This work is licensed under a
Creative Commons
Attribution – NonCommercial - NoDerivs 3.0 Licence.

To view a copy of the licence please see:
http://creativecommons.org/licenses/by-nc-nd/3.0/

(832)
(a) UNIVERSITY OF NAIROBI
(b/) Institute for Development Studies
Working papers

INSTITUTE FOR DEVELOPMENT STUDIES
UNIVERSITY OF NAIROBI.

LIBRARY
10 FEB 2011
INSTITUTE OF
DEVELOPMENT STUDIES

Working Paper No. 90

# IMPORT LICENSING IN KENYA

by

DAVID S. MACRAE

March 1973

Any views expressed in this paper are those of the author. They should not be interpreted as reflecting views of the Institute for Development Studies or of the University of Nairobi.

IDS
095546

I.D.S. Working Paper No.90

# IMPORT LICENSING IN KENYA

by

DAVID S. MACRAE

ABSTRACT

This paper gives an account of how the import licensing system in Kenya has developed up to and including the introduction of foreign exchange allocation licensing in December, 1972.

This means by which different categories of imports are treated by the authorities are outlined and the theoretical implications of import restrictions discussed. It is postulated that import licensing is the major means of protecting local manufacturers in Kenya. So the appendix tables indicate the import licensing system has evolved to cover a large proportion of imports entering Kenya.

The paper is primarily descriptive and contains no results of empirical work related to this topic.

The import licensing system as it exists today is part of a complex array of controls and restrictions which has evolved over the last ten years. Until recently, when the administration of the system was drastically revised, imports entered Kenya either freely under Open General Licence (O.G.L.) or required a Specific Import Licence from the Department of Trade and Supplies at the Ministry of Commerce and Industry.

The 1962 Imports, Exports and Essential Supplies Act (Laws of Kenya, Chapter 502) lays the legal foundations of the system although import controls were an essential feature of trade policy throughout the colonial period. The Act gave the Governor the power to appoint a Director of Trade and Supplies, a Deputy Director of Trade and Supplies and so many assistants as he may deem necessary in order to supervise the system. The Director was to be given the freedom to delegate his powers, duties or functions but it was left to the Minister to decide which commodities were to be affected and in what way and these powers were non delegatable.[1]

The Act also gave the authorities the power to require returns, to enter and search premises under warrant and powers of entry and seizure. Contravention of the Act made the offender liable to a fine not exceeding 10,000 shs or imprisonment for up to two years. It was left to the absolute discretion of the Director to either grant or refuse to grant a licence for the importation of goods falling within the powers of the Act and he was also given the freedom to vary or cancel the terms of any licence already granted and to restrict their transfer.

---

1. Section 4(1) of the Act expresses the Minter's role formally: "Whenever from time to time it appears to the Minister, after consultation with such persons as appear to the Minister to represent commercial and industrial interests in Kenya, to be necessary in the public interest or for the observance or performance by the Government of any of its obligations in respect of external affairs so to do, he may by order either prohibit absolutely or restrict, by means of such conditions and limitations as may be specified in the order, the exportation or importation of all or any specified goods or class or description of goods either generally or to or from any specified person or class of persons: Provided that the Minister may dispense with such consultation as aforesaid in any case which appears to him to be too urgent to permit of such consultation.

Importers were given the right to appeal to the Minister against the decisions of the Director and in such cases the Minister's decision was final.

This Act, although periodically modified, has never been revoked, and is the legal basis of the control of goods by the Ministry of Commerce and Industry. Every import licence must specify the names of both the receiver and sender of the imported items and the conditions and limitations placed on the importation.

In the 1962 Act the items which were to be affected by licensing were organised under three schedules. The first schedule consisted of a list of fourteen countries[2] the importation of goods originating in or exported from which was prohibited except under and in accordance with a licence granted under the Act Eleven of these were members of the Socialist Block, plus Japan, Iran and Iraq.

The second schedule contains a number of items, listed by their SITC codes, which would in future only be imported under licence. A large proportion of these were foodstuffs. The list also included salt, animal and vegetable oils, shoe polish, sacks, cement, jewellery, matches and gold.

The Third Schedule also contains a collection of items listed by SITC codes and in these cases specifies the countries of origin from which these items would in future be restricted. Imports from Japan of bicycle tyres and tubes, cement, clothing and footwear were included plus imports from all countries of sorghum, beans and shoe polish. These were the only items from Tanzania and Uganda to come under the terms of the Act. All other imports from Partner states and commodities not included under any of the three schedules were permitted to enter Kenya under an Open General Licence subject to such conditions as the Director would from time to time impose. It was also left to the discretion of the Director to decide upon the degree of alteration necessary for a good to have received in a particular country for it to be deemed as originating from that country. This was to prevent, say, Japanese clothing imports from entering via a third country under the guise of having been produced there rather than in their country of manufacture.

---

2. i.e.,: Albania, Bulgaria, Czechoslovakia, East Germany, Hungary, Iran, Iraq, Japan, North Korea, North Vietnam, Poland, Rommania, The Peoples Republic of China. The USSR, Iran and Iraq were deleted in 196[illegible].

The changing coverage of the licensing system through the years is recorded in a series of legal notices published in the Gazette. Changes have been frequent and of varying significance. As might be expected a fundamental change followed independence in 1964[1] when the coverage and purpose of the system were revised. More than fiften per cent of the net home consumption would have been affected in 1964 had the revision occurred at the beginning of that year. A number of manufactured items were added, fuels and lubricants were included for the first time, and the numbers of foodstuffs increased.

During colonial times the system was primarily regulatory: to keep a check on what was coming into the country, and to direct trade in what were considered to be desirable directions. Following independence regulation continued to be a function and the system was also involved in the execution of discriminatory trade policies, (e.g., the restrictions on imports from Japan in order to correct an adverse trade balance with that country). But in addition the desire to industralize gave the system a protective role so much so that today virtually every item that is locally manufactured is imported, if at all, then under licence.

The schedules under which items have been organised for treatment have changed since the 1962 Act. From 1964 to 1972 affected commodities were organised under three schedules. Items appearing under the First schedule were only to be imported from places other than Uganda and Tanzania under and in accordance with an import licence. These appearing under the Second Schedule required a licence wherever they originated. These under the Third Schedule required licences if imported from Tanzania and Uganda otherwise than by or to the order of the Kenya National Trading Corporation (KNTC).

The second substantial increase in the number of commodities falling within the licensing system occurred in November 1968[1]. Looking only at the effect on external trade, at least thirty five per cent by value of net home consumption would have been affected had the extended controls been operative from the beginning of the year.

1. Legal Notice No.341 of 2nd November 1964.
Legal Notice No. 348 26th November 1968.

Appendix A lists the externally traded items, according to their six digit S.I.T.C. codings, which have been affected by licensing through the years 1962 to 1972. S.I.T.C. Section four and nine (animal and vegetable oils, and commodities not classified according to kind) are the only sections not to have experienced a general increase in the numbers of items affected through the years. The progressive rise in the number of items under licence is particularly noticeable in Section six, and to a lesser extent in Section eight (i.e., manufactured goods).

