



Licensing the crooks? Licensed Trade on Smuggled Goods and Contraband in Ethiopia: The Case of Moyale-Addis Ababa Trade Route

Dejen Alamirew Moges

(LLB, LLM, lecturer in Law at Debre-Markos University, School of Law)

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ABSTRACT

From the moment governments began making money from levying duty on imported goods, a smuggling trade developed to avoid paying such taxes. To avert the adverse effects of contraband most countries of the world take preventive measures. This research gives an overview of the existing situation of contraband in our country, mainly on the Moyale-Addis Ababa Trade route, due to the poor trade licensing procedures. This research has explored the licensing procedures of traders on smuggled goods and the effectiveness of legal punishments and other techniques to prevent contraband in Moyale to Addis Ababa trade route. Based on relevant domestic regional and federal tax and trade laws of the country, the research tried to critically analyze the practical obstacle to prevent contraband and the rationale behind licensing the traders on smuggled goods from. In conducting the research, the researcher basically followed qualitative approach. In collecting data, the scholar employed the mixture of random and purposive/judgmental sampling technique so as to get the key informants of the study. The study revealed that contraband or illegal trade involving export and import of goods was very common through long borders of the Ethiopian Moyale- Addis Ababa Trade route/ region with neighboring country Kenya. The failure of trade licensing authority to control and supervise and take legal action is the very cause for the expansion of contraband trade.

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Acronyms

CBCT	Cross-border contraband Trade
GTP	Growth and transformation Plan
ICBT	Informal cross- border Trade
ERCA	Ethiopian Revenues and Customs Authority
SNNPR	Sothern Nations Nationalities and Peoples Region
Proc. No.	Proclamation number
ETB	Ethiopian birr
VAT	Value Added Tax
NBE	National Bank of Ethiopia

1. Introduction and Background

The illegal trade in smuggled goods deprives governments of tax revenue. The upshot or the eventual outcome of the revenue lost is that it hampers development programs. Therefore to make the development programs feasible and to finance them, the government may be obliged to increase taxes. The burden of covering these shortages falls on honest taxpayers this in turn contributes for the growth of black-markets.

As the tax increase drive up the price of domestically produced and imported goods, many consumers seek lower-priced goods through a variety of alternative venues and channels, many of which are illegal. This includes purchasing counterfeit, illegally imported, untaxed, under-taxed and stolen goods.

Contraband trade also widens income inequality or the earnings gap between the rich and the poor. Evading customs duties and taxes, the smugglers become well off and are able to live quite extravagantly. They amass wealth while the

living standards for many stagnate. Smugglers spend money that should have been available to the government: a government who takes steps to achieve fair economic distribution across the society.

Unless exempted by law, items imported into Ethiopia are subject to a number of taxes. Government levies five kinds of taxes on imported goods. These taxes are assigned priority levels and are calculated in sequential order. These taxes in sequential order are custom duty, excise tax, VAT, Surtax and withholding taxes. Taxes on imported goods are collected by Ethiopian Revenues and Customs Authority (ERCA)

In Ethiopia, in spite of all laws and regulations, smugglers do not hesitate to smuggle goods into and out of Ethiopia and they are still doing it. The seizure of contraband goods has become an everyday occurrence. Almost daily, federal policemen and other law enforcement bodies mandated to seize contraband goods intercept many criminals involved in smuggling. The frequently seized contraband goods smuggled into the country includes manufactured goods such as electronic and electrical goods, garments of various kinds, perfumes, cosmetics, pornography, habit forming drugs, armaments and others. Sudan, Eritrea, Kenya, and Djibouti are identified to be the main sources of these.

The one that takes the attention of the researcher to conduct this study is the Ethio-Kenya trade route i.e. Moyale-Addis Ababa. Coffee, which is the country's chief export item, a multitude of livestock, cereals of various types, animal skins, fuel and others are some of the goods smuggled out of the country Moyale-Addis Ababa trade route.

The smugglers traffic goods of various kinds into and out of the country illegally without having state issued permits, license or registration. In general, they violate the law that governs the import /export procedure and thus avoid the payment of all applicable taxes for the importation or exportation of goods.

