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PRELIMINARY PROPOSALS ON POSSIBILITIES
FOR THE LIBERALIZATION OF TRADE
AND PAYMENTS IN WEST AFRICA

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Introduction

A first important step has been taken towards the establishment of an Economic Community of West Africa. The signature of the Articles of Association in the context of the successive conferences of Niamey, Lagos and Accra was a formal expression of intent on the part of Member States to launch a movement of effective co-operation, which was to lead to the conclusion of a treaty establishing a community.

A considerable amount of information is being collected and analysed concerning the constituent data of such a project. It seems necessary not merely to be familiar with the developments of recent economic relations between the countries that signed the Accra Articles or to formulate projects on industrial capital investment and transportation, but also to gather indispensable information on the possible options in the negotiations to be held and on the trade and financial networks that will permit the actual establishment of the Community.

In the first stage, co-operation may be reflected in negotiations within the Community on ways and means of progressively eliminating Customs and other barriers to the expansion of trade between them as well as restrictions on current payment transactions and capital movements. Such co-operation, which must be extended to include transport and capital investment in industry, should lead to economies of scale, without which there can be no development of inter-regional trade. In fact, this trade is now at a low level, not only between English- and French-speaking countries, but within these groups as well. The problem to be solved will be as much that of promoting as of regulating such trade.

It seems to be difficult to increase income derived from the exportation of primary products, and particularly manufactures, to industrially developed countries. In any event, this could not suffice to finance the development of West African States. In present circumstances, external financial assistance does not seem likely to increase. Furthermore, there are strings attached.

Thus, the promotion of inter-regional trade in West Africa may be considered to be a factor of development on its own, if it leads to the creation of productive industries and investment flows. The present small size of national markets militates against such an undertaking.

The proposed negotiations to expand the market by doing away with barriers may seem complex owing to existing commitments, particularly WACU, association with the European Economic Community, economic and monetary co-operation with France, the links with the Commonwealth and the sterling area, as well as economic relations with a number of other countries in Africa and elsewhere, and, finally, international agreements. In many cases, existing commitments will, at the same time, constitute assets capable of providing a strong basis for the Economic Community of West Africa. This is true of the conventions which have made possible the recent expansion of the West African Monetary Union's external relations. The internal problems of the region will be more difficult to solve: the scarcity and high cost of transportation, price disparity, the commercial policy of enterprises which are often too conservative, the unsuitability of credit and insurance arrangements and the lack of information on trade relations between English- and French-speaking countries.

While negotiating reciprocal concessions applicable in successive stages, the States will, no doubt, have an eye to their balance of payment situations and the demands of financial management. Furthermore, they will sometimes feel prompted to change the sectoral targets of their development plans.

It rests with the Interim Council of Ministers, within the terms of the Accra Articles, to determine, for the purpose of future negotiations, "those areas of economic development to be undertaken jointly or in common by Member States, the manner and degree of such development and the time required therefor."

The general options which will be thus defined by the Council will determine the orientation of the studies to be pursued in order to explore the scope of the problems raised, to provide the negotiators with information, and to present concrete alternative proposals.

To be more precise, the general options should involve the following, which should be specified in giving the necessary guidance on the pursuit of studies:

- I. The elimination of Customs and other barriers;
- II. Restrictions on current payment transactions and capital movements;
- III. The identification of products which could be the subject of negotiations, and the problems of commercial networks.

The WACU countries recently took steps to reactivate their Union without, however, altering their external tariff, while the other countries of the Economic Community of West Africa have not made any notable changes in their tariffs. The negotiations contemplated will no doubt take the present situation as their starting point. This offers several possibilities, the choice among which lies with the Interim Council of Ministers. The WACU countries have indicated, however, in the new texts which regulate their own relations, some degree of preference for the establishment of multiple bilateral relations within their new convention.

A. The States of the West African Customs Union

The WACU States (Ivory Coast, Dahomey, Upper Volta, Mali, Mauritania, Niger and Senegal) concluded a new Convention in June 1966,

superseding that of 1959. It came into effect officially on 15 December 1966, but did not become enforceable in the various States of the Union until various dates between 1 March and 30 June 1967, pursuant to circulars and implementing decrees.

According to the new Convention, the total of any fiscal duties on products originating in a WACU State and sent to another Member State, shall be equal to only 50 per cent of the total of the most favourable fiscal duties imposed on a similar imported product.

No Customs duties are levied between the various States or in their trade with the other franc zone countries or the European Economic Community. In this vast complex of economic and financial relations, preferences apply to fiscal import duties.

The protection of the industries of Member States is dealt with by a special provision. Each time a similar industry is set up in another member State, that State shall be authorized by the Council of Ministers of WACU to raise the fiscal duties defined above to 70 per cent of the total rate provided for under its regulations.

