

## EU offers lower tariff on seven items only

The Ministry of Commerce has accepted the European Union's new package of trade concessions for Pakistan, which offers lower tariffs on only seven items, said an official of the Commerce Ministry. The EU wants to avoid total collapse of the package it earlier offered to help Pakistan cope with the effects of the devastating 2010 floods. The newly offered TRQs on the products of textile and footwear will have a financial impact of less than \$30 million euros. The products on which lower tariffs are being offered are men's trousers, pyjamas, baby garments, women's pyjamas and three footwear products.

The official spokesman for the Commerce Ministry further said the Ministry has dispatched the reply to this proposal through Pakistan's mission in Brussels to be submitted with European Union for further action. However, the official said that it was not Pakistan's preference to bring the earlier package, covering 75 items, into this TRQ. The EU would offer lower tariffs on these seven products after calculating their last three years' exports average, with a ceiling of \$110 million per year. The exports beyond this level would be treated under normal GSP scheme. Bangladesh, along with Brazil, Argentina and Indonesia, blocked the earlier EU proposal in the first week of November at the World Trade Organization (WTO) on the pretext that it would make it difficult for them to compete with Pakistan in the European textiles market.

Pakistan managed to persuade India in the recent visit of the Commerce Minister to support the EU's package at WTO. India had earlier blocked the package. The EU's original plan was unveiled in October 2010, offering lower tariffs on 75 Pakistani products. It would have boosted Pakistan's exports by at least 100 million euros. World Trade Organization rules say a deal must be offered to all trade partners. For offering concessions exclusively to Pakistan, the EU needs to get all WTO members' support.

The EU has also made a commitment that Pakistan would be given a GSP-plus regime as 'next entrant' in 2013, which will provide a duty-free quota of 20% per year on products, including fabrics, towels, women's jeans and socks. The tariff suspensions will be applied for two years with a third year only granted after an assessment.

## Bangladesh competes with Pakistan for exports to EU

Bangladesh plans to end a complaint against a European Union move to grant beneficial import terms to Pakistani textile makers after an agreement to impose a tariff cap on six items instead of eight.

Pakistan had expected a long-announced plan for trade preferences for Pakistani textile makers to be approved during a meeting of trade diplomats in Geneva to help the country recover from devastating floods last summer. But a Bangladeshi trade complaint halted the move.

Bangladesh competes with Pakistan to export textiles to Europe and complained that the proposed beneficial terms would create an unfair advantage for Pakistan. But it said a move by Europe to keep tariffs even on six items swayed them to drop the objection. Bangladesh has no objection to the revised proposal if formally submitted to the WTO, said Bangladesh Commerce Secretary Mohammad Ghulam Hussain. The two-year cut in tariffs offered by the EU would be a small boost for Pakistan's exporters against Bangladesh, which as a least developed country has quota- and duty-free access to EU countries, unlike Pakistan. Bangladesh exports in the last fiscal year that ended in June 2011 were nearly \$23 billion. Readymade garments accounted for more than 80% of total export earnings, with 56% of overseas sales in EU markets.

## Textile industry seeks release of drawback funds

The government has failed to pay textile exporters their outstanding drawback of local tax and levies running in billions, which is negatively impacting the industry, said sources.

Exporters and industrialists of the textile sector, who recently gathered to discuss the implementation of Textile Policy 2009 with the textile ministry, complained that the industry was unable to meet export contracts due to financial crunch. It would reduce the country's textile exports in months to come.

An amount of Rs 12.75 billion had been stuck since February 2011. The drawback funds are disbursed through the State Bank of Pakistan. In textile policy 2009, the government announced the drawback scheme for two-year period that ended in June, 2011, which allowed 2% drawback on local taxes and levies to

exporters of bed linen and 3% to garments. Under the policy, Rs 17 billion were proposed for the year 2009-10 and Rs 27 billion for 2010-11, but the disbursement promises are yet to see light of the day.

According to exporters and government officials, the Central bank has disbursed only Rs. 3.8 billion since mid-October, 2010 to end January, 2011, while Rs. 12.75 billion are still outstanding since February 2011 and the amount could further pile up, as there are still some stuck up consignments.

