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PM PAINTS BLEAK COMMODITY SCENARIO

86 (P)
KUALA LUMPUR, JULY 21 (BERNAMA ES) -- THE PRIME MINISTER OF THE WORLD'S LARGEST PRODUCER OF TIN, RUBBER AND PALM OIL TODAY PAINTED A BLEAK FUTURE FOR PRIMARY COMMODITIES, SAYING THAT "THE END IS NEAR" FOR SOME COMMODITIES.

(DATUK SERI DR MAHATHIR MOHAMAD) SAID THE DECLINE IN THE COMMODITIES TRADE IS NOT CYCLICAL AS EVEN THE SPURTS IN THE DEMAND REFLECT THE DECLINING TREND.

FOR MANY YEARS NOW, COMMODITIES HAVE BEEN SUFFERING A STEADY SHRINKAGE BOTH IN TERMS OF MARKET GROWTH AND IN SOME CASES, OF ACTUAL MARKET DEMAND, HE SAID WHEN OPENING A FIVE-DAY INTERNATIONAL CONFERENCE ON COMMODITIES HERE.

HE SAID THE DEMAND FOR TIN, FOR EXAMPLE, HAS IN THE PAST DECADE OR SO BEEN REDUCED FROM ABOUT 250,000 TONNES TO ABOUT 150,000 TONNES PER ANNUM.

SOME COMMODITIES LIKE INDIGO HAVE FOR PRACTICAL PURPOSES DISAPPEARED FROM THE SCENE.

MOST METALS HAVE BEEN AILING FOR QUITE SOME TIME AND THERE SEEMS TO BE NOWHERE THE DEMAND CAN GO BUT DOWN, HE SAID.

"OCCASIONALLY THERE WOULD BE A SURGE IN DEMAND BUT THEY HAVE ALWAYS BEEN MUTED AND CERTAINLY THEY HAVE NEVER BEEN SUSTAINED.

"AFTER A SHORT FLURRY THE PRICES ARE LIKELY TO FALL BELOW THE STARTING POINT. THE SLIDE THEN CONTINUES UNTIL THE NEXT LITTLE FRENZY OF DEMANDS."

DATUK SERI DR MAHATHIR SAID THE PATTERN IS ONE OF CONTINUOUS DOWNHILL SLIDE.

INCREASES IN PRICE DID SEEM TO TAKE PLACE SO AS TO ALMOST COMPENSATE FOR DECREASED DEMANDS, BUT THIS WAS MAINLY DUE TO CURRENCY FLUCTUATIONS, HE SAID.

HE DESCRIBED THE GRADUAL RISE IN THE PRICE OF TIN PRIOR TO THE COLLAPSE AS "QUITE MEANINGLESS" TO MALAYSIA BECAUSE THE MALAYSIAN RINGGIT APPRECIATED AGAINST THE POUND STERLING, THE MAIN CURRENCY USED BY THE LONDON METAL EXCHANGE, THE PRINCIPAL MARKET PLACE FOR TIN.

THE RISE WAS ACTUALLY A MARKET MANIFESTATION OF THE DEVALUATION OF THE BRITISH POUND.

HE SAID THE GRADUAL SLIDE IN DEMAND AS WELL AS PRICES CAN BE COPED BY THE PRODUCERS TO A CERTAIN EXTENT BY DIVERSIFYING AND REDUCING THEIR DEPENDENCE ON A SINGLE COMMODITY.

HE SAID MALAYSIA, WHICH FOR A LONG TIME DEPENDED ON TIN AND RUBBER, SAW THE SIGNS AND SYSTEMATICALLY SHIFTED EMPHASIS TO PALM OIL, COCOA, TIMBER AND PETROLEUM.

THIS PAID FAIRLY HANDSOME DIVIDENDS BECAUSE IT CERTAINLY CUSHIONED THE EFFECT OF DIMINISHING REVENUES FROM TIN AND RUBBER.

BUT THE PROBLEM IS HOW TO DISCOURAGE THE TRADITIONAL OR NEW PRODUCERS FROM ONCE AGAIN INCREASING THE SUPPLY WHEN THE PRICE SWINGS UPWARDS DUE TO REDUCED SUPPLY.

THE PRIME MINISTER BELIEVED THAT IT IS IMPORTANT FOR THE EFFICIENT PRODUCERS TO AVOID LARGE PROFIT MARGINS.

IN THE LONG TERM, NARROW PROFIT MARGINS ARE ALWAYS SAFER FOR ANY BUSINESS, INCLUDING THE COMMODITIES TRADE, HE ADDED.

THE QUESTION THAT MUST BE ASKED NOW IS WHETHER ANYTHING CAN BE DONE, IF NOT TO REVERSE THE TREND, AT LEAST TO ARREST OR SLOW THE RATE OF DECLINE.

"THE OBVIOUS ANSWER TO A DECLINE IN DEMAND IS TO REDUCE THE SUPPLY.

"IF AGREEMENT BETWEEN DIFFERENT NATIONS TO REDUCE PRODUCTION IS UNABLE TO WORK THEN THE NEXT BEST THING IS FOR THE HIGH COST PRODUCERS TO GET OUT OF THE BUSINESS ALTOGETHER," HE SAID. --BERNAMA ES