

EXTENDING AFRICAN GROWTH AND OPPORTUNITY ACT (AGOA) BEYOND SEPTEMBER 2015, WHAT IS AT STAKE FOR GHANAIAN ENTREPRENEURS AND PARTICIPATING COMPANIES?

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I. Background:

AGOA was signed into U.S. law as part of the Trade and Development Act on 18th July 2000 and is set to expire in September 2015. The Act seeks to promote economic development, while expediting integration of African economies into the world trading system. Furthermore, AGOA provides a framework for government-to-government; private sector; and civil society organizations to work together towards building trade capacity and expanding business links. AGOA grants Sub-Saharan African (SSA) countries duty-free-quota-free access to the U.S. market for around 7,000 product lines, subject to certain eligibility requirements related to progress in developing a market-based economy, rule of law, and not pursuing activities that undermine U.S. security or foreign policy interests or internationally recognized human rights. Ghana has fully satisfied all AGOA requirements since its inception in 2000, and has hence enjoyed continual preferential market access for this duration.

AGOA is an enhancement to the U.S. Generalized System of Preferences (GSP), which is another system of preferential market access granted to qualifying developing countries. In fact, AGOA provides additional 1,800 tariff lines to those embedded in the GSP; has a very flexible eligibility requirements, and does not lapse if the GSP experiences what have become frequent expirations and lapses. Again, duty-free treatment provided by AGOA is subject to more generous rules of origin requirements for textiles and apparels.

The U.S. Congress has been undertaking a full review of the strengths and weaknesses of AGOA with a view to extend and possibly expand the scope of the trade framework beyond expiry in 2015. The AGOA ministerial forum provides a framework for ministers from all AGOA-eligible countries and the United States to discuss new policies and strategic directions that promote mutually beneficial trade and economic development. The AGOA legislation requires that a US-sub-Saharan Africa Trade and Economic Cooperation Forum (AGOA Forum) be held annually for the purpose of discussing implementation of the successes, challenges and future prospects of AGOA. Since the enactment of AGOA in 2000, several forums have been held with the venues alternating between cities of USA and AGOA eligible African countries.

II. Ghana Exports under AGOA:

In 2013, 56% of the value of Ghana exports to the U.S. entered duty free due to zero MFN tariffs. A further 31% of Ghana exports to the U.S. qualified under AGOA and were hence eligible for preferential duty free access. On average 35% of Ghana exports to the U.S. between 2003 and 2013 were eligible for AGOA preferences.

Mineral products, including petroleum oils, petroleum naphthas, and low-octane blended stocks, qualify as AGOA products. These products accounted for 98% of all AGOA qualifying exports between 2003 and 2013 or just over US\$1 billion in total.

Textile products accounted for most of the remainder of AGOA qualifying exports between 2003 and 2013, and were valued at US\$23 million over this period. Textiles were the leading non-petroleum product category exported under AGOA.

Ghana exported very small values of AGOA qualifying vegetable products, foodstuffs, and wood products between 2003 and 2013. Exports of these products amounted to only US\$2.4 million between 2003 and 2013.

III. Ghana Textile and Apparel Exports under AGOA:

AGOA is often recognized as having achieved particular success in stimulating textile and apparel exports in the Sub-Saharan Africa region. Lesotho and Swaziland have achieved success in such export sectors, particularly through integration into regional production networks with several South African apparel firms. AGOA is also regarded to have significantly contributed to the growth of the textile and apparel industry in Mauritius.

A key factor in this has been the **'third-country fabric provision'**, which enables AGOA beneficiary countries to import yarn and fabric inputs from the most competitive international sources, but still qualify for AGOA preferences upon import to the U.S. Mauritius, for instance, has been able to source cheap cloth from China as an input in its industry. Upstream production of yarn, fabric and other inputs has recently been identified as a weak link in the cotton-textile-apparel value chain in Sub-Saharan Africa (Staritz, 2011). The third-country fabric provision enables AGOA beneficiary countries to circumvent value-chain bottlenecks to develop the parts of the value chain with which they enjoy a strong comparative advantage.

The clothing sector has traditionally been a gateway to export diversification and industrial development for low-income countries due to its low fixed costs, relatively simple technology, and labor-intensive nature. It has absorbed large numbers of unskilled workers and built capital and know-how for more

technologically advanced activities within and across sectors. It is hence an industry of keen interest for developing country policymakers.

