

Coal policy

NAZRUL ISLAM

THE Coal Policy review committee needs to be thanked for making the draft coal policy available for comments. It is also nice to know that the committee plans to invite stakeholders to hear their opinions. These steps will serve as good examples of bringing transparency and public participation in Bangladesh's policy making.

The current, 6th, draft coal policy has been formulated with considerable caution. In general, it tries not to make rash propositions. In the following, I offer one major comment and an additional minor comment. Many other comments are warranted, but space constraints do not permit these to be made here.

Major comment

Despite the caution with which the draft has been formulated, it suffers from a major contradiction, which is as follows. One of the main propositions that the document makes is that Bangladesh's remaining gas reserves will prove insufficient (in meeting the country's demand) beyond 2011, and even the available coal reserves will fail to keep the country's coal-based power

plants running beyond 2022 (if mining is done by closed-pit method) or 2033 (if mining is done by open-pit method).

As a result, there will be no scope to export coal. This may be called the coal "insufficiency proposition," which is repeated at least six times in the document (see p. i, 2, 3, 5, 16, and 25). The logical conclusion that follows from this proposition is that export of coal is simply not an option for Bangladesh.

Yet, the same draft policy devotes considerable attention to developing terms and conditions for export of coal. The draft stipulates, in (p. 5), that if discovery of new gas and coal fields can ensure energy security for 50 years, export of surplus coal may be allowed with the permission of the coal sector development committee.

This may be called the "export proposition." The draft further states that the amount of coal exported should not exceed the amount that is used for compulsory electricity generation. To follow up on this "export proposition," the draft policy devotes considerable effort to devise a formula for determination of the royalty that the government

should earn from export of gas (see p. 18). This formula, by the way, is confusing and unsatisfactory, because it depends on base export price of coal, ECPb, to be \$25. It is very illogical for a formula, which is to hold for decades into the future, to base itself on a current price figure.

The contradiction lies in the fact the "export proposition" goes against the "insufficiency proposition." True, the "export proposition" has been formulated with caution, laced with several qualifications. However, the question is why is there so much concern about the "export proposition," as it is maintained that available coal is insufficient for domestic needs, unless there is some hidden agenda?

It may be instructive here to recall the debate regarding gas export that was waged in Bangladesh not too long ago. Foreign companies operating in the Bangladesh gas sector exerted tremendous pressure for approval of gas export. They did not even hesitate to use the influence of the governments of their home countries, of the and multi-lateral lending agencies with whom they keep close relationship, in order to pressurise

Bangladesh to approve gas export.

Yet, here we are, just a few years later, panicky because the remaining gas reserve will not take Bangladesh beyond 2011, which is just around the corner. Are we not indulging in a similar folly by entertaining the export option with regard to coal? Are we again yielding to the pressure of foreign companies to consider an option that is not viable, and which is detrimental to national interests?

Yes, no one should rule out the possibility of future discovery of gas and coal reserves. As noted above, according to the "insufficiency proposition," the current coal reserves can take the country only up to 2025. How can Bangladesh survive beyond that year, without continuing exploration and finding additional reserves and new energy sources? But, will we discover so much coal that there will be a surplus even after meeting future needs for 50 years?

We can certainly wish for that. However, as the saying goes: "If wishes were horses, beggars would ride!" Given Bangladesh's small size, given the huge population, and given her current,

extremely low per-capita energy consumption, it is very difficult to believe that the country will ever have such a surplus. Hence, there is no harm in wishing. However, it is a waste of the nation's time and energy to get involved in a hypothetical scenario, the chance of which becoming reality is very remote, unless again there is a hidden agenda.

Also, the coal policy is not going to be something cast in stone, something that can never be modified. Any policy requires periodic review in order to reflect the changes in circumstances. The same will be true for the coal policy. If, by luck and effort, Bangladesh indeed happens to strike so much "surplus" gas and coal reserves, then certainly the coal policy can be reviewed to allow for an export option. But there is no necessity for doing that now.

Inclusion of the export option now will only intensify the suspicions that people have regarding the motivation behind the coal policy. They have already seen bureaucrats and politicians signing detrimental-to-national-interests contracts with foreign companies operating in the gas sector, and they do not want to see

a repeat of those sordid acts in the coal sector.

The review committee should try to alleviate the suspicions and remove the glaring contradiction that currently besets the draft coal policy. The best way to do that is to rule out the export option altogether and drop all further discussion of that option. Instead, it should focus entirely on optimal domestic use of our coal.

Other comments

It is nice to see that the draft coal policy envisages a primary role for the public sector in the development and extraction of coal in Bangladesh. In the neighbouring country, India, coal is also mainly in the public sector. The proposal to establish Coalbanga for the purpose is a welcome one.

