

# Comments on Tata's proposal: Gas contract with Tata



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**The issue of gas pricing is the key to the determination of Bangladesh's net economic benefit from the investments. In fact, the economic viability of the fertiliser project may depend largely on subsidised gas supply, particularly when the investment returns need to cover the country-risk factor as perceived by the foreign investor. In making a decision, any subsidy in gas pricing must be compared with the estimated benefits from the investments.**

will then be no need for making special price deals with Tata for gas sale.

Tata wants some kind of guarantee for assured gas supply during the life of the project. This is problematic in many respects. What happens if the country runs out of gas? For understandable reasons, Tata would like to ensure that it is not discriminated against at times of temporary gas shortages or supply disruptions. The rationale behind Tata's proposal lies in the belief that new gas reserves will be discovered (or coal will be available as an alternative energy source) so that no genuine gas shortage will appear during the lifetime of its proposed projects. To the extent that there is a risk of that belief not proving correct, that risk should be fairly shared by both Tata and Bangladesh. One possible formula for that may be to estimate the proportion of the country's total gas supply to be used by Tata at the beginning of its going into full production and ensure that Tata will continue to have a claim of that share at the minimum. In that way, as long as gas production does not decline, Tata will have nothing to worry. But there may be other workable formulas as well.

To create investor confidence under gas pricing and sale arrangements as discussed above, the gas exploration efforts must be strengthened. There is a problem in depending on the IOCs entirely for gas exploration. There is a large gap between high and low projections of domestic gas demand. The IOCs will tend to plan their exploration and gas-field development activities keeping in view the low demand projection, since they would like to be sure about getting quick returns from their investments through full-capacity production from the discovered fields. For this reason, it is important to strengthen the domestic capacity for gas exploration.

### The implication of coal mining

There now seems to be a possibility that domestically mined coal may provide an alternative to gas as a source of energy. The availability of coal can lower the economic price of gas by deferring the projected date of gas exhaustion and also by providing an alternative to gas even before that date. Much will depend on coal production projections, the pattern of use of coal and the estimates of recoverable reserves.

There will be a need for a comprehensive energy policy for making decisions regarding the use of gas and coal as competing sources of energy. A discussion on this would be premature for the time-being, given the many uncertainties regarding the economic feasibility of coal mining and the likely volume of production.

### Indirect benefits and costs

As indicated earlier, the investments may generate indirect or economy-wide benefits by providing balance of payments support and by boosting production in other sectors through the mechanism of forward and backward linkages. Some likely caveats in estimating these benefits were also mentioned earlier. Unfortunately, by ignoring these caveats and lacking any credible analytical framework, the EIU report ends up making exaggerated and unsubstantiated claims about these benefits. This diminishes the value of the report, since it is these indirect macroeconomic benefits that are mainly dealt with by the report. This is not to ignore some substantial indirect benefits (as well as some costs) that may genuinely arise as a result

of these investments.

The EIU report estimates that the additional electricity generating capacity of 500MW (in addition to captive power for the steel mill) will translate into 0.1-0.2 percentage point higher GDP growth. In addition, the direct contribution to GDP would be equivalent of 1.9 percent of nominal GDP annually, which in turn would lead to even higher GDP through an estimated "multiplier" of around 1.5. The multiplier of 1.5 is meant to imply that the expected annual gross sales of about \$1.8 billion from Tata's operations will lead to additional production worth about \$800 million per year through the purchase of inputs.

Attributing the above benefits to Tata's operations is based on rather naive assumptions. The "multiplier" effect (that is the spill-over effects of the investments working through demand linkage) is estimated in the report by a simple-minded application of the so-called input-output analysis. As mentioned before, much of this multiplier effect cannot be attributed as additional contribution of Tata's investments towards GDP growth, since the expansion of production activities in an economy like Bangladesh is generally constrained by lack of inadequate production capacity rather than by demand deficiency. As regards the direct impact on the economy, the report refers to GDP instead of GNP or GNI, and thus ignores the all important issue regarding how much of the value-added generated will be repatriated as profits. Curiously, this is also ignored while assessing the impact on the balance of payments.

There will be of course some demand-driven expansion of activities in sectors where employment can be created with very little investment in fixed capital. Such employment will be mainly in service sectors such as the employment created in and around the township that will grow around the steel mill. The quantification of employment and incomes generated in this way will require a much more discriminating application of the input-output analysis than is attempted in the EIU report.

Tata's operations will create demand for infrastructure provision that can in fact lead to costs to be incurred by the government instead of being a source of large indirect benefits as claimed by the EIU report. In particular, there will be an increased demand on railway transportation for the import of iron ore and the export of steel and coal. This will need substantial investment in railway infrastructure, along with improvement in management efficiency to ensure that such transportation does not incur losses for the government. The viability of the investments will also depend on the tariffs charged, given the fact that the public transport system, including railways, are heavily subsidised in Bangladesh.

