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DHAKA THURSDAY APRIL 27, 2006 E-mail: business@thedailystar.net

TBWA Asia Pacific EVP in Dhaka

Ian Thubron, executive vice president of TBWA Asia Pacific -- a part of world's most creative advertising agency TBWA Worldwide -- is in the city on a three-day visit to Bangladesh.

During his brief stay here, he will see the market potentials and enhance business relationship with Benchmark Ltd, an affiliate of TBWA Worldwide in Bangladesh, says a press release.

Ian will also meet Benchmark's clientele and look into the growth of media and other communication sectors in the country.

GSP Finance Co okays 36pc cash, 10pc stock dividends

GSP Finance Company (Bangladesh) Ltd has declared 36 percent cash and 10 percent stock dividends for its shareholders for the year 2005.

The dividends were approved at the 11th annual general meeting (AGM) of the company held on Sunday in Dhaka, says a press release.

Managing Director and CEO of the company Feroz U Haider presided over the AGM, which was attended, among others, by directors M Nurul Islam, Gurdist Malhotra, Moin U Haider and Ramaswamy Soundararajan.

Reuters posts 13pc jump in sales

AFP, *London*

The British news and financial information group Reuters reported Wednesday a stronger-than-expected rise in first-quarter sales and maintained its growth target for 2006.

Turnover jumped by 13 percent to 633 million pounds (909 million euros, 1.13 billion dollars) in the first three months of 2006 compared with the same period a year earlier.

Rising interests on deposits worry BB

Banks want cut in compulsory cash margin ratio

STAR BUSINESS REPORT

As the central bank yesterday expressed its concern over the banks' recent tendency to raise interests on deposits, top bankers urged the Bangladesh Bank to reduce compulsory cash margin ratio for banks.

In a meeting with the chief executives of commercial banks, central bank Governor Salehuddin Ahmed said it is up to the banks to decide interest rates. He added the central bank can neither support nor oppose rising interest rates. But the rising interest rates on deposits will hurt the economy as a whole, he added.

The governor also assured the commercial banks of addressing their concern of liquidity crunch. The liquidity crisis has prompted the banks to offer higher interest rates on deposits, casting an adverse impact on investment.

As the central bank is following tight monetary policy, bankers explained Bangladesh Petroleum Corporation (BPC)'s loan from the nationalised commercial banks (NCBs) dried up the market.

Under the circumstances the bankers suggested reducing the Statutory Liquidity Ratio (SLR) requirement by 4 percent. At present the banks have to maintain 18 percent in SLR.

However, the central bank officials argued asset and liability mismanagement of some banks is responsible for the liquidity crisis.

A number of banks recently raised interest rates on deposits. Some offered as much as 13 percent interests on deposits. Consequently the lending rate rises, which is precisely worrying the central bank.

Besides, the banks' excess liquidity has plummeted recently. In June 05 the excess liquidity of the banks stood at Tk 10,991 crore, but towards the end of February it came down to Tk 5,276 crore. Recently the amount has dropped further and has come down to around Tk 3,000 crore somewhere.

Sources said the government's borrowing through savings instruments has prompted the commercial banks to go for raising interest rates. Sales of savings instruments dropped by 2.18 percent during July-February in the last fiscal year while the corresponding period of the present fiscal saw a whopping rise of 37 percent in sales of the savings instruments.

UNB adds: Talking to the newsman, Chairman of Association of Bankers Bangladesh (ABB) M Aminuzzaman said tension has gripped the banks for lack of confidence in the central bank that they would get liquidity support.

The central bank took note of the concerns of the commercial banks and said it would take measures taking the whole aspect of the macro-economic situation into consideration.

He explained the situation turns worse as the central bank has withdrawn funds from the money market through Reverse Repo at a time when the major lenders to the market, NCBs, are borrowing from the market.

Aminuzzaman said the governor called upon the commercial banks not to behave irrationally to create tension in the market.

PHOTO: IDLC

Anwarul Huq, chairman of IDLC of Bangladesh Ltd, presides over the 21st annual general meeting (AGM) of the company yesterday in Dhaka. Directors and other senior officials are also seen. The AGM approved 37.5 percent cash dividend for the shareholders for the year 2005.

IDLC declares 37.5pc cash dividend

IDLC of Bangladesh Ltd, a joint venture multiproduct financial institution, has declared a 37.5 percent cash dividend for its shareholders for the year 2005.

The dividend, which is the highest ever in IDLC's years of operation, was approved at the 21st annual general meeting (AGM) of the company held yesterday in Dhaka, says a press release.

