

BOTTOM LINE

New oil pipeline opens



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THE Strait of Hormuz is a narrow, strategically important strait between the Gulf of Oman and the Persian/Arabian Gulf. On the north coast is Iran and on the south coast are the United

Arab Emirates and Musandam, an enclave of Oman.

It is the only sea passage to the open ocean for petroleum-exporting countries such as Iraq, Kuwait, Saudi Arabia and Qatar. A fifth of the world's oil flows through the Strait. The geopolitical importance of the Hormuz Strait is such that Cyrus Vance, former US secretary of state, called it "the jugular vein of the West."

US Navy Admiral Jonathan Greenert, who was made the chief of naval operations last September, said back in January: "If you ask me what keeps me awake at night, it's the Strait of Hormuz and the business going on in the Arabian Gulf."

The US and Iran have been "flexing their muscles" over the Iranian threat of closure of the Hormuz Strait since last week of December and the brinkmanship on both sides may lead to miscalculations, with terrible consequences on a global scale, according to oil and foreign policy experts.

Ali Fadavi, naval commander in Iran's elite Revolutionary Guard Corps, said Tehran had the ability to "not allow even a single drop of oil to pass" the Strait. It is reported that the chairman of Iran's Joint Chiefs of Staff Firouzabadi said that the decision over whether Tehran would block the Strait of Hormuz rested in the hands of

the Commander-in-Chief, Iranian supreme leader Ayatollah Ali Khamenei.

The US and UK said that their joint naval presence in the Gulf, something the oil-exporting countries appreciate, is key to keeping the Strait of Hormuz open for international trade. They said that it was in everyone's interests that the arteries of global trade are kept free, open and running. Disruption in the flow of oil through the Strait of Hormuz would threaten regional and global economic growth.

To counter the possibility of blockage of Strait of Hormuz, Saudi Arabia and the United Arab Emirates have quietly opened new pipelines bypassing the Strait of Hormuz. The projects come as oil prices have risen back above \$100 a barrel, in part due to falling Iranian oil exports.

The crude oil pipeline from Habshan in Abu Dhabi to the coast of Fujairah took five years and 225,000 tonnes of steel pipes to build. The pipeline runs across sabkha, the treacherous mix of salt, sand and gypsum in the west, and under the dunes of the central desert. In perhaps the most remarkable section of the project, pipes were laid across the Hajar mountains into Fujairah. About 5,000 workers were involved in the construction of the pipeline, which cost an estimated \$3.3 billion and has a capacity of 1.8 million barrels a day.

The new links will more than double the total pipeline capacity bypassing the strait to 6.5 million barrels per day, or about 40% of oil that transits Hormuz. The UAE, on July 15, loaded the first tanker from its new 370-kilometre pipe linking the oilfields near Abu Dhabi with the port of Fujairah in the Indian Ocean. The pipeline, which had been delayed several years, has a capacity



AFP

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about 65% of the country's exports. "This is a very strategic project," said Mohammed al-Hamli, UAE oil minister, in a ceremony in Fujairah.

At the same time, Saudi Arabia has quietly converted a natural gas pipeline to allow it to carry crude oil. The 1,200-kilometre long pipeline, which could transport up to 25% of the country's oil exports, runs from the oilfields of the Eastern province, on the Gulf coast, to a terminal near Yanbu in the Red Sea, bypassing Gulf shipping lanes and giving Riyadh scope to

export more of its crude from Red Sea terminals should Iran try to block the Strait of Hormuz, industry sources say.

The 48-inch pipeline was built during the Iran-Iraq war in the early 1980s, when both sides were attacking oil tankers in the Gulf, to transport oil as part of the so-called East-West Petroline system of pipelines. But the line was later converted to carry natural gas. Now Riyadh has quietly switched it back to oil, according to officials. "We want to be ready," said a Saudi oil official. "The pipeline gives us flexibility."

Saudi Arabia has three other oil and gas pipelines across its territory bypassing the Strait of Hormuz, and a 56-inch oil pipeline built three decades ago as part of the Petroline system.

The quiet opening of the pipelines comes amid heightened diplomatic tension over Tehran's nuclear programme. Iran's oil production has reportedly fallen to its lowest in more than 20 years due to the impact of US and European sanctions. Iran insists on its right to a peaceful nuclear programme for its energy and denies any nuclear weapon agenda.

Abu Dhabi and Riyadh say the pipelines are not a direct response to Tehran's threats. But oil traders and scholars say they are a counterweight.

