

Shipbuilding prospects shine bright

Western Marine MD Sakhawat Hossain says they need incentives and policy supports

UDAY SANKAR DAS, from Chittagong

THE government should prohibit import of second-hand ships and give more incentives and policy supports to local shipbuilders, said an official of a leading shipbuilding company of Bangladesh.

The government can also help the emerging sector by reducing cost of fund, which he said is 18 percent in Bangladesh compared to only 7 percent in China, for example.

This blunts their competitive edge over the foreign manufacturers, said Md Sakhawat Hossain, the managing director of Western Marine Shipyard Ltd.

Hossain sat with The Daily Star in an interview recently.

They started their operations in 2000 as a small entity when a group of mostly marine professionals felt the sector could grow in Bangladesh, as China, Japan and Korea had grown with shipbuilding being the backbone of their economy.

Making a humble beginning with only 200 employees, the company has now grown to generate employment for 3,500 people.

Hossain also said the turnover of the company for the year that ended on June 30, 2012 was Tk 370 crore raking a profit of Tk 40 crore.

"We also thought that Bangladesh is a riverine country but there are too many river accidents because of outdated ships being used to carry passengers. This prompted us to go into this business to offer a safer mode of river transport."

When asked about their biggest success so far, Hossain said they have supplied eight specialised multi-purpose cargo vessels to Germany.

The ships are of international standards in terms of technicality and are now plying in the Baltic Sea.

"We have also built two ferries for Denmark, one of them being a passenger ferry, which is a 2013 model with the latest technologies."



Sakhawat Hossain

He also said this passenger ferry is for use by people going on holidays with facility to carry 32 motor vehicles. These vessels have been delivered just during the last few days.

Speaking about the challenges in Bangladesh economy and how the domestic shipbuilders can help in tackling these, he said there are three challenges -- power, traffic and environment.

He said ships are required to carry imported oil after refining in Chittagong to various power plants in the country.

Instead of importing second-hand tanker vessels, these are now being built in Bangladesh and these ships are environment-friendly 'double-hull' vessels ensuring no spillage of oil.

In order to minimise the pressure on the highways, through which imported containers are now being carried, the government has adopted a policy to carry the cargoes from Chittagong to Dhaka by container ships.

Licences have also been awarded to various companies including Western Marine to build 32 ships.

Hossain said each of these ships can

carry 150 containers, and once this project is complete, it will ease the pressure on the highways significantly. His company has plans to build at least six such vessels.

The official said the government has taken a project for dredging the rivers as the main problem is that the rivers are not flowing properly because of siltation. The government has decided to build various types of dredging vessels for this purpose. "The good news is that all these vessels can be built in Bangladesh," he said, adding that foreign manufacturers are now coming to Bangladesh and entering into joint ventures with local companies.

About building passenger ships for inland transport, Hossain said Western Marine is the first company to connect the mainland with St Martin's Island by a passenger ferry.

The company has since then built more than 10 passenger ferries. He also said, to attract tourists from both abroad and from within the country, the company has started building cruise vessels and has already built four such vessels.

On new investment and expansion plans, he said, "We are focusing to catch the market of 2015 when we shall hear more about environment-friendly ships."

Ships of the future will be emitting very little toxic elements into the atmosphere and the machineries and technologies would have to be changed, he said.

From 2015, ships would be built to be run by liquified natural gas in order to reduce carbon and other toxic gas emission.

"We are now capable of building 10,000-tonne ships and would like to increase the capacity to 15,000 tonnes."

He said his company now holds 35 percent of the domestic market and about 30 percent of the foreign market of shipbuilding in Bangladesh.

The four pillars on which their company stands are quality, timely delivery, joint venture and corporate social responsibility, he said.

The company has established a 'primary health care centre' in the shipyard for health care of the employees.

Hossain also said, apart from the families of the employees, about 26,000 people in the catchment areas, especially women and children, get services from this health care centre. Food and education are also provided for the workforce, he added.

He also said the successful implementation of the four pillars of the company gives them an edge over their competitors.

The future of shipbuilding in Bangladesh is bright, the official said, adding that the demand in the domestic market is quite high.

Hossain said they have plans to build world-class cruise ships with a capacity to carry more than 2,000 passengers from Dhaka to Barisal and Patuakhali, and two such ships would be built by 2015.

He said they dream of a 'green ship', which he describes as leaving a legacy for an environment-friendly ship for the country.

