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LNG deal with Qatar has placed Pakistan in unfavourable position

ANJUM IBRAHIM

The Price Review Notice to renegotiate the contract price cannot be earlier than 2026 according to the LNG agreement signed on 10 February 2016 between Pakistan State Oil (PSO) and Qatargas. This was revealed in documents available with *Business Recorder* not been shared with the media, the parliament, or the senate standing committee in spite of repeated requests.

Large portions of the 89-page LNG contract uploaded on the PSO website are blacked out due to a confidentiality clause (25.1) including the contract price (though this information was shared by the then Minister for Petroleum and Natural Resources Shahid Khaqan Abbassi), the adjusted annual contract quantity, annual upward flexibility quantity, downward flexibility quantity, annual make good quantity, buyers obligation to take or pay, net proceeds, take or pay or make up LNG by buyer, and payment schedule.

The agreed contract price is 13.37 percent of Brent which is to be calculated as the arithmetic mean for a given month of the three values of BRICE (US $bbl) for three months immediately preceding (and not including) the month in which the commencement of unloading of relevant cargo falls, while BRICE is defined as the average of all settlement prices (US$/bbd) for each quoted day of the month as published by the International Exchange of the first line ICE Brent futures contract.

The LNG price for September 2017 to the consumer as per Oil and Gas Regulatory Authority notification for September 2017 is 9.2 dollars per mmbtu while the spot rate (Japan) for LNG was much lower at 5.8 dollars per mmbtu. The following critical clauses have not been shared with the public in the document uploaded on the PSO website:

Clause 15.2.4: "if within a period of six months after the Price Review Notice was issued the Parties have not agreed upon a price adjustment either party may terminate this agreement upon giving notice to the other party and such notice shall come into effect at the end of the Contract Year during which it is served."

Clause 17.4.1 "Payment: The Buyer shall pay the amount payable under an invoice issued pursuant to Clause 17.2.1 (b) and/or clause 17.3.1 {neither is blocked in the uploaded PSO document} on or before the date which is the later of (a) the 15th day after completion of unloading; and (b) the 10th banking day after receipt of invoice by the buyer.

Clause 17.4.2 "Except where otherwise stated in this agreement payment of all other invoices including those issued pursuant to Clauses 8.3.1, 17.2.2., 17.2.3, 17.3.2, 17.4.4, 17.5.1 and/or 17.6 shall be made on or before 5 banking days after receipt of invoice.

Clause 17.8.1: "Standby L/Cs would cover 105 percent of the sellers estimated value of "(a) three cargoes(based on the average Standard Cargo Content - SCC- for the prevailing contract year, if the ACQ (Annual Contract Quantity) is equal to or less than 117 million mmbtu (or approximately 2.25 million metric tons and (b) 6 cargoes (based on the average SCC for the prevailing contract year if the ACQ for the following contract year is equal to or greater than 195 million mmbtu (or approximately 3.75 million metric tons) of LNG provided that in respect of the 2017 contract year the buyers obligation to increase the value of the standby letters of credit to 105 percent of the sellers estimated value of 6 cargoes does not commence either on (i) the date which is 30 days prior to the start of the month which the buyer nominates as being the month in which it wishes to receive an increased volume of LNG in accordance with Clause 6.1.3 or (ii) failing receipt of such a notice the date which is 30 days prior to 1 June 2017.

Clause 17.8.5 notes that if the credit rating of a confirming bank deteriorates below the acceptable credit rating the buyer shall provide a replacement standby letter of credit within 7 banking days from the notice by the seller of such credit rating deterioration (which would be as per Standard and Poor or Moody's).

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THE RUPEE: Slight changes

RECORDER REVIEW
Minor changes were seen on the money market as the rupee depicted marginal variations versus the dollar during the week, ended September 23, 2017. In the inter-bank market, the rupee showed slight variation in relation to the dollar for buying and selling at Rs 105.40 and Rs 105.42. In the open market, the rupee slipped by 10 paisas against the dollar for buying and selling at Rs 105.80 and Rs 106.00. The rupee was lower by 30 paisa in terms of the euro for buying and selling at Rs 125.75 and Rs 127.00.

Some experts said that by and large, the rupee managed to retain overnight levels against the dollar due to easy supply of dollar. The rupee may not move sharply in terms of the dollar in the coming day, they added.

OPEN MARKET RATES: On Monday, the rupee drifted lower by 10 paisas in relation to the dollar for buying and selling at Rs 105.70 and Rs 105.90. The rupee also lost 40 paisas in terms of the euro for buying and selling at Rs 125.40 Rs 126.70.

On Tuesday, the rupee lost further 10 paisas in relation to the dollar for buying and selling at Rs 105.80 and Rs 106.00 respectively, they said. The rupee also drifted lower by 35 paisas in terms of the euro for buying and selling at Rs 125.75 and Rs 1270.00 respectively, they said.

On Thursday, the rupee showed no change in relation to the dollar for buying and selling at Rs 105.90 and Rs 106.10. The rupee was trading against the euro for buying and selling at Rs 125.00 and Rs 126.25. On Friday, the rupee gained 10 paisas against the dollar for buying and selling at Rs 105.80 and Rs 106.00. The rupee lost 80 paisas in terms of the euro for buying and selling at Rs 125.80 and Rs 127.30, respectively. On Saturday, the rupee was unchanged versus the dollar for buying and selling at Rs 105.80 and Rs 106.00. The rupee moved marginally in relation to the euro for buying and selling at Rs 125.75 and Rs 127.00.

INTER-BANK MARKET RATE: The rupee moved cautiously versus the dollar during the week for buying and selling at Rs 105.40 and Rs 105.42.

OVERSEAS OUTLOOK FOR DOLLAR: In the first Asian trade, the dollar held firm near a seven-week high versus the yen, supported by recent rises in US yields, while sterling took a breather after surging last week on growing expectations that the Bank of England could raise interest rates soon.

The dollar rose 0.3 percent to 111.19 yen, trading within sight of Friday's peak at 111.33 yen, the dollar's highest level since late July. The dollar gained nearly 2.8 percent against the yen last week, buoyed by a rise in US Treasury yields that bolstered the greenback's appeal, and as data showing a pick up in US consumer prices helped rekindle expectations that the Federal Reserve could raise interest rates again in December.

