

International Business News

India's Hinduja group eyeing France's Valeo

AFP, Mumbai

Indian conglomerate Hinduja is in talks to buy a controlling stake in France's automotive supplier Valeo for up to 1.5 billion dollars, a newspaper report said Monday.

Officials from Hinduja's bus and truck maker Ashok Leyland met representatives from Valeo in Paris last week to discuss the offer, the Business Standard newspaper said.

A Hinduja group spokesman in Mumbai said the report was "speculative" and declined further comment.

Valeo has 125 production sites and a presence in 28 countries.

US slowdown takes growing toll on passenger flights: IATA

AFP, Geneva

The US economic slowdown is taking a growing toll on the airline industry as passenger occupancy rates hit the lowest level for four years, the top industry association said on Monday.

The global passenger load factor (PLF) fell to 73.3 percent in February, down 0.6 percent from the previous year, the International Air Transport Association (IATA) said in a statement.

"Things are slowing down," said IATA director general Giovanni Bisignani.

"Load factors tell the story. They fell in the four largest carrier regions showing the growing impact of the US economic slowdown on the airline industry," he added.

The weak US dollar is boosting exports and outbound business flights, he noted, while conversely the strong euro is damaging the competitiveness of European carriers.

Transatlantic air travel is set to undergo a sea-change in the coming months as the long-awaited "Open Skies" agreement between the United States and European Union comes into force, IATA noted. The agreement took effect on Sunday.

"US-EU Open Skies will be yet another variable in a very complicated question," Bisignani said.

The agreement, which allows many more airlines to fly between the two continents, should boost figures in the short-term, with 25 percent more weekly flights to the US out of London Heathrow alone, IATA said.

"Consumers will benefit from greater choice and lower fares due to intensified competition. We expect a counter-cyclical boost in April traffic as a result. The question will be how much and for how long," Bisignani said.

He called for further deregulation of ownership rules, "so that airlines can merge or consolidate where it makes business sense".



AFP

Pierre-Henri Gourgeon, Deputy CEO of Air France-KLM and President and Chief Operating Officer of Air France, speaks during a press conference in Central London yesterday.

Air France, Delta launch three new transatlantic routes

AFP, London

Airlines Air France and Delta launched three transatlantic routes out of London's Heathrow airport on Monday in a joint venture which takes advantage of the "Open Skies" agreement to free up the market.

From Monday, the French national carrier and the US airline will run daily non-stop flights between Heathrow and Los Angeles LAX and Atlanta Hartsfield-Jackson as well as twice daily flights to New York JFK.

Air France will operate the Los Angeles flights, while Delta will operate the New York and Atlanta ones.

The move, announced by the two at a press conference in London, has been made possible by the "Open Skies" accord between the US and the European Union.

This overturns rules under which only British Airways, Virgin Atlantic, United Airlines and American Airlines could fly between Heathrow and the US and allows the airlines to tap into the lucrative transatlantic business market.

The announcement comes four days after the chaotic opening of Heathrow's new Terminal 5, which was dogged by problems with the luggage handling system. Some passengers at the terminal are still experiencing problems.

"Air France's decision to launch a new transatlantic route to and from the UK marks a totally new phase in the developing world air transport sector," said Pierre-Henri Gourgeon, deputy CEO of Air France-KLM.

"Thanks to the new open skies agreement, our ambition in the years to come is to rank among the leading world players on this market."

RICE PRICE

Thais keep vigil over rice

THE STRAITS TIMES/ANN

For the first time ever in memory, some Thai farmers are staying up at night to watch their fields - worried that thieves will raid their standing crops or loot their stored rice.

Since the middle of the month, rumours of rice being stolen have spread across the fields in provinces from Lop Buri to Sing Buri and Ang Thong.

Although the rumours have yet to be confirmed, there is one reported case of a farmer in Ayutthaya province, near the capital Bangkok, who was robbed of 20 sacks of rice seeds worth 8,000 baht (\$253), which he had stocked ready for planting.

In response, the province's police chief has recommended that farmers work in shifts to guard their fields at night.

"I'm so scared now that thieves will steal my rice. If they really do that, it is like they are killing me because everything in my life - my money, my efforts and my hopes - have been put into it," said farmer Somnuek Meechana, whose rice fields are almost ready for harvest, the Bangkok Post reported.

