SPECIAL ISSUE

South and Southeast Asia Pricing Issue

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Guest Editors' Preface

by Wesley K. Foell (Asian Institute of Technology, Bangkok), Corazon M. Siddayao (Economic Development Institute, The World Bank), Jayant Sathaye (Lawrence Berkeley Laboratory) and Helmut J. Frank (University of Arizona)

In May 1986, the IAEE held its first professional activity in Thailand -- The Regional Workshop on Energy Planning in South and Southeast Asia -- sponsored jointly by the National Energy Administration of Thailand and implemented in collaboration with the Thai Affiliate Chapter of the IAEE. Four main themes were addressed at the workshop: (1) Regional Energy and Electricity Demand Outlook; (2) Experience with Energy Pricing Reforms; (3)
Expediting Investment in Hydrocarbon Exploration; (4) Industrial Energy Conservation and Efficiency. Since this region contains a large share of the world's population, discussions on these topics were considered extremely important in establishing a better understanding of energy problems in developing countries. Fifty-two participants from fifteen countries attended the workshop. The Asian countries included China, India, Indonesia, Nepal, Pakistan, Philippines, and Thailand. A large number of participants came from the United States and Western Europe. The workshop format and limited size of the participant group provided an atmosphere which encouraged an effective interchange of information, particularly between industrialized and developing country participants. Papers presented at the workshop, in unedited form, have been compiled and published by one of the workshop organizers. Energy pricing stood out as the most hotly discussed topic at the workshop. It elicited by far the greatest interest and demand for discussion of experiences and interpretation of various policies and reforms. As a result of this interest and the clear need to better understand pricing policies, institutional procedures, and impacts in developing countries, a followup effort was suggested to disseminate several of the pricing papers to a wider audience. Thus was born this Special Issue.

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Petroleum Product Pricing in the Philippines

by Armando Pestano (Philippine National Oil Company, PNOC Building, Metro Manila, Philippines)

Introduction

The Philippines' current reliance on petroleum products, half of its total requirements for energy, is a major reduction from the ninety percent dependence in the early 1970s. All oil is imported, and its cost has risen to about thirty percent of the country's proceeds from exports. In the late 1970s, the government instituted a comprehensive energy plan under which hydropower, geothermal energy, coal and other indigenous resources were to be developed and substituted for fuel oil by major consumers, including central power plants and the cement industry (which has now converted to mainly coal). Energy pricing thus continues to be an important aspect of public policy. This paper reviews Philippine policies and procedures for pricing petroleum products from the inception of regulation in the early 1970s to the present. The use of regulatory and fiscal policy instruments is described, with particular attention given to differential taxation and mechanisms to stabilize domestic petroleum prices. Effects of pricing policies on petroleum product consumption patterns, government revenues, efficiency and equity are considered. The last part of the review focuses on pricing developments over the past two years.

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Petroleum Product Pricing in Thailand

by Piyasuasti Amranand (National Energy Policy Office, Bangkok, Thailand) and Tienchai Chongpeerapien (Thailand Development Research Institute, Bangkok, Thailand)

The history of petroleum product pricing in Thailand over the past decade provides an excellent example of the consequences of pricing policy on the demand for commodities. It also provides an invaluable lesson for policymakers and the general public on the consequences of a distorted pricing structure. It clearly shows that unless law enforcement is strictly carried out, widespread abuse of the pricing system will result. The pricing structure, as it turns out, often benefits only a few unethical traders while it has little beneficial impact on the consumers it aims to help in the first place. Our objective is to describe the developments of petroleum product pricing in Thailand, particularly since the second oil crisis. Government policies will be explained in detail. There is an assessment of price elasticities and interfuel substitution elasticities among petroleum products as well as their substitutes. Finally, implications for formulating energy pricing policy will be presented. In Thailand the government normally regulates the prices of "essential" commodities to protect consumers' interests from the possible consequences of profiteering by unethical merchants and traders. Although there is only a vague guideline to indicate what products are considered essential, most of the things that consumers normally need in their daily lives are included and prices are regulated (either passively or rigidly).

