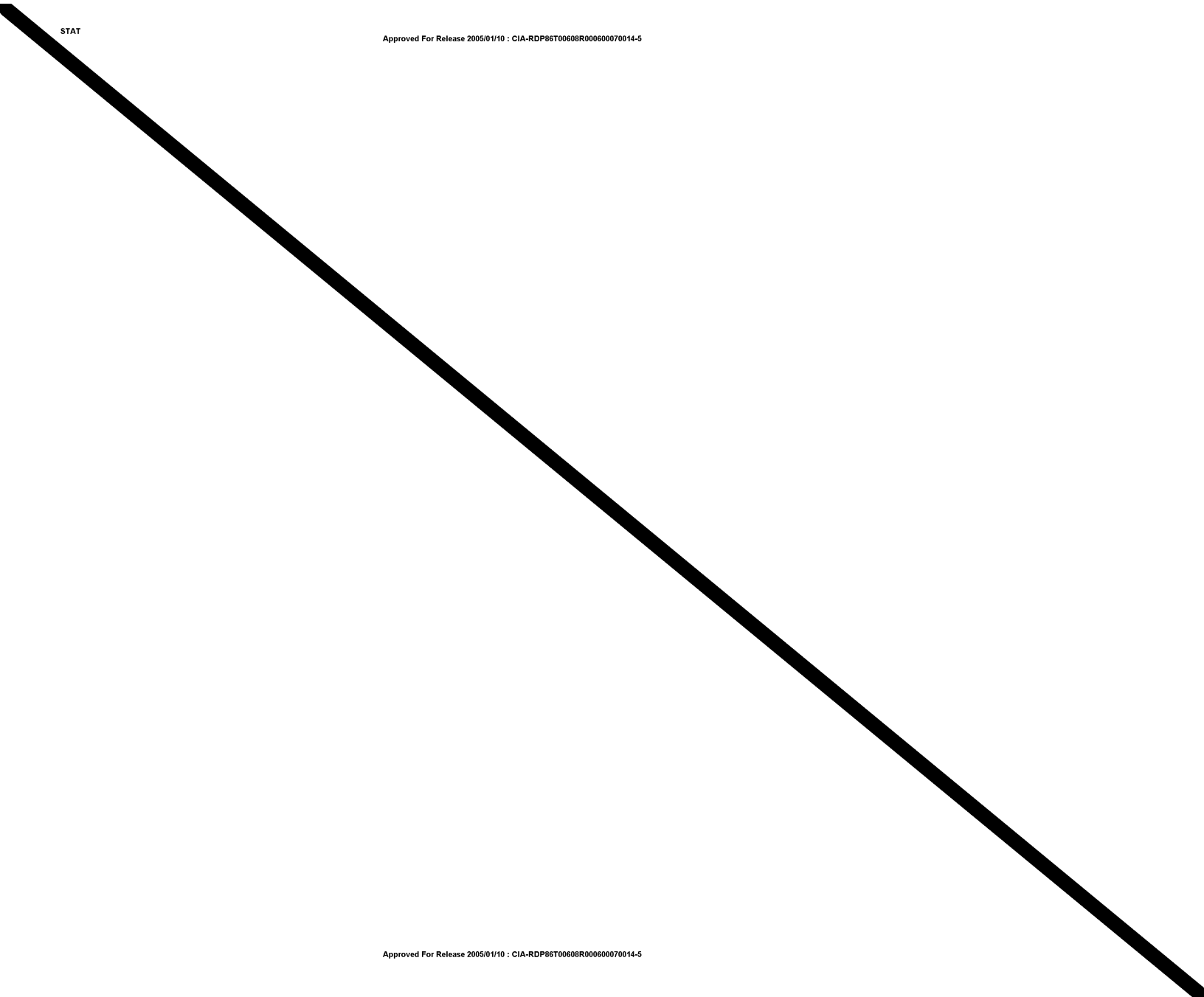

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CIM/OER/5-08630-75

S-08630

7 AUGUST 1975

MEMORANDUM FOR THE RECORD

SUBJECT: LDC COMMODITY STUDY

THE ATTACHED MATERIAL WAS COORDINATED BY

STAT

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FINAL DRAFT WAS HANDCARRIED TO SAMUEL HART, DEPUTY DIRECTOR, ECONOMIC RESEARCH AND ANALYSIS, INR/STATE. MR. HART PASSED THE MATERIAL PREPARED BY OER AND DATA PREPARED BY INR TO THE UNDER SECRETARY OF STATE, ECONOMIC AFFAIRS, MR. CHARLES ROBINSON.

