LOAN TALKS REVIVED AFTER GOVT BOWS TO IMF DIKTAT: FOREIGN LENDER MISSION TO ARRIVE NEXT WEEK

ISLAMABAD: In a major development, the International Monetary Fund (IMF) on Thursday announced sending its mission to Pakistan next week in a bid to break a deadlock over critical conditions regarding plugging a fiscal hole of around Rs2.5 trillion through a combination of taxation, expenditure and power tariff measures. “At the request of the (Pakistani) authorities, an in-person fund mission is scheduled to visit Islamabad from January 31 to February 9 to continue discussions under the 9th EFF (Extended Fund Facility) Review,” Esther Perez, the Resident Representative of the IMF said.

The much-delayed announcement came hours after Finance Minister Ishaq Dar bowed to let the rupee devalue by Rs25 to a dollar or 9.61% - the highest ever drop in a single day in Pakistan’s history.

The government moved only after the US conveyed in plain words to the government to follow the IMF path instead of seeking political favours while foreign nations, too, excused themselves from giving more lifelines without the IMF umbrella.

“The US sent its deputy assistant treasury secretary to Pakistan to deliver the message,” according to a government source.

Prime Minister Shehbaz Sharif also met with US Ambassador Donald Blome, informing him about Pakistan’s decision to take the IMF route. But Pakistan still asked for some relaxation in the IMF conditions, finding the conditions impractical in the present charged political atmosphere.

The Pakistani rupee plunged to a record low of Rs255.43 against the dollar in the interbank market on Thursday, sliding nearly Rs25 or 9.61% from a day.

After taking the oath as the finance minister, Ishaq Dar had vowed to bring back the dollar price to Rs180 from around Rs240. On October 11, the rupee-dollar parity touched to around Rs217 but from there it started recovering.

Before the IMF announcement, Pakistani team, led by Dr Aisha Pasha, Minister of State for Finance, shared a draft framework to implement some of these actions over next few days.

Even if both the sides are able to reach a consensus by February 9 and Pakistan delivers on the promises, the next tranche may not come before the end of March.

The IMF on Thursday laid bare its demands from Pakistan, which are in line with the agreement signed between both sides. “The mission will focus on the policies to restore domestic and external sustainability, including to strengthen the fiscal position with durable and high quality measures while supporting the vulnerable and those affected by the floods,” said Perez.

The sources said that the government’s assessment was that as against the old commitment to provide primary budget surplus of 0.2% of GDP, there is now a gap of 2.8% of the GDP or Rs2.5 trillion against the budgeted targets. “But the IMF’s assessment was that the gap was about Rs3.2 trillion or 3.6% of GDP,” said the sources.

The IMF was ready to relax the condition to the extent of expenditure on floods, which may slightly shrink the size of the hole. During 10-day long talks, both the sides would try to find a middle ground. “So far, the IMF has shown no inflexibility,” said the sources.

The IMF has told Pakistan to bring a mini-budget, comprising measures that will ensure quick and clean recovery of taxes to avoid the courts’ path. These measures will include increase in the petroleum levy rate on petroleum products, taxes on tobacco, sugary drinks and taxes on commercial banks.

The IMF has not agreed to the FBR’s proposal to impose new taxes worth Rs170 billion only, as its demand is much more than this. The fund has estimated Rs420 billion shortfall against the FBR’s annual target of Rs7.470 trillion.

Esther further said that the IMF mission will also focus on “restoring the viability of the power sector and reverse the continued accumulation of circular debt”.

The sources said that after the record single-day exchange rate devolution, this will be the hardest nut to crack with the IMF. According to the Power Division’s own assessment, there was about Rs805 billion deviation against the annual reduction plan. This will require minimum Rs7.50 per unit increase in tariffs, or even may be more depending upon what base the government takes, according to the sources. If the government takes the lifeline consumers limit of 200 units monthly consumption, then the increase will be more and if the IMF allows to relax the limit to 300 unit, then the increase will be less.

