N Gage Consulting

Public Strategy and Government Relations Specialists

The N Gage Debates

"All you need to know"

AFRICAN TRIPARTITE FREE TRADE AGREEMENT

Egyptian-African Workshop General Report

Sunday, October 18TH 2015

TABLE OF CONTENTS

About N Gage Consulting

N Gage Consulting S.A.E is an Egypt based consulting firm specialized in providing public strategy advice, government relations assistance and lobbying for sustainable and sensible regulations in the Middle East & North Africa. The firm's scope of work covers tax, customs, specifications and regulations prediction and management, bids and tenders processing, public strategy positioning, CSR & CSI platform support as well as stakeholders classification, mapping and relationships build up and management.

The firm was capable of launching its strategy, securing deals and delivering results for 25 of the most prominent businesses worldwide, building a solid team of 20 highly qualified individuals as well as reaching an accumulated Net Turn Over of over $1.3 Million.

The firm was able to secure solid partnerships with key operators in the oil and gas, cement, tobacco, education, telecommunications, information management, FMCG and defense industries. N Gage Consulting S.A.E is becoming a trusted advisor to its partners as well as one of the partners of choice for a number of key governmental entities. The firm's plans in the near future include the expansion of its footprint in key strategic sites across the MENA Region. N Gage Consulting has expanded its line of business and created the N Gage Debates.

About N Gage Debates

The N Gage Debates is a series of specialized and closed roundtable discussions involving governmental participants and other key stakeholders pertinent to various strategic issues of interest to the general population and business community alike.

The debates will feature a number of issue-specific rounds, with the focus on a relevant high-level government officer or other stakeholder who is expected to provide insights on issue of interest as well as provide a one on one opportunity for the participants to ask relevant questions.

Egyptian-African Workshop

The Egyptian-African Workshop is the first N Gage Debates workshop, specially designed to cater for Egyptian companies and investors who operate or aspire to access the African markets. African Economies have witness surging growth rates over the past few years, with some reaching double-digit growth rates. This has led to a growing middle class, increased consumer spending and a large appetite for foreign investments.

Historically Egypt has played a pivotal role in African Politics, culture and economics. Today, as Egypt seeks to re-assert its role as a regional economic powerhouse, the Tripartite Free Trade Agreement ("TFTA") was signed in June 2015 in Sharm El-Sheikh, under the auspices of the President Abdelfattah El-Sisi

The three African trade blocs-Eastern African Community ("EAC"), Common Market for Eastern and Southern Africa ("COMESA") and Southern African Development Community ("SADC")- launched the largest Free Trade Agreement ("FTA") in the continent.

The TFTA shall include 26 member-states, 19 of which are signatories of the COMESA, five member-states from the EAC, and 15 from SADC of which 7 are not signatories of COMESA.[1]
The first Tripartite Summit in 2008 in Uganda resulted in identifying three main pillars for the TFTA, as follows:

- Market integration through a Free Trade Area
- Infrastructure development
- Industrialization

It includes a clear resolve to tackle Africa's chronic impediments for development, i.e., obsolete infrastructure and weak industrial base. With the continent's estimated average growth rate for the next 30 years standing at 6%, the already high demand for developed infrastructure will only increase.

As stated in the 1st Summit's communique, the TFTA prioritizes three sectors for regional development programs, these are: energy; information and communication and transportation. Collaboration on this front has begun with the initiation of the North-South Corridor Aid for Trade programme, which is the TFTA's flagship pilot infrastructure programme that aims to address the transportation problems through upgrading infrastructure, improving policies and procedures and coordinating approaches to planning and financing. The programme entails building roads linking eight countries (Botswana, Congo, Malawi, Mozambique, South Africa, Tanzania, Zambia and Zimbabwe) with a total of 10,647 km of roads.

Beyond TFTA's trade benefits, the agreement will open new opportunities for investments in new untapped markets, in sectors such as energy, transportation and logistics, oil and gas. Yet, the private sector in Egypt does not have the required business intelligence reports and market studies that would support this cause. Facilitated by the TFTA, the Egyptian government must lead on the initiative of investing in Africa, by making required data and research available for the Egyptian private sector to start unleashing Africa's potential.

