



Pakistan Economic Forum IV

2018

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2018

Acknowledgement

The PBC would like to acknowledge the contributions made by the following members of the PEF panels in the preparation of this document.

I. Sustainable Macro-Economic Growth

1. Dr. Ishrat Husain (Panel Chair)
2. Mr. Arshad Zuberi
3. Mr. Bashir Ali Mohammad
4. Mr. Shaukat Tarin S.I.
5. Syed Salim Raza
6. Mr. Sakib Sherani
7. Senator Osman Saifullah Khan
8. Mr. Sayem Ali

II. Equitable Fiscal Policy

1. S.M. Shabbar Zaidi (Panel Chair)
2. Mr. Abrar Hasan
3. Mr. Haider Patel
4. Mr. Irfan Chawala
5. Mr. Iqbal Ali Lakhani
6. Mr. Masoud Naqvi
7. Mr. Nasim Beg
8. Ms. Naz Khan

III. Make in Pakistan

1. Mr. Ali Suleman Habib (Panel Chair)
2. Mr. Abdul Razzak Dawood
3. Mr. Almas Haider
4. Mr. Azam Faruque
5. Mr. Bashir Ali Mohammad
6. Mr. Iqbal Lakhani
7. Mr. Murad Saigol
8. Mr. Parvez Ghias
9. Mr. Saquib Shirazi
10. Mr. Shabbir Diwan
11. Mr. Shahid Hussain
12. Mr. Sikandar Mustafa Khan
13. Mr. Sohail P. Ahmed
14. Mr. Shahid Soorty
15. Syed Yawar Ali
16. Mr. Towfiq Habib Chinoy

IV. Availability & Cost Competitiveness of Energy

1. Mr. Khalid Mansoor (Panel Chair)
2. Mr. Javed Akbar
3. Mr. Muhammad Saqib
4. Mr. Mumtaz Hasan Khan
5. Mr. Nadeem Babar
6. Syed Muhammad Ali
7. Mr. Tayyab Tareen
8. Mr. Yacoob Sattar

V. Pakistan's Agriculture, Dairy and Livestock Potential

1. Syed Yawar Ali (Panel Chair)
2. Mr. Aamir Mahmood Mirza
3. Mr. Afaq A. Tiwana
4. Mr. Ahmed Sajjad
5. Dr. Asif Ali Shah
6. Mr. Khalil Sattar
7. Mr. Rana Sohail Sharif
8. Mr. Sajid Iqbal Sindhu
9. Mr. Usman Javaid
10. Mr. Abdul Wahab
11. Mr. Afzaal Rizvi
12. Capt. Arif Nadeem
13. Mr. Arshad Uddin Ahmed
14. Mr. Bilal Tata
15. Mr. Rashid Haleem
16. Mr. Saboor Ahmed
17. Mr. Samie Cashmiri
18. Mr. Saud Pasha
19. Mr. Sikandar Mustafa Khan
20. Mr. Sulaiman Monnoo
21. Syed Faisal Hasan

01

**THE PAKISTAN
BUSINESS
COUNCIL
PROFILE**

The Pakistan Business Council: An Overview

The Pakistan Business Council (PBC) is a business policy advocacy platform, established in 2005 by 14 (now 72) of Pakistan's largest private-sector businesses and conglomerates, including multinationals. PBC businesses cover nearly all sectors of the formal economy. It is a professionally-run organization headed by a full-time chief executive officer.

The PBC is a not-for-profit entity, registered under Section 42 of the Companies Ordinance 1984. Though it is not required under the law to do so, the PBC follows to the extent possible, the Code of Corporate Governance as applicable to listed companies.

The PBC is a pan-industry advocacy group. It is not a trade body nor does it advocate for any specific business sector. Rather, its key advocacy thrust is on easing barriers to allow Pakistani businesses to compete in regional and global arenas. The PBC conducts research and holds conferences and seminars to facilitate the flow of relevant information to all stakeholders in order to help create an informed view on the major issues faced by Pakistan.

The PBC works closely with the relevant government departments, ministries, regulators and institutions, as well as other stakeholders including professional bodies, to develop consensus on major issues which impact the conduct of business in and from Pakistan. The PBC has submitted key position papers and recommendations to the government on legislation and other government policies affecting businesses. It also serves on various taskforces and committees of the Government of Pakistan as well as those of the State Bank, SECP and other regulators with the objective to provide policy assistance on new initiatives and reforms.

The PBC's Founding Objectives

- To provide for the formation and exchange of views on any question connected with the conduct of business in and from Pakistan.
- To conduct, organize, set up, administer and manage campaigns, surveys, focus groups, workshops, seminars and field works for carrying out research and raising awareness in regard to matters affecting businesses in Pakistan.
- To acquire, collect, compile, analyze, publish and provide statistics, data analysis and other information relating to businesses of any kind, nature or description and on opportunities for such businesses within and outside Pakistan.
- To promote and facilitate the integration of businesses in Pakistan into the World economy and to encourage in the development and growth of Pakistani multinationals.
- To interact with governments in the economic development of Pakistan and to facilitate, foster and further the economic, social and human resource development of Pakistan.

The Board of Directors

Mr. Muhammad Ali Tabba (Chairman)

Lucky Cement Limited

Mr. Towfiq Chinoy (Vice-Chairman)

International Industries Limited

Mr. Abdul Razak Dawood

Descon Engineering

Mr. Abrar Hasan

National Foods Limited

Mr. Ali S. Habib

Indus Motor Company Limited

Mr. Arif Habib

PakArab Fertilizer Limited

Mr. Bashir Ali Muhammad

Gul Ahmed Textile Mills Limited

Mr. Iqbal Lakhani

Colgate Palmolive (Pakistan) Limited

Mr. Nauman Ansari

Bank Alfalah Limited

Mr. Muhammad Aurangzeb

Habib Bank Limited

Mr. Shabbir Diwan

Gatron Industries Limited

Ms. Shazia Syed

Unilever Pakistan Limited

Syed Yawar Ali

Nestle Pakistan Limited

Dr. Zeelaf Munir

English Biscuit Manufacturers Limited

Mr. Ehsan Malik (CEO)

The Pakistan Business Council

Membership Criteria

The PBC is neither a trade nor is it a representative body for a specific industry. It does not advocate sector and industry specific issues; instead, its advocacy thrust is on improving the general business environment of the country.

The PBC represents private businesses in Pakistan, with substantial investments in manufacturing and the financial / services sectors. To ensure quality of membership, the qualifying threshold for membership has been deliberately kept high, so that no more than approx. 100 of existing private sector businesses can potentially qualify. To ensure 'frontline business intellectual input', the authorized representative invariably has to be the Chairman / President / CEO / MD of the member company.

The current qualifying threshold for a non-financial sector company to be a member is to have an equity of at least Rs. 1.0 billion, or Net Fixed Assets equivalent to this value. For a financial sector company, the qualifying requirement is a paid-up capital of at least Rs. 2.0 billion. Qualifying thresholds are for individual companies, and group companies' paid-up capitals and group companies' fixed assets cannot be clubbed together for meeting the qualification criteria.

To further ensure participation of only serious businesses, the joining fee and the annual subscription fee have been kept at premium levels of Rs. 3.0 million and Rs. 2.0 million respectively. Finally, the membership criteria also stipulate that meeting the financial qualifying threshold is not a guarantee for acceptance; companies desirous of PBC membership have to be invited to join the PBC, and membership is subject to Board approval.

The PBC Members by Sector

PBC currently has 72 members, whose businesses cover nearly all sectors of the formal economy. The sector wise representation (in alphabetical order) is detailed below:

Sector	Member Companies
Large-Scale Manufacturing	
Agro Industries	1
Cement	2
Chemicals / Fertilizer	9
Energy	2
Engineering	6
Fast Moving Consumer Goods	17
Packaging Material	3
Pharmaceuticals and Healthcare	5
Textiles	9
Total Members in Large-Scale Manufacturing	54

Services

Financial Services	11
Hospitality	1
Logistics / Courier	2
Utilities	3
Telecommunication	1
Total Members in the Services Sector	18

The PBC's Member Companies



The PBC's Member Companies



LOTTE



SIEMENS



27 MNC's from 13 Countries



USA



UK



UAE



Switzerland



Japan



27 MNC's from 13 Countries



Netherlands



France



Bahrain



South Korea



Norway



Hong Kong



Germany



Sweden



Nominated Representatives of Member Companies

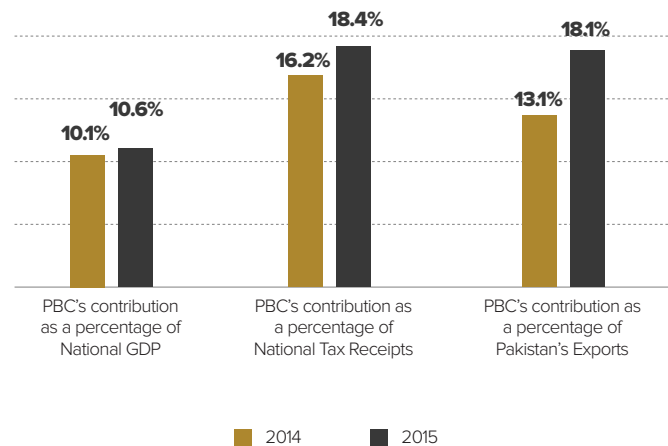
PBC Executive Member	Representative and Designation	Group Company
Abbott Laboratories Pakistan	Syed Anis Ahmed (MD)	Abbott Laboratories
AkzoNobel Pakistan Limited	Jehanzeb Khan (CEO)	AkzoNobel NV
AlliedBankLtd.	Mohammad Naeem Mukhtar (Chairman)	IbrahimGroup
Amreli Steels Limited	Abbas Akberali (Chairman)	Amreli Steels
Artistic Milliners (Pvt) Limited	Yaqoob Ahmed (Chairman)	Artistic Milliners
Asian Food Industries	Shahid Iqbal (CEO)	Mayfair
Bank Alfalah Limited	Nauman Ansari (CEO)	Abu Dhabi Group
Bank AL Habib Limited	Mansoor A. Khan (CEO)	Dawood Habib Group & Friends/Associates
Cherat Cement Company Ltd.	Azam Faruque (Chief Executive)	Ghulam Faruque Group
Colgate Palmolive	Iqbal Lakhani (Chairman)	Lakson Group
Dalda Foods Limited	Perwaiz Khan (CEO)	Dalda Foods
Dawood Hercules Corporation Ltd.	Inam ur Rehman (CEO)	Dawood Group
Descon	Abdul Razak Dawood (Chairman)	Descon Group
EFU General Insurance	Saifuddin Zoomkawala (Chairman)	EFU
English Biscuit Manufacturers	Dr. Zeelaf Munir (MD & CEO)	English Biscuit Manufacturers
Engro Corporation	Ghias Khan (President & CEO)	Engro Corporation
Engro Foods Limited	Ali Ahmed Khan (CEO)	FrieslandCampina Holdings
Faysal Bank	Yousuf Hussain (CEO)	Ithmaar Bank B.S.C (Bahrain)
Ferozsons Laboratories	Osman Khalid Waheed (CEO)	Ferozsons Laboratories
Gatron (Industries) Limited	Shabbir Diwan (Director)	Gani & Tayub / Gatron Group
Getz Pharma	Khalid Mahmood (Managing Director)	Getz Group
GlaxoSmithKline Pakistan	Azizul Huq (Managing Director)	GlaxoSmithKline
Gul Ahmed	Bashir Ali Mohammed (Chairman)	Gul Ahmed Group
Habib Bank Ltd.	Muhammad Aurangzeb	Habib Bank Limited
Hascol Petroleum Limited	Mumtaz Hasan Khan (Chairman)	Hascol
Hub Power Company Limited	Khalid Mansoor (CEO)	Hub Power Company Limited
ICI Pakistan	Asif Jooma (Chief Executive)	Yunus Brothers Group
Indus Dyeing & Manufacturing	Imran Ahmed (Director)	Indus Group
Indus Motor Company	Ali S. Habib (Chairman)	The House of Habib
Interloop (Pvt.) Limited	Musadaq Zulqarnain (CEO)	Interloop
International Industries Ltd.	Towfiq Chinoy (Managing Director)	IIL Group
JDW Sugar Mills Ltd.	Jahangir Khan Tareen (CEO)	JDW Group
JS Bank Limited	Khalid Imran (President & CEO)	JS Group
K-Electric	Muhammad Tayyab Tareen (CEO)	KES Power Limited
K&N's Foods (Pvt.) Limited	Khalil A. Sattar (CEO)	K&N's Foods
Lotte Chemicals	Humair Ijaz (CEO)	Lotte

Nominated Representatives of Member Companies

PBC Executive Member	Representative and Designation	Group Company
Lucky Cement	Muhammad Ali Tabba (CEO)	Yunus Brothers Group
Martin Dow Limited	Jawed Akhai (Chairman & CEO)	Seattle (Private) Limited
Mega Conglomerate	Habib Ullah Khan (Chairman)	Mega Group
Millat Tractors Ltd	Sikandar Mustafa Khan (Chairman)	Millat Group
National Foods Ltd	Abrar Hasan (CEO)	National Food
Nestlé Pakistan Limited	Syed Yawar Ali (Chairman)	Nestlé
Nishat Mills Ltd.	Mian Umer Mansha (CEO)	Nishat Group
Packages Limited	Syed Hyder Ali (Managing Director)	Packages / Ali Group
Pakarab Fertilizers Ltd.	Arif Habib (Chairman)	Fatima Group
Pakistan Services Limited	Murtaza Hashwani (CEO)	Hashoo Group
Pakistan Telecommunication Company Limited	Dr. Daniel Ritz (CEO)	Etisalat International Pakistan
Pakistan Tobacco Company Ltd.	Graeme Amey (Managing Director)	British American Tobacco
Philip Morris (Pakistan) Ltd.	Alexander Reisch (Managing Director)	Philip Morris International
Reckitt Benckiser	Fahad Ashraf (CEO)	Reckitt Benckiser
Saif Textile Mills	Osman Saifullah Khan (Chief Executive)	Saif Group
Sapphire Textile	Nadeem Abdullah (Chief Executive)	Sapphire Group
Shan Foods (Pvt) Limited	Sikander Tiwana (Chief Executive)	Shan Foods
Soorty Enterprises (Pvt.) Limited	Shahid Rashid Soorty (CEO)	Soorty Group
South Asia Pakistan Terminals	Syed Rashid Jamil (CEO)	Hutchison Port Holdings
SICPA Inks Pakistan (Pvt.) Limited	Asif Ikram (CEO)	SICPA SA.
Shirazi Investments	Saquib Shirazi (Director)	Shirazi Group
Siemens Pakistan Engineering	Helmut Von Struve (MD & CEO)	Siemens
Soneri Bank Limited	Mohammad Aftab Manzoor (CEO)	Rupali Group
Standard Chartered Bank	Shahzad Dada (CEO)	Standard Chartered Bank
Synthetic Products Enterprises	Zia Hyder Naqi (CEO)	SPEL Group
Tapal Tea Ltd	Aftab F. Tapal (CEO)	Tapal Tea
TCS (Private) Limited	Khalid Nawaz Awan (CEO)	TCS (Private) Limited
Telenor Pakistan (Pvt) Limited	Irfan Wahab Khan (CEO)	Telenor/Telenor Pakistan B.V.
Tetra Pak Pakistan	Jorge Montero (Managing Director)	Tetra Laval Group
The Coca-Cola Export Corporation	Rizwan Ullah Khan (Country Head)	Coca-Cola Export Corporation
TPL Trakker Limited	Ali Jameel (CEO)	TPL Trakker Limited
Tufail Chemicals	Zubair F. Tufail (CEO)	Tufail Group
United Bank Limited	Sima Kamil (President & CEO)	Bestway Group (UK)
Unilever Pakistan Limited	Shazia Syed (Chairperson & CEO)	Unilever

The PBC Members' Contributions to the National Economy

PBC members and their group companies contributed more than 10% of Pakistan's GDP in 2015, a little more than 18% of national tax revenues and 18% of Pakistan's exports. The PBC companies also provide direct employment to 315,000 people in Pakistan.



An Evidence Based Approach to Policy Advocacy

The PBC believes in research-based advocacy, which is further supported by evidence of best practices in economies at a similar level of development as Pakistan. Moreover, the PBC's recommendations are tailored to Pakistan's unique environment. This emphasis on a pragmatic approach to advocacy has enabled the PBC to emerge as the apex representative of big business in Pakistan.

