What have we learned from the AfCFTA Guided Trade Initiative?

Cham Etienne Bama

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ABSTRACT

During the 9th Meeting of the African Union Council of Ministers held in July 2022, the Secretary General of the African Continental Free Trade Area (AfCFTA) Secretariat, H.E. Wamkele Mene, announced the AfCFTA Guided Trade Initiative (GTI). In his keynote address, the Secretary General described the GTI as a solution-based approach intended to achieve its goal through matchmaking businesses and products for export and import between interested State Parties that are certified as having met the minimum threshold for the start of commercial meaningful trade. The GTI was formally launched at a ceremony in Accra, Ghana on 7 October 2022. The legal basis for the implementation of the GTI of the is the Ministerial Directive 1/2021 on the Application of Provisional Schedules of Tariffs Concession issued on 10 October 2021.

The eight (8) State Parties involved in the first phase of the AfCFTA GTI are Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda, Tanzania and Tunisia.

As we look forward to phase II of the GTI, lessons should be drawn from the experience of the past several months to better strategise as many State Parties have expressed interest in commercially meaningful trade under the AfCFTA. Building on best practices is important, but equally learning from the challenges in the GTI is important to facilitate trade under the full AfCFTA.

Keywords: AfCFTA, Trade law, Guided Trade Initiative

About the Author

CHAM ETIENNE BAMA holds a PGDip in Law from the University of Yaoundé II, Soa. He has been working for the past ten years on International Trade Policy issues with a focus on export promotion, trade data collection, trade and gender, trade infrastructure development and trade policy design and implementation at the Cameroon National Shippers Council, a Government Agency where he currently serves as Deputy Director for International Trade Promotion. Cham is also an alumnus of the tralac Certificate Course: International Trade Law and Policy for Africa's Development (2018).

What have we learned from the AfCFTA Guided Trade Initiative?

By Cham Etienne Bama

The legal basis for the implementation of the Guided Trade Initiative (GTI) of the African Continental Free Trade Area (AfCFTA) is the Ministerial Directive 1/2021 on the Application of Provisional Schedules of Tariffs Concession issued on the 10th of October 2021. This provides the basis for the start of commercially meaningful trade under the AfCFTA preferential rules. Article 11 (3-j) mandates the Council of Ministers to make regulations, issue directives and make recommendations in accordance with the provisions of the AfCFTA Agreement. During the 9th Meeting of the Council of Ministers held in July 2022, H.E the Secretary General of the AfCFTA, Wamkele Mene, announced the AfCFTA Secretariat Guided Trade Initiative (GTI) and the GTI was formally launched at a ceremony in Accra, Ghana, on the 7th of October 2022.

In his keynote address, the Secretary General described the GTI as a solution-based approach intended to achieve its goal through matchmaking businesses and products for export and import between interested state parties.

The GTI is designed to enable the start of trading under the preferences of the AfCFTA Agreement among an interested group of State Parties that are certified as having met the minimum threshold for the start of commercial meaningful trade.

Four major objectives underpin the AfCFTA GTI, notably to:

1. Demonstrate the efficiency of the legal framework of the AfCFTA instruments;
2. Obtain feedback on the effectiveness of the legal and institutional national systems in the participating countries;

3. Test the readiness of the private sector to participate in trade under the AfCFTA; and
4. Identify possible future interventions to increase intra-African trade and maximise the benefits of the AfCFTA.

The State Parties involved in the AfCFTA GTI are Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda, Tanzania and Tunisia.

The first phase of GTI implementation includes 96 products some of which include; ceramics tiles, tea, coffee, processed meat products, corn starch, sugar, pasta, glocus, syrup, dried fruits, sisal fibre amongst others.

In accordance with article 3 (g) of the AfCFTA Agreement, which sets out the General Objectives, the agreement seeks to promote industrial development through diversification and regional value chain development, agricultural development and food security. The choice of products for the GTI reflect the desire to meet this target amongst others and roll out the protocol on trade in goods in a manner that allows for coordination, identification of challenges and benchmarking on best practices from other State Parties involved in the GTI.

What has happened under the GTI?

Shipment of goods under the preferences of the AfCFTA started on 7 October 2022 with all State Parties involved in the GTI exporting goods to importers in Accra, Ghana.

Cameroon's first exports under the AfCFTA's GTI included: tea (HS Code 090220), Safflower (HS Code 120760) and dried pineapples (HS Code 080430). To accelerate the implementation of the GTI in Cameroon, the Minister of Trade, who is Chair of the AfCFTA National Implementation Committee, mandated the Cameroon National Shippers' Council (CNSC) on 8 September 2022 to host the *Ad Hoc* Sub-Committee in charge of facilitating the implementation of the GTI in Cameroon.

Pursuant to this mandate, the General Manager of the CNSC established the *Ad Hoc* sub-Committee with membership from both the private and public sectors. Some of the institutions which are members of the *Ad Hoc* Sub-Committee are the Ministry of Trade, the Cameroon National Shippers' Council, Ports Authorities, Standard and Quality Agency, SME Promotion Agency, Association of Manufacturers, Businesswomen Association, logistics service providers, and the Airport Authority. The *Ad-Hoc* Sub-

Committee's mandate, as stipulated in the decision creating, organising and defining its functions, are as follows:

- support the AfCFTA National Implementation Committee in the successful realisation of the GTI by conducting match-making missions for businesses in Cameroon with those in other State Parties under the initiative;
- conduct market intelligence analysis, carrying out capacity building programs for shippers as well as sensitisation campaigns;
- monitor import/export under the AfCFTA;
- liaise with focal points in State Parties to generate demand for Cameroonian products; and
- produce an exporter guide for trade under the AfCFTA amongst others.