No direct compensation has apparently been arranged for landlocked States. Nevertheless, the provisions pertaining to assessment at 50 or 70 per cent of total fiscal duties are not applicable to arrangements existing on the date when the new Convention came into effect, in trade relations established between certain Member States. The circulars issued by these various States recapitulate the scope of such relations.

Although traffic within WACU in products originating within the Customs Union is not subject to any restrictions, a member State may impose quantitative restrictions, provided that the Council of Ministers of the Union is immediately informed of it. The purpose of these restrictions is to remedy any imbalances in the economy.

Products harvested, extracted from the soil or manufactured within a member State are considered as originating in WACU.

Operations of simple processing or operations intended to preserve merchandise imported from third countries or keep it in good condition are not considered as manufacturing. Complete articles produced in a member State merely by assembling parts imported from third countries will benefit from the special fiscal duties only within the limits of a quota set up by mutual agreement between the two member States concerned.

As to re-exportation, it is stipulated that products originating in third countries, not consumed in a member State and sent to another State, are subject to all entry duties and taxes applicable to them by virtue of their origin.

No common external import tariff exists, as yet, in the WACU States. It is, however, intended to establish such a tariff, and the limits are defined by the new Convention.---It is "constituted by Customs duties. The member States will apply a common external tariff and standardized Customs legislation and regulations."

The common external tariff will include a minimum tariff and a general tariff, which will be three times the minimum tariff. No tariff concessions below the minimum tariff may be granted.

Under the new Convention, the WACU may be entrusted with negotiations with a country or an international or regional organization on behalf of its member States. Also, the Council of Ministers of WACU may authorize a member State to negotiate with third countries intermediate tariffs between the general tariff and the minimum tariff, such tariffs being applicable only in the signatory State.

In view of coming negotiations within the Economic Community of West Africa, it does not seem devoid of interest to recall what procedure the WACU States adopted to make their Customs Union effective as of June 1967. In implementing the principles of the 1966 Convention, the various States redefined relations between them on the basis of the special characteristics of their present import duties or the changes made in order to implement the Convention...

The purpose of the network of relations established in this way is also to take into account the great differences that exist in some respects between the economic situations of the seven States.

Document E/CN.14/WA/EC/2/Add.1 makes a more detailed analysis of the various arrangements adopted within the framework of the WACU Convention.

The preferential relations of Senegal with Dahomey, the Upper Volta and the Niger are based on the import duty imposed on products from the EEC, which is considered as the most favourable duty. Products originating in Dahomey, the Upper Volta and the Niger, when imported into Senegal, are subject to 50 per cent of the charges and duties levied on EEC products, this is to say, 50 per cent of Customs duties, the statistical tax and the standard tax.

The relations between Senegal and Mauritania will still be controlled by the rules of their Customs Union until a new tariff agreement is concluded to take into account the divergent developments that have taken place in the fiscal systems of the two States over the past two years.

Mutual relations between Senegal and the Ivory Coast - The treatment accorded by Senegal to products originating and manufactured in the Ivory Coast is based on the preferential system of 50 per cent of the duties imposed on EEC products.

Agricultural products from the Ivory Coast are treated in the same way as similar Senegalese products. Furthermore, Senegalese products exported to the Ivory Coast are exempted from all export duties and taxes.

The treatment accorded by the Ivory Coast to products originating in Senegal takes into account the peculiarities of the fiscal system of the Ivory Coast.

Relations between the Ivory Coast and the Upper Volta and the Niger are still regulated by former agreements.

Relations between the Upper Volta and the other WACU States - The reduction of duties provided for in the WACU Convention or other agreements in force applies only to the following duties and taxes: Fiscal duty, statistical tax, and standard tax.

These duties and taxes are collected, after reduction, as one single tax. When a product is subject only to the statistical tax on importation, this is levied at the normal rate.

The relations of the Niger with the other WACU States are based on the principle of taxation reduced by 50 per cent.

On the other hand, the special trade relations established between certain member States are being maintained.

Products originating in third countries and not consumed in one of the WACU States but sent to the Niger are liable to the duties and import taxes applicable to them by virtue of their true origin.

Finally, it has been decided that petroleum products made from crude oil refined in a member State of WACU and imported by the Niger shall be taxed according to the origin of the crude oil from which they are made.

Relations of Dahomey with the other WACU States - Agricultural products from the WACU States, formerly exempt from all taxes upon entering Dahomey, are now subject to the same taxation system as manufactured goods.

The 50 per cent reduction of taxation on products of WACU origin, shall apply only to the fiscal import tax of the Dahomean tariff, which, since 29 December 1966, has been a combination of the fiscal import duty, the statistical tax, the standard import tax and the 2 per cent fiscal tax.

