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C O N T E N T S

Part I

THE MARKET IN TROPICAL PRODUCTS

COCOA

World market trend

During the first months of 1965 cocoa prices suffered an unprecedented slump. In three months the commodity lost a third of its value despite the relatively low prices prevailing at the end of 1964. This fall in price was very marked during February and March, and the present price level seems to have reached the lowest point which the market has experienced since 1946, when the various controls imposed during the war were lifted.

Monthly spot prices for cocoa available in Ghana in 1965

	January	February	March	April
London (sh per cwt)	192/1	171/11	138/4	132/11
New York (cts per lb)	23.0	20.6	17.0	16.4

Trends on the London futures market (sh per cwt)

[illegible]	Beg. Jan.	Mid-Jan.	Beg. Feb.	Mid-Feb.	Beg. Mar.	Mid-Mar.	Beg. April	Mid-April	Beg. May	Mid-May
March contract	175	172	160	150	133	126	-	-	-	-
May contract	178	175	163	154	136	128	123	122	123	117
July contract	181	177	165	157	139	132	127	126	127	119

At the beginning of the 1964/65 sales year (i.e. in October 1964), the Producers Alliance intended to use their mutual agreement to maintain a target price of 190/- per cwt. The complete failure of this unilateral policy is obvious. The following table shows cocoa prices, calculated according to the Alliance's reference price formula, have developed since October:

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sh/cwt

1 9 6 4			1 9 6 5			
October	November	December	January	February	March	April
184/8	180/10	181/11	170/7	152/6	128/2	125/5

The present price is thus 34% lower than the minimum price that the Allicance hoped to maintain a few months ago.

Most of the measures decided upon by the Alliance were not in fact strictly applied during the first months of the sales year; this, and several other factors, explain the steep fall in prices in February and March 1965.

In the first place, it has become clear that the 1964/65 crop was extremely heavy (1 560 000 tons compared with 1 230 000 tons in 1963/64 and 1 160 000 tons in 1962/63), whilst grindings amounted to approximately 1 200 000 tons in 1964 and stocks in consuming countries remained considerable. In addition, the producing countries started selling again in February with no limit on quantity and without a minimum price. A large supply which is usually spread over at least six months was therefore offered in a short period. Unable to support the financial burden of large accumulated stocks, the two principal producing countries, Ghana and Nigeria, sought further outlets outside the traditional cocoa and chocolate markets. A certain amount, difficult to estimate, was sold to the fat-producing industries at low prices, and further quantities are held by various finance groups serving as middlemen. There have also been negotiations with Eastern bloc countries and China. All these factors have contributed to the collapse of the market, which now appears to be settling at its present extremely low price level.

This situation is still of great concern in international circles. In FAO informal discussions were held in April between the chief representatives of both producing and consuming countries regarding the basic problem of prices and the possibilities of improving the market. It is, however, in the Trade and Development Board set up by the United Nations Conference that a real attempt has been made to revive the negotiations for an international cocoa agreement. Indeed, the working party on prices and quotas, which was formed at the time of the negotiations and which includes the 12 most important producing and consuming countries, is to study the possibilities of drawing up a new international cocoa agreement. This is the only reassuring feature of the seriously depressed market in this important commodity.

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COFFEE

World market trends

The unfavourable price trends in evidence since the beginning of the 1964/65 sales year continued during the early months of 1965, with further falls in the price of certain arabicas, and even more in the price of robustas. For Brazilian coffees and robustas the downward movement gained momentum at the end of April, and by then the price situation for robustas had become serious. The levels reached are comparable to those prevailing at the end of 1962, and represent a loss of value of approximately 30% in comparison with prices paid in October 1964, the beginning of the present coffee year. At the end of May, however, there were signs of a perceptible improvement.

