

# Islamabad Outlook

## Cut in duty on PSF import to harm industry

The Government decision to reduce import duty on polyester staple fibre (PSF) to 3.5% from the existing 6.5%, subject to ECC's approval, will have a negative impact on the PSF producers, as local PSF is sold at import parity price. The import duty acted as a protection shield for these manufacturers against adverse business environment caused by high raw material costs and dumping by regional countries.

The raw materials (PTA and MEG) for PSF are direct off-shoots of crude oil, and with high crude oil prices the margins worldwide have been depressed. A number of PSF plants in Taiwan, Korea and USA have been shut down or relocated for this reason. Pakistan's PSF manufactures were supported by the Government with import duties on PSF as well as anti dumping duties on four regional manufacturing countries. However, going forward such protections is expected to ease off and only cost controls can support margins.

Polyester yarn is mostly used with fine and super fine quality of cotton of 40 counts and above which constitutes 25% of the total cotton production. Around 75% of Pakistan raw cotton is used in coarse and medium count yarn i.e. 10s, 16s and 21s and up to 36s. Local spinners, usually consume polyester with 40 and 65 count cotton, in the ratio of 65% cotton with 35% polyester.

Polyester Staple Fibre (PSF) became popular in Pakistan in mid-90 because of its characteristic suitability to blend with cotton, wool and viscose for spinning blended yarn. Unlike other yarn it was found to be highly suitable for weaving finer fabrics. It was easily dyed and suitable for printing. At present, there are seven major producer of PSF in the country. These are Dewan Salman, Dhan fibres, Ibrahim fibres, ICI Polyester, Pakistan Synthetic, Rupali and National fibre.

According to APTA spokesman, currently the biggest polyester fibre-producing unit in Pakistan is at the verge of closure, producing polyester only 200 tonnes daily and may suspend its operation at any time. All other polyester producing units, namely Ibrahim fibre Ltd, ICI Polyester Plant, Pakistan Synthetics Ltd and Rupali Polyester are in operation of under capacity. Furthermore, ICI PTA Plant, a raw material supplying plant to these polyester producing units is running at its 50% capacity.

The biggest PSF producer in the country is likely to be hit the most by such a decision. Gross margins are expected to take a dip and average around 3%, which were previously assumed to average around 5 per cent for the next five years. International and local PSF price differential which exists currently is most likely to shrink.

The cheaper availability of PSF is further likely to give a boost to PSF imports from China and India. The R&D support announced by the GoP is not likely to be a major support to margins as Pakistan barely exports 1 per cent of the total PSF production.

It is serving to the benefits of only a few spinning mills. As 80% to 85% of the entire textile products are exported anyway, therefore charging duty on imported polyester fibre is against the basic principle of not charging duty on raw material, which is going to be re-exported after processing and adding value. By removing import duty on polyester fibre, majority of exporters will benefit rather than just five to six large mills under DTRE scheme.

The majority of the activity in art silk and synthetic weaving industry is in the informal sector and generally it is family owned power loom units comprising of 8 to 10 loom. There are approximately 90,000 power looms in operation in the country of which 30,000 looms are engaged in production of blended yarn while remaining 60,000 looms are devoted filament yarn production.

There are three main centres of the art silk industry i.e. Karachi, Faisalabad and Gujranwala. The factories at Karachi are somewhat larger in size and depend mainly on imported as well as domestic man-made yarn. The factories of Faisalabad and Gujranwala are comparatively smaller in size.

Export of art silk and synthetic textile fabrics touched the peak of US \$618 million in 1997-98 and thereafter declined to US \$430 million in 2006-2007, due to drastic cut in the duty drawback. Average Unit Price (AUP) of art silk and synthetic textiles also decreased from \$1.44 per square meter in 2005-06 to \$1.31 per meter in 2006-2007, thus showing a decline of 9%.

If the government reduced the import duty on polyester staple fibre to 3.5% from existing 6.5%, because of such decision, to support textile manufacturers, the consequence for the polyester staple fibre producers is sold at import parity price. The import duty acted as a protection shield for these manufacturers against adverse business environment caused by high raw material costs and dumping by regional countries. ♦