Oil producers, consumers meet on market instability

AFP, *London*

The International Energy Forum, which groups the world's top oil producers and consumers, meets Tuesday in Saudi Arabia as economic recovery drives prices back to levels last seen before the 2008 global financial crisis.

The meeting also comes amid rising political tensions across the Middle East which forced prices even higher on Monday, with benchmark Brent crude topping $105 a barrel on concerns supplies could be disrupted by violent unrest.

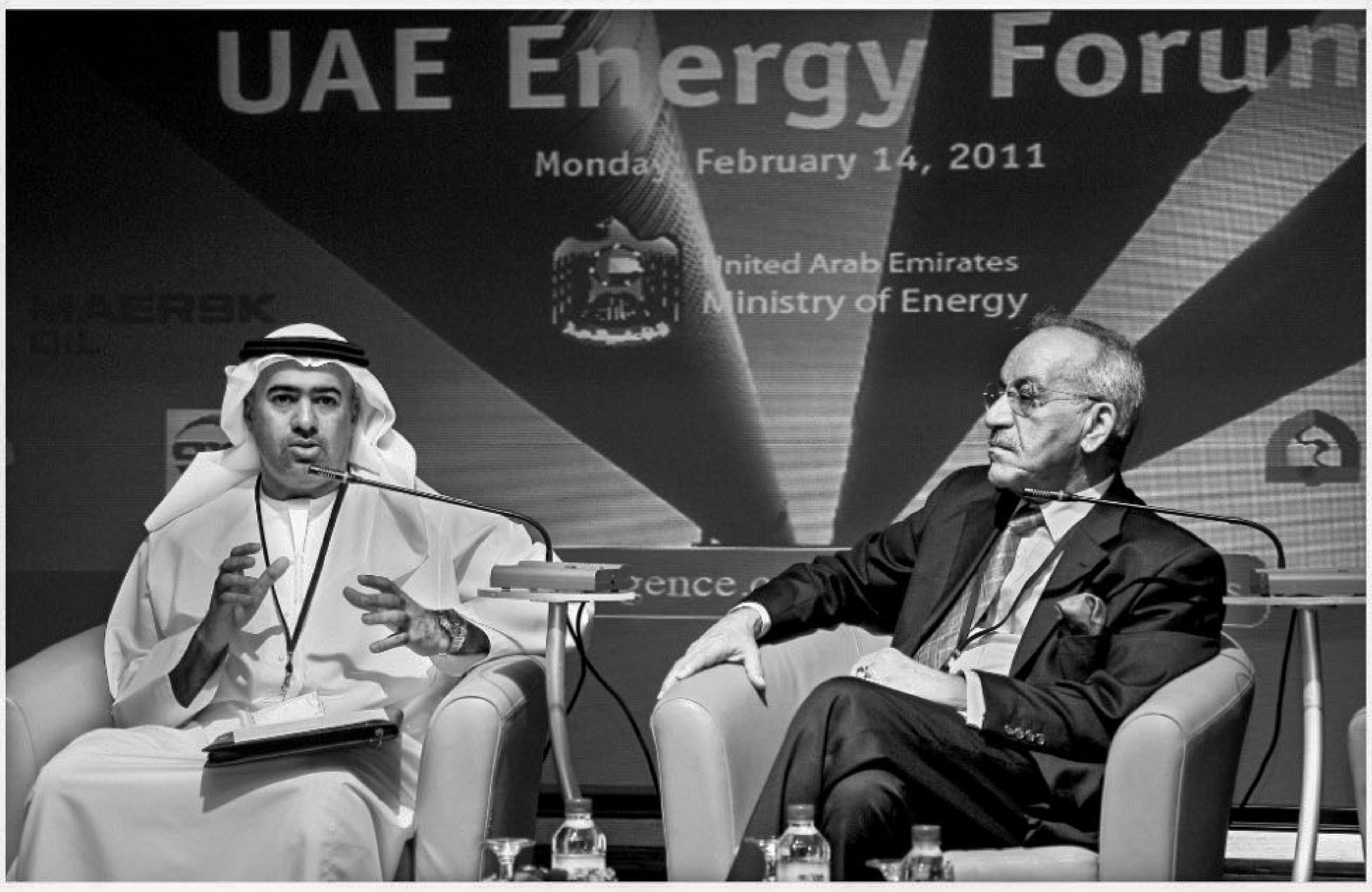
Ministers from the IEF's some 90 member states, accounting for 90 percent of global oil production and consumption, are due to sign a charter in the Saudi capital Riyadh on boosting cooperation and reducing market volatility.

At its previous meeting in Mexico in March 2010, the IEF agreed to step up dialogue with the aim of improving transparency on the energy markets so as to reduce price volatility.

These objectives, members decided, should be enshrined in a charter and the meeting in Riyadh, where the IEF is headquartered, is due to endorse it.