The launch of the TFTA from Sharm El Sheikh is a note of commitment from the Egyptian side, where Africa is the new pathway for economic growth. It was evident since early 2015 that Egypt is directing its attention towards the African front, reflected in the wide African presence at the Egypt Economic Development Conference ("EEDC") in March. The growing economic relation with Sudan and Ethiopia is yet another manifestation of a new course of action that the current administration holds

[1] **EAC** is comprised of Burundi, Kenya, Tanzania, Rwanda and Uganda. **COMESA** consists of Burundi, Comoros, Democratic Republic of Congo, Republic of Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe. **SADC** consists of Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Nam

PANEL I: EGYPT'S ECONOMIC STRATEGY IN AFRICA

Africa has great challenges, from political risk to corruption; nevertheless the continent has emerged and is continuing to grow. Once the Egyptian government and private sector consider the notable facts about the transformation and growth of the African economies, their fear about strategically investing there should disintegrate. These were the main messages that emerged from the first panel discussion moderated by Karim Refaat, former diplomat and advisor to the Minister of Trade and Industry and current CEO of N Gage Consulting, alongside, were the following speakers:

- Amb. Dr. Hazem Fahmy: Secretary General, Egypt Agency of Partnership for Development
- Dr. Sherif Mahmoud: Former Director of the African Department and Former Director of the Technical Office at the Trade Agreement Sector, Ministry Of Trade & Industry & SMEs
- Rasha Nasr: Head of Regional Economic Communities Division, Ministry of Trade & Industry & SMEs

Dr. Hazem Fahmy stressed the significance of the strategy of the Egyptian economy in Africa. He administers the Egyptian Agency of Partnership for Development ("EAPD"), which merged the 'Egyptian Fund for Technical Cooperation with Africa' and the 'Egyptian Fund for Technical Cooperation with the counties of the Commonwealth and Islamic countries and the Newly Independent States' in an innovative entity. They operate in the recruiting and dispatching of Egypt consultants and experts in several fields and organize plenty of yearly training programs. The EAPD participates in pan-African activities aiming to boost the progress of the continent in partnership with local, regional, and international organizations. A strong strategic economic relationship between Egypt and Africa should be greatly beneficial to both sides, and there has been an ample amount of will to engage in Africa. Working on these Egyptian missions abroad provides basic business skill training which leads to trade opportunities.

The rest of the speakers greatly agreed upon the huge barriers that are the lack of information, content, and governmental support. Egypt has witnessed a great deal of passion from the private sector wanting to invest in Africa, but not being able to obtain information about statistical data, profiles of main companies, business and market infrastructure, financing facilities, or trade laws, has halted their efforts. The lack of transparency and information available to investors in these markets make it difficult for them to access these regions, causing significant unlocked potentials. The counterarguments were that there is no lack of information but just difficulty in obtaining it. Within Egypt, an increase of awareness towards Africa is needed, and accordingly solutions can be found and an understanding where the gap is will help find solutions. There are trade offices all over Africa, with political and economic information.

The TFTA is not a new concept although it has recently gained a great deal of attention. This agreement will present great trade and investment potential for its 26 participants. Africa has not accounted for a large part of Egypt's trade volume, but the TFTA will create various opportunities for the public and private sector in Egypt. Given the inadequate exposure of African markets within Egypt, the results may be felt on the long-term. Although the agreement will create a new window for the Egyptian economy, it is a complicated document, with three annexes not agreed upon yet. When the treaty was being drafted the private sector was involved, along with the customs authority, to make sure that it was well encompassed. An example that was given was how Egypt imports Malawian tobacco and Zambian copper from Switzerland, rather than from the countries themselves. The TFTA will provide two possible solutions for these issues,

1. Creating direct bilateral trade relation between Malawi and Egypt and Zambia and Egypt
2. Begin producing tobacco in Malawi or copper in Zambia rather than import them into Egypt

Rasha spoke about a trade barriers website (www.tradebarriers.org) where people can log in and submit their complaints which be transferred to the focal points in Egypt, and then communicated the counter parts in the other tripartite member states. This facilitates a way for problems to be resolved efficiently and quickly.

PANEL II: EXPORTING TO AFRICA

Exporting to Africa faces plenty of obstacles, however it is the market of the future because it is rapidly expanding and enhancing. A proper cooperation between the African governments and private sector and taking matters into ones hands is needed to surpass these hindrances. For investors, Africa offers an unfamiliar market, an opportunity to swiftly grow. These points were discussed in the second panel moderate by Hassan Fayed, with the following speakers:

- Ahmed Zayed: Former Advisor for African Affairs, Ministry of International Cooperation
- Ashraf AbouAlam: Head of Trade Finance, Banque Du Caire
- Samer Gharaibeh: CEO, Aramex Africa

The TFTA is extremely beneficial for shipping and manufacturing. Mr. Gharaibeh stated that Aramex has allocated $200mn and invested $100mn of them in Africa. They provide a handholding service, introducing their Egyptian customers to customers in Africa, and this is the push that is needed to facilitate exporting within Africa. He stated that Africa has great margins, labor is cheap, and excellent energy costs. However, there is no trade volume between Egypt and Africa, at least not as it should be. To create a need for shipping you need to powerfully support export.

