

01 Jan 2013 Page # 13

## CCP issues policy note

# FBR, NTC asked to revise PET resins tariff

RECORDER REPORT

ISLAMABAD: Competition Commission of competitor to engage in exclu- PET Film Grade have Viscosity Pakistan (CCP) has recommend-sionary behavior and once the of 0.64 dl/g whereas standard ed to the Federal Board of competitors are driven out of PET Bottle Grade has a little Revenue (FBR) and National market, end consumers may fall higher Viscosity of 0.80dl/g for Tariff Commission (NTC) to prey to rent seeking behavior of a the reason that it has to go rationalise/reduce tariff structure monopolist. on poly ethylene terepthalate Film Grade, PET Bottle Grade toms Tariff Code (PCT Code) and PET Yam Grade.

issued a policy note to FBR and the NTC here on Monday.

time, it would encourage to turer of PET Resin at a competiexport the surplus production, tive disadvantage. which would help in reducing the trade deficit of Pakistan, structure, classification and cus-Therefore, CCP in its policy note toms duty on PET Resin were notifications seem to extend prohas recommend that tariff struc- compared with the tariff structure ture of PET Resins, in particularly followed in eight jurisdictions PET Bottle Grade, PET Film including developing and devel-Grade and PET Yarn Grade oped. Their tariff codes suggest needs to be rationalized and guidelines for classification/ slashed down to a uniform rate to nomenclature of PET Resin, alent transactions. eliminate discrimination in terms which may include function or of classification and rates of duty role of the goods, polymer that observed with respect to duty Bottle markets). in order to create a level playing they are made from, and method field for all the competitors in of manufacturing. It has been PET Bottle and BOPFT Film

tection invariably has an impact in particularly, Intrinsic Viscosity. on the price and sets a higher Similarly, another interesting fea- their inflow and protect local trend in price. Higher price ture that helps to understand the manufacturers. Whereas comparof customers. In cases where custion of PET Resins is the manu- on raw/intermediary material to field in the downstream market. fication and polycondensation PCT Code. Similar incidents are unwarranted, policy note added.

According to the CCP policy (PET) resins to uniform duty rates note, the CCP took notice of confor eliminating discrimination, cerns raised on classification of particularly in respect of PET PET Resins under Pakistan cusand customs duty levied on them applicable in Pakistan it has been In this regard, the CCP has under SRO507(1)/2007 and SRO 678(1)/2010 which, prima facie, give undue duty protection to the uct and not based on a rationale in The CCP in its policy note sole local manufacturer/supplier highlighted that adoption of a tar- of PET Resins. The sole manuiff policy, which aims at provid-facturer of PET Resin is a vertiing a level playing field to all cally integrated unit having also manufacturers to further grow presence in downstream market and develop BOPET Film, and and the policy note examined using substantially similar raw PET Bottle industry would save whether resultant custom duty foreign exchange by substituting structure on PET Resin and its different customs duty at the rate imports of finished goods with downstream products places the of 20 percent and 3 percent local production. At the same competitors of the sole manufac-While reviewing the tariff

> abserved that generally, PST Regine are entagorized and day is

State through Solid Polycondensation Process (SSP) to upgrade amorphous bottle grade chips to high quality bottle grade resin.

observed that PET Resins have been categorized based on prodsync with international trend. Therefore, Film Grade and Yam Grade even though have identical Viscosity and manufactured through almost similar process material have been imposed with respectively.

Policy note stated that the classification PET Resins under PCT Code and diverse rates of customs duty levied on them through tection to a particular undertaking by imposing discriminatory rates resulted into a situation of applying dissimilar conditions to equiv-

structure of PET Resins in Pakistan is adoption of a different Garanii escaiation modality. The CCP said that the duty pro-levied based on their properties, protection by imposing a high tariff on finished goods to restrict

Such restricted competition may carried out on the same plant. found in marble industry, cosmet-The set a tendency for supplier cum Standard PET Yarn Grade and ic industry and many others, CCP

> 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 inter-However, in case of PCT Code mediary 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 on similar products, which has incidence of higher tariff on raw/intermediary material that makes it difficult for competitors to compete in the downstream Another important aspect markets (BOPET Film and PET

If setting up a PET Resin plant necessitated dury protections 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 protecincreases the cost of production international trend in classifica- atively low rate of duty is levied tion also enters the downstream market and becomes a competitor tomers are dependent on sole sup-facturing process. PET Resins, encourage local production. For of its customers. Apart from presplier/manufacturer to procure raw particularly. PET Bottle Grade, example, in case of our own ence in both upstream and downmaterial to meet the local demand. Film Grade, and yarn grade are. Tobacco industry, imported raw. stream market, long duration of and compete with it in the down-manufactured by using the same material is charged with 5 percent protection, positive growth, and stream market, the duty protectype of raw material all used in customs duty whereas finished financial strength are the strong tion restricts competition and is almost same stoichiometric pro- product is charged with 35 per- indicators to establish the fact that likely to distort a level playing portion in same process of esteri- cent customs duty as given in the continuation of duty protection is

J. .

### Page # 3 01 Jan 2013



Page # 13 01 Jan 2013

# CCP issues policy note to FBR and National Tariff Commission

STAFF REPORTER

Yarn Grade.

CCP took notice of con-

PET Bottle Grade and PET turer of PET Resin at a competi- understand the international ity bottle grade resin. tive disadvantage.

SRO 507(1)/2007 and SRO developed. Their tariff codes stoichiometric proportion in Grade and Yarn Grade even observed with respect to duty ers.