Bangladeshi engineers and managers in Petrobangla and various other gas-related public companies/bodies did a good job in exploring and extracting gas. Unfortunately, under pressure from different quarters, the government subsequently started to rely more on foreign companies, and let the national capability get degraded.

It is necessary to revive the commitment for developing and using national capability for harnessing the country's mineral



Phulbari protest, August 2006.

resources. That is how countries like Malaysia, which was behind Bangladesh in the 1960s and 1970s in terms of national technological capability, have now emerged as world players.

Given the necessary commitment and effort, Bangladesh can also emulate that success. However, setting up of an appropriate management and incentive framework is a pre-condition for such success. Otherwise, there will be a repeat of the sad experiences of Bangladesh Biman and many other sectoral corporations, which have served only as milking cows for bureaucrats, politicians, corrupt labour

leaders, etc.

Bangladesh is currently aiming at national regeneration. If that is the case, will it not also be possible to create honest and efficient companies in the public sector, at least in its minerals sector? It may be worth giving it a try.

Dr. Nazrul Islam is Senior Economic Affairs Officer, UN Department of Economic and Social Affairs.

A cure for oil addicts

Amory B. Lovins talks big. He proposes to wean America off oil by the 2040s, touts ultralight cars and tells some of the most powerful corporate executives in the world, like those at Wal-Mart and Texas Instruments, how to behave more efficiently. But perhaps a former Oxford don -- one who built a nuclear magnetic resonance spectrometer in his basement during high school, anticipated global warming in 1976 and lives in a house that can run on the same amount of energy as a conventional light bulb -- is allowed to be bold. In the first of a series of conversations with thinkers and executives about the future of energy, Newsweek's Fared Zakaria spoke to the Rocky Mountain Institute's cofounder and chairman to see how this optimist makes sense of the world's energy woes.

ZAKARIA: President Bush says we are addicted to oil. If that is the case, is there a cure?

LOVINS: Others have noted that the term is accurate, though it obviously raises the question: when we are addicted to drugs, we're supposed to reduce the supply, so when we are addicted to oil, why are we supposed to increase the supply?

There is a cure, and it is painless and profitable. In 2004, my team prepared for the Pentagon a detailed road map for getting the US completely off oil by the 2040s, led by businesses for profit. Half the oil can be saved by redoubling the efficiency of using it, already doubled since 1975.

The other half of the oil can be displaced by a mixture of saved natural gas and advanced biofuels. We would end up doing all the things we now do with oil at only a quarter of the cost and with uncompromised performance and improved safety.

You say it is painless and profitable, so why isn't the market doing it now?

It is actually starting to do so rather quickly, now that people realize it's possible. Let me give you an example. In 2004, Boeing launched the development of the 787 Dreamliner, which rolled out on July 8 this year and will be in the air for customers next year. It saves a fifth of the fuel of its predecessor but costs the same, and it has therefore had the fastest order takeoff of any airplane in history -- it's sold out into 2014.

Ford Motor Company apparently



Amory B. Lovins

found this persuasive because they hired the head of Boeing commercial airplanes as their new CEO. And he is now in Detroit with that knowledge and with transformational intent.

So, moving on to cars, these design efficiencies are actually more important than hybrid technology?

That's correct. It's a historical accident that hybrids came first. Three quarters of the energy it takes to move the car is caused by its

weight. So there is enormous leverage in taking out weight.

This was thought to be both expensive and unsafe, but with modern, very strong and light materials -- light metals, ultralight steels or carbon-fiber composites -- we can make weight and size independent of each other. We can make cars that are big, which is protective and comfortable, without making them heavy, which is hostile and inefficient. Therefore we can save oil and lives at the same time.

What do you think the govern-

ment should do to get us off the addiction to oil?

Governments, starting at a state level, should use "feebates" -- that is a combination of a fee and a rebate -- to broaden the price spread of models with different efficiencies at a given size. So you go to the dealer to buy a vehicle of the size you want and there are more or less efficient models of that size, and (for) the less efficient ones (you) pay a fee.

The more efficient ones (offer) a rebate paid for by the fees on the inefficient ones. Fuel taxes are a much weaker way to affect how efficient a car you buy because they are diluted, roughly seven to one, by the other costs of owning and running the car, and then they are heavily discounted.

So, for a typical buyer, looking at a year or two of fuel savings is about as unimportant as whether to buy floor mats. Fuel taxes encourage you to drive less, but they're a very weak signal to buy an efficient car in the first place.

What can an average consumer do to promote energy efficiency?

When you get a car, get the most efficient one you can and drive it properly to maximize efficiency. Be thoughtful about whether the trip is necessary and how many people are in your car. Push for fairer competition between all ways to get around. Try to live nearer to where you work, shop and play.

You're an optimist.

