Elements of Modalities for CFTA Tariff Negotiations

ECOWAS/UNCTAD Stakholder Consultation on a CFTA Regional Strategy

Accra, Ghana, 10 March 2016

Taisuke ITO
Trade Negotiations and Commercial Diplomacy Branch
Division on International Trade

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Context

- Launched in June 2015 to be concluded by 2017
- 2017 target date fast-track by 2 years the completion of FTA under the Abuja Treaty (1991)
- First CFTA Negotiating Forum in Feb 2016:
  - Cover goods and services
  - Built upon *acquis* of the RECs
  - Based on consolidation of regional FTA processes into the CFTA (TFTA-like FTA in North-Central-West region, other individual countries may join later)
- Developments:
  - TFTA agreed in June 2015
  - ECOWAS CET in January 2015

Structure

Questions

- What structure for CFTA negotiations?
- What and how to negotiate?

Outline

1. Negotiating structure - Configuration
2. Elements of modalities (1) - Coverage
3. Elements of modalities (2) - Tariff elimination schedules

I: Basis of CFTA negotiations

- Essentially inter-RECs/regional
  - Addressing trade between RECs conducted on an MFN basis (as per AU Roadmap)
  - Imply applied MFN rates as base rates (e.g., CET for ECOWAS)
- Addressing intra-REC tariffs would override existing RECs (against the premise of RECs' as *acquis*)
- Key implication -- CFTA negotiations would not address intra-REC liberalization (e.g., ETLS)

I: Possible CFTA configuration

	UMA members individually	TFTA members individually	ECCAS members individually	ECOWAS members as a group (as a CU)
UMA members individually	**No negotiation**	Negotiation	Negotiation	Negotiation
TFTA members individually	Negotiation	**No negotiation**	Negotiation	Negotiation
ECCAS members individually	Negotiation	Negotiation	**No negotiation**	Negotiation
ECOWAS members as a group (as a CU)	Negotiation	Negotiation	Negotiation	**No negotiation**

I: RECs' imports from RECs as % of their imports from Africa

- Imports from other RECs are generally low & trade linkage is weak between remote areas (N-S, E-W, N-C-W axes)

- SADC/ECOWAS/UMA register high intra-REC imports

- SADC appears as a key exporter to other RECs (manufacture)

		Exporter				
		UMA	**COMESA**	**ECCAS**	**ECOWAS**	**SADC**
Importer	**UMA**	**61.4**	34.0	0.7	3.8	5.8
	COMESA	17.1	**39.9**	7.0	1.1	58.6
	ECCAS	26.3	16.6	**12.2**	20.2	38.9
	ECOWAS	12.0	2.1	1.9	**72.4**	11.7
	SADC	1.7	19.0	9.4	12.7	**80.2**

Source: UNCTADstat.

Note: The figures do not add up to 100% due to double-counting of some countries in several RECs.

I: RECs' average tariffs applied on imports from RECs (%)

Importer		Exporter				
		UMA	COMESA	ECCAS	ECOWAS	SADC
Importer	**UMA**	**2.2**	3.2	7.9	14.7	6.7
	COMESA	0.7	**3.2**	5.7	3.2	7.8
	ECCAS	20.1	6.6	**9.3**	11.2	11.5
	ECOWAS	9.9	8.9	5.7	**8.6**	9.7
	SADC	8.5	2.5	0.4	0.2	**3.1**

Source: TRAINS/WITS.

- Imports from other RECs generally face higher tariffs depending on product composition (ECOWAS imports/exports)
- Intra-REC tariffs are generally low due to existing RECs, especially UMA, COMESA & SADC (data issue with ECOWAS)
- Case for CFTA in boosting inter-REC trade

II: Tariff elimination modalities

- 100% cuts = tariff elimination (unlike WTO) - Coverage

  Excluded
  - (i) No reduction (exclusion)
  - (ii) Tariff reduction only (with or without transition period)
  - (iii) Tariff elimination with longer TP

  - (iv) Tariff elimination with shorter TP
  - (v) Immediate tariff elimination

- <u>Two negotiating issues/phases</u>
  1. Define covered (& excluded) products
  2. Define the tariff elimination schedule for "covered" products