It has not been possible to ascertain;

The changes in Mali's relations with other WACU States;

Those that Mauritania might contemplate; or

Those between the Ivory Coast and Dahomey on the one hand, and Mali on the other.

These are the present features of the West African Customs Union. They are based on the absence of Customs duties and a preferential system involving 50 per cent reduction of the most favourable total taxation, which is that enjoyed by the EEC in particular under a system of association. Furthermore, the WACU States have organized some degree of protection for their countries' industries and have made arrangements for quotas in order to limit imports of certain products to countries of the Union whose economic equilibrium might be threatened, which puts a weapon in the hands of the less-favoured countries. The form of trade relations between the States of the Union was established in non-uniform regulations intended to take into consideration the pattern of trade between States in a vast geographical area. The procedure adopted may seem to throw some light on future negotiations in connexion with the Economic Community of West Africa, according to the Articles of Association, in so far as the French-speaking States, so as not to jeopardize their Customs Union system, would tend to establish a complex of relations on a similar pattern with the English-speaking States.

The import duties applicable to third countries, except other franc zone countries and the EEC, will be rapidly reviewed. Compared with the import duties charged by most of the English-speaking countries, those charged by the French-speaking States seem to be particularly heavy, because fiscal duties and supplementary taxes are added to them. It should be pointed out that these duties account for a very large proportion of the mass of essential budget revenue. Document E/CN.14/WA/EC/2/Add.2 shows, on the other hand, that export duties are relatively light, but are imposed on products of only slight interest to the English-speaking States.

However, special barriers to imports exist in States that are linked with France by conventions on economic and monetary co-operation. Annual quotas expressed in foreign currency limit imports from various zones of the world. Pursuant to the Yaounde Convention, these quotas have been completely abolished in respect

of imports from all the countries of the European Economic Community. They might be retained in respect of third countries, despite the recent liberalization of payments and capital movements abroad. That will doubtless be a subject for negotiation with the new Economic Community of West Africa.

Ivory Coast: non-preferential fiscal duty of an average of 10 to 15 per cent and Customs duties ranging from 5 to 25 per cent. The value added tax, the normal rate of which is 14 per cent of the duties paid, is added to Customs duties. For certain products, the value added tax may be as high as 23 per cent; it may also be as low as 5 per cent.

Dahomey, non-preferential fiscal duty of 10 to 15 per cent and Customs duties of 10 to 15 per cent, plus additional taxes, the most important of which are the statistical tax and the standard tax.

Upper Volta, non-preferential fiscal duty of 10 to 15 per cent and Customs duties of 5 to 25 per cent, plus additional taxes.

Mali, non-preferential fiscal duty of 10 to 15 per cent and Customs duties of 5 to 25 per cent, plus additional taxes.

Mauritania, non-preferential fiscal duty of 10 to 15 per cent and Customs duties of 5 to 25 per cent, plus additional taxes.

Niger, non-preferential fiscal duty of 10 to 15 per cent and Customs duties of 5 to 25 per cent, plus additional taxes.

Senegal, non-preferential fiscal duty of 10 to 15 per cent and Customs duties of 5 to 25 per cent, plus the same additional taxes as in Mauritania, and also the specific tax on petroleum products of fr CFA 15.5 - 25.5 per litre.

Togo, which is not a member State of WACU, but belongs to the West African Monetary Union and is associated with the EEC, does not levy any Customs duties but does charge ad valorem fiscal duties of 5 to 30 per cent. There are also additional taxes.

In addition to the system of non-preferential fiscal duties and the Customs duties levied on imports from third countries (EEC and the franc zone excluded) each of the WACU States imposes further restrictions on imports such as global annual quotas limiting imports from third countries. Special country quotas are also established for imports from States with which bilateral trade agreements have been concluded.

Togo, which applies a system of licences, apparently refuses to grant licences for a certain number of products, so as to decrease its trade deficit.

B. The States of the Economic Community of West Africa, other than the WACU States and Togo, have a completely different Customs system, which is non-discriminatory in principle. Duties may appear to constitute a relatively light burden and account for a less important share of budget revenue. Among the obstacles that the negotiators will doubtless have to overcome will be those arising from differences of tax structure in English- and French-speaking States.

In Ghana, the tariff comprises import duties levied on all goods, regardless of origin. Duties may be specific or ad valorem or a combination of the two. In the latter case, the higher of the two rates is used.

Ad valorem duties range from 10 to 66 2/3 per cent and are as high as 100 per cent on luxury articles. These duties are frequently altered. Specific duties are calculated in cedis (1 cedi = \$1.40).