The PBC endeavors to partner with various government ministries, departments, regulators, institutions as well as with other private sector organizations and professional bodies, in its advocacy efforts. Since 2006 the PBC has worked very closely through taskforces constituted by the Ministry of Finance, the FBR, the SECP, Ministry of Commerce and the SBP, in various areas which include:

- The Holding Company Law - 2007
- The Law on Large Import Houses – 2007
- The Housing Advisory Group of the SBP - 2008
- The Real Estate Investment Trust Law – 2008
- The Special Economic Zone Act -2012
- Pakistan team for negotiating the Afghanistan Pakistan Transit Trade Agreement (APTTA) 2011
- The revised Code of Corporate Governance for Listed Companies - 2012
- The Takeover Code - 2012
- The Corporate Law Reform Commission
- The Law on Private Equity & Venture Capital
- The Corporate Rehabilitation Act – (Work in Progress)
- Corporate Governance Rules (2013) For Public Sector Companies
- The Taskforce negotiating the Pakistan Turkey FTA (Work in Progress)

Building National Consensus on Major Issues

The Pakistan Business Council first developed in 2011 a National Economic Agenda (NEA) which covered five areas of vital importance for the socio-economic uplift and development of Pakistan. The PBC has worked with major stakeholders, including political parties, in an effort to achieve a consensus on a common national agenda which cuts across the political divide. As part of these efforts, in April 2011 the PBC convened a meeting in Islamabad at which senior leadership of the five major political parties agreed to work to develop a common national agenda. In 2013 the NEA was revisited by the PBC in order to update it and to use it as an advocacy tool with the new government which took office in May 2013. With elections scheduled to be held in mid-2018, the PBC is currently in the process of updating the NEA and scheduling preliminary contacts with the major stakeholders.

The Pakistan Economic Forum

The Pakistan Economic Forum (PEF) is an annual event hosted by the PBC. The inaugural event of the PEF was held in 2011. The PEF brings together the best available intellectual capital in the country, to debate on major issues which are confronting Pakistan. The panels of the Forum, headed by Chairs and Co-Chairs and comprising sector specialists, debate various issues and come up with pragmatic recommendations. These recommendations are then shared with a wider audience in the form of PBC position papers. The 4th Edition of the PEF was held on January 17th, 2018 in Islamabad. The Prime Minister of Pakistan led the Government delegation to the Forum and also spoke on the occasion. He assured the audience of working closely with the private sector and the PBC to support the “Make in Pakistan” initiative. He also announced the setting up of a Committee comprising of representatives of the private sector and the government to resolve issues which are hampering domestic manufacturing. Following panels shared their recommendations at the 4th PEF:

- Macroeconomic Stability & Growth
- Fiscal Policy Reform
- The Make in Pakistan Initiative
- Towards Pakistan’s Energy Security & Competitiveness
- Improving Competitiveness of Pakistan’s Agriculture, Dairy & Livestock Sectors

Recognition of the PBC's Efforts

The PBC's efforts to improve the business climate and its emphasis on improving the competitiveness of Pakistani businesses has led to the PBC being recognized as the apex representative body of the private sector in Pakistan. In pursuing its objectives, the PBC has partnered with various institutions and policy-making forums, such as:

- The PBC has signed an MOU with MEDEF (Movement of the French Enterprises)
 - The PBC has signed an MOU with the Confederation of India Industry (CII).
 - The PBC has signed an MOU with the Indian Council for Research on International Economic Relations (ICRIER).
 - The PBC has signed an MOU with the Federation of Korean Industry (FKI).
 - The PBC has signed an MOU with the International Finance Corporation (IFC).
 - The PBC has signed an MoU with the Association of Chartered Certified Accountants (ACCA).
 - The PBC has signed an MoU with Institute of Chartered Accountants of Pakistan (ICAP).
 - The CEO of the PBC serves as a director on board of the Board of Investment (BOI).
 - The CEO of PBC serves on the Trade Policy Advisory Committee.
 - The CEO and a previous Chairman of the PBC were the only private sector representatives on the Committee set up for the development of Special Economic Zones in Pakistan.
 - The PBC is represented by its CEO on the Taskforce constituted by the Planning Commission for the Development of the Private Sector.
 - The CEO of PBC has been nominated on the Implementation Committee on Expo 2020.
 - The Director Research of the PBC was part of the Pakistani team that negotiated the current Afghanistan Pakistan Transit Trade Agreement.
 - The PBC has been nominated by the Ministry of Commerce as the Secretariat in Pakistan for the Pakistan India Joint Business Forum (PIJBF).
 - The PBC has been nominated by the Ministry of Commerce as the Secretariat in Pakistan for the Afghanistan Pakistan Joint Business Council (APJBC).
- Two representatives of the PBC serve on the Taskforce constituted to negotiate the proposed Pakistan Turkey Free Trade Agreement.
- PBC is represented on PSQCA's Halal Technical Committee by its Company Secretary.
- PBC is represented on the PBC-SEPA Joint Technical Committee formed to review the Biodegradable Plastics Rules in Sindh.
 - PBC is represented by its Company Secretary on the Technical Committee formed to finalize Rules for the Sindh Food Authority.

Current Areas of Policy Advocacy

- PBC advocates a national consensus around a 'Make in Pakistan' thrust to deliver jobs, value added exports and import substitution of goods and services and for the equitable broadening of the tax base, consolidation of Pakistani businesses to promote scale and develop global competitiveness.
- Reversing the current premature deindustrialization of Pakistan with an emphasis on using the manufacturing sector for creating jobs, value added exports and revenue.
- A complete moratorium on the signing of new Free Trade Agreements (FTA) pending a review of the existing FTAs which have been signed by Pakistan.
- Broadening the tax base through equitable and effective taxation policies and practices.
- Creating an environment to ensure that CPEC leads to incremental jobs and growth for Pakistan.
- The simplification of government processes to ease (and bring down the cost of) doing business
- An environment to reposition Pakistan in the Information, Communications and Technology Sector
- Greater market access for Pakistani exports in the major markets of the world.
- Constant monitoring of the industrial and trade policies being pursued by the Government of Pakistan with the aim ensuring a level playing field for Pakistani businesses.
- Greater regional economic integration and especially trade with India but subject to a level playing field.

Major Accomplishments since 2013

Appointed secretariat in Pakistan for the Pakistan India Joint Business Forum (PIJBF)

The PIJBF has been notified by the governments of India & Pakistan with the mandate to pursue recommendations for the normalization of India Pakistan trade. Both governments have nominated 15 top business persons from their respective countries. Since its inception in 2013, the PIJBF has met '5' times.

Worked with the Ministry of Commerce to Develop Pakistan's SAFTA Sensitive List

The PBC worked with the MoC to develop a list of items which should be on Pakistan's Sensitive List for trade with India under SAFTA. PBC is lobbying with the MoC to ensure that industry's concerns vis-à-vis opening up of trade with India and a level playing field for Pakistan's exports to India are addressed.

Appointed secretariat in Pakistan for the Afghanistan Pakistan Joint Business Council (APJBC)

The APJBC has been notified by the governments of Afghanistan and Pakistan with the objective to help facilitate trade and investment between the two countries.

PBC / FBR Joint Working Group

The Chairman FBR has formed a Joint Working Group (JWG) of the PBC & Senior Islamabad based Members of the FBR. The JWG has been tasked with helping the FBR plug revenue leakages as well as work to remove the operational issues faced by businesses in general and PBC members in particular.

Providing input to the Ministry of Commerce as it Negotiates the 2nd Phase of the Pak China FTA

PBC is acting as the "Think Tank" to the Ministry of Commerce as it negotiates the 2nd Phase of the Pak China FTA. Major shortcomings in the first Phase of the China Pakistan FTA were highlighted by the PBC and the government as a result is taking a more cautious approach to the 2nd Phase of the FTA.

Organizing a Pakistan Business Delegation to France

PBC along with the BOI and the French Embassy in Pakistan organized a Business Delegation in June 2014.

Review of the proposed Pak-USA BIT Agreement for Board of Investment

The PBC has recommended to the Government of Pakistan to not sign the proposed BIT in its present form as proposed by the US as it can potentially harm the interests of Pakistani businesses. The PBC has made specific recommendations on how the terms of this BIT can be improved to better ensure that interests of Pakistan is not compromised.

Centre of Excellence in Responsible Business (CERB)

The Centre of Excellence in Responsible Business (CERB) is the first of the Pakistan Business Council's (PBC) outreach initiatives to build capacity and capability of businesses in Pakistan.

Vision

To be a multi-sector business coalition assisting Pakistani enterprises to pursue sustainable value creation in the short, medium and long term.

Mission

- To engage with businesses and industry leaders and enable the transformation towards the conduct of responsible business in Pakistan
- To leverage private sector growth for inclusive development, poverty reduction and sustainability by following the UN Sustainable Development Goals (SDG) framework. CERB will leverage global and local best practices to inculcate a change in mind-set among businesses including small and medium-sized enterprises. It will have knowledge partners with researched resources to contribute to its mission. CERB comprises of Online Research & Innovation Initiative and two inter-dependent business units.

Online Research and Innovation Initiative

This will be developed as an online research portal with a determined effort to integrate the business research community with industry to develop world class research to support CERB's strategic objectives outlined in its Mission.

Ethics, Values and Governance Forum

This forum promotes responsible practices which strengthen the formal sector in pursuit of sustainable value creation.

Inclusive and Sustainable Development Forum

This forum focuses on generating livelihoods, promoting women's empowerment and decoupling growth from its impact on the environment.

CERB's outcomes

CERB aims to impact private sector to create wealth through the conduct of responsible business in a competitive global economy. It will assist businesses to maintain a competitive edge through high value research and dissemination of knowledge. It will use real time business knowledge and will turn it into sustainable competitive advantage for the private sector.

Recent Publications

The PBC's advocacy is supported by research work, some of the major publications of the PBC include:

Title	Summary
Pakistan's Trade with its Regional Partners: India, Iran & Afghanistan (2018)	The report analyses and explores the existing trade patterns Pakistan has with its 3 neighbouring countries and explores the trade potential that exists.
4th Review of the China Pakistan Free Trade Agreement (CPFTA) & Recommendations for Phase II Negotiations (2018)	This was a follow up report on the 3rd Review of the CPFTA undertaken in 2016 with recommendations for the phase II negotiations.
The Third Review of the Pakistan – Turkey Free Trade Agreement (2018)	A follow-up report on the proposed FTA with Turkey, along with a word of caution for the policy-makers.
A Review of the Proposed Pakistan Thailand Free Trade Agreement (2018)	The report explores the proposed FTA with special emphasis on the Thai manufacturing sector.
The Potential Impact of Brexit on Pakistan – United Kingdom Bilateral Trade (2018)	A follow up report analyzing the post-BREXIT impact on Pakistan-UK bilateral trade considering that the largest market for Pakistan's exports in EU has been the UK.
Pakistan's GSP+ Status ...a missed opportunity? (2018)	This report explores Pakistan's trade with the EU post GSP+, and analyses why the zero-duty was never fully exploited.
Pakistan: Rising Imports, Declining Exports & Premature Deindustrialization (2017)	This was a wake-up call for policy makers highlighting Pakistan's unsustainable levels of current account deficit and premature deindustrialization in the country.
Country Series – Turkmenistan (2017)	Highlighted the opportunities for Pakistani businesses in Turkmenistan
Country Series – Uzbekistan (2017)	Highlighted the opportunities for Pakistani businesses in Uzbekistan
Country Series – Kyrgyz Republic (2017)	Highlighted the opportunities for Pakistani businesses in Kyrgyz
Country Series – Kazakhstan (2017)	Highlighted the opportunities for Pakistani businesses in Kazakhstan
Country Series – Tajikistan (2017)	Highlighted the opportunities for Pakistani businesses in Tajikistan
Second Review of the Feasibility of a Free Trade Agreement between Pakistan and Thailand (2016)	This was a follow-up to the first review which was undertaken in 2015.
Third Review of the Pakistan-China FTA and Recommendations for Phase 2 Negotiations (2016)	This was a follow-up to the second review which was undertaken in 2015.

Recent Publications

Title	Summary
Afghan Transit Trade through Pakistan and Pakistan Afghanistan Bilateral Trade (2016)	This was a follow-up to the first review which was undertaken in 2015.
Second Review of the Feasibility of a Free Trade Agreement between Pakistan and Turkey (2016)	This was a follow-up to the first review which was undertaken in 2015.
Selected Trade and Manufacturing Data for Pakistan – A Brief Analysis (2016)	Continuing negative trends in manufacturing, 7th year of publication by PBC
2nd Review of the Pak-China FTA (2015)	This was a follow-up to the first review which was undertaken in 2013.
Review of Pak Sri Lanka FTA (2015)	This showed that full potential of the FTA was not being utilized
Afghanistan's International Trade Patterns Post-APTTA (2015)	Main finding being that Pakistan remains the favored transit route for Afghan imports
1st Year Review of Pakistan's GSP Plus (2015)	Highlights increased reliance on EU markets especially textile sector
Review of Pakistan's PTA with Mauritius (2015)	This PTA signed in 2007 has failed to achieve any objectives
Review of Pakistan's FTA with Malaysia (2015)	Major concessions by Pakistan for no significant market access for exports
Review of Pakistan's PTA with Indonesia (2015)	Again, opening up a captive market (palm oil) with no corresponding concessions
Pakistan India Trade Normalization – A Word of Caution (2015)	Caution advised against normalizing trade without corresponding easing of Indian restrictions
A detailed Study on the Proposed Pakistan Turkey FTA (2014)	Recommended to the Government of Pakistan to ensure that the interests of Pakistani business were safeguarded in the negotiations
A detailed Study on the Proposed Pakistan Thailand FTA (2015)	Suggested that this be deferred as there appears to be no major gains for Pakistan
Country Series – Argentine Republic (2016)	Highlighted the opportunities for Pakistani businesses in Argentine Republic
Country Series – Brazil (2016)	Highlighted the opportunities for Pakistani businesses in Brazil
Country Series – United Mexican States (2015)	Highlighted the opportunities for Pakistanis to trade with and do business in Mexico

Recent Publications

Title	Summary
Country Series – Ghana (2015)	Highlighted the opportunities for Pakistani businesses in Ghana
Country Series – Chile (2016)	Highlighted the opportunities for Pakistani businesses in Chile
Country Series – Mozambique (2015)	Highlighted the opportunities for Pakistani businesses in Mozambique
Country Series – Iran (2015)	Highlighted the opportunities for Pakistani businesses in Iran
Country Series – The Russian Federation (2016)	Highlighted the opportunities for Pakistani businesses in Russia
Country Series – Ethiopia (2015)	Highlighted the opportunities for Pakistani businesses in Ethiopia
Country Series – Nigeria (2015)	Highlighted the opportunities for Pakistani businesses in Nigeria
Country Series – South Africa (2016)	Highlighted the opportunities for Pakistani businesses in South Africa
Country Series – Angola (2015)	Highlighted the opportunities for Pakistani businesses in Angola

Comparatives, Representations, Policy Papers and Short Presentations

- Recommendations to the SECP on the Companies Act, 2017
- Recommendations to SECP on the proposed Companies, Bill 2016
- Recommendations to the SECP on the Public-Sector Companies (Corporate Governance) Rules, 2013 (Updated up to April 21, 2017)
- Recommendations on the Listed Companies (Code of Corporate Governance) Regulations, 2017
- Policy Brief on the Ministry of Commerce's Strategic Trade Policy Framework
- Drafted a rejoinder to the SECP's objections to the PBC's position on SECP Bill, 2011
- Comparative on the NTC Bill, 2015
- Position Paper on Oxo-Biodegradable Plastics
- Compilation of Pakistan-Hungary trade statistics.
- Afghanistan-United States Trade Analysis: comparison and recommendations for Qualified Industrial Zones versus Reconstruction Opportunity Zones
- Pakistan-Canada Annual Trade Analysis
- Briefing paper on the Istanbul Process

PBC Working with the legislature to improve the working of NTC

The PBC is actively engaging with the Ministry of Commerce & the legislature to improve the new NTC Act 2015. The PBC strongly believes that though the 2015 NTC Act is better than the old Law, there is considerable space for improving the new Law. As part of this interaction the MoC and the PBC are in the process of forming a Joint Working Group.

The Way Forward

The members of the Pakistan Business Council believe that Pakistan's secure future lies in high and sustained levels of economic growth and that this growth must be inclusive. To further this objective, the PBC is continuously willing to partner with the various current and future stakeholders.

