

30th July 2005 Daily News (Leader 10p)

The economy and the energy crisis

by Dr. C. S. Weeraratna

Chairman, Sugarcane Research Board

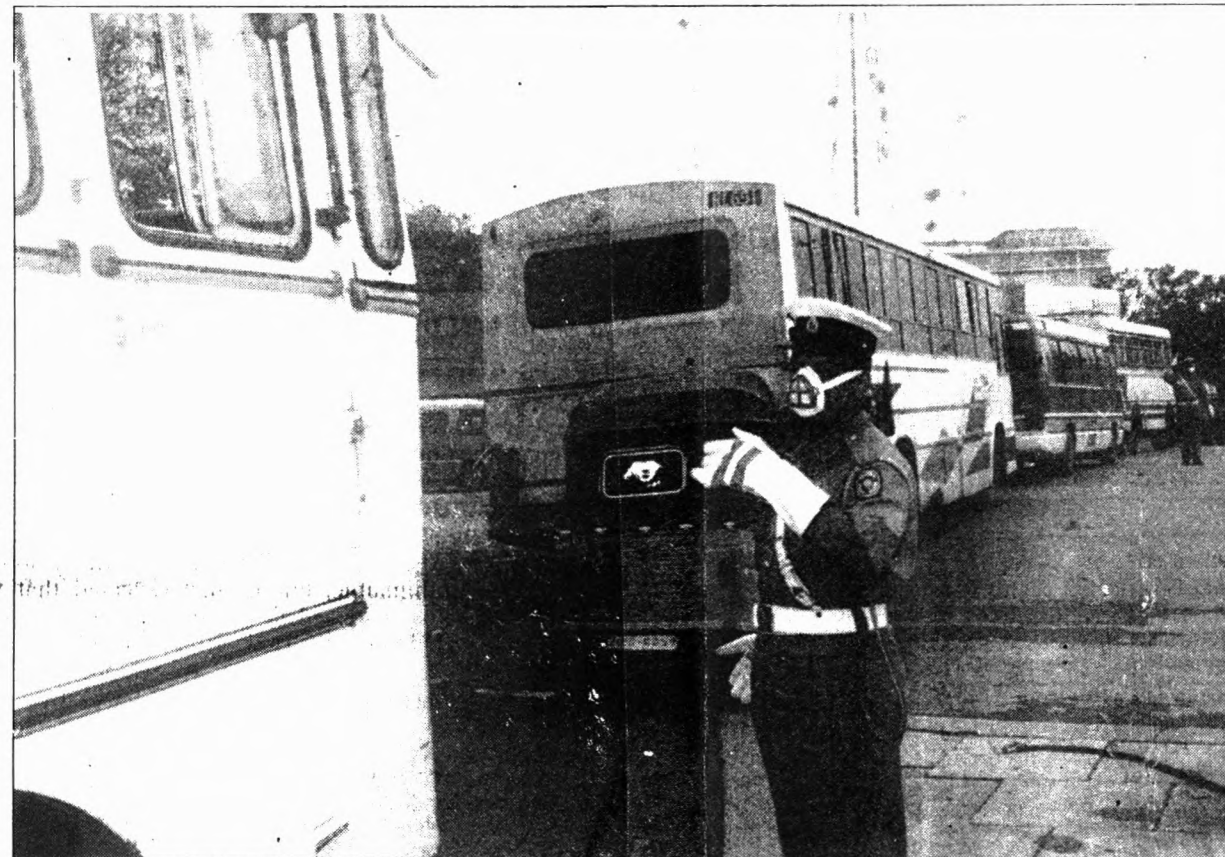
A rise in crude oil prices during the last few months has resulted in an increase in the prices of petrol, diesel and kerosene oil. High diesel prices would cause a rise in almost everything including transport costs, bus and train fares and factory costs, leading to high rate of inflation.

Diesel prices are also closely linked to cost of electricity as about 65 per cent of electricity generated comes from thermal power stations, which run on diesel. Increasing diesel prices have a corresponding effect on the cost of production of all our exports including tea, rubber, coconut and garments, resulting our exports uncompetitive in the world market. This may even cause some industries to close down making employment of some people redundant. Most of the farmers, who constitute nearly 60 per cent of the population, do not get any regular income. If their buying power is reduced, due to high prices of food and other consumer items, the demand for industrial products including those from the SME sector will decrease, causing further retardation of the ailing economy of the country. Thus, increasing diesel prices have extremely undesirable effects on the economy. The recent decision of the government to reduce VAT on diesel, although late, is very appropriate.

