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BUSINESS

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New int'l trade terms to come into effect next year

New Incoterms, standard trade terms used in all international sales contracts, will come into effect from the first day of the next year, says a press release issued yesterday.

Authored by the ICC, the Paris-based world business organisation, the new and revised standard terms for commercial practices will be known as Incoterms 2000 and will replace the old version formulated in 1990. The revised terms will be officially released on 20th September this year.

Incoterms are the official ICC rules for the interpretation of trade terms. Their authenticity is recognised by courts and other authorities throughout the world. The incorporation of the terms in sales contracts reduces the risk of misunderstanding that could lead to legal complications.

ICC established the rules on documentary credits (L/Cs) that banks throughout the world apply daily in their operations. The best known of the ICC rules and related guides are the Uniform Customers and Practices for Documentary Credits, the latest available version of which is known as UCP 500.

Other standards like Uniform Rules for Collections (URC), bank-to-bank reimbursements under Documentary Credits (URR 525) etc. are already in place and being revised taking into account the changing circumstances.

BITI signs faculty training deal with University of Windsor

A memorandum of understanding (MOU) was signed recently between the University of Windsor of Canada and BRAC Information Technology Institute (BITI) for credit transfer and faculty training, says a BRAC press release issued in city yesterday.

According to the MOU, the students of BITI will be able to transfer mutually agreed credit hours to the University of Windsor for pursuing further studies in Computer Science.

Windsor University will also provide faculty support for conducting advanced courses on computer programming and training to BITI faculty members.

BITI imparts high-quality training and education in the field of information technology and develops human resources.

United Insurance declares 20pc dividend

The 14th annual general meeting (AGM) of United Insurance Company Limited was held at a local hotel on Tuesday, says a press release.

The company earned a gross premium income of Tk 131.49 million in 1998 and made a pre tax profit of Tk 34.11 million as against Tk 22.25 million in 1997.

The company declared a 22 per cent dividend in 1998 as against 20 per cent in 1997.

As on December 31, 1999 the company's assets stood at Tk 320 million while accumulated reserve and retained profit increased to Tk 75.37 million.

A wholly-owned subsidiary of the company, the Surmah Valley Tea Company Ltd, which has three tea estates at Laskerpore, Rajkie and Siloah, made a gross profit of Tk 40.72 million in 1998.

Savings certificate sales falter, revenue falls short

Govt resorts to massive bank borrowing to finance deficit

By Monjur Mahmud

As the government's move to mobilise funds from non-inflationary savings certificates flopped and revenue collections target trailed off, it has again taken to heavy bank borrowings to finance fiscal deficit this year.

Sales of different savings certificates till February this year were recorded at Tk 2,173 crore, Tk 673 crore less than the corresponding period of last fiscal year, a source in the National Savings Directorate (NSD) said. The sales target of different savings certificates was set at Tk 4,565 crore for fiscal 1998-99.

At the same time, revenue earnings till April by the National Board of Revenue (NBR) also fell short of target by Tk 958 crore to Tk 11,468 crore.

When these two – a shortfall in revenue collection and less-than-expected sales of savings certificates – combined, the government was forced to borrow a huge amount of Tk 4,700 crore from the banking sector till the fourth week of May.

The revenue target for the current fiscal year was fixed Tk 15,700 crore. But till the end of April, the National Board of Revenue (NBR) only collected Tk 11,468 crore, which is some 8 per cent less than the amount targeted.

