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MINISTRY OF TRANSPORT AND LOGISTICS

Transport and Logistics Sector

Investment Promotion Framework

Draft Recommendation

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Introduction

Following the rapid economic growth of our country, not only our import and export trade but production has shown significant increase in volume and variety. On the other hand, as population is continuously growing, the population (especially in urban areas) is expected to double over the next 30 years

It is known that the transport and logistics system that can meet and support freight growth and the economic and social development of the country is not growing as fast as the country's growth.

On the other hand, in connection with global population growth and climate change, road transport contributes 75% of the country's greenhouse gas emissions from transport and logistics activities. Changing this situation and building an environmentally friendly and sustainable transport system is a timely agenda.

A comprehensive and in-depth study of the complexities of the problems of the sector has been formulated and approved and has enabled to help fully transform our logistics and transport system and guide the sector in a clear direction.

Based on these policy frameworks, various sector strategies have been developed and are being implemented, mainly the National Logistics Strategy, non-motorized Vehicle Transport Strategy, as well as the ten-year development plan of the transport and logistics sector, which covers all aspects of the sector are some of them.

The logistics strategy focuses on 98 interventions that will make the country competitive in the logistics sector to achieve the country's economic growth by supporting various sectors such as the export, industry, agriculture, mining and other sectors.

The focus of the non-motorized Vehicle Strategy is to implement a variety of programs to get used to non-motorized modes of transport strategies that focus on protecting the natural environment of cities from pollution and make cycling the preferred mode of transportation in different cities of our country.

The sector's ten-year development plan enhances the country's logistics competitiveness by expanding logistics infrastructure and services in major trade corridors; In connection with the construction of an environmentally friendly and sustainable transport system, great emphasis has been placed on encouraging the widespread use and manufacturing of renewable energy vehicles in the sector in the coming years

In general, to transform our logistics system and deploy a sustainable transportation system, it is required to translate each of the interventions outlined in our strategies into a program and involve all stakeholders in the implementation.

Given the country's registering growth and geographical importance, there are indications that it is the region's logistics and transport hub. Given the potential for greater economic benefits to date, there are indicators that it can achieve greater economic benefits than it has ever achieved. It is imperative to expand investment with incentives alongside opening up the sector to the private investors.

Therefore, with this short proposal it is proposed to mobilize manufacturers, infrastructure suppliers, service providers in the logistics and transportation sectors and develop an incentive scheme to improve the global competitiveness of the sector.

Purpose of the study

The main purpose of this short proposal is to make an initial recommendation on an Incentive scheme to enable our transport and logistics services to be sustainable, suitable, efficient, , effective and competitive.

Scope of the study

The purpose of this recommendation is not a Comprehensive Incentive Program to encourage those involved in the transport and logistics services in general, but is only an investment incentive to fill the significant gap in logistics infrastructure and services, as well as sustainable transportation options (renewable vehicles and non-motorized vehicles).

Method of the study

The following strategies have been used to develop this incentive scheme.

Evaluation is done that shows there is a very significant gap between national logistics demand and supply;

- Greenhouse gas emissions from the transport sector is found as ever increasing.
- Ethiopian Freight forwarders and Shipping Agents Association are informed to submit their demand and interest in writing.
 - consultations have been made with Foreign investors and operators interested in engaging in logistics services in Ethiopia separately.
- Consultations are made with foreign and domestic investors interested in engaging in the transport sector: additionally, with vehicle importers and domestic vehicle assemblers.
- Experiences of neighboring countries and foreign countries are explored.

Bases of the incentive scheme

When preparing this incentive scheme, three issues are considered: They are:

- One of the key factors determining the quality, efficiency and effectiveness of the logistics service is the capacity of transport services, vehicles and trains. Since the gap between the demand and supply is huge and it is projected this difference will be more complicated in the future, interventions must be done to bridge the gap. If not, the country's logistics will be worse off in service provision, price and time. Therefore, as is indicated in the national logistics strategy, in order to bridge this gap and ensure its sustainability, this incentive scheme will have a prominent role.