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Table 1

Less Developed Countries: Trade Position
in Major Non-Oil Raw Materials

	LDC Share of World Trade 1972-1974 (Percent)	Number of LDC Suppliers Accounting for at Least 70% of Total Trade	World Trade Share of World Production 1972-1974 (Percent)
70%-100%			
Coffee	97	10	72
Sugar	71	30	27
Rubber	98	2	91
Cocoa	100	4	78
Tea	83	6	58
Tin	81	4	85
Bananas	92	9	20
Bauxite	75	9	45
50%-70%			
Phosphate Rock	64	—	50
Copper	59	—	64
Cotton	57	—	32
Alumina	50	—	35
Less than 50%			
Timber	26	—	8
Iron Ore	40	—	44
Oils (Vegetable and Marine)	30	—	25

Table 2

Less Developed Countries: Selected Economic Data

	Population (Millions)	GNP/Capita 1974 (US $)	Real GNP Growth 1969-1974 (Percent)	Real GNP Growth 1974 (Percent)	Total Exports 1974 (Million US $)	Non-Oil Raw Material Exports 1974 (Million US $)	Major Commodities	Percent of Exports
Asia								
Bangladesh	77	90	-0.5	11.5	372	168	Jute	34
India	600	150	1.7	1.0	4,200	1,010	Tea	7
							Iron ore	4
							Sugar	7
Indonesia	133	120	7.8	10.0	7,430	1,780	Rubber	6
							Palm oil	2
							Tin	2
Malaysia	12	720	6.8	6.0	4,530	2,220	Wood	10
							Rubber	28
							Timber	15
							Tin	15
Pakistan	68	120	3.5	5.0	1,026	520	Palm oil	11
							Cotton	4
Philippines	42	330	6.4	5.9	2,720	2,260	Rice	20
							Sugar	17*
							Timber	25
							Copper	16
							Oilseeds	7
							Iron ore	1

Table 2

Less Developed Countries: Selected Economic Data
(Continued)

	Population (Millions)	GNP/Capita 1974 (US $)	Real GNP Growth 1969-1974 (Percent)	Real GNP Growth 1974 (Percent)	Total Exports 1974 (Million US $)	Non-Oil Raw Material Exports 1974 (Million US $)	Major Commodities	Percent of Exports
Asia (Con't)								
Thailand	41	290	6.3	3.9	2,480	2,210	Rubber	10
							Tin	6
							Corn	12
							Teak	n.a.
							Rice	19
Turkey	38	800	7.4	7.5	1,532	904	Chrome ore	22
							Cotton	18
							Tobacco	13
							Wool	1

Table 2

Less Developed Countries: Selected Economic Data
(Continued)

	Population (Millions)	GNP/Capita 1974 (US $)	Real GNP Growth 1969-1974 (Percent)	Real GNP Growth 1974 (Percent)	Total Exports 1974 (Million US $)	Non-Oil Raw Material Exports 1974 (Million US $)	Major Commodities	Percent of Exports
Latin America								
Argentina	25	1,400	4.5	5.9	3,850	2,960	Grains	28*
							Meat	20
							Wool	7
Brazil	105	830	10.2	9.6	7,970	5,100	Sugar	16
							Coffee	11
							Soybeans	11
							Iron ore	7
							Cocoa	3
Chile	10	880	2.9	5.2	2,040	1,760	Copper	76
							Nitrates	3
							Iron ore	3
Colombia	24	510	6.4	5.6	1,200	740	Coffee	52
							Sugar	7
							Bananas	2
Guyana	1	543	4.1	7.5	270	270	Sugar	49
							Rice	8
							Bauxite	26
							Alumina	8
Jamaica	2	1,010	6.6	4.3	730	680	Bauxite	20
							Alumina	52
							Sugar	11
							Bananas	2

Table 2

Less Developed Countries: Selected Economic Data
(Continued)

	Population (Millions)	GNP/Capita 1974 (US $)	Real GNP Growth 1969-1974 (Percent)	Real GNP Growth 1974 (Percent)	Total Exports 1974 (Million US $)	Non-Oil Raw Material Exports 1974 (Million US $)	Major Commodities	Perce of Expor
Latin America (Con't)								
Mexico	56	1,160	6.2	6.0	2,760	1,040	Sugar	7
							Coffee	5
							Cotton	5
Venezuela	12	2,280	4.3	5.1	10,800	240	Iron ore	3*
							Coffee	negl
							Cocoa	negl
							Sugar	negl

Table 2

Less Developed Countries: Selected Economic Data
(Continued)

	Population (Millions)	GNP/Capita 1974 (US $)	Real GNP Growth 1969-1974 (Percent)	Real GNP Growth 1974 (Percent)	Total Exports 1974 (Million US $)	Non-Oil Raw Material Exports 1974 (Million US $)	Major Commodities	Perce of Expor
Africa								
Egypt	36	280	1.9	4.0	1,510	700	Cotton	40
Ghana	10	280	2.7	3.0	710	670	Cocoa	61
Guinea	4	70*	2.5	2.7	50*	50	Alumina	86
Ivory Coast	5	770	8.0	13.0	1,230	1,170	Coffee	23
							Timber	16
Kenya	13	180*	7.5	6.5	600	360	Cocoa	26
							Coffee	18
Morocco	17	310	5.0	10.0	1,750	1,160	Tea	9
							Phosphate Rock	56
							Citrus Fruit	6
Tunisia	6	610	8.7	11.0	920	180	Fish	3
							Olive oil	16
Zaire	25	145	6.6	3.5	1,290	1,280	Phosphate Rock	10
Zambia	5	440	1.3	1.3	1,405	1,380	Copper	66
							Copper	93
Nigeria	62	380	12.0	9.7	9,300	560	Cocoa	3

* Data are for 1973.

