**Heavy reliance on petroleum products**

Explore for alternatives

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For Nepal‚ there is no option but to develop hydro-power and promote efficient biomass sector in order to reduce the country's heavy reliance on petroleum products. But‚ it cannot be done in a short period of time. It needs long term vision‚ plans and policies and effective institutions

The price of petroleum products is volatile in the world market. Nepal has experienced its shock from time to time in the past. Our dependence on petroleum products is increasing even further because of various reasons particularly it is efficient and easy to use. Though expensive, it has been relatively affordable so far. Most of the technologies that we find at present globally are designed to operate on it. Also, the economic growth and increase in oil consumption are highly correlated worldwide. Our development needs are enormous and we cannot think of life without cars and motor cycles and with a wide range of transport vehicles.

Nepal Oil Corporation (NOC) has, recently, lowered its price of petrol by Rs 2 per liter but at the same time, increased prices of diesel and kerosene by Rs 2 per liter each. NOC has reported that its loss on diesel still remains Rs 1.04 per liter, but it earns a profit on petrol of Rs 10.07 per liter and on kerosene Rs. 12.87 per liter. After the price change, NOC, as per the information, earned a profit of Rs 171.2 million from petrol, Rs 51.4 million from kerosene and Rs 277.9 million from aviation fuel in the month of December 2012. Its loss from diesel, however, remains to be to Rs 67.7 million, totalling a net loss of Rs 355 million in December. Furthermore, according to NOC, LPG costs Rs 656.62 less in the market than its actual cost per cylinder (14.2 kg), totalling a net monthly loss of Rs 787.9 million from LPG alone.

The above data are just to point out the fact as to how much is being spent on petroleum products which all is imported. It is a heavy price to pay but there is no alternative.

The price rise of petroleum products seems inevitable in the world market considering the political unrest in a number of oil exporting countries in the Middle-East and North Africa. Further demand for oil from high growth economies in Asia will stimulate the market further for higher prices. Many analyses indicate that the global society is entering the era of peak oil, in which conventional oil supply will be unable to increase significantly, but will eventually decline. It will gradually result in reduced supply of oil in meeting the ever-increasing oil demand in the world market. In such a case, the imbalance between the global demand for oil and its reduced supply will pave the ground in the world market for higher prices. Many analysts believe that this situation may not come tomorrow, or in five years, or even in ten years or so; but it is inevitable. And, if and when it happens, the worst sufferers will be those countries which are fully dependent on oil imports like Nepal. The sharp and sudden rise in global prices is likely to put significant pressure on domestic energy inflation in oil importing countries like Nepal, which will further have consequences on the overall economic development and also the welfare of the people. Most of the victims will be the urban poor and the middle class families. The high oil prices will result in macro-economic vulnerabilities. As a result, Nepal may not be able to sustain the present level of oil consumption in the future.

The price hike of petroleum products in the international market has already resulted in supply constraints in Nepal from time to time in the past as the country could not import the required quantity of oil due to inadequate cash flow to supplier company- NOC as a national monopoly! It led to supply constraint on the entire range of goods and services further putting inflationary pressure on the economy. Also, the price rise of petroleum products is one of the reasons behind the trade deficit that Nepal faces.

As per the present price structure, all the costs related to fuel consumption are not fully reflected in the price paid by the consumers, though some costs are related to inefficiency of the delivery system. When the costs due to externalities such as air pollution are calculated, the price of the petroleum products will be exorbitantly high, beyond the reach of most consumers. If the government chooses to relieve the burden of its people by paying a part of the costs as subsidy, it will ultimately put the burden people, the taxpayers.

As Nepal completely relies on import of petroleum products, it has now become urgent to orient consumers towards changing their consumption behaviour to protect the country from the effect of unexpected price rise of oil in the international market. The government should develop mechanisms to control the loss incurred due to the inefficient delivery system and should also initiate institutional reforms. It has also become necessary to adjust government taxes on luxurious users by introducing a progressive tax, while separating general users who get affected by the price rise. For Nepal, there is no option but to develop hydro-power and promote efficient biomass sector in order to reduce the country’s heavy reliance on petroleum products. But, it cannot be done in a short period of time. It needs long term vision, plans and policies and effective institution to regulate private sector activities which seems lacking in the present policies and plans. One thing is sure that we cannot enjoy the luxury of cheap petroleum fuel for forever.

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