

CCP issues policy note

# FBR, NTC asked to revise PET resins tariff

**RECORDER REPORT**

**ISLAMABAD:** The Competition Commission of Pakistan (CCP) has recommended to the Federal Board of Revenue (FBR) and National Tariff Commission (NTC) to rationalise/reduce tariff structure on poly ethylene terephthalate (PET) resins to uniform duty rates for eliminating discrimination, particularly in respect of PET Film Grade, PET Bottle Grade and PET Yarn Grade.

In this regard, the CCP has issued a policy note to FBR and the NTC here on Monday.

The CCP in its policy note highlighted that adoption of a tariff policy, which aims at providing a level playing field to all manufacturers to further grow and develop BOPET Film, and PET Bottle industry would save foreign exchange by substituting imports of finished goods with local production. At the same time, it would encourage to export the surplus production, which would help in reducing the trade deficit of Pakistan. Therefore, CCP in its policy note has recommend that tariff structure of PET Resins, in particularly PET Bottle Grade, PET Film Grade and PET Yarn Grade needs to be rationalized and slashed down to a uniform rate to eliminate discrimination in terms of classification and rates of duty in order to create a level playing field for all the competitors in PET Bottle and BOPET Film markets.

The CCP said that the duty protection invariably has an impact on the price and sets a higher trend in price. Higher price increases the cost of production of customers. In cases where customers are dependent on sole supplier/manufacturer to procure raw material to meet the local demand and compete with it in the downstream market, the duty protection restricts competition and is likely to distort a level playing field in the downstream market.

Such restricted competition may set a tendency for supplier cum competitor to engage in exclusionary behavior and once the competitors are driven out of market, end consumers may fall prey to rent seeking behavior of a monopolist.

According to the CCP policy note, the CCP took notice of concerns raised on classification of PET Resins under Pakistan customs Tariff Code (PCT Code) and customs duty levied on them under SRO507(I)/2007 and SRO 678(I)/2010 which, prima facie, give undue duty protection to the sole local manufacturer/supplier of PET Resins. The sole manufacturer of PET Resin is a vertically integrated unit having also presence in downstream market and the policy note examined whether resultant custom duty structure on PET Resin and its downstream products places the competitors of the sole manufacturer of PET Resin at a competitive disadvantage.

While reviewing the tariff structure, classification and customs duty on PET Resin were compared with the tariff structure followed in eight jurisdictions including developing and developed. Their tariff codes suggest guidelines for classification/nomenclature of PET Resin, which may include function or role of the goods, polymer that they are made from, and method of manufacturing. It has been observed that generally, PET Resins are categorized and duty is levied based on their properties, in particularly, Intrinsic Viscosity. Similarly, another interesting feature that helps to understand the international trend in classification of PET Resins is the manufacturing process. PET Resins, particularly, PET Bottle Grade, Film Grade, and yarn grade are manufactured by using the same type of raw material all used in almost same stoichiometric proportion in same process of esterification and polycondensation

carried out on the same plant. Standard PET Yarn Grade and PET Film Grade have Viscosity of 0.64 dl/g whereas standard PET Bottle Grade has a little higher Viscosity of 0.80dl/g for the reason that it has to go through Solid State Polycondensation Process (SSP) to upgrade amorphous bottle grade chips to high quality bottle grade resin.

However, in case of PCT Code applicable in Pakistan it has been observed that PET Resins have been categorized based on product and not based on a rationale in sync with international trend. Therefore, Film Grade and Yarn Grade even though have identical Viscosity and manufactured through almost similar process using substantially similar raw material have been imposed with different customs duty at the rate of 20 percent and 3 percent respectively.

Policy note stated that the classification PET Resins under PCT Code and diverse rates of customs duty levied on them through notifications seem to extend protection to a particular undertaking by imposing discriminatory rates on similar products, which has resulted into a situation of applying dissimilar conditions to equivalent transactions.

Another important aspect observed with respect to duty structure of PET Resins in Pakistan is adoption of a different tariff escalation modality. Generally, countries provide duty protection by imposing a high tariff on finished goods to restrict their inflow and protect local manufacturers. Whereas comparatively low rate of duty is levied on raw/intermediary material to encourage local production. For example, in case of our own Tobacco industry, imported raw material is charged with 5 percent customs duty whereas finished product is charged with 35 percent customs duty as given in the PCT Code. Similar incidents are

found in marble industry, cosmetic industry and many others, CCP said.

