

**THE DEVELOPING COUNTRIES -  
PRODUCE AND TRADE**

N° 2

March 1965

C O N T E N T S

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Part I

THE MARKET IN TROPICAL PRODUCTS

COCOA

World market trends

Prices during the last quarter of 1964, which was also the first quarter of the 1964/65 cocoa year, did not vary much from the level recorded in the previous months, despite the steps taken by the Producers' Alliance which are described on page 2. Average prices over the last three months of the year, i.e. roughly 192-193s/cwt spot in London and 23.5 cts/lb in New York, were much the same as the average for the third quarter.

Owing to low prices in April and May, the average for the whole year works out at 190/8 a cwt and 23.4 cts/lb; discounting the month of January, which was still affected by the price rise of late 1963, we find that there was relatively little variation during the year compared with the sudden fluctuations which have often occurred in previous years.

Monthly spot prices in 1964

	Jan.	March	May	July	Sept.	Oct.	Nov.	Dec.
London (s/cwt)	207/3	190/3	181/7	192/1	192/5	192/5	190/-	195/8
New York (cts/lb)	25.7	23.8	22.3	23.5	23.7	23.6	23.1	23.8

Comparing these with earlier figures, we find that 1964, like its three predecessors, was a year of low prices, lower than any recorded during the fifties.

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	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>
London (s/cwt)	285/6	225/10	179/11	170/1	208/2	190/8
New York (cts/lb)	36.6	28.4	22.6	21.0	25.3	23.4

There is more uncertainty than in previous years as to the size of the 1964/65 world harvest. It will certainly be higher than last year's and may well reach 1 300 000 tons. FAO estimates 1964 world grindings at 1 170 000 tons and forecasts 1 210 000 tons for 1965. Although tentative, these figures suggest that a large surplus is inevitable in 1965.

The agreement between producing countries

Since the agreement came into effect on 1 October 1965, the Producers' Alliance, consisting of six countries accounting for 80% of world production, has taken a number of steps to raise world prices above the reference price of 190s/cwt or 23.75 cts/lb. They began by suspending sales, went on to cut annual quotas from 90% to 80% of the basic level, altered the division into quarterly quotas, and finally decided to destroy stocks amounting to 2% of the basic quotas. But not all of those measures were strictly applied; some countries with storage problems, such as Cameroon and Ivory Coast, began selling again, while Ghana seems to be the only country which actually destroyed some of its stocks.

Prices were not greatly affected. During the first three months (October, November and December) cocoa prices, calculated in accordance with the reference price formula provided for in the Producers' Agreement, were 184/8, 180/10 and 181/11 a cwt, well below the target price of 190s/cwt. It may be wondered, however, whether they would not have fallen still further had the Producers' Alliance taken no action.

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It is too early to gauge the effects of the measures taken by the Alliance late in January 1965, when large quantities were sold at low prices outside the traditional market - to the oils and fats industry - and sales, which had in principle been suspended for more than three months, were resumed within the limits of the annual quotas.

It can only be hoped that the unofficial soundings of opinion in the major producer and consumer countries on the essential problem of prices will lead to a resumption of the talks broken off in October 1963, when the Geneva Conference to negotiate an international agreement ended in failure. Some experts are inclined to think that negotiations might be resumed on a price basis of 23 or 24 cts/lb.

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## COFFEE

### World market trends

The 1963/64 coffee year opened in a period of rising prices and closed on an irregular trend, and the new marketing year beginning 1 October 1964 was marked by a general fall in prices, which affected some varieties more than others. The following table shows how New York spot prices (cts/lb) for the three main varieties of coffee moved between July 1964 and January 1965.

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<u>1964</u>	<u>Arabica</u>		<u>Robusta</u>	
	<u>Colombian</u> <u>Medellin</u>	<u>Brazilian</u> <u>Santos 3</u>	<u>Angola</u> <u>Ambriz</u>	<u>Ivory Coast</u> <u>First grade</u>
July	49.3	46.9	35.5	32.8
August	50.6	45.8	33.4	32.2
September	50.0	44.9	31.7	31.0
October	50.0	46.5	32.6	30.5
November	49.8	46.7	32.3	30.3
December	48.6	45.1	30.1	27.5
<u>1965</u>				
End of January	49.6	45.8	29.0	26.0

It will be seen that the mild-flavoured varieties which had gone up least in price since the end of 1963 have shown the greatest steadiness, still being a close second on the price-list. The substantial gains previously made by Brazilian coffee have been largely held. Prices for Robusta coffee, on the other hand, which had risen spectacularly from October 1963 onwards, have now fallen no less remarkably.