I think we will look back in a few decades and wonder what all the oil fuss was about because, just like whale oil, we will have made this product obsolete. Oil is going to become, and has already become, uncompetitive, even at low prices, before it becomes unavailable even at high prices. So we will leave it in the ground. It's very good for holding up the ground, but it won't be worth extracting.

Fared Zakaria is Editor of Newsweek.

© Newsweek International. All rights reserved. Reprinted by arrangement.

Managing foreign workers

TAYEB HUSAIN

IN Bangladesh, one of the poorest countries on earth, with 152.6 million people cramped in a small space of 143,998 sq km, we have many foreign workers. This is very surprising. Who are these foreign workers, why are they in Bangladesh, and what sort of work do they do? Wages in Bangladesh are low, and the quality of life is poor, so how and why are foreign workers legally or illegally heaped-up here?

Of course, most of the foreign workers in Bangladesh are from India. They run hair-cutting salons, small businesses of all sorts, jewellery shops, small-scale trading, smuggling and Hundi (the most lucrative business). Most of them come to Bangladesh just by crossing the border, and return home now and then the same way. The other day, there was a news item in Bangladeshi newspapers stating that "5 lakh Indians work illegally in Bangladesh" and "Dhaka is to raise the issue at a home secretary-level meeting in New Delhi" sometime soon, as if the Indian government had sent those people with special permission to work/serve in Bangladesh and Bangladesh must deal with the matter with the Indian authorities face to face. It is unfortunate that our government officials and bureaucrats often say things that do not make any sense.

In Bangladesh, there are millions of people without jobs, and they really lack a breathing space. These foreigners come illegally to take-up jobs and the other meagre facilities that are available, and which Bangladeshi people badly need

for their own survival and for increasing their wellbeing. Actually, small businesses and private sector jobs are the backbone of any economy, and it is in these sectors that the largest numbers of people are employed in every country. The invasion of Bangladesh by Indian workers not only means job loss for Bangladeshi people, but also some sort of economic back-tracking and stagnation too.

The most detrimental effect of this situation is that some wealth is siphoned out of the country by these foreign citizens, and the Bangladesh economy does not get the impetus which it would have if foreigners would have spent their earnings here. Tax evasion is another serious problem. One can, however, point out that many Bangladeshi also work in India, and that India faces the same disadvantages that Bangladesh is complaining about. But there is a difference. Illegal Bangladeshi workers in India are mostly domestic helpers and workers in agricultural fields and, in very few cases, helping hands in the shops and offices of small Indian private business houses. India very badly needs all these people, legal or illegal, from Bangladesh and Nepal due to her booming economy.

Illegal workers from Bangladesh or Nepal are a much needed impetus for the Indian economy, whereas such workers from India in Bangladesh are a burden on Bangladesh's economy. No Indian domestic helper or agricultural labourer comes to Bangladesh for work. Now the question is, why are we raising this issue at a home secretary level meeting in India instead of

taking "proper step" to discourage foreigners coming to Bangladesh for work, legally or illegally? This "proper step" is very simple, and one need not seek Scotland Yard's help to find it, and to take action to stop it.

I have, for the last 4/5 years, been writing in the public media suggesting issuance of identity card for every citizen in Bangladesh. An identity card is an important tool for recognising an individual, local or foreign. Bangladesh could avoid many of her problems if she introduced a national identity card for each and every citizen. Issuing identity cards to the whole population may be difficult, time consuming, and costly (NOT really, considering the benefit it could bring) for the poor and inefficient Bangladesh administration; but an identity card for each and every employee, from factory worker to prime minister, should not be that difficult to organize.

The cost could be borne by the employers in many cases, and the government need not spend a Taka. But the process must be watched carefully and monitored properly. Along with the obligatory identity card for employees, each and every organization, big or small, must be registered with the government's Patent and Registration department. Even a vegetable seller must have an identity card indicating his trade and a trade licence number, and it must be registered with the Patent and Registration department.

The identity card could help to find out the exact number of people employed, and where they live and where they come from. Carrying this identity card

should be obligatory so that any suspicious person can be challenged, and one can find out who the person is and where he/she is living and working. Using this identity card for renting flats or rooms should also be obligatory, and it must always be recorded in a register by the landlord. A list of the people, with photographs, should be kept hanging on the wall at each and every working place, whether it is an office, factory or barber shop, for national security people to check anytime they like. Every employee or self-employed person, including even a rickshaw-puller, must be registered and must have an identity card. And finally, every working person must be registered with the tax department, and if and when that working person is a foreign national, he/she must be registered even with the police.

Most importantly, every foreign worker must have a work and residence permit, obtained from the Bangladesh embassy in his/her own country and before he/she comes and starts working in Bangladesh. Working without work and residence permit should be considered a criminal offence and punishable by law. That is how many developed Western countries manage and control illegal foreign workers. This action may appear draconian, but should not Bangladesh introduce it for the greater interest of the nation?

