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*ME unrest*

*Textile industry seeks protective measures*



The country's textile industry has proposed to the government to implement protective measures that will determine whether textile exporters can maintain their order books and market positions over the next 60-90 days due to current situation in the Middle East.

In a letter to Secretary Commerce titled "impact of Strait of Hormuz disruption on Pakistan's energy requirements and textile exports." Chairman Pakistan Textile Council (PTC), Fawad Anwar has said that the ongoing geopolitical developments in the Gulf region and the resulting disruption of commercial shipping through the Strait of Hormuz pose a serious risk to Pakistan's energy security and export supply chains. Given Pakistan's heavy dependence on energy imports routed through this corridor, any prolonged disruption could directly affect industrial activity, export competitiveness, and the stability of supply chains supporting the country's largest export sector. Pakistan's textile and apparel industry accounts for over 60 percent of national merchandise exports and supports a substantial share of industrial employment. The sector is therefore particularly exposed to disruptions in energy supply, increases in fuel costs, and rising freight and insurance premiums affecting export logistics.

The ongoing US-Israel military campaign against Iran, which began on February 28, 2026, has effectively closed the Strait of Hormuz to commercial shipping. This is not a contingency risk scenario; it is an active supply chain disruption with direct implications for Pakistan's energy security and export competitiveness. The Pakistan Textile Council (PTC) presents this paper to support the Government of Pakistan in formulating an immediate response framework.

Pakistan's energy import architecture is almost entirely (approx 80%) routed through the Strait of Hormuz. Three supply streams face simultaneous disruption: (a) Crude Oil: Pakistan imports approximately 300,000 barrels/day of crude against domestic production of 70,000 barrels/day. Primary supplier is ADNOC (Abu Dhabi), with shipments transiting Hormuz. Two tankers, including PNSC's MT Karachi, are currently stranded. Current domestic stock: ~30 days of petrol and HSD. Beyond 10-14 days of continued closure, spot market procurement at significant premium becomes unavoidable; (b) LNG/RLNG: (i) Pakistan imports nine LNG cargoes per month from Qatar under two long-term contracts (13.37% and 10.2% of Brent slopes).

All pass through Hormuz; (iii) two cargoes that crossed Hormuz before the escalation will arrive within days, offering a narrow buffer ;(iv) if LNG inflows are interrupted for more than 2-3 weeks, RLNG-dependent industrial and power sectors face load management pressure ;(v) Pakistan had already been diverting RLNG cargoes due to domestic oversupply. This means take-or-pay financial exposure persists even if physical delivery is disrupted; (vi) Kuwait supplies the bulk of Pakistan's diesel imports via Hormuz. Pakistan produces ~70% of its diesel domestically but the import gap is material; (ii) Singapore spot market is the fallback, with freight and insurance premiums of 40-60% already embedded from the Houthi-related Red Sea disruptions since late 2023; and (iii) LPG sea and land imports have also slowed, raising domestic price spike risks.

Talking about impact on textile and apparel exports, PTC said that Pakistan's textile sector contributes over 60% of national exports and approximately 8.5% of GDP. It was already under stress before this crisis, with textile exports declining in FY2025-26 due to high energy costs and weak global demand. The Hormuz disruption adds following compounding pressures.

RLNG is a primary industrial fuel for textile processing (dyeing, finishing, steam generation). Any supply disruption forces shift to more expensive alternatives or production curtailment. RLNG consumption in industry had already declined 75% due to prohibitively high OGRA notified prices and Off-Grid (Captive Power Plants) Levy. Further price spikes could render remaining gas-dependent operations unviable. The CPP levy (set to rise to 20% above grid parity by August 2026) further compresses industrial energy economics at the worst possible time. Oil price escalation to USD100-USD150/bbl would flow through to diesel, furnace oil, and grid electricity costs, adding to the already elevated cost of doing business.

Pakistan imports significant volumes of synthetic fiber and chemicals (approx. USD650 mn/year) that transit through Gulf routes. Supply delays will affect production scheduling.

Cotton imports (Pakistan faces a domestic shortfall) and petrochemical inputs are similarly at risk of freight and availability disruption.

Beyond energy supply, Pakistan faces a separate and equally urgent threat: a structural escalation in shipping costs driven by war risk surcharges imposed by foreign container lines. If left unaddressed, this alone risks adding over USUSD1 billion in additional costs to Pakistan's trade. Unlike the energy disruption, this is an area where the Government of Pakistan has direct and immediately actionable policy tools available.

