

Ilyas Qureshi

HIST 1722

Oral History Interview

Interviewer: Ilyas Qureshi

Interviewee: Osman Qureshi

Date of interview: May 17, 2024

Interview carried out on Zoom.

Note: all the italics are things I've added in transcription for myself later

Ilyas: Okay, I'm recording. You're being recorded.

Osman: Okay!

Ilyas: Okay, you've read the questions, so you know what's going on. I'm most interested in Pakistan if you can remember that. As it was industrializing and nuclear-ising, was it a big deal? Or just generally could you talk about power in Pakistan.

Osman: Yeah, so Pakistan doesn't really have a nuclear energy program because once it developed a nuclear weapons program, all the countries stopped providing it support for nuclear energy. And building a nuclear powerplant is more difficult than building a nuclear weapon. You must have turbines that need to function. Pakistan doesn't manufacture turbines, and you need specialist turbines. It's not an industrialized country so it would definitely need support from places like Korea, France, Canada, US, and I guess China now, who are experts at nuclear generation. And Pakistan is also not a signatory of the nuclear non-proliferation treaty, which is kind of a requirement before anyone actually helps with giving you nuclear technology.

Ilyas: Right, so where does most of its power come from, and what was your personal experience of that growing up? Were you aware of it, or was electricity just kind of everywhere? Like, for me, I don't really think about where my power comes from, I just kind of use it. Was it a similar thing for you growing up, or not?

Osman: When growing up? I left Pakistan when I was nine.

Ilyas: Just in any of the places you lived then.

Osman: No, I never thought about power or anything like that. It's only later when, as an adult or teenager, you visit Pakistan do you realize that there was what they called 'load shedding' where they would shed the electric load by just shutting off big chunks of neighborhoods, even cities, for several hours. So, when the load would increase because people are using air-conditioners or whatever, they would just shut off power to those people to keep the system from completely collapsing. So that's when you realize that there's a shortage of power in the country. And the shortage of power in the country was because Pakistan has one of the highest population growth rates and just didn't have the money to build the powerplants.

When I became an investment banker, one of the deals I worked on was privatizing existing powerplants so Pakistan would have the capital to build new powerplants, and it was a major mistake that Pakistan made in doing that. Because, in order to attract private Western or foreign capital, the Pakistan government basically had to guarantee these foreign investors that they would get paid, and that it would be very low risk for them. So, they reduced the risk further by saying 'even if we don't use the powerplants, we'll still pay you, so you'll be able to make money regardless of whether the powerplants are used. Please just come build it'. And then the other mistake they made was that all these powerplants were going to run off of imported fossil fuels because Pakistan doesn't have enough fossil fuels of its own.

Ilyas: So mostly coal?

Osman: No, furnace oil! So, environmentally not very nice. It didn't have LNG (*liquified natural gas*) terminals so it couldn't import gas, at that time, I'm talking about the early 90s to late 90s. Here's why it was such a stupid think to do: you didn't have money to build powerplants, you didn't have foreign exchange to build powerplants, but now you're guaranteeing a profit for these foreign investors who are building powerplants for you, and you're taking away their risk, and you're going to have to import fossil fuels to run these powerplants which also require foreign currency. So, how can you afford to do this when you couldn't afford to build powerplants? Because if they built the powerplants themselves, then they wouldn't have to pay the very handsome, and I know this because I was involved in these deals, 15-18% IRR (*internal rate of return*) per annum for these foreign investors. So, by inviting these foreign investors to build these powerplants, you're actually spending more of your foreign exchange reserves and because these foreign investors only wanted to build these fossil fuel fired powerplants, it ended up costing the country more because now they had to import extra fossil fuels.

