



# Africa Trade Policy Notes

Antoine Coste and Erik von Uexkull

## Benefits of the ECOWAS CET and EPA will outweigh costs in Nigeria, but competitiveness is the real issue

### HIGHLIGHTS

- After decade-long negotiations, the ECOWAS CET and EPA with the EU recently reached decisive milestones. These major reforms should have significant impacts and offer new opportunities to West Africa, but have so far failed to garner a broad consensus, notably in Nigeria. The lack of objective and easily accessible assessments of their likely effects appears to be partly responsible for this situation.
- Two recent World Bank studies use a simple methodology to assess the potential impact of these reforms on Nigeria. Overall, full implementation of the CET and EPA in Nigeria would result in limited fiscal losses, marginal welfare gains for consumers and higher profits for a majority of manufacturing firms accounting for the majority of jobs in this sector. Almost all firms experiencing negative effects exhibit higher-than-average profitability before the reforms and most would remain profitable after them.
- The predicted magnitude of both the CET and EPA is small compared to gains that could be achieved by tackling supply-side constraints faced by Nigerian firms. Combining trade policy reforms with an ambitious competitiveness agenda that addresses the most binding constraints and promotes regional trade appears as the best way to maximize the benefits and minimize the potential costs of these reforms.

### A difficult negotiation

The regional trade policy agenda in West Africa has been dominated in recent years by the negotiations of the ECOWAS Common External Tariff (CET) and of an Economic Partnership Agreement (EPA) with the European Union (EU). After decade-long negotiations in both cases, major breakthroughs were reached over the last 15 months - the CET entered into force on January 1<sup>st</sup>, 2015 (Box 1) and the EPA is expected to be signed shortly by West African countries and the EU (Box 2).

Over the years, the negotiations for these two instruments have exposed the frequently diverging interests and positions of the different parties, including within the West African block. With regard to the CET, import-dependent countries with little domestic production capacity have favored low tariffs to keep imports cheap, while some more advanced countries have pushed for higher tariffs to protect domestic producers and infant industries (De Roquefeuil 2013)<sup>1</sup>. Likewise, countries have had varying incentives to conclude an EPA depending on the vulnerability of their exports to the erosion of EU trade preferences: while Nigeria mostly exports oil, which does not attract duty in the EU under the Generalised System of Preference (GSP) it currently benefits from, countries such as Cote d'Ivoire and Ghana, with large and dutiable non-oil exports to Europe

<sup>1</sup> Trade Analyst, Trade & Competitiveness Global Practice ([acoste@worldbank.org](mailto:acoste@worldbank.org)) and Country Economist, Macroeconomics & Fiscal Management Global Practice ([jvonuexkull@worldbank.org](mailto:jvonuexkull@worldbank.org)).

<sup>1</sup> Different stakeholders often have divergent positions within countries as well. For instance, producer organizations in UEMOA countries have lobbied to use the ECOWAS CET as a way to increase tariffs for agricultural products compared to the preexisting WAEMU CET, while importers of food staples in the same countries pushed to keep rates low (De Roquefeuil 2013).

have much more at stake should they lose preferential market access (Czapnik 2014)<sup>2</sup>.

A broad consensus has still not been secured for either the CET or EPA, jeopardizing their implementation. Heated debates have notably persisted on the impact and development-friendliness of the EPA. Proponents of the EPA uphold the view that this new framework will benefit West African countries in terms of trade, economic development, poverty reduction, regional integration and insertion in the global economy (European Commission 2014), a view that is at least partially shared by several West African governments. On the other hand, various public, private and civil society actors in different countries have argued that the EPA will entail large long term costs, harm local industries and undermine economic diversification.

The latter view has been particularly prevalent in Nigeria, where it is expressed notably by interest groups representing the private sector, and has strongly influenced the official position of the Federal Government during both the CET and EPA negotiations. Nigeria has long had a more inward-looking trade policy than most of its neighbors, even with regards to intraregional trade. A variety of trade restrictive instruments, such as high tariffs, special levies, and import bans, have been used to protect domestic industries with limited efficiency but damageable side effects (World Bank 2010, Treichel et al. 2012). In the meantime, groups that would likely favor and benefit from a more liberal trade policy stance (e.g. consumers, traders, producers importing inputs, customs officials) are less organized and have carried less weight in these politically sensitive debates. Studies predicting dire impacts of the EPA on public revenue, employment and industrial output have been cited in recent years and used to argue that Nigeria should not sign the EPA. However, some of these studies have not been published, making it hard to evaluate the quality of the methodologies and data used, and thus to assess the accuracy of their results.