In recent years Ghana's textile and apparel exports have been closely limited by AGOA coverage. Pressing for an extension to the breadth of textile and apparel products covered in AGOA in a strengthened post-2015 AGOA could help expand the scope of production in this sector.

Textile and apparel exports from Ghana to the U.S. have remained low during the 2003 to 2013 period despite the AGOA benefits. AGOA-qualifying textile exports declined from a peak of US\$ 8.3 million in 2007 to US\$0.4 million in 2009. AGOA-qualifying textile exports have experienced a small recovery over the last 3 years and in 2013 were valued at US\$ 2.8 million, up from US\$ 0.4 million in 2009. However, these volumes remain low compared to exports from other Sub-Saharan Africa countries.

Ghana is currently not exporting more apparel to the U.S for several reasons. One of the issues is that local producers suffer many of the usual supply-side constraints, including poor access to finance and outdated machinery. Besides, local companies have little-to-no experience in servicing international customers and struggle to understand the strict requirements expected for delivery, quality and compliance. The Ghanaian apparel manufacturing industry will survive if targeted policies, which utilize and complement the AGOA benefits are pursued. Supporting policies could also include reaching out to development partners and donors to help overcome limited sourcing networks, limited international experience, and finance constraints, while reducing tariffs or providing exemptions on imports of key cotton, yarn and fabric inputs which currently range from 10%-20%.

IV. Unused AGOA Preferences:

Ghana exports a large amount of prepared or preserved Tuna to the EU market. Ghana also enjoys preferential access to the U.S. market for tuna products although the margin of preference is only 3% in comparison to over 20% for the EU market. While Ghana would compete against Thailand, which is a highly efficient supplier of this product, the US remains a large market (over US\$1.1 billion imports) to which Ghana could potentially contribute. Therefore, Ghana's potential for exporting tuna to the U.S. market could be explored.

Fruit and fruit juice products could prove a profitable venture for promotion in the US market within existing AGOA preferences. These categories of products represent the types of horticultural and processed products identified as a specific priority in Ghana's National Export Strategy, and have performed well in the E.U. market. Research has shown that these products comprise sizeable import markets in the US, but AGOA preferences would help Ghana compete against South American and South East Asian competition. A comparative

analysis of Ghana's E.U. exports such as pineapples, orange and pineapple juice, melons, and lemons provided the clearest examples of additional products that could benefit from AGOA preferences. In particular, the combined pineapple, melon and lemon import market in the U.S. was estimated to be over US\$1.2 billion in 2013.

While Ghana has begun exporting industrial products, such as plastics and iron products, to other ECOWAS countries, there is very little evidence of these products meeting suitable standards and demand in the E.U. market even with EPA preferences and so it is relatively unlikely that these products will benefit considerably from AGOA.

Ghana is an internationally competitive producer of other horticultural products, such as cashew nuts. However, these products already enjoy duty-free access to the U.S. market under zero MFN tariffs.

There is scope for Ghana to better utilize existing AGOA preferences for products with which Ghana has demonstrated its international competitiveness. Many of these products have already been identified as priority non-traditional products in policies such as the National Export Strategy and National Export Development Programme.

V. Non-AGOA products that Ghana could press to be included in AGOA:

AGOA extends to around 7,000 product lines, yet some of Ghana's priority non-traditional products are excluded. The renewal of AGOA in 2015 provides an excellent opportunity for Ghana to press for such products to be included in a revised AGOA. The following are products, which Ghana has proven capable of supplying to the E.U. market at a high standard and could be utilized as part of AGOA. Extending AGOA preferences to these products would enable Ghana to better compete with other suppliers by reducing the price of Ghanaian imports relative to competitors.

Cocoa powder and defatted cocoa paste are not AGOA products, but are value-added processed products that Ghana already exports in sizeable quantities to the EU market. Exports to the US are low in comparison. Mainly other African countries such as Cote d'Ivoire and Cameroon, as well as South East Asian countries like Indonesia and Malaysia currently serve the US cocoa paste market. For cocoa powder, which has an estimated US\$363 million import market in the US, Ghana is currently outcompeted by European and South East Asian Suppliers. In fact, these are the products from which Ghana would have gain most were they to be included in AGOA.

