

COMMODITIES

COCONUT

Production drop affects industry

The adverse effects of the prolonged drought of 1979 were being severely felt on Sri Lanka's coconut industry during the first half of this year. While consumption was rising with an increased population and exporters were being starved, nut production continued to drop sharply. The Coconut Development Authority's records of the first two quarters of the year, given below, clearly illustrate how deep the drop in production and exports had been.

The total fresh coconut production has declined by 17.38 percent while the export surplus (in terms of nut equivalent) has dropped

D.C.	19,342 Mt
C'oil	44,404 MT
Fresh Nuts	1139 mil.
(Estimated)	

EXPORTS

D.C.	19,333 MT
C'oil	9,292 MT
Export Surplus	206 mil.
(in term of nuts)	

by a staggering 54 percent, when compared with the performance in the corresponding period of the previous year. Exports of coconut kernel products in the first six months of this year have thus recorded a

drop of 54 percent in volume, while export earnings have registered a decline of 41 percent compared to that of the first half of 1979.

This drop in production is solely attributed to the dry weather and drought conditions that prevailed continuously for eight months in the previous year and the consequent ineffectiveness of the use of any fertilisers.

On the 26th of June 1980, the Ministry of Coconut Industries, with the concurrence of the Ministry of Finance and Planning, increased the price of coconut from Rs. 1,000 to Rs. 1,250/- per 1,000 nuts and coconut oil was currently priced at Rs. 10,140/- per MT, assuming the price of poonac at

12,146 MT	37%
25,046 MT	43.5%
941 mil.	17.38%

12,024 MT	37.8%
1,548 MT	83.4%
94 mil	54%

Rs. 2,250/- per MT. The main objective of this increase in price to the coconut producer was to hedge the escalating cost of production and as an incentive to growers to increase their yield.

TEA

Production lags lead to loss of earnings

By the end of July, world tea production was running at about 6 million kgms. below that of the same period for 1979. The position is expected to improve however, over the next five months of the year and there were even indications of an over supply position by the end of 1980. At the end of the first quarter of this year the world crop position appeared bleak but later revived to a great extent following improved production by North India, South India, Bangladesh and Indonesia. The producers finding it most difficult to maintain last year's crop levels were Sri Lanka and East Africa who were lagging far behind projected targets.

In Sri Lanka, despite the more attractive prices and present improved quality, plantations on both sides of the Island continue to report small harvests. This was particularly so in the case of estates

on the Eastern side of the Island. The weather no doubt caused its share of damage but the drop in levels of management efficiency on many estates is also becoming increasingly clear. Ex-Estate offerings have in fact shown a gradual falling off from the sale of July 15, this year and by the sale of the last week of August only 0.75 million kilos was being made available for purchase as compared with nearly 1.2 million kilos a year earlier. In the mid-August 1979 auction in Colombo 5,139 lots totalling over 5.1 million kilos were on offer as compared with 3,842 lots totalling 3.4 million kilos at the auction in mid-August this year. The drop in quantities is most marked for Uva tea. Small consolation, however, was that the conventional buyers were looking towards Colombo for their requirements of improved seasonal quality teas and therefore together with restricted supplies, improved qua-

Gross Averages at Sale No. 31 in August 1978, 1979 & 1980
(Rs. per kilo)

	1978	1979	1980
High Grown	11.91	13.84	18.97
Medium Grown	9.37	12.01	16.11
Low Grown	17.89	15.83	21.13
TOTAL	13.13	13.92	18.81

lity was no doubt attracting very keen buying interest. This was evident in the sale of August 11, 1980 where total gross sales average prices fetched were nearly Rs. 5/- more than that prevailing at the same time in 1979 and 1978. (See above).

A significant feature in these comparative prices is the continued strength in the prices of low grown throughout the recent years; with greatest demand for them coming from Middle East buyers.

Despite the vastly improved prices at the Colombo auctions during the first half of 1980 total export earnings have not moved up comparably. Although for the period January-June earnings from tea in 1980 amounted to Rs. 2,953 million as against Rs. 2,751 million in the same period of 1979 the contribution from tea to the country's total export earnings was only 37 percent in the 1980 period as against 42 percent for 1979.