If the country had built the powerplants themselves, as you know the Himalayas are part of Pakistan, they could have built lots of hydropower, but foreign investors didn't want to build hydropower because there's a lot more risk involved with building hydropower. It's nature and water and a lot of geology and risk and who wants to do that? It's easier to go buy turbines from General Electric, put them in the flat ground somewhere and bring in, often truck in, this furnace oil and burn this fossil fuel and provide electricity. So, foreign investors wanted to minimize their risk and the government allowed them to do it. So, what happened later on, it was often sanctions or whatever, particularly after Pakistan tested nuclear weapons, Pakistan couldn't even afford to pay for the imported fossil fuels required to run these powerplants, so here's what happened. You can't afford to pay for fossil fuels to burn in these plants, but remember they promised to pay these foreign investors regardless of whether the plants were used or not, so the government was having to pay from its very small foreign exchange reserves for powerplants that weren't being used because they couldn't afford to pay for fuel. So, it was just this really stupid thing to do all around, and one could argue that politicians did it because they wanted bribes or things like that.

I remember when we privatized Kot Addu Powerplant, I worked at First Boston, and we made a shortlist of foreign investors that the government should invite to the final round of the auction for this powerplant that was being privatized. And it went to Benazir Bhutto's (*prime minister of Pakistan '88-'90, '93-'96*) husband, and he basically called in all the people we had on the shortlist and effectively asked them for a bribe, and everyone who didn't pay him a bribe was taken off that list. We know this because when the list came back from, and this guy Zardari (*Bhutto's husband*) is now I think the president of Pakistan, this deal was sort of in '95, and 20-30 years later this guy is still around in government. Yeah 29 years later and he's still there and one of the most corrupt people in the history of Pakistan, as president, no less. Anyway, we asked the government officials 'so what happened, why did you change the shortlist, we know what we're doing', and that's when he told us that the guy asked for a bribe. The funny thing is, the majority of the investors on our shortlist, or half of them at least, were American. Americans refused to pay the bribe because of the foreign corrupt practices act, it was illegal to bribe foreign officials. But the Europeans did not, so Europeans were happy to pay bribes, so it was Belgian, British companies, French companies that remained on there. Even Germans, and I mean, Germans are the biggest bribers of foreign officials ever. So, that's why the government made such a stupid decision.

And of course, they thought they could quickly get these powerplants built, and the load shedding I was talking about earlier would stop, and people would be happy, and they'd get more votes. I don't really buy that, because everyone knows that in Pakistan it's the army that decides who gets the

votes, and even if you win the popular vote, the army will just change the votes or the rules so that you don't win, as happened with Imran Khan recently. So that's my experience of power in Pakistan.

Ilyas: Were you dealing with the energy companies that wanted to be in charge of the powerplants?

Osman: Yeah, yeah, of course! So, our client was the privatization commission of Pakistan.

Ilyas: Which companies wanted to invest in that?

Osman: Oh, at that time American companies included the AES Corporation, which is still around. Enron, which isn't around anymore, famously. Tractabel, which got absorbed into SUEZ, which is a French company. International Power (*now Engie Energy*), which is a UK company, which I think is still around. Yeah, a couple others I can't remember.

Ilyas: So, what was in it for them, and what your interaction with them like?

Osman: For the return. It was like a no-brainer. You'd make like 18% IRR or whatever and you're hardly taking any risk. The only risk you're taking is that the government of Pakistan wouldn't go bankrupt. And the government of Pakistan doesn't have a history of going bankrupt, of defaulting, like Argentina because the IMF keeps bailing them out because geopolitically it's an important country and they don't want it to become a Somalia or something because it's got nuclear weapons or whatever. So, the foreign companies made money, and later, AES built two powerplants in Pakistan from scratch which, when I went into private equity, I helped buy for my firm.

Ilyas: And that firm was based where?

Osman: That was a Washinton DC based firm. So, yeah, that was why we went to Bahrain for seven months or whatever. AES was a client of mine anyways when I was a banker, so I know that they made a boatload of money from Pakistan. Money, that Pakistan could ill afford to pay AES shareholders, it happily did because it was such a stupid, stupid policy from the country's perspective. From AES' perspective it was great because they made so much money.

Ilyas: And what about conflicts? Gulf War One didn't make a different to the access to oil or anything like that? The foreign companies didn't care at all?

