KOKONAS INDASTRI KOPORESEN

QUARTERLY COCONUT INDUSTRY MARKET REPORT

JANUARY—MARCH 2019

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1. INTERNATIONAL MARKET DEVELOPMENTS

Global prices of both copra and copra oil (CNO) in this quarter registered quarterly averages of US$442/MT and US$713/MT respectively, which were lower compared to the preceding quarter. Prices registered for copra and CNO in the first quarter are shown in Table 1 and the graphical illustration in Figure 1 below.

In January, copra registered US$486/MT which is an increase 5.4% compared to the preceding month. In February, it decreased by 12.6%, registering US$425/MT. It further decreased by 2.4% to US$415/MT in March.

CNO opened the quarter by registering US$761/MT in January, which is an increase of 0.9% compared to the preceding month. It decreased by 8.4% in February by registering US$697/MT, and further decreased by 2.6% to US$679/MT in March.

Demand for both CNO and palm kernel oil (PKO) in the lauric oil market have both risen due to the continuing expansion and demand increase of the oleo chemical, cosmetic and other manufacturing industries.

Global CNO price is determined or affected by the supply and demand situation of other vegetable oils, mainly close substitute, palm kernel oil (PKO). The price of PKO has been declining due to excess supply and this has had an impact on the price of CNO and copra as well, as reported in a statement made by the Philippine Coconut Authority (http://www.pca.da.gov.ph/index.php/10-news/173-pca-s-statement-on-copra-price-fluctuation). If the supply of PKO decreases, this will result in an increase in PKO prices which will then cause CNO prices to increase as well.

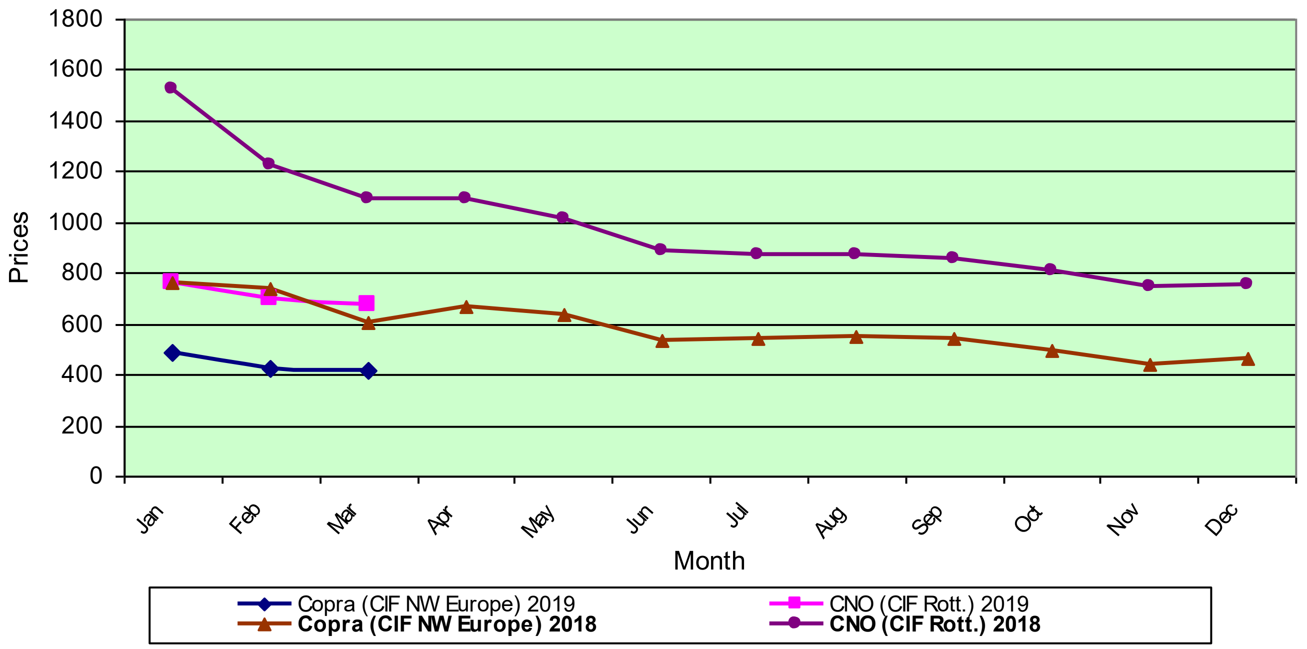
Table 1: Average Monthly Prices of Copra and CNO in 2019 (Jan-Mar)

