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Subsidies: A costly blunder

LAHORE: It is strange that the Ministry of Commerce comes up with a wish list to improve exports when it has no control over various inputs. It suggests the government to subsidise inputs, but it does not analyse the actual impact.

It makes sense when it recommends withdrawal of taxes or duties on inputs to reduce the cost of production. But when it asks for direct subsidies on some inputs to increase exports, it ignores the fact that as exports increase subsidies increase correspondingly.

Moreover, it asks for subsidies on power and gas. From the gas the exporters mostly produce electricity. The tariff it suggests for grid power is higher than the cost of power that would be produced through gas. Why would the exporters consume domestic power when they can produce electricity from gas at a cheaper rate?

The dilemma is that Pakistan has excess power, and the government can subsidise it in order to encourage more consumption in the country. If mills stop using grid power, then the government has to bear higher capacity charges for keeping many private sector power generators idle.

It is in supreme national interest that all industries consume grid power. The government will afford the power subsidy if it reduces the capacity charges to a large extent. As far as gas is concerned, we are short of domestic gas and the gas we import costs us double the local cost.

We have to heavily subsidise the gas for the exporters to make its production lucrative. This job can be done by supplying power to them at subsidised rates.

If we continued subsidising gas, the exporters would use grid power as a last resort. The exporting industries cumulatively consume around 2,000MW of power of which textile alone consumes 1,400MW. If this 2,000MW consumption is assured by withdrawing gas, the capacity charges of IPPs would reduce substantially.

Another point worth noting in this regard is that the captive power plants operated by the exporting industries are highly inefficient. Their efficiency ranges from 30-33 percent. The government sector gas run power plants have double this efficiency that is 60 percent. Even the private sector plants operate at 50 percent or above efficiency.

If the government deprives the gas-run power generators of gas, just to cater to the export-oriented industries, then it is subsidising their power production inefficiency as well and penalising the efficient plants. Moreover, power consumers would get higher tariff too if high-cost fuel-run plants are operated.

The exporters want it both ways. They want power supply at reduced rates and the gas also at highly subsidised rates. They consume gas when it is available and shift to grid power when the supply is suspended for some reason. The government reduced power tariff on their demand.

At the same time, it erred when it allowed 20 percent of the mills without gas connection to install gas generators and get gas connection. This means the section of industry that was constrained to use grid power because of having no gas connection will also shift to gas.

Planners at the helm of affairs do not realise the ground realities. When there is an over-capacity in grid power, it is illogical to encourage gas consumption that we have to import and heavily subsidise.

There are some flaws in both power and gas supplies. Power supply at least is not erratic. For most of the exporting industries, it is supplied directly on their own grid. There are no line losses or at the most one percent line losses against 18-19 percent average line losses.

This means that the state could easily reduce the tariff by 15-16 percent because it would incur no line losses. Now that gas is being made available (which costs less), the exporters are complaining of unreliability of grid power which is not true.

The power regulator report has pointed out high average outages, but when it comes to exporting industries that have their own grid the disruptions are nominal.

In case of gas there are regular complaints of low-pressure during winter and that impacts power generation of captive units frequently (it is at these moments the industries shift to grid power).

It is also strange that the commerce ministry does not sort out the gas and power matters with the concerned ministries. Both power and gas utilities are operating on huge losses.

The government announced subsidy is rarely reimbursed in their kitty (as in case of subsidy to lifeline consumers). The federal government has announced a fixed amount of power and gas subsidies.

It never releases the subsidy amount in advance but reimburses the amount a few months later. Gas and power companies then charge full bills and the industries have to get a stay order from courts.

The commerce ministry should have the sanctioned amount in its account so that subsidy could be released in a timely manner. The subsidy should be sanctioned on the basis of current exports.

If the exports increase as much as some textile associations' claim, from where will the additional subsidy be arranged?