MAURITIUS

TESTIMONY

BY

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THE CO-CHAIR OF

THE ECONOMIC DEVELOPMENT COMMITTEE OF THE AFRICAN AMBASSADORS GROUP

&

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ON

THE USITC INVESTIGATIONS ON AGOA

UNITED STATES INTERANTIONAL TRADE COMMISSION

MAIN HEARING ROOM 101

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Please check against delivery

The Honorable Chairman Williamson,
The Honorable Commissioners,
Ladies and Gentlemen,

My colleague Ambassador Girma Birru Geda of Ethiopia and I as the Co-chairs of the Economic Development Committee of the African Ambassadors Group and also the Co-chairs of the AGOA Ambassadors Working Group in Washington, D.C. have the great pleasure on behalf of the African Diplomatic Corps to provide testimony this morning in connection with the Re-authorization of the African Growth and Opportunity Act, AGOA which is expiring in September 2015. We wish to extend our profound appreciation and thanks to you and your colleagues for this kind invitation extended to us.

The African Union Ministers of Trade, at a meeting held in Addis Ababa on October 24, 2013 have adopted a unanimous AGOA Declaration which has inter alia mandated the African Ambassadors Working Group in Washington, D.C. *"to continue engaging actively the U.S. Administration and members of Congress on the way forward for a timely, seamless and meaningful reauthorization of AGOA by October 2014 for a period of at least 15 years to ensure that trade with the U.S takes place on a predictable, reliable and legally secure basis in order to inspire investors' confidence".* Therefore our submission this morning should be viewed from the mandate given to us by the African Ministers of Trade.

Again, I should like to lay stress that this morning's Joint Submission by Ambassador Birru and myself is being made on behalf of all the AGOA eligible countries namely:

> Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cabo Verde, Chad, *Comoros,* Republic of Congo, Cote d'Ivoire, Djibouti, Ethiopia, Gabon, Gambia, Ghana, Guinea, Kenya, Lesotho, Liberia, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, *Seychelles,* Sierra Leone, South Africa, South Sudan, Swaziland, Tanzania, Togo, Uganda and Zambia.

It constitutes the core position and the voice of the 40 AGOA eligible countries.

Mr. Chairman,

For the purpose of this morning's testimony, my co-chair Ambassador Birru and I have agreed that he will speak on Regional Integration, EPAs and FTAs while I will speak on the AGOA Trade and Investment Performance Overview, Economic Effects of Providing Duty-Free Treatment for Imports and the Rules of Origin.

AGOA Trade and Investment Performance Overview

Since its enactment by the United States Congress in the year 2000, the African Growth and Opportunity Act has come to be widely acknowledged as the single most important program in ushering a new era of growing partnership between the Sub-Saharan African countries and the United States. The AGOA continues to consolidate the foundation for an enhanced political, economic, investment and trade relations for the mutual benefit of both Africa and the United States.

We believe that the achievements of the AGOA cannot and should not be quantified in monetary terms only or in terms of the value of goods and commodities traded between the United States and Africa. It goes beyond this. It is the umbrella under which the Sub-Saharan African countries and the United States are forging an emerging multidimensional alliance with the real possibilities of greater prosperity, peace and security for Africa and the United States built on trust, goodwill and human rights values and freedom.

The African Growth and Opportunity Act is a very important milestone in the growing trade and investment relations between the AGOA-eligible countries and the United States. AGOA aims at enhancing U.S. market access for qualifying Sub-Saharan African (SSA) countries; using preferential trade access to the U.S. market as a catalyst for economic growth in SSA; encouraging SSA Governments to open their economies and build free markets; and integrating SSA into global markets through trade, investment and economic liberalization.

The impact of AGOA on exports and on job creation has been significantly meaningful for both sides of the Atlantic. From $29.4 billion in the year 2000, the U.S.-African trade rose to $95.4 billion in 2011 (an increase of 221 percent). During the same period, the share of Africa in the U.S. total global trade rose from 1.5 to 2.6 percent. It is estimated that AGOA has generated about 350,000 direct jobs and 1,300,000 indirect jobs in Sub-Saharan Africa and about 100,000 jobs in the United States.

