IMF ACCORD HINGES ON FINANCIAL SUPPORT FROM KSA, UAE

ISLAMABAD: The much-awaited **Staff Level Agreement between Pakistan and the IMF** will only be struck as soon as the financial support confirmation from the Kingdom of Saudi Arabia and UAE is received. “As soon as support confirmation from KSA and UAE are received by the IMF then the staff level agreement will be signed with the IMF,” top official sources confirmed while talking to The News here on Monday.

Federal **Minister for Finance Ishaq Dar** had informed diplomats in Islamabad at the Iftar dinner on Sunday that the matters with the IMF would be settled soon. Almost 46 days have passed since the IMF and Pakistan concluded review talks here in Islamabad on February 9 and the very next day Minister for Finance Ishaq Dar claimed that the virtual talks have begun and the staff-level agreement would be signed within a few days. However, it could not be done even after the passage of 46 days.

On the issue of cross-fuel subsidy, there have been dissenting views within the Ministry of Finance because the timing of the announcement could not be endorsed at all. It remains to be seen how the Ministry of Finance will satisfy the IMF on the subsidy. The bureaucrats from the Ministry of Finance had resisted the scheme tooth and nail but the government went ahead and made it public. The move was undertaken by the PM Office.

“We have made it clear that such schemes cannot be implemented in view of the IMF’s known opposition to subsidies. At this point, the **revival of the IMF programme** is imperative and such schemes would jeopardise the whole process,” said some top officials. They added they did not know about any progress on the contentious cross-fuel subsidy issue at this point in time.

In case the IMF programme is revived then the question will arise as to how the next 10th and 11th reviews will be accomplished. The 10th review was due on February 3, 2023. While the 11th review would be due on May 3, 2023 and it is not yet known how both sides would proceed even after the revival of the Fund programme.

TN 28-3-2023

LONDON-LISTED CORO ENERGY SEEKS O&G JVs

ISLAMABAD: London- listed CORO Energy is seeking O&G joint venture opportunities in Pakistan. Coro Energy has entered negotiations with several Pakistani O&G majors, including the Oil and Gas Regulatory Authority (Ogra) regarding a stranded gas asset in Balochistan as well as a local partnership with Islamabad-based OKTA Petroleum. CORO Executive Chairman James Parson heads a group of four London-listed O&G companies Corcel Plc; Ascent Resources Plc; and Echo Energy Plc. He was the former CEO of Sound Energy and a Royal Dutch Shell senior manager.

REKO DIQ DISPUTE: ECC APPROVES RS6.2BN MARK-UP PAYMENT

ISLAMABAD: The Economic Coordination Committee (ECC) of the Cabinet has approved a mark up payment of Rs6.238 billion on a short-term finance facility of Rs65 billion by the Finance Division from March 31, 2022, to December 30, 2022, for the Reko Diq project dispute settlement.

The meeting of the ECC presided over by Finance Minister Ishaq Dar was presented a summary by the Ministry of Energy that following 12 July 2019 award against the government of Pakistan by the Arbitral Tribunal of the International Centre for Settlement of Investment Disputes and in favour of M/s Tethyan Copper Company (Pvt) Limited, Australia (TCCA), the prime minister was constituted an apex committee in August 2019 which after multi-round, prolonged and extensive negotiations and deliberations between the Apex Committee and TCCA’s shareholders, framework of settlement and revival of the Reko-Diq Project was arrived at in March 2022.

The terms and conditions of the settlement, the ECC was told were that; (a) development of the Reko Diq copper-gold mineral resources under a reconstituted Reko Diq Project by a joint venture comprising - Barrick Gold Corporation (50 percent shareholding, GoB 25 per cent shareholding and PPL, OGDCL and Government GHPL, collectively holding 25 per cent share in the project. And payment of US$ 900.00 million along with interest payable at an annual rate equal to the US Prime Rate plus two percentage points compounded on monthly basis for the period from 1 July 2022 till 15 December 2022 to Antofagasta as consideration for the acquisition of its shares in the Reko Diq Project by SOEs and government of Balochistan (GoB).

The proposed settlement was ratified by the ECC and approved by the cabinet in March 2022 and as per the approved mechanism government of Pakistan (GOP) will provide the requisite share of funding on behalf of GoB through market financing, raised against the GHPL balance sheet in rupee terms backed by GoP guarantee, to be issued by Finance Division with approval of ECC of the Cabinet.

The ECC was informed that the short-term facility has expired on December 30, 2022 and the NBP has given notice for repayment of principal amount along with mark up payment and approached the Finance Division for renewal of this facility.

Accordingly, the Finance Division through GHPL arranged the Short-Term Finance facility of Rs65 billion from the National Bank of Pakistan on the balance sheet of GHPL with the GoP's guarantee for funding of GoB's share of US$ 137.5 million. Since the final settlement proceedings were underway, the interest amount became due and as approved by the ECC and ratified by the federal cabinet an amount of US$ 12.716,368 for GoB' s share towards interest payable to Antofagasta for the period up to December 15, 2022, was deposited in the designated Escrow Account from the said loan of Rs65 billion.

The ECC considered and approved a summary of the Ministry of Energy (Petroleum Division) regarding arrangement of Finance Facility for funding of Government of Balochistan's share of obligation in Reko Diq project dispute settlement with directions to the Finance Division to arrange payment of mark-up amounting to Rs6,238,358,879 for the period from March 31, 2022, to December 30, 2022, to the NBP for the short term finance facility of Rs65 billion.

PM TERMS REKO DIQ PROJECT 'A GAME CHANGER'

ISLAMABAD: Prime Minister Shehbaz Sharif has stated that the Reko Diq project will be a game changer for Balochistan and the beginning of a new era of development.

A delegation of Barrick Reko Diq Mining Company headed by Chief Executive Officer Mark Bristow met Prime Minister Shehbaz Sharif on Monday.

The prime minister while speaking to the delegation stated Reko Diq project will be beneficial for both parties. Mark Bristow informed the prime minister about the progress of the project so far. While briefing on the project, the prime minister was told that 70 percent of the people working on the project belong to Balochistan.

The prime minister was further informed that a school has been set up by the company in cooperation with the Community Development Committee of the area besides steps will be taken to provide professional and higher education to the youth of the area so that they can get employment. In the briefing, it was further informed that work is in progress regarding the provision of clean drinking water and health facilities in the area. It was further informed in the briefing that alternative energy is being used in the project.

The Prime Minister appreciated the ongoing work of Barrick Reko Diq Mining Company regarding corporate social responsibility and also encouraged the company to work together with the government in establishing Danish Schools in Balochistan. All concerned departments should fulfil their responsibility.