Covered   Excluded

II: Defining the coverage - WTO rules

- GATT Article XXIV - North-North, North-South RTAs
- Enabling Clause – South-South RTAs
- Larger SS RTAs increasingly covered both GATT Art. XXIV & Enabling Clause (e.g., SADC, MERCOSUR)
- CFTA may be subject to GATT XXIV disciplines
  - "Substantially all the trade" coverage – 70%, 80%, 90%?
  - Measurement – tariff line, import value?
 - 80%&100% (= av.90%) under ACP-EU EPAs
  - No consensus

II: Possible benchmarks

<u>Each CFTA party may:</u>

(i) Offer to other CFTA parties market access conditions at least equal to those offered under FTAs with extra-regional partners (e.g., EPAs)

(ii) Endeavour to offer to other CFTA parties market access conditions which come as close as possible to those applicable under pre-existing inter-REC FTAs (e.g., TFTA) or RECs (e.g., COMESA, ECOWAS, or EAC)

(iii) Cover at least X% of products and/or imports from other CFTA parties (also in view of WTO rules)

II: Hierarchy of preferences in a CFTA party
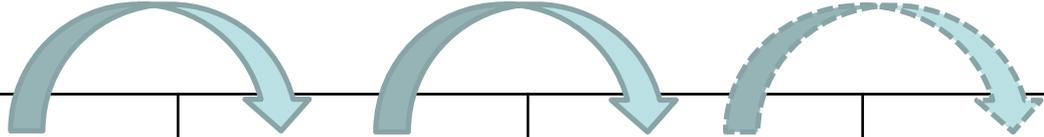
	MFN	Extra-regional FTA (EPA)	Inter-REC FTA (TFTA)	REC
	(A)	(B)	(C)	(D)
	--	Coverage = 75%?	Coverage = 85%?	Coverage = 100%?
Product A	0	0	0	0
Product B	5	0	0	0
Product C	10	0	0	0
Product D	20	20	0	0
Product E	35	35	35	0

II: Possible benchmarks - Implications

i. Ensures that CFTA members enjoy better market access conditions than extra-regional partners such as EU, setting <u>the minimum floor</u> for CFTA liberalization

ii. Determines the level of CFTA ambition, as intra-REC preferences set <u>the maximum level</u> of CFTA liberalization

iii. <u>Numerical targets</u> is important when existing RECs are not operational. What if intra-REC FTA covers a few products?

  – May induce intra-REC liberalization but sequential & continuous integration at REC and CFTA levels may be needed

II: Product & trade (import) coverage

- Two ways of measurement

- Can be complex depending on individual tariff structure & trade pattern (by different partners)

- <u>Product coverage & tariff structure</u> - Example of five countries in different RECs

  - Av tariffs 8-19%

  - Tariff distribution – 60% of TL are duty-free in SA, only 1-3% in Cameroon/Nigeria

  - Meeting 80-90% coverage target requires liberalizing high tariff bands of 25-30% for Tunisia/Cameroon

II: Product coverage – Tariff structure

	Kenya		South Africa		Nigeria		Cameroon		Tunisia*	
Simple Av MFN rates	12.8		7.9		12.5		19.2		17.4	
	%	Cum've	%	Cum've	%	Cum've	%	Cum've	%	Cum've
X=0	36.7	36.7	58.2	58.2	3.3	3.3	1.0	1.0	27.5	27.5
0<X≤ 5	0.0	36.7	2.8	61.0	44.4	47.7	3.6	4.6	0.0	27.5
5<X≤ 10	21.8	58.5	9.1	70.1	11.4	59.0	42.1	46.7	16.6	44.1
10<X≤ 15	0.0	58.5	8.8	78.9	0.0	59.0	0.0	46.7	12.1	56.1
15<X≤ 20	0.0	58.5	8.0	86.9	34.6	93.6	12.2	58.9	0.0	56.1
20<X≤ 25	40.5	99.0	6.8	93.7	0.0	93.6	0.0	58.9	0.0	56.1
25<X≤ 30	0.0	99.0	2.5	96.2	0.0	93.6	41.1	100.0	26.9	83.1
30<X≤ 40	0.3	99.4	1.3	97.5	6.4	100.0	0.0	100.0	16.9	100.0
40<X	0.6	100.0	2.5	100.0	0.0	100.0	0.0	100.0	0.0	100.0
Total	100.0	Total TL (5425)	100.0	Total TL (7038)	100.0	Total TL (5775)	100.0	Total TL (6060)	100.0	Total TL (16614)

Source: TRAINS/WITS.

