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COMMITTEE ON COMMODITY PROBLEMS

JOINT MEETING OF THE THIRTY-EIGHTH SESSION OF THE INTERGOVERNMENTAL GROUP ON HARD FIBRES AND THE FORTIETH SESSION OF THE INTERGOVERNMENTAL GROUP ON JUTE, KENAF AND ALLIED FIBRES

Bogota, 25 – 27 November 2015

CURRENT MARKET SITUATION AND MEDIUM TERM OUTLOOK FOR JUTE AND KENAF; SISAL AND HENEQUEN; ABACA AND COIR

I. INTRODUCTION

This document provides an analysis of recent developments in the JACKS¹ market and prospects in the medium term. Data used in the assessment of the current market situation and for generating projections to 2024, was compiled from the response to the annual JACKS questionnaires.

It must be emphasized to delegates, that despite pledges from each Intergovernmental Group (IGG) member, the responses received to the questionnaire remain extremely poor. Major gaps in data provided to the Secretariat are a major concern, particularly for jute and coir, as well as sisal prices. For the first time in its history, the Secretariat was not able to prepare the statistical compendium for the hard fibres, jute, kenaf and allied fibres before the Joint Meeting of the IGGs because data was incomplete. It is extremely difficult to analyze the market because of lack of accurate data and this situation was compounded when trying to generate projections for the next 10 years. Nevertheless, the Secretariat has endeavoured to produce a CRS² document based on available data for both the current situation and medium term outlook and delegates are invited to supplement information pertaining to their countries. Tables used in the Secretariat's analysis are tabled in document CRS 3 for perusal and correction by delegates.

II. WORLD PRODUCTION AND PRICES

Global production of JACKS fibres increased by 1.6 percent to 4.37 million tonnes in 2014, compared to output levels in 2013. Jute and kenaf accounted for the largest share of production, followed by coir, sisal and similar fibres such as henequen and fique, and abaca (Fig.1).

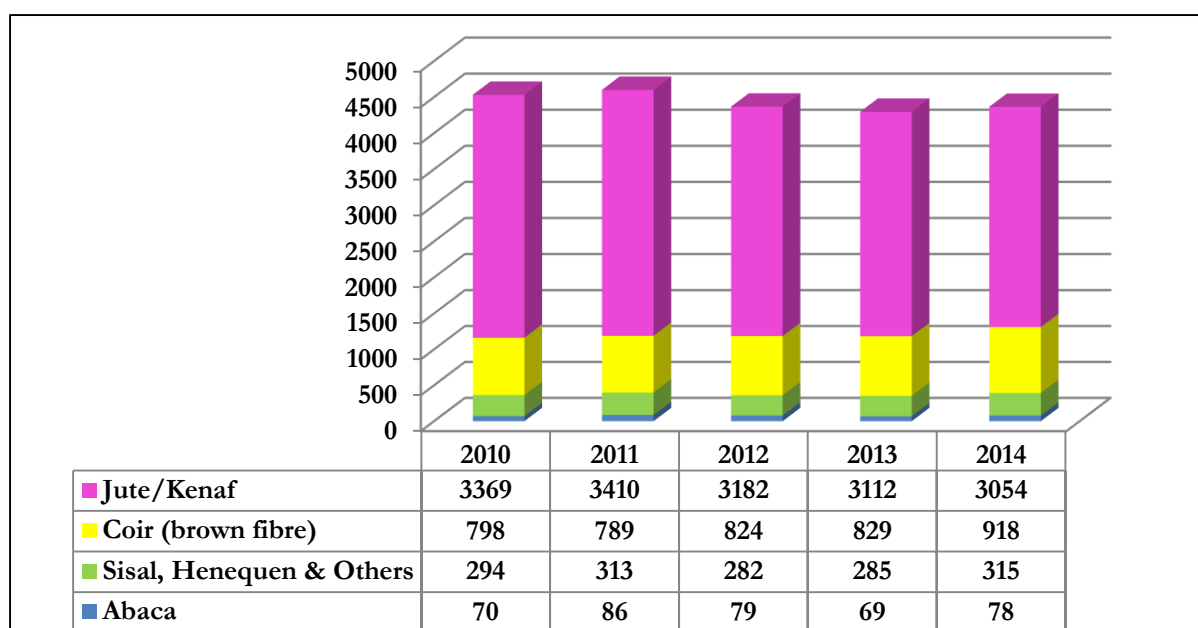
¹ Jute, abaca, coir, kenaf and sisal.

² Conference room series

A. Jute and Kenaf Production

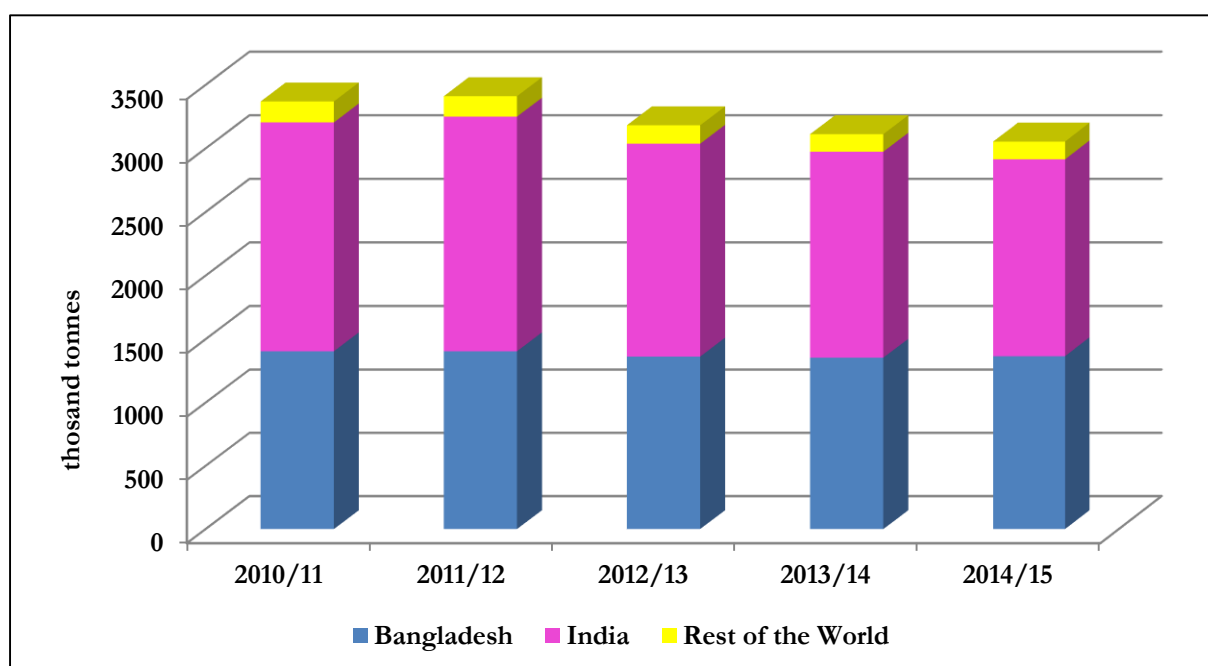
Jute and kenaf production declined slightly in 2014/15 reaching 3.05 million tonnes compared to 3.11 million tonnes in the previous season. Moreover, output was still slightly lower than the 3.41 million tonnes and 3.18 million tonnes reached in 2011/12 and 2012/13, respectively, due to heavy rainfalls and little sunshine in the major producing countries, namely Bangladesh and India (Fig.2).

