from the formal banking system and thus rely on informal moneylenders.

199 Other challenges facing the Nigerian banking system include increased uncertainty and inability to make long-term business plans due to the banks heavy reliance on public sector funds, which depends on widely fluctuating income from oil; neglect of small and medium scale savers; weak capital base; weak control systems; inadequate legal provisions to handle banks in difficulty and protect supervisors.

200 To reiterate, the service sector is problematic for Nigeria. So, even in the banking and financial areas where some progress has been made, the country cannot compete with services provided by firms from the EU.

201 A culture of built-in balance between liquidity and profitability in banking operations should be ensured to forestall insolvency and/or distress situations. In addition, the reform of the stock exchange is justified by the need for a faster rate of growth of the Nigerian economy and the recognition of the stock market as an important instrument for sourcing on-shore and offshore investment funds. The OPS supports the continuing sanitisation exercise of the banking sector and the licensing of new banks with strict guidelines that will ensure their efficient operations. It also endorses the idea of multiple Stock Exchanges with a view to capturing new sources of investment funds and allowing for competition. The multiple stock exchange system should be left to the private sector operators of the economy.

Transport

202 Nigeria's transportation sector encompasses a network of roads, railways, airports, waterways and seaports. In 2003, the sub-sector's direct share of GDP was 3.3 percent. As a key infrastructural service it is vital to improving competitiveness (via lower input and output prices) and also to poverty reduction. High transport costs also reflect on consumer prices.

203 The Federal Ministry of Transport has responsibility for the formulation and implementation of policies, provision of transport infrastructure, and the development of skilled labour in the transportation sector. It is assisted in its function by a number of parastatals. In 2003, a National Transport Sector Policy was developed. As mentioned earlier, under its GATS schedules, Nigeria has undertaken commitments in maritime and rail transport services.

204 Transport infrastructure is critical for Nigeria's economic development and growth. For many developing countries that start from a low basis in this regard, improving the quantity and quality of such services play a pivotal role in their economic development. In the context of the EPA for Nigeria, trade flows and their development over time, amongst other factors, depends critically on the state of transport infrastructure.

205 Given the bulky nature of investment required, and both public goods characteristics that transport infrastructure exhibits, together with associated externalities one expects governments to play a pivotal role in the provision and

support of transport services. The EPA in this context may also have a role to play, given that it affects government revenue and, through it, may influence both recurrent and investment expenditure allocation to transport services.

Air Transport

206 The civil aviation industry in Nigeria, as reported by NISER (forthcoming)^{33/} is one of the fastest growing sectors, as indicators such as increase in the aircraft registration, airport passenger and cargo, indicate. For the purpose of measuring the performance of this sub-sector, we use and report indicators such as annual average passengers per aircraft, percentage change in the weight of air cargoes moved, as well as the percentage change in aircraft registration. Yearly registration of aircraft serves as a proxy for the level of investment in this sub-sector and...Table 2.9 provides information indicating that, starting from a low base, there has been a large increase in air cargo and registered planes and aircrafts in the recent past.

Table 2.9: Total Weight of Cargoes Moved by Aircraft at the Airports, 1998-2002

Year	Weight (t)	Annual Growth Rate (percentage)
1998	23,730	-
1999	25,880	9.06
2000	33,404	29.08
2001	45,169	35.22
2002	52,550	16.34

Source: NISER, Review of Nigerian Development, 2001/2002

Road Transport

207 The Road Transportation infrastructure and services in Nigeria suffer from lack of maintenance, mainly resulting from inadequate funding, some corruption and poor planning that lead to erosion of investments and wastage of resources. The subsequent costs to the economy (in terms of additional vehicle and road rehabilitation costs), estimated at some 3.5 percent of GDP, substantially affect the competitiveness of Nigeria's non-oil exports. Efforts to address this problem include the establishment, in 2002, of the Federal Road Maintenance Agency responsible for the inspection and maintenance of all existing Federal trunk roads.

208 The government is promoting the use of the Build-Operate-Transfer (BOT) scheme in road construction.

Rail Transport

209 The state of rail transport in Nigeria is poor but, in terms of number of passenger and tonnage of freight, its absolute level has been increasing. Table 2.10 provides some details on the demand for rail transport. Although the length of railway lines has increased recently, given the size of the country its coverage is limited. Both demand and supply of rail services have declined over the recent period.

33/

See NISER, Review of Nigerian Development, 2001/2002; as well as forthcoming publication of the same series.

Table 2.10: Railway Passengers and Freight Movement, 1998 - 2002

Year	Passenger Carried (Million)	Freight Carried (000 Tonnes)	Passenger Kilometre (Million)	Freight Tonnes-Kilometre (Million)
1998	1.07	1513	214	959
1999	1.78	737	363	468
2000	1.53	116	916	105
2001	1.28	133	770	119
2002	0.99	98	44	88

Source: *ibid*

Water Transport

210 Water transport has played an important role in Nigeria and it has expanded a little over the last few years. Information on some aspects of this is provided in Table 2.11. As indicated, during the period covered there has been an increase in both tonnage and number of vessels visiting Nigeria.

211 The numerous bureaucratic procedures, the activities of Security Agencies and the pre-shipment agents have contributed to making the Nigerian ports less competitive in the international market.

212 The proposed Destination Inspection, which was billed to commence on 1 January 2004 but was later postponed, should take off without further delay. If properly implemented, it will enhance trade facilitation, as time wasted in getting the goods inspected at the port of departure and the waiting period for the arrival of Clean Report of Inspection (CRI) will be eliminated. Moreover, the number of agencies at the Ports should be limited to no more than three. Clearing procedures should be made one-stop twenty-four-hour affairs. New equipment should be acquired to facilitate easy cargo discharge. The privatisation of the Nigerian Ports Authority should be pursued.

213 As far as the EPA is concerned, the increase in trade flows that this agreement intends to generate is likely to materialise if transport infrastructure is in place to cope with the increased trade flows. Given the summary presented here and the changes in the recent past in growth of various transport sub-sectors, it is not altogether clear that transport infrastructure is likely to cope with much higher trade flow. Given the state of road and rail transport in particular, it is not clear that Nigeria would be able to benefit much from increasing its non-oil exports.

Table 2.11: Registered Tonnage of Vessels that Entered All Nigerian Terminals

Year	Net Registered Tonnage (000 t)	Gross Registered Tonnage (000t)	No. of Entering Vessels	Annual Percentage Change in Entry Vessels
1998	60056	97892	3972	-
1999	57193	94742	3762	-5.29
2000	71659	123038	4087	8.64
2001	72726	130013	4473	9.44

Source: *ibid*

The Informal Sector

214 In Nigeria, over the period 1990-93, the shadow economy accounted for around 68 percent of GDP. A more recent and detailed study of the informal sector in Nigeria was conducted jointly by the Central Bank of Nigeria, the Federal Office of Statistics and the Nigerian Institute for Social and Economic Research^{34/} and published in 2001. It reveals that the size of the informal sector in Nigeria has shrunk considerably in recent periods. According to this source, the informal sector in Nigeria has contributed 37.8 percent to GDP in 1998; its contribution to the non-agricultural GDP was 7.2 percent. The contribution of the informal sector in the manufacturing sector in the same year stood at 4.7 percent. Detailed information about the informal sector is provided in Table 2.13 below.

215 By far the largest proportions of informal establishments are engaged in wholesale and retail trade activities. In terms of employment and GDP contribution, the non-manufacturing sector contributes most. In terms of size, measured by the number of employees, one-person employment owner operated enterprises formed 54.7 percent of these units in 1998. These establishments do not have many linkages with the formal sector of the economy; linkages with the informal sector accounted for over 70 percent of overall linkages in the informal sector. Another indication of their independence from the formal sector is that less than 10 percent of informal sector enterprises belonged to unions/associations in that year.

216 Given the nature of the activities of the enterprises engaged in the informal sector of the economy, there is likely to be a large margin of error in the measurement of the contribution of this sector to the economy. In the case of Nigeria, given the detailed nature of the study conducted by CBN/FOS/NISER (2001), this margin is likely to be small and, therefore, the picture presented by the data in Table 2.12 more accurately reflect the state of the informal sector in Nigeria. In that case, the objectives of tax reform in Nigeria are unlikely to be realised.

Table 2.12: Characteristics of the Informal Sector in Nigeria in 1998

Size:	Percentage
Contribution to GDP	37.8
Contribution to Non agricultural GDP	7.2
Contribution to Manufacturing GDP	4.7
Number of establishments:	8,604,048
Wholesale and retail trade	55.6
Manufacturing	24.5
Others	19.9
Activities involved:	
<i>Non-Manufacturing sector:</i>	
Wholesale and retail trade	69.0
Social services	11.7
Repair trade (Bikes/Cars)	3.4
Hotel and restaurants	4.2
Building and construction	3.4

34/

A Study of Nigeria's Informal Sector. Volume 1, Statistics on Nigeria's Informal Sector, CBN/FOS/NISER, 2001.

49

Size:		Percentage
	Transport	3.1
	Others	5.0
<i>Manufacturing sector:</i>		
	Food, beverage and tobacco	62.0
	Textile, weaving and leather	12.7
	Wood and furniture	11.1
	Non-metallic products	<1
Employment generated:		
	Total labour force	11,407,348
<i>Of which:</i>		
	Non-manufacturing	72.3
	Manufacturing	27.7

Nigeria's External Trade

Nigeria's Trade Balance: World and EU

217 Table 2.13 illustrates the duality of Nigeria's economy: a regularly increasing trade balance, thanks to oil and gas related products; in parallel, a continuously deteriorating trade position, if gas and oil trade is excluded. Without oil and gas, Nigeria's projected trade balance in 2005 would be negative by \$16 billion.

218 Total merchandise import in the Balance of Payments, which was \$11 billion in 2001, is expected to reach \$23.5 billion in 2005. The value of non-oil imports rose from \$9 billion in 2001 to \$16 billion expected in 2005. Over the period 2001-2005, the volume of imports to Nigeria will have almost doubled. The projections were made before the oil price boom. As a result, the trade balance and the proportion of oil exports are likely to be higher than projected.

Table 2.13: Nigeria's Trade Balance, 1999-2005

	2001	2002	2003	2004		2005
			Est.	CR 04/239	Proj.	Proj
(In millions of U.S. dollars,)						
Trade balance	8,116	4,325	10,435	13,985	15,449	20,457
Trade balance, oil and gas related excluded	-8,413	-8,130	-	-11,263	-250	-
			10,228			15,908
Exports	19,598	17,672	27,321	31,451	33,093	43,898
Oil	18,031	15,878	24,592	27,860	29,313	38,813
Gas	896	1,056	1,918	2,688	2,876	4,117
Other	671	738	811	903	903	969
Imports	-	-13,347	-	-17,466	-	-
	11,482		16,885		17,644	23,442
Oil-related	-1,891	-3,941	-5,188	-3,918	-4,732	-4,782
Gas-related	-507	-538	-658	-1,382	-1,382	-1,783
Other	-9,084	-8,868	-	-12,166	-	-
			11,039		11,530	16,877
In percent						
Exports	100.0	100.0	100.0	100.0	100.0	100.0
Oil	92.0	89.8	90.0	8.9	88.6	88.4
Gas	4.6	6.0	7.0	8.5	8.7	9.4
Other	3.4	4.2	3.0	2.9	2.7	2.2
Imports	100.0	100.0	100.0	100.0	100.0	100.0

	2001	2002	2003	2004		2005
			Est.	CR 04/239	Proj.	Proj
(In millions of U.S. dollars,)						
Oil-related	16.5	29.5	30.7	22.4	26.8	20.4
Gas-related	4.4	4.0	3.9	7.9	7.8	7.6
Other	79.1	66.4	65.4	69.7	65.3	72.0

Source: IMF, Direction of Trade Statistics, and staff estimates; Consultant calculations

219 While over the last five years (2000-2004) total EU imports from the rest of the world have grown by an average of 0.8 percent per year; its imports from Nigeria have on the average declined by 5.2 percent per year, with a strong decline of 16.1 percent in 2004. As a result, Nigeria's share of EU imports has declined from 0.64 percent in 2000 to 0.5 in 2004.

220 Regarding the exports from the EU to Nigeria, their evolution over the period has been irregular, but, on an average, they have progressed by 7.5 percent per year.

221 Such trend shows that, over the last five years, Nigeria has been exporting less and less products to the EU, while the EU has been exporting more and more products to Nigeria. The current trend is highly unfavourable to Nigeria; it illustrates a deterioration of the exchanges between the EU and Nigeria and the fact that Nigeria is increasingly diversifying its export flows towards other regions of the world and away from its traditional partners. It is important that Nigeria's negotiators of the EPA have these basic data in mind, and try to negotiate the EPA in such a way that this general trend is reversed.

Table 2.14: Evolution of EU Trade Balance with Nigeria

European Union, Trade with the World (Mio Euro)								
Year	Imports	Yearly percent change	Exports	Yearly percent change	Balance	Imports + Exports		
2000	995,649	0	856,728	0	-138,921	1,852,377		
2001	983,440	-1.2	892,716	4.2	-90,724	1,876,155		
2002	941,989	-4.2	900,402	0.9	-41,587	1,842,392		
2003	940,504	-0.2	878,665	-2.4	-61,839	1,819,170		
2004	1,027,893	9.3	962,648	9.6	-65,245	1,990,541		
Average annual growth		0.8		3.0		1.8		
European Union, Trade with ... Nigeria								
Year	Imports	Yearly % change	Share of total EU imports	Exports	Yearly % change	Share of total EU exports	Balance	Imports + Exports
2000	6,419	0	0.64	3,914	0	0.46	-2,505	10,333
2001	6,479	0.9	0.66	5,128	31.0	0.57	-1,350	10,607
2002	5,028	-22.4	0.53	5,210	1.6	0.58	181	10,238
2003	6,183	23.0	0.66	5,076	-2.6	0.58	-1,107	11,258
2004	5,186	-16.1	0.50	5,223	2.9	0.54	37	10,409
Average annual growth		-5.2			+7.5			0.2

Source: Eurostat (Connex, Statistical regime 4). World excluding intra-EU trade and European Union: 25 members

Imports

Table 2.15: Imports from the EU, by Sector

Million USD and percent of totals					
	1999	2000	2001	2002	2003
Agriculture 01-24	499	554	764	714	914
Raw materials 25-27	246	99	190	139	145
Manufactured goods 28-97	1 414	2 039	2 506	3 029	3 788
TOTAL	2 159	2 692	3 460	3 881	4 847
Agriculture, as percentage of imports	23,1	20,6	22,1	18,4	18,9
Raw materials, as percentage of imports	11,4	3,7	5,5	3,6	3,0
Manufactured products, as percentage of imports	65,5	75,7	72,4	78,0	78,2

222 Table 2.15 shows that Nigeria imports from the EU mostly manufacturing products, while the share of imported raw materials has considerably declined. Detailed import statistics are provided in Annex 2.

Exports^{35/}

223 Nigeria does not have a special policy to promote exports to the EU, as its aim is to boost its exports to any market where Nigerian products are welcome. The Federal Government has released guidelines for exporters wishing to benefit from the Export Expansion Grant (EEG). The Government is committed in its effort to bring about tremendous growth of non-oil exports and resolved to enhance efficiency, transparency and accountability in the administration of the key incentives for non-oil export development. The new scheme is no longer product-specific, but company-specific. The method of assessment is company specific. A company's assessment would be conducted once yearly and the determined rate will apply throughout the year. A new entrant would be expected to provide a prior financial statement or, where applicable, an investment plan. To be eligible, an exporter must be registered with the Nigerian Export Promotion Council (NEPC). Qualifying export transactions must have the proceeds fully repatriated within 180 days, calculated from the date of export.

Trade Between Nigeria and ECOWAS

224 Table 2.16 shows that within ECOWAS, Nigeria's main trading partners are Bénin, Côte d'Ivoire, Ghana and Senegal. Nigeria exports products mainly to Côte d'Ivoire (61.2 percent) followed by Ghana (19.1 percent) and Senegal (17.9 percent). 97 percent of these exports consist of oil. Nigerian imports are half the value of its exports, and the main ECOWAS countries from which Nigeria imports products are Bénin, Côte d'Ivoire and Ghana.

^{35/}

For detailed export statistics and their analysis, please refer to Volume 2, Annex 2.

225 Table 2.16 shows that Nigeria is a net exporter of goods to other ECOWAS countries. In 2003, Nigeria exported more than \$1 billion of petroleum products to the other ECOWAS countries. The rest of its exports to the sub-region are negligible. This illustrates the fact that effective regional integration has not yet taken place, because besides oil, ECOWAS countries do not have products to trade internally. We have only one certainty: the ECOWAS countries must build their economic bases, and create internal trade flows, before the issue of trading with the rest of the world, including the EU, will begin to make sense.

226 Table 2.17 shows the main products imported, at a more detailed level. Fish and oil are the dominant products. These statistics do not fully reflect reality, as numerous goods are smuggled from other countries from the region into Nigeria.

227 There is, however, a highly organised parallel trade in the sub-region. Such trade involves networks of traders using land, sea, and air routes, through informal channels capable of bypassing inter-country trade barriers between Nigeria and its ECOWAS neighbours. Informal networks take advantage of disparities in economic policies between Nigeria and its neighbours to extract economic rents from parallel trade. This mainly re-export trade is based on arbitrage activities that contribute little to the development of regional industry or agriculture.

228 A solution would appear to be the coordination and liberalisation of economic policies among Nigerian and other ECOWAS countries in order to eliminate the rationale for such trade, thereby releasing the energies of the informal sector towards more productive ventures. However, the rent-seeking interest of the informal sector is inconsistent with the more modest profit margins of normal commercial activities; any reduction of its opportunities, may therefore make the actors move into criminal ventures, such as drugs or arms smuggling, which today already constitute a good proportion of the informal sector's activities.

229 The informal cross-border trade between Nigeria and its ECOWAS neighbours is a serious challenge for ECOWAS, even in the face of its renewed vigour to march towards integration^{36/}.

Table 2.16: Nigeria's Trade with other ECOWAS Countries, by Country

Country	Imports					Exports				
	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001
In million Naira										
Bénin	1460	461	311	3682	12689	964	102	89	642	418
Burkina Faso	1	86	4	12	41	5	0	3	46	30
Cape Verde	636	856	0	41	141	0	0	0	0	0
Côte d'Ivoire	829	841	691	1701	5862	40057	17581	58886	85620	55706
Gambia	3	4	17	60	207	88	111	70	5	3
Ghana	174	577	523	1450	4997	10071	14294	29093	26660	17345
Guinée	3	1	2	142	490	289	577	94	1232	802
Libéria	18	14	0	54	186	58	12	31	15	10
Mali	0	0	10	20	69	0	0	104	476	310

36/

Nwoke, "Nigeria and ECOWAS".

Establishing the Counterfactual

Country	Imports					Exports				
	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001
Niger	3	138	82	54	185	0	0	3	39	26
Sénégal	267	18	118	54	186	5317	1543	14109	25093	16326
Sierra Leone	44	1	1	3	10	0	0	0	0	0
Togo	219	65	91	547	1885	63	70	131	11	7
Total : ECOWAS	9825	8107	8309	13080	45075	56913	37811	104563	139839	90982
In % of total ECOWAS										
Bénin	14.9	5.7	3.7	28.1	28.2	1.7	0.3	0.1	0.5	0.5
Burkina Faso	0.0	1.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Cape Verde	6.5	10.6	0.0	0.3	0.3	0.0	0.0	0.0	0.0	0.0
Côte d'Ivoire	8.4	10.4	8.3	13.0	13.0	70.4	46.5	56.3	61.2	61.2
Gambia	0.0	0.0	0.2	0.5	0.5	0.2	0.3	0.1	0.0	0.0
Ghana	1.8	7.1	6.3	11.1	11.1	17.7	37.8	27.8	19.1	19.1
Guinée	0.0	0.0	0.0	1.1	1.1	0.5	1.5	0.1	0.9	0.9
Libéria	0.2	0.2	0.0	0.4	0.4	0.1	0.0	0.0	0.0	0.0
Mali	0.0	0.0	0.1	0.2	0.2	0.0	0.0	0.1	0.3	0.3
Niger	0.0	1.7	1.0	0.4	0.4	0.0	0.0	0.0	0.0	0.0
Sénégal	2.7	0.2	1.4	0.4	0.4	9.3	4.1	13.5	17.9	17.9
Sierra Leone	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Togo	2.2	0.8	1.1	4.2	4.2	0.1	0.2	0.1	0.0	0.0
Total : ECOWAS	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 2.17: Nigeria's Trade with other ECOWAS Countries (Sectors), 1999-2003

		Million\$									
		Import					Export				
	PRODUIT \ Indicators	1999	2000	2001	2002	2003	1 999	2000	2001	2002	2003
1	Live animals, animal products (1-5)	0,8	2,7	16,0	8,3	29,8	0,0	0,4	0,2	52,9	1,2
2	Vegetable products (6-14)	1,8	4,1	1,8	0,1	0,8	0,1	0,0	0,0	0,0	0,5
3	Animal and vegetable fats and oils (15)	0,0	2,4	0,7	1,0	0,9	0,0	0,7	0,2	0,9	0,0
4	Prepared food stuff; beverages, spirits....(16-24)	0,9	9,3	41,5	2,2	7,1	0,1	0,1	0,1	105,6	0,9
5	Mineral products (25-27)	5,0	6,3	12,1	6,9	61,7	1 036,6	1 365,2	783,0	741,3	1 073,6
6	Products of the chemical or allied industries (28-38)	0,9	14,4	55,7	7,0	5,1	0,4	0,2	3,2	27,1	3,9
7	Plastics and articles thereof; rubber ... (39-40)	0,4	0,8	0,9	0,8	89,2	0,4	0,1	2,4	1,3	5,8
8	Raw hides and skins ...(41-43)	0,0	0,0	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0
9	Wood and articles of wood; wood charcoal; corks ...(44-46)	0,0	0,0	0,1	0,6	5,3	0,0	0,0	0,0	0,0	0,0
10	Pulp of wood or of other cellulosic material ...(47-49)	0,1	0,7	6,6	0,7	1,8	0,1	0,1	1,1	0,4	0,3
11	Textile and textile articles (50-63)	2,9	20,5	170,2	34,8	103,1	4,2	7,1	26,4	130,9	9,8
12	Footwear, headgear, umbrellas, walking stick.... (64-67)	0,3	0,3	0,3	0,2	0,3	0,1	1,1	0,0	0,4	0,2
13	Articles of stone.... (68-70)	0,1	0,6	0,1	0,4	0,2	3,0	4,6	0,5	0,3	0,6
14	Natural or cultured pearls.... (71)	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,2	0,0
15	Base metals and articles of base metals (72-83)	1,8	11,8	7,6	13,9	42,3	0,6	0,4	0,4	1,8	1,0
16	Machinery and mechanical	1,5	1,8	14,5	4,4	10,7	0,0	0,0	0,3	9,2	1,4

		Million\$									
		Import					Export				
	PRODUIT \ Indicators	1999	2000	2001	2002	2003	1 999	2000	2001	2002	2003
	appliances; electrical equipment; (84-85)										
17	Vehicles, aircraft, vessels and associated transport equt; (86-89)	3,2	1,2	2,7	1,9	1,6	0,4	0,2	0,0	0,1	1,2
18	Optical, photographic, cinematographic etc (90-92)	0,1	0,0	0,1	0,2	0,2	0,0	0,0	0,0	0,0	0,0
19	Arms and munitions; parts and accessories thereof (93)	0,0	0,0	0,0	0,0	1,1	0,0	0,0	0,0	0,0	0,0
20	Miscellaneous manufactured articles (94-96)	0,0	0,1	2,4	0,1	0,1	0,0	0,0	0,0	122,1	0,0
21	Works of art (97)	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
22	Special classification provisions (98-99)	0,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Total		20,1	76,9	333,3	83,6	361,4	1 046,0	1 380,2	817,9	1 194,5	1 100,6

Sources: Nigerian Customs Service, ECOWAS. Consultants' calculations

Table 2.18: Nigeria's Top Imported Products, from other ECOWAS Countries

In \$

HS96	Products	1999	2000	2001	2002	2003
303	Fish, frozen, excluding fish fillets	735 577	1 786 300	15 866 105	7 792 800	28 783 560
2710	Petroleum oils and others, not crude	11 334	2 217 964	0	6 583 522	28 775 364
7221	Bars and rods of stainless steel, hot-rolled etc	0	0	0	0	17 172 330
5201	Cotton, not carded or combed	1 908 683	5 773 050	160 558 768	19 787 200	12 760 364
7606	Aluminium plates, thickness>0.2 mm	1 507 502	9 607 381	6 182 415	11 541 059	11 939 556
7214	Other bars etc, hot-rolled, hot-drawn	0	0	0	0	10 705 842
4412	Plywood, veneered panels, similar lamin	0	0	8 887	503 006	5 234 563
8532	Electrical capacitors, parts thereof	0	0	0	0	3 699 923
2101	Extracts, essences etc of coffee, tea	608 208	1 468 179	35 398 913	887 283	3 399 369
5208	Woven fabrics of cotton, >85%, < 200 g/m2	0	39 713	150 268	510 932	2 461 093
2905	Acyclic alcohols & halogenated derivatives	0	0	441 553	1 013 997	2 020 662
8502	Electric generating sets and rotary converters	256 878	84 767	287 584	1 356 116	1 705 396
2106	Other food preparations	96 384	6 807 231	3 282 192	168 306	1 656 872
2523	Portland, aluminous or slag cement	0	1 830	5 497 276	0	1 306 368
7308	Structures	215 510	0	0	1 330 536	1 249 693
9304	Other arms	0	0	0	0	1 099 208
2713	Petroleum coke, petroleum bitumen	4 428 605	3 812 101	6 175 733	0	1 015 314

Sources: Nigerian Customs Service, ECOWAS. Consultants' calculations

External Trade Policy

230 Overall, since the 1970s, trade policy in Nigeria has not followed any systematic framework. The relative abundance of resources in the 1970s combined with the dominant protectionist economic thinking of the period gave rise to import substitution industrialisation strategy. This was complemented with protectionism, as the new firms demanded protection under 'infant industry' arguments. Following this, the country's trade policy became too restrictive with high tariff walls and a plethora of non-tariff barriers. Trade taxes formed an important source of government revenue providing over 10 percent of total revenue and 40 percent of non-oil revenue to government. This was made the more so owing to the weakness of other non-oil sources of revenue to government.

231 The above scenario led to a number of important institutional developments in both the trade and macroeconomic environment in the country. For example, the relevance of trade taxes in total government revenue led to the domestication of the powers to control tariff rates and implementation in the Federal Ministry of Finance

instead of the Ministry of Commerce or Industry^{37/}. Thus, both the Nigerian Customs Service and other agencies involved in revenue collection at the ports report to the Ministry of Finance, rather than to the Ministry of Commerce.

232 The objective functions of the ministries often clash. For example, not infrequently has the Ministry of Finance given target resource mobilisation to the Customs Service which could work against waivers and other trade procedures established by the Ministry of Commerce or work against the objective of rapid industrialisation pursued by the Ministry of Industry. Oftentimes, therefore, the revenue implications of tariff changes are emphasised at the expense of tariff being used as a tool for overall economic development.

233 Over time, industrial policy has been in fact disjointed from trade policy. The major fallout of the structural imbalance in trade policy design in Nigeria is the weak taxation system. The emphasis on revenue from tariff was not matched with equivalent emphasis on other (non-oil) sources of revenue for government. This has led to a structurally weak income and other tax systems. Even though total tax revenue continued to grow nominally, the growth is not because of improvements in the tax system.

234 Nigeria is a signatory to many protocols, moratoria and agreements on trade. The majority of them, both at the bilateral and multilateral levels, aim to facilitate integration, especially within the region. However, a close assessment would show that the potential gains of these agreements have been impeded by their poor or haphazard implementation and sometimes the flagrant dishonour of their commitments. Such disregard to commitments has created escape-routes for corrupt practices by the Customs and the multiplicity of other agencies at the border posts and ports of entry. The result is that the original intention of regional integration is continuously marred. Rather, poor enforcement has increasingly resulted in trade-vices such as human trafficking, drug peddling, smuggling and arms proliferation.

235 Similarly, policy reversals and frequent changes on trade-related decisions have been on the increase, leading to poor performance of trade in Nigeria in recent times. Recent studies reveal that the Nigerian trade policy has been:

- A product or function of erratic responses to external events where, unfortunately, there is little integration between such events and routine trade policy-making on such issues as tariff setting.
- An annual budget-driven process, which focuses on tariffs and industrial incentive schemes, promoting a lobbying process that is aimed more at support for individual industries and even individual persons than being part of a coherent trade policy strategy.

