

# Mahathir on why commodity prices are down

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KUALA LUMPUR, Mon. — Prime Minister Datuk Seri Dr Mahathir Mohamad said today the prevailing depressed commodity prices were due in part to "clumsy attempts to bring order to the commodity market."

Delivering the keynote address at the national seminar on primary commodities, he said: "We set up numerous commodity agreements and stockpiles so as to counter cyclical price changes.

"The cost was high, but success was rather limited. Indeed the success (of the commodity pricing) was not really due to the agreements and the stockpiles.

"It depended more on the costs of production, or scarcity of resources or the vagaries of nature."

The Prime Minister said the international commodity agreements all have numerous Achilles heels and they tended to put producers like Malaysia in a no-win situation.

"It's a case of tails I lose, heads you win. It obviously cannot go on forever."

On top of that, some countries have refused adamantly to join these agreements while some just ignore them when it suits them.

## Factors

But commodity agreements are not the only factor weighing down commodity prices.

The Prime Minister, who said "there are a lot of things wrong with the commodities trade," cited various other factors:

- The national stockpiles. They threaten prices not just when they are released but merely by the threat to release and the overhang they represent in the market.

- The technology of prospecting and production was a boon at first to producers. But when the huge new resources were tapped, the ensuing glut wreaked havoc on prices.

- Technology was also responsible for reducing usage of specific commodities and for finding substitutes, thus causing the markets to shrink.

- Instant communication, which links the markets world-wide, has made prices more unstable because trading is done almost 24 hours a day. This in turn provides speculators with the opportunity to profit from the slightest price movement in any of the world commodity markets.

- Shipping and insurance take a big slice of the profits from the commodity trade.

- Exchange rates which at one time were stable have become unreliable. Most producers have to sell in foreign currencies over which they have no control.