II: Trade coverage - Share of DF imports

- The share of DF imports is low for imports from other RECs & varies across partners where same MFN rates prevail (product composition = partner specific)
- High DF import share for intra-REC imports (ECOWAS data)

		Exporter				
		UMA	**COMESA**	**ECCAS**	**ECOWAS**	**SADC**
Importer	**Tunisia**	**88.8**	63.4	14.6	19.4	18.1
	Kenya	14.0	**100.0**	100.0	38.7	61.0
	Cameroon	0.1	0.3	**0.0**	0.0	0.9
	Nigeria	1.8	4.7	11.5	**0.1**	6.4
	South Africa	53.4	61.7	99.7	99.3	**93.5**

Source: TRAINS/WITS.

III: Tariff elimination schedule

- **<u>Key parameters</u>**
  - The length of the implementation period
  - The level of annual reduction
  - The number and level of tariff bands
  - Complementary staging (e.g., nuisance tariffs, grace period, standstill)
  - SDT for countries with special needs
  - Reduction modalities for sensitive products

III: Equal annual reduction (1)

Example 1 (applied rate)

X= base rates	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Annual cut (percentage points)	Annual cut (% of base)
5%<X	50	40	30	20	10	0	10	20
	35	28	21	14	7	0	7	20
	20	16	12	8	4	0	4	20
	10	8	6	4	2	0	2	20
X≤ 5%	5	0	0	0	0	0	n.a.	n.a.

III: Equal annual reduction (1)

Figure: Per cent of base rate
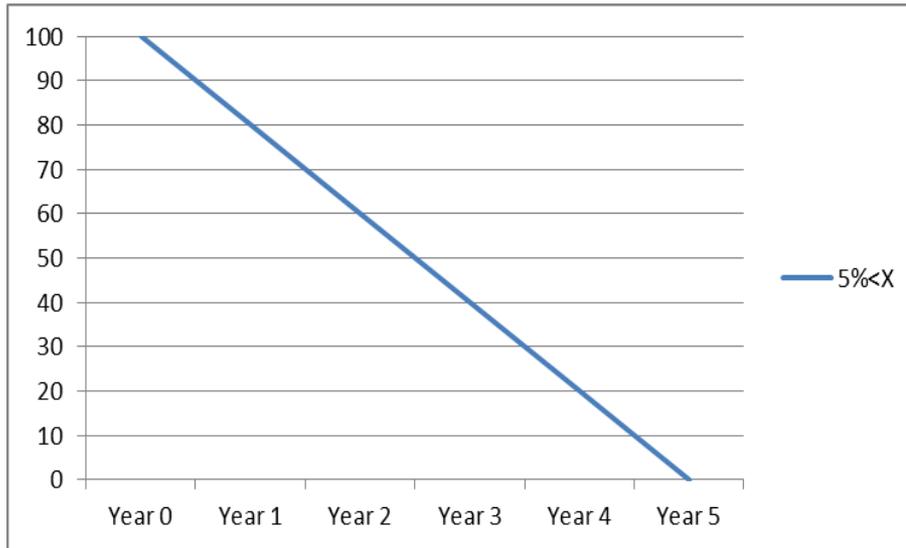
Figure: Applied rates
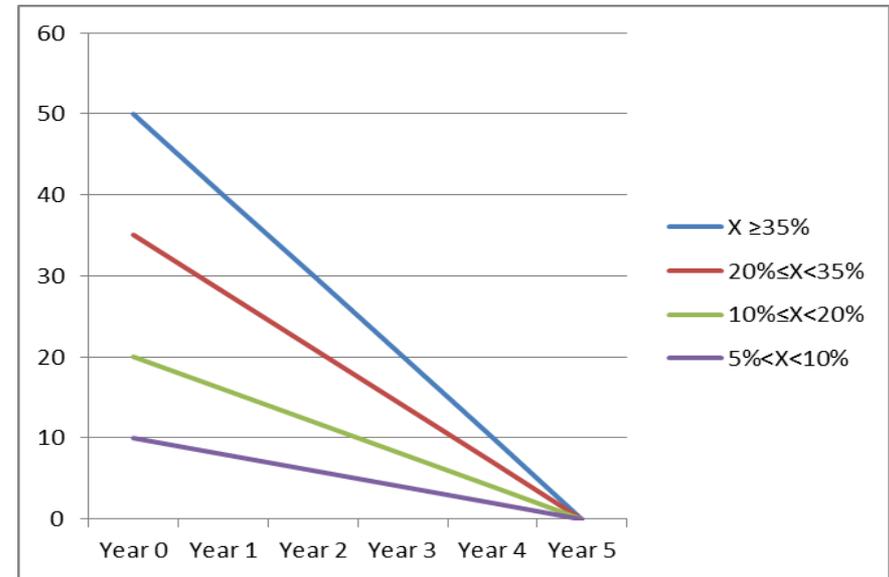
III: Equal annual reduction (2)