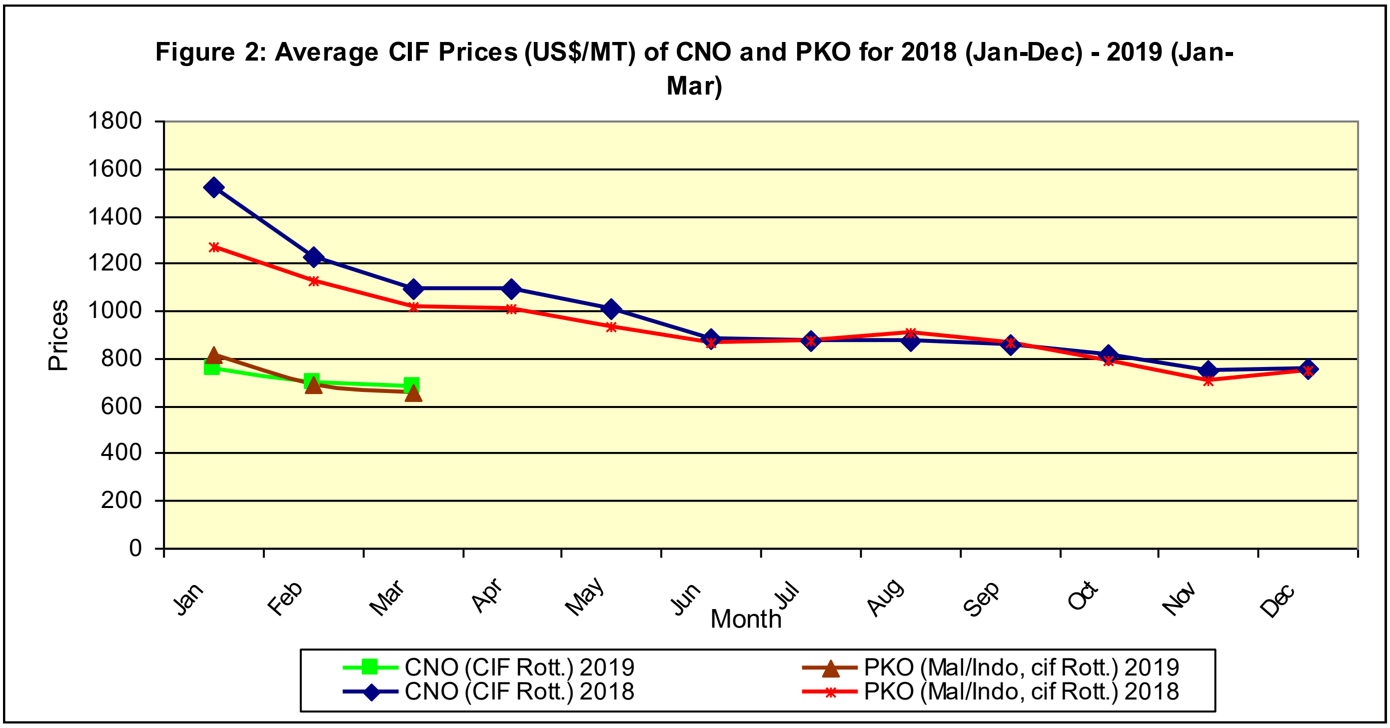
	Jan	Feb	Mar
Copra (CIF NW US$/MT)	486	425	415
Quarterly Average		**442**	
CNO (CIF Rott US$/ MT)	761	697	679
Quarterly Average		**713**	

All figures have been rounded up to one decimal place.

