



**KOKONAS INDASTRI KOPORESEN**

# **QUARTERLY COCONUT INDUSTRY MARKET REPORT**

**JANUARY — MARCH 2017**

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**1. INTERNATIONAL MARKET DEVELOPMENTS**

Global prices of copra decreased while prices of copra oil (CNO) increased in this quarter compared to the preceding quarter. This quarter registered quarterly averages of US\$856/MT and US\$1,773/MT respectively for copra and CNO. Prices registered for copra and CNO in the preliminary quarter of 2017 are shown in Table 1 and the graphical illustration in Figure 1 below.

In January copra registered US\$893/MT which is a slight increase by 3.6% compared to the last month of the preceding year. In February it decreased by 2.6%, registering US\$870/MT. It further decreased by 7.5% to US\$805/MT in March.

CNO opened the quarter by registering US\$1,748/MT in January which is an increase of 1.3% compared to the preceding month. It decreased by 1.3% in February by registering US\$1,725. However, it increased by 7.1% to US\$1,847/MT in March.

Demand for both CNO and palm kernel oil (PKO) in the lauric oil market have both risen positively due to the continuing expansion and demand

increase of the oleo chemical, cosmetic and other manufacturing industries as reported in various issues of the Public Ledger in this quarter. However, CNO slightly had the upper-hand in terms of price mainly because Malaysia and Indonesia have undertaken massive palm oil production in the final quarter of 2013 that continued over the last three years and into this quarter, and that consequently created a situation of excess supply of PKO that influenced its price to dwell below.

Given the current market conditions, there is assurance that the current positive trend may prevail all through 2017. Major global producers of CNO namely Philippines and Indonesia have plans underway to increase the biodiesel blending from 2.5% to 5% and 7.5% to 10% respectively as reported in the Cocommunity Issue (ISSN 0215-1502). If these propositions come into effect, then the forecasted trend is achievable.

**Table 1: Average Monthly Prices of Copra and CNO in 2017 (Jan-Mar)**

|                          | Jan          | Feb   | Mar   |
|--------------------------|--------------|-------|-------|
| Copra (CIF NW US\$/MT)   | 893          | 870   | 805   |
| <b>Quarterly Average</b> | <b>856</b>   |       |       |
| CNO (CIF Rott US\$/ MT)  | 1,748        | 1,725 | 1,847 |
| <b>Quarterly Average</b> | <b>1,773</b> |       |       |

All figures have been rounded up to one decimal place.

