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G7 WARNS ON ARTIFICIAL INTERFERENCE IN ENERGY MARKET

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WASHINGTON

Finance ministers and central bank governors of the Group of Seven leading economies have warned against artificial efforts to shield consumers from higher energy costs, saying that price caps and subsidies on fuel could backfire.

Several Asian nations, including China, India, Indonesia and Malaysia, have been using subsidies to cushion the effects of soaring oil prices on their citizens and businesses. In the final communique from their weekend meeting in Washington, the G7 economic leaders said such measures would have "an adverse effect on the global market and should be avoided".

Oil-related worries dominated the annual meetings of the International Monetary Fund as policymakers fretted that higher energy prices posed a risk to global growth.

Gordon Brown, the British chancellor of the exchequer and chairman of the International Monetary and Financial Committee, the council of ministers guiding the IMF, said that the meeting was held "at a time of greater risk for the global economy, facing the highest sustained oil prices for a quarter of a century".

The IMFC statement added: "Oil producers, oil consumers and oil companies will have a part to play in working together to promote greater stability in oil markets." The committee again called on oil-producing countries to step up production and said more investment was needed in exploration, production and refining. It also called for a new focus on conservation, greater transparency in the oil market, and for IMF lending if poor countries needed assistance dealing with oil price shocks.

In its annual World Economic Outlook, the IMF said rising petrol prices threatened to undermine consumer spending growth. With household savings at record lows, the report argued, higher petrol prices "increase the risk of a sharp slowing in private consumption".

While consumers have borne the brunt of higher energy prices in the US, Europe and Japan, many Asian governments have sought to shoulder more of the strain through subsidies or force energy companies to pay by putting a cap on prices.

In Indonesia, for example, fuel subsidies are due to cost about Dollars 14bn (Euros

11.6bn, Pounds 8bn) over the past year - about one-third of the central government's budget. Subsidies in Malaysia are expected to total about Dollars 1.45bn this year.

Economists at Morgan Stanley have estimated that if money allocated to these subsidies were pumped into the economy, growth would be 3.2 per cent higher.

India has gradually been allowing the price of petrol to rise but price caps have hit state-run refiners. In the past 12 months they have lost about Dollars 3.3bn on sales of fuel below cost. In China price caps have encouraged state refiners to sell more overseas where the price is higher - leading to shortages at home.

Ben Bernanke, chairman of President George W. Bush's Council of Economic Advisers, told the Institute of International Finance yesterday that high energy prices were a risk to the US economic outlook, but added that greater energy efficiency and expectations of well-behaved inflation meant the impact had been "relatively modest" to date. Lex, Page 24