PSO: only management be privatized

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By Dr Akhtar Hassan Khan

RECENTLY the Privatization Commission announced a welcome change in its policy for big state-owned enterprises (SOEs) like OGDC, PTCL, PSO and HBL. It announced that instead of selling entire units to one investor it would gradually sell their shares in the market. This policy is being pursued with respect to OGDC, NBP and PTCL but the commission has now announced that it will sell PSO and HBL to one investor.

In case of PSO the government owns only 25 per cent of its equity whereas it has undertaken to sell 51 per cent of its equity. This change in strategy in respect of PSO especially by undertaking to sell a larger share of its equity than it owns is difficult to understand. PSO is Pakistan's biggest corporate entity. It is the only Pakistani firm included in Fortune Asia's 500 biggest firms. It is the jewel in the crown of Pakistan's economy.

Its performance despite being an SOE has been tremendous. It has market share of 71 per cent of POL products with Shell having only 20 per cent. It has 3,820 retail outlets as compared to 1,230 of Shell. Its storage capacity is 734,000 tons compared to 144,000 tons of Shell. It has been investing about Rs 1 billion per annum in capital expenditure for the development of additional new

priate time for PSO sell-out. Internal politics in Pakistan has not stabilized. The situation in Afghanistan and Iraq is far from normal. In this scenario the foreign investors would like to maximize returns in the shortest possible time and will not plan to generate returns over the long run in a geographical area which is prone to instability.

Thirdly, the present situation regarding competition among PSO, Shell and Caltex is ideal as there are strong efforts by all the three firms to win the consumers. If PSO is privatized the government will lose its ability to ensure price stability. The POL import products have been completely deregulated but the government has a yardstick of purchases by PSO to compare the prices at which Shell and Caltex import POL products. If PSO is privatized a cartel will be formed by foreign companies to import POL

IMF's dictation even though we get only $119 million per quarter which we do not need. Ever since we started following IMF's advice, GDP growth has slided and poverty has soared.

But it is also vested interests which are pushing this wrong policy. The parties which have bid for PSO are Kuwait Petroleum Company, Al-Kharfi and Sons, Saudi Arabia and Fauji Foundation. The credentials of Al-Kharfi of Saudi Arabia are not known but the Kuwait Petroleum Company has the resources to buy PSO on the condition that it will import deficit POL product from Kuwait only. This will result in transfer pricing with deregulated import of POL products. The government will have no authority to control its purchase prices from its parent company and the consumers and the economy will suffer due to collusion in price fixing.

It seems that privatization of PSO is an exercise to sell it to Fauji Foundation. However, selling it to Fauji Foundation will not be privatization in any sense of the word. The management by khakis will not improve from the present and is likely to deteriorate. Secondly, the government will lose tax revenues of more than Rs 2 billion as all enterprises of Fauji Foundation are exempt from corporate income tax, if profits are spent on welfare.

Prime Minister Jamali in a recent visit to the Steel Mill hit the nail on the head by stating that the management of state-owned enterprises should be depoliticized. The present political interference in PSO's management can be eliminated if government gives up its

> PSO is the sole POL supplier to the armed forces, KESC, Wapda, IPPs, and other major levers of the economy. It is therefore a strategic asset which should not be sold to foreigners. Foreign ownership of our strategic assets can expose the country to indeterminate risks. In time of crises, foreign oil suppliers could cripple the economy and also delay supply to the armed forces and power stations.

opment of additional new vision outlets complete with convenience stores, business centres and internet kiosks. It has successfully implemented voluntary separation schemes reducing the company's staff by 26 per cent from 2633 to 1955 employees.

It has been giving more than 100 per cent dividend on its Rs 10 share for the last five years. During the year ending June 2003 its profit after tax increased by 26.4 per cent to the staggering figure of Rs 4 billion. A dividend of Rs 7 per share or 70 per cent was announced to its shareholders resulting in a total dividend of 160 per cent for the whole year. Its latest balance sheet is rosier than that of Dow Jones component companies.

