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APTMA opposes imposition of ST on local cotton

ISLAMABAD: All Pakistan Textile Mills Association (APTMA) has opposed imposition of sales tax on local cotton, saying that it will encourage import of cotton under Duty and Tax Remission (DTRE) scheme mainly from India.

The Association conveyed its concerns to secretary Textile Division, Syed Iftikhar Babar, who is engaged in post-budget talks with the textile sector. The Association wants a uniform policy in place on imports-through DTRE or otherwise.

According to a letter written to secretary Textile Division, the additional sales tax on local production of cotton is 10 percent whereas the sales tax on yarn is 17 percent. In this scenario, no one will buy cotton and yarn because their sales tax amount will get stuck in export cycle and this will only be beneficial to imports under DTRE and bonds.

According to APTMA, if sales tax has to be imposed then local imported cotton under bond or Export Oriented Units (EOUs) has to be treated at par otherwise this will create loopholes detrimental to local supply chain and as a consequence Indian raw materials will be used if Pakistan government allows zero rating for them. This could be counterproductive.

In order to save the local industry and farmers, a uniform policy is needed which must specify the imposition of sales tax on all imports of cotton, whether through DTRE, bonds or EOU. In the absence of this, textile sector is quite certain that 50 percent of the Phutti in the market will not be picked up to great consternation of the farmers and all ideas about support price and minimum price will fall by the way side.

APTMA which is holding meetings with the authorities to get maximum relief has submitted the following proposals: (i) import parity which works out to Rs 4500/maund without any differential for quality; and (ii) export parity which works out to Rs 3500/maund which effectively accounts for quality differential.

APTMA says that its stance on cotton pricing is based on the following logic: (i) 75 percent cotton gets exported and if the pricing is pitched higher than the price available to the export market then Pakistan will further lose its competitive edge; and (ii) quality differential is a very difficult parameter to establish for administered price. The only true measure can and should be market force. The export parity-cents for transportation is a robust and true parameter for determining a competitive and fair price.

The farmer's true income can only be increased if his yield per acre is increased and the price of oil seed is set right. The yield increase per acre is a very lengthy topic.

The use of cost per maund as a measure of determining price has a fatal flaw. Suppose, the yield drops by another 25 percent in the next year, would the price have to be increased by 25 per cent to cover the costs?

APTMA maintains that the cost plus argument only works in a situation where there is captive internal market, i.e, that of sugar, wheat etc where consumers can be charged exorbitant prices while protecting the farmers from cheaper imports through unjustified import duties.

Furthermore, with the sales tax on cotton exporters have stated that they will not buy from domestic market and import cotton, yarn or grieg cloth through tax free bonds. Under these circumstances, a crisis situation has been created as local cotton will not be lifted.

"APTMA has suggested this matter should be addressed post-haste before any such farmers' schemes are established,' said APTMA's Advisor Shahid Sattar.

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