

Imported cotton: remove duties

Cotton is the lifeline of Pakistan's textile industry. Following the end of the Multi-Fiber Agreement FA quota which ushered in the era of liberalization in global textile industry, Pakistan's strongest sector was spinning which became the backbone of the textile value chain.

Yet, despite the often touted fact of Pakistan being the fourth largest cotton producing country in the world, the country has been a net importer of cotton for the past decades. The primary reason for this is that domestic production has failed to fulfill the local demand of the commodity.

The Economic Coordination Committee (ECC) has recently taken up the matter of removing duty imposition on imported cotton. This is a relief sought unanimously by the majority of the textile industry and their arguments seem to have merit. Currently, imported cotton is subject to a 3 percent customs duty, 2 percent additional customs duty and 5 percent sales tax. Duty imposition has been revoked and imposed too frequently for any meaningful impact to begin with which indicates it as haphazard reaction rather than a well-thought out economic policy. Some facts that the ECC should consider are as follows. Local demand and supply are the key factors to consider when considering import duties on any commodity. Cotton's case should be no different. As shown in the table the gap between the consumption and production of local cotton has only widened. In FY18 alone, the difference between the two was 0.53 million tons.

The area under cultivation has gone down not that it rose to any significant measure to begin with. It has declined by almost 14 percent between FY12 and FY17. This has been due to multiple reasons which include lack of profitability for farmers due to a decline in cotton prices in recent years as well as the illogical incentivisation of crops such as sugar-cane by the government.

There is the element of quality as well. Pakistan's domestic cotton is of short and medium staple which has lower thread count. For higher thread counts used in home textiles and higher quality products which result in higher value exports, long staple cotton needs to be imported which cannot be grown in Pakistan due to climatic conditions. In the recent ECC meeting, the Finance Minister was not satisfied with the textile ministry's inputs and asked them to explain the benefits of duty free imported cotton and the revenue losses as a result of the measure.

There are two points to this. One is that the capacity of the bureaucracy has been found wanting when it comes to producing such analysis and the textile ministry is no exception. Expecting such an analysis requires a particular skill-set of economists and analysts and waiting for the ministry to come up with a sound analysis will only result in time wastage. Secondly, at the risk of sounding repetitive, flawed tariff policies are introduced to achieve revenue targets. This is counter-productive and is hurting the industry. If the 24000 plus folks at the FBR put their mind to it, they can surely come up with a better revenue stream than taxing imported cotton. Raw material input costs for the textile industry should be brought to a minimum otherwise other steps such as provision of gas at cheaper rates will only be offset by the higher cost of imported raw materials. The recent rupee devaluation will also ensure that imported cotton is not cheaper to begin with anymore.

Therefore in light of such constraints where the domestic supply is insufficient and quality products which earn foreign exchange require higher thread count cotton, imported cotton should be exempted from any duties.