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BURDEN OF DEVELOPMENT

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Anu Muhammad

ON February 17, 2014, Bangladesh signed two production sharing contracts (PSC) with Indian public sector oil and gas company ONGC Videsh to explore oil and gas in the Bay of Bengal. Bangladesh Oil, Gas and Mineral Corporation, known as Petrobangla, awarded shallow water blocks SS-04 and SS-09 in the Bay of Bengal to this company. Under the revised PSC-2012, ONGC Videsh will spend \$103.2 million during the initial exploration of the two blocks in 8 years. These two blocks cover nearly 14,000 square kilometers in the Bangladesh Sea.

Earlier, on June 16, 2011, Petrobangla signed production sharing contract with the US company ConocoPhillips for two deepwater gas blocks -- DS-10 and DS-11 -- in the Bay of Bengal

under PSC-2008. This contract gave ConocoPhillips the right to explore for oil and gas in these two blocks with investment of \$111 million in 5 years. The two blocks cover an area of 5,158 square kilometers and have a water depth of 1,000-1,500 meters.

ConocoPhillips had later expressed its willingness to expand its gas exploration activities in Bangladesh and 'requested' the government to give it preference in the following round of international bidding for offshore gas blocks. "ConocoPhillips officials have conveyed their claim of preference in the next round of gas block bidding ... they want to expand their operation in the country," the finance minister told journalists after a meeting with the major US oil officials (Financial Express, July 24, 2012).

That wish was fulfilled. They along with ONGC, Santos, got the preference in the bidding under PSC 2012, after ONGC the rest are waiting for signing other contracts soon. It seems that the government is in a hurry to sign the PSCs with foreign companies for offshore blocks.

Many of us -- academics, experts, activists -- had expressed our concern about the earlier PSC deal of June 16, 2011 with ConocoPhillips. Our main points of concern were as follows:

(1) While Bangladesh has limited gas resources, 80% export right for ConocoPhillips was allowed



(15.5.1 subject to Articles 15.5.4, 15.5.5 and 15.6.). That will threaten long-term energy security of the country;

(2) Bangladesh's share was given as 'not more than 20 %' (15.5.4). Moreover, the host country was given the burden of building the pipeline to bring its share onshore, which is costlier than exploration. Therefore, it would not be economically feasible for Bangladesh to bring that small portion of gas onshore for utilisation;

(3) Production limit was relaxed to more than 7.5% (standard limit), i.e., the company would be allowed to exhaust gas reserves in a very short time, while Bangladesh needs its gas resources for longer period;

(4) Joint review committee and management committee were formed to help the company manoeuvre the decision making process in its favour;

(5) ConocoPhillips has a bad record of blow-outs in other sea blocks; nevertheless compensation conditions were not concrete.

There had been strong public protest against the deal around the country, including two general strikes in 2009 and 2011, before and after signing of the above contract.

In PSC-2012, export provision was dropped, most likely to prevent further public outrage. But some cunning revision was made to ensure better deal for the companies, but worse for the country. In fact, this was revised in order to fulfill demands forwarded by the foreign oil companies. The revised document (PSC 2012) raised the price of gas by almost 70% to \$6.50 per Mmcft (1,000 cubic feet); moreover regular yearly increase will add to that. Secondly, in cost recovery phase the company's share was raised to 70% from 55% of the produced oil and gas. Thirdly, Petrobangla took the burden to pay 37.5% in corporate tax on behalf of MNCs. Fourthly, The MNCs would also be allowed to sell their share of gas to a third party.

In sum, the latest deal makes gas and oil much costlier for Bangladesh than before. After adding all costs and taxes, it may become costlier than even imported gas. It is true that export option is not there, but export prohibition is not there either. Therefore, if gas is discovered in more than one block, and if it goes beyond 7 tcf, it will be surplus for the country at the specific time. There will be no choice but to export natural gas/resources. That would certainly bring quick profit for the companies but would make Bangladesh more vulnerable regarding energy security. Is this the reason why the government has kept the much demanded 'prohibition of export of mineral resources bill' in cold storage of the parliament? Is it the reason why the government silently endorsed the export option of gas resources in the national export policy? Who actually takes these decisions? There is no transparent process. We know that studies on global business show that the global oil companies spend more on lobbyists and 'economic hit men' than research and development!