Anwarul Huq, chairman of the company, presided over the AGM, which was attended, among others, by Ahmed Rajeeb Samdani, Rubel Aziz, Md Humayun Kabir, Md Habibur Rahman Mollah and Yongbok Jo, directors, and Anis A Khan, CEO and managing director of the company.

The AGM was informed that amid intense competition from existing financial institutions, IDLC continued to maintain its growth. The year 2005 saw an impressive 40 percent growth in disbursements over the previous year. IDLC's equity grew by 12.6 percent over 2004. Total asset of the company stood at Tk 8.8 billion at the end of 2005, which is 30 percent higher than that of the previous year.

During the year, net profit of the company stood at Tk 153 million, showing a growth of 14.2 percent.

SIA to raise fuel surcharge

AFP, *Singapore*

Singapore Airlines (SIA) said Wednesday it will increase its fuel surcharge by up to 10 US dollars from May 15 onwards to partially offset soaring fuel costs.

SIA last raised its levy in September when jet fuel prices were at 80 US dollars a barrel.

But jet fuel costs have since risen to 90 US dollars a barrel currently which means the latest hike will only absorb part of the higher oil costs, the airline said.

The airline's latest levy increase comes as oil futures prices spiralled to record highs above 75 dollars a barrel last week, fuelled by geopolitical tensions in Iran and Nigeria.

"The adjustments will offer only partial relief of higher operating costs arising from persistently high price of jet fuel," the carrier said in a statement.

From May 15 onwards, the fuel levy will be raised by five US dollars to 20 US dollars per sector for flights between Singapore and Kuala Lumpur, Bandar Seri Begawan, Bangkok, Denpasar, Hanoi, Ho Chi Minh City, Jakarta, Manila and Penang.

70pc knitwear units yet to ensure social compliance

Nari Uddug Kendra survey reveals

STAR BUSINESS REPORT

Seventy per cent knitwear factories are yet to ensure social compliance, according to a survey conducted by Nari Uddug Kendra (NUK), a non-governmental organisation.

The survey revealed 65 per cent of the factories have so far not taken any action to preserve factory documents while 36 percent have taken no measures to maintain employment records and 88 per cent are yet to comply with the freedom of association standard.

The NUK conducted the survey on 55 knitwear factories located in Narayanganj, Gazipur and Savar areas from July 2005 to February 2006. Earlier, Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) handed over a list 100 factories to NUK for compliance development.

"We are still working with the 55 factories to help them ensure compliance so that they can satisfy their buyers and make the factories competitive," said Mashuda Khatun Shefali, executive director of NUK, addressing a press conference on 'Present Status of Social Compliance in RMG Sector of Bangladesh' in Dhaka yesterday.

The NUK survey also found that 90 per cent of the factories have complied with the standard regarding child labour, 46 per cent with the rule of working hours, wages and benefits, and overtime compensation while 36.36 percent with the workplace environment standard.

Shefali said more international buyers are asking for ensuring social compliance standards by local manufacturers.

"A concerted effort by the government, manufacturers, workers and civil society is needed to generate awareness to ensure social compliance," she added.

Emirates Group posts record $762m net profit in FY06

JASIM UDDIN KHAN, *from Dubai*

PHOTO: EMIRATES

Sheikh Ahmed bin Saeed Al-Maktoum, chairman and chief executive of Emirates Airline and Group, gestures as he announces the annual report for 2005-06 of the Group in Dubai yesterday.

The Emirates Group has attained a record US$762 million net profit in 2005-06 financial year that ended on March 31, 2006, up by 5 percent from the previous year's profit of $726 million.

The Group Chairman and Chief Executive Sheikh Ahmed bin Saeed Al-Maktoum formally announced the annual report of the Group at the city's Hyat Regency Hotel yesterday.

Sheikh Ahmed said the Group revenue increased by an impressive $1.4 billion or 27 percent in the financial year, totalling $6.6 billion compared to last year's $5.2 billion.

The Emirates Group comprises Emirates Airline, Dnata and subsidiary companies.

Out of the Group revenue, Emirates Airline, the second largest airline in the world, earned $6.3 billion for the year, an increase of 27 percent from previous year's $4.9 billion. The Airline's profit also reached $674 million from last year's $656 million.

"These results clearly show that Emirates' customer-oriented approach and investment in providing a quality product--the best aircraft that money can buy, top-flight service and travel experience at a competitive price--have paid off in terms of retaining and winning new customers globally," Sheikh Ahmed said.

He said, "It has been another tough year with pressure from fuel costs continuously dampening our robust net income production. Emirates has maintained its 18th consecutive annual profit, and we are pleased to have achieved this solid performance while expanding our operations."

The Group's sharp sales growth and record returns reflect customers' increasing preference for its products, as illustrated by the two million more passengers who flew Emirates in the last financial year.