In order to facilitate an evidence-based dialogue, the World Bank has recently produced two empirical

studies on the potential impact of the CET and EPA on Nigeria, which were elaborated in consultation with the Federal Government as well as with the ECOWAS Commission (Von Uexkull and Shui 2014a, 2014b)<sup>3</sup>. Without arguing in favor or against the agreements, this work is expected to contribute to a more objective basis for the debates between stakeholders. The two studies combine well-established trade policy analysis tools developed by the World Bank with publicly available data on trade, households, and firms to understand the short term effects of trade policy changes linked to the CET and EPA on public revenue, households and industry in Nigeria. The results suggest that, if fully implemented, the CET and EPA would have positive aggregate effects on Nigerian consumers and producers, with limited fiscal losses. While a minority of firms and workers could experience negative effects, the impacts remain small compared to current profit levels and the gains that could be achieved through other policies to boost competitiveness. This note summarizes the main results of the studies and derives practical policy conclusions.

---

<sup>2</sup> As argued by Von Uexkull and Shui (2014b), substantial tariff barriers remain under the GSP for some non-oil products already exported by Nigeria to the EU (e.g. agricultural products, food and beverages, leather products, textiles, tobacco), implying that producers in these sectors would gain market access with an EPA.

---

<sup>3</sup> This work programme is currently being expanded to analyze the impact of the CET and EPA on other ECOWAS countries.

### Box 1: The ECOWAS Common External Tariff

The establishment of a customs union through the introduction of a CET was planned in the original ECOWAS Treaty of 1975 and Revised Treaty of 1993, but successive deadlines for its adoption were repeatedly postponed during the 2000s due to the limited progress of negotiations.

In 1997, the eight ECOWAS countries part of the West Africa Economic and Monetary Union (WAEMU) adopted a CET structured along four tariff bands of 0% (essential social goods), 5% (goods of primary necessity, raw materials and specific inputs), 10 % (intermediary products) and 20% (final consumption products). The double objective of this structure was to promote local value addition while applying low duties on essential goods. This tariff came into effect on January 1st, 2000, though some divergences remain between national tariffs of WAEMU countries<sup>1</sup>.

The decision to align the ECOWAS CET to the one adopted at WAEMU level was confirmed by Heads of States at the Niamey summit of January 2006, which adopted a similar four-band tariff and agreed that all non-WAEMU countries would transition to this tariff by end-2008<sup>2</sup>. However, pressures from certain countries, notably Nigeria, resulted in 2009 in the revision of the TEC to provide additional protection for 130 “specific goods for economic development” through a fifth tariff band, initially proposed at 50% but revised at 35%. In subsequent years, intense technical and political negotiations took place, notably to determine the appropriate tariff band for each product based on different countries and stakeholders’ priorities to protect domestic producers or maintain low consumer prices.

A consensus was eventually reached for the final structure of the CET, which was endorsed by ECOWAS Heads of States in Dakar in October 2013 and set to come into force on January 1st, 2015. In addition to customs duties, the CET comprises two Supplementary Protection Measures (SPMs), namely the temporary Import Adjustment Tax (IAT) and the safeguard Supplementary Protection Tax (SPT). During a five-year transition period, member States are granted the flexibility to deviate from the CET for a maximum of 3% of tariff lines and a maximum total tax rate (customs duty, IAT and SPT) of 70%.

The adoption of the ECOWAS CET has shifted the focus on its implementation from 2015. Regional meetings in end-2014 confirmed that the region was ready to start applying the CET but acknowledged that significant implementation challenges will be faced, at least initially. Outstanding issues include: (i) the clarification of the application modalities of SPMs, (ii) the development of a community customs code (iii) possible renegotiations at the WTO for some ECOWAS countries and products for which CET rates will exceed WTO-bound rates, (iv) the establishment a sound regional mechanism to monitor the effective implementation by all countries of the CET and compliance with SPM application rules, (v) the removal of policy barriers to intra-regional trade and improvement of the ECOWAS Trade Liberalization Scheme (ETLS), and (vi) the eventual elaboration of a common ECOWAS trade policy.

Source : WTO (2005), De Roquefeuil (2013), De Roquefeuil et al. (2014), ECOWAS (2014a, 2014b, 2014c).

---

<sup>1</sup> More than a decade after the entry into force of the WAEMU CET, national tariffs have not all been aligned, additional taxes not planned by the CET continue to be applied, and the temporary *Taxe Dégressive de Protection* continues to be applied by certain countries when it should have been phased out by end-2006 (UEMOA 2014).

<sup>2</sup> In 2005, Nigeria undertook a major reform of its tariff structure to simplify it and partially align it with the proposed ECOWAS CET, although an additional 50% band was introduced. While this reform reduced the average level of tariff protection, it did not remove import bans and increased levies on a number of products, maintaining their overall level of protection (Nielsen and Zouhoun-Bi (2007).

