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Overview of the Used Clothing Market in East Africa:

Analysis of Determinants and Implications

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Overview of the Used Clothing Market in East Africa: Analysis of Determinants and Implications

EXECUTIVE SUMMARY

In March 2016, the East African Community (EAC) Heads of State issued a Joint Communiqué from the 17th Ordinary Summit, expressing their intent to progressively phase out importation of used clothing as a means to support the region's textile and apparel industry.* A U.S. trade association reacted to these measures by requesting an out-of-cycle review (OCR) of the eligibility of the EAC Partner States for the African Growth and Opportunity Act (AGOA) privileges, citing both loss of American jobs as well as introduction of new trade barriers in contravention of AGOA provisions.

While Kenya took active steps to be exempted from the OCR, the remaining AGOA eligible countries - Rwanda, Tanzania and Uganda – were left standing for review. The Office of the U.S. Trade Representative (USTR) granted the OCR request and held a public hearing in Washington, DC on July 13, 2017. Under the OCR process, Rwanda, Uganda and Tanzania stand to lose some or all of their duty-free trading privileges under AGOA.

Given an apparent lack of data on the economic significance of the used clothing market in the EAC, or its relative impact on the EAC's domestic textile and apparel industry, USAID's East Africa Trade and Investment Hub conducted this rapid assessment.

The following is a top level examination of some of the determinants and implications of the used clothing market in East Africa, including an analysis of used clothing import trends in the EAC; an assessment of the economic significance of used clothing to both the U.S. and EAC; a review of EAC import substitution assumptions; and some modeling of long-term outcomes if EAC Partner States maintain their current used clothing import policies. The results provided are intended to aid data-driven policy decisions and negotiations going forward.

The analysis focused on three main questions:

1. What is the economic significance of the used clothing trade in the EAC countries?
2. What is the relative impact of used clothing imports on EAC Partner States' domestic industry?
3. What are some likely outcomes if EAC Partner States phase out used clothing imports, and as a result, lose their AGOA privileges?

Among the data findings:

- The used clothing industry creates an estimated 355,000 jobs in the EAC, which conservatively generates incomes of US $230 million that supports an estimated 1.4 million people. In addition to jobs, the import duties and value-added tax (VAT) paid to EAC governments by importers of used clothing result in over US$140 million in estimated annual revenues.

- The United States supplies approximately 19.5 percent of total direct exports of used clothing to the EAC. However, when considering indirect exports from United Arab Emirates, China, Pakistan and India, the U.S. share is significantly higher.

- Chinese exports of ready-made clothes to the EAC reached S$1.2 billion in 2016, dwarfing the value of used clothing imports by a factor of four. Although taxed at a higher ad valorem rate than used clothing, the vast majority of what enters EAC markets is undocumented and untaxed. Chinese imports, particularly the undocumented goods that flood the market, pose a much greater danger to EAC domestic industries.

Should EAC Partner States lose AGOA-eligibility, it would mean the loss of an important opportunity to grow the EAC's competitive capabilities. In 2016, the EAC exported US$435 million in goods to the United States under AGOA, with the majority (88 percent) being apparel. In addition to loss of revenues, the EAC has the potential to lose 219,000 full-time jobs derived from the trade preference program, leaving 500,000 people in the region without income.

* "The Summit, being desirous of promoting vertically integrated industries in the textile and leather sector, directed the Partner States to procure their textile and footwear requirements from within the region where quality and supply capacities are available competitively, with a view to phasing out importation of used textile and foot wear within three years. The Summit directed the Partner States to sensitize all stakeholders and directed the council to provide the Summit with an Annual Review with a view to fast tracking the process." – JOINT COMMUNIQUÉ: 17TH ORDINARY SUMMIT OF THE EAST AFRICAN COMMUNITY HEADS OF STATE

CONCLUSIONS

EAC Partner States can benefit from both used clothing jobs and revenues while still enjoying AGOA benefits. The policies and revenue streams are not mutually exclusive. In fact, AGOA was designed in part to support the growth of competitive domestic sectors like textile and apparel manufacturing.

While Kenya is currently exempt from the OCR, U.S. industry representatives have said they will closely monitor compliance and could advocate for a future review. Should EAC Partner States lose AGOA benefits, the impact would be greater than the immediate loss of export related jobs and revenues. Rwanda, Uganda and Tanzania, if stripped of AGOA benefits, would lose a host of AGOA-related benefits provided by the U.S. government, including: support for AGOA National Export Strategies; firm level technical support to exporters; support for participation in U.S. trade shows linking EAC sellers to buyers; foreign direct investment (FDI) assistance since investors would no longer have AGOA-based incentives through 2025; workforce development assistance to textile and apparel manufacturers exporting under AGOA; and, loss of a favored trade relationship with the United States.

EAC policy makers would be well advised to keep both used clothing sector and AGOA export benefits while focusing on domestic industry development, knowing these are not mutually exclusive goals. U.S. policy makers would be well advised to recognize that the EAC has not yet fully implemented a phase out of used clothing imports and are instead re-evaluating their policy directives with an eye to avoiding loss of Partner State AGOA status. Tanzania and Uganda have testified that they value AGOA and want to actively work with their U.S. counterparts to retain their benefits under the partnership. There is a high possibility of a win-win negotiated outcome with no need for the loss of AGOA gains on both sides.

Overview of the Used Clothing Market in East Africa:

Analysis of Determinants and Implications

INTRODUCTION

In March 2016, the East African Community (EAC)[1] Heads of State issued the Joint Communique from the 17th Ordinary Summit, expressing their intent to progressively eliminate importation of used clothing as a means to support the region's textile and apparel industry.[2] On June 30, 2016, the EAC published EAC Gazette, Vol. AT1-No. 5, which executed an increase of the Common External Tariff (CET) rate for worn clothing from USD .20/kg to USD .40/kg or 35%, whichever is higher. At the same time, Rwanda was also granted a stay of application of the CET to apply an even higher duty of USD 2.5/kg for worn clothing, and USD 5/kg for worn shoes or 35%, whichever is higher.

The U.S.-based Secondary Materials and Recycled Textiles Association (SMART) reacted to these measures by requesting an out-of-cycle review (OCR) of the eligibility of the EAC Partner States for the African Growth and Opportunity Act (AGOA), a trade preference program that provides duty-free treatment to approximately 7,000 products from Africa. In order to be exempted from an OCR, Kenya provided a written commitment that it would not phase out used clothing imports, and requested a stay of application of the CET, effectively allowing it to roll back tariffs to pre-2016 levels. The remaining EAC countries with active AGOA privileges - Rwanda, Tanzania and Uganda – were left standing for review. The Office of the U.S. Trade Representative (USTR) granted SMART's request and held a public hearing in Washington, DC on July 13, 2017. Under the OCR process, Rwanda, Uganda and Tanzania stand to lose some or all of their duty-free trading privileges under AGOA.

Given an apparent lack of data on the economic significance of the used clothing market in the EAC, or its relative impact on the EAC's domestic textile and apparel industry, USAID's East Africa Trade and Investment Hub conducted this rapid assessment. The following is a top level examination of some of the determinants and implications of the used clothing market in East Africa, including an analysis of used clothing import trends in the EAC; an assessment of the economic significance of used clothing to both the U.S. and EAC; a review of EAC import substitution assumptions; and some modeling of long-term outcomes if EAC Partner States maintain their current used clothing import policies. The results provided are intended to aid data-driven policy decisions and negotiations going forward.

Table 1: Historical CET Treatment of Worn Clothing and Other Worn Articles 2007-16

ITEM or HS Code	2007 CET Treatment	2012 CET Treatment	2016 CET Treatment	Kenya Stay of CET 2017-2018	Rwanda Stay of CET 2017-2018
6309.00.10 Worn items of clothing	45% or USD 0.30/kg whichever is higher	35% or USD 0.20/kg whichever is higher	35% or USD 0.40/kg whichever is higher	35% or USD 0.20/Kg whichever is higher	35% or USD 2.5/ Kg whichever is higher
6309.00.20 Worn items of footwear	45% or USD 0.30/kg whichever is higher	35% or USD 0.20/kg whichever is higher	35% or USD 0.40/kg whichever is higher		35% or USD 5.0/ Kg whichever is higher
6309.00.90 Other worn items	45% or USD 0.30/kg whichever is higher	35% or USD 0.20/kg whichever is higher	35% or USD 0.40/kg whichever is higher		35% or USD 2.5/ Kg whichever is higher

Sources for EAC Gazettes:
http://www.eac.int/sites/default/files/docs/eac_gazette_no._5_of_2016.pdf (Gazette 5)
http://www.eac.int/sites/default/files/docs/eacgazette30062017.pdf (Gazette 8)

1 The East African Community comprises Burundi, Kenya, Rwanda, Tanzania, Uganda, and South Sudan.
2 See EAC web page http://www.eac.int/news-and-media/press-releases/20160805/eac-secretariat-kick-starts-assessment-supply-capacities-textiles-apparels-and-leather-products and Annex 3.

BACKGROUND

Imports of used clothing from the United States into Africa became increasingly important in the 1980s, filling a gap in the supply of Western clothes for low-income people. This phenomenon is not exclusive to Africa, however, U.S.-African used clothing trade is extensive and even more so if one tracks U.S. clothing re-exported through other markets such as the United Arab Emirates, Pakistan, Canada, South Korea, India and even China, as well as long and complex domestic distribution channels. Used clothing has progressively gained market share in East Africa since the late 1980s. By 2017, two-thirds (67 percent) of the population[3] purchased at least a portion of their clothes from the used clothing market, with higher income strata purchasing new garments of Chinese origin, as well as American and European brands.

