The Pakistan Business Council
FOSTERING ECONOMIC GROWTH
(A Company set up under Section 42 of the Companies Ordinance 1984)

Kamran Y. Mirza
Chief Executive
8th Floor, Dawood Centre,
M. T. Khan Road,
Karachi-Pakistan.
PABX : 35630528-29
Fax : 3563 0530
e-mail: kamranymirza@pbc.org.pk

May 26, 2014

Mr. Nisar Muhammad Khan
Member Customs
Federal Board of Revenue
FBR House
Constitution Avenue, G-5,
Islamabad

Dear Mr. Khan

PROPOSALS FROM THE PBC FOR ENHANCING / REDUCING LEAKAGES IN PAKISTAN CUSTOMS COLLECTIONS

This has reference to the PBC meetings with the FBR Team headed by its Chairman and comprising senior members of the FBR. As discussed, the PBC is submitting detailed proposals relating to:

1. General suggestions for enhancing / reducing leakages in customs, and
2. Industry specific suggestions for enhancing / reducing leakages in customs revenues.

The PBC would like to request a meeting to further discuss the issues highlighted as well as to better understand the Customs perspectives on the issues highlighted.

Thank you and regards

Yours Sincerely

Encl:
PBC Proposals for enhancing / reducing leakages in Pakistan Customs collections

Cc:
Mr. Tariq Bajwa – Chairman FBR

PAKISTAN BUSINESS COUNCIL'S

PROPOSALS FOR ENHANCING / REDUCING REVENUE LEAKAGES IN PAKISTAN CUSTOMS COLLECTIONS

Mr. Nisar Muhammad Khan

Member Customs – Federal Board of Revenue

(Submitted: MAY 26th, 2014)

8th floor, Dawood Centre,
M. T. Khan Road,
Karachi – Pakistan
Tel: 92-021 35630528-29
Fax: 92-021 35630530
Website: www.pbc.org.pk

General Suggestions for Reducing Revenue Leakages at Customs

Sr. #	Issue	Current Situation	Recommendation	Rationale
1.	Improving Traceability	Currently it is not possible to distinguish between products which have been genuinely imported and that which is counterfeited / smuggled.	Name of importer along with his address needs to be printed on the packaging in which the product is eventually sold	Will allow customs as well as consumers to be able to identify counterfeit / smuggled products. This will allow better enforcement & decrease margins for traders.
2.	Under-invoiced imports are keeping leading international firms out of the Pakistani markets	A number of international brands are being imported at a fraction of their cost and sold in the market. These under-invoiced imports are a major impediment for companies which are owners of these brands to formally import and market them in Pakistan.	Best practices from neighboring countries should be adopted i.e. registration of brands with the customs authorities. The import values of the brands should be fixed in consultation with the brands owners.	Will reduce duty evasion.
3.	Over-invoicing	Unscrupulous traders artificially inflate the invoiced value of certain items to deter genuine importers from importing these through the official channel. Inflated invoice values sometimes 300 – 400% higher than actual values are declared for customs valuations of very small consignments. These valuations are then used by the customs for valuing subsequent consignments imported by genuine importers The unscrupulous traders resort to misusing the Afghan Transit Treaty or use smuggling routes to channel items to feed demand in Pakistan.	Import value of branded items should be verified with registered owners of brands to facilitate formal import and protect the national exchequer.	Will reduce misuse of the Afghan Transit Treaty as well as reduce incentive to bring the product in through the smuggling channels.
4.	Openly sold smuggled/under-invoiced items	Whole markets such as Jodia Bazar, Shah Alam etc., openly sell	Customs should conduct raids to deter brazen smuggling.	Will promote official import and encourage the formal sector.

