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EAC COMMON MARKET IMPLEMENTATION
IMPACT OF CONTAINER CASH DEPOSIT REQUIREMENT IN KENYA
The Case of Private Sector Firms in Rwanda

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Private Sector Federation - Rwanda

The USAID East Africa Trade and Investment Hub (the Hub) boosts trade and investment with and within East Africa. It does this by deepening regional integration, increasing the competitiveness of select regional agricultural value chains, promoting two-way trade with the United States (U.S.) under the African Growth and Opportunity Act (AGOA) and facilitating investment and technology to drive trade growth intra-regionally and to global markets. The Hub supports the U.S. Government's presidential Trade Africa and Feed the Future initiatives. It is funded by the U.S. Agency for International Development (USAID). www.eatradehub.org

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ACRONYMS AND ABBREVIATIONS

ADR	Rwanda Freight Forwarders Association
EAC	East African Community
GoR	Government of Rwanda
KPA	Kenya Ports Authority
RPSF	Rwanda Private Sector Federation
RWF	Rwanda Francs
UNESCAP	United Nations Economics & Social Commission for Asia & the Pacific

ABOUT THE STUDY

Containers are valuable assets to shipping liners. The price of a container fluctuates depending on geographical location, market demand and the build of the container itself[1]. A new standard 20-foot container can cost more than USD 3,000; a standard 40-foot container may cost USD 4,000.[2] To protect its resources, shipping liners demand container deposits before releasing containers to consignors or freight forwarders. The risks associated include theft, damage, abandonment or detention for prolonged periods.

Rwandan companies pay shipping liners RWF 1.3 million for each 20-foot container; the amount doubles for a 40-foot container. This adds to the cost of consumer goods and the cost of doing business. The 13th Northern Corridor Integration Projects Heads of State Summit held in April 2016 directed the Ministers responsible for Finance and Trade to ensure that shipping liners and insurance companies finalized and signed an agreement on elimination of cash deposits for containers; however, this requirement still persists. Following consultations in 2016 between various actors, the Government of Rwanda (GoR), Rwanda Private Sector Federation (RPSF), UAP Insurance Rwanda and Kenya Ports Authority (KPA) held negotiations with shipping liner agents in Nairobi & Mombasa in February 2017. The objective of the negotiations was to consider a proposal by UAP Insurance for container insurance guarantees rather than cash deposit guarantees. To-date a few companies have bilaterally engaged with UAP Insurance while many continue to suffer the impact of the cash deposit requirement as they do business in the region.

To highlight the impact of these container charges, the USAID East Africa Trade and Investment Hub produced the following case study focused on Rwandan companies. The study demonstrates the need for a solution to the cash deposit requirement in order to reduce the cost of doing business. The study reveals long administrative time gaps between claim submission and deposit recovery that impact on business cash flow and adds financial burdens, particularly to smaller freight forwarders. It also leads to an increase in operational costs that are ultimately passed on to consumers. The study further reveals how the utilization of a guarantee scheme has enabled some of the firms to reduce costs.

The study recommends: 1) The RPSF, Rwanda Freight Forwarders Association (ADR) and container freight stations in Kenya to expedite the negotiation process for container insurance guarantees; 2) Shipping companies streamline administrative procedures for the collection and recovery of deposits as an approach to foster a more balanced, transparent and expedient business environment for all parties and 3) Freight forwarding firms in Rwanda explore using annual guarantee deposits with insurance companies even before a collective agreement is reached.

[1] UNESCAP 2015 Policy Brief: The Requirement of Container Deposit.

[2] http://www.shippingcontainers24.com/for-sale/costs/

OVERVIEW

East African Community (EAC) customs laws bar Partner States from introducing measures inconsistent with their trade-boosting commitments to the free movement of goods in the region. While Partner States continue to work towards elimination of Non-Tariff Barriers (NTBs), measures continue to arise that affect cross-border trade. Such measures and barriers that affect intra-regional trade in goods take various forms. Container cash deposits are a requirement by container freight stations in Kenya that pose a barrier to Rwandan traders whose goods are shipped from Mombasa to Rwanda.

Stakeholders engaged in trade wish to resolve this barrier of container cash deposits using insurance that can cover the risks associated with the containers. Since 2014, there have been negotiations between relevant public and private stakeholders in both Rwanda and Kenya, but no ostensible remedy has been reached, despite the fact that the Heads of States of the concerned Partners States have asked for the issue to be resolved[3]. The measure remains a source of high operational costs to Rwanda businesses engaged in intra-regional trade in goods.

CONTAINER CASH DEPOSIT REQUIREMENT

An importer wishing to ship goods in a container from Mombasa to Rwanda must identify a freight forwarding company in Rwanda that can carry out the shipping assignment. The owner or importer makes a cash deposit with the Rwandan freight forwarding company which in return will liaise with its agent in Mombasa. The cash deposit made by the importer is used by the Rwandan forwarding company agent located in Mombasa to make a container deposit with a container freight station in Mombasa. Thereafter a container, property of the container freight station, is delivered to ship the importer's goods from Mombasa to Rwanda.

