

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

Spec (84)14
29 March 1984

Committee on Balance-of-Payments Restrictions

DRAFT

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 nominal exchange rate on agricultural and industrial exports prices.

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 order of magnitude of the IMF estimate 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 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. 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, exchange restrictions had to some extent been liberalized 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. Questions were asked concerning 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 in 1982 through 1984 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

[To be added]

Annex II

Statement by the Representative of the
International Monetary Fund

[To be added]