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Money Matters

Survival mode is not a strategy

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TAXATION ISSUES

For the business landscape in Pakistan to switch from survive to thrive, it is but essential to twist the trajectory towards a happy finale and curb the whispers of 'to invest or not to', in the business corridors with a taxation policy that spells success as never heard of.

I say that for the detrimental effect of sudden changes on industry and how it stands to weaken our position. A strong example of sudden and uncalled for regulatory change in tax policy on an industry, (oil, in this case), is in the Finance Act of July 2024. The shift from a zero-rated tax status to an exempt category has created a ripple effect across the entire oil industry sector, threatening both existing operations and future investments.

Petroleum products have enjoyed zero-rated status, meaning companies could claim back the General Sales Tax (GST) paid on inputs from the federal government. The new exempt status has effectively trapped these input taxes within the system, creating a huge industry-wide loss.

Retaining existing investors and attracting new FDI has always been and will always be essential for economic growth, but the precariousness of the environment compels a survival mode, for which both the present investment and FDI become urgent and quickest route to sustainable recovery, but only if paired with a highly favorable and stable tax policy framework that facilitates and supports this approach.

This taxation crisis comes amidst the exit of giants like Shell and TotalEnergies. Though the brands will continue to exist as licensed markets, the impact of the exit is not to be ignored. Operations and employability in these cases have fortunately stayed unaffected, but we cannot be this lucky every time. Any organisation leaving the country does not merely mean a building shutting down; it is the livelihood of millions (directly or indirectly connected across Pakistan) that takes the hit.

Pakistan has leveraged its strategic location and untapped market potential to attract three international oil brands recently. The likes of Aramco, Wafi Energy and Gunvor have entered Pakistan but only to be faced with the unrelenting wall of policy change in taxation. The consequences of this seemingly technical tax adjustment have been severe. Companies across the sector are reporting alarming financial strain: from huge erosion in profit margins, cannibalising research and development funds, to stalling of future plans. Petroleum serves as the vital energy source powering Pakistan's economy; any disruption to its supply chain directly impedes industrial productivity and overall GDP growth.

Equitable taxation that strikes a balance between generating necessary government revenues yet allowing businesses to thrive is an ideal, but a policy that keeps the agenda of funding public services and infrastructure, including facilitation and support for investors is certainly an urgent ask.

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A glance at the existing blueprints for creating favorable conditions for energy sector investments gives us the UAE, Malaysia and India as solid examples. We have seen how their economies have gone full throttle with stable and supportive taxation policies for investors. To quote Sheikh Mohammed bin Rashid Al-Maktoum, vice president, prime minister and ruler of Dubai, "The UAE continues to develop

its economy, expand global markets, attract investments, and create the most business-friendly environment in the world."

A 'business friendly environment' essentially requires an excellent taxation policy that compliments the facilitation from public sector. The new market entrants in the energy sector have come with growth ambitions for Pakistan, they wish to create a first world infrastructure in a developing economy to enable competitive scope in the region.

Pakistan, with limited urban centres, is in dire need of its highways and remote regions to become compatible with the growing demands of a very digital world. But this tax burden threatens to derail their entire business model. The companies face losses of billions. Similarly, refineries that had developed long-term upgradation/expansion plans have been forced to reconsider their strategies. These modernisation efforts, crucial for improving Pakistan's refining capacity and reducing dependence on imported refined products, now hang in the balance.

With global oil prices currently trending downward, and budget sessions around the corner, this is an opportune moment for tax policy adjustment without significant consumer impact. The timing is particularly concerning, given Pakistan's urgent need to hold on to the existing investors and attract the new one. Especially the Saudi investment in Pakistan's energy sector, which holds strategic importance for both nations and has been historically a strong partner.

The promising Saudi and British companies are now debating their way forward, and reviewing their decision on whether to stay or not. Industry experts agree that the most straightforward solution would be to repeal the current law and revert to the previous taxation framework. While concerns about IMF requirements for increased revenue collection are valid, the billions potentially gained through this measure may ultimately cost far more in lost investment, stalled development, and damaged investor confidence. Continued inaction risks pushing companies to a breaking point that could eventually lead to operational shutdowns.

Pakistan’s economic narrative can relate to the question of existentialism today. It stands at a critical juncture, with vulnerability to climate change, mounting import bills, currency devaluation, and a persistent balance-of-payments crisis. As Pakistan competes globally for investment capital, maintaining a consistent and supportive taxation framework for the strategic sector of energy is essential for economic stability and growth.

In an economy where struggle seems to be the most trending hashtag, the exit of legitimate and renowned companies is not good, and loss of confidence in the country’s potential is practically a call for disaster. Routing back to the existential crises that our economy is faced with, and the right to survive, I cannot help but quote Goethe: ‘Knowing is not enough; we must apply. Willing is not enough; we must do.’

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