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Folder ID: 1849475

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ISAD Reference Code: WB IBRD/IDA STAFF-08-01

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P. P. KUCZYNSKI


COMMODITIES
January - April 1973

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Pedro Pablo Kuczynski Subject Files - Commodities - Correspondence - Volume 5 -
January - April 1973

FORM No. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

ROUTING SLIP

Date

4/19/73

NAME

ROOM NO.

Mr. Kuczyński

D 445

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

REMARKS

See marginal note.

From

E. Stern

OFFICE MEMORANDUM

File ⁰⁷ *Comoditi*

TO: Mr. Ernest Stern
FROM: Pedro-Pablo Kuczynski *PK*
SUBJECT: Indonesia Tea

DATE: April 17, 1973 *PK*

1. You may wish to look through the attached, due to be considered by the Board on June 12. The arguments for the project are:

- i. without it, domestic consumption and export availabilities will fall further; and
- ii. the area in Java where tea is grown is not suitable for anything else without major disruption and large investments.

2. [By 1985, the output of the project - about 9,000 tons - would amount to about 1.3 percent of world tea trade.]

3. While there seem to be valid arguments for proceeding with the project, there is the wider question of whether we should finance tea at all. After all, Indonesia could easily afford to import the extra 9,000 tons from Sri Lanka. I suppose that the decisive point is whether it is really true that there are no alternatives to tea in Java.

Attachment

cc: Messrs. Haq
Varon
Meguid

PKK
BK agrees on the
general proposition of
no more tea but
decided to go ahead
with this one. *(PK)*

PPK
GREEN COVER

Report No.

REPORT AND RECOMMENDATION
OF THE
PRESIDENT
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED CREDIT
TO
THE REPUBLIC OF INDONESIA
FOR A
SMALLHOLDER AND PRIVATE ESTATE TEA PROJECT

INTERNATIONAL DEVELOPMENT ASSOCIATION

REPORT AND RECOMMENDATION OF THE PRESIDENT TO
THE EXECUTIVE DIRECTORS ON A PROPOSED DEVELOPMENT
CREDIT TO THE REPUBLIC OF INDONESIA FOR A
SMALLHOLDER AND PRIVATE ESTATE TEA PROJECT

1. I submit the following report and recommendation on a proposed development credit to the Republic of Indonesia for the equivalent of US \$7.5million on standard IDA terms to help finance a project for smallholder and private estate tea development.

PART I - THE ECONOMY

2. The latest Bank report on Indonesia, ("Development Issues for Indonesia", 25-IND, December 1, 1972) contains a discussion of recent economic developments, but addresses itself principally to longer-term policy issues relevant to the Second Plan (1974-79) preparations that are now underway. Country data are presented in Annex I. Indonesia's economic progress over the five years ending 1971 has been satisfactory. The rate of growth of GDP, averaging 5 percent per year in 1965-70, reached 6 - 7 percent in 1971; preliminary data on 1972, however, point to a slightly lower rate as food production, particularly rice, cassava, and maize, has been severely affected by drought. It now appears that the expected level of domestic rice procurement by the Government will be lower than last year and rice imports may exceed one million tons in 1972/73^{a/} to meet the current shortages. Mainly as a result of these shortages the prices of basic commodities escalated towards the end of 1972 and the overall annual rate of inflation is now over 25 percent as compared with 3 - 4 percent per annum in the past couple of years. Although this may be a temporary phenomenon, it indicates the continuing sensitivity of prices to the supply of basic food commodities.

^{a/} Indonesian financial year, April 1 - March 31.

3. In the industrial sector, there has been further substantial growth in the production of textiles as well as of other consumer and industrial goods. The rehabilitation and expansion of domestic enterprises, backed by a continuing inflow of private investment and commitment of official aid for several major industrial projects, suggests that the prospects are good for further industrial growth from the present small base. Infrastructure rehabilitation and expansion is underway, financed in large measure by project aid, including IDA credits. Deficiencies in the transport, power and telecommunications sectors, however, could become a constraint on agricultural and industrial growth unless special efforts are made to accelerate the implementation of ongoing and future projects.

4. In the public sector, Government revenues in 1971/72 were 20 percent higher than in the previous year. A much larger increase, 33 percent, is forecast for 1972/73. The largest item in this increase would be taxes on expected higher earnings of foreign oil companies. Other revenues could increase by 16 percent. The expected increase in revenues of Rp 136 billion (US \$327 million) after financing increases in salaries and material expenditures in the routine budget, would allow for nearly a doubling (to Rp 116 billion or US \$279 million) of the surplus available for the development budget. Together with counterpart funds generated by program aid (estimated at Rp 95 billion or US \$229 million) this would provide for a development budget in 1972/73 of Rp 211 billion (US \$508 million), which is 45 percent more than in 1971/72.

5. The balance of payments situation has improved steadily. An important factor has been debt rescheduling and the financial assistance provided by the Inter-Governmental Group for Indonesia (IGGI). Exports, led by oil, have expanded at an unprecedented rate in recent years, but imports have also risen

rapidly. Recorded exports from Indonesia rose by nearly 30 percent in the last two years, and they are expected to rise even more in 1972/73, reaching US \$1,235 million, largely as a result of sharp increases in the volume and value of oil exports. Foreign exchange reserves, usually negative on a net basis, increased rapidly in the first nine months of 1972, mainly because of a substantial inflow of private short-term capital attracted by high Indonesian interest rates, and reached a net level of US\$238 million at the end of September, 1972.

6. The Government is now in the process of assessing Indonesia's past performance and future economic potential as part of its projections for the Second Plan. This Plan will address more directly than was possible in the rehabilitation phase the issues of employment, income distribution and regional development. Although the ability of the Indonesian Government to formulate and implement plans, programs and projects has improved, limited managerial capacity presents a serious obstacle to more rapid growth. This problem, as well as the continued need to improve the mobilization of domestic savings, will also have to be considered in the formulation of the Plan.

7. Bank Group assistance to Indonesia is a part of the international support being given in increasing amounts through the IGGI. Aid commitments have risen from US \$200 million equivalent in 1967 to over US \$600 million for 1971/72. The proportion of project aid has steadily increased over this period, but substantial program aid remains essential as support for the balance of payments and --in spite of strong domestic revenue efforts -- as a source of additional funds for the development budget. For 1972/73, express or implied commitments made by IGGI members amounted to some US \$724 million equivalent, of which US \$320 million was for program aid, including US \$110 million in food supplies. In addition, Japan has provided the equivalent of US \$200 million of

untied aid on concessional terms outside the IGGI framework for the development of the oil sector. All aid from the IGGI members has been given on concessional terms approximating the standards set by the Development Assistance Committee (DAC) of the OECD. The IGGI met again in December, 1972 to consider the Indonesian aid request for new commitments of US \$760 million in project and program aid for the 1973/74 financial year. This request was agreed by the IGGI to be reasonable and realistic in terms of Indonesia's requirements.

8. The rescheduling negotiations for pre-1966 external debt, which culminated in April 1970 in an agreement on long-term settlement of the debts held by Western creditors and Japan, and in a subsequent agreement on similar lines with several Eastern European countries, resulted in a ratio of external debt service to exports of about 11 percent. It will rise appreciably through the 1970's as grace periods expire on aid received after 1966, but should remain manageable during the decade if exports increase at projected rates, credit ceilings on foreign borrowing by the Government and public enterprises are not exceeded, and new aid is made available on concessional terms similar to those at present obtained from the IGGI.

PART II - BANK GROUP OPERATIONS IN INDONESIA

9. In order to accelerate the pace of economic development, Indonesia will require, in addition to continued substantial external support, some change in emphasis in its investment program from rehabilitation and improvement of infrastructure to the expansion of production capabilities in agriculture, minerals, forestry and manufacturing. It will also require continued strengthening of the institutions for the planning of development and the management of the economy. Income distribution, assistance to smallholder

farmers, family planning as well as regional development and related patterns of employment and population movements also need to be given an important place in Indonesia's development strategy.

10. A Bank Group agricultural sector mission visited Indonesia in February and March 1972 and recommended that emphasis be given to opening up new areas in the outer islands for resettlement of people (transmigration) from Java and Bali and to increasing assistance to smallholders in the form of provision of planting material, fertilizer, marketing and transport facilities and technical assistance. For Java and Bali, the mission recommended that emphasis be given to increasing efficiency of smallholder production through irrigation and improved provision of agricultural inputs. While primary emphasis would continue to be given to the intensive cultivation of rice, the mission also reported that there was considerable scope in some areas for increased production of sugar, cotton, tea and other crops.
11. The work at both the Resident Staff in Indonesia and at Headquarters and the lending activities of the Bank Group have been oriented towards these development objectives. The focus of the Bank's economic work in providing assistance to the Government in the preparation of the Second Plan is also along these lines.
12. Consistent with Indonesia's large external resource requirements and difficult balance of payments problems, the Bank Group's lending to Indonesia (aside from IFC investments) has been and will most probably continue in the foreseeable future to be in the form of IDA credits. In recognition of the urgent need for institutional reforms, most IDA-financed projects have been associated with major reorganizations of existing institutions or the establishment of new ones, and most credits have included appropriate provisions for consultants' services and other technical assistance.
13. To date, Indonesia has received 26 IDA credits amounting to

US \$341.5 million. Annex II contains a summary statement of IDA credits and IFC investments as of _____, 1973 and notes on the execution of on-going projects. The composition of this lending reflects the priorities for rehabilitation and development established by the Government. Indonesia's First Five-Year Plan (1969-1974) gives highest priority to agriculture. The Association has already extended four credits to help rehabilitate and develop plantations in the Government estates sector. Other credits for agriculture include four to assist rehabilitation of irrigation systems, one for fisheries, and one to help increase rice yields throughout Indonesia by establishing a seed multiplication program for high-yielding rice varieties. Earlier this fiscal year the Executive Directors approved a beef cattle development project and a project to assist smallholders in the production of rubber and oil. The Association also organized a consortium of lenders to finance a major expansion of the PUSRI fertilizer plant. These 13 credits account for about half of the Association's lending to Indonesia.

14. To assist in the rehabilitation of other priority sectors, credits have also been extended for highways, power, telecommunications and inter-island fleet rehabilitation. Credits have also been made for industrial financing, education and population projects and three technical assistance credits have been made to finance high priority pre-investment studies undertaken by the Government, as well as other urgent technical assistance requirements.

15. The first IDA credit to Indonesia was made in September, 1968, and 18 of the 26 credits have been signed since July 1970; the program is thus relatively new. Virtually every credit has been associated with extensive institutional reforms involving, inter alia, the creation of new project authorities, drafting of new charters, and enactment of new legislation, all of

which have taken, in most cases, much time. For these reasons, the undisbursed portion of the credits is relatively large. However disbursements are now rising.

16. Credits to finance projects for West Java Thermal Power, sugar industry rehabilitation, highways, an industrial estate, and education are expected to be presented to the Executive Directors in the next several months. Projects in fisheries and irrigation, as well as in tourism, water supply and urban development are also being prepared for IDA financing.

PART III - THE SMALLHOLDER AND PRIVATE ESTATE

TEA SECTOR IN INDONESIA

17. Java, the site of the proposed project, encompasses 70% of Indonesia's population and produces about 90% of Indonesia's tea output. Three-fourths of the 80 million people on the island derive their income from agriculture, and annual per capita GDP of the rural population is about US \$55 compared with a national average of US \$77. Roughly 500,000 people depend for their livelihood on private sector tea production. Net per capita income of a typical smallholding with tea and other cash crops is about US \$35.

18. Before 1939 Indonesia was the world's third largest exporter of tea, with annual exports of almost 75,000 tons. Annual production was about 90,000 tons, of which about 70,000 tons were produced by privately owned estates. During the war, large areas of tea were uprooted and planted to food crops. Post war disruptions, subsequent neglect and shortages of funds and technical skills led to a further decline in production. In 1970/71 total tea production had fallen to 54,000 tons and exports to 33,000 tons. Government estates are now being rehabilitated with Government support and external financing, including an IDA credit (259-IND, September 1971) of US \$15 million. By contrast, the private tea sector is still in critical need of rehabilitation. The proposed project is designed to meet this need.

19. Smallholder tea production was initially developed with the help of the estates which provided planting material, fertilizer, credit, technical assistance and marketing facilities. Vital links between the two sectors were lost during the war as the estates could no longer provide these services to the smallholders. In 1970/71 there were about 39,000 registered smallholders with 51,000 ha of tea in Java compared to about 75,000 ha before the war. The average size of a smallholding is 1.8 ha with a tea area of 1.1 ha. Paddy and casava are the principal subsistence crops grown in the remaining area.

20. There are about 11,000 ha under tea cultivation on 53 private estates in West Java and about 1,900 ha on six estates in Central Java. They produce about 4,700 tons of tea, mostly for the domestic market. While these estates are privately owned corporate entities, their land is leased from Government for 30 years. The deterioration in tea husbandry is severe and there is a need for credit for rehabilitation of fields, buildings, transport and factories to turn these estates into efficient units and enable them to reestablish their close ties with surrounding smallholders.

21. Tea leaf from government estates is processed exclusively into black tea and sold primarily for export. Many private estates have shifted their production into green tea because it requires less sophisticated processing techniques and smaller investment. Smallholders have also been forced in recent years to process a large quantity of their leaf in small and crude green tea factories. In total about 30 percent of Indonesia's production is in the form of green tea. While this is preferred by some segments of the West Java population, it has a limited market; major expansion of the domestic market will occur in black tea. All processing facilities are privately owned, except for the factories of Government-owned estates, and most of the privately owned factories need to be rehabilitated.

22. Failure to arrest the decline of the private sector tea industry would have serious economic and social consequences for the tea growing regions. The production of alternative crops is limited by climatic and geographic factors. Those crops that can be grown are less labor intensive, face market restrictions and are economically less attractive than tea. Living standards would decline with further delays in tea rehabilitation; and there is a danger that at least the smallholder sector would cease to play an important role in the tea economy. Unless measures are taken to prevent it, an increasing share of Government tea production, most of which is now exported, would be diverted into the domestic market. Alternatively, domestic consumption would be further reduced affecting particularly the lower income groups, since tea is the lowest cost beverage available in Indonesia. The government acknowledges the importance of private sector tea production and accords high priority to its improvement. However, very little of a practical nature has been done to initiate rehabilitation. Major constraints to development are the lack of planning, shortage of credit, antiquated processing facilities, ignorance of modern production methods among tea growers, and closely related to this the absence of an effective extension service. The proposed project is designed to help remove these constraints.

PART IV - THE PROJECT

General

23. The proposed project was prepared by the Commonwealth Development Corporation financed under the Tea Estates Credit No. 259-IND. An IDA mission composed of Messrs. Elz, Brown (IDA), Jansen, Lushington and Mareithi (consultants) appraised the project in October/November 1972. The credit was negotiated in Washington in April. The Government team was led by _____ . The proposed credit would be the Association's second credit for the smallholder sector in Indonesia following the North Sumatra Smallholder Development Credit (Cr. 358-IND) which was signed in February 1973.

Project

24. The project is designed to increase the productivity of the private sector tea industry in West and Central Java, thereby enabling it to meet the demand of an expanding domestic market. This would be achieved by rehabilitating 6,500 ha smallholder and 1,200 ha private estates tea; by replanting 3,500 ha smallholder and 2,000 ha private estate tea; and by constructing two new black tea factories as well as by rehabilitating five private estate tea factories. To support this effort an expanded credit program and a specialized extension service would be instituted to provide required inputs and technical assistance to tea growers; and tea nurseries would be established to ensure the availability of high quality planting material. In addition, training facilities and programs would be developed to train both extension officers and tea growers. Funds are also provided under the project for consultancy services, a study of the domestic tea market and a management study of Bank Rakyat Indonesia (BRI)., which would be the credit channel for the project. About 7,700 smallholders and 30 private estates are expected to participate in the project.

25. This is primarily a smallholder project. Smallholder field development accounts for over three quarters of the project area. Moreover, the private estates included in the project will serve as nuclei for smallholder concentrations by providing essential supporting services to smallholders in surrounding areas. Factory investment would provide essential improvement and expansion of the facilities available for smallholder leaf. Appraisal Report (No.) has been circulated to the Executive Directors and project summary is in Annex III.

Organization and Management

26. Project Management Unit: The project would be executed by a Project Management Unit (PMU), to be established in the Ministry of Agriculture. The PMU, with headquarters at Bandung would be headed by a project manager who would be assisted in the day-to-day execution and management of the project by three executive assistants and one chief advisor, all internationally recruited. The chief advisor would assist the Project Manager, executive assistants would fill the positions of Technical Development Consultant, Factory Consultant, and Accounting Systems Specialist. PMU would operate nurseries, recruit, train and administer the field extension staff, arrange for training of tea growers and conduct tenders for fertilizer, pesticides, training facilities, and teaching aides, as well as for office equipment and vehicles for PMU. A Project Management Board (PMB), consisting of the Director-General of Estates (Chairman) and the senior representatives of the Ministry of Finance, BAPPENAS (National Planning Organization), BRI, Director of Smallholder Estates, Estates Syndicate and other parties appointed by the Minister of Agriculture on the basis of their background and ability to contribute to the development of the private tea industry, would be responsible for overall policy for the PMU. The PMU and PMB would be established, the Project Manager, Chief Project Advisor, Technical Development Consultant and

the Accounting Systems Specialist would be appointed and the Project Manager would have taken up his duties before the credit was declared effective.

27. As retention and recruitment of qualified project implementation staff would be difficult because of the low level of government salaries, the PMU staff would receive annual compensation equivalent to that received by government estates staff with similar experience and qualifications. Assurance to that effect would therefore be sought during negotiations.

28. Bank Rakyat Indonesia: Bank Rakyat Indonesia (BRI) is one of the largest of the 5 state-owned banks in Indonesia. Although more than 50 percent of its business volume is ordinary commercial banking, BRI's credit is extended principally to smallholders and small rural industry. Through a network of Village Units and Mobile Units, BRI is able to provide good coverage of rural West and Central Java, including the project area. It is through these units that credit for the entire Bimas Rice Intensification Program and its affiliated programs is being channelled. BRI is the most suitable channel for the project. The IDA credit provides for the services of an internationally recruited financial advisor who would assist BRI in improving its loan administration and establishing an effective project accounting system. Provision is also made for training of BRI's rural staff in the project area. BRI also plans to establish a separate unit for its country-wide medium and long-term lending operations. To assist BRI in strengthening its overall capabilities in this field, funds are also provided in the proposed credit for a study which would be carried out by internationally recruited consultants and administered by Bank Indonesia.

Field Development Sub-loans

29. Credit to smallholders (fertilizer, pesticides, planting material) would be extended by BRI after technical appraisal by PMU extension officers and financial appraisal by BRI. Private estates would receive credit for field rehabilitation upon approval of their development plan by the PMU and satisfactory financial and managerial appraisal by BRI. Estates which would participate in the project would be limited to those owned by Indonesian-based companies, free of title disputes and holding concessions which would cover at least the credit repayment period. Credit to private estates would bear 12 percent interest rate per annum to be repaid over 18 years including eight year grace period and to smallholders 12 percent interest rate over 15 years including five year grace period. Disbursements under sub-loans would be subject to satisfactory payment of interest and periodic check of credit-worthiness and confirmation by PMU that sub-borrowers are effectively carrying out their development programs.

Factory Sub-loans

30. Rehabilitated factories would be owned and managed by the private estates owners, and the new factories would be initially owned by the PTP XII and PTP XIII which are government-owned tea estates. Provision would be made for future smallholder ownership of the new factories under arrangements to be made in consultation with the Association. To design and supervise factory rehabilitation and construction, consultants acceptable to the Association would be employed by factory owners. Credits for factories would bear 12 percent interest rate repayable over 15 years including five years of grace.

Project Costs and Financing

31. Total project cost is estimated at about US \$15.0 million equivalent with a foreign exchange component of US \$7.5 million to be financed by the IDA credit. Smallholder field development would account for 24 percent of project costs; estate field development 14 percent; factory rehabilitation and construction 20 percent; the Project Management Unit, including training, extension, nurseries and supporting consultancy services 16 percent and technical assistance for BRI 1 percent. Contingencies amounting to 25 percent of total project costs are estimated at US \$3.9 million. The two principal foreign exchange components are fertilizer and pesticides (US \$3.1 million) and factory machinery (US \$2.6 million).

32. The proposed IDA credit of US \$7.5 million would be extended to the Government of Indonesia. About US \$0.9 million of the credit would be made available directly to the PMU to cover foreign exchange costs of consultants, marketing study, overseas training, vehicles and office equipment for the PMU, training facilities, and technical assistance for BRI, and about US \$0.2 million would be used for financing BRI study which would be administered by Bank Indonesia. The balance of the credit would be onlent to BRI. BRI would lend these funds (US \$6.4 million) together with its own contributions (financed partly from its own resources and partly from funds to be provided by Bank Indonesia, and amounting to US \$3.9 million) to sub-borrowers for field development and factories. The Government would make available from its own resources US \$2.2 million to meet the local costs of the PMU. Sub-borrowers, excluding smallholders, participating in the project would contribute US \$1.4 million to cover field and factory development costs. Smallholders contribution would take the form of incremental family labor.

Procurement:

33. Machinery and equipment for the two new factories, fertilizers, pesticides, and vehicles with a total estimated cost of US \$5.3 million would be procured through international competitive bidding in accordance with IDA guidelines. Bid documents for fertilizer and pesticides would require delivery to specified field locations at which the supplier or his agent would maintain suitable depots. Tenders for the selection of fertilizer and pesticides would be conducted by PMU. International competitive bidding would not be practical for the procurement of machinery and equipment for factory rehabilitation. For this category, compatibility of the new goods with existing installations would be essential. The five factories are separately owned, would be rehabilitated over a three-year period, and would each require a different mix of machinery and equipment items, making each contract small and bulking impracticable. For this category, amounting to about US \$1.8 million, prudent shopping would be acceptable, including the solicitation of at least three local quotations, except in cases where standardization requires the specification of a particular make. Civil works for factories and training facilities, teaching aids, and office equipment for the PMU, totalling about US \$1.2 million, would be procured under local competitive bidding because individual contracts would be small (less than US \$50,000). Foreign suppliers of most of these items are well represented in Indonesia. All contracts under the project which are expected to exceed US \$50,000 would be subject to IDA approval prior to award. The selection of consultants to assist PMU, BRI and sub-borrowers in project execution would be subject to IDA approval. (US \$1.2 million).

Project Benefits and Justification

34. The proposed project would halt the decline in private sector tea production and would result in a moderate increase over present production levels by 1985. It would also improve the quality of tea produced by the private sector in Indonesia. The project would generate about 5,000 new jobs, reduce underemployment of participating farm families, improve extension services for smallholders, and increase tea processing capacity. Furthermore, technical assistance to BRI is expected to result in substantial improvement in its organization and operating procedures.

35. The production generated by the project would be about 2,000 tons in 1980/81 and about 9,000 tons in 1985/86. Total private sector production would still decline from 21,000 tons in 1972/73 to 19,800 tons in 1980/81 because the increase in project output would not be sufficient to compensate for the decline in production in the rest of the sector. By 1985/86 total production from smallholders and private estates would have increased to 25,500 tons or by 4,500 tons over the present production. The production generated by the project would have an annual wholesale value of US \$7.2 million.

36. As a result of increased production and quality, about 7,700 participating smallholders would realize an average increase in annual net income from tea of US \$195 at full development (from US \$86 to US \$281). Since production would decline without the project the net annual benefit is estimated at US \$233 per family. Estates net income from leaf production would increase by US \$21,687 per year per 100 ha (\$26,506 adjusted for expected yield declines without the project). The overall effect of the project on net farm income would be annual increases of US \$2.3 million to smallholders and US \$0.8 million to estates.

37. The financial rates of return on all proposed sub-projects are adequate to meet the cost of capital and induce sub-borrower participation. Smallholder field development and estate factory rehabilitation are particularly attractive, with internal rates of return of 27% and 17% respectively. The economic rate of return for the credit component of the project is 23% and for total project investment is 15%.

38. The output to be generated by the project would be sold in the domestic market, although some substitutions of good quality private teas for poorer Government estate teas may occur in Indonesian exports. Prior to 1960, per capita consumption of tea was increasing by about 4 percent annually. From 1960 to 1970 it declined mainly because of shortages of supply. With the improvement in output through the project the decline in per capita consumption could be expected to be reversed. Assuming a 4 percent annual growth in per capita domestic consumption, which would still leave per capita tea consumption in Indonesia by 1985 below the level of other tea producing countries, project production would not be sufficient to maintain the present level of net export availability of Indonesian tea. Furthermore, Indonesian tea producers have few alternative cash crops, because the two possible replacement crops that can be grown under the area's soil and climatic conditions -- rubber and coffee -- also face market instability and, in addition, would require major investments in infrastructure, and substantial income subsidies during their long gestation period.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

39. The draft Development Credit Agreement between the Republic of Indonesia and the Association, the draft Project Agreement between BRI and the Association, the Recommendation of the Committee provided for in Article V, Section 1 (d) of the Articles of Agreement of the Association, and the text of a resolution approving the proposed credit are being distributed to the Executive Directors separately. The draft Agreement conforms to the normal pattern for credits for smallholder agriculture projects.

40. I am satisfied that the proposed development credit would comply with the Articles of Agreement of the Association.

PART VI - RECOMMENDATION

41. I recommend that the Executive Directors approve the proposed Development Credit.

Robert S. McNamara
President

Attachments

COUNTRY DATA - INDONESIA

<u>AREA</u>	<u>POPULATION</u>	<u>DENSITY</u>
1,904,639 km ²	million (mid-1971) 112.3	62 per km ²
	Rate of Growth: 2.0 (from 1961 to 1971)	557 per km ² in Java

POPULATION CHARACTERISTICS 1971

Crude Birth Rate (per 1,000)	47
Crude Death Rate (per 1,000)	19
Infant Mortality (per 1,000 live births)	125

HEALTH 1970

Population per physician	26,000
Population per hospital bed	1,200

INCOME DISTRIBUTION

% of national income, lowest quintile	..
highest quintile	..

DISTRIBUTION OF LAND OWNERSHIP 1963

% owned by top 10% of owners	43%
% owned by smallest 10% of owners	less than 3%

ACCESS TO PIPED WATER 1971

% of population - urban	40%
- rural	-

ACCESS TO ELECTRICITY

% of population - urban	..
- rural	..

NUTRITION

Calorie intake as % of requirements	..
Per capita protein intake	..

EDUCATION 1971

Adult literacy rate %	56
Primary school enrollment %	77

1/
GNP PER CAPITA in 1970 : US \$ 77

GROSS NATIONAL PRODUCT IN 1970

	US \$ Mln.	%
GNP at Market Prices	8,619	100.0
Gross Domestic Investment	1,157	13.4
Gross National Saving	757	8.9
Current Account Balance	-390	4.5
Exports of Goods, NFS	1,173	13.6
Imports of Goods, NFS	1,430	16.6

ANNUAL RATE OF GROWTH (% , constant prices)

	1960-65	1965-70	1971
	1.6	5.1	..
	-0.4	11.8	..
	5.8	5.1	..
	0.6	8.0	..
	-3.4	13.6	..

