

POL price 'bomb'

It is noteworthy that the so-called petrol price bomb that hit the people of this country resulted in the overnight disappearance of gasoline and diesel shortages at filling stations as soon as the government mysteriously announced an unprecedentedly large increase in their prices. In fact, so high was the sudden big rise in POL products' prices that nobody has seen or heard of anything like this in at least a couple of decades. In hindsight, it is perhaps only ironic that the government had tried to win nominal brownie points by fixing extraordinarily low prices at the beginning of June. A reduction in prices at that time was the right move considering historically low international oil prices but the government over-corrected the price reduction nevertheless. Historically, POL products' prices in Pakistan are fixed with an eye on the prices of these products in India and Afghanistan because of the porous nature of our borders. In case of a substantive divergence, POL products do get smuggled out of the country and there were reports of extraordinary demand from KPK during the month of June. Oil marketing companies were blaming mismanagement by government for the shortage of POL products while the petroleum ministry attributing it to a sudden surge in demand due to easing of Covid-19 lockdown and accusing the oil marketing companies of not maintaining the mandatory stocks of products and indulging in hoarding to avoid losses and make a killing once the prices rebound. This situation persisted, despite the federal government's repeated promises of reining in the "mafia" that was responsible for the whole mess, till the decision was made to shock everybody and raise prices of petroleum and its products four days short of the usual monthly price review. Perhaps it would have been better not to go for a heavy cut in POL products' prices in the first place as that would have obviated the need for the massive increase now. That's what the petroleum division is said to have advised the government. Had its advice been heeded it would have, at the very least, kept a lid on the whole thing. Now PTI (Pakistan Tehreek-e-Insaf) is red in the face because people just won't let it hear the last of how it has gone back on yet another one of its core campaign promise.

According to a detailed report submitted to the federal cabinet by Ogra (Oil and Gas Regulatory Authority), the regulator was bypassed altogether in the decision-making process, undermining its position and it was in fact the responsibility of the petroleum division to ensure adequate stockpiles. Yet not only did the petroleum division not perform that crucial duty, despite repeated warnings by Ogra according to the report, it also slapped an import ban just when the supply situation was threatening to spiral out of control. Even the industry's request at the time, that the price be reviewed fortnightly instead of monthly considering the unprecedented market volatility, was shot down. One after the other, it took bad and unexplainable decisions that make it responsible for unforgivable oversight and incompetence.

It is a given that increase in prices of POL products results in windfall profits for the entire downstream chain of the petroleum sector in the shape of 'inventory gain' and in the event of a reduction in prices in inventory losses and the dealer that operates a petrol pump simply does not have the capacity to absorb an inventory loss. Since POL prices are regulated by the government and the market players do not have much elbow room, it is essential that the government must, at all cost, avoid large swings in POL prices for any reason whatsoever. It is therefore high time to revisit the current system of price fixation that ensures supplies at fair prices and promotes efficiencies in the system.