

CHALLENGES & RECOMMENDATIONS OF CHEMICAL INDUSTRY OF PAKISTAN

Provide adequate protection (i.e. level playing field vs region) to the domestic Industry

It is important that the domestic industry of Pakistan is adequately protected to allow its growth and survival. Considering the many infrastructural issues, the domestic industry is already burdened by extra costs. Other more developed countries like China and India have protected their industries which has resulted in significant growth. (Lotte Chemicals)

Reduce the burden of taxes on the industry

Currently the taxation on domestic industry is very high compared to other countries. Furthermore, unilateral processes at FBR allow many local industries to evade taxes. This puts an unfair burden on most law abiding companies who are paying taxes as per law. Furthermore, the delays in sales tax refunds, super tax, minimum turnover tax also add to the problems. (Lotte Chemicals)

Monitoring of Government Departments via KPI's

Foreign investors are very concerned that most GoP departments are inefficient and issues keep lingering for years without any resolution. E.g. PCMA's Member, LOTTE Chemicals struggled for over 3 years to get a fair tariff protection from NTC, while the company kept making significant losses. Similarly, for past 4 years LOTTE has been trying to sell readily available surplus power and despite the shortage of electricity in Karachi and NEPRA has still not approved this case and it is still pending. These experiences have caused major concern to our major shareholder and impacts their investment decisions. (Lotte Chemicals)

Under-invoicing & Custom Valuation

- PCMA should be consulted on all matters pertaining to customs valuation of various chemicals falling under chapter 28 to 40.
- Producers should be given preference in fixing valuation to discourage imports and boost local industry, on cascading formula.
- The government should take steps to control smuggling at the borders and Frontier force deployed there should be equipped with state of the art technology and made them more vigilant and more accountable.
- There is a continuous inclusion of smuggled chemicals coming from IRAN through borders of Baluchistan thus making the local industry unviable. We the corporate sector are religiously paying duties and taxes along with highest level of fuel and energy cost thus making it impossible to compete against this blow. If this issue is not eradicated once for all it will stop

further investment in chemical and petrochemical sector. In the end both the economy (FBR) and private sector will be the sufferer as SMUGGLED GOODS have no contribution to the govt. exchequer and neither it will create jobs and utilize local resources.

- Goods cleared under Pak Afghan Transit Route must be closely monitored to ensure that goods are not smuggled back to Pakistan. (Lotte Chemicals & Tufail Chemicals)

Tax Refunds

PCMA has serious reservations with regard to current performance of FBR for granting tax refunds (both cases pertaining to income tax and sales tax). The local industry is already in crisis due to various issues. The extra pressure of delay in granting tax refunds seriously affect the liquidity of our member companies. Instead of utilizing funds for the growth of business, the industry is forced to block funds with Government.

All the backlog of refunds should be cleared within two months upon the filing of return. (Lotte Chemicals)

Subsidy on Energy Consumption for Chemical Sector (Export Quantities)

A. Electricity Tariff for Chemical Sector:

1. Caustic soda is one of the most basic chemical industries of Pakistan and this product along with its co-products is being utilized in 85% industries of the Pakistan.

2. Caustic Soda is very energy intensive industry, where electricity is the major raw material, the share of electricity in the manufacturing cost is 55~60%.

Sr. No.	Country/Region	Electricity Price Unit: US Cents/Kilowatt Hour
1	USA	3.02
3	West Europe	5.24
4	Middle East	1.77
5	North East Asia	3.84
6	Pakistan	10.00

3. In Pakistan while manufacturing one metric ton (1MT) Caustic Soda nearly 2600 KWh electricity is required where its calculated cost is Rs.27,300 /MT as compared to China i.e. merely Rs.10,480/MT. (Sitara Chemical Industries Limited)

Recommendations:

It is requested that Government may consider a **Special reduced electricity tariff for** Chlor-Alkali and Chemical industry (as feed stock) keeping in view the importance of this sector. ONLY for export quantities on prorated basis.

