



ENERGY SECURITY,  
REVIVING THE  
ECONOMY AND  
NEPAL'S NATIONAL  
INTERESTS

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# Introduction

by Madhukar SJB Rana, former Nepalese Finance Minister

The Centre for South Asian Studies (CSAS) organised a conference on 'Energy Security, Reviving the Economy and Nepal's National Interests' in cooperation with the Konrad Adenauer Stiftung (KAS) on July 26, 2010, in Kathmandu, Nepal. It was widely felt that the vital national interests of an emerging, land-locked country such as Nepal cannot be secured without deliberating on issues as critically important as energy security and the revival of the economy,

economics and science. The papers were thoroughly analysed and evaluated by the participants during the day-long discussions.

A major hallmark of the conference was an active participation of the speakers from the Nepali private sector, which has borne the brunt of political instability and labour unrest on the one hand and power shortage on the other. The dismal scenario of energy supply and its implications for the effects of the



*At the conference on 'Energy Security, Reviving the Economy and Nepal's National Interests'*

which was ravaged during the conflict from 1996 to 2006.

These important issues were discussed in the second part of the Nepal's National Interests project. Five scholarly papers were presented by experts with a background in politics,

global economic crisis were weighed in light of the present political crisis in the country. The conference deliberated on a comprehensive package of economic and energy issues and also a paper on Indo-Nepal trade, which is a crucial component of Nepal's overall export and import basket.

# Keynote Address

by Kush Kumar Joshi, President, Federation of Nepalese Chambers of Commerce and Industries

Welcoming the participants, the Director of the CSAS, Nishchal N. Pandey, said that the critical role of economic development and energy security for a country such as Nepal can hardly be debated given its political instability, poor leadership, labour unrest, frequent strikes coupled with load shedding. Due to these reasons, Nepal's economy has yet to recover from the decade-long conflict. For instance, the industrial sector, which registered a growth of a mere

Domestic Product (GDP) was 4.7 per cent last year. This is negligible in comparison with the 7.4 per cent and 8.7 per cent of Nepal's two immediate neighbours – India and China – in the same period.

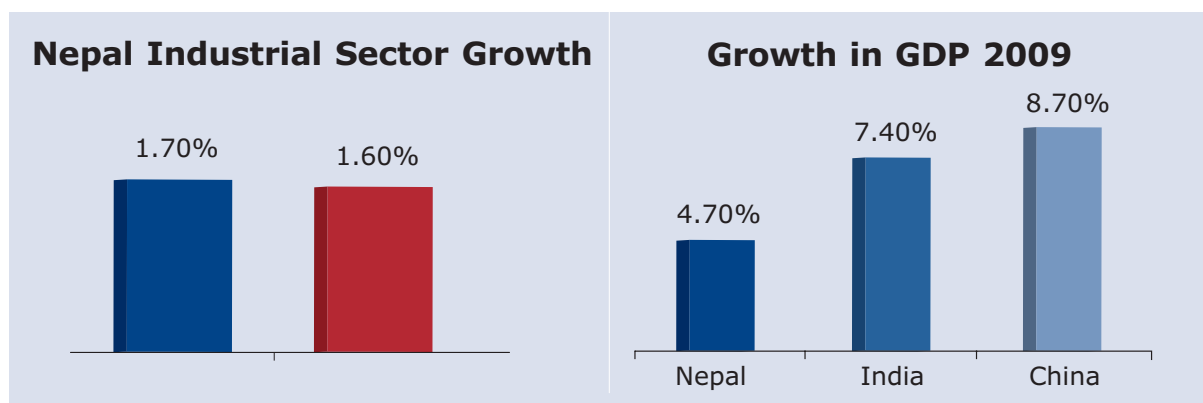
Delivering his keynote address, the President of the Federation of Nepalese Chambers of Commerce and Industries (FNCCI), Kush Kumar Joshi, explained that Nepali policy makers have a tendency to focus only on



