

## EAC VERIFICATION OF MOTOR VEHICLES ASSEMBLED IN THE REGION

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*East African Community between February 3rd and 5th convened a meeting of experts to review the report on verification of motor vehicles assembled in the East African Community which was undertaken between September 30th and October 9th 2009.*

*The meeting was held following a directive of the Sectoral Council on Trade, Industry, Finance and Investment (SCTIFI) to the committee of experts to fine tune and present to the Ministers of Finance at next Pre-Budget Meeting in May.*

The overall objective of the verification mission was to establish the production capacity of local motor vehicle assembling plants in relation to demand, usage and price competitiveness.

During the 2009 pre-budget meeting, EAC ministers of finance granted remission of import duty from 25% and apply 10% on trucks of a carrying capacity of 5 to 20 tonnes (HS Code 8704.22.90) for one year for Uganda, Tanzania and Rwanda.

Also the ministers granted remission of import duty on trucks of carrying capacity of over 20 tonnes (HS Code 8704.23.90) from 25% and apply 0% for Uganda, Tanzania and Rwanda for one year.

Kenya retained import duty of 25% for trucks of carrying capacity of 5 to 20 tonnes (HS Code 8704.22.90) and 25% on trucks of a carrying of over 20 tonnes (HS Code 8704.23.90).

However, the ministers decided to review the matter at the next pre budget meeting based on the verification findings. In reviewing the report for fine tuning, the meeting realized that the inconsistencies in the first report stemmed from:

- Conflicting data and information provided by the assemblers;

- Insufficient information on prices of some brands of new imported vehicles;
- Time constraint;
- Difficulty in analyzing data for imported trucks since customs databases are aggregated on HS Code and do not differentiate between used and new trucks.

After thoroughly analyzing the data and information provided during the mission, the meeting fine tuned the report and made the following recommendation to EAC Ministers of Finance to take note during their Pre-Budget Meeting scheduled for April/May this year.

- Trucks assembled in the EAC region are less competitive in terms of price compared to the same model of completely built units imported from outside the region when duties and taxes are excluded.

- Brand new trucks imported into the EAC region from China and India of similar tonnage but different brands are more competitive in terms of price as compared to locally assembled units.

- There is capacity to locally assemble specific brands of trucks of 5 tonnes and above in the EAC Region to meet a portion of the regional demand. This is based on the fact that the region demands other

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brands that are not assembled in the region. During the meeting the team also observed that in order to have more informed findings, there is need for further research in the following areas:

- Independent verification of production capacity data and prices submitted by the assemblers in the region.
- Establish factors that lead to importation of Completely Built Units (CBUs) which can also be assembled in the region.
- Establish demand and prices of the different brands of trucks used in the EAC region.
- Establish why other Partner States except Kenya have not established assembly plants.

### Implication of the Report

The verifications findings do not give clear direction to Ministers of Finance what decision to take during the next pre budget meeting when they will review the stay applications of trucks of HS Code 8704.22.90 and HS 8704.23.90.

Prolonging stay applications will negatively affect the 3-motor vehicles assemblers in Kenya which are currently operating below their capacity. These assemblers are Associated Vehicle Assemblers (AVA), Kenya Vehicle Manufacturers (KVA) and General Motors East Africa (GME).

Apart from been frustrated by the stay applications the vehicle assemblers have been facing other main challenges which include:

- Treatment of vehicles assembled in the region as not originating from the EAC by Uganda and Tanzania despite the finalisation of the review and gazettelement of the EAC Rules of Origin;
- Inconsistent application of the CET relating to motor vehicles for example in the

case of the TZ fast bus project, CHOGM vehicles for Uganda, and import duty exemption on refrigerated trucks, insulated trucks and refuse collection trucks;

- Stay of application of Common External Tariff on trucks of 5 tonnes and above, indicating a preference of fully built motor vehicles. This may lead to closure of assembly plants;
- Delay in development of the EAC Motor vehicle assembly regulations;
- Lack of a harmonised policy on motor vehicle standards within East Africa;
- Lack of support for locally produced goods.

### EABC Policy Proposals

In order to accommodate the interests of both transport sector as well as vehicle assemblers EABC advocates the following positions:

- The consistent application of CET in relation of the motor vehicles by all five EAC Partner States
- Instead of stay application of CET on trucks of 5 tonnes and above, EAC Governments should opt for zero-rating VAT on those trucks in order to create a fair-playing field for both locally assembled trucks and imported one.
- On Rules of Origin application for locally assembled trucks, EAC Partner States should look into how best to treat Completely Knocked Down (CKD) and CBUs of trucks in order for trucks to qualify for Change Tariff Heading (CTH) criteria. Currently both CKD and CBU for trucks are in the same tariff heading.
- EAC to have a harmonised policy on motor vehicles standards, e.g treatment of imported vehicles,
- Create awareness of assembly facilities in Kenya to Rwanda, Burundi and Tanzania.

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