Although energy-related exports (oil and gas) continue to constitute the major share of AGOA exports to the U.S. market, representing about 86% in 2012 of all AGOA exports, it is worth mentioning that the AGOA has been instrumental in the establishment of non-extractive industries in Sub-Saharan Africa. AGOA's non-petroleum exports recorded positive and steady growth between 2001 and 2012, rising almost four-fold from $1.3 billion to $4.8 billion. Exports of food and agricultural products also grew from $136 million to $508 million from 2001 to 2012.

The textile and apparel sector has been one of the most visible success stories in terms of AGOA's impact in Africa, with a particular effect on employment, although apparel trade data shows that currently a relatively small number of countries export the bulk of apparel products to the U.S. market namely Kenya, Lesotho, Mauritius, Swaziland and Botswana. Vast potentials exist for significant exports of textile and apparel under AGOA to the United States. Apparel exports reached $ 866 million in 2012, representing less than 1% of overall apparel imports.

Minerals and metals form the second largest category of non-energy exports and include platinum, diamond, aluminum, ferromanganese, ferrochromium, and ferrosilicon manganese.

The transportation sector, including motor vehicles and parts, is also a success story under AGOA. South Africa-based exporters have been the main beneficiaries but additional potential exists. Exports of vehicles rose from $289 million in 2001 to $2 billion in 2012.

A report by the AU published in 2010 indicates that FDI directly linked to AGOA in SSA increased by 77% in AGOA beneficiary countries from $7.1 billion (1999-2000 average) to $12.5 billion (2001-2005 average).

Constraints in the use of AGOA Preferential Trade Regime

Mr. Chairman,

The AGOA eligible countries are gradually developing their own AGOA country plans. However, each and every AGOA eligible country has many genuine reasons to explain as to why it has not been able to take advantage of the benefits accruing under AGOA. Some of the common cross cutting impediments and challenges on the basis of the inputs made by the vast majority of the AGOA eligible countries in the preparation of this submission can be grouped in the following clusters:

Political

- Conflicts and civil wars in some of the countries have not only set some countries aback, but destroyed the very institutions that should spearhead the process for the realization of the benefits of AGOA, such as providing the enabling environment to expand and diversify exports to the United States. Cote d'Ivoire, Liberia, Mali, Madagascar, Sierra Leone, and South Sudan are a few examples.

- Limited commercial diplomacy mechanisms.

- The lack of strategies to enable eligible countries take full advantage of AGOA;

- Absence of AGOA specific forum in the vast majority of AGOA beneficiary countries. Many stakeholders, both within the Government ministries, private sector and civil society are not well conversant with AGOA and its benefits.

- Scanty facilities and opportunities for the promotion of micro and small and medium enterprise (SMEs) to boost exports to the U.S.;

- Lengthy and stringent visa requirements for people intending to travel to USA, especially for business purposes.

Infrastructure Improvement and Development

- High transaction costs due to lack of adequate well-developed infrastructure such as transport, post-harvest handling facilities, cold chain facilities, power, irrigation, water and sanitation, information and communication technology and poor road and railway networks.

- Deprived of Port facilities, landlocked State situation often results in delays in the transportation of goods and services due to cross-border logistics, thereby increasing the cost of production.

Market Access, Awareness and Research

- Lack of awareness of the potential of AGOA, which in many countries, is generally equated to textiles.

- Limited access to appropriate market information and business contacts needed by African manufacturers and producers to effectively respond to specific market demands.

- Producers lack knowledge of consumer tastes and preferences, and other marketing and international trade practices. Even when they have such information, they have limited technical capacity to evaluate it, plan and develop strategies that can enable them to position themselves and trade competitively in a multifaceted market such as that of the US.

- There are limited interventions that emphasize the importance of real-time market information on pricing and consumer preferences, market segments and distribution channels and identification and production of export competitive products, which can be sold profitably in a highly developed market like the US.

- Deficiency and lack of information about U.S. market regulations (quality, branding, packaging, labeling, etc.)

- Deficiency and lack of knowledge about the international market and trade regulations or standards (pricing, marketing, shipping and transportation)

Economic and Financial

- Uncertainty and unpredictability of AGOA - The current uncertain status of AGOA is driving several firms to relocate.