Figure 1 – World JACKS Production (Thousand tonnes)



Source: Secretariat FAO IGGHF/JU

Figure 2 – Jute and Kenaf Production (thousand tonnes)

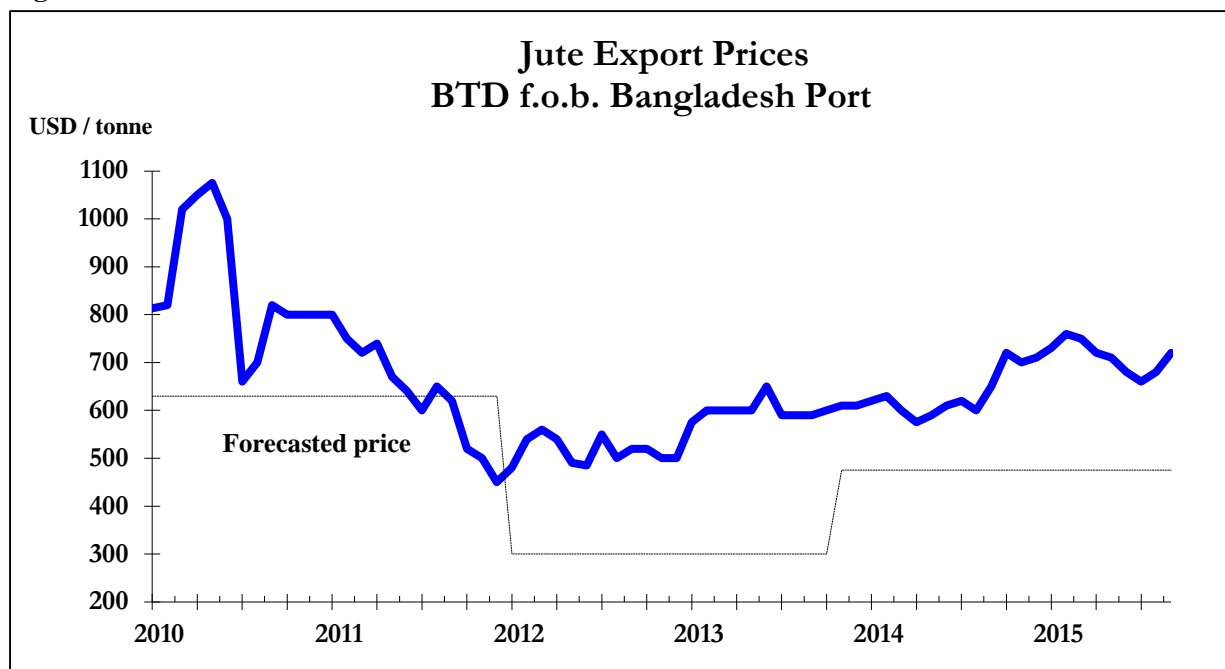


Source: Secretariat FAO IGGHF/JU

B. Jute prices

After recovering in 2013, prices increased steadily from the last quarter of 2014 to April 2015, when they reached 720 USD per tonne, and currently remain high compared to the 2011-2014 average (Fig 3).

Figure 3.



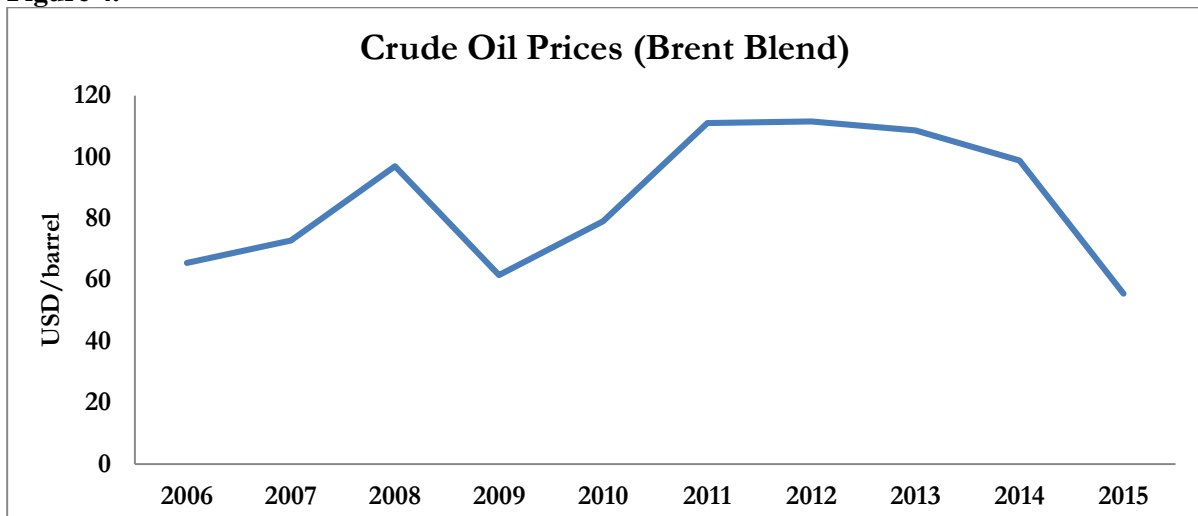
Source: Secretariat FAO IGGHF/JU

Market position of competing synthetics

Generally, prices of polypropylene (the main synthetic petroleum-based fibre competing with natural fibres in various applications) follow crude oil prices, though the extent of upward or downward variation depends on competitive conditions in individual markets. For example, in markets where PP fabrics are in close competition with jute fabrics, upward movements in crude oil prices tend to be absorbed with very little impact on the price of PP fibre applications.

Crude oil prices have continued to decrease steadily since 2012. Between December 2014 and September 2015 prices of crude oil rapidly dropped to less than half 2011 levels (Figure 4). Under these circumstances, it would appear that the underlying trends in competition between natural and synthetic fibres have resumed in favour of the latter. The price levels at which competition takes place more closely, the first stage of processing, reflect the true economic costs of crude oil-based products

Figure 4.



Source: Secretariat FAO IGGHF/JU

C. Jute Trade

World exports of jute goods declined by about 10 percent in 2014/15 compared to levels attained in 2013/2014, while total exports of jute fibre remained stable compared to the previous year (Fig. 5). However, there was a slump of 44 percent in jute fibre exports compared to 2012/2013 as a restriction on exports to increase domestic value addition was introduced culminating in a total ban in 2015.

Bangladesh dominates world exports of jute, accounting for about 84 percent of world exports of raw jute and nearly 80 percent of jute goods in 2014/15.

India is also a significant exporter of jute goods despite its huge domestic demand. However, during the current period, India's jute goods exports declined by nearly 40 percent, accounting for some 10 percent of global shipments. Exports from Nepal, the third largest exporter of jute goods, have remained steady.

Figure 5.



Source: Secretariat FAO IGGHF/JU

Imports of raw jute in 2014 declined by 16 percent from 2013 totaling 265 700 tonnes (Fig. 6). Global import data are reported on a calendar basis rather than on a crop year leading to differences with export levels owing to *leads and lags*. Asia accounted for nearly 80 percent of raw jute imports, totaling 210 400 tonnes, with Pakistan, the major importer in 2014, followed by Nepal. India and China both registered sharp decreases of 17 and 44 percent to only 44 095 and 33 700 tonnes respectively.

World imports of jute goods in 2014 amounted to 967 800 tonnes, reflecting a significant rise in comparison with the average for the last decade of nearly 600 000 tonnes. The Near East remained the largest importing region, with Turkey, the major market showing steady growth. Imports into Asia, the second largest importing region, decreased by 12 percent, mainly due to Indian import restriction of Bangladesh products. Other smaller markets for jute goods include the EU, Africa and North America.

Figure 6.



