IPPs call for uniform import duty on primary fuels

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Online Desk: Removal of discrepancies in the import duties imposed on primary fuels, which are used as inputs in power generation, can reduce the government's subsidies in the power and energy sector. The notion is being put forward by the private power producers of the country, also known as IPPs (independent power producers). They are claiming that the discriminatory import taxes on primary fuels – furnace oil (diesel), coal, and gas (LNG) – ultimately favours the coal-fired power plants that projects the government's biases towards 'the dirtiest fuel'.

Currently there is a 5 percent duty on the import of coal, which rises to 34 percent on furnace oil, aka heavy fuel oil (HFO), and 22 percent on gas. As a result, the price per MMBtu (metric million British Thermal Unit) of coal comes to Tk 10-11 and when power is generated from coal, it costs Tk 12-13. After adding 5 percent import duty, the cost of electricity from coal-fired power plants becomes Tk 13-14.

On the other hand, the price per MMBtu of HFO comes to Tk 11-12 and the power generation from the HFO costs Tk 11-12 due to its higher heat value. But when the 34 percent import duty on HFO is added, its power generation cost becomes Tk 15-16 per unit.

In the same way, the cost per MMBtu of imported gas is Tk 11-12 and its power generation cost becomes 10-11 due to its higher heat value. But after adding the import duty of 22 percent, the per unit electricity generation cost from gas-fired plants goes up to 13-14 per unit.

"If the discrepancies are removed from duty regime, and import duty on all fuels is made uniform at 22 percent, the production cost of electricity from diesel-fired plants will be lower than that of coal-fired power plants," said Imran Karim, former president of Bangladesh Independent Power Producers Association (BIPPA), the trade body representing the interests of private power producers.

Karim, also the vice chairman of Confidence Group, a leading firm in private power generation, said the duty should be uniform considering the government's commitment to support cleaner fuels – coal being the original dirty fuel. Furnace oil of course is no better. "The government will receive more revenue from imported fuels, if the duty on all fuels are equalised," he added.

According to the Power, Energy and Mineral Resources Ministry's estimate, in the current fiscal 2022-23, the power and energy sector will require over Tk 23,000 in subsidies to cover its losses. Of this, the power sector will require Tk 18,000 crore while around Tk 6000 crore would go on primary fuels. Earlier, the loss in the sector was estimated much higher at over Tk 70,000 crore due to the excessive price hike of gas, coal and petroleum fuel following the war in Ukraine that began in February 2022.

But after the enhancement of fuel prices on the domestic market by more than 40 percent pn average and power tariff by more than 15 percent, the losses came down and subsequently the requirement for subsidy was also reduced to around Tk 23,000 crore, said officials at the Ministry of Power, Energy and Mineral Resources.

Private power producers claim that if the import duty on coal and furnace oil were made the same as that on gas, i.e. 22 percent, it would reduce overall costs and thus reduce the subsidy as well. "Because, the power generation by furnace oil-based plants will automatically go down and it will ultimately have an impact on the overall tariff structure in the power sector by seeping through to both the wholesale and retail levels," said an IPP plant operator.

Power Cell director general Mohammad Hossain said that both coal and furnace oil are dirty fuels, so by the IPPs’ logic, the import duty on these two fuels should be higher than on gas – not uniform. “The import duty on coal and HFO should be equal and import duty on gas could be comparatively lower as it is the cleanest of the three,” he said.