The PTC has recommended that government to Formally approach Saudi Aramco and the Ministry of Energy, Saudi Arabia, to include Pakistan in the preferred buyers list for Red Sea crude exports via the East-West Petroline. This bypasses Hormuz entirely ;(i) The Petroleum Division and Ministry of Commerce should hold a joint session with textile and export industry representatives to assess the real-time supply position and coordinate contingency procurement; (ii) in view of the energy price shock, the captive power plant levy should be immediately removed.

This is a domestic policy lever fully within government control; (iii) any LNG that does flow through should be ring-fenced as priority supply for export-oriented industries (EOIs), with clear allocation rules; (iv) legal review of take-or-pay obligations under Qatar and ENI agreements should be initiated immediately to assess financial exposure during a supply disruption; (v) the government of Pakistan should announce a dedicated war risk guarantee fund with seed capital of a minimum USD25 million, preferably USD50 million. This fund should be placed within the Lloyd's of London insurance market or structured as a domestic fund governed by a board of credible private and public sector nominees, with the purpose of compensating shipping lines for verified war risk losses on Pakistan-origin or Pakistan-bound cargo. This removes the commercial justification for punitive blanket surcharges. The funding source is readily available. The Export Development Fund (EDF) currently holds Rs 52 billion (approximately US\$186 million) well within capacity and directly aligned with EDF's statutory mandate to protect export competitiveness. The fund should incorporate transparent claim verification, a defined sunset clause tied to conflict resolution, and mandatory reporting to the Ministry of Commerce; (vi) the National Insurance Company Limited (NICL) and Pakistan Reinsurance Company Limited (PRCL) should be directed to develop and offer a competitive war risk insurance product for international shipping lines operating Pakistan routes. Providing credible domestic coverage at reasonable cost reduces Pakistan's dependence on London market rates and strengthens the government's negotiating hand with carriers when addressing surcharge quantum; (vii) Competition Commission of Pakistan (CCP), Pakistan Customs, and Port Authorities (KPT and Port Qasim) should jointly review the war risk surcharges being imposed on Pakistan-routed cargo. Carriers must be required to provide transparent actuarial justification for charges of USD2,000-3,000 per container. Coordinated surcharge-setting among competing lines may also constitute a violation of competition law and should be investigated accordingly; (viii) Ministry of Commerce and Ministry of Maritime Affairs should engage the principal container carriers serving Pakistan (Maersk, MSC, CMA CGM, Hapag-Lloyd, COSCO) at a senior level to negotiate Pakistan-specific surcharge caps in exchange for the government's war risk guarantee commitment. Pakistan's 3.8 million TEU annual throughput is a commercially significant volume and must be leveraged accordingly; (ix) ensure timely and duty-free releases of input materials under EFS and defer any procedural compliance deadlines that may be impacted by shipping delays. vi. Doubling the allocation for ERF. Double working capital availability under SBP's/EXIM Bank's Export Refinance Facility for exporters exposed to disrupted supply chains; (x) notify GSP+, US and DCTS partner authorities of the force majeure conditions affecting Pakistani exporters, to seek flexibility on delivery-linked compliance conditions; (xi) negotiate long-term crude supply agreements with Saudi Arabia (Red Sea route), Azerbaijan (Caspian route), and Kazakhstan, reducing singular dependence on the Hormuz corridor; (xii) Pakistan's 30-day domestic POL stock is critically thin. A minimum 60-day strategic reserve policy should be operationalized, including dedicated storage infrastructure; (xiii) the shift to on-site solar and hybrid CHP systems in the textile sector must be accelerated through regulatory facilitation, removing net metering bottlenecks and levy on CHP - CPPs and providing TUF-style credit support for capital investment; and (xiv) engage China through the CPEC framework for LNG and oil supply cooperation, leveraging the China-Gulf energy relationships as a strategic hedge.

The Strait of Hormuz disruption is not a temporary inconvenience. It is an accelerant applied to structural vulnerabilities that Pakistan's textile sector has long carried: high energy costs, thin reserve buffers, and policy instability. Pakistan's competitors are already acting. The government of Pakistan has a narrow but real window to implement protective measures that will determine whether textile exporters can maintain their order books and market positions over the next 60-90 days, Anwar concluded.

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