Kenya's Government Waives Tea-Packaging Taxes

Kenya's latest tax waiver on tea packaging is designed to spur value-added exports, but will it help as the country's tea-packaging industry is still grappling with numerous challenges beyond the high cost of sustainable packaging and limited local manufacturing of packaging inputs.

By Shem Oirere

To help boost its competitiveness in the global marketplace and to help tea producers, the government of Kenya has announced removal of some taxes on tea packaging to boost the country's value-added tea exports.

Cabinet Secretary for Agriculture and Livestock Development, Mutahi Kagwe, said in May 2025 that removal of excise duty on tea packaging materials and the elimination of value added tax (VAT) on value-added tea exports "will make it more affordable for our factories and processors to package and export value-added."

The waiver announcement, which has yet to receive legislative approval by Parliament for it to be effected, came hot on the heels of petitions by Members of Parliament and tea industry value chain actors who have complained against the imposition of more than 42 different taxes and levies payable to government agencies at different levels of the tea industry value chain right from farm to cup.

For instance, Kenya Revenue Authority (KRA), the country's tax collector, collects at least eight different taxes and levies from value chain actors in the tea industry, and another five levies are charged annually by the Agriculture and Food Authority, a state agency that regulates, develop and promote scheduled crops value chains. KRA has previously said that although packaging materials may be essential at the end of the processing of a product, "they are not used in the manufacturing process, as the process would still be complete even in the absence of the packaging materials."

One of the taxes is the 16 percent value added tax (VAT) charged on packaging material, an excise duty of 25 percent and an import duty of 35 percent for imported packaging material. The taxation on imported tea packaging material has far reaching impact on Kenya's tea industry because the country heavily relies on imported raw materials for tea packaging solutions.

A previous report by Kenya Institute for Public

Taxes on imported packaging material greatly affects Kenya's tea industry. *Image credit: Christine Simon*

Policy Research and Analysis (KIPPRA) says blending and packaging of the country's tea "is usually done outside the country, depending on the different importing markets." Moreover, the report says, "value addition and branding of Kenyan tea is minimal as compared to other tea-producing countries while restrictions related to packaging of branded tea in 10 kg packets limits access to international markets which require larger quantities."

This contrasts the situation in Kenya with that of Sri Lanka, another leading global tea producer, where KIPPRA says authorities have endeavoured to increase export revenue through promoting the packaging sector of the tea industry.

"This has seen exports of packet tea increase to 42 percent of tea exports; tea bags, instant tea, green tea and other packaged tea accounted for 2 percent of tea exports in 2014," the report adds.

Increasing Value Added Exports

Attempts have been made by the government to respond to the increasing push by tea industry players to grow value added export volumes, including the provision in the Finance Act of 2023 of a proposal to remove VAT on teas purchased for value addition with a promise to establishment of Common User Facilities (CUF). The facilities will be used for the value addition, and the government is to provide fiscal and administrative incentives to facilitate tea packaging prior to export at competitive rates according to the Tea Board of Kenya (TBK), the country's tea industry regulator.

In fact, the Tea Board has already initiated talks with Chali Tea of China and other local private firms to develop the CUF for value addition in a Special Economic Zone.

In June 2025, Cabinet Secretary for Treasury John Mbadi reaffirmed Kenya's commitment to making tea packing less expensive. For instance, Mbadi said Kenya, one of the eight member-countries of the East African Community (EAC), an intergovernmental organisation in East Africa, has been allowed by the other EAC members to levy a duty of 10 percent for the manufacture of packaging materials for one year instead of the higher rate ranging from 25 to 35 under EAC's Common External Tariff (CET). The higher duty is taxable on certain types of paper used in manufacturing packaging materials including in the tea industry.

The same remission of duty was granted to Uganda, Tanzania and Rwanda which produce smaller quantities of tea, to ease export challenges, especially for tea, while still supporting domestic tea packaging solution providers through waiver of tax and levies on raw materials.

"These customs measures agreed upon by EAC Ministers during the Pre-Budget Meeting, are intended to protect our industries and ensure they access raw materials and inputs at affordable prices," Mbadi said. The pre-budget meeting was held from 15-20 May by Ministers of Finance from the eight EAC member countries.

