



Uganda Revenue Authority  
DEVELOPING UGANDA TOGETHER

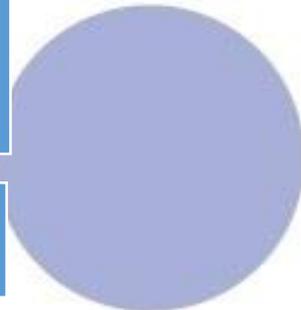
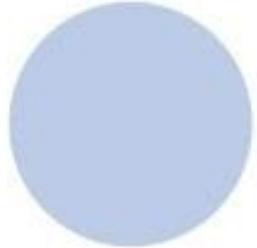
# Regional Tax and Tariff Implications of Agribusiness and SMEs within the AfCTA

25<sup>th</sup> February 2021

Dr. Geoffrey Okaka Owich

# Presentation outline

-  Introduction to AfCFTA
-  The framework of the AfCFTA in support Agribusiness and SMEs
-  The Agribusiness & SMEs in the context of the ACFTA
-  The Regional Tax and Tariff Implications- Opportunities
-  Challenges that the Agribusiness & SMEs and other sectors may face
-  Conclusion



# Some Quotes on the AfCFTA

1. As Kenya's President H.E.Uhuru Kenyatta passionately put it: ***"There cannot be a good reason why it is easier for us to trade with Asia, Europe and the Americas, rather than with fellow Africans."***
2. ***"The CFTA (now AfCFTA) is critical NOT ONLY for its potential benefits, BUT ALSO to mitigate the costs associated with inaction".*** - UNCTAD
3. Uganda's President H.E. Yoweri K Museveni remarked on his speech to the Pan African Parliament that ***"A business cannot sustainably produce if somebody does not buy what that business produces. Therefore, the market is the greatest stimulus for production"***.

# Introduction to AfCFTA

## What is a Free Trade Area (FTA)?

- An FTA is a region in which a group of countries have signed a free trade agreement and maintain little or no barriers to trade in the form of tariffs or quotas between each other.

## What is the AfCFTA?

- The **African Continental Free Trade Area (AfCFTA)** is a free trade area *founded in 2018*, with trade *commencing as of 1 January 2021*
- It was created by the **African Continental Free Trade Area Agreement** among 54 of the 55 African Union nations.
- The free-trade area is *the largest* in the world in *terms of the number of participating countries* since the formation of the WTO.
- **Accra, Ghana** serves as the Secretariat of AfCFTA and was commissioned and handed over to the AU by the President of Ghana **Nana Akufo-Addo** on *August 17, 2020 in Accra*



# Framework of the AfCFTA in Support of Agribusiness and SMEs

1. The Overall goal of the AfCFTA is create ***a single liberalized market for goods and services***, facilitated by movement of persons, in order to deepen the economic integration of the African continent.
2. The framework of AfCFTA is based on 2 major protocols :
  - The Protocol on Trade in Goods and
  - The Protocol on Trade in Services
3. The framework focusses on ***the progressive elimination of tariffs*** (according to the agreed modalities), ***the removal of non-tariff barriers***; ***progressive liberalization of trade in services*** on the basis of equity, balance and mutual benefit.
4. Modelled on the ***General Agreement on Tariffs and Trade (GATT)*** for Trade in goods and ***General Agreement on Trade in Services (GATS)*** of the World Trade Organization (WTO).
5. Prioritizes enhanced efficiency in customs procedures, Trade Facilitation & Transit Facilitation.

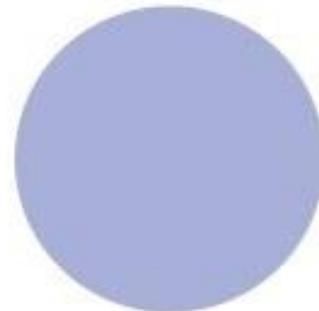
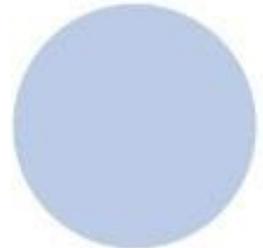
# The Agribusiness & SMEs in the context of the ACFTA

- 1. *Agribusiness*** is the business of agricultural production which involves the production, protection, sales and marketing of the product to satisfy the customers need.
  - It includes agrichemicals, breeding, crop production (farming or contract farming), distribution, farm machinery, processing, and seed supply, as well as marketing and retail sales.
  - All agents of the food and fiber value chain and those institutions that influence it are part of the agribusiness system.
- 2. *Small and mid-size enterprises (SMEs)*** are businesses that maintain revenues, assets or a number of employees below a certain threshold.
  - Though small in size, ***SMEs/Agribusiness*** play an important role in the economy. They outnumber large firms considerably, employs vast numbers of people (***more than 80% of Africa's employment and 50% of its GDP***) and are generally entrepreneurial in nature, helping to shape innovation.