02

AGENDA FOR THE ECONOMY

The Pakistan Business Council's Agenda for the Economy

The principal objectives of the Pakistan Business Council (PBC) are to foster growth and promote:

- _____ JOBS
- _____ VALUE-ADDED EXPORTS
- _____ IMPORT SUBSTITUTION
- _____ EQUITABLE BROADENING OF THE TAX BASE
- _____ SUSTAINABLE DEVELOPMENT

The central premise of the PBC's Agenda for the Economy is that industry in a country with a consumer base of over 200 million can with the right policies, gain the critical mass to offer goods and services on competitive terms in both, the domestic and the global markets. Thus a strong domestic industry can deliver all the aforementioned objectives. PBC's stance on "Make in Pakistan" is all the more relevant today as many developed & developing countries move to protect their domestic markets. The term "Make in Pakistan" encompasses the maximization of local manufacturing and all services within the extended value-chains. Regretfully, lack of political will, unaligned and unpredictable policies, a weak and fragmented bureaucracy, vested and short-term interests have together worked to convert Pakistan into a nation of import-reliant traders, costing jobs, creating repeated cycles of pressure on the external account and resulting in the loss of tax revenue necessary to fund social development.

The Background

- Pakistan is deindustrializing prematurely – manufacturing as % of GDP in Pakistan is declining;
- private consumption at ~ 80% remains the dominant part of GDP, in excess of peer Asian countries;
- import reliance has grown and exports and remittances are stagnating, creating recurring pressure on the external account;
- The Pakistan Rupee has lost competitiveness vs. the country's main competitors in the global market;
- investment lags peer countries. Policies discourage corporatization, capital formation and investment;
- the narrow formal sector is increasingly burdened with higher taxes and at the same time forced to work as unpaid tax collector of 75 different types of with-holding taxes. This engine of jobs, exports and tax revenue has lost faith in the fiscal policy which does not promote capital accumulation, consolidation or investment;
- manufacturing, which represents 13.5% of GDP carries 58% of the tax burden. Agriculture and retail/wholesale, which together represent 40% of the economy contribute less than 2%; reliance on presumptive taxes encourages trading rather than manufacturing, impacting jobs; productivity in agriculture, which represents 20% of GDP, is well below global best, crop support price results in unsustainable surpluses, whilst cotton shortage impacts the textiles industry which is the backbone of exports. Pakistan, an agrarian economy is now a net importer of food with a \$2 Bn deficit;
- private sector credit as % of GDP is down from 28% in 2007 to 16% in 2016 vs. Bangladesh's 44%. Banks prefer risk-averse lending to the government. The SME sector suffers the most; share of world exports has declined, whilst Bangladesh and Vietnam's grew two and seven-fold respectively in the last two decades. Pakistan's exports are narrow in range (65% textiles), low in value- addition, sophistication and import incorporation and are targeted mainly at the EU and USA (50% of total);
- in Ease of Doing Business, as well as in most other global rankings, Pakistan fares badly even against its South Asian peers. More alarmingly, the same is the case in most Social Development Indicators;
- The Information, Communications and Technology sector is under-supported and over-taxed; The formal retail sector faces an uneven playing field vs informal trade; Pakistan ranks lowest in credit ratings in South Asia.
- And in the backdrop of the above is a vibrant, tech connected urban youth cohort with aspirations for goods and services but with limited access to decent secure jobs in the absence of a dynamic formal sector

Interim Measures for Keeping Pakistan Afloat

Whilst short term measures are necessary to manage the immediate challenges to the economy, the only way to sustain macro-economic stability is through fundamental reforms which require political will and a national consensus. It is PBC's intention to develop the latter. The country will also require substantial financial space to implement these. With the election cycle precluding an IMF programme and the low likelihood of donor funding, Pakistan politicians' and policy makers need out-of-the-box solutions to create this space. A model to consider for providing this fiscal space is Indonesia, which in 2017 was able to unlock \$330 Bn of undeclared wealth, representing 40% of its GDP. This included \$77 Bn of assets abroad of which more than half have returned to the country.

Medium-Term Measures

To enable domestic industry to thrive, fiscal and other policies should facilitate rather than encumber the formal sector. Equally, if long-term, investment-friendly policies are forthcoming, private sector should invest in skills, capacity and capability to be globally competitive in cost and quality. It needs to add sophistication and adapt to changing demand. State Owned Enterprises (SOEs) should be restructured under the ownership of a government holding company along the lines of Temasek of Singapore or Khazanah of Malaysia. Subsequent privatization of SOEs would be dependent on private sector's capital and risk appetite and the country's strategic interest. Competition laws should be strengthened to protect consumer interest. Levelling the playing field with the informal sector and encouraging domestic business will increase the tax revenue necessary to fund social development. Pakistan lags in nutrition, education and health. Consequently, its human capital is weak, productivity is low and talent for the knowledge economy is short. Government and business need to work together to address these deficiencies and help Pakistan meet the UN Sustainable Development Goals

Anchoring Pakistan's Future in a Make-in-Pakistan Initiative

As the voice of industry, PBC advocates a national consensus around a "Make in Pakistan" thrust to deliver jobs, value added exports and import substitution of goods and services and for the equitable broadening of the tax base. PBC's advocacy also addresses greater inclusiveness and sustainable development. The headline recommendations are listed below and further details appear in the Annexure attached:

1. Stop undermining domestic industry through ill-negotiated trade agreements. Renegotiate with China, be smart with Turkey and Thailand. Start factoring impact on jobs and tax revenue into future agreements.
2. Create a more level playing field for the formal sector. Arrest under-invoicing, smuggling etc.
3. Craft a "Make in Pakistan" policy through full alignment of all stakeholders. The PM should visibly lead this.
4. Consistently adopt a market-related exchange rate policy
5. Open more sectors to competition to improve productivity to world class. Business will invest if policies are conducive, long term and consistent.
6. Make net job creation and correcting the trade imbalance with China a cornerstone of CPEC. Ensure existing industry is not undermined by SEZs.

7. Provide energy at competitive cost to fuel industrial revival, pending which, factor this disparity in the export rebate. Long-term energy security is in indigenous fuels. Impediments to development of local energy sources should be a priority.
8. Reverse the trend towards trading and restore faith in the taxation system. Separate tax policy making from tax collection to avoid short-term, knee-jerk measures – tax policy to no longer be subservient to the Ministry of Finance. Policies must be for the long-term and promote capital accumulation, consolidation and investment. Multiple taxation, for example of dividends must stop. Equitable rates of tax to apply for all business activities – the current policy of taxing corporates at a higher rate needs to end. Super Tax, tax on under 40% profit distribution, tax on bonus shares, minimum tax on turnover and presumptive taxes, especially for commercial importers should be withdrawn and group taxation restored to the Finance Act 2007 basis.
9. Greater integration & mining of data bases available with the government are required to ensure that avenues like real estate and the stock market are no longer available as a means for parking ill-gotten money. The immunity for foreign remittances and FX accounts needs to end. All assets need to be tagged and linked to NADRA's & other databases
10. Simplify and reduce business interfaces with authorities to ease and bring down the cost of doing business.
11. Transform agriculture from low-yield subsistence farming to world class productivity.
12. Generate jobs by addressing the acute shortage in low and medium cost housing.
13. Encourage new ventures, especially in the information, communications and technology sector.
14. Strengthen public/private partnerships to enable business to promote inclusive and sustainable development.

Annexure

What is and what is not “Make in Pakistan” about?

IT IS ABOUT

- Long term policies to encourage investment in and the revival of manufacturing in Pakistan. Thus reversing the reliance on imports and avoiding the recurrent cycles of pressure on the external account.
- Creating jobs and upgrading human capital to boost productivity.
- Adding sophistication to Pakistan's industrial output, broadening the export relevance beyond traditional products and destinations and promoting import substitution.
- Leveraging Pakistan's consumer base of 207 million to build scale, starting with everyday needs. As industry becomes cost and quality competitive, deploy scale for export.
- Reposition Pakistan to the Middle-Income Country status.

IT IS NOT ABOUT

- Providing a captive market for inefficient industry at the expense of consumer choice.
- Supporting a tariff structure which prevents access to raw materials and intermediate goods at competitive prices to export industries.
- Creating monopolies in the name of “minimum economic size.”
- Encouraging industry currently at the bottom of the value-added chain to continue producing basic raw materials and low value intermediate products.
- Allowing the exploitation of labor in the name of “cost equalization” with regional competitors.

The PBC’s detailed recommendations are as follows:

01

Renegotiate the FTA with China and move with caution on proposed agreements with Turkey and Thailand. FTAs must deliver:

a. More local employment - 3 million additional people need to find gainful employment every year;

b. Additional tax revenue from improved profitability of domestic industry;

c. Higher value-added exports of a broader product range with greater geographical spread.

- FTAs to date have not had a significant impact on reducing Pakistan’s trade deficit.
- Under the FTA signed with China, Pakistan’s trade deficit grew 5-fold to over \$15 Bn.
- Largest increase in exports from Pakistan to China was of commodities and low value-added items, generating very few jobs. Imports were however of value-added items, undermining local industry, jobs and tax revenue.
- Negotiators failed to secure access for several items of export potential from Pakistan.
- Subsequent to the FTA with Pakistan, China granted more favorable terms to ASEAN, Australia and New Zealand. The China Pakistan FTA did not require China to offer similar terms to Pakistan.
- Pakistan availed of just 5% of the concessional lines under the FTA. Many of the concessional lines Pakistan had no capability of availing; others it couldn’t due to energy shortage and cost. China on the other hand availed of 57% of the concessional lines, mostly finished goods.
- Whilst renegotiation of the FTA with China has yet to be concluded, Pakistan has opened talks with Thailand and Turkey on fresh FTAs. There is significant mismatch between Pakistan’s export capability and those of Turkey and Thailand. For every additional \$ increase in Pakistan’s exports to Turkey, Turkish imports to Pakistan would increase by roughly \$3. Similarly, for every potential \$ increase in
- Pakistan’s exports to Thailand, imports from Thailand would increase by \$4. Pakistan already enjoys relatively low tariff access to both countries for the items it can export
- Both Thailand and Turkey aspire to get access to Pakistan’s automobile, auto-parts, chemicals, plastics and rubber markets, which would undermine existing industry
- Turkey is one of the highest users of trade defences, even against its FTA partners.
- Presently Turkey has anti-dumping, countervailing and safeguard levies on Pakistan’s cotton yarn, made-ups, PET.

AGENDA FOR THE ECONOMY

Level the playing field with the informal sector by curbing under-invoicing by introducing specific duties (by unit/ weight/ pieces/size) on sensitive items. Replace the “full and final” presumptive tax regime for commercial importers with a minimum tax and seek full tax accountability from all. Ensure that finished goods attract higher duty than RM/intermediates. Limit the misuse of Afghan Transit Trade and stop the brazen sale of smuggled products. Empower the National Tariff Commission to give benefit of doubt to local manufacturing.

- i. Under the presumptive tax regime, commercial importers pay a ‘full and final’ tax on the value declared/assessed, after which they are liberated from further tax accountability of profit. As the declared value is often under-invoiced, not only does it deny the government revenue, it severely undermines local manufacturing. Presumptive or “full and final” tax regime for commercial importers should be replaced by a minimum tax on import value to ensure that the government does not suffer from revenue shortfall. Commercial importers should thereafter be obliged to file tax returns like others and pay tax, including GST on value addition. An unholy alliance of vested interests argues against this change.
- ii. Import duty in general is charged ad-valorem. To curb under-declaration of imports on items that are prone to this practice, duty should be levied on the higher of ad-valorem or specific duty based on pieces, volume, weight, etc.
- iii. There are anomalies in calculation of import duty. Import duties for example on auto spare parts, which are value added, are being levied purely on weight. This should be corrected to bring duty to the proper value.
- iv. In some cases, import duty on finished goods is being levied at the same or lower rate than on raw and intermediate materials. This needs to be corrected to promote local production. However, where some manufacturer’s finished goods are another’s intermediate item, then exception should be made through SROs to create a level playing field for local manufacturing.
- v. The combination of import duties, GST (especially when levied on the final sales price to consumer) and advance income tax provide a good incentive to misuse the Afghan transit arrangements. Not only must goods imported for transit be charged all government levies (not just import duty), physical controls need to be a tightened to prevent evasion.
- vi. In many cases the quantities of goods “transiting” Pakistan are not commensurate with the size of Afghanistan’s population; the types “imported” are not in line with consumer tastes/preferences; and in some cases, Afghanistan lacks industrial capacity to convert raw & intermediate material into finished goods. Such items are either smuggled back to or never leave Pakistan. There should be a sharper focus on such items.
- vii. Porous borders facilitate movement from both Afghanistan and Iran into Pakistan. Unless physical controls are tightened, it is feared that goods imported via Chabahar and Bandar Abbas in Iran for Afghanistan will continue to find their way into Pakistan.
- viii. Many markets in Pakistan brazenly deal in smuggled goods. Local authorities must cooperate with Customs to stop this.
- ix. The National Tariff Commission must give benefit of the doubt to local manufacturing. Presently the law works to delay effective protection of domestic industry against dumping.

Craft a “Make in Pakistan” policy that addresses the fragmented and often conflicting policies of federal ministries and provinces in respect of industry and exports. The long term “Make in Pakistan” strategy should align manufacturing with trade and must be overseen by the PM to put Pakistan on par with value-addition and export powerhouses like Vietnam.

Pakistan needs one holistic and aligned policy to promote Make in Pakistan. This needs to address the growing fragmentation of authority between federal ministries and the federation and provinces. Examples are:

- FBR is driven by the immediate need of tax revenue to meet immediate deficit targets rather than the long-term impact of these on the economy or business. In the context of trade, import incorporation, excluding energy, into exports in Pakistan is less than 10% vs. 40% in Vietnam and Thailand and over 60% in Bangladesh. The latter produces no cotton, yet leads Pakistan 2:1 in textile exports by deploying its labour to convert cloth to apparel.
- Ministry of Finance is occupied in juggling the fiscal deficit by delaying tax refunds, impacting exporters' ability to fund business
- Ministry of Commerce is motivated by exports through Free Trade Agreements, oblivious to the impact on imports, trade deficit, local industry, jobs or tax revenue.
- The provinces do not take account of global competitiveness in setting minimum wage rates or providing world class infrastructure to promote domestic industry or exports.
- Post devolution, the provinces are responsible for agriculture. However, they do not spend enough on research, with the result, for example that cotton seed in Pakistan is outdated, yield is low, crops are vulnerable to pest attacks and the supply is denied to the Textiles industry which represents 60% of Pakistan's exports. Exports or agricultural yields is not seen as a KPI of provincial governments.
- Some provinces are pushing for food and environment standards at variance from others. There is an acute need for a harmonized national standard aligned with global standards to allow companies to gain scale and be globally competitive.
- Trade with China, Afghanistan, Iran, the Gulf States & East Africa should be a priority of the Make in Pakistan strategy. It should also be the basis of preparing for trade with India when relations allow.
- The government crowds out the private sector in bank lending, which as % of GDP has fallen to 16% vs. 44% in Bangladesh. SMEs fare even worse with just 3.4% of small and 6.7% of medium sized businesses availing bank credit. The corresponding figures for Bangladesh for small and medium sized businesses availing bank credit are 27.5% and 33.6% respectively. SBP refinancing; credit guarantees; lending on cash flow rather than physical collateral; special bank branches to evaluate risk; Prudential Regulations that dynamically adjust to changes in the marketplace; minimum lending targets; etc., are some solutions to boost credit to SMEs.

Open up more sectors to fresh competition from new investors to encourage greater productivity. Sharpen the focus of FDI to technology, value-added exports, import substitution and job creation.

Businesses will benefit from healthy competition from new entrants. It will not only stir improvements in productivity, value-addition, sophistication and quality, but also ensure competitive pricing. With conducive and consistent, long-term policies, more players will add scale, bring down cost and improve quality. In time, Pakistan would become competitive in exports as it starts meeting global standards. The Auto sector, hitherto protected and now opening up is a case in point. Introduction of private airlines has benefited travelers. Opening life insurance to the private sector has accelerated its penetration. E-banking and E-commerce, benefiting from affordable and more widely available broadband, will promote greater financial inclusiveness as well as productivity and efficiency. There is substantial room to improve in Logistics. Port handling, inland transportation and warehousing need to be world class in quality and cost. Pakistan can leverage its location as a storage and transit hub. Within Textiles, Pakistan's mainstay is cotton whereas global industry is evolving to man-made fabrics and technical textiles. Pakistan needs to build capability and capacity to adapt. This will require a comprehensive value-chain change.