Example 2 (applied rate)

X= base rate	Y0	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Annual cut (percentage points)	Annual cut (% of base)
X ≥35%	50	45	40	35	30	25	20	15	10	5	0	5	10
20%≤X<35%	35	30	25	20	15	10	5	0	0	0	0	5	14
10%≤X<20%	20	15	10	5	0	0	0	0	0	0	0	5	25
5%<X<10%	10	5	0	0	0	0	0	0	0	0	0	5	50
X≤ 5%	5	0	0	0	0	0	0	0	0	0	0	n.a.	n.a.

III: Equal annual reduction (2)

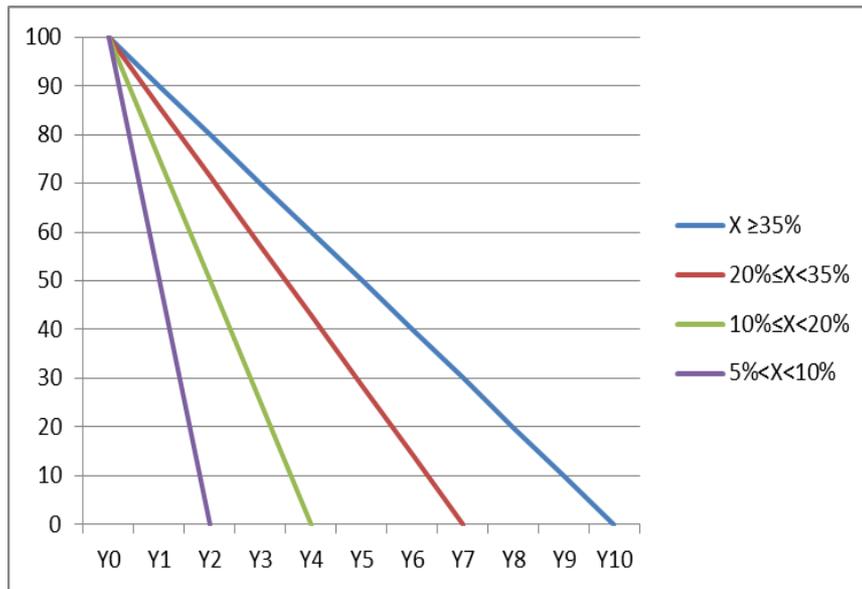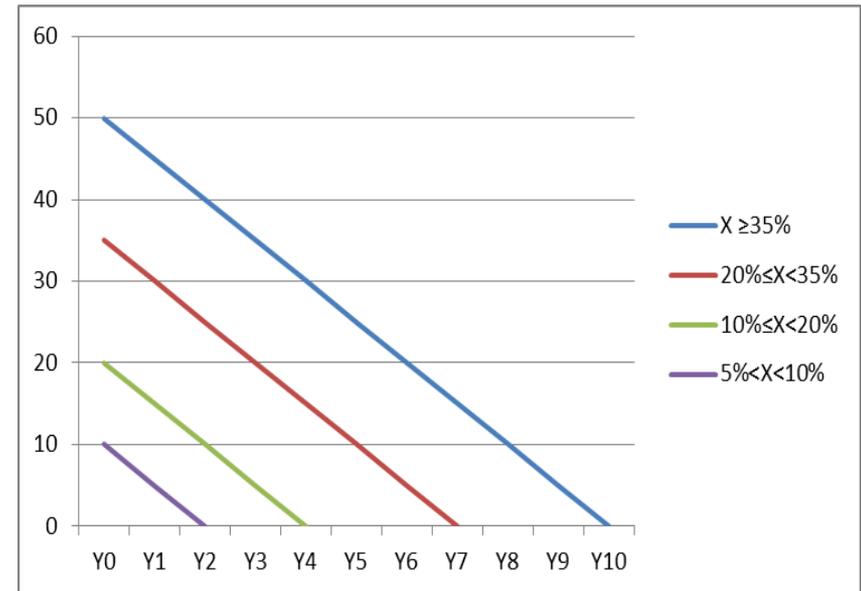Figure: Example 2 (Per cent of base rate)

