EXCLUSIVE INTERVIEW

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TEXTILE MILLS ASSOCIATION

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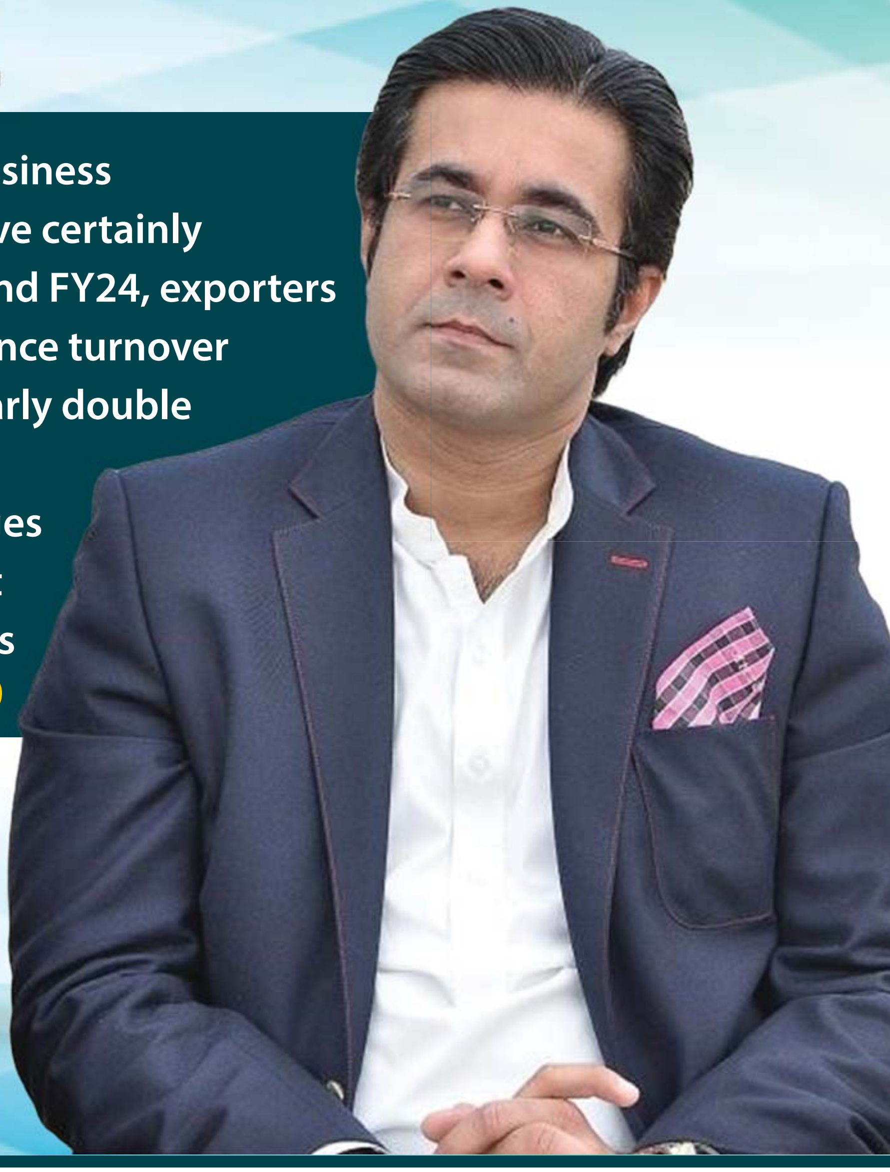

Mr. Kamran Arshad

Chairman, All Pakistan Textile Mills Association (APTMA)

ICMA: How do you view the Federal Budget 2025–26 from the perspective of the textile industry? Do you think it meets any of APTMA's key expectations?

Kamran Arshad: The Federal Budget 2025–26 once again prioritizes FBR revenue over industrial growth, offering no relief on the income-tax distortions or energy-price burdens that APTMA has long flagged. Exporters remain trapped in a dual advance taxation regime, with 1.25% advance minimum turnover tax plus a 29% income-tax liability (and up to 10% super tax) under the normal tax regime, and 1 percent-of-export-proceeds under the fixed tax regime—effectively forcing them to pay 2.25% of turnover in advance versus 1.25% for domestic sales, creating a disincentive to export, and exacerbating liquidity pressures for companies operating on very thin margins of 2-5%.

Meanwhile, industrial power tariffs at around 11 cents/kWh remain as much as double those in India, Bangladesh, Vietnam, and China (5–9 cents/kWh), with no measures to eliminate the Rs 100–150 billion cross-subsidy that keeps industrial power tariffs uncompetitive. New levies—such as the miscalculated captive-power gas levy and the Rs 82,000/tonne petroleum levy on HFO—further undermine alternatives to an overstretched grid, leaving industry without viable options.

The sole expectation that has been met, after prolonged advocacy, is the removal of cotton, yarn, and fabric from the Export Facilitation Scheme, which at least creates a level playing field for local producers through imposition of sales tax on imports.

ICMA: APTMA has raised strong concerns about including yarn and fabric in the Export Facilitation Scheme. How is this affecting the local textile mills and overall industry sustainability?

