Natural Resources: Blessing or Curse

Abid Suleri, Babar Shahbaz and Meezan Z. Khwaja

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Natural Resources: Blessing or Curse

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1. The central issue: natural resources and conflicts

The two provinces of Pakistan where there is much contestation over the access and benefit sharing of natural resources are Balochistan and North West Frontier Province (NWFP). The key issue is the underlying relationship between natural resources and conflicts, the latter often emerging as a result of unequal access and benefit sharing to the former. The central thesis of this paper is that the natural gas royalty issue in Balochistan (Western Province of Pakistan) and the water royalty issue in North West Frontier Province (NWFP) have not been granted adequate attention at the federal level in Pakistan leading to what can be called the politics of discontent and the fuelling of separatist nationalist movements gradually resorting to militancy in the provinces from which these natural resources are captured. Great provincial autonomy that partly translates into uncontested access to benefits accruing from their natural resources has been the demand of major political parties (that are termed as nationalist parties in local context) in Balochistan and NWFP and the issue of royalties plays an important role in electoral politics in these provinces.

Natural resource based political conflicts are not only unique to Pakistan but are now quite visible in many developing and transition countries and this topic has also caught the interest of development researchers and political policy analysts\(^1\)\(^2\). Various root causes of resource related conflicts have been documented in the literature. Some of these are for example, scarcity of natural resources\(^3\)\(^4\), access to, and entitlements for these resources\(^5\), quest for sustaining national energy needs by the state\(^1\), unclear and inequitable policy, population growth, vested political interests, distrust between different actors\(^6\), unequal power relations, and unjust resource sharing/distribution paradigm\(^7\). Development researchers and practitioners agree that, for deeper understanding of resource based conflicts, a thorough analysis of people’s reliance on the resource\(^8\) and historical perspective of the access to and command over resources in the context of poverty and inequality is needed\(^3\)\(^4\). In these lines,

this paper presents and explores the link between the struggle for access to natural resource by the state, poverty and local resistance in Pakistan. This paper specifically discusses how natural resources which are otherwise considered as blessing may turn into curse leading to political instability or armed conflict due to inequitable resource sharing. We focus on examples from Balochistan province (over natural gas royalty issue) and the North West Frontier Province (over water royalty issue).

The next section sets the scene to understand the conflict between federal government and provinces over issues of royalty on natural resources.

2. Country Profile of Pakistan

Pakistan, which emerged as a sovereign state on 14th August 1947 as a result of the division of the former British India, is situated in South Asia. The total area of the country is 796,095 square kilometres. Pakistan is divided into four provinces viz. Sindh, Punjab, North West Frontier Province (NWFP) and Balochistan. Kashmir is a disputed territory between Pakistan and India. Both of the countries are administrating parts of Kashmir.

For a lay person’s reference, Punjab with maximum cultivable land is perceived as bread basket for other federating units; Sindh with Pakistan’s largest sea port Karachi is perceived as industrial capital of Pakistan; Balochistan is the major supplier of natural gas that produces power, runs industry and private transport and meets the growing demands of domestic consumers; whereas NWFP is the major supplier of hydro-electric power.

The major natural resources of Pakistan are land, water, forests, natural gas and minerals etc. Agriculture which accounts for nearly 21 percent of Pakistan’s national income (GDP) and employs 44 percent of its workforce, depends solely on the natural resources (land and water as direct resources of production, and natural gas for producing fertilizer as well as for transportation). About 28% of country’s land area is arable and is irrigated by one of the largest irrigation systems of the world i.e., Indus River System. Most of the cultivable land is located in the provinces of Punjab and Sindh.

More than two third of country’s population that lives in the rural areas is directly or indirectly dependent on agriculture for their livelihoods. The principal crops include wheat, rice, sugar cane, maize and cotton. Agriculture also supplies raw material to Pakistan’s industries, notably textile industry, the largest industrial sub-sector of the economy. Other main industries include sugar, cement and chemicals. These industries depend mostly on hydroelectric power or natural gas to meet their energy requirements. The main rivers of Pakistan are Indus and its tributaries, Jhelum, Ravi, Satluj and Chenab. Nevertheless, Pakistan is a water deficient country as during 2007-08 total surface water available was 98.7 million acre feet as against the average usage of 103.5 million acre feet (Govt. of Pakistan 2008).

Most of the people living in the rural areas have little or no access to the basic assets essential for decent livelihoods. The Human Development Index (HDI) for Pakistan is 0.562, which gives the country a rank of 139th out of 179 countries with data. Within the country, there is

http://hdrstats.undp.org/2008/countries/country_fact_sheets/cty_fs_PAK.html (visited on April 9th, 2009)
The economy of Pakistan is uneven and vulnerable attributable to various internal and external shocks. The last fiscal year (2007-2008) has been a difficult one for the Pakistani economy. There have been several political events – domestic and external – that have caused this instability. Pakistan faced the crises of 5 “Fs” during 2007-08 i.e., food, fuel, fiscal, frontier (insurgency in NWFP) and functional democracy. The 5F crises was manifested by disturbed political conditions, unstable law and order situation, supply shocks, soaring oil, food and other commodity prices, softening of external demand and turmoil in the international market. The most detrimental factor has been the non-responsive stance on account of political expediency in addressing these challenges which has further accentuated macroeconomic difficulties. Although an average 5% GDP growth from 2001-2006 did not result into macro-economic stability, however the consumer financing led economic growth resulted in an increased per-capita energy consumption and thus energy demand increased sharply.