37/

See Charles C Soludo, Okey George Oji and Chukwuma Agu, "Potential Impacts of Extension of UEMOA Tariffs to all ECOWAS- Member States: A Case Study of Impacts on Revenue and Trade Balance in Nigeria" Paper written for ECOWAS as part of its survey of the impact of CET on the regional economy of West African States, 2003.

- A process with poor coordination and lack of communication between the different levels of government, which results in a policy-framework that lacks focus, coherence, transparency and predictability.
- A policy that recognises the impact of the oil and gas sector but fails to make concrete proposals for diversification and further utilisation of the sector for national development.
- A policy frequently prone to reversals and abrupt hiccups, thereby playing into the hands of the politically powerful that are able to negotiate waivers and exemptions from the complex policy structure.
- An engagement by the private sector with the Government, tending always to concentrate on obtaining access from the Presidency to special favours and privileges, rather than pressing for broad improvements in the policy environment in the national interest. This has led to a situation where successful industries are strong advocates of the maintenance of protectionist policies, whilst those that might gain from policy reform are weak and underdeveloped.
- A unilateral trade policy framework where most times critical decisions, such as import and export prohibitions, come directly from the Presidency in an *ad hoc* manner, communicated to the bureaucracy as a *fait accompli*.

Multilateral Trade Obligations

236 Recent studies reveal the main features of the process in which Nigeria fulfils its multilateral trade obligations. These features may be summarised as follows:

- It is feared that WTO Trade policy might support liberalisation at the expense of the national economy; with local producers impoverished as a result;
- WTO TRIPs may pose a threat to sustainable livelihood of the poor and farmers' rights in Nigeria, through the patenting of seeds and seed varieties and thus increase their levels of vulnerability and creates food security concerns for low-income earners. Patenting also poses a challenge in terms of access to basic medicines;
- The General Agreement on Trade in Service (GATS) based on its three fundamental requirements, viz transparency, MFN and national treatment, may have serious implications for Nigeria;
- The anti-dumping and countervailing measures in the WTO provisions have advantages for poverty reduction when properly applied;
- Import bans in Nigeria are usually initiated by microeconomic agents. The Federal Ministry of Commerce is not always aware of their source, as they are issued from the Presidency;
- Whereas Nigeria appears to lack political will on regional integration, a number of studies consider it unwise to join the cause of the ACP EU-EPA, given the country's national needs and priorities.

237 Many provisions of the extant national trade policy have rarely been observed in practice since its inception in 2002; this is without prejudice to the implementation of some sections, especially those relating to export promotion.

International Obligations

238 In the realm of international trade, Nigeria is a responsible signatory to a number of treaties, agreements and obligations^{38/}.

The African Economic Community and the African Union

239 Nigeria is a member of the African Economic Community (AEC), established by the Abuja Treaty in 1991. The treaty provides for the creation of an African common market in six stages over a 34-year period. A key aspect of this integration process is the co-ordination and harmonisation of tariff and non-tariff measures, among various sub-regional trade groupings, in order to create a continental customs union. The AEC was established under the Organisation of African Unity (OAU), which has now been changed to the African Union (AU).

240 The constitutive act of the AU was adopted in Lomé in July 2000. The AU was established with a view to, *inter alia*, accelerating the process of regional integration, in order to enable Africa to play its rightful role in the global economy, while addressing other forms of social, economic and political problems on the continent.

NEPAD

241 One of the major initiatives under the AU is the New Partnership for African Development (NEPAD). The goals of NEPAD are to halt the marginalisation of Africa in the globalisation process, to eradicate widespread and severe poverty; and to promote accelerated growth and sustainable development. Trade and trade-related measures outlined under NEPAD to promote African exports include: promotion and improvement of regional trade agreements; inter-regional trade liberalisation; harmonisation of tariffs, rules of origin, and product standards; reduction of export taxes, and of costs of transactions and operations; and publication of African importing and exporting companies. NEPAD also aims at ensuring active participation of African countries in the multilateral trading system. In that respect, its plan supports the view that multilateral trade negotiations must take account of Africa's special concerns. In addition, African states are encouraged to tackle supply-side impediments to export production; diversify exports; give the necessary political impetus to deepen the various integration initiatives on the continent; and secure and stabilise preferential treatment by key developed country partners.

242 Nigeria has been playing an active role in the NEPAD initiative. It was instrumental in its design and is the current Chair of both the Heads of States' Steering and Implementation Committee and the Capital Flows Initiative Committee. A NEPAD office has been established in Nigeria and has so far been active in enlightening both the private sector and civil society on the initiative. Since the

38/

These agreements would include the Cotonou and WTO agreements, both of which have already been discussed in chapter 1 of this study. AGOA is discussed further below.

regional economic communities have been appointed as the implementation agencies for NEPAD at the regional level, Nigeria has also been working closely with the ECOWAS Secretariat on this issue.

Nigeria's Customs Tariffs

243 The Nigerian Customs Service uses the 1996 HS classification at the eight-digit level. In 2003, the applied MFN tariff had 5,145 lines; all of them carry *ad valorem* duties. Nigeria bound some 19.2 percent of its total tariff lines at the HS eight-digit level. Final bound tariffs range from a minimum of 40 percent on aluminium alloys and machinery, to a maximum of 150 percent on vegetable products, fats and oils, and prepared food. The average bound tariff rate is 118.4 percent.

244 The average applied MFN tariff rate was 28.6 percent in 2003, compared to 26.3 percent in 1998, thus reflecting an increase in overall protection. The tariff rates range from a minimum of 2.5 percent to a maximum of 150 percent, with 19 different bands. The degree of tariff dispersion is moderate, as indicated by a coefficient of variation of 0.78, a standard deviation of 22.3 percent. Since 2002, there have not been any duty free items, as a tariff rate of at least 2.5 percent has been applied. The modal rate is 15 percent; it applies to some 25 percent of total tariff lines. Rates higher than 50 percent apply to some 9 percent of the lines.

Table 19: Structure of MFN Tariffs in Nigeria, 2003

	Percent
Bound tariff lines (percent of all tariff lines)	19.2
Duty free tariff lines (percent of all tariff lines)	0.0
Non-ad valorem tariffs (percent of all tariff lines)	0.0
Tariff quotas (percent of all tariff lines)	0.0
Non-ad valorem tariffs with no AVE (percent of all tariff lines)	0.0
Simple average tariff rate	28.6
Agricultural products (WTO definition) ^a	50.2
Non-agricultural products (WTO definition) ^b	25.3
Agriculture, hunting, forestry and fishing (ISIC, Div 1)	41.4
Mining and quarrying (ISIC, Div 2)	17.9
Manufacturing (ISIC, Div 3)	28.0
Domestic tariff spikes (percent of all tariff lines) ^c	5.0
International tariff spikes (percent of all tariff lines) ^d	56.5
Overall standard deviation of applied rates	22.3
Nuisance applied rates (percent of all tariff lines) ^e	0.0

Source: WTO, Trade Policy Review, Nigeria, Report by the Secretariat, 13 April 2005

a WTO Agreement on Agriculture

b Exclude petroleum

c Domestic tariff spikes are defined as those exceeding three times the overall simple average applied rate (indicator 6)

d International tariff peaks are those exceeding 15 percent

e Nuisance rates are those greater than zero, but less than or equal to 2 percent

245 Due to the relatively high levels of protection accorded to agricultural products, the overall tariff structure displays mixed escalation, negative from the first to the second stages of processing, and positive from the second to the third stages of transformation. However, in industries such as food processing and beverages, textiles and apparels, wood products, paper printing, and basic metal products, the

tariff structure shows pronounced positive escalation from stage one to stage three of processing. This implies high effective protection to these industries, thereby increasing the profitability of production in these sectors and influencing the pattern of resource allocation in their favour. Further desegregation shows negative tariff escalation in industries such as petroleum refineries and mixed in industries utilizing essential natural resources available in Nigeria to manufacture miscellaneous petroleum and coal products, rubber products and some non-metal mineral products. Such a tariff structure does not favour efficient resources allocation, or processing of local products (including agricultural products and natural resources) for exports, in the absence of support measures, such as those in place in the petroleum industry and other incentive schemes.

246 Although in the 1990s non-tariff barriers have reduced significantly, there are still many exemptions in trade regimes, and due to endemic corruption, collection-efficiency of tariff revenue has been low. The exemptions are often arbitrarily administered, with irregular authorizations from multiple quarters. This combines with other administrative irregularities and importers' tariff evasion to lead to low collection efficiency. Therefore, as can be seen in Table 2.20, while average tariff rates could be as high as 30 percent for some years, tariff revenue as a ratio of imports (a crude measure of collectible revenue) was around 10 percent for most years since liberalisation; in 1995, it was as low as 5 percent ^{39/}.

Trade Policy and Industrial Growth

247 Overall, trade policy in Nigeria has not aided industrial growth. The manufacturing sector has continued to dwindle, especially since the liberalisation of trade. Indeed, the conflicts arise because of the divergence in objective function between trade and industrial policies. Over time, mainly revenue and balance-of-payments considerations have influenced trade policies. Consequently, complaints from industrialists or manufacturers on any negative impact of trade policies on the sector's performance are residual issues and often treated in an ad-hoc manner.

Table 2.20: Summary Analysis of Nigerian MFN Tariff, 2003

Analysis	No. of lines ^a	Applied 2003 rates					Imports 2000 (US\$ million)
		No. of lines used	Simple avg. tariff (%)	Tariff range (%)	Std-dev (%)	CV	
Total^b	5,146	5,124	28.6	2.5-150	22.3	0.78	5,804.5
By WTO definition							
Agriculture	677	677	50.2	5-150	37.5	0.75	954.4
Live animals and products thereof	81	81	34.5	5-100	26.4	0.76	1.5
Dairy products	20	20	48.1	5-100	44.0	0.91	136.3

39/

See Skoup and Company Ltd, 2002, "Macroeconomic Effects of Tariffs, Exchange Rates and Balance of Payments on Nigeria's Manufacturing Sector" Report Submitted to the Federal Ministry of Finance, Abuja as part of a project to feed into the Comprehensive Review of Customs and Excise Tariffs; and Soludo et al, Ibid.

Analysis	No. of lines ^a	Applied 2003 rates					Imports 2000 (US\$ million)
		No. of lines used	Simple avg. tariff (%)	Tariff range (%)	Std-dev (%)	CV	
Coffee and tea, cocoa, sugar, etc.	128	128	44.5	5-100	27.2	0.61	318.2
Cut flowers and plants	34	34	20.3	5-65	16.8	0.83	6.3
Fruit and vegetables	150	150	98.2	45-100	9.9	0.10	3.5
Grains	16	16	49.4	5-100	41.3	0.84	379.4
Oil seeds, fats, oils and their products	71	71	34.1	10-100	23.7	0.69	30.4
Beverages and spirits	31	31	75.3	5-150	29.8	0.40	20.1
Tobacco	9	9	89.4	15-150	62.7	0.70	23.7
Other agricultural products	137	137	20.4	5-100	17.8	0.87	35.0
Non-agriculture (excl. petroleum)	4,467	4,445	25.3	2.5-100	16.7	0.66	4,782.6
Fish and fishery products	108	108	28.4	5-100	25.0	0.88	257.7
Mineral products, precious stones and precious metals	340	340	29.8	2.5-100	18.8	0.63	495.2
Metals	591	589	22.4	5-65	12.1	0.54	552.7
Chemicals and photographic supplies	844	842	17.7	2.5-100	14.9	0.84	969.5
Leather, rubber, footwear and travel goods	146	146	28.9	5-50	8.9	0.31	62.3
Wood, pulp, paper and furniture	249	248	27.0	2.5-100	20.3	0.75	298.0
Textiles and clothing	832	824	42.7	5-65	11.3	0.26	73.4
Transport equipment	137	135	19.1	10-55	12.3	0.64	724.7
Non-electric machinery	526	521	13.9	2.5-45	7.4	0.53	710.4
Electric machinery	258	258	20.0	2.5-45	8.4	0.42	511.1
Non agricultural articles n.e.s.	436	434	23.0	5-100	14.7	0.64	127.6
By ISIC sector^c							
Agriculture, hunting, forestry and fishing	290	290	41.4	5-100	36.2	0.88	296.4
Mining and quarrying	108	108	17.9	5-100	15.4	0.86	30.5
Manufacturing	4,747	4,725	28.0	2.5-150	21.0	0.75	5,477.6
By stage of processing							
Raw materials	633	633	32.2	5-100	31.2	0.97	741.5
Semi-processed products	1,679	1,676	24.5	2.5-100	16.5	0.67	1,930.3
Fully-processed products	2,834	2,815	30.2	2.5-150	22.6	0.75	3,132.7

Source: WTO, Trade Policy Review, Nigeria, Report by the Secretariat, 13 April 2005

A - Total number of lines is listed. Tariff rates are based on a lower frequency (number of lines) since no rates were provided for 22 tariff lines.

B - Two tariff lines are excluded from WTO non-agriculture definition (essentially petroleum products).

C - International Standard Industrial Classification (Rev.2). Electricity, gas and water are excluded (1 tariff line).

Table 2.21: Tariff Revenue as a Proportion of Total Government Revenue, 1980-2003

Period	1980	1985	1995	1998	1999	2000	2001	2002	2003
Actual tariff revenue (nb) ^{1/}	1.8	2.2	37.4	57.7	87.9	101.5	170.6	181.4	195.5
Total imports (nb)	9.1	7.1	755.1	837.4	862.5	963.0	1357.7	1580.5	1956.1
Tariff revenue/total imports (percent)	19.9	30.9	5.0	6.9	10.2	10.5	12.6	11.5	10.0
Total government revenue (nb)	15.2	15.0	460.0	463.6	949.2	1906.2	2231.5	1731.8	2575.1
Government tax revenue (nb)	2.9	4.1	135.4	174.1	224.8	314.5	-	-	-
Ratio of actual tariff/non oil revenue (percent)	63.0	52.9	27.6	33.1	39.1	32.3	32.6	36.	39.0
Tariff to total government revenue (percent)	11.9	14.5	8.1	12.4	9.3	5.3	7.6	10.5	7.6

^{1/} billion naira

Source: CBN/FOS/NISER, 2001



3 | Impact of the EPA

3 | Impact of the EPA

Scenario Analysis

248 Although the meaning of ‘substantially all’ has not been defined, and will be the subject of negotiations, there is a clear sense in which it has been used by the EU. As the EU is one of the parties to the negotiations it would be strange not to include in the scenarios at least one which reflects its stated view of what needs to be done to fulfil the Article XXIV requirement. This is that an average of 90 percent^{1/} of the value of trade must be liberalised, although this may be done asymmetrically. The most frequently discussed option is that the ACP should liberalise on about 80 percent by value of their imports from the EU – an approach that leaves sufficient vagueness to justify several scenarios being run to compare the effects of Nigeria liberalising rather more or less than this proportion.

249 Given that there is also some flexibility over the implementation period, it would also be sensible to show the economic effects of different periods. Given that under the TDCA South Africa is liberalising over 12 years (which is only slightly longer than the ‘normal’ period foreseen in Article XXIV), this could be taken as the minimum.

250 Our assessment of the potential impacts of an EPA on Nigeria follows three primary methods of economic analysis, namely; use of a partial equilibrium model and a general equilibrium model to quantify the impacts of tariff elimination, and the analysis of Social Accounting Matrix (SAM) data to complement these results.

Scenario 1: Reducing or Delaying Liberalisation of Products Considered Sensitive in View of Social or Political Considerations

251 Under the first scenario, for social/political considerations, tariff on some products considered sensitive under this criteria, is gradually reduced. For poverty considerations for example, agricultural products would be good candidate to be initially exempted from liberalisation and tariff on such products is reduced gradually over the period. The basket of sensitive products that we include in this scenario includes all agriculture products (products 0101 to 2403 in HS4), which represent 18.85 percent of EU imports, plus most mineral products (products 2501 to 2707 in HS4). Table 3.1 below describes this basket, by code of main products. The

^{1/}

A number of opponents to the EPA, in its presentation by the EU, stress the following point: while the EU is asking African countries to liberalise 90 percent of their markets over a twelve-year period, the EU itself refuses to discuss its own protectionist common Agricultural Policy (CAP), among other such anti-liberalisation measures. They consider that these seeming inequitable bilateral free trade agreements inherent in the current negotiations between the European Union and the African, Caribbean and Pacific countries will likely undermine the principle of liberalization on which the Cotonou Agreement was ostensibly based. That is why, recently, the African Commission has had to recommend that EU's trade with Africa should be non-reciprocal and should not require Africa to open up its markets in return for access to the markets of the richest countries.

calculations were made using the 6-digit level. The most detailed list of exempted products is available in the Study Database available upon request.

Table 3.1: Products Exempted from Immediate Liberalisation under Scenario 1

HS96 code	Products	EU imports in 2003 (million\$)	Percent of total EU Imports
	Agriculture 01-24	914	18.9
0207	Meat and edible offal, of the poultry	43	0.9
0303	Fish, frozen, excluding fish fillets	197	4.1
0402	Milk & cream, concentrated/sweetened	129	2.7
0406	Cheese and curd	33	0.7
0804	Dates, figs, pineapples, avocados etc	22	0.5
1001	Wheat and meslin	125	2.6
1107	Malt	24	0.5
1502	Fats of bovine animals, sheep or goats	26	0.5
1701	Cane or beet sugar, chem. pure sucrose	42	0.9
1901	Malt extract, food preparations of flour	61	1.3
2402	Cigars, cheroots, cigarillos and cigarettes	65	1.3
	All other agricultural products (01-24)	147	3.0
	Part of mining (25 to 2707)	57	1.1
2523	Portland, aluminous or slag cement	44	0.9
	Other mining products	14	0.2
	BASKET OF SENSITIVE PRODUCTS	971	20.0
	<i>Memorandum item: all imports</i>	<i>4 847</i>	<i>100.0</i>

Scenario 2: Reducing or Delaying Liberalisation of Products in View of their High Contribution to Government Revenue

252 The second category of sensitive products consists of those that contribute the most to revenue generation for government. Products are selected in terms of their descending contribution to government revenue. The cut off point is when products selected amount to approximately 20 percent of the value of EU trade. Tariff on exempted products, as in the first case, is gradually reduced over the period until the value of exempted products account for 10 percent of the value of EU imports. Under that scenario the basket of products to be excluded from immediate liberalisation would be the following:

Table 3.2: Products Contributing most to Government Revenue, Scenario 2

Nigeria Product Category	W 2003	ROW 2003	EU 2003	Tariff Rate	Import Duties	Tariff Rate	Share in total EU imports	Cumulative share in EU imports
				Percent	US - \$	Percent		
Data for 2003				EU-15	EU-15	ROW		
Product Category				Percent	US-\$	Percent		
240220: cigarettes, containing tobacco	82513384	17901035	64612349	150	96918524	150	1,333	1,333
848110: pressure-reducing valves	457368624	2635111	454733513	15	68210 027	15	9,381	10,714
853530: isolating	260091852	3346607	256745245	20	51349049	20	5,296	16,010

Nigeria Product Category	W 2003	ROW 2003	EU 2003	Tariff Rate	Import Duties	Tariff Rate	Share in total EU imports	Cumulative share in EU imports
switches and make -and-break switches, for a voltage > 1.000 v								
190190:malt extract; food preparations of flour, meal, starch or malt extract, not containing cocoa or containing < 40 percent by weight of cocoa calculated on a totally defatted basis, n.e.s. and food preparations of milk, cream, butter milk, sour milk, sour cream.	71541888	2345055	48091033	100	48091033	100	0,992	17,002
441213: plywood consisting solely of sheets of wood <= 6 mm thick, with at least one outerply of tropical wood specified in subheading note 1 to this chapter (excl. sheets of compressed wood, hollow-core composite panels, inlaid wood and sheets identifiable	141048208	5 234 957	135813251	30	40 743 975	30	2,802	19,804

253 In 2003, the five categories of products imported from the EU that contributed most to Government Revenue were cigarettes, pressure-reducing valves, isolating switches, malt extract and other preparation for food and plywood. Whether these products should be effectively retained for exclusion and considered sensitive should be discussed. In the context of the scenarios run here, some products that satisfy the condition for revenue generation could be considered questionable from the social welfare point of view.

254 More detailed investigations on basket soft products for exclusion could be conducted at a lower digit level (8 digit level), using the Eurostat database provided by IDS. The table below shows the products classified by declining contribution to Government revenue, and the limits of 10, 20 and 40 per cent of EU imports. If we select for example the sample corresponding to 10 per cent of EU imports, we identify cigarettes, motorcars, tomatoes and transmission apparatus. Looking at the more detailed level, we see that some products actually present little value, and therefore, we may decide that they do not justify exclusion. So we could select the following basket:

Table 3.3: Products Proposed for Exclusion

CN2003	Description	Value 2003 (€000)	Volume 2003 (Tons)	Proposed in basket for exclusion
	Total in HS 1-97	4788163	4506062	
20029011	tomatoes, prepared or preserved otherwise than by vinegar or acetic acid, with dry matter content of < 12 percent, in immediate packings of a net content of > 1 kg (excl. tomatoes whole or in pieces)	20	16	
20029019	tomatoes, prepared or preserved otherwise than by vinegar or acetic acid, with dry matter content of < 12 percent, in immediate packings of a net content of =< 1 kg (excl. tomatoes whole or in pieces)	18	16	
20029031	tomatoes, prepared or preserved otherwise than by vinegar or acetic acid, with dry matter content of 12-30 percent, in immediate packings of a net content of > 1 kg (excl. tomatoes whole or in pieces)	3516	3653	
20029039	tomatoes, prepared or preserved otherwise than by vinegar or acetic acid, with dry matter content of 12-30 percent, in immediate packings of a net content of =< 1 kg (excl. tomatoes whole or in pieces)	40769	41967	X
20029099	tomatoes, prepared or preserved otherwise than by vinegar or acetic acid, with dry matter content of > 30 percent, in immediate packings of a net content of =< 1 kg (excl. tomatoes whole or in pieces)	19	16	
24022090	cigarettes, containing tobacco (excl. containing cloves)	72783	5405	X
85252010	radio-telegraphic and radio-telephonic transmission apparatus, incorporating reception apparatus, for civil aircraft	44	1	
85252091	transmission apparatus, incorporating reception apparatus, for cellular networks mobile telephones (excl. that for radio-telephony and radio-telegraphy for civil aircraft of subheading no 8525.20-10)	134180	927	X
85252099	transmission apparatus for radio-telephony, radio-telegraphy, radio-broadcasting or television, incorporating reception apparatus, (excl. that for radio-telephony and radio-telegraphy for civil aircraft of subheading no 8525.20-10 and for cellular ne	102535	712	X
87032311	motors caravans with spark-ignition internal combustion reciprocating piston engine, of a cylinder capacity >1 500 cc but =<3 000 cc, new	159	6	
87032319	motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading nr. 87.02), including station wagons and racing cars, with spark-ignition internal combustion reciprocating piston engine, of a cylinde	93000	11225	X
87032390	motor cars and other motor vehicles principally	31663	10023	X

CN2003	Description	Value 2003 (€000)	Volume 2003 (Tons)	Proposed in basket for exclusion
	designed for the transport of persons, including station wagons and racing cars, with spark-ignition internal combustion reciprocating piston engine of a cylinder capacity > 1 500 cc but =< 3 000 cc, us			

Table 3.4 – Impact of Products Selected

HS6	Description	Maximum tariff	Imports from EU 2003 (€000)	Share of total imports In percent	Cumulative share of total EU imports (ascending) In percent	Theoretical revenue (€000)	Share of total theoretical revenue (descending) in percent	Cumulative share of the rev Percentage
	Total in HS 1-97		4788161			1017851		
240220	cigarettes, containing tobacco	150	72783	1,5	1,5	109174	10,73	10,7
870323	motor cars and other motor vehicles principally designed for the transport of persons, incl. station wagons and racing cars, with spark-ignition internal combustion reciprocating piston engine of a cylinder capacity > 1.500 cm ³ but <= 3.000 cm ³ (excl	45	124822	2,6	4,1	56170	5,52	16,2
200290	tomatoes, prepared or preserved otherwise than by vinegar or acetic acid (excl. whole or in pieces)	100	44341	0,9	5,1	44341	4,36	20,6
852520	transmission apparatus incorporating reception apparatus, for radio-telephony, radio-telegraphy, radio-broadcasting or television	10	236760	4,9	10,0	23676	2,33	22,9
300490	medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes, put up in measured doses incl. those in the form of transdermal administration or in forms or packings for retail sale (excl. medicaments containing antib	20	96503	2,0	12,0	19301	1,90	24,8
870324	motor cars and other motor vehicles principally designed for the transport of persons, incl. station wagons and racing cars, with spark-ignition internal combustion reciprocating piston engine of a cylinder capacity > 3.000 cm ³ (excl. vehicles for th	50	33747	0,7	12,7	16874	1,66	26,5
852990	parts suitable for use solely or principally with transmission and reception apparatus for radio-telephony, radio-telegraphy, radio-broadcasting, television, television cameras, still image video cameras and other video camera recorders, radar apparatus	20	71448	1,5	14,2	14290	1,40	27,9
851730	telephonic or telegraphic switching apparatus	20	66859	1,4	15,6	13372	1,31	29,2
730410	line pipe of a kind used for oil or gas pipelines, seamless, of iron or steel (excl. products of cast iron)	30	42206	0,9	16,5	12662	1,24	30,4
220300	beer made from malt	100	12518	0,3	16,7	12518	1,23	31,7
190190	malt extract; food preparations of flour, groats, meal, starch or malt extract, not containing cocoa or containing < 40% by weight	25	42437	0,9	17,6	10609	1,04	32,7

HS6	Description	Maximum tariff	Imports from EU 2003 (€000)	Share of total imports In percent	Cumulative share of total EU imports (ascending) In percent	Theoretical revenue (€000)	Share of total theoretical revenue (descending) in percent	Cumulative share of the rev Percentage
	of cocoa calculated on a totally defatted basis, n.e.s. and food preparations of milk, cream, butter milk, sour milk, s							
870422	motor vehicles for the transport of goods, with compression-ignition internal combustion piston engine diesel or semi-diesel of a gross vehicle weight > 5 tonnes but <= 20 tonnes (excl. dumpers for off-highway use of subheading 8704.10 and special	30	33841	0,7	18,3	10152	1,00	33,7
730890	structures and parts of structures, of iron or steel, n.e.s. (excl. bridges and bridge-sections, towers and lattice masts, doors and windows and their frames, thresholds for doors, props and similar equipment for scaffolding, shuttering, propping or	35	28567	0,6	18,9	9998	0,98	34,7
843143	parts for boring or sinking machinery of subheading 8430.41 or 8430.49, n.e.s.	20	47680	1,0	19,9	9536	0,94	35,6
040221	milk and cream in solid forms, of a fat content by weight of > 1,5%, unsweetened	10	91944	1,9	21,9	9194	0,90	36,5
870899	parts and accessories, for tractors, motor vehicles for the transport of ten or more persons, motor cars and other motor vehicles principally designed for the transport of persons, motor vehicles for the transport of goods and special purpose motor v	20	44665	0,9	22,8	8933	0,88	37,4
841199	parts of gas turbines, n.e.s.	10	82311	1,7	24,5	8231	0,81	38,2
581091	embroidery of cotton on a textile fabric ground, in the piece, in strips or in motifs (excl. embroidery without visible ground)	25	32268	0,7	25,2	8067	0,79	39,0
330499	beauty or make-up preparations and preparations for the care of the skin (other than medicaments), incl. sunscreen or suntan preparations (excl. medicaments, lip and eye make-up preparations, manicure or pedicure preparations and make-up or skin care	100	7861	0,2	25,3	7861	0,77	39,8
200990	mixtures of fruit juices, incl. grape must, and vegetable juices, unfermented, whether or not containing added sugar or other sweetening matter (excl. containing spirit)	100	7711	0,2	25,5	7711	0,76	40,5
220290	non-alcoholic beverages (excl. water, fruit or vegetable juices and milk)	150	5105	0,1	25,6	7657	0,75	41,3

