PRIME
Policy Research Institute of Market Economy
آزادمعیشت۔خوشحال پاکستان

Prime Notes

Petrol Crisis in Pakistan

13 July 2020

Prime Notes are our brief comments on important developments, papers, and policies on Pakistan's economy.

BACKGROUND

Petrol prices in Pakistan fluctuate every month as the Oil Companies Advisory Committee recommends prices following international oil prices. Pakistan'spent $13.93 billion dollars on imports classified under the petroleum group in FY 2019. Approximately 57% of petroleum oil is used for transport.

On 31st May, Government slashed petrol price by Rs. 7 to bring the retail price down to Rs. 74.52 per iter. A couple of days later, petrol shortage ensued across the country , except on the state-operated Pakistan State Oil outlets.

On 9th June, Prime Minister directed officials to take the maximum punitive action against those responsible or the artificial shortage of petrol in the country.

On 11th June, Oil & Gas Regulatory Authority (OGRA) penalized 6 Oil Marketing Companies (OMCs) to the tune of Rs. 40 million in total. Supply situation remained unchanged.

On 26th June, Government announced an increase in price of petrol by Rs. 25.58, single largest increase ever Petrol supply resumed to normal within hours.

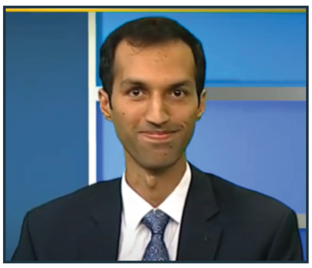
ANALYSIS

As per a statement in Dawn (12/06/2020) by a spokesperson of Shell Pakistan, an abrupt increase in petroleum demand was one reason behind the depletion of their stocks . However, OGRA contends that there was no shortage of petrol in the country. As per the federal cabinet, OMCs pocketed windfall gains when oil prices were high but were reluctant to bear losses when prices went down as reported in The Express Tribune (19/06/2020) . Federal Investigation Agency issued summon orders to three OMC heads over suspicions of fuel hoarding to create an artificial shortage of petrol in the country: Samaa (06/11/2020). Many believe that OMCs have colluded. While this warrants a detailed examination by the Competition Commission of Pakistan, it looks implausible as the 50% market share of the petrol supply is within the hands of the government through PSO and it is also an integral part of price setting as an OMC. In fact, one needs to consider the windfall revenue that accrued to the government through sudden price spike and additional tax revenue. Out of every Rs. 100 a consumer pays today to buy petrol, he pays Rs. 45 to the government in the form of petroleum levy (Rs. 30) and sales tax (Rs. 14.55). In April 2018, when crude oil prices were almost double at the current level, this levy was only Rs. 10. Thus, the government, through its ownership of PSO and petroleum taxes seems a major beneficiary from the single largest increase in the petrol prices at the cost of consumers.

POLICY RECOMMENDATIONS

1. Any alleged cases of cartelization, abuse of dominant position and collusion should be taken by the Competition Commission of Pakistan.
2. Government may consider lowering the high incidence of indirect taxation on petrol to provide relief to consumers and a ceiling on the maximum levy should be observed strictly.
3. According to former Member Energy Planning Comission Syed Akhtar Ali, the government should allow independent fuel retailers to operate and should bring all outlets under the umbrella of regulation. These outlets should be allowed to either associate themselves with any OMC or to operate as independent dealer-owned, dealer operated retail stations, to boost competition.
4. OMCs should be given the power to determine their own retail prices. Currently OGRA imposes cost-plus pricing, where crude oil procurement cost is determined by OGRA, and a fixed profit margin in absolute rupees/liter is added to it. In a competitive market, OMCs would be incentivized to procure at cheaper rates.
5. Rather than OGRA determining import costs, OMCs may be allowed to negotiate their own contracts so that better quality oil can be imported more efficiently.

Authored by



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