The average production of natural gas per day stood at 4,100.9 million cubic feet during July – March, 2008-09 as compared to 3,965.4 million cubic feet over the same period in 2007-08, showing an increase of 3.3 percent. On average, the power sector consumed 36.8 percent of gas, followed by fertilizer (20.7 percent), industrial sector (19.8 percent), household (17.4 percent), commercial sector (2.7 percent), and cement (1.1 percent) during last 10 years i.e. 1997-1998 to 2006-2007.

Pakistan’s commercial energy needs are substantially greater than the domestic supplies, and one third of energy requirements are met through imports. Oil and gas form the bulk of primary commercial energy supply mix of Pakistan, contributing 79% (oil: 30.5%, gas: 47.5%, LPG 0.7%). The other sources include; coal: 9.2%, hydro electricity: 10.9% and nuclear and imported electricity: 1.3% (see Figure-1). Pakistan’s demand for natural gas as well as hydro-electricity is expected to rise substantially in the next few years. This will necessitates a sharp rise in the supply of both resources. To meet this requirement Pakistani cabinet has already approved the import of 750,000-1,000,000 Mcf/d of gas from Iran under the Iran-Pakistan-India pipeline project to tap cheaper energy sources and reduce its oil import bill. Government of Pakistan is also trying to develop new gas fields with foreign investors. Similarly plans are also underway to expand the hydro-capacity.

3. Contested Natural Resources – Access and Benefit Sharing

Due to fiscal constraints, Pakistan is not able to make the most of its thermal energy potential. Under recent stand by agreement with IMF, Government of Pakistan has agreed to address great disparity, between different provinces and rural versus urban areas, in terms of HDI as the rural areas of Balochistan, Sindh and NWFP are at the bottom of HDI ranking.

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12 Pakistan Energyyear Book, 2008; Ministry of Petroleum and Natural resources.
the circular debts in the energy sector which should help ease constraints on economic growth originating in the energy sector\textsuperscript{15}.

The above section has clearly demonstrated the importance of natural gas and hydroelectric power in Pakistan’s economy and bulk of these two key resources are located in Balochistan and NWFP. However, both of these provinces have underdeveloped industrial base thus most usage of gas and hydro electricity takes place in Punjab and Sindh provinces. The conflicts over these resources particularly on benefit sharing mechanism (for example distribution of royalty) are discussed in the next sections.

3.1 **Natural Gas in Balochistan**

Natural gas is the lifeline for Pakistan and the country is among the most gas dependent economies of the world\textsuperscript{16}. The energy consumption of the country stood at 39.4 million tonnes with gas’s share in energy consumption at 40.3\%.\textsuperscript{17} The major usage of natural gas is electric power units, industry, domestic consumption, and transport sector\textsuperscript{18}. Out of total (53 trillion cubic feet) discovered natural gas reserves of country, as much as 19.3 trillion cubic feet are in Balochistan, but Balochistan domestic consumption is only 4.02 of the total domestic natural gas consumption of Pakistan, whereas its total natural gas consumption makes only 6.72\% of the total gas consumption in Pakistan,\textsuperscript{19} even today only four out of 26 districts of Balochistan have gas supply. 23.37 of the natural gas reserves of Pakistan are located in the Sui area of the Balochistan. Nevertheless, despite being rich in natural resources it is the poorest province of country. Immediately after the discovery of natural gas in Sui in 1953, the disputes between the Balochs and state of Pakistan started. The supply of gas to the major cities of Pakistan was started in 1964, but the Balochistan’s capital Quetta didn’t receive gas until 1986 (and that too was supplied to meet the demands of military cantonment); even today, most areas of Balochistan don’t have a gas supply\textsuperscript{20}. The largest share of natural gas comes from the Bugti tribal areas located among the parts most seriously afflicted by Baloch militancy. Incidentally according to World Food Program-SDPI ‘s report Food Insecurity in Pakistan\textsuperscript{21} (2004), District Dera Bugti was the 2\textsuperscript{nd} worst food insecure district of Pakistan out of then 120 districts (the worst food insecure district was Tharparker which is Pakistan’s largest desert, hence for all practical reasons, Dera Bugti can be termed as the worst food insecure district of Pakistan).

According to Baloch nationalists, ever since natural gas has been discovered the attitude of federal government towards the provinces’ indigenous population has been one of indifference. The jobs of well-paid managers were filled from outside the province, local Baloch’s were usually employed in low end jobs as day laborers. and the government funding

\textsuperscript{15} http://www.imf.org/external/np/sec/prn/2009/prn0943.htm (visited on April 9th, 2009)
\textsuperscript{17} Pakistan’s E
\textsuperscript{18} Natural gas sectoral consumption during 2006-07 was: power (35.5\%), fertilizer (15.9\%), cement industry (1.2\%), general industry (25.0\%), domestic (15.2\%), commercial (2.6\%) and Transport (4.6\%). (Ministry of Petroleum and Natural Resources Pakistan)
\textsuperscript{19} Energy yearbook, 2008; Ministry of Petroleum and Natural Resources
\textsuperscript{20} Sui Southern gas Company, Pakistan www.ssgc.com.pk
\textsuperscript{21} Food Insecurity in Pakistan 2003; (2004) WFP-SDPI
of technical training institutes has never seriously been considered. A major issue between Balochistan and Federal government is royalty on natural gas produced in the province.

