

NIGERIA

TRADE SUMMARY

The U.S. goods trade deficit with Nigeria was \$25.7 billion in 2006, an increase of \$3.1 billion from \$22.6 billion in 2005. U.S. goods exports in 2006 were \$2.2 billion, up 37.6 percent from the previous year. Corresponding U.S. imports from Nigeria were \$27.9 billion, up 15.2 percent. Nigeria is currently the 50th largest export market for U.S. goods.

The stock of U.S. foreign direct investment (FDI) in Nigeria in 2005 was \$874 million (latest data available), down from \$2.0 billion in 2004. U.S. FDI in Nigeria is concentrated largely in the mining, and wholesale trade sectors.

IMPORT POLICIES

Nigeria's high tariffs and numerous import bans have been a concern to many U.S. businesses and were also raised in the context of Nigeria's May 2005 Trade Policy Review in the World Trade Organization (WTO).

Tariffs

Tariffs provide the Nigerian government with its second-largest source of revenue after oil exports. In its last major tariff revision, in October 2005, the government implemented the Economic Community of West African States (ECOWAS) Common External Tariff, reducing the number of tariff bands in Nigeria from twenty to five. The five tariff bands are: zero duty on capital goods, machinery and essential drugs not produced locally; 5 percent duty on imported raw materials; 10 percent duty on intermediate goods; 20 percent duty on finished goods; and 50 percent duty on goods in the industries that the government seeks to protect. The 50 percent tariff covers many items currently subject to import bans. Items deemed to be necessities such as anti-retroviral drugs for the treatment of patients with HIV/AIDS are imported duty-free. This duty-free status will be reviewed after one year to assess its impact on the Nigerian economy and its stakeholders. The recent reforms are an effort to harmonize the trade environment in the sub-region while at the same time improving Nigeria's own trade and investment environment.

However, frequent policy changes and inconsistent duty collection make importing difficult and expensive, and occasionally create severe bottlenecks for commercial activities. This problem is aggravated by Nigeria's dependence on imported raw materials and finished goods, which affects both foreign and domestic manufacturers. Many importers resort to under-valuing and smuggling to avoid paying full tariffs.

Non-Tariff Trade Barriers

The United States continues to have serious concerns about the Nigerian government's use of non-tariff barriers to trade. Bans on the importation of a variety of items (sorghum, millet, wheat flour, cassava, frozen meat and poultry products, biscuits, bottled water, fruit juice in retail packs, beer, certain textile products, used clothing, used cars more than eight years old, maize, cocoa butter, disinfectants and germicides, diaries, greeting cards, calendars, and facial tissues) continued into 2006. Items removed from the list in 2005 and 2006 included certain textile products (such as textile fabrics, yarn, nylon tire cord, conveyor belts, trimmings and linings, gloves for industrial use, elastic bands, mosquito nets,

FOREIGN TRADE BARRIERS

motifs), chocolates, white cement, linseed oils, castor oils, hydrogenated vegetable fats used as industrial raw materials, all raw materials for the manufacture of soap and detergents, safety shoes used in the oil industry, sports shoes, stadium chairs and fittings, accessories used in furniture making, and prefabricated buildings. These items remained on the list of imports allowed in 2007.

Customs Barriers

Nigerian port practices continue to present major obstacles to trade. Importers face long clearance procedures, high berthing and unloading costs, erratic application of customs regulations, and corruption. Customs exemptions granted to U.S. firms as a concession for setting up operations in Nigeria have not always been honored. In December 2005, the government released import guidelines for the implementation of a physical destination inspection regime that commenced in January 2006. Under the destination inspection scheme, all imports are inspected on arrival into Nigeria. These guidelines are implemented by the Destination Inspection Service Providers, which is a team comprised of the Customs Service and three firms that provide scanning services.

