



POSITION PAPER ON

PRE-SHIPMENT VERIFICATION ON CONFORMITY OF IMPORTS (PIVoC).

A. Background

1. Government of Uganda through UNBS has announced the resumption of Pre-shipment Inspection and Verification of Imports (PIVoC) scheduled to start in December 2012 and to this end they have contract pre-inspection companies which include; SGS Uganda, Bureau Veritas and Intertek. The main objective of implementing the PIVoC is to control substantially the sub standard products in the Market. More specifically the objectives include;

- a) Protect consumers from sub-standard goods and allow value for money
- b). Protect local producers from unfair competition arising from cheap substandard products in the market.
- C). Compliment UNBS capacity:

2. Prior to the above UNBS had introduced and planned to have the PVoC scheme implemented in Uganda starting from the 9th June 2010, but it was not implemented given the concerns of the stakeholders. The concerns included; High charges which could lead to un-competitiveness of the Private Sector; Product list included items like industrial inputs which actually did not require pre inspection; Lack of consensus by the stakeholders etc.

3. The re- introduction of PIVoC, has not been discussed with UNBS and concerns still remain from the private sector. It is against this background that this paper attempts to bring out these concerns with proposal of the way forward to help fight substandard in a more sustainable manner.

B. Concerns of the Private Sector

The objectives of PIVoC on fighting sub- standard is a welcome idea, however, the proposals of the scheme as it is may not help achieve the objectives in the long run and worse still it may act as a hindrance to doing business. Below are some of the concerns for consideration;

1. High Charges under PIVoC:

Generally the costs under PIVoC are too high. Government has signed agreement with companies and agreed on the prices to be paid. Unfortunately Government is passing the payment to the Private Sector. The costs itemized have not been agreed upon with the Private Sector. The Private Sector is aware that these services cost much less than it has been quoted. For example to carry out an inspection of a vehicle in UAE it costs only 20 USD. To provide services for a whole country would guarantee many transactions and this naturally would reduce the costs drastically. Why then are the costs negotiated very high. The Government should not negotiate prices where they are not paying.

Below are some costs comparison with Kenya, and Uganda is still more expensive. The Private Sector is not in any way insinuating that Kenyan cost should be the benchmark because we believe they are best practice prices.

The table below illustrates the charges:

Category of suppliers /goods	Cost in Uganda	Cost in Kenya
Route A-For unregistered suppliers/products with ad-hoc shipments	0.500% of FOB value of goods Minimum fee – US\$235 Maximum fee – US\$2375	0.475% of FOB value of goods Minimum fee – US\$180 Maximum fee - \$2,375
Route B-For registered suppliers/products with regular goods or frequent shipments	0.45% of FOB value of goods Minimum fee – US\$235 Maximum fee – US\$2375	0.425% of FOB value of goods Minimum fee – US\$180 Maximum fee – US\$2,375
Route C – For certified products	0.25% of FOB value of goods Minimum fee – US\$235 Maximum fee – US\$2375	0.25% of FOB value of goods Minimum fee - US\$135 Maximum fee – US\$2,375

Source: 1.UNBS; 2. Kenya PVOC data sheet on the Kenya Bureau of Standards (KEBS) website

Notes:

- a. Kenyan terms cover the documentary verification AND the physical inspection of goods, they also include the sealing of FCL container where applicable. While in the Ugandan case, Container sealing has been listed separately and one (importer) has to pay for it as well separately unlike in Kenya. These may amount to about USD100
- b. It should also be noted that **fees do not include** the other actions necessary for inspection which include; Sampling& Testing; Product registration; Manufacturing licensing. All these are considered additional costs and are charged separately.
- c. The minimum costs charged completely ignore the fact that pre-shipment actual charges are about 120- USD for an individual request but for a scheme which will have many users the prices can reduce to about 50 USD.
- d. Calculation of taxes is based on final C & F of product at entry point in EAC for which the charges of UNBS becomes part of the costs which mean also the CET in real amount paid will be higher since the tax is paid on % basis

2. **Increase in Costs;** Two scenarios are illustrated:

Case of small importer of goods expected to pay a minimum charge for which costs increase as follows

- USD 235 to cover minimum pre-inspection costs
- USD 100 other extra charges usually charged under Ugandan PIVoC
- USD 87.5 covering increased CET resulting from cost increase of the 2 costs above
- **USD 422.5 as Total increased costs**

The cost of PIVoC is actually 75% higher than the tax imposed at 25%.