Source: Secretariat FAO IGGHF/JU

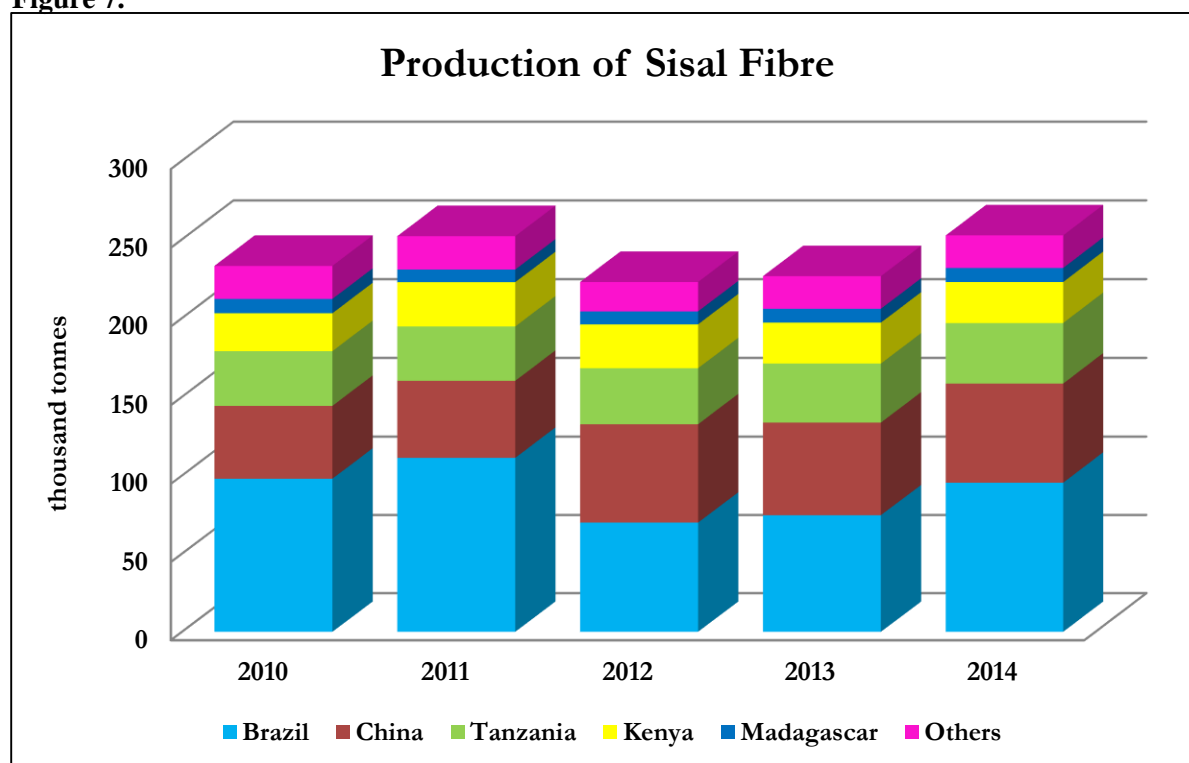
D. Sisal and Henequen Production

World production of sisal, henequen, fique and other hard fibres reached 315 240 tonnes in 2014, up 10 percent from 2013, mainly due to some recovery in supply shortfalls due to adverse weather particularly in Brazil.

World production of sisal continues to be dominated by Brazil in 2014, accounting for 38 percent of the global total; followed by China (25. percent); Tanzania (15 percent); Kenya (10 percent); Madagascar (4 percent); and other countries (8 percent). Sisal production in Brazil was 95 400 tonnes in 2014 slightly recovering from the 37 percent drop since 2012 due to drought. Similarly, output in Tanzania, which fell to 21 100 tonnes in 2009 due to adverse weather conditions, steadily recovered to 38 500 tonnes in 2014 (Fig. 7).

Production of henequen, which is dominated by Mexico, increased slightly to 26 900 tonnes in 2014, while fique production in Colombia was around 20 000 tonnes in 2014.

Figure 7.

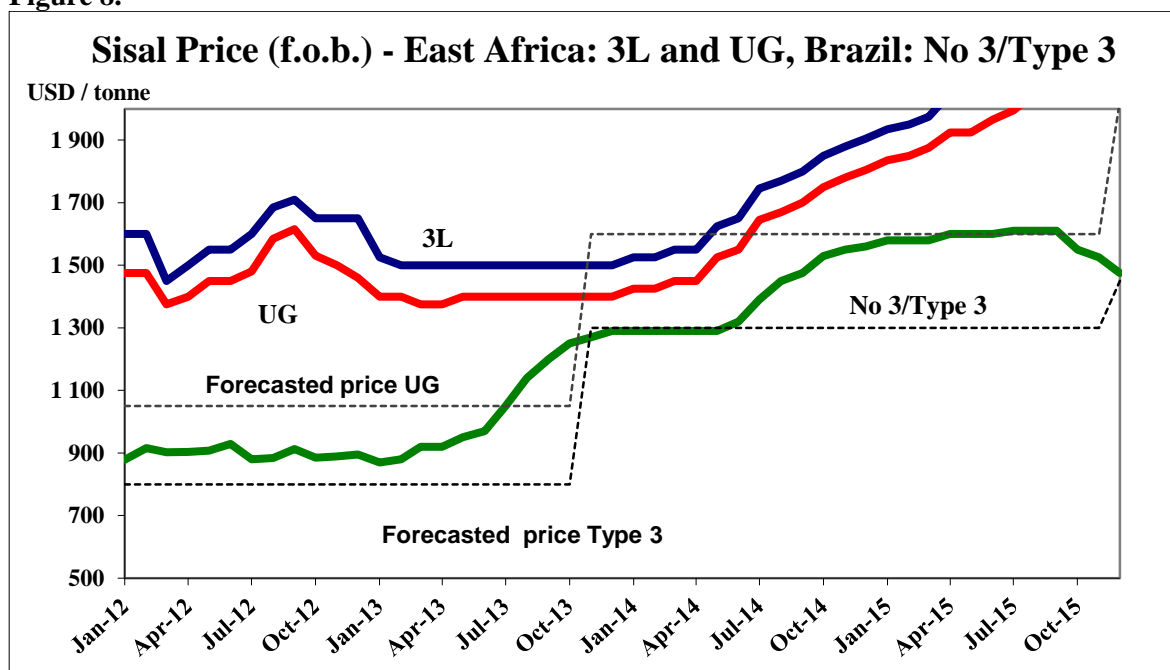


Source: Secretariat FAO IGGHF/JU

E. Sisal Prices

Sisal prices continued to increase in 2014 and 2015 as supplies have not reached pre Brazilian shortfall levels caused by adverse weather in 2012 and 2013. East African prices reached an average of USD2069 per tonne for 3L and USD1952 per tonne in 2015, and their highest level in September 2015, when they reached, respectively, USD2275 per tonne and USD2150 per tonne. Although an increase in price was forecast due to adverse weather in Brazil, the drought proved to be more severe than expected and coupled with the devaluation of the REAL, prices have reached unsustainably high levels since the second half of 2013. Brazilian sisal prices have increased from an average of USD1059 per tonne in 2013 to an average of about USD1394 per tonne in 2014, and USD1600 per tonne in 2015.

Figure 8.



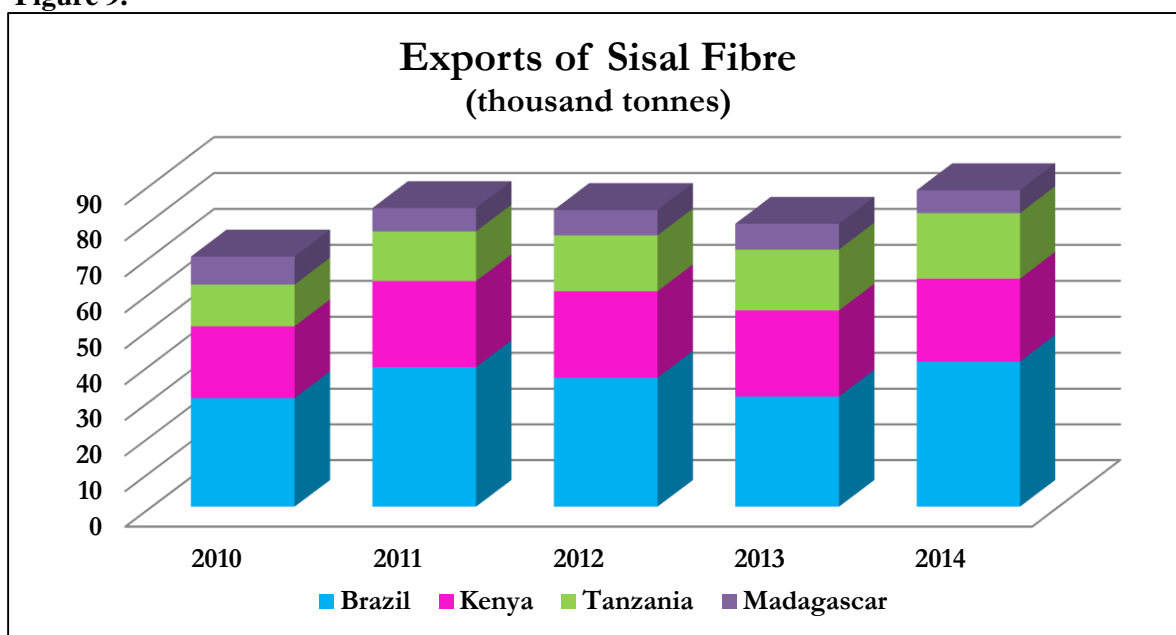
Source: Secretariat FAO IGGHF/JU

F. Sisal Trade

Exports of sisal fibre was about 96.2 thousand tonnes in 2014, a 12 percent increase from the previous year, while exports of sisal manufactures in 2014 declined by 11 percent, significantly less by about 35 thousand tonnes, than the over 100 000 tonnes averaged at the beginning of the decade. The situation in Brazil is unclear and the delegation is kindly requested to elaborate.