Implementing the African Free Trade zone and aligning it with the practices of neighboring countries: Our country has a responsibility to implement the African

Free Trade zone. Not only that, preparations are under way to join the World Trade Organization. It is imperative to harmonize practices, policies, legal frameworks and tax systems to support trade activities by signing joint and separate agreements with international, regional, zonal and neighboring countries. For example, the requirements for participation, tax and income tax and similar practices and costs that are directly related to service competitiveness in trucks, machinery, construction of freight terminals and other similar logistics infrastructure and facilities are much lower in Ethiopia. If the big input for the competition is not the same as that of the neighboring countries, our country's operators will soon be out of competition. The logistics service will be at risk. Therefore, it is important to recognize the attention given to the logistics sector in neighboring countries and at the international level to support the development of our country's logistics sector and to encourage the participation of private investors.

Creating a comfortable, sustainable and convenient transport system. Given the economic activity and the huge growth in our country, the supply of both passenger and freight transport is very low. Nevertheless, from the transport sector a huge amount of carbon is emitted to the air. In addition, with the high foreign exchange demand and the fluctuations in international oil prices, which will put a strain on the country's economy, a system has been put in place to remove the subsidy for fuel in the coming years. On the other hand, it is clear that the country will be able to generate electricity from renewable energy sources and control its prices according to its production. In terms of health, the increase of number of respiratory patients, as a result of air pollution from the sector especially in urban areas, has become a cause for concern.

- Aviation in Ethiopia has a 77-year history and in this long history several significant results have been registered; for example,
- According to the International Civil Aviation Organization, the acquisition of permit to fly to USA(CAT-I), existence of a strong regulatory body in Africa, becoming one of the leading countries in Africa and one of the world's best aviation systems,
- The existence of an internationally competitive and preferred national airline

- Availability of state-of-the-art air navigation and airport services
- Have staff who are committed to fulfilling a mission in difficult situations
- Improving Private sector participation are some of them.

The International Civil Aviation Organization (IATA) and the African Union Commission (AUC) jointly reviewed the sector and tourism activities during the 10 consecutive years from 2009-2019. According to a study released in 2020, Aviation and Tourism will not only create a conducive environment for our country's economic and social development, but will also contribute to it.

Currently, air transport and tourism account for 6.6% of the country's gross domestic product (GDP), valued at more than \$ 4.2 billion, and the two sectors have created more than 1.1 million jobs, according to the study.

In the context of the 10-year development plan, goals have been set to modernize and expand the sector by using this positive experience. In this regard, private sector participation will play an important role in the success of the plan to significantly increase international and domestic flights, the volume of passengers and cargo, as well as foreign exchange earnings and job creation.

In this regard, the incentive framework should be considered as a positive step as government support is crucial to expand investment in the sector and increase national interest.

Based on these and other factors, converting the sector's energy source into renewable energy is a viable option; Creating an environmentally friendly, comfortable and sustainable transport system is crucial to achieving the country's climate-resilient green economy strategy and global sustainable development goals.

Therefore, in line with automotive and non-motor vehicle transport strategies, incentives need to be provided to those who produce and supply renewable energy (electric and solar) vehicles and non-motor transport options and private sector actors who provide infrastructure and services.

In general, based on these and other factors, it is has necessitated to produce this document to motivate and incentivize national logistics and transport manufacturers, infrastructure builders and service providers:

Assessment of the experience of other countries in terms of sector incentives

Countries in different parts of the world support investment by providing various incentives to selected economic sectors (priority sectors) of the economy. In most countries, these incentives are tax-deductible, as they reduce the financial burden on the government. On the other hand, countries are offering various non-tax incentives according to their economic potential, especially in order to develop sustainable transport systems.

Tax incentives

According to the Countries Experience Survey, there are various types of tax incentives in the sector, the most common of which are the following:

A. Tax holidays- to temporarily exempt a new company or new investment from selected taxes (at least corporate income tax

B. Tax Exemption : is a tax-exemption procedure for importing goods, especially for investment. For example, tax-tariff, excise tax, and VAT.

C. Tax Reduction : To make a tax deduction less than the statutory tax rate normally required; It usually applies to income tax.

