

2ND JOINT WEBINAR

“Practical Aspects of the Implementation of Free Trade Agreements amongst Selected Members of Regional Economic Communities”

February 9, 2023

Good morning Colleagues,

Add my welcome to that of Mary and it's always a pleasure to share a platform with her.

We at Vienna are very pleased to partner with ATAF on this project on what is the most ambitious initiative on the African continent: the move towards a single economic area. The recently signed African Continental Free Trade Area is the start of what will be a long and at times contentious journey.

This is a journey which begins with the gradual removal of tariffs and non-tariff barriers to inter-African trade and investment, which will lead to greater regional integration. The AU has forecasted that these moves will increase FDI and Trade flows which in turn will raise GDP by just over 3 %. The Free Trade agreements will also assist African countries to become more integrated into global value chains, which at present is almost they are almost absent from.

From a political perspective, the Agreement will increase the voice of Africa in global fora and in discussions with regional blocks such as the EU.

As Pravin Gordhan once said: when we stand together we are much stronger than when we stand apart!

But as can be seen from the experience of the EU (the biggest economic block in the world) this will be a difficult journey with winners and losers.

What will be the main challenges to achieving this vision?

At the political level, the agreement will constrain the sovereignty of each country and this may be difficult to accept especially in some of the larger African countries.

Another sensitive issue is how will the continental-wide agreement interact with the network on regional economic agreements some of which are well established and which one of the main issues for this Webinar

.A third barrier is to ensure that the Agreement does not undermine the ability of countries to design their tax systems to meet their specific economic and social needs.

Linked to this is the question of what impact will the reduction of customs duties and possibly VAT on imports have on tax revenues. The analysis carried out by the joint ATAF/Vienna teams suggests that some countries will in the short term see a significant fall in revenues (in many African countries customs duties can account for more than 15% of tax revenues).

This is why the Agreement sets out a number of transitional arrangements. However, in the medium to longer term, there is a broad consensus that the Agreement will, by stimulating growth, lead to increased tax revenues, especially if countries take advantage of the Implementation of the agreement to broaden their tax base and to improve tax compliance.

Another challenge is that the removal of borders may open up new avenues for IFF: contra band, smuggling, trade-related mispricing, and others cross border financial crimes.

What is clear is that the tax community needs to deepen its engagement with the trade and investment community (the African Free Trade Agreements has many provisions which will affect FDI flows so the investment community needs to be engaged too).

This tripartite dialogue must encompass a wide range of issues:

How can African countries take advantage of the political momentum behind the Agreement to broaden their tax base, especially in the area of the taxation of wealth and property and personal income taxes, and to deal with the loss of revenue from the informal sector?

Issue of tax policy such as how the agreement may influence the ability of African countries to use their tax systems to attract FD and service activities. In addition, the Agreement could have an impact on the way Africa goes about implementing Pillar 2 proposals for a 15% effective minimum tax rate.

Questions around the interaction of bilateral tax treaties - which are spreading rapidly in Africa - with certain of the provisions found in the Free Trade Agreement (e.g. on non-discrimination, on national treatment, on Fair and Equitable treatment) are important to explore NOW.

Issues will also arise on how trade and investment-related tax disputes should be resolved. Despite attempts to rule out taxation from the proposed dispute resolution mechanisms being put in place under the Agreement, it's likely that some tax disputes will be taken to the Agreements arbitration provision. We need to avoid the bad experience that African countries have had with arbitration under BIT.

Securing customs revenue will also be a challenge which is why customs officials need to have a seat at the trade table especially as countries begin implementation of the Agreement

More general in a free trade environment Africa will need to step up its act to counter all forms of cross-border illegal activities which will require strengthening customs departments. Here there is much talk but as can be seen from the evaluation of the FATF very few countries - both in Africa and elsewhere - are implementing these standards effectively. In line with the new recommendations 24 and 25 on access to beneficial ownership information this will become an even greater challenge.

In dealing with these challenges new technologies such as AI, ML, and blockchain can help both in terms of collecting and analysing data and in providing better risk assessment tools. Already the WCO is exploring how these new technologies, especially blockchain, can help custom authorities put in place more effective track and trace programs. African countries have much to learn from each other in this area and my colleague Joy will say more on this issue later this morning.

In all of these areas ATAF has a key role to play by:

- providing a strong analytical framework for the debate and helping the tax and trade communities to better understand each other
- providing short policy briefs on key issues
- establishing a forum for a dialogue between the trade, investments, and tax commitments
- and perhaps of most importance, by helping African Tax and customs Administrations to achieve more effective cross border cooperation and coordination

ATAF can also assist its members to build up their capacity to address these issues, particularly in the area of customs where ATAF already has good cooperation with the WCO.

If ATAF doesn't take this opportunity others will (we can already see that UNCTAD is moving in this direction).

We started this journey in Accra last September, we had the first Webinar in June and today is the second. Let's make 2023 a year in which we move from dialogue to action. Vienna will be honour to accompany ATAF and its member countries on this journey.

Happy to answer any questions and I am looking forward to our discussions.