

## International Business News

### \$10 rise in oil price costs world economy \$500b: Italy

AFP, Rome

A 10-dollar rise in the price of a barrel of oil costs the global economy an estimated 500 billion dollars, outgoing Italian Prime Minister Romano Prodi said on Monday.

"It's necessary that petrol prices remain relatively stable and at an acceptable level for both consumers and producers," Prodi told the International Energy Forum here.

"Excessively high prices hurt the world economy and poor countries in particular, with the cost, both direct and indirect, for the global economy estimated at 500 billion dollars per 10-dollar rise in the price of a barrel," Prodi said.

"We have to counter the risk that energy could become a source of conflict between the different regions in the world, because we'd be the losers," he said.

The market for primary agricultural goods had become "very worrying," Prodi continued.

Prices were not only being driven by rising demand but also by increased cultivation of biofuels, "creating strong tensions in a number of countries."

A conflict was emerging between foodstuffs and fuel, "with disastrous social conflicts and highly doubtful environmental results," Prodi said.

### Food tops agenda at UN trade conference in Ghana

AFP, Accra

A warning from UN Secretary General Ban Ki-moon on the possible consequences of the rise in global food prices, together with the plight of the world's poorest nations, dominated the start of a major UN trade conference Sunday in Ghana's capital.

"If not handled properly, this (food) crisis could trigger a cascade of others and develop into a multiple crisis, becoming a multi-dimensional problem affecting economic growth, social progress and even political security around the world," Ban warned delegates.

The most high-profile visiting head of state, Brazilian President Luiz Ignacio Lula da Silva, warned the 12th session of the UN Conference on Trade and Development (UNCTAD) that poor nations should not be made to pay for the credit crunch that the world's richest economies have brought upon themselves.

"The international economy is experiencing a crisis caused by problems regarding good financial governance in the world's richest economies. The poor countries should not have to pay for the cost of adjustment," he said in his opening speech.



AFP

Pedestrians pass before a share prices board in Tokyo yesterday. Japanese share prices closed up 1.63 percent at the highest level in almost two months on a weaker yen and easing concerns about the outlook for US corporate earnings.

### EU trade chief urges Japan to open up to investment

AFP, Tokyo

European Union Trade Commissioner Peter Mandelson on Monday urged Japan to open up to foreign investment, saying it was the most closed of the developed economies.

"For decades Japan has taken advantage of an open global investment climate. Yet at home it remains the most closed investment market in the developed world," he said in a speech here.

For every dollar Japan invested in Britain and the Netherlands alone in 2006, European companies were able to invest only three cents in Japan, he said.

"Japan is the only country in the developed world with which the EU has a negative balance of investment flows," Mandelson said during a visit by top EU officials including European Commission President Jose Manuel Barroso.

### Oil prices too high, production sufficient: IEA

AFP, Rome

Oil prices at their current level are too high for everyone, the head of the International Energy Agency, Nobuo Tanaka, said on Monday.

At the same time, output from oil producing countries is sufficient, Tanaka added.

"The IEA's view is that the prices are too high for everybody, especially for developing countries," Tanaka told journalists on the sidelines of the International Energy Forum here.

At the same time, "the current level of production is enough and sufficient," he added.

No single factor was to blame for the surge in oil prices, Tanaka said.

"Lots of elements are behind it," he said. "Of course, fundamentals are a key element. But it's not only that. There are other elements, such as the weaker dollar, speculation, weather, etc. All these elements are behind the current price rise. There's no single element we can identify."

## FOOD PRICE

# Philippines grapples with record high rice prices



(Left) A group of demonstrators carrying empty pots try to enter the National Food Authority office in Manila on Friday to protest against the increasing price of rice. (Right) Graphic charting the rise in the price of rice in the Philippines.

ANN/PHILIPPINE DAILY INQUIRER

Prices of rice in the country, which imports more than 10 per cent of its annual rice requirement and is the world's top importer this year, may retail as high as 49 pesos (US\$1.16) a kilo because the surge in international prices is relentless.

