

Time to strategise the long-term cost of energy stability



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Amid the ongoing Middle East crisis, Bangladesh has so far largely avoided an energy shock. Supply has been maintained through imports and stock management, enforcement against hoarding has been visible, and prices have remained stable. This is not incidental but the reflection of a deliberate effort by the government to contain immediate pressure and keep conditions manageable, and for now, it is working. But stability under these conditions comes with trade-offs, for it is not being secured; rather, it is being financed, deferred, and redistributed across the system.

The current approach reflects a calculated choice. Supply and price stability is being prioritised. The last major price adjustment in 2022 moved quickly through transport, production and household budgets. Inflation followed and lingered. That experience has left a lasting imprint on the economy, its rippling effects still visible in prices and household budgets. There is limited space for another abrupt correction.

The country's energy system depends, in part, on imported liquefied natural gas (LNG). When global prices rise, the cost of securing supply rises with them. Maintaining continuity under those conditions requires additional intervention, and that carries a cost of its own. It is absorbed within the system, including through external financing.

Bangladesh is under a programme with the International Monetary Fund (IMF) amounting to roughly \$5.5 billion, disbursed in phases, aimed at supporting external balances, fiscal stability, and policy reform. In addition, the Asian Development Bank (ADB) and other partners have also extended support, including policy-based loans. While

these are not designed to finance energy imports directly, they create fiscal constraint at a time when energy-related costs are rising. More recently, the government has sought over \$2 billion in additional financing linked to fuel and LNG purchase.

Bangladesh continues to rely on the spot LNG market to meet part of its demand. Spot purchases are volatile: prices move quickly during supply disruptions and cargoes secured at higher rates add to the cost. External financing can only absorb that pressure for a certain period. It lingers in the shadows of crisis management, gathering weight over time until it emerges unannounced in forms the system is not designed to absorb.

Foreign exchange reserves, the gross amount standing at around \$30.35 billion as of February 24, 2026, provide some room. But that room provides buffer space only while inflows, particularly from exports and remittances, keep pace with external payments. Energy imports are among the first to draw on it. Part of that cost is absorbed within fiscal space, sometimes through subsidies, sometimes through state-linked entities carrying losses. These don't always appear immediately in headline figures, but they build gradually. What is changing is how that pressure accumulates and is distributed through the system.

Per a recent report by this daily, fuel prices have been kept unchanged for several consecutive months even as import costs have risen sharply. In March alone, the government covered over Tk 5,000 crore in subsidies, with diesel import cost rising to Tk 198 per litre, nearly double the retail price of Tk 100. That gap will not disappear, but will eventually move into public finances, and

from there into the taxation system.

One may recall that exports have softened in recent months, with Bangladesh recording a 1.9 percent year-on-year decline in export earnings during the July-January period of the current fiscal year, alongside weaker RMG shipments to key EU markets—around four percent—during the same period.

At the same time, logistics disruptions linked to the Middle East crisis have affected

extended delivery timelines. For a system built on cost discipline and reliability, that matters.

Part of the pressure is already embedded within the system. Payments for installed power capacity that is not always utilised continue to add to the overall burden. Recent estimates suggest that, taken together, these overlapping pressures—from energy imports to structural costs within the power sector—are adding hundreds of millions of dollars

Meeting them has proven difficult to sustain, particularly where the adjustment moves through households and the formal economy.

Revenue has historically been harder to manage than it appears to be. Bangladesh's tax-GDP ratio remains among the lowest in comparable economies, hovering around seven to eight percent in recent years. Efforts to expand it continue to face structural constraints, including a narrow base and heavy reliance on indirect taxes. When pressure builds, the response tends to follow the easier path. Rather than widening the base, the system leans more on those already within it—through tighter enforcement and greater reliance on indirect taxation, including VAT and supplementary duties.

The burden does not spread evenly. It falls more heavily on individual taxpayers, compliant businesses, and consumers already within the system, while large segments remain outside effective coverage. Indirect taxes, by design, apply uniformly across transactions. In practice, that uniformity does not translate into socioeconomic equity. That raises costs within the formal economy without necessarily improving the overall resilience. Over time, this approach tightens the system, rather than strengthening it. The pressure shifts again—into margins, into pricing, and into parts of the economy where it is less visible but still felt.

What this points to is not a policy gap but a structural one. Stability cannot be managed reactively. It depends on knowing where the cost sits and how it is carried over time. Without that strategy, stability risks becoming a way of holding pressure in place rather than resolving how it is managed sustainably.

The current approach has kept conditions stable for now, at least on the surface. But it also risks something closer to Friedrich Nietzsche's idea of recurrence, where what is unresolved does not disappear; it returns, again and again, in the same form. The current trade-off cannot hold indefinitely. It is high time to strategise how the cost is absorbed and where, accepting that the economy will be pressured, while keeping the impact as contained as possible.



Vehicles wait in long queues to purchase fuel at a refilling station in Kalsi Road, Mirpur, Dhaka on March 29, 2026.

PHOTO: PALASH KHAN

cargo movement through key routes. More than half of the country's air cargo is routed through Gulf hubs, leaving it exposed to interruption involving major regional carriers. As capacity has tightened, freight costs have risen sharply. Air freight rates from South Asia to Europe have increased by up to 70 percent, reaching around \$4.37 per kg, with some exporters reporting even higher costs as shipments are rerouted or shifted from sea to air. Shipping lines have also introduced fuel surcharges and war-risk premiums, while longer diversions have

in monthly obligations. The same set of pressures is now working through both sides of the external account. Higher import costs increase demand for foreign currency. Softer exports and rising logistics costs weaken inflows. Remittance flows from the Middle East carry their own uncertainty.

