* **GIDC: controversy and solution**
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Perhaps the government underestimated the potential of the controversy the GIDC carried. While the government withdrew the GIDC ordinance within days of its promulgation, the hurried manner in which it was introduced further sent people searching for ulterior motives. The issue is rather complicated and deserves cool analysis, which we would like to present in the following. We will also look for a possible solution to the problem and the controversy it has caused.

The GIDC (Gas Infrastructure Development Cess) was levied in 2012 on certain sectors to generate resources for financing the gas infrastructure project. There was, and continues to be, the need to augment the gas infrastructure to increase supplies to various sectors of the economy. The stakeholders of CNG, textiles, IPPs, fertilizers and others on which the GIDC was levied didn’t like it; they argued that it slows down the sector and that other ways should be found to generate the required resources. The stakeholders went to court one after the other and the courts decided against the government and annulled the GIDC levy. The government managed to introduce the GIDC again through follow up corrective legislation.

All taxation finally affects the people, the consumers, and only indirectly affects the companies whose profits and revenue are affected only partly through reduced sales. The margin is to be shared between the government in the form of taxation and levies and the companies as profit. The reverse is also true. If a levy is reduced, although the immediate benefit goes to the companies, the final benefit goes to the consumers, the people as well. The government system could not bring out this point adequately and consequently the GIDC ordinance had to be withdrawn.

The total accrued GIDC payable by the companies is estimated to be Rs720 billion, out of which the companies have deposited Rs282 billion, leaving net dues of Rs420 billion, an interesting laughable number. It is said that out of Rs420 billion, Rs147 billion is doubtful, pertaining to the pre-2015 period. Fifty percent of the net dues had been offered to be remitted; the government expects an income of Rs220 billion. Another stream of revenues is expected as annual revenue in the future, of Rs42 billion per year. The controversy is that a benefit of Rs124-220 billion is being gifted to companies which belong to the ruling party’s supporters and election campaign financiers.

There were three motives of the government in introducing the GIDC ordinance; first, to ward off possible refunds of Rs282 billion, in case courts decide against promulgation of the GIDC levy. This would have caused serious budgetary issues in an already serious budgetary crunch; second, to generate some financial resources (of Rs42 billion per year in addition to the past arrears of Rs124 billion) to finance the gas sector and as well as the budgetary shortages; third, the GIDC reduction would have benefitted the consumer as well.

There are four possible parties or situations that are to be handled in this controversy: Category A: those who paid the GIDC and charged customers/products accordingly. This could be taken as transaction completed; Category B: those who paid the GIDC but did not charge their customers/products. Such simpletons would be rare to find. They deserve a refund, if the GIDC is withdrawn or reduced; Category C: those who did not pay the GIDC but charged their customers/products. This may be likely and has to be investigated. They should pay full GIDC to the extent they have charged. A reduced rate may be applicable to them for the future; Category D: those who neither paid the GIDC nor charged their customers/products. It would not be possible for them to charge for the gone period. They may not be charged the GIDC for the gone period. They may be eligible for the new reduced rate; and Category E: a mix of the above positions. The most complicated case may not be there.

Category C of companies did not pay the GIDC but charged the same to consumers, which led to major anxiety among the public. It was suspected that the reduction would halve the liabilities of large companies whose owners could be cronies and financial supporters of the ruling party. And even cash resources and refunds would accrue to them.

Within the above four or five categories, there are two other categories of parties involved in the GIDC – regulated sectors and companies which are IPPs, GENCOs and KE. The GIDC's reduction or increase does not affect them. All levies and taxes are pass-thru and are included or added/reduced in their final approved price. Hence the blame of benefiting cronies does not fit adequately or fairly in this case.

In the unregulated sector come CNG and Textiles. Their prices are governed by the market. They may have been able to pass on the costs to their market partly or wholly. If they have not paid the GIDC, it is highly unlikely that they would have been able to benefit from it. They have a competitiveness problem. Our textile exports are already suffering. Would it be possible to recover GIDC past dues, when they have already sold their production as per prevailing prices. The same is the case in the CNG sector. Both textiles and CNG have a large number of parties and companies militating against any accounting of the past years. Thus, the GIDC is infested with many intractable problems and issues. They tinkered with the hornet's nest and are paying the price of their simplicity. Cleaning the dirt of the past is never easy.

The fertilizer sector poses a special problem. Its inputs are regulated and output prices are unregulated. It should have been regulated at both ends. There are round-about ways in which the government manages fertilizer prices. Fortunately, there are only a few companies whose forensic audit the government plans to do in settling the GIDC case.

What is the solution? Do away with the GIDC. It has not been utilized for the purpose it was designed and in the milieu of privatization and market operations, as intended, there is no need of public funds in gas sector development. It is an anachronism. Gas and electricity prices have increased and a major avalanche is due in the near future in this respect. The government will search for ways and means to reduce energy costs and tariff within the framework of the IMF agreement. Eliminating the GIDC would offer an ideal opportunity. A controversy would remain in the case of those who have not paid the GIDC but have charged customers. Full refund from such companies is to be made in this case. No concession at all. There may be some mixed-up cases.

Large companies may be subject to a forensic audit to get the required numbers. This could be done under an arrangement with the Supreme Court, whereby past GIDC refunds by the government are not required in lieu of the GIDC concession the government would be making and passing on the benefit to the people in terms of reduced energy and fertilizer prices. In conclusion, there does not appear to be any cronyism in all this, but there does seem to be a lot of confusion.

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