

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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COMMUNICATION FROM NIGERIA

The following communication, dated 7 May 1991, has been received from the Permanent Mission of Nigeria.

I am directed to refer to the meeting of the market access group held on Thursday, 21 March 1991 in which the subject of credit and recognition for autonomous liberalization measures was discussed. I should also recall that the group agreed to include this item on the agenda for subsequent meetings. With regard to delegations that have made demands for credit and recognition, they were called upon to provide to the secretariat precise details of these measures. It is in that connection that we are forwarding the enclosed document for information and further action.

GATT SECRETARIAT

UR-91-0036

TRADE AND FOREIGN EXCHANGE LIBERALIZATION POLICIES,
INCLUDING TARIFF REDUCTIONS ADOPTED BY NIGERIA IN THE
CONTEXT OF FURTHER DEREGULATION OF THE ECONOMY

It may be recalled that the objectives of the Structural Adjustment Programme (SAP) adopted by the Government of Nigeria in September 1986 are as follows:

- (i) to restructure and diversify the productive base of the economy in order to reduce dependence on the oil sector and on imports;
- (ii) to achieve fiscal and balance of payment viability over the period;
- (iii) to lay the basis for a sustainable non-inflationary or minimal inflationary growth;
- (iv) to reduce the dominance of unproductive investment in the public sector, improve that sector's efficiency and enhance the growth potential of the private sector;

The main elements of the Current Adjustment Programme are:

- (a) Strengthening of demand management policies;
- (b) Adoption of measures to stimulate domestic production and broaden the supply base of the economy;
- (c) Adoption of a realistic exchange rate policy through establishment of a Second-Tier Foreign Exchange Market (SFEM);
- (d) Rationalization and restructuring of the tariff régime in order to aid the promotion of industrial diversification;
- (e) Progressive trade and payments liberalization;
- (f) Reduction of complex administrative controls and fostering reliance on market forces;
- (g) Adoption of appropriate pricing policies for public enterprises; and
- (h) Rationalization and Commercialization/Privatization of public sector enterprises.

The core policies involve measures to:

- (a) Correct the serious over-valuation of the naira through the setting up of a viable second-tier foreign exchange market coupled with adjustments to the official rate and aimed at a convergence of the two rates as soon as possible;

- (b) Overcome the observed public sector inefficiencies through improved public expenditure control programmes and the rationalization of parastatals;
- (c) Relieve the debt burden and attract a net inflow of foreign capital.

In pursuance of these objectives, the following measures, among others were adopted by the Government:

- (a) In furtherance of the trade liberalization tenets of the SAP, the import surcharge of 30 per cent that was imposed in 1985-86 was abolished. At the same time, the 25 per cent advance payment of import duty requirements was abolished. Also abolished was the import licensing Policy which had become so embarrassing and abused that it hampered real economic activity. There were also the relaxation and complete abolition of exchange and price controls. Agricultural produce marketing and the export trade were also liberalized through the abolition of the Commodity Boards and removal of all commodities from export licence. The number of export prohibitions was also reduced to just a handful of commodities in which local production is being strenuously fostered. State trading was also abolished through the scrapping of the Nigerian National Supply Company;
- (b) An interim tariff was put in place with effect from October 1986. It involved a reduction of the average trade-weighted tariff rate from 35 to 25 per cent. Further modifications were announced in the budget in January 1987, when duties were reduced on eighteen final goods and inputs. A completely new tariff was introduced, classified according to the Harmonized System, in January 1988. This establishes the structure of tariffs to be applied by Nigeria from 1988 up to 1994. A comprehensive review of the tariff structure was undertaken to take account of the depreciated value of the Naira, give protection to deserving industries and enhance the competitiveness of domestic activities vis-à-vis the rest of the world.

This was the surest way to evolve an economic system that would promote the growth of export. The new tariff structure also placed reduced emphasis on bans/prohibitions.

- (c) A battery of export incentives have been put in place to encourage Nigerian entrepreneurs to explore off-shore markets, improve their competitiveness and boost export trade. The whole gamut of incentives includes the following:
 - (i) A duty draw-back scheme;
 - (ii) An export development fund;
 - (iii) Export Expansion Grant Fund;

- (iv) Export Adjustment Scheme;
- (v) Freedom of exporters to retain 100 per cent of export proceeds;
- (vi) Refund of excise duty after export;
- (vii) Insurance and Credit Guarantee Scheme;
- (viii) Rediscounting of short-term bills.

2. Foreign Exchange Deregulation Measures:

- (a) Under SAP, a two-tier foreign exchange market for determining the exchange rate of the naira was introduced in September 1986. The Second-Tier Foreign Exchange Market (SFEM) was to provide a venue for the foreign exchange transactions of the private sector. The First-Tier rate applied to Government Foreign Exchange Transactions and it was determined in relation to the SFEM rates. The Two-Tier arrangement operated for nine months after which both the SFEM and First-tier rate converged and gave rise to Foreign Exchange Market (FEM). Consequently, Central Bank of Nigeria - based auction and autonomous market rates were merged into a single Inter-bank FEM with a single naira exchange rate. The merger was designed to stabilize the naira exchange rate and bring about more rational behaviour in the operations of the market and generally enhance its efficiency. Banks are expected to sell foreign exchange to their customers at not more than 1 per cent above the official rate.
- (b) In order to enlarge the scope of the official market for foreign exchange transactions, the government approved the establishment of Bureaux de change in 1989 to be operated by private entrepreneurs. The specific objectives of the bureaux were to:
 - (i) accord legal recognition to small dealers in foreign exchange;
 - (ii) provide free access to foreign exchange by small buyers in a convenient and informal manner;
 - (iii) enhance efficiency in macro-economic management through more adequate statistical coverage of foreign exchange flow; and
 - (iv) improve fiscal efficiency.

Since their operation, the bureaux de change rates with the parallel market and have further reduced volume of operations in the parallel market.

- (c) The basic travel allowance of US\$500 maximum per annum per person of the age of 16 years and above was approved by the Government as against US\$100 maximum.

- (d) Comprehensive Import Supervision Scheme (CISS) shall operate for import transactions valued at US\$1,000.00 and above including those financed from both off-shore sources and foreign currency domiciliary accounts in order to ensure that the country gets value for money.
- (e) Remittances of a maximum of 20 per cent of consultancy fees was limited to high technology projects for which indigenous expertise was not available.
- (f) Personal home remittances for expatriates were increased from 50 per cent to 75 per cent of the net salary of the net salary remittable through the foreign exchange market.
- (g) Corporate bodies were required to maintain, repair and service their ships, aircraft, etc. from the proceeds of export or retained earnings of such bodies in line with existing guidelines. All export proceeds of such corporate bodies should be reflected in their audited accounts.

There is a substantial reduction in government expenditures both as a demand management measure, and as a strategy to enhance cost effectiveness, and efficiency of public investment. The measure was also aimed at disengaging government substantially from direct production while enlarging the rôle of the private sector in the economy. It was a cardinal objective to give maximum encouragement to the private sector to invest and become the main source of economic activity while government was to give greater emphasis to its regulatory rôle.

The effort to privatize/commercialize parastatals was developed into a comprehensive programme aimed at reducing the burden which parastatals impose on the treasury. The Commercialization/Privatization Programme was also aimed at enhancing the efficiency of parastatals through rationalization of production and management methods. Under the programme most enterprises are expected to be granted greater autonomy to operate like other private enterprises except in areas where such enterprises are state monopolies. Through the process of Commercialization/Privatization, public enterprises were expected to generate their income and adopt appropriate pricing for their products devoid of subsidy.