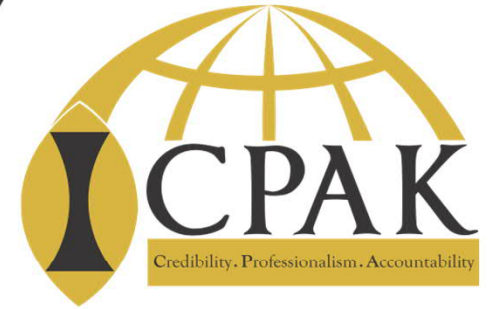


Emerging issues in customs and international trade –
What is the impact of AfCFTA

CPA Hadijah Nannyomo
Partner Indirect Taxes, EY LLP

Agenda

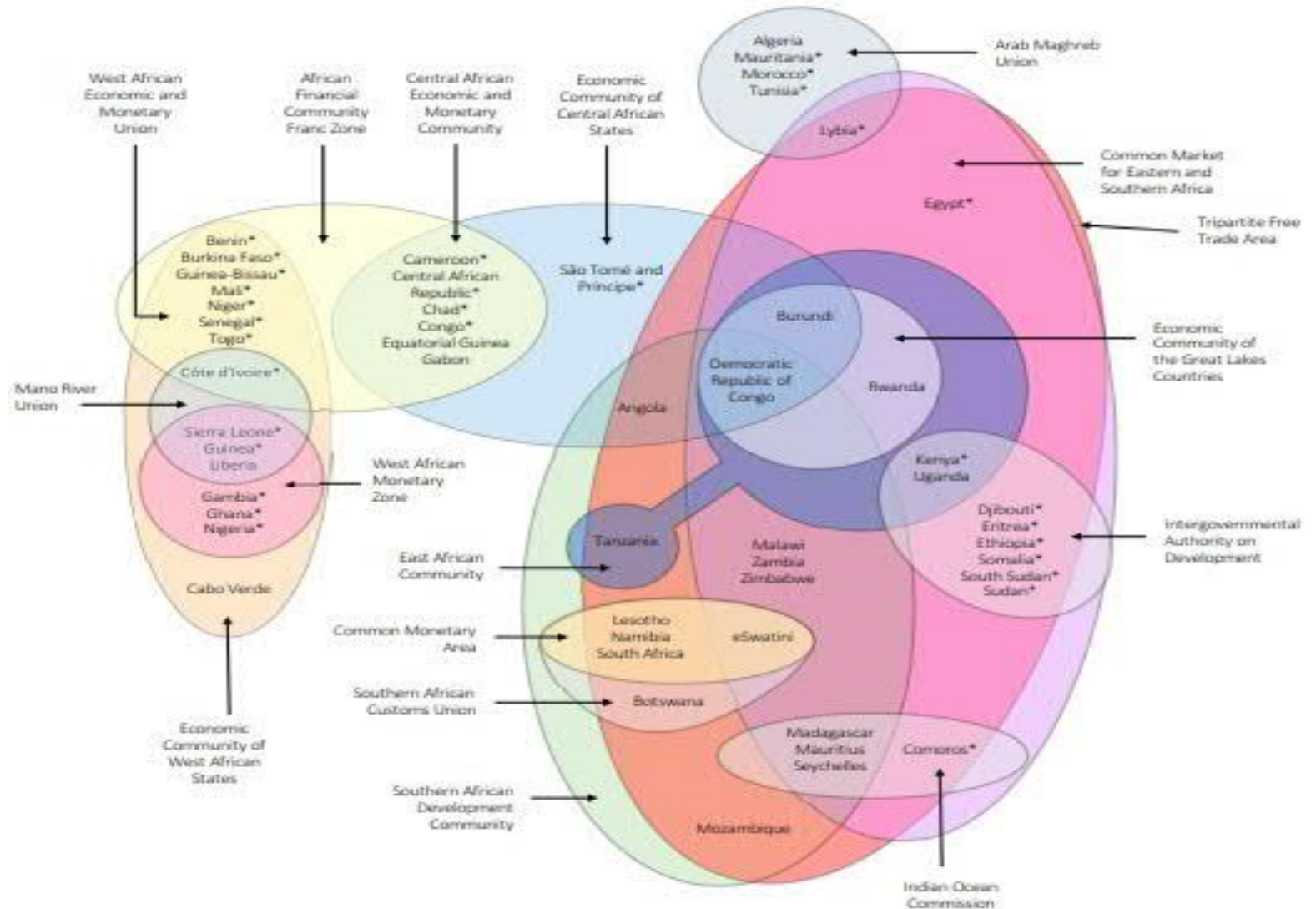


- Why is AfCFTA important for Africa?
- What is AfCFTA and its intended objectives?
- Which countries signed and which ones ratified the agreement?
- When will it be effective?
- Who will benefit from the Agreement?
- Simulation - impact on imports
- Customs procedures for exports

