Trade Policy envisages consistent framework for three years

The business community termed the new Trade Policy 2009-12 as positive because it provided traders a consistent policy framework for three years along with envisaging relief measures for many sectors. They also appreciated the overcoming of supply-side constraints and creating different funds to support industries.

According to President of Islamabad Chamber of Commerce and Industry, Mian Shaukat Masood, the zero-rating of all kinds of exports was a good incentive for manufacturers-cum-exporters to improve their profitability. He said the government should have announced textile policy immediately after trade policy as delay in announcing textile and monetary policies meant that textile sector would lose first quarter of current financial year to improve exports, which would be a great loss to the economy.

The ICCI Chief said the USA and EU had provided duty free access to Bangladesh for textile products which badly affected exports of Pakistani textiles and to avoid further business losses, many Pakistani textile sector businessmen were considering moving their businesses to Bangladesh. He urged the government to immediately take up this matter at hand with Western and European countries to provide same incentives to Pakistan to save textile industry from further damage.

New trade policy expected to revive export

Promotion of exports is crucial for strengthening the national economy and new Trade Policy 2009-12 should focus on reviving the export oriented industries, said Mian Shaukat Masud, President, Islamabad Chamber of Commerce & Industry (ICCI). He said massive power load shedding has played havoc with export-based industry due to which Pakistan failed to achieve even the revised export target of $ 19.2 billion as it could hardly touch the $ 17.781 billion figure by the close of 2008-09 while the target was set initially at $ 22.1 billion.

He said energy crisis, high interest rates leading to very costly loans and high production cost are main hurdles in improving exports and trade policy should reduce cost of utilities and inputs to bring them down to the level of competing countries.

Textile sector has the largest share in country's exports but due to unfavourable conditions many textile units have shut down their operations. He said trade policy should encourage zero-rated inputs for export-based industry to revive it.

He further said government should suspend all taxes and levies, give extension in payment of loans and provide soft terms credit facility to give some relief to export-based industries, which would help them, come out of the crisis. Government should also announce separate power and gas tariffs for textile and export-oriented industries along with duty-free import of machinery and accessories for these industries.

Pakistan misses export target by over $4.5 billion

With the rising cost of business and a slowing economy, Pakistan has missed its' export target by a staggering $4.5 billion, suggesting a rapid shrink in the domestic market during the outgoing fiscal year.

The decline in manufacturing growth, which is a main indicator of exports, is rendering thousands jobless, many of whom are already under pressure due to high inflation, lawlessness and uncertainty.

Provisional figures showed that due to decline in export proceeds as well as substantial cuts in imports volume, the country's trade deficit narrowed by 21% to $16.49 billion in the outgoing fiscal year 2008-09 as against $20.914 billion last year.

Export proceeds dropped to $17.57 billion for the year 2008-09 from $22.1 billion target set for the same year. After witnessing successive shortfalls at the start of the year, the government projects export proceeds at $19.1 billion with a shortfall of $3 billion by the end of June.

Despite this downward revision, the government not only missed the revised export target but also fell short of last year's export proceeds of $19.052 billion by 8% owing to policies undertaken during the year under review.

Analysts believed the greater cost of borrowing from banks, and low consumer demand in the international market for Pakistani textile products particularly in the USA and EU were to blame. Pakistan's exports to major markets USA, Germany, Japan, UK, Hong Kong witnessed negative growth.

Import of industrial raw materials and machinery particularly the textile machinery also declined during the year under review which also saw industrial output declining by 8%.

The textile sector, which until recently had been the main driver of the exports growth has entered a negative growth of over 9% during the current fiscal year.

Exports of all middle and high value added categories including garments, bed wear and towels experienced falls. The sluggish performance of the textile sector highlights the tough competition faced in global markets.

This scenario suggests a possibility of further deceleration in textile export growth in the short term, which may translate into large scale layoffs and a decline in foreign exchange reserves for the country.

Textile exports to EU may surge to $20 billion

Federal Textile Adviser Mirza Ikhtiar Baig has said Pakistan's exports to the European Union may increase three-fold, if Pakistan is given zero-duty status, its exports to the EU may increase from the current $7 to $10 billion to about $15 to $20 billion or even $25 to $30 billion, considering that total world wide EU imports amount to $800 billion.