The importer is refunded the deposit in full only when the container is returned to the freight station in Kenya, less any accrued demurrages and damages. Importing companies confirmed that it takes three to five months for refunds to be processed.

Goods delivery from Mombasa to Rwanda takes two weeks on average, a period which the companies forming part of this study confirmed is a long time. Often, when the imported goods reach Mombasa the companies may not have available cash to make container cash deposits. It can take an additional two to four weeks to actually make the container cash deposits. Thus, some products may expire even before they get into the Rwanda market.

In 2014, *the East African* reported that the high cost of moving cargo through Kenya is pushing most East African traders to Dar es Salaam despite reforms that have significantly raised efficiency at the port of Mombasa. Traders based in Kigali pay less to move goods from the port of Dar es Salaam through Tanzania's Central Corridor than from Mombasa Port through Kenya's Northern Corridor. In 2014 it cost USD 4,800 to transport a standard 40-foot container cargo through the Northern Corridor to Kigali from Mombasa Port. The same container transported through Dar es Salaam would cost USD 4,300 to

3 The 13th Northern Corridor Integration Projects Heads of State Summit held in April 2016

Kigali[4]. This, in addition to the requirement for container cash deposits makes Mombasa Port less competitive.

The Mombasa Port container cash deposit requirement (USD 2,000 to 4,000) appears to be much higher compared to other countries.

Country overview: container deposit requirements for imports

Country	Requirement of container deposit	Recovery of container deposit	
		Administration	Frequent reasons for deductions
Bangladesh	No container deposit. Liners require letter of indemnity on Tk. 300 (US$5) government stamp for container release. Container value in case of complete damage or repair cost payment in case of repairable damage is stipulated in the letter. Average delay time between finalizing deposit payment and container pick-up is 1- 2 days maximum.	N/A	N/A
Cambodia	Container deposit of USD100 for 20' and USD400 for 40'; 1-2 days for paperwork and 5 days average delay time between finalizing deposit payment and container pick-up.	Receive refund one day after returning container while some liners take at least 1 week.	Cleaning, damage, demurrage and detention
China	No container deposit but detention deposit is required. USD300 for 20' and USD500 for 40'. Letter of guarantee to ensure customer paying detention charges should the deposit is insufficient.	5 to 10 free days depending on container type, loading and discharging port. Dentention charges is usually around USD3-15 per unit per day.	N/A
Hong Kong SAR, China	Not required	N/A	N/A
Malaysia	Container deposit charges around USD60. Major customers may be exempted from deposit. Some liners charge compulsory insurance premium in lieu of deposit. Collective guarantee under SFFLA TOR Scheme available within the state of	Refund mostly within 2 weeks. Maybe longer.	Cleaning and damage repair
Myanmar	No deposit for Yangoon area. Some liners accept letter of guarantee. Outside Yangoon area, some liners or operators charge USD1000 in cash.	Full refund if container is OK according to IICL minimum standard.	N/A
Singapore	Not required	N/A	N/A
Sri Lanka	Container deposit for standard 20': USD40, 40': USD82. For heavy cargo, 20' USD112 and above or 40': USD 225 and above.	Within 30 days for reputable liners and up to 60 days when it is a NVOCC or slot	Cleaning
Thailand	Container deposit for standard 20': USD60, 40': USD120. Same rates apply for exports from 3rd country.	Refund processing from 2 weeks to 2 months	Cleaning and damage repair

Source: UNESCAP

THE CASE OF PRIVATE SECTOR FIRMS IN RWANDA

CASE STUDY 1: BAZIZANE LTD

Bazizane Ltd is registered as a Rwandan importation and distribution company. Based on interviews, when the company intends to import goods, it makes out a cash deposit with a Rwandan freight forwarding company. The cash deposit varies between USD 2,000 and USD 4,000 per container depending on the size of the container and the nature of the goods.

The company imports a minimum of two containers per month. For each container returned to the container freight station in Kenya, it has to wait three to five months to obtain a refund. This extensive duration affects the company's cash flow; cash that is part of its capital, held up as deposits by the freight station in Kenya. The perpetual state of deficient cash flow affects the company's ability to clear consignments arriving at the Mombasa Port. In instances where the company experiences delays in securing the cash

[4] http://www.theeastafrican.co.ke/news/High-costs-in-Kenya-push-traders-to-Dar-port/2558-2426106-view-printVersion-128weldz/index.html

deposit, products may expire even before they get into the Rwanda market. Ultimately, this leads to a reduced volume of imports and an eventual loss in business.