Source: The Public Ledger

Figure 1: Average CIF Prices (US$/MT) of Copra and CNO for 2018 (Jan-Dec) - 2019 (Jan-Mar).





2. DOMESTIC MARKET DEVELOPMENTS

2.1 Total Copra Production

Domestic copra production in this quarter decreased compared to the preceding quarter and aggregately registered 16,641 tonnes as shown in Figure 3. The total production registered in this quarter is 49.9% lower compared to the total production (33,193 tonnes) registered in the corresponding quarter of 2018.

The first quarter began production with January registering 6,063 tonnes which h is 20.9% higher than the volume registered in the preceding month. Following on, February registered 5,906 tonnes which is a decrease of 2.6%. In March, it decreased further by 20.9% to 4,671 tonnes. Total copra production (16,641 tonnes) for this quarter is lower by 6.4% compared to the aggregate volume registered in the preceding quarter.

The low level of production in this quarter compared to the corresponding quarter of 2018 is attributable to the low prices offered in the global market which has influenced the domestic market prices. PNG farmers are price sensitive so the low prices of copra has resulted in low copra production levels.

2.1 Total Copra Production

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

Aggregately, Rabaul/Toboi (5,152 tonnes) led the tally followed by Madang (5,149 tonnes), Buka (4,603 tonnes), Kimbe (1,303 tonnes), Alotau (229 tonnes) and Kavieng/Namatani (205 tonnes) in descending order.

Rabaul/Toboi began the quarter by registering 2,317 tonnes in January and decreased by 9.3% in February to 2,102 tonnes and decreased further by 65.1% to 733 tonnes in March.

Madang commenced with 1,695 tonnes in January and decreased in February by 1.0% to 1,678 tonnes. It increased by 5.8% to 1,776 tonnes in March.

Buka commenced with 1,458 tonnes in January and increased by 11.5% to 1,626 tonnes in February but decreased by 6.6% to 1,518 tonnes in March.

Kimbe began the quarter by registering 296 tonnes in January and increased by 50.7% to 446 tonnes in February. It increased further by 26.0% to 562 tonnes in March.

Alotau started with 93 tonnes in January and decreased by 41.9% to 54 tonnes in February but increased by 51.9% to 82 tonnes in March.

Kavieng/Namatanai began the quarter by recording 350 tonnes in January. There was no production for the months of February and March.

Rabaul/Toboi 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, and also copra being one of the major income earning commodities beside cocoa and others in the East New Britain Province. The closest rivals after Rabaul/Toboi are Madang and Buka.

Figure 3: Monthly Copra Production in PNG for 2018 (Jan-Dec) - 2019 (Jan-Mar)

