

Import of cotton: government all set to withdraw ST, customs duty

The government is all set to withdraw sales tax and customs duty on import of cotton, as was done last year, to encourage value addition, reduce cost of doing business and bridge the gap between production and consumption, sources in private sector told *Business Recorder*. Textile Division, source said, has submitted a summary to the Economic Co-ordination Committee (ECC) of the Cabinet, which is expected to be considered very soon.

Pakistan has been a net cotton importer since 2001. Domestic cotton is of short to medium staple length which implies that long and extra long staple cotton has to be imported for production of finer yarn counts for subsequent transformation into high value added finished products.

Import of cotton has remained duty free till the slab of 0% was abolished in 2014-15 and customs duty (CD) of 1% was imposed along with the 5% sales tax. Later on 1% slab was made 2% and then 3% along with the 1% additional duty to make it 4% ie cotton was subject to 4% CD and 5% sales tax till January 15th, 2017.

According to sources, the Prime Minister's package of incentives for exporters was announced on January 10, 2017, wherein textile sector was provided a number of facilitations including withdrawal of customs duty and sales tax on imported cotton from January 16, 2017. Provision of competitively priced quality cotton to textile industry is basic foundation on which export competitiveness is built.

The sources further stated that Finance Division moved a summary to the ECC to re-impose the customs duty and sales tax on imported cotton. The ECC constituted a committee and on the recommendation of the committee duties were re-imposed from July 15, 2017 in view of arrival of domestic cotton.

The textile industry of Pakistan consumes around 12 to 15 million bales of cotton per annum. Sustainability and viability of spinning industry is totally dependent on performance of the domestic crop. Textile industry has to meet this shortage from import of cotton from other countries. The impact of duties are induced in the price of domestic cotton, resulting in increase in cost of doing business for the entire textiles value chain, specially for export oriented sector in highly competitive international markets. It may also be noted that mills consumption have reduced and entire gap has not been bridged in last two year.

According to Cotton Crop Assessment Committee (CCAC), the cotton crop for the year 2017-18 is expected to be around 12.6 million bales of 170 kilogram, an increase of 16% compared to last year. Furthermore, 8.13 million bales have arrived in the ginning factories as of November 1, 2017 compared to 6.98 million bales in the same period last year, showing an increase of 17%. It is pertinent to mention here that bulk of the cotton will be lifted from farmers before January 1, 2018.

"To encourage value addition, reduce the cost of doing business and fill the gap

between production and consumption as by January 1, more than 95% of the cotton will be lifted from the farmers and it is proposed that similar to last year decision, customs duty and sales tax on imported cotton may be withdrawn," the sources quoted Textile Ministry as saying in its summary to the ECC.

Textile Ministry has also claimed that the matter has been discussed with secretary Ministry of Commerce, who has endorsed the proposal. The issue was also discussed in a meeting of All Pakistan Textile Mills Association (APTMA) at Lahore, chaired by federal minister for national food security and research on November 13, 2017, who agreed when domestic cotton will be lifted from farmers, the duty may be removed.

However, Federal Board of Revenue (FBR) has no objection regarding exemption from sales tax on import of cotton but proposed that instead of exemption, grant of zero-rating on sales tax on import of cotton so as to restore the position existing prior to July 1, 2017 which can be done through further amendments in SRO 1125(1)2011.

The FBR is also of the view that it has no objection to withdrawal of customs duty on import of cotton. However, under the prevailing law, changes in the rate of customs duty prescribed under First Schedule to the Customs Act, 1969 can only be made through an Act of Parliament.

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