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Foreign Minister Gerald Zackios

RMI Government works on MEC debt to Mobil

Foreign Minister Gerald Zackios said the RMI intends to work on two tracks in regard to fuel: One is to immediately come up with a plan to retire MEC's debt to Mobil; the other is to seek independent US government review of the Mobil-MEC negotiation situation.

US Interior Department deputy assistant secretary David Cohen told business and government officials in July that he was willing to review the situation.

"Debt resolution is critical for both short and long-term power generation," Zackios said.

While the government and MEC "have to address this (debt) immediately," the government also needs to look at long-term sustainability issues related to power supply.

"When we don't have the resources, we have to look at policies to provide the mechanisms to provide services and economic growth," Zackios said.

The Pacific power crunch

By GIFF JOHNSON

Skyrocketing fuel prices could seriously undermine development progress in most urban centers in the region, says the chairman of the Pacific Power Association, Billy Roberts. Being just a drop in the bucket for oil companies, island governments and utility companies have scant leverage in bargaining for better fuel deals — and many believe that oil companies are using world market increases to unfairly increase profit margins at the expense of small markets, although fuel companies vehemently deny this.

To focus attention on the latter concern, the 27-member utility companies of the Pacific Power Association (PPA) at their August annual meeting in Guam called for a regional investigation into fuel pricing. The PPA is seeking the help of the Pacific Islands Forum to tackle the problem of fuel prices in a systematic way.

The PPA, jointly with the Forum, is also promoting sub-regional fuel buying to give groups of small islands more price clout. While these efforts — and moves by such islands as Guam and Saipan to join American state attorneys general in action against the oil companies for what they charge is "price gouging" by the oil companies, as well as the RMI's recent request to the US government for an investigation of Mobil Oil Micronesia — may help in the long-term, most islands are facing a huge cost crisis today.

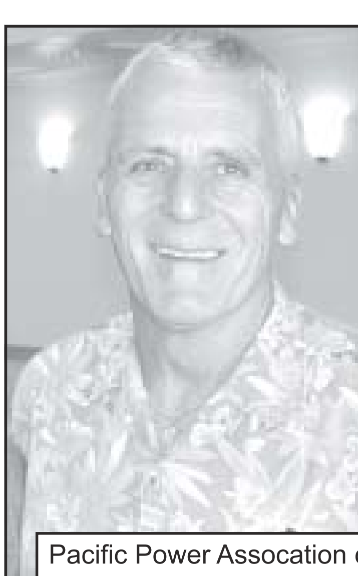
"It's a real worry," says Roberts, chairman of the PPA and general manager of the Marshalls Energy Company in Majuro.

"The biggest problem is the ability of small island utilities to adjust to the enormous price increases in the last 12 months. There's a good danger they (costs) will be setting people back 30 years. People just won't be able to afford power."

With minimum wage workers in the region earning from less than US$1 up to about US$3 per hour (in the Marshalls, it's $2), there's little room in their paychecks to absorb the electricity price hikes that are hitting every island in the Pacific.

"Local people increasingly can't afford the combined costs of food, electricity and water," Roberts says. "People have to eat." And increases in power costs have a domino affect on the price of rice and corned beef, as well as other services.

But it's not just that fuel prices are rising, it's the trauma of a near doubling of the cost to produce power in a matter of months. It's not only hitting the pocketbooks of island residents like never before and putting power companies into debt, but it's straining government budgets to pick up the slack in a number of islands where power costs have historically been subsidized by government subsidies — to say nothing of just paying to keep government offices lit up in the face of public demand for government spending on health and education improvements.




Pacific Power Assocation chairman Billy Roberts and Minister of Public Works Matt Zackhras.

Although Papua New Guinea, with its own refinery and fuel purchases amounting to about $350 million last year, and Fiji, with fuel imports of $160 million, have a modest measure of clout with multinational fuel companies, at the other end of the spectrum are islands such as Niue, Tuvalu, the Federated States of Micronesia and Kiribati with annual imports ranging from less than $1 million up to just US$4.4 million. The RMI, at $12.8 million annual fuel purchases, is only a marginally larger market.

This has prompted the PPA and the Forum to talk up the possibility of bulk fuel purchases by islands grouping together in sub-regions. Roberts, wearing his hat as GM of MEC, and Public Works Minister and MEC chairman Matt Zackhras recently met with Federated States of Micronesia Vice President Redley Killion in Pohnpei to begin discussions of joint Marshall Islands-FSM fuel buying.

The FSM, however, is disadvantaged by the fact that it owns none of its fuel tanks, decreasing its already minimal leverage in negotiations.

Forum Secretariat fuel expert Jared Morris has been conducting workshops around the Pacific to increase understanding of fuel pricing and how to negotiate with the fuel companies. Key to this, he says, is engagement by island governments to have "fair, sound working relationships with suppliers to ensure that the 'best solution' is achieved for the people, the government and the investor."

In most islands, "there is a mechanism in place (to determine) how prices are to be built up," said Morris recently. While some islands have opted for multiple fuel suppliers, others contract with sole suppliers. "There's no single 'right' answer," Morris says.

American Samoa's government owns the fuel storage facility, and bids it out for use by two oil companies to provide a measure of competition; neighboring Samoa also owns its tanks and bids out a contract to one supplier for a five year period that has produced the lowest fuel prices in the region; Fiji has three suppliers, but the government uses price control to maintain prices; the Marshall Islands has a single supplier (Mobil) that owns its tank farm, although the power company also owns its own tanks that allow it to import large volumes of fuel at lower prices and to sell excess fuel to fishing vessels, which in turn helps to subsidize the cost of power production.

"Each island has to decide the most cost-effective means for achieving a fair price," says Morris.

But essential to this is understanding fuel companies' pricing 'templates' so that island negotiators — who are already at a disadvantage by virtue of their miniscule markets — are not further hurt by the high-powered fuel companies.

"The PPA is working with the Forum to look at pricing and options for each country," says Roberts.

The past year has shown that the Pacific is at the mercy of global events that impact fuel prices. But Roberts is hopeful that regional efforts by the PPA and Forum will provide a modest counterbalance to the current situation facing most islands.