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Deregulation policy framework: Violators to face Nepra action

MUSHTAQ GHUMMAN

ISLAMABAD: The government is said to be committed to taking action against Oil Marketing Companies (OMCs) and dealers through Oil and Gas Regulatory Authority (OGRA) in case deregulation policy framework is violated on marketing of diesel oil conforming to Euro-IV and Euro-V specifications, well informed sources told Business Recorder. Giving the background, sources said marketing of petroleum products in Pakistan was being deregulated in a gradual manner since the last 15 years. In the first phase, import and pricing of furnace oil was fully deregulated. Import of remaining products like diesel and petrol had also been deregulated and OMCs were allowed to procure from international market on a cost competition basis as per their commercial requirements.

However, pricing of these products was being monitored by OGRA. Pakistan needed to improve both quality and standards of the petroleum products being produced/imported by OMCs.

Accordingly, marketing of 92 RON PMG was introduced under the regulated regime, as main grade petrol, since November, 2016.

The entire imports of diesel oil in the country have been shifted to Euro-II specifications (0.05 wt% or 500 parts per million) since January 1, 2017. In addition, higher octane gasoline (95/97 RON PMG) has also been allowed under deregulated environment.

The source said in line with international environmental standards and regulations, the next step was introduction of diesel oil conforming to Euro-IV (0.005 wt% or 50 PPM) and Euro-V (0.001 wt% or 10 PPM) specifications. Euro-IV & V grades contain lower sulphur contents and help in providing reduced environmental impact due to lower emissions.

A comparative price analysis of the two grades with existing Euro-II imports by PSO for last four months showed average differential of Rs.1.4l/Ltr and Rs.2.43/Ltr for Euro-IV and Euro- V respectively. Another comparison based on FOB prices (excluding C & F premium) in Arab Gulf-market for last two years showed average differential of Rs 0.42/Ltr and Rs.0.45/Ltr for Euro-IV and Euro-V respectively for the period from May 2016 to April 2017.

According to sources, Petroleum Division proposed that OMCs may be allowed to import and market Euro-IV and Euro-V diesel oil in completely deregulated environment, in accordance with following policy framework and applicable detailed product specifications: (i) all OMCs having confirmed license can import and market Euro-IV (50 PPM) and Euro-V (10 PPM) HSD, as a deregulated fuel, at their own risk and cost. Local refineries would also be eligible to produce these products under deregulated regime; (ii) Euro-II (500 PPM) HSD will remain the main grade diesel oil and would continue to be a regulated product with no change in its pricing mechanism; (iii) being deregulated products, IFEM shall not be applicable on Euro-IV and Euro-V HSD grades. Further, these grades will not be transported to up-country through white oil pipeline; (iv) distributor and dealer margins for Euro-IV and Euro-V HSD grades shall be set by the respective OMCs at a reasonable level; (v) collection of taxes/levies applicable on the main grade HSD will apply on Euro-IV and Euro-V HSD, as per existing mechanism; (vi) OMCs shall announce retail prices of Euro-IV & V, which shall be displayed and advertised regularly. OMCs shall also ensure that dealers do not indulge in unfair profiteering. OGRA shall monitor the end selling price of these products set up by the OMCs; (vii) Euro-IV and Euro- V HSD shall be supplied through

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separate dispensers at retail outlets and OMCs shall develop separate/dedicated storage facilities at Karachi main installations, up-country depots and retail outlets; (viii) these products shall conform to the specifications approved by the Government for the purpose, while quality/quantity testing procedure for these grades would remain the same, as being currently followed for regular imports. OGRA and HDIP shall undertake random checks at retail outlets for quality assurance/monitoring; (ix) OMCs shall ensure that no adulteration is witnessed while marketing of these products at their retail outlets. For that purpose, OMCs shall add Fuel Marker in these products within a time period specified by Petroleum Division, Ministry of Energy, if required; and (x) Oil Companies Advisory Council (OCAC) shall maintain import/sales data of these products procured and marketed by each OMC.

At a recent meeting Minister for Finance, Revenue & Economic Affairs, Senator Ishaq Dar supported the proposal of Petroleum Division regarding marketing of diesel oil conforming to Euro-IV and Euro- V in the country, subject to the condition that Government of Pakistan (GoP) would intervene through OGRA in a situation where OMCs and dealers would violate the policy framework in the matter. The sources said the meeting decided that no financial obligation would be placed on government while introducing the new grade specified import and marketing of the subject diesel oil in the country.

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Investments in offshore companies: FBR indecisive about audit of taxpayers

MUHAMMAD ALI

KARACHI: Federal Board of Revenue (FBR) appears vacillated to carry out audit against the taxpayers, having investments in offshore companies, despite the lapse of over 10 months; it was learnt.

According to sources, the board after Panamagate initiated audit exercise against the taxpayers, having investments in offshore companies. For the purpose, FBR has issued numerous notices across the country and asked the taxpayers to produce complete details about the investments in offshore companies.

Moreover, sources said that board had issued around 400 notices to the registered persons including businessmen, politicians, etc only in Karachi and initiated audit exercise under section 177 of Income Tax Ordinance, 2001.

However, the board after the lapse of over 10 months had neither pursued the audit against the taxpayers, having investments in offshore companies nor closed the same, hanging the taxpayers in the balance, they maintained.

Replying to a question, sources said that the tax office informed the taxpayers when approached that FBR did not communicate any SOP in this regard therefore they were unable to pursue their audit.

