



CONSULTATION ON NATURAL FIBRES

Salvador, Brazil 8-9 July 2003

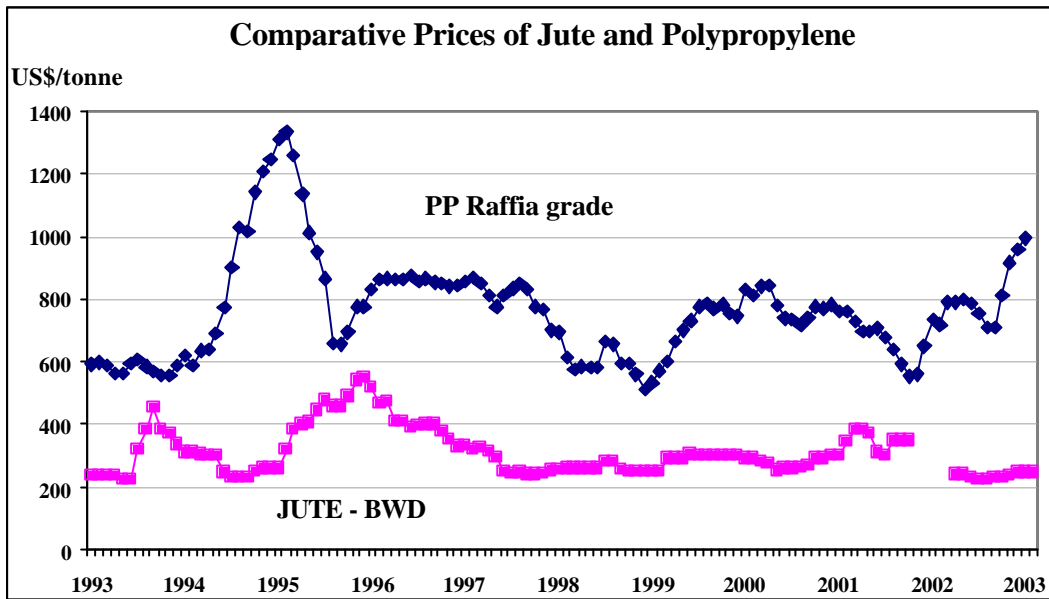
CURRENT SITUATION AND SHORT TERM OUTLOOK FOR JUTE, KENAF AND ALLIED FIBRES AND FOR HARD FIBRES¹