KPCL SEEKS RS22.703BN FROM CPPA-G TO SETTLE LIABILITIES

ISLAMABAD: Karot Power Company (Pvt) Limited (KPCL) has sought an amount of Rs 22.703 billion from Central Power Purchasing Agency–Guarantee (CPPA-G) by April 10, 2023 to settle its liabilities including principal and interest. KPCL's Chief Executive Officer (CEO) Wang Minsheng in a letter to Rehan Akhtar, CEO CPPA-G stated that the company has to make mandatory payments of interest, commitment fee and principal loan amount and any delays in payments will result in a breach of covenants resulting in an event of default for the company.

As defined in clause 1 of the Common Term Agreement signed between the company, Export Import Bank of China (CEXIM), China Development Bank (CDB), Silk Road Fund (SRF) and International Finance Corporation (IFC) on November 25, 2016, the company has to pay a 2nd principal repayment of loan along with interest due on the date of due repayment i.e. April 21, 2023.

As per section 2.05 of the Facility Agreements signed between the company and lenders (CEXIM, CDB, SRF and IFC) the company has to pay 2nd repayment equivalent to 3.31 percent of the outstanding loan amount adjusted as per clause 4.12 including interest due, i.e. equivalent to Rs 22.703 billion.

The amount has to complete the formalities of the SBP approval regarding the transfer of funds from revenue account to USAD debt payment account by April 15, 2023. The power company has requested CPPA-G to settle company's due invoices by April 10, 2023. Currently, invoices are being submitted based on reference tariff without indexation determined by Nepra on actual cost incurred by KPCL at the time of Commercial Operation Date (COD) stage tariff.

The CEO KPCL noted that at present the overdue receivables from CPPA-G amount to Rs 4.937 billion. Further, the company has also submitted differential invoices on account of applicable indexations for the period April 2023, therefore, the company has requested CPPA-G to release due payments along with the differential invoices on account of applicable indexations for the period April 2022 to December 2022 as approved by Nepra which is equivalent to Rs 12.5 billion.

As per the working, the company has to pay Rs 22.703 billion in lieu of 2nd principal repayment and interest in April 2023. The company has requested CPPA-G to release due payments along with the differential invoices by April 10, 2023 and help the project settle its loan liability so that default could be avoided, he added.

JUL-FEB REPATRIATION OF PROFIT, DIVIDEND PLUNGE 80PC YOY: IMPORT CURBS HURT INVESTORS IN EQUAL MEASURE

KARACHI: Repatriation of profit and dividend by foreign investors plunged drastically during the first eight months of this fiscal year (FY23) due to economic slowdown.

The State Bank of Pakistan (SBP) on Monday reported that foreign investors repatriated $225.1 million during July-Feb of FY23 as compared to $1.146 billion during the same period of last year, depicting a decline of 80 percent or $ 921 million. Analysts said the massive decline in repatriation of profit and dividend reflect that earnings of foreign companies have been down drastically due to poor economic conditions. The country's economy is facing a number of challenges, particularly foreign exchange crisis that forced the government to impose restrictions on imports to curtail the trade deficit.

Production of large scale manufacturing industries including automobiles, food, textile, petroleum oil and pharmaceutical registered a drop of 7.75 percent in October 2022 compared to the same month of previous year. Leading auto plants have also shut down their production due to shortage of raw material.

Pakistan's GDP growth is also estimated at 2 percent during the FY23 as against 6 percent in FY22. This slowdown will also hurt the profitability of foreign companies, analysts said. The detailed analysis revealed that during the period under review repatriation from Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) declined by 82 percent and 67 percent respectively.

Repatriation on account of FDI was $188 million during July-Feb of FY23 down from $ 1.038 billion. Repatriation from FPI fell from $ 108.6 million to $ 37 million in the first eight months of this fiscal year. The highest outflow of profit and dividends amounting to $87 million was sent from the Oil & Gas Explorations, $33 million from the mining sector, and $32 from power and $19 million from the financial sector.

BOI LAUNCHES INITIATIVE TO MODERNISE REGULATORY REGIME

LAHORE: Secretary Board of Investment (BoI) Asad Rehman Gilani has said that 70 different types of regulators are working in our country. It has become a regulatory regime in which the industry is bound. This should not happen. He was speaking at the Lahore Chamber of Commerce and Industry. LCCI President Kashif Anwar also spoke on the occasion while executive committee members were also present.

Secretary BoI said that we talk about the investment but we have to take care of domestic investment along with FDI. Our own people have established industry by working hard. Now we have to nurture the domestic industry. He said that BOI has launched the Pakistan Regulatory Modernisation Initiative (PRMI), which aims to modernise the regulatory regime and prevent regulators from becoming rigid. He said that one of the ways to do this is to talk to all the regulators to identify the regulations that have been in their rule books for 75 years that are completely obsolete. The applicable regulations should be entered in the BoI registry and the rest should be removed. He said that the laws that issue notices to businesses for minor infractions should be relaxed. The overload of notices will be eliminated. Regulations will be minimised and any new regulations will be finalised after study and consultation with the business community, he added. He said that under PRMI, regulators will be trained and instructed on how to make regulations. He said that it has been noticed that there are 20 to 22 regulators in the IT sector alone. We have created a registry, the purpose of which will be to give one application instead of going to different departments. BOI will conduct clearance from all 22 departments. So far 10 regulators have expressed their willingness with us. After that we will move to other sectors like pharmaceuticals, steel, etc. He said that Invest Pakistan has been launched with the support of the British government. We want the business community to sit with us for the "Invest Pakistan" programme and five-year policies should be formulated. Business community should cooperate with us in national interest.

LCCI President Kashif Anwar said that Lahore Chamber has always emphasised on making the Rules & Regulations simple and business friendly so that the business climate in the country can be improved and all possible facilitation for the investors should be ensured. This will definitely help in promoting Ease of Doing Business. He said that promotion of foreign investment as well as local investment is the most important need of the hour. According to the Economic Survey of Pakistan, the ratio of total investment in our country is only 15% of Gross Domestic Production, which is quite low. The share of private investment in this is only 10% of GDP, which has become inevitable to increase. We hope that BOI Initiatives like Invest Pakistan will be helpful in this regard.

