

Pacific island commodities prices

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For several years the *Pacific Economic Bulletin* has included an article providing details of movements in the world market prices of the Pacific islands' major commodity exports together with short and medium-term forecasts. The major source of these prices has been the World Bank's *Quarterly Review of Commodity Markets*. This report contains cif prices for benchmark commodities in major markets only. These may differ substantially from the fob prices actually received by the islands for the commodities they export. Fortunately, several Pacific island countries publish data for both volumes and fob values of their major exports. Data from the foreign trade tables of the South Pacific Economic and Social Database have been used to calculate fob unit values for exports in US dollars. The unit values are compared with both World Bank price data and with tuna prices from Infofish. All prices given are expressed in current \$US per metric tonne except for gold which is expressed in \$US/kg, and logs and sawn timber which are measured in \$US per cubic metre.

According to World Bank data, prices in the second half of 1993 have remained depressed for all commodities except beef and logs. Prices for tropical hardwood logs almost doubled between 1992 and 1993 but are expected to fall in real terms (taking into account the increase in the unit value

of manufactures) by 2000 and 2005. Prices of other commodities (except palm oil and copper) are expected to rise in real terms by the end of the century but not to reach the levels obtained in 1988–89. These forecasts emphasise the need for Pacific islands to diversify into new areas to maintain living standards.

Unit values for the major commodity flows appear to follow the World Bank's prices closely although they are more volatile in areas where the total value of trade is small. However the Bank's discount to the cif price varies widely between commodities from almost two-thirds of the world price for logs to almost nothing for fish, coffee and vegetable oils. Indeed the Pacific countries appear to obtain premium prices for some vegetable oils. Differences in the unit values of exports from Pacific countries are also interesting. While we would of course expect prices to differ with variations in quality and transport costs, some features are harder to explain. The apparent fall in the relative value of Papua New Guinea's exports across a range of agricultural commodities is puzzling given the government's commitments to growers to maintain prices. The persistent and increasing premium earned by Fiji as opposed to the Solomons for its canned fish exports to Europe is difficult to explain.

Chart 1 Copra (US\$/tonne)

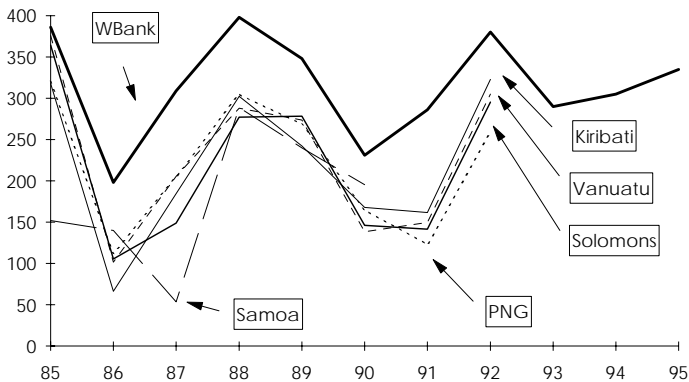
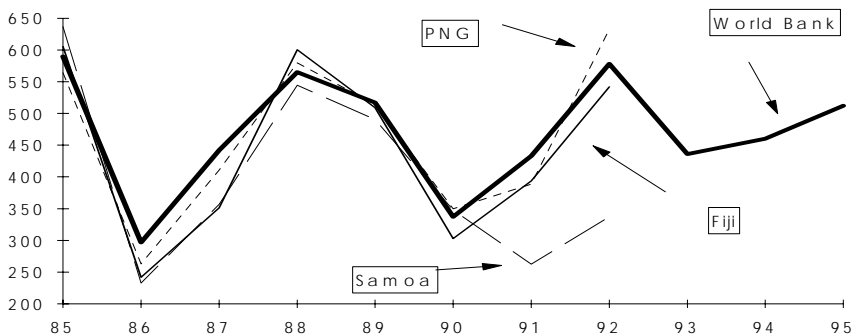


Chart 2 Coconut oil (US\$/tonne)



Copra

Despite vigorous efforts at diversification copra probably remains the most important single cash crop for rural villagers. With the exception of Western Samoa in 1985 and 1987, copra exporters appear to receive a fairly stable discount to the Bank's cif western Europe price, however discounts for individual countries vary more widely. In 1985 Vanuatu and Solomon Islands enjoyed prices averaging about US\$50 a tonne higher than Papua New Guinea and Kiribati. By 1992 Kiribati was achieving even higher prices than Solomon Islands and over US\$70 a tonne more than Papua New Guinea despite the latter's better access to world markets. The World Bank

foresees only modest growth in prices in the short term but forecasts a rise to over US\$500 a tonne by the year 2000, however this will still be lower in real terms than the price achieved in 1988.