When contacted FBR officials, on a condition of anonymity said that board was presently not in a position to initiate extensive audit exercise against these taxpayers, due to inadequate information regarding their investments in offshore companies.

They said that although the board had now become signatory to exchange information with 63 countries, the development of the system for the purpose was in initial stage therefore the exchange of information was presently a formidable task.

Furthermore, the sources said: “Once the system is developed, audit exercise against the taxpayers, having investments in offshore companies countrywide will be conducted at massive scale.

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THE RUPEE
Recover modestly

RECORDER REVIEW

KARACHI: The rupee managed to recover slightly against the dollar on the money market, during the week ended on Sept 16, 2017.

In the open market, the rupee picked up 10 paisas in terms of the dollar for buying and selling at Rs 105.60 and Rs 105.80, the national currency, also gained against the euro, picking up 50 paisas for buying at Rs 125.00 and it also rose by 25 paisas for selling at Rs 126.25, they said.

In the inter-bank market, the rupee sustained it's month long stable trend, showing no change for buying and selling at Rs 105.39 and Rs 105.41.

During the week, the rupee tumbled versus the dollar but it managed to sustain it's level mainly because of comfortable supply of dollars.

Commenting on the future direction of market, some experts said that the rupee may keep stable trend versus the dollar in times to come.

OPEN MARKET RATES: On Monday, the rupee sustained last levels in relation to the dollar for buying and selli9ng at Rs 105.70 and Rs 105.90. While, the rupee gained 50 paisas in terms of the euro for buying and selling at Rs 125.50 Rs 126.50.

On Tuesday, the rupee picked up 10 paisas versus the dollar for buying and selling at Rs 105.60 and Rs 105.80. The rupee was trading against the euro for buying and selling at Rs 125.00 and Rs 126.50.

On Wednesday, the rupee sustained last levels in relation to the dollar for buying and selli9ng at Rs 105.60 and Rs 105.80. While, the rupee shed 40 paisas in terms of the euro for buying and selling at Rs 125.40 Rs 126.70,. On Thursday, the rupee shed 10 paisas in relation to the dollar for buying and selli9ng at Rs 105.70 and Rs 105.90. The rupee, however, picked up 80 paisas in terms of the euro for buying and selling at Rs 124.50 Rs 126.00.

On Friday, the rupee firmly held the overnight levels in relation to the dollar for buying and selli9ng at Rs 105.70 and Rs 105.90.

The rupee, however, lost 80 paisas in terms of the euro for buying and selling at Rs 125.30 Rs 126.70.

On Saturday, the rupee picked up 10 paisas in relation to the dollar for buying and selling at Rs 105.60 and Rs 105.80.

The rupee also gained 30 paisas in terms of the euro for buying and selling at Rs 125.00 Rs 126.25.

INTER-BANK MARKET RATE: The whole week, the rupee did not show any visible change against the dollar for buying and selling at Rs 105.40 and Rs 105.41.

OVERSEAS OUTLOOK FOR DOLLAR: In the first Asian trade, the dollar edged higher, pulling away from last week's lows against its major rivals after North Korea marked the anniversary of its founding without resorting to any further missile or nuclear tests.

Instead North Korea observed the 69th anniversary of its founding on Saturday with a celebration honouring the scientists behind the massive nuclear test it conducted last week.

The dollar index, which tracks the US unit against a basket of six major currencies, was 0.2 percent higher at 91.522, after skidding to a 2-1/2 year low of 91.011 on Friday.

The dollar was available versus the Indian rupee at Rs 63.85, the greenback was at 4.199 in terms of the Malaysian ringgit and the US currency was at 6.505 versus the Chinese yuan. Inter bank buy/sell rates for the taka against the dollar on Monday: 80.70-80.70 (previous 80.70-80.70).

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In the second Asian trade, the dollar held on to most of its gains on Tuesday, following a sharp rebound on improving investor risk sentiment as worries over North Korea and Hurricane Irma receded.

The dollar index, which tracks the greenback against a basket of six major rivals, was steady at 91.874, after it skidded to a 2-1/2-year low of 91.011 on Friday.

The dollar was available versus the Indian rupee at Rs 64.000, the greenback was at 4.204 in terms of the Malaysian ringgit and the US currency was at 6.546 versus the Chinese yuan.

In the third Asian trade, the dollar was buoyant against the yen, although it was capped against the euro with a potentially supportive spike in US yields neutralised by a similar move by their German counterparts.

The dollar was a shade lower at 110.085 yen after rising earlier in the session to 110.295, its highest since Sept. 1.

The greenback was available against the Indian rupee at Rs 64.01, the US currency was at 4.198 in terms of the Malaysian ringgit and the dollar was at 6.529 versus the Chinese yuan.

In the fourth Asian trade, the US dollar's rally paused as traders waited for consumer inflation data later in the day for clues on whether the Federal Reserve will maintain its gradual pace of credit tightening.

The US dollar was at 110.47 yen, steady from the late trade in the US on Wednesday. It earlier rose to 110.735 yen, the highest since Aug. 16.

The currency drew additional help from vague but renewed hopes on President Donald Trump's tax cuts plans as he reached out to both Democrats and Republicans, even though there remain doubts on whether he can clinch a deal with a divided Congress.

The dollar was trading against the Indian rupee at Rs 64.10, the greenback was at 4.199 in terms of the Malaysian ringgit and the US currency was at 6.544 versus the Chinese yuan. Inter bank buy/sell rates for the taka against the dollar on Thursday 80.73-80.73 (previous 80.70-80.70).

