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POINT 崇COUNTERPOINT

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Tata's response to Prof. Wahiduddin Mahmud

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ALAN ROSLING

[On March 22-24, The Daily Star published the full text of a report prepared by Prof. Wahiduddin Mahmud at the request of the Board of Investment, Government of Bangladesh, commenting on the proposed investment by Tata. Today, we publish Tata's response.1

HANK you for the opportunity to react to your paper "Comments on the Proposed Investment by Tata Group in Bangladesh" dated March 2006. We found much common ground in your note and believe it is a constructive and balanced contribution to the discussion on our major projects.

You rightly identify the level of real gas reserves of the country as a central issue, not just in pricing the gas to be sold to Tatas but in assessing the attractions of our projects to Bangladesh, financial lenders and to Tatas. It is the belief of almost all informed observers that the gas reserves are far larger than the official published numbers of some 15 TCF (P1 plus P2).

You yourself conclude that "in all probability, Bangladesh has gas reserves to last a much longer time than is indicated by the currently available estimates of proven reserves." The constraint has been the level of investment in exploration and development (E&D) of the reserves, which in turn has been limited by the paucity of large, credible customers.

It has been the experience of many other countries that proven reserves tend to increase as the gas supply industry develops, so that there is a dvnamic relationship between supply and demand. You point strongly to the "crucial importance of strengthening

gas exploration efforts." and we believe that our projects can contribute to this by acting as significantly large anchor customers to PetroBangla and providing an assured cash flow which can be used to finance the investment in F&D

Countries that have adopted a similar strategy to increase upstream exploration include Pakistan, Vietnam, Egypt, Iran, Qatar, Oman where large downstream purchasers in the form of LNG liquefaction plants, petrochemical installations and power generation companies have entered into secure long term take or pay contracts with the gas producers (NOCs or IOCs).

Were it true that gas reserves will start to run out in just ten or so years, it would clearly not be right for Tatas to be building major gas-based plants in Bangladesh. Our projects would not be financially viable, and it would not be a proper use of limited gas supply to dedicate such a large proportion of remaining reserves to one buver. Tatas have proposed these projects in the belief that they represent a very exciting win-win for Bangladesh, Tata Group and indeed India. We would not want to proceed if any deal were perceived as unfair or one-sided.

That said, the project lenders will form their view on risks in relation to the official published numbers from the GoB. You correctly point out that many foreign lenders and investors

will have a cautious view of country and political risk in Bangladesh. Lenders will just not be prepared to take gas supply risk in addition to other project. Hence, as GoB and PetroBangla understand and we

believe in principle accept, our projects cannot come up other than based on secure gas supply contracts. Our projects are posited on the offer of GoB to supply gas at competitive rates for the projects (refer to the Expression of Interest document from October 2004). We are particularly concerned with

a specific remedy for the issue of gas reserves uncertainty that you have suggested, a suggestion for which there is no parallel in practice anywhere in the world. You suggest that a revision of gas price from time to time be made in line with the changes in gas reserve estimates and the projected cost of importing alternative energy. Any such provision may lead to an unworkable situation whereby Tata's gas price may be adjusted with the upward or downward adjustment of gas reserves in Bangladesh or with country's perception of reserve exhaustion time frame and likely replacement source. Such uncer tainty could severely limit large gas-

based investments in any country. Turning to pricing of gas, you correctly point out that there is no rnational market in gas as it is not a int

of the Red Cross for access.

traded commodity and further that gas pricina will depend on country-specific circumstances. Since there is no international market for gas, as you have stated, we believe that domestic gas pricing comparisons with oil and LNG may not be relevant for these projects. We found your calculations about possible gas pricing based on the timing of possible exhaustion and the potential substitute costs interesting, but our analysis suggests that this approach is not how gas is valued and priced internationally. We note, however, that using your own methodology, if exhaustion occurs at or after 25 years (which we must assume to construct a steel mill in Bangladesh), the PV of \$6 (itself a big assumption) falls to less than \$1/ MMBTU at 8% discount rate (and much less at a more commercial discount rate).

