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AN ANALYSIS OF THE INCREASE IN IMPORT DUTIES ON LUXURY GOODS AND GOODS WITH ALTERNATIVES IN NIGERIA

In January 2017, the Federal Government of Nigeria announced the approval of the 2016 Fiscal Policy Measures which creates a framework for the implementation of the government's Supplementary Protection Measures (SPM) drafted in line with the ECOWAS Common External Tariff (CET) 2015 – 2019. The new fiscal policy essentially brings about a reduction in import duties on raw materials for sectors deemed critical to Nigeria's economy.

With 0% duty for machinery imported for use in priority sectors such as Agriculture, Aviation, Cement, Hospitality, Power, Solid Mineral, and Textiles; and a reduction from 10% to 5% duty for companies dealing in products such as Tomato Concentrate, Milk and Cream, the government has made a bold statement about supporting local industry.

The new policy, ordered to take effect from 17th October, 2016, also increased duties on a few items deemed luxury goods. Additional taxes were imposed on such goods as contained in the Import Adjustment Tax list with the intention of discouraging the importation of goods that can otherwise be sourced from within the country or manufactured in Nigeria.

A third component of the new policy is the prohibition of certain imported goods originating from non-ECOWAS member states, some of such goods being refined vegetable oil, cocoa butter, spaghetti/noodles, fruit juice in retail packs, bagged cement, soaps and detergent, mosquito repellent coils, corrugated paper and paper boards, telephone recharge cards and vouchers, carpets and rugs, all types of footwear, bags and suitcases, and used motor vehicles above 15 years from year of manufacture.

Traders who generally source their supplies of the above-mentioned products from Europe and Asia may generally expect to pay more tariffs than their counterparts bringing in same products from countries like Ivory Coast, Ghana and Benin Republic, three of Nigeria's biggest trade partners in the West African region. Such increased tariffs will

undoubtedly lead to increased costs for the former group and they may be advised to look within the region for their supplies.

The ECOWAS CET after which the government's SPM was fashioned reminiscent of the United Nations Single Market and Free Movement of Goods provisions promulgated under the Treaty of Lisbon, was designed to strengthen a common market within the West African Region and create a vibrant economic union.

The ECOWAS CET comes with five categories of tariff rates; Categories 0-4.

- Category 0 covers basic social goods and attracts zero per cent tariff;
- Categories 1 and 2 cover basic goods, basic raw materials, capital goods and specific inputs, and inputs and intermediate goods attracting five per cent and 10 per cent respectively;
- Category 3 covers final consumer goods and other products not classified elsewhere with tariff of 20 per cent;
- Category 4 covers specific goods for economic development and attracts 35 per cent tariff.

IMPLEMENTATION OF THE ECOWAS CET IN NIGERIA

The Federal Government actually began its implementation of the ECOWAS CET Regime in 2015 under the immediate past administration of Dr. Goodluck Jonathan. However, it was stalled due to the change in administration, and the consequent change of officials between the former administration and the current administration.

In January 2017, the Federal Government paved way for the implementation of the ECOWAS CET in a manner beneficial to Nigeria by introducing Supplemental Protection Measures (SPM) integrated into its 2016 Fiscal Policy Measures. Such measures give Nigerian manufacturers the opportunity to access raw materials at affordable costs and thereby retain competitive prices for finished goods. These protective measures are also understandably influenced by the need to ensure that essential commodities are always within the reach of Nigerian consumers.

ECOWAS member-states are allowed to adopt such temporary provisions as the Import Adjustment Tax (IAT) on certain goods imported into their countries in a bid to create adjustments in line with the common regional tariff. Countries in the region can also adopt the use of a Special Protection Tax (SPT) to be determined by the behaviour of import volumes and import prices following the application of the ECOWAS CET. Where there is an unexpected influx of certain goods to the detriment of local manufacturers, the SPT can be imposed on those goods to discourage their importation. Nigeria, for instance, largely depends on the importation of consumption goods and the use of these measures can be handy when excessive imports worsen the trade deficit, as is the case in the face of dwindling oil revenue and sustained importation of goods The imposition of twenty (20) percent duty on four (4) pharmaceutical products including antibiotics and anti-malarial drugs is also to be seen in this light, a protective measure to support local pharmaceutical companies by ensuring a market for their products having discouraged the importation of foreign alternatives.

SIMILARITIES BETWEEN THE ECOWAS CET AND THE EUROPEAN UNION SINGLE MARKET IN COMPARISON WITH THE WEST AFRICAN REGION

It can be argued that the ECOWAS CET and the resulting fiscal policy measures have been modelled after the EU trade union owing to its similar aim towards creating an

economic union where member states reap the benefits of their association by providing a free flow of goods across borders. The European Union Single Market aimed to remove all custom duties, quantitative restrictions on trade and equivalent measures and the establishment of common external tariffs for the community which then progressed to becoming a campaign to eliminate all obstacles to the free movement of goods. Although initial reactions, specifically from the United Kingdom, may have been that of wariness due to the issue of sovereignty, overall there was a consensus that the free market trade and elimination of barriers within the single market was especially advantageous to small and medium business enterprises due to the likelihood of trading in thirty-one (31) countries with well over five hundred million (500,000,000) customers and over twenty million (20,000,000) other businesses.