Most of the imports from Partner States which require licences pass through the K.N.T.C. The Kenya National Trading Corporation was established in 1965 as a subsidiary of the Industrial and Commercial Development Corporation (I.C.D.C.) with the main purpose of promoting the specialization of commerce. Confinement of products to it applies in principle to both imported and locally produced goods but in practice it has proved difficult to enforce this with respect to locally produced goods. Some of the products confined to K.N.T.C. can only be handled by citizen traders. In addition the K.N.T.C. is free to handle items not legally confined to it. It buys certain items such as sugar and cement which are then sold to wholesalers who are appointed distributors for K.N.T.C. products. About sixty percent of K.N.T.C. turnover is in these products. For the remaining products the K.N.T.C. appoints agents who are responsible for the importation and sale of these goods and pay a commission to the K.N.T.C. for the privilege.[1]

Appendix B gives estimates of the proportions of net home consumption affected by specific import licensing in value terms for each year from the schemes, inception in 1962 to the end of 1971. These are only approximate. Estimates of the fractions of certain six digit groupings have been made where the legal notices specified only a part of the total and the net home consumption totals are calculated as if all the legislation enacted during a year was in operation from the beginning.

---

1. For a full discussion of K.N.T.C. and its sister bodies in Partner States see D.P. Ghai: "State Trading and Regional Economic Integration: the East African Experience". I.D.S. Discussion Paper No.145.

It could be argued that one would have a truer reflection of reality by including for a particular year items brought into the system only up to the start of the year especially in view of the lag between the official legal declaration of a control and its subsequent enforcement. Thus the percentages are a systematic overstatement of the true situation. A further criticism of the calculations could be made which is an inherent weakness in the drawing up of trade statististics according to the S.I.T.C. directions. Six digit S.I.T.C. groups also contain imports of components for the made up manufactured items listed as being included in the groups. Motor vehicle batteries, S.T.C. code 729 121 are imported on the approval of local manufacturers. Many are barred but this does not extend to their components which are used by the manufacturers themselves and imported freely. Thus the estimated totals will overstate the extent of the measures even further.

Despite these criticisms the summary tables do serve to indicate the broad extent of the system. 1968 is the peak year in percentage value terms for net home consumption affected by import licensing. The figure declines thereafter from around 38% down to around 19% for 1971. Sections four and nine (animal and vegetable oils and miscellaneous manufactures) are the only classes of goods not to have experienced a general increase in the numbers of item affected through the years. The tendency has been for an item once placed on a schedule to stay there. . The progressive rise in the numbers of items under licence and the value of net home consumption affected is particularly noticeable for manufactured goods in section six and to a lesser extent in section eight.

Total net home consumption grew steadily from 1962 to 1969 from around K£ 63 million to K£ 96 million. In the following two years it shot up to K£ 154 million. During this time the proportion of the total imports licensed declined in value terms. It would be wrong to conclude from this that licensing was itself responsible for this. Items selected for licensing are characteristically produced domestically and local production of these items could well have increased independently of licence protection. Secondly, the total demand for licensed items may not have grown as fast as for imported items as a whole.

The incidence of licensing on net home consumption

is biased away from imports of intermediate goods which are not produced locally. This is indicated in the section tables of Appendix B with only small estimated percentage value totals for sections two, five and seven. Imports of foodstuffs have been affected to a substantial degree as have fuels since the Mombasa refinery came on stream. The incidence of licensing in sections one, four, six and eight regulates the inflow of goods which are potentially competitive with locally produced goods.

The prime function of the licensing system has been to protect local industries. The direction of certain categories of imports through the K.N.T.C. is in accordance with a secondary function; namely to assist in the Africanization of the import trade. The licensing officers do not themselves discriminate in favour of Africans in the granting of licences and in certain cases the means by which licences are allocated would tend to work the other way. It is left to the K.N.T.C. to carry out the Africanization policies of Government.

A major reason for primary producing countries to industrialize is the desire to reduce the demand for foreign exchange to pay for imports of consumption goods. In this way it is hoped to release foreign exchange for the development effort. The way in which many developing countries have tried to do this has led to inward looking industrial sectors unable to survive without continued protection. Import substitution policies have been extensively criticised elsewhere[1] and there seems little need to go over the familiar ground here.

It has been suggested that the conservation of foreign exchange has recently become a function of the licensing system. In a sense this has been true all along in so far as it is the important tool for promoting import substitution. Wherever domestic production can be seen to replace imports then there is a foreign exchange saving at least in the first round[2] But foreign exchange conservation is not a consideration of the licensing administration but of Exchange Control at the Central Bank.

In recent years the way in which items have become subject to specific import licensing is as follows. The Director

1. e.g., the seven country studies summarised in Little Scitovsky and Scott: "Industry and trade in some developing countries". OECD Development Centre 1970. John H. Power: "Protection in industrialization policy with particular reference to Kenya". East African Economic Review Vol.4 No.1 June 1972.

2. i.e., neglecting the possibility of negative value added and disruptive inter-industry effects.

of Industry at the Ministry of Commerce and Industry receives and carries out the initial investigations of applications for protection from manufacturers of particular items. Worthy cases are then referred by him to the Industrial Protection Committee which decides whether licence protection is to be given. The committee consists of representatives of the various ministries (Agriculture, Finance and Pleanning. Commerce and Industry etc.) and people sitting in an advisory capacity. Their job is to assess the full implications of protecting a particular sector on the economy as a whole. They also issue instructions as to the exact nature of the restriction to be applied by the licencing officers on the items described. The Director of Trade and Supplies supervises the carrying out of these instructions and applications for specific import licences are processed by the import licensing officers who work under him.

Licensing Restrictions on Imports.

Much of what follows in this section is a summary of the procedures which the Department of Trade and Supplies adopts towards imports which require specific import licences. These are laid down in the import procedures file which was issued in December, 1971 for the use of licensing officers. Most of these restrictions were operative before then but not necessarily at the levels prescribed. Since then the most important change has been the quota restrictions on those items falling under schedule C in accordance with the directive from the Central Bank. In some cases these items were already subject to more stringent restrictions in which case Exchange Control Circulas No.1/1972 makes no difference.

Applications of import licences are treated in five basic ways: price range restrictions, quantitative restrictions, reference to specific bodies, reference to the K.N.T.C. and outright bans. A particular item my be subject to more than one form of restriction at the same time.

Price range restriction are common on manufactured items. Soaps, bicycle tyres and tubes, textiles, tableware, razor blades, radios, clothing and footwear are the main areas affected.

In each of these cases imports are only allowed in if unit prices exceed a specified level. They effectively grant absolute protection to local manufactures from directly competing goods if the threshold price is set correctly. In several cases a price range restriction is combined with a quantitative restriction relating to import performance in some base period e.g., razor blades where imports are permitted at twenty five percent of the 1966 level when their price is over thirty shillings per one hundred, and vests, singlets and tee shirts which are price range restricted with imports not exceeding seventy five percent of the 1964 level.

