TANZANIA

TRADE SUMMARY

The U.S. trade surplus with Tanzania was $38 million in 2002, an increase of $1 million from 2001. U.S. goods exports in 2002 were $62 million, down 2.7 percent from the previous year. Corresponding U.S. imports from Tanzania were $25 million, down 11.0 percent. Tanzania is currently the 128th largest export market for U.S. goods.

During the past several years, the pace of efforts to reform and improve the country's trade and investment environment has quickened. A comprehensive privatization program for all sectors has been devised. Financial sector reform and privatization of the banks has been ongoing, with substantially the entire financial sector now in private hands. A local stock exchange opened in 1998 to assist in the privatization effort. The capital account will soon be liberalized further to allow foreigners to participate in the Dar Es Salaam Stock Exchange (DSE).

The availability of foreign exchange is now subject to market forces. In September 1999, the first Commercial Court of Tanzania was launched. The same year, Circular No. 8 on money laundering control became effective with the aim of guiding banks and financial institutions on uncovering, reporting and controlling money laundering. In February 2001, the Tanzanian government launched a national micro-finance policy that lays out principles to upgrade services through efficient and effective micro-finance systems. The Management of Risk Assets Regulations came into effect on May 1, 2001. However, governance issues have hindered the reform program and have had a dampening effect on investment. More progress is required to further streamline and regularize customs procedures and to rationalize the tariff structure, especially the lowering of some tariff rates. The Government has nonetheless decided to pause its trade liberalization measures for fear that its fledgling industries will be overwhelmed by foreign competition.

Duties and taxes on international trade are administered by the Customs and Excise Department of the Tanzania Revenue Authority (TRA). These include import duties, excise and value added taxes, and suspended duties (additional duties) on certain imported goods to address dumping practices. Tanzania grants most favored nation (MFN) treatment for customs and tariffs to all its trading partners.

IMPORT POLICIES

Import duties and a value added tax (VAT) are levied on all Tanzanian imports, unless otherwise exempted. Drugs used to combat HIV/AIDS, malaria, and tuberculosis are fully exempted from all duties and taxes.

Import duties are levied at an *ad valorem* rate on the c.i.f. (cost, insurance and freight) value of goods imported into the country. The current rate structure has four tariff bands: zero, 10 percent, 15 percent and 25 percent. Tanzania previously had a five-tier tariff rate structure.

The zero percent rate applies to agricultural tractors, inputs for agriculture, animal husbandry and fishing, human and livestock pharmaceuticals and medications, motor vehicles in disassembled form, and inputs for manufacturing pharmaceuticals. The zero percent rate also applies to raw materials, capital goods, replacement parts, and computers. Ten percent is charged on semi-processed inputs and spare parts other than for motor vehicles. The 15 percent rate is charged on fully processed inputs and motor vehicle spare parts. The 25 percent rate is charged on final consumer goods.

The Value Added Tax Department of the TRA administers the VAT, as well as some internal taxes and levies such as stamp duty, motor vehicle registration fees, and port and airport departure service charges. The VAT is levied according to the provisions of the 1997 Value Added Tax Act. Since its introduction in July 1998, the VAT has remained unchanged at the flat rate of 20 percent. A number of goods are exempt from the VAT, including exports, drugs used to combat HIV/AIDS, malaria, and tuberculosis, computers, printers and accessories, ground transport operated by tour companies, milk packaging materials, capital goods for education projects, and locally produced yarn.

VAT exemptions for the government and its institutions have been abolished. However, exemptions remain for goods and services for projects that are financed by donors and charitable organizations under the existing law and special agreements. VAT exemptions may also apply on capital goods for importers who hold incentive certificates from the Tanzania Investment Center (TIC). Some agricultural equipment also may qualify. A new "gaming tax" has been introduced, and the VAT currently paid on games of chance has been removed to simplify collection of the new tax.

Excise duties are charged at specific or *ad valorem* tax rates on certain imported and locally manufactured consumer goods. Specific excise duties are charged on imported petroleum products, cigarettes, wines and spirits, beer, and soft drinks. The *ad valorem* excise duty rates are 10 percent for sedan cars and certain four-wheel drive vehicles and 30 percent for other excisable goods, mostly consumer luxuries such as cigars and liquor. The excise duty on wine produced with locally grown grapes has been reduced, and rates have been adjusted on such petroleum products as liquefied petroleum gas, motor spirit premium, motor spirit regular, jet fuel, illuminating kerosene, gas oil, industrial diesel oil, and heavy furnace oil.

