

## Our home in the air?

*Biman continues to flounder*

**T**HE on-going saga of Bangladesh Biman's chronic under-performance and lack of profitability continues with no sign of improvement on the horizon. Operating with a very limited and troubled fleet, the flight schedules continue to be marred by frequent delays and disruptions that raise questions as to the continued viability of the national flag carrier.

What is it that passengers want from an airline? It is simple. Passengers want to be flown to their destination in a timely and safe manner. This is the basic fundamental task of an airline and if even this bare minimum cannot be achieved then one is forced to ask the question as to whether the airline is performing any worthwhile service whatsoever.

The decrepit state of the fleet has given rise to sincere concerns as to passenger safety and the airline's recurrent problems have significantly diminished its good will and competitiveness. The way it is run now, Biman is far from commercially viable and had it been subject to market forces would have shuttered years ago.

Let us look at the simple facts. To ply six domestic and twenty-six international routes, Biman operates a paltry fleet of five 20-30 year old DC-10s, four Airbus, and four F-28s. Most of them being in a poor condition, maintenance requires immense amounts of time and expense, and keeping all planes in the air at one time is a far cry. It should be noted that the DC-10s, for one, are totally obsolete and that the out-dated Biman fleet guzzles fuel at more than twice the rate of newer aircraft.

The solution should be simple. Biman requires new aircraft. However, the aircraft purchasing process is riddled with corruption and cronyism, and until this corruption is rooted out and there exists an open and transparent procedure for aircraft purchase which ensures that only the most economic aircraft best suited to its needs is purchased by Biman, it will continue to be a national disgrace.

## A three-in-one crisis

*The mounting hardship needs easing*

**T**HE denizens of the city are having to suffer an unprecedented scarcity of gas, electricity and water. In some areas, load-shedding ranges from eight to ten hours a day and there are localities running virtually without water. The same is true about the supply of gas falling drastically in many places.

The picture is dismal and likely to worsen into the summer. Usually such problems wouldn't arise all at the same time, but this time the services appear to be crumbling simultaneously. Load-shedding made the plight of students appearing at the SSC exams miserable. The suffering of patients also knows no bound. Furthermore, power-cuts have had a crippling effect on the working of WASA pumps which, in turn, aggravated the already precarious water supply. People have also complained of poor quality water, obviously is a health hazard.

As for supply of gas, this has been erratic for quite a few years, but this year it has turned critical.

There is reportedly a deficit of around 2000-megawatt electricity in the country as 19 power generation units are not functioning at the moment. Some of the power generation plants have been hit by shortage of gas as fuel. So crisis in one sector is affecting another.

Overall, the situation calls for urgent redress. Obviously, the authorities concerned -- the power and energy ministries and WASA -- need to make sure that the crisis does not degenerate into a law and order situation as it has already in some places outside Dhaka. Is any hardship mitigation plan in place? People have a right to know what the utility authorities are doing to alleviate their suffering. It is certainly not enough for men in authority to say that things are going wrong in this or that area. That's not what they are there for, they should feel obliged to deliver services to the citizens without any excuse.

# The economics of the economic pricing of gas

## BENEATH THE SURFACE



ABDUL BAYES

To help the future generation reap home gas at reasonable prices, we should abandon the populist policy of keeping gas prices much below the opportunity costs. The history of subsidy in this country, and also elsewhere, is a history of subsidizing the rich and subjugating the poor. The long-run development of the gas sector crucially hinges on devising economic pricing in a gradual manner to match international prices in future.

**A**S a nation, we are proud of our natural gas endowments, but we are equally perturbed and pained at the sad state of affairs in the gas sector development of the country. As studies tend to reveal, there are acute problems on the exploration and production side (upstream). The actors involved here comprise a mixture of international oil companies (IOC) and our state-owned companies, with regulatory oversight provided by a combination of Petrobangla and the Hydrocarbon Unit (HCU).