D. Accelerated Depreciation : To reduce the tax burden of a new company or new investment in the early years to improve the liquidity of the investment; By increasing the depreciation rate of the capital resources, shortening the calculation period and moving forward; Or it may be done in the early years by calculating a significant reduction in aging.

E. Investment Tax Allowance : Withholding a certain amount of money to allow the company to deduct tax from the first years; If he has no money, payment will be transferred to next year.

Non-tax incentives

Governments make non-tax incentives that directly or indirectly affect the government's budget, taking into account the importance of achieving the long-term success of the sector. Here are a few of them.

a. Research and Innovation Incentives : Research and innovation is a system in which the transport and logistics sector is encouraged to respond to changing global conditions, such as budget subsidies, competition, and recognition. This is almost certainly the case in most parts of the world, and the type of incentive varies according to their level of development and focus. In particular, large-scale research and distribution budgets will be provided to factories that manufacture and assemble renewable energy vehicles.

B. Freight Modernization Incentives : The grant and loan system, which aims to control greenhouse gas emissions, especially in the European Union, to encourage existing and modernized truck operators. This system includes special support for those who use renewable energy vehicles.

C. Land and Infrastructure incentive: countries that have made a priority in developing the transport and logistics sector; They encourage investors in the sector to be productive and supportive as well as service givers by providing the land they need, at a low cost or free. In addition to supporting industrial zones, the government will provide power, water, telecom and other infrastructure to manufacturers engaged in the sector. Required services from the government are also provided in an efficient manner.

D. Incentive for Electric Vehicle Users : Citizens and operators using renewable energy vehicles and public and freight vehicles are encouraged in various ways to help strengthen the environmentally friendly and sustainable transport sector in various countries. These include providing low-interest loans to purchase electric vehicles, charging for pollution, getting up to 10% off the sale price of cars (budget support), giving priority to electric vehicles in the cities, and enforcing various restrictions. (For example, eliminating the odd/even license plate program, allowing them to use the bus lanes in an emergency...), exempting electric vehicles from congestion and parking fee.

In general, efforts have been made to assess the incentives of certain countries to encourage the transport and logistics sector by collecting data from various sources. The result from the data analysis and survey shows that many countries, including African countries, are working on an incentive program to attract investment in the transport and logistics sectors.

Due to the lack of an investment incentive framework for the transport and logistics sector in our country, the number of new developers entering the sector is very low and the existing investors in the sector are limited in their ability to invest in additional logistics infrastructure and equipment.

Thus, the process of importing vehicles and inputs, especially for service providers in the sector, has been shown to be much better and easier in terms of taxation. In this regard, our country emphasizes the need to develop an incentive program considering this positive experience.

Incentive framework for decision

Analysis of the data referred to in Sections 6.1 and 6.2 above, the transport and logistics sector incentives based on inputs from stakeholders including the field of investment and the types of incentives are presented in the table,.

No	Field of Investment	Type of investment
1.	Trucks	
1.1	Special Trucks	
1.1.1	Refrigerated truck	For new investors in the field by importing 10 or more trucks and each carrying a load capacity of 35 tons and more • Allow duty free import • Allow to enter the Franco Valuta system; • Withhold income tax for 5 consecutive years;
1.1.2	Livestock carrier	For new investors in the field by importing 10 or more trucks and each carrying a load capacity of 35 tons and more • Allow duty free import • Allow to enter the Franco Valuta system; • Withhold income tax for 5 consecutive years
1.1.3	Silo Truck	For new investors in the field by importing 10 or more trucks and each carrying a load capacity of 35 tons and more • Allow duty free import • Allow to enter the Franco Valuta system; • Withhold income tax for 5 consecutive years
1.2	Regular trucks with a capacity of up to 6000 vehicles	Allow investors to import 10 or more trucks with a loading capacity of 20 tons and more • Allow tax-free import; • Allow to enter the Franco valuta system; • Allow import with investment license without the need for import license..
1.3	Investment in Rail Line, Rail Station, Warehouses, etc. and related equipment (Locomotives, Wagons, Safety Instruments, Loading / unloading machines, etc.)	For a new investor who works by building a new railway line or investing in the existing line at a cost of not less than \$ 200 million and providing additional equipment. • Allow import of investment inputs and equipment duty free; • Allow import of investment inputs and equipment with Franco Valuta system. • Tax exemption for 10 consecutive years;
2.	Warehouse Services	
2.1.	Special Warehouse	