"Multiple pipelines would partly negate the Iranian threat to block [the Strait of] Hormuz," said Rafael Kandiotti, senior research fellow at Imperial College London and author of Pipelines: Oil Flows and Crude Politics. "Showing increasing pipeline capacity suits the purposes of Saudi Arabia."

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Meanwhile, policy makers and traders doubt that Iran will ever carry out its threat to close the Strait of Hormuz for two reasons: first, it is the gateway for all its own oil exports and also for its food imports; second, the Strait is so strategic that a blockade would likely trigger a military response from the US and potentially other countries.

The writer is a former Bangladesh Ambassador to the UN, Geneva.

'At least some portion of the market must be managed through government intervention'

Commerce Minister G.M. Quader talks with A.B.M. Shamsud Doza and Zaheen Zaema Khan of The Daily Star about the price hike of essentials, especially during Ramadan, and the government's initiatives to curb it.

The Daily Star (TDS): What are the initiatives government has taken to rein in price hike during Ramadan?

G.M. Quader (GQ): In Ramadan demand for essential products suddenly increases, sometimes even by almost 100%. We need to ensure the supply of these products on time to fulfil the increased demand. We started monitoring two or three months before the Ramadan to see whether all these essential commodities, mostly imported, were really coming in proper amount. We have also monitored the stock and supply of locally produced commodities. We are continuing the monitoring. This time we find that demand started to rise one month before the Ramadan and so has the price. But still there are some people who are creating blocks in the supply chain, and we are trying to take stern action against them.

Commerce ministry does not have requisite manpower to monitor the market properly during the increased pressure in Ramadan. There is a directorate for protection of consumer rights and they are also monitoring the market but that again is inadequate. This is not only the concern of magistrates; we need help from law enforcing agencies and business leaders. We have been trying to incorporate deputy commissioners to oversee market prices. We have sent them clear guidelines with probable price list so that they can carry out detailed monitoring. They have been instructed to form mobile courts and incorporate laws, like Consumer Protection Law, Law of Essential Commodities, etc, in the mobile court schedule. As per these laws, corrupt businessmen could be tried on the spot, and punishment ranges from fine to jail sentence. They can also use the Special Powers Act, which has got jurisdiction over price control, adulteration, etc.

We have also put a ban on export of four items -- brinjal, green chilli, onion and garlic. To feed increasing demand we have allowed eggs, one-day old poultry and salt.

TDS: There are syndicates which manipulate market and influence price. The government recently passed Competition Bill for breaking the grip of syndicates. How is it working?

GQ: Competition Bill is supposed to look

into three components: First, is there any arrangement that can create hindrances to normal competition? Next is dominance. Some businessmen become so dominant that they start imposing ad-hoc rules and regulation to squeeze out smaller businessmen. For instance, they buy in bulk and sell at a low price so the small businessmen go bankrupt. Thus, the market is cornered and they create oligopoly or monopoly and manipulate prices. And the third component is merging of companies to control the market as per their convenience. These provisions will be maintained by the Competition Commission which is yet to be formed.

The punishment provision is severe. Foul players can be jailed or fined. The fine is 3 times the profit they are making or 10% of their 3 years' turnover and also 1 year in prison. The laws are very strict but we cannot implement them now because the Competition Commission is yet to be formed. Without this instrument, even if some people do manipulation under the existing system, it is very difficult to catch, try and punish them. Presently, we do it using some other laws, in some other ways. Competition Law is specifically designed to counter these malpractices.

TDS: That means during this Ramadan we will not be able to reap the benefit of the Competition Law.

GQ: Creating a commission is a difficult task. First a commission has to be formed, then it has to be equipped with proper manpower. I think, in our country's context, it cannot be done in a short time. The process has been initiated and we hope to have a functioning Commission during next Ramadan, if not before.

TDS: We have seen that TCB is not well prepared to cover the Ramadan though it has an important role in keeping the market stable and supplying commodities at a reasonable price, especially to low income people.

GQ: TCB is necessary for Bangladesh for two reasons. One is market intervention. The whole market of essential commodities is controlled by private businessmen. In a way, the government becomes hostage, and sometimes the people as a whole become hostage, to this group of people who are



G.M. Quader

doing business in essential commodities. If the government wants to really do something it has two instruments. One is using existing laws that can prevent anti-competition activities. We have passed a law but that alone is not enough. Sometimes businessmen react to the strict implementation of laws and withdraw from business, creating a big vacuum. Then the market suffers, supplies suffer and the prices tend to go up, and that creates another set of problems. So the government must have some participation in supply of products to the market so that even if private businessmen do not come forward in a proper way, the government can take care of the gaps created by them. So, at least, some portion of the market must be managed through government intervention.