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		smuggled and under-invoiced items		
5.	Mis-declaration of weight	When weight is the basis of valuation, consignments especially those in LCL form are short weighed / short declared to evade duty	The manifest of the shipping line with the weight of each container should be entered in the PRAL system and the customs appraiser/examiner should tally and okay the weight from the Manifest to the weight declared in the Bill of entry. If the consignment is LCL (one of many consignments in the container) then the container number of the consignment should be noted in the Bill of Entry and the relevant appraisement and examination section should appraise and examine all the consignments of one container together to assess the total weight of consignments in the said container.	To avoid mis-declaration of the product weight of products which are priced and invoiced in kgs to ensure that declared weight for assessment in Bill of entry is the actual weight of items which are shipped and cleared from the port to avoid paying duties on less quantity/weight.
6.	Mis-declaration / incomplete information on customs documents	Fake suppliers addresses, incomplete details about product being imported, are common practices	It should be strictly ensured that details regarding product description, suppliers name and addresses should be mentioned in each invoice.	Reduce element of mis-declaration
7.	Valuations	Valuations sometimes do not appear to have been done in a transparent manner In addition there is no common methodology which is being applied on imports.	Valuation Committees with input from all stakeholders should be formed and a common valuation method for a product category needs to be implemented.	To improve transparency in the valuation process.
		For certain goods, Customs has Guidelines (updated in the	Stakeholders need be informed of updated Guidelines. The same	Improve transparency and facilitate in early clearance.

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		database) to assess HS Codes. Except for Customs Officials who have access to the database, other stakeholders are not informed and hence the Company uses harmonized HS Codes provided by Suppliers/ Vendors. In such cases, goods are withheld at the assessment stage and clearance is delayed.	can also be promulgated through Customs website. This will help early clearance.	
		Most PBC Member companies are large manufacturing concerns who buy in bulk quantities for which they spent considerable amount of energy negotiating prices and delivery dates. Similarly some companies are local affiliates of some of the largest international corporations. These companies in addition to importing for internal consumption also give indents of the same raw materials to other industrial and commercial consumers in the country. Customs officials use valuations submitted by commercial importers which in most cases will higher than that declared by PBC member companies. This nullifies the efforts that is put into identifying and negotiating lower prices	Company reputation/ good history of imports should be considered and while Assistant Collectors have the right to object, they should consider justification offered by the Company	Avoid delays in clearance and higher customs duties being levied without considering facts or inputs from Company.

Industry Specific Suggestions for Reducing the Incidence of Under-Invoicing, Mis-Declaration, Smuggling

Sr. #	Industry	Current Situation	Recommendation	Rationale
1.	**Auto Industry**	A review of the current methodology of issuing valuation advises for auto parts needs to be reviewed. Currently a carburetor for a motorcycle is being assessed at $ 1.20 per KG. This translates into a carburetor being assessed at around 50 cents. A carburetor of similar specification when imported by an OEM is declared at $11 (China origin) $13 (Thailand origin) & $19 (Japan origin) per unit.	Valuation rulings should only be issued after a formal and documented consultation with genuine stakeholders like PAMA, PAAPAM & EDB.	To increase and protect the governments revenue base by encouraging the formal sector.
		Importation of auto parts (Chapter 87) on per kilogram basis is said to be in accordance with UoM (unit of measure) "Kg" prescribed under column 4 of the First Schedule to the Customs Act This indirectly facilitates under-invoicing of value added auto parts.	Auto parts are value added items as such their assessment on per kg basis creates an incentive for evasion and leads to loss of revenue. The column 4 of the First Schedule to the Customs Act prescribes unit of measure (UoM) in which the goods are required to be invoiced for measurement of the quantity only and not for the valuation. For the latter, a code needs to be prescribed in column 2 as mentioned in the "Scheme of the Guide" for the PCT. An ad valorem duty is prescribed, as such; the customs should look	The change to ad valorem assessment will ensure proper assessment of auto parts and curb under invoicing and increased Government revenue. The existing system promotes incorrect declaration of value by the unorganized sector which results in unhealthy competition.