The same may not be as clear cut within the West African Region. This is due to the dependency of most countries within the region on the importation of consumables from non-ECOWAS States. For example, Nigeria's major export to countries within the ECOWAS is its oil while imports from ECOWAS states make up about 1% of its total annual imports. Within that percentage, imports from Ghana amount to about 55% while imports from the Ivory Coast amount to 27% leaving just about 18% from the other countries. However, these low figures are industry specific as an approximated 95% of imported carpets come from ECOWAS while over 50% of imported jewellery, fruits and nuts also come in from within the ECOWAS.

HOW DOES THE NEW REGIME AFFECT THE COUNTRIES INVOLVED?

Nigeria is not isolated in the difficulties arising from the ECOWAS CET as it affects all countries signed to the Treaty. In Ghana, the Customs Tax Act has been repealed and the CET has been entered into National legislation under the Custom Amendment Act 2016, 905. Agitations, mostly notably stemming from the Ghana Union of Traders Association (GUTA) and the Exporters and Importers Association, have arisen due to fears that the CET would cause widespread bankruptcy occasioned by increased tax on certain imports and the total ban on certain imports from non-ECOWAS countries. The Ghana Revenue Authority (GRA), in an attempt to ease these fears, outlined guidelines to ensure the smooth change over to the use of the ECOWAS CET. Likewise, in Liberia, there has been substantial increase in tariffs across the board due to the proposed implementation of the CET; 45% of goods imported into Liberia had pre-implementation rates that were below those specified in the CET while only 25% had rates above it. Research conducted by the International Growth Centre in 2014 estimated that applying the five bands of the CET and eliminating any product exemptions from tariffs would almost double Liberia's average tariff level if no products were made exempt from tariffs. The research also found that price changes from adjusted tariffs would increase the household costs of living of both rural and urban households by 6% and 3% respectively. Liberia is one of the small ECOWAS countries that will have to significantly adjust its average tariff as it moves to towards finalising technical and policy preparation to implement the Common External Tariff.

In Nigeria, difficulty with accessing goods and raw materials on the import prohibition list has caused some of the affected businesses to either abandon or contemplate abandoning operations altogether. With the rise in cost of limited supplies amidst a foreign exchange crisis, there was a direct impact on the prices of consumer goods. Nigeria's inflation rate steadily moved from 18.55 per cent in December 2016 to 18.72 per cent in January 2017 and only marginally eased to 17.78 per cent in February 2017. Inflation rate figures for March 2017 are being awaited and will significantly tell whether the country is indeed making gains from the new policy.

The National Bureau of Statistics is expected to release official trade figures for the first quarter of the year sometime in April but as we wait, we are careful to note that there has been a general sense of reprieve for the economy in recent weeks, even if marginal. Local producers of rice, palm oil, footwear and some other items on the import prohibition list have for instance been observed giving good reports in the media. Tariff adjustments for aviation, agricultural, solid mineral, cement, hospitality, power, textile and iron and steel (cold rolled) industries as earlier mentioned are expected to lead to increased production which may translate into more jobs and also stimulate growth. To achieve the desired result however, such factors as electricity, transportation, regulatory permits and access to foreign exchange also have to be improved upon to ease business. If production levels however fail to rise enough to lead to increased exports, Nigeria's balance of trade deficit may be expected to widen, thereby eroding the benefits expected to accrue from lower tariffs.

While the reduction of tariff on some finished consumer goods, tobacco and alcoholic products may have presumably been done to cushion the effect of the recession on average Nigerians who consume these products, there may be some negative implication for local producers of same products. If retailers can easily import the same products, they may pay no attention to local producers who may yet be unable to offer competitive prices due to electricity, preservation and transportation costs that remain a concern in Nigeria.

CONCLUSION

The implementation of the tariffs across the West African region presents a chance for Nigeria, as the largest economy to align its infrastructure accordingly to boost the industries that are directly affected by the tariffs. As prices increase in certain markets due to higher import levies and difficulties in sourcing for raw materials on the prohibition list, businesses are given the opportunity to innovate and employ efficient methods of developing indigenously produced material for local consumption and exportation. As businesses focus their resources inwards, there will be increased confidence in Nigerian-made products and services which could stimulate both domestic and international investment across the country. Nigerian companies will also immensely benefit from reviewing their operations to identify areas of potential benefit from the new tariff regime, cutting down on imported factors with higher tariffs where possible and increasing demand for inputs with reduced or eliminated tariffs that cannot be locally sourced.