1. Jute, Kenaf and Allied Fibres

Jute prices continue to decline

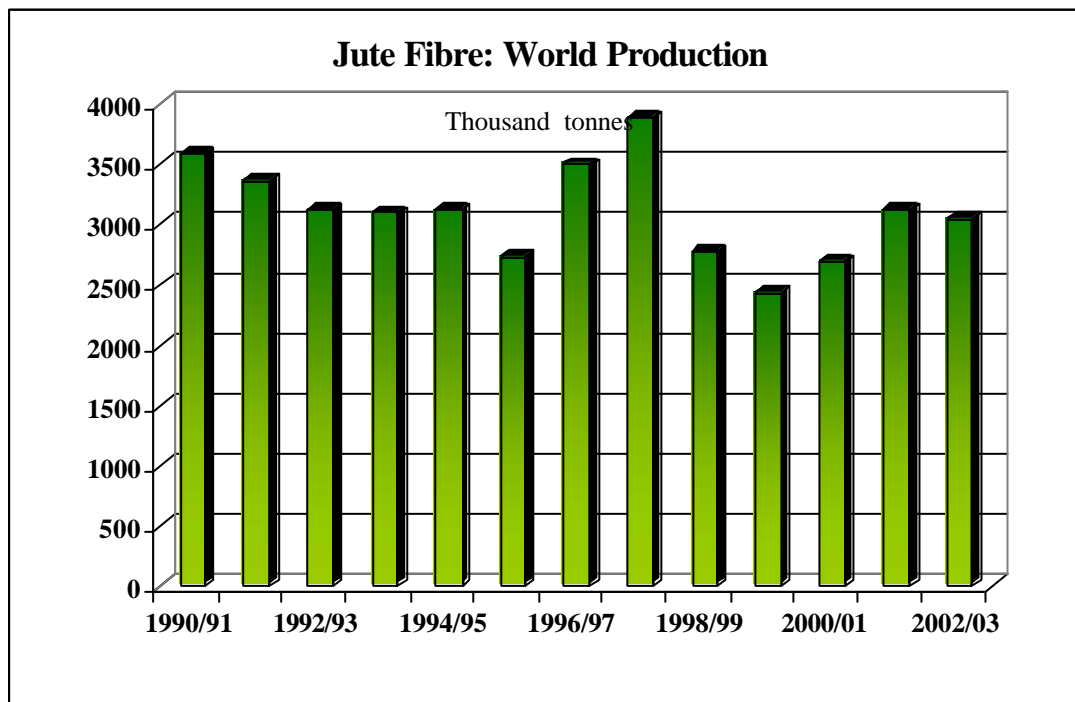
In calendar year 2002, jute fibre export prices declined by 25 percent as compared to the previous year to an annual average of US\$ 248.70 per tonne, a level far below the indicative price range agreed to during the last Session of the Intergovernmental Group on Jute, Kenaf and Allied Fibres in 2000. The decline to the lowest level of export prices in the last 20 to 25 years is the result of a record crop in India and a high level of global closing stocks for the 2001/02 season. Additional pressure on prices was exerted by the newly introduced administrative regulations that reduced the required shares of jute relative to synthetic fibres in food grade sacks. Between January and May 2003, jute fibre export prices declined by a further 3 percent from their 2002 annual average as available supplies continue to outweigh demand. For the rest of the year, and as more information about the possible decline in the 2003/04 production becomes available, it is expected that prices could strengthen since a reduction in output would imply a drawdown of stocks.

¹ This note is based on data contained in the tables of the Statistical Bulletin, ESC-Fibres Consultation No. 03/2



Global output declines in 2002/03

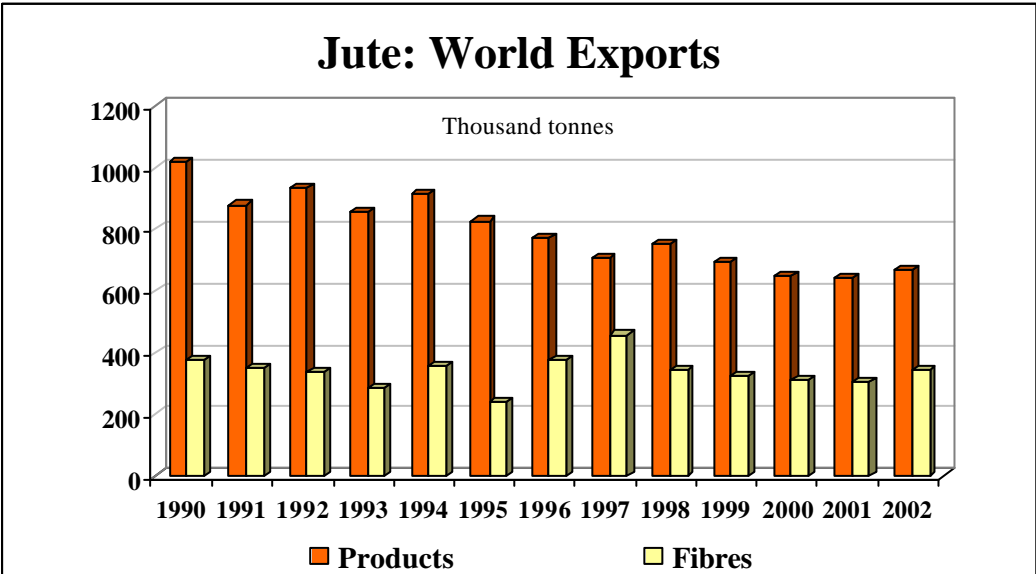
World production of jute, kenaf and allied fibres declined by 2.3 percent from the previous season to an estimated 3.05 million tonnes in 2002/03. The reduction in output was mostly due to a fall in jute production in some of the major producing countries. In Bangladesh, the second largest jute producer, production fell by 16 percent from the 2001/02 season largely due to unfavourable growing conditions and the impact on prices of high carry-in stocks from the previous season.



