

“Criticising Is Easy. Implementation Is Difficult. That’s The Reality.”

Posted on



Dr P B Jayasundera highlights the rationale of the government on the rising fuel prices and elucidates the measures taken thereof to alleviate the repercussions from the crude oil prices in the world market and international sanctions imposed on Iran’s fuel.

People express various views on the hike in fuel prices. The reason for the increase of fuel prices in this manner is the hike in crude oil prices in the world market beyond the bearable limits to our economy. As a result of rapid development programmes which took place in the country in the recent past, the fuel consumption also has increased. During the recent past, fuel was sold with a huge subsidy. Therefore, the loss to the Electricity Board as well as the

Petroleum Corporation increased day by day.

The Petroleum Corporation was supplying furnace oil to the Electricity Board at a price of Rs 40 per litre up to now. Its actual price is Rs 110. Thus, it seems that the majority of the loss of the Petroleum Corporation has occurred mainly due to the Electricity Board. The private sector could raise their profit volumes because they buy fuel at concessionary prices. The general public of the country also could enjoy a low inflation rate as the "Petroleum Corporation was supplying fuel at concessionary prices while "incurring losses.

Rs 60 billion was due for the "Petroleum Corporation as a result of supplying oil to the Electricity Board at concessionary prices by last "December. That was settled by the Budget. The Petroleum Corporation settled the loans due for banks with "these funds.

However, the global scenario remained as it is. Iran is our key fuel supplier. International sanctions have been imposed on selling their fuel. Therefore, we have to purchase oil from the open market in the future. The price of a barrel of oil has escalated approximately up to USD 120. Some say that the government still purchases oil at a price of USD 90 or USD 100. It is not true. We purchase 60 percent of the oil requirement of the country in the form of refined oil. The price of refined oil is very high. The stock of crude or refined oil in our possession may be adequate nearly for one-and-a-half months. The actual price of a litre of furnace oil which was supplied to the Electricity Board at a price of Rs 40 was Rs 116. The loss made per litre was Rs 76.

How long this could be borne is a question to be discussed. Due to this, the Petroleum Corporation incurred heavy losses. The Petroleum Corporation incurred a loss of Rs 90 billion within the 12 months of the previous year. If this loss is borne further, the loss at the end of this year would exceed Rs 200 billion. Maintaining government institutions in this manner is an impossible task for any expert. Some say that the government draws a large tax revenue by selling oil. In fact, only a tax of Rs 25 per litre of petrol and Rs 2.50 per litre of diesel is levied at present. In addition, taxes are not levied on any other fuel. The "Petroleum Corporation was unable to pay the General Treasury even the direct tax income it earned in last January through selling petrol and diesel. The Petroleum Corporation was incurring such a heavy loss. Even the Treasury had to face problems as a result of not receiving this tax income. It affected many other institutions as well. A vicious

economic circle was being created as a result of the hike in fuel prices.

No matter how much the price goes up, the country still needs fuel. Thus, the Bank of Ceylon and the People's Bank faced a huge crisis by supplying loans to the Petroleum Corporation. The crisis in the Petroleum Corporation and the Electricity Board became worse. Raising the fuel prices is the only alternative that the government could take at this juncture. The Electricity Board incurred losses even from the hydro-electricity which has "generated profitably in our country. A unit of electricity is sold to the public at a price of Rs 4.50 having generated it at a cost of Rs 6.50. The loss incurred per unit was Rs 2.00.

When the fuel prices increased this time, some said that there had never been such a huge hike in fuel prices in the entire Sri Lankan history. But, this is true only when the price of kerosene is concerned. A litre of petrol was sold at a price of Rs 157 in 2008. The current price is Rs 149.

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Consumers remember well that the government brought the fuel prices down when the fuel prices in the world market decreased. But, this is the first instance where the price of kerosene was raised by Rs 35. Around 90 percent of the population of the country uses electricity. Kerosene is used only by a small segment of the population. Out of forty five hundred thousand households in Sri Lanka, kerosene is used only in three hundred thousand households.

It is believed that kerosene is used in the poorest villages in the country. But, according to government statistics, the highest kerosene consumption is reported from Gampaha District. 40 percent of the overall kerosene "consumption of the country is from Gampaha District. A large portion of this goes to factories. Another portion is used by the fishing community. Some use kerosene as a substitute for diesel. Even when other areas are concerned, consumption of kerosene is very high in the coastal line. According to security forces, kerosene is used as a fuel even in manufacturing illicit liquor. The kerosene consumption in estate areas such as Nuwara Eliya, Kandy and Badulla is less than 20 percent. Even the houses in estates have been provided with electricity. However, it is reported that there are a certain number of kerosene-consuming households in Colombo District.

Thus, the government decided to grant relief to sectors affected by the fuel hike. First, let's draw our attention to the transport sector. The government takes care of the public bus service and the railway service. Private bus unions agreed to obtain a subsidy for fuel comparative to the increased fuel prices and to provide their services without raising bus fares at discussions held with the government before the fuel price hike. Even when the government has accordingly allocated Rs 722 million for the subsidy, the unions went for a strike and asked for a hike in bus fares breaching the compromise. Therefore, the government granted an increase in bus fares instead of the subsidy which was to be granted from last Monday. Neither the government nor the General Treasury breached any compromise or agreement. It is only the bus unions which failed to act according to the compromises reached.

There are several sectors which were affected by the fuel hike. The fishing community is one such sector. The government allocated Rs 150 million to provide concessions to them. Rs 160 million has been allocated to provide subsidies for vehicles engaged in transporting school children. Rs 375 million has been allocated to grant subsidies to passenger transport three-wheelers. Rs 70 million has been allocated for the railway department. Rs 61 million has been allocated for kerosene stamps to be given to households which do not have electricity. The method of granting subsidies to the public from these funds will be decided after discussing with the unions and officials of the above sectors. What the market has proposed to the government is to allow them to increase prices instead of granting subsidies. Certain three-wheeler unions have also announced this. However, they should increase their charges reasonably.

Concessions should be granted to people who are in need of it when a hike in prices occurs. The government acted in the same way when raising fuel prices this time. Criticisms made on this with a political point of view are not fair. Recently, India too raised fuel in a higher percentage than us. Even, Dr Manmohan Singh, Prime Minister of India who is a world reputed economist had to face this problem. At present, India implements a methodology of fluctuating prices having adjusted the fuel prices in India with that of the world market. But, Sri Lanka still carries out the fuel price formula while granting considerable concessions to the public. In addition to the above, numerous subsidies including fertilizer and Samurdhi subsidies are also being duly granted. Managing the economy while shouldering the burden of all these subsidies is an arduous task. Criticising is easy. Implementation is difficult. That's the reality.