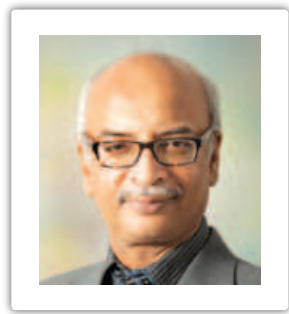




VISUAL: TEENI AND TUNI

What makes our energy subsidy policy irrational



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Fossil fuel and electricity subsidy is widely provided all over the world. A subsidy is a product of the political economy. Access to affordable energy is now a basic human right. The high cost of energy in low-income countries forces the government to provide a subsidy so that poor people can access energy products at affordable prices. The subsidy is sometimes directly provided to the low-income group through cash transfer or other targeted means – voucher, no disconnection clause, etc. With poor databases and weak administrative infrastructure, it is very difficult to provide targeted subsidies in developing countries. As a result, all citizens receive a universal subsidy that disproportionately favours high consuming rich people, defeating the purpose of the subsidy.

Bangladeshi citizens started receiving subsidies in the early eighties when indigenous natural gas started replacing oil as the principal fuel source. The gas price was fixed at one-fifth of the oil price it replaced – far below its economic value. Energy subsidies can help to alleviate poverty by promoting economic growth and development. By making energy more affordable, subsidies can help

Eliminating or reforming subsidies require careful examination of the effect of the reform. The impact on household capacity and assessing alternate arrangements to help the poor, the competitiveness of firms and industries, and the economic (inflation) and environmental (deforestation, coal use) impacts must be thoroughly examined. A well-thought-out design for subsidy reform must be in place before any decision is taken.

to encourage investment in energy-related industries, which can create jobs and increase economic activity. Additionally, subsidies can also help to promote the development of new technologies and infrastructure, which can further contribute to economic growth. The low gas price stimulated overuse, misuse, and wastage. In most industries, the use of inefficient technology and equipment grew. At the same time, the low energy price and cheap labour attracted the garment industry to Bangladesh in the mid-eighties. The current state of Bangladesh's economic success is built on the long, persistent subsidy on gas and electricity either by underpricing indigenous resources or by

budgetary allocation.

SDG7 demands affordable, reliable, and sustainable modern energy for all. The biggest challenge is the gap between the cost of energy and purchasing capacity. While developing countries are always struggling to close that gap, mostly through subsidies, developed countries and multilateral lending agencies have always opposed the idea as regressive, until affordability became a major issue for most of Europe after the invasion of Ukraine. A study by Brugel showed that various European countries earmarked 705.5 billion euros to protect consumers from the rising energy cost due to post-Covid recovery since September 2021. These were administered through reduced energy tax/VAT, retail/wholesale price regulation, direct transfer to vulnerable groups, support to state enterprises and private producers, windfall profit tax/regulation, and other measures. The actual allocation until July 2022 was over USD 260 billion. This assistance was mostly targeted towards the lower 40 percent income group of the population to reduce the affordability gap.

Poorly designed subsidy will mostly benefit the rich. In a study by the

World Bank in June 2022, it was found that up to 42-73 percent of fuel subsidy was benefitting the middle and upper middle class of Indonesia. The IMF and the world bank suggest reallocation of subsidies to the poor, vulnerable, and prospective middle class through social assistance or direct cash transfer. Designing an effective subsidy programme to help the targeted end-users requires accurate data on usage, income level, and affordability gap of the target group. Efficient delivery and monitoring of the subsidy require well-trained and structured administration with modern technology support. Closing the affordability gap is considered a social investment whose return must be measured using tangible parameters (income, health, education, economic activities, etc). This is required to eventually phase out the subsidy programme. Unfortunately, Bangladesh lacks the citizen database to identify the target group and the administrative infrastructure is not equipped to deliver targeted subsidy.

