A view of the Padma bridge rail link project at the Mawa end in Munshiganj. Contractors of infrastructure projects have demanded that the government raise the procurement prices of construction materials.

PHOTO: SAJJAD HOSSAIN

Revise procurement prices of construction raw materials

Demand contractors of public infrastructure projects

STAR BUSINESS REPORT

Contractors of infrastructure projects yesterday demanded the government increase the procurement prices of construction materials as the current market prices of key ingredients are higher than the government rates.

They also urged the government to update its purchase rates for the various materials government procuring agencies buy through tenders.

"The price of all construction materials increased from 25 to 45 per cent depending on the item in question," said Sheikh Md Rafiqul Islam, former president of the Bangladesh Association of Construction Industry (BACI), a trade lobby group for firms that mostly work for the state-financed construction projects.

Islam's comments came at a press conference at the Dhaka Reporters Unity in the capital.

BACI went on to demand the inclusion of water and electric bills with the schedule of the Public Works Department.

Islam said the prices of almost all construction materials, including steel and iron products, stone chips, cement, bricks, sanitary and electrical items, have risen thanks to increased demand amid the reopening of economies worldwide.

Besides, labour cost increased by 60 to 70 per cent based on geographical location. Similarly, transport costs will go up in line with the price hike of oil.

In this situation, if it is not possible to stop the trend of abnormal price hikes, all construction work will come to a standstill and project implementation will become impossible, Islam said.

Project implementing agencies usually place work orders for the required materials at fixed rates from construction companies that do not adjust the price in spite of changes in the market. But there is an option to adjust prices with rate escalation for foreign companies, he added.

Shafiqul Haque Talukdar, president of BACI, said implementation of the annual development programme will be affected if the situation does not change.

In addition, many of the roughly 50 lakh people employed by the construction sector could lose their jobs.

"Even the contractors will fall into bankruptcy as they will fail to make repayment of their loans," he said, adding that financial institutions will face huge losses as a result.

Dealing with soaring energy costs

SAZZADUL HASSAN

OPINION

Of late, energy prices have gone through the roof. Prices of natural gas and coal in recent weeks have risen to a level that is the highest in decades. Consequently, electricity prices in some parts of the world, especially in Europe, North America, and some parts of Asia have skyrocketed.

According to the World Bank's latest Commodity Markets Outlook report, on average, energy prices are expected to be 80 per cent higher in 2021 compared to that of last year. The report also forecasts that it will remain at high levels in the first half of 2022. Energy prices are expected to decline in the second half of next year as supply constraints ease.

Brent crude oil price recently reached a seven-year high above $85 per barrel. Experts in this field anticipate that the oil price will jump further as stock drawdowns deepen.

According to Goldman Sachs, prices could hit $90 this year, while Bank of America thinks oil prices might reach up to $100 a barrel in the upcoming winter. However, according to an analysis done by the World Bank, the average crude oil price would be $70 in 2021, an increase of 70 per cent from last year. The price will hover around $74 a barrel in 2022 as oil demand strengthens as the world economy is expected to get back to pre-pandemic levels.

The price of natural gas in Europe and Asia is at record highs, while the US prices have doubled this year. According to a Deutsche Bank report, natural gas prices are up by five-fold in Europe, and prices are about 1.5 times higher in the US and Asia.

Latest data showed US natural gas futures rose to above $5.5 per million British thermal units (BTU). JP Morgan forecasts that the price in 2022 would remain high, at around $5/MBTU.

Coal price has also reached a new height. Prices for Australian thermal coal has reached an all-time high in early October. The average price in October this year has been around $235 per tonne, which is 192 per cent higher than that of last year.

Coal price in China has also exploded as demand has surged worldwide. The current price in China is around $260 per tonne, which is 200 per cent higher compared to the previous year's price.

Now, the natural question is: why will the world have to pay such exorbitant energy prices this year?

The jump in energy prices has been caused by a number of factors. As the covid-19 pandemic hit the world in the beginning of last year, economic activities around the globe had halted, driving the prices of many fuels to their lowest levels in decades.

