Submission by the African Centre for Economic Transformation (ACET) to the inquiry into the UK's Africa Free Trade Initiative (AFTi) by the All-Party Parliamentary Group on Trade Out of Poverty (APPG TOP)[1]

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Introduction

The UK's Africa Free Trade initiative (AFTi) focuses on three key issues which stand in the way of Sub-Sahara Africa's (SSA) capacity to benefit from trade; namely, trade barriers, both tariff and non-tariff, and poor "hard" infrastructure. Overcoming them requires continued commitment from African governments and donor support.

Thankfully, the All-Party parliamentary Group inquiry raises questions beyond the issues presently covered by AFTi. Two such questions are the focus of our submission; namely,

"What are the key opportunities and challenges for boosting trade in Africa, and with the rest of the world, in specific sectors such as agriculture, manufacturing and services?" and "*What is the role for development partners like the UK in boosting trade and investment in Africa … through promoting two-way trade and investment with African countries?*

The Issues

For SSA to fully unleash its export potential two issues, presently not covered by AFTi, need to be tackled. On both issues the UK, as an influential Member of the EU could help ensure EU's trade policies support, or at least "do not harm" Africa.

(a) Market access to rich consumer markets, in view of the potentially adverse impact of the Transatlantic Trade and Investment Partnership (TTIP), presently negotiated between the EU and the US on Africa's exports. This submission advocates not just preventing negative impact, but using TTIP to improve Africa's access to both the US and the EU market;

(b) The need for Africa to increase trade within the region. Given the limited institutional trade capacity of most SSA countries, Africa's already overburdened trade negotiators urgently need to focus on deeper integration within the African market. This submission advocates that trade negotiators are given the breathing space to do so, by proposing a moratorium on all trade negotiations with third parties that would require reciprocity, including on the implementation of the EPAs.

[1] This presentation is prepared jointly with Eveline Herfkens (a member of the Board of the African Centre of Economic Transformation. This submission borrows extensively from her previous work. The work is coordinated by Joe Amoako-Tuffour, Director of Research.

Issue #1: The impact of TTIP

SSA's exports are highly concentrated. In addition to oil and minerals, they are concentrated in a small set of specific product categories: textiles, clothing and footwear, and some agricultural products like cotton and vegetable oils.[2] The important trend toward the emergence of global value chains virtually by-passed the region: by 2010, SSA had lower ratios of parts and components in their total imports from all sources than in 1980. And its overall share of world trade remains a miniscule 2.2 per cent. This marginalization of the region is a crucial factor in retarding its development.

Obviously, when tariffs and non-tariff barriers decline among participants in mega-regionals, the relative barriers faced by third countries become higher.

Tariffs between the EU and the US are already very low, averaging less than three per cent. But some goods have tariffs that are in double digits. The European Commission noted that tariff elimination could be especially "valuable" for EU consumers in sectors such as *processed agricultural products, footwear, textiles, and clothing,* given the high tariffs on those products. Sadly, these are *exactly* the processed products in which SSA's exports are concentrated and have potential. The erosion of preferences in this small set of specific processed product categories such as textiles, clothing and footwear as well as fish products and agricultural goods (bananas, vegetables, sugar) where protection is high, can have important negative consequences for these countries. TTIP potentially hurts Ethiopia's vegetables, Lesotho's textiles and Ghana's and Mozambique's fisheries.

And this is not just about tariffs: TTIP also aims to deal with a host of *regulatory issues*. If it is agreed that the different regulatory standards in the EU and the US will continue to apply but will be mutually recognized, this simply means that SSA exporters will continue to struggle to meet the highly demanding but different standards in the two markets. In the event the more demanding of the two sets of regulatory standards currently prevailing is agreed upon, this will result in increasing difficulties for SSA exporters.

Also, expected agreement on stricter intellectual property rights could have a negative impact on the introduction and production of generic drugs and their supply in SSA.

In the meantime, while public debate is raging in both the US and Europe over TTIP's impact on their economies, specifically on jobs and health, there is hardly any discussion on its impact on third countries. TTIP will include a chapter on "sustainable development", but this intends to only cover health and labor issues within the US and the EU.

Only a few studies on the likely impacts of TTIP deal with its impact on SSA.[3] While they acknowledge the risk of trade diversion, most regard the impact as rather modest because of the optimism about the

[2] With the notable exception of South Africa, which has a more diversified export structure that includes manufactured goods such as motor vehicles and car parts (9 per cent of total exports in 2015) as well as machinery and mechanical appliances (7 per cent). http://www.tradingeconomics.com/south-africa/exports (last accessed 22 February 2016)

[3] Björling, E. *and J.* Kolbe. "A New Era for Transatlantic Trade Leadership", *Report from the Transatlantic Task Force on Trade and Investment,* 2012; Bertelsmann Stiftung (2013), Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (BMZ), „Mögliche Auswirkungen der Transatlantischen Handels- und Investitionspartnerschaft (TTIP) auf Entwicklungs- und Schwellenländer", Studie des IFO-Instituts gemeinsam mit dem IAW Tübingen im Auftrag des BMZ, January 2015; S. Brakman, T. Kohl and C. van Marrewijk, "The Impact of the Transatlantic Trade

potential “trickle-down” effects that increased incomes for Europeans and Americans, will lead to more demand for exports from third countries, compensating for any potential negative effects.