Second is rational pricing. Rational price is the cost of the product, including profit and other expenses. If the product is imported, then the import cost includes taxes and other handling and processing charges up to the selling point. We count total cost for domestic products also. Still, there will be a certain percentage of people who will not be able to afford that rational price and if it is an essential product then this group will be deprived of the product. What should the government do in a country like ours, where the purchasing power of the people varies widely and a big portion of people live below a certain level of earning? The government should have some arrangement to supply goods to those people at a subsidised price, and TCB can also do that.

When I took over I was not very sure whether TCB understood what its real purpose was, and the body was not ready to get the things done properly. So, to intervene in

the market, TCB needs to have around 10%-20% share in the market for a definite product. For example, nearly 100,000 metric tonnes of edible oil are imported monthly. So TCB should have capacity to store and distribute at least 10,000-20,000 metric tonnes per month if it wants to have a say in the market. But presently, we lack that sort of financial capacity, manpower and other infrastructures like storage tanks, distribution facilities, etc.

We have to remember that the government cannot compete with private companies. Cost of the private businessmen will always be lower because government's machineries are more complex, and not so efficient or accountable. So, if the market price is say, Tk.110 per litre of edible oil, then maybe private parties can sell it at Tk.110, but TCB may not be able to make that price without incurring loss. I believe TCB should sell at the market price if it believes that market price is reasonable, even if it has to give some sort of subsidy. So, the government will have to be prepared to give that subsidy to be in the market. At the same time, TCB should not reduce the price below the existing market price if it is reasonable; otherwise traditional businessmen will leave the market. They will just be eliminated from the market after some time and the government will have to do the entire business, and that is not a healthy sign for a free market economy. Also, when government goes for the lower income group people at lower price it has to provide subsidy. This subsidy for running of TCB is essential to make it really effective. First is funding and second is subsidy; every year there will have to be some subsidy. At the present moment subsidy given to the TCB is very minimal and the objective is not very clear.

TDS: What steps have been taken to strengthen TCB?

GQ: This year, we have imported sugar. We went to Malaysia to purchase edible oil with a long term contract. We are trying to have a continuous source of supply. We need to strengthen facilities like storage, distribution, bottling plant, etc. In the meantime, the government may have to hire the infrastructure from private parties.

We are also selling at a subsidised rate, which is lower than purchase price, to the poor people. But the quantity is not much because we have not been provided with sufficient amount of funds and subsidy as yet.

Now, we have got adequate amount of sugar so we are very confident that in Ramadan, even if businessmen want to increase the price, we will be able to supply

sugar at a cheaper rate. I wanted to have a similar arrangement for edible oil, dates, gram, etc., but I did not have sufficient time since I have been here only for six months, and TCB was also not prepared to handle such bulk amounts.

TDS: We have talked about quantities. What is happening on the quality side? Beside quantity, quality of food is still a big issue as we see rampant adulteration is creating serious health hazards.

GQ: When we import food and other items, and there are very clear instructions in our import policy about the certificates an importer has to produce, and the test results that have to be shown to the customs authority. When adulteration is done in the market, there are laws and implementing agencies to check it. There is Consumer Protection law which states what has to be done and what the punishments are. Consumer Rights Protection Directorate, BSTI, Ministry of Fisheries and Livestock are some of the law implementing agencies that have the responsibility of checking certain products.

During Ramadan we have engaged commerce ministry people who are doing it especially for Ramadan, and a team has been formed under Directorate for Consumer Rights Protection. Furthermore, district administrations will check quality along with price. We have requested BSTI and Science Laboratory for necessary equipment and other facilities. We have also been trying to collect necessary equipment from the Fisheries Department to check for substances like formalin and other adulterating substances. City Corporation authorities are also there. They are authorised, and also have the facilities, to check for adulteration and take necessary action. What we want to see is the district administration taking up leadership and using magistrates and law enforcement agencies. We will provide technical and other forms of support that are necessary, and that is the way we are doing it now. But there is a problem as well; we do not have enough testing equipment and manpower.

TDS: It seems that we have laws but implementation is very weak. How do you look at that?

GQ: It is true that Bangladesh suffers from poor governance. Whatever plans and laws we make, implementation is not up to expectation. What we really need to do is strengthen monitoring to oversee whether concerned authorities are doing their jobs properly and if not, then it has to be made public. I want to ensure reward and punishment for good and bad respectively.