State Owned Enterprises (SOEs), presently a drain on the economy should be restructured under the ownership and guidance of a government-owned but private sector resourced holding company along the lines of Temasek and Khazanah of Singapore and Malaysia respectively. Subsequent privatization should be determined by the private sector's capital and risk appetite, balanced with the nation's strategic priorities. An example of the latter could be risk-intensive oil exploration for which the private sector may have limited appetite.

Policies should differentiate in favour of FDI, which brings technology, adds jobs, generates either value-added exports or promotes import substitution. Presently much of FDI is premised on short payback leveraging on Pakistan's large and growing middle class consumption rather than the impact on the external account. The Board of Investment should focus on both local as well as foreign investment, rather than just the latter. JVs and technical agreements with foreign investors may be preferable to the current 100% FDI regime.

Make correcting the trade imbalance with China and the creation of jobs integral parts of CPEC. Concessions to SEZ's must be conditional on jobs and exports which are incremental to and not at the cost of existing industry.

CPEC will no doubt be a game changer for Pakistan and there is hardly a facet of the economy that will not be touched by it. However, there needs to be greater transparency on how CPEC will impact the competitiveness of existing domestic industries and the safeguards that will be deployed to prevent it becoming a channel for cheap imports. This is a concern as reportedly industries established in Special Economic Zones under CPEC will enjoy extensive concessions. It is important to ensure that such ventures add incrementally to jobs and exports and don't displace existing sources in the country. Pakistan should leverage CPEC to attract a meaningful percentage of the millions of jobs that

are likely to move out of China given the rising labour and conversion cost there. Indeed, that and getting Chinese industries to add value in Pakistan to redress the trade deficit should be integral parts of CPEC. Pakistan has a poor record of managing leakages from transit trade. A repeat of the experience with the Afghan Transit Treaty on transit of Chinese goods could wipe off many industries.

06

Provide Industry access to energy at regionally competitive cost. Pending this an export package should dynamically offset the cost disparities. A 5-10-year package (rather than a 12-18-month programme) will promote investment into value-addition. Additionally, exporter's cash flow must be liberated from delays in settling rebates and refunds.

Provision of electricity and gas at regionally competitive cost is an issue broader than just to sustain exports. Supply of energy to domestic industry at competitive cost helps in withstanding the onslaught of imports. Pakistan's value-added export sector is encumbered by energy and labour costs that are twice those of Bangladesh, India and Sri Lanka. The narrative on energy should now move from availability to affordability. As production ramps up, industry must not continue to be used to subsidize private consumers. Instead, industry should be allowed to create livelihoods.

The government's package to support value-added exports should be for a 5 – 10-year term to encourage investment into value-addition, capacity expansion and productivity. Until energy costs are brought down, it should also compensate for energy cost disparity against the main sourcing competitors. Whilst a sharp correction in the value of the Rupee which has lost competitiveness in the destination markets and against competing sourcing countries is not recommended, due reflection of this in the export rebate is necessary. Further, banks should be allowed to credit the export rebates immediately upon realization of export proceeds instead of having to wait. The export package should be broadened to encompass all exports instead of just the main sectors. It should continue to be skewed to value addition with rebates gradually being withdrawn from commodities. The conditionality of linking rebates to growth in exports should take account of the prevailing global trade trends. Where rebates need to be linked to growth, then the period for determining growth should not be an entire year. Finally, holding on to exporters' tax refunds puts unnecessary cash flow burden.

07

Separate tax policy making from tax collection to reduce uncertainty of ad hoc and knee-jerk changes. Address FBR's talent and technology gaps and curb its discretionary powers, misuse of which thwarts the growth of the tax base. Make taxes collected from new taxpayers a main KPI for FBR. Taxes need to be equitable, regionally competitive, promote investment and consolidation. Higher tax rate than regional peers, super tax, tax on retained earnings, tax on bonus shares, tax on dividends from already taxed profits, especially inter-corporate dividends, restrictions on surrender of losses within a group are all retrogressive. Minimum tax on turnover, rather than profit discourages investment. Making the formal sector an unpaid tax collector adds to the cost of doing business.

Unless the tax policy role is removed from the Ministry of Finance/FBR, the tax regime will remain knee-jerk, ad-hoc and revenue, rather than reform oriented. Government's target for tax collections does not differentiate between taxes raised from existing and new tax payers. This drives the FBR to extract more from the already taxed, sometimes through actions bordering on harassment, risking the

long-term health of business. Indeed, harassment is the biggest turn-off for those not in the tax base to join. FBR is not currently structured with talent and capacity to deploy technology to broaden the tax base. Here are some facts:

- Total taxes grew by 60% in the last 3 years but most of this came from existing tax payers
- Manufacturing which represents 13.5% of GDP carries 58% of the tax burden
- Withholding taxes accounted for 70% of total tax revenue. These are collected by the formal sector as unpaid tax collectors.

Tax rates in Pakistan are not regionally or globally competitive:

	Corporate Tax %	VAT %
Pakistan	38*	17
Singapore	17	7
Sri Lanka	15	12
Bangladesh	25	15
Vietnam	22	10

*Incl. WPPF&WWF and Super Tax.

Not only is the corporate tax rate higher than the global average of 22%, shareholders in companies suffer taxes on dividends from already taxed profits. The effective tax rate of shareholders thus is 47% whilst that of holding company shareholders is 55%. High VAT rate provides incentive to evade and makes it difficult for tax compliant businesses to compete. The formal retail sector is particularly impacted. The tax regime also does not encourage capital accumulation, formation and consolidation. Examples are: tax on undistributed reserves, tax on bonus shares, super tax, tax on inter-corporate dividends and the curtailment of group loss relief. These are retrogressive measures as is the imposition of a minimum tax on turnover irrespective of whether a company makes a profit or not. This in particular discourages investment as it negatively impacts a new entity’s cash flow in the early years when it is trying to survive. Fiscal incentives to deal with the formal sector were also recently withdrawn, sending a wrong signal.

Efforts to formalize the real estate sector and to bring those not filing tax returns into the tax base are to be applauded. However, the withholding taxes placed on non-filers are not high enough to encourage them to join the tax base. They have become a source of revenue for the government. Unless FBR is able to locate potential taxpayers and enforce the writ of law, there will be no significant expansion of the tax base. It is recognized that without sufficiently strong political will, none of the reforms suggested would work.

Simplify laws, reduce interfaces with authority and address silo management and conflicts between ministries, federation & provinces to reduce cost and enhance ease of doing business. Replace multiple taxes/agencies with a unitary system. Amend

Pakistan ranks poorly in virtually every global ranking, in many cases well below its immediate neighbors, who also don't fare all that well against best in class globally:

	Total Countries	Bangladesh	Bhutan	India	Nepal	Pakistan	Sri Lanka
Indices Ranking							
Ease of Doing Business Index	190	177	75	100	105	147	111
Human Capital Index	130	104	91	105	108	118	50
Global Competitiveness Index	138	106	97	39	80	122	71
Global Innovation Index	128	117	96	66	115	119	91
Economic Freedom Index	166	137	97	123	151	126	93
Global Youth Development Index	183	146	69	133	77	154	31

Fragmentation of authority creates complexity for business. A simpler, technology-driven, one-window operation would considerably ease doing business and bring down the cost. **A unified tax return and collection system** would save time, effort and money. Multiple agencies and authorities of the federal and provincial governments are responsible for tax collection in Pakistan. In the city of Karachi, a medium-sized enterprise needs to pay 47 different federal, provincial and local taxes (vs. 25 in India) (SINGAPORE BEING A CITY STATE MIGHT NOT BE A GOOD EXAMPLE TO QUOTE) The formal sector is also burdened by responsibility to collect 75 different types of with-holding taxes. Due to complexity and multiple taxes and agencies, Pakistan stands at 172 of 190 countries in the World Bank/PwC Paying Taxes Ranking, down from 155th.

The Companies Act 2017 duplicates power and authority of other bodies, placing further burden on the corporate, tax-compliant sector instead of making it easier to do business. For example, the Section 452 requirement for directors and major shareholders to disclose foreign shareholdings duplicates existing powers of the State Bank of Pakistan and the Federal Board of Revenue. The SECP will under this Section act merely as a post box. There is no global precedent of a similar registry of assets. As those outside the corporate sector will not be required to report, this is discriminatory against the corporate sector. Section 456 (2) (a) requires real estate developers to seek SECP's permission prior to announcement of projects when they are already required to obtain requisite sanctions, NOCs, etc., from authorities that regulate the real estate sector. Section 208 defines related parties so widely that it is difficult to implement. With these and other anomalies, there is a strong case to revise some sections of the Companies Act 2017.

Transform agriculture, livestock and dairy from subsistence farming to world class standards so that it can fuel industrial growth, jobs and exports.

Most of Pakistan's agriculture, dairy and livestock operates on a subsistence basis. Land fragmentation has eroded productivity with the result that per hectare output of most crops is well below global best:

Crop	Pakistan Tons/hectare	Best in world Tons/hectare	Pakistan as % of best
Wheat	3.1	8.1 (France)	38%
Cotton	2.5	4.8 (China)	52%
Sugar Cane	63.4	125.1 (Egypt)	51%
Maize	4.6	11.1 (France)	41%
Rice	2.7	9.2 (USA)	29%

Less than 40% of seeds used are certified. Cotton output is now a third of India's – India benefited from GM seeds, whilst crops in Pakistan continue to suffer from pest attacks. Absence of land levelling, salinity, poor water management, indiscriminate application of fertilizers and pesticides are other factors impacting output and economics of farming. Supply chain, especially the cold chain for fruits and vegetables is poor. Dairy and livestock is mostly an addendum rather than a mainstream activity. Government guaranteed purchase price for wheat and sugarcane has led to unmanageable surpluses and it discourages diversification of crops. Comprehensive value chain analysis should redirect incentives to optimize output. Growing imports of edible oils and lentils is a concern. Until FY2014 Pakistan had a trade surplus in food. By FY2017 it had slipped to a deficit of \$2 Bn.

Informal financing intermediaries erode farmer yields. Poor information flow is partly due to low illiteracy but is not helped by poor reach and high cost of broadband. Cooperative farming and rental options would facilitate mechanization. Drip irrigation, utilizing Chinese technology would benefit yield. Pakistan is regionally well placed to supply agricultural, horticultural and meat products to China and the ME.

The National Water Policy pending with the Council of Common Interests seeks to address the potential:

- Agriculture uses 95% of the nation's water and represents 20% of the economy
- A \$1 Bn potential addition to the economy is estimated for each additional million acre-feet of water storage
- 22 mn more acres could be irrigated in Southern Punjab, Sindh, Southern KP and Eastern Baluchistan
- Our canal efficiency is just 33% vs. global average of 90%

Pakistan's reservoirs can store only 10% vs. 40% global norm. Some \$23 Bn per year of economic potential is lost as water flows into the sea. The frequency of floods is rising. Additionally, securing supply under the Indus Water Treaty and from the Kabul River are also important.

10

Generate jobs by addressing the acute shortage in low and medium cost housing by incentivizing developers, lenders and owners through supportive tax, long-term financing and other policies.

Pakistan suffers from a housing backlog of 10 million units which is growing at the rate of approx. 500,000 units per annum. Meeting just the annual shortfall could create 10 million direct jobs with a significant multiplier impact on cement, steel and other parts of the construction industry. Steps to address this would include:

- i. An early activation of the government mortgage refinance bank to provide revolving tranches of long-term funding. The deposit tenors of commercial banks do not match the long-term lending horizons of housing. As a result, currently commercial lending to housing is well below global norms.
- ii. Title visibility through automation of registration records
- iii. Laws that strengthen title security and repossession and resale in the event of default
- iv. Valuation transparency
- v. Incentives for developers and fiscal relief on mortgage loan cost for borrowers
- vi. Allow collateralization of up to Rs. 5 m of property without wealth accountability for tax
- vii. Fiscal regime for development REITS should be reviewed.

11

Encourage new ventures, especially in the Information, Communications and Technology sector to create jobs, promote greater inclusion and encourage self-sufficiency/export of services.

Internet connectivity is key for developing the ICT sector. 80% of Pakistanis do not have access to broadband. The main reason is incidence of high taxes on cellular equipment and services. 90% of cellular users are levied advance income tax when the highest estimate of potential tax payers is 10 million. E-commerce is being thwarted due to poor connectivity.

Reduction in tax rates on cellular/internet services in other countries has proven to lead to more use, greater productivity and efficiency, higher GDP growth and improvement in social welfare. The net result over time is higher tax revenue. The UN's International Telecommunications Union estimates that a 10% increase in broadband penetration leads to an increase of 1.4% in GDP growth and the GSM Association estimates that every 1000 new broadband subscribers lead to 33 direct and indirect jobs.

Affordable and reliable fixed line and wireless access to internet is fundamental to people's empowerment and a key enabler of ICT. More inclusive and democratized web access will boost education, agriculture, health, mobile payments and e-commerce. Besides, it will boost employment, particularly of women, disseminate knowledge across a very wide spectrum of socially and economically relevant areas. There is also an acute need for government to deploy IT to simplify and make doing business easy. This is an

opportunity for local software houses to develop or to partner global companies to digitize the government.

Prudential Regulations of the banking sector need to be reviewed to make lending against the collateral of software possible. Private Equity investment by banks is currently restricted to 10% of investee capital rather than the lending bank's capital. This also needs to be reviewed.

12

Strengthen public/private partnerships to promote inclusive and sustainable development by improving quality of life; securing livelihoods; addressing gender balance; and decoupling growth from impact on the environment

With 43% of children suffering from stunting and 40% not attending school on a daily basis, nutrition and education rank amongst the highest social priorities for the country. Poor healthcare, paucity of safe drinking water, untreated effluent discharge, inefficient garbage handling, inadequate recycling, pollution, low inclusion of women in the workforce, weak skill levels for both manufacturing and service industries and poor employment opportunities due to high reliance on imports are some of the other issues that need to be tackled. Fortunately, there are some successful models of public/private partnerships. Businesses can play a more meaningful role in society by promoting inclusive and sustainable development to improve quality of life, secure livelihoods, address gender balance and decouple growth from impact on the environment. Of the 17 UN Sustainable Development Goals that Pakistan is a signatory, there are 6 that fiscal incentives can help businesses fast forward.