CROP FIGURES OF MAJOR PRODUCING COUNTRIES
(Upto June in Million kgms)

Country	1979	1980
Sri Lanka	110.5	99.2
South India	73.7	67.2
Bangladesh	8.6	12.0
North India	102.7	138.0
Kenya	54.3	41.3
Malawi	21.3	20.5
Tanzania	10.2	*8.7
Indonesia	23.9	**26.4
TOTAL	405.2	411.3

* Upto May

** Upto April

While Sri Lanka's 1980 crop is estimated to drop nearly 12 million kilogrammes below that of the 206.4 kgms recorded in 1979 and is likely to be the lowest for any year over the past decade production in both Indian and Bangladesh is expected to record substantial increases in 1980. India's crop, for instance, which was only 547 kgms in 1979 is estimated to surpass the 600 kgms mark in 1980.

Upto the end of June the North Indian crop in 1980 was 33.3 mn. kgms higher than that of the first half of last year; though the fall recorded for Kenya was 13 mn.

kgms, Sri Lanka 11.3 mn. kgms, South India 7.5 mn. kgms and Tanzania 1.5 mn. kgs (See table)

North India had increased its production by 71.3 percent for the period April-May 1980, compared to that of last year, though the tea industry in Assam (which produces over half the Indian crop) is now undergoing a great deal of anxiety and uncertainty with the disturbed political situation and deterioration in law and order arising from its border problems through 'infiltration of foreigners' into the state. Despite the prospects of a much higher crop this year, however, the Indian tea industry has to contend with two other major problems in the form of finance and disposal.

Although there has been a rising consumption trend in some of the main importing countries such as UK and USA, the stocks maintained in these countries has been comparatively low mainly as a result of the current recessionary situation and high interest rates prevailing. This trend is expected to be reversed toward the latter part of the year as there is a belief that during periods of high inflation and spiralling costs the comparatively cheap beverages receive increased consumption interest. Tea is after all the cheapest beverage available and, the industry is convinced that, with world inflation constantly on the rise, it is expected that demand for tea would increase not only amongst developed nations but also in third world countries where tea is now considered to be a food beverage.

OTHER SOFT BEVERAGES

The two other major soft beverages, coffee and cocoa, have encountered serious price declines in recent months as commodity prices kept tumbling amidst growing fears that the Western world's recession would effect demand for most raw materials.

Coffee

By the end of July coffee future prices had dipped so steeply that they reached their lowest levels in four years. (See diagram). Continued speculative selling kept

pushing prices lower and lower on the London futures market and prices fell more than £300 during the month of July. London traders were in fact taken by surprise by the sheer size of the recent decline in the coffee market, particularly as sellers normally hold on at this time of the year anticipating the risk of frost in Brazil.

Traders in London reported that the "bearish" mood of the coffee market seems to have become firmly entrenched and all the producers' efforts to boost prices or at least stem the decline have failed.

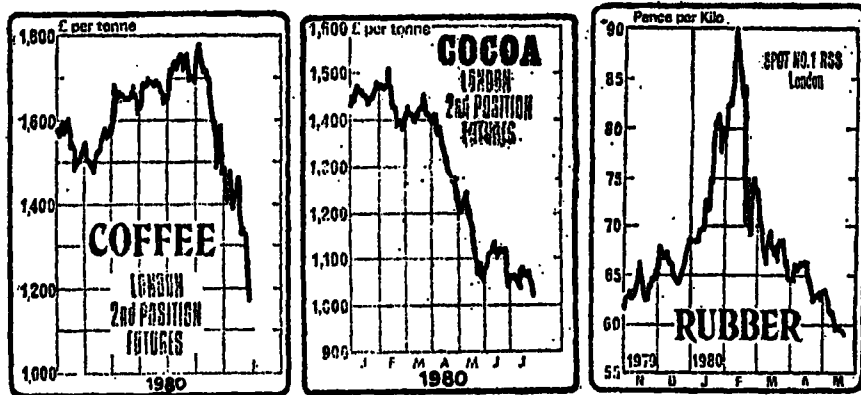
Worried at the sharp fall which followed the easing of frost fears at the end of June the main coffee producers led by Brazil embarked on a policy of refusing to sell their coffee until prices recovered to what they considered a reasonable level. But roasters in consumer countries, where stocks are fairly high, were unimpressed and the decline continued. The fact that Indonesia, which has an unusually good crop, has remained a keen seller has not helped the producers' cause.

The Bogota group (of South American producers) has fought valiantly to steady the market but an ever increasing flow of speculative selling has swamped its efforts.

Exporters generally expected world coffee prices to continue their decline largely on account of economic recession in importing countries and improved harvests, particularly in Brazil, which are causing a surplus situation.

