

**Protection of local industry, 'Revenue generation prime objectives of existing tariff structure'**

LAHORE: Revenue generation and protection of local industry are important objectives of existing tariff structure as a total of 2448 tariff lines fall under the slab of 20 percent customs duty (CD) to serve the purpose, said reliable sources from the Customs Department.

"Perhaps consumer welfare is not assigned much weightage in tariff setting process," they added.

According to the sources, protection has not been provided only through the tariff, protection is also very much visible through nontariff barriers (NTBs). A large number of tariff lines are subject to some type of condition or license under Import Policy Order (IPO).

They said slabs higher than 20 percent are specifically meant to protect the auto industry where completely built units (CBUs)/vehicles attract a maximum rate of customs duty to protect local assemblers of vehicles and their vendors. In the auto sector, the incidence of import taxes on CBUs is as high as 250 percent and in textile it is around 60 percent for garments.

Besides customs duty, they said, additional customs duty and regulatory duty are also charged at the import stage in numerous cases. The additional customs duty (ACD) was increased in the budget for FY 2019-20 as a 'revenue measure' from a flat rate of 2 percent to 2 to 7 percent. The customs duty slabs of 0-11 percent were subjected to ACD @ 2 percent, whereas slab of 16 percent and 20 percent were subjected to ACD @ 4 percent and 7 percent, respectively.

Sources said the regulatory duty has also traditionally remained an important tool of protection and import compression. In 2017, eight various SROs of RD covering 1194 tariff lines were merged into a single SRO 1035(I)/2017 dated 16.10.2017. This SRO subjected 1505 tariff lines to RD. In FY 2018-19, the RD regime was extensively reviewed and new SRO 640(I)/2018 dated 24.05.2018 was issued covering 1691 tariff lines and finally at the time of budget for the FY 2019-20, the RD regime was again reviewed and SRO 680(I)/2019 dated 28.06.2019 was issued imposing the RD on 2075 tariff lines. Officially, they said, it is claimed that focus of RD is not revenue generation and RD is meant to fix the balance of payments issue by reducing import of luxury goods but for all practical purpose RD serves the motive of revenue generation at least in the short to medium term but the imposition of RD rather than increasing revenue generally proves counterproductive as overall customs revenue falls due to a decrease in legal imports. The increasing scope and coverage of RD and ACD with each passing year points towards the fact that they are now being used not only as protectionist tools of tariff policy but for revenue generation at the import stage, though overall revenue of

customs may fall in the medium to long-term due to said levies. Since 2015-16, over 5000 tariff lines are subject to ACD whereas 1309 tariff lines were subject to RD in 2015-16 which increased to 2075 tariff lines in 2019-20.

There is lobbying from local manufacturers through their associations and concerned ministries for levy of these duties on imports. Pressures are applied by protectionists and political economy considerations are at play for the imposition of RD to provide a shield to the local industry against foreign competition.

Due to protectionist policies, said sources, the auto assemblers bloated the prices of cars unnaturally and compromised on the quality and safety features such as dual airbags or side-impact bars etc. The deletion program was not implemented fully and even now 60 percent of parts of these vehicles are being imported. In the last two years or so, protectionism of the auto industry has, however, led to the entry of 18 new assemblers in the market. Very few have started production yet. It is, however, premature to comment on whether protection to the auto sector and entry of new entrants shall increase consumer welfare through a reduction in prices and increase in variety, they added.