

REGIONAL CONSULTATION

DEEPENING REGIONAL COOPERATION IN SOUTH ASIA

■ Expectations from the 18th SAARC Summit

Kathmandu, Nepal, November 23-24, 2014

EXECUTIVE SUMMARY

The annual consumption of energy of the South Asian Association for Regional Cooperation (SAARC) region is currently close to 700 million tonnes of oil equivalents (mtoe). It is projected to rise to 2000 mtoe by 2030. As the countries in South Asia move towards greater development, the energy needs are also certain to go up exponentially and energy security is therefore bound to be a priority for most of the countries.

Many countries in the region do not have sufficient resources or technology to explore the available resources to meet their energy needs and thus, rely on imports which additionally need to be affordable in order to sustain the economic growth. Currently, energy trade and regional cooperation between the countries are minimal due to several reasons such as political, economic and security concerns.

To give impetus to regional cooperation, there is a need for strong and robust political and social mandate. The existence of well-defined, coherent & harmonious energy policies, predictable legal and regulatory frameworks are essential principles for regional energy trade and investment. There is an urgent need to put in place related mechanism that would not only facilitate but also encourage energy trade in South Asia. Hence, collective efforts should be initiated to harmonise the prevailing legal and regulatory mechanisms that have been put in place among SAARC nations. Further, there is a need to establish infrastructure to facilitate and/or impede regional energy and synchronisation of all existing regulatory agencies in the manner that it will be convenient for them to coordinate electricity trade.

BACKGROUND

In spite of diverse energy resources and tremendous potential of regional cooperation, South Asia region has had very limited cross border energy trade so far, due to several social, political and economic differences between countries. Almost, all countries in the region have been experiencing chronic problems of supply and poor quality of service. Thus, to resolve such diversified social, political and economic differences in countries, there is a need for robust political, economic and social mandate from the government and non-governmental organisations (NGOs) for regional cooperation in the energy sector. Several successful examples of such cooperation can be found in different parts of the world, especially cross-border energy trade in Europe and Southeast Asia. Such cooperation help countries to strengthen their national energy security, reduce cost of energy supplies and provide electricity to all. However, to sustain

achieved accelerated growth rates and progressing further with regional power trade, there are several legal and implementation hurdles, in addition to infrastructure development, technology competence and investment issues.

ABOUT THE CONFERENCE

Consumer Unity & Trust Society (CUTS International) in collaboration with South Asia Watch on Trade, Economics & Environment (SAWTEE) with support from FES, India organised a two-day regional consultation on ‘Deepening Regional Cooperation in South Asia: *Expectations from the 18th SAARC Summit*’ in Kathmandu, Nepal on November 23-24, 2014. The primary objective of the consultation was to facilitate dialogue among relevant stakeholders, government representatives, NGOs, private sector, academic institutions, media houses etc. The aim was also to identify and prioritise various issues and then be able to feed the inputs during the SAARC Summit.

INAUGURAL SESSION

Hiramanni Ghimire, Executive Director, SAWTEE, Kathmandu welcomed all the participants and noted that SAARC region consists 1/3rd of world’s total population and ironically it is one of the least integrated region. Thus, the overarching purpose of the consultation is to propose a way forward for the implementation of commitments that SAARC governments have made time and again so that the objective of deepening regional integration could be achieved.

Pradeep Jung Pandey, President, Federation of Nepalese Chambers of Commerce and Industry (FNCCI), Kathmandu also highlighted the point that South Asia region is the least integrated region with intra-regional trade estimated around five percent of total trade in the region. Although, it is the fastest growing regions of the world with a recent estimate of 5.3 percent growth in 2014 and 5.9 percent in 2015 respectively, as per the World Bank Study.

Major General (Retd.) Ashok Mehta, Independent Analyst, India informed that SAARC currently contributes around 40 percent of all UN peacekeeping troops – the single largest contribution made by any region. Thus, there is a need to constitute a body under SAARC to coordinate policies and establish regional consultative mechanism to represent the voice of SAARC nations.

Govind Raj Pokhrel, Vice Chairman, National Planning Commission, Government of Nepal suggested that custom duty should be abolished between SAARC nations to promote regional trade. He noted that Energy, Agriculture and Tourism are three sectors which need to be explored further, considering their huge potential and demand across the nations. He

emphasised that due to huge investments and long gestation periods public sector shy away from trade in energy sector. Thus, it is important to involve other stakeholders, especially private sector in regional trade. He emphasised that regional issues can be resolved through trade and commerce between the countries. If private players start investing, then it will be a responsibility of the government to ensure peace and harmony in the region to protect the investment of their stakeholders.

Mahendra Bahadur Pandey, Minister for Foreign Affairs, Government of Nepal highlighted that liberal trade policy play a very limited role in the SAARC region, as it is evident from the trade figures. Thus, there is a need to balance and diversify finances in the region and link demography and gender with the growth. Further, it will also require cooperation from all stakeholders and political will to bring the change. He also stressed on achieving the UN goals of ‘Sustainable Energy for all’ which includes universal access to energy, doubling the share of renewables in the world and improving energy efficiency. Promotion of knowledge sharing of best practices would help this region to achieve substantial amount of energy production, he emphasised.

Posh Raj Pandey, Chairman, SAWTEE, Kathmandu noted that however, SAARC is not getting attention, such as Association of Southeast Asian Nations (ASEAN) or G20, etc, but it still plays a vital role. Thus, there is a need to identify various areas of cooperation and highest level of political will. He urged governments to change their notion of traditional to social security.

