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Power supply to 5 zero-rated sectors MoF gets PM's nod to revisit Cabinet decision



The Finance Ministry has reportedly got Prime Minister's nod to revisit Cabinet decision on supply of electricity to five zero-rated sectors during the entire fiscal year 2022-23 starting from August 1, 2022, saying this will require Rs80 billion additional funding and jeopardize fiscal deficit and primary balance targets agreed with the IMF.

This was the crux of an unannounced decision by the Prime Minister received by the Finance Ministry which has hit the five export-oriented sectors.

Prime Minister-in-Chief Gohar Ijaz met Commerce Secretary Sualeh Ahmad Faruqi and sought his support to reverse the decision taken by the Prime Minister.

The Finance Ministry, in its summary to the Prime Minister said the ECC of the Cabinet considered the summary of July 22, 2022 submitted by the Ministry of Commerce (Textile Wing) regarding "regionally competitive energy rates for export oriented sectors during FY 2022-23 (effective July 1, 2022)," containing the following proposals: (i) electricity may be provided at US cents 9 per kWh all-inclusive to exports oriented sectors namely textiles including jute, leather, carpet, surgical and sports goods from July 1, 2022 to June 30, 2023; (ii) RLNG may be provided at US \$ 9 per mmbtu all-inclusive to five export-oriented sectors from July 1, 2022 to June 30, 2023 across Pakistan without any disparity; (iii) RLNG may be provided to SSGCL consumers on same concessionary tariff as that of SNGPL consumers of five export oriented sectors; (d) Finance Division may give financial commitment that additional funds if required by export oriented sectors on concessionary tariff as specified in the summary.

However, Ministry of Energy (Power and Petroleum Divisions) may apprise Finance Division about the budgetary situation in time and place a summary for supplementary grant allocation before the ECC for consideration.

On July 25, 2022, ECC approved the proposals with the following amendments: (i) gas/RLNG would be provided@ \$ 9 per mmbtu all-inclusive to five export oriented industries across Pakistan for all existing connections remaining with the allocation of a total of Rs.40 billion as already made by the Finance Division in the budget; (ii) Petroleum Division in consultation with Finance Division and Commerce Division will review the subsidy requirements and its release on quarterly basis; and (iii) electricity will be provided at US cents 9 kWh all-inclusive to five export oriented industries subject to subsidy cover of Rs.20 billion already provided by the Finance Division from August 1, 2022.

However, while ratifying the ECC decision, the Cabinet further stipulated that the rate of US cents 9 per kWh for the export-oriented industry will also be applicable till the end of FY23 as in the case of RLNG, the rates will be effective from August 1, 2022; and recommendation of the ECC to raise existing indigenous gas tariff across Pakistan to Rs.1350/mmbtu for export-oriented and general industry was not approved.

According to Finance Ministry, the Cabinet had ratified the decisions of the ECC and the decision was not recorded fully and accurately, adding that if the same is implemented till end of fiscal year 2022-23, subsidy requirements for electricity supply shall exceed the budgetary allocation of Rs 20 billion. This will require additional funding and jeopardize fiscal deficit and primary balance targets agreed with the IMF.

In this regard, Finance Ministry proposed that the Cabinet Division may issue a revised decision.

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