Moreover, TTIP will not only have an impact on *present* exports: it could also nip *future* Sub-Saharan exports potential in the bud even before it is unlocked. Agro-processing represents the best opportunity for industrial development in many low-income countries. TTIP threatens to snatch their markets away from them before they have a chance to develop them – for instance, the opportunity for Côte d’Ivoire or Ghana to enhance its market share in value-added cocoa products.

The SSA countries also hope that economic transformation will enable them to participate in *global value chains* that at present virtually by-pass the region. Assuming that this lack of participation implies that potential changes in global value chains resulting from TTIP will not affect SSA, it might result in kicking away the ladder even before these countries have made it to the first step!

As WTO Director-General Roberto Azevêdo stated: “…the product specific rules that accompany RTAs may actually be detrimental to value chains and therefore exclusionary for some. The smaller the country, the smaller the company, the smaller the trader, the bigger the likelihood that it will be excluded”.[4]

If TTIP is not to harm SSA, it would be very helpful to address relations with SSA now, and to do so as a precursor to the overall agreement, and *not* as just one of many issues on the EU-U.S. negotiations agenda sometime in the future. This is all the more urgent as both the U.S. and the EU have trade preference schemes for SSA whose benefits will be eroded by TTIP.

The US scheme, the African Growth and Opportunity Act (AGOA), covers most of the region, but its product coverage is less than generous. It removes tariffs on roughly 98 per cent of products, but excludes key agricultural products (such as cotton), precisely those products in the sector that employs the vast majority of the poor. Restrictions on imports of sugar and dairy products discourage African cocoa exporters from processing cocoa beans into chocolate and other value-added products. As with all preferential treatment schemes, complex rules of origin limit the number of products eligible for preferential treatment.

The European “Everything but Arms” (EBA) program allows all imports to the EU duty free and quota free (DFQF) –except for armaments – but is limited to just the group of Least Developed Countries (LDCs), which encompasses only 34 (out of 48) countries in sub-Saharan Africa[5]. This is problematic. With regional integration presently high on the political agenda of SSA – as it should be, country exclusions complicate the creation of truly common markets in the region. Moreover, by limiting this preferential access to LDCs, EBA excludes lower-middle-income countries such as Côte d’Ivoire, Ghana, and Kenya, precisely those African countries best placed to take advantage of preferences to diversify exports.

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and Investment Partnership on Low Income Countries’ Agreement Heterogeneity and Supply Chain Linkages«, Report for the Directorate for Trade Policy and International Economic Governance, Ministry of Foreign Affairs, The Netherlands, 2015; and J. Rollo, P. Holmes, S. Henson, M. Mendez Parra, S. Ollerenshaw, J. Lopez Gonzalez, X. Cicera and M. Sandi “Potential Effects of the Proposed Transatlantic Trade and Investment Partnership on selected Developing Countries”, report by the Centre for the Analysis of Regional Integration at Sussex (CARIS), 2013.

[4] Regional trade agreements “cannot substitute” the multilateral trading system – Azevêdo; *WTO Speeches – DG Roberto Azevêdo*, 25 September 2014.

[5] European Commission, Everything But Arms (EBA) – Who benefits?; (last accessed 29 February 2016)

The EU is at various stages of finalizing European Partnerships Agreements (EPAs) with different groupings in the region.[6] These agreements require reciprocity and include issues beyond trade in goods, which might create unnecessarily burdensome obligations for these countries and may distract from or could be inconsistent with their more immediate development priorities. Moreover, the membership of the various African regional groupings overlaps; and most of them include LDCs that already have access through the EBA scheme, creating problems for groupings that have common external tariffs.
How can the TTIP – as it has to deal with its trade relationships with third countries ultimately anyway - help, not hinder SSA's export potential. Last fall the Government of the Netherlands proposed to do so – but until now has found little support among its EU partners.

The Dutch Proposals

Last November the Dutch Government proposed to the Dutch Parliament four main steps aimed at preventing the TTIP from damaging low-income country exports.[7]

(a) *To use TTIP to harmonize the unilateral preference schemes of the U.S. and the EU to improve their utilization*.