## Box 2: The ECOWAS-EU Economic Partnership Agreement

Negotiations of EPAs between the EU and regional groupings of ACP countries, including West Africa,<sup>6</sup> started in 2002 and were initially planned to be completed by 2008. The main objectives advanced by the EU to justify the need for EPAs were to (i) comply with WTO requirement for reciprocity in trade agreements (as opposed to previous unilateral preferential agreements which discriminated against non-ACP developing countries), (ii) promote ACP countries' trade, development and insertion in the global economy, and (iii) advance regional integration.

One complexity of the EPA negotiations in West Africa has stemmed from the diverse economic structures and interests of ECOWAS countries. LDCs, which represent the majority of these countries, are eligible to duty-free quota-free (DFQF) access to the European market under the Everything But Arms (EBA) scheme, and would in theory not lose access should no EPA be signed<sup>7</sup>. Non-LDCs in the region would stand to lose more without an EPA, which pushed Ghana and Cote d'Ivoire to negotiate an "interim EPA" with the EU in 2007. This has undermined the position of the ECOWAS as a single negotiating block and the prospects for an ECOWAS common market, although the interim agreements have not been ratified. As Cotonou Agreement preferences expired in end-2007, the EU temporarily granted DFQF market access to ACP countries having engaged EPA negotiations under the Market Access Regulation (MAR). The others reverted to the less favorable GSP (Nigeria), an enhanced "GSP+" (Cabo Verde) or the EBA in the case of LDCs.

EPA negotiations stretched over more than a decade, increasing tensions between the two parties and within the West African group. Some of the main stumbling blocks concerned the extent and timeline of West Africa's market access offer, as well as the amount of the "EPA Development Program" (PAPEL in French) meant to help West African countries cope with adjustment costs. In order to speed up negotiations, the European Commission announced in September 2011 that the temporary MAR treatment would end for ACP countries who failed to conclude an EPA by October 2014. A compromise was subsequently found by Chief Negotiators of the two parties in February 2014 and, after some revisions requested by Nigeria and other countries, West African Heads of States eventually endorsed the agreement in July 2014. However, opposition to the EPA by some Nigerian stakeholders has remained strong and the willingness of the Federal Government to sign it is still unclear, maintaining uncertainty regarding the future of the agreement.

Under the negotiated agreement, the EU will fully open its market to West African products from the first day of entry into force, while West African countries will gradually remove tariffs on imports from the EU for 75% of ECOWAS CET tariff lines, over a 20-year transition period and at various speeds for different categories of products. The remaining 25% of goods for which ECOWAS countries wish to protect existing or potential producers will not see tariffs reduced. Moreover, trade defense measures are included to protect West African countries from the risk of sudden and excessive increase in imports of liberalized products from the EU, including in infant industries. The more flexible rules of origin will allow West African producers to export duty-free products made with inputs from third countries. Finally, an amount of 6.5 billion euros has been pledged by the EU for the PAPEL during the period 2015-2019.

The negotiated EPA is a traditional trade agreement, in the sense that it only covers goods and largely focuses on tariff reductions, although many African countries have only seen a weak supply response to such trade preferences in the past. However, the initial objective of the EPAs was to establish more comprehensive development frameworks by supporting domestic and regional reforms that address deeper supply-side constraints to competitiveness, including both tariff and non-tariff barriers to trade, access and costs of backbone services, trade facilitation and regional integration, etc. (Brenton et al. 2008). While further EPA negotiations between West Africa and the EU are expected on issues such as services, competition and investment, no clear timeline has been established so far. The possibility to complement the EPA to cover a broader set of issues related to domestic competitiveness will arguably determine its impact on trade, regional integration and development in the future.

Source: <http://ec.europa.eu>, <http://www.ictsd.org>, <http://ecdpm.org>

<sup>6</sup> The West Africa-EU EPA is negotiated by the 15 ECOWAS countries plus Mauritania.

<sup>7</sup> It has been argued that the EPA's more flexible rules of origin and binding nature would make DFQF market access both easier to use and more predictable for LDCs, and would thus be more interesting for them than EBA status. Moreover, LDCs interest is to graduate from this status, which implies losing EBA eligibility.