ENSURING ENERGY SECURITY IN SOUTH ASIA THROUGH GREATER REGIONAL COOPERATION

On ensuring energy security in South Asia through greater regional cooperation, **Udai Singh Mehta**, Director, CUTS International while delivering the keynote presentation emphasised on the need for effective institutions and large scale energy trade in the region. He highlighted that South Asia is home to one-fifth of the population in the world, has a sizeable population living below the poverty line and low per capita energy consumption as well as low level of production. In order to have a greater access to cheaper goods and uninterrupted supply of commodities, he said it is imperative to develop strong trade ties within the South Asian region. He also laid stress on market-oriented reforms of domestic power sectors to achieve long-term regional cooperation in the sector. mentioned that there is a dichotomy in the sector i.e. per capita energy consumption is very low and there is wide spread energy poverty but on the other hand, it is also a fact that there are several sources of energy that exists in the region, such as hydro, renewable, gas, nuclear, etc.

Mehta emphasised that the key question to be discussed is why are we unable to tap the sources? Lack of transparent and effective regulatory governance is one of the most important reasons, which the countries would need to address to ensure effective regional cooperation. Mehta stressed on the importance of political will to trigger the need to bring about the reforms. He further mentioned that unless we address the question that how much is the lack of energy costing our economy and cost of non-cooperation, until then it will be difficult to generate the political will.

Rubiya Binta Mustafiz, Assistant Director, Keystone Business Support Company Limited noted that in South Asia, most of the countries have diverse requirements of energy. As Nepal, Bhutan needs more energy in winters, whereas India, Pakistan and Bangladesh need more energy during summer. Similarly, most of the countries have diverse resources of energy, which can be explored to fulfill the need of whole region. Mustafiz further pointed out the need for establishing a harmonised power market which calls for huge investments in this sector along with the technical and assessment reports on trans-boundary cooperation in energy. She further highlighted various bilateral agreements on trade which India has entered into with or negotiating with other neighbouring countries including India-Bangladesh power line, India-Sri Lanka power project and India-Bhutan hydro power project.

Prakash Ghimire, Senior Adviser, SNV Bhutan informed that despite having huge potential in hydro power, Bhutan is giving equal weightage to renewable energy (RE) development. However, there are challenges related to RE technologies, which need to be addressed. Thus, there is an immense scope for regional knowledge-sharing and technology-transfer within South Asia.

Anoop Singh, Associate Professor, Indian Institute of Technology-Kanpur also laid emphasis on regional integration and highlighted that India has already integrated grids within the country. Singh mentioned that there are several examples of power pools, which are working successfully. Thus, South Asia should learn from good practices around the world and try to localise it, as per its need. Further, he also suggested creating a working group at the Utility level among South Asian countries, to facilitate the implementation process of integration.

Lydia Powell, Head, Centre for Resources Management, Observer Research Foundation pointed out that most of the SAARC countries have energy deficit; few countries are meeting its energy requirements only theoretically. Thus, there is a need for robust cooperation between nations to ensure energy security in the SAARC region.

Pradeep Kumar Shrestha, Former Vice President, SAARC Chamber of Commerce and Industry noted that in spite of having huge energy resources and trade potential, South Asia is

world's least integrated region. He emphasised on the need for cohesive approach from SAARC nations to explore the energy potential of this region. He also stressed on achieving the UN goals of 'Sustainable Energy for all' which includes universal access to energy, doubling the share of renewables in the world and improving energy-efficiency.

Muhammad Adil Khattak, Chief Executive Officer, Attock Refinery Limited informed that nearly three percent of the gross domestic product (GDP) of Pakistan is lost as a result of energy shortage. The main reason behind such losses and disintegration are lack of political will and trust deficit between nations. Thus, it is essential to resolve such differences through trade and investment between nations. The mutual benefits will force political and social leaders to bring harmony and stability within the region.

Dipak Gyawali, Former Minister for Water Resources, Kathmandu summarised the discussion and is of the view to involve private players in the regional integration process, make it more economic-oriented instead of politically or socially motivated and thus bring quick and better results. He emphasised that regional integration can happen only through the process where all stakeholders are coming together for common good. Thus, public-private-partnership is one of the best ways to address all the challenges of regional integration.

WAY FORWARD

South Asia is the least integrated region in several terms, including energy connectivity. However, at the same time it is one of fastest developing economies of the world. Thus, energy is one the essential requirement for its continuous growth. Some parts of South Asia are already connected partially, to a certain extent, for e.g. India-Bangladesh, India-Bhutan, India-Nepal, whereas few are under discussion – India-Sri Lanka, India-Pakistan. Keeping this scenario in mind, there is a need for policy harmonisation among SAARC nations and synchronisation of all existing regulatory agencies in the manner that it will be convenient for them to coordinate electricity trade. This initiative would be more relevant in the light of recent development of 18th SAARC Summit, where SAARC Members have signed the SAARC Framework Agreement for Energy Cooperation (Electricity). The agreement will enable greater cooperation in the power sector among South Asian countries. It is expected to improve power availability in the entire SAARC region and would facilitate integrated operation of the regional power grid.

Few recommendations put forth by the participants for enhanced cooperation in trade included:

- Harmonisation of regulatory regimes in both goods (electricity, gas, coal etc) and services (energy service) across the South Asian region to create regionally integrated market for energy in this region.

- Harmonisation of energy policies to facilitate South Asian energy grid. National energy policies of each South Asian country must be compared and analysed to come up with a consolidated regional energy policy.
- Establishment of a cognate sector regulator instead of large bodies of regulators is necessary for smooth regulation of the energy flows across borders.
- Capacity building of the current regulatory institutions is also required.