UN SDG Goal	Fiscal Incentive
Goal 3: Healthy lives; wellbeing for all	<ul style="list-style-type: none"> • Allow business to use the WWF contribution to fund hospitals/clinics and to address malnutrition and stunting of children
Goal 5: Gender equality; women's empowerment	<ul style="list-style-type: none"> • 25% rebate in the effective tax rate on salary income for full time working mothers to enable them to secure child care
Goal 6: Sustainable water; sanitation for all	<ul style="list-style-type: none"> • WWF offset for investment in purification plants for drinking water
Goal 8: Sustained, inclusive and sustainable economic growth; full and productive employment; and decent work for all	<ul style="list-style-type: none"> • WWF offset for the investment in approved vocational training institutes. • Investment Allowance for investment for the specially challenged in the workplace • 0.5% lower Tax Rate for jobs to challenged persons (min. 5% of work force) • 1% lower tax for 50+ new jobs on existing company's own payroll
Goal 9: Inclusive and sustainable industry	<ul style="list-style-type: none"> • Investment Allowance for investment in renewable energy for factories, warehouses and offices • Investment Allowance for investment in effluent treatment plants
Goal 12: Sustainable production and consumption	<ul style="list-style-type: none"> • 0.5% lower tax for reduction in waste, achieving/maintaining zero landfill • 15-year tax holiday for investment in a standalone waste management business • 0.5 % lower tax for reduction in the material footprint of the supply chain

* WWF= Workers Welfare fund

03

A CASE FOR “MAKE IN PAKISTAN”

Pakistan's three acute needs, one solution

“Make in Pakistan”



**JOBS IN
MANUFACTURING
& SERVICES**



**VALUE-ADDED
EXPORTS
AND IMPORT
SUBSTITUTION**

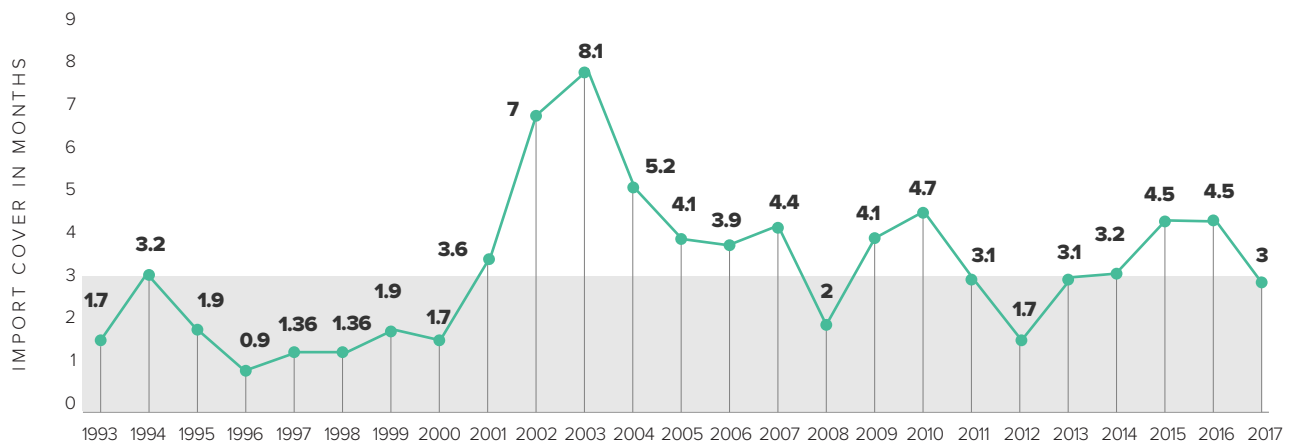


**HIGHER TAXES
FROM A
BROADER BASE**

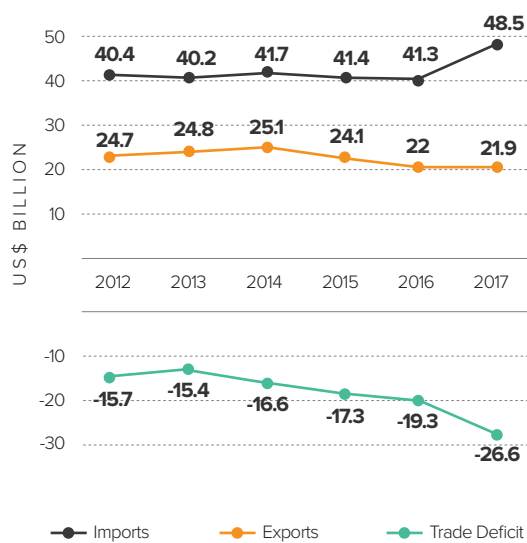
Strong domestic industry with a consumer base of 207 mn

Context: 12 Recurrent Cycles of External Account Crises

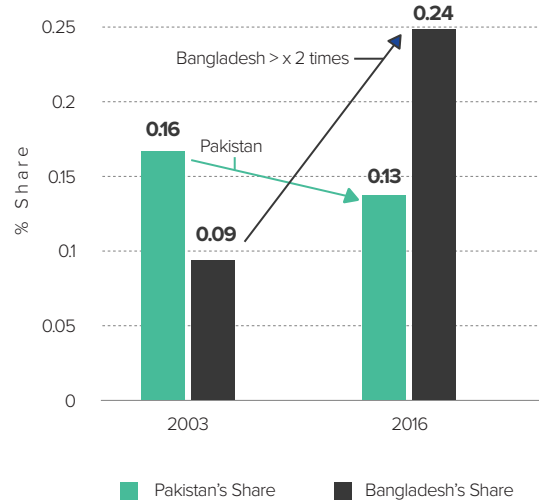
Since '88, Pakistan has been to IMF 12 times.



Context: imports up, exports down, trade deficit rising ... and Pakistan losing share of world exports

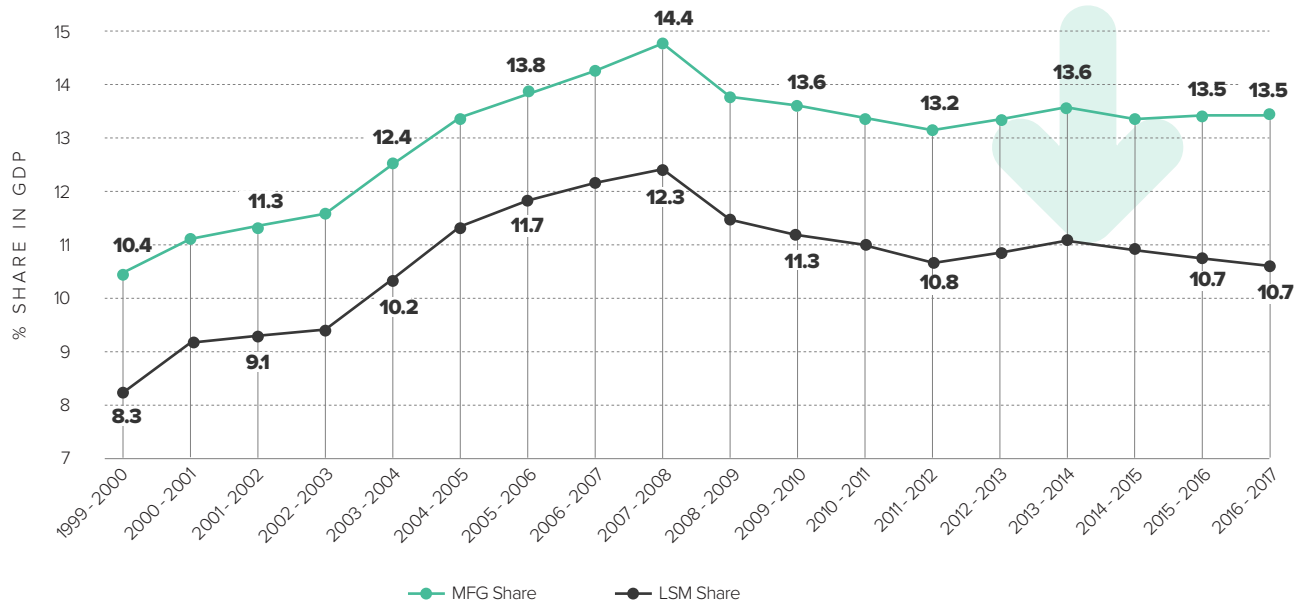


Pakistan's Share of World Exports Down, Bangladesh's More than Doubled since 2003



Fact: manufacturing and its share in exports is declining

Country De-Industrializing Prematurely



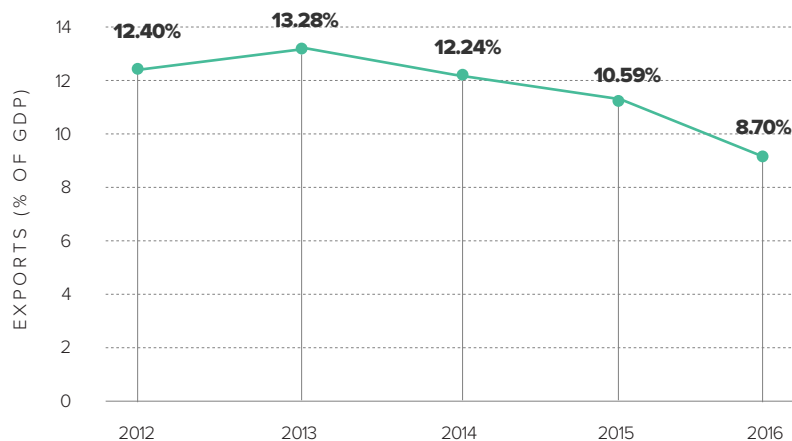
Is Pakistan becoming a nation of traders?

Can we afford to offshore our jobs?

Why do we export commodities and not add value?

Are the policies conducive to Import substitution?

Share of Manufacturing in Exports Declining



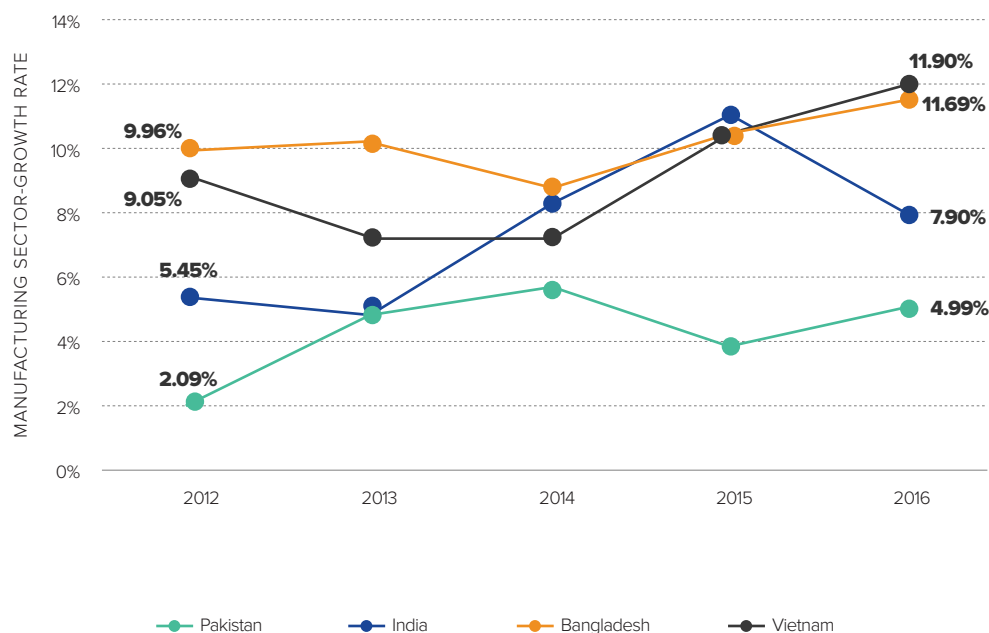
Fact: manufacturing is over-taxed and its growth lags neighbours

Industry Carries Disproportionate Burden of Taxes

% of GDP	% of GDP	% Tax Rev
Agriculture	19.5%	<1%
Manufacturing	13.5%	58%
Retail/Whole.	18.5%	1%
Services Total	18.5%	37%

- Pakistan's tax base is narrow
- Manufacturing carrying a disproportionate burden.
- Formal sector faces an uneven playing field vs. smugglers, counterfeiters, under-invoicers and those who misuse the Afghan transit treaty.
- Tax system is complex with 47 types of levies
- Withholding tax on non-filers has become a revenue raising tool rather one that incentivizes more to join the tax base.

Pakistan Lags Behind South Asia in Manufacturing Growth



Fact: FTAs are not supportive

Poorly Negotiated Trade Agreements

Country	Year Signed	Trade Balance then	Trade Balance 2016
Sri Lanka	2005	\$0.094 Bn	\$0.24 Bn
China	2006	\$(3.2) Bn	\$(15.32) Bn
Malaysia	2008	\$(1.55) Bn	\$(1.0) Bn
Indonesia	2013	\$(1.06) Bn	\$(1.86) Bn
Mauritius	2007	\$0.035 Bn	\$0.17 Bn

Growth in Import Reliance, Mainly on China

Items	Imports 2007* US\$ Mn	Imports 2016* US\$ Mn	Growth Multiple	Est. % from China
Footwear	34	103	3x	90%
Pumps	47	171	3.6x	61%
Glassware	13	74	5.6x	90%
Tiles	50	170	3.4x	75%
Blankets	17	46	2.7x	98%
Fans	25	69	2.7x	80%

Caution with Proposed FTAs with Turkey and Thailand

Significant mismatch between Pakistan's export capability with those of Turkey (1:3) and Thailand (1:4)

Pakistan already enjoys relatively low tariff access to both countries

Both countries desire access to Pakistan's automobile, auto-parts, chemicals, plastics and rubber markets, which would undermine existing industry

Turkey is one of the highest users of trade defenses, even against its FTA partners!

Fact: Taxes are high, fiscal regime complex and not supportive of scale

Complex Tax System

Countries	Doing Business '18 Paying Taxes Rank (Out of 190)	Payments (Number Per Year)	Time (Hours Per Year)
Pakistan	172	47	3,115
India	119	13	214
Bangladesh	152	33	435
Srilanka	158	47	168
Vietnam	86	14	498

High Tax Rates

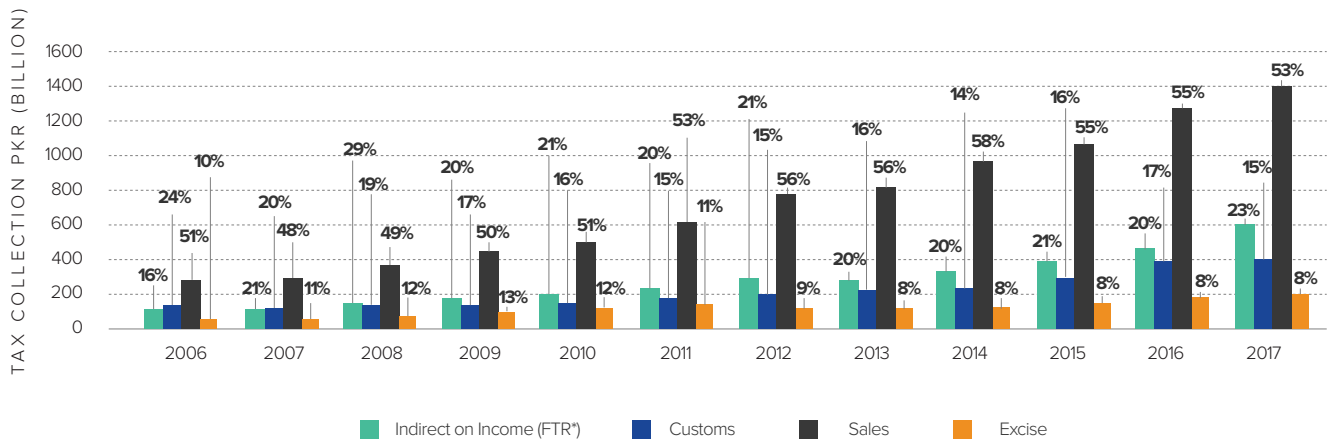
Countries	Corp Tax %	VAT/GST%
Pakistan	38%*	17%
India	17%	7%
Bangladesh	15%	12%
Srilanka	25%	15%
Vietnam	22%	10%

* Includes WWF/WPFF/Super Tax

Fiscal Policy Not Supportive of Scale

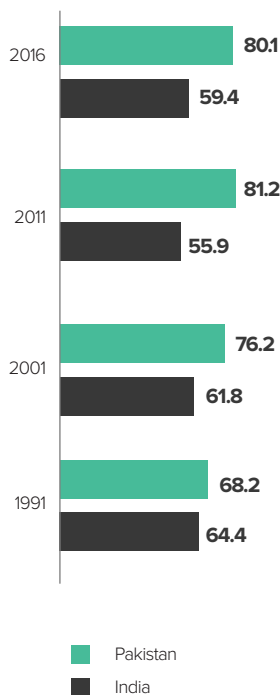
- Super Tax
- Tax on retained profits > 40%
- Cascading tax on inter-corporate dividends
- Effective Tax Rate of 55% for shareholders of holding companies
- Restricted group loss relief
- Minimum tax on turnover, even in initial years
- Corporate tax higher than tax on sole traders/AOPs

Fact: tax revenue is reliant on imports and presumptive taxes



Fact: consumption, not investment drives the economy and FDI

Consumption, fueled by imports, dominates the economy and exceeds India's by 2060 bps



FDI mostly Motivated by Consumption



Nestlé \$ 450 Mn investment in milk chain



2016: Friesland Campina (NL) acquired 51% of Engro Foods for approx. US \$ 442 Mn

LOTTE

2016: Lotte (S Korea) buying substantial share in Pepsi Lahore bottler



Coca Cola \$ 380 Mn expansion

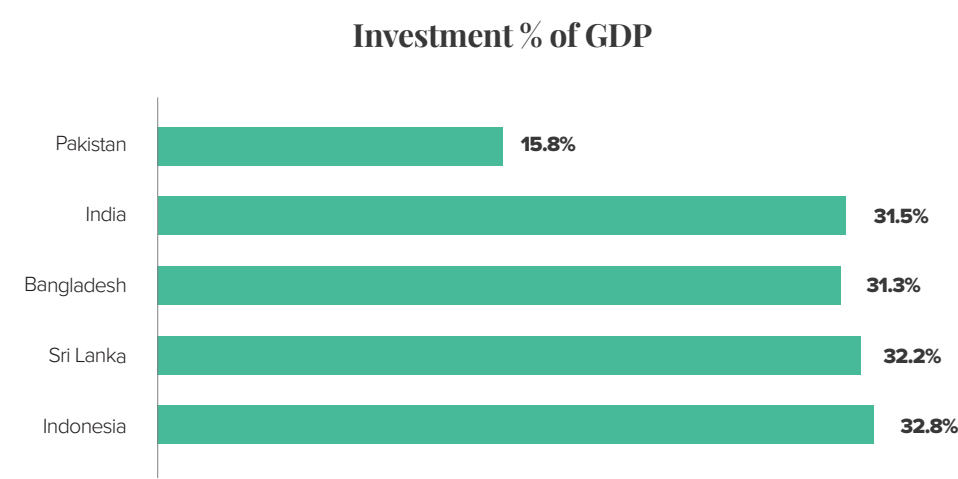
Arçelik A.Ş.

