

**THE DEVELOPING COUNTRIES -
PRODUCE AND TRADE**

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C O N T E N T S

	<u>Page</u>
I. <u>TROPICAL PRODUCTS MARKET</u>	
Cocoa	1
Coffee	3
Oilseeds	6
Rubber	9
Cotton	11
Bananas	13
II. <u>TRADE WITH THE ASSOCIATED AFRICAN AND MALAGASY STATES</u>	
EEC imports from the AASM (1962-64)	14
Trade between the EEC and AASM	19
Implementation of the Yaoundé Convention	20

First PartTROPICAL PRODUCTS MARKETCOCOAMarket trends

The drop in cocoa prices, which began in early 1965, steadily became more serious until a 30-year low was reached in July. The price of 13-14 cents/lb. on the United States market in the summer, adjusted according to the general index of wholesale prices, was comparable to the average price of 6 cents/lb. of 1934/38. It must be noted, moreover, that the greater part of the 1964/65 crop had already been sold when prices were at their lowest and that the trend improved distinctly from August until the end of the year.

The following table shows the price trend for spot cocoa since the beginning of the year.

<u>1965</u>	<u>London</u> <u>(s/cwt)</u>	<u>New York</u> <u>(cts/lb)</u>
January	192/1	22.97
February	171/11	20.62
March	138/4	17.00
April	132/11	16.37
May	127/5	15.53
June	113/5	13.84
July	97/11	12.19
August	123/2	15.01
September	135/3	16.73
October	137/7	17.14

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The relatively favourable trend of the last few months is due in part to improved statistical information on the product following the publication by FAO of the preliminary forecasts for the 1965/66 harvest and the grindings figures for 1965 (estimates) and 1966 (forecasts):

<u>('000 tons)</u>	<u>1963/64</u>	<u>1964/65</u>	<u>1965/66</u>
Production	1 231	1 528	1 373
	<u>1964</u>	<u>1965</u>	<u>1966</u>
Grindings	1 193	1 332	1 430

At present the consumer countries have very large stocks amounting to some 6 months' consumption and the discrepancy between the production forecast for 1965/66 and the grindings forecast for 1966 is only an apparent one.

Attempts to organize the market

At its first session in July-August 1965 the UNCTAD Committee on Commodities recommended an extraordinary meeting of the Working Party on prices and quotas of the UN Conference on Cocoa in order to work out short-term measures to remedy the disastrous situation of the market. The meeting was held in Geneva in October 1965 and was attended by the twelve leading producer and consumer countries and by numerous observers from other interested countries, in particular the East bloc countries.

Important steps were planned: fixing of a temporary floor price for 1965/66, creation of an emergency fund, increase of consumption in the East bloc countries, abolition of customs duties and reduction of charges on cocoa and derived products. The Working Party did not recommend short-term measures but gave some thought to the longer-term prospects of the market. It recognized that the market outlook continued to be uncertain and considered that an inter-

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national agreement should be concluded before the opening of the 1966/67 marketing year. The FAO was requested to work out an outline agreement and to study the problems of surpluses, the long-term trends of production and consumption, and obstacles to trade. The Working Party will meet again in January 1966 to examine these studies and prepare the ground for an international cocoa agreement or some other method of regulating the market.

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COFFEE

Market trends

The downward movement of prices since the start of the 1964/65 coffee year (October 1964), which had accelerated in the early months of 1965, particularly for robustas, came to a halt in June; from then on there was a distinct improvement in prices, especially for varieties which had been most affected. Brazils are a special case because it was the government's policy of lowering export prices which led to a corresponding lowering of prices in the importing countries. In view of the importance to the market of the indicator price machinery of the International Coffee Agreement, the price trend shown below concerns the daily average prices of the three main varieties of coffee, computed by the International Coffee Organization, from which the monthly averages have been obtained since March 1965 (since this system of computing coffee prices was introduced on 22 March, the averages for that month refers only to the final eight market days).