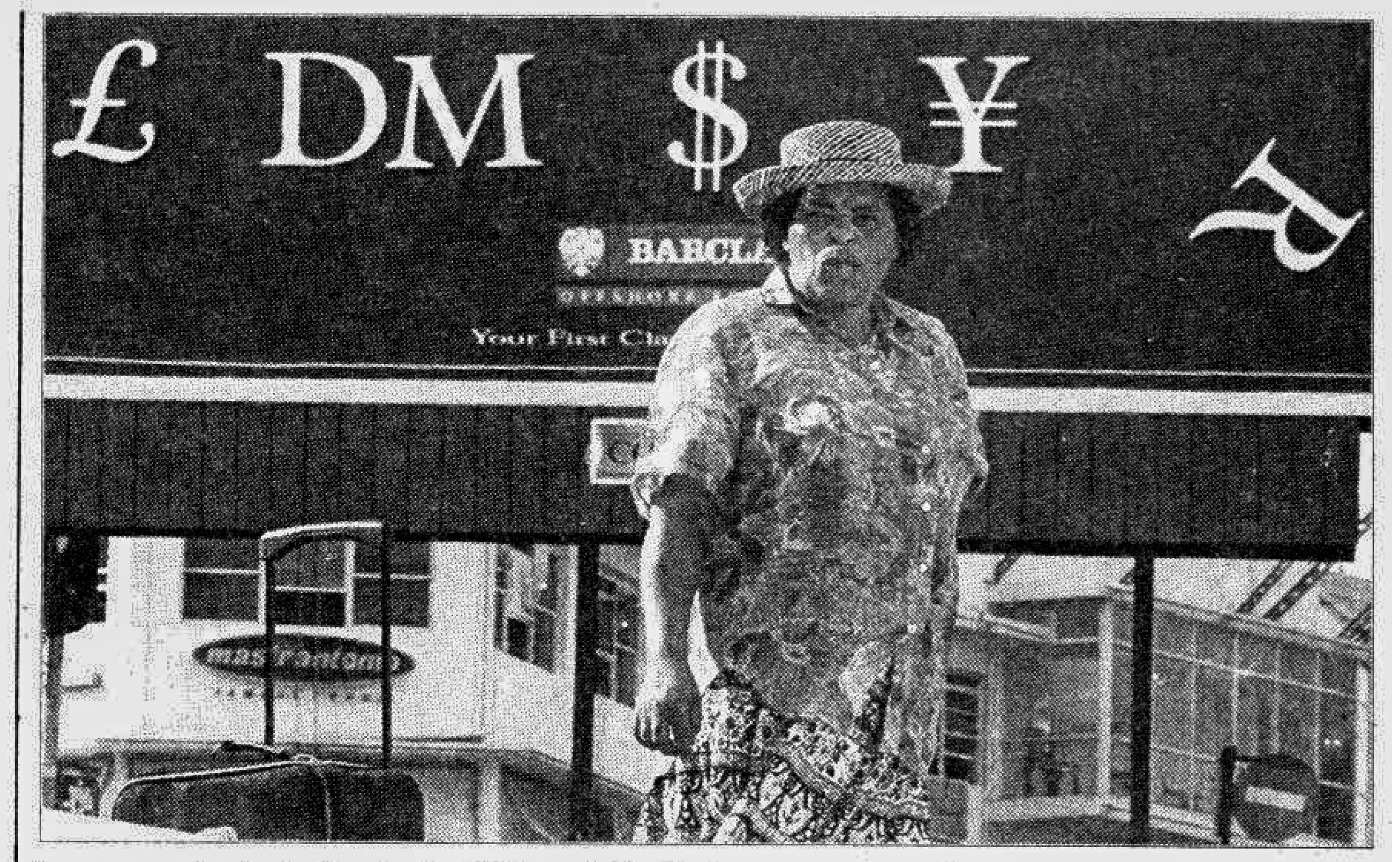
Sources attribute this shortfall to last year's devastating floods which made the country see a near standstill situation in imports.

However, the government's financing pattern this year would have some implications for the economy, according to financial experts.

Savings certificates are high interest-bearing instruments for which the government has to pay a huge amount of money. These are, on the other hand, non-inflationary modes of financing.

When the government opts for bank borrowing, it has to pay less on account of interest. But at the same time, this puts an inflationary pressure on the economy and results in some crowding out effects on the private sector, which the businessmen are already accusing of.