The dollar was available against the Indian rupee at Rs 64.015, the greenback was trading versus the Malaysian ringgit at Rs 4.183 and the US currency was at 6.549 in terms of the Chinese yuan. Inter bank buy/sell rates for the taka against the dollar on Monday.80.75-80.75 (previous 80.73-80.73).

In the second, the dollar held steady at near 8-week highs versus the yen on Tuesday, with investors awaiting the Federal Reserve's policy statement this week for fresh hints on the possible pace and timing of further US monetary tightening. The dollar last changed hands at 111.52 yen, trading within sight of Monday's peak of 111.665 yen, its highest level since July 27. The greenback has benefited from a recent surge in US bond yields. The US 10-year Treasury yield had reached a one-month high of 2.237 percent on Monday.

The dollar was trading against the Indian rupee at Rs 64.150, the US currency was available versus the Malaysian ringgit at 4.189 and the greenback was at 6.589 in terms of the Chinese yuan. In third trading day, the dollar rose broadly, hitting a two-month high versus the yen, as the Federal Reserve signalled it may raise interest rates for a third time this year even as inflation has remained below its 2 percent goal.

The US central bank also said after a two-day meeting it will begin reduction of the

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Fed's $4.5 trillion balance sheet in October by allowing small amounts of Treasuries and mortgage-backed securities to run off. "Right now, the market sees the Fed more hawkish than anticipated," said Tim Alt, director of currencies and rates at Aviva Investors.

Some traders had thought catastrophic damage from Hurricanes Harvey and Irma in Texas and Florida might force the Fed to postpone a rate increase until next year. In the fourth Asian trade, the dollar rose to a two-month high against the yen and extended its gains against the euro after a hawkish-sounding Federal Reserve heightened expectations for an interest rate hike in December.

After concluding a closely watched two-day policy meeting on Wednesday, the Fed left interest rates unchanged as expected but signalled it still expects one more increase by the end of the year, despite a recent bout of low inflation. The euro shed 0.1 percent to $1.1886 after dropping 0.8 percent the previous day, when it reversed a four-session winning run.

The dollar was 0.2 percent higher at 112.430 yen after brushing 112.645, its highest since July 18. Still, the greenback's gains against the yen were assessed as relatively limited. The dollar was trading against the Indian rupee at Rs 64.460, the greenback was at 4.200 versus the Malaysian ringgit and the US currency was at 6.591 in terms of the Chinese yuan. Inter bank buy/sell rates for the taka against the dollar on Thursday: 80.78-80.79 (previous 80.77-80.77).

In the final Asian trade, the dollar buckled as tensions simmered on the Korean peninsula, though the sharp divergence between US and Japanese monetary policy kept the greenback on track for a winning week against the yen. The dollar index, which tracks the US unit against a basket of six major rivals, fell 0.3 percent to 92.024, still up 0.2 percent for the week and holding well above its more than 2-1/2 year nadir of 91.011 marked on September 8.

The rupee was trading against the Indian rupee at Rs 64.985, the greenback was at 4.196 in terms of the Malaysian ringgit and the US currency was at 6.588 versus the Chinese yuan. At the week-end, the dollar weakened against the yen, with tensions simmering on the Korean peninsula and as the boost from heightened expectations of a US interest rate hike in December faded.

The dollar was down 0.42 percent at 111.99 yen, on pace to snap a five-day winning streak against the Japanese currency. North Korea said on Friday it might test a hydrogen bomb over the dollar scaled a two-month peak of 112.71 yen on Thursday after the Bank of Japan maintained its bond-buying pledge. The move also was spurred by the Federal Reserve's policy statement on Wednesday in which it signalled it still intended to raise rates in December. The dollar index, which tracks the greenback against six major currencies, was down 0.13 percent to 92.136.

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Fiscal laws:

LHC issues notices to federation

SOHAIL SARFRAZ

Lahore High Court (LHC) has issued notices to the federation in a petition challenging validation clauses inducted in fiscal laws to validate all previous notifications (SROs) issued during Prime Minister Nawaz Sharif's regime and powers obtained by Federal Board of Revenue (FBR) to issue any SRO with the approval of minister-in-charge in the Customs Act, 1969, the Sales Tax Act, 1990, Income Tax Ordinance, 2001 and the Federal Excise Act, 2005.

It was leant that the LHC issued notices to the federation of Pakistan through secretary Revenue Division, Ministry of Law through secretary law, and Attorney General for Pakistan in a petition filed by a lawyer Waheed Shahzad Butt, who has challenged the validation clauses inducted in fiscal laws to validate all previous notifications (SROs) issued in Prime Minister Nawaz Sharif's regime and powers obtained by the FBR to issue any SRO with the approval of minister-in-charge in Customs Act, 1969, Sales Tax Act, 1990, Income Tax Ordinance, 2001 and Federal Excise Act, 2005.

Sources told that petition was argued by a well-known international tax lawyer Dr Ikramul Haq before a single bench of the LHC comprising Justice Ayesha Malik, who conducted hearing of petition and issued notices to the aforementioned respondents (secretary Revenue Division, Ministry of Law and attorney general for Pakistan) and directed them to submit their report and para-wise comments.

The petitioner stated that he questions the constitutionality of insertion of validation clauses in various tax codes and powers given to the FBR to levy and vary tax rates through any notification with the approval of minister-in-charge. Finance Act, 2017 has inserted the provisions in various tax codes, Section 221A of Customs Act, 1969, Section 74A of Sales Tax Act, 1990, Section 241 of Income Tax Ordinance, 2001 and Section 47C of Federal Excise Act, 2005. The Finance Act also has provided powers to the FBR to issue any notification, known as statutory regulatory order [SRO], with the approval of minister-in-charge in Customs Act, 1969, Sales Tax Act, 1990, Income Tax Ordinance, 2001 and Federal Excise Act, 2005.