The deviation in the plan was mainly because of political decisions by Prime Minister Shehbaz Sharif to give subsidies to exporters, waive fuel cost adjustments and poor governance of the Power Division.

Import Controls

The IMF’s Resident Representative stated that the Mission will focus on “reestablishing the proper functioning of the foreign exchange market, allowing the exchange rate to clear the FX shortage”.

The statement suggested that Pakistan will have to lift all restrictions on the imports that led to reduction in the monthly import bill from $7.5 billion to the $5.3 billion on an average. The lifting of restrictions will father drive the value of the US currency very high.

The IMF stated that stronger policy efforts and reforms are critical to reduce the current elevated uncertainty that weighs on the outlook, strengthen Pakistan’s resilience, and obtain financing support from official partners and the markets that is vital for Pakistan’s sustainable development.

Pakistan lost $3 billion in the shape of low exports and low foreign remittances due to wrong government policies of the past four months, former Finance Minister Miftah Ismail said on Thursday. Miftah Ismail said Dar underestimated the IMF’s role which hurt Pakistan’s cause.

The central bank reported on Thursday that its reserves depleted by $923 million
to $3.7 billion as of January 20th. However, the sources said the reserves further dropped to $3.2 billion as of January 24th.

Some of the measures that Pakistan will take are highly inflation and could cause rapid acceleration of inflation.

Military to remain a holy cow

Meanwhile, in order to meet another condition of the IMF, the FBR on Thursday unveiled the “Sharing of Declaration of Assets of Civil Servants Rules, 2022”.

The rules will allow the commercial banks to seek the asset details of the civil servants before opening their bank accounts. However, the government has excluded the army officers from the purview of the asset declarations, which is discriminatory and highlights one of the reasons behind current economic mess in Pakistan where privileged classes are protected.

The rules showed that the FBR will share a simplified or abridged version of declaration- based on the fields agreed with the State Bank declared by a civil servant in his electronic declaration filed with FBR. The bank shall obtain an express written consent from the civil servant of whom the bank intends to access information from FBR; and the bank shall obtain a certificate from the civil servant as per prescribed format annexed duly signed by the person declaring that he is a civil servant of BS-17 and above, with his complete name, designation, employee number and all other particulars that are prescribed in the format.

TR 26-1-2023

FREIGHT FORWARDERS/CONSOLIDATORS: FOREX MANUAL FOR REMITTANCE OF FREIGHT CHARGES AMENDED

KARACHI: The State Bank of Pakistan (SBP) has amended the Foreign Exchange Manual (FEM) for remittance of freight charges by freight forwarders. As per para 5 of Chapter 14 of FEM, in terms of which Authorised Dealers are allowed to effect remittances of surplus freight charges directly on behalf of concerned freight forwarder/consolidators on a fortnight basis, after verification of documentary evidence in support of the remittance.

Now, in view of the representation received from stakeholders, it has been decided to amend para 5(i)(e) of Chapter 14 of FEM. As per the amended para 5(i)(e), certificate from a practising accountancy firm (having satisfactory QCR rating) to the effect that the amount of remittance applied for has been verified with reference to authenticated copies of prepaid Master Airway Bill/Master Bill of Lading with the related House Airway Bill/House Bill of Lading, cargo manifests and billed invoices from counterparts abroad and had been found correct. However, this requirement will not be applicable on monthly remittance of up to USD 10,000 or equivalent.

All other terms and conditions will remain unchanged. The SBP has advised Authorized Dealers to bring the above development to the notice of all their constituents for meticulous compliance.

R 27-1-2023

PROPOSAL UNDER STUDY TO MAKE GAS AND POWER RATES UNIFORM

ISLAMABAD: The government firmed up key principles on Thursday for hiking gas prices to the extent of full cost recovery so as to compel consumers to shift to electricity for space and water heating during winter.

The exercise was undertaken to tackle the Rs577bn circular debt in the sector. This was the crux of a meeting on natural gas policy and pricing at the ministry of planning. It was decided to go for fresh LNG supply contracts on a long-term basis as Qatar Gas could demand an increase in LNG prices or simply walk away from its contract in 2026.