Taxes in addition to import duty are:

The purchase tax on automobiles ranging from 5 to 100 per cent;

The sales tax of 11 per cent levied on most products with the exception of all unprocessed foods produced in West Africa, all food manufactures except preserved fruits coming from Ghana, and agricultural or horticultural machines.

Certain articles are subject to excise duty, inter alia, footwear (plastic or rubber sandals) at 15 per cent of the selling price, meat preserves at $2\frac{1}{2}$ per cent of the selling price, edible oils at 0.12 cedi per gallon, refined sugar at 0.30 cedi per cwt, textiles and textile products at 15 per cent of the selling price.

In Nigeria, the Customs tariff comprises import duties, which apply to all goods regardless of origin. Duties are specific (in Nigerian pounds according to weight, quantity, etc.) or ad valorem, or a combination of the two. The higher duty is applied in the latter case.

Ad valorem duties range from 5 to 40 per cent, but for non-essential or luxury articles the rate is between 50 and 100 per cent.

A large number of goods that are essential or necessary for economic development are exempt from duty.

There are no additional duties in Nigeria, except for the excise duties imposed on certain articles and a purchase tax on petrol and diesel oil.

Preferential treatment is granted to twenty-six products covered by Nigeria's convention of association with the EEC.

For most of these twenty-six articles, low duties are to be levied on those coming from countries outside of the EEC and goods from within the EEC are to enter Nigeria duty free.

In the Gambia, Customs duties at low rates are imposed on goods from the United Kingdom and the other Commonwealth countries, while higher rates are applied to articles from other countries. Duties are specific (by weight, quantity, etc.) or ad valorem from $12\frac{1}{2}$ to 25 per cent. Where a combination of the two is used, the higher duty is applied. There are no additional duties in the Gambia.

Food from West Africa is exempt from duty (except for the following items: beverages, coffee, rice, sugar, flour, edible oils, groundnuts and cola produced in Senegal, Sierra Leone, Ghana or Nigeria).

Sierra Leone levies Customs duties on imports from all countries. They may be specific (based on weight, quantity, etc.) or ad valorem, or a combination of the two. In the case of a combination, the higher rate is applied.

Ad valorem duties range from 2½ to 40 per cent, the highest rates being imposed on luxury items and non-essential consumer goods.

There are no additional taxes on imports except for the excise duty on tobacco.

Specific duties are calculated in leones, 1 leone = \$1.40.

In Liberia, Customs duties, which are levied on all imported goods, may be specific or ad valorem (from 10 to 30 per cent). Goods necessary for education, health care and economic development (particularly mining) are duty-free.

In addition to import taxes there are the following:

The 15 per cent surtax on duties paid;

The duty collected for transport over public thoroughfares, which is 5 per cent of the c.i.f. value of the merchandise;

The luxury tax on specific items levied according to quantity or ad valorem.

Proposals on ways of eliminating Customs and other barriers

Although the Customs systems and agreements which exist among the States of the Economic Community of West Africa are complex and diverse, the established networks and even the way in which they were established show a considerable flexibility and a desire to adapt to circumstances.

In countries such as Ghana, the Gambia, Sierra Leone or Liberia, external commitments are not restrictive and do not limit freedom of action.

Bilateral trade agreements offer no obstacle to the granting of preferential treatment to a third country. Customs duties and additional taxes are relatively lower there than in WACU countries, under a system in which the States gain more revenue by imposing exports duties than by collecting import duties and taxes. The system seems to be governed rather by an import prices policy than by the necessity to secure revenue for the State.

Nigeria has a similar system, but its agreement on association with the EEC establishes the principle of elimination of Customs duties on EEC products.

The relations of Sierra Leone and the Gambia with the Commonwealth and the preferences derived from these ties are not as inflexible as those existing among the WACU States, the latter being reinforced by a liberalized monetary union, or those existing between each of these States and the EEC.

With respect to negotiations within the Economic Community of West Africa aimed at lifting import restrictions, the English-speaking States and Togo would find it easier to conform to the regulations of the Articles of Association than would the WACU States. The latter have more stringent commitments and their Customs and other duties appear to be considerably higher.

In any case, to facilitate tariff negotiations, it would be desirable for the different States of the Community to attempt to co-ordinate their Customs systems, as the disparities seem to be so great that tariff comparisons are sometimes very difficult.

In order that studies already undertaken may be continued, the Interim Council of Ministers should indicate, at least in a general outline, the form which the trade agreements or Treaty establishing the Economic Community of West Africa should take, as well as the negotiation procedure to be adopted. There appear to be several possibilities open for the Community project.

