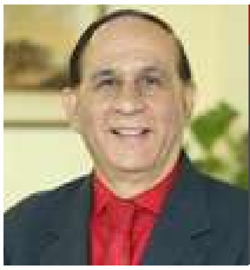
COVID-19: Potential Impact on Industry Sectors in Pakistan

The Perspectives of Chairmen of Industry Associations

The Research and Publications Department of ICMA Pakistan approached the Chairmen of various Industry Associations in Pakistan to seek their viewpoint and perspective on the potential impact of coronavirus and lockdowns on their respective sectors/industries; especially in the context of production capacity, domestic supply, exports, imports, supply chain, finance, workers' employment etc and way forward to tackle these issues. The responses received from the relevant Associations are presented here with the expectation that these would merit consideration by the concerned Government quarters.



All Pakistan Cement Manufacturers Association (APCMA)

Azam Faruque
Chairman

APCMA
All Pakistan Cement Manufacturers Association

The Covid-19 pandemic is impacting our society and the overall economy across the world. The impact of this pandemic is growing day by day and is also affecting the supply chain. This pandemic is creating uncertainty in the stock market, massive slowing down of supply chain, falling business confidence, and increasing panic among the customer segments. Trade barriers are further restraining the demand-supply outlook. As the government has already announced a smart lockdown and temporarily shut down of some industries, the overall production process has been adversely affected; thus, hindering the cement market worldwide.

In Pakistan too, the cement sector is badly affected by the Covid-19 pandemic. Cement industry has implemented all SOPs for running factories but lockdowns and growing number of COVID cases are a challenge.

Total dispatches in the period of Mar-May 20 stood at only 9.876 million tons, as compared to 13.075 million tons in the same period last year, showing a decrease of 24.47 percent. After posting a growth of 31 percent in domestic cement consumption in February this year, the decline has been consistent, being 16.69 percent in March, 18.97 percent in April, and now almost double in May 2020.

The progress on export front has also been gloomy as it posted a growth of over 48 percent in February; which declined to 5.67 percent in March; posted a massive decline of 56.60 percent in April and 24.81 percent in May. Afghan border remains closed for around 2 months and still has congestion. Two key exports by sea markets of Pakistani cement are also facing lockdown situation i.e. Sri Lanka and Bangladesh. Both these markets account for almost 80% of total exports of cement from Pakistan, therefore, parking of additional quantities would pose a bigger threat to the sector.

Since most of the cement plants have completed their expansions in last 4-18 months through debt financing the burden of higher interest charges, cash flow issues owing to the repayment of huge debt liabilities and an almost 7% devaluation would also have a huge negative impact on the profitability of the sector as the increased cost would have a severe negative impact on the overall costing of the product.

It is anticipated that the industry with the collective debt burden of US$ 1.5 billion and with a surplus capacity of approximately 20 million tons would face the biggest challenge of recovery both in terms of volumes and profitability in next 12-18 months as the GDP growth of the country may reduce to around 1.5-2.5% in next 12-18 months in post-COVID 19 scenario.

However, the massive reduction in global oil prices may provide much-needed relief to the Government of Pakistan as huge favorable fiscal space has been created which may give the economic managers of the country an opportunity to provide relief to the industrial and commercial sectors of Pakistan in terms of reduction in interest rates, and lowering of diesel prices.

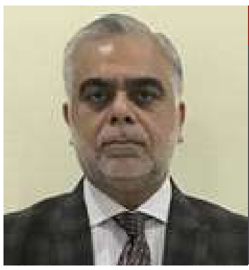
The Government has recently announced a stimulus economic package to the export-based sectors and is also expected to announce few more incentives to move the economy forward in these dark times.

So far, there is no significant impact of construction package on the cement sector earlier announced by the government. If the government starts its mega housing projects, it can help the construction industry to get back on track and also provide employment opportunities to skilled and unskilled labor.

The government should realize that the construction sector is the largest provider of employment to the unskilled workforce in Pakistan and a decline in cement consumption means low construction activities and a substantial increase in unemployment in the country.

Cement industry has also benefited from the recent reduction in interest rates, deferment of one-year principal repayments, and subsidized salary financing scheme.

The government is working to boost the construction sector. Reduction in Federal excise duty in the budget shows its commitment towards low-cost housing. We have seen improvement in demand in June and are hoping that industry will remain moderately affected.



Pakistan Tanners Association (PTA)

Sh. Afzal Hussain
Chairman

Pakistan Tanners Association (PTA) represents a large conglomeration of Leather manufacturers-cum-exporters in Pakistan and playing a pivotal role of a bridge between the leather exporters and the Government of Pakistan for the supreme motive to promote the country's exports to the maximum extent.

This vital 95% export-oriented value-added Industry of the country is in severe clutches of COVID-19, which is of course universal phenomena and brought adverse severe effects to the Leather Industry of Pakistan.