Coconut oil

Both Fiji and Papua New Guinea appear to obtain coconut oil prices very close to the Bank's figures for the cif Rotterdam price. Samoa enjoyed similar prices until 1991 since when it appears to have obtained prices only half those paid to the other producers. The price projections are similar to those for copra with sluggish prices in 1994-95 followed by a rise to a peak of

Chart 3 Palm products (US\$/tonne)

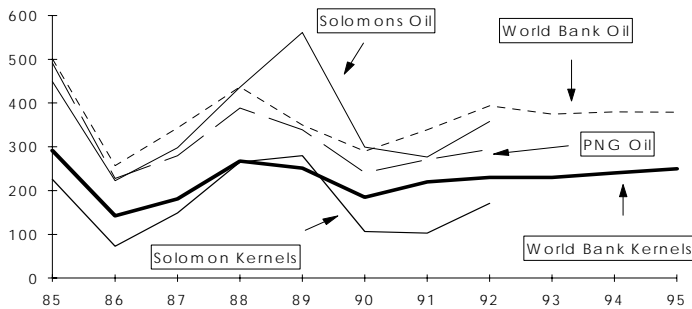
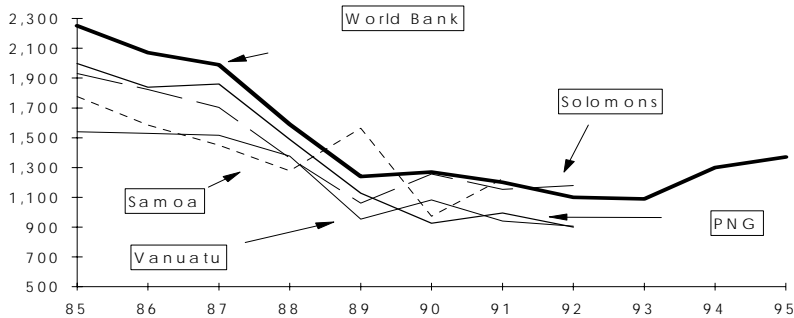


Chart 4 Cocoa (US\$/tonne)



US\$735 at the end of the decade (which will still not match the 1988 price in real terms).

Palm products

FOB prices for palm oil follow the World Bank's cif northern Europe price closely. Solomon Islands appears to achieve slightly higher prices in general and received much higher prices in 1989. In that year the Solomons also achieved record prices for palm kernels. In the short term the Bank expects prices for both oil and kernels to remain flat, but oil prices are forecast to remain stagnant into 2000 and 2005. Kernel prices are expected to rise to over US\$300 by the end of the decade and almost US\$350 by 2005.

Cocoa

All FIC cocoa exporters' prices closely follow the average New York/London price shown by the Bank. At the beginning of the period Papua New Guinea and Solomon Islands were receiving prices closest to the world price with Samoa obtaining slightly worse prices and Vanuatu receiving over US\$400 a tonne less. By 1992 Solomon Islands was actually earning a slight premium over the world price while Papua New Guinea cocoa was discounted as much as in 1985 and Vanuatu's discount had been cut to the same level as Papua New Guinea's. Samoa's cocoa exports, which were always modest (a fact reflected in their volatile unit value) had entirely ceased. The Bank's projections indicate a modest improvement in prices but no return to the levels of 1985.

Chart 5 Tea (US\$/tonne)

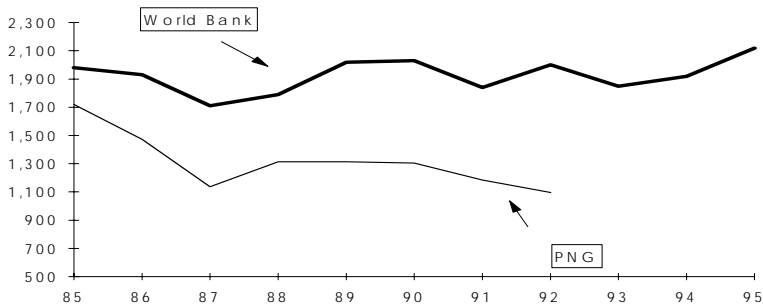
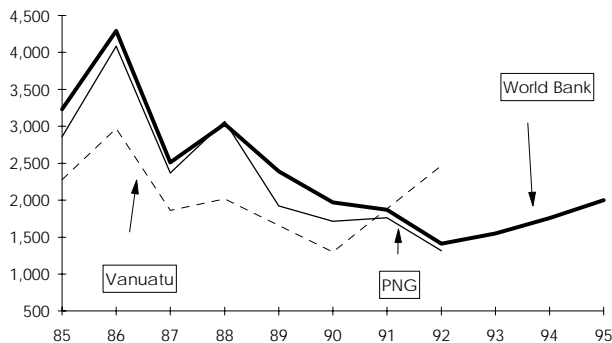


Chart 6 Coffee (US\$/tonne)



Even the forecast for 2005 is below 1987 prices. This is likely to have serious fiscal implications for governments such as Papua New Guinea which have committed themselves to long-term price support to cocoa growers.

