



13<sup>th</sup> April, 2016

Senator Ishaq Dar,  
Federal Minister of Finance,  
Government of Pakistan,  
Ministry of Finance  
Secretariat Block F  
Islamabad

Sub: Complaint on award of unsolicited Contracts to Contractor of RLNG Pipes Lines awarded to Chinese Contractor M/s China Petroleum Pipeline Bureau (CPP) and Russian Contractor M/s RT Global Resources about US \$ 5 billion

Dear Sir,

Transparency International Pakistan has received a complaint on award of unsolicited RLNG Pipes Lines Contracts by the Ministry of Petroleum & Natural Resources and approved by ECC under your chairmanship, to Chinese Contractor M/s China Petroleum Pipeline Bureau (CPP).and Russian Contractor M/s RT Global Resources.

The complainant has made following allegations;

That;

1. On 17 October 2015, Pakistan and Russia government signed an agreement for laying a \$2.5 billion pipeline to carry imported liquefied natural gas (LNG) from Karachi to Lahore, sidestepping the normal bidding requirements, the agreement was signed as a government-to-government deal, though it is not a G to G deal, and is loan. Russian Govt. nominated a firm M/s RT Global Resources (RTGR) to execute the project. Russia is to provide a loan of \$2bn in return for the award. Tendering is a mandatory requirement to assess the current market prices, as it is a loan being provided by Russian Govt. and is not a grant. Surprisingly the details of the financing terms are not made public as yet. The project was to be carried out on the build, own, operate and transfer basis BO, and will be operated by the Russian firm for 25 years to recover investment with profit, before handing it over to a Pakistani entity. The Pakistan government will provide a sovereign guarantee for the loan.  
  
Surprisingly the details of the financing terms were not made public as yet
2. As the Contractors RT Global Resources (RTGR ) are under US sanctions, it is reported that instead of M/s RTGR , its parent owners, M/s Rostec, a Russian consortium which had set up RT-Global Resources in 2012, a corporate competency center as the JV to execute the project.



This change of Contractors by Russia confirms that this project is a commercial contract, and not a G to G Treaty, and like US \$ 2.5 Billion Gwadar-Nawabshah LNG Pipeline Project, also a BOT project, which was tendered in accordance with PPRA Rules.

3. On 30 September 2015, Mubeen Saulat, ISGS managing director declared that the Chinese State firm China Petroleum Pipelines Bureau (CPP) has submitted technical and commercial bids in accordance with the Public Procurement Regulatory Authority (PPRA) rules, and the commercial bid will be opened in November. And the dual projects will be completed at the cost of about \$2.5 billion, 85 per cent of the investment will be done by the Chinese company, while government of Pakistan will provide 15pc of equity. However, Finance Minister Ishaq Dar, in the ECC meeting held on 11 April 2016, approved restructuring of the Gwadar-Nawabshah LNG Terminal and Pipeline Project (GNP) from build, operate and transfer (BOT) basis to build, operate, own and transfer (BOOT) basis for construction by a Chinese firm, China Petroleum Pipeline Bureau (CPP).

According to PPRA Rules, tender conditions viz. BOT or BOOT, after opening of tender, can not be changed, as it deprives other bidders, who could have participated if the revised tender conditions were known to them.

4. ECC also decided as under;

It constituted a price negotiation committee, which will be led by the Petroleum Secretary and comprise the Finance Secretary's nominee, Secretaries Law, Board of Investment and Managing Directors of the Sui Southern Gas Company (SSGCL) and the Sui Northern Gas Pipelines Limited (SNGPL) to negotiate the project cost and ensure that the revised strategy does not result in increasing the overall cost of the project.

The 700km-pipeline will transport 600mmcf/d of re-gasified LNG (RLNG) in the first phase that will be completed by December 2017. It would ultimately be connected with the North-South Gas Pipeline at Nawabshah for onward transportation to the SNGPL's network in Punjab.

The second price negotiation committee will work on the proposal for the North-South Gas Pipeline from Nawabshah/Karachi to Lahore. The committee would monitor implementation of the project and negotiate the contract price and pipeline pricing with the Russian firm under a government-to-government agreement.

5. According to PPRA Rules, Tenders for North-South Gas Pipeline from Nawabshah/ Karachi to Lahore should be invited, and Gwadar-Nawabshah Pipeline Project shall also be re-tendered.

**TI Pakistan has examined the complaint and prima facie both contracts are being processed by ECC and MoP in violation of PPRA Rules.**

In this regard we would quote the procedure followed by Mr. Muhammad Shahbaz Sharif, Chief Minister, Punjab, in case of China funded US \$ 1.45 billion Orange Line Project, Lahore.





*The Punjab Govt. desires to construct Orange Line 6-car trains with a maximum speed of 80 km/h BOT Project 27 km long from the southwest of Lahore at Ali Town to Dera Gujran in the north-east. The estimate cost of this project is US \$ 2.2 Billion. CM Punjab has recently negotiated with the Govt. of China, e Govt. to Govt. Treaty for the US \$ 2.2 Billion Orange Line Project on long term soft loan on easy terms. Through Tendering was not required under PPRA Rule No.5, as project under treaty are exempted from PPRA Rules, but the Chief Minister Punjab insisted on Tendering to Chinese government so that it is awarded on current market rates. The Chinese Government agreed to CM's concerns, and tenders the project in China. As the PPRA Rules were not applicable, the Chief Minister did not accept the tendered cost also and further negotiated the prices, further reducing the tendered cost by 33% and finally agreed to approve the award of Contract at US \$ 1.45 billion. Application of rules across the Board by the Chief Minister Punjab has saved Pakistan more than US \$ 700 million. . This case is an example is a role model of transparent award of Contract, and is a lesson to all procuring agencies in Pakistan to follow.*

The Minister of Finance is requested to take immediate action to direct the concerned ministries to cancel the contracts, if already awarded, and invite fresh tenders in accordance with PPRA Rules 2014.

Transparency International Pakistan is striving for across the board application of Rule of Law, which is the only way to stop corruption.

With Regards,

  
Sohail Muzaffar  
Chairman

Copies forwarded for the information with request to take action under their mandate to:

1. Secretary to Prime Minister, Islamabad.
2. Mr. Khurshid Shah, Leader of Opposition & Chairman, PAC, National Assembly, Islamabad.
3. Chairman, NAB, Islamabad.
4. Chairman, PMIC, PM Secretariate, Islamabad