Certain items are referred to specified bodies before an import licence is granted. The Ministry of Agriculture must approve imports of millet and grain sorghum (SITC code 045901), cereals n.e.s. (o45909), prepared animal feeds, oranges, jams, beans, garlic, frozen vegetables and fertilisers. Import licences for paints are issued on the recommendation of the Association of Local Manufacturers, as also are motor vehicle batteries; licences for importing jute and sisal bags and sacks are issued on the approval of the Jute Controller. In most cases this is to confirm whether local supplies are available in which case licence applications are refused. Some importers are granted a monopoly outright e.g., import licences for iron and steel wire are issued to the Kenya Industrial Estates only.

The fourth method of treatment of licence applications is to confine the issue of licences only to the K.N.T.C. This applies to a whole range of types of commodities which includes a large proportion by value of the import bill. 43% by value of imports of foodstuffs passed through K.N.T.C. in 1971 20% of imports of manufactured classified chiefly by material and a further 7% of total miscellaneous manufactures. In total the licensing system directed 9% of net imports through K.N.T.C. in 1971. In certain cases the procedures file gives details of the way in which a particular item passing through the K.N.T.C. is to be treated. Some are subject to quotas, others to price range restrictions. This is the case with many textile goods. In many cases no instruction to K.N.T.C. is given. Beverages, salt, iron sheets, bicycles, lamps and torches fall in this category.

Finally a licence application may be refused outright. This applies to many foodstuffs and selected manufactured articles characteristically produced by the Kenya Industrial Estates.

Recent Developments.

Since January 1972 the restriction on the importation of certain classes of goods has been designed with an eye to concerning foreign exchange. At that time the measures taken were intended to be of a temporary nature in response to the dwindling of foreign exchange reserves which were understood to be a direct result of over importation[1].

Towards the end of 1971 the level of reserves was approaching a desperately low level. The visible balance on external trade deteriorated from an annual deficit of around the K£ 50 million mark, which had persisted from 1966 to 1969 and worsened to K£ 65 million in 1970, to an all time high of K£ 105.8 million for 1971. Government as well as commercial imports contributed to this. Table I shows the percentage increase in government imports for the last three quarter of 1971 over those of the preceding year to be consistently higher than the increase in imports of commercial goods,

although in absolute terms the increase in imports of commercial goods is of course much greater. The small rise in the surplus on inter-territorial trade of K£ 2.5 million, to K£ 18 million in total, did little to offset the huge deficit.

TABLE I.

| | 1/4 | 1970 | 1971 | 1972 | 71/70% | 72/71% |
|---|---|---|---|---|---|---|
| Commercial Imports | 1 | 29071 | 39902 | 45191 | +37.3 | +13.3 |
| | 2 | 34638 | 41202 | 38277 | +19.0 | - 7.1 |
| | 3 | 31133 | 41558 | 34233 | +33.8 | -17.8 |
| | 4 | 31326 | 39790 | | +27.0 | |
| Government Imports | 1 | 6365 | 5453 | 4268 | -14.3 | -21.7 |
| | 2 | 3077 | 3930 | 3502 | +27.7 | -10.9 |
| | 3 | 2094 | 5388 | 4377 | +157.3 | -18.3 |
| | 4 | 3973 | 6535 | | +64.5 | |

1. see Daily Nation 19.1.72. The Minister for Finance & Planning in reported as saying that the recent international monetary crisis was the main cause of the present restrictions. Recent currency changes had led to uncertainty among local traders and speculative importations.

During 1971 the prices for imports into Kenya as a whole rose by 9.5% while export prices fell by 3.8%[1]. Unfavourable terms of trade are an important feature of the secular deterioration in Kenya's balance of trade position but the build up in the level of stocks of imported commodities was a particularly important element in the running down of the level of reserves which occurred towards the end of the year. In table II those principal item in Kenya's import bill which show the most spectacular increases in imports during 1971 over recent years are listed. The percentage increases in volume have been included to indicate those items where
inflation as well as increased import demands may have been important.

TABLE II 1971 High Growth Imports.

| Item | 1971 imports K£'000 | % Value | % Volume |
|---|---|---|---|
| distilled alcoholic beverages | 795 | 81.9 | 13.6 |
| total inedible crude materials | 4487 | 77.4 | n.a. |
| | 693 | 95.2 | 92.9 |
| jute | 874 | 275.1 | 66.1 |
| lubricating oils and greases | 1881 | 110.6 | 71.0 |
| total oils and fats | 3557 | 151.0 | n.a. |
| animal oils and fats | 1229 | 220.9 | 123.0 |
| vegetable oils and fats | 1862 | 121.9 | 72.9 |
| processed oils, fats & waxes | 466 | 139.0 | 66.4 |
| total chemicals | 18415 | 76.1 | n.a. |
| synthetic plastic materials | 2315 | 138.4 | 166.9 |
| types and tubes M.V. / bicycles | 2805 | 99.6 | 59.8 / -17.4 |
| total paper and paperboard manuf. | 7210 | 68.4 | 49.6 |
| total iron & steel | 11311 | 86.2 | 60.3 |
| nails, nuts, rivets, screws etc. | 400 | 74.7 | 16.2 |
| mechanical and other hand tools | 1029 | 130 | n.a. |
| locksmiths ware | 819 | 104.2 | n.a. |
| metal containers | 729 | 93.9 | 74.8 |
| total all manufacturer classified by material | 45179 | 58.2 | n.a. |
| total machinery & transport equipment | 64787 | 63.3 | 67.7 |
| electric power machinery & switchgear | 2542 | 161.0 | 82.2 |
| tractors | 2184 | 67.4 | 0.2 |
| passenger motor cars complete | 6657 | 48.9 | 35.4 |

1. Figures derived from Kenya Statistical Digest estimates.

TABLE II (cont'd).

| Item | 1971 imports K£'000 | % Value | % Volume |
|---|---|---|---|
| buses trucks carrier etc. complete | 4014 | 99.4 | 83.9 |
| chassis with engines mounted | 6020 | 124.4 | 88.9 |
| total miscellaneous manufactures | 17114 | 113.1 | n.a. |
| furniture & fixtures | 666 | 162.2 | n.a. |
| clothing | 3423 | 164.1 | n.a. |
| footwear | 605 | 123.2 | 97.9 |
| books and pamphlets | 1284 | 223.4 | n.a. |
| total net imports | 184105 | 63.3 | 43.4 |

The percentage value and volume columns in table II measures the percentage increases in imports for 1971 over the average imports for 1967, 1968 and 1969.

It will be seen that imports of distilled alcoholic beverages, nails etc., tractors and motor cars increased less in volume terms than for imports as a whole. Inflation was particularly important in accounting for the increased imports of distilled alcoholic benerages, jute, animal oils and fats, nails etc., electrical machinery and tractors.

The Central Bank issued a circular to all banks (Exchange Control circular No.1 1972) which detailed the regulations which would in future apply to all those categories of imports for which foreign exchange would in future be restricted irrespective of whether the import had previously been subject to the recuirements of specific import licensing (i.e., involved in the licensing system at that time) or open general licence.