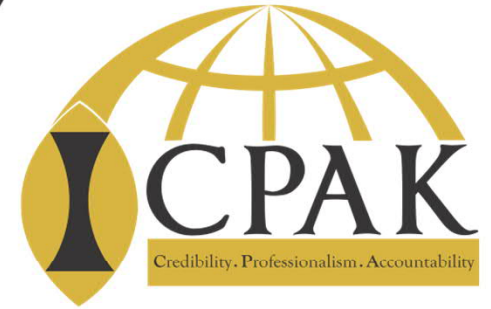
Why the need for integration / AfCFTA

Throughout the past decades, Regional Economic Communities (RECs) have been developed to facilitate regional economic integration between members and through the wider African Econoline general, the RECs in Africa are still defined by:

- Multiple and overlapping memberships
- Diverging roadmaps to integration
- Unequal levels of economic development
- No enforcement mechanisms
- Lack of harmonization of policies - different institutional and legal systems



About AfCFTA

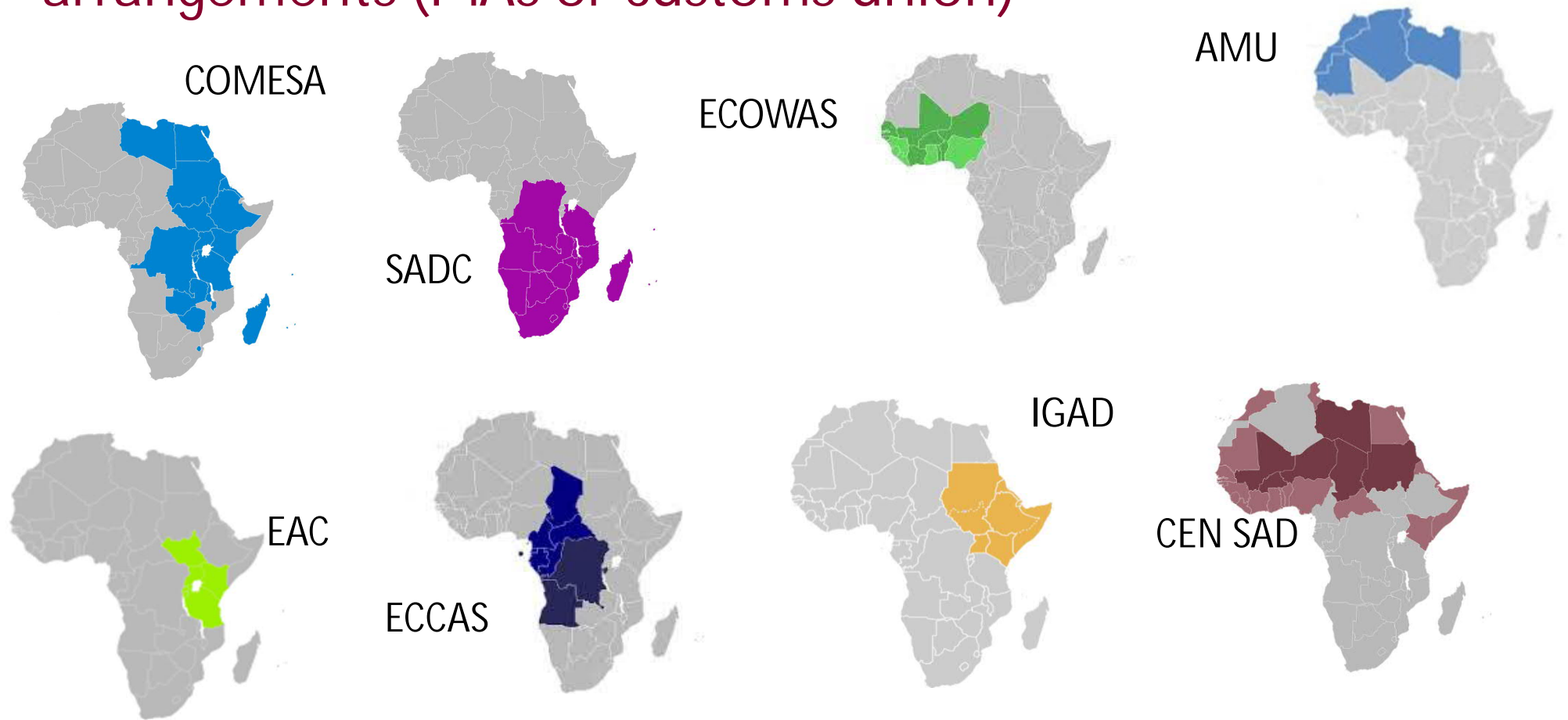


Levels of Economic integration:

- Preferential Trade Area
- Free Trade Area
- Customs Union
- Common Market
- Monetary Union
- Political Federation

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RECs will continue to exist – and so will there trading arrangements (FTAs or customs union)



These 8 regional economic communities are recognized by the African Union as building blocks for the African economic Community
they are defined as the RECs in the AfCFTA Agreement

About AfCFTA



- ▶ An Africa continentwide Free Trade Area established through a consolidated agreement comprising
 - ▶ Protocol of trade in goods
 - ▶ Protocol of trade in services
 - ▶ Protocol on dispute settlement
- ▶ ACFTA has the following objectives:
- ▶ ACFTA was established under Article 2 of Part II of the African Continental Free Trade Area Agreement
- ▶ 54 out of 55 African States have ratified the Agreement triggering its coming to force on May 2019, 34 Countries have ratified
- ▶ 1 January 2021 Trading started/ implementation- EAC status, Burundi & TZ not yet ratified

Resolve the challenges of **multiple and overlapping memberships** and expedite the regional and continental integration processes.

Expanding intra African trade through better harmonization and coordination of trade liberalization and facilitation regimes and instruments across RECs and across Africa in general.



Creating a single continental market for goods and services, with free movement of business persons and investments, and thus pave the way for accelerating the establishment of the Continental Customs Union and the African customs union.

Enhance competitiveness at the industry and enterprise level through exploiting opportunities for scale production, continental market access and better reallocation of resources.

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What AfCFTA seeks to achieve

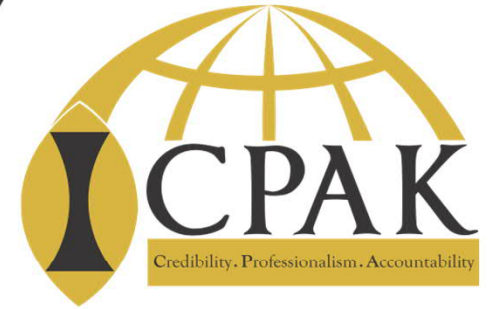


The end game strategy of AfCFTA is in three main areas:



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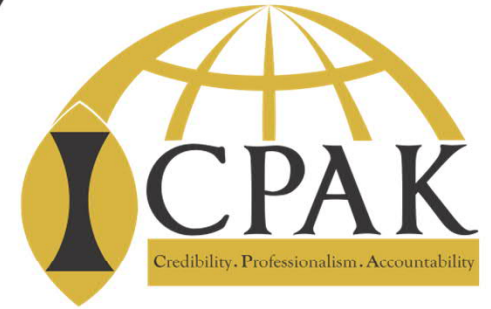
What is required to fulfil AfCFTA by State Parties?



