CBR Quarterly Review

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A Review of Resource Mobilization Efforts of Central Board of Revenue

CENTRAL BOARD OF REVENUE
Government of Pakistan
Constitution Avenue
Islamabad - Pakistan

Contact:
Dr. Ather Maqsood Ahmed
Member, Fiscal Research
Fiscal Research and Statistics Wing
e-mail: memberfrs@cbr.gov.pk
Phone: (051)-920-4436
Fax: (051)-921-9211
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I

CBR Tax Collection: An Analysis of FY 03-04 Outturn[1]

'There is a tide in the affairs of men
Which, taken at the flood, leads onto fortune;
Omitted, all the voyage of their life
Is bound in shallows and in miseries'

[**William Shakespeare** … Julius Caesar]

The Economy

The recent gains through prudent economic management and continuity of wide ranging reforms have placed the economy on the path of sustained growth. Initially, a number of 'corrections' were required in economic fundamentals to regain the objectives of economic consolidation and macroeconomic stability. Resultantly, the budget deficit to GDP and the debt to GDP ratios have declined to sustainable levels, current account deficit has turned into surplus, and the stability of rupee vis-à-vis the currencies of Pakistan's trading partners has been ensured through built-up of foreign exchange reserves. Similarly, barring recent surge, price level stability has been maintained through steady growth of money supply and other measures.

With these objectives achieved, the emphasis has now shifted to growth promoting policies that also guarantee equitable distribution of resources. Significant public intervention has been envisaged through PRSP to address issues related to social sectors. The initial success on the growth front has been recorded in FY 03-04. It is reassuring that the beginning of the year projection for GDP growth has been surpassed by a healthy margin of more than one percentage points. Even more encouraging is that this growth process has been driven by the manufacturing sector, which has remained dormant for a very long period. To have a broad-based flavor of growth, the

[1] The analysis is carried out by the Research Team of the Fiscal Research Wing of CBR in collaboration with the Budget Wings of Direct & Indirect Taxes, and DRS.

services sector has provided full support through its fair share in development. The overall performance would have been even better, had the agriculture sector, especially the crop sector, fared according to its immense potential.

The future outlook is bright. However, the growth momentum needs acceleration to reach the level of high achievers. This requires continuation and furtherance of policy initiatives in specific areas. To start with the investment rate has to increase substantially from its current level of around 18%. This, in turn, will require matching increase in the national savings rate. The household savings, the main source of national savings, are somewhat depressed currently due to the absence of 'profitable' long-term savings instruments. What is more disturbing is that whatever is being saved is not effectively channeled into productive investment. While, the 'speculators' both in the capital market and in the real estate business are thriving, and thereby causing considerable dent in the revenue receipts, there is an increasing feeling that the small savers are being marginalized.

For overall investment rate to rise to the required level, both public and private investment will have to swell so that the 'multiplier-accelerator effect' starts taking place. Fortunately, the allocation of the public sector development funds has been increased considerably during the current budget and one should expect its positive impact in the near future. However, the growth in private investment has not taken place to the desired level. Beside improvement in safety and security concerns, an effective interplay of monetary and foreign exchange policies is required to ensure availability of credit to a 'productive' private sector. A systematic diversion of foreign capital flows from consumption to investment and of foreign direct investment to diversified areas is desired rather than its current concentration in consumer goods industries and

exploration activities.[2] Simultaneously, causes responsible for low level of factor productivity and allocative inefficiencies have to be sorted out. Similarly, the shock-absorbing capacity of the economy needs to be strengthened further to tackle unanticipated shocks such as the recent spurt in oil prices, as they have serious implications for the overall price level and budgetary position in the country. Finally, a delicate balance between capital and labor intensive investment has to be ensured to address the continuous rise in unemployment and widespread prevalence of poverty. Public intervention is desired till the point that the labor productivity is enhanced significantly through effective human resource development and management. This is an ambitious 'outline' of a long-term agenda that has to be pursued quite religiously. The tide that has been *taken at the flood* requires continuity to *lead onto fortune*.

CBR Revenue Collection vis-à-vis Target

Like GDP, CBR revenue has also surpassed its beginning of the year projection by a healthy margin. This outcome corroborates that the macroeconomic performance and revenue receipts are closely aligned. The CBR has realized provisional gross and net collection of Rs. 605.9 billion and Rs 518.8 billion, respectively during FY 03-04. An amount of Rs. 87.1 billion was paid back as income and sales tax refunds, and export rebates.

Table 1 reflects that the provisional tax collection has exceeded the target by Rs. 8.8 billion during FY 03-04. One of the main features of this accomplishment is that all the individual federal taxes have surpassed their respective targets for the year. It is also important to mention that CBR has achieved its start-of-year target for the second consecutive year. This achievement, which has favorable long-term implications for medium to long term fiscal policy can be attributed to a number of factors including improved taxpaying capacity of

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[2] The Federal Budget 2004-05 has been 'business friendly'. Various fiscal policy initiatives have been announced to attract investment, which is encouraging.

taxpayers as reflected by the growth in GDP and its components, vibrant international trade transactions that serve as the base for foreign trade taxes, and the ongoing broad-based reforms at CBR and its field formations to produce efficiency gains. In terms of growth, the collection of direct taxes has gone up by 8.8% over the past fiscal year (PFY), sales tax by 12.3% and customs duties by 30.6%. Except for direct taxes, especially the non-withholding component, these growth rates are consistent with the growth in their respective tax bases. The collection of central excise duties has, on the other hand, recorded a slight decline of 0.5% during FY 03-04 due to its shrinking base and fading nature.

Table 1: A Comparison of Collection vis-à-vis Target

(Rs. Billion)

	Target	Collection	Difference	
	FY: 03-04	FY: 03-04	Absolute	Percent
Direct Taxes	161.5	165.3	3.8	2.4
Sales Tax	218.4	219.1	0.7	0.3
Customs Duties	86.6	89.9	3.3	3.8
Central Excise	43.5	44.5	1.0	2.3
All Taxes	510.0	518.8	8.8	1.7

Detailed Analysis of Individual Taxes

Direct Taxes: Direct tax structure has witnessed a significant change during FY 03-04. The universal self-assessment (USAS) announced during FY 02-03 was applicable from FY 03-04. This initiative is a vital step towards the new Income Tax System that relies so heavily on taxpayers' assessment of their incomes rather than the tax administrators doing the job for them. It is interesting to observe that against all odds and apprehensions that USAS may result in reduction in revenue, the outcome has been positive. The anticipated reduction in 'current demand' has been more than compensated by substantial improvement in voluntary compliance. This is a significant development.

Within this perspective, some of the further steps have already been introduced with favorable outcomes. The concept of audit in income tax has replaced the age-old system of complete assessment so that

the continued confrontation between taxpayers and tax collectors is minimized. Under the new system, only a limited percentage of filed returns has been selected for complete audit. The selection criterion strictly depended on pre-announced parameters and the selection was done through computer.

USAS and Audit

Audit is one of the most effective tools to safeguard government revenues. The importance of audit in direct taxes has increased substantially due to the implementation of USAS. Slightly less than 3% or 24693 cases of all the returns received were selected for complete audit during 2003-04. Since the taxpayers were given the option to re-submit their returns if they agree to revise their tax payments on declared income by up to 20%, many of them used this option without any hesitation. Resultantly, the ratio of recovery of the detected amount swiftly increased from 11.3% in 02-03 to 54.3% in 03-04.

Under the second initiative, the income tax base has been broadened. It may be recalled that in all 1,054,009 returns were filed during FY 03-04 of which 11,858 were from the corporate sector.[3] However, a comparison of returns filed and NTN issued presents a less than desirable state of affairs. Whereas nearly 50% of the taxpayers falling under the category of 'individuals' (salaried and business persons and AOPs) having NTN had filed their returns, the compliance rate for the corporate sector was slightly better at 59.2%.[4] More importantly, within the corporate sector, the compliance rate of private and other companies was at least three times superior to public sector companies where it was in the range of low twenties. Incidentally, the compliance rate of foreign companies has been quite low also at around 40%. Since this situation requires immediate correction through further research, CBR has already launched an extensive effort to streamline its tax base including the list of withholding agents.

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[3] The source of this information is PRAL and Tax Policy Wing of Direct Taxes.

[4] Even though the necessary correction for statements filed under section 115 (4) has been made, the low individual compliance rate due to salaried persons whose returns are 'jointly' filed by their employers cannot be overruled.

Revenue Collection: The gross and net collection of direct taxes, in absolute terms, stood at Rs. 186.0 billion and Rs. 165.3 billion, respectively showing a growth of 8.4% and 8.8%, respectively over the PFY. As mentioned above, a significant growth in collection has been possible due to such diverse factors as broadening of tax base, continuous withdrawal of exemptions, and the implementation of USAS. A sum of Rs 20.7 billion was paid as refunds on account of advance payments and withholding taxes. It is worthwhile to point out that even though the refund payments reflected a steady growth of 5.3% as compared to FY 02-03, it is being contemplated that in future its size needs to be reduced to the minimum possible level. Various proposals are under consideration to achieve this objective. It is anticipated that this move will not only lessen the burden on taxpayers as well as tax administrators it will also ease the cash-flow situation of the taxpayers.

Broadening of Income Tax Base

The Finance Minister Mr. Shauket Aziz declared FY 03-04 as the year of 'broadening of tax base'. In response to this announcement extensive efforts were made and 413418 new taxpayers were identified during the year as against only 62751 in FY 2002-03. Together with some of the existing cases, new NTN were issued to 504350 taxpayers as against 18816 in 02-03. We expect that the number of income tax returns filers will grow accordingly in FY 04-05.

Components of Income Tax

Voluntary Compliance by the Corporate Sector and Individuals: The assumption that the new income tax system that relies heavily on accurate and candid self-assessment by taxpayers will encourage taxpayers to comply voluntarily has been vindicated. The analysis of returns received and the tax paid shows that the introduction of USAS in FY 03-04 has indeed brought fundamental change in the composition of income tax collection. The share of voluntary payment (VP) in total income tax receipts has increased from 32.7% in FY 02-03 to 37.1% in FY 03-04. This shift is even more

significant in view of the fact that the number of returns received in FY 03-04 has been slightly lower than past year due to increase in the basic threshold from Rs. 60,000 to Rs. 80,000. It may be added that the basic threshold has been further enhanced to Rs. 100,000 in the Federal Budget 04-05.

The information presented in Table 2 confirms that after a decline in VP by 28.3% in the 1st quarter of FY 03-04, the collection from this head increased significantly in the remaining three quarters. In terms of rupees, the collection increased from Rs. 53.9 billion in FY 02-03 to Rs. 66.5 billion in FY 03-04, indicating an overall growth of 23.4%. One of the implications of this outcome is that the taxpayers have started to repose their confidence in CBR and in the process the credibility of the revenue organization has been re-established among its stakeholders.

Table 2: Quarterly Data on Voluntary Payments and Collection on Demand: A Comparison FY 03-04 & FY 02-03 Figures

(Rs. Million)

Collection Heads	FY: 03-04	FY: 02-03	Difference	
			Absolute	Percent
1. Voluntary Payments				
Q1	5,286.1	7,370.2	-2,084.1	-28.3
Q2	21,252.9	16,883.2	4,369.7	25.9
Q3	13,839.5	8,750.2	5,089.4	58.2
Q4	26,164.9	20,891.2	5,273.7	25.2
Total	66,543.4	53,894.8	12,648.0	23.4
2. Collection on Demand				
Q1	1,130.3	1,421.3	-291.1	-20.5
Q2	4,480.7	3,094.2	1386.5	44.8
Q3	3,389.3	5,110.4	-1721.2	-33.7
Q4	10,883.1	15,913.9	-5030.8	-31.6
Total	19,883.3	25,539.9	-5656.9	-22.1

Collection on Demand: The second important though fading component of income and corporate tax receipts is collection on demand (COD), which constituted nearly 11% of gross collection in FY 03-04. As anticipated, the overall COD collection has declined by 22.1% due to USAS. Within the two components of COD, the

collection on account of arrears demand and current demand has declined by 8.4% and 25.1%, respectively. Consequently, the share of current demand in total demand has come down to 79.1% in FY 03-04 from 82.3% during PFY (Table 2). In the coming years, the collection from this head is expected to decline further. However, on a positive note, the loss in revenue from this source is expected to be compensated by voluntary compliance.

Withholding Taxes: WHT continues to be the dominant component of income and corporate taxes with a share of 51.4% in net collection and 49.6% share in gross collection during FY 03-04. Notwithstanding this high share, occasional fluctuations in WHT receipts are a common feature due to their direct linkage with the economy. The quarterly data for FY 03-04 confirmed that a steady growth was maintained all through the year. As expected, the main contributors to this growth were six WHT heads that included contracts, securities, imports, exports, salary, and interest. While, on the whole the WHT collection has increased by 9.7% during FY 03-04 over PFY, the growth in individual components has been quite varied. Thus, a detailed analysis on some of these sub-heads is carried out in the following.

WHT on Contracts is the leading contributor with 28.2% share followed by imports (24.9%), salary (13%), exports (7.13%) and interest (5.2%). Regarding revenue contribution, it is highest for salary sub-head with 21% growth, followed by exports and contracts both recording growth of 13.5% and 13.3%, respectively [Table 3]. The primary factor responsible for this performance has been the improved economic activity in respective areas. For instance, higher volume of trade transactions has led to additional withholding deductions on imports and exports. Similarly, higher government spending on infrastructure has contributed towards higher deductions on contracts. In the case of salary, on the other hand,

education and facilitation of the withholding agents has played a vital role in increasing revenue.

Table 3: Quarterly Data on WHT: A Comparison of
FY 02-03 & FY 03-04 Collection

(Rs. Million)

Collection Heads	FY: 03-04	FY: 02-03	Difference	
			Absolute	Percent
Contracts				
Q1	4,552.7	4,262.4	290.3	6.8
Q2	5,877.4	5,448.4	429.0	7.9
Q3	5,792.2	5,379.3	412.8	7.7
Q4	9,793.1	7,866.4	1,926.8	24.5
Total	26,015.5	22,956.6	3,058.9	13.3
Securities				
Q1	1,304.5	973.3	331.2	34.0
Q2	1,355.1	1,547.3	-192.2	-12.4
Q3	799.9	1,240.2	-440.3	-35.5
Q4	1,113.8	1,086.4	27.4	2.5
Total	4,573.3	4,847.1	-273.9	-5.6
Imports				
Q1	5,808.2	5,308.8	499.4	9.4
Q2	6,034.7	5,338.9	695.8	13.0
Q3	5,205.9	4,795.9	410.0	8.5
Q4	5,780.3	5,344.0	436.3	8.2
Total	22,829.0	20,787.5	2,041.4	9.8
Export				
Q1	1,517.9	1,391.3	126.6	9.1
Q2	1,645.9	1,351.6	294.3	21.8
Q3	1,568.2	1,379.0	189.2	13.7
Q4	1,794.2	1,628.2	166.0	10.2
Total	6,526.2	5,750.1	776.1	13.5
Salary				
Q1	1,986.3	1,957.7	28.6	1.5
Q2	2,789.9	2,264.3	525.6	23.2
Q3	2,934.6	2,257.3	677.3	30.0
Q4	4,216.0	3,376.6	839.3	24.9
Total	11,926.7	9,855.9	2,070.8	21.0
Interest				
Q1	1,038.3	1,446.5	-408.3	-28.2
Q2	1,135.1	1,352.2	-217.1	-16.1
Q3	1,215.8	1,730.2	-514.4	-29.7
Q4	1,376.6	1,171.7	204.9	17.5
Total	4,765.8	5,700.6	-934.8	-16.4
a. Sub-Total (Six Major Items)	76,636.5	69,897.8	6,738.7	9.6
Percentage Share in Total WHT	83.1	83.2		
b. Other WHT	15,556.5	14,159.7	1,396.8	9.9
c. Total WHT	92,193.0	84,057.5	8,135.5	9.7
Percentage Share in Gross Income Tax	51.4	51.1		

Beside major contributors of WHT, a substantial growth of 53.2% was recorded in the case of WHT deductions on telephone bills due to ever increasing use of mobile phones and prepaid phone cards. Another indicator of economic prosperity is the increased consumption of electricity. The 14% increase in collection on electricity bills has been possible to increased consumption.

The WHT on securities and interest payments while remaining significant contributors to revenue have lost their growth potential. Their share has been declining continuously for quite some time due to declining cost of borrowing. Towards the end, it is useful to clarify that since the taxability of many of the WHTs is adjustable, it does create refund claims that require verification and therefore the whole process becomes time consuming.

Sales Tax: General Sales Tax (GST) is the most prolific and leading tax in term of revenue generation in Pakistan. Due to global challenges threatening tax collection from international trade taxes, the reliance has naturally focused onto GST. The beauty of this tax is that it is based on the concept of value addition and uses the modern concepts of self-assessment, audit, and automation of refunds. Due to its widespread acceptability, its share in federal tax receipts has reached 42.2% in FY 03-04. Similarly, its base has also widened from 32,697 registered persons in FY 96-97 to 163188 in FY 03-04. However, with the extension of turnover limit for retailers during the Federal Budget 04-05 from Rs. one million to Rs. 5 million, nearly 42,000 registered persons will have the option of de-registration.[5] CBR is considering various ways and means to broaden sales tax base and to make it more effective.

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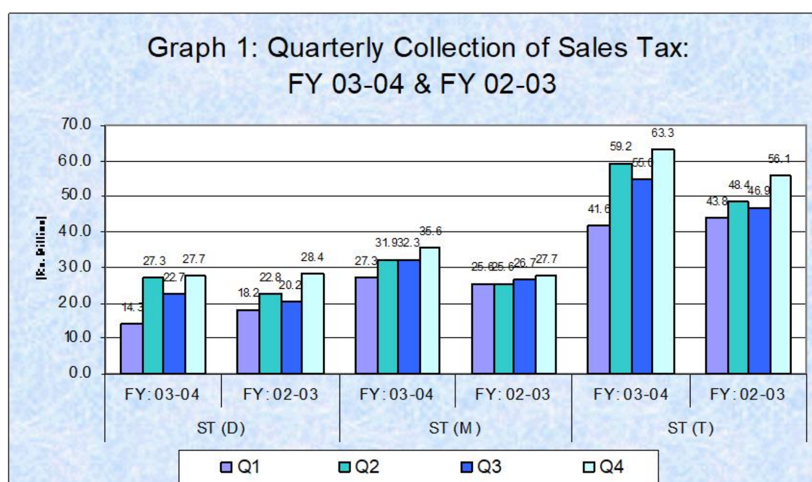
[5] Despite this huge number, the revenue impact is not significant due to the nature of taxpayers whose turnover has been less than Rs. 0.5 million for manufacturers and Rs. one million for retailers. However, these retailers will not be totally out of the tax net, as they will have the option of paying tax at the rate of 0.75% on their declared sales.

Revenue Collection: The sales tax yielded gross collection of Rs. 271.3 billion during FY 03-04 against Rs. 239.1 billion during PFY, depicting a robust increase of Rs. 32.2 billion or 13.5%. Similarly, the net collection of sales tax during FY 03-04 has been Rs. 219.1 billion as compared to Rs. 195.1 billion during PFY, thus registering an increase of Rs. 23.9 billion or 12.3%. This growth has been achieved despite higher payments of refunds by 18.9% due to increased volume of exports. The quarterly comparison indicates that the collection of sales tax declined in the first quarter by 5% but picked up in the 2nd quarter by 22.1%. It recorded a double-digit growth of 17.3% and 13.1%, respectively in the 3rd and 4th quarters – a phenomenon consistent with the robust growth in demand for domestic and imported commodities.

The two components of sales tax, i.e., ST on imports and ST domestic have contributed 58% and 42% of net sales tax revenue during FY 03-04. In absolute terms, the former generated Rs. 127 billion, while the later contributed Rs 92 billion. The overall growth in these components was 20.3 % and 2.8%, respectively over FY 02-03. A comparison of quarterly collection of both these components during this period is depicted in Graph-1.



Domestic Sales Tax Collection and Major Revenue Spinners: The domestic sales tax base continues to be narrow. The ten major revenue spinners have again dominated the collection by contributing around 69% of gross receipts of domestic sales tax during FY 03-04 as against 68.2% during past year. The quarterly data of these commodities and services presented in Table 4 depicts that after an overall decline in collection of ten major spinners as well as all commodities by 17.3% and 11.7%, respectively, in the 1st quarter, there was an improvement in the remaining three quarters of 2003-04. As explained earlier, the decline in the 1st quarter was due to correction for advance payments otherwise the growth momentum was never lost.

Table 4: Quarterly Comparison of Major Revenue Spinners of Sales Tax: FY 2002-03 & FY 2003-04

(Rs.in million)

	FY:03-04	FY:02-03	Difference	
			Absolute	Percent
Ten Major Commodities				
Q1	17070	20647	-3577	-17.3
Q2	28682	21463	7219	33.6
Q3	26670	24300	2370	9.8
Q4	27222	24482	2740	11.2
Total	99644	90892	8752	9.6
Share in Total (%)	*69.1*	*68.2*		
All Commodities				
Q1	27296	30899	-3603	-11.7
Q2	39110	31141	7969	25.6
Q3	37243	34063	3180	9.3
Q4	40465	37151	3314	8.9
Total	144114	133254	10860	8.1

A detailed analysis of the ten goods and services confirms that nine of them have shown positive growth in revenue during the FY 03-04 as a result of the boost in the economic activity. The only exception has been the domestic collection from sugar, which declined by 1.1% apparently due to the accumulation of higher stocks of 1.13 million tons as compared to 0.63 million tons during FY 02-03. The direct link between growth in revenue and economy has been

established through commodity-level comparisons. For instance, while the domestic gross collection of cigarettes exhibited a growth of 9.1% during FY 03-04, its industrial growth was 11.8%; for fertilizer the two growth rates are 7.3% and 7.8%, respectively; and for cement the collection increased by 23% and its production recorded a growth of 19.5%. A similar pattern has been observed for other commodities as well. Finally, the growing consumption of utilities (especially electricity) and telephone and related services has been instrumental in higher sales tax receipts from these sources.

Customs Duties: Customs duties has been a leading tax until very recently. However, its share in overall revenue receipts has declined steadily from 1988 onwards due to rationalization and steep reduction in duty rates. This declining trend has been reversed, albeit marginally, in FY 03-04 due to sharp increase in its base and efficiency gains. In fact, various measures related to tax administration, particularly the prompt assessment of imported goods, correct valuation, streamlining of rebate payments, strong check on smuggling, and extended use of computerization have strengthened the overall activities of the customs department. Consequently, the collection has surpassed the start of the year collection target of Rs. 78.1 billion by 14.7% and the middle of the year upward revised target of Rs. 86.6 billion by 3.8%. The gross and net CD collection recorded a healthy growth of 20.9% and 30.6%, respectively during FY 03-04 against PFY. In absolute terms, the gross and net collection has been Rs.104 billion and Rs. 89.9 billion, respectively. Around 18% decline in the rebate payments due to reduction in DDB rates because of lower tariffs on inputs, has also improved the revenue position (Table 5).

The quarterly data reflects that the buoyant pace of revenue generation set during the PFY has been maintained throughout the year. Whereas the growth in net collection kept fluctuating between 14.7% and 56.1% during the four quarters, the monthly collection

during the 4th quarter maintained a rising trend in anticipation of business friendly budget that carried with it large number of investment friendly incentives.

Table 5: Quarterly Comparison of Customs Duty Indicators: FY 2002-03 & FY 2003-04

(Rs. Million)

	FY:03-04	FY:02-03	Growth		FY:03-04	FY:02-03	Growth
Total Imports				***Dutiable Imports***			
Q1	179,291	172,481	3.9	Q1	119,401	103,758	15.1
Q2	213,337	183,037	16.6	Q2	139,595	106,963	30.5
Q3	225,203	190,433	18.3	Q3	148,216	116,516	27.2
April	82,237	68,511	20.0	April	55,888	43,457	28.6
May	93,019	58,391	59.5	May	52,040	38,459	35.3
June	100,750	63,264	59.3	June	65,138	42,575	53.0
Q4	276,006	190,166	45.1	Q4	173,066	124,491	39.0
Total	893,837	736,117	21.4	Total	580,278	451,728	28.5
Gross Customs Duty				***Net Customs Duty***			
Q1	21,966	18,955	15.9	Q1	17,888	13,359	33.9
Q2	25,511	19,427	31.3	Q2	22371	14328	56.1
Q3	25,747	21,592	19.2	Q3	22586	17540	28.8
April	8,771	8,623	1.7	April	7,377	7,781	-5.2
May	7,897	7,011	12.6	May	6,603	5,695	15.9
June	10,138	14,100	35.1	June	13090	10,133	29.2
Q4	30,768	26,072	18.0	Q4	27070	23609	14.7
Total	103992	86,046	20.9	Total	89915	68836	30.6

Among the top revenue spinners, i.e., vehicles including CKD imports and iron and steel continued their respective significant growth of 50.9% and 50.2% due to the slashing down of tariff rates for different categories within two commodity groups. Some of the other major spinners that performed well were POL products where the growth in collection was 26.3%, machinery and mechanical appliances 31.3%, and electrical machinery and equipments with growth of 31.9%. In all these cases, the growth in dutiable imports was 26.6%, 32.4% and 29.6%, respectively. This outcome clearly manifests the definite linkage between revenue receipts and the improvement in relevant economic indicators. In passing it may also

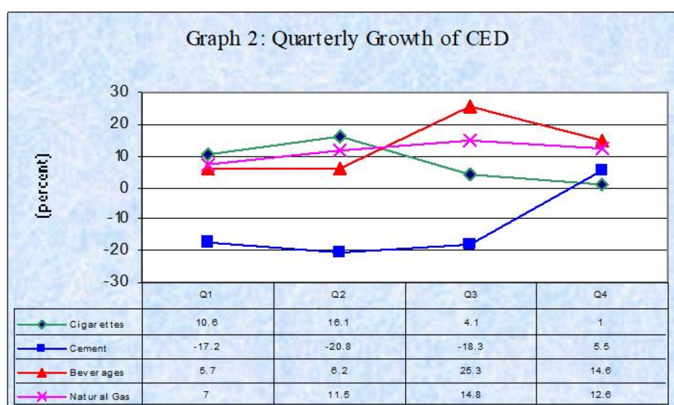
be added that the on-going automation of customs activities as part of tax policy and reforms would bring further transparency, efficiency, and standardization in business processes with favorable implications for revenue. This is being done to safeguard the interests of our diversified stakeholders.

Central Excise Duties (CED): As part of the government policy, the reliance on CED is being reduced gradually and more attention is being paid to GST as a future tax. Therefore, a number of excisable items have been shifted to sales tax net and currently the CED collection is mainly from few major items. Resultantly, the share of CED in federal taxes has gone down from 19.6% in FY 96-97 to 8.6% in FY 03-04. Thus, a slight drop of 0.5% has been recorded in the net collection of CED during FY 03-04 as compared to PFY. In absolute terms, Rs. 44.5 billion were collected in FY 03-04 against Rs. 44.8 billion in FY 02-03. Despite this slight decline, the performance is noteworthy when viewed in the light of withdrawal and reduction of duty on a number of items during FY 03-04.

Analysis of Major Commodities of CED

The contribution of five major revenue spinners including cigarettes, cement, beverages, natural gas and POL products has been around 88% of the CED collection during FY 03-04. The growth in collection from cigarettes has been 6.5% due to increased clearance and production by 3.5% and 11.8%, respectively. The collection of CED from cement reflected a decline of 13.1% during FY 03-04 due to reduction in duty rates by 25% and substantial growth in cement exports. However, after the expected adverse showing during the first three quarters, the collection increased by 5.5% in the 4th quarter. The CED receipts from beverages increased by 13% during FY 03-04 as compared with PFY. The producers in response to higher demand had spurred more clearances in all the four quarters

of FY 03-04. The trend growth in collection of four major items is highlighted in (Graph 2).



Projections for FY 2004-05

Anticipating a continued progress in various sectors of the economy, the budgetary target for FY 04-05 has been set at Rs. 580 billion, showing an increase of 13.7% on the start of the year target of Rs. 510 for FY 03-04 and 11.8% over the provisional collection of Rs. 518.8 billion (Table 6). The projections for FY 04-05 are based on the baseline collection for FY 03-04, assumed high growth for various components of GDP, the elasticity/ buoyancy estimates, and the expected impact of wide-ranging budgetary measures. Given that the outturn of individual taxes and growth trajectories are materialized, the CBR projections anticipate that the share of direct taxes in total CBR collection will be around 31.3%.

Table 6: Provisional Baseline Collection for FY 03-04 and Projections for FY 04-05

	Provisional Collection FY 03-04	Projections FY 04-05	Growth (percent)
Direct Taxes	165.3	181.7	9.9
Sales Tax	219.1	249.1	13.7
Customs Duties	89.9	102.3	13.8
Central Excise	44.5	46.9	5.4
All Taxes	518.8	580.0	11.8

Note: Values in Billion Rupees.

Concluding Observations

CBR has achieved its start of the year target for the second year running. The hallmark of this achievement is the performance of individual federal taxes that have surpassed their respective assigned targets. FY 03-04 had been a special year for Income and Corporate Taxes as the system of taxation was changed to self-assessment. The improvement in voluntary compliance has been a welcome development. Besides introducing the concept of audit, attention was focused on broadening of tax base that is expected to have positive impact on future tax receipts.

Fundamental changes have been introduced in the Federal Budget 04-05 in the shape of rationalization of taxation on capital goods, tariff escalation, and reintroduction of uniformity of GST rate. These fiscal policy measures to encourage capital formation leading to high growth were due for quite some time. While there is no doubt about long-term favorable revenue implications of these corrections, the possibility of some loss in revenue in the short-run cannot be overruled. This aspect, nonetheless, should not be a serious concern as long as the economy maintains its buoyant posture. We anticipate that the continuity of fiscal reforms and administrative changes will bring efficiency in the system, which together with autonomous growth should lead to higher tax revenue. The outlook is, therefore, optimistic.

II

Industry Profile:
Cigarette Industry in Pakistan[6]

Introduction

Judging from its growth in production and sales, the cigarette industry in Pakistan is doing well over the past many years. There are about one million people employed in this industry including 80,000 farmers growing tobacco. The industry is being promoted as one of the major contributors of economic activity and federal receipts. However, its health-related after-effects are not well researched and therefore the cost-benefit analysis remains partial and incomplete. The threefold purposes of present study are: to analyze the strength of the industry in terms of economic gains particularly with respect to its revenue generating capacity, to provide impartial view on some of the controversies associated with it, and to evaluate future prospects of the industry.

Production and Procurement of Tobacco: Basic Facts

Tobacco is one of the leading cash crops in Pakistan. Its production has varied between 80 and 109 thousand tons during the last one-decade [Economic Survey (2003-04)]. Currently, the area under tobacco cultivation is 46.6 thousand hectares, which is 1.3% of the total tobacco cultivated area in the world and only 0.21% of total cultivated area in Pakistan. Nearly 61% of this area is situated in the NWFP and the provincial share in total production is about 75%. Unlike other crops, tobacco yield in Pakistan is well above the world average and ranks alongside the developed world. Of various tobacco varieties, the most favorite among Pakistani farmers are Indigenous and Virginia. Pakistan is the 7th among the top ten Flue-cured Virginia (FCV) tobacco-producing countries in the world.

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[6] *Authors*: Dr. Ather Maqsood Ahmed, Member (Fiscal Research), Robina Ather Ahmed, Secretary (Facilitation and Tax Education), Naeem Ahmed and Mir Ahmed Khan, Second Secretaries (Fiscal Research & Statistics) at CBR.

Since the number of tobacco buyers is limited in comparison to tobacco growers, smooth interaction between the two parties is critically important. Responding to this need, the Pakistan Tobacco Board (PTB) – a regulatory authority – was established in 1968 with the objective of regulating the production of both raw tobacco and finished tobacco products with a view of maintaining standards and equitable trading. While the Board creates necessary awareness among farmers about market demand for various tobacco categories, it also ensures that the manufacturers buy the produce at the grade-wise pre-announced prices. The Board also requires tobacco companies to execute the procurement agreements with the farmers to avoid cash-flow problem for the latter. However, despite these controls, the nature of both the raw material and the finished products is such that there is considerable evasion of PTB controls.[7]

The weighted average prices of tobacco varieties for the last five years given in Table 1 exhibit maximum variation in the case of Burley Tobacco and Flue-curled Virginia. On the other hand, the prices of White *Patta* and Dark Air Cured varieties have generally remained stable during this period.

Table 1: Weighted Average Prices of Tobacco Varieties

(Rupees/ kg)

Items	1998-99	1999-00	2000-01	2001-02	2002-03
Flue-Cured Virginia	43.5	44.2	45.9	46.2	47.5
White *Patta*	25.3	25.3	25.4	25.5	25.5
Dark Air Cured	17.1	18	20.2	21.1	21.2
Burley Tobacco	33.8	37.5	39.9	41.9	44.2

Source: Pakistan Tobacco Board

The Size of Cigarette Industry

The number of manufacturing units within the cigarette industry has fluctuated overtime. Currently there are 26 'operating' units with installed capacity of 116.6 billion pieces of cigarettes per annum on three shifts basis. The production of cigarettes has gone up from

[7] See Sales Tax Audit Practice Handbook (1996).

33313 million pieces in FY 92-93 to 49766 million cigarettes in FY 02-03, indicating an average annual growth of 4.1%. However, an intriguing feature of the industry is its monopoly like structure. Historically stating, only five units had produced nearly 88% of the output in FY 92-93. Two of these units belonged to Pakistan Tobacco Company (PTC) and three to the Lakson Tobacco Company (LTC). This share has increased to about 98% in FY 02-03. On the other hand, the share of three minor producers, i.e., Souvenir Tobacco, Paramount Tobacco and Sarhad Cigarette Industries has been only 0.8%, 0.5%, and 0.5% respectively. This signifies the crude fact that the smaller manufacturing units have only limited production potential. They appear have no market power as well. Failure to receive due protection at the infancy stage could be one of the reasons that the frequency of smaller units to prop up and then close down is rather fast. A further analysis indicates that within the two major producers, LTC is gaining further strength. Its share in production has increased from 38% to 52.5% during the period under consideration and that of PTC decreased from 50% to 45.8% (Table 2). Furthermore, the production of LTC has grown at a faster average annual rate of 8.1% compared to 4.7% for PTC between FY 92-93 and FY 02-03.

Table 2: Production, Growth and Share of Leading Cigarette Producers

	Production (Million No.)			Growth (%)			Share in Total Output (%)	
	PTC	LTC	Total	PTC	LTC	Total	PTC	LTC
1992-93	16617	12745	33313				49.9	38.3
1993-94	17802	13771	35897	7.1	8.1	7.8	49.6	38.4
1994-95	15251	14310	32747	-14.3	3.9	-8.8	46.6	43.7
1995-96	19899	19932	45506	30.5	39.3	39	43.7	43.8
1996-97	17730	20900	46101	-10.9	4.9	1.3	38.5	45.3
1997-98	16028	24219	48214	-9.6	15.9	4.6	33.2	50.2
1998-99	18896	25853	51579	17.9	6.7	7	36.6	50.1
1999-00	16548	25022	46976	-12.4	-3.2	-8.9	35.2	53.3
2000-01	23243	28180	58259	40.5	12.6	24	39.9	48.4
2001-02	23248	28126	55318	0	-0.2	-5	42	50.8
2002-03	22787	26124	49766	-1.9	-7.1	-10.0	45.8	52.5
Average Growth (%)				4.7	8.1	5.1		

Source: Pakistan Tobacco Board and CBR Data Bank.

Interestingly, only five tobacco companies are listed with the Stock Exchanges in the country. The four companies listed with the Karachi Stock Exchange are: LTC, PTC, Khyber Tobacco Company, and Sarhad Cigarette Industries; and the one listed with the Islamabad Stock Exchange is PTC.

Domestic Use and Exports: Pakistan exports a small share of its total production of tobacco and cigarettes, and the maximum is left for home consumption. The export data reveals that out of total 108.8 million kg tobacco produced in the country in FY 98-99, only 3.4 million kg i.e., 3.1% was exported. This export share has increased overtime, albeit sluggishly, to reach 6.4% in FY 02-03. Further details indicate that the share of cigarettes in exports has been far less than the export of tobacco. While the export value of tobacco ranged between Rs. 231.1 million and Rs. 578 million during FY 98-99 and FY 02-03, the same for cigarettes has stayed between Rs. 0.06 million and Rs. 46.2 million only.

Taxation Structure of Tobacco Products

The rate of taxation on a product and its variation requires legislative approval. Depending upon its nature, the revenue implications are conditional on the responsiveness of the product to price variations. For goods having elastic demand, a higher tax rate usually influences tax revenue adversely. However, opposite is generally true for goods having inelastic demand. The taxation structure of cigarettes has been developed within broad theoretical outlines.

Central Excise Duty (CED) Rates of Cigarettes: CED is levied on cigarette for two reasons (a) to generate revenue for the government, and (b) to regulate consumption of cigarettes for health and socio-economic reasons. The three types of rates of CED for cigarettes in vogue are: specific, ad-valorem and mixed. In 1989, the two slabs were operational and the basis was retail price of cigarette pack.

CED rate of 73% was applicable when retail price was below Rs. 6.50. Above this price, the CED rate was 75%. In 1992 one more slab with specific rate was added. Simultaneously, changes were introduced not only in the cut-off level of retail price, but also the prevailing ad-valorem rates also reduced to 72% and 73%, respectively. Beside other changes, the rate was further reduced to 65% in 1994 and to 63% in 1997. Even though the CED rate was increased to 70% in 1999, but it was again slashed back to 63% due to popular demand. Currently, there are three slabs of which one is specific at Rs. 2.27 and it corresponds to retail price not exceeding Rs. 5.32 per pack of ten cigarettes. However for retail price remaining within the band of Rs. 5.32 and Rs. 12, the rate of CED is Rs. 2.27 + 69% per incremental rupee is applicable. Finally, when the retail price exceeds Rs. 12 per pack of ten cigarettes, it is taxed at the rate of 63% of retail price. It may be reassuring that on the whole there has been 16% decline in the ad-valorem rate of CED between FY 89-90 and FY 02-03. The chronological development of CED rates since FY 89-90 is given below.

	Price per 10 Cigarettes	Rate per 10 Cigarettes
30-6-89	Does not exceed Rs. 6.50	73% of Retail Price (RP)
	Exceeds Rs. 6.50	75% of RP
14-5-92	Does not exceed Rs. 1.80	Rs. 0.90
	Exceeds Rs. 1.80 but does not exceed Rs. 3.50	Rs. 0.90 + 72% of RP exceeding Rs. 1.80
	Exceeds Rs. 3.50	Rs. 2.12+73% of RP exceeding Rs. 3.50
09-6-94	Does not exceed Rs. 3.00	Rs. 1.80
	Exceeds Rs. 3.00	65% of RP
14-6-95	Does not exceed Rs. 2.52	Rs. 1.17
	Exceeds Rs. 2.52	65% of RP
25-3-96	Does not exceed Rs. 2.74	Rs. 1.17
	Exceeds Rs. 2.74	65% of RP
17-10-97	Does not exceed Rs. 3.02	Rs. 1.29
	Exceeds Rs. 3.02	63% of RP
12-6-98	Does not exceed Rs. 3.27	Rs. 1.39
	Exceeds Rs. 3.27	63% of RP

(Continued)

	Price per 10 Cigarettes	Rate per 10 Cigarettes
12-6-99	Does not exceed Rs. 4.25	Rs. 2.00
	Exceeds Rs. 4.25	70% of RP
21-6-99	Does not exceed Rs. 4.15	Rs. 1.77
	Exceeds Rs. 4.15	63% of RP
1-10-01	Does not exceed Rs. 4.48	Rs. 1.91
	Exceed Rs. 4.48 but does not exceed Rs. 10	Rs. 1.91 + 69% per Rupee incremental
	Exceeds Rs. 10	63% of RP
15-6-02	Exceeds Rs. 11	63% of RP
	If exceeds Rs. 4.92 but does not exceed Rs. 11	Rs. 2.10 + 69% per Rupee incremental
	Does not exceed Rs. 4.92	Rs. 1.91
12-6-04	Up to Rs. 5.32	Rs. 2.27
	Greater than Rs. 5.32 but does not exceed Rs. 12	Rs. 2.27 + 69% per Rupee incremental
	Exceeds Rs. 12	63% of RP

The Structure of Sales Tax: Besides CED, sales tax is also levied on the consumption of cigarettes. The sales tax is charged on retail price inclusive of CED. The standard rate of sales tax has varied between 12.5% in FY 92-93 and 15% applicable currently. The rate of sales tax on import has also been fixed at 15% and it has remained so during FY 94-95 and FY 03-04 with the exception of FY 96-97 when 18% rate was applicable.

Customs Duties: With continued tariff adjustment (reduction and rationalization of the duty structure) there has been more than 64% decline in the customs duty rates of cigarettes and tobacco since FY 94-95. The yearly details of applicable CD rates are given below:

Rates of Customs Duty on Cigarettes and Tobacco

1994-95	1996-97	1999-00	2001-02	2003-04
70%	65%	35%	30%	25%

Free Baggage Facility: According to this scheme passengers from abroad are allowed to bring specific amount of tobacco-related products duty free. Currently, the baggage rules permit the

passengers to carry 200 cigarettes or fifty cigars or half kg of manufactured tobacco or an assortment of cigars and manufactured tobacco not exceeding half kg in weight free of duty.

Revenue Generated by Tobacco Industry

The tobacco industry is one of the leading sources of indirect taxes for the government. The total amount collected from this source during FY 03-04 was Rs. 23.8 billion as against Rs. 10.1 billion in FY 92-93, indicating a cumulative increase of 135%. However, despite substantial growth in the size of the industry, the revenue share of cigarettes in total indirect taxes has remained stagnant over the past one-decade or so. Currently, this share is at its lowest level of 5.7% since FY 92-93 (Table 3). The tax-wise contribution of cigarette industry is as follows.

Table 3: Collection and Share of Taxes on Cigarettes in Indirect Taxes

Years	Indirect Taxes from Cigarettes (A)	Growth (%)	Total Indirect Taxes (Gross) (B)	Growth (%)	Share (%) of (A) in (B)
92-93	10143		137809		7.4
93-94	10961	8.1	150458	9.2	7.3
94-95	12697	15.8	185728	23.4	9.2
95-96	14059	10.7	217841	17.3	9.3
96-97	14633	4.1	232106	6.5	7.9
97-98	15750	7.6	217465	-6.3	7.2
98-99	18798	19.4	235791	8.4	8.1
99-00	18733	-0.3	275799	17.0	8.6
00-01	20880	11.5	315108	14.3	8.9
01-02	21401	2.5	324348	2.9	6.6
02-03	22271	4.1	370213	14.4	6.0
03-04	23839	7.0	419894	13.4	5.7

Note: Indirect Taxes include Central Excise Duties, Sales Tax, and Customs Duties.

Central Excise Duties (CED): The cigarette industry is among the major CED revenue spinners. Its share in total CED collection was 38.4% in FY 02-03, which increased to around 41% during FY 03-04. Since CED collection is related with the production and clearance of cigarettes, the following Table 4 highlights the growth

in production and clearance of stock since FY 92-93. It is interesting to note that while the collection has nearly doubled from Rs. 8.3 billion in FY 92-93 to Rs.18.4 billion in 03-04, the clearance has declined since FY 00-01 only to pick up in 03-04 by 4.5%. The two leading producers have categorized 2003 as a lean period as, according to them, sales have declined drastically in view of the declining demand for their brands. The production and sales data seems to support this point. Whereas the production of PTC has declined from 23248 million cigarettes in FY 01-02 to 22787 million in FY 02-03, the production of LTC has dipped by 7.1% during this period (Table 2). Similarly, the sales of PTC have declined from 23347 million cigarettes in FY 01-02 to 22809 million in FY 02-03 – a decline of 2.3% and the sales of LTC have declined from 29568 million cigarettes to 25969 million during the period under consideration – registering a decline of 12.2%.

Table 4: Production, Clearance and Central Excise Duty on Cigarettes

(Rs. Million)

Year	Production of Cigarettes (Million No.)	Growth (%)	Clearance (Million No.)	Growth (%)	CED (Rs. Million)	Growth (%)
92-93	33313		32117		8505	
93-94	35897	7.8	33954	5.7	8610	1.2
94-95	32747	-8.8	31807	-6.3	10034	16.5
95-96	45506	39.0	45856	44.2	11594	15.5
96-97	46101	1.3	43850	-4.4	11711	1.0
97-98	48214	4.6	48014	9.5	13123	12.1
98-99	51579	7.0	50585	5.4	15117	15.2
99-00	46976	-8.9	46441	-8.2	14340	-5.1
00-01	58259	24.0	59385	27.9	16358	14.1
01-02	55318	-5.0	54759	-7.8	16562	1.2
02-03	49364	-10.7	47181	-13.8	17276	4.3
03-04	55177	11.8	49316	4.5	18400	6.5

Source: CBR Data Bank

Sales Tax: With the introduction of GST regime, the sales tax collection has increased by 253% with an average annual rate of growth of 12.5% between FY 92-93 and FY 03-04. In absolute terms Rs. 1.5 billion were collected in FY 92-93 and the amount reached to Rs. 5.3 billion in FY 03-04. However, in comparison to

CED where the share of cigarettes in total CED collection was as high as 41.3%, the contribution of cigarettes in domestic sales tax collection has been rather small (only 5.5%) in FY 02-03.

The distribution of manufacturers, distributors, wholesalers and importers confirms that the largest contribution of 85-91% of gross ST collection is contributed by manufacturers, 8-14% by distributors and only 0.1% to 0.3% by importers and wholesalers. However, it is relevant to mention that being an indirect tax, the burden of the tax is invariably passed on to consumers.

For further insight, the 1071 registered persons (units) paying sales tax are categorized into following five slabs on the basis of revenue receipts. These are: those paying more then Rs. 20 million, those paying between Rs. 10 and Rs. 20 million, those within the bracket of Rs. 5 to Rs. 10 million, between Rs. 1 and Rs. 5 million, and finally those paying less than Rs. 1 million. Interestingly there are only 6 units who are paying around 87% of domestic sales tax and there are 900 units whose collective contribution is less than 5% (Table 5).

Table 5: Slab-wise Details of the Sales Tax (D) Paid during the Year 2002-03

Slabs (Rs. Million)	> Rs.20	Rs. 10-20	Rs.5-10	Rs. 1-5	< Rs. 1
Number of Units	6	4	14	147	900
Sales Tax Paid (Rs. Million)	4260	54	93	276	237
Share in Total (%)	86.6	1.1	1.9	5.6	4.8

Customs Duties: As indicated earlier, only a limited amount of tobacco products are imported in the country, therefore the amount of customs duties collected from tobacco sector is not significant as compared to other taxes. It has ranged between Rs. 16.3 million and Rs. 410 million during FY 92-93 and FY 03-04. This indicates that the share of CD in total indirect taxes collected from this sector has reduced to a negligible level now.

Income Tax: Notwithstanding the steady growth in production and clearance, the amount of corporate income tax paid by the tobacco sector has not increased proportionately. Instead there is a misleading campaign that seems to suggest that the sector pays huge amount of tax. The truth is that only 2.2% of the entire tax paid by the industry in FY 03-04 was income and corporate tax and the rest was indirect taxes whose incidence is borne by the consumers. It is however admitted that the brand names do attract customers and to that extent the contribution of the industry is acknowledged. The company-wise data on income and corporate tax paid by the leading manufacturers is produced in Table 6.

Table 6: Income Tax Paid by Major Tobacco Companies

(Rs. Million)

	2000-01	2001-02	2002-03	2003-04
LTC	274.0	291.0	471.2	452.4
PTC	35.2	73.6	50.9	39.9
Sarhad Cigarette Ind.	2.4	1.3	0.9	0.16
Paramount Tobacco Co.	0.9	1.4	0.4	1.03
Total	312.5	368.6	523.4	493.49

Source: PRAL, CBR

Controversies Surrounding Tobacco Industry

The tobacco industry has become extremely controversial not only in Pakistan but also worldwide. Notwithstanding its contribution in the economy in the shape of employment generation, boosting economic activity, and revenue generation for development and non-development expenditures, it has lost its credibility mainly due to health consequences and also on account of its role in the promotion of illicit drugs.[8] Even the economic arguments put forward by the industry are keenly contested.[9] As a consequence, while maintaining its restrictive presence in the developed world, the industry has

[8] It is now firmly believed that smoking is gateway to drugs and very few dare to contest this proposition. Similarly, smoking is no more a fad these days.

[9] See World Bank report by Jha, P. (1999) 'Curbing the Epidemic: Governments and the Economics of Tobacco Control' available on http://www.globelink.org/tobacco/wb.

diverted its activities towards the developing economies where the rules are less stringent. In this section we analyze controversies concerning cigarette industry with reference to Pakistan.

Tackling the Incidence of Smuggled Cigarettes:

The manufacturers believe that smuggling is one of the major threats for the tobacco industry in Pakistan. According to them, the availability of cheap cigarettes partly due to tax differentials across countries distracts smokers from their brands and consequently their profitability has declined. The industry, therefore favors reduction in taxes to compete with low-priced smuggled cigarettes.

The question is: how far the price differential argument is valid and whether cigarette manufactures have a 'clean' track record. According to Action on Smoking and Health (ASH) smuggling is not driven primarily by cross-border differences between duty-paid prices, rather it occurs due to the difference between duty-paid (DP) and duty-not-paid (DNP) prices. It is further contended that on most of the smuggled cigarettes duty is not paid in any jurisdiction instead the wholesale transit fraud dominates the market for smuggled cigarettes. Smuggled cigarettes are used as key weapon in a ferocious price war in crucially contested markets and according to Joossens this tactics is working. Britain and Canada are the two examples where an initial jump in cigarette prices resulted into manifold increase in smuggling. Ironically, countries like Spain and Italy also faced high levels of smuggling despite having some of the lowest cigarette prices in Europe.[10] The leading advocacy groups contend that 'the tobacco industry stimulates smuggling activity'. It is believed that by 'facilitating' smuggling the tobacco industries throughout the world pressurize governments to lower taxes [ASH (1999)]. It is further argued that tobacco manufacturers use smuggling as a marketing strategy to conquer new markets.

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[10] See 'Tobacco Industry Smuggling: Submission to the House of Commons Health Select Committee' by ASH February (2000).

While it is difficult to produce evidence for a court of law, the well-cited examples of exports of huge quantity of cigarettes to Andora and Columbia on the one hand and passing of sentences by the Canadian government in 1998 for tax evasion and smuggling charges against one of the leading manufacturers on the other seem to suggest that that smuggling of cigarettes has some peculiar and tricky dimensions that require careful investigation and interpretation. The involvement of the cigarette industry in some kind of murky activities cannot be ruled out.[11]

Situation in Pakistan: Although the anecdotal evidence seems to suggest that smuggling has increased during last many years, the quality of data to validate this claim is fairly sketchy. For example, simple calculations would lead to suggest that the quantity of cigarettes seized by the enforcement agencies of CBR during the first nine months of CFY has increased by 133% over the corresponding period of PFY and in terms of value the increase has been more than 700%. However, a comparison of the seized amount of cigarettes with production data would confirm that the extent of damage is not as startling as it appears to be. The seized amount of cigarettes is no more than 0.06% of quantity produced. Misleading conclusions on the basis of 'smuggling argument' seem to be ill advised that could have serious consequences for the growers of tobacco. The problem of smuggling appears to be far too complex and shadowy to be handled by a single country.

Under-pricing and the Availability of Counterfeit Products:

The industry is facing difficulty to compete with counterfeit and under-priced products. The leading manufacturers contend that certain domestic producers are selling their products at cheaper rates (under-pricing) than the same category of cigarettes produced by them. Similarly, concerns have also been raised about production of

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[11] Joossens, L. and M. Raw (1998) *Tobacco Control*, http://tc.bmjjournals.com/cgi/reprint/7/1/66.pdf; 7:66-71.

counterfeit products and evasion of CED by manufacturing units located in non-tariff areas.

It is relevant to mention that these issues have started to surface since 1998 when some of the cigarette-manufacturing units were shifted from supervised clearance to payment of fixed amount of duty and the rate of taxation varied between tariff and non-tariff areas. In an effort to confirm/ refute the validity of the claim that the production of low-priced cigarettes is not profitable unless CED is evaded, CBR launched a probe in February 2002. Even though the claims of the industry were not found accurate as the manufacturing units were brought back to supervised clearance within two months of the original concession, the leading producers continue to contest this outcome. Similarly, regarding the issue of CED rate differential, the federal government levied CED @80% on cigarettes manufactured in the non-tariff areas including AJK along with the Provincially Administered Tribal Areas of NWFP vide SRO. 574(I)/98 dated June 6, 1998. The basic aim was to control the inflow of counterfeit/ fake cigarettes manufactured in the areas where Central Excise Act is not extended. However, since the AJK Government has also imposed CED at the rate prevailing in Pakistan, CBR proposed the federal government to suitably amend the SRO 574(I)/98. The amendment was carried out on 15th August 2000 whereby the AJK territory has been excluded from the purview of this notification.

Marketing Concerns:

The industry is involved in excessive sales promotion through advertisement and other promotion programs. It is believed that the industry is the largest spender on publicity worldwide and the same is true in Pakistan. Unfortunately, these promos not only attract women, under-age children are also lured towards smoking. However, notwithstanding the damaging health consequences of smoking and its role in drug addition, there is lukewarm response by

the government to completely ban its advertisement, probably because of economic reasons. The fact that an open invitation to smoking followed by a warning is contradictory in nature that requires correction.

Health Concerns:

The disastrous effect of smoking is now well- established medical fact. According to recent estimates, the use of tobacco causes more than 13 thousand deaths per day in the world. Unfortunately, Pakistan is no exception to this tragedy. The Pakistan Health Survey (1996) confirmed that around 22% of the population in the country was smoking tobacco. The severity of cigarette consumption was high among males than females. It also indicated that smoking was more prevalent among illiterate population. The more recent Pakistan Health Education Survey (1999) has confirmed that smoking related diseases have caused about 0.1 million deaths in Pakistan each year. The WHO is playing leading role in anti-smoking campaign and currently around 100 countries, including Pakistan, have endorsed the WHO Framework Convention on Tobacco Control (FCTC). Pakistan has also promulgated two ordinances: the 'Prohibition of Smoking and Protection of Non-Smokers Health Ordinance, 2002' and the 'Cigarettes Printing of Warning (Amendment) Ordinance, 2002'. These ordinances prohibit smoking at public places and also bind manufacturers to write health warning prominently on every packet of cigarette and on all types of advertisements. The idea is to have safe and healthy environment for all with greater emphasis on prevention rather than cure.

Incentives to Cigarette Producers

Notwithstanding the concerns raised in the preceding section, the industry continues to receive concession in the shape of Deferred Payment Scheme (DPS) whereby cigarette manufacturers can defer

payment of CED for 15 days after clearance is obtained.[12] It is important to mention that while the industry enjoys fiscal space to resolve its cash-flow problems, there is no revenue loss to the national exchequer. The successful continuation of this facility for the last 25 years confirms that the industry is the main beneficiary of this arrangement.

Similarly, in response to the argument that the prevalence of minimum price regime for low brand cigarettes can create healthy and competitive environment for the industry, the Central Excise Wing of CBR has undertaken a market survey through its field offices. The outcome of this exercise has allowed tax authorities to fix minimum retail price of low-brand cigarettes at 84% of the lowest slab that comes to Rs. 4.47 for a pack of ten cigarettes.[13] Hopefully, this initiative will also enable GOP to take effective preventive health measures in view of the fact that low-price low-brand cigarettes do have serious health consequences.

Finally, CED paid on un-manufactured tobacco has also been made adjustable against the CED payable on cigarettes manufactured there from as per procedure laid down in CED General Order No. 02/2003. This adjustment aims at providing relief to the cigarette manufacturers from double taxation on cigarettes and un-manufactured tobacco.

Concluding Remarks

Aiming for growth in the cigarette industry is paradoxical. The industry wants protection and promotion on the grounds that its existence generates economic gains for the society. However, recent research has refuted this proposition. It has been found that there are

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[12] The DPS was started in 1978 to facilitate cigarette manufacturers and remains operative even now. However, at various points in time the number of days for which deferred payment was allows had varied between 8 to 28.

[13] See SRO 333(I/2002).

no net gains for an economy and tobacco control measures cause no economic damage [Jha (1999)]. In fact the economic scare tactic employed by the industry has not worked in the developed world and should have no significance in the developing countries including Pakistan.

The argument that additional taxes on tobacco have dampening effect on consumption appears to be fallacious. Although the elasticity of demand based on the recent time-series data is negative, its coefficient turns out to statistically insignificant. Thus, additional taxation on tobacco consumption should not be resisted. Similarly, the discussion in this paper has shown that smuggling and under-pricing are non-issues at least in Pakistan and as such they do not require serious considerations.

Finally, given the increasing incidence of smoking in the country, the campaign against smoking needs to be re-evaluated. The social welfare loss of living in a tobacco environment appears to be much higher than economic gains. Many believe that the expected shortfall in government revenues will be more than compensated by reduced expenditure on health, especially on cigarette related diseases if tobacco-free environment is opted. Thus, the choice is quite simple.

III

Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS): Implications for Pakistan[14]

Background

The Uruguay Round introduced, for the first time in the history of the General Agreement on Tariffs and Trade (GATT), multilateral negotiations on 'trade-related intellectual property rights'. These are international rules governing Trade Related Aspects of Intellectual Property Rights (TRIPS), formulated during the course of the Uruguay Round of negotiations, where all member countries agreed to re-write their national laws to conform to internationally agreed norms for protecting patents, trademarks, copyrights, industrial designs, and trade secrets. The TRIPS Agreement also extended protection to such technological areas as pharmaceutical products and computer software, which were previously unprotected in many countries. The general timetable for implementing the TRIPS Agreement, which entered into force on January 1, 1995, was one year for industrialized countries; five years for developing countries and 11 years for least developed countries. Pakistan, being a developing country, was bound to conform its laws in accordance with TRIPS before 1st of January 2000.

The Concept of Intellectual Property

Intellectual property, broadly, means the legal rights, which result from intellectual activity in the industrial, scientific, literary and artistic fields. Countries have laws to protect intellectual property for two main reasons. One is to give statutory expression to the moral and economic rights of creators in their creations. The second

[14] Author: Mr. Muhammad Siddique, Additional Collector, Collectorate of Customs, Sales Tax and Central Excise, Hyderabad. This is a revised and updated version of the paper completed at NIPA, Karachi during 74th Advanced Course in Public Service Management (August 05 – October 26, 2002).

is to promote creativity and to encourage fair-trading, which would contribute to economic and social development.

Generally speaking, intellectual property law aims at safeguarding creators and other producers of intellectual goods and services by granting them certain time-limited rights to control the use of those productions. Intellectual property is, traditionally, divided into two main areas:

Copyright and rights related to copyright: The rights of authors of literary and artistic works (such as books and other writings, musical compositions, paintings, sculpture, computer programs and films) are protected by copyright, for a minimum period of 50 years after the death of the author. Also protected through copyright and related (sometimes referred to as 'neighboring') rights are the rights of performers (e.g. actors, singers and musicians), producers of phonograms (sound recordings) and broadcasting organizations.

Industrial Property: It can be divided into two main areas:

- One area can be characterized as the protection of distinctive signs, in particular trademarks (which distinguish the goods or services of one undertaking from those of other undertakings) and geographical indications (which identify a good as originating in a place where a given characteristic of the good is essentially attributable to its geographical origin). The protection may last indefinitely, provided the sign in question continues to be distinctive
- Other types of industrial property are protected primarily to stimulate innovation, design and the creation of technology. In this category fall inventions (protected by patents; in a number of countries, innovations that embody lesser technical progress than patent-able inventions which are protected by utility models), industrial designs and trade secrets. The protection is usually given for a finite term (typically 20 years in the case of patents).

Why do Intellectual Property Rights Matter?

The first reason is that it is both just and appropriate that the person putting in the work and effort into an intellectual creation has some benefit as a result of this endeavor. The second reason is that by giving protection to intellectual property many such endeavors are encouraged and industries based on such work can grow, as people see that such work brings financial return.

Intellectual property rights may also help to extend protection to such things as the unwritten and unrecorded cultural expression of many developing countries, generally known as folklore. With such protection they may be exploited to the benefit of the country and cultures of origin.

The Objectives and the Main Features of TRIPS Agreement

Briefly stating the objectives of TRIPS are as under:

- Internationalization and unification of IP laws.
- Effective and speedy enforcement of IP rights across the globe.
- Safeguards against abuses – *The procedures must not hinder the smooth flow of trade in genuine goods* (and should not create barriers to international trade.)

The main features of TRIPS Agreement are:

Coverage: The TRIPS Agreement is to-date the most comprehensive multilateral agreement on intellectual property. The areas of intellectual property that it covers are: copyright and related rights (i.e., The rights of performers, producers of sound recordings and broadcasting organizations); trademarks including service marks; geographical indications including appellations of origin; industrial designs; patents including the protection of new varieties of plants; the lay-out designs of integrated circuits; and undisclosed information, including trade secrets and test data.

Minimum Standards of Protection: In respect of each of the main areas of intellectual property covered by the TRIPS Agreement, the Agreement sets out the minimum standards of protection to be provided by each member. Each of the main elements of protection is defined, namely the subject-matter to be protected, the rights to be conferred and permissible exceptions to those rights, and the minimum duration of protection

Enforcement: The Agreement lays down certain general principles applicable to all IPR enforcement procedures. In addition, it contains provisions on civil and administrative procedures and remedies, provisional measures, special requirements related to border measures and criminal procedures.

Dispute Settlement: Any dispute between member countries is subject to the WTO's dispute settlement procedures. The failure of a country to meet its TRIPS obligations can jeopardize its market access rights and other benefits under the WTO.

IPR, Traditional Knowledge, and Biodiversity

The TRIPS Agreement requires that patents be available for *all* inventions in the field of technology including agriculture, chemicals, pharmaceuticals, plant microorganisms etc. However, TRIPS also allows for exceptions under Article 27.2 which states that Members may exclude patents in order to protect "morality" including for protecting human, animal or plant life or health or to avoid serious prejudice to the environment. Article 27.3(b) also allows for exceptions from patent-ability and development of unique systems of protection for plant and crop varieties under specified conditions. Member countries are thus granted flexibility in adopting and tailoring the TRIPS requirements to their own particular needs and circumstances.

The proponents of TRIPS point out that the minimum standards laid down in the Agreement will benefit developing countries by creating incentives for knowledge generation and diffusion, technology transfer and private investment flows. Many developing countries and public interest organizations, on the other hand, argue that the Agreement, specifically the patent regime, will adversely influence sustainable development strategies of developing countries. Concerns raised relate to harmonization of TRIPS with the Convention on Biological Diversity (CBD), the protection of traditional knowledge, the rights of farmers to save and exchange seeds and their food security, criteria for patent-ability of living organisms, public health and technology transfer.

The World Intellectual Property Organization (WIPO)

The World Intellectual Property Organization (WIPO) is an intergovernmental organization with headquarters in Geneva, Switzerland. It is one of the 16 specialized agencies of the United Nations System of organizations. WIPO is responsible for the promotion of intellectual property throughout the world and for the administration of various multilateral treaties dealing with the legal and administrative aspects of intellectual property. Presently, 179 countries, including Pakistan, are WIPO members.

WIPO already existed before the creation of WTO. It entered into an agreement with WTO in 1995 to establish a mutually supportive relationship for monitoring the operations of TRIPS Agreement and providing assistance in dispute settlement.

Implications for Developing Countries

The developed nations are placing great emphasis on global protection of intellectual property. It is claimed by these countries that the TRIPS Agreement would have positive implications on different areas of crucial importance and global protection of IPRs would foster *technology transfer, innovation* and *foreign direct*

investment flows to developing countries, thus promoting their participation in trade and economic development. These promises need to be made more operational. Therefore there remains room for improvement to prove that reinforced and expanded protection of IPRs would increase the flows of capital and technology to developing countries.

The question, then, is whether developing countries have as clear an interest in protecting intellectual property rights. It is believed, they do, and that such protection should be high on the agenda of all countries that aspire to economic growth and their full share in the global economy. These countries should, therefore, effectively protect intellectual property for the following reasons:

i) The market of a country that does not protect intellectual property will tend to be flooded with inferior illegitimate products. Thus, while the availability of pirated products may seem an economic advantage in the short-term, in the long term it will inevitably impede a country's development.

ii) Compliance with requirements of international law for the protection of intellectual property is important not only if a country wants to be a participating member of the world community but also if the country wishes to avoid trade sanctions that can have an economic impact on trade far beyond the boundaries of intellectual property industries.

iii) It is in the long-term economic self-interest of developing countries to protect the intellectual property of all nations. To achieve this goal, emphasis must be placed not only on enacting intellectual property laws, but also on making certain that those laws are effectively enforced.

The way in which the Agreement is implemented may have important implications for developing countries regarding the conditions for their access to and use of technology, and their

economic and social development. It is crucial for these countries to clearly identify the options left by the Agreement to implement its provisions in a manner that is consistent with their interests and strategies.

TRIPS and Pakistan

Pre-TRIPS Position: Pakistan being a member of WTO and WIPO is bound to conform its IPR laws in accordance with the requirements of TRIPS Agreement. Before this Agreement, Pakistan had the following set of IP laws:

(i) Merchandise Marks Act, 1889
(ii) Patents & Designs Act, 1911
(iii) Trademarks Act, 1940
(iv) Copyright Ordinance, 1962
(v) Pakistan Penal Code, and
(vi) Customs Act, 1969

Post-TRIPS Position: In order to fulfill our international obligations and to make our IP laws TRIPS-compliant, the following new IPR laws have been promulgated, which incorporate therein requisite amendments in the light of TRIPS Agreement:

(i) Copyright Amendment Ordinance, 2000
(ii) Registration of Layout Designs of Integrated Circuits Ordinance, 2000
(iii) Industrial Designs Ordinance, 2000,
(iv) Patents Ordinance, 2000, and
(v) The Trade Marks Ordinance, 2001

Though the above Ordinances have been promulgated and enforced but subordinate legislation in the shape of procedural rules, which can ensure effective implementation, is still under way. Pakistan is, therefore, under persistent criticism from its trading partners for failing to provide adequate protection to the Intellectual Property Right holders. It is generally alleged that Pakistan's IPR system is

ineffective. However, keeping in view the enforcement measures to be provided in line with Part-III of TRIPs Agreement, the Customs Act, 1969 has also been revised in the Budget 2004-05 and legal provisions of Section 15 of the Customs Act relating to prohibition and restriction on importation and exportation have been thoroughly revised in order to ensure compliance with IPR regime.

The process of establishing Pakistan Intellectual Property Rights Organization (PIPRO) as an organization by an Act of Parliament is being entrusted with the Cabinet Division. The objective is to promote know-how of Intellectual Property in the business community to insure its implementation and would be a focal point for contact with WIPO and other Intellectual Property related international bodies.

Conclusions and Recommendations

The various Agreements of WTO, including TRIPS, are a reality, which being a signatory Pakistan has to face. It is encouraging that Pakistan has already revised most of its IPR laws in accordance with the requirements of TRIPS Agreement and procedural rules are being drafted for enforcement purposes. However, enforcement continues to be a weak area and as things stand, irrespective of the repercussions. This state of affairs not only makes us vulnerable to criticism but may also attract trade retaliatory measures from our trading partners. Therefore, appropriate steps need to be taken and piracy of all kinds of IPRs has to be checked.

Given the wide coverage of TRIPS Agreement and the disparities existing among the developing countries, it is difficult to make a quantitative assessment of its likely economic impact on Pakistan, which would significantly vary in accordance with the levels of economic and technological development of the country in future. It, however, appears that the impact of TRIPS Agreement, which initially seems to be negative, would prove increasingly favorable in

the longer run, as effective protection of intellectual property rights will ultimately increase trade and development for the country.

Recommendations

There is an urgent need of creating awareness on the subject for which, both public and private sector should play their roles for conducting an effective campaign on electronic and print media.

Since research capabilities are currently lacking on IPRs and IP laws, it may be relevant to set up a Research Institute to undertake the required research to promote knowledge and awareness of IP laws of Pakistan as well as the intellectual property system of other countries. Simultaneously, since IPR is relatively a new field of operation for the enforcement agencies in Pakistan, meaningful training activities would also be essential for the officers of these law enforcing agencies, for developing requisite skills, in order to effectively encounter IPR related violations.

In order to fulfill our international obligations, it would be appropriate that the TRIPS Agreement is implemented in phases starting from mandatory provisions and then moving on to the optional requirements.

Finally, Article 67 of TRIPS Agreement clearly stipulates that in order to facilitate the implementation of the Agreement, members of developed countries shall provide, on request, technical and financial cooperation to developing countries, which may include assistance in the preparation of laws and regulations on the protection and enforcements of IP rights as well as on the prevention of their abuse, and shall include support regarding establishment or reinforcement of domestic offices relevant to these matters, including the training of personnel. Pakistan, therefore, has the option of approaching WIPO for necessary assistance in this regard.

IV

Customs Reforms and Modernization with reference to the Revised Kyoto Convention, 1999[15]

Introduction

The world has witnessed booming trade volumes as a result of international trade liberalization. The World Trade Organization (WTO) estimates that world trade grew by 8% in 1995: four times the growth of world output. In fact, during the 1990's trade has grown at much faster rate than the world output, which indicates that national economies are becoming ever more closely linked. Pakistan also witnessed an improvement in international trade activities during this period. Its imports increased from US$ 7.6 billion in FY 90-91 to US$ 10.7 billion in FY 00-01 and its exports increased from US$ 6.1 billion to US$ 9.2 billion during this period. There is no doubt that increased trade volume puts pressure to modernize Customs facilities. There is sufficient evidence to suggest that Customs Administrations also play a vital role in the growth of international trade and the development of the global market place as efficiency and effectiveness of Customs procedures significantly influence the competitiveness of nations.

Viewed within this perspective, the regulatory framework of Pakistan Customs has been strengthened and harmonized over a period of time. The Sea Customs Act 1878, the Land Customs Act 1924, and the Air Ship Act 1911 were consolidated in 1969 in the form of currently prevalent Customs Act, which was enforced on 1st January 1970. The second major initiative in this respect was

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[15] *Author:* Mohammad Javed Ghani, Additional Collector, Collectorate of Customs, Rawalpindi. Author's Note: This paper is a revised and updated version of the research paper submitted at NIPA Lahore during the 82nd Advanced Course in Public Management. The author gratefully acknowledges insightful comments and suggestions made by Mr. Mohammad Ramzan Bhatti Member (Customs), CBR that improved the contents and presentation of the paper.

gradual reduction and rationalization of tariff structure since 1988 when the maximum statutory rate of duty was 125% that has now been reduced to 25%. Similarly, the reduction of the number of duty slabs to 4 has not only streamlined the valuation process, it has also increased taxpayers' reliance on the system.

To further improve the effectiveness of Customs Administration, Pakistan has recently ratified the revised International Convention on the Simplification and Harmonization of Customs Procedures (known as the Kyoto Convention) that was originally adopted by the World Customs Organization (WCO) in 1974. Its aim is to facilitate and encourage international trade by reforming the Customs clearance procedures and removing barriers to international trade and growth. This study aims to highlight the concept of Customs Reforms and Modernization in terms of the revised Kyoto Convention, 1999 with special emphasis on Pakistan.

The Revised Convention

The WCO finalized the original Convention on 18th May 1973. It was put into force on 25th September 1974 with 61 Contracting Parties and containing 31 annexes of which only 26 annexes were entered into force. However, due to the changing nature of the global trade through the 1980s and 1990s, the 114 Customs Administrations attending the WCO 94th session of the Council adopted a revised version in June 1999.[16] The revised Convention is an international instrument adopted by the WCO to standardize and harmonize Customs policies and procedures worldwide.

The Convention contains all the basic principles for a modern Customs administration, making it a 'blueprint for modern and efficient Customs procedures in the 21st century,' according to the

[16] The revised version will be referred to as the 'Convention' throughout this essay unless otherwise specifically distinguished.

WCO. It is formally referred to as the 'International Convention on the Simplification and Harmonization of Customs Procedures.'

Salient Features

The salient features of the revised Convention are:

- Maximum use of automated systems
- Risk management techniques (Including risk assessment and selectivity of controls)
- Use of pre-arrival information to drive programs of selectivity
- Use of electronic funds transfer
- Coordinated interventions with other agencies
- Making information on Customs requirements, laws, rules and regulations easily available to anyone
- Providing a system of appeals in Customs matters
- Formal consultative relationship with the trade.

For the Convention to become effective and replace the original document it needs ratification by forty WCO member countries, known as the Contracting Parties. There are 61 Contracting Parties to the original Kyoto Convention that have committed to ratifying the Convention. So far (up to 21st July 2004) thirty-four countries have acceded to the revised Kyoto Convention.

WTO, Trade Facilitation and the Revised Kyoto Convention

The World Trade Organization Doha Ministerial Declaration identified four areas related to Customs in its work program: Trade Facilitation, Rules of Origin, Customs Valuation and Capacity Building. Out of these, trade facilitation is a new agenda item for the WTO and its Council for Trade in Goods (CTG) has started to review relevant aspects of Articles V, VII and X of the GATT 1994. The CTG has also been tasked to identify the trade facilitation needs and priorities of Members. This is the area that the WCO has been committing resources to and supporting for the past 50 years.

WCO sees its role complementary to the WTO in developing instruments to support the WTO rules. All the legal provisions and the principles in the WCO instruments are compatible with and complimentary to the three GATT Articles referred to in the context of trade facilitation in the Doha Ministerial Declaration. The GATT Articles set out the high principles for formalities and procedures for movement of goods, transit of goods and publication and administration of trade regulations. On the other hand, the instruments of the WCO, including the Kyoto Convention through its legal provisions and implementation guidelines, provide the basis and practical guidance, and information for the implementation of these high principles.

The modern Customs approach is based on the partnership with the trade community and other relevant sectors. Moreover, as Customs is only a part of the global trade chain, the WTO work will enable trade facilitation issues that are beyond Customs competence to be properly addressed, as well. The scope would include co-operation with other border agencies, especially through joint intervention, which is very important to secure the smooth flow of goods. Finally, it is expected that the work program will result in appropriate resources being realigned for capacity building that could promote the Customs reform and modernization, which is desired by both trade and Customs.

The WCO sees itself as a major contributor to the WTO with its expertise in Customs and is committed to co-operating with relevant stakeholders to work towards the common goal of safeguarding revenue, protecting society, ensuring security, and facilitating trade. Article VIII is particularly relevant to the role that Customs can play.

Article VIII of the GATT 1994 refers to fees and formalities connected with importation and exportation. At the outset, the

WCO recognizes that this Article has a wide scope and that import and export formalities, and fees and charges would also relate to authorities and agencies other than Customs who are concerned with the importation and exportation of goods.

The single WCO instrument that covers all the Customs procedures and formalities related to importation and exportation of goods as well as other procedures is the International Convention on the Simplification and Harmonization of Customs Procedures (Kyoto Convention). The revised convention contains international best practices and standards that provide predictability and efficiency that modern trade and commerce requires.

The revised Convention and its provisions and other WCO instruments are completely aligned with and the requirements that are set out in Article VIII (1) (a & c) of GATT 1994 so far as they can be addressed by the Customs. These relate to the fees that are to be charged and procedures and formalities to be applied to the goods that are imported or exported.

Article VIII (2) of GATT 1994 requires a contracting party at the request of another contracting party or by Contracting Parties to review its operations in the light of the provisions of that Article. The revised Convention in Article 6 addresses this review mechanism through a Management Committee consisting of Contracting Parties who consider the implementation of the Convention, any measures to secure uniformity in the interpretation and application and amendments to the Convention. Further Article 14 of the revised Convention provides for dispute settlement on the interpretation and application of the convention.

Article VIII (3) requires that "no contracting party shall impose substantial penalties for minor breaches of customs regulations or procedural requirements. In particular, no penalty in respect of any

omission or mistake in customs documentation which is easily rectifiable and obviously made without fraudulent intent or gross negligence shall be greater than necessary to serve merely as a warning." The revised Convention contains a Specific Standard covering this requirement of Article VIII.

However, Article VIII has a wider scope than Customs. This is demonstrated and amplified in the requirements set out in Article VIII (4), which extends the provisions of Article VIII to the fees, charges, formalities and requirements imposed by governmental authorities beyond Customs, including those listed at (a) to (h) of that Article.

Article VIII as supported and enhanced by the provisions of the revised Convention and other WCO instruments can be illustrated in the following manner:

A. Fees and charges in connection with importation and exportation,

B. Procedures and formalities for importation and exportation,

C. Review of laws and regulations by Contracting Parties; and

D. Penalties for minor breaches of Customs regulations and procedural requirement.

As for 'A' above is concerned, General Annex in Chapter 3 (Standard 3.2) contains these core principles relating to clearance and other Customs formalities. The same is also covered in the Specific Annex A, Chapter 1, Standard 13.

As regards 'B' Standards 3.3, 3.4 and 3.5 provide for simplifying the formalities for movement of goods. Similarly, Standards 3.11 to 3.29 further standardize and simplify the goods declaration and supporting documents. In addition to that, Standards in General Annex underline the procedures for authorized persons, coordinated

intervention, single window, simplification of procedures for release of goods, security, use of risk management techniques, use of information technology, WCO Customs Data Model and guidelines for the immediate release of consignments by Customs.

As regards 'C' above, Article 6 establishes a Management Committee to consider the implementation of the Convention. Besides, Article 14 of the revised Convention provides a dispute settlement mechanism.

As for 'D' Standard 3.39 in Chapter 3 covers this requirement.

Pakistan and the Revised Kyoto Convention

The Government of Pakistan has taken keen interest in the development of the Kyoto Convention. The staff of Pakistan Customs examined various provisions of the revised Kyoto Convention during the year 00-01 and recommended accession to the Standard Annex and Chapter 1 of Specific Annexes A, B, C and J. With the support of Ministries of Commerce and Foreign Affairs it was submitted to the Federal Cabinet that approved the proposal as a part of budgetary proposals for the year 01-02. More recently a Committee consisting of Pakistan Customs Officers has submitted a report to amend Customs laws and procedures in May 2004. The comparison of existing provisions of Customs law and procedures vis-à-vis the Revised Kyoto Convention showed that out of 114 Standards of General Annex, existing Customs law and procedure are compliant to 65 Standards, and after implementation of PACCS, 26 other Standards will also be complied, totaling 91. For the remaining 23 Standards, certain changes in the Act, notifications and administrative measures are required. For the Transitional Standards, existing law and procedure is compliant to 5 out of 7, and amendments in Act and notifications are required regarding 2 Transitional Standard.

Pakistan Customs has acceded to three Chapters of the Specific Annexes, which comprise 39 Standards and 24 Recommended Practices. Out of 39 Standards, existing Customs legislation covers 34, and for the remaining 5, amendments in the procedures are required, without any amendment in the Act. Regarding the 24 Recommended Practice, existing legislation covers 18 and one more provision will be covered after implementation of PACCS, totaling 19, for the remaining 5 amendments in the Act and procedures are required. The following table reflects the position at a glance:

	Total Number	Compliant			Non-compliant Amendment required			
		At present	After implementation of PACCS	Total	Act	SRO/CGO	Administrative	Total
General Annex								
Standards	114	60	26	86	9	11	8	28
Trans. Standards	7	5		5	1	1		2
Total	**121**	**65**	**26**	**91**	**10**	**12**	**8**	**30**
Specific Annex								
Standards	39	33		33	1	4	1	6
Rec. Practice	24	19	1	20	1	3		4
Total	**63**	**52**	**1**	**54**	**2**	**7**	**1**	**10**

During the years 02-03 and 03-04, some important legal changes have been made in the Customs Act, 1969. These include provisions relating to the Customs Computerized System, Post Clearance Audit, Fiscal Fraud and Alternate Dispute Resolution Mechanism.

Recently, considering the need to simplify and streamline the procedures in terms of changing trade patterns and technology, the CBR recast nearly 200 CGOs into a single document. Nearly 500 CGOs were found redundant. Notwithstanding these changes, Pakistan needs to make further changes so as to implement the provisions of the revised Convention.

Conclusions

The preceding discussion leads to the following conclusions:

1) The revised Convention is the major instrument being propagated by the WCO for accession/ ratification by the Member Administrations;
2) The concept of trade facilitation as agreed upon by the WTO in Doha and earlier Ministerial Conferences is amply reflected in various Standards and Transitional Standards of the revised Convention. The International Express Couriers Conference has, in fact, already recommended to the WTO to take it over for implementation by countries around the globe;
3) The revised Convention advocates transparency, predictability and harmonization in Customs working and procedures;
4) Customs administrations throughout the globe are striving to reform and modernize their working. A fine balance of control and facilitation is being considered the need of the hour;
5) Customs in Pakistan, realizing the importance of the revised Convention, has acceded to the Convention. Besides, measures are being taken which could lead to reform and modernization of the department;
6) In order to implement various provisions of the revised Convention, changes in the national legislation are required. In this regard, attempts are being made to identify and recommend measures to implement relevant Standards and Transitional Standards; and
7) Customs plays a key role in international trade. It is clear that the manner in which Customs conducts its business has a substantial impact on the movement of goods across international borders. On the other hand, if traders expect greater facilitation of import and export procedures by Customs, then they themselves must be willing to contribute to the building of an environment of trust and cooperation, which will enable that facilitation to become a reality.

V

CBR Reform Program:
Model Customs Collectorate, Karachi[27]

Background

Pakistan Customs is one of the first organizations in the public sector, which started computerization as early as 1978. Later on, a Computer Bureau was set up for comprehensive computerization of Customs procedures. All the data pertaining to imports and exports was entered in the computers in a post clearance batch mode. However, notwithstanding these initial efforts, a comprehensive on-line computerization of Customs procedures was initiated only in 1990 under the auspices of Resource Mobilization and Tax Reforms Commission. A private software firm namely M/s System Private Limited was hired to prepare homegrown software in July 1990. It was from this period onwards that resource persons from Pakistan Customs succeeded in on-line processing most of the Customs documents filed by the importers and exporters. At this stage Pakistan Customs was one of the very few Customs administrations in the world that developed software to receive Import General Manifest (IGM) through the internet as well as a computer diskette and processed the Customs declarations on line.

In view of the growing computerization needs, Pakistan Revenue Automation Limited (PRAL), a subsidiary of Central Board of Revenue, was established in 1994, which took over the Customs computer software from M/s System PVT Limited. Since then PRAL has up-graded the Customs software with a country wide coverage of all imports and exports whether through sea, land or air and its allied processes i.e., auction of goods and payments of

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[27] The Note has been prepared by Mr. Azher Majeed Khalid, Collector Model Customs Collectorate, Karachi and Project Director (CARE). Further extensions at various places have been made by Mr. Mohammad Ramzan Bhatti, Member (Customs).

refunds and rebates. The important features of the Customs software presently used are as under:

- All the Customs agents/importers have the facility to file Goods Declarations (GD) by presenting computer diskette. The GD is a single page document used for all purposes i.e., imports and exports of goods by sea, land and air. These GDs are processed and machine numbered electronically. For this purpose Customer Service Center has been set up at all Customs stations for receiving GDs by PRAL without any interaction with the Customs functionaries.
- All courier companies and importers of bulk cargo have been provided a web base filing of GDs from their offices any where in the world and end-to-end processing/solution is electronically handled.
- The public sector cargo and imports by multi- nationals and other reputed importers are allowed clearance under fully Automatic Clearance Procedure (ACP) where under manual assessments and examinations are dispensed with automatically except in cases selected under the risk selection criteria.
- The computerized software selects the name of Examiner/Appraiser who is electronically marked to assess or examine the imported consignments eliminating the discretionary powers of senior officers to nominate persons of their choice for processing of the GDs.
- All the GDs for exports and rebate claims are processed through computers. This has eliminated the persistent complaints in the past about delays in the payment of rebate claims.
- The software records the time of receipt and disposal of all GDs and other documents by each Customs functionary and generates reports for the performance evaluation of group/section and individuals in the Customs department.

- The software recognizes each official with his secret code number and records the date and time of every action for which a Customs functionary logs in. This has lessened the choices of any collusion of functionaries with Trading community and greatly.
- The software has an excellent Management Information System where under a large number of statements/computer print outs are generated on daily, monthly and yearly basis for budgetary changes and intelligence analysis.
- The system also helps in unearthing the cases of tax evasion by way of incorrect classification, mis-statement of prices or descriptions in declarations by different stakeholders.
- All the computerized data of GDs processing and auctions is also posted on the internet for the information of general public in order to ensure transparency in the working of Customs department.

Need for Change

As indicated, most of the computer hardware was developed/purchased in 1980s and 1990s became obsolete with the passage of time. Similarly, the software though uses Goods Declaration (GD) based on the Single Administrative Document (SAD) developed by UNCTAD, yet the system is not based on paperless environment except in case of courier companies and importers of bulk cargo. A need has therefore, been felt to develop a computer software based on custom procedures prescribed in the Revised Kyoto Convention and to install state-of-the-art software. For this purpose, a core group of Customs officials was established in February 2002 by the then Chairman acting on the premise that "nobody knows Customs better than Customs itself" and that "a meaningful change has to come from within" and to recommend meaningful change. From its inception to-date, the CARE team has been spearheading change in Customs and has achieved numerous milestones.

Concept and Objectives

The objective of Customs reform process was to elevate the image and to enhance organizational efficiency of Pakistan Customs and to transform it into a modern organization performing its functions as per best practices and international standards.

Clearance of international cargo as per national laws is the core Customs function and as such the best device to measure the efficiency of a Customs organization is to measure its dwell time. In the developed countries the dwell times are typically measured in minutes. In the developing countries the dwell time is generally higher and measured in days, owing to numerous factors such as complex laws and procedures, weakness of institutions, an underdeveloped work force, lack of automation, low salaries, corruption and low investment in research and development.

In the present day communication systems, movement of cargo has become global, and the departments dealing with cargo also had to become global; hence there was immediate international realization to standardize the functioning of Shipping lines, Terminal operators and Customs Administrations. Today detailed international standards are available for Customs Administrations to adopt. The availability of readymade international standards for Customs makes the Customs easier to reform and so the logical choice than other tax departments.

The objective of efficiency, service standards, integrity and best practices can be achieved by three factors: (1) re-engineering of processes, so that the redundancies in the processes are eliminated and disparate components of the system are integrated into one system covering the whole gamut of Customs activities. (2) Optimum use of information technology, so that processes can be automated to the maximum extent, and human input to the system is only applied where it is essentially required, and (3) Standardization,

which includes use of international standards in documents, processing and Customs management, so that international benchmarks of efficiency can be emulated management system, G-G and B-G exchange of information is possible through use of universal data formats and e-Commerce techniques.

Development

During the last two and half years, the reform process in Pakistan has undergone various phases. During the analysis phase (February 2002 ~ September 2002), CARE team was exclusively working on study of existing Customs processes. In this process, many officers and officials of various ranks were involved in the brainstorming sessions, workshops, seminars and discussion sessions in the Directorate of Training. In August 2002, the concepts were consolidated and about 100-page Visions document was circulated to all field formations for their feedback. The concepts were matured as a result of feedback and subsequent detailed in-house discussions. Largest exercise in the history of Pakistan Customs was carried out extending over two years, to develop new procedures through business process reengineering. This process helped in integrating disparate concepts and ideas into a system and above all created an awareness and ownership of the change within the department.

The concepts developed in-house were then opened to the stakeholders in trader and other organizations/departments. The concepts were discussed with major importers, exporters, carriers, terminal operators, banks and third parties (agents). In view of stakeholders' business process practices and requirements, a workable solution was evolved acceptable to all sides. The solution thus provides an optimum balance between controls and facilitation. On March 01, 2003, the Finance Minister during his visit to KICTL formally endorsed to launch a pilot project at that site. In April 2003, the concept and proposed business processes were studied by

the consultants of the World Bank and the IMF, and approved that CARE processes were “as per best international practices”.

After the finalization of the concepts, the CBR formally wrote a Concept Paper giving a clear direction for future designs. Based on the Concept Paper, a detailed Strategy Paper was chalked out. Now the World Bank has formally acknowledged the technical expertise and quality of work done by Pakistan Customs and technical assistance component of loan for Customs reforms has been curtailed to minimum level.

To give effect to new procedures, one third of the Customs Act, 1969 was amended in 2003 while certain amendments were made in June 2004. As a result of these changes numerous notifications have to be amended or new regulation to be issued, which have been drafted and are being issued by CBR in due course.

Import and export policy orders were studied and changes were identified and amendments drafted to make these format of notifications computer-compatible to the extent possible. Most of the proposed changes have been incorporated in the Trade Policy 2004.

In order to share experience of other Customs administrations, CARE team members also visited Malaysian and Singapore Customs Administrations and carried out in-depth studies into their business processes and use of information technology. With the completion of business process re-engineering, the workflows, originally written in plain English, were transformed into technical workflows and user-case diagrams for computer programmers. Requirement Specification Document (RSD) has been prepared which gives details of role and responsibility of each system user, defines workflow, data structures and system requirements.

Key Features

PACCS is one integrated system covering all activities and processes relating to Customs. The system has the following key features:

- One window operation
- Clearance of cargo from the port over the web without requiring declarants to leave the comfort of their office anywhere within or outside Pakistan.
- High speed clearance of cargo within hours of the arrival of the vessel on 24 hours a day and seven days a week basis.
- Self-assessment of duties and taxes if any, and discharge the same before filing a declaration to Customs.
- Online status notification of cargo clearance.
- Sanction of duty drawback online and immediately on sail of the vessel.
- Electronic filing and sanction of refunds.
- Hassle free and selective examination on risk management basis.
- Manifest information online.
- Secure examination and assessment environment.

The above effects are being achieved by optimum use of information technology. In IT terminology, PACCS is an expert decision support system. The following are the basic features:

- It covers the entire spectrum of Customs activities.
- Except in external communications with certain institutions like the courts, a completely paperless environment is envisaged. All documents are system generated without the need for manual signatures by the department.
- All data is formatted only through specific dedicated input output points. At client-end the data input is through drop-down menus and codes, thus, eliminating data input errors.
- All data with regular stakeholders is electronic.

- All data is as per international codes (ISO codes) and standards of the WCO Data Model.
- All business processes are integrated; as such a change in one automatically updates the related fields in the entire system.
- All workflows through the channels created by the system as per the business processes.
- The system has inbuilt performance evaluation since all tasks are logged with time of receipt and disposal and all this is generated as performance evaluation reports for groups as well as individuals.
- The system has built in accountability since every action is logged and each official is identified by the system through this machine as well as his PIN, which has built-in requisite access.
- All measures are taken to ensure the security of the system and its data; mirroring, backups, system logs, access controls through software and hardware, firewell, concealed cables, uninterruptible power supplies etc.
- Built in service standards with alarms generated at superior levels in cases of lapse of envisaged standards.
- Reorganization of system administrator, to be a Customs official.

Implementation

For this purpose, services of M/s Micro Clear, a subsidiary of Micro have been contracted under a loan funded by the World Bank. It is expected that M/s Micro Clear will finalize software for catering the local requirements by updating their available Customs software and the pilot project will start in the beginning of year, 2005.

Pilot Project – Scope and extent:

Scope of pilot project (PACCS-1) is limited to all Customs functions relating to clearance of cargo and vessels at KICTL (presently berth 28, 29 & 30) of the West Wharf. It covers about one third of total

workload of Appraisement and Export Collectorates of Karachi. It must be mentioned here that scope of the project is not limited to functionality, it covers entire spectrum of Customs activities including transits, transshipments, repayments, licensing, DTRE, warehousing etc. In fact it is limited only to geography and rollout.

Model Customs Collectorate:

The first phase of CARE implementation, PACCS-1 will be managed by the Model Customs Collectorate (MCC). The Collectorate will be physically located in Custom House, Karachi. It will be responsible for all Customs work regarding cargo and vessels at KICTL. It will be a composite Collectorate dealing with imports, exports and clearance of vessels. Therefore, at start-up about one third of total workload of Appraisement and Export Collectorates of Karachi will be taken on by Model Customs Collectorate. Functioning of this Collectorate will be started when PACCS is notified under section 155-A of the Customs Act, 1969.

At the moment, the Model Customs Collectorate is in the formative phase and the required resources are being mustered up. Status is as under:

Manpower: Recruitment process for MCC through internal job posting is at the final stages. However, skeleton staff has been posted.

Facilities: Budget for MCC has been allocated. Funds, Transport and communication requirements have been intimated to CBR.

Civil Works: Civil works were designed in consultation with NESPAK. The contract has been given to a firm, while construction and furnishing work is in progress.

Software: Through international tendering process, consortium of Microsoft, PWC and AOS was selected for customization of software. Formal contract with them has been signed on June 02,

2004. Software will be ready as per PACCS process in about 08 weeks.

Hardware & Networking: The software consultants have given hardware BOQ requirements. CBR has started the acquisition process. For networking, the contract has been given and work will be carried out side by side with the civil works.

Conclusion – Next Steps

The pilot project will commence latest by the first week of January, 2005. On successful operation, the system will be replicated to other ports. As a tentative rollout plan, entire Karachi port, AFUs and Port Qasim will be covered by the end of next year, followed by roll out to all dry ports. It is hoped that within next two to three years, the entire Pakistan Customs administration will be working on state-of-the-art, automated, paperless, and web-based system.

Customs, being the first and the last wheel of government machinery in the supply chain process that meshes with the trade supply chain, is the logical starting point for a tax reform regime. Secondly, the direction and path for change is already internationally defined (Revised Kyoto Convention of the WCO). But from the perspective of overall reform of tax administration of the country, the aim is to have one fully integrated tax management system. It is a real beginning. There is a strong realization in the CBR that other tax wings i.e. Sales Tax and Income Tax should be developed on similar standards so that at the end, CBR has one comprehensive integrated system.

STATISTICAL APPENDIX

Comparative Statements of

Month-to-Month and Progressive Collection of

Federal Taxes

A L L T A X E S

TWO-YEAR COMPARATIVE - MONTH TO MONTH & PROGRESSIVE COLLECTION

(Rs. in millions)

DIRECT TAXES

TWO YEAR COMPARATIVE - MONTH TO MONTH & PROGRESSIVE COLLECTION

\- -

(Rs. in millions)

MONTHS		FY 2002-03			FY 2003-04			COMPARISON			COMPARISON AS % AGE		
		GROSS	Reb / Ref	NET	GROSS	Reb / Ref	NET	GROSS	Reb / Ref	NET	GROSS	Reb / Ref	NET
1		2	3	4	5	6	7	8	9	10	11	12	13
JULY	M	6,273	1,452	4,821	7,074	900	6,174	801	-552	1,353	12.8%	-38.0%	28.1%
AUGUST	M	7,647	639	7,008	7,379	602	6,777	-268	-37	-231	-3.5%	-5.8%	-3.3%
	P	**13,920**	**2,091**	**11,829**	**14,453**	**1,502**	**12,951**	**533**	**-589**	**1,122**	**3.8%**	**-28.2%**	**9.5%**
SEPTEMBER	M	13,388	1,624	11,764	12,927	300	12,627	-461	-1,324	863	-3.4%	-81.5%	7.3%
1st Quarter		**27,308**	**3,715**	**23,593**	**27,380**	**1,802**	**25,578**	**72**	**-1,913**	**1,985**	**0.3%**	**-51.5%**	**8.4%**
OCTOBER	M	12,414	900	11,514	13,458	1,158	12,300	1,044	258	786	8.4%	28.7%	6.8%
	P	**39,722**	**4,615**	**35,107**	**40,838**	**2,960**	**37,878**	**1,116**	**-1,655**	**2,771**	**2.8%**	**-35.9%**	**7.9%**
NOVEMBER	M	9,063	1,134	7,929	9,850	1,350	8,500	787	216	571	8.7%	19.0%	7.2%
	P	**48,785**	**5,749**	**43,036**	**50,688**	**4,310**	**46,378**	**1,903**	**-1,439**	**3,342**	**3.9%**	**-25.0%**	**7.8%**
DECEMBER	M	19,497	818	18,679	24,218	600	23,618	4,721	-218	4,939	24.2%	-26.7%	26.4%
2nd Quarter		**40,974**	**2,852**	**38,122**	**47,526**	**3,108**	**44,418**	**6,552**	**256**	**6,296**	**16.0%**	**9.0%**	**16.5%**
Upto 2nd Qtr		**68,282**	**6,567**	**61,715**	**74,906**	**4,910**	**69,996**	**6,624**	**-1,657**	**8,281**	**9.7%**	**-25.2%**	**13.4%**

JANUARY	M	12,489	1,650	10,839	13,900	1,700	12,200	1,411	50	1,361	11.3%	3.0%	12.6%
	P	**80,771**	**8,217**	**72,554**	**88,806**	**6,610**	**82,196**	**8,035**	**-1,607**	**9,642**	**9.9%**	**-19.6%**	**13.3%**
FEBRUARY	M	12,059	1,459	10,600	13,894	3,714	10,180	1,835	2,255	-420	15.2%	154.6%	-4.0%
	P	**92,830**	**9,676**	**83,154**	**102,700**	**10,324**	**92,376**	**9,870**	**648**	**9,222**	**10.6%**	**6.7%**	**11.1%**
MARCH	M	12,156	656	11,500	13,291	1,248	12,043	1,135	592	543	9.3%	90.2%	4.7%
3rd Quarter		**36,704**	**3,765**	**32,939**	**41,085**	**6,662**	**34,423**	**4,381**	**2,897**	**1,484**	**11.9%**	**76.9%**	**4.5%**
Upto 3rd Qtr		**104,986**	**10,332**	**94,654**	**115,991**	**11,572**	**104,419**	**11,005**	**1,240**	**9,765**	**10.5%**	**12.0%**	**10.3%**
APRIL	M	18,096	3,234	14,862	15,300	1,000	14,300	-2,796	-2,234	-562	-15.5%	-69.1%	-3.8%
	P	**123,082**	**13,566**	**109,516**	**131,291**	**12,572**	**118,719**	**8,209**	**-994**	**9,203**	**6.7%**	**-7.3%**	**8.4%**
MAY	M	14,024	755	13,269	18,651	4,011	14,640	4,627	3,256	1,371	33.0%	431.3%	10.3%
	P	**137,106**	**14,321**	**122,785**	**149,942**	**16,583**	**133,359**	**12,836**	**2,262**	**10,574**	**9.4%**	**15.8%**	**8.6%**
JUNE	M	34,492	5,379	29,113	36,100	4,159	31,941	1,608	-1,220	2,828	4.7%	-22.7%	9.7%
4th Quarter		**66,612**	**9,368**	**57,244**	**70,051**	**9,170**	**60,881**	**3,439**	**-198**	**3,637**	**5.2%**	**-2.1%**	**6.4%**
Upto 4th Qtr		**171,598**	**19,700**	**151,898**	**186,042**	**20,742**	**165,300**	**14,444**	**1,042**	**13,402**	**8.4%**	**5.3%**	**8.8%**

DIRECT TAXES
TWO-YEAR COMPARATIVE - MONTH TO MONTH & PROGRESSIVE COLLECTION

(Rs. in millions)

MONTHS		**FY 2001-02**			**FY 2002-03**			**COMPARISON AS % AGE**		
		GROSS	**Reb / Ref**	**NET**	**GROSS**	**Reb / Ref**	**NET**	**GROSS**	**Reb / Ref**	**NET**
1		**2**	**3**	**4**	**5**	**6**	**7**	**11**	**12**	**13**
JULY	M	5,753	1,472	4,281	6,273	1,452	4,821	9.0%	-1.4%	12.6%
AUGUST	M	7,973	856	7,117	7,647	639	7,008	-4.1%	-25.4%	-1.5%

	P	13,726	2,328	11,398	13,920	2,091	11,829	1.4%	-10.2%	3.8%
SEPTEMBER	M	11,013	343	10,670	13,388	1,624	11,764	21.6%	373.5%	10.3%
1st Quarter		24,739	2,671	22,068	27,308	3,715	23,593	10.4%	39.1%	6.9%
OCTOBER	M	14,763	2,607	12,156	12,414	900	11,514	-15.9%	-65.5%	-5.3%
	P	39,502	5,278	34,224	39,722	4,615	35,107	0.6%	-12.6%	2.6%
NOVEMBER	M	8,475	557	7,918	9,063	1,134	7,929	6.9%	103.6%	0.1%
	P	47,977	5,835	42,142	48,785	5,749	43,036	1.7%	-1.5%	2.1%
DECEMBER	M	21,672	1,038	20,634	19,497	818	18,679	-10.0%	-21.2%	-9.5%
2nd Quarter		44,910	4,202	40,708	40,974	2,852	38,122	-8.8%	-32.1%	-6.4%
Up to 2nd Qtr		69,649	6,873	62,776	68,282	6,567	61,715	-2.0%	-4.5%	-1.7%
JANUARY	M	14,178	802	13,376	12,489	1,650	10,839	-11.9%	105.7%	-19.0%
	P	83,827	7,675	76,152	80,771	8,217	72,554	-3.6%	7.1%	-4.7%
FEBRUARY	M	7,986	453	7,533	12,059	1,459	10,600	51.0%	222.1%	40.7%
	P	91,813	8,128	83,685	92,830	9,676	83,154	1.1%	19.0%	-0.6%
MARCH	M	12,895	425	12,470	12,156	656	11,500	-5.7%	54.4%	-7.8%
3rd Quarter		35,059	1,680	33,379	36,704	3,765	32,939	4.7%	124.1%	-1.3%
Up to 3rd Qtr		104,708	8,553	96,155	104,986	10,332	94,654	0.3%	20.8%	-1.6%
APRIL	M	13,769	1,440	12,329	18,096	3,234	14,862	31.4%	124.6%	20.5%
	P	118,477	9,993	108,484	123,082	13,566	109,516	3.9%	35.8%	1.0%
MAY	M	14,194	3,884	10,310	14,024	755	13,269	-1.2%	-80.6%	28.7%
	P	132,671	13,877	118,794	137,106	14,321	122,785	3.3%	3.2%	3.4%
JUNE	M	26,305	2,594	23,711	28,511	0	28,511	8.4%	-100.0%	20.2%
4th Quarter		54,268	7,918	46,350	60,631	3,989	56,642	11.7%	-49.6%	22.2%
Total		158,976	16,471	142,505	165,617	14,321	151,296	4.2%	-13.1%	6.2%

INDIRECT TAXES

TWO-YEAR COMPARATIVE - MONTH TO MONTH & PROGRESSIVE COLLECTION

(Rs. in millions)

MONTHS		FY 2001-02			FY 2002-03			COMPARISON AS % AGE		
		GROSS	Reb / Ref	NET	GROSS	Reb / Ref	NET	GROSS	Reb / Ref	NET
1		2	3	4	5	6	7	11	12	13
JULY	M	22,188	6,802	15,386	26,865	8,057	18,808	21.1%	18.5%	22.2%
AUGUST	M	27,110	7,402	19,708	28,855	6,300	22,555	6.4%	-14.9%	14.4%
	P	49,298	14,204	35,094	55,720	14,357	41,363	13.0%	1.1%	17.9%
SEPTEMBER	M	24,508	4,211	20,297	29,507	4,113	25,394	20.4%	-2.3%	25.1%
1st Quarter		73,806	18,415	55,391	85,227	18,470	66,757	15.5%	0.3%	20.5%
OCTOBER	M	25,848	4,759	21,089	28,012	4,920	23,092	8.4%	3.4%	9.5%
	P	99,654	23,174	76,480	113,239	23,390	89,849	13.6%	0.9%	17.5%

NOVEMBER	M	24,439	7,493	16,946	28,247	4,396	23,851	15.6%	-41.3%	40.7%
	P	124,093	30,667	93,426	141,486	27,786	113,700	14.0%	-9.4%	21.7%
DECEMBER	M	25,385	7,058	18,327	30,268	4,253	26,015	19.2%	-39.7%	41.9%
2nd Quarter		75,672	19,310	56,362	86,527	13,569	72,958	14.3%	-29.7%	29.4%
Up to 2nd Qtr		149,478	37,725	111,753	171,754	32,039	139,715	14.9%	-15.1%	25.0%
JANUARY	M	27,075	7,656	19,419	33,343	6,975	26,368	23.2%	-8.9%	35.8%
	P	176,553	45,381	131,172	205,097	39,014	166,083	16.2%	-14.0%	26.6%
FEBRUARY	M	24,569	4,492	20,077	28,066	5,598	22,468	14.2%	24.6%	11.9%
	P	201,122	49,873	151,249	233,163	44,612	188,551	15.9%	-10.5%	24.7%
MARCH	M	26,919	4,507	22,412	32,544	5,461	27,083	20.9%	21.2%	20.8%
3rd Quarter		78,563	16,655	61,908	93,953	18,034	75,919	19.6%	8.3%	22.6%
Up to 3rd Qtr		228,041	54,380	173,661	265,707	50,073	215,634	16.5%	-7.9%	24.2%
APRIL	M	29,010	5,025	23,985	31,632	4,678	26,954	9.0%	-6.9%	12.4%
	P	257,051	59,405	197,646	297,339	54,751	242,588	15.7%	-7.8%	22.7%
MAY	M	29,605	2,477	27,128	31,060	4,405	26,655	4.9%	77.8%	-1.7%
	P	286,656	61,882	224,774	328,399	59,156	269,243	14.6%	-4.4%	19.8%
JUNE	M	37,692	901	36,791	41,814	2,168	39,646	10.9%	140.6%	7.8%
4th Quarter		96,307	8,403	87,904	104,506	11,251	93,255	8.5%	33.9%	6.1%
Total		324,348	62,783	261,565	370,213	61,324	308,889	14.1%	-2.3%	18.1%

SALES TAX (TOTAL)

TWO-YEAR COMPARATIVE - MONTH TO MONTH & PROGRESSIVE COLLECTION

(Rs. in millions)

MONTHS		FY 2001-02			FY 2002-03			COMPARISON AS % AGE		
		GROSS	Reb / Ref	NET	GROSS	Reb / Ref	NET	GROSS	Reb / Ref	NET
1		2	3	4	5	6	7	11	12	13
JULY	M	14,230	4,090	10,140	18,374	6,026	12,348	29.1%	47.3%	21.8%
AUGUST	M	17,449	5,010	12,439	18,789	4,289	14,500	7.7%	-14.4%	16.6%
	P	31,679	9,100	22,579	37,163	10,315	26,848	17.3%	13.4%	18.9%
SEPTEMBER	M	14,772	2,737	12,035	19,488	2,555	16,933	31.9%	-6.6%	40.7%
1st Quarter		46,451	11,837	34,614	56,651	12,870	43,781	22.0%	8.7%	26.5%
OCTOBER	M	15,659	2,302	13,357	17,607	2,616	14,991	12.4%	13.6%	12.2%
	P	62,110	14,139	47,971	74,258	15,486	58,772	19.6%	9.5%	22.5%
NOVEMBER	M	15,590	3,632	11,958	18,902	2,750	16,152	21.2%	-24.3%	35.1%
	P	77,700	17,771	59,929	93,160	18,236	74,924	19.9%	2.6%	25.0%
DECEMBER	M	17,095	3,509	13,586	20,287	2,975	17,312	18.7%	-15.2%	27.4%
2nd Quarter		48,344	9,443	38,901	56,796	8,341	48,455	17.5%	-11.7%	24.6%
Up to 2nd Qtr		94,795	21,280	73,515	113,447	21,211	92,236	19.7%	-0.3%	25.5%

JANUARY	M	16,492	3,891	12,601	22,264	5,638	16,626	35.0%	44.9%	31.9%
	P	111,287	25,171	86,116	135,711	26,849	108,862	21.9%	6.7%	26.4%
FEBRUARY	M	16,080	2,900	13,180	18,024	4,430	13,594	12.1%	52.8%	3.1%
	P	127,367	28,071	99,296	153,735	31,279	122,456	20.7%	11.4%	23.3%
MARCH	M	16,617	2,489	14,128	20,508	3,869	16,639	23.4%	55.4%	17.8%
3rd Quarter		49,189	9,280	39,909	60,796	13,937	46,859	23.6%	50.2%	17.4%
Up to 3rd Qtr		143,984	30,560	113,424	174,243	35,148	139,095	21.0%	15.0%	22.6%
APRIL	M	18,041	2,955	15,086	18,865	3,836	15,029	4.6%	29.8%	-0.4%
	P	162,025	33,515	128,510	193,108	38,984	154,124	19.2%	16.3%	19.9%
MAY	M	18,530	1,633	16,897	19,382	3,089	16,293	4.6%	89.2%	-3.6%
	P	180,555	35,148	145,407	212,490	42,073	170,417	17.7%	19.7%	17.2%
JUNE	M	21,964	810	21,154	26,203	1,861	24,342	19.3%	129.8%	15.1%
4th Quarter		58,535	5,398	53,137	64,450	8,786	55,664	10.1%	62.8%	4.8%
Total		202,519	35,958	166,561	238,693	43,934	194,759	17.9%	22.2%	16.9%

SALES TAX (IMPORTS)

TWO-YEAR COMPARATIVE - MONTH TO MONTH & PROGRESSIVE COLLECTION

(Rs. in millions)

MONTHS		FY 2001-02			FY 2002-03			COMPARISON AS % AGE		
		GROSS	Reb / Ref	NET	GROSS	Reb / Ref	NET	GROSS	Reb / Ref	NET
1		2	3	4	5	6	7	11	12	13
JULY	M	6,947	30	6,917	8,846	81	8,765	27.3%	170.0%	26.7%
AUGUST	M	8,567	23	8,544	8,798	59	8,739	2.7%	156.5%	2.3%
	P	15,514	53	15,461	17,644	140	17,504	13.7%	164.2%	13.2%
SEPTEMBER	M	7,669	25	7,644	8,108	19	8,089	5.7%	-24.0%	5.8%
1st Quarter		23,183	78	23,105	25,752	159	25,593	11.1%	103.8%	10.8%
OCTOBER	M	7,733	38	7,695	8,468	4	8,464	9.5%	-89.5%	10.0%
	P	30,916	116	30,800	34,220	163	34,057	10.7%	40.5%	10.6%
NOVEMBER	M	7,244	26	7,218	8,555	3	8,552	18.1%	-88.5%	18.5%
	P	38,160	142	38,018	42,775	166	42,609	12.1%	16.9%	12.1%
DECEMBER	M	6,473	1	6,472	8,632	7	8,625	33.4%	600.0%	33.3%
2nd Quarter		21,450	65	21,385	25,655	14	25,641	19.6%	-78.5%	19.9%
Up to 2nd Qtr		44,633	143	44,490	51,407	173	51,234	15.2%	21.0%	15.2%
JANUARY	M	7,532	19	7,513	8,921	17	8,904	18.4%	-10.5%	18.5%
	P	52,165	162	52,003	60,328	190	60,138	15.6%	17.3%	15.6%
FEBRUARY	M	6,227	1	6,226	7,655	4	7,651	22.9%	300.0%	22.9%
	P	58,392	163	58,229	67,983	194	67,789	16.4%	19.0%	16.4%
MARCH	M	7,842	2	7,840	10,157	7	10,150	29.5%	250.0%	29.5%

3rd Quarter		21,601	22	21,579	26,733	28	26,705	23.8%	27.3%	23.8%
Up to 3rd Qtr		66,234	165	66,069	78,140	201	77,939	18.0%	21.8%	18.0%
APRIL	M	8,754	2	8,752	9,655	5	9,650	10.3%	150.0%	10.3%
	P	74,988	167	74,821	87,795	206	87,589	17.1%	23.4%	17.1%
MAY	M	8,861	1	8,860	8,654	4	8,650	-2.3%	300.0%	-2.4%
	P	83,849	168	83,681	96,449	210	96,239	15.0%	25.0%	15.0%
JUNE	M	9,098	0	9,098	9,182	4	9,178	0.9%		0.9%
4th Quarter		26,713	3	26,710	27,491	13	27,478	2.9%	333.3%	2.9%
Total		92,947	168	92,779	105,631	214	105,417	13.6%	27.4%	13.6%

SALES TAX (DOMESTIC)

TWO-YEAR COMPARATIVE - MONTH TO MONTH & PROGRESSIVE COLLECTION

(Rs. in millions)

MONTHS		FY 2001-02			FY 2002-03			COMPARISON AS % AGE		
		GROSS	Reb / Ref	NET	GROSS	Reb / Ref	NET	GROSS	Reb / Ref	NET
1		2	3	4	5	6	7	11	12	13
JULY	M	7,283	4,060	3,223	9,528	5,945	3,583	30.8%	46.4%	11.2%
AUGUST	M	8,882	4,987	3,895	9,991	4,230	5,761	12.5%	-15.2%	47.9%
	P	16,165	9,047	7,118	19,519	10,175	9,344	20.7%	12.5%	31.3%
SEPTEMBER	M	7,103	2,712	4,391	11,380	2,536	8,844	60.2%	-6.5%	101.4%
1st Quarter		23,268	11,759	11,509	30,899	12,711	18,188	32.8%	8.1%	58.0%
OCTOBER	M	7,926	2,264	5,662	9,139	2,612	6,527	15.3%	15.4%	15.3%
	P	31,194	14,023	17,171	40,038	15,323	24,715	28.4%	9.3%	43.9%
NOVEMBER	M	8,346	3,606	4,740	10,347	2,747	7,600	24.0%	-23.8%	60.3%
	P	39,540	17,629	21,911	50,385	18,070	32,315	27.4%	2.5%	47.5%
DECEMBER	M	10,622	3,508	7,114	11,655	2,968	8,687	9.7%	-15.4%	22.1%
2nd Quarter		26,894	9,378	17,516	31,141	8,327	22,814	15.8%	-11.2%	30.2%
Up to 2nd Qtr		50,162	21,137	29,025	62,040	21,038	41,002	23.7%	-0.5%	41.3%
JANUARY	M	8,960	3,872	5,088	13,343	5,621	7,722	48.9%	45.2%	51.8%
	P	59,122	25,009	34,113	75,383	26,659	48,724	27.5%	6.6%	42.8%
FEBRUARY	M	9,853	2,899	6,954	10,369	4,426	5,943	5.2%	52.7%	-14.5%
	P	68,975	27,908	41,067	85,752	31,085	54,667	24.3%	11.4%	33.1%
MARCH	M	8,775	2,487	6,288	10,351	3,862	6,489	18.0%	55.3%	3.2%
3rd Quarter		27,588	9,258	18,330	34,063	13,909	20,154	23.5%	50.2%	10.0%
Up to 3rd Qtr		77,750	30,395	47,355	96,103	34,947	61,156	23.6%	15.0%	29.1%
APRIL	M	9,287	2,953	6,334	9,210	3,831	5,379	-0.8%	29.7%	-15.1%
	P	87,037	33,348	53,689	105,313	38,778	66,535	21.0%	16.3%	23.9%
MAY	M	9,669	1,632	8,037	10,728	3,085	7,643	11.0%	89.0%	-4.9%

	P	96,706	34,980	61,726	116,041	41,863	74,178	20.0%	19.7%	20.2%
JUNE	M	12,866	810	12,056	17,021	1,857	15,164	32.3%	129.3%	25.8%
4th Quarter		31,822	5,395	26,427	36,959	8,773	28,186	16.1%	62.6%	6.7%
Total		109,572	35,790	73,782	133,062	43,720	89,342	21.4%	22.2%	21.1%

CENTRAL EXCISE

TWO-YEAR COMPARATIVE - MONTH TO MONTH & PROGRESSIVE COLLECTION

(Rs. in millions)

MONTHS		FY 2001-02			FY 2002-03			COMPARISON AS % AGE	
		GROSS	Reb / Ref	NET	GROSS	Reb / Ref	NET	GROSS	NET
1		2	3	4	5	6	7	11	12
JULY	M	2,496	0	2,496	2,552	1	2,551	2.2%	2.2%
AUGUST	M	3,516	1	3,515	3,503	3	3,500	-0.4%	-0.4%
	P	6,012	1	6,011	6,055	4	6,051	0.7%	0.7%
SEPTEMBER	M	3,934	0	3,934	3,566	0	3,566	-9.4%	-9.4%
1st Quarter		9,946	1	9,945	9,621	4	9,617	-3.3%	-3.3%
OCTOBER	M	3,680	0	3,680	3,544	127	3,417	-3.7%	-7.1%
	P	13,626	1	13,625	13,165	131	13,034	-3.4%	-4.3%
NOVEMBER	M	3,242	7	3,235	3,351	1	3,350	3.4%	3.6%
	P	16,868	8	16,860	16,516	132	16,384	-2.1%	-2.8%
DECEMBER	M	3,319	1	3,318	3,409	1	3,408	2.7%	2.7%
2nd Quarter		10,241	8	10,233	10,304	129	10,175	0.6%	-0.6%
Up to 2nd Qtr		20,187	9	20,178	19,925	133	19,792	-1.3%	-1.9%
JANUARY	M	3,450	1	3,449	3,801	26	3,775	10.2%	9.5%
	P	23,637	10	23,627	23,726	159	23,567	0.4%	-0.3%
FEBRUARY	M	3,702	2	3,700	3,607	1	3,606	-2.6%	-2.5%
	P	27,339	12	27,327	27,333	160	27,173	0.0%	-0.6%
MARCH	M	3,905	3	3,902	4,157	18	4,139	6.5%	6.1%
3rd Quarter		11,057	6	11,051	11,565	45	11,520	4.6%	4.2%
Up to 3rd Qtr		31,244	15	31,229	31,490	178	31,312	0.8%	0.3%
APRIL	M	4,663	3	4,660	4,144	0	4,144	-11.1%	-11.1%
	P	35,907	18	35,889	35,634	178	35,456	-0.8%	-1.2%
MAY	M	4,885	2	4,883	4,667	0	4,667	-4.5%	-4.4%
	P	40,792	20	40,772	40,301	178	40,123	-1.2%	-1.6%
JUNE	M	6,416	2	6,414	4,909	2	4,907	-23.5%	-23.5%
4th Quarter		15,964	7	15,957	13,720	2	13,718	-14.1%	-14.0%
Total		47,208	22	47,186	45,210	180	45,030	-4.2%	-4.6%

CUSTOMS

TWO-YEAR COMPARATIVE - MONTH TO MONTH & PROGRESSIVE COLLECTION

(Rs. in millions)

MONTHS		FY 2001-02			FY 2002-03			COMPARISON AS % AGE		
		GROSS	Reb / Ref	NET	GROSS	Reb / Ref	NET	GROSS	Reb / Ref	NET
1		2	3	4	5	6	7	11	12	13
JULY	M	5,462	2,712	2,750	5,939	2,030	3,909	8.7%	-25.1%	42.1%
AUGUST	M	6,145	2,391	3,754	6,563	2,008	4,555	6.8%	-16.0%	21.3%
	P	11,607	5,103	6,504	12,502	4,038	8,464	7.7%	-20.9%	30.1%
SEPTEMBER	M	5,802	1,474	4,328	6,453	1,558	4,895	11.2%	5.7%	13.1%
1st Quarter		17,409	6,577	10,832	18,955	5,596	13,359	8.9%	-14.9%	23.3%
OCTOBER	M	6,509	2,457	4,052	6,861	2,177	4,684	5.4%	-11.4%	15.6%
	P	23,918	9,034	14,884	25,816	7,773	18,043	7.9%	-14.0%	21.2%
NOVEMBER	M	5,607	3,854	1,753	5,994	1,645	4,349	6.9%	-57.3%	148.1%
	P	29,525	12,888	16,637	31,810	9,418	22,392	7.7%	-26.9%	34.6%
DECEMBER	M	4,971	3,548	1,423	6,572	1,277	5,295	32.2%	-64.0%	272.1%
2nd Quarter		17,087	9,859	7,228	19,427	5,099	14,328	13.7%	-48.3%	98.2%
Up to 2nd Qtr		34,496	16,436	18,060	38,382	10,695	27,687	11.3%	-34.9%	53.3%
JANUARY	M	7,133	3,764	3,369	7,278	1,311	5,967	2.0%	-65.2%	77.1%
	P	41,629	20,200	21,429	45,660	12,006	33,654	9.7%	-40.6%	57.0%
FEBRUARY	M	4,787	1,590	3,197	6,435	1,167	5,268	34.4%	-26.6%	64.8%
	P	46,416	21,790	24,626	52,095	13,173	38,922	12.2%	-39.5%	58.1%
MARCH	M	6,397	2,015	4,382	7,879	1,574	6,305	23.2%	-21.9%	43.9%
3rd Quarter		18,317	7,369	10,948	21,592	4,052	17,540	17.9%	-45.0%	60.2%
Up to 3rd Qtr		52,813	23,805	29,008	59,974	14,747	45,227	13.6%	-38.1%	55.9%
APRIL	M	6,306	2,067	4,239	8,623	842	7,781	36.7%	-59.3%	83.6%
	P	59,119	25,872	33,247	68,597	15,589	53,008	16.0%	-39.7%	59.4%
MAY	M	6,190	842	5,348	7,011	1,316	5,695	13.3%	56.3%	6.5%
	P	65,309	26,714	38,595	75,608	16,905	58,703	15.8%	-36.7%	52.1%
JUNE	M	9,312	89	9,223	10,702	305	10,397	14.9%	242.7%	12.7%
4th Quarter		21,808	2,998	18,810	26,336	2,463	23,873	20.8%	-17.8%	26.9%
Total		74,621	26,803	47,818	86,310	17,210	69,100	15.7%	-35.8%	44.5%