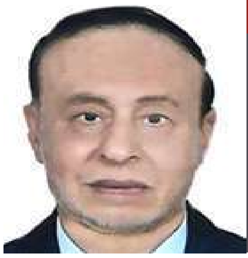
From the mid of March 2020, the export orders have been canceled which was around 50% to 70% while the due payments of shipments that were already exported are halted/pending by the customers and future orders expectation and discussion has also been jeopardized for cancellation. The freight of the shipment has been increased from 3 to 4 times, which is exorbitant and the foreign buyers/customers are not willing to share with our member exporters. Resultantly, the extra financial burden on account of freight is lying on our member exporters, which is ultimately un-bearable/absorbable. Besides, the foreign customers are persistently asking for the concession/reduction of price to be around 10% to 20%, which is well-nigh impossible owing to the increased cost of production and inevitable circumstances/prices in Pakistan.

For leather, the potential markets are ASEAN and South Asian countries whereas follow-up is also required to reach out to the European & American markets to retain the share of exports and try to make it expand further to the desired extent. There is a need to undertake a wide marketing strategy to promote and explore business avenues for which needs extraordinary support is required from the Government.

The Cement industry desperately needs support from the Government in terms of “Zero-rated” interest loans to the Leather Industry, in addition to reinstatement of the 'Zero-rated status for the Leather Sector of Pakistan, which is 95% export-oriented Industry, by restoring SRO # 1125. The dyed/finished leather may also be included in the new DLTL scheme for the year 2018-21 with retrospective effect without incremental obligation.

An appeal has also been released by PTA in the daily newspaper highlighting the core demands of the Industry. This includes a major cut in utility bills such as Electricity & Gas, which is already due as a result of the reduction of oil prices worldwide and in Pakistan. Besides, the existing cost of doing in Pakistan is on the higher side as compared to regional competitors in particular, which is ultimately rendering our members uncompetitive in the international market.

The Association also calls for the removal of irrational duties such as ACD, AGST on import of basic tanning chemicals, machinery & raw materials, in addition to the reduction in customs duty. Unfortunately, most of our demands for the reduction of duty structure has not been entertained in the Federal Budget 2020-21 despite assurances. We had also called for the removal of 1% withholding tax on export proceeds and collection of EDS @ 0.25% on export proceeds for at least 3 years. The Association also demands to allocate all desired International Fairs with 80% subsidy from the Government which is expecting to be initiated during 2021 with physical participation. The Government should also consider the immediate announcement of subsidy on Freight charges of export cargos.



Pakistan Readymade Garments Manufacturers & Exporters Association (PRGMEA)

Shaikh Muhammad Shafiq
Chairman

PRGMEA

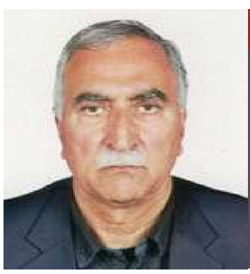
Pakistan Readymade Garments Manufacturers and Exporters Association is the leading exporter forum and largest in terms of foreign exchange earner in volume and value.

Corona Virus has primarily disrupted the Global Value Chain that the movement of imports and exports has become disturbed. Exporters from Pakistan are unable to process their orders and the payments from previous orders have also been stopped by the buyers as their international orders have been canceled and the sector has been asked to suspend the shipment for the time being.

Pakistan has two main sources through which it can replenish its foreign exchange reserves: one is exports, and the other is remittances. The share of textiles in total exports stood at $10.41 billion of the total exports at $ 17.45 billion in the first nine months (Jul-March) of the current fiscal year ending June 30, 2020, as per the PBS. The textile sector has a share of 59% of our total exports, and it contributes 8 % of country's GDP. Pakistan Textile Industry consists of around 90% SMEs and most importantly, the textile sector employs 40 % of total workforce in Pakistan.

In the prevailing scenario, the Government needs to formulate such a strategy that may prevent the economic slump from turning into an immense financial crisis. We appreciate that the present government took some measures to rescue the textile sector by issuing relief packages. However, these are not enough as the SMEs are unable to fulfill the requirements to take benefit of it due to lengthy procedures. Because of rapidly changing geostrategic dynamics worldwide, global slowdown amid Corona pandemic and unprecedented economic challenges faced in Pakistan by all the segments of the economy; it is most important that the Government should take necessary taxation relief measures in general and for export-oriented value-added textile sector in particular.

PRGMEA recommends that the government should come forward and issue special concessions and special packages for the export-oriented textile sector and solve cash-flow problems in terms of Sales Tax, Customs rebate, and DLTL. Moreover, waive of interest on past loans taken by the sector from banks, and the interest rate should be reduced further at their lower side to help the sector to survive in this crucial phase. Besides, the government should revive the zero-rated policy withdrawn in June 2019.



