

# COMMODITIES

## Coffee Prices Boom

An unprecedented boom in coffee prices has been taking place in international markets and there is a scramble for buying available stocks. Even before the earthquake in Guatemala affected the export of coffee from this region, an upward trend was in evidence since the middle of 1975. A rise of 50 per cent has thus been recorded in the past few months, the mid-February quotation in London being around \$900 per ton.

In Sri Lanka both wholesale and retail prices have recorded steep increases. The price of coffee which was Rs. 400 a cwt. nearly six months ago had exceeded Rs. 800 per cwt. by February this year. Ground coffee which was retailed at Rs. 9 to Rs. 10 per lb. is now sold at Rs. 14 to Rs. 15 per lb.

India has effected heavy coffee sales already to the Soviet Union and other countries and Indian trade circles claim that further shipments can be effected easily with crop arrivals in the next three months. With disturbed conditions in Angola and a sharp reduction in output in Brazil due to unfavourable weather conditions and pest affecting the standing crop, Indian coffee is in great demand. As the boom is likely to last for some time, Indian coffee exporters can secure much higher earnings if the output could be raised from an estimated 85,000 tonnes to 100,000 tonnes in 1976-77. With a view to preventing an undue rise in internal prices and securing a share in the profits derived by the coffee growers, India's duty has been raised to Rs. 300 per quintal from Rs. 50 per quintal.

## TEA

January 1976

**Production** Figures for the month of January this year showed a 1.8 m. increase in crop over the same period last year. Crop for Jan. 1976 totalled 17.0 m. kilos as against 15.2 m. kilos in Jan. 1975. Mainly responsible for the increase were High Growns where the crop went up to 6.9 m. kilos in Jan. 1976 as against 5.4 m. kilos in Jan. 1975.

**Prices** Average sales prices for all three varieties showed a drop in Jan. 1976 when compared with Jan. 1975. Total sales averages for 1976 were Rs. 6.52 net and Rs. 7.46 gross as against Rs. 6.79 net and Rs. 7.96 gross in Jan. 1975.

**London Auctions** Shipments to the London auctions in Jan. 1976 showed a marked drop in comparison to Jan. 1975. The total tea exported to the U.K. on account to the London auctions in Jan. 1975 was 2,319,600 kilos as against 669,462 kilos in Jan. 1976.

## Sri Lanka's Commodities Performance in 1975

### TEA

In 1975 prices of tea at the Colombo Auctions were very often irregular following the inconsistent demand which was a feature of the local tea market. The upsurge in tea prices in 1974 did not continue through 1975. However the prices remained higher than the 1973 levels. In 1975 too the Colombo Auctions were dominated by the demands from the Middle East and Pakistan and it appeared that there was more buying interest from the U.K. Demand from the U.S.A. slackened and there was a decline in the volume of exports to the U.S.A. in 1975. South African buyers also operated in a more restricted manner. This resulted in high grown teas showing substantial price movements. South Africa is one of Sri Lanka's important buyers of high grown tea. Unfortunately the Russian buyer who was expected to enter the market during the Dimbula season, during February and March, did not oblige although they supported the Uva teas during the season. Australia's demand for tea in 1975 was fairly consistent and this helped to give support to the well made teas. Low growns continued to enjoy a better average than High growns and Mediums which show the amount of interest for this type of tea—mainly supported by Middle East buyers.

## Colombo Auction Prices (Rs./Kilos) (Gross Monthly Average Prices)

	1973	1974	1975
High Grown ...	2.25	3.20	3.19
Medium Grown ...	1.09	2.80	2.86
Low Grown ...	1.83	3.03	3.27
All Teas ...	1.97	3.01	3.10

### London auction prices (Pence/Kilos) for Sri Lanka Teas ...

Lanka Teas ...	45.42	60.30	63.11
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Despite the irregularity which featured 1975 prices, very little tea was withdrawn in the weekly auctions. There was a good general demand for good liquoring and well made teas. Plain and poor leaf sorts were discounted and as the year progressed there was a widening of price between the two categories.

### Metrication of Tea Auctions

The Colombo Tea Auctions which were being conducted on the basis of a "per lb" rupee price, smoothly switched over to the Metric System from the 2nd of April 1975 and teas were thereafter sold on a per kilo rupee basis.

### London Auctions

1975's quantity of tea consigned to the London Auctions was lower than the 1974 figure. The government took strict measures to persuade exporters from Sri Lanka to obtain all monies due to this country.