However, in case of PET Resins, customs duty levied on 'PET Film Grade' (raw material) is 20 percent and 'BOPET Film', which is a finished product it is 20 percent. Similarly, customs duty on 'PET Bottle Grade' (raw material) is 9 percent, whereas 'PET Preform', which is an intermediary product, it is 20 percent and on finished product, which is 'PET Bottle' the customs duty, is 10 percent. Such duty structure encourages the imports of finished products rather than giving the incentive to manufacturers to produce locally. In case where the sole manufacturer of PET Resins who also has presence in the downstream market, such duty structure gives it an apparent advantage over its competitors by increasing cost of raw material used for production by other players/competitors, in the down stream market. The increase in cost of production of competitors may be either through the ability of sole manufacturer to charge higher local prices for the raw material or incidence of higher tariff on raw/intermediary material that makes it difficult for competitors to compete in the downstream markets (BOPET Film and PET Bottle markets).

If setting up a PET Resin plant necessitated duty protection to recoup the investment and allowing time to become competitive. Such protection cannot be absolute and has to be time bound, particularly, when undertaking enjoying the duty protection also enters the downstream market and becomes a competitor of its customers. Apart from presence in both upstream and downstream market, long duration of protection, positive growth, and financial strength are the strong indicators to establish the fact that continuation of duty protection is unwarranted, policy note added.

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01 Jan 2013

مسابقتی کمیشن آف پاکستان نے پیٹ  
کیمیکل پریٹرف کم کرنے کی سفارش کردی  
اسلام آباد (خبرنگار خصوصی) مسابقتی کمیشن آف  
پاکستان (سی سی پی) نے پولی تھلین تیرہ تھلیٹ  
باقی صفحہ 5 نمبر 7

7

مسابقتی کمیشن

بقیہ

ش  
نے کا

(پیٹ) ریسز کے ٹیرف اسٹریچر کو معقول سطح پر لانے کیلئے  
فیڈرل بورڈ آف ریونیو (ایف بی آر) اور نیشنل ٹیرف کمیشن  
(این ٹی سی) کو پالیسی نوٹ جاری کر دیا ہے، پیٹ ایک ایسا  
کیمیکل ہے جو زیادہ تر پانی کی بوتلوں کی پیکنگ میں استعمال  
ہوتا ہے مسابقتی کمیشن آف پاکستان نے اسے نوٹ میں  
پیٹ فلم گریڈ پیٹ بول گریڈ اور پیٹ یارن گریڈ کے ٹیرف کو کم  
کرنے کی سفارش کی ہے سی سی پی کی جانب سے ان اشیاء پر  
ایس آر اوز کے ذریعے لگائی جانے والی کسٹمز ڈیوٹی کو بھی بادی  
النظر قرار دیا گیا ہے جس کے ذریعے صرف ایک مقامی مینوفیکچرر  
کو بہت زیادہ تحفظ دیا گیا ہے۔ پیٹ کے ٹیرف اسٹریچر کو معقول  
سطح پر لانے سے مارکیٹ براس کے اچھے اثرات مرتب ہوں گے  
اور اس سے واحد مقامی مینوفیکچرر کی بالادستی ختم ہو جائے گی۔

## CCP issues policy note to FBR and National Tariff Commission

STAFF REPORTER

**ISLAMABAD**—The Competition Commission of Pakistan (CCP) has issued a Policy Note to Federal Board of Revenue and National Tariff Commission recommending rationalization/slash down of tariff structure of Poly Ethylene Terephthalate (PET) Resins to uniform rates to eliminate discrimination, particularly in respect of PET Film Grade, PET Bottle Grade and PET Yarn Grade.

CCP took notice of concerns raised on classification of PET Resins under Pakistan customs Tariff Code (PCT Code) and customs duty lev-

ied on them under Notifications SRO 507(I)/2007 and SRO 678(I)/2010 which, prima facie, give undue duty protection to the sole local manufacturer/supplier of PET Resins. The sole manufacturer of PET Resin is a vertically integrated unit having also presence in downstream market and the policy note examined whether resultant custom duty structure on PET Resin and its downstream products places the competitors of the sole manufacturer of PET Resin at a competitive disadvantage.

While reviewing the tariff structure, classification and customs duty on PET Resin were compared with the tariff structure followed in eight jurisdic-

tions including developing and developed. Their tariff codes suggest guidelines for classification/nomenclature of PET Resin, which may include function or role of the goods, polymer that they are made from, and method of manufacturing. It has been observed that generally, PET Resins are categorized and duty is levied based on their properties, in particular, Intrinsic Viscosity. Similarly, another interesting feature that helps to understand the international trend in classification of PET Resins is the manufacturing process. PET Resins, particularly, PET Bottle Grade, Film Grade, and yarn grade are manufactured by using the same type of raw

material all used in almost same stoichiometric proportion in same process of esterification and polycondensation carried out on the same plant. Standard PET Yarn Grade and PET Film Grade have Viscosity of 0.64 dl/g whereas standard PET Bottle Grade has a little higher Viscosity of 0.80dl/g for the reason that it has to go through Solid State Polycondensation Process (SSP) to upgrade amorphous bottle grade chips to high quality bottle grade resin.