Balochistan was the first province in which natural gas was discovered. The royalty of the natural gas paid by the central government to the provinces is based on wellhead production costs. These costs, since Balochistan’s gas fields were discovered earlier than those in Punjab and Sindh, have long ago been stabilized. Therefore, as it stands today, Balochistan receives much less than other provinces. In the end, Balochistan, the largest supplier of natural gas receives only one-fifth as much in royalty payments as the aforementioned provinces and thus Balochistan – the poorest province – in effect becomes a subsidizer to the richer provinces. To make matters worse, none of the huge earnings of the central government have been returned to the province in the form of development expenditures.

Balochistan is the largest province of Pakistan in terms of geographical area but least populated one. Aware of the fact that Balochistan is energy rich (gas and coal), the most persistent and enduring grievance of Balochis has been that these resources have been exploited by the central government without adequate compensation to the province. After the discovery of gas reserves in Balochistan, two public limited companies (Sui Northern and Sui Southern Gas Companies) were given the responsibility for the distribution of gas throughout the country. Federal government also holds majority shares in Pakistan petroleum Limited (PPL). One of the objections of Baloch nationalists is that the ownership and top and middle level employment of Balochis in these companies and allied projects is negligible. Even today, Balochistan is seeking share of the province in the state-owned energy firms.

The first major conflict that led to armed insurgency was started in 1972, when the National Awami Party after winning the elections formed the provincial government and started raising the issue of state rights, especially share from economic benefits accruing from the natural gas. The then Bhutto led PPP government dissolved the provincial assembly and imposed governor rule in Balochistan in 1972. This led to an all out military resistance and a large number of Baloch rebels and soldiers of Pakistani army were killed during the period of 1973-1976.

Nevertheless the constitution of Pakistan (promulgated in 1973) provided that the province where natural gas is situated would have priority in receiving supplies of that gas. Similarly article 161.2 of the constitution provides the provision regarding the payment of royalty to the concerned province where the reservoir of natural gas is situated. It emphatically states that “The proceeds of the Federal excise duty on natural gas levied at well-head and collected by the Federal Government, and of the royalty collected by the Federal government, shall have precedence over other parts of Pakistan in meeting the requirements from that well-head, subject to the commitments and obligations as on the commencing day.” (Article 158, Constitution of Islamic Republic of Pakistan, 1973)

22 Robert G. Wirsing, Baloch Nationalism and the Geopolitics of energy resources: The changing context of the separatism in Pakistan, for Strategic Studies Institute, Available at: http://www.StrategicStudiesInstitute.army.mil/ [17th December, 2008]
23 Balochistan Chief Secretary Nasir Mehmood Khosa sought share of the province in state-owned energy firms and asked the federal government to sell part of its ownership in SSGC and PPL to Balochistan (The News, April 9th, 2009; http://www.thenews.com.pk)
24 “The Province in which a well-head of natural gas is situated shall have precedence over other parts of Pakistan in meeting the requirements from that well-head, subject to the commitments and obligations as on the commencing day.” (Article 158, Constitution of Islamic Republic of Pakistan, 1973)
Government, shall not form part of the Federal Government Consolidated Fund and shall be paid to the Province in which the well-head of natural gas is situated.\(^\text{25}\)

The resource transfer paradigm has been a major bone of contention among the federation and the federating units (provinces). The National Finance Commission (NFC) was established as a mechanism to distribute federally collected financial resources between the federation and federating units. But in practice, NFC award has emerged as a source of dispute between federal and provincial government, as well as of inter-provincial disputes. The central purpose of the NFC was to provide the framework for amicable distribution of resources between the federal and the provincial governments for the joint goal of development and prosperity. The first NFC Award was in 1974, the second in 1979, and succeeding Awards were constituted in 1985, 1990, 1996, and 2006. The NFC has remained rather consistent with the population as the only criterion for resource distribution between federal and provincial governments thus creating a sense of marginalization among Balochistan and NWFP, as they were less populous than Sindh and Punjab who took away the major share from Federal Divisible Pool (consists of all taxes collected by the federal government e.g., sales tax, income tax, excise duty, custom duty, etc.) of resources (box-1).

<table>
<thead>
<tr>
<th>Federal Government</th>
<th>Direct taxes</th>
<th>Indirect Taxes</th>
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<tbody>
<tr>
<td>Income Tax</td>
<td></td>
<td>Sales Tax</td>
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<tr>
<td>Corporation Tax</td>
<td></td>
<td>Excise Duty</td>
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<td>Wealth Tax</td>
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<td>Property Tax</td>
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<td>Export Duty</td>
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<td>Gas &amp; Petroleum</td>
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<td>Surcharge</td>
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<td>Foreign Travel Tax</td>
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Distribution of resources among federating unit on the basis of population resulted in minimum resources for Balochistan (being the smallest province in terms of population). Continuation with population criteria for resource distribution gives analysts some idea of the stagnancy that prevails in the policy-making of the country. Throughout the world, other factors such as revenue generation, poverty, population density, income distribution, backwardness etc., are used to disaggregate the federal tax revenues. As a result, there has been no paradigm shift in resource distribution among the provinces “despite the vast differences in the economic conditions of the masses, future prospects and strategic objectives for different federating units of the country.”\(^\text{26}\)

It was only in 1991, when the NFC award recognised, for the first time, the rights of the provinces on natural resources and the provinces were given royalty and gas development

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\(^{25}\) Justice Muhammad Munir, The Constitution of the Islamic Republic of Pakistan, PLD Publishers, Pg 332

surcharge on oil and gas as well as Net Hyedal Profit and amounts were relocated in the shape of straight transfers to the provinces.\textsuperscript{27} This award was a move forward towards fiscal decentralisation by extending more financial autonomy to the provinces.