## Impacts of the CET and EPA on revenue, consumers and firms

The most contentious issues in the Nigerian public debate on the CET and EPA have been their impacts on public revenue, consumer welfare, firm profitability and job creation, with opponents claiming it would be strongly negative at all these levels. Part of the confusion and conflicting messages about the predicted impacts of the CET and EPA come from issues related to methodologies, data availability or quality, and hypotheses used in the various studies prepared. As explained by their authors, the World Bank studies mentioned above aim at adding value to the policy debate by providing intuitive results relying on a transparent methodology and a limited number of simple assumptions<sup>8</sup>. They evaluate the impact on trade, public revenue and domestic prices of changes in protection levels under the CET and EPA, using the World Bank's Tariff Reform Impact Simulation Tool (TRIST). This tool relies on a simple partial equilibrium trade model calibrated with standard values for elasticities of substitution between exporters and for demand, which has widely been used to simulate short term impacts of tariff reforms. The resulting price changes are then matched with household and firm-level data to analyze the likely impacts on consumer welfare and firm profitability, respectively. Regarding firms, the short term impact on profitability of tariff-level changes is evaluated through three price channels, namely the domestic price of their output and the price of imported inputs and of capital goods that they use. In this setting, lower tariffs on a firm's output should reduce its profitability but lower tariffs on inputs and capital goods should have a positive effect.

### ❖ *Impact of CET implementation*

Three scenarios are considered for CET implementation in Nigeria, with increasing degree of liberalization: (A) CET-rate applied to non-banned products according to the agreed schedule (cf. Box 1), zero tariffs for ECOWAS partners but with bans and special levies maintained, (B) same with removal of import bans, (C) full compliance with the CET with no

---

<sup>8</sup> Detailed discussions of the methodology, its hypotheses, advantages and limitations relative to methodologies used in other existing studies can be found in Von Uexkull and Shui (2014a, 2014b).

bans or levies. The main results under the different scenarios are as follows:

- **Tariff level and trade flows:** Nigeria's trade regime is expected to become slightly more restrictive under scenario A, entailing a marginal reduction of imports by 0.3 - 0.6 %, while liberalization under scenarios B and C would lead imports to grow by 1.4 - 2.8% and 2.7 - 5.3% respectively. Significant tariff reduction would only occur for tobacco under the CET, but protection would fall for a more diverse set of products should bans and levies be removed (e.g. apparel, textiles, food and beverages, motor vehicles, leather products).
- **Public revenue:** Under scenarios A, B and C, total revenue collected at borders would respectively increase by 2.5 - 2.9% (reflecting a more restrictive tariff structure), increase by 4.6 - 6.2% (due to the substitution of bans by revenue-generating tariffs), and decrease by 14.3 - 16.7% (due to loss of levy collection). This loss should nonetheless be qualified since (i) it is computed as if no duty exemptions were granted and therefore overestimate the revenue loss due to tariff reform (cf. below), (ii) removing levies and bans would reduce incentives to smuggle and encourage the use of revenue-generating formal trade channels, and (iii) revenue collected at borders only accounted for 3.7% of total government revenue in 2011, so the overall fiscal impact of full CET implementation would only be around half a percentage point.
- **Consumer welfare:** With import bans and levies maintained, CET-induced price changes are expected to inflate the price of the average consumption bundle for consumers at all income levels by up to 0.7% on average, disproportionately affecting the poor. On the contrary, under the full reform scenario (C), households at every income quintile would benefit from 2.3 - 2.7% reduction of the cost of their average consumption bundle. The reduction of the price of rice would be the main driver of this welfare gain, notably for the poor, while the CET's high tariffs for vegetables and meat would partially offset overall gains for consumers.
- **Firm profitability:** The estimated overall effect on profitability for the median firm in the sample is marginally positive in the full reform scenario (+0.1%), as gains from lower input prices due to the removal of

import bans and levies are predicted to be slightly higher than losses to lower output prices. While the overall impact is limited, it is noteworthy that, unlike windfall profit gains due to higher tariff protection, profit gains due to lower prices of more efficient imported inputs and capital goods have been shown to have positive and durable effect on productivity, competitiveness and growth. Benefits from lower input prices are found to be relatively evenly distributed across the universe of firms, while losses mostly affect firms previously benefiting from high protection from import bans and levies (e.g. textiles, apparel, food industries, furniture). Overall, depending on the scenario considered, 60 to 75% of firms are expected to see their profitability increase after the reform. Under the full CET scenario with removal of import bans and levies, around 40% of firms would experience a reduction in their profitability, but most of them would remain profitable despite the reform. However, from a political economy perspective, the unbalanced distribution of gains and losses from trade liberalization implies that the negatively affected minority will have strong incentives to resist reforms, while the gains are distributed among a larger number of firms that are less likely to actively support reforms.