The LCCI president said that if we talk about the data of Net Foreign Direct Investment, it was US 2.6 billion dollars in 2019-20, which decreased to US 1.82 billion dollars in 2020-21, while in 2021-22, its volume was limited to only US 1.87 billion dollars, which is extremely low in terms of requirements of the economy. He said that local investment cannot increase until the problems of local industries are solved. For example, our industries have to import a lot of raw materials, essential components and various types of machinery which are not available in the country. They have to pay regulatory duties, customs duties and additional customs duties on them, which need to be eliminated. Besides reducing the rate of withholding tax for businesses, the issues of pending refunds and multiple audits should also be resolved. He said that in order to promote local investment, our government has to solve some problems related to taxation on a priority basis, which will also improve the ease of doing business. Currently taxpayers have to undergo multiple audits of income tax and sales tax. He appealed that the number of these audits should be reduced. Taxpayers face penalties, surcharges and inquiries on these audits, withholding of registrants, penalties for late filing of statements/income tax returns and many other issues. The rate of penalties and surcharges should be reduced immediately for taxpayers.

R 28-3-2023

ECC DEFERS HANDING OVER AIRPORTS TO FOREIGN COUNTRY: CLEARS RS6.2B PAYMENT AS PART OF REKO DIQ MINES SETTLEMENT DEAL

ISLAMABAD: The government on Monday did not endorse an advisory service agreement with an arm of the World Bank Group for handing over Pakistan's three international airports to a foreign country due to objections raised by some cabinet members.

The Economic Coordination Committee (ECC) of the Cabinet, which deferred the approval of the agreement, cleared Rs6.2 billion payment as part of Reko Diq mines settlement deal.

It also authorised to take Rs65 billion loan to make share payments by the federal government on behalf of the Balochistan government. Finance Minister Ishaq Dar presided over the ECC meeting.

"The ECC deferred a summary of the Ministry of Aviation on engagement of International Finance Corporation (IFC) as transaction adviser for the outsourcing of three airports," according to the Ministry of Finance.

In 2019, Qatar had shown interest in taking over the management, operation, and development of the New Islamabad International Airport, Lahore's Allama Iqbal International Airport and Karachi's Jinnah International Airport.

The aviation ministry adopted a dilly-dallying approach and was delaying the transaction under different pretexts for the past many years.

In December, Prime Minister Shehbaz Sharif instructed to hire the IFC as transaction adviser and outsource the airports in three months – a deadline that had lapsed.

The sources said that some cabinet members questioned the motive behind bringing the transaction advisory service agreement in the ECC, saying it was not the right forum.

Other members objected to certain clauses of the draft agreement.

The IFC – an arm of the World Bank Group – is being hired to prepare a transaction structure for the outsourcing of the airports at a consultancy cost of around $4 million.

The members also objected to imposing penalties on the IFC for missing the milestones.

Pakistan has been struggling to arrange $6 billion loans to meet a condition by the International Monetary Fund for reaching a staff-level agreement.

The Pakistan Democratic Movement-led government also enacted a new Inter-governmental transactions law to fast-track sale of national assets to raise additional funds. But it had yet to conclude even one transaction.

The government had adopted a so-called fast-track route to hire the IFC under the Public-Private Partnership Authority Act, 2017. The PPPA regulations provide for the hiring of IFC as a transaction adviser through direct contracting subject to the approval of PPPA Board. Almost three months ago, the PPPA Board allowed to directly engage IFC as a transaction adviser for outsourcing the operation of the three airports.

The Civil Aviation Authority Board approved the draft Transaction Advisory Agreement early this month subject to legal vetting by the Ministry of Law and Justice.

The ECC was informed that the board observed that since the TASA was based on success fee model with penalties for failure to proceed with the transaction on the part of the client, there was a need for strong political commitment for the outsourcing of the operation of three target airports "from our side".

"In view of the past experience, a clear demonstration of such a commitment will also be crucial not only for the completion of this process," according to the CAA Board.

However, some of the ECC members were of the opinion that after the PM Office's commitment there was no need for seeking any other commitment.

Reko Diq payment

According to the finance ministry, "The ECC approved a summary regarding arrangement of finance facility for funding of Balochistan government's share of obligation in Reko Diq project dispute settlement."

It also gave directions to the Finance Division to arrange payment of mark-up amounting to Rs6.2 billion for the period from March 31, 2022 to December 30, 2022 to the NBP for the short-term finance facility of Rs65 billion.

The ECC also authorised the finance ministry to finalise a new finance facility of Rs65 billion for a seven-year term at six-month KIBOR Rate with the NBP, which currently stood at 22%.

The Ministry of Finance would issue the sovereign guarantees to arrange the loan from the NBP after the last short-term facility expired in December 2022.

The liability of the previous Short-Term Finance Facility of Rs65 billion would be cleared through a new finance facility.

The repayment of finance facility would be made directly by the Finance Division through budget allocation.

In 2019, the International Centre for Settlement of Investment Disputes (ICSID) slapped a total $6.5 billion fine on Pakistan and in favour of the M/s Tethyan Copper Company Pvt for the country's failure to implement the Reko Diq copper-gold mineral resources development project.

As a result of a settlement with the foreign investors, Pakistan agreed to pay $900 million to TCC along with the interest in addition to giving 50% stakes to Barrick Gold Corporation in the Reko Diq project.

The remaining 50% was equally distributed between the federal and provincial governments.

Pakistan already paid $900 million along with interest payable at an annual rate equal to the US Prime Rate plus two percentage points for the period from July 2022 till December 15, 2022 to Antofagasta as consideration for the acquisition of Antofagasta's shares in the Reko Diq project as per terms set out in the Antofagasta Exit Deed.

Separately, the interest amount earned from HSBC Bank would also be payable to Antofagasta.

The federal government was providing the requisite share of funding on behalf of the Balochistan government through market financing, raised against the Government Holding Private Limited balance sheet.

An amount of $12.7 million for the government share towards interest payable to Antofagasta for the period up to December 15, 2022 was deposited in the designated Escrow Account from the said loan of Rs65 billion.

Medicine prices

The ECC considered a summary of the Ministry of National Health Services, Regulations and Coordination for maximum retail price of Remdesivir 100mg injection for the treatment of Covid-19.

It endorsed the policy board's recommendation to keep price of Remdesivir 100mg injection intact at Rs1,892 per vial.

The ECC deferred summaries of the Ministry of National Health Services, Regulations and Coordination on fixation MPR of 54 new drugs and increase prices of 119 drugs due to lack of preparedness of the health ministry.

TR 28-3-2023

OLD, NEW INVESTORS: KE DISPUTE LANDS IN PMO

ISLAMABAD: Internal conflict between M/s Al Jomaih, KE's existing investors, and M/s AsiaPak, the new investor, which procured stakes of KESP, has reportedly landed in Prime Minister's office as both sides have wrangled with each other during a meeting in Power Division in December 2022. Shan AAshray (Ex-Chairman KE) emphasized that the reason Al Jomaih has approached the court is that the Shareholders Agreement that was signed in Oct 2008 among KES Power, Original shareholders and IGCF SPV 21, was violated during this process. He further noted that the recent change has had direct implication on KESP directors in the KE Board as under the existing agreement out of 13 Board members, 9 are nominated by KESP out of which 5 are nominated by IGCF SPV 21 (including CEO) and 4 by Al Jomaih & Denham. The changes in the KE Board are thus in violation of the agreement between the shareholders of KESP.