Both the parties supply gas to the domestic market in Bangladesh with state owned companies claiming, reportedly, about three-fourths of the total gas production. Needless to mention, perhaps, that the gas market is extremely tight with low supply elasticity. On the other hand, the transmission and distribution sector is completely state-owned, with a number of Petrobangla subsidiaries. They are supposed to be regulated by the recently formed Bangladesh Energy Regulatory Commission (BERC). Unfortunately, BERC is being short-changed in the absence of logistics support and commitment from the policy makers.

**When gas is not goose**  
It would be a mistake to assume that the current availability of gas is a gift to grease our economic wheels for ever. It is not the proverbial goose, either, that will lay golden eggs for long. It is non-renewable, and like any other commodity, is likely to finish if sufficient moves are not materialized to get more gas from the fields. That means, to match growing demand of gas, supply

must come from new drilling and explorations. And to meet the growing demand for more investments to this effect, gas needs to generate its own resources through rational pricing. The other alternative is to give citizens an access to gas free of cost and postpone poverty reducing and health-helping developmental works. But that is also for a limited period before we end up losing both the mango and the sack!

Of course, we take the argument that there could be some subsidy on gas for some sectors and, of course, for some limited time. But kindly put it, preferably, at the end user level. For example, at the moment, fertilizer factories are subsidized for the use of gas, i.e. the plants consume gas at lower than the actual market price taking into account exploration, transmission and distribution costs. Although it goes in the name of helping farmers, actually it is not. If this cheap fertilizer crosses the border through illegal routes, to fetch better price, the subsidy also goes to the neighbouring country consumers. Why Bangladesh government should subsidize, say, Myanmar farmers? It would, perhaps, be more productive to subsidize Bangladeshi farmers on the basis of the use of fertilizer, if there is at all any political will to do that.

**Fearful future**  
Our economy has been growing, appreciably, at 5.5 per cent plus per annum over the last couple of years. As income and gas-driven activities would go up, the demand for gas would also increase. Taking 20 years as a time horizon, the total gas demand would then reach 4 bcf by 2024-25 as shown by an estimate. This implies a growth rate of gas demand of 6 per cent per annum. But suppose, for the sake of brevity, we assume an economic growth

rate of roughly 8 per cent per year. Then gas demand will reach 7.4 bcf by 2024-25, indicating a growth rate of 9 per cent per year. Please do not denounce the projection of growth rate as a dream. If current corruption and other conundrums could fuel 5.5 per cent growth rate, we hope that substantial improvements on the heels of good political will on these counts could lead to a growth rate of about 8 per cent per year. In fact, that is exactly what is needed to meet the MDG and the targets of poverty reduction in the PRSP.

And here comes the problem. Under the scenario of proved gas reserves, as released by research findings, the gas demand will be fully met by 2011. If probable gas reserves are added, it will go up to 2015 and conversion of possible reserves will lead us to live up to 2019. It appears that Bangladesh would face a gruesome gas setback by 2011 -- only five years from now if nothing is done to explore and develop new gas reserves. If probable gas reserves are firm up and converted to proved reserves, Bangladesh can go up to 2015 -- ten years from now! Clearly, the consolation from the current level of potential reserves cannot be relied upon to meet the forecast demand by 2025 and hence additional reserves need to be proved up. That is, according to some estimates, an additional 20-25 tcf needs to be proved up between now and 2010. Conservatively speaking, this goes to imply an investment of \$5-10 billion to avert any gas-driven disaster. The question is: where to get the money from?

