Alliance for
Climate Justice &
Clean Energy

PRESS RELEASE

Civil society demands IMF to revoke GST on renewable energy technologies

KARACHI, LAHORE and ISLAMABAD, February 1, 2022: Demanding the government to revoke imposition of general sales tax on solar panels and electric vehicles, a civil society group striving to promote renewable energy has asked the International Monetary Fund (IMF) to play a responsible part in developing socially just and environmental friendly financing solutions in Pakistan.

Alliance for Climate Justice and Clean Energy (ACJCE) has made these demands in a letter written to the IMF board ahead of its meeting for Pakistan's sixth review, following the recent imposition of 20% GST on solar panels in Pakistan. ACJCE shared details of the letter in a media briefing held on Tuesday, where the speakers assailed the tax imposition and discussed its repercussions.

Speaking at the briefing, Mr Zain Moulvi, Associate at Alternative Law Collective, said that the hastily passed mini budget is a grim reminder of how IMF's policies and lending practices can sabotage Pakistan's social and environmental planning. "The new IMF-backed fiscal reforms include heavy taxes on solar panels, wind turbines and electric vehicles, which are likely to cripple the renewable energy market," he said. Moulvi emphasized that the renewables are Pakistan's biggest hope for cheap electricity, adding that these taxes are inconsistent with Pakistan's Alternative and Renewable Energy and National Electric Vehicle policies".

Haneea Isaad, Research Associate at Institute for Energy Economics and Financial Analysis, discussed the financial impacts of the added taxation. "At present, the latest tariffs given out by National Electric Power Regulatory Authority for utility scale solar/wind power indicate a levelized cost of generation of Rs. 6-7/KWh. This range holds true for residential/commercial rooftop photovoltaic installations too. Imposing the added tax can significantly raise the costs for these projects," she said.

Isaad emphasized such decisions will hurt investor's confidence, while small and mid-size enterprises and off-grid and lower-income households will be the most affected segment as the added taxes will increase costs.

Waqas Moosa, Member Executive Committee of Pakistan Solar Association (PSA), revealed that solar deployments in Pakistan are expected to fall by at least 20% in 2022 as solar equipment's cost will increase by around 20% due to the added taxes. "Consumers who are unable to shift to solar due to higher cost will end up paying an extra Rs. 175 billion in electricity costs over 20 years," PSA representative said.

He questioned whether putting the extra cost on solar panels is worth it as the expected revenue from one year of GST is only about Rs. 16 billion to Rs. 20 billion. “For each solar solution not deployed, fossil-fuel based power sources will instead be used over the next 20 years, which is the life of solar equipment,” he said.

Research Analyst at Renewables First, Mustafa Amjad, pointed out that the government is contradicting its own mantra of a green Pakistan by taxing these technologies. “Presently, local development for solar panel and renewable energy technologies is negligible in Pakistan. At such a crucial stage, where both these industries require fiscal support, such taxation will damage the development of renewable energy, as well as Pakistan’s electric vehicle market,” he said. .

The government, he said, is jeopardizing the take-off promised for these technologies. Amjad said, “These increased costs would ultimately be transferred to the consumer and result in higher tariff rates.”

Transportation already accounts for 43% of the airborne emissions in the country and the EV Policy states that the “initial years of EV penetration in Pakistan are not possible without governmental support.” The policy also argues that the “initial incentives, tax breaks and benefits will pay for itself with the savings in fuel import bill, reduction in emission related expenses, usage of idle electricity capacity and income from charging revenues”, estimating annual savings of around PKR 110 Billion per year for the first five years of the policy.

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