

Privatisation and deregulation



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WHAT about privatisation and deregulation? Where did these ideas come from? Where have they been adopted? What has been the experience elsewhere and what can we learn from it?

The generic ideas of privatisation and deregulation have been around for as long as their implied opposites, public ownership and regulation. Indeed, much of human history can be viewed as one long running argument about the role of government in the economic life of society. In the case of electric power industry, this argument has been going on non-stop since the industry was born in the 1880s, and will still be in progress, we can be assured, in the 2050s. Over the past two decades, the forces of electric utility privatization and deregulation have become something of a fad that needs critical review, particularly in light of recent experience. For us in Bangladesh, however, such so-called development partners (commonly known as donors) like the World Bank and the ADB are continuously pressuring our governments to adopt a strange regulatory regime that is not likely to provide consumers of electricity any benefit (please refer to the author's "the fight for publicly-owned electricity in Bangladesh", published in DS on 22 April, 2004).

The first country to restructure its utility industry through privatisation

and deregulation was not the United Kingdom, as many think, but Chile, that long, thin strip of a country on the Pacific side of South America. After the democratically elected government of Salvador Allende was overthrown by an America-supported (and CIA guided) military coup in 1973 (almost two years prior to the first military coup in Bangladesh in August 1975), Chile became the intellectual playground of American conservative economist like Milton Friedman, who

government came and started implementing the recommendations. But the worst component i.e. the distribution has not been touched. The package constrained, among others, an unbundling of utilities on functional lines and a step towards privatisation. Now, the present government once again feel nervous about reforming the energy sector.

Former British Prime Minister Margaret Thatcher, a keen admirer of Friedman adopted much of the

good; public was bad. By the time Thatcher was ousted in a palace coup in the 1990s about 40 public sector companies had been privatized. A number of these newly privatized companies did well at first. How much of that success was due to privatization and how much to the swelling tide of prosperity in western Europe is still debated, but certainly cheap North Sea gas helped to reduce the price of electricity.

In 1989, the Electricity Act passed by the Parliament and a grand experiment began, setting the basic pattern for power industry restructuring throughout much of the English-speaking world. Few knew that the military dictatorship in Chile provided the original model. The Thatcher government's original idea for restructuring was to break up generation component into two entities and then sell them off: National Power, which held 70 per cent of the country's power capacity (like Bangladesh Power Development Board), and Powergen which held the remaining 30 per cent. Almost 60 per cent shares of National Power and Powergen were then sold in 1991. The rest were sold in 1994. A few years later all transmission assets were consolidated into one company, National Grid (like the Power Grid Company of Bangladesh), which was sold in 1994.

All wholesale power was sold through the Friedman inspired Electricity pool. In 1996, Nuclear Electric merged with Scottish Nuclear to form British Energy, which was promptly privatized. The initial sale of shares of British Energy netted barely half what had been expected by the successor conservative government of John Major. (Mr. Major did not succeed in his own country. But he intervened on an energy issue in England and success visited Dhaka for a very short period in late 1990s and unethically influenced the then government of Bangladesh to allow production of gas from offshore Sangu field, without any proper reserve study and certification violating the international gas field practice. The Sangu gas field is now coughing heavily even sand blowing started like the once famous Bakhrabad gas field.)

Was the privatisation programme in UK a success? If you were one of the new companies shareholders, most definitely. In the initial round of privatization shares were sold at what proved to be well below their market value, a bonanza for those who got in first (as was secretly planned). This was especially the case for the utilities' managers, who were given generous stock options along with big pay increases (as it is now happening in the unbundled generation companies of BPDB). They quickly became known as the utility 'Fat cats', who effortlessly made millions from the new political gateway. Meanwhile, many thousands of utility workers lost their jobs and every time a large lay off was announced, share prices rose. This enrichment of a relative handful, clearly at the expense of workers and taxpayers, was the least popular feature of UK privatization. Least benefit were the country's 26 million residential customers. Pool prices remained stubbornly high and had increased since privatization. Utility share prices fell. Finally, in 2001, the labour government scrapped the Friedman-inspired Electricity pool and established a different market framework called New Electricity Trading Arrangement (NETA). The NETA has had a major impact on prices by October 2002. The UK wholesale prices average 40 percent less than in 1998, not because of new policy but because of cheap North Sea natural gas. But the huge nuclear debt was giving distress signals. The labour government was distressed at the backfiring. It had no choice but to step in with public money to save the British Energy's bleak future.