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1971

	Value Added		Labor Force ^{2/}		V. A. Per Worker	
	US \$ Mln.	%	Mln.	%	US \$	%
Agriculture	4,840	50.9	24.9	62.3	194	81.5
Industry	950	10.0	3.8	9.5	250	105.0
Services	3,710	39.1	10.9	27.2	340	142.9
Unallocated			0.4	1.0		
Total/Average	9,500	100.0	40.0	100.0	238	100.0

GOVERNMENT FINANCE

	General Government			Central Government		
	(Billion Rupiahs)	% of GDP		(Billion Rupiahs)	% of GDP	
	1971-72 ^{3/}	1971-72	1969-71	1971-72	1971-72	1969-71
Current Receipts	459	..	..	412	..	9.4
Current Expenditure	395	..	..	348	..	8.0
Current Surplus	64	..	..	64	..	1.4
Capital Expenditures	197	..	..	191	..	4.4
External Assistance (net)	127	..	..	127	..	3.0

1/ The Per Capita GNP estimate is at 1970 market prices, calculated by the same conversion technique as the 1972 World Atlas. All other conversions to dollars in this table are at the average exchange rate prevailing during the period covered.

2/ Total labor force; unemployed are allocated to sector of their normal occupation. "Unallocated" consists mainly of unemployed workers seeking their first job.

3/ Indonesian fiscal year April 1-March 31.

COUNTRY DATA - INDONESIA

KEY, CREDIT and PRICES	1965	1969	1970	1971	Sept	Sept
					1971	1972
		(Billion Rp	outstanding end period)			
Money and Quasi Money	2.6	180.0	241.1	312.6	304.0	430.1 ^{1/}
Bank Credit to Public Sector ^{2/}	..	55.5	44.8	42.5	..	..
Bank Credit to Private Sector ^{2/}	..	171.9	200.7	435.6	..	..

(Percentages or Index Numbers)

Money and Quasi Money as % of GDP	..	6.9	7.5	..	518	658
General Price Index (Sept. 1969 = 100)	..	545	626	641	518	658
Annual percentage changes in:						
General Price Index	..	17.7	14.9	2.4	3.0	6.5
Bank credit to Public Sector	..	31.6	-24.5	-5.3	..	..
Bank credit to Private Sector	..	51.9	74.9	44.8	..	..

BALANCE OF PAYMENTS

	1969/70	1970/71	1971/72
	(Millions US \$)		
Exports of Goods, NFS	766	913	988
Imports of Goods, NFS	1,192	1,226	1,401
Resource Gap (deficit = -)	-426	-313	-413
Interest Payments (net)	-21	-37	-49
Workers' Remittances	-	-	-
Other Factor Payments (net)	-	-	-
Net Transfers	-	-	-
Balance on Current Account	-427	-350	-462
Direct Foreign Investment	51	104	186
Net MLT Borrowing	-	-	-
Disbursements ^{3/}	357	359	417
Amortization	-50	-57	-70
Subtotal	317	312	347
Capital Grants ^{4/}	..	..	..
Other Capital (net)	-34	27	17
Other items n.e.i	56	-51	-53
Increase in Reserves (+)	-47	2	25
Gross Reserves (end year)	130	182	230
Net Reserves (end year)	-29	-27	-2

RATE OF EXCHANGE

Through July 1971
 US \$ 1.00 = Rp 278
 1.00 = US \$0.003

Since Aug. 1971
 US \$ 1.00 = Rp 111
 Rp 1.00 = US \$0.002

MERCHANDISE EXPORTS (AVERAGE 1969-70 - 1971/72)

	US \$ Mln	%
Rubber	205	25.9
Cil ^{5/}	154	17.3
Timber	119	13.4
Tin	59	6.6
Coffee	61	6.9
All other commodities	230	25.9
Total	839	100.0

EXTERNAL DEBT, DECEMBER 31, 1971

	US \$ Mln
Public Debt, incl. guaranteed	4,273
Non-Guaranteed Private Debt	10
Total outstanding & Disbursed	4,297

DEBT SERVICE RATIO for 1971/72^{5/}

	%
Public Debt, incl. guaranteed	10.8
Non-Guaranteed Private Debt	-
Total outstanding & Disbursed	10.8

IBRD/IDA LENDING, (Nov. 30, 1972) (Million US \$):

	IBRD	IDA
Outstanding & Disbursed		65.1
Undisbursed		257.8
Outstanding incl. Undisbursed		322.9

1/ Provisional.

2/ Bank credit to state enterprises appears under the credit to the private sector instead of the public sector.

3/ Cil on a net basis.

4/ Official capital grants are included under disbursements of net medium and long-term borrowing.

5/ Ratio of Debt Service to Exports of goods and non-factor services.

THE STATUS OF BANK GROUP OPERATIONS IN INDONESIA

A. STATEMENT OF IDA CREDITS

Credit Number	Fiscal Year	Purpose	US\$ million	
			Amount	Undisbursed
127	1969	Irrigation Rehabilitation	5.0	
135	1969	Technical Assistance	2.0	
154	1969	Highways	28.0	
155	1969	Agricultural Estates	16.0	
165	1970	Electricity Distribution	15.0	
193	1970	PUSRI Fertilizer Expansion	30.0	
194	1970	Agricultural Estates II	17.0	
195	1970	Irrigation Rehabilitation II	18.5	
210	1971	Telecommunications Expansion	12.8	
211	1971	Fisheries	3.5	
216	1971	Technical Assistance II	4.0	
219	1971	Education	4.6	
220	1971	Irrigation Rehabilitation III	14.5	
246	1971	Seeds	7.5	
259	1971	Tea	15.0	
260	1971	Second Highways	34.0	
275	1972	Technical Assistance III	4.0	
288	1972	Education II	6.3	
289	1972	Irrigation Rehabilitation IV	12.5	
300	1972	Population	13.2	
310	1972	Development Finance	10.0	
8	1972	Inter-Island Fleet Rehabilitation	8.5	
319	1972	Fourth Agricultural Estates	11.0	
334	1972	Second Electricity Distribution	40.0	
355 a/	1973	Beef Cattle Development	3.6	
358 a/	1973	Smallholder Development	5.0	
Total now held			341.5	

a/ Not yet effective

B. STATEMENT OF IFC INVESTMENTS

Fiscal Year	Obligor	Type of Business	US\$ million		
			Loan	Equity	Total
1971	P.T. Tjibinong	Cement	10.6	2.5	13.1
1971	P.T. Unitex	Textiles	2.5	0.8	3.3
1971	P.T. Primatex Indonesia	Textiles	2.0	0.5	2.5
1971	P.T. Kabel Indonesia	Cables	2.8	0.4	3.2
1972	P.T. Daraion	Textiles	4.5	1.5	6.0
Total			22.4	5.7	28.1
Less sold or repaid			7.6	0.8	8.4
Total now held			14.8	4.9	19.7
Undisbursed (including participants' portion)			14.0	4.3	18.3

INDONESIA - SMALLHOLDER AND PRIVATE TEA PROJECT
CREDIT AND PROJECT SUMMARY

- Borrower: Republic of Indonesia
- Beneficiary:
- (a) About 7,700 smallholders and about 30 private estates in West and Central Java receiving direct assistance in the form of credit and technical assistance, the non-participating tea smallholders benefiting indirectly;
 - (b) Bank Rakyat Indonesia increasing its resources and improving its medium and long term lending capabilities and loan appraisal procedures;
 - (c) Owners of the tea factories increasing processing capacities.
- Amount: US \$7.5 million equivalent in various currencies.
- Terms: Standard
- Relending Terms: Terms and conditions of credit to be agreed with the Association.

Project Description: The project has four major components:

- (a) Credit for field development and factory rehabilitation and construction;
- (b) Extension and training services for smallholders and private estates;
- (c) Establishment of nurseries to provide proven V/P planting material;
- (d) Technical assistance, staff training, marketing study and management study of Bank Rakyat Indonesia.

Project Costs:

	(US \$ Million)			<u>Percent of Foreign Exchange</u>
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>	
1. Smallholder field development	1,903	1,725	3,628	48
2. Estates field development	1,258	687	1,945	35
3. Factories:				
- Rehabilitation	408	1,117	1,525	73
- New Factories	<u>547</u>	<u>692</u>	<u>1,239</u>	<u>56</u>
	955	1,809	2,764	65
4. Project Management Unit:				
- Investment	126	91	217	42
- Executive Assistants	-	627	627	100
- Operating Expenses	<u>1,364</u>	<u>241</u>	<u>1,605</u>	<u>15</u>
	1,490	959	2,449	39
5. Technical Assistance	27	273	300	91
6. Contingencies	<u>1,960</u>	<u>2,047</u>	<u>4,007</u>	<u>51</u>
Total	7,593	7,500	15,093	50

Financing Plan:

Total project cost is about US \$15.0 million equivalent, of which about US \$7.5 million would be foreign exchange. The proposed IDA credit of US \$7.5 million would meet 50 percent of project costs. The Government would provide its share (US \$2.2 million) of project costs from budgetary resources. Bank Rakyat Indonesia would provide US \$3.9 million. US \$1.4 million would be contributed by the subborrowers.

Disbursement

For fertilizer and pesticides, IDA would reimburse BRI for 85% of the cost of materials delivered to sub-borrowers. For machinery, equipment and vehicles, reimbursement would be made to BRI against c.i.f. documents (100%) or in the case of locally procured goods, 95% of ex-factory cost or 83% of off-the-shelf cost. 26% of the cost of completed civil works would be disbursed against acceptable documents, and 100% of the cost of technical assistance would be disbursed quarterly against invoice from the PMU, or from Bank Indonesia in the case of the BRI management study. Any surplus funds would be used to additional credit to smallholders for field rehabilitation.

Estimated Disbursement:

(US \$ 000's)

Fiscal Year	1974	1975	1976	1977	1978	1979	1980	1981	Total
	441.8	368.2	398.8	1239.6	1684.4	1702.0	996.0	669.2	7,500.0

Procurement: (a) Machinery and equipment for two new factories, fertilizer and pesticides and vehicles would be procured through international competitive bidding in accordance with IDA guidelines for procurement. Qualified domestic manufacturers of these goods would be accorded a 15 percent domestic preference or the actual tariff duty, whichever is lower, in the comparison of bids.

(b) Machinery and equipment for five factories to be rehabilitated, and civil works, training facilities, PMU office equipment and teaching aids would not be procured through international competitive bidding. This procedure is considered appropriate because the size of individual contracts would be diverse and/or small, and in some cases standardization would be needed.

Consultants: Suitably qualified and experienced executive assistants and consultants would serve as Chief Advisor to the Project Manager, Technical Development Specialist, Factory Consultant and Accounting Systems Specialist to the PMU. These internationally recruited specialists and consultants would be replaced as soon as practicable by Indonesians, working as assistants to them. Consultants would also be employed for market study, factory design and supervision and management study of BRI and for improving BRI's loan appraisal and supervision capabilities.

Rate of Return: 23 percent on investments in nurseries, field development and factories, 15 percent on project as a whole.

Appraisal Report: Report No. dated
Asia Projects Department

Mr. Ernest Stern

April 17, 1973

Pedro-Pablo Kuczynski

Indonesia Tea

1. You may wish to look through the attached, due to be considered by the Board on June 12. The arguments for the project are:

- i. without it, domestic consumption and export availabilities will fall further; and
- ii. the area in Java where tea is grown is not suitable for anything else without major disruption and large investments.

2. [By 1985, the output of the project - about 9,000 tons - would amount to about 1.3 percent of world tea trade.]

3. While there seem to be valid arguments for proceeding with the project, there is the wider question of whether we should finance tea at all. After all, Indonesia could easily afford to import the extra 9,000 tons from Sri Lanka. I suppose that the decisive point is whether it is really true that there are no alternatives to tea in Java.

Attachment

cc: Messrs. Haq
Varon
Meguid

PPKuczynski/rso

OFFICE MEMORANDUM

Rank

TO: Mr. Hollis B. Chenery

DATE: April 10, 1973

FROM: Mahbub ul Haq *gsh*SUBJECT: Policy on Tea

1. I have read Philip's note to you and the attachment prepared by Mr. Hulley. I agree with the main lines of Mr. Hulley's note, but I think that the issues could be set out somewhat more sharply for Mr. Knapp.
2. The note from Sri Lanka, broadly interpreted, raises two points: (a) whether the fact that IDA has been financing tea production expansion should be taken into account in designing a special compensatory/program loan package, assuming of course that Sri Lanka qualifies for such assistance on the basis of present and prospective economic policies; and (b) whether the Bank Group should finance tea production at all.
3. On the first point, it is clear that so far projects financed by IDA have had little impact on world tea trade. However, it is at least conceivable that the prospect of tea production in the next couple of years from IDA-assisted projects could have contributed to further depress a market which has been in a secular decline for two decades. One possible way to respond to Sri Lanka's request would be to include a tea diversification program as part of the use of the counterpart funds from a program loan, if such a loan is proposed along the lines of my memorandum to you of April 9, 1973.
4. On the second point, the latest note on tea ^{1/} by the Economic Analysis and Projects Department provides ample evidence for a clear policy of no further Bank Group financing for tea. The main points in favor of such a position are:
 - i. World tea prices have been in a secular decline for twenty years: the UK has been a stagnant market, and the growth of import demand has been quantitatively small in other large markets, so that increasing export volume has not been sufficient to maintain the export income of the principal tea exporters. The value of total world tea trade (net exports, excluding trade within the Soviet Bloc) has fallen from an annual average of \$580 million in 1955-57 to \$510 million in 1969-71 (or stayed constant in pounds sterling). There appears to be no significant factor discernible at present likely to reverse the depressed condition of the tea market. The Tea Agreement in operation since 1968 has had little effect in stemming the price decline.
 - ii. If the various tea projects now under consideration by the Bank Group go forward - and even if we stop lending for tea now - the resulting increase in exportable output will amount to a sizeable part of the likely increase in world export volume. The projects already financed or under consideration by IDA are almost entirely aimed at increasing exports.

1/ The International Tea Market: Review and Outlook for Bank Lending in 1973-74, December 14, 1972.

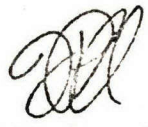
According to the tea paper noted above, world tea exports are projected to increase from an annual average of 600,000 metric tons in 1969-71 to 770,000 metric tons in 1980. Projects already under way with IDA assistance will contribute 44,000 tons of this 170,000 increase (see pages 17 and 26 of the tea paper) and, if the various projects now under consideration go forward (of which the main one is Kenya, which would add another 20,000 tons by 1980) another 30,000 tons has to be added to the projection. It is therefore conceivable that, if present policies continue, IDA financing would contribute 74,000 tons out of an incremental export volume in the next eight years of about 200,000 tons, or more than one-third.

5. The Primary Exporters Paper suggested limiting Bank Group financing of primary commodity production facing inelastic demand to countries with limited export alternatives. There seems little justification to finance tea under such a policy - which in any case has wide margins of interpretation - since the result appears to be to transfer a share of a shrinking market from Sri Lanka and India to East Africa, when there are no clear comparative advantage or per capita income reasons to encourage such a transfer. The Bank has had a clear policy of not financing coffee production; the reasons to follow a similar policy in the case of tea are probably even stronger.

cc: Mr. Stern
Messrs. Hayes/Tims/Hulley
Mr. Singh

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp

FROM: J. P. Hayes (through Mr. Stern) 

SUBJECT: International Tea Market - The Note from Sri Lanka

DATE: April 17, 1973

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MAR 07 2012

WBG ARCHIVES

Your request for briefing on the above subject has been referred to me. Attached are some preliminary reactions on the four principal questions which emerge. Our views are briefly developed in the attached comments:

- 1) Is there a case for "compensatory" IDA assistance to Sri Lanka?

While you will presumably not want to accept the principle of compensation, argued in the Sri Lanka Note, the Bank Group can and does recognize that trends in the price of tea have aggravated Ceylon's need for assistance.

- 2) Should IDA finance tea projects in Sri Lanka?

Projects of rehabilitation and replanting may be justifiable, particularly if they do not increase output. Projects which substitute other products for tea are likely to yield even better returns.

- 3) Should IDA continue to lend for tea to other countries?

The new policy, set out in the Primary Exporters Study^{1/} which went to the Board in January, states that it should do so only in low-income countries where there are no favorable alternatives. It may be worth emphasizing that this policy was developed before receipt of the Sri Lanka Note. As you know, we are committed to produce a further study of the application of this policy in the case of tea.

- 4) What about tea projects coming up for negotiations this summer before the Board has had a chance to set a tea policy?

This question was raised in general form at an interdepartmental meeting last January on the application to Bank lending of the policies set forth in the Primary Exporters Study. Regional department representatives then suggested that the new policy "not be applied on projects scheduled for Board presentation in the remainder of fiscal (or calendar) 1973." No decision was taken on this suggestion, and in fact no tea projects seem likely

^{1/} "Development Policy for Countries Highly Dependent on Exports of Primary products" (Jan. 4, 1973, R73-3).

to come to the Board in the remainder of fiscal 1973. On the other hand, projects in Kenya and Indonesia are due for negotiation shortly and could come to the Board in the latter half of calendar 1973. Commitments and expectations are cited as arguments for going ahead. However, the case for Kenya is weakened by the unusual size of the project -- equal to the total of IDA tea credits to all countries for the previous 4 years. Postponement, prolongation, or partial reduction of the credit or compensatory reduction of acreage elsewhere in Kenya might be considered.

Attachment (1)

cc: Messrs. W. C. Baum
B. R. Bell
I. P. M. Gargill
R. Chauffournier
M. ul Haq - Dir., P.P.P.
M. Yudelman - Dir., Agri.
L. M. Goreux - Dep. Dir., D.R.C.
W. Tims - Dep. Dir., E.A.P.
J. Baneth - Chief Econ., R.V.P. Asia
S. Please - Chief Econ., R.V.P. E. Africa
R. Hablutzel - C.P. I, Asia
K. G. V. Krishna - C.P. I, E. Africa
S. Singh - Chief, C.E.P.
A. S. Cleveland - C.P. II, Asia
P. Yeung - C.E.P.
D. Elz - Proj., Asia

JPHayes/JHulley:pbu

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MAR 02 2012

WBG ARCHIVES

C O N F I D E N T I A L

J.Hulley, J.P. Hayes
April 16, 1973

International Tea Market: Comments on the Note from Sri Lanka

Introduction

1. The Note from Sri Lanka, sent to Mr. McNamara under cover of Mr. Sen's memo of March 29, is no doubt intended to buttress the case of Sri Lanka for a really substantial program loan and/or credits for tea projects. The Bank could hardly accept in such terms the "...case for 'compensatory' aid to Sri Lanka for economic hardship caused and to be caused, to this country as a result of the Bank's recent policies on lending for tea production" (p.7 of the note). We should nevertheless bear in mind that Bank-financed tea investments in other countries have indeed aggravated the difficulty which Sri Lanka has experienced in increasing its export earnings.

2. The note also raises, by implication, the question whether the Bank should go ahead with the Kenya tea project coming up for negotiation in June and the Indonesia tea project scheduled for July.

The Damage to Sri Lanka

3. Tea prices have been declining at an average rate of nearly 2% per year for two decades. These trends developed before IDA investments began to take effect, but the Bank Tea Paper sent to the Board in December 1972 (SecM72-655) predicts that the declining trend of price will continue in the 1970's when production financed by IDA will be important. The demand elasticities are such that any increase of tea exports leads to considerably more than proportionate depression of prices below what they would otherwise have been, and so reduces the tea export earnings of all the producing countries combined.

4. For tea exporters as a whole, the increase of volume has almost exactly offset the decline in price. Within this total, the share of the African countries has grown rapidly, and they have increased the value of their tea exports by \$60 million a year between 1955-57 and 1969-71. Earnings by the Asian countries fell by almost the same amount in the same period. One effect of the new investments has thus been to transfer export earnings from Asian to African countries. One group of low-income countries has gained at the expense of another.

5. Proportionately, the greatest losses have been incurred by Sri Lanka. Between 1955-57 and 1969-71, the quantity of its tea exports rose by 25%; but the price decline was larger, and net earnings therefore fell by 5%. The price decline is attributable in part to a reduction of the premium paid for Ceylon tea, (whether as a result of deterioration of the quality or of falling demand for quality). But most of the decline has been a world decline in average prices of tea exports. The effect on the balance of payments has been large, since more than 70% of Sri Lanka's earnings in the 1960's came from tea. For no other exporter was the proportion anything like as high. If prices for its tea had remained at the 1955-57 level, Sri Lanka's average export earnings in 1969-71 would have been \$25 million a year higher than they actually were.

6. IDA has been one of the largest foreign investors in tea in recent years. (New private investment is discouraged by political uncertainties.) Projects already approved or under consideration by IDA would account for 20% of new production of tea in the world during the 1970's; they would provide 10% of tea exports in 1980. IDA thus has an important influence on the geographic distribution of modern tea plantations, as well as on the volume of world tea production.

7. It is clear that Sri Lanka's difficulties have been aggravated, and stand to be further aggravated in the future, by tea investments elsewhere in the world. On the other hand, such challenges have been faced by other established, major exporters of agricultural commodities -- sometimes more successfully. Sri Lanka has not done as well as Malaysia, for example, in maintaining and increasing its export earnings by diversification and improvement of quality.

The Case Against Bank Group Financing of Tea in Kenya and Indonesia.

8. The Sri Lanka Note raises, by implication, the question whether the Bank should proceed with the proposed tea investments in Kenya and Indonesia. It cites (on page 6) the policies set forth in the Tea Paper which went to the Board. The current statement of policy is now that which was set out in the Primary Exporters Study (behind R73-3 of January 4, 1973): "...limiting financing of new production of primary commodities facing inelastic demand, in general, to countries with few export alternatives".^{1/} Mr. McNamara's supplementary statements on the Primary Exporters Study proposed an examination of the application of the policy to tea and cocoa. He acknowledged that a study taking account of alternative opportunities would certainly take several months; the present timetable aims at production of a paper to go to the Board by October.

9. It is difficult to justify tea investments in Kenya or Indonesia in terms of absence of favorable alternative development possibilities at the level of the country as a whole (the criterion established by the Primary Exporters Study). However an argument for approving these credits is the

^{1/} The main text of the paper (para. 31) says, "...countries which lack alternative opportunities and which are poor". This formula is more restrictive than that set out in the Tea Paper of December 1972, which included the effect on domestic income distribution as another consideration to be taken into account.

degree of commitment already made to the borrowers (see note covering this paper). Furthermore the Indonesian project is small and is expected only to reduce the rate of decline of tea exports. In contrast the Kenya credit is a particularly large one. By 1980 it would be adding 20,000 tons a year to world output (and more later); this is five times as much as the proposed project in Indonesia and more than the combined increase in output financed by IDA in all countries in the preceding four years. It would alone account for more than 2% of world exports of tea.

10. One solution might be to postpone at least a part of the Kenya project. More than two-thirds of the financing is intended for factories to process output from plantations already provided for; this portion could be approved this summer. Less than a third is for new plantations; action on this portion might be postponed. Other possible solutions include prolongation of the project or compensatory reduction of tea acreage on some of the older Kenyan plantations, with assistance for conversion to new products. However, the Bank is not the only source of funds. The CDC have been expected to provide about one third of the financing for the project, and the Kenyan Government about one sixth. The appropriate solution should therefore be worked out with them. The effectiveness of Bank policies on tea will depend in large part on the degree to which understanding can be developed with those concerned.

Sri Lanka's Claim for Compensation.

11. The Sri Lanka Note makes the point (on page 3) that the Bank's lending for tea has been "highly selective", and that "...the 'old' tea producing countries of Sri Lanka and India have been overlooked despite the fact that they are as poor -- if not poorer -- than the 'new' tea producers in Africa...". On this point and on the claim for compensatory aid set out in the final page of the Note, the following observations may be made:

- (a) We cannot accept the principle of compensation for price-lowering effects of investments elsewhere. Nevertheless, the overall difficulty which Sri Lanka has had in maintaining and increasing its export earnings is an element to be taken into account in determining future lending policy. The Bank is anxious to find ways of effectively helping Sri Lanka to increase its export earnings.
- (b) Lending policy towards a country such as Sri Lanka is determined by a general view of needs, performance and the selection of projects through which the Bank Group can make the greatest contribution to the development of the economy. There has been no discrimination against tea as such in Sri Lanka, though we would tend to think in terms of assistance to diversification. (It appears that lending for tea in Sri Lanka was recently considered, but the low proportion of foreign exchange required put it low on the priority list. There is a case in Sri Lanka for finance of replanting with modern methods -- not to increase total production of tea but to release land to grow other things).
- (c) The Primary Exporters Study lays down a rather restrictive criterion for Bank Group investments in primary products facing inelastic demand. It nevertheless states -- and Executive Directors apparently agreed -- that we would be prepared to continue such investments in poor countries which lack alternatives, even though the implied consequence would be some damage to the export earnings of established producers.

Sec M 72-655

Dec. 20, 1972

File Commodities

THE INTERNATIONAL TEA MARKET
REVIEW AND OUTLOOK FOR BANK LENDING IN 1973-74

December 14, 1972

Commodities and Export Projections Division
Economic Analysis and Projections Department

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SUMMARY

1. The world tea economy is characterized by heavy geographic concentration of production and trade. Exports come predominantly from South Asia and East Africa; the import market is dominated by the United Kingdom.
2. Important structural changes have been taking place in the sources of supply as well as in demand. The share of East Africa in world exports has increased due to growth of output in this comparatively new tea-growing area while that of India and Sri Lanka has been declining. Consumption and imports into the United Kingdom have ceased to grow. And, while there has been a steady increase in total world trade (volume), aggregate export earnings have stagnated as a result of declining prices in the past decade.
3. In India and Sri Lanka, over 85 percent of the crop is produced on plantations with a high proportion of old tea bushes and old type of manufacturing equipment. In contrast, tea growing is a comparatively new enterprise in African countries such as Kenya, Malawi, Tanzania and Uganda, and most of the machinery is comparatively modern. Furthermore, a large part of the expansion of production of this region is based on the high yielding VP (vegetative propagation) variety.
4. A potential surplus in the international tea market is indicated by all recent projections of supply and demand. Due to generally low price and income elasticities of demand, the consequence would be a further fall in prices. The "most likely" estimate puts the London average price for all teas in 1980 at around 38 new pence per kilogram, compared to an average of 43 new pence in 1967-69 and 42 in January-October, 1972. This will affect the viability of some tea planters and the foreign exchange earnings of some tea-exporting LDC's.
5. To date the Bank Group has financed tea projects in Indonesia, Kenya, Mauritius, Tanzania and Uganda. These countries have benefitted from the tea projects. The estimated output of these projects alone will be 50-60 thousand metric tons in 1980-85 primarily for exports. World trade in tea which amounted to 600 thousand tons in 1969-71 is expected to reach 770 thousand tons in 1980 and 900 thousand tons by 1985.
6. At present the Bank is considering loan requests for about five additional tea projects. If the Bank were to support all these projects, they would add a further 30-40 thousand metric tons to world output primarily for export in 1980-85.
7. In view of the tendency toward oversupply which would further weaken the international price for tea, caution and a highly selective approach are necessary in considering future Bank investments in tea production. However, to stop financing tea altogether would favor the status quo over adjustments to changes in comparative advantage. Justification for new Bank lending should include considerations of: (a) the lack of feasible alternatives for export products in the borrowing country, particularly in regard to small low-income countries, and (b) the effect on domestic income distribution. In considering such investment, the Bank should also bear in mind the possible need for projects designed to cushion the impact of expanded tea production, including diversification out of tea into more promising investments,

or projects for increasing the 'value added element' in tea marketing, e.g. developing manufacture of instant tea and tea bags.