As a labor-intensive industry, apparel offers the best prospects for economic development for countries with limited or no manufacturing base. It has generated catalytic growth in manufacturing for many countries, particularly the Asian Tigers. For smaller countries, the domestic market does not offer opportunities for growth, and producers must look outward to develop efficiency through economies of scale. The regional market is critical to EAC member states seeking to develop globally competitive industries. Attracting investors that can supply U.S. and EU brands will allow companies to expand and scale, creating productive jobs that raise people out of poverty.

Used clothing benefits a wide array of stakeholders in EAC countries, providing jobs, access to affordable and relatively high-quality clothing for low-income households, and generating government revenue through higher than average tariffs. As such, it serves the interests of economic growth and development for EAC citizens.

Despite these benefits, the discourse on used clothing has focused on the need to develop a domestic textile industry, as if the two approaches are mutually exclusive, which they are not. This leaves three fundamental questions unresolved:

1. What is the economic significance of used clothing trade in EAC countries?
2. What is the relative impact of used clothing imports on EAC Partner States' domestic industry?
3. What are some likely outcomes if EAC Partner States phase out used clothing imports, and as a result, lose their AGOA privileges?

Careful consideration of these questions will: a) allow policy makers in East Africa and in the United States to understand the structure, the characteristics and the scale of the used clothing industry, as well as the related economic implications for the exporting and importing countries; b) give policymakers perspective on the potential implications of an East Africa without imports of second-hand clothing; and c) contribute to the ongoing trade dialogue by looking at the determinants and implications of the imports of used clothing from an unbiased perspective.

To examine these important issues, this brief report analyzes import trends in Kenya, Rwanda, Tanzania and Uganda. While Kenya is not part of the OCR, it provides an illustrative case study of what countries will lose by imposing the prospective phasing out of imports of used clothing. Burundi is not currently AGOA eligible, therefore we will not include it in the analysis. We will also look at the economic benefits of the used clothing industry in both the United States and importing countries, conduct a demand analysis and analyze what a scenario of reduced used clothing imports would look like. We will then summarize our conclusions.

I. WHAT IS THE ECONOMIC SIGNIFICANCE OF THE USED CLOTHING TRADE IN THE EAC COUNTRIES?

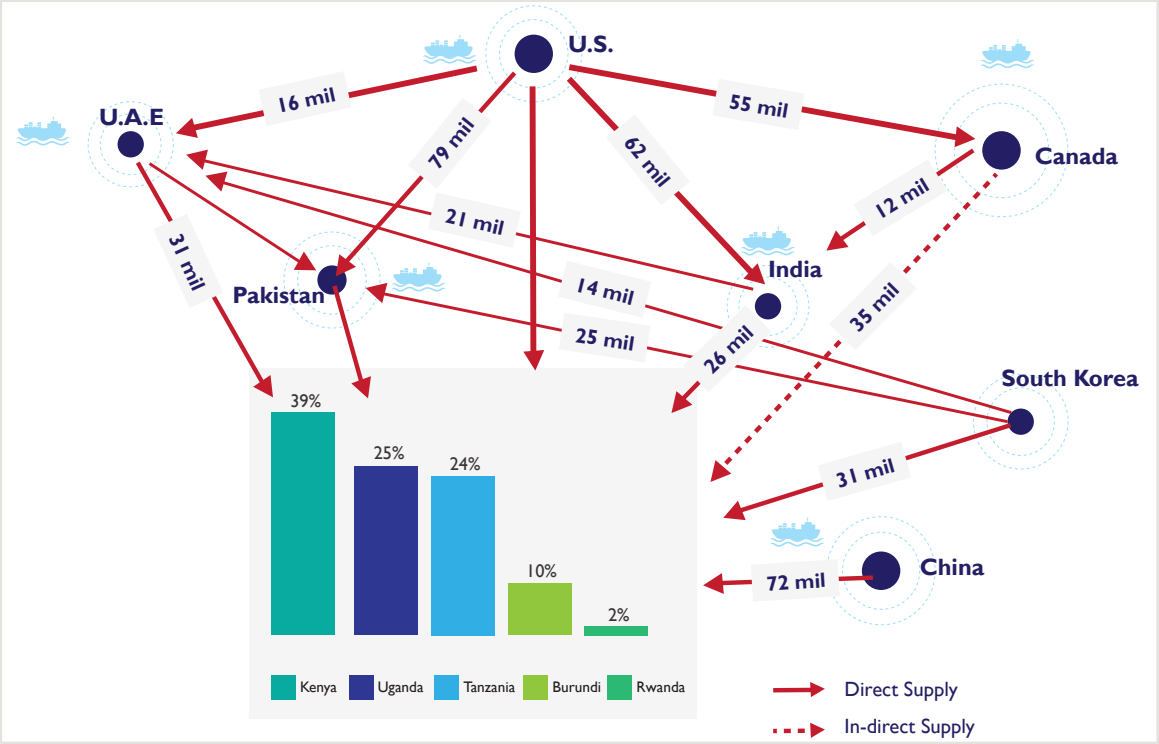
A. Trade Between the United States and East Africa

The East African Community accounts for about 12.5 percent of global imports of used clothing,

3 Source: interviews in the Mitumba markets in Kenya

reaching US$274 million in 2015.[4] The value of imports by the EAC followed an upward trend until 2016 when there was a 35 percent reduction in imports by Rwanda (US$27 to US$17 million) and a 1.5 percent reduction by Uganda. During the same period, Kenya's imports of used clothing increased by 23 percent.

Figure 1: EAC Imports of Used Clothing, 2012-16



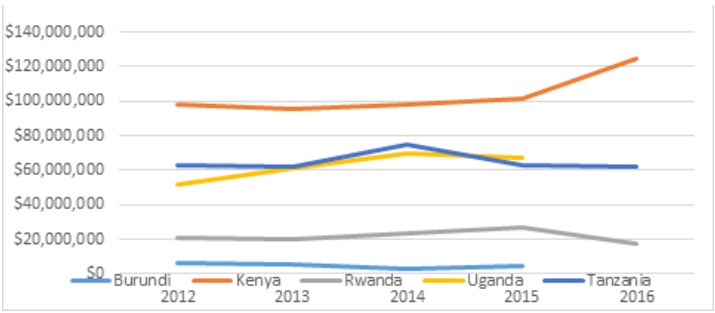
Compiled by the USAID East Africa Trade and Investment Hub

On a per capita basis, this amounts to only US$1.69 on average per year. According to our field research, 95 percent of these imports are purchased by the lowest two quintiles of the population. Average per capita purchases of used clothing among this segment of the population amounts to US$3.50 per year, a more significant share of disposable income.

The United States supplies approximately 19.5 percent of total direct exports of used clothing to the EAC. This refers to exports to countries which constitute the final market for used clothing. However, when considering indirect exports, the U.S. share is significantly higher. Large volumes are shipped from the United States to the United Arab Emirates, China, Pakistan and India, among other countries, where the garments are sorted, sanitized and repackaged for re-export to African countries. Figure 2 below maps the direct and indirect flows of used clothing to the EAC.

Figure 2: Direct and Indirect Flows of Used Clothing to the EAC

EAC Trends of Used Clothing Imports



Source: UN COMTRADE. Compiled by the USAID East Africa Trade and Investment Hub

4 This amount comprises both direct and indirect imports of used clothing from the U.S. market (see Figure 2, below).

Direct and indirect imports of used clothing from the United States into the EAC partner states steadily increased until 2015, when reductions by Rwanda and Tanzania led to a corresponding reduction in the U.S. market share.

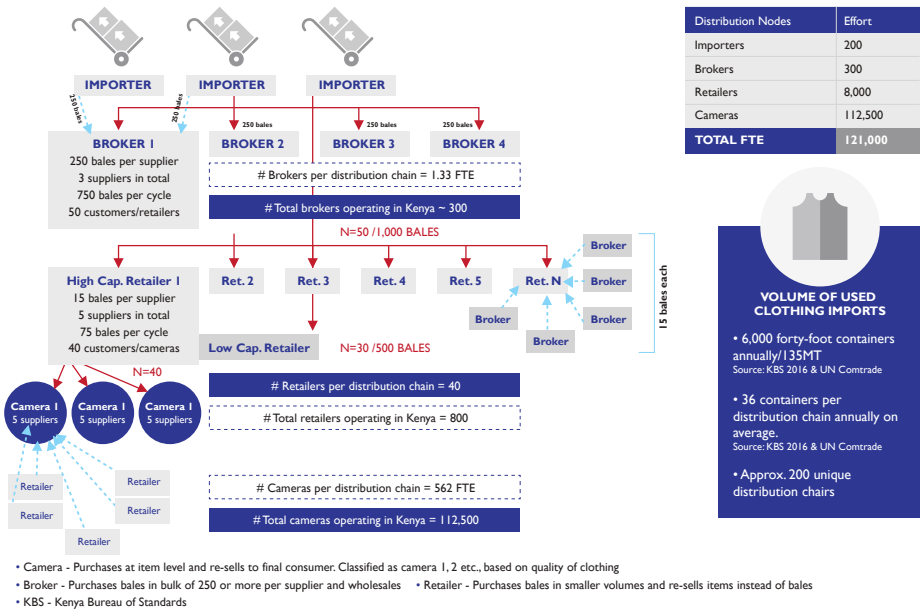
B. Distribution Chains and their Economic Relevance

Kenya is the largest importer of used clothing in East Africa, with imports totaling US$124 million in 2016. This is equivalent to 6,000 40-foot containers carrying some 144,000 metric tons of clothes. In Kenya, where in-depth research conducted by the USAID East Africa Trade and Investment Hub is virtually complete, we were able to confirm the existence of approximately 200 distribution channels linked to roughly the same number of importers of used clothing (illustrated in figure 3, below).