In the final Asian trade, the yen held steady against the dollar, having risen earlier as North Korea fired a missile over Japan into the Pacific Ocean, rekindling investor concerns over geopolitical risks.

The dollar war available against the Indian rupee at Rs 64.09, the greenback was at 4.190 in terms of the Malaysian ringgit and the US currency was at 6.550 versus the Chinese yuan.

At the weekend, the dollar weakened against most major currencies, weighed down by an unexpected decline in US retail sales last month that once again dimmed expectations for an interest rate increase in December.

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Trade deficit challenge

Prime Minister Shahid Khaqan Abbasi recently chaired a meeting to review Pakistan's trade balance and while he appreciated the improvement of exports in August in comparison to July (to 196.4 billion rupees from 172.9 billion rupees) yet, given the rise in the trade imbalance, he considered short- and medium-term measures proposed by the Ministry of Commerce to reverse this disturbing trend. Proposals consisted of not only export promotion measures and their implementation but also import reducing measures, including imposition or enhancement of regulatory duties.

For July and August 2017 in comparison to the year before, the Pakistan Bureau of Statistics (PBS) notes an improvement – exports rose from 327.45 billion rupees in 2016 to 368.4 billion rupees in 2017 while imports rose from 820.5 billion rupees to 1.031 trillion rupees in 2017. The trade imbalance, however, rose from negative 493 billion rupees in the first two months of 2016 to 662.8 billion rupees in July-August 2017 or a whopping rise of 34.42 percent – data that should raise the hackles of any government.

Trade figures show a steady rise in the trade imbalance during the entire tenure of the PML-N government. In 2012-13, the trade deficit as per the State Bank of Pakistan website was negative 15.3 billion dollars, in 2013-14 (the first year of the PML-N government) it rose to 16.59 billion dollars, in 2014-15 it rose further to 17.26 billion dollars and last year the trade deficit rose further still to negative 19.28 billion dollars. In other words, there has been an annual rise in the trade deficit since the PML-N took over the government and this is in spite of the fact that the international oil and products' prices plummeted during this time period which had previously accounted for a sizeable import bill.

It is relevant to note that export promotion measures amounting to 180 billion rupees that were announced by the then Prime Minister, Nawaz Sharif, in January this year sadly remain largely unimplemented because of the clause that their applicability be limited to those who show a 10 percent increase in exports. Exporters have lamented this clause and pointed out that without the incentives, the likelihood of a rise in exports is unlikely given that our productive sectors are struggling with higher input costs relative to our competitors (higher energy costs, higher transport costs due to heavy reliance on taxes on oil and products as a revenue source for the government, and delays in refunds. No doubt, these factors compel the exporter to borrow to meet his liquidity needs which, in turn, raises the input costs further). In addition, an overvalued rupee negatively impacts on the competitiveness of our products in foreign markets (even though the electricity tariff is determined in US cents which implies an overvalued dollar would effectively reduce input costs).

The rise in the trade imbalance needs to be tackled forthwith and in this context, one must appreciate the efforts of the Prime Minister and the Commerce Minister who are clearly brain-storming on the appropriate measures that need to be put in place to resolve this issue. This is in marked contrast to the four-year Sharif administration where this issue was not dealt with in an effective manner. So far, the Prime Minister has only held several meetings and discussed various proposals to deal with rising imports and declining exports; however, it is time to announce measures and initiate their implementation because with each day's delay the trade imbalance is deteriorating, placing ever-rising reliance on foreign borrowing.

The prime Minister has also reportedly directed Pakistani diplomatic missions abroad to serve as economic and trade ambassadors – a plea that has been made by nearly all of his predecessors with little or no success. Perhaps the time has come to set quantifiable goals which if unmet reflect on their performance reports.

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Power situation today

Anjum Ibrahim

Prime Minister Shahid Khaqan Abbasi, while inaugurating the country's fifth nuclear power plant (C-4) reiterated PML-N's commitment to the country dating from the party's 2013 manifesto: an end to load shedding though the scheduled achievement date has been periodically amended: from six months during the run up to the 2013 elections when the PML-N was not in power in the Centre, an unrealistic date, to December 2017 or four years and seven months after its tenure began.

The question facing the country today is if this objective would be achieved by: (i) adopting a phased well researched and therefore a well formulated approach to ending load shedding; (ii) improved governance of the sector (with an implicit assumption that the debilitating circular debt would be eliminated); and (iii) electricity tariff would be comparable to that available to regional productive units to enable our industry to effectively compete in the international market in general and the regional market in particular as well as in the domestic market given our large porous borders.

The priority of the PML-N government since day one, when it took over the reins of government, was to focus almost exclusively on increasing generation through the launch of mega projects that required considerable borrowing from multilaterals as well as bilaterals. This approach contradicted the findings of numerous studies, including a third party audit of the controversial rental power projects on the instructions of the Gilani-led cabinet in 2010 by the Asian Development Bank (ADB). This audit noted the wide divergence between the country's generation capacity around 23000MW (which was less than the managed demand) and actual generation which hovered at less than 10000MW during peak demand summer months. With demand at around 18000MW in the summer, the shortfall has gone up to as high as 6000 to 8000MW reflecting 12 to 15 hours load-shedding in cities and more than 18 hours in rural areas. During the winter, the shortfall is around 2500 to 4000MW, however, the gas shortfall then becomes a major problem.

