Information Brief on AfCFTA

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SACU member states debate AfCFTA tariff concessions amidst economic realities in the region, as the January 2021 date for trading approaches

The realities of African economies seem to have dawned on the countries as Africa's Continental Free Trade Area (AfCFTA) enters the last stages for its operationalization. Member states are moving beyond the broad claims of the benefits of the AfCFTA to the bolts and nuts of how it will address the daily challenges of jobs, incomes, food etc. confronting Africa's people.

Barely two months to the official date of January 1, 2021 for trading of goods under the trade pact, not only are member states of the Southern African Customs Union (SACU) still debating among themselves the tariff concessions necessary before trading can commence but also the nationality of the products--rules of origin among others. The Covid_19 Pandemic has also added another layer of challenge with regards to the inability of member states to have physical meetings.

These came to the fore in a webinar on the AfCFTA within Southern Africa, jointly hosted by Labour Resource and Research Institute (LaRRI) , Namibia, and Third World Network-Africa (TWN-Africa) on 22nd October 2020. This was the third, in the series of webinars on the AfCFTA, coordinated by TWN-Africa, the Secretariat of Africa Trade Network (ATN).

Making a presentation , Ms Lerato G. Ntlopo, Deputy Director, Trade Negotiations, SACU Secretariat, highlighted, among other things, the challenges of tariff offers and the rules of origin that are still outstanding in the AfCFTA SACU configuration. She said SACU was yet to submit its tariff offers and this has dragged on due to the defensive and offensive interests of member states.

Also, she added that to date, of the fifty-four (54) out of fifty-five (55) African Union (AU) Member States have signed the AfCFTA Agreement only thirty (30) have ratified. Within SACU, 2 member states are yet to ratify. Member States are however, expected to submit their schedules of tariff concessions by 30th October 2020.

Ms Ntlopo also made the point that initially the SACU Secretariat was of the view that the offers made under the Tripartite Free Trade Agreement between Southern African Development Community (SADC), East African and Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA) could pass as SACU's offer under the AfCFTA but that was objected to by member states. SACU member

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states, under the AfCFTA thus put forward defensive and offensive interests. That forced SACU member states to re-group to discuss the tariff offers which are yet to finalised.

The challenges enumerated by the SACU Secretariat were corroborated by Mr. Asser Nashikaku, of the Ministry of Trade, Industrialization and Small and Medium Enterprises Development, Namibia. He mentioned that Namibia was yet to finalise its tariff offers before harmonisation could be done at the level of the Customs Union, SACU. This, he reiterated was a result of the unfinished rules of origin and the fear of trans-shipment within the framework of the AfCFTA.

Mr Nashikaku updated participants that Namibia was preparing her tariff offer within the configuration of SACU. The SACU tariff book contains seven thousand eight hundred and thirty-four (7834) tariff lines, he added. Therefore, in line with the agreed modalities-90 percent liberalisation, 7 percent sensitive list and 3 percent exclusion-, SACU's tariff offer on the 90 percent level of ambition will consist around seven thousand and fifty one (7051) tariff lines; the sensitive list will be approximately made up of five hundred and forty-eight (548) tariff lines while around two hundred and thirty-five (235) tariff lines will be excluded from liberalisation commitments. This tariff offer will be negotiated with the state parties and expected to be submitted by end of October 2020.

Discussions that followed were about the challenges being encountered within Namibia and the larger SACU bloc as well as other Regional Economic Communities (RECs). Participants admitted that there was a general agreement that the AfCFTA is supposed to help African countries not simply to trade better but to transform the economic structures of member states from dependence on primary/raw materials to economies that are diversified and industrializing. This is because the AfCFTA is based on the long-cherished dream of African economic integration.

The real issues, according to the webinar, then would be whether the processes African states have embarked on so far and the particular AfCFTA agreement on the table, would help the continent towards achieving those transformative objectives.

Participants were of the view that in the drive to transform African economies, African countries should start by asking whether the AfCFTA is creating opportunities for African producers and African products to be exchanged or creating opportunity for a big market for non-African products to flood our markets. That is how African producers and products were being positioned to take advantage of the market being created and within that given the biggest motors of Africa production is small and medium enterprises, how are those people being positioned?