8. The Secretariat of the Food and Agriculture Organisation has been consulted. It supports the need for caution with regard to future Bank tea projects and concurs with the conclusions that production will tend to exceed demand and that the downward trend in tea prices is likely to continue.

I. BACKGROUND - THE WORLD TEA ECONOMY

Production and Processing

1. Tea is cultivated mostly in South Asia but its production is increasing rapidly in East Africa. It can be grown under a wide range of climatic conditions, from Mediterranean to tropical. However, ideal growing conditions require a warm climate with a mean temperature of about 23°C (73°F) or higher, a well distributed mean annual rainfall of about 180 centimeters (70 inches) or more, and good drainage. In general, the nearer the area under tea cultivation to the equator, the higher the altitude necessary for achieving a given standard of quality. The tea plant begins to produce leaves for processing as early as 3 to 4 years after planting, but significant output is not achieved until the 4th to 6th year. It takes about 9 to 10 years to mature and the prime of its economic life lasts until approximately its 50th year.
2. Tea is processed in two principal ways resulting in either black tea or green tea. Black tea is by far the more important in the world tea market^{1/} in terms of both output and trade. Depending on the method of processing, it is often designated as "orthodox tea" which requires only a relatively simple rolling machine, or as "CTC tea" which involves crushing, tearing and curling of the leaves. Tea is differentiated into a large number of grades according to the variety and a combination of attributes; the latter include flavor, briskness, pungency, color and strength. Unfortunately, there is no single index for the measurement or indication of quality so that tea is often statistically reported simply by its country of origin.
3. Tea is "hygroscopic", that is, it readily absorbs moisture from the air. For this reason, the hot and humid climate prevailing in most of the tea producing countries is not conducive to the storage of tea for extended periods. In the milder climates of major importing centers like London, the quality of tea can still be adversely affected if it is stored beyond 6-8 months.
4. Tea production is concentrated in a relatively small number of countries, the major ones being India and Sri Lanka in Asia, and Kenya, Malawi, Mozambique, Tanzania and Uganda in East Africa. In 1969-71, world production amounted to 1,028 thousand tons, increasing at a rate of 2.9 percent per annum from the 1955-57 level (Table I). There have been significant changes in the geographic pattern of output in the last decade, many of which are likely to continue in the same direction in the foreseeable future. Growth rates in tea production (Chart I) range from about 9 percent per annum between 1955-57 and 1969-71 in African countries to 2.1 percent in India and 1.6 percent in Sri Lanka. These differences are partly explained by the low production figures for Africa in the base period. The absolute addition to world supplies by the African countries over this period amounted to about 80 thousand tons, compared to 150 thousand tons from India and Sri Lanka combined. India's and Sri Lanka's share of world production declined from about 70 percent in

^{1/} Unless otherwise indicated, world tea market excludes centrally-planned countries throughout this report.

Table I: TEA PRODUCTION BY REGIONS AND COUNTRIES
AND SHARE OF REGIONS AND COUNTRIES OF WORLD TOTAL,
1955-57 AND 1969-71 AVERAGES

Region and Country	Production		Yearly Rates of Change	Share of World ^{1/} Total	
	1955-57	1969-71		1955-57	1969-71
	(1,000 metric tons)		(..... percent		
<u>Asia</u>					
India	309	416	2.1	44.9	40.5
Sri Lanka	175	217	1.6	25.5	21.1
Indonesia ^{2/}	45	46	0.2	6.5	4.5
Bangladesh	23	24	0.3	3.3	2.3
Japan ^{3/}	72	91	1.7	10.5	8.9
China, Rep. of ^{4/}	14	27	4.8	2.0	2.6
Iran	6	20	9.0	0.9	1.9
Turkey	2	34	22.0	0.3	3.3
Other Asia	6	11	4.4	0.9	1.0
Total	652	886	2.2	94.8	86.2
<u>Africa</u>					
Kenya	10	38	10.0	1.4	3.7
Uganda	3	18	13.7	0.4	1.7
Tanzania	2	9	11.4	0.3	0.9
Malawi	9	18	5.1	1.2	1.7
Mozambique	6	16	7.2	0.9	1.6
Zaire	2	8	10.4	0.2	0.8
Other Africa	2	8	10.4	0.3	0.8
Total	34	115	9.1	4.7	11.2
<u>Latin America</u>					
Argentina	2	20	17.9	0.3	1.9
Other Latin America	2	7	9.4	0.2	0.7
Total	4	27	14.6	0.5	2.6
World	690	1,028	2.9	100.0	100.0

^{1/} World excluding centrally planned countries.

^{2/} Estates only.

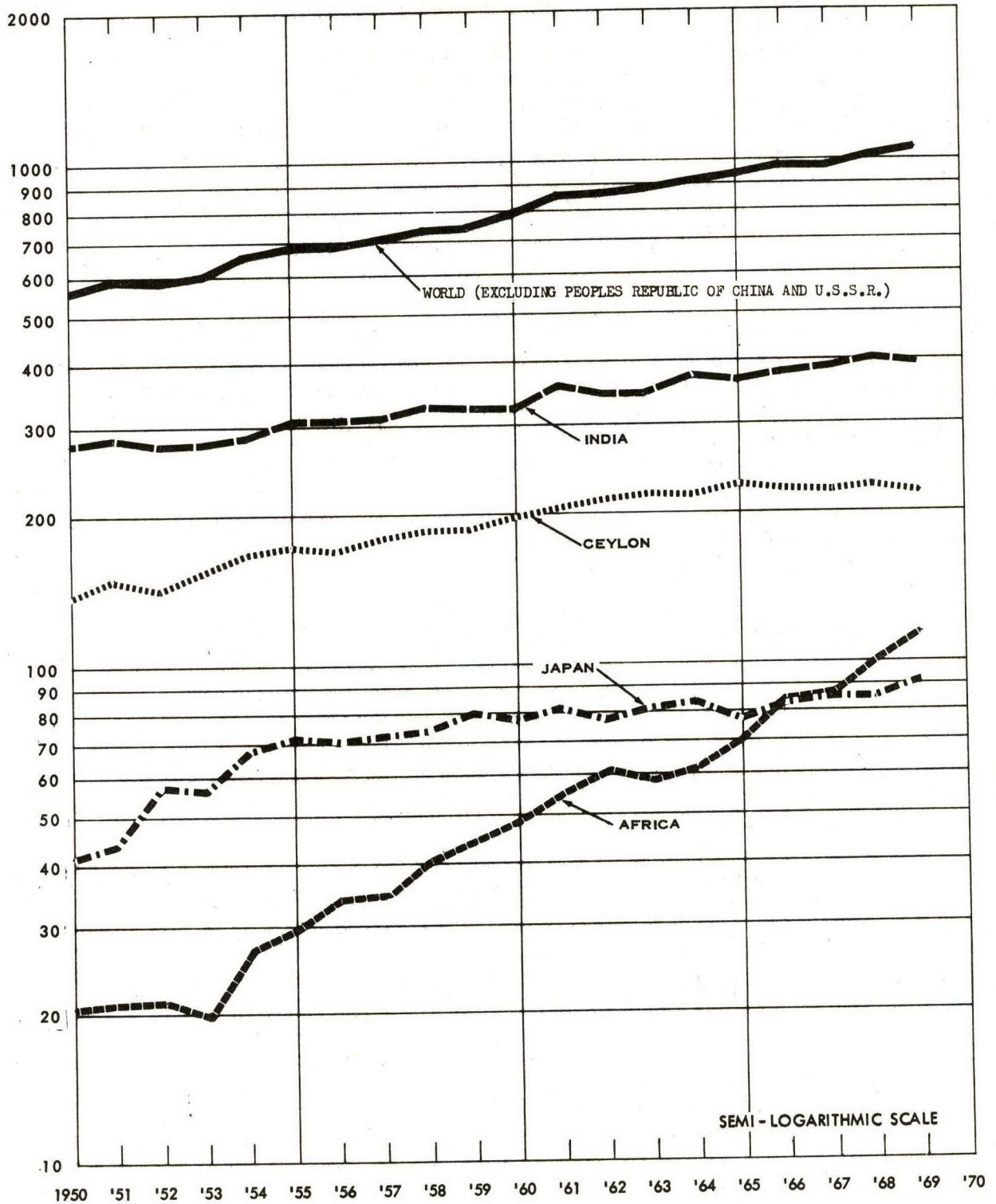
^{3/} Of which about 98 percent green tea.

^{4/} Of which about 85 percent green tea.

Source: FAO, Tea Statistics, doc. CCP/Tah/1A69/WP1 and doc. CCP:TE 70/2, October 6, 1970; Monthly Bulletin of Agr. Economics and Statistics, June 1972.

TEA PRODUCTION IN MAJOR PRODUCING REGIONS, 1950-1969

(THOUSANDS OF METRIC TONS)



SEMI-LOGARITHMIC SCALE

1955-57 to roughly 62 percent in 1969-71, while the African countries increased their share from 4.7 percent to approximately 11 percent over the same period.

5. Expansion of the area under tea cultivation averaged only 1 percent per year (Annex Table 1). The rates of increase in yields varied from country to country: yields in Kenya and Malawi showed little increase in the 1959-69 period, while those in Tanzania and especially Uganda rose rapidly from around 1965 onwards. Long-term increases were also evident in Sri Lanka and South India (Annex Table 2). In general, the difference in yields between East African and Asian tea producing countries derives from the fact that a large part of East African tea planting has occurred since 1960 using the high-yielding clones through vegetative propagation (VP) instead of seedlings. The VP method, coupled with increased use of fertilizers and other improved production practices, makes it possible to double yields over seedling tea.

6. The long-term problem with tea production in India, the world's largest producer, is the age distribution of the bushes. About 30 percent of the plants are over 50 years old (at a stage when productivity begins to decline rapidly), 40 percent are 30-50 years old, and only 20 percent are under 20 years. Unless planned replanting and rehabilitation measures are implemented effectively, India's tea industry will be severely hurt in the future. Measures such as Plantation Finance Schemes, Irrigation Loan Scheme, tax rebates, development allowance, direct subsidies for replanting, etc., have been introduced by the government, but their total impact has not been particularly successful to date.

7. Sri Lanka, the second largest tea producing country, faces problems broadly similar to India's. Nearly two-thirds of the bushes are 70-80 years old. The government has introduced tea loan subsidy schemes for replanting and factory development purposes, but up to now only a fraction of the total area has been replanted. Furthermore, increases in registered tea areas are not allowed, because the government's policy is not to increase Sri Lanka's dependency on tea exports. Given adequate financial and technical assistance, farmers can diversify since climate and soil are suitable for growing a wide variety of products.

8. The tea industry of East Africa is relatively new. There are virtually no tea bushes over 50 years of age, the older areas having been replanted or abandoned. Modern methods are being applied, making the industry as a whole the most up-to-date in the world. The major thrust in tea expansion has come from smallholders, particularly since the early 1960's. Newly cleared lands are used as well as land previously devoted to other crops.

9. Divergent trends are noticeable elsewhere in the world as well. Production has tended to stagnate in Indonesia and Bangladesh; Turkey, Argentina and Iran have shown marked increases. As a result, there has been a considerable increase in the sources of tea supplies.

Consumption

10. Global demand for tea is dominated by a few countries, especially

the United Kingdom among the developed, and India among the developing countries. In 1967-69 these two countries accounted respectively for 22.9 and 20.1 percent of a world total consumption of about 975 thousand tons (Table II). Since 1970, India has become the largest tea-consuming country and is expected to maintain this place, due not only to its large and increasing population, but also to its increasing per capita consumption, which contrasts with the downward trend in the United Kingdom.

11. The reasons for the general reduction in the per capita consumption in the United Kingdom have been investigated in detail in a number of studies.^{1/} These show that tastes for beverages have become more diversified, and that important competitors such as coffee (especially instant coffee) and the multitude of established and newly introduced soft-drinks have eroded tea's share.

12. Within tea consumption itself there has been a shift toward the use of flow-through tea bags,^{2/} and instant tea. As utilizers of mixed blends, these have the tendency of raising the derived demand for plain (lower quality) teas at the expense of quality teas, as well as of reducing the quantity of tea used per cup of tea. Factors which appear to have stimulated sales of instant tea include increased use of vending machines^{3/} and its easy conversion from a hot drink to a cold one in the form of iced tea. In the United States, for example, per capita consumption, still low as compared to the United Kingdom, has been rising mainly because of cold tea.

13. In India, tea is a national drink. It is also the cheapest beverage. In the lower income classes, it is considered more as a food supplement than simply a beverage; together with sugar, it supplies energy. Total consumption has been increasing at better than 5 percent per annum, considerably faster than the 2 percent rate of increase of domestic production, thereby limiting the amounts available for exports. The Indian government is trying to slow down the rapid rate of expansion in domestic tea consumption by increasing the retail price through higher excise taxes, as retail demand in India is price elastic. By contrast, in Sri Lanka, with a small population, total domestic consumption of tea is small, accounting for only about 8 percent of production in 1967-69. Thus the bulk of her output goes into exports.

^{1/} See, for example, Ogilvy & Mather Ltd., An Econometric Analysis of Demand for Tea in the United Kingdom (London, 1969); FAO "Trends in Tea Consumption - The United Kingdom", doc. CCP:Tah/68/5.1 (Rev.) November 29, 1968, prepared by the Committee on Commodity Problems, Third Ad Hoc Consultation on Tea, Kampala, January 6-14, 1969; and Economic Models Ltd. (R.J. Ball and T. Burns), The Demand for Tea in The United Kingdom - The Outlook to 1980 (London, April 1972).

^{2/} Tea bags account for approximately 10 percent of the total volume of consumption. In the United Kingdom, tea bags occupy 16 percent of the tea market, and are expected to capture 50 percent by 1980. (See John Edwards "Big Drop in U.K. Tea Demand Predicted", Financial Times, May 17, 1972).

^{3/} See, for instance, FAO, doc.CCP:Tah 68/5.5 (Rev.), November 15, 1968.

Table II: CONSUMPTION BY REGIONS AND COUNTRIES
AND SHARE OF REGIONS AND COUNTRIES OF WORLD TOTAL,
1955-57 AND 1967-69 AVERAGES

Region and Country	Total Consumption		Yearly Rates of Change	Share of World Total	
	1955-57	1967-69		1955-57	1967-69
	(1,000 metric tons)		(.....percent.....)		
Developed Countries					
United Kingdom	227.3	222.9	- 0.2	32.9	22.9
EEC	17.2	22.4	2.3	2.5	2.3
Ireland	10.1	11.6	1.2	1.5	1.2
Other W. Europe	6.2	9.2	3.3	0.9	0.9
United States	47.7	64.0	2.5	6.9	6.6
Canada	20.2	20.6	0.2	2.9	2.1
South Africa	11.9	18.5	3.7	1.7	1.9
Australia	25.4	28.3	0.9	3.7	2.9
New Zealand	6.7	7.7	1.2	1.0	0.8
Japan	58.7	92.2	3.8	8.5	9.5
Turkey	4.4	19.8	13.3	0.6	2.0
Total Developed	435.8	517.2	1.4	63.1	53.1
Developing Countries					
Non-producing:					
Asia	32.8	63.5	5.7	4.8	6.5
Africa	52.0	73.7	2.9	7.5	7.6
Latin America	5.8	11.3	5.7	0.8	1.2
Total Non-producing	90.6	148.5	4.2	13.1	15.3
Producing:					
Asia: Sri Lanka	8.1	18.0	6.9	1.2	1.9
India	100.0	195.5 ^{2/}	5.7	14.4	20.1
Indonesia	4.5 ^{3/}	8.0	4.9	0.6	0.8
Pakistan and Bangladesh	17.1	29.2	4.6	2.5	3.0
Others	25.5	37.9	3.4	3.7	3.9
Total Asia	155.2	288.6	5.3	22.4	29.7
Africa:					
Kenya	2.3	4.2	5.1	0.3	0.4
Malawi ^{4/}	1.5	2.2 ^{3/}	3.2	0.2	0.2
Tanzania	0.8	1.9	7.5	0.1	0.2
Uganda	0.7	1.2	4.6	0.1	0.1
Others	0.9	3.3	11.4	0.1	0.3
Total Africa	6.2	12.8	6.2	0.8	1.3
Latin America	3.3	5.4	4.2	0.5	0.5
Oceania	0.5	0.7	2.8	0.1	0.1
Total Producing	165.2	307.5	5.3	23.8	31.6
Total Developing	255.8	456.0	4.9	36.9	46.9
World ^{1/}	691.6	973.2	2.9	100.0	100.0

^{1/} Excluding centrally planned countries.

^{2/} Includes an official estimate of 220,000 metric tons in 1969 given to the FAO Consultative Committee on Tea, Second Session, in December 1970.

^{3/} Partly estimated.

^{4/} Includes Southern Rhodesia and Zambia.

Source: FAO, Tea Statistics, doc. CCP:Tah/1A69.WP1; Consultative Committee on Tea, Second Session, doc. CCP:TE 70/2, October 6, 1970; and International Tea Committee, Annual Bulletin of Statistics, 1970.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT
ASSOCIATION

INTERNATIONAL FINANCE
CORPORATION

Tea

1. Bank lending so far \$44.5 m. - lending to 44,000 mt's in 1980 + 52,000 mt's in 1985 (p. 26). Very little so far (p. 22). Prospective lending FY 1973-75 will add another 30,000 mt's to above figures.
2. Total world output will increase from ~ 1 m. mt's now to 1.4 m. in 1980. 80-90% of this planned for non-Bank sources. Exports will increase from 580,000 to 770,000, of which Bank-assisted will be about 72,000, rising to ⁸² 90,000 in 1985 (out of total exports of (870,000)?)
3. Why do we finance Tea, + not coffee?
4. E. Africa more efficient than Asia, where small-holders hardest hit.
5. Similar decline in prices, apparently not affected by Agreement reinstated in 1968.

(signed) Pedro-Pablo Kuczynski

14. A review of some econometric findings in an UNCTAD study^{1/} shows that developed countries have low price elasticities and generally low income elasticities of demand for tea. The price elasticities of demand for tea are relatively low in the United Kingdom, Ireland and South Africa, where tea is the predominant beverage consumed, but relatively higher (between $-2/3$ and -1) in Continental Western Europe, Canada, Australia and New Zealand, where coffee is of substantial or predominant importance (Table III). It also appears to be low in the United States, where coffee is more important. Income elasticities are low in the United Kingdom, Canada, Australia and New Zealand, but appear to be generally higher in Continental Western Europe and the United States.

15. Demand is more price-elastic in the developing countries. Among the tea consuming developing countries, the price elasticity of demand for tea is greater than unity for India and Kenya, and between $-1/3$ and $-1/2$ for other major countries of the group.

16. The trend in consumer tastes in developed market economies generally points toward the downward side for tea, except in the United States where the opposite is true as reported recently by FAO.

Promotion

17. Some studies^{2/} indicate that effective promotion can prevent or even reverse the decline in per capita tea consumption.^{3/} This conclusion, however, has become a subject of controversy in a recent inquiry in the United Kingdom^{4/} where generic advertising was found to be of insignificant importance, while brand advertising appeared to have some, though modest, effect. These findings, however, cannot be taken as conclusive at this time.

Trade and Prices

18. The main feature of the international trade in tea since the mid-1950's has been a steady growth in export volume, averaging about 2 percent per annum, and a stagnation of total export value as a result of a decline in

^{1/} See FAO, Ad Hoc Working Party on International Arrangements for Stabilization of Tea Prices, doc. CCP:Tah/IA69/6; CCP:Tah/68/8 (Rev.) March 1969 (contributed by UNCTAD).

^{2/} See, for example, Ogilvy & Mather Ltd. (R.J. Ball and R. Agarwala), An Econometric Analysis of Demand for Tea in the United Kingdom (London 1959); Economic Models Ltd. (R.J. Ball and T. Burns), The Demand for Tea in the United Kingdom - The Outlook for 1980 (London, April, 1972).

^{3/} "...holding the market requires increased expenditure over the past and substantially increased expenditure in the future." See R.J. Ball and R. Agarwala, "An Econometric Analysis of the Effects of Generic Advertising on the demand for Tea in the U.K.", British Journal of Marketing, Winter 1969, p.15.

^{4/} See Commonwealth Secretariat, "United Kingdom Consumption of Coffee, Tea and Cocoa", Tropical Products Quarterly, March 1972.

Table III: DEMAND FOR TEA: PRICE AND INCOME ELASTICITIES^{1/}

	Elasticities ^{2/}		Trends in Consumer Tastes Coefficient of Time Variable
	Tea Price	Income	
(1,000 m. tons per annum)			
<u>Developed Market Economies</u>			
United Kingdom	-0.33 ^{3/}	0.17 ^{3/}	-2.92
Japan	..	0.32	..
United States	-0.34	0.52	..
Australia and New Zealand	-0.93	0.31	-0.81 (0.15)
Canada	-0.87	0.12 ^{3/}	-0.44 (0.16)
South Africa	-0.32 ^{3/}	0.69	..
Ireland	-0.24	0.25	-
Netherlands	-0.64	0.86	-0.60 (0.45)
Germany, Fed. Rep.	-0.73 ^{3/}	0.59 ^{3/}	..
Other Western Europe	-0.82 ^{3/}	1.10	..
<u>Developing Countries</u>			
India	-1.60	0.91	-
UAR	-0.50	..	0.85
Pakistan ^{4/}	-0.32 ^{3/}	1.35	-
Ceylon	-0.54 ^{3/}	1.20	-
Indonesia	..	..	0.81
Turkey	..	..	0.45
Iran	..	..	0.91
Kenya	-1.70	..	0.54

^{1/} Based on time series for 1954-66 or 1955-66 (annual data).

^{2/} With respect to average of the variables for the period covered.

^{3/} Coefficient was less than twice the standard error, meaning it was not significantly different from zero at 95 percent confidence level.

^{4/} Includes present day Bangladesh.

Source: FAO, Ad.Hoc Working Party on International Arrangements for Stabilization of Tea Prices, doc. CCP:Tah/IA69/6; CCP:Tah/68/8 (Rev.), March 1969.

prices (Chart 2). In 1955-57, world exports amounted to 461 thousand metric tons valued at £206 million (\$577 million). By 1969-71 the volume of exports had increased to about 600 thousand tons, which, however, earned only £213 million (\$511 million). The world export unit value fell from 45.1 new pence per kilogram in 1955-57 to 35.5 new pence per kilogram in 1969-71 (Table IV).

19. The combined share of India and Sri Lanka in world tea trade has declined steadily. In 1955-57 it amounted to 79 percent of world exports while African countries were supplying only about 6 percent. By 1969-71 the share of India and Sri Lanka had shrunk to 67 percent while that of African countries had risen to over 17 percent. Export volume from other countries, mainly Turkey and Argentina, has expanded rapidly (Annex Table 3) in recent years by offering tea at competitive prices.^{1/}

20. The shares of domestic output exported by the various producing countries are quite different and changing (Annex Table 4). Sri Lanka exports by far the greatest percentage. In the African tea-producing countries, the proportions exported are also high. India's export share of domestic production has decreased significantly since 1960, because of the rapid increase in domestic consumption.

21. The importance of earnings from tea exports in the foreign trade of major tea exporting countries is presented in Table V. In 1967-69 earnings from tea accounted for 58.3 percent of Sri Lanka's total export earnings, only slightly below the figure for 1955-57. In India, on the other hand, earnings from tea accounted for only 12.1 percent of her total export earnings in 1967-69 as compared to 19.9 percent in 1955-57. Among the African countries, Kenya and Malawi derive a significant share of their total earnings from tea and its importance has been increasing very rapidly in the last decade.

22. The developed countries account for approximately three-fourths of world tea imports. The United Kingdom is the principal importer, with annual average gross imports of 231 thousand metric tons in 1969-71, or one-third of the world total; about 210 thousand metric tons were retained for domestic consumption while the remainder was re-exported. (Annex Table 6).

23. The United States is the second largest tea-importing country averaging 68 thousand metric tons in 1969-71 (Annex Table 5). Continental Europe constitutes the third largest tea-importing region. However, the potential growth in this market is not expected to be as great as that in North America, where the shift toward tea consumption is projected to continue in contrast with the declining trend in Western European countries.

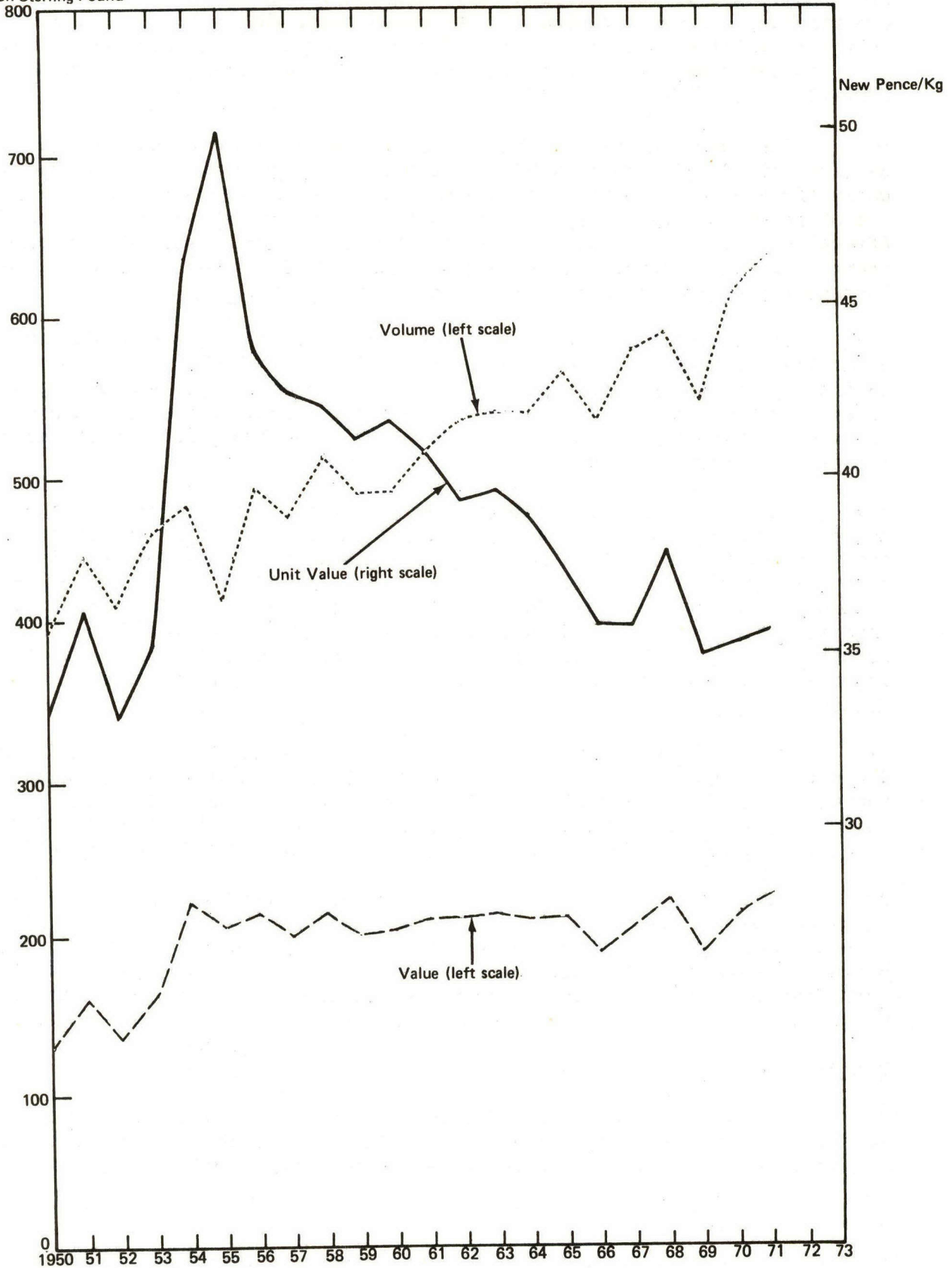
Prices

24. The international market price for tea is determined at three major auction centers - London, Calcutta and Colombo - although London is the leading price indicator in the world market. Not only is Britain by far the

^{1/} In Turkey production costs are high; producers who might otherwise suffer substantial losses are subsidized by the government.