Source: The Public Ledger

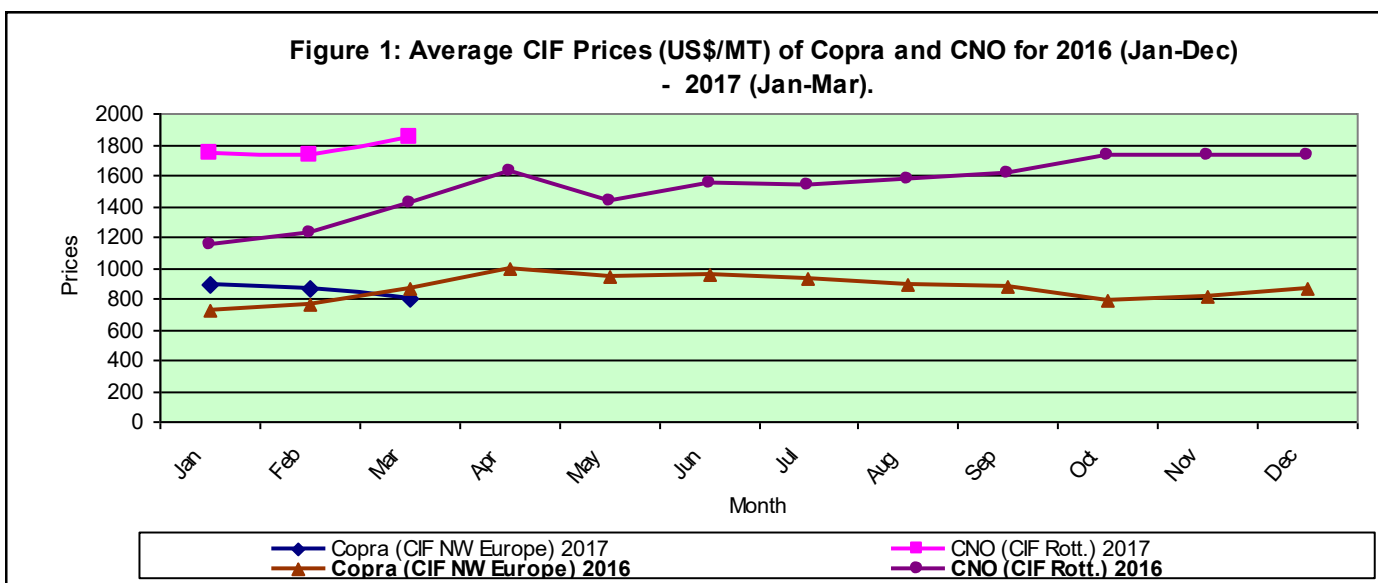
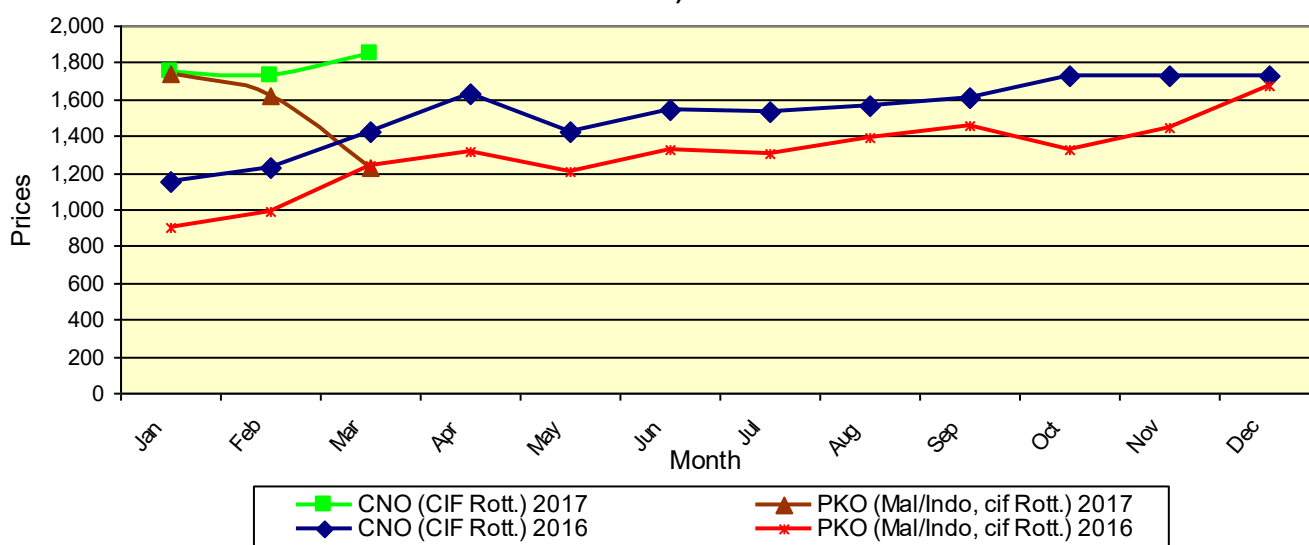


Figure 2: Average CIF Prices (US\$/MT) of CNO and PKO for 2016 (Jan-Dec) - 2017 (Jan-Mar)



## 2. DOMESTIC MARKET DEVELOPMENTS

### 2.1 Total Copra Production

Domestic copra production in this quarter increased from the preceding quarter and aggregately registered 32,736 tonnes as shown in Figure 3. The total production registered in this quarter is 41.3% higher compared to the total production (23,175 tonnes) registered in the corresponding quarter of 2016.

The first quarter began production with January registering 11,145 tonnes which is 60.0% more than the volume registered in the preceding month. Following on February registered 10,310 tonnes which is a decrease of 7.5%. In March production increased by 5.6% to 11,280 tonnes. Total copra production (32,736 tonnes) for this quarter is higher by 57.4% compared to the aggregate volume registered in the preceding quarter.

The high level of production from 2016 continued into the first quarter of 2017 is attributable to the high prices offered in the global market which influenced the domestic market prices. PNG farmers are price sensitive and so the high prices of copra has influenced the copra producers to continue producing.

### 2.2 Copra Production by Depots

The copra production by the major buying centres for this quarter is shown in Table 2 below.

Aggregately, Rabaul/Toboï (8,949 tonnes) led the tally followed by Buka (7,355 tonnes), Kavieng/Namatani (6,289 tonnes), Kimbe (4,907 tonnes), Madang (4,645 tonnes), and Alotau (590 tonnes) in descending order.

Rabaul/Toboï began the quarter by registering 3,606 tonnes in January and decreased by 9.2% in February to 3,276 tonnes and decreased further by 36.9% to 2,067 tonnes in March. Buka registered 2,643 tonnes in January and decreased by 7.1% to 2,456 tonnes in February and further decreased by 8.1% to 2,257 tonnes in March. Kavieng/Namatani began the quarter by recording 2,319 tonnes in January and decreased by 15.0% to 1,973 tonnes in February and picked up again by 1.3% to 1,998 tonnes in March. Kimbe commenced with 786 tonnes in January and increased in February by 8.4% to 852 tonnes. It further increased by a massive 283.7% to 3,269 tonnes in March. Madang began the quarter by registering 1,667 tonnes and decreased by 5.6% to 1,574 tonnes in February. It declined further by 10.8% to 1,404 tonnes in March. Alotau started with 125 tonnes in January and increased by 44.0% to 180 tonnes in February and further increased by 58.3% to 285 tonnes in March.