Here it is pertinent to mention that provinces kept on disagreeing over resource distribution, the provinces kept on making demands for a higher share of the divisible pool (50 percent) as well as a diversification of the distribution criteria. The new NFC constituted in 2005, could reach no consensus among the members for the judicious distribution of resources. This led to a deadlock and finally the President under Article 160 (6) of the Constitution of the Islamic Republic of Pakistan, through Ordinance No. 1 of 2006, made amendment in the “Distribution of Revenues and Grants-in-Aid Order, 1997”. According to 2006 NFC, “the provincial share was revised to be 45 percent (share in total divisible pool and grants) for the 1\textsuperscript{st} financial year that would reach 50 percent with subsequent increase of 1 percent per annum”\textsuperscript{28}.

There are vertical imbalances in Pakistan, due to the assignment of taxes, and though under the 1973 constitution there are significant revenue raising options for provincial governments, those are not fully utilized due to weak tax and use charge collection. The NFC award was supposed to make sure that provincial autonomy was enforced by making fiscal transfers formula-based and predictable. However, provincial dependence on federal transfers reduces provincial autonomy. This gives the federal government the power to hold back release of funds and exert influence on the way that they are spent. This also aggravates political divide between federating units and federal capitals.

Article 161 of the 1973 Constitution makes explicit provisions for the allocation of royalties from natural gas production and generation of hydro-electric power. It stipulates that the net proceeds from excise duties and royalties on natural gas collected by the federal government shall be paid to the province where the well-head of the gas is situated. It is similar for hydro-electric power.

However, as mentioned earlier, the gas that is sold from Balochistan goes to the rest of the country at a much lower price than that produced in Punjab and Sindh. The province has received only 12.4% royalties due to it from the federal government, and the backlog dating back to 1953 owed to Balochistan runs in tens of billions of Rupees.

Hence it is felt by the Balochis, since the creation of Pakistan in 1947, that they have neither received adequate political representation in the military-bureaucratic complex nor compensation for their natural resources which have been, in the view of some, appropriated by the capital elite in Islamabad and distributed to other provinces without much ado. The unequal access and benefit sharing has led to political instability and sense of deprivation in the province of Balochistan which is the major energy provider for Pakistan.\textsuperscript{29}

Selig S. Harrison writes in, \textit{In Afghanistan's Shadow}, “A glance at the map…quickly explains why strategically located Balochistan and the five million Baloch tribesmen who live there

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\textsuperscript{29} Senate of Pakistan, Committee of Balochistan, November 2005, Report 7, Pg.9
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could have easily become the focal point of superpower conflict.”³⁰ It has become a key “transport corridor” for the region with the Balochi nationalists wanting stakes in the pie. More than two decades later, Baloch nationalism is seen to be on the rise to the extent that it has become anti-state militant activity. The law and order situation has deteriorated in the present era and political demands vary from constitutional amendments to the formulation of a new nation for the Balochi people. According to Dr. Robert G. Wirsing, “Pakistan’s quest for energy security has run up against a resurgent tribal separatist rebellion in its sprawling south-western province of Balochistan – an area which by virtue of both its own energy resources and its location, is key to Pakistan’s energy future. The rebellion pits a government determined to let nothing stand in the way of its energy agenda against a Baloch nationalist movement equally determined to have a greater voice in Balochistan’s future.”³¹

The strategic importance of Balochistan has been intensified due to the “mounting energy security”³² situation of Pakistan where increase in demand (due to the burgeoning population and industrial growth) on the one hand and scarcity of natural gas on the other dictates the growing importance of the Sui Gas reserves of the south-western province. Due to the unfolding energy context the Balochistan nationalism has been raised in significance as the government is threatened by an insurgency it cannot afford at any cost (since the other provinces are heavily dependent of Sui for their natural gas needs) leading to its zero-tolerance policy towards the movement. Furthermore, it increases the cost of the government’s response to the insurgency – both economic and political. The political costs of separation is one that the country has already witnessed with the breaking away of East Pakistan in 1971 (now Bangladesh) and analysts often predict disintegration of the country if the separatist movement is not pacified through diplomacy and adequate monetary compensation.

The 1970s insurgency of Balochistan took place under the elected government of Zulfiquar Ali Bhutto and the Balochi militants were the central activists. During General Zia-ul-Haq’s regime, there was political stabilization in Balochistan after a secession-threatening rebellion against the then dictator. After 1999 the activists were confronted with the military dictatorship of President Pervaiz Musharraf.

The dynamics of Baloch nationalist movement took a new twist after September 11, with American claims that the nationalists had alleged linkages with Alqaeda and Taliban. However, the movement mainly revolved around demand for a fair share from gas royalty.

When General Musharraf decided to install a democratic setup in Pakistan in 2002, Zafar Ullah Jamali became the first Baloch Prime Minster of Pakistan. It was expected that he would readdress the deprivation in his native province. However, no serious attempt was made to address the gas royalty issue even in the tenure of a Baloch Prime Minister.

