

ECC forms committee to resolve circular debt issue

ISLAMABAD: Amid warning that supply of crude oil, furnace oil, LNG and natural gas could shortly cease owing to non-payment of over Rs1.6 trillion dues, the government on Wednesday constituted a committee to work out modalities for avoiding the looming crisis and protecting petroleum companies from collapse.

The decision was taken at a meeting of the Economic Coordination Committee (ECC) of the Cabinet presided over by Adviser to the Prime Minister on Finance Dr Abdul Hafeez Shaikh, who also talked to the Sindh chief minister for evolving a consensus on increasing wheat support price.

In an SOS to the ECC, the petroleum division had warned that "inaction can lead to collapse of some of its otherwise profitable entities causing major disruption in supply chain". It said the Pakistan State Oil (PSO), Oil and Gas Development Company Ltd (OGDCL), Pakistan Petroleum Limited (PPL) and Pakistan LNG Ltd (PLL) were the four major entities that primarily financed the circular debt of about Rs1.601tr of the entire country. This includes Rs1.081tr of principal amount and Rs520bn of markup.

The ECC said the exploration and production companies — the OGDCL, Pakistan Petroleum Limited (PPL) and Government Holding Private Limited (GHPL) — being the last entities in the supply chain of circular debt for receiving their outstanding dues from power sector, refineries and gas sector, had been negatively affected. They "are now at the stage that they might resort to ceasing supply of crude oil, furnace oil, LNG and gas in foreseeable future. Resultantly, massive shortages of oil and gas could be created across the country and the entire petroleum sector would face collapse, if the settlement of circular debt is not accorded the top most priority".

The petroleum division proposed allocation of Rs3 or Rs5 per litre out of petroleum levy to the PSO and adding a fixed rate in gas price of the Sui Northern Gas Pipelines Limited (SNGPL) and the Sui Southern Gas Company Limited (SSGCL) for realising their receivables from the government and other sectors and ensuring clearance of their payables.

It also demanded that the OGDCL, PPL and GHPL should be allowed to discharge their obligations of sales tax and royalty payments "on collect and pay" model as a temporary relief and issue large chunks of Sukuk bonds against entire circular debt. In addition, it proposed settlement of gas development surcharge (GDS) payable by the PPL on gas sales to the generation companies against the amount receivable by the PPL from the SNGPL while allowing the SNGPL to set off its receivable from the federal government on account of the GDS against the amount payable by the SNGPL.

On top of that, the petroleum division also sought adjustment of debt with equity in profitable public sector enterprises, power projects and companies in the energy chain.

It reported that the OGDCL was the worst sufferer with receivables of Rs401bn, followed by the PPL with Rs378bn and the PSO with Rs323bn. At fourth stands the SSGCL with receivables of Rs293bn, then the GHPL with Rs113bn followed by Rs54bn and Rs39bn of the SNGPL and the PLL respectively.

The ECC formed a committee with representation from all relevant stakeholders, including the ministries of finance, power, petroleum and planning, Securities and Exchange Commission of Pakistan, Oil and Gas Regulator Authority, OGDCL, PSO, SNGPL, PPL, GHPL and PLL, to prepare a proposal on modalities for clearing the circular debt of the petroleum entities.

The committee was directed to prepare a well-rounded proposal in a month and submit it to the ECC, an official statement said, adding that the ECC also decided that the issue of circular debt might be considered holistically and a solution might be worked out to resolve the issue.

Supplementary grants

The meeting approved technical supplementary grants for the National Accountability Bureau that had lost an arbitration case in London, for the health ministry for the immunisation programme, for the Ministry of Religious Affairs on account of Hajj expenses and for the Anti-Narcotics Force.

The Ministry of National Food Security and Research updated the ECC on the situation of wheat import in the country. It reported that the Trading Corporation of Pakistan had opened the sixth tender for 110,000 tonnes of wheat at the lowest bid of \$286.2 per tonne and after price matching the total picked up quantity would be 320,000 tonnes.

Interestingly, the ECC had recently allowed import of wheat from Russia through a government-to-government deal at the rate of \$292 per tonne.

The ministry told the committee that there would be sufficient availability of wheat in the country by January 2021 and with the increase in supply, the price would eventually decrease.

The ECC enhanced the quota of Gilgit-Baltistan by another 10,000 tonnes to 160,000 tonnes from 150,000 tonnes as per its request. The modalities for increased quota for GB will be decided later.

The statement said Dr Shaikh along with Minister for National Food Security Syed Fakhar Imam and the secretaries of finance and food held a virtual meeting with the chief minister of Sindh to discuss an optimum and coherent support price for the wheat crop during FY-2020-21. Dr Shaikh requested CM Syed Murad Ali Shah for agreeing on a well-coordinated support price to strike a balance between producers and consumers and ensure maximum productivity during FY 2020-21. "Adviser Finance concluded that there is a need to look at a holistic picture for determining a minimum support price for wheat crop, keeping in view, its financial implications in the long run," the statement said.