**L to R: Nishchal N. Pandey, Director, Centre for South Asian Studies, Kathmandu; Kush Kumar Joshi, President, FNCCI; Dr. Beatrice Gorawantschy, KAS representative to India and for SAARC cooperation**

1.7 per cent in 2008, declined by 0.2 per cent in 2009. Industrial production could not grow as expected because of the problem in labour relations, fragile industrial security, the situation in the Terai region and the lack of an investment-friendly environment in the country. The growth rate of the real Gross

hydro-power whenever they talk of 'energy'. But to focus solely on this source of energy generation is not really future-oriented. Today, Nepal also has several other forms of energy, hence there is an urgent need to think of alternate and other forms of energy such as wind, biogas and solar energy





**Participants at the conference**

extraction as well. Of course, hydro-power has the biggest potential in Nepal, but the politicisation of this sector along with a lack of coordination among government departments, apathetic government and directionless policies have caused this potential to remain unfulfilled.

The regulations have resulted in perpetual power shortages, as high as 18 hours in the winter. The demand in the country is not less than 2,000 megawatts (MW), but the Nepalese are provided only 700 MW. There is a growth rate of 20 per cent in energy demand annually, which the government has so far failed to meet.

Dr. Beatrice Gorawantschy, KAS representative to India and for SAARC cooperation, stated that the politics of energy security have emerged as a key concern worldwide and national energy strategies are

increasingly treated as part of the traditional security agenda. Global demand for energy is stated to grow dramatically over the next 20 years with the most rapid increases becoming evident in Asia. Informing the gathering that access to cheap energy has become essential for the functioning of modern economies, she cautioned that uneven distribution of energy supply among countries has led to significant vulnerabilities. The main points Dr. Gorawantschy reiterated were the threat to energy security, which also includes political instability in several energy producing countries, the manipulation of energy supplies, the competition for energy resources, the attacks on supply infrastructures by extremists and accidents or natural disasters. Therefore, energy security will become an important component of foreign and security policy agendas the world over.

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## **Economics in the National Interest**

by Madhukar SJB Rana, former Nepalese Finance Minister

In the first paper the former Finance Minister outlined the economic agenda of a 'New Nepal' through several well articulated schemes, which included demolishing aid colonisation, better coordination and communication among the ministries, re-discovering agriculture and making agro-industrialisation the engine of

growth, development, modernisation and maximising the utilisation of water resources, adopting integrated manpower educational planning, adopting river basin planning and integrated watershed management, creating national growth centres and economically integrating with India and China. His paper also shed light



**Madhukar SJB Rana,**  
*former Nepalese  
Finance Minister*

on the importance of investing heavily in human capital for inclusive sustainable growth, de-politicising all national industries, making Nepal the world tourism 'Shangri-la', benefitting from forestry resources and reducing all taxes and making Nepal the lowest taxed economy in South Asia.

During discussions, suggestions revolved around the idea of prioritising the agro sector. For the past 40 years, Nepal has been investing a lot of money and effort into energy projects; 40 per cent of the annual budget outlay is being spent only for agriculture. There is a need to revisit this as Nepal is investing less in its cities and urban areas even though most of its tax and other revenues are generated here. Therefore, it is becoming necessary to spend a certain percentage on infrastructure development of the cities.

## Hype and Hydro in Nepal

by Dipak Gyawali, former Water Resources Minister

The second paper on 'Hype and Hydro in Nepal: What Went Wrong and What Corrective Measures are Needed?' dwelt on the fact that local demand of electricity within Nepal is by no means small: almost 60 per cent of the population of a 30-million strong country do not have access to electricity as yet. Of the 40 per cent that have electricity, the demand is growing at a double-digit growth rate and all estimates indicate that the Nepali electricity market can absorb anywhere from 20 MW to 50 MW of power per annum.