These distribution channels are extremely organized, with buyers who are highly specialized around specific types of garments and end markets. In Kenya alone, used clothing retailers number nearly 8,000. High-end wholesalers usually collect slightly worn garments of well-known brands, which are dry cleaned and sold individually to middle- and upper-class customers. Similarly, there are more than 100,000 wholesalers supplying all social strata, with the "cameras", or lower-level retailers buying and selling cheap garments in low-class urban centers and in the rural areas.

The number of jobs created in the distribution of used clothing, as well as in ancillary jobs directly derived from this activity in major used clothing markets (e.g. tailors, food vendors, security agents and loaders/ unloaders, among others), is remarkable. Estimates from Kenya suggest that the used clothing industry sustains 121,000 direct and 27,000 indirect jobs.

Figure 3: Illustrative Used Clothing Distribution Chain in Kenya



Source: Compiled by the USAID East Africa Trade and Investment Hub

Table 2: Estimated Amounts Paid by Importers of Used Clothing in Duties and Taxes, 2015

KENYA	UGANDA	TANZANIA	RWANDA	BURUNDI	TOTAL
US$63 million	US$34 million	US$32 million	US$9 million	US$2 million	US$140 million

Source: Compiled by the USAID East Africa Trade and Investment Hub

In Tanzania, the industry sustains an estimated 81,000 full-time jobs (67,000 direct and 14,000 indirect); in Uganda, 87,000 (72,000 indirect and 15,000 direct); in Rwanda, 22,000 (18,000 direct and 4,000 indirect); and in Burundi, 5,000 (4,000 direct and 1,000 indirect). Thus, the used clothing industry creates an estimated 355,000 jobs in the East African Community, which conservatively generates incomes of US$230 million[5] that supports an estimated 1.4 million people.[6]

In addition to jobs, the import duties and value-added tax (VAT) paid to EAC governments by importers of used clothing result in over US$140 million in estimated annual revenues. Table 1 below shows the revenue shares in each of the EAC Partner States, and demonstrates what the governments would be foregoing by implementing a phasing out of used clothing imports.

II. WHAT IS THE RELATIVE IMPACT OF USED CLOTHING IMPORTS ON EAC PARTNER STATES' DOMESTIC INDUSTRY?

It is important to consider that very few countries depend solely on their own apparel manufacturing sectors; globalization has ensured that factors of production are allocated in the most efficient way, with trans-national specialization and economies of scale leading to competitiveness.

Many countries have argued that protecting infant industries from competitive pressures in the short-term is the best way to build strong and efficient industries in the long run. In some cases, this strategy has encouraged diversification of the apparel industry, but manufacturing capabilities within the EAC do not support a fully integrated, globally competitive apparel industry in the short- or medium-term (see textbox).

The Case of South Africa:

The development of a regional apparel supply chain in Southern Africa offers several lessons for the EAC. In 2007-08, South Africa imposed a quota on Chinese apparel. In response, South African retailers began diversifying, sourcing low-cost apparel from Lesotho and Swaziland to satisfy local consumers. They relied on the existing investor community, largely Taiwanese, who had set up apparel production in these countries to take advantage of AGOA preferences. Thus, the existing export-focused model complemented the import substitution strategy.

The proposed approach of the East African Community would reject an existing export promotion approach in favor of import substitution, by spurning AGOA altogether. Furthermore, the South African case relied on well-capitalized, sophisticated domestic retailers integrating vertically to accommodate local fashion trends. The EAC lacks similarly capitalized producers to organize the development of a local apparel industry.

Source: United States International Trade Commission, AGOA: Trade and Investment Performance Overview, https://usitc.gov/publications/332/pub4461.pdf

At least three important factors need to be taken into consideration in understanding the EAC context: 1) effective demand; 2) competitiveness; and 3) the China factor.

a. EFFECTIVE DEMAND

Having a strong domestic textile and apparel industry requires first and foremost effective demand, which results from both desire for an item and the ability to pay. In the case of clothing, ability to pay is determined by disposable income.

So far the EAC has made the argument that supply-side solutions will result in a thriving textile industry. However, there are two relevant factors to consider: 1) disposable incomes in the two lowest quintiles of the population are low; the ability of poor households to purchase new Chinese garments, probably the next best option after used clothing, is still unlikely if not impossible, and 2) the upper two quintiles of the population generally purchase new clothing made in China or buy global brands. That leaves a market of approximately 20 percent of the population that could have the ability to purchase locally made garments, provided they are of reasonable quality and sold at competitive prices.

Thus, used clothing is filling a gap for nearly 40 percent of the population who do not have the means to buy new clothes. As incomes rise over time, increased disposable incomes will generate effective demand for locally produced clothing. Furthermore, the prospective phasing out of used clothing will

5 Based on an estimate of an average wage of US$2.50 per person per day.
6 Based on 4 people per household, as indicated by the EAC 2016 Facts and Figures: http://www.eac.int/sites/default/files/docs/eac_facts_figures_2016_0.pdf

not raise incomes in the region, so it will not be sufficient to stimulate demand for locally produced (relatively expensive) clothing.

b. COMPETITIVENESS

Worldwide, competitiveness is what determines the long-term success and consequently the rate of growth of an industry. For apparel, growth is a function of key factors such as political stability that encourages investment, availability and price of electricity, abundance of a skilled workforce, cost-effective logistics and a reasonable cost of labor.

In a competitive market, a vertically integrated domestic value chain is no longer a requirement to supply the local market, but an option. Therefore, the apparel industry, regardless of the end market, chooses either local or imported inputs primarily based on price. This is true in Africa and all over the world.

The growth of the apparel industry in East Africa is evident. In 2016, the EAC exported US$435 million in goods to the United States under AGOA, with the majority (88 percent) being apparel. Should East African countries continue to benefit from AGOA, that figure will grow. Local EAC firms are competitive because they procure factors of production (i.e. fabric and trimmings) from countries that supply them at competitive prices and, most importantly, these factories supply high-end markets in the developed world. Seeking to—even partially—transform the export-oriented industry to supply the domestic or regional markets is not an attractive business proposition for the apparel industry, because local prices are too low (compared with the U.S. or EU market) to sustain a profitable enterprise.

c. THE CHINA FACTOR

China has been progressively gaining market share in Africa. This is particularly evident in East Africa, where the local markets are dominated by "African fabrics" which are now massively produced in China, as well as low-cost Chinese ready-made clothes.

Chinese exports to the EAC reached US$1.2 billion in 2016, quadrupling the value of imports of used clothing. Regardless of their port of entry, once in the single customs territory, Chinese clothing can be sold anywhere in the EAC. Anecdotal evidence suggests that Chinese clothing imported into Kenya is already being transported as far as the Democratic Republic of the Congo.

As shown in Figure 4, trade statistics vary significantly as reported by China and EAC countries, especially regarding used clothing. In 2015, there is a 10-fold difference, which implies that close to 90 percent of Chinese clothing imports into the EAC are not recorded by the national revenue authorities.

Figure 4. Gap in Trade Statistics Between the EAC and China

Textiles with African designs made in China; the only ones available in the Kigali Market.

It is therefore logical to conclude that considerable imports of Chinese clothing, both legitimate and undeclared, constitute the real threat to the East African textile industry. This is especially true considering that the majority of people who buy used clothing cannot afford new clothing, so the U.S. and China are competing directly for the same customers but through different market segments.

Evidence suggests that a reduction or elimination of imports of used clothing would have no effect on the development of the local industry. This is consistent with the conclusion of other researchers and the experience of other countries that have failed to stimulate the textile and apparel industry through import restricting policies and bans.[7]

III. WHAT ARE SOME LIKELY OUTCOMES IF EAC PARTNER STATES PHASE OUT USED CLOTHING IMPORTS, AND AS A RESULT, LOSE THEIR AGOA PRIVILEDGES?

Preliminary results of our research suggest that reducing or eliminating imports of U.S. used clothing would likely result in the following outcomes:

- The immediate or phased loss of 355,000 full-time jobs in East Africa, directly affecting 1.4 million people, with concomitant effects in terms of social instability;
- The immediate or phased loss of US$140 million in customs revenue derived from imports of used clothing;
- Forty percent of the population (the lowest two quintiles) will have fewer options to dress themselves and their families in affordable clothing. Those few within this segment of the population able to save enough would ultimately buy low-cost Chinese clothing, which may be the only option available, at least in the short term;
- Informal imports of used clothing will surge (possibly through Kenya, which is not part of the prospective phase out), as anecdotal evidence from Rwanda suggests;
- China would be the big winner, by supplying the market with low-cost new clothing including likely undomented/illegal imports of used clothing.

IV. CONCLUSIONS

Trade in used clothing is in the EAC's interest for regional economic development and industrialization. The benefits from used clothing for EAC Partner States can be summarized as follows:

- A low-cost clothing option for the poorest of the poor, which also benefits a select number of wealthier customers;
- 355,000 jobs, which sustain some 1.4 million households;
- Annual incomes of US$230 million for people involved in the distribution chains; and
- Government income estimated at US$140 million per year.

7 Overseas Development Institute, "East African Community phase-out of second-hand clothing and footwear," August 2016, www.odi.org

As shown in Table 3 below, China, rather than the local industry, is the most likely and immediate beneficiary of a phase out on imports of used clothing from the United States. Not only does China supply the EAC with used clothing, but their exports of new clothing (totaling $1.2 billion in 2016) far exceeds the U.S. flow of used clothing (less than a quarter of the Chinese total).

