

**Press Release**

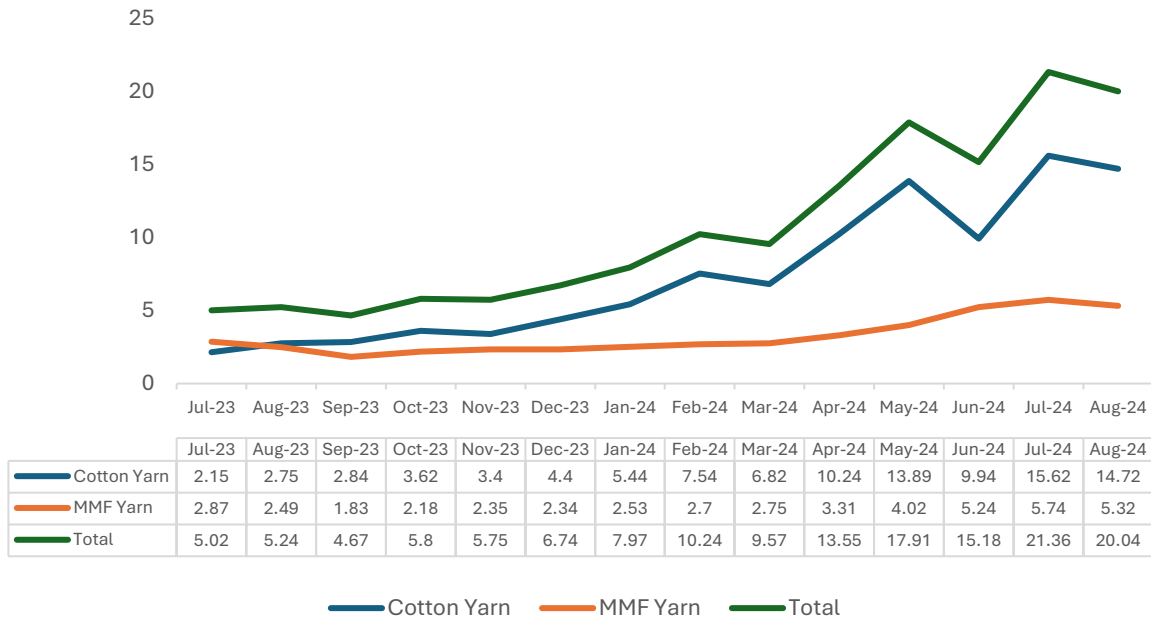
The All Pakistan Textile Mills Association (APTMA) issued the following Press Release

**MISUSE OF EFS CAUSING IRREPARABLE LOSS OF DOMESTIC YARN MANUFACTURING, MASSIVE UNEMPLOYMENT**

23<sup>rd</sup> September 2024, Islamabad – The All Pakistan Textile Mills Association (APTMA) is extremely concerned about the growing misuse of the Export Facilitation Scheme (EFS) following the withdrawal of the sales tax exemption on local supplies for export manufacturing under EFS in the Finance Act 2024.

These changes have led to aggressive misuse of the EFS, resulting in a significant increase in imports of yarn and other intermediate inputs, a significant portion of which are imported under the guise of export manufacturing but instead being sold in the domestic market, displacing the local industry and causing loss of livelihoods for millions across the country. Such illegal practices are not only crippling the domestic upstream sectors but also leading to a loss of domestic value addition in exports.

Imports of Yarn, '000 tons



Source: PRAL

We have continued to highlight the negligence in formulating such policies that render manufacturing in Pakistan financially unviable and cause irreparable economic damage. However, our calls for action remain unanswered. The withdrawal of zero-rating on local supplies for export manufacturing under the Finance Act 2024 was posed as a revenue-enhancing measure; rather, it is having the opposite impact by forcing a decline in business activity and thus the government’s revenue collection.

The removal has disproportionately affected segments of the textile industry, especially small and medium enterprises, that were already struggling with prohibitive energy prices, unbearable tax burdens and an unfavorable business environment. Local manufacturers, who previously supplied to exporters, are now rapidly shutting down as exporters are purchasing duty-free and sales-tax free inputs from abroad over domestically manufactured ones that are subject to an 18% sales tax. While the sales tax is, in principle, refundable, the FBR continues to delay sales tax refunds to exporters, which entails an opportunity cost of at least 20% per annum.

Imports of yarn and other inputs imported under EFS are also increasingly and illegally flooding the domestic market to further detriment of the local industry. This yarn, imported duty-free and sales tax-free, is being sold in the domestic market at rates that the domestic industry cannot compete with due to higher production costs, which in and of themselves are a result of callous policymaking that has caused energy prices to skyrocket, and domestic cotton production to plummet.

Over 40% of spinning mills have been forced to shut down. If the government does not immediately address the destructive impact of the withdrawal of the sales tax exemption on local supplies for export manufacturing on the domestic industry, it is only a matter of time before this spills over to other sectors such as weaving and processing, and the entire upstream textile industry is deindustrialized. Pakistan was once home to a full textile and apparel value chain, a rare asset in the global market. Apart from India and China, no other country has this capability. But it's better to speak of this in the past tense because these sectors are now on life support thanks to blundersome policies.

It needs no reminding that Pakistan's external liabilities over the next five years are in excess of \$100 bn and the country is in desperate need of increasing exports and domestic value addition in exports to meet its external obligations in a sustainable manner and without taking on more expensive debt. At this time, we cannot afford to lose one of the most valuable links of the textile and apparel value chain.

**We urgently call on the government to strengthen checks and balances on firms misusing the EFS to protect Pakistan's domestic industry and implement credible penalties for those facilitating and engaging in fraudulent activities. Moreover, a rigorous reappraisal of all EFS holders should be conducted for improved transparency and accountability, and EFS licenses should be limited to only those firms that are engaged in manufacturing.**

**Finally, we strongly urge the government to immediately restore EFS to its pre-Finance Act 2024 form, including the sales tax exemption/zero-rating on all local supplies used for export manufacturing.**

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

**Asif Inam**  
Chairman APTMA