Pakistan can win this status like other countries which have exports of less than 1% of total EU imports (excluding oil) and qualify the GSP-plus scheme. The exports from Pakistan stand at around 1% to 1.5%, which is at threshold for qualification of the GSP-plus status. The exports can be increased to 3% plus allowing three to four years period to sign or ratify required international treaties and conventions.

Furthermore, if a country retains a much higher foreign debt to GDP ratio than that of Vietnam and India and is classified as a moderate to high indebted country by the UN. Vietnam and India are classified as low indebted country.

The Human Development Index (HDI) of Pakistan, as classified by the UN, is 142, which is higher than Vietnam and India and also higher than Bangladesh which are getting zero duty status from the EU. The study noted that comparing July 2005 or January 2006 to the year 2004, Pakistan is only country, whose zero duty status in the EU was eliminated, while many countries that were not given zero duty in 2004 (Sri Lanka), are now allowed the status. This implies that the EU has withdrawn its support from Pakistan's economy.

Feinstein Bill: Pakistan will lose $2 billion textile exports

Pakistan's textile exports will be reduced by about $2 billion if Pakistan is not included in the Feinstein Bill. Feinstein Bill introduced in the US Senate for granting duty-free status to poorly performing economies is in final stage and is expected to be passed soon.

If Pakistan remains excluded from the Bill, it will have serious impact on Pakistan's textile industry, and textile exports may decrease from $10.5 billion to $8.5 billion. USA is the largest importer of Pakistan's textiles.

The Bill proposes to offer duty-free access to textile products of Afghanistan, Bangladesh, Bhutan, Cambodia, Kiribati, Laos, Maldives, Nepal, Samoa, Solomon Islands, East Timor, Tuvalu, Vanuatu and Yemen. Industry circles expressed concern over the possible exclusion of Pakistan from this duty concession facility. In the current security scenario, Pakistan is under more stress than the least developed countries.

Sources added that the said Bill for the least developed countries, if approved, would result in reduction in Pakistan's textile exports to the US. Pakistan is negatively affected by the war on terror and deserves some compensation in the form of better access to the American market for its products.

Due to electricity and gas load shedding, Pakistan's textile industry is already in deep trouble and its survival would be further endangered if the bill, introduced in the US Senate for granting duty-free entry to textiles of 15 least developed countries (LDCs), excludes Pakistan.

Textile industry needs energy to keep wheels moving

All Pakistan Textile Mills Association (APTMA) has presented an elaborate energy supply plan to the government to keep the textile industry's wheel moving and avert a total collapse, leading ultimately to unemployment and decline in country's exports.

Textile industry needs energy to keep its wheel moving in order to provide jobs to laborers, produce surplus exports and generate revenues for the national exchequer. The textile sector's total electricity consumption has reduced to 80 MW besides gas consumption of 200 MMCFD, but the government has failed to meet this little energy demand of the industry, causing 30% closure of the industry, massive bank defaults and an across-the-board unemployment.

Chairman APTMA, Tariq Mehmood, said in a letter to the government that the textile industry, being the engine of growth, has many backward and forward linkages to keep the country's economy flourishing. Therefore, he said, it is an urgent need of the hour to take the industry's demands and proposals seriously by the government circles.

He also pointed out that the electricity B3/B4 tariff has been raised by more than an unbearable 60% since February 2007 and there is an urgent need for rationalization of the existing electricity B3/B4 industrial tariff in the wake of declining oil prices from a peak of $150 per barrel to $60 per barrel to make the textile industry competitive.

It is interesting to note that the Federal government has given load shedding exemption to textile industry, but Pakistan Electric Power Company (PEPCO) is denying this exemption. On exemption from electricity load shedding, Tariq said the textile sector was exempted from electricity load shedding on June 10, 2008 and this exemption should continue for the ailing textile industry.

The industry circles believe that the textile units would start performing with smooth supply of electricity, which is being denied from May 14, 2009 onwards. According to these circles, majority of textile units were set up in and around 2005 and they have sufficient capacity to perform efficiently until 2025 to feed banks and employment exchanges of the country.

