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Tariff Policy Board discusses strategy

ISLAMABAD: The first meeting of Tariff Policy Board (TPB) was held on Monday in Ministry of Commerce to prepare a well-deliberated strategy for implementation on the contours of tariff policy aimed at making exports and imports competitive.

The meeting was attended by the senior officials of Ministry of Commerce, Ministry of Finance, Federal Board of Revenue (FBR), Board of Investment (BoI) and National Tariff Commission. The Federal Cabinet, in its meeting held on November 19, 2019 approved the first-ever NTP meant to remove anomalies in the tariff structure and make it a reflection of trade priorities and enhancement of competitiveness through duty-free access to imported raw material and promotion of investment into efficient industries through a predictable tariff structure.

One of the senior officials of FBR said this is an evolution and will not have any negative inference. “We will jointly work for a better and improved tariff policy,” he stated, adding it was always better to share discretionary powers.

The National Tariff Policy will also provide the foundation for the Strategic Trade Policy Framework (STPF) for the next three or five years which is already under active discussion. In the past FBR had stated that the NTP implementation would result in revenue loss of Rs 220-250 billion in FY 2020-21 and Rs 270-320 billion in FY 2021-22. The policy guidelines contained in the NPT as approved by the Cabinet, provide that the tariff slabs will be simplified based on the cascading principle - tariffs on raw material, intermediate and capital goods will be gradually reduced, as would the additional customs duty and regulatory duties. The difference in the rates of tariff for commercial importers and industrial users of raw materials, intermediate and capital goods will be eliminated to provide level playing field to the SMEs through competitive access to essential raw materials. The nascent industry will be provided time-bound protection, which will cover the payback period.

Commerce Division sources said argues that under the Federal Government Rules of Business, 1973, the Tariff Policy and protection regime is its mandate. Accordingly, Commerce Division has been administering the trade defence laws (related to anti-dumping, safeguards and countervailing duties through the National Tariff Commission, negotiating tariff concessions under the bilateral and multilateral arrangements) and formulating the National Tariff Policy, of which tariffs are the primary instrument.

All proposals for levy, amendment or removal of tariffs including regulatory duties and customs duties will be examined at the tariff policy centre and after approval of the TPB, submitted by the Commerce Division to the Cabinet or Parliament, as the case may be, for approval.

The Tariff Policy Board, at any time before the completion of the policy period 2019-24, will examine the impact of policy and get the next policy reform proposal approved by the competent authority. Any policy impact tariffs or having-like impact will be formulated through the PTB.

Commerce Division was of the view that there are several issues created by the current tariff regime: (i) employment of import tariffs as a revenue tool, has created distortions and affected the competitiveness of manufacturing, especially the export-oriented sector, the highest import tariffs on imported raw materials, intermediate goods and machinery has increased the cost of inputs; (ii) the sustained high level of tariff protection has created inefficiencies in the manufacturing sector, which is unable to protect its share in the domestic market, not to speak of competitiveness in the global market; (iii) high tariffs have created an anti-export bias, as the producers of goods find export markets less attractive than the protected domestic market. The burden of the protection is borne by the domestic consumers since domestic prices for the protected items are maintained above international market prices; (iv) multiple duty slabs, high tariffs, concessionary SROs and regulatory duties have made the tariff structure complex; (v) high tariffs have increased the incentives for smuggling, under-invoicing and mis-declaration of quantity and quality of goods; (vi) there are intra-sector anomalies and discriminations since for several raw materials the tariffs for industrial and commercial importers are different. It has created bias against the SMEs who cannot import raw materials themselves and rely on commercial importers for sourcing their inputs; (vii) frequent imposition of regulatory duties has made the tariff structure inconsistent and unpredictable, which hinder investment decisions; and (viii) the replacement of zero duty slab, covering, primarily the raw materials and machinery, with 3 percent slab (plus 2 percent additional duty) that has adversely affected the competitiveness of the manufacturing sector.