Government and the private sector need to work hand-in-hand for any agreement to actually succeed and become beneficial for its member states. For the government, it is important to create an action plan rather than converse about strategy, political willpower is not the only factor. Embassies and trade offices will provide macro information, but to gain micro information, in-depth visits to the potential country are necessary, to understand the country, the competition, where to invest, and gain market intelligence. According to Mr. Zayed, Egypt only imports $1bn of the $700bn of African exports. Treaties and agreements will fail if the private sector does not efficiently work, lobby, and network directly on the field. Stereotypes like investing in Africa is a high risk are completely untrue; they are reliable and professional in their given fields. The government needs to raise awareness of the Export Subsidy Fund, to increase exports and the flow of goods. Mr. AbouAlam reiterated the fact that there are not any banking difficulties while exporting to Africa. Export credit guarantees are effectively applied in most African countries with minimal to no risk. The validation of lines of credit depends mostly on the financial standards of the local bank, rather than on the financial status of African countries. Insurance premiums are lower in many African countries than they are in other regions, such as Western Europe or the Gulf. Many African economies are more investor-friendly than developed economies that Egyptian companies usually seek to access.

The logistic cost in Africa is very high and that creates a challenge because no one invests in the infrastructure, especially in landlocked countries; however these high costs are applicable to imports from any country in the world. Mr. Gharaibeh suggested two possible solutions for the logistical barriers; firstly to copy the European model and use road and rail networks rather freight transport. Secondly, he suggested having customs clear containers in the initial country. For example, if Egypt is exporting to Kenya, then the Kenyan customs clear the container before departing Egypt, and that will be time and cost effective.

PANEL III: INVESTING IN AFRICA

The third panel focused on Investing in Africa. This panel was moderated by N Gage Consulting CFO and Managing Director, Mohamed Bahaa. On the panel, N Gage Consulting was honored to have the following speakers:

- His Excellency Ambassador/ Jov Otieno: Ambassador of The Republic of Kenya in Egypt
- Dr. Mahmoud Mahgoub: Senior Research Analyst, COMESA Regional Investment Agency
- Karim Sadek: Managing Director of Qalaa Holdings
- Gamal Abdel Nasser: Acting Secretary General, Union of African Chambers of Commerce, Industry, Agriculture and Professions (“UACCIAP”)

Karim Sadek opened the discussion by first introducing Qalaa Holdings and its involvement in Africa which covers Egypt, Algeria and Sudan and also few countries at the south of Africa.

Many investors fear risks on investing in Africa due to security issues. It was emphasized to focus on the bigger picture and change the perception one has towards Africa. Unfortunately, in Egypt Africa isn’t a hot topic and none of the media or news channels really cover the rest of Africa and the potential it encompasses.

Gamal Abdel Nasser highlighted the importance of the existence of the Federation African Chambers and its role that it could play to enhance the investment in Africa. In Egypt, 42 African countries are established constituting 4 million members. Earlier at the workshop, participants highlighted the lack of information, but Gamal added that the chambers are equipped in providing information to interested investors. Also, the Egyptian government is working hard to conclude all agreements. Now the role is at the private sector side more than the public according to Gamal Abdel Nasser. It is essential to highlight Africa in Egypt to attract more investors to Africa. For example, Congo doesn’t have one manufacturer of juice drinks and they import from India and China, which is a lost opportunity for investors to establish a manufacture there. To invest in Africa, it has to be done the hard way which is to go on the field, compare and study each aspect.

Mahmoud Mahgoub stated that to make use of the TFTA for investment is identify the country of investment and collect information on that country. Once the investor collects all the necessary information, the investor needs to dispatch a team of experts to do a proper market research. A huge role is played by the COMESA Regional Investment Agency which collects information and packages it for the investor. Mahmoud Mahgoub added that to properly benefit from the TFTA is first to identify the countries that

Finally, H.E Ambassador Jov provided the detailed presentation about Kenya and what are the investment opportunities that currently exist there. **The presentation will be attached with the report.**

PANEL IV: CUSTOMS & TAXATION IN TFTA

The fourth panel focused on Customs and Taxation in the TFTA. This panel was moderated by N Gage Consulting Consultant former Technical and Tariff Officer at the office of the Head of the Egyptian Customs Authority, Suzanne Hassanein. On the panel N Gage Consulting was honoured to have the following speakers:

- Zodwa Mabuza: Senior Trade Expert and TFTA Coordinator, COMESA Secretariat
- Iman Refaat: General Manager of Trade in Goods Department, Ministry of Trade and Industry
- Dr. Badawi Ibrahim: Customs and International Trade Advisor, PWC

The speakers highlighted the importance of the TFTA in reduction of custom duties. Also, they explained the different phases of the negotiations and the tariff liberalization modalities. Zodwa Mabuza opened the discussion by introducing the TFTA agreement and her evaluation of the first phase of negotiations.

