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Five export-oriented sectors, ECC approves electricity relief package

ISLAMABAD: The Economic Coordination Committee (ECC) of the Cabinet on Wednesday approved a special relief package to further continue the provision of subsidized electricity at 7.5 US cents per Kwh till end June 2020 to five export-oriented sectors, namely textile, carpets, leather, sports and surgical goods.

The Finance Division (FD) issued two statements at the conclusion of the ECC meeting, which was chaired by Adviser to the Prime Minister on Finance and Revenue Dr Abdul Hafeez Shaikh here on Wednesday.

Soon after the meeting, the FD issued an official statement, saying that the ECC approved a proposal by the Power Division for a special relief package of Rs20 billion to further continue provision of subsidized electricity until June 2020 to five export-oriented sectors. However, later a revised statement was issued where the amount of Rs20 billion was not mentioned and stated as, "ECC approved a proposal by Power Division for a special relief package to further continue provision of subsidized electricity until June 2020 to five export-oriented sectors".

According to the Power Division summary submitted to the ECC of the Cabinet, Finance Division will budget Rs28 billion as subsidy for fiscal year 2019-2020 to be paid to the Power Division in the first week of July 2020 out of the budget of fiscal year 2020-2021.

According to the summary of the Ministry of Energy (Power Division), which was submitted to the ECC of the Cabinet, the five export sectors would be provided electricity at an all-inclusive rate of 7.5 US cent per unit (Kwh) from January 1, 2019 to June 30, 2020 plus applicable taxes.

Electricity bills issued from January 2019 till date, which included surcharges, quarterly adjustments, and fuel price adjustments, financial cost surcharge (FC) and Neelum-Jhelum Surcharge (NJ), will be adjusted to a fixed tariff of US cents 7.5 per unit (kWh).

Taxes of the period will be paid by the consumers in addition. The summary, which was submitted to the ECC, maintained that in order to promote five export sectors, namely textile, carpets, leather, sports and surgical goods, the ECC of the Cabinet on October 24, 2018 decided to provide electricity at US cents 7.5/Kwh to these export-oriented sectors from January 1, 2019.

Pursuant to that electricity tariff was reduced to US cents 7.5/ Kwh vide SRO 12(1)2019 dated January 1, 2019 issued by Ministry of Energy (Power Division). Later on, it was also clarified that to all the XWDISCO's that Financial Cost Surcharge (FC), Neelum-Jhelum surcharge (NJ), taxes and positive fuel adjustments will be part of billing, and would be part of subsidy claims to be picked up by the government, subject to confirmation by the Finance Division. However, Finance Division conveyed that the fiscal implications of financial cost surcharge, Neelum-Jhelum surcharge, taxes and fuel adjustment are estimated at Rs4-5 billion annually.

No budgetary allocation for this purpose was provided in fiscal year 2018-2019 and fiscal year 2019-2020.

Being a pass through item, it should be billed to the industrial consumers. Alternately, the ECC of the cabinet may like to consider exemption of the same.

While processing five export-sector subsidy claims, the ECC of the Cabinet's directions were silent on quarterly adjustment, distribution margin, US \$ to Pk rupees conversion rates, etc.

The Minister for Finance at that time indicated that the understanding given to five sectors was indeed a fixed tariff of US cents 7.5/Kwh; however nothing was provided for as additional subsidy in the budget.

Subsequently, the matter was deliberated in the ECC of the Cabinet meeting held on October 2, 2019, and accorded approval for imposition of quarterly adjustments and annual indexations on five export sectors.

Resultantly, the quarterly adjustments and other allied expenses were applied and charged over and above the notified tariff for five export sectors consumers, i.e., at US cents 7.51 per Kwh.

When the five export sectors appealed the same in the court, the committee constituted by the ECC of the Cabinet to review the matter, held its 3rd meeting on 23.10.2019 under the chairmanship of Minister for Economic Affairs in office of Advisor to the Prime Minister on Commerce, Textile, Industries and Production and Investment.

The ECC of the Cabinet meeting dated 27.11.2019 approved the committee's recommendations, wherein the committee inter alia recommended to continue power tariff of US cents 7.5 till June 2020, and quarterly adjustment charges and fuel adjustment charges also be added to the tariff.

The Finance Division raised objections and asked to seek clarification from the ECC of the cabinet as there are no directions whether the tariff differential would be cross-subsidized or paid by the GoP as subsidy, which is estimated to be around Rs23 billion/annum.

Further, clear direction from the ECC would also be required on the taxes and surcharges as whether the same are to be exempted from recovery or otherwise.