HS6	Description	Maximum tariff	Imports from EU 2003 (€000)	Share of total imports In percent	Cumulative share of total EU imports (ascending) In percent	Theoretical revenue (€000)	Share of total theoretical revenue (descending) in percent	Cumulative share of the rev Percentage
850212	generating sets with compression-ignition internal combustion piston engine diesel or semi-diesel engines of an output > 75 kva but <= 375 kva	15	45448	0,9	26,6	6817	0,67	42,0
220820	spirits obtained by distilling grape wine or grape marc	80	8257	0,2	26,7	6606	0,65	42,6
940360	wooden furniture (excl. for offices, kitchens and bedrooms, and seats)	65	9829	0,2	26,9	6389	0,63	43,2
340111	soap and organic surface-active products and preparations, in the form of bars, cakes, moulded pieces or shapes, and paper, wadding, felt and nonwovens, impregnated, coated or covered with soap or detergent, for toilet use, incl. medicated products	100	6225	0,1%	27,1	6225	0,61	43,9
690890	glazed ceramic flags and paving, hearth or wall tiles (excl. of siliceous fossil meals or similar siliceous earths, refractory ceramic goods, tiles made into stands, ornamental articles and tiles specifically manufactured for stoves)	35	17764	0,4%	27,4	6218	0,61	44,5
200520	potatoes, prepared or preserved otherwise than by vinegar or acetic acid (excl. frozen)	100	5897	0,1%	27,6	5897	0,58	45,0
854441	electric conductors for a voltage <= 80 v, insulated, fitted with connectors, n.e.s.	45	13050	0,3%	27,8	5872	0,58	45,6
711319	articles of jewellery and parts thereof, of precious metal other than silver, whether or not plated or clad with precious metal (excl. articles > 100 years old)	65	8564	0,2%	28,0	5567	0,55	46,2
730900	reservoirs, tanks, vats and similar containers, of iron or steel, for any material other than compressed or liquefied gas, of a capacity of > 300 l, not fitted with mechanical or thermal equipment, whether or not lined or heat-insulated (excl. cont	40	13469	0,3%	28,3	5388	0,53	46,7
841480	air pumps, air or other gas compressors and ventilating or recycling hoods incorporating a fan, whether or not fitted with filters, having a maximum horizontal side > 120 cm (excl. vacuum pumps, hand- or foot-operated air pumps, compressors for refri	20	26456	0,6%	28,8	5291	0,52	47,2
330720	personal deodorants and antiperspirants	100	5124	0,1%	29,0	5124	0,50	47,7
581092	embroidery of man-made fibres on a textile fabric base, in the	25	20050	0,4%	29,4	5012	0,49	48,2

HS6	Description	Maximum tariff	Imports from EU 2003 (€000)	Share of total imports In percent	Cumulative share of total EU imports (ascending) In percent	Theoretical revenue (€000)	Share of total theoretical revenue (descending) in percent	Cumulative share of the rev Percentage
	piece, in strips or in motifs (excl. embroidery without visible ground)							
730640	tubes, pipes and hollow profiles, welded, having a circular cross-section, of stainless steel (excl. seamless, products having internal and external circular cross-sections and an external diameter of > 406,4 mm, and products of a kind used for oil o	40	12253	0,3	29,6	4901	0,48	48,7
870421	motor vehicles for the transport of goods, with compression-ignition internal combustion piston engine diesel or semi-diesel of a gross vehicle weight <= 5 tonnes (excl. dumpers for off-highway use of subheading 8704.10 and special purpose motor ve	30	15699	0,3	30,0	4710	0,46	49,2
220421	wine of fresh grapes, incl. fortified wines, and grape must whose fermentation has been arrested by the addition of alcohol, in containers of <= 2 l (excl. sparkling wine)	100	4702	0,1	30,1	4702	0,46	49,6
880230	aeroplanes and other powered aircraft of an unladen weight > 2.000 kg but <= 15.000 kg (excl. helicopters and dirigibles)	10	46015	1,0	31,0	4602	0,45	50,1
830710	flexible tubing of iron or steel, with or without fittings	30	14147	0,3	31,3	4244	0,42	50,5
330210	mixtures of odoriferous substances and mixtures, incl. alcoholic solutions, with a basis of one or more of these substances, of a kind used in the food and drink industries; other preparations based on odoriferous substances, of a kind used for the m	15	27789	0,6	31,9	4168	0,41	50,9
340290	surface-active preparations, washing preparations, incl. auxiliary washing preparations and cleaning preparations (excl. those put up for retail sale, organic surface-active agents, soap and organic surface-active preparations in the form of bars, ca	100	4039	0,1	32,0	4039	0,40	51,3
851790	parts of electrical apparatus for line telephony or line telegraphy, incl. line telephone sets with cordless handsets and telecommunication apparatus for carrier-current line systems or digital line systems and videophones, n.e.s.	20	20038	0,4	32,4	4008	0,39	51,7
151710	margarine (excl. liquid)	100	3983	0,1	32,5	3983	0,39	52,1
300220	vaccines for human medicine	20	18556	0,4	32,9	3711	0,36	52,4

HS6	Description	Maximum tariff	Imports from EU 2003 (€000)	Share of total imports In percent	Cumulative share of total EU imports (ascending) In percent	Theoretical revenue (€000)	Share of total theoretical revenue (descending) in percent	Cumulative share of the rev Percentage
330300	perfumes and toilet waters (excl. aftershave lotions, personal deodorants and hair lotions)	100	3665	0,1	32,9	3665	0,36	52,8
848180	appliances for pipes, boiler shells, tanks, vats or the like (excl. pressure-reducing valves, valves for the control of pneumatic power transmission, check nonreturn valves and safety or relief valves)	15	24419	0,5	33,5	3663	0,36	53,2
220410	sparkling wine of fresh grapes	100	3439	0,1	33,5	3439	0,34	53,5
841590	parts of air conditioning machines, comprising a motor-driven fan and elements for changing the temperature and humidity, n.e.s.	35	9814	0,2	33,7	3435	0,34	53,8
390720	polyethers, in primary forms (excl. polyacetals)	15	22663	0,5	34,2	3400	0,33	54,2
340213	non-ionic organic surface-active agents, whether or not put up for retail sale (excl. soap)	100	3359	0,1	34,3	3359	0,33	54,5
843149	parts of machinery of heading 8426, 8429 and 8430, n.e.s.	20	16652	0,3	34,6	3330	0,33	54,8
170199	cane or beet sugar and chemically pure sucrose, in solid form (excl. cane and beet sugar containing added flavouring or colouring and raw sugar)	15	22075	0,5	35,1	3311	0,33	55,2
401120	new pneumatic tyres, of rubber, of a kind used for buses and lorries (excl. tyres with lug, corner or similar treads)	40	8243	0,2	35,3	3297	0,32	55,5
110710	malt (excl. roasted)	20	16300	0,3	35,6	3260	0,32	55,8
730610	line pipe of a kind used for oil or gas pipelines, of iron or steel, of an external diameter of <= 406,4 mm (excl. of cast iron and seamless tubes)	40	7881	0,2	35,8	3152	0,31	56,1
030374	frozen mackerel scomber scombrus, scomber australasicus, scomber japonicus	5	62952	1,3	37,1	3148	0,31	56,4
730820	towers and lattice masts, of iron or steel	35	8884	0,2	37,3	3109	0,31	56,7
841182	gas turbines of a power > 5.000 kw (excl. turbo-jets and turbo-propellers)	10	30366	0,6	37,9	3037	0,30	57,0
870322	motor cars and other motor vehicles principally designed for the transport of persons, incl. station wagons and racing cars, with spark-ignition internal combustion reciprocating piston engine of	40	7529	0,2	38,1	3012	0,30	57,3

HS6	Description	Maximum tariff	Imports from EU 2003 (€000)	Share of total imports In percent	Cumulative share of total EU imports (ascending) In percent	Theoretical revenue (€000)	Share of total theoretical revenue (descending) in percent	Cumulative share of the rev Percentage
	a cylinder capacity > 1.000 cm ³ but <= 1.500 cm ³ (excl							
850213	generating sets with compression-ignition internal combustion piston engine diesel or semi-diesel engines of an output > 375 kva	15	19358	0,4	38,5	2904	0,29	57,6
220210	waters, incl. mineral and aerated, with added sugar, sweetener or flavour, for direct consumption as a beverage	150	1933	0,0	38,5	2899	0,28	57,9
630900	worn clothing and clothing accessories, blankets and travelling rugs, household linen and articles for interior furnishing, of all types of textile materials	35	8235	0,2	38,7	2882	0,28	58,2
520839	woven fabrics of cotton, containing >= 85% cotton by weight and weighing <= 200 g/m ² , dyed (excl. those in three-thread or four-thread twill, incl. cross twill, and plain woven fabrics)	75	3813	0,1	38,7	2860	0,28	58,5
841830	freezers of the chest type, of a capacity <= 800 l	55	5168	0,1	38,9	2842	0,28	58,7
330290	mixtures of odoriferous substances and mixtures, incl. alcoholic solutions, based on one or more of these substances, of a kind used as raw materials in industry (excl. food or drink industries)	15	18925	0,4	39,3	2839	0,28	59,0
721633	h sections of iron or non-alloy steel, not further worked than hot-rolled, hot-drawn or hot-extruded, of a height >= 80 mm	25	11293	0,2	39,5	2823	0,28	59,3
940600	prefabricated buildings, whether or not complete or already assembled	45	6229	0,1	39,6	2803	0,28	59,6
491199	printed matter, n.e.s.	45	6057	0,1	39,7	2726	0,27	59,8
840999	parts suitable for use solely or principally with compression-ignition internal combustion piston engine, n.e.s.	20	13488	0,3	40,0	2698	0,27	60,1

Scenario 3: Reducing or Delaying Liberalisation of Products with the Highest Tariffs

255 Sensitive products under the third category are selected in the same way; starting with the products with the highest tariff and moving down until products selected account for around 20 percent of the value of imports from EU. Sensitive products in this context, in addition to luxury goods, are likely to include those that are considered important in terms of the long-term development of economy/industrial base of the country.

256 At six-digit level (the level of our calculations) it becomes impossible to provide a physical description of the basket of sensitive products, as it includes 1722 products (out of 5455 in the whole nomenclature and 3321 products imported by Nigeria from the EU) that is, half of the products imported from the EU.

257 All products with MFN tariff higher than 30 percent are exempted or excluded from immediate liberalisation. Among those with a tariff of 30 percent, a selection had to be made in order to be able to consider as sensitive altogether 20 percent of imports from the EU. (Without the 30 percent tariff, we would consider as sensitive only 13.6 percent of the value of EU imports; with this tariff, we would consider as sensitive 25.6 percent of the value of EU imports). We therefore classified, by increasing nomenclature code, the products with the tariff of 30 percent and, among them, chose to select for exclusion or exemption from immediate liberalisation only those whose code is comprised between 030480 (frozen fish liver and roes) and 441213 (a type of plywood).

258 To describe the progressiveness of the liberalisation process, the following hypotheses/scenarios were made.

Table 3.5: Hypothesis on Tariffs Changes

Scenario/Year	2003	2008	2012	2016	2020
Tariff changes on sensitive products	1	x0.875	x0.750	x0.625	x0.5
On other products	1	0	0	0	0

Revenue Impact of the EPA under the Alternative Scenarios

259 The impact of this gradual reduction in tariff over the period is shown in Table 3.6. Over the period, approximately half of the tariff is reduced so that at the end of the period around 10 percent of the value of trade is left exempted from liberalisation.

Table 3.6: Revenue Effects of EPA Trade Liberalisation under Different Scenarios (\$)

Scenario/Year	2008	2012	2016	2020
Scenario 1: "Agriculture"	448 895 250	407 331 031	365 766 812	324 202 594
Scenario 2 "Tariff Revenue"	400 929 734	366 217 732	331 505 730	296 793 727
Scenario 3: "Highest Tariff"	585 295 774	524 245 766	463 195 758	402 145 750
Average:	478 373 586	432 598 176	386 822 767	341 047 357

260 In order to appreciate the impact of revenue effect on government budget, revenue effects should be measured in proportion of total tariff revenue. More generally, they should be related to government budget, and fiscal policy.

261 The liberalisation of 'substantially all' products in 2008, based on different scenarios we have run, results in an average loss of around 42 percent of tariff revenue for the government. Given that tariff revenue accounts for around 7 percent of overall government revenue, this loss would represent around 3 percent reduction in government revenue. This reduction, though small, could have a relatively large cumulative effect on the ability of the government to manage its budget without affecting the economy and social welfare. Macroeconomic and social effects of such an expenditure reduction are investigated below using SAM as a policy tool.

262 Various policy options are available to compensate for this revenue loss. Since, however, it is perceived that EPA also benefits the EU, the government may want to use the adverse effects that EPA may have on its revenue as a bargaining ploy for a better deal as far as EU assistance is concerned. Our static analysis of trade diversion and trade creation suggests that the EU's exports to Nigeria would increase, following trade liberalisation with the EU. Part of this increase is due to trade diversion that would adversely affect the welfare of Nigerian consumers.

263 On the other hand, given the trend towards liberalisation and the government's intention to abide by WTO rules and regulations, liberalisation could not be avoided and therefore Nigeria may not be in a strong position to ask for assistance from the EU to cope with the revenue loss, but it would be legitimate to ask for at least partial compensation for the loss in its revenue^{2/}.

Findings from the Dynamic CGE Modelling^{3/}

264 In the assessment of the economic impact of EPA on Nigeria, simulations were conducted using a dynamic CGE model to examine impact of trade liberalisation based on tariff reduction on the economy and welfare of the population. Our empirical framework allows us to examine the impact of EPA on key macroeconomic indicators, labour demand, wages, urban/rural household implications, sectoral output and employment impact, volume of trade differentiated between EU and non-EU, exchange rate, household income distributional issues and fiscal implication. However, we have only reported what is of immediate relevance to this study. In interpreting the results, a caveat should be made. The aggregative nature of the model and the quality of the data suggest some caution in interpreting the results. However, the results still provide useful information concerning the broad direction of change in key economic and social indicators that should be of use to negotiators. However, we like to suggest, that the government prior to actual negotiation should undertake a more detailed study with more detailed sectoral disaggregation.

265 Three scenarios were considered in this analysis. The base case scenario excludes tariff reduction. This option essentially implies that Nigeria does not participate in EPA. The second scenario assumes that Nigeria participates in EPA but the tariff reduction on EU products is carried out in four time phases: 25 percent of the tariff is eliminated in 2008; 50 percent reduction by 2012 and 75 percent in 2016. By 2020 there will be 100 percent elimination of tariff on imports from EU. The third scenario assumes that import tariff remains on agricultural imports from EU

^{2/} Policy options to address revenue losses

^{3/} For an explanation of the modelling carried out in this section, please see the Appendices at 1.1.2

because the sector is considered a sensitive sector (e.g. food security purpose), while tariff is eliminated on non-agricultural goods from EU. The results of all the scenarios must be interpreted relative to the base case values. Tables 3.7 to 3.11 summarise some of the results of comparing sequential tariff elimination with the case when there is no EPA type tariff reduction. Further results are obtainable from the consultants.

266 These preliminary results show that tariff reduction would generally impact GDP positively. Also, the results suggest that protecting agriculture by not reducing the tariff on EU agricultural imports is GDP enhancing. However, quite revealing is the household effect that shows that both urban and rural poor experience significant welfare decline for almost the first half of the period due to EPA. But, the welfare loss is reversed in the later years of the EPA duration. In the Nigerian economy, which in terms of employment is dominated by agriculture and manufacturing, one would expect that tariff elimination that exposes these less competitive sectors to more intense external competition that EPA connotes, would be adverse to the rural and urban poor. However, the urban poor experience a positive income change when agriculture is protected. Sectoral output change is no different from the output impact of the EPA. In all scenarios, import tax revenue and total government revenues decline for most of the period. This result is obvious, given that no there was compensatory fiscal adjustment through other taxes such as VAT or income taxes.

Impact on GDP

267 In general our results show that tariff reduction would positively impact GDP especially after the first two years. Second, the results suggest that protecting agriculture by not reducing the tariff on EU agric imports is GDP enhancing.

Table 3.7: The Impact of EPA on GDP

Year	Percentage change in GDP relative to the base case when EPA is not adopted
2008	0.00
2009	-0.28
2010	0.06
2011	1.04
2012	3.04
2013	4.70
2014	8.34
2015	14.42
2016	24.09
2017	43.34
2018	57.00
2019	74.77
2020	89.18

Impact on Household Consumption

268 Broadly speaking, change in consumption is a better measure of welfare change in developing countries than income change. Our result on the impact of EPA on household well being measured by consumption of urban and rural households is striking. They show that both urban and rural poor suffer significant welfare decline for almost half of the period. Overall, in the shorter to medium term, households experience welfare loss when EPA is adopted compared to when EPA is

not adopted. However, later the welfare loss is reversed. In essence, the results suggest that tariff elimination is likely to compound the poverty problems of both the rural and urban poor in the short to medium term. This result is not too surprising given the economic structure in Nigeria.

Table 3.8: The Impact of EPA on Household Consumption; percentage change relative to the base case when EPA is not adopted

Year	Urban Poor	Urban Non-Poor	Rural Poor	Rural Non-Poor
2008	0.63	0.28	0.50	0.30
2009	-1.32	-0.84	-1.20	-0.77
2010	-2.22	-1.60	-1.96	-1.54
2011	-2.70	-2.24	-2.50	-2.36
2012	0.07	-0.56	-0.17	-0.93
2013	-1.96	-1.88	-2.10	-3.12
2014	-5.24	-2.89	-4.79	-4.07
2015	2015	-6.88	-3.72	-5.66
2016	2016	5.83	3.42	5.02
2017	2017	8.82	5.62	6.93
2018	2018	2.58	3.70	3.58
2019	2019	19.14	14.71	17.22
2020	2020	0.30	2.08	3.65

Impact on Sectoral Production

269 The negative impact of EPA on sectoral production is most pronounced in the agricultural sector among the five sectors considered in this study. Manufacturing also experiences a negative impact of the tariff reduction in the short term. It should be noted that these are the two major sectors that will be open to the greatest competition under EPA.

Table 3.9: Impact of the EPA on Sectoral Production

Year	Agriculture	Oil	Manufacturing	UTIBUTRANS	COMDSERV
	Factual		Counterfactual		
2008	1.98	-0.18	0.04	-7.05	0.01
2009	-3.90	0.30	-0.24	10.40	-0.01
2010	-5.43	0.18	-0.39	18.96	0.22
2011	-3.98	-0.51	-0.39	29.80	0.28
2012	4.77	-1.78	-0.39	16.90	0.31
2013	4.92	-4.28	-1.39	92.38	0.51
2014	-7.06	7.81	-0.68	166.77	-0.73
2015	-10.71	14.69	16.72	191.61	10.62
2016	27.24	20.54	26.76	-7.25	16.14
2017	52.49	36.52	22.90	37.27	17.48
2018	43.46	40.33	223.91	81.97	31.14
2019	142.30	29.05	136.91	105.35	34.73
2020	682.46	46.78	76.82	749.53	132.32

Revenue Impact

270 Import tax revenue declines significantly for most of the period. Total government revenues decline for almost half of the period but recover later. These

results have a negative implication for government expenditure that would have to adjust to the fall in revenue. This result is obvious particularly when we did not allow for compensatory fiscal adjustment through other taxes including VAT or income taxes. One could easily incorporate such adjustments into this model.

Table 3.10: Impact of the EPA on Government Revenue

Year	Import Tax Revenue	Total Government Revenue
2008	-9.19	-0.76
2009	-11.06	-2.97
2010	-12.57	-4.76
2011	-13.51	-6.00
2012	-22.75	-7.18
2013	-22.19	-6.67
2014	-21.65	-4.59
2015	-16.77	0.72
2016	-21.21	9.12
2017	-16.58	21.92
2018	-6.66	41.77
2019	1.47	69.47
2020	-6.45	116.23

Concluding Remarks

271 The general equilibrium model has provided an economy-wide perspective on the potential impact of EPA on Nigeria. In conclusion, in the short to medium term, tariff reduction on which EPA is based would negatively impact both the economy and poverty. Finally, the results broadly suggest that for Nigeria to be induced to adopt the preferential trade with EU, which will lock in the country to depend possibly on more expensive EU imports, substantial investment and aid from EU may be required to compensate for the potential adverse effects of EPA on key economic and social indicators.

Scenarios and Simulations using the SAM Methodology^{4/}

272 The SAM analysis yields a number of results that complement both the partial equilibrium and CGE simulations. They indicate the following in the short term:

- Expenditure reduction, associated with government revenue losses arising from tariff elimination, results in output losses at the aggregate and sector levels.
- There is potential for an increase in household poverty and consequent hardship and welfare loss associated with reduction in government expenditure.
- Tariff elimination reduces government revenues and needs to be compensated by tax reforms and other fiscal measures such as income taxes

^{4/}

For a general discussion of SAM and its usefulness as a general equilibrium tool for policy analysis, please refer to Volume 2, Annex 1.

and Value Added Tax. It could alternatively be (partially) compensated by an increase in aid from the EU.

- The regressive nature of VAT, that implies substituting it for a trade tax, is likely to be socially welfare reducing for both urban and rural poor that constitute the majority of the population.
- The regressive nature of VAT and the socio-economic characteristics of the country highlighted by its being among the world's poorest developing countries based on UNDP Human Development Indicators, suggests a gradual shift from trade to indirect tax such as VAT would be necessary.

The Scenarios

273 The simulations below were made using the assumption that around 20 percent of the value of imports from the EU is composed of 'sensitive' products that are not initially liberalised in 2008 but partially liberalised over a period of 12 years, up to 2020. It is assumed that government expenditure reduction that will result from the EPA will be the same as the government revenue loss that is due to the EPA. Under the new scenarios that we have run, assuming that partial liberalisation of some sensitive products takes place gradually over a period of 12 years, the average reduction in revenue initially in 2008 is likely to be around \$478.4 million which is equivalent to approximately 67 billion N, applying the exchange rate of \$1=140 N.

274 The SAM is a useful tool for the analysis of the short-term effects of a policy change on different sectors within an economy. By its nature, SAM is flexible and can contain as many or as few sectors/sub sectors as data availability permits. In our case, we made adjustments to the SAM available for Nigeria to allow us to infer some useful information regarding both social and economic factors.

275 By capturing the interactions within the economy, based on a socio-economic classification, it could be used as a powerful general equilibrium model to investigate effects of a policy change or an exogenous shock to various components of the economy. The quality of information provided varies directly with the extent of sophistication and disaggregation of the SAM used.

276 In order to be able to use the SAM for Nigeria as a basis of a macro general equilibrium model, we made some assumptions regarding the nature of various accounts; whether they are exogenously given or are endogenous. The usual assumption, in this context, is that if a sector is driven by income, it is considered as endogenous. Amongst the accounts given in the Nigerian SAM, tax sector, government, rest of the world as well as tariff are assumed to be exogenous. They are all considered as the final demand account.

277 Table 3.11 below presents the magnitude of the sector multipliers, based on the Nigerian SAM. The multipliers give an indication of change in the 'output' of one sector, based on a unit change in exogenous factors that affect it. The direct and indirect magnitude of these changes are given diagonally; whereas diagonal elements give the indirect multipliers between the corresponding row and column accounts. In other words, the coefficient at the intersection of line I and column J measures the impact of a unit change in Sector J on Sector I. In the case of productive sectors, the overall magnitude of multiplier in Nigeria is the highest for the

agriculture sector (1.49), followed by the manufacturing sector (1.28) and then the oil sector (1.22). The larger multiplier is an indication of larger linkages between a sector and the rest of the sectors in the economy. Understandably, given that most economic activities in Nigeria are agricultural based, a change in demand for agricultural products is likely to generate a larger overall change in that sector, compared to others.

278 Regarding institutions in the economy, the highest interaction is between the productive sectors and the households, followed by the productive sectors and savers (capital). Changes in productive sectors have a proportionately larger impact on the size of household income as a whole as well as on the savers. Labour income, not surprisingly, is sensitive to changes in government services, utility as well as the communications sub-sector, given that these are important sources of employment in Nigeria.

279 The household sector in this case is divided into urban and rural, each of which is further divided between poor and non-poor. This classification allows some comparison as far as poverty/welfare effects of a policy change are concerned. The magnitude of these effects, as before, could be gauged by looking at the linkages that each household group has with the productive sectors of the economy, given by the sectoral multipliers. In the case of the urban poor, for example, their income is more strongly linked to the government services than to other productive sectors of the economy; a 1 percent change in government services expenditure implies an approximately 0.35 percent change in the urban poor income. Next to government services, the income of the urban poor is also highly linked to the communications and utilities sectors. As far as the rural poor are concerned, their income is even more sensitive to government services than that of the urban poor. They are next most strongly linked to utilities as well as to the communication sector. All sectors that are important for the poor also play an important role in the change in income of the non-poor, both urban and rural. The sectoral multiplier for the non-poor urban, on average, is around 0.4. For the non-poor rural household it is slightly lower, at around 0.35.

Table 3.11: Sectoral Analysis of Multipliers Based on the SAM for Nigeria – Sectors 1 to 13

	Sectors	1	2	3	4	5	6	7	8	9	10	11	12	13
1	Agric	1.49	0.36	0.49	0.56	0.34	0.38	0.50	0.51	0.40	0.62	1.35	0.33	0.00
2	Oil	0.19	1.22	0.20	0.25	0.20	0.34	0.23	0.23	0.19	0.23	0.18	1.14	0.00
3	Manufacturing	0.12	0.05	1.28	0.40	0.13	0.09	0.10	0.11	0.07	0.07	0.11	0.05	0.01
4	Utilities	0.00	0.00	0.01	1.11	0.00	0.00	0.02	0.00	0.00	0.00	0.00	0.00	0.00
5	Build & Constr	0.01	0.01	0.02	0.04	1.01	0.01	0.02	0.01	0.03	0.01	0.01	0.01	0.00
6	Transport	0.02	0.04	0.06	0.05	0.03	1.04	0.10	0.06	0.03	0.02	0.02	0.04	0.00
7	Communication	0.00	0.00	0.00	0.00	0.00	0.00	1.01	0.00	0.00	0.00	0.00	0.00	0.00
8	Distribution	0.21	0.19	0.23	0.28	0.16	0.24	0.26	1.21	0.21	0.29	0.19	0.17	0.00
9	Services	0.03	0.03	0.07	0.17	0.03	0.05	0.28	0.07	1.05	0.04	0.03	0.03	0.00
10	Govt.Services	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	1.02	0.01	0.01	0.00
11	Agriculture	0.36	0.33	0.32	0.49	0.28	0.35	0.46	0.36	0.36	0.58	1.33	0.31	0.00
12	Oil	0.17	0.16	0.15	0.20	0.13	0.17	0.19	0.17	0.17	0.22	0.16	1.15	0.00
13	Manufacturing	0.33	0.31	0.29	0.39	0.24	0.32	0.38	0.32	0.32	0.44	0.30	0.28	1.00
14	Utilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
15	Build & Constr	0.00	0.00	0.00	0.01	0.00	0.00	0.01	0.00	0.00	0.01	0.00	0.00	0.00
16	Transport	0.04	0.04	0.04	0.05	0.03	0.04	0.05	0.04	0.04	0.06	0.04	0.04	0.00
17	Communication	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
18	Distribution	0.19	0.18	0.17	0.24	0.14	0.18	0.23	0.19	0.19	0.28	0.17	0.16	0.00
19	Services	0.16	0.15	0.14	0.21	0.12	0.15	0.20	0.16	0.16	0.24	0.15	0.14	0.00
20	Govt.Services	0.01	0.01	0.01	0.02	0.01	0.01	0.02	0.01	0.01	0.02	0.01	0.01	0.00
21	Labour	0.08	0.05	0.09	0.63	0.14	0.07	0.53	0.10	0.11	1.06	0.07	0.05	0.00
22	Capital	1.60	1.53	1.42	1.25	1.08	1.56	1.32	1.57	1.55	0.97	1.46	1.42	0.01
23	Urb. Poor	0.08	0.07	0.07	0.23	0.08	0.07	0.20	0.08	0.08	0.35	0.07	0.06	0.00
24	Urb. Nonpoor	0.51	0.48	0.45	0.44	0.35	0.49	0.45	0.50	0.49	0.38	0.46	0.45	0.00
25	Rur. Poor	0.19	0.17	0.17	0.40	0.17	0.18	0.36	0.19	0.19	0.57	0.17	0.15	0.00
26	Rur. Nonpoor	0.38	0.35	0.34	0.40	0.27	0.37	0.39	0.37	0.37	0.41	0.34	0.33	0.00
27	Firms	1.03	0.98	0.91	0.80	0.69	1.00	0.84	1.00	1.00	0.62	0.93	0.91	0.01

Table 3.12: Sectoral Analysis of Multipliers Based on the SAM for Nigeria – Sectors 14 to 27

	Sectors	14	15	16	17	18	19	20	21	22	23	24	25	26	27
1	Agric	0.56	0.34	0.00	0.13	0.51	0.03	0.50	0.62	0.38	0.65	0.56	0.64	0.54	0.27
2	Oil	0.25	0.20	0.00	0.06	0.23	0.02	0.19	0.23	0.18	0.23	0.27	0.20	0.30	0.13
3	Manufacturing	0.40	0.13	0.00	0.02	0.11	0.01	0.05	0.07	0.04	0.07	0.06	0.07	0.07	0.03
4	Utilities	1.11	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5	Build & Constr	0.04	1.01	0.00	0.00	0.01	0.00	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.00
6	Transport	0.05	0.03	0.01	0.02	0.06	0.00	0.02	0.02	0.02	0.02	0.02	0.02	0.03	0.01
7	Communication	0.00	0.00	0.00	0.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
8	Distribution	0.28	0.16	0.00	0.06	1.21	0.02	0.23	0.29	0.19	0.24	0.27	0.32	0.32	0.14
9	Services	0.17	0.03	0.00	0.07	0.07	0.08	0.03	0.04	0.02	0.04	0.03	0.04	0.04	0.02
10	Govt.Services	0.01	0.01	0.00	0.00	0.01	0.00	0.82	0.02	0.01	0.02	0.02	0.02	0.01	0.01
11	Agriculture	0.49	0.28	0.00	0.12	0.36	0.03	0.47	0.58	0.35	0.62	0.53	0.60	0.50	0.25
12	Oil	0.20	0.13	0.00	0.05	0.17	0.01	0.17	0.22	0.17	0.21	0.26	0.18	0.29	0.12
13	Manufacturing	0.39	0.24	0.00	0.10	0.32	0.03	0.35	0.44	0.32	0.35	0.47	0.45	0.55	0.23
14	Utilities	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
15	Build & Constr	0.01	1.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.01	0.00	0.01	0.00
16	Transport	0.05	0.03	1.00	0.01	0.04	0.00	0.05	0.06	0.04	0.05	0.07	0.06	0.06	0.03
17	Communication	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
18	Distribution	0.24	0.14	0.00	0.06	1.19	0.02	0.23	0.28	0.19	0.23	0.26	0.31	0.31	0.13
19	Services	0.21	0.12	0.00	0.05	0.16	1.01	0.20	0.24	0.16	0.24	0.21	0.24	0.27	0.11
20	Govt.Services	0.02	0.01	0.00	0.00	0.01	0.00	1.02	0.02	0.01	0.02	0.02	0.02	0.02	0.01
21	Labour	0.63	0.14	0.00	0.13	0.10	0.01	0.85	1.06	0.04	0.06	0.06	0.06	0.06	0.03
22	Capital	1.25	1.08	0.01	0.33	1.57	0.13	0.78	0.97	1.64	0.95	0.94	0.98	0.99	0.46
23	Urb. Poor	0.23	0.08	0.00	0.05	0.08	0.01	0.28	0.35	0.07	1.05	0.05	0.05	0.05	0.05
24	Urb. Nonpoor	0.44	0.35	0.00	0.11	0.50	0.04	0.30	0.38	0.52	0.30	1.30	0.31	0.31	0.37
25	Rur. Poor	0.40	0.17	0.00	0.09	0.19	0.02	0.46	0.57	0.17	0.12	0.11	1.12	0.12	0.12
26	Rur. Nonpoor	0.40	0.27	0.00	0.10	0.37	0.03	0.33	0.41	0.38	0.23	0.22	0.23	1.23	0.27
27	Firms	0.80	0.69	0.01	0.21	1.00	0.08	0.50	0.62	1.05	0.61	0.60	0.63	0.63	1.29

280 Given the importance of government services for all income groups, any change in government expenditure that affects these services is likely to be accompanied by a relatively strong welfare/poverty implication. In the context of the potential reduction in government's tariff revenue as a result of the EPA, government expenditure is likely to be affected as well. This in turn is likely to affect government services, and through this the income level of both the poor and the non-poor.

