Moving towards a gas famine?

There exists a sea difference between proven and probable reserve

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IN the past two-years forewarnings on likely gas supply shortage have either been ignored or misunderstood. The authorities apparently spent most of their time talking to each other without achieving any tangible outcome. My concern is that having warned the public of a gas supply crisis that has not yet materialized, those who did so may now be accused of crying wolf. Thanks to the media for raising the issue for public consumption. The DS on 11 November, 2002 has drawn attention of the need for drilling some new production wells as well as on expansion of high pressure gas pipelines. It has been alleged that the Planning Commission had (deliberately or otherwise) slackened the process of scrutinizing the Project Proposals (PPs) or Project Concept Papers (PCPs) of Petrobangla although the proposals were earlier approved by the Executive Committee of the National Economic Council (ECNEC). The situation has now reached the usual stage of blaming and counter blaming each other by the government institutions. Amid such arguments the gas sector takes an increasingly grim look. The average Bangladeshis are still not aware that we are already passing through an energy problem, which may aggravate soon to take a turn into gas famine by march 2003 when the Meghnaghat 450 Megawatt project hopefully come into operation.

However, every body by now knows we are in the midst of a management crisis. Like the energy problem, it had long been in the making, and the two are interrelated. Also there is increasing public suspicion and distrust in the efforts of the public enterprises and the inefficiency of government, as well as the sincerity and motives of both. Nonetheless, this article maybe irritating to the Ministry of Energy in particular because their attention is now drawn to the issue of gas export to India. The contents may not be acceptable to them. For a moment the policy makers may please take a pause and watch the manner in which at least two IOCs are trying to manipulate the gas domain through a new gymnastic. It is indeed very scary. One oil company, because of a recent win in an undesirable legal battle over Petrobangla, would now like to compel them to buy more expensive gas from the offshore (Sangu) gas field even at the cost of faster depletion of reserves violating the limits of annual production percentage (maximum of 7.5 per cent as per Production Sharing Contract signed in the mid 1990s). Incidentally, production of Sangu gas field started perhaps in 1998 -- by-passing the mandatory stipulation of reserve estimation and certification by independent internationally reputed organization such as Degolyr and Mac Naughton of USA. If it really happens, the profit motive of the company (Cairn/Shell) would fulfill at a faster rate, but at the cost of the country's prime commercial energy resource. The other oil company, Unocal, in their continued arm twisting effort, may delay production from Moulvibazar gas field. It is rather a strange phenomenon that although the field was discovered at least two years earlier, formal declaration as a discovered gas field has not yet been made. Some mysterious but devilish motive might be working behind this. The government apparently is not pushed about the issue. Rather it is giving a tacit support to the company's design.

The steady diminishing capability of Petrobangla to meet the demands of gas and ever increasing dependency upon foreign company's gas; the tenuous supply of their options; and the mounting constraints upon the mining of deep seated coal (in Barapukuria) is likely to create a situation: from energy gap to energy crisis for the country. Time and again we have been bailed out of difficulty by the facility with which the valve could be turned to increase domestic gas supply. After this is no longer possible, we shall feel -- for the first time -- the full force of foreign oil companies supply interruptions directly as they occur. This may be something totally new to our experience -- to be dependent upon IOCs (controlled) sources not only for a substantial and growing part of our normal gas supply, but for all our emergency needs even. Yet, ironically, it has been the failure of the government to suitably augment the gas supply since the late 1990s. The Gas Utilization Committee (GUC) in its recently submitted report cautioned the government about the danger of depending on IOC's gas supply (cost of which vary between four and seven times higher compared to Petrobangla's gas).

Yet, it may seem strange that the government did not make any serious effort to augment cheaper source of gas supply from Petrobangla's own gas fields (19 out of the total 21 gas fields discovered so far). The development of number 22 gas field -- Moulvibazar -- remains in jeopardy! I, for one, cannot take this as an omission. Nor can I say for sure that it is a deliberate action. Then what is it after all? I presume that the average Bangladeshis are still not aware that we are moving towards a serious energy problem. Concern over what government is doing to meet the country's future demand of electricity through increasing use of indigenous natural gas has remained a captive story stored in a black box. Apparently, the government is complacent about future supply since it thinks that the country has adequate gas reserve at least for up to 2015 (Ref : National Gas Utilization Committee Report 27 August 2002). The National Gas Reserve Committee not only violated the terms of reference (so did GUC) given by the government to prepare the report but also misconstrued the data they borrowed to manufacture two reserve estimates instead of the standard practice of publishing one. The Reserve Committee conveniently ignored to state the proven reserve (which was later deciphered from their original report). In fact, there exists a sea difference between proven and probable reserve. For instance, US Security and Exchange Commission (SEC) accepts only proven reserves for commercial transactions. For business purposes, we also cannot combine the proven and probable gas reserve figures, be it 12 or 16 Tcf (as per Committee Reports). Rather, the proven gas reserve figure (as of now) of 7 Tcf should be stated to clarify all misunderstandings.

It is indeed true that gas famine has not occurred in the past two years. Thanks to Petrobangla, it has somehow managed the supply with some difficulty. The situation is now fast changing. If our memory is not too short, the wolf was indeed at the door earlier in 1997; he has merely gone away for the time being due to commissioning of Ashuganj-Bakhrabad (A-B) pipeline. But, he would surely be back, and may well bring the whole pack with him. For beyond this winter loom the peak load demands for electricity of next summer; the steadily diminishing capability of Petrobangla to meet the demands; the ever increasing dependency upon foreign oil companies' gas supply, etc.