**Groaning gas system**  
What is the reality on the ground? The state-owned companies are faced with the fragile fundamental

called financial weakness. Upstream companies like Bapex are not in a financial position to invest more in exploration and production and thus bring additional gas to the market. Some of the IOCs -- in their lust for more profits within a short period of time -- are allegedly contributing to the crisis in the gas sector. There are also allegations of massive corruption between IOCs and domestic dollar-hunters. The transmission company GTCL is also unable to transmit gas across the country due to the lack of an adequate investment in the transmission system. Thus, for example, in the absence of compressor facilities with due investments, the country faces acute problems with gas pressure. A free-flow system as it is now, allows no capability to manipulate line pack in preparation for planned outages or in reaction to unplanned outages. Besides, the concentration of supply in the north and east part of the country puts strains on the existing transmission network. There are little attempts, in evidence, for sourcing gas from the south and thus ease the tension of transmissions.

On the distribution side, a high system loss (also called unaccounted for gas) accounts for roughly 20 per cent of the gas generation. In monetary terms, it amounts to \$39 million per annum at the current weighted average price of gas and \$207 million per annum if estimated at rational pricing. Only 6 per cent of the households in Bangladesh have access to gas and only 3 per cent have metered gas. This means, in the absence of meters to measure the actual usage, substantial wastage steps in. The fertilizer factories, recipients of subsidized gas, have old machines and poor management system (like other state enterprises)

exhibiting high specific consumption levels. Thus, according to the views expressed by concerned quarters, a new plant with modern production facility and better management would cost 15-20 per cent less gas to produce the same amount of fertilizer that would come from an old plant.

### Pricing problems

The weighted average price to consumers currently works out at \$1/mmbtu. Of this, Bangladesh government retains 57 per cent as VAT and Supplementary Duty. The rest 43 per cent is retained by Petrobangla and allocated to state companies responsible for exploration, production, transmission and distribution. One may question the use of the rent received by the government. How much of that is spent on reinvigorating the capacity of the state owned companies in exploring gas, in generating efficiency in transmission and distribution? The meager share of the companies of Petrobangla is too small to allow any productive investment. If Bangladesh aims to develop strong gas transmission and distribution networks, the companies must be made financially strong, autonomous in administration, and above political influences.

To drive home the point that gas is under-priced in Bangladesh, let us take one or two examples. The total end-user price of gas to the power sector is \$1.1/mmbtu, for fertilizer it is \$1.0/mmbtu, and for industry, \$2.3/mmbtu. Suppose, gas is gone and to keep the wheels moving, the sectors must look for alternative arrangements which is the fuel oil. The opportunity cost of gas is the price of fuel forgone. In economic terms, gas should be priced close to the opportunity costs. Is that happening? It is not, because the substitute fuel price for each of three sectors is \$5.3/mmbtu. Thus considered, the discount gas price to liquid fuel is 200-300 per cent less! Not so? Think of the cost of a gas-driven car compared to a diesel driven one. The former is Tk.1 per km while the latter is Tk.5 per km. Thus, even if the gas price is raised 2-3 times, it is still more economic for car owners

who are mostly the richer segment of society. This is in addition to the fact that liquid fuel prices in Bangladesh are, on average, 60 per cent of the prices prevailing in the region e.g. India, Pakistan and Sri Lanka. For example, when Bangladesh price is \$5.3/mmbtu, it is about \$9 in other places.

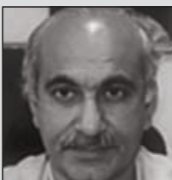
### Searching sustainable system

Given the above facts and figures, reform in the domestic pricing of gas are urgent. It calls for rise in the existing tariff levels. It argues for a price of gas that would ensure a sustainable system of gas availability for furthering economic growth, poverty reduction, and overall socio-economic development. The reform agenda, no doubt, should take into due note the existing socio-economic conditions but, with equal force, it should take stock of the future demand and supply.

One option could be direct and transparent subsidy from budget rather than using the sector as a vehicle to promote socio-economic objectives. To help the future generation reap home gas at reasonable prices, we should abandon the populist policy of keeping gas prices much below the opportunity costs. The history of subsidy in this country, and also elsewhere, is a history of subsidizing the rich and subjugating the poor. The long-run development of the gas sector crucially hinges on devising economic pricing in a gradual manner to match international prices in future. Otherwise, current trend if allowed unabated, might kill the goose that could lay golden eggs. The sooner we realize this, the better it would be.