The benefit from steel production will in fact come more from forward than backward linkages. Tata's project will produce about \$1 billion worth of steel annually, 75 percent of which will be exported after meeting the country's entire domestic demand. Because of the shift from the current import regime to an export regime, the domestic

price of steel will be lower; since it will be related to the export price rather than the import price. There are a whole range of industries and construction activities that will get a boost directly or indirectly from the cheaper supply of steel, and the benefit will increase with the growth of steel-based industries in the country. Although some existing facilities for steel production, mostly from scraps, may be adversely affected, this will be much more than compensated by the benefit.

A major benefit from Tata's operations will be the balance of payments support provided through net exports (estimated at \$628 million annually) and import substitution of (\$300 million annually). The extent of net contribution to the balance of payments will of course be much lower because of the repatriation of profits; and it will also depend on whether the proposed investment package is fully implemented or some components are left out.

### Land acquisition

The implementation of Tata's proposed projects will need land acquisition and resettlement of residents and the construction of road links to the plants. Agreement will be needed about how Tata proposes to pay for the costs involved. While Tata has proposed to buy the land at market prices, an alternative would be for the government to incur the entire costs and to recover it through renting or leasing the infrastructure to Tata. Land being the scarcest resource in Bangladesh and as it becomes even scarcer with the growth of

economic activities, land prices tend to increase quite rapidly in real terms. Thus, buying land and even keeping it idle may prove a profitable investment. The sale of land to foreign investors could thus lead to windfall gains to them at the time of winding up the investment project.

### Conclusion

Detailed data on the project profile are required for a more rigorous evaluation of the project, component by component. On the face of it, the steel-power complex appears promising, since it combines the advantage of the availability of iron ore and energy resources in India and Bangladesh respectively; however, many strategic issues need to be resolved, particularly regarding infrastructure provision, land acquisition and the feasibility of coal mining. The issue of gas pricing is the key to the determination of Bangladesh's net economic benefit from the investments. In fact, the economic viability of the fertiliser project may depend largely on subsidised gas supply, particularly when the investment returns need to cover the country-risk factor as perceived by the foreign investor. In making a decision, any subsidy in gas pricing must be compared with the estimated benefits from the investments. [Concluded.]

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[This piece is Part III of a 3-part series that contains the full text of a report prepared at the request of the Board of Investment, Government of Bangladesh.]

WHAT can we say about a gas supply contract with Tata on the basis of the above analysis? Overall, the present price of gas for industrial use (\$2.35 per mcf) does not seem to be highly misaligned from its true economic price; but it will need to be continuously adjusted upward if the estimates of gas reserves and the projected demand-supply scenario for gas remain unchanged. If the government commits to a gas price policy in which the price of gas will be revised from time to time keeping in view the gas reserve position and the projected cost of importing alternative energy, Tata may be offered gas at the prevailing price for industrial use. Or, such a price policy may be formulated for FDIs only (since the benefit of subsidy to local producers stays home) or for industries in which the use of gas as a proportion of value-added is higher than a certain level. There

# Upright policing: Flashes from the neighbourhood



MUHAMMAD NURUL HUDA

## STRAIGHT LINE

**There are bright upright Bangladeshi police officers who can successfully embark upon bold experiments. However, given the alleged politicisation of the police that started years back, given the paralyzing wage structure of the policemen and the rot within the law enforcement system, it is apprehended that crucial steps for transforming the insensitive force into a peace force may indeed be difficult.**

their eloquent best when referring to the qualities of head and heart of the English policemen and how we stand to gain by following their practices. Some dashing personalities amongst such leaders and other do-gooders who are found of doing business the American way would often gratefully mention the exploits of "Kojak" or "Hawaii Five O" characters and bemoan the inabilities of our helpless policemen.

One may not be able to understand the nuances of the understated English language and the underlying characteristics of the phlegmatic English culture while extolling the virtues of English policemen. This is perfectly understandable. One may also be excused for failing to differentiate between real life situations in the west and the celluloid fantasies that we come across in the cinema and television.

There is, however, no denying that we need examples and role model to emulate so that there is, at last, some perceptible positive

change in our lamentably under-performing police behaviour. Therefore, when the myths and realities of distant shores have apparently failed to strike a responsive chord, how about a change of direction in our quest for role model and trend-setters? Shall we strive to look nearer home and find out if there are inspiring flashes to benefit from? Thoughts of such dimension may perhaps compel the well-wishers of our polity and the police to study in-depth the marvelous achievements of some outstanding police officials of India. These achievements are now internationally acclaimed and recognised. It is, however, the commonality of culture that we share with India than the achievement and acclaims of the individual officers, that should motivate us to venture into a study of their experience and decide how we may benefit.

