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Food Inflation, Riots Spark Worries for World Leaders --- IMF, World Bank Push for Solutions; Turmoil in Haiti

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WASHINGTON -- Finance ministers gathered this weekend to grapple with the global financial crisis also struggled with a problem that has plagued the world periodically since before the time of the Pharaohs: food shortages.

Surging commodity prices have pushed up global food prices 83% in the past three years, according to the World Bank -- putting huge stress on some of the world's poorest nations. Even as the ministers met, Haiti's Prime Minister Jacques Edouard Alexis was resigning after a week in which that tiny country's capital was racked by rioting over higher prices for staples like rice and beans.

Rioting in response to soaring food prices recently has broken out in Egypt, Cameroon, Ivory Coast, Senegal and Ethiopia. In Pakistan and Thailand, army troops have been deployed to deter food theft from fields and warehouses. World Bank President Robert Zoellick warned in a recent speech that 33 countries are at risk of social upheaval because of rising food prices. Those could include Indonesia, Yemen, Ghana, Uzbekistan and the Philippines. In countries where buying food requires half to three-quarters of a poor person's income, "there is no margin for survival," he said.

Many policy makers at the weekend meetings of the International Monetary Fund and World Bank agreed that the problem is severe. Among other targets, they singled out U.S. policies pushing corn-based ethanol and other biofuels as deepening the woes.

"When millions of people are going hungry, it's a crime against humanity that food should be diverted to biofuels," said India's finance minister, Palaniappan Chidambaram, in an interview. Turkey's finance minister, Mehmet Simsek, said the use of food for biofuels is "appalling."

James Connaughton, chairman of the White House's council on environmental quality, said biofuels are only one contributor to rising food prices. Rising prices for energy and electricity also contribute, as does strong demand for food from big developing countries like China.

But beyond taking shots at the U.S., there was little agreement this weekend on what should be done. Mr. Zoellick pushed the ministers to focus on the food issue in a dramatic Thursday news conference at which he held up a 2-kilogram (4.4-pound) bag of rice, which he said would now cost poor families in Bangladesh half their daily income. He kept up the pressure over the weekend. In a Sunday news briefing, he said, "We have to put our money where our mouth is now -- so that we can put food into hungry mouths."

But the weekend's meeting produced few concrete results. Mr. Zoellick recently urged rich nations to contribute another \$500 million to the United Nation's World Food Program, but he said that the U.N. has received commitments for only about half the money.

Meanwhile, the IMF's board of governors -- basically, the world's finance ministers, who run both the IMF and World Bank -- urged the IMF to work with the World Bank for "an integrated response through policy advice and financial support."

On Sunday, the committee that oversees the World Bank noted that "large groups of poor people are severely affected by high food and energy prices across the developing world." The committee echoed the IMF committee's call for "timely policy and financial support to vulnerable countries" and urged rich countries to be more generous in "immediate support for countries most affected by the high food prices."

The World Bank plans to nearly double its agricultural lending to Africa next year to \$800 million, and is urging members to ramp up relief for hard-pressed nations. The World Bank, IMF and big industrialized

nations also are pushing for the completion of the Doha global trade talks, though cutting food subsidies in the U.S. and Europe under a trade deal would boost prices of food for impoverished importing nations.

Last week, British Prime Minister Gordon Brown urged the G7 nations -- the U.S., Britain, Canada, France, Germany, Italy and Japan -- to develop a comprehensive strategy for the food problem, encompassing trade, agricultural productivity, technology, biofuels and short-term aid for poor countries. In the past, Britain has taken the lead in pushing the G7 to write off the debts of the world's poorest nations.

The situation in Haiti underscored some of the problems afflicting the world's poorest countries. Haiti has enough food in the marketplace to feed its populace, but prices have increased beyond the means of many of the urban poor to pay for it, said Michael Hess, an administrator in the U.S. Agency for International Development's Bureau for Democracy, Conflict and Humanitarian Assistance. "People are making two bucks a day," he said. "And we're seeing food prices go up around the world."

In the Philippines, the world's biggest importer of rice, a shortage of the grain has become acute. The government is considering a moratorium on converting agricultural land to construction of housing developments and golf courses. The government also is urging fast-food restaurants to offer half-portions of rice to slash the country's rice bill.

Aggravating the problem, in some countries food inflation has prompted a wave of protectionism. Countries usually impose trade barriers to imports to protect local industries and try to boost exports. But food-trade protectionism works the opposite way. Recently at least a dozen of 58 countries surveyed by the World Bank have reduced tariffs to food imports and erected barriers to exports in hopes of restraining food prices domestically and moving toward "self-sufficiency."

India, home to more than half the world's hungry, is restricting grain exports, including a ban on the export of non-basmati rice. Taxes on edible oils, corn and butter have been decreased or eliminated.

Egypt similarly halted rice exports for six months as of April 1. The price of cereals and bread there has climbed by nearly 50% over the past 12 months. Eleven people have died in the past two months in incidents related to lengthening bread lines. The shortage compelled President Hosni Mubarak to order the army to bake additional loaves.