Despite Ethiopia's efforts to clamp down on small-scale trade of contraband, unregulated exports of coffee, live animals, chat (a mildly narcotic amphetamine-like leaf), fruit and vegetables, and imports of cigarettes, alcohol, textiles, electronics and other consumer goods continues. At a minimum, contraband has resulted in loss of government VAT revenues of ETB157 million since 2013, and at a minimum, over ETB1 billion has been exchanged in the black market to purchase these contraband devices abroad.

The Ethiopian Revenues and Customs Authority (ERCA) said it has intercepted contraband goods estimated at 121.73 million birr in the first half of the budget year of 2014.

The amount of goods seized in the first half of this budget year exceeds that of the same period the previous year by 9.78 million birr. Moreover, the authority seized contraband goods worth 19.84 million birr while smugglers attempting to smuggle it out of Ethiopia, which according to him exceeds that of the same period last year by 9.78 million birr, he said.

This clearly shows that contraband is increasing from year to year. Moreover, the Hawassa Town Branch Office of the Ethiopian Customs and Revenue Authority has intercepted contraband goods worth over 29 million Birr over in the first half of 2014 budget year. The contraband goods were seized while smugglers attempting to smuggle it in to the country through the Moyale to Addis Ababa trade route.

Hence, the contribution of this trade line contraband to the total contraband is high. Because, only the Hawassa ERCA center intercepts 24% of the total intercepted contraband. In addition to that, out of those involved in non-pastoral activities, 65% the people who is not involved pastoralist activities in Borena and 43% in Karrayu reported engaging in the contraband trade of used cloth along the Moyale-Shashemene route, and trade in animals across the Ethiopia-Kenya borders.

This data apparently shows contraband is crucial problem in Ethiopia particularly in Moyale to Addis Ababa trade line. Studies should be conducted about how the smuggling of goods can be reduced and eliminated.

The researchers have an inimitable insight towards contraband prevention in terms of curbing the receptions. Even if the Ethiopian revenue and custom authority uses these and other means so as to combat contraband, the rate of smuggling is increasing from time to time, from year to year. Nevertheless, there are so many legal boutiques or Shops which are selling smuggled goods including Torshin shoes, second hand clothes and others. Thus, "whether the government itself is licensing the smugglers?" is the researchers' basic research question besides the others.

So what is the main cause for the failure of the authority to fight smuggling and smugglers even if it has enacted modern laws is the main reason that makes the writers to conduct a research on the title "*Licensing the Crooks? Licensed Trade on Smuggled Goods and Contraband in Ethiopia: the Case of Moyale-Addis Ababa Trade Route*".

2. Research methodology

This research has explored the licensing procedures of traders on smuggled goods and the effectiveness of legal

punishments and other techniques to prevent contraband in Moyale to Addis Ababa trade line. Based on relevant domestic regional and federal tax and trade laws of the country, the research tried to critically analyze the practical obstacle to prevent contraband and the rationale behind licensing the traders on smuggled goods from Moyale to Addis Ababa trade line. For these purposes, the study generally used both primary and secondary source of data.

The research basically followed qualitative approach. Qualitative research is multi method in focus, involving an interpretive, naturalistic approach to its subject matter. This means qualitative researchers study things in their natural settings, attempting to make sense of or interpret a phenomenon in terms of the meanings people bring to them.

Data Collection Procedures and Sampling Technique; Selection of key informants from the selected custom centers has made based on their length of experience in relation to trade. Licensed traders on second hand smuggled shoes, cloths and other commodities selected the research area areas.

This study employed the mixture of random and purposive/judgmental sampling technique so as to get the key informants of the study. Totally, 5 custom duty workers and officers, 5 police officers, and 10 traders from each selected custom duty station and selected cities has been interviewed. 10 accused persons charged for contraband crime also interviewed. Relevant trade license officers have been interviewed. This technique is believed to have pertinent value so as to get valid information from those informants who are rich in knowledge of the area. To select the accused contrabandists, the researcher employed the simple Random Sampling Technique.

3. Result and Discussion

The Ethiopian Revenues and Customs Authority (ERCA) said it has intercepted contraband goods estimated at 121.73 million birr in the first half of this budget year¹. The contraband goods were seized while smugglers attempting to smuggle it in to the country. Electronics and new clothing are among the goods intercepted in the reported period, he said.

Accordingly, the amount of goods seized in the first half of this budget year exceeds that of the same period the previous year by 9.78 million birr. Moreover, the authority seized contraband goods worth 19.84 million birr while smugglers attempting to smuggle it out of Ethiopia, which according to him exceeds that of the same period last year by 9.78 million birr.