Rice futures in the United States set another all-time high on April 17, just ahead of a tender by the Philippines, for 500,000 metric tonnes.

The tender from the Philippines on April 17 attracted offers to sell only about two-thirds of the volume it sought, a clear sign of the strain on rice output after major exporters began to curb exports earlier this year.

The Philippines received offers of between \$872.50 and \$1,220 a tonne, sharply higher than the just over \$700 it paid in March.

Without factoring in shipping and other administrative

costs, these price offers should translate to a retail price of at least 49 pesos a kilo, far exceeding the price of government-subsidised rice set at 18.25 pesos (43 US cents) a kilo. Some commercial rice varieties are now being retailed at about 40 pesos (95 cents) a kilo.

In Bangkok, Thai 100 per cent B grade white rice, considered the world's benchmark, hit \$950 per tonne, freight on board, up by 10 per cent in just one week, and three times its price at the start of 2007, further fanning fears that millions across Asia will struggle to afford their staple food.

US rice futures surged over 2 per cent to \$23.37 a hundred-weight on the Chicago Board of Trade to a record high for the third straight session.

Exporters offered to sell to the National Food Authority (NFA), the Philippine government-run grains agency, a total of only 325,750 tonnes consisting of 290,750 tonnes of 25-per-cent broken

rice and 35,000 tonnes of 5-per-cent broken rice.

The rice, which will come from Thailand, Viet Nam, Pakistan and the United States, is set to be delivered between April and June.

At the tender on March 11, the NFA was able to buy 335,500 metric tonnes of rice at an average price of \$708 a tonne, a big jump from the January 2008 price of \$430 a tonne, according to NFA Deputy Administrator Vic Jarina.

"The most likely reason for the lesser volume offered by suppliers (this time) is low inventory in their respective countries. They might also be securing stocks for local consumption," Jarina said.

Indonesia on April 15 became the latest to impose controls on rice exports, joining India, Egypt and Viet Nam, the world's second-largest exporter, which has clamped down on new export contracts.

Demand from other big importers such as Iran, which is expected to try to buy up to 1

million tonnes of Thai rice this year, will keep the upward pressure on prices, analysts said.

"There will be Iran, Japan and another round of tenders from the Philippines which will help boost prices," said Paka-on Tipayatanadaja, a rice market analyst at Bangkok's Kasikorn Research Centre.

Australian shortages were contributing to a lack of supplies from other producers in the region.

The unprecedented surge in rice prices, which some analysts say is only going to continue, pose a growing threat to regional governments worried about the prospect of hoarding and social unrest.

Policy makers are grappling with the impact on inflation of the soaring cost of food, which is combining with oil prices at record levels of \$115 a barrel.

Governments in top producer countries such as Thailand and Viet Nam are urging farmers to grow extra crops, although it will be several months before the addi-

tional supply hits the market.

Jarina said other traders may be waiting for better prices. He, however, noted that there were more suppliers who participated at the bidding on April 17, "probably due to start of summer harvests in exporting countries like Viet Nam".

Twelve companies prequalified for the tender on April 17. These were Thai Hua, Peter Cremer, DaeWoo International, Angimex, Long An Food, Malaysia International Trading Co., Toepfer International, KTC, Asia Gold Rice, LG International, Viet Nam Southern Foods Corp, and Olam International.

From the offers, at least 195,000 tonnes will come from Thailand; 80,000 from Viet Nam; 25,000 from Pakistan; and another 25,750 from Thailand, Pakistan and the United States combined.

By tender requirements, the NFA should decide within five days if it will buy all offers. The agency was given a budget of 15.47 billion pesos (\$369.16

