

# COMMODITIES

## TEA

### Drop in World Production

The year 1979 was a better year than the previous one for tea production in Sri Lanka, though world crop output appears to have dropped by about 19 m. kgs. Estimates of Sri Lanka's tea output in 1979 are placed at about 207 m. kgs. as compared with 199 m. kgs., in 1978. This production level although an improvement over the last two years when compared with the output of the year 1971, 1972 and 1975 when output was in the region of 280 m. kgs. for the year is not as impressive.

World production of tea in 1979 was trailing that of the previous year mainly because of the estimated drop in the North Indian crop due to acute drought conditions in these regions. Up to the end of December crop figures for North India were

that aggregate exports in 1979-80 may increase by 40 million kg. to about 203 million kg.

With an upward trend in prices and shipments of about 105 million kg. in October-March it is estimated that India's aggregate foreign exchange earnings may be in the region of Rs. 340-350 crores in 1979-80. It is however, feared that there may be a decline in the unit value of exports if the shortages in packing materials are not eliminated. Difficulties in securing aluminium foil have been handicapping the despatch of tea against export contracts. The availability from indigenous sources has been badly affected by interruption to production at the large-sized plant in Calcutta. But, with a reduction in stocks and the brisk demand, India's tea estates are likely to get over fully the adverse effects of the depression in 1978-79.

countries. In Sri Lanka too the first half of 1979 therefore recorded unremunerative prices especially when considered against the rising cost of production. The existing export duty and cess and Ad-Valorem Sales Tax levy that were in force took still more of the producer's margin. The result was that by the end of June nett sale averages were extremely depressing when compared with those of 1978 and the cost of production had reached around Rs. 12/50 per kilo. But the with reduction in export duty and Cess from Rs. 16/20 to Rs. 11/40 a kilo and the revision of the Ad Valorem Sales Tax, together with a greater interest in buying during the second half of 1979, producers enjoyed a better return than in the first half.

A significant feature that was apparent throughout the year was that the demand for Sri Lanka's best available teas, particularly during the two Quality Seasons, was exceptional and the top prices established during the year surpassed previous performances convincingly. This aspect clearly endorses the fact that good teas, even during a year of comparatively low prices, continue to be sought after.

The trade warned, however, that whilst forecasting a generally stronger market in 1980, particularly better than in the first Quarter of 1979, there is no real shortage of very poor tea and an abundant supply of inferior teas could well mean depressed prices for these varieties.

The annual average prices fetched by Sri Lanka's teas at the Colombo Auctions are shown in the table below.

The continuous fall in the average price per kilo over the last three years is seen in the table below, particularly in the gross average prices which fell from Rs. 16/05 per kilo in 1977 to Rs. 12/19 per kilo in 1979.

CROP FIGURES OF MAJOR PRODUCING COUNTRIES  
(in million kg.)

Country	1978	1979
Sri Lanka	198.9	206.4
Bangladesh	36.5	35.9*
South India	130.4	139.0*
North India	440.9	407.7*
Malawi	31.7	32.6*
Kenya	93.4	99.3
Tanzania	17.2	18.0*
Indonesia	59.0	59.8*
Uganda	10.9	1.6*
<b>Total</b>	<b>1018.9</b>	<b>1000.3*</b>

\* Estimated

estimated at 408 m. kgs. as against 441 m. kgs. for the same period in 1978. In Bangladesh too there was a slight fall in production up to the end of December, while in Uganda with the unsettled political conditions crop figures had dropped drastically. (See table above).

In India however, tea estates were busy stepping up exports and also increasing sales in the domestic market with larger buying by overseas consumers and a sharp increase in internal consumption. On the basis of the trends in shipments in April-September 1979 and bidding at the auctions in subsequent weeks it is expected

With the increase in the world crop in 1978 and a general slackening throughout the year following the panic buying experienced during the price boom in 1977 there was a substantial rate of carrying over of stocks of unconsumed tea into 1979 both in the producing and importing

ANNUAL AVERAGE PRICES

	Gross			Nett		
	1977	1978	1979	1977	1978	1979
High	16.51	13.64	13.35	13.66	11.41	11.74
Medium	14.80	10.69	10.42	12.18	9.58	9.97
Low	16.80	17.41	12.54	13.58	13.36	11.56
Total	16.05	14.09	12.19	13.15	11.55	11.14

The trade saw optimistic signs in the tea market during 1980, at least during the first quarter. The reasons for this was that globally the large carry over stocks of unconsumed tea, that were in evidence at the beginning of 1979, had been wiped out by the end of the year. The demand situation was therefore expected to be tighter in, world markets. Locally, with the Western Quality season about to set in the quality of offerings was improving and seasonal quality teas were expected to be on offer throughout the Colombo sales in February and March 1980.

