

Petroleum and gas prices

During National Assembly's question-hour on 21st December, 2018, Minister of Petroleum, Ghulam Sarwar Khan, revealed that PTI government had given a subsidy of Rs 20 billion in petroleum prices to provide relief to the common man since it came to power. This subsidy had to be given because the government did not want to pass on the increase in international oil prices to consumers accordingly. Besides, gas worth Rs 45 billion was unaccounted for in the last five years due to pilferage and leakages and both the Sui Southern Gas Company and Sui Northern Gas Pipelines Limited had been directed to take adequate measures to overcome gas losses. Ogra's notified price of LPG for domestic and commercial consumers for the month of December, 2018 was Rs 1338.78 for an 11.8kg cylinder and this was in line with LPG Policy 2016 which states that the indigenous LPG production will primarily be supplied to domestic and commercial consumers while all other sectors such as automobile and industrial will only be allowed to use imported LPG. Regarding the complaints of load shedding of gas, the Minister stated that there is no such thing in any area of Pakistan. According to him, gas reduction of 80mmcf/d has been observed this year due to depleted gas fields. A shortfall of 130mmcf/d occurred in Sindh which has now been overcome. Low pressure in certain residential areas is due to worn out infrastructure.

The statement of Federal Minister for Petroleum throws ample light on certain important issues relating to petroleum and gas sectors of the economy. The first one of course is the pricing in these sectors and its impact on the budget and the common man. The government is always faced with a Catch 22 situation at the end of every month of the year when it has to determine the prices of various petroleum products for the next month. Whether to pass on the entire increase in international prices to the domestic consumers or neutralise the impact of higher international prices by lowering various levies on petroleum products is of course a very difficult decision because the action of the government would always have budgetary implications and a negative or a positive impact on the common man. The statement of the minister means that the PTI government had to forgo an amount of Rs 20 billion in revenues in the pricing of petroleum products to provide relief to the common man. This would simply mean widening of the budget deficit to this extent if compensatory measures are not taken to raise additional resources to fill this gap. The resort to additional bank borrowings to fill the fiscal gap would, of course, result in higher deficit financing and its consequent impact on inflation which would again hit the common man. The problem ultimately boils down to the choice of the government and could have been avoided to a certain extent if the budgetary position of the government would have been satisfactory.

The issue of load shedding of gas, especially in winter season, is also equally serious. The problem has become more acute due to constant depletion of existing gas wells in the country and the large-scale pilferage and leakages in the system. Insofar as imported LPG is concerned, necessary arrangements are in place at ports but the import in sufficient quantities is always subject to the availability of foreign exchange. Such imports, therefore, can only be ensured through a sustainable position in the current account balance.

Another key issue is the replacement of worn out structure of the gas companies and stopping the widespread leakages in the system. This may require administrative changes at the top and more resources for upgrading infrastructure of gas companies which are already in the red. Seen closely, although the Minister of Petroleum may have made offhand statements in the parliament, yet these need to be analysed seriously because the solution to all the related problems would have different implications for the economy and cannot be ignored for long. We say this because energy sector plays an important role in the economy and its growth has usually been constrained by energy side bottlenecks.