The rumours are as unprecedented as the soaring price of rice in the world markets.

The grain's price has risen to record-high levels across the world - including in rice bowl countries such as Thailand, where premium Thai rice has spiralled in price from about 9,600 baht (\$300) a tonne last December to 10,500 baht (\$333) a tonne. In January in the Philippines, a standard sack of rice was selling for 720 pesos (\$17). By this month, it had risen to

1,100 pesos (\$26).

Several rice producers and exporters in Asia have already curbed or halted exports to safeguard domestic supplies, mindful that rice is a politically sensitive commodity.

In recent weeks Cambodia and China have suspended their rice exports while India has stopped exporting its non-basmati varieties.

Meanwhile, importers, worried about shortages, have cut tariffs on rice.

Indonesia, Mongolia, Sri Lanka and South Korea have already dropped or reduced import tariffs on the grain.

The Philippines has signed a deal with Vietnam to import 1.5 million tonnes of rice.

Manila is trying to crack down on hoarders who are making the crisis worse by stockpiling rice until prices climb even further.



A BBC photo shows Thai children getting involved in rice production, the life blood of the country's rural economy.

ANALYSIS

Potato for everyone?

ANIK ASHRAF

In the face of domestic and worldwide shortage of food production, food prices in Bangladesh have risen rapidly and beyond the affordability of the commons. Rice price increase is what has affected them the most, since it has posed a high threat to the food security of the people, particularly the poor. Wheat has long served as the substitute of rice for the people in Bangladesh but in the background of recent price rise of both rice and wheat at the same time, one might be tempted to look for other substitutes for rice, especially for the poor people whose real income is under serious pressure due to the price hike.

Recently a few professionals, both domestic and international, have proposed substitution of potato for rice, to maintain food security and to decrease the pressure on rice consumption and thus its price. Potatoes have tradition-



STAR

A file photo shows potatoes stockpiled last week at Mahiganj in Rangpur to be exported.

ally been considered as a vegetable and rice as a cereal. But with rich starch and other nutritional contents, comparatively lower price and cooked in different forms potato may indeed serve as a substitute for rice. At this point, it is worth looking at the actual dynamics between these two agricultural commodities that exist in our country, to know whether poor people actually substitute

potato for rice when rice prices rise.

This can be done by looking at three different sets of household data compiled between 1997 and 2000. Considering all the households of each data set and arriving at the analysis results, it is interesting to see that rice and potato are found to be complementary goods in the first set of 1997-98 data but becomes supplementary in

the next two periods. There is also more evidence of substitution among poor and rural households.

As we can see, potatoes were initially treated as a complementary commodity to rice, as is also supported by historical practices among researchers in the subject. But with time it seems to have been established as a substitute good, especially to the

poor and in rural areas, possibly due to rising rice prices. But if this is so, it calls for a new dimension to policy making as far as providing food security to the poor is concerned.

Historically (1971-2006) rice has dominated the production of foodgrains (rice, wheat, maize) with a massive average share of 94% and potato has dominated production of vegetables with an average share of about 66% (Agricultural Statistics). The prices of potato and coarse rice (widely consumed by poor people) are usually seen to move together on the whole but the fluctuation is more for potato. This is expected as rice price is dominated by world rice price which generally shows little seasonal variation. In contrast, potato consumption is mostly met out of domestic production and so its price is expected to fluctuate over different seasons and may at times pose problems for the poor.

Therefore, if we decide to

extend this practice of substitution of potato for rice (although what it means is to ask people, especially the poor, to go against our traditional food habit and thus possibly making them worse off), the government has to ensure stable price of potato at the least. Potato production of this season has been huge, with enough potential to exert a downward pressure on potato price. But this low price may not sustain for long. Once the stock of potato produced in this season is depleted and potato consumption goes up (to substitute rice), prices of potato are very likely to go up too. To add to it, in the coming rainy season and the following flood periods, production of other vegetables may get washed away and potato prices can very well follow the path of the rice price, in which case we may have to look for another substitute yet again.

