

Testimony of Dan O'Flaherty

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Before the

International Trade Commission

"Support for Renewal of the African Growth and Opportunity Act

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Mr. Chairman, members of the Commission, I am Dan O'Flaherty, Vice President of the National Foreign Trade Council (NFTC), an association of some 200 U.S. corporations engaged in international trade and investment. Let me first thank you for the opportunity to participate in this hearing. I will make three brief points. First, AGOA preferences do benefit U.S. companies that source from Africa, as well as African exporters. Second, while reciprocity should remain the ultimate goal of AGOA, more adjustment is required before moving to that goal. Third, the Commission, the Congress, and the Executive should thoroughly assess proposed changes in the statute before enacting a long-term extension.

1. The NFTC strongly supports renewal of AGOA well before its expiration in September of next year at the same time that we agree that useful changes can be made in the statute. We welcome the recent adoption by African heads of state of an "indicative" goal of creating a continental free trade area by 2017 given the critical importance to U.S. companies of regional integration.

The NFTC position on AGOA renewal reflects the composition of our corporate membership, which is comprised for the most part of large U.S.-based multinational companies. Many of our member companies' value chains include components sourced from Africa so they consequently benefit from access to duty-free imports from AGOA-eligible countries, as well as benefiting from trading with countries that have accepted AGOA's conditionality of improved labor rights and market-based economies. At the same time, a large number of our member companies participate in the African

market via direct investments which in turn require imports of inputs. Consequently the NFTC has an interest in the development of both trading and investment regimes on the continent.

We are in full agreement with a recent statement by Jeff Nemeth, CEO of Ford South Africa and president of AmCham South Africa who said “although a large component of what has been traded under AGOA is oil and manufactured automobiles, AGOA has allowed the U.S. to expand its presence and influence in sub-Saharan Africa.” Expansion of U.S. company presence in Africa is constrained by many factors, only some of which can be addressed by AGOA. For example, one company reports that it costs two and a half times as much to move goods around the continent as it does anywhere else in the world. Obviously inadequate infrastructure accounts for much of that differential, but so do customs delays. In light of the agreement reached on trade facilitation at the Bali ministerial last month, the NFTC supports increasing incentives for reformed customs procedures to enable goods to move more freely and quickly across Africa’s borders. Increased capacity-building is also essential to achieving that objective. NFTC member companies support reducing U.S. content requirements, changing the rules of origin to qualify significant intermediate African value-added even when the final product is exported elsewhere, and providing all qualifying countries a level playing field for duty-free access to the U.S. In the absence of a continental free trade agreement, and given the priority interest among our member in greater integration of Africa’s economies, the NFTC supports allowing the designation of Africa’s regional economic communities themselves as beneficiaries provided that the REC’s meet the eligibility requirements.

2. The Commission has identified the EU-South Africa FTA and its impact on U.S. exports to South Africa as a subject for this hearing. Although few of our member companies have identified the EU’s agreement with South Africa as a barrier, the issue of reciprocity and graduation of that country from the program is an issue. First, with respect to graduation it is true that South Africa is a middle-income developing country with a per capita income of nearly \$7,000 which could argue for denying them

access to preference programs such as AGOA and GSP. The NFTC supports continued AGOA eligibility for South Africa based on the country's radical maldistribution of income. South Africa has a Gini coefficient, a measure of income inequality, of 0.67, one of the highest in the world. AGOA imports of agricultural and manufactured goods from South Africa support well-paying jobs for many previously disadvantaged workers. To once again quote Mr. Nemeth, the president of South Africa's Amcham, "with the emergence of new key players in the global economy and business, maintaining seamless trade relations with South Africa reduces the possibility of the U.S.'s influence and trade on the continent being supplanted."

The issue Mr. Nemeth raises brings me to the question of reciprocity and the role of the EU as one candidate for "supplanting" U.S. influence. We are aware that significant sectors of U.S. business support reciprocity for South Africa, as well as for other countries in the region. They argue that AGOA removes incentives for African countries to move toward reciprocity. South Africa's reciprocal trade agreements with the EU and the European Free Trade Area are cited as examples. Anti-dumping duties imposed by South Africa and its restrictions on agricultural imports are cited as protectionist measures. The remedy in this view is to pursue reciprocal trade agreements along the lines of the EU's Economic Partnership Agreements.

These agreements grew out of the shift in EU policy in 2008 from preferential to reciprocal trade agreements for African, Caribbean and Pacific countries. The shift confronted the countries in these groups not classified as LDC's with two bad choices: either lose their preferential access to EU markets or enter into reciprocal EPA's with the EU which require within 12 years the elimination of tariffs on 80% of their imports, leading to the loss important government revenue. Furthermore, many of these countries fear that the loss of tariff protection will result in extinction of protected infant industries. Many of the African, Caribbean and Pacific countries see EPA's as one-way agreements that create greater market access for EU firms without commensurate benefits to themselves. Former South African

Finance Minister Trevor Manuel has pointed out that the EU's EPA's threaten rather than promote regional integration. He has said "the EU's request for Africa to divide into groups to negotiate does little to help Africa coordinate trade policies, thereby reinforcing the legacy of our colonial economic relationship."

Reciprocal trade arrangements with Africa should remain a long-term objective of AGOA and U.S. policy toward South Africa should be firm in opposing protectionist policies by their government. But, as I have argued, there are powerful reasons not to graduate South Africa at this time.

3. Given the congressional calendar, the time for AGOA renewal is actually short. Many very useful changes in AGOA have been put forward today and they deserve thorough review. Let me cite three which we believe are especially important: First, priority should be given to designating REC's that accept U.S. conditions as eligible for AGOA benefits in addition to national governments. This would provide an incentive for deepened economic integration. Second, enhanced capacity-building in eligible countries is critical to expanded participation. Third, current AGOA rules of origin require that 35% of a product be made in an AGOA-beneficiary country to be eligible. The ability of companies' supply chains to utilize AGOA products would be enhanced if African products could be cumulated with other preferential components in meeting this threshold. In addition the requirement that only 15% of the 35% local content value may consist of U.S.-origin parts and materials should be increased.

Given the congressional calendar, the NFTC believes the prudent course is to renew AGOA for a period of two years during which the Executive Branch and the Congress review the advice of the Commission, the GAO, and private sector organizations to develop a stronger AGOA. We would hope that during this period the results of these studies along with changes in the program including those suggested in this hearing be considered. This would permit a revised AGOA to be enacted prior to the advent of the next Administration in 2017.