AsiaPak Investments Limited, which is also a leading investor in Pakistan having brought in close to $3billion in investment in landmark projects such as Thar Coal Block 1, acquired Daewoo Pakistan, and Liberty Daharki Power Limited promptly sent a letter to Principal Secretary to Prime Minister, Minister for Investment, Minister for Power Chief Minister Sindh and other concerned officials.

According to the letter, AsiaPak maintains that as a leading investor in Pakistan's energy sector, it was impressed by the significant turnaround in K- Electric Limited (KE) achieved under Abraaj's leadership (after an initially disastrous post-privatisation period when KE was in dire straits by 2009 and required a rescue by Abraaj). In 2009, the Al- Jomaih consortium ceded majority shareholding of KES Power Limited (KESP) (a Cayman Islands company that holds 66.4% stakes in KE)

To M/s Abraaj that undertook on a significant reform program overhauling KE management and setting target cost saving programs and growth initiatives. To date, the $360 million invested by Abraaj in KE (routed through KESP) remains the only equity FDI invested into KE as new capital, used principally to fund capital expenditures.

Abraaj's investment in KE was undertaken through the Infrastructure & Growth Capital Fund L.P. (IGCF), a $2 billion Cayman Islands private equity fund with investment contributed by over 100 different international investors managed then by Abraaj Investment Management.

The amounts invested by the Al Jomaih consortium in 2005 were paid directly to the GoP for purchase of existing shares with nil proceeds actually being invested into KE.

The remainder of $4 billion invested by KE post-privatisation was through retention of profits (zero dividends paid to any investors, including the GOP, since 2005) and debt borrowed on KE's balance sheet without guarantees from shareholders.

AsiaPak, in its letter says that it observed that the progress made by KE started reversing after the Abraaj bankruptcy in 2019 when senior KE Management officials left the company, the board lacked a common vision for growth and oversight of management from day to day was reduced, and KE started making a series of strategic blunders, including: (i) a quixotic 900 MW gas power plant in a country that has no more gas to give; (ii) failure to procure LNG when rates were compellingly low; (iii) a failed attempt to build an imported coal power plant, ignoring alternative domestic coal reserves; (iv) failure to secure electricity from Thar coal at a time when the federal government managed to set up over 3,000 MW of Thar coal based capacity; (v) failure to develop renewable power (except for 100 MW solar IPPs) at a time when the federal government has managed to secure over 1,100 MW of wind power right on Karachi's door-step; (vi) failure to address operating inefficiencies, adopt modern technologies and control ballooning generation and operating costs and thus significantly increasing the burden of subsidies on the government and tax payers; (v) failure to continue improving the distribution network and service quality, reduce load shedding, facilitate new connections, etc.; (vi) ballooning of debt to over Rs 300 billon vs approx. Rs 70 billion in 2018; and (vii) failure to prepare for impending competition in the electricity market.

The result is that KE now has the highest cost generation fleet in Pakistan and is almost wholly dependent on imported fuels. Were it not for lower-cost electricity purchases from the national grid and subsidies from the federal government, Karachi consumers would have to pay the highest electricity prices not just in Pakistan but also in the region.

According to AsiaPak, post the Abraaj bankruptcy, KESP and its joint shareholders were only focused on an exit to Shanghai Electric Power whose interest had waned following lack of regulatory approval and a changing investment climate. KE was left rudderless without KESP having a strategic operational vision and not having the resources for further financial commitment. It was at this point AsiaPak saw an opportunity to get involved in turning around KE.

Accordingly, AsiaPak, through an off-shore subsidiary, acquired certain rights and interests in IGCF from the liquidator of the former Abraaj fund manager appointed by the Cayman courts. Al Jomaih was also provided an opportunity to acquire the same but was unable to present a compelling proposal or certainty of execution and hence its proposal was accepted and approved by the Cayman courts in October 2022.

"Indeed, Al Jomaih and the other KESP investors were requested at numerous points to make an offer to IGCF, but they only took this seriously after we had completed significant due diligence and at that point their offer lacked compelling terms," said CEO AsiaPak Shehryar Chishty in the letter.

AsiaPak has clarified that Al Jomaih's ownership stake and rights in KESP (and indirectly in KE) remain exactly the same as before, and have neither been acquired nor diluted by AsiaPak. "Despite what has been alleged in the press, we have not acquired 'control' over either KESP or KE. We simply aim to protect our rights as interested shareholders and investors, and we believe that as Pakistan focused energy and infrastructure investors, operators and builders, we have significant relevant experience to bring to bear and assist KE and its management to overcome the company's many challenges," Chishty maintained.

R 28-3-2023

MINIMUM WAGE OF LABOURERS BE RAISED TO RS50,000 PER MONTH, SUGGESTS TESSORI

Sindh Governor Kamran Khan Tessori has proposed that the next provincial government's budget increase the minimum wage of labourers to Rs50,000 given the unbearable inflation in the country. He put forth the suggestion to this effect on Monday while speaking at a press conference at the Governor House. Earlier, speaking on the floor of the Sindh Assembly, Sindh Labour Minister Saeed Ghani had also proposed that the minimum wage of the workers be increased to at least Rs44,000 per month. The governor told the media that he was going to write a letter to the Sindh chief minister to propose that salaries of the employees of the government institutions be increased by 30 to 35 per cent. He said the economic conditions of the government employees and their families along with common people had seriously deteriorated due to high inflation. He conceded that middle-income families had to face an unbearable situation due to hike in the prices of essential products. Underprivileged families did not have any protection against the skyrocketing inflation, Tessori remarked. He demanded that price control powers be also given to the administrators of the municipal agencies in Sindh. He said the retailers and traders indulged in excessive profiteering during Ramazan should be dealt with sternly as per the law.

The governor suggested that the government prepare a new rate list of food items in the next 48 hours after visiting the wholesale fruit and vegetable markets. He conceded that fruit production in the province had declined due to the recent floods. However, he added that the situation did not allow the retailers to sell fruits at highly exorbitant rates.

TN 28-3-2023

ECC DEFERS PRICE INCREASE OF 119 DRUGS

ISLAMABAD: The Economic Coordination Committee (ECC) of the cabinet on Monday deferred summaries of the Ministry of National Health Services on fixation Maximum Retail Price (MRP) of 54 new drugs and increase in prices of 119 drugs.