Osman: No, see this is something people don't fully appreciate. The oil and gas market is global and wars don't really affect it. The only way wars would

really affect it is if all the fields in Saudi Arabia or the UAE were blown up or whatever. And the US is going to keep that from happening, and it's also really in no one's interest to do that. But let's say even if that did happen, then what happens is this: The Gulf has the least expensive oil in the world because it's easy to extract. So, if the Gulf shuts down, you just move to more expensive sources of oil like the North Sea, or the Americans would extract more oil from Alaska. Indonesia, Malaysia, Australia. So, there really isn't, despite peak oil and all those theories which have now been debunked, there isn't a shortage of oil, and you would just move on to more expensive sources of oil if the least expensive sources of oil in the Gulf aren't able to produce it. The other thing to know is, there are a gazillion oil tankers roaming around the world, so you can always buy a shipment of oil. Of course, it has to be refined and all that, which can make it complicated, but the stuff that the Pakistani powerplants were burning was the worst kind. Furnace oil is the cheapest stuff, and you didn't need sophisticated refineries to burn that stuff. So no, Gulf War, all that stuff didn't really affect it. Yeah, prices go up but...

You never know why prices go up, often it's perception and we know perception can drive things like the .com bubble. People were putting value on pets.com based on perception rather than anything real, so that happens with the oil price also. Yeah, there's lots of data about supply and demand, but every time there's a war somewhere, traders will take advantage of the perception to make money. Although I think with the genocide taking place in Gaza, I don't really think that caused the oil prices to spike. But every time Israel invades Lebanon or increases atrocities in the West Bank, it does sometimes impact oil prices. It's a perception thing, not that it would actually impact supply.

Ilyas: What about Covid then, did that really change anything?

Osman: No, there was less demand. There was perceived less demand because people weren't driving to work and all of that. I didn't even follow the oil price back then because you just wanted to get through it. Everyone knew that this was a blip, Covid will end, and life will get back to normal. You can't really make long-term investment decisions on what you knew to be a blip. And it ended up being a longer blip than we all thought, but initially everyone thought it wouldn't last this long. Yeah, I don't know if it impacted generally the oil and gas industry or the electricity industry, largely because there were other things that were impacting it a lot more.

One is, much more than Covid, greater impact on us and the oil and gas industry, has been protesters like Greta Thunberg. That's why all these people saying student protests taking place at your university and elsewhere, people think that's useless. It's not useless, these protests have an impact. More importantly because the people protesting are the next generation.

You people, in your 20s, will be in charge in the next 10-20 years, and you will remember what you were protesting. Anyways, people like Greta Thunberg and all the climate change protestors and all that had real impact which meant that countries past laws about electrification of its transportation. They passed all these laws that x-percentage of all cars sold had to be electric and people needed to use more solar energy and more wind and all of that. So, that has definitely had an impact on oil and gas, as much as the oil and gas companies and Gulf countries are trying their best to convince people of otherwise.

Ilyas: So, back to the Gulf countries, what was it like the UAE for you working, given that most of the money comes from oil? Especially later, when people were becoming more climate conscious, and especially the UAE who were trying to do this whole eco-city thing.

Osman: So, I think there is a recognition in the Gulf countries that the market for their oil is going to disappear, eventually. So, they're trying their best to delay it. Even though they know, ultimately, there won't be a demand for their oil, but while there is demand, let's extract as much value out of it as possible. They're doing this by, in a way, co-opting climate efforts. It's amazing that the last two COPs were held in countries who are very reliant on oil and gas, and the next COP is also in a country which is very reliant on oil and gas, which is Azerbaijan. So, Egypt, UAE, Azerbaijan. These are the last two and the next COP. And the UK the one before that in Glasgow. Scotland as a big chunk of the UK economy was certainly, and still is to some extent, dependent on North Sea oil and gas. So, this whole COP is a joke, in the sense that the one-and-a-half-degree limit and all that is not going to be met. Everyone knows it's not going to be met. Everyone knew at these COPs it wasn't going to be met. Oh, and we'll hold all these COPs in the countries that really need to extract more and more oil and gas to make more and more money!