There are several reasons why prices have fluctuated in this way: first, export quotas were not properly geared to market requirements, being so low in 1963/64 that they had to be adjusted, and too high in 1964/65 because consumer stocks had since been replenished. Secondly, poor harvests in Brazil gave rise to fears of shortages, although confidence later returned. Finally, the agreement did not make adequate provision for Robusta, quotas were overstepped, and producers did not effectively co-ordinate their price policies, etc.

How the International Agreement works

The foregoing comments suggest that the International Agreement did not function satisfactorily in 1963/64 and that the 1964/65 quotas are not quite adjusted to present market trends. Late in 1964, the

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Executive Bureau of the International Coffee Council took several decisions. The first was to revoke a previous decision, made in August 1964, for an automatic increase in January 1965 of 500 000 bags in the annual quotas. The next was to cut the quotas of members who had overstepped their 1963/64 allocations, no corresponding increase being made in those of other members. However, OAMCAF was authorized to export an extra 550 000 bags in 1964/65 but, since the members of the group overstepped their 1963/64 quotas by much the same amount, this will not mean an increase in the quotas for the present year.

Coming to Robusta coffee, a variety which is causing particular concern, the members of the Inter-African Coffee Organization have not succeeded in holding to the prices they set themselves in October 1964 and have voluntarily cut their 1964/65 quotas by 20%, which will mean 1 700 000 bags withdrawn from the market.

One doubt which weighed on the minds of the International Coffee Organization throughout 1964 was whether the USA would become a full party to the agreement; first the decision was delayed by procedural difficulties and then the supplementary legislation required to enforce the clauses concerning certificates of origin and re-exportation did not get through Congress.

Finally, the Brazilian proposals to strengthen the agreement by introducing a price clause and setting up an international fund, etc. are being considered by an ICO working party. A further important development was the meeting held late in January 1964 by a majority of the producer countries to co-ordinate their positions on quotas and prices before decisions are made by the International Organization at its forthcoming meeting. They called for a 5% cut in the present annual quotas and set up a Co-ordination Committee to keep an eye on the market, particularly on prices.

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OILS AND FATS

Movement of world prices (£ sterling per long ton)

	Average 1953-57	1958	1959	1960	1961	1962	1963	1964	End of Jan.1965
<b>A. <u>Oil seeds</u></b>									
US soya	40	34	35	33	40	37	40	40/2	49
Index	100	85	87.5	82.5	100	92.5	100	103	123
Nigerian ground-									
nut	76	60	66	72	71	62	62	68/4	77/15
Index	100	78.9	86.8	94.7	93.4	81.5	81.5	90	102
Copra	69	74	90	72	62	61	65	71	79
Index	100	107.2	130.4	104.3	89.8	88.4	94.2	102.8	114.5
Nigerian palm-									
kernel	54	55	69	62	47	50	54	55	62
Index	100	101.8	127.7	114.8	87	92.5	100	101.8	117
<b>B. <u>Oils and fats</u></b>									
US soya	123	95	85	82	103	83	83	88/2	107
Index	100	77.2	69.1	66.6	83.7	67.4	67.4	71.7	88
Nigerian ground-									
nut	129	109	115	126	127	106	99	116/12	134/10
Index	100	84.4	89.1	97.6	98.4	82.1	76.7	90	104
Nigerian palm-									
oil	85	83	87	81	83	76	80	87/6	99
Index	100	97.6	102.3	95.2	97.6	89.4	94.1	103	116.5
Philippine copra	104	115	137	115	92	91	95	108/1	124/10
Index	100	110.5	131.7	110.5	88.4	87.5	91.3	103.9	120
Peruvian fish oil	66	65	59	52	49	36	58	79	77
Index	100	98.4	89.3	78.7	74.2	54.5	87.8	(9 months) 119.6	116.5
Whale oil	80	78	78	75	70	59	73	81/2	85
Index	100	97.5	97.5	93.7	87.5	73.7	91.2	101.5	106.5
US tallow	75	83	74	67	69	55	54	82/2	84/10
Index	100	110.6	98.6	89.3	92	73.3	72	109.6	112.5
Lard	137	132	94	101	103	95	94	104	-
Index	100	96.3	68.6	73.7	75.1	69.3	68.6	(6 months) 75.1	-

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The table shows a definite downward trend until the beginning of 1964 for fish oil, tallow, lard and soya oil, especially the latter, although the price of soya bean remained remarkably steady. This movement was accompanied by a steep fall in groundnut prices. While the prices of tropical solid oils, supplies of which did not increase, were stable over a long period, oils containing lauric acid (copra, palm-kernel oil) were in some years subject to sharp fluctuations as a result of uneven harvests, mainly in the Philippines.

