Session 6: The AfCFTA as a Framework for Africa’s Industrialisation

Rules of Origin outcomes and Value Chains

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Value chains

• **Value chains** describe the range of activities that are involved in the production and final disposal of a good – and in simplistic terms would include...

  • *Design, Production*, *Marketing, Consumption, Disposal* (and many related and complementary activities within each stage of the life cycle)

• More recent focus often concentrated on the embedded power structures in a value chain

  • *Dispersed nature of often linked production*, *with dominant parties* that coordinate activities, *e.g.* *Buyer-driven* value chains (such as textile goods), or *Producer-driven* value chains (such as autos)
Value chains

• Advances in technology, logistics, and falling trade barriers have resulted in more fragmented production with individual countries able to join production networks even with relatively small contributions, where they are competitive
  • *Products often cross many borders along their production chain*

• Africa is integrated into global production chains but generally at a much lower level than other continents are, often as a supplier of commodities, sometimes of finished goods

• Yet, *extra-continental trade still dominates* intra-continental and intra-regional trade

• SADC and EAC achieve the highest levels of *intra-regional trade* but still <30% (in contrast to central and north African RECs <5% intra-regional)
Rules of Origin – what are they?

• Rules of Origin (RoO) are the laws and criteria and administrative requirements used to determine the nationality of a (traded) product.

  • Non-preferential RoO are those governed by WTO disciplines and used by countries to allocate origin for purposes of capturing trade statistics (by source and destination), apply possible trade remedies, import quotas, labelling requirements (“Made in...”)

  • Preferential RoO are the criteria used to determine the economic nationality of a traded good, in order to manage aspects of preferential market access.

• RoO, just like tariffs, are an indispensable part of trade agreements.
Rules of Origin in the AfCFTA

• On 21 March 2018, 44 African Union States signed the agreement establishing the AfCFTA

• Today, all but one country has signed the agreement and 45 have ratified it

• The AfCFTA RoO will not involve a single continent-wide regime, but cover trade between countries not previously in a preferential trade arrangement (RECs)

• The existing REC RoO will continue to apply for intra-REC trade – this also has implications for regional / intra-regional trade and value chains
Rules of Origin in the AfCFTA

• The RoO negotiations **have not been concluded**

• Ongoing challenges include:
  • Countries’ (industries) national interests
  • Managing the (existing) REC vs AfCFTA RoO outcomes,
  • Parallel tariff negotiations but disjointed timing,
  • RoO and development aspirations etc.
Rules of Origin in the AfCFTA

• The AfCFTA RoO are being negotiated on a line by line / sector by sector basis, and outstanding product sectors involve the following:

  • Certain textile materials (esp. cotton-based), clothing, and household textiles
  • Automotive sector (vehicles and components)
  • Certain sugar-containing products
  • Tobacco products
  • Certain fish provisions (criteria attached to vessels)

• How do RoO outcomes in these sectors relate to African value chains?
Rules of Origin in the AfCFTA and value chains

• Would it be reasonable if African preferences are only for African products that are wholly made of African inputs?

• What about an import-substitution approach with stringent rules to encourage African value chains?

• Impact of RoO design is highly context-specific according to country and sector, complexity of production, governance and geographic features of the value chain

• Must always consider the end-game: will products under restrictive AfCFTA rules still be competitive in the final export market, versus non-African imports?
Rules of Origin in the AfCFTA and value chains

- Tendency for countries with specific resource endowments (or capital) to favour stricter RoO as a means of creating markets and encouraging regional value chains

- How have AfCFTA negotiations approached the RoO issue?
  - Pragmatism / realism: Accepted that a line-by-line approach is required
  - Often agreed on stringent approach esp. in **agric. categories**, requiring that any inputs used be “wholly obtained” (i.e., all African)
  - *De facto* broadly bound by limitations set by pre-existing regional RoO
Rules of Origin in the AfCFTA and value chains

• How were negotiation deadlocks broken on some long-standing RoO issues such as:
  • Cheese, buttermilk
  • Wheat flour
  • Fats and oils
  • Prepared or preserved fish (e.g. canned fish)
  • Certain fruit juice (cranberry, kiwi, mangosteen)
  • Articles of leather

• Agreed **compromise outcomes involving a transitional rule** (more flexible) that moves to a more stringent rule after 3 or 5 years (sometimes following a mandatory review), ostensibly to encourage African value chains
Rules of Origin in the AfCFTA and value chains

• Some examples:

• **Prepared or preserved fish:**

• **Agreed rule:** Manufacture in which value of non-originating materials may not exceed 60% of the ex-works price of the product for 5 years, *after which manufacture in which the Materials from Chapter 3 used are wholly obtained*

• **Cranberry, kiwi, mangosteen juice:**

• **Agreed rule:** Manufacture in which the value of non-originating materials used does not exceed 60% of the ex-works price of the product for 5 years, *after which manufacture in which all the vegetables, fruit, nuts or other parts of plants used must be wholly obtained*
Rules of Origin in the AfCFTA and value chains

• **Articles of leather**

• **Agreed rule:** Manufacture from any other heading for a period of 5 years, after which manufacture from any other heading provided that the materials from HS Chapter 41 are originating

• **Vegetable waxes:**

• **Agreed rule:** Manufacture in which the value of all the non-originating materials used does not exceed 60% of the ex-works price of the product for 3 years, after which manufacture in which materials used are wholly obtained further an objective review
Rules of Origin in the AfCFTA and value chains

• Other considerations:

• **Cumulation** as an agreed principle – supportive of regional value chains
• **Value tolerance** provisions (15%) – recently agreed, offers some flexibility and supports value chains as it introduces important flexibility
• **Absorption** – recently agreed, potentially helpful when calculating local content

• Simplified RoO trade regime for low-value shipments?
• **Simplified certification of origin**: self-certification for trusted traders?
  • boost export volume by 17%?