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<u>(in cts/lb to nearest 1/10 ct.)</u>	<u>Arabicas (mild)</u>	<u>Arabicas (unwashed- Brazil)</u>	<u>Robustas</u>	<u>Average price</u>
March	45.4	45.0	24.1	38.2
April	45.7	44.7	24.8	38.4
May	45.2	43.9	22.1	37.0
June	45.9	44.1	27.8	39.2
July	45.9	43.6	32.5	40.7
August	46.8	43.7	36.1	42.2
September	47.1	42.6	35.3	41.6
October	47.1	42.7	36.6	42.1
November	48.1	42.6	34.5	41.7

It will be noted that the market trend continues to be favourable; the prices of the two varieties of arabica moved in opposite directions within fairly narrow limits. At the end of March they stood at more or less the same level, about 45.4 cents/lb; after that milds rose steadily to 48 cents in November, while Brazils declined equally steadily to 42.6 cents, the average of the two prices remaining roughly 45 cents. The behaviour of robustas, on the other hand, was spectacular: 24 cents in March, 22 in May, 28 in June, 36 in August, and 34.5 in November. It was these variations which largely determined the variations in the indicator price; November, however, saw an increase in mild arabicas and a drop in robustas by comparison with the high levels of the preceding three months.

Working of the International Agreement

The International Coffee Council held its seventh session in London from 2 to 20 August 1965, a special meeting being held on the revision of the Agreement. The meeting did not really get down to the question of revision despite numerous proposals submitted by members of the Council.

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There were several reasons for this:

- (i) The Agreement had been in operation for a relatively short time; certain clauses had not yet taken effect (control of production and stocks); others had only just begun to operate fully (certificates of origin, advertising to stimulate consumption);
- (ii) Important measures to improve the working of the Agreement had already been taken in the form of Council resolutions: after two years of difficulties in connection with the fixing and adjustment of quotas, Resolution No. 67 of March 1965 had set up a limited, semi-automatic quota adjustment system geared to price movements and thus filled a serious gap in the Agreement machinery. Furthermore the International Coffee Fund had been set up to alleviate the burdens on growers resulting from controls;
- (iii) It now seemed that the Agreement could be considered an effective instrument for regulating the market and that it had helped to restore confidence;
- (iv) Any amendment to the Agreement would in many countries involve ratification by parliament. In view of the very long delays often entailed by such procedure, these amendments might not take effect before 1967/68, when the Agreement was due to expire. It was during this year that the Council would decide whether to extend the Agreement or negotiate a new agreement, and whether the present Agreement would have to be revised or not.

The International Coffee Council also set up a world advertising committee and approved the programmes proposed for 1965/66; with the subscriptions of producer countries, the funds available amounted to \$ 7m., which was thought insufficient for a world-wide advertising programme.

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Discussions at the Council's seventh session centred mainly on the revision of the basic quotas fixed in the Agreement, on the fixing of export quotas for the 1965/66 coffee year, and on production targets and stock-building policy.

Export quotas for 1965/66 have been fixed at 43.7m. sacks, but should the indicator price rise above 42.5 cents/lb, the quotas can be increased each quarter. The price margin system set up in March 1965 remains in operation for 1965/66.

Adjustment of basic quotas, production targets for 1970 and regulation of stocks were studied again at the December 1965 session, which was a continuation of the seventh session. The International Coffee Council was unable to arrive at a satisfactory solution of the problem of adjusting basic quotas; a further meeting will be held in the spring of 1966.

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OILSEEDS

Trend of world prices (in £ sterling per long ton, cif European port)

	<u>Average</u> <u>1953/57</u>	<u>Average</u> <u>1958/62</u>	<u>1963</u>	<u>1964</u>	<u>10</u> <u>months</u>	<u>1 November</u> <u>1965</u>
A. Oilseeds						
<u>Soyabeans (US)</u>	<u>40</u>	<u>36</u>	<u>40</u>	<u>40</u>	<u>(42)</u>	<u>38.5</u>
Index	100	90	100	100	105	96
<u>Groundnuts (Nigeria)</u>	<u>76</u>	<u>66</u>	<u>62</u>	<u>68</u>	<u>(74)</u>	<u>76</u>
Index	100	87	82	89	97	100
<u>Copra (Philippines)</u>	<u>69</u>	<u>72</u>	<u>65</u>	<u>72</u>	<u>(84)</u>	<u>80</u>
Index	100	104	94	104	122	116
<u>Palm kernels (Nigeria)</u>	<u>54</u>	<u>57</u>	<u>54</u>	<u>55</u>	<u>(64)</u>	<u>64</u>
Index	100	106	100	102	118	118