Tanzania exports of sisal manufactures declined slightly in 2014 but, exports of sisal fibre actually increased by 8 percent in 2014, reaching 18 250 tonnes for reasons that are not clear and which the delegation is requested to elaborate.

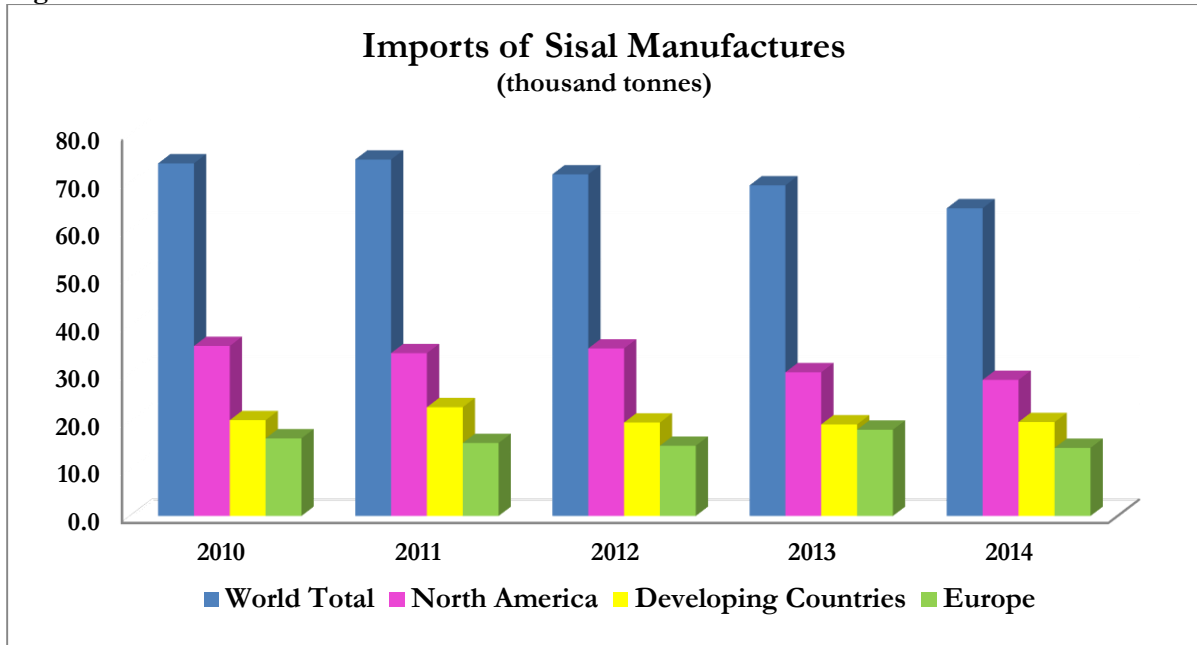
Figure 9.



Source: Secretariat FAO IGGHF/JU

World imports of sisal manufactures steadily declined to 64 300 tonnes in 2014, with the US remaining the largest importer followed by the EU (Fig 10).

Figure 10.

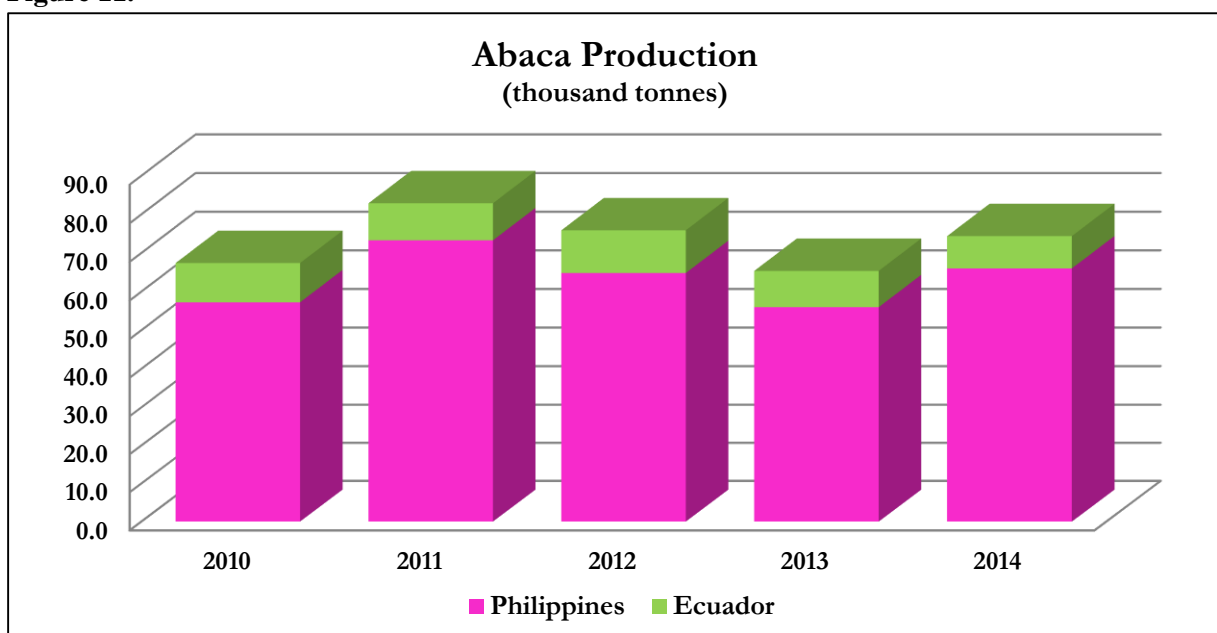


Source: Secretariat FAO IGGHF/JU

G. Abaca Production

Production of abaca fibre increased to 77 520 tonnes in 2014, driven by the recovery of the Philippines abaca industry. The delegate from the Philippines is invited to elaborate on the factors underpinning this development (Fig. 11).

Figure 11.