Kamran Arshad: Although APTMA was among the architects of the Export Facilitation Scheme, the FY25 budget's removal of sales tax zero rating on local supplies converted it into a de facto Import Facilitation Scheme, effectively subsidizing foreign suppliers and farmers at the expense of local industry and agriculture. Allowing zero-rated imports while imposing 18% sales tax on the same local supplies triggered a three-fold surge in annual yarn imports and collapsed demand for locally produced cotton, yarn and greige fabric.

Over 120 spinning mills have shut down, thousands of workers have been laid off, and billions of rupees of investment now lie stranded. Farmers, without a support price and facing collapsed demand, are shifting to water-intensive crops—an alarming trend in a water-scarce country—while rural incomes of $2–3 billion, especially for women in cotton picking, are under threat. Since imports for exports have risen sharply, net textile exports are also expected to fall from ~$14 billion in FY24 to $13.6 billion in FY25, meaning there has been no real increase or recovery in exports as we are bleeding foreign exchange to sustain them at present levels. The widening trade deficit and lost tax revenues from foregone business activity compound the crisis.

Thankfully, the government has responded to APTMA on this front and announced that cotton, yarn and fabric imports will be removed from EFS.

ICMA: Energy costs in Pakistan are said to be among the highest in the region. How are these rising tariffs impacting production and the global competitiveness of our textile exports?

Kamran Arshad: Textile manufacturing is relatively energy intensive and energy accounts for 12–18 %of input costs across the value chain. The disparity between our tariffs (11–16 cents/kWh) and those of regional peers (5–9 cents/kWh) directly inflates production costs and undermines price competitiveness. In FY22, when power was available at a regionally competitive 9 cents/kWh and gas at $9/MMBtu, exports peaked at $19.3 billion; as RCET was withdrawn and energy costs soared, exports plummeted to $16.5 billion.

> Although financing costs remain elevated, exporters also face a shortage of available credit. The transfer of export-finance schemes from the SBP to EXIM Bank has been delayed, leaving many programs only partially operational and their limits insufficient to meet industry demand

As the grid is unaffordable and supply quality is not suited for sophisticated manufacturing processes due to regular outages, fluctuations, blips, etc. that disrupt production cycles and damage machinery, a significant portion of the industry relied on gas-fired captive generation to meet their requirements. However, in a bid to increase capacity utilization on the grid, the government has increased price of gas for captive to Rs. 3,500/MMBtu, and imposed an additional "grid transition levy" of Rs. 791/MMBtu, taking the cost to Rs. 4,291/MMBtu ($15.38) which is significantly higher than the cost of Pakistan's RLNG imports, and around twice the prevailing RLNG spot prices.

The problem is that the levy has been calculated in contradiction of its governing statute. The objective is to take the cost of captive power generation above grid electricity prices for industry in order to remove any financial incentive for captive generation. However, instead of using the B3 industrial power tariff, as explicitly stated in the law, the government has based its calculation on the B3 peak-hours tariff that is only applicable for 4/24 hours a day, significantly underestimated captive O&M costs, and made other arbitrary errors in order to artificially inflate the levy, because when done correctly it comes negative, underscoring our point that captive power generation is already at par with grid prices at the prevailing gas tariff of Rs. 3,500/MMBtu.

The grid transition levy, applied to all captive power plants whether single-cycle or co-generation, has penalized the most efficient industrial units which are major contributors to exports. These units invested heavily in high-efficiency co-generation systems to reduce energy costs and emissions, and their entire production eco-system is based around CHP generation. Their exit from the gas network has also put the sector's financials in severe jeopardy, as captive power plants were a major offtaker of RLNG. Their demand destruction has contributed to a 450 mmcfd RLNG surplus—nearly half of Pakistan's LNG cargoes—which will cause a huge surge in the gas sector circular debt, already up by ~Rs. 500 billion in the first seven months of FY25.

Similarly, the government has also imposed a petroleum levy of Rs. 82,000 per ton on furnace oil which costs Rs. 130,000 per ton otherwise. For most mills, switching to grid-supplied power is not a viable alternative, as HFO-fired captive generation is principally used by units lacking reliable DISCO connections. Across Pakistan—and particularly in urban industrial hubs such as Lahore and Karachi—DISCOs routinely decline new industrial hookups due to constrained infrastructure and transformer capacity. Where connections are technically offered, firms are presented with demand notices running into the tens of billions of rupees merely to secure a feeder line, with no guarantee of timely service: lead times for actual energization often extend to two or three years. Under these conditions, pursuing a grid connection is neither commercially nor operationally feasible, aside from enduring the frequent voltage sags and load-shedding that characterize grid supply.

Moving forward, the government should take an integrated view of the energy sector. While it is important to increase capacity utilization on the grid and bring down power tariffs, the means currently being employed do not justify the ends. The petroleum levy on HFO merits serious reevaluation, while the calculation of the grid transition levy must be corrected in line with the law, and cogeneration plants should be reclassified to the industrial process gas tariff in view of their superior efficiency and dual output of both power and heat to be used for industrial processes, as well as to meet carbon emissions and net zero requirements for exports to the EU and the United States.