## RUBBER

### Agreement on Natural Rubber

In our last issue we made a brief reference to the international price stabilization agreement on natural rubber which was formally concluded on October 6, 1979, after nearly three years of negotiations under UNCTAD auspices. This agreement will enter into force on October 1, 1980 once it is signed and ratified by a sufficient number of countries. The particular significance of this agreement is that it is the first of 18 commodities under UNCTAD's Integrated Programme for Commodities (IPC) for which a new agreement has been concluded. This agreement foresees a close link to the proposed Common Fund, as it specifies that when the Fund becomes operational and the International Rubber Council, to be established by this Agreement, will take full advantage of its facilities. Conclusion of the agreement thus represents a major step ahead in the implementation of the IPC and is expected to have a stimulating effect on the negotiations on the other commodities being conducted under that Programme.

Natural rubber is a key commodity, in terms of value, taking second place after cotton among all agricultural raw materials traded on world markets. It is vital to the economies of the producing countries, all of which are developing countries, providing a major source of government revenue, foreign exchange and employment. The bulk of natural rubber is exported to the developed countries where nearly two-thirds are used in the transportation industry.

Historically international trade in natural rubber has been characterized by short-term price instability, long-term declining price trends and competition from synthetic rubber. The agreement's main objective is to stabilize rubber prices at remunerative levels. This is to be done by means of an international buffer stock which will be the sole instrument for price stabilization.

The buffer stock has a total size of up to 550,000 tons and consists of two parts: a normal buffer stock of 400,000 tons and a contingency stock of 150,000 tons.

Costs of the buffer stock will be shared equally between producer and consumer countries.

The agreement has seven prices: the reference price which is at midpoint of the price range, and three prices above and below it. They are the upper and lower intervention prices, the upper and lower trigger action prices and the upper and lower indicative prices. The latter indicates the limits of the price range. Upper and lower intervention prices are 15 percent above or below the reference price; the region between them being the zone of non-intervention. The trigger action prices are 20 percent above or below the reference price respectively and when prices keep within the range delimited by intervention and trigger prices, it is up to the buffer stock manager to decide if he should buy or sell rubber. At or beyond this price range the buffer stock manager must act by either buying or selling rubber using the resources available for the normal buffer stock.

When the buffer stock reaches the level of 400,000 tons, the Council will meet to decide at what price to bring the contingency stock into operation in order to defend the limits of the price range. Unless the Council decides otherwise, the contingency stock will come into action midway between the trigger and indicative prices.

The reference price upon entry into force of the agreement was set at 210 Malaysian/Singapore cents per kilogramme. Upper and lower indicative prices were set at 270 and 150 Malaysian/Singapore respectively; both prices will be reviewed and if necessary revised every 30 months.

At the time of negotiating, the Rubber Agreement, the price of natural rubber was 285 Malaysian-Singapore cents. If the price should still be outside the range specified in the agreement when it comes into force, the International Rubber Council would be empowered to adjust the price range.

The agreement has two unique features: it is the first time that governments of consumer countries commit themselves to share equally the costs of buffer stocking through

direct contributions, and it is the first time that a price range has been tied so closely to the market and that an automatic system for price revision has been incorporated, thus precluding lengthy discussions on this which has been a very difficult issue.

One of the major reasons for successful conclusion is regarded as effective producer association, in which producers were well-organized and co-ordinating their positions throughout the negotiations. An even more apparent factor appears to be the realisation of consumer countries that according to all present indications there will be a substantial shortage of natural rubber: by the 1980s, while petroleum shortages will further aggravate the situation. Consumers therefore appeared keen to conclude the agreement with the hope of assuring reasonable and steady prices which would encourage producers to step up replanting and also to undertake new plantings of rubber.

An additional reason for the consumer countries interest in the agreement was the fact that natural rubber is recommendable from the ecological and energy-saving point of view, since all the feed stocks for the production of synthetic rubber are derived from petroleum or natural gas. These feed stocks, for which all indicators point to a steady price rise, could be used for producing other essentials. Volatile prices, however, tend to minimize the usage of natural rubber vis-a-vis synthetic rubber. At times of high prices consumers are encouraged to switch to synthetic rubber, whereas in times of low prices they may not make the parallel switch out of fear of another upswing in prices of natural rubber. On the other hand stability of rubber prices could make advance planning on the part of consumers as well as producers possible and can encourage demand and supply of natural rubber grow in a more balanced way.