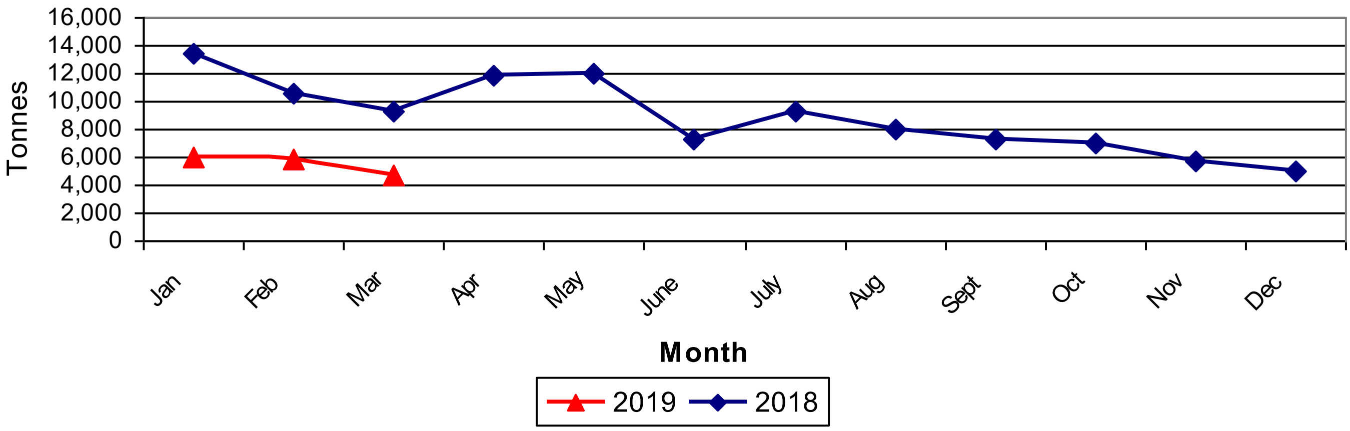


Table 2: Copra production (tonnes) by Major Buying Centers for 2019 (Jan—Mar)			
Centre/Depot	**Jan**	**Feb**	**Mar**
Rabaul/ Toboi	2,317	2,102	733
Madang	1,695	1,678	1,776
Buka	1,458	1,626	1,518
Kavieng/Namatanai	205	-	-
Kimbe	296	446	562
Alotau	93	54	82
Total	**6,063**	**5,906**	**4,671**

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 transhipment 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 K847, K815 and K790 per tonne, respectively. Based on these figures, the average premium price for hot air grade is K32 per tonne and the discount for the smoke grade is K25 per tonne. Compared to the preceding quarter, the average premium price for hot air per tonne increased by 45.5% and the discount price for the smoke grade decreased by 21.9%.

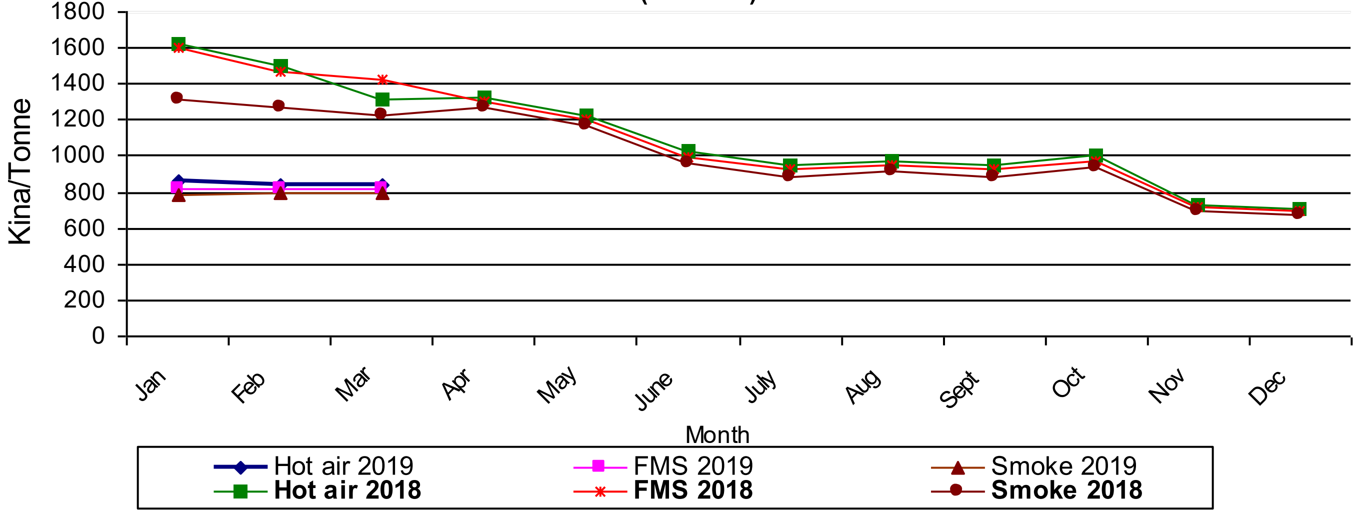
Monthly price fluctuations for 2018 and this quarter are shown in Figure 4.

As shown in Figure 4, the trend set in this quarter dwelled below the trend set in the corresponding quarter of 2018. January recorded K860/ tonne for hot air copra which is 1.1% higher than the price of the preceding month. FMS decreased by 2.5% to K817/tonne while smoke decreased by 3.5% to K780/tonne.