Table 3: Summary of Potential Impact of Used Clothing Phase Out

2016	Kenya	Tanzania	Uganda	Rwanda	Burundi	EAC
***Used Clothing Imports – Value (USD)**	124 million	62 million	**67 million	17 million	**4 million	**274 million**
****Used clothing – Total Jobs sustained**	**160,000**	**81,000**	**87,000**	**22,000**	**5,000**	**355,000**
	130,000	67,000	72,000 Direct Jobs	18,000	4,000	
	27,000	14,000	15,000 Ancillary Jobs	4,000	1,000	
Used clothing – Current import tariff rates	35% or USD 0.40/Kg, whichever higher plus 16% VAT	35% or USD 0.40/Kg, whichever higher plus 16% VAT	35% or USD 0.40/Kg, whichever higher plus 16% VAT	35% or 2.5 USD/Kg – used clothing, whichever higher 35% or 5 USD/Kg for worn shoes, whichever higher + min charge of US$ 5 for every pair of used shoe imported - plus 16% VAT	35% or USD 0.40/Kg, whichever higher plus 16% VAT	
Used clothing - Import Revenue – Indicative Value (USD) @ 35% + 16% VAT	63 million	32 million	34 million	9 million	2 million	**140 million**
*****Total Value (USD) of New Clothing Imports from China**	875 million	316 million	21 million	3 million	2 million	**1.2 billion**
***AGOA exports - Value (USD)**	394 million	37 million	2 million	2million	0.4 million (GSP)	**435 million**

Source: Compiled by the USAID East Africa Trade and Investment Hub

* Source: UN Comtrade and Global Trade Atlas for Kenya. **Uganda and Burundi statistics are reported from 2015 as 2016 data is not available *****Source: Global Trade Atlas and verified by UN Comtrade ***Source: USITC https://www.usitc.gov. Burundi currently does not meet AGOA-eligibility criterion.

If the EAC Partner States enact a phase out on imports of used clothing, they risk losing AGOA eligibility. AGOA was enacted to help African economies to grow and to stimulate the development of viable, competitive industries, including the textile and apparel sectors, linking local entrepreneurs to global value chains, creating sustainable jobs and lifting people out of poverty. In the short-term, removal from the AGOA program would translate to:

1. Loss of US$435 million in exports to the U.S., the largest consumer market in the world; and
2. Loss of 219,000 full-time jobs derived from the trade preference program, leaving 500,000 people in the region without income.

Even more damaging would be the long-term loss of program and partnership support under AGOA. Rwanda, Uganda and Tanzania, if stripped of AGOA benefits, would lose a host of AGOA-related benefits through the East Africa Trade and Investment Hub, as well as through bilateral USAID Missions. Such program related benefits, include support for AGOA National Export Strategies; firm level technical support to exporters; support for participation in U.S. trade shows linking EAC sellers to buyers; foreign direct investment (FDI) assistance since investors would no longer have AGOA incentives through 2025; workforce development assistance to textile and apparel manufacturers exporting under AGOA; and, loss of a favored trade relationship with the United States.

Based on this evidence, the proposed phase out of used clothing imports is not in the economic interests of the EAC or of the United States.

Annexes

Annex 1: EAC Import Tariffs vis a vis WTO Members

Overview

- WTO member countries classified as 'Developed', 'Developing' and 'Least Developed' as per United Nations classification criterion

- In 2016, all EAC partner states revised their import duty on used clothing from 35% or US$ 0.20/kg to 35% or USD0.40/kg, whichever yields higher revenue

  • Rwanda decided to stay the application of the new import duty, to a higher import duty of 35% or USD 2.5/kg, whichever yields higher revenue

- On June 2nd 2017, the Sectoral Council on Trade, Industry, Finance and Investment approved Kenya's request to stay of application of the EAC Common External Tariff to a revised tariff of 35% or USD 0.2kg whichever yields higher revenue, in effect from July 1st 2017 for a period of one year.

Source: Data is derived from the ITA website. We also cross-checked with the WTO's Tarrif Analysis Online site.

Developed Country	**5.3%**
Asia	5.8%
Europe	4.9%
Europe/Asia	15.0%
North America	11.7%
Oceania	0.9%
Developing Country	**5.3%**
Asia	9.4%
EAC	35.0%
Europe	15.0%
Europe/Asia	10.0%
North Africa	28.3%
North America	17.9%
South America	20.6%
Southern Africa	20.0%
West Africa	20.0%
Least Developed Country	**21.0%**
Asia	10.9%
Central Africa	30.0%
EAC	35.0%
East Africa	20.3%
South America	20.0%
Southern Africa	10.0%
West Africa	20.0%
Global Average	**13.4%**

The EAC and its partner states assert that the 2016 hike in tariff rates are unrelated to the Heads of State directive to phase out used clothing, citing a periodic update of the EAC's tariff schedule based on comprehensive studies and the desire to align more directly with global *ad valorem* rates for used clothing.

However, as illustrated above, the data shows that the EAC's *ad valorem* rates are among the highest in the world. When taking account the EAC's mixed tariff regime[8], the *ad valorem* equivalency rates as estimated by the ITC are actually much higher: Kenya (35.55%), Uganda (44.77%), Tanzania (59.68%), and Rwanda (125.25%).[9]

Of note, there are a few exceptions. Vietnam has a 100% *ad valorem* rate, Egypt has a 35% *ad valorem* rate, and South Africa has a bounded *ad valorem* rate of 60%, with 20% applied rate.

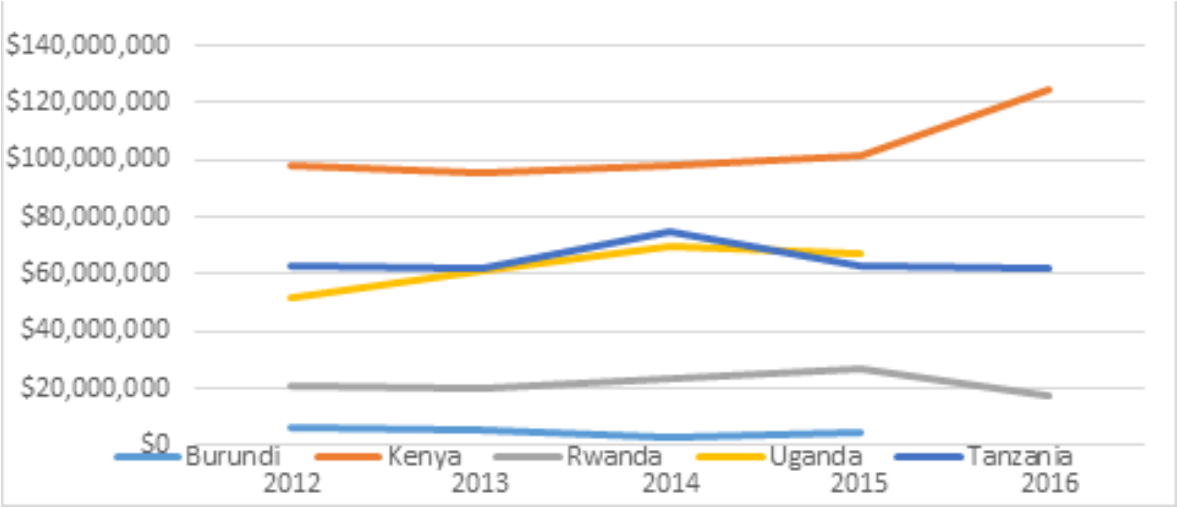
8 Mixed tariffs are expressed as either a specific or an ad valorem rate, depending on which generates the most (or sometimes least) revenue. In this case, the EAC Partner states apply a 35% ad valorem rate or a US$ 0.20/kg on used clothing, whichever is higher.

9 See ITC Market Access Map, www.macmap.org

Annex 2: East African Community Used Clothing Import Values from the U.S. 1997-2016

USED CLOTHING IMPORT VALUE (000 USD) - EAC REGION					
Year	**Kenya**	**Tanzania**	**Uganda**	**Rwanda**	**Burundi**
1997	$11,402	$18,151	$19,467	$7,190	$1,001
1998	$34,003	$30,270	$20,458	$6,295	$1,287
1999	$31,814	$26,682	$20,570	$7,954	$1,661
2000	$30,836	$34,783	$17,927	N/A	$2,398
2001	$39,595	$32,790	$21,908	$7,029	$2,004
2002	$28,949	$34,051	$24,448	$7,816	$2,203
2003	$26,119	$30,217	$23,260	$9,455	$1,257
2004	$31,817	$31,806	$27,066	$9,641	$841
2005	$27,979	$26,090	$26,161	$8,065	$2,331
2006	$38,341	$27,595	$24,530	$103,859	$3,332
2007	$47,283	$32,870	$25,576	$11,264	$2,071
2008	$51,938	$36,267	$31,555	$21,340	$3,128
2009	$58,256	$38,712	$30,574	$12,978	$2,812
2010	$82,096	$48,826	$37,811	$12,474	$3,281
2011	$76,146	$57,455	$44,012	$15,827	$5,187
2012	$97,699	$62,914	$51,559	$20,921	$6,419
2013	$95,244	$61,652	$61,400	$20,027	$5,792
2014	$98,410	$74,603	$70,105	$23,534	$2,974
2015	$101,077	$62,730	$66,879	$27,151	$4,272
2016	$124,644	$61,809	N/A	$17,605	N/A

Figure 2: EAC Trends of Used Imports



Source: UN COMTRADE

Annex 3: Joint Communique: 17th Ordinary Summit of the East African Community Heads of State

JOINT COMMUNIQUÉ: 17TH ORDINARY SUMMIT OF THE EAST AFRICAN COMMUNITY HEADS OF STATE

1. THE EAST AFRICAN COMMUNITY HEADS OF STATE, THEIR EXCELLENCIES PRESIDENT DR. JOHN POMBE JOSEPH MAGUFULI OF THE UNITED REPUBLIC OF TANZANIA, PRESIDENT YOWERI KAGUTA MUSEVENI OF THE REPUBLIC OF UGANDA, PRESIDENT PAUL KAGAME OF THE REPUBLIC OF RWANDA, PRESIDENT UHURU KENYATTA OF THE REPUBLIC OF KENYA, AND H.E. DR. JOSEPH BUTORE, 2ND VICE PRESIDENT OF THE REPUBLIC OF BURUNDI, HELD THE 17TH ORDINARY SUMMIT OF THE EAST AFRICAN COMMUNITY HEADS OF STATE AT THE NGURDOTO MOUNTAIN LODGE IN ARUSHA, TANZANIA ON 2ND MARCH, 2016. H.E. DR. ALI MOHAMED SHEIN, PRESIDENT OF ZANZIBAR, AND H.E. JAMES WANI IGGA, VICE PRESIDENT OF THE REPUBLIC OF SOUTH SUDAN WERE IN ATTENDANCE. THE HEADS OF STATE AND GOVERNMENT MET IN A WARM AND CORDIAL ATMOSPHERE.

