

Status of the AfCFTA negotiations and implementation

MEMSA-GGDA webinar on the AfCFTA

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Department
Trade, Industry and Competition
REPUBLIC OF SOUTH AFRICA

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African Economic Integration & the AfCFTA

Approach to African Economic Integration:

- African integration is a longstanding continental objective.
- Integration is seen as essential to overcome the limitations of small fragmented economies established under colonialism.
- The AfCFTA, a flagship project of the AU's Agenda 2063, aims to build an integrated market anchored on development integration approach where market integration combines trade liberalisation with infrastructural development and industrial policy cooperation to foster regional value chains
- South Africa takes a Developmental Integration approach. Therefore, focus on African trade integration, industrialisation and infrastructure development.

African Economic Integration & Intra-African trade

- Africa has 17% of world population but just 4% of global GDP, and 2% of world manufacturing.
- Africa's share of world trade is approximately 3%.
- Intra-Africa exports grew to 16.3% of Africa's total trade in 2018-2020; Low compared to intra-Asian trade (55%), intra-North American trade (49%), and intra-EU trade (63%).
- However, African markets are vital to African exporters:
 - Over three quarters of intra-African trade is within regional trading blocs
 - while Africa's exports to the rest of the world are dominated by commodities, Intra-Africa trade is largely in value-added manufactured products.

Strategic Importance of the AfCFTA to SA

- South Africa's major export destinations: rest of Africa; EU, and China account for almost 62% of SA's total merchandise exports
- SA accounts for 21.8% of total intra-African trade (imports and exports)
- African countries were the destination of 22.8% of SA's global exports in 2021-2022
- SADC is important to SA, accounting for more than 83% / 89%* of SA's total exports to Africa (*depending on whether SADC members Angola and DRC, that are not yet participating in the free trade area, are included)
- Key SADC markets for SA are Botswana, Mozambique, Namibia, Zimbabwe, Zambia
- Over 2021-2022, 59.9% of SA exports to Africa were manufactured products (compared to 32.7% in its global export basket)"
- The AfCFTA will open new preferential markets for SA exports in East, Central, West and North Africa

Background to the AfCFTA

- AfCFTA negotiations launched at AU Summit in June 2015.
- 54 out of the 55 AU members have signed (excluding Eritrea).
- As at February 2024, 47 countries ratified the AfCFTA agreement. The Agreement entered into force on 30 May 2019 (after 22 ratifications).
- SA deposited instrument of ratification on 10 Feb 2019.
- AU Summit launched the operational phase of the AfCFTA in July 2019, i.e. operationalisation of the Agreement establishing the AfCFTA.
- The 13th Extra-Ordinary Summit of the African Union (AU) Heads of State and Government held on 5 December 2020 , created the legal basis to operationalize the commencement of preferential trade on 1 January 2021.



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Legal Architecture of AfCFTA (1)

- **Agreement Establishing the AfCFTA** – This is the Main Agreement; Protocols, Annexes and Appendices form an integral part
- **Protocol on Trade in Goods** gives effect to 9 Annexes:
 - Schedule of Tariff Concessions
 - Rules of Origin
 - Customs Cooperation and Mutual Assistance
 - Trade Facilitation
 - Non-Tariff Barriers
 - Technical Barriers to Trade
 - Sanitary and Phytosanitary Measures
 - Transit
 - Trade Remedies



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Legal Architecture of AfCFTA (2)

- **Protocol on Trade in Services** – The Protocol includes provisions on general obligations and disciplines and progressive liberalisation
- **Protocol on Rules and Procedures for Settlement of Disputes** – This Protocol establishes a Dispute Settlement Mechanism, which is aligned to the WTO Dispute Settlement Understanding
- **Phase II negotiations cover:**
 - The Protocol on Competition Policy,
 - The Protocol on Intellectual Property Rights
 - The Protocol on Investment Policy
 - The Protocol on Women and Youth in Trade
 - The Protocol on Digital Trade



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The AfCFTA Key Features

- The AfCFTA sets out a framework for tariff liberalisation across Africa, the harmonisation trade related rules to encourage greater flows of intra-African trade.
- Critically, it preserves current sub-regional arrangements such as SADC as building blocs.
- The AfCFTA thus involves negotiations amongst Members/Regions without existing preferential arrangements in place. Therefore, SA/SACU will continue to trade with SACU and SADC under existing regional trade arrangements.