Those who are baffled at the scale of load-shedding during last year after tall claims of the improvements in the sector - both generation wise and governance – must heed the following observations of the Economic Survey 2016-17: "during July-March 2017 although installed capacity increased to 25.1 million MW from 22.9 million MW during the corresponding period last year however there was a decline in generation as it remained 85,206 GW/h during July-March 2017 compared to 101,970 GW/h during July-March 2016." The Survey also estimated total generation in 2016-17 at 108,408 GW/h, while installed capacity was 23,718 million MW. In July-March 2012-13 (nine months of the tenure of the PPP-led coalition government) generation was estimated at 104,089 GW/h while installed capacity was 22,812 million MW – an increase of 4 percent in installed capacity (or less than 1000 million MW) and 12 percent in generation.

In April 2017, the country was experiencing massive load-shedding on a scale higher than what was witnessed during the last summer of the tenure of the PPP-led coalition government. Khawaja Asif, the then Water and Power Minister, claimed that unseasonably high temperatures were to blame. Be that as it may, the energy sector was unable to achieve capacity generation for the past four years for various reasons including: (i) the rise in the circular debt that was illegally written off by Ishaq Dar on the second last day of fiscal year 2013 - the objective being to unfairly lay the blame for the resulting rise in the budget deficit on the PPP government; however, sadly the circular debt today is higher than what the PML-N inherited in 2013 and the

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burden of the interest payable on past as well as additional borrowing is being borne by the public as is the rise in security costs under the umbrella of energy projects of the China Pakistan Economic Corridor; (ii) high cost of production of state operated generation companies (Gencos) due to high level of mismanagement and inefficiency. With 64 percent of generation based on the relatively expensive thermal in 2017 as opposed to the lower 62 percent sourced to thermal in 2016 indicates why the cost of electricity is rising in spite of the decline in the international price of oil and products. Khawaja Asif was asked to comment on consumers paying rates 27 per cent higher than those approved by the regulator Nepra and earning an annual windfall of 228 billion rupees and his response was an eye-wash: "since the matter is now before the court, we will state our position there;" (ii) natural annual fluctuations in hydel power generation sourced to the amount of water in the system which normally declines during winters (with maintenance of canals in December accounting for minimal hydel generation during this period and waiting for the snows to melt to experience a rise in water levels in spring), however between 2017 and 2016, the share of hydel in electricity in generation plummeted by 4 percent – from 34 to 30 percent; (iii) losses/receivables declined as the government embarked on the policy to enhance load shedding where receivables were high. The government claims it has reduced these losses by around 1 percent – an insignificant gain; and (iv) transmission lines are as per the Secretary Water and Power in 2013 were only capable of carrying a load of 15000MW which the PML-N government claims has been increased by 1500MW – a rise insufficient to take account of the projected rise in generation.

New generation as well as import projects were and continue to be inaugurated amidst much fanfare by the PML-N government. Three observations are in order. First and foremost, the LNG deal with Qatar which was cited by the former Petroleum Minister and the incumbent Prime Minister Abbasi as the only way to meet Pakistan's present and future electricity demand needs to be uploaded on its website in its entirety without any editorial black outs like the Iran Pakistan gas pipeline deal during the PPP led coalition government. In comparison to the Zardari-led PPP government the Sharif and now the Abbasi-led PML-N has clearly been a lot less transparent. Secondly, regulators perform a very critical function in terms of protecting consumer interests and unfortunately the PML-N government has, again unlike the PPP, deliberately compromised their independence by bringing them under the administrative control of the line ministry. And finally, the coal-fired plants may generate electricity but locating them away from the port or the domestic coal-source would fuel health issues and costs may be much greater than the benefit of enhanced electricity.

The decline in the international price of oil during most of the PML-N ongoing tenure allowed the government to lower tariffs and the industrial sector to experience a decline in input costs. However, tariffs remained higher than those prevalent in our neighbouring countries disabling our productive units from effectively competing in the international and domestic markets. The household sector no doubt would indeed respond positively to negligible load shedding, a voter gainer in 2018 elections, however if the productive sectors unable to compete begin to close down, as has been evident in recent years, then with lower employment levels more and more unemployed would be unable to pay their electricity bill. To conclude, there is an emergent need to revisit the power policy and governance.

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Indicators improve as uncertainty subsides

Mohiuddin Aazim

Exports have started growing. Remittances are up. And, inflows of foreign investment are getting thicker. The external sector outlook is better now than at the end of the preceding fiscal year.

Concerns remain, however. Uncertainty about forex flows from the US mingled with fears of all kinds: swelling import bills, huge foreign debt servicing and, last but not the least, accelerated outward repatriation of funds by foreigners and multinational corporations working in Pakistan.

Export earnings in July-August rose 11.8 per cent to $3.497 billion from $3.128bn a year ago. Detailed statistics for August have yet to be released, but it is safe to assume that the rise in July-August exports would be broad-based keeping in view the trend seen in July.

Even textile exports for July-August might show signs of a rebound, officials of the Trade Development Authority of Pakistan (TDAP) say, adding that these exports recorded a modest rise in July while August shipments continued to depict a rising trend.

After Shahid Khaqan Abbasi took office as the new prime minister, export-oriented industries heaved a sigh of relief and now seem to be working with renewed vigour.

Before that, the political uncertainty that prevailed in the country led to suspension of routine work at the federal minister's level and made exporters nervous.

Export earnings rose 11.8 per cent year-on-year to $3.497 billion in the first two months of the current fiscal year

This, too, along with some known structural issues like disrupted energy supply, high cost of doing business, lack of product innovation and insufficient value addition in export products, were taking a toll on exports. With political uncertainty easing, exporters are now focusing on business. The recent rise in exports is seemingly a result of this plus along with the relief provided in energy supply.

