

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/R/139  
3 April 1984

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Committee on Balance-of-Payments Restrictions

REPORT ON THE 1984 CONSULTATION WITH NIGERIA

1. The Committee consulted with Nigeria on 27 and 29 March 1984, in accordance with its terms of reference, pursuant to Article XVIII:12(a) of the General Agreement and the 1979 Declaration of the CONTRACTING PARTIES on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26S/205-209). The consultation was held under the Chairmanship of Mr. J.N. Feij (Netherlands). The International Monetary Fund was invited to participate in the consultation, in accordance with Article XV of the General Agreement.

2. The Committee had the following documents before it:

Basic Document	(BOP/233)
Secretariat Background Paper	(BOP/W/77 and Corr.1)
Restrictive Import Measures taken for Balance-of-Payments Purposes	(L/5425)
Replies to Questionnaire on Import Licensing Procedures	(L/5438)
IMF Recent Economic Developments, dated 8 December 1983	

Opening Statement by the Representative of Nigeria

3. In his opening statement, the text of which is attached as Annex I, the representative of Nigeria referred to the harmful effects of the global recession and protectionist tendencies in the world trading system and their consequences for Nigeria in the form of falling commodity prices, deteriorating terms of trade and the resultant reductions in oil and primary product revenues. He noted the deterioration in Nigeria's reserves position between 1980 and 1982 to a level of net holdings equivalent to one week's import bill in mid-April 1982. The restrictive measures taken in April 1982 were thus necessary in the short-term to redress the situation. Although they had had some favourable effects, the continuation of the measures was still necessary for Nigeria to improve its foreign exchange reserves position, meet debt service obligations and pursue policies of economic adjustment. They would, however, be modified from time to time to ensure the importation of adequate quantities of essential commodities.

4. Outlining modifications to these restrictive measures introduced in 1984, he stated that all non-prohibited items were now subject to specific licence requirements. Provisions for foreign exchange allocation were also in force. Under these, 58 per cent of available foreign exchange was allocated to imports of industrial raw materials, machinery, components and spares, 18 per cent for food, 12 per cent for general merchandise and

12 per cent for invisibles. The administration of foreign exchange allocation had been decentralized, responsibility for processing of Form M being shifted from the Central Bank to commercial banks; compulsory advance deposits for imports of raw materials and spare parts had been reduced to promote domestic production. Provisions concerning pre-shipment inspection of goods and other measures relating to invisibles had been reinforced. He stressed that these measures were temporary and would be terminated as soon as it would be reasonable to do so. However, the need for Nigeria to renegotiate its debt obligations and to ensure the longer-run restructuring of the economy made it necessary to maintain the restrictions for the time being.

Statement by the representative of the International Monetary Fund

5. At the invitation of the Committee, the representative of the International Monetary Fund made a statement, the text of which is attached as Annex II.

Balance-of-payments position and prospects - alternative measures to restore equilibrium

6. Members of the Committee expressed their understanding of the serious nature of the balance-of-payments problem faced by Nigeria and for the need to take emergency measures to allay its short run impact on the economy. A number of members made comments and asked questions about the adjustment programme envisaged by Nigeria and its likely effect on the longer term prospects of the economy. They also asked if a forecast of the balance of payments could be given for 1984-85. One member felt that, while temporary trade measures were no doubt necessary, some of the restrictions which had been maintained by Nigeria for some time could have contributed to the structural problems now being faced, including over-reliance on the petroleum sector. This member endorsed the statement of the IMF concerning the need for a comprehensive programme for economic stabilization and structural adjustment. Several members asked how Nigeria planned to diversify its economic and trade structure so as to reduce dependence on oil revenues and improve efficiency of production in agriculture and industry. Several members, referring to the fact that the real effective exchange rate of the Naira had appreciated by some 16 per cent in 1982-83, noted the adverse effect of an overvalued exchange rate on agricultural and industrial exports.