This may have financial implications of Rs 4-5 billion annually.

Subsequently, the ECC of the cabinet dated 2.10.2019 directed the Power Division to submit the case in light of the report of the Advisor to the Prime Minister on Commerce, Textile, Industry and Production and Investment on the outcome of meeting with the APTMA as directed by the prime minister during the meeting of the cabinet on 1.10.2019.

In order to implement the ECC of the Cabinet decisions, a high-level meeting was held on 26.2.2020 in meeting Minister for Energy (Power Division) Omar Ayub Khan, Minister for Economic Affairs Hammad Azhar, Special Assistant to Prime Minister on Petroleum, Nadeem Babar, Advisor to the PM on Industries, and Commerce Abdul Razak Dawood and Punjab

Governor Chaudhry Mohammad Sarwar held deliberations with the APTMA and other industrialists on their issues related to special relief for five exports sectors.

In the meeting following decision were taken:

- (a) The five exports sectors would be provided electricity at an all-inclusive rate of US cents of 7.5 per unit (Kwh) from January 1, 2019 to June 30, 2020 other than taxes,
- (b) electricity bills issued from January 2019 till date would be adjusted on rate charged above US cent of 7.5 per unit (Kwh) from January 1, 2019, which had included surcharges, quarterly adjustment and fuel price adjustment other than taxes,
- (c) Finance Division will budget Rs28 billion as an additional subsidy to the Power Division in the next fiscal year 2020-2021.

Despite a financial crunch faced by the power sector, Ministry of Energy (Power Division) supports the government's initiative to boost exports and provide relief to five export sectors.

However, in this regard following submissions are required to be deliberated:

- a. The total volume of subsidy package from January 2019 to June 2020 would be around Rs28 billion as per following breakdown: Adjustment from January 2019 to June 2019 on account of the FPA, the Neelum-Jhelum surcharge, O&M cost, fixed charges etc — Rs5 billion, tariff from July 2019 to June 2020 on account of quarterly adjustment plus tariff differential subsidy plus FPA, fixed charges etc — Rs23 billion per year.
- b. This relief package would yield an increase on circular debt by an amount of Rs28 billion by the end of June 2020 subject to actual on the current set targets.

However, given the cautioned litigation and position of the five export sectors, the commitment to them was a fixed all-inclusive US cents of 7.5 per unit (Kwh) plus taxes, the following recommendations are submitted for consideration of the ECC of the Cabinet.

- a. The five export sectors would be provided electricity at an all-inclusive rate of US cent of 7.5 per unit (Kwh) from 01.01.2019 to 30.06.2020 plus applicable taxes.
- b. Electricity bills issued from January 2019 till date, which included surcharges, quarterly adjustments, fuel price adjustments, FCC, and NJS will be adjusted to a fixed tariff of US cents of 7.5 per unit (kWh).

Taxes of the period will be paid by the consumers in addition;

- c. Finance Division will budget Rs28 billion as subsidy for fiscal year 2019-2020 to be paid to the Power Division in the first week of July 2020 out of the budget of fiscal year 2020-21;
- d. For continuation of relief package in the next fiscal year 2020-2021, additional subsidy will be capped at Rs20 billion, making a total of Rs48 billion in the budget of fiscal year 2020-2021 for both gas and power sectors.

In view of urgency, the matter is being submitted to the ECC of the Cabinet.

The Finance Division may offer its views and comments during the ECC of the Cabinet meeting.

Approval of the ECC of the Cabinet is solicited for the recommendations made above.

The ECC also approved a proposal by the Ministry of Energy (Power Division) for two amendments aimed at providing ease of doing business to upstream petroleum sector.

The amendments are related to extension of exploration licences beyond two years by the ECC rather than the Minister in-Charge of Petroleum Division and creation of a new Zone-1 (F) for onshore licensing regime and consequent revision in the Zonal Map.

The ECC has discussed proposal to increase wheat support price to Rs1,400 per 40kg and will convene a special session on Thursday (today) afternoon to discuss a detailed plan to keep the wheat flour prices at the lowest possible level throughout the year in view of any increase in support price and incidental charges for supply of the PASSCO procured wheat to provinces and allied issues related to procurement of wheat by provinces and the private sector.

The ECC also okayed the National Telecommunication Corporation's revised budget estimates for 2018-2019 and 2019-2020. The ECC also gave an approval, in principal, to a proposal for SAR 22.5 million equity investments abroad by Eastern Products (Pvt) Ltd. Pakistan.