List of our exportable products is as follows:

Sr. No.	Product Name	PCT Heading
1	Caustic Soda Liquid	2815.1200
2	Caustic Soda Flakes/Solid	2815.1100
3	Bleaching Powder	2828.1010
4	Hydrochloric Acid	2806.1000
5	Liquid Chlorine	2801.1000
6	Sodium Hypo chlorite	2828.9000
7	Ferric Chloride	2827.3900
8	Calcium Chloride	2827.2000
9	Magnesium Chloride Hexahydrate	2827.3100

B. Natural Gas: is a primary source of energy and the industrial sector consumes a sizeable share of it whereas we are making it expensive through unpopular measures like GIDC (Gas Infrastructure Development) etc. (Sitara Chemical Industries Limited)

Request for Imposition of Regulatory Duty:

S. No.	PCT Code	Description	Existing Rate of Duty FY 2017-18	Proposed Rate of Duty FY 2018-19	Suggested to be Changed through SRO or in Tariff	Brief Justification/ Rationale for change
(1)	(3)	(4)	(5)	(6)	(7)	(8)
1	2828.1010	BLEACHING POWDER	3%	-	15% (Regulatory Duty)	Chlor-Alkali Industry is sufficiently fulfilling demand of local industry of Pakistan by supplying Caustic Soda and co-products. Local industry has sufficient capacity to fulfill the demand of National Industry. Due to nominal custom tariff in the year 2017-18 or zero Customs Tariff under FTA's with some countries, Imports of
2	2827.2000	CALCIUM CHLORIDE	3%	-	15% (Regulatory Duty)	
3	2827.3500	NICKLE CHLORIDE	3%	-	15% (Regulatory Duty)	
4	2827.3100	MAGNESIUM CHLORIDE	3%	-	15% (Regulatory Duty)	
5	2827.3900	FERRIC CHLORIDE	3%	-	15% (Regulatory Duty)	
6	2811.2100	CO ₂	3%	-	15% (Regulatory Duty)	
7	2833.2200	Aluminium Sulphate	3%	-	15% (Regulatory Duty)	

8	2833.2100	Magnesium Sulphate	3%	-	15% (Regulatory Duty)	these products hampering local industry. We hereby request that Regulatory Duty should be imposed on the import of these products to safeguard the interest of National Industry.
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RD on Surfactants:

50% RD should be imposed at ready to used textile auxiliary chemicals to save foreign reserves and local manufacturers. It is not a rocket science, we have a lot of experts in this field and many multinationals are manufacturing these ready to use textile auxiliary chemicals locally by importing raw materials and saving foreign reserves. RD should be lifted from RM Surfactants starting from H.S. Code 3402.0000 to 3403.0000 especially H.S. Code 3402.1300 non-ionic surfactants. (Chromatex Chemicals)

Export Subsidy on In-land Transportation for Chemical Sector:

Chlor-Alkali industry of Punjab is around 1,200 KM away from Karachi Port and we are experiencing a very heavy transportation cost on our export consignments. Due to this reason Product cost increased and ability to compete with international suppliers in the export markets is restricted.

In order to facilitate export of chemical sector, it is requested to please allow 50% inland freight subsidy on each consignment of chemical Industry.

It is suggested that Government may calculate a standard transportation rate on Export quantities after consultation with the stakeholders and reimburse Export Inland Transport subsidy to Exporters through State Bank of Pakistan. (Sitara Chemical Industries Limited)

Incoterm issue for Export to Afghanistan:

INCOTERMS 2010 are recognized and implemented across the world in international business and trade but in Pakistan, the following "INCOTERMS" are being used in export/import business:

- 1) CIF 2) C&F 3) FOB

INCOTERM “Ex-Works” does not exist in Pakistan’s Customs Books/GD Filling System.

