Big oil to cut investment again in 2016

REUTERS, *London*

With crude prices at 11-year lows, the world's biggest oil and gas producers are facing their longest period of investment cuts in decades, but are expected to borrow more to preserve the dividends demanded by investors.

At around $37 a barrel, crude prices are well below the $60 firms such as Total, Statoil and BP need to balance their books, a level that has already been sharply reduced over the past 18 months.

International oil companies are once again being forced to cut spending, sell assets, shed jobs and delay projects as the oil slump shows no sign of recovery.

US producers Chevron and ConocoPhillips have published plans to slash their 2016 budgets by a quarter. Royal Dutch Shell has also announced a further $5 billion in spending cuts if its planned takeover of BG Group goes ahead.

Global oil and gas investments are expected to fall to their lowest in six years in 2016 to $522 billion, following a 22 percent fall to $595 billion in 2015, according to the Oslo-based consultancy Rystad Energy.

"This will be the first time since the 1986 oil price downturn that we see two consecutive years of a decline in investments," Bjoernar Tonhaugen, vice president of oil and gas markets at Rystad Energy, told Reuters. The activities that survive will be those that offer the best returns.

But with the sector's debt to equity ratio at a relatively low level of around 20 percent or below, industry sources say companies will take on even more borrowing to cover the shortfall in revenue in order to protect the level of dividend payouts.

Shell has not cut its dividend since 1945, a tradition its present management is not keen to break. The rest of the sector is also averse to reducing payouts to shareholders, which include the world's biggest investment and pension funds, for fear investors might take flight.

Exxon Mobil and Chevron benefit from the lowest debt ratios among the oil majors while Statoil and Repsol have the highest debt burden, according to Jefferies analyst Jason Gammel.

With only a handful of major projects approved in 2015, including Shell's Appomattox development in the Gulf of Mexico and Statoil's giant $29 billion Johan Sverdrup field in the North Sea, 2016 is also likely to see few large investment decisions.

Projects that could be green-lit include BP's Mad Dog Phase 2 in the Gulf of Mexico, which the company now expects to cost less than $10 billion, around half the original estimate, and Chevron's expansion of the Tengiz project in Kazakhstan, according to Gammel.

Industry-wide, costs will be cut by reducing the size of projects, renegotiating supply contracts and using less complex technology.

After rapidly expanding in the first half of the decade when oil prices were above $100 a barrel, companies are now expected to focus on the most profitable activities, said Brendan Warn, oil and gas equity analyst at BMO Capital Markets.

"Companies want to reduce their range of activity and pick those with the highest returns on capital," Warn said.

Shell, which plans to complete its $54 billion acquisition of BG in February, intends to focus on the attractive liquefied natural gas (LNG) market and on deep water oil production, especially in Brazil, both areas in which BG is a leader.

With similar priorities in mind, BP is increasingly focused on the Gulf of Mexico and Egypt, where it approved a $12 billion development in 2015.

While tens of thousands of jobs have already been cut in 2015, more redundancies are expected this year as companies narrow their focus, Warn added.

On top of reducing spending by scrapping and delaying projects, oil majors will see costs come down as contractors agree to further price reductions. For example, the annual cost of hiring a drilling ship fell to an average of $332,000 in 2015, compared with $405,000 in 2014, according to Rigzone, which collects industry data.

The drop in investment bodes badly for services and contractor companies, which are seeing their work dry up.

But with fewer projects approved, fewer fields developed and less maintenance work undertaken, companies are putting their growth at risk.

"You've got to hold your nerve. If you cut too deeply, it is very, very difficult to take advantage of the price rebound when it comes," a senior official at a European oil major told Reuters.

Tumbling oil prices have cut billions of dollars from oil companies' revenue streams, although strong profits from refining have softened the blow for most.

And while their in-house oil and gas production growth comes under pressure, companies might opt to acquire rivals with less resilient balance sheets, as with Shell's proposed acquisition of BG.

"In the second half of 2016, if we see price stabilisation, I expect companies will be looking to replace reserves inorganically, by making acquisitions," Warn said.

GREEN DELTA

Nasir A Choudhury, founding managing director and adviser of Green Delta Insurance, and Farzana Chowdhury, managing director, cut a ribbon to celebrate the 30th anniversary of the company at its corporate head office in Dhaka.

DHAKA BANK

ATM Hayatuzzaman Khan, former chairman of Dhaka Bank, hands over a blanket, as part of the bank's donation to the poor, in Araihazar, Narayanganj on Friday. Syed Mahbubur Rahman, managing director, was also present.

American Airlines merges operations of unit US Airways

REUTERS

American Airlines Group Inc said its unit US Airways Group merged with the company, as part of efforts to integrate operations of the businesses following a merger in 2013.