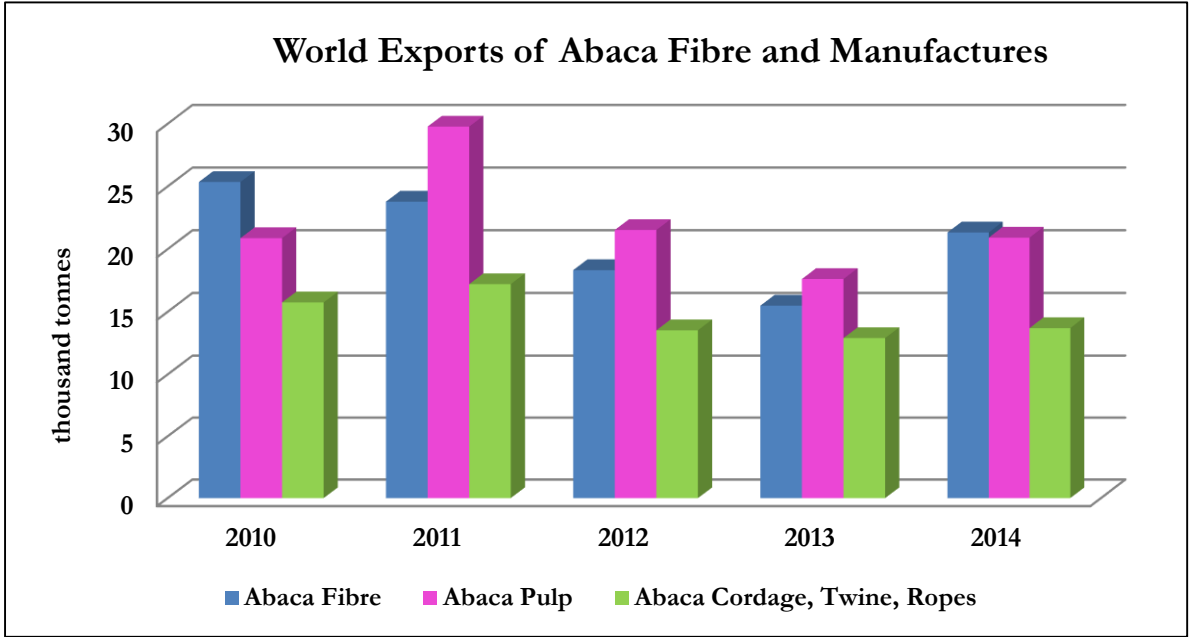
Source: Secretariat FAO IGGHF/JU

H. Abaca Trade

Abaca fibre remains largely for domestic consumption in the Philippines, while Ecuador exports the raw fibre produced. Exports of abaca fibre and manufactures declined significantly between 2011 and 2013 reflecting the global weakening in demand but recovered in 2014.

The main destinations of abaca exports vary by product. The European Union, Japan and China are the largest importers of abaca fibre, accounting for 94 percent for the total in 2014. The United Kingdom and Germany remain the top destinations for pulp. For cordage, the USA accounts for 47 percent of the total market in 2014.

Figure 12.

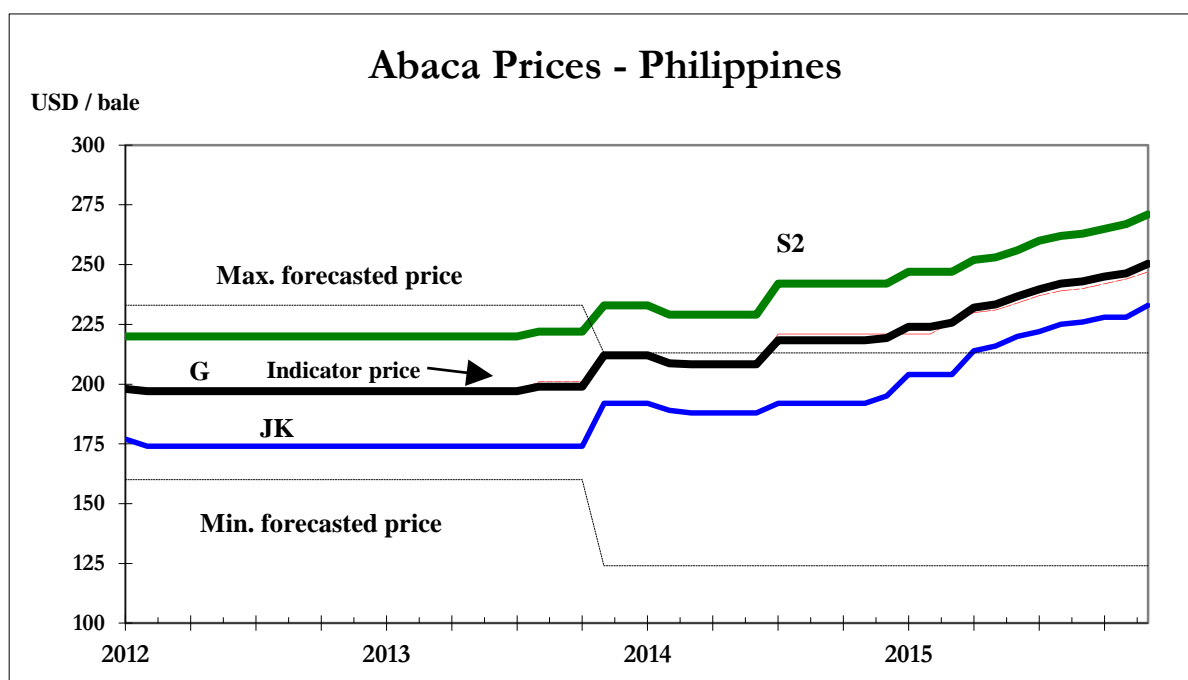


Source: Secretariat FAO IGGHF/JU

I. Abaca Prices

After sharply increasing in the second half of 2013, abaca prices declined slightly in the first half of 2014, before increasing steadily again until September 2015, almost reaching peak price levels attained in 2008 (Fig. 13).

Figure 13.

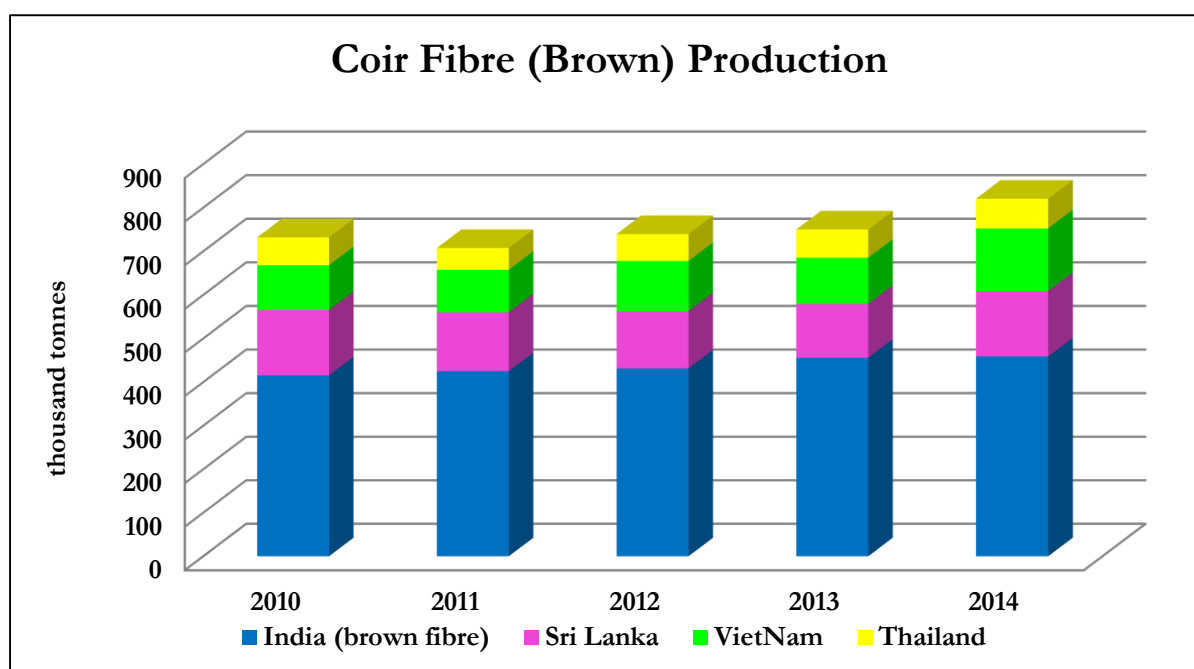


Source: Secretariat FAO IGGHF/JU

J. Coir Production

Global production of brown coir fibre increased by 11 percent to reach 918 300 tonnes in 2014. India accounted for nearly 50% of the total. Increases were also recorded by Sri Lanka (35 percent), Vietnam by 22 percent and Thailand grew by 5 percent. India also produced 81 000 of white fibre (Fig.14).

Figure 14.