## PRODUCTION OF TEA (Kilos)

	1973	1974	1975
High Grown	80,570,659.7	80,285,984.5	80,160,075.5
Medium Grown	70,422,600.2	70,510,016.7	73,079,031.1
Low Grown	60,277,694.1	53,242,427.3	60,439,660.1
<b>Total</b>	<b>211,270,954.0</b>	<b>204,038,428.5</b>	<b>213,678,766.7</b>

### Production and Costs

The total production of all teas in 1975 was much higher than that of 1974 and this increase was accounted for by higher output in the Medium Grown and Low Grown tea estates.

The cost of production was in the region of Rs. 5/50 to Rs. 6/- per kilo (35 and 39 pence per kilo) and the average of all teas sold in 1975 was in the region of Rs. 6/05 (40 pence per kilo) which could barely cover cost of production.

### Shipping of Teas

With the reopening of the Suez Canal, quicker transportation from Colombo to the U.K., Europe and the U.S.A. was possible. In 1975, availability of shipping space was adequate.

### Exports

The quantity of tea exported in 1975 to all destinations was 468,996,041 lbs. which was 100,292,502 lbs. above the 1974 figure of 386,703,539 lbs. and 33,412,228 lbs. above the 1973 figures 453,583,813 lbs. The higher FOB value of Rs. 4/11 per lb. helped to raise earnings to Rs. 1,931,643,378 in 1975.

## TEA EXPORTS

	1973	1974	1975
Exports (lbs.) ...	453,583,813	386,703,539	468,996,041
Export Value (Rs.) ...	1,260,772,629	1,360,134,399	1,931,643,378
FOB Value (Rs./cts./lbs.) ...	2.78	3.51	4.11

## COCONUT

### Production

Coconut production in 1975, according to the estimates of the Coconut Marketing Board indicated a substantial increase of 27 percent, rising from 2029 million nuts in 1974 to 2585 million in 1975. Weather conditions in the coconut growing areas has been satisfactory in 1975 and it is likely that production would go up further in 1976. All coconut products showed some improvement in 1975. Copra production increased from 108,473 M.T. in 1974 to 203,082 M.T. in 1975; oil production from 64,855 M.T. to 120,263 M.T.; desiccated coconut from 42,336 M.T. to 51,582 M.T. and poonac from 32,432 M.T. to 101,541 M.T.

### Exports

Export earnings from coconut products in 1975 at Rs. 496 million indicated a drop of Rs. 46 million in comparison with that of 1974.

### Export Volume and Value of Coconut Products in 1974 & 1975

	1974		1975	
	Vol. (tons)	Value (Rs.)	Vol. (tons)	Value (Rs.)
Coconut oil ... ..	415,373	141,320,703	1,072,226	187,837,798
D.C. ... ..	838,702	251,919,086	1,167,410	192,955,382
Copra ... ..	54,000	907,062	27,838	6,663,833
Poonac ... ..	78,394	1,454,430	56,483	1,174,631
Fresh nuts ... ..	1,868,607 (nuts)	2,974,553	24,610,950 (nuts)	9,475,511
Fibre products ... ..	2,176,205	112,096,410	1,391,008	84,507,459
Shell products ... ..	517,240	31,370,704	340,471	13,256,888
Total value ... ..	—	542,042,953	—	495,871,502

## SPICES

Total earnings from the export of spices during 1975 amounted to Rs. 66.2 m.—Rs. 17.2 m. less than in 1974. The major drop was in the export of Cinnamon which amounted to only 4500 tonnes in 1975 as compared with over 7000 tonnes in 1974. Consequently export earnings from Cinnamon fell by Rs. 15.2 from the 1974 level. Exports of Cardamoms at 334 tonnes showed an appreciable increase, compared with both 1973 and 1974, and export earnings at Rs. 12.7 m. was almost double that of 1974. Details of exports for the past three years are given in the following table.

## ESSENTIAL OILS

Total earnings from the export of essential oils in 1975 were only Rs. 4.3 m. and lower than in 1974 by Rs. 8.5 m.

The decline in earnings was due to the drop in quantity as well as in value, especially of Cinnamon leaf oil and Citronella oil, the major essential oils exported from Sri Lanka. There was a notable drop in exported quantities of cinnamon bark oil, ginger oil and cardamom oil compared with the previous years. Further details are given in the table below.