The AfCFTA benefits (1)

- Enhance intra-African trade through:
 - Progressive elimination of tariffs
 - Rules to manage non-tariff barriers
 - Facilitate cooperation on customs, trade facilitation and transit
 - Enhanced cooperation on technical barriers to trade and sanitary and phytosanitary measures
- Enhance legal certainty and predictability of market access
- Establish due process in resolution of trade disputes
- Can stimulate Africa's industrial development and employment
- Can enhance investor climate in Africa and new market access opportunities



The AfCFTA benefits (2)

- Successful implementation of AfCFTA expected to lead to:
 - diversification of exports
 - increased investment
 - increased productive capacity,
 - increased employment opportunities and incomes,
 - broadening economic inclusion
 - acceleration of growth,



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Progress in AfCFTA Negotiations and Implementation (1)

(1) Trade in Goods: **Tariff offers**

- Preferential trade under the AfCFTA was launched on 1 January 2021 subject to the finalization of the necessary legal requirements (domestic legislation and tariff phase down schedules) on products where we have agreed Rules of Origin.
- **48 Members**, including 4 customs unions (EAC, CEMAC, SACU, ECOWAS) **have submitted Tariff offers, of which 45 (Provisional Tariff Concessions) are technically verified by the AfCFTA Secretariat to be in accordance with agreed modalities** and are to be provisionally implemented through the Ministerial Directive of October 2021 to start preferential trading under the AfCFTA .
- Link for the AfCFTA e-Tariff Book is as follows: - <https://etariff.au-afcfta.org/> (approved offers)

Progress in AfCFTA Negotiations and Implementation (2)

(1) Trade in Goods: Tariff offers (SACU)

- SACU's tariff offer on Category A (90% of tariff book) was adopted by the Extra-Ordinary Session of the Council of Ministers held on 31 May 2023 in Kenya.
- South Africa **gazetted** the SACU Provisional Schedule of Tariff Concessions **on 26 January 2024 and launched the start of preferential trade under the AfCFTA on 31 January 2024** at the Port of Durban.
- During the launch, South Africa exported its first shipment of goods by Grinding Media South Africa (GMSA) and Defy to Ghana and Kenya. The products inside containers included fridges, home appliances and mining equipment, amongst others.
- SA (SACU) is now able to trade with other State Parties that have **approved and domesticated offers in products with agreed rules of origin**.
- The nine (9) countries that had gazetted their offers include: - Algeria, Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda, Tanzania and Tunisia
- Tariff phase down in equal instalments over 10 years – applied retrospectively from 1 January 2021.
- Final implementation - when outstanding 10% of tariff lines and Ro) are finalised

Progress in AfCFTA Negotiations and Implementation (4)

(2) Trade in Goods, Rules of Origin:

- RoO have been **agreed on 92.3% tariff lines**. The remaining 7.7% of tariff lines include **Textiles and Clothing and Automotives**.
- On clothing, we currently have agreement on the following Rules of Origin:
 - Chapter 61 (Chapter rule) – Double Transformation/Process Rule for Articles of apparel and clothing accessories knitted or crocheted; with some flexibilities for synthetic/man-made fibers (flexibilities remain to be finalised). This includes 39 HS6 woven clothing tariff lines.
 - Chapter 62 (Chapter rule) - Double Transformation Stage/Process Rule for Articles of apparel and clothing accessories not knitted or crocheted, with some flexibilities for synthetic/man-made fibers. This includes 96 HS6 knitted clothing tariff lines.
 - Prohibition of preferential trade in second-hand clothing between AfCFTA members (Chapter 63).
- On automotive, we currently have agreement as follows:
 - Chapter 87 – the general chapter rule of 40% African content and 60% inputs from outside the continent.
 - Heading 8702 (motor vehicles for the transport of ten or more persons) – 40% African content and 60% VNOM.
 - Heading 8709 (works trucks, self-propelled, not fitted with lifting or handling equipment, of the type used in factories, warehouses, dock areas or airports for short-distance transport of goods; tractors of the type used on railway station platforms) – 35% African content and 65% VNOM.
 - 8716 (Trailers and semi-trailers) - 40% African content and 60% VNOM.
- Negotiations are underway to finalise the outstanding Rules of Origin on these sectors before the next Summit in February 2025.

