ALL PAKISTAN TEXTILE MILLS ASSOCIATION

Press Release

The All Pakistan Textile Mills Association (APTMA) issued the following Press Release

APTMA Urges Immediate Reconsideration of Finance Bill 2024—Proposed Tax and Customs Measures Will Devastate Pakistan's Textile Exports

Islamabad, 20 June, 2024 - APTMA strongly protests the regressive and punitive tax and customs-related measures proposed in the Finance Bill 2024 which pose an existential threat to Pakistan's textile industry. The textile sector contributes over 50% of total export earnings and employs 40% of the industrial labour force. The proposed measures are will unequivocally destroy this vital sector, causing irreparable harm to Pakistan's economic stability and export capacity.

1. Withdrawal of Zero-Rating on Local Inputs for Export Manufacturing: The withdrawal of zero-rating on local inputs for exports (through EFS) will significantly disadvantage domestic producers of intermediate goods like yarn and cloth. This regressive measure will reduce domestic value addition in exports, as exporters will favor duty-free and sales tax-free imported inputs over expensive local ones, undermining the competitiveness of domestic manufacturers.

2. Additional Customs Duty of 2% on Cotton and High-Performance MMF: Imposing a 2% customs duty on cotton and high-performance man-made fibers (MMF) will severely impact the SME sector, including domestic yarn and cloth manufacturing. This measure will favor foreign suppliers over local manufacturers, leading to increased costs for domestic production and further stagnation in domestic cotton productivity. The textile industry, consuming 14-16 million bales of cotton annually, will suffer greatly as reduced domestic cultivation exacerbates the existing shortfall, necessitating higher imports.

3. 2% Advance Tax on Export Proceeds/29% Income Tax on Exporters: The proposed 2% advance tax on turnover, adjustable against a 29% tax on income (effectively 39% after super tax), will deplete liquidity and profitability in low-margin, high-volume businesses like textiles. This excessive tax burden, coupled with high operational costs, will erode the competitiveness of Pakistani exporters, driving customers to countries with more favorable tax policies.

4. No Allocation of Funds to Address Industry Liquidity Stuck in Various Refund Regimes: The Finance Bill 2024 fails to address the liquidity crisis in the textile sector, where firms are on the brink of bankruptcy due to high borrowing and operational costs. The government's failure to release outstanding dues under various refund regimes has exacerbated this crisis. Immediate allocation of funds to clear these dues is essential to prevent further insolvency and support industry liquidity.

5. Failure to Rationalize Duties on PTA/PSF: The high import duties on critical raw materials like PTA and PSF make local production significantly more expensive compared to international competitors. The 5% import duty on PTA benefits only a single outdated PTA plant, hampering the entire sector's export growth and diversification. Rationalizing these duties is crucial to enhance the competitiveness of the textile industry.

Exporters are being unjustly marginalized and treated like pariahs, even worse than domestically oriented industries, which is pure discrimination. Pakistani manufacturers are already operating at a severe competitive disadvantage due to the highest tax rates, energy prices and other operational costs in the region. Countries like Bangladesh, India, and Vietnam offer significantly more favourable tax environments, incentivizing investment and growth in their textile sectors. For instance, Bangladesh provides a 10-year tax holiday for new textile firms, and Vietnam offers preferential tax rates of 10-15% for firms in priority sectors. In stark contrast, Pakistani textile firms face an effective tax rate of 39% after considering the super tax. These enormous disparities have already driven many investors away from Pakistan, stalling growth and leading to further deindustrialization.

The proposed measures in the Finance Bill 2024 will exacerbate this situation by imposing additional financial burdens on an already struggling sector, as outlined above. The overall impact on the economy will be devastating. The textile sector, which accounts for over 50% of Pakistan's total export earnings, is a critical source of foreign exchange and a major employer of millions across the country. The collapse of this sector would lead to massive job losses, further exacerbating the already high unemployment rates. The reduction in export earnings would widen the trade deficit, putting additional pressure on the country's foreign exchange reserves and increasing the risk of a balance of payments crisis.

Moreover, the proposed measures will halt new investment in productive export-oriented activities, leading to a further decline in industrial capacity. The flight of capital from the formal, documented sector to the informal sector will increase, reducing government revenue and worsening the fiscal deficit. This will create a vicious cycle of economic decline, with reduced growth prospects and heightened risk of sovereign default on both domestic and foreign debt obligations.

In summary, the Finance Bill 2024, in its current form, not only fails to address the existing disadvantages faced by Pakistani manufacturers but actively worsens them. It protects foreign suppliers at the expense of local industry, undermines the competitiveness of Pakistani exports, and threatens the overall economic stability of the country. APTMA calls for urgent reconsideration of these destructive measures to prevent a complete collapse of the textile sector and to safeguard Pakistan's economic future.

Forwarded for favor of publication in your esteemed newspaper/transmission.

Asif Inam
Chairman APTMA

Particulars	Pakistan	Bangladesh	India	Indonesia	Vietnam	Egypt	Pakistani Advantage
Tax on Exports	2% advance tax on export proceeds adjustable against 29% tax on income/profits	**Export oriented industries are eligible to be exempted from income tax** for 50% earnings from export **Preferential income tax rates** at 10-12% for RMG factories **Duty free import of raw material** for 100% export oriented RMG factories **Reduced withholding tax on export earnings** at 0.5%. **Phased or partial tax exemption** of 5 to 10 years for new firms.	**Rebate of State and Central Taxes and Levies scheme for exporters** **Seven textile and apparel industrial zones with plug & play facilities** and **rebate up to 3% of turnover** of new EOUs. Huge Production Linked Incentives (PLI) are available to encourage companies to increase their production capacity. **R&D finance** up to 80% of project costs for EOUs. **Pre- and post-shipment and working capital finance** through running account facility in FX. **Term loans for capital expenditures**. **Loans/guarantees extended for expansion and upgradation**. **Financing to acquire plant machinery** and ancillary equipment.	Lower rate depending on the sector, investment value, etc.	Lower rate of corporate tax ranging between 10% & 17% for exporters meeting certain criteria.	Free Zone Enterprises with export sales of 50% or more are exempt.	NONE

		15% cash **credit for pre-shipment expenses; packing credit** for CIF expenses. **Post-shipment finance** at 50-80% of L/C value **Long Term USD Financing** at a max. rate of 8.5%.					
Super Tax	Up to 10%	N/A	N/A	N/A	N/A	N/A	NONE
Gas (Boiler)/MMBtu	$8.50	$7.20	$6.50	Not available	$9.80	Not available	NONE
Electricity/kWh	$0.16-0.17 (July 2024 tariff)	$0.09	$0.06	$0.10	$0.06	$0.09	NONE
Benchmark interest rate	20.5%	7.45%	6.80%	6.52%	4.75%	19.25%	NONE