Beginning in mid-1964, prices began to move upwards as a result of unaccustomed purchases by a number of Asian countries, shorter supplies of tallow, a reduction in the whale population and difficulties in moving Nigerian produce. The resultant upswing in prices gained further momentum at the end of the year as a result of a poor olive harvest and speculation on a possible devaluation of sterling. Despite those rises, 1964 average prices for groundnuts, groundnut oil, soya oil and lard were still below the level of the reference period (1953-57 = 100).

General feeling early in 1965 was that world supply would probably cover import requirements and that, but for speculative forward purchases in the sterling area, prices should have been lower than they were in January. It was thus widely thought that prices would drop appreciably in the course of the year.

Despite FAO estimates of a balance between world supply and demand for edible oils in 1965 and the United States Department of Agriculture forecast of a 400 000 ton increase in world production, prices have again risen sharply with the news that groundnut harvests

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in Africa have been poorer than normal, that palm-oil production in the Congo (Leopoldville) is running into difficulties and that the East bloc countries have been buying soya oil from the USA.

Although available statistics are not recent enough to gauge the current market situation, there is every reason to suppose that such imbalance as may exist is very slight. Given the views of market operators at the moment, however, there is little likelihood of a fall in prices until estimates of next autumn's harvests of oleaginous products are to hand.

In those circumstances, it may be asked whether an international working party to study the market in oils and fats and work out a system for the rapid collection of statistics on production, trade and consumption, might not exert a steadying influence on this market, which is occasionally affected by speculative transactions, the factors in which can never be assessed until so much time has gone by that any conclusions to be drawn have lost all practical significance.

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### COTTON

Though fairly stable, 1964 cotton prices were slightly lower than a year earlier, when they were already considered low enough by the producer countries. The 1964 prices in Liverpool for American "M 1" cotton remained, with only slight fluctuations, around 23d/lb (1963 average 23.15d/lb cif).

The first quarter of the year brings no hint of a change, since cotton was quoted in Liverpool at 23d/lb late in January, nor is there any reason to expect a hardening of prices in the immediate future - on the contrary. Despite higher consumption during the 1963/64 cotton year<sup>(1)</sup>

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(1) The cotton year runs from 1 August to 31 July.

(total: 47.5 million bales), especially in Asia and the United States, where under a recent law home-grown cotton can be bought at prices comparable with export prices, and despite fairly promising consumption forecasts for the 1964/65 cotton year, statistics show that there is still a considerable surplus of supply over demand. Initial production estimates point to a new record of 51 million bales, which makes it virtually certain that there will be a fresh increase in the world carry-over of raw cotton, though reserves already stand at their highest level since the end of the war (25.8 million bales on 1 August 1964).

This situation is causing concern in interested circles. Representatives from 40 producer and consumer countries attended a meeting in Paris from 23 to 27 November 1964 held in the offices of the "Syndicat Général de l'Industrie Cotonnière Française" under the auspices of the International Cotton Advisory Committee. The chief topic discussed was a programme for promoting cotton sales, and the question of a fund to finance an advertising campaign was raised.

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## RUBBER

### World market trends

The year 1964 was one of remarkable steadiness on the natural rubber market, with prices moving narrowly around a level slightly lower than in 1963. During the last quarter of the year, however, they tended to rise slightly, concurrently with heavy deliveries to the USSR and on the news of dock strikes in London and New York. Late in the year, the market steadied again and 1965 opened on a note of buoyancy partly

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owing to continued political conflicts in south-east Asia.

London spot prices for natural "RSS 1" rubber (pence/lb)

1963	1964						1965
Average	Average	Jan.	April	July	Oct.	Dec.	End of Jan.
21 3/4	20 5/8	19 1/4	20 5/16	20 3/4	21 7/16	21 7/16	21 1/4

It should be pointed out that keener competition from synthetic rubber, the quality of which is improving, would seem to rule out any real possibility of a rise in the price of natural rubber.

