THE RUMPUS OVER FUEL PRICES:
Increases not pro-poor but gov't has no option

By Jonathan Adiabre

As a group of Political Parties and Civil Society Activists continue to mount pressure on government with street protests in demand for petrol prices to be reduced, a research fellow at the Institute of Statistical, Social and Economic Research (ISSER), has described the present petrol prices hikes as not pro-poor but argued that the nation has no other alternative to dealing with the critical fuel problem than to walk the road towards achieving cost recovery prices for the product.

Dr. Asante, who is also the Coordinator for the Centre for Energy Economics and Regulation, indicated that the concerns raised by ISSER, expressed these concerns in an interview with Public Agenda.

"What is the way out of the quagmire the nation finds itself in the quest for sufficient energy supply rather than deregulating the energy sector?" Dr. Asante queried, when asked whether Ghana could not have adopted a different approach to dealing with the energy problem, making a case for the deregulation policy.

"It is one of the bitter pills that the nation would have to take. We cannot continue to subsidize petrol with our scarce resources. The economy doesn’t just have the capacity," he stressed.

Dr. Asante agreed that the poor would be the hardest hit in the face of increasing energy costs and the recent petrol price increase is a result of the deregulation process. But he beleived what President Kufuor told Ghanaians at the People’s Assembly that it was not wise to continue to subsidize petrol prices with billions of cedis when such funds could be used to directly deal with poverty. He added that if prices were not adjusted upward, the 2005 and 2006 years would have seen the subsidy bill rise to $3.1 billion and $3.1 billion respectively.

Asking whether he thinks Ghanaians support the price increases, he replied in the negative and stated that his research showed that Ghanaians were quite aware of the difficulties associated with the petrol price increases, hence disapprove of it. He however turned that if Ghanaians were aware that the about $1.4 billion that was used to subsidize fuel could provide them with several roads, hospitals, schools and other facilities, their position would have been different.

He blamed government for the situation for not creating enough awareness about the deregulation policy before its implementation.

He was not also happy that full-fledged cushioning measures could not be implemented before the price increases and urged that government should act swiftly on the motor transport programme to reduce the burden of transport cost on the poor. "We can adopt various strategies and measures to lessen the burden on low-income earners and that we must do rather quickly."

Commenting on the new burden on the poor, Dr. Asante mentioned that increased petrol prices and transport fares would have a direct impact on the poor. He argued that this year, the petrol price would lead to a 31.4% rise in the cost of land transport. "Transport charges, he said, should have gone up by 30% as government directed but due to weak enforcement measures, transport fares in some cases have risen more than the stipulated ordinance."

The combined effect of increased petrol and transport costs, he stressed, would strain the purse of the low-income households and hence would lead to inflation or stunted growth of the economy.

As a result of the fuel and the cost of living, Dr. Asante implored government to reduce the increase in transport fares, suggesting that if the price of petrol were to go up by 18%, the nature of transport fares would not increase by 50%. He recommended that given that women are the dominant actors in the fish retail business, a reduced demand for fish as a result of high prices would have a deterring effect on the incomes of women.

On kerosene and Liquefied Petroleum Gas (LPG), Dr. Asante stated that the two products are largely consumed by low-income households in both the urban and rural areas for lighting and cooking purposes, especially that of kerosene.

He indicated that increased prices for the products would be burdensome to such groups. He was also of the view that although such price increase would reduce the use of kerosene and LPG for their lighting and cooking activities, they are likely to resort to the use of firewood and other wood products to meet their energy needs. Such a shift, he noted, could lead to deforestation.

As an exercise to reduce carbon emissions, what should be done to lessen the hardships of the ordinary Ghanaian now that deregulation has become a reality, Dr. Asante gave a catalogue of measures.

First, that the anticipated de-coupling of subsidies from production or consumption should be done gradually. Second, that government should expand existing social safety nets to provide direct support for the weak that would be harsly hit by the high fuel price increases. Third, that tax on kerosene and LPG should be significantly removed to allow for low-income earners’ continued use. Fourth, that the mass transport programme should be extended to rural communities to help transport costs of rural dwellers and finally, that government should search for cheaper sources of energy and work fast on completing the West Africa Gas Pipeline Project.