Economics Study Center
University of Dhaka

CETERIS PARIBUS

VOLUME 6

Golden threads: Weaving 50 years of ESC

Global Energy Crisis and Bangladesh:
Reasons and the way out of it!

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No one is unaware that we are experiencing a worldwide energy crisis. This crisis poses a challenge to many aspects of the current global order. As we plunged into this energy crisis immediately after a protracted COVID pandemic, the so-called superpowers of geopolitics are being questioned; the countries that we allowed to profit billions of dollars in standard scenarios are being despised for their selfishness and greed, but questions are being asked of our government about whether the promised development is relevant, whether our policies are adequate, and whether the government was prudent enough to save us from the looming catastrophe.

A Global Crisis

The roots for the transition from the need for energy to its crisis are twofold: a sudden increase in demand after the extended stagnation during the COVID pandemic and the Russian invasion of Ukraine. The energy supply industry was taken off guard after a prolonged infirmity due to the COVID-19 pandemic, when businesses and production abruptly resumed. During the COVID shutdown, electricity demand worldwide decreased by 3% in the second half of 2020. The energy demand sharply decreased. Consequently, many energy supply companies, especially the smaller ones, were compelled to discontinue operations. The bigger supply shops also cut down on activities. Early in 2021, when the world economy started improving, energy prices rose. The economy quickly recovered. Numerous coal, gas, and oil supply plants could not scale up or recover to meet demand. In October 2021, a significant supply problem prompted the price of Asian spot LNG to peak at USD 35/MMBtu, which was just USD 2.05/MMBtu on April 20, 2020, while the price of Newcastle thermal coal soared fivefold to USD 266 per ton over the same period. The high price of gas imposed pressure on alternate fuels, mainly coal, for the production of electricity.

Further disruption to this already unstable energy supply network during the pandemic would quickly reveal what the globe would look like if an energy war broke out. As Russian forces moved closer to Ukraine and the West imposed sanctions, the concern of an interruption in the Russian supply—which supplied 40% of Europe's gas and 12% of the world's crude oil, half of which flowed to Europe—led to a sharp increase in the cost of all energy sources. Asian LNG's spot price on February 22 was USD 28/MMBtu, coal's spot price on February 25 was USD 237/ton, and Brent's spot price on February 23 was USD 99.29/bbl. These prices were all higher than the five-year averages that had preceded them.

While these events could be discounted as unprecedented, the world leaders were criticized everywhere for their handling. Firstly, the West couldn't prevent or prepare for the war looming over Europe since Russia's invasion of Crimea in 2014 and other threats. Second, when the world's oil demand increased as a result of Russia's oil shortage, OPEC and its non-OPEC allies, commonly referred to as OPEC+, decided to reduce production by 2 million barrels per day starting in November 2022, which will, in turn, increase prices as well.

The Crisis Manufactured in Bangladesh

This unprecedented long period of high energy costs and supply scarcity is imposing tremendous pressure on all economies, particularly Bangladesh, one of the world's fastest-growing countries, which is highly reliant on imported gas and oil for steady energy supplies. There are plenty of reasons why we are currently standing in this scenario where the government has to take drastic steps like limiting office hours, bringing back the era of load shedding and blackouts, asking the citizens to limit their energy usage, limiting the celebration of national festivals, etc. The government's prudence is also under scrutiny, as it was inadequate to handle the issue better.

First, a lack of natural resource extraction has left the country reliant on imports to a significant degree. At least three independent groups have indicated that the country's gas reserves are more than double what the country presently estimates, yet despite this, not enough effort has been put into exploring these reserves.

Bangladesh outperforms the rest of the world with a success ratio of 3.5 to 1. This means that, on average, three and a half wells are drilled before a commercial gas find is made. In the final three exercises, we had one success, proving the reliability of the ratio. Over the last 22 years, Bangladesh has drilled 28 exploration wells, or 1.2 exploration wells on average, each year. There are merely 98 exploratory wells in Bangladesh compared to 160 in Tripura, a nearby state with an area of 10,000 square kilometers compared to 1,47,570 square kilometers in Bangladesh. Bangladesh has also not made any notable attempts to look into prospective offshore petroleum deposits since 1974. Because of this, the vast potential of the oil reservoirs in this territory remains untapped, despite the great demand in this expanding nation.

Second, instead of looking into our resources, the government agencies in charge of developing and carrying out policies tend to depend on imports to meet the demand for natural gas. Nearly three-fourths of our total demand is met by the gas discovered in our resources, while the remaining one-fourth of the demand is met through imports, which cost nearly nine times higher. Despite price volatility, subsidy pressure, and opposition from various quarters, the government is set to establish a third floating storage and regasification unit (FSRU) in Moheshkhali of Cox's Bazar to import more liquefied natural gas or LNG, which is one of the most expensive options that the government could pursue. According to data, domestic natural gas costs around Tk1.50 per cubic meter to produce and deliver. In comparison, if LNG is purchased from the international market for $9.15 per one thousand British thermal units (MBtu), the price rises to Tk33 per unit.

While the government intends to increase its reliance on LNG, the same funds could have gone toward the long-ignored field of renewable energy sources. According to the government's Power System Master Plan- 2016, the cost of solar and wind energy would decrease by 50% and 30%, respectively, while LNG prices would rise by 40% by 2040. Despite these findings, the government did not take concrete action to explore renewable energy sources. At the same time, $14.5 billion was invested in renewable energy in our neighboring nation of India, an increase of 125% from the financial year 2020–21 and 72% from the pre-pandemic period of the 2019–20 financial year.

Furthermore, Bangladesh’s fiscal policy and poor regulation in its implementation don’t let Bangladesh Petroleum Corporation utilize the subsidies provided by the government properly. For instance, the government offers subsidies for diesel in light of the necessity for it in industry, transportation, and irrigation. At the same time, the government taxes 21 taka per liter on diesel. As a result, Bangladesh's energy business cannot effectively use the government's subsidies. Another instance is the Bangladeshi government using idle funds totaling BDT 10,000 crores from the reserves of BPC for other forms of development. Petrobangla recently spent Tk 2,000 crore from the Gas Development Fund (GDF), meant for gas exploration, to import LNG without the permission of the Bangladesh Energy Regulatory Commission.

Again, the responsible bodies lack vision in securing sufficient fuel reserves despite having three energy master plans just this century. For example, the agencies did not use low oil prices to set aside additional oil for future use. Due to the inefficiencies of the agreement, Bangladesh's choice to buy relatively expensive LNG and failure to get a favorable long-term agreement also garnered heavy criticism.

Although many of the government's actions may be held responsible for the crisis, it is also true that Bangladesh is not the only country going through it. In fact, nearly every country is. Many countries with large coal and gas reserves are facing an energy crisis as well. Despite being a major exporter of natural gas, Australia is experiencing gas shortages and high prices. Similarly, although they are major coal producers, China, India, and Indonesia are feeling the effects of the energy crisis. It may be argued that fossil fuels are never the solution. No one can ever saturate the planet enough with fossil fuels to reduce price volatility. We need to move away from fossil fuels and concentrate on renewable energy sources, which we know are more stable in price and are becoming more affordable than all fossil fuel sources, at least for power generation.