- Access to credit and other financial services is still limited due to high interest rates and collateral requirements.

Capacity, Technology and Production

- Lack of relevant knowledge and capacity to ensure conformity to laboratory analysis and quality assurance procedures that conform to US standard requirements.

- Limited entrepreneurial skills particularly in the production of goods and development of appropriate bankable projects.

- Lack of proper organization for small producers to benefit from economies of scale. They also lack adequate technology to enable them produce massively.

Stringent U.S. Requirements on Agricultural Imports

- Absence of appropriate technology and technical assistance to small scale farmers in rural areas to boost agriculture;

- Most of the agricultural products lack sufficient value addition to qualify for export to the U.S. through AGOA mechanism;

- Inability to take advantage of the AGOA product list, largely as a result of lack of capacity amongst potential exporters on the ground to adhere to the stringent U.S. requirements, especially for agricultural products.

- Stringent Sanitary and Phytosanitary standards have imposed additional demands for exporters making it a major limitation to export of agricultural products to the U.S. under AGOA.

- Limited capacity to produce diverse, value-added products for competitive global markets.

- Limitations on the duty-free agricultural exports currently subject to tariffs rated quotas.

Institutional

- Weak institutional synergies between production and trade sectors.

- Customs and other barriers to cross-border movement of goods.

- Insufficient AGOA mechanisms or institutions (Trade Hubs) at the sub-regional level to facilitate and help African countries to take advantage of AGOA.

Mr. Chairman,

AGOA: Economic Effects of Providing Duty-Free Treatment for Imports

Although the main objective of the AGOA at the time of its enactment was to provide unilateral preferential trade access to SSA eligible countries to the U.S. market, it has over the years also provided tangible benefits to the US too, resulting in a win-win situation for both Africa and the United States.

The US commercial presence in Africa has grown steadily over the past 10 years. As a matter of fact, according to available sources, the US exports to SSA tripled between 2001 and 2012 rising from 5.6 billion to $21.5 billion. Every state in the US exported to Africa with Texas, New York, Illinois, New Jersey and Washington exporting over USD 1 billion worth of goods and some other states exporting over $500 millions in aggregate generating an estimated 100,000 jobs in the United States.

Mr. Chairman,

Rules of Origin: Possible Changes to Promote Regional Integration and Increase Exports to the United States

Revisit the AGOA Rule of Origin for Canned Tuna

There are vast opportunities and possibilities for the exploitation of tuna for export under the African Growth and Opportunity Act. However, it is almost impossible for tuna canned in Africa to meet the AGOA rule of origin, which is largely determined by the flag of the vessel that catches the fish, rather than the nation where the fish is processed and canned. Some Sub-Saharan African countries are already exporting canned tuna to the EU, but exports to the United States are extremely small in spite of the fact that canned tuna is eligible for duty-free under AGOA. The reason for this low export is due to the fact that the applicable rule of origin in the U.S. is too restrictive.

Relaxing the rule of origin would create a new product likely to be successful under AGOA. The current 35% value-added requirement should be replaced with a simple tariff shift requirement or reduced to 10% value added, coupled with a tariff shift.

Third Country Fabric Rule

The Third Country Fabric Rule of the apparel and textile which as of now has been the subject of renewal every two or three years should be made co-terminus with the life of re-authorized AGOA. It allows the AGOA beneficiaries to use yarns and fabrics from any country and is a key element which has been solely responsible for the success of the AGOA apparel industry. It has also enabled African exporters to remain competitive in the US market in the face of fierce competition unleashed from other regions which have decades of comparative advantages. Large scale and highly competitive low cost Asian suppliers have the potential to fully grab AGOA's market share due to their competitive edge and therefore undermine the benefits of AGOA. The third country fabric provision is a mitigating factor which establishes a more balanced trade regime for garments. It may be worth mentioning that 95% of the apparel and textile products under the AGOA is dependent on the Third Country Fabric Rule. It is imperative that the Third Country Fabric Rule is made co-terminus with AGOA.

