

Importance of regionally Competitive Energy Tariffs for the Textile Sector of Pakistan



PAKISTAN INSTITUTE
OF DEVELOPMENT
ECONOMICS

IMPORTANCE OF REGIONALLY COMPETITIVE ENERGY TARIFFS FOR THE TEXTILE SECTOR OF PAKISTAN

PIDE Report Launch Webinar:

Saturday, March 27, 2021
Start 11:00 AM PST

About Webinar

The economic significance of the textile sector in Pakistan is undeniable. The sector contributes around 60% of the export earnings and provides employment opportunities for around 40% of the total labor force. In the textile sector, energy cost is the leading component in terms of conversion cost. Among all the factors that make the textile sector of Pakistan regionally un-competitive, energy tariff is at the core. The recent outshining performance of the textile sector can partially be attributed to the regionally competitive energy tariff (RCET) policy that the government has adopted, since late 2018. The current webinar entails to launch a report prepared by PIDE along with the All Pakistan Textile Mills Association (APTMA) aims to evaluate how the regionally competitive energy Tariff policy is contributing towards getting the textile sector regionally competitive.

Chair



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Link to Join Webinar

Meeting ID: 986 3023 1695
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Preamble

The textile sector of Pakistan has infinite possibilities to grow. Various silos and disciplines of the economy must be set together to solve the puzzle of regional competitiveness. For several decades, textile competitiveness is suffering due to power shortage, governance issues, etc. During a pandemic, a 7.9 percent increase is observed in exports which can be partially attributed to the regionally competitive energy tariff launched by the government.

Why is the Textile sector important?

- The textile sector is important due to its contribution to development indicators.
- Contributes 8.5% to GDP
- Around 60% of the export earning
- Absorbing around 40% of the labor force (19 million workers)
- Contribute 46% in total manufacturing
- Makeup to 29% of value addition in manufacturing
- Provide livelihood to 25 million individuals (directly or indirectly)

Challenges at Textile raw material sector

- Lack of corporate culture
- Drop-in cotton production and quality
- More focus on maize, rice, and sugarcane
- Shrinking of cultivated area
- Cotton is a sophisticated crop, most of the time it is prone to insecticides

Challenges in the Energy sector

- Swindling Energy Tariff
- Transmission and supply line damages
- Extra Maintenance cost
- Gas/RLNG shortage
- Inadvertent rely on captive power generation

What is RCET and what are its objectives?

Outshining performance of recent times of the textile sector can be attributed to the regionally competitive energy tariff (RCET) policy executed by the government. The main objective is to offer energy tariffs at par with regional players to make the industry regionally competitive. Under RCET policy:

- RLNG/Gas tariff at the rate of 6.5/MMBtu-since October 2018
- Electricity at 7.5 cents/kwh-since January 2019
- The electricity tariff was revised from 7.5 cents/kwh to 9 cents/kWh-September 2020

Important aspects

The study conducted by the scholar discussed in the webinar depicts that the average share of power and energy cost observe a percentage point drop after the implementation of RCET policy and stands at 32 percent of the conversion cost. Sales value as total revenue and revenue generated through exports increased by 14 percent at the aggregate level, on the other hand, revenues from local sales raised by 19 percent. Similarly, subsectors of spinning and weaving recorded growth in exports as well as local sales. However, the quarterly comparison shows a 22 percent rise in sales in the first quarter of 2021, as it compared with the period of the previous year. The recent surge in the initiatives of investment in the textile industry can be compared to approximately stagnant investment growth just before the RCET policy divulged a positive spill-over outcome of the policy. Findings indicate that a 10 percent enhancement in energy tariff causes a 1.1 percent fall in investment in the textile sector of Pakistan. The average capital employed is about R.s 3.8 billion in the listed units of textile. About 75 percent of units operating in the textile sector undertake new investment initiatives due to the fall of the energy tariff.

Ground realities

Employment to the energy and power sector elasticity reflects that 10 percent rise in energy tariff makes a firm on average lay off 62 employees and number of textile units which are operating are around 521 and 10 percent increase will bring loss of 32,302 employment opportunities. On average every unit engaged 2.303 individuals by creating opportunities. Consequently, around 14 textile units will be on the brink of closing if the energy tariff increased by 10 percent.

What is DLTL?

Recently it is suggested that RCET should be replaced with a duty drawback on local taxes and levies (DLTL) schemes. This scheme is proposed for zero-rated Export Oriented Units (EOUs). Filing a return at the exporting stage, they will receive funds against the energy tariff which is paid during the process of production. DLTL might be considered more complicated and inefficient in bringing extra documentation cost, time, and delay.

Concluding Remarks

- The competitive rate of tariff will help in creating job opportunities in the market and a 10 percent increase will bring 1.1 degrees of investment which shows that the relation between tariff and investment is negative. Government should provide relief and set a mechanism to bring improvement in entire supply chain management efforts.
- One of the major problems of falling down the rate of production of cotton is the skewed distribution of land. Let's make a case like Taiwan to boost the deprived sector and it can be only possible via some kind of land reforms. A second important concern is the lack of backward linkages; exports are not growing at the rate which we want. To overcome these problems, the industry should work as per the taste of the people and make itself flexible to absorb the technological shocks (Aqdas Afzal).
- To compete with the competitors, we should redress the meaning of competitiveness, sector has to show some ability to move towards value-added products. On the other hand, to increase productivity and efficiency an increase in the linkages between academics and the textile industry is required. Develop a complete performance-based mechanism that supports the innovation process both in production and promotion of the product side to enhance the market and to maintain the international standards (Khadija Malik Bari).
- If the government is unable to provide energy at regional prices then it should provide a level playing field to all the players, allow the industrialist to produce energy to meet their day to day needs, so that they can boost their business and bring the market from 25 million dollars to 100 million dollars. They can easily import gas from international markets and can pay tariffs for the welfare of the industry (Gohar Ejaz).
- The procedure of development can be divided into parts, in the short run the reliance on textile is higher so give it incentives but in long run, more focus should be on value-added and efficiency (Sartaj Aziz).



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