The cost incurred for those making 2 shipments a month would escalate to **USD 10500 a year!**

Case of Medium to large importer of goods of which the chargeable amount is worth USD 20,000

- USD 2375 to cover minimum pre-inspection costs

- USD 100 other extra charges usually charged under Ugandan PIVoC
- USD 1775 covering increased CET resulting from cost increase of the 2 costs above
- **USD 6500 as Total increased costs**

3. Standards;

Lack of Clarity on standards to be used:

For a product to be graded substandard, there must be a standard for which this is determined. Most business persons are not aware of the benchmark parameters for which most products are declared substandard. It appears that where the standards exist, the business community does not understand it so they may have difficulties in predetermining the correct quality before purchase and then presentation to Pre- Shipment Inspectors and could lead to loses. There are some cases where there are no standards and in this case clarity is required. For example importers of old on articles including motor vehicles require clarity. The same clarity need to be made to consumers so that all stakeholders are clear

4. Categories of Products:

The categories of goods subjected to the scheme include;

<ul style="list-style-type: none"> • Toys • Electrical & electronics • Automotive products and inputs • Chemical products • Mechanical materials& gas appliances • Textile, leather, plastic and rubber 	<ul style="list-style-type: none"> • Furniture (Wood and Metal Articles) • Paper & Stationary • Protective safety equipment • Food and food products • Used products including used motor vehicles.
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The categorization is not clear and could easily be misinterpreted mainly because they are not as per Harmonized Systems codes. There is too much room left for interpretation as this encourages corruption.

Based on the above, industrial inputs, according to the above could easily be subjected to the process despite the UNBS pronouncement that Raw Materials will be exempted from this process.

5. Varying Charges for similar intension:

The Government has imposed a tax to cater for environmental surcharge on vehicles which are above 8 years old on top of the normal external and internal taxes. The inspection is expected to ensure that the vehicles entering Uganda have no environmental risk (That should be a consideration in standards). So after charging

6. Ineffectiveness of PIVoC:

Kenya has been implementing PIVoC for a long time and yet substandard goods are still very dominant in the economy. This may mean that either the Pre-shipment companies continue to allow the substandard good to flow in or the production of the substandard is done locally or both.

It is difficult to imagine that the above scenario with occur in Uganda if the PIVoC is implemented in the form proposed.

7. Capacity of UNBS:

The Private Sector is much interested in a strong UNBS with capacity to do most activities. The money expected to be paid to Pre-shipment Companies is estimated at 30 Milliom USD per Year and of this UNBS is not known to be receiving part of this money officially. This means that this relationship will remain

perpetual to the advantage of private firms. There is no clear road map which could see UNBS capacity built.

8. Lack of Transparency;

The fees seem to be high and we have argued before that the process of procuring the inspection firms and the fixing of prices that are not consistent with rules of reason. Since the Government is not paying costs it should only concern themselves with identification of competent, reliable inspectors. The procurement process is not clear and may explain why this is very expensive. UNBS should request ALL qualifying firms to provide statement of competence, on the basis then such a firm is allowed to carry out inspection. It will be cheaper. Any negotiation which involves price should involve the private sector because they are not only better negotiators but also are the ones to pay.