7. Some members, observing that their trade with Nigeria had moved into moderate deficit in 1983 due both to increases in the volume and value of petroleum purchases from Nigeria and to reductions in Nigerian imports, asked whether the reduction of imports was the result principally of the trade measures taken by Nigeria or of the effects on trade of arrears in payments. They also asked whether any estimates could be given of the longer term prospects for oil exports.

8. In reply, the representative of Nigeria agreed with the orders of magnitude of the IMF estimates of the balance of payments deficit for 1983 at about US\$3 billion, as against US\$6.3 billion in 1982. It was not yet possible to give the projected outturn for 1984. Budget proposals were still being formulated with a view to presenting a budget in May 1984. However, there was a clear commitment to improving the foreign exchange balance. Imports were to be linked to the amount of foreign exchange available. Reserves were not to fall below 25 per cent of Central Bank liabilities, or some 2 months' imports at the present reduced levels. The reduction in imports had come about principally because of the measures taken by the authorities.

9. In relation to structural adjustment, he noted that a programme was being developed in collaboration with the World Bank to classify all on-going capital projects requiring, for their completion, amounts in excess of 30 million Naira (some US\$40 million at current exchange rates) into "core" and "non-core" categories. The aim was to identify those which should be continued and those to be delayed or possibly abandoned depending on their rate of return on the additional investment required. In addition, the Fourth National Development Plan 1981-85 was being reviewed, with a view to scaling down its size to a level consistent with the resources now estimated to be available, and, more importantly, to ensure that projects which would be selected for implementation were strictly in accordance with the structural adjustment needs of the economy. Emphasis would be placed on agro-based industries which could make greater use of domestic raw materials. Possibilities for using and developing appropriate indigenous technology in such industries were also being investigated. In the industrial sector, new emphasis would be placed on the development of petrochemicals, natural gas and steel. Public finance reform was also an essential element in the programme, with particular emphasis being given to the reduction of subsidies and creation of adequate cost structures for parastatals and state-owned companies, such as the airways, railways and electricity - supply. While adequate emphasis would be given to infrastructure, social spending would diminish relative to economic expenditure. Recurrent expenditure in Government would be reduced through the reduction of waste and streamlining of budgetary procedures. Wages and prices would be regulated through clear guidelines.

10. In relation to the exchange rate, the representative of Nigeria noted that the Naira had been steadily depreciating against the United States dollar since 1980. The Nigerian economy was highly dependent on imports of raw materials and capital equipment and would be harmed by a further depreciation of the currency.

#### System, methods and effects of the restrictive import measures

11. A number of members referred to the multiplicity of trade and foreign exchange measures taken by Nigeria and the resultant complexity of the import system faced by traders. Some members asked when the new import licensing provisions applying to all products had been introduced, and whether these had been notified to GATT. It was suggested that the present six-month validity of Form M was too short for traders to fulfil all other documentary requirements and to deliver the goods. Greater transparency in import licensing procedures was also needed: referring to paragraph 6(a)

of document L/5438, it was not clear whether full details of information regarding import licences were or were not published in the Official Gazette. The fixing of a maximum permissible level of 2 per cent for buyers' commissions on imports also seemed unduly low. Some discrimination against open credit terms used by established enterprises and small traders could also result from the priorities established by Nigeria for allocation of foreign exchange.

12. In reply, the representative of Nigeria said that the amended import licensing procedures were introduced in January 1984. However, the order giving effect to these measures was not yet published and so could not yet be notified to GATT. The issue of import licences was now directly linked to the availability of foreign exchange; this should avoid the problem of Form M expiring before payment could be made. On the question of commission levels, he stated that most of such purchases were made by Nigerian subsidiaries of multinational enterprises, operating through overseas purchasing offices. The operation of these enterprises was unlikely to be affected by the measure.

