Press Release

The All Pakistan Textile Mills Association (APTMA) issued the following Press Release

ILLEGAL CROSS SUBSIDIES TO FERTILIZER SECTOR IN RING-FENCED RLNG PRICES TO HAVE DESTRUCTIVE IMPACT ON EXPORTS, EMPLOYMENT AND ECONOMY

June 29, 2024, Islamabad – The Ministry of Energy (Petroleum Division) and Oil and Gas Regulatory Authority's illegal imposition of Rs. 50 billion cross subsidies to the fertilizer sector, including accrued differential of Rs. 27 billion from November 2023 through March 2024, and monthly differential of Rs. 3.8 billion from April 2024 through September 2024, in ring-fenced RLNG tariffs from June 2024 onwards will have a destructive impact on the country's exports, employment and overall economy. This appears to have been deliberately implemented at a time when the public at large is preoccupied with the budget, ensuring it goes unnoticed.

The decision is in clear violation of Articles 6 and 7 of the OGRA Ordinance 2002, which are designed to protect consumer interests and minimize economic distortions. Moreover, the Federal Government, under the authority granted by the Petroleum Product (Petroleum Levy) Ordinance of 1961 and the Petroleum Products (Petroleum Levy) Rules of 1967, has assigned OGRA the responsibility to determine the price of RLNG. The Federal Government, via ECC decisions ECC-87/11/2015 on June 6, 2015, and ECC-72/12/2016 on June 14, 2016, has also identified pricing components and parameters of RLNG to OGRA through the DG Gas office, effectively ring-fencing RLNG prices and making sure no additional or undue charges are made to consumers. Additionally, the amendments to the Oil & Gas Regulatory Authority Ordinance, 2002, explicitly include RLNG within its regulatory domain. Section 43B provides OGRA with the authority to set and revise RLNG prices according to market conditions. Thus, cross subsidies are patently not a cost that can be charged in a ring-fenced RLNG pricing regime.

This directive imposes an unjust financial burden on RLNG consumers on the SNGPL network, who are already burdened with double the gas tariffs compared to regional competitors. For instance, despite being on high-pressure lines, these consumers are charged full distribution losses. Reductions in Brent prices, to which long-term RLNG contracts are indexed, are not passed through to them, with the government taking the benefit of favourable international conditions but passing on any increases to the consumers, exacerbating economic inefficiencies and distortions.

Severe discrepancies in additional charges on RLNG and unaccounted for gas between Pakistan and other countries further amplify this issue for export-oriented consumers of RLNG who must compete in international markets (Table 1).

While UFG losses in the case of system gas are typically scrutinized and disallowed by the regulator to ensure efficiency and accountability, the current tariff structure for RLNG/imported gas does not impose similar disallowances. This implies that any UFG losses (8.8%-14.97%) associated with RLNG/imported gas are not deducted from the allowable revenue of the gas utility companies. Consequently, the financial impact of these losses, which is $0.85 per MMBtu in SNGPL and $1.9 per MMBtu in SSGCL, is passed on to consumers in the form of higher tariffs for RLNG. This lapse by OGRA clearly supports and condones the excessive line losses and inefficiencies of SNGPL and SSGC.

Table 1. Comparison of International UFG Benchmarks

Countries	Network (Km)	Consumption (BM^3)	UFG Benchmark
USA	2,225,032	759.4	1.41%-5%
Canada	100,000	104.4	2.65%
Germany	34,327	77.5	2.16%
United Kingdom	39,778	70.2	1.00%
Turkey	15,641	48.5	4.20%
Russia	259,913	409.2	5.00%
Australia	580,000	38.8	0.5%-4.03%
Ukraine	45,597	33.8	2.60%
Bangladesh	20,804	22.9	5.00%
New Zealand	15,000	5.4	2.45%
Croatia	3,020	2.8	3.30%
Pakistan	141,190	41.2	*8.8%-14.97%

Source: KPMG, OGRA

These practices result in Pakistani products being less competitive in the international market, leading to reduced industrial activity and exports, unemployment, lower government revenue, and overall economic slowdown. The broader economic implications are also deeply concerning. For instance, consumer prices of goods manufactured for domestic consumption inevitably rise as a result, increasing inflation and further straining the economic stability of the country. The hike in RLNG prices, driven by fertilizer cross-subsidies, will also increase the power sector's energy mix basket price, impacting millions of electricity consumers who are already struggling with high inflation and energy costs.

All these factors highlight the government's utter disregard for fostering a viable industrial sector capable of delivering economic growth. On one hand, the government has decided to eliminate cross subsidies in industrial power tariffs, while on the other hand, it is imposing similar cross subsidies in RLNG tariffs. This demonstrates a complete lack of any cohesive and long-term plan or vision for economic growth and stability.

It is pertinent to question at this point whether the government is actively trying to shut down industry, eliminate gainful employment, and create social chaos and anarchy given the punitive measures imposed through the budget, the continued disregard for meaningful structural reform, and now the imposition of these blatantly illegal cross subsidies in RLNG pricing. Without a functioning industrial

sector, there can be no increase in the government's tax collection, no stability in the external sector, and no improvement in the overall economic situation.

APTMA remains steadfast in its commitment to advocate for policies that support a robust and competitive industrial sector. The Government and Regulator are urged to recognize the severe implications of the current policy and reverse this decision immediately.

Forwarded for favor of publication in your esteemed newspaper/transmission.

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