Lower production was also registered in China and Myanmar while output stagnated in Thailand and Vietnam. On the other hand, production in India, the world’s largest jute producer, reached the highest level of the last 30 years. In addition to favourable growing conditions, the crop expanded onto land switched from rice to jute by a number of farmers in some of the major producing states. However, output gains by India were not enough to compensate for reduced production in many of the other major producing countries. In general, the combination of low prices of raw jute and lower or stable production in many of the producing countries, other than India, contributed to a significant decrease in jute-related farm income in those countries.

Expanded international trade in jute in the 2002/03 season

Global trade in jute, kenaf and allied fibres is estimated to have increased by about 14 percent from the previous season reaching the highest level in five years. This is largely attributed to increased production and carry-in inventories in the major supplying countries along with strong demand from the importing countries. In addition, the lower jute prices relative to those of competing fibres have contributed to its increased competitiveness and, therefore, trade. With regard to exports, shipments from Bangladesh, the world’s leading supplier, are estimated to have expanded by over 20 percent compared to the previous season. As far as imports are concerned, the estimated increase in import demand from some countries is expected to more than compensate for the anticipated reduction in others thereby leading to an increase at the global level. On the manufactured products side, world exports are expected to recover from the 2001/02 trough, as exports from India, traditionally the second largest supplier of fibre products, are forecast to expand by over 22 percent, offsetting decreases and stagnant export growth of most of the other countries, including Bangladesh – the largest exporter of fibre products. For most of the exporting countries, with the exception of India, the combined effect of reduced export volumes and relatively stable product prices is expected to result in depressed export earnings.



Continuing accumulation of stocks

Carry-over stocks, especially of raw jute, in the major producing countries expanded by over 50 percent in the 2001/02 season, and are expected to continue to expand in 2002/03, albeit at a lower rate reflecting a decline in production. Stocks in Bangladesh could decline, given a 16 percent fall in domestic output and a 2 percent expected increase in exports, while in India end-of-season stocks in June 2003 are likely to reach a near record level of 542 000 tonnes.

Possible reduction in jute production in 2003/04 points to some market recovery

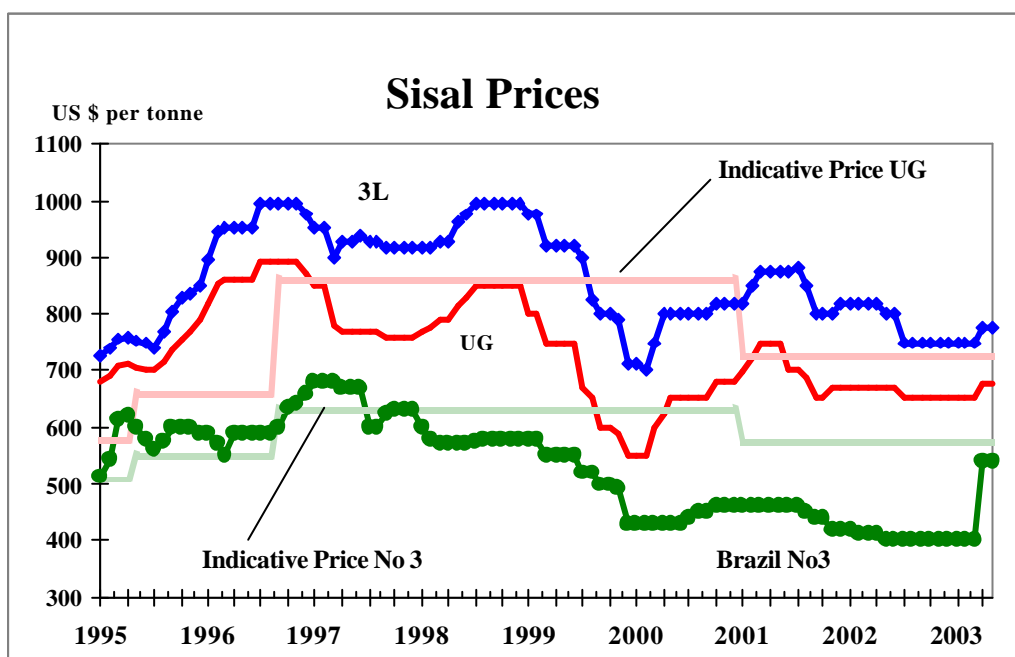
While it is still too early to gauge the likely outcome of the 2003/04 output, the information currently available from the major producing countries points to a likely decline in world production of jute, kenaf and allied fibres. This is largely attributed to high stock levels that have contributed to depressed prices. In India, the prevailing low market prices vis-à-vis cost of production could lead to a 30 percent reduction in the area sown to jute. Likewise in Bangladesh, the area planted to jute is reported to be down by about 10 percent. The intensity, timing and distribution of the monsoon rains will also influence the final production outcome.

