

International Business News

Anil Ambani to merge his Reliance Power and RNRL

REUTERS, Mumbai
Reliance Power will absorb sister firm Reliance Natural Resources in a share swap deal valued at \$1.5 billion, the latest in a series of deals by one or other of the billionaire Ambani brothers.

Reliance Natural Resources (RNRL) shareholders will receive one Reliance Power share for every four they hold, the firms, both controlled by the younger Ambani brother, Anil, said in a statement on Sunday.

The two brothers have been changing India's corporate scenery with acquisitions since resolving a long-running gas supply dispute between them last month.

Based on the closing price of Reliance Power shares on Friday and the number of outstanding shares of Reliance Natural, the deal is valued at about \$1.5 billion, according to Reuters calculations.

"There was a general feeling ... that RNRL was a sort of shell company. Now with the merger ... it will cease to be a shell company and be part of Reliance Power," said Arun Kejriwal, director at research firm KRIS.

Reliance Natural lost a May ruling by India's highest court in a gas supply dispute with Reliance Industries, controlled by Anil's elder brother, Mukesh Ambani, the world's fourth-richest man.

ECB chief rules out risk of new recession

AFP, Aix-en-provence, France
ECB president Jean-Claude Trichet ruled out on Sunday the risk of a new recession, after a week of soft economic data fuelled market fears of a dreaded double-dip into a new slump.

"I don't think so at all," Trichet told journalists when asked if a double-dip recession was on the horizon.

"At a global level it is clear that we are experiencing a recovery, which is confirmed particularly in the emerging world but also in the industrialized world," he said at an economics conference in the south of France.

But he warned that growth could not be taken for granted in industrialised countries, saying that "it depends on us, it depends on the capacity of the industrialized countries to reinforce confidence."

"This is the reason why it is so important that we have fiscal policies designed to reinforce confidence of households ... of businesses ... of savers and of investors," he said.



AFP
Former US secretary of state Madeleine Albright (centre right) and Chairman of the Foreign Affairs Committee Li Zhaoxing (centre left) proceed to a ceremony at the World expo 2010 in Shanghai on Friday. Albright led a US presidential delegation to Shanghai on the occasion of the USA day at the World Expo 2010.

Warren Buffett donates \$1.93b to charity

AFP, Washington
US billionaire Warren Buffett, who has pledged to give away 99 percent of his wealth, has donated 1.93 billion dollars in shares of his company to five charitable groups, financial filings showed.

In notifications to the US Securities and Exchange Commission, Buffet documented donations to five charitable organizations, including a gift worth 1.6 billion dollars to the Bill and Melinda Gates Foundation.

Buffett, who heads investment firm Berkshire Hathaway, pledged in 2006 to donate a portion of 10 billion shares in his company every July to the charity run by former Microsoft chief Bill Gates.

His donation to the organization this year totals some 20.4 million shares in Berkshire Hathaway. The gift is worth around 1.6 billion dollars at the 78.81-dollar-a-share value of company's stock on Thursday, when the SEC notification was filed.

He also informed the SEC of donations of some 713,000 shares each to the Sherwood Foundation, the Howard G. Buffett Foundation and the NoVo Foundation, and a gift of over two million shares to the Susan Thompson Buffett Foundation.

BP could get backing from MEast financial firms

REUTERS, Dubai
Troubled oil giant BP could get a reprieve from Middle East financial institutions looking to make a strategic investment in the company, a UAE-based newspaper reported on Sunday, citing informed sources.

Proposals from the region have already been submitted to BP advisers in London, sources told Abu Dhabi newspaper The National and could involve Middle Eastern investors purchasing key assets from BP, which has been hammered following a devastating oil spill in the U.S.

The paper said regional financial institutions may also give financial backing to any capital raising that BP may be considering to reinforce ITS balance sheet, following the environmental disaster, which could cost as much as \$60 billion to clean up.

The report did not indicate which Middle Eastern financial firms issued the proposals or what the size of investments could be.

ORGANIC TEA

Green shoots

Kazi & Kazi Tea changes life in Tentulia and makes a mark on the global market



STAR
Kazi Anis Ahmed, top, chief executive officer of Kazi & Kazi Tea, speaks to The Daily Star. A tea-test lab is pictured against the green surrounding of the company's tea estate in Tentulia.

ARUN DEVNATH
Fast forward to 1999 and scenes in Tentulia will play out dull and colourless. The northernmost tip of Bangladesh was just a patch of sandy, arid lands. Local residents did not have enough sources of income to lean on to. The spectre of munga stalked the neighbourhood. Tentulia, a sleepy, laid-back backwater in Panchagarh, was like a scene from an old-day movie.

