

The Padma bridge options

SADIQ AHMED

I have written and spoken a lot on the issue of the Padma bridge and my biases are well known. I continue to believe that the design, financing and implementation plan agreed by the government of Bangladesh with the international consortium of donors led by the World Bank is the first best option. We now know the government has decided to withdraw this financing request. This is unfortunate as I believe the process agreed by the government with the World Bank in September 2012 to resolve the long-standing dispute regarding corruption was appropriate and fair. I was also very encouraged to see the progress made by the Anti-Corruption Commission and was hoping to see this process to continue and end on a happy note where the conflict is resolved, financing is restored and implementation starts. But that is not to be.

Life has to go on. There is now a search for alternative options to build this critical infrastructure. Lots of ideas are floating around in the print media and in the TV discussions. A populist idea is to fund and implement the bridge through own resources. This sounds patriotic and appears as an easy-to-do option. However, I will argue below that going this route has serious downside risks. Instead, there is a better option that must be explored vigorously before venturing into this highly risky domestic option.

First and foremost, capacity constraints are a serious impediment to development in Bangladesh. As an example, an estimated \$16 billion committed foreign resources are stuck up in the aid pipeline. A major reason for this is limited implementation capacity. In this environment, taking up the implementation of a complex mega project like the Padma bridge without any demonstrated track record of handling similar projects appears to me a dream whose time has not come yet.

Second, we are acutely aware of the serious funding constraint in the national budget. Already there are many budgeted devel-



opment programmes that face a shortage of resources. Squeezing those programmes to divert resources for Padma bridge can present major implementation problems for those projects.

Third, the budget faces substantial downside risks. Revenue collection targets are not likely to be met. Despite some adjustments in energy prices, the subsidy bill is large. Finally, the treasury is facing a huge contingent liability owing to the Hall-Mark scam. The Tk 3,600 billion that was plundered from Sonali Bank by Hall-Mark is not likely to be recovered. This liability will likely fall on the shoulder of the treasury.

Fourth, the idea of tapping resources from the foreign reserves of the Bangladesh Bank is not a sound proposal. Reserves by definition are intended to provide a cushion from downside risks. It is true that the Bangladesh Bank has been accumulating reserves in recent months owing to a major slowdown in demand for imports and also because of a

very favourable inflow of remittances. But this accumulation is from a low base. Even now with a better reserve situation, Bangladesh still has only four months of import cover that is still low when compared with well-managed economies. Additionally, there are serious downside risks to garment exports emerging from the poor labour safety standards in many factories. We also know from the experience of fiscal 2011 that lapses in macroeconomic management can easily squeeze the balance of payments, thereby putting pressure on the exchange rate and running down reserves.

Moreover, this use of reserves to finance treasury operations will set a dangerous precedent for future governments who might start thinking of reserves as a budgetary resource. A similar proposal in early 2008 by the Indian planning ministry to finance infrastructure by drawing on India's then swelling foreign reserves (that had then reached the \$300 billion mark) was eventu-

ally abandoned by the government as it recognised the downside risks of this policy.

If a home-grown solution is not the way to go, what is a viable option? I believe the second-best option is to seek bilateral assistance for Padma bridge financing and implementation on a turn-key basis. There are many developed countries, notably USA, Germany and France, with superb bridge-building capacities. Among the developing countries, China and Korea are excellent. Exploring bilateral turn-key type options for the Padma Bridge with a few countries like Japan, Korea and China might be the way out.

These negotiations have to be carefully and transparently managed as international evidence shows that bilateral projects tend to be more expensive in terms of capital cost, borrowing terms or both. The good news is that there is a benchmark on all three critical elements of the Padma bridge: project design and components; project

cost; and financing terms. This benchmark, which constitutes the first best solution, is provided by the World Bank-led consortium that we have now rejected. However, in the second-best option involving bilateral financing, this benchmark provides an excellent cross check on the quality of what is being offered bilaterally. It will be reasonable to expect some increases in cost over the \$2.9 billion. A 5-10 percent increase may be justifiable. Similarly, the terms of the loan will likely be less favourable than the terms in the first-best option (weighted average interest cost below 2 percent). In the present global financing environment, an average interest rate of 3-4 percent will seem reasonable.

I do not see any reason why the design or the components should change. The bilateral negotiations should be held on pricing, financing package and implementation timeframe for the project as already defined now. Getting offers from more than one bilateral donor, if feasible, might serve the interests of competition and partially compensate for the lack of international competitive bidding procedure as in the multi-lateral funding option. The turn-key implementation arrangement is essential to avoid problems of coordination of the various components, minimise transaction costs and avoid implementation delays.

As the beneficiary, Bangladesh must have some supervisory oversight to ensure the quality and timeliness of project implementation. In the absence of domestic competence, this will need to be procured internationally as advisory services to the government. There are excellent international firms that can provide this service at a reasonable price. Avoiding procurement problems of the type faced in the recruitment of supervisory consultants of the Padma bridge in 2011, which caused the demise of the World Bank-led consortium option, will be essential.

The author is vice chairman of Policy Research Institute of Bangladesh. He can be reached at sahmed1952@live.com.

India's support for coal

CLYDE RUSSELL

COAL miners should be thankful that their Indian counterparts consistently fail to produce as much of the fuel as they plan to, as rising imports in the South Asian nation are helping support prices.

India's imports jumped 39 percent to 12.7 million tonnes in December from the same month a year earlier, and trade sources believe they reached about 16 million tonnes in January.

So far, India's imports for the fiscal year that started in April are 28.2 percent higher from the same period a year earlier at 102.7 million tonnes, boosted by shortfalls in local output.

Domestic production was 52.6 million tonnes in December, flat from a year earlier and 6.1 percent below the official target.