Supply and demand on the natural rubber market are roughly in balance, with consumption slightly ahead of production; the difference is made up by withdrawals from US and, to a lesser extent, British strategic stocks.

Natural rubber is steadily losing ground to the synthetic product. Consumption of natural rubber during the first eleven months of 1964 was slightly lower than in the same period of 1963, while that of synthetic rubber rose by 267 000 tons, or roughly 12%.

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BANANAS

A major event in the world banana trade in recent years was the ad hoc meeting arranged by FAO in Guayaquil (Ecuador) in the autumn of 1964. For several years, the future of the banana industry had been causing concern both in the producer and the chief consumer countries. Not surprisingly then, the problems encountered in this field have figured prominently in discussions and consultations both between EEC Member States and with countries associated under the Yaoundé Convention.

The cause of such concern is clear: during the last few years, world banana prices have tended to weaken, particularly in the United States, the world's largest consumer country, where prices fell by 23% between 1958 and 1963. One reason, and probably the decisive reason, is that the market in the main consumer countries is gradually nearing saturation point, where the only factor making for expansion is population increase. There are few countries outside Eastern Europe whose potential consumption would warrant increased production. This is why the fleeting appearance of Japan as a buyer on the Latin-American market in 1963/64 gave a fillip to the banana industry in that part of the world.

As well as this growing imbalance between production and consumption there is another factor: a number of countries, such as France and the United Kingdom, offer banana growers in certain regions guaranteed sales and prices, and thus a higher and steadier return, through a market organization which includes protective tariffs and import quotas.

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What must be done therefore is not only to reconcile the interests of producers and consumers but first to seek a common attitude within each of those groups.

The FAO's proposal to hold an ad hoc meeting of all interested countries to discuss the problems of the industry was therefore gladly accepted, especially by the producer countries.

The meeting was held at Guayaquil from 26 October to 7 November 1964. The problems reviewed ranged from long-term production and consumption prospects to transport, marketing and access to markets. Statistical problems were also discussed, as was the question of what could be done to establish international quality standards. One of the first and most practical things the meeting accomplished was to send a recommendation to the FAO Committee on Commodity Problems for a "banana study group" with a three-year mandate:

- (a) To improve statistics and documentation on supply and demand both short- and long-term;
- (b) To conduct full-scale surveys and discussions on consumption problems, in particular the relationship between consumption on the one hand and prices, growers' profits, trade barriers and distribution systems on the other, in order to find out what can be done to increase world consumption;
- (c) To study the productivity of the banana industry and its social aspects with a view to raising the standard of living of growers;
- (d) To examine the problems of production, transport, marketing, distribution, and quality improvement, and to make recommendations for promoting sales of choice bananas at prices fair to both producer and consumer.

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Obviously a great deal can be done by a thorough study in all the fields covered by the proposed terms of reference. The recommendation to set up such a group was unanimously approved by the EEC Member States and the Associated Countries present.

The meeting was successful in another less obvious but equally important way - a full discussion took place between producers and consumers. While it may be difficult to imagine an international agreement based on export quotas or a buffer stock as in the case of coffee and tin, this is no reason for not trying to stabilize the banana market.

Several banana-growing countries gave estimates of future production, and some of these were disturbing. What is one to think of a country, not yet an exporter, which talks of putting 20 000 hectares of land under banana and exporting the entire crop? Under average conditions, such an area can produce up to 400 000 tons per year. If all estimates prove correct, is it to be feared that the world market will be flooded by surpluses of up to a million tons in the very near future.

Consumption, on the other hand, cannot possibly grow as fast. According to the FAO report, all things considered, an overall growth rate of 3% per annum appears feasible up to the end of the present decade, and though lower than that of the fifties this is an optimistic figure. Taking 1963 with a consumption of roughly 4 million tons as a starting point, an increase of 3% per annum means that consumption in 1970 will reach approximately 5 million tons.

Those figures made such a strong impression on the delegates, particularly on those of the producer countries, that a request was sent to the FAO Secretariat to make a general survey of production plans and policies for the first meeting of the proposed study group, to serve as a basis for a detailed, realistic assessment of market prospects. As a result, certain producer countries may well be prompted to revise their plans for expansion in order not to compromise further the already precarious balance between production and consumption.

It is of course too early to predict how the world's banana industry will develop. The meeting at Guayaquil was no more than a first step, which can and should be followed by others of a more practical nature, leading to a stable banana market.

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