Judge slashes \$1b Samsung-Apple penalty in half

AFP, San Francisco

A judge on Friday cut \$450 million from a \$1 billion award to be paid by Samsung in a landmark patent lawsuit from Apple, saying a jury had wrongly calculated the damages.

US District Judge Lucy Koh affirmed the remainder of the award, amounting to \$598.9 million, in the patent infringement case, while denying Apple's request for a bigger penalty.

The decision marked the latest twist in the blockbuster trial pitting the maker of the iPhone against the surging South Korean electronics giant.

Apple had accused its rival of massive and willful copying of its designs and technology for smartphones and tablets.

But Koh said the jury erred in calculating damages for some of the devices in question, including some models of the Galaxy SII smartphone and Galaxy Tab tablet, and struck down as invalid the \$450 million awarded to the Silicon Valley giant.

She ruled that a new trial would be needed to award damages for those items, because an "impermissible legal theory" the jury used to calculate the award means that she "cannot reasonably calculate the amount of excess while effectuating the intent of the jury."

But Koh encouraged both parties to have the case reviewed by an appellate court before any new trial.

The judge allowed the award to stand for 14 products, including some Galaxy smartphones and the Galaxy Tab 10.1 tablet, leaving an award of \$598.9 million.

The jury relied on Apple's calculation for lost profits dating back to 2010, when it first told Samsung of its objections, but Koh said that in most cases, the damages could only cover the period after the lawsuit was filed in April 2011.

"There are eight phones for which the jury awarded 40 percent of Samsung's profits for the entire period, but for which, during some of the damages period, infringer's profits was not an authorized remedy," the ruling read.

"The only remaining possibility is to conduct a new trial on damages for these eight products."

The judge said Apple could have averted a new trial if it had not pursued an "aggressive" strategy by using an expert report based on a long period of infringement.

Jaguar Land Rover studying full production in India

REUTERS, Mumbai/London

JAGUAR Land Rover (JLR) is investigating the potential of manufacturing cars in India, company sources said, as the British luxury carmaker looks to build on its growth in emerging markets with the help of Indian parent Tata Motors.

JLR, which has ridden a wave of surging demand in China and other emerging markets to post record profits over the past year, is "actively exploring the possibility" of building cars from scratch in India, said one company source.

"The idea is being looked into, with the (Jaguar) XF and (Land Rover) Freelander the obvious candidates," said another source with knowledge of the matter.

The British brands, which already assemble two models in India using parts and engines shipped from factories in the UK, will also begin assembling its popular Range Rover Evoque in the country soon, the first source said without providing details.

Building cars in India, which has developed into an emerging market export hub for many global carmakers, would allow JLR to skirt high import taxes on luxury cars, which Finance Minister P. Chidambaram proposed raising to 100 percent from 75 percent in his budget speech last week.

"Jaguar Land Rover has ambitious plans to expand its manufacturing footprint and increase production in markets outside Britain," Del Sehmar, a Mumbai-based spokesman for the company, told Reuters. "We continue to examine options to expand our range of locally assembled products," he said, referring to India.

JLR will exhibit a new 9-speed automatic Evoque and an electric-powered version of its Land Rover Defender at the Geneva Motor Show next week.

INVESTMENT DRIVE

Bought by Tata for \$2.3 billion from Ford in 2008, JLR has defied those sceptical of its future under Indian ownership to roar back into profit over the past three years as the main growth driver for its now-struggling parent.

Continued growth in emerging markets such as India and China, which accounted for 22.3 percent of its sales in the December quarter, is key for JLR as it embarks on an expensive overhaul of its production and product clout. The carmaker is investing \$1.7 billion with local partner Chery Automobile Co in a factory in China.

JLR lags rivals BMW AG, Volkswagen AG's Audi and Daimler AG's Mercedes-Benz in assembling cars in India, where the luxury market is expected to swell by around six times by 2020 to 300,000 cars a year, according to business consultancy Frost & Sullivan.

To create growth, unleash the invisible foot

REIHAN SALAM

ACROSS the political spectrum, there is a growing recognition that while short-term battles over government spending are important, they would be far less ferocious and intense if our economy were growing at a faster clip. But while conservatives and liberals alike clamor for more growth, they disagree about how to produce it. The key is unleashing what the economist Joseph Berliner once called the "Invisible Foot," the neglected counterpart to Adam Smith's "Invisible Hand."