281 The application of the SAM methodology necessitates an estimation of loss in Government revenue due to the EPA. This in turn necessitates the evaluation of trade creation (TC) and trade diversion (TD) for the differentiated products. This in turn requires estimates of import demand and substitution elasticity. Reliable estimates for both elasticity values for Nigeria at a detailed HS level are not available. As a proxy, the values for the elasticity were assumed by Matthias Busse et. al. in their study for the ECOWAS countries, at four-digit level (table below). They assumed that the mid-assumption was the most likely outcome of the EPA. The low and high assumptions, on the other hand, provided them with lower and upper bound estimates of the trade and budget effects of the EPA. In our simulation analysis we make the same assumption as Busse et al (2004) and apply the mid-scenario assumption as far as import demand elasticity and elasticity of substitution are concerned.

Table 3.13: Values Assumed for Elasticity. Four-digit Level, Nigeria

Product category (HS chapter)	Import demand elasticity			Elasticity of substitution		
	Low	Mid	High	Low	Mid	High
Agricultural products	0.4	0.7	1.0	1.0	2.0	3.0
Raw materials	0.6	0.9	1.2	2.0	3.5	6.0
Manufactured goods	0.8	1.1	1.4	1.8	3.0	4.0

Source: Matthias Busse et. al. (2004)

282 Our calculations of static effects of the EPA suggest that government revenue would be adversely affected. In the short-run, the balance of payments of Nigeria may also worsen, since imports are likely to increase; and exports are likely to take time to change. The change in government revenue, in the absence of alternative revenue generating options, in the short-run at least, would imply a reduction in government expenditure on various socio-economic activities that the Government of Nigeria is engaged in. Imposing this reduction in expenditure on various components of the SAM, based on plausible assumptions, would generate magnitude of impact that this reduction would have on the various sectors identified in the SAM.

283 To the extent that the EPA has an impact on the economic sectors, and - directly and indirectly - on household income, this is likely to change by a higher proportion than sectoral demand. Any change in household income, would change the average income and, through that, the number of people who are likely to fall below the poverty line. Under plausible assumptions, we could impose the changes in final demand that would be implied by the EPA, and consider their impact on the various socio-economic components of the economy.

284 Table 3.14 below presents various simulations on the possible impact that changes in government expenditure may cause to different sectors in the economy. The results reported are based on various assumptions on which sectors are likely to be affected, and by how much. The overall expenditure assumed is of one billion N.

To the extent that government revenue loss due to EPA differs from this amount, effects reported would be different. To calculate the overall effects of revenue reduction, results reported should be multiplied by $(\text{Revenue loss}/1000,000,000)$. For the static analysis reported, for example, the average revenue loss in 2008 would be equal to \$478.4 million, which is equivalent to approximately 67 billion N, applying the exchange rate of \$1=140 N. To calculate the effects of this magnitude of expenditure reduction on the economy, the figures reported for the effects should be multiplied by 67.

285 The results show the sensitivity of the various socio-economic sectors of the Nigerian economy to changes in government expenditure. The extent of this depends on where the changes are imposed and on the magnitude of the changes made. In the absence of a compensation for the loss in government revenue due to the EPA, and assuming that revenue loss is translated into expenditure cuts that directly affect different sectors, we have made plausible assumptions as where these changes may be introduced (scenarios I-IV). The purpose of simulations run is to investigate the sensitivity of the sectoral changes generated to the assumptions made. If changes are too sensitive to the assumptions made, then there is a large policy choice but, on the other hand, if the changes are similar, policy choices are more limited.

Table 3.14: Simulation of Effects of Reduced Government Revenue/Expenditure on the Nigerian Economy

Accounts	Sectoral Output	Distribution of Reduction in Government Revenue (1)					Reduction in 'Sectoral Output'					Percentage changes in 'Sectoral Output'				
		I	II	III	IV	V	I	II	III	IV	V	I	II	III	IV	V
Agric	739013	250	200	0	0	0	752	676	618	644	484	0.10	0.09	0.08	0.09	0.07
Oil	1209476	0	0	0	0	0	242	234	232	213	184	0.02	0.02	0.02	0.02	0.02
Manufacturing	289941	250	200	0	0	0	391	327	68	68	53	0.13	0.11	0.02	0.02	0.02
Utilities	3696	0	0	0	0	0	4	4	2	2	1	0.10	0.10	0.05	0.05	0.04
Build & Constr	26476	0	0	0	0	0	11	15	8	6	6	0.04	0.06	0.03	0.02	0.02
Transport	116382	250	200	0	0	0	284	233	23	22	18	0.24	0.20	0.02	0.02	0.02
Communication	1278	0	0	0	0	0	1	2	0	0	0	0.10	0.13	0.03	0.03	0.03
Distribution	384269	0	0	0	0	0	229	236	291	279	222	0.06	0.06	0.08	0.07	0.06
Services	92881	0	200	0	0	0	46	248	38	37	29	0.05	0.27	0.04	0.04	0.03
Govt.Services	122537	0	0	1000	0	0	12	12	1017	18	14	0.01	0.01	0.83	0.01	0.01
Agriculture	529120	0	0	0	0	0	413	394	580	608	455	0.08	0.07	0.11	0.11	0.09
Oil	246331	0	0	0	0	0	175	175	215	196	171	0.07	0.07	0.09	0.08	0.07
Manufacturing	502261	0	0	0	0	0	321	340	440	402	340	0.06	0.07	0.09	0.08	0.07
Utilities	603	0	0	0	0	0	0	0	1	1	0	0.07	0.06	0.09	0.10	0.07
Build & Constr	13446	0	0	0	0	0	4	5	5	4	4	0.03	0.04	0.04	0.03	0.03
Transport	63154	0	0	0	0	0	43	44	57	55	45	0.07	0.07	0.09	0.09	0.07
Communication	486	0	0	0	0	0	0	0	0	0	0	0.05	0.05	0.06	0.05	0.05
Distribution	306399	0	0	0	0	0	192	202	281	268	214	0.06	0.07	0.09	0.09	0.07
Services	263450	0	0	0	0	0	175	172	243	239	187	0.07	0.07	0.09	0.09	0.07
Govt.Services	142309	0	0	0	0	0	15	15	21	22	17	0.01	0.01	0.01	0.02	0.01
Labour	201085	0	200	0	0	0	73	281	1060	61	47	0.04	0.14	0.53	0.03	0.02
Capital	2180404	0	0	0	0	250	1384	1422	971	965	1007	0.06	0.07	0.04	0.04	0.05
Urban Poor	134241	250	0	0	500	250	318	132	350	551	304	0.24	0.10	0.26	0.41	0.23
Urban Non Poor	703394	0	0	0	0	0	438	464	378	306	374	0.06	0.07	0.05	0.04	0.05
Rural Poor	296674	0	0	0	500	250	162	259	567	618	382	0.05	0.09	0.19	0.21	0.13
Rural Non Poor	535109	0	0	0	0	0	326	372	410	229	277	0.06	0.07	0.08	0.04	0.05
Firms	1429795	0	0	0	0	250	886	910	621	618	895	0.06	0.06	0.04	0.04	0.06

Source: Consultants' Calculations Based on Social Accounting Matrix for Nigeria, University of Ibadan.

(1). Expenditure reduction is assumed to be equal to one billion Niras in this case; which is assumed to have been caused by tariff revenue reduction as a result of EPA. .

286 Under scenario I, for example, we assumed that a reduction in government expenditure equally affects the agriculture, manufacturing, transport sectors, as well as the urban poor. In each case, either government expenditure on products produced by each sector is adversely affected or support/subsidy provided may be affected. Under scenario II, we have spread the same level of revenue reduction on a larger number of productive sectors as well as labour income. Under scenario III, we assumed that all the expenditure reduction is paid for by a reduced amount of government services. Scenario IV considers possible retrenchment in government services as far as the poor in general are concerned; whereas under V, it is assumed that reduced expenditure is equally shared between the poor, as well as capital and firms.

287 It is clear from the sensitivity analysis that all linked sectors of the economy will be affected by the cut in expenditure; those with the higher link, such as household income and labour, are affected proportionately more than those with a relatively smaller link. In terms of productive sectors of the economy, all sectors are likely to be affected by reduced government expenditure. The extent of variation, however, would be different for different sectors given differential sectoral linkages. As far as poverty/welfare implication of reduced government expenditure is concerned, particularly the poor (urban and rural) are likely to be relatively severely affected, as a result, even when they are not directly affected by the cut.

288 Results generated suggest that, at least in the short run, if alternatives were not found to compensate for the loss in government revenue because of the EPA, government expenditure would have to be reduced. Largely, irrespective of where this expenditure reduction is imposed on the economy, this would have implications in terms of losses in sectoral output as well as increased poverty/hardship and welfare loss, as illustrated by the different scenarios. The analysis here remains valid for whatever assumptions one makes regarding the schedule of the EPA. Given the period over which the EPA is negotiated and implemented, and assuming that some products are not immediately liberalised, as discussed under the new simulations, this reduction could be introduced gradually over time. This not only reduces the impact of the EPA on government revenue, it may also allow policy makers time to find alternative ways of compensating for the loss in revenue over time. This may come because of efficiency gains both on the part of a reformed government and on the part of the productive sectors of the economy. The short-term effects however are likely to be present in different magnitude, depending on the way in which the tariff is reduced. To that extent, as part of its negotiation with the EU, the Government of Nigeria could be justified to argue for compensation from the EU.

Limits to the SAM Methodology

289 Since it simulates exclusively the impact of a reduction in government revenue due to cuts in customs tariffs, the SAM method does not take into account the direct impacts on the economy that are independent from variations in government revenue, such as:

- substitution of cheaper imported products, as production factors, in the productive and service sectors; and
- The changes in customers' habits, in favour of cheaper imported products, and their consequences on the local sectors.

Discussion on the Scenarios and Results of the Simulations

290 In the long run, as our analysis using CGE indicates, EPA is likely to have an overall positive effect on the economy and could possibly lead to a reduction in poverty as well. A recent study by WTO (2005) investigating the effect of EPA in SADC countries and using CGE arrives at similar conclusions; as:

- For SADC countries overall, real GDP growth is stimulated most by multilateral trade liberalisation. Due to the importance of the EU as a trading partner for many SADC economies, liberalisation in the context of EPAs already goes a long way towards realising such gains. For some, however, it is crucial to seek further integration within SADC at the same time in order to reap these benefits. The positive results of an EU-SADC FTA are robust to variations in key assumptions, notably the Armington parameters.
- The possibility of the EU signing an FTA with another group of developing countries (Mercosur) significantly lowers the expected gains from preferential trade with the EU for SADC. This implies that, for most SADC countries, multilateral liberalisation becomes relatively more appealing.
- For a number of SADC countries, meaningful liberalisation of agricultural import barriers explains a large part of the expected gains from an EU-SADC FTA. Conversely, SADC economies are hardly affected by the abolishing of agricultural subsidies on the part of the EU.
- All liberalisation scenarios lead to significant structural change in SADC countries. For some of them, the required structural adjustment under the multilateral liberalisation scenario is less than under an EU-SADC FTA. In particular, under the latter scenario agricultural sectors expand at the expense of manufacturing in most SADC economies, whereas multilateral liberalisation, for some of them, fosters manufacturing, leading to higher levels of diversification. Trade patterns follow this trend in production: Overall imports, especially of manufactures, and exports, notably of agricultural and processed food products, increase. Part of this increased trade can be explained by trade diversion away from other developing countries.
- If the existence of a large pool of unemployed unskilled labour in SADC countries is assumed, the positive welfare effects of an EU-SADC FTA are even more pronounced. In many SADC countries more jobs are created in agricultural sectors that are already major employers of unskilled labour. Others receive an employment boost in their transition towards processed food products. Employment expansion in manufacturing seems to be limited by increasing skill requirements.
- Tariff revenue losses can be replaced by moderate increases of, for instance, consumption taxes. However, the design of the tax regime appears to matter if tariff revenues are to be replaced: For certain SADC countries, a mix of higher income and consumption taxes proves to be superior in terms of welfare.

291 However, contrary to these findings we argue that removing agricultural subsidies in Europe is likely to be beneficial to Nigeria and other ECOWAS countries, allowing them to better realise their competitive advantage in export of agricultural commodities to Europe. A recent publication by the World Bank also arrives at similar conclusion to us that liberalisation of agricultural sector in developed countries is a major source of gains for developing countries. The World Bank study^{5/} estimates that as a result of full liberalisation of the agriculture sector by developed countries, developing countries would gain around \$26 billion dollars; full liberalisation of the agriculture sector in developing countries would bring about similar gains to developing countries as well ^{6/}. The gains in both cases far exceed the gain that developing countries are likely to have from liberalisations in other sectors of the economy.

Impact on the Economy

Socio-Economic Issues

Poverty

292 Trade liberalisation affects the poor in several ways, including the following:

- Changes in prices: through changes in the prices of tradable goods and availability of imports and exports, trade liberalisation alters imports and exports that are available to the poor. However, the poor may not have the income to purchase the cheaper products.
- Changes in factor prices, income and employment: empirical evidence points to some general trend: the flexibility of the labour market is important in determining whether the effects of trade liberalisation are transformed into changes in employment and wages.
- Changes in government revenues and their possible effects on the government's pro-poor expenditures; such changes are usually assumed to be negative and thus negatively affect government pro-poor expenditures. In addition, governments may not have pro-poor expenditures, anyway. Empirical analysis may help determine the effects of trade liberalisation on government revenue. Whether government revenue falls or increases depends on some factors which include the extent to which the initial position is restrictive, the nature of liberalisation, the structure of the tariff reforms, the accompanying reforms and supportive macroeconomic policies that ensure that liberalisation is consistent with external balance.
- Changes in investment, innovation and growth: empirical evidence suggests that economic growth tends to reduce poverty. However, such results are deemed not evident at all and have been highly contested.

5/ By Anderson and Martin (2005)

6/ Implications of Trade Reform for Developing Countries, K Andersen and W Martin, Outlook Conference 2005, World Bank

293 Trade liberalisation will make an economy more open and thus exposed to increased risks and increased poverty.

294 Poverty is a serious problem in Nigeria. The available data indicates that over 60 percent of Nigerians are suffering from acute poverty.

Table 3.15: Growth and Poverty in Nigeria

Year	GDP growth	Poverty headcount index
1980	5.5	27.2
1985	9.4	46.3
1990	3	42.7
1996	3.4	65.6

Source: NISER: Review of Nigerian Development, 2001/2002-Understanding Poverty in Nigeria, 2003.

295 Using a wider and relative concept of poverty, the nature of poverty in Nigeria looks even more serious. A survey, conducted in 2002, indicates that around 80 percent of population in Nigeria is living in poverty, unable to meet its basic needs.

Table 3.16: Poverty in Nigeria in 2002 Based on Inability to Meet Basic Needs

Region	Number surveyed	Percentage of respondent unable to meet their basic needs
North-East	72	81
South-East	101	100
North-West	68	68
South-West	55	61
North-Central	73	79
South-South	90	90
Total	459	80

Source: NISER (2003): Review of Nigerian Development, 2001/2002-Understanding Poverty in Nigeria.

296 An important consequence of the EPA is that it is supposed to stimulate economic activities and generate a higher growth in the economy. Given the positive association between growth and poverty reduction in general in Third World countries, the EPA may have a (long-term) positive effect on poverty reduction in Nigeria. The EPA, may have other direct and indirect effects on poverty in Nigeria. As the analysis of the SAM suggests, there is a relatively strong link between the income of the poor and government services. To the extent that government expenditure is adversely affected by the EPA, it will also have an impact on poverty. On a longer-term basis, providing that the EPA stimulates exports from Nigeria, it may lead to reduction in poverty by widening employment opportunities in labour intensive economic activities. Given that poverty is more serious in rural areas, agriculture-based exports are likely to have a more positive effect on poverty reduction.

297 The current EPAs are also unlikely to have a positive impact on women and other vulnerable groups, unless the several generic challenges to gender equality and the empowerment of vulnerable groups are addressed. These challenges include the development of the capacity to mainstream gender into policy and strategy, and the need to increase female and other vulnerable groups' participation in education and politics.

Possible Adjustments in Trade and Economic policies

298 This section examines the adjustments that could be envisaged in the current trade and economic policies because of the conclusion and implementation of an EPA with the EU (and the corresponding increased competitive pressures from both the EU and regional partners). The implementation of an EPA with the EU will lead to tariff liberalisation for around 80 per cent of the value of products imported to Nigeria. Since Nigeria is a member of the WTO, it is almost impossible for the country to oppose the negotiation of the EPA. Opposition would isolate Nigeria in the international community; the consequences of isolationism within a world dominated by the universal trend of increased openness would probably be extremely damaging to Nigeria, especially if Nigeria was alone and other West African and, more widely, ACP countries did not follow.

299 In this section, we assume Nigeria will negotiate the full liberalisation of 80 percent of its imports within a period of 12 to 18 years.

300 In view of the likely impact of the EPA on the Nigerian economy, the government needs to fashion out adequate policy responses to the shocks that are likely to occur from the trade liberalisation schemes. Such policy responses should address issues including: public sector expenditures; the competitiveness of Nigerian products; supply-side issues; external trade policy; development of the non-oil export sector; and, development of institutions and of human capital.

Public Sector Expenditure

301 As we have seen in the previous chapters, a result of the EPA tariff reduction will have an effect on government's budget. At least in the short run, tariff reduction by reducing tariff revenue would have an impact on the overall revenue of the Government of Nigeria. To the extent that tariff is a distorting tax that generates inefficiency in the economy, it is theoretically valid that its removal would improve welfare in the economy and therefore, *cet. par.*, it would be appropriate that it is removed. As in any other economy however, the government would have to perform certain tasks and, therefore, it would require resources to implement these tasks. The removal of a certain revenue source, would therefore impose constraints on the way in which the government could continue with its portfolio of activities and some adjustments would have to be made. In the context of the EPA, alternatives open to the Government of Nigeria are the following:

- reducing government expenditure,
- raising revenue through other sources, and
- combining tax and government expenditure reform.

302 A policy option open in the intermediate to long term could include reform of the taxation system. Given the narrow tax base of the Nigerian economy and particularly VAT on goods and services, initially fuel tax could be considered as more efficient in terms of its implementation and its economic effects, as well as being more socially acceptable and progressive. Given the importance of the haulage industry and transportation of goods across Nigeria, Fuel tax could partially act as a VAT since prices of goods at shops would have to increase to reflex imposed fuel tax. Gradually however, taxation in Nigeria would have to go through reform to

provide a much larger tax base, making VAT one of the more economically efficient methods of recouping at least part of the revenue loss in the long term.

303 As in many other developing countries, government expenditure in Nigeria is relatively high. Over time, on the ground of efficiency, the role of government in economic activities in Nigeria could be reduced and therefore its budget reduced. Tariff revenue reduction in that case would not have so much adverse effect, given the reduced government expenditure.

Table 3.17

Policy Options to Cope with Revenue Reduction (\$)				
Scenario/Year	2008	2012	2016	2020
EU assistance	478 373 586			
Fuel Tax	478 373 586	432 598 176		
VAT	478 373 586	432 598 176	386 822 767	
Reduced Gov. Expenditure				341047 357

304 Going for any of the above options may not necessarily improve welfare. In what follows we look at each of these options.

Reducing Government Expenditure

305 The Government of Nigeria could carefully consider its expenditure portfolio and check whether there are areas where some savings could be made. Along with the policy prescription that government involvement in economic activities should be reduced, international organisations such as the World Bank and the IMF have also encouraged Nigeria^{7/} to reduce trade taxes and replace them by indirect Value Added Tax (VAT). The theoretical rationale for the use of indirect tax as a more efficient way of raising revenue is based on the argument that replacing trade tax with an indirect tax such as VAT would enhance welfare. In the context of the EPA, for Nigeria, for example, this would involve replacing lost revenue from tariff by generating an equivalent amount from indirect taxes through the VAT on local commodities.

306 A critical assumption on the validity of replacing trade tax with the VAT on the grounds of efficiency is that it is feasible to impose further tax on commodities with the lowest VAT^{8/}. In the context of an economy with a formal sector only, this condition could be satisfied, but not so within economies where there is a large informal sector. Since Nigeria has a large informal sector, commodities with the lowest VAT are likely to be found within this sector. In that case, replacing trade tax with the VAT is likely to reduce welfare. Welfare loss is likely to increase with the size of the informal sector.

307 Replacement of trade tax with the VAT to compensate tariff loss also has some equity implications that should be considered. On the one hand, the VAT in general is a regressive tax since those on a lower income spend a larger proportion of their income on commodities that are subjected to the VAT, and therefore would

^{7/} See Latest developments in August 2005, IMF Country Report No 05/302

^{8/} M. S. Emran and J. E. Stiglitz: "On Selective Tax Reform in Developing Countries" mimeo, 2002.

pay a higher proportion of their income on tax^{9/}. On the other hand, to compensate for the loss in trade tax, certain group of consumers would have to be subjected to a higher rate of the VAT. To implement the above policy, the best that policy makers may be able to do is to find a commodity in the formal sector to tax, since, by definition, the informal sector could not be subjected to VAT. In such a case, consumers in the formal sector would have to pay a higher rate of VAT in order to compensate for those who rely on the informal sector. As the urban poor are likely to be amongst the former, social welfare loss of implementing an indirect local tax could be large.

308 The administrative cost of implementing a neutral-revenue tariff and tax reform further complicates the analysis of welfare implications of the suggested policy. Empirical evidence suggests that the administrative cost of tax collection differs for different types of tax and furthermore that these cost rise with the level of economic backwardness of countries^{10/}. The original idea behind raising revenue for government through trade rather than domestic taxes was the comparative administrative ease of generating it through trade.

309 Nigeria has a relatively small and identifiable number of crossings as far as import (and export) of goods and services is concerned and would monitor a smaller number of transactions and therefore tax collection through trade tax would be relatively easy. Compared to this case, Nigeria has a relatively narrow base for domestic tax collection. This is due to the presence of large informal sector as well as tax avoidance given the informational and administrative difficulties. The informational and compliance cost of VAT is high in Nigeria because of the high rate of illiteracy and general absence of any written record keeping. Lack of record keeping may also have other motives including tax evasion.

310 At least in the short-run, replacing the tariff with the VAT is unlikely to be a viable option for Nigeria, on both economic and welfare grounds. In the longer-run, and when the size of the informal sector is reduced, this may be an option^{11/}.

Combining Tax and Government Expenditure Reform

311 The conditions for switching from tariff to the VAT to be welfare improving in the context of Nigeria are all too stringent to be met. The size of informal sector in particular in many of these countries, together with the higher administrative cost of the VAT relative to trade tax, is likely to produce a less desirable welfare outcome.

312 The size of the informal sector in Nigeria, however, is likely to be reduced as Nigeria develops. A condition for a sustainable development is that the economy as whole becomes more integrated and therefore more and more of informal sector has to be absorbed into the formal sector of the economy. Even in the absence of

9/ Assume a family on income of 100Euros per week spends it all on goods that are subjected to a 25 percent VAT. Total VAT payment for this family would therefore be 15 Euros or 15 percent of their income. Another family on 1000 Euros would spend 500 Euros on goods and services that are subject to the same VAT rate. Total VAT payment for this family would be 75 Euros or 7.5 percent of their income.

10/ World Bank; World Development Report 1998, Oxford University Press

11/ The discussion of the impact of the EPA on the informal sector is presented in Chapter 5, section 5.7

development it could be argued that with the change in economic environment, pressure from the international organisations for reform over a long period, together with changes in technology that has been brought by information technology, it is inevitable that the size of informal sector in Nigeria should shrink over time. In the context of Nigeria for example, if the figures reported about the contribution of informal sector during 1990-93 are correct^{12/}, Nigerian informal sector has shrunk considerably in relation to Nigerian GDP. Over the period 1989-93 the informal sector constitutes 68 percent of GDP, and this share is reduced to less than 40 percent in 1998^{13/}. If this continues then the tax base of domestic sector is likely to be increasing at a high rate. In that case, it could be argued that Nigeria should be gradually moving towards a more balanced and sustainable tax reform; this may involve sacrificing certain welfare loss for a period in order to benefit from a larger social benefit in a later period.

313 Based on the picture provided, one could argue that given the level of development of Nigeria, the Government of Nigeria spends a relatively large portion of total income generated in the country. A large share of this expenditure is accounted for by recurring expenditure; a large proportion goes to civil servant salaries. Surprisingly, the Government of Nigeria allocates a relatively small fraction of its budget towards capital expenditure. Given the problems that exist in Nigeria in terms of the poor state of infrastructure, it could be argued that the Government of Nigeria should have a closer look at its expenditure portfolio.

314 Largely, the trend towards liberalisation and reduction/removal of restrictive trade taxes is irreversible. For Nigeria to take an active part in international trade and the globalised world, it has to comply with internationally negotiated trade agreements. It is also inevitable that preferential agreements that Nigeria is offered by the EU is going to be removed soon, whether Nigeria agrees to the conditions specified in EPA or not. It is therefore important, in order to support the necessary services provided by the Government of Nigeria, that alternative sources of revenue and/or reduction in government expenditure are found.

315 On the ground of development and for the reasons specified above, it is important that the Government of Nigeria should play an effective and significant role in the development of Nigeria. In order to do so, government expenditure necessary to finance various services is likely to increase. Tax reform may provide a base for solving short falls in revenue from trade tax^{14/}.