Cotton output may exceed target by 9.4%

Cotton production may exceed the target set for 2009-10 fiscal year (13.36 million bales) by about 9.4% to 14.6 million bales following 40% increased sowing in Sindh and usage of Bt seed for the current financial year.

According to Ministry of Food and Agriculture, the production of cotton may increase by 1.24 million bales more than the target of 13.36 million bales set for 2009-10, although the usage of Bt seed is not permitted in the country. The sources revealed that as the government had banned the sowing of rice in the Sindh as area under cotton had been increased by 40%. Similarly, an increase of 20% had been recorded in cotton sowing area of Punjab Province, which would be 88 million acres.

They revealed that in the absence of certified seed and government's failure to introduce Bt cotton last year, Pakistan's cotton production for 2008- 09 had witnessed a shortfall of 2.8 million cotton bales.

The sources further said that against the set target of 11 million bales, Punjab had produced 7 million bales, witnessing a decrease of 4 million bales, while Sindh fall short of its set target by 0.5 million bales. Due to failure in the achievement of target, cotton worth Rs 25 billion was imported last year to meet the above gap. If this year the set target could be achieved, foreign exchange worth Rs 30 billion could be saved.

Apparel textile units report decline in value added export orders

Despite having fewer export orders, several apparel textile manufacturing units are still unable to fulfill them due to financial problems, while some units have already ceased to operate.

Apparel textile manufacturers-cum-exporters have expressed concern over increased in electricity rates following the withdrawal of subsidy. The export of country's readymade garments posted a 28% or $45.483 million slump, as it remained $112.844 million in May 2009 as compared to $158.327 million in May 2008. Garments export declined by 22.7% to $1.121 billion during July-May 2008-09 as compared to $1.439 billion during the same period of the last fiscal year.

Former chairman of Pakistan Hosiery Manufacturers Association (PHMA) Saleem Parekh held the global economic recession responsible for decline in the export of value-added textile products. He said there were many manufacturing units which despite having fewer export orders could not meet the shipment deadline due to their weak financial position amid economic uncertainty in the country.

The US has huge stocks of unsold value-added items as its markets could not attract buyers because of economic downturn, thus the local exporters received reduced orders. For the buyers of EU countries, Bangladesh with no import duties had been a low-cost market rather than Pakistani exporters at a higher-cost.

He said the export orders, which were beyond production capacity of the Bangladeshi manufacturers, were coming to Pakistan. But now, there is no such possibility in the present circumstances.

Textile sector: deduction of income tax on R&D facility likely

Federal Board of Revenue (FBR) is planning to deduct income tax on the facility of Research and Development (R&D) for the textile sector. Sources said that the board was considering deduction of income tax on Rs 4 billion allocated for the development of the sector in 2008-09.

They said the board was of the view that the R&D facility should be considered as taxable income and had directed all Regional Tax Officers (RTOs) to send proposal in this regard. The Federal government had been allocating sufficient amount annually under the head of R&D support since 2005 to textile units. The State Bank of Pakistan (SBP) had also withheld release of R&D support for the period of June 2008 on account of fraud on the part of some exporters. In spite of receiving around Rs 50 billion from the government in past four years, the textile sector did not provide fruitful results. They said the issue was in limelight, when Mirza Ikhtiyar Baig, Adviser to Prime Minister for Textile sent a letter to the Chairman, dispelling that the R&D fund could not be considered as income of the textile units.

According to the letter, the SRO-437 (1)/2005 and SRO-803(1)/2006 have allowed R&D support to garments and home textile exporting units from the Federal government for activities like product development, skill and training development, up-gradation of information technology and professional consultancy and it had been mandatory for these exporting units to show said R&D as expenditure in their annual account, therefore the question of income does not arise in this context.

Dr. Baig requested the Chairman of FBR for his assistance in this matter and to resolve it and since the textile industries are experiencing down fall in exports, this move would affect these exports more.

Duty-free treatment to textile products from ROZs

Powerful US business companies and chambers, led by American Apparel and Footwear Association, have urged Congress to revamp the Reconstruction Opportunity Zones (ROZs) programme for Pakistan and Afghanistan and extend duty-free treatment to all textile and apparel products.

