

# **ASYCUDA++ IMPLEMENTATION PROJECT BULLETIN**

## **FEBRUARY, 2005**

### **Background**

In an earlier bulletin issued out in December, 2004, we covered several aspects around the implementation of Warehousing in ASYCUDA++ at the Customs Business Centre, official opening of the CBC, implementation of the new ASYCUDA++ version of 1.18B and planned rollout to other stations. This bulletin specifically addresses the final migration of all warehouses from Kampala Longroom to the Customs Business centre and the changes that resulted from the implementation of the East African Customs Union.

### **Final phase of Migration of Warehousing from Kampala Longroom to the Customs Business Centre**

After the first two successful phases of migration of warehousing and bond management from Kampala Longroom to the Customs Business Centre (CBC), the team finalized the final migration process and starting on 6<sup>th</sup> December, 2004 all new entries of warehousing were to be lodged at the CBC. To allow a smooth transition to the new ASYCUDA++ configuration and the Customs Business process being applied at the CBC, warehouse operators and clearing agents had to comply with the following directives:

- ❖ Stock in hand covered by old warehousing entries were to be cleared well before 15<sup>th</sup> January, 2005 by lodging ex-warehousing entries for home use or re-export, plans were underway to shutdown Kampala longroom;
- ❖ Clearance by transfer of ownership or transfer to another warehouse would not be permitted;
- ❖ Re-warehousing or extension of the warehouse period would not be permitted in the old Longroom;
- ❖ Warehousing staff would closely monitor old stock on the floor and clearance of the same before the January, 2005 deadline.

For old warehouse stock that was not cleared in accordance with the above directives, the warehouse operator was expected to be responsible for its transfer to the CBC configuration using a longer process that included:

- ❖ Cancellation of current entries
- ❖ Transfer of guarantee (bond) amounts to the CBC
- ❖ Verification of actual stock on floor with a Customs officer present
- ❖ Re-issuing of Specification codes as per the new guidelines
- ❖ Creation, registration of new ASYCUDA++ entries (IM7) for the CBC
- ❖ Re-Lodgement of old and new entries to the CBC and
- ❖ Assessment, valuation and other checks at the CBC.

A mini-process of the transfer of those entries was then put in place to facilitate those operators and agents who complied with the directives. This process included:

- ❖ The re-capture of all the old stock warehouse entries with exactly the same information as previously lodged except for the change of specification codes in accordance with the new specification code guidelines and the exact warehousing period left for that stock in the warehouse.
- ❖ These entries were to taken to the Warehousing section in the old Kampala Longroom for re-confirmation of goods in the warehouse, checking for the correct warehouse period left and then final endorsement on the new entry “OS” which stood for “old stock”.
- ❖ Final Lodgement of the new entry at the CBC to undergo the CBC process as normal.

For the goods whose period of warehousing had expired had to obtain special permission to have their period extended or face auction at a later date as prescribed by the Commissioner. Though most people complied with these directives, there were still a big percentage of the operators and agents, who had not started the transfer by 31<sup>st</sup> of January, 2005. A penalty was being planned and discussed amongst the Incharges of warehousing, ASYCUDA and CBC in conjunction with the Commissioner and Consultants on how to handle such cases. This penalty would apply in due course.

### **Changes as a result of the East African Customs Union for ASYCUDA++ purposes**

The East African Protocol which was signed on 2<sup>nd</sup> March, 2004 in Arusha -Tanzania by the three East African states created a Customs Union which took effect on 1<sup>st</sup> January, 2005. Along many other changes came the East African Customs Act and Regulations. These regulations were discussed in different committees amongst several stakeholders which came up with drafts from each of the three countries before they were finally admitted for use. The biggest change was the common external tariff rates for goods coming from outside the region and the removal of tariff barriers amongst the three partner states. Below is an extract of some of the changes that resulted from the creation of the Customs Union:

#### **1. Elimination of Internal Tariffs and other charges of Equivalent Effect**

- ❖ Partner states agreed on a programme for elimination of internal tariffs as follows:
- ❖ Goods originating from Uganda exported to Tanzania shall be duty free
- ❖ Goods originating from Uganda and Tanzania exported to Kenya shall be duty free;
- ❖ A selected list of goods originating from Kenya exported to Uganda and Tanzania will be subject to an interim rate of duty for a period of 5 years

## 2. Establishment of a Common External Tariff (CET)

A three-band CET structure of 0%, 10% and 25% has been adopted. It has also been agreed that the highest rate of 25% will be reviewed after five years. The agreed CET will be applied as follows:

- ❖ 0% will be applied on Raw materials and capital goods
- ❖ 10% will be applied on semi-processed and intermediate goods
- ❖ 25% will be applied on finished goods

It has also been agreed that additional policy measures beyond the maximum CET rate of 25% will be applied on the goods commonly referred to as sensitive goods imported into East Africa, as follows:

HS CODE	PRODUCT	AGREED DUTY RATE
04.01	Fresh milk	60%
04.02	Powder	60%
10.01	Wheat grain	35%
1005.90.00	Maize (corn)	50%
10.06	Rice	75% or US\$200/MT whichever is higher
11.01	Wheat flour	60%
1701.11.10	Juggery	35%
1701.11.90	Sugar	100% or US\$200/MT whichever is higher
24.02	Cigarettes	35%
24.03	Other manufactured tobacco	35%
2523.29.00	Portland cement	55%
3605.00.00	Matches	35%
Several HS Codes under textile chapters	Khanga, Kikoi and Kitenge made of cotton	50%
Several HS Codes under textile chapters	Bed, Table, Toilet and Kitchen linen made of cotton	50%
6305.10.00	Jute bags	45% or 45 US cents per bag whichever is higher
6309.00.00	Worn clothing and other worn articles	50% or US\$ 0.75/kg whichever is higher
8309.10.00	Crown corks	40%
85.06	Primary cells and Primary batteries	35%

## 3. Base for computation of duties and taxes

The cost of Airfreight of goods will be excluded in the base for computation of duties and taxes (as is the current practice in Uganda). For goods transported by sea, the base will be value of goods at first point of entry into the community that is Mombasa

or Dar es Salaam. For goods moving from one partner state to another for example from Kenya to Uganda, the base will be FOB value.

#### 4. Application of other duties and taxes

The 2% Import Licence Commission applicable on all imports and the discriminatory excise duties currently applicable will not apply, both on goods imported from Kenya and included in the 443 tariff lines, and goods imported from outside East Africa. However, VAT, WithHolding tax and the non-discriminatory excise duties will continue to apply. Non discriminatory excise duties are those that apply equally to domestically produced goods, such as beer and cigarettes. Excise duty on fuel will also continue to apply. The list of products to which Excise duty will only apply are:

S/N	Goods description	Commodity code
(i)	Soda	2202.90.00
(ii)	Beer	Chapter 22
(iii)	Spirits	Chapter 22
(iv)	Wines	Chapter 22
(v)	Motor Spirit	2710.11.10
(vi)	Motor Spirit	2710.11.20
(vii)	Kerosene	2710.19.22
(viii)	Gas Oil	2710.19.31
(ix)	Other gas oils	2710.19.39
(x)	Polyethylene bags	3923.21.00
(xi)	Bags of other plastics	3923.29.00
(xii)	Cigarettes	2402;2403

#### 5. Relationships with other integration blocs, foreign countries and Multilateral and International Organizations

It has been agreed that amongst other decisions:

- ❖ The EAC common external tariff shall not apply to trade between Kenya and Uganda for COMESA member states and Tanzania for SADC member states
- ❖ EAC should conclude trade arrangements as a bloc with COMESA and SADC within a period of four years
- ❖ No partner state shall within five years after coming into force of the protocol, give more favourable preferential treatment to third party countries.

**Please note** that the former **COMESA rates** that were applicable before the union, have remained the same that is 4% and 6% for the goods that attract 10% and 25% respectively. This implies that all other goods above 25% will not fall in the preferential treatment of COMESA. However, it is to be noted that these COMESA rates will apply for

only 2 years OR for a period stipulated by the preferential agreements made between Uganda, Kenya and COMESA.