## RUBBER EXPORTS

	1973		1974		1975	
	m. kilos	Rs. m.	m. kilos	Rs. m.	m. kilos	Rs. m.
Sole crepe ... ..	4.3	22.4	4.0	39.8	4.2	25.4
Latex crepe ... ..	40.3	179.0	37.0	246.4	44.7	197.2
Scrap crepe ... ..	13.5	48.1	14.8	65.3	13.6	45.3
Sheet rubber ... ..	101.8	339.5	71.5	386.7	97.1	380.8
Block rubber ... ..	.8	3.1	.4	2.2	1.2	4.3
Latex ... ..	—	—	—	—	1.3	4.8
Total ... ..	160.7	592.0	127.7	738.5	169.1	657.8

According to Customs data the volume of coconut oil exported in 1975 was 53,612 tons, an improvement of 32,844 tons or 158% over the 1974 level. The volume of desiccated coconut exported in 1975 was 58,370 tons, an improvement of 16,435 tons or 28% over the 1974 level. The volume of copra exports further declined from 2700 tons in 1974 to 1391 tons in 1975. The volume of fibre and fibre products exports in 1975 was 69,550, a decline of 39,260 tons over 1974.

## RUBBER

Exports of rubber in 1975 at 169,126 tonnes were quantitatively higher than that of 1974 by 41,597 tonnes. In spite of the substantial increase in quantity, however, total export earnings at Rs. 657.8 million in 1975 was Rs. 80.7 million lower than those of 1974. Increased quantities of sole crepe, latex crepe and sheet rubber were exported but at a lower value.

Lower prices which prevailed for all types of rubber during the first half of 1975 contributed to the drop in export earnings. Though this trend was reversed in the second half of 1975 and prices tended to rise steadily it was not adequate to compensate for the very low prices obtained earlier.

The increasing trend in prices has continued into 1976 and it is expected that the outlook for rubber will remain buoyant.

The average price for RSS1 for 1975 at Rs. 2.87 a kilo was higher than for 1974 by .29 cts. a kilo.

## SPICE EXPORTS

	1973		1974		1975	
	Quantity Kgs.	Value Rs. m.	Quantity Kgs.	Value Rs. m.	Quantity Kgs.	Value Rs. m.
Cinnamon	6,513,927	37.9	7,039,589	59.5	4,500,726	44.3
Cardamom	184,658	8.5	133,705	6.4	333,756	12.7
Cloves	379,323	8.6	571,551	12.5	173,532	5.5
Pepper	1,539,549	10.8	337,667	3.4	96,113	1.2
Nutmeg	306,171	3.1	123,952	1.4	n.a.	2.4

## ESSENTIAL OIL EXPORTS

	1973		1974		1975	
	Quantity Kgs.	Value Rs. m.	Quantity Kgs.	Value Rs. m.	Quantity Kgs.	Value Rs. m.
Cinnamon leaf oil	87,344	1.8	95,260	5.0	51,596	1.6
Cinnamon bark oil	1,370	0.8	891	0.7	192	0.2
Citronella oil	202,135	4.1	135,074	5.6	102,318	2.0
Cardamom oil	1,485	0.9	989	0.7	158	0.03
Clove oil	946	0.03	1,205	0.06	—	—
Nutmeg oil	5,284	0.3	5,493	0.4	4,762	0.4
Ginger oil	359	0.1	457	0.3	150	0.05
Lemon-grass oil	1,017	0.02	609	0.01	499	0.02

## The International Tea Market in 1975

1975 could be described as "A Year of Adjustment", perhaps one of "Over-adjustment" of the world tea industry. For years the tea industry and the tea trade had lived through market fluctuations without always a full regard for the costs involved in carrying large stocks. Financial consideration brought in a lot of pressure on all aspects of the tea industry in 1975. This situation is likely to continue in 1976 as well. There has been very strictly planned inventory control on tea in 1975. This novel development has begun with the producer, requiring a quicker return on his product; and ends with the seller, who cannot as in the past afford to carry large stocks other than those which can be sold immediately.

Sellers of tea have tended to move stocks as quickly as possible. A clear example was the record breaking quantities in the Colombo auctions in 1975. Packers have reduced their inventories, wholesalers have cut back their packed tea stocks and the supply lines have been shortened to major markets with the opening of the Suez Canal.