However, to the surprise of many, the resilient human beings bounced back strongly since the third quarter of 2020. Economic activities rebounded strongly, causing the demand for fuels to rise. Rising industrial production, which accounts for about 20 per cent of final natural gas consumption, contributed to the rise in the demand of natural gas.

The weather has also exacerbated the demand and supply imbalance of energy requirements. The Northern Hemisphere's severe winter cold and summer heat increased heating and cooling demand, respectively.

As the demand for power has been increasing, the supply situation was unable to keep pace with the demand.

The major reasons are maintenance backlogs, longer lead times to deliver new projects, and lack of new investments in the oil and natural gas sector in recent years as a result of two commodity price collapses.

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GLOBAL BUSINESS

German exports fall for second straight month

AFP, *Frankfurt*

German exports fell for the second month in a row in September as Europe's top economy grapples with global supply shortages, official data showed Tuesday.

Germany exported 112.3 billion euros ($130.2 billion) worth of goods in September, adjusted for the season -- a 0.7 per cent drop from the previous month, according to federal statistics agency Destatis.

Imports rose by 0.1 per cent to 99.2 billion euros.

The August drop in exports was the first since April 2020, when the first wave of the coronavirus pandemic stifled the global economy.

The upheaval caused by Covid-19 has given rise to global shortages in components, such as semiconductors, timber and plastics, limiting production in key sectors for the German economy such as the car industry.

A business survey found that shortages of materials eased in October, though companies still expect the situation to remain difficult for months to come. The German government has downgraded its forecast for economic growth this year from 3.5 per cent to 2.6 per cent.

Cars intended for export wait at the port for loading, as the spread of the coronavirus disease continues in Bremerhaven, Germany.

REUTERS/FILE

Chip maker TSMC, Sony partner on new $7b plant in Japan

AFP, *Tokyo*

Taiwanese chip giant TSMC will partner with Sony on a new $7 billion plant in Japan, the firms announced Tuesday, as an ongoing global semiconductor shortage squeezes the production of everything from cars to TVs and gaming consoles.

Taiwan Semiconductor Manufacturing Company (TSMC) had announced plans for its first plant in Japan earlier this month, with construction expected to begin next year. But it offered more details in a statement on Tuesday, including that the initial expenditure on the plant is expected to total $7 billion.

It said the Japanese government was offering "strong support", without offering any specifics.

Local media reports suggested the government was considering ploughing more than $4 billion into the plant.

TSMC said it was partnering with Sony Semiconductor Solutions (SSS) Corporation, a Sony subsidiary, on the plant to be built in southern Japan's Kumamoto.

The firms will create a joint Japanese subsidiary, with SSS taking an equity stake of less than 20 percent for an investment of approximately $500 million.

The move comes during a global shortage of semiconductors caused by surging demand during the pandemic paired with supply issues.

Rolls-Royce launches nuclear reactor business

AFP, *London*

UK aircraft engine maker Rolls-Royce launched plans Tuesday to build small low-cost nuclear reactors, backed with private and public cash, to help reduce the country's carbon emissions.

Rolls-Royce has created a new Small Modular Reactor (SMR) division after clinching a cash injection of £405 million ($547 million, 473 million euros), it said in a statement.

SMR reactors are far cheaper to build than large-scale nuclear plants because the vast majority of manufacturing and assembly is done in a factory, before transporting to the site.

"Today's announcement is another step towards the delivery of the government's net zero strategy," Rolls added.

The British government, which is currently hosting the UN climate change summit in Glasgow, aims to reach net zero carbon by 2050 with the help of nuclear.

The London-listed engineering giant hopes that the new business could create up to 40,000 jobs by 2050.

Rolls-Royce, BNF Resources and Exelon Generation will together invest £195 million over three years alongside a £210-million state grant, the group added in a statement.

"The SMR programme is one of the ways that Rolls-Royce is meeting the need to ensure the UK continues to develop innovative ways to tackle the global threat of climate change," said chief executive Warren East.