Though the budget in tackling contraband trade increases from year to year, the analysis below shows swelling of smuggling into the country is also increasing. The traders get the smuggled goods through the main road and pay money to the custom unit staffs and federal police guarded there. If the main route or road becomes difficult to pass the smuggled goods the contrabandists use and transfer the goods out of the main road by using motor vehicle.

In conducting the study the researcher has collected data from custom units in the moyale-Addis Ababa trade route. So as to see the magnitude of smuggling the researcher has had the opportunity to see contraband goods collected by Moyale, Yabelo, HagerMariam, and Abosto custom units. As one can wonder from the data that the researcher has collected from the custom units the magnitude of contraband and smuggled goods has increased from year to year.

Electronics caught from moyale custom unite in 2004/2005 was 4389898 ETB when valued in money while this fact has increased and reached 1,694,620 ETB and becomes 4,999,800 ETB in 2007-2008 E.C. Clothes including shoos caught from moyale custom unite in 2004/2005 was 48753168 ETB when valued in money while this fact has increased and reached 59,928,530ETB. Food items caught from moyale custom unite in 2004/2005 was 1443902 ETB when valued in money while this fact has increased and reached 859,766 ETB.

Cosmetics caught from moyale custom unite in 2004/2005 was 874377 ETB when valued in money while this number as increased and reached 1,315,960ETB. Medicines caught from moyale custom unite in 2004/2005 was 48135 ETB when valued in money while this figure has increased and reached 53,000 ETB.

There was no vehicle caught from moyale custom unite in 2004/2005 however the in the year of 2005/2006 reached 313,000 ETB while this fact has reached to 3,874,575 ETB in 2006/2007. Armaments caught from moyale custom unite in 2004/2005 was 235 ammunition and 14 Brien when valued in money while 2006-2007 this number as increased dramatically and reached 3,953 Clashkove.

The amount of total smuggled goods, valued in terms of money, from 2004-2005 E.C.

The amount of total smuggled goods, valued in terms of money was 76,561,111.25 ETB, The amount of total smuggled goods, valued in terms of moneyThe amount of total smuggled goods, valued in terms of money from 2005-2006 was 77,642,936 ETB.

The amount of total smuggled goods, valued in terms of money from 2006-2007 was 91,210,052ETB. The amount of total smuggled goods, valued in terms of money, from 2007-2008 becomes 99,245,925 ETB.

In assessing the perception of the consumers of smuggled goods, the researcher has conducted 250 interviews and collected 100 questionnaires from Moyale, Hagre-Mariam, Dilla, and Awasa. In distributing the interview the researcher used random sampling technique. I used this since want to see the perception of the community in the respective towns. In moyale I take interview with 100 persons while in the remaining towns take 50 individuals from different strata of the society. The interview result that I get from moyale dictates that 90% individuals say contraband is very important and essential to their livelihood. They demand the government to formally recognize contraband trade and levy tax. Their justification in saying so was that their life and even culture is entirely depend on contraband that they could not habit a new life if they leave the area. While the remaining 10 % of the interview result shows that contraband trade should be totally banned by the government. Their justification for this was the security problem repeatedly occurred in the moyale Town. They said to solve the security problem of Moyale mainly the moyale Oromo and moyale Somali people, contraband trade should be banned and in return the government must establish different Industries in the town.

The interview taken from Bulehora town 85% shows that contraband trade is important while the remaining 15% against contraband trade. Those individuals who support contraband trade give the same reason like that of Moyale residents.

In Dilla town, 63% of the interview dictates that contraband trade is important. The reason given is there is huge unemployment in the town and Gedeo Zone as whole and Dilla town in particular, quality and price difference of smuggled goods. They interview informs, So as to minimize the unemployment rate, getting quality good, and buying the good that is more affordable in terms of price is smuggled goods,hence running contraband trade is necessary. While the remaining 37% of the community said contraband trade is comes against our culture, Health, morality, Economic development, security and political stability of Ethiopia.