Before we turn to the Invisible Foot, let's think through the prescriptions for growth offered by Democrats and Republicans. President Barack Obama and his Democratic allies often argue that substantial increases in public investment will deliver robust growth. Republicans, in contrast, emphasize the notion that reductions in marginal tax rates will spur growth by increasing the incentives to work and invest. These approaches are obviously far apart, yet they face at least two common obstacles. First, the aging of the population and the high cost of health entitlements severely limit the government's ability to increase spending or cut taxes. Second, advanced economies have by definition already taken advantage of the most obvious sources of productivity growth and so are forced to innovate to find new sources of productivity growth. And innovation is a trial-and-error process that is far more expensive and arduous than simply following the leader.

So the question of the day isn't whether we want growth (yes, we want it badly) or whether we can dramatically increase public investment or dramatically cut taxes (neither strategy is in the cards). Rather, it is whether there is anything we can do to make the American economy friendlier to the kind of risk-taking and innovation that will eventually yield productivity gains without breaking the bank.

Enter the invisible foot. Despite sluggish growth, large U.S. business enterprises have fared reasonably well in the post-crisis years. Corporate profits after taxes have hovered around 10 percent of gross domestic product, almost twice as



US President Barack Obama speaks to the media about sequestration in the Brady Press Briefing Room at the White House in Washington on Friday following a meeting with US Speaker of the House John Boehner and Congressional leaders.

high as they were during the Reagan years. High corporate profits aren't an intrinsically bad thing. Yet we'd normally expect that they would over time be reduced by competition from new entrants enticed by the prospect of making their own fortunes. This invisible foot of new competition is what drives incumbent firms to either step up their games - a process that often involves burning through stockpiles of cash and shrinking profits - or go out of business.

Unfortunately, this reallocation of resources - from inefficient incumbents to innovative upstarts and the incumbents that manage to keep up with them - stops when incumbent firms succeed in erecting regulatory and legal barriers to shield themselves against competitors, which is why regulatory reform and patent reform are so important. It is also why we ought to take care not to give large incumbents any undue advantages in our tax code.

As it turns out, the U.S. tax code does give large incumbents an enormous advantage over start-ups by subsidizing corporate debt. When businesses want to raise money for operations, they can pour their profits back into the business, they can sell shares or they can borrow.

In an ideal world, we'd want business enterprises to make these decisions on the basis of what makes the most sense based on underlying economic conditions. But in the United States, we allow companies to deduct interest expenses from their taxes but not dividends on their stocks. This makes it far cheaper for companies to raise money by borrowing than by selling shares.

One reason this debt bias is a problem is that it leads companies to take on large amounts of debt, which raises the risk that they will go bankrupt. Yet there is another problem: It is much easier for some companies to borrow than for others. Specifically, well-established firms - for example, large incumbents with pricing power that have been around for years - find it much easier to borrow than new, unproven firms with high-growth potential, which have little choice but to rely on selling shares to finance investment. And so the tax-deductibility of interest expenses and not dividends gives the entrenched corporate Goliaths that have the option to borrow a big boost, while doing nothing for the would-be corporate Davids eager to take them on.

With this in mind, Robert Pozen of the Brookings Institution and Harvard

Business School and his research associate, Lucas Goodman, have devised an ingenious plan to level the playing field. First, they call for cutting the corporate tax rate from 35 percent to 25 percent. This lower statutory rate will make the U.S. a much more attractive destination for profitable investment projects, particularly since our current corporate tax rate of 35 percent is the highest in the industrialized world. To finance this substantial cut, Pozen and Goodman propose a modest 60 percent to 85 percent cap on the amount of interest companies can deduct from their tax bills, sharply reducing debt bias and keeping the proposal revenue-neutral. Firms that rely heavily on debt would cry foul, and for some the process of reducing debt levels would be painful. Yet start-ups that don't have the option of raising money by taking on enormous amounts of debt would find themselves at far less of a disadvantage. The end result could be an entrepreneurial renaissance, as lumbering corporate dinosaurs that had used cheap credit to scare off competitors are forced to reckon with innovative new rivals.

And if reducing the debt bias really does encourage start-up activity, the implications for employment levels could be significant. As the economists John Haltiwanger, Ron Jarmin, and Javier Miranda have observed, start-ups and young firms make a substantial direct contribution to creating jobs. Yet they can also make an indirect contribution to job creation by forcing incumbent firms out of their defensive crouch and into a fight to retain and gain market share. Consumers will also stand to benefit from this kick of the invisible foot as competition forces down prices and gives rise to entirely new products and services.

There is obviously no guarantee that reducing the tax code's debt bias will be a silver bullet for economic growth. But Pozen and Goodman's plan has enormous upside potential and, if designed with care, wouldn't add a dime to the deficit. It would be foolish not to give it a try.

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