- **Jobs:** Weighing each firm by its contribution to total employment suggests that the 33% of firms negatively affected only represent 28% of current jobs. Heterogeneity among firms implies that new employment opportunities might develop in stronger firms even in sectors where some of the weaker firms may be forced to shed labor due to decreasing profitability. While this is likely to be the case in food industries, the situation is expected to be more problematic in textile and apparel, making it a possible priority sector for adjustment assistance to strengthen firms' productivity or help redundant workers find employment in other sectors benefiting from the reform.
- **Market opportunities:** While the debate in Nigeria has focused on concerns over the impact of trade liberalization, the ECOWAS CET will actually significantly raise average tariffs for all other member countries. Without considering the impact this will have on the countries concerned, this should increase the preferential margin of some of Nigeria's exports to the region (which can already enter ECOWAS markets duty-free under the ETLs). This is expected

to be the case in particular for food products and beverages, notably in countries such as Ghana, Cote d'Ivoire and Senegal, while the picture for other sectors is more mixed and depends on the country. This is important since regional markets are often a stepping stone for exporters not yet capable of competing on global markets.

- **Trade facilitation:** While trade in Nigeria is largely undermined by the complex trade policy regime, another expected benefit of the CET is the simplification of trade procedures, improved customs cooperation between neighboring countries and fewer resources to enforce burdensome inspections as the incentives to smuggle are reduced. However, intraregional trade would benefit even more in the future from a more advanced form of customs union where the CET rate is charged at the border where a good first enters the region and tariff revenues are then distributed based on an agreed formula, removing the need for transit regimes and rules of origin verification for intra-ECOWAS trade.

#### ❖ *Impact of EPA implementation*

In order to isolate the net impact of gradual implementation of the negotiated EPA, the baseline selected is the trade policy regime that should be applied by Nigeria following the full implementation of the CET, including removal of import bans and special levies. The main results of this analysis are as follows:

- **Tariff level and trade flows:** The weighted average tariff rate would only moderately decrease after the EPA is fully implemented, from initially 11.3% to around 9.1%, which is explained by the EU's relatively low share in Nigeria's total imports (23%) and the exclusion of a quarter of tariff lines from EPA liberalization. The extent of tariff reduction is relatively well balanced across sectors, although there would be a strong reduction of protection for tobacco products, a sector for which excise duties can be raised if taxation is driven by revenue and/or health concerns. Overall, a moderate import response is predicted from this change of tariff levels, around 0.8 - 1.8% of total imports, although some trade diversion in favor of Europe and at the expense of the rest of the world is likely to occur.
- **Public revenue:** The revenue loss due to the EPA is expected to represent around 17.3 - 18.7% of total



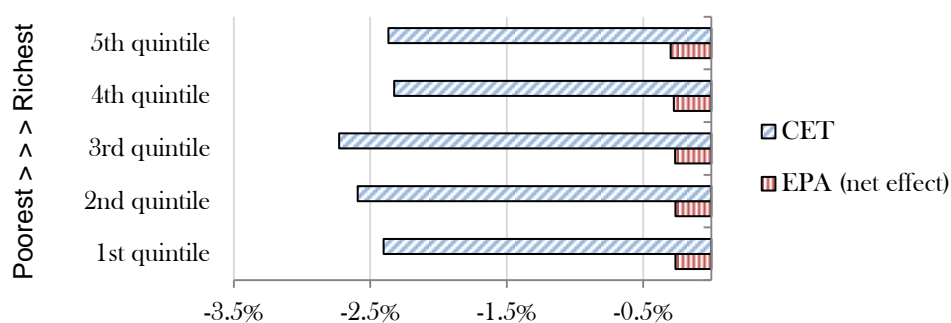
tariff revenue. While this is far from negligible, it would only amount to 0.8% of total fiscal revenue or 3.3% of non-oil revenue at the end of the EPA schedule (with the hypothesis of a 3% annual growth of all sources of revenue during the 15 years implementation period).

- **Consumer welfare:** Lower prices due to tariff reduction for products imported from Europe are expected to lead to a modest decrease by around 0.3% of the price of the average consumption bundle. The main drivers of this effect include vegetables, dairy products, fish and seafood, etc. Data limitations make it difficult to assess the potential negative impact of the EPA for households which derive income from (agricultural) products, though the evidence suggests that direct competition between products grown in Nigeria and European products is limited.
- **Firm profitability and jobs:** For all stages of EPA implementation between 2020 and 2035, the predicted net effect on the median firm's profitability is positive (+0.6%), indicating that the majority of firms stand to benefit. However, the mean net effect is slightly negative (-0.2%), suggesting that, while they are fewer, losses for negatively affected firms marginally outweigh gains of positively affected ones. Interestingly, gains are expected to materialize earlier than losses, which could leave firms time to adapt to the changing environment. Overall, 63% of firms (representing 58% of jobs) are expected to benefit from higher profitability with the EPA in 2035 and 31% (29% of jobs) could see their profit decrease, although only 0.5% of firms (0.3% of jobs) would become unprofitable as a result. As for the CET, the