Bangladesh has seen similar phases before. External financing has provided breathing space during periods of stress, often tied to expectations around revenue mobilisation, pricing discipline, and stronger financial governance. Those expectations are not new.

Bangladesh's inverted pesticide tariffs need to be fixed



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Bangladesh has long promoted domestic manufacturing as the cornerstone of its development strategy. Yet in the agrochemical sector—essential to feeding the country's population of nearly 18 crore—policy appears to be pulling in the opposite direction, as tariff structures, regulatory rules, and administrative delays continue to favour imported pesticides over local production.

Manufacturers say the country's tariff structure now makes it significantly cheaper to import finished pesticides than to produce them locally. According to industry calculations, raw materials used in domestic pesticide formulation—including emulsifiers, solvents, stabilisers, and other formulation agents—fall under different chemical tariff headings where customs duties can reach 25 percent. When value added tax and additional charges are added, the total tax on these inputs can reach about 58 percent. Meanwhile, finished pesticide—including insecticides, fungicides, and herbicides—enter the country with customs duties of about five percent and limited additional taxes. In effect, the tax system penalises domestic value addition while rewarding imports. Trade economists have a term for this phenomenon: an inverted

tariff structure.

Government officials often note that technical-grade active ingredients (TGAI) are imported duty-free. In practice, however, this exemption has limited impact. In most pesticide formulations, active ingredients account for a very small proportion of the composition, while the auxiliary chemicals that stabilise, dilute, and deliver the product constitute the bulk of the formulation and bear the highest duties. A further distortion arises because finished pesticides are exempt from VAT, whereas many excipients and auxiliary inputs used by domestic manufacturers remain subject to VAT despite already incurring import duties. The result is a misleading perception that pesticides face minimal taxation. In reality, industry estimates suggest that local manufacturers bear an effective duty burden exceeding 40 percent, creating a cost structure that discourages domestic production and favours the finished goods imports.

What makes the issue unusual is that the distortion has already been recognised within the government. In the FY2025-26 national budget speech, then Finance Adviser Salehuddin Ahmed announced that duties on

pesticide raw materials would be reduced to support domestic manufacturers, however, months later, the tariff schedule has not changed and no public explanation has been issued for the delay.

Tariffs are only part of the policy framework shaping the industry. Manufacturers also point to a regulatory requirement informally known as "single country, single source." Applied through the Pesticide Technical Advisory Committee (PTAC) under the agriculture ministry, the rule restricts manufacturers to importing specific raw materials from a single approved supplier in a single approved country. Changing suppliers can require fresh regulatory approval, including laboratory testing and field trials. Industry executives say the policy prevents companies from sourcing lower-cost chemicals from alternative international suppliers. Trade specialists note that Bangladesh's pesticide regulatory framework, derived largely from the Pesticide Ordinance of 1971, does not explicitly mandate single-source procurement restrictions. Government regulators defend the rule as a safeguard designed to ensure product safety and prevent substandard inputs entering the market.

The sourcing restriction raises potential issues under global trade rules. Bangladesh is a member of the World Trade Organization and therefore subject to the national treatment principle under Article III of the General Agreement on Tariffs and Trade (GATT). That provision requires imported goods to be treated no less favourably than domestic goods once they enter the market. Trade lawyers say a regulatory requirement that restricts manufacturers' access to

imported inputs could potentially raise questions if it disproportionately affects domestic production. A second relevant provision is Article XI of the GATT, which prohibits quantitative restrictions on imports unless justified under specific exceptions. If the "single source" rule functions in practice as a limitation on import channels, it could be scrutinised under those provisions. No WTO dispute has been filed on the issue. But similar sourcing restrictions in other sectors have been challenged internationally.

Even when raw materials are approved, manufacturers say they face delays in clearing them through customs. Each shipment requires a No Objection Certificate (NOC) from agricultural authorities before customs release. Industry participants say obtaining these certificates can take 15 to 20 days, during which containers remain at port and incur demurrage charges. Finished pesticide imports face fewer procedural steps. For chemical manufacturers operating on tight supply chains, such delays can disrupt production schedules and increase costs.

Bangladesh's status as a Least Developed Country (LDC)—scheduled for graduation in November 2026—provides a policy opportunity. Under the WTO agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), LDC members are not required to enforce pharmaceutical product patents until 2033. Bangladesh's pharmaceutical sector used that flexibility to build a thriving generic drug industry that now supplies almost the entire domestic market and exports to more than 150 countries. The agrochemical industry has not followed the same trajectory. Manufacturers

argue that regulatory decisions have sometimes restricted local production of pesticide formulations despite the broader TRIPS exemption. Government officials say regulatory approvals are based on safety considerations rather than patent protection.

The stakes extend beyond industrial policy. Bangladesh's pesticide market is estimated at roughly Tk 7,500 crore, with a significant portion supplied through imports. Industry leaders say eliminating excessive duties on raw materials could reduce pesticide prices by around 30 percent, lowering costs for farmers. Approximately 16 million farmers depend on crop protection chemicals to safeguard harvests. Lower input prices could directly affect agricultural productivity and rural incomes. The timing is also significant as when Bangladesh graduates from its LDC status, several policy flexibilities and trade preferences will gradually disappear. Developing domestic manufacturing capacity before that transition could strengthen economic resilience.

Bangladesh has demonstrated before that coherent policy can transform an industry. The pharmaceutical sector stands as one of the most prominent examples in the developing world. The agrochemical sector appears to possess similar ingredients: investment, technical capability, and domestic demand. What it lacks is policy alignment. For now, the reforms exist in meeting minutes and official letters. On the factory floor, the machines often remain quiet. In Dhaka's ministries, the decision to support domestic pesticide manufacturing has already been made—at least on paper. The question is whether it will move beyond the paperwork any time soon.

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