STANDARDS, TESTING, LABELING AND CERTIFICATION

Rules concerning sanitary and phytosanitary standards, testing, and labeling are well defined, but bureaucratic hurdles slow the import approval process. Regardless of origin, all food, drug, cosmetic, and pesticide imports must be accompanied by certificates of analysis from manufacturers and appropriate national authorities and specified animal products, plants, seeds, and soils must be accompanied by proper inspection certificates. U.S. exporters may obtain these certificates from the U.S. Department of Agriculture and other relevant federal or state agencies. By law, items entering Nigeria must be labeled exclusively in the metric system. The Nigerian Customs Service is charged with preventing the entry of products with dual or multiple markings, but such items are often found in Nigerian markets.

High tariffs and uneven application of import and labeling regulations make importing high-value perishable products into Nigeria difficult. Disputes between Nigerian agencies over the interpretation of regulations often cause delays and frequent changes in customs guidelines slow the movement of goods through Nigerian ports. These factors can contribute to product deterioration and may translate into significant losses for perishable goods importers.

The National Agency for Food and Drug Administration and Control (NAFDAC) is charged with protecting Nigerian consumers from fraudulent or unhealthy products. The agency recently targeted the illicit importation of counterfeit and expired pharmaceuticals for special attention, particularly imports from East and South Asia. NAFDAC's severely limited capacity for carrying out inspections and testing contributes to what some have characterized as an occasionally heavy-handed or arbitrary approach to regulatory enforcement and the agency has occasionally challenged legitimate food imports.

GOVERNMENT PROCUREMENT

The Obasanjo administration has made modest progress on its pledge to operate an open and competitive bidding process for government procurement. Procurement and guidelines are implemented by a "due-process" office in the Budget Monitoring and Price Intelligence Unit. "Due process" certification aims at ensuring that the procurement process for public projects adheres to international standards for competitive bidding. The unit acts as a clearing house for government contracts and monitors the implementation of projects to ensure compliance with contract terms and budgetary restrictions. Procurement above 50 million naira (approximately \$385,000) is subject to the "due process" review.

FOREIGN TRADE BARRIERS

Foreign companies incorporated in Nigeria receive national treatment, and government tenders are published in local newspapers and a tenders journal is sold at local newspaper outlets. U.S. companies have won government contracts in several sectors. Unfortunately, many companies that have won contracts have subsequently had difficulty getting them funded, usually as a result of delays in the national budget process. Some companies that won contracts for which funds were allocated have had trouble getting paid. Nigeria is not a signatory to the WTO Agreement on Government Procurement.

EXPORT SUBSIDIES

In August 2006, the government of Nigeria (GON) announced a new export initiative christened "Commerce 44." The export initiative aims to develop and promote duty-free export of eleven agricultural commodities; eleven manufactured products; and eleven solid mineral products with high export potential, in eleven target markets. The government's aim is to focus on eleven countries/regions of the world while taking advantage of concessions offered by the existing bilateral and multilateral agreements, as well as Memorandums of Understanding (MOUs), that will facilitate the export of Nigerian products and services into such markets.

The eleven agricultural products under the initiative include cocoa, cotton, cassava, ginger, shea nut, gum arabic, sesame seed, poultry, cashew nuts, floriculture, fruits and vegetables. The eleven solid mineral products include kaolin, tin, tantalite-colombite, wolframite, zinc, iron ore, coal, lead ore, pyrite, zircon, and gem stones. The eleven manufactured products include beverages, footwear, leather, shrimp, pharmaceuticals, rubber products, textiles, iron and steel, films and music, vegetable oil and services. The eleven target markets include the European Union, Japan, China, the United States, India, ECOWAS, Turkey, the Southern African region, the Central African region, South East Asia and the Middle East.