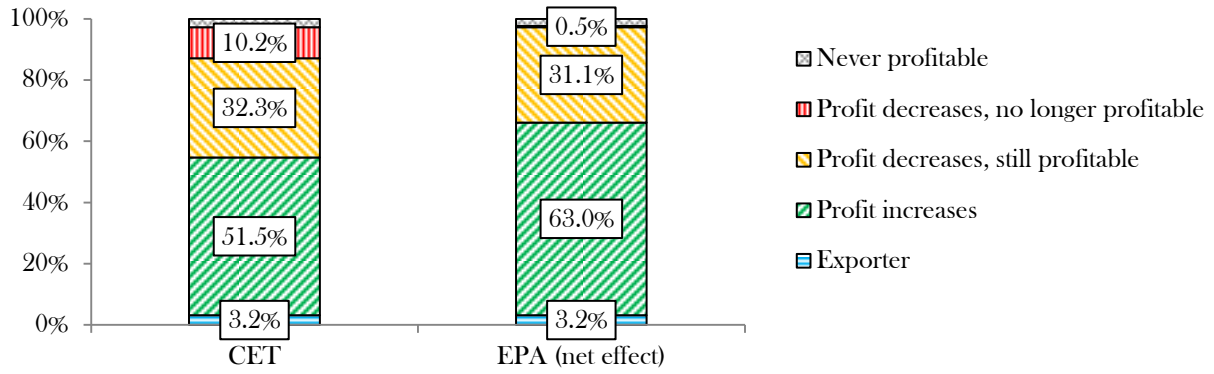
results suggest that gains through lower input prices are relatively evenly distributed, while losses through lower output prices would be more concentrated. Four main sectors could see profits and employment affected by the loss of tariff protection under the EPA, namely wood products (e.g. planks, plywood), non-metallic mineral manufactures (e.g. cement, concrete), basic metals (e.g. metal construction material and furniture part) and metals other than machinery (e.g. doors, window frames). However, all these sectors except wood products have higher than average profit levels prior to the reform and would only suffer from small decreases in profitability (1 - 1.9%), even after the EPA is fully implemented.

The figures below summarize the predicted impacts on Nigerian households and firms of full implementation of the CET and the EPA. Figure 1 presents the expected reduction in the price of the average consumption bundle for households in all income groups. Figure 2 shows the proportion of firms which are expected to see their profits increase as a result of these two reforms and of firms which could experience losses (distinguishing between firms which remain profitable and those which do not). Finally, the first two columns of Figure 3 synthesize the impact of the CET and EPA on the median firm's profitability through different prices channels. For illustrative purposes, the magnitude of the effect is shown in comparison to improvements with domestic supply side constraints (power outages and high transport costs). It is shown that improvements on either of them could significantly outweigh the net effects of the trade reforms for the median firm.

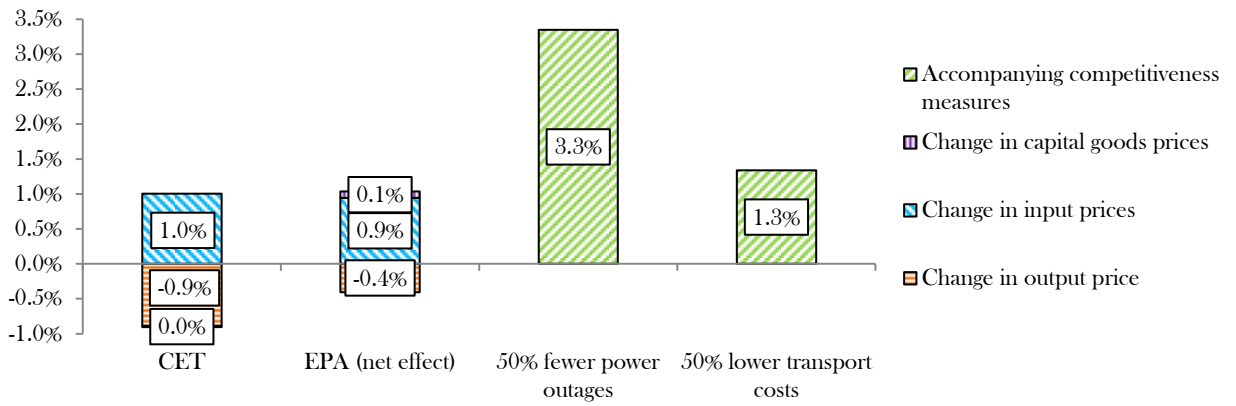
**Figure 1: Price change for the average consumption bundle, by household income**