Table 3

Major Raw Material Exporters, 1974 Estimate

	Million Metric Tons	Percent
Copper (concentrates & metals)	4.6	100
Chile		19
Peru		5
Zaire		10
Zambia		15
Papua/New Guinea		4
Philippines		5
Australia		3
Canada		14
Other		25
Tin (concentrates & metals)	0.2	
Malaysia		43
Bolivia		15
Thailand		10
Indonesia		13
Zaire		2
Other		17
Iron Ore	419.0	
Australia		21
Brazil		13
Canada		12
Sweden		8
Liberia		5
India		5
France		4
Mauritania		3
Chile		2
Peru		2
Other		25
Bauxite	27.0	
Jamaica		28
Australia		22
Surinam		12
Guyana		8
Yugoslavia		6
Dominican Republic		5
Malaysia		4
Guinea		3
Other		12

Table 3

Major Raw Material Exporters, 1974 Estimate

	Million Metric Tons	Percent
Alumina	8.2	
Australia		31
Jamaica		28
Guinea		9
Surinam		15
Guyana		3
Other		14
Phosphate Rock	55.8	
Morocco		34
United States		23
USSR and North Vietnam		13
Nauru; Oceania, Christmas Islands		8
Tunisia		4
Spanish Sahara		4
Other		14
Coffee	3.45	
Brazil		23
Colombia		15
Angola		8
Ivory Coast		7
Uganda		6
Cameroon		3
El Salvador		3
Mexico		3
Guatemala		3
Zaire		3
Other		26
Sugar	21.5	
Cuba		25
Brazil		11
Australia		8
Philippines		7
Dominican Republic		5
South Africa		4
Other		41

	Million Metric Tons	Percent
Rubber	3.17	
Malaysia		48
Indonesia		26
Thailand		12
Sri Lanka		4
Other		10
Cocoa*	1.07	
Ghana		27
Nigeria		16
Ivory Coast		15
Brazil		12
Cameroon		8
Ecuador		5
Other		17
Oilseeds	3.02 (oil content)	
Malaysia		32
Philippines		14
Indonesia		9
Senegal		3
Ivory Coast		3
Zaire		2
Argentina		2
Other		35

* 1973/74, 1 October-30 September.

Table 4

Selected LDC Raw Material Prices

(US Cents per Pound)

	1965	1969	1970	1971	1972	1973	1974	July 1975
Metals								
Aluminum [1]	24.50	27.18	28.72	29.00	26.45	25.33	34.06	39.00
Copper [2]	58.65	66.29	63.89	49.27	48.54	80.80	90.41	55.60
Tin [3]	176.51	154.91	163.69	159.44	170.90	218.15	317.20	308.10
Agricultural (US $ per Metric Ton)								
Cocoa beans [4]	381	1,007	754	591	712	1,420	2,167	1,641
Coffee [5]	992	909	1,224	1,002	1,141	1,458	1,528	1,452
Cotton [6]	646	627	654	754	806	1,430	1,339	1,047
Sugar [7]	47	74	83	100	164	212	661	376

1. Virgin unalloyed ingot at New York.
2. London Metal Exchange electrolytic wirebars.
3. London Metal Exchange.
4. From Accra, New York spot.
5. From Santos, No. 4, New York spot.
6. American, Memphis Territory, strict middling, 1 1/16 inches, c.i.f. Liverpool.
7. Cane raw, 96°, spot, f.o.b. and stowed, ports of origin, to world market.

Table 5

LDC Raw Material Exports: Major Markets, 1974

Percent

	United States	West Europe	Japan	Other
Asia				
Bangladesh				
Raw jute	2	37	4	57
India				
Tea	4	39	1	56
Iron ore	--	1	78	21
Sugar	55	--	--	45
Oilseeds	1	42	3	54
Indonesia				
Tin	19	41	34	6
Wood	--	3	80	17 1/
Rubber	25	18	3	54 1/
Malaysia				
Rubber	16	26	7	51 1/
Tin	28	33	23	16 1/
Oilseeds	12	30	2	56 1/
Pakistan				
Raw cotton	1	6	20	73
Rice	negl.	1	--	99
Philippines**				
Sugar	68	--	28	4
Timber	2	7	71	20
Copper	6	3	88	3
Oilseeds	29	54	12	5
Iron ore	--	--	99	1
Thailand				
Rubber	7	5	54	34
Tin	40	32	22	6
Corn	--	--	41	59
Teak	22	24	8	46
Turkey				
Chrome ore	27	66	--	7
Cotton	1	58	--	41
Tobacco	32	39	12	17
Wool	--	100	--	--
Cereals	--	57	--	43