An implementation committee comprising the Nigerian Export Promotion Council, Ministry of Finance, Ministry of Industries, Ministry of Commerce, Nigeria Customs Services, Central Bank of Nigeria, Special Adviser to the President on Manufacturing and the Private Sector, and the Nigerian Export-Import Bank administer export incentive programs that include tax concessions, export development funds, capital asset depreciation allowances, and foreign currency retention programs. Funding constraints limit the effectiveness of these programs. In 2005, the government of Nigeria rescinded all export subsidies, arguing that the Common External Tariff (CET) it implemented in October 2005 automatically favors manufacturers through its lower tariffs on capital goods and raw materials. Some of the incentives, such as the Export Expansion Grant and the Manufacture-in-Bond scheme were modified and reintroduced in 2006.

The Nigerian Export Processing Zone Authority (NEPZA) is responsible for attracting investment in export-oriented industries. Of the five zones established under NEPZA, only the Calabar and Bonny Island (Onne) export processing zones are operational, with some difficulties reported. The Calabar export processing zone also functions as a free trade zone. NEPZA rules dictate that at least 75 percent of production in the zones be exported, but lower export levels are permitted. A third free zone, Tinapa Free Zone and Tourist Resort, is under construction and expected to commence operation during the first quarter of 2007. Tinapa is owned by the Cross-River State Government.

INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

Nigeria is a member of the World Intellectual Property Organization (WIPO), a party to the Universal Copyright Convention (UCC), the Berne Convention, and the Paris Convention for the Protection of Industrial Property, and has signed the WIPO Copyright Treaty and the WIPO Performances and

FOREIGN TRADE BARRIERS

Phonograms Treaty. Legislation pending in the National Assembly is intended to establish a legal framework for an IPR system that complies with WTO obligations.

The government's lack of institutional capacity to address IPR issues is a major constraint to enforcement. Relevant Nigerian institutions suffer from low morale, poor training, and limited resources. Fraudulent alteration of IPR documentation is common. Despite Nigeria's active participation in the conventions cited above, its reasonably comprehensive IPR laws and growing interest among Nigerians in seeing their intellectual property protected, piracy is rampant in Nigeria. Counterfeit automotive parts, pharmaceuticals, business and entertainment software, music and video recordings, and other consumer goods are sold openly throughout the country and intellectual property infringers from other countries appear increasingly to be using Nigeria as a base for the production of pirated goods. In 2004, U.S. industry reported a growth of optical disc manufacturing plants, some of which may be contributing to the production of pirated optical disc products. Additionally, book piracy remains a problem.

Patent and trademark enforcement remains weak, and judicial procedures are slow and subject to corruption. Nonetheless, recent government efforts to curtail IPR abuse have yielded results. The Federal High Court of Enugu, Nigeria, issued an interim injunction on November 23, 2004 against several firms infringing a Honeywell International trademark for spark plugs. The court warned all distributors, dealers, and retailers in Nigeria that the unauthorized use of Honeywell's "Autolite" trademark is illegal and constitutes an offense punishable by fine or imprisonment.

Nigeria's broadcast regulations do not permit rebroadcast or excerpting of foreign programs unless the station has an affiliate relationship with a foreign broadcaster. This regulation is generally respected but some cable providers illegally transmit foreign programs. The National Broadcasting Commission monitors the industry and is responsible for punishing infractions.

Almost no foreign feature films have been legally distributed in the country in the last two decades. Widespread pirating of foreign and domestic videotapes discourages the entry of licensed distributors. In 2004, the Nigerian Copyright Commission launched an anti-piracy initiative named "Strategy Against Piracy" (STRAP). The Nigerian police force, working closely with the Nigerian Copyright Commission, has raided enterprises producing and selling pirated software and videos and a number of high-profile charges have been filed against IPR violators. Unfortunately, most raids appear to target small rather than large and well-connected pirates, and very few cases involving copyright, patent, or trademark infringement have been successfully prosecuted.

SERVICES BARRIERS

Foreign participation in the services sector is generally not restricted. Regulations provide for 100 percent foreign ownership in many service sectors, including banking, insurance, telecommunications, and securities. Central Bank of Nigeria directives stipulate minimum levels of paid-up capital. At least three foreign banks operate in Nigeria and several Nigerian banks have foreign shareholders.