Trend of spot prices in 1965 - New York market available (cts per lb)

Arabicas	January	February	March	April	Beg. May	End May
Colombian Medellin	49.0	49.7	47.3	47.4	47.5	47.6
Brazilian Santos 3	45.4	46.0	45.2	45.2	45.0	45.6
Robustas						
Angola Ambriz	28.5	29.5	26.6	25.5	22.7	24.4

The recent sharp tendency towards a fall in price is illustrated by the fact that the daily reference price as defined within the framework of the International Agreement (see the notes below concerning the working of the Agreement) reached the agreed minimum of 38 cts per lb at the end of April, and has in fact settled perceptibly below it, although it has always fluctuated between 38 and 39 cts per lb since the adoption of the new system of calculating a target price. The sharp fall which took place towards the middle of May was matched by a clear rise during the last days of the month.

Trend of the International Agreement reference price

March			April			May		
22	24	29	8	20	28	4	14	27
38.32	37.99	38.32	38.85	38.67	37.81	36.77	36.46	38.09

The robusta varieties are the main cause of this trend. Although the mild arabica varieties have fluctuated between 44.5 and 46 cts per lb since the end of April and the unwashed arabica varieties between 43.5 and 44.5 cts per lb, the robustas have continually influenced the reference price. They fell from 24 cts per lb on 20 April to 20.5 - 21 cts per lb in the middle of May and recovered to 26 cts per lb at the beginning of June. The rather unfavourable situation prevailing until the middle of May is primarily due to the extent of the stocks held in consuming countries, to the pressure of supplies from producing countries despite the quota reductions agreed for 1964/65, and to the fall in export prices in Brazil. Further reasons were the prospects of continued heavy crops, especially of robusta coffee, and the lack of co-ordination in sales amongst the countries producing this variety. Some reassuring factors have however emerged. These are the legislation passed by the United States Congress allowing the USA to take a full part in the International Agreement and the steps taken under the Agreement to support the market. The effect of this latter action had an immediate effect on price levels, especially as the robusta producing countries took a certain amount of co-ordinated action to reduce the volume of their supplies.

The working of the International Agreement

Before its sixth session in London, held from 11 to 19 March 1965, the International Coffee Council had taken an important decision after voting by correspondence. This was to reduce by 4% the annual quotas which it had fixed in August 1964 for the coffee year 1964-65, and to adjust the quotas for the second quarter. It had also arranged that the cuts in the quotas could be restored should the price of Brazilian aribica Santos 4 coffee rise to a given level, noting that special measures might, if necessary, be taken to deal with robusta in view of its marked weakness in price.

At its March 1965 session the Council also introduced a novel fundamental feature into the working of the International Agreement by adopting an interim measure establishing a relationship between price movements and quota levels. Quotas can be adjusted within the fixed limits by either the Executive Committee or the Executive Director when the daily price (calculated on the basis of three major groups of coffees, mild arabicas, Brazilian arabicas and robustas) remains outside the target price limits (i.e. below 38 cts per lb or above 44 cts per lb) for a stipulated period.

This measure is to remain in force until the end of the coffee year 1965/66, provided the Council fixes the target price limits for 1965/66, at a later session.

The Executive Committee has also been asked to give priority to the study of a selective system of quota adjustments, if possible within the framework of the Agreement as it stands but also in the light of amendments which might be expected during the next meeting to discuss revision of the Agreement. The aim will be to apply the adjustments to those member countries which export one of the three major groups of coffees as defined by the Council.

Another important resolution adopted at the March session of the Council concerns the setting up of an International Coffee Fund. This is to be voluntarily financed by the producing countries, but consuming countries are also invited to contribute. Its object will be to help the producing countries to meet the financial burdens of underwriting their coffee surpluses by granting them loans, particularly for the purchase, renting or building of storage depots. The contributions of the producing countries are not to exceed 50 million dollars and will be in proportion to their basic quotas.

The quota adjustment system tied to price movements was brought into operation during May, when the average reference price remained below the agreed limit of 38 cts per lb for 15 market days (36.84 cts per lb from 28 April to 18 May). The Executive Committee met at once and decided to reduce annual quotas by 4.5%, i.e. some 2 050 000 bags, to take effect during the last quarter (July to September) of the coffee year. This was the maximum reduction authorized by the above-mentioned Council resolution. The speed and efficacy of the system seemed to augur well for the future of the Agreement, as it quickly influenced the market and raised prices especially those of robustas, which had reached a very low level.