At present, both the EU and the US have preferential trade arrangements with SSA. Put together, they represent a hodgepodge of multiple and different conditions and rules, hardly generous or helpful, have different product coverage and different rules of origin and benefit some poor countries and/or some products in SSA. Harmonizing these arrangements would be very helpful – provided that the *best* features and *most effective* provisions of both programs are preserved and their rules are updated to make them compatible and relevant in today's globalized world.

On country coverage, it is difficult to justify a US-EU trade arrangement that treats developing countries differently. What particular European foreign policy interest would be served by the EU and the US providing different access to Kenya's products? Thus, the best way to proceed is to be guided by the generosity of the US scheme as it covers most of SSA, while EBA is limited to the least developed countries. For about a dozen other poor, or slightly less poor, countries in the region, the EU trade policy is less generous. It is important that the new agreement offers the same preferential treatment to all low-income and lower-middle-income countries in SSA.

On *product coverage* the US scheme is much too limited. Most SSA countries' exports are highly specialized, producing a very narrow range of goods, in many cases, a few raw materials account for most of their exports. Excluding even a small number of products can rob a preference scheme of any meaning. Thus the coverage should be expanded to include all products as in EBA.

(b) *To make the Rules of Origin for TTIP not "unnecessarily strict".*

Rules of Origin (RoO) remain daunting obstacle for small and poor exporting countries. They raise both production and administrative costs as they require very complicated documentation - not just for exporters: they also create huge burdens to customs authorities with already limited institutional capacity. Worse, Europe and the US use substantially *different methodologies* to define origin. So poor producers

[6] On the current state of play from a European Commission perspective see: http://trade.ec.europa.eu/doclib/html/144912.htm (last accessed, 22 February 2016)

[7] Letter to Parliament by the Minister for Trade and Development, 13 November 2015,

have to adapt their manufacturing processes in order to comply with the substantially different conditions that they impose.

The third and probably most fundamental problem is that these RoO were created decades ago: with the emergence of global value chains, production has become fragmented between many countries, with each specializing in one narrow task. By requiring substantial added value, RoO can represent an obstacle to participation in global value chains as SSA countries typically have limited industrial capacity.
So, make RoO flexible. TTIP provides the US and the EU with an opportunity to deliver on their promise made last December at the WTO Ministerial in Nairobi.[8] However, improved RoO should not only apply to products imported from LDCs but should be granted to all low-income countries in SSA. The TTIP partners should also agree on mutual *recognition* of their origin regimes by accepting an import eligible in one market as eligible in the other.

(c) To address the issue of standards.

The original TTIP's aim to harmonize standards has now changed to *mutual recognition* of each other's regulations. But this could mean that exporters from third countries will continue to face two different sets of standards when exporting to the US or the EU. The Dutch suggestion to extend the benefits of recognition to imports from low-income countries if they comply with either the U.S. or the EU standards is appropriate if the TTIP partners do not intend to harm third countries.

(d) To include in the TTIP Chapter on Trade and Sustainable Development the obligation to monitor the impact of TTIP on low-income countries.

This is a worthwhile proposal. The problem, however, is that it might come too late, as the damage might already be done, unless action is taken soon.

These are sensible proposals which the UK government should seriously consider and support in all future discussions of the TTIP.

Issue #2: Giving priority to intra-regional trade.

Sub-Saharan Africa (SSA) needs to expand exports in order to create jobs, to raise incomes and, ultimately, to reduce poverty and aid dependency. Its domestic markets are simply too tiny to enable local industry to achieve economies of scale. Africa has by far the lowest level of intra-regional trade- less than 13%.

For SSA to improve its capacity to exploit trade opportunities and diversify its economies, it is critical to increase intra-regional trade. The region acknowledged this and Africans are upping their game, with negotiations started to establish a Continental Free Trade Area (CFTA) by 2017, and, more recently, the launch of the Tripartite FTA between COMESA, EAC and SADC. But these negotiations are extraordinary complicated, given the many preferential agreements, with multiple and overlapping membership, which presently exist in Africa.

Africa's already overburdened trade negotiation capacity urgently needs to focus on deeper integration within the African market.

[8] "Preferential Rules of Origin for Least Developed Countries", Ministerial Decision of 19 December 2015, WT/MIN (15)/47 — WT/L/917, op. cit.

It can only do so in case of a moratorium on all trade negotiations with third parties that would require reciprocity. This should include a moratorium on the implementation of the EPAs until such time as CFTA has been negotiated, signed and implemented. The EPA's are disruptive of Africa's own regional integration efforts, because the different African groupings overlap and all of them include LDCs that already have unrestricted market access through the EBA scheme.

For such a moratorium the Marshall Plan provides an inspiring precedent: its most important feature was that the U.S. allowed Europe to give priority to regional cooperation and integration, while in the meantime allowing full asymmetric access for European exporters to the U.S. market.

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