Pakistan Association of Automotive Parts & Accessories Manufacturers (PAAPAM)

Capt. (R) Muhammad Akram
Chairman

The automotive sector of Pakistan was already struggling in FY2020 before the Covid-19 crisis. It saw overall de-growth of nearly 30 percent. This situation was worsened by the onset of the Covid-19 pandemic and the ongoing lockdowns across Pakistan and the rest of the world. These two years (FY20 and FY21) are challenging times for the Automotive Sector of Pakistan on account of:

- Slow economic growth
- Negative Purchasing Power of the consumer
- Low capacity utilization of Auto part manufacturers (APM's)
- Potential bankruptcies.

Taking an idea from the Chinese automotive market, there will be significant changes in buying behavior after the lockdown in the Pakistani automotive market. Overall consumer preference will be more towards individual health, hygiene, and cleanliness during travel.

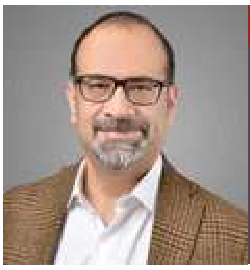
Post the pandemic, we expect consumers to switch more towards personal mobility. Shared mobility will take a backseat in the medium term. But with subdued sentiments and an aversion to higher discretionary spending like buying new vehicles, there is expected to be increased demand for used vehicles in the next 3 6 months.

Service-based models such as lease rentals may also see uptake from Pakistani consumers.

Recently, many OEMs (Kia Lucky Motors, Honda Atlas Cars Pakistan Ltd, and many others) launched online sales channels to digitally connect with consumers indicating new ways of doing business.

On the other side of the value chain, suppliers are expected to face significant financial and operational burdens. Due to domestic as well as global exposure, Pakistan's automotive suppliers will face multifold challenges. Lower domestic sales will lead to reduced revenues and lower capacity utilization. Lockdowns in China, Korea, and Taiwan will lead to both import and export limitations in Pakistan.

Global Value Chain integration of all the Assemblers/ Manufacturers can play a vital role in stabilizing the automotive sector of Pakistan.



Pakistan Hotels Association (PHA)

Zubair Baweja
Chairman

The Hotels in Pakistan and worldwide irrespective of star rating, are forecasting huge losses for 2020 and 2021 post-COVID-19 scenario as over 80 percent of hotel expenditures are fixed in nature. Looking at the scenario where international travel will remain negligible; Hotels' survival will remain on domestic tourism. Due to forced lockdown necessitated by the COVID-19 pandemic, hospitality businesses are on the verge of closure. This sector has suffered colossal losses on account of lockdown and social distancing imposed by the Government. Pakistan Hotels Association has requested FBR, Finance Minister, SBP, and other concerned to kindly consider some concrete measures, needed immediately to reduce the burden and for the survival of the Hotel Industry.

The support and resolution of following critical issues of Hotel Industry have been necessitated due to the fact that the hotels and their operations are totally closed across Pakistan resulting in non-generation of any revenue. Hotel Industry is virtually on the verge of declaring bankruptcy.

1) The government to provide grants for Salaries as Hotel's capacity to take further debts has already exhausted and they cannot borrow further under refinance schemes. Hotels do not have any revenue stream after Lockdown enforced by the Government and will not be able to continue paying salaries and wages to their employees.

2) Extension of Refinance Scheme for salary beyond June 2020 at further concessional rates and existing finance availed, interest payment be deferred from 6 months to 2 years and principal payment in 5 years.

3) Working capital finance with a limit of 20 percent of last year's turnover is allowed in addition to salary finance on soft terms against corporate guarantee with payment of mark up after two years and principal in five years with two years grace period.

4) Project financing for new and unfinished projects on soft terms against corporate guarantee at a reduced mark up of 3 percent payable over a period of five years with two years grace period. Swapping of finance to be allowed to facilitate settlement of expensive borrowing already taken for projects.

5) Relaxation in minimum tax is under consideration, if not completely withdrawn, rate reduction may be considered. In view of massive losses Hotels will not be making tax profits for at least the next five years. Therefore, it is proposed that Hotels and Hotel owning Companies be exempted from charge off minimum tax under section 113 and treatment of tax deduction under section 153(1)(b) of the Income Tax Ordinance, 2001 as minimum tax should also be exempted.

6) Exemption from Customs Duties and Taxes on Imports of equipment and essential items for Hotel projects as well as for BMR and refurbishment of existing Hotels

7) Proposal to extend the period for carrying forward of losses beyond 6 years seems unreasonable as any business is expected to break even in 6 years. This should not be pressed. Therefore, the time period for carrying forward of losses should be enhanced from six tax years to at least ten tax years. This will boost up the confidence of potential investors to further invest in a business suffering continued loss and consequently broaden the tax base of country.