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Pakistan's Energy Crisis and the Possible Silver-lining for Foreign Investment

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People speak: "Pakistan is passing through a problematic situation. Difficult times ahead. The previous government did the worst management..."

"These words do not matter to us any more," says Muhammad Latif, a shopkeeper in a downscale district of the capital Islamabad. "They always tell us the bad news; what are the governments for after all?" asks Sangeen Khan, a roadside vendor, next to Latif's shop. "Do our *Wazirs* (ministers) endure the load-shedding (planned power outage) the way we suffer it," quips Mehboob Ilahi, a meat seller at the same market.

And there is no good news for them; the National Electric Power Regulatory Authority reckons that power shortfalls for the entire country would range between 4,000 – 4,500 megawatts by the mid 2009.¹

Prevailing situation: During the last three months of 2008, Pakistan experienced its first ever "Power Riots" in Karachi, Faisalabad and Lahore – three major industrial and commercial centers that contribute almost 85% to Pakistan's total export revenue. Power breakdown paralyzed life in Karachi particularly in seething summer last year when the power tripped frequently and outage lasted accumulatively for 18 hours. Early in January 2009, when the situation had "considerably improved," most Karachi residents still lived between 8 – 10 hours without power. Situation in Faisalabad was even worse where in December 2008 and January 2009, the power outage averaged at least 18 – 20 hours daily that triggered widespread demonstrations and subsequent riots by workers. Almost 60% of the industries in Faisalabad had to shut for lack of power shortfall and nearly 250,000 laborers are now jobless.² This will cause a decline in Pakistan's textile exports by nearly 10 billion dollars.³

The crisis of shortages in natural gas supplies precipitated the energy crisis further and the mammoth Sui Northern Gas Pipelines Limited (SNGPL) disconnected the gas supply to 200 industrial units only in Lahore in the last week of December 2008.

Demand and supply gap: Energy sector experts estimate that by the mid of June 2009, the demand of electricity would be nearly 22,000 megawatts. This figure points at the inherent shortfall of nearly 3,000 megawatts even if the

installed capacity performs the best. During the peak-season, this shortfall could reach anywhere from 4,000 to 6,000 megawatts.

Pakistan produces electricity with three sources i.e. hydroelectric (6,463 megawatts, 33%), thermal (12,580 megawatts, 65%) and nuclear (462 megawatts, 2%). Because of the water shortage in winter, the potential of hydroelectric powers falls dramatically.

Impact on industry from November 2008 – January 2009: The Federation of Pakistan Chambers of Commerce and Industries (FPCCI) says that about 600 industrial units in Faisalabad, 440 in Lahore, 213 in Peshawar and 700 units in Multan, Gujranwala, Sialkot and Sheikhpura were closed by the end of January - all because of acute power shortages. Pakistan has an installed capacity of 19,505 megawatts while the generation usually fluctuates between 16,000 to 17,000 megawatts.⁴

The problem of circular debt in power sector: In the beginning of 2009, the circular debt (see the table below) in the energy sector alone stood at nearly 400 billion Pak. Rupees (approximately \$5 billion), forcing most Independent Power Producers (IPPs) to scale down their production to the minimum. The government made some urgent payments to various "players" in the power sector including the oil refineries, petroleum companies and IPPs, resulting in about 2,000 megawatts of additional power. The following table explains the problem:

| Who has to Pay | To Whom | Amount (Billions Rs.) |
|-------------------|------------------------|-----------------------|
| PEPCO | PS | 16 |
| HUBCO | PSO | 3.5 |
| KAPCO | PSO | 6.5 |
| Govt. of Pakistan | PSO | 21 ⁵ |
| PSO | PARCO | 40 |
| PSO | PRL | 10 |
| PSO | NRL | 16 |
| PSO | ARL | 7 |
| PSO | Kuwait Petroleum Int'l | 13 |
| Govt. of Pakistan | Various Gas Cos. | 10 |
| Govt. of Pakistan | Various Oil Cos. | 27 |
| Govt. of Pakistan | IPPs | 75 |
| Govt. of Pakistan | Others | 26 |
| KESC | PEPCO | 56 |

¹ Financial Daily, Jan. 13, 2009.

² Hamid Javed, President Faisalabad Chamber of Commerce and Industry, Jan. 7, 2009.

³ Akbar Shaikh, Chairman (Punjab), All Pakistan Textile Manufacturers Association, Jan 11, 2009.

⁴ Economic Survey of Pakistan, Ministry of Finance, Government of Pakistan.

⁵ As subsidy.