1. Includes shipments to Singapore for re-export.

Table 5

LDC Raw Material Exports: Major Markets, 1974
(Continued)

Percent

	United States	West Europe	Japan	Other
Latin America				
Argentina				
Grains	negl.	49	--	51
Brazil				
Sugar	15	6	4	75
Coffee	27	51	3	19
Soybeans	negl.	75	7	18
Iron ore	8	54	30	8
Cocoa	50	19	--	31
Chile				
Copper	14	44	15	27
Nitrates	33	35	3	29
Iron ore	3	3	93	1
Colombia				
Coffee	42	n.a.	n.a.	n.a.
Sugar	53	n.a.	n.a.	n.a.
Bananas	40	n.a.	n.a.	n.a.
Guyana*				
Sugar	24	66	--	10
Bauxite	46	39	--	15
Alumina	12	88	--	--
Jamaica				
Bananas	3	64	--	33
Sugar	32	56	4	8
Bauxite	100	--	--	--
Alumina	34	50	--	16
Mexico **				
Coffee	72	17	1	10
Sugar	99	--	--	1
Cotton	14	9	46	31
Venezuela*				
Iron ore	67	33	--	--
Coffee	80	20	--	--
Cocoa	25	65	9	1
Sugar	41	37	--	22

Table 5

LDC Raw Material Exports: Major Markets, 1974
(Continued)

	Percent			
	United States	West Europe	Japan	Other
Africa				
Egypt				
Cotton	negl.	53	22	25
Ghana**				
Cocoa	18	44	7	31
Guinea				
(not available)				
Ivory Coast*				
Coffee	29	50	10	11
Timber	--	87	--	13
Cocoa	23	65	--	12
Kenya				
Coffee	9	75	1	15
Tea	12	80	--	8
Morocco				
Phosphate rock	--	60	--	40
Citrus fruit	--	85	--	15
Fish	--	80	--	20
Tunisia				
Olive oil	negl.	75	--	25
Phosphate rock	--	65	--	35
Zaire*				
Copper	negl.	90	2	8
Zambia				
Copper	negl.	51	31	18

* Commodity data are for 1972.
** Commodity data are for 1973.

NATURAL RUBBER

Market Profile

Malaysia and Indonesia are the main producers of natural rubber, accounting for about three-fourths of world production in 1974, with Thailand and Sri Lanka accounting for most of the remainder. Only a miniscule part of production in these countries is used domestically. The rest is exported primarily to the United States, Western Europe, and Japan with lesser amounts going to the USSR and the PRC.

Most of the natural rubber trade is handled through long-term contracts between the producers and consuming firms in the US, Western Europe, and Japan and state trading corporations in the case of the USSR and the PRC. The volume of exports is usually specified in these contracts with prices set to reflect changing market conditions.

Chronic dissatisfaction with low world prices led to the formation of the International Rubber Study Group in 1946 which included producers and consumers of both natural and synthetic rubber. In 1971 the ineffectiveness of the Group ——————————→

led Southeast Asian producers, headed by Malaysia, to form a new group -- the Association of Natural Rubber Producing Countries. Thus far, the Association has concentrated on technical matters, although the members have discussed the possibility of joint action in regard to natural rubber marketing, freight rates, and stockpiling.

Recent Trends

The demand for natural rubber has accelerated in recent years. US consumption increased 6% in 1973 and 4% in 1974 compared to virtually no gain during the 1960s. Even during this recession year, US consumption is expected to increase 1.5% and world consumption, 4%. This improvement in demand mainly reflects the greater use of radial tires and off-the-road vehicle tires. The average radial tire uses 35% natural rubber, the bias tire only 25%. More recently, natural rubber's cost position vis-a-vis synthetics has improved because higher petroleum prices have driven up the production costs of synthetic rubber.

Preliminary estimates indicate a 50,000 metric ton shortfall between supply and demand of natural rubber in 1975. This amount could easily be covered by the 132,000 ton US stockpile, but release of more than

9,000 tons from the stockpile requires congressional approval. Because the currently tight supply situation is expected to prevail for the next several years, prices will probably not retreat to the levels of the early 1970s. The current New York price is 30 cents per pound. This compares to prices of 22 cents per pound in 1973 and a record high of 51 cents in December 1974.

COPPER

Market Profile

The major copper exporting countries include the CIPEC group of four -- Chile, Peru, Zaire, Zambia -- Papau/New Guinea, the Philippines, Australia, and Canada. These eight account for half of total non-Communist copper production and 75% of world trade.