Its shareholding of 143 million is very diversified. The government owns 25 per cent, ICP and NIT have 26 per cent, other financial institutions 28 per cent, individuals 15 per cent and the remaining 6 per cent is owned by foreign investors and others. At its present market value of Rs 290 per share the total worth of its 143 million shares comes to Rs 41.47 billion.

PSO has tremendous potential for growth as the per capita consumption of POL products in Pakistan is only 0.14 tons whereas in Thailand it is 0.56 tons. With growth in incomes and population, POL consumption will continue to increase sharply and PSO's profits will soar higher. PSO does not face a cyclical market and like other utilities the demand for POL products does not fluctuate. Its profitability is assured. Profits vary according to growth in the overall market and PSO's share in the growing market.

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products at the highest rate because the experience of import deregulation has shown that the government was importing at cheaper bulk rates than oil companies.

Fourthly, after initial benefits of direct foreign investment in the first year Pakistan will be perpetually remitting foreign exchange from its reserves for increasing profits of PSO. In financial year 2002 the profits remittances of foreign companies were $2.4 billion. If PSO and HBL are privatized the annual remittance figure of profits by foreign firms would reach $4 billion in a few years, which we cannot afford. Like IPPs this will be another lock around Pakistan's economy.

Fifthly, in order to sell 51 per cent equity the government will force ICP and NIT to sell its shares of PSO although it has no right to tell ICP and NIT to do so. PSO's shares are most valuable in the ICP and NIT portfolio and if these shares are sold ICP's and NIT's share price will be adversely affected and the present extremely buoyant stock market could go into a spin.

Sixthly, no developing country has fully privatized the distribution of POL products as it is a money spinner for any government of a developing country which is always short of resources for socio-economic development. India does not have any foreign company in its oil and gas sector and the attempt to privatize two oil concerns has been stopped by its Supreme Court acting under the doctrine of judicial activism.

Wrong policies are promoted either by wrong ideas or vested interests acting without regard to national interest. The wrong idea comes from IMF which considers privatization as its theology. However leading development economists like Amartya Sen, Nobel Laureate for 2000, and

if government gives up its privilege of appointing all the directors and the managing director. The government should only appoint two directors, ICP and NIT should appoint a director each, other financial companies should appoint two directors, the private owners should elect another two and the foreign owners be also allowed one director. Similarly the managing director may be nominated by the government but finally approved by a board in which government nominees are 25 per cent. This would be the ideal path for PSO given its importance in the national economy.

Following Prime Minister Jamali's directive PSO's management should be privatized as outlined above. Selling PSO to either Kuwait Petroleum Company or Fauji Foundation will be totally against the national interest. It will be another saga of policies being pursued in the furtherance of vested interests and wrong economic ideology to the detriment of the welfare of the country. PSO's motto is "National company giving momentum to the nation." Let us keep it as national if we are all true nationalists.

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Timing Iraq's transition

Opponents of the U.S. mission in Iraq like to portray themselves as striving to "end the occupation." It's a popular stand; the only problem is that no one opposes it — neither President Bush nor anyone else in his administration.

So let's be clear: The current Iraq debate is not about ending the postwar regime — which everyone favours — but about the owners of strategic assets as their foreign ownership can expose the country to indeterminate risk. In time of crises Shell, Caltex and a foreign owned PSO could cripple the economy and also delay supply to the armed forces and power stations.

Secondly, the present geopolitical and economic situation of the region is the most inappro-

Joseph J. Stiglitz, Nobel Laureate for 2001, are opposed to privatization after studying its effects on a a cross-section of the countries. Stiglitz states "In contrast to what it was supposed to do, privatization has made matters so much worse that in many countries today privatization is jokingly referred to as briberization." However Pakistan has to follow

what will replace it, and how. Many Arab governments find the U.S. plan for fostering an Iraqi democracy unsettling, either because they object to the prospect of a government led by Iraq's majority Shias or because the free election of an Arab ruler might raise questions about their own autocracies.

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