The combined impact of the projected global output decline for the 2003/04 season and some modest increase in utilisation based on continued demand growth from the sackings sector could be to produce a turn-around in stock levels and prices. Some strengthening of prices could put an end to two seasons of falling prices, while the level of stocks might be expected to show some contraction by the end of June 2004. However, petrochemical groups in India are lobbying the government to reduce sales tax on plastic materials. Such a development, if it occurred, would have a price moderating effect due to increased competition.

2. Sisal and Henequen

Prices of sisal and henequen to recover in 2003

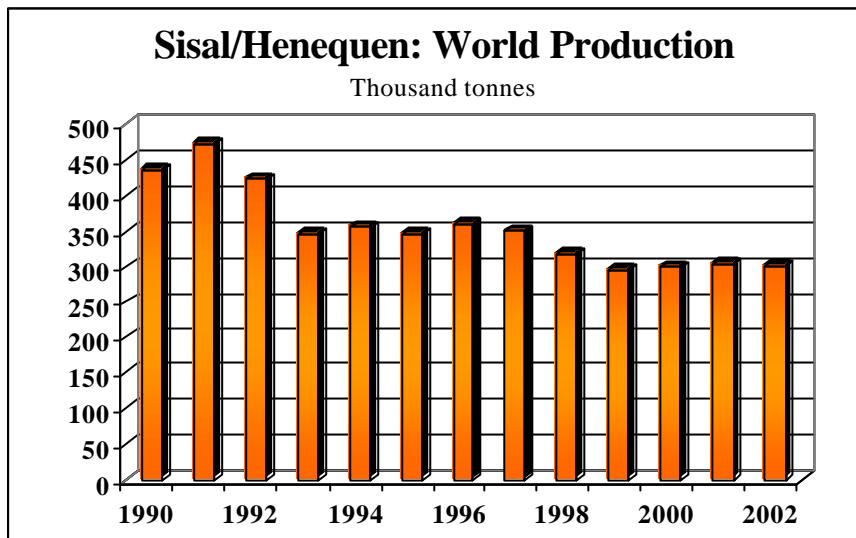
The global market for sisal continues to tighten as available supplies are not enough to meet current demand. As a result, the declining price trend, which has been evident since the latter part of 2001 is expected to be reversed in 2003. Evidence of the tight market conditions was observed in Brazil, the world's largest supplier, where the first few months of 2003 were characterised with increased competition between domestic and export markets for the limited supplies thereby pushing prices even higher. The release of government stocks onto the market through auctions did not do much to satisfy the prevailing demand. The situation has not been much different with the African suppliers. The general market tightening is a consequence of a decline in production growth rates vis-à-vis utilisation, and this became apparent towards the end of 2002. In some cases, prices have received extra upward support due to stock holding by some sellers in expectation of even higher prices in the near future. It should be pointed out that while the increased use of forward contracting, especially in the African market, could help reduce price volatility during the year, the prevailing market fundamentals are such that prices could stabilise at levels higher than those observed in 2002. For baler twine, prices in the European and United States markets have shown some firming in 2003.