316 Tax reform in a country such as Nigeria, with its socio-economic characteristics, and for the reasons discussed above, may call for a gradual shift from trade tax to an indirect tax, such as the VAT, together with appropriate changes in income tax. Selective tax reform by imposing the VAT on some commodities as well as widening income taxes could be supported based on equity grounds. Most poor, particularly urban poor, spend a large portion of their income on food and other necessities. To support the poor, these items could be excluded from the VAT. The

12/ Schneider and Enste, *ibid.*

13/ CBN/FOS/NISER: *A study of Nigeria's informal sector*. Benjasprint Ltd, Nigeria, 2001

14/ *Op. cit.*

coverage of the VAT to other commodities could be increased to provide larger revenue for government. In the case of income tax, a systematic and efficient tax policy could also compensate selective removal of trade taxes.

Competitiveness of Nigerian Products

317 The main response to the EPA, and other trade liberalisation schemes should be to increase the competitiveness of Nigerian products, as this will have the double effect of allowing Nigerian products to compete with increased imports arising from opening up as well as on the international market. This can be achieved by Nigeria only if there is sufficient political will, adequate policies and motivation from all segments of the society. Our visits to several representatives of the Organised Private Sector (OPS) confirmed to us that this is a general Nigerian position.

318 Competitiveness may be defined as primarily the ability in the long term to produce at lower costs than other producers do. The basic elements of competitiveness include general economic performance, government efficiency, business operational efficiency, high quality, reliable infrastructure services, technology advancement and knowledge driven productivity^{15/}.

319 The cost of doing business in Nigeria has remained high and this has an impact on the ability of the country's goods to compete globally. Nigeria must be able to transit from its present crude material based economy to a knowledge-based economy. The way to go is to adopt cost reduction initiatives, which involve managing the cost of local and imported raw materials, utilities, transport, retooling and modernised machinery.

320 We suggest the following:

- intensify efforts to rehabilitate infrastructure so as to reduce input cost; upgrade quality of government owned tertiary educational institutions and assure quality of private ones;
- upgrade technology and increase operational efficiency; insist on consistent quality products; enhance R&D capabilities; invest in skill upgrading and updating; strategic packaging and marketing is a key to global competition;
- CBN and banks to target single digit Minimum Rediscount Rate (MRR) and interest rate respectively; maintain current forex management strategy especially the Dutch Auction System (DAS);
- banks must apply capital more to productive ventures than short-term speculative ones;
- adopt a unified single tax regime payable by manufacturers; avoid indiscriminate levies and taxes by state and local governments;

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Olu. Ajakaiye, "Enhancing the Competitiveness of Nigeria's Industrial Sector", a Paper Prepared for the Manufacturers Summit 2004, held at the African Leadership Forum, Ota, 2004, Manufacturers Association of Nigeria. This discussion depends on MAN, NACCIMA and LCCI documents.

- tie incentives to large industries to their support for local SMIs that supply their raw materials and spares so as to reduce import dependence; seek ways of reducing import dependence by investing in ventures that will produce intermediate and capital goods; and
- take advantage of the size of the Nigerian/African Diaspora, as a cultural strength factor to be utilised towards breaking into foreign markets.

Supply-Side Issues

321 The EPA will not live up to its expectations unless there is careful planning and adhesion to the development component of the agreement. However, if economic development is to be sustainable in Nigeria, the Government itself has to design its own economic integration and development programmes, and start putting in place the needed complementary policy and governance reforms. In this respect, a study recently concluded by the World Bank stated that: "There remains a conspicuous and chronic gap between available market access and the capacity to meet production targets in terms of quantity, quality, standards, delivery time, etc., as well as to diversify the product mix. In a sense, the focus on market access issues has run ahead of the capacity to take advantage of the opportunities generated by this effort. Therefore, in seeking to develop a regional strategy for the future, emphasis should be on addressing the supply-side constraints underlying the gap. What is required is a production oriented strategy^{16/}".

322 As trade increases, so would the opportunities and threats, for the ACP countries in particular. Nigeria must therefore be vigilant enough to avoid a situation where the domestic market is just a dumping ground of unwanted goods and services. Under the EU-Nigeria economic partnership agreement, Nigeria should endeavour to put in place EPA measures to address supply-side constraints with the EU. Some of these constraints include, by sector, the following:

- Private Sector (Manufacturing): high cost and poor delivery of utility services; poor transportation; inefficient tax administration; high cost of accessing capital; high transaction costs; insecurity; poor technology; insufficient skilled labour.
- Financial Sector: cost of credit is high and access to capital by medium and small-scales enterprises is difficult.
- Agricultural Sector: limited small-scale farming; rudimentary technology; limited external inputs such as insecticides, fertilizers, pesticides and herbicides; vulnerability to weather patterns and pests and diseases; dependence on few commodities; changes in international trading terms; imposition of qualitative restrictions by Western trading partners.
- Government Sector: the sector is dependent on donor funds; policy-making space is inadequate.
- Export Sector: Deterioration of and unstable terms in commodity exports; falling price of export commodities such as cocoa, groundnuts, cotton, etc.

16/

Harris, World Bank. 2004

323 Possible responses to some of these constraints are proposed below:

- Adequate funding should be provided to the social sectors, particularly health and education, and the modernisation of agriculture, forestry, economic infrastructure, and services such as roads, rail, telecommunications, electricity, etc.
- Adequate attention should be given to non-focal sectors, such as micro-finance services, the tourism sector, private sector competitiveness and business development services.
- The challenges of the export sector must be adequately addressed towards diversifying Nigeria's export base through agro-processing and adding value to other exportable raw materials(a key issue in the present study).
- Some of the challenges in the government sector must be addressed, including the need to establish an integrated financial management system that will cover a wide range of public expenditure management reforms. The aim here is to establish a reliable system that would produce accurate and timely budgeting and financial information. As the latest IMF report states, the GoN is taking care of these issues and moving in the right direction.

324 This list is by no means exhaustive. However, if real free trade with the EU is to be introduced, these efforts must be urgently taken in order for Nigerian producers to compete effectively with EU producers under conditions of liberalisation. The supply-side constraints inhibiting the ability of Nigeria to competitively produce and trade into world markets should be resolved as a matter of utmost priority.

External Trade Policy Adjustments

325 The trade regime under the Lomé Convention did not produce the expected positive results. On the contrary, the ACP countries' share of world trade has declined over the last 25 years. For Nigeria, a review should be made of why this mechanism has not worked. In several ways, the Cotonou Agreement is promising to overcome some of the limitations of the previous Lomé Conventions by positioning itself as an economic partnership accord rather than a conventional free trade agreement with more restricted objectives.

326 Some proposed adjustments to Nigeria's trade policy are set out below.

Table 3.18: Proposed Adjustments to Nigeria's Trade Policy

What Needs To Change	Who To Change	Expected Results	Beneficiaries	Time Frame For Change
Issue No. 1: Trade Policy Formulation and Implementation				
Ways of disseminating the information	Government, NGOs, CBOs	Active involvement by NGOs in Policy Formulation & Implementation	Stakeholders and Society at large	Now and always
The level of government adherence to the formulated policies	The Government	An alignment between Policy document and practice	Businessmen and women, local and International	Now and always

What Needs To Change	Who To Change	Expected Results	Beneficiaries	Time Frame For Change
			Investors	
Government attitude towards aid and external influence	The Government	National Trade Policy will be more sensitive to local realities	The poor and the marginalised, local investors and producers	After the review of the NIP
(Increased) level of income, awareness and education	The CSOs, Informal Sector, OPS, Small Producers and Traders	Enhanced capacity and greater awareness of Policy Issues	Government and Stakeholders	Two years from now
The Trade Policy Document (to address issues that target poverty reduction)	The Government	Improved living standard of the people	The poor and the marginalized	As the review process of the trade policy is carried out.
Issue No 2: Linkages between Trade Policy and Other Policies				
Orientation of both public and private sectors as to the overall goal of trade policy	public and private sector operators	Interest in and commitment to agreed trade policy	All Economic operators and stakeholders	Immediate
sectoral policy formulation process and rate of infrastructural investment	Government and private sector operators	Improved synergy between sectoral policies and improved economic growth	The poor and vulnerable, manufacturers and industrialists, farmers	Immediate
Government expenditure alignment with production needs and the due process implementation	The Government	Prudent and result oriented spending; better impact of Government expenditure; rapid economic development	The general public	Continuous
Targeting macroeconomic indicators and stability of financial sector		Stable exchange rate and low inflation and interest rate	All layers of Society, especially of financial services	Immediate
Pre-Policy: Sensitisation and Consultation and Capacity building	Government, NGOs	Informed populace on regional matters and the harmonisation of policies at national, regional and international levels	All	Immediate and Continuous
Issue No. 3: Public Enlightenment				
Improved channel of communication through effective collaboration with primary stakeholders	Government	Wider coverage of policy dissemination to stakeholders	Primary Stakeholders Government agencies (policy facilitators)	Immediate
Remove bottlenecks to access means of communication	Government private operators	Increased access to information	General public, the poor and marginalised	Continuous
Creating awareness on Trade Policy	Government NGOs	Wider coverage	Primary stakeholders	Continuous

What Needs To Change	Who To Change	Expected Results	Beneficiaries	Time Frame For Change
through media			general public	
Issue No. 4: Trade Policy Measures				
Ineffective border control	Government	Reduced cross-border smuggling	Government, local producers	2005/2006
Frequent policy changes	Government	Stable policy	Public and private sectors	Immediate and continuous
Frivolous import waivers	Government	Increased custom revenue	Government the economy	2005/2006
Lack of inter-agency coordination	Government	Harmonised policy process	Public and private sectors	As soon as policy review starts
Issue No. 5 Trade Policy and Gender				
Gender Blind Policy	Government NGOs, Private Sector	To get data to reflect issues of men and women	Women, society	Now and always
Patriarchal system	Society	Institution of gender – sensitive legal system that recognises and protects gender rights	Women, society	Immediate and continuous
Issue No. 6: Multilateral Trade Obligations				
System of governance	Government	Timely and adequate consultation, consistent policies	The people, especially the poor	Immediate and continuous
Process of preparation for negotiation	Society	Effective negotiation and strong bargaining position	The people, CSQ and Govt Departments	Immediate and continuous
Inconsistencies in trade policies at all levels & unpredictability of trade policy	Government Departments	Trade policy coherence and evidence – based trade policy decisions	The people and international community	Immediate and continuous

Sources: Report of the Consultation on the National Trade Policy, NTN, Abuja, April 21 – 22, 2005; Consultants' compilation.

Developing the Non-Oil Export Sector

327 Vision 2010^{17/} and the Proposals on Export Strategy of the Federal Republic of Nigeria^{18/} are probably two of the best documents that should serve as guidelines to Nigerian authorities wishing to boost the development of the non-oil export sector, although there is little evidence of that Nigeria is positively moving in that direction.

328 Nigeria's potential non-oil export sectors have been identified. In brief, they are^{19/}:

^{17/} Op. cit.

^{18/} Markham, "Proposals on Export Strategy for the Federal Republic of Nigeria", op cit.

^{19/} This list not exhaustive. This section is based on Markham, Ibid.

- Textiles and Garments. Rationale: the textiles and garment sector is the fastest growing sector in international trade, according to WTO statistics. The product group has tremendous export and investment potential under AGOA, in particular.
- Horticulture Crops. Rationale: the market has recently emerged strongly as a dynamic sub-sector, as the traditional commodities such as cocoa, coffee, etc. are losing market ground; the range of products is wide. Cut flowers have a strong rising market. Pineapples and certain varieties of mangoes attract high prices and so do “mange tout” and certain extra fine French beans. The country can produce apples, onions and potatoes for the ECOWAS market.
- Fish and Fishery Products. Rationale: following the outbreak of mad cow disease in Europe, the international average price of fish and fishery products surged high, and has remained generally so, because, as people experience rising incomes, they consume more fish for health reasons. The sources of fish are widespread in Nigeria and any effort to develop the sector will likely have wide economic and social ramifications in the country.
- Handicraft. Rationale: there are lucrative niches, which could be exploited if the marketing strategy is right. Utilitarian products are in general in a better marketing position than decorative items, except for exceptionally interesting products.
- Solid Minerals. Rationale: Nigeria is richly endowed with solid mineral deposits of various kinds all over the country. What is common is that they generate incomes for the producers who are often the relatively poor in society. This sector can be developed large scale, like oil, if managed well and patriotically. In fact, before the discovery of oil in commercial quantities in the country, Nigeria’s coal and tin (which is still available in large quantities today) were great economic assets on which the economy was based.

329 Other important non traditional exports (a second line of priority products identified) are : Leather goods, leather, hides and skins, building materials; agricultural commodities (palm oil, cassava, pulses, spices, gum Arabic, cashew, oil seeds, coffee, cotton, etc.), prepared food and drinks: beer, fruit juice, bottled water (West African market), manufactured products: shoes, used tires (West African market), textile apparel (AGOA), wood furniture and services.

330 From the above list, it is difficult to say which products have a chance of access into the EU market. In the short term, we would say none. In the long term, the main potential export product is likely to be solid minerals, especially those types of minerals that the EU lacks (e.g. bitumen, kaolin, etc...) and that are in abundance and not exploited in Nigeria^{20/}. There should be a strong will on the part of the EU into the EPA, to insert specific clauses to encourage such exports.

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A comprehensive inventory of Nigeria’s solid minerals potentials, listed according to their industrial utility, has been grouped by experts in the field as follows:

- A. Building and Construction (Bitumen and tar sands)
- B. Fuel (coal and lignite)
- C. Steel Industry (iron ore, manganese, nickel and molybdenite)

Institutional Development and Human Capital

331 Several government ministries, agencies, civil society and private sector organisations have a stake in the EPA negotiations and implementation^{21/}. An important element in Nigeria's underdeveloped state is the nature of its institutions, including political, economic and social.

The Federal Ministry of Commerce

332 The lead ministry concerned with the EPA is the Federal Ministry of Commerce. This Ministry is the primary body that is charged with the responsibility of formulating and implementing external trade policy. However, regarding the marketing of petroleum and petroleum products, the Federal Ministry of Petroleum Resources assumes responsibility for formulating and implementing all policy matters, except the issuance of export permits that is done by the Federal Ministry of Commerce. The Federal Ministry of Transport also has interest and input in the overall development of Nigeria's external trade policy. The trade policy Advisory Council co-ordinates trade policy formulation and implementation, among ministries.

333 The Federal Ministry of Commerce has established a National Focal Point (NFP) that serves as a forum for consultation and collaboration on trade issues among relevant government ministries, agencies and the private sector. The NFP comprises a Committee on Goods, a Committee on Services and a Committee on Trade-related Intellectual Property Rights (TRIPS); it has also established commercial desks in relevant ministries.

334 However, the Ministry is currently under-equipped to perform that role effectively, and this has a negative impact upon the preparation for, and negotiation of, agreements by Nigeria. Urgent remedial actions need to be taken in order to:

- improve the work environment and staffing levels within the Ministry; and
- spread the workload by making optimal use of the competencies and resources of the other ministries, agencies and private sector and civil society organisations. The establishment of the NFP is a step in the right direction.

335 In view of the limitation of resources, particularly in terms of skilled labour in trade agreements and negotiations, it is essential that the Federal Ministry of Commerce should structure a good capacity-building system and acquire a good Management Information System (MIS) to enhance its efficiency.

D. Non-ferrous (lead-zinc, ore, tin, tantalite and copper)

E. Industrial and Manufacturing (barites, feldspar, glass sand, kaolin, talc, phosphate)

F. Strategic (uranium, pyrochlore, monazite, thorite)

G. Precious Metals and Gemstones (gold, silver, beryl, amethyst)

See Chibuzo N. Nwoke, "The Paradox of Poverty in Nigeria, a Land of Abundance", in Simi Afonja, et al, Research and Policy Directions on Poverty in Nigeria (Ile-Ife : Center for Gender and Social Policy Studies, 2001), Chapter 9

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During the study, we endeavoured to meet with most of these stakeholders.

Other Ministries and Agencies

336 Given that trade tax accounts for a significant share of the central government's revenue, the Federal Ministry of Finance is necessarily heavily involved in and concerned with any new or existing trade agreement and with trade policy formation in general.

337 The Nigerian Customs Service has a vital role to play in trade facilitation, revenue collection, protection of domestic industry and consumers, and in supplying reliable, up-to-date data on which to configure and monitor external trade policy. There is an urgent need for reform of this agency to modernise its operations for greater efficiency. Its ASYCUDA system should, for example, be modernised and made efficient to enhance overall operational delivery^{22/}.

Federal Ministry of Agriculture (FMOA)

338 The FMOA is an important player by virtue of the fact that agricultural and food products are critical to Nigeria's external trade. Moreover, the FMOA should lead negotiations on the WTO Agreement on Agriculture and manage SPS issues. There is a critical requirement for both institutional and human resource capacity building in the area of SPS, which is becoming, along with Technical Barriers to Trade (TBT), an even more important market access issue than tariffs.

339 In 2004, the FMOA received less than 6.5 percent of the national budget. In view of the agricultural sector's contribution to the economy in terms of food production, employment and foreign exchange earnings, this allocation is far below the department funding requirements if it is to perform its role in the EPA effectively.

Need for Institutional Consensus and Coordination

340 In order to negotiate effectively, it is necessary to have a strong institutional leadership in the form of a dedicated inter-departmental committee on external trade matters. This committee should correct the problem of lack of coordination and commitment among the concerned government agencies. The National Focal Point (NFP), which has been set up with representation from public and private sectors and civil society, would be the basis for a national consensus-building mechanism. The NFP would normally report to the inter-departmental committee on all matters related to external trade.

341 The institutional machinery for coordinating trade policies, not talking about jointly and collectively formulating trade policies, is underdeveloped. This is an area where the EU has a definite bargaining advantage over the ACP countries generally. The European Commission has received a clear legal competence in trade matters from the EU, which has an established institutional structure for the collective formulation of trade policy and full-time teams of experienced officials dedicated to

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Incidentally, this project team made every possible effort to obtain the most detailed data on trade flows and tariffs from the Nigerian Customs' ASYCUDA system. This was in order to be able to constitute the "baskets" of detailed products that would serve as a basis for simulating various scenarios, which would have enabled us to measure the impacts of the EPA under different possible cases of liberalisation of "substantially all products". Unfortunately, the ASYCUDA system is yet to be perfected for serious operations, as it is being restructured.

the conduct of negotiations with the ACP countries. This is accompanied with back up by specialist services at the EU and member-states levels.

342 The Government will need to carefully assemble its available human and institutional capacities and target them on issues of greatest priority to its economy. This calls for bringing in all available national expertise to analyse the challenges posed in the Cotonou Agreement's EPA, identifying the options open and formulating knowledge-based national policy responses. Given the internal capacity constraints, this should apply not just to the various relevant government ministries, agencies and parastatals, but also to a wide-range of concerned non-state actors who may have relevant expertise and provide assistance in the areas most affected by moves towards a free trade regime with the EU.

Human Capital Development

343 EPA's liberalisation scheme will have a negative impact on Nigeria's fiscal revenue. More generally, Nigeria depends upon import duties for some 7 percent of its national revenue. The decrease in fiscal revenue, to a certain extent, would decrease Nigeria's budgetary capacities to finance key expenditures in infrastructure areas, such as education, health, services, and other poverty eradication projects. This increased burden on the poor populations in Nigeria, including other ECOWAS countries, would be just one of a range of adjustment costs arising from their EPAs with the EU.

344 Government policy must now be focused on improving the capacity of its human capital. Facilities in educational institutions have continued to deteriorate. We advocate a policy framework, which would enhance quality education, training and retraining of the labour force. There is a need to invest in the development of human resources specifically towards preparation for the EPA negotiations, both within the public and private sectors of the Nigerian society, and including civil society:

345 Within the Public Sector: There is a need for developing human capacity within the public sector, especially in the areas of trade negotiations and the management of trade agreements. The beneficiaries of this training should come from all the relevant ministries, agencies and parastatals that would have a role to play in the negotiations and the implementation of the EPA and other similar schemes. In order to improve the performance of the public service, the Government will have to design and implement a comprehensive public service reform programme.

346 Within the Private Sector: Detailed sectoral human development initiatives need to be re-designed, for the key private sectors of the Nigerian economy, to be directly relevant to the EPA negotiations.

347 Within Civil Society: Civil society should benefit from sensitisation and similar training specific to EPA negotiating issues.

348 In view of the heavy load of trade negotiations that Nigeria is currently involved in, there is a need for some technical assistance in imparting skills in trade negotiations and trade policy formulation to the officials concerned. As a background there must be a review over the next few years to identify Nigeria's negotiating priorities, given that these are not static over time.

349 Evidence gathered in interviews with various officials during the course of this study indicates that:

- Because there is a limited number of skilled and experienced personnel in the country in the technical issues involved in the EPA negotiations, Nigeria should consider that some “training of trainers” should be organised in order to firm-up the foundation of specialist knowledge in this area.
- There is a need to mainstream such training needs into government budget, in order to reduce current heavy reliance on donor-funded schemes.
- There seems to be little in the way of a common training facility; officials from government and civil society attend parallel courses. In the interest of promoting the process of formulating an all-inclusive external trade policy, it is recommended that streamlined and joint-training sessions be carried out.
- Study-tours and training outside Nigeria seem to be random and sporadic. The choice of which training to undertake is lacking in continuity and is uncoordinated. A more systematic selection of courses would be useful.
- The establishment of a network of personnel who have received training, even informally, would be beneficial as a fallback mechanism.
- A system of back reporting and dissemination of information would also be beneficial.

350 In addition to training in negotiation skills and trade policy formulation, institutional capacity-enhancement is required in several other areas. Some of the priorities relate to the development of:

- a focal point for national standards;
- dedicated structures for certification and implementation of sanitary and phyto-sanitary regulations; and
- legislations for contingency trade remedies to address cases of unfair competition, which are likely to increase with trade liberalisation.

EU Incentives for Trade Reform in Nigeria

351 Some segments of Nigeria’s society, as in many African countries, are reluctant for Nigeria to undertake the needed trade-related reforms. It is unclear^{23/} whether the incentives brought by the EU in the current EPA design are sufficient to stimulate the required trade reform.

352 Nigeria, as part of the 13 non-LDCs in Sub-Saharan Africa (SSA), will benefit from preferential access to EU’s GSP system, although the GSP preferences are not

23/

See Lawrence E. Hinkle and Richard S. Newfarmer Risks and Rewards of Regional Trading Arrangements in Africa: Economic Partnership Agreements (EPAs) between the EU and SSA, January 7, 2005

as attractive as those under the Cotonou preferences. In addition, annual reviews subject the EU GSP regime to protectionist forces and periodic product revocation.

353 Whether offering the 13 non-LDCs, including Nigeria, complete tariff-free and quota-free market access in the EPAs, and added security of a formal trade agreement, will be sufficient inducement to elicit reforms, is not sure. If the EU were to offer much less restrictive rules of origin for the EPAs than those under the GSP or Cotonou regime, as well as a more ambitious programme of “support for trade”, it might tip the incentives favourably for the EU. Reductions by the EU of export subsidies and domestic production support for those agricultural products that are of particular interest to the SSA, and Nigeria in the first place, - perhaps as part of a reformulated Doha position – could also help to increase the incentive for trade reforms in Nigeria.

Benefits and Costs of the EPA

354 At this stage, it would be useful to list the likely costs and benefits of the EPA, which are to be elaborated upon in the subsequent parts of this report, as applicable to the particular Nigerian case.

Benefits

355 According to EU sources, the following benefits could arise from the EPA :

- Development support from the EU: Against the signature of the EPA, the EU will provide abundant support to development: the EPAs are “designed to enable ACP countries to acquire, to expand the capacity they have in terms of their governance, their infrastructure, their productive supply-side, to enable them to participate in the trade opportunities that are created... “^{24/}.
- Market opening to fit country’s needs: “The key point is that they will be negotiated not unilaterally but bilaterally. Any market opening will be entirely asymmetrical, and...any market opening will be progressively introduced over a considerable amount of time, as benefits the needs and the rate and pattern of development of the ACP countries themselves in their particular regions”^{25/}.

Costs

356 The following costs could result from the EPA, if measures were not taken to prevent them:

- decrease in Government revenue and subsequent poverty impact,
- decrease in growth,
- growth of unemployment,
- increased poverty level,

^{24/}

P. Mandelson, EU Trade Commissioner, Oral evidence, UK Parliament, 7 Feb.,2005.

^{25/}

Ibid.

- high costs of EPA implementation,
- civil unrest and risk of civil war (that would be induced by increased poverty and subsequent instability),
- subservient compliance with EU wishes and preservation of historical relationship of inequity, and
- isolation, further marginalisation, for those countries which refuse the EPA.

Proposed Government Policies to Accompany the EPA

357 The Vision 2010 document should be the reference document for the Government to accompany the EPA. We consider that the NEEDS document should continue to be used by all partners as a reference to guide Nigeria's policies in line with the future EPA. However, the NEEDS document is mainly centred on poverty reduction which is not a sufficient goal for Nigeria to confront the future and the opening of its trade.

358 The Vision 2010 document is more of a strategic development document and therefore it should be considered as complementary to the NEEDS document and be used as well for government decision making.

359 Government proposes that adjustments to the present policies should be made along the following lines:

- development of a strong public and private sector partnership which fosters a strong economy that is private sector-driven with the government as the enabler;
- enhancement of exploitation of the nation's hydrocarbon, agricultural and mineral resources, tourism and sporting talents;
- promotion of entrepreneurship and competition within the ambit of fair, equitable and enforceable laws;
- massive investment in education, health, technology and infrastructure;
- involvement of the community in projects from conceptualisation through execution to maintenance;
- movement toward export-oriented production, manufacturing and industrial sectors; and
- opening up the economy to participation by indigenous and foreign investors.

360 The core objectives required to achieve these goals and aspirations may include:

- Use Nigeria's wealth of gas, petrochemicals, agriculture, solid minerals, cultural and other resources to diversify the economic base through the development of an internationally competitive and export-oriented production, manufacturing and industrial non-oil sector. Nigerian products and services

must meet international standards and be able to compete in the global market place, thereby significantly increasing the volume and proportion on non-oil exports, so that the country can reduce the current dependence on oil.

- Develop and/or acquire production technologies to accelerate the growth and development of small and medium-scale business to provide wider economic opportunities and employment, and alleviate poverty.

361 In sum, Nigeria's development process will be people-centred, broad-based, market-oriented, highly competitive, self-reliant and private sector-driven. The envisaged structure of exports would indicate the thrust of export development, the technology and skill requirements.

362 A major target in the current reform effort is the reduction of poverty. However, it is likely that there will be a lag in the effects of some structural changes expected to take place in the macro economy. A medium-term growth performance is projected, based on the assumption that given the reform efforts, almost every sector will do better in the coming years than currently. Specifically, the private sector should lead a stronger growth performance, taking advantage of the different strategies and policies contained in the Reform programmes and as reduction in government's role in the economy redresses the perverse incentive structure facing investors.

363 Growth projections also attach weights to different informal sector activities in order to capture the overall share of the sector in the projected economic growth. Changes in agriculture will generally drive improvements in growth. Critical to the growth performance is improvement in power and other infrastructure, general reduction in the cost of doing business and more conducive investment environment, including security of life and property. High growth is expected in the primary and secondary sectors, particularly agriculture, manufacturing and solid minerals. The manufacturing sector, for example, should grow by at least 7 percent over the 2004 to 2007 period, while agriculture should grow consistently by about 6 percent between 2004 and 2007. Owing to the reordering of priorities, the growth in a number of sectors may not be as spectacular as the growth in the primary sector.

364 Overall, projections of the framework for the growth of aggregate output for the four years of NEEDS are 5 percent for 2004, 6 percent for 2005, 6 percent for 2006 and 7 percent for 2007. Output in the oil and gas sector should remain unchanged in the medium term. Expected fall in oil production as Nigeria keeps faith with its OPEC quota should be offset by increases in gas production, leaving net output in the sector unchanged. On the other hand, the non-oil sector, which is the major target of the diversification effort of government, will be boosted and growth in the sector should improve from 6.8 percent in 2003 to over 9 percent in 2007. To be consistent with the poverty reduction strategy, private consumption should grow by 4.8 percent in real terms per annum. With a projected population growth rate of 2.8 percent, this will mean a 2 percent growth in real per capita consumption per annum. At the same time, public consumption expenditure should steadily decline. Part of the implications of projected aggregate growth pattern is the resultant reallocation of resources and restructuring of investment pattern by both government and the private investors. For example, with agriculture as a priority area in the medium term, government will disproportionately boost incentives for investment in the sector.

Fiscal Operations and Policy

365 In Nigeria, fiscal policy is the most important instrument of macroeconomic management. Therefore, reforms at this level are critical for overall macroeconomic consistency. Despite previous plans to diversify the revenue base of government, oil income has dominated Nigeria's fiscal and budget landscape. This is a major source of instability in the domestic economy. Oil revenue accounts for no less than 70 percent of total government revenues. Thus, following swings in the international oil price and production, government revenue is volatile. In many cases, oil income patterns expenditure so that in periods of boom, expenditure moves up while it does not decrease in periods of oil price dip, considered as temporary. Through the federation account system, the same pattern applies in the states and local governments.

