



OPENING STATEMENT

BY

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(PRIME MINISTER OF BARBADOS)

AT THE
SPECIAL NATIONAL CONSULTATION
ON
THE COST OF LIVING

SHERBOURNE CONFERENCE CENTRE

JUNE 17, 2008

Master of Ceremonies,

**Fellow Cabinet Ministers and Members of
Parliament,**

**Head of the Private Sector Association and
Private Sector Representatives,**

**Head of CTUSAB and Representatives of Labour,
Members of Civil Society,**

Permanent Secretaries,

**Members of the Diplomatic Corp and
Representatives of International Organisations,**

Ladies and Gentlemen.

It is a distinct pleasure to join you all here today at this Special Consultation on the economy to discuss the global issue of the rising cost of living. According to the IMF, “headline inflation (that is, total inflation, including food and energy) has increased markedly across the world, and core inflation (which excludes food and energy prices) is edging up”.

It is well known that domestic prices are very much externally determined by developments outside of our control.

In recent times, the global economy has been affected by relentlessly rising price levels driven primarily by the supply and demand of oil, commodities and food on the international market.

The price of oil internationally on a stunning upward trend, with light sweet crude rising to US\$5.07 to settle at approximately US\$139 per barrel in the first half of June 2008.

The resounding effect of this phenomenon has increased shipping and other freight costs as well as input costs.

This has meant increases to net food importing countries such as Barbados reflected in the prices of commodities, services and intermediate goods within the wider economy.

With respect to agriculture, what has further compounded the oil crises has been the thrust towards energy security by many countries, primarily through the use of corn, to produce ethanol, which is a substitute for oil.

This has led to increased demand for corn which is an integral component in the production of feed.

The price of corn has increased from US\$140 per tonne in January 2005 to US \$307.71 in March 2008. While wheat prices have soared more than 180 percent in the past three years, the price of rice has risen by over 76 percent on the international market since the beginning of 2008.

According to the United Nations, food prices in general have increased by over 45 percent in the past nine months.

In Barbados, the cost of living, as measured by the Consumer Price Index increased significantly by an average of 5.8 percent between 2005 and 2007 compared with an average of 1.1 percent between 2002 and 2004.

The estimate of the Article IV consultation team which has just held consultations in Barbados is that there will be a temporary spike in inflation of 9 percent from 4 percent in 2007.

Over these comparable periods, there was a significant increase in the price of food by an average of 7.4 percent between 2005 and 2007 compared with 3.0 percent between 2002 and 2004.

Over the last decade, the price of land rose phenomenally from between \$12 to \$18 per square foot to between \$20 to \$30 per square foot. In addition, there have been marked increases in the price of the following items:

- Utility rates, especially on electricity;
- Insurance premiums for life, motor, property and other general insurance policies;

- Medical care;
- Education, both for books, tuition and other amenities;
- Construction services and supplies for labour and building material;
- Rent for domestic and commercial premises;
and
- Airfares.

The stark reality is that the cost of living today has outstripped the growth in household disposable income of many consumers in both developed and developing countries.

A growing number of houses have barely enough money at the end of the month to pay the bills, to finance mortgages or to cover the expenses associated with raising a family.

There are many more consumers, especially retirees, those on a minimum wage and those who are struggling to find full-time work, who simply cannot afford the high cost of living and simply cannot keep their heads above water, no matter how hard they try.

I am extremely concerned about this global trend of high prices which is eroding real incomes, especially in developing countries and particularly among the poorest people who spend roughly three quarters of their income on staple foods.

Government recognises that demand and supply factors are essentially the root causes of this inflationary spiral.

- i. On the demand side, some key issues include:

- The increased demand for agricultural products (particularly meat) in emerging markets (especially China and India).
 - Expanding demand within the biofuels market which has increased commodity prices such as sugar, maize, cassava, oilseed and palm oil.
 - The greater role of speculative investors in agricultural commodity that have incorporated likely future demand trends.
- ii. On the supply side, there are a number of issues:

- The first issue relates to the food supply as it has been responding relatively slowly to increases in demand.
- Another issue relates to the problem of reduced exports from important food producers such rice from India.
- In addition, some current price volatility is attributed to speculative investors seeking safety in commodity markets from a depreciating US dollar and from falling equity and bond markets.
- There is also the issue of low inventory stock of food which explains the current market volatility.

- The issue of climate change risk has created a high degree of uncertainty with respect to current and future food supply projections.
- In addition, the issues of land and water constraints, underinvestment in rural infrastructure and in agricultural innovation together with a lack of access to inputs are impeding productivity, growth and the much needed production response.

Barbados, like most other developing countries, is confronting these structural challenges which have reduced the purchasing power of incomes and the social progress of the vulnerable groups within the society.

It is being projected by the United Nations, many prominent institutions and academic commentators that these demand and supply issues which have caused the unilateral price increases are not expected to go away anytime soon.

This has been buttressed by the continued strong economic growth from China and India, further increases in oil prices and greater demand for bio-fuels. Given this scenario, it is not surprising that the prediction is for food prices to remain high over the next decade.

This situation therefore requires an urgent response at the global, regional and domestic level.

At the global level, a number of policy responses have been advocated by the World Bank.

Among these are the creation of a \$2.1 billion rapid financing facility to provide speedier assistance to the neediest countries, and the boosting of overall agricultural lending to US\$6 billion.