**Figure 2: Distribution of profitability gains and losses among firms**



**Figure 3: Magnitude of profitability variation for the median firm**





## Adapting policy responses to a new trade environment

Informed evidence on the potential impacts of the CET and EPA is essential for Nigerian policymakers to craft appropriate policies that maximize the benefits and minimize the downsides of these reforms. Despite the adoption of the CET and EPA, some interest groups continue to lobby for high trade protection until domestic industries are sufficiently developed to face international competition, although there is no evidence that this strategy has produced the desired results over several decades (Raballand and Mjekiqi 2010, Treichel et al. 2012). A broad competitiveness strategy, rather than sector specific trade protection, is more likely to provide the framework that will drive job creation over the medium term. The following policies could assist different stakeholders adapt to this new trade policy environment, taking advantage of the long implementation period:

- **Public revenue:** Most studies agree that applying the CET and EPA will lead to a significant decline of tariff revenue, although reliance on tariffs is limited in Nigeria compared to other West African countries. The authorities could nonetheless compensate this loss by improving the low duty collection rate through better control over duty exemptions, corruption and smuggling (Raballand and Mjekiqi 2010). Regarding the latter, the simplification of trade procedures and regional harmonization of tariffs in the context of the CET should reduce incentives to avoid formal trade channels and increase revenue-generating formal trade flows. Finally, reforms of the domestic tax system can also be used to compensate shortfalls of taxes on international trade.
- **Consumer welfare:** In cases where tariff reduction or the removal of import bans and levies are expected to lower the price of imports for certain products, an important accompanying measure would be to inform the public and promote competition in the distribution of these products, in order to ensure that importers pass the price reductions on to consumers rather than absorbing them as windfall profits. For

## Conclusions

The conclusion of negotiations for the ECOWAS CET and EPA were important milestones for West Africa, but the way these agreements will now be implemented and complemented with other reforms will

some key products for which the CET would actually increase tariffs, it will be important to monitor the impact on prices, notably for the poor, and to explore the possibility to adjust the CET to lower rates in the future.

- **Firm profitability:** Beside the fact that most firms are expected to reap competitive gains as a result from the CET and EPA, it is clear that losses would be small compared to any productivity gains that could be achieved through policy measures to boost competitiveness and reduce supply side constraints. An exogenous acceleration of annual productivity growth by 0.1 percentage point would not only more than offset any negative effects from the EPA, but also lead to substantial gains across the distribution of firms, with two thirds of them gaining over 2% in profitability. In order to illustrate this point with concrete examples, simulations were run using the detailed firm-level data to show the large positive impact on profitability of reducing power outages and transport costs (Figure 3). Defining and implementing such a competitiveness agenda, possibly with support from the PAPED, could be a key factor in maximizing benefits from the EPA for Nigerian firms and workers.
- **Jobs:** In sectors where increased competition due to the CET and EPA is expected to put pressure on jobs, policies could aim at providing affected workers with social assistance, training and support to find new jobs in firms and sectors which benefited from the reforms.
- **Regional integration:** Most studies find that the EPA creates a risk of welfare-reducing trade diversion to EU producers from more efficient ones in third countries, including in West Africa. The appropriate strategy to minimize this risk would be to pursue trade liberalization on a non-discriminatory basis and step up efforts to reduce barriers to intra-regional trade. The linkages between the CET and EPA are clear in this regard. Again, financial and technical assistance, notably in the framework of the PAPED, could usefully be leveraged for this purpose.

largely determine the benefits that countries, firms and workers can expect from them, including in Nigeria.

For Nigeria, the evidence presented here suggests that consumers, as well as a majority of manufacturing firms and workers, will experience small

gains from the CET and EPA as the costs of consumption and of key material inputs fall. EPA-related losses are only expected in a limited number of sectors, which currently have above-average profitability levels. This is not to say however that these reforms will be entirely costless, and more research is needed to analyze the potential impacts on other groups, such as agricultural producers and service providers, and on poverty.

Clearly, the debate is not purely economic but largely influenced by political economy dynamics and different stakeholders' capacity to defend their perceived interests. While actors who fear negative repercussions legitimately express their concerns, it is important to have an understanding of the overall balance of costs and benefits and of the accompanying measures that can be adopted to minimize the former and maximize the latter. Policies to support the few who might lose need not curtail the opportunities for the many who could gain from an integrated West Africa region and more open trade regime. As argued above, combining trade policy reforms with an ambitious competitiveness agenda that truly addresses the most binding supply-side constraints would in fact benefit all firms.