In February, the prices for the copra grades decreased. Price for the hot air decreased by 2.4% to K839/tonne, FMS decreased by 0.1% to K817/ tonne and the smoke grade increased by 2.2% to K797/tonne.

In March, hot air copra was priced at K843/ tonne, an increase of 0.5%. FMS decreased by 0.4% to K813/tonne and smoke grade also decreased by 0.5% to K793/ tonne.

Figure 4: Domestic Copra Prices (Kina/tonne) by Month for 2018 (Jan-Dec) and 2019 (Jan-Mar)



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, Madang offered the highest price for Hot air. It priced hot air at K1,187/tonne, a decrease of 3.1% compared to the price of the preceding quarter. FMS was priced at K1,142/tonne, a decrease of 5.8%, and smoke was priced at K1,142/tonne, a decrease of 4.0% compared to the prices of the preceding quarter.

Following Madang was Kavieng that priced hot air at K900/tonne, FMS at K800/tonne, and Smoke at K700/tonne. These prices are the same compared to the prices offered in the preceding quarter.

Kimbe rallied behind Kavieng pricing hot air at K775/tonne, a decrease of 10.4%, FMS at K725/tonne, a decrease of 11.7%, and smoke grade at K675/tonne, a decrease of 13.0%.

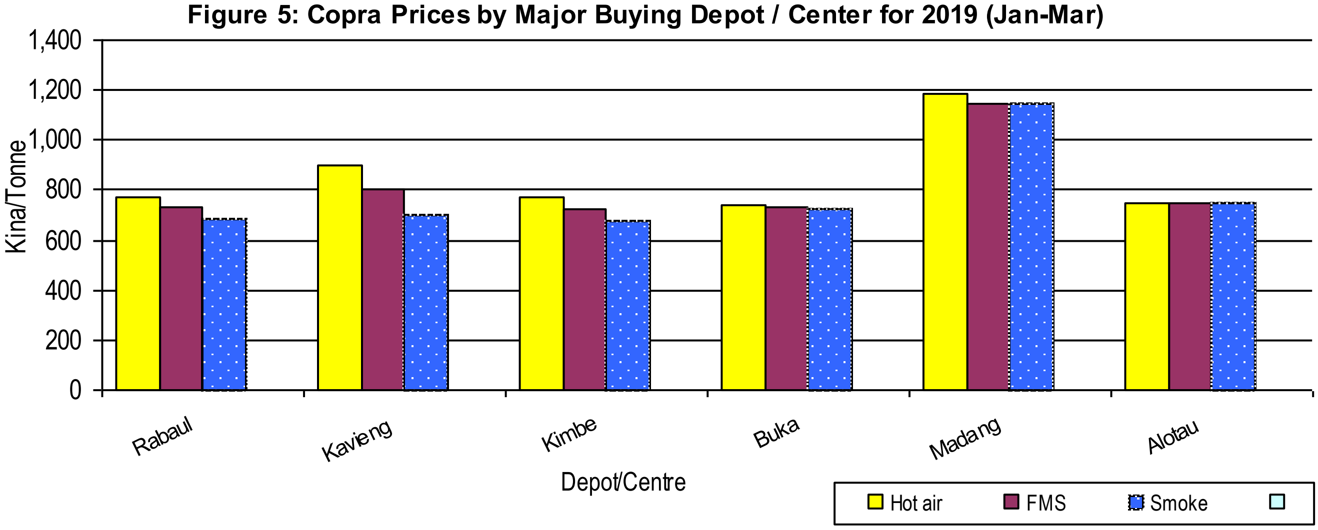
Following Kimbe was Rabaul that priced hot air at K772/tonne, a decrease of 15.4%. FMS at K730/tonne, a decrease of 16.8%, and smoke grade at K688/tonne, a decrease of 15.2%.

Following Rabaul was Alotau with K750/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. This price is 25.0% lower than the price offered in the preceding quarter.

Buka offered the lowest price at K739/tonne for hot air, FMS at K735/tonne and smoke at K722/tonne. These prices are lower by 0.5%, 0.5% and 1.7% 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.