366 Other problems of fiscal policy in Nigeria include inefficiency in resource use, waste and misplaced priorities in government expenditure, high fiscal deficits at all tiers of government. And also weak institutional structure, a fiscal federalism structure that places little or no premium on inter temporal fiscal solvency, and poor institutional mechanism for regulating actions of the different tiers of government and their agencies. These have led to huge recurrent expenditure burden at all tiers of government, inefficient public delivery of services and distortion in the incentive structure for both the private and public sectors.

367 Currently, all tiers of government spend far more than they earn. Cumulatively, deficits over the past five years alone stand at over N1 trillion, not including arrears of pensions and gratuities and debt to local contractors. With a current foreign debt of about \$35 billion (for a \$45 billion economy), all tiers of government spend huge proportion of current revenue in debt servicing and interest payments. The country's debt service bill is \$3.5 billion per annum.

Revenue Generation/Tax Reforms

368 An important aspect of Government's programme aims at strengthening the machinery for tax collection, tracking all government revenues paid into different bank accounts, as well as recovering debts, misappropriated and looted funds and payments for work not executed. The states and local governments should gear up their internal revenue generation effort rather than depend on statutory allocation from the federation account or borrowing from the capital market.

369 The structure of the tax system is overwhelmingly in favour of indirect taxes. Although this generally tends to be regressive, the high rate of avoidance/evasion of direct taxes, attributed mainly to poor data/information on persons and sources of income (the result of a large informal sector) makes it more attractive to resort to indirect taxes. The main sources of non-oil revenue therefore include Customs tariffs, Value Added Tax and sales taxes. Governments at all levels will continue to explore the possibilities of collecting user charges on infrastructure and aspects of social services. On direct income taxes (individual and corporate, including with-holding taxes), government is collecting far less revenue than it should. The tax collection machinery therefore needs to be revamped, restructured and strengthened for effective collection. A new phenomenon is the loss of revenues arising from the system of remittance of tax revenues paid through banks to the appropriate authority.

Some significant amount of revenue is being lost through diversion and inadequate monitoring of the process.

370 The policy is that such leakages will be blocked and defaulting banks will not only be de-listed but will be made to face a more substantial penalty. In addressing the level and structure of taxes, due attention will be paid to competitiveness. Taxation and fiscal policy generally will be pro-poor, and used as an instrument for reducing high income disparities, as well as provide incentives for investment and productivity growth. In this regard, while direct taxes on the lower income group will be reduced, those of the highest groups will be appropriately adjusted. However, the structure will pay attention to Nigeria's relative competitiveness with countries at similar level of development with whom Nigeria has to compete for FDI. It is hoped that the tax structure will therefore provide for a level playing field, adjustment for cost of doing business due to poor infrastructure, and generally stimulate private investment in the real sector. A major nuisance to businesses operating in the country is the multiplicity of taxes imposed at federal, state and local government levels.

Balance of Payments Issues

371 Historically, the Nigerian external sector account could simply be referred to as an oil account. Poor structural diversification, swings in OPEC quota and large changes in the international price of oil have continued to dictate the direction and pace of shifts in the external account. With the increases in OPEC quota, especially since 2000, the country's current account balance and reserves all showed remarkable improvements, with the latter reaching a decade-long high of \$10.4 billion in 2001. There are few assurances that the present efforts by Government to secure further increases in the country's OPEC quota will be successful in the short term. In the event that it is, much has already been said about the difficulty associated with dependence on one export commodity. On the other hand, the volume of imports is high and diversified. Import items range from capital goods and machinery to unprocessed food and other primary items^{26/}. External reserves are volatile, capital flight persists, and inflows of portfolio and foreign direct investments into the non-oil sectors remain weak relative to the size of the economy.

372 The external debt overhang remains precarious as the total debt service payment is about equal to the total federal government's capital budget. This arrangement is not sustainable. Predictably, therefore, the balance of payments situation is also not sustainable.

373 Oil prices cannot continue an upwards trend indefinitely. Likewise, as noted earlier, increases in the OPEC quota are also not confirmed. An aggressive export diversification and expansion scheme as well as a gradual import liberalisation strategy should be the preferred avenue for moving forward.

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This high propensity to import food items and the associated health hazards they pose has been a source of concern to the Government and it has elicited the imposition of temporary bans on such items.

Monetary and Exchange Rate Policies

374 Monetary policy in Nigeria has been mainly short-term in perspective and thrust, but the Central Bank of Nigeria has recently moved to a medium-term framework for the conduct of monetary policy. Given the fiscal posture for the reform period, monetary policy outcomes will largely depend on the fiscal stance of government. Wide disparity between monetary targets and outcomes arises largely out of the statutory financing of budget deficit and the inability of the apex bank to sterilize liquidity effects of government expenditures. Thus, monetary policy intervention has been reactionary and short-term, leading to missed targets and ineffectiveness in performance. Despite the fact that the basic goal of monetary policy has been price stability, inflation has been relatively high and above the WAMZ targets.

The EPA and the regional integration process

Background

375 One of the main tasks of the present study is to provide an analysis of the implications of an EPA on the regional integration processes within ECOWAS and its possible impact on Nigeria's trade with ECOWAS Member States and other countries in the wider region^{27/}. The key issue is how an EPA will affect regional development. At least two scenarios need to be developed and elaborated quantitatively, to the extent possible, and qualitatively, to fill in the gaps. One is that both Nigeria and its neighbours join an EPA. The other is that Nigeria does not join an EPA but that its neighbours do join. We assume that, in order to prevent the EPA from taking precedence over, or undermining, the ECOWAS integration scheme, the EPA must be based on, and reinforce, ECOWAS's own integration programme.

376 The ECOWAS market share in the EU, its main export market by far, has shrunk dramatically. The evolution of ECOWAS trade with the EU is provided below. Nigeria accounts for more than one third of ECOWAS imports from the EU and almost half of ECOWAS exports to the EU. As compared to 2000, exports from ECOWAS to the EU in 2002 had declined by 15 percent. There is no clear trend in terms of volume of imports by ECOWAS from the EU (they oscillate in a range of 7.5

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Lessons learnt from the present study. (I) This section and the following of this chapter – in fact the whole study - would have benefited from the presence in the study team of one or several legal experts, specialised in international trade negotiations and regional integration processes, which are highly complex issues in which specialised legal expertise is intensively required. In particular, the study team should have included Nigerian experts already experienced in WTO trade negotiations and having access to all WTO negotiations papers (such as, for example, Prof. Olawale OGUNKOLA of the Trade Policy Research and Training Programme, University of Ibadan). (II) Data availability should have been checked before starting the study. (IV) The duration of the study (three months) was too short, if compared to the extensive contents of the Terms of Reference. (V) The study should not have been launched before office availability, including access to two internet lines, had been checked. (VII) The study should have been coordinated with the planned seminars and workshops, to ensure active participation and feedback from stakeholders, as well as appropriation, by the stakeholders, of the study, while it was being carried out. (VIII) The Terms of reference of the study should have been approved, not only at ACP level, but also at country level, by the Nigerian beneficiary, to ensure his full active support to the study.

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to 8.5 billion \$ per year), while imports from the EU by Nigeria alone tend to increase (from 2.4 to 3.2 billion \$ per year)^{28/}.

Table 3.19: ECOWAS Trade with the EU (1998-2002) (M\$)

Country\Pays	Imports					Exports				
	1998	1999	2000	2001	2002	1998	1999	2000	2001	2002
Benin	323	376	205	202	359	45	31	15	20	40
Burkina Faso	309	249	216	213	256	88	87	67	69	76
Cabo Verde	169	178	174	191	204	8	9	9	8	9
Cote D'ivoire	1607	1474	1047	1123	1272	2235	1960	1605	1685	2314
The Gambia	121	164	120	84	87	21	23	4	5	7
Ghana	1711	1866	1131	2183	612	1181	1666	1179	1215	1014
Guinee	273	272	234	210	216	368	256	401	334	349
Guine Bissau	46	50	34	37	38	22	34	40	40	41
Liberia	70	110	62	63	63	14	27	43	51	51
Mali	283	339	260	363	351	51	124	130	158	158
Niger	149	111	89	94	126	105	77	67	78	76
Nigeria	2368	2160	3010	3095	3202	2134	3309	6212	4096	4026
Senegal	898	883	745	894	1126	278	346	322	331	365
Sierra Leone	29	29	53	77	79	3	2	1	8	17
Togo	242	172	164	153	158	31	55	41	21	25
TOTAL	8598	8433	7544	8982	8149	6584	8006	10136	8119	8568

Source: ECOWAS (most recent data available at date of mission)

Regional integration in West Africa

377 Historically, the West African integration project has been beset by a number of problems, including:

- lack of political will to implement protocols;
- political and economic divisions between the Anglophone and Francophone major groups in the sub-region;
- weak institutional and administrative structures and capacities to support sub-regional projects;
- lack of resources to carry out programmes; and
- lack of an effective payments system, compounded by numerous non-convertible currencies in the Anglophone group^{29/}.

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In fact, this table provided by ECOWAS does not match well the more detailed data presented before. See Table 18 above, which, for example, tells us that Nigeria's imports from the EU in 2002 amounted to 3.88 billion \$, not 3.2. In any case, the general trend is that Nigeria imports more and more from the EU. ECOWAS is currently in a process of improving its statistical system in all member countries, so that reconciliation of data from various sources is likely to improve in future.

378 The fast-track approach to regional integration was adopted at the ECOWAS Summit of December 1999, in Lomé, Togo, as a way of transcending the impact of some of these problems. Some progress has been made towards attaining regional integration in West Africa. Areas of achievement include:

- renewed commitment and vigour in the establishment of a free trade zone;
- a common currency and external tariff;
- the development of a regional infrastructure;
- maintenance of regional peace and security;
- free movement of ECOWAS citizens;
- establishment of a Community Parliament and an ECOWAS Court of Justice ; and
- the initiation of, and commitment to, a fast-track approach to the implementation of ECOWAS integration programmes^{30/}.

The ECOWAS Common External Tariff

379 The original deadline for completing the ECOWAS Common External Tariff, a key part of the planned Customs Union uniting the 15 Member States, was 1990.

380 The Common External Tariff and the Free Trade Area, the two constituent parts of a Customs Union, were both agreed to by the ECOWAS Heads of State in the 1975 ECOWAS Treaty and again in the 1993 Revised ECOWAS Treaty. In face of the need to integrate the EU/ACP relationship into the World Trade Organisation (WTO) system, the ECOWAS Heads of State and Government agreed in December 2000 that the Common External Tariff of the West African Economic and Monetary Union (WAEMU-or UEMOA in French) would form the basis for the ECOWAS Common External Tariff. Thus, the seven non-UEMOA members (Cape Verde, The Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone) are busily preparing themselves for harmonisation. They are studying the impact of adopting the CET and preparing their national negotiating positions.

381 The agreement regarding the rates of duty to be applied to all products under the ECOWAS Common External Tariff (CET) was to be in place by the end of December 2004, with a 3-year transition period allowing countries time to harmonise. The ECOWAS CET is to be in place in all countries by the end of 2007. This timing coincides with the EU deadline to negotiate Economic Partnership Agreements (EPAs) with the 77 members of the African, Caribbean and Pacific (ACP) group, long-time partners with the EU under the Lomé Conventions and now the Cotonou Accord. The present EU/ACP agreement is not considered compatible with the terms of the WTO, and the EU has negotiated a WTO waiver until the end of 2007 to

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Ibid.

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For detailed discussions on those issues, see Chibuzo N. Nwoke, "Nigeria and ECOWAS", paper presented at the International Conference, organised by NIIA on the occasion of its 40th Anniversary, Lagos, 5-6 December, 2001.

normalise the situation by negotiating comprehensive free trade agreements with the ACP's regional sub-groups, such as ECOWAS.

382 There are two processes underway related to the Common External Tariff, one national and one regional. In each of the seven non-UEMOA member states, national coordinating committees have been created bringing together representatives of the different government ministries involved in customs and trade policy as well as private sector associations. Each Member State is considering the effect of adopting the ECOWAS Common External Tariff -all 5,500 tariff lines- and outlining a path towards harmonisation. At the regional level, the ECOWAS has brought together the national committees in order to start the process of harmonising the different National Plans. For negotiations at the regional level, information related to six key items is required from each Member State: exceptions list; exemptions list; period of application; special export processing zones; bilateral trade agreements with non-ECOWAS countries; budget impact of CET adoption.

383 The new Common External Tariff has four categories (0 percent, 5 percent, 10 percent and 20 percent), which are lower than the tariff rates charged in some countries on some products. Now, importers will know exactly what the tariff rate is for products entering the ECOWAS customs territory, as they will be uniform. With a maximum 20 percent tariff rate, there will be far less incentive to smuggle goods in some countries with much higher duty rates on some products. In addition, the Common External Tariff will reduce dependence on customs revenue, which often accounts for more than half of the national budget for ECOWAS countries. Re-balancing fiscal policy to include value-added taxes and excise taxes-instead of high customs duties-is the approach recommended by the IMF. Some countries have been using "special taxes" on finished goods imports to raise revenue. With a top rate of only 20 percent under the CET, excise taxes can be substituted so any lost revenue can be made up.

384 The upshot of the present system of relying heavily on customs revenue is that the informal sector has remained outside of the grasp of the tax collector. Now, there will be greater incentive to universalise the application of the VAT or sales tax to more and more of the informal sector.

385 The adoption of the Common External Tariff is but one of the actions foreseen in the "Roadmap to the ECOWAS Customs Union." The Roadmap includes achievement of a free trade area, common external tariff, harmonisation of customs legislation and regulations, complementary measures such as harmonisation of indirect tax policy or the transfer of competence to the regional organisation in regards to trade policy or competition policy, own resources for ECOWAS and reform of the institutional framework. The Roadmap lays out the "mile markers" along the road to reaching the Customs Union by the end of 2007, specifying step-by-step what the ECOWAS Secretariat needs to do to help its Member States arrive there on time. In addition, the Roadmap offers a means of evaluating and monitoring progress and compliance in each country, to keep the initiative rolling in the right direction. Finally, with the Common External Tariff coming to fruition, ECOWAS will be living up to its promises of economic integration. The Common External Tariff will facilitate completion of the Free Trade Area and will help to attract investment to the region, as investors will be able to realise economies of scale in selling to a 15-country market with 234 million consumers.

Regional Trade

386 Nigeria, as the largest and a relatively more developed country in the region, is likely to play a significant role within ECOWAS. At present, however, bearing in mind the earlier discussion about regional trade data, their variability and reliability, Nigeria's trade with other ECOWAS members is relatively small. Table 3.13 presents Nigeria's Trade with other ECOWAS Countries as compared to Nigeria's Trade with the World and with the EU for 1999-2003.

Table 3.20: Nigeria's Trade with other ECOWAS Countries (Million \$)

	1999	2003	1999	2003
	Import		Export	
Trade with the World	4442	14777	16149	24185
Trade with the EU	2159	4847	3544	5285
Trade with other ECOWAS Countries	20	361	1046	1101
Nigeria's Trade with ECOWAS as a percentage of:				
Trade with the World (in percent)	0.5	2.4	6.5	4.6
Trade with the EU (in percent)	0.9	7.4	29.5	20.8

Source: ECOWAS data

387 Data presented indicate that Nigeria exports substantially more to ECOWAS than it is importing, relative to its overall imports and exports. The table also shows the growth of imports from the ECOWAS countries since 1999, even if import flows remain modest. On the other hand, exports seem stagnant. This however is not necessarily true however, taking into consideration the importance of smuggling from Nigeria to other ECOWAS countries. In any case, any change in the trade arrangement and negotiations within the region is likely to have a noticeable impact on Nigeria's trade balance and trade flow within the region.

Scenario Development

388 We have developed three possible scenarios:

- Scenario 1: ECOWAS, including Nigeria, negotiates the EPA,
- Scenario 2: ECOWAS signs the EPA, but Nigeria gets out of the negotiation, and
- Scenario 3: ECOWAS, including Nigeria, does not negotiate the EPA.

Scenario 1: ECOWAS, including Nigeria, negotiates the EPA

389 It has already been decided that ECOWAS countries would not negotiate the EPA independently, but jointly. Therefore, Scenario 1 is quite plausible, probably the most likely one. However, the EPA negotiations by ECOWAS including Nigeria, depend to a great extent on the evolution of the internal relations within ECOWAS and, in particular, on the evolution of the implementation of the CET.

390 In general, Nigeria lagged behind in trade reforms and hence has higher average and dispersed tariffs. The alignment of Nigeria's tariff structure to ECOWAS' CET should bring about significant liberalisation and rationalisation of its current tariff regime and help simplify customs administration. However, given Nigeria's current level of protection, transition to ECOWAS CET will entail important short and medium

term adjustment costs; indeed, there are strong protests from certain quarters of industry to the alignment of Nigeria's tariffs to the ECOWAS CET^{31/}.

391 In spite of all the measures taken to integrate their economies, the level of intra-ECOWAS trade is low (only 11 percent of extra-ECOWAS trade). For instance, in 2003, only about 4.6 percent of Nigeria's exports (mainly oil) were to ECOWAS member States and only 2.4 percent of its imports originated from ECOWAS member States.

392 What is crucial is strong political leadership. Nigeria's central role in the formation of ECOWAS and the operative years of the organisation has been well established. With respect to Nigeria's leadership, the West African integration projects' fast-track approach poses a number of challenges, including:

- The potential negative and divisive impact of a parallel (France-backed UEMOA) Framework, working side-by-side with Anglophone ECOWAS;
- The abysmally low (5 percent) level of Intra-African Trade;
- The weak industrial and production bases of all ECOWAS countries which makes them uncompetitive in the global market;
- The existence of informal trading networks, despite the efforts of ECOWAS governments to achieve harmonisation with the current economic and political framework;
- The difficulty for ECOWAS countries to integrate and create a zone of social stability, peace and prosperity when individual ECOWAS countries have failed, within their borders, to achieve social, cultural and political integration.

393 Collectively, ECOWAS countries should therefore be poised to take whatever advantages may exist under international agreements, such as the ACP/EU Cotonou Agreement, the EU-West Africa future EPA and schemes such as the US African Growth and Opportunity Act (AGOA).

394 There is a global trend of curtailing the preferential non-reciprocal treatment, hitherto accorded to developing countries, which was a facility providing them with a way of improving their access to the markets of the developed countries. In view of such a global trend, ECOWAS must now canvass for a common and coordinated approach among its member states in dealing with the external world, represented by institutions such as the United Nations, the World Bank, the IMF, the WTO and the EU.

395 All of these will continue to test Nigeria's leadership capability in the sub-region. To succeed, it must put its house in order on the domestic front in the areas of economic development, industrialisation, political stability and good governance.

396 With ECOWAS' regional integration schemes running in parallel with the EPA negotiations, there is a risk that the latter might take precedence or even undermine

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See Annex 4.

the former. To eliminate this risk, the EPA negotiation process must be compatible and closely coordinated with the integration objectives and agenda of ECOWAS.

397 Under the first scenario Nigeria adopts the CET and the EPA; using a similar model as in Busse (2004), there is likely to be some trade diversion and trade creation; on one hand between Nigeria and ECOWAS, and on the other between ECOWAS and the EU. The outcome of these interactions for Nigeria, in terms of tariff revenue and economic development are likely to be different in the short and long term. To the extent that the general rate of tariff between Nigeria and ECOWAS is lower than those between ECOWAS and the EU, liberalisation that results from both Nigerian adoption of ECOWAS's CET as well as ECOWAS agreeing with EPA is likely to adversely affect Nigeria's export to ECOWAS. The price of imported products from EU would in this case be reduced by a larger margin. The implicit assumption here is that tariff removal/reductions would be fully passed on to the consumers. If not the outcome is likely to be different from the one presented here. In the long-run, if as a result of EPA, economic growth within the region is enhanced, trade is also likely to increase. Part of this increase in trade will be met by EU, some is likely to be benefiting Nigeria as the relatively most diversified and advanced member of ECOWAS.

398 Under Scenario 1, what products should be considered as sensitive and benefit from exemption or delay in tariff liberalisation? This issue is complex, as sensitive products are not the same for all countries of West Africa. Nor are they the same for all countries within ECOWAS. ECOWAS will have to devise a joint strategy among its members to eventually find common sensitive products. These issues are discussed in the working groups^{32/} established to prepare the EPA, at West Africa and ECOWAS level. Not having links with those groups, the team has not been able to enter into the regional debate on the choice of sensitive products, and, more, on the elaboration of scenarios and simulations of their expected impacts on regional integration processes.

Scenario 2: ECOWAS signs the EPA without Nigeria, as Nigeria decides to remain out of the negotiation (i.e. Nigeria would adopt the CET, but would not negotiate the EPA)

399 Under this option, applying a methodology similar to that of Busse et al (2004), one can calculate trade diversion from Nigeria into the EU, which would result from ECOWAS agreeing to join the EPA. Given that, at present, some trade takes place between Nigeria and ECOWAS, ECOWAS trade with the EU, and particularly its import, is likely to increase, while its imports from other trading partners, including Nigeria, is likely to decrease. By removing tariff from 'substantially all' ECOWAS products (except in Nigeria), the relative price of products imported by ECOWAS (without Nigeria) from the EU would decline, therefore leading to substitution away from those imported from non-EU countries, including Nigeria.

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West Africa: the focus of negotiations in 2005 is on regional economic integration. Five thematic technical groups have been established to examine: regional markets (free-trade area, customs union and trade facilitation), technical and SPS standards, services and investment, other trade related issues, and the analysis of productive sectors. The first two groups had their initial meetings in March 2005, and are now working on a joint report. The other groups are about to start now. A ministerial meeting will be held in October 2005 to take stock and prepare the next phase (Source: EPA Newsletter 7, Brussels, May 2005).

The short-term effect is likely to be an absolute decrease in trade and particularly imports from Nigeria, which, as indicated in the above table, is relatively large. In the long run, however, depending on the magnitude of the effect that the EPA is likely to have on economic growth within ECOWAS, trade with Nigeria may recover. Another outcome under this scenario is that illegal trade is likely to be encouraged and increase. EU imported products under EPA are likely to be cheaper in ECOWAS as compared to Nigeria, encouraging increased smuggling of EU products across its border to Nigeria. This would have further adverse effect on the tariff revenue for the Nigerian government. The scenario of other ECOWAS countries negotiating in the EPAs without Nigeria is therefore a scenario of a weakened sub-region where the results of the negotiations would probably deepen the countries' neo-colonial ties with Europe. The over all effect of scenario two depends on the extent of competition between products included in the Nigerian trade with ECOWAS and that of EU. In certain areas, particularly certain manufactured products, Nigeria may have competitive edge over ECOWAS as well as the EU. By adopting ECOWAS's CET, Nigeria is likely to further benefit from its competitive edge. ECOWAS's trade liberalisation with the EU, however, is likely to reduce this competitive edge.

400 If Nigeria does not agree to EPA while other ECOWAS members do, re-export of EU imported products from other ECOWAS members to Nigeria is likely to increase, at least through smuggling. Liberalisation is likely to reduce the local price of imported goods from EU and therefore encourages substituting Nigerian imports from EU by those that are imported by other ECOWAS members from EU. The immediate effect of this is that tariff revenue for Nigeria is likely to decrease.

Scenario 3: ECOWAS, including Nigeria, does not negotiate the EPA

401 Article 37.6 of the Cotonou Agreement states that in the case of non-LDC ACP states such as Nigeria, all WTO compatible alternatives should be considered in 2004. The European Commission has subsequently agreed to postpone this review until 2006 at the request of the ACP. The roadmaps contain opt-out clauses. Each ACP region has developed a "road map" for Phase II of the negotiations. These detail the negotiating structure, priority issues and an indicative schedule of negotiations.

402 An ACP region, or any country within it, may wish to pursue an alternative arrangement instead of the EPA. The Cotonou Agreement states that, should this occur, the ACP country should enjoy *no worse* market access to the EU than it currently enjoys under the Cotonou preferences. Two possible alternatives include:

403 Scenario 3A: The EBA Provision to all ACP Countries: The EU could grant greater preferential access to ACP non-LDCs through the Generalised System of Preferences (GSP). The GSP is currently being reviewed with a revised GSP coming into force in 2006. "Everything but Arms" (EBA), is an arrangement within the GSP that gives all LDCs duty and quota free access to the EU market (including for sugar, rice and bananas by 2009). A further proposed arrangement within the GSP, GSP+, will give close-to-EBA access to developing countries that ratify key international conventions, such as human rights treaties, ILO conventions and good governance agreements. Extending EBA access to non-LDC ACPs through either the GSP+ or EBA itself, would therefore fulfil the commitment in the Cotonou Agreement that any ACP states unable to enter into the EPA should enjoy no worse market access to the EU than they currently do.

404 Scenario 3B: Bilateral Trade agreements: A further option would be for Nigeria to enter into bilateral trade agreements with the EU, if Nigeria chose not to enter into a regional EPA. However, such an agreement would have to meet the same WTO rules on trade agreements as EPAs. Although Nigeria would have greater scope to tailor the provisions to its specific needs, it would be in a much weaker negotiating position with the EU than within a regional grouping. Under a bilateral trade agreement, Nigeria would neither gain nor cede market access to other ACP states. This would at best bypass, and at worse obstruct, autonomous moves towards greater regional economic integration. In order to protect its interest within the region, at least in the short run, as part of her negotiation with ECOWAS, Nigeria could argue that its products that compete with those from the EU should be considered as 'sensitive' products within the region, in order to be protected within ECOWAS. Tariff on these could be gradually reduced to allow Nigerian producers time to be able to compete more effectively with their EU counterparts.

Linkages with the Doha negotiations

Context

405 An important milestone in the Doha Negotiations is the Hong Kong Ministerial Conference, due to start 13 December 2005. The Hong Kong Ministerial Meeting will be a crucial staging post in the Doha Round. If the round is to be completed in 2006, then the WTO Membership must use the Hong Kong Summit to define the framework for a final deal. The EPA negotiations will be directly influenced by the results of the Hong Kong talks. At present, there are four major players in the "Doha Development Agenda" (DDA): the US, the EC, India and Brazil. The EU will move in agriculture liberalisation (removing export subsidies and domestic support to EU agriculture) just as much as will the US. Facing them, Brazil would be rather open-minded, while India is willing to protect its small agricultural producers. In this general context, one compromise to be reached at Hong Kong would be that the EU and the US reduce their tariffs more than the developing and ACP countries would be forced to. This idea is also embodied in the EPAs.

The WTO

406 The WTO was established in 1995 following the Uruguay Round of multilateral trade negotiations (1986-1994). This international organisation sets global rules of trade between nations. The core of the WTO system, referred to as the multilateral trading system, are the WTO agreements which lay down the legal ground rules for international trade as well as the market-opening commitments taken up by its Members. These agreements are negotiated and signed by all Members of the WTO, and ratified in their parliaments.

407 The WTO is composed of governments and political entities (such as the EU) and is a member-driven organisation with decisions mainly taken on a consensus basis. Membership implies a balance of rights and obligations. By October 2004, 149 countries had joined the WTO, with around 25 negotiating to sign up. A vast majority of Members are developing countries. The largest and most comprehensive entity is the European Union with its 25 Member States. Indeed, while the Member States co-ordinate their positions in Brussels and Geneva, the European Commission alone speaks for the EU at almost all WTO meetings.

408 The WTO's top-level decision-making body is the Ministerial Conference, which meets at least once every two years. The latest conferences were Seattle (1999), Doha (2001 – which launched the DDA) and Cancun (2003). Below this, the General Council meets several times a year in the Geneva headquarters. Both are composed of representatives of all Member States. At the next level, the Goods Council, Services Council and Intellectual Property Council as well as numerous specialised committees, working groups and working parties deal with the individual agreements and other areas such as the environment, development, membership applications and trade agreements. Finally, the WTO Secretariat located in Geneva supplies technical support for various councils and committees and the ministerial conferences, analyses world trade and explains WTO affairs to the public and media.

409 Currently, the WTO Members are engaged in a broad round of multilateral trade negotiations, called the "Doha Development Agenda" (DDA). In July 2004, Members agreed on a Framework Agreement that sets a clear agenda for the formulation of a new set of trade rules by the end of the DDA (end 2006), and they decided that the next WTO Ministerial Conference would take place in Hong Kong in December 2005.

EU Trade Policy and the WTO

410 The EU is one of the key players in the World Trade Organisation (WTO). This is because the EU has a common trade policy, where the European Commission negotiates on behalf of the Union's 25 Member States. As such, the EU is one of the driving forces behind the current round of multilateral trade negotiations in the WTO, the Doha Development Agenda (DDA). The DDA comprises both further market opening and additional rule making, underpinned by commitments to take measures necessary to integrate developing countries into the world trading system, notably by strengthening assistance to build capacity. The main objective of the New Round is to put development at the heart of the world trade system in a way that will help combat poverty.