Abdul Bayes is a Professor of Economics at Jahangirnagar University.

## Misty mistakes



M.J. AKBAR

**T**HE Great Indian National Crisis that can trace its origins to Allahabad, was brewed in Delhi and made ears tingle across the world, was sandwiched between two incidents. Entranced by the hype of the capital, no one had much time for Jharkhand or Orissa: starlit India can never really compete with neon-lit India. The news from the dark states flitted through a few columns of newspaper and disappeared into that great cyberspace of indifference which India reserves for the unwanted.

A friend who was in Brazil during the week of the seismic sacrifice was startled to discover that Sonia Gandhi's resignation from the Lok Sabha was rubbing sleep out of his jet-lagged eyes in Rio de Janeiro. Brazil's media has even less international news than America's, but 10 Janpath was staring at him from the television screen, Sonia Gandhi at the microphone and Rahul Gandhi waited literally in the deferential shadows. Since the information came without much context, my friend had no idea of either the reason or the consequences of the resignation.

He felt a bit flat therefore when I suggested that the truth was far

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less dramatic than the news. It begins in the shallow waters of personal animosity, and ends in the swamp of political trivia. This story has no legs. The Congress wrote the first chapter when it used a much-ignored technicality to get Mrs Jaya Bachchan unseated from the Rajya Sabha. Power is the sibling of complacency and first cousin, arrogance. It must have been a combination of both that fooled the Congress into believing that there would be no second chapter. Mrs Sonia Gandhi's name was written in the second chapter, since she too held an office of profit while being an MP. In fact there emerged a third chapter, with smaller players tumbling out of safe cupboards and sending their resignations. And there might be a fourth chapter since there is at least one Congress minister from Andhra Pradesh who believes he can brazen out the turmoil if he keeps his mouth shut and his purse open. But of course all eyes are stuck on the second chapter.

A power behind the throne has a distinct advantage over the throne. A king must be always seated on the throne, because that is the demand of office, or risk being dethroned. The power behind the

throne can sit anywhere and remain as powerful. Whether Sonia Gandhi is inside the Lok Sabha or outside it makes no difference to the power structure of the Congress or the Congress-led coalition. She remains the primary decision-maker in the dispensation of political assignments and favours; the real dealer in any Cabinet shuffle or reshuffle, with Prime Minister Manmohan Singh in an advisory (or possibly cautionary) capacity. Just to reinforce her supremacy the Congress puts on daily shows of breast-beating and has said that she will remain leader of the party in the Lok Sabha even though she has quit the House, and the vacancy she leaves behind in the National Advisory Council will not be filled. The government was just being its normal obedient self when it adjourned the budget session in order to issue an ordinance to enable Mrs Sonia Gandhi to remain an MP. Such fidelity tends to make your eyes watery, so naturally no one could see what the future held. Watery eyes are a slippery disease. You never know which misty mistake will suddenly cause the slip-slide that leads to a sudden general election. I am not suggesting it will happen. I am merely pointing out

that it could happen.

Certainly no one in Delhi, whether government or its many courtiers, had any time for the two events on either side of the Great Indian National Crisis.

On Monday 13 March, the Maoist Communist Centre of India hijacked a train in the Latehar district of Jharkhand, the 628 Down from Barwadih to Mughalsarai, which had about 50 passengers on board. I call them troops because they were in uniform; they were wearing battle fatigues. They stopped the train, took the radio communication systems from the guard and driver, detached the vacuum pipe between the bogies and the engine, locked the compartments from the inside and ordered the passengers to remain calm. The railway authorities only realised that a train was missing when it did not reach Kumandi railway station, a distance of half an hour from the previous stop, despite seven hours having elapsed. Apparently anything less than that is still considered a "normal" delay. They did not even bother to investigate when the driver of a goods train informed them that he had seen a stationary train with its lights off. The police

While Delhi contents itself with the theatre of the absurd (and sometimes the audience of courtiers is more hysterical than the principal actors), violence increases its domain across the breadth of India. It was once a thin belt, with occasional bulges, running through the middle of the country. It is now a fat belly, spreading north and south, growing obese on despair.