Few restrictions exist regarding the source of raw materials and where products may be sold. Notable exceptions are textile and leather goods industries. The government of Tanzania (GOT) requires that investors use domestically produced cotton and hides unless the cotton and hides produced domestically are not of the required quality.

Tanzania is a member of the Southern African Development Community (SADC) and the East African Community (EAC). The SADC Trade Protocol was implemented in September 2000 after ten member states, including Tanzania, deposited their instruments for implementation. Intra-SADC preferential tariff treatment will be phased in over a period of eight years establishing a SADC Free Trade Area by 2008. On January 15, 2001, the heads of state of Tanzania, Kenya and Uganda formally inaugurated the East African Community (EAC) in Arusha. The EAC member countries intend to harmonize their tariff and customs regimes and to enact a common external tariff (CET) by 2004. Already, much has been done through high level EAC task forces to address and resolve issues related to rules of origin, elimination of internal tariffs (based on the principle of asymmetry) and charges of equivalent effect. The only pending issues involve the establishment of a CET and customs procedures. Completion of the latter is expected by November 2003.

Customs Procedures

Tanzania began implementation of the World Trade Organization (WTO) Agreement on Customs Valuation (CVA) in January 2001. The CVA provides for a new system of valuing goods for customs purposes. CVA prohibits the use of arbitrary or fictitious customs values. With the introduction of CVA, all imports of commercial goods with a value of $5,000 or more are subject to inspection.

Tanzania continues to maintain its pre-shipment inspection (PSI) regime, and renewed its PSI contract with Cotecna, a Swiss firm, in 2001. Cotecna conducts quality and quantity inspections, determines customs valuation and classification, as well as import eligibility (checking for proper labeling and expiration date, and ensuring that an item is not a prohibited good) and payable duty and tax. While the Cotecna contract expires on December 31, 2002, it may be extended to cover the period until the TRA can implement destination inspection using container scanners. TRA plans to introduce destination inspection sometime in 2003.

The Customs Department and the Port Authority remain a great hindrance to importers throughout Tanzania. Unpredictable clearance delays and bribery are reportedly commonplace. Clashes among different departments frequently occur over issues relating to tax exemptions.

Private companies are allowed to engage in the business of clearing and forwarding imports, but must apply for a customs agency license from the Customs and Excise Department of TRA.

Import and Export Licensing

Trade liberalization introduced since the mid-1980s has eliminated most import and export license requirements. Import licenses are still required on goods deemed to be sensitive for health or security reasons (such as arms and ammunition, explosives, military equipment, and narcotic drugs). An import license is required from the Ministry of Agriculture and Food Security for livestock, meat and edible offal, live trees and other plants, and edible fruit, nuts, vegetables, roots, and tubers. The bank of Tanzania administers other import controls.

Trade liberalization since 1996 has included the removal of export registration, licensing, and surrender of export proceeds requirements. Ministerial clearance or permits are still required for goods that are monitored in order to protect the environment or national heritage. These include wildlife, forest products (only teak and pau rosa logs may be exported: other varieties must undergo some processing before export), marine products, and some food stuffs. Fish products are subject to landing requirements to obtain health certificates before exportation.

Following improvement in food supplies, the 1998 export restrictions on white maize, rice, cereals, and beans for purposes of national food security have been relaxed. Exports of such products have been allowed since 2002, although a permit must be obtained from the Strategic Grain Reserve in the Department of the Ministry of Agriculture and Food Security. There is also a ban on charcoal exports.

Exports from Tanzania must be paid in foreign currency (unless otherwise permitted by the bank of Tanzania) within 90 days for agricultural and natural resource products and 180 days for manufactured goods (unless advance arrangements are made with a commercial bank registered in Tanzania).

Tanzania intends to adopt legislation on antidumping and countervailing duties/safeguard measures in 2003.

STANDARDS, TESTING, LABELING AND CERTIFICATION

The Tanzania Bureau of Standards (TBS), under the Ministry of Industry and Trade, is charged with overseeing standards, labeling, testing, and certification. TBS is a member of the International Organization for Standardization (ISO) and the United Nations Food and Agriculture Organization. It serves as the contact point for the WTO Agreement on Technical Barriers to Trade and the Agreement on the Application of Sanitary and Phytosanitary Measures. There are no unusual requirements pertaining to standards, but a certificate of compliance must accompany every import consignment. The certificate fee is 0.2 percent of the cost and freight.