13. One member noted that while import procedures had been tightened up, some liberalization had been effected through the reduction in the levels of import deposit. He asked whether, in the light of paragraphs 1(b) and (c) of the 1979 Declaration, Nigeria could envisage the reduction of restrictive trade measures and announce a timetable for doing so. One member, referring to the complexity of the system and the fact that several types of measures applied to the same product, noted that the costs involved in importing might prevent small businessmen or traders from entering the import market. In this connection, he asked whether Nigerian regulations made provision for new importers. He was also concerned that the criteria for foreign exchange allocation might not make sufficient room for essential imports of food. Another member also questioned whether the system of allocation of foreign exchange, together with the reductions in overall exchange availability embodied in the Nigerian foreign exchange budget, might not lead to a decline in the supply of essential raw materials, to the detriment of domestic production and exports. One member noted that a high proportion of imports seemed to be affected by tariff increases or outright prohibitions and that, while the rates of import deposit had been reduced on some items, the overall coverage of the scheme had increased. He queried the effect on imports of the decentralization of foreign exchange allocation procedures and stressed the need for greater transparency in this regard. Several members expressed the hope that these restrictive measures would be phased out as the structural adjustment programme took hold and Nigeria's balance-of-payments situation improved.

14. The representative of Nigeria noted that all importers were treated equally and without discrimination in the allocation of import licences within national priorities. The share of foreign exchange allocated to different categories of goods was based on estimates of essential requirements for local production and consumption. However, one aim of the measure was to encourage the purchase of domestic raw materials and intermediate goods in place of imports. There was some evidence that this was happening. He assured the Committee that the licensing and foreign

exchange measures would be revised, updated and simplified as the situation allowed. Nigeria would continue to do its best to ensure that any measures taken were fully consistent with GATT provisions, including transparency requirements.

15. Concern was expressed by some members regarding the implementation of pre-inspection procedures for goods imported into Nigeria, including price comparison provisions, which could lead to the ex post revision of contract prices agreed between parties. It was suggested that the simplification of such procedures might significantly reduce obstacles to trade. The Nigerian representative said his authorities were conscious of this problem and sought to improve the efficiency of the pre-inspection system. However, this system continued to provide much needed guarantees against fraud and overpricing by foreign suppliers and as such it was an important factor in saving foreign exchange.

16. Several members noted that it was not clear, from the lists of prohibited or licensed products contained in BOP/233, which among these products were covered by measures taken for balance of payments reasons. Some of the prohibitions, in particular, might rather be justified under other Articles of the General Agreement. The representative of Nigeria stated that Items 1, 3, 4, 6, 8, 9, 10, 12, 13, 14, 16, 17, 18, and 20 of List (A) in BOP/233 could be considered as prohibited for reasons of morality, public health or security under Articles XX or XXI of the General Agreement. Other items in List (A), and those subject to licensing "Other than Trade" in List (C) might be imported in small quantities if purchased abroad by individuals with their personal foreign exchange allowances. Items in List (B) might not be imported at all, while those in List (D) were subject to the general import licensing requirements. A complete notification of the items covered by the modified import licensing provisions introduced in January 1984 would be made shortly.

### Conclusions

17. The Committee recognized that Nigeria faced a serious balance-of-payments problem, and that the measures taken during the period 1982-84 had been introduced in view of the extreme urgency of the situation. In noting the multiplicity of measures introduced by Nigeria, reference was made to paragraph 1(b) of the 1979 Declaration. It was observed that efforts had been made to make the existing system more efficient. However, there was still considerable scope for further simplification of the measures and greater transparency in the implementation of the system. The Committee, bearing in mind the provisions of paragraph 1(c) of the 1979 Declaration, welcomed the statement by Nigeria that the measures were temporary in nature, and encouraged the Nigerian authorities to pursue policies of economic stabilization and diversification of production and exports which would lead to a sounder external position and permit the progressive elimination of these measures.

ANNEX I

Statement by the representative of Nigeria

Nigeria is consulting with the GATT Committee on Balance-of-Payments Restrictions for the first time since it became a member in 1960. As you are well aware, the consultation is as a result of the restrictive measures the country has taken to safeguard her balance-of-payments position. In this connection, reference is made to GATT document L/5425 dated December 3, 1982 wherein Nigeria notified the Contracting Parties of the introduction, as from April 21, 1982, of the economic stabilisation measures, under Article XVIII(B) of the General Agreement.

