

Tax Alert



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Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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African Continental Free Trade Agreement

In brief

The African Continental Free Trade Agreement ("AFCFTA") is set to come into effect on 1 January 2021. With 54 of the 55 African Union member countries already having signed the agreement, a single market of 1.3 billion people will be created. The free trade area will be the largest in the world in terms of participating countries since the establishment of the World Trade Organisation.

In detail

- Objectives of Agreement
- Create a single market for the duty-free movement of goods.
- To support economic integration of the continent.
- Helping the movement of capital and people.
- To achieve sustainable and inclusive economic development.
- To achieve gender equality and structural transformations within member states.
- Enhancing competitiveness in the global market.
- Encourage industrial development through diversification and regional value chain development, agricultural development and food security.
- Resolve challenges of multiple overlapping memberships.

Duty Reductions

In terms of the agreement 97% of customs duties levied between member countries is to be reduced to zero. The phase down will differ depending on tariff headings of products.

It was agreed that 90% of tariff lines is to be reduced to zero duty within a five-year period and 7% of tariff lines in respect of sensitive product will be reduced to zero within a 13-year period. Only 3% of tariff lines will remain excluded and still carry a protective duty rate.

The tariff schedules detailing the actual duties to be phased down per tariff heading for each member country is still to be released.

Rules of Origin and Integration with Other Agreements

In order to qualify as originating in terms of any trade agreement each product (tariff heading) has specific criteria that need to be met. These criteria usually require substantial transformation in the form of a change of classification, an ad-valorem percentage requirement, a percentage weight requirement, or specific processing operation that must take place.

The AFCFTA rules of origin have not been release yet however it is reported to be near completion with only a couple of product specific rules and treatment of goods originating from specially designated duty-free areas still to be finalised.

Once the AFCFTA is introduced it will run parallel to the many other African Regional agreements such as the Southern African Development Community free trade agreement. Each agreement has their own duty rates and rules of origin. Adding the AFCFTA will add additional complexity to exporters and importers who will need to determine under which agreements they qualify in terms of the rules of origin, and then select which is most beneficial to them from a customs duty perspective. At first this may not be the AFC, but as the duty is phased down, the AFCFTA will be used more often.

Change in Market Conditions

South African manufacturers that were previously uncompetitive due to protective customs duties, will now have opportunities to have duty free access for their products on the continent. On the contrary the removal of protective duties may have a detrimental effect on South African manufacturers and importers, who can now face competition from within Africa.

In order to avoid surprises due to the change of market conditions, it is important for South African Companies to keep abreast of the AFCFTA developments specifically the release of the tariff phase down schedules and rules of origin. Identifying opportunities early will enable South African manufacturers to cash in on the benefits of the agreement. Additionally, manufacturers and importers need to identify any possible threats to their business and adjust their strategy accordingly.

Planning

Paying proper attention to key factors at the planning stage of a new business venture that will involve importing products into Africa can yield considerable benefits in terms of reduced import duties and improved efficiencies.

The same applies to the utilization of various special customs regimes that offer the possibility, in some circumstances, of optimizing savings opportunities. At the very least, awareness of customs rules and regulations could help to avoid or reduce potentially costly errors and omissions.

How we can help?

Our International Trade practice of experienced customs, excise and international trade consultants can advise you on customs, excise and trade rules affecting your imports, exports and manufactured goods and discuss with you how you might plan your affairs to maximize the benefits in this area.

In addition to helping on South African customs, excise and international trade matters, we can also assist with global customs, excise and international trade measures through our network of specialists in over 100 countries.

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