Federal minister Ishaq Dar presided over the meeting of the Economic Coordination Committee (ECC) of the cabinet. The ECC considered a summary of Ministry of National Health Services for maximum retail price of 100 mg Remdesivir injection for the treatment of Covid-19 and decided to not increase its price. The existing MRP of Rs 1,892/vial is fixed.

A simmering price dispute between the pharmaceutical industry and the federal government has resulted in an acute shortage of critical medicines, forcing patients to rely on smuggled and potentially counterfeit drugs at increased costs.

The industry demands a 38% increase in price to grapple with rising production costs owing to inflation and devaluation of the local currency in recent months.

The government, however, has rejected the demand, propelling pharmaceutical companies to either stop or go into a limited-scale production of scores of essential and non-essential medicines. Making matters worse, the importers have stopped or drastically reduced the imports of about 100 crucial medicines related to general anesthesia, plasma-derived products, vaccines, oncology products, and biological products, causing a dearth of medicines across the country.

Earlier, president of Pakistan Media Association (PMA), Usman Mako, said that, “We suggest that instead of increasing prices, the government and the pharmaceutical industry together share the burden of inflation and rupee devaluation”. Reportedly, a senior official from the Drug Regulatory Authority of Pakistan (DRAP) claimed that pharmaceutical companies are “not exactly in loss” but their profits are shrinking. “There is an estimated 20-25% loss in that pharmaceutical companies are currently enduring due to the dollar-rupee disparity and rising inflation. But to claim that they are not in a position to run their businesses is not true,” he added.

Other developments

The ECC considered and approved a summary of Ministry of Energy (Petroleum Division) regarding arrangement of Finance Facility for funding Government of Balochistan’s share obligation in Reko-Diq project. The dispute settlement with directions to the Finance Division to arrange payment of markup amounting to Rs 6.23 billion for the period from March 31, 2022 to December 30, 2022 to the National Bank of Pakistan (NBP) for the short term finance facility of Rs 65 billion. The ECC also deferred a summary of the Ministry of Aviation on the engagement of International Finance Corporation as transaction advisor for the outsourcing of three airports.

PTD 27-3-2023

SBP MOVE LEAVES FINTECHS BAFFLED

SBP has recently made some changes in the fee and cost structure of payments associated with cards (debit and credit) transactions on Point of Sales (POS) machines. The incentives which were earlier doled out to POS acquirers (machine providers) and card issuers are now being largely reversed.

Industry players are of the view that it has devastating consequences while SBP thinks that it would help the card accepting merchant base to grow and create value for the consumers. Moreover, SBP believes this would help in growing the pie to online and second tier cities.It appears SBP is being optimistic, as the view across the board in the industry – banks, fintechs, and international payment processors, is that the changes are likely to cause regression in the marketplace.

Prior to 2020, POS machines business had stagnated even as card issuance grew. At that time, SBP was actively pro-digitization and in consultation with market players, it had realigned the incentives to promote POS acquiring business.

SBP noticed that the interchange reimbursement fee (IRF) was too high while merchant discount rate (MDR) was lower than cost, as a result of which acquirers were making gross loss. Thus, SBP made some changes where the MDR for POS acquiring was allowed in the range of 1.5-2.5 percent, while IRF for debit and pre-paid cards was capped for domestic POS machines at 0.5 percent. The IRF on credit card was not subject to any regulatory pricing.

That regulation changed the landscape. Even though acquirers were still making gross loss on credit card transactions, the margin on debit cards were enough to bring their bottomline in green. The acquiring businesses spurred, and POS machines almost doubled in the process and crossed the 100,000 mark. Fintech ventured in acquiring business (such as Keenu and Opay) as well as in issuing business (such as NayaPay and SadaPay). While conventional banks also started to enhance the card issuance business. It was a win-win for all.

However, lately two elements had raised concerns for the government and SBP. One is of banks charging higher MDR on petroleum sales - where lower limit was not applicable - and the other was the international payment schemes fee repatriation which likes any other forex outflow is a pain for regulator in days of severe balance of payment crisis. Since the card business was growing, the fees quantum was growing as well. To counter these fears, SBP has recently removed the lower cap of MDR and has capped the IRF to 0.2 percent for debit card and 0.7 percent for credit card. Here the card issuing business are the first one to take the hit, as they used to charge around 1.5 percent on credit cards (even higher on platinum and other premium cards), and 0.5 percent on debit cards. As a result, card issuance will become less lucrative, and the discounts being offered at merchants would be lower. Moreover, the fintech in issuing businesses will become uncompetitive or they would start charging higher annual and other hidden fees to compensate for lower IRF. Consumers would be at a disadvantage if they hold multiple cards, as banks would offer discounts and waive annual fees for only those consumers who have higher transactions with that bank.

The objective of SBP to lower IRF and remove the floor on MDR is to have more merchants on board. Fintechs are keen to reach out to new merchants. They are supposed to make money on Tier-1 to fund the expansion in lower tiers. However, now banks in acquiring business can lower the MDR enough in tier-1 segment to kill fintech business model. Banks can cross sell deposits and other products to get the acquiring business while fintech cannot. For example, a big bank can ask a big grocery retailer to lower the MDR provided the retailer maintains its checking account with that bank. The bank can make money on higher margins on current account deposits to cover the loss in acquiring business.

“SBP is not thinking it through” commented one banker who is big in both acquiring and issuing business. The banker believes that competition within banks will decline while one fintech acquirer thinks that his company business model will become unviable.

The real question is would this be able to generate demand from merchants in Tier 2 and Tier 3. According to an industry source, merchants have four issues in the following order. First, acquirers don’t come and sell. Second, merchants don’t want to be in the digital payment system to avoid documentation. Third, credit system is against religious beliefs and last issue is higher MDR. With lower margins, banks may not find the incentive to sell to new players while they would compete more in existing businesses. The push needed for acquirers to move to smaller cities and lower tier markets will remain missing.

The other objective of SBP is to develop the online digital market and develop digital payment market in smaller cities. Here, SBP wants banks and fintech to use Pakistan’s own payment scheme Pakpay. One reason for this is to lower the cost of international payment schemes (such as Visa and Master Card). These companies charge in cents and dollars and repatriate the fee outside Pakistan. With currency depreciation, fees in PKR are becoming high. SBP wants to lower the forex incidence. That is perhaps the hidden objective, as sources close to SBP say that annual outlay of fees is around $100 million while industry sources claim that the number is much lower. It is unclear what SBP’s exact objective is. The feeling is that it might have been pushed by the government to do so, as folks in Islamabad were not happy with banks charging higher MDR on petrol pumps along with a desire to lower the transaction volumes through international payment system to save forex.

