

Written by Shumaila Ahmed

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ISLAMABAD: The government has asked Iran to reduce gas price for Iran-Pakistan pipeline under price renegotiation clause of the bilateral sales and purchase agreement (GSPA) to bring it at par with the rates finalised with Turkmenistan.

We are activating the price renegotiation clause of the agreement, Prime Minister's Adviser on Petroleum Dr Asim Hussain told Dawn on Friday. Iran has to reduce gas prices and come down to TAPI ((Turkmenistan-Afghanistan-Pakistan-India pipeline) rate. An official said if the price of Iranian gas was lowered to that of TAPI pipeline level, Pakistan would save about \$1.5 billion over the life of the project as compared with the price finalised under the IP-GSPA.

The price renegotiation will be an ongoing process, said Dr Hussain, explaining that under the agreement, the prices could be renegotiated on the basis of comparable gas prices one year before the gas flow begins in Dec 2014.

We may be able to secure even lower prices than TAPI rates if gas prices plunge in the international market, in Europe and the US. We are closely monitoring world gas prices, he said.

He confirmed that Iran's Tadbir Energy and Pakistan's Interstate Gas Company could not sign an agreement for the construction of 781-km pipeline by the Iranian firm inside Pakistan because discussions required further consultations. The agreement will be signed before Feb 27, Dr Hussain said.

An official said a draft agreement had been handed over to a visiting Iranian delegation for getting it vetted in Tehran.

The cost of construction of the pipeline from Gabd-zero point, on Pakistan-Iran border, to Nawabshah for the delivery of 750 million cubic feet of gas per day has been tentatively agreed upon at \$1.5 billion but Iran has been asked to reduce the per kilometre construction cost.

After Iran vets the draft agreement, the mode of payment for gas sales will need a delicate examination in view of US sanctions against that country. Barter trade between the two countries can be an option.

Under the proposed agreement, Tadbir Energy has to lay the pipeline inside Pakistan and provide \$500m loan, which is repaid as part of gas price, involving an interest rate of about two per cent plus London Interbank Offered Rate. Pakistan's engineering and pipeline companies will provide advisory service and the Frontier Works Organisation will handle the civil works.

An official said the Iranian technical team was expected to return to Islamabad next week for consultations. Then a Pakistani team will go to Tehran to sign the agreement.

Meanwhile, a cabinet committee headed by the minister of state for finance and comprising senior officials of petroleum, finance and law ministries has approved a \$1.5bn financing plan for the pipeline.

The plan envisages a \$500m loan agreement with Iran on government-to-government basis and provision of \$500m by the ministry of finance on account of receipts of the Gas Infrastructure Development Cess.

The remaining \$500m will be arranged through a combination of loans from China and domestic banks.

Courtesy: Dawn