## **6. Uganda's Raw materials**

Uganda's raw material list and Part IV item C, of the 3<sup>rd</sup> schedule, Finance Act 2002, for manufacturers of bicycles, exercisers and components will continue to be applicable.

## **7. Conditional Exemptions**

Changes to conditional exemptions are listed under the 5<sup>th</sup> Schedule of the East African Customs Management Act.

### **New items in the schedule include:**

- i) Partner states armed forces (a, part 2)
- ii) Common wealth and other governments (a, part3)
- iii) Donor agencies with bilateral or multilateral agreements with partner states
- iv) The war graves commission (a, part7)
- v) Rally drivers (a, part9)
- vi) Containers including boxes, tins, bottles and jars (b, part 2)
- vii) Fish crustaceans and mollusks (b, part 4)
- viii) Preparations for cleaning dairy apparatus (b, part 8)
- ix) Ships and other vessels (b, part 7)
- x) Museum Exhibits and Equipment (b, part 12)
- xi) Urine bags, hygienic bags (b, part 12)
- xii) Diagnostic reagents (b, part 14)
- xiii) Educational materials as specified in the Florence agreement (b, part 17)

### **Items removed from the exemption schedule**

- i) Hotel Equipment;
- ii) Instant or soluble coffee produced from at least 75% coffee beans originally exported from Uganda to another country for outward processing;
- iii) Instant soluble coffee packages;
- iv) Batteries for use in Solar Equipment;
- v) Inputs for manufacture of agricultural equipment;
- vi) Paper bags of chapter 48 for milling industry and milk packing material;
- vii) Materials and equipment specially designed for production and processing of Honey;
- viii) Cut-lag, HS code 2403.10.00 produced from Tobacco leaves originally exported from Uganda to another country;
- ix) Ambulances, prison vans and hearses;
- x) Items for horticulture:

- a. Labels/stickers of HSC 4821.90.00;
- b. Flower sleeves for bouquets;
- c. Plastic bags for seedlings;

Please note that no changes have been made to the VAT Statute and the Income Tax Act. This means that items which were attracting VAT or those which were exempted, prior to the implementation of EAC – CU Management Act 2004, will continue to be treated as such. Likewise goods which were attracting Withholding Tax or those which were exempted will also continue to be treated as such.

This also implies that, goods (listed above) which were covered under the 2<sup>nd</sup> Schedule, Part II to the Finance Act 2004 (Conditional Exemptions), but have been excluded from the exemption schedule in the new Act, will not attract VAT, but will attract the Import Duty rate as indicated in the EAC-CET. **Also note that TOURISM VEHICLES were attracting VAT and should continue to be treated as such.**

### **The effects of the EAC changes for ASYCUDA++ purposes**

After implementing the EAC tariff and its associated changes, the following occurred:

- ❖ Due to the incorporation of a new tariff and the elimination of certain commodity codes previously used in each partner state, there arose warehousing problems in ASYCUDA++. Ordinarily, for goods to be ex-warehoused using the system there are five criteria that have to be exactly the same. These include Importer, Commodity code, specification code, Country of origin and Warehouse code. If these do not match on both warehouse-in and warehouse-out or re-export entries, the same produces an error “PRODUCT NOT IN THE WAREHOUSE”. Therefore because some of the commodity codes previously used for warehousing purposes, did not exist anymore in the new tariff, the team received many complaints from the agents about the errors produced by the system. On realizing these errors, the team immediately contacted the tariff section and the Commissioner customs with whom they held a meeting and resolved to re-create the formerly used commodity codes in the system with the new rates but re-strict them to ex-warehousing or re-export only.
- ❖ Among the changes of the tariff included sub-divisions that previously did not exist and this implied that the team had to obtain new internal domestic rates for those subdivisions through some difficult means though they eventually succeeded.
- ❖ Lack of sensitization on the new changes still posed a lot of problems since agents, importers and operators had not been properly sensitized about the new features in ASYCUDA++ that were to be used to obtain benefits of the EAC.