As of November 2002, there were 740 published Tanzanian standards, of which 500 have been adopted from international standards and 200 are compulsory. A new standard for secondhand or used clothing (mitumba) will be introduced in February 2003 after all members of the WTO, including the United States, have been notified. Other standards are typically based on European or other international norms. The British pharmacopoeia, for example, is used for pharmaceutical products. TBS recognizes testing procedures performed by counterpart entities in exporting countries. The Ministry of Agriculture and Food Security is responsible for phytosanitary regulations and zoosanitary inspections. Domestic and imported products are treated equally.

Labeling and packaging requirements are not harmonized in Tanzania. Regulating entities include TBS, the Tanzania Pesticide Research Institute, the Pharmacy Board, and the National Food Control Commission. TBS issues a Standard Mark of Quality to foreign and domestic producers alike.

GOVERNMENT PROCUREMENT

Government procurement regulations require that all purchases over $5,000 be made via open tender. The Central Tendering Board, located in the Ministry of Finance, is the responsible organ for administering procurements of $3 million or higher and reviewing procurements between $1 million and $3 million. Regional tender boards are responsible for tenders of less than $1 million. The Ministry of Works is responsible for procurement related to road and building construction.

Each relevant ministry reviews the technical qualifications of suppliers to determine an open list of pre-qualifiers that are permitted to bid on its contracts. Domestic bidders are given a 7.5 percent price preference in the final determination. Reports suggest that tenders frequently are awarded to uncompetitive firms in which government officials have a significant interest. The decisions on some significant government contracts, especially those involving medicines and military hardware, have lacked transparency. International donors, however, fund most major projects, and the procurement procedures of those organizations usually are employed. Tanzania is not a signatory to the WTO Agreement on Government Procurement.

EXPORT SUBSIDIES

Concessional credits have been available in limited quantities to exporters at various stages of export processing from a private commercial bank, the NBC (1997) Limited. This bank was formed by an act of parliament on October 1, 1997, following the split up of the former state-owned National Bank of Commerce. ABSA Group of South Africa purchased 70 percent of shares of the divested National Bank of Commerce through the national privatization trust, the Presidential Parastatal Sector Reform Commission (PSRC).

Subsidies supporting agricultural production have been removed. But since the 1995-96 agricultural season, concessional credit from the Agricultural Input Trust Fund has been available for the purchase of inputs. Input prices have been decontrolled and marketing monopolies eliminated. The Tanzanian government no longer imposes export duties or taxes.

INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

Tanzania is a member of the World Intellectual Property Organization (WIPO), the International Union for the Protection of Industrial Property (Paris Union), and the International Union for the Protection of Literary and Artistic Works (Berne Convention), and is a signatory to the Harare Protocol on Patents and Industrial Designs, the Banjul Protocol on Trademarks, and the Madrid Agreement on Trademarks. On September 14, 1999, Tanzania became a signatory to the Patent Cooperation Treaty. As a member of the African Regional Industrial Property Organization (ARIPO), it refers patent applications to ARIPO for preliminary and substantive searches and registration.

As of November 2002, the Tanzanian government has granted twelve patents. Under Tanzanian intellectual property law, patents are granted for ten years, renewable for two periods of five years each. Trade and service mark protection is granted for ten years, renewable thereafter for seven year periods. Copyright protection is for the life of the author (or surviving heir), plus 50 years. Applied art is protected for 25 years from the date of creation. Anonymously published and audio-visual works are protected for 50 years from the date of publication.

Copyright holders, however, have been unable to defend their rights due to the lack of well-defined property rights laws and inadequate law enforcement. Pirated videocassette recordings and unauthorized television and film shows can be found throughout the country, and Tanzania is a market for pirated recordings from third countries. The Government is committed to enforcing its intellectual property laws and is working with the Copyright Collective Management Association on enforcement issues.

To improve the legal framework for the defense of intellectual property rights, the Tanzanian Parliament passed the Copyright Act No. 7 of 1999. Among other things, this law covers artistic, literary, and broadcast copyrights. As a result, a copyright infringement is now a criminal offense. The Tanzanian government established a commercial division of the High Court of Tanzania in September 1999 in Dar Es Salaam with development assistance from the Danish government. The establishment of the Commercial Court is expected to enhance and promote the effectiveness and efficiency of commercial dispute resolution in all sectors. The Court has the authority to deal with intellectual property issues in a timely manner. As of November 2002, it had disposed of a total of 562 cases, including intellectual property cases, according to the Court's records. The average litigation time per case is four months.