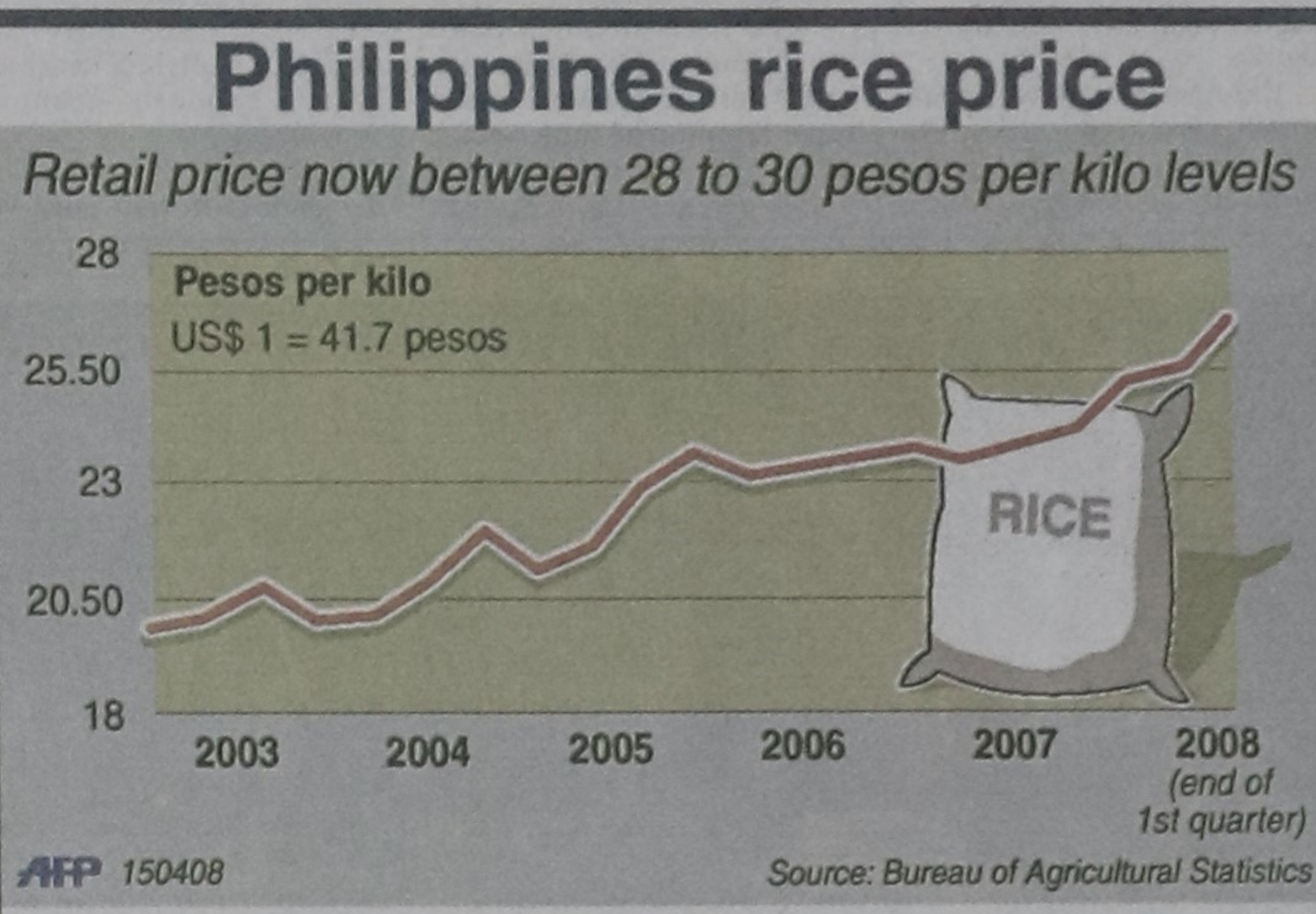
million) for Thursday's tender.

The four tenders, including Thursday's bidding, held by the NFA since December 2007 had fallen short of the agency's requirements. Total rice importation to date has reached 1.1 million tonnes.

If the NFA decides to buy all the rice offered by the suppliers at their respective prices, the country's total procurement will reach more than 1.42 million tonnes.

Noting that the prices offered by the suppliers were too high, Jarina said the NFA would have to review the bids first before it can decide whether to hold more tenders to complete its importation target of 2.1 million tonnes this year.

A fifth tender is scheduled for May 5 for another 500,000 tonnes of rice, which "may be increased" to some 600,000 tonnes if needed, according to the NFA deputy administrator. At least 17 billion pesos (\$405.67 million) has been earmarked for the May tender.