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	<u>Average</u> <u>1953/57</u>	<u>Average</u> <u>1958/62</u>	<u>1963</u>	<u>1964</u>	<u>10</u> <u>months</u>	<u>1 November</u> <u>1965</u>
B. <u>Oils</u>						
<u>Soyabean (US)</u>	<u>123</u>	<u>90</u>	<u>83</u>	<u>87</u>	<u>(98)</u>	<u>110.5</u>
Index	100	73	67	71	80	90
<u>Groundnut (Nigeria)</u>	<u>129</u>	<u>116</u>	<u>99</u>	<u>114</u>	<u>(117)</u>	<u>121</u>
Index	100	90	76	88	91	94
<u>Palm (Nigeria)</u>	<u>85</u>	<u>82</u>	<u>80</u>	<u>85</u>	<u>(100)</u>	<u>90</u>
Index	100	96	94	100	117	106
<u>Copra (Ceylon)</u>	<u>104</u>	<u>110</u>	<u>95</u>	<u>118</u>	<u>(122)</u>	<u>122</u>
Index	100	106	91	113	117	117

The general upward trend on the market from the second half of 1964 came to an abrupt end in March 1965 for soft oils and in May 1965 for hard oils. When, in mid-summer, prices as a whole had fallen back to around the level of spring 1964, there was a pick-up, mainly at the time of the events in Kashmir.

Since then, despite the abundance of the US soyabean and cotton crops, prices have remained at a high level, although it is not thought that the prices for September and October 1965 refer to a very large volume of transactions.

A downturn of prices in the first quarter of 1966, especially when the African groundnut harvest reaches the market, is to be expected. It is, however, premature to make forecasts owing to the uncertainty regarding the volume of harvests in the developing countries and East bloc countries. The firmer position of the pound sterling is, moreover, generally thought likely to discourage a 'bull' market.

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International palm-oil market situation

For the last 15 years the international palm-oil market has shown remarkable stability by comparison with the markets in other oils and fats.

It was, it is true, affected by heavy speculation at the time of the Korean war and the Suez affair; it follows the general trend of the markets, but not very closely, and may be said to have a moderating influence.

This exceptional situation may be explained by the fact that a large share of world production (Malaysia, Congo-Leopoldville) is controlled by a small number of firms; but the main factor is the very wide range of uses to which the product is put, which gives it a place apart among other oils and fats. Analysis of economic data confirms this opinion. Correlation between palm-oil prices and those of other oils is either negligible or very slight.

Another basic factor helps to steady the trend of palm-oil prices: limited supply. World exports of palm oil reached this maximum in 1954 with 580 000 tons and they did not exceed 550 000 tons in 1964, whereas international trade in all oils and fats is increasing by nearly 500 000 metric tons a year.

The present price of palm oil is over £ 90 a long ton, distinctly higher than the average for the last 10 years, which was about £ 85.

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RUBBER

World market trends

There were few significant changes on the world rubber market in the first ten months of 1965.

Price fluctuation for natural rubber remained within narrow limits, though it is true that there was a slight downward trend as the year advanced, whereas in 1964 the movement had been in the opposite direction. Consequently, after being steady in the early months of 1965, the market was back in October to the low levels of early 1964.

Spot prices of natural rubber "RSS 1" London

Average	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.
20 5/8	22 1/2	22 1/8	23 1/8	22 7/8	22 1/8	21 6/8	21 1/8	21	20 5/8	19 5/8

The growing competition of synthetic rubbers exercises a pressure on NR prices, so that there is no real possibility of a rise.

Supply and demand for NR have been reasonably balanced and this also has contributed to a relative stability of prices. It is estimated that world output in 1965 should be 2.24m. tons for a consumption of 2.35m. metric tons, the difference being made up by quantities from strategic stocks, mainly in the United States and also in the United Kingdom. In the first six months of the year, moreover, NR consumption was 5% higher than in the first half of 1964.

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It must be noted, however, that the advance of SR in the same period was far greater and approached 20%.