"In the 2025 Finance Bill, we are proposing to exempt packaging materials used for tea and coffee from VAT to protect these crucial sectors while safeguarding government revenue," he said.

"Tea packaging materials in Kenya are currently subject to VAT, Import Duty, and in some cases, Excise Duty, particularly for materials not manufactured locally," said Christine Simon, a Kenyan tea marketer and trader from Buy Kenyan Tea, a digital marketing platform.

She said imported sustainable packaging options tend "to attract higher costs due to import-related charges."

The announcement on tax incentives by Kagwe in early May 2025 involving the removal of excise duty on tea packaging and VAT on value-added exports, have been outlined in the 2025/2026 Finance Bill. "This has led to some uncertainty in the sector, as stakeholders await clarity on whether the waivers are immediately applicable or dependent on parliamentary approval of the Finance Bill," she said. "If implemented, the exemptions on VAT and excise duty could reduce the cost of value-added tea exports."

Kenya's value-added tea exports include tea bags and loose tea packed in retail packages as well as tea extracts and instant teas from local tea factories. Simon said the high cost of sustainable packaging materials remains a significant barrier in growing the tea sector, especially the value-added exports. "Many Kenyan tea exporters remain uncompetitive in international retail markets, where multinational companies blend Kenyan tea with cheaper origins and pack in lower-cost destinations," she explained.

Paper Packaging Imports

Separately, a Dutch government report on Kenya's value-added tea states the country imports most of the paper used in packaging including for tea, "due to an existing wood deficit and few paper mills." In cases where packaging manufacturers resort to using recycled paper, the report says the quality of the paper is inferior compared to that of virgin paper, a situation exacerbated by unavailability of high-quality machinery and the low quality of inputs.

Kenya has several tea-packing players including Chai Trading Company, Gold Crown Beverages EPZ, Ketepa, Empire Kenya EPZ, >

Melvins Tea, Imperial Teas EPZ, and many Export Processing Zone (EPZ) factories.

Effecting Long-Term Change

In the long term, Simon said Kenya needs broader structural reforms, "including support for local production of sustainable materials and reduction of energy costs, the price gap will persist, making it difficult for Kenyan packed tea to gain ground on international supermarket shelves."

Currently, Kenya, East Africa's biggest economy and the world's biggest black tea seller, exports over 400 million kg of tea annually but less than 10 percent of the exported tea is in finished, value-added form. Kenya grows tea in at least 21 of the 47 counties with smallholder growers under the Kenya Tea Development Agency (KTDA), estimated at 650,000, accounting for 60 percent of the total output while estate farmers produce 40 percent from approximately 25 large farms.

In 2024, an estimated 598.47 million kilograms of tea was produced in Kenya, nearly 4.95 percent more than in 2023 (570.26 million kg), partly because of increased fertiliser use and favourable weather conditions.

"However, compared to the year 2023, the export prices and the exchange rate to the US dollar were less favourable to the earnings," a 2024 annual report by Tea Board of Kenya stated. The Tea Board indicates the average export unit price was slightly lower in dollar terms at USD $2.27 per kilogram compared to $2.47 in 2023 while the mean exchange rate of the Kenya shillings to the US dollar was lower at 134.82 versus 139.85.

Although Kenya's latest tax waiver on tea packaging is a boost to value-added exports, the country's tea-packaging industry is still grappling with numerous challenges such as the high cost of sustainable packaging, limited local manufacturing of packaging inputs, expensive energy costs, and slow access to incentives for non-EPZ firms.

"While some EPZ companies benefit from tax exemptions on inputs, many domestic exporters do not enjoy the same advantages," Simon shared. "There is also a structural issue in the value chain: international buyers often prefer to purchase Kenyan tea in bulk and blend it with lower-cost origins before packaging in tax-friendly destinations."

In the long-term, Simon said Kenya must address the identified disparities and support competitiveness at all levels or else "value addition will remain aspirational rather than achievable."

Kenya exports over 400 million kilograms of tea annually.
Image credit: Ketepa

Shem Oirere is a freelance business journalist based in Nairobi, Kenya. He has spent more than 25 years covering various sectors of Africa's economy. He holds BA in International Relations and Diplomacy from the University of South Africa and earned a higher degree in journalism from the London School of Journalism and is also a member of the Association of Business Executives (ABE).