Fuel costs remained the top expenditure accounting for 27.2 percent of the total operating costs, up from 21.4 percent in the previous year.

With the addition of 16 new aircraft during the financial year, Emirates' fleet reached 91 at the end of March.

One of the key highlights of the year was Emirates' signing of a massive $9.7 billion contract for 42 Boeing 777 aircraft at the 2005 Dubai Air Show.

Emirates launched services in eight new cities in 2005-06 -- Alexandria, Abidjan, Addis Ababa, Humburg, Kolkata, Thiruvananthpuram, Seoul and Lilongwe--bringing the network's total destinations to 83.

The airline also invested US$200 million on new customer facilities and service enhancement during the year.

Fuel price: If at all, the rich should subsidise the poor, not the govt

MAMUN RASHID

Fuel price has increased eight times over the last 5 years, when the price of octane increased 87 per cent and petrol by 80 per cent per litre. Some argue that since our economy is agro based, and the agricultural sector is highly dependent on the use of diesel for irrigation, any increase in the fuel price may adversely affect the economic development of the country and may trigger the spiraling effect of inflation. On the other hand it has also been argued that abolishment of huge sum spent on fuel subsidies will have a positive impact on the money market and improve the forex reserve.

First of all we need to analyse the basic reasons for the continued increase in the fuel price. To begin with, international oil price has increased almost 175 per cent over the last 2 years. The increase can be attributed due to the following reasons: 1) Increased demand by some of the developed and industrialised countries. Demand for oil in China and US increased by 39 per cent and 19 per cent against the increased global demand by 20 per cent in 2005. 2) Temporary disruption in production capacity due to labour and political unrest in Middle Eastern countries, 3) Natural calamities, 4) Cartels have been successful in controlling the fuel price. During times of falling oil prices, cartels have successfully lowered their production capacity in order to dictate a higher oil price in the international market. Since the major oil producing countries control the effective means of price reductions, it is somehow expected that the fuel price will maintain its upward trend.

In most developed countries, oil prices are usually tied with the international market. At the least, each country tries its best to align the fuel price with that of the international market, except for Bangladesh where the petroleum products are highly subsidised. Even our neighbouring economies revise the fuel prices on a regular basis. For example: a litre of octane is taka 90 equivalent in India, taka 73.50 equivalent in Pakistan and taka 66.50 equivalent in Sri Lanka, while this is only taka 45 in Bangladesh. In the similar way a litre of Petrol cost taka 77.50 equivalent in India, taka 65.80 in Pakistan and taka 62 in Srilanka while this is taka 42 in Bangladesh. A litre of diesel cost taka 46.50 in India, taka 43.50 in Pakistan and taka 42.25 in Srilanka, while this is only taka 30 in Bangladesh.

Bangladesh imports US$ 700 million worth of crude oil and US$ 1.3 billion worth of different kinds of refined petroleum products, exerting a strong pressure on the foreign exchange reserves. Faster depletion of hard earned reserve is causing the local currency to depreciate further against US dollar adding more woes while making payments for such imports.

Financing for oil imports is made under the arrangement between the Islamic Development Bank (IDB) and the government. However, the increased oil price resulted in a bigger import bill this year. The government under different arrangements managed financing for US$ 1.2 billion worth of imports, leaving a deficit of US$ 800 millions, which is being managed out of borrowing from foreign and local banks.

Bangladesh Petroleum Corporation (BPC) is responsible for the import and distribution of oil through its 3 distribution wings. BPC is selling the fuel at a subsidized price, which is lower than its imported cost. Moreover most of its major buyers of fuel are not regular in making fuel payments under the credit arrangement between BPC and the buyers. Such situation is exposing BPC to financial shambles and causing it to incur an annual loss of more than BDT 30 billion. Amongst the major buyers of BPC include Biman Bangladesh Airlines, Bangladesh Power Development Board and other governmental bodies.

Ninety per cent of the imported fuel is used by the airlines, transport and industry sector while only 10 per cent of fuel is being used by the agriculture sector. However the demand for fuel by the agricultural sector is relatively consistent. Agriculture sector needs fuel during December to March period for the irrigation. The demand for irrigation fuel is likely to decrease in the coming days with the supply of electricity in those areas. With the advent of electricity, agricultural sector will be better equipped with the electric run machineries.

It is quite interesting to note that though only 10 per cent of the total imported fuel is used for the irrigation purpose in the agricultural sector, some economists and politicians uses this pretext for supporting the government's decision to subsidise all petroleum products. It is also quite unclear as to why subsidisation at such large scale is needed in Bangladesh where there is compressed natural gas (CNG) as an alternative source of energy.

