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A windfall year for primary commodity sector

TESTING as it has been for many of the country's economic sectors, 1998 proved an unexpectedly bullish year for Malaysia's primary industries.

In no small measure, the regional economic crisis, which was sparked by the devaluation of the Thai baht in July 1997, helped lift primary commodity export earnings, excluding petroleum and gas, by 32 per cent to RM22.34 billion in the first half of the year, from a year earlier.

Palm oil, natural rubber and cocoa, in particular, saw their prices move dramatically higher, with a number of crude palm oil futures contracts on the Kuala Lumpur Commodity Exchange hitting limit-up on the first few trading days of the year.

The commodity's prices, on the uptrend since the outbreak of the financial turbulence, strengthened further as the year progressed on account of strong demand from traditional markets like China, India and Pakistan.

As a result, palm oil is expected to rake in export earnings in excess of RM21 billion this year, some 60 per cent higher than last year's RM12.14 billion, despite a 10-per cent fall in production.

According to Primary Industries Minister Datuk Seri Dr Lim Keng Yaik, production would fall to an estimated 8.3 million tonnes in 1998, from 9.1 million tonnes last year, partly due to the adverse effects of weather phenomena El Nino and La Nina.

Meanwhile, two major developments featured for the palm oil industry during the year. Following the Government's decision to fix the ringgit at 3.80 against the US dollar last September, exporters of the commodity reverted to quoting palm oil prices in the US currency.

This led to some buyers insisting on renegotiating their contracts.

Before this, the exporters had introduced ringgit-denominated contracts in response to the Government's call to expand the use of the Malaysian currency in trade.

Then, there was the introduction of a windfall tax as proposed in the Budget 1999 which was tabled by Prime Minister Datuk Seri Dr Mahathir Mohamad in Parliament last October. At RM50 a tonne, the tax is levied on palm oil whenever it trades above RM2,050 a tonne.

As for natural rubber, the Government suggested during the year that rubber product manufacturers contribute to a fund to kickstart the Malaysian Rubber Exports Promotion Council (MRPEC).

It is envisaged that the MREPC will do for rubber what the Malaysian Palm Oil Promotion Council has been doing for palm oil, for example in countering campaigns that seek to reduce consumption of the commodities.

MREPC funding however became an issue as the industry refused to contribute anything more than 0.2 per cent of their export earnings. The Government has proposed that they contribute 0.4 per cent, not least in view of the fact that urgent measures are required to stave off anti-latex drives mounted by activists and consumer groups in the US.

Last year, Malaysia exported RM3.02 billion worth of raw rubber and RM4.65 billion of rubber products.

In the case of cocoa, the currency factor was no less instrumental in giving prices a boost. Based on quotations in New York, London and other European trading centres, cocoa beans have enjoyed a strong price run-up to the current level of about US\$1,400 a tonne.

Malaysian beans have doubled in price to RM6,000 a tonne, from RM3,000

before July 1997.

In the first three months of 1998, exports of cocoa amounted to RM185.4 million, up 33.2 per cent from the same corresponding period a year ago.

However, unlike palm oil, rubber and cocoa, timber has had mixed fortunes.

Demand for sawntimber and plywood, whose major markets are in the region, have plummeted given the downturn in Asian economies.

As a result, the Government has introduced various measures to promote Malaysian timber products in non-traditional markets, particularly West Asia.

Furniture products, which are enjoying favourable prices, appear to offer the best potential on this front, with exports expected to hit RM4 billion this year.

In the year 2001, it is estimated that the country's furniture exports will reach RM7 billion.

Timber and timber product exports were worth RM14.7 billion in 1997, up from RM14.1 billion in 1996.

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