



## COUNCIL OF ALL PAKISTAN TEXTILE ASSOCIATIONS

### Open Letter to the Excellency Mr. Imran Khan

Honourable Prime Minister of Pakistan

#### TRUE PICTURE BEHIND THE INCREASE IN GAS TARIFF APPEAL TO FREEZE UTILITY TARIFFS OF EXPORT ORIENTED SECTORS TO PROVIDE LEVEL PLAYING FIELD AND SUSTAINABILITY IN THE GLOBAL MARKET

The Export Oriented Industries are in a state of shock and uncertainty to learn that Ministry of Energy (Petroleum Division) has moved Summary to the ECC of the Cabinet to raise gas tariff of zero-rated industry and their captive power to \$6.5/MMBTU (Rs1,000/MMBTU) from the previous tariff Rs786/MMBTU, apparently to give cross-subsidy to other sectors, which will prove as final nail to the coffin of Export Industry which is already in ICU and bleeding due to exorbitant cost of manufacturing, severest ever liquidity crunch, shortage of utilities and cut-throat competition. Relevant to mention that the Ministry of Commerce had assured the export industry that Rs600/MMBTU would last for a period of three years while, previously, raising the tariff from Rs488 to Rs600 including GIDC. However, after appreciation of dollar, the tariff of Rs786/MMBTU equivalent in dollar terms was imposed one-sidedly.

The current grave scenario demands to look into the facts and in this regard, the SSGC's Weighted Average Cost of Gas (WACOG) is Rs525.15 and lowest price is charged Rs121 and highest price is charged Rs1460/-. (Source: SSGC's Review Petition for Estimated Revenue Requirement FY 2019-20 decided by OGRA).

The Export Oriented Industries profoundly recognize the vision of your Excellency to enhance the exports and appreciate your thoughtfulness and assurances given to the Business & Industrial Community that the Govt. will take all necessary steps and measures to reduce the cost of manufacturing and bring at par with the regional competing countries. Your Honour has, time and again, emphasized that Pakistan's bright future relies upon enhancement of exports.

We are surprised that contrary to your vision as the Prime Minister of Pakistan, the Ministry of Energy (Petroleum Division) has planned to burden the export industry with further increase in gas tariff seemingly to subsidize other sectors. Average Domestic Gas Tariff is Rs234/MMBTU and Fertilizer is Rs123/MMBTU while the tariff of Export Industries and their captive power tariff is Rs786/MMBTU. Major portion i.e. 2/3 of the price of domestic and fertilizer is charged from the Industries (calculation is based on SSGCL statement of Gas Sales Revised Estimates ERR FY 2017-18).

If the Govt. endeavours to give subsidy to different sectors particularly to Fertilizer for Food Security and to domestic as help to pro-poor, we firmly believe that it should be given through proper allocation in the Budget for the purpose like Govt. makes allocations in Budget for Power Sector. Fact is that in gas tariff, these subsidies are met through cross-subsidies which are enhancing cost of manufacturing of our export industries and making them uncompetitive in the global market.

**YOUR EXCELLENCY, IN VIEW OF ABOVE, MAY PLEASE IMMEDIATELY TAKE NOTICE:**

- **WHY CROSS SUBSIDY IS PAID FROM THE ACCOUNT OF EXPORT ORIENTED INDUSTRIES, WHICH IS THE LIABILITY OF THE GOVT.?**
- **WOULD IT BE WISE TO FURTHER ENHANCE THE COST OF MANUFACTURING TO SUBSIDIZE OTHER SECTORS?**

THE INDUSTRIES UNDERSTAND THAT YOUR HONOUR HAS BEEN PORTRAYED A MISLEADING AND UNTRUE PICTURE WITH MISINFORMATION BY CERTAIN QUARTERS HAVING VESTED INTEREST.

Your Excellency's dream of prosperous, productive and progressive Pakistan through doubling the exports in three years shall come true only when export sector is provided level playing field, fair and viable environment and should not be charged which is not due on the export sector.

Therefore, Export Oriented Industries demand a fair tariff which is the actual cost of Gas minus cross-subsidies. On one side the Government wants to help in many ways to reduce the cost of manufacturing and on other side taking huge amount in shape of cross-subsidy. Honourable Sir, proposed increase in Gas Tariff would be gross injustice to Export Oriented Industries of Karachi and shall be seen as violation of Article 158 of the Constitution as Sindh Produces almost 70% of Country's Gas Production and utilizes only 1200 MMCFD, out of this only 380 MMCFD is utilized by the industries of Sindh. In this 380 MMCFD, the textile export oriented industries of Karachi, which exports more than 54% of nation's textile exports, consumes only 180 MMCFD.

Export Oriented Industries would appreciate the Govt. to support the sector responsible for 54% of nation's textile exports and at least export sector should be charged the actual Weighted Average Cost of Gas (WACOG) to make the export industries competitive in the global market for enhancement of exports which is also the mission of your Government. If Govt. decides in all fairness to give relief to export oriented sectors from the burden of cross-subsidy then it is simple mathematics that instead of increase in gas tariff, Govt. can lower the tariff of export oriented sectors by approx. Rs261/MMBTU.

Your Honour is also aware that recently, subsidy on Power Tariff given to Export Industry has been withdrawn by Power Division without the approval of Cabinet, and Fuel Adjustment Charges (FAC) has imposed retrospectively and previous electric tariff which was approx. Rs11.71 (7.5 cents) has been enhanced by Rs4.79/- plus advance Income Tax @ 5% is also being collected whereas exports are subject to full and final liability @ 1% at the shipment stage. Here, it is worth-mentioning that inspite Your Excellency's verbal orders during meetings with Business Community of Karachi that K-Electric must give this tariff immediately but till to date K-Electric has not paid any heed to your orders. It would be in the larger interest of exports that Govt. should keep its announced power tariff of 7.5 cents inclusive of all charges intact across Pakistan including Karachi.

**We believe it is the responsibility of the Govt. to maintain the competitive edge of the industry against the regional competitors if the Honourable Prime Minister's vision of exports led growth is to be achieved.**

- Council of All Pakistan Textile Associations
- Pakistan Apparel Forum
- Towel Manufacturers Association of Pakistan
- Pakistan Cloth Merchants Association
- Pakistan Bedwear Exporters Association
- Pakistan Denim Manufacturers & Exporters Association
- All Pakistan Textile Mills Association (Southern Zone)
- All Pakistan Textile Processing Mills Association
- Pakistan Hosiery Manufacturers & Exporters Association
- Pakistan Readymade Garment Manufacturers & Exporters Association
- Pakistan Knitwear and Sweater Exporters Association
- Pakistan Cotton Fashion Apparels Manufacturers & Exporters Association