³¹ Robert G. Wirsing, Baloch Nationalism and the Geopolitics of energy resources: The changing context of the separatism in Pakistan, for Strategic Studies Institute, Available at: http://www.StrategicStudiesInstitute.army.mil/ [17th December, 2008], Pg.iv.
³² Ibid, Pg. vi.
It was only after his resignation in June 2004, that a “Parliamentary Committee on Balochistan” was formulated after the speech of his successor the Prime Minister from Punjab, Chaudry Shujat Hussain in September 2004. The Senate of Pakistan passed the following Resolution moved by Senator Wasim Sajjad, Leader of the House in the Senate:

“I beg to move that a Committee of Parliament be constituted to deal with Balochistan and inter-provincial harmony. The said Committee will comprise of Senators and Members of National Assembly to be nominated by the Chairman, Senate and the Speaker, National Assembly, respectively, in consultation with the parliamentary leaders of the Houses concerned. The terms of reference of the Parliamentary Committee shall be as follows: To examine the current situation in Balochistan and make recommendations thereon and further to make recommendations to promote inter-provincial harmony and protect the rights of Provinces with a view of strengthening the federation. The committee will submit its report within 90 days.”

The recommendations of this Committee were that the District or Agency from which gas is being produced should be given at least 15% of the revenue received by the provincial government in this regard. The committee also recommended that Balochistan should be given maximum representation on the Boards of Pakistan Petroleum Limited (PPL), Oil and Gas Development Corporation (OGDCL), Sui Southern. Five percent of the expenditure of the exploration company awarded concession in the area should be spent on social welfare projects and on the other hand companies successful in striking gas or oil should be bound to spend five percent of their pre-tax profit on social sector projects. The committee approved a formula regarding royalty and Gas Development Surcharge\(^34\) (GDS). According to this formula GDS were to be distributed to provinces on the basis of percentage share of each province in production worked out on energy content basis i.e. MMBTU (Million British Thermal Unit – the unit of energy). This would result in a simple calculation, with equal amount of GDS and royalty based on per unit of energy irrespective of the high or low wellhead prices. The province with low royalty will get higher share in GDS and the province getting high royalty will get low share in GDS. The advantages of this system would be that the province will get same amount per unit of energy produce, and the increase in production will result in higher total revenue to the province. This will provide incentive to increase the gas production.\(^35\) The revenues of Sind and Punjab would be lower under the proposed formula as compared to the existing arrangement. Financial implication to the provinces is shown under:\(^36\)

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33 Senate of Pakistan, Committee of Balochistan, November 2005, Report 7, Pg 21  
34 “Gas Development Surcharge is the difference between the prescribed price and the consumer's price. Price is determined by QGRA. The Gas Development Surcharge is levied under the Natural Gas (Dev: Surcharge) Ordinance, 1967. In accordance with the said Ordinance the Federal Government has to fix the sale price for consumers and prescribed price for Gas Companies on the basis of their fixed return. The difference between consumer gas price and the Companies prescribed prices as defined in the Natural Gas (Development Surcharge) Ordinance, 1967 is the margin available to the Government as Development Surcharge.” Source: NWFP Finance Department  
36 Ibid.
<table>
<thead>
<tr>
<th>Province</th>
<th>Production (MMBTU)</th>
<th>Current</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Royalty</td>
<td>GDS</td>
<td>Total</td>
</tr>
<tr>
<td>Balochistan</td>
<td>303,433</td>
<td>1,008</td>
<td>5,871</td>
</tr>
<tr>
<td>Sind</td>
<td>693,687</td>
<td>7,974</td>
<td>11,595</td>
</tr>
<tr>
<td>Punjab</td>
<td>57,464</td>
<td>1,019</td>
<td>999</td>
</tr>
<tr>
<td>Total</td>
<td>1,054,584</td>
<td>10,001</td>
<td>18,465</td>
</tr>
</tbody>
</table>

Though this can be called a step in the right direction strong political will is required to implement the recommendations of the committee and that has been lacking due to the rough transition from dictatorship to democracy and the war on terror. It has been witnessed that due to the political turmoil at the centre, and in the north, the Balochistan insurgency has been put on the back burner by policy makers at the federal capital. The dispute in the words of Nawab Akbar Khan Bugti is about “…the natural rights of the Baloch…and if the government accepted these rights there would be no dispute.” With the assassination of the Nawab amidst controversy the core-periphery tensions have been exacerbated and the assault on the Nawab has been taken by most as a blow to Baloch nationalism.

It can be said in fact that the killing of the Nawab added an ominous dimension to the Balochistan conflict. According to Alok Bansal, writing soon after the killing : “Pakistani security forces killed Nawab Akbar Bugti, popularly known as “Tiger of Balochistan” in an encounter in Kohlu District in the early hours of August 26, 2006. This is quite in line, with Pakistan’s military ruler, General Musharraf’s desire to establish his writ by force in the province. He may have imagined that the best way to resolve the current crisis was to eliminate the recalcitrant Baloch tribal lords, who, the General thinks, are being supported by foreign powers to threaten the integrity of Pakistan.” The killing also sent out the signal that the army and not the civilian leadership was talking all the decisions regarding Balochistan. Although the Nawab had been disowned by a government-sponsored council of feudal lords, yet the reaction to his killing showed that he hadn’t lost his aura or his authority. Bansal analyses that the tactics of the Pakistani establishment in dealing with the Balochistan insurgency indicate that the army is confident it can solve the issue with merely brute force. On the other hand, many analysts have seen Bugti’s killing as a threat to the federation and have foreseen a reoccurrence of the events that led to the creation of Bangladesh in 1971.

