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DIVERSIFICATION AND NEIGHBOURHOOD FOR REDUCING ENERGY PRICES IN PAKISTAN

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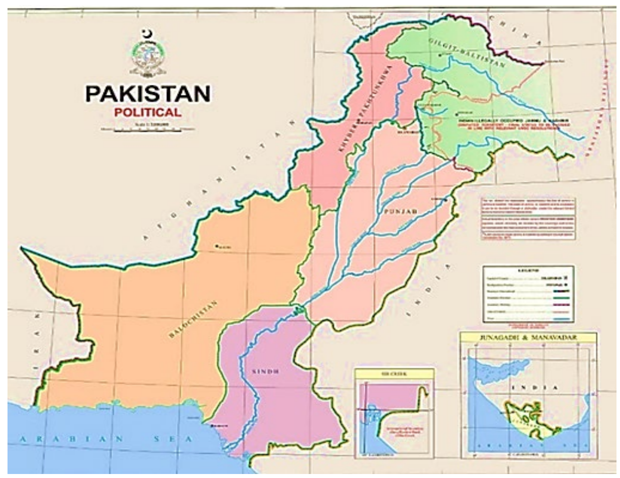

The energy prices in Pakistan have increased manifold during the current fiscal year due to multiple factors, including post-Covid global recession, Russia-Ukraine conflict, impact of the IMF programme, soaring pressure on Pakistani rupee, etc. Pakistan primarily imports oil from Gulf countries, which are directly or indirectly aligned with the US. The present government has sent an envoy to Russia to explore options for importing cheaper oil. Importing oil from Russia seems lucrative; however, it has certain caveats, such as price, payment modalities, cargo charges, sanctions on Russia and Pakistan's relations with Saudi Arabia and UAE. Russia mainly exports crude oil, and Pakistan's capacity to refine Russian crude oil is limited. However, despite limitations, it can be considered the right step to diversify our imports and reduce dependence on one source. The question arises, what are the other options for Pakistan to get cheaper oil products? 'Diversification' and 'neighbourhood' can be the way forward.

Pakistan has an important geostrategic location; however, we need to exploit the same for geo-economic benefits. National Security Policy identifies the economy as a central pillar of our policy, but its implementation is yet to be witnessed. Pakistan borders Afghanistan, China, India, and Iran. Afghanistan possesses furnace oil reserves and provides a trade route to energy-rich Central Asia, but oil import depends on overall stability in the region, especially in Afghanistan. Iran is also rich in oil and gas but is under sanctions like Russia. The possibility of importing petroleum products from India also exists. Importing oil from the neighbourhood like Iran, Afghanistan and India is considered plausible in terms of price and accessibility. Therefore, it is need of time to diversify energy imports at low cost from these countries for the geo-economic gains of Pakistan.

> *Pakistan's energy policy should be based on diversification and neighbourhood.*

Iran is a probable source of oil and gas for Pakistan; however, US sanctions and geopolitics in the Middle East are significant challenges.[1] Countries with strong economic and strategic muscles, like China and India, have found ways and means to avoid sanctions and have been purchasing oil from Iran. Contrarily, Pakistan could not even materialize the Iran-Pakistan gas pipeline project due to geopolitical factors. Although oil is being illegally smuggled from Iran to Pakistan, there is a need to find a trading mechanism within the sanctioned regime. The possibility/ avenues of importing oil through small private trading companies need to be explored.

Afghanistan's coal and oil reserves remain untapped; however, crude oil from Angot fields is being refined on a small scale by privately owned refineries near Mazar-i-Sharif.[2] These refineries produce furnace oil that can be imported to Pakistan at about one-third of the international price.[3] It is worth mentioning that Pakistan's independent power producers (IPPs) largely depend on imported furnace oil. In July 2022, both countries concluded the Temporary Admission Document (TAD) for the import of coal from Afghanistan.[4] The same mechanism can be used for the import of furnace oil. The price difference will not only help reduce electricity prices but also reduce Pakistan's import bill. Afghanistan is moving towards stability after the Taliban takeover. Hence, there are chances that Pakistan can establish connectivity routes with Central Asian states. If done so, Pakistan can get more export destinations and diverse energy import options in the coming days. The people of KPK would emerge as the prime beneficiary of energy trade with Afghanistan and Central Asia. Secondly, there would be fewer geopolitical consequences of such imports as Afghanistan mainly depends on imports from Pakistan.

Importing oil from Iran, crude oil from Afghanistan and petroleum products from India can help in reducing energy prices in Pakistan.

Importing petroleum products from India can be another option for Pakistan. Indian refineries are working close to the border of Pakistan in East Punjab. Guru Gobind Singh Refinery (GGSR) in Bhatinda, AP Refinery in Jagraon, and Indian Oil Cooperation in Ludhiana are cases in point. GGSR is fulfilling domestic needs and exporting petroleum products to Asian countries. The road distance between Lahore and Bhatinda is merely 156 km. So, it can easily fulfil the energy needs of at least Central Punjab.[5] Although imports will be in the US dollar, the carriage and premier charges can be reduced, thus lowering the pressure on foreign exchange reserves. Economically speaking, importing petroleum products from India seems viable, but both countries need to open/ extend bilateral trade despite disputes. We need to act like Turkey and China, who are engaged in the trade pacts besides having geostrategic differences with Russia and India, respectively. Pakistan has occasionally imported petroleum products from India. On 27-28 April 2011, commerce secretaries of both countries met in Islamabad to enhance bilateral trade; however, the proposal remained on paper due to political differences.[6] Presently, NLC yard at the Wagah border is used for the export of Pakistani gypsum to India. The same mechanism and facility can be used for petroleum products.

Pakistan is facing the challenges of rising energy prices. Importing cheap oil and gas from Iran, furnace oil from Afghanistan, and petroleum products from India would help meet some energy needs and reduce the burden on foreign exchange reserves and energy prices. Furthermore, regional trade can bring peace and stability to the region, especially between the two nuclear states. It is the need of the hour that Pakistan must explore more avenues of oil import from Russia, African countries and Latin American states instead of depending on Gulf countries alone.

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