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OILSEEDS AND OILS

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

	Average 1953/57	Average 1958/62	1963	1964	Beg. May 1965	End May 1965
A. Oil seeds						
US soya	40	36	40	40	(45)	43
Index	100	90	100	100	112	108
Nigerian groundnut	76	66	62	68	(77)	74
Index	100	87	82	89	101	97
Philippine copra	69	72	65	72	(87)	95
Index	100	104	94	104	126	137
Nigerian palm kernel	54	57	54	55	(66)	68
Index	100	106	100	102	122	126
B. Oils and fats						
US soya	123	90	83	87	(105)	92
Index	100	73	67	71	85	75
Nigerian groundnut	129	116	99	114	(119)	106
Index	100	90	76	88	92	82
Nigerian palm oil	85	82	80	85	(104)	108
Index	100	96	94	100	122	127
Copra	104	100	95	118	(150)	150
Index	100	106	91	113	144	144

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Recent price movements enable certain comparisons to be made with the trend over the whole period.

The general upward movement since the second half of 1964 seems to have come to a sudden halt in the case of liquid oils. This is particularly true of groundnut and soya oils, where the prices are now well below the 1953-57 average, whereas prices for solid oils are much higher.

Hence, even under the present boom conditions, liquid oils are clearly much more susceptible to price fluctuations than solid oils.

Despite an apparent initial lack of confidence in the upward price movements at the beginning of 1965, a vigorous boom occurred at the end of February as a result of unexpected purchases by Eastern bloc countries. The news of better crops in certain Asian and Latin American countries and the expected record crops in North America seem likely to affect chiefly liquid oils. They are expected to affect solid oils to a lesser extent and later, unless further complications occur in the meantime.

At the end of spring 1965, the market situation looked like easing, though it is still impossible to forecast the trend of prices. We might have to wait until early autumn to see whether they are likely to remain favourable following the present boom, whose effects appear to be strongly diminishing already, at least in the case of liquid oils.

<u>The work of the FAO Study Group on coconut and derived products</u>

The sixth session of the FAO Study Group on coconut and derived products took place in Rome from 28 May to 5 June 1965. The chief items on the agenda were the market trends for coconut and derived products, the position of the other vegetable fats, and the possibility of an international agreement for all or some of the products in this sector. The Study Group recommended that its terms of reference be widened to make it the "Study Group for oil seeds, oils and fats" and that it should concentrate more particularly on products derived from coconuts, grountnuts and oil palms. The interchangeability of fats will occupy a prominent place on the work programme of the enlarged group.

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The Group also agreed in principle that further attention should be given to the possibility of concluding agreements on vegetable fats. The representatives of the developing countries would have liked international action based on a reappraisal of the prices of fats. It was recommended that future studies should deal with the size, causes and effects of short-term fluctuations, and should lead to concrete proposals.

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BANANAS

The market in the EEC, AASM and overseas departments

Imports into the EEC

The EEC is the world's second largest importer of bananas, with more than a quarter of the total. Its consumption has increased far more rapidly than that of any other large consumer (e.g. the USA). Germany and France import approximately three quarters of all bananas purchased by the EEC, and their annual consumption is approximately 8 kg per head. These two countries are followed by Benelux (6 to 7 kg). In Italy, imports increased constantly until 1963, when consumption was 3 kg per head. In 1964, however, it plummeted by 40% compared with the preceding year.

Imports in '000 tons

	1958	1960	1961	1962	1963	1964
Germany	423	452	473	467	475	487
France	351	353	367	398	362	353
Italy	62	87	103	135	161	98
Netherlands	53	60	68	71	72	68
BLEU	61	66	68	68	65	68
	950	1 018	1 079	1 139	1 135	1 074

Owing to the fall in imports into Italy, and to a lesser extent into France and the Netherlands, and the slight increase of imports into Germany and the BLEU, EEC imports are at the same level as in 1961. Cold weather in 1962 and 1963 led to a fall in European fruit production and hence to an increase in the consumption of bananas.

Germany imports largely from Latin America - chiefly from Ecuador and Colombia - and some 3% of its total imports come from the Canary Islands. Imports from Ivory Coast and the Congo (Leopoldville) are negligible, but those from Ecuador have increased.