Legend:

| | |
|--------|----------------------------------|
| PEPCO: | Pakistan Electric Power Company. |
| PSO: | Pakistan State Oil. |
| HUBCO: | Hub Electric Power Company. |
| KAPCO: | Kot Addu Power Company. |
| PARCO: | Pak Arab Refinery Company. |
| PRL: | Pakistan Refinery Ltd. |
| ARL: | Attock Refinery Limited. |
| KESC: | Karachi Electric Supply Company. |

The government claims that it has solved the issue of circular debt and that the situation is expected to improve.⁶ Independent economists and power sector observers have, however, rejected the claim. An official of the Planning Commission of Pakistan noted that if the issue of circular debt was resolved, “the government would have tried to take credit of this via a huge publicity campaign.” PEPCO has not been able to pay to the IPPs who in turn have failed to pay the oil companies which expected their dues to be cleared by the government. By the mid of February, this complicated equation of payments was growing in complexity with virtually no action promised by the government. Government of Pakistan is the largest defaulter in this circular debt with an outstanding amount of approximately 160 billion rupees.

What’s being done: The Government of Pakistan has signed an agreement with Iran for the importation of 1,000 megawatts of electricity by the end of 2009. Under the agreement, Iran will also lay the transmission line. The government of UAE has “gifted” the people of Pakistan a 340 megawatt gas-fired thermal power plant.⁷ In mid-January, a Turkish company successfully launched Pakistan’s first wind-powered electricity generation plant (its first phase will produce 50 megawatts by year-end). This capacity will be extended to produce 250 megawatts in three phases in Jhimper, Sindh. Government of Pakistan’s Alternative Energy Development Board (AEDB) has identified a 60 kilometers wide and 180 kilometers long wind corridor known as Gharo-Keti Bandar corridor that has the wind energy potential of 43,000 megawatts out of which 11,000 megawatts could be generated from “easy terrain.” The AEDB plans to generate 700 megawatts by the end of 2010 and 9,700 megawatts by year 2030.⁸ Pakistan hopes to generate an additional 6,428 megawatts, including 700 megawatts of wind-energy, by the end of year 2010.

The Musharraf government (1999 – 2008) had prepared a Water Vision 2025 which aimed at increasing Pakistan’s energy generation capacity to 35,000 megawatts by year

2025 (estimated cost \$35 billion). By year 2015, the Pakistani government expects to install the electricity capacity of 15,000 megawatts and plans to attract huge foreign investments in this regard. The investment share of the private sector in the energy sector will be two-thirds of the total of nearly \$30 billion.⁹ According to Raja Pervez Ashraf, Pakistan’s Federal Minister for Water and Power, Pakistan had already initiated 11 projects of energy generation while 12 were in the pipeline.¹⁰

Government pursuing a proactive program: The Government of Pakistan has constituted a Special Energy Taskforce under Economic Advisory Committee. Supervised by Farooq Rehmatullah, Director, Oil and Gas Development Company Ltd., former Chairman Shell Pakistan Ltd. and former Director General Pakistan Civil Aviation Authority, the Taskforce framed the first ever Integrated Energy Plan that is expected to make Pakistan self-sufficient in energy by year 2022. This program also has attracted initial criticism but the PPP-led government is pressing ahead with the plan and the Federal Water and Power Minister, Raja Pervez Ashraf has already promised the nation that there will be no more load shedding by the end-December 2009. He also said that the government had already released 750 billion Pak Rupees for the purchase of 30,000 tons of furnace oil to be supplied to IPPs for their optimal utilization.¹¹

What the government needs to do at the moment? Pakistani politics carries a compulsory ingredient: every new government blames the previous government for ill-doings, poor planning and as the mother of all crises. Pakistanis are now tired of this poor political scoring and now is the time for the PPP-led government to deliver. Government must be proactive in resolving problems that the people face; energy being the basic of them all. Without energy, Pakistan’s industrial sector will continue to suffer and a shrinking industrial base means joblessness. The resulting unemployed will create socio-political and economic unrest pushing more and more youth towards extremism. Power outages jam the wheel of life and economy and at such a critical juncture of history, the PPP-led government must not fail the people – and itself. While there is a severe shortage of electricity, the common Pakistanis see their rulers living luxurious and lavish lives. Government must understand the political, social and economic challenges that are directly linked with the energy crisis – that essentially is an opportunity for the government to perform.

The billion dollar question is: will the government perform for the betterment of people or would stay focused on dismantling the opposition’s government in Punjab?

⁶ As announced by the Federal Minister for Water and Power. Feb. 19, 2009.

⁷ The News, Feb. 4, 2009.

⁸ AEDB.

⁹ Daily Nation, Jan. 17, 2009.

¹⁰ Ibid.

¹¹ The News, Jan. 2, 2009.