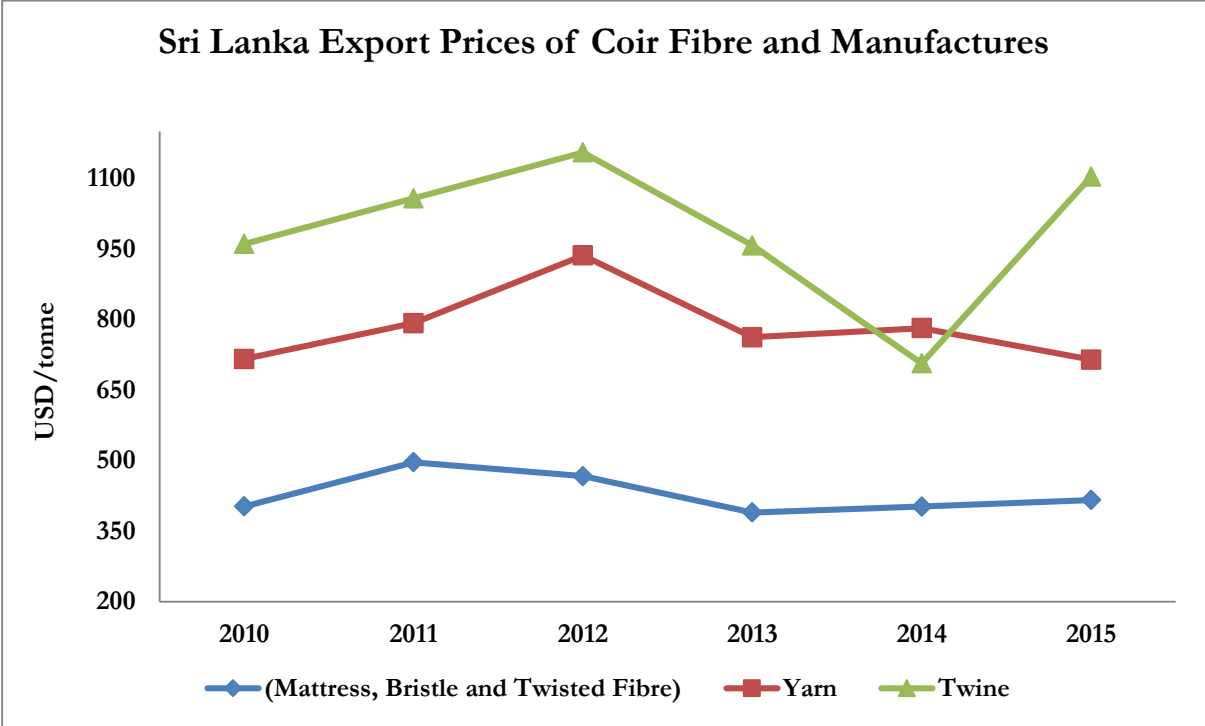


Source: Secretariat FAO IGGHF/JU

K. Coir Prices

Coir prices have been mixed in the last 5 years. Twine prices increased from 2010 to 2012 before declining sharply to 2014 before recovering to 2012 levels in 2015. Yarn prices followed a similar trend, albeit not as volatile as twine prices, but kept on declining in 2015, while mattress, bristles and twisted fibre prices after declining from a peak in 2011 remained relatively stable since 2013 (Fig. 15).

Figure 15.



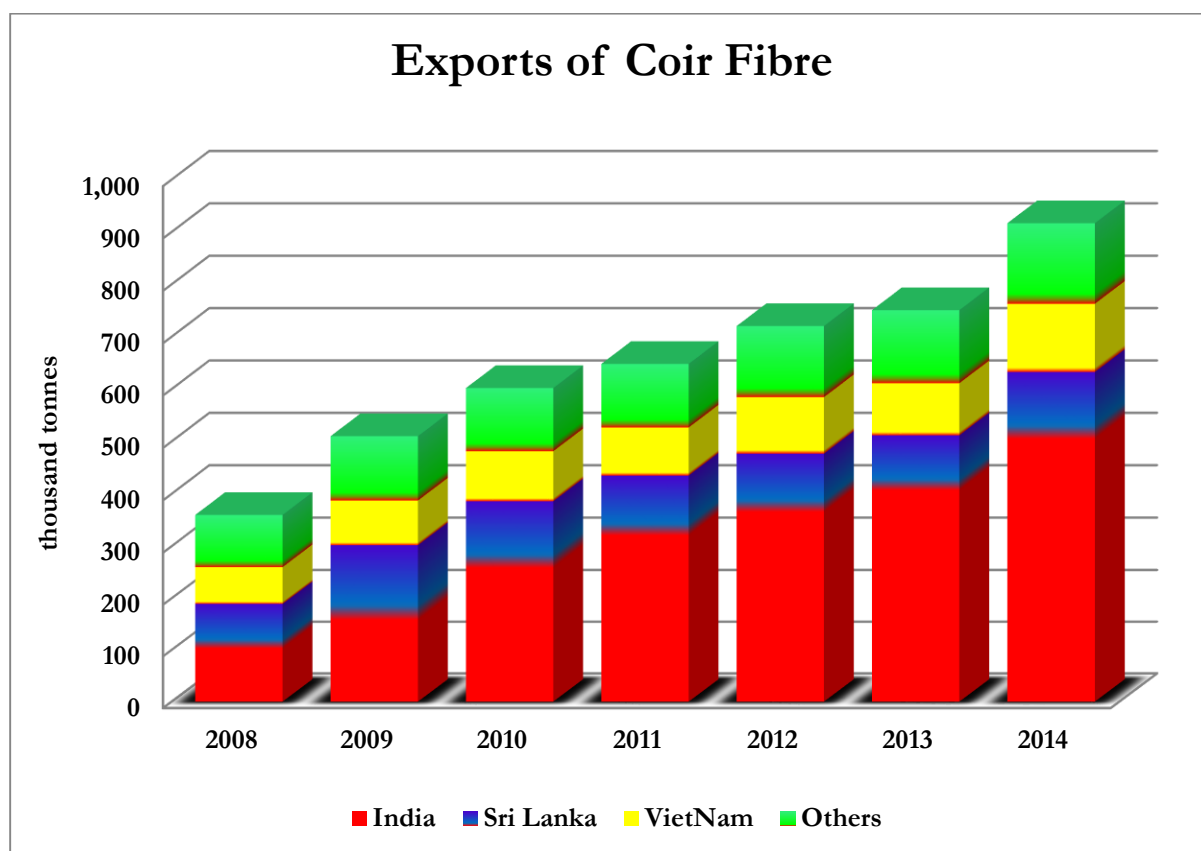
Source: Secretariat FAO IGGHF/JU

L. Coir Trade

Exports of coir fibre have shown a pronounced upward trend in 2014, up 22 percent from 2013, reaching 917 300 tonnes. (Only relatively small amounts of coir manufactures are exported. In 2014, exports of manufactures totaled 89 896 tonnes, of which 15 688 tonnes of yarn and 74 208 of other manufactures.) In 2014, total fibre exports were more than triple those of 2005 (Fig. 16). The delegate of Sri Lanka is invited to provide some insight into this trend.

Substantial growth has taken place in coir fibre imports into developed countries and in China, which accounted for nearly 70 percent of total imports in 2014.

Figure 16.



Source: Secretariat FAO IGGHF/JU

III. MEDIUM TERM OUTLOOK TO 2024

Methodology

A multi-country partial equilibrium model of raw fibre and fibre good markets was constructed and used as a basis for these projections. Supply is calculated on the basis of area and yield, driven by prices, costs and changing technology, except in the case of coir, which is a by-product of coconut production. Demand is driven by income and population, and prices of competing fibers, in particular synthetic fibers. Trade is driven by relative country prices and tariffs. Projections have been adjusted by the judgement of FAO experts.

Background

Outlook looks at JACKS prospects to 2024, which over the medium term is driven by a number of complex forces: demand and supply on the one hand and on the other by emerging factors such as the rising demand for natural and environmental products. Supply is highly concentrated in a few developing countries, where smallholder production is important, and where fibres are processed into value added products and consumed locally. Increasingly there are some larger plantations which respond more to domestic and global economic conditions. Excess raw material supplies are exported

to countries for processing. Trade is therefore affected by transport cost, trade policies and comparative economic factors such as wages and productivity in the industrial sector, and movements in exchange rates. Demand is mostly in the form of cordage and sacks for production of other goods which is demanded by consumers such as for rugs. Jute products have a more comprehensive demand pattern, which includes textiles and apparel.