They noted that the present ROZs bill, which was conceived two years ago by the Bush Administration, was outdated. They argued that for the ROZs initiative to be effective, duty-free treatment must be extended to all textile and apparel products, especially to cotton trousers and shorts and cotton knit tops.

They pointed out that cotton knit shirts and cotton trousers were vitally important to Pakistan, yet those products faced US duties that averaged around 17%. Configuring the ROZs programme to include those items will give Pakistan a fighting chance in this competitive industry. Moreover, US producers are not at risk from apparel exports from Pakistan; it is the other Asian producers who compete with Pakistan. Cotton knit shirts and cotton trousers from Pakistan represent a mere 3.6% of total US imports of these products. As such they asked Congress to consider expanding the geographic areas in Pakistan to include areas that were currently capable of production.

APTMA opposes increase in import duty on PSF

The All Pakistan Textile Mills Association (APTMA) has reacted strongly to the application by manufacturers of polyester staple fibre (PSF) to the National Tariff Commission (NTC) for doubling protection against import of PSF. The APTMA spokesman said the textile industry was already demanding of the government to remove import duty of 4.5% on PSF, as it was burdening the local industry heavily.

PSF manufacturers have approached the NTC for increasing import duty on PSF from 4.5% to 8%, which is against the industry's demand. In 2008-09, customs duty on PSF was fixed at 4.5% while PSF was allowed to be imported in the 'duty and tax remission for export' (DTRE) scheme. It is worth mentioning that textile industry is running short of PSF, leading to a situation where PSF is not being made available even on cash payment terms. The incidental effects of such protections on PSF and MMF are very high, especially in the absence of a tangible zero rating system in place.

During last fiscal year, production of PSF was curtailed in the country due to closure of a local PSF manufacturing unit for reasons other than the dynamics of the business of PSF. This created shortage in the domestic market. The crisis in the textile industry has been aggravated by reluctance of banks to extend financial service to many spinning mills and especially to establish letters of credit for import of PSF.

This led to further scarcity of PSF in the domestic market and uncalled for raise in price by the manufacturers, significantly higher than landed cost of imported material in spite of high incidence of duties and incidental expenses.

The imports are disadvantaged to the extent of 18% to 20% which allows the manufacturers to price the domestic PSF at more than 25% to 30% of the price in origin. With 20% of local industry's fibre use being PSF, about 35% of the spindleage in spinning sector and 50% of power loom sector, especially in Faisalabad, are dependent upon availability of PSF at internationally competitive price. A major portion of fabrics and bed linen exports also depend upon PSF availability. All these sectors are under severe stress because of abnormally high price of the fibre in Pakistan as compared to international levels.

Textile sector to resolve issues on tax non-compliance

Instead of generating revenue from the textile sector, which has the largest share in the export basket of the country, the FBR is paying refunds/rebate to the sector and provision of zero-rating sale tax, without any desired results.

This has been revealed in Third Quarterly Review of the Federal Board of Revenue (FBR) research done on Tax Contribution by Textile Sector by a senior tax official proposes that a Textiles Industry Group should be created; such a group should include taxpayers and representatives of government to resolve issues on tax non-compliance in this big sector.

At aggregate level the picture is quite interesting, instead of getting tax revenue from the sector, the FBR is paying much more higher in the shape of refund/rebate to the sector. The extent of negative collection was Rs 25.9 billion in 2004-05, which has now reduced to Rs 1.1 billion in 2007-08. However, the provisional figures up to March 2008-09 indicate that the negative collection has again jumped to Rs 5.5 billion. The net revenue loss will be much higher if the refunds claimed under the head of income tax are included.

The returns of the textile sector have been investigated with respect to those tax filers who have declared business income or losses or those lodged nil claims. Interestingly only 268 (15%) of the return filers of this sector have declared business income in their returns, while 359 (20%) have shown business losses and 1,155 (65%) have submitted nil statement. Thus, it is safe to assert that out of 1,782 return filers only 268 or 15% of them have paid income tax and the rest 85% taxpayers have either declared business losses or there is nil income to declare. More ironically, the 65 percent taxpayers who declared nil income during Tax Year 2008 have claimed refund to the extent of Rs 430 million. Out of 1,782 returns filed during tax year 2008, the returns of top 20 taxpayer's have been further examined and found that 13 (65%) filers have not declared their gross tax and all of them have left the column "net tax payable" as blank.