- elimination of tariffs and non-tariff barriers
- liberalisation of trade in services
- cooperation on investment, IP rights and competition policy
- cooperation on all trade-related areas
- cooperation on all customs matters/ implementation of trade facilitation measures
- establishment of a mechanism for settlement of trade disputes
- establishment of an institutional framework for implementation and administration of the AfCFTA

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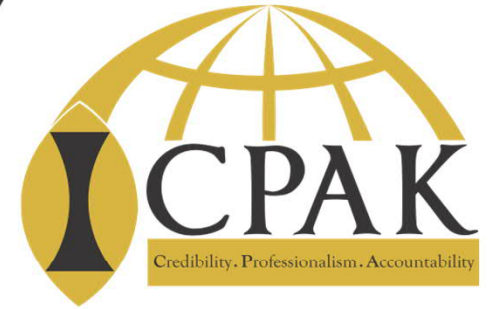
Who will immediately benefit from the AfCFTA



- Residents in the State Parties that ratified the agreement
- Importers from trading State Parties
- Exporters to trading state parties
- Importers and exporters who have fulfilled customs requirements
- Importers of goods/products that were initially dutiable

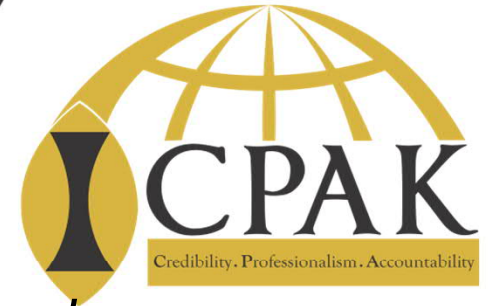
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What does elimination of internal tariffs mean?



- State Parties trading amongst each other should benefit from lower or no tariff rates when importing goods originating from the trading state parties
- Art 8 Goods Protocol: Schedules of Tariff Concessions - *"Each State Party shall apply preferential tariffs to imports from other state parties in accordance with its Schedule of Tariff Concessions"*
- To get preference treatment goods must fulfill Rules of Origin per the agreement if the goods are Wholly produced in the country of export, have a certain level of raw material content, changes tariff heading and Ex-works (EXW) price.

What does elimination of internal tariffs mean?



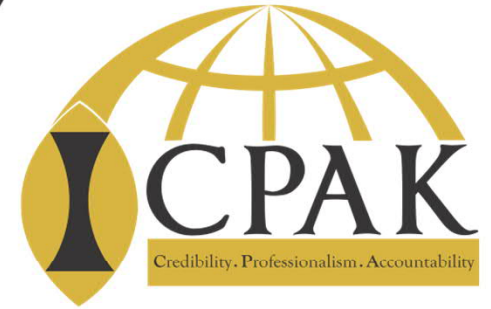
Required documents to qualify for preferential treatment

- Certificate of origin and supplier
- Producer's declaration
- Company registration/individual registration documents

In order to trade under AfCFTA preferences:

- Outstanding Negotiations must be concluded
- Results of tariff negotiations must be adopted (i.e. tariff schedules and rules of origin)
- Domestic laws & procedures in place-Update of CET tariff books & all members must ratify
- Promulgation in Government Gazette & dissemination

Modalities for trade in goods



- 90% of tariff lines liberalized over 5 years (LDCs have 10)
- 7% additional tariff lines liberalized over 10 years (LDCs have 13 years)
- 3% tariff lines may be excluded (i.e. sensitive)

What does this mean in reality?

- For EAC/Kenya 66% of the tariff lines will immediately become duty free
- 24% of the tariff lines will be gradually reduced in five years
- 10% of the tariff lines will be negotiated as sensitive goods.

Modalities for trade in goods- Illustration using EAC CET, 2017



CURRENT STATE (SACU/SADC IMPORT INTO KENYA/EAC) – Passenger Automobiles (87031000), perfumes & toilet waters (33042000),	1 ST YEAR TRADE LIBERALISATION	FULL FORCE – AFTER 5 YEARS
<ul style="list-style-type: none"> • Import duty – 25% • Excise duty- 10% /30% • VAT – 16% • IDF/RDL – 3.5%, 2% • Work permit fees • No rules of origin • No free trade in services • Non -Tariff Barriers 	<ul style="list-style-type: none"> • Import duty- 20% reducing by 5% every year • Excise duty- 10% /30 % • VAT – 16% • IDF/RDL – 3.5%, 2% • Work permit fees • AfCFTA Rules of origin • Trade in services • Reduced Non-Tariff Barriers 	<ul style="list-style-type: none"> • Import duty – 0% • Excise duty-10%/30% • VAT – 16% • IDF/RDL – 3.5%, 2% • Work permit fees • AfCFTA Rules of origin • Trade in services • No Non -Tariff Barriers • Mutual Cooperation

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Modalities for trade in goods- Illustration using EAC CET, 2017