Gyawali outlined that hydro-electricity cannot give "hydro-dollars" the way petroleum gives "petro-dollars" for a variety of reasons, for instance consumers of hydro-electricity generated in Nepal will pay only in rupees; another reason is that the economics of hydro-power projects given their capital intensity as well as hydro-meteorology do not allow for surplus storage (like oil in bunkers) that can be sold in the global market; and that hydro-power has to be harvested on a sustained basis unlike oil that can be mined. He elaborated that if we are to examine the history of countries with predominantly hydro-based systems, we find

that they have used this natural resource endowment to develop upstream-downstream linkages in their economies rather than exporting electricity as primary raw material input for production. Exposing the myth that India can infinitely be a supplier of electricity in Nepal's hour of need (as during the present crisis) he stated that India itself is a heavily power-deficit-country and it has no significant surplus electricity capacity for its own internal needs, let alone to share or export to neighbours.

Further, since water and electricity are state subjects and not union matters as per the Indian Constitution, even if Delhi agrees to supply electricity to Nepal, the heavily power deficit states of Uttar Pradesh (UP) and Bihar in India, and their state electricity boards are not likely to oblige.



**Dipak Gyawali,**  
*former Water  
Resources Minister*

# Reviving the Nepali Economy: A Private Sector Perspective

by Suman Neupane, General Manager, Sunrise Bank Ltd.

The third paper was a detailed account of the private sector's standpoint on the present economic slowdown of the country. After posting a Balance of Payments (BoP) surplus continuously for almost half a decade, Nepal's government now has a deficit. The deficit has been prompted by a rise in imports and fall in exports in conjunction with a lower growth rate of remittance inflows.

Major sectors of Nepal's GDP are: agriculture, remittance and tourism. Export has been a redundant sector and has been losing steam with the withdrawals of incentives such as

productive sectors has been a constraint for the banks to compete as the overall economy was not boosted in proportion to the growth of financial institutions and as the banks are financing mainly in the urban/sub-urban areas. During the discussions, the participants identified discrepancies in the facts and data available. Nepalese are consuming chicken and fish from Tamil Nadu and green leaves from China. Hence, both Indian and Chinese goods are coming to Nepal easily but it is not definite whether Indian goods are going to Tibet via Nepali territory and Chinese goods to India.

Issues were also raised on the desertification of the Terai about which neither the government nor the Nepalese community-based organisations seem to be doing anything.

Participants of the conference felt that remittance from Nepalese manpower working in Gulf countries and Malaysia are affected by mismanagement at the institutional level. Foreign employment is not a short-term phenomenon. Nepal is still a young nation, millions of young people are entering the job market every year and society

has not been able to give them employment. Suggestions were made on giving thought to building nuclear power plants for generating electricity instead of worrying about hydro-power, which has not only been politically divisive but has also taken Nepal nowhere. As regards water storage in the dry season, remarks were made on the need to conserve nearly 5,000 lakes that exist in Nepal.



**L to R: German Ambassador to Nepal, Verena Gräfin von Roedern; Suman Neupane, General Manager, Sunrise Bank Ltd.**

duty drawbacks and export quotas. The appreciating Nepalese Rupee (NRS) against the US dollar has also been another factor that has slowed the exports and inward remittances to some extent, according to Neupane.

The higher the funds in the banks, the higher should be the economic activities. However, in the case of Nepal, the financing of non-

# Enhancing Nepal's Competitiveness: India's Role

by Professor Nisha Taneja, Indian Council for Research on International Economic Relations (ICRIER), New Delhi

The fourth paper was presented by Associate Professor Subhanil Chowdhury. The paper made interesting revelations such as during 1996 to 2002 when the trade treaty of 1996 was operational, there was a surge in Nepal's exports to India. The surge was accounted for by four major products – vegetable ghee (brown butter), copper products, acrylic yarn and zinc oxide (known as Tariff Rate Quota [TRQ] products). Nepal imported the raw material for these products and exported the finished products to India. In 2001-02, these four commodities accounted for 29.7 per cent

treaties has been short-term and transitory in nature. But hydro-power is a niche area which can attract larger private investment from India. Even for this, Nepal will have to formulate an integrated hydro-power policy and establish an independent electricity regulatory commission. Establishment of an independent body in Nepal, similar to the Power Trading Corporation of India, will help the two countries to determine the price of power on commercially determined principles.