The charter is based on signatories committing to "an open, more informed and fruitful dialogue," says Noe van Hulst, IEF Secretary General.

"One key issue now is to do whatever we can collectively to mitigate energy market volatility. A crucial part of this effort is the IEA/IEF/Opec cooperation programme," van Hulst said referring to the oil cartel and the International Energy Agency, the grouping of developed world consumer nations.



AFP

Qatar's Minister of Energy and Industry Ramzi Salman (R) listens to United Arab Emirates Governor for Opec Ali Obaid Al Yabhouni during the Forum Panel of the Opec50 UAE Energy Forum at the CERT Technology Park in Abu Dhabi.

Oil prices, after tumbling through 2008 and into 2009, have picked up steadily as the global economy has recovered.

Prices spiked Monday above $105 per barrel for Brent crude, a major benchmark, as markets worried additionally at the possible threat to supply from spreading political unrest in the Middle East.

Higher energy costs have begun to drive rising inflation, sparking concerns that they could force countries to hike interest rates to rein in prices -- a move which would also hurt growth.

At the same time, soaring oil and other commodity prices have stoked suspicions that the markets are being driven by speculators rather than reflecting underlying demand and supply, prompting fresh calls for regulation.

Last year, the IEF put this topic on the Riyadh agenda and it has become even more topical given the rise in the energy and other markets in the past 12 months.

France, current holder of the Group of 20 presidency, has made tackling this problem one of its priorities and last month Pierre Lellouche, a senior French official responsible for foreign trade, made the point at a Riyadh meeting.

"When volatility comes from market failures, insufficient transparency both on physical and financial markets and possible market abuse and market manipulation on the financial side, then we have the responsibility to fix it," Lellouche said.

"The oil market at the beginning of 2011, where volumes traded, including derivatives, are worth some 30 times the face value of underlying physical assets, raises new risks, and thus calls for new responses," he said.

Analysts say these market developments have put Saudi Arabia, the largest oil producer in Opec and a key player in global energy policy, on the spot because traditionally as a moderate it has sought to keep supply and demand in balance.

Torbjorn Kjus, oil market analyst of DnB NOR Markets, said Saudi Arabi "now faces a difficult dilemma heading into the International Energy Forum.

"With prices above $100 (it) ... will face hard pressure to increase production from the big consumer countries," Kjus said.

Against this backdrop, what Saudi Arabia and other members of Opec, which pumps about 40 percent of global oil supplies, say in Riyadh will be closely followed.

Opec decided to keep its production target unchanged at its last regular meeting in December and is not due to meet again until June.

Saudi oil minister Ali al-Naimi last month said he expected oil at $80 a barrel in 2011, and said Opec could raise output to meet an expected two percent increase in oil demand this year.

But several Opec members such as Libya and Iran have taken a much harder line than Riyadh, welcoming higher prices.

Chinese telecom giant calls off US deal

AP, *Beijing*

A major Chinese telecoms equipment maker is scrapping its effort to acquire a US computer company after a security panel refused to approve the deal.

Huawei Technologies Ltd.'s bid to acquire 3Leaf Systems came amid concern in some countries about China's growing economic might and political assertiveness. American critics said the deal might allow sensitive technology to be transferred to China's military.

Huawei had said it hoped to win White House approval despite the recommendation by the Committee on Foreign Investment in the United States to cancel the deal. But in a weekend announcement, Huawei reversed course and said it would withdraw its application.

"This was a difficult decision, however we have decided to accept the recommendation of CFIUS to withdraw our application to acquire specific assets of 3Leaf," the company said in a brief statement. "The significant impact and attention that this transaction has caused were not what we intended. Rather, our intention was to go through all the procedures to reveal the truth about Huawei."

Huawei said it "will remain committed to long-term investment in the United States."

UN unveils vision for global green economy

AFP, *Paris*

The United Nations Monday unveiled a strategy to ensure a sustainable future for the planet by investing two percent of wealth generated by the global economy, or some 1.3 trillion dollars annually, in ten key sectors.

This paradigm shift toward a "green economy" would also help alleviate chronic poverty, the UN Environment Programme (UNEP) said in a report, released as more than 100 environment ministers meet in Nairobi.

Under the UN strategy, individual incomes would outstrip trajectories forecast by traditional economic models while halving humanity's per capita ecological footprint by 2050.

Reshuffling the global economic mix will challenge vested interests and disrupt employment, UNEP acknowledged.

But the plan promises to generate growth rates equal to or higher than a business-as-usual approach which -- even as it stoked two centuries of breakneck industrialisation -- slowly eroded Earth's capacity to cope.

"We must continue to develop and grow our economies," said UNEP Executive Director Achim Steiner in unveiling the study, entitled Toward a Green Economy: A Synthesis for Policy Makers.

