

An interview with Iqbal Z. Ahmed, Chairman Associated Group

‘Gas prices should be three times the current rate’

As the co-founder and chairman of Associated Group, Iqbal Z. Ahmed is widely recognized for his entrepreneurship and contributions to Pakistan’s energy sector and economy. The Group’s companies include Jamshoro Joint Venture Limited, Lub Gas, and Mehran LPG. Mr. Ahmed is the president of the Government College University’s endowment trust fund, president of King Edward Medical University’s mobilization fund, and has served on the board of the Punjab Red Crescent Society and on the National College of Arts University’s endowment committee. Mr. Ahmed also served on the national committee for self-reliance under then-prime minister Nawaz Sharif. From 2000 to 2014, Mr. Ahmed was the elected chairman of the LPG Association of Pakistan (LPGAP).

BR Research recently sat down with him to discuss the dynamics of the LPG and LNG industries in Pakistan. Below are edited excerpts from the interview.

BR Research: Let’s start off with the history of the Associated Group and a bit about your background as well.

Iqbal Z. Ahmed: I have been in the energy sector since 1989 when we started a small LPG company and graduated from there. A lot of lessons were learnt along the way. But the Pakistani energy sector is a little stunted in the sense that it is not the efficiency or the competence or the innovation which is rewarded. You have to play the game with very little improvements and you should not try to tamper the system.

Our JJVL project was also out of the box and unfortunately it was subject to problems. However, we took the risk and it changed the whole spectrum of the LPG industry in Pakistan. There was a monopoly at that time with only six companies. Today there are about 130 companies. As a result of our efforts, distribution has devolved down to the district level.

From production and processing services to transportation to marketing and retail, the Associated Group has extensive supply-chain expertise in liquefied petroleum gas. Our group has been in the LPG sector since 1989 and is an industry pioneer and leader.

BRR: There has been controversy in the LPG sector that quotas were allotted on political inclinations and people started making money without really investing into the sector. What are your views on the matter?

IZA: The word “quota” is wrong in this case. The deregulation order says that whoever is the producer will be able to sell his own LPG to anybody as long they hold an Ogra license. This was the qualifying criteria. When we came into production, I went to a lot of big groups like Fauji Foundation. But nobody was willing to take LPG at that time. So these new people were there

which included retired servicemen that were working in the sector. But the question is, what was the issue to giving them “supplies?” If there was any restriction on them to purchase LPG, then how did they get Ogra licenses? The deregulation policy came when I was not in the industry. We were just following the policy of the Government of Pakistan.

BRR: How much is the production and sale of LPG currently?

IZA: Currently, the production is about 1800 tons a day while consumption is about 3000 tons per day. The gap is being met through imports. The government is trying to set up a large number of LPG-air mix plants. These are isolated plants servicing to local community which is a very good idea instead of using long pipelines. So the demand is expected to go up to about 5000 tons per day.

Something to note is that LPG is not a fuel of choice but a fuel of necessity. Thus, it will mostly be consumed by those who don't have access to natural gas, which is priced in a much better way than LPG.

BRR: Pricing of gas has been thorny issue to say the least. What are your views on the matter?

IZA: At one point of time, there was thinking that there should be a weighted-average cost of gas. In India, there is a subsidy on LPG and their consumption is almost ten times ours. The reason for subsidising is because it is consumed by people who have no other option but to consume LPG.

Here, in Pakistan, many people don't have access to gas and on top of that they are paying almost three times the price of natural gas for LPG. Meanwhile, the price for natural gas is distorted. Ideally, LPG, LNG and natural gas should be in the same basket and then selective subsidies can be awarded to deserving consumers. These are the sort of anomalies that somebody with courage in government needs to look at. Realistically, the gas price should be three times what you are paying for it now.

I come back to the same point. If you decide to do something innovative, you are accused of pushing the envelopes and therefore there is something wrong with it. But if you work in the existing framework, you put up with line-losses of 15 percent which is pure and simple thievery. The state of SNGPL and SSGC is in front of you. No matter how good the management, the system is rigged against good governance. There is nothing you can do about it except break up their monopoly. Divorce distribution from transmission and the distribution should be done by small companies with each city having its own distribution company.

Where is the most theft in the system? It happens in subsistence consumer category because they cannot afford the gas. The cost of collection is more than the cost of gas in this case. The government should make 50 units per household free for these consumers. Again, my emphasis is on adopting an out-of-the-box approach. Theft can be monitored by employing technological tools to measure consumption.

BRR: How much room is there for local production of LPG to go up?

IZA: There is further potential at JJVL and other places as well whereby production can be easily increased by about 600 tons per day. That can save you about half of your imported cost.

BRR: What percentage does LPG account for in the overall gas mix?

IZA: Less than one percent.

