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Testimony of Mr. Stephen Lande, President of Manchester Trade

at the

UNITED STATES INTERNATIONAL TRADE COMMISSION

Hearing on

African Growth Opportunity Act (AGOA)

(INV No: 332-542, 332-544, 332-545, 332-546)

January 14, 2014 | 9: 30 a.m. US ITC

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Manchester Trade is pleased to submit its recently developed "Blueprint for AGOA"

However, since the USITC investigations focuses on specific points, we are also submitting below, the points in the blueprint most relevant for the Commission consideration.

The first investigation 332-542 4 AGOA: Trade and Performance Overview addresses AGOA trade performance, its impact on business performance and the implications of current or potential reciprocal trade agreements on AGOA.

As to trade performance, actual trade is at a much lower level than anticipated. In fact other than machinery, motor vehicle and fruits and vegetables and a smattering of other exports mainly from South Africa, and garment usually incorporating Chinese yarns and fabrics, AGOA did not live up to its potential. This is not surprising given the supply constraints particularly infrastructure and manufacturing and processing capacity.

However, beneficiary countries themselves appear to be taking the lead in addressing this challenge. At least 14 of them are now developing AGOA strategies which are designed to coordinate efforts by the private sector and the many different government agencies involve in policy making to develop a whole of government approach to taking advantage of AGOA. They are suggesting that the US consider entering into AGOA compacts with governments who implement such a strategy to assure a coordinated bilateral effort.

As for investment promotion, AGOA has a minimal impact compared to US policies which promote US investment by leveling the playing field for it against third countries and African efforts to establish a welcoming environment. There is no question that the US has significantly sharpened its program although it could still go further. Some areas where this is possible is included in the background section discussing an Obama initiative for the region to match the Transatlantic Partnership with Europe and the Trans Pacific Partnership (TPP) with Pacific Rim countries in Asia and the Americas.

We would like to address the AGOA provisions on designation as they relate to investment. Nothing cools investment fever more than the possibility that the inducement which attracts investment will be withdrawn regardless of the reasons for such actions. Such actions have a long run damaging effect on an economy, one which can last well after the sanction were removed and/or the beneficiaries were designated for eligibility. Since continuing US presence is particularly important in a country teetering on the edge, the current provisions work in an obverse direction than US policy would like, Investors are not likely come to countries which may lose benefits. Thus we have a shrinking US presence where we need an expanding one,

We are suggesting that the eligibility requirements be rewritten to where removal; of a country is absolutely the last resort. It is only taken when the following conditions are met,

--Other countries will not simply replace the US.

--The US action does not have a negative effect on current US investors or a dampening impact on future investments beneficial to US competitors.
--The US action does not harm innocent parties such as the 50,000 Madagascar seamstresses who relied on production for the US market of garments before AGOA benefits were withdrawn.
--The action is supported by African countries especially members of the same REC as well as other participants in the African market.

Manchester Trade suggests that the US use withdrawal of benefits only as a last resort. Alternative tools are more effective such as freezing of assets, travel bans, suspension from attendance at international meeting, arms embargoes, etc.

The US should consider designating willing regional economic community for AGOA eligibility rather than individual countries. This will help the US achieve its strategic objective but also help the RECs work together as a group. This would only work, however, if the RECs are in a position to work with its member states to institute and maintain good governance practices particularly in maintaining and strengthening democrat institutions.

As for the actions of third countries, the US should agree with the EU on a common schedule for negotiating reciprocity. It is not acceptable for the US to demand preferential access into African markets by the EU with the threat that if it is not granted by a date certain, access into the European market will be withdrawn. It is hoped that African resistance combined with US suggestions and internal opposition in the EU would work together to delay EU negotiating efforts for EPAs until Africa has completed its schedule for attaining regional integration As a supporter of TTIP, I am concerned that many who support strengthening the EU through the TTIP will be turned off when they become aware of EU efforts to disrupt regional integration on the continent, push for premature reciprocity to the detriment of many poorer African countries and to gain an advantage for their exporters over those from the US.