According to NBR sources, although revenue collections till April fell short of the Tk 12,426 crore target, it is still Tk 478 crore higher than the collection performance of last year's corresponding period.



A woman stands in front of a billboard displaying currencies showing the falling value of the South African Rand, 20 May 1999. South Africa's economy is in recession but is expected to improve after the general elections 02 June 1999. — AFP photo

Renewal of US favourable trade status for China

Annual debate to take place under darker cloud this yr

WASHINGTON, May 26: The congressional report that China stole US nuclear arms technology and was helped by lax security by the Clinton administration comes as President Bill Clinton prepares to ask Congress to renew trade privileges for Beijing, a contentious issue in the best of times, reports AP.

That annual debate will be conducted under an even darker cloud this year.

Proponents of closer economic ties with China fear the espionage report could have harmful fallout on US attempts to open the huge Chinese market to more American products.

"National security is paramount. But that can and should be dealt with separately," said Sen. Max Baucus, a Montana Democrat who is a leading Senate advocate for more trade with China — Montana wheat, for instance. "It doesn't make sense to punish ourselves for our own mistakes."

Clinton has until June 3 to notify Congress he's renewing the favourable trade status that gives China the lowest-possible tariffs on its exports.

This status — formerly known as "most favoured nation (MFN)" but now called "normal trade relations" — is extended permanently to most US trading partners but must be renewed yearly for China. Congress has 90 days to block it.

Originally, the administration hoped it would be its last annual trek to Capitol Hill for approval, believing that China would shortly be joining the World Trade Organisation, with US support. Once that happened, the administration expected it could make trade relations with China permanent.

But that was before new accusations of Chinese spying and allegations of increasing human rights violations put the WTO process on hold. And that was before US-Chinese ties were further strained by NATO's mistaken bombing of the Chinese Embassy in Belgrade and the violent anti-US demonstrations that followed in Beijing.

"There's clearly going to be a lot of political churning in Congress," said John Schott, an analyst with the Institute for International Economics.

What many who condemn China don't understand, say free trade advocates, is that bringing China into the World Trade Organisation could benefit the United States even more than China.

That's particularly true since China earlier this year agreed to many concessions to open its markets in exchange for US help on its WTO bid.

The Geneva-based organisation oversees and facilitates international trade and referees disputes. So far, most trade between China and the United States has been one way, with Americans mostly buying Chinese goods.

'US, Japan policy mistakes aggravated Asian crisis'

SYDNEY, May 26: Japan's top international finance official has conceded that the Asian meltdown was seriously aggravated by US and Japanese policy mistakes. Eisuke Sakakibara, Vice-Minister for International Affairs and nicknamed Mr Yen, also warned that the system of global capitalism could collapse if the US economy slumps, reports AFP.

In an interview with the Australian Financial Review Wednesday, he said the US Treasury was wrong to veto his plan to set up a 100 billion US dollar Asian monetary fund.

He said disagreement on this issue between Washington and Tokyo was "the tensest time" in the two-year crisis.

"It was somewhat premature on our part, but we were consulting with some of the Asian countries about this idea and they reacted very favourably," he said.

"We wanted to consult the US after that but Larry Summers (US deputy treasury secretary) somehow got information about it and he didn't like it at all. I regret I didn't nurture it a bit longer."

Sakakibara, who was the architect of Japan's Big Bang programme of financial deregulation, said if the plan had proceeded South Korea could have avoided falling into the problems that engulfed it.

His assessment is likely to change the orthodox understanding of the crisis, shifting the burden of blame onto the world's two great economic powers and away from the crisis countries themselves, the paper said.

Another mistake was that Tokyo and Washington inadvertently put pressure on the other economies of Asia with their joint decision to weaken the yen in 1995.

"We should have coordinated with other Asian countries but that didn't occur to me at the time," said Sakakibara, acknowledged as the mastermind of the yen's big depreciations in 1995 and 1997.

