



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

August 21<sup>st</sup>, 2023

Mr. Amjad Aman  
Secretary, Exports Policy  
Federal Board of Revenue  
FBR House  
Islamabad

Dear Mr. Aman

**PBC INPUT POST FBR/PBC MEETING ON AUGUST 17<sup>TH</sup>, ON PROPOSED AMENDMENTS TO THE EFS**

PBC would like to begin by acknowledging the opportunity provided by the Member (Customs – Policy), Ms. Suraiya Ahmed Butt on August 17<sup>th</sup>, 2023 to the PBC to discuss its concerns regarding some aspects of the Export Facilitation Scheme (EFS).

As agreed at the meeting, the PBC is submitting its revised proposed amendments to the EFS based on the discussions of August 17<sup>th</sup>, 2023.

PBC looks forward to these been incorporated in the EFS scheme and is available for any further clarification that the FBR may require.

Thank you and regards

Yours Sincerely

Samir S Amir  
(DIRECTOR RESEARCH)

Encl:

PBC Proposed Amendments to the Export Facilitation Scheme (EFS)

CC:

Ms. Suraiya Ahmed Butt – Member (Customs – Policy)

**PBC PROPOSED AMENDMENTS TO THE EXPORT FACILITATION SCHEME (EFS)**

Point No	Existing Situation	Proposed Amendment	Rationale
1	<p>EFS users falling under category C1 with self-owned manufacturing facility and more than 3 years of history are allowed to submit Post dated cheques [PDC] as security instrument against authorization</p>	<p>It is proposed that authorization on the basis of PDC should be restricted to the extent of average export history of past 3 years. For any authorization above that average, a 3<sup>rd</sup> party security instrument should be sought. Moreover, for both Categories C, in order to avoid misuse / fake security instruments, a revolving insurance guarantee, wherever applicable should be sought from category AA++ rated insurance companies. The following amendments therefore need to be made in Rule 876:</p> <p><b>Category C1:</b> Indemnity Bond as set out in Appendix-III and PDC <i>duly endorsed by the bankers or Revolving insurance guarantee</i> for manufacturers with self-owned manufacturing facility <i>for authorization to the extent of average export value of past 3 years</i> and Revolving Insurance Guarantee for <i>authorization beyond the average export value</i> for <i>manufacturers with self-owned manufacturing facility and</i> manufacturers with rented production facility and commercial exporters, covering their annual requirement;</p>	<p>There are apprehensions regarding blanket authorization on the basis of PDC as it is feared that this may result in misuse / fraud resulting in loss of Government revenue.</p>
2	<p>In addition to duties, sales tax and income tax, Common Export House under the EFS has even been allowed exemption from value addition sales tax.</p> <p>Moreover, as per the existing law, a Common Export House is not allowed to procure locally from domestic market.</p>	<p>In order to avoid misuse of EFS facility, value addition sales tax @ 3% [which is collected from commercial importers at import stage] be collected at import stage from a Common Export House to avoid loss of tax revenue in case of any evasion by Common Export House. Consequently, following amendment be made in Rule 871 (g):</p> <p>g) <b>“Common Export House”</b> means a warehouse authorized by the Collector under this chapter, for import <i>or procured locally</i>, warehouse and supply of input goods without payment of customs duty, sales tax, federal excise duty and withholding tax, to the small and medium export enterprises, direct or indirect exporters or commercial exporters;</p>	<p>The Government already collects value addition sales tax @ 3% on imports by commercial importers to account for the potential revenue loss due to under-invoicing / misdeclaration.</p>

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		<p><i>Provided that Common Export House will be liable to pay, at the time of import, Value addition sales tax under section 7(2) of the Sales Tax Act, 1990</i></p> <p>An amendment needs to also be made in the definition of Exports and Indirect Exporter in rule 871 (k) and (l) as follows:</p> <p><i>“export” includes supply of goods, - (a) by an indirect exporter to a direct exporter or Commercial Exporter or Common Export House;</i></p> <p><i>“indirect exporter” means a person who has a firm contract or export purchase order from a direct exporter or commercial exporter or Common Export House for the manufacture and supply of goods to such exporter authorized under these rules;</i></p>	
3	As per Rule 883, utilization period of input goods has been provided for various categories of EFS users wherein 48 months and 24 months have been allowed to categories C1 and C2 respectively.	In order to avoid potential misuse of imported duty / tax free goods by categories C1 and C2, utilization period should be reduced down to 6 months.	Existing timeline appears to be extremely high and may result in misuse.
4	As per Rule 893, timelines for audit have been prescribed for various categories of EFS users wherein audit timeline for Category C is 3 years.	Audit timeline for category C be fixed to once in a year from existing once in every three years.	To keep strict vigilance and to avoid chances of misuse.
5	As per existing Rules, goods imported by Common Export House, which are prone to misuse, are not specifically identifiable for use only under EFS	<p>2<sup>nd</sup> proviso to Rule 899(2) be included as follows so that when supply of goods is made, it is evident that these goods are only for use under EFS:</p> <p><i>Further provided that the input goods imported by Common Export house should be stamped as “Import for export purposes only under EFS Rules”</i></p>	To avoid chances of misuse by supply of input goods into the local market by Common Export House

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6	As per Rule 874 (iii), Category C has been defined in EFS rules for Indirect exporter, commercial exporters and international toll manufacturers. The EFS module does not allow international toll manufacturing to manufacturer cum exporters falling under category A & B because the EFS system has been developed in such a way to restrict one category against one NTN only.	<p>it is suggested that rules should be amended to allow international toll manufacturing for such exporters under any of category subject to fulfilment of conditions under Rule 885. Moreover, the EFS system should also be configured to allow filing of goods declaration for international toll manufacturing for all categories. Consequently, following proviso be added at the end of Rule 874:</p> <p><i>Provided that manufacturers-cum-exporters falling either under Category A or B, who are also engaged or intend to engage in international toll manufacturing, may carry out such international toll manufacturing on the basis of authorization under either of the category A or B subject to fulfilment of conditions specified under Rule 885</i></p>	Practically, manufacturer-cum-exporters under category A & B can also do international toll manufacturing.
7	Existing EFS Rules only allow single stage supply from indirect exporter to direct exporter, however, there may be a situation where multiple interlinked processes are performed by multiple manufacturers to manufacture a final exportable product.	<p>EFS license should be issued to complete chain of exports. Indirect Exporters should be allowed sales to other EFS registered indirect exporters so that the complete chain till the Direct Exporter is covered. The following amendment be made in the definition of Exports in Rule 871(1)(k):</p> <p>"export" includes supply of goods,—</p> <ul style="list-style-type: none"> <li>(a) by an indirect exporter to <i>another indirect exporter or a direct exporter or Commercial Exporter or Common Export House</i>;</li> <li>(b) to projects or sectors entitled to import or purchase such goods free of duties and taxes; and</li> <li>(c) to export processing zones, and Gwadar free zone</li> </ul> <p>Consequently, definition of Indirect Exporter under Rule 871 (1) should also be amended to cover manufacturers in indirect supply chain for exports:</p> <p>"Indirect exporter" means a person who has a firm contract or export purchase order from a direct</p>	Example: In order to manufacture garment, there are multiple interlinked processes like spinning, weaving, dyeing, finishing, etc. There are situations where multiple EFS users are involved in carrying out each of these processes, however, existing Rules do not cater for this scenario.

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		exporter or commercial exporter <i>or Common Export House</i> for the manufacture and supply of goods to such exporter <i>and includes another indirect exporter in the supply chain for exports</i> authorized under these rules.	
8	Import under EFS is subject to determination of Input Output Coefficient [IOCO ratio] by the Regulatory Collector or the Director of Input Output Coefficient Organization [IOCO]. IOCO ratio is used to determine the quantity of input goods to produce / manufacture a specific quantity of output goods, therefore, liberal determination of IOCO ratio [as against the actual applicable ratio] may result in extreme misuse of EFS resulting in illegal / unwarranted supply of input goods in local market.	In order to resolve this issue, application for determination of IOCO ratio by EFS users falling under category C must only be approved by the concerned authority after getting the same vetted by local manufacturers of such product for which IOCO ratio is sought to be approved. Consequently, following proviso is proposed to be added to Rule 877(9):  <i>“Provided that an application for determination of IOCO by users falling under Category C shall be approved by the Director IOCO only after getting the said ratios vetted by a local manufacturer. In case of any difference in IOCO ratios applied by the applicant and the ratios provided by the manufacturer, the same shall be finalized by the Director IOCO after providing an opportunity of being heard to the applicant in a joint meeting with manufacturer.”</i>	To avoid misuse of EFS Scheme due to liberal IOCO ratios.