TEA WORLD TOTAL EXPORTS VOLUME, VALUE AND UNIT VALUE, 1950-71

Thousands Metric Ton
or Million Sterling Pound



*Excluding Centrally Planned Countries.

YEAR

Table IV: WORLD 1/ TEA EXPORTS, EXPORT VALUE,
EXPORT UNIT VALUE AND LONDON AUCTION PRICES, 1955-57,
1960-62 AND 1969-71 AVERAGES

	1955-57	1960-62	1969-71	Annual % Change	
				1955-57 to 1960-62	1960-62 to 1969-71
<u>Exports (1,000 metric tons)</u>					
World Total	461.0	513.0	599.4	2.1	1.7
Developed Countries 2/	12.0	9.0	13.5	- 5.6	4.6
Developing Countries	449.0	504.0	587.7	2.3	1.7
Asia	420.0	450.0	460.0	1.4	0.2
Sri Lanka	163.0	195.0	205.3	3.6	0.6
India	202.0	204.0	196.6	0.2	- 0.4
Others	55.0	51.0	58.1	-1.5	1.5
Africa	28.0	48.0	103.0	11.4	8.9
Latin America	0.3	6.0	23.0	81.0	16.1
<u>Export Value (Million L) 3/</u>					
World Total	206.0	208.7	212.8	0.3	0.2
Developed Countries 2/	2.5	1.9	1.7	- 6.4	- 1.2
Developing Countries	203.5	206.8	211.1	0.3	0.2
Asia	193.4	189.6	171.4	- 0.4	- 1.1
Sri Lanka	81.5	83.9	77.4	0.6	- 0.9
India	95.0	92.0	79.5	- 0.7	- 1.6
Others	16.9	13.7	14.5	- 4.1	0.6
Africa	10.0	15.8	34.3	9.5	9.0
Latin America	0.1	1.4	5.4	60.0	16.2
<u>Export Unit Value</u> (New pence/Kg.)					
World	45.1	40.7	35.5	- 2.1	- 1.5
Sri Lanka	49.9	43.1	37.7	- 2.9	- 1.5
India	47.1	45.2	39.9	- 0.8	- 1.4
Africa	35.6	32.7	33.3	- 1.7	0.2
<u>London Auction Prices</u> (New pence/Kg.)					
All tea	52.4	49.4	43.2	- 1.3	- 1.5
North India	55.5	53.8	43.4	- 0.6	- 2.4
South India	45.8	42.3	37.3	- 1.6	- 1.4
Sri Lanka	57.8	52.4	45.6	- 2.1	- 1.6
Africa	37.1	38.1	40.8	0.5	0.8

1/ Excluding centrally-planned countries.

2/ Japan and Turkey.

3/ Converted from U.S. dollars at: one pound sterling = 2.8 U.S. dollars up to and including 1960-62; one pound sterling = 2.4 U.S. dollars for the 1969-71 average.

Source: FAO, Tea Statistics, doc. CCP:Tah/1A69/WP1; and doc. CCP:TE70/2, October 1970; and Commodity Review and Outlook, 1971-72.

Table V: VALUE^{1/} OF TEA EXPORTS, SHARE OF COUNTRY IN WORLD EXPORTS AND SHARE OF TEA IN TOTAL COUNTRY EXPORT EARNINGS, 1955-57 AND 1967-69 AVERAGES

	1955-57			1967-69		
	Tea Export Value	Country Tea Share in:		Tea Export Value	Country Tea Share in:	
		World Tea Export Value	Country Total Export Earnings		World Tea Export Value	Country Total Export Earnings
India	95.0	46.1	19.9	83.2	40.6	12.1
Sri Lanka	81.5	39.5	60.8	77.9	37.8	58.3
Kenya	3.0	1.5	9.9	11.2	5.4	15.8
Malawi	3.2	1.6	n.a.	4.7	2.3	22.7
Uganda	1.0	0.5	2.4	4.4	2.1	5.8
Tanzania	0.6	0.3	1.3	3.1	1.3	3.4
Mauritius	0.1	0.05	0.5	0.8	0.4	3.1
World ^{2/}	206.0	100.0		206.1	100.0	

n.a. = not available.

^{1/} Converted from U.S. dollars at: one pound sterling = 2.8 U.S. dollars up to and including 1967; one pound sterling = 2.4 U.S. dollars after 1967.

^{2/} Excluding centrally planned countries.

Source: FAO Tea Statistics, doc. CCP:Tah/LA69/WP1 and doc. CCP:TE70/2, October 1970; UN Monthly Bulletin of Statistics (various issues).

largest tea-importing country in the world, it normally carries the largest stocks of tea, and is an important entrepot and trading center for the commodity.

25. The development of actual market prices for individual teas and the average for all teas on the London market are indicated in Annex Table 7 and Chart 3. In the postwar period, the prices of tea rose as well as those of many other commodities. The rise in the average price of all teas at the London auctions climaxed in 1954-55. Since then secular decline has set in, with the London average price dropping as low as 40.5 new pence per kilogram in 1969. This decline is expected to resume in the long-run.

26. The fall in prices are partly associated with declining costs. The latter has been made possible by increases in yield per hectare resulting from the replacement of seedling tea by vegetatively propagated varieties.

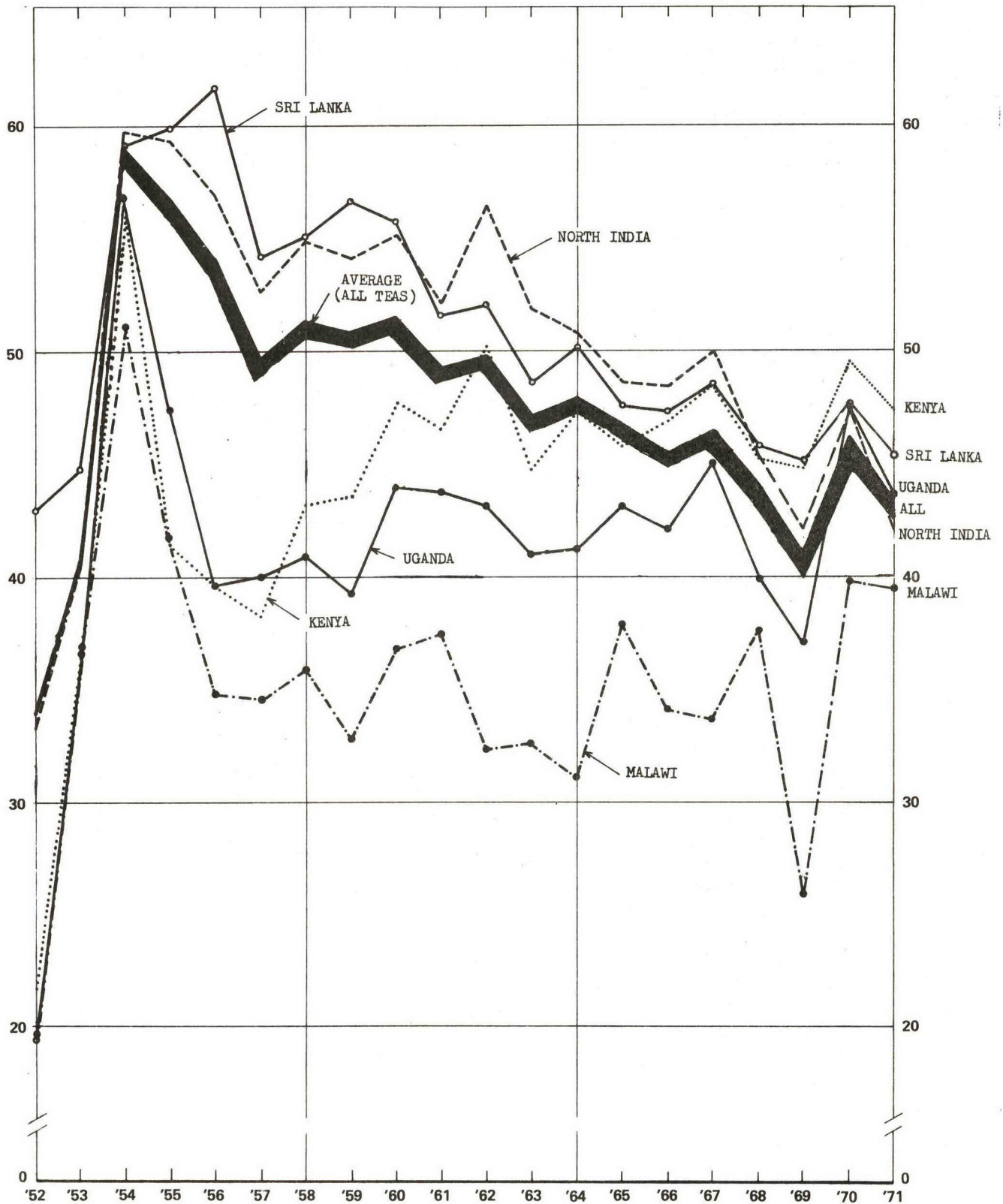
27. Until 1958, the prices at London auctions of all teas moved fairly parallel to one another. Since then, divergence has set in. While Indian and Ceylonese tea prices have secularly declined, African teas have fluctuated, but shown no clear upward or downward trend. Thus, the traditional premium that Indian and Sri Lanka teas commended has gradually been eliminated. While the quality of African teas has improved over the years, the relative loss suffered in the prices of quality teas may be taken as an indication that the average tea consumer is less discriminating in terms of his traditional preference for certain teas. Part of the reason for this lies in the popularization of tea bags which use mixed blends of tea.

International Action

28. As a result of a prolonged period of depressed markets, an International Tea Agreement was brought into being as far back as 1933 by representatives of the principal producing countries of that period, namely India, Ceylon, Indonesia, Malaya and the British East African territories. The Agreement's principal objectives were the limitation of (a) acreage expansion and (b) exports. The former limitation covered two aspects: new extensions and replacements of "permissible acreages". Between 1933-38, the Agreement worked relatively well in maintaining prices at about 75-80 percent of the pre-Depression level, a considerably better performance than that of many other agricultural commodities. After 1938, no attempt was made to bolster up prices by restricting exports. Although the Agreement did not lapse until 1955, it had ceased to be an effective instrument. Also, Malaya and the East African territories had dropped their membership in the intervening years.

29. During 1956-68 no agreement was in effect. Prices had been high in the postwar years reaching their peak in 1954-55. Under the stimulus of high prices a larger number of new producers were emerging, notably in East Africa. Because the increase of tea production and exports contributed to the foreign trade balances and the economic growth of these countries, the Bank Group helped to finance tea development in a number of countries in this period.

ANNUAL AVERAGE TEA PRICES FOR SELECTED COUNTRIES AT LONDON AUCTIONS, 1952-1971 (NEW PENCE PER KILOGRAM)



30. Between 1955 and 1968, prices of all teas fell by 20 percent. As weakening prices became a matter of general concern 17 tea exporting countries met in 1969 in Mauritius and considered establishing voluntary export quotas for 1970. The same year a Consultative Committee on Tea under the auspices of the Food and Agriculture Organisation (FAO) was established involving both importing and exporting countries. In 1970 the producer members of the Consultative Committee agreed on quotas amounting to 580 thousand tons for 1970 (Annex Table 8). Quotas on the same basis were maintained up to March 1972 (Annex Table 9). Thereafter, the arrangement lapsed temporarily. In September 1972 the Sub-Group of Exporters agreed on quotas amounting to 619 thousand metric tons for April 1972/March 1973; 645 thousand tons for April 1973/March 1974 (Table 10); and 670 thousand metric tons for the succeeding year ending March 31, 1975. This represents quota increases of the order of 4 percent a year.

31. It is premature to evaluate the effectiveness of these short-term quota arrangements in preventing long-term price decline. The quotas may not be restrictive enough, however, because in 1972-75, exports could be raised by about 4 percent annually under the agreement, whereas world import demand is likely to rise by only 2 - 2.5 percent. Also there is no mechanism for enforcing and policing the quotas. The difficulties in reconciling the attitudes of the various producing countries concerning a long-term arrangement lie in the fact that the East African tea producing nations do not favor an agreement to curb further expansion, while India and Sri Lanka are keen on establishing regulatory measures to support tea prices.

II. WORLD MARKET TEA PROSPECTS

32. The Bank staff periodically reviews the world market prospects for tea: the last detailed estimates for 1980 were published in the "Report on the World Tea Economy" (EC-178) issued in June 1971. In this study, on the demand side, projections were obtained from simple trend extrapolation and statistical analysis based on per capita consumption, income and price behavior for individual (or group of residual) countries or regions. In a key tea-importing country, such as the United Kingdom, a range rather than a point estimate was given. The specific assumptions used to establish the range, or to choose between point estimates, were determined after consulting country and project reports within the Bank and current published material, e.g., by FAO. On the production side, past trends were extrapolated. These were then modified to arrive at production forecasts taking into account country production targets and other information indicating the likelihood of their attainment.^{1/} For a key tea-exporting country such as India, again a range rather than a point estimate was given.

33. A similar method is used in this paper to arrive at a revised forecast of the international tea market in the light of more recent information including that supplied by FAO. The interaction of price changes with supply and demand is also taken into account in the forecast.^{2/}

34. Our projections show that the international tea market in the early 1980's is likely to be characterized by surpluses and weakening prices. A range from moderate to substantial is forecast for the potential surplus due to uncertainties about the long-term demand and supply situation particularly in key countries such as India and the United Kingdom.

35. Estimates of the most likely to plausible levels of tea production, apparent consumption (total and per capita), and net exports and imports in 1980 are presented in Annex Table 12. Two different estimates are shown to provide a range.

36. Under the most likely set of assumptions world tea production is estimated to increase approximately 3.1 percent per annum, from 970 thousand metric tons in 1967-69 to about 1,400 thousand metric tons in 1980. World tea consumption is projected to increase approximately 3.0 percent yearly from 973 thousand metric tons in 1967-69 to about 1,385 thousand metric tons in 1980, the difference between projected production and projected consumption adding about 15 thousand metric tons to stocks.

^{1/} See IBRD, Review of the World Tea Economy, EC-174, April 1970.

^{2/} Price elasticity information supplied by FAO was used to bring supply and demand into approximate balance. It is assumed that the amount of stocks will grow approximately in line with a historical trend (see Annex Table 11).

37. Applying a second set of assumptions characterized by lower consumption in the United Kingdom^{1/} and higher production mainly in India leads to a projection of 1,450 and 1,400 thousand metric tons produced and consumed respectively in 1980. The change in stocks implied represents a rate of increase which is likely to be more than is required for normal trading purposes and would have a depressing effect on the market.

38. World net export availabilities would increase from 567 thousand tons in 1967-69 to 770-790 thousand tons in 1980, at a rate of 2.5-2.8 percent per annum, depending on which of the two demand/supply projections are adopted. Similarly, world net import demand is expected to increase from 572 thousand tons to 740-755 thousand tons over the same period, rising at an annual rate of 2.2-2.4 percent. The balance (negative) is equal to the estimated surplus (or stock increases) of 15-50 thousand tons.

39. In estimating the prices of tea in 1980, cognizance has been taken of the close single-equation statistical relationship between annual average end-of-month stocks in bonded warehouses in the United Kingdom and the annual average price for all teas at the London auctions.^{2/}

40. Though statistically significant by itself, this relationship should be viewed in the context of a set of equations forming an integrated model. In recent years, at the request of FAO, the UNCTAD Secretariat has designed an integrated medium-term econometric model of the world tea market.^{3/} The integrated nature of this model lies in deriving a set of consistent estimates

^{1/} In the United Kingdom the current recommendation given in a report (Economic Models Ltd., (R.J. Ball and T. Burns), The Demand for Tea in the United Kingdom - The Outlook to 1980, April, 1972) prepared for the Tea Council is that a major campaign is needed immediately to counter the trend to instant coffee. It is, however, not certain that the budget of the Council's Generic Campaign will be replenished. In India, target production levels are potential rather than actual. As pointed out earlier, government measures have not shown appreciable success. That Indian exports to USSR may continue to rise should not materially affect the overall imbalance in world supply and demand, as there are offsetting exports from the People's Republic of China and other centrally-planned countries (CPCs) to non-CPCs.

^{2/} For the period 1956-71, a regression of price on stocks gave the following result:

$$P = 75.91194 - 0.34168 S$$

(14.23666) $R^2 = 0.937$

where P = annual average price for all teas at London auctions in old pence per pound; and S = annual average end-of-month stocks in thousand metric tons in bonded warehouses in the United Kingdom. The bracketed term is the t-statistic. The data are given in Annex Table 11.

^{3/} FAO, Ad Hoc Working Party on International Arrangements for Stabilization of Tea Prices, "The Outlook for the World Tea Market, 1968-1975," prepared by the Secretariat of UNCTAD, doc. CCP:Tah/1A69/6, CCP:Tah/68/8 (Rev.), March 1969.

at projected current prices.^{1/} When, for example, output showed an undue increase in a year, it would lead to a buildup of stocks and a fall in prices; the price fall would stimulate demand,^{2/} which in turn would affect stocks as well as bring about an upward readjustment in prices. Thus, feed-back effects such as these are taken into account. In the light of the UNCTAD findings, an adjustment should be made to the result of the isolated stock-price relationship mentioned above. With this adjustment, a change in the U.K. stocks of 10 thousand metric tons would be associated with a price change in the neighborhood of 1.4-1.8 new pence per kilogram^{3/} in the opposite direction.

41. According to past distribution patterns, about half of world stocks of tea have accumulated in the United Kingdom, and the other half in tea-producing countries. On the assumption that the world stock distribution pattern will be similar in the future, the change in the average London auction price can be estimated for each year between the base period 1967-69 and 1980. Applying this method to the 15 thousand ton estimated surplus yields an estimated cumulative decrease in the average price of approximately 5 new pence per kilogram in the twelve-year period.^{4/} This puts the 1980 estimated price at approximately 38 new pence per kilogram, compared to about 43 pence in 1967-72.^{5/}

42. A decline in tea prices substantially below roughly 38 new pence per kilogram is unlikely since some areas of tea would prove unprofitable at this price.^{6/} The removal of marginal areas from production would reduce supply, thereby halting further decline in prices.^{7/} Thus the estimate of 38 new pence per kilogram in 1980 appears to be at about the marginal level

^{1/} This is done by solving a set of equations simultaneously.

^{2/} And a decrease in aggregate supply as well, although the effect of price changes on output was not found to be statistically significant in the UNCTAD model.

^{3/} Or about 1.5-2.0 old pence per lb.

^{4/} This assumes that a change in U.K. stocks of 10 thousand metric tons is negatively related with a price change of 1.4 new pence per kilogram in the adjusted stock-price relationship. If 1.8 new pence per kilogram is used in place of 1.4 a greater net drop in price will occur.

^{5/} A rate of inflation has not been assumed for this comparison.

^{6/} See IBRD/IDA, Report on the World Tea Economy, Report No. EC-178 June 30, 1971, p. 16.

^{7/} This phenomenon has been observed to some extent in Sri Lanka in 1970 in response to low 1969 world market prices.

for inefficient producers to make long-term plans for phasing out their operations. This estimate is considered as the "most likely" projected price based on current information.

43. Similarly estimated, the average London auction price corresponding to the larger surplus of 50 thousand tons would decline by about 16 new pence per kilogram to approximately 27 new pence per kilogram in 1980. For reasons already stated, this very low price is not likely to materialize. Moreover, price movement toward this depressed situation would likely call forth international action to halt it. The low estimate, based on the usual assumption of a completely free international market, is included here simply as a caveat that, with a possible combination of unrestrained rapid increase in aggregate supply and slow growth in aggregate consumption demand, the average tea price at the London auctions can become very depressed indeed.

44. Assuming that the spread between the London average auction price and the world export unit value is maintained at the 1967-71 level of 7.5 new pence per kilogram, the "most likely" 1980 level of the world export (f.o.b.) unit value works out to about 31 new pence per kilogram, and the corresponding aggregate value of world ~~exports to about £240 million~~ (\$620 million)^{1/} in 1980. Under the alternative projection for the volume of world exports (associated with the larger projected surplus) and its corresponding world export unit value, the result is a substantially reduced projected world export value (~~£160 million or \$420 million~~). While it has been argued that this alternative is not likely to materialize, its usefulness lies in showing that the prevention of a large surplus, by, say, an international tea agreement would help to avoid a decline in the aggregate export earnings of the LDCs taken together.

45. Our projections are compared with earlier FAO and UNCTAD estimates in Table VI. It can be observed that all the estimates cited have one thing in common: they all project surpluses of production over demand in the years ahead.

46. The FAO estimate of the surplus is larger than that projected in this paper. In discussions in March 1972, FAO and the Bank agreed that the main differences between their respective projections lay on the supply side. Since then, various revisions as well as consultations with FAO have been undertaken and have considerably narrowed the differences between FAO and Bank projections.

47. Another reason for the residual differences between Bank and FAO projections lies in the fact that the latter were made at constant 1970 prices, while the Bank's are based on statistical analyses which provide for interaction between demand, supply and prices. (They also incorporate the findings of recent Bank missions to key tea-producing countries.) The Bank's forecast thus takes into account the feedback effects of price changes on supply and demand. If such adjustments to price were also made by FAO,

^{1/} At the exchange rate of £1 = \$2.60.

Table VI: WORLD/1 TEA MARKET PROSPECTS: PROJECTIONS

Projecting Agency	1975			1980		
	Production	Apparent Consumption	Surplus	Production	Apparent Consumption	Surplus
(-----Thousand metric tons-----)						
IBRD/IDA				1,400 / <u>2</u> (1,450)	1,385 / <u>2</u> (1,400)	15 / <u>2</u> (50)
FAO/ <u>3</u>				1,584	1,416	168
UNCTAD/ <u>4</u>	1,180 1,180	1,155/ <u>5</u> 1,015	25/ <u>5</u> 165			

1 Excluding centrally planned countries.

2 "Most likely" projected figure.


3 FAO, Agricultural Commodity Projections, 1970-1980 (Rome, 1971).
These projections are made at constant 1970 prices.

4 FAO, Ad Hoc Working Party on International Arrangements for Stabilization of Tea Prices, "The Outlook for the World Tea Market, 1968-1975," (prepared by the UNCTAD Secretariat), doc. CCP:Tah/IA69/6, CCP:Tah/68/8 (Rev.), March 1969. The first set of figures are made at current prices; the second set at constant 1967 prices.

5 At estimated current prices.

their projections would be close to those of the World Bank.

48. At the recent Fifth Session of the Sub-Group of Exporters of the Intergovernmental Group on Tea, the total of exporting countries' own estimates of their export availabilities in 1980 was found to exceed even the FAO Secretariat's revised projection of import requirements at constant 1970 (real) prices by some 200 thousand metric tons. It was also brought out by FAO that to eliminate the supply-demand imbalance would imply, as does the Bank's projection, a reduction in retail prices in excess of 10 percent. FAO therefore did not envisage that the production growth anticipated by some exporting countries would in fact come about. This conclusion is similar to that reached in this report.



III. THE ROLE OF THE BANK GROUP

Bank Group Involvement in Tea

49. To date the Bank Group has committed \$44.5 million for tea development in five producing countries, namely, Indonesia, Kenya, Mauritius, Tanzania and Uganda (Table VII).^{1/} The estimated incremental output of these projects will amount to around 49 thousand metric tons in 1980, increasing to around 58 thousand metric tons by 1985.

50. The Bank is currently considering loan requests for five additional tea development projects in Fiscal Years 1973-75.^{2/} Appraisal for one project (Ugandan) has been concluded,^{3/} and a survey of another (Indonesian) project is available.^{4/}

51. These five additional projects, if implemented, would add approximately 30 thousand metric tons of incremental output by 1980 and approximately 42 thousand metric tons by 1985 (Table VII). The combined incremental output due to both past and tentative future Bank lending would be about 80 thousand metric tons by 1980, and around 100 thousand metric tons by 1985.

Impact of Bank Group Tea Involvement on the Future World Tea Market

52. Since production from some of the past Bank Group projects is only now reaching maturity, it has contributed only to a small degree to world supplies so far. However, their total future production and exports and any further expansionary or additional projects can have a tangible impact on the international tea market as illustrated below:

- World production of tea is expected to grow from 970 thousand metric tons in 1967-69 to around 1,400 thousand tons in 1980.^{5/} This represents an increase of around 430 thousand tons. Existing Bank supported projects are expected to produce 48.5 thousand tons by 1980, or about one ninth of this increase (Table VIII). Should

^{1/} The Cameroons Development Corporation project (100/490-CM) which was approved in FY1967 included 1,000 ha of new tea development to be planted from 1968 through 1974. Some 60 ha was planted in 1968 but due to mis-management and other factors was abandoned two or three years later.

^{2/} Uganda (FY1973), Kenya (FY1973), Indonesia (FY1974), and possibly in Nepal (FY1974) and Rwanda (FY1975).

^{3/} Report No. PA-133a.

^{4/} Commonwealth Development Corporation, "Survey of the Smallholder and Private Estate Sectors of the Indonesian Tea Industry and Identification of a Project for Investment", April 1972.

^{5/} In 1980, total past Bank Group tea investment is estimated to contribute approximately 3 percent of total world output of tea (Table VIII). With future Bank projects added, this percentage would increase to 6 percent.