Not anymore. Years later, it took on a lot of colours, a lot of greens. Kazi & Kazi Tea (KKT) appeared on the scene in 2000. That was a small beginning, but a deliberate attempt by Kazi Shahid Ahmed, founder of KKT, to breed organic tea out of the barren, yet virgin land.

The company says it was inspired by the "philosophy of producing tea while supporting the natural and social environment".

But a serious business motivation was at work: the company sought to break into the global tea market with its own brand and did so in 2009 with its early footprints in the USA, Japan and Saudi Arabia.

"KKT broke even last year and the profit will keep increasing. We are definitely interested in profit, but we are also interested in constructing the whole model of the business in a way that is socially satisfying," says Kazi Anis Ahmed, the company's

chief executive officer. "This social dimension to the business is increasing our premium as a brand and profit as well."

"Organic tea is grown in a more natural manner. One thing people don't realise is that up until 80 years ago, pretty much the whole world was organic," he says.

Organic farming is the form of agriculture that relies on techniques such as crop rotation, green manure, compost, biological pest control and ways of maintaining soil productivity. It provides long-term benefits to people and the environment.

"Now with the modernisation and industrialisation of farming, chemical use came in a very big way, especially in the developed countries. It did a lot of good. As you know, with the modernisation of farming, output has increased," Ahmed says.

But part of modernised farming is the overuse of chemicals, which is harmful. Over the last 20 years, the use of chemicals has increased thanks to subsidy by the government. In some cases, farmers use more chemicals than needed. The result is, decades of initial benefits are being outstripped by a negative impact that came in the form of declining soil fertility.

"We are organic. But I am not saying this is the only way or nec-

essarily the best way of farming," Ahmed says.

"There is a range of options here. The only option is not to be purely organic or heavily chemicals dependent. You can use chemicals up to a degree, but why excessively?"

But KKT takes a hard line on chemicals and is at the "purely organic end of the spectrum".

Over the years, KKT has widened farming to 800 acres, turning it into the country's only single-estate and organic tea garden, free from chemical pesticides and artificial fertilisers.

The garden is designed to control pests through natural balance. One of the pest killers is made of bitter compounds from neem (Azadirachta indica).

A morning walk with Syed Shoab Ahmed, chief operating officer, through the garden, reveals different zones are buffered with lines of medicinal plants, called basaka, to keep pests at bay.

"For tea farming, you can use chemicals if you want and many people do so. But the long-term impact is bad," he says.

As he walks farther in, he points to shade trees that regulate sunlight in the garden.

KKT uses bio-fertilisers from cow-dung. "We cannot use cow-dung directly for saplings. We need to process the dung in four stages before we use it as fertiliser,"

Shoab Ahmed says.

As he speaks, a curtain of clouds thickens on the horizon -- a broad indication that the land is enriched by rainwater, requiring hardly any irrigation.

In the distance, a tractor ploughs through a piece of land. It takes a lot of time to make a tea garden ready for farming and a lot more to bring a product to market.

KKT planted the first tea saplings in its garden in 2000 and debuted its product on the market in 2006. It grew from strength to strength: the farming that covered only 60 acres at the beginning now boasts 800 acres.

KKT now ranks second in superstore sales, with its stronghold in Dhaka. It is also available in Chittagong and Khulna. It has a production capacity of 2.4 lakh kilograms a year.

"We have a target to increase farming by 100 acres a year," said Shoab Ahmed.

In an interview with The Daily Star in his corporate office in Dhaka, Anis Ahmed rules out a common perception that the output of organic tea is low. "This is not necessarily true."

In Bangladesh, the average output of tea is 1,200 kilograms per hectare (1 hectare=2.47 acres). The best gardens in Sylhet, a popular tea-farming zone, produce up to 1,800 kilograms per hectare.

Some sections of the KKT garden, which are more than seven years old, have production on par with the country's best, says Anis Ahmed.

The world tea market is segmented between premium and non-premium brands, with the first heavily dominated by India and Sri Lanka.

For KKT, it was a big challenge to make a foray into the global tea market. "Normally, organic tea is in the premium segment."

"But Bangladeshi tea was not globally known. Nor did the country export branded tea. The only presence was in the low category of the non-premium segment."

He says KKT has made a mark however small, in the global premium tea market.

"When we started in Tetulia, we were sure we could grow organic tea. But we had no idea how good it would be."