Figure 5: Copra Prices by Major Buying Depot / Center for 2019 (Jan-Mar)



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 K1,735/tonne, an increase of 19.8% from the preceding month. February registered K1,586/tonne which is a decrease of 8.6%, but increased in March by 10.2% to K1,748/tonne.

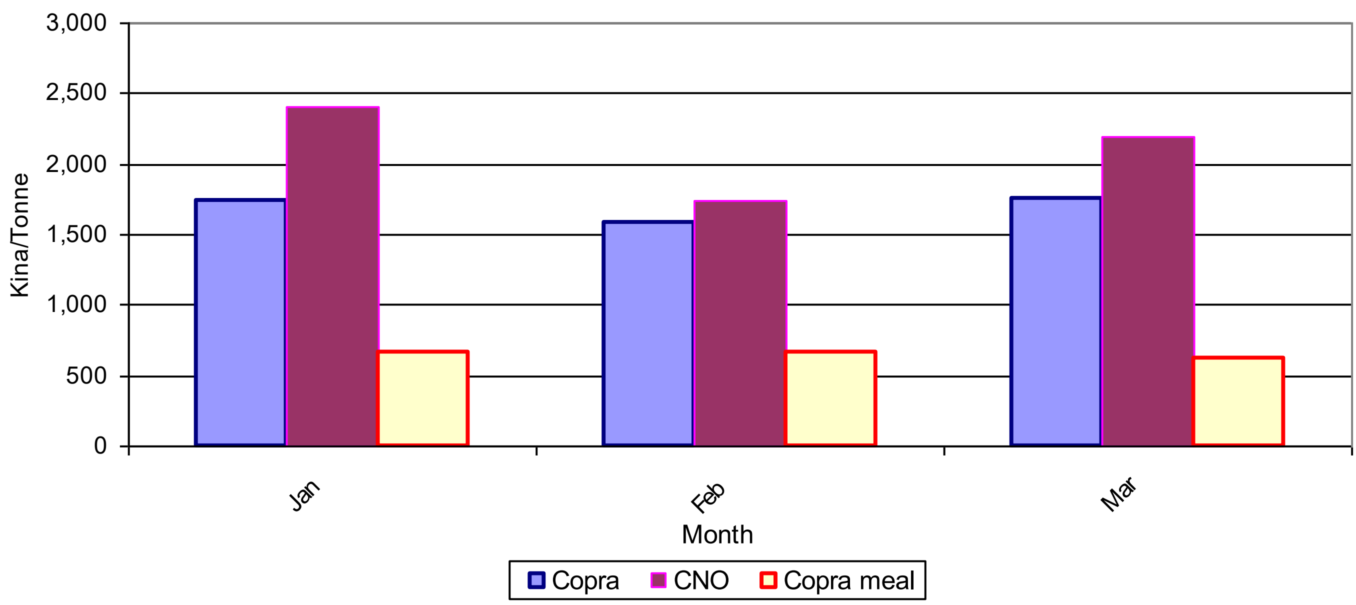
Price of CNO in this quarter began by registering K2,410/tonne in January, a decrease of 12.8% from the preceding month. In February, it decreased by 27.8% to K1,741/tonne, but increased by 25.8% in March to K2,190/tonne.

Copra meal export price experienced a fluctuating trend this quarter. It registered K661/tonne in January, an increase of 7.3% compared to the preceding quarter. In February, it also increased by 0.3% to K663/tonne, but decreased in March by 6.6% to K618/tonne.

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

The low prices of export coconut products experienced since the last quarter of 2018 are anticipated to improve in the coming quarter given the current market scenario of stable prices and growing demand at the international market.

Figure 6: Coconut Products Export Prices in PNG for Jan-Mar 2019



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 increased by 3.6% from the preceding month and registered K1,636/tonne in January. However, it decreased by 12.5% to K1,431/tonne in February and further decreased by 2.4% to K1,397/tonne in March.

The mill gate price behaved in a different fashion. January registered K742/tonne which is a decrease of 11.5% compared to the preceding month. In February, it decreased by 16.7% to K618/tonne, but increased by 9.5% to K677/tonne in March.