Table VII: PAST AND FUTURE POSSIBLE BANK GROUP
LENDING FOR TEA

Country	Date of Loan/ Credit Agreement or Fiscal Year of Anticipated Lending	Amount of Loan or Credit (U.S. \$ million)	Projected Output 1980 (Metric tons)	Projected Output 1985 (Metric tons)
<u>Past Bank Group Tea Investments</u>				
Kenya	8/17/64	2.8	5,000-7,000	5,000-7,000
Kenya <u>/1</u>	6/30/65	3.0		
Kenya	6/17/68	2.1	18,000	18,000
Tanzania <u>/2</u>	1/13/66	1.7		
Uganda <u>/1</u>	7/28/67	0.5		
Uganda	9/15/67	3.4	4,500	7,623
Uganda <u>/1</u>	9/29/69	3.5		
Mauritius	4/ 9/70	5.2	2,360	3,814
Indonesia	6/17/71	15.0	10,090	12,690
Tanzania	1972	<u>7.3</u>	<u>7,600</u>	<u>9,600</u>
Total		44.5	47,550-49,550	56,727-58,727
<u>Future Bank Group Tea Investments under Consideration</u>				
Uganda	1973		7,500	8,940
Kenya	1973		20,000	27,000
Indonesia	1974		3,980	5,980
Nepal	1974		- <u>13</u>	- <u>13</u>
Rwanda	1975		- <u>13</u>	- <u>13</u>
Total			31,480	41,920
Total of Combined Past and Future Bank Group Tea Investments			79,030-81,030	98,647-100,647

1/ Part of road project.

2/ Part of Agricultural Credit Project.

3/ Production is estimated to be very small and quite insignificant for possible projects in Nepal and Rwanda.

Source: IBRD.

Table VIII: INCREMENTAL PRODUCTION OF TEA FROM BANK GROUP INVESTMENTS (PAST AND PLANNED FOR FY1973-FY1975) BY 1980 AND SHARE IN TOTAL

	(1)	(2)	(3)	(4)	(5)	(6)
	Incremental Production from Bank Group Projects		Total	Total Tea Production by 1980 ^{2/}	Share of Bank Group ^{3/}	
	Past	Future (FY1973-FY1975) ^{1/}	(1) + (2)		(1) in (4)	(3) in (4)
	(-----thousand metric tons-----)			(-----percent-----)		
Indonesia	10.1	4.0	14.1	55 ^{4/}	18	26
Kenya	24.0	20.0	44.0	86	28	51
Mauritius	2.3	-	2.3	7	33	33
Tanzania	7.6	-	7.6	21	36	36
Uganda	<u>4.5</u>	<u>7.5</u>	<u>12.0</u>	<u>43</u>	<u>10</u>	<u>28</u>
Total above	48.5	31.5	80.0	216	22	37
World ^{5/} Total	48.5	31.5	80.0	1,400 ^{6/}	3	6

^{1/} These outputs could be financed other than by the Bank Group.

^{2/} Independently projected (see Annex Table 12).

^{3/} Calculated from unrounded figures.

^{4/} Excluding green tea.

^{5/} Excluding centrally-planned countries.

^{6/} "Most likely" projected figures.

Sources: Tables VII and Annex Table 12.

the additional five projects also be financed, production from Bank Group projects would amount to 80 thousand tons by 1980, or about one fifth of the total increase in world production. Stated from the opposite standpoint, about 80-90 percent of world tea expansion up to 1980 will be financed from non-Bank sources.

- In certain countries the Bank's impact will be much greater. The Bank Group projects' shares in the 1980 output of tea at the country level - from past investments alone - are estimated to be 18 percent for Indonesia, 28 percent for Kenya, 33 percent for Mauritius, 36 percent for Tanzania and 10 percent for Uganda (Table VIII). With the addition of the contemplated future Bank investments, the shares for Indonesia, Kenya and Uganda will be 26 percent, 51 percent and 28 percent respectively.
- The net rate of increase in production from past Bank sponsored projects will be around 3.5 percent per annum between 1980 and 1985. This rate would be raised to 4.5 percent per annum if all five additional projects would be financed (Table IX). These rates may be compared with the overall rate of growth of world production in the 1970's - when prices are expected to fall - as estimated by the Bank staff (3.1-3.4 percent) and by FAO (3.4-3.8 percent) respectively.
- Assuming that 90 percent of the 1980 incremental output due to Bank Group tea involvement go into exports, the export component amounts to approximately 72 thousand metric tons in 1980, about 9.4 percent of projected total world exports (Table IX). Past tea projects alone would account for approximately 44 thousand metric tons (about 5.7 percent of projected world exports), with future projects accounting for approximately 28 thousand tons (about 3.7 percent of world exports).
- Bank related incremental tea exports are estimated to increase at 4.5 percent annually from 1980 to reach around 90 thousand metric tons in 1985. This rate of increase is much faster than the 2.5 to 2.8 percent annual rate of increase of total world exports estimated for the 1970's, and is also faster than even the annual rate of increase of about 4 percent for the expansion of the new global export quota agreed upon recently by the Sub-Group of Exporters of the Intergovernmental Group on Tea.

The above demonstrates the total impact of Bank Group tea involvement. Taken separately, each project may not present noticeable influences on the market; but together, their role becomes significant.

Policy Issues of Bank Group Tea Involvement

53. The Bank appraises the projects it finances in the light of the economic returns which they are expected to yield to the country concerned, giving due attention, of course, to the market prospects for the products involved. The Bank Group's involvement in tea projects in developing countries has been selective, and has benefitted the countries concerned.

Table IX: PROJECTED FUTURE INCREMENTAL EXPORT AVAILABILITIES^{1/}
FROM PAST AND FUTURE BANK GROUP TEA INVESTMENTS

		1980	1985
<u>Past Bank Group</u>			
<u>Tea Investments</u>			
Volume (metric tons)		43,695	51,954
Share of			
Total World Exports ^{2/}	(%)	5.7	-
Annual Rate of Change	(%)		3.5
<u>Future Bank Group</u>			
<u>Tea Investments</u>			
Volume (metric tons)		28,332	37,729
Share of			
Total World Exports ^{2/}	(%)	3.7	-
Annual Rate of Change	(%)		5.9
<u>Total of Combined Past and Future</u>			
<u>Bank Group Investments</u>			
Volume (metric tons)		72,027	89,682
Share of			
Total World Exports ^{2/}	(%)	9.4	-
Annual Rate of Change	(%)		4.5

^{1/} Estimated on the assumption that 90 percent of aggregate incremental output due to Bank Group investments will go to exports, the remainder being absorbed in domestic consumption.

^{2/} Using the "most likely" projected world total export figures.

Sources: Tables VII, VIII and Annex Table 12.

54. In commodities, such as tea, which face low price elasticities of demand in major importing countries, changes in output and exports of the commodity in question in one country can affect not only the exchange earnings of that country, but may also have repercussions on those of other exporting countries. These repercussions, sometimes referred to as "secondary" effects or as externalities, may arise from large changes in supply in a major producing country, or from the aggregation of the changes in a group of countries whose individual output levels and export availabilities are relatively small. Accordingly, rapid expansion of Bank Group investment in tea could have unfavorable secondary effects in the long run for all tea producers, particularly in view of secularly declining tea prices in the context of low price elasticities and generally low income elasticities of demand in major tea-importing countries. In view of this, further Bank Group tea investments should be undertaken only with caution.

55. Where a commodity is subject to an international agreement, the Bank abides as a matter of policy by the operational stipulations of the agreement. The recent export quota agreement of the Sub-Group of Exporters negotiated under the aegis of FAO is awaiting confirmation by the Intergovernmental Group on Tea involving all the major exporters and importers. The Bank's tea policy would have to take into account the quota limitations of such an agreement.

56. While caution in tea investments is indicated, if the Bank were to stop financing tea altogether, it would imply a policy of freezing the pattern of LDC exchange earnings from tea. This would favor the status quo among present producers and ignore the fact that some countries, particularly some of the small least developed countries, have few alternatives for promoting exports. The financing of expanded tea production must take into account the dynamic comparative advantage of individual producers as well as the relative ease with which producers can develop alternative export products. As a practical solution the following criteria are offered as indicators of the existence of comparative advantage:

- (a) the absence of feasible alternatives (due to reasons such as soil and climate conditions) particularly for the least developed countries; or
- (b) price competitiveness (on the same quality or grade of the output) together with a high (or highest) rate of return on investment.

57. Continued expansion in tea, and the projected fall in prices due to oversupply, will have more serious repercussions on some tea growers than others in Asia and East Africa. In the net exporting countries of black tea in Asia, the yields of smallholdings are generally much lower than those on estates. Among Asian tea growers, therefore, it would be the smallholders who would be hit hardest by a fall in prices. In East Africa, on the other hand, the growth in the tea industry has been occurring primarily in the smallholder sector, which has been planted with high yielding VP (vegetative propagation) clones. High yields per hectare leading to low costs per kilogram, coupled with the use of modern machinery for producing CTC (cut, tear, curl) tea have enabled the East African smallholdings to remain viable in the face of falling tea prices. The estates, being burdened with relatively

older bushes and a higher proportion of fixed costs, would tend to be less competitive under similar price conditions. Moreover, the recent drive in certain East African countries (such as Tanzania) toward establishing or raising the minimum wage level will place estates at a temporary disadvantage with smallholders in weathering a trough in prices. Thus in East Africa falling tea prices may hit the estates harder than the small-scale farmer.

58. In view of the above-mentioned considerations, further Bank tea investments should take into account not only the particular benefits to be provided by the proposed project in the recipient country, but also the need for diversification projects in some other countries. Projects which might offer particular justification would include, for instance, those in countries with limited export alternatives and smallholder tea projects which would have useful effects on domestic income distribution. Measures to limit the potential deleterious effect of expanded world output on other countries may include replanting and replacement tea projects,^{1/} as well as diversification out of tea into other commodities and/or industries. It is likely that, from a purely investment efficiency point of view, the replanting of old acreage with new high yielding varieties, as opposed to development of new growing areas, deserves priority particularly because a substantial or sometimes even a major part of investment in the planting of new areas is expended on roads, housing and similar overheads, whereas replanting would not require such investment.

59. Obviously, judgements on these matters will not be easy. They will require continuous appraisal of the situation and cooperation from the tea producing countries, be they candidates for financing or not. Continued close consultations with UNCTAD and FAO would also be desirable in connection with further involvement in tea projects by the Bank.

60. In summary, caution and a highly selective approach are necessary in considering future Bank investments in tea production because of the tendency toward oversupply which would further weaken the international price for tea. Justification for new investments should include considerations of:

- (a) the lack of feasible alternatives for export products in the borrowing country, particularly in regard to small low-income countries, and
- (b) the effect on domestic income distribution.

In considering such investments the Bank should also bear in mind the possible need for projects designed to cushion the impact of expanded tea production, including diversification out of tea into more promising investments, or projects for increasing the 'value added element' in tea marketing, e.g. developing manufacture of instant tea and tea bags.

^{1/} Replanting involves uprooting and then planting new seedling or clonal tea. Replacement involves planting new land with tea while abandoning an equal area.

61. The Secretariat of the Food and Agricultural Organisation has been consulted on the subject, and has provided the Bank with the following statement: "The conclusion that projected production of tea will exceed projected demand and that the downward trend of tea prices is likely to continue is in line with the views of the FAO Secretariat and those expressed in the recent Fifth Session of the Sub-Group of Exporters of the Intergovernmental Group on Tea. We definitely support your advice of caution with regard to future Bank projects."

Table 1: AREA UNDER TEA IN PRINCIPAL PRODUCING COUNTRIES OF THE WORLD
(Thousand hectares)

Country or Region	1956-58	1961-63	1966-68	1969-71
	(-----Yearly average-----)			
<u>Asia</u>	<u>788.7</u>	<u>813.4</u>	<u>835.9</u>	<u>850.6</u>
Bangladesh	31.0	33.6	40.6	45.0
India	325.1	334.8	350.7	354.3
Sri Lanka	231.1	238.2	241.8	240.3
Indonesia/1	75.5	74.8	62.6	65.0/2
Malaysia	3.7	3.5	3.1	3.0
Japan	48.0	48.9	48.6	52.0
China, Rep. of	48.0	41.3	36.8	34.0
Papua New Guinea	-	-	1.0	3.0/2
Iran	16.2	21.8	26.9	27.0
Turkey	10.1	16.5	23.8	27.0
<u>East Africa</u>	<u>34.3</u>	<u>48.8</u>	<u>68.7</u>	<u>80.9</u>
Kenya	12.2	19.8	30.3	39.3
Uganda	5.4	8.5	13.8	16.0
Tanzania	5.6	8.1	10.4	10.3
Malawi	11.1	12.4	14.2	15.3
<u>Other Africa</u>	<u>19.7</u>	<u>27.6</u>	<u>30.1</u>	<u>32.7</u>
Zaire	4.6	9.6	8.6/3	9.0
Mauritius	1.4	1.9	3.1	3.0
Mozambique	13.4	15.2	14.8	14.7
Others /4	0.3	0.9	3.6	6.0
<u>South America</u>	<u>37.6</u>	<u>34.9</u>	<u>35.5</u>	<u>37.6</u>
Argentina	30.7	28.0	28.1	30.3
Brazil	4.7	4.2	4.5	4.3
Peru	2.2	2.7	2.9	3.0
World Total (excluding centrally planned countries)	880.3	924.7	970.2	1,001.8

/1 Excluding smallholdings.

/2 Partly estimated.

/3 1966-67 only.

/4 Including Cameroon, Rwanda, Burundi and South Africa.

Sources: International Tea Committee, Annual Bulletin of Statistics (various issues through 1971); Tea Board of India, Tea Statistics; and FAO, Monthly Bulletin of Agricultural Economics and Statistics, June 1972.

**Table 2: YIELDS OF MATURE TEA PER HECTARE IN
SELECTED COUNTRIES, 1959-69**

(Kilograms per hectare)

	Kenya	Uganda	Tanzania	Malawi	Sri Lanka	India	
						North	South
1959	1,156	934	734	1,236	813	1,056	916
1960	1,139	857	658	1,194	854	947	1,051
1961	936	847	718	1,345	891	1,064	1,091
1962	1,121	992	630	1,376	903	1,018	1,128
1963	1,134	897	684	1,176	934	992	1,192
1964	1,140	994	606	1,156	919	1,102	1,103
1965	996	982	701	1,002	954	1,024	1,072
1966	1,185	1,218	808	1,314	935	1,038	1,272
1967	991	1,133	805	1,246	921	1,077	1,215
1968	1,203	1,480	839	1,250	935	1,104	1,302
1969	1,314	1,528	868	1,260	953	1,075 ^{1/}	1,291 ^{1/}

^{1/} Estimated.

Source: Tea, Journal of the Boards of East Africa, Vol. 10, No. 4,
January 1970.

Table 3: EXPORTS OF BLACK TEA

	Annual			
	1968	1969	1970	1971
	----- (Thousand tons) -----			
Sri Lanka	208.7	201.4	208.4	207.0
India	206.1	164.8	204.5	202.0
(Sri Lanka + India)	(414.8)	(366.2)	(412.9)	(409.0)
Indonesia	34.7 ^{1/}	27.1 ^{1/}	36.9 ^{1/}	39.0 ^{1/}
Kenya ^{3/}	27.5	32.8	35.1	30.1
Uganda ^{3/}	11.2	15.8	15.0	15.3
Malawi	15.8	17.2	17.7	18.2
Mozambique	14.1	15.6	16.7	16.4
Argentina	14.7	14.6	19.1	22.5
Zaire	7.6	4.1	7.7 ^{2/}	8.0
Turkey	7.4	8.3	7.8	17.5
Tanzania ^{3/}	6.7	7.6	7.0	8.3
Mauritius	1.7	2.6	2.6	3.2
China, Rep. of	3.8	2.4	2.1	6.1
Rwanda	0.8	1.0	1.3	1.7
Cameroon	0.8	0.6	0.6	0.6*
Vietnam, Rep. of	0.7	0.2	0.1	0.1*
Burundi	0.1	0.1	0.1	0.3
Total	562.4	516.2	582.7	596.8
Peoples Rep. of China	24.7	17.9	22.0*	20.0*
North Vietnam	1.6	1.6	1.6*	1.6*
Brazil	3.0	2.8	4.0	5.3
Rhodesia S.	0.5*	0.5*	0.5*	0.5*
World, net exporters (Black Tea)	592.2	539.0	610.8	624.2

* Estimate.

^{1/} Net weight; gross weight was as follows ('000 metric tons) 1967 29.6; 1968 36.1; 1969 30.0.^{2/} Excluding "uncontrolled" exports estimated at 2.5 thousand tons.^{3/} Excluding interstate transfers.

Source: FAO, Intergovernmental Group on Tea, doc. CCP:Te72/Inf. 7, October, 1972.

Table 4: TEA PRODUCTION, EXPORTS AND SHARE OF PRODUCTION EXPORTED

	India	Sri Lanka	Indonesia	Kenya	Uganda	Tanzania	Malawi	Mozambique	Japan	Turkey	Argentina	World Total (Excluding USSR and Peoples Rep. of China)
Production (Metric tons)												
1960	321,077	197,181	46,061	13,776	4,668	3,722	12,825 1/	9,025	77,566	5,933	6,500	789,100
1968	402,489	224,803	41,384	29,762	15,163	7,923	15,812	14,251	84,971	27,557	18,560	1,023,200
1969	395,968	219,639	45,600 2/	36,060	17,627	8,777	16,916	16,034	89,604	34,373	18,880	1,051,000
1970	420,843	212,210	44,300 2/	41,077	18,217	8,492	18,731	16,974	91,198	33,431	19,530	1,067,200
1971	428,280	217,773	47,900 2/	36,290	17,966	10,457	18,615	16,536				1,076,800
Exports (Metric tons)												
1960	193,098	185,875	36,140	11,871	4,171	3,340	11,067	8,066	9,811	-	3,017	489,400
1968	208,440	208,671	34,712	28,356	11,387	7,052	15,792	14,243	1,968	7,352	14,693	567,200
1969	168,709	201,394	27,070	33,828	15,927	7,699	17,287	15,439	1,614	8,301	14,633	521,100
1970	200,155	208,277	35,600	36,099	15,052	7,054	17,709	16,653	1,569	7,843	19,114	588,800
1971	202,000	207,000	39,000	30,100	15,300	8,300	18,200	16,400	1,494	17,500	22,500	
Share of Production Exported (Percentage)												
1960	60.1	94.3	78.5	86.2	89.4	89.7	86.3	89.4	12.6		46.4	62.0
1968	51.8	92.8	83.9	95.3	75.1	89.0	99.9	99.9	2.3	26.7	79.2	55.4
1969	42.6	91.7	59.4	93.8	90.4	87.7	102.2	96.3	1.8	24.1	77.5	49.6
1970	47.4	98.1	80.4	87.9	82.6	83.1	94.5	98.1	1.7	23.5	97.9	55.2
1971	47.2	95.0	81.4	82.9	85.2	79.4	99.0	99.2				

1/ Quantities for Malawi prior to 1963 relate to the Federation of Rhodesia and Nyasaland and exclude trade between Nyasaland and the Rhodesias.

2/ Quantities of production for Indonesia for the years 1969 through 1971 relate only to estates.

Source: International Tea Committee, Annual Bulletin of Statistics, 1971;
International Tea Committee, Monthly Bulletin of Statistics, January-June, 1972;
FAO, Tea Statistics, doc. CCP:Tah/IA 69/WP 1; and doc. CCP:TE 72/Inf.7, October 1972.

Table 5: IMPORTS OF BLACK TEA

	1968 <u>1/</u>	1969 <u>1/</u>	1970 <u>2/</u>	1971 <u>2/</u>
----- (Thousand metric tons) -----				
United Kingdom <u>3/</u>	269.6	212.2	254.6	226.3
Netherlands <u>3/</u>	32.8	29.2	25.7	40.1
Germany Fed. Rep.	9.0	9.2	9.3	9.8
Sweden	1.9	1.9	2.0	2.1
Italy	2.2	2.7	2.8	2.7
Switzerland	1.5	1.5	1.6	1.6
Belgium	0.9	1.1	1.1	1.4
United States	70.6	63.5	62.2 <u>1/</u>	79.6 <u>1/</u>
Canada <u>2/</u>	22.8	22.3	20.5	23.2
Iraq	18.2	23.0	19.5	25.6
Japan <u>2/</u>	4.2	4.8	6.4	7.5
Iran	6.3	6.5	6.2	7.6
Sudan	13.3	10.0	19.4	14.4
Egypt, Arab Rep.	14.5	24.9	29.8	11.0
South Africa	19.1	19.6	17.4	18.9
Australia	30.3	27.8	26.0	29.1
New Zealand	8.4	7.4	7.1	7.7
Total above countries	525.6	467.6	511.6	508.6
Total net imports above countries	471.8	425.5	467.2	455.0*
World total (including Green tea)	698.3	678.3	709.5	712.0*
Less: Re-exports, etc.	87.3	74.8	76.5	87.0*
Total world net imports	611.0	603.5	633.0	625.0*
Total world net imports (Black tea)	586.0	571.8	600.3	597.0*

* Estimate.

1/ Annual figures may, except where shown, include small amounts of green tea.2/ Black tea only.3/ Re-exports were:

United Kingdom	Jan-Dec.	1968 20.3	1969 22.2	1970 19.2	1971 22.9
Netherlands	Jan-Dec.	29.3	15.3	20.2	28.7

Source: FAO Intergovernmental Group on Tea, doc. CCP:TE 72/Inf. 7, October 1972.

Table 6: UNITED KINGDOM AND TOTAL WORLD IMPORTS OF TEA

	Total World Imports ^{1/}	United Kingdom Gross Imports	United Kingdom Reexports	Share of U.K. Gross Imports in Total World Imports ^{1/}	Share of U.K. Reexports in U.K. Gross Imports	Share of U.K. Reexports in Total World Imports ^{1/}
	(...thousand metric tons...)			(.....percentage.....)		
1955		226.5	14.9		6.6	
1960		238.5	13.7		5.7	
1965		253.4	17.8		7.0	
1968	698.3	269.6	20.3	38.6	7.5	2.9
1969	678.3	212.2	22.2	31.3	10.5	3.3
1970	709.5	254.6	19.2	35.9	7.5	2.7
1971	712.0*	226.3	22.9	31.8*	10.1	3.2*

* Estimate.

^{1/} Gross imports including green tea.

Source: FAO, Tea Statistics, doc. CCP:Tah/1A69/WP1; FAO Intergovernmental Group on Tea, doc. CCP:TE 72/Inf. 7; and International Tea Committee, Annual Bulletin of Statistics, 1971.

Table 7: ANNUAL AVERAGE TEA PRICES FOR SELECTED COUNTRIES AT LONDON AUCTIONS, 1955-1971

(new pence per kilogram)

	India		Sri Lanka	Kenya	Uganda	Tanzania	Malawi	Average All Teas
	North	South						
1955	58.4	49.2	59.1	41.0	46.8	50.9	41.2	55.1
1956	56.1	46.9	60.8	39.1	39.2	43.1	34.5	53.3
1957	52.0	41.4	53.5	37.8	39.6	40.9	34.4	48.9
1958	54.1	42.2	54.4	42.7	40.4	43.9	35.5	50.6
1959	53.3	40.8	55.8	43.1	38.9	42.8	32.5	50.1
1960	54.4	43.8	55.0	47.0	43.4	43.8	36.5	50.7
1961	51.4	42.6	50.9	46.0	43.2	45.7	37.0	48.6
1962	55.7	40.5	51.3	49.4	42.6	46.4	32.0	49.0
1963	51.1	39.8	48.0	44.7	40.5	42.2	32.2	46.5
1964	50.1	42.1	49.4	46.7	40.8	43.6	30.8	47.2
1965	48.0	41.1	47.0	45.2	42.6	44.7	37.4	46.0
1966	47.9	37.7	46.7	46.3	41.5	45.0	33.8	44.8
1967	49.3	39.0	48.0	47.8	44.4	46.1	33.4	45.7
1968	44.7	38.8	40.2	44.7	39.5	42.5	37.3	43.5
1969	41.5	31.6	44.5	44.2	36.7	39.9	25.7	40.5
1970	46.7	40.4	46.9	48.6	46.8	48.4	39.8	45.7
1971	42.1	39.9	45.3	47.3	43.6	45.4	39.5	43.3
Cumulative Average: January - October								
1971	41.7	40.1	45.4	47.9	44.1	45.7	39.5	43.2
1972	41.6	38.4	45.1	43.6	40.9	41.8	37.5	41.7

Source: International Tea Committee, Annual Bulletin of Statistics, 1970 and 1971; Monthly Statistical Summary, latest issue; and Tea Brokers' Association of London, Tea Market Report, latest issue.

Table 8 : EXPORTS OF BLACK TEA AND QUOTAS, 1970

	<u>January 1971-March 1972</u>		
	<u>Exports</u>	<u>Quota</u>	<u>Percent</u>
	(...thousand tons...)		
Sri Lanka	208.3	420.9	98.0
India	204.1	↓	↓
(Sri Lanka + India)	(412.4)		
Indonesia	35.6 <u>1/</u>	34.9	102.0
Kenya <u>2/</u>	35.0	38.9	90.0
Uganda <u>2/</u>	15.9	18.4	86.4
Malawi	17.7	17.4	101.7
Mozambique	16.7	16.4	101.3
Argentina	16.2	14.7	110.2
Zaire	7.7 <u>3/</u>	10.0	77.0
Turkey	7.8	9.4	83.0
Tanzania <u>2/</u>	6.1 <u>4/</u>	7.8	78.1 <u>4/</u>
Mauritius	2.6	3.0	86.7
China, Rep. of	2.1	3.7	56.8
Rwanda	1.3	1.5	86.7
Cameroon		0.9	
Vietnam, Rep. of		0.7	
Burundi	<u>0.1</u> <u>4/</u>	<u>0.2</u>	55.0 <u>4/</u>
Total	579.7	598.8	
Allowance for shortfall		<u>- 4.0</u>	
		594.8	

1/ Net weight.

2/ Excluding interstate transfers.

3/ Excluding "uncontrolled" exports estimated at 2.5 thousand tons.

4/ January-October.

Source: FAO, Consultative Committee on Tea, doc. CCP:TE 71/3, CCP:TE 71/EXPO 3/4, April 13, 1971.

Table 9: EXPORTS OF BLACK TEA AND QUOTAS,
JANUARY 1971-MARCH 1972

	January 1971-March 1972		
	Exports	Quota	Percent
	(...thousand tons....)		
Sri Lanka	254.7		
India	248.9		
(Sri Lanka + India)	(503.6)	506.0	99.5
Indonesia	48.6	48.0	101.2
Kenya <u>1/</u>	41.4	47.3	87.5
Uganda <u>1/</u>	19.8	20.6	96.1
Malawi	27.8	27.5	101.1
Mozambique	24.3	25.0	97.2
Argentina	28.0	24.6	113.8
Zaire	10.2	11.3	90.3
Turkey	26.0	11.0	236.4
Tanzania <u>1/</u>	10.8	10.0	108.0
Mauritius	4.6	4.2	109.5
China, Rep. of	8.0 <u>2/</u>	3.0	
Rwanda	2.2	2.5	88.0
Cameroon	0.7 <u>2/</u>	0.7	
Vietnam, Rep. of	0.2 <u>2/</u>	0.2	
Burundi	<u>0.4</u>	<u>0.5</u>	80.0
Total	756.6	742.4	
Allowance for shortfall		<u>-14.8</u>	
		727.6	

1/ Excluding interstate transfers.2/ Estimate.