# The Regional Tax and Tariff Implications

## ➤ 3 Aspects to Note:

1. The tariff liberalisation modalities
2. The AfCFTA Rules of Origin
3. Continental, National and Regional Initiatives (Agribusiness & SMEs Development)



# 1. Tariff liberalization modalities

90%

- Tariffs on 90 percent of goods of AfCFTA State Parties will be reduced in equal annual installments until they are eliminated: 5 years for non-least developed countries (LDCs) and 10 years for LDCs.
- **A product exported from an AfCFTA State Party into a non-LDC**
- *2021: 25 percent tariff*
- *2022: 20 percent tariff*
- *2023: 15 percent tariff*
- Reductions each year until it is traded **duty-free by 2026.**

7%

- On 7 percent of **'sensitive' goods**, tariffs will fall within 10 years for non- LDCs and 13 years for LDCs.

3%

- Tariffs will remain on 3 percent of 'excluded' products. These will be reviewed every 5 years.

# The Tariff reduction/cut modalities, cont.

- State parties will have to ***negotiate tariff concessions*** with each other or between ***Customs Unions*** (like the case with EAC).
  
- The trade in ***agribusiness and SMEs*** will depend on which tariff lines are open:
  - ***For immediate liberalization:-*** 90% providing immediate opportunities), and
  - ***For the protected:-*** 7% sensitive items list for a longer period of liberalization.
  - ***For the Exclusion list:-*** the 3% exclusion list will not open up (*until after 5 years of beginning of trade*).

# The Tariff reduction /cut modalities, cont.

## **Note that:**

1. *As a special dispensation:-the 'G6' countries of Ethiopia, Madagascar, Malawi, Sudan, Zambia and Zimbabwe will reduce tariffs on 90 per cent of goods over the longer period of 15 years.*
2. State Parties can choose to liberalize more quickly and deeply than outlined in the Agreement.
3. *All these schedules of tariff liberalization or tariff offers will be published.*

## 2. The AfCFTA Rules of Origin

1. The AfCFTA has negotiated Rules of origin that are generally *product specific*.
2. The tariff treatment of goods traded across borders of State Parties will be subjected to AfCFTA Rules of origin
3. RoO are expected to be simple, transparent and predictable.
4. By granting each other preferential tariffs, *Member States would source more intermediate and final goods among themselves rather than import them.*

# The AfCFTA Rules of Origin-Cont'd

## Note that:

1. This rise of Intra-African trade will support the development of regional value chains and the building of manufacturing capacities in Africa.
2. The negotiated RoO provides flexibilities for products that are not available on the African Continent ***e.g. change in tariff heading criterion(CTH)*** while providing protection for products that are abundant on the continent ***e.g. wholly produced origin criteria*** .
3. Preferential trade liberalization is the ***underlying principle of a free trade area (FTA), whereby member countries scrap import tariffs and quotas among themselves on most traded goods, in order to confer a competitive advantage to firms within the FTA.*** But to qualify for such preferences, ***firms within the FTA must meet rules of origin requirements.***



# Regional Economic Community (EAC) – Rules of Origin

1. **EAC Rules of Origin:-** a set of criteria that is used to distinguish between goods that are produced within the **EAC** Customs territory and are eligible to **Community** preferential tariff treatment and those produced outside the **EAC** customs territory that attract import duties as specified in the CET.
  - a) Trade in unprocessed agricultural produce:- In live animals, plants, seeds, fruits, cereals, fish and poultry
  - b) Trade in manufactured goods
2. **EAC Rules of Origin** for manufactured goods **worth US\$ 2,000 and above**
  - a) Criteria/Rule 1: Wholly Produced or Obtained;
  - b) Criteria/Rule 2: Sufficient Processing Criteria/Rule;
3. **EAC Rules of Origin** for goods **below US\$ 2,000**
  - a) To facilitate SMEs who trade in goods not exceeding a value of US\$ 2,000, an EAC Simplified Certificate of Origin is used.
4. **Certificates:** Certificate of Origin & Sanitary and Phyto-Sanitary (SPS) requirements

