



**CENTRE FOR THE
PROMOTION OF
PRIVATE ENTERPRISE**

CPPE COMMENTS ON PROPOSAL TO IMPOSE EXCISE DUTY ON CARBONATED DRINKS





Introduction

At a recent interaction with the National Assembly on the 2022–2024 Medium Term Expenditure Framework [MTEF], the Nigeria Customs Service proposed the re-introduction of excise duty on the production of soft drinks in the country.

This proposal is ill-timed, insensitive and most inappropriate given the prevailing harsh economic and business conditions. The citizens and the business community are experiencing a galloping and volatile inflationary condition which is unprecedented.

The proposal is also a negation of the economic recovery and job creation aspirations of the federal government. Many upcoming small businesses in the beverage sector would be hard hit by this proposal. The millions of micro enterprises in the soft drinks' distribution chain will be adversely impacted by the imposition of the excise tax. This is detrimental to the job creation and poverty reduction commitment of President Muhammadu Buhari, GCFR.

Nigerian manufacturing companies, and indeed most investors, are going through tremendous stress at the moment. They are currently grappling with serious macro-economic challenges and structural constraints impacting on capacity utilization, productivity and competitiveness. This is affecting sales, turnover, profitability, shareholder value and the sustainability of investments. The norm globally at this time is to provide incentives for industries to aid their recovery from the shocks of the pandemic and escalating costs. We cannot afford to be doing the exact opposite. Manufacturers, across all product segments need a respite, especially in the light of the unprecedented escalation of production and operating costs.

Some of the current challenges which manufacturers are grappling with include the following:



1

The economy is still at a recovery phase, many manufacturing companies are yet to recover from the shocks and dislocations inflicted by the pandemic and the recession that followed.

2

Manufacturing contribution to GDP is still less than ten percent. The growth recorded in the sector in the second quarter of 2021 was a mere three percent (3%). Giving the strategic importance of manufacturing to an economy, what the sector needs at this time is more stimulus to ensure better contribution to the GDP.

3

Manufacturers are currently contending with a serious crisis resulting from liquidity in the foreign exchange market and sharp depreciation in the exchange rate which is impacting adversely on the cost of production. Many manufacturers are not able to import vital raw materials, a situation which is severely inhibiting their production and productivity.

4

Manufacturers are suffering from intense pressure on cost of production arising from numerous structural bottlenecks. This situation is creating sustainability challenges for investors in the sector, especially those in the SME segment. They have experienced significant spikes in the cost of raw materials, cost of fund, high import duty, elevated energy cost, prohibitive cost of transportation and high cost of logistics. A huge proportion of these costs cannot be passed on to the consumers because of high consumer resistance.

5

The economy is currently characterised by weak purchasing power which is taking a huge toll on sales and turnover of many manufacturers, leading to high inventory of manufactured goods.

6

Energy cost is currently at an all time high, the cost of diesel is already at the threshold of three hundred naira (₦300) per litre as against two hundred naira (₦200) per litre a year ago. The cost of gas is on the increase, availability of gas is an issue. Industrialists are also experiencing sharp increases in electricity tariffs provided by the Electricity Distribution Companies, the Discos.

7

The cost of logistics has continued to be on the upward trend. Some of the reasons for this are the states of the roads, the limited freight capacity of the railway system, the crisis situation at our major ports, the traffic gridlock around the Lagos ports, the numerous check points around the ports and beyond.



In the light of the above challenges, the proposition to re-introduce excise duties on a segment of the food and beverage industry should be put on hold. The excise duty proposition is not consistent with the desire of Mr. President to create jobs and to lift hundred million people out of poverty in ten years. If anything, it is a negation of the President's aspiration on job creation and alleviation of poverty. We implore the National Assembly and the Federal Ministry of Finance to put on hold any move to impose excise duty on any segment of the Nigerian manufacturing sector.

The manufacturing sector offers a good platform for the laudable aspiration of President Buhari to create jobs and lift people out of poverty. But if the burden of tax becomes excessive and unbearable on this critical sector of the Nigerian economy, the achievement of job creation and poverty alleviation promised by the president will be difficult to achieve.

It is worthy of note that manufacturers [including soft drinks producers] are already paying numerous taxes and levies which put a lot of pressure on them. Some of the taxes and levies that are already being paid include: corporate income tax of 30%, education levies of 2%, VAT 7.5%, withholding tax, land rent, environmental tax and numerous unofficial taxes. There are also multitude of fees and levies imposed by many other government agencies at the federal, state, and local government levels. The appeal is that the Nigeria Customs Service and the National Assembly should have a rethink on this matter.



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Profile Of **DR MUDA YUSUF**

Dr Muda Yusuf is the immediate past Director General of the Lagos Chamber of Commerce and Industry (LCCI). He is an economist and has contributed immensely to the national economic discourse through his research-based analysis of policies of government as they affect various sectors of the economy. He is currently the Founder/CEO of the Centre for the Promotion of Private Enterprise [CPPE], an NGO committed to the ideals of free enterprise and private sector development.

Dr Yusuf obtained bachelor's and Master's degrees in Economics from the University of Ilorin, Nigeria and University of Lagos, Nigeria respectively. He has a Masters Degree in Business Research from the Swiss Business School, Switzerland. He also holds a Doctorate degree in Business Administration from Swiss Business School, Switzerland. He has good understanding and competence in Business and Corporate Strategy. He is an alumnus of the Lagos Business School, having attended the Advanced Management Programme of the school.

He has participated in numerous high-level public policy advocacy dialogues at both the federal and state levels with the aim of fostering a conducive environment for private sector development in the Nigerian economy. He is a leading advocate of an enabling environment for the Nigerian private sector and has a vast knowledge and exposure on Business Research, Policy and Regulatory issues affecting business.

Dr Muda Yusuf has attended numerous prestigious courses, conferences and seminars both locally and internationally.



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