The octogenarian Nawab Akbar Khan Bugti, the tribal chief of the largest Baloch tribe, the Bugti’s had epitomised the Baloch resistance to the military regime especially since the clashes in January 2005 in Sui. Though he was a relatively late entrant into the Baloch nationalist struggle, he was well-known for ruling his subjects with what can be called an iron-hand, operating private jails and running a medieval feudal justice system. His death lead to the spontaneous outbreak of violence in Balochistan and other parts of Pakistan, wherever the Baloch reside in significant numbers. Quetta was the hub of the intense protest. The manner in which he met his death gave a huge “fillip” to the national movement in Balochistan which had been largely considered a ‘renegade movement’ restricted to only a few sardars and their followers. The incident triggered a furious reaction in Balochistan and

37 Merrill Findlay, Balochistan, The Invisible War, politics natural resources and war in remote Pakistan, published in Arena magazine no. 91, October – November 2007, pg 36 - 38
added fuel to the already burning fire over the royalty issue, Gwadar and other sources of discontent.

In order to highlight the alleged exploitation of Balochi people by “Government of Pakistan”, a group known as Balochistan Liberation United Front, kidnapped the head of provincial chapter of UNHCR, John Soleki from Quetta in February 2009. Although Soleki was released in April 2009 on humanitarian ground, however this incident reflects the potential cost of ignoring the access and benefit issue in Balochistan, in security terms not only at national but also the international level.

Over the years the perception of exploitation has grown in Balochistan and the people feel completely marginalized from the centre that takes Sui gas, does not pay adequate royalty and there is not enough development in the region. The sense of marginalization can be understood from the recent statement of Balochistan Chief Minister, Aslam Raisani, who while addressing a press conference said, “the agitation engulfing Balochistan is the result of years of alienation and not backwardness. “Problem of Balochistan is not (lack of) development but the problem is political”, he said the cause of unrest in the insurgency hit province was the sense of deprivation among people in making decision about their own resources. “We don’t want development at the cost of exploitation of our resources” he said, adding that “we want development as we want it”39.

3.2 The Issue of Hydroelectricity in NWFP

This section discusses hydropower (energy) policy and political confrontation in Pakistan. Most of the hydel power is generated in NWFP. Until 1991, NWFP did not receive any royalty for the hydel power generated in the province. In 1991-92 NWFP government received Rs5.99 billion as net profit for hydro power royalty from federal government. Later on, federal government imposed an annual cap of Rs6 billion on this payment. Now there is a dispute on interpretation of net profit and on the amount of arrears. More recently an attempt to resolve the dispute between NWFP Government and WAPDA through an arbitration tribunal did not yield any success. As a consequence, NWFP Government is not able to claim and subsequently spend on public development, what is termed in the constitution as provincial origin revenue40.

The institutional weaknesses and political disadvantages of NWFP exacerbate the sense of unjust and unequal distribution of benefits. In the context of the war on terror and the perilous security situation in the NWFP this sense of injustice contributes to political alienation and therefore instability

Hydro-electricity is one of the major sources of energy in Pakistan and most of the hydro-electric power is generated in Tarbela dam located in NWFP. The constitution of Pakistan recognises the allocation of hydel power revenues (royalty) to the provinces. However until 1991 NWFP did not receive any royalty from the electricity generated in the province. In the year 1991-92, NWFP received a royalty of Rs. 5.99 billions; but the provincial government

also demanded the backdated dues and this issue remained unresolved even today. The province is also constantly demanding substantial increase in the royalty because the electricity price has been increased tremendously during the recent years.

NWFP is one of the poorest provinces of Pakistan, particularly its highland districts are amongst least development regions of country. The province also has the image of propagating sectarianism, terrorism and insurrection. Its population is largely Pakhtun, and is not only poor but probably leading to what Matthew calls “environmentally marginal areas such as urban ghettos or the steep sides of mountains,” about which he states that it is “difficult to eke out an existence in such environments, but marginal lands are often contaminated by pollutants and more vulnerable to natural disasters such as flooding. In the capital city of Peshawar, for example, infrastructure for sewage and waste treatment has not kept pace with population growth, and exposure to contaminated water is virtually universal.”

Therefore, it can be seen that the provincial government needs funding for development plans that can be instrumental in changing the socio-economic condition of the province.

In this backdrop and with the ongoing war on terror being fought on the borders of NWFP and Afghanistan, the province is fighting for its rights particularly royalty form hydro-electric power. The sense of deprived justice and marginalization is not only a source of political confrontation but also providing an excuse to hardliner militants such as Tahreek-e-Taliban Pakistan (TTP) and Tahreek-e-Nifaz-e-Shariat-Mohammadi (TNSM) to impose, in many parts of NWFP, what they call system of speedy justice vis-à-vis the system of modern court.

Royalty issue for the power generated at the Tarbela Dam is a source of political difference between the NWFP government and the Central government. It is a dam on the Indus River in Pakistan. It is located 50 kilometers North-West of Islamabad near the Haripur District. It is the largest earth filled dam in the world and it produces much of Pakistan's hydroelectricity. Tarbela Dam is part of the Indus Basin Project, which resulted from a water treaty signed in 1960 between India and Pakistan, guarantying Pakistan water supplies independent of upstream control by India. Construction began in 1968, and continued until completion in 1976. The dam has a volume of 138,600,000 cubic yards (106,000,000 m³). With a reservoir capacity of 11,098,000 acre-feet (13.69 km³), the dam is 469 feet (143 m) high and 8,997 feet (2,743 m) wide at its crest. It helps to maintain the flow of the Indus during seasonal fluctuations.