Cocoa

Cocoa too was suffering from a surplus of supplies. By the fourth week of May this year heavy selling on the London futures market pushed cocoa prices too down to new four year lows. On May 20 the futures prices was £1,114 a tonne, falling £ 117 a tonne in the course of the week. (See diagram) By the end of July world prices fell below £ 1,000 a tonne for the first time since April 1976. In London, on July 30, dealers thought producers were responsible, for most of the selling — which pushed the September futures price down £38 to £998.5 a tonne at the close of the day. They said no particular reason for the selling was apparent. Uncertainty among producers was an important factor. It is clear that cocoa prices have been under pressure for some time in view of the world



Source: *Financial Times*

production situation which promises a crop much larger than demand for the fourth year in succession.

Meanwhile, the cocoa market has been operating without the benefit of the international price stabilisation agreement, which expired in April, when consumers and producers failed to agree on a support level.

Talks were going on in Geneva in the first week of August aimed at reviving this pact, but this consideration seems to have had little effect on market sentiment.

RUBBER

Prices fluctuate though encouraging long term trends

Fears of deepening recession pushed natural rubber prices down by the end of May to their lowest levels in 17 months on the London market. (See diagram). With prospects of the European and US motor industries becoming increasingly gloomy tyre manufacturers demand for rubber diminished considerably, and the high interest rates were encouraging a general run-down in stocks (upto about 50% of last year's level). Prices steadied somewhat in other markets in June though easier conditions continued to be experienced in the London market as the improved sterling rate was reported to be a depressing factor. Local prices, however, continued steadily for Sheet Rubber and Sole Crepes, though prices for other grades by the end of June were not as bright as at the same period in 1979. (See table above).

The local market was however firming up for investors and rubber estate values had in several cases doubled over the last year. Local export earnings from rubber

also continued their upward trend into 1980 and for the six months of January-June earnings had reached Rs. 1,112 million in 1980 as against Rs. 1,019 million in the same

of imports, had signed the rubber treaty. So far, only Malaysia and Japan, however, had ratified it.

Concluded last September, the treaty provides for buffer stocks of 550,000 tons jointly financed by producers and consumers to regulate market supplies and stabilise rubber prices. If this Agreement does prove a success it could result in far more stable and remunerative prices for natural rubber and by improving NRs competitiveness facilitate greater attention being paid to research and development and also assist improvements in its processing, marketing and distribution.

COLOMBO AUCTION PRICES AT END OF JUNE

	1979	1980 (Rs. per kgm)
RSS No. 1	9.09	10.18
Latex Crepes	17.09-18.81	9.00-10.00
Scrap Crepes	8.00-9.50	5.28-5.91
Sole Crepes	19.05-19.27	19.95-23.00
Froth & Cuttings	7.80-8.00	6.25-6.50
Curly & Shell Scrap	3.00-3.25	2.80-2.90

(Sheet Rubber (RSS) comprises nearly 50 percent of the market and Latex about 25 percent)

period of 1979. Although short-term projections appear less bright resulting largely from the recessionary impact on developed market economies, long term trends still favour this commodity with synthetic rubber no longer a threat to the natural product. Prices are expected to pick up in the latter part of August mainly due to speculation over developments in the various international trouble centres and possible rises in prices of gold and other hard commodities.

Buffer Stock Agreement

An event of special significance for the rubber industry is the UNCTAD sponsored International Rubber Buffer Stock Agreement, finalised between 13 natural rubber consuming countries, which is due to come into force provisionally on October 1, this year. By the beginning of July exporters including Indonesia, Liberia, Malaysia, Papua New Guinea and the Philippines, together accounting for 76 percent of the natural rubber trade, and importers including the U.S., the EEC and Japan, accounting for 84 percent

SPICES

Earnings Fall

Export earnings of minor agricultural products have registered a sharp drop during the first six months of this year. From foreign exchange earnings of Rs. 414.8 million (SDR 20.8 mn) during the first six months of last year earnings fell to Rs. 362.9 million (SDR 17.6 mn) for the same period this year. An important item of export in this minor crops sector is spices and though earnings from cinnamon quills and cloves recorded increases in the early part of this year, earnings from cardamoms, pepper, nutmuge and mace have declined. Among the other important minor crops where a decline has been observed in export earnings are arecanut, coffee, sesame seed, cocoa and unmanufactured tobacco.

EXPORTS VALUE (Rs. '000)

	1979	1980
Cinnamon Quills	59,252	79,024
Cinnamon Chips	931	1,131
Cardamoms	33,137	24,555
Pepper	10,526	8,329
Cloves	68,363	78,954
Cocoa Beans	12,493	12,493
Unmanufactured Tobacco	4,961	1,930