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STEPHEN GITAGAMA Chief Executive Officer | MUTUMA MATHIU Group Editorial Director

EDITORIAL & OPINION

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Put in Kenya's interest first in global tax talks

Kenya has rejected the global minimum rate of tax on international companies, fearing the deal will bar it from collecting its taxes from multinational tech giants.

The Kenya Revenue Authority (KRA) says joining the minimum tax club requires dropping individual plans such as the recently introduced digital tax that Kenya charges at 1.5 percent of the sales of multinationals such as Google, Facebook and Amazon.

The KRA estimates the digital tax would fetch Sh13.9 billion in the next three years. So, it is a question of maths and what makes more revenue sense to a particular country.

However, there are more considerations to make, including being investor-friendly to the multinational companies whose presence means more jobs to the youth; this ties it to the issue of security.

Already, the US and Kenya are negotiating a free trade deal and the tax argument adds another hurdle to the talks whose conclusion is not in sight yet.

What's more, some of the big players such as the G20 group of economies have joined the 136 countries backing the minimum tax plan that is driven by the US.

In Africa, big players, including South Africa, Egypt and Morocco are for the minimum 15 percent corporate tax.

Because the world spins on trade and business, Kenya ought to reassess whatever deal that is tied to the global minimum tax and what it portends to the economy when challenges like jobs are giving the country sleepless nights. Apart from the tax revenues that Kenya sorely needs, handling this tax deal will require more informed negotiations. Of course, negotiations of this type are laden with intense lobbying, with parties expected to give and take.

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It is important to note that presidents Joe Biden and Uhuru were meeting yesterday and the tax issue was expected to form part of the agenda.

Above all, Kenya should only pick what it is comfortable with and do so without undue pressures from any quarters, putting its interest first.

Let go of some fuel levies

Yesterdays' decision to cut fuel prices through a subsidy is a welcome move. But the State should now find a sustainable solution that can save consumers from the unstable prices.

The State has been sending mixed signals with the Treasury saying it had exhausted money meant to cushion consumers from price hikes, pointing to the need to find a lasting solution.

Parliament should consider adopting proposals to exempt fuel from annual review of inflation tax and the cutting of some of the levies imposed on petrol and diesel.

The State should also ensure the Sh5.40 per litre levy that motorists pay for the subsidy is not diverted to other uses.

Crude oil prices are currently on a rise, with no indication when this will stop, meaning that the State may be forced into months of subsidy if the country is to keep fuel prices relatively down.

This could mean making painful decisions such as diverting money meant for development to compensate oil marketers—a move that looks unsustainable.

Increased fuel prices usually carry knock-on effects on the economy, including higher transport and manufacturing costs which in turn worsen inflationary pressures.

Crude oil prices are currently on a rise, with no indication when this will stop

The State must therefore be willing to forego some taxes on fuel and hope that such a move can lower costs for businesses and trigger growth from which more taxes will be collected.

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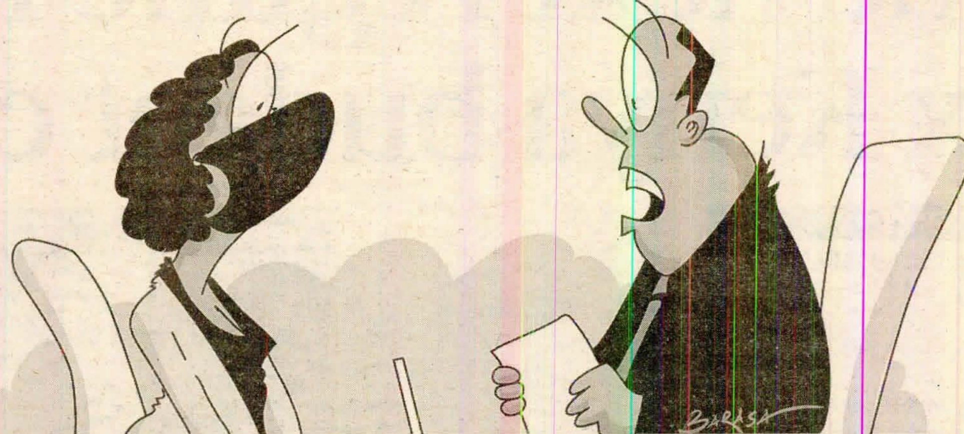

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Level cement industry playing field

BANKING

JAINDI KISERO
jaindikisero@gmail.com

Welcome to the politics of the cement industry. If the government succumbs to pressure by a section of cement manufacturers to introduce a 20 percent duty on imported clinker, it will have administered euthanasia to the local cement industry.

That is the conclusion I have reached after going through a report by an independent committee that was appointed by both the Kenya Association of Manufacturers (KAM) and the Ministry of Trade and Industry and tasked to assess clinker production capacity and consumption in Kenya.

I regard the findings of this committee authentic not only because it had representation from both sides of the political divide of the cement industry but mainly because it included experts from the State Department of Industrialisation, the Kenya Bureau of Standards, the State Department of Mining, the Treasury and KAM itself.

Several broad economic policy questions arise. How well do we regulate competition? Should the much-touted policy of 'Buy Kenya, Build Kenya' be dogmatically implemented even where there is clear evidence that such a policy portends harm to one of the manufacturing sector's fastest growing segments? Is the infant industry protection argument relevant in so far this dispute is concerned?

Yet as I continue reading the report of the clinker verification committee, I found myself giving more attention to the politics that underpins this conflict. Indeed, the dispute over the proposal for a 20 percent increase on import duties on clinker is a compelling lesson how politics influences competition policy in the private sector in Kenya.

This conflict reminded me about what I read in theory about the term, crony capitalism. The concept describes a system in which businessmen close to authorities who make and enforce policies receive favours that allow them to earn bigger returns than their competitors. According to the theory, the privileges and favours to the politically-connected businesses and individuals can come in the form cheap credit funnelled to enterprises of cronies through state-controlled banks.

Furthermore, cronies may be rewarded by being allowed to charge higher prices for their output than would prevail in competitive markets. Finally, the politically-connected can be shielded from international competition by high levels of duty protection.

What is my point? It is that what is going on in the cement industry is but the impact of anti-competitive practices brought about by the influence of crony capitalism. It is utterly unfair to – in the name of 'Buy Kenya, Build Kenya – force cement manufacturers to buy an intermediate good so critical to the price and quality of what you produce from enterprises they are in competition with.

As the study by the clinker verification committee has factually demonstrated, locally produced clinker does not need duty protection to thrive."

As the study by the clinker verification committee has factually demonstrated, locally produced clinker does not need duty protection to thrive. Indeed, one of the compelling findings of the study was that locally produced clinker is cheaper by as much as 30 pe cent. The study has produced statistics that show that literally all the seven cement manufacturers, including the groups campaigning for the 20 percent increase on import duties, have continued to import large volumes of the commodity mainly because of reasons to do with quality and the need for product differentiation.

However, the lower import prices do not translate to lower local consumer prices because commercial producers of clinker peg their prices very close off the import prices.

In the circumstances, the implication therefore is that if import duties go up to 20 percent, the inescapable consequence is that local consumer prices will go up in tandem. If the government wants to help local producers of excess clinker, the sensible thing is to support them to export the commodity duty-free to either the East African Community countries or Comesa.

My parting shot is a theory: In Kenya's private sector, segments with a greater aggregate share of well-connected firms will tend to experience more anti-competitive practices and policies.