2016: Arcelik of Turkey acquired Dawlance Appliances for \$ 250 Mn



2013: Unilever (GB) parent bought out minority (c.24%) for US \$ 530 Mn

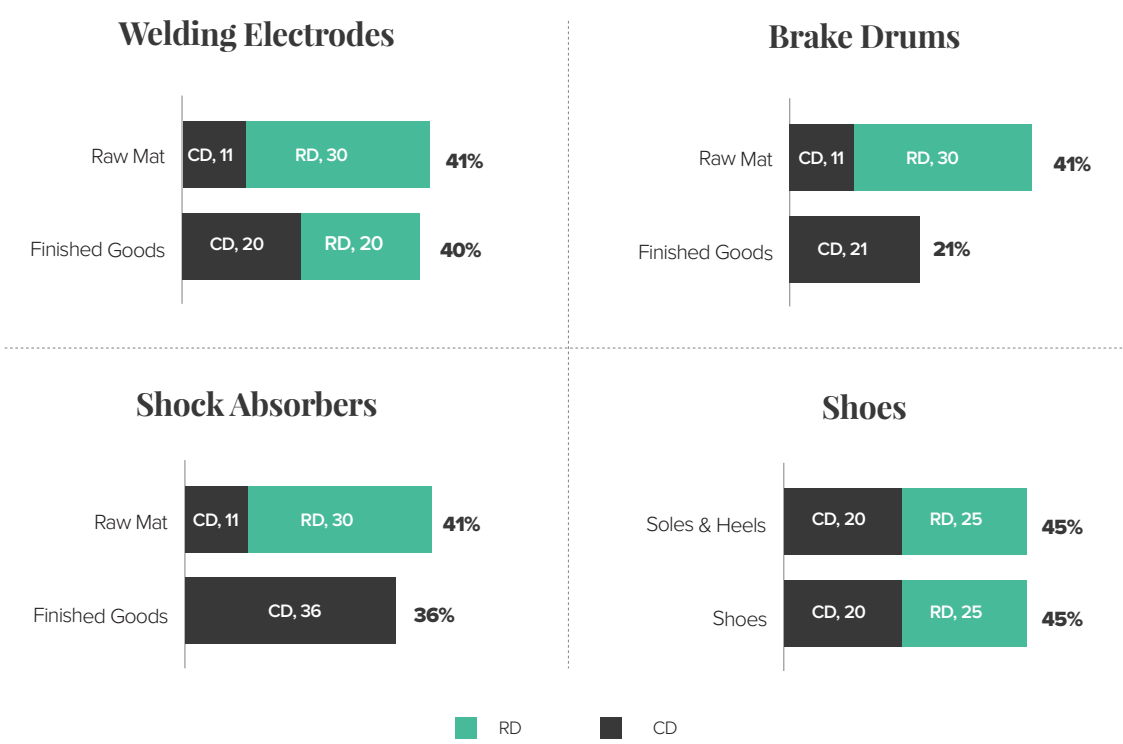
Fact: investment in capital formation is half that of our Asian peers



Non-cascading tariff hurts manufacturing, footwear, an example

Parity duty on inputs and finished goods	Import Duty Before RD
RAW & INTERMEDIATE MATERIALS	
Soles	20%
Heels	20%
Laminate Fabrics	20%
PU Chemicals	25%
Insole Board	20%
Zipper	20%
FINISHED GOODS	
Shoes	20%

Fact: tax revenue is reliant on imports and presumptive taxes



Inappropriate tariffs for commercial importers hurts manufacturing & government revenue

	OEMs assessed on value	Commercial assessed on weight	Loss to the Exchequer
Basis of assessing	Assessed on value CD 35% to 50% S Tax 17% Income Tax 5% TOTAL LEVIES 70%-89%	Assessed on weight	
EXAMPLES	Total Levy/unit Rs.	Total Levy/unit Rs.	Difference in Levies Rs.
Oil Pumps	15.73	3.80	11.93
Water Pumps	29.93	1.22	28.71
Lamps	44.02	3.18	40.94
Spark Plugs	74.55	18	56.66

Manufacturers pay sales tax on entire value addition vs. importers only on import value

Activity	Manufacturer's ST Impact		Com Importer's ST Impact	
RM Import		ST 17% on final price covering ALL elements of value addition		ST 21% on import value only
Conversion			None	None
Warehousing			None	None
Distribution			None	None
Marketing			None	None
Profit			None	None
Sales Price			None	None

Under-invoicing of Imports is Rampant and Significant

Import Source	Extent of Under-Invoicing* US\$ Mn (2016)	Under-Invoicing as % of Pakistan's Reported Imports
China	3,552	26
EU	1,006	21
UAE (non-oil trade)	324	35
UK	220	35
USA	100	5
Thailand	88.4	10
Turkey	86.8	33

Under-invoicing is differential between Pakistan's reported imports vs the exporting country's reported exports to Pakistan.

Under-invoicing is a major drain on tax revenue And undermines manufacturing

Tax Evasion at Point of Entry		100% Compliant Rs.	60% Under-invoicer Rs.
Full value	Rs.	100	100
Declared/assessed value	Rs.	100	40
Customs Duty	20%	20	8
Regulatory Duty	25%	25	10
S Tax on duty paid value	20%	29	12
Presumptive tax	6%	10	4
Total Tax Levy at import stage	Rs.	84	34
Tax evaded at import stage	Rs.		-51
Tax evaded at import stage as % of Tax due			-60

Presumptive tax creates an uneven playing field for manufacturing and results in total tax loss of 67%

Tax Evasion as a result of presumptive Tax Regime		Manufacturer	60% Under-invoicer Commercial Importer
Landed cost in the books without input sales tax	Rs.	145	
Assume 50% mark up	Rs.	73	
Sales Value before output sales tax	Rs.	218	
Output Sales Tax	17%	37	
Price to customer	Rs.	254	
Net Profit for Compliant Manufacturer	Rs.	73	
Tax at 30% thereon	Rs.	22	
Add difference of output and input sales tax	Rs.	8	
Total taxes and import levies	Rs.	104	34
Extent of evasion/avoidance	Rs.		-70
Evasion/avoidance as % of tax liability	Rs.		-67%

Input costs are uncompetitive

2010 Inflation in Pakistan's Input Costs since

	Change '17 over '10	Inflation pa
Labour	X 2.5 times	14% pa
Electricity	X 2.3 times	13% pa
Gas	X 2.5 times	14% pa

Labour Cost / Month

	US\$/month	Pakistan Multiple
Pakistan	143	
Bangladesh	65	X 2.2 times
India	81	X 1.8 times

Electricity Cost / kWh

	US Cents/ kWh	Pakistan Multiple
Pakistan	14	
Bangladesh	11	X 1.3 times
India	8	X 1.75 times

Gas Cost / MMBTU

	US\$/ MMBTU	Pakistan Multiple
Pakistan	5.72	
Bangladesh	2.52	X 2.3 times
India	2.80	X 2 times

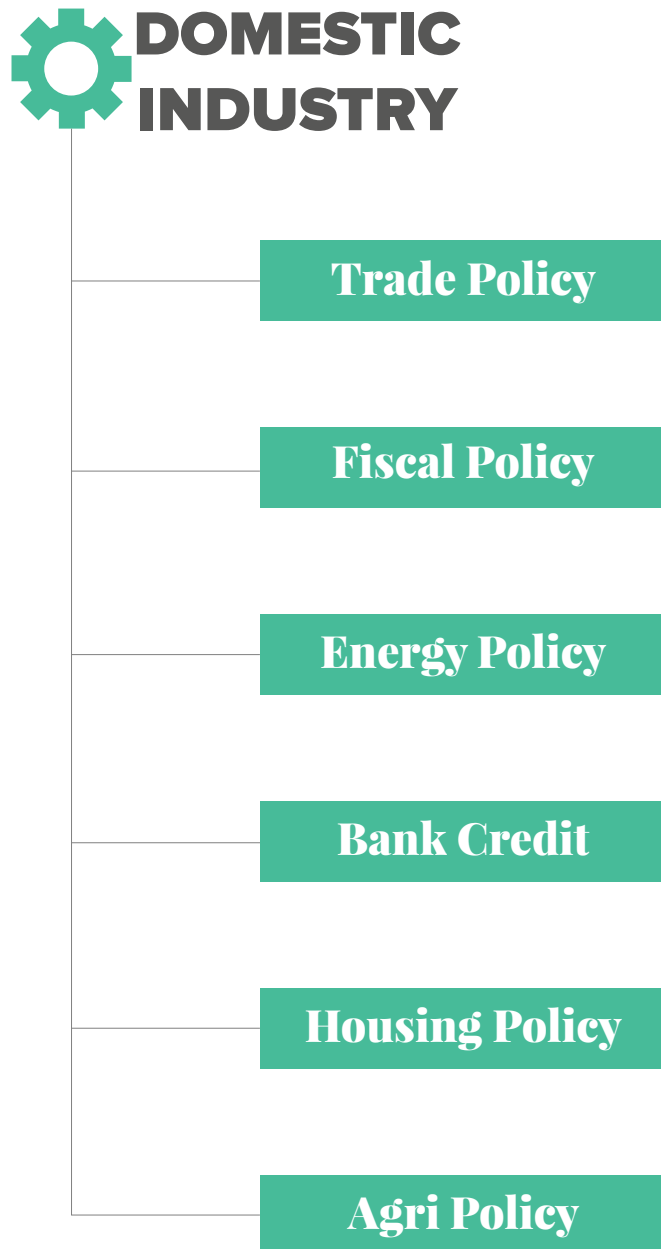
The Rupee lost competitiveness against some sourcing and destination currencies over 5 years to end 2017



And it is not easy to manufacture/do business...

	Construction Permits Days	Getting Electricity Days	Taxes Number	Taxes Days Taken	Time to Export Days	Time to Import Days
Karachi	260	215	47	311	406	129
South Asia Avg	194	137	28	277	369	113

Solution:
Aligned policies to promote domestic industry



01

Salient Actions to Promote Domestic Industry

Thrusts	Action Points	Timeline
Stop undermining domestic industry through ill-negotiated trade agreements.	<ul style="list-style-type: none"> Complete the renegotiation of the Pak China FTA. Move with caution on agreements with Turkey and Thailand. Factor impact on jobs and tax collection into future agreements. Encourage value-added exports, not just of commodities 	<ul style="list-style-type: none"> Ongoing Immediate Immediate Immediate

02

Thrusts	Action Points	Timeline
Create a more level playing field for manufacturing	<ul style="list-style-type: none"> Withdraw the presumptive tax regime. All operating a taxable activity must file returns. Cascading tariffs on raw materials, intermediates and finished goods with special provisions for manufacturers who use high tariff inputs Remove RD on raw materials and intermediates Impose quantitative duties to check under-valuation. National Tariff Commission to be continuously functioning. Levy import duty and GST on goods in transit to Afghanistan, refundable on transit through Pakistan. 	<ul style="list-style-type: none"> Immediate Immediate Immediate Immediate Ongoing MT

03

Thrusts	Action Points	Timeline
Provide reliable energy at competitive cost. Energy cost in Pakistan is presently twice that of the region.	<ul style="list-style-type: none"> Pursue indigenization of fuel mix even if it takes time to impact delivered cost. MT impact none, LT impact 2-3 cents/KwH Stem T&D losses currently at 19% to at least the non-OECD loss level of 10%. MT impact 1-1.5 cents/KwH Factor likely increase in cost of LNG as world demand shifts to cleaner fuels. Could negate the shift from fuel oil. Equalize energy costs between domestic and industrial customers. Jobs from industry will provide disposable income to domestic users. Factor energy cost disparity into export rebates 	<ul style="list-style-type: none"> MT Immediate

04

Thrusts	Action Points	Timeline
A long-term, consistent, export policy to replace kneejerk, short-term packages	<ul style="list-style-type: none"> Replace the 12-18-month export package with a 5-year, broad-based export policy to promote investment in capacity and capability building. Factor exchange rate and input cost disparity into export rebates Encourage value-addition and export destination diversification through more graduated rebates. Automate rebates to ease cash flow. 	<ul style="list-style-type: none"> MT Immediate Immediate Immediate

Thrusts	Action Points	Timeline
Fiscal policy should encourage corporatization, capital formation, accumulation, consolidation and investment	<ul style="list-style-type: none"> Withdraw Super Tax Abolish tax on less than 40% profit distribution Remove cascading tax on inter-company dividends Encourage risk-taking by withdrawing minimum tax on turnover for first three years of a business and then half the rate for the following two years. Promote corporatization through parity taxation of company profits with individuals and AOPs in business. Restore the group taxation regime enacted in the Finance Act 2007 to promote holding companies and wider shareholder participation. 	<ul style="list-style-type: none"> Immediate Immediate Immediate Immediate Next budget Next budget

Thrusts	Action Points	Timeline
Encourage low and medium cost housing to address acute shortage and to generate substantial employment	<ul style="list-style-type: none"> Mortgage refinance to fund revolving tranches of long-term funding Automate land records to create title visibility Strengthen laws to facilitate repossession and resale in the event of default Create valuation transparency Incentivize borrowers with fiscal relief on mortgage loan cost Allow collateralization of up to Rs. 5 m of property without wealth accountability for tax Fiscal regime for development REITS be reviewed 	<ul style="list-style-type: none"> MT MT MT MT Next budget Next budget Next budget

Thrusts	Action Points	Timeline
Policies to encourage new ventures, especially in IT.	<ul style="list-style-type: none"> ▪ Tax on the basis of profit rather than turnover ▪ Make internet affordable by reducing incidence of taxes on cellular equipment, cell-phone use and fixed line internet ▪ Promote venture capital funds ▪ Allow banks to take up to 5% exposure of their assets to fund private equity/VC investments 	<ul style="list-style-type: none"> ▪ Next budget

Thrusts	Action Points	Timeline
Grow private sector credit, especially to the SME sector	<ul style="list-style-type: none"> ▪ Total private sector credit as % of GDP in Pakistan is amongst the lowest in the world. SME credit is negligible because banks prefer to lend risk-free to the government. ▪ Credit guarantee scheme with a specified minimum lending criterion, especially for the SME sector is required. ▪ Banks should be encouraged to think of out-of-the-box solutions to manage exposure. ▪ The banking system needs to build appetite and resources for long-term project finance. 	<ul style="list-style-type: none"> ▪ MT

Thrusts	Action Points	Timeline									
Promote Agriculture, Dairy and Livestock to provide competitive inputs for industry and exports	<ul style="list-style-type: none"> Reduce incentives to promote surpluses in Wheat and Sugar at the expense of Cotton and other crops Transform dairy and livestock from Subsistence to professional basis Promote oilseeds esp. cotton 	<div> <p>Cotton</p> <table border="1"> <caption>Cotton Production Data</caption> <thead> <tr> <th>Country</th> <th>2001</th> <th>2016</th> </tr> </thead> <tbody> <tr> <td>Pakistan</td> <td>10.8</td> <td>10.9</td> </tr> <tr> <td>India</td> <td>16.2</td> <td>35.6</td> </tr> </tbody> </table> </div> <ul style="list-style-type: none"> MT 	Country	2001	2016	Pakistan	10.8	10.9	India	16.2	35.6
Country	2001	2016									
Pakistan	10.8	10.9									
India	16.2	35.6									

Thrusts	Action Points	Timeline
Develop policies and zones for the promotion of specific industries	<ul style="list-style-type: none"> Housing Value-added/technical apparel/textiles, including man-made fibers Engineering, including but not limited to auto-parts Bodies/ components for domestic appliances Meat and milk processing Petro-chemicals e.g. Naphtha Cracker to feed plastics 	<ul style="list-style-type: none"> MT

04

**TOWARDS
PAKISTAN'S
ENERGY
SECURITY &
COMPETITIVENESS**

Challenges Facing Pakistan Energy Sector

01 Inappropriate Fuel Mix – Reliance on Imports

- 95% energy needs fulfilled through fossil fuels
- 32% of power generation on oil and zero from coal (vs. 41% world average)
- Oil and LNG import totaling US\$ 11BN in FY2017 (~22% of entire import bill)
- With energy demand expected to increase by 70% over the next decade, energy imports likely to create a further trade deficit of USD 6-8 Billion/year