Sri Lanka spend a large sum of money in importing petroleum. It has increased from Rs. 35.3 billion in 1999 to Rs. 80.8 billion in 2003, nearly 130 per cent increase over the last five years. With the increase in fuel prices since mid last year it is likely that the 2005 annual fuel bill will be around Rs 150 billion. This is almost 25 per cent of our total import bill and is considerably more than the Rs. 100 billion we earn by exporting tea, rubber, coconut and other agricultural produce. A high expenditure on petroleum will widen our annual trade deficit, which is around Rs. 150 billion.

With the possibility of petroleum prices rising further, the trade deficit will increase. In spite of this very unsatisfactory situation, we are now importing oil on credit from India and Malaysia. We need to be concerned of the very high level of indebtedness, which stands at around Rs. 1200 billion, and the total debt service payments, which is around Rs. 350 billion, more than the total government revenue.

Stabilization: It is important at the present juncture to stabilise the local prices of diesel. The removal of VAT on diesel would stabilise the diesel prices although it tends to reduce the government income. Imposing a tax on diesel vehicles except buses and lorries could reduce this loss of income. In fact, there



Increasing diesel prices have undesirable effects on the country's economy

was a diesel tax imposed a few years ago. If diesel prices are increased, the owners of these diesel vehicles in any case will have to pay more. Hence taxing them is reasonable. The Government also needs to provide funds necessary for stabilisation of diesel prices. This is far better than increasing salaries, providing other benefits/subsidies in lieu of high fuel prices and facing the protests of the people.

While the diesel prices are stabilised, it is essential that action be also taken to reduce fuel/power consumption in the country. Otherwise, as indicated elsewhere, the trade deficit will continue to rise. In many other countries such as China, Thailand, Philippines etc. action has already been taken to reduce fuel/power consumption and cut down wastes. If we reduce our energy consumption by 10 per cent, it will result in a saving of at least Rs. 20 billion. It is high time that early action is taken to examine the different ways of solving the problem of energy crisis, and

implementing appropriate actions, rather than simply increasing local fuel prices, as suggested sometime ago by some theoretical economists, which would result in many problems to the people and to the government.

Traffic congestion: A concerted effort need to be taken to reduce wastage of fuel by reducing traffic congestions. It has been reported that traffic jams cause an appreciable waste of fuel amounting to around Rs. 2 billion per year.

All this can be saved if a realistic and concerted effort is taken by the Police and other relevant authorities to reduce traffic congestion. Heavy vehicles, including lorries and containers on roads during the times of heavy traffic, roaming cattle in some roads in Colombo, undisciplined drivers cause traffic congestion. Staggered office times and a change in school times would reduce traffic congestion to a considerable extent.

Rainwater harvesting: Rainwater harvesting need to be promoted in large public buildings such as hospitals to reduce the use of treated water. A considerable amount of power is used to pump water for distribution. An appreciable portion of treated water is used to wash vehicles, flush toilets etc. Roof rainwater harvesting to obtain water for such purposes would reduce power used in pumping water. The Minister of Urban Development and Water Resources Dinesh Gunawardena has been taking a keen interest on rainwater harvesting and has got an effective system installed at Sethsiripaya.

Electricity consumption: About 65 per cent of electric power is thermal, and diesel is used as the source. Consumption of electricity in offices can be reduced to a considerable extent if the Heads of such Institutions are asked to take immediate action to cut down excessive/unnecessary use of electricity. In some offices, not only air-conditioners but even electric fans are seen operating with all electric lights switched on. Reducing consumption of electric power in offices and other public places would considerably reduce our expenditure on oil.

Alternatives: Studies conducted in many countries have found a number of alternatives to petroleum. Vegetable oils (bio fuels) such as Soya oil, rape seed oil etc. are such alternatives for diesel. Ethanol is the most widely used alternative fuel. It is used extensively in countries such as Brazil, India, Canada etc. Automobiles powered by gasohol (gasoline and alcohol) are widely used in these countries. In US for example, around six billion liters of Ethanol, are used to blend gasoline.

Ethanol can be made from high starch containing crops such as manioc and maize, or high sugar containing crops such as sugarcane. These crops are cultivated in Sri Lanka. Around eight million liters of alcohol are produced annually at Pelwatta and Sevanagala sugar factories.

These can be used to blend petrol and used at least in three wheelers so that those who use them need not pay higher fares. Urban wastes can be used to produce bio-gas which can replace LP gas used for cooking. Dendro-power using fast growing nitrogen fixing trees such as glyricidia and leuceana, and solar-power are also potential alternatives. Thus, there are many alternatives to petroleum. All these alternatives need to be included in medium-long term plans in the energy sector.

Unfortunately, the planners in the energy sector of Sri Lanka have not taken any effective action to implement a viable plan to improve this sector in the country.