



Impact of Mis-declaration in Steel Imports on Pakistan's Economy

Flagrant violations in import of prime steel under the garb of scrap is causing huge loss to national exchequer annually!

Mis-declaration is costing Pakistan in terms of huge revenue loss, damage to economic activity and job losses. Taking measures to curb this menace is a low hanging fruit for the government to act and stop this activity and save huge revenues of the nation's exchequer

Study Updated: September 22, 2022

Period of study: CY 2012 to CY 2021

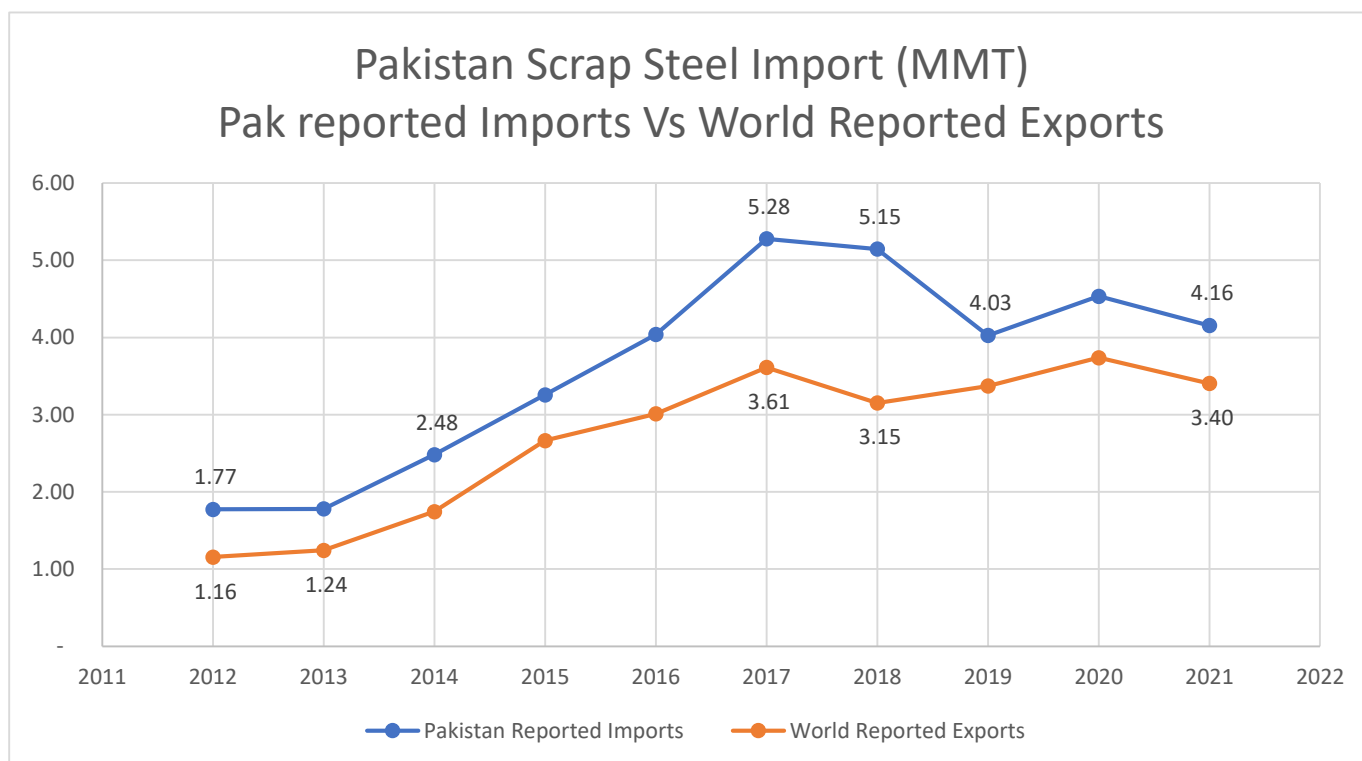
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Analysis of Trade Data

- Trade data from (CY 2012 to CY 2021) on the imports of iron & steel (Chapter 72¹ of PCT) revealed that there is over reporting of scrap imports. The analysis compared Pakistan's reported imports of iron and steel scrap (HS 7204²) with foreign reported exports of same to Pakistan³.
- In **the last ten years**⁴ Pakistan's annual over-declaration of steel scrap imports stood at **0.94 million MT that costs around PKR 22.59 billion loss to the govt exchequer**.
- Similarly, the average over invoicing for steel scrap during last five years that is between CY 2017 & 2021 stood at **1.17 million MT**. Whereas, this additional declared quantity of steel scrap is declared as a new product by exporting countries.
- Graph 1 (below) shows that in CY 2021, Pakistan reported 4.16 million MT of steel scrap import. However, the exporting countries of steel scrap to Pakistan reported an export of 3.40 million MT of steel scrap export in the same year. This shows a discrepancy of **approx. 1 million MT**. Annual mis-declaration was maximum that at **2 million MT in 2018**. Nonetheless a significant discrepancy still remains.



Source: WITS

¹ Chapter 72 includes Raw materials, Scrap, Semi finished, Long and Flat products of Iron and Steel

² Analysis of Ships used for demolition and onward use as scrap has been ignored due to varying size of ships being imported (quantity imports of ships for demolition are reported in units & not kilos)

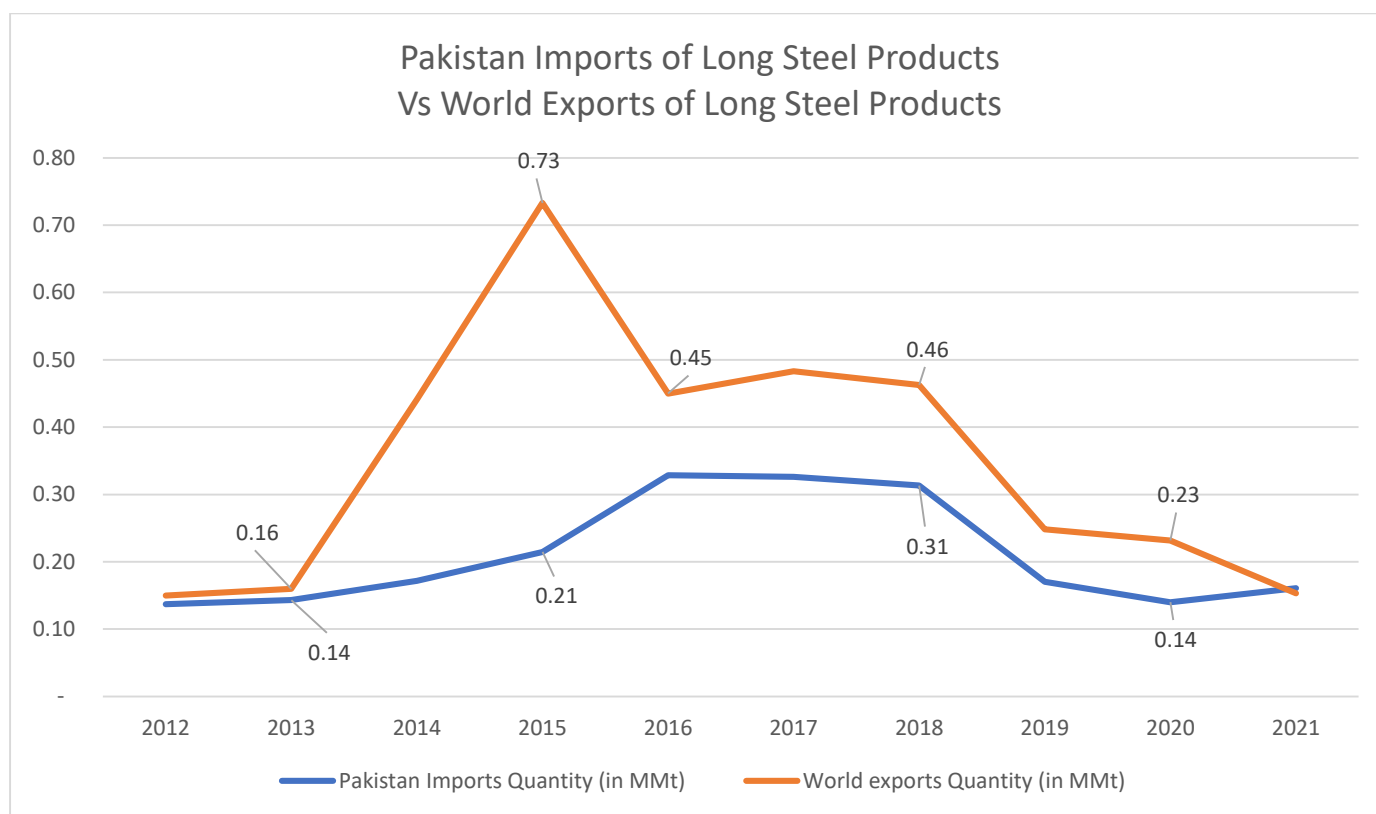
³ Import of scrap automobiles formed a small share of imports under 7204

⁴ CY 2012-21

- As per the [WITS portal](#) most of the over-declaration before 2019 has been recorded from **United Arab Emirates, Afghanistan, United States, South Africa and Iran**. From 2019 onwards the major discrepancy also started from Kuwait & Bahrain.

*Note: Since **Iran** is not a member of WTO therefore its data is partially reported in the WITS portal, however, there is concrete evidence that new products in the form of scrap is coming from Iran in huge quantities and is going unchecked.*

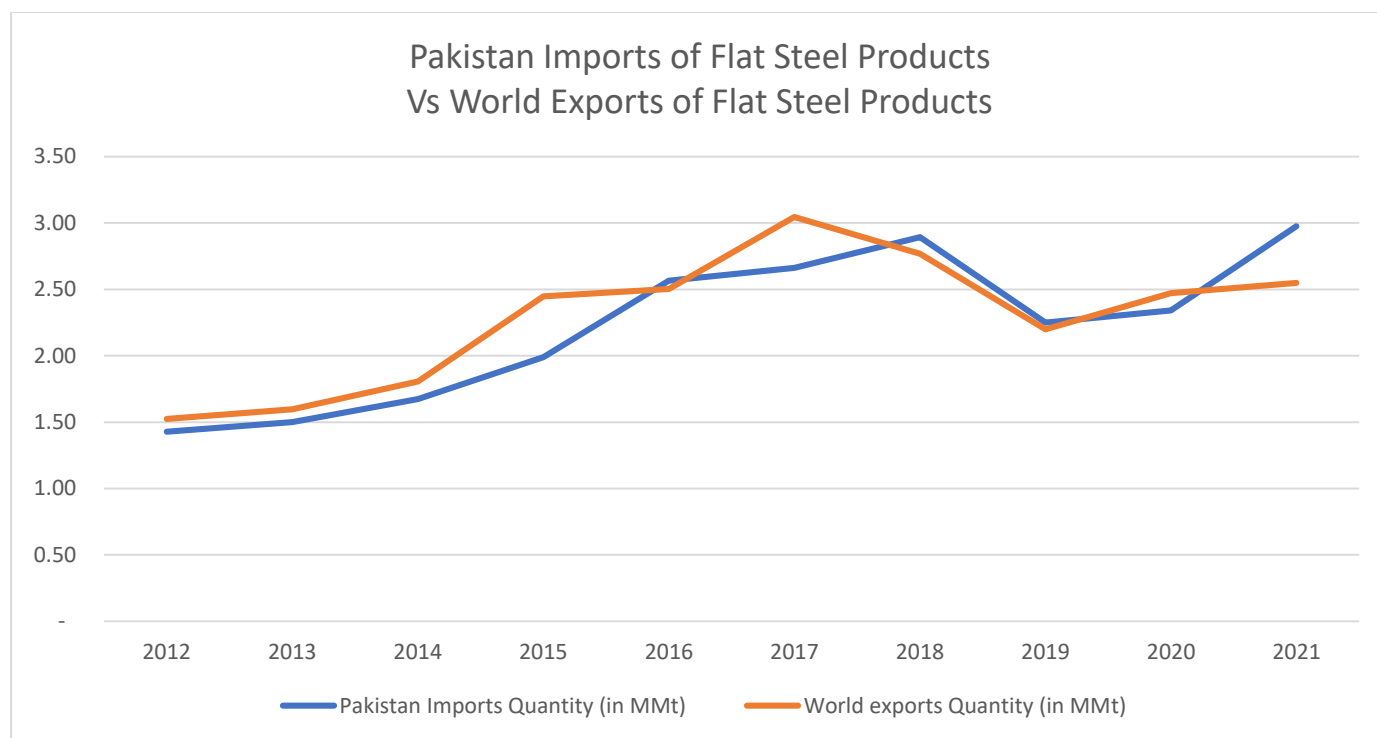
- At the same time, there has been under-declaration in the quantities of long products as well. Graph 2 shows the imports of long products reported by Pakistan and exports of long steel products by world. In case of Long products, the under-declaration was maximum in 2015.



Source: WITS

- As there is over reporting in case of import of steel scrap there is under reporting in case of import of Long steel products. This shows the products other countries reporting as Long products are declared in Pakistan as scrap.
- Hence the above point **confirms that these new products which Pakistan under-reports are classified as scrap, which are being over reported by the authorities.**
- This striking finding actually means that there are huge chances that between 0.5 to 1 million MT of new products are imported annually in Pakistan and are being mis-declared as scrap.**

- Interestingly there was not much of a reporting difference in case of **flat rolled products** as shown in Graph 3 below.



Source: WITS

Current Estimation

- During CY 2020-21 Pakistan declared total imports of 7.51 MMt of imports of iron and steel products under Chapter 72 that valued \$4586.59 million or PKR 1100.78 billion⁵. Whereas, the imports of iron & steel scrap during CY 2020-21 stood at 4.16 MMt that valued \$2159.44 million or PKR 518.27 billion⁶.
- Keeping in view the effective duty rate⁷, the revenue collected at the import stage on scrap during CY 2020-21 was estimated at approximately PKR 36 to 52 billion including customs duty collection of almost PKR 16 billion, ACD collection of almost PKR 10 billion and RD collection of PKR 26 billion.
- The expected sales tax and WHT tax collected at import stage on scrap is around PKR 121 billion

⁵ At 240 ER

in USD	in PKR at 240	in billion
4,586,591,125.00	1,100,781,870,000.00	1,100.78

⁶ At 240 ER

in USD	in PKR at 240	in billion
2,159,442,632	518,266,231,680	518.27

⁷ That is @7% to 10% - consisting of [CD (0-3%) + ACD 2% + RD 5%]

- The total tax collection on scrap at import stage was PKR 173 billion.

Extrapolated Estimation based on Current figures

- During last ten years on average the amount of mis-declaration of scrap was **almost 1 million MT amounting to PKR 59.45 billion.**
- **In the last ten years Pakistan's average annual over-declaration of steel imports stood at 0.94 million MT that costs around PKR 22.59 billion loss to the govt exchequer.**

Economic Significance of Steel Sector:

- Globally, the steel industry has a gross value added of **US\$500 billion, which is 0.7%** of global GDP and employs just over **6 million people.**
- Oxford economics has estimated that the overall impact of the steel industry is **US\$2.9 trillion** value added, and **96 million jobs globally.** It has been estimated that for every 2 jobs in the steel sector, 13 more jobs are supported throughout its supply chain.
- For every \$1 of value thus added by work within the steel industry itself, a further \$2.5 of value-added activity is supported as a result of purchase of raw materials, equipment, energy and services.

Conclusion

- Mis-declaration of steel scrap imports, costs Pakistan around PKR 22.59 billion annually and the impact of this negligence is huge loss to the govt exchequer.
- These findings correlate with the recent attempt by the Customs intelligence to block the import of new products that were being declared as scrap. The letters written by the Customs Intelligence provide a testimony to this aspect.
- Mis-declaration of new products as scrap ends up feeding in and propping the undocumented sector and thereby hurts the genuine tax paying businesses in the iron and steel sector. Mis-declaration is a dis-incentive for businesses to become formal and become part of the tax net. Hence the status quo would continue to remain counterproductive to the government's efforts towards bringing in more businesses into the tax net.
- In a nutshell the current practice of mis-declaration is costing Pakistan in terms of a huge revenue loss, economic activity and job losses. Taking measures to curb this mis-declaration is a low hanging fruit, the government must act to stop this abuse and protect the people of Pakistan from getting the harmful impact of this activity.

Bibliography

World Integrated Trade Solution (WITS)

<http://wits.worldbank.org/WITS/WITS/AdvanceQuery/RawTradeData/QueryDefinition.aspx?Page=RawTradeData> (Downloaded data for Pakistan and other iron and steel exporting countries to Pakistan is attached).

ITC Trade Map

<https://www.trademap.org/Index.aspx>