In Awasa, the interview taken from target number of 50 individuals 57% has said contraband trade should be prohibited. Ethiopia must create job opportunity by establish industries produce quality products like smuggled goods, and regulate the market mainly price regulation. The other 43% of the interview still in errand of contraband and smuggled goods than domestic products and imported goods. The justification they give is price of legally imported goods is too high that they could not afford to buy while smuggled goods are cheap. Moreover, they raise the issue of huge tax Burdon imposed by the custom authority in trading with legally imported goods and other business.

In the questioners: - the researcher has collected 100 questionnaires from all towns i.e. Moyale, Bulehora, Dilla and Awasa and custom units of Moyale, Bulehora, Abosito police public prosecutor, and judges from respective town. The researcher has chosen conducted questionnaires through purposive sampling technics. Federal polices work in the custom units; custom unit staffs, Traders, drivers, regional police forces, prosecutors and judges were purposively selected for the questioners.

The researcher conduct 10 questioners from each custom unit staffs and federal police work in the custom units, a total of 30, 12 questioners from traders from respective towns a total of 36 trades, 20 drivers, 3 regional police forces, 11 judges and prosecutors. Surprisingly, the result of the questioner shows the reverse of what we get from the result the interview. In the interview, the result was that 76% of the interview show contraband and smuggled goods shall not be banned. Whereas the result of the questioners is that 90% of the questioners response revealed that contraband trade and smuggling goods shall be totally restricted. They said the market for smuggled goods towns and in the capital Addis shall be totally prohibited.

In all towns and custom units the staffs and federal police forces argue that contraband is against the country's economy, it affects the security and political instability; highly drain the government income collected from tax.

The other target groups in my data collection and analyzing in the research was the trade licensing office and traders who run business by having trade license from this office in the research area.

In Moyale, there are traders of second hand clothes, shoes, electronics and others who directly receive from Kenyan moyale market called Gambo. The researcher has found 112 traders who run the contraband business by having the trade license.

In Dilla town, there are 200 contraband and smuggled goods by having trade license. Among these there are 45 smuggled shoo shops, 105 smuggled clothes, and 50 electronics shops.

In awasa, there are 110 smuggled shoo shops, 78 smuggled clothes shops, 167 electronics shops. All the traders

found the moyale-Addis trade route i.e. from moyale to Awsasa get the trade license in the same fashion by saying readymade clothes, domestic and new shoe and electronics.

The licenses are issued and acquired by following the trade licensing law and procedure. At this time the workers of trade license office issued the license by mal-administration and corruption. For example, for shoe trade the license is issued and acquired by saying Domestic shoe. For smuggled clothes by saying new readymade clothes.

However, the trade license office workers, once give the license, out for supervision and control. At this time the trade license and actual goods presented for sale in the business is different. In the meantime the workers fail to control and supervise as the law orders. They seem shareholder or joint owner of the smuggled goods shop and ask the trader money as a corruption. They fail to observe law rather they observe and calculate the money from the illegal trader. This is the truth that the researcher has identified. These corrupted workers are the very cause for the increasing of contraband trade and smuggled goods from year to year even though the government budgeted high amount of money to fight contraband.

4. Conclusions and recommendations

4.1. Conclusions

The study revealed that contraband or illegal trade involving export and import of goods was very common through long borders of the Ethiopian Moyale- Addis Ababa Trade route/ region with neighboring country Kenya. Meanwhile, the goods illegally entering the region comprised of electronics, perfumes, cigarettes, clothes, construction materials, medicines, soft drinks and different kinds of food items. The contrabandists generally evade paying taxes imported goods.

One can find them at dress shops and in the back of convenience stores. In the Moyale –Addis Ababa trade route of the country, contraband goods are sold from shops, street carts wheeled around neighborhoods. The detection of concealed contraband items is a difficult challenge in most contexts. In many cases the contraband may constitute only a very small fraction of the total mass of the object being interrogated and screening often needs to be carried out rapidly.

Smuggling clearly destroys the local economy and exacerbates poverty in the country as manifested by the closure of local industries, decline in production, uncompetitive products, loss of jobs, unfair competition, loss of government revenues, heightened corruption in the bureaucracy, and risks in consumer welfare.