Professional societies in engineering, accounting, medicine, and law define minimum professional requirements. Nigeria imposes quotas on foreign employment based on the issued capital of firms. Quotas on foreign workers are especially strict in the oil and gas sector and may apply to both production and service companies. Oil and gas companies must hire Nigerian workers unless they can demonstrate that particular positions require expertise not found in the local workforce. Positions in finance and human resources are almost exclusively reserved for Nigerians. Certain geoscience and management positions may be filled by foreign workers with the approval of the National Petroleum Investment and Management Services (NAPIMS) agency. Each oil company must negotiate its foreign worker allotment

FOREIGN TRADE BARRIERS

with NAPIMS. Significant delays in the approval of this allotment and in subsequent approval of visas for foreign personnel present serious management challenges to the energy industry's efforts to acquire the necessary personnel and maintain their legal immigration status in Nigeria. NAPIM's approval is required for all procurement in the energy sector above \$500,000. Approval processes are slow and can significantly escalate the time and cost required for a given project, as well as provide opportunities for corruption and favoritism.

INVESTMENT BARRIERS

Under the Nigerian Investment Promotion Commission (NIPC) Decree of 1995, Nigeria allows 100 percent foreign ownership of firms outside the petroleum sector. Investment in the petroleum sector is limited to existing joint ventures or production-sharing agreements. Foreign investors may buy shares of any Nigerian firm except firms on a “negative list” (such as manufacturers of firearms, ammunition, and military and paramilitary apparel). Foreign investors must register with the NIPC after incorporation under the Companies and Allied Matters Decree of 1990. The decree prohibits nationalization or expropriation of a foreign enterprise, except when necessary to protect the national interest.

Despite efforts to improve the country’s investment climate, disincentives to investing in Nigeria continue to plague foreign entrepreneurs. Potential investors must contend with poor infrastructure, complex tax administration procedures, confusing land ownership laws, arbitrary application of regulations, corruption, and extensive crime. The sanctity of contracts is often violated, and Nigeria’s court system for settling commercial disputes is weak and sometimes biased.

Foreign oil companies are under significant pressure to increase procurement from domestic firms. The government of Nigeria, through the Nigerian Content Division (NCD) of the Nigerian National Petroleum Corporation (NNPC), set a target of 45 percent local content for oil-related projects by 2006 and 70 percent by 2010. Oil companies and the NNPC appear to be working together cooperatively to meet these goals, but the extent of, and mechanisms for, enforcement of local content regulations remain unclear. In many cases, sufficiently trained personnel and physical infrastructure do not currently exist to meet the government’s local content targets. The NCD of the NNPC is working toward identifying and certifying domestic firms with specific skill sets through the Joint Qualification System (JQS). Although many domestic firms possess adequate technical expertise, managerial and financial capabilities are often lacking.

OTHER BARRIERS

The Nigerian government has increased its efforts to eliminate financial crimes such as money laundering and advance-fee fraud (or “419 fraud” named after the relevant section of the Nigerian Criminal Code). With the encouragement and cooperation of U.S. law enforcement agencies, the Nigerian government is now prosecuting more “419” perpetrators. In June 2006, the Financial Action Task Force removed Nigeria's name from the list of non-cooperating countries and territories in the fight against money laundering and other financial crimes.

International monitoring groups routinely rank Nigeria among the most corrupt countries in the world. While sales of U.S. goods and services to public- and private-sector enterprises are not restricted, some U.S. suppliers believe they lose sales when they refuse to engage in illicit or corrupt behavior. Other U.S. exporters say Nigerian businessmen and officials understand that U.S. firms must adhere to the U.S. Foreign Corrupt Practices Act, and they believe that the law’s restrictions help minimize their exposure to corruption.

FOREIGN TRADE BARRIERS