411 The legal basis for the EU's trade policy is Article 133 of the European Community Treaty. On this basis, the Commission negotiates on behalf of the Member States, in consultation with a special committee, "the Article 133 Committee". The 133 Committee is composed of representatives from the 25 Member States and the European Commission. Its main function is to coordinate EU trade policy. The Committee meets on a weekly basis in Brussels at the headquarters of the Council of Ministers. It discusses the full range of trade policy issues affecting the Community, from the strategic issues surrounding the launch of rounds of trade negotiations at the WTO to specific difficulties with the export of individual products, and considers the trade aspects of wider Community policies in order to ensure consistency of policy. In this Committee, the Commission presents and secures endorsement of the Member States on all trade policy issues. The major formal decisions (for example agreement to launch or conclude negotiations) are then confirmed by the Council of Ministers.

412 The European Community Treaty grants a more limited role to the European Parliament (EP) in terms of trade policy: according to the current treaty, the "assent" of the EP may be required for major treaty ratifications, when covering more than trade. However, the Commission favours greater Parliamentary involvement in Trade Policy and hence consults and informs the Parliament as systematically as possible.

It supports a more formal extension of the Parliament's powers over trade policy. The draft Constitutional Treaty of the EU provides for a major extension of the EP's power over trade policy.

413 The current WTO trade round, the Doha Development Agenda, provides a good example of how trade policy is coordinated in practice. The Commission sets and carries forward the priorities and aims of the EU as laid down in guidelines given by the Council of Ministers. Officials from the Commission's Directorate General for Trade, under the authority of the Commissioner are charged with actually conducting the negotiations, and speak on behalf of the EU as a whole. Coordination with Member States is assured at all times through the 133 Committee, while the Commission regularly informs the Parliament. At the end of the Round, the Council has to agree the outcome formally.

Regional Trade Agreements

414 In February 1996, the WTO General Council set up a single committee to oversee all regional trade agreements, replacing separate working parties, each dealing with a separate agreement. The Committee on Regional Trade Agreements also looks at the broader, systemic implications of the agreements for the multilateral trading system, the relationship between them, and encourages adequate reporting by countries that have signed these agreements^{33/}. The EU and West African countries are envisaging signing the EPA, which will be one of these regional trade agreements; EPA will thus cover the region "EU-West Africa".

415 The committee on Regional Trade Agreements has developed procedures to examine the agreements, including compiling information. These procedures are for assessing whether each agreement is consistent with WTO provisions. However, since there is no consensus among WTO members on how to interpret the criteria for assessing this consistency, the committee has a lengthening backlog of uncompleted reports.

416 As the number of regional agreements increases, so does the need to analyse whether the WTO's rules on these agreements need to be clarified further. WTO members differ on whether regional agreements help or hinder the multilateral trading system — whether they function as "building blocks" or "stumbling blocks". One view is that the regional agreements strengthen the multilateral system because they can move faster, and because they can help integrate developing countries into the world economy. Other countries believe that the WTO's rules should be revised — and not just reinterpreted — so that the two systems can work together better, particularly since the number of agreements has increased, and their membership has increasingly overlapped.

417 Issues raised by the regionalism debate are complex. Some are primarily legal. For example, GATT Article 24 requires that a regional trade agreement should cover "substantially all the trade" in goods between its members. Similarly, GATS Article 5 calls for a "substantial sectoral coverage" in services. There is no agreement among members on what this means (the EC has its own clear interpretation that may not be shared by all Members), and in practice many agreements leave out large and sensitive areas such as agriculture and financial

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See http://www.wto.org/english/thewto_e/minist_e/min03_e/brief_e/brief12_e.html

services. This poses difficulties for assessing whether the agreements are consistent with WTO rules.

418 Other issues are institutional. They highlight possible discrepancies between the regional agreements' rules and those of the WTO. The focus in negotiations has shifted over time from tariff reductions to rules and regulations, both at the regional and at the multilateral level — for instance, rules on anti-dumping, subsidies, or product standards. Some recent regional agreements such as the EPAs include provisions not covered by the WTO at all, such as investment or competition policies.

419 Finally and most importantly, there is the economic dimension. Today, this goes far beyond the effects of tariff preferences on members and non-members of regional agreements. Rather, this is now a question of the regional agreements' impact on the shape and development of world trade itself — given their large and increasing number and their overlapping membership. Over the next few years, this will be one of the most important challenges facing trade policymakers in all continents.

420 The relationship between regionalism and multilateralism has become a critical systemic issue, reflected in the WTO Regional Trade Agreements Committee's increasing backlog of reports not concluded and its lack of consensus on the broader question of the consistency between regional agreements and WTO rules.

421 At the Doha Ministerial Conference in November 2001, WTO members agreed to give a political push to this question and to negotiate a solution, giving due regard to the role that these agreements can play in fostering development.

422 The ministerial declaration mandates negotiations aimed at “clarifying and improving disciplines and procedures under the existing WTO provisions applying to regional trade agreements. The negotiations shall take into account the developmental aspects of regional trade agreements”.

423 These negotiations fall into the general timetable established for virtually all negotiations under the Doha Declaration. They were to end by 1 January 2005. The Cancun Ministerial Conference was to take stock of progress, provide any necessary political guidance, and take decisions as necessary.

424 While the Regional Trade Agreements Committee has continued its examination of specific agreements, members decided that the Doha mandate should be fulfilled through a specific negotiating channel. A Rules Negotiating Group was set up in 2002 to clarify and improve disciplines on implementation on dumping, subsidies and countervailing measures, fishery subsidies, and regional trade agreements.

425 The negotiating group's work has progressed substantially. Identifying issues could be completed quickly because they had already been debated in the Regional Trade Agreements Committee. The Secretariat provided a background note in August 2002, listing all the issues related to regional trade agreements that had been raised in various WTO councils and committees and mentioned in WTO dispute rulings. The negotiating group decided to try as a priority to make progress in “procedural” issues, and to address at this stage only a few “systemic” issues. Another question that has been raised is whether new rules coming out of the

negotiations should apply retroactively to existing regional agreements. This complex legal question has far-reaching implications.

426 Procedural issues: The question that emerged as a priority under the “procedural” heading is “transparency” — the obligation to notify regional trade agreements to the WTO; “when” the information should be notified; “what” should be notified on each agreement; and “where” or which WTO council or committee should consider the information. The negotiating group has also considered how to use the Internet to make information available publicly.

427 Issues to do with the trading system. At this stage, a few “systemic” issues have already been identified as meriting early consideration:

- how to interpret the phrase “substantially all the trade”;
- regulations that could restrict trade such as rules of origin under preferential schemes;
- how regional agreements relate to development;
- the primacy of the multilateral trading system and the negative effect regional agreements can have on other countries;

428 Article XXIV has been made the object of an official interpretation^{34/}:

“Customs unions, free trade areas, and interim agreements leading to the formation of a customs union or free trade area, to be consistent with Article XXIV, must satisfy the provisions of its paragraphs 5, 6, 7 and 8 inter alia”.

Article XXIV:5

429 The evaluation under Article XXIV:5(a) of the general incidence of the duties and other regulations of commerce applicable before and after the formation of a customs union shall in respect of duties and charges be based upon an overall assessment of weighted average tariff rates and of customs duties collected. This assessment shall be based on import statistics for a previous representative period to be supplied by the customs union, on a tariff line basis and in values and quantities, broken down by WTO country of origin. The WTO Secretariat shall compute the weighted average tariff rates and customs duties collected in accordance with the methodology used in the assessment of tariff offers in the Uruguay Round. For this purpose, the duties and charges to be taken into consideration shall be the applied rates of duty. It is recognised that for the purpose of the overall assessment of the incidence of other regulations of commerce for which quantification and aggregation are difficult, the examination of individual measures, regulations, products covered and trade flows affected may be required.

430 The “reasonable length of time” referred to in Article XXIV: 5(c) should exceed ten years only in exceptional cases. In cases where Members believe that ten years would be insufficient they shall provide a full explanation to the Council for Trade in Goods of the need for a longer period.

34/

Source: <http://www.usinfo.org/law/gatt/ia1a1d.html>

Article XXIV:6

431 Paragraph 6 of Article XXIV establishes the procedure to be followed when a Member forming a customs union proposes to increase a bound rate of duty.

432 It is agreed that these negotiations will be entered into in good faith with a view to achieving mutually satisfactory compensatory adjustment.

433 The GATT 1994 imposes no obligation on Members benefiting from a reduction of duties consequent upon the formation of a customs union, or an interim agreement leading to the formation of a customs union, to provide compensatory adjustment to its constituents.

Review of Customs Unions and Free Trade Areas

434 All notifications made under Article XXIV: 7(a) shall be examined by a working party in the light of the relevant provisions of the GATT 1994 and of paragraph 1 of this Understanding. The working party shall submit a report to the Council for Trade in Goods on its findings in this regard. The Council for Trade in Goods may make such recommendations to Members, as it deems appropriate.

435 In regard to interim agreements, the working party may make, in its report, appropriate recommendations on the proposed timeframe and on measures required to complete the formation of the customs union or free trade area. It may if necessary provide for further review of the agreement.

State of Doha Development Agenda talks^{35/}

436 The Doha Round represents an important opportunity for economic growth and development, as does the EPA.

Agriculture

437 It is indispensable to continue to push forward on agriculture. The right balance has to be found between the various interests at stake, both in developed and developing countries, across the 3 pillars and related issues. This has to be done on the basis of the objectives of the Doha Declaration and of the July 2004 framework agreement, including their development goals.

438 The G20 made proposals on all three pillars, including the recent proposal on market access. The EU has responded by engaging in discussions in the spirit of moving swiftly towards an agreed structure on market access. The G20 proposal and the movement that some participants, including the EU, have made during the discussions in Geneva will serve as a basis for the resumption of negotiations on agricultural market access, after the summer break, centred on the G20 proposal.

439 There has been a lack of progress since July 2004 on trade-distorting domestic support. It should be done for its own sake.

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by end September 2005.

Export Competition

440 On export competition, too, much needs to be done. There has been some limited progress on export credits, but very little, if any, on STEs (State Trading Enterprises) and commercially motivated food aid.

441 In export competition, there is a need to prepare an agreement for the elimination of export subsidies, to solve the issue of parallelism for exporting state trading enterprises, export credits and food aid. On domestic support, there must be reduction commitments and, in particular, a tiered formula for reductions of the final bound total AMS^{36/}. This presupposes agreement on the Blue Box and Green Box criteria^{37/}.

Market Access

442 The issue of market access is of great importance to African countries, including Nigeria. Despite liberalisation, EU countries do not accord African countries complete access to their markets. Many agricultural, processed and finished products from African countries continue to face tariff and non-tariff barriers (NTBs) in EU countries, exacerbating thereby the concern over the countries' share of global exports, which EPAs should improve.

443 Nigeria's approach to negotiating a regional EPA needs to be flexible. To reiterate, the eventual EPA must provide for asymmetry in favour of Nigeria, irrespective of the length of the transitional period, the product coverage and the detailed specifications of the applicable rules of origin.

444 It is critical that the EPA should preserve and improve the current market preferences. The argument in its favour is that it has already been agreed in the Cotonou Agreement that EPAs shall preserve and improve the *acquis* of Lomé (that is, with respect to market access, no country shall be worse off with EPAs than under the former trade regime). This entails removing of the remaining tariffs and quantitative restrictions currently protecting European producers. In addition, the rules of origin applied by the EU on exports of interest to Nigeria and ECOWAS as a whole should be simplified and reviewed to ensure that they are development-oriented. Similarly, the use and application of EU standards, in particular sanitary and phyto-sanitary measures, must be relaxed, and made fully transparent.

445 On Market Access, there should be a tiered formula for tariff cuts together with certain flexibilities, in particular the selection and treatment of sensitive products and of special products. One has to add to this list, all elements of the Cotton dossier. It is vital for Nigeria to negotiate the EPA in such a way that it secures guaranteed access of the country's exports to the EU market, free of customs duties and other taxes, as well as non-tariff barriers and without any quantitative restrictions or measures having equivalent effects.

^{36/} Aggregate Measurement of Support (in WTO Agreement on Agriculture)

^{37/} In WTO terminology, subsidies in general are identified by "boxes": ex: green (permitted). In agriculture, the blue box means subsidies tied to programmes that limit production.
Source: http://www.wto.org/english/tratop_e/agric_e/negs_bkgrnd07_domestic_e.html

446 Nigeria should have the right to declare specific agricultural products vital for its food security, livelihood and rural development as “special products”.

447 The extensive support to EU farmers and their products in the form of export subsidies within the Common Agricultural Policy of the EU should form part of the negotiations as far as they have the greatest bearing on the market-access arrangements established for ACP agricultural exports. In the same vein, the EU’s internal market structures that prevent Nigeria from targeting the higher value-added segments of the European market, in spite of the preferential market access, need to reflect better liberalisation.

448 The main challenge for improved access into the EU market for agricultural producers in Nigeria (and the sub-region) comes from the CAP reform and the EU’s concern over food safety and animal disease control. During the negotiations, Nigeria should make a strong case for establishing a structured ACP-ECOWAS dialogue aimed at addressing the challenges posed by the stricter EU SPS standards in particular. In this regard, attention will need to be given to:

- the setting of standards,
- the costs of technical compliance,
- the costs of inspection and auditing, and
- transitional arrangements.

449 Agricultural business in ACP countries like Nigeria is substantially different from what obtains in the advanced countries. This important disparity is not reflected in EPA’s trade rules to take into account the plight of the millions of small-scale farmers. They produce food crops in small plots of land, with only rudimentary technology, their ability to sell on the local market can be undercut by a rapid international trade liberalisation scheme that will open the way to an influx of cheap and highly subsidised food imports.

Non Agricultural Market Access (NAMA)

450 In NAMA, the core elements are (1) formula, (2) flexibilities and (3) unbound tariffs. The Negotiating Group will start on this in the coming days, after Agriculture. Other elements, such as preference erosion, the sectoral component and non-tariff barriers, also need to be part of Hong Kong.

451 NAMA is a negotiation that needs ambition: the lowest common denominator cannot fulfil the diverse interests of Members in this area. There should be gains for all. The EU aims for real new market access for exporters, but so do developing countries, and they need access not only to developed country markets – and here the EU is prepared to make a very large contribution – but also to the markets of other developing countries.

452 Much technical work has been done since last July’s framework agreement. What is needed is agreement on the essential economic and political features of a NAMA (Non-Agriculture Market Access) deal. These are not complicated: first, real new market access for all, with the largest opportunities being offered to Least Developed Countries (LDCs); second, developed countries should do most, developing countries should do less; third, the poorer developing countries, and in particular the LDCs and others in a similar situation, should not be asked to make

any tariff reduction; fourth, developing countries who have made efforts to open their markets should see recognition of this. Fifth, both here and in agriculture, let us agree definitively at Hong Kong on tariff and quota free access by LDCs to all developed country markets.

453 The key question is where to start in September. The Swiss formula proposals seem to have attracted large support.

454 There are several other important issues: preference erosion, NTBs (Non-Tariff Barriers), etc. These issues cannot and will not be neglected, but the starting point remains the tariff cutting formula and its impact on different participants. The formula that should emerge should be simple, its consequences easy to assess and must not create disparities between countries with the same levels of development. The EU proposed a simple Swiss formula, with one coefficient for all developed countries and a (higher) coefficient for developing countries, modulated according to the degree and kind of additional flexibility that each of them requires. The DDA negotiators should agree on the structure of the form.

455 The ministers agreed to launch tariff-cutting negotiations on all non-agricultural products. The aim is “to reduce, or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries”. These negotiations shall take fully into account the special needs and interests of developing and least-developed countries, and recognize that these countries do not need to match or reciprocate in full tariff-reduction commitments by other participants.

456 At the start, participants have to reach agreement on how (“modalities”) to conduct the tariff-cutting exercise (in the Tokyo Round, the participants used an agreed mathematical formula to cut tariffs across the board; in the Uruguay Round, participants negotiated cuts product by product). The agreed procedures will include studies and capacity-building measures that would help least-developed countries participate effectively in the negotiations.

457 While average customs duties are now at their lowest levels after eight GATT Rounds, certain tariffs continue to restrict trade, especially on exports of developing countries — for instance “tariff peaks”, which are relatively high tariffs, usually on “sensitive” products, amidst generally low tariff levels. For industrialised countries, tariffs of 15 percent and above are generally recognised as “tariff peaks”.

458 Another example is “tariff escalation”, in which higher import duties are applied on semi-processed products than on raw materials, and higher still on finished products. This practice protects domestic processing industries and discourages the development of processing activity in the countries where raw materials originate.

Non-agricultural Products

459 In view of the importance of tariffs as an industrial and trade policy tool, Nigeria’s position in this area should be to put forth the issues of tariff peaks and escalation for processed products in EU markets since these effectively impede value addition in countries such as Nigeria.

460 The case will have to be made that without industrial structure and exports diversification and value addition across the key economic sectors of the country, the EPA will not live up to its goal of supporting the sustainable development of the ACP countries. To repeat, Nigeria should approach the negotiations with the aim of obtaining less rather than full reciprocity in favour of Nigeria and other ECOWAS countries. The ultimate goal is the provision, by the EU, of duty and quota-free market access for all manufactured products, at least as favourable as those already granted by the EBA: for Nigerian producers to enjoy these benefits, the EU should grant harmonised, flexible and simplified rules of origin. Nigerian negotiators should insist on these conditions.

Industrial Goods

461 Industrial production in ACP countries also faces major threats from premature liberalisation. If the EU is committed to poverty reduction, trade agreements with developing countries must be negotiated with this as their main objective. This means that any agreement offered to the ACP must have a developmental component; should not conflict with regional integration processes; should not demand liberalisation in sectors where the EU has not itself liberalised.

462 A large number of observers, from the ACP countries and from the EU, have pointed to the fact that EPAs have not been given the attention they deserve. While the Doha round meetings of the WTO have attracted the media and government attention, negotiations for new trade agreements with the ACP states have been proceeding apace with little public scrutiny. Given that the ACP group includes all but nine of the world's least-developed countries (LDCs) and many of the poorer middle-income countries (MICs), these new trade agreements have important developmental implications.

Services

463 A number of developing countries now attach great importance to trade in services which in itself should suffice to energise this part of the negotiations. Members should develop different approaches in services, leading to an increased number and to an enhanced quality of commitments. What we must have are commitments, which effectively open trade in services, with the corresponding improvements in the rule-making area.

464 Here there is hardly any progress. The number of revised, improved offers still falls far short of what is needed and most of those submitted so far do not provide for new market access opportunities. Indeed, in most cases they do not even reflect existing levels of liberalisation in some developed countries! This situation is unsustainable and must be corrected by Hong Kong (HK). For the EU, services are crucial for the overall balance of the DDA.

465 For Hong Kong, negotiators need to achieve modalities with a similar level of specificity in services as for agriculture and NAMA. The request-offer method of negotiating has not generated meaningful results.

466 Negotiations on services were already almost two years old when they were incorporated into the new Doha agenda.

467 The WTO General Agreement on Trade in Services (GATS) commits member governments to undertake negotiations on specific issues and to enter into successive rounds of negotiations to liberalise trade in services. The first round started officially in early 2000 under the Council for Trade in Services. In March 2001, the Services Council established the negotiating guidelines and procedures.

468 The Doha Declaration endorses the work already done, reaffirms the negotiating guidelines and procedures, and establishes some key elements of the timetable including the deadline for the conclusion of the negotiations (1 January 2005) as part of a single undertaking.

469 The negotiation brief should seek to arrive at the EPA on Trade in services such as transport (air and maritime), telecommunications, electricity, insurance, banking, etc, with special emphasis on services as support to growth in agriculture, mining, manufacturing, tourism, etc. The ultimate goal is to enhance the capacity and competitiveness in the supply of services of export interest to Nigeria with a view to increasing their traded value and volume.

470 Again, taking into account special and differential treatment, the EPA negotiations should recognise the right of Nigeria and other ECOWAS countries to regulate trade in services, under which liberalisation should cover a limited number of sectors. As for most of the other sectors, the internal agenda of ECOWAS for liberalisation on trade in services should take precedence over the negotiations with the EU. The approach should be to first harmonise the legal framework on services at the regional level and then engage ECOWAS to negotiate as a group with the EU. Finally, it is important to recall that, in fact, the Cotonou Agreement does not oblige the ACP states to negotiate liberalisation of trade in services with the EU; it is only an optional objective.

471 In seeking to define simple and development-oriented rules of origin, the negotiators should aim at the formulation of asymmetrical legislation (in favour of Nigeria) between the two parties. More specifically, the EPA should incorporate Special and Differential Treatment in the negotiations on rules of origin in order to take into account the varying levels of development amongst the ECOWAS countries. It is highly important that ECOWAS should obtain the degree of flexibility that enables the Member States to enjoy cumulation with the rest of the ACP group and other Third World countries in order to take full advantage of the EU market.

472 Given that there are ongoing discussions at the WTO on possible amendments to Article XXIV of the GATT, Nigeria in conjunction with ECOWAS, should actively request that EPAs provide for legally binding provisions for special and differential treatment which are more flexible than those currently provided by in Article XXIV.

473 The EPA negotiations should provide for an appropriate definition of sensitive sectors to exempt partially or fully from trade liberalisation, due to their economic relevance to Nigeria. Moreover, the EPA should identify and spell out safeguard actions and anti-dumping measures that will allow Nigeria and ECOWAS countries to restrict imports that cause or threaten to cause injury to domestic producers or result in serious macro-economic instability.

474 The greatest opportunities for ensuring pro-development outcomes in the Round are to be found in the negotiating areas of NAMA, Agriculture (including cotton), Services and Trade Facilitation. The EU will continue to support both market access opportunities and special and differential treatment for developing countries in these areas.

475 There are delays in responding to LDCs' calls for full duty-free and quota-free market access for their exports. Such a decision should be taken at the latest by or at the Hong Kong Ministerial.

476 Finally, many developing countries need considerable help with development assistance and "aid for trade" if they are to fully benefit from the opportunities offered by the multilateral trading system or adjust effectively to its challenges. The EU recognises the need to increase the flow of trade-related assistance to developing countries. The EU, by far the largest donor of such assistance, will continue to play an active and leading role.

Investment Promotion

477 It has already been acknowledged in the Cotonou Agreement that the capacity of ACP countries to handle most of the critical Singapore issues (investment promotion, competition policy, trade facilitation and government procurement), during the negotiations and at the implementation stage, is limited.

Competition

478 Nigeria - like most ECOWAS countries - does not have yet a competition policy or laws on government procurement. Nigeria and ECOWAS should therefore seek to commit the EU to the establishment of regional regulations and laws ahead of the EPA negotiations of these issues. The legitimate aim, from ECOWAS's perspective, is to prevent a scenario in which the negotiations with the EU disrupt the regional integration processes. The timely establishment of the required regional institutions will go a long way in fast-tracking the harmonisation processes within ECOWAS.

Intellectual Property Rights

479 Concerning the Agreement on Trade Related Intellectual Property Rights (TRIPS), the specific interest that Nigeria should pursue is in respect of the protection of intellectual property rights, including those relating to artistic design, music, traditional knowledge as well as industrial property, and respective patents.

- EU Demands in Areas of Non-Trade Concerns: Against the explicit wishes of ACP countries, the EU is aggressively pushing some demands that are far beyond the current Doha negotiating framework in the area of non-trade concerns such as the Singapore Issues, Trade in Services, under GATS, and Intellectual Property Rights under TRIPS.
- Tariff Dismantlement & Development Indicators: Under EPAs, tariff reductions by ACP countries are not linked to the successful attainment of pre-defined development indicators but to clearly defined timetables. This is certainly against the stated goals of the Cotonou Agreement, which are the attainment of development and poverty eradication.

- SPS Issues: Under EPAs, the EU maintains that its SPS measures are an integral part of its food-safety policy and that it has sovereign rights to establish its health rules as it deems fit through these measures. The EU has therefore rejected calls to enter into equivalency agreements with ACP countries because of the latter's institutional weakness; without a reasonably long period of standstill on new SPS measures and initiation of dialogue on how to meet genuine EU health concerns, undue burdens will be placed on ACP exporters, including Nigeria.

Financial Assistance in Development Issues

480 ACP countries including Nigeria believe that restructuring assistance should be made available and programmes implemented before free trade is introduced, so that ACP economies are better equipped to meet the challenges posed by moves towards free trade with the EU. The EU, on the other hand, insists that the policy context should first be put in place and moves towards free trade be implemented before restructuring programmes are designed and implemented.

Free Movement of Natural Persons

481 The EU wants a more restricted approach to the issue of free movement of natural persons, since it touches on the sensitive issue of immigration; but the interest of the ACP countries, including Nigeria, is to include discussion on free movement of natural persons as an integral part of any liberalisation scheme involving trade in services.

Links between DDA talks and EPA

482 The EPA, an instrument conceived by the EU and developed to deliver the new approach to EU-ACP economic and trade co-operation, is based upon four principles:

- Bilateral free trade. The Agreement is for bilateral free trade with rights and obligations on both sides.
- Link to Regional integration. This approach is presented as a powerful means to foster integration into the world economy^{38/}.
- Development. EPAs are presented as a tool for development, to be designed with the flexibility to take account of the economic, social and environmental constraints of the ACP countries as well as their capacity to adapt to the new trading environment^{39/}.

38/

In the development economics literature, African (and ACP) countries have long since been integrated into the world economy (forcefully) through colonisation, as providers of raw materials. From a typical ACP standpoint, therefore, the phrase "to foster integration into the world economy" has a negative connotation, meaning to deepen the peripheral role and status of ex-colonial states in the global economy.

The addition of Mauritania, which is not part of ECOWAS in the negotiation process, should also be clarified.

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What latitude the envisaged flexibility provides to the ACP in the negotiating process should be made explicit. This impact study explores this topic to help Nigeria's participation in the negotiating process.

- Link to WTO. EPAs are intended to act as stepping stones that facilitate the ACP countries' integration into the world economy and they must be compatible with the rules of WTO. However, the EU, under EPA, is going beyond the rules of WTO.

483 Nigeria exports to the EU, its largest market, under preferences available through the arrangements generally available to ACP countries. The Cotonou Agreement maintains most non-reciprocal trade preferences granted by the EU to ACP States under the Lomé Convention.

484 Under the Cotonou Agreement, the EU grants non-reciprocal trade preferences to most imports originating in ACP states, subject to a safeguard clause and rules of origin. For certain products (bananas, beef and veal, and sugar), the EU provides special market access under "commodity protocols", for which Nigeria is not a beneficiary. Of relevance to Nigeria is the fact that the Cotonou Agreement has abolished the STABEX.

485 Preferences so far granted by the EU to the ACP countries are incompatible with WTO rules.

486 One of the central tenets of the WTO is non-discrimination. Developed countries can apply lower tariff rates (i.e. over preferential access) to exports from developing countries, thereby discriminating between developed and developing countries under WTO rules. However, with the exception of the WTO recognised category of Least Developed Countries (LDCs), they cannot discriminate between developing countries. This is exactly what Lomé/Cotonou preferences do, discriminating between developing countries that are members of the ACP group and those that are not.

487 The preferences are currently covered by a WTO waiver until the end of 2007, hence the planned timetable for EPAs to come into force in 2008. The waiver was only secured after lengthy and difficult negotiation. The EU could seek to have this waiver renewed, which would require the agreement of at least three quarters of the 148 WTO members, although in practice waivers of a magnitude such as this are usually adopted by consensus. However, the European Commission judges that the consensus required to extend the waiver is unlikely to be forthcoming, due to the high probability of a challenge from non-ACP developing countries.

488 The existence of a WTO waiver is not in itself sufficient to protect these preferences. The waiver will provide protection against challenges based on specific provisions of the WTO agreements mentioned in the waiver but would not protect the EU against challenges based on other provisions not specifically referred to in the text of the waiver. The Philippines, Thailand and Indonesia successfully challenged the EU's preference for some ACP fish exports because this discrimination against non-ACP developing countries was harming their domestic industries. The situation was resolved through the creation of a specific quota for these Asian exporters. By extending preferential access to the EU market, the value of the ACP preferences was reduced, thereby affecting the profitability of ACP industries.

489 The achievement by the EU of a more flexible WTO rule for developing countries entering RTAs with developed countries would be a major benefit. At present, this is not a fait accompli. The ACP group has asked the WTO for

clarification of the maximum length of transition possible for developing countries. They have also asked that this be consistent with the trade, development and financial situation of developing countries, but in any case not less than 18 years.