Measured at international prices, world production value of jute, sisal, coir and abaca amounted to over USD 2.6 billion in 2012 (1.8 billion, 0.2 billion, 0.6 billion and 16 million respectively). These commodities provide a source of income for a large number of smallholders, especially in India, Bangladesh, Sri Lanka, China, Philippines, Brazil and Tanzania and Kenya. Value added products derived from these raw fibres also provide an important source of income for these economies, as do revenues from exports.

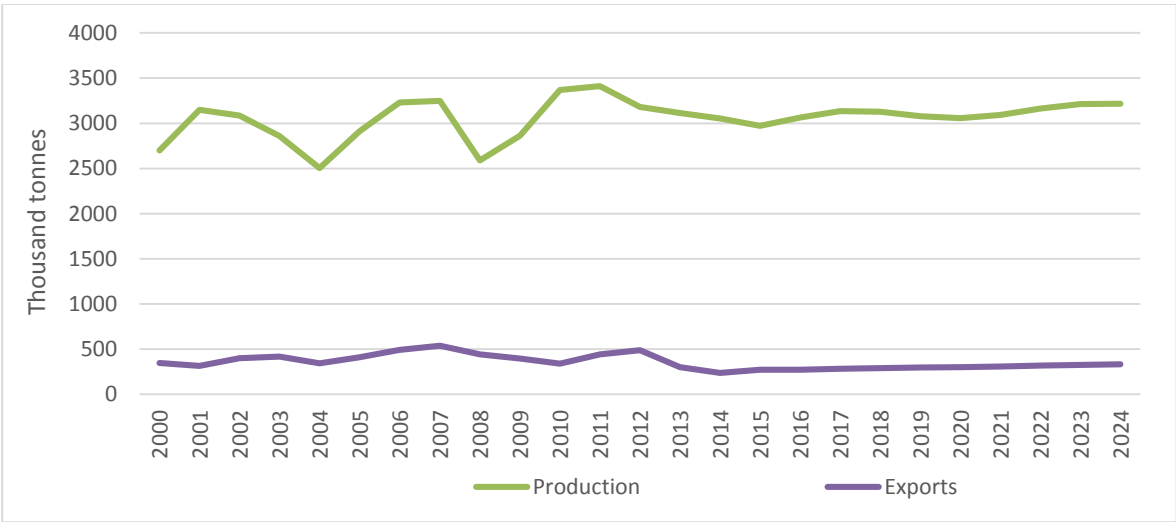
In the decade prior to the reference period 2012-14, fibre markets largely fared better than other agricultural commodities (FAO Agricultural Commodity Projections to 2010). Reasons for this include price competitiveness compared to oil based synthetic fibres and higher demand in niche markets for natural fibres, especially in higher income markets. Higher demand should be sustained, but higher price competition from synthetics might be expected if decline in energy prices is sustained. In addition, rising labour costs in many developing countries where economic growth has been robust can be expected to affect prices, the location of value added production and the patterns of trade.

JUTE OUTLOOK

Jute Production

After growing at an annual compound rate of 1.0 percent over the last decade, world jute production is projected to remain around 3.2 million tonnes in 2024, marginally up from its average level during the period 2012-14 (Fig. 17). A 0.4 percent annual decline in India will be largely offset by further advances in Bangladesh of 1.1 percent per year; at this rate production in Bangladesh is projected to approach that of India’s by 2024. Production is also anticipated to increase in Nepal and Pakistan, while that in Thailand and Vietnam, which witnessed large reductions in production in the last decade, is not anticipated to recover as land area in jute has been moved to other crops. Production of jute outside of Asia, rose slightly in Africa in the last decade and this trend is expected to continue over the next decade.

Figure 17 – Jute Production and Trade to 2024



Source: Secretariat FAO IGGHF/JU

Jute Trade

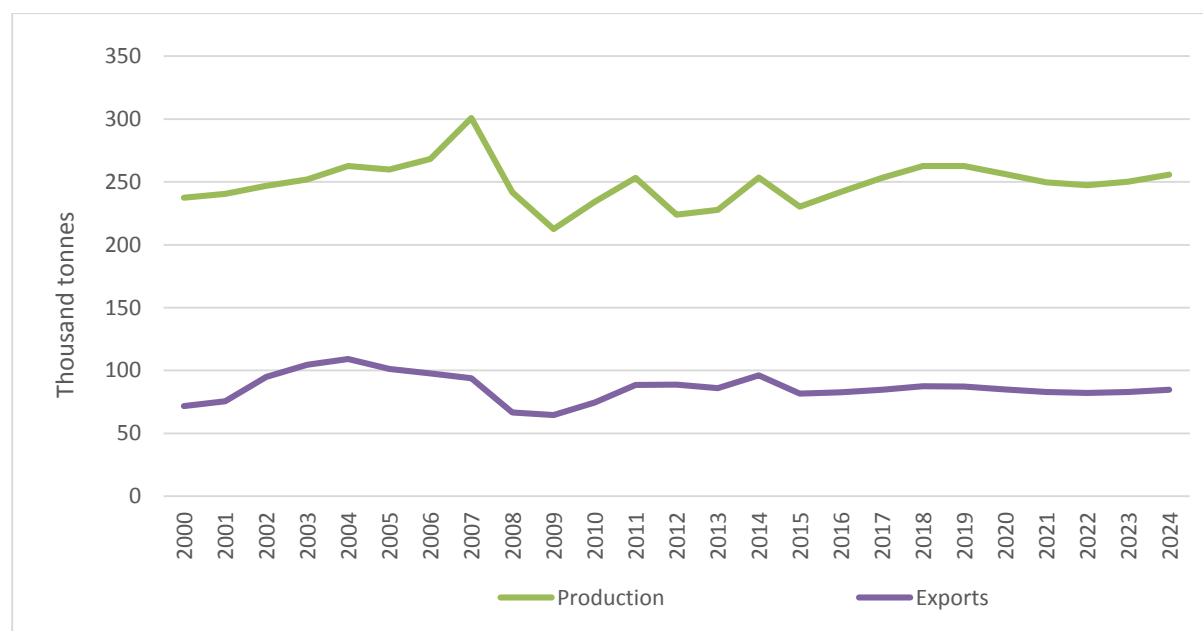
World jute exports are projected to decline to 332 thousand tonnes, down from an average during the reference period of 343 thousand tonnes, largely due to reduced exports from Bangladesh (Fig.17). Exports of jute from India are projected to remain at around 36 thousand tonnes, while its imports are expected to decrease reflecting higher domestic processing costs compared to Bangladesh. Imports by China are projected to continue their strong downward trend given rising labor costs there. Imports by other countries are not anticipated to change significantly over the next decade.

SISAL OUTLOOK

Sisal Production

World sisal production is anticipated to increase over the medium term to 256 thousand tonnes, from 235 thousand tonnes, or an increase of 0.8 percent per year (Fig.18). This is the same level of production that was achieved a decade ago, and the key source of decline in the past decade has largely been Brazil, where production fell by 60 thousand tonnes. The key question facing the outlook for sisal is whether Brazil will recover its former dominance of the industry. Brazil's situation may depend on both the prospects for competing crops, and broader economic factors such as its exchange rate. The projection of this outlook is that while Brazil's production stabilizes that of other countries, particularly China and Africa will grow in market share. Production of sisal in China is projected to reach 80 thousand tonnes by 2024, an increase of almost 20 thousand tonnes from the reference period, while African countries led by Tanzania may grow by 7 thousand tonnes.