Above provisions are in utter violation of Articles 77 and 162 of the Constitution and are meant to nullify the judgements of the Supreme Court in (2016) 114 Tax 241 (SC) and 2013 SCMR 1337. Insertion of validation clauses without amending the Constitution is void ab initio and in utter violation of Articles 4, 8, 18, 25, 77, 162 and 189 of the Constitution. The subordinate legislation ie amendment in various tax codes cannot alter the principles laid down in the Constitution. The principle of "no taxation without representation", embodied in Article 77 read with Article 162 of the Constitution, has perpetually and flagrantly been violated. In the Finance Act 2017, the power is unlawfully delegated to the FBR with the approval of the minister in-charge. It is well settled proposition that levy of tax for the purpose of federation is not permissible except by or under the authority of an Act of Majlis-e-Shoora (Parliament), the petitioner stated.

The LHC ordered, "Learned counsel stated that the amendment provided through Finance Act, 2017 is essentially to defeat the spirit and law laid down in the cases cited at (2016) 114 TAX 241 (S.C. Pak) and 2013 SCMR 1337. Learned counsel stated that by virtue of the said amendment, the requirements of law and Constitution cannot be bypassed. Issue notices to the respondents to file report and para-wise comments on or before the said date. A notice shall also be issued to the Attorney General for Pakistan," the LHC order added.

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FPCCI urges government not to finalise trade deals in haste

M RAFIQUE GORAYA

The Federation of Pakistan chambers of Commerce and Industry has called upon the government not to finalise trade deals with friendly countries in haste before learning lessons from Preferential Trade Agreements (PTAs) and Free Trade Agreements (FTAs) signed earlier which damaged the economy.

Chairman FPCCI Regional Committee on Industries, Former President ICCI Atif Ikram Sheikh said on Sunday that our negotiators have failed to hold meaningful negotiations and safeguard national interests before finalising such trade deals which have proved counter productive. In a statement he said that the trade deals increased imports by 300 percent and closed hundreds of local industries, the government lost revenue, and banks lost money due to defaults while many jobs were destroyed.

He said that trade talks with Turkey, Thailand, and Korea should be suspended unless private sector is taken on board and their reservations are considered otherwise masses will suffer on account of short sightedness and professional inefficiency of the official negotiators of trade agreements.

Pakistani products are not only uncompetitive in the international market but also in the local market. Sheikh who is a prominent industrialist and business leader pointed out that our markets are flooded with general items smuggled or imported from other countries which are cheaper and usually of better quality which proves that local industry is not competitive at home.

He demanded that trade deals should not be left to some officials or a ministry and these should be debated thoroughly in the National Assembly before approval. "China is a friendly country but she is getting undue advantage from the FTA signed in 2006 resulting in heavy losses to our economy, therefore, she should cooperate to make the deal balanced and beneficiary for both the country he said. He said trade officials should not compromise national interests at any cost and realize that Pakistan cannot afford faulty deals that flood domestic markets with foreign goods.

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RPPs versus LNG deal

ANJUM IBRAHIM

Appallingly poor governance during the tenure of the Zardari-led PPP government (2008-13) supported by public disclosure of a record number of mega scams unequalled in our corruption-tainted history was the narrative of the Pakistan Muslim League (Nawaz) government during the 2013 election campaign that swept it to power. The question that the PML-N is increasingly facing today with the elections 2018 in less than 10 months is whether its own governance is perceived by the general public to be an improvement from that of its predecessor.

Perhaps at the top of the list of the PPP era scams was the rental power projects (RPPs) proposed by the then Water and Power Minister Raja Pervez Ashraf. The objective of the RPPs was to deal with the country's load-shedding in the short to the medium-term by renting power plants at a consolidated estimated cost of 5 billion dollars. Faisal Saleh Hayat (then in the PML-Q and back in the PPP fold at present) and Khawaja Asif (former Minister for Water and Power and the incumbent Foreign Minister) took the matter to the Supreme Court and by end-March 2012 the apex court declared the RPPs illegal as "rules and regulations were violated at a cost of billions of rupees to the treasury". The verdict held the finance ministry, Wapda, Pepco and state-operated generation companies (Gencos) responsible for "causing huge losses to the public exchequer, which ran into billions of rupees by making 7 percent to 14 percent down payments as well as agreeing to purchase electricity at higher rates from the RPPs". Accusations doing the rounds in the federal capital at the time fuelled by the rival PML-N parliamentarians were that the commission from the award of RPP contracts enabled Raja Pervez Ashraf to purchase a flat in London.

The Liquefied Natural Gas (LNG) deal between Qatargas, Qatar's largest LNG producer, and Pakistan State Oil (PSO) which is under the administrative control of the newly-created Ministry of Energy is three times the total value of the RPPs - 15 billion dollars and applicable for the long-term - for a period of 15 years. It was signed on 10th February 2016 in Doha in the presence of the then Prime Minister Nawaz Sharif and the then Petroleum Minister Shahid Khaqan Abbasi who, as the Prime Minister from 1st August 2017, decided to keep the portfolio of a merged Ministry of Water and Power and the Ministry of Petroleum and Natural Resources.

A comparison between the LNG deal and the RPP deal surprisingly reveals that the PPP deal was perhaps a tad preferable to the LNG deal in four important respects. Firstly, the RPP deal was discussed in the Gilani-led Cabinet and the suggestion by the then Finance Minister Shaukat Tarin, a technocrat and not a party loyalist, was accepted and a third party audit by the Asian Development Bank approved; however no such internal challenge or meaningful debate has been apparent in the LNG deal.

Secondly, the Gilani administration called for tenders for setting up the RPPs that were published in the print media, though there were clear violations of the rules of Public Procurement Rules Authority (PPRA); in sharp contrast the LNG contract remains shrouded in secrecy under the pretext of a confidentiality clause justified on the shaky legal ground that this clause is the usual practice in government to government commercial deals. Thus, critical components of the agreement remain blocked from the PSO website, including price, port charges and other critical elements of the deal which may have led to challenging some of the clauses of the agreement by independent sector experts.