Smuggling method of contraband goods vary: sometimes smuggled goods are conveyed across the border on foot or on pack animals. Some are trafficked hidden within areas such as automobile tires, doors, fenders, bumpers, fuel tanks, and in other secret compartments of trucks, and trains. Some contraband goods are occasionally smuggled into and out of the country stuck in containers with other legal shipments allowed to be imported or exported after fulfilling customs formality. Drivers of trucks which transport legal shipments stop their vehicle en route and load illegal goods in the container of legal goods. Smugglers are also assisted by some dishonest customs officers at check points and local security forces. Smugglers bribe them and enter or take their goods into or out of the country illegally. The failure of trade licensing authority to control and supervise and take legal action is the very cause for the expansion of contraband trade.

5.2. Recommendations

1. Educating the public and pay rewards

1.1. Considering the findings in this study, it becomes obvious that containing or curtailing smuggling to enhance local economy goes beyond putting in place rules and legislation enforced by various agents. Rather, attitudinal change through academic curriculum should be embarked upon right from elementary school to university. In this regard, students are taught how to be responsible citizens, sabotaging effect of smuggling on a nation's economy and the danger involved in smuggling activities.

1.2. In addition to educating the public academic curriculum, enlightenment campaign to sensitize the populace to the danger of smuggling and pay rewards to citizens who provide useful information is important. The government cannot solely bank on ERCA's staff and the federal police staff to manage the trade of contraband. As a whole the society, the general public need to be bigoted of smuggling and should report their concern to the appropriate authority.

Enlightenment campaign through different strata of the community is necessary. Mass media campaigns and other efforts...to raise public awareness concerning the problems associated with smuggling is indispensable. Reduce demand for smuggled products by influencing consumers not to purchase smuggled products through enlightenment campaign is worthy in tackling contraband.

2. The existing unemployment problem must be solved

Employment should be created to decongest the mass unemployment problem in the country mainly in the moyale Addis trade route. In doing this government shall present finance and service should be improved to ease the financial burden of the unemployed so as to start a new business.

3. Reduce incentives for smuggling by harmonizing tax and pricing policies.

Policies in the first category are quite effective but difficult to implement. There are several reasons for retail price differentials. One important cause is multinational producer's pricing-to-market by setting prices in accordance with differing demand conditions.

Such differential pricing provides incentives to smuggle goods from low- to high priced countries (in this case, evading taxation may be only one factor motivating smugglers). Multinational companies can reduce smuggling of their products by using uniform pricing policies within a region. Therefore, policies discouraging monopoly power within the manufacturing and retailing industry can also discourage differential pricing.

A second cause of price differentials is differential taxation of similar products in nearby countries. Regional agreements harmonizing tax rates can reduce smuggling. Even when neighboring countries cannot agree on tax rates, they may cooperate on measures to make tax evasion more difficult.

Smuggling is reduced if it is very difficult to acquire and distribute second hand products without paying appropriate taxes. Therefore the single most important element governments can do to reduce smuggling is to put in place a simple and effective system of tax administration.

4. Reduce the supply of smuggled goods by regulating transport and retail sales.

Using a system of prominent but difficult to counterfeit tax stamps makes enforcement of anti-contraband or smuggling laws easier. Other labeling requirements, such as unique serial numbers, can further discourage smugglers.

Much good is diverted by smugglers during an “in-transit” regime prior to tax payment. Diversion can be discouraged by requiring documentation of a clear chain-of-custody for all smuggled products transported into the country.

Policies in the third category include

5. Revising the trade licensing procedure and adjust follow up mechanism

In the research area, the researcher has clearly observed that the trade licensing office requires certain preconditions those should satisfy, by business starters to have trade license in starting business. Once the Authority gives the license, it fails to observe the business run by the trader. In case if the trade licensing office intends to observe and regulate the business, the workers and officials hung by corruption. So the government must revise the trade licensing procedure and follow up mechanism. Government personnel should be carefully trained and anti-corruption regulations should be fully explained and enforced. Enactment and enforcement of sanctions for transporting, storing and possession of smuggled goods can also discourage purchase of such products.

6. Increase the certainty and severity of punishment through enhanced law enforcement and prosecution

Policies in the fourth category are the most straightforward and sometimes the most effective way of discouraging smuggling. Increasing and mobilizing law enforcement resources to intercept smugglers increases seizures. Prosecutors and court systems should be given sufficient resources to process additional cases that develop because of increased enforcement activities. So existing laws regarding contraband and smugglers should be amended in the way reduce contraband by severing the punishment. The severity and procedure of punishment of the smugglers' should increase like that of terrorism.

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