The short-term thinking is in direct conflict with long term goals. However, SBP is confident that no market player would be driven out of business as a consequence, and these steps will push acquirers to move in lower tier markets. Let’s see how the move unfolds.

RAILWAYS TO REDUCE FREIGHT FARES BY 10-15PC: MINISTER

LAHORE: Federal Minister for Railways Khawaja Saad Rafique has said that Railways has decided to reduce freight fares by 10-15 percent. While addressing a press conference here on Monday at Railways headquarters, he said that Karakoram Express and Karachi Express will be upgraded by June 30 this year. These trains would be upgraded on Green Line pattern. Up-gradation of these two trains would provide comfortable and affordable travelling options to passengers.

In order to facilitate passengers on the eve of Eid-ul-Fitr, special trains would also be operated during the Eid holidays and seasonal trains would be run during summers which include Awam Express, Shalimar Express and Bahauddin Zakaria Express. “We are planning to run cargo train having a capacity of transporting 12,500 tonnes of cargo,” he said, adding that branding initiative would help earn handsome amount of revenue. He said land of railways would be utilized for commercial purposes,

as rules had been framed and sent to the cabinet for the final approval. He said Hirok Bridge would be completed by coming April 15 of the next year and efforts are also being made to make Sibi-Harnai section operational before the end of this fiscal year.

Preparation for introducing solar system at various railways stations, terminals, buildings, DS offices and headquarters was underway to reduce electricity expenses and soon the project would be announced.

When asked about the financial health of Pakistan International Airlines, he said process of outsourcing three airports was underway, adding that Karachi, Lahore and Islamabad airports would be outsourced. He said these airports would be outsourced after competitive bidding. He said the PIA restructuring have to be carried out and the matter had been discussed with international consultants. He said that efforts were being made to give restructuring roadmap in few months besides starting its implementation. He hoped that in few months, Pakistan airlines would start flying to the UK.

Talking about political situation of the country, he said Nawaz Sharif remained in opposition for 19 to 20 years but not a single corruption case was proved against him. Terming Imran Khan a fascist, he said that he had nothing to do with democracy. He said Imran Khan was in himself a Sicilian mafia. “Imran Khan is not a leader, he behaves like a gangster,” the minister added. When asked, he said the parliament would strengthen when all political parties would understand that they had to set aside their differences in larger national interest. He stressed the need to stop levelling dirty allegations against each other.

R 28-3-2023

MULTIPLE AUTHORITIES AND OVERLAPPING LAWS

The energy crisis in Pakistan has not emerged overnight. Such a crisis has been systematically created through inappropriate planning. Institutions are created without reducing the functions or transferring the functions of previous institutions to new ones.

One such example is the continuing role of the Department of Explosives on the midstream and downstream operations of the oil and gas industry, despite the subsequent creation of the independent regulator Oil and Gas Regulatory Authority (Ogra) for the very said purpose.

As an immediate measure, recently, the government has rightly emphasised the promotion of LPG business by directing the two predominantly public sector gas utility companies to also import and distribute LPG on a larger scale to mitigate the issue of natural gas shortage as far as possible.

Although LPG is the most expensive fuel, due to its economical moveability and short switching time, it is widely baptised as a poor man’s fuel because of its ability to reach those living in far-flung areas with no natural gas distribution network. LPG, otherwise, is the most expensive fuel in terms of its cost per metric million British thermal units as compared to natural gas, CNG, kerosene, or RLNG. Despite the government’s efforts to increase LPG supplies before the start of the last winter season, no significant headway could be achieved. Local LPG production is limited, which can not be increased without additional sources of rich gas within the country.

Apart from the ever-increasing foreign exchange issues, handling, bottling and distribution of additional volumes of LPG with the existing storage, transportation and distribution network is a serious bottleneck which cannot be removed swiftly. This is due to the multilayered, overlapping and non-conducive regulatory processes and approvals required to establish new bottling plants, manufacture cylinders, approval of LPG transport vehicles, storage tanks, distributors etc.

Ogra is currently acting as an umbrella regulator, which is mandated for the licensing of regulated activities, among other things, relating to the LPG/CNG sectors. As per LPG rules, almost all international standards are prescribed, which are to be followed by the stakeholders throughout the LPG value chain, and Ogra is to ensure their compliance.

LPG and CNG sectors operate in midstream and downstream of the oil and gas sector and squarely fall within the jurisdiction of the Oil and Gas Regulatory Authority. Ogra’s mandate is to foster competition, increase private investment and ownership in the midstream and downstream petroleum industry, protect the public interest while respecting individual rights and provide effective and efficient regulations.

Section 43 of the Ogra ordinance contains an overriding provision whereby all other laws cease to have any effect on the commencement of the said ordinance, and Ogra shall, subject to the provisions of this ordinance, be exclusively empowered to determine the matters in its jurisdiction.

Interestingly, the Office of Director General Explosives, which operates under the administrative control of the Petroleum Division, has been functioning on the back of the Petroleum Act 1934, the mandate of which had been overridden by the Ogra Ordinance 2002. Yet the office of DG Explosives continues to assume and perform all licensing functions and specify and review standards relating to the equipment and materials used in LPG and CNG industry, illegally.

As per the present practice, which is contrary to the applicable legal framework, project developers in the oil, CNG and LPG sectors are forced to obtain a number of approvals/no-objection certificates (NOC). In addition, companies have to obtain a licence from the Department of Explosives.

The license from Ogra is then granted on the basis of all other NOCs and licenses issued by other departments. Ogra also performs a quality check of the equipment and systems and verifies them before the facility is allowed to operate by qualified third-party inspection companies.

This cumbersome process completely defeats all efforts of the government to increase the supply. Multilayered NOCs, approvals, licenses etc, not only take years to get, but incidents of corruption increase manifold. The size and amount of corruption sometimes make the projects unviable, and the entire plan/rhetoric of "one window" or "ease of doing business" goes to the dogs. To truly create one-window operations, Ogra should be authorised by all the relevant departments to act on their behalf and issue licenses based on standing authorisation from the relevant departments. Ogra should also immediately make improvements in its regulations to act as a one-window regulator wherever required. If there were a sincere desire to improve LPG/CNG's supply side, the Petroleum Division would authorise Ogra to perform all functions currently carried out by the Explosive Department relating to the regulated activities of the midstream and downstream oil and gas industry.