Two arguments have always been made for bringing MNCs into the energy sector in countries like Bangladesh. These are: (a) lack of necessary capital in these countries, FDI would fulfill this scarcity; and (b) lack of technical ability, MNCs would provide efficient and latest technology.

Does anybody believe that, in the present economic situation, Bangladesh is not able to invest \$100 million in 8 years (Tk.100 crore), or even 10 times more in a year? We should take note that gas development fund has nearly Tk.1,800 crore sitting idle. Much more is reported as wastage or loss because of corruption every year. Does anybody accept that the government has taken any step to expand national capability? While ONGC could start offshore drilling 13 years after its establishment, what prevented Petrobangla from increasing its confidence and capability to ensure best utilisation of natural resources as well as human capability? Why, after 42 years, are we forced to hear that "we don't have the capability?" What is happening to the public money being spent for specialised institutions, including engineering universities, for foreign training? What is happening with the

research and development?

What has been our experience so far with the old PSC deals? Facts and figures do not match with the propaganda. Some facts are as follows:

1. Privatisation and bringing in MNCs in energy sector has increased public expenditure instead of 'reducing drainage of public resources' as claimed by the World Bank and company men. For example, at least one 500 MW power plant could be built every year with the money spent as subsidy for purchasing gas from the MNCs. It is increasing as their share is growing.
2. When Bapex-Petrobangla spends Tk. 1 billion to drill a well, MNCs usually do it at 2 to 6 times the cost. This contradicts the argument usually given that the MNCs are more efficient and would reduce the cost of production.
3. We now purchase gas from national companies at Tk. 25 per thousand cft (MMCF); on the other hand we are purchasing the same at a price (in foreign currency) 8 to 10 times more from the MNCs in onshore blocks. Now price is rising further. Recent deals in offshore have made this 20 times more.
4. Governments have been periodically increasing gas and electricity prices to reduce subsidy caused by increasing MNC share. Rise in the cost of production and cost of living is an obvious outcome.
5. Bangladesh lost 500 bcf gas due to blow-outs in Magurchhara (1997) and Tengratila (2005). This amount of gas is equal to the amount used for power generation for more than 2 years for whole of Bangladesh. These two blowouts hit hard the 'efficiency of MNC' myth.
6. But compensation due from US company Chevron and Canadian company NIKO for these disasters is still unrealised. The import price of the gas lost in Magurchhara and Tengratila amounts to more than \$5 billion, which is nearly 8 times the average yearly budget allocation for the energy sector. No government since 1997 has taken any step to realise the compensation. It is also worth mentioning that the World Bank, ADB or other IFIs who used to be very vocal about everything, have remained silent for long about this compensation issue.

In the last 5 years, only one company, US Chevron, received Tk. 150 billion in US currency by selling gas to Bangladesh, which could be purchased with Tk. 20 billion from public sector companies in local currency. Drainage of foreign currency equivalent to Tk. 130 billion (\$1.65 billion) in a few years is, therefore, a direct outcome of FDI in gas sector by one MNC alone. This amount is more than the budget allocation in energy sector for the last three years.

Therefore, all relevant facts show that, by leasing out most of the resource- rich gas onshore blocks to MNCs, Bangladesh has become a hostage. Cost of production of gas and electricity, the fiscal burden, has increased at a linear rate. Instead of saving public money, drainage and corruption increased manifold. In the guise of development the increasing burden piled up on the country and the people! Deals on offshore blocks will surely multiply the burden.

The writer is member secretary of the National Committee to Protect Oil, Gas, Mineral Resources, Power and Ports.

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