AFP

## COLUMN

# Of accounting standards

Most of us are aware of the Enron debacle, a most talked about corporate failure of recent times. On December 2, 2001, Enron, once the America's seventh-biggest company, filed for bankruptcy. Only days earlier, its bonds had been downgraded to junk. Enron crisis had also cast serious doubts on the existence of top rated audit firm, Arthur Andersen, and more to say, generally about role of accounting principles followed by audit firms as well as corporate business houses. While the Enron story is now somewhat outdated, the lesson that we have learned from this debacle will stay valid over a long period of time.

Enron was in tremendous pressure to generate profits, to exceed all its peers, to jack up share prices and to upgrade its corporate positioning. These however are not unfamiliar practices in the corporate world. Then, what went wrong? It was running too fast, possibly on a thin rope, without building the required capacities as well as fundamentals. Such behaviour made Enron to compromise its accounting principles, hide losses, overstate the results to investors and adopt unethical management practices.

Investors did not under-

stand Enron's books due to company's shifting of many debts to off balance sheet vehicles, where the accepted market practice necessitated debts to be consolidated into the main accounts. It should have also avoided the practice of investing staff retirement funds in company shares. In the wake of serious concerns regarding Enron's financial statements, the company revised its financials of 1997 to 2000 downward. However, the investors desired that possible merger with the rival company, Dynegy, would have restored confidence and thus halted the unwinding of Enron's book. Dynegy took a closer look at Enron's book and with some surprise to all, decided not to proceed. This made the bankruptcy of Enron inevitable. Dynegy's boss remarked "Enron never understood that business is not just about numbers and the balance sheet: it's about your brand, and the confidence you inspire".

Apart from Enron's tragedy, the whole corporate world was shocked by the shady practices followed by one of the world's top 5 audit firms-Arthur Andersen. It was said that for partners and professionals at Arthur Andersen, there was only one way to move up: fig-

ure out new ways to keep Enron happy. More than 100 Andersen staff were devoted managing this relationship, which was worth more than US\$50 million a year, enough to keep a leading audit firm from blowing the whistle. Several top Enron executives including its chief accounting officer had come from Andersen. Andersen even cut a deal to handle some of the "internal" auditing work for Enron along with vetting its public reports for the trading firm's audit committee. All these money-making partnership made Andersen blind to everything that happened at Enron. "If they had somebody who said we can't sign this audit, that person would get fired" - said a former Andersen staff. With emergence of market economies and intensifying pressure to produce ever-rising earnings and stock prices, the corporate world began to push the accounting boundaries like never before. Auditors were thrown into the role of an enabler, more like a business partner and used to "clear" corporate failures with "green pen".

What did we learn from Enron? Hiding debt or financial fundamentals can be suicidal for any company. Questions are being raised

about the practices of moving financial obligations to off-book vehicles, inflating profits or jacking up share prices. Investors and bankers may learn not to trust companies that report mysteriously spectacular profit growth; auditors will be wariers of bosses' pressure to sign dodgy accounts; rating agencies and regulators may be more nervous about companies that do not come clean with their activities. Besides, regulators will also be careful before being taken away by market reputation of a company.

There are perhaps many cases in Bangladesh that are similar, if not worse, to Enron. A jailed business tycoon, in his testimony to the law enforcing agency (on his alleged role in tax avoidance, despite his companies being practically profitable) said that he did what his accountants told him to do. We came to know of these incidences because they were published in national dailies. But most of such malpractices do not get reported. Therefore, it is essential that a proper standard of corporate disclosure is enforced in the country. Non-disclosures may help organisations to understate and overstate profits for the benefit of certain segment and more importantly, result-



A file photo shows the Enron logo in front of the Houston-based headquarters in January 2002.

ing in the deprivation of some segments including the general public and the government. By adopting malpractices in disclosures, companies also put themselves in

increased risks and the auditors' with all possibilities sign their own suicidal note!

The writer is a banker and economic analyst.

AFP