Source: FAO, Intergovernmental Group on Tea, doc. CCP:TE72/Inf.7, October 1972.

Table 10: ESTIMATED EXPORTS OF BLACK TEA AND QUOTAS,
1972/73 AND 1973/74

	1972/73 (Thousand metric tons)	1973/74
India	211.5	217.8
Sri Lanka	208.6	214.2
Indonesia	42.2	43.2
Vietnam, Rep. of	1.6	1.8
Bangladesh	26.2	26.0
Kenya	45.5	51.0
Malawi	19.9	20.7
Mozambique	17.7	18.8
Uganda	21.1	23.7
Tanzania	9.5	10.2
Mauritius	4.6	4.8
Zaire	13.2	14.1
Burundi	0.5	0.6
Argentina	25.4	28.8
Brazil	4.6	4.9
Total	652.1	680.6
Less 5 percent for expected shortfalls	32.6	34.0
Global quota	619.0	645.0

**Table 11: ANNUAL AVERAGE LONDON AUCTION PRICES OF ALL TEAS AND AVERAGE
END-OF-MONTH STOCKS IN UK BONDED WAREHOUSES/1**

	Price	Stocks/1
	(Old pence/lb.)	(Thousand metric tons)
1956	58.0	50.5
1957	53.2	67.7
1958	55.1	61.5
1959	54.6	66.9
1960	55.3	64.8
1961	52.9	67.1
1962	53.4	66.1
1963	50.7	72.0
1964	51.5	69.0
1965	50.2	75.8
1966	48.9	79.4
1967	49.9	74.0
1968	47.4	87.8
1969	44.1	92.4
1970	49.7	73.4
1971	47.1	80.6

/1 Combined totals of teas actually in the London public bonded warehouses and provincial warehouses; and teas entered for customs and awaiting landing into warehouse; but excluding primary wholesalers' stocks; reckoned on the last Friday in each month.

Sources: International Tea Committee, Annual Bulletin of Statistics (various issues); and Monthly Statistical Summary (recent).

Table 12: TEA: PRODUCTION, CONSUMPTION, TRADE BALANCES AND PER
CAPITA CONSUMPTION, ACTUAL 1967-69, PROJECTED 1980

	Actual 1967-69			Per Capita Consumption	Projected 1980 * †			Per Capita Consumption
	Production	Apparent Consumption	Net Trade		Production	Apparent Consumption	Balance	
	(.....thousand metric tons.....)			(kilograms)	(.....thousand metric tons.....)		(kilograms)	
Developed Countries								
United Kingdom	-	222.9	223.2	4.02	-	225(205)	225(205)	3.70(3.37)
EEC	-	22.4	25.7	0.12	-	24	24	0.12
Ireland	-	11.6	11.6	4.00	-	14	14	4.00
Other Western Europe	-	9.2	9.2	0.08	-	14	14	0.12
United States	-	64.0	66.0	0.32	-	90	90	0.38
Canada	-	20.6	20.6	0.99	-	26	26	1.00
South Africa	-	18.5	18.5	0.85	9	30	21	1.15
Australia	-	28.3	28.3	2.35	-	32	32	2.20
New Zealand	-	7.7	7.7	2.82	-	10	10	2.70
Japan: Green	85.9	87.3	- 1.8	0.86	100	100	-	0.91
Black	0.6	4.9	7.4	0.05	-	14	14	0.13
Turkey	27.9	19.8	- 8.1	0.59	55	32	- 23	0.69
Total Developed	114.4	517.2	408.4	0.70	160	610(590)	450(430)	0.72(0.70)
Developing Countries								
Asia								
Sri Lanka	221.7	18.0	- 208.9	1.50	270	25	- 245	1.50
China Rep. of: Green	21.3	4.9	- 16.4	0.36	27	7	- 20	0.40
Black	3.7	0.5	- 3.2	0.04	3	1	- 2	0.04
India	394.3	195.5	- 196.9	0.37	515(550)	355(375)	-160(-175)	0.51(0.54)
Indonesia /1	37.5 /2	8.0	- 29.5 /3	0.07	55	15	- 40	0.10
Iran	18.0	24.0	6.0	0.89	31	37	6	1.02
Pakistan	-	29.2	-	0.24	-	35	35	0.50
Bangladesh	29.2	-	-	-	38	8	- 30	-
Other Producers /4	9.1	8.5	- 0.6	0.32	11	11	-	0.32
Non-producers	-	63.5	63.5	0.29	-	104	104	0.35
Total Asia	734.8	352.1	- 386.0	0.33	950(985)	598(618)	-352(-367)	0.42(0.43)
Africa								
Cameroon	1.0	0.5	- 0.5	0.09	2	1	- 1	0.10
Zaire	8.0	0.6	- 7.4	0.04	22	2	- 20	0.10
Kenya	29.5	4.2	- 26.3	0.41	86(100)	9(11)	-77(-89)	0.65(0.80)
Malawi	16.5	0.4	- 16.6	0.09	26	1	- 25	0.12
Mauritius	2.6	0.7	- 1.9	0.83	7	1	- 6	1.04
Mozambique	14.9	0.5	- 14.7	0.07	21	1	- 20	0.10
Tanzania	8.0	1.9	- 6.8	0.15	21	4	- 17	0.25
Uganda	14.7	1.2	- 12.1	0.15	43	2	- 41	0.20
Other Producers /5	3.5	2.8	- 0.7	0.35	10	4	- 6	0.30
Non-producers	-	73.7	73.7	0.30	-	120	120	0.36
Total Africa	98.7	86.5	- 13.3	0.27	238(252)	145(147)	-93(-105)	0.34(0.34)
Latin America								
Argentina	16.3	2.7	- 13.6	0.11	36	7	- 29	0.25
Other Producers /6	5.7	2.7	- 3.0	0.03	10	5	- 5	0.04
Non-producers	-	11.3	11.3	0.08	-	21	21	0.10
Total Latin America	22.0	16.7	- 5.3	0.06	46	33	- 13	0.09
Oceania								
Papua - New Guinea	0.1	0.2	0.1 /2	0.08	6	1	- 5	0.30
Others	-	0.5	0.5 /2	0.09	-	1	1	0.33
Total Oceania	0.1	0.7	0.6	0.02	6	2	- 4	0.32
Total Developing	855.6	456.0	- 404.0	0.28	1,240(1,290)	780(800)	-460(-490)	0.35
World (excluding Centrally Planned Countries)								
of which:	970.0	973.2	4.4	0.41	1,400(1,450)	1,385(1,400)	-15(-50)	0.45
Net Exporters	865.5	-	- 567.2	-	1,250(1,300)	-	-770(-790)	-
Net Importers /7	104.5 /8	-	571.6	-	150 /9	-	755(740)	-
Centrally Planned Countries								
USSR	57.8	-	11.7	-	99	-	12	-
People's Rep. of China	160.3	-	-26.4	-	218	-	- 30	-
North Vietnam	3.0	-	-	-	4	-	-	-
Eastern Europe	-	-	11.0	-	-	-	18	-
Total Centrally Planned	220.8	-	- 3.7	-	320	-	-	-
World (including Centrally Planned Countries)	1,190.8	-	0.7	-	1,720(1,750)	-	-15(-50)	-

* Figures in parentheses represent alternative assumption for consumption and production in India, Kenya and the United Kingdom and their influence on world import demand and export availabilities.

† Columns may not add due to rounding.

- | | |
|---------------------------------------|----------------------------------|
| 1/ Black tea only. | 6/ Brazil and Peru. |
| 2/ Estimated. | 7/ Net importers during 1967-69. |
| 3/ Net weight. | 8/ Japan and Iran. |
| 4/ Includes Malaya and South Vietnam. | 9/ South Africa, Japan and Iran. |
| 5/ Southern Rhodesia and Rwanda. | 10/ Includes green tea. |

Source: IBRD, Economic Analysis and Projections Department; population data: U.S. Department of Agriculture.

File Commodity

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

COMMODITY PAPER NO. 2(3/73)

THE OUTLOOK FOR COFFEE

Commodities and Export Projections Division
Economic Analysis and Projections Department

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MARKET OUTLOOK*

1. Coffee prices are expected to remain relatively strong^{1/} throughout the seventies, notwithstanding the fate of the International Coffee Agreement.
2. World production of coffee has been lagging behind consumption continuously since 1966-67 so that stocks have gradually dwindled from their peak of over 80 million bags in 1965-66 to about one-half that level in 1971-72. The deficit is expected to continue so that stocks would be further reduced by another 10 million bags, to a level considered barely sufficient to prevent speculative buying (Charts 1 and 2 and Annex II Tables 1 and 2).
3. Favorable price prospects are the result of a combination of several factors, including producers' reaction to the development of large surpluses and low prices in the mid-fifties to late sixties and production controls instituted under the aegis of the International Coffee Agreement. The surplus and the deficit phases portrayed in Charts 1 and 2 further fortify the Avramovic coffee cycle thesis^{2/} that long periods of heavy surpluses, in which disinvestment takes place, are followed by shorter periods of shortages and high prices when overinvestment tends to occur. However, the latter phase of the cycle seems to have modified by the restraint on investment imposed under the International Coffee Agreement and great coordination of national policies among the producing countries. It is anticipated that the coffee producing countries will continue to follow a cautious policy concerning investment in coffee so that heavy surpluses during the eighties are not anticipated. (The implications of this assumption being untrue are discussed in paragraph 10.)
4. A tight balance between world supply and demand is, of course, largely due to developments in Brazil. Both high and low assumptions for Brazil indicate that until the late seventies production will continue to fall short of a level necessary to meet domestic demand and increased exports. In fact, assuming that stocks cannot be drawn below the pipeline level of about 7 million bags, not only with Brazil's market share continue to decline but its export will decrease in absolute terms. Elsewhere in the world aggregate production will continue to rise at a rate somewhat faster than the rise in demand. However, non-Brazilian stocks will remain within manageable limits giving strength to prices, while the Brazilian shortfall is picked up by some of the other exporting countries.

* Note: In a draft paper circulated on December 1, 1972, coffee prices were forecast for a further increase. Such an increase has since taken place. The forecasts given in this paper were prepared before the devaluation of the dollar in February 1973.

^{1/} With the exception of sugar, coffee and beef, prices of most farm products are likely to show only marginal improvement over the prices prevailing in most of the sixties.

^{2/} "The Coffee Problem Revisited", February 1969.

5. A steady erosion of Brazil's share of the world market experienced in the sixties will probably accelerate in the seventies. Although Brazil continues to stress its determination to maintain its share of the world market, it has been in fact making de facto concessions to others. It was reported in November 1972, by trade as well as official sources, that Brazil took title to 300,000 bags of El Salvadorian coffee lying in the Trieste warehouses maintained by Brazil. It was further reported that Brazil would "import" about a million bags from Angola. Both El Salvador and Angola have relatively large surpluses on hand. Other countries reported having a surplus problem include Uganda, Tanzania and the Ivory Coast. Brazilian "buying" of coffee would serve the dual purpose of removing the uncontrolled flow of coffee on the world market and placating those producing countries which would otherwise find it difficult to support the producers' alliance - the so-called Geneva Group formed in May 1972.

6. The Geneva Group of producers now number 22 countries. It is presently examining the legal and financial set-up to buy and sell coffee on the world market. The Group is probably bracing for fear that the International Coffee Agreement due to expire in 1973 may not be reviewed with its well functioning machinery of policing imports into the member countries.

7. In a commodity where market interference is widely practiced by major exporters as well as major import houses, it is difficult to derive a price forecast from the prospective supply/demand balance sheet and stock/price coefficients which assume free trade. However, the visual relationship between prices and stocks, as indicated by Charts 1 and 2, and preliminary regression findings^{1/} indicate that prices will remain high in 1973 before leveling off (Chart 3 and Annex II Table 3). Since the forecast levels are significantly above the costs of production, coffee exports should continue to provide the governments with larger coffee revenues and attractive exchange earnings.

8. The forecast rates of growth of demand for coffee under high and low assumptions are shown in Annex II Table 4. World import demand is expected to slow down to 1.8 to 2.0 percent per annum in 1972-80, as compared

^{1/} For the 16-year period 1955-1970, a regression of price on stocks gives the following result:

$$p = 76.71 - 0.46s \quad R^2 = 0.60$$

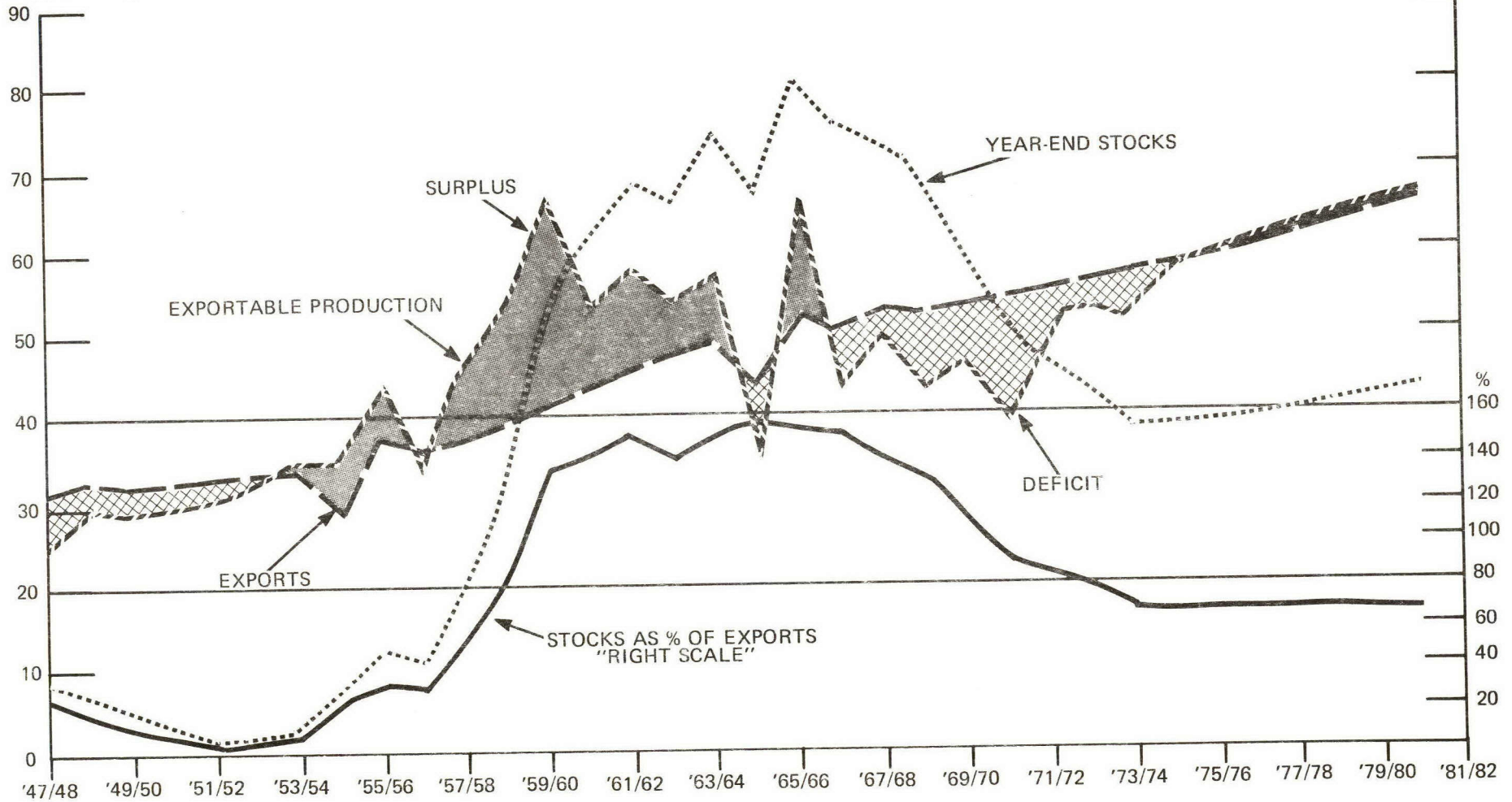
(T-value = 4.6)

where p represents constant price of Guatemalan at New York Market, and s the average of beginning and end stocks in each year. Using the above equation and assuming a 2 percent rate of inflation annually, we get the following price projections:

<u>Year</u>	<u>Constant 1971 Price</u>	<u>Current Price</u>
1973	58.0	60
1974	59.6	63
1975	60.2	65
1976	60.6	67
1977	61.1	69
1978	61.4	71
1979	61.7	72
1980	61.8	74

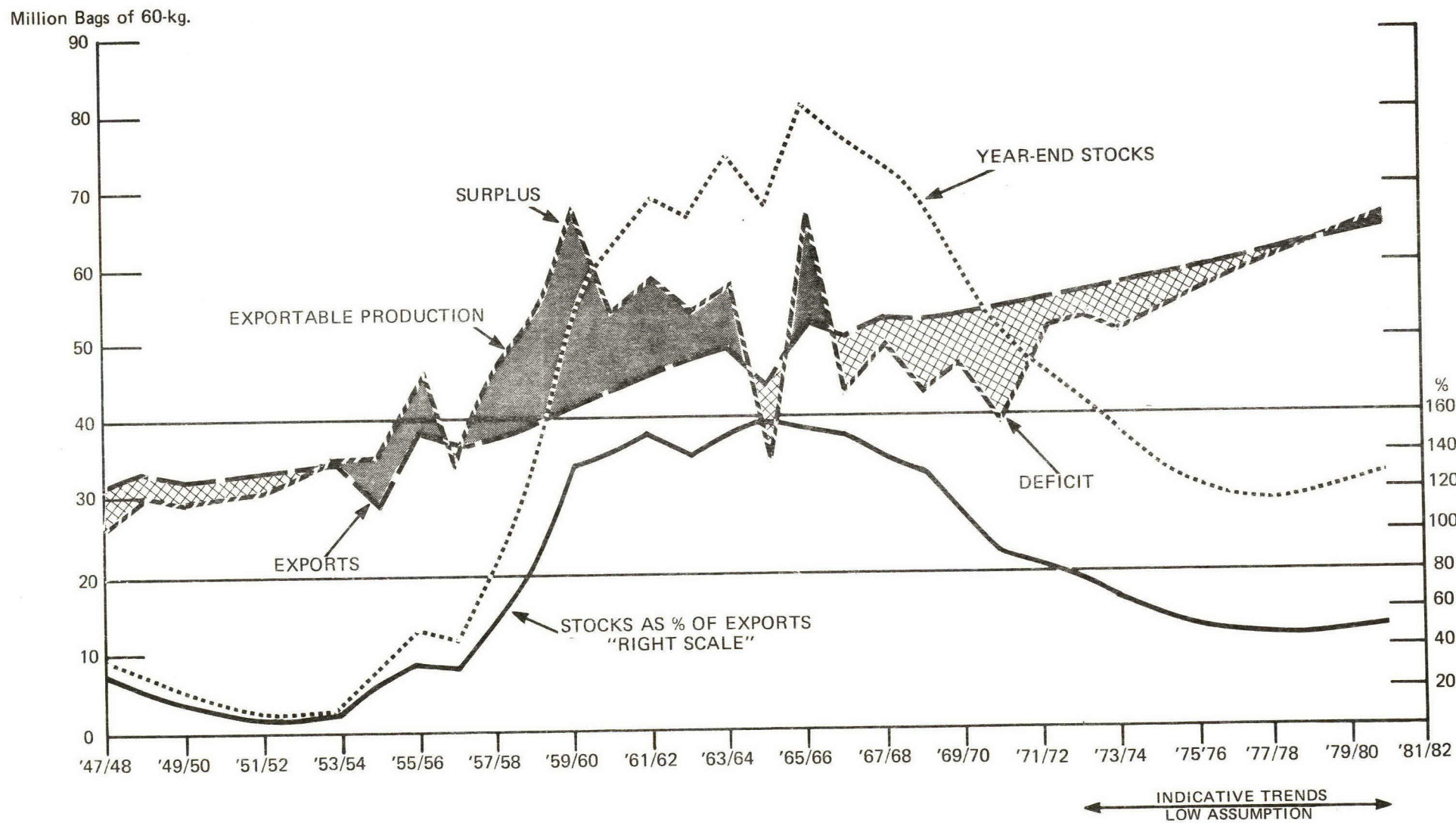
WORLD SUPPLY AND DEMAND FOR COFFEE

Million Bags of 60-kg.



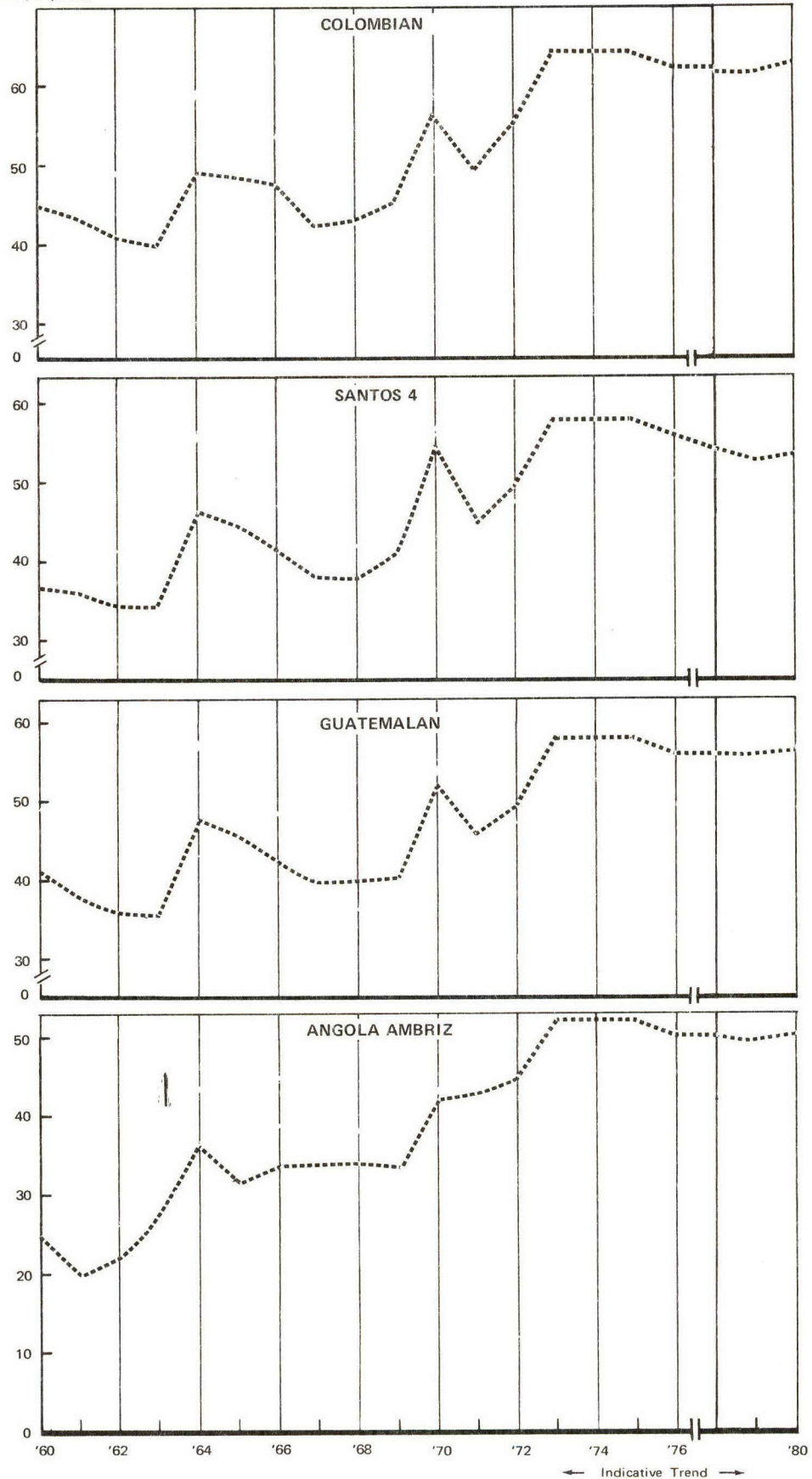
← INDICATIVE TRENDS HIGH ASSUMPTION →

WORLD SUPPLY AND DEMAND FOR COFFEE



COFFEE PRICES, SPOT NEW YORK

U.S. cent per pound



to 2.8 per annum in the sixties and over 3.5 percent in the fifties.^{1/}

9. The supply forecasts are based on the information given by regional economists in the Bank and supplemented by trend estimates (Annex II Tables 5 and 6). The low assumption is close to the low forecast made by the International Coffee Organization. However, the high Bank assumption, which has been adopted as the plausible assumption (more likely projection), is significantly below the high forecast made by the ICO.^{2/} A comparison between the two forecasts is shown in Annex II Tables 7 and 8. Should actual production fall closer to the high ICO forecast, prices would tend to decline sharply in the late seventies.

10. A note on the current status of the International Coffee Agreement is given in Annex I. The future role of the Agreement, even if it survives, would be a weak one. The important issue is whether production expansion would remain under control, thereby assuring a certain degree of balance between world supply and demand, as assumed in our forecasts, or whether the presently attractive prices and lack of export quotas would lead to excessive production expansion around the globe as in the early 1950's, thereby sowing the seeds of another bust in the late 1970's. If the latter were to happen, the world coffee situation would revert to that at the beginning of the 1960's when the first International Coffee Agreement was negotiated with a view to bringing about a balance between supply and demand and maintaining price stability at a remunerative level. The future depends to some extent not only on the policies followed by the producing countries but also by the international organizations and the developed countries who are in a position to exercise some leverage in influencing the investment decisions of the developing countries.

^{1/} This slowdown of the growth has been explained in previous papers. See, for example, S. Singh, "USA Importing in Today's Coffee World", World Coffee and Tea, August 1971; and IBRD, Report No. PA-143 Annex 3, Appendix 1.

^{2/} The high ICO forecast is rejected partly on the grounds that it accepts the Brazilian production target as feasible, whereas Brazilian expansion plans have been faltering.

Prepared by: Shamsher Singh
Assisted by M. C. Yang
March 1973

STATUS OF THE INTERNATIONAL COFFEE AGREEMENT

End of the Quota System

1. The International Coffee Agreement due to expire in September 1973 has ceased to be an effective instrument of export controls and price stabilization. At the heavily attended special session of the Coffee Council held in London, December 4 to 13, the producers and consumers failed to reach an agreement on price objectives and export quotas thus freeing each exporting country to ship as much coffee as it wished in the remaining nine-month life of the current Agreement. The Council, however, decided to maintain the registration system so that countries would still need to issue certificates of origin, obtain export stamps from the International Coffee Organization and satisfy its Executive Director that they have sufficient coffee available for exports. At the same time, the consuming countries would continue to monitor the imports and supply the information to the ICO.