You refer several times to a possible "subsidy" on gas price. A subsidy normally implies selling something below its cost. It is very clear that all the numbers we have discussed with PetroBangla are well above cost of acquisition of gas, including transport and a fair return. This cost is of course a blend of PetroBangla's own costs. acquisition cost from the IOCs and the profit gas PetroBangla enjoys. We think it more helpful to think about differential pricing according to sector and we note that this is the approach that GoB has taken with prices varying

by industry usage

Our approach to gas pricing is to offer PetroBangla as high a price as the projects can afford to pay, given their economics and risk characteristics. We have been constrained by two issues. First, both steel and urea are highly cyclical industries so it would be foolish to assume a consistent high price of either. Second, we need to remain competitive against other plants internationally. We have demonstrated to GoB based on data from some 40 countries that competitive plants in similar sectors are currently enjoying gas prices in the range of \$0.40 to \$1.20/MMBTU. Governments throughout the world have taken a differential approach to pricing for "strategic" and process industries than for general industrial or

retail consumption. Our suggestion to resolve these issues has been to propose a fair floor for the gas at which we can be competitive and sustain our debt service obligations based on sensible and bankable scenarios for output prices, with additional payments linked to ability to pay based on higher output prices. This will realise a much higher average price of gas than we could afford to offer otherwise. We believe that GoB is increasingly appreciating this approach

Turning to the question of the wider economic benefits of our proposed

projects for the country, we are pleased that you recognize the undoubted contribution that the proiects would make to the country Our proposals are unprecedented in South Asia for their scale and scope and would undoubtedly make major contributions to economic development, employment, public finances and the Balance of Payments.

You are somewhat critical on some of the detailed calculations in the report by the Economist Intelligence

Unit. This was an economic impact assessment commissioned by us from a high reputed international economic consultancy. EIU's brief was not to perform a cost benefit analysis from a public finance point of view, as this would have required thousands of assumptions on the opportunity costs of using each economic resource related to Tata Group activity, which are best made by the government itself. We were pleased to learn that the parallel study completed by the ADB consultant to the Government of Bandladesh broadly endorsed the conclusions of the FIU report.

You suggest that EIU might have exaggerated the positive BoP impact by ignoring the repatriation of profits. Your conclusion seems to be based on the Trade Account benefit of \$951 m pa (see Table 3), but you do not go on to discuss the full BoP impact as set out by EIU in Table 6 and associated text which very clearly includes repatriation of debt service and profits in reaching a net BoP benefit of \$484m pa. or \$17.6 bn net over the project lifetimes. We would suggest that you into Bangladesh. seem to have overlooked this and have therefore been unfairly critical of the EIU report.

In assessing the direct and indirect value addition of the projects you focus on the salaries and taxes paid only (and mention some indirect benefits).

cant direct benefits: the creation of a coal industry in the country adding the equivalent of 4 TCF of gas, the increased provision of power to the grid, the demand generated for Bangladeshi suppliers to provide goods and services to the projects, and the viability of public infrastructure up-gradation funded by the multilaterals as a direct contribution arising from the Tata projects. We appreciate your points on the criticality of infrastructure to the projects, espe cially railways. You may not have seen the report on railway upgradation commissioned jointly by Bangladesh and Indian Railways which identifies what additional investments are required. Fortunately these are not enormous, and the Railways are now in dialogue with ADB to secure funding for the necessary track and signaling works. You tend to discount the wider economic impacts which will flow

You do not touch on the other signifi-

indirectly from the projects on the grounds that the multiplier effects in an emerging market are constrained by inadequate productive capacity. EIU also were not able to estimate these benefits systematically due to paucity of data (they relied on the GoB's own Input-Output tables), but it must be true that the multipliers will be significant and far-reaching. Industry locations of select Tata projects in western Bandladesh will increase balanced regional growth. In addition, large investments such as these are expected to have a strong "signaling effect" to attract additional investment

Given these considerable benefits to the country, which are linked to the large size and industrial nature of our group proposal, we are surprised that you conclude that the fiscal incentives that should be offered

