



# Energy Transition in the Textile Sector:

## The Way Forward through Electricity Market Reforms





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As global consumers increasingly prioritise sustainability, Pakistan's textile industry must undergo a strategic transformation to maintain its competitive edge on the world stage. Clean energy for production is a critical aspect of sustainability. This is why the rapid transition to clean energy is an imperative for the national textile industry. Without it, Pakistani exports will become uncompetitive because of non-compliance with global standards for carbon neutrality and sustainability.

Concerns around the overall energy mix, reliability, and grid infrastructure to accommodate clean energy have led industry to take a nuanced view of the cleanliness of grid-supplied energy. As a result, industries are shifting away from the national grid to captive power generation. This has increased the grid's functional and financial instability in the process.

### Key Messages

- » A harmonised definition of 'clean energy' – aligned with upcoming global regulations and standards, and accepted by industries, power producers, and distribution companies – will increase productive demand on the grid.
- » A competitive, rationalised energy tariff encourages industries to use grid-supplied energy, thereby increasing productive demand on the grid. Not only will this increase energy productivity but will also strengthen the financial stability of the grid.
- » Electricity market reforms driven by consensus will create an enabling environment for integrating renewables, as well as for addressing pricing and capacity issues.

### Key Challenges

#### ✕ Loss of Revenue

Grid instability, high industrial tariffs, and 'dirty' energy are causing industry to shift away from the national grid and increasing reliance on captive power generation. As a consequence, productive energy demand has dropped significantly, leading to revenue loss for power producers and distributors.

#### ✕ Loss of Market

Without clean energy, Pakistan's exports will become non-compliant with global sustainability regimes and as a result, uncompetitive. If the supply of clean energy in the national grid does not grow at pace, its financial instability will increase as more industrial consumers shift away from the grid.

Pakistan relies heavily on export earnings from its national textile industry. Not only does this sector make a significant contribution to the gross domestic product, but it is also one of the biggest employers in the country. Any downturn in this vital sector is likely to carry serious economic and social consequences.

Despite its resilience and adaptability, challenges persist for the national textile industry in the face of transition risks related to energy supply, energy infrastructure, and the growing consumer appetite for environmentally friendly products. As global markets increasingly adopt standards and regulations to encourage climate neutrality and sustainability, Pakistani textiles may face an erosion of brand value, reduced access to key international markets, declining consumer confidence, and loss of revenues.

Since energy for production is the biggest source of emissions, the transition to clean energy for Pakistan's textile industry becomes an imperative.

One of the primary obstacles lies in the high interest rates and substantial costs associated with transitioning to clean energy; sustainable investments are challenging without concessional financing models. This is exacerbated by a lack of focus on green skill development and capacity building, limiting the workforce's ability to adapt to and implement sustainable energy practices effectively. A lack of policy continuity adds another layer of complexity, contributing to long-term uncertainty and unpredictability for investors and industrialists alike.

Progress toward sustainable practices is also impeded by ineffective policy decisions, regulatory gaps, and policy constraints, highlighting the need for supportive policies and close government-industry interaction.

## Policy Recommendations

- » Competitive tariff structures for the industry will increase productive demand and address capacity issues and pricing. This will help industry to remain competitive in international markets.
- » Energy market reforms under the Competitive Trading Bilateral Contract Market (CTBCM) regime need to be expedited, to enhance efficiency, reduce production costs, and attract investment.
- » A policy framework developed in collaboration with relevant stakeholders to advance cleaner energy practices and reduce carbon emissions in line with the Carbon Border Adjustment Mechanism (CBAM) can play a meaningful role in maintaining or enhancing textile exports to the EU.
- » Concessional financing schemes, such as the Renewable Energy Financing Scheme by the State Bank of Pakistan, and market-based instruments such as Green Bonds will not only increase private sector participation but also attract much-needed sustainable finance for the energy transition.

## About PGCEP

The Pak-German Climate & Energy Partnership (PGCEP) was established in 2021 to support Pakistan in reaching its commitments under the Paris Agreement and Agenda 2030. The Partnership represents German Development Cooperation's bilateral portfolio in Pakistan, which is being implemented by GIZ and KfW on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ). The Partnership leverages the breadth of the bilateral portfolio to drive action that leads to sustainable, climate resilient development in Pakistan, in close collaboration with Government, private sector, civil society and think tanks.

This advocacy brief is an output of the 'Energy Transition in the Textile Industry' dialogue organised by the Pak-German Climate & Energy Partnership in collaboration with the Sustainable Development Policy Institute (SDPI).

## For Further Information



Published by

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH  
Registered offices Bonn and Eschborn, Germany

GIZ Country Office, Level 2, Serena Business Complex, Khayaban-e-Suhrawardy,  
Sector G-5/1, Islamabad, Pakistan

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Programme  
Responsible

Pak-German Climate and Energy Partnership (PGCEP)

Design by

Sobiah Becker – Advisor, PGCEP

On behalf of

Umair Hassan

Federal Ministry for Economic Cooperation and Development (BMZ)  
Islamabad, 2024

Implemented by

**giz** Deutsche Gesellschaft  
für Internationale  
Zusammenarbeit (GIZ) GmbH

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