Putting forward his thoughts on the AfCFTA a discussant, Mr Tetteh Hormeku, Head of Programmes, Third World Network-Africa, stated that most people in Africa would agree that part of the problem in Africa, which is reflected in Africa's dependence on primary commodities, is the domination of African economies by non-African products and Africa being integrated into the global economy as exporters of raw materials and importers of almost everything.

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‘If we examine the existing protocols that have been signed in the areas of goods and services, there are causes of concern. Maybe we are too much in a hurry to declare that we are in a position to benefit when in actual fact we have not put in place the things that would allow us to do so’. Mr Hormeku stressed.

Using the tariff concessions and the difficulties around it, the sensitive list products, and the rules of origin, he went on to illustrate some of the areas of difficulties going forward.

First of all, in the area of goods, most member states knew the scope of tariff liberalisation was going to be 90 percent, which means that once the AfCFTA comes into being, 90 percent of the products in Africa will enter duty free-quota free (7 percent for sensitive list and the remaining 3 percent for exclusion). That liberalisation goes with different players for different countries. The question then is whether the 90 percent offers the same opportunities for different players to be able to build and trade.

Mr Hormeku grounded his concern with examples. He said, taking the dairy farms in East Africa as a case in point, there is community dairy in Rwanda and nascent dairy farms in Uganda and big ones in Kenya. They have different sizes of players in East Africa then. There are big ones like that of Kenya’s President Uhuru Kenyatta, which at a certain level, and on its own, can swallow up the small producers in Rwanda and Uganda, which are trying to build cooperative farms. In the liberalisation, how are member states making sure that the big dairy farms will not displace the local ones? he asked.

Are the 3 percent exclusion list and the 7 percent sensitive list enough to offer protection for the industries that must be protected in all the different industries?

According to Mr. Hormeku, the difficulties that SACU and Namibia were facing do not seem to be unique to them as the ambition of liberalisation under the AfCFTA, did not consider on the ground, the different players on the African continent and how to meet their needs. It is therefore legitimate for the different regions to ask themselves what their offensive and defensive interests are.

The second difficulty that confronts the AfCFTA, the participants noted, was that when the negotiations of AfCFTA started, they were member states driven. But in many countries and regions, like in SACU, those member states are in a customs union and now must reconcile their individual national offers with the commitments that they have in the customs union.

Thirdly, the rules of origin were discussed within the context of Africa’s economic realities and there was agreement that for the rules of origin to be consistent with Africa’s economic structure it must do two things: i) make it possible for Africans to aggregate their production and at the same time ii) protect the different players on the continent from non-third party products.

The rules of origin conversations have put forward that value addition of about 60 percent can pass as an Africa product. That on the face of it looks nice but can be problematic. Making his point again, Mr Hormeku used another example of canned tomato processing. In his view one can set up canned tomato processing plant in Ghana, that can create jobs for about 100 people and that is good because there is value-added with the cans being made in Ghana and labour employed in Ghana. However, sadly, at the

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same time in Ghana tomato paste enters at a very low tariff as one can have the situation where the actual tomato paste would be from a foreign country, Italy for example.

The pastes may just come in cheaply because of the conditions of production of tomatoes in Italy and they come in cheap and that may just be 20 percent of the value of the product. But the 20 percent that is imported from outside has the capacity to destroy the local production in Ghana because they are very cheap, and end up destroying the small farmers and producers who do not have the infrastructure support, credits supports etc.

So, countries might claim to be establishing a factory, but the key ingredients might be destroying local production. They might be satisfying the rules of origin threshold only to ultimately destroy local production.

What it means then is that when thinking about rules of origin in that sense two things need to be combined: Raw quantitative tariffs threshold of 60 percent with some notion of political economy benchmark which could be the 60 percent threshold, but the ingredients should be sourced locally. To do that means moving beyond tariff concessions to ask what kind of measures are available in the local economy to support these local producers be it investment, finance etc.

The webinar concluded that the AfCFTA has great objectives about transforming African economies but it seems the particular practical steps member states are taking so far are not positioning the nitty-gritty of the AfCFTA to meet the things that African countries need to put in place in order to achieve its noble vision and objectives. That problem is now shown by the challenges at hand: finalizing the tariff concessions, the rules of origin, and sensitive list products within and between the RECs.

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