2. THE SUMMIT RECEIVED THE ANNUAL REPORT OF THE COUNCIL OF MINISTERS COVERING THE PERIOD NOVEMBER 2014 - NOVEMBER 2015 AND NOTED THE

STEADY PROGRESS MADE IN THE IMPLEMENTATION OF THE PROGRAMMES OF THE COMMUNITY.

3. THE SUMMIT CONSIDERED PROGRESS IN THE IMPLEMENTATION OF KEY OUTSTANDING DECISIONS AND OTHER POLICY ISSUES OF STRATEGIC IMPORTANCE TO THE EAST AFRICAN COMMUNITY AND NOTED THAT THERE ARE: - COUNCIL DECISIONS/DIRECTIVES THAT HAVE REMAINED OUTSTANDING FOR MANY YEARS; DELAYS IN RATIFICATION OF PROTOCOLS; AND NOTED THAT THERE ARE BILLS ENACTED BY THE EAST AFRICAN LEGISLATIVE ASSEMBLY THAT HAVE REMAINED UNASSENTED TO.

4. THE SUMMIT DIRECTED THE SECRETARIAT TO AVAIL THE PARTNER STATES WITH A LIST OF ALL PROTOCOLS THAT HAVE NOT YET BEEN RATIFIED TO ENABLE THE PARTNER STATES EXPEDITIOUSLY RATIFY THEM AND DEPOSIT THE INSTRUMENTS OF RATIFICATION WITH THE SECRETARY GENERAL BY 30TH JULY, 2016.

5. THE SUMMIT DECIDED TO ASSENT TO BILLS WHICH HAVE BEEN SUBMITTED TO PARTNER STATES AT LEAST THREE (3) MONTHS PRIOR TO THE SUMMIT AND TO WHICH HEADS OF STATE HAVE GIVEN NO OBJECTION DURING THEIR ORDINARY SUMMIT.

6. THE SUMMIT DIRECTED THE PARTNER STATES TO IMPLEMENT ALL THE OUTSTANDING DECISIONS AND REPORT THE STATUS TO THE NEXT SUMMIT OF THE HEADS OF STATE.

7. THE SUMMIT DELEGATED ITS POWERS OF APPROVAL OF REVIEWS OF THE EAST AFRICAN COMMUNITY COMMON EXTERNAL TARIFF AND THE EAST AFRICAN COMMUNITY RULES OF ORIGIN TO THE COUNCIL OF MINISTERS IN ACCORDANCE WITH SECTIONS 3,5 AND 6 OF THE SUMMIT (DELEGATION OF POWERS AND FUNCTIONS) ACT 2007 FOR A FURTHER THREE YEARS WITH EFFECT FROM 2ND MARCH 2016.

8. THE SUMMIT NOTED THE PROPOSED IMPLEMENTATION FRAMEWORK FOR THE EAC INSTITUTIONAL REVIEW AND DIRECTED THE COUNCIL TO PROCEED WITH THE IMPLEMENTATION OF THE PROPOSED FRAMEWORK AND GIVE A PROGRESS REPORT AT THE NEXT SUMMIT OF THE HEADS OF STATE.

9. THE SUMMIT DIRECTED THE COUNCIL TO REVIEW THE EAST AFRICAN DEVELOPMENT BANK (EADB) CHARTER TO STREAMLINE IT INTO THE EAC MAIN STRUCTURE. THE SUMMIT FURTHER DIRECTED THE SECRETARIAT TO DEVELOP GUIDELINES FOR THE CREATION, GOVERNANCE AND REPORTING STRUCTURES FOR ALL THE INSTITUTIONS OF THE COMMUNITY.

10. THE SUMMIT DIRECTED THE COUNCIL TO FINALIZE THE WORK ON THE MODALITIES REQUIRED TO ESTABLISH A SUSTAINABLE FINANCING MECHANISM FOR THE EAST AFRICAN COMMUNITY BASED ON VARIOUS OPTIONS, INCLUDING A HYBRID OF A LEVY AND EQUAL CONTRIBUTION WITH A COMMITMENT TO INCREASE THE BUDGET, THAT ENCOMPASSES THE PRINCIPLES OF EQUITY, SOLIDARITY AND EQUALITY, AND SUBMIT A REPORT TO THE NEXT SUMMIT FOR CONSIDERATION.

11. THE SUMMIT RECEIVED A REPORT OF THE COUNCIL ON THE NEGOTIATIONS FOR THE ADMISSION OF THE REPUBLIC OF SOUTH SUDAN INTO THE EAST AFRICAN COMMUNITY AND DECIDED TO ADMIT THE REPUBLIC OF SOUTH SUDAN AS A

MEMBER OF THE EAC. THE SUMMIT DESIGNATED THE CHAIRPERSON OF THE SUMMIT TO SIGN THE TREATY OF ACCESSION WITH THE REPUBLIC OF SOUTH SUDAN.

12. THE SUMMIT NOTED THAT THE VERIFICATION EXERCISE FOR THE ADMISSION OF THE REPUBLIC OF SOMALIA INTO THE EAC WAS NOT UNDERTAKEN, AS PREPARATIONS WITH THE GOVERNMENT OF THE REPUBLIC OF SOMALIA HAVE NOT YET BEEN FINALIZED. THE SUMMIT DIRECTED THE COUNCIL TO UNDERTAKE THE VERIFICATION EXERCISE AND REPORT TO THE 18TH SUMMIT.

13. THE SUMMIT RECEIVED A REPORT OF THE COUNCIL OF MINISTERS ON PROGRESS ON THE EAC POLITICAL FEDERATION. THE SUMMIT COMMENDED THE PROGRESS THUS FAR AND DECIDED TO FINALISE THE MATTER AT THE NEXT SUMMIT.

14. THE SUMMIT TOOK NOTE OF THE PROGRESS AND ROAD MAP TOWARDS FINALIZATION OF THE COMPREHENSIVE STUDY ON AUTOMATIVE INDUSTRY IN THE EAC REGION; AND DIRECTED THE COUNCIL TO EXPEDITE THE PROCESS AND REPORT TO THE 18TH SUMMIT.

15. THE SUMMIT TOOK NOTE OF THE PROGRESS MADE IN PROMOTING THE COTTON, TEXTILE, APPAREL AND LEATHER INDUSTRIES IN THE REGION AND DIRECTED THE PARTNER STATES TO ENSURE THAT ALL IMPORTED SECOND HAND SHOES AND CLOTHES COMPLY WITH SANITARY REQUIREMENTS, IN THE PARTNER STATES. THE SUMMIT FURTHER DIRECTED THE PARTNER STATES TO CONSIDER BANNING THE EXPORT OF RAW HIDES AND SKINS OUTSIDE THE EAC REGION.

16. THE SUMMIT, BEING DESIRIOUS OF PROMOTING VERTICALLY INTEGRATED INDUSTRIES IN THE TEXTILE AND LEATHER SECTOR, DIRECTED THE PARTNER STATES TO PROCURE THEIR TEXTILE AND FOOTWEAR REQUIREMENTS FROM WITHIN THE REGION WHERE QUALITY AND SUPPLY CAPACITIES ARE AVAILABLE COMPETITIVELY, WITH A VIEW TO PHASING OUT IMPORTATION OF USED TEXTILE AND FOOT WEAR WITHIN THREE YEARS. THE SUMMIT DIRECTED THE PARTNER STATES TO SENSITIZE ALL STAKEHOLDERS AND DIRECTED THE COUNCIL TO PROVIDE THE SUMMIT WITH AN ANNUAL REVIEW WITH A VIEW TO FAST TRACKING THE PROCESS.

17. THE SUMMIT ENDORSED AND LAUNCHED THE EAC VISION 2050. THE EAC HEADS OF STATE COMMITTED THEMSELVES TO IMPLEMENT THE EAC VISION AND ENSURE THAT BY 2050, THE EAC WILL HAVE BEEN TRANSFORMED INTO AN UPPER-MIDDLE INCOME REGION WITHIN A SECURE AND POLITICALLY UNITED EAST AFRICA BASED ON THE PRINCIPLES OF INCLUSIVENESS AND ACCOUNTABILITY.

18. THEIR EXCELLENCIES THE EAC HEADS OF STATE LAUNCHED THE NEW INTERNATIONAL EAST AFRICAN E-PASSPORT AND DIRECTED THAT COMMENCEMENT OF ISSUANCE OF THE EA E-PASSPORT TAKES EFFECT FROM 1ST JANUARY, 2017; AND IMPLEMENT THE PHASE OUT PROGRAMME FOR THE CURRENT EAST AFRICAN AND NATIONAL PASSPORTS FROM 1ST JANUARY, 2017 TO 31ST DECEMBER, 2018. THE HEADS OF STATE FURTHER DIRECTED PARTNER STATES TO UNDERTAKE AWARENESS CREATION PROGRAMMES AND OTHER CONTINUOUS OUTREACH PROGRAMMES ON THE NEW INTERNATIONAL EA E-PASSPORT.