The meeting was attended by all the who’s who of the energy sector, including former premier Shahid Khaqan Abbasi, who heads the Energy Task Force, Planning Minister Ahsan Iqbal and Power Minister Khurram Dastgir Khan.

Representatives of different energy sector organisations like the Oil and Gas Regulatory Authority (Ogra), Pakistan LNG Limited (PLL), Interstate Gas System (ISGS), Oil and Gas Development Company, Central Power Purchasing Agency, Sui Northern Gas Pipelines (SNGPL) and Sui Southern Gas Company (SSGC). “It was also discussed that the cost-reflective pricing of the gas sector will be a key decision to develop a sustainable natural gas supply chain in the country,” said an official statement after the meeting.

It added that a proposed mechanism for the demand-side management of gas was discussed, including the replacement of natural gas in the domestic sector with electricity. “To reduce the demand for gas in the domestic sector, prices can be rationalised to bring about parity between gas and electricity prices. This will encourage gas consumers to use electricity for space and water heating during the winter,” said the statement.

Switchover to electrical appliances for heating can save an estimated 74,736 million cubic feet of gas, the meeting was told. As a result, 6,778 gigawatt hours (GWh) of least-cost electric power can be generated from gas. Khurram Dastagir Khan advocated that increased utilisation of natural gas in the power sector could drastically reduce the electricity tariff.

The meeting noted that the existing long-term contracts with Qatar Gas include a clause for contract revision in 2026. A revision of the price cap was among the provisions and the supplier could demand an increase in the LNG delivered cost or just walk away from the contract. Therefore, Pakistan should expedite the process of entering into fresh long-term LNG import contracts.

The participants were of the view that the existing distortion in natural gas tariff could be eliminated and the tariff could be rationalized, besides abolishing the cross-subsidy mechanism and replacing it with a budgeted subsidy to protect the low-end or lifeline gas consumer.

The meeting discussed measures to improve the LNG import infrastructure, including expansion in terminal and regasification capacity, the possibility of imported gas storage in exhausted gas wellheads and the development of a north-south pipeline.

The stakeholders suggested that at present, the development of gas storage infrastructure was not financially viable for the country. Instead, the option of trading LNG at the lowest spot market rates could be considered. It was then suggested that instead of opting for an expensive sub-surface (depleted reservoirs) storage option, storage over the surface (salt caverns) could be examined as it has a lower cost. Therefore, a feasibility study could be conducted to identify the cost and areas for such storage.

Exploration and production

On exploration and production (E&P) activities, it was suggested that incentives like wellhead prices comparable to neighbouring countries could be offered. The Turkmenistan-Afgha-nistan-Pakistan-India (Tapi) pipeline and the Iran-Pakistan Gas Pipeline should also be pursued.

The meeting asked the integrated energy planning (IEP) department of the Planning Commission to develop a pricing mechanism keeping in view the consumer prices which were supposed to be reviewed twice a year. Failure to do so had led to the accumulation of a tariff differential of Rs577bn up to June 2022.

Dawn 27-1-2023

KE PAYS RS160M AS PENALTY TO NEPRA

KARACHI: The K-Electric paid Rs 160 million out of a total of Rs 200 million as penalty imposed by the National Electric Power Regulatory Authority (Nepra) on account of delay in commissioning of its flagship RFO-based Bin Qasim Power Station-III (BOPS-III), increased load shedding, violations of license etc in 2020.

According to a judgment of Nepra's Appellate Tribunal in an appeal No-11/NT/2022 titled K-Electric v/s Nepra on October, 5 2022, a copy of which available with *Business Recorder*: "It was brought before this Tribunal that on account of increased load shedding, noncompliance/violations stipulated in the licence of KEL, including delay in Commissioning of BQPS-IIl under Section 27B & 28 of Power Act, Nepra issued show cause notice to KEL on July 23, 22020. Subsequent to hearing of the show cause, Nepra through its order dated August 27, 2020, imposed a fine of Rs 200,000,000 (Counsel for Appellant informed that Rs 160 million already paid by KEL)."