Progress in AfCFTA Negotiations and Implementation (4)

(3) Trade in Services:

- Current negotiations in 5 Priority sectors: Finance, Tourism, Transport, Communication, and Business Services.
- 48 State and non-State parties have tabled offers.
- Of the 48, 22 draft Schedules of Specific Commitments have been adopted for provisional implementation by the Extra-Ordinary Summit on the AfCFTA held on 25 November 2022.
- Five (5) East African Community (EAC) Partner States namely: Burundi, Kenya, Rwanda, Uganda and United Republic of Tanzania for gazetting their adopted Schedules of Specific Commitments in the five priority sectors.
- South Africa's revised offer with enhanced offer in business services, communications, tourism and transport will be tabled before Cabinet in due course.

Progress in AfCFTA Negotiations and Implementation (5)

(4) Phase II issues:

- The AU Summit held on **18-19 February 2023** in Addis Ababa, Ethiopia, **adopted the Protocols on Competition Policy, Investment and Intellectual Property Rights**, with a built in agenda of negotiations on their Annexes and outstanding provisions.
- The AU Summit held on **17-18 February 2024** in Addis Ababa, Ethiopia, **adopted the Protocols on Digital Trade and Women and Youth in Trade**, with a built in agenda of negotiations on the digital trade annexes.
- These Protocols will **require ratification prior to entry into force**.

Challenges and Risks (1)

- **Slow implementation of AfCFTA preferential trade**
 - Only 12 State Parties have started implementing preferential trade on a limited number of products –
 - Only 5 countries in East Africa have gazette their adopted schedules of specific commitments in the 5 priority services. SA's offer to service before Cabinet in the next quarter.
 - Delay in finalizing the outstanding 10% category of the tariff books/schedules.
- **Delay in finalizing the outstanding Rules of Origin on automotive and clothing and textiles**
 - Critical sectors for SA and the continent – no preferential trade can take place without agreed rules.
 - Lack of common position amongst SACU member states on outstanding rules of origin



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Challenges and Risks (2)

- **Supportive infrastructure and delays at borders**
 - Lack of adequate cross border infrastructure to facilitate movement of goods and services
 - Delays at borders – lack of capacity and training of customs officials by other Members
 - Risk of transshipment of products from third parties that do not comply with agreed Rules of Origin
- **Lack of awareness and understanding of the AfCFTA**
 - Insufficient awareness by enterprises (including SMMEs and women owned enterprises- some companies may not be export ready.
 - Lack of understanding of the technical content and market access opportunities- i.e. what the AfCFTA means for specific products, applied rules of origin, applied tariffs.



Mitigation / steps to address challenges

- Trade integration and liberalisation must be accompanied by **programmes to support African industrialisation**, regional value chains and infrastructure development – **Investment led trade approach**
- Continued **engagement with SACU and other AfCFTA members on rules of origin** that will support Africa's industrialization objectives.
- **Coordinated efforts and inclusion of AfCFTA across all of government and relevant stakeholders to ensure benefit of AfCFTA opportunities to all of SA private sector.**
- **Engagements with SARS to strengthen enforcement mechanisms at border posts** – avoid transshipment and ensure compliance with rules of origin
- **The dtic has embarked on provincial outreach and awareness workshops in collaboration with provincial governments and industry.** This is done on a continuous basis.
- **The dtic is also developing an AfCFTA implementation plan, including the establishment of a national implementation committee and a targeted strategy** (including export strategy) for the implementation of the AfCFTA - coordinated effort to maximise opportunities and minimise challenges.

THANK YOU



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