According to Zodwa Mabuza, the launch of the TFTA is mainly to eliminate all tariff and non-tariff barriers by 100%. The TFTA agreement is divided into three main pillars: Market Integration in parallel with the liberalization of movement of business persons, Industrial Development and Infrastructure Development. The TFTA is constituted of 45 articles divided into twelve parts then there are 10 accompanying annexes mentioned below:

1) Non-Tariff Barriers
2) Sanitary and Phyosanitary
3) Technical Barriers to Trade
4) Customs Cooperation
5) Trade Facilitation
6) Transit
7) Dispute Settlements
8) Trade in Services
9) Intellectual Property Rights
10) Prompting Competition

Member-states at the TFTA agreed to commence the negotiations through two phases. As for the first phase of the negotiations it mainly focused on the following annexes:

- Non-Tariff Barriers
- Sanitary and Physosanitary
- Technical Barriers to Trade
- Customs Cooperation
- Trade Facilitation
- Transit
- Dispute Settlements

On the other hand the second phase is expected to last between 5 to 8 years will finalize the negotiations on the following topics:

- Trade in Services
- Intellectual Property Rights
- Prompting Competition
- Other trade related matters

The current status of the negotiations is out of the 10 annexes, 7 have been finalized and 3 remaining annexes stated below:

1) Rules of Origin
2) Trade Remedies
3) Elimination of Custom Duties

TFTA member-states already exchanging tariff exemptions will not engage in negotiations regarding tariff liberalization. On the other hand, member-states not exchanging tariff exemptions can proceed with negotiations to liberalize the tariff rates based on each country's tariff lines. Therefore, an agreement has been reached that certain member states[2] are obliged to liberalize within 5-8 years. In order to achieve the liberalization of 85% of tariff lines, Egypt established an agreed upon list of tariff lines divided into three categories:

- **Category A:** Liberalizing up to 60% of tariff lines**,** which includes goods with applied tariff rates of 0%, 2% and 5%. Also, includes other goods with higher tariff rates, where other TFTA countries do not enjoy comparative advantage
- **Category B:** Liberalizing up to 25% of tariff lines, which includes products that are subjected to 10% and 20% tariff rates. In addition, Category B is expected to last around 8 years
- **Category C:** Liberalizing up to 15% of tariff lines, which will be negotiated after liberalizing the first two categories, includes goods with a 30% tariff rate or above

In the future, custom authorities can facilitate food trading, but Iman Refaat highlighted that the Trade Facilitation Annex offers trade border agency cooperation to decrease documentation process, submissions and decrease time of release. It is expected that the application of the Trade Facilitation Annex will reduce the cost of trade to 15%. Therefore the role of agencies in the WTO and WCO is to offer development programs to compliment.

Dr. Badawi Ibrahim highlighted that an agreement is assessed based on 3 pillars mentioned below which represents the success of the TFTA agreement.

1- Return of Money
2- Effective Documentation Process
3- Reduction in Procedure Cycle

Moreover, he added that the private institutions should receive training on the TFTA and how to implement the agreement. He also added that the legislations stability of taxation could be far more important than the rate value of the tax itself. He also mentioned if the Customs Authority is able to reduce one day in procedures (time of release), it will save up to EGP 2 billion to the GoE.

The panellist tackled the subject of double taxation in Egypt, in light of the TFTA. In fact, Egypt has a big network of bilateral agreements to prevent double taxation. In Africa, for example, Egypt has signed 55 agreements globally, however, and only 5 of them fall within the TFTA member states. Dr. Badawi recommends that the TFTA signs bilateral agreements with other TFTA member states.

Full automation of the payment procedures in the among TFTA member states is also recommended to facilitate trade, reduce time of release and prevent risks of corruption.

Finally, Dr. Badawi stressed that in exchange in information systems among TFTA member states will promote trade.

[2] Member states that are currently in negotiations: **COMESA:** Ethiopia, Eriteria and Democratic Republic of Congo. **EAS:** Tanzania and Uganda. **SADC**: Namiba, South Africa, Lesotho, Bostania, Swaziland. In ddition to Angola and Mozambique.