Rabaul/Toboï has consistently been the major player in terms of production and export of copra and that depicts the intensity of labour inputs into coconut farming in the East New Britain Province. The closest rivals after Rabaul/Toboï are Buka and Madang.

Figure 3: Monthly Copra Production in PNG for 2016 (Jan-Dec) - 2017 (Jan-Mar)

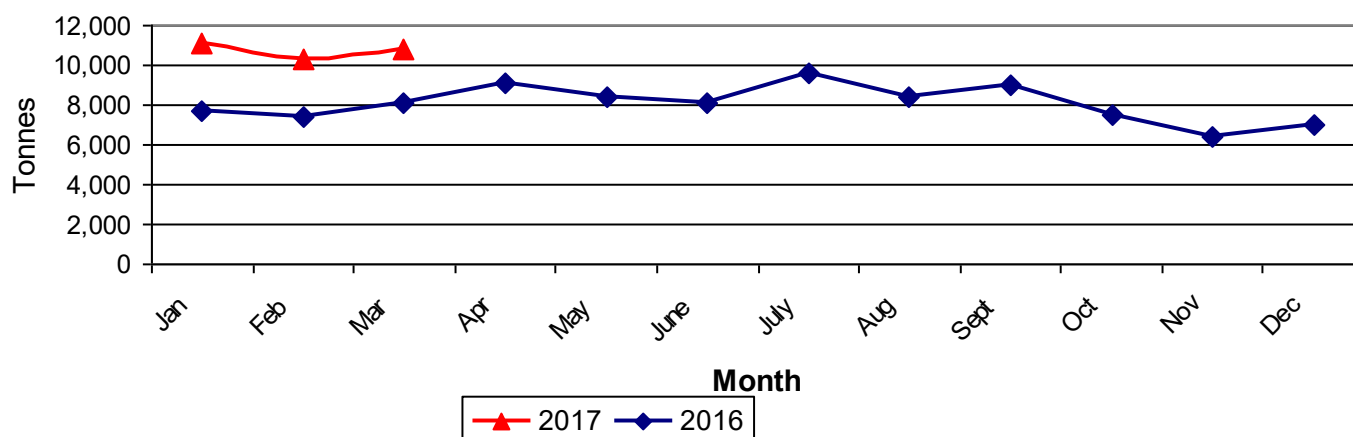


Table 2: Copra Production (tonnes) by Major Buying Centers for 2017 (Jan—Mar)

| Centre/Depot      | Jan           | Feb           | Mar           |
|-------------------|---------------|---------------|---------------|
| Rabaul/ Toboi     | 3,606         | 3,276         | 2,067         |
| Madang            | 1,667         | 1,574         | 1,404         |
| Buka              | 2,643         | 2,456         | 2,256         |
| Kavieng/Namatanai | 2,319         | 1,972         | 1,998         |
| Kimbe             | 786           | 852           | 3,269         |
| Alotau            | 125           | 180           | 285           |
| <b>Total</b>      | <b>11,145</b> | <b>10,310</b> | <b>11,280</b> |

### 2.3 Domestic Copra Prices

Movements in domestic copra prices reflect the general trend of copra prices in the world market. Copra produced in PNG is usually graded and bought according to three different grades namely Hot Air, Fair Merchantable Standard (FMS) and Smoke. The FMS price is the average price received by copra buyers at the major buying depots or centres, and this varies from one depot to another due to shipping and/or transshipment costs. A premium is usually added onto this price for hot air copra and the price for the smoke grade copra is reduced by a certain amount set as discount.

During this quarter, the average Hot Air, FMS and Smoke grade prices were K1,270, K1,204 and K1,041 per tonne, respectively. Based on these figures, the average premium price for hot air grade is K66 per tonne and the discount for the smoke grade is K163 per tonne. Compared to the preceding quarter, the average premium price for hot air per tonne increased significantly by 69.2% and the discount price for the smoke grade also increased significantly by 297.6%.