CURRENT STATE (SACU/SADC IMPORT INTO KENYA/EAC) – Polishes/creams (34051000), Petroleum Jelly (CH27) -SI	1 ST YEAR TRADE LIBERALISATION	FULL FORCE – AFTER 5 YEARS
<ul style="list-style-type: none"> • Import duty – 25% • Excise duty- 0 • VAT – 16% • IDF/RDL – 3.5%, 2% • Work permit fees • No rules of origin • No free trade in services 	<ul style="list-style-type: none"> • Import duty- 25% • Excise duty- 0 • VAT – 16% • IDF/RDL – 3.5%, 2% • Work permit fees • Rules of origin • Trade in services 	<ul style="list-style-type: none"> • Import duty – 25% • Excise duty-0 • VAT – 16% • IDF/RDL – 3.5%, 2% • Work permit fees • Rules of origin • Trade in services • No Non -Tariff Barriers

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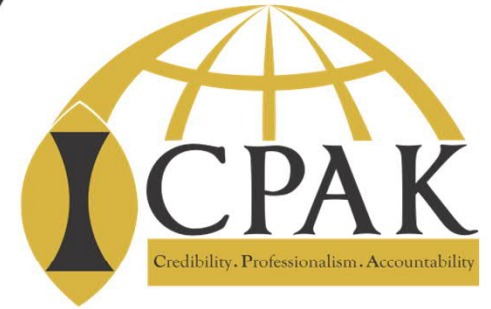
Modalities for trade in goods- Illustration using EAC CET, 2017



CURRENT STATE (SACU/SADC IMPORT INTO KENYA/EAC) – Petroleum Bitumen (27132000), Melamine resins (39092000)	1 ST YEAR TRADE LIBERALISATION – FREE IMMEDIATELY	FULL FORCE – AFTER 5 YEARS
<ul style="list-style-type: none"> • Import duty – 10% • Excise duty- 0 • VAT – 16% • IDF/RDL – 3.5%, 2% • Work permit fees • No rules of origin • No free trade in services 	<ul style="list-style-type: none"> • Import duty- 0% • Excise duty- 0 • VAT – 16% • IDF/RDL – 3.5%, 2% • Work permit fees • Rules of origin • Trade in services 	<ul style="list-style-type: none"> • Import duty – 0% • Excise duty-0 • VAT – 16% • IDF/RDL – 3.5%, 2% • Work permit fees • Rules of origin • Trade in services • No Non -Tariff Barriers

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Modalities for trade in services

