

Pakistan Textile Council (PTC) Engages in High-Level Discussions to Address Textile and Apparel Sector's Challenges with recommendations of Economic growth of Pakistan

Islamabad, February 18, 2025 — The Pakistan Textile Council (PTC), under the leadership of Chairman Mr. Fawad Anwar, has recently engaged in a series of strategic meetings with key government officials to address pressing challenges faced by the textile and apparel sector. These discussions focused on energy pricing, taxation, investment climate, and international trade relations, aiming to foster sustainable growth and enhance the sector's global competitiveness.

Engagement with National Coordinator, Special Investment Facilitation Council (NC SIFC)

In discussions with Special Investment Facilitation Council, Chairman Anwar highlighted important issues for increasing competitiveness of Textile exports. Chairman shared that in response to evolving international trade dynamics, Pakistan's textile industry has to adopt strategies focused on sustainability, diversification, and competitiveness to maintain its global market position. Therefore, Government's policies should prioritize export enhancement through targeted incentives. Key measures that must be considered include reinstating the Final Tax Regime to alleviate financial burdens on exporters. At the same time abolishing the Super Tax is also recommended to boost competitiveness. Chairman stressed that enhancing financial liquidity is crucial; thus, processing sales tax refunds within 72 hours, as per Rule 39F of the Sales Tax Rules 2006, and ensuring prompt duty drawback refunds are essential steps. Promoting sustainability can be achieved by reinstating the Export Facilitation Scheme (EFS) for domestic trade with a reduced consumption period of one year, excluding non-exporting entities, and zero-rating utility bills for participants. Chairman stressed that to attract foreign direct investment and support modernization, reducing machinery tariffs and maintaining stable energy policies are vital. Expanding the Export Finance Scheme's ceiling from PKR 235 billion to at least PKR 1.2 trillion in phases is necessary to meet capital requirements and aim for \$35 billion in textile exports by 2030. Diversifying into non-traditional markets and products is essential for economic resilience, supported by implementing a 10-year export policy for stability. Leveraging technology through digitization and capping cash withdrawals at 10% of a company's annual turnover will enhance transparency and reduce the informal economy. Incentivizing high-growth value-added exports and rationalizing protectionist policies will stimulate industry growth. Establishing a sustainable energy tariff for at least five years, rationalizing Unaccounted for Gas charges to 0.5% for industrial consumers, removing Transmission and Distribution losses from tariffs for dedicated consumers, and eliminating cross-subsidies in energy tariffs are necessary measures. Prioritizing the implementation of the Weighted Average Cost of Gas across the country will further enhance cost efficiency and competitiveness. Collectively, these initiatives will enable Pakistan's textile industry to navigate the challenges of international trade, ensuring sustainability, competitiveness, and economic resilience.

NC SIFC committed to raising these matters with the relevant authorities and extending full support to resolve the industry's challenges.

Meeting with Secretary Petroleum Division

In a meeting with Petroleum Division, Chairman Anwar expressed deep concerns over the 16.7% hike in gas prices, which poses a significant challenge to the textile sector, already dealing with rising production costs and fierce global competition. The Chairman shared that the assumption that industry is captive to the government and will move to expensive grid if gas prices are raised to prohibitive levels is not based on facts. There are many sources of electricity which are much

cheaper than grid power and even current line gas and LNG. The belief that Pakistan's textile industry is forced to depend on expensive, government-controlled grid electricity due to rising gas prices is inaccurate. Industries are actively adopting more cost-effective energy alternatives. In Sindh, gas-based power generation costs approximately Rs 32 per unit, utilizing a mix of 60% system gas at Rs 3,000 and 40% LNG; in Punjab, it's about Rs 36.18 per unit with 25% system gas and 75% LNG. Wind energy offers a levelized cost of around Rs 9 per unit, up to Rs 15 per unit in the first year at 40% efficiency, remaining below Rs 15 per unit nationwide. Biomass energy costs approximately Rs 24 per unit for non-textile industries with minimal steam needs, and about Rs 15 per unit for textile units requiring substantial steam, priced at Rs 3,000 per ton. Electricity generation using furnace oil is estimated at Rs 27 per unit, subject to oil price fluctuations. Another option for in-house electricity generation will be shifting to top-of-the-line electricity generators. Cost estimates of electricity production through these generators range from Rs. 32.58 to Rs 38.33 with fluctuations of fuel prices. Given these alternatives, industries with energy demands over one megawatt are unlikely to revert to grid electricity, instead transitioning to more economical solutions within months.

Secretary Petroleum acknowledged these concerns and assured continued support to the exporters, emphasizing the government's commitment to finding a balanced solution that safeguards both the industry's viability and the country's economic interests.

Discussions with Federal Board of Revenue (FBR)

During a session with FBR, Chairman Anwar highlighted the multifaceted tax structure burdening textile exporters. Key components contributing to the effective tax rate include: Corporate Tax: Standard rate of 29% on taxable income, Super Tax: Additional levy ranging from 1% to 10% based on income slabs, Workers' Welfare Fund (WWF): 2% of taxable income, Workers' Profit Participation Fund (WPPF): 5% of taxable income, Export Development Surcharge: 0.25% of export realization, Minimum Turnover Tax: 1.25% of revenue from both local and export sales and Advance Tax: 1 % of revenue.

Anwar illustrated that an exporter operating at a 1% profit margin may face an effective tax rate exceeding **158%** of their profits, underscoring the disproportionate tax burden on low-margin businesses. It was highlighted that the Additional Advance tax @ 1% of gross sales, that is adjustable is incorporated, as most of the times the amounts remain stuck with FBR, the impact reaches to **233%** of profits. Chairman FBR recognized the gravity of the situation and agreed to consider policy reforms aimed at rationalizing the tax regime to support the industry's sustainability. Chairman FBR asked Mr. Fawad to share proposals that will be taken up with the Prime Minister for consideration.

Meeting with Ambassador-Designate to the European Union

Chairman Anwar also met with Ambassador-designate to the European Union (EU), to discuss strengthening economic ties with EU markets. Anwar shared PTC's initiatives over the past four years, aimed at establishing evidence-based dialogues with EU institutions to foster long-term trade and sustainability partnerships. Ambassador of Pakistan to EU (designate) expressed his commitment to collaborating closely with industry, emphasizing the importance of maintaining Pakistan's status as a trusted partner in Brussels and actively engaging in upcoming legislative developments.

Both parties agreed on the necessity of exploiting the full potential of the Generalized System of Preferences Plus (GSP+) status. It was agreed that a joint meeting with the Secretary of Commerce will be planned to develop a strategic roadmap for enhancing Pakistan's exports to the EU, ensuring that the textile sector remains competitive and aligned with international standards.

Conclusion

The Pakistan Textile Council remains steadfast in its mission to advocate for the textile and apparel sector, addressing critical issues through collaboration with government bodies. These high-level engagements reflect a concerted effort to create a conducive environment for sustainable growth, economic development, and societal impact, with a commitment to putting Pakistan first.