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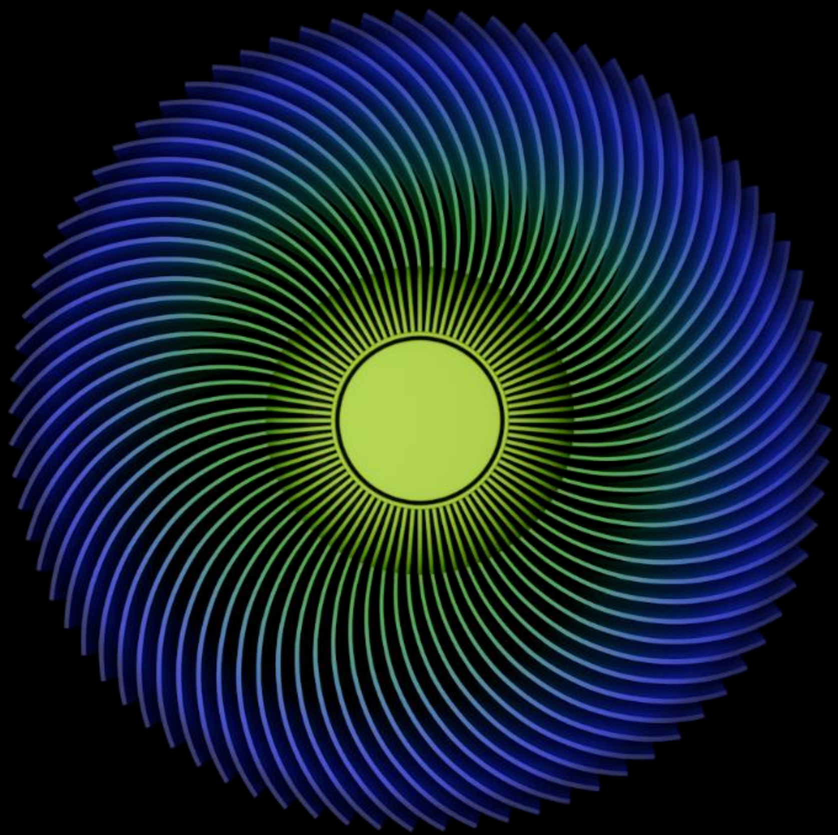


Tax Alert

COMESA-EAC-SADC Tripartite Agreement comes into effect

The COMESA- EAC- SADC Tripartite Free Trade Area Agreement (TFTA) came into effect on 25 July 2024 following the ratification of the TFTA by 14 of the 29 member states who were required to deposit their instruments of ratification.

The Agreement establishes a Free Trade Area (FTA) among the Member States or Partner States aimed at the promotion of social and economic development, the creation of a single market with free movement of goods and services, and regional and economic integration all designed to benefit the people within the respective regions.

Background

The Member/Partner States of the East African Community (EAC), Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC) agreed to negotiate a TFTA in 2008 to facilitate trade by reducing/eliminating tariff and non-tariff barriers amongst themselves. The TFTA is made up of 29 countries of the three Regional Economic Communities (REC) with 22 of them already participating in their respective FTAs. The TFTA has a combined Gross Domestic Product (GDP) of USD 1.88 trillion and a population of 800 million, which indicates the huge potential if the TFTA is successfully implemented.

For the TFTA to take effect, 14 out of the 29 countries who have signed the TFTA were required to deposit their instruments of ratification. The Tripartite Taskforce confirmed that the required threshold had been met during its 37th Meeting bringing the TFTA into force on 25 July 2024. Member States that have ratified the TFTA are as follows: Angola, Botswana, Burundi, Egypt, Eswatini, Kenya, Lesotho, Malawi, Namibia, Rwanda, South Africa, Uganda, Zambia, and Zimbabwe.

The slow ratification of the TFTA has been attributed to a lack of political will and the absence of an institutional arrangement in the form of a dedicated Secretariat with a clear mandate of coordinating Tripartite negotiations.

The Agreement establishes a FTA among the Tripartite Member States or Partner States. The general objectives of the FTA include the promotion of social and economic development, the creation of a single market with free movement of goods and services, and regional and economic integration.

Specifically, the TFTA aims at eliminating tariff and non-tariff barriers to trade in goods, liberalization of trade in services, fostering cooperation on customs matters, implementing trade facilitation measures, and establishing an institutional framework for the implementation and administration of the FTA.

The key pillars of the TFTA are:

a) Market integration that focuses on the creation of a free trade area and arrangements for the movement of business persons;

b) Infrastructure development that focuses mainly on enhancing connectivity and reducing business costs; and

c) Industrial development that aims at creating a supportive business by improving regulatory and legal frameworks, increasing productivity, and competitiveness.

