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Joe Alegieuno
Central Bank of Nigeria

A O. Balogun
Central Bank of Nigeria

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COMMODITIES TAXES/LEVIES AND THEIR EFFECTS ON COMMODITY TRADE AND MOVEMENTS IN NIGERIA

Mr. Joe Alegieuno

Mr. A. O. Balogun

INTRODUCTION

BACKGROUND OF COMMODITY MARKETING IN NIGERIA

Produce marketing in Nigeria falls into two broad categories, domestic trade in food items which has always been handled mainly by private operators, and the marketing of cash crops which until July 1986 was handled by Commodity Boards which were monopoly public institutions. While the prices of food items were freely determined in the market by the forces of supply and demand, those of cash crops under the Commodity Board System were fixed by government. The Commodity Boards were noted for paying farmers prices that were lower than the world prices and sometimes even lower than their production costs. This difference represented implicit taxation of farm incomes and served as a dis-incentive to domestic production.

With the adoption of the Structural Adjustment Programme in 1986, the Commodity Boards were abolished and a free market system was introduced. This helped to eliminate the excessive implicit taxation of farm incomes inherent in the Commodity Board System as the prices of Cash Crops not only converged with world market prices but were further boosted by the sharp depreciation in the exchange value of naira. Payments have also been very prompt, and in some case prepaid, in the form of credit advances to farmers.

INTER/INTRA STATE COMMODITY TRADING

The marketing arrangement also created the free movement of commodities within and across states and regions by Commodity Merchant Traders and Buying Agents. Albeit, introduction of various commodities in Nigeria is specific to ecological zones, climatic and soil conditions obtainable in various regions and states, the marketing of the produce is done nationally, across states and within local government areas. Since both industrial and domestic consumption of the commodities take place in all states on the Federation and in the West African Sub-region, there is active commodity trading between states and local government in crops which they have comparative advantage. The trailer that carries kola nut from Sagamu in the South West to Kano in the North will on its return bring beans, tomatoes or cattle.

However, the poor economic/financial base of many state Governments, in adequate revenue allocation from federation account, and the pressing need to provide public goods for the citizenry have always compelled state governments to charge taxes/levies on the marketing of commodities in which they have comparative advantage. Taxes/levies are viewed as some of the mechanisms for generating revenue internally, and for financing government expenditures at all tiers.

But the charging of different amount of levies or taxes on each tonnage of commodity traded across states has resulted into the problem of smuggling of produce by traders/merchants trying

Mr. Joe Alegieuno is an Asst. Director, Agricultural Finance Dept., and Mr. A. O. Balogun is a Manager, Personnel Dept. CBN

to evade high charges in producing states.

Consequently, some non-producing states in certain crops are found to record larger quantity of the commodity than states with comparative advantage.

This paper therefore attempts to examine the administration of commodity taxes/levies and their effect on commodity trading in Nigeria. The rest of the paper consists of four parts. Part I assesses the various systems of commodity marketing in Nigeria up to the introduction of economic reform programme in 1986. Part II reviews the administration of various taxes and levies, while part III examines the effect of commodity taxes/levies on Commodity Trade movements, Part IV, presents the conclusions and recommendations.

PART 1:

A REVIEW OF COMMODITY MARKETING ARRANGEMENTS IN NIGERIA

Early attempts to formalize produce marketing in Nigeria can be traced to the 1930's when the big European Companies such as United Africa Company (UAC), John Holt, Societe Commerciale Occidentale Agency (SCOA), Commerciale Francais Agencies Occidentale (CFAO) and Paterson Zochonis (PZ) were involved in direct purchase and export of Nigeria's major agricultural commodities considered as essential raw materials for overseas industries. However, government involvement in organised commodity marketing dates back to the second World War, when the West African Produce Control Board was established to stabilize commodity prices. This later metamorphosed into four country-wide commodity marketing boards, with responsibility for handling Nigeria's main agricultural export produce.

These were the Cocoa, Palm Produce, Groundnut and Cotton Marketing Boards. These boards were restricted to domestic purchase of produce from farmers within Nigeria, while overseas sales of the commodities were handled by a private limited liability company incorporated in England in 1947 for this purpose. To reflect the regional character of the country as a result of constitutional reforms, the marking boards were changed into Regional Marketing Boards. The boards were empowered to fix producer prices for the commodities they handled.

Commodity marketing then went through two other major reforms between 1970 and 1980 (Ojo et 1995). The first reform in 1973 resulted in the transfer of the price fixing function of the regional Marketing Boards to the Head of State; who performed this function through the advice of an inter-ministerial Committee known as the Technical Committee on Produce Prices (TCPP).

The second reform was in 1977 when seven commodity boards were established to replace the former all-purpose State Marketing Boards. These were Groundnut, Cotton, Palm Produce, Rubber, Cocoa, Grains and Tuber and Root Crops Boards.

The Tuber and Root Crops board was later dissolved in 1979 and its functions transferred to the National Root Crops Production Company.

Thus, between 1979 and 1986 when the system was established, there were six commodity boards in existence.