BRR: The solution that the previous government came up with in response to the gas shortage was imported re-gasified liquid natural gas (R-LNG). Considering you have a stake in it as well, how do you see the future of R-LNG in Pakistan's future energy mix?

IZA: Let me start off by asking something. Do you have any option on the domestic front which you can develop to meet your energy requirements? Even though oil and gas discoveries are consistently being made in Pakistan, they are small and relatively expensive to handle. Our country is perhaps home to the seventh-largest shale gas reserves but at present it will cost us somewhere about \$20/MMBTU to produce that gas. I don't see the Pakistan-Iran pipeline going anywhere and the Turkmenistan-Afghanistan-Pakistan-Iran (TAPI) pipeline will have a lot of security as well as real-life concerns. So the only reliable source of supply is LNG.

Now what is happening in R-LNG sector in Pakistan is that it's also falling victim to circular debt. You can't invest Rs100 and get back Rs50 and claim to be doing very well. You have no answer and no solution but to privatise both the production of power, which has been done partially, and the distribution of power as well.

BRR: The previous government failed on its privatisation promises but they still had it on their agenda. However, the new PTI government has emphasised that it will refrain from privatisation and instead look to turn around the loss-making public-sector entities by employing competent people from the private sector. Do you think this will be possible?

IZA: In my opinion it is impossible. If someone comes from the private sector, they'll want an arm and a leg as salary. Eight months down the road, the judiciary or National Accountability Bureau (NAB) might question the high salaries being given as is being done currently as well. I'm not talking about just or unjust here and the Supreme Court has a very good point.

Also, in the past seventy years, which public company has been a model of success? The only answer for companies such as SSGCL, SNGPL and the DISCOs is complete, immediate division and privatisation. Ease of doing business should also be encouraged. You'd be surprised to learn about the number of no-objection certificates (NoCs) for setting up an LNG terminal.

BRR: How much R-LNG potential does the country have and what has progress been like?

IZA: According to government claims, current gas availability is 4 billion cubic feet (Bcf) while the requirement is 8-10 Bcf. The need is to convert all power plants to R-LNG and particularly those which are being run on furnace oil. Even if you cater to the newly-installed R-LNG power plants and convert the existing FO-based power plants, you'll require at least 2Bcf.

The compressed natural gas (CNG) sector should also be encouraged because it creates employment. You can do 1Bcf very easily there if you encourage the sector. Currently, the difference between R-LNG price and motor gasoline (petrol) is about 35-40 percent. If this difference is consistent at 20 percent, it will also save on your import cost along with consistent availability and employment generation.

BRR: So when the CNG sector has access to R-LNG, why is demand not picking up still?

IZA: It has to do with erratic policies. Shahid Khaqan Abbasi has done a lot of work to remove fiscal anomalies and regulatory bottlenecks in the gas sector. However, there is a lot of work yet to be done. Third-party access rules have still not been announced and the regulatory framework still has a lot of room for improvement. Institutional capacity needs to be raised on an urgent basis.

BRR: What is the cost of the conversion of existing furnace oil power plants and how much will their efficiency be improved by the fuel switch?

IZA: If the plant availability of FO power plants is around 85 percent, it is thought to be a remarkable feat. However, gas power plant availability has now exceeded 95 percent in the case of newly set up R-LNG power plants. So, availability affects the economics. Then, there is the maintenance cost, which is about 30-50 percent lower for gas power plants compared to their RFO peers. Third is the simple stupid cost of fuel which is much higher in the case of the latter.

BRR: How has your experience been with the R-LNG terminal?

IZA: Once you have set up the terminal and it starts running, the difficulties fade away. However, I am trying to set up a second LNG terminal in Pakistan by the private sector solely. This terminal will be in joint venture with my foreign partners with three conditions. Firstly, we will not borrow a penny in Pakistan. Secondly, we will import our own LNG and find our own buyers for our LNG on B2B take-and-pay deals, which is permitted under the policy. Finally, we will bring the best technology for R-LNG in the country.

BRR: How can ease of business specifically for the LNG sector be improved?

IZA: As things stand right now, the Port Qasim Authority, Ogra, the lenders and two other departments hire separate consultants to evaluate the same project. So basically, there are five consultants when ideally one should be hired by all of them combined. All that is needed is to make generic terms of reference (ToRs) once, and apply these to all terminals. These should be standard world requirements.

BRR: What is your vision of R-LNG in the private sector model?

IZA: We want to extract LPG from LNG. The plan is to bring "rich LNG," which will be from Mozambique and Nigeria.

This particular variant has liquids such as propane and butane, unlike the LNG from Qatar which is absolutely boom dry gas. So, our model is to first extract LPG, make the gas dry and then inject it in the system. Currently, we have proposed to the government that we will bring LNG into the country at a competitive price.

But we have asked them to let us export 100 percent of the LPG that we produce which will be substantial in volume.