The global effect of export barriers, however, is to drive food prices even higher than they would be otherwise. Such policies "distort global prices," said Mr. Simsek, the Turkish finance minister, in an interview. Rather than erect barriers, he said, Turkey plans to pick up the pace of constructing irrigation canals near dams in Anatolia, in southeastern Turkey.

Arvind Subramanian, a former senior IMF researcher, said that when countries adopt restrictive trade policies regarding food, "it becomes a bizarre kind of beggar-thy-neighbor. You're not trying to sell more to the other guy; you're trying to keep more in your own country."

With the international financial institutions working on a slow track, countries have been cutting their own deals. Ukrainian President Viktor Yushchenko said on Tuesday that he had agreed to let Libya grow wheat on 247,000 acres of land in the Ukraine. In exchange, Libya promised to include the former Soviet republic in construction and gas deals.

Brazil recently invited Egypt's minister of commerce to discuss a possible trade deal which would have a strong agriculture component. China also cut its first free-trade deal with a rich country, picking New Zealand, a major food exporter, and is talking about a pact with Australia, another big agricultural producer.

Meanwhile, Uganda plans to sell more coffee, milk and bananas to India. "Our problem is too much food and little market," Uganda President Yoweri Kaguta Museveni told reporters, according to news reports,

About 18 of the countries sampled by the World Bank also are boosting consumer subsidies and instituting price controls. That prompted a warning from U.S. Treasury Secretary Henry Paulson to "resist the temptation of price controls and consumption subsidies that are generally not effective and efficient methods of protecting vulnerable groups." He said, "They tend to create fiscal burdens and economic distortions while often providing aid to higher-income consumers or commercial interests other than the intended beneficiaries."

Instead, the World Bank's Mr. Zoellick urged countries to look at better-targeted subsidies -- such as providing food in exchange for work, or increasing school-lunch programs for poor families, so that children can take food home to their families.

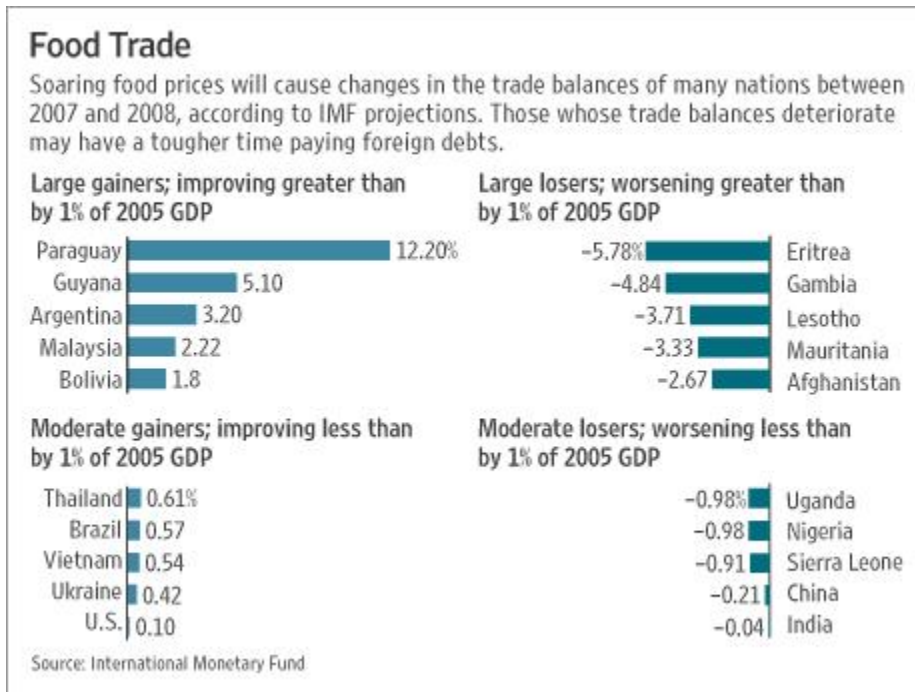
During informal conversations and interviews, ministers mainly agreed that the U.S. policies on biofuels were especially harmful. U.S. ethanol is made from corn, which, ministers said, could be exported to feed the

hungry, and benefited from tariffs that block Brazilian ethanol, which is produced much more efficiently from sugar cane.

The White House's Mr. Connaughton said the U.S. is working on developing "second generation" biofuels that would use varieties of grass or agricultural wastes -- not food -- as source material. "That's where we need to get to go," he said.

The World Bank also has blamed the boom in biofuels for the rise in global food prices. That has put Mr. Zoellick in a ticklish position. Before taking his job at the World Bank, he was U.S. Trade Representative, and defended U.S. agricultural positions. In his Thursday news briefing, he didn't mention the U.S. by name, but he praised sugar-based ethanol of the sort made in Brazil and questioned whether tariffs to block the fuel -- such as the U.S. uses -- make "economic sense."

John W. Miller in Brussels and Scott Kilman in Chicago contributed to this article.



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