Notwithstanding, positive collection (though meagre amount) on account of income tax and customs duty, the overall collection turned into negative, mainly because of huge refund payments. This situation is alarming as the government is facing revenue shortages which lead to budget deficit and low tax-to-GDP ratio.

Govt allocates Rs 40 billion export fund for textile sector

Government has allocated Rs 40 billion export investment support fund, to support the ailing value added textile export sector, which is trying to grapple with a myriad of problems both at the international and domestic front, said Dr Mirza Ikhtiar Baig Federal Adviser on Textiles.

He said government plans to give enhanced duty drawback to value added textile exporters in lieu of R&D support. There is also a summary to withdraw 12.5% cross subsidy on gas, which will benefit mainly spinning sector. In addition there are schemes like opening of warehouses and marketing offices abroad, Pakistan government has pledged to set up this fund to help boost the country's textile export earnings as part of the Federal Budget for 2009-10. In addition, Rs 500 million has been earmarked for the 3% interest rate subsidy to the textile Industry.

He further said that 67% of the Export Investment Support Fund would be spent on textile and clothing industry with a view to moving the sector towards consolidation and value addition. In this budget of Federal Excise Duty (FED) on the import and supply of viscose staple fibre is withdrawn and zero tax on exports of textile and clothing items to be made zero rated in true sense. The textiles industry will be given priority in the allocation of gas and electricity, as the Industry is now first priority. The government also plans to establish large export houses, and launch a National Trade Corridors Improvement Program.

Pakistan may buy Bt cotton seed worth $1 billion

Pakistan is in the process of signing a $1 billion agreement for the purchase of Bt cotton seed from Monsanto, a seed developing company of the United States, with a view to increasing cotton production by 40%, said Textiles Adviser Dr Mirza Ikhtiar Baig.

He said package includes latest Bt cotton seed with weed control technology called 'Bollguard II with round-up ready flex', which would save up to $250 million spent on pest control. According to preliminary talks with the company, it would charge $21 or Rs 1,680 for sowing Bt seeds over one acre. Of that amount, the company would return $4.2 or Rs 336 to the farmer for research purpose.

He said our requirement is 16 million bales but production was nearly 12 million bales, thus, import reaches around 4 million bales and we can save $5 billion annually by increasing the yield.

India has boosted its cotton production to 30 million bales from 18 million. Pakistan can increase it to around 18 million bales from the current 12 million. The textile adviser said they were going to improve the supply chain. In the last couple of years, cotton production was low and industrialists suffered due to imports. In Punjab and Sindh around 75% of land was already cultivated with Bt cotton.

APTMA criticizes provisions of the Finance Bill

Terming the Finance Bill 2009 anti-industry amid an unprecedented financial and energy crisis, the All Pakistan Textile Mills Association (APTMA) has deplored that the government's actions do not match its words about turnaround of the textile industry.

He said provisions of the Finance Bill were not textile industry-friendly at all as was presumed in the pre-budget scenario. Reintroduction of 0.5% minimum tax on domestic sales, one per cent withholding tax on imports of textile articles, 16% federal excise duty on banking and insurance services and withdrawal of exemption from 16% sales tax and 4% withholding tax on machinery and parts.

The reintroduction of minimum tax on domestic sales would cause liquidity problem, which had already reached alarming levels, the textile industry could not generate funds due to unbearable mark-up, acute shortage of energy and unimaginable power tariff.

Similarly, the APTMA Chairman said, 1% withholding tax on imports of essential raw material (cotton and polyester staple fibre) should be withdrawn immediately. This will enable the industry to purchase some 3.0 million bales of cotton annually from abroad in order to meet the shortage and to compete with regional competitors in the international market.

On imposition of 16% FED on banking and insurance services, he said such an advance tax would play havoc with the growth of the industry which was already facing adverse circumstances and should be withdrawn immediately.