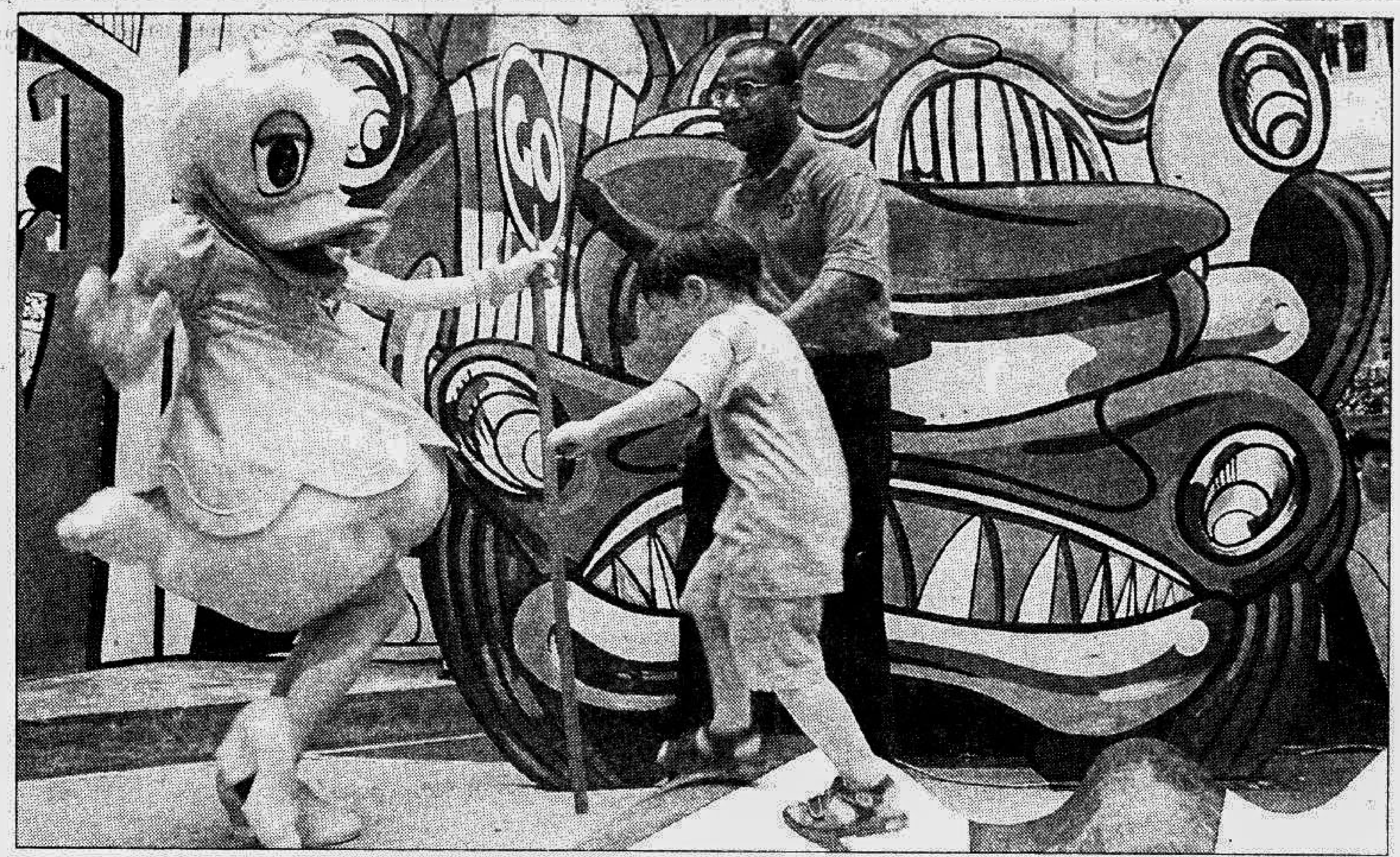
The weaker yen undermined the competitiveness of regional economies with Japan's exports gaining a price advantage, he said.