A NEW GLOBAL 'CRUDE' ORDER IN THE MAKING

When the China-brokered deal between arch-rivals Iran and Saudi Arabia was announced on March 10, it took the world by surprise. With China beginning to play an increasingly assertive and overt role on the regional and global geopolitical stage, the announcement also indicated a new global order was taking shape. Besides a major geopolitical move, the announcement of a rapprochement between Iran and Saudi Arabia carries crude implications too. The deal could mean a more potent and stronger Organisation of the Petroleum Exporting Countries (Opec) plus.

Differences between the two major oil producers have marred a number of Opec ministerial meetings, insiders know and concede. Often their interests clashed, resulting in heated arguments behind closed doors in Opec meetings. And though both understood the importance of the Opec and its necessity for their own interests, they were often seen in opposite camps.

The animosity between the two major oil producers has impacted Opec's cohesion and smooth working. However, that phase could soon be over, some now feel. And despite the war on Ukraine and the pressure on Riyadh to openly side with the West, the Russian-Saudi bonhomie on the crude horizon continues to flourish.

The two countries understand the importance of close liaison to promote 'stability' in the crude oil markets. Recently Russia's Deputy Prime Minister Alexander Novak met Saudi Arabia's Energy Minister Prince Abdulaziz bin Salman and discussed "oil markets and efforts of the Opec+ group to promote market balance and stability," the Saudi Press Agency reported. Not yielding to the pressure to open their crude taps, the leaders of the two largest oil-producing countries also "stressed their commitment to the decision made by Opec+ last October to reduce output by two million barrels a day until the end of 2023."

Despite falling oil prices in recent weeks, the commitment by the world's two major oil producers to keep a tight leash on global oil output was a definite signal to the market; the Opec+ was determined to keep a floor under the crude market prices.

Earlier, in a talk with Energy Intelligence, the Saudi energy minister had also made it clear that the Kingdom would not sell crude to any country that imposes a price ceiling on its oil exports. The posturing against potential oil price ceilings followed consultations between Russia and Saudi Arabia.

Saudi Arabia also warned; besides halting supplies to countries that adopt a price cap on crude imports from Saudi Arabia, Riyadh would also "reduce its oil production". Prince Salman bin Abdulaziz also openly indicated he "would not be surprised if other oil exporters do the same." That was a clear warning to western stakeholders against the policy of price caps on oil. And in the meantime, as per Bloomberg, Saudi Arabia is importing millions of barrels of diesel from Russia 'despite having more than enough of its own.' Riyadh imported almost 2.5m barrels of diesel-type fuel from Russia in the first 10 days of March, far more than at any other time in the last six years, according to Kepler data compiled by Bloomberg.

The move appeared to provide a significant financial cushion to Russia at a time when western powers were attempting to dry the earnings of Russia from its crude and fuel products exports.

Interestingly, Riyadh was importing Russian fuel products and, at the same time selling considerable amounts of fuel to Europe. The flows also show how the global energy trade is being rerouted in the wake of sanctions on Russian supplies.

A new 'crude' bloc involving Russia, Saudi Arabia, Iran and China is emerging, apparently at a cost to the US and the West. And crude oil is playing an important role in glueing together these four important global stakeholders in the energy world.

The developments carry ramifications for Pakistan too. The mending of fences between Riyadh and Tehran and their crude alliance with Russia and China could also mean higher oil import bills for Pakistan — already faced with a precarious economic condition. On the geopolitical front, as well, Pakistan could soon be faced with a dilemma. With Islamabad's major allies, Beijing, Riyadh, and Tehran along with Mosccow joining hands, it may be tricky for Pakistan to neglect and stay away from this emerging bloc. For Islamabad, a decision time could be approaching.

FINANCE: EXPLORING FINANCIAL ALTERNATIVES

According to the Austrian school, economic growth is linked with periods within a time cycle where capital expenditure is planned for economic activity.

The spread between the US Treasury two-year and five-year bonds indicates investor sentiment on economic circumstances and its inversion is a key indicator to determine a recessionary phase. That sign surfaced in the last quarter of 2022, post which there was high inflation, increasing interest rates for major central banks, dollar index peaking and falling oil prices, marking a period of declining economic activity globally.

Given how international economic circumstances are, growth through capital expenditure is not a possibility until the circumstances allow them. The internal political chaos adds to the complexity of the challenge, placing Pakistan at a point that could be declared a 'red alert' for its economy and for it to move forward both local and international factors need to align, which hasn't been a likely scenario over the last year, nor does it seem possible for the next one.

As the country moves forward on its current trajectory, its total public debt and liabilities are estimated to be about Rs63.279 trillion, which is 89 per cent of GDP and is ranked 67th out of 125 countries in terms of the growing deficit between demand and supply of infrastructure requirement, placing it in the bottom 20 out of 144 economies on global competitiveness.

This formulates an important question: what can the country do to address the growing infrastructure requirement and increasing debt servicing cost while its economic output is declining? Energy, water scarcity, inadequate health facilities, outdated rail network and public transportation, are key areas which require investment to increase the standard of living for the masses.

There is a realisation and acceptance in society with key corporate leaders emphasising an increase in development funds in the annual budget and private investor participation, but it does not present a solution or a road map to addressing this challenge when the country is failing to meet its current expenditure.

There are factors inherent in both infrastructure project financing and the domestic capital markets that hinder private participation. The very nature of infrastructure project financing is challenging since funding is required for long tenors and cash flows only start to materialise after a certain time.

In the past, guarantees given while soliciting investment have not been fully adhered to, which naturally results in an unwillingness to lend, especially given the limited recourse the investors have under the current legal and political framework. This poses a concern regarding private sector funding as an approach, with investor sentiment shaped by the political and economic context of the country.

Countries that have modern infrastructure and have delivered a high standard of living for their citizens, in regions such as the Middle East, Europe and Asia, have sovereign wealth funds that are part of their funding sources.

Trading of gold exchange-traded funds can generate an absolute return in the 60-64 per cent range and a five-year annualised average return of 12.4pc, an allocation that the government can make through a state-owned fund. In Pakistan, we rely on foreign aid, prefer to sell country-owned assets and engage in loan agreements that further increase the current account deficit.

Norway, Finland, UAE, and Saudi Arabia all have state-owned funds. India founded a state-owned wealth fund in 2015 that manages $4.4 billion in assets — roughly the size of the entire holdings of the State Bank of Pakistan in the last quarter of 2022. We must understand contemporary global developments through an international relations scope, a changing landscape, with Russia Ukraine war in its second year. Iran, Saudi and China's alliances further substantiate a threat to the petrodollar system. If we relate these developments to history, every 40 years, the culmination of a super cycle has led to the collapse of the monetary system, as the yield curve inversion reaches its deepest level since 1981.