The government has failed to refund past pending claims of Rs. 125 million under the research and development subsidy (R&DS) to the textile sector. According to the State Bank of Pakistan, the entire outstanding claims could not be paid as exporters either did not have required registration or their accounts were not operative with respective banks.

During the meeting, exporters warned that they might miss the textile export target of \$25 billion for 2014 set by the Textile Ministry. After the meeting, Secretary Textile Shahid Rasheed accepted that there were pending claims and payments delayed, but the ministry had not defaulted.

## Duty for commercial import for raw materials eliminated

The Federal Board of Revenue (FBR) has restored zero-rating on commercial import of raw material for textile, leather, carpet, surgical and sports industries with effect from November 22, 2011.

The decision was taken at a meeting held between FBR officials and a delegation of Karachi Chamber of Commerce and Industry (KCCI) in Islamabad.

Commercial importers pay 5% duty on the import of raw materials for these products, while manufacturers and exporters do not pay any duty on the import of same materials. Now whosoever imports these materials will not pay anything under the head of import duty, said Mian Muhammad Abrar, President of KCCI.

He said that commercial importers were paying a total of 13% duty on the import of raw materials: 5% sales tax, 5% income tax and 3% value addition tax. Commercial importers were charging zero duty on the sale of these materials to manufacturers and exporters as per law and later claiming refunds. There are more than 180 items on which the import duty

has been eliminated under SRO 283. He said that a number of containers carrying goods worth billions of rupees remain stuck at ports. Under SRO 1012, commercial importers were liable to pay sales tax on the import of raw material for textile, leather, carpets, surgical and sports.

### Government's textile policies would not yield positive results: PHMA

Multiple difficulties and on-going energy crisis would plunge the upcountry export-oriented and labour intensive textile sector to disaster and closure of industrial units will bring joblessness causing industrial unrest and worsening law and order situation.

Chaudhry Salamat Ali, former Chairman and Chief Co-ordinator, Pakistan Hosiery Manufacturers and Exporters Association (PHMA) North Zone said that industrial and textile policies could not yield positive results so far, because the tariff and fuel adjustment charges of electricity and gas bills are being gone high in every month plus continuing load-shedding.

He pointed out that rising cost of production is the core issue for textile industry is prevailing economic conditions and discontinuity of drawback refund would shed negative impact on exports and creating financial crunch.

Drawback of local taxes was announced in the textile policy 2009-14 and many decisions taken in the textile policy 2009 has produced good results and exports of value-added textile goods have increased during last two years, but now Industrial production is decreasing and investment in this sector flown away. He demanded that textile industry should be exempted from gas load shedding in the larger interest of national economy.

### Towel makers for revision of cap under TUF scheme

The Towel Manufacturers' Association of Pakistan (has suggested that the cap of Rs 50 million per annum to one unit under the Technology Up gradation Fund (TUF) scheme, proposed by the Ministry of Textile Industry, needs to be re-visited.

Chairman of TMA, Southern Circle, Feroze Alam Lari, while forwarding suggestions relating to TUF scheme, said that the Ministry of Textile Industry had proposed that the assistance to one unit will have a cap of Rs 50 million per annum. However, if the unit has gone for matching capacities in backward and/or forward

integration the cap for each sub-sector will be treated separately.

Regarding processing machinery feasible for made-up fabrics will be permitted only if investment is also made in downstream stitching capacity. The Ministry may allow 50%-70% matching capacity.

The TMA has suggested that since the textile industry, especially towel industry, is very poor in processing machinery, putting conditionality for downstream stitching capacity may harm the spirit of this sector.

### Governor Punjab assures help to textile exporters

Governor Punjab Sardar Latif Ahmad Khosa assured to help textile exporters in reduction of cost of production of exportable goods ensuring regular supply of gas and electricity, concessionary export finance and clearance of drawback and sales tax arrears.

This assurance was given during a meeting with Chairman Rana Arif Tauseef and other members of Pakistan Textile Exporters Association. Addressing the meeting Governor Sardar Latif Khosa appreciated the role of textile exporters in the development and consolidation of the

country and said that they have done a good job to put the country on the path of economic prosperity.

He said that government would extend full support to the textile exporters and it would take the business community as a partner in the national development as both would work together for the betterment of the economy. Pakistan economic growth faces serious setback because of inflation, security threat, instability in the state and energy crisis.