Chairman Nepra Tauseef H Farooqi also confirmed on January 25, that KE paid Nepra Rs 160 million as penalty. He was presiding over a public hearing in the matter of re-consideration of the Licensee Proposed Modification (LPM) in the generation licence of K-Electric Limited (KEL) held at the Nepra Headquarters, Islamabad and attended by stakeholders from Karachi via Zoom.

Interestingly, the remaining Rs 40 million out of a total Rs 200 million penalty imposed by the authority on KE neither came under discussion in the Nepra hearing, nor mentioned in the said Appellant Tribunal's judgment.

The KE had initially committed to bring online BQPS-III project by July 2018. But the power company has not been able to even bring online the BQPS-III unit-1. The plant is still in commissioning phase. It has been offline since August 1, 2022 following what KE said a fault identified during a test being conducted as part of the plant's commissioning. The development arose during testing being performed by Siemens AG as part of the final stages of commissioning.

Nepra Hearing

Sharing the background of the matter, a Nepra representative said the Authority approved the LPM of KEL through its determination dated September 15,2021 inter alia, allowing operation of Unit-3 of BQPs-1 during May 01 to August 15, 2021.

However, the Authority restricted the cost of operation of the said unit to the extent of Fuel Cost Component of BQPS-III. In this regard, KEL filed a review petition for allowing full cost of the interim operation of Unit-3 of BQPS-1, however, the Authority through its determination upheld its earlier decision in the matter rejecting the review petition.

In consideration of the above, KEL filed an appeal in the Nepra Appellate Tribunal against the determination of the Authority regarding rejection of its review petition.

The Appellate Tribunal in its judgment dated October 05, 2022 inter alia, decided to allow the appeal of KEL, setting aside the determination of the Authority dated September 15, 2021 and sent the matter back to the Authority for a fresh decision, after giving chance of audience to all stakeholders in accordance with law, rules. Accordingly, the Authority has decided to hold a public hearing on Thursday. Ayaz Jafer, Director Finance KE said the company requested for the utilisation of BQPS-I unit 3 on interim basis to avoid additional load management in accordance with EMO and after evaluating available options including rental power.

The KE has already incurred additional expenses of Rs 350 million to initiate and run operation from BQPS-I unit 3 (this cost was not allowed to the KE under MYT). Accordingly, the KE requests Nepra to not further penalise KE by disallowing the prudent fuel cost which has been incurred in the best interest of consumers. On this chairman Nepra said for other IPPs, if they fail to achieve commercial operation date (COD), we have a mechanism of liquidity damages. But, the KE itself is producer, off taker, system, and market operator and completes its projects without giving dateline. What recourse available with us to ensure that the consumers of Karachi should not be unduly penalised due to delays on the part of KE as they are compelled to buy expensive electricity from your costly old power plants?

CFO KE Muhammad Aamir Ghaziani responded: “Yes, the mechanism is available in our case. We have LD mechanism on BQPS-III, as this project is yet to be commissioned and handed over to the KE. LD will be adjusted by the cost of project.”

Industrialist Arif Bilwani posed a question as to why KE utilised BQPS-1 unit 3 without approval from Nepra. On this, a Nepra official said KE had filed a request in April for the interim operation of the unit, but the authority did not allow it. It was no more in KE’s generation license fleet, he said.

“The KE is an example of monopoly, and oligopoly in Karachi and the consumer interest should come first, than KE’s,” he said. He said why didn’t KE use the cheapest PLL gas at BQPS-1 unit 3 despite it had provision for the gas utilization a three plants, simultaneously, as mentioned by the power company in its application (under discussion).

On this, KE official said BQPS-III was expected to be commissioned in May, but it was not commissioned. Meanwhile, Nepra chairman asked KE to submit reply in writing, with the authority. Imran Shahid from Jamaat-e-Islami (JI) urged Nepra to uphold its previous decision and do not pass on the burden of KE’s “incompetence” to consumers. Even in this harsh weather, he said that Karachi is subjected to hours-long load shedding.