SERVICES BARRIERS

Tanzania has opened its services sectors to foreign investment and participation. Significant progress has been made in the financial, telecommunications, and transportation service sectors. Tour and travel agent services are restricted to Tanzanian nationals. The financial sector has undergone significant reform. The Bank of Tanzania is responsible for the supervision and licensing of banks and other financial institutions. The new regulatory and supervisory environment of the financial sector has been modeled along the lines of the Basle Committee's core principles.

TANZANIA

The minimum capital requirement to open a commercial bank is one billion Tanzanian shillings. For a non-bank financial institution, it is 500 million Tanzanian shillings. The Bank of Tanzania is cooperating with other EAC countries to harmonize regional banking supervision.

The Bank of Tanzania works closely with other international institutions such as the International Monetary Fund (IMF), World Bank, Bank for International Settlements and others in the development and strengthening of the regulatory and supervisory framework in line with domestic and international best practices. The privatization of the National Bank of Commerce in March 2000 has enabled the bank to be fully involved in lending since 2000. The government is privatizing the remaining state-owned financial institutions, including the National Micro-Finance Bank Limited and the National Insurance Corporation (NIC). The divestiture of Bima Motors, a subsidiary company of NIC, was completed in January 2001. Tanzania Motors Assemblies Co. Ltd purchased 100 percent shares in Bima Motors and is now looking for a joint venture partner in the United States.

Insurance is regulated by the Insurance Act of 1996, which also ended the government monopoly of this sector. Responsibility for insurance industry supervision now rests with the Insurance Supervisory Department, a semi-autonomous government executive agency operating under the Ministry of Finance. There are now ten actively operating insurance companies in Tanzania. There are 38 insurance brokers and 296 insurance agents. The Insurance Act requires that at least one-third of the controlling interest of any insurer be held by Tanzanian citizens. No such restriction applies to brokers or agents. The Act also allows for the creation of a national reinsurance corporation in which all local insurance companies would be required to participate. Efforts are being made by the government to create such a corporation. Reinsurance is mostly placed outside the country because the only reinsurance services currently available in Tanzania are provided through the Department of Reinsurance of the NIC.

Since 1993, the government has moved to liberalize the telecommunications sector. New licenses have been issued for basic telephone services (for Zanzibar), data communications, mobile cellular telephone service, other value-added services, and equipment importation. The Tanzania Communications Commission (TCC) regulates the sector and issues type approval but, in practice, International Telecommunications Union (ITU) standards are applied. The privatization of the telecommunications parastatal, Tanzanian Telecommunications Corporation (TTCL), was finalized in February 2001 with the government of Tanzania retaining 65 percent of the shares. Fifty-one percent ownership is permitted in non-basic services, although license applications are subject to 35 percent local participation. Tanzania has not made any specific commitments in the WTO with respect to telecommunications.

The government is also restructuring the transportation sector. New legislation is being prepared to set standards of performance and safety, preserve infrastructure, and protect the environment and consumers against monopolistic practices. Immediate goals involve the sale of one of the state-owned railways, the national airline, airports, and portions of the harbor authority. Tanzania does not have a national maritime fleet. Domestic air services have been deregulated. Foreign entities are not restricted from establishing and providing aviation and air cargo services, except for cabotage. In 1999, the United States and Tanzania signed the first-ever Open Skies Agreement involving an African country, providing for unrestricted air service to, from, and beyond each country's territory.

Foreigners are only allowed to operate a travel agent business in a joint venture with local investors. The Hotel Act of 1963 and the Tourist Agency Licensing Act of 1969 are the major laws regulating the tourism sector in Tanzania, and the tourism agency licensing board is the regulatory body. In addition to restrictions applied to non-Tanzanians, quantity restrictions exist with regard to tour operators in the country. The Tanzanian government requires foreign investors to own at least ten new vehicles valued at $300,000. All vehicles must be registered under the company's name. The requirement adds unnecessary costs to foreign tour operations, ties up a significant amount of capital, and discriminates against foreign investment.

TANZANIA

INVESTMENT BARRIERS

The Tanzania Investment Centre (TIC) was established in 1997 by the Tanzania Investment Act No. 26 of 1997 to be the primary agency of the government to coordinate, encourage, promote and facilitate investment in Tanzania and to advise the government on investment-related matters.

With few exceptions, 100 percent foreign ownership is permitted in most sectors. Ownership of land is still subject to restrictions, but the government is implementing a 2000 law that allows for the long-term lease of government land, such as large farms and ranches, to private entities, including foreigners. Occupation of land by non-citizens is restricted to lands for investment purposes under the 1997 Tanzania Investment Act. Under the 1999 Land Act, a foreign investor may occupy land through: derivative rights; application to the Commissioner for Lands for a grant of right of occupancy; sub-leases from private sector; licenses from the government; or purchase of a granted right of occupancy from other holders.