Privatisation and deregulation in the UK's power sector were meant to fix inefficiencies. The purported cure turned out much worse than the alleged disease.

What does the UK have to show for more than ten years of privatisation and deregulation? A bankrupt unclear company kept from sinking by the taxpayers. A non-nuclear power generation that is largely foreign controlled. A transmission company that was built by public enterprise but is now owned by private shareholders who use their UK generated profits to invest elsewhere. The UK market place is now rife with uncertainty and small customers are forced to pay a premium to mid level marketers to stabilize their power rates and have some security. Not much of an improvement. An expensive lesson, like British Energy, is in the perils of privatization. Would we, in Bangladesh, look back and also look at the mirror, before entering through the donor driven reform package, restructuring which will ultimately led to the process of privatization. Let us hope that the recently created regulatory commission does not become a Friedman type playground which is not likely to benefit the common consumers of electricity in Bangladesh.

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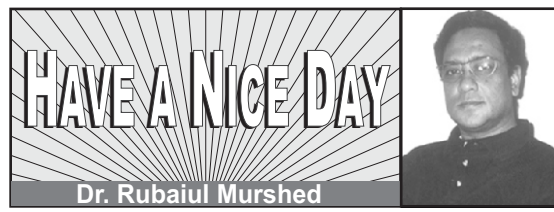
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believed that the less regulation, the better. Under the personal tutelage of Friedman the military dictatorship of General Augusto Pinochet (the blue-eyed general in the beginning and anti-people later) embarked on the world's first broad-spectrum programme of privatization and deregulation. Two major features of the utility restructuring programme were widely adopted by those who followed Chile's lead: the functional segmentation of the electric industry in particular into the generation and wires components (transmission and distribution), which meant all electricity was sold through centralized daily bidding system. In 1994, the then government of Bangladesh adopted a Reform Package on the advice of the World Bank but hesitated for two years regarding its implementation. In mid 1996, a new

Chilcan model without any qualms. In 1987, Margaret Thatcher became the first British Prime Minister in over a century to win three successive election victories. The conservative party platform for that election had promised to break up, privatize and deregulate (in Europe they call it liberalize) the country's electricity industry.

In late 1980s, Britain's economy was booming. Since her second election in 1983, Thatcher had privatized many of the industries that had been nationalized in the aftermath of World War-II (1939-45). British Telecom, British Steel, British Gas, Rolls Royce, British Airways, London Transport etc. had all been divested. Many of these public enterprises were profitable and performed well in public hands, but that didn't matter. Private was



Dr. Rubaiul Murshed

Herbal medicine: Awful small secrets

All health information to keep you up to date

POPULARITY of herbal medicine among city people is increasing. Sale of such medicines is especially very good outside big cities' in Bangladesh. Now the booming market has extended from rural shops to cities prestigious supermarkets. You can also see growing of herbal plants from Prime Minister's well-heeled garden to a remote herbal village in Rajshahi. Most of the consumers consider them as safe alternatives to conventional allopathic medicines. Certainly there are lot of good undisclosed benefits lying with herbal medicine. But for the confused consumer, the way of choosing these medicines is neither methodical nor easy. For the reason that some herbs carry risks whether due to their constituents or level of that -- consumers need to educate themselves about what they are dealing with. Most probably half of our population take some form of natural alternative medicines. But unfortunately at this moment in time, majority of local herbal suppliers or practitioners have no formal qualification on this subject. The producers also do not follow any standards like proper pharmaceutical industries. Dispensing of these herbal medicines is a matter of concern for country's health departments.

Some tips for taking herbal remedies

Consult doctors, knowledgeable herbal specialist or qualified pharmacist before using herbal medicines. It is better not to self medicate with herbal medicine.

Herbs are not simple substances. Their effectiveness

depends on different factors -- like how they were cultivated, as well as which part of the growth cycle they were produced. And processing these herbs is equally vital. So try to buy them from shops with good reputation. Now and then it has been found that mould has grown on these substances; even sometimes you may see insects fly out from packets or storage containers.

Many herbal practitioners unintentionally provide inaccurate guidance regarding the appropriate herb and their dosage. Quantity or dosage of herbal medication is an important part of herbal management. Concerning their side effects, they need to be as educated as possible for giving proper prescription.

And do not forget to discuss

with a doctor about allopathic medication you are on. There may be chances of cross reactions with traditional medicines. For example, we all know that garlic, ginger, are good for our health, but these may increase the effects of conventional blood-thinning agents if taken in high dose. So while you are having Aspirin regularly, consult an up to date doctor about your alternative medications.