Inspired by a small success -- Tk 25 lakh in export earnings last year -- KKT has set a target to earn Tk 2 crore from overseas sales in 2010.

The company grossed Tk 4.5 crore in local sales revenue in 2009, a 12 percent rise from a year ago. It now expects 33 percent growth in local sales revenue this year.

The brand manager, Asma Ul Roxana (Sylvia), is upbeat on the sales trend as she says: "We will make it happen. And we are very proud of our brand."

ANALYSIS

Europe banks: stressed out, in need of clarity

REUTERS, London
A number of banks may need to raise capital, but a deluge of cash calls looks unlikely after a European health check that watchdogs are desperately hoping will give a dose of reassurance to jittery markets.

Banks and investors have been transfixed by what the stress tests will show ever since Brussels lawmakers said two weeks ago the results will be published in the second half of July.

But the checks will not be as harsh as tests carried out by U.S. and British regulators early last year, while banks have already improved capital and those screening worst are expected to be given time to improve.

The test of success will be whether the process restores confidence among shell-shocked investors.

"Investors need guidance to regain confidence, they need an increase in transparency," said Guy de Blonay, who co-runs fund manager Jupiter's 1.4 billion pound (\$2.1 billion) Financial Opportunities Fund.

The tests are seen as key to breaking a crisis of confidence about bank solvency, funding, sovereign debt exposure and other worries that have hurt banks including Spain's Santander and BBVA.

HEALTH CHECK
Yet the criteria for the tests are still not public and key issues remain -- how severe the stress will be, whether they include losses or "haircuts" on exposure to Greek, Spanish or other sovereign debt, and what backstop will be in place to repair the health of any bank shown to be weak.

Regulators are keen to address worries about sovereign exposures, but the issue is politically tricky.

Forcing banks to pencil in a loss on the



REUTERS
A man stands next to a Santander bank branch in Madrid.

debt of a member state -- even one in trouble, like Greece -- is fraught with problems. Yet a true stress test can hardly ignore one of the biggest risks facing the industry.

Regulators may force banks to detail their sovereign exposure and could use market spreads as a proxy for any loss of value, sources said.

"Sovereign risk is the biggest element, what value are these assets in a difficult scenario? That's the main issue the market is most confused about," Jupiter's de Blonay said.

One source familiar with the situation, asking not to be named, said: "We know what the market wants. We will give information in such a way that the market, in my opinion, should be able to make its own judgement."

Twenty-five of Europe's top banks have

been tested in the first wave and the EU plans to expand the pool to more than 100 across the region, sources have said.

The test is likely to show at least eight to 10 banks in need of capital, one banker estimated. Another said the number would be nearer 20, depending on how severe the test is.

The biggest problems lie within the unlisted regional landesbanks and cajas. With cajas holding about half of Spain's financial assets and landesbanks accounting for over a third of German assets, including them is necessary to restore confidence, analysts said.

HARSH, BUT NOT DOOMSDAY
The test, coordinated by the Committee of European Banking Supervisors (CEBS), is expected to use similar parameters to a previous one in October, when individual

bank results weren't published. That envisaged a 5.2 percent drop in GDP in year one and a 2.7 percent decline in year two, unemployment rising to 12 percent and moderate falls in property prices.

The hurdle rate is expected to be 6 percent for Tier 1 capital, higher than the 4 percent previously used but below the level now seen as an effective minimum among investors.

A UK stress test in early 2009 was based on a 60 percent peak-to-trough fall in commercial property prices and a 50 percent drop in house prices, and a 6.9 percent GDP drop.

The UK and U.S. tests helped restore confidence, partly because they forced massive fundraisings. British banks raised 134 billion pounds before and after the tests, split privately and with the taxpayer, and 10 of the 19 U.S. banks tested needed to raise a combined \$185 billion.

Euro zone banks did not stand still, however, and have raised over \$100 billion since the start of the crisis.

Most banks can absorb the pain with a "significant but not dramatic" knock to their Tier 1 capital ratios, averaging about 2 percentage points, said CreditSights, based on a test cutting income by a quarter and doubling loan-loss provisions.

Simulated tests carried out by analysts showed KBC, National Bank of Greece, Commerzbank, Credit Agricole and Dexia screen more poorly than big rivals, but without falling to danger levels.

Santander could take a 7.5 billion euro (\$9.2 billion) hit from a sovereign debt haircut, Credit Suisse analysts estimated, yet Europe's second biggest bank has one of the strongest capital buffers and earnings generation to absorb a blow.