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A troubled financial sector casting further shadow on Japan's economic woes

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THE Koizumi administration in Japan is trying hard to face-lift its economic reform policy amid strong opposition from hardliners determined to block any attempt to implement radical measures. The appointment of Heizo Takenaka as the minister in charge of economic and fiscal policy last month was seen as a desperate move by the prime minister to shore up whatever left of his broken promises of helping the economy to overcome present difficulties. Takenaka, an academic from one of the country's leading universities and hence an outsider in Japan's tight rope political game, had replaced the old guard politician Hakuo Yanagisawa, whom the reformist camp always considered as a symbol of stagnation and the dead-end that country's economic vehicle have reached.

The new minister of economy, in his first attempt to show the eagerness of his camp to overhaul the economic machine, unveiled the plan at the end of September to repair Japan's battered banking system. But to the regret of those eager to see him as a radical maverick capable of taking even undesired bold steps, he softened strong proposals floated immediately after his appointment. The retreat came after fierce opposition, in which politicians openly called for the removal of an outsider from such an important position and bankers threatened to sue the government if proposed changes went through. Some members of the ruling Liberal Democratic Party (LDP) didn't even hesitate to express openly their resentment that Takenaka made his plan over their heads.

The minister of economy initially called for much more aggressive action to fix the financial system. His announced plan urged the same type of action, but fell short of elaborating any concrete measure that would have given the plan a real leverage. To help country's commercial banks to solve the problem of accumulated bad debts, which according to official estimates stands at the colossal amount of $422 billion, the new programme offered banks official support in the form of a new government agency to handle troubled loans. It also outlined a new inspection system for banks and a much more strict system to asses borrowers in the future. But financial analysts were disappointed to know that the official plan was stripped of deadlines for banks to sort out their bed debts and it also contained many vague wordings that turned the whole programme into a much-diluted version of what was originally proposed.

Japan's stagnation had its origin in asset deflation that began more than a decade ago. To tackle the economic bubble that had quadrupled stock prices in six years and artificially boosted real-estate values to an unprecedented record high, Bank of Japan raised interest rates that resulted in the sharp fall in asset prices. Subsequent economic recession that followed the trend left more borrowers unable to repay their debt.

Almost for a decade bureaucrats and politicians applied traditional measures to help economy in overcoming the impact. But the goal of returning to a growth economy and recovering the lost prices was never achieved and the Bank of Japan subsequently lowered interest rates again. Politicians, on the other hand, continued the practice of helping the sluggish economy with stimulus packages that had pumped more than 100 trillion yen of public funding into construction projects. All such initiatives proved only to be stop gap measures having little overall impact in taking the country out of recession. Meanwhile, price deflation had further complicated the situation. Takenaka and his reformist block now argue that the only way to effectively control the twin ills of price deflation and bad debt is to inflate the economy by easing monetary policy. This would need speeding up the cleanup process of bad banks and borrowers, as well as overhauling the banking sector with increased government spending.

But the question remains how far Japan can go in the process of cleaning up country's banking sector. The Bank of Japan argues that it would be virtually impossible for the central bank to ease interest rate much more, because it already stands at near zero. The Finance Ministry, on the other hand, is extremely reluctant to allow extra spending as the country has run up to a national debt projected at around 140 percent of gross domestic product. And finally, politicians are arguing that Japan's already fragile economy is unable to withstand the shock of cleaning up bad loans.

It is obvious that the reality of the situation had forced Takenaka and his team to backtrack from the original standing of taking harsh measures to clean up the mess. The revised or a much watered-down version of the Takenaka plan called for banks to make sufficient loan-loss reserves after strict re-evaluation of their loans and thus accelerate the elimination of non-performing loans by separating healthy and bad loans into new and old accounts. It also called for injecting public money into banks or virtually nationalising such financial institutions if they run short of capital as a consequence of the clean-up process.

The government and the ruling coalition later adopted a new anti-deflation package based mostly on Takenaka proposals that also incorporates tough measures for banks, including a formula designed to assess the assets they hold in a rigorous manner. The package also includes some of the suggestions put forward by the politicians opposing the implementation of Takenaka plan. It is obvious that the government had to work hard to adjust the differences between Takenaka's ideas and the opinions of those opposing his position.

The media in Japan as well as financial analysts, both are sharply divided over the issue of the impact of the new package on helping the economy to overcome difficulties. But both sides, however, agree on one point that for Japan there can be no economic revival if banks continue to be weighed down by non-performing loans. But how to get rid of the burden of bad debts is a matter on which there seems to be no common ground.

Some are blunt to declare that as no bank would be able to survive major surgery without receiving financial support from the government, the new package was supposed to be much more transparent on that particular issue. They blame particularly the economic minister for turning a blind eye to such concerns and proposing only stringent measures to stabilise country's financial system. Others think that the package gave the impression that the government was more eager to hold the bankers accountable rather than sorting out bad loans.

People in Japan, meanwhile, are not much optimistic about the possibility of an early recovery. A recent opinion poll conducted by *Asahi Shimbun* revealed that about 75 percent consider the government's economic measures not in line with what they expected. In the survey, 63 percent said Prime Minister Junichiro Koizumi had not taken the lead in economic policy.

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