Countertrade with Nigeria

Brasil

BETWEEN 1979 and 1981, trade between Nigeria and Brazil seemed poised to take off rapidly. As the largest and most developed countries in their regions, both offered complementary markets and a model of South-South economic cooperation. Nigeria, dependent on oil for over 90 per cent of its exports, supplied fuel to Brazil while the latter supported the former's industrialisation by exporting food, consumer and capital goods to Nigeria. The irony of two self-professed developing countries, locked into a colonialist-type pattern of trade mattered little as long as both countries benefitted.

When the debt crisis emerged in 1982 and oil prices started to decline, both countries slid into serious balance of payments problems. Countertrade seemed to offer a solution, allowing them both to maintain their bilateral trade to mutual advantage. For Nigeria, it offered an opportunity to escape the Opec quota system, avoid a reduction of imports on which the country was crucially dependent to run its industry, and to circumvent the expiry of trade credits in 1984 due to accumulated arrears of about $7bn. Brazil could similarly ease the squeeze on imports, although its dependence was less than Nigeria's, and use its power as the Third World's largest oil purchaser to secure markets for its manufactured exports, a practice that Brazil's Petrobras had been using since the foundation of its trading subsidiary, Interbras.

The Nigerian countertrade deal, clinched in 1984 with General Buhari's military government, went to Brazil's largest private trading company, Cotia Trading, but was accompanied by a change of Petrobras' pricing arrangements with NNPC (Nigeria National Petrolem Company). The $500m deal was a so-called counterpurchase package, under which Petrobras paid the price for Nigerian oil into a New York escrow account out of which Nigeria paid Cotia for Brazilian goods. Due to the agreement, Brazil emerged in 1985 as Nigeria's largest trade partner until the new Babangida administration suspended the agreement.

As Nigeria later found out, countertrade is a risky business. Similar deals with Austrian, French and Italian companies soon floundered because of inadequate provisions against changes in oil prices. Countertrade partners refused to be bound by the high prices prevailing at the time the deals were closed. The Brazilian deal was not affected much as it had been concluded on a net-back basis which links prices for crude to world market prices of refinery products. The problem resided more in the prices Nigeria paid for Brazilian products. As a review of the countertrade deals initiated by General Babangida revealed, Cotia and its Brazilian suppliers had overpriced their exports to Nigeria to the tune of several million naira.

Moreover, as the new Nigerian administration changed its trade strategy, it wanted to switch consumer goods previously included in the deal to capital goods. More generally, it also had misgivings about the whole idea of countertrade, because circumventing Opec oil quotas proved self-defeating since additional oil on the world market depressed prices even more. And the government's decision to adopt an IMF-approved economic adjustment programme in order to reschedule its foreign debts with the Paris Club and foreign banks, allowed it to renew trade credits. But while imports from Brazil were suspended, Petrobras continued to lift oil under the contract with Nigeria, resulting in the accumulation of up to $350m in the escrow account. As Brazil refused to let Nigeria use this money for other purposes, the latter resumed imports from the former under new guidelines including verified prices for Brazilian products. Plans to raise the total of the deal to $1bn were scrapped and no new deal followed Nigeria's sobering experience. Nigeria still remains Brazil's largest trading partner in Africa but total trade between the two countries has declined in recent years.

February 6-12 1989