Officials of TDAP point out export earnings started rising from the third quarter of FY17 and continued in the fourth quarter as well. But this fact is often ignored as overall exports in the previous fiscal year fell slightly (1.63pc) to $20.448bn from $20.787bn a year ago.

"If you want a reason to be optimistic, look at export earnings on a calendar-year basis," one of these officials insisted, quoting official data from the Pakistan Bureau of Statistics which revealed that January-August exports showed a rising trend in six out of the eight months.

"We saw a declining trend only in February and then in May when goods transporters went on a 10-day strike and the PTI were holding public rallies in big cities against the government."

Just like exports, remittances sent back home by overseas Pakistanis also saw a rising trend in July-August. And this trend came towards the end of the last fiscal year — a fact that was not highlighted very much as overall remittances in FY17 fell 3pc year-on-year to around $19.304bn, according to SBP data.

In July-August, remittances rose 3.2pc to $3.496bn from $3.089bn in the year-ago period. Bankers link it to improved system for handling remittances' flow and the facility of online delivery of remittances to their beneficiaries in Pakistan.

They also cite stricter measures taken to curb inflow of remittances through unofficial channels as a key factor. But these factors had been in place well before the beginning of this fiscal year.

Increase in remittances from the GCC region is, perhaps, more due to firm oil prices and improvement in host economies of overseas Pakistanis in that region.

"But rise in remittances from GCC countries is also attributable to the fact that investment in the real estate market of the UAE by Pakistanis living in that region has slowed down and many of them are now investing funds in avenues of investment available in Pakistan, including the real estate," says a senior executive of a local bank.

Besides the increase in remittances in August is also a reflection of larger forex inflows from overseas Pakistanis to their families for sacrificing of animals as Eidul Azha fell on Sept 1-3 this year.

Net foreign direct investment that went up in FY17 to $2.4bn from $2.3bn in FY16 also showed a big jump in the first month of FY18. In July this year, net FDI

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surged to about $223 million from around $85m in July last year.

FDI data for July-August would be out by the time this write-up is published. Officials of the Ministry of Finance anticipate continuation of the rising trend pinning their hopes on CPEC-related funds in the pipeline.

Meanwhile, the inclusion of five additional Pakistani stocks on FTSE Asia-Pacific ex-Japan index from this month is expected to reinvigorate foreign investors' interest in our stock market.

That, along with the easing of political uncertainty in Pakistan, may brighten the outlook for our foreign portfolio investment that remained negative in the past two years after witnessing a net inflow of $917m in FY15, stockbrokers say.

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Local cotton prices experience volatility as US market eases

Mohiuddin Aazim

COTTON prices on the local market firmed in early September due to increased buying and a spike in US prices after two powerful hurricanes, Harvey and Irma.

But as US prices softened after fears for extensive damage in cotton-growing states subsided, a reflection of it was seen on the local market as well. As a result, ex-Karachi cotton spot rate fixed by the Karachi Cotton Association (KCA) fell to Rs6,639 per 40 kilograms on Sept 12.

On Sept 11, the spot rate was Rs6,742, which was Rs210 higher than the price quoted exactly two weeks ago, ie prior to the Harvey and Irma impact on US cotton prices. The average US cotton price eased to 71.73 cents per lb on Sept 11 after hitting a high of 75.59 per pound on Sept 8 amid fears Hurricane Irma could damage the crop.

It is difficult to say at this stage whether we are going to get 12.6m bales or 13.75m bales or even more, cotton traders say

Market sources say the easing of prices on the New York cotton market, for the time being, has halted the constant upward movement in local prices seen between Aug 28 and Sept 11.

However, cotton prices may remain firm because of the impact of end-August and early September rains in Sindh and brisk local buying, which is due to gather momentum in the coming weeks and months, brokers say. Some of them, however, expect prices to remain range-bound until spinners start big purchases.

Even before rains, the Cotton Crop Assessment Committee (CCAC) scaled down its output estimate from 14.1 million bales (1 bale = 170kg) to 12.6m bales in its Aug 10 meeting.

However, in the same meeting the committee took note of the encouraging field reports regarding a 5.7 per cent rise in per-acre plant population and up to 40pc increase in balls per plant.

Based on those reports, the committee's chairman, Hassan Iqbal, was hopeful that the eventual cotton outlook would improve and said production could even touch 14.1m bales.

But that assessment was made before early September rains in Sindh. Field reports from Sindh now suggest that rains have affected the cotton crop.

So, it is difficult to say at this stage whether we are going to get 12.6m bales or 13.75m bales (as is now being speculated after encouraging reports coming from Punjab cotton fields) or even more, cotton traders say.

Market sources say the easing of prices on the New York cotton market halted the constant upward movement in local prices seen between Aug 28 and Sept 11

Initially, Sindh was expected to produce 4m bales of cotton during this year. But due to the fact that only 94pc of the sowing target could be achieved and rains have affected cotton crops in several districts, actual production may remain somewhere between 3.6 and 3.8m bales, according to an official of the Sindh agriculture department.

In Punjab, too, cotton output is likely to remain below the original estimate of 10m bales but somewhat higher than the Aug 10 estimate of 8.9m, according to sources in the cotton market.

"Cotton prices are expected to remain firm at their current levels or they can even rise further if China starts imports," another KCA official says, referring to media reports about possible purchase of Pakistani cotton by China.

On the other hand, demand from the local textile sector should also remain higher this year than the previous year given the fact that the textile sector is making all-out efforts to boost exports.