It is rather surprising that the market for tea was rather depressed in 1975. Did buyers actually operate in a highly selective manner? The real reason was of course strict inventory control. With packers cutting back drastically on their inventories the result was very small invisible stocks. Automatically the quantity of unsold visible stocks in the open market became rather big. This situation tended to depress the market in 1975 and afforded buyers of tea an opportunity to operate very selectively. This resulted in slump prices for undesirable poor liquoring and poor appearance teas. Well made sorts, with good cup, however, fetched relatively good prices in 1975.

The very small stocks in the hands of the packaging industry could have made packers vulnerable and the market could have reacted sharply with any irregularity in the world supply pattern. A look at the production and consumption statistics makes this position clear. In 1965 world production of tea was estimated at 840.25 million kilos. In 1972 it was 1081.5 million kilos; in 1973 1102.5 million kilos; in 1974 1131.25 million kilos and in 1975 1138.5 million kilos. On the other hand, world consumption of tea has been estimated at 808.5 million kilos in 1965; 1017.5 million kilos in 1972; 1009 million kilos in 1973; 1085.75 million kilos in 1974 and 1139.75 million kilos in 1975.

Packers carrying smaller stocks than usual is almost certainly caused by recession and consequent tight financial control. This could possibly be the beginning of a period of changes in buying patterns.

### Colombo

Prices at the Colombo Auctions in 1975 were very often irregular following the inconsistent demand which featured the market in 1975. The total crop for 1975. Sterling and Rupee Company owned Estates were nationalised in 1975 by the Sri Lanka Government in October 1975 and teas continued to be sent to London Auctions without interruption. The largest quantity of tea—6.07 million kilos—ever to be

handled at a single auction at any tea centre in the world was disposed off in one day at the Colombo Auctions on 8th July 1975; and an even slightly bigger amount of 6.14 million kilos, now considered the record, was handled remarkably well at the auctions of 23rd July 1975.

### Calcutta

Demand at the Calcutta Auctions during the months of January/March for the balance of 1974/75 season continued to be good and these teas were disposed of at satisfactory prices. The 1975 season's first sale was held on 7th April 1975 and prices opened at levels much higher than those that ruled in 1974. The quality of some of the first-flush Darjeelings Tea was of vintage character and as a result the best available sold at considerably higher prices. Off-take of tea by bilateral countries having increased considerably, the Calcutta Auctions in India are now more dependent on buying by Soviet Union, Iraq, Afghanistan and of course, the domestic market. In view of the fact that the last season orthodox teas fetched higher prices than CTC, producers in 1975 concentrated more on orthodox Teas and and it is estimated that this would amount to about 60% of North Indian crop. Up to the end of November 1975 the average prices for CTC Tea was in the region of 59.78p; Orthodox was in the region of 73.76p; Darjeeling—110.45 p compared to 1974 when CTC was 53.54 p; Orthodox was 73.10 p and Darjeeling—104.75 p per kilo ex-auction. It was thought that the Indian crop of Tea would improve in 1975, but due to the drought conditions the North Indian crop showed a very small decrease. On the other hand, South India produced somewhat more than expected. India's internal consumption of tea is growing at a rate of 5% to 6% per annum. Most teas from India were shipped from Calcutta Port.

### Cochin

The South Indian crop set a new record and seasonal qualities were maintained and the leaf appearance of medium teas showed fair improvement. Quantities offered for sale in Cochin, Coonoor also showed increases. The average prices realised in Cochin was 15% compared to the same period in 1974. Price levels in Cochin for most part were higher than other sources for corresponding qualities. In the Coonoor auctions, where most of the Offgrade sorts are offered, the average price has been only slightly higher than 1974 indicating that the overseas/internal demand for Offgrade types was comparatively less than main grades.

### Bangladesh

Like North India, Bangladesh too experienced adverse weather conditions and this year's crop was expected to be around 65 million lbs. Consequent to the devaluation of the TAKA towards end of April, the new season opened on a very high level and because of the increased interest by the Soviet Union and Egypt, price levels were much higher than those of in 1974. The Soviet Union withdrew from the Bangladesh market towards the end of August, and as a result price levels for BOPs came down considerably and it was only the interest of Poland and Egypt that kept the prices of Bangladesh teas at reasonable levels.

The demand from U.K., Europe, U.S.A. and Australia for Bangladesh tea in 1975 was much than in 1974. In Bangladesh the tea industry is still experiencing a shortage of tea chests. Polythene lined hessian bags still continue to be used.