Global sisal and henequen production to increase modestly in 2003

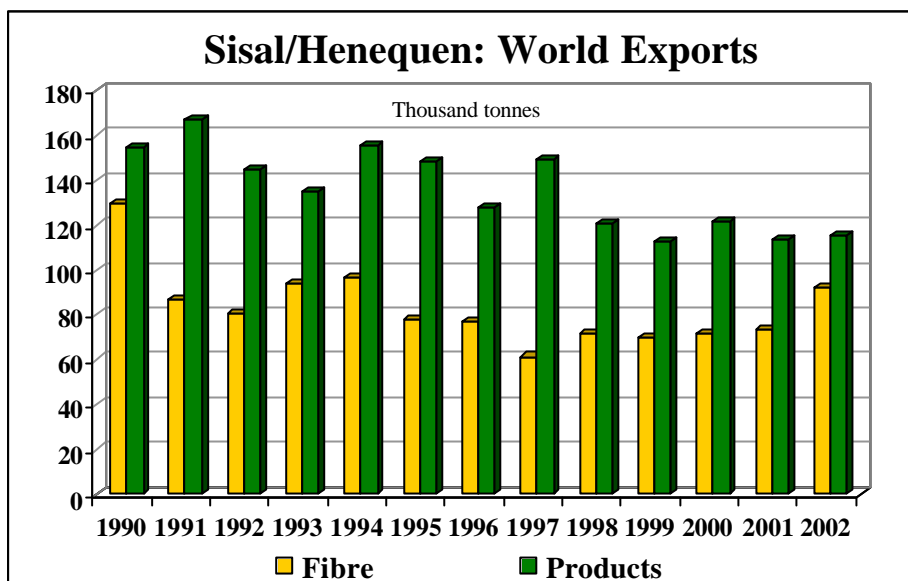
World production for the current season is tentatively expected to show a slight expansion from the previous year's level. This, however, assumes an improvement, compared to last year, in growing conditions in many of the producing countries. Most of the major producing countries, apart from Kenya and Tanzania, suffered reduced yields in 2002 due to lack of sufficient rains during the growing season. This was more pronounced in Brazil, the largest producer, and Madagascar. Given

the current tightness in the global market, any weather anomalies which reduce output in any of the major producing countries could lead to an increase in prices.



Trade in sisal and henequen to increase in 2003

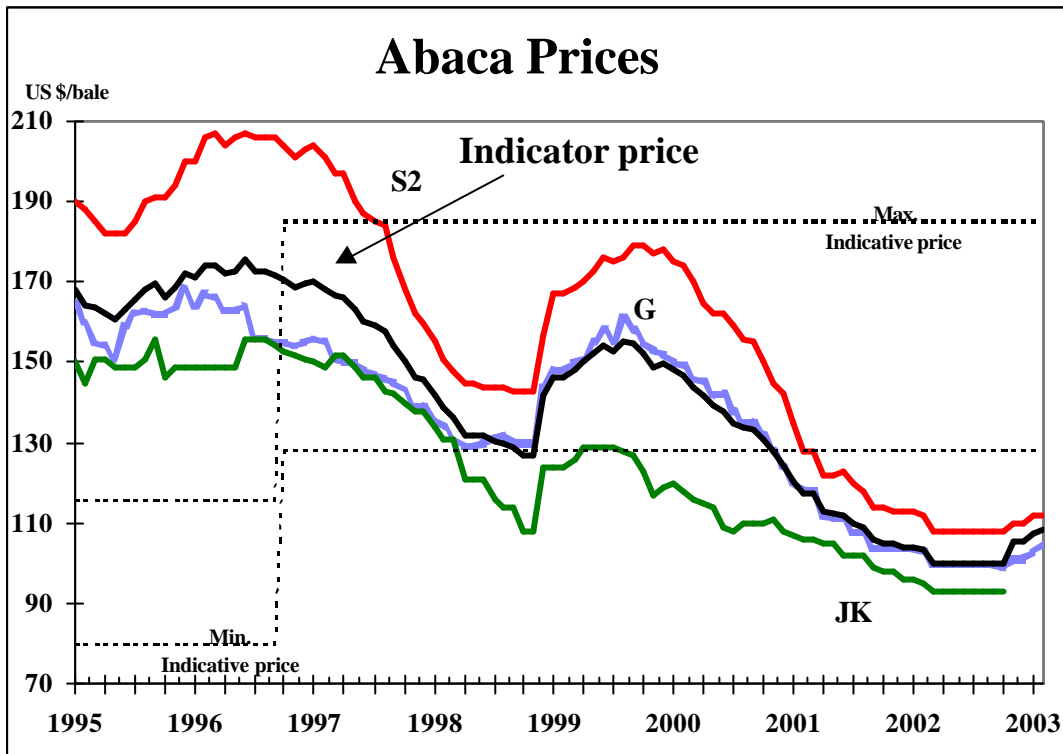
International trade in sisal and henequen fibres is expected to continue its upward trend in 2003, due to increased import demand, especially from China. On the export side, volumes from Brazil, Kenya and Tanzania - the three largest global suppliers - are forecast higher than the previous year, assuming that production increases. Stock liquidation in Brazil will also contribute to the expected increase in the 2003 trade volume. While Kenya and Tanzania export most of their production as raw fibre, the proportion is much lower for Brazil whose exports are mostly dominated by cordage. With regard to products, global trade, especially of cordage, is expected to increase. Import demand from North America and Europe - which together account for about 70 percent of the import market - continues to recover from the 2001 slump. Brazil continues to dominate the export market for manufactures as domestic processing capacity is expanding at a fast rate. This is partly due to the relocation of processing plants from Portugal to Brazil.