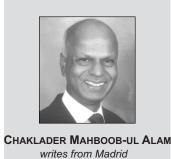
projects, which typically have fail lower multiplier impacts on the economy. As you will be very aware, Governments throughout the world construct fiscal incentives to attract large, complex and capital intensive projects whose returns are either higher risk or longer term than most commercial projects. This type of incentivisation is particularly important in emerging markets where risks are perceived to be higher. GoB has done exactly this with its IPP power policy. Our projects would clearly qualify for this type of additional fiscal support. However, we should make clear that we are not asking for any special treatment, but instead that a package of incentives should be made available to all investors in certain types of large, strategic infrastructure projects

should be similar to that of other FD

We remain committed to reaching agreement with GoB to bring these exciting projects to Bangladesh. To succeed, we will need the understanding and support of those like yourself with a perspective of the projects and their benefits overall. We would be delighted to discuss further with you.

The writer is Chief Executive Officer, Tata.

The fight for human rights A floundering WTO



HE latest edition of the US State Department's country Reports on Human Rights is an impressive document This is the result of a lot of hard work done by the State Department personnel first, in keeping a careful watch on violations of human rights across the world and hen, monitoring them regularly on a

freedom from arbitrary arrest, detention, or exile; right to a fair and public hearing by an independent and impartial tribunal.

Article 6 clearly stated: "Everyone has the right to recognition everywhere as a person before the law." Article 5 guaranteed: "No one shall be subjected to torture or to cruel, inhuman or degrading treatment or punishment." In its policy statements, the United States has always reaffirmed

its adherence to these noble princi-Regrettably, in recent years, there has been a growing gap between the American government's public dis-

gations regarding their alleged terrorist background could continue without courses on human rights and its actions abroad. Under the Bush interference from lawyers and judges. administration. America has systemat-While interrogating captives in ically violated all these rights as a Guantanamo, Abu Ghraib, Baghram matter of policy. Under the all-purpose and other secret detention centres, its alibi: "Remember, these are terrorists," it has detained thousands of human military and civilian personnel have secret detention camps like Guantanamo. These prisoners have no legal status and therefore, they are nonpersons. They cannot claim any rights to due process because they are held in prisons that are apparently outside the jurisdiction of American courts. by US interrogators. They are "enemy combatants" and not prisoners of war. Therefore, they cannot seek any protection under the and abroad on flimsy evidence and Geneva conventions. As the philosothen under the procedure of "extraorpher, Rafael Argullol put it succinctly in dinary rendition" flown them to other an article published in the Spanish countries for questioning under tordaily El Pais (March 16, 2006); "Within ture. It is ironical that some of these Guantanamo, international law does not apply. It is a ghost prison, and so foreign torturers have been criticised are the men held there." In other strongly in the latest edition of the State words, these people have become Department's report on Human Rights "living ghosts" in "ghost prisons." According to the Human Rights violators. Watch, the US continues to hold at Are the Americans aware of the least two dozen "ghost detainees" in changed status of their country from undisclosed locations. These are being a great defender of human rights individuals who have effectively been to a systematic violator of these cher-"disappeared." Again. according to HRW, the US refuses to disclose their ished values? If so, do they care about it?

EDWARD GRESSER calls from the International Committee

ranklin Roosevelt, launch-Inside the United States, the ing the first international situation is not much different. After trade negotiations in the 9/11, hundreds of non-US citizens of spring of 1945, observed that "the specific ethnic backgrounds were point in history at which we stand is rounded up on alleged immigration full of promise and danger: the violations and detained without world will either move toward unity charges. Some of them were tortured. and widely shared prosperity, or it Others were detained under material will move apart" toward new conflicts and upheavals. Trade negotiwitness warrants. The objective was to ations offered a chance for a more keep them in prison incommunicado unified world: by undoing for an indefinite period so that investi-Depression-era trade barriers. Roosevelt suggested, governments could help to "lay the economic basis for the secure and

peaceful world we all desire." The 1945 talks led ultimately to twelve successful "rounds" of international trade negotiations. Together, they untied most of the Depression

ambitious negotiations to date, covering issues from clothing and computer tariffs to fishery policy, subsidies and services trade. Its participants represent 5.5 billion of the world's 6.5 billion people, and produce 97% of the world's annual \$13 trillion in exports. While the 1945 talks included only 23 countries, mainly World War II allies, the Doha Round has150 participants. They range from giant China to tiny Tonga -- whose 120,000 people earn \$20 million a year from exports of coral, cassava and fish - and from ultra-rich Norway to arid Mali. Each can block an agreement, making success more complicated than ever before.