However, a few pages of the agreement are available with *Business Recorder* reflecting some extremely disturbing elements of the agreement: (i) the contract price agreed is 13.37 percent of Brent [defined as arithmetic mean for a given month of the three values of BRICE (US$bbl) for three months immediately preceding (and not including) the month in which the commencement of unloading of relevant cargo falls]. This price has been shared by Shahid Khaqan Abbasi in his interaction with the media and parliament with the claim that it is lower than what has been negotiated by other countries. This was a true assertion in the initial months after the contract was signed. In February 2016 the LNG spot

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rates were 6.7 dollars per mmbtu and Pakistan's first shipment (March 2016) after the deal was signed was procured at 4.85 dollars per mmbtu.

In December 2015, two months before PSO signed the LNG deal with Qatargas, India's biggest gas importer Petronet and Rasgas, Qatar's second-largest LNG producer, reviewed the 25-year (inked in 2004) LNG contract and agreed on almost half the original price, or at 6-7 dollars per mmbtu; by August 2016, India managed to not only have the price reviewed once again to 5 dollars per mmbtu (as international prices continued to plummet) but also negotiated for Rasgas to forego the payment for under lifting LNG from what was agreed in the contract which India estimated saved it 9400 crore Indian rupees. However, at the time of the deal in 2004, it was generally regarded as the seller's market with high fuel prices which accounts for India agreeing to pay 12 to 13 dollars per mmbtu. By 2015, fuel prices plummeted in the international market and large Indian consumers of Qatar's Rasgas refused to purchase it which led to under lifting by India. India as a much larger buyer can and did exert pressure on Qatar successfully however that is not likely to be Pakistan's case.

(ii) Clause 15.2.1 of the agreement states that a party may give notice ("Price Review Notice") to the other Party to renegotiate the Contract price no earlier than the tenth anniversary of the Start Date; in other words for the next ten years - 2026 - there can be no renegotiations of the price. This is untenable in a buyer's market given the decline in international prices. India not only successfully renegotiated price with Rasgas in December 2015 and then again in 2017 but with Exxon India negotiated a deal at the rate of 12.5% of Brent for an additional one million tonnes in 2017 while the original agreed supplies were procured at 13.9 percent of Brent but with transportation cost to be payable by the supplier rather than Petronet; and (iii) in the last shipment as per Ogra notification dated 20 September LNG will be available to the consumers at the rate of 9.2881 dollars per mmbtu while the spot rate (Japan) was 5.8 dollars per mmbtu. It is no wonder that Bangladesh in July 2017 opted for a deal with lower gas supplies then what it had originally planned as well as for a shorter period.

Thirdly, the RRPs because of greater transparency and the third party audit as well as court cases were abandoned by the PPP-led coalition government. Shahid Khaqan Abbasi opted to clear the deal from the National Accountability Bureau (NAB) which reportedly showed satisfaction at the rates and the procedures in the run up to the signing of the final agreement. Chairman NAB, Qamar Zaman Chaudhry, appointed in October 2013, has shown a clear bias in favour of the ruling party. This was particularly evident during the hearings on the Panama papers case with Justice Ejaz Afzal Khan observing to the NAB chairman: "is it our job to shake you out of your slumber?"

And finally, Arif Hameed, MD SNGPL, was compelled to resign by the then Petroleum Minister Abbasi, for refusing to approve a tripartite agreement between PSO, and the two gas utilities - Sui Northern Gas Pipelines Limited (SNGPL) to generate 58 billion rupees and Sui Southern Gas Company Limited (SSGCL) 40 billion rupees to lay the LNG pipeline at a cost of 101 billion rupees that was to be passed onto the domestic gas consumers. However, the regulator (Oil and Gas Regulatory Authority) refused to support the government's recommendation and instead limited it to only RLNG consumers largely comprising of the industrial sector. In addition, Ogra reduced the SNGPL industrial consumers' contribution to 22.5 billion rupees and for SSGPL industrial consumers to 17.5 billion rupees. This will raise input costs and the lament of the industrial sector that their costs of production are much higher than their regional competitors' that account for declining exports as well as lower domestic sales (given the extent of smuggling on our large porous borders with India) would simply further gather momentum.

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Loving and living on debt

Analyses & Comments by BR Research

Earlier in the PML-N tenure the external debt was building to enhance reserves; now it's moving up at a faster pace but just to not let reserves fall fast. The sustainability of debt piling reserves was questioned by this column in the previous quarters (for more on the issue read 'external scorecard in red' published on August 30, 2016 and 'Debt piling reserves published on /Mar 20, 2017); it's been demonstrated now that how shallow the reserves base is.

The net external debt increased by $5.3 billion in Mar-Jun17 while the external reserves remained virtually unchanged. The lion's share of debt is piled by government which increased by $3.9 billion to $56.4 billion. Multilaterals (ADB, WB etc) were generous in the quarter as the toll increased by $1.7 billion to $27.6 billion. While the government heavily relied on commercial borrowing to avert falling reserves trend - toll up by $2.7 billion to $4.8 billion. That is a dangerous trend showing desperation. This needs to be halted soon.

Reserves started falling since the start of 2QFY17 whilst the economy started growing at higher pace at the same time. The high growth in automobile, food and beverages and a few other sectors resulted in higher imports in these sectors; along with high consumption of fuel, both in power generation and transportation.

That is an irony of Pakistan economy which could perplex policymakers on whether to let private sector led growth to continue or tighten policies to no let reserves fall in tandem. Domestic economy has huge gaps in demand to be filled but high cost of doing business amid lack of innovation is making exports uncompetitive.

Bottom line is that the reserves fell by $2 billion in Oct16-Mar17, while debt was up by $1.9 billion in the same period. Had the debt remained unchanged, reserves would have fallen by $3.9 billion. To keep the currency's artificial peg intact along with efforts to restore confidence, the government decided to not let the reserves fall further at the cost of piling external debt - the gap widened to $5.5 billion in 4QFY17.

The $5.4 billion increase is by far, the highest increase in debt in a quarter in sixteen quarters of Dar's regime. The previous high was $3.6 billion in 4QFY14 - when reserves fell to low levels and the currency was starting to fall freely. Debt was piled at that time to avert immediate crisis whilst economic growth was low.

Lately, the equation is a bit different - reserves have been built, and private sector is growing. Debt is piled to keep both confidence and reserves high. There is no immediate crisis in offing. That said, the policy is not sustainable as it may delay the inevitable crisis, but surely cannot avert it.