3. Abaca

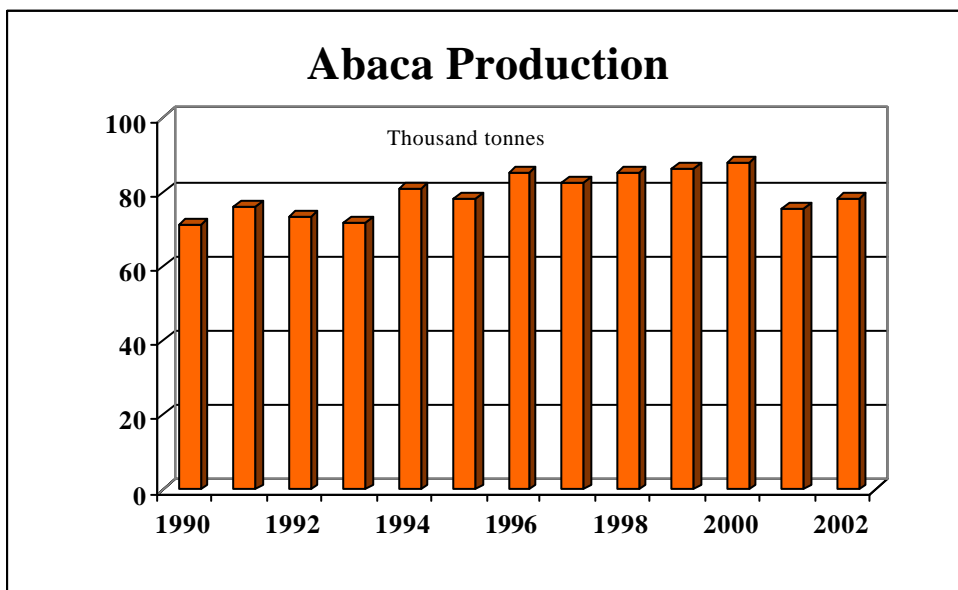
Abaca prices could recover in 2003

Based on information currently available, the 2003 abaca fibre export prices are expected to recover from three consecutive years of declining trend. The turn-around in prices actually started towards the end of 2002 when it became clear that the supply and demand situation was beginning to tighten relative to demand. This follows the oversupply conditions of recent seasons that depressed prices. As a result of several seasons of low prices, a number of small farmers switched to the more remunerative crops. The consequent contraction in supplies relative to demand became evident towards the end of 2002. The previous three years had been characterised by faster growth in production vis-à-vis utilisation and this led to an accumulation of stocks. In 2002, abaca fibre export prices declined by about 7 percent, continuing the trend of the 2001 and 2000 seasons when prices fell by 16 percent and 9 percent respectively.