This writer has in mind the accomplishments of Mrs Kiran Bedi, the now -- famous India police service officer who is fondly talked about in many Indian homes. This itself is a very significant achievement as sub-continental policemen and politicians rarely figure favourably in popularity ratings. It may be news to our frustrated and dampened police officials to know that in an exclusive opinion poll conducted by the 'The Week' in September, 2000, Kiran Bedi ranked fifth amongst the ten 'Most Admired Indians' in a galaxy of personalities that included, among others, Atal Behari Vajpayee, Lata Mangeshkar and Sachin Tendulkar. This, undoubtedly, is an elevating scenario that should propel our officials to be proactive and innovative.

It would perhaps be sufficient to recount a few important achievements of Mrs Bedi to understand the compulsions of our enforcement imperatives and the strategy of success.

### Delhi traffic and Asian Games, 1982

As Deputy Commissioner, Traffic, Delhi Police she made her mark quite early. It became a common sight for the Delhi motorists to see Kiran Bedi on the road every day, pointing out traffic irregularities in specific cases. Her voice over the loudspeaker made an impression upon the motorists that a male voice could not have done.

Co-ordination was and remains a key element in any

traffic management. Mrs Bedi suggested that actual behaviour patterns of the motorists could be seen and verified only on the roads. It was agreed and a chartered bus would take all concerned to make on the spot decisions and corrections. In this way, the 'government on wheels' acted as a homogeneous team and the usual inter-departmental squabbles and lack of co-ordination were eliminated.

The bane of Delhi traffic was wrong parking and this one factor was a major cause of traffic snarl-ups. Mrs Bedi pressed several cranes into action in order to tow away the offending vehicles to the nearest police station. Soon she earned the sobriquet of 'Crane Bedi'. She started spot fining the offending vehicles. In August 1982 even Prime Minister Indira Gandhi's car (No DH1 1817) was challenged for wrong parking and towed away by a crane. The action of the officer on spot was backed and supported. We may learn from this.

The 'Indian Express', on conclusion of 'Asian Games, 1982' commented..... "In the end, the greatest triumph was the way the traffic was kept moving during the games, particularly during the closing ceremony and the opening day. The police authorities deserve to be complimented".

### Novelty of methods

For effective interaction between police and the public, a system of setting up beat boxes was introduced. Each constable was allotted a beat box of his own who actually became a sort of community leader. Various petty offences could be reported to him and some matters could be sorted at that level. The result was less pressure on the main police station and the saving of members of public from a considerable deal of harassment. The beat boxes were erected with community sponsorship.

The beat boxes acted as deterrent scarecrows to potential law-breakers. The most important result of the system was the policemen's debut in the civic arena, as an arbiter and peace counselor. The system placed the policemen in the role of a community leader with the full backing of the neighbourhood which in turn uplifted his sagging self-esteem. Behind the system was a conviction that combating crime and keeping the peace is an activity which involves the entire community and the police can only be

effective so long as they enjoy the support and cooperation of the community.

### Criminal records

Mrs. Bedi under her charge in the West District Police of Delhi compiled a ready reference of criminals for use by police stations in the district. The names of persons with criminal record were listed in alphabetical order under the various sections of the penal code. The ready reference helped policemen to ascertain immediately if the suspect had any previous record and had supplemented the central record. This ready reckoner of criminals helped in evolving into a system of participative policing. Local leaders were given these lists so that people would be able to identify criminals and help variously in detecting or rehabilitating such people.

### The training

Mrs. Bedi modernised the Training College and made it possible to provide state-of-the-art professional skills to the police personnel. She attached greater importance on local initiatives such as trainees welfare, a canteen, a well-stocked grocery store, a bank, a milk booth with other health foods, adequate regular water supply, proper bus transport system for the faculty etc.

On quality of training, a lot of learning of police practical work was prioritised with the focus on hands-on training and putting theory into practice. Courses were provided on gender sensitisation, white collar crimes, giving evidence in courts, adventures in attitudes. She introduced the Vipassana meditation programme for the staff as an exercise in learning to police themselves and teach themselves before the police and teach others. She made others realise that training stands for addressing the body, mind and spirit of policing and that it is not a mere vocation but an invocation to be fulfilled by humane spirit.

There are bright upright Bangladeshi police officers who can successfully embark upon bold experiments like the above. However, given the alleged politicisation of the police that started years back, given the paralyzing wage structure of the policemen and the rot within the law enforcement system, it is apprehended that crucial steps for transforming the insensitive force into a peace force may indeed be difficult.