The external score card is deep in red - reserves are up by $10.3 billion in the last four years while the net external debt has increased by $22 billion (from 26.3% of GDP in Jun13 to 27.3% of GDP in Jun17). Thus, $11.7 billion are consumed by domestic economy without any foreign exchange earnings. Live and consume on debt; but for how long?

USD (Mn)	1QFY17	2QFY17	3QFY17	4QFY17
Public external debt	62,399	61,486	61,952	66,103
Government external debt	52,676	52,099	52,468	56,430
Public sector enterprises (PSEs)	2,779	2,781	2,732	2,706
Banks	2,956	3,203	3,728	4,507

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Private Sector	4,514	5,140	6,100	6,416
Debt liabilities to direct investors-Intercompany debt	3,114	3,077	3,129	3,248

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Manufacturing growth

LSM's growth in the fiscal year so far is a story of two Cs: consumerism and construction. In the face of weak domestic savings it is also a story of import growth outpacing the growth in exports. Here is the how part!

The overall LSM index grew nearly 13 percent year-on-year in July 2017. Compared to that, the growth in vegetable ghee, cooking oil as well as that in automobile sector has been phenomenal, signifying sharp growth in the consumer economy. The consumer electronics sector didn't see much of growth in July 2017 – ranging between a drop of 14 percent in the case of refrigerators to an increase of 16 percent in the case of deep freezers (perhaps Eid ul Adha affect) – but on the whole the sector has seen some sharp growth in year ended June 2017.

Cigarette production jumped a whopping 207 percent in July 2017 on what seems to be the consequence of relatively better federal budget FY18 as the finance ministry chose against raising FED on the top two slabs, in addition to the introduction of a bottom slab that might have helped the formal players fight the cheaper duty-unpaid brands in the affordable segment. Be that as it may, the bulk of that growth is driven by low base affect, where it is pertinent to note that the overall trend in cigarette production remains on a downward slope.

Meanwhile, the growth in construction sector – namely iron and steel, and cement also outpaced that in the benchmark manufacturing index. The CPEC-led infrastructure spending story continues to drive that part of the economy.

Looking at things from the import-export lens, growth in cloth and yarn production has been flat, following the general trend since 2013, whereas growth in leather products, including upper and sole leather and footwear was merely two and half percent. Cement production was indeed quite sharper than usual, but as we all know cement exports have been slipping in recent years. The 2MFY18 trade data shows that cement export quantities dropped 14 percent after falling 24 percent in the fiscal year 2017.

On the other hand, import-driven production – i.e. automobile and petroleum products – have been on the rise. The former reflects improvement in economy and consumerism, whereas the latter is linked to higher consumption driven by increasing car sales and lower fuel prices. The recent wave of expansion in the retail network of oil marketing companies also points toward the notion of rising retail spending in the country. That's all from the monthly LSM update for now; the LSM story is good for now. But then again it is just the first month of the fiscal year, so don't get too excited just yet.

PERFORMANCE OF LSM SUB-SECTORS-MAJOR SECTORS ONLY

	Weight	Growth in 1MFY18 (%)		Weight	Growth in 1MFY18 (%)
Textile	20.91	0.43	Automobiles	4.61	42.56
Yarn	12.96	0.01	Jeeps, Cars	2.82	55.75
Cloth	7.19	0.01	Motor cycles	0.61	26.46
Food, Beverages & Tobacco	12.37	19.02	Tractors	0.47	146.11

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Sugar	3.54	0.00	L.C.V.'s	0.33	16.03
Cooking oil	2.23	10.96	Trucks	0.21	24.41
Vegetable ghee	1.14	25.49	Buses	0.16	-31.30
Petroleum Products	5.41	4.87	Iron & Steel	5.39	46.36
Pharmaceuticals	3.62	11.14	Billets/Ingots	1.52	74.36
Tablets	1.91	10.29	H/C.R.Sheets/Strips/Coils/plates etc	2.28	23.94
Liquids/syrups	1.14	10.58	Fertilizers	4.44	-0.80
Cement	5.30	38.31	Phos. fertilizers	0.40	10.37
			Nit. fertilizers	4.04	

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Karachi — a case study of an unsustainable city

Jawaid Bokhari

A STRATEGIC location and an enlarged urban economy attract firms and households, and put mounting pressure on social and physical structure, which, if not addressed promptly, creates unsustainable cities.

The more developed a city, the more sophisticated and expanded an infrastructure network it needs to maintain its growth momentum.

Urban economists, however, lament the low level of current investment for development of civic facilities in Karachi which hosts the country's premier financial and capital markets and is a major commercial and industrial hub and a port city.

The key issue is: how quickly will these programmes materialise to shore up the city's capacity for sustainable development?

It is the top contributor to the national exchequer with a share of 40pc in the sales tax revenue on domestic goods. Such revenue contributions have raised the city's expectation of a much higher level of development spending.

Though still the country's largest and most developed city, Karachi is losing some of its lustre. As SECP records show, an increasing number of foreign firms now prefer to be incorporated in Islamabad owing to the security situation (now improving), Karachi's poor infrastructure and the competing attraction of a much bigger and faster growing Punjab market.

Not too long ago Karachi was the first choice for both foreign and domestic investors.

Karachi suffers from a huge social deficit and civic facilities and also offers a sharp contrast of immense wealth — though with an expanding middle class — with relatively stark poverty.

All social indicators show underperformance owing to lack of proper planning, ad hoc decision-making, slow project implementation and for want of enough local finance.

District governments are not empowered to raise their own taxes to resolve local problems. They are funded by, and responsible to, the provincial administration rather than taxpayers/electorate in their own constituency leading to a democratic deficit.

For want of funds, a former mayor of Karachi secured the support of former president Musharraf to improve the city roads and get an underpass built by Karachi Port Trust for quicker movement of port cargo and traffic. Similarly, support was also provided by SITE, a semi-government body to repair roads.

Lately, a well-known builder has constructed the Clifton bypass at his own expense, much faster than the provincial authorities would have done. Such ad hoc measures do not resolve lingering problems.

Going by urban development indicators such as those relating to education, public transport, housing, poverty, pollution; the city has been underperforming.

