

Islamabad Outlook

Government plan to hike gas and electricity prices will hit textile exports

The recent decision by the Government to increase the gas prices by 6.5% and electricity prices by 23% from early next year will also contribute towards a further increased in the cost of production of textile manufacturing industry. The increase in gas price will add exactly 1.92% in the total cost of production, making this sector uncompetitive in the international markets, particularly Bangladesh, where gas prices are 33 % lower than Pakistan.

The government raised the gas prices for commercial and industrial sectors by an average 7% with most of the textile companies are running their mills on captive power plants for which gas is used as fuel and according to analysts estimates, gas has a weight age of 65-70% in the total fuel and energy component of textile manufacturing cost.

This hike in gas prices, analysts also agreed, would have a negative impact on the cost side, which would adversely affect the margins of textile manufacturer due to this gas price increase.

Oil and Gas Regulation Authority (OGRA) increased the gas rates from Rs. 34.45 kg to Rs 36.30 kg for commercial units but decided not to change the gas prices for domestic consumers.

Other than gas prices, other energy source electricity tariff is also higher in Pakistan than other competing countries. Furthermore, textile industry is facing enormous problems because of the current load-shedding while increase in gas tariffs would hamper the economic growth. In real terms, the industry has been facing load shedding of 10 to 11 hours per day as each time around 40 minutes are required to put the units back into smooth operation. Energy resources have depleted and whatever resources are available are insufficient and or too expensive to buy or already acquired by countries which had planned and acted a long time ago. No doubt the matter of electricity load shedding is being faced by all segments of the economy of the country, however, the time span of the load shedding in various electricity distribution companies are discriminatory. It varies not only within the various electricity distribution companies but also varies from location to location as the priorities are being given to posh urban areas of the cities.

According to SNGPL and SSGC, Wastage of gas from theft and leakages (unaccounted for gas) causing Rs 15 billion losses during the fiscal 2006-07 remained the major cause of recent power crisis. The losses occurred mainly due to faulty operations of the two major utilities – Sui Southern Gas Company (SSGC) and Sui Northern Gas Pipelines Limited (SNGPL). The official said that these two utilities were also violating international standards under which they were bound to keep the losses within the range of Rs 2 billion to Rs 3 billion a year. The Oil and Gas Regulatory Authority (OGRA) has estimated that the wastage of gas by SNGPL and SSGC would reach Rs 11 billion and Rs 10 billion respectively in the current fiscal.

He said hundreds of industrial units had already been closed due to faulty management of these two utilities causing huge losses during the last financial year.

OGRA is now planning to shift the burden of gas hike to consumers from January 1, 2008 by 5 to 10 percent ignoring billions of rupees wastage of gas by these two utilities. The two bodies could absorb only Rs. 3 billion of total Rs 15 billion losses in the last financial year.

At present, these two utilities are providing only 30 to 35 mmcf gas for thermal power generation, which is 65 mmcf less than that provided to thermal power plants last year.

Chairman of All Pakistan Textile Mills Association, has expressed concern at reports to alter the basis for fixation of natural gas retail tariffs as it reflects a complete lack of concern about the impact that it will have on the competitiveness of the domestic Industry.

He added, "This unjustified increase in well-head prices has resulted in the Pakistan Petroleum Limited (PPL) and the Oil and Gas Development Company Limited (OGDC) declaring far-fetched profit levels with return on equity in excess of 50% for the year that ended on June, 30 2006," He explained that entire artificial increase in well-head prices along with a profit margin of 17.5% based on unrealistic capital expenditure plans on the part of Sui Northern (SNGPL) and Sui Southern (SSGC) have been passed on to the consumers of natural gas, in particular to the industrial consumers. Consequently, natural gas tariffs applicable to industrial consumers have been increased by over 48% during the year 2005-2006.

The beneficiaries of this unjust and unwise gas pricing strategy are the two distribution companies and the production companies, primarily PPL and OGDC. It is no coincidence that these entities are owned by the federal government and have already been offered for privatization. The generation of artificially high profits for these entities in the hope of high privatization proceeds, is a policy aimed at crippling the domestic industry while at the same time denying it the advantage of a naturally available source," the APTMA leader concluded. ♦