Negotiations with UAP Insurance Rwanda resulted in the position that Bazizane Ltd would contribute a premium of USD 1,000 annually instead of a cash deposit of USD 2,000 - 4,000 per container. In effect, the company would potentially save at least USD 47,000 annually.

CASE STUDY 2: ERI-RWANDA LTD

Eri-Rwanda has been operating in importation for the last six years. For all its imports from Mombasa, the company has to pay the container cash deposits through a forwarding company in Rwanda.

According to the company, it makes imports through approximately 230 containers annually via Mombasa Port. For each of those containers, the company makes a deposit that varies between USD 1,000 and USD 4,000, based on the size of the container. Consequently, it spends between USD 230,000 and USD 920,000 annually in cash deposits.

As a result of the cash deposit requirement, the company experiences challenges in securing cash deposits on time. This results in delays in product delivery affecting sales and loss of business over time.

CASE STUDY 3: T 2000 LTD

T 2000 is a Chinese company with a Rwandan-registered branch. The company imports several kinds of goods through Mombasa Port and uses approximately 300 containers annually. The more the company imports, the more it makes container deposits that are difficult to refund, resulting in business losses. Since the requirement for container deposits delays the shipment of goods, the company has made some losses: food products in boxes such as sardines, sauces, juices and lotions expire before or immediately after arriving to company stores in Rwanda.

As a way around the issue, the company entered into a contract with UAP for some of its container shipments to Rwanda. The company now only pays container cash deposits for shipments that are not done through the utilization of the UAP contract. Those shipments continue to cause business losses because of slow deposit refunds.

Currently, the company imports at least 120 containers per year under the UAP agreement. If the company were to pay a USD 2,000 cash deposit per container, it would cost USD 2,400,000. Instead, the company is now only paying USD 3,000 as an annual guarantee deposit for the 120 containers annually imported under the UAP agreement.

The Rwanda private sector is optimistic that the issue of container deposits at the Mombasa Port will be resolved, as shipping liners such as Emirates, Gulf/ Evergreen, Oceanic Freight MSC and PIL are ready to work under a container guarantee deposit scheme.

Through the support of the USAID East African Trade and Investment Hub (the Hub), Rwanda's Private Sector Federation (RPSF) led container deposit guarantee negotiations. They sent a delegation to follow-up on negotiations regarding the Container Deposit Guarantee Agreement with Shipping Liners in Nairobi and Mombasa from February 8 – 9, 2017. They also held meetings with liner agents to discuss a proposal by UAP for an insurance guarantee rather than a cash deposit guarantee. Following negotiations on the Container Deposit Guarantee Agreement, insurance companies have agreed to work through insurance for containers.

To increase the movement of goods, capital and services, the Hub's trade policy and regulatory reform component improves the capacity of EAC Partner State actors to meet World Trade Organization (WTO) Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) Agreements. The Hub has supported Rwanda to adopt a TBT and SPS notification submission system and an ePing electronic alert system.

The Hub has partnered with RPSF to strengthen trade and regional integration, specifically through implementation of the EAC Common Market Protocol. Together the Hub and RPSF have:

- Organized a public private dialogue, in collaboration with the Rwanda Transport and Logistics Platform, to identify and address the existing NTBs that undermine the transport and logistics sectors of Rwanda within the realm of the EAC.
- Addressed the challenges faced by professions in negotiation and implementation of Mutual Recognition Agreements in Rwanda.
- Conducted training in advocacy and dialogue for the public and private sector on financial integration and Mutual Recognition Agreements.
- Led the Container Deposit Guarantee Agreement. Following negotiations on the Container Deposit Guarantee Agreement with shipping lines in Nairobi and Mombasa, insurance companies have agreed to work through insurance for containers. The purpose of the negotiations is to replace existing cash deposit guarantees for containers by insurance guarantees, lowering the cost of doing business in the EAC. A draft contract template has been agreed upon and awaits signature.

CONCLUSIONS & RECOMMENDATIONS

Container cash deposit requirements result in long administrative time gaps between claim submission and deposit recovery, which impacts on business cash flow and adds financial burdens, particularly to smaller freight forwarders in Rwanda. It also leads to an increase in operational costs that are ultimately passed on to consumers.

The requirement exacerbates the high cost of moving cargo through the Northern Corridor as compared to moving goods from the port of Dar es Salaam through the Central Corridor to Rwanda. This makes Mombasa Port less competitive.

This study recommends the following:

1. The RPSF, ADR and container freight stations in Kenya should expedite the negotiation process and final signature for the collective container insurance guarantee agreement;

2. Shipping companies and the Mombasa Port should streamline administrative procedures for the collection and recovery of deposits to foster a more balanced, transparent and expedient business environment for all parties; and

3. Freight forwarding firms in Rwanda should explore using annual guarantee deposits with insurance companies even before a collective agreement is reached.

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