In this regard, it is worth reemphasizing that the CET and EPA are expected to have only moderate direct impacts on firms and consumers. These agreements are illustrative of classic trade integration with a narrow focus on tariff issues, although there is mounting evidence that

this approach alone is unlikely to radically enhance the trade competitiveness of West African countries. While the conclusion of negotiations on the CET and EPA is an encouraging first step, policy makers should aim at complementing and deepening them in the future to address the critical barriers to trade and regulatory reforms in both goods and services that will be required if broad-based improvements in competitiveness are to be achieved.

Regarding tariffs and the CET, progressively reducing MFN tariffs and limiting the resort to additional protection measures will be necessary to minimize the risk of trade diversion in favor of European producers induced by the EPA and to promote integration in global markets and supply chains. This should be accompanied by renewed efforts to remove tariff and non-tariff barriers to intra-regional trade, so as to make the ECOWAS common market a reality.

Finally, the EPA and related aid for trade could be leveraged to help African countries integrate in global markets (the adoption of relatively flexible rules of origin is a positive sign in this regard). They should also support domestic and regional reforms that will be required in all cases to strengthen the competitiveness of West African producers by mitigating supply-side constraints.

## REFERENCES

- Brenton, Paul, Mombert Hoppe and Richard Newfarmer. 2008. Economic Partnership Agreements and the Export Competitiveness of Africa. Policy Research Working Paper No. 4627. Washington DC: The World Bank.
- Czapbnik, Ben, 2014. Côte d'Ivoire's EPA: Between a rock and a hard place. *Bridges Africa* 3(5). Geneva: ICTSD.
- De Melo, Jaime and Cristian Ugarte. 2013. Nigeria: Time to Take the Lead on Regional and Global Trade Integration in West Africa. Working Paper No. 66. Clermont-Ferrand: FERDI.
- De Roquefeuil, Quentin. 2013. Initial Reflections on the ECOWAS Common External Tariff. *GREAT Insights* 2(8). Maastricht: ECDPM.
- De Roquefeuil, Quentin. Daniel Plunkett and Frank Ofei. The impact of closer regional economic integration on food security in West Africa - Focus on the ECOWAS Common External Tariff. Discussion Paper no. 154. Maastricht: ECDPM.
- ECOWAS. 2014a. Extraordinary Session of the ECOWAS Authority of Heads of State and Government (Dakar, 25 October 2013) - Final Communiqué.
- ECOWAS. 2014b. 16<sup>th</sup> Meeting of the Joint ECOWAS-UEMOA Committee for the Management of the ECOWAS Common External Tariff (Accra, 24 to 26 November 2014) - Final Report.
- ECOWAS. 2014c. Meeting of Ministers of Finance and Directors General of Customs on the Implementation of the ECOWAS Common External Tariff (Accra, 27 November 2014) - Summary of Conclusions.
- European Commission. 2014. Economic Partnership Agreement with West Africa - Facts and Figures. Available at: [http://trade.ec.europa.eu/doclib/docs/2014/july/tradoc\\_152694.pdf](http://trade.ec.europa.eu/doclib/docs/2014/july/tradoc_152694.pdf)
- Nielsen, Lyngé and Simplicé Zouhon-Bi. 2007. ECOWAS - Fiscal Revenue Implications of the Prospective Economic Partnership Agreement with the EU. Africa Region Working Paper No. 103. Washington DC: The World Bank.
- Raballand, Gaël and Edmond Mjekiqi. 2010. Nigeria's Trade Policy Facilitates Unofficial Trade but Not Manufacturing. Chapter 6 in *Putting Nigeria to Work - A Strategy for Employment and Growth*, ed. Volker Treichel, pp. 203-228. Washington DC: The World Bank.
- Treichel, Volker, Mombert Hoppe, Olivier Cadot and Julien Gourdon. 2012. Import Bans in Nigeria Increase Poverty. Africa Trade Policy Note No. 28. Washington DC: The World Bank.
- UEMOA. 2014. Rapport annuel 2013 sur la surveillance commerciale. Ouagadougou: UEMOA.
- Von Uexkull, Erik and Lulu Shui. 2014a. Implementing the ECOWAS Common External Tariff - Challenges and Opportunities for Nigeria. Africa Trade Practice Working Paper Series No. 5. Washington DC: The World Bank.
- Von Uexkull, Erik and Lulu Shui. 2014b. ECOWAS Economic Partnership Agreement with the EU and Nigerian Trade and Development. Washington DC: The World Bank.
- World Bank. 2010. Putting Nigeria to Work - A Strategy for Employment and Growth. Ed. Volker Treichel. Washington DC: The World Bank.
- WTO. 2005. Trade Policy Review - Nigeria - Report by the Secretariat. Report WT/TPR/S/147. Geneva: World Trade Organization.