Figure: Example 2 (Applied rates)

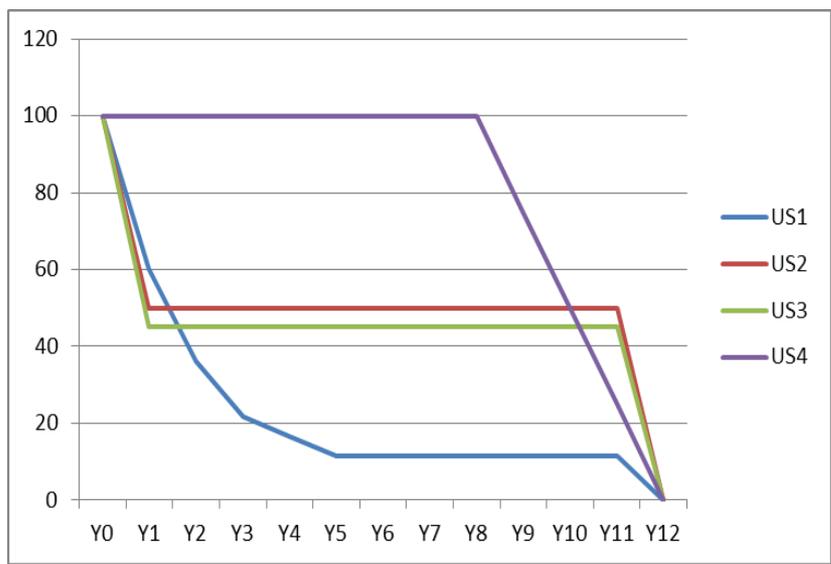# III: Non-equal annual reduction (1) - TPP
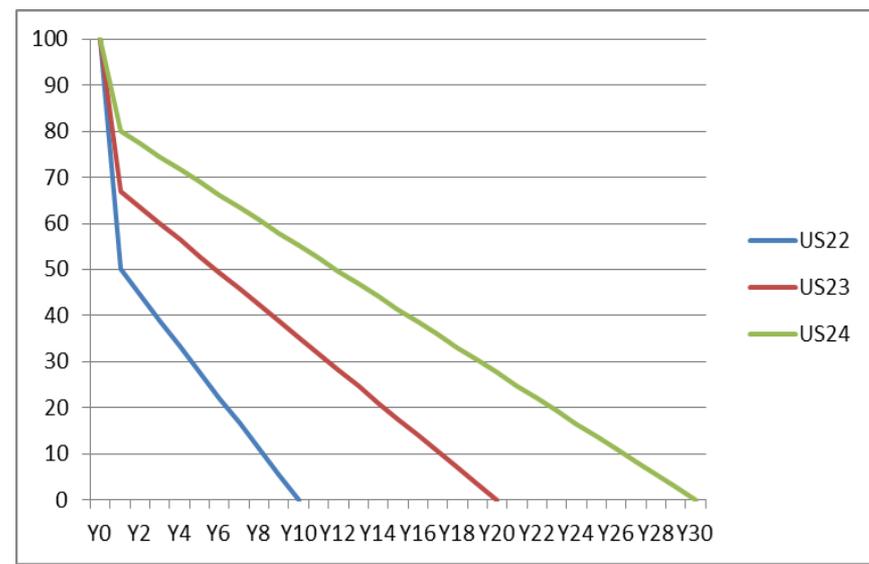
Figure: Per cent of base rate