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ANALYSIS

Riceflation and agflation

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Global food prices registered an unprecedented 40 per cent increase during 2007. This is fraught with the potential danger of causing large-scale discontent if the situation gets out of hand. Hence, it is urgent for all countries facing this situation to take energetic steps with the objective of reigning in the price-hike of food and other essentials. In 2007, rice price in Bangladesh rose by 42.6 per cent on average whilst wheat price posted a rise of 55.4 per cent. Prices of other essentials rose in tandem - soybean oil and milk powder increased by 42.8 per cent and 48.9 per cent respectively in Bangladesh.

The current world-wide price-hike of essential agro-commodities was termed as "agflation" by The Economist. Bangladesh's governments have traditionally relied on imports in order to offset the national demand-supply gap for many agro products (rice, onion, edible oil, etc). Recent data indicates that approximately 2.5 per cent (pre-cyclone Sidr estimate) of Bangladesh's staple crop (rice) is from imports and it is worth stressing here that natural

calamities have, to some extent, increased this dependency percentage.

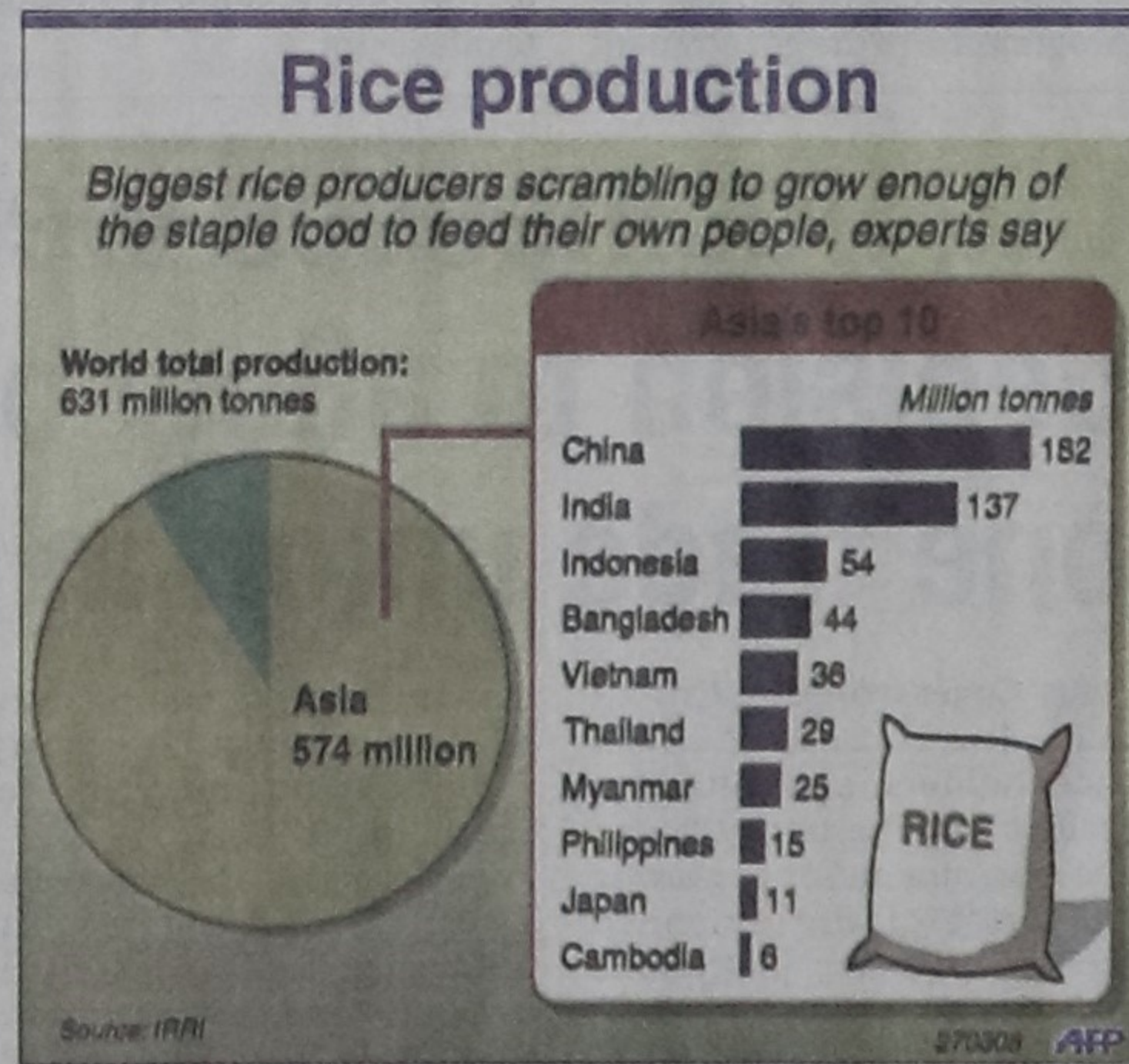
Bangladesh's international sources of rice import are limited to India, Thailand and Vietnam. Between February 2007 and February 2008, prices of 5 per cent broken rice imports increased by 59.1 per cent, 43.6 per cent and 46.1 per cent respectively in these three major importing sources. Added to the increased global price are two more factors: (a) higher transport cost resulting mainly from higher world fuel prices, which have spiraled prices of agro-products upwards; and (b) traditional market structure of our economy, where starting from the producers to the end-users (consumers), there is presence of a large number of 'middlemen' or market intermediaries, who have a fair amount of say on market prices and influence the overall competitive environment in the market.