C. Recommendations

1. Establish a partnership with Private Sector, Consumers to fight substandard:

Given that the borders are very porous and even establishing source pre- inspections will not eliminate slippage of sub- standard goods, a robust approach of monitoring and stopping the production, placement and distribution of substandard goods need to be established. It may be difficult for UNBS to get resources which will enable it manage this internal monitoring mechanism because if they are doing on their own it would cost them dearly. As alternative, therefore, having A SMART PARTERSHIP with .Consumers and the Private Sector would help fight this vice in a cheaper, more effective manner.

UNBS officials should create a mechanism in which they can receive information and based on this, UNBS officials would concentrate on arrests and prosecution. The role of identifying the production and distribution of sub- standard and even counterfeits would be supported by the Private Sector and Consumers. Where all the information has been collected and is sufficient to enable arrest and prosecution, a mechanism should be put in place to avoid corruption tendencies which may arise at UNBS. This mechanism should create checks within UNBS so that arrests and prosecution are implemented in a transparent manner. The current situations puts the entire burden on UNBS which strains their capacity, but may be tempting for the individual officers to be corrupted thereby making the fight against substandard goods be lost to the corrupt businesses and officials.

This partnership will enable all the slippage which will have come either accidentally or through corruption to be neutralized by this team. An award system may be put in place for informers to report (especially those producing). The competitors of such substandard products placed in the market would be a great ally in this fight. With this we expect that specialist in investigation and standards could team up to provide relevant services and the companies which would have otherwise lost their market share would willingly accept to compensate these specialist. In that way we will have a more permanent solution which involves stakeholders. UNBS may therefore even not require so much money but just work differently and in a SMARTER manner.

2. **Explain available standards, establish criteria standards parameters for goods without standards:**

There is need for UNBS to help the various businesses and the consumers to understand the various standards for the existing and the parameters which will be used for those with no standards. This will help reinforce the partnership mentioned in 1. It will also help business persons not to buy a product which will be rejected by inspectors and more so will enable close the gap always widened by corruption. For example a consumer should be able to put to task a person who sells to him/ her substandard vehicle if the parameters to look out for are clear.

3. **Price:** As mentioned the Price is completely unrealistic. Government should not negotiate the price. It should just allow all qualifying agencies who can do this work to do the work. The only condition we should have is that they should be accredited by UNBS. For example for vehicles in Osaka in Japan you can have 4-5 inspectors all with the acceptable qualities. That will bring transparency otherwise the current price determined by Government becomes suspect.

4. **Strengthen UNBS** to play its role and fulfill its mandate. This will be done through a well-designed business plan (3 years) with clear budgets and outputs from UNBS. It is this that will help establish their capacity requirements.

5. **Choose one charge for used vehicles.**

Government should consider dropping environmental surcharge or pre-inspection charges. This is because if you carry out pre-inspection then it is assumed that the vehicle is environmentally acceptable so no need of an environmental surcharge.

6. **Speed up enactment of the Counterfeit Law;**

The legal regimes which will help curb counterfeiting transactions both within and from outside Uganda is possibly what is urgently required. It is important that the illicit trade is made unattractive. And constant pressure is kept on counterfeiters within Uganda and the EAC regions. The legal regime envisaged, if well managed, can greatly reduce counterfeiting. Government ought to expedite the debating and passing of the counterfeits and adulteration bill as pronounced during the PIRT in May 2010.

7. **Clear list of items to be under PIVoC:**

This should be clear and should not be based on UNBS grouping, but based on HS.CODE at 8 digit level.

8. **List of exemptions to PIVoC need to be agreed:**

A clear list of exemptions need to be defined and made public. The lists need to be based on HS Codes at 8 digit level. Case by Case exemption should be discouraged since this is a recipe for corruption.

The exemptions should include:

- I. The Raw materials and Industrial inputs for Manufacturers (note products are used for manufacture and the products will be subject to UNBS Standards. Imports are not placed on the market directly)
- II. Imports of specialized equipment
- III. Importers of new equipment with reputable Sources e.g. Vehicles, Motor cycles etc.
- IV.

Importers who can prove that their sourcing are well controlled and meets UNBS standards