19. THE SUMMIT, PURSUANT TO ARTICLE 42 (2) OF THE TREATY FOR THE ESTABLISHMENT OF THE EAC, WITNESSED THE SWEARING INTO OFFICE OF MR. YUFNALIS NDEGE OKUBO FROM THE REPUBLIC OF KENYA AS THE NEW REGISTRAR OF THE EAST AFRICAN COURT OF JUSTICE.

20. THEIR EXCELLENCIES THE EAC HEADS OF STATE LAUNCHED THE CODE OF CONDUCT TO FIGHT CORRUPTION IN THE PRIVATE SECTOR. THE SUMMIT COMMENDED THE COMMITMENT AND ASPIRATIONS OF THE PRIVATE SECTOR TO PLAY A LEADING ROLE IN THE INTEGRATION PROCESS.

21. THEIR EXCELLENCIES THE EAC HEADS OF STATE AWARDED CERTIFICATES TO THE WINNERS OF THE EAC SECONDARY SCHOOLS ESSAY COMPETITION 2015.

22. THE SUMMIT APPOINTED MR. LIBERAT MFUMUKEKO FROM THE REPUBLIC OF BURUNDI AS THE NEW SECRETARY GENERAL. THE APPOINTMENT WILL TAKE EFFECT FROM 26TH APRIL, 2016. THE SUMMIT THANKED THE OUTGOING SECRETARY GENERAL, AMB. DR. RICHARD SEZIBERA, FOR HIS DEDICATED SERVICE TO THE COMMUNITY AND WISHED HIM SUCCESS IN HIS FUTURE ENDEAVOURS.

23. THE SUMMIT RENEWED THE CONTRACT OF MR. CHARLES JACKSON KINYANJUI NJOROGE AS THE DEPUTY SECRETARY GENERAL OF THE EAST AFRICAN COMMUNITY FOR A FURTHER THREE (3) YEARS WITH EFFECT FROM 29TH JUNE 2016.

24. THE SUMMIT CLARIFIED THAT H.E. YOWERI KAGUTA MUSEVENI IS THE EAC APPOINTED MEDIATOR FOR THE INTER-BURUNDI DIALOGUE. THE SUMMIT ALSO APPOINTED A TEAM UNDER H.E. BENJAMIN WILLIAM MKAPA FORMER PRESIDENT OF THE UNITED REPUBLIC OF TANZANIA TO FACILITATE THE MEDIATION.

25. THE SUMMIT DECIDED THAT H.E. DR. JOHN POMBE MAGUFULI CONTINUES AS THE CHAIRPERSON OF THE SUMMIT FOR A PERIOD OF ONE (1) YEAR.

26. THE SUMMIT EXPRESSED ITS SOLIDARITY WITH THE PEOPLE AND THE GOVERNMENT OF THE REPUBLIC OF KENYA FOLLOWING THE ATTACK BY AL-SHABAAB TERRORISTS ON THE KENYA DEFENCE FORCES' AMISOM BASE AT EL ADDE IN SOMALIA WHICH RESULTED IN THE DEATH OF KDF SOLDIERS. THE SUMMIT CONDEMNED THE ATTACK AND REAFFIRMED THE COMMUNITY'S RESOLVE TO COUNTER TERRORISM AND INSECURITY IN THE REGION.

27. THEIR EXCELLENCIES, PRESIDENT YOWERI KAGUTA MUSEVENI OF THE REPUBLIC OF UGANDA; PRESIDENT UHURU KENYATTA OF THE REPUBLIC OF KENYA; PRESIDENT PAUL KAGAME OF THE REPUBLIC OF RWANDA, AND; JOSEPH BUTORE, 2ND VICE PRESIDENT OF THE REPUBLIC OF BURUNDI THANKED THEIR HOST, HIS EXCELLENCY PRESIDENT DR. JOHN POMBE MAGUFULI OF THE UNITED REPUBLIC OF TANZANIA FOR THE WARM AND CORDIAL HOSPITALITY EXTENDED TO THEM AND THEIR RESPECTIVE DELEGATIONS DURING THEIR STAY IN TANZANIA.

Done at Arusha, Tanzania this 2nd day of March 2016

Annex 4: List of Relevant EAC Directives and Other Actions

Date	Directive/Other Action	Directive/Other Action Description
February 2015	**Directive:** Joint Communique 16th Ordinary Summit of EAC Heads of State	The Heads of State requested the Council of Ministers to study the modalities for promotion of the textile and leather industries in the region and the possibility of progressively eliminating the importation of used clothes, used shoes and other used leather products from outside the region and report to the 17th summit.
February 2016	**Action:** Policy report/study prepared by the Council of Ministers in response to the summit directive	The Council of Ministers recommended the following strategic policy actions for consideration: • Develop a comprehensive CTA strategy with clear targets and implementation plan, taking into account the proposed modalities for the promotion of the sector to be presented to the EAC Summit of Head of States for approval and adoption. • Formulate national Cotton, Textiles and Apparels (CTA) development strategies and supported with an effective institutional coordination mechanism, e.g. CTA regional council; • Adopt a 3 year plan for the phase-out of USED CLOTHINGs from EAC market; • Enhance taxation/CET rates on apparel imported into the region to cushion industry from subsided imported products; • Create regional cotton warehousing facility and e-market information platform for cotton; • Develop regional Code of Practice on cotton handling, trade and ginning to eliminate/reduce cotton contamination and improve the image of East Africa in the international cotton trade; • Negotiate grant for the upgrading of ginning facilities and spinning mills in the region; • Direct public agencies, army, public schools, etc. to procure textiles, apparels, leather and footwear products from the East Africa region; • Negotiate technical cooperation for development of regional off-show processing/manufacturing parks (OSPPs) and business partnerships to attract global textiles and apparels companies; • Establish a regional university and CTA Centre; and • Establish a Regional Industrial Development Bank to provide long-term concessionary lending.
March 2016	**Directive:** Joint Communique 17th Ordinary Summit of EAC Heads of State	The Heads of State directed the Council of Ministers to ensure that all imported second hand shoes and clothes comply with sanitary requirements, in the partner states, to phasing out importation of used textile and foot wear within three years and to provide the Summit with an annual review with a view to fast tracking the process.
June 30, 2016	EAC Gazette, Vol. AT 1 – No. 5, Legal Notice No. EAC/32/2016	Council of Ministers approved the following measures on customs duty rates on the items provided under The Harmonized Community Description and Coding System in Annex I to the Protocol: • Increased the specific duty rate on worn clothing and other worn articles from USD 0.20/kg to USD 0.40/Kg so

Date	Directive/Other Action	Directive/Other Action Description
		that the applicable rate is 35% or USD0.40/Kg whichever is higher. • Rwanda to stay application of CET rate and apply a duty rate of 2.5 USD/Kg for worn clothing and 5USD/Kg for worn shoes instead of 35% or USD0.40/Kg whichever is higher • Stay of Application of EAC CET on garments and leather footwear manufactured in EPZ on the 20% of the annual production allowed in the Protocol to be sold within Kenya and Rwanda for one year • Approved a remission of duty at a rate of 0% for some raw material and industrial inputs (including some relevant to apparel sector) in Uganda and Rwanda for one year.
May 2017	**Action:** Policy brief/annual review prepared by the Council of Ministers in response to the summit directive	The Council of Ministers prepared policy brief on the implementation of the EAC Summit decisions on modalities for promotion of textiles recommending as follows: • Grant all garments and textiles manufacturers a 3-year tax waiver of duties and VAT for inputs, fabrics, and accessories, not available within the region, to boost local production, and reduce cost of production garments; • Adopt a 3-year EAC strategy (2017-2019) to phase-out of importation of used clothes and shoes, increasing levy on these products, enforcing compliance with EAC Standards (EAS 386-2016) and licensing of importers, categorizations of items/products in each bale of imports; • Grant all EPZ companies an increase of domestic quota supply from the current 20 percent for a period of 3 years. • Establish Cotton Lint Banks modeled around Uganda cotton buffer stock model to ensure availability of cotton lint for spinning mills and downstream value addition. All • Partner States producing cotton lint to set a target of at least 30 percent local value addition to domestic cotton lint. The threshold should be increased to 50 percent within a period of 5 years; and • Set a four-band tariff structure for cotton, textiles and apparels sector to promote cotton yarn and fabric production, with the CET the following new rates adopted as follows: 0 % - for imported raw materials not available in the region; 10%-for intermediate inputs- yarn; 25%- fabrics; and 40%- Readymade garments or USD 5 per kg whichever is higher.
May 2017	**Directive:** Joint Communique 18th Ordinary Summit of EAC Heads of State	The Heads of State directed the Council of Minister to develop a strong and competitive domestic sector that give consumers better choice that imported used textile
June 2, 2017	**Action:** Policy measures prepared by the Council of Ministers in response to Summit Directive	The measures prepared by the Council of Ministers included: • Partner States to grant all garments manufacturers a 3 years tax waivers of duties and VAT on inputs, fabrics and accessories; • All EPZ companies to be granted an increase of domestic quota supply from current 20% to 30% for 3 years;

