**The swindle without end**

BY K H U R R A M H U S A I N 2020-11-12

I HOPE by now people realise that this never ends. For the past two years, we have seen one sector of the economy after another get hit by price spirals, attributed largely to a steep mismatch between supply and demand (or between cost of provision of goods versus the recovery made from sales of the goods), the supply chains are in deep disarrayin one area after another.

Today, just as it seems that we are hitting a plateau in food prices, another supply-demand mismatch in the gas sector threatens to create shortages and yet another price spiral as some of the most expensive imported gas has just been contracted by the government, at rates ranging between 16 to 18 per cent of Brent crude where the price of contract gas (purchased through the longterm supply arrangements negotiated by the previous government and subjected to much maligning by the present government) is just above 13pc.

Importing this gas is the easy part. The hard part will be figuring out how to divide up the losses since the full cost of imported gas (especially at these rates) cannot be passed through to the end consumers, whether in industry or in homes. In the last price notification of RLNG, the price at the port was just under $4.6 for cargoes brought by PSO and just under $4 per unit for cargoes brought by the state-owned Pakistan LNG Ltd. This gas was then sold by SNGPL, the distribution company for Punjab and KP provinces, at a weighted average price just under $6.5 per unit. This was when the base price was between 11pc and 13pc of Brent crude. Let`s see what happens when the weighted price is between 16pc and 18pc.

On top of this the cotton crop is coming in weaker than ever in recent memory. Cotton ginners are saying they expect the total crop to come in around five million bales, where the requirements of the country`s textile industry are put closer to 15m bales. The resulting gap will need to be made up by imports. Once those imports kick in, along with their pricing, coupled with the 1.7m tonnes of wheat the country is looking to import by January, the pressures will be felt on the reserves as well as input prices of industry.In last week`s cabinet meeting, the government`s finance adviser, Hafeez Shaikh, is reported to have warned his colleagues about the mushrooming growth of `superfluous subsidies` being given to industry to help 1(ick-start growth. In the cabinet meeting this week, held only a few days ago, the prime minister`s own adviser on revenues, the venerable Q block veteran Waqar Masud, once again warned about the mushrooming subsidies bill, laying the emphasis on power subsidies in the area of power where the government has already decided to provide Rs21bn to subsidise electricity for indus-try, and use funds earmarked for Covid-19 support for the purpose.

To power subsidies, we should now be prepared to add gas, wheat and cotton subsidies as well.

Otherwise there will be another round of food price inflation, and the rising cost of cotton might adversely impact exports.

Last winter, to take one example, they subsidised LNG imports and provided the gas at cheaper than the procurement price. Today, as a result of subsidising LNG, the gas companies have a debt burden of Rs78 billion according to some reports. If they decide to continue with subsidising LNG for the industrial sector again through this winter (and they have already contracted six cargoes for December and are advertising for another six in January), the gas companies estimate they could be burdened with another RsG9bn.

This is what we get for not managing the gas supply chain properly. In January last year, when the gas shortages were biting hard, the prime ministersacked the heads of the two large gas companies in the middle of the crisis to express his displeasure.

That act, executed more out of anger than rational thinking, did not prevent the government from mismanaging gas supplies one more time, delaying the orders for imported LNG till the price in international markets was higher than the contract price at which we currently buy LNG, and laying the groundwork for another crisis all over again.

This never ends because it is not the product of fortuitous circumstances. The government is not a victim here. This state of affairs, of rising price spirals happening everywhere from medicines to food to fuel to power, is fundamentally the result of the government`s inability to get a handle on things.

And that inability is not going away, rather it is increasing as the political temperature rises. This is what happens when the government is too busy shouting at the opposition on TV screens and rallies and not paying attention to what is happening under its nose, as procurement targets fall short and gas supplies are not arranged and medicine prices are tampered with after listening only to the teary-eyed entreaties of big pharma and power-sector recoveries fall while the circular debt rises and so on.

The economy is now caught in a swindle without an end. Like a shoal of piranhas, vested interests everywhere are swindling the state to reap rentierscale profits that create turbulence which the state has to dampen. The results of this mismanagement pile up either in the state`s subsidy bill, or at the consumer`s doorstep in the form of higher prices.

Already they are being pushed to pass the circular debt through to end consumers, and the Petroleum Division (whose minister gave us this circular debt in his old role as power minister) is warning of another circular debt in fuels that might also need to be passed through to end consumers. As things stand, this state of constant lurching from one crisis to another, from one set of shortages to another, from one price spiral to another, will never end.  The writer is a member of staff.

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