The use of CNG has been gaining popularity over the years. The consumption of petroleum products has not increased over time due to the abundance of locally produced natural gas that caters to over 60 per cent of commercial energy needed. In the face of rising oil prices, gas has substituted petroleum products in the domestic and transport sector, and its popularity is ever increasing in almost all sectors.

The government has recently ordered all government vehicles to be converted to run on CNG. Not only smaller vehicles, but long haul vehicles, too, have been running on CNG and the numbers of such vehicles are on the rise. In line with the increased number of gas-run vehicles, the numbers of such gas stations have increased over the years, thus ensuring adequate supply. Many leading banks and leasing companies have already shown their commitment in making available such environment-friendly vehicles, buses and lorries, by means of easy installments and loan facilities. Moreover, many power plants that were running on diesels have already substituted those to gas fired ones and the government has also declared a two-day weekend to ensure energy savings.

Since the last fuel price hike in the local market in September 2005, the government has been able to cut down its losses to some extent. Diesel was still being largely subsidized since the consumption of diesel in the agriculture sector is still a significant portion of the total diesel imports. With the gradual shift in the consumption pattern, we expect to see a lower import bill for oil during the year. Nevertheless, the government is expected to continue to provide subsidies to the farmers. Donor agencies like IMF and World Bank have been pressing hard for oil price re-fixation in the local market in line with the international market.

High oil import bill payments and subsidies have already squeezed BPC's resources and as a counter measure, the government had to increase its sovereign guarantees to accommodate the opening of letters of credit (L/C) by the nationalised commercial banks (NCBs). BPC already has an outstanding of US$ 750 million with Islamic Development Bank (IDB) and is not interested to increase its exposure further.

Instead of spending millions on subsidising fuel price, the government should take steps to make CNG conversion system more affordable, since it is still at a growing stage and the initial cash outlay is quite significant too. Support to the CNG conversion industry should be provided to encourage more number of people to use CNG as an alternative source of energy in lieu of fuel. CNG is not only less dependent on ever increasing fuel costs, it is also environment friendly. Therefore, since the alternative energy source is readily available, the government should no longer subsidise the oil price. Even if they want to continue subsidising diesel for agricultural sector on political considerations, this should be done as `targeted subsidy'. And the related loss should be passed on to the rich segment of the society in the form of increasing the octane and the petrol price. If we talk to proper distribution of wealth and channeling the subsidy to the target segment of the society, no point in subsidising the rich people, who can afford to buy fuel at international price as seen in other similar countries.

The writer is a banker

Oil prices ease on Bush's plan

AFP, *Singapore*

Oil prices continued easier in Asian trade Wednesday as the market responded to US President George W. Bush's decision to halt deliveries to the US strategic reserves for the time being, dealers said.

Prices were racing towards record highs on geopolitical tensions in Iran and Nigeria, two key suppliers of crude to the international community, until Bush announced new measures to halt the sharp run-up in petroleum prices, they said.

At 11:28 am (0328 GMT), New York's main contract, light sweet crude for delivery in June, was down eight cents to 72.80 dollars a barrel from 72.88 dollars dollars in the United States Tuesday.

The June contract had hit a high of 75.35 dollars in Asian trade Monday to match the all-time intraday high set on Friday.

Brent North Sea Crude for June delivery was 20 cents lower Wednesday at 73.01 dollars after 73.21 dollars in London.

"What Bush said was very important because prior to his speech, prices were rising on comments from Iran," said Dariusz Kowalczyk, senior investment strategist with Hong Kong-based CFC Seymour Securities.

Bush announced on Tuesday strategies to combat rising fuel prices including the temporary suspension of deliveries into the Strategic Petroleum Reserve.

Among the measures, he ordered an investigation into record-high fuel prices across the United States amid concerns that unscrupulous suppliers might be gouging US consumers.

"One immediate way we can signal to people we're serious about increasing supply is to stop making purchases or deposits to the strategic supply for a short time," Bush said.

"The strategic reserve is large enough to guard against any major supply disruption over the next few months."

The US Strategic Petroleum Reserve was created in 1975 by then-president Gerald Ford to ensure an emergency supply of oil during that decade's price shocks created by war and tensions in the Middle East.

On Tuesday, Iran refused to rule out using oil as a weapon in the worsening international standoff over the Islamic republic's disputed nuclear drive.

PHOTO: GSP FINANCE CO

Officials of GSP Finance Company (Bangladesh) Ltd pose for photographs at the 11th annual general meeting (AGM) of the company held on Sunday in Dhaka. At the AGM the company declared 36 percent cash and 10 percent stock dividends for its shareholders for the year 2005.