Pakistan's total exports in July and August rose 13pc in dollar terms, according to the revised data of the Pakistan Bureau of Statistics. It is safe to assume that textile exports have risen too. This would be confirmed shortly after the release of detailed stats.

Some cotton brokers point out that even after a cut in forecast by the CCAC, the prices did not move up because spinning mills whose cotton yarn and fabric sales had slumped last year were cautious in making large purchases.

In fact, prices fell by up to Rs500 per 40kg in the two weeks to Aug 18 on slow local buying amid the beginning of seed cotton arrivals from Punjab.

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Yarn and fabric manufacturers have accelerated their buying, which is expected to gain momentum as those manufacturers who were initially cautious in buying may come in for big purchases after the softening of prices from Sept 12, cotton brokers say.

But it would be interesting to watch price movements after the release of the latest report of the International Cotton Advisory Committee (ICAC), which has forecast 4.35pc increase in global cotton output (to 25.14m tonnes in 2017-18 from 24.9m tonnes a year ago) despite the impact of Hurricane Harvey.

The report talks about a 17pc rise in Pakistan's output compared to last year. However, since our last year's output remained low, at 10.726m tonnes, such a rise would be insufficient to cover our local demand, particularly amid hopes of a revival of textile exports.

Besides, the ICAC report talks about a 16pc decline in China's cotton reserves. That's why it is being anticipated that China may resort to imports and Chinese buyers may look towards Pakistani or Indian markets.

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Pakistan's water challenges

By Zeeshan Haider

Pakistani and Indian officials met for the second time in two months in Washington to find ways to resolve their long-running disputes relating to water distribution between the two neighbouring countries.

The two days of talks, brokered by the World Bank, focused on Pakistan's objections on Ratle (850MW) and Kishanganga (330MW) hydroelectric projects of India on Chenab and Jhelum which Islamabad says are designed in violation of the 1960 Indus Waters Treaty.

The World Bank, after the talks, said the meetings were part of a process to safeguard benefits of the 57-year-old Indus Waters Treaty.

Pakistan maintains it was given unrestricted use of Jhelum and Chenab – the two Western rivers in the Indus system while India was allowed unrestricted use of the three Eastern rivers of Ravi, Sutlej and Beas.

The officials from the two countries had met last month in Washington and exchanged proposals to address each others' concerns.

The World Bank hailed the two sides for their "spirit of goodwill and cooperation" in August talks.

There is no report of any immediate breakthrough in the recent talks as they involve very complex issues.

Elena Karaban told media that "these meetings are a continuation of a discussion on how to safeguard the treaty for the benefit of the people in both countries."

However, a section of Indian media maintains that the talks themselves were sign of a "softening" of the tough stance of the government of Prime Minister Narendra Modi towards Pakistan.

Bimal Patel, one of the five members of India's National Security Advisory Board, criticised Modi government for consenting to attend World Bank-sponsored talks. He said it was "uncalled for", for it would perpetuate "third party role" in addressing the disputes between the two countries, which New Delhi has traditionally opposed.

"I don't know why we are going to the World Bank. We should not go to the World Bank. I fail to understand why they (the government) are doing this, inviting the World Bank to play a role which should not be there," the Indian media quoted him as saying.

The Modi government has virtually broken off bilateral talks after levelling unsubstantiated allegations that the attacks in Pathankot in the Indian Punjab and Uri in the Indian held Kashmir were orchestrated by Pakistan-based militants.

During the stalemate, the extremist Hindu government raised the possibility of using water as a weapon of war which drew strong reaction from Pakistan.

Islamabad in clear terms told the international community that any such attempt by India would be taken as a declaration of war between the two nuclear-armed neighbours, who have fought three wars since their independence from British colonial rule seventy years ago.

Pakistan has expressed growing concerns over Indian belligerence on water issue in recent years.

Those apprehensions were highlighted by the army chief general Qamar Bajwa in his speech on the Defence Day on September 6.

"India's naked injustice in Kashmir and its role in breaking up Pakistan are known to everyone," he told a big gathering of families of martyrs as well as government and military officials in Rawalpindi.

"Now these efforts have been expanded to include open support for terrorism and a desire to seize Pakistani waters."

Protecting its waters from aggression is all the more important for Pakistan because a deviation from the Indus Waters Treaty could affect Punjab, the province with over 110 million people accounting for almost half of Pakistan's population.

Punjab is also the country's breadbasket as it produces almost 60 percent of the country's total agricultural output.

Moreover, Pakistan has already been declared a water-stressed nation with some reports from international agencies warning that water scarcity constitutes a bigger threat than terrorism to the country. Some experts even drew a doomsday scenario by suggesting that the country could dry up by 2025.

However, it is regrettable that discussion on this vital issue is almost absent in our national discourse.

One can hardly find any informed discussion in our prime-time talk

shows as well as in our newspapers on this topic.

Even on water issues with India, instead of having an informed debate on how to tackle this issue and what are the challenges for the country, the discussions are often restricted to bombastic statements based on nationalistic verbose.

Ironically, it is not just general public that is unmindful of this important issue but it seems that key government figures too have no realisation of the seriousness of the water situation and upcoming challenges for Pakistan in this regard.

It is time for Pakistan to discuss whether the Indus Waters Treaty needs to be reviewed or discarded and what options are available to address this critical issue with India.

Earlier this year, the United Nations Development Program noted that the major reason behind the lingering dispute with India over water-related matters is Pakistan's negligence to carry out a sound analysis of trans-boundary water issues as well as delays by Islamabad to effectively raise the issues with India at the Indus Water Commission as well as with the World Bank when they could not be resolved bilaterally.

