**This crisis is a moment**

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Part - II

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The austerity measures being considered by the Cabinet Committee on Economic Revival (CCER) could save Rs424 billion by creating a Single Treasury Account, Rs54 billion in six months by a 10 per cent reduction in FY22 federal government expense, Rs328 billion by implementing devolved ministries and the HEC of another Rs7 billion. Furthermore, Rs217 billion sharing of BISP with provinces and a Ministry of Finance review of tax exemptions (three major taxes amount to Rs1.3 trillion), subsidies and grants is taking the bull by the horn.

The recent CCER deliberations – on Sept 25, 2023 – highlighted increasing interdependency and confirming the Planning Commission on the lines of the NRDC (National Development and Reform Commission of China)”. Change is starting to take place slowly and subtly and the role for that is being undertaken by apex, executive and implementation committees of the Special Investment Facilitation Council (SIFC) chaired by the PM, planning minister and SAPM, respectively. Additional Secretary of the BOI as secretary Executive and Implementation Committees and SAPM to the Apex Committee is intended to improve coordination.

Sectoral divisions (relevant fields) include defence, information technology & telecommunication, minerals, energy, and agriculture and require disruptive measure to expedite the revival of the PIDC to manage commercial assets and hold government equity in SOEs, rebuilding them by aggressive transformation, role consolidation and undertaking strategic investments such as lower losses, pursuing regional and local infrastructure investments, partnering with defence industry energy conservation, focusing on efficient electrical equipment with the Engineering Development Board, Pakistan Engineering Council, Institute of Engineers, and National Energy Efficiency & Conservation Authority.

The Cabinet Committee of SOEs, Central/Project Monitoring Unit are to ensure that the business plans of SOEs are in line with the priorities of the relevant field of energy and this is also best handled by the PIDC. PIDC could facilitate regional cooperation, long-term roadmap definition, and improving ease of doing business by ‘one window’ operation resulting in timely decision-making to fast track investments.

The final draft of the State-Owned Enterprises Policy 2023 will be presented to the cabinet for endorsement to reduce the cost of Rs458 billion annually of loss-making SOEs. And the first tests are the PIA selloff, DISCOs transaction, G2G sale of PSM and Reko Diq shares by government of Pakistan entities.

Instead of a big bang approach, sustained efforts by an empowered leadership team is required to manage the SOEs, reduce departments, autonomous bodies and companies while undertaking privatization. A clear message to SOEs: become financially self-reliant, work to deliver profit, and will not be bailed out beyond three years. In parallel, merge and sell them under 3P/G2G, lease them out for 30 years by creating vertically integrated DISCOs. This requires an inside-of-box consideration but priority has to be to deregulate the energy sector.

The SIFC apex committee should commit to deregulation. A visible conducive business environment requires restraint on judicial activism that has harmed the nation by cancelling contracts, and getting involved in commercial matters with the government renegotiating signed contracts. Instead, it needs to ensure an effective contract arbitration process including educated and prudent deliberations by the regulator and parliamentary committees/subcommittees.

The fuel market requires a paradigm change. Not subtly but by taking disruptive steps aimed at the evolution of a competitive energy market requiring confidence building by the SBP, FBR, regulator, Ministry of Energy and investigation agencies for facilitating the establishment of an efficient transportation infrastructure to expand fuel, electricity and the gas supply chain by road, rail, transmission lines and waterways across the country.

This necessitates support to the Pakistan Railways for laying fibre for data and fuel handling as part of ML1 by removal of noncompetitive clauses that monopolize HSD/MOGAS volumes to the Pak Arab Pipeline Company and restricts furnace oil to Pak Railways. Due to reduced usage of furnace oil, the Pak Railways business revival plan is a nonstarter.

Secondly, moving out regulatory functions from the two divisions of the Ministry of Energy has been initiated but their independence has not been assured. Delays in appointments in the Competitive Commission of Pakistan, and notification of gas price increase are examples but plans to link high-end customer price with 11.2 kg LPG is a good step. Integrated regulator vs establishing provincial regulators needs to be thought through based on how Pakistan intends to manage its energy and balance provincial autonomy.

Deregulation of the oil industry requires release of frozen shares of PSO and rescinding the Marketing Petroleum Act, allowing Oil Marketing Companies (OMCs) to set provincial or national retail prices.

For the oil sector, this means doing away with the IFEM (Inland Freight Equalization Margin) whose amount last year was estimated at around Rs60-70 billion shared between cartage contractors, white oil pipeline and Pakistan Railways. The expense to transport from depots to retail outlets is additional.

The IFEM audit assigned by Ogra for 2012-20 for reconciliation had a completion target of Sept 2023. It is pending and TORs for 2020-23 are still not agreed nor audit initiated. Being the largest shareholder, it hurts PSO in terms of financing cost.

Transfer of RON differential and high sulphur penalty with regulatory duty transfer to IFEM has helped reduce the logistics cost to the consumer (the current pool is negative by Rs1.53 billion as of May 2023) but has ‘subsidized’ OMCs which should instead be settling gain/loss amongst themselves.

This amount should be used to build reserves and it is increasingly necessary to review the impact of the new refinery policy under which funds will increase till EPC award to upgrade the old units.

Subsequent to the IFEM, deregulation has to be expanded later by allowing margin setting by OMCs, as already being done for kerosene, furnace oil, lubricants, Research Octane Number 95. Finally, by deregulating fuel retail price – despite resistance from retailers and haulers – the challenges are surmountable with eventual benefit of development of 45 days strategic storage by the government.

Policy changes made to build bonded storage and its rules should assist OMCs in developing trading/commercial storages for oil but strategic storages need to be built and managed by the government.

PSO needs to compete in the OMC cloud and a pending proposal since 2017/18 of unfreezing 25 per cent PSO shares, changes in the Marketing of Petroleum Products Act 1974 and implementation of the Musharraf regime’s ordinance draft is a low-hanging fruit disinvestment that requires immediate implementation.

A deregulated environment also requires removal of monopoly on import infrastructure in Port Qasim, rebuilding oil piers in KPT, connecting the two ports by a pipeline pending close to a decade. Pakistan Refinery Limited should have taken lead much earlier, being a significant beneficiary.

Deregulation will not only position PSO for partnerships with major retail players but will also encourage PSO, OGDCL and PPL to partner with ARAMCO/ADNOC for a refinery and petrochemical project.

To be continued

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