Priority areas identified by the *Ad-Hoc* Sub-Committee include capacity building of members to bridge information gaps, sensitisation of businesses on the AfCFTA instruments, an assessment of export readiness of businesses, sectoral capacity building programmes to address sector specific requirements provided for under the AfCFTA, the establishment of a list of businesses classified as export ready for market access support programmes and market research using available tools.

In line with objectives 3 & 4 of the GTI as indicated above, the *Ad Hoc* Sub-committee commissioned a survey on the export readiness of 83 businesses in 4 regions (Littoral, Centre, West and South-West) of the country. The findings reveal that, of the 83 businesses surveyed, 43 are women-owned or led, with 10 of the women being youth. Of the 40 businesses owned or led by men, 4 of them are youth. As a result, 57% of the 83 businesses are owned or led by people between the ages of 35-50.

With regards to age of the businesses, 19% are in existence for more than 10 years and 55% for less than 5 years. In terms of sector of activities, two-thirds of the businesses are in agro-processing while 13% are producing cosmetic products.

The survey also reveals that, 48% of businesses surveyed do not have certifications for their products, while the products of 52% representing 44 businesses out of the 83 are certified by the Quality and Standard Agency of Cameroon.

Amongst the 83 businesses, 72% are not involved in export operations while 28% are seasonal exporters at varying proportions ranging from weekly, monthly, quarterly, and yearly export operations.

Major challenges to export that were noted in the survey are presented in 2 categories as follows:

I. For businesses already exporting

1. High cost of transportation by road, air, and maritime limits the capacity of businesses from exporting to regional markets
2. Complex export procedures and limited knowledge on export requirements contribute to the low involvement of these businesses in exports.
3. Non-Tariff Barriers also account for the low level of participation in export.
4. High rate of tariffs currently applicable on intra-ECCAS (Economic Community of Central African States) trade compared to other intra-REC (Regional Economic Communities) where tariff liberalisation has been successfully implemented has had a negative impact on businesses trading across borders.
5. Limited trade support infrastructure such as cold storage facilities leading to high losses, poor connectivity and border delays.
6. Lack of access to finance to increase productive capacity for large scale demands.

II. For businesses wishing to export

1. High cost of product compliance with standards
2. Insufficient finance
3. Complex border procedures
4. Lack of market knowledge on products
5. Low production capacity
6. Lack of knowledge on distribution channels.

With this phase completed, the GTI *Ad-Hoc* Sub-committee is now designing possible solutions categorised to be implemented in the short, medium, or long term to address challenges faced by businesses as they seek to fully benefit from the AfCFTA.

A stakeholder mapping exercise was carried out to map the challenges of businesses and existing institutions with mandates to address these issues. This will enable a coordinated mechanism that seeks to create synergies between public and private institutions towards the successful implementation of the AfCFTA in Cameroon.

The GTI has identified key sectors with potential to immediately generate gains under the AfCFTA and those with medium- and long-term potential to contribute significantly to the country's export performance.

Is business importing under the GTI?

Businesses have also expressed interest to import under the GTI but were confronted with two major challenges notably: non-eligibility of the exporting country and non-liberalisation of product at this stage by the Economic and Monetary Community of Central African States (CEMAC). A distributor who was previously importing Granular Urea – HS Code 31021000 (fertiliser) – from Ukraine and as a result of the ongoing war, has now decided to explore the Nigerian market where Dangote Fertiliser is producing Granular Urea. But Cameroonian importers could not import from Nigeria under the AfCFTA rules due the fact that Nigeria has not completed domestic processes and made available the AfCFTA tariff book at the border and an AfCFTA Certificate of Origin. As a result, Nigeria cannot participate in the GTI yet.

Another case involved a Shipper wishing to import other plasters – HS Code 25.20.20.90 – from Tunisia which is a participating State Party in the GTI. However, CEMAC's tariffs offer in the e-tariff book published by the AfCFTA Secretariat indicate a phase-out period of 13 years, with start of effective tariff dismantling from the 6th year which is 2026. The applicable MFN rate is 10% and under the agreed modalities of tariff liberalisation, it is expected that CEMAC should apply a 0.77% tariff reduction each year to achieve zero tariff by 2033.

Exports across the 8 State Parties under the GTI have been limited and this confirms the fact that the benefits of trade agreements are not automatic. Complementary policy measures are required for Cameroon to fully take advantage of the AfCFTA. Infrastructure required to test products before certification by the Standard and Quality Agency is critical and the need for mutual recognition arrangements while waiting for a continental framework is urgent.

Production capacity is required to meet large scale demand for goods in importing countries. Financial institutions need to be informed of the opportunities offered by this continental market liberalisation scheme to redesign their credit packages to meet the new demand expected due the AfCFTA. Export finance schemes are necessary at this stage to support SME access to new markets and to meet the cost of logistics required to ship goods across the continent.

The development of Special Economic Zones has proven to be a successful in boosting domestic production for export, for many African countries, should be prioritised within the AfCFTA national strategy.

Policy reforms in export procedures, business registration, SME support and other related areas could boost the capacity of business to prepare for the 1.3 billion consumer market.

Best practices such as the matchmaking mission by Ghana National Implementation Committee to Kenya and the establishment of a showroom in Nairobi for Ghanaian products currently being implemented by Ghana, Kenya, Rwanda, and others could help fast-track the implementation of the AfCFTA in Cameroon.

As we look forward to phase II of the GTI, lessons should be drawn from the experience of the past several months to better strategise as many State Parties have expressed interest in commercially meaningful trade under the AfCFTA. Building on best practices is important, but equally learning from the challenges in the GTI is important to facilitate trade under the full AfCFTA.