Welcoming the MFN status for India in order to normalise trade between two countries Chairman All Pakistan Textile Mills Association (Aptma) Mohsin Aziz said India should remove Non-Tariff Barriers (NTBs) to make MFN status a success. He said that the Federal Cabinet, with Prime Minister Yousuf Raza Gilani in the chair, has taken a right step in the right direction by granting the MFN status to India. According to statistics, trade between the two countries was \$1.4 billion in 2009-10. Of these, Indian exports to Pakistan stood at \$1.2 billion, while Pakistan exports to India were a mere \$268 million - a clear cut proof that India had not opened up its market for Pakistani goods.

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### Cotton contamination level, lack of proper grading

Pakistan is the world's fourth largest producer and third largest consumer of cotton. Pakistan cotton's key characteristics are good. However, it does not fetch high price due to unacceptable contamination levels.

The extent of losses to Pakistan's cotton, due to contamination and lack of proper grading, is estimated to run into \$1.4 billion to \$3 billion, according to a study sponsored by the office of Economic Opportunities, United States Agency for International Development (USAID Pakistan).

Low cotton prices appear to be an important contributor to poverty in Pakistan's cotton producing regions, which are one of the poorest in Pakistan and any effort to improve prices will have a direct impact on poverty reduction in these areas.

The study says that high contamination levels and other issues with Pakistan cotton are direct result of a weight-based pricing system, which suits a substantial number of Pakistani weaving and spinning units. These units are in the business of production of coarse cotton cloth and do not have, or generate, demand for clean cotton.

This lack of demand, coupled with inadequate regulation, has led to a near-complete collapse of the production differentiation systems. The study focuses on the regulatory aspects of this failure.

According to the 'Executive Summary' the country produced 9.6 million bales of cotton in 2009-10, while it consumed 10.9 million bales in the same year. However, Pakistan's share in the international trade is not significant - it imported 1.5 million bales and exported 0.2 million bales of cotton in 2009-10.

Pakistan's cotton is generally of medium staple length; its fibre strength is high; and its micronaire values are acceptable. Pakistan's cotton is stress-free and handpicked, although picking practices are not of international standard.

Pakistan's cotton does not attract high values, and fetches significantly lower prices than cotton of similar grades, due to high level of contamination, inappropriate moisture content and mixing of different grades of cotton.

All of these issues are considered to be direct outcome of the prevailing weight-based pricing system and/or absence of viable product differentiation systems.

It has been pointed out that impurities reduce the beneficial effect of cultivars, and impair the rating of yarn and fabric, preventing the manufacture of a final product with high value.

The level of contamination in Pakistan can be gauged from a survey carried out by the International Textile Machinery Manufacturers Federation, which found Pakistan's cotton as being one of the most contaminated in the world.

Various estimates place contamination content of Pakistan's cotton at 18-19 grams per bale, against an international standard of 2.5 grams.

Various estimates place the value of loss suffered by Pakistan, due to contamination, at \$1.4 billion to \$3 billion in export earnings each year. Of this loss, \$308 million is estimated to occur at the stage of raw cotton alone.

### ISO 50001 standard would shortly become mandatory

The ISO 50001 standard would shortly become mandatory for the export oriented industries, like other ISO standards including 14001 and 9000 etc. and Pakistan's textile industry would only benefit from international recognition by adopting Energy Management System (EnMS), said Secretary Aptma Punjab Secretary Anis-ul-Haq.

He said the Aptma aims to introduce its members to ISO 50001, a global standard for Energy Management that came in force in June 2011. It is worth noting that the ISO 50001 standard is designed to provide organisations with a framework for integrating energy performance into their operational management practices, promoting efficiency throughout the supply chain.

He further said the standard is intended to assist organisations in making better use of their existing energy consuming assets, promote energy management best practices and reinforce good energy management behaviours for greenhouse gas emission reduction projects and evaluates and priorities the implementation of new energy-efficient technologies.

The Energy Management System (EnMS) is a systematic approach for achieving sustainable energy efficiency improvements through continuous monitoring of company's energy flows and revision of performance parameters. According to the Secretary Aptma Punjab, the 25 textile mills have monetary saving of Rs 293 million and electricity saving of 7.483MW besides total TOEs of 5614 and CO<sub>2</sub> reductions of 30480 tonnes.