E C 1/72 outlines the procedure to be adopted in the case of imports of items listed under five schedules towards the end of the circular. Schedules A, B and C contain items which were already subject to specific import licensing while schedules D and E list items which were previously allowed entry under open general licence. Items were listed according to how necessary it was considered that their importation should continue. Thus schedules B and E contain import items for which foreign exchange would in future not be provided; payment in foreign exchange for schedule C items would only be authorised by commercial banks when particular prior exchange control approval had been granted; the banks would be allowed to continue to authorise payment for Schedule A items subject to the provisions of administrative notices and instructions; Schedule D items would reouire a

"no objection to foreign exchange" certificate for which application could be made to the Director of Trade and Supplies.

E C 1/72 does not revise the licensing systems protective role. What it does is to classify a large proportion of the import bill on the basis of the extent to which particular items can be dispersed with in order to consume foreign exchange. Thus there is a substantial overlap since protected local manufacturing is looked to to make good the reduced supplies of certain goods following the imposition of restrictions.

Appendix C contains estimates of the extent of the exchange control circular. The estimates of values of net home consumption affected by the different schedules are subject to the same weaknesses as mentioned earlier regarding Appendix B. The tables indicate what would be the affected percentage of net home consumption if the schedules were applied to 1971 NHC values. From table II of Appendix C it will be seen that Section 0 (foodstuffs) contains the most banned items in value terms (over 23%) followed by Section 8 (miscellaneous manufactures) with 8.75% although this figure will contain components and should be reduced somewhat. Over 12% of the import bill will be subject to licence quotas and more than 5% of net home consumption previously entering under O G L will be regulated by foreign exchange allocation licences. The five schedules affect more than half the net home consumption of foodstuffs and miscellaneous manufactures almost half of manufactured goods classified chiefly by material and almost all beverages.

From January 1972 it is important to realise the dual character of the licensing system. It ceases to be the province solely of the Ministry of Commerce and Industry since the Central Bank must also consider applications. Schedule A items are listed for protective reasons, Schedule D and E items to conserve foreign exchange, while Schedules B and C are designed to both protect and conserve.

Schedule C and D items are subject to quota restrictions. For Schedule C items specific import licences would be issued by the Director of Trade and Supplies based on a quarterly quote which would relate to part performance. Specific licences would detail the S I T C code number and stipulate the shipment was to be effected within four months of the date

of issue Importers would be required to submit all the necessary evidence (including customs entries) of 1970 and 1971 imports under each S I T C code number to the Director of Trade and Supplies. For 1972 the procedure to be adopted was for an announcement to be made of the total value of imports of a commodity which would be permitted and for importers to apply for licences to the Director of Trade and Supplies initially to cover the first quarter of 1972. The application had to be accompanied by at least two copies of the indent or suppliers proforma invoice with the name and branch of the applicants bank inserted. The Director of Trade and Supplies would then forward to the Central Bank Exchange Control Office for approval of the requisite foreign exchange the copies of the indent or invoice showing the licence issued and the approximate Kenya currency equivalent of foreign exchange required based on the rate of exchange at the date of approval. If the issue of a foreign exchange allocation licence was approved, the licence in duplicate together with two indents or suppliers invoice, one evidencing the issue of a specific import licence and the other duly stamped "for exchange control purposes only" were returned to the Director of Trade & Supplies for issue to the applicant.

During 1972 Schedule C items have been treated in the following way. For each individual importer his average annual importation during the years 1970 & 1971 was calculated. If this amounted to less than 20000 shs. this amount of foreign exchange was relased for 1972 in one instalment. For average annual importations of more than 20,000 shs only half of this amount was released for the first six months. Importers would then reapply for their second allocation. Until recently this would have been the same as the first so that the total average annual import for 1970-71 was granted for 1972 in full. It is intended to reduce many of the quota allocations in the near future and so recently second instalment applicants have received only 25% of the 1970-71 average annual importation making a total allocation for the period March 1972 to March 1973 of only 75% of the 1970-71 average.

Where quotas are related to past performance in this way the degree of restrictiveness will vary between items. If imports show a steady upward trend through time the effect of the restriction will be greater than if imports are already falling and being replaced by domestic production. In this case it is possible that the restrictions present no effective

constraint to importers at all.

Payments for the imports of schedule D item were also made subject to the issue of an exchange control allocation licence related to an individual importers past performance under each category during 1970-71 before the importer places a firm order. By the same method as for schedule C items importers are required to submit the necessary evidence of 1970-71 imports and when individual quotas for 1972 had been established an announcement would be made and importers invited to apply to the Director of Trade and Supplies for a certificate of "no objection to foreign exchange" to cover the first quarter of 1972. This indicates the S I T C code number and stipulates shipment within four months from the date of issue. Imports of Schedule D items are intended to be regulated so as to avoid speculative build ups of stocks by rationing foreign exchange to importers with no actual reduction in the absolute amount. The items listed under this heading were thought to be particularly prone to this.

It was expected that the exchange control measures would result in a foreign exchange saving of about K£ 10 million annually which amounts to around 5% of 1971 imports. This saving would have to be made on mainly Schedule C and E items since most of Schedule B items were already prohibited imports.

According to a ministerial announcement the measures taken were not to be regarded as a permanent feature of the economy. They were designed to correct inbalances that had occurred and once that correction had been achieved they would be eased.[1] The schedules have remained intact however as part of the most recent scheme for regulating the release of foreign exchange.

Early indications of the reduction in imports are apparent in the quarterly trade figures for total and selected imports already available for 1972. Table III gives the percentage changes in imports on the previous year for a few selected commodities. It shows total imports declining from the second quarter and quite marked reversals for motor vehicles and chassis, agricultural machinery and tractors and paper and paper products.

---

1. Reported on East African Report on Trade & Industry p.9 December, 1971.

Table IV tabulates the foreign exchange reserves of the Central Bank on a monthly basis. The level of reserves begins to fall from July 1971 and although improving towards the end of 1972 had still not regained its 1970 level. Until the Annual Trade Report for 1972 is released it is impossible (and even then difficult) to know to what extent the reduction in import levels results from the January 1972 restrictions and how much would have happened anyway as traders began to run down already imported stocks. Some of the imports could have been an anticipatory response to EC.1/72 itself.

