Common External Tariff System – For ECOWAS Near Completion

By Daniel Plunkett

It is 14 years now since the original deadline of 1990 for completing the ECOWAS Common External Tariff (CET), a key part of the planned Customs Union uniting the 15-member states, was agreed on. Notwithstanding the date, there is now a new hope for success.

A Common External tariff implies that all goods entering the customs territory of any ECOWAS country will be assessed the same rate of customs duty.

In combination with the Free Trade Area, a Common External Tariff offers several important advantages for ECOWAS importers and exporters. This includes an enlarged market comprising all the 15-member states, cost certainty for traders, reasonable levels, modernisation of the revenue collection systems, making them increasingly transparent, increasing integration of the informal sector into the formal sector and concrete evidence of economic integration.

The Common External Tariff and the Free Trade Area, the two constituent parts of a Customs Union, were both agreed to by the ECOWAS Heads of State in the 1975 ECOWAS Treaty and again in the 1993 Revised ECOWAS Treaty.

To reinvigorate the process, and in the face of the need to integrate the EU/ACP relationship into the World Trade Organisation (WTO) system, the ECOWAS Heads of State and Government agreed in December 2000 that the Common External Tariff of the West African Economic and Monetary Union (WAEMU-or UEMOA in French) would form the basis for the CET.

UEMOA Membership

Thus, the seven non- UEMOA members (Cape Verde, The Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone) are busily preparing themselves for harmonisation, studying the impact of adopting the CET and preparing their national negotiating positions.

Now the new time frame is clear. The agreement regarding the rates of duty to be applied to all products under the CET is to be in place by the end of December 2004, with a three-year transition period allowing countries time to harmonise. The CET is to be in place in all countries by the end of 2007.

This timing coincides with the EU deadline to negotiate Economic Partnership Agreements (EPAs) with the African, Caribbean and Pacific (ACP) group, long-time partners with the EU under the Lome Conventions and now the Cotonou Accord.

The present EU/ACP agreement is not considered to be compatible with the terms of the WTO, and the EU has negotiated a WTO waiver until the end of 2007, to normalise the situation by negotiating comprehensive free trade agreements with the ACP's regional sub-groups, such as ECOWAS.

For the ECOWAS countries involved, finally fulfilling the treaty arrangements is a satisfying and compelling step towards closer integration. Since the end of 2002, most of the countries involved have been engaging in a consultation process with their private sector associations and civil society groups regarding how best to implement the CET.

There are two processes underway which are related to the CET one national and one regional. In each of the seven non-UEMOA member states, national
co-coordinating committees have been created, bringing together representatives of the different government ministries involved in customs and trade policy, as well as private sector associations.

Each member state is considering the effect of adopting the CET's all 5,500 tariff lines-and outlining a path toward harmonisation .

At the regional level, ECOWAS has brought together the national committees in order to start the process of harmonsing the different National Plans. For negotiations at the regional level, information related to six key items is required from each member state. They are exceptions list exemptions list, period of application, special export processing zones, bilateral trade agreements with non-ECOWAS countries and budget impact of CET adoption.

With help from USAID's ECOTRADE project, the ECOWAS Executive Secretariat is providing assistance to the national co-ordinating committees, including relevant methodologies and software to reinforce the economic arguments for adopting the CET.

The roadmap
Adoption of the common External Tariff is but one of the actions forseen in the "Roadmap to the ECOWAS Customs Union".

The Roadmap includes six broad categories of actions, such as achievement of a free trade area, the common external tariff, harmonization of indirect tax policy (for example, excise taxes and value-added taxes) or the transfer of competence to the regional organisation in regards to trade policy or competition policy, own resources for ECOWAS, and reform of the institutional framework.

The Roadmap lays out the "mile markers" along the road to reaching the Customs Union by the end of 2007, specifying step to step what the ECOWAS Secretariat needs to do to help its member states arrive there on time. In addition, the Roadmap offers a means of evaluating and monitoring progress and compliance in each country, to keep the initiative rolling in the right direction.

The new Common External Tariff has four categories (zero percent, five percent, 10 percent, 20 percent), which are lower than the tariff rates charged in some countries on some products.

Now, importers will know exactly that the tariff rate is for products entering the ECOWAS customs territory, as they will be far less incentive to smuggle goods in some countries with much higher duty rates on some products.

In addition, the CET will reduce dependence on customs revenue, which often accounts for more than half of the national budget for ECOWAS countries.

Re-balancing fiscal policy to include value-added taxes and excise taxes-instead of high customs duties-is the approach recommended by the IMF. Some countries have been using "special taxes" on finished goods imports to raise revenue. With a top rate of only 20 percent under the CET, excise taxes can be substituted so any lost revenue can be made up.

One upshot of the present system of relying heavily on customs revenue is that the informal sector has remained outside of the grasp of the tax collector. Now, there will be greater incentive to universalize the application of the VAT or sales tax to more and more of the informal sector.

Finally, with the CET coming to fruition, ECOWAS will be living up to its promises of economic integration. The CET will facilitate completion of the Free Trade Area and will help to attract investment to the region, as investors will be able to realize economies of scale in selling to a 15-country market with 234 million consumers.

Source: Culled from "Daily Graphic", 10th March, 2004