The United States is the largest copper mining, refining, and consuming nation in the world. US output accounts for 25% of non-Communist output of ores and concentrates and 30% of refined copper. The US is a small net importer of copper. US imports are largely blister and refined copper orginating in Canada, Chile, Peru, and South Africa. US exports are primarily refined copper.

Europe and Japan mine very little copper but house large refineries, turning out about 35% of non-Communist world production. The copper industries of Europe and Japan process ore, concentrates and smelter copper imported from the eight copper exporting nations. With copper consumption well in excess of refined capacity, however, these regions also import large quantities of refined metal from the principal copper exporters.

Communist countries as a group are largely self-sufficient in copper. In 1972 they became net exporters to the West, Net sales have been small and have had little impact on the world copper market.

Copper prices are generally established by trading on the London Metal Exchange (LME). Although the quantities of metal actually bought and sold on the exchange account for only a small part of total world sales, the market is used to set export prices. At least half of Free World primary copper is sold at LME prices, including most of CIPEC produced copper.

The United States price is set by major US copper producers and governs most primary copper refined in the United States. The price is not subject to the day to day fluctuations that occur on the LME although it is adjusted at intervals to supply and demand changes. The lag in adjustment was most evident during the 1973-74 commodity boom, when LME prices rose much more rapidly than the US producer price.

Recent Trends

Spot copper prices on the LME rose to a record $1.52 per pound on 1 April 1974. As the year progressed economic activity in the industrial countries slowed and by year end the price had fallen to 57 cents per pound. Since then the price has moved between 53 and 64 cents per pound.

The 1974 decline in demand was especially severe in Japan where demand dropped 30% from the 1973 level and 13% from 1972 level. Japanese smelters, however, maintained metal output close to capacity until late in the year because the industry was bound by long-term import contracts for copper ore and concentrates. At first the industry sought relief by exporting surplus production. Japan exported a total of 278,000 tons of refined copper in 1974, compared to only 24,000 tons during 1973. The addition of this quantity of copper on the world market at a time of declining demand increased the downward pressure on prices. Market pressures eventually led to mutually agreed cutbacks in Japan's ore imports.

BAUXITE and ALUMINA

Market Profile

Bauxite, alumina and aluminum are not traded on commodity exchanges and only prices for aluminum are published. Most bauxite and alumina transactions are intra-company sales and are valued at accounting prices that change infrequently. Published aluminum prices in the United States are set by the producers and tend to be stable for extended periods. Acutal selling prices, however, fluctuate with market conditions. Discounts from published prices are given during periods when refining capacity substantially exceeds demand.

Close substitutes for aluminum include steel, plastic, and copper. In the long run, prices for these materials place a limit on the price of aluminum and, hence, on the price of bauxite. Although higher aluminum prices would increase secondary recovery, this potential is limited.

Substitution for bauxite in the aluminum production cycle is also possible over the long term. The recent doubling of bauxite prices by the Caribbean countries is making non-bauxite materials more competitive. Because of the cost and time required to develop them, however, these substitutes are unlikely to become an important source of alumina during the next decade.

Seven producing countries -- Australia, Guinea, Guyana, Jamaica, Sierra Leone, Surinam, and Yugoslavia -- formed the International Bauxite Association (IBA) in February, 1974. They subsequently were joined by the Dominican Republic, Haiti, and Ghana. The ten member organization accounts for over 65% of the world's bauxite reserves and for about 80% of the foreign trade in bauxite/alumina. Only the United States France, Greece, and India are important non-IBA producers. Brazil and Indonesia have identified large ore reserves but are not major producers at present.

Five countries -- Japan, Canada, the United States, West Germany, and Norway -- are the leading Free World aluminum producers. Production is dominated by six vertically integrated, multinational aluminum companies. They own -- wholly or partly -- nearly all Free World bauxite mines, about 75% of Free World primary aluminum capacity, and a substantial share of Free World aluminum - fabricating facilities.

Recent Trends

With Jamaica -- the world's largest bauxite exporter -- in the forefront, a majority of IBA members recently moved to sharply increase their revenues from bauxite operations.

In June 1974, Kingston levied a new tax that increased its revenue from around $2 per ton of bauxite mined to $15.81 at present aluminum prices. A novel feature of the tax is that it is based on US posted prices for primary aluminum ingot. The government also set minimum production levels. By the end of 1974 all Caribbean bauxite producers had negotiated new agreements with the aluminum companies along the line of the Jamaican formula. In January 1975, Guinea imposed a similar tax.

US aluminum production this year is expected to drop 20% because of recession and excessive producer inventories. Despite this decline, the published US aluminum price has continued to rise, reaching 41¢ per pound. Because of aluminum production cutbacks, world-wide shipments of bauxite and alumina have been reduced, Members of the IBA are allowing the companies to produce at a rate below the established minimum.

IRON ORE

Market Profile

The OECD countries (mainly Australia, US, France, Canada, and Sweden) produce about 42% of the world's ore and account for 85% of the world's iron ore imports. The Communist countries -- dominated by the USSR -- produce about one-third of the world's total and import about 14% of ore traded.