### 3. Continental, National and Regional Initiatives (Agribusiness & SMEs Dev't)

1. Important that, national plans or regional actions in support of agribusiness and SMEs will have to be established to boost these sectors.
2. Such measures include *ensuring that the tax policy measures domestically and within the RECs (e.g. EAC Customs Union) support these Sectors.*
3. For instance **GoU under the NDPIII and most African economies;** looks at **Agribusiness and SMEs** as crucial for ***the socio economic transformation of their economies.***
4. This has triggered the development of domestic & regional tax policy measures that provides tax incentives to these sectors (***tax & duty exemptions*** and ***remission of duty***).
5. ***These are in line with the Comprehensive African Agriculture Development Programme (CAADP) that the AfCFTA supports.***

# Regional Economic Community (The EAC Tariff Structure)

- The EAC-CET comprises of a triple band structure with exceptions:-
1. Raw materials and capital goods (**0%**),
  2. Intermediate goods (**10%**) and
  3. Final goods (**25%**),
  4. The Exceptions: -Sensitive Items (SI) for specified commodities attracting high rates of duty (**notably, all above 30%**).
  5. Duty remission scheme:- allows **waiver of duty** or **refrainment** from exacting of duty on **Gazetted inputs** imported by **Gazetted users/manufacturers (Sec. 140 EACCMA, 2004)**

# AGRIBUSINESS – TAX AND TARIFF IMPLICATIONS FOR SMEs

## – AfCFTA ITEMS THAT SHALL REMAIN EXEMPTED FROM TAXES

	<p><b>Hoes</b></p> <p><i>A hoe is a long-handled gardening tool with a thin metal blade, used mainly for weeding and breaking up soil.</i></p>	<ul style="list-style-type: none"> <li>• <b>VAT Exempted</b> when imported by dealers under the VAT Act.</li> <li>• <b>Exempted from all taxes when imported</b> by persons engaged in agriculture under the <b>5th Schedule of the EACCMA, 2004.</b></li> </ul>
	<p><b>Ploughs, Harrows, seeders, planters and trans-planters, manure spreaders and fertilizer distributors</b></p>	<ul style="list-style-type: none"> <li>• <b>VAT Exempted</b> when imported by dealers under the VAT Act.</li> <li>• <b>Exempted from all taxes when imported</b> by persons engaged in agriculture under <b>the 5<sup>th</sup> Schedule of the EACCMA, 2004.</b></li> </ul>
	<p><b>Agricultural sprayers</b></p>	<ul style="list-style-type: none"> <li>• <b>VAT Exempted</b> when imported by dealers under the VAT Act.</li> <li>• <b>Exempted from all taxes when imported</b> by persons engaged in agriculture under <b>the 5th Schedule of the EACCMA, 2004.</b></li> </ul>



## Fertilizers

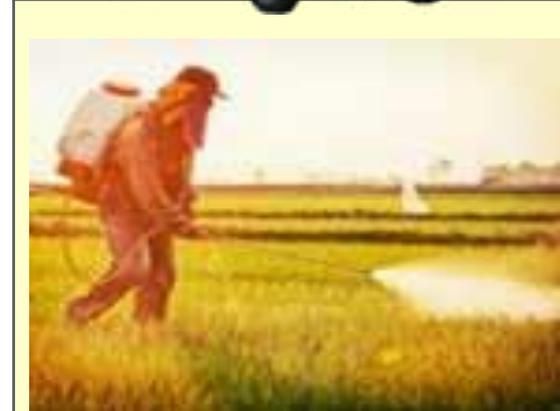
- *A fertilizer is any material of natural or synthetic origin (other than liming materials) that is applied to soils or to plant tissues (usually leaves) to supply one or more plant nutrients essential to the growth of plants*

- ***Exempted from all taxes under the 5th Schedule of the EACCMA, 2004*** upon approval by the Ministry of Agriculture, Animal Industry and Fisheries.



## Refrigerated Trucks

- ***Exempted from all taxes under the fifth schedule of the EACCMA, 2004***



## Agricultural Chemicals (fungicides and pesticides)

- ***VAT Exempted*** when imported by dealers under the VAT Act.
- ***Exempted from all taxes when imported*** by persons engaged in agriculture under the ***5th Schedule of the EACCMA, 2004***



**Veterinary  
Chemicals  
(Acaricides)**

***VAT Exempted*** when imported by dealers under the VAT Act.

***Exempted from all taxes when imported by persons engaged in agriculture under the 5<sup>th</sup> Schedule*** of the East African Community Customs Management Act, 2004.



**Agricultural  
Tractors**

***VAT Exempted*** when imported by dealers under the VAT Act.

***Exempted from all taxes when imported by persons engaged in agriculture under the 5<sup>th</sup> Schedule*** of the East African Community Customs Management Act, 2004.