The Indus Waters Treaty has been touted as the most successful accord between any two estranged neighbours in the world over water issue, as it has survived wars and conflicts between the two countries since the treaty was signed in 1960.

However, a report by the United Nations development network released earlier this year observed that the survival of the treaty looks weak in view of the increasing water stress in the Indus basin since early 90s.

More importantly, Pakistan's water challenges are not just confined to issues related to India alone, but because of climate change, melting glaciers and evolving precipitation patterns it has become all the more important for Pakistan to try to address water related issues more seriously.

The previous floods, particularly in 2010, not only wrecked havoc in the country but a large amount of water was wasted because of absence of big reservoirs.

The situation urgently called for policy making to avoid such disasters in future, but no proper attention was given to this issue.

The Kalabagh Dam has been turned into a highly politicised issue and no serious effort has been launched by successive governments either to evolve a consensus or to explore tangible alternatives to this project.

Challenges for Pakistan on water front are deepening and becoming serious with the passage of time.

Pakistan needs to prepare a holistic water policy that covers all aspects of water security, failing which the country could face a formidable challenge in the coming years which would surpass all other challenges.

The writer is a senior journalist based in Islamabad

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Over a dozen cos want to invest in LNG business

INP

ISLAMABAD - Islamabad Chamber of Small Traders on Sunday said Pakistan can become an energy hub in the region as it borders China and India, two fast-growing and energy-starved nations. Central Asian and Iranian gas can flow to India and China through Pakistan which is the cheapest route for the both, it said.

TAPI pipeline is a 10 billion dollar project which can transport 33 billion cubic meter gas per day while it will benefit over 1.5 billion people, said Patron Islamabad Chamber of Small Traders Shahid Rasheed Butt. The pipeline would benefit a billion more if China starts getting the natural gas to spur its economy, he added.

Similarly natural gas from South Paras gas field of Iran will also improve energy situation through a 2775 km pipeline which can also be provided to India.

He said that LNG policy initiated by the government has proved successful and now over a dozen local and foreign companies are interested in LNG business which will transform Port Qasim into an energy hub.

The companies interested in installing regasification facilities include Lucky Group, Sapphire, Hallmore, Engro, Fatima group, Shell, Pakistan GasPort Consortium, Fauji Foundation, Exxon, Qatar Petroleum, Mitsubishi, Total and Höegh LNG.

He said that LNG was the only short-term solution to Pakistan's energy crisis as rest of the other methods to produce energy are either too expensive or too slow.

Previous governments had made several attempts to introduce LNG as a source of energy in the country, but only the PML-N government had succeeded in doing so, he said.

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Over 21pc growth in net tax collection

APP

ISLAMABAD - The net tax collection by Federal Board of Revenue (FBR) during the first two months of the current fiscal year increased by 21.02 percent as against the same period of last year.

The gross revenue collection during July-August (2017-18) witnessed growth of 24 per cent as compared to the corresponding period of last year, however after paying the refunds the net collection remained 21.02 percent.

The FBR paid refunds of Rs36 billion in July-August (2017-18) compared to the refunds of Rs17 billion in July-August (2016-17), according to official sources.

The FBR has also launched a robust awareness campaign utilizing electronic as well as social media for sensitizing existing as well as potential taxpayers to file their returns by the due date which is September 30, 2017.

An active liaison was being maintained with corporate employers to ensure maximum filing of income tax returns, they added. In the next phase trade bodies, tax bars and Chambers of Commerce and Trade would be engaged to facilitate and ensure filing of maximum number of returns.

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Economic integration

YUSUF H.SHIRAZI

The present Economic Package is a subject matter of great concern these days. Briefly, the prevalent highest rate of customs duty stands lowered to 35% from 65%, with across the board reductions having been made in several items. At the same time sales tax is at a rate of 17% together with varied rates of excise duty on a number of items – an unusual phenomenon all over the world in the field of taxation. The combination of these multiple taxes have given rise to several anomalies; for example, the custom duty has been reduced on the imported spare parts and components, while customs duty on the raw materials used in manufacturing these very parts and sub-assemblies locally remain as high as before. In fact, in several cases it has been increased! Where there is excise duty no sales tax is imposed and vice versa. In Pakistan in a number of items both these indirect taxes are in vogue. This situation remains generally the same, despite the fact that the government has been re-examining it for a long time now!

DISINCENTIVES

These anomalies were to be rectified through the Anomaly Committee set up for this very purpose or through the Tariff Commission, which has not been done. The package overall has been more trade friendly, encouraging smuggling and under-invoicing than industry friendly. It discourages investment, fuller employment, improved production and increased export. Industry, in fact, has all along received only lip service for the last over 55 years of Pakistan economic history.

The ten basic industries including the basic steel and engineering industry nationalized during the 70's are begging for development. They are all hi-tech, hi-value added and hi-volume industries with potential of exportable surpluses and capable of net foreign exchange earnings as against our current restricted devaluation-driven traditional export approach. Only hi-tech, hi-value-added and hi-exportable surplus industry can help deficit finance, trade imbalance and inflation. The deficit finance is now a higher percentage of our GDP, trade gap is over billions and about the same current balance of payment – a not too good a state of affairs indeed. These issues can only be tackled through an Industrial Package, not a Trade Package, which is what the present Economic Package is!

WHO DOES NOT PAY TAXES?