Date	Directive/Other Action	Directive/Other Action Description
		• Partner States to provide concessional loans /grants to artisans od ready-made garments to enable producers/ clusters to facilitate procurement of modern sewing machines and equipment • Public agencies to buy locally produced textile and apparel; • Partner States to establish cotton Lint Banks; • Partner States to develop measures to ensure 30% of the domestic production of cotton lint is processed within the EAC region; • EAC Secretariat to explore the possibility of getting technical cooperation from the Government of India; • EAC Secretariat to approach AfDB and EADB on financing • of upgrade and modernization of the existing textile mills; • Review EAC CET structure; • Under take a phase out plan for second hand clothes.
June 30, 2017	EAC Gazette, Vol. AT 1 – No. 8, Legal Notice No. EAC/69/2017	Council of Ministers approved the following measures on customs duty rates on the items provided under The Harmonized Community Description and Coding System in Annex I to the Protocol: • Kenya to stay application of the EAC CET rate on HS Code 6309.00.10 and apply a duty rate of 35% or USD 0.20/ Kg whichever is higher instead of 35% or USD 0.40/Kg whichever is higher for one year. • Rwanda to stay application of CET rate on HS Codes 6309.00.10 and 6309.00.90 and apply a duty rate of USD 2.5/ Kg and USD 5/Kg for HS Code 6309.00.20 instead of 35% or USD0.40/Kg whichever is higher for one year. • Stay Application of EAC CET on garments and leather footwear manufactured in EPZ on the 20% of the annual production allowed in the Protocol to be sold within Kenya. • Approved a remission of duty raw materials and industrial inputs for the manufacture of textile and footwear imported by manufacturers in Uganda for one year. • Stay Application of EAC CET on raw materials and inputs for the manufacture of textile and footwear for Rwanda • Stay Application of EAC CET on raw materials and inputs for the manufacture of textile and footwear for Burundi

Annex 5: EAC Common External Tariff (CET) Stay of Application Process

EAC COMMON EXTERNAL TARIFF (CET) STAY OF APPLICATION PROCESS

STEP 1

Importers to document their case for revised tariff structure and build consensus within the sector

STEP 2

Importers to discuss the issue with the Ministry of Industry, Trade and Cooperative, seeking their support on revised tariff structure

STEP 3

Importers to develop a position paper on the case for revised tariff structure and submit to the National Treasury (Kenya)

STEP 4

National Treasury to study the proposals on the position paper from importers and convene a consultative meeting with importers and Ministry of Industry, Trade and Cooperatives to discuss the proposal and agree on the way forward.

STEP 5

National Treasury to review the proposal based on the discussion at the meeting and prepare a national position on the case.

STEP 6

National Treasury to submit and present the case to the consultative regional meeting for the Ministers for Finance of the EAC Partner States for consideration at regional level. The meeting of the Ministers for Finance will decide whether the revised tariff structure will be executed through stay of application of the common external tariff rates.

STEP 7

The report of the Ministers for Finance of the EAC partner states to be presented to the Sectoral Council of Ministers on Trade, Industry, Finance and Investment for consideration and approval.

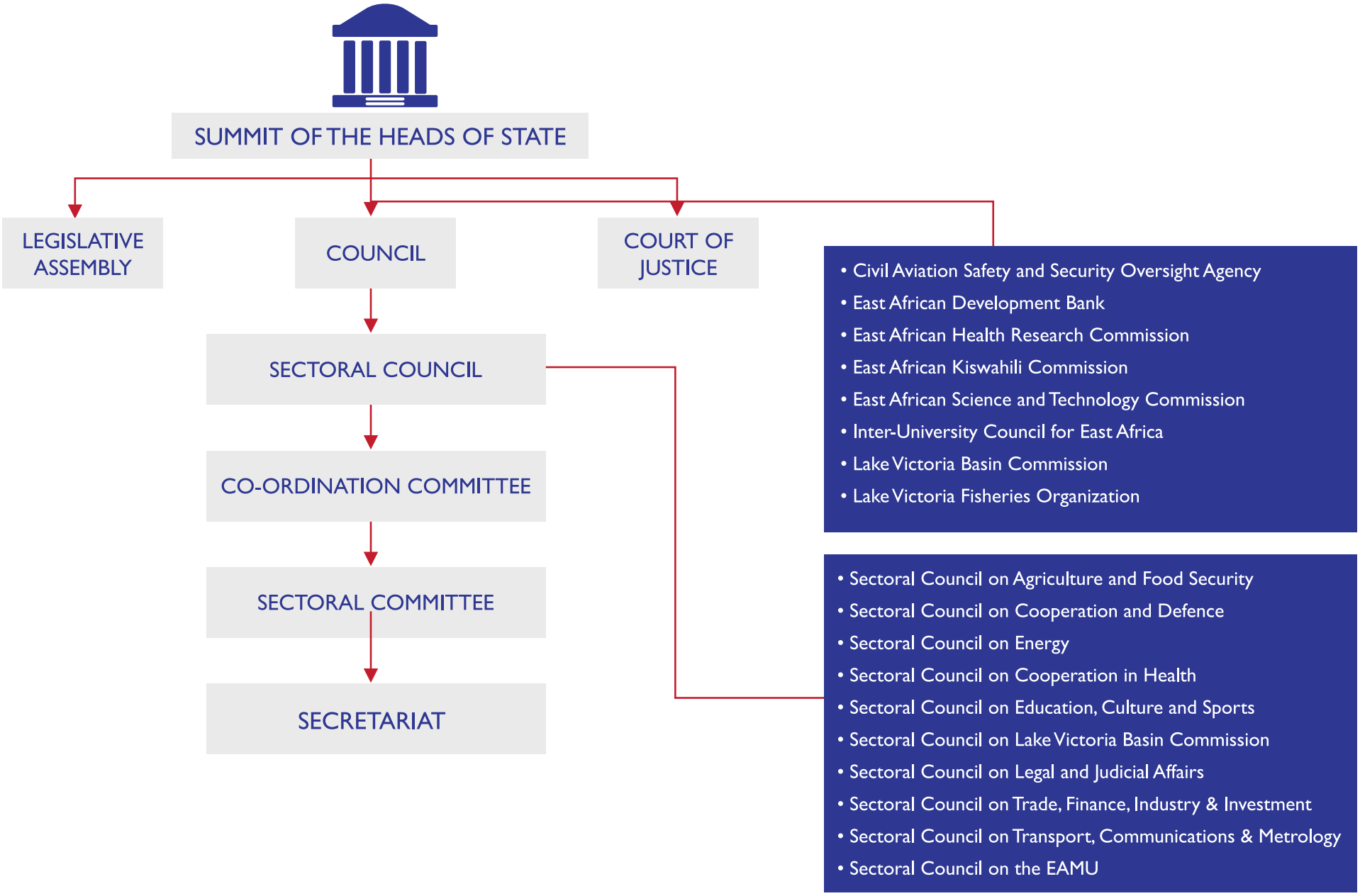
STEP 8

Tariff measures updated through a stay of application are gazetted by EAC Secretariat in the EAC gazette. A stay of application is implemented using the EAC Common External Tariff Handbook (only republished every 3-5 years). Measures released through the EAC gazette serve as a legally enforceable update to provisions in the CET handbook. A stay of application can either apply to all EAC partner states or an individual EAC partner state.

STEP 9

Implementation of tax measures are normally effective from 1st July.

Annex 6: Role of EAC Treaty and its Application to EAC Partner States



The Main Organs of the EAC are:

1. The Summit of Heads of State
2. The Council Of Ministers
3. The Co-Coordination Committee
4. The Sectoral Committees
5. The East African Court Of Justice
6. The East African Legislative Assembly
7. The Secretariat

1. SUMMIT OF HEADS OF STATE

Role and function: To give general directions and impetus as to the development and achievement of the objectives of the Community.

The Summit comprising of Heads of Government of Partner States gives strategic direction towards the realization of the goal and objectives of the Community.

2. COUNCIL OF MINISTERS

Role and function: To give policy direction; promote, monitoring and keeping under constant review the implementation of EAC programs and ensuring proper functioning of the EAC.

The Council of Ministers (or simply, the Council) is the central decision-making and governing Organ of the EAC. Its membership constitutes Ministers or Cabinet Secretaries from the Partner States whose dockets are responsible for regional co-operation.

Every year, the Council meets twice, one meeting of which is held immediately preceding a meeting of the Summit. The Council meetings assist in maintaining a link between the political decisions taken at the Summits and the day-to-day functioning of the Community. Regulations, directives and decisions taken or given by the Council are binding to the Partner States and to all other Organs and Institutions of the Community other than the Summit, the Court and the Assembly.

The Council, each year, elects a Chairperson by rotation to serve a one-year term to the office of Chairperson of the Council of Ministers.

3. EAST AFRICAN LEGISLATIVE ASSEMBLY

Role and function: To Enactment of EAC legislation, oversight and supervisory roles and representation.
The East African Legislative Assembly (EALA) is the Legislative Organ of the Community and has a cardinal function to further EAC objectives, through its Legislative, Representative and Oversight mandate. It was established under Article 9 of the Treaty for the Establishment of the East African Community.

The Assembly has a membership comprising of 45 elected Members (nine from each Partner State), and 7 ex-officio Members consisting of the Minister or Cabinet Secretary responsible for EAC Affairs from each Partner State, the Secretary-General and the Counsel to the Community totaling 52 Members.

4. EAST AFRICAN COURT OF JUSTICE

Role and function: To ensure the adherence to the law in the interpretation and application of and compliance with the Treaty.

The East African Court of Justice (or simply, the Court) is the principal judicial Organ of the Community and ensures adherence to the law in the interpretation and application of compliance with the EAC Treaty. It was established under Article 9 of the Treaty for the Establishment of the East African Community.

The Court is currently composed of ten judges, appointed by the Summit from among sitting judges of any Partner State

court of judicature or from jurists of recognized competence, and the Registrar who is appointed by the Council of Ministers.

5. SECTORAL COUNCIL OF MINISTERS

Role and function: This is a technical arm of the council on the matter of policy. It assist the Council to discharge its functions. There 10 Sectoral Councils dealing with different matters**.**

6. COORDINATION COMMITTEE

Role and function: It recommends to the Council on the implementation of the Treaty. It is composed of Permanent Secretaries/Principle Secretaries.

Under the Council, the Coordinating Committee has the primary responsibility for regional co-operation and co-ordinates the activities of the Sectoral Committees. It also recommends to the Council about the establishment, composition and functions of such Sectoral Committees. It draws its mem**b**ership from Permanent / Principal Secretaries responsible for regional co-operation from the Partner States.