First Proposal:

It would be possible to use the rules of the WACU as a starting point so as to promote trade development in the sub-region. As far as imports from other members of the Community are concerned, the WACU might consent, for example, to reduce its Customs and other duties while setting aside the rules of its common external tariff, so that imports from other States of the Community would receive exactly the same treatment as those from the EEC. Article 9 of the Yaoundé Convention provides that the Convention "shall not preclude the maintenance or establishment of Customs unions or free trade areas between one or more associated States and one or more third countries in so far as they neither are nor prove to be incompatible with the principles and provisions of the said Convention." Article 7 states: "Without prejudice to the special provisions for border trade, the treatment that the Associated States apply by virtue of this Title to goods originating in Member States shall in no case be less favourable than that applied to goods originating in the most favoured third country." These provisions seem to authorize the granting of equally favourable preferences to third countries, but this interpretation should be confirmed by the Association Council of EEC.

Otherwise, the WACU countries will have to call for and obtain an amendment to article 9 in the forthcoming renewal of the Convention.

Second proposal:

Of course, as part of this proposal as well as the following there should be an appropriate system of reciprocity so devised that WACU countries can be assured of comparable treatment for their products when the latter are imported by the other countries in the Community.

The WACU countries might want to go beyond the provisions of the first proposal by giving the other States of the Community more favourable treatment than the EEC.

For example, they could adopt in their favour the 50 per cent reduction on the most favourable total duty, which is that applied to the WACU countries.

They might also apply a minimum tariff, below their common external tariff, to imports from other Community members.

In this case, it seems evident that article 9 of the Yaoundé Convention will have to be suitably amended.

Third proposal:

On the lines of the first or the second proposal, the advantages contemplated might be restricted to a number of selected products. The list of products could be established by negotiations between the WACU countries and the other members of the Economic Community of West Africa according to the benefits inherent in trade in such products and the mutual concessions which could be agreed upon. Such negotiations might be considered:

- (a) Either after preliminary negotiations between the WACU countries on the one side and the Community States on the other; or
- (b) In the form of general negotiations, the countries outside the WACU presenting their offers and demands to the WACU countries individually or as a group.

Fourth proposal:

The English-speaking States outside WACU can probably find ways of liberalizing trade between themselves which go beyond the measures which the WACU countries could, or might wish to, grant. To some extent, the wider commercial advantages that the countries outside the WACU might grant among themselves might, in certain cases, prejudice the present or potential interests of the WACU States. For this reason, the Council might decide that the agreements among States outside the WACU should be considered as an integrated whole during the general negotiations.

Fifth proposal:

As indicated in the preceding proposals, States not belonging to the WACU could form among themselves a group with closer trade relations before negotiating with the WACU. Perhaps, during general negotiations:

(a) States outside the WACU would reach an agreement on reciprocal trade concessions more extensive than granted to or received from the WACU;

(b) It would prove possible to amend the WACU Convention in an effort to promote trade on the widest possible basis in the sub-region.

On these assumptions, if the objectives of the first or second proposal, considered as maximum targets, could not be attained, another course might be followed to develop trade substantially among the countries of the sub-region.

Customs procedures would have to be simplified and co-ordinated as regards administration, quantity control, exchange control, commercial financing, insurance, etc. (studies are in hand which will include specific proposals to this effect). In practically all of these sectors, measures could be considered which would become effective through the granting of preferential treatment to imports from one West African State to another.

If the maximum targets of the first and second proposals were only partially realized, the simplification and co-ordination of non-tariff administrative measures, rules and procedures would nevertheless constitute a very considerable further facilitation of operations.

Sixth proposal:

In view of the considerable importance of non-tariff barriers to trade, the Economic Community of West Africa would become a reality sooner if it were possible during the negotiations on tariff barriers to obtain quantity commitments from the various Governments on a minimum annual increase of imports between States of the sub-region based on their present trade relations.

Whatever proposals are adopted by the Interim Council of Ministers, negotiations would inevitably be established on a product-by-product basis.

Several categories of products may be distinguished that will call for special agreement:

(a) Products that do not come from the Community but are exported to the sub-region by other African countries, or that the latter could export, would have to be treated in such a way that, although they stimulate sub-regional trade, they did not affect the present or potential trade of the States. One might quote petroleum and petroleum products, exported by Algeria, food, such as preserved fruit and vegetables, which is already exported to the sub-region by several North African countries, and animals on the hoof, meat and meat preparations, exportation of which is of paramount interest to Chad.

(b) In various branches of industry, sub-regional specialization and location agreements may be envisaged. Preliminary work on iron and steel is most advanced in this respect. Similar agreements can be made for phosphatic fertilizers, petrochemicals and, probably, other industries.

If such agreements should be concluded, the accompanying trade conventions might from the very outset take the form of a common market (on the model of the European Iron and Steel Community) or of multinational enterprises with appropriate trade and financial agreements joined with those on a common market.

