

Governments behind two-thirds of food price hikes

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Business leaders at the World Economic Forum on East Asia highlighted the role of government in food price increases, warning of mounting unrest and protectionism if urgent actions are not taken.

Speaking at a panel discussion on the food and fuel crisis, Peter Brabeck-Letmathe, Chairman of the Board of Nestle, Switzerland, attributed two-thirds of the food price hikes to government decisions. He said: " About 10% of food price increase can be due to the increase in fuel, 10% from changes in lifestyle ... about one-third of the price increase, we will give it to the decision to use food for biofuels ... and about one-third to political decisions to stop exports ... and 10% from speculators. "

Panellists agreed that food issues are largely political as agriculture prices have long been distorted by government subsidies. " Everybody knows that but it continues, " Brabeck-Letmathe said. He pointed out that decisions by countries like Argentina and Kazakhstan to stop exports and efforts by the US government to promote biofuels have contributed to the current imbalance. One-third of corn production in the US will go into biofuels, he added.

Michael J. Roux, Chairman, Roux International, Australia, said the issue of food price increase should be treated separately from the fuel crisis, noting that factors supporting the oil price increase are less sustainable. He said he believes that the oil price would collapse if the US goes into a recession.

" We are seeing lots of distortions in the market, and we are just paying the price for some of these distortions, " Roux said, citing the diesel stockpile by China ahead of the Olympics as an example of a short-term distortion that has pushed up prices.

Other factors driving up food prices include inadequate investments in infrastructure, particularly in developing countries like Indonesia, resulting in higher logistical costs, and in research and development. Musa Hitam, Chairman, Sime Darby, Malaysia, called on ASEAN to act collectively in search of long-term solutions rather than knee-jerk reactions.

Two government officials on the panel said their countries have responded to the crisis by targeting the lower-income groups. Ahn Ho-Young, Deputy Minister for Trade of the Republic of Korea, said the government has announced a US\$ 10 billion programme to help low-income workers and small enterprises through the crisis, as well as reduce the country ' s dependence on foreign oil.

Indonesia, according to Trade Minister Mari Pangestu, has reduced import tariffs and VAT tax related to agriculture products, among other measures. " We try to address the most vulnerable parts of the community, " she explained. The government has also encouraged farmers to increase production of soya beans, which reached a high of 6% in the first quarter. In Malaysia, similar moves to help lower-income individuals saw a " mad scramble " at post offices over the weekend as residents rushed to collect fuel rebates for cars and motorcycles.

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