At present NR accounts for about 47% of the world rubber market and according to the experts' forecasts its share of the market is likely to shrink further. The example of the United States is characteristic of this sector, for in the decade 1955-64 the SR share of the market rose from 58% to 75%.

NR producers tend to fight the competition of SR by seeking new outlets and, above all, by reducing production costs and improving the quality and presentation of the product. In Malaysia, for example, some plantations have achieved yields six times greater than those obtained in the early 1950's. Consumers, moreover, seem to maintain interest in the natural product; in Liberia, for example, a large American company has recently bought plantations which will begin to yield in 1968.

To sum up, competition from SR will continue to be the main factor influencing NR prices and outlets, but the exporting countries, by increasing the uniformity of the product, by devising new forms of presentation and packaging, and by improving their marketing methods, should be able at least to prevent a surplus of NR from accumulating on the market.

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COTTON

New US legislation on cotton

The most important event in 1965, because of its possible consequences for the world market, is undoubtedly new American legislation on cotton, contained in a general law on agriculture, the Farm Bill. These provisions, which will be applicable for the four years 1966-1969, are broadly in keeping with the Government's policy for cotton; the system of limitation of cotton-growing areas and of price support is continued, but with certain noteworthy changes.

From now on the support system will be based on a single "loan level" fixed in relation to the estimated average world price.

In order to maintain the planters' income at a reasonable level while at the same time offering incentives to reduce the area under cotton, planters who undertake to do so will receive bonuses at rates which vary according to the reduction agreed upon. These bonuses will be added to the "loan level".

For the first year the "loan level" ex plantation has been fixed at 21 cents/lb for one-inch middling cotton, the reference quality, which corresponds at the export stage to a price slightly under the present world price. For the following three years the "loan level" will be fixed at a maximum of 90% of the estimated average world price.

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Furthermore the Commodity Credit Corporation will be able to sell cotton for cash at a price at least 10% above the loan level. For the first year, therefore, the CCC's selling price will be at least 23.1 cents/lb for the reference quality (one-inch middling). Each marketing year, moreover, the CCC will have to sell at the current market price the volume of Upland cotton⁽¹⁾ corresponding to the deficit between production and estimated home and foreign demand for this type of cotton.

The effect of these measures should be:

- (i) To limit the quantities produced by the USA, which with steadily mounting yields, have been running at record levels;
- (ii) To increase domestic consumption because from now on the local cotton industry will be able to buy home-grown cotton at prices in line with those on the world market and consequently be able to face foreign competition on its own market;
- (iii) To facilitate exports of raw cotton, which can now be offered on competitive terms;
- (iv) To facilitate a gradual run-down of the large stocks held by the CCC.

Other cotton-exporting countries have shown concern over the new US legislation, in particular the Latin-American countries. These countries have made a collective approach to the State Department through their representatives in Washington. It has not yet, however, been shown that the intended measures constitute a serious threat to the interests of the other cotton-exporting countries because of the

(1) Upland cottons are medium-staple cottons also known as American type, which make up the greater part of world trade. .../...

American policy on export prices which continues on the whole to be relatively cautious.

Any attempt, however, by the other exporting countries to enlarge their share of the market may set off a downward movement, in view of the system adopted by the United States and the very important part that country plays in the world cotton trade.

BANANAS

Since the publication of our survey of the banana market in Bulletin No. 3 there has been a remarkable development on the German market: a sharp rise in consumption. In the first half of 1965 Germany imported about 294 000 tons, against 247 000 tons in the first half of 1964. Despite the competition of European fruit in the second half of the year, which normally causes banana imports to fall off, the pace of increase was maintained.

Estimated consumption for 1965 is 600 000 tons or even more. This advance of 115 000 tons, 24% over 1964, will be appreciated better if it is borne in mind that an annual increase of 20 000 tons had been considered the maximum for a country like Germany, where for some time demand has been at saturation point.

According to information obtained it seems that the new packaging in cardboard containers and boxes, which is being used more and more, is the explanation of this new development. It is expected that no more bananas will be imported on the stem from 1966.

It is clear that the improvement of banana packing is becoming an important matter for all the producer countries. The banana sector in Ivory Coast is already in process of re-organization, and from 1967 most, if not all, bananas will be exported from that country in cardboard boxes.

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