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# Grammar of consultations

**Now, what is needed is a change in attitude amongst the major political parties. Exercise of good will and good faith by them during consultation could make major inroads in resolving the dispute concerning reform proposals of the 14 Party Alliance. It would indeed be honourable on the part of political parties to resolve these disputes voluntarily rather than under pressure of mid ranking officers of foreign governments working in diplomatic missions in Bangladesh.**

### ASIF NAZRUL

THE conspicuous emergence of religious extremist forces in Bangladesh through deadly bombing operations has for long eclipsed a significant national agenda. That agenda concerns election reform proposals of the 14 Party Alliance.

The reform proposals have been introduced nearly half a year back and presented before the Parliament weeks ago, but are yet to become the pivotal focus of the nation's attention. However, let us not forget that only months from now, a Caretaker Government shall have to be formed for holding the parliamentary election and in the meantime, the politicians have to respond to the needs for narrowing down their differences on the said proposals. In order to maintain the continuance of constitutional and democratic processes, they have to demonstrate a genuine will to engage in a consultative process for reaching compromise on election reforms demands.

One may well argue that the process is already on. The government has already announced its readiness to accept the establishment of a committee for discussing the election reform proposals. Accordingly, the BNP Secretary General has written to his Awami League counterpart inviting the name of Alliance representatives to be included in the proposed committee. According to Section 266 of the Rules of Procedure of the National Parliament, a Special Committee for conducting such discussion could be formed by the parliament itself.

Alternatively, a political level committee outside the periphery of the parliament could also be constituted to perform the same function. Whatever might be the form of the said committee, we need to understand that it would make no substantive headway unless the two major political parties of the country follow the basic grammar of consultations.

The needs for consultation generally presuppose differences of opinions. The process of consultation aims at minimizing or eliminating those

differences. According to legal and diplomatic literature, consultation must be conducted in "good faith" meaning it must be participated with open-minded, logical arguments and rationality. Good faith negates unshakable or rigid position by any party to the consultation and requires an attitude for reaching, as far as possible, a reasonable compromise on the question of differences. Therefore, insisting on acceptance by one party to all proposals made by the other cannot be said to be reflective of good faith. At the same time, outright rejection to any of the proposals before the commencement of actual consultation also indicates an inherent lack of good faith towards the entire process.

Apart from good faith, success of consultation depends on other factors as well. Among them, foremost is the art of developing efficient and specific agenda. Consultation therefore, needs to be preceded by a series of informal discussions between the representatives of two parties. To give it an institutional shape, a liaison committee (remember the success of such committee during the anti-Ershad regime) comprising more acceptable leaders of the major parties could be formed which might effectively narrow down the differences of two major parties on various aspects of reform proposals.

The liaison committee could thus precisely define the areas of actual dispute and accordingly formulate agendas for consultation. This task, in the context of election reform proposals, could also be facilitated by the involvement of a third party which, following the idea of Dr. Muhammad Yunus, would comprise eminent and respected citizens of the country. By placing our faith in the caretaker government system and demonstrating our general acceptance of a good number of members of former caretaker governments, people of this country have already implied their readiness to accept such interventions.

A valid question at this point might be whether the consultation would necessarily succeed in reaching accord on election reform measures. If we recapit-

ulate the reform proposals of the 14 Party Alliance, we find that some of them are potentially acceptable by all parties while others have lesser acceptability and a few are unnecessary as they already exist in the Representation of People Order of 1972. It may be expected that the political parties would agree on at least those segments of proposals that concern clean candidature and election-day arrangements. The difficult task for the consultation team, however, would be to arrive at compromise on the proposals regarding institutions, in particular, the President and the Caretaker Government and restructuring their powers and functions during election periods.

The other institution that the reform proposals are concerned with is the Election Commission (EC). Reaching consensus on reforms of EC might be less complicated due to a number of factors. Reform in this regard would not entail constitutional changes and as it happens, the needs for reforming EC was by and large accepted by all the major parties on various occasions.

Now, what is needed is a change in attitude amongst the major political parties. Exercise of good will and good faith by them during consultation could make major inroads in resolving the dispute concerning reform proposals of the 14 Party Alliance. It would indeed be honourable on the part of political parties to resolve these disputes voluntarily rather than under pressure of mid ranking officers of foreign governments working in diplomatic missions in Bangladesh.

Our political leaders should also realize that conflict over petty matters like who will formally propose the formation of the committee in the parliament will only beef up tensions concerning the next election. In my understanding, no sensible citizen would enjoy that kind of a tension and neither should the politicians.

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