Also, just recently, the Secretary General of the United Nations, Mr. Ban Ki-moon called on world leaders gathered at the Rome summit to take “bold and urgent” steps to tackle the global food crisis, including boosting food production and revitalizing agriculture to ensure long-term food security.

In addition, there is a need for the International Financial Institutions to collaborate closely and work in partnership with donor agencies, including the World Food Programme, which has significant expertise in food availability assessments and techniques in responding to short term needs.

At the regional level, CARICOM leaders have acknowledged that this is a challenge not of our own making or design, but as a Small Island Developing States, vulnerable to such external and asymmetric shocks, we must take bold and urgent steps.

Such steps have been taken at the Regional level where we have agreed to remove the Common External Tariff (CET) on a list of items.

CARICOM member states have also committed themselves to the resurgence of regional agricultural potential; a process entitled the 'Jagdeo Initiative'.

This initiative will build on past efforts to create an enabling economic and business environment for agri-business, competitive and sustainable agriculture and rural development.

This can be achieved through the development of a Regional Implementation Food Plan. The following other regional initiatives will also be undertaken:

- The establishment of a food supply project which will observe dedicated production of grains that will serve to mitigate the effects of rising food costs, which are currently sourced from outside the region;
- A regional ferry system which will be used to ensure the availability of agricultural products within the region;

- Dedicated research and development, not only to take into consideration the concept of regional food sovereignty, but also issues of climate change and bio-energy security; and
- The establishment of a CARICOM Agricultural Health and Food Safety Agency (CAHFSA) to facilitate intra-regional trade in agricultural commodities.

At the national level, Cabinet has already set up a Cost of living Committee comprising relevant ministries and agencies with the requisite technical skills to direct its affairs in this area.

The more feasible medium to long term solutions will involve:

- (a) Tackling monopolies and increasing competition by removing the middle-man wherever necessary;
- (b) Allowing new and efficient players to enter the market, thereby increasing competition;
- (c) Addressing the inefficiencies at the Port;
- (d) Reviewing the structure and nature of taxes on some consumer products;
- (e) Addressing the consumption patterns of Barbadian consumers;

- (f) Revising the current basket-of-goods, which currently benefits from the removal of VAT and other impositions to include more healthy products such as diabetic foods, foods manufactured for persons who suffer from hypertension and certain foods for children;
- (g) Working with the business community to identify possibilities as they relate to sourcing food from other non-traditional countries; and

(h) Working with the business community to determine the possibility of establishing consumer cooperatives in order to benefit from economies of scale.

The Government further recognizes that ambitious policies will need to be established and implemented to reach the untapped production potential.

In this regard, a thorough policy overhaul is being developed as part of a broader Medium Term Strategic Framework Plan which the Economic Affairs Division of the Ministry of Finance, Economic Affairs and Energy is overseeing.

There is a need for policies which emphasise:

- Facilitating the provision of essential public goods and services.

- Expansion of private investment in agriculture which calls for a supportive investment climate with clearer rules, stability and sharing of responsibilities between the private and public sector.
- Greater government intervention in the real estate market to make land and housing more affordable and assessable to the average Barbadian citizen. The current laissez-faire practice in the buying and selling land and other real estate must not be allowed to continue unchecked in the absence of concerted Government intervention into the market place.

- Reform of Government's land use policy to make more land available for agricultural production and low income housing at affordable prices.
- Rationalise the prices of rent for domestic dwellings.
- Accelerated efforts aimed at developing renewable energy.

Our space is constrained by projections of lower economic growth projections. The recent Article IV consultation team suggests that economic growth will be at the level of 2 ½ percent rather than 3 ½ percent.

It is also predicted that the deficit on current projections for 2008 will be 8 ½ of GDP as against 7 ½ for 2007.

In 1993, the then Democratic Labour Party administration established a Prices and Incomes Protocol in which, through the spirit of voluntarism, businesses were asked to hold down prices while labour was asked to exercise wages and salaries restraint in line with legitimate increases in productivity.

This first Social Compact was instrumental in laying the foundation for the maintenance of macroeconomic stability and a restoration of international competitiveness in the Barbadian economy over the years.

Today, some fifteen (15) years later, I wish to call on this tripartite body to again commit to a national sacrifice of restraint in prices and wages with the view of containing the cost of living, especially with respect to the food basket of the consumer price index.

This special consultation on the cost of living testimony of my Government's manifesto's commitment to aggressively and holistically confront the high cost of living faced by all Barbadians from a microeconomic and macroeconomic perspective.

It presents the opportunity for the social partnership, civil society and ordinary Barbadians from all strata of our society to ventilate their concerns and to pool their minds in the spirit of collectivism and consensus, to find solutions to cushioning the impact of the mounting cost of living.

I thank Sir Roy Trotman for making the call at our last Social Partnership meeting to get such consultations going urgently. There are few countries in the world where such foresight by the workers' representatives is forthcoming.

I also thank the Private Sector for responding so readily.

The Financial Statement and Budgetary Proposals will be delivered on July 7th 2008 and this consultation is important in that context.

I am therefore extremely happy to commit the government to full participation in this Special National Consultation and look forward to the outcomes of its deliberations to have policy recommendations that reflect national consensus to present to Parliament in early July 2008 and beyond.

Research and Planning Unit,
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Energy.