(c) Agreements similar to the above may be concluded for smaller production runs or projects. In particular, the river basin commissions might negotiate joint financing agreements for specific industrial projects. These negotiations should take into account the needs of trade between participating countries, abolishing, as far as possible, obstacles caused by trade policy. Similar agreements between a restricted number of countries might be called for with regard to all exports of electric energy.

In any case, it seems that in the preliminary stage preparations will have to be made for entering into product-by-product negotiations, not only because this would appear the easiest and the most immediately profitable procedure, but also because it offers the advantage of fostering discussion on points which are as concrete as possible, and of giving the English- and French-speaking negotiators experience in dealing with each other, without, however, losing sight of the problems as a whole.

The selective or product-by-product method has long been adopted in bilateral or multilateral negotiations. It was recently recommended in proposals submitted in the context of the Economic Community of Eastern Africa. The conditions of its use are that each partner should himself determine the extent of the concessions which he is willing to make, that he should remain free to refuse negotiations on specific products or to determine what advantages he is ready to offer for such products.

When each partner decides the terms of negotiation in this way, the initial offers are rarely concordant. They must be adjusted until each group of negotiators finds that the reciprocal advantages have reached a balance. The negotiators, having appraised the probable effects of these mutual concessions, may reach an agreement when they consider that the advantage of their increase in exports will be accompanied by corresponding import concessions.

The less-developed countries can thus limit their concessions to what they consider to be the benefit that they should derive from the agreement.

The loss of income resulting from the reduction or elimination of import duties on one or several products should be counterbalanced by an increase in fiscal revenue to be obtained through the export industries and also by the income-increasing effect of wages and salaries where production has been increased. The removal or reduction of industrial protection should be accompanied by an increase in productivity.

Where one of the partners does not produce the items selected for negotiation, the loss of revenue from import duties must be compensated for - according to the elasticity of demand for the product to be imported - by a price reduction at consumer level, or, in other words, by an increase in purchasing power.

It is difficult a priori to foresee the effect on the economy as a whole of ceasing to protect a specific product. The domestic producer will encounter greater competition. This will probably cause him to reduce his prices or improve the quality of his products. Profits will be likely to diminish if he does not increase his productivity. If he succeeds, the national economy will not suffer from the elimination of protection.

When a domestic producer is unable to react in this way to external competition, he will find himself in real difficulties, which might lead to the liquidation of his enterprise. The Government must then consider whether his production makes a distinct contribution to the national income, or whether it might not be more profitable for the national economy to use for other economic activities the resources that would be released.

If the uses for labour, capital and materials provided by the export industries - which are the most efficient and competitive industries - suffice to absorb the resources released, the economy will stand to gain in the long run, even if temporary difficulties must be faced.

However, this extreme case rarely occurs in the developing countries, where demand is growing. Usually, the effect of reducing or eliminating protection is to block the growth of domestic production. The additional demand from growing consumption is satisfied by the most efficient supplier, domestic or foreign.

In addition, when concessions are granted to foreign products on the basis of preference, the foreign suppliers will compete with one another, and the advantage will be reaped by the importing country and the consumer.

However, different, but more restrictive, measures might be adopted in the negotiations in order to avoid complications of this type. Instead of merely reducing import duties, such duties might be accompanied by quotas, more or less on the lines of the procedure usually adopted in certain cases by the French-speaking West African States among themselves.

According to this formula, only a certain quantity of imports of a particular product is imported duty free or at reduced duty, additional imports being liable to duties to be agreed upon between the partners.

The practical advantages of the system may seem to be interesting. The establishment of quotas guarantees exporters the possibility of gaining a part of the foreign market if they can supply at reasonable prices; they can then organize their production accordingly. In the importing countries, it will be possible to estimate the loss of revenue in respect of import duties and the increase in income from exports.

The importing States will be able to offer import quotas corresponding to the expected increase in their consumption. Local producers will not run the risk of being ruined because they will be assured of maintaining their current level of production.

For the negotiator, this formula will also have the advantage of offering a reliable way of measuring the concessions that are granted and obtained in return.

Finally, it will be possible to give the less-developed countries the opportunity not to alter their taxation system, income from which might be seriously impaired if a more liberal negotiation formula were adopted.

II. Restrictions on current payment transactions and on capital movements

(Articles of Association, article 2, 1(d))

In connexion with restrictions on current payment transactions and capital movements, the position is as follows:

A. The States of the West African Monetary Union (Ivory Coast, Dahomey, Upper Volta, Mauritania, Niger, Senegal and Togo) brought into effect on 1 July 1967 a system for the liberalization of financial relations with foreign countries. The same system was adopted by the Central African Economic and Customs Union (UDEAC) and Madagascar.