This led to a deterioration in Asian current account balances in 1996 and 1997, helping precipitate the economic crisis.

He also warned of deep structural flaws in global capitalism and acknowledged that Japan had fallen behind the new wave of industrialism.

The Us economy had a "bubble aspect", a lack of domestic savings and a sharp run-up in international indebtedness.

These flaws, he said, could come together to bring about a collapse in the system of global capitalism.



A young boy rushes towards disney character Daisy Duck Wednesday at a small comic book carnival at Kuala Lumpur's Suria shopping complex. As school holidays have started in Malaysia, children are enjoying themselves with the dozens of promotions and attractions held in the country to help the current economic situation. — AFP photo

Yeltsin names new economy chief, finance minister

MOSCOW, May 26: President Boris Yeltsin named another batch of ministers to Russia's new cabinet yesterday, including the surprise appointment of liberal Mikhail Zadornov as first deputy prime minister in charge of the economy, reports Reuters.

Yeltsin also named Mikhail Kasyanov, chief foreign debt negotiator, as finance minister to replace Zadornov, putting an end to earlier confusion over whether Zadornov would keep his former role.

A slew of other officials were confirmed in positions they had occupied in the previous government.

Zadornov's appointment as first deputy premier in charge of economic affairs will give him wide powers and the task to make sure Russia wins $4.5 billion of loans from the International Monetary Fund and eases its crushing debt burden.

The appointment of Zadornov also means that moderate reformer Alexander Zhukov, initially tipped for the first deputy's post, will stay in the State Duma lower house of parliament as head of the influential budget committee.

Prime Minister Sergei Stepashin announced the new role for Zadornov after several hours of talks with vacationing president Boris Yeltsin in the southern resort of Sochi.

"I think the optimum decision has been taken," Stepashin said in televised comments on board a plane from Sochi. "Zhukov will continue to work in the Duma and it seems to me the Zadornov-Zhukov link is positive for the further work of the government."

Economists said the difference in economic competence and out look between Zadornov and Zhukov was small but Zhukov might have found it easier to get laws aimed at winning more IMF money through the Communist-dominated Duma.

The naming of Zadornov was seen as a partial victory for Stepashin in his battle for some degree of independence from Yeltsin, who has the final say in cabinet appointments.

Yeltsin had already named one first deputy premier as Nikolai Aksyonenko, a little known former railways minister with scant economic experience. Stepashin had insisted on having another number two, who was originally to have been Zhukov.

Some politicians say the confusion preceding the naming of Zadornov suggests a high degree of behind-the-scenes lobbying by business groups to secure positions for their allies.

"It is such an obvious and dirty game played under the carpet that I do not even want to talk about it," Communist Party leader Gennady Zyuganov said on Tuesday.

Stepashin denied there was tension with the Kremlin and said both sides worked as one team.

He was quoted by local agencies as saying that Zadornov must form a long-term policy to solve Russia's economic woes and ease taxes.

Zadornov, survived in government despite being minister during last year's crash, from which Russia is still recovering.

As well as winning IMF money by making sure the Duma passes a key set of laws required by the Fund, Zadornov must hold tough talks on cutting a crushing $140 billion of foreign debt.

Gas contracts and tasks before Bangladesh

By Nuruddin Mahmud Kamal

The Tricky Business of Exploration

In the midst of all these, the professionals of Bangladesh were concerned about what was happening because they knew better than anyone how difficult it is to find oil or gas. Let us understand one thing very clearly that there is no direct finding method. Only a constant, vigorous exploration programme can keep supplies of oil/gas flowing and develop new ideas of where to look for within favourable areas. The gas you and I use today, someone had to start looking for from 10 to 15 years ago.