Farmers tend to receive an insignificant equivalent part of the retail price at consumer level, in the supply-chain of essential commodities in Bangladesh. In economics terminology, perfect information is one of the basic prerequisites for perfect competition.

Increasing global population, soaring demand for bio-

fuels and animal feed, and unfavorable weather conditions can be considered as four of the principle factors that has had a negative impact on global demand for agricultural products. Utilization of cereals production as feed is forecasted to increase by nearly 2 per cent during 2007-2008 which can be largely attributed to the Chinese appetite for pork. Industrial usage of cereals is also on the increase. The fear is that the rapidly growing bio-fuel sector will eat into the cereals supply in the global market. In 2000, about 15 million tons of America's maize crop was turned into ethanol; it was expected to be around 85 million tons in 2007.

It is difficult to measure demand-supply situation in Bangladesh in absence of reliable data on total demand for food grains for human consumption, as seed and as fodder. However, it is possible to make rational calculations based on the existing market scenario. Bangladesh suffered from a loss of 1.4 million tons of rice due to the two floods and the horrifying cyclone-Sidr in 2007; she will need to rely on other rice exporting countries to meet the nationwide demand for rice. No doubt, Bangladesh is at a critical juncture as far as food secu-



ity is concerned. On the one hand her domestic supplies have been damaged, while on the other hand, prices of agro-commodities in the international market have continued to increase. Can the price escalation be attributed to the individuals' rational expectations against agflation?

When one assumes rational expectations, they assume that individuals are correct on average. Farmers will be rational if they choose to produce the goods which are in short supply at present and subsequently,

they will increase their production in the hope of making more profits in the following period. Bangladeshi consumers, they will be irrational if they expect a downturn of this current trend of riceflation.

For a country such as Bangladesh which is prone to natural disasters and addicted to rice, consequences of increasing rice price are clear and catastrophic. In the short to medium term, bumper harvests are the likely way out to offset the rising price of rice, which can take place only if

new land is brought to cultivation. The medium-to-long term solution is to raise productivity. The care-taker government had encouraged farmers to grow hybrid rice after the twin floods and cyclone-Sidr damaged Bangladesh's staple crop rice in the Aus and Aman seasons. According to official sources, arable land for hybrid rice in the current Boro season are over 10 lakh hectares, which was 3.90 lakh hectares in the previous season.

One could speculate is the current trend of riceflation supply (shortage) or demand (excess) driven? Or, is it an inflation driven agflation (riceflation)? To what extent government policies aimed at curbing riceflation will impact on the rising price of rice, given that our import-dependency percentage is relatively low, remains to be seen once the boro rice arrives into the market. For now, it can be safely assumed that consumers' expectations, based on the existing market scenario, is likely to fuel the ongoing riceflation in Bangladesh.

The authors are researchers at the Centre for Policy Dialogue (CPD). Authors are solely responsible for contents of the article which do not necessarily represent institutional views.