Yet it has the country's most developed services sector which directly spurs urban economic activities with increased efficiency.

That includes developed seaports, airport and terminal operations, telecommunication system, insurance industry, franchise business, stock brokers/securities houses and consultancy services. They together contribute the bulk of the sales tax revenue from services whose share has gone up to around 54pc of Sindh's provincial tax receipts.

On the civic services side is a different story. The city suffers from congested roads, poor and expensive transport system, virtual absence of low-cost housing and expanding slums and shortage of water supply (created largely by tanker owners depriving piped water supply to even posh-localities like in DHA area).

Traffic jams result in commuters' loss of time which could be better used in productive pursuits. Speculative activity has pushed property prices to beyond the reach of even much of the middle class with very little effort made to check this trend. Wage earners, hit by high cost of living, are turning into double jobbers to make both ends meet.

While the inflow of manpower from the north has somewhat scaled down because of development activities, especially in Punjab, many from rural Sindh and less developed Saraiki speaking areas are still able to find jobs in Karachi.

In context to the environment, there is little to show. Power shortages for running tubewells and unchecked removal of Bajri

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(sand) for construction activities from dry Malir and Lyari beds — that facilitated collection / underground storage of rainwater for growing vegetable and fruit crops —have deprived farmers of irrigation water for the depleted greenbelt around Karachi. Some farmers use piped along with sewerage water to produce polluted vegetables, not fit for human consumption.

The ill-planned urban expansion and encroachment of land grabbers has reduced the greenbelt and induced poultry farmers, also harassed by extortionists, to move into the safer areas of the remote interior.

Some recent developments, however, hold the promise that things would change for the better. The World Bank is interested in helping the provincial authorities to give a facelift to Karachi.

The UN Sustainable Development Goals (SDGs) to which Pakistan is a signatory, has provided the authorities the mandate to shore up the neglected social services.

Finally, with less than a year left for elections the PPP government in Sindh and PML-N government at the Centre have stepped up financial allocations and expanded the programme for the city's development in the current fiscal year.

Shahid Khaqan Abbasi, during his first visit to Karachi as the prime minister, announced an Rs25 billion development package for the city. To quote Sindh Governor Sindh Muhammad Zubair, the centre has initiated Greenline Lyari Expressway and Greater Karachi Bulk Water Supply Scheme while similar schemes would be initiated under the PM's package.

Earlier in his budget 2017-18 speech, Sindh Chief Minister Syed Murad Ali Shah had announced an allocation of Rs70bn for the city's uplift. The projects included repairs (most of the 9,000km city's roads are in bad shape) and building of roads and Rapid Bus Transport System.

The road from city centre to Thatta is also planned to be improved. The Karachi circular railway designed to run by a modern commuter system, will be initiated by September

For improving water supply to the city, the work on the Greater Karachi Bulk Supply project, financed jointly by the federal and provincial governments, is expected to be expedited.

As for environment, apart from improving solid waste management, there are plans to set up three affluent plants for the city's industrial areas. A World Bank co-funded Karachi neighbourhood project will be launched for developing parks, improving road network and restoring old buildings.

Not satisfied with KE performance, the Sindh government is seeking representation on the utility's board of directors with Murad Ali Shah complaining that the federation has two members while his province has none.

However, the key issue is: how quickly will these programmes materialise to shore up the city's capacity for sustainable development?

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Sindh and its perennial issues

Mohammad Hussain Khan

THE planning and development department of Sindh set up a special unit in May to ensure the Global Goals are achieved. Three of these goals — SDGs 2, 6 and 13 — are directly linked with the country's agricultural sector.

Sindh holds a special place as far as its contribution to the overall agrarian economy of the country is concerned, though the province is confronted by many issues ranging from poor governance, lack of support to small and medium-sized farmers and a fragile regulatory framework.

"Despite having a climatic advantage, Sindh's crop yields are decreasing. It's a serious issue," said Dr Fateh Marri, project coordinator of the multimillion-rupee Sindh Agriculture Growth Project (SAGP) being funded by the World Bank.

Sindh is also believed to have huge productivity potential, but it remains largely untapped.

Moreover, the province is faced with a large influx of people from other parts of Pakistan who put an additional burden on its resources and infrastructure.

Provisional results of the latest census have not gone down well with Sindh's political leadership. They believe that by showing a reduced population of the province the federal government wants to deprive it of its increased share in the divisible pool in the National Finance Commission Award.

'We need to develop crops under a research-oriented approach. After all, it's the farm sector that has to ensure food security and zero hunger,' an official says

Mahmood Nawaz Shah, vice president of the Sindh Abadgar Board, believes that the province comes up with an impressive output of wheat every year despite pre- and post-harvest losses at various stages.

Since the province lacks storage capacity, only a limited quantity is procured from farmers at support price and the rest is hoarded or sold in the market at lower prices.

Sindh's total official wheat storage capacity is close to 700,000 tonnes. Of the four million tonnes of wheat produced by the province, only 1.3m tonnes are procured every year after hiring rented premises.

"We need to look into these issues. Some baseline data and scientific studies can help us achieve the SDGs directly related to our agriculture sector," Mr Shah says. "We need to develop crops under a research-oriented approach. After all, it's the farm sector that has to ensure food security and zero hunger."

Another issue is the worsening quality of water. An inquiry report submitted recently to the Sindh High Court found that more than three quarters of water in 14 districts of the province was unsafe for human consumption.

In addition, the contamination of freshwater bodies, including major canals and lakes such as Manchhar, face a perennial disposal of effluent or domestic and industrial wastewater.

The lake awaits its rehabilitation that could revive economy of the thousands of fishermen whose livelihood depends on it.

The timely availability of water remains essential for achieving desired growth in the agriculture sector. However, being a lower riparian region, Sindh continues to face water shortage more often than not. The shortage of water in early Kharif season adversely affected the rice crop.

However, this time water flows were available timely, brightening the outlook for a bumper rice crop.

The provincial SDGs support unit has now started working to connect the dots at different level. Rehana Ghulam Ali Memon, the unit's project coordinator, says the provincial government has sped up work to streamline, localise and implement the 2030 development agenda. She believes that while the unit will oversee implementation phases, it is the departments concerned that have to play a proactive role.