The price trends both at the international and domestic markets have resulted in export margins of 54.6%, 56.8% and 51.5% 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) 2019

Month	Exchange Rate (equivalent value of kina in US$)	FOB (Copra) Price Export (US$/ tonne)	FOB (Copra) Price Export (Kina/ tonne)	FMS (Copra) Price Mill gate (Kina/tonne)	Export Margin & Percentage out of the FOB Price (Kina/tonne)
January	0.2970	486	1,636	847	789 (48.2%)
February	0.2970	425	1,431	815	616 (43.0%)
March	0.2970	415	1,397	790	607 (43.5%)

Source: Kokonas Indastri 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 of copra, CNO and copra meal declined compared to the preceding quarter.

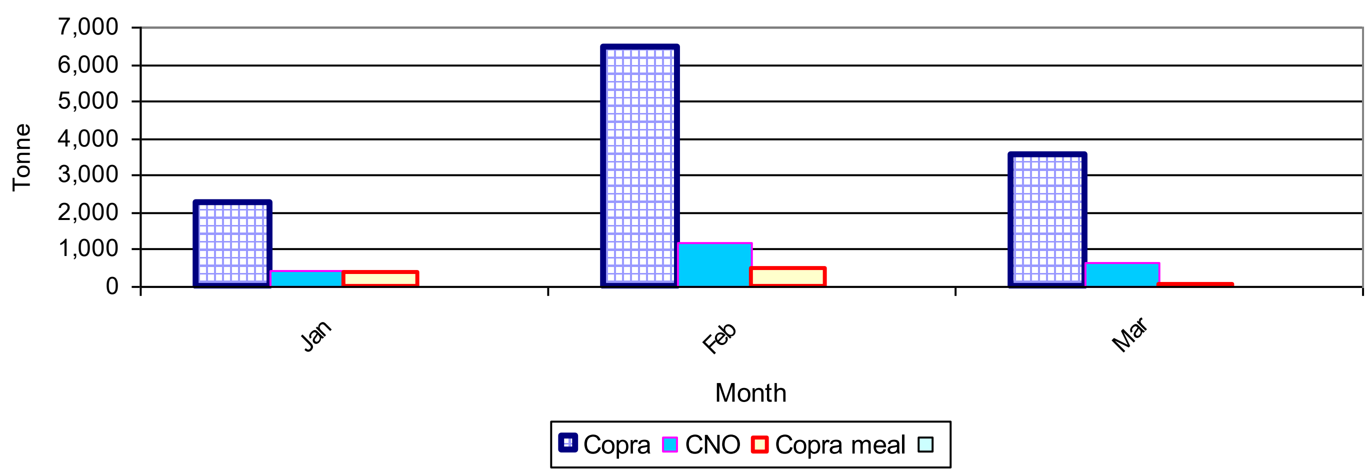
2.5.1 Copra

In this quarter copra export in January was 2,278 tonnes. It increased in February by 184.7% to 6,486 tonnes, but decreased by 45.6% to 3,527 tonnes in March.

Aggregately, this quarter recorded a total export volume of 12,291 tonnes of copra which is a decrease of 10.2% compared to the total export volume (11,157 tonnes) of the preceding quarter, and a decrease of 40.6% compared to the total volume (20,682 tonnes) in the corresponding quarter of 2018.

The decrease in copra exports depicts the response of price sensitive farmers as influenced by the falling price trends experienced during this quarter due to factors affecting the global market price of copra and the movement of the exchange rates.

Figure 7: Export volumes of coconut products for Jan - Mar 2019.



Export by destination

In this quarter, PNG exported a total of 12,291 tonnes of copra to two overseas markets namely Philippines and Bangladesh.

Of the total volume, Philippines bought 96.0% (11,794 tonnes) and Bangladesh bought 4.0% (497 tonnes). The Philippines continues to be the major buyer of PNG copra mainly because of the following reasons: (1) Philippines'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.

