

Cabinet approves Rs25.7bn gas subsidy for exporters

ISLAMABAD: Two months after the supplementary budget 2018-19, the federal cabinet on Thursday approved another Rs25.75 billion 'supplementary grant' to provide subsidised gas to five zero-rated export sectors in Punjab.

The meeting of the federal cabinet presided over by Prime Minister Imran Khan also ratified another decision of the Economic Coordination Committee (ECC) of the Cabinet to extend Rs5.5bn subsidy to fertiliser units in the shape of cheaper natural gas. This will ensure that fertiliser prices remain stable in the market at existing rates of litter over Rs1,700 per bag, said Federal Minister for Petroleum and Natural Resources Ghulam Sarwar Khan.

Speaking to journalists, the minister said the cabinet approved a supplementary grant of Rs25.75bn in ratification of a decision of the ECC to provide a mix of domestic and imported liquefied natural gas (LNG) to five zero-rated export sectors at a fixed rate of \$6.5 per million British Thermal Unit (mmBtu) for both processing and captive plants. These sectors include exporters of the zero-rated sectors namely textile (including jute) carpets, leather, sports, and surgical goods.

He said it was a commitment of the PTI government with the export industry which now finally stood implemented and would help export industry compete in the international market.

Responding to a question, he said gas consumed after October 16 would be subject to reduced fixed rate of \$6.5 per mmBtu even if the consumption had been billed at old rates through adjustment in coming bills.

He said the cabinet had also approved Rs5.5bn subsidy to fertiliser units to ensure that fertiliser prices remain stable in the market.

The summary for the supplementary grant of Rs25.75bn was moved by the Petroleum Division with the support of the Ministry of Finance. In September, Minister for Finance Asad Umar had announced in his supplementary budget speech to provide Rs44bn subsidy to these five sectors through gas rates. No amount was actually allocated in the supplementary budget which raised many a question marks over the announcement and its seriousness.

Subsequent calculations by the Sui Northern Gas Pipelines Limited (SNGPL) on the basis of ECC's decision of September 17 put the total requirement for a full year at Rs32.32bn of which Rs25.75bn is required until end-June i.e. the closure of the current fiscal year. Mr Khan said the remaining requirement would be met with the beginning of the next fiscal year.

In September, the ECC had decided to provide gas to exporters of five zero-rated sectors in Punjab at fixed rate of \$6.5 per mmBtu with 50:50 share of local gas and Re-gasified Liquefied Natural Gas (RLNG) instead of previous ratio 28:72. Despite repeated meetings and explanatory memorandums, the industry was still being billed at about Rs1,700 per mmBtu (\$12.8 or so RLNG rate).

The ECC also decided that priority allocation of system gas will be revised to bring the five zero-rated sectors at second priority along with the power sector. On October 4, the Oil and Gas Regulatory Authority (Ogra) notified the revision in gas price and the tariff for zero-rated industry operating on indigenous gas across the country was notified at Rs600 per mmBtu while the zero-rated industry operating on RLNG or mix in Punjab are to be charged \$ 6.5 per mmBtu. The Ogra determined tariff for sale of RLNG for November 2018 was \$ 12.7292 per mmBtu.

Since there is a differential in the sale price of RLNG and the indigenous gas whereas supply of RLNG or mix of both at \$6.5 per mmBtu would require a subsidy for the zero-rated industry, the ECC while considering a summary submitted by Petroleum Division decided that 100 per cent RLNG shall be provided to zero-rated industry for three months — December to February — and a blend of system gas and RLNG of 50:50 for a period of remaining nine months i.e. March-November.

A subsequent mechanism notified by the finance ministry required the SNGPL to invoice the zero-rated industry at notified prices and upon receipt of subsidy effective from October 16 from Finance Division on monthly basis adjust/refund the same to industrial units at the fixed rate of \$6.5 per mmBtu on actual consumption. On November 12, the ECC reaffirmed its decision with explanation that the blend of system gas/RLNG at \$6.5 will be supplied to zero-rated industry including its process units as well as captive power plants.

The cabinet now decided that there would be a supplementary budgetary allocation of Rs25.75bn under the demand of Petroleum Division for current fiscal and the finance ministry will create a subsidy head under the budget of Petroleum Division. The subsidy will be provided to both zero-rated industry and its captive power units and disbursed on a monthly basis based on the actual verified billing provided by SNGPL to Petroleum Division. Also, the captive power units shall use the electricity for self-consumption only and shall not sell electricity to the national grid.

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