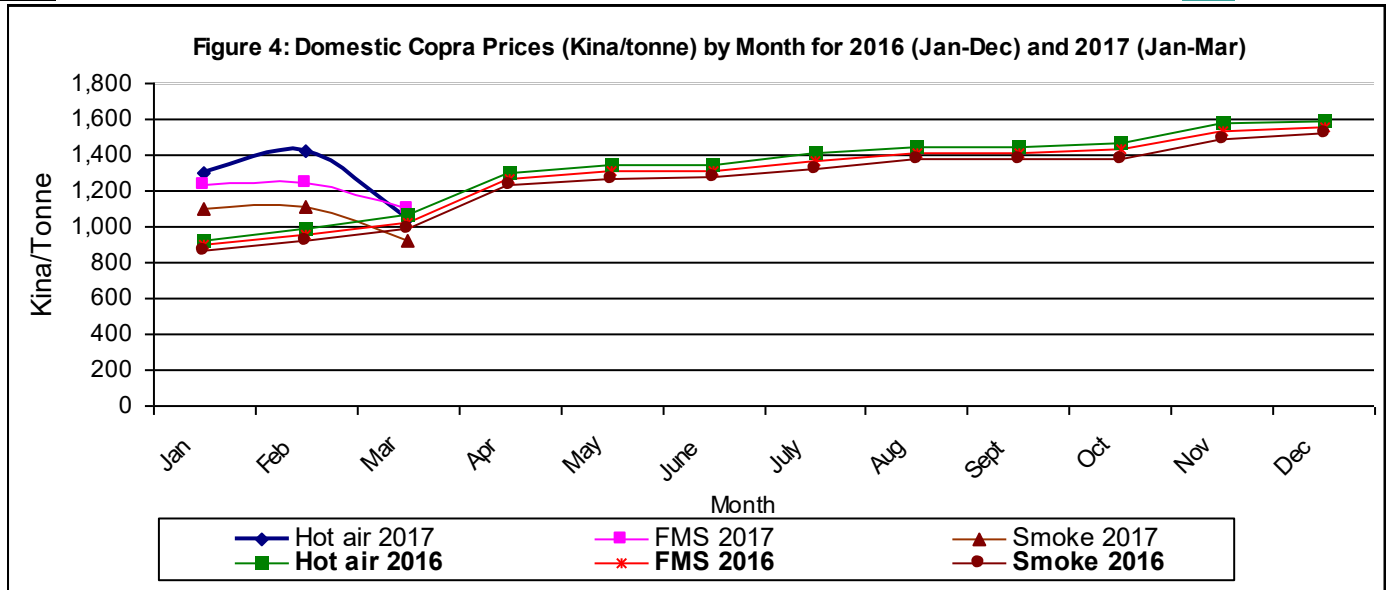
Monthly price fluctuations for 2016 and this quarter are shown in Figure 4.

As shown in Figure 4, the trend set in this quarter dwelled above the trend set in the corresponding quarter of 2016.

January recorded K1,301/tonne for hot air copra which is 17.9% less than the price of the preceding month. FMS and smoke followed the same trend with decrease of 20.7% and 28.2%, respectively.

In February the prices for the copra grades improved. Price for the hot air increased by 9.7% to K1,427 /tonne, FMS rose by 1.2% to K1,248 / tonne and the smoke grade improved by 1.3% to K1,109/tonne.

March however had a decreasing trend for hot air, FMS and smoke. Hot air copra was priced at K1,082/tonne a decrease of 24.2%, the FMS decreased by 9.5% to K1,130/tonne and smoke grade decreased by 17.1% to K919/ tonne.



Prices offered for the three different grades by the major copra buying centres in this quarter are shown in Figure 5 below.

Of the six (6) major centres that bought copra, Kimbe offered the highest prices for hot air. It priced hot air at K1,641/tonne, an increase of 21.6% compared to the price of the preceding quarter. FMS was priced at K1,797/tonne an increase of 38.2% and smoke was priced at K1,720/tonne, an increase of 43.3% compared to the prices of the preceding quarter.

Following Kimbe was Rabaul that priced hot air at 1,511/tonne, an increase of 9.7%, FMS at K491/tonne, a decrease of 60.1%, and Smoke at K286/tonne, a decrease of 76.2%.

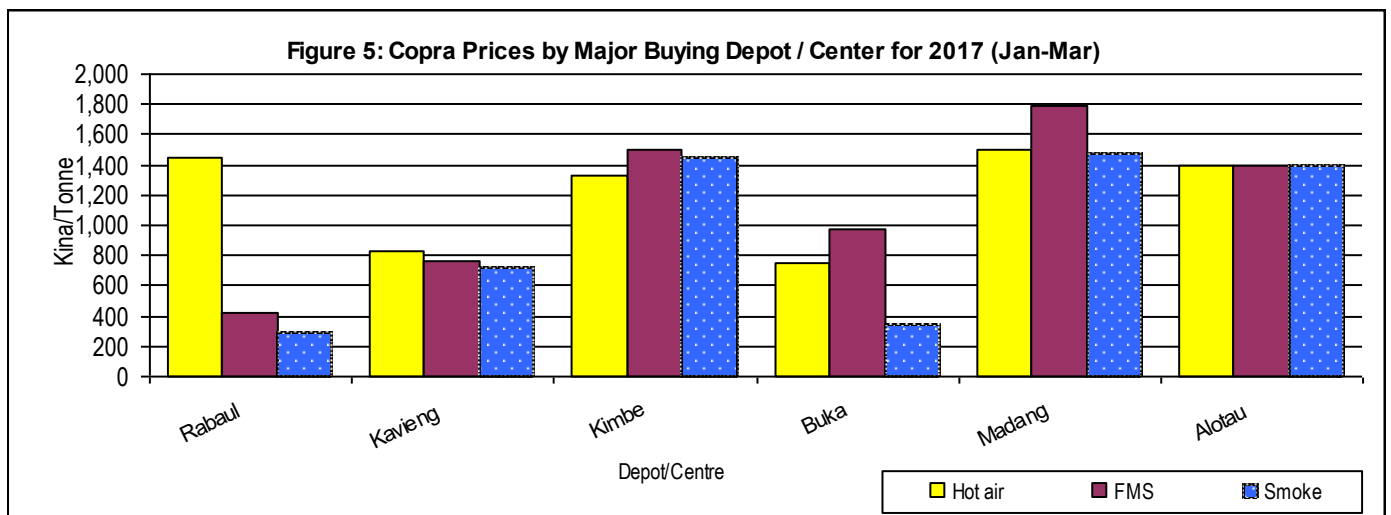
Madang rallied behind Rabaul pricing hot air at K1,494/tonne, a decrease of 12.5%, FMS at K1,795/tonne, an increase of 0.7%, and smoke at K1,473/tonne, a decrease of 16.7%, compared to the prices offered in the preceding quarter.