TABLE III Quarterly Imports (K£ '000) and changes.

| | ¼ | 1970 | 1971 | 1972 | 71/70% | 72/71% |
|---|---|---|---|---|---|---|
| net imports total | 1 | 35436 | 45355 | 49458 | +28.0 | +9.1 |
| | 2 | 37714 | 45133 | 41798 | +19.7 | -7.4 |
| | 3 | 33227 | 47045 | 38610 | +41.6 | -17.9 |
| | 4 | 35299 | 46326 | n.a. | +31.2 | |
| Iron and Steel | 1 | 2213 | 2945 | 2377 | +33.1 | -19.3 |
| | 2 | 2226 | 2988 | 2045 | +34.2 | -31.6 |
| | 3 | 2160 | 2702 | 2944 | +25.1 | + 9.0 |
| | 4 | 2405 | 2675 | | +11.2 | |
| motor vehicles and chasis | 1 | 2675 | 4069 | 4792 | +52.1 | +17.8 |
| | 2 | 3033 | 3959 | 3158 | +30.5 | -20.2 |
| | 3 | 3127 | 4865 | 2650 | +55.6 | -45.5 |
| | 4 | 2638 | 4273 | | +62.0 | |
| agricultural machinery and tractors | 1 | 571 | 597 | 1278 | + 4.6 | +114.1 |
| | 2 | 734 | 589 | 886 | -19.8 | +50.4 |
| | 3 | 602 | 1138 | 323 | +89.0 | -71.6 |
| | 4 | 495 | 652 | | +31.7 | |
| industrial including electrical machinery | 1 | 5688 | 6734 | 8907 | +18.4 | +32.3 |
| | 2 | 5768 | 7825 | 7726 | +35.7 | -1.3 |
| | 3 | 5325 | 7516 | 6499 | +41.2 | -13.5 |
| | 4 | 5632 | 7968 | | +41.5 | |

TABLE III (Cont'd).

| | ¼ | 1970 | 1971 | 1972 | 71/70% | 72/73% |
|---|---|---|---|---|---|---|
| paper and | 1 | 1357 | 2064 | 2038 | +52.1 | -1.3 |
| paper | 2 | 1817 | 2212 | 1730 | +21.7 | -21.8 |
| products | 3 | 1413 | 2098 | 1582 | +48.5 | -24.6 |
| | 4 | 2061 | 2038 | | -1.1 | |

TABLE IV Level of foreign exchange reserves at the Central Bank.

| Month | 1970 K£m. | 1971 K£m. | 1972 K£m. |
|---|---|---|---|
| J | 60.0 | 75.5 | 57.1 |
| F | 64.3 | 76.0 | 58.8 |
| M | 66.9 | 77.8 | 60.3 |
| A | 68.7 | 71.5 | 62.1 |
| M | 67.4 | 72.3 | 58.5 |
| J | 66.9 | 67.1 | 56.1 |
| J | 68.5 | 63.0 | 58.3 |
| A | 69.3 | 63.6 | 58.8 |
| S | 70.6 | 57.5 | 61.4 |
| O | 72.3 | 57.6 | 63.4 |
| N | 73.6 | 55.7 | 62.4 |
| D | 73.5 | 55.2 | |

Source: Kenya Statistic Digest

On 1st December, 1972 E.C. 24/72 was released by the Central Bank. This circular outlines a quite drastic increase in the extent of import controls deemed necessary in the interests of foreign exchange conservation. All imports into Kenya in excess of an invoice value of two thousand shillings including items under O G L and imports by oil companies are henceforth subject to foreign exchange licensing.

It was felt that overinvoicing was making such a significant contribution to the drain on the foreign exchange reserves as to warrant remedial action. With the exception of certain categories of imports and items covered by transitional arrangements, all imports in excess of an invoice value of twenty thousand shillings on and after the 1st January 1973 were to be subject to preshipment quality and quantity inspection and price comparison on behalf of and for account of the Central

Bank of Kenya by General Superintendence Co.Ltd. (Societe Generale de Surveillance) or its representatives. Banks were required to bring the revised regulations to the notice of their importing customers who in turn would advise overseas sellers of the new requirements.

The lists of item under the five schedules (A to E) of the January circular are maintained intact only the treatment of the different items is altered. Schedule A import items remain subject to specific import licensing by the Director of Trade and Supplies and will be granted foreign exchange allocation licences automatically. Schedule C items also remain subject to specific import licensing for which foreign exchange will be provided on a quota basis. Schedule D items are not subject to specific import licensing but require a "no objection to foreign exchange" certificate from the Director of Trade and Supplies. Foreign exchange will be provided on a quota basis. All categories of imports under O G L not listed on schedules D and E will be provided automatically with a foreign exchange allocation licence.

Foreign exchange allocation licences issued by the Central Bank of Kenya, Exchange Control are required for all imports except for certain specified exceptions.[1] Imports were required to apply for foreign exchange allocation licences before placing firm orders. Sellers were requested give at least ten days notice before shipment to the Inspection Agency indicating the place where the goods could be inspected and the expected time of shipment. After completion of the inspection the Inspection Agency would issue a report of findings which would either be a clear report of findings if the inspection yielded a satisfactory result or a non-negotiable report of findings if the inspection revealed discrepancies.

E.C. 24/72 also gives details of a new combined import and foreign exchange allocation licence application form. (previously the two licences had to be applied for separately and this has been blamed for some of the administrative delays)

---

1. The exceptions are:- Imports by Government ministries for which special arrangements exist. ii) Imports by the E.A.C. and its corporations iii) Imports from Tanzania and Uganda. iv) When the invoice value does not exceed 2,000/- v) Transactions not involving the provision of foreign exchange from Kenya at any time (e.g., gifts) vi) goods imported as a means of capital formation on a loan account basis which receive a special treatment following preshipment submission of the details of the consignment by the importer. The Inspection Agency would decide whether or not to issue a Clean Report of Findings and whether or not it was considered necessary for them to inspect the consignment.

which was to be completed in sextuplicate in respect of each category of imports under Schedules A C and D and other items under O G L not included in Schedules D and E. Completed applications would be forwarded to the Director of Trade and Supplies accompanied by one copy of the sellers proforma invoice or indent recording amongst other things the quantity, quality and description of goods, and the f o b and c i f price. The Director of Trade and Supplies would enclose the application where provided with the appropriate details for import licensing, no objection to foreign exchange certificate or O G L and forward five copies to the Central Bank with a copy of the proforma invoice. The original, duplicate and triplicate applications would be returned to the Director of Trade and Supplies for delivery to the importer who would retain the original and duplicate until payment was due to be made or otherwise required by his bankers. The triplicate copy is for Customs Clearance. The fourth copy of the application and the supoorting invoice retained by Exchange Control would be forwarded when necessary to the General Superintendence Co.Ltd., in the country where the inspection was to take place. It is hoped that this will streamline the administration of the system as a whole.[1]

B. The effects of import restrictions.[1]

Making the small country assumption that the economy faces on import supply curve of infinite elasticity and assuming competition among domestic consumers, domestic producers, importers and foreign suppliers, then we can draw the aggregate demand curve for a good (D D') which is produced both domestically and imported in the diagram fig 1 .

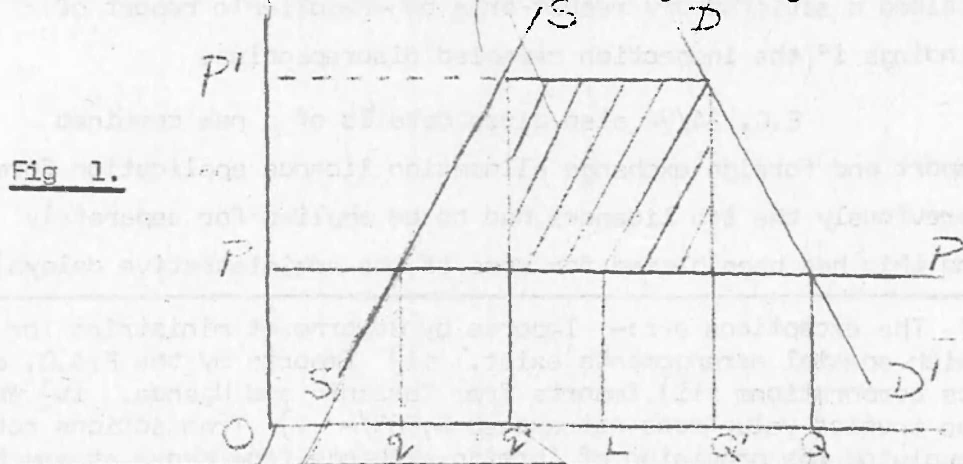


Fig 1.