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			for the customs value for assessment to duty and not rely on weight.	
		The fixation of ITP's of auto parts for commercial importers at low values prevents development of localization as it is cheaper to buy off importers than to indigenize it.	It is proposed that while determining the valuation price of an auto part, a difference for branded (OEM import) and Non-branded (Commercial import) Chinese origin may not be more than 50%. This price differential will account for R&D, better quality materials used, brand name, etc.	Will act as an incentive for localization of auto parts which are currently being purchased from the local market instead of being imported as CKD. This is because it is cheaper to buy from commercial importers as opposed to importing them as CKD which attracts a higher import duty.
2.	**Ceramic & Tile Industry**	Customs issued valuation of Chinese tiles is much lower than their fair price in China. The National Tariff Commission (NTC) in April 2014 recommended imposing anti dumping duties on Chinese imports.	The reasons behind the NTC's recommendation for imposition of anti-dumping duty on Chinese Tiles should be the starting point for a fresh valuations of Chinese imports	Increase in duty collection and support for the domestic industry.
		A 55% gap in ITP for polished porcelain versus matt porcelain tiles increases incentive to mis-declare.	ITP between polished and matt porcelain tiles needs to be reduced to around 15 – 20% to reduce incentive to mis-declare	Increased duty collection
		Chinese tiles have an undue advantage because of preferential tariffs under the FTA. Since China is the largest manufacturer of ceramic and porcelain tiles in the world, an additional benefit to it only reduces customs revenues	FBR needs to lobby with Ministry of Commerce to reduce and then eliminate margin of preference that Chinese tiles enjoy when been imported into Pakistan.	Increased revenue and a level playing field for the domestic industry.

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3.	**Paper & Paperboard Industry**	Massive under invoicing in case of imports of One Side Coated Duplex Board Grey Back and Coated Bleached Boards under HS Code **4810 – 9200 / 4810-9900**, from China in particular is badly hurting domestic Industry.	Valuation Should be based on International market prices appearing on globally recognized website for the related product, e.g. http://www.risiinfo.com/content-gateway/pricewatch/global.html FBR needs to be willing to move beyond relying on actual transaction values data, which is DV (Declared Value) of Importers and which is provided by the ***Dealers / Agents Association***. For imports from China the Commercial Attachés based in Pakistani missions should certify prices. A cost model based on global prices of raw materials & conversion costs can be developed.	Increase government revenues and support the formal sector.
4.	**Packaged Milk**	The ITP fixed for Skimmed Milk Power (SMP) does not reflect international prices. E.g. in 2013, SMP's International price averaged between US$. 4400-4700/MT while the ITP is in the range of US$ 2850- 3400/MT. The GoP has imposed a customs duty of 25% to protect the domestic industry, however in the presence of under-invoicing, the domestic industry is unable to compete.	ITP should be reviewed on a quarterly basis and there should a base reference with some sites such as GDT (Global Dairy Trade), Agra Informa and CLAL etc or any International index such as CME (Chicago Mercantile Exchange), Eurex, NYSE Euronext etc . Alternately a Forum like PDA (Pakistan Dairy Association) should be approached to give their input based on international market trends.	Increase government revenues and provide the domestic industry with protection.

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5.	**Pharmaceutical Industry**	Pharmaceutical Raw materials are given Tariff protection if basic manufacture is initiated in the country (duty 25%, ST 17%). This facility has been abused in certain cases where manufactured Pharma raw materials are imported by some unscrupulous manufacturers mis-declared as precursors (duty 5%, ST 0%), and sold without any further processing.	Input/output audit should be conducted on local manufacturers to ascertain whether the product is actually being manufactured locally or simply imported & traded In addition chemical analysis tests from accredited laboratories should accompany the shipping documents submitted by the importer.	To prevent evasion of duties and taxes by mis-declaration of APIs as precursors
6.	**Polyester Textile Fabric**	The FBR is currently assessing polyester textile fabric on declared value or the minimum value as per weight of fabric as per the Zubair Motiwala fabric valuation formula. That formula is dependent on the type of yarn used, the end use of fabric it is made for and the weight of fabric. Importers however are not mentioning the complete specifications on the invoice	The FBR should make it mandatory as per CGO to make it binding on the importers to state on the invoice all variables which are part of the Zubair Motiwala valuation formula. Incidentally these are specified by the importer to the exporter when placing the order and on the basis of which the price is negotiated	To allow for correct valuation on the basis of the agreed formula.