DAWN

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## ECC allows duty-free cotton imports

ISLAMABAD: The government on Tuesday ordered immediate clearance of about Rs36 billion refund claims of exporters and allowed tax and duty-free import of cotton in addition to mandating the payment of duties and taxes on import of vehicles in foreign exchange.

The decisions were taken at a meeting of the Economic Coordination Committee (ECC) of the Cabinet presided over by Finance Minister Asad Umar.

In response to demands of the textile industry, the ECC approved withdrawal of customs duty, additional customs duty and sales tax on import of cotton effective Feb 1-June 30, 2019.

Mandates duties on imported vehicles to be paid in foreign exchange by overseas Pakistanis; orders settlement of Rs36bn refund claims

The step is aimed at ensuring sufficient cotton supply for textile industry – especially its export segment.

The decision was based on the plea that Pakistan had been a net cotton importer since 2001 while the domestic cotton was of short-to-medium staple length, leaving local textile manufacturers to import long and extra long staple cotton for finer yarn counts for subsequent transformation into high value-added finished products.

Import of cotton has remained duty free till the slab of 0pc was abolished in 2014-15 and custom duty of 1 per cent was imposed along with the 5pc sales tax. Later on, 1pc slab was increased to 2pc and then 3pc along with the imposition of 2pc additional duty to make it 5pc. Currently, cotton is subject to 3pc customs duty, 2pc additional customs duty and 5pc sales tax.

The prime minister’s export package was announced in Jan 2017 under which the textile sector was provided number of facilitations including withdrawal of custom duty and sales tax on imported cotton effective Jan 16, 2017.

These duties and taxes were re-imposed on July 15, 2017 to facilitate lifting of local cotton. However, these were withdrawn again effective Jan 15, 2018 and then re-imposed effective July 15, 2018.

The textile ministry had once again demanded withdrawal of these taxes and duties now saying the industry consumed around 12-15 million bales per annum while local crop this year was estimated at 10.78m bales of 170kg, showing a decrease of 9.7pc compared to last year and a decrease of 24pc against the initially fixed target of 14.37m bales.

Vehicle imports

The ECC also approved a summary of the Commerce Division seeking payment of duty and taxes on all imported vehicles in new and

used condition under personal baggage or gift scheme, through foreign exchange arranged by Pakistani nationals themselves or local recipient supported by bank encashment certificate showing conversion of foreign remittance to local currency.

The government, in import policy of 2016, had allowed import of such vehicles under above schemes to facilitate overseas Pakistanis. There had, however, been complaints that the schemes were massively misused by commercial importers. As a result, the ECC on Oct 6, 2017 rationalised import schemes by ordering payment of duties taxes in foreign exchange. The abrupt policy change led to about 6,000 vehicles being stranded at seaports.

The commerce ministry proposed, as a result, that the new schemes should come into force for vehicles arriving after Feb 28, 2018 but the issue remained unsettled. Subsequent meetings between the government and various stakeholders revealed that around 5pc of cars under these schemes were imported by the bona fide overseas Pakistani.

As a result, the commerce division proposed that misuse of schemes should be prevented by introducing a change in import order 2016 that all vehicles imported under such schemes should be subjected to payment of duties in foreign exchange arranged by Pakistani nationals themselves or local recipient supported by bank encashment certificate showing conversion of foreign remittance to local currency.
Export refunds

The meeting also approved another summary to clear outstanding claims of drawback of local taxes and levies (DLTL) under the exports incentive scheme announced by the government under the Finance Act 2014-15. The ECC decided that cases, which were submitted in time but were pending due to want of funds, will be entertained by the government.

The meeting was told that one of the major impediments faced by export-oriented industry was the liquidity crunch due to the held up sales tax refunds and non-release of budget for the DLTL and hence, in continuation of government policy to support export sector, their liquidity should be improved by clearing the backlog of sales tax refunds and duty drawbacks as promised in the government’s 100 day agenda.

The Commerce Division demanded that funds for drawback of local taxes and levies, allowed under the PM’s export package, should be released by the finance ministry within one week. Verified claims worth Rs36bn were pending with the State Bank of Pakistan.

It was also suggested that going forward, sales tax refund claims and customs duty drawback may be paid by the SBP through authorised dealers immediately at the time of realisation of export proceeds.

The ECC also approved regulatory amendments in the Export Policy Order 2016 and Import Policy Order 2016 as proposed by the Commerce Division.

These will be submitted for consideration of the Federal Cabinet. The amendments are aimed at enhancing ease of doing business in the country.

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