02 Depletion of Indigenous Gas

- Indigenous gas supplies expected to decline by approx. 50% in the next decade
- Increased LNG imports to cater for shortfall in indigenous supplies and demand growth

03 Energy Pricing

- Highest electricity tariff (@ 12.51 Cents/kwh) vs. comparable countries
- Sufficient power generation capacity added by the Govt with appropriate fuel mix, however tariffs likely to increase in the medium term
- Gas prices favor specific sectors (domestic - US\$ 1-2/MMBTU) at the expense of other sectors (industrial & commercial- US\$6-7/MMBTU)
- LNG prices currently at 10-11 US\$/MMBTU- overhaul of gas pricing structure urgently needed

04 Energy Losses & Circular Debt

- Energy sector hemorrhaging due to T&D losses:
 - Natural Gas UFG* : ~14%
 - Power T&D losses : ~20%
 - Shortfall in DISCOs recoveries (~Rs. 80 Bn. / annum) , distribution losses not allowed by NEPRA (~Rs. 30 Bn. / annum) add to circular debt – Currently at PKR 525 Billion

*Unaccounted For Gas

Recommendations

Indigenization to Ensure National Energy Security

- **Continue expanding Thar Coal** – Provide water/other infrastructure and tax/tariff incentives
- **Maximize Storage Based Hydro Projects**
- **Exploit Solar/Wind Potential** - promote net metering, off grid solutions, reduced tariff for imports
- **Exploit Tight & Shale Gas / Shale Oil** - opening new areas for exploration and incentivizing exploration

Long Term Environmental Sustainability

- Align environmental standards of all sectors impacting environment (transportation, power generation, industry, agriculture, buildings) with comparable countries
- Comprehensive oversight on all sectors through a consolidated regulatory structure

Ensure Competitive Tariffs

- **Natural gas**
 - Revamp gas pricing structure to give industry priority
 - Recover cost of imported LNG through equitable gas tariffs for all types of consumers
- **Electricity**
 - Consider bringing electricity tariff to 9 Cents/KWh for industrial consumers to make them competitive with regional countries
 - Curtail T&D losses to make power grid reliable
 - Create merchant market by privatizing Discos only after making them financially viable

Energy Efficiency & Conservation

- Promote Hybrid/Electric Vehicles- 25-40% thermal efficiency vs. 17-21% in traditional combustion engines
 - LED Lighting
 - Rationalize opening hours of Commercial Shopping Centers
- Change the mindset of the local population with regards to energy conservation through persistent awareness and education

Other Recommendations

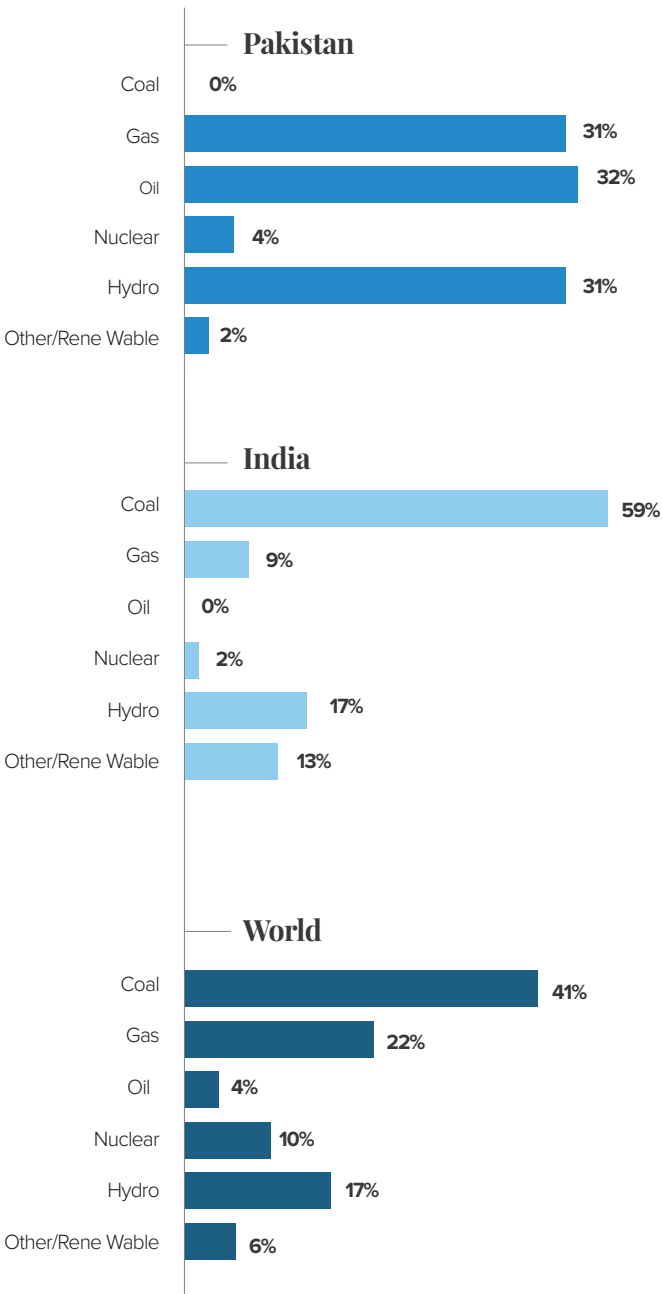
- Oil based power plants to be used as spinning reserve to cater for gas shortages during winter months and hedge against volatility of LNG price
- Public sector low efficiency thermal power plants to be privatized
- Recently announced power generation policy of “Take and Pay” contracts than “Take or Pay” contracts should be implemented after DISCOs are financially viable
- Government must honor all its contracts with the existing power producers to improve Power sector risk perception
- SBP policy of arranging foreign capital for infrastructure projects should be reviewed to allow competitive project financing. Encourage electricity wheeling
- B2B power sales should not have to go through cumbersome NEPRA Generation License and Tariff Determination processes
- Discos be charged to propagate “Net Metering” due to multiple benefits: low cost power during the day; direct investment by domestic sector; address T&D limitation

A special team / task force should be constituted amongst GOP and private sector representatives to develop specific policy framework & target driven implementation plan for the above recommendations

BACKUP

Inappropriate Fuel Mix

Pakistan’s Power Generation Fuel mix is not sustainable due to the high share of oil based power generation resulting in very high cost of electricity



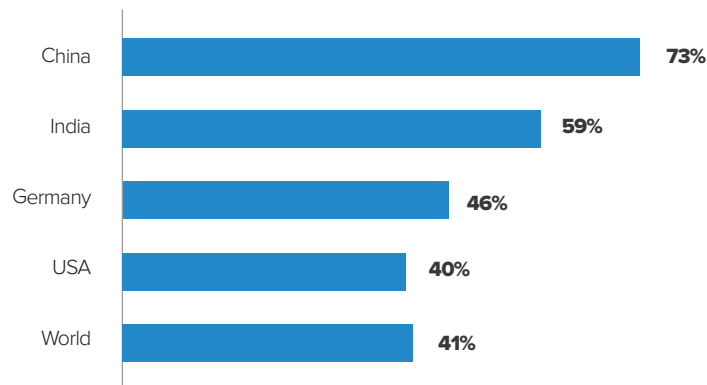
According to SBP, the country imported approximately \$10 Bn worth of oil and approximately \$1 Bn worth of LNG in FY 17-2016 – nearly 22% of the entire import bill!

Despite being a poor country, Pakistan has one of the most expensive choice of fuel mix for power generation

Sources:
- State of Industry Report, Pakistan (Figures as of 2016)
- Growth of Electricity Sector in India, Ministry of Power, India, Key World Statistics, International Energy Agency (Figures as of 2014)

World Power Generation from Coal

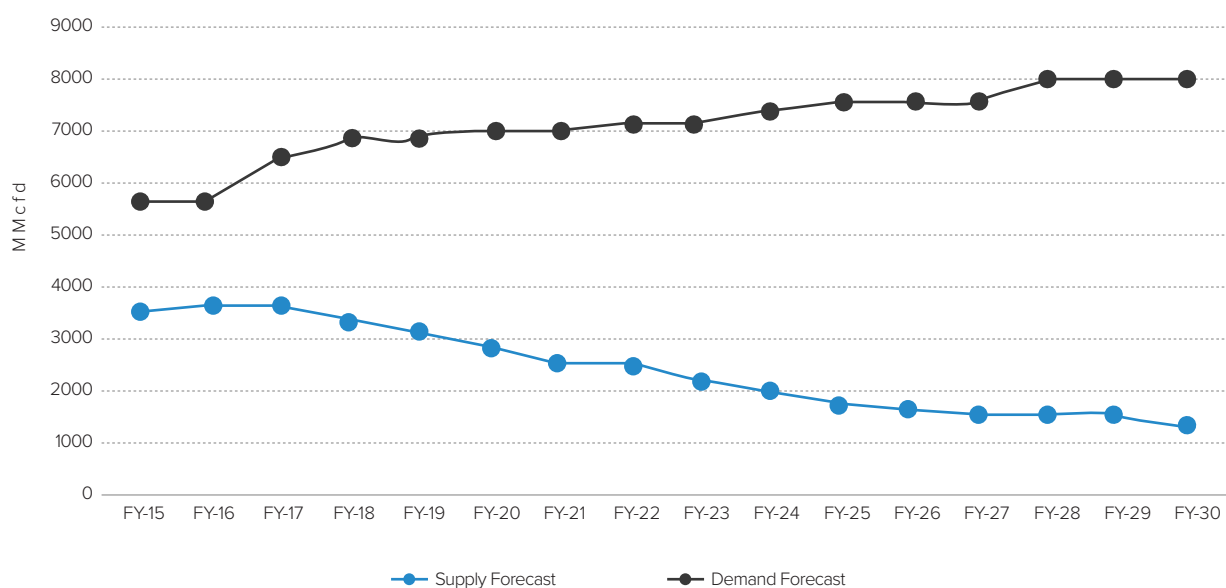
Power Generation from Coal 2014 (% of Fuel Mix)



Source: International Energy Agency (IEA), 2014

- Coal is a predominant fuel source for power generation globally due to its low cost and reliable operability making it an ideal option for base load thermal power generation
- In the absence of adequate indigenous gas reserves, coal is the most viable option for base load power generation in Pakistan

Pakistan Projected Gas Demand / Indigenous Supply Situation

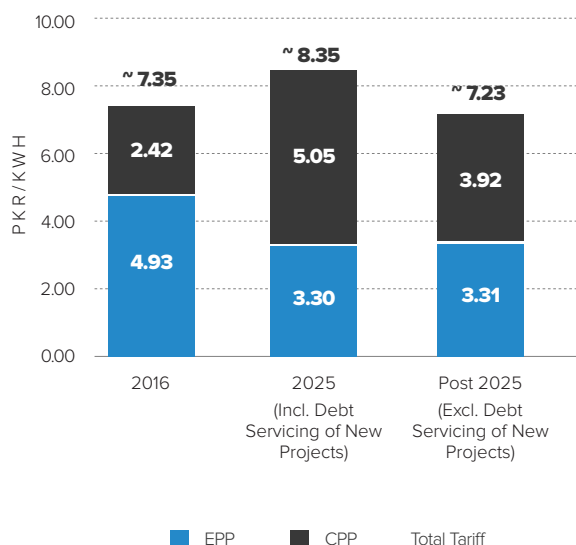


Source: OGRA State of Regulated Petroleum Industry Report, 2016

- Pakistan's demand for natural gas is projected to rise significantly in the coming years
- Indigenous sources (without accounting for tight gas) will be on a fast declining curve

Representative Tariff Analysis – Power Generation Cost to DISCOs

Tariff Analysis



Assumptions

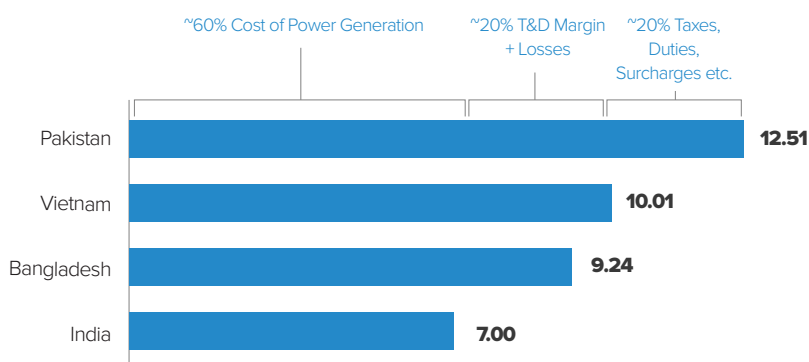
1. Current Tariff based on cost of power purchase by Discos as allowed by NEPRA (Source: Relevant NEPRA Tariff Determinations)
2. Projected electricity generation in 2025: 208 TWh vs. 112 TWh in 2016 (growth rate of 7%, in line with NTDC Demand Forecast 2014)
3. 2025 Tariff based on weighted average cost of power to DISCOs including:
 - i. Entire new capacity addition (EPP + CPP)
 - ii. EPP of most economical existing plants
 - iii. CPP of all existing plants as per current rates
4. Current FX and fuel rates assumed to prevail

Even though cost of power generation is going to marginally increase, availability of sustainable power will be far beneficial to the economy of the country.

“Expensive power is better than no power!”

W. Average Consumer Tariffs (Use/kwh)

Regional Comparison of Power Tariff



Pakistan has the highest electricity tariff amongst comparable countries. However, recently the Government has given a subsidy of Rs.3/KWh to industrial consumers

Sources:

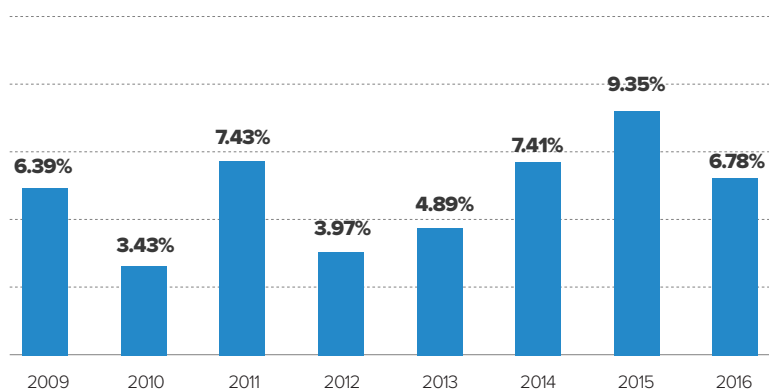
1. NEPRA State of Industry Report, 2015-16
2. Central Electric Agency Government of India, 2014
3. Vietnam Electricity Prices, Thomson Reuters, 2011
4. The Bangladesh Energy Regulatory Commission, 2

Pakistan's Energy Losses

Pakistan's energy sector has been marred by transmission and distribution losses mainly due to:



Pakistan Total Energy T&D Losses



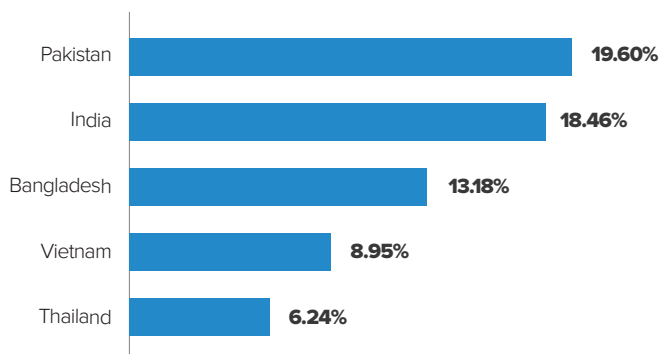
Pakistan Natural Gas Sector T&D Losses

Units Available for Transmission (2016)	18.08 MTOE
Total T&D Losses	2.54 MTOE (14.1%)

Source: Power System Statistics 2015-16 (NTDC), Pakistan Energy Yearbook 2016

Transmission and Distribution Losses

Regional Comparison of Power T&D Losses



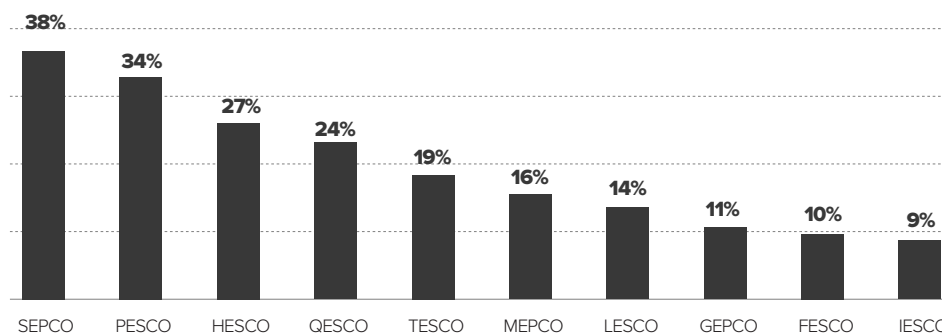
Pakistan has the highest power T&D losses amongst comparable countries