But the reward is worth the challenge -- especially since the central goal of the Doha Round, uniquely among postwar trade

reaching 32 percent on sweaters and 20 percent on t-shirts. By contrast, American tariffs on French wines, artwork and pharmaceuticals are close to zero. This is why, in 2005, US customs officials collected \$280 million on Cambodia's modest \$1.8 billion in exports -- nearly as much as the \$350 million on \$34 billion worth of French exports.

European tariffs and subsidies exclude farm products produced in the Middle East, Latin America and Asia from the market. Oliveorchard managers in Morocco and Tunisia, for example, make highguality oil. A Maghrebi brand called Volubilia, pressed from groves near Meknes in Morocco, was recently dubbed the world's best extra-virgin oil. But EU olive-oil subsidies pay Spanish, Greek and

poor to sell the items they make and grow without complications, a successful Doha Round could lift tens of million people out of poverty. Lower tariffs on products like t-shirts, shoes, rice, butter and orange juice, meanwhile, can help poor families in wealthy countries make ends meet. Meanwhile, rich countries could find new export opportunities as markets for services and technology products open

It all sounds very nice -- but reality is a bit different.

When the round began in 2001 the participants agreed to finish the job by the end of 2004. They didn't. Instead, farm exporters from developing countries got into a bitter argument with the US and Europe. and a ministerial meeting in Mexico

are precisely the topics twelve earlier agreements couldn't resolve. The WTO itself is larger and more complex. And outside pressures weigh upon the talks, too. Though world economic growth is strong and unemployment fairly low, the US has high trade deficits, Europe has low growth and remains divided over EU expansion, and most countries feel pressured and anxious by the rapid integration of China and India into world investment and trade.

central to pro-poor reform of trade

All these issues make completing the agreement a difficult job. But the challenges do not make success impossible, and failure would have a high cost.

The world's poor, of course. would see hopes for fairer trade put off for many years. Richer coun-

country-by-country basis. It would be an even more impressive document and certainly a more effective one if it had included the human rights violations perpetrated by the government of the United States as well

The United Nations adopted the Universal Declaration of Human Rights in 1948. Let us be frank about it. This momentous event would never have taken place, if it were not for the active support and cooperation of the United States. Every American can justifiably feel proud of this fact. During the cold war years, the US earned enough reputation for its contribution in the field of human rights to claim the moral high ground.

The preamble to the Declaration. in whose drafting American jurists participated, was almost revolutionary. It proclaimed: "If man is not to be compelled to have recourse, as a last resort, to rebellion against tyranny and oppression, it is essential that human rights should be protected by the rule of law.'

Articles 3, 9 and 10 of the Declaration reaffirmed "Rights such as life, liberty, and security of the person;

fate or whereabouts, does not even acknowledge that they are being detained and has repeatedly rejected

Make PM's offer good

used all sorts of torture (including force-feeding hunger strikers) to obtain intelligence, which was often found to be useless. In a recent report,

dent world economy. As Roosevelt predicted, despite daily headlines the New York-based group Human and video feeds, it seems to be a Rights First has denounced the death more peaceful world: a comprehenof nearly 100 prisoners under torture sive study by a Canadian university last year found wars among great It has kidnapped suspects at home powers rarer than at any time since the 1820s.

Each of the twelve rounds was eventually successful. Will the next be the first to fail?