Tea

The gap between the World Bank's London auction price for all teas and Papua New Guinea's export unit value has widened significantly since 1985. This widening accounts for most of the fall in the price received by Papua New Guinea tea producers. Without detailed knowledge of the reasons behind this phenomenon it is impossible to say whether Papua New Guinea will be able to take advantage of the rise in both real and nominal tea prices

which the Bank expects to occur in 1993–95 and to carry on into 2000 and 2005 to bring the price to US\$2600 a tonne and US\$3100 a tonne respectively.

Coffee

Prices for Papua New Guinea coffee have fallen, following trends in world prices. Vanuatu exports little coffee (none in 1989 or 1991) and received much lower prices until 1992. The high 1992 price may indicate a shift towards significantly better quality output. The Bank expects coffee prices to rise by about US\$500 a tonne until 1995 and continue rising to almost US\$3000 a tonne by 2000, and US\$3,300 five years later. However this rally in prices will peak in real terms in 2000 at a level below the real 1989 price.

Sugar

As most of Fiji's earnings from sugar exports come from its quota of sales to the EC at the internal CAP price, the world price of sugar at Caribbean ports is only important as an indicator of the marginal value of sugar to the country. The Bank expects the world price to rise in both real and nominal terms in the medium term to reach about US\$330 a tonne in 2000 and about US\$430 in 2005. However this would still be well below the price Fiji presently obtains from the EC.

but enjoyed a premium of about US\$200 in 1986 and a comparable discount in 1987 to 1988. This may reflect fluctuations in the local market in Japan, Vanuatu's main market. The Bank's estimates suggest that prices will continue to increase in nominal terms.

Beef

Prices received by Vanuatu, the only significant island exporter, follow the same trend as the Bank's series for US imports

Fish

Prices for Solomon Island frozen tuna correspond closely to price data from Infofish for Japanese Skipjack and Yellowfin imports. Kiribati fish export prices were also consistent except in 1991. However this bump is probably not significant as Kiribati exports consist of much smaller volumes of fresh reef fish whose unit value varies widely. More interesting are the canned tuna prices

Chart 7 Sugar (US\$/tonne)

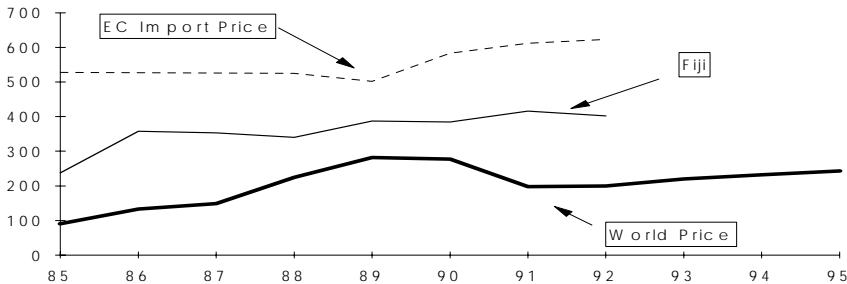


Chart 8 Beef (US\$/tonne)

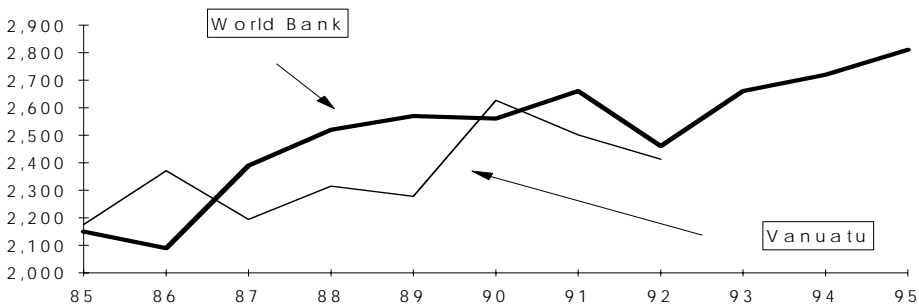


Chart 9 Fish (US\$/tonne)