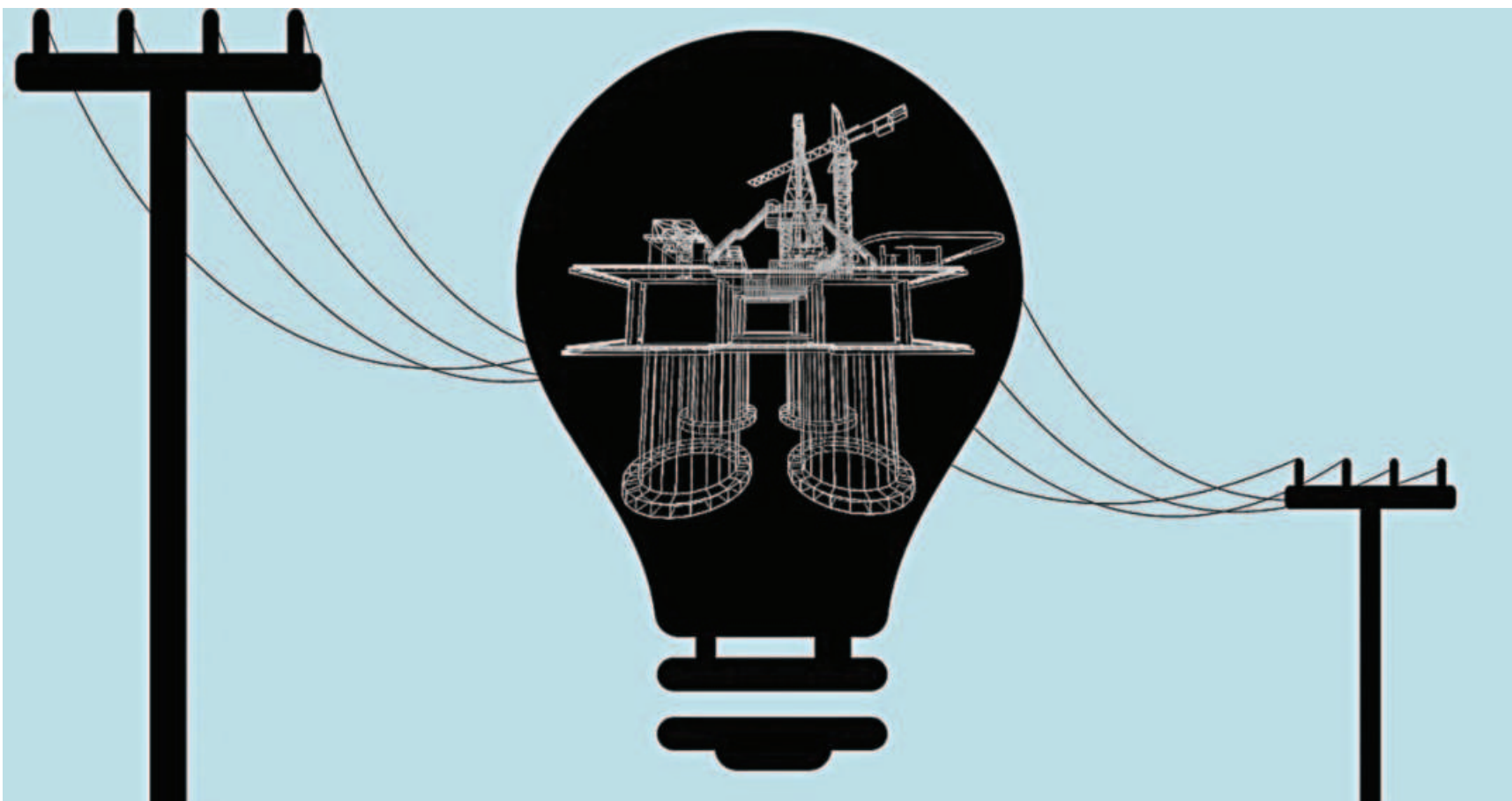
As mentioned earlier, Bangladesh's economy has been based on universal subsidies. The electricity tariff uses a tiered (step) system from the lowest rate for the lifeline connection (1-50

kWhr) to the highest tariff for over 600 kWhr users through six steps. Despite cross-subsidy from high-end users, the average tariff has always been lower than the cost of production requiring subsidy. The industry is offered both a flat rate and time of use rate (peak/off-peak). Last November, the government increased the fuel price by as much as 46 percent in one go, essentially eliminating all subsidies, causing high and widespread inflation. On January 18, 2023, the gas price was increased almost three times in many sectors sparing the domestic and CNG sectors. As a result, the average selling price jumped from Tk 11.64/m³ to Tk 21.27/m³, an increase of 83 percent. This astonishing increase will not only eliminate all subsidies but allow Petrobangla to profit at least Tk 5/m³.

The average purchasing cost including the high-priced LNG calculated by BERC in June 2022 was about Tk 12-16/m³. The SME sector, local manufacturing, and exporting industry will all struggle to cope with the new price. This may cause bankruptcy, loss of jobs, reduction in export earnings, and widespread inflation. The 2.8 times gas price increase for the power sector will definitely increase the average

electricity production cost by at least Tk 1.5/kWhr, resulting in further tariff hikes.

Eliminating or reforming subsidies require careful examination of the effect of the reform. The impact on household capacity and assessing alternate arrangements to help the poor, the competitiveness of firms and industries, and the economic (inflation) and environmental (deforestation, coal use) impacts must be thoroughly examined. A well-thought-out design for subsidy reform must be in place before any decision is taken. The recent pronouncements and actions by the government do not indicate that any such studies were undertaken. The only avenue of accountability and transparency for the utility companies was price-fixing through the regulatory commission. The government has recently taken over the price-fixing power of all energy products by a presidential order in their hand. This has made the role of BERC redundant and the general consumers defenseless and helpless. In the current energy crisis when the richest of nations are providing subsidy to its poorer citizens, Bangladesh is abandoning its downtrodden. The impact of this will unfold in the months to come.



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