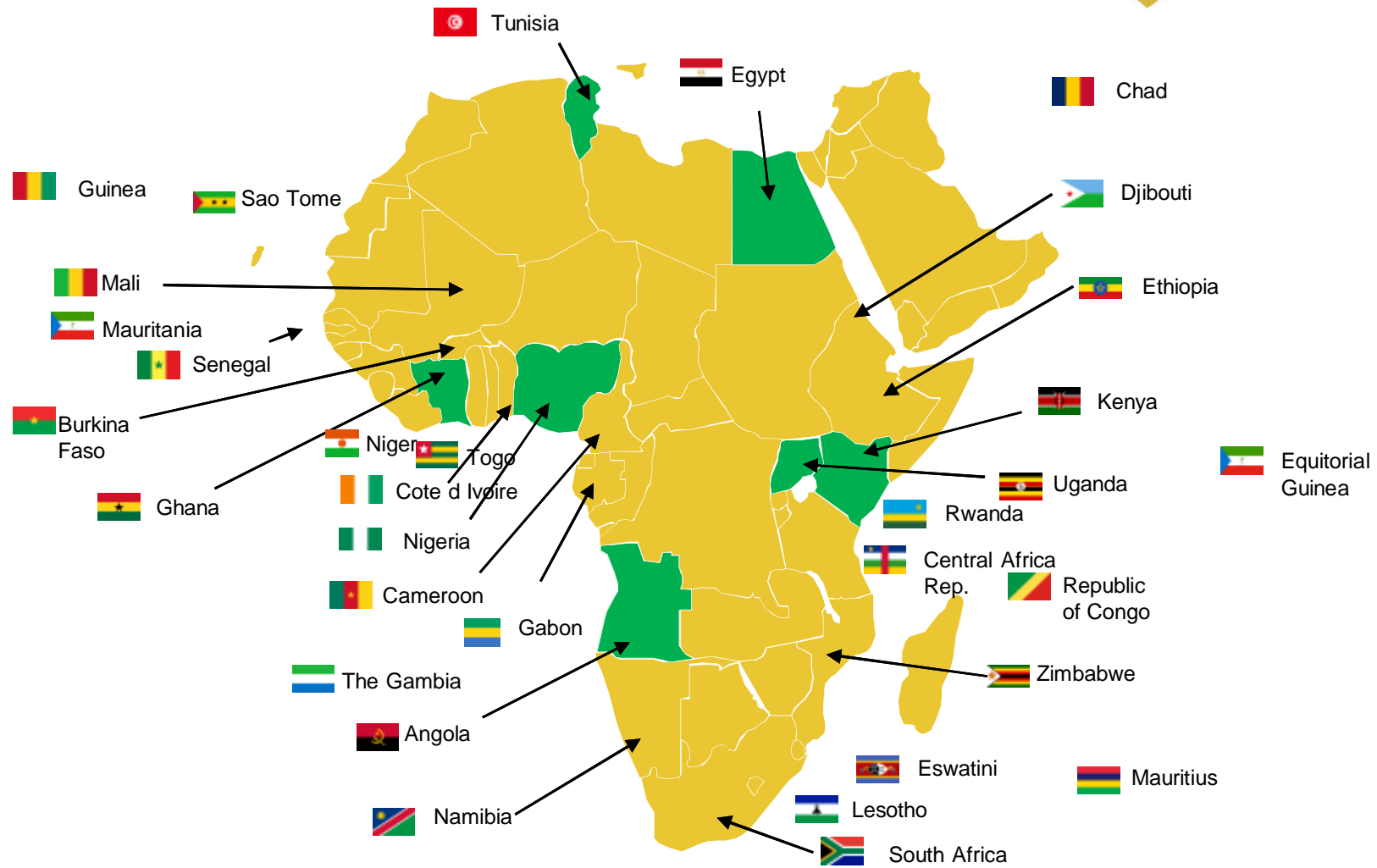


5 priority services sectors agreed for negotiation:

- Financial Services,
- Tourism,
- Transport Services,
- Communication Services
- Professional services

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State Parties



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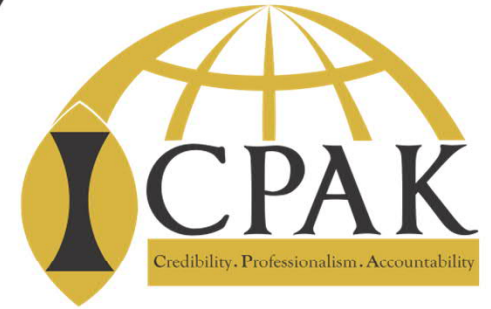
Non-state parties



- Eritrea
- Algeria
- Morocco
- Tanzania
- DRC
- Sudan
- Libya
- Zambia
- Botswana
- Benin
- Mozambique
- Madagascar
- Malawi
- Somalia
- South Sudan
- Burundi
- Liberia
- Cape Verde
- Guinea-Bissau
- Comoros
- Seychelles

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Modalities for Export of goods- Customs Procedures



- Application as an exporter
- Physical verification of premises and application
- Registration of exporters who qualify under the set Rules of Origin criteria, updating the database of registered exporters.
- Purchase and issuance of the Certificates of Origin (COO).
- Authentication of the COOs at the time of export.

Challenges envisaged by Government



- Rules of Origin (ROO) are the core of FTA negotiations and with their complexity in nature Customs officials must understand the requirements in order to determine the origin criteria applicable in goods traded under the AfCFTA.
- Expertise in Harmonised System, Customs Valuation and ROO is required in Origin Certification under preferential treatment in the AfCFTA.
- Verification of Origin to ensure that goods originating from 3rd Party Countries don't benefit from Preferential treatment. Use of Risk analysis system to determine Origin fraud.
- Liberalization of 90% of tariff lines will affect customs revenues

Way Forward



- Learn more about the opportunities and benefits of AfCFTA
- Contact your advisors for support to take advantage
- Ultimately we shall all benefit.....



Optimism is the faith
that leads to achievement.
Nothing can be done
without **hope and confidence.**

– Helen Keller

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QUESTIONS?