**A winter without gas? Part - I**

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Winter has almost arrived. There is usually a high gas demand in this season but gas shortages in the winter have become a norm in Pakistan. Local gas supplies decrease by 10 per cent every year. In the last few years, liquefied natural gas (LNG) would fill up the gaps created by supply shortages, and used to be quite affordable.

At present, there is an energy and gas crisis across the world. International suppliers are not responding to our tenders for gas purchases due to an already weak supply situation. LNG is also not available at the right prices. As against the typical price of $10-12/MMBtu, LNG is now being sold at three times these prices. These prices have started to come down a little only recently and that too due to an increase in gas storage in Europe, which is a large well-paying market. Fortunately, there are long-term LNG contracts through which we will continue to get enough gas to use one of our RLNG terminals.

In Pakistan, the market share of LPG in the domestic sector is 41 per cent, commercial 43 per cent and industry 16 per cent. LPG appears to have some potential to fill the supply gap. LPG demand in Pakistan is around 1.3 million tonnes per year (mtpy); almost half of it is supplied by local suppliers and the other half is imported. There is a pricing problem between imported LPG and the local one.

The price of local LPG is based on Saudi contract prices (SCP). Imported LPG has always been more expensive. An LPG terminal was wound up earlier due to pricing and other issues. Imported LNG dealers complain about this problem all the time.

LPG, LNG and oil are commodities. Their prices also depend on volume and consumers’ credibility. Indices like Brent or JKM or TTF indicate average prices. There are discounts for good and large customers and premiums for small and less-reliable customers. And there is no way to find this out. Here lies the declared and undeclared profit. Due to this reason, commodities are imported in many countries under long-term GtoG contracts, which may be indexed. Demand from the private and public sectors are aggregated for interim and variable requirements under spot tenders by organizations like the Trading Corporation of Pakistan (TCP).

There appears to be a need for doing both, long-term GtoG contracts ala Qatar LNG and spot tenders by the TCP. Reportedly, the government recently managed to sign a contract with Qatar for the supplies of one million tonnes of gas per year. GtoG contracts need not be handled by government-owned companies. The government can allocate and nominate private-sector buyers and resellers to the Qatar LPG supplier company. Bulk LPG contracts under GtoG arrangement will hopefully fetch lower prices, and thus the perennial issue of disparity between imported and local LPG prices will be resolved.

There is a third option as well. Some arrangements can be explored to open trade with Iran. We can start with the border trade agreement which has been on the table for a long time. Turkey used to import pipeline gas, and perhaps LPG, from Iran despite sanctions. Our foreign diplomats may be able to do something in this respect. LPG storage infrastructure may play a role in stabilizing prices, especially, in the winter. There are informal LG storage units. Under a policy regime, more overt storage units may enter the market.

Local LPG used to be under a quota regime where the powerful used to get quotas allocated mostly as a political bribe. So, what is the allocation process now that there is no quota system? It is a difficult issue when the price is fixed. Consumer prices increase if producers ask for a premium. Demand may contract.

The international average prices for LNG in the month of October were around $0.71 per litre. The average can be deceptive. The actual retail prices varied from $0.324 per litre in Russia and $0.541 In Turkey to $1.022 in Spain. The difference is due to taxes. In Pakistan, LPG retail prices for the same period were Rs201 per kg ($0.768 per litre). LPG prices in the region (India) were almost the same. Petroleum prices in India are usually higher than in Pakistan due to higher taxes and some possible camouflaging and diversion.

The Oil and Gas Regulatory Authority (Ogra) has increased LPG prices for November by Rs2.94/kg. The prices may rise in the coming months as well. There is a case for reducing, or completely doing away with, taxes on LPG, at least for the winter and the crisis period. At present, around Rs34 per kg is charged as GST and petroleum levy. By doing this, a 17 per cent reduction will bring down LPG prices from Rs202/kg to Rs168/kg. Perhaps, there is no commitment with the IMF on it although the institution does not like any tax cuts.

There is a price disparity problem as well. The LPG cylinder price of Rs202 per kg translates into Rs4,333 per MMBtu while the lowest slab of pipeline gas (PNG) is Rs122 per MMBtu. The highest domestic slab is Rs1,400 per MMBtu, Power sector 857, industry 1057. The LNG import price is Rs2800-3000, and the price of domestically produced gas is around Rs1,200. Consumer gas tariffs have not been revised for the last two years.

In October, Saudi contract prices (SCP) came down to $590/tonne ($0.3/litre). In April and September 2022, the SCP hovered between $800 and $940/tonne. In January to September 2021, the prices were around $550-650/tonne, and between December and February 2020, the prices were as low as $350/tonne. In Pakistan, the producer price, as set by Ogra, was Rs132,303 per tonne ($601.377/tonne or $0.305/litre) for October. There may be some price variation issues due to propane and butane ratio in LPG. We have considered only propane prices; the difference may be negligible.

Pipeline gas (methane) is limited to network areas which cannot possibly cover the entire population. Gas coverage in Pakistan is around 20-25 per cent. While there are problems in Pakistan due to a heavy share of the low-paying domestic sector, creating circular debt issues even in the gas sector, in India there are big plans to increase gas coverage to 70 per cent of the population.

To be continued

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