"But this development cannot come at the expense of the very life support systems on land, in the oceans or in our atmosphere that sustain our economies and thus the lives of each and every one of us."

The report notes that long-simmering crises erupted into plain view during the first decade of the 21st century.

Accelerating climate change, the dramatic loss of biodiversity, flaring food shortages, a growing gap between demand and supply for fresh water, the destruction of life-giving tropical forests were reminders that Earth's balance and bounty cannot be taken for granted, it said.

At the same time, the financial meltdown of 2008 points to deep-seated structural problems in the global economy.

"Although the causes of these crises vary, at a fundamental level they all share a common feature: the misallocation of capital," said Pavan Sukhdev, a Deutsche Bank analyst who headed the UN's green economy initiative.

The report singles out "perverse" incentives that encourage unsustainable behaviour, including $600 billion doled out every year in fossil fuel subsidies, and 20 billion to industrial fisheries chasing dwindling stocks.

AFP

A boy holds a signboard offering employment at a labour market in Zhuji, east China's Zhejiang province. Manufacturing in China remained strong in January, while rising input prices have stoked fears that inflation in developing economies has not been tamed, a survey by HSBC showed.

Cabbage and potatoes: Russia's new luxury goods

AFP, *Moscow*

At a bustling market on the north side of Moscow, shoppers are upset: after last summer's devastating fires, staples such as cabbage and potatoes are suddenly pricier than the fancy new imported foods.

Booming developing world demand was already pushing up the price of basic food items when Russia was hit by a catastrophic drought that eventually forced the Kremlin to call a halt to all wheat exports last year.

But the emergency measure provided only temporary relief, with both shoppers and analysts noting an alarming new trend developing on the shelves of stores stretching from Vladivostok in Russia's Far East to Kaliningrad near Poland.

"Since the summer, potatoes have become unaffordable," said 30-year-old Marina, a regular shopper at the Moscow market.

Since the middle of December, the price for a kilogramme (2.2 pounds) of potatoes has almost doubled from 25 rubles (85 US cents) to more than 40, leaving many shoppers shaking their heads in dismay.

Staring speculatively at a fruit and vegetable counter, pensioner Maria says she now thinks twice before making a purchase.

"Everything has gone up (in price): sausage, meat, milk ... not to mention vegetables. It is impossible! So now I am buying fewer items."

Like Maria, many customers have trimmed their shopping lists to the dismay of vendors, who are seeing more and more of their favourite clients walk out of stores empty-handed.

"The customers I had who were buying two or three cartons of milk are now buying just one," said Ruben, a dairy produce vendor.

But looking at the sticker prices, Ruben admits that he is not terribly surprised.

"On average, a carton that used to cost 30 or 32 rubles two months ago now costs 37-38 rubles."

But forget fancy cheeses and healthy new yogurts. Shoppers say

AFP

A vendor prepares his fruit stand in Moscow's Dorogomilovsky Market. The price of every day goods such as potatoes, cabbage, buckwheat have considerably increased in Russia since the summer of 2010.

the price of such basic staples as buckwheat -- the simple grain that Russians eat for breakfast, lunch and dinner -- has actually tripled since the summer.

Paradoxically to many Russians, a kilogramme of bananas is now cheaper in most stores that a sack of potatoes -- a fact that has not been lost on the higher ups in the Kremlin.

"A pack of buckwheat cost about 40 rubles last summer. Now, we sell it for 120 rubles," said Lida, a supermarket assistant.

Although there are many factors behind the food inflation, analysts point the primary blame on a record drought that saw harvests fail in 28 Russian regions, slicing half a percent off the country's gross domestic product.

"There have been several waves of price hikes" in the wake of the weather anomaly, said Alfa Bank economist Natalia Orlova.

"It started with bread and buckwheat, and was followed by milk and now meat."

In January alone, the price of an average consumer basket rose by 5.5 percent to 2,769 rubles ($95, 70 euros), according to the Federal State Statistic Service.

The situation is being compounded by accelerating demand in Asia and poor harvests in big crop-producing states -- one of the many sparks that set off the recent social unrest in North Africa and the Middle East.

And although Russia is not as sensitive to the price shocks as some of poorer Arab nations, its prices still move lockstep with those on the global market, said Moscow's Higher School of Economics analyst Sergei Aleksashenko.

"For cereals, meat, sunflower oil, sugar, milk, Russian prices are fixed according to world prices and their dynamics," he said.

All the more so because -- facing shortages -- Russia has been forced to import certain foods.

In December alone, imports of potatoes multiplied tenfold and while those of cabbage rose by 150 percent, official statistics show.

With annual inflation expected to come in at almost seven percent this year, the authorities are keen to make sure that food prices do not become an issue at December's parliamentary elections and next years presidential poll.