Alotau offered the fourth highest price at K1,400/tonne flat rate for all grades. This is due to the price support offered to the copra producers by the Milne Bay Provincial Government and that benefited the Alotau farmers well over the farmers in other centres. The same prices were offered in the preceding quarter.

Kavieng followed Alotau by pricing hot air at K826/tonne, FMS at K765/tonne and smoke at K721/tonne and these prices are higher by 5.7%, 5.3% and 5.8% respectively compared to the prices of the preceding quarter.

Buka offered the lowest prices of all by pricing hot air at K748/tonne, FMS at K973/tonne and smoke at K339/tonne. These prices are higher by 49.3%, 25.6% and 71.9% respectively, compared to the prices of the preceding quarter.

In general, prices offered in this quarter have declined reflecting the decreasing price trend experienced in the global market.



**2.4 Export Prices of Coconut Products in PNG.**

The coconut products exported from PNG highlighted in this report are copra, crude copra oil (CNO) and copra meal. Figure 6 shows the average export prices (FOB) of coconut products exported from PNG in this quarter.

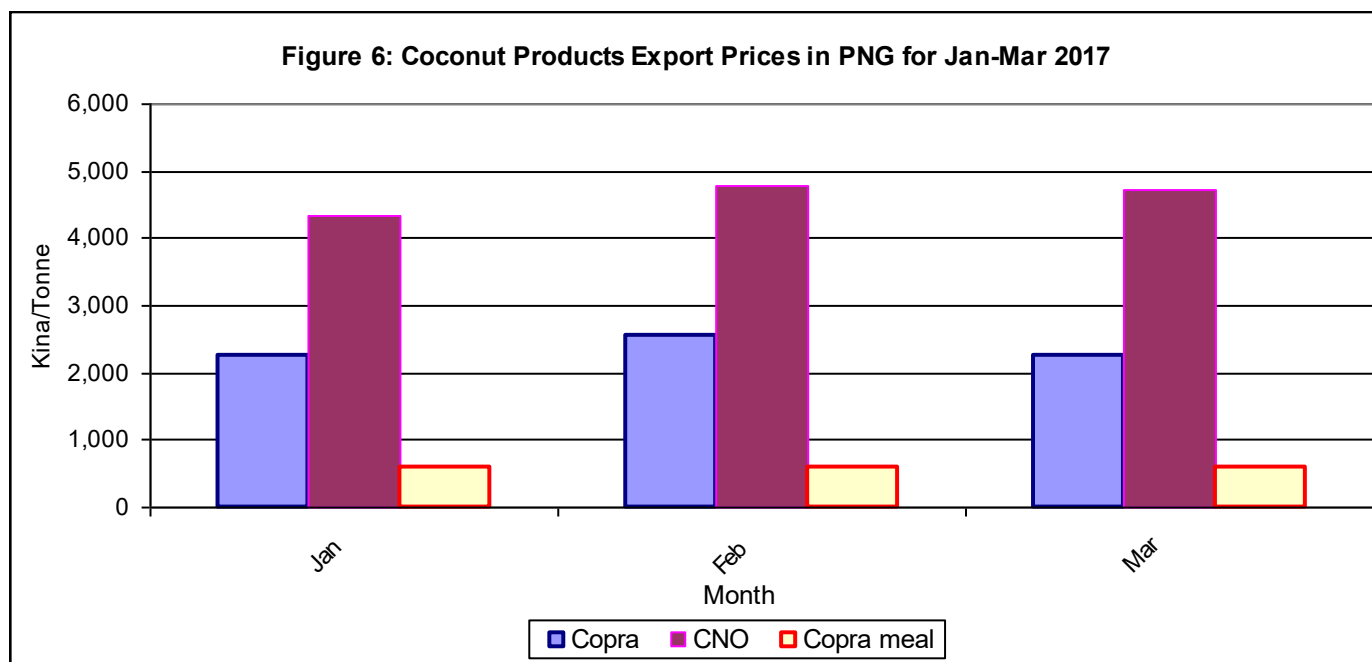
In this quarter, Copra prices fluctuated. January registered K2,220/tonne, an increase of 7.6% from the preceding month. February registered K2,317/tonne which is also an increase of 4.4%, however it decreased in March by 7.6% to K2,140/tonne.

