

# Comments in article "Firms in Oman fear for future over gas price hike", 8 Dec 2014

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## **Firms in Oman fear for future over gas price hike**

"Companies will face shut down. Doubling the gas price from January 1, 2015 will affect our hiring process, push up production costs, increase product prices, increase inflation and negatively impact our global competitiveness."

That is the stark message from representatives of companies who have received the Oil and Gas Ministry notice of a natural gas price hike of 100 per cent from January 1.

"Unexpected doubling of the gas price will affect companies in many ways. If the gas price hike is not done in a planned way, it may affect hiring. We will have to take cost cutting steps, may be compelled to cancel long-term contracts signed with our clients and may also land in legal tussle," Ramesh Mani, CEO of Majan Glass Company, told the Times of Oman.

Ramesh and seven other company chief executive officers have sent a letter to the Minister of Finance and copied the same to the Minister of Commerce, the CEO of Public Establishment for Industrial Estates and Sohar Industrial Estate Director General, calling for the decision to be reconsidered.

The Ministry of Finance had sent a letter to the companies detailing the decision to unify the natural gas price.

The letter states that the gas price will be increased from \$1.50 per million British thermal units to \$3.00/MMBTU.

The price will be 41 baizas per standard cubic meter with effect from January 1, 2015 and a 3 per cent annual increase thereafter.

Now it is 20.5 baizas per standard cubic meter. With oil prices falling globally, the government is considering cut in subsidies and recently the same was discussed in the Majlis Al Shura council meeting also.

Oman has recorded a small budget surplus this year but the Brent crude price has dipped to around \$80 a barrel in recent months, from \$115 in June.

“Our global competitiveness will be affected. Companies will face shut down. Companies are already running at low profit margins. The situation will worsen again. Many companies have already deferred or terminated expansion plans due to unavailability of gas. Product prices will go up,” Ramesh added.

According to postings by 12 companies during the last one week, they will face an extra cost of OMR12.73 in 2015 due to the gas price hike.

Oman Cement and Raysut Cement reported on Sunday that they would be revising prices for cement because of the government’s decision to withdraw gas subsidies from January 1.

Oman Cement reported that its costs would go up by about OMR6.63 million in 2015, while Raysut said that its gas costs would increase by OMR4.5m next year.

“The company will make efforts to minimise the impact of this increase on its profits by improved productivity, cost control and restructured pricing,” Jamal Shamis Al Hooti, the chief executive of Oman Cement said in a bourse statement on Sunday. Industrialists said that the gas price hike will be having an impact on companies’ profits.

“Small companies will be able to manage the adverse situation. But big companies will have a dent in their profits. And moreover, this will eventually stoke inflation,” Anwar Al Balushi, an industrialist in Oman, said.

A construction company official also sounded the same opinion. “As gas prices will be doubled, the cement companies and industrial material production companies will have no options other than increasing their product price. So, we will be

affected. We will be quoting higher prices to avoid loss from Jan 1 and eventually, the cost burden will be passed on to our clients. This will stoke inflation badly. It is a worrisome situation," Abdul Gafoor, a top official of Al Shabibi Global LLC, said.

However, an economist in the region said that companies always have to deal with fluctuating sales prices and input costs (rent, salaries) but they need to plan for rising gas prices now.

"The new move may slow some new gas-using projects, but Oman's neighbouring countries and competitors are facing similar issues. Oman is just moving first. There would be more impact on inflation if higher gas prices feed through into higher electricity and water prices," Robin Mills, head of Consulting at Manaar Energy in Dubai and author of book 'The Myth of the Oil Crisis' & 'Capturing Carbon', wrote to Times of Oman.

Recently, the ratings agency Standard & Poor's downgraded its outlook for Oman from "stable" to "negative" because of the recent fall in the oil price.

Another economist while welcoming the raising of gas prices as a necessary reform said that oil and gas subsidies are a major burden on Oman's budget.

***"Higher gas prices will force companies to increase their energy efficiency, by lowering their use of energy per unit of output and finding substitutes," Dr Nasser H. Saidi, the former chief economist and head of external relations of Dubai International Financial Centre (DIFC), said.***

***"I do not expect a major effect on jobs. During the adjustment period to the higher gas prices some companies may postpone hiring or maintain wages at current levels," Nasser added.***

In 2013, the government had announced that it will spend over USD50bn in infrastructure projects in the next 15 years. From this budget, USD20bn is earmarked for the transport sector – including Oman National Railway – which is where we see the strongest pipeline of projects.