

PRESS RELEASE

All Pakistan Textile Mills Association (APTMA) issued the following Press Release

ONE POTENTIAL SOLUTION TO THE ONGOING ENERGY CRISIS IS THE INTRODUCTION OF INCREMENTAL TARIFFS TO BOOST UTILIZATION

ISLAMABAD, 30th July 2024 – A recent op-ed published in a national daily has misrepresented several fundamental issues at the heart of Pakistan’s energy sector and overall economic crisis. The article claimed that the primary issue is not capacity charges but devaluation, citing that the dollar value of electricity bills has not risen by more than 30 percent in the past decade.

However, our analysis reveals that this assertion is inaccurate. Over the last five years alone, power tariffs for B-3, B-4 industrial consumers have increased by 60-70% in dollar terms. This increase is not isolated; other consumer groups have similarly faced rises far exceeding 30%. The data, sourced from the National Electric Power Regulatory Authority (NEPRA), include effective power tariffs covering base variable and fixed charges, financing cost surcharges, fuel price adjustments, quarterly tariff adjustments, and electricity duty, excluding additional taxes billed.

These significantly high power tariffs are a direct consequence of increasing capacity charges and unutilized capacity, spread over a shrinking pool of consumption. This imbalance is critical, not just in terms of the absolute numbers but in comparison to regional competitors. Pakistan’s industrial power tariff is more than twice that of economies like Bangladesh, India, and Vietnam. This disparity is a crucial factor undermining the competitiveness of Pakistan’s industrial sector on the global stage.

Pakistan’s economy is plagued by a chronic shortage of productive capacity, insufficient to meet domestic demand or generate exportable surpluses necessary to meet import requirements. This shortage leads to a persistent foreign exchange deficit, which recurrently results in balance of payments crises. The only sustainable solution lies in rapid industrialization, but this requires affordable energy—currently an unattainable goal given the high costs.

The textile sector, a vital component of Pakistan’s economy, exemplifies the struggle faced by industries due to exorbitant energy costs. Contributing 8-9% to GDP, employing 40% of the industrial labor force, and accounting for over half of the country’s export earnings, the textile industry has shown remarkable resilience. However, it is constrained by the prohibitively high energy costs, which make it difficult to compete internationally.

One potential solution to the ongoing energy crisis is the introduction of incremental tariffs to boost utilization. This approach involves setting lower tariffs for additional consumption, encouraging industries to use more electricity during off-peak hours. Such a strategy can help spread the fixed costs of capacity charges over a larger volume of consumption, reducing the per-unit cost of electricity for all consumers. By incentivizing increased

utilization, incremental tariffs can also aid in stabilizing the energy sector and ensuring more predictable revenue streams for power producers.

The current situation is not merely about subsidizing energy but addressing the fundamental cost structure imbalance in the power sector. In Pakistan, capacity charges constitute around 70% of the total energy cost, with fuel making up the remaining 30%. This is the reverse of the global norm, where capacity charges typically account for 30% and fuel for 70%. This anomaly means a significant portion of the revenue generated in the power sector goes towards fixed payments to power producers, regardless of the actual electricity produced or consumed, burdening consumers with excessive costs.

The industry's call is for a comprehensive review and restructuring of capacity payments and the broader energy tariff regime. This reform is critical for aligning Pakistan's energy costs with those of similar economies, attracting investment, boosting industrial output, and increasing exports to bridge the foreign exchange shortfall. The textile sector is not just advocating for its own relief but for a restructuring that benefits the entire nation, including the common man, who faces unsustainable energy costs.

The dialogue must move beyond baseless criticisms and billionaire bashing to a constructive, fact-based discussion involving all stakeholders. The goal is a prosperous, competitive, and economically stable Pakistan, and achieving this requires a stable, predictable, and competitive energy supply.

Forwarded for favour of publication in your esteemed newspaper / transmission.

ASIF INAM

Chairman, APTMA