"With the Rolls-Royce SMR technology, we have developed a clean energy solution."

Britain's Business and Energy Secretary Kwasi Kwarteng described the news as a "once in a lifetime opportunity" to "deploy more low carbon energy .. and ensure greater energy independence".

The development would "bring clean electricity to people's homes and cut our already-dwindling use of volatile fossil fuels even further", he said.

Britain's nuclear power plants built in the last century have either closed or are coming to the end of their lifespan.

But the country wants to maintain the 20 per cent of electricity it generates from nuclear power to help meet its pledge to reduce carbon emissions to net zero by mid-century and tackle climate change.

Rolls-Royce meanwhile suffered huge financial losses as the coronavirus pandemic hammered the aviation sector and air travel demand.

Fed flags potential risk from Evergrande

AFP, *Washington*

Stresses in China's real estate sector including from heavily-indebted Evergrande have the potential to impact the United States if they spread first to the Chinese financial system, the Federal Reserve said Monday.

Noting the concerns about high debt levels and inflated real estate values causing regulators in Beijing to take action, the central bank's latest Financial Stability Report said the stresses could cause "a sudden correction of real estate prices" and impact the China's financial system

As one of China's biggest property developers, fears around Evergrande's debt mountain have battered investor sentiment and shaken the country's mammoth real estate market, but the firm recently met an interest payment it was expected to miss.

"Given the size of China's economy and financial system as well as its extensive trade linkages with the rest of the world, financial stresses in China could strain global financial markets through a deterioration of risk sentiment, pose risks to global economic growth, and affect the United States," the report said.

The issue was one of several possible financial risks the Fed said had the potential to impact the United States.

Fed Chair Jerome Powell in September downplayed the situation noting the lack of direct US exposure, but said it could hit global consumer confidence.

Toshiba to split business into three

AFP, *Tokyo*

Toshiba plans to split into three companies as early as 2023, a report said Tuesday, after a series of crises at the firm including the ouster of the board's chairman and a contentious buyout offer.

The Nikkei business daily said the three units would focus on infrastructure, devices and semiconductor memory and are expected to be listed, possibly within two years.

Toshiba told AFP the option of splitting its business up was under consideration but said nothing had been decided yet.

The Nikkei, which did not cite sources, said the move could be announced Friday when Toshiba reports earnings and unveils a new mid-term business plan.

"We are drafting a mid-term business plan to enhance our corporate value, and dividing our businesses is one of the options, but there is nothing officially decided at this point," Toshiba spokesman Tatsuro Oishi told AFP.

"We will swiftly announce if we decide anything that should be disclosed," he said.

The decision, if confirmed, would cap a period of enormous upheaval for the firm, once a symbol of Japan's advanced technology and economic power.

In June, shareholders voted to oust the board's chairman after a series of scandals and losses, in a rare victory for activist investors in corporate Japan. The move followed the damaging revelations of an independent probe that concluded Toshiba attempted to block shareholders from exercising their proposal and voting rights.

The investigation's report detailed how the firm had pursued an intervention from Japan's Ministry of Economy, Trade and Industry to help sway a board vote.

The revelations came after an unexpected buyout offer in April from a private equity fund associated with then-CEO Nobuaki Kurumatani.

The offer sparked uproar, with allegations it was intended to blunt the influence of activist investors. Other offers emerged subsequently, and Kurumatani resigned in April, though he insisted it was not related to the buyout controversy.

The decision to split Toshiba's businesses "is a consequence of listening to activist shareholders", said Hideki Yasuda, an analyst with Ace Research Institute.

The move would be seen by proponents as maximising the combined market value of Toshiba's operations.

But he warned there could be downsides.

"While the market value could be maximised... you can't cover losses in one business with profits in other businesses," making individual segments of Toshiba's operation potentially more vulnerable, he said.

The Nikkei noted that splitting up conglomerates had been a successful strategy for some firms in the United States, including Hewlett-Packard.