Our bizarre money market and the role of the Bangladesh Bank

MD. ABUL BASHER

THE recently announced monetary policy statement contains some interesting quantitative information, but the critics and scholars were so involved in the debate regarding the type of monetary policy that this quantitative information failed to draw their attention. But the information reveals the qualitative characteristics of our money market and, thus, underscores the need for policy action. Now that the debate regarding the type of the monetary policy is over, we can look at the bizarre behaviour of our money market.

According to the information contained in the statement, the spread, i.e., the gap between the interest rates of the short-term and the long-term Treasury bills is abnormally high in Bangladesh. In

the case of the one-year Treasury bill, the annual interest rate is about 8.5%, whereas in the case of the ten-year Treasury bill the rate is about 12.5%. While this gap is around 1% in the properly functioning money market of developed countries, the gap in Bangladesh is 4%. This baffling feature of the money market deserves attention of the Bangladesh Bank.

The gap between the interest rates of the short-term and the long-term Treasury bills is justified by what we call the liquidity premium. By investing savings in any Treasury bill, in the absence of a secondary market, one is practically undertaking a risk of a liquidity crisis, i.e., s/he will not have the savings available in times of need until the invested amount is returned with interest. This risk of a liquidity crisis will be higher in case

of a long-term bill compared to a short-term bill. That explains why the interest rate on a long-term Treasury bill is higher than that on a short term Treasury bill. The gap between them is the premium for undertaking the risk of liquidity crisis.

The convenience of the liquidation of a Treasury bill depends on the existence and efficiency of a secondary market for them. The presence of a secondary market for buying and selling Treasury bills will reduce the risk of liquidity crisis, because investors can sell the Treasury bills in their possession to meet their immediate demand for cash. The gap between the interest rates on short-term and long-term Treasury bills will decrease with the development of the secondary market.

The bizarrely high spread in Bangladesh is the outcome of the

lack of an effective secondary market for Treasury bills, which is still largely missing in Bangladesh. The Bangladesh Bank should take the necessary steps for developing a secondary market to reduce the high spread. The development of a properly functioning secondary market for Treasury bills can reduce the interest burden of the government by up to 3% on the long-term bills.

The high spread should also be eliminated as it creates other anomalies in the money market. One such anomaly is the big gap between the interest rate on a one-year Treasury bill and a bank deposit. Ideally, there should either be no gap between them, or the former should be slightly lower than the latter, because people may not deposit their savings with the bank as they feel safer buying government securities like

Treasury bills. After all, a bank may become bankrupt and cease to exist, resulting in a complete loss of their deposit, but the government of the country will always continue to exist and investment in Treasury bills or other government securities is safe and secured. Therefore, the rate on the Treasury bills may be slightly less than the deposit rate (i.e., interest paid by the bank on the deposit).

Unfortunately, what we see in Bangladesh is quite the opposite. The interest rate of a one-year Treasury bill is about 8.5%, whereas the deposit rate is about 7%. A premium of 1.5% enjoyed by the banks in Bangladesh does not make any sense from the view point of perceived risk of loss of the invested amount. Further exploration of this apparently nonsensical behaviour of our money market shows the impor-

tance of the secondary market.

The only explanation for the premium enjoyed by the banks is that deposits in banks are easier to liquidate compared to investment in Treasury bills, in the absence of a secondary market. As a result, Treasury bills are a less preferred substitute for bank deposits. This is why the banks can still collect adequate deposits even by giving less interest on them.

The missing secondary market has both distributive and efficiency implications. As mentioned above, banks currently enjoy a premium of 1.5% over the interest rate on a short-term Treasury bill. The development of a secondary market will gradually redistribute this premium, either to the saver by forcing the banks to increase their deposit rates to compete with Treasury bills, or to the government by enabling it to sell the Treasury bill with an

interest rate at par with the deposit rate.

At present, the banks in Bangladesh enjoy an unusually high profit. For example, in March, the lending rate (i.e., the interest charged on loan) was 12.71%, whereas the deposit rate was 7.02%, which means that the banks were making a profit of 5.69% on their loans. This rate of profit is possibly one of the highest in the world. No wonder that so many entrepreneurs are willing to start a bank in Bangladesh.

This high rate of profit enables the banks to operate inefficiently, without requiring any effort to improve their services to the customers or to make them easily available to the people. The development of a secondary market for government securities like Treasury bills will eliminate the premium enjoyed by the

banks and, thus, make them operationally efficient. This is the efficiency implication of a secondary market for government securities.

Given the enormous importance of the secondary market for government securities, Bangladesh Bank should take the necessary steps for its development.

Md. Abul Bashir is Faculty, Willamette University, USA.