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Hundreds of tariff lines: proposal to increase RD rejected

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- Ministry of Commerce and Textile has turned down Finance Ministry''s proposal about increase in Regulatory Duty (RD) on hundreds of tariff lines, saying that any such move will fuel inflation without having any negative impact on imports, well informed sources told *Business Recorder.*

  Finance Ministry, in its proposal, had suggested increase in RD on a wide range of items, estimating collection of additional $ 1.12 billion on the plea that it would help reduce trade deficit. Federal Board of Revenue (FBR) and State Bank of Pakistan (SBP) also supported the plan.

  According to sources, Commerce Division went through the plan in consultation with National Tariff Commission (NTC) and observed that the government had already rationalised RDs on different items end last year due to which import of these items declined by about 16 to 17 per cent .

  In December, 2017 former government had also revised regulatory duty (RD) on dozens of imported items, of which RD was imposed on 11 items (58 tariff lines), scrapped on 8 items (59 tariff lines), increased on 5 items (43 tariff lines) and reduced on 6 items (22 tariff lines) on the proposal of different sectors.

  "Commerce Division is of the view that the new exercise will have a positive impact on revenue for FBR but at the same it will fuel inflation in the country," the sources maintained. Commerce Division, sources said, further argued that a policy is required to be prepared about increase in RD on furnace oil and petrochemicals etc as these are used in power sector and other industry.

  However, Finance Division at a recent meeting of caretaker federal cabinet emphasised that there was a need to review import tariffs to make imports costlier. In January this year, FBR had revised regulatory duty (RD) on dozens of imported items on the proposal of different sectors including 5 percent RD on the import of sacks and bags of polymers of ethylene by registered units for in-house use for packaging food and dairy products.

  The sources further stated that financial year 2017-18 closed with an increase of $ 2.9 billion in exports compared to the previous year. The export recovery after a continuous decline for three years has been affected mainly by the 12% expansion in global market, recovery of commodity prices and above all, by the Prime Minister''s Export Package, provided as a compensation for eroding competitiveness due to overvalued currency, high costs of energy, labour and imported inputs. The rally in exports for the first 11 months of the FY 2018 was dampened by 1% decline in exports in June 2018 compared with June 2017.

  The sources said cost of production remains high due to high tariffs on imported inputs and the excessive protection provided to domestic raw material producers. Due to the inability of the state machinery to collect direct taxes, the import tariffs are employed as revenue tool rather than instrument of trade policy. The empirical evidence establishes an inverse relationship between tariffs and exports; 65 out of the 68 countries exporting more than $ 20 billion merchandise annually have lower tariffs than Pakistan. During the last decade, all the 20 fastest export growth economies have reduced import tariffs. In contrast, the import tariffs in Pakistan have increased by 17pc. The sustained high level of tariff protection, besides increasing cost of production, has engendered inefficiencies in the manufacturing sector which is unable to compete in the domestic market, let alone the global market.

  The energy costs in Pakistan compare unfavorably with our peers. Though the supply of electricity and gas has recently improved, the cost of energy continues to negatively impact on competitiveness. Besides, the energy efficiency (the GDP per unit of energy use) in Pakistan remains low compared with the competitors. Since 2000, Pakistan''s energy efficiency has increased by 25% compared with

China"s 39% and South Asian average of 37%.