Indeed oil and gas finding is an art, a jigsaw puzzle and the world's most expensive gambling game all rolled into one. Finding a favourable area is just a starter. It is generally accepted that oil and gas comes from the decomposition of marine animals and plants buried under successive layers of geological formation over the floors of former seas for as long as 400-500 million years ago. Heat and pressure change this organic material to a complex mixture of hydrogen and carbon-oil and gas.

So, Geologists study earth history in search of areas where source rock for oil and gas occurs. However, oil and gas in the earth migrate. When compaction squeezes them out of source rocks, they travel — sometimes long distances — upward, sideward through porous rock beds. Their travels stop when this run into trap — a layer of impervious rock, shaped in such a way that it forms a seal, or cap, over the porous rocks. Unable to move further, the oil and gas are imprisoned in porous rock between the cap rock above the heavier brines, or fossil seawater, which permeate the rock below.

The tricky business of exploration is how to locate these traps. Locating a potential trap doesn't mean there is oil or gas in it. Even if oil and gas are discovered, it is more important to establish that commercial discovery has been made. Different phases of exploration — starting with seismic 5 survey to actual drilling is essential. Depending on the data and information some steps may be reduced or extended. Also depending on the nature and identification of geological structure, a company proposes a work-programme including the number of exploratory and development wells for phase-wise exploitation of hydrocarbon. This must be commensurate with the estimated budget and financial back-up documentation. When all these are done — delineation of geological structure has been made — you have to drill a hole to find out. The chances of finding oil or gas are about one out of nine. Only one in 50 is counted a commercial success. In Bangladesh very careful and cautious moves have been made in terms of drilling exploratory wells since 1972. Thus in oil and gas exploration success ratio in Bangladesh is one out of three exploratory wells.

Profit Sharing

Profit-sharing in Iran became a pawn in political struggle, involving riots, bloodhsed, international intrigue and oil nationalisation. Prime Minister Dr Mohammad Mossadegh was overthrown in 1953 and emperor Reza Shah Pahlevi was brought back from exile to reestablish the old link. The oil majors were happy again.

Anglo-Iranian which became British Petroleum (BP), retained a 40 per cent interest in the Iran consortium, each of five American companies — Exxon, Mobil, SOCAL, TEXACO and Gulf — had eight per cent interest, totalling 40 per cent; and Compagnie Francise de Petroles (CFP), controlled by the French government, took six per cent.

There was however one ludicrous episode in the round of Middle East Profit-sharing Agreements, which resulted in the delay in discovery of oil until 1958 in Abu Dhabi. Almost simultaneously, Abu Dhabi Petroleum Company (owned by British Petroleum, Shell CFP, Exxon and Mobil) struck oil on land and later in waters of the Persian Gulf.

On the other side of the world, in Indonesia, Pan American made an even more precedent-shattering upheaval of the old concessionary oil pattern. Under President Sukarno, Indonesia passed an Oil and Gas Law in 1960 which nationalised the oil industry, providing that only state enterprises could develop oil and gas, but foreign companies could work as contractors. Pan American promptly signed a contract of work on a formula of 60:40 profit-sharing at realised market prices. This posed a monumental problem to the established producing concession owners—Caltex, jointly owned by Socal and Texaco; Royal Dutch Shell; and Stanvac, jointly owned by Exxon and Mobil. Becoming contractors, to conform with the new law, meant giving up both management control and the exclusive right to set oil prices and a great increase to the government in profit-sharing. A new State Corporation was created — PERTAMINA — with it's Chairman in the rank of cabinet minister (Gen. Ibne-Sutubu).

The majors already had suffered a severe set back in Iraq, then the fourth largest Middle East even producing country. They became more worried now.