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P.R.C.'s Price Reform and the Trend in Energy Prices

Li Zheng and Zhang Jian (Beijing Economic Research Institute of Water Resources and Electric Power, Beijing, P.R.C.)

The State Council's Price Bureau is the administrative organization that regulates prices for all of P.R.C. Each provincial, municipal and local government also has a price office whose function is regulating the prices of most commodities. Prices of major commodities are set by the State Price Bureau and implemented after approval of the State Council. The prices of relatively less important commodities are set by local price offices. All subsequent price changes must be approved by these price agencies; otherwise, they are illegal. At the same time, the local branches supervise the market's implementation of the stipulated prices. Before initiating its present economic reforms, the P.R.C. had a planned economy. Under the planned economy, both the means of production and important consumer goods were distributed through the centralized distribution system, while the output of enterprises was all sold through the state's centralized marketing system. Since the state absorbed all profits and losses, the enterprises did not pay attention to it or loss. Consequently, before 1983, once they were set, commodity prices remained basically unchanged. In the last few years, the P.R.C. has been implementing reforms of the economic system to improve the economic effectiveness of enterprises by giving firms decisionmaking powers, making them responsible for their own profits and losses, and giving free play to the function of the market. Such reforms required a transformation of the old price system and the implementation of market prices.

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Energy Pricing and Household Energy Consumption in India

by Ramesh Bhatia (Institute of Economic Growth, University Enclave, Delhi, India)

The basic objectives of energy pricing policy include the achievement of economic efficiency and social equity while maintaining financial viability. Some of these objectives may be translated into criteria of fixing administered price, e.g, "lifeline rates" for electricity, subsidized kerosene for meeting basic needs, control of inflation, encouragement to utilize domestic resources, incentives for conservation, subsidies for investment in renewable energy technologies and profitability and efficient management of public sector units. One of the important aspects of energy pricing in developing countries is that prices of different fuels at different stages of production and consumption should be analyzed in an integrated framework. See Munasinghe (1980), Bhatia (1985), Siddayao (1985), Kadekodi (1985), and Kumar (1987). However, in the actual practice of fixing fuel prices, the interrelations between prices at different stages and those among different fuels may get ignored. This may partly be due to the fact that decisions relating to pricing of different energy resources/products and taxes/subsidies are taken by different government departments and partly because the government does not exercise control over the prices of traditional fuels like firewood, softcoke, dungcakes, etc. In order to meet a certain objective, the government may be fixing prices which may not be remunerative for producers. Under these circumstances, the producing units will not make adequate profits (may, in fact, incur economic losses) on investment in new facilities/modernization schemes. This would result in shortages of supplies, producing adverse impacts on economic and social development. Administered prices of fuels and electricity may be set so they do not reflect their opportunity costs. These prices may, in turn, distort consumer choices in such different end-uses as cooking, lighting, transportation, and irrigation pumping.

Pages 107-125

Asian Petroleum Pricing Policies Revisited

by Corazon M. Siddayao (Economic Development Institute, The World Bank, Washington, D.C.)

Introduction

Before 1973, energy demand and supply were largely left to market forces even in the developing countries of Asia. But the sharp increases in the price of petroleum in 1973-74 and the link between energy and an economy's development drew attention to this commodity. Many critical factors spurred policy changes affecting energy use and supply, but in Asia's developing countries, policy choices were heavily determined by the effects of oil price changes on a country's balance of payments, economic growth, and inflation. For oil exporters (e.g., Indonesia), oil is a source of foreign exchange; for oil importers (such as India, the Philippines, and Thailand), reduced oil dependence means lower foreign exchange expenditures. In both groups, the relationship of energy and economic development and the effects of prices on real incomes and income distribution were recognized. Pricing policy was used to achieve certain equity goals, and inefficient price structures characterized the first few years after 1973. More recently, governments have responded more positively to recommendations to price energy more efficiently. Distortions resulting from pricing policy are now generally recognized. Nevertheless, governments find adoption of the appropriate pricing policies difficult because of political and social considerations. My paper will highlight some of the issues associated with pricing policies of many Asian developing countries in response to changes in the international oil market. The issues will be drawn from the four country papers selected for this volume as well as other recent works (the discussions are intended to be supplementary to those in the four papers).