

Pacific islands commodity prices

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'Agriculture, still crucial in the South Pacific' was the title of a series of seminars organized by the National Centre for Development Studies in Melanesia earlier this year. In the last issue of the *Pacific Economic Bulletin* a number of articles highlighted the importance of agriculture and the manner in which it might improve its contribution to the well-being of that 80 per cent plus of most island populations still living in a rural environment.

Critical to Pacific agriculture, as with all other rural communities, is the income that is derived from the sale of agricultural produce. In recent years prices for rural commodity exports have been depressed to the point of threatening the future of the rural economy in a number of states. Measures taken to support the rural sector include government funded

price support schemes, the identification of niche markets and attempts to add value by processing. An example of positive intervention is action by the recently elected government of Papua New Guinea to set minimum, guaranteed prices for major cash crops—coffee, cocoa, copra and palm oil—to take effect from November 1992. The new guaranteed prices are well above world prices, and prices paid under former support arrangements. In addition, the government has offered assistance to marketing, research and extension services to increase production, improve quality and competitiveness.

These actions represent the government's attempts to safeguard the rural economy. Future 'farm gate' prices remain critical. This article, a regular feature of the *Bulletin*,

Chart 1 International indices

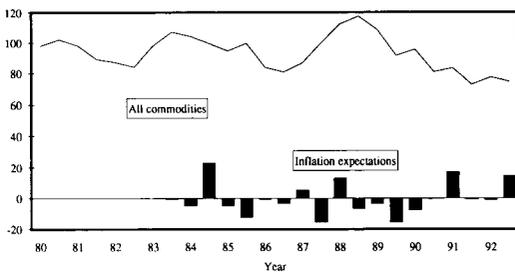
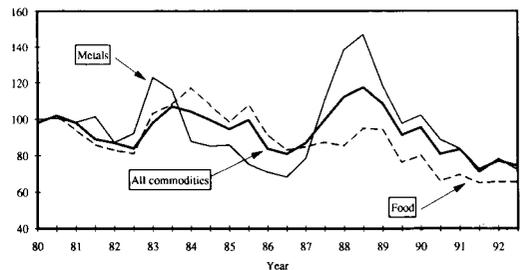


Chart 2 International trade price indices



draws heavily on the World Bank's *Quarterly Review of Commodity Markets*, to report on the outlook for major Pacific island crops.

Prices of **cocoa** declined by 18 per cent from the first to the second quarter 1992, and bottomed at 45 cents/lb. This was the lowest price since 1973, and was due to a forecast increase in production and decline in Commonwealth of Independent States grindings. In the third quarter the price rose sharply in response to strike action which caused disruption of the Ghanaian shipments. Shortly afterwards, improved production prospects, depressed demand from the Commonwealth of Independent States, and settlement of the strike that had disrupted Ghanaian shipments restrained further increases in the price. By the end of September, the price of cocoa was about where it had been two months previously.

Production in Ivory Coast, Ghana and Nigeria is projected to be higher in 1993 than the previous year, with an all time high harvest in Indonesia. It is expected that the increase in demand in Western Europe and North America will more than offset falls in the Commonwealth of Independent States and Eastern Europe. The outcome is forecast to be a steady rise in the price of cocoa in 1993.

World **coffee** prices reached their historical low level, in real terms, during the second quarter of 1992. The accumulation of stocks in major importing countries following the collapse of the International Coffee Agreement

in July 1989, weakened import demand and resulted in historically low prices.

Arabica coffee prices reached a new twenty year low of 44.9 cents/lb before they recovered in the last quarter of 1992 to an average of 47.2 cents/lb. Prices for arabica coffee in the third quarter of 1992 were only slightly over a half of that of the first quarter of 1991. Arabica coffee prices are depressed mainly due to the collapse of the International Coffee Agreement which has resulted in record shipments from the two large producer countries, Brazil and Colombia. Even if there is a significant breakthrough on the fifth round of International Coffee Agreement negotiations early next year, a new accord would not be put into force until the end of 1993. As a result, coffee prices are expected to remain depressed.