Tax evasion is normally higher in the trade sector which, in fact, is largely an un-organized sector as compared to industry, which alone is the organized sector. The landed aristocracy hardly pays any tax. The agriculture is most inefficient and normally the cost of input is higher than the output. The yields are extremely poor and productivity minimal and, therefore, genuine income from agriculture is not high. The landed aristocracy's main source of income is from the 'business of politics'. A line has to be drawn, sooner rather than later in order to set this matter right! Tax is also not paid by the drug barons. The main responsibility for this falls on the guardians of our tax frontiers, whosoever and wherever they may be! Then, there is the unorganized sector, of course, which has the "street power" and no one can dare touch them. It includes those people who actually indulge in under-invoicing and smuggling not excluding trade through Afghanistan and in the out of book business arrangement, evading taxes. They say that since they cannot maintain books of accounts, how they can determine their tax liability! Surely: If they can earn income, how is it that they cannot determine the tax on this income? This hard fact must be recognized and the tax loopholes identified and effectually plugged: this is the only way to increase tax receipts.

The high interest rates despite reduction continue to be an anti-growth measure. The rates of income and wealth tax have been slashed. The latter is not worth having at all. The time spent on its recovery and its cost is not worth the recovery. No change has been made in the basic concept of taxes on income that is, a real matter of concern. The basic structure of our taxation is presumptive in nature - tax on receipts, whether there is profit or not - and deduction of income tax at source, generally at rates higher on imports and supplies - whether the taxes are due, or not due, remains as it was. The tax deducted at source is higher of the entire collection. With the collection cost bigger of collection! These measures increase cost to the consumer, deprive the tax payer of working capital and, as such, their real

income and government's taxes thereon.

COMPETITIVE DISPARITIES

This also brings our taxation system into sharp contradiction with the system prevalent in other countries and particularly in the neighboring one, with whom Pakistan is expected to compete and have a free trade policy - sooner or later! In India, the rate of sales taxes generally lower varying from province to province. They do not have presumptive tax, while Pakistan has presumptive tax at source. They have much of the raw materials locally available as also machines and machine tools, while Pakistan is totally dependent on imports. Their interest rate is from 10% to 13.5% while in Pakistan it is 16% to 18.25% after having just reduced it a little. Pakistani's lowest rate is India's highest.

India's economy is heavily subsidized which raises consumer demand while Pakistan's is not and this, in fact, a great restraint on consumers. Their infrastructural costs i.e. water, power and gas rates are substantially cheaper than Pakistan's and this is a major cost factor. Besides the above, India with a population size which is seven times that of Pakistan is a large sized economy and therefore has the advantage of economy of scale for all products.

The same is the case in many other countries comparable with Pakistan. There are several exemptions for localization of industry, particularly where there is value addition. There is no presumptive tax or deduction of tax at source except to the extent of the actual income tax liability, avoiding the menace of refund, which costs a fortune - a malpractice right under the government's nose!

These are some of the basic differences about which, it is hoped, the planners are fully cognizant. Tax payers are rightly expecting some material change in the next budgets. Without an industry friendly approach no economic package is likely to give the results intended to be achieved.

FINANCIAL INTEGRATION

Financial integration is the key to national business integration. There is now a long list of financial institutions. Pakistan has over 50 commercial banks with paid up capital of over billions. It consists of 21 Pakistani and 21 foreign banks; paid up capital of the Pakistani banks is billions of rupees while that of foreign banks being the same. There are 33 leasing companies whose paid up capital is Rs. 4.7 billion and 17 modaraba companies with paid up capital o f Rs. 3.8 billion. There are 15 investment banks with paid up capital of Rs. 4.4 billion, 11 DFIs with paid up capital of Rs. 10.0 billion, 39 Mutual Funds with paid up capital of Rs, 4.8 billion, 2 unit trusts with paid up capital of Rs. 0.5 billion, 2 venture capital companies with paid up capital of over billions and over 50 insurance companies with paid up capital in billions.

The total paid up capital of the above organizations is in billions, more or less, equivalent to the capital of an average banking institution. Perhaps it does not fit in with the economy of scale in relation to the size of our economy. By international standards, hardly any sector would fit in and as such there is a need to stabilize it with a new approach. In view of the economy of scale and consolidation, mergers are taking place all over the world. Similarly, Pakistan also needs to reduce their quantity by mergers for consolidation! The earlier Pakistan does it, the better it would be for effective and productive utilization of the available resources, otherwise, it would lead to deterioration which will be difficult to manage and thus will result in financial dis-equilibrium and the whole economic situation will be seriously disturbed.

So long as the reconstruction of the financial institutions is not accomplished, their working must be streamlined. The government's solemn commitments must not be violated in whatsoever case, as for example, through helping hostile take-overs particularly when the rights for such ownership's were acquired through preferential allotment of capital or assets at the cost of the very management or not to create any conditions for 'buy-back' at exorbitant costs, affecting government's credibility, resulting into shying away entrepreneurship if not the investment. 'Cartelization' for achievement of unholy alliance with the force of public funds or in the name of small shareholders must be shunned in the larger interest of the economy: otherwise, the overall collective losses to the nation will be greater than the individual gains!

SELF RELIANCE

There are funds in billions of resident and non-resident Pakistanis in foreign banks according to the late Dr Mahbubul Haq and billions according to Mr Douglas B. Archard, a former Consul

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General of US. Such measures as proposed above will encourage repatriation of such funds back to Pakistan with continuous flow back of such earnings into the country of origin. It will fulfill the financial requirement of the country and we can develop a respectable relationship with the world financing agencies besides consolidating our economy. These funds will tend to ensure socio-economic and political self-reliance of Pakistan.