490 The WTO has now asked the ACP to reconsider this request — making the period for adjustment shorter. It would reflect badly on the EU if promises were made to the ACP, which then could not be achieved in the WTO. The coverage and pace of reciprocal market opening between the EU and ACP under EPAs must comply with the WTO rules in this area. These rules are contained in Article XXIV of the GATT and the 1994 Understanding on the Interpretation of Article XXIV of the GATT. This includes the coverage of an RTA (i.e. what percentage of trade should be covered) and the period over which trade should be liberalised.

491 However, the actual wording in the rules on both these issues is vague. With respect to coverage, they state that RTAs should cover “substantially all trade”. With respect to timescale, they state that reciprocal market opening within an RTA should take place “within a reasonable amount of time”. The 1994 Understanding states, however, that the reasonable length of time for moving to a free trade area or a customs union should exceed 10 years only in exceptional cases. Where the parties to an agreement believe that 10 years would be insufficient, they are required to provide a full explanation to the WTO Council for Trade in Goods of the need for a longer period. The rules do not preclude asymmetrical reciprocity that is, allowing developing countries more time to liberalise and include less of their trade in the RTA than the developed country members.

492 As the European Commission has acknowledged, the need for a flexible approach to reciprocity in the design of EPAs will be critical to their ability to complement ACP countries’ national poverty reduction plans.

493 The ACP have submitted a proposal to reform these particular WTO rules to clarify the terms of asymmetrical reciprocity between developed and developing country members of an RTA. The Commission’s view is that the rules already provide sufficient flexibility for RTAs between developing and developed countries to take account of the special needs of the latter. The ACP proposal does indicate that the ACP concern is not necessarily the principle of reciprocity per se, but the nature of that reciprocity.

494 A further element of “asymmetric” liberalisation is that ACP farmers should be protected from import surges of EU agricultural products, which threaten their livelihoods and domestic industries (whether unfairly subsidised or not). WTO members have agreed to develop a Special Safeguard Mechanism (SSM) that developing countries could use for this form of protection. This mechanism is being developed through the current round of WTO negotiations.

495 At the Doha Ministerial Conference, WTO Members granted a waiver from the obligations under Article I: 1 of GATT 1994 (MFN treatment). By December 2007, new trading arrangements, which are WTO-compatible, are to be concluded; these will remove barriers progressively between the parties and enhance cooperation in all areas relevant to trade, including the formation of free-trade areas within a transitional period. The implementation of the tariff liberalisation scheme should commence by January 2008 at the latest.

496 The Doha Development Round of trade talks was launched in 2001 and collapsed in Cancun in 2003. It was launched again in 2004, in part thanks to an ambitious EU offer to end EU agricultural export subsidies as part of a final agreement. The EU has subsequently called for an equally ambitious outcome in trade in services and other non-agricultural market access.

497 The EU has called for leadership from key players in the round. It has urged the US to move further on reducing farm subsidies. It has pressed advanced developing countries like China and India to send a positive signal to other developing countries by seeking an far-reaching agreement, particularly on non agricultural market access. It called on all WTO members to meet the deadline of May 2005 for submitting ambitious offers for opening up trade in services.

498 If the Doha Round is to succeed in 2006, WTO members will have to have advanced significantly towards an agreement by the time of the WTO Ministerial in Hong Kong in December 2005. The Kenyan meeting is the first of a number of key staging posts on the way to this meeting.

499 Most EPA requirements on ACP countries go way beyond the gains ACP countries have obtained in WTO negotiations. The ACP countries should therefore insist that the EPA be compatible with WTO's evolving rules and principles, in particular in the context of the Doha Development Agenda.

500 ACP negotiating capacity will be stretched thin with simultaneous negotiations in the WTO and regional trade agreement negotiations with other trade partners (such as the US) as well as within their regional groupings. Progress in the Doha Round will have far-reaching implications on the shape of EPAs. In some areas (e.g. realising the EU's commitment to eliminate agricultural export subsidies), progress in the EPA negotiations will follow progress in the WTO.

501 The negotiating process will need to be an organic one that builds on the phased approach of the regional road maps, and responds to developments in the WTO. In Article 39 of the Cotonou Agreement, the EU and ACP undertook "to cooperate closely in identifying and furthering their common interests in international economic and trade cooperation, in particular in the WTO". The EU should continue to consult and work with ACP countries to further their integration into the world trading system and to ensure that a successful outcome to the current Doha Round is achieved.

502 It is clear that some ACP members that are more heavily dependent on EU preferences in specific sectors will need additional, targeted assistance to help the adjustment process. The challenge for the international community is to ensure that the transition assistance needed by these countries is guaranteed, credible and additional, as well as being delivered in a timely fashion.

503 The European Commission has rejected the ACP request for additional financial resources to accompany EPAs. However, joint EC-ACP Regional Preparatory Task Forces (RPTFs) have been established to ensure that the EU's development assistance supports the process of change in implementing the EPAs. This will include considering both the priority given to trade in European Development Fund (EDF) allocations, as well as in the development assistance of EU Member States and other donors.

Linkages with AGOA

The African Growth and Opportunity Act (AGOA)

504 Under the United States' AGOA, Nigeria is eligible for various trade preferences. AGOA is contained in the US Trade and Development Act 2000, as amended up to June 2004. AGOA represents an extension to the products covered under the US Generalized System of Preference (GSP) scheme, but is limited to African countries. Under the scheme, eligible countries qualify for duty-free and quota-free (except for wearing apparel products) access to the U.S. market for a range of products, including selected agricultural and textile products until 2005. To be eligible, African countries must demonstrate progress in establishing a market-based economy; developing political pluralism and the rule of law; eliminating discriminating barriers to U.S. trade and investment; protecting intellectual property; combating corruption; protecting human and worker rights; and removing certain practices of child labour^{40/}. AGOA eligibility does not automatically imply eligibility for the wearing apparel provisions, governed by a separate set of conditions and associated rules of origin. In order to be able to export apparel (and certain textile items) to the US duty-free under AGOA, countries must have in place an effective visa system that ensures compliance with the required rules of origin.

505 In 2003, Nigeria's export and import trade flows with the US amounted to \$10 billion and \$996 million respectively. Nigeria is the leading country in terms of value of exports under AGOA: in 2003, of the \$18 billion of total US imports from countries eligible for AGOA (including GSP), Nigeria contributed some 52 percent. However, its exports to the US are highly undiversified; in 2003, energy-related products accounted for about 93 percent of Nigeria's total exports to the US and all of its exports under AGOA were energy-related products. Nigeria was declared eligible for the preferences under the apparel provision of AGOA in July 2004.

506 The eligibility criteria for GSP and AGOA substantially overlap, and countries must be GSP eligible in order to receive AGOA's trade benefits including both expanded GSP and the apparel provisions. Although GSP eligibility does not imply AGOA eligibility, 45 of the 48 Sub-Saharan African countries are currently GSP eligible.

507 Major Nigerian exports include mineral fuels (largely crude petroleum and natural gas), cocoa and cocoa preparations, tanned hides and skins, and crustaceans. The United States, Spain, Brazil, and France are Nigeria's chief export markets, followed by Japan and Indonesia. Nigeria's duty-free exports under AGOA and its GSP provisions in 2004 – almost entirely petroleum and energy products – were valued at \$15.4 billion, representing 95 percent of total exports to the United States. Nigeria qualified for AGOA's textile and apparel benefits in July 2004.

508 Mauritius, Kenya, Lesotho and Swaziland are the most successful AGOA exporting countries on the continent. In the particular case of the two southern African kingdoms, AGOA-related exports have directly led to the creation of between 30,000 and 50,000 jobs in those countries' garment industries. In both cases, the investments originate predominantly either in China (for Lesotho) or in Taiwan (for Swaziland). If Nigeria were to learn from the experience of these countries there is

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The African Growth and Opportunity Act. See <http://www.agoa.gov/index.html>.

no reason why it could not attract AGOA-related investments, which would contribute to both job-creation and poverty-alleviation in the country.

509 Measures that are so far in place in Nigeria, in order to better utilize the opportunities accorded by AGOA, include concessionary import duties of 2.5 percent on industrial equipment used to produce AGOA exports, and the establishment of AGOA-dedicated desks at the country's ports. Nigeria's imports from the US in 2003 consisted mainly of agricultural products (32.6 percent), transportation equipment (28.7 percent), electronic products (13.4 percent), machinery products (9.5 percent) and chemical and related products (6 percent).

510 Economic Strengths and Potential Growth Sectors. According to AGOA analysts, Nigeria's competitive advantages include the following.

- **Petroleum:** Crude petroleum currently accounts for a major share of national GDP and export earnings and the sector will likely continue to develop market share in countries worldwide.
- **Natural Gas:** Growth in the natural gas industry is expected during the next five years, particularly given the 2008 deadline set by the government to cease the flaring of natural gas. Natural gas reserves are said to amount to 159 trillion cubic feet of gas, the ninth largest natural gas reserves worldwide. Nigeria's revenues from liquefied natural gas are expected to increase to an estimated \$6 billion annually by 2007.
- **Cocoa:** Nigeria has a comparative advantage in cocoa beans, a product that accounted for about two percent of total Nigerian exports in 2003, or more than \$500 million. Moreover, average annual growth in world cocoa bean markets during 1993-2003 was almost 14 percent. Major markets for the country's exports of cocoa beans in 2003 were the EU, Canada, and the United States.
- **Cashews:** About 30,000 metric tons of cashew nuts are currently exported annually to India, Brazil, and Vietnam, all major processing countries. Cashew kernels were identified as having substantial export potential. Nigeria currently exports only about 25 percent of its production of cashew nut kernels. Moreover, exports of cashew kernels and cashew nut shell liquid may increase when an export-oriented cashew nut processing facility goes on stream in Kwara State.
- **Sesame:** Development of the local industry could result in increased exports of sesame and sesame oil, particularly to countries in Asia.
- **Fisheries:** The global market for shrimp and prawn is said to be increasing by three percent per year, largely as a result of increased consumption in the United States, Europe, and Japan. Nigeria currently exports shrimps and prawns to Europe. Further development of the shrimp and prawns farming industry in Nigeria, to serve domestic and international consumption, could be valued at a total of \$384 million in exports over the course of 10 years.
- **Leather products:** Nigeria is relatively internationally efficient in goat and sheep skin leather exports. Whereas such exports accounted for less than

one percent of total Nigerian exports in 2003, or about \$157 million, average annual growth in the world markets for goat and sheep skin leather during 1993-2003 was 10 percent and six percent respectively, suggesting that further development of the sector could result in expanded export opportunities for these products.

- **Mining:** The government is emphasizing the development of the largely unexploited mining sector, with the expectation that it could prove to be a major source of export revenues. On a product-specific basis, Nigeria has a relatively high comparative advantage for the product grouping consisting of niobium, tantalum, vanadium, and zirconium. Yet exports of these products represented, on average, only 0.2 percent of total Nigerian exports during the last nine years. Tantalum, which accounted for a significant share of trade and investment in the sector in recent years, possibly as a result of efforts by the Nigerian Mining Corp. to encourage investment in tantalite mining operations, could show expanded export growth. Recently, a company is reported to be exploring potential reserves of tantalum, gold, and columbite (a source of niobium). In addition, a Nigerian company was reportedly licensed in August 2004 to explore for tantalite. Also in 2004, a mining firm identified Nigeria as a possible source of tantalite ore feedstock for its tantalum pentoxide production in South Africa. Export growth in tantalite and niobium ores is also likely to be spurred by the recent increases in prices for these minerals.

Major Challenges to Export Growth

- **Business Environment:** General constraints include high financing costs; poor infrastructure, including inadequate electrical, water, and telephone services, deteriorating road conditions, and rundown railroads; corruption; and an uncertain operating climate stemming from changing government regulations and policies. Indicators are above the regional average in time to open a business, the number of procedures in enforcing contracts, the minimum capital needed to start a business, and employment, but below the regional average in time needed to enforce contracts and register property. Trade policy and informal market sector activity scores are below regional averages. High import tariffs and import bans are significant impediments to developing the country's economic resources. Import tariffs average 30 percent on all goods. Non-tariff barriers on inputs are implemented suddenly and arbitrarily, and the government's list of banned imports covers about 60 tariff-line items.
- **Transportation:** Transport infrastructure has been neglected, leading to deterioration in the roads, railway lines, and ports. About 31 percent of Nigerian roads are paved and much of the network is in disrepair. Inadequate equipment at the country's ports results in delays in loading and offloading, and has been cited as an impediment to transporting goods. In addition, frequent policy changes and the multiplicity of authorities in ports mean that corruption and delays are reportedly common.
- **Energy:** An operating constraint for businesses has been a shortage of national energy supplies. Nigeria's power comes from petroleum products, natural gas, hydroelectricity, and thermal power. In the petroleum sector, the poor performance of the national refineries and the reported smuggling of

petroleum products to regional markets stemming from domestic price controls on petroleum products, resulted in shortages of petroleum derivatives. Supplies of electricity have been limited and unreliable, a situation largely attributed to underutilisation of power generation capacity and needed improvements in electricity distribution. Electric power transmission and distribution losses amounted to approximately 38 percent of output in 2001.

- **Agriculture:** About 30 percent of available land is arable. In 2003, only about 50 percent of that land was cultivated. Constraints to expanding agricultural exports include inadequate infrastructure in rural areas, insufficient irrigation systems, inadequate distribution of fertiliser and other inputs, high production and transportation costs, and lack of technical capacity to meet product quality and packaging requirements.
- **Petroleum:** Continued social unrest in the Niger River Delta, a major petroleum production site in Nigeria, has been a constraint to petroleum exports. Such unrest in December 2004 caused the suspension of exports for an indefinite period, potentially forgoing exports of about two million barrels.
- **Manufacturing:** Constraints include lack of knowledge regarding implementation of local content requirements, and lack of engineering and technical knowledge, training, and support. The generally low output of non-energy-related minerals in Nigeria is largely attributable to lack of capital to invest in equipment maintenance and upgrades.



4 | Recommendations and Strategy for Negotiation

4 Recommendations and Strategy for Negotiation

518 The EPA is going to pose a major challenge to the Government of Nigeria. In terms of policy options, Nigeria has several options. It can:

- accept the EU's EPA offer and negotiate an acceptable change in its trade regime;
- reject the EPA offer and make use of unilateral, non-reciprocal, trade preferences that the EU is already granting;
- continue to manage the gradual liberalisation of its trade regime in the framework of ECOWAS;
- liberalise its trade regime unilaterally; or
- liberalise its trade regime in the course of the current multilateral trade negotiations.

519 However, it remains uncertain that the EPA will entail an actual increase in market access beyond that currently enjoyed by Nigeria. What is sure is that unless the supply-side constraints are addressed, economic development will continue to remain below its potential, irrespective of whether the EPA is in place or not. There is an urgent need to address these constraints and make the economy more competitive. If it is going to embark on the EPA negotiation and considering Nigeria's low level of development and its related vulnerability to external shocks, the country will certainly need a transitional phase, with a proper timing and sequencing of tariff reductions and the phasing in of the complementary reforms and adjustments required.

520 Explicit commitments from the EU with respect to technical, as well as financial, support could encourage Nigeria to take a positive decision, and facilitate implementation in its agenda for trade liberalisation. Financial support, in particular, is needed to offset customs revenue losses, which will be sizeable in the case of Nigeria, as the empirical analyses in this impact study have shown.

521 Before embarking on EPA negotiations, Nigerian officials should prepare position briefs based on Nigeria's interests and objectives in each of the areas of negotiations. The country's position must be knowledge-based and championed by technically competent experts in the requisite areas under negotiation.

Guiding Principles for EPA Negotiations

522 The following principles should guide Nigeria's EPA negotiations.

Decision-Making Space

523 As stated in the Cotonou Agreement, the EPA is a development-oriented project. An important guiding principle for Nigeria's negotiators should therefore be to ensure the utmost independence and decision-making space by avoiding locking critical elements of the agreements into external aid packages. The critical precondition here is a sound supply-side infrastructure.

Instrument for Development

524 For EPA to be an instrument of development, as stated in the Cotonou agreement, poverty eradication must be the primary goal of Nigeria's negotiations. Furthermore, the negotiators should ensure that the country receives non-reciprocal and differential treatment; that the EU does not demand liberalisation in sectors where it has not liberalised, or that are beyond WTO agreements; and that EPAs do not neutralise the potency of existing ACP regional integration processes and schemes.

Regional Integration Processes

525 In order to prevent the EPA from taking precedence over, or undermining, the ECOWAS integration scheme, the EPA must be based on, and reinforce, the ECOWAS integration programme.

WTO Compatibility

526 The EPA must be compatible with WTO evolving rules and principles in particular in the context of the Doha Development Agenda.

Preservation of the Lomé and Cotonou Acquis

527 The EPA should preserve and even improve the current ACP preferences into the EU market. For Nigerian negotiators, the objective should be to ensure that following the EPA negotiations the country's situation has not degraded.

Special and Differential Treatment

528 In line with the agreement that special and differential treatment should be provided to all ACP states under EPAs, the rights and privileges of Nigeria, and the need to take into account its specific circumstances and vulnerabilities should be mainstreamed into the negotiations.

Sustainability and Legitimacy

529 To prevent issues of legitimacy becoming a major obstacle, it should be demonstrated to all stakeholders that the EPA will effectively contribute to the sustainable development of Nigeria. All stakeholders should be sensitised, and made

to assume ownership of the process, without which the negotiation would not be successfully conducted in Nigeria's interest.

Cost-Benefit Analysis

530 As this study has shown, there is no doubt that the EPA will have significant implications for the socio-economic and political sectors of the Nigerian society. The positive impacts of EPAs need to be maximised and their adjustment costs minimised so that their implementation is sustainable. The EPA's sustainability should specifically be assessed with respect to:

- its expected adjustment costs;
- its socio-economic and political implications;
- its institutional and human resource capacities; and
- the socio-economic stability of the country.

531 In assessing costs and benefits, it is important that they are considered for short, intermediate and long term. In the short term, costs are likely to far exceed the benefits; the analysis and results based on SAM show these clearly. Over the intermediate to the long run, through effects that EPA may have on increased growth and productivity, potentials for substantial benefits exists provided that in conjunction with EPA, institutional and governance issues that Nigeria is facing with are tackled.

532 In addition, EPAs should result in trade-creation and not trade-diversion, to avoid any welfare loss. EPAs should also take into account possible polarisation effects and devise measures necessary to counter them.

Proposed Approach to Negotiations

533 Over the next three years of negotiations, Nigeria's negotiating briefs should have the following objectives in mind: contribute to development and poverty-reduction; expedite the regional integration process within ECOWAS region; improve EBA market access by addressing related TBT and NTBT issues; and increase productivity and competitiveness of Nigerian producers.

534 Nigeria's negotiations must prepare for and focus on certain critical areas:

Non-Reciprocity

535 The EPA negotiations will fundamentally alter the trade relationship between the EU and the ACP. In particular, the ACP group, which used to be the most preferred trading partner of the EU, will be moving from non-reciprocal preferential access to reciprocal trading arrangements with the EU. Because of slow progress at the WTO, the EU would not likely guarantee to offer the ACP states consideration of their development status in these new Partnership Agreements.

536 In the negotiation, however, it is in the interest of Nigeria to seek maximum positive discrimination in its favour. This proposition is plausible, especially in view of the fact that Nigeria will be negotiating the EPA in the group of ECOWAS countries, which would constitute a united front on the matter.

537 Nevertheless, Nigeria has to take into consideration the inevitable general trend in the reduction of tariffs worldwide. In the long term, by keeping bans and high tariffs, it would isolate itself. It should therefore plan a progressive decrease in its tariffs and progressive removal of bans. The strategic way to become more competitive is to concentrate efforts of productive sectors towards reaching first the internal market, then the regional market, and then the larger African market. The EU should be the last market that Nigeria should try to reach, as it will always be difficult for it to compete with other countries that are more closely located to the EU. The EU is too far away from Nigeria to represent a lucrative market for Nigeria, at this stage.

Reducing High Tariffs

538 Nigeria still has some high tariffs and other restrictions on trade^{1/}. Granting preferential access to the EU while maintaining high MFN tariffs is likely to displace efficient sources of supply and induce losses in tariff revenues that result in trade and income losses rather than gains for Nigeria. An EPA that would ratify and consolidate high levels of protection in Nigeria would entail severe risks and would likely be counterproductive. These risks could be attenuated if the preferential margin granted to EU imports is limited to no more than 5 percent; and maximum MFN tariff rates lowered to 15 percent while tariffs on imports from the EU are reduced.

Offsetting Revenue Losses

539 Nigeria derives some 7 percent of its revenues from import tariffs. Since the EU is a major source of these imports, there is a need for adjustments to offset the losses, as calculated under the different possible scenarios. We strongly advocate that such revenue losses be not compensated by more European aid, as it might be interpreted as a form of charity on the part of the EU, which Nigeria does not need, and it would weaken the Nigerian position in its negotiation with the EU. Therefore, offsetting revenue losses, in the first place, should be a task of the Government, for which, as already developed in this report, the Government has a large number of tools at its disposal.

Market Access

540 In order to ensure that market access for exports from Nigeria is improved, the country's negotiators must insist on the removal of remaining subsidies, tariffs and quantitative restrictions currently protecting European producers.

541 The rules of origin applied by the EU on exports of interest to Nigeria must be simplified. In this regard, it is of paramount importance that Nigeria should seek to obtain full cummulation with the rest of the ACP group. Similarly, Nigeria should negotiate the use and application of EU standards, in particular sanitary and phyto-sanitary measures, must be simplified.

Agriculture

542 The removal of the extensive support to EU farmers and their products in the form of export subsidies within the Common Agricultural Policy of the EU should form

^{1/} See the current list of banned products.

part of the negotiations in so far as they have the greatest bearing on the market-access arrangements established for ACP agricultural exports.

543 Within the negotiations, a strong case should be made for establishing a structured ACP-ECOWAS dialogue aimed at addressing the challenges posed by the stricter EU SPS standards in particular. The economic costs associated with meeting higher hygiene standards could, if not appropriately and quickly attended to, constitute an important trade barrier.

544 Nigeria has the right to declare specific agricultural products vital for its food security, livelihood and rural development as “special products”. Such products should be free from any obligation in future EPAs.

Non-Agricultural Products

545 In view of the importance of tariffs as an industrial and trade policy tool, the country’s position in this area should be to put forth the issues of tariff peaks and escalation for processed products in EU markets since these effectively impede value addition in Nigeria.

546 The case will have to be made that without industrial structure, export diversification and value addition across the key economic sectors of the country, the EPA will not live up to its goal of supporting the sustainable development of Nigeria and its partner countries. Thus, the negotiations should be approached with the aim of obtaining asymmetric reciprocity in favour of ECOWAS countries. The ultimate goal is the provision by the EU of duty and quota free market access for all manufactured products not less favourable than those already granted by the EBA. For these benefits to be effectively enjoyed by Nigerian producers, harmonised, flexible and simplified rules of origin need to be granted by the EU.

Trade in Services

547 The negotiations in this area should specifically build on the on-going discussions and the commitments made at the WTO level, whilst ensuring that the objectives and principles of the Cotonou Agreement – putting as a priority the special development needs of Nigeria - be taken into consideration. The negotiation brief in this area should seek to arrive at the EPA on Trade in Services that supports the growth of the service sectors, including tourism, free movement of natural persons, insurance, and shipping. Taking into account special and differential treatment, the EPA negotiations should recognise the right of Nigeria and other ECOWAS countries to regulate trade in services.

548 Nigeria should also try to draw lessons from the prodigious development of trade in services that has occurred in other third world countries, thanks to liberalisation. See the amazing example of the development of the Distant Call Services sector in India; infinite opportunities are open to Nigeria in the service sector, if Nigeria exploits its competitive advantage of lower cost of labour than in developed countries. As part of the EPA deal, why not conclude commercial agreements for the transfer of part of services carried out in Europe, at high costs, to Nigeria (and other countries taking part in the EPA).

Other Trade-related Issues (Singapore Issues)

The Cotonou Agreement acknowledges that capacity of ACP countries to handle most of these issues (investment promotion, competition policy, trade facilitation and government procurement) during negotiations and implementation is limited. Nigeria and other ECOWAS countries should therefore continue to reject the negotiation of these issues in the EPA, as they will definitely impede their development.

General Considerations

549 In summary, within the EPA's negotiation between the European Union and the African, Caribbean, and Pacific countries, trade is a critical area where there is an urgent need for change. The imbalances of past and current trade rules and arrangements have, rather than solve Africa's underdevelopment problems, actually made the continent worse off in the global economy. In this circumstance, it is obvious that Africa, including Nigeria, will not meet the Millennium Development Goals by the 2015 deadline set for their attainment.

550 The current reciprocity proposals contained in the EPAs go beyond the liberalisation demands of the WTO and would therefore lead to deeper market opening by African countries than has been called for in any WTO agreement. This new form of trade liberalisation may be detrimental to Nigeria's developmental aspirations, and aggravate, rather than reduce or eradicate, poverty. Nigeria and other African, Caribbean and Pacific countries must therefore endeavour to negotiate for accommodation to reciprocity as it is presented in the present EPA scheme.

551 Independent institutional building and the reworking of the economy to make it more productive and competitive are urgent tasks that should be addressed regardless of the rewards or benefits from international arrangements such as EPAs.

552 Nigeria must endeavour to consolidate a united front within ECOWAS and insist on negotiating as a group vis-à-vis the EU bloc.

553 Nigeria must accept responsibility for not utilizing the opportunities of EU-ACP relations, which other ACP (and even non-ACP) countries have so far enjoyed. Nigeria must intensify its efforts to penetrate the EU market with its goods and services.

554 Nigeria must develop the technical capacity to embark on intelligent negotiations with the European Union to ensure that its negotiators will not come back, as was the case with the WTO negotiations, with a denounced and an unacceptable document. In view of the highly technical and specialised nature of the issues involved in the EPA negotiations, the Government must endeavour to assemble and utilise the most qualified and committed professionals and technocrats in various fields – law, economics, diplomacy, trade, etc., to handle the various stages of the negotiations. Nigeria's negotiators must have a critical understanding of the political underpinnings of the Cotonou Agreement. The EU negotiators have their own stakes and interests to pursue.

555 Nigeria must step up its vigorous efforts to achieve faster integration in the ECOWAS sub-region and to break down existing trade barriers. This must include

ensuring that other ECOWAS countries effectively team up with Nigeria to present a formidable united front to the EU during the negotiations.

Sequencing EPA Negotiations

556 It has been assumed that Nigeria, along with other ACP countries, will negotiate the EPA as part of a regional free trade area to come into force by January 2008 (or earlier if agreed by all parties), as stated in Article 37.3 of the Cotonou Agreement. The preparatory period shall also be used for capacity-building in the public and private sectors of ACP countries, including measures to enhance competitiveness, for strengthening of regional organisations and for support to regional trade integration initiatives, where appropriate with assistance to budgetary adjustment and fiscal reform, as well as for infrastructure upgrading and development, and for investment promotion.

557 EPA negotiations were launched in September 2002 with an agreement to sequence the negotiations in two phases. Phase I consisted of negotiations at the all ACP level addressing “horizontal” non-country specific issues, of interest to both parties. The first phase of the EPA negotiations was conducted at the all-ACP level and it addressed horizontal issues. The initial phase was focusing on developing *regional* markets. This reflected the Cotonou commitment to foster regional economic integration within the ACP. The EPA negotiations need to help the process forward, but at a pace acceptable to the different ACP members.

558 In October 2003, the ACP Council of Ministers and the EC Commissioners for Trade and Development declared the results of the first phase satisfactory in view of the high degree of convergence achieved. The second phase of negotiations concerning West Africa (that is, ECOWAS plus Mauritania) was then launched in Cotonou. Phase II consists of region specific negotiations. Some in the ACP wanted the outcome of Phase I to become a binding commitment before moving on to Phase II, but the EC did not agree. The European Commission did not see any value added in this approach given that EPAs are part of the binding commitment of the Cotonou Agreement itself. Discussions at all-ACP level are continuing in parallel with Phase II through the all-ACP-EC Technical Monitoring Committee. Phase II negotiations between the EC and six regional and sub-regional groupings should have started in September 2003, but the last set of negotiations were launched in the second half of 2004. The process of defining their negotiating groups has been long and complicated for ACP states. In some cases, the self-designated negotiating groups have broadly followed the lines of existing regional groups, such as ECOWAS. The reality of EPAs negotiations has forced the pace of rationalisation of regional groups, when choices now have real economic consequences.

559 Besides the complexities of liberalising trade within emerging regional economic groupings, EPAs pose a number of challenges to the ACP. Major challenges face the ACP on substantive trade adjustment issues. They include finding alternative sources of revenue as tariffs come down; introducing reforms, such as regulating domestic service industries in a way that best suits their domestic economies; avoiding trade diversion, as EU imports become cheaper; and addressing underlying supply-side constraints and the need to diversify their economies.