2. The price of coffee was one of the major issues. The consumers by and large were asking that coffee prices be rolled back and that the price level of US¢ 55/lb. (composite price of all coffees) prevailing in early December should be a ceiling. If prices remained at this level or moved higher, the quota system should be abolished. They were, however, willing to accept US¢ 50 as the composite floor price which was about US¢6 higher than the price prevailing a year ago when the producers were asking (and consumers refused) a price increase of 4¢ to compensate for the devaluation of the dollar and general inflation in the developed countries. The producers now argued that the current price reflected the actual state of the market and should not be disturbed. Quotas should be suspended only if prices rose further. Neither the big producers nor the big consumers seemed interested in reconciling the differences nor did they discuss the issues in plenary meetings. Several producers, notably Indonesia, Tanzania and India, criticized the manner in which the big producers like Brazil and Colombia were conducting the negotiations without adequately consulting the other producers. On the consumer side the hard liners included the United States, United Kingdom and Germany.

3. At the end of the meetings, the Executive Director issued a press release expressing disappointment at the failure of the Council to reach an agreement on the quotas, but emphasized that this did not imply that the Agreement was at an end. The control system would remain in effect and efforts for renegotiation or extension of the Agreement would be intensified in the coming months.

The Diversification Fund

4. The Coffee Diversification Fund to which the larger exporting countries are obliged to contribute 60¢ per bag or nearly \$25 million per year would also continue its operations and collect the contributions. This implies that at least until September 1973 the ICO will continue to insist that the countries inform the Organization of their production plans and limit their production expansion in accordance with the goals set by the Council.

Renegotiation

5. Several hurdles lie ahead with regard to the re-negotiation of the Agreement. One possibility is that the Agreement would be extended for another year with the control system intact, but without export quotas and price guidelines. The other is that a sharply weakened agreement would be negotiated whereby quotas are automatically suspended whenever prices rise above a fixed ceiling level as it happens under the Tin Agreement. A weakened Agreement would in effect be tantamount to a consultative body instead of a watertight price stabilization scheme of the past.

Table 1: COFFEE - WORLD SUPPLY AND UTILIZATION
HIGH ASSUMPTION

(million 60-kg. bags)

	1967-69 Average	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81
	(.....Indicative Trend Values.....)											
I. World												
A. Opening Stock		59.0	48.1	45.8	43.3	39.0	38.9	39.1	39.5	40.1	40.8	41.8
B. Harvested Production	64.1	58.1	71.4	72.9	72.0	78.0	80.1	82.2	84.3	86.4	88.7	90.6
C. Total Supply(A+B)		117.1	119.5	118.7	115.3	117.0	119.0	121.3	123.8	126.5	129.5	132.4
D. Internal Consumption		18.1	18.8	19.4	19.2	19.9	20.5	21.2	21.9	22.7	23.4	24.0
E. Exports		53.8	54.9	56.0	57.1	58.2	59.4	60.6	61.8	63.0	64.3	65.6
F. Total Utilization (D+E)		71.9	73.7	75.4	76.3	78.1	79.9	81.8	83.7	85.7	87.7	89.6
G. Apparent Closing Stock (C-F)		45.2	45.8	43.3	39.0	38.9	39.1	39.5	40.1	40.8	41.8	42.8
II. Brazil												
A. Opening Stock		39.5	25.3	23.0*	19.5	11.2	7.3	6.8	7.0	7.3	7.8	8.5
B. Harvested Production	17.3	9.8	23.6	24.0	19.0	24.0	25.0	26.0	27.0	28.0	29.0	30.0
C. Total Supply(A+B)		49.3	48.9	47.0	38.5	35.2	32.3	32.8	34.0	35.3	36.8	38.5
D. Internal Consumption		8.3	8.8	9.0	8.6	8.8	9.0	9.2	9.4	9.6	9.8	10.0
E. Exports		18.6	18.0	18.5	18.7	19.1	16.5	16.6	17.3	17.9	18.5	19.0
F. Total Utilization (D+E)		26.9	26.8	27.5	27.3	27.9	25.5	25.8	26.7	27.5	28.3	29.0
G. Apparent Closing Stock (C-F)		22.4	22.1	19.5	11.2	7.3	6.8	7.0	7.3	7.8	8.5	9.5
III. Other Producers												
A. Opening Stock		19.5	22.8	22.8	23.8	27.8	31.6	32.3	32.5	32.8	33.0	33.3
B. Harvested Production	46.8	48.3	47.8	48.9	53.0	54.0	55.1	56.2	57.3	58.4	59.7	60.6
C. Total Supply(A+B)		67.8	70.6	71.7	76.8	81.8	86.7	88.5	89.8	91.2	92.7	93.9
D. Internal Consumption		9.8	10.0	10.4	10.6	11.1	11.5	12.0	12.5	13.1	13.6	14.0
E. Exports		35.2	36.9	37.5	38.4	39.1	42.9	44.0	44.5	45.1	45.8	46.6
F. Total Utilization (D+E)		45.0	46.9	47.9	49.0	50.2	54.4	56.0	57.0	58.2	59.4	60.6
G. Apparent Closing Stock (C-F)		22.8	23.7	23.8	27.8	31.6	32.3	32.5	32.8	33.0	33.3	33.3

* LAC estimate.

Source: USDA, ICO and IBRD

March 1, 1973

Table 1: COFFEE - WORLD SUPPLY AND UTILIZATION
HIGH ASSUMPTION

(million 60-kg. bags)

	1967-69 Average	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81
	(.....Indicative Trend Values.....)											
I. World												
A. Opening Stock		59.0	48.1	45.8	43.3	39.0	38.9	39.1	39.5	40.1	40.8	41.8
B. Harvested Production	64.1	58.1	71.4	72.9	72.0	78.0	80.1	82.2	84.3	86.4	88.7	90.6
C. Total Supply(A+B)		117.1	119.5	118.7	115.3	117.0	119.0	121.3	123.8	126.5	129.5	132.4
D. Internal Consumption		18.1	18.8	19.4	19.2	19.9	20.5	21.2	21.9	22.7	23.4	24.0
E. Exports		53.8	54.9	56.0	57.1	58.2	59.4	60.6	61.8	63.0	64.3	65.6
F. Total Utilization (D+E)		71.9	73.7	75.4	76.3	78.1	79.9	81.8	83.7	85.7	87.7	89.6
G. Apparent Closing Stock (C-F)		45.2	45.8	43.3	39.0	38.9	39.1	39.5	40.1	40.8	41.8	42.8
II. Brazil												
A. Opening Stock		39.5	25.3	23.0*	19.5	11.2	7.3	6.8	7.0	7.3	7.8	8.5
B. Harvested Production	17.3	9.8	23.6	24.0	19.0	24.0	25.0	26.0	27.0	28.0	29.0	30.0
C. Total Supply(A+B)		49.3	48.9	47.0	38.5	35.2	32.3	32.8	34.0	35.3	36.8	38.5
D. Internal Consumption		8.3	8.8	9.0	8.6	8.8	9.0	9.2	9.4	9.6	9.8	10.0
E. Exports		18.6	18.0	18.5	18.7	19.1	16.5	16.6	17.3	17.9	18.5	19.0
F. Total Utilization (D+E)		26.9	26.8	27.5	27.3	27.9	25.5	25.8	26.7	27.5	28.3	29.0
G. Apparent Closing Stock (C-F)		22.4	22.1	19.5	11.2	7.3	6.8	7.0	7.3	7.8	8.5	9.5
III. Other Producers												
A. Opening Stock		19.5	22.8	22.8	23.8	27.8	31.6	32.3	32.5	32.8	33.0	33.3
B. Harvested Production	46.8	48.3	47.8	48.9	53.0	54.0	55.1	56.2	57.3	58.4	59.7	60.6
C. Total Supply(A+B)		67.8	70.6	71.7	76.8	81.8	86.7	88.5	89.8	91.2	92.7	93.9
D. Internal Consumption		9.8	10.0	10.4	10.6	11.1	11.5	12.0	12.5	13.1	13.6	14.0
E. Exports		35.2	36.9	37.5	38.4	39.1	42.9	44.0	44.5	45.1	45.8	46.6
F. Total Utilization (D+E)		45.0	46.9	47.9	49.0	50.2	54.4	56.0	57.0	58.2	59.4	60.6
G. Apparent Closing Stock (C-F)		22.8	23.7	23.8	27.8	31.6	32.3	32.5	32.8	33.0	33.3	33.3

* LAC estimate.

Source: USDA, ICO and IBRD

March 1, 1973

Table 2: COFFEE - WORLD SUPPLY AND UTILIZATION
LOW ASSUMPTION

(million 60-kg. bags)

	1967-69 Average	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81
		(.....Indicative Trend Values.....)										
I. World												
A. Opening Stock		59.0	48.1	45.8	43.3	38.0	33.4	30.6	29.5	29.2	29.6	30.8
B. Harvested Production	64.1	58.1	71.4	72.9	70.7	72.7	75.8	78.8	80.9	83.0	85.2	87.4
C. Total Supply(A+B)		117.1	119.5	118.7	114.0	110.7	109.2	109.4	110.4	112.2	114.8	118.2
D. Internal Consumption		18.1	18.8	19.4	19.1	19.4	19.6	19.9	20.1	20.4	20.7	21.0
E. Exports		53.8	54.9	56.0	56.9	57.9	59.0	60.0	61.1	62.2	63.3	64.5
F. Total Utilization (D+E)		71.9	73.7	75.4	76.0	77.3	78.6	79.9	81.2	82.6	84.0	85.5
G. Apparent Closing Stock (C-F)		45.2	45.8	43.3	38.0	33.4	30.6	29.5	29.2	29.6	30.8	32.7
II. Brazil												
A. Opening Stock		39.5	25.3	23.0*	19.5	12.0	7.0	7.0	7.0	7.0	7.0	7.1
B. Harvested Production	17.3	9.8	23.6	24.0	19.0	20.0	22.0	24.0	25.0	26.0	27.0	28.0
C. Total Supply(A+B)		49.3	48.9	47.0	38.5	32.0	29.0	31.0	32.0	33.0	34.0	35.1
D. Internal Consumption		8.3	8.8	9.0	8.5	8.6	8.6	8.7	8.7	8.8	8.9	9.0
E. Exports		18.6	18.0	18.5	18.0	16.4	13.4	15.3	16.3	17.2	18.0	18.5
F. Total Utilization (D+E)		26.9	26.8	27.5	26.5	25.0	22.0	24.0	25.0	26.0	26.9	27.5
G. Apparent Closing Stock (C-F)		22.4	22.1	19.5	12.0	7.0	7.0	7.0	7.0	7.0	7.1	7.6
III. Other Producers												
A. Opening Stock		19.5	22.8	22.8	23.8	26.0	26.4	23.6	22.5	22.2	22.6	23.7
B. Harvested Production	46.8	48.3	47.8	48.9	51.7	52.7	53.8	54.8	55.9	57.0	58.2	59.4
C. Total Supply(A+B)		67.8	70.6	71.7	75.5	78.7	80.2	78.4	78.4	79.2	80.8	83.1
D. Internal Consumption		9.8	10.0	10.4	10.6	10.8	11.0	11.2	11.4	11.6	11.8	12.0
E. Exports		35.2	36.9	37.5	38.9	41.5	45.6	44.7	44.8	45.0	45.3	46.0
F. Total Utilization (D+E)		45.0	46.9	47.9	49.5	52.3	56.6	55.9	56.2	56.6	57.1	58.0
G. Apparent Closing Stock (C-F)		22.8	23.7	23.8	26.0	26.4	23.6	22.5	22.2	22.6	23.7	25.1

* IAC estimate.

Source: USDA, ICO and IBRD

March 1, 1973

Table 3: COFFEE PRICES
(U.S. cents per pound, Spot New York)

	Colombian	Guatemalan	Santos ^{1/}	Angola Ambriz
1960	44.9	41.3	36.6	25.3
1961	43.6	37.5	36.0	19.9
1962	40.8	35.8	34.0	21.6
1963	39.6	35.4	34.1	28.7
1964	48.8	47.2	46.7	36.4
1965	48.5	45.5	44.7	31.6
1966	47.4	42.2	40.8	34.0
1967	41.9	39.2	37.8	33.8
1968	42.6	39.4	37.4	34.3
1969	45.0	40.1	40.8	33.6
1970	56.4	51.9	54.6	42.0
1971	49.3	45.5	44.8	42.8
1972	56.7	50.0	51.0	44.9
1973)				
1974)	64.0	58.0	58.0	52.0
1975)				
1980	62.0	56.0	54.0	50.0

^{1/} The prices do not reflect the discounts given by Brazil. Consequently, the nominal market quotations may be higher than the forecast levels.

Sources: Pan American Coffee Bureau Bulletin
Projections - IBRD

March 1, 1973

**Table 4: IMPLICIT RATES OF GROWTH IN
WORLD SUPPLY AND UTILIZATION OF COFFEE
1970-72 1/ AVERAGE TO 1980**

	IBRD		ICO	
	High	Low	High	Low
<u>World</u>				
1. World harvested production <u>1/</u>	2.7	2.3	3.4	2.3
2. Domestic demand in the producing countries	2.8	1.2	2.2	2.2
3. World import demand	2.0	1.8	2.5	2.2
<u>Brazil</u>				
1. Harvested production <u>1/</u>	2.7	1.9	4.5	2.8
2. Domestic demand	1.6	0.4	1.1	1.1
3. Exports	-	-	-	-

1/ Production refers to 1971/72 only, thereby excluding the effect of unusually low Brazilian output in 1970/71.

Sources: ICO and IBRD

March 1, 1973

Table 5: WORLD HARVESTED PRODUCTION OF COFFEE
HIGH ASSUMPTION

(thousand 60-kg. bags)

Continent and Country	Actual						Projected				Rate of Growth 1967/68-1969/70 Average to 1980/81
	Average 1967/68- 1969/70	1967/68	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76	1980/81	
North America											
Costa Rica	1,337	1,350	1,400	1,250	1,330	1,365	1,430	1,430	1,490	1,590	1.5
Cuba	483	450	500	475	475	475	480	480	480	480	0
Dominican Republic	605	635	640	700	650	700	610	620	620	620	0.2
El Salvador	2,267	2,400	2,500	2,170	2,600	2,800	2,770	2,800	2,880	3,080	2.6
Guatemala	1,780	1,850	1,750	1,840	1,980	1,800	2,050	2,100	2,150	2,430	2.6
Haiti	482	500	465	550	540	500	410	400	390	330	-3.1
Honduras	493	480	550	570	575	620	470	480	490	490	0
Mexico	2,942	2,900	3,075	3,200	3,300	3,500	3,540	3,570	3,590	4,050	2.7
Nicaragua	552	550	565	550	600	580	630	650	660	740	2.5
Others	502	552	346	437	334	406	460	460	460	420	-1.5
Total North America	11,443	11,667	11,791	11,742	12,384	12,746	12,850	12,990	13,210	14,230	1.8
South America											
Brazil	19,500	23,000	19,000	9,750	23,600	24,000	19,000	24,000	25,000	30,000	3.6
Colombia	8,117	8,000	8,450	7,800	7,500	8,000	8,960	8,970	9,000	9,600	1.4
Ecuador	945	1,175	660	1,300	1,100	1,000	1,280	1,330	1,370	1,540	4.2
Peru	893	880	940	990	1,030	1,030	1,120	1,120	1,120	1,290	3.1
Venezuela	837	750	900	900	920	1,100	1,130	1,130	1,130	1,370	4.2
Others	235	216	239	132	156	151	180	180	180	170	-1.3
Total South America	30,527	34,021	30,189	20,872	34,306	35,281	31,670	36,730	37,800	43,970	3.1
Africa											
Angola	3,267	3,400	3,300	3,300	3,400	3,400	3,900	3,950	4,100	4,600	2.9
Burundi	277	315	240	350	400	350	380	390	400	460	4.3
Cameroon	1,133	1,100	1,200	1,150	1,250	1,300	1,330	1,330	1,380	1,570	2.8
Central African Rep.	178	175	200	150	160	170	235	260	275	310	4.7
Congo (K)	1,033	1,000	1,100	1,250	1,200	1,350	1,380	1,440	1,490	1,600	3.7
Ethiopia	1,932	1,750	2,000	2,100	2,150	2,200	2,500	2,560	2,600	2,870	3.4
Guinea	183	170	200	175	175	175	155	155	155	170	-0.6
Ivory Coast	4,167	4,500	4,600	4,000	4,400	4,000	4,250	4,330	4,400	5,100	1.7
Kenya	817	650	900	1,000	950	950	1,080	1,120	1,170	1,330	4.1
Malagasy Republic	943	1,100	830	1,300	965	1,000	1,130	1,230	1,280	1,380	3.2
Rwanda	178	190	145	235	200	220	255	260	275	340	5.5
Sierra Leone	88	80	90	125	100	105	105	105	115	90	0
Tanzania	822	740	775	950	850	800	1,130	1,180	1,230	1,400	4.5
Togo	228	175	220	220	220	200	290	310	330	420	5.2
Uganda	3,128	2,700	3,350	3,000	2,850	2,850	3,380	3,480	3,540	3,700	1.4
Others	399	399	399	422	397	410	460	440	480	540	2.6
Total Africa	18,773	18,444	19,549	19,727	19,667	19,480	21,960	22,540	23,220	25,880	2.7
Asia and Oceania											
India	1,167	1,050	1,150	1,900	1,200	1,450	1,430	1,430	1,430	1,630	2.9
Indonesia	2,117	2,150	2,200	2,350	2,250	2,400	2,460	2,500	2,580	2,900	2.7
Philippines	750	700	815	840	900	865	900	900	900	860	1.1
Others	661	580	668	700	730	727	730	910	960	1,130	4.6
Total Asia and Oceania	4,695	4,480	4,833	5,790	5,080	5,442	5,520	5,740	5,870	6,520	2.8
World	65,438	68,612	66,362	58,131	71,437	72,949	72,000	78,000	80,100	90,600	2.8

Projections: The base period is 1967/68-1969/70.

Sources: 1967/68 to 1972/73 - US Department of Agriculture
Projections - IERD

March 1, 1973

Table 6: WORLD HARVESTED PRODUCTION OF COFFEE
LOW ASSUMPTION

(thousand 60-kg. bags)

Continent and Country	Actual						Projected				Rate of Growth 1967/68-1969/70 Average to 1980/81
	Average 1967/68- 1969/70	1967/68	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76	1980/81	
North America											
Costa Rica	1,337	1,350	1,400	1,250	1,330	1,365	1,400	1,400	1,450	1,550	1.2
Cuba	483	450	500	475	475	475	470	470	470	470	-0.4
Dominican Republic	605	635	640	700	650	700	595	600	600	600	-0.1
El Salvador	2,267	2,400	2,500	2,170	2,600	2,800	2,700	2,750	2,810	3,000	2.4
Guatemala	1,780	1,850	1,750	1,840	1,980	1,800	2,000	2,050	2,100	2,370	2.4
Haiti	482	500	465	550	540	500	400	390	380	320	-3.4
Honduras	493	480	550	570	575	620	460	470	480	480	-0.4
Mexico	2,942	2,900	3,075	3,200	3,300	3,500	3,450	3,480	3,500	3,950	2.5
Nicaragua	552	550	565	550	600	580	615	630	645	720	2.2
Others	502	552	346	437	334	406	450	450	450	410	-1.6
Total North America	<u>11,443</u>	<u>11,667</u>	<u>11,791</u>	<u>11,742</u>	<u>12,384</u>	<u>12,746</u>	<u>12,540</u>	<u>12,690</u>	<u>12,885</u>	<u>13,870</u>	1.6
South America											
Brazil	19,500	23,000	19,000	9,750	23,600	24,000	19,000	20,000	22,000	28,000	3.0
Colombia	8,117	8,000	8,450	7,800	7,500	8,000	8,740	8,750	8,790	9,370	1.2
Ecuador	945	1,175	660	1,300	1,100	1,000	1,250	1,300	1,340	1,500	3.9
Peru	893	880	940	990	1,030	1,030	1,090	1,090	1,090	1,260	2.9
Venezuela	837	750	900	900	920	1,100	1,100	1,100	1,100	1,340	4.0
Others	235	216	239	132	156	151	170	170	175	165	-4.1
Total South America	<u>30,527</u>	<u>34,021</u>	<u>30,189</u>	<u>20,872</u>	<u>34,306</u>	<u>35,281</u>	<u>31,350</u>	<u>34,410</u>	<u>34,495</u>	<u>41,635</u>	2.6
Africa											
Angola	3,267	3,400	3,300	3,300	3,400	3,400	3,800	3,850	4,000	4,500	2.7
Burundi	277	315	240	350	400	350	370	380	390	450	4.1
Cameroon	1,133	1,100	1,200	1,150	1,250	1,300	1,300	1,300	1,350	1,540	2.6
Central African Rep.	178	175	200	150	160	170	230	250	270	300	4.5
Congo (K)	1,033	1,000	1,100	1,250	1,200	1,350	1,350	1,400	1,450	1,600	3.7
Ethiopia	1,932	1,750	2,000	2,100	2,150	2,200	2,450	2,500	2,550	2,800	3.1
Guinea	183	170	200	175	175	175	150	150	150	160	-2.8
Ivory Coast	4,167	4,500	4,600	4,000	4,400	4,000	4,250	4,330	4,400	5,100	1.7
Kenya	817	650	900	1,000	950	950	1,060	1,100	1,150	1,300	3.9
Malagasy Republic	943	1,100	830	1,300	965	1,000	1,100	1,200	1,250	1,350	3.0
Rwanda	178	190	145	235	200	220	250	260	270	330	5.3
Sierra Leone	88	80	90	125	100	105	80	80	80	75	-1.4
Tanzania	822	740	775	950	850	800	1,100	1,150	1,200	1,400	4.5
Togo	228	175	220	220	220	200	280	300	320	410	5.0
Uganda	3,128	2,700	3,350	3,000	2,850	2,850	3,300	3,400	3,450	3,670	1.3
Others	399	399	399	422	397	410	450	430	470	530	2.4
Total Africa	<u>18,773</u>	<u>18,444</u>	<u>19,549</u>	<u>19,727</u>	<u>19,667</u>	<u>19,480</u>	<u>21,520</u>	<u>22,080</u>	<u>22,750</u>	<u>25,515</u>	2.6
Asia and Oceania											
India	1,167	1,050	1,150	1,900	1,200	1,450	1,400	1,400	1,400	1,590	2.6
Indonesia	2,117	2,150	2,200	2,350	2,250	2,400	2,400	2,450	2,520	2,850	2.5
Philippines	750	700	815	840	900	865	840	820	800	840	0.9
Others	661	580	668	700	730	727	650	650	650	1,100	4.3
Total Asia and Oceania	<u>4,695</u>	<u>4,480</u>	<u>4,833</u>	<u>5,790</u>	<u>5,080</u>	<u>5,442</u>	<u>5,290</u>	<u>5,520</u>	<u>5,670</u>	<u>6,380</u>	2.5
World	<u>65,438</u>	<u>68,612</u>	<u>66,362</u>	<u>58,131</u>	<u>71,437</u>	<u>72,949</u>	<u>70,700</u>	<u>72,700</u>	<u>75,800</u>	<u>87,400</u>	2.4

Projections: The base period is 1967/68-1969/70.

Sources: 1967/68 to 1972/73 - US Department of Agriculture
Projections - IBRD

March 1, 1973

Table 7: COFFEE - COMPARISON OF BANK AND ICO FORECASTS
HIGH ASSUMPTION

(Million 60-kg. Bags)

	Harvested Production						Closing Stocks ^{1/}					
	World			Brazil			World			Brazil		
	Bank	ICO	Difference ^{2/}	Bank	ICO	Difference ^{2/}	Bank	ICO	Difference ^{2/}	Bank	ICO	Difference ^{2/}
1970/71	58.1	58.1	0	9.8	10.3	-0.5	45.2	48.1	-2.9	22.4	25.3	-2.9
1971/72	71.4	73.3	-1.9	23.6	25.7	-2.1	45.8	45.6	0.2	22.1	22.1	0
1972/73	72.9	72.5	0.4	24.0	21.6	2.4	43.3	42.3	1.0	19.5	n.a.	
1973/74	72.0	72.6 ^{3/}	-0.6	19.0	20.4 ^{3/}	-1.4	39.0	37.5	1.5	11.2	n.a.	
1974/75	78.0	79.5	-1.5	24.0	26.0	-2.0	38.9	37.8	1.1	7.3	n.a.	
1975/76	80.1	82.1	-2.0	25.0	27.3	-2.3	39.1	38.9	0.2	6.8	n.a.	
1976/77	82.2	85.3	-3.1	26.0	29.3	-3.3	39.5	41.4	-1.9	7.0	n.a.	
1977/78	84.3	89.4	-5.1	27.0	32.3	-5.3	40.1	46.3	-6.2	7.3	n.a.	
1978/79	86.4	92.4	-6.0	28.0	34.2	-6.2	40.8	52.0	-11.2	7.8	n.a.	
1979/80	88.7	95.6	-6.9	29.0	36.2	-7.2	41.8	58.7	-16.9	8.5	n.a.	
1980/81	90.6	98.8	-8.2	30.0	38.3	-8.3	42.8	66.4	-23.6	9.5	n.a.	

^{1/} Calculated by the following relationship: closing stock = opening stock + harvested production - domestic consumption - export.

^{2/} Bank minus ICO.

^{3/} An estimated loss of 5 million bags resulting from the frost damage of July 1972 has been subtracted.

Sources: IBRD and ICO.

Table 7: COFFEE - COMPARISON OF BANK AND ICO FORECASTS
HIGH ASSUMPTION

(Million 60-kg. Bags)

	Harvested Production						Closing Stocks ^{1/}					
	World			Brazil			World			Brazil		
	Bank	ICO	Difference ^{2/}	Bank	ICO	Difference ^{2/}	Bank	ICO	Difference ^{2/}	Bank	ICO	Difference ^{2/}
1970/71	58.1	58.1	0	9.8	10.3	-0.5	45.2	48.1	-2.9	22.4	25.3	-2.9
1971/72	71.4	73.3	-1.9	23.6	25.7	-2.1	45.8	45.6	0.2	22.1	22.1	0
1972/73	72.9	72.5	0.4	24.0	21.6	2.4	43.3	42.3	1.0	19.5	n.a.	
1973/74	72.0	72.6 ^{3/}	-0.6	19.0	20.4 ^{3/}	-1.4	39.0	37.5	1.5	11.2	n.a.	
1974/75	78.0	79.5	-1.5	24.0	26.0	-2.0	38.9	37.8	1.1	7.3	n.a.	
1975/76	80.1	82.1	-2.0	25.0	27.3	-2.3	39.1	38.9	0.2	6.8	n.a.	
1976/77	82.2	85.3	-3.1	26.0	29.3	-3.3	39.5	41.4	-1.9	7.0	n.a.	
1977/78	84.3	89.4	-5.1	27.0	32.3	-5.3	40.1	46.3	-6.2	7.3	n.a.	
1978/79	86.4	92.4	-6.0	28.0	34.2	-6.2	40.8	52.0	-11.2	7.8	n.a.	
1979/80	88.7	95.6	-6.9	29.0	36.2	-7.2	41.8	58.7	-16.9	8.5	n.a.	
1980/81	90.6	98.8	-8.2	30.0	38.3	-8.3	42.8	66.4	-23.6	9.5	n.a.	