RECOMMENDATIONS

As compared to the Marshall Plan which was put in place to stimulate the economic growth of Western Europe after the destruction and devastations caused by the second world war; the provisions of the African Growth and Opportunity Act, without any way minimizing its significance to stimulate economic growth of the sub-Saharan Africa is a drop in the ocean.

When the AGOA was enacted in the year 2000, many of the African countries for whom it was particularly designed were not ready for very many reasons to take advantage of it. Several of them were either emerging from conflicts or were still embroiled in conflicts. Their priority of priorities was to restore and maintain peace and security with their meager resources at hand. Furthermore, most of them had only recently started experiencing the effects of free market economy and were at a transformational stage. Evidently, they required time to adjust to the new environment of the global trading system and adjust to the rules of World Trade Organization.

The decade-old AGOA has provided a few striking examples of success - the emergence of a textile and apparel industry of Lesotho, the motor vehicle and motor parts industry of South Africa are striking examples of success stories of the AGOA. These have started having a demonstration effect on other AGOA beneficiaries and are enticing them to emulate and make efforts to take advantage accruing there from. Hence it is wise to give time to AGOA to take firm roots.

Re-authorize AGOA Before October 2014 for at Least 15 Years

- Re-authorize AGOA for at least 15 years by 2014 in an integrated and all-inclusive approach, so as to guarantee the predictability and certainty required for long-term investment and economic growth both in the U.S. and across the African continent, based on mutually reinforcing U.S.-Africa relations.
- Make the Third Country Fabric Rule of the textile and apparel coterminous with the life of AGOA.

Streamline US Sanitary and Phytosanitary Standards

- Stringent Sanitary and Phytosanitary Standards (SPS) deny African agricultural products entry into the US. It is high time that these barriers are addressed as soon as possible to allow the growth of Africa's agriculture. The US could help African producers meet US sanitary and Phytosanitary standards by expanding capacity building efforts on food safety and animal and plant health. The SPS could be streamlined – without in any way sacrificing safety in order to facilitate greater trade from Africa.

Increase Capacity Building and Technical Assistance

- There is an urgent need to increase capacity building in SSA. African businesses and entrepreneurs need technical assistance and capacity building initiatives to improve production strategies, quality standards, market research, market development and value-added processing. In this respect, only five U.S. Foreign Service Commercial Officers and only three Trade Hubs for the entire African continent is far too low to service the needs of both American and African businesses.

Trade Africa Initiative

- The Trade Africa Initiative of the United States Administration which presently comprises of five Eastern African Community countries namely: Burundi, Kenya, Rwanda, Tanzania and Uganda aims to increase internal and regional trade through trade capacity building measures. It should be gradually expanded to other Regional Economic Communities (RECs)

Agriculture and Food Security

- AGOA can also benefit from the support for agriculture and food security under the U.S. Feed the Future (FTF) program and the many new public private alliances under efforts such as the New Alliance for Food Security and Nutrition and Grow Africa. The U.S. Feed the Future program and other similar programs related to agriculture should facilitate financing and investment in the African agricultural sector to ensure long-term food security and increase ability to deliver the continent's food needs.

Promote U.S. Investments in Africa

- To promote U.S. investment in Africa, the United States Congress may consider a "development exception" in the form of a zero tax on repatriated income by U.S. companies investing in priority productive sectors in Sub-Saharan African countries.

Power Africa

- A renewed AGOA is in line with and supportive of President Obama's "Power Africa" Initiative. By providing electricity access to at least 20 million new households and commercial entities it will build on Africa's enormous power potential and empower sub-Saharan African countries to harness their potential for greater trade and growth. A larger number of African countries should be given the opportunity to join the Power Africa Initiative.

Congressional Delegat~~es~~ions : ~~specializing~~ AGOA

- Periodic Congressional delegations specifically in the context of AGOA to the sub-regions of sub-Saharan Africa will greatly help to achieve enhanced political dialogue between African leaders and Congress and help to improve investor confidence particularly among American investors.

Leaders' Summit

- The forthcoming summit between the United States President and the Heads of States and Government of the sub-Saharan Africa later this year, a first of its kind, is bound to bring ~~new dimension and~~ the relations between the United States and Africa on much higher scale.

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