1. Customs officials have observed a marked increase in the number of consignments of just below 2,000 shillings since the new scheme was introduced!

With no restrictions on imports then the local price is the world price O P. Local production is O q determined by the intersection of the supply curve for local producers S S with the world supply curve P P. Total consumption of the good is O Q and imports are q Q.

If imports are restricted by the imposition of a volume quota to 50% of their free trade level and prices are freely flexible, then the domestic price rises. Imports at the new level are q L = q' Q', local production increase, to O q', total consumption falls to O Q', and the domestic price rises to O P'. If licences are awarded to the extent of the quota to domestic traders than they will obtain a margin above normal profit equal to the shaded area in figure 1. Those excess profits are rents since they reflect the scarcity value of licences and are greater the more inelastic the demand for the good over the relevant range.

A tariff levied at the rate $P'P / PO$ would have had the same effect on the import bill except that the tariff would have yielded customs revenues instead of increased traders margins. It would also have had the same protective effect on local industry by causing import prices to rise. In this section we will be looking at what happens when we relax these simplifying assumptions and how relevant the alternative theoretical deductions are to the Kenyan situation.

In Kenya licensed items are also subject to tariffs. The extreme right hand columns of the tables in Appendix B indicate that the average level of tariff on licensed goods is higher than the average for imports as a whole. In 1971 licensed items accounted for around one fifth of total net home consumption but acounted for more than half of all duty collected. The affect of a tariff is to syphon off at least some of the excess profit otherwise earned by traders. If the margin between the domestic price and the world price is greater then the tariff than it is the quota which sets the internal price, and if the tariff is higher than it sets the price. Even where a quota is redundant it may have

[1] The theoretical parts of this section draw heavily on Cordon's treatment of the subject, in : WM Corden: "The Theory of Effective Protection." Oxford 1971.

a purpose in ensuring that imports are reduced at least to a certain amount in case the tariff is inadequate. In such cases it acts as an insurance against dumping.

Following the imposition of import restrictions it is conceivable that total traders' profits may fall causing imports to cease because their turnover is reduced. Where licences are transferrable, and there is a market for them, some traders may buy the liceces of others. The decline in imports means the demand for traders services declines, but total normal profits also decline became there are fewer firms. The quota profits go to all firms receiving licences including the firms that go out of business as proceeds for the sale of their liceces.

In Kenya the transfer of licecnces is illegal and would only be able to proceed through /devious means. It is difficult, however, to find evidence of importers actually going out of business after receiving licence allocations because their post-restriction turnover is too low for them to make even normal profits. If this did happen it would mean that imports would fall by more than the extent of the restrictions.

Where monopolies either among traders or local producers previously existed or emerge as a result of the restriction a number of alternatives are possible. If the trader was a profit maximizing monopolist before the imposition of the restriction he is forced to move from his profit maximizing position. With value quotas the domestic price rises as the value of imports declines. (In the case of volume quotas the value of imports may increase where the **elasticity** of demand is less than unity depending on the elasticity of supply).[1] If the monopolist was moving along the /rising part of his average cost /curve so that the reduction in imports lowers unit costs, the profit per unit of imports must rise. The reduced profits he is making depend on the quota so that what were monopoly profits are now quota profits. If the monopolist was on the falling part of his

---

1. Most Kenyan licence restrictions that are not absolute bans on competing imports are value quotas relating to past performance in some base year.

average cost curve, so that unit costs rise as a result of the restriction, his profits could disappear and he might run into a loss.

It is difficult to guage the extent of monopoly amongst traders in Kenya. The last published Survey of Distribution was for 1960. Since then two further studies were undertaken, for 1967 and 1968, but the Statistical Division considered them to be too unreliable to publish. Thus we have no ready means of assessing the degree of concentration or the extent to which this has changed in recent years for the sector as a whole or for particular parts of it. "Since most of the import-export houses are private companies and are therefore not obliged to publish their accounts it is not possible to ascertain details of capital employed or turnover on which to base any list in order of size"[2]. Many licenced commodities are imported by large international companies. Textiles however, are handled by a large number of importers (mainly K.N.T.C. agents) including local manufacturers.

Quantitative restrictions themselves may turn a group of competitive traders into a monopoly or cartel. This is possible in Kenya where restrictions set up a barrier to new entrants by confining quotas to existing importers. The establishment of a monopoly might make no difference at all if the volume which would maximize profits in the absence of the quota were greater than the quota level. In this case the value of imports, domestic and foreign prices etc., would all be set by the quota as in the competitive case. If profit maximizing imports are less than the quota level, however, some licences will remain unsued.

In a situation where a local producers monopoly exists but there is competition among traders, consumers and exporters ( i.e., so as to avoid situations of bilateral monopoly) local production may rise or fall following the imposition of the restrictions. In figure 2 D D' is the domestic demand curve for a good which is produced both locally and imported, and C C is the local monopolists marginal cost curve.

---

2. "Who controls industry in Kenya?" Report of a working party. p.53. East African Publishing House 1968.

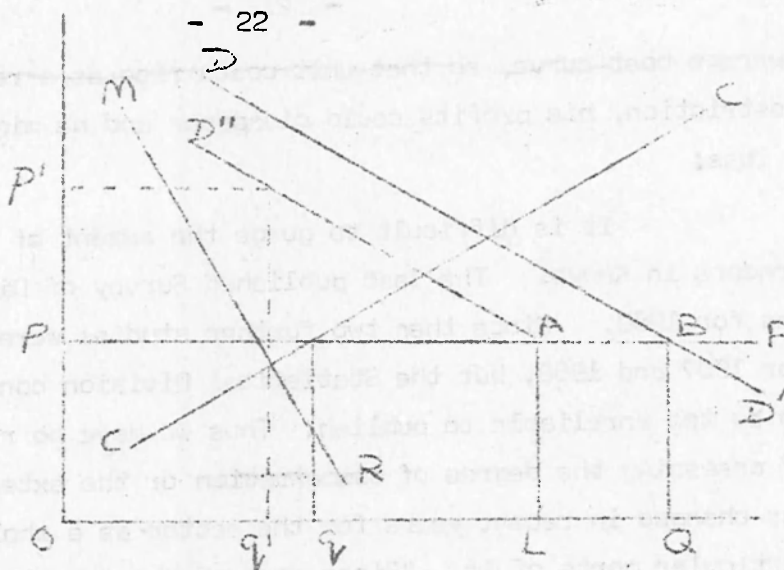

Figure 2.