Land designated for investment purposes is normally identified, gazetted, and allocated to the TIC, which creates derivative rights to investors. As of November 20, 2002, the TIC had gathered three million hectares of land for interested incoming investors as a means to attract investments, particularly in the agricultural sector. A separate law applies to the petroleum and mining sectors and addresses the payment of royalties. Those sectors are open to foreign ownership.

Gemstone Mining Requirements

The Tanzanian Government requires foreign investors in the gemstone mining sector to form joint ventures/partnerships with nationals to obtain licenses. However, foreign investors may own mining licenses for the exploitation of other minerals without local partners or joint ventures.

Personnel Requirements

The Tanzanian government allows foreign investors to employ a maximum of five foreign expatriate workers, except in the mining sector. A firm hiring expatriate workers beyond the quota must prove that it has failed to fill the positions with Tanzanians. In addition, the Labor Commission requires investors to create a training program that will enable Tanzanians to eventually replace the foreign employees. This restriction limits the ability of foreign investors to minimize their operating costs, making them less competitive internationally.

In 1997, the Government updated the 1990 Investment Code and established the TIC. The TIC has no authority to deny an investment, but does determine whether an investment qualifies for incentives. Incentives are available to all foreign investors wishing to invest more than $300,000 in the country. Local investors are only required to commit $100,000 to be eligible. Investments in leading sectors including infrastructure and export processing zones can import capital goods duty-free. Investments in priority sectors are allowed to import capital equipment subject to a preferential five percent duty. Priority sectors include agriculture, aviation, commercial construction, export-oriented projects, manufacturing, natural resources, rehabilitation and expansion, tourism and tour operators, broadcasting, human resource development, and designated special development areas. Both leading and priority sectors benefit from deferment of VAT charges until the start of operations, a five-year tax holiday, and a 100 percent capital allowance deduction during income earning years. Enhanced incentives are available from various ministries for “strategic investments,” a concept which has yet to be fully defined. Currently, only sugar is considered a strategic investment.

Despite investment code reform, the TIC still finds it difficult to perform its duties effectively because of overlapping laws and regulation. On several occasions, TIC approvals have been rejected by other institutions within government, especially the TRA and the immigration department. The TIC will assist all investors in obtaining necessary permits and authorizations required by other laws.

The archipelago of Zanzibar has separate investment provisions, which are stipulated in the Investment Act of 1986. One hundred percent foreign ownership is allowed in most sectors in Zanzibar. However, some restrictions exist in the small retail, tourist operations, and small-scale fishing sectors.

Tanzania is a signatory to the convention establishing the Multilateral Investment Guarantee Agency (MIGA) and is a member of the International Center for the Settlement of Investment Disputes. It has bilateral investment treaties with Germany, Netherlands, Switzerland, and the United Kingdom, and double taxation treaties with Denmark, India, Italy, Norway, Sweden, and Zambia.

Privatization Program

Tanzania's privatization program is overseen by the government's Presidential Parastatal Sector Reform Commission (PSRC), and privatization of state-owned firms is progressing. The focus during 2002, as in the previous year, continued to be on utilities, infrastructure and large commercial enterprises. Major transactions in progress include the Tanzania Railways Corporation, Tanzania Harbours Authority, Tanzania Electric Supply Company, the NIC and the National Micro-Finance Bank. The identification of winning bidders for the national airline, Air Tanzania Corporation and the Dar Es Salaam Water and Sanitation Authority was concluded by the PSRC on December 14, 2002. Investors are now being invited for the sale of Mikumi Wildlife Lodge, among other opportunities.

The PSRC has a legal mandate to complete the parastatal reform program by 2003. Its scope of work was expanded to cover the initial development of the regulatory institutions in order to monitor the utilities and infrastructure firms upon privatization. The PSRC in some cases requires foreign investors acquiring formerly government-owned firms to form joint ventures or share the ownership of the company with local nationals at pre-determined proportions. Likewise, when privatizing major utilities, the Tanzanian government requires foreign investors to form joint ventures or co-own the utility with nationals.

When it was established in 1993, the PSRC listed 395 parastatal corporations for privatization over a period of five years. At the end of June 2001, a total of 326 divestiture transactions had been completed, divesting 243 units and disposing of 83 non-core assets. The units were divested either by joint ventures between local and foreign investors, outright sales, or by leases and liquidations.