### EAST AFRICA

The overall production in East Africa has been somewhat lower than 1974 due to adverse weather conditions as well as labour troubles in, for instance, Mozambique. There has been a growing tendency to sell more tea at origin which means quicker payment for producers. The result has been a slight tendency for somewhat smaller quantities being offered at the London auctions. Crop expansion continued in 1975 specially in Kenya. Like in Bangladesh there are still packing problems in East Africa with a shortage of tea chests and the usage of poly-lined jute bags. Jute bag packing is generally resisted by buyers and as a consequence this type of packing is often discounted. At the end of October, Kenya, Tanzania and Uganda devalued their currency by between 14% - 15% and were pegged to the Special Drawing Rights of the I.M.F.

### Kenya

Kenyan tea has been doing fairly well in 1975. The average price of Kenya teas were 59 p. per kilo C & F E.B.F. as against 60 p. in 1974. It is noteworthy that the auctions in Mombasa increased from about 8,000 packages weekly in 1973 to about 15,000 packages weekly in 1974 and between 17,000 - 20,000 packages in 1975.

### Uganda

The quality of Uganda Tea has been a bit disappointing in 1975. In quality and appearance 1975 production fell behind that of 1974.

### Tanzania

The Tanzanian shipping situation in Dar-es-Salaam was very difficult in 1975. Tanzanian Teas were auctioned in Mombasa as well as in London.

### Malawi

From the beginning of 1975, in Malawi, financial considerations resulted in most Malawi producers, who traditionally shipped their teas to London, leaning more and more to the Limbe auction where the teas came under the hammer on an F.O.R. Luchenza basis. This of course, meant that they got their money within 27 days compared to about 120 days otherwise. As a result, approximately 6 million kilos passed through the Limbe auctions in 1975 compared to 3.75 million kilos of tea in 1974. Prices in the Limbe auctions for all grades during 1975 tended to stay above the prices in London. Shipping opportunities from Beira and Nacala were fair throughout the year 1975. A Port Congestion Surcharge of 30% was levied in Beira and 15% in Nacala from July due to heavy shipping delays.

### Mozambique

The crop prospects of Mozambique looked good at the beginning of 1975 due to the various climatic conditions. Unfortunately labour problems caused an approximate 35% drop in production in 1975 of

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about 10,000 tons against the 17,000 tons of 1974. Quality also dropped mainly due to coarse plucking. The high cost of labour and the comparative low prices realised in 1975 coupled with lower production, created difficulties in the financial field for most estates. Labour problems were also experienced in the Mozambique ports. Export prices of tea in Mozambique are now controlled by an organization called "Cabinet of Tea Trade".

### **Indonesia**

Indonesia's crop for 1975 was estimated to be larger than that of 1974. In 1974 as a result of constant good production, improved shipping opportunities and an intelligent system of marketing, the Indonesian Tea Market attracted more international attention. The year 1975 was marked by a consolidation and further improvement of this position in the international tea market. Roughly, 80% of the Java teas were sold at the Jakarta Auctions and the balance by private offerings. Consumption in Indonesia itself is also increasing annually.

### **Argentina**

Argentina's tea industry as in the case of some other producers, was very vulnerable in the sense that the cost of production was considered too high as against the sale of the final product. In this sense her tea industry was going through a difficult time in 1975. The enormous inflation in Argentina also complicated matters for her tea industry.

### **Brazil**

Brazilian tea production though not of much significance in the world tea scene, was improving gradually.

### **China**

The People's Republic of China was growing gradually in importance as an exporter of tea.

### **Taiwan**

Taiwanian (Formosa) tea was readily sold at a comparatively high price in 1974 compared to that of 1975. Taiwan concentrated on production of green teas in 1975 rather than on black.

### **Turkey**

Turkey did not export much tea in 1975 as her exportable surplus of 1974 did not amount to much. In Turkey the internal consumption of tea is growing quicker than the production and her exportable surplus has been reduced.

The average prices for all teas at the London Auctions in 1975 which averaged between 58/65 p. at the beginning of 1975 stood at 65 p. by August. The year appeared to end with a price of 62-63 p. During 1975, two retail price rises were allowed by the government—one of 2 p. and one of 4 p. per lb. It would appear that on current costings and supplies, that little 'price reducers' are needed for the U.K. packet trade. A government subsidy of 8 p. per lb. was introduced in September 1974 but there are moves to dispose of all food subsidies by the end of 1976.