Code) and customs duty lev- ture followed in eight jurisdic- by using the same type of raw rationale in sync with interna- transactions.

ied on them under Notifications tions including developing and material all used in almost same tional trend. Therefore, Film Another important aspect cosmetic industry and many oth-downstream market, such duty

ISLAMABAD—The Competi- 678(I)/2010 which, prima facie, suggest guidelines for classifi- same process of esterification though have identical Viscosity structure of PET Resins in Pation Commission of Pakistan give undue duty protection to the cation/nomenclature of PET and polycondensation carried and manufactured through al- kistan is adoption of a different Resins, customs duty levied on by increasing cost of raw ma-(CCP) has issued a Policy sole local manufacturer/supplier Resin, which may include func- out on the same plant. Standard most similar process using sub- tariff escalation modality. Gen- 'PET Film Grade' (raw mate- terial used for production by Note to Federal Board of Rev- of PET Resins. The sole manu- tion or role of the goods, poly- PET Yarn Grade and PET Film stantially similar raw material erally, countries provide duty rial) is 20% and 'BOPET Film', other players/ competitors, in enue and National Tariff Com- facturer of PET Resin is a verti- mer that they are made from, and Grade have Viscosity of 0.64 dl/ have been imposed with differ- protection by imposing a high which is a finished product it is the down stream market. The mission recommending ratio- cally integrated unit having also method of manufacturing. It has g whereas standard PET Bottle ent customs duty at the rate of tariff on finished goods to re- 20%. Similarly, customs duty on increase in cost of production nalization/slash down of tar- presence in downstream market been observed that generally, Grade has a little higher Viscos- 20% and 3% respectively. strict their inflow and protect 'PET Bottle Grade' (raw mate- of competitors may be either iff structure of Poly Ethylene and the policy note examined PET Resins are categorized and ity of 0.80dl/g for the reason that Policy note states that the local manufacturers. Whereas 'PET Pre-through the ability of sole Terepthalate (PET) Resins to whether resultant custom duty duty is levied based on their it has to go through Solid State classification PET Resins under comparatively low rate of duty form', which is an intermediary manufacturer to charge higher uniform rates to eliminate dis-structure on PET Resin and its properties, in particularly, Intrin-Polycondensation Process PCT Code and diverse rates of is levied on raw/intermediary product, it is 20% and on fin-local prices for the raw matecrimination, particularly in downstream products places the sic Viscosity. Similarly, another (SSP) to upgrade amorphous customs duty levied on them material to encourage local pro- ished product, which is 'PET rial or incidence of higher tarespect of PET Film Grade, competitors of the sole manufac- interesting feature that helps to bottle grade chips to high qual- through notifications seem to duction. For example, in case of Bottle' the customs duty, is 10%. iff on raw/intermediary mateextend protection to a particular our own Tobacco industry, im- Such duty structure encourages rial that makes it difficult for trend in classification of PET However, in case of PCT undertaking by imposing disported raw material is charged the imports of finished products competitors to compete in the While reviewing the tariff Resins is the manufacturing pro- Code applicable in Pakistan it criminatory rates on similar with 5% customs duty whereas rather than giving the incentive downstream markets (BOPET cerns raised on classification structure, classification and cus- cess. PET Resins, particularly, has been observed that PET Res- products, which has resulted into finished product is charged with to manufacturers to produce lo- Film and PET Bottle markets). of PET Resins under Pakistan toms duty on PET Resin were PET Bottle Grade, Film Grade, ins have been categorized based a situation of applying dissimi- 35% customs duty as given in cally. In case where the sole It has also been stated in the customs Tariff Code (PCT compared with the tariff struc- and yarn grade are manufactured on product and not based on a lar conditions to equivalent the PCT Code. Similar incidents manufacturer of PET Resins policy note that duty protection

structure gives it an apparent

are found in marble industry, who also has presence in the Continued on Page 14



Page # B2

01 Jan 2013

# 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 niform rates to eliminate scrimination, 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.

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 categorised 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 3.0 percent, 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 and intermediary material to encourage local production. For example, in case of our own Tobacco industry. imported raw material is charged with 5.0 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.

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 9.0 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 otherplayers and 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 and intermediary material that makes it difficult for competitors to compete in the downstream markets (BOPET Film and PET Bottle markets).

It has also been stated in the policy note that 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 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 prev 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

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.

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 rationalised 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 Nation

## Page # 16

01 Jan 2013

## CCP issues policy note to FBR, NTC

OUR STAFF REPORTER

ISLAMABAD - The Competi-tion Commission of Pakistan (CCP) has issued a policy note to Federal Board of Revenue and National Tariff Commission recommending rationalision recommending rationali-sation/slash down of tariff structure of Poly Ethylene Terepthalate (PET) Resins to uniform rates to eliminate dis-crimination, particularly in re-spect of PET Film Grade. PET Bottle Grade and PET

Yarn Grade. CCP took notice of concerns raised on classification of PET Resins under Pakistan CUS toms Tariff Code (PCT Code) duty levied and customs them under Notifications SRO 507(I)/2007 and SRO 678(I)/2010 which, prima facie, give un-due duty protection to the sole local manufacturer/supplier of

PET Resins. The sole manufacturer PET Resin is a vertically inte-grated unit having also presmarket downstream ence in 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 develop-

ing and developed.

Their tariff codes suggest guidelines classification/nomenclature of PET Resin, which may include function or role of the goods, polymer that they are made from, and method of manufac-turing. 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 manufac tured by using the same type of raw material all used in al-most same stoichiometric proportion in same process of esterification and polycondensa termication and polycondensa-tion 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 Vis cosity of 0.80dl/g for the reason that it has to go through Solid State Polycondensation Process (SSP) to upgrade to upgrade amorphous bottle grade chips to high quality bottle grade resin.