ICMA: Textile exporters continue to face serious delays in sales tax refunds. How is this affecting cash flows and the ability of mills to operate smoothly?

Kamran Arshad: Despite the Sales Tax Rules 2006 mandating refunds within 72 hours under the FASTER system, sales tax refunds to exporters are regularly delayed by up to 6 months. And even then, only about 60-70% of the refund amount is issued while the difference is deferred for manual processing on which there has been no progress in the last 4 to 5 years. And it's not just APTMA saying it, it is corroborated by the World Bank 2022 Country Economic Memorandum. It is an open secret that this is done to manage the government's own cashflows as FBR is never caught up on its revenue targets, so as usual, compliant citizens and businesses of Pakistan are punished for negligence and failures of tax authorities.

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Protracted sales-tax refund cycles tie up critical working capital, force mills into expensive short-term financing, and hamper production planning. The resulting cash-flow squeeze erodes margins and delays investment in capacity upgrades. Not only does it impact existing businesses but also sends a strong negative signal to potential investors.

ICMA: With interest rates still high, how are textile manufacturers managing financing needs? Has this discouraged investment and expansion in the sector?

Kamran Arshad: There has been a marked improvement in interest rates over the past year, falling from roughly 22% to 11%. Given the government's success in taming inflation, rates could reasonably be in the single digits, but external vulnerabilities perhaps justify the MPC's cautious stance.

Although financing costs remain elevated, exporters also face a shortage of available credit. The transfer of export-finance schemes from the SBP to EXIM Bank has been delayed, leaving many programs only partially operational and their limits insufficient to meet industry demand. Exporters frequently approach banks only to find their credit lines fully exhausted. The government should expedite the transition to EXIM Bank and raise scheme limits to satisfy the sector's financing requirements.

ICMA: Textile exports have dropped in recent months. What are the main reasons for this decline, and what urgent steps should be taken to boost export performance?

Kamran Arshad: Textile exports are expected to increase by 6% to 7% YoY in the current financial year, from $16.7 billion in FY24 to $17.9 billion in FY25. We have seen somewhat mixed trends this year, with strong YoY growth of up to 20% in monthly exports during the first half, but in April and May 2025 there was a marginal decline of 1.29% and 3.85% YoY. Keep in mind, there is also a base effect during the latter part of the year as exports had started to recover towards the end of FY24.

Overall, what we are seeing is a slow recovery rather than growth as annual exports remain well below the $19.3 billion achieved in FY22. It is also important to point out that net exports—the difference between textile sector exports and imports, a proxy for local value addition in exports—will decline from ~$14.0 billion in FY24 to ~$13.6 billion in FY25 (based on FY25 10 months data)—due to the surge in imported inputs as local supplies are disadvantaged by the 18% sales tax disparity under EFS.

All in all, these trends reflect a convergence of domestic and external headwinds. Domestically, while the business environment and economy have certainly improved compared to FY23 and FY24, exporters continue to face punitive advance turnover taxes, high energy costs—nearly double regional benchmarks—and recurring raw-material shortages worsened by restrictive import controls and LC-opening delays. These factors inflate input costs, squeeze margins, disrupt production schedules, and result in a long-term negative impact on businesses and their exports.

Externally, heightened policy uncertainty—most recently the U.S. "Trump tariffs"—has chilled consumer sentiment in our largest markets, the U.S. and the EU, prompting buyers to delay or cancel orders. Volatile global demand compounds our exporters' challenges, leaving them overexposed to a small number of destinations.

ICMA: Import restrictions and delays in opening LCs have been widely reported. How have these issues affected the availability of raw materials and your supply chain operations?

Kamran Arshad: Tightened SBP import controls and restrictive LC quotas have restricted raw-material supplies, disrupted production schedules, and incurred demurrage costs, leading to financial losses as well as lost export orders. Where LCs are allowed, payment against registered documents has been regularly delayed by banks, causing both operational and reputational issues for industry. Expanding FX windows for textile inputs, deploying an online LC-tracking dashboard, and decentralizing LC approval authority would restore supply-chain reliability.

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ICMA: APTMA has long demanded the return of the 'no payment, no refund' system to ease liquidity problems. Was this proposal considered in the recent budget? What's the way forward now?

Kamran Arshad: So long as the IMF is in the driving seat, re-introducing the 'no payment, no refund' system is not feasible. All exemptions and zero-ratings have been withdrawn across the board, especially for exporters. We engaged with IMF staff and other government stakeholders, and the IMF staff report confirms there is no policy space for such schemes.

The first-best solution would have been to restore zero-rating on domestic inputs throughout the value chain—or, even better, reinstate SRO 1125. In the absence of that option, the only way to level the playing field for local industry is to apply the same sales-tax regime to all imports. Thankfully, as already discussed, the government is imposing sales tax on cotton, yarn and griege cloth in the upcoming budget.

*The Editorial Board thanks **Mr. Kamran Arshad, Chairman, All Pakistan Textile Mills Association (APTMA)** for sparing his precious time to give exclusive interview for Chartered Management Accountant Journal.*