Less developed countries account for about 23% of the world's iron ore production and 40% of the world's exports. Latin American LDCs export 36% of their ore to Japan, 37% to Western Europe, 24% to the US (two-thirds of Venezuela's output is sold to the United States). Nearly 80% of the African iron ore is shipped to Western Europe. India exports 85% of its ore to Japan.

There is no established world price of iron ore. The bulk of iron ore moving in international trade is purchased at negotiated prices on long-term contracts. Traditionally, iron and steel industries have assured themselves an adequate supply of ore by means of captive mine operations.

An association of 11 iron ore exporters was established in April 1975. The organization will have no authority to establish prices or production quotas, although some

developing country members will try to push it in that direction. Their chances of transforming the association into an effective cartel are slim. Canada has decided not to join the association. Australia, Sweden, and Brazil, although members, oppose cartel action. Together, these four countries account for about 54% of world iron ore exports. Brazil, which has been investing heavily in new iron ore capacity and is the largest LDC iron ore exporter does not want to be constrained by production quotas.

The objectives of the association are to:

- promote close cooperation among iron ore exporting countries and ensure orderly growth of the export trade in iron ore;
- assist member countries to improve their export earnings from iron ore;
- encourage domestic processing of iron ore, including production of iron and steel;
- provide a forum for the exchange of information.

Recent Trends

Although iron ore production has been adequate to meet demand, prices have risen steadily with the cost of fuel and other inputs. The average price of iron ore delivered to the US in mid 1975 was 40% higher than in 1973 -- rising from a 1973 yearly average of $12.32 per long-ton to a January-May 1975 average of $17.29.

Fuel and related costs are fast approaching the point where it is more economic to transport iron ore to low cost fuel sources than it is to transport both fuel and iron ore to the traditional steelmaking areas of the world.

Since World War II vast iron ore deposits have been discovered. Measured reserves of iron ore exploitable at current prices are placed at 250 billion long-tons -- nearly 300 years' supply at current consumption rates.

Iron ore mining capacity is expected to increase in Latin America, Africa, Australia, and the USSR. In Brazil, for example, the state-owned iron ore enterprise (CVRD) is expanding its export capacity to 70 million tons this year and has set a target of about 100 million tons by the end of the decade. New mines in Western Australia and Tasmania made Australia the largest free world iron ore producer and exporter in 1974.

PHOSPHATE ROCK

Market Profile

Phosphate rock is the basic raw material used to produce phosphoric acid, an important intermediate product in the production of complex fertilizer.

The United States, the USSR, and Morocco are the world's leading producers of phosphate rock, accounting for about three-fourths of world production in 1974. The US and the USSR produce enough phosphate rock to meet domestic needs and to provide for substantial exports. In contrast, Western Europe is totally dependent on imports, principally from Morocco and Spanish Sahara.

Morocco is the world's largest exporter of phosphate rock. Its exports amounted to about 18.7 million tons in 1974, or about one-third of the phosphate rock moving in international trade in that year. The US and the USSR are the world's second and third largest exporters of phosphate rock, having shipped abroad 12.9 and 7.4 million tons respectively in 1974. Spanish Sahara started to export phosphate rock in 1972 and increased shipments from 73,000 tons in that year to 2.2 million tons in 1974.

As the world's largest exporter of phosphate rock, Morocco can strongly influence world prices of both phosphate rock and phosphate fertilizer. Other African exporters of phosphate rock, such as Togo, Senegal, and Tunisia have announced that their future export prices will be based on Morocco's.

Recent Trends

Since January 1974, Morocco has increased the official export price of phosphate rock from $14 per ton to $75. US exporters followed suit increasing prices from $15 per ton to $60. In 1974, however, world export prices of chemical fertilizer plummeted as a result of weak demand. Some exporters have quietly made concessions selling phosphate rock 25% below the official price.

Morocco has indefinitely postponed the 8% price increase in the official export price of phosphate rock scheduled for 1 July 1975. Moroccan production of phosphate rock is down 10% from a year ago because of weak demand in Western Europe, and Morocco reportedly is prepared to make additional cuts in production rather than reduce its price.

World phosphate production capacity is expected to increase nearly 40% between 1974 and 1978 as shown below:

	(Thousand Metric Tons)	
	1974	1978
TOTAL	110,476	150,000
United States	41,500	56,300
USSR	22,540	28,500
Morocco	19,326	26,000
Spanish Sahara	2,386	6,000
Tunisia	3,903	5,200
Algeria	802	2,400
Christmas Island	1,809	2,000
Other	18,210	23,600

TIN

Market Profile

Production of tin ores and concentrates and refined metal consumption in 1974 by major country was as follows:

Production		Consumption	
Malaysia	39%	United States	30%
Bolivia	15%	Japan	19%
Indonesia	12%	United Kingdom	9%
Thailand	11%	West Germany	8%
Australia	6%	France	6%
Other	17%	Other	28%

Tin is the only metal for which minimum and maximun prices are established by international agreement. Producers and consumers participate equally in the decisions of the International Tin Council (ITC) on prices, buffer stock operations, and export quotas. In recent years the arrangement has not prevented enormous increases in the market price of tin, since buffer stocks have not been adequate to fill the gap between supply and demand.