Price of CNO in this quarter fluctuated as well. January began by registering K4,347/tonne, an increase of 5.0% from the preceding month. February increased further by 9.8% to K4,774/tonne, however March recorded K4,732/tonne, a slight decrease of 0.9%.

Copra meal export prices experienced a fluctuating trend as well this quarter. It registered K582/tonne in January and increased by 2.9% to K599/tonne in February, while March however, registered K589/tonne, a decrease of 1.7%.

The actual FOB price in kina received by the exporters were less by some margin due to costs such as handling, shrinkage inter alia.

The high prices of export coconut products experienced throughout 2016 and in this quarter are anticipated to prevail in the coming quarter given the current market scenario of stable prices at the international market.



**2.4.1 Export Margins of Copra**

The export margins for this quarter in kina value are shown in Table 3. The export margins depict the price difference between the FOB prices and the FMS mill gate prices as determined by costs involved such as handling, shrinkage and most importantly freight.

The kina value remained unchanged from the preceding month into this quarter. The kina equivalent FOB price in the international market has decreased by 3.6% from the preceding month and registered K2,835/tonne in January. It decreased by 2.6% to K2,762/tonne in February and decreased further by 7.5% to K2,556/tonne in March.

The mill gate price behaved in a similar fashion. January registered K1,233/tonne which is a de-

crease of 20.7% compared to the preceding month.

In February it increased by 1.2% to K1,248/tonne, but declined by 9.5% to K1,130/tonne in March.

The price trends both at the international and domestic markets have resulted in export margins of 129.9%, 121.3% and 126.2% respectively for January, February and March.

This indicates two scenarios either the cost of making business in PNG is very high or the exporters of coconut products have inflated operational costs to make substantial profit.

**Table 3: Copra Export Margin for the First Quarter (January-March) 2017**

| Month    | Exchange Rate<br>(equivalent value of | FOB (Copra) Price<br>Export (US\$/ | FOB (Copra) Price<br>Export (Kina/ | FMS (Copra)<br>Price Mill gate | Export Margin &<br>Percentage out of<br>the FOB Price |
|----------|---------------------------------------|------------------------------------|------------------------------------|--------------------------------|---|
| January  | 0.3150                                | 893                                | 2,835                              | 1,233                          | 1,602 (129.9%)  |
| February | 0.3150                                | 870                                | 2,762                              | 1,248                          | 1,514 (121.3%)  |
| March    | 0.3150                                | 805                                | 2,556                              | 1,130                          | 1,426 (126.2%)  |

Source: Kokonas Industri Koporesen

Exchange Rate Source: Bank of Papua New Guinea

**2.5 Exports of Coconut Products**

Figure 7, shows the volumes of the three coconut products exported from PNG in this quarter, namely, Copra, Copra Oil (CNO) and Copra Meal. The export volumes in this quarter have greatly improved compared to the preceding quarter.