About 400 textile mills have potential of monetary savings worth Rs 8000 million, electricity savings of 268MW besides 200,000 TOEs and 1.08 million tonnes CO<sub>2</sub> reductions.

Fayyaz Riaz from Smeda said adoption of the conservation programme by more than 25 mills instead of targeted 15 mills in two years is an encouraging sign and the energy management training program should be taken as a parallel activity to develop capacities of textile mills.

### Pakistan has potential to become self-sufficient in jute production

Pakistan can become the third country in the world producing jute in bulk quantity, meeting its domestic consumption at large-scale to pursue its self-sufficiency in manufacturing of jute-related items with its own raw material. This will enhance the scope of agriculture farming in the country as hundreds of the farmers could be engaged to produce jute crop particularly in the land where different cash and food crops are not grown.

These recommendations have been suggested by Agronomic Research Institute, Faisalabad in its recent research study "Jute Farming in Punjab" carried out after experiments on different lands and demand of jute in the local market.

There are 12 jute mills in Pakistan producing various made-ups for local and exports markets, such as jute bags, carpets, and floor-mat. These mills often face tough situation, when jute prices go up in the countries from where raw jute is imported in Pakistan, on its high demand in the world, resulting they incur losses on the unavailability of the raw material or often purchase at high price.

Pakistan is considered as one of the large buyers of jute in the world; however, India and China are its competitors with heavy purchases of raw jute. Besides, Britain, Spain, Ivory Coast, Germany and Brazil also import raw jute from Bangladesh and India. Pakistan spends \$105 million annually on the imports of jute from Bangladesh in addition to its freight and shipment cost.

There are diversified farming lands in the country, where upon Jute crops can be grown. However, jute is such a crop, which can be cultivated in the tough lands where neither a cash crop is cultivated nor food crop is grown. Therefore, jute production will also increase the agriculture activities on land affected by salinity and waterlogging and thousands of farmers will earn their livelihood throughout the year.

The jute, which is also known as Golden Fibre, also helps to increase the fertility of land for different cash crops particularly cotton.

The jute mills in Pakistan have taken a commendable step as they are promoting jute farming among local farmers, especially in Punjab and offering various incentives to the farmers.

The jute mills have given the guarantee to become permanent buyers of the farmers throughout the year as to reduce the import of raw jute in Pakistan. The initiative by the jute mills will not only narrow down the import dependency, but save the national revenue, which is spent on the imports of raw jute.

The major benefit of the local jute farming will come up in the shape of hygienically saving of crops in jute bags, which are considered best for storing wheat and other crops.

### Gas supply and energy crisis remains on top of list for the Textile industry

The gas shortage would increase to 600mmcf in Punjab in the peak winter season. All Pakistan Textile Mills Association Chairman Mohsin Aziz has opposed the three-day suspension of gas supply to textile mills, saying that it will carry multi-dimensional consequences for the industry.

Aptma Chairman Mohsin Aziz said that the curtailment would be counterproductive for the textile sector, which is the largest industrial consumer of gas in the country.

He said that APTMA has pleaded for preferential treatment by providing an uninterrupted gas supply to textile mills because the sector would miss the yearly export target. Gas load management would result in closure of many textile units rendering a large number of workers jobless.

He stated that textile mills have already been suffering due to electricity outages and high interest rates. The industries' problems would multiply, as the government resorted to curtail gas supplies.

He said textile sector is employing over 40% of the working population, generating 65% of the foreign exchange earnings, and contributing 8.5% to the nation's GDP.

Aftab Ahmed, Chairman of All Pakistan Textile Processing Mills Association (APTMA), said that distribution of gas should be across the board, and added that the government has given a 'lollypop' to the industrialists and exporters, and announced that in case the government did not make equitable distribution of gas, they would start civil disobedience in consultation with the trade and industry.

According to Mohsin Aziz, textile exports though increased in value terms during last four months of current fiscal, yet all textile exports declined in quantity terms in October. The exports of cotton yarn, cotton cloth, knitwear, bed wear, towel and readymade garments have registered decline by 26%, 32%, 26%, 28%, 12% and 14% respectively, he added.

Chairman APTMA said short supply of energy was one prime reason behind drop in exports, as the textile industry has been denied gas supply for 120 days during 2011 against much lesser days during previous year. ♦

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