

Gas pricing decision

RECENT decisions made by the government suggest that it is being tempted by the 'easy' path forward in a conundrum that it faces. As Pakistan's reliance on imported gas grows, the fact that LNG is double the cost of domestic gas is becoming an increasingly severe problem. At the moment, the problem has been dealt with by shuffling the priorities on the merit order list, and relegating CNG stations to the bottom of the pile. But now, with the increasing resort to imported LNG to meet growing future demands, the huge price difference between the imported and locally produced product is becoming impossible to ignore. Recently, the issue thrust itself onto the government's agenda when textile exporters from Punjab brought it before the finance minister, asking for the price of gas to be equalised between Sindh and Punjab; it seems the finance minister was cornered into agreeing to subsidise LNG for Punjab-based exporters. The matter again came to the fore at the last ECC meeting when it was agreed that an uninterrupted supply of gas to all consumers in winter would be ensured, with the authorities relying on LNG to fill the gap that arises when demand from the domestic sector skyrockets as temperatures plummet across Punjab and KP. This time it was decided to use the 'gas bank' mechanism to smoothen out the price impact, but even with this there is no getting around the huge disparity in price between imported and domestically produced gas.

The temptation to use subsidies as a means of not facing the unpleasant decisions that price disparity presents is understandable. But the fact is that subsidising LNG is a terrible idea, for the same reason that subsidising imported petrol and diesel is a terrible idea and was done away with a decade ago. As the economy comes to rely increasingly on imported LNG, the policy thrust needs to be in the direction of closing the pricing gap through reforms in the gas sector, including pricing reforms, rather than growing reliance on subsidies. That is the hard road forward, but it is, unfortunately, the only road forward too. Over the decades, we have grown accustomed to taking natural gas for granted, but those days are now over. Industry must be weaned off its reliance on cheap fuel, no matter how tough the politics involved in doing so.

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Editorial