The Second Investigation 332-544, AGOA, Economic effect of Providing Duty-Free Treatment for Imports suggests that the USITC consider new products for AGOA eligibility. In this regard it is important that the U.S. Congress and the Obama Administration consider designating those agricultural products currently excluded from AGOA - particularly TRQ products where Africa has an export potential (groundnuts or peanuts, sugar and leaf tobacco - are allowed duty-free entry into the U.S. market. Various studies shows that this, alone, could go a long way in making AGOA more potent for a number of African countries which currently export little under the program.

We are not necessarily asking the US market to accept more imports. Many of the TRQs are underutilized. In fact the Bali Ministerial recognizes this problem by providing procedure for redistributing underutilized TRQ on as first come, first served basis. A more equitable way to redistribute the TRQs would be to award them to African LDCs who as new suppliers were denied access to the low duty tranche of these TRQs. The low duty tranche was allocated based on historical shares and most African had no or only a small share of the US market. We specifically focus on ways to designate two products which are grown widely through Africa—tobacco leaf and groundnuts. We also believe we have to address sugar since this is by far the largest TRQ product and African access to the US is have demonstrated that these actions alone would go a long way in making AGOA more potent for a number of African countries which currently do not export or only export minimal amounts under AGOA.

The Third investigation 332-545 US AGOA Rules of Origin: Possible Changes to Promote Regional Integration and increased exports to the U.S.

Current origin rules do not assist in confronting the real challenges under AGOA. The development level of many beneficiaries do not allow them to add 35 percent value-added even when cumulated with that from the US and other African countries. Current origin require final manufacturing or processing to be done in a beneficiary country although modern supplies often require beneficiary inputs at an intermediary point in the supply chain.

With this in mind, we suggest that the USITC consider amending the AGOA origin rules to provide duty-free entry for supply chain products with sufficient African content even if the content is added before the final stage of production. There should be a sufficient corroborating paper trail to allow Customs to verify this African content, This should be possible, After all, we for almost twenty years under NAFTA< we have identified where the component parts of motor vehicles originated. Apple does it with their IPAD and accounting procedures require supply chains to maintain this data. In addition the minimal value—added should be reduced below the current 35 percent (Paul Collier suggests 10 percent for LDCs) and the US should negotiate with its FTA partners to allow African value-added to be cumulated with that from FTA members.,

Secondly, we must work on improving origin rules: Current origin rules require that products to be eligible must undergo its final production process in the beneficiary country. However this is outdated with supply chain where value-added can be added at any stage or production, One should consider amending the AGOA origin rules to provide duty-free entry for supply chain products with sufficient African content added at any point of the production process, In addition the minimal value added requirements should be reduced below the current 35 percent and the US should negotiate with its FTA partners allowing African value-added to be cumulated in meeting origin requirements

The Fourth investigation 332-546 EU-South Africa FTA: Impact on US exports. We strongly agree that the starting point for this investigation must be an analysis of the impact on trade. Since it is claimed that staging in most key concessions delayed much of the impact from the FTA, one can only begin to assess the impact now.

Our own view is that U.S. exports will experience a more significant negative impact if South Africa is graduated from AGOA or enters into reciprocal agreement with the US before Africa is in a position to negotiate as a group. US companies have more to gain from the economies of scale from regional integration that they will lose from individual preferences. Fortunately, at the present time, neither the U.S. nor South Africa is suggesting an FTA.

In the interim, U.S. - South African consultation must take place to develop an equitable way to deal with this challenge in ways, which protect U.S. exports, but also furthers economic integration. Some tools could include South African duty reductions on products where the U.S. and the EU principle suppliers (no free ride for China), attention to NTMs especially in the agricultural area, agreeing on concrete results from the current framework discussions on investment, attention to government procurement.