Figure: Per cent of base rate

III: Non-equal annual reduction (2)

ECOWAS tariff liberalization schedule under ECOWAS-EU EPA

Product group	Product category	CET rate	Applied rate in (%)				
			2015	2020	2025	2030	2035
A	1	0	0	0	0	0	0
A	2	5	5	0	0	0	0
B	1	0	0	0	0	0	0
B	2	5	5	5	0	0	0
B	3	10	10	10	5	0	0
C	2	5	5	5	0	0	0
C	3	10	10	10	5	0	0
C	4	20	20	20	10	5	0
D	1	0	0	0	0	0	0
D	3	10	10	10	10	10	10
D	4	20	20	20	20	20	20
D	5	35	35	35	35	35	35

Source: Based on report from ECOWAS-EU-UEMOA Senior Officials' Meeting held in Dakar, Senegal, on 24 January 2014, as cited in ECA, Economic Report on Africa, box 5.5, table 1.

III: Possible SDT in tariff elimination

Tariff liberalization schedule for Cambodia,
Lao PDR and Myanmar under Korea-ASEAN FTA

X = base rate	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Y11	Y12
X ≥60%	60	50	40	30	30	20	20	20	10	10	10	0
45%≤X<60%	45	40	35	25	25	15	15	15	10	10	10	0
35%≤X<45%	35	30	30	20	20	15	15	15	5	5	5	0
30%≤X<35%	30	30	25	20	20	10	10	10	5	5	5	0
25%≤X<30%	25	25	20	20	20	10	10	10	5	5	5	0
20%≤X<25%	20	20	15	15	15	10	10	10	0-5	0-5	0-5	0
15≤X<20%	15	15	15	10	10	5	5	5	0-5	0-5	0-5	0
10%≤X<15%	10	10	10	8	8	5	5	5	0-5	0-5	0-5	0
7%≤X<10%	7	7	7	7	7	5	5	5	0-5	0-5	0-5	0
5%≤X<7%	5	5	5	5	5	5	5	5	0-5	0-5	0-5	0
X< 5%	Standstill											0

III: Complementary approaches

- <u>Numerical liberalization targets</u> for given points in time during the implementation period
  - E.g., 70% of all tariff lines upon entry into force, 95% by year 3 and 100% by year 5 (Korea-ASEAN)
- <u>Excluded products</u> may be subject to a certain degree of tariff reduction
  - Tariff capping, tariff reduction (e.g., 50%, 20%) etc
- <u>Rules of origin</u> to be considered in tandem
- <u>Safeguard</u> measures in case of unforeseeable import surges to raise tariffs to MFN rates (e.g., agriculture)
- <u>Continuous monitoring, review and re-negotiation mechanisms</u> to synchronize REC & CFTA liberalization?

Conclusion

- Essentially inter-REC negotiations building upon RECs' *acquis*
- Defining the coverage & tariff elimination schedule as central agendas
- The level of REC integration may condition CFTA outcomes
  - CET as a base for liberalization & sensitive products
  - May go beyond EPA but not ETLS, setting the benchmarks for CFTA liberalization
  - Need to reconcile the parallel integration processes at REC, inter-REC and CFTA levels (ETLS, CET, EPA, CFTA)
- Calibrating an approach to boost intra-African trade while recognizing realities/asymmetries
  - Offensive & defensive agenda (reciprocity)
  - SDT for weaker parties (How to address in the CU context?)

Thank You.

Contacts
Taisuke Ito
e-mail: taisuke.ito@unctad.org
Tel: +41 22 917 4893
Fax: +41 22 917 0044

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