The royalty issue of Ghazi-Barotha project is another source of political confrontation between NWFP and the Central government. The Ghazi – Barotha Project is located around 100km from Islamabad involved the construction of a partial river diversion, on the Indus river in North-West Pakistan. The barrage diverts water into a concrete lined channel and delivers it to a 1450 MW powerhouse in Barotha. The Project’s rationale is to ease the acute power supply shortage situation in the country and reduce load shedding through the

41 Richard A Matthew, Environmental Stress and Human Security in Northern Pakistan, Environmental Change and Security Project Report, Woodrow Wilson International Center for Scholars, Pg. 23
42 The Tarbela Dam @ http://wikimapia.org/388170/Tarbela-Dam-NWFP-Pakistan
provision of an urgently needed power generating plant. The project aimed at enhancing the reliability of the power supply, and alleviate the acute power shortage.\textsuperscript{44}

According to Water Accord 1991, the Inter Provincial Water distribution was agreed on the following formula:\textsuperscript{45}

<table>
<thead>
<tr>
<th>Name of Province</th>
<th>Ratio of fixed water (Million Acre Feet)</th>
<th>Percentage Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Punjab</td>
<td>55.94</td>
<td>47.67</td>
</tr>
<tr>
<td>Sind</td>
<td>48.76</td>
<td>41.55</td>
</tr>
<tr>
<td>Balochistan</td>
<td>3.87</td>
<td>3.3</td>
</tr>
<tr>
<td>N.W.F.P</td>
<td>8.78 (i/c canals = 3 maf)</td>
<td>7.48</td>
</tr>
<tr>
<td>Government canals</td>
<td>5.78</td>
<td>4.93</td>
</tr>
<tr>
<td>Civil canals</td>
<td>3.00</td>
<td>2.56</td>
</tr>
<tr>
<td>Total</td>
<td>111.35</td>
<td>100.00</td>
</tr>
</tbody>
</table>

As the required canal system in NWFP was not available, after the Accord the un-utilized share of NWFP was used by the provinces of Punjab and Sind. According to 14 (e) of the Accord, unutilized water could only be used by the provinces on a temporary basis. If a province remodelled/extend its canal system, then the province can utilize its un-utilized share. However, this has not been mentioned under the article, that the water can be used without compensation.

The Government of NWFP is of the view that since the province is in a financial deficit, dependent largely on the resources of the Federal government for meeting its development needs, the centre is required to provide financial resources for its priority projects particularly those whose water allocation has been agreed upon in the Water Apportionment Accord 1991. The non-availability of funds for these projects therefore has deprived NWFP of utilizing its full share of water which was/is being used by Punjab and Sind. The Government of NWFP requested compensation tantamount to Rs. 70.00 billion of un-utilized share of water of NWFP used by the Punjab and Sind and wishes to take the two provinces to the Inter Provincial Coordination Committee (IPCC)\textsuperscript{46} for compensation of amount to be provided to NWFP for meeting its development needs.

Furthermore, Fateh Ullah Khan (Former Chairman, Indus River System Authority IRSA) has discussed the water royalty issue as given below and affirmed in “NWFP's Claim for Royalty from Ghazi Barotha Project” that the province grievances in this regard are valid:

\textsuperscript{44} ADB, Project Completion Report, \url{http://www.power-technology.com/projects/ghazi/}, Accessed on 26 February, 2009, Pg. 10.

\textsuperscript{45} Government of NWFP, Irrigation and Water Department, Subject: Compensation for Un-utilized share of water of NWFP, Pg. 1.

\textsuperscript{46} The main purpose of IPCC is Coordination between the Federal Government and the Provinces in economic, social and administrative fields and Promoting uniformity of approach in formulation of policies and their implementation by the Provinces and the Federal Government in all fields of common national concern.
“NWFP has a genuine right to claim major portion of royalty from the Ghazi Barotha Hydel Project (GBHP) as its major components consisting of Tarbela reservoir. Ghazi barrage, its 7 mile long pond on the upstream and about 20 km of power channel are all located in NWFP. These vital components form the Head Works Complex of the project to produce hydropower. The entire power generation of 1450 MW from GBHP depends on the regulation, operation and basic support of Tarbela reservoir and Ghazi barrage in NWFP. The Indus water is drawn from the 7 mile long and 2 mile wide pond created by Ghazi barrage and supported by Tarbela reservoir. It is then diverted by the barrage into the world’s largest hydel power canal with a colossal discharge of 56500 cusecs. Punjab has no contribution except that powerhouse and portion of canal is located there and for that it gets the whole royalty from GBHP.”

Nationalist parties in which the lead is taken by the current ruling party in NWFP province, Awami National Party (ANP) have severe reservations about the current royalty received by NWFP. So much so that the ANP has explicitly stated in their memorandum: “The ANP will pursue the development of irrigation projects at the federal and provincial level to utilize about 2 MAF of water that is still available for development. The ANP will continue to oppose projects which do not bring any economic benefits to the people of the province and which endanger the livelihoods, their lands and their environment. ANP will strive to make Power a provincial subject as it has been the preceding “one-unit” period. Power is sold by WAPDA at a price which is substantially higher than the cost of production. This vitiates the comparative advantage of the province, which is a major producer of hyderal power. The distribution of electricity should remain with the Province.”