2.1.1.	Silo Warehouses and Facilities • Silo Warehouse and other facilities and equipment required for the maintenance and distribution of special dry load cargo in domestic silo warehouses, such as scaffolding equipment, weight scales, unloading and loading machines	To enable the construction of a silo warehouse with a capacity of 30,000 (thirty thousand) tons and more for the construction of a silo warehouse to engage in the field of Silo warehousing services. • Allow tax-exempt for inputs required for the construction of the Shiloh (Special Warehouse); • Tax exemption for 3 consecutive years; • In Franco Valuta to import construction materials
2.1.2.	Cold Store COLD STORE • Cool store and essential facilities and equipment to keep it easily damaged	Investors who provide services in the construction of 2500 square meters and above cold store • • Allow tax-free inputs and other equipment including the necessary inputs as well as refrigeration equipment necessary for the service. • Exempt income tax for 3 consecutive years; • Allow Franco Valuta;
3.	Dry port services	
	• Dry Bail Terminal, Connector Terminal, Vehicle (Ro/Ro) Terminal, General Cargo Terminal, Connector Freight Station; And provide a complete local dry port and terminal service by building other cargo centers and dry port and developing complete facilities and equipment	Import inputs required for dry port construction and services: • • Inputs / for civil works; 1 / Allowing the import of duty-free machinery and equipment for warehouses • Collaborate to get the goods into the Franco Valuta system.
4	4.1. Manufacturing aircrafts and components	• Allow tax-free import of machinery • Allow income tax exemption for a series of 10 years

Appendices

Appendix 1 : Predictive Foreign Experience

No.	Country	Tax Rights
1	China	The Chinese government has issued various policies to improve and support the electric transport sector. In China, any private company can apply for a license to manufacture and manufacture spare parts for electric vehicles. They have also made unrestricted use of Odd vs Even license plates for electric vehicles to enter the city, tax deductions, pollution protection, and a 10% discount on their sale price.
2	USA	The U.S. government has introduced duty-free and other tax-exempt procedures for electric vehicles, as well as extended access and other non-monetary incentives, such as free parking and parking.
3	Germany	A.D. In 2015, Germany adopted special rights for electric vehicles. Examples include specially designed parking spaces for electric vehicles, free access to bus lanes, partial exemption from parking fees, allowable access to their destination, and attractive subsidies for new electric vehicles. Deploying an all-encompassing charger, electric cars are VAT free. Electric car owners do not pay motor vehicle tax, and electric company cars are tax deductible. Electric cars also have the right to take the lead in daily traffic in Norway, and they can use the bus lanes even in urban sprawl.
4	Norway	The Norwegian government's tax cuts and subsidies for electric car owners, as well as free parking and low annual toll, make citizens choose electric cars.
5	England	While Great London frees many electric vehicles from traffic jams during the week, fuel-efficient vehicles are charged £ 11.50 (about \$ 15).
6	Denmark	Copenhagen has reduced the 150% registration tax on regular vehicles to 40% for electric vehicles.
7	India	Retail subsidy for electric vehicles is available. New Delhi has proposed a \$ 211 incentive for the purchase of electric vehicles in lieu of two-wheelers. (Delhi has proposed a scrapping and deregistration incentive of \$ 211 for two-wheelers.)

Appendix 2 : Active tax structure designed to encourage only electric vehicles

Type	Customs	Excise	VAT	Sur
New				
Completely Knocked Down (CKD)	0	0	15	0
Semi Knocked Down (SKD)	5	0	15	0
Completely Built Up (CBU) form	5	0	15	10
Used				
Used, of age one year or more but not exceeding two years	15	50	15	10
Used, of age exceeding two years or more but not exceeding four years	15	100	15	10
Used, of age exceeding four years but not exceeding seven years	15	200	15	10
Used, of age exceeding seven years	15	400	15	10

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