Apart from small quantities obtained by Belgium from the Congo (Leopoldville), the Benelux countries import almost entirely from Latin America.

Italy's supplies come chiefly from Somalia. This country met almost 90% of Italian requirements until 1960, but only 55% thereafter. However, Ivory Coast, the Canary Islands and Israel have recently increased their exports to Italy.

France imports between 95% and 98% of its requirements from the AASM and its overseas departments. But in 1963 and 1964 it was obliged to buy a certain quantity from new sources as a result of insufficient supplies from the French Antilles.

Exports from the AASM and the French overseas departments

The AASM and the French overseas departments account for about 15% of total world exports:

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Exports in '000 tons

	1958	1960	1961	1962	1963
Ivory Coast	46	73	91	123	133
Eastern Cameroon	73	37	51	52	55
Somalia	56	74	84	76	95
Congo (Leopoldville)	28	34	28	29	21
Madagascar	-	-	1	3	11
Martinique	94	126	138	151	117
Guadeloupe	94	115	122	118	109
Total	391	459	515	552	541

Final figures for 1964 are not yet available for most of these countries.

Except in Ivory Coast, whose banana shipments have risen steadily during recent years, production in the other Member States of the AASM and the French overseas departments has fluctuated fairly strongly, owing to natural causes. The French Antilles increased their exports up to 1961/62, but figures fell in 1963 and 1964, largely as a result of cyclone damage.

Banana production in Madagascar is expected to grow rapidly during the next few years.

Exports from the AASM and the French overseas departments go almost entirely to Member States of the EEC (see percentages below):

	1958		1963	
	EEC	Non-member countries	EEC	Non-member countries
Ivory Coast	89.8	10.2	96.5	4.5
Eastern Cameroon	92.3	7.7	100.0	0.0
Somalia	98.0	2.0	98.7	1.3
Congo (Leopoldville)	95.4	4.6	100.0	0.0
Madagascar	-	-	100.0	0.0
Martinique	99.6	0.0	92.4	7.6
Guadeloupe	100.0	0.0	99.8	0.2

These figures, however, give an incomplete picture unless it is borne in mind that the bulk of the exports go to the former mother countries of the AASM and to the present mother country of the French overseas departments.

Two more countries should be added to the producing Associated States. These are Western Cameroon, which has become part of the Federal Republic of Cameroon, and Surinam, which has been an Associated State since 1 September 1962. Their exports were as follows:

('000 tons)

	1958	1960	1961	1962	1963
Western Cameroon	82	86	89	81	66
Surinam	-	1	1	5	5

Western Cameroon enjoyed British Commonwealth preference until 30 September 1963, and exported the whole of its banana production to the UK until the end of that year. In 1964, however, France began to purchase bananas there. The Surinam crop, which is still very small, goes principally to the Netherlands.

Prices

It should be pointed out that the prices shown in the following table are not fully comparable as the figures refer to marketing stages which are not absolutely identical.

Annual averages / US cents per kg

	Central America Price fob USA	Ecuador cif Hamburg	Guadeloupe price on rail from French ports	Cameroon price on rail from French ports	Somalia cif Italian ports
1958	16.3	14.6	23.6	22.3	...
1959	14.5	13.5	18.2	17.4	25.6
1960	14.3	13.3	20.1	18.6	23.0
1961	13.9	13.8	19.8	18.2	23.0
1962	13.3	14.0	19.6	17.4	24.0
1963	12.5	14.7	22.6	19.9	...
1964	...	13.1	24.7	20.9	...

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The table shows the general downward trend of the market over the last few years. Prices hardened in 1963, however, and continued firm during 1964, except in the United States. It would therefore not be correct to speak of an exceptional deterioration in price, even in the case of Somalian bananas. It should be borne in mind that large retail price reductions were made in Italy at the expense of the monopoly and middlemen, whereas the producer's price has remained almost unchanged for several years. In France an increase in prices is noticeable; the French Antilles were unable to satisfy French demand owing to cyclone damage. Consequently, France was obliged to increase her imports from the Canary Islands and Cameroon to meet home requirements.