Setting up interconnections and transmission lines will also facilitate trade. In the area of tourism, it was suggested that the Nepalese government needs to address some of the environmental issues that have adversely affected the tourism industry. Widespread deforestation that has diminished Nepal's natural beauty and high pollution levels in cities such as Kathmandu are also a serious threat to the industry. India and Nepal can – and should – cooperate on developing a more sustainable tourism industry that would contribute to the long-term growth of the economy. Therefore, the issues of



**L to R: Hari Dhungana, Campus Chief, Bansbari Campus; Lt. Gen (retd.) Victory SJB Rana; Ambassador Sundar Nath Bhattarai and Ambassador Dr. Sambhu Ram Shimkhada. Picture on the right: Professor Subhanil Chowdhury, Associate Professor, ICRIER**

of India's imports from Nepal but were placed under tariff quotas and by 2007-08, the combined share of these products decreased to 12.4 per cent. Further, as part of India's tariff reduction programme, customs duty on the TRQ products also declined hence these were no longer competitive in the Indian market. But despite the tariff, if wages were low, Nepal could still export finished products that could have been competitive but this was also not the case. The focus of Nepal's trade

Indo-Nepal trade and tariff concession, rejuvenating the textile sector, hydro-power and tourism in Nepal, education and health are the most essential features of the entire gamut of Indo-Nepal trade relations.

It was also mentioned that there is a huge problem regarding data-trade between the two countries. Certain products are not accounted for in India and this leads to informal trade, meaning black market trade.

# Petroleum Products and Gas

by Professor Rhiddibir Singh, Centre for Energy Studies at the Tribhuvan University

The fifth paper enlightened the audience with facts and figures and elaborated on the awkward situation of energy security, especially concerning petroleum and gas. From the fuel energy security point of view, imported petroleum products can serve hardly a week of public demand. But in the case of Liquefied Petroleum Gas (LPG), the total import volume is sold in the same year and the balance is zero. The gas fuel in the country is the most vulnerable item from the energy security point of view.

Professor Singh said that the total storage capacity of petroleum products in Nepal is 71,558 kilolitres (KL) only and that it can serve the nation for about 45-60 days of public demand. But the actual phenomenon will be something quite different. As soon as the supply stops because of any reason, Nepal's petrol pumps will cease to deliver fuel. Eventually the black market for fuel comes into effect. The storage capacity volume of fuel has never been distributed as per its claimed service so far.

There are just 500 official transporters to distribute the net volume of the imported petroleum products catering to the 30 million people of the nation. The total number of the vehicles used to transport petroleum products in the country is just 1,182. Within the country the total number of official dealers for the distribution of petroleum products is 2,535. These dealers are mostly stationed in the urban centres, district headquarters or accessible rural areas. In most parts of the remote rural market centres, petroleum products actually fetch 100 times more than the official price fixed by the government. Thus, in this kind of



*Professor Rhiddibir Singh*

scenario, the nation cannot feel safe from the energy security point of view. In fact, so far Nepal did not even have any concept of 'energy security' as such.

Currently, total renewable energy generation, which officially is the aggregate product of biogas energy, solar photovoltaic power and micro-hydro-power, accounts for a mere 0.61 per cent at the national level, equivalent to 60,000 Tons of Oil Equivalent (TOE). Renewable energy in Nepal is neither a commercial nor a fully monetised energy source. This is the clean energy that provides no threat to the environment. But the scale of operation and the government's incentive to the public is so inadequate, that the service provided is very limited. Professor Singh also reiterated the need to reform the whole system of oil supply in the country.

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