Sources:

1. Power System Statistics 2015-16 (NTDC)
2. International Energy Agency (IEA) Statistics, 2014

Units Available for Transmission	100,871 GWh
Transmission Losses (NTDC)	2,623 GWh (2.60%)
Distribution Losses (DISCOs)	16,762 GWh (17.02%)
Total T&D Losses	19,385 GWh (19.6%)

DISCO's T&D Losses FY 2016



Degraded network and thefts contributing to high Transmission and Distribution Losses

Integrated Energy Policy – National Energy Security

Expand Thar Coal

- Thar Desert contains the world's **7th largest coal reserves**
- **175 billion tons** of Lignite grade coal, which is equivalent to:
 - **50 billion ton of Oil** (more than Iran & Saudi Arabia combined oil reserves) or;
 - Over **2000 TCF of Gas** (42 times greater than total gas reserves discovered in Pakistan so far)
 - Power Generation potential of **100,000 - 200,000 MW for over 100 years**

Maximize Storage Based Hydro Projects

- Total potential for Hydropower generation in Pakistan is approximately **60,000 MW (Existing 7,116 MW)**
- Currently, **approx. 4000 MW** of Hydel Power projects are at different stages of execution
- Multiple projects of **over 25,000 MW** at feasibility / engineering stage are in hand with WAPDA
- Since upcoming run of the river power projects are becoming increasingly expensive vs other renewables, large scale **storage based projects** must be encouraged to ensure power and water availability for the country

Exploit Solar/Wind Potential

- Estimated wind potential of approx. **132 GW** as estimated by USAID
- Estimated Solar potential is more than **2.9 Million MW** according to studies from ADB, various authors and research papers
- Cost of power generation from solar and wind based projects are on the decline and have become the cheapest source @ **Rs. 6-8 / KWh**
- Solar Thermal / solar off-grid applications need to be encouraged

Exploit Tight & Shale Gas / Shale Oil

- Shale gas and Shale Oil reserves estimated at **105 tcf and 9.1 billion barrels respectively as per** US Energy Information Administration (EIA)
- Recent combined cycle RLNG based power plants have demonstrated **60-62%** efficiency resulting in electricity tariff of 6-7 Cents/KWh
- Indigenous gas availability through exploration of tight and shale gas should be ensured to reduce the electricity tariff further

Recommendations – Indigenization to Ensure National Energy Security

Expand Thar Coal

- Incentivized Mining and Power Generation Tariffs should be continued to promote private sector investment
- Availability of water for power generation and other infrastructure to be ensured by federal and provincial governments for future expansion
- Tax incentives should be continued

Exploit Solar/Wind Potential

- Import tariff policy for solar equipment must be revised to encourage solar applications
- Local solar manufacturing industry must be developed
- Utility companies should be tasked to propagate 'net metering'
- Promote off-grid applications to ensure power supply to remaining 27% of population

Maximize Storage Based Hydro Projects

- Technical feasibility studies of storage based projects must be expedited
- Adequate budget allocations must be made to ensure expeditious implementation
- Solar projects at existing hydro power projects must be encouraged to leverage existing infrastructure

Exploit Tight & Shale Gas / Shale Oil

- Adequate incentives should be provided in the policy framework for expeditious development of tight and shale gas/oil potential
- New areas must be opened for gas and oil exploration
- Tight and Shale Gas Projects having equivalent economic cost of LNG delivered price must be allowed for exploration and development

The above interventions for indigenization of energy mix are essential in achieving self reliance in energy and reducing burden on balance of payments

Long Term Environmental Sustainability

Share of Global Emissions

24%  **Agriculture, Forestry and Other Land Use**

14%  **Transportation**

25%  **Electricity and Heat Production**

21%  **Industry**

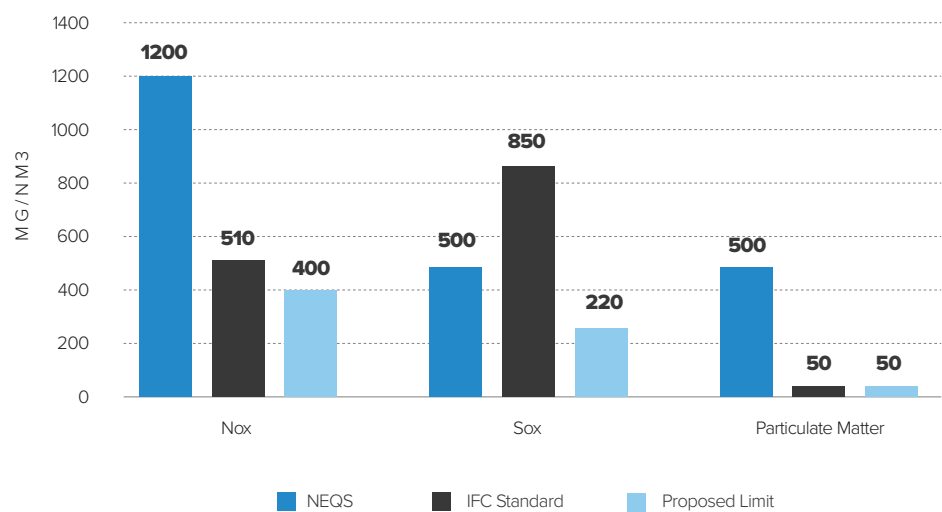
16%  **Buildings and Other Energy**

Source:

Intergovernmental Panel on Climate Change (IPCC), 2014

- Environmental impact must be viewed holistically. Power sector contributes only 25% whereas agriculture, transportation, industry and buildings contribute the remaining 75% of global emissions
- Environmental standards of all sectors must be revisited and aligned with benchmarks of comparable countries
- Regulatory structure for environmental compliance must be reviewed to ensure comprehensive oversight on all sources of emissions

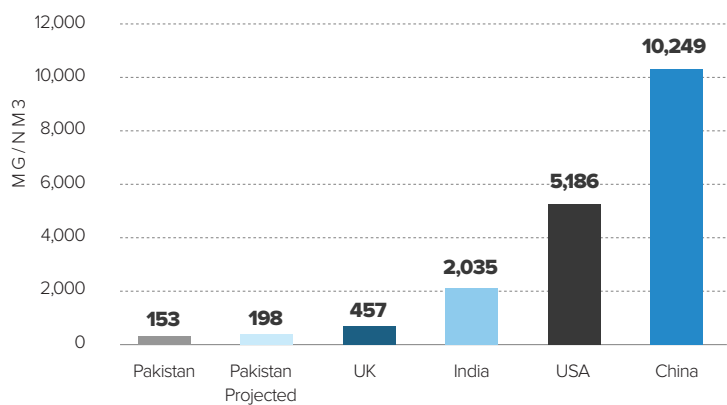
Comparison of Upcoming Imported Coal Plants Emissions with NEQS and IFC Standards



Significant Investment as part of project cost being made to ensure compliance with NEQS and IFC Emissions Standards

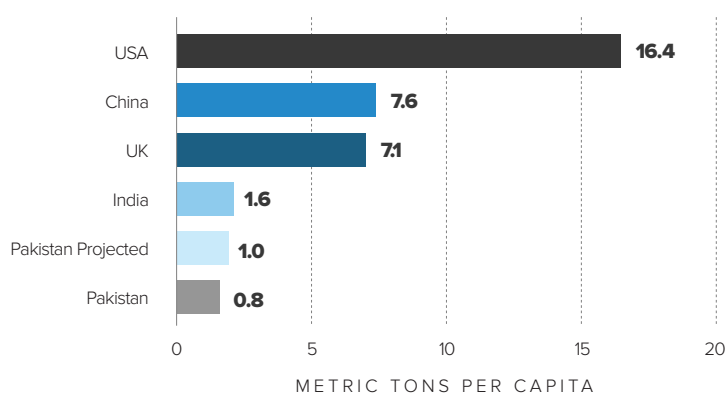
Environmental Impact of Change in Fuel Mix

Total CO2 Emissions



Source: The World Bank, 2013

Per Capita CO₂ Emissions



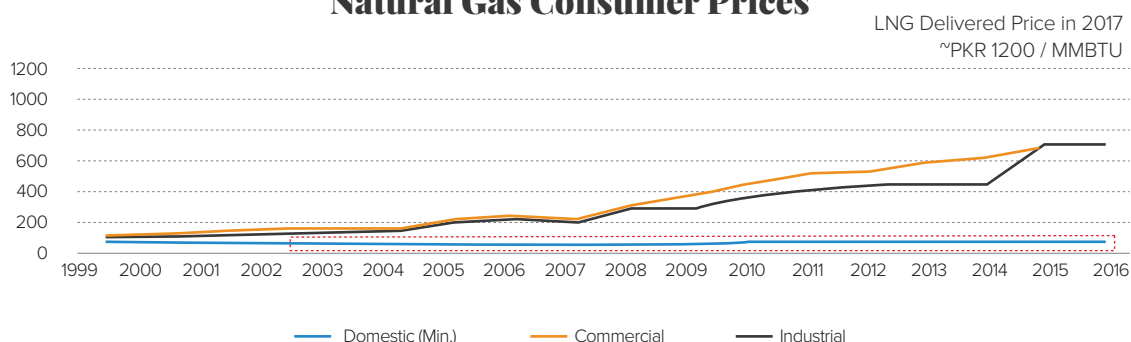
Source: The World Bank, 2013

Upcoming power plants will result in a marginal increase in CO₂ emissions for Pakistan. The overall emissions level on absolute and per capita basis will still be far less than many countries. Moreover, Environmental impact of coal based power plants will be controlled through industrially proven technological interventions ensuring compliance with NEQS and IFC Emissions Standards

Note: Pakistan's projected CO₂ emissions based solely on impact of upcoming power plants by Year 2025

Ensure Competitive Tariffs – Natural Gas

Natural Gas Consumer Prices



Source: Pakistan Energy Yearbook, 2016

- The domestic sector gets gas at significantly lower rates putting extra burden on industrial and commercial sectors
- Low domestic sector gas prices do not create any compulsion for consumers to conserve gas
- Captive power plants receive selective advantage in terms of gas allocation and pricing. In current power surplus situation, captive power plants must move to national grid. Gas pricing to captive power plants must also ensure levelized cost of power generation at par with new RLNG based power plants

Gas pricing structure should be revamped to ensure complete recovery of imported LNG cost and equitable gas tariffs for all types of consumers

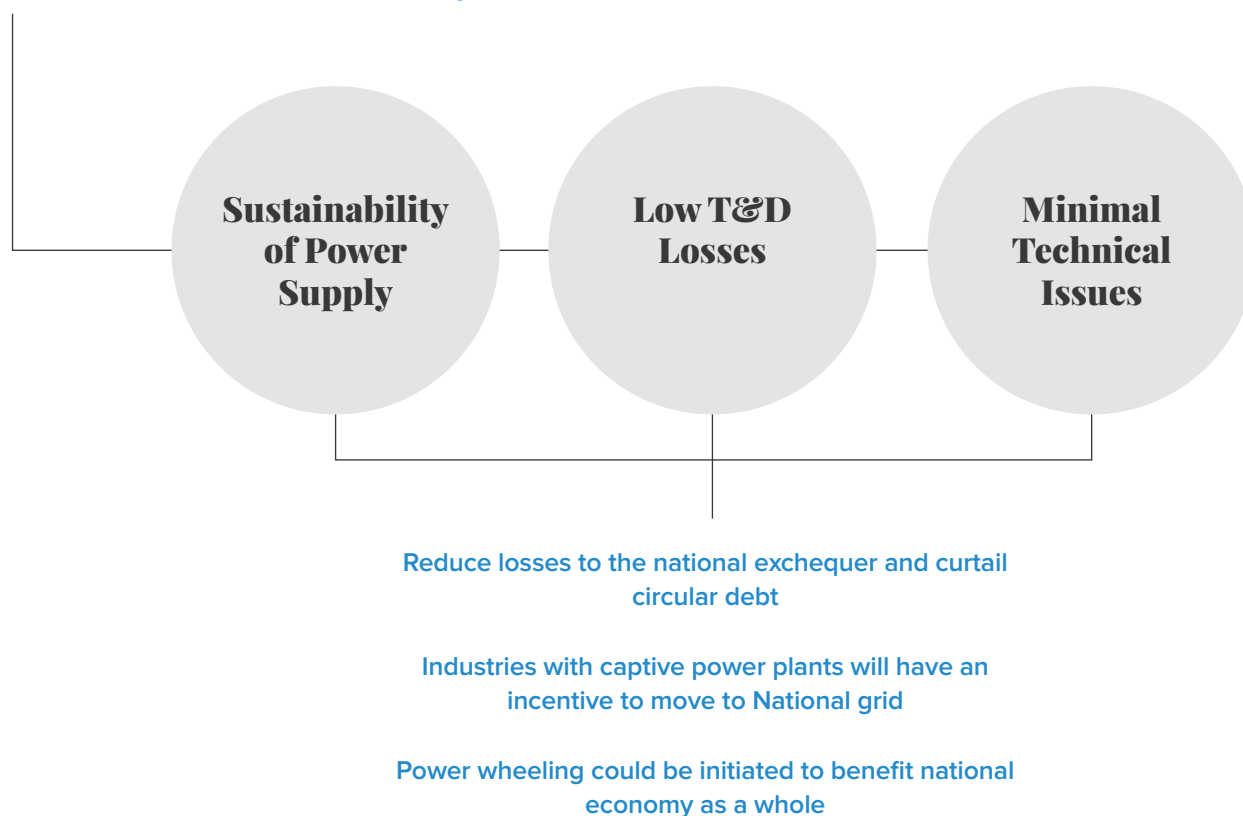
Power Sector Tariff

- The upcoming energy fuel mix will lower fuel cost component of power tariff
- The key focus area to ensure competitive electricity tariff to all consumers is to curtail transmission and distribution losses
- Reduction in T&D losses from 20% to 10% in the next 5 years should reduce the consumer tariffs by around 1-1.5 cents/kwh
- Discos should be allowed recovery of capital investment for investment in replacement/upgradation of technology required for reducing T&D losses
- Discos should be privatized after curtailing the current high T&D losses to comparable international benchmarks

Potential Solutions for Reducing T&D Losses

- Performance and cost management of operations
- Innovation in governance models
- Technology –insulated conductors, protection equipment, isolations
 - To protect revenue (theft reduction)
 - Loss and outage minimization
- Accountability and audit processes. Power theft should be made a non-bailable offence
- Network visibility and energy accounting
 - Consumer indexing, Metering
- Automation and digitization of operations

Power Grid Reliability



Integrated Energy Policy – Energy Efficiency & Conservation

Hybrid/Electric Vehicles

- Conventional gasoline vehicles only convert about 17%–21% of the energy
- Hybrid vehicles improve energy efficiency and consumption of gasoline
- EVs improve thermal efficiency to 25-40% vs. 17-21% using gasoline
- EVs also do not cause any emissions
- **Hybrid & Electrical Vehicles should be promoted /incentivized in the new Auto Policy including installation of battery charging stations**

LED Lighting

- LED bulbs are approximately 50-80% more efficient than other alternates
- **Import duties and sales tax on LED bulbs should be removed**

Building codes and Commercial Shopping Centers

- Building codes should be revised to achieve energy conservation
- Shopping centers in big cities of Pakistan do not fully utilize day light, start businesses by midday and remain open till midnight
- Resultantly, there is a stress on the electricity grid during peak hours of the day
- **Strict adherence to business timings should be ensured for commercial centers**

There is a need to change the mindset of the local population with regards to energy conservation through persistent awareness and education

Unleashing Pakistan's Agricultural, Livestock and Dairy Potential

Motivate Provinces to

- Encourage cotton growing (model farms, seeds, land-levelling, water-course management, mechanization, credit and elimination of middle-men). Cotton is the primary input to textiles, the main export industry. Net impact could be \$3-4 billion on trade balance.
- Professionalize the dairy industry to improve output and nutritional value.
- Move livestock from subsistence to organized basis to promote exports.
- Encourage oilseed production to reduce import reliance





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