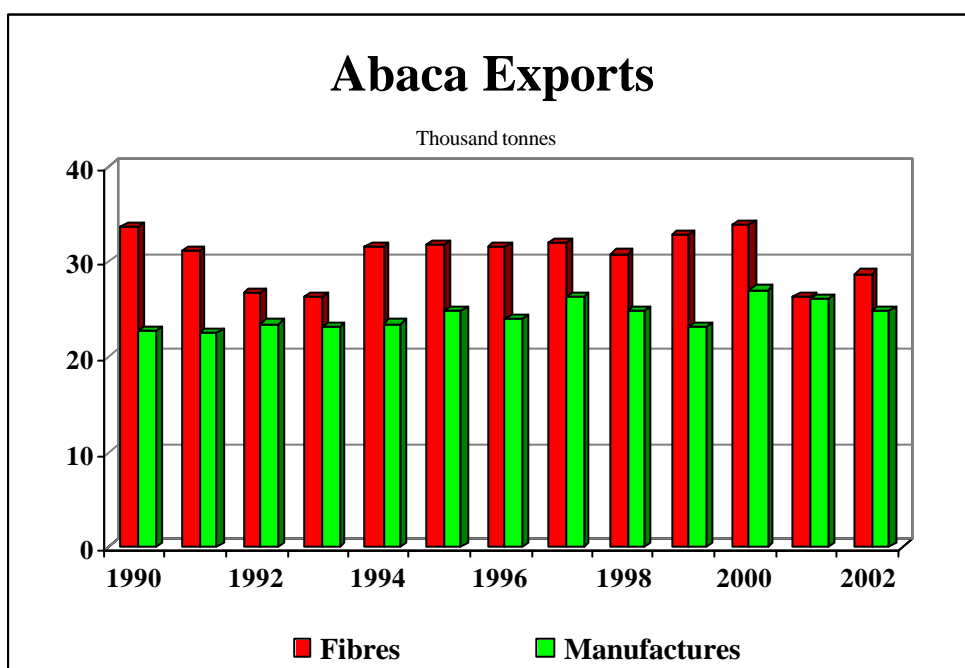
Global abaca production to increase in 2003

World production of abaca is forecast to expand as both the Philippines and Ecuador are expected to harvest larger crops. The two countries combined account for over 95 percent of total global production. The final outcome, however, will largely depend on growing conditions in the Philippines, the world's largest producer. While the last three seasons have generally experienced favourable weather conditions, any negative impacts on the current season's production would imply additional upward pressure on prices.



Trade in abaca fibre and manufactured products to expand in 2003

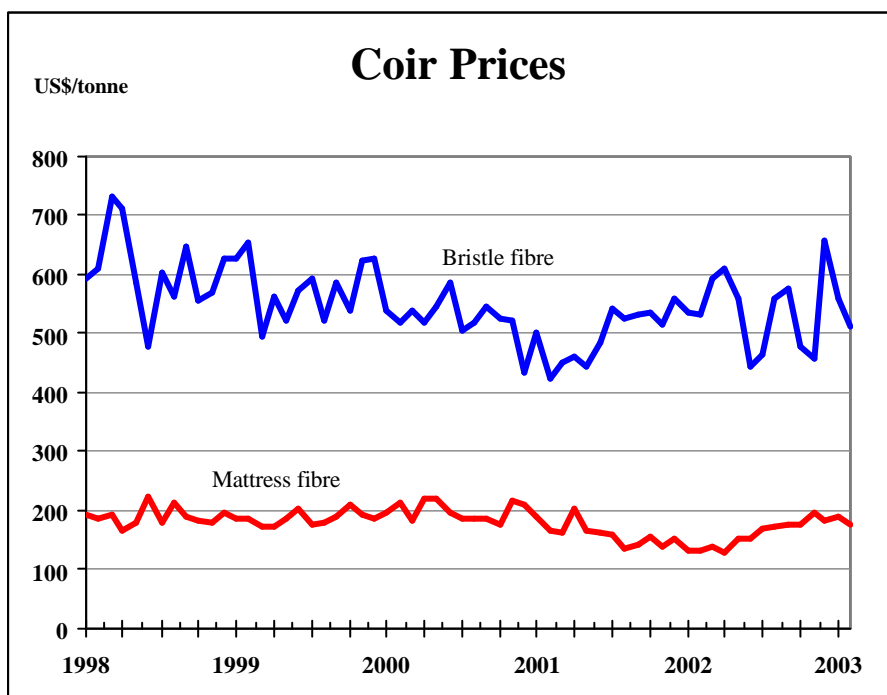
In 2003, international trade in abaca fibre is forecast to rise due to increased purchases by European countries, especially the United Kingdom which has been importing more since some pulping operations were shifted from the United States to the United Kingdom. In spite of this anticipated increase in global fibre trade, the volume remains below the level recorded during the period 1990-2000. The contraction in 2001 is attributed to a decline in import demand especially from the United States and Japan. With regard to products, cordage is expected to recover from two successive years of declining trade, while volumes of pulp traded could also rise, reflecting increased demand from the major importing countries.



