

Editorial

Hike in prices of POL products

The federal cabinet under the chairmanship of Prime Minister Imran Khan has rubber-stamped the Oil and Gas Regulatory Authority's (Ogra's) recommended raise in the price of petroleum and products. This is in line with the recommendation contained in the staff-level report of the International Monetary Fund (IMF) submitted to its Board of Directors for approval of the 6 billion dollar 39-month Extended Fund Facility programme under the title "Programme Objectives and Policies" where it states: "The authorities are also taking actions to improve performance in the gas sector. To this end, a multipronged strategy includes: (i) the prompt adoption of the FY2020 gas tariffs as proposed by the regulatory to become effective on July 1, 2019 (prior action); (ii) the reduction of losses in the sector through the preparation of a comprehensive plan for government approval by end-September 2019 and to be monitored through published quarterly reports; (iii) greater preparation of the private sector in the gas sector, including via unbundling of the two gas companies; and (iv) amendments to the Ogra Act to ensure the regular and timely notification of end consumers."

The Memorandum on Economic and Financial Policies, an attachment to the Letter of Intent submitted by the government to the Fund, commits to an entire range of specific actions relating to the gas sector: "(i) the current level of Unaccounted for Gas (UfG) of 13 percent due to commercial and technical losses is significantly above the allowed benchmarks. To bring losses down, our two gas companies are preparing UfG reduction plans for government approval by end-September 2019. These plans include 30 Key Monitoring Indicators, including on theft control and compliance with industry standards that will facilitate the identification of gaps and the design of solutions"; (ii) to create multiple gas discos through unbundling SNGPL and SSGCL and operationalizing third-party access agreement whereby consumers may directly purchase LNG from the terminal; and (iii) review petroleum policy to be approved by the Council of Common Interests to facilitate exploration of new gas fields.

The conditions cited above are designed to ensure full cost recovery by the gas sector. One would have hoped that the government had pointed out to the Fund that the unbundling of the power sector, including sale of K-Electric to the private sector, did not end government subsidies (for the current year they are projected at 250.5 billion rupees) and gave rise to an unsustainable circular debt which is over 1.4 trillion rupees (though the 500 plus billion rupees parked in PHPL is not normally added on). The interest on massive loans that continue to be acquired by the sector is passed on to consumers and today full cost recovery implies consumers are paying for the continued inefficiency of the sector. One would hope that the same set of "reforms" in the gas sector does not produce the same unsatisfactory results.

To conclude, the rise in utility prices coupled with a rise in the prices of food items, due partly to the rise in utility prices as well as the prices of petroleum and products that raise transport costs, is eroding the income earned of the poor. No government, however popular it maybe, is able to withstand the rise in the general price level, that the IMF programme envisages. To argue that inflation will be contained through contracting aggregate demand, due to contractionary monetary and fiscal policies, is not likely to reduce the burden on the common man whose income in the current year has remained the same due to the contraction in the rate of growth.