Yam has also emerged as a valuable export for the diaspora market in both the EU and US and could benefit further from inclusion within AGOA. Ghana started exporting a moderate amount of yam to the US in 2012, and is the third largest

exporter of this product to the US market. Cassava, though currently exported in much smaller volumes, continues to enter the US market. Exports of cassava could also increase were cassava to be included in the AGOA list and tariffs thereby eliminated. Overall, AGOA preferences would help Ghana better compete against South American suppliers and boost demand for these products within the U.S.

Ghana export Mangos, guavas and mangosteens to the EU market in moderate quantities, yet exports to the US remain relatively low. The US is, primarily served by South American suppliers for these products. Hence, extending AGOA preferences to these products could help Ghana expand its market opportunities in the United States.

Again, Ghana does not export peanuts (groundnuts) to the EU or US markets in any sizeable volumes, but does export this product to other countries in moderate quantities. The US currently applies tariff rate quotas on peanuts where tariffs between 131.8% and 163.8% are applied on imported volumes beyond a certain duty-free-quota-free which is dominated by Argentina. Removing tariff rates quotas on peanuts could also provide scope for Ghanaian exporters. The International Food & Agriculture Trade Policy Council (2010) argue that there is a potential market niche for peanut-producing AGOA countries.

VI. Key Benefits for the Private Sector:

AGOA has, to a large extent, been a success increasing US trade and investment with Africa and diversifying the range of products being traded. For instance, Botswana's AGOA exports to the US increased by 50% in 2005 (\$30.1 million) compared to \$20.1 million recorded in 2004.

In respect of Ghana,

- i. Without AGOA Ghana would have faced the high MFN tariff rates, which might worsen its competitiveness;
- ii. AGOA provides new markets, new partners and increase profits of participating companies, entrepreneurs and SMEs among others;
- iii. Concrete implementation plans and strategies will help Ghana tap the power of markets to improve the lives of its citizens;
- iv. By reducing to trade barriers, AGOA has helped to increase Ghana's non-traditional exports (NTES), create jobs and expanded opportunity for Ghanaian Textiles, Handicrafts and Agribusinesses, etc.
- v. AGOA ministerial meetings also help to promote mutually beneficial trade and economic development;
- vi. Through diversification of exports under AGOA, Ghana can continue to increase profits, new markets and partners especially in agricultural and high-tech sectors through capacity building to withstand global competition;

- vii. Increased trade and investment via AGOA has brought sustained inclusive growth, peace and stability to Ghanaian beneficiaries. For instance, market opportunities in the US market caused Woolworth to invest over \$10 million.

VII. National Intervention to Maximize gains from AGOA:

Ghana will make more strides if the following structures are put in place to measure the benefit from AGOA to businesses and participating companies:

- i. Establish AGOA implementation Committee and strategies and set clear targets and benchmarks with verifiable indicators for national development;
- ii. Follow-up mechanisms to maintain and track progress of implementation after each forum;
- iii. Address constraints, including red tape affecting women entrepreneurs;
- iv. Diversification and value-addition of NTEs into other semi-processed products;
- v. Infrastructure development and support for exporters.

VIII. Conclusion:

AGOA still offer's a market access opportunity for sub-Saharan countries to the US, which remains one of the most strategic global markets of the world. AGOA utilization rates are very low for AGOA-qualifying products that Ghana already exports to the U.S. Ghana has demonstrated international competitiveness in supplying certain high standard products to the EU, yet does not utilize AGOA preferences to export the same products to the US. A comparative analysis highlights prepared tuna, fruit and fruit juice as being products where exporting capacity to the U.S market should be investigated. While around 31% of Ghana exports to the US in 2013 were AGOA-qualifying products, Ghana only utilized 0.9% of exports of AGOA preferences.

There is room for Ghana to further exploit the benefits of the trade preferences already available under AGOA legislation by better disseminating information about AGOA eligibility and requirements. Ghana could improve utilization rates by better advertising and improving awareness of AGOA preferences amongst exporter and producer organizations such as the Federation of Association of Ghanaian Exporters (FAGE), Association of Ghana Industries (AGI), Ghana Export Promotion Council (GEPC) among others to help extend exports of these products to the U.S. market.

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