First, the gold standard, then Breton Woods and now the fiat currency system prevalence is being questioned, with the rising influence of China and Russia. In the likelihood of such an event, Pakistan does not want to increase debt servicing costs where exploiting its relationships for further aid would be futile. Having a state-owned fund that trades based on global macroeconomic trends could assist the country in navigating its course through uncertain times.

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EURO 7 EMISSIONS PROPOSALS, THE SEQUEL EUROPE'S CARMAKERS DON'T WANT TO SEE

March 28, 202310:04 AM GMT+5

BERLIN/STOCKHOLM, March 28 (Reuters) - European carmakers are fighting back against proposed emission regulations they argue are too costly, rushed and unnecessary, but which the European Commission says are needed to cut harmful emissions and prevent a repeat of the Dieselgate scandal.

European Union countries and lawmakers will negotiate "Euro 7" proposals this year on tighter limits for car emissions - for diesel cars, but not petrol - and for heavy-duty trucks and buses, including nitrogen oxide and carbon monoxide.

The EU has progressively tightened limits since "Euro 1" in 1992. The Commission's proposal widens real-driving emissions (RDE) testing and adds continuous testing of emissions via an on-board monitoring system.

Euro 7 would take effect in mid-2025 for cars and in mid-2027 for trucks and buses.

The rules would also cover tyre and brake emissions. Executives including Stellantis (STLAM.MI) CEO Carlos Tavares say the rules are "useless" while carmakers invest tens of billions of euros in electric vehicles (EVs) and start phasing out fossil-fuel cars.

Lobby group the European Automobile Manufacturers' Association (ACEA) said Euro 7 would raise new car prices by 2,000 euros ($2,145) and an executive at Czech carmaker Skoda claimed the Volkswagen (VOWG_p.DE) unit would have to axe 3,000 jobs. Iveco (IVG.MI) CEO Gerrit Marx called the proposals "plain stupid".

The European Commission estimates Euro 7 could add up to 150 euros to car prices and 2,600 euros for trucks and buses.

The ACEA says pollutant reductions from Euro 7 will be minimal. The Commission argues they will be significant.

Mattias Johansson, Volvo Cars' (VOLCARb.ST) head of governmental affairs, told Reuters the 2025 deadline left "practically no reasonable lead time" to make engine changes and lacks details on testing procedures. Volvo has committed to being fully electric by 2030.
Daimler Truck (DTGGe.DE) CEO Martin Daum said new emission sensors will require "huge investments" and Alexander Vlaskamp, CEO of Traton (8TRA.DE) unit MAN estimates Euro 7 will cost it 1 billion euros.

Truck makers also complain Euro 7 comes as they face tougher CO_2 limits from 2030. "It is an accepted behaviour of politicians in Brussels to bash the automotive industry because we deserve it" following Dieselgate, Iveco's Marx said.

A Commission spokesperson declined to comment on executives' statements, but said Euro 7's real-driving emissions tests were important because of "scandals in the past about cheating devices".

In the Dieselgate scandal, Volkswagen admitted in 2015 to fitting about 11 million cars worldwide with software to cheat diesel emissions tests - costing the German carmaker more than 32 billion euros in vehicle refits, fines and legal costs.

Last week, the International Council for Clean Transportation (ICCT), an independent non-profit organisation, said 77% of tests on pre-RDE Euro 6 diesel vehicles exceed a "suspicious" emissions threshold, indicating "likely use" of cheating devices.

Stefan Bratzel, head of think-tank the Center of Automotive Management, said Dieselgate has created an image problem for carmakers where "you couldn't trust in what they said."

Not all of the auto industry is unhappy about Euro 7.

Vitesco (VTSCn.DE) CEO Andreas Wolf said the powertrain supplier sees it as an opportunity. "The timeline means stress for a lot of companies," he said. "But we are prepared for everything."
Cummins (CMI.N) feels Euro 7 "strikes a good balance between being tough, clear and enforceable," said Pete Williams, the U.S. engine maker's European head of technical compliance. But Williams added there are some vague areas, including how on-board monitoring (OBM) - a system inside a vehicle to detect if the vehicle is exceeding emission limits - should work.

"We know how to spell OBM, but we don't know what it is," Williams said. "So obviously we're encouraging the Commission to move quickly to define that."

https://www.reuters.com/business/autos-transportation/euro-7-emissions-proposals-sequel-europes-carmakers-dont-want-see-2023-03-28/

EU COUNTRIES POISED TO APPROVE 2035 PHASEOUT OF CO2-EMITTING CARS

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BRUSSELS, March 28 (Reuters) - European Union countries' energy ministers are set to give final approval on Tuesday to the bloc's law to end sales of new CO2-emitting cars in 2035, after Germany won an exemption for cars running on e-fuels. The vote comes three weeks later than planned after Germany's transport ministry lodged last-minute opposition to the law, threatening to derail the EU's main policy for bringing cars in line with its climate change targets.

The European Commission struck a deal with Germany over the weekend to resolve the row, by offering assurances that combustion engine cars that only run on e-fuels will be exempted from the 2035 ban. Most countries are likely to back the law on Tuesday, EU officials said, which would allow it to enter into force. Italy and Poland are set to oppose, with Romania and Bulgaria expected to abstain.

The EU law will require all new cars sold to have zero CO2 emissions from 2035, and 55% lower CO2 emissions from 2030, versus 2021 levels.

The policy had been expected to make it impossible to sell combustion engine cars in the EU from 2035. But the exemption won by Germany offers a potential lifeline to traditional vehicles - although e-fuels are not yet produced at scale.

E-fuels are produced by synthesising captured CO2 emissions and hydrogen produced using CO2-free electricity. They are considered carbon neutral because the CO2 released when the fuel is combusted is balanced by the CO2 removed from the atmosphere to produce the fuel.

Transport accounts for nearly a quarter of EU emissions. The average lifespan of new cars is 15 years – so the EU says new CO2-emitting car sales must end in 2035 to comply with the bloc's goal to have net zero emissions by 2050.

Porsche and Mazda are among the supporters of e-fuels. Other carmakers including Volkswagen, Mercedes-Benz and Ford are betting on battery-electric vehicles to decarbonise, and had urged EU countries not to row back the 2035 phase-out.

EU energy ministers are also expected to extend a voluntary target to curb their gas use 15% for 12 months, to help prepare for next winter with scarce Russian gas.
Some EU officials expected ministers to tackle a dispute over whether nuclear energy should count towards EU renewable energy targets - a question that has split countries and is threatening to delay the EU's main renewables policy.

https://www.reuters.com/business/autos-transportation/eu-countries-poised-approve-2035-phaseout-co2-emitting-cars-2023-03-28/