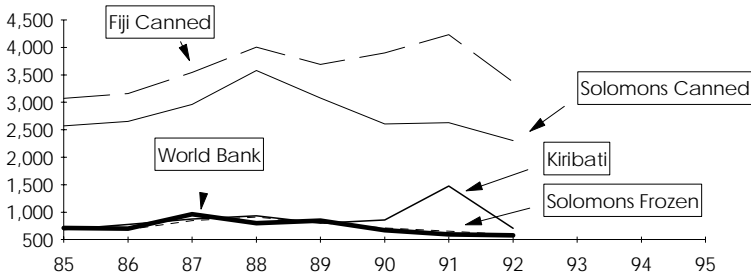
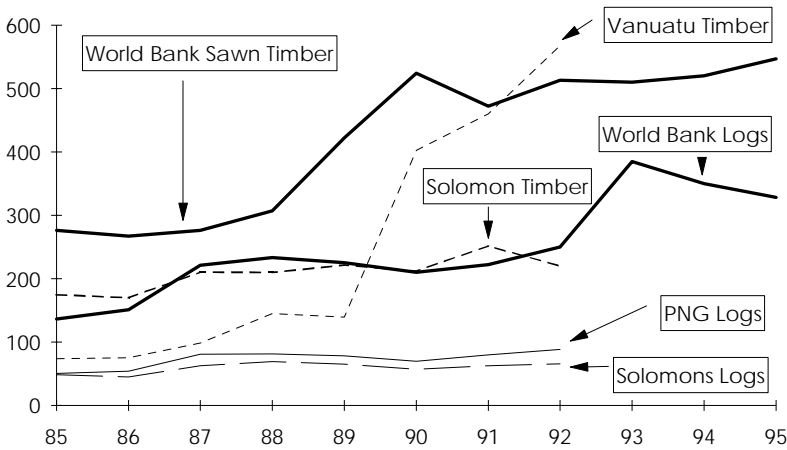


Chart 10 Logs and timber (US\$/cubic metre)



which show that Fiji is consistently obtaining higher prices than Solomon Islands for its exports despite the fact that they both sell into the same European market.

Logs

Logs are only exported by Papua New Guinea and Solomon Islands and the export unit values they receive are only about a third of the benchmark price charged by Japanese importers of Malaysian Meranti used by the World

Bank. There could be a number of reasons for this including a prevalence of lower value species and expensive shipping costs. Whatever the underlying causes of this margin are they must have increased significantly between 1985 and 1987 and apply slightly more severely to Solomon Islands as opposed to Papua New Guinea. It will be interesting to see how FIC prices reacted to the sharp increase in world prices in 1993. The Bank does not expect these high prices to be sustained in the immediate future but expects prices to rise to 1993 levels by the end of the century, increasing to US\$463 a cubic metre by 2005.

Sawn timber

Only small quantities of sawn timber are exported by the island nations and only Solomon Islands and Vanuatu include it as a separate item in their data for export volumes. The data show that Solomon Islands appears to have received consistently higher prices than Vanuatu until 1989 when Vanuatu's export unit value for sawn timber rose sharply due to a shift into veneer production. Solomon Islands does not appear to have benefited from the sudden rise in world prices for sawn timber between 1988 and 1990. The Bank expects timber prices to remain stable in the immediate future and rise to about \$670 in 2000 and \$830 in 2005, representing an increase in real terms over the highest levels of the 1980s. Logs and sawn timber are the only Pacific island commodities where prices are forecast to rise above 1980s levels in real terms.

Copper

Interpreting Papua New Guinea copper prices is complicated because the country

normally sells its production forward. This may partly account for the discount to the London metal exchange price varying from over US\$400 to less than US\$100. The Bank foresees a continued decline in metal prices to 1995 followed by a rebound to US\$2600 in 2000.

Gold

Prices for FIC deep mined gold from Papua New Guinea and Fiji move closely in step with London exchange prices but the price for alluvial gold from the Solomons appears more volatile and is sometimes at a premium to the world price. The Bank believes gold prices will rise gently up to 1995 and continue rising to over US\$15,000 a kilo in 2000 and over US\$17,000 in 2005.

References

South Pacific Economic and Social Database, National Centre for Development Studies, The Australian National University, Canberra.

World Bank, *Quarterly Review of Commodity Markets*, processed, Washington, DC.

Chart 11 Copper (US\$/tonne)

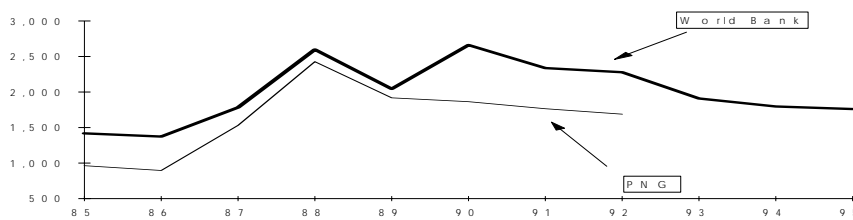


Chart 12 Gold (US\$/kilo)