Figure 18 – Sisal Production and Trade to 2024



Source: Secretariat FAO IGGHF/JU

Sisal Trade

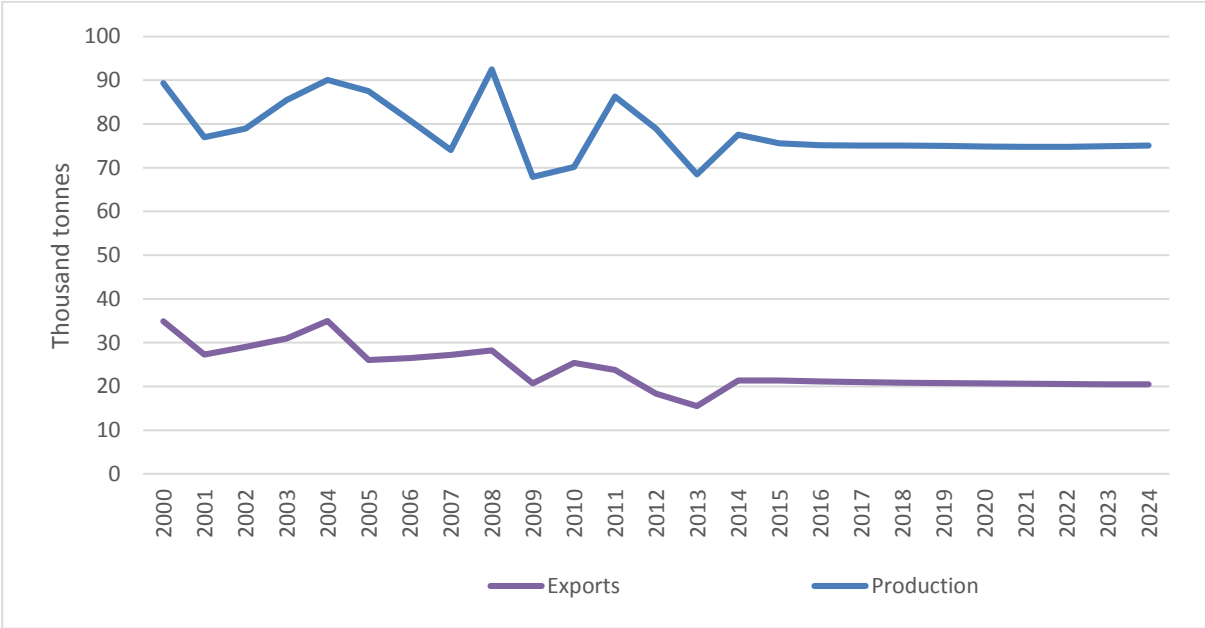
World sisal trade declined from 103 thousand tonnes to 90 thousand tonnes during the last decade, due almost entirely to lower exports from Brazil (Fig.18). It is projected to decline further to 85 thousand tonnes by 2024. The projected increase in Tanzania will be insufficient to offset the expected fall in Brazil. On the import side, the decline in trade is attributed to China, where a strong growth in domestic supply is expected to reduce its share of global imports from 45 percent to 40 percent by

2024. In other regions imports into the EU will remain around 21 thousand tonnes over the medium term.

Abaca production and trade

Abaca markets are the smallest of the major hard fibers, and have been declining in size over time. For the medium term, production is anticipated to remain at 75 thousand tonnes by 2024, as demand for abaca fibre remains static (Fig. 19). However, given more stable production, trade is expected to increase very marginally over the medium term to over 20 thousand tonnes, as labour costs rise relatively in Philippines and its exchange rate continues to appreciate in real terms. Abaca exports from Ecuador are projected to decline as production falls further.

Figure 19 – Abaca Production and Trade to 2024



Source: Secretariat FAO IGGHF/JU

Coir Production

Coir is the fastest growing of the hard fibre markets. It is somewhat set apart on the production side from the other hard fibres as it is primarily a byproduct of coconut production, from which offtake rates have been trending up considerably despite stagnant to declining coconut production in key producing coir countries. This may limit future growth in these countries, while opening up markets for other countries which have existing coconut production but from which coir is not produced at high

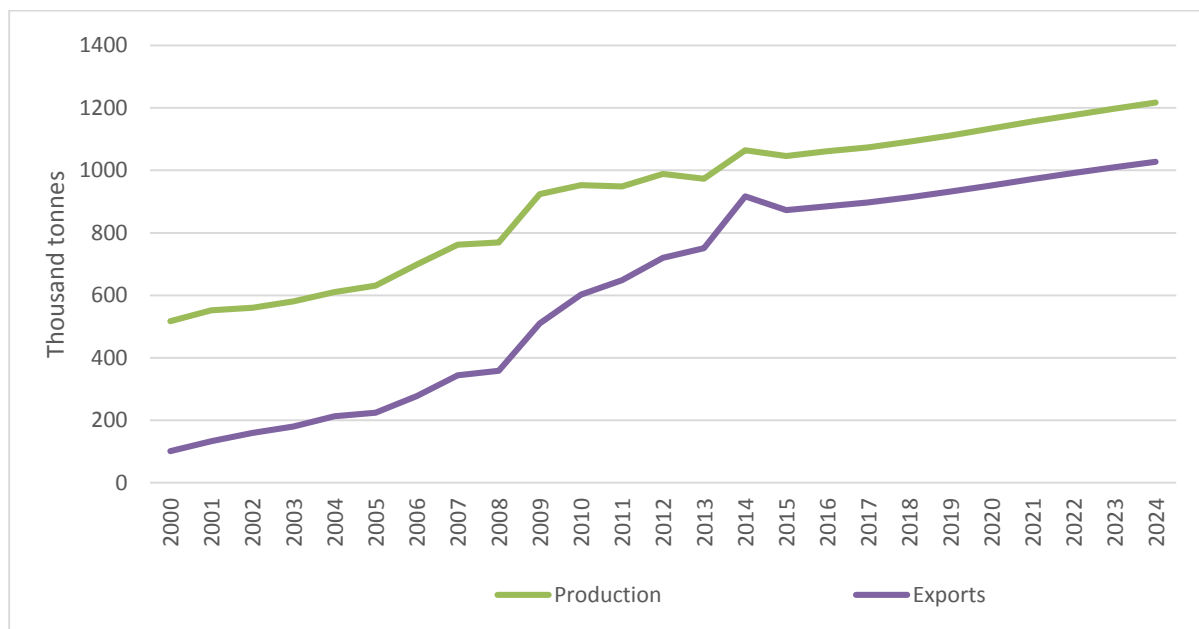
World production of coir almost doubled in the last decade, reaching 1 million tonnes in the reference period, growing at a compound annual rate of 5.6 percent (Fig.20). In the medium term, world production is anticipated to slow to 1.9 percent annually over the next ten years, as sustaining such a high rate of growth in these countries from the higher base may be difficult. Production should become less concentrated as the share of India continues to fall.

Coir Trade

World coir trade grew at a rapid pace of almost 16 per year during the last decade, rising from only 185 thousand tonnes to 796 thousand tonnes, which is over a fourfold increase. Growth in trade from

India alone was almost 400 thousand tonnes of the total increase in exports, as its processing sector failed to keep pace with production. In the medium term coir trade is expected to continue its rapid expansion, but at a slower pace, with a projected increase of 230 thousand tonnes over the reference period by 2024 (Fig. 20).

Figure 20 – Coir Production and Trade to 2024



Source: Secretariat FAO IGGHF/JU

India should retain a more than over 50 percent market share in trade, but Sri Lanka is anticipated to be overtaken by Vietnam as the second largest exporter. The market shares of the Philippines, Indonesia and Malaysia are also expected to increase. China will consolidate its growing share of import markets accounting for over two thirds of demand, while that for EU will slide to about half its share of a decade ago.

IV. CONCLUDING REMARKS

Over the medium term, demand factors play a critical role in determining market size. How much do oil markets and synthetics now matter to the demand for jute and hard fibres? Price studies indicate some cross correlation among the sectors, but it is possible that the degree of substitution has fallen as the sheer quantity of synthetics has risen dramatically over time, as fibre markets have fallen in relative terms. Rising demand for natural products which have specific needed attributes, may now be a key determinant of market growth. Clearly as indicated in this Outlook, the prospects for coir appear much more positive than for the other fibres in this respect.

Supply is important, but given the high degree of concentration of production (ranging from 2 to 5 major global suppliers for each fibre) implies that conditions in these supplying countries will affect markets. This includes cost conditions, specifically for labour as it affects competitiveness in processing, particularly in Asia where relative labour costs have been increasing with robust economic growth. Other important considerations include economic and political stability which affect investment and commercial setting. For sisal, clearly the projection is particularly sensitive to how Brazil's sector performs over the next decade, and what role exchange rates may play in affecting it.