The fortunes of the world trading system deteriorated in the mid 70's due partly to global recession and the protectionist tendencies in the industrialised countries. These developments have continued into the early 80's and they have had debilitating effects on Nigeria. Nigeria was left with no alternative than to take appropriate measures, within the relevant provisions of the GATT, in order to minimise the effects of the global recession, deteriorating terms of trade and drastic fall in oil and primary product revenues brought about specifically by the world oil gluts

of 1977/78 and 1981 as well as falling world commodity prices.

As was pointed out in document BOP/233 of 28 September 1983, Nigeria's external reserves declined from ₦5.6 billion in 1980 to ₦4.5 billion in 1981. The balance-of-payments situation worsened as Nigeria's average monthly import bills rose from ₦722 million in 1979 to ₦1.2 billion in 1981. As the external financing crisis deepened, the Central Bank's total holding of reserves went down to only ₦935.6 million at the close of business on April 13, 1982. Of that amount, ₦483.6 million had been committed. The net balance of ₦452 million could barely cover one week's import bill at the 1981 level, in contrast to the conventional four months' import bill. In fact, the level of net reserves in April 1982 compared to the known commitments of ₦4.9 billion (as at March 23, 1982) demonstrated the dramatically dangerous and critical situation the economy was facing. In the circumstances, it was necessary to design effective short-term measures to redress the unhealthy developments. The restrictive measures were therefore taken to improve the balance-of-payments position and revamp the national economy. These measures have been reviewed yearly since then.

Under the enabling Act, the Economic Stabilisation (Temporary Provisions) (Import Prohibition) Order 1984 and the Economic Stabilisation (Temporary Provisions) (Export Prohibition) Order 1984, which replaced similar Orders in 1983, have recently been promulgated to consolidate these measures. Although the measures have had some favourable effects, the problems are far from over. Nigeria is, therefore, anxious to cushion her external reserves position, meet her debt service obligations as well as continue with measures to revamp the economy. The restrictive measures will therefore necessarily continue with modifications from time to time to ensure the importation of adequate quantities of essential commodities.

In pursuance of this objective, the Nigerian authorities have placed all imports under specific licence. Foreign exchange allocations will be disbursed as follows:

industrial raw materials, machinery, components and spares (58%); food (18%); general merchandise (12%); and invisibles (12%). The issuance of Form 'M' has been decentralised

from the Central Bank of Nigeria to the commercial banks.

The compulsory advance deposits for the importation of raw materials and spare parts are now down to 10% and 15%

respectively from 25% for both in order to boost domestic production. Imports valued at ₦1,000.00 or more are now subject to pre-shipment inspection. Basic travelling allowance has been reduced from ₦500.00 to ₦100.00 per person of the age of sixteen years and above while business travelling allowance has been suspended.

Nigeria is, indeed, convinced that the steps taken so far conform with the norms of the GATT and it is only fair that the Contracting Parties recognise Nigeria's current difficulties and lend support to these measures.

As you are all well aware, Nigeria is currently negotiating the rescheduling of her short-term debt obligations. It is therefore logical that no effort is spared in ensuring that such debts are not increased unreasonably. Nigeria has also put together a package of measures aimed, not only for the short-term but also for the longer run restructuring of the economy to enhance its resilience.

The Nigerian delegation re-iterates that the measures taken are temporary and will be terminated as soon as it is reasonable to do so.

ANNEX II

Statement by the Representative of  
the International Monetary Fund

In the wake of the oil boom, Nigeria witnessed sharp increases in oil-export earnings during much of the past decade. With a view to promoting accelerated development and industrial diversification, the authorities resorted to generally expansionary fiscal and monetary policies, supported by increasing reliance on a system of complex administrative import controls and industrial regulations. Nigeria experienced a pattern of relatively high--but sectorally uneven--growth, the emergence of import-intensive, consumer goods industries behind high protective tariffs, and an increased vulnerability to adverse fluctuations in the oil market. By 1980, oil revenues accounted for 82 percent of government revenues and 96 percent of export earnings. In that same year, due to a very firm world oil market, gross official reserves rose to a record level of US\$10.3 billion.