The good news perhaps is that draft of the agriculture policy has been shared with stakeholders in Sindh under SAGP. The project also addresses the issues concerning onion, date palm, paddy and chillies. The livestock sector is a separate component of the project.

The policy is now being aligned with national food security policy being worked out by the Ministry of National Food Security and Research.

Growers' bodies, private sector and the departments concerned are in the loop and officials hope that aligned departments would perform better under the unit's

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umbrella to ensure Sindh meets the global targets.

"Now there is a great emphasis that this policy should be framed in the light of the SDGs. We need to produce not only food, but it should be nutritious too," says Dr Fateh Marri of the SAGP.

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The way forward

Khaleeq Kiani

PAKISTAN secured a score of 55.6 under SDGs' global index against a far better regional average of 63.3 and is even lower than regional peers Bangladesh's 56.2 and India's 58.1.

As a result, the country ranked 122 on the SDG index of 157 nations compared to Bangladesh's 120 and India's 116 position, according to July 2017 results.

The good news, however, is that its preparedness to deliver on 2030 targets is among some of the top in the world, raising hopes that it would not be repeating its dismal performance of the Millennium Development Goals (MDGs) when it missed almost all targets. Pakistan's performance would be assessed in about 230 unique indicators on 17 goals set under UN commitments.

In this special report, Dawn's Business and Finance team reached out to SDG champions, some working in silos, to report progress and identify gaps, a year before the country has to report its progress to the UN

To begin with, parliament has adopted the SDGs as a national development agenda unlike the MDGs that were generally considered a UN-driven initiative only to be complied with by four-yearly progress reports. These reports were prepared by consultants, without any implementation mechanism in place to actually deliver.

Special SDG units have already been established at the Planning Commission and provinces — as committed early last year by the country's planning ministers — to mainstream SDG objectives by creating synergies among various federal and provincial organisations and agencies.

At the federal level, however, three separate SDG units have been created — one at Prime Minister Office, another at parliament led by Speaker Ayaz Sadiq and yet another at the Planning Commission. The three do not have an internal interface for policy coordination.

Interestingly, the first two units have huge funds at their disposal on an annual basis, with current's year allocations estimated at Rs55 billion in the form of prime minister's SDG programme (Rs30bn) and Rs12.5bn each for clean drinking water for all and electricity for all.

There is zero to negligible information about the outcome of the spending made through parliamentarians mostly belonging to the ruling party. There are fiduciary concerns because this amount is normally spent outside the normal financial regulation mechanism.

A step forward, the mission for SDG implementation has been taken to the grass roots level via the local government (LG) system — for bottom up engagement and implementation of targets as majority coverage areas stand devolved to the provinces — and onwards to the district level.

Representatives of the LGs at the district level were engaged through a national conference where they were given a chance to express their priorities. Most referred to education, health, water and unemployment as top issues. Interestingly, sanitation and climate missed their radars, perhaps because of lack of general awareness. It also emerged that absence of bathrooms was impacting female education.

A major challenge for the planning commission appeared to be the data gap reporting analysis. It was noted that of the 230 indicators, reporting of data on 14 overlapped to where either data was not being reported at all or was being reported on the sidelines. Reporting on around 45 per cent variables was available but was not being computed.

The remaining 55pc variables are of a serious nature. The newly inducted Deputy Chairman Planning Commission, Sartaj Aziz, with his development background has required the commission to replicate these goals as national development goals and be made part of the next five year plan 2018-23 — prioritising education, health, economic wellbeing, water, peace and security and affordable energy, in that order. He has directed that these goals be made part of the planning processes and given to the line ministries for implementation.

Public awareness might be limited, but the government has embedded the SDGs in its Vision 2025. Planning departments are on board, the federal SDG cell is functional and the provincial ones are evolving, councillors are engaged for input from districts. The exercise to localise, prioritise and benchmark the targets is also under way. Parallel to the public sector, this time round, private companies are pushing in their own spheres. Will the outcome be any better than Pakistan's track record on MDGs? We missed all

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the goals as the Musharraf regime shied away from an inclusive approach, and the weak foundation of the grand framework for the MDG Action Plan crumbled under its own weight. If things have to change, mobilising the target beneficiaries — the people — represents …

Another problem at the gross root level that was noted was the absence of administrative and financial powers of the district governments. An even greater challenge was how to create awareness and knowledge about how critical the SDG goals were to uplifting the lives of the people and how to make the process sustainable. At the planning commission level, the authorities proposing any big project are required to articulate if and how much their project papers were related to the SDGs.

But more importantly, authorities have to work on balancing outcomes of various goals. Pakistan's performance on prevalence of poverty is impressive with only 4.1pc population reported poor at $1.90 per day and estimated to go further down to 0.2pc by 2030.

But this performance does not appear to be translating into other goals. For example, if the rate of poverty is so low why then are 45pc children under 5 years of age growing stunted and why is 22pc of the population still undernourished?

It transpired that average family budgets had diverted towards dense food — meat, milk etc. The planning commission analysis showed the country's philanthropic network was actually supporting the social network to a great extent.

Also, while Pakistan's overall economic indicators were comparable with emerging economies its general social indicators were lagging behind even Nepal and Bhutan.

It has been noted that Pakistan is very poor in terms of water quality despite a number of initiatives at the federal and provincial level. The indicators have gone down drastically over the last 10-15 years resulting negatively on health and nutrition and resultantly education.

Poor water quality arose out of untreated industrial waste and arsenic flowing into drinking water resources, causing increased prevalence of hepatitis, cancer and other diseases.

In fact, all this appeared to boil down to governance problem as housing societies and industries expanded without planning in all major cities, leaving untreated industrial water and sewerage waste into canals and water channels, affecting urban infrastructure.

As part of the SDG monitoring unit, a score card is being developed on how much expenditure out of the federal or provincial development plan has gone into a district and what the outcome has been.

A sample study showed a Rs15,000 per capita expenditure out of the provincial annual development plan last year compared to Rs40 in Layyah District. A next step would be to explain the outcomes of these expenditures on health, education and other rankings.