American Airlines Group, the owner of American Airlines, said US Airways Group and its airline US Airways ceased to exist as a separate entity effective Dec 30, 2015.

The companies have already been using a single booking system and operating as a single brand since October.

The change is merely an administrative step and does not affect the company's employees or customers, American Airlines spokesman Matt Miller told Reuters.

"With US Airways merged into American and US Airways Group merged into American Airlines Group, all of their obligations (including debts and liabilities) become the obligations of American Airlines and American Airlines Group, respectively," Miller said.

More banks found paying zero tax in UK

REUTERS, *London*

Two more investment banks have reported paying zero tax in Britain in 2014, prompting the opposition Labour party to urge the government to reverse a tax change it made for banks last year.

Citigroup and Credit Suisse disclosed in the past fortnight that their main UK subsidiaries paid no corporate income tax in 2014, the most recent year for which figures are available. This means seven of the 10 biggest foreign investment and commercial banks operating in Europe's main investment banking centre have said their main British arms paid no tax in that year.

In total the 10 banking groups generated over $40 billion in fees in Britain in 2014, reported $6.5 billion in profit and employed almost 50,000 people. But they contributed just $205 million in corporate income tax.

"These are damning findings that make a real mockery of the government's approach to taxation of the financial sector," said John McDonnell MP, the opposition Labour party's shadow finance minister.

The other five banks, as reported by Reuters last month, are JP Morgan Chase & Co., Nomura Holdings Inc, Deutsche Bank AG, Bank of America Merrill Lynch and Morgan Stanley . All declined to comment. There is no evidence that they broke any tax rules.

Most companies engage in tax planning to manage their bills, and banking lobby groups say corporate income tax is just one of many taxes the investment banks pay - Britain benefits richly from income taxes on bankers' bonuses.

"The government believes it is crucial that the banks make a fair contribution to restoring stability to the public finances and has taken important steps to ensure they do this," a spokesman for the finance ministry said. The tax authority said it ensures that all businesses pay tax due under British law, but declined to comment on the banks.

In July, following pressure from banks which threatened to move operations from London, Finance Minister George Osborne said he would halve a levy banks must pay as a percentage of their assets, and he would restrict the base on which it is calculated.

At the same time he increased the tax rate banks must pay on corporate income, to 8 percentage points above the standard rate.

Tax experts say corporation tax is easier to avoid than the bank levy.

McDonnell said the figures showed Osborne was already pursuing a "soft touch" approach. "This report should be setting off alarm bells at the Treasury and he should be reversing his decision on the bank levy immediately," he said.

Tax avoidance has become a hot political topic in Britain after revelations in recent years of profit shifting by big groups including Apple Inc. and Amazon.com. Last year, banks were required to disclose how much tax they have paid on profits generated country-by-country. On Dec. 31, Citigroup said that its two main UK subsidiaries had a combined profit of $308 million, but losses from the past reduced the tax it actually had to pay to zero.

Credit Suisse did not have a tax bill because it reported a loss in Britain for 2014. The bank reports most of its European profits in Switzerland, where effective tax rates can be much lower than in Britain.

Of the 10 biggest foreign investment banks measured by fee income, only three paid corporate income tax in 2014. Goldman Sachs Group Inc paid $27 million in tax on $2 billion of profit generated by its London arm, while Switzerland's UBS Group AG paid $4 million on $140 million in UK profits. Both declined to comment.

The biggest taxpayer of the 10 was Paris-based BNP Paribas, which paid $174 million on $954 million profit generated by its UK unit, which focuses on investment and commercial banking.

"BNP Paribas is determined to do its civic duty in the field of taxation," the bank said in a statement.

Banks' capital base strengthens

FROM PAGE B1

Although the banking sector as a whole is able to maintain its CRAR above the minimum legal requirement, nine out of the 56 banks were non-compliant, it said.

This could pose substantial risks to the financial stability in Bangladesh, given the high tendency for loans to turn sour, according to the analysis.

Moreover, if just the three largest borrowers of each bank were to default, 26 banks would become non-compliant in maintaining their minimum required CRAR.

This highlights the vulnerability of the banking sector as a whole to moderate shocks, poor risk management and high concentration risk due to uneven distribution of loan exposures, according to the BMI analysis.

Pangaon container terminal to get a boost

FROM PAGE B1

"That's why, a new but big port is being built in Paira," the CPA chairman said, adding that the Chittagong port is also being expanded to meet the rising needs.

M Abdul Latif, a lawmaker, and Ashok Madav Roy, secretary to the shipping ministry, also spoke on the occasion.