Recent Trends

The recession reduced the price of tin on the London Metal Exchange from the $4.45 per pound 1974 peak to $3.08 a pound in July 1975. Although the ITC decreed an 18% cutback in exports in April and brought substantial tin for buffer stocks, prices continue to slide.

Even limited economic recovery could increase tin prices sharply however. A rise in production costs has held back investment in new mines. Costs in Malaysia, which accounts for about 40% of world production, jumped by 50% in 1974 alone.

COFFEE

Market Profile

The world coffee market is supplied by nearly 60 countries. Brazil is by far the largest producer, normally accounting for about one-third of total world production. Second place Colombia supplies about 12% of total output. In an average year, South America provides nearly half of world production, Africa over one-fourth, Central America nearly one-fifth, and South Asia and Oceania the remainder.

Consumption is heavily concentrated in the developed countries. Western Europe accounts for about one-third of total consumption and the United States for over one-fourth. The producing countries consume about one-fourth of their output. Much of the world's coffee is imported by brokers in the consuming countries although the larger coffee roasters also deal directly with exporting houses in the producing countries. Coffee producing countries have official marketing authorities that regulate the internal coffee trade, buy and sell beans and maintain a reserve stock.

Efforts to support prices by organizing the market are complicated by the large number of producers, the availability of substitute beverages (tea, cocoa, and soft drinks), and the fact that coffee is not a homogeneous

commodity. Four major coffees are traded internationally each with its own normal price relationship to the others. Colombia Milds are the most expensive followed by Other Milds, Unwashed Arabicas and Robustas. Organization of the market requires not only the allocation of export quotas among the producing countries but among the coffee types as well. Pro rata quota adjustments to changing price conditions, while simple and politically the most workable, often do not reflect market realities because of shifting demand among the major coffees. A further complication has developed in recent years because Brazil is approaching its maximum producing capacity while most other countries are able to increase output further. Consequently Brazil is interested in the highest possible price for a fairly stable export volume while many other producers would prefer the highest price consistent with an expanding market.

The large number of exporters and their conflicting interests have frustrated efforts during the last few years to form an effective producer cartel. They also have made it difficult to restore an export quota system under the International Coffee Organization (ICO). The ICO was formed in 1962 with a membership which accounts for almost all the world's production and consumption. It

worked with some success until the 1972 price boom when clashing consumer-producer interests led to the elimination of export controls. Considerable progress toward a renewal of the ICO's regulatory authority had been made in a series of negotiations this year and agreement appeared to be slight. Brazil's recent frost has sharpened the old issues, however, and agreement may again be frustrated.

Recent Trends

Consumption has been growing at about 1.5% annually and even this low rate appears to be slowing. Total consumption in the United States has remained unchanged for about a decade because of the preference for soft drinks among younger people, a tendency to drink weaker coffee, and the increased use of instant coffee (which requires fewer beans per cup than regular). The gradual extension of these trends to other developed countries probably accounts for the slackening growth rate.

Until the recent Brazilian frost, coffee was one of the few major commodity markets still burdened by excessive reserve stocks. Consequently, coffee prices did not rise as rapidly as other agricultural products during the recent commodity boom. Coffee prices also broke sooner and by mid-1975 had lost most of the ground grained during the boom period. The recent Brazilian frost has shot coffee

prices up again to near record levels because it now appears likely that most of the reserve stock will be liquidated over the next 3 or 4 years.

The frost that struck a few weeks ago is the worst disaster ever suffered by Brazilian growers. It will not only cut next year's crop by more than half but also will reduce production in the following year or two. Coffee harvests were low in many countries this year and worldwide production will not cover consumption. Because of the frost, production probably will remain substantially below consumption until 1978. By that time, reserve coffee stocks will nearly be exhausted. Stocks now amount to about 65 million bags. Of this amount, working inventories in the hands of processors and brokers absorb about 30 million bags leaving a reserve of 35 million bags, about 45% of annual consumption. Assuming normal production in other countries, current estimates of Brazil's crop over the next two years indicate that reserve stocks will be reduced to about 10 million bags by the close of the 1977/78 coffee year.

The market is now discounting this prospect and prices increased about 60% during the two weeks that followed the frost. Prices are still rising and it is too early to tell where the market will finally settle.

COCOA

Market Profile

Five producers -- Ghana, Ivory Coast, Nigeria, Brazil and Cameroon -- provide 80% of world cocoa. The United States is the world's largest consumer, taking about 20% of world production. Western Europe accounts for nearly 40% of total consumption while Eastern Europe consumes about 15% of the total.