Subject to any directions given by the Council, the Coordinating Committee meets twice a year preceding the meetings of the Council. Moreover, it may hold extraordinary meetings at the request of the Chairperson of the Coordinating Committee.

7. SECTORAL COMMITTEE

Role and function: It works under the supervision of the coordination committee on a specified area. It is composed of senior officials.

Sectoral Committees conceptualize programs and monitor their implementation. The Council establishes such Sectoral Committees on recommendation of the Coordinating Committee.
The Sectoral Committees meet as often as necessary for the proper discharge of their functions.

8. THE SECRETARIAT

Role and function: The Secretariat is the executive Organ of the Community. As the guardian of the Treaty, it ensures that regulations and directives adopted by the Council are properly implemented.

In service of the Community, the Secretariat comprises the Secretary-General, 4 Deputy Secretaries-General, the Counsel to the Community and hundreds of EAC staff members who carry out the day-to-day work of the EAC as mandated by the Council.

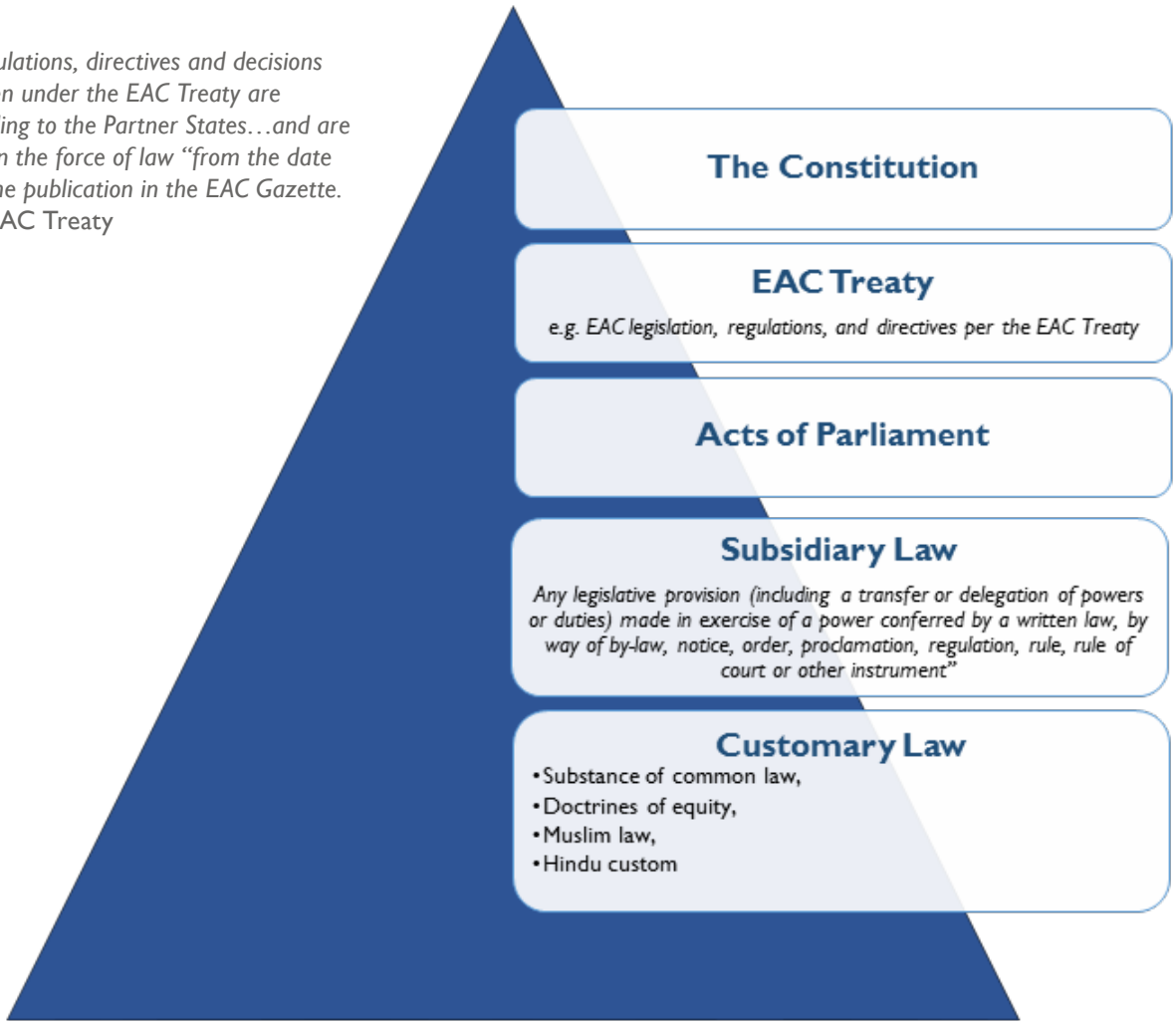
The Secretary-General is the principal executive and accounting officer of the Community, the head of the Secretariat and the Secretary of the Summit; he/she is appointed by the Summit for a fixed five-year, non-renewable term.

The Deputy Secretaries-General are appointed by the Summit on recommendations of the Council and on a rotational basis. They deputize the Secretary-General and each serves a three-year term, renewable once.

The Counsel to the Community is the principal legal adviser to the Community.

Annex 7: Kenya Example of the Hierarchy of Laws with the EAC

Regulations, directives and decisions taken under the EAC Treaty are binding to the Partner States…and are given the force of law "from the date of the publication in the EAC Gazette.
– EAC Treaty



Principles of Supremacy of EAC legislation, Regulations and Directives

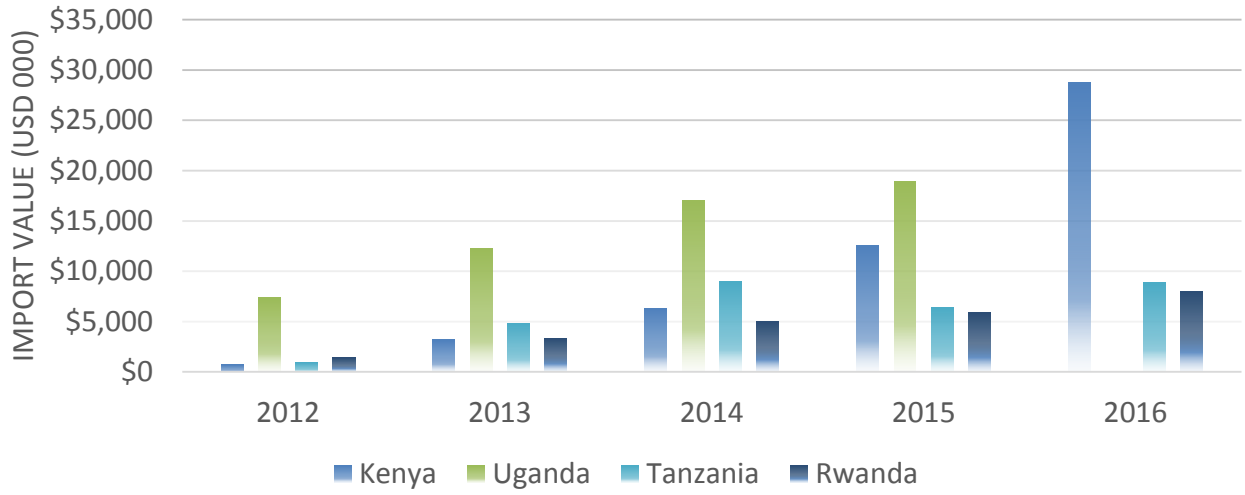
- The EAC Treaty provides for direct applicability of EAC law in all Partner States, giving legal effect to the legislation, \ regulations and directives of the Community. See Article 8(2) of the EAC Treaty.
- The EAC Treaty provides for the principle of supremacy of the laws of the Community, ensuring that conflicts between community law and national law are resolved in favor of the former. See Article 8(4) of the EAC Treaty.
- Legal and natural persons of the Member States may seek legal remedies for actions contrary to EAC Acts, regulations, directives, and decisions and judicial rulings undertaken by the East Africa Court of Justice are legally enforceable. See Article 30 of the EAC Treaty.

Functioning of the EAC Council of Ministers, Summit and Court

- The EAC Council of Ministers is the central decision making body and governing organ of the Community. It consists of Ministers or Cabinet Secretaries from the Partner States whose dockets are responsible for regional cooperation and the Attorney General from the Partner States. The Council meets twice a year, with one meeting preceding the meeting of the Summit. See Article 13 and 15 of the EAC Treaty.
- Each year the Council elects a Chairperson by rotation to serve a one year term. See Article 12 of the EAC Treaty. Currently the chairperson is the Minister responsible for EAC Affairs-Uganda.
- The regulations, directives and decisions taken by the Council are binding to the Partner States and all other organs and institutions of the Community other than the Summit, Court and the Assembly. See Article 16 of the EAC Treaty.

Annex 8: Used Clothing Imports from China

Used Clothing Imports from China (EAC Countries)



Used Clothing Imports from China (Value USD)

	2012	2013	2014	2015	2016
Kenya	$723,513	$3,164,040	$6,350,692	$12,574,976	$28,757,351
Uganda	$7,367,290	$12,246,206	$17,068,501	$18,972,539	N/A
Tanzania	$949,833	$4,821,660	$8,970,871	$6,439,968	$8,865,814
Rwanda	$1,404,255	$3,350,048	$5,017,114	$5,866,475	$8,000,572

• Imports from China have increased significantly over the years

• In 2016 imports from China into EAC were 300% higher than imports reported in 2012

• Increases in imports from China follow the general trend observed in EAC where global imports of used clothing have increased by almost 200% from USD 87 million in 1999 to USD 257 million in 2015

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