### Aluminum Cans for the dairy industry

- ***Exempted from all taxes under the fifth schedule of the East African Community Customs Management Act, 2004.***



### Heat Insulated Milk tanks for the dairy industry

- ***Exempted from all taxes under the fifth schedule of the East African Community Customs Management Act, 2004.***



### Insulated tankers

- ***Exempted from all taxes under the fifth schedule of the East African Community Customs Management Act, 2004.***



**Imported inputs and implements by persons engaged in horticulture, agriculture or floriculture and aquaculture sector** *e.g. hatching eggs, day old chicks, semen, fish eggs, Fry/ fingerling (young fish), seeds, green houses/ materials used in construction of green houses, flower cuttings, incubators, hatcheries etc.*

***Exempted from all taxes*** when imported by persons engaged in horticulture, agriculture, aquaculture or floriculture under the 5<sup>th</sup> Schedule of the East African Community Customs Management Act, 2004.



### **Cold Rooms**

*A cold a room in which a low temperature is maintained (as for refrigeration)*

***Import Duty is 0% in accordance with the EAC CET.***  
*Helps on post-harvest management and cold chain storage of agricultural products such beef, chicken, fish etc*



**Poultry parent stock imported** by persons engaged in poultry farming.

**A broiler and layer breeder** farms raise parent stock which produce fertilized eggs.

**A broiler/layer hatching egg** is never sold in shops and is not meant for human consumption but for hatching

- ***VAT Exempted*** when imported by dealers under the VAT Act.
- ***Exempted*** from all taxes when imported by persons engaged in agriculture under the 5th Schedule of the EACCMA, 2004



## Seeds for sowing, spores and cut plants

*A seed is an embryonic plant enclosed in a protective outer covering.*

***Exempted from all taxes under fifth schedule*** of the East African Community Customs Management Act, 2004 upon approval by Ministry of Agriculture Animal Industry and Fisheries.



## Breeding animals.

Breeding stock is a group of animals used for the purpose of planned breeding

***VAT Exempted*** when imported by dealers under the VAT Act.

***Exempted from all taxes*** when imported by persons engaged in agriculture under ***the 5<sup>th</sup> Schedule of the East African Community Customs Management Act, 2004.***



**Preparations for cleaning Dairy apparatus** eg *PFANZITE POWDER DAIRY DETERGENT*. *Pfanzite is a highly chlorinated, powdered manual cleaner designed especially for cleaning bulk tanks, the Surge bucket milker and utensils.*

***Exempted from all taxes under the fifth schedule*** of the East African Community Customs Management Act, 2004.



**Fish, Crustaceans and Molluscs, fresh (dead or live)** chilled or frozen caught and landed by canoes or vessels registered and based in a Partner State

**Exempted from all taxes under the fifth schedule** of the East African Community Customs Management Act, 2004.



## Feeds for Poultry and Livestock

*Feed is food for farm poultry, including chickens, ducks, geese and other domestic birds. Modern feeds for poultry consists largely of grain, protein supplements such as soybean oil meal, mineral supplements, and vitamin supplements*

**VAT Exempted** when imported by dealers under the VAT Act.

**Exempted from all taxes** when imported by persons engaged in agriculture under the 5th Schedule of the East African Community Customs Management Act, 2004.



## Machinery for processing dairy products

VAT Exempted when imported by dealers under the VAT Act. Import duty is 0%, under East African Community Common External Tariff VAT Exempted.



## Packing material of any kind designed for packaging goods for export

Exempted from all taxes when imported with an intention of packaging goods meant for export, 2004.



## The supply of irrigation works, sprinklers and ready to use drip lines

**VAT Exempted** when imported by dealers under the VAT ACT.

**Exempted from all taxes** when imported by persons engaged in agriculture under the 5th schedule of the EACCMA 2004



**Inputs used in the manufacture of pesticides, fungicides, insecticides and acaricides as approved by the Ministry of Agriculture**

***Granted duty remission at 0% on inputs used in the manufacture of pesticides, fungicides, insecticides and acaricides as approved by the Ministry of Agriculture.***



**Wheat Grain**

***Import duty is applicable at a rate of 10% instead of 35% for one year***



**Barley**

***Import duty is applicable at a rate of 10% instead of 25% for one year***



**Groats and meal of wheat**

***Granted duty remission rate of 0% for one year under the duty remission scheme in accordance with section 140 of the East African Community Customs Management Act, 2004.***



## **Earth Moving Machinery**

- Excavators
- Bull dozers
- Angle Dozers

***The equipment is free of import duty by tariff.***

VAT is deferrable for VAT Registered Companies



## **Goods Carrying vehicles - Tippers**

Gross Vehicle Weight exceeding 5 tonnes but not exceeding 20 tonnes.  
Gross Vehicle Weight exceeding 20 tonnes.