Prices of bananas from countries enjoying preferential treatment on the French market fluctuated more widely. This was partly due to the simultaneous competition of other fruits.

It is interesting to note that up to 1961 the lowest prices prevailing were those in Germany, despite the fact that sea transport costs including insurance are certainly higher between Latin America and Germany than between Latin America and the United States.

It should be remembered that the banana industry, involving an extremely perishable product, is highly geared to international trading. This makes for fast marketing and excellent ripening and storage conditions, but it also affects prices by limiting competition.

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HARD FIBRES

World price trends

	1955	1956	1957	1958	1959	1960	1961	1962	1963
British East African No. 1 sisal (£/t cif European ports)	80.7	78.10	71.17	72.4	89.6	102.1	93.7	100.10	144.15

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Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
148	148	148	148	148	143	...	130	123	110	108	108

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Jan.	Feb.	March	April	May
100	94	94	94	94

The above table gives prices over the last ten years for a fibre which accounts for by far the greater part (i.e. some 80%) of world trade in the three hard fibres sisal, henequen and abaca. As can be seen, the prices fluctuate quite considerably from one year to another.

World price trends in recent years can be summarized as follows. After weakening throughout most of 1961, sisal prices rose between December 1961 and April 1962 as a consequence of reduced production in East Africa and drought in Brazil. They remained stable for several months and then rose again steeply from September 1962, because heavy cereal crops in Europe increased the demand for binder twines.

No. 1 sisal from the English-speaking parts of East Africa stood at £120 per ton cif at the end of 1962. The average for the year was £100 per ton, which was 7% higher than the average for 1961.

During 1963 world demand for hard fibres for agricultural binder twines remained firm, and producers experienced some difficulty in keeping up with it. Prices therefore rose sharply, and East African

No.1 sisal reached £148 per ton in April 1963 and remained high during the rest of the year. The 1963 average price of £144 per ton was 44% higher than the 1962 average, and only 9% lower than the record 1952 average of £159 per ton reached during the Korean war.

However, in 1964 the trend was the opposite of that in 1963. Throughout the first half of 1964 high-grade East African sisals - which serve as a barometer to the market - remained steady at £148 per ton, a level they had reached in April the previous year; but in June 1964 they began to fall, dropping to £108 per ton by the end of the year. During the period of high demand in 1963, spinners accumulated large stocks of both raw material and finished products. Taking that year's sales as a guide, it became clear that purchases by the trade in 1964 would be below normal. The industry could therefore afford not to buy on a market where the prices were considered to be excessively high anyway.

Unsold stocks accumulated in producing countries such as Tanzania, Kenya and Brazil, and prices continued to fall during the second half of 1964 and early in 1965 before settling at the low level of £94 per ton.

World market trends

These great fluctuations in price, amounting in extreme cases to a 40% difference between one year and the next, have serious repercussions on the export earnings of the producing countries and on planters' incomes. In addition, they discourage some producers from making large investments in their plantations. It would appear that, quite apart from disturbing outside influences such as the Korean war, world fibre prices are subject to wide short-term variations due to natural hazards such as drought, cyclones, etc., which, aggravated by speculation, affect the quantities available for export and hence world supply. Similarly, the economic activity of the chief industrialized importing countries affects demand. This is especially true of sisal and henequen, demand for which in agriculture is determined by the size of cereal and hay crops.

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In the case of one particular fibre (abaca or Manilla hemp), which is exported almost solely by the Philippines and is chiefly used in the manufacture of ropes for vessels and of fishing nets, competition from man-made fibres is increasing and buying has generally fallen off.

The instability of prices of the main hard fibres and its consequences, together with the growing competition from substitutes, has aroused the concern of international authorities. In March 1963 the FAO organized an ad hoc meeting of consuming and producing countries at which the marketing problems of these products were examined in great detail. No satisfactory way was found to regulate the market, either by limiting production or exports or by creating buffer stocks. It was nevertheless felt that an exchange of statistics on stocks, production (including official forecasts), and exports might help to lessen the fluctuations in price and to put the market on a sounder basis.

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