Financial difficulties began to emerge in 1981. Oil export receipts declined sharply in the wake of weakening world demand, at the same time as domestic demand policies continued to be expansionary. In that year, real GDP declined by 5.3 percent, inflation accelerated to 21 percent, and the balance of payments deteriorated. The external current account recorded a deficit of US\$6 billion (7.8 percent of GDP), and the overall balance of payments deficit amounted to US\$6.2 billion.

The external environment facing Nigeria deteriorated markedly in 1982-83, as the world oil glut prompted severe reductions in the lift-ings of Nigerian crude. Oil production dropped from an average of 2.1 million barrels per day (bbl/d) in 1980 to only 1.29 million bbl/d in 1982, compared with a capacity of 2.3 million bbl/d. In 1983, oil production became subject to an OPEC production quota of 1.3 million bbl/d at an average export price some 15 percent below that of 1982. Thus, from its peak value of about US\$25 billion attained in 1980, oil export earnings were sharply reduced to US\$12.8 billion in 1982, and further to an estimated US\$11.2 billion in 1983.

Against the background of the changed external environment and the deteriorating balance of payments position, the authorities took action on several fronts, beginning with the emergency measures instituted in April 1982. A major thrust of these measures was a severe tightening of exchange and trade restrictions, which are described in detail below. The authorities also attempted a tightening of fiscal and monetary policies. As part of the April 1982 package of emergency measures, Federal government expenditure commitments were reduced, and a freeze

was imposed on certain capital appropriations, with an across-the-board cutback instituted in regard to others. Furthermore, lending rates were raised by 2 percentage points; however, these were subsequently reduced by 1 percentage point in November 1982. In January 1983, the annual ceiling on private sector credit expansion was lowered moderately for the first time in five years.

These measures were not sufficient to prevent a further weakening of the public finances in 1982-83, at both the federal and the state government levels. Federal revenues decreased by 9 percent and 4 percent in 1982 and 1983, respectively. Although expenditures declined by some 6 percent in 1982, they rose by an estimated 21.4 percent in 1983, largely under the impact of transfers to the states and public corporations. As a result, the overall budget deficit widened to 11 percent of GDP in 1982 and to an estimated 15.6 percent of GDP in 1983. In the absence of systematic recording and reporting on the execution of state budgets, it is difficult to estimate the extent of financial difficulties at the state level, but indications are that expenditures of state governments were not scaled down to take account of the fall in the oil revenue base. Since April 1982, many of them have become increasingly unable to meet their payments commitments and to discharge certain obligations to the federal government.

The large budgetary deficits were financed mainly by recourse to the domestic banking system; bank borrowing by the federal government grew by 58 percent and 45 percent in 1982 and 1983, respectively. Thus, in a continuation of the pattern established since 1975, the budget remained the source of strong monetary pressures on the economy, thereby reinforcing the impact on domestic liquidity of the relatively easy credit policy implicit in the guidelines issued by the Central Bank for the extension of credit to the private sector. The money supply rose by 9 percent in 1982, despite a large balance of payments deficit and a significant sterilization of private sector liquidity through the April 1982 reintroduction of the advance import deposit scheme. The rate of monetary growth subsequently rose to about 24 percent during 1983, with considerable acceleration becoming evident in the latter half of the year.