4. Coir

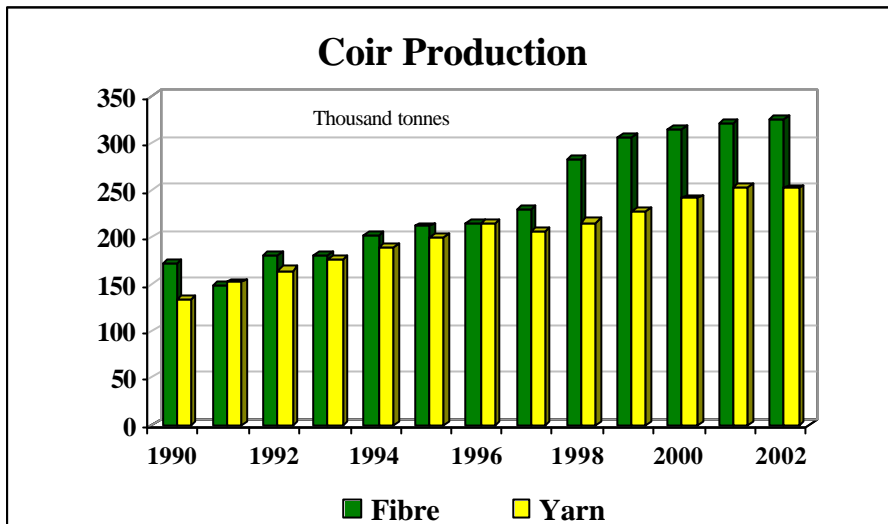
Coir prices to continue to recover

Export prices for coir fibre and coir-based products during 2003 are forecast to maintain the upward momentum that started towards the end of 2002, largely due to increased import demand from the United States and European countries – traditionally the major buyers. In particular, prices for mattress and bristle fibres could see the most gains as demand for these products seems to be increasing faster than supplies. It is expected that, as the global economic situation continues to improve, additional demand could lead to a further strengthening of prices.



Coir production to increase in India and Sri Lanka

India and Sri Lanka account for the biggest proportion of global coir fibre production. Based on available information, the indication is that output in Sri Lanka could increase for the second consecutive season after remaining stable for several years. The output expansion is in response to higher demand and better prices. Production in India, the world's largest producing and consuming country, could stabilise at the previous season's level.



Trade in coir and manufactured products could show a marginal increase in 2003

The international trade for coir fibre and related products is dominated by Sri Lanka and India on the export side and United States and the European countries on the import side although Japan and China are also big fibre buyers. While Sri Lanka exports mostly fibre, India's exports are largely dominated by manufactured products. Fibre exports, especially from Sri Lanka, are expected to expand in 2003, continuing with the previous season's trend. With regard to coir manufactured products, export shipments from India during the first few months of 2003 showed an increase vis-à-vis the same period in 2002 and are expected to remain at a higher level through the rest of the year.