Although the old way of doing business with oil-exporting countries lies in prices, OPEC was still struggling to assert itself in the mid 1960s. In 1951 the UN declared the former Italian North African territory of Libya an independent nation. In 1959 ESSO standard of Libya, a subsidiary of Exxon, discovered the first oil. Then the unexpected happened in Libya. Colonel Qaddafi closed his door to foreign companies. Occidental (USA) was an ideal first choice for a pressure victim. Although it was a US$ 2 billion corporation, it was a new comer to both the oil business and the international oil business and most of its barrels of oil were in one country — Libya.

Planting Petroleum

The concept of 'Planting Petroleum' or plowing back oil profits into national development gradually spread out from Saudi Arabia. Iraq and Algeria offered new milages to oil companies. Once the Middle East fifty-fifty sharing agreements became universal, the major international oil companies started to rethink. They did not reckon the effects of competition. The international industry was controlled by the 'seven-sisters' — the American Big Five companies plus British Petroleum and Royal Dutch Shell. These seven majors controlled 90 per cent of international production, refining, transportation and marketing (vertically integrated operation). Although they competed among themselves, it was not a classic textbook competition in the sense of a market place created by many companies. Gradually the seven sisters were beginning to feel the competition of a great many new international brothers who were helping to make the oil market overflow. At the end of World War II only 28 American Oil Companies were active in 78 countries, but by 1958, 190 American companies were operating in 91 countries.

The biggest shock to upset the seven sisters' applecart came from the new comers in exploration. They succeeded in making the 50:50 profit sharing principle obsolete almost as soon as it was established.

The first breakthrough came in Iran in 1957 and 1958 with off-shore concessions to two newcomers: Pan American Oil Company, a subsidiary of Standard Oil of Indiana (USA), and SIRIP, on offshoot of Ente Nazionals Idrocarburi (ENI), the Italian State Company. In 1958 Saudi Arabia and Kuwait granted separate off-shore concessions on their jointly owned Neutral Zone to the Japanesian Arabian Oil Company for exploration in the Persian Gulf.

Aramco, Saudi Arabia

Immediately following the war in the Middle East on 6 October 1973, such enormous capital investments were needed to develop Saudi Arabia's oil and build new refineries and a pipeline to Mediterranean that Standard Oil of California (SOCAL) and Texaco obtained two new partner — Standar Oil of New Jersy, now Exxon, and Socony Vacum, now Mobil. The new company was named Arabian oil company (ARAMCO) in Saudi Arabia. This was the biggest step by American Oil Companies after SOCAL, which discovered oil in Bahrain in 1932. Saudi Arabia gave an exclusive oil concession on all of eastern Saudi Arabia for 66 years. Meanwhile, the Gulf Oil Company obtained on option a British concession in Kuwait, which adjoins Saudi Arabia and Iraq (Iraq Petroleum Company).

OPEC

During 1969-72 OPEC countries were jubilant. The resolutions passed in Caracas left no doubt that the revitalised organisation now knew how much muscle it had and was determined to use it Majors and independents met and threatened Libya and then OPEC. Immediately afterward OPEC countries began discussing amongst themselves. On January 1972 Gulf producing countries summoned the majors to Geneva. Then emerged Saudi Oil Minister Sheikh Zaki Yamani. He became 'Mr OPEC'. In May 1973 Quddafi delivered an ultimatum to the oil companies. By November 1973 the game was in the hand of OPEC. The ministers of OPEC's six Gulf members — Iran, Saudi Arabia, Kuwait, Iraq, Abu Dhabi and Qater — met in Tehran and fired the shot. The most intriguing thing was that the oil companies gained. When 1973 ended, it had lived up to the industry's expectations. A survey of 97 per cent petroleum companies by New York's First National City Bank showed an average gain in earnings of 53 per cent over the previous year.

In November 1973, a month after OPEC dropped the energy bomb, the oil price quadrupled. Bangladesh had just published its First Five Year Plan. Panic started in the economic front of the newly-born state after a bloody war of liberation in 1971. Effort to achieve national energy self sufficiency was started.

To be continued

(The author is a former Additional Secretary and Chairman of Power Development Board)