In the face of the marked decline in export earnings, and despite very sharp administrative cuts in imports, the external current account deficit widened in 1982 to US\$7.3 billion, equivalent to 10.1 percent of GDP. However, following further administrative curtailment of imports, the current deficit is estimated to have narrowed to 3 percent of GDP in 1983. These deficits, combined with an underlying weak capital account position, produced overall balance of payments deficits in 1982 and 1983 of US\$6.3 billion and US\$3 billion, respectively. Gross official reserves declined sharply through most of the period, and, by end-1983, were reduced to an estimated US\$1.1 billion, equivalent to one tenth of their peak level in 1980, and to about five weeks of the depressed level of 1983 imports. In addition, payments arrears on imports emerged in

1982, and, by August 1983, rose to US\$7 billion. Following two rescheduling agreements with commercial banks, outstanding payments arrears on imports were reduced to US\$5.1 billion at the end of December 1983. Total external debt at the end of 1983 amounted to about US\$17 billion, including outstanding payments arrears on imports. The debt service capacity of the economy is strained, especially in view of the sharp deterioration of the external payments position and the overhang of a large stock of payments arrears.

For several years prior to 1981, against the background of generally favorable balance of payments developments linked to high oil prices, exchange rate policy was increasingly used to counter imported inflation, and the naira was allowed to appreciate steadily in real terms. Since 1981, exchange rate policy has been directed increasingly toward the balance of payments. Even so, the real effective exchange rate of the naira continued to appreciate; this appreciation amounted to about 16 percent in 1982-83, on the basis of official data.

These internal and external developments severely affected domestic growth and price performance. Real GDP declined by 3 percent in 1982, and fell by an estimated 5 percent in 1983. Concurrently, inflationary pressures were exacerbated. Although the rise in the consumer price index was limited to 8 percent in 1982, indications are that it understated the underlying rate of inflation, which is estimated at about 20 percent in both 1982 and 1983.

In the past two years, the complexity and restrictiveness of the exchange and trade system has increased substantially. In April 1982, an advance import deposit scheme was reintroduced, with rates ranging from 25 percent for spare parts and raw materials to 250 percent for luxury and less essential imports; this measure was partly intended for monetary control purposes. Other measures included a broadening of the list of items subject to import licensing or prohibition; upward adjustment of tariffs, to prohibitive levels in certain cases; and the tightening of administrative controls on imports and other current transactions. Also, the foreign exchange budget, normally used for monitoring external transactions, was deployed as an instrument for curtailing international trade and payments. A monthly limit of N800 million was set on total disbursements of foreign exchange for imports and invisibles, compared with a rate of N1.2 billion a month for imports for the preceding quarter. In January 1983, the foreign exchange budget was lowered to N600 million per month, and an additional 150 items were made subject to import licensing requirements. However, rates for advance import deposits were reduced to 10 percent and 15 percent, respectively, for raw materials and spare parts.

With effect from January 1, 1984, the authorities intensified restrictions on payments for current international transactions. These measures, which are to be temporary, include a widening of the scope of the advance import deposit scheme; a suspension, until further notice, of the foreign business travel allowance; and a severe reduction in the availability of foreign exchange for tourist travel, educational purposes,

and medical treatment abroad. The Central Bank has also taken steps to delegate to the authorized dealers the initial approval of foreign exchange for the payment of current international transactions by the private sector and the parastatals. Such approval must be made within specific foreign exchange allocation limits for each authorized dealer and according to prescribed coefficients for subgroups of imports and invisibles. Final foreign exchange approvals remain subject to confirmation by the Central Bank.

The recent decline in oil revenues highlighted the degree to which the Nigerian economy has grown vulnerable to developments in the international oil market. Given the abruptness with which Nigeria's foreign exchange earnings declined, the authorities responded with increased reliance on exchange and trade restrictions. However, these ad hoc measures are by nature disruptive to efficient resource allocation, investment, and production, and cannot be relied upon to correct the underlying imbalances of the economy. Even if oil export revenues rebound, policies will need to be fundamentally adapted to improve the resiliency of the economy and to create a basis for broadly based noninflationary growth and a viable external payments position. The new government recognizes the need for fundamental economic and financial policy reforms, and is in the process of formulating a comprehensive adjustment program; it is also actively seeking the refinancing of outstanding payments arrears on imports. The Fund encourages the authorities to speedily put in place a comprehensive program for economic stabilization and structural adjustment, aimed at achieving a viable external position, sustaining growth, and progressively eliminating trade and payments restrictions.