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eventually reached the spot. Details are hazy but the local administration has given out the story that the Maoists, or Naxalites, melted into the forest at the arrival of the police, which is now apparently launching a vigorous hunt. You may have heard tales of such vigour before.

The vigour was certainly on the other side in a town called Udaygiri in Orissa on Friday the 24th of March. Some 80 Naxalites, including a contingent of women revolutionaries, launched a multiple offensive at dawn. The jail was their main target, from which they freed more than 40 prisoners; but they also attacked the police station, a camp of the Orissa Special Armed Police, the treasury office, the tehsildar's office and a telecom tower. The district collector, Binod Bihari Mohanty, lived to fight another day by taking shelter in his neighbour's home. His official residence was presumably less safe. The police lost two men in a two-hour battle, and three Naxalites were apparently killed, but we cannot be sure since they took the bodies with them. They also took, as live hostages, the officer in charge of the local police station, Ranjan Mallick, and the jailer, Rabinarayan Sethi. They also looted enough arms to sustain themselves in the future. The police, naturally, have launched yet another vigorous hunt, this time in the Gajapati forests.

Two completely different narratives are being played out in different worlds, over a common timeframe: the story in the neon lights has absolutely nothing to do with the story in starlight. Disparity has been a timeless part of Indian life, and has not disappeared in the shine of either Atal Behari Vajpayee

or Manmohan Singh. But it is the duty of the politician to link the two worlds. The bridge will be heavier on one side; but it will not break down as long as the other side is buoyed with hope: the hope that sheer and heartless poverty is not going to be a permanent fact of life. A democracy is designed to keep hope alive, but it needs democrats who understand that this is their fundamental responsibility. If hope cedes ground, then the vacant space will be filled by violence.

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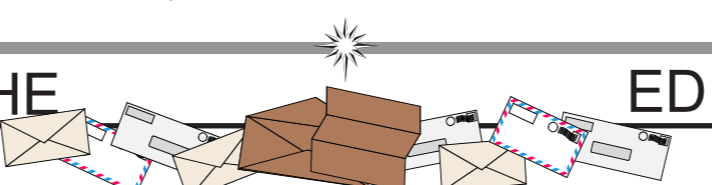
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MJ Akbar is Chief Editor of the Asian Age.

## TO THE EDITOR TO THE EDITOR TO THE EDITOR TO THE EDITOR TO THE EDITOR



Letters will only be considered if they carry the writer's full name, address and telephone number (if any). The identity of the writers will be protected. Letters must be limited to 300 words. All letters will be subject to editing.

### Dr. Dewan's article

I know a few economists who take more interest in literature and poem than economics. For me, I do not see much hope on either side; basic identity can be put in an identical parameter, as far as the governance is concerned. Though you have demonstrated much taste for the other, doing so you have imprisoned yourself within the system and the culture.

Being an economist you did not see much impediment in corruption, as sampled from Japan and Indonesia. What an economic theory! Unless seriously impaired by disaster, any economy will have some natural growth, as did many economies, our RMG sector is a bright example.

The way you intended to bring in the foreigners to deal with many issues, tarnish independence of your state of thinking. Ayad Alawi says his country is in

a civil war (50 deaths/day on an average, A.A on 20.03.06), perhaps hearing Donald Ramsfeld every day you wouldn't agree, but if you like me to believe that Wolfowitz's World Bank will contain our corruption, I won't oblige.

This line of thinking is the biggest fight my nation needs to put up against. Clash of opinion is not the challenge, it is the negative attitude. Patriotism if you ask, we all have.

