



Sector Newsletter

**Paper & Paper Board
Sector**

Imposition of New EAC Common External Tariffs (CET)

The Government in its 2018/2019 budget increased the duty rates to 35% on a number of items touching on the paper and paper board sector.

The sector concerns has various concerns in regard to the 2018/2019 budget proposals to increase the East African Community (EAC) CET rates, particularly on the below, which may negatively impact on the sector:

i. No local production capacity

In Kenya, there is no local production capacity to produce some paper, and some are also not sufficiently produced in the region.

An increase in the tariff to 35%, will make the importation of the same extremely costly and hence affect the sectors competitiveness. Meanwhile, Uganda reduced duty on this item to 10% in their recent budget.

ii. Disincentive to value add and increase in Imports

The increase of the duty rate to 35% for intermediate inputs will completely distort the value chain, as it will be a disincentive to value addition as well as increase in imports. For instance, complete finished products from the Common Market for Eastern & Southern Africa (COMESA) are imported at a duty rate of 0%. The increase will discourage local value addition which will be more costly than importing finished products.

i. High cost of packaging

Due to the increase in tariff duty rates on paper, packaging costs will go up and make the products more expensive. The estimated increase in packaging costs will increase by about 7% and further affecting the supply chain negatively.

ii. Create a noncompetitive environment with EAC Counterparts

The EAC Budget proposals of 2017-2018 in the EAC Gazette show that other EAC countries have allowed importation of several paper grades .

The sector has petitioned the National Treasury and the Ministry of Industrialization, Trade and Co-operatives to consider revising the duties from 35% to 10%.

This will make the sector more competitive in the region, currently it has become more profitable to import finished products; rather than import raw materials and manufacture locally.