***Goods carrying vehicle with gross weight exceeding 5 tonnes but not exceeding 20 tonnes import duty is 10% for one year***

Goods carrying vehicle with gross weight 20 tonnes and more is free of import duty for one year.



## **Commercial Vehicles of gross weight 20 tonnes and above**

***Free of import duty for one year, VAT is payable***



## **Road Tractors for semi-trailers**

***Free of import duty for one year, VAT is payable.***



**Goods carrying vehicle with gross vehicle weight exceeding 5 tonnes but not exceeding 20 tonnes**

Import duty is 10% instead of 25% for one year



**Listed Packaging materials**

Granted a remission of duty to apply a duty rate of a 0% on packaging materials used by domestic processors of coffee, for one year



**Inputs used for the production of solar panels**

Remission of import duty rate 0% under duty remission scheme in accordance with section 140 of the EACCMA, 2004



**Raw materials and inputs used in the assembly of transformers and switch gear.**

Imported at import duty rate of 0% under duty remission scheme in accordance with section 140 of the East African Community Customs Management Act, 2004

# Tax and Tariff Implications

1. The significant reduction in tariffs and the cost of trade would lower import prices and increase the purchasing power of consumers willing to increase their consumption.
2. Removal of trade barriers and quotas allows *consumers to access a greater range of products in domestic markets of State parties.*
3. The cheaper it is to export, *the more will companies engage in cross-border trade & broadens the product offered.*
4. So, lowering trade costs stimulates domestic and international economy by increasing consumption and diversifying economies.
5. Diminishing import prices may also ***reduce costs of imported raw materials and intermediate inputs*** for ***downstream producers*** in the importing countries.
6. The cuts in production costs, therefore, increase competitiveness of domestic producers and allow countries to integrate into global value chains.

# Tax and Tariff Implications, cont.

7. Trade liberalization also allows domestic firms to access bigger markets and gain from economies of scale.
8. These economies of scale might, nevertheless, bring up new challenges. ***Indeed, if a large company benefits from economies of scale it could put the company in a dominant position and thus prevent market access to smaller companies (SMEs)***
9. Trade liberalisation may also increase African companies' competitiveness and efficiency. ***Competitive pressures require firms to be more efficient in the use of resources, to increase their investments in R&D in order to develop new technologies or production methods, and to innovate.***
10. Stronger competition among countries and companies ***will stimulate innovation, workers' efficiency and the development of new technologies.***
11. The AfCFTA will also facilitate ***the process of importing raw materials from other African countries & encourage multinationals to partner up with local firms to trade raw materials, spreading best practices, and transferring technologies***

# Challenges that the Agribusiness & SMEs and other sectors may face

1. ***The level of information flow*** to the agribusiness and SMEs needs to be enhanced to create awareness of the available opportunities
2. ***Conflicting RECs.*** Most African countries are part of more than one REC and so convergence among RECs should be made *compatible* with the AfCFTA.
3. ***WTO commitments, Unilateral, Bilateral or Multilateral commitments;*** These multilateral or unilateral commitments should not impede the development of the AfCFTA. ***Existing trade agreements should act as “building blocks” of the AfCFTA.***
4. ***Harmonization of standards and certification:*** Differing standards among the countries or the regions remains a barrier for cross-border trade.
5. ***Reducing tariffs alone is not sufficient,*** Member States have to *implement trade facilitation policies, fight against NTBs, increase investment in infrastructure and improve standards harmonization*

# Conclusion

- 1) The AfCFTA indeed provides a very attractive platform for ***boosting Intra-Africa Trade in area of Agribusiness where SMEs are the key players.***
- 2) Most of our economies are agro-based and are SMEs covering about 70% and employs more than ***80% of Africa's employment*** and contributes ***50% of its GDP.***
- 3) The Tax and Tariff implications show that there are benefits that will accrue due to ***the tariff liberalization resulting into duty free -quota free market access*** that would cause trade in both inputs and final products cheaper.
- 4) These challenges however, still need to be overcome:
  - It is not easy for SMEs to survive in a global value chain because of two reasons; ***competitiveness and connectivity.***
  - Efforts must be directed towards ***stimulating linkages in international value chains & access to affordable finance among others.***
- 5) With implementation of the AfCFTA Agreement, ***the volume and value of intra-African trade in goods is expected to increase.***