The liberty of payments and capital movements is now assured not only with France and between these States but also with foreign countries, under a system of free convertibility. In other terms, individuals or public and private corporations in the States of the West African Monetary Union may not only make any payments connected with commercial transactions, transfers of savings or tourist expenditure, but may also freely contract loans abroad, receive direct investments from foreign countries or make such investments in foreign countries.

Inspired by the French regulations on the liberalization of financial relations with foreign countries that have been in force since 1 January 1967, the new regulations of the West African Monetary Union provide inter alia that:

All foreign loans not contracted by banks or connected with trading operations are subject to authorization by the Ministry of Finance of the African State concerned, when the amount is above fr CFA 50 million. Borrowings of amounts between fr CFA 500,000 are except from all formalities.

Direct investments abroad made by individuals or corporations whose normal place of residence or head office is in the States of the Monetary Union, as well as direct investments by foreigners in States of the Monetary Union, are subject to authorization by the Minister of Finance of the State concerned.

The central banks of States of the Monetary Union will now repurchase unlimited amounts of bank notes issued by them that are presented to their agencies by foreign central banks or commercial banks.

B. Under the system in force in Nigeria foreign current payments are unrestricted as long as they are connected with commercial operations. The system of licences ensures the supply and transfer of the foreign exchange necessary for the payments.

In the context of its association with the European Economic Community, Nigeria has provided that nationals as well as corporations of EEC member States are given equal treatment with regard to investments made by them, capital movements, current payments resulting therefrom, as well as transfers related to such transactions.

C. In Ghana, all transactions that require a transfer of money abroad are in practice subject to rigorous exchange control.

Imports made by means of a system of specific licences may be financed either by means of sight or acceptance documentary bills issued by authorized financial establishments, or else on sight or by acceptance letters of credit issued by registered importers through a bank in Ghana.

Importers of durable and non-durable consumer goods must deposit at the Bank of Ghana through their own bank an amount equivalent to 50 per cent of the value of their special import licence.

Although the granting of an import licence indicates that the exchange control department approves of the payment, the commercial banks depend on the central banks for the necessary foreign exchange.

D. Sierra Leone and the Gambia

Exchange permits are required for imports to Sierra Leone. However, there are no restrictions on payment transfers to the United Kingdom for goods and services of United Kingdom origin. Holders of import licences are entitled to obtain foreign exchange for relevant transactions.

The Gambia has no restrictions on transfers inside the sterling area. Transfers to countries outside that area require authorization by the Exchange Control Department of the Ministry of Finance.

E. In Liberia, there is no exchange control on the movement of capital in or out of the country.

F. In Mali, the present system of strict control of foreign payments is a transitory measure. The recent devaluation and the accompanying agreements foreshadow the adoption of a system very similar to that of the West African Monetary Union, in the form of an agreement for economic and monetary co-operation.

Proposals for negotiation procedure

The negotiations concerning restrictions on current payment transactions and capital movements might be conducted separately or together with negotiations on the progressive elimination of Customs and other barriers to trade in general, or trade in selected articles. In the first case, the member countries of the West African Monetary Union, which form a bloc with Liberia owing to their liberal foreign payments and capital movements system, might enter into negotiations simultaneously with States such as the Gambia, Sierra Leone and Nigeria, under whose external payment regulations there are no restrictions on the development of foreign trade.

Separate bilateral financial relations might be conducted between Ghana and Mali and the West African Monetary Union, with or without Liberia, or between these two countries and the Gambia, Sierra Leone and Nigeria, taken either individually or together.

Financial relations between Ghana and Mali could apparently be dealt with only in bilateral negotiations.

If, in the context of the negotiations envisaged, it should seem desirable to take as the point of departure in relations with Nigeria the system of payments and capital movements in force under that country's agreement of association with the EEC, then separate negotiations might be conducted on this point, on the lines of one of the above-mentioned possibilities.

Proposals on the content of negotiations

One of the aims mentioned in the Articles of Association is the elimination of restrictions on current payment transactions and capital movements. The relevant negotiations should in theory lead to the establishment of a joint liberalization programme that is sufficiently diversified to take into account the situations and commitments of various countries, the States of the West African Monetary Union having satisfied this obligation. The time that the various States would be allowed to adopt a system of liberalization of foreign current payments and capital movements would have to be established in the light of the possibilities that can be seen from their initial balance of payments positions.

The first stage might be that of eliminating restrictions on commercial payments and related services. In view of the small present volume of trade between the States of the sub-region, this requirement should not be difficult to satisfy. The increase of trade could only be progressive and would itself produce money to finance transactions.