So, I was telling you how the Gulf countries have co-opted the whole climate movement. They did it by saying 'oh look we're so climate friendly, we're building solar powerplants in Egypt and wind powerplants in Jordan with Masdar and their government owned companies' and that's just to give themselves the climate credentials in order to co-opt the whole climate movement and even the science. It's important for them, they do not have very diverse economies. They're trying very hard to attract tourists, becoming a tourist economy. The UAE is trying to be a weapons manufacturer and a tech hub and all of that. I don't know if it's going to pan out. You've lived there, so you know there's only five months of the year when it's pleasant there. If you can go to Southern California, or the Amalfi coast of whatever, why would you go to Dubai? So now they're allowing gambling there, and you already know a lot of the tourists are Russian and other nationalities who don't easily get visas to go to Southern California

and the EU. And then they're also trying to turn it into sin city in the sense of alcohol, drugs, prostitution, to attract tourists to these countries. Because they're police states, they think they can control it really well, including the drugs and alcohol and all that stuff. It's a super police state. Walking through Dubai Mall, the joke was if you ever see two local guys in dishdashas walking together, you know they're CID!

Ilyas: So, what was working there like? Because you were doing similar things to what you were doing in the US.

Osman: Yeah, after the Arab Spring it became a much more fascistic state. And that, I think, for me was a turning point. In some ways, the UAE was like the Switzerland of the Middle East. They were kind of neutral, not fighting wars and all that stuff. Then, after the Arab Spring they started interfering in any kind of democratic movements. So here, we were living in a country and working for a government, well they only owned one-third of us, the other thirds were owned by GE and Credit Suisse, but still was actively trying to destroy the Arab Spring and any kind of democratic movements and it didn't feel good. Just like how it doesn't feel good to see our US tax dollars going to support a genocide in Gaza right now. So yeah, it didn't feel good. But on the other hand, you're just so busy working day-to-day. In my business you get a percentage of the profit you make, so you're just so focused on the deal that often you put aside the politics. Look, you know this, it's never fun living in a police state, just like it's not fun to watch the police arrest students on campuses for exercising their first amendment rights.

Ilyas: What do you see as the future? You've had more interaction with oil and power than I think most people, so I guess especially on the business aspect, what do you see as the future?

Osman: I think the future is electrification. Recently bought a Tesla, I don't know why, if you can afford it, anybody would buy any other car right now for daily use. I think the Biden administration is making a huge mistake by putting a 100% import tariff on Chinese electric cars, because BYD cars are better than Tesla cars, and the Chinese are moving way ahead of American manufacturers in terms of that technology. They also produce most of the solar panels. Now America is subsidizing American companies to produce more electric cars and solar panels here, which will only make it more expensive, which will create inflation and will delay the adoption of electric cars because they'll be more expensive, which is worse for the climate. So Biden is sacrificing climate so that he can win some UAW (*united auto workers*) votes and union votes by saying 'hey I'm protecting the US auto industry'. So, the US that claims to be a capitalist paragon and free market and open market only believes in free markets and open trade when it benefits it.

They're saying that the Chinese subsidize their electric car companies and solar companies. Well, that's exactly what the Biden administration is doing, that's exactly what the inflation reduction act was. I mean, I'm on the phone with the Department of Energy, their webinars and whatnot. They're explaining how they will subsidize manufacturing of solar panels and batteries all that here in the US.

I'm working on a deal where I'm working with Chinese companies to help set up battery and solar panel manufacturing here in the US, and you go to Chinese because they have the best technology. All it means is it'll be more expensive because rather than importing cheaper Chinese solar panels and batteries, we'll make more expensive panels and batteries here, and that'll be subsidized by the US taxpayer. It'll be more taxes, more expensive, and slower adoption.

So, I think the greatest risk to a rational energy system in the US, and really anywhere else in the world, are, really, politicians. Just like Zardari, Benazir's husband, created this ridiculous privatization of powerplants in Pakistan, Biden is creating this ridiculous situation where the adoption will be a lot slower, and it'll hurt the climate.