It is forecast that Arabica prices could fall further in the short term, but start to pick up in 1993 and continue through into 1994. Robusta prices will continue to improve in 1993 but at a lower rate than arabica. By the beginning of 1994 robusta prices are forecast to reach their levels of three years ago.

Raw sugar prices started to increase in April 1992 and peaked at US10.8 cents/lb by late June 1992. Major contributors to the price increase were drought in South Africa and Commonwealth of Independent States' purchases. The recovery led to an average world sugar price of US9.2 cents/lb in 1991-92.

World sugar production in 1992-93 is forecast to recover to just under the record of

Chart 3 International sugar price indices

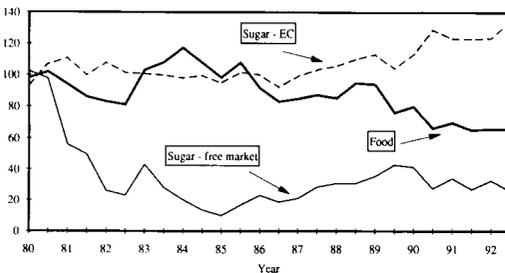
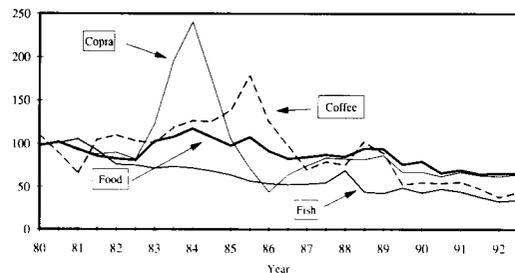


Chart 4 International food price indices



115.3 million tons for 1990-91. European Community (EC) production will also recover from last year's smaller, 15.8 million ton crop to about 17 million tons. This is expected to raise export potential to 5 million tons from last year's 4.4 million tons.

World sugar consumption is forecast to increase by 2 per cent to 113.5 million tons in 1993. Consumption in Asia is expected to continue its strong growth, offsetting the depressed consumption in the Commonwealth of Independent States. Stocks are forecast to rise by over 1 million tons to 37.2 million tons. The overall effect of the boost in production and sluggish consumption is to weaken world raw sugar prices. The average world price is expected to be US8.5 cents/lb over 1993.

Prices of **oilseeds** have, in general, been weak. Soybean oil price was the weakest of all edible oils.

Palm oil prices fell by 3 per cent in the third quarter after four successive upward movements. Production is forecast to recover, increasing by 7 per cent in 1992. Though production continued to increase, prospects for demand have also improved and stocks are at historically low levels. Soybean harvest in the United States, the leading producer, is expected to be the largest since 1982, at 57.4 million tons in 1992-93. China's demand for soybean oil may increase as its soybean areas have been affected by drought. A sustained price rise in soybean oil is forecast for 1993 through into 1994.

Coconut oil prices fell by 10 per cent in the second quarter of 1992 compared with their level the previous year. Prices fell further in the third quarter to US\$95/ton. Production is expected to recover during the remainder of the year: however, this increase in production will be reversed in 1993 due to the drought conditions in Philippines, Sri Lanka and Indonesia.

Copper prices increased over the first two quarters of 1992, reaching almost US\$1.2/lb in August. High prices were driven by strong speculative activity from investment funds, copper purchases by China, news of a smelter explosion and bad weather in Chile, and a potential labour strike in Poland. The prices were driven to unrealistically high levels and were unsustainable. Copper prices fell to about US\$1/lb in September, undermined by weak demand for copper.