^{1/} Calculated by the following relationship: closing stock = opening stock + harvested production - domestic consumption - export.

^{2/} Bank minus ICO.

^{3/} An estimated loss of 5 million bags resulting from the frost damage of July 1972 has been subtracted.

Sources: IBRD and ICO.

Table 8: COFFEE - COMPARISON OF BANK AND ICO FORECASTS
LOW ASSUMPTION

(Million 60-kg. Bags)

	Harvested Production						Closing Stocks ^{1/}					
	World			Brazil			World			Brazil		
	Bank	ICO	Difference ^{2/}	Bank	ICO	Difference ^{2/}	Bank	ICO	Difference ^{2/}	Bank	ICO	Difference ^{2/}
1970/71	58.1	58.1	0	9.8	10.3	-0.5	45.2	48.1	-2.9	22.4	25.3	-2.9
1971/72	71.4	73.3	-1.9	23.6	25.7	-2.1	45.8	45.6	0.2	22.1	22.1	0
1972/73	72.9	69.5	3.4	24.0	21.6	2.4	43.3	40.4	2.9	19.5	n.a.	
1973/74	70.7	67.2 ^{3/}	3.5	19.0	18.0 ^{3/}	1.0	38.0	31.4	6.6	12.0	n.a.	
1974/75	72.7	73.9	-1.2	20.0	23.6	-3.6	33.4	27.5	5.9	7.0	n.a.	
1975/76	75.8	76.1	-0.3	22.0	24.7	-2.7	30.6	24.1	6.5	7.0	n.a.	
1976/77	78.8	79.1	-0.3	24.0	26.5	-2.5	29.5	22.1	7.4	7.0	n.a.	
1977/78	80.9	83.0	-2.1	25.0	29.3	-4.3	29.2	22.4	6.8	7.0	n.a.	
1978/79	83.0	85.3	-2.3	26.0	30.5	-4.5	29.6	23.1	6.5	7.0	n.a.	
1979/80	85.2	87.7	-2.5	27.0	31.7	-4.7	30.8	24.2	6.6	7.1	n.a.	
1980/81	87.4	90.2	-2.8	28.0	33.0	-5.0	32.7	25.8	6.9	7.6	n.a.	

^{1/} Calculated by the following relationship: closing stock = opening stock + harvested production - domestic consumption - export.

^{2/} Bank minus ICO.

^{3/} An estimated loss of 5 million bags resulting from the frost damage of July 1972 has been subtracted.

Sources: IBRD and ICO.

File Comments

MEMORANDUM

January 16, 1973

The attached schedules, "Net Increase in Free World Copper Capacity, 1973-1976," are intended to replace schedules dated July 18, 1972 which covered the period 1972-1976.

It is believed that most of the new capacity scheduled for 1972 was, in fact, completed more or less as planned, although a considerable portion will not be fully effective until this year.

Estimated productive capacity at the end of 1971 and 1972 together with our estimates of mine production for 1972 and 1973 are shown below:

	Estimated Capacity <u>12/31/71</u>	1972 Production (Partially Estimated) (Thousands of Short Tons)	Estimated Capacity <u>12/31/72</u>	1973 Production (Estimated)
<u>America</u>				
United States	1,810	1,650	1,881	1,750
Canada	804	800	963	925
Mexico	90	75	90	90
Chile	840	790	825	790
Peru	240	210	240	230
Other	15	25	30	30
Total	<u>3,799</u>	<u>3,550</u>	<u>4,029</u>	<u>3,815</u>
<u>Africa</u>				
Zambia	865	800	865	840
Zaire	460	485	535	525
South Africa	165	170	185	190
S.W. Africa	40	20	40	30
Other	52	65	83	95
Total	<u>1,582</u>	<u>1,540</u>	<u>1,708</u>	<u>1,680</u>
<u>Asia</u>				
Japan	135	125	130	120
Philippines	225	210	225	210
Bougainville		125	180	180
Indonesia				40
Other	80	100	75	110
Total	<u>440</u>	<u>560</u>	<u>610</u>	<u>660</u>
<u>Australia</u>				
	<u>200</u>	<u>195</u>	<u>220</u>	<u>200</u>
<u>Europe</u>				
	<u>300</u>	<u>280</u>	<u>320</u>	<u>290</u>
Total	<u>6,321</u>	<u>6,125</u>	<u>6,887</u>	<u>6,645</u>

NET INCREASE IN FREE WORLD COPPER PRODUCTIVE CAPACITY, 1973 - 1976
(Short Tons - Annual Rate)

Area/Country	Estimated Capacity Dec. 31, 1972	Additional Capacity Scheduled for Completion During				Total Planned 1973-1976	Estimated Capacity Dec. 31, 1976
		1973	1974	1975	1976		
<u>North America</u>							
United States	1,881,000	15,000	156,500*	30,000	67,500*	269,000	2,150,000
Canada	963,000	69,000	10,000	11,000	60,000*	150,000	1,113,000
Other	105,000	8,000	10,000	37,500*	120,000*	175,500	280,500
Total	<u>2,949,000</u>	<u>92,000</u>	<u>176,500</u>	<u>78,500</u>	<u>247,500</u>	<u>594,500</u>	<u>3,543,500</u>
<u>South America</u>							
Chile	825,000						825,000
Peru	240,000			60,000	140,000	200,000	440,000
Other	15,000		35,000			35,000	50,000
Total	<u>1,080,000</u>		<u>35,000</u>	<u>60,000</u>	<u>140,000</u>	<u>235,000</u>	<u>1,315,000</u>
<u>Africa</u>							
Zambia	865,000	49,000	46,500		30,000	125,500	990,500
Zaire	535,000	20,000	20,000	95,000	25,000	160,000	695,000
South Africa	185,000		25,000			25,000	210,000
South West Africa	40,000						40,000
Other	83,000		17,000			17,000	100,000
Total	<u>1,708,000</u>	<u>69,000</u>	<u>108,500</u>	<u>95,000</u>	<u>55,000</u>	<u>327,500</u>	<u>2,035,500</u>
<u>Asia</u>							
Japan	130,000						130,000
Philippines	225,000						225,000
Bougainville	180,000						180,000
West Iran <i>Iran</i>		65,000				65,000	65,000
Other	75,000	57,000	21,000	39,000	4,000	121,000	196,000
Total	<u>610,000</u>	<u>122,000</u>	<u>21,000</u>	<u>39,000</u>	<u>4,000</u>	<u>186,000</u>	<u>796,000</u>
<u>Australia</u>							
	220,000	55,000		15,000	10,000	80,000	300,000
<u>Europe</u>							
Yugoslavia	145,000				75,000	75,000	220,000
Finland	35,000	7,000				7,000	42,000
Other	140,000	9,000				9,000	149,000
Total	<u>320,000</u>	<u>16,000</u>			<u>75,000</u>	<u>91,000</u>	<u>411,000</u>
Total Net Increase		<u>354,000</u>	<u>341,000</u>	<u>287,500</u>	<u>531,500</u>	<u>1,514,000</u>	
Total Free World Capacity	<u>6,887,000</u>	<u>7,241,000</u>	<u>7,582,000</u>	<u>7,869,500</u>	<u>8,401,000</u>		<u>8,401,000</u>
Percent Increase		5.1%	4.7%	3.8%	6.8%		5.1%

* Includes provision for

unannounced increases as follows:

United States
Canada
Mexico

30,000

37,500

60,000

37,500

120,000

PRODUCTIVE CAPACITIES

SCHEDULED FOR COMPLETION 1973 - 1976

(Short Tons - Annual Rate)

<u>Location/Company/Mine</u>		<u>Increase (Decrease)</u>	
	<u>United States</u>		
1973	Phelps Dodge - Bisbee	(22,000)	
	Newmont	25,000	
	Asarco - San Xavier	10,000	
	Earth Resources - Nacimiento	2,000	
	Cities Service - Copper Hill	4,000	
	- Arizona Mines	<u>(4,000)</u>	15,000
1974	Phelps Dodge - Metcalf	60,000	
	Anaconda - Arizona	30,000*	
	Asarco - Sacaton	21,000	
	Inspiration - Willow Springs	5,000	
	Cities Service - Pinto Valley	62,500	
	- Copper Cities	(25,000)	
	Ranchers - Old Reliable	<u>3,000</u>	156,500
1975	Hecla - Lake Shore		30,000
1976	Hecla - Lake Shore	30,000	
	Bagdad	<u>37,500*</u>	<u>67,500</u>
	<u>Total United States</u>		<u>269,000</u>

* Timing and tonnage uncertain. No definite plans yet announced.

Canada

1973	Gaspe - Murdochville	34,000
	Renzy	(2,000)
	Noranda - Horne	(10,000)
	Kam Kotia	(3,000)
	Coppercorp	(2,000)
	Sherritt Gordon - Ruttan	45,000

Location/Company/Mine	Increase (Decrease)	
<u>Canada (continued)</u>		
1973	Whitehorse Copper - Little Chief	12,000
	Western Mines - Myra Falls	5,000
	- Buttle Lake	(5,000)
	Hudson Yukon - Wellgreen	(2,000)
	Craigmont	<u>(3,000)</u>
		69,000
1974	Heath Steele - Little River	4,000
	Louvem	(3,000)
	NBU Mines - Sturgeon Lake	10,000
	Willecho/Willroy	<u>(1,000)</u>
		10,000
1975	Bethlehem - JA	25,000
	Icon Sullivan Joint Venture	(6,000)
	Falconbridge Copper - Lake Dufault	(5,000)
	Tribag - Batchawanna	<u>(3,000)</u>
		11,000
1976	Cominco - Valley*	
		<u>60,000</u>
	Total Canada	<u>150,000</u>
<u>Other North America</u>		
1973	Guatemala - Oxec	8,000
		8,000
1974	Mexico - Cananea	
		10,000
1975	Mexico - La Verde*	
		37,500*
1976	Mexico - La Caridad*	
		<u>120,000*</u>
	Total Other North America	<u>175,500</u>
<u>Peru</u>		
1975	Minero Peru - Cerro Verde	35,000
	- Tintaya	<u>25,000</u>
		60,000
1976	Southern Peru - Guajone	
		<u>140,000</u>
	Total Peru	<u>200,000</u>

* Timing and tonnage uncertain. No definite plans yet announced.

Location/Company/Mine	Increase (Decrease)
<u>Other South America</u>	
1974	Brazil - Caraiba Metais
	<u>35,000</u>
<u>Zambia</u>	
1973	Rokana Chambishi Luanshya - Baluba - Luanshya
	8,500 26,500 24,000 <u>(10,000)</u>
	49,000
1974	Chingola Kansanshi Luanshya - Luanshya
	40,000 16,500 <u>(10,000)</u>
	46,500
1976	Luanshya - Baluba
	<u>30,000</u>
	Total Zambia
	<u>125,500</u>
<u>Zaire</u>	
1973	Gecamines
	20,000
1974	Gecamines
	20,000
1975	Gecamines Sodimico - Kinsenda
	20,000 <u>75,000</u>
	95,000
1976	Gecamines Simico/Socatef - Tenke/Fungurume
	25,000 <u>?</u>
	<u>25,000</u>
	Total Zaire
	<u>160,000</u>
<u>South Africa</u>	
1973	Anglovaal - Prieska
	<u>25,000</u>
<u>Other Africa</u>	
1974	Botswana - Selebi/Pikwe
	<u>17,000</u>
<u>West Irian</u>	
1973	Freepport - Ertsberg
	<u>65,000</u>

Location/Company/Mine		Increase (Decrease)	
<u>Other Asia</u>			
1973	Turkey - Black Sea		44,000
1973	Israel - Timna	3,000	13,000
	India - Khetri/Kolihan	<u>10,000</u>	
1974	India - Khetri/Kolihan		21,000
1975	India - Rakha	6,000	<u>39,000</u>
	Malysia - Mamut	<u>33,000</u>	
1975	Iran - Qalhe Zaire		4,000
1976	Iran - Sar Chesmeh		<u>?</u>
	Total Other Asia		<u>121,000</u>
<u>Australia</u>			
1973	Peko - Warrego	10,000	55,000
	Mount Isa	<u>45,000</u>	
1975	Cobar - Chesney	5,000	15,000
	Pacific Copper - Cadia	<u>10,000</u>	
1976	Jododex		<u>10,000</u>
	Total Australia		<u>80,000</u>
<u>Yugoslavia</u>			
1976	Bor/Krivelj		<u>75,000</u>
<u>Finland</u>			
1973	Vuonos		<u>7,000</u>
Other Europe			
1973	Sweden - Aitik		<u>9,000</u>

OFFICE MEMORANDUM

File Commodities

TO: Mr. D. Avramovic

DATE: January 16, 1973

FROM: Robert D. Hunt ~~RN~~SUBJECT: Current and Forecasted Beef Prices

1. There are three beef price series currently in circulation. However, since 1970 all three series are identical being the Argentine: Chilled rump boneless, wholesale price, Smithfield Market, London. Those in the Blue Book and on the Pink Sheet are expressed in UK new pence per kilo while those in Mr. W. Tims' memorandum of January 9, 1973 have been converted into US\$ per kilo.
2. The price may appear a high price (\$2.53/Kg in 1972) but it must be remembered that chilled boneless rump is the second most expensive section of an Argentine beef carcass in the UK. The equivalent carcass price, as a rule of thumb, is approximately 50 per cent of the chilled boneless rump price.
3. The Argentine chilled rump boneless price in Smithfield has been in use in the Bank since 1970. Prior to that the price used was the Smithfield price for Argentine chilled hindquarters. Since livestock projects with a beef export component in them usually project beef exports in terms of tons carcass weight the UK price for Argentine hindquarters approximating the carcass weight price was particularly useful. However, the UK-Argentine trade in chilled hinds ceased in late 1969 due to the danger of transmitting foot and mouth disease from Argentina to the UK via bone-in beef. Similarly the chilled hind trade between West Germany and Argentina ceased in late 1970 so that the cif Hamburg price for chilled hinds could not be substituted for the UK price. As a result of this the Bank resorted to the Argentine chilled rump boneless price series. This has been found to have problems, principally in relating it to a carcass price. Furthermore the UK market is likely to undergo additional structural changes as the UK is phased into the EEC, which will result in its no longer being a representative international price. Therefore there is a need to develop a new price series for beef for use within the Bank.
4. I am endeavouring to find a more suitable international price series for beef preferably for carcass beef. I have written to the Commission of the European Communities to obtain some relevant cif price series. However, due to a continuing trend towards beef exports in boneless form for economic as well as hygienic reasons I rather doubt that I will find any current carcass price series. As I see it this leaves three alternatives; to construct a carcass price by weighting the market prices for different sections of the carcass by their contribution to carcass weight; or second to provide the projects people with the prices of these various sections and allow them to construct their own total value figures. The third alternative may be to use Australian producer prices, which are dead weight prices, adjusted for farmgate-fob and transportation differentials.

RDHunt:jmca

cc: Messrs. Baneth, de Vries, Please, Thompson, Qureshi, Darnell, Hendry, Moore, Hayes, Tims, Holsen, Price, Singh, Stevenson, Haq, Kuczynski, Varon, Van der Tak, Goreux.

OFFICE MEMORANDUM

File

TO: Listed Below

DATE: January 9, 1973

FROM: Wouter Tims

SUBJECT: Commodity Forecasts

1. The Commodities and Export Projections Division has prepared a revised set of forecasts for 36 major primary products exported by the developing countries. Price forecasts for 1980, together with selected historical data are shown in Table 1, the projected rates of growth in volume of exports for 1967-69 to 1980 are shown in Table 2 and aggregate rates of growth in value of exports for different sets of commodities, using 1967-69 value of exports as weights, are shown in Table 3.

2. Before these numbers are adopted for Bank use, we are keen to have your views on them. Therefore, we would appreciate if you could participate in a meeting on the subject at 10:30 a.m. on Wednesday, January 17, in Room D-556. The meeting would be open to senior economists and other nominees of the chief economists.

3. The commodity economists would be present at the meeting to explain the major assumptions underlying the forecasts.

Messrs. Avramovic, Baneth, de Vries, Please, Thompson, Qureshi
Darnell, Hendry, Moore

cc: Messrs. Hayes, Holsen, Price, Singh
Stevenson
Haq, Kuczynski, Varon
van der Tak
Goreux

EXPORTS OF THE DEVELOPING COUNTRIES

Table 1: COMMODITY PRICE FORECASTS

(In Current Dollars)

Commodity	Unit	1955	1960	Average 1967-69	1970	1971	1972 ^{1/}	Projected 1980 ^{2/}
Petroleum (Average realised Price Iran Light Crude 34° f.o.b. Kharg. Is.)	\$/bbl.	-	1.45	1.40	1.38	1.79 ^{1/}	1.85	2.14
Rubber (RSS1, spot New York)	¢/lb.	39.2	38.2	22.0	21.0	18.1	18.2	19.0
Sugar ("World", ISA Daily Price, f.o.b. Caribbean)	¢/lb.	-	-	2.3	3.7	4.5	7.3	8.5
(U.S. Preferential, f.o.b. Caribbean)	¢/lb.	-	-	6.5	6.9	7.4	8.7	10.5
Timber (average export unit value of broadleaf logs)	\$/m ³	21.7	22.6	24.9	25.5	-	28.0	35.0
Cocoa Beans (Acora, spot New York)	¢/lb.	37.4	28.5	36.4	34.2	26.8	32.3	31.0
Coffee (Guatemalan, Prime washed, spot New York)	¢/lb.	60.3	41.3	39.6	51.9	45.5	49.9	50.0
Tea (London Auction, average all teas)	¢/lb.	70.0	64.5	49.6	49.7	47.8	47.6	41.0
Abaca (Non-Davao J2, c.i.f. Europe)	¢/lb.	-	18.6	12.0	14.0	13.0	14.2	11.0
Cotton (Mexican S.M. 1 - 1/16", c.i.f. Liverpool)	¢/lb.	37.1 ^{3/}	27.3	30.1	30.7	35.5	37.5	29.0
Jute (Bangladesh, White D, f.o.b. Chittagong-Ghalna)	\$/LT	-	-	298.8	276.0	314.0	297.8	216.0
Sisal (East African Rejects, c.i.f. Europe)	\$/MT	-	256.3	170.8	151.8	170.0	234.5	173.0
Wool (56's clean, c.i.f. U.K.)	¢/lb.	100.2	88.9	78.8	66.4	62.3	99.9	71.0
Grain Sorghum (U.S. No. 2, Milo, Yellow, f.o.b. Gulf ports) ^{4/}	\$/MT	46.9	49.8 ^{5/}	49.0	56.9	52.1	58.1 ^{6/}	56.0
Maize (U.S. No. 2 Yellow, f.o.b. Gulf ports) ^{4/}	\$/MT	60.0	44.7 ^{5/}	50.9	63.4	52.3	57.8 ^{6/}	62.0
Rice (Thai, milled 5% broken, f.o.b. Bangkok)	\$/MT	141.5	138.0 ^{5/}	198.1	144.0	129.0	146.8	140.0
(Burmese, milled 42% br. f.o.b. Rangoon)	\$/MT	115.7	91.7 ^{5/}	131.7	100.0	86.8	92.0	90.0
Wheat (No. 1 Canadian Western Red Spring (CWRS), in store, Thunder Bay) ^{4/ & 7/}	\$/MT	64.3	65.1 ^{5/}	65.1	64.6	62.4	79.6 ^{6/}	65.0
Bananas (Ecuadorian, c.i.f. Hamburg)	¢/kg.	16.6 ^{8/}	13.3	12.7	14.4	14.0	13.7	16.5
Beef (Argentine, Chilled rump boneless, wholesale price, London)	\$/kg.	-	-	-	1.86	2.23	2.53	3.0
Hides and Skins (Argentine, Frigorifico Light, c.i.f. U.K.)	¢/lb.	-	20.2 ^{2/}	20.5	19.6	21.8	31.1	24.0
Fishmeal (Peruvian, c. & f. Hamburg)	\$/MT	-	116.0	115.0	197.0	167.0	235.0	200
Tobacco (India export unit value of flue-cured)	¢/lb.	28.6	36.6	42.7	45.6	48.5	48.5	53.0
Coconut Oil (Ceylon 1 1/2 c.i.f. Europe)	\$/LT	263.2	317.0	368.1	403.7	378.6	237.5	288.0
Copra (Philippines, c.i.f. Europe)	\$/LT	183.4	205.0	216.2	228.5	191.6	142.5	161.0
Groundnut Oil (Nigerian, c.i.f. Europe)	\$/LT	292.6	331.5	299.9	384.7	447.6	432.6	312.0
Groundnuts (Nigerian, c.i.f. Europe)	\$/LT	193.2	200.8	187.3	233.3	252.9	259.1	197.0
Linseed Oil (Argentine/any origin, c.i.f. Europe)	\$/LT	250.6	261.8	229.1	230.2	197.3	207.8	204.0
Palm Oil (Malayan, c.i.f. U.K.)	\$/LT	244.2	231.8	194.3	264.2	265.3	220.9	211.0
Copper (LME)	¢/lb.	43.9	30.8	58.0	64.1	49.0	48.8	65.0
Lead (LME)	¢/lb.	13.2	9.0	11.4	13.8	11.5	13.7	16.0
Silver (Handy & Harman, New York)	¢/Tr. oz.	89.1	91.4	182.9	177.1	154.6	167.8	300.0
Tin (LME)	¢/lb.	92.5	99.6	149.4	166.6	158.8	170.7	175.0
Zinc (LME)	¢/lb.	11.3	11.2	12.4	13.4	14.0	17.1	22.0
Bauxite (average Jamaica-Australia-Guinea export price)	\$/LT	7.0	7.0	8.4	8.8	9.4	9.5	10.0
Iron Ore (Swedish, c.i.f. Rotterdam)	\$/MT	13.1	11.5	8.5	9.3	10.5	10.7	11.0
Manganese Ore (46-48%, c.i.f. U.S.)	¢/LTU	92.4	88.5	64.7	55.3	63.8	64.5	75.0
Phosphate Rock (U.S. grade, 70-72%, carlots at mine)	\$/ST	5.2	6.0	8.2	7.7	7.3	7.3	9.0

Note: The projections assume that wholesale price indices will rise at 2.5 percent annually to 1975, except in Japan where the rate assumed for 1972-75 is higher (4.5 percent), and then globally at 2.25 percent annually to 1980; GNP deflators are assumed to rise 2.4 percentage points faster than wholesale prices.

^{1/} Partly estimated.

^{2/} Wherever applicable, prices for 1980 were converted to U.S. dollars at the rate of \$2.4 = L1 and rounded.

^{3/} Mexican S.M.1 - 1/32" (Matamores); S.M. 1 - 1/16" not quoted.

^{4/} Crop year July/June beginning year shown.

^{5/} 1960-62 average.

^{6/} July-December 1972.

^{7/} This quotation substitutes the one for Canadian No. 1, Manitoba, following the introduction of a new grading system in August 1972.

^{8/} 1956 average.

^{9/} 1962 Average.

EXPORTS OF THE DEVELOPING COUNTRIES

Table 2: FORECAST RATES OF GROWTH IN VOLUME

(percent per annum)

Commodity	Recent Historical Rate (years shown)	1967-1969 1980
Petroleum	11.0 (1958 to 1967-69)	8.2
Rubber	2.6 (1955 to 1968)	4.5
Sugar, Raw	1.7 (1958-60 to 1968-70)	1.6
Timber	18.0 (1953 to 1967-69)	7.4
Cocoa, Beans	2.9 (1946 to 1970)	3.5
Coffee	2.8 (1959-61 to 1967-69)	1.8
Tea	2.0 (1955-57 to 1967-69)	2.2
Abaca	-3.8 (1955-57 to 1966-68)	-3.0
Cotton	2.8 (1955-57 to 1966-68)	1.7
Jute	1.1 (1955-57 to 1966-68)	-3.4
Sisal	0.9 (1955-57 to 1966-68)	-3.9
Wool	1.2 (1955-57 to 1966-68)	1.0
Coarse Grains (maize and sorghum)	8.1 (1954-56 to 1962-64)	5.6
Rice	-2.0 (1958-60 to 1967-69)	3.0
Wheat	-4.2 (1954-56 to 1962-64)	5.0
Bananas	4.2 (1958-60 to 1967-69)	2.7
Beef	3.0 (1955-57 to 1965-67)	6.0
Hides and Skins	1.2 (1964-66 to 1969)	0.9
Fishmeal	14.2 (1961-63 to 1968)	1.0
Tobacco	0 (1961-63 to 1969)	2.3
Copra and Coconut Oil (in oil equivalent)	-0.3 (1954-56 to 1967-69)	4.0
Groundnuts and Oil (in oil equivalent)	3.5 (1950 to 1970)	1.5
Linseed and Oil (in oil equivalent)	-0.9 (1960 to 1970)	1.5
Palm Oil	2.9 (1960 to 1970)	13.0
Palm Kernels and Oil (in oil equivalent)	-2.1 (1960 to 1970)	2.7
Copper	4.5 (1952-54 to 1967-69)	6.0
Lead	-2.9 (1957-59 to 1967-69)	0.5
Silver		3.0
Tin	3.8 (1960-62 to 1968)	0.9
Zinc	-0.9 (1957-59 to 1967-69)	4.0
Bauxite	7.0 (1958 to 1968)	7.8
Iron Ore	8.8 (1957 to 1968)	5.6
Manganese Ore	4.0 (1959 to 1968)	4.0
Phosphate Rock	5.8 (1955 to 1968)	5.3

Note: The figures reflect the rates of growth in the exports of the developing countries only and not in world trade.

Source: Commodities and Export Projections Division
Economic Analysis and Projections Department

January 9, 1973

EXPORTS OF THE DEVELOPING COUNTRIES

Table 3: PROJECTED RATES OF GROWTH IN VALUE OF EXPORTS OF
PRIMARY COMMODITIES, 1967-69 TO 1980

Commodities ^{1/}	Growth Rate (Percent per year)
All Commodities	9.1
All excluding Petroleum	5.5
Agricultural only	4.3
Food	5.3
Sugar	7.4
Beverages	3.8
Cereals	4.4
Bananas	5.0
Beef	10.3
Non-Food	2.4
Fibers	0.7
Rubber	3.2
Fats and Oils	4.6
Hides and Skins	2.2
Tobacco	4.2
Non-Agricultural	11.5
Petroleum	13.3
Metals and Ores	6.7
Non-Ferrous	6.5
Others ^{2/}	7.3
Timber	10.5
Fishmeal	3.7

1/ Computations are based on a sample of 35 commodities using average value of exports in 1966-68 as weights.

2/ Includes phosphate rock.

Source: Commodities and Export Projections Division
Economic Analysis and Projections Department

January 9, 1973