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GLOBAL FREIGHT LOGISTICS

Established 1963

NEWS

26 September 2014

'Is Zim shooting itself in the foot?'

The Zimbabwe government's introduction of major tax and import duties on finished goods moving in the country – ostensibly as a measure to protect local industry and increase revenue – has been widely criticised by media and industry leaders as "ill-advised, short-sighted and "dishonest". It has already resulted in one brand pulling its exported product out of the country and economists say the move may result in lower revenue for the country.

"We were forced to take the decision to stop our exports – MAQ washing powder – into Zimbabwe with immediate effect when the government introduced 40% surtax on finished cleaning products. It just makes our product too expensive and we cannot compete with the well-known large corporate that sends bulk washing powder into the country from Kenya and repackages it in the country," said Bliss Brands export manager Rishi Saxena.

He told FTW that the company used to export an average of 300 tonnes of washing powder per month to Zimbabwe. This is therefore a "major loss in revenue" for the small brand company. "Furthermore out sole distribution partners in the country, have been badly hit." The brand has had an established presence in Zimbabwe for over five years.

Saxena said that there were no other manufacturers of washing powder in Zimbabwe and believes the country does not have the skills, infrastructure or capacity to produce it. "What is more likely to happen , rather than the stated goal of creating jobs and stimulating local production, is that people will smuggle goods into the country," he said, adding that the government would lose out on revenue altogether.

Managing director of Tax Management Services in Zimbabwe, Thendai Mavhima, noted that while the increased duties on finished products might boost revenue, it was not enough to protect local industry. "To do that, the government needs to introduce measures such as tax incentives for local producers as well as suspending taxes and duties on vital machinery needed by local industry to produce the goods.

Local manufacturers are not equipped to produce the required quantities of goods in Zimbabwe, said economist John Robertson of Robertson Economic Information Services. "Many of the producers have either pulled out of the country or have considerably down-sized their operations, so only about 20-30% of finished goods can be manufactured here."

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He pointed out that it was costly to produce in Zimbabwe as the average wages and water and electricity costs were high while productivity was low as the supply of basic utilities such as electricity and water was often down. "Before you consider protecting local industry, you first have to restore local production," said Robertson. Mavhima added that the Zimbabwean government should consider subsidising utilities for local industry and that it needed to ensure an uninterrupted power supply to make local production viable.

Robertson commented that the Zimbabwean government was "dishonest" in its argument that the taxes and duties were raised to protect local industry. "They basically want to increase revenue and they know that local production isn't viable. Therefore, the goods will still need to be imported and revenue will be increased through higher duties."

However, this tactic is ill-conceived, said Robertson, as buying power will be very limited. "If people have less money to spend on goods, it basically forces them to spend only on basic goods that do not carry the 15% value-added tax (VAT), which cuts into the government's tax collection anyway," he noted.

Responding to a question around a free trade zone within the Southern African Development Community (SADC), Robertson said that the Zimbabwean government had managed to achieve the higher import duties on a technicality, calling the new duties a "surtax" rather than an import duty", which has strained relations with many of the country's regional trading partners.

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