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**The LNG debate**

A recent debate on TV saw, in one corner, the redoubtable Nadeem Babar, special adviser to the prime minister on petroleum, and in the other the equally formidable Shahid Khaqan Abbasi, former petroleum minister and former prime minister of Pakistan.

Let us look at some of the details of what was discussed and try to separate the gold from the dross. Because there was a lot of dross.

The SAPM claimed that no new concessions for petroleum exploration were awarded during the term of the previous government. The truth is that in 2014 fifty new blocks were offered for exploration. Of these, 45 new concessions were awarded. By contrast during the term of the present government, 20 new blocks have been offered. Of these, only ten blocks were awarded to bidders. The remaining ten did not attract any bids. So clearly, in this case at least, the SAPM was either unaware of what happened in the past or simply misstated the facts.

On another issue, the SAPM stated that the ‘slope of Brent’ is of no consequence to LNG suppliers -- rather, they are concerned only with the dollar value. The truth is that the global LNG market is fundamentally underpinned by the ‘slope of Brent’. In other words, the price of LNG is firmly linked to the price of Brent crude oil by a specific formula. If Brent crude oil goes up or down the price of LNG also moves in tandem with it. So one is at a loss to understand why the SAPM would claim otherwise.

The SAPM further claimed that long-term contracts for the purchase of LNG were the result of bad planning on the part of the previous government. In stating this he seemed to be suggesting that long-term planning is not necessary, and that it is better to buy LNG cargoes on the spot market. This is rather a surprising statement from an official charged with the long-term energy security of Pakistan. The fact is that spot prices are highly volatile and hence not helpful for long-term planning.

And recent experience should have proved this to the adviser when traders offered extortionate spot prices to Pakistan after they realized we were in a bind. There can be no doubt that any country which is dependent on LNG must work on the basis of long-term contracts to guarantee stable supply and reasonable and predictable pricing.

It is also useful to remember that spot prices have in the past been consistently higher than long-term prices. They only fell below long-term rates for the first time in May 2019. And since then have been highly volatile and indeed have recently moved above term prices again.

In addition to this, the SAPM stated that 70 percent of LNG terminal capacity was not utilized because there were no buyers for LNG. This is again an extraordinary argument. It is the government that must decide which fuel is to be used by power plants, and allocate these fuels accordingly. So, if there was unutilized LNG terminal capacity it was because the government did not import LNG and allocate it to the power plants. This resulted in power plants being forced to operate on fuel oil. Bear in mind that power generated from LNG costs about Rs9.50 per unit whereas that generated from fuel oil costs approximately Rs12.00 per unit.

So, the failure to import LNG at the time when spot prices were at a historic low, and at a time when there was spare terminal capacity, can only be described as complete dereliction of responsibility.

More examples of the SAPM’s statements, or rather misstatements, could be given. But the point has been made. Much of what he said was false or wrong. Yet it was delivered with such confidence and aplomb that the hapless former prime minister, who was expecting a discussion based on facts and realities, was caught off guard. And viewers must have got the clear impression that he had been bested.

The lesson here is that ‘great debates’ can easily be won by whoever is willing to throw truth to the wind. In the end, the real victor may well have been the former prime minister who, despite a downpour of misstatements, continued to adhere to facts and reality.

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