LP GAS PRICE HIKE AND ECONOMIC REFORM

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Hullabaloo about the recent 30% gas price hike announced by Shell Gas Lanka Ltd (SGLL) unravels several matters concerning the process of economic policy making in Sri Lanka, especially the issue of public consultation and transparency. There seem to be an urgent need for public consultation and transparency in any divestiture (privatization) programme. The consumer public have to be incorporated from the initial stages of any divestiture programme. Consumer groups (for example, households, trade unions, manufacturers, traders, non-governmental organizations, etc) should be represented in the entire process of divestiture, in order to know and understand the terms and conditions of any such agreement. Besides, once an agreement has been reached between the contracting parties the government should make it public. A 'public document' is not meant to be presented to the people's representatives in the legislative assembly (parliament) *only*. It has to be made public to the wider civil society as well.

In this regard, there is a pressing need for a 'Freedom of Information' ('right to information') Act to be incorporated in the proposed new constitution, whereby every citizen of this country would have the right to be informed about all actions of the state, including economic matters. In the course of any divestiture programme, all the names of bidders have to be disclosed along with their terms and conditions. These information have to be publicized in the print media so that a public debate could ensue on the pros and cons of various buyout proposals. On the one hand, this procedure would provide an opportunity for the civil society to participate in public policy making vis-a-vis privatization of public assets and property, and on the other provide a transparent mechanism to prevent corruption (financial or other) in the process of selling off public assets and property. A Policy Research and Information Unit (PRIU) was established in the Presidential Secretariat in January 1999 for the purpose of public policy pronouncements. Perhaps this could serve as a conduit for public access to unhindered information from the state.

The Colombo Gas Company, a state monopoly, was privatized in December 1995, and SGLL bought 51% of the shares (the rest is still owned by the government). The controversy regarding the gas price hike is further accentuated by the monopoly (single seller) status accorded to SGLL for a period of five years (until December 2000). Sri Lanka being a small market, it may have been necessary to provide this incentive to attract a global player like Shell International (an Anglo-Dutch multinational) with its high reputation for quality and safety standards. However, a public pronouncement on the rationale behind the choice of a monopoly firm (albeit for a limited period) could have gone a long way to allay the fears of consumers, who assume that the monopoly firm is ripping them off.

Strategically, it should be enshrined in the constitution that the proceeds from all divestiture programmes have to be *solely* used to repay the public debt, and for nothing else. Public debt (debt incurred by various governments year after year) outstanding in Sri Lanka is a staggering SLRs.1,051 billion (domestic debt SLRs.543 billion plus foreign debt SLRs.508 billion) as at end of 1999 (Central Bank of Sri Lanka, *Annual Report 1999*, Table 66), and the payment of interest on public debt consumes almost 20% of the annual budget of the government (62 billion in 1999)(CBSL, *Annual Report 1999*, Tables 54&56) which is the largest component of the budget. Since 1990, a total of Rs.47 billion has been realised through divestiture programmes (CBSL, *Annual Report 1999*, Table 74). The proceeds from the sale of public assets and properties (part or full) through divestiture programmes should not be used for current or future public consumption, but instead utilized to reduce the public debt and thereby budget deficit. Success of any divestiture programme also depends on the way in which the proceeds of the programme is utilized.

The stir created by the recent 30% gas price hike is partly due to the continued subsidization of gas to consumers by the government even after part privatization of the Colombo Gas Company Ltd in 1995. Because the consumers were getting gas below world price, they continue to expect so. Any government, as a matter of principle, should discontinue subsidies either to the consumer or producer once a public enterprise is privatized. The dependency culture should be discontinued once a divestiture programme is implemented. The government should forge a bipartisan agreement with the main opposition party on these issues prior to any divestiture programme. There is a need for bipartisan broad consensus on basic economic policies among the two major political parties which have governed Sri Lanka since independence. Quite obviously the general public resent the price hike during a time in which the country is on a "war footing," because they regard it as a sinister attempt by the SGLL and the government to take cover under the Public Security Ordinance promulgated recently.