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 12,291 tonnes undertaken by ten (10) exporters namely Coconut Products Ltd (CPL), Aero Ltd, Pacific Lama Traders, Sankamap Ltd, Kimbe Bay Shipping Ltd (KBSL), Autonomous Bougainville Commodity (ABC) Ltd, GTM Distributors, Garden Enterprise, and two new exporters, One You Sing Enterprise and Sustainable Agriculture & Village Empower (SAVE).

Of the total volume, Aero Ltd led the tally by exporting 27.4% (3,364 tonnes). After Aero was Pacific Lama with 17.4% (2,141 tonnes), Sankamap with 10.5% (1,292), KBSL with 8.3% (1,018), ABC Ltd with 7.7% (946), Garden Enterprise with 7.3% (898 tonnes), One You Sing with 6.4% (782), GTM distributors with 6.0% (739), SAVE with 5.0% (614) CPL with 4.0% (497 tonnes) in descending order.

The fall in price in the global market has had an impact on the domestic prices resulting in a fall in export volume.

Table 4: Copra exports and market share for January—March 2019

Exporter/Port	First Quarter 2019 Export Volumes (Tonnes)	Market Share (%)
Aero Ltd	3,364	27.4%
Pacific Lama Traders	2,141	17.4%
Sankamap Ltd	1,292	10.5%
Kimbe Bay Shipping Ltd	1,018	8.3%
ABC Ltd	946	7.7%
Garden Enterprise	898	7.3%
One You Sing Enterprise	782	6.4%
GTM Distributors	739	6.0%
SAVE	614	5.0%
CPL	497	4.0%
TOTAL	12,291	100%

2.5.2 Coconut Oil Exports

A total of 2,270 tonnes of CNO was exported from PNG in this quarter. The month of January registered an export volume of 433 tonnes followed by February with 1,188 tonnes which is an increase of 174.4%, but decreased in March by 69.2% to 644 tonnes. Compared to the export volume (2,054 tonnes) of the preceding quarter, this quarter's total export volume increased by 10.5%.

Export by destination

CNO exported in this quarter went to two overseas markets — Malaysia and Indonesia. Malaysia bought 90.5% (2,054 tonnes) and Indonesia bought 9.5% (216 tonnes) of CNO from PNG in this quarter.

Export market share

The export of CNO in this quarter was undertaken by Pristine Co.101 Limited and Markham Farming Ltd.

Table 4b: Copra Oil (CNO) exports and market share for January—March 2019

Exporter/Port	Third Quarter 2018 Export Volumes (Tonnes)	Market Share (%)
Pristine Co.101 Ltd	1,190	52.4%
Markham Farming Ltd	1,080	47.6%
TOTAL	2,270	100%

2.5.3 Copra Meal Exports

In this quarter a total of 877 tonnes of copra meal was exported from PNG, which is a decrease of 32.4% compared to the total volume (1,297 tonnes) registered in the preceding quarter. January began by registering 360 tonnes and increased by 32.5% to 477 tonnes in February, but decreased again by 91.6% to 40 tonnes in March.

Export by destination

Copra meal exported in this quarter went to six destinations overseas namely Australia, New Zealand, Malaysia, United States, United Kingdom and South Africa. Of the total export volume, Australia bought 66.1% (580 tonnes), USA 18.1% (159 tonnes), UK 6.8% (60 tonnes), Malaysia 4.3% (38 tonnes), New Zealand 2.3% (20 tonnes and South Africa 2.3% (20 tonnes). Australia normally imports copra meal for feed stock for the livestock sectors while others import for various intermediary purposes.

Export market share

Most exports in this quarter were undertaken by Pristine Co.101 Limited and Markham Farming Ltd.

Table 4a: Copra Meal Exports and Market Share for January—March 2018.

Exporter/Port	Fourth Quarter 2018 Export Volumes (Tonnes)	Market Share (%)
Pristine Co.101 Ltd	440	50.2%
Markham Farming Ltd	437	49.8%
TOTAL	877	100%

3. EXPORT EARNINGS FROM COCONUT PRODUCTS

The export earnings from coconut products, namely copra, CNO and copra meal for the first quarters of 2018 and 2019 are summarised in Table 5 below.

In comparison to the corresponding quarter of 2018, copra, CNