Ministry of Commerce

NATIONAL TARIFF POLICY 2025-30

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List of Abbreviations

ACDs	Additional Customs Duties
CDs	Customs Duties
FBR	Federal Board of Revenue
FTA	Free Trade Agreement
FY	Fiscal Year
GDP	Gross Domestic Product
GTAP	Global Trade Analysis Project
HS	Harmonized System
MFN	Most Favored Nation
MoC	Ministry of Commerce
NTC	National Tariff Commission
NTP	National Tariff Policy
PKR	Pakistani Rupees
PTA	Preferential Trade Agreement
RDs	Regulatory Duties
SBP	State Bank of Pakistan
SROs	Statutory Regulatory Orders
TPB	Tariff Policy Board
TPC	Tariff Policy Center
WTO	World Trade Organization

1. Background

The first ever National Tariff Policy of Pakistan was formulated for a period of five years (2019-24) with the overarching objective to rationalize the tariffs and aiming to spur industrial and economic growth. The purpose was to reverse previous interventions, such as imposition of Additional Customs Duties (ACDs) and Regulatory Duties (RDs), which were primarily implemented for revenue purposes rather than as instruments of trade policy. Despite slow economic recovery after the pandemic, the overall positive outcomes encouraged to continue the process of tariffs rationalization. The experiences, outcomes, and lessons learned from the National Tariff Policy (NTP) 2019-24, provide guidelines to adopt a strategic approach towards formulation of NTP 2025-30. The new policy is an outward looking, export led growth policy that aims to rationalize tariffs and simplify the complex concessionary regime to provide a conducive environment for industrial growth and exports.

2. Brief Overview of the National Tariff Policy 2019-24

The NTP 2019-24 marked a major shift in approach, transitioning from using import tariffs primarily for revenue collection to employing them as a strategic trade policy instrument to drive economic growth. NTP 2019-24 pointed out that the tariff structure is high due to the addition of ACDs and RDs as customs duties and complex due to frequent use of statutory regulatory orders (SROs). It highlighted that tariffs were mainly being used as a tool for revenue generation and created inefficiencies, anti-export bias and smuggling. The policy also reviewed the comparable economies' tariffs and examined the success of other countries in utilizing tariffs as a trade policy tool.

3. Impact Analysis of NTP 2019-24

The NTP 2019-24, introduced some important reforms like introduction of 0% slab, simplification of concessionary regime and tariffs rationalization of value chains. In this context, customs duty and additional customs duty were removed on **2,198** tariff lines primarily covering basic raw materials and capital goods. Apart from general tariff rationalization, a sector-specific tariffs rationalization was also carried out that included **626** tariff lines in Textile value chain, **353** tariff lines in Pharmaceutical Sector and **67** tariff lines in Iron and Steel Sector. In addition to the above, tariffs were also rationalized for Dyes/Chemical Sector, Footwear, Paper and Paperboard, Packaging Industry, Agri Logistics and Farm Mechanization, Engineering, and Tourism sectors.

The overall effective applied average tariff rate which had increased from 7.7% in 2012-13 to a peak of 10.6% in 2018-19, declined to 6.7% by 2023-24. In the NTP 2019-24, efforts were also made to adjust the rates of ACDs and RDs to streamline and rationalize the tariff structure. Analysis reveals that while the pre-NTP regime was more revenue-centric and based on the principle of import substitution, the NTP 2019-24 attempted to change the approach and make tariffs a tool of trade policy.

Time series analysis of tariff rationalization over a long period of time and its impact on exports shows that during the period FY81 to FY87, high tariffs negatively impacted exports, reducing them by an average of 2.8% annually. Whereas, during the period FY88 to FY02, decreasing tariffs positively contributed to exports growth, raising exports by an average of 12.0% annually. In the period FY03 to FY24 (which includes period of NTP 2019-24), stable tariffs supported export growth, increasing exports by an average of 2.6% annually.

Despite being confronted with challenges like the COVID-19 pandemic and economic challenges, i.e. the foreign exchange reserves crisis and resultant shrinking fiscal space, the NTP 2019-24 paved the way for a slow but steady increase in exports. For the first time exports reached the highest level of US$ 39.52 billion in 2022.

4. Tariff Structure of Comparable Economies

As per the WTO Tariff Profiles 2024, Pakistan's simple average MFN applied tariff rate of 10.3% combined with 3.65% ACD and 4.57% RD makes it the highest in South Asia. India, Bangladesh, and Nepal impose tariff rate of 17.0%, 14.1%, and 12.7%, respectively, while Bhutan and Sri Lanka have lower tariffs at 9.3% and 8.4%, respectively. The average of South Asia's tariff is 10.57%. Outside South Asia, China's simple average tariff rate is 7.5%, Vietnam and Cambodia both maintain tariffs at 9.4%, Indonesia's tariff rate at 8.0%, Malaysia 5.6% and Thailand's tariff at 9.8%. At the regional level, ASEAN with an average tariff of 6.49% and the global average of 8.8%, are both substantially below Pakistan's rate. In terms of higher duty rates applied on import, share of HS six-digit subheadings subject to duties greater than 15% for Bangladesh is 42%, Cambodia 4.4%, India 30.9%, Malaysia 13.5%, Indonesia 9.3%, Nepal 15.9%, Pakistan 39.1%, Sri Lanka 30.5%, Vietnam 23.4%. Similarly, the trade weighted tariff averages of comparable economies are much lower in comparison to Pakistan.

5. Objectives of National Tariff Policy 2025-30

The new policy will continue adhering to the following objectives of the previous policy:

i) To improve **the competitiveness** of manufacturing, including the export sector, through duty-free access to imported raw materials by rationalizing the tariff structure.

ii) To increase **employment** opportunities by attracting efficiency-seeking investment in the manufacturing sector by making the tariff regime transparent and predictable.

iii) To lessen the **distortions** in the domestic price structure and improve **consumer welfare** by reducing the burden of excessive protection.

iv) To **remove anomalies** in the tariff structure that are causing distortions between sectors and within the value chains of individual sectors.

In addition to the above, the primary objective of NTP 2025-30 is to **encourage export-led growth** by **addressing anti export bias** in the current tariff structure, **facilitating integration into Global Value Chains (GVC)** and **supporting adoption of energy efficient and green technologies**.

6. Targets of National Tariff Policy 2025-30

Whereas the earlier policy has set broad targets for reducing the duties including CD, ACD, and RD, this policy will set specific targets for the next five years in each reform area.

6.1 Reduce Overall Tariff Rate

To set some benchmark for tariff rationalization that is reasonable as well as easy to communicate and measure, existing tariffs in regional counterparts are considered. The NTP 2025-30 sets a target of achieving a simple average tariff of 9.70% by the terminal year 2029-30. This corresponds to about more than 20% annual decline in the first two years and a 5-10% annual decrease in subsequent years. This will be done by taking a comprehensive approach that encompasses

1) **Readjustment of CD slabs to 4 slabs (0%,5%,10%, &15%) from the existing 5 slabs in 5 years**
2) **Reduction in CD to a maximum of 15% in 5 years**
3) **Elimination of RDs in 5 years**
4) **Elimination of ACDs in 4 years**
5) **Phasing out of 5th Schedule in 5 years**

The reduction in tariff rates will bring the trade weighted average from the current 10.6% to below 6% in a period of 5 years.

Table 1: Tariff Rationalization Overall Targets

Type of Duty	Current Simple Average Tariff *	Year I	Year II	Year III	Year IV	Year V
CD	11.93	11.18	11.00	10.5	10.00	9.70
ACD**	3.66	1.76	1	0.50	0	0
RD**	4.60	2.71	1	0.50	0.25	0
Overall	**20.19**	**15.65**	**13.00**	**11.50**	**10.25**	**9.70**

* Base Year 2024-25
**Excluding Chapter 27 of the First Sch. to the Customs Act, 1969.

6.2 Readjustment of Slabs and Reduction in Customs Duty (CD) Rates

The current tariff structure follows a cascading principle. There are 5 slabs i.e.0, 3, 11, 16, and 20 with some peaks and specific rates. The uneven spread in tariff slabs or tariff escalation not only inhibits industrialization but also diversification.

To simplify tariff structure and remove uneven spread between tariff slabs, in the first year, the current tariff slabs of 0%, 3%, 11%, 16% and 20% will be adjusted as 0%, 5%, 10%, 15% and 20%. Peaks in tariffs above 20%, mainly in the auto sector, will also be reduced gradually. Details of new tariff slabs and their gradual reduction are given at table 2 below:

Table 2: Tariff Slabs Adjustment and Reduction in CD Rates*

Current	Year I	Year II	Year III	Year IV	Year V
0	0	0	0	0	0
3	5	0	0	0	0
11	10	10	5	5	0
16	15	15	10	10	5
20	20	20	15	15	10
Above 20	Above 20	20-50	20-40	15-30	15

* The existing 5 slabs will be transformed into 4 slabs (0%, 5%, 10%, & 15%) in 5 years, keeping in view the annual targets for reduction in CD rates as provided in Table 1.

6.3 Elimination of Additional Customs Duty (ACD)

Over the last 15 years, ACD and RD in addition to Customs Duty (CD) have been used as a tool for revenue enhancement. As a result, the number of products subject to ACD and RD has increased manifolds. Out of a total of 7,589 tariff lines, around 7,476 tariff lines are subject to ACDs, and 1,996 tariff lines have been subject to RDs. Excessive use of Additional Customs Duties (ACDs) and Regulatory Duties (RDs) in addition to already high Customs Duties (CDs) has not just made the tariff structure high, complex, and protective but unfair, non-transparent, and prone to elite capture. All ACDs will be eliminated gradually in the next 4 years.

Table 3: Elimination of ACDs*

	Current	Year I	Year II	Year III	Year IV	Year V
CD slabs	0,3, 11,16,20, above 20	0,5, 10,15,20, above 20				
ACD	2,2,2,4,4,6,7**	0,0,0,2,4,6	0,0,0,0 ,2,4	0,0,0,0,0, 2	0	0

*The existing ACD slabs will be eliminated in 4 years, keeping in view the annual targets for reduction in ACD rates as provided in Table 1.

**Few products at 35% CD are subject to Auto sector policy (AIDEP 2021-26), therefore, the auto sector ACDs will be eliminated gradually from July 1, 2026.

6.4 Elimination of Regulatory Duties (RDs)

RDs are mostly serving the purpose of raising revenues and providing extra protection to already protected industries. Moreover, the ad-hoc imposition of RDs over time has resulted in overall discriminatory tariffs which is evident from high dispersion in RD rates on similar products. First, the RD rates will be harmonized as lowest on raw material, moderate on intermediate and capital goods and highest on consumer goods and will be placed in slabs of 0%, 5%, 10%, 15%, 20%, 30%, 40% and 50%. Moving forward, the following schedule will be followed to eliminate RDs in 5 years. The rates given in Table 4 are indicative and actual RD rates will be adjusted in the same range (indicated against each year) by the Tariff Policy Board and the government on year-to-year basis.

Table 4: Elimination of RDs*

Current	Year I	Year II	Year III	Year IV	Year V
Various rates not tied to CD slabs	0,5,10,15,20,30,40,50	0,0,10,20	0,0,0,10	0,0,0,5	0

*The existing RDs slabs will be completely eliminated in 5 years, keeping in view the annual targets for reduction in RD rates as provided in Table 1.

6.5 Transition of 5th Schedule to 1st Schedule

The 5th Schedule of the Customs Tariff provides concessions or exemptions to certain domestic industries. Starting from a few products in 2013, the number of products claiming concessions or exemptions under the 5th schedule has increased many folds during the last few years. It consists of a long list of products divided into different parts. In FY 2023-24 the 5th Schedule consists of eight parts, each part contains different tables for different types of products. However, what makes the 5th Schedule more complex is the various conditions attached to the listed products. The product-specific conditions under the 5th schedule require a wide range of documentation and paperwork. This not only gives huge discretionary powers to EDB and IOCO but also increases cost of compliance. Moreover, as most of the concessions are available only to specific manufacturers, these conditions are seen as restrictive and biased towards large businesses and manufacturers. Small businesses that cannot incur costs for attaining certificates or approvals and related paperwork have to purchase inputs from commercial importers that import at MFN rates.

The tariff structure under the Fifth Schedule is different from general tariff structure. There are two ways in which tariffs under the Fifth Schedule are different from the general tariff structure. First, the 5th Schedule has custom duty rates beyond the slabs applicable to the 1st Schedule. Second, most of the products in the schedule are exempt from Regulatory Duty (RD) and Additional Custom Duty (ACD) that are otherwise applied in the 1st Schedule of Customs Act, 1969. Resultantly, as the number of exemptions and concessions under the 5th Schedule has increased over the years, its burden on the federal exchequer is also growing exponentially. The largest portion of customs duty expenditure for FY 2022-23 is given under Fifth Schedule amounting PKR 190.688 billion registering a growth of 10.24% compared to 2021-22.

In view of distortions in tariff structure created by the 5th Schedule, all the products/tariff lines will transition from 5th Schedule to 1st Schedule in next 4-5 years in a phased manner. In this process some concessions will be withdrawn, and some concessions will be generalized (made available to all).

i. The products that have virtually no concession under the 5th Schedule shall be transferred to the 1st Schedule.
ii. Products with concessionary rates will be transferred to the 1st Schedule either under MFN rate or under the slab closest to the concessionary rate
iii. Products that have specific conditions because there is no product-specific tariff heading in the 1st Schedule will be moved to the 1st Schedule by creating a new tariff heading.
iv. Products falling under the tariff heading “others” will be transferred from the 5th Schedule to 1st Schedule by creating separate headings with the description as given in the 5th Schedule.
v. Minimally used concessions will be withdrawn

6.6 Tariff Rationalization of Auto Sector

In line with the principles and objectives of this policy, the auto sector tariffs will also be rationalized to enhance competitiveness, productivity and consumer welfare including removing any quantitative restrictions on import of old/used vehicles subject to quality and environmental standards and differential tariff structure. The Auto Industry Development and Export Policy (AIDEP) 2021-26 is valid till June 2026 and the new auto policy will be introduced from first July 2026 where a substantial reduction on duties related to the auto sector will be carried out including review of SRO 655 (I)/2006 dated 22-Jun-2006, SRO 656(I)/2006 dated 22- Jun-2006, SRO 693 (I)/2006 dated 1-Jul-2006, elimination of all ACDs and RDs and reduction in the CD rates.

7. Institutional Arrangements

The Tariff Policy Centre (TPC), established under NTP 2019-24, will continue working as the technical arm of the Tariff Policy Board (TPB) that has already been notified by the Ministry of Commerce. Further, the Sub-committee established by the TPB under the NTP 2019-24 will continue to facilitate the TPB.

7.1 Composition of the Tariff Policy Board

The TPB as notified under NTP 2019-24 shall be chaired by the Minister/Advisor for Commerce, with the Minister/Advisor/SAPM for Industries & Production, Secretary Finance, Secretary Revenue, Chairman FBR, Secretary Commerce, Secretary Board of Investment, Secretary Industries & Production, and Chairman NTC as its members. Secretary Commerce shall be the Member/Secretary of the Board. Three Tariff experts, nominated by the Prime Minister, shall also be part of TPB. The TPB shall be responsible for the formulation, amendment, and implementation of the National Tariff Policy.

7.2 Recommendations of Tariff Policy Board

All proposals related to any change in tariffs (Customs Duty, Additional Customs Duty, and Regulatory Duty) shall be examined at TPC and after approval of TPB shall be submitted by the Ministry of Commerce to the Cabinet or Parliament, as the case may be, for approval.

7.3 Mandate of Tariff Policy Board

The Tariff Policy Board shall be responsible for all Customs Tariff related changes and for the implementation of this policy including its objectives and principles and timelines.

7.4 Meetings and Participation in Tariff Policy Board

The TPB and TPC Centre shall follow the procedure/guidelines as prescribed in Tariff Policy Board (Procedural) Regulations. Meetings of the Board shall be attended in person by the Members and in case of unavoidable circumstances, a senior officer not below the rank of BS-21 shall attend the meetings on behalf of the Member of the Board.

8. Expected Economic Impact of the NTP 2025-30

These reforms are expected to have a positive impact on all the economic indicators including tariff revenue, imports, exports, trade balance, employment etc.

8.1 Revenue Impact

Various models including Macro model, Export Forecasting Model, GTAP Model import tariff revenues show a loss of about PKR 500 billion in static calculations however, considering all other factors i.e., increased demand, economic growth, transparency, decrease in under invoicing, smuggling, compliance cost etc., GTAP calculations indicate a positive impact on revenues (7-9%).

8.2 Economic Impact

The major impact of tariff reforms will be on exports. GTAP calculations show that exports will increase by (10-14%); imports will also increase (by 5-6%) but at a slower rate than the increase in exports thereby improving the trade deficit. Resources will move to more efficient and productive sectors as production in export-oriented sectors will pick up. Industry will grow, net employment will increase, and investment will strengthen. Reduced tariffs would not only allow the availability of cheap raw materials and intermediate but would also be a key factor in reducing the imported inflation, especially for food products.

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