Who am I to challenge that? But a sane individual naturally thinks independently towards all that harms his nation, no matter what is the source of it, because he is naturally bestowed with integrity.

**MM Haque**  
Jeddah, K.S.A.

### Electing honest candidates

We have appreciated so much what you have done for the country's

good and we stand beside you on the campaign for "electing honest and competent candidates" in the next general election. We have also delightfully observed that citizens from different sectors have gathered in one place to discuss the issue of candidates, corruption and violence in the general elections. I have gone through all the newspaper reports and I think something was missing in the seminar or less discussed. That is Election Budget. Most often candidates have big budgets and when they are elected they try to recover the money during their parliament membership period (I think you are also concerned about it). Here we have experienced the starting point of country's corruption. For example, if the election budget rises up to 5 crore (50 million), the candidate has to find a way to earn at least Tk 8,33,333/- (some 8 lakh) per month

as election cost with an additional amount for the next election. The chain starts here, from the election process, and goes through the governmental and societal organizations and comes back again to the election process.

I know the Election Commission has certain rules on election budget, but the main problem is, it does not have proper control over such budget. Here you have to work more to develop a kind of control where every candidate is restricted to follow the election budget rule. Campaign has impact on social development, but not always effective for solving all the problems. Control can set a boundary to follow certain rules and regulations. The representatives from political parties, Election Commission, and civil society could be involved in the Control. Seminars and seminar papers are good to be in the media

but not always effective in all the fields, especially when it comes to politics in Bangladesh. To reach your goal of electing honest and competent candidates, you have to focus on Election Budget.

Finally, like many of you, we also want to see our country's prosperity where we can enjoy democracy, where we will have chance to fight poverty and social inequalities and so on.

**Syed Moniuruzzaman**  
Karlstad University, Sweden

### Bush Administration

The Bush Administration of course speaks for their own interest, and screams for others -- establishing freedom and democracy in the Middle East. The Iraqis are hearing these; Iranians are hearing this, but the football match may kick-off when Saudis will make notes, maybe thinking about an elected Islamic government. Westerns may

judge them as idle but not illiterate, studying the best economic book, "How to get out one trillion dollars from US banks."

Oil or cash, they may not care about which one they have, nothing weighs more than their dignity. Even their security guards may be appointed from European countries. Of course, they will face critics, though facing critics means facing fame. A burning hell on dessert gets more heated up when youths ambush out of nowhere holding AKs. The disaster does not only come from a war, it comes with change of power.

In the world which demands to be egalitarian, one must maintain respect for others' religion and culture.

**Tahsin Hyder**  
Dhanmondi, Dhaka  
"Allah Hafez"  
When I go through the messages

on special occasions (for examples national days, celebrations, convocations etc), I discover that only the President & Prime Minister's messages contain the above term (wish) in the conclusion and it is different in the cases of government ministers, opposition leader and others. BTV newscasters also use the above term.

Previously, we were used to "Khoda Hafez" in the conclusion and to me it sounds more universal than Allah Hafez. During President Ershad's regime we had to swallow "First Lady Begum Rowshan Ershad." My question is, how long will we continue to swallow the different ideological terms of different regimes at their free will, which have no special significance or value?

**Thomas Gomes Bhura**  
Monipuripara, Tejgaon  
**Innovative beggars!**  
One day I was walking towards my

coaching centre at Panthapath opposite "Bashundhara City" shopping mall. When I was walking a young lady stopped me on my way with a little wooden box with her hand placed in front of me and said, "Give me a 100 taka note." I was so frightened that I gave her a coin of five taka hurriedly. But she refused to take it and kept saying "If I were your sister what would you have done? Give me 50 taka." I was puzzled and gave her a 10 taka note. Again she refused to take it but after a little request she kept it. I left the place as soon as I could. After moving ahead I saw a group of young women walking with the same wooden box in their hands.

These people are really innovative. What are they going to do next?  
**Kuntal**  
Mirpur 2, Dhaka