World stocks of copper continued to pile up in 1992. They are forecast to peak at around 1.1 million tons, the highest since 1985. The growth in stocks has mainly originated from increased copper exports from the Commonwealth of Independent States and Poland as their domestic demand weakened, and production in Chile increased. The sluggish economic growth in OECD countries and the contraction in the Commonwealth of Independent States and Eastern Europe economies has constrained consumption. Rising world stocks and weak demand resulted in the fall of world prices for the third consecutive year to an average of US102 cents/lb.

Chart 5 Mineral price indices

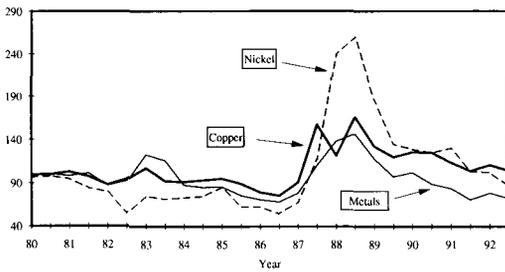
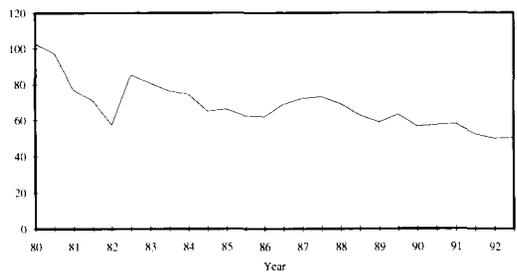


Chart 6 International gold price index



A significant turnaround in the world copper prices is forecast for 1992-93. World production of refined copper is to increase by only 1 per cent to 9 million tons, constrained by smelting capacity. Consumption of copper is forecast to rise by over 3 per cent as the economic recovery in Japan and United States gathers momentum.

World **gold** mine production is forecast to decline to 2106 tonnes in 1992. The decline mainly originates from a fall in production in Commonwealth of Independent States countries caused by economic dislocation and capital constraints. Cost increases and declining grades in South Africa will also contribute to the decline in world production. However, world supply is forecast to rise in 1992. The increase in supply is expected to come from some disinvestment in Europe. World demand for gold for jewellery is expected to increase by 3 per cent from 1991 levels. World gold prices are expected to fall by 3.3 per cent from 1991 to an average of US\$350/oz in 1992.

World supply in 1993 is forecast to rise by 5 per cent to around 3250 tonnes, again due to disinvestment in Europe. World demand for gold jewellery is expected to increase by 6 per cent in 1993 with strengthening world economic growth. As a result the world gold price is forecast to recover to an average of US\$373/oz.

Oil revenues of OPEC member countries, excluding Kuwait and Iraq, fell by 16 per cent in 1991. Revenues were cut as oil prices fell from their historically high levels during the

Gulf war. To raise prices in the short term, OPEC member countries moderately restrained their supply at a production quota of 23 million barrels a day. The average OPEC crude oil price increased steadily in the first three quarters of 1992, from US\$15.6 a barrel in the first quarter to US\$18.4 a barrel in the third quarter.

In order to facilitate its program for rebuilding its production capacity, Kuwait is exempted from production quotas. Its production in the short term is expected to be around 1.5 million barrels a day. An equal amount of oil could be supplied to the world market when the embargo on Iraq is lifted. The reintroduction of Kuwaiti and Iraqi supplies in the absence of rapid growth in world demand could push oil prices below US\$17 a barrel. World oil prices are forecast to increase by 10 per cent to an average US\$19.5 a barrel in 1992-93, as substantial supplies from either Kuwait or Iraq are not expected to materialize in the year 1992-93. Continued strong growth in oil demand in developing countries, a general increase in OECD demand and continued OPEC restraint on supply will cause price increases in the mean time.

Premium grade **tuna** prices in Pago Pago and American Samoa show a decline throughout the years 1991 and 1992, indicating a long-term downward trend. The depressed market for tuna is mainly due to oversupply to canneries, depressed demand in North America and Western Europe and increasing competition faced by American canneries from Thai canneries.