Further, a regulatory mechanism should be developed in the privatized utilities sector (electricity, gas, telecommunications, and water) to look after the interests of the consumers and various service providers in the post-privatized period. For example, the Telecommunications Regulatory Commission of Sri Lanka was set up by the government to be an arbitrator between various telecommunication service providers (including cellular phone services) and the users of such services. However, this is regarded as a "toothless" regulator by many for very valid reasons. Therefore, an effective, independent regulatory body to monitor and take remedial steps as regards the quality of services, pricing structures, unfair trading practices by competing service providers, etc., has to be set up in each of the privatized utility sectors. This is all the more important in a sector where there is a monopoly, such as the LPGas supply. This should also apply to other past, present and future privatized services such as bus/rail/air/sea transport, road and air/sea port development, etc. Public sector employees should not be members of these proposed regulatory bodies.

The uproar due to gas price hikes is much more than proportionate to the impact it has on the Sri Lankan society as a whole, because the LPGas usage for domestic purpose is still very small. For instance, the number of households who use LPGas for domestic (cooking) use is less than 700,000 out of a total of about 4 million households in Sri Lanka (although SGLL refused to provide statistical data on LPGas consumption in Sri Lanka, we inferred from some other information provided on their web site). That is, it seems that only a maximum of 17.5% of Sri Lankan households use LPGas, that too overwhelmingly in urban areas. This is also predominantly an urban issue, because the cost increase for commercial enterprises due to the rise in gas price is by and large passed on to the urban consumers. The rural poor and a significant proportion of the urban poor depend on firewood and kerosene (paraffin) respectively. Hence, the issue of gas price hike seem to be predominantly an urban middle-class issue. This is yet another example which illustrates that the biggest stumbling block to economic reform is the middle classes in any country, because they may be the ones who lose out most.

Our request for LPGas consumption information from SGLL was turned down on the grounds that they are "confidential market information as this would help our competitors to gather crucial LPG market information." Whilst partly accepting this position, I am a bit apprehensive about the ethics of a monopoly such as the SGLL taking cover under this widely used commercial practice. Did they have any competitors in the past four and a half years?! (perhaps they are referring to the anticipated competition from January 2001).

Subsidies for *wholly* imported goods, such as LPGas (about 90% of LPGas is imported and the rest bought from the Ceylon Petroleum Corporation as a residue of petroleum processing), petroleum and wheat, do not make economic sense, because in effect the Sri Lankan tax payers are subsidizing overseas producers and marketeers. Is this rational or fair? Besides, subsidized imports promote dependence on goods that Sri Lanka do not produce, the classic example of which is wheat. The insatiable appetite of Sri Lankans (especially among urbanites) for wheat and wheat-based products (especially bread) in the post-independence period is state-induced (thanks to American PL480 as well) due to massive subsidization of wheat imports, despite the fact that historically rice has been our staple food. This does not augur well for domestic alternatives. Further, subsidies result in increase in public debt which is a burden for the future generations of Sri Lankans imposed by the past and present generations. Is this sensible? Therefore, the use of subsidies in public policy need to be evaluated prudently and rationally.

In sum, four important lessons for the future of economic reform in Sri Lanka could be learnt from the episode of the recent gas price hikes. Firstly, the urgency of transparency, public consultation and accountability in the divestiture of public assets and properties should be understood. This applies equally to the state as well as the corporate sector. Thus, privatization and economic reform by stealth should be done away forthwith. Secondly, monopolies (state or private) should not be tolerated in both goods and services sectors. Thirdly, subsidization of *wholly* imported goods should be discontinued forthwith. Fourthly, public policy making in economic issues should not succumb to pressures from a vocal group/class of people, which may be detrimental to the vast majority of people, especially the poor (present and future). ■