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Can spring be far behind?

FOR whoever is in charge of natural gas in Pakistan, it is turning out to be a long winter. Crippled by shortages and shocked by a price surge, gas consumers have been pressuring the government hard. And if this government has one defining feature, it is that it doesn't take pressure well.

Which is why the gas price increase in the run-up to the heating season was surprising. Despite being inevitable, it was a tough decision. The economy has outgrown the free ride offered by local gas fields, and needs imported LNG to fill the pipes. This currently costs nearly $10 per mmBTU, while the well-head price set by the government for Sui is less than $3 per mmBTU. Eventually, someone had to pick up the tab, and the government chose high-volume consumers. This is a reasonable approach, for which the government should be lauded.

Where there are no laurels to be had, is the breakdown of the gas supply chain in the past few months. The loss caused by CNG shortages, industrial closures, and capacity charges for unused infrastructure, was significant enough to merit high-level inquiries, and the production of sacrificial lambs. Apparently not significant enough though, for the prime minister to ask any of the right questions.

'Why are government departments, headed by risk-averse old men, who wouldn't recognise a gas pipeline if they tripped over one, responsible for deciding when to buy fuel?' would have been a good question to start with. Instead, all the inquiries focused on trivialities about why import cargoes were cancelled, and how compressor issues on pipelines went unreported. For the prime minister to focus on such questions ensures only one thing — that next year he will be asking similar questions.

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Satisfied though, the prime minister has moved on to the next big thing. Unaccounted-for-Gas (UFG). This is gas that enters pipelines, and never gets billed to consumers. Utilities around the world have UFG. Some more than others. But Pakistan's two, largely state-owned, and wholly state-controlled, gas utilities, Sui Northern and Sui Southern, are true champions.

In most developed countries, 1-2 per cent of gas becomes UFG. In countries with wider distribution networks, it can be as high as 5pc. In this context, the dynamic Sui-North Sui-South duo have put up numbers over 14pc in the recent past (more recently, nearer 10pc). Using LNG prices to calculate the value of the lost treasure, the duo are losing roughly $700 million worth more gas annually, than they would be if UFG were brought down to 5pc.

Part of this massive sum gets billed to consumers, and part of it eats into the bottom line of the pipeline companies. Since they are mostly owned by government, the bill ends up with the taxpayer regardless.

So, the prime minister's newfound focus on UFG is welcome. But, if he was focused on the wrong questions earlier, his approach to UFG is focusing on the wrong answer. The headlines this month proclaiming, 'PM orders nationwide crackdown on gas theft' say it all. The prime minister's answer echoes his favourite answer to most everything — a crackdown on theft.

The first reason this isn't the answer, is that a good deal of UFG literally leaks into the ground and into the air. An excellent Ogra-commissioned study, conducted by KPMG (UFG Study 2017), highlighted that Sui Southern was found to have nearly five leaks per kilometre on its pipelines. Even Sui Northern, at 2.2 leaks per kilometre, stood at nearly 10 times best-practice levels. Why? Among other things, the study refers to old, corroding, pipeline infrastructure and pitiful rehabilitation expenditure. Of course, the gas pipeline companies complain that they have been forced by the government to expand the pipeline system at the expense of maintenance. How will this be ‘cracked down’ on?

The second issue is a broader one. There can only be so many prime minister-driven crackdowns. He can either be a true reformer, setting the stage to ensure that pipeline companies are incentivised to ‘crack down’ themselves, or he can be a thaneydar.

Luckily for the prime minister, supply-chain debacles, theft, and gas leakages have the same solution. Unluckily for his finance minister, still wedded to the delusion that he can transform state-owned enterprises by consolidating them under an optical illusion called ‘Sarmaya-i-Pakistan’, the answer lies in privatisation.

A handful of other countries have had better experiences with state-owned enterprises. The prime minister must realise that it is OK if Pakistan isn’t one of them. In the case of the Sui duo, he must weigh the eventual value to be gained if his finance minister is proven right, against things that are far more certain and immediate.

A sale would likely attract direct investment, initially, and then again, with pipeline rehabilitation. Recall that Pakistan’s last big bout of foreign direct investment was related to privatisation and deregulation under the Musharraf regime. Coupled with the right regulatory framework, a strategic sale of the Sui duo would almost certainly lead to a reduction in UFG — the KESC privatisation is instructive in this regard. A truly private pipeline company would also be fully incentivised to have its pipes running full — they would be far less likely to let shortages arise. Conversely, there are no clear externalities to be capitalised on through continued government ownership.

The prime minister must realise that companies owned by the government of Pakistan will not be truly free, properly incentivised, and able to make appropriate investments regardless of paper structures. The sooner he realises this, the sooner he can leave aside the nitty-gritty of tampered meters, and focus on his reform and social welfare agenda. Whether the long, cold winter will teach him any such lessons remains to be seen. Those interested in a thriving Pakistani energy sector can only ask: if winter comes, can spring be far behind?

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