BUSINESS RECORDER
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Leave imported cotton alone

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It is no secret that the textile industry in Pakistan has already got its plate full of challenges when it comes to production and export. Rising costs of doing business particular energy tariffs have hampered competitiveness compared to regional peers such as Vietnam, Bangladesh and China. The other culprit has been unnecessary and illogical protection policies by the authorities.

This newspaper has already analyzed the undue case of protection afforded to the polyester and synthetic fiber industry in Pakistan which has impeded the transition to man-made fibers by local textile players (Read: Textiles: paying for polyester protection).

However, another move by the Federal Board of Revenue (FBR) has caused additional unrest in the textile community recently. According to the All Pakistan Textile Mill Association (APTMA) the re-imposition of 3 percent custom duty, 2 percent additional custom duty, 5 percent sales tax duty and 1 percent income tax duty will severely affect the industry in procuring raw materials.

Recall that imported cotton was made duty free in January this year to facilitate the textile industry. And for good reason, the domestic cotton crop has been anything but adequate over the past several years now.

The country missed the cotton production target by 8 percent in FY18 while missing it by a wider margin of 30 percent and 25 percent in FY16 and FY17 respectively. In the previous year only 11.58 million bales were produced while FY17 and FY16 saw production of only 10.7 and 9.8 million bales. This is massively short of the 16-17 million bales that industry experts put the required demand of the local textile industry at.

So FBR's argument that the move comes on account of encouraging use of the local crop is illogical as the shortage of local cotton highlights. So is the argument of saving of foreign exchange reserves as cotton is the primary raw material for further value added products which bring in far more foreign exchange than what goes out from the import of cotton.

Also surely the underlying dynamics could not have changed in just six months as the next cotton crop is also expected to be mediocre at best. Due to the imposition of duty again, local cotton prices have also gone up with the Karachi Cotton Association (KCA) increasing its spot rates by Rs200 to Rs8600 per maund.

Sources also tell Business Recorder that the Cabinet Committee meeting which imposed duty on imported cotton also extended the duty free import of textile machinery. However, even though FBR was quick to implement the duty, the SRO pertaining to import of machinery has not seen the light of day yet.

While the government can be partly blamed, the textile industry is also at fault when it comes to establishing strong backward linkages. The cotton crop has seen an ever decreasing area of cultivation whereas the major profit has accrued to the ginner segment while leaving the farmer bereft of profit and the downward textile value chain to procure cotton at high costs. Policymakers and the textile industry need to come together to address the challenges associated with cotton cultivation and procurement or risk further deterioration of an already struggling sector.