Imran said KE conduct load shed at various city areas through PMTs shut downs under the guise of line losses. On this Tauseef H Farooqi said that Nepra is totally against the load shedding based on Aggregate Technical and Commercial Losses (ATCLs). He said if there are 5,000 consumers connected with a PMT, of them 2,000 pay power bills regularly, while 3000 don’t. In such case, no power utility is allowed to disconnect electricity of the remaining 3,000 loyal consumers on the basis of ATCLs. “We consider it as a collective punishment’ and we have taken up the matter with the relevant ministry.

Nepra official IrfanShaikh said legal action has been initiated against [Discos] for carrying out load shed based on ATCLs. Chairman Nepra said KE’s generation is neither adequate nor cost efficient and asked KE to come up with a comprehensive Renewable Energy Plan (REP) to ensure relief to its consumers.

Engineer AneelMumtaz on this occasion said that two issues were framed in the tribunal case i.e whether the appellant was entitled for FCC of RFO use in operation of Unit 3 of BQPS-I, or the authority was justified to grant FCC of committed upcoming Power plant of RFO-based BQPS-III.

However, these issues are not being discussed here. A penalty which has no relevance to be discussed in this hearing is being more focused. He asked a couple of questions if KE challenged that penalty imposed by Nepra in any forum. Was the tribunal technically sound in transmission distribution and generation field? He said the Tribunal is bound to decide cases falling within their jurisdictions in accordance with law. But the tribunal has taken help from references outside field which are not related to electrical cases.

R 6-1-2023

STATE MINISTER SEEKS RECOMMENDATIONS FOR ESTABLISHING FERTILISER REGULATORY AUTHORITY

Federal Minister of State for Industries & Production Tasneem Ahmed Qureshi has sought recommendations for establishing a fertiliser regulatory authority to meet the crisis of fertilisers in the country. In a meeting held at the National

Fertiliser Corporation of Pakistan (NFC) here on Thursday, he said that there should be a mechanism to check prices, demand and supply of all fertilisers to facilitate farmers, adding that suggestions in this regard had been sought and measures would be taken at every level to highlight the issue. In a briefing, Company Secretary NFC Faisal Sultan told the minister that urea was being used for industrial purposes in the country, which should be banned as farmers were facing its shortage. The companies would have to turn towards producing 'neem coated' urea because in India, this experiment had helped increase crops production, and it also could not be used in industrial sector, he added. "The world is producing bio-fertiliser from industrial waste, while in Pakistan this project does not exist at mass level. Special attention should be paid in that regard, and the NFC is ready to launch a pilot project," the officer said. Tasneem Qureshi appreciated the ideas and said that all fertiliser issues were being taken up on priority and the government was committed to regulating prices, demand and supply of fertilisers.

Former president Pakistan People's Party Punjab Imtiaz Safdar Warraich also attended the meeting while Aamer Hussain, General Manager (P&A)-NFC, Ajmal Rafique, In-charge (Accounts), Naseer Ahmed, Muhammad Zaheeruddin were also present. Earlier, Tasneem Qureshi visited Technology Upgradation and Skill Development Company's (TUSDEC's) different laboratories and checked the parameters adopted for the testing purposes.

Director Projects Nabeel Asghar, in a briefing, told the minister about departmental performance and said that TUSDEC had successfully implemented a range of development initiatives for key industrial sectors such as engineering, cement, textile, ceramics and skills development, with the support of the government, national and international donors. The company has so far implemented more than 20 projects worth Rs 4 billion approximately and more projects worth Rs 5.8 billion are in the implementation stage in the country related to technology upgradation and skills development.

The minister applauded the active role of TUSDEC in providing services to the local industries. Syed Maqsood Hussain, Chief HR & Admin Officer, Manzoor Bhatti, Chief Finance Officer, and other officers were also present.

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