Tariq Mehmood said the government should try to understand the fast changing requirements of the textile industry across the globe and focus on facilitating it in order to keep it viable. He said the passage of the Finance Bill would result in more closures, ultimately causing more unemployment and unrest in the country.

Textile industry needs special package for revival

Government has declared year 2009 as the year of industrial revival, but Federal Budget 2009-10 did not spell out any detailed plan to revive industrial sector including textile industry. The government should work out a special package for the quick revival of textile industry, which was the backbone of exports, said Mian Shaukat Masud, President, Islamabad Chamber of Commerce & Industry (ICCI.

He said that textile industry provided employment to about 3.0 million people while another 3.0 million were connected with it indirectly for their livelihood, but still the government had ignored this key sector of the economy in the budget.

Some anti-business measures taken in the budget like doubling of withholding tax (WHT) from 2% to 4% on import of raw materials for the whole industry, levy of new taxes on raw materials, withdrawal of cross subsidies on electricity & gas etc. would further enhance the input cost making textile sector more uncompetitive, particularly against our neighbouring countries including China and Bangladesh.

Mian Shaukat said that the cross subsidy in gas prices given to other sectors at the cost of textile industry was hurting its cost of production. There was a great potential to increase our textile exports to Turkey and Iran. He said Iran was buying Pakistani textile products (fabric) from Turkey because of the concessional tariff while Pakistan had huge potential to directly supply textile products to Iranian markets if some preferential tariff was allowed.

He said that textile spinning and weaving industry was facing an unprecedented crisis since July 2006 due to which sizeable textile capacity had been severely impaired and textile exports in quantity and value terms had declined all across the value chain by 30%-40%, compared with the maximum export in 2006-07.

ICCI President further said China, India and Bangladesh had provided huge facilities to their textile industries and exports which badly eroded the competitiveness of textile industry. To offset these disadvantages, it was high time that government should have provided tax relief to this industry and exempt all textile machinery, raw materials, spares and chemicals from taxes & duties.

Rupee value may face erosion

The exchange rate regime is likely to witness yet another round of rupee devaluation 4%-5% during new financial year 2009-10. It may be mentioned that 28% rupee devaluation during the out going financial year 2008-9 provided a cushion to the earnings of the textile sector. However on the back of declining demand and global recession the overall textile exports during 11 months of the outgoing financial year were down by 9.5% on year basis to $8.72 billion. It may be noted that on the back of tough export scenario, the government has reversed its proposal to withdraw export tax incentives of tax paid at 1% of net sales vs. 35% of income which looks a notional positive for the textile sector.

The stiff competition from Asian peers is likely to pose new challenges for textile exporters over the next 12-months despite signs of global growth recovery and direct support to textile exporters via trade agreements, duty free access and government budgetary support.

Indian textile exporters enter Pakistan through ATT

Indian textile exporters have entered Pakistani market through Afghan Transit Trade (ATT, said industry sources. Sources said at present several markets in Karachi, Lahore and Peshawar are flooded with highly competitive Indian polyester. However, it is not being imported through legal channels and goods imported for ATT are being sold in local market.

After released from Pakistani ports, ATT goods are not transited to Afghanistan and major imported containers are emptied in different local markets especially Lahore and Peshawar. Export substitute industry is being affected badly with high import of polyester from India through ATT, while export-oriented textile industry is also suffering millions of rupees losses.

They said that Indian textile traders and exporters are also regularly visiting Pakistani markets and getting millions of rupees orders, as they have more advantages on the export of textile products as compared to Pakistan.

Industry sources further said the Indian government has announced massive incentives package for textile exporters in contravention of WTO rules. Pakistan is already facing difficulties in increasing exports and at the same time import of Indian polyester through ATT would further jolt the export oriented textile industry.

Trader have approached Federal government on the issue, however no positive action has been taken by the authorities in this. Recently, after a detailed presentation, Prime Minister's Advisor on Economic Affairs Shaukat Tarin also promised for a prominent action, but still there is no development on this sensitive issue. He urged the government to take immediate action and regularise the ATT to save local polyester and textile industry.◆