In the second stage which would come soon after the first, restrictions on the transfer of savings and certain types of income might be raised. Finally, in the third stage, problems of loans and direct investments between the States would be solved.

The establishment of a payments union might be envisaged as an alternative to adopting a liberalization programme. It would have the advantage of not imposing efforts that might be difficult to sustain on countries without a liberalization system. More time would thus be accorded for the re-establishment of the balance of payments position.

Membership of the payments union might be extended to African countries other than those of the West African sub-region. At the present level of intra-African trade, there would be scarcely any risk of having to create an excessively large working capital fund.

The implementation of such a project would probably necessitate some degree of co-operation between French-speaking and English-speaking States owing to the monetary and financial links that many States in the sub-region have with other countries. A common money of account would have to be adopted.

Finally, it would be possible to negotiate some bilateral payments agreements with the States that do not have a liberal exchange system. Such agreements might be general in scope and cover all annual transactions or a specific volume of trade. They might be applied to a number of selected products, trade in which could be ensured by means of a floor agreement or made subject to indicative or compulsory annual quotas. Some States in the West African sub-region have already had experience of this type of trade and payments agreement; that between Ghana and Dahomey of January 1962 is one example.

III. The identification of products suitable for negotiation and the problems of trade networks

A. The aim of the second stage of research now in hand is to identify products suitable for negotiation on a sub-regional basis. An inventory of industrial capacity is being established for the fourteen products mentioned at the Accra Conference. Other products or industries may be studied during the survey in the field. For each product or group of products the inventory will mention existing or envisaged capacity, current production, the balance of exports to the sub-region or abroad, provisions covering commercial distribution and, as far as possible, current costs of production or export prices.

By comparing this information with what is known about tariff and other barriers to trade, it will be possible to indicate:

The type of commercial policy measures most likely to stimulate sub-regional trade in the products in question;

The effects of such measures on the Customs revenue of each country engaged in trade;

Additional measures intended to compensate for the negative effects that a general agreement covering a large number of products would have on the balance of trade as well as the budget equilibrium of each West African country.

With this aim and in order to give more practical content to research in hand, a series of interviews in depth should be carried out in each country. The persons interviewed should be responsible officials in the ministries directly concerned, in public or semi-public agencies and chambers of commerce as well as important businessmen and bankers.

Agreement in principle on the need to obtain information at these levels as well as recommendations to ensure that all necessary aid is provided at each level will greatly help in formulating the central part of the entire study.

B. The development of trade between sub-regions presupposes the establishment or extension of commercial networks or, in other terms, the services and infrastructure necessary to meet the demand of any specific market. Generally speaking, a feature of the economies of the West African markets is the high marketing costs, which are reflected in the high level of retail prices.

These conditions result partly from the very limited extent of the existing commercial networks, established originally for the distribution of extra-regional imports, and partly from their concentration on markets that represent a section of consumers located in the major urban centres. Not only has such a pattern the effect of making economies of scale impossible but it often opposes the marketing of products of nascent national industries.

In order to propose appropriate measures to solve these difficulties, the study group will have to be able to define the extent of the existing distribution networks and the relative position of the trading centres, the effects of the distribution of licences on the division of markets, transport costs, banking facilities and networks,

the general characteristics of commercial enterprises and details of wholesale and retail competition. Research will thus have to be brought to bear mainly on the private sector. The declarations of relevant trade policy by the various governments will be of considerable help in obtaining the necessary co-operation.

It seems that co-operation between the business world and government agencies is absolutely necessary for the actual implementation of any development project. In matters of trade and capital investment, their experience in the different West African countries may be illuminating for the legislators. The study contemplated should provide first-hand information, especially on trade networks, which would facilitate the Governments' choice in matters of economic policy.

Conclusion

Analysis of the relations between member countries of WACU and of the principles of their relations with third countries, as well as a recapitulation of the tariff systems now in force in all the other countries of the Economic Community of West Africa - contained in the annexed documents E/CN.14/WA/EC/2/Add.2 - might facilitate the work of the Interim Council of Ministers.

The data thus presented show both the scope and the limits of negotiations which, in the first phase, would be confined to reciprocal concessions on import duties. At the same time, it should be possible on the basis of such data to choose negotiation procedures within the range of possibilities indicated in this document.

In making its choice from among the proposals for liberalization of payments and capital movement the Council may also select the avenues to be followed and explored in subsequent studies.

More extensive studies should determine the scope of possible agreements, especially if the principle of product-by-product negotiation is adopted according to markets, trade networks, financing, and the external savings that are being or should be made so as to achieve real economies of scale.

Thus, the establishment of the new Economic Community of West Africa will be associated with the development of industrial capital investments and transportation in the sub-region.