Members of the World Trade Organization (WTO) have worked for five years on a new round, known as the "Doha Round," named for its 2001 launch in Doha, the capital of Qatar. So far failing to finish the job, they face an April 30 deadline for consensus on farm and manufacturing trade reform. If they can't do it, the Doha Round could be put off for many years, or even indefinitely.

agreements, is to help the poor. era trade knots, creating in the pro-An American congressman cess an integrated and interdepen-

observed a century ago that tariffs almost everywhere were ways of shifting tax burdens from the rich to the poor, or "taxing want rather than wealth." The same could be said today. The 12 earlier agreements, despite their achievements, did least in the areas of priority for poor countries and poor people. Governments, businesses and workers in low-income countries around the world have nasty stories about the resulting tilt against

the poor. American tariffs on goods from low-income countries in Asia and the Muslim world are ten and twenty times higher than those imposed on rich countries. Cambodia's 240,000 garment workers rely on exports of simple consumer goods like t-shirts, pajamas and sweaters for their

jobs. These are the products that The challenge is not an easy bear the brunt of American tariffs, one. Doha is among the most

in an American supermarket. Large, fast-growing developing countries are often tougher on the poor. India is a good example. Despite high US tariffs, Americans buy \$2.5 billion worth of Bangladeshi clothes a vear. But Bangladesh can sell only \$100 million of goods a year to India. Indian trade policy imposes a series of flat fees ranging from 85

rupees for a cotton shirt to 485 rupees for a wool skirt, on the cheap goods made by its neighbours. Amounting to tariffs of 100% and 200%, these fees make it almost impossible for Bangladesh. Nepal and Sri Lanka to sell India anything

The Doha Round can fix many of these problems. World Bank studies predict that by allowing the

in 2003 fell apart. Italian growers \$2.5 billion a year to Last December in Hong Kong, members managed to avoid a produce, more than double the value of the world's olive-oil trade. second big public fight, but still couldn't agree on how deeply rich This is why virtually no Moroccan or Tunisian olive oil ever shows up countries should reduce farm tariffs, and how much responsibility big developing countries such as China, India and Brazil should accept. Instead they delayed a basic consensus on these ques-

tions until April 30. This deadline now looms. If the members meet it, they can work out the fine points by the end of the year, taking the next eight months to sort out the details of tariff schedules, services commitments and other issues. If not, the negotiating authority that US Congress granted the Bush administration in 2002 for the Doha Round as well as agreements with individual countries, will run out in the middle of 2007. Hopes for success might

> The job isn't easy, of course. The food, fishery and textile issues

tries, deprived of a chance to find new markets, could easily start guarreling over the old ones.

And the answer to the question Roosevelt posed six decades ado would no longer be clear. In the 20th century, governments chose to move toward broadly shared prosperity, creating an economic foundation for stable relations among fractious powers. Will they still do so in the 21st? They have six weeks to make the right choice.

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then vanish altogether.

KULDIP NAYAR writes from New Delhi

BETWEEN THE LINES

There is need for people-to-people contact. Unfortunately, it is lessening because of visa restrictions. Whatever the statements, the governments in both countries had issued lesser number of visas in the last few months. The inconveniences have increased manifold. The CID still bothers the people who meet visitors from the other side. Manmohan Singh's offer has little meaning if the walls on the border are to remain as they are.

T should have been the Pakistan initiative. But some of us, Indians, took it. Nearly 50, including two Lok Sabha members from Orissa and one former Delhi Chief Justice, laid flowers in Lahore at the Shadman (happiness) Chowk, the place where Bhagat Singh and his two comrades, Sukhdev and Rajguru, were hanged by the British 75 years ago. We delayed the ceremony by one day because of the Pakistan Republic Day celebrations on March 23.

We did not publicise the Bhagat Singh martyrdom day purposely because some of my liberal friends in Pakistan had warned me that religious parties might react

adversely. I had reasons to suspect some outlandish reaction because when I had approached the Punjab (Pakistan) government some years ago for the archival material for my book on Bhagat Singh they had told me that "they were afraid lest they should get entangled in the Sikh problem.

After all, the ceremony was the first of its kind after the formation of Pakistan, although Bhagat Singh was a national hero. A few people from the Shadman colony strayed in at the Chowk and watched what we did. But the friends I invited from Pakistan were not able to make it. Most of them were away to Karachi

to attend the World Social Forum. Still there were many who could have come but did not. Communists were conspicuous by their absence. I suspect people on the whole were afraid. This is in line with my reading of liberals in the subcontinent. They

are willing to strike but afraid to wound. I saw how they caved in my own country during the emergency when there was not even an army rule. Today those very people are part and parcel of the government and serve as a channel for pressure and prize. In the afternoon, there was a function on the martyrs in the sub-

continent. The hall was packed to capacity. However, the organisers were particular not to mention Bhagat Singh's name on the invitation card. They did not want to come into the open. Still it was brave of them.