However, in case of PCT Code applicable in Pakistan it has been observed that PET Resins have been categorized based on product and not based on a rationale in sync with interna-

tional trend. Therefore, Film Grade and Yarn Grade even though have identical Viscosity and manufactured through almost similar process using substantially similar raw material have been imposed with different customs duty at the rate of 20% and 3% respectively.

Policy note states that the classification PET Resins under PCT Code and diverse rates of customs duty levied on them through notifications seem to extend protection to a particular undertaking by imposing discriminatory rates on similar products, which has resulted into a situation of applying dissimilar conditions to equivalent transactions.

Another important aspect observed with respect to duty structure of PET Resins in Pakistan is adoption of a different tariff escalation modality. Generally, countries provide duty protection by imposing a high tariff on finished goods to restrict their inflow and protect local manufacturers. Whereas comparatively low rate of duty is levied on raw/intermediary material to encourage local production. For example, in case of our own Tobacco industry, imported raw material is charged with 5% customs duty whereas finished product is charged with 35% customs duty as given in the PCT Code. Similar incidents are found in marble industry,

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However, in case of PET Resins, customs duty levied on 'PET Film Grade' (raw material) is 20% and 'BOPET Film', which is a finished product it is 20%. Similarly, customs duty on 'PET Bottle Grade' (raw material) is 9%, whereas 'PET Preform', which is an intermediary product, it is 20% and on finished product, which is 'PET Bottle' the customs duty, is 10%. Such duty structure encourages the imports of finished products rather than giving the incentive to manufacturers to produce locally. In case where the sole manufacturer of PET Resins who also has presence in the

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It has also been stated in the policy note that duty protection

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Decreasing tariff structure of PET Resins

# CCP issues 'policy note' to FBR, NTC

## Staff Report

**ISLAMABAD:** The Competition Commission of Pakistan (CCP) on Monday issued a 'policy note' to Federal Board of Revenue (FBR) and National Tariff Commission (NTC) recommending rationalisation and slashing down of tariff structure of Polyethylene terephthalate (PET) Resins to uniform rates to eliminate discrimination, particularly in respect of PET Film Grade, PET Bottle Grade and PET Yarn Grade.

The CCP took notice of concerns raised on classification of PET Resins under Pakistan Customs Tariff Code (PCT Code) and customs duty levied on them under Notifications SRO 507(I)/2007 and SRO 678(I)/2010 which, prima facie, give undue duty protection to the sole local manufacturer and supplier of PET Resins. The sole manufacturer of PET Resin is a vertically integrated unit having also presence in downstream market and the policy note examined whether resultant customs duty structure on PET Resin and its downstream products

places the competitors of the sole manufacturer of PET Resin at a competitive disadvantage.

While reviewing the tariff structure, classification and customs duty on PET Resin were compared with the tariff structure followed in eight jurisdictions including developing and developed. Their tariff codes suggest guidelines for classification and nomenclature of PET Resin, which may include function or role of the goods, polymer that they are made from, and method of manufacturing. It has been observed that generally, PET Resins are categorised and duty is levied based on their properties, in particularly, Intrinsic Viscosity. Similarly, another interesting feature that helps to understand the international trend in classification of PET Resins is the manufacturing process. PET Resins, particularly, PET Bottle Grade, Film Grade, and yarn grade are manufactured by using the same type of raw material all used in almost same stoichiometric proportion in same process of esterification and polycondensation carried out on the same plant.

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price and sets a higher trend in price. Higher price increases the cost of production of customers. In cases where customers are dependent on sole supplier or manufacturer to procure raw material to meet the local demand and compete with it in the downstream market, the duty protection restricts competition and is likely to distort a level playing field in the downstream market. Such restricted competition may set a tendency for supplier cum competitor to engage in exclusionary behavior and once the competitors are driven out of market, end consumers may fall prey to rent seeking behavior of a monopolist.

Policy note goes on to state that if setting up a PET Resin plant necessitated duty protection to recoup the investment and allowing time to become competitive. Such protection cannot be absolute and has to be time bound, particularly, when undertaking enjoying the duty protection also enters the downstream market and becomes a competitor of its customers. Apart from presence in both upstream

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