Not only this the other key parties in NWFP namely the Paktoonkwa Milli Awami Party (PNAP), Pakistan National Party (PNP), and the Mazdoor Kisan Party are all vocal on NWFP being granted their water rights.

NWFP is therefore severely affected and feels deprived of its inherent rights by the inequitable, unjust and one sided constitutional provision to grant royalty to the province (Punjab) only for the powerhouse location, ignoring the ‘Head Works Complex’ in NWFP…these are two different issues for which NWFP lodges complaint. In one case the inhabitants of NWFP are affected in water from the natural sources supply, i.e., the Indus River and in another case, NWFP demands its just share in royalty for the location of the ‘Head Works’.

The mechanism for allocation of hydel power revenues is provided in Article 161 of the Constitution (as seen in the case of Balochistan above). The Article clearly states that “net profits” will be computed by deducing from the revenues accruing from the bulk supply of power from the bus-bars of a hydro-electric station at a rate to be determined by the Council of Common Interests (CCI). The operating expenses of the station were to include any sums

48 Fateh Ullah Khan (Former Chairman IRSA), “NWFP’s Claim for Royalty from Ghazi Barotha Project”, Available at: http://www.khyber.org/articles/2003/NWFPsClaimforRoyaltyfromGhaziB.shtml
payable as taxes, duties, interests or return of investment, and depreciations and element of obsolescence, and over-heads, and provisions for reserves.

The CCI did not meet until 1991, and it was actually the NFC which agreed on a formula for allocation of hydel profits. When A. G. N. Qazi was chairman (1986) the NFC constituted a committee to determine the “rate of net profits on hydel power”. The committee was made up of members of WAPDA, the federal and NWFP governments. The formula it came up with is oft referred to as the A.G. N. Qazi formula which was endorsed by the CCI in 1991. Therefore, until 1991 NWFP did not receive any royalties for the hydel power generated in the province. Keeping in mind this fact, the NWFP government insisted that the President should become guarantor for WAPDA to ensure that regular payments of net profits as well as backdated dues took place (this happened when the CCI met). The President at the time, i.e. Ghulam Ishaq Khan agreed and issued a Presidential Order stating that in case of default by WAPDA or any other authority making bulk purchases of electricity from the provinces, the federal government would guarantee for payments. In FY 1991 – 1992 the NWFP government received Rs. 5.99 billion as net profits. This figure increased in subsequent years, but then the federal government imposed a cap of Rs. 6 billion on annual payments.

Successive provincial governments attempted to recover the arrears from WAPDA and failing that from the federal government which under the agreed formula was guarantor for hydel profit payments. Little progress was made, not helped by frequent changes of government (and President) in the 1990s. In 1996 the NWFP federal government agreed to the NFC Award, which stipulated that in the event of consensus on arrears not being reached, payments to NWFP would increase by 11% each year.

However once again the government was dismissed and the Nawaz Sharif won the elections and formed government in 1997. Then the NWFP government formed a committee to pursue the recovery of net profits on hydel power. The military coup of October 1999 dissolved both houses of parliament and suspended the Constitution so the matter was dropped yet again. With the elections of 2002 once again the matter of recovering dues from WAPDA were debated.

An Arbitration Tribunal was set up to resolve the dispute between the NWFP government and WAPDA over payment of net profits from hydel power. The MMA government agreed that pre- 1991 dues could be decided later, so the Tribunal decided just on the dues owed from FY 1991- 1992 to FY 2004-5.

The Tribunal heard arguments from both sides from March 2005 to September 2006. It was unable to arrive at a ‘satisfactory calculation of NHP’ and therefore used the formula originally suggested by the NFC, i.e. calculating a 10% annual increase from 1990 onwards. Significantly, the Tribunal interpreted Constitutional provisions for ‘net profits’ as being counted after WAPDA had taken its profits. Other parts of the Tribunal’s judgement suggested the CCI’s role was limited to setting the rate of hydel power, and not to determine net profits. In sum, while the Arbitration Tribunal ordered that dues had to be paid by WAPDA to the NWFP government, it considerably slashed the amount that had been claimed by the latter.
As new dams are built, some in NWFP, outstanding issues of payment must be resolved and clearer guidelines made for future allocation of hydel power revenue. This is not just the need of the hour but also the demand of all the nationalist parties from the newly re-named NWFP province to Pakhtoonthwa.

5. Conclusion and Outlook

It can be seen that in case of both Balochistan and NWFP the interplay of what can be called ethnic strife with resources has led to a minority complex among these two provinces, whose populations feel marginalized in the political as well as development arenas. There is a general perception that the largest province (Punjab) takes over the major share of power in the central government with help from the Sindh province. This is because historically, Punjabis have dominated central government along with the Sindhi Mohajirs who were instrumental in the formation of Pakistan. Because Punjab and Sind have greater populations and were more developed and literate provinces, this tradition has continued since the independence of Pakistan in 1947. These complaints have over the years become deep wounds and adding fuels to militancy and armed resistance. A decentralized governance system with more autonomy to the provinces and more equitable royalty distribution in terms of Sui gas and water can lead to less confrontation and less heated debates in which being “Balochis” (i.e. hailing from the province of Balochistan) or “Pakhtuns” (i.e. hailing from the NWFP) is not a critical feature. Only avoiding such stereotypes and negative depictions could lead to a sustainable accord between all four provinces.