Under free trade local production is O q, local consumption is O Q with imports of q Q. When the quota is imposed limiting imports to L Q the demand curve facing the monopolist is the composite curve D" A B D'. A marginal revenue curve, M R, can be drawn for the relevant portion of the composite demand curve, D" A, and local production is determined by the point of intersection of this curve with this monopolist's marginal cost curve. This may be to the right or left of the point of intersection of the monopolists marginal cost curve with the original import supply curve and thus profit maximizing output may be above or below that which pertained in the free trade situation. The smaller the quota the more the composite demand curve and its associated marginal revenue curve are to the right and hence the more likely it is that output increases. In figure 2 local production falls to O q' following the introduction of the restriction and the domestic price rises to O P'.

Foreign exporters may do their own importing into the country so that there are no seperate trading firms. In this case the terms of trade will deteriorate with licensing since the quota profits go abroad. If the quota was on volume and the elasticity of demand for the good was less than unity, the value of imports would actually rise. If the quota was on value but the elasticity of demand initially less than unity then reducing the volume imported would at first raise the value of imports. The value would remain higher than before as the volume was further reduced until the elasticity of demand exceeded unity. In this way markedly large reductions in import volumes might occur for a given value quota reduction.

A situation which is particularly rlevant to Kenya is where licences are awarded to foreign owned trading firms operating domestically. The quota profits will go abroad or at least be credited to foreigners just as if the licences had been awarded to exporters only the quota profits will take the form of invisible instead of visible imports.

The quota profits could go to the government if it chose to auction licences off to the highest bidder. This method of tapping the excess profit breaks down when there are monopolistic elements in the import trade which prevent competitive bidding. The situation is then one of bilateral monopoly in which case a fixed licence fee would be more practicable.

Most of the larger and medium sized manufacturing firms in Kenya do their own importing directly rather than through intermediary wholesalers. In the event of restrictions on imported imports it is they who receive the notional quota profits. In cases where an import restriction persists, if the producer is a monopolist he will have been maximizing his profits before the quota restriction was imposed so his profits are reduced with the restriction. If he was operating on the falling part of his cost curve originally his profits may disappear completely and he may go out of business. The case is the same where an industry is perfectly competitive with each firm facing a horizontal demand curve. If the industry is competitive and faces a demand curve of less than infinite elasticity, however, the enforced reduction in output may bring it closer to the output level which the industry would choose if it were monopolized, in which case profits would rise. Profits would also rise if the input restriction acted as a barier to entry into the industry enabling firms to make monopoly profits at lower levels of output so that some licences would remain unused.

In the Kenyan situation restrictions on the use of imported inputs would not have this effect since they are only used to encourage the use of locally produced substitutes instead of imports. In this case input prices might rise if the locally produced item is more expensive but cases of ~~input shortages acting~~ as a long run constraint on final ~~output~~ should not happen.

A major criticism of using quontitative restrictions instead of tariffs to restrict imports is that tariffs perform the same functions as quantitative restrictions[1] only the earn much needed customs revenues. This criticism is only applicable to a fraction of those items that are subject to licencing in Kenya; namely those whose imports continue but

---

1. Corden ( op cit ) discusses the exceptions to this rule. A "comparable tariff" (i.e. one which yields the same reduction in import volume as the quota) may not exist if the trader, exporter or user is a monopolist. If he is operating on the declining portion of his cost curve the restriction raises unit costs which may reduce quota profits to zero. If a tariff is imposed instead he will make a loss operating at the quota level so no tariff will induce him to import at this point. If a comparable tariff does exist it will lead to a larger reduction in the value of imports than a quota if exporters are obtaining the quota profits.

   If there is a potential domestic producers monopoly a non-prohibitive tariff does not have the same monopoly creating effect as a quota but shares with it the import replacing effect. A given reduction in imports when achieved by a tariff will be associated with a greater rise in domestic output than when achieved by quota ( in which case these might actually be a fall in domestic output) Hence it must be achieved with a lesser fall in domestic consumption compared with a quota and therefore a smaller rise in domestic prices is required. If a newly created monopoly restricts imports below the level set by the quota the comparable tariff rate is not that which attains the level of imports permitted by the quota but that which attains the lower actual level.

   If there is price rigidity the tariff will raise prices by more than the quota. If the users of the restricted intermediate goods obtain licences their import prices will not rise as they would have done had a tariff been imposed.

at a reduced level than before the imposition of restrictions Commodities entering Kenya under specific import licence quotas before E.S. 1/72 include a number of food items tyres and tubes, some textiles passing through K.N.T.C. and a few small manufactures. During the past year those items appearing on Schedule C of E.C. 1/72 and not mentioned above would also be included.

Price range restrictions usually involve the banning of competing imports allowing imports above a specified price to continue unrestricted. A banned import is equivalent to a prohibitive tariff, which would earn no customs revenue in any case.

A licence auction, to recoup lost potential government revenues from customs duties, would be impractical for many items because of monopoly elements among local traders. As an alternative traders could be charged fees to import certain items under quotas where it was thought excess profits were being made. These could be raised or lowered to regulate the level of imports. Another method would be for the Director of Trade and Supplies to monopolise all the imports of particular commodities and then to sell to wholesalers and retailers. The way the K.N.T.C. operates by appointing wholesalers who act as agents and pay a commission for the privilege syphons off some of the quota profits which would otherwise have gone to private traders. The K.N.T.C. could be a vehicle for reducing traders surpluses in certain cases by increasing its commission on licence quotas. But if the quotas had their intended effect of stimulating the growth of potentially efficient sectors quota profits should not be large so it might not be worthwhile setting up the revenue collecting machinery.[1]

It is also possible for some or all of the profits to go to "brief-case importers" who charge a commission for the use of the licences they have been granted but do not engage in importing themselves. This need not be illegal if it can be shown that at least on paper the goods have passed through their hands.[2]

1. It is also possible to limit traders quote profits using the powers conferred under the Price Control Act (Cap 504). The effectiveness of these measures varies tremendously between commodities.

2. Phelps claims this to have happened in Kenya with cases of African importers acting as little more than nominal agents for Asians who pay the Africans a commission. See M G Phelps: "Import licensing in Kenya an interim report". May 1970.

The of civil servants is always a possibility when potential profits are high so that some quota profits may be d in this way.

The Government may introduce price control to prevent the price of the restricted import from rising to that with a given foreign supply price there will be no quota profits. If traders' average costs rise as a result of the restriction they may be in difficulties and imports might even cease. If this does not happen, either because costs do not rise or some rise in price is allowed to enable them to maintain normal profits, consumers are better off than if the quota profits had gone to traders, exporters or government but were off than in the free market situation because their choice has been restricted.[1] Some manufacturers maintain that Kenyan consumers have an irrational preference for imported over locally produced goods and that in many cases the local product is just as good. Even if thiswere true it does not alter the fact that consumers are worse off if we define being better off as a situation where more of a consumer's desires are satisfied. It is possible though for consumers' desires to change after they are forced to try the local substitute.

Prices may be rigid in the face of shortages. Traders may be long term profit maximizers and wish to maintain goodwill with their customers rather than take advantage of what may only be a temporary restriction. In view of the Minister's announcement this could well be happening in Kenya. The traders may also be reluctant to capitalise on the changed situation for fear of government reprisals.