The market is organized under the International Cocoa Agreement, which came into force in July 1973. Except for the United States, most major producing and consuming countries are signatories. The Agreement authorized the International Cocoa Organization (ICCO) to regulate world trade and stabilize prices through an export quota system and the operation of a buffer stock. The ICCO's regulatory powers have never become effective, however, because the booming cocoa market has kept prices above the maximum intervention price specified in the Agreement. The Agreement expires in 1976 and negotiations for its renewal are now beginning with adjustment of the intervention price range to fit current market conditions the chief issue. The United States is participating in the preliminary discussions.

Recent Trends

Cocoa prices began to rise sharply in early 1973 after two years of low production. Stocks had been reduced to the

lowest point since the late 1950s. Prices tripled between early 1973 and mid-1974, then fell back as production recovered and consumption declined because of recession and high prices. Cocoa prices remain about double those of 1972, however, and stocks are still relatively low. The recent upsurge of coffee prices have helped the cocoa market, and revival of economic activity among the industrial nations will further strengthen prices.

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SUGAR

Market Profile

Only one-quarter of world sugar production is traded in international markets; the remainder is consumed in the countries where it is produced. Of the sugar moving in international trade, 75% is sold on the free market. Cuba, Brazil, Australia, and the Philippines account for about half of sugar exports and the United States, Japan, and Canada for nearly three-fifths of imports. The remaining 25% of international sugar trade moves within two preferential markets -- the East European and the Euorpean Community. The East European imports come principally from Cuba while the European Community is supplied chiefly by France and by former members of the British Commonwealth.

The residual nature of the free market frequently produces wide price fluctuations. Producers tend to assure stable supplies to their domestic and preferential markets, forcing the narrow free market to absorb virtually all fluctuation in world production. World sugar trade is centered in New York and London, where the principal futures markets are located. Much of the trade is conducted through private brokers, but there is a growing tendency for importing countries to buy directly from official marketing authorities in producing countries.

Recent Trends

Free market sugar prices soared from 13 cents per pound (f.o.b. Caribbean ports) at the beginning of 1974 to 65 cents in mid-November before plummeting to 17 cents on 1 August 1975. The 1974 price runup was the result of market overreaction to a further tightening in world sugar supplies. Poor European and Soviet crops caused world output to drop by only 2% in the 1974/75 crop year but this was enough to exert great pressure on free market supplies. The subsequent sharp price decline reflects slackened consumption in major industrialized countries due to the recession and consumer reaction to high sugar prices. In addition, some importers have postponed purchases in view of the improved prospects for the upcoming 1975/76 crop year beginning this September.

The tight supply situation and the wide price fluctuations rekindled interest in stabilization efforts by consumers and producers alike. Several countries have concluded long-term bilateral agreements at fixed prices to guarantee markets and supplies for sugar. In addition, several exporting countries have expressed interest in cooperative measures to stabilize prices at profitable levels. Such measures range from a Latin American producer organization to attempts to create a new International Sugar Agreement.

VEGETABLE OILS

Market Profile

Palm, coconut and peanut oils are the major edible oils produced in the LDCs. These three oils, or oil bearing materials from which they are derived, account for 25%-30% of the approximately 11 million tons of such products that entered world trade in 1974. In total, some 15 types of oils or oilbearing materials are traded, many of which are substitutable. Soy bean oil dominates, accounting for nearly 40% of world edible oil trade.

Palm oil exports amounted to an estimated 1.4 million tons in 1974. Details on importers and exporters are not available for 1974, but in 1973 West Malaysia accounted for 60% of world exports and Indonesia for 20%. The EC countries accounted for about 60% of the imports, the US 15%, and Japan 12%.

Exports of coconut oil and copra, in terms of oil content, amounted to about 1 million tons in 1974. The Philippines was by far the dominant exporter of both oil and copra and the US the major importer -- taking about half of the oil and about 21% of the copra. Western European countries took a large share of the copra and about a third of the oil. Japan imported about 15% of the copra.

Peanut oil and peanut exports in 1974 amounted to 625,000 tons in terms of oil. Senegal and Argentina were the major exporters that year; Nigeria normally a major exporter, suffered a drought in 1973/74. In 1973, 55% of the total trade moved in the form of oil. Both the oil and nut exports went predominantly to the EC although Japan imported about 10% of the nuts that were exported.

Recent Trends

World vegetable oil prices rose sharply, although irregularly, from late 1972 through October 1974 due to various crop failures and rapidly increasing world demand. Since October 1974, a large increase in supplies of the low-quality oils from developing countries, and depressed world demand have precipitated sharp price declines. By mid-July 1975, the price of coconut oil in European markets had declined by 60% since its peak, plam oil by 50%, and peanut oil by 30%. Unless the international economic tempo should unexpectedly speed up or prospects for the US soybean crop turn poor, there will be further downward pressure on prices.