Therefore, it is requested that INCOTERMS 2010 “Ex Works” may kindly be incorporated in Pakistan’s Customs Books/GD Filling System at your earliest to grow business and trade activities in Afghanistan.
(Sitara Chemical Industries Limited)

Export Consignments Checking by ANF Staff and Customers Complaints:

Export Consignments are checked by ANF staff at Karachi Port. Our request is to manage the process in a way that the opened bags/cargo is re stitched / packed properly as customers’ complaints about open/poor packing. (Sitara Chemical Industries Limited)

Role of Non-Tariff Barriers in Influencing Export Disincentives:

1. High levels of port charges: i.e. Wharfage, MMD Fee, Terminal Handling charges.
2. Cumbersome customs practices and regulation
3. High Bank charges & Exchange rate for imports.

Technical Barriers to Trade:

Documentary requirements, technical or safety standards, packing, product definition and labeling requirements are also a major hurdle for exporter.

To facilitate export authorized labs and offices be established at customs offices to

Fulfill such like requirements and lab test conducted in these labs are free of cost.

Recommendations on the part of Trade, Tariff & International Policies:

1. TDAP (Trade Development Authority of Pakistan) must establish an e-Portal to facilitate Pakistan entrepreneurs which must cover all business aspects for the promotion of trade and economic growth of the country. (a virtual show case of Pakistani exportable products)
2. It is suggested that an office of the tariff Directorate General may be created on the pattern of Customs Valuation to work out on a product by product basis and recommend actual tariff rates to make industries more competitive.

Recommendations in the Perspective of Imports and Commercial

1. Necessary steps should be taken to promote regional trade and to avail the benefits of proximity instead of importing the goods from Europe & other countries at high prices.
2. Reduction in duty/taxes may be allowed to increase capacity of the existing plants to fulfill the demand of the country indigenously and to reduce the import bill in order so that the hard

earned foreign exchange may be saved and spent on the other development projects. The increase in capacity should also include the volume for export to the neighbor countries.

3. To encourage investment and local business activities, an additional duty may be imposed on the items which are produced in the country.
4. Concrete and environment friendly steps should be taken to overcome energy crises.
5. Industry should be facilitated in terms of special concession in duty / taxes to set up captive power plants.
6. Maintenance of law and order in the country.
7. Special incentive may be announced to for vocational/technical institutions.
8. Special arrangements/incentive may be taken for the transportation of coal via train to the plant site.
9. Since Govt. has special focus to promote textile industry, therefore preference may be given to supply uninterrupted Gas the local industries as per their requirement, manufacturing material for textile industries.
10. Promote up stream and related industry to develop and grow as well as the service sectors.
11. Provide much needed jobs through the industrialization process.
12. As industry develops and becomes competitive export surpluses will became available helping the country's balance of payments.
13. As industries mature and gain knowhow they themselves will move towards technological improvement, training, value addition and competitiveness.
14. As industries grow and pay duties and taxes the Government's revenue will increase and minimize its fiscal deficits.
15. Promote local and foreign investment in local manufacturing.
16. The suggested tariff intervention is as follows:-
17. "To levy Regulatory Duty (RD) at 10% to 15% on all imports except the following:-
 - i) Any items considered as sensitive, and
 - ii) Imported raw materials (except such raw materials which are themselves locally manufactured) used for local manufacturing. For determining the raw materials for this purpose comprehensive input from the business and trade associations as well as local industry should be solicited. Corrective measure should be taken immediately based on information received from time to time to ensure that local industry is not hampered in any manner".
18. Apart from the economic benefits mentioned in 1 above, the measure proposed in 2 above will immediately enhance Government revenues through RD, reduce imports through import substitution and help the country's balance of payments.

19. Further Government industrial sector wise policy support and intervention for promoting ease and reducing cost of doing business and improving their competitiveness and export potential may be sought from the concerned industrial sectors.

((Sitara Chemical Industries Limited + Pharmagen Pvt Ltd.)

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