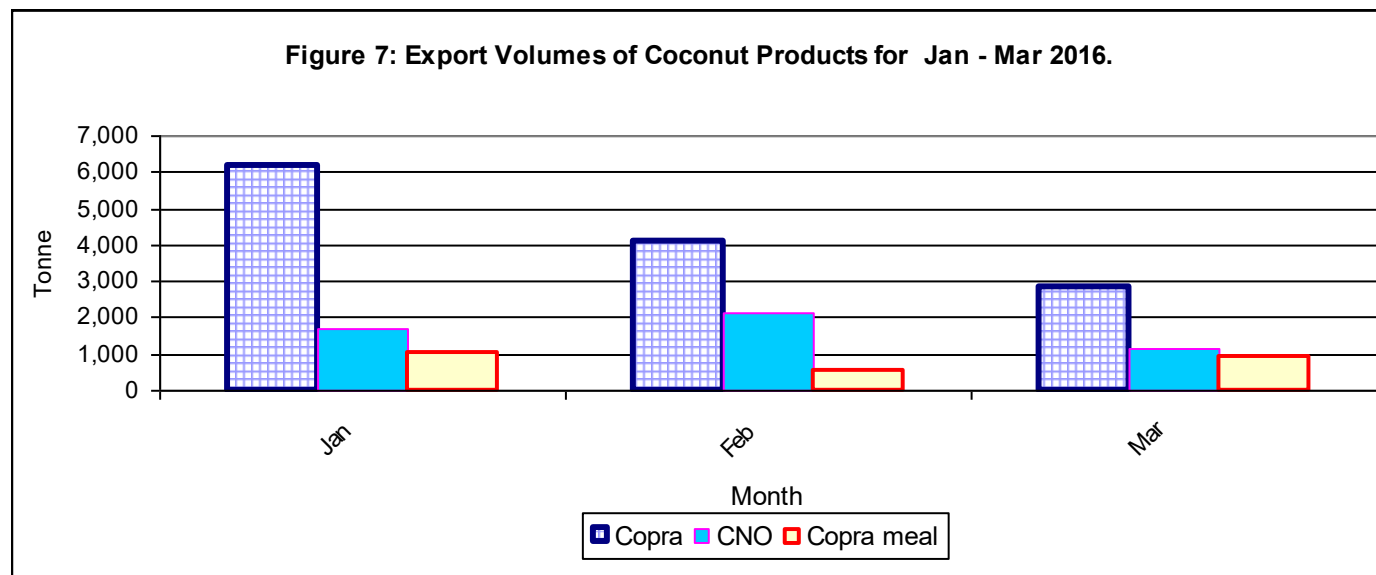
**2.5.1 Copra**

In this quarter export in January was 6,204 tonnes of copra and decreased in February by 33.9% to 4,101 tonnes and decreased further by 31.3% to 2,817 tonnes in March.

Aggregately, this quarter recorded a total export volume of 13,121 tonnes of copra which is an increase of 17.7% compared to the total export volume (11,150 tonnes) of the preceding quarter, and by 14.8% compared to the total volume (11,429 tonnes) in the corresponding quarter of 2016.

The increase in copra exports depicts the positive response of price sensitive farmers as influenced by the positive price trend experienced during this quarter due to factors highlighted earlier such as global market price of copra and the depreciation of the exchange rates.

**Figure 7: Export Volumes of Coconut Products for Jan - Mar 2016.**



**Export by Destination**

In this quarter, PNG exported a total of 13,121 tonnes of copra to three overseas markets namely Philippines, Singapore and Malaysia.

Of the total volume, Philippines bought 80.1% (10,503 tonnes), Singapore 13.9% (1,824 tonnes), and Malaysia 6.1% (794 tonnes).

Philippines continue to be the major buyer of PNG copra mainly because of the following reasons: (1) Philip-

pin's domestic production cannot fully cater for both internal and external demands; (2) The immense industrial needs from the manufacturers especially the oleo chemical industries in Philippines are constantly inflating; (3) Effects of the Super Typhoon Haiyan.

It is anticipated that Philippines will continue to be the major buyer as propositions are underway to increase the current Biodiesel blending from 2.5% to 5%.

### Export Market Share

The export summary of copra exports in this quarter is shown in Table 4 below.

This quarter recorded a total copra export volume of 13,121 tonnes undertaken by ten exporters namely ENB Development Corp (ENBDC), Sankamap, AERO Ltd, Pacific Lama, ABC Ltd, Samarai Murua Exports Limited, XLT Enterprises, Kimbe Bay Shipping Ltd, Tambolema Holdings Ltd and Emirau Marine Products Ltd .

Of the total volume ENBDC led the tally by exporting 20.2% (2,652 tonnes). After ENBDC was Sankamap

with 18.5% (2,434 tonnes), Aero with 13.9% (1,824 tonnes), ABC with 12.6% (1,641 tonnes), Pacific Lama with 12.4% (1,639 tonnes), Samarai Murua with 8.5% (1,117 tonnes), XLT Enterprises with 6.1% (794 tonnes), Kimbe Bay Shipping with 4.9% (647 tonnes), Tambolema Holdings with 1.6% (213 tonnes), and Emirau Marine Products Ltd with 1.2% (160 tonnes) in descending order.

Reticent farmers have already awakened by the inspiring price trend that triggered production increase and that further had positive chain reaction effects on export.

**Table 4: Copra Exports and Market Share for January—March 2017**

| Exporter/Port                  | First Quarter 2017 Export Volumes (Tonnes) | Market Share (%) |
|--------------------------------|--|------------------|
| ENB Development Corp           | 2,652                                      | 20.2%            |
| Emirau Marine Products         | 160  | 1.2%             |
| Tambolema Holdings Ltd         | 213  | 1.6%             |
| Autonomous Bougainville - Buka | 1,641                                      | 12.6%            |
| Sankamap                       | 2,434                                      | 18.5%            |
| XLT Enterprises LTD - Kimbe    | 794  | 6.1%             |
| Kimbe Bay Shipping             | 647  | 4.9%             |
| Samarai Murua                  | 1,117                                      | 8.5%             |
| Pacific Lama                   | 1,639                                      | 12.4%            |
| Aero Ltd                       | 1,824                                      | 13.9%            |
| <b>TOTAL</b>                   | <b>13,121</b>                              | <b>100%</b>      |

### 2.5.2 Coconut Oil Exports

A total of 4,961 tonnes of CNO was exported from PNG in this quarter. The month of January registered an export volume of 1,693 tonnes followed by February with 2,117 tonnes which is an increase of 25.0%, however, decreased by 45.7% with 1,151 tonnes in March. Compared to the export volume (5,980 tonnes) of the preceding quarter, this quarter's total export volume decreased by a 17.0%.