Rising Indian imports, coupled with record Chinese imports, have boosted the Newcastle spot price, the regional benchmark, which has gained almost 18 percent since October's three-year low to reach \$95.02 a tonne last week.

India aims to produce 575 million tonnes of the fuel in the 2012-13 fiscal year, which ends in March, but so far has reached only 66 percent of the target, or 404.05 million tonnes.

This means 171 million tonnes will have to be mined in the first quarter of 2013, which is unlikely, and the government may miss its goal by around 50 million tonnes.

This inability to meet targets will add to the overall coal deficit and make it more likely India will increasingly turn to imports.

This will especially be the case if the country makes faster progress in installing power capacity, with the bulk of planned generators being coal-fired.

However, of all the uncertainties that surround the energy outlook in India, there is one certainty, and that is delays.



REUTERS/FILE

Labourers unload coal from a truck at a roadside coal store on a highway on the outskirts of Kolkata.

The massive blackout last July emphasised just how far the country still has to come in terms of building generators and the transmission network.

While installed capacity has grown 35 percent to 205,000 megawatts (MW) in the past five years, there are still peak demand shortfalls of as much as 10 percent.

Plans to build so-called ultra-mega coal-fired plants of up to 4,000 MW each are largely stalled or progressing slowly.

But over time it's likely that India will manage to increase its generating capacity, and it's equally likely that domestic coal output will continue to fall short of targets, as the quality and quantity of reserves is diminishing.

India's coal shortfall will be about 192 million in the fiscal year to March 2013, according to the coal ministry.

Failure to achieve domestic output targets will be widening that shortfall, adding to demand for imported fuel.

This gives India the potential

to become a rival to China, currently the leading coal importer in Asia, which is trying to limit its reliance on the fuel by concentrating on building natural gas, nuclear, hydro and renewable power generation.

China is still likely to increase its coal imports in the next few years, based on its plans to build new coal-fired generators and limit domestic output, but it's also likely that India's import growth rate will become the faster of the two.

China plans to have 960,000 MW of coal-fired capacity by the end of 2015, a net increase of 280,000 MW on the end of 2010.

It also plans to cap annual coal production at 3.9 billion tonnes by 2015, having produced 3.66 billion tonnes in 2012.

The additional power capacity may consume as much as 700 million tonnes of coal annually, based on using 2,500 tonnes of coal a year to produce 1 MW, a rate a modern coal plant should be capable of achieving.

If China does build 280,000

MW of new capacity by 2015 and limit domestic output, it implies coal imports will have to rise to perhaps as high as 400 million tonnes a year, a gain of 70 percent on 2012's 235 million tonnes.

Even assuming a more modest outcome of capacity addition, it still implies that China will continue importing coal at least at the current rate, with the risks balanced to the upside, in the next few years.

Coupled with India's rising imports, the longer-term demand outlook remains solid in Asia, and while global supplies are currently adequate, this may not be the case in the next few years.

High capital and labour costs are delaying projects from Australia to Mozambique, while Indonesia, the largest exporter of thermal coal, is pursuing a legislative agenda designed to keep more coal for domestic use and give locals a bigger share of mining operations.

Clyde Russell is a Reuters market analyst.

ArcelorMittal trips on Europe into \$3.7b loss

AFP, Paris

THE world's top steel producer ArcelorMittal stumbled into the red last year with a net loss of \$3.72 billion (2.75 billion euros) largely due to costs related to Europe, where it struggled to shut plants.

Operating profit measured by earnings before interest, tax and other charges (EBITDA) fell by 30 percent to \$7.1 billion, close to analyst expectations.

"2012 was a very difficult year for the steel industry, particularly in Europe where demand for steel fell a further 8.8 percent," chief executive Lakshmi Mittal said in a statement.

The net loss was caused by a \$4.3 billion accounting charge the company announced in December to write down the value of its assets in Europe, where demand for steel has fallen by nearly a third since the global economic crisis set in.

The Luxembourg-registered company also took another \$1.3 billion in restructuring charges.

ArcelorMittal, which also has interests in iron-ore mines, had posted a net profit of \$2.3 billion in 2011.

Sales fell by 10.4 percent to \$84.2 billion in 2012, with shipments of steel down 2.3 percent to 83.8 million tonnes.

Shipments of iron ore shipments rose by 5.4 percent to 54.4 million tonnes, however, with more than half shipped at market prices.

The company said it expected steel sales to improve this year, climbing by 2-3 percent, with iron ore sales at market prices to rise by 20 percent.

ArcelorMittal said this should help it increase operating profit in 2013.

"Although we expect the challenges to continue in 2013, largely due to the fragility of the European economy, we have recently seen some more positive indicators," said Mittal.

These, along with the steps the company has taken to focus on its most competitive assets and reduce its net debt "are expected to support an improvement in the profitability of our steel business this year", he added.

The expectations of improvement reassured investors, ArcelorMittal's share



Lakshmi Mittal

price climbing 2.65 percent to 12.75 euros in early trade in a broadly stable Paris market.

ArcelorMittal's refocusing of its activities has not gone smoothly.

The announcement last month it is shutting down six cold-processing facilities in Belgium sparked exchanges of paving stones and tear gas between workers and police over the loss of 1,300 jobs.

In France, ArcelorMittal faced threats last year of nationalisation of one facility over the fate of two blast furnaces.

After heated talks with the French government the blast furnaces are likely never to be reopened but the company promised to invest 180 million euros into the Florange facility and not cut any jobs.

The company also said that its net debt decreased by \$1.4 billion over the fourth quarter owing to improved cash flow to stand at \$21.8 billion at the end of the year.

ArcelorMittal is aiming to raise \$3.5 billion in stock and subordinated notes to reduce its massive debt, which ratings agencies have warned threatens to break bank loan agreements.