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Pakistan wrestles with coal dilemma

Mubarak Zeb Khan

PAKISTAN'S efforts to end energy crisis have impaled it on the horns of a dilemma: it wants to end power shortfalls at the earliest using coal but also needs to keep its environment clean.

Electricity is a major issue in Pakistan's electoral politics, and the government has opted for coal-based power under the China Pakistan Economic Corridor (CPEC).

In the meantime the government is also working to implement the climate change policy as part of the UN agenda to implement Sustainable Development Goals. Pakistan also ratified the Paris climate agreement in November last year.

The difficulty facing the government and environmentalists is how to minimise carbon emission threat in the proposed coal-based power projects when the industry is desperate for quick fixes for ending energy shortages in the country.

For businessmen, uninterrupted supply of energy is crucial. But can we afford to compromise long-term development for the sake of short-term gains?

Pakistan is at the early stage of implementing a policy for climate change, a subject which was not taken seriously before. It still needs to be understood in its context properly.

Many developing and developed countries are making efforts to curb carbon emissions and switching to renewable sources of energy such as wind and solar power.

However, Pakistan is developing its coal industry to meet growing energy demand at a time when the world, including China, is leaving this option behind.

Pakistan went to the 2015 United Nations Climate Change Conference in Paris without much preparation. The country was supposed to present its voluntary commitments — called Intended Nationally Determined Contributions (INDCs) — aimed at limiting global warming. But the government could not submit an impressive INDC.

However, in the 2016 climate change conference held in Morocco, Pakistan did submit a nationally determined commitment. It was a voluntary commitment and Pakistan never asked for an exemption from carbon emission reduction.

Many environmental experts have reservations about Islamabad's current and future projections for carbon emission in these commitments. Questions were raised over the methodologies used to calculate emissions scenarios in Pakistan.

"I am a strong critic of dirty energy and I believe that Pakistan should not have opted for coal-powered electricity under the CPEC," Dr Abid Suleri, executive director of the Sustainable Development Policy Institute, told Dawn. "However, I am also mindful of the fact that electricity is a major issue in Pakistan's electoral politics."

Successive governments have failed to make a civil nuclear technology deal with the United States. Moreover, projects like Turkmenistan–Afghanistan–Pakistan–India pipeline and Central Asia-South Asia power project could not take off either. Pakistan had virtually run out of money to import expensive furnace oil to run its power plants.

In that context, an offer from China to install coal-based power plants, despite its negative environmental consequences, was an attractive proposition.

Currently, Pakistan has the cleanest energy mix among its peer economies. However, the situation would change after the installation of coal-based power plants, Dr Suleri said.

The argument that the government presents in its defence is that other nations have to reduce their carbon emission when their state of economy is "business as usual". But Pakistan's economy has been in an unusual state and needs to catch up with the others through the use of coal-based energy.

It also argues that the upcoming power plants will use supercritical technology, which helps minimise the carbon emissions threat.

A similar claim was also made by Sindh Chief Minister Murad Ali Shah in Islamabad last week that low sulphur content and ash in Thar coal ranked it a better fuel for power generation. The opposition to power generation from Thar coal was unjustified, he said.

Many experts at the same time question why Pakistan is not using the low-cost alternative renewable energy sources abundantly available in the country.

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The potential for the use of alternative technologies has never been fully explored in Pakistan. Wind power provides opportunity to reduce the dependence on imported fossil fuel and at the same time boost the power supply capacity to remote locations where grid expansion is not practical.

The Sindh chief minister also blamed the federal government for not allowing the province to exploit the alternative energy sources.

According to a metrological department study, the gross wind power potential in Sindh is 43,000MW. Keeping in view the area utilisation constraints, the exploitable electric power generation potential of this area is estimated to be about 11,000MW.

Besides, Pakistan's hydropower generation potential is around 60,000MW as compared to the total installed capacity of 6,556MW. Khyber Pakhtunkhwa and Federally Administrated Tribal Areas are gifted with immense potential for generating hydropower.

For long-term benefit, the government will have to focus on building dams, which can give multiple benefits like energy, agriculture, food, employment, etc. Solar and wind are good but Pakistan must focus on hydropower for long and sustainable development in the country.

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Weekly inflation rises 0.61pc

APP

ISLAMABAD - The weekly inflation for the week ended on September 21 for the combined income groups increased by 0.61 percent as compared to the previous week.

According to data released by Pakistan Bureau of Statistics (PBS), the Sensitive Price Indicator (SPI)for the week under review in the above mentioned group was recorded at 223.47 points against 222.11 points last week. As compared to the corresponding week of last year, the SPI for the combined group in the week under review witnessed increase of 2.16 percent.

The weekly SPI has been computed with base 2007, 2008=100, covering 17 urban centres and 53 essential items for all income groups. Meanwhile, the SPI for the lowest income group up to Rs8,000 increased by 0.70 percent as it went up from 213.01 points in the previous week to 214.51 points in the week under review. As compared to the last week, the SPI for the income groups from Rs8001 to 12,000, Rs12,001 to 18,000, Rs18,001 to 35,000 and above Rs35,000, also increased by 0.66 percent, 0.67 percent, 0.62 percent and 0.65 percent, respectively.

During the week under review, average prices of 14 items registered decrease, while 9 items increase with the remaining 30 items' prices unchanged. The items, which registered decrease in their prices during the week under review included onions, bananas, garlic, chicken (farm), LPG Cylinder, tea, vegetable ghee, pulse mash, mustard oil, rice basmati, effs, pulse moong, pulse masoor, and red chilly powder (loose).

The items, which registered increase in their prices during the week under review tomatoes, potatoes, wheat, wheat flour, pulse gram, gur, vegetable ghee, sugar, and beef. The items with no change in their average prices during the week under review included rice irri-6, bread, mutton, milk (fresh), curd, milk (powdered),cooking oil (tin), salt powder (loose), cooked beef, cooked pulses, tea prepared, cigarettes, long cloth, shirting, lawn, georgette, gents sandal, gents chappal, ladies sandal, electricity charges, gas charges, kerosene oil, firewood, washing soap, match box, petrol, diesel, telephone local call and bath soap.