

# **The corruption in Privatisation: Pakistan Steel Mills case**

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## **Pakistan Steel Mills offered to close friends of Shoukat Aziz and General Pervaiz Musharaf**

Factory worth 300 billion Rupees offered for 22 Billions

Pakistan Steel Mills pays over 9 billion Rupees tax sold for two and half years of paid tax amount.

The privatization of Pakistan Steel Mills is without doubt “the great grand steel” in the whole history of Pakistan. The handing over of PSM to the close friends and front man of the military regime of General Musharaf was carefully planned in a very conspiratorial manner over the years. It is like a story of a successful act of theft that was well planned for the last six years.

The Musharaf regime has sold PSM for 362 millions dollars that was worth 5 billion dollars. The successful “bidders” is a consortium of three companies Arif Habib Securities (Pakistan), Al-Tuwairqi (Saudi Arabia) and Magnitogorsk Iron & Steel Works Open JSC (Russia) The 31<sup>st</sup> March 2006 bidding of the PSM organized by Privatization Commission of Pakistan was just an eye wash and it was all planned before hand. The whole process of selling the largest steel factory of Pakistan ended up just in 30 minutes.

Arif Habib Securities Karachi, a stock exchange company, is very well known in Karachi circles as front organization of Prime Minister Shoukat Aziz. They have 20 percent share in the consortium. The Saudi Steel company Al-Tuwairqi is very close to “president” General Musharaf. It has 40 percent shares in the deal. Such is the nature of close relationship of the two that general Musharaf opened a new Steel factory of Group next to PSM only a day before the privatization of PSM. Al-Tuwairqi group claim to spend 130 millions dollars on this factory.

The interesting fact is that the 220 acres of land for this new venture of AlTouwairqi was rented out from PSM. A day late, the Al-Tuwairqi group became the owner of this rented land of PSM. They have been provided on urgent basis the facilities of natural gas and electricity for this factory. On the occasion of inauguration of this new steel factory on 30<sup>th</sup> March 2006, general Musharaf invited the group to buy the PSM. Very next day, the group became owner alongside with two others on a very throw away price. Who could ignore the advice of General Musharaf for the sale of PSM?

The neat and clean bidding of PSM is also exposed by the fact that the consortium that came second in the bidding offered 355 million dollars, only 7 million dollar less than the victories one. It is clear from the whole process of bidding that the offers were shared with each others. It was made clear to every one in the run that the PSM will be offered to those close to the President and Prime minister of Pakistan. Commissions were offered to each party that was taking part in the deal. The five parties that were cleared for pre qualification by the Privatisation Commission were asked to form two consortiums. Finally, the result was as per scheduled.

The final price of the PSM was such a low that even the former chairman of PSM Haq Nawaz Akhtar has to say “they could have got more money by selling the PSM as scrap”.

Only two days before the deal, the Al-Tuwairqi group signed a deal HOT (head of terms) with Sui Southern Gas Company for buying 45 mmcf. The deal is valid for ten years and could be extended for another ten years. So, post PSM buying arrangements were made before the deal.

If PSM is handed over to this consortium, it will definitely lead to monopolization of steel industry in Pakistan. The share of PSM in production of billets in Pakistan is 30 percent and with the new Al-Tuwairqi Steel Mills, the group could have over 50 percent of the total share in this regard. Capacity of steel production of PSM is 1.1 million tons which the group likes to extend to 3 million tons. That will also be leading to total monopolization of steel production.

General Musharaf has an eye on the PSM since he came into power in October 1999. While addressing a gathering in PSM on 27<sup>th</sup> May 2005, General Musharaf was not able to hide this fact. "I am keenly watching the performance of PSM since I am in power" he said. On the occasion, he handed over 2.5 billion of Rupees to Habib Bank as the last part of loan on PSM.

The Musharaf regime had made it sure that when their friends buy this Mills, all loans on the Mills be already cleared. In the end of 1999, the PSM had a total loan of 19 Billion Rupees. The annual loss was nearly 9 billion Rupees. The PSM was handed over to the military officials. Their first act was to reduce the work force of the Mills. In the beginning of 2000, there were 20533 workers and now it is been reduced to 13080, so 7453 workers were laid off, that is more than one third of the work force.

According to the finance director of PSM, in 2003/2004, the total revenue of the factory was 26.1 billions Rupees and net profit was over nearly five billion Rupees. In 2004/2005, the revenue increased to 31 billion Rupees and pre tax profit rose to 10 billions Rupees. The Mill has been depositing over 9 billion Rupees tax to the government on average for the last four years. After privatization of PSM, the tax deposit to the government will decrease tremendously, that has one of the main features of all the privatized institutions of the last 14 years. The fact is the PSM is been sold to the equivalent of two and half year of the tax amount deposited to the government by the Mill management.

At the time of the privatization of PSM, there was 12 billions in cash and bank balance in the Mill, no loan, 98 percent production of the capacity, no industrial dispute, no collapse of" industrial peace" profit was increasing every year, tax up to 9 billion Rupees. So why to sell the factory, the only answer one can assume is a shear loot and plunder of national assets by the friends of the regime.

Why there was no workers resistance to the sale in this case as opposed to all other sold ones in the past?

The most criminal role in the process of privatization was played by the firstly, United Workers Union, linked to Muhajior Qaumi Movement, a chauvinist group who hold Karachi local government and is in partnership with Musharaf in Sind government, secondly by Labour League, linked to ruling Muslim League and PASLOW, the union linked to Jamaat I Islami, the main religious fundamentalist group in Pakistan. The leaders of these trade unions formed an action committee to fight privatization, but later adopted a strategy to buy the Mill by forming "workers group". This was a tactic dictated by General Abdul Qayum, the director General of PSM.

Only Progressive Union at PSM linked to National Trade Union Federation Pakistan, a federation that Labour party Pakistan support, has not singed on the deal of Privatization. This has resulted in threats, terminations and other suppressive tactics.

The PSM management made good use of public money just before the privatization, buying off 80

new cars for themselves on the justification of “official use”.

If we consider the fact that there was 12 billion Rupees in cash and bank balance at the time of sale, then the original price offered to government is only 10 billion Rupees. The Privatization Commission has offered a package to workers worth 15 Billion Rupees, if that is made a reality, and then in fact the government sold a profitable mill in minus 5 billion Rupees. We have a lot of doubt on the offer of PC to the workers and we think it is just a loll pop by the PC to the workers to shut them up.

We welcome the initial step of the Supreme Court of Pakistan to stop the privatization of PSM on a write petition on 24<sup>th</sup> May. But our demand is not just to stop the privatization till June 2006, but the cancellation of the whole process of privatization of PSM.

We demand that the chairman of Privatization Commission and privatization federal minister be charged of corruption and a trail be started against the both.

The privatization of the last 16 years in Pakistan has only led to job losses, price hike, incensement in poverty, monopolization, and increased profit for the bosses, reduced quality of the products and less efficiency and no better production. This must be ended. The neo liberal agenda is an anti people phenomena and we must oppose it on all platform.

Labour Party Pakistan has organized workers resistance and will do so in future. It will help Anti Privatization Alliance to organize demonstrations in front of Supreme Court of Pakistan on the eve of hearing of the case. We will organize a workers resistance and help develop a mass movement to stop privatization.

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