Key Provisions of the Agreement

Notable provisions in the TFTA include:

a) Elimination of import duties, to accord preferential treatment for originating goods and non-imposition of any new import duties or charges except as agreed in the Agreement.

b) Elimination of non-tariff barriers to trade, transit trade, and transit facilitation. This is aimed at easing the movement of goods among the Member states.

c) Provisions relating to customs cooperation, and mutual administrative assistance which are aimed at promoting efficiencies related to the administration of taxes and custom duties.

All these are critical to ensure the success of the implementation of the TFTA.

Role of the TFTA in boosting intra Africa trade

The TFTA will create market access for goods originating from the Member States who have ratified the TFTA at reduced import duty rates. Whereas the AfCFTA is already providing wider market access to members of the TFTA, we note that the TFTA aims at liberalizing 100% of the tariff lines, unlike the AfCFTA which has liberalized 90% of the tariff lines while reserving 7% for sensitive goods and 3% for the exclusion list.

Further, under the infrastructure development pillar, the TFTA will promote the development of key infrastructure that will facilitate the movement of goods and capital amongst the member states. In addition, market access will create value chains that will boost industrial development in the continent.

Although the journey to the commencement of the TFTA has been slow, the TFTA has created an important building block for the implementation of the African Continental Free Trade Area (AfCFTA). The AfCFTA has leveraged key lessons from the TFTA including modalities and instruments that facilitated negotiations for trade in goods.

Potential challenges to implementation of the TFTA.

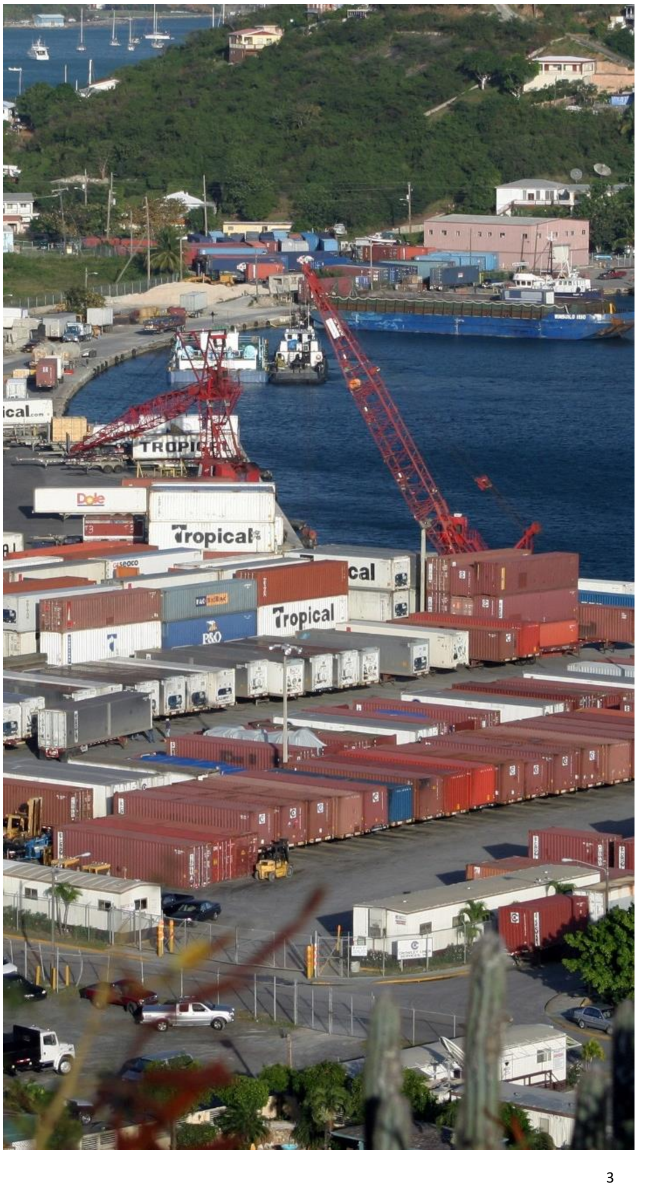
In our view, the main challenge anticipated for the implementation of the TFTA is the lack of a dedicated secretariat to facilitate the member countries in taking advantage of the TFTA benefits. Members and Partner States may have to wait for a while before reaping the benefits associated with the TFTA.

Conclusion

The TFTA has the potential to expand trade within the region and immensely benefit traders within the Partner States in the FTA. The EAC member countries, who are already members of COMESA will have the added benefit of trading with some key markets within SADC such as South Africa which is a key market or source of products.

The AfCFTA recognizes the strides that the different RECs have made under the TFTA and aims at using the TFTA as a building block to enhance these strides. Prior agreements concluded by the different member states will continue to be in effect even with the operationalization of the TFTA.

Should you have any questions about this alert, please reach out to any of the contacts below, contacts listed in the publication, or your Deloitte contact person.



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