Pubali Bank gets new additional MD

STAR BUSINESS DESK

Safiul Alam Khan Chowdhury has recently been appointed as the additional managing director of Pubali Bank, the bank said in a statement yesterday.

Prior to the appointment, Chowdhury has been serving the bank as deputy managing director since 2010.

He started his banking career as senior officer with Pubali Bank in 1983, according to the statement. He completed his graduation and post-graduation in sociology from Dhaka University.

SIBL reappoints managing director

STAR BUSINESS DESK

Md Shafiqur Rahman has been reappointed as the managing director of Social Islami Bank, the bank said in a statement yesterday.

Rahman has been serving the bank as managing director since January 2013, according to the statement.

He is a postgraduate in commerce from Dhaka University and is also a diplomaed associate of the Institute of Bankers, Bangladesh. Rahman has also worked with Sonali Bank, Agrani Bank, Jamuna Bank and Southeast Bank in his three-decade-long career.

NBR starts training for tax commissioners

STAR BUSINESS REPORT

A two-month training programme for additional assistant commissioners of taxes (ACTs) began at the BCS Tax Academy yesterday, the National Board of Revenue said in a statement. Some 24 ACTs of different tax offices are participating in the programme to improve their skills and professional knowledge, it said.

NBR Chairman Md Nojibur Rahman inaugurated the event and asked officials to use their acquired knowledge for the welfare of the people. The revenue collection target of Tk 176,371 crore is a challenging one, he said. "We all have to work untiringly to achieve the goal."

Abdur Razzaque, member of tax administration and human resources management of NBR, was also present.

Stocks end flat on first trading day of the year

FROM PAGE B1

Some large caps saw some profit-taking. But mid-cap and small-cap stocks capped the day's transactions, the stockbroker said. Turnover, another important indicator of the market, also dropped 15.6 percent to Tk 366.42 crore, with 9.6 crore shares and mutual fund units changing hands on the DSE floor.

Of the traded issues, 119 advanced, 153 declined with 44 securities closing unchanged on the premier bourse.

Beximco dominated the turnover chart with 84.47 lakh shares worth Tk 25.58 crore changing hands, followed by Beximco Pharma, Emerald Oil Industries, United Power Generation and Distribution Company and KDS Accessories. Among the major sectors, pharma increased 0.72 percent in market capitalisation, followed by fuel and power that rose 0.56 percent, textile 0.39 percent and food and allied 0.34 percent.

Conversely, banks declined 1.22 percent, followed by cement 1.01 percent and non-banking financial institutions 0.6 percent. Miracle Industries was the day's best performer with 7.84 percent in gains, while Western Marine Shipyard was the worst loser, shedding 9.78 percent.

Chittagong stocks, however, closed higher yesterday with the bourse's benchmark index, CSCX, increasing 12.02 points or 0.14 percent to finish the first day of the year at 8,584.14 points. Losers, however, beat gainers as 102 declined, 99 advanced and 25 finished unchanged on the Chittagong Stock Exchange.

A fuel price policy in the works: Muhith

FROM PAGE B1

At the meeting, MCCI President Syed Nasim Manzur said to cut the cost of business the fuel price needs to be adjusted, specially seeing that it is expected to come down to $20 per barrel in the international market.

The MCCI also recommended lowering the rate of interest on savings instrument to cut the banks' lending rate.

Muhith said the interest rate on savings instrument is high and some changes will be brought to it by this month.

The government changes the rate of interest on savings instrument every 2-3 years. But now, it will be adjusted every 3-6 months to match with the market rates, he added.

Mobile top-up retailers may go on strike for commission hike

FROM PAGE B1

The association had staged a four-day strike for a hike in the recharge commission three years back. The mobile operators did not increase the commission then, but they provided the retailers with some other benefits.

"We need a policy for the top-up and mobile banking agents that needs to be followed strictly," said Rahman.

Only registered vendors should be allowed to run the mobile top-up business and the recently imposed phone recharge ceiling has to be withdrawn, he said.

Around Tk 450 crore is transacted every day through mobile banking while the top-up service handles around Tk 100 crore a day, said Rahman.

PRIME BANK

Ahmed Kamal Khan Chowdhury, managing director of Prime Bank, and Kamrul Hasan Khan, vice chancellor of Bangabandhu Sheikh Mujib Medical University, pose with the documents of a tripartite agreement. The bank will help in capacity building of the university's nursing faculty.

MTB

Abu Hena Morshed Zaman, deputy commissioner of Narsingdi, opens a branch of Mutual Trust Bank at Madhabdi, Narsingdi. Syed Rafiqul Hossain, head of the bank's Dhaka division branches, was also present.