A second body of criticism of the licensing system concerns administrative difficulties. When only a small number of licencing officers have to process all the licence applications there are bound to be delays.[2]

---

1 Price control would need to be carried all the way along the claim of distribution to the consumer to prevent middlemen cashing in on the quota profits.

2 Until recently there was only one licencing officer for the whole of Kenya. With the increase in the number of items the Department was asked to handle following E.C. 1/72, three more licencing officers were appointed. Because of the most recent extension of the system to include all imports of more than 2,000 shs. an additional two or three more officers may be appointed making an evential total of six or seven.

An import licence is valid for four months. There have been cases where licences have expired before the processing was completed so that the importers have had to reapply.

Delays in the granting of licences can be costly. One firm was interviewed which imported wire rod from week to week but it takes two to three weeks for an application to import rod from this firm to be processed. The price variation is about five percent so if manufacturers are unable to exploit favourable world price situations and place firm orders with foreign suppliers except after some delay; increases in material costs of as much as five per cent must be tolerated.

Firms can also be expected to increase the level of stocks of goods likely to be subject to licensing delays, thus raising overhead costs. At the same time fluctuations in stock levels might be reduced because of the increased difficulties in rebuilding run down stock at short notice. However, direct evidence of this happening in Kenya is difficult to find.

Blanket restrictions on the importation of certain S.I.T.C. groupings have had to be amended to allow for imports of specific items. These are only to be expected when the system includes such a wide range of goods. Where a manufacturer is refused a licence to import a necessary input but is unable to find a suitable locally produced equivalent he must first approach the manufacturers of the product range to which the item belongs and present the authorities with written confirmation from him that the item is not produced in Kenya. This happened in the case of a handbag manufacturer who was unable to obtain handbag fastenings following the introduction of restrictions on the importing of padlocks because handbag fastenings and locks are included in the same S.I.T.C. six digit grouping (698 110). These things take time to sort out and production may easily be disrupted in the process.

Manufacturers have seldom received advanced notice of pending restrictions. One manufacturer had recently imported a stapling machine for packaging purposes when imports of staples were restricted. Although he eventually obtained permission to continue importing staples, which were of a kind not manufactured locally, he claims to have lost business because he was unable to despatch orders while his packaging plant was out of action.

The main problems the Department faces in administering the scheme are smuggling and wrong identification of consignments. There have been cases of goods being redirected through Partner states as well as simple illegal direct importation.[1] If the licensing system is to work well it is important that the administrators should be competent personnal with an understanding of the items they are restricting. It could be argued that these are the type of people who are in heavy demand elsewhere and that the system is wastefully labour intensive. Textiles have proved to be a particularly difficult area. The licensing officers' knowledge of the nature of the items coming under their jurisdiction is improving through time and the technical specifications of licensed items has become more refined. (e.g. Suiting material is of a different weight and width than dress material and this can be specified in the description of the restricted item). As the licensing officers become more experienced it is expected that the number of difficult cases and anomalies will be reduced. But these will never disapoear entirely. With technological advancement and when the demands of the domestic economy are constantly changing they will be constantly faced with fresh problems. The licensing officer cannot be a specialist in everything he has to handle.

The way in which goods are restricted can also be criticised. Price range restrictions are undesirable on welfare grounds. Only the cheaper items are affected which discriminates against the poor. The value of imports may also increase in total if consumers switch to slightly more expensive foreign products rather than buy the cheaper domestically produced equivalent. Although foreign exchange smuggling through over pricing indents could occur in any case price range restrictions provide a direct inducement to importers to do this. On certain items customs officials have noticed marked increases in the numbers of items imported in the price range immediately above the restricted range. This could be an honest response to the effects of the restriction, i.e. consumers prefering to buy the more expensive import rather than the cheaper local substitute, or an indication of false pricing of imports.

---

1. Of course smuggling is a problem with tariffs as well.

Phelps[1] quotes an example where the Industrial Section of the Ministry of Commerce and Industry decided to check on the imports of radios. No licences were issued to import two band sets costing less than 130/- each, but a large proportion (60% to 75%) of imports were in the price range 130/- to 140/- and particular models were priced differently on different importers indents. If the licensing officers checked for the possibility that importers were giving false price information so as to evade the restriction it was possible that the importers were over-invoicing. Checking the retail prices of goods is not very satisfactory because of the difficulty in estimating retailers margins and of finding out the actual retail price given the prevalent practice of special discounts. Investigators found foreign sets of two bands selling in Nairobi at 150/- retail. There is a customs duty of 50% on radios so that a radio priced at 130/- c.i.f. Mombasa should not have sold in Nairobi for under 200/-. No indents were passed which were obviously contradicting instructions during the year of the investigation so there is a strong suspicion of over-invoicing. (although we cannot over look the possibility that the sets were old stock sold off cheaply).

Because of the difficulties associated with price range restrictions including the need to constantly update them by raising threshold prices in order for them to achieve their intended effect, it has been suggested that price range restrictions should be replaced by simple value quotas to importers equal to the value of the imports of the higher priced varieties of the particular item which have hitherto been allowed in. But if this were done the restriction need not necessarily have the intended effect. Taking radios as an example; If total imports of radios were around 400,000 shillings with sales of locally produced radios under price range protection a further 200,000 shillings, then after the policy change importers would receive quotas amounting to 400,000 shillings in total. Given the freedom to choose which radios to import their choice will be governed by the relative profitability of continuing to import only the higher priced sets or importing over the whole product range. Prior to the policy change only normal trading profits would be made on the more expensive sets (assuming traders were competitive with one another).

[1] op. cit.

Relaxing the ban on the import of cheaper sets gives traders the opportunity to make higher profits to the extent by which the domestic price of locally made sets exceeds the equivalent world price. This will of course be greater the less efficient and more monopolised the local industry. The effect of the profit change will be to equalise the rate of profit on importing
/ (will be lowered but will not disappear entirely while quota profits
all radio sets. The effective tariff to local manufacturers/
will be made on all sets. A sliding tariff with higher rates on imports competing with locally made items is subject to the same weakness of finding the "right" local price to be protected. By reducing the relative price differential between high and low quality alternatives demand for the lower quality item falls while that for the more expensive substitute rises. The local manufacturer loses sales to higher quality imports and the import bill suffers. If local radio manufacturers must be protected the only way to avoid administrative difficulties and possible abuses of price range controls is to have a uniform tariff across the whole product range high enough to give local manufacturers the required protection. But the cost of this is of course to raise the domestic price level even further.

Quantitative restrictions are generally related to past performance in a base year which makes it difficult to Africanize trade. Furthermore, since licences are non-transferrable the more efficient businesses are unable to expand at the expense of the less efficient except by devious means. Thus importers margins will be higher on average but not only because of the quota profits that are being made but also because unit costs are on average higher.

Has a licensing system anything to redeem it? Determinancy is one justification. If it is desirable that imports be prevented from exceeding a certain value, a quota up to the maximum limit is a surer way of doing this than is a tariff. When foreign exchange reserves are running at a dangerously low level,