My assessment over the years is that fear stalks the land called Pakistan. People are afraid to speak out in public what they say in private. None likes the "uniformed democracy." Yet, none dares to hold a meeting or demonstration to point out that the dumb show of democracy is limited to what is permitted. No doubt, the press is free. People's movement is free. But no partv

agitates against the ban on open political activity. Protest is confined to mere press statements. What torments me is that the

public is getting reconciled to the system of partial freedom. There are no stirrings to challenge it. Many liberals have joined the long list of beneficiaries. Lakhs of people are willing to come to streets to protest on religious matters but none in the name of democracy. The control by the army and its agencies is so deep and so pervasive that the 2007 election may turn out to be another farce. Candidates to be elected may be sifted from the rest on the day of their nomination. It has happened in the past. Some may still be returned. But they will be nowhere near the majority. A free and fair election is difficult to envisage in Pakistan, whatever the US may declare. I recall when I interviewed the then President, Zulfikar Ali Bhutto, in the beginning of 1972, asking him whether the army could come back. He laughed and said: "My people will come on the streets to fight the tanks." After Pakistan

adopted the 1973 constitution, he

said in a speech that the people,

especially the brightest and the

best among them, would protect it "with their blood and with their

lives." That did not happen. General Zia-ul Hag walked in easily. The military rule which has been in Pakistan for more than 45 years, off and on, has sapped people's energy as well as their will to resist. Feudal as the Pakistan society has been, it has become more feudal and less democratic even in its day-to-day life. Nonetheless, if posterity were ever to record the reasons for the loss of democracy in Pakistan, India's attitude would be blamed the most. From day one, the latter's effort has been how to humiliate Pakistan and see it down. A country whose founder died early without building institutions was burdened with responsibilities of security. New Delhi's fear did not allow Islamabad to settle down.

because they are far distant from The Pakistan policy in India is framed by bureaucrats and implemented by bureaucrats who have not changed in the last 50 years. Unfortunately, at crucial time between the two countries. the foreign office had ministers who were ex-bureaucrats. Nothing came out of meetings with Pakistan, which was equally obstructive and even

obscurantist. The tragedy is that both New Delhi and Islamabad are guided by people whose minds are tainted

When Prime Minister Manmohan Singh offered Pakistan a peace and friendship treaty, he was out of Delhi, away from advisers and experts. South and North Blocks are too oppressively intolerant to let a different point of view to see the light of the day. The Siachin glacier and Sir Creek which Manmohan Singh wants to be settled should have been out of the way long ago. The controversy over the Bhaglihar dam would not have arisen if New Delhi had been transparent in its construction plans. After Manmohan Singh's offer, confidence building measures should be easier to settle. But my worry is that advisers and experts are going to come in the way

the Prime Minister's thinking. I wish we could separate Kashmir from the normalisation with Pakistan. We have vainly tried to do so for years. Islamabad's entire policy has been against de-linking because Kashmir has continued to be the point over which the anti-India sentiments have been aroused. However, Manmo-han

Singh has himself suggested a way out. His ideas of helping Kashmir jointly can be given a concrete shape by handing over all subjects, except Defence, Foreign Affairs and Communications, to the Kashmiris on both sides of the border. The border should be made soft for people living in the two parts. They should be allowed to have their own air service to connect foreign countries or anything else jointly.

But for selling such a formula, there is need for people-to-people contact. Unfortunately, it is lessening because of visa restrictions. Whatever the statements, the governments in both countries had issued lesser number of visas in the last few months. The inconveniences have increased manifold. The CID still bothers the people who meet visitors from the other side. Manmohan Singh's offer has little meaning if the walls on the border are to remain as they are.

Kuldip Nayar is an eminent Indian columnist