The Commodity Boards Decree No. 29 of 1977 gave the boards absolute monopoly to export the scheduled crops they handled. The marketing of Nigeria's Scheduled Commodities thus became the exclusive responsibility of the Federal Government.

By the end of 1985, it was obvious that the Commodity Boards could not carry out most of their statutory functions satisfactorily or serve their intended roles effectively. Consequently, the Boards were dissolved in December 1986.

The dissolution of the boards marked the fulfillment of one of the cardinal elements of Structural Adjustment Programme (SAP) i.e trade liberalization. The fixing of producer/ guaranteed minimum prices by government gave way to market determined prices for agricultural produce and ushered in a new era of trade liberalization for agricultural commodities. Under this system, individuals/farmers were free to purchase and sell/export all the hitherto scheduled commodities. In addition, they were free to keep their foreign exchange proceeds.

PART 2:

COMMODITY MARKETING (TAXES) AND GOVERNMENT FINANCES

The Structural Adjustment Programme emphasizes the need for state and local governments to increase the internal revenues above the existing levels, through a combination of im-

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proved efficiency in revenue collection from already existing sources, increase in the rate of existing taxes and broadening of revenue base by introducing new taxes. Also macro economic instability heightened the need for enhanced revenue balance.

In most years between 1980 and 1997, inappropriate domestic policies and exogenous shocks resulted in economic decline and deterioration in the finances of all tiers of government. The Federal government's control over the budget was ineffective as its budget deficit averaged 6.1 percent of GDP between 1980 and 1997 (Alade 1999). Foreign debt rose from 3.7 percent in 1980 to 19.7 percent of GDP in 1997. Large fiscal deficits, financed by borrowing from the domestic banking system led to acceleration in inflation.

COMMODITY TAXES

Apart from the fact that agricultural commodities were the main sources of Nigeria's foreign exchange earnings for a long time, their output was also subject to a number of taxes which became important sources of government revenue.

The Institutional arrangement by which these taxes were administered was the marketing board system under which statutory marketing boards were charged with purchasing the export crops from producers.

Two important types of taxes were derived from commodity exports during the Commodity Board era. The first was the **export duty** levied in proportion to the value of export. In the 1960's, this export duty imposed by the Federal Government ranged between 10 and 20 percent. (Osakwe, 1971) while the second, which was the **produce sales/purchase tax** was imposed independently by the Regional/State Governments and was assessed on the volume of produce offered for sale to the marketing boards. The rate ranged between ₦1 per ton for soya beans and ₦8 per ton for cocoa beans. Revenue contributions from the two types of taxes were substantial between 1960/61 and 1969/70. Between, 1960 and 1965, total revenue from produce taxation and capital grants from marketing board averaged ₦32 million a year (Ojo 1991). In the next five years, the average contribution increased to ₦70.5 million a year. Thus, revenue from produce taxation increased from an average of 21.7 percent between 1960 and 1965 to 47.3 percent between 1965 and 1970.

In 1973, the first series of reforms to the marketing board system took place and the thrust of the reforms was the abolition of all forms of taxes on the export crops under the jurisdiction of the boards. Thus, almost in one fell swoop, the Regions/states lost a vital source of revenue. But, even if such taxes were not abolished, revenue from these taxes could have dwindled considerably given the drastic decline in the production and export of the crops involved. Revenue from the export taxes could only have been maintained or increased by increasing the rates exorbitantly and this would have increased the disincentives to producers.

After the dissolution of the Commodity Board System, the government through the Export Commodities Coordinating Committee (ECCC) established the Administrative Commodity Export Levy of $5 per tonne for cocoa and US $3 per tonne for any other agricultural commodity that is exported out of the country. The reason government gave for the establishment of these levies was that the levies would be utilised to service Nigeria's membership of International Commodity Organisation. The government also posited that the benefits derivable from attendance of these meetings was enjoyed by the private sector and it was thus expedient for the private sector to fund the activities of the ECCC.

Following closely at the heels of the export levies were state government produce taxes and levies on the commodities produced in their territories. Grading fees was expected to be harmonized across the country for various crops. However, most states do not comply with agreed rates insisting that these commodities were revenue earners for the states and as such should be charged accordingly. For instance the fixed rate for grading a tonne of cocoa is about ₦5 per tonne, but some states charge as high as ₦18,000 for grading of cocoa. This divergences in grading fees and levies have their consequences which are discussed in the next section of the paper.

PART 3:

EFFECTS OF COMMODITY TAXES/LEVIES ON COMMODITY TRADE MOVEMENTS

The role of internal trade in the domestic economy is analogous to that of trade in the world economy. Countries trade among themselves to obtain goods and services, which they need but which cannot be produced within their boundaries. Similarly, states within a country exchange commodities through trade so as to obtain crops/commodities, which they cannot produce in their localities. As a matter of fact, internal trade within an economy tends to assume a greater role than international trade in the world economy because of the fewer restraints in the domestic economy. Due to high degree of integration within a domestic economy, regions do not have to attain self – sufficiency at any cost (as may be the case with countries). On the account of this greater interdependence among regions/states, unrestrained internal trade can be relied upon to satisfy the demands of various regions.

However, with the imposition of grading fees/levies and commodity taxes, by various states/regions after the era of the commodity/Marketing Boards, trading within the country has become restrained.

It has been observed that movement of commodities from one state to another has become rather difficult with transporters having to face several check points mounted by state produce officers who impose their levies on the commodities being transported. The effect of this is the inflated prices of the commodities for the ultimate consumer as well as scarcity of some commodities in states with high tax rates.

Records have shown that most merchants in both domestic and international commodity trade avoid the payment of levies and taxes. The evasion of taxes and levies have the following effects on commodity trading as well as state and national economies.

(a) Unrecorded Trade

In order to avoid the payment of taxes and levies, many traders collude with designated enforcement agents to smuggle commodities across state borders. The result of this action is that some states that do not produce a particular commodity now record higher trade volumes for these commodities as against states that have comparative advantage of producing such a commodity. For instance, cocoa is not produced in Benin Republic, however, Benin records some volume of cocoa exports which are normally smuggled through Nigerian borders into the country. Cocoa traders who do not want to pay the ECCC export levy and the state government produce sales taxes, smuggle their cocoa beans to Benin Republic. This situation has led to reduction in Nigeria's cocoa exports while Benin records exports of a commodity it does not produce.

(b) Low Internal Revenue

Unrecorded trade usually translates to low internally generated revenue for producing states and for the country in general. Large proportion of the revenue expected by the government from produce sales taxes and other levies, are not usually received as a result of the activities of merchant who either smuggle the commodities across state/national borders or collude with enforcement agents to evade payment of these taxes/levies. Also, foreign exchange that could have accrued from the export of these commodities is lost to neighbouring countries, the recipients of smuggled produce.

(c) Low Quality of Traded Commodities

In attempts to evade payment of taxes/levies a large proportion of produce do not pass through required standard quality tests before entering the market. This has led to the trading of commodities that do not meet both local and international quality standards. For instance, during the era of the Commodity Boards when cotton was traded in cotton gazetted markets, the quality of cotton produced in Nigeria was high because the cotton was inspected at these markets for quality control before being sold to ginneries. However, since the liberalisation of trade, cotton traders do not subject their cotton to quality test and as such most cotton that get to the ginneries contain stones, water and other impurities. The same goes for Nigerian Cocoa which used to enjoy premium price at the international market in view of its high quality during the Marketing/Commodity Board era. Since the advent of liberalization, the quality of Nigerian cocoa has dropped so much so that our cocoa is now discounted in the international market.

EFFECT OF DIVERSE GRADING/PRODUCE FEES ON COMMODITY TRADE

Different rates of grading/produce fees charged by states have constituted a disincentive to inter state commodity trade. Grading/ produce fees are supposed to be uniform all over the country for the various commodities. However, most states have refused to charge the harmonized fees passed to them by the Technical Committee on Agricultural Produce (TACP). The major reason given for this action is that these commodities are their main sources of revenue and as such, they have to capitalize on them. For instance Produce Inspectors in the cocoa producing states met some time ago and fixed the sum of ₦5,000 per tonne as produce fees for inspection of cocoa. Some states have however refused to implement this rate and have rather increased theirs, some up to as much as ₦18,000 per tonne.

The lack of uniformity in produce levies/fees has thus led to commodity merchants evading produce inspection in such states and carrying their produce across the borders to other states or outside the country. This has thus led to most produce leaving the state/country un-graded and thereby creating quality problems for Nigerian cocoa in particular and produce in general. This problem also creates artificial scarcity of some produce in areas with high tariff regimes as against areas with low rates, as well as very high price differentials from one state to the other.

PART IV:

CONCLUSION AND RECOMMENDATIONS

This paper has attempted to discuss the evolution of organised commodity trade in Nigeria as well as the coming into being of commodity taxes and levies in commodity trade.

Commodity trade, in Nigeria began with the British companies exporting raw materials to their industries abroad. His was followed by the Commodity/Marketing Board era and finally trade liberation. Commodity Taxes/ Levies started during the days of the Commodity/Marketing Board. However, the effect of these taxes and levies was not very adverse during this era in view of the fact that the Commodity Board handled the purchase and sale of these commodities and also paid the levies.

Since the abolition of the Commodity Board System, taxes and levies on produce had taken a new dimension. States have used these taxes/levies as major sources of revenue and as such have charged diverse rates of produce levies which have resulted in creating series of barriers to inter-state trade. Problems created by these levies include unrecorded trade, low internal revenue, low quality of produce and smuggling.

Consequent on the above it is recommended that;

(i) The Government takes a second look at the collection of the ECCC Administrative levies of US $5 per tonne and US $3 per tonne for Cocoa and other agricultural export commodities respectively. The Government can fund its participation in International Commodity Organization from other sources rather than tax exporters. This would help to improve the quality of our produce and reduce the rate of smuggling of our produce across our borders.

(ii) The Technical Committee on Agricultural Produce (TCAP) an inter-ministerial committee set up to keep surveillance on commodity movement produce, levies and taxes should intensify its efforts at harmonization/unification of produce levies/taxes across the length and breadth of the country.

(iii) State governments should as much as possible keep within the limits of rates approved by State Produce Director and ratified by the TCAP.

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