#### Export by Destination

CNO exported in this quarter went to four overseas markets namely Malaysia, Indonesia, Singapore and Sri Lanka. Of the total volume 54.9% (2,723 tonnes) went to Malaysia, 37.7% (1,872 tonnes) went to Indonesia, 4.7% (235 tonnes) went to Singapore, and 2.6% (131 tonnes) went to Sri Lanka.

#### Export Market Share

All except one of the exports of CNO in this quarter was undertaken by Pristine Co.101 Limited while Globe Manufacturing Limited undertook one.

### 2.5.3 Copra Meal Exports

In this quarter a total of 2,556 tonnes of copra meal was exported from PNG which is a slight decrease of 1.5% compared to the total volume (2,594 tonnes) registered in the preceding quarter.

The quarter began by registering 1,032 tonnes in January and decreased by 45.0% to 568 tonnes in February, but picked up again by 68.3% to 956 tonnes in March.

#### Export by Destination

Copra meal exported in this quarter went to six destinations overseas namely: India, Australia, United States (US), United Kingdom (UK), South Africa and New Caledonia. Of the total export volume, India bought 34.9% (892 tonnes), Australia 34.4% (880 tonnes), US 18.9% (484 tonnes), UK 8.6% (220 tonnes), South Africa 2.3% (60 tonnes) and New Caledonia 0.8% (20 tonnes). Australia normally imports copra meal for feed stock for the livestock sectors while others import for various intermediary purposes.

#### Export Market Share

All of the exports of copra meal in this quarter were undertaken by Pristine Co.101 Limited.



### 3. EXPORT EARNINGS FROM COCONUT PRODUCTS

The export earnings from coconut products, namely copra, CNO and copra meal for the first quarters of 2017 and 2016 are summarised in Table 5 below.

In comparison to the corresponding quarter of 2016, copra and CNO registered an increase while copra meal registered a decrease in export revenue this quarter.

Copra and CNO income registered in this quarter are higher by a 91.2%, 43.9% respectively, while copra meal income registered a decrease of

21.3%. The aggregate export revenue generated from coconut products in this quarter is 62.2% higher than the total export revenue registered in the corresponding period of 2016.

The general revenue increase registered in this quarter is attributable to the rise in price at the global market in the last quarter of 2016 which continued in this quarter. However the prices have stabilized in the global market and it is anticipated this prices may continue into the next quarter.

**Table 5: Export Earnings from Coconut Products for the First Quarters of 2017 &**

| Coconut Product | Jan-Mar 2017 (Kina) | Jan-Mar 2016 (Kina) |
|-----------------|---------------------|---------------------|
| Copra           | 29,021,060          | 15,176,872          |
| CNO             | 22,843,862          | 15,877,021          |
| Copra Meal      | 1,421,871           | 1,807,781           |
| <b>TOTAL</b>    | <b>53,286,793</b>   | <b>32,861,674</b>   |

Source: Kokonas Industri Koporesen

### 4. CONCLUSION

Global prices of copra and CNO fluctuated in this quarter compared to the preceding quarter. The average price of copra for this quarter increased by 4.7% while the average price of CNO decreased by 2.9% compared to the preceding quarter.

At present three coconut products are being produced domestically and traded in the global market namely copra, CNO and copra meal which all recorded significant increase in terms of production and export volumes. Copra production increased in this quarter by 57.4%. Exports of copra and CNO recorded an increase in terms of export volumes while copra meal exports recorded a decrease.

The general improvements experienced during this quarter have mainly been attributed to the positive price trend that prevailed in the global market. The major determinant that influenced the price increase is because of the close substitute of palm oil price that pushed the price of the coconut products to go up as well.

There is assurance that the positive trend may prevail all through 2017 both at the international and domestic markets because the full recovery of the Philippines, the largest supplier of raw materials at the international market, is anticipated to require substantial amount of time. Consequently, supply is foreseen to be squeezed and that will create a situation of excess demand which will influence price to continue on this trend or increase.

The propositions to increase blending of biodiesel from 2.5% to 5% and 7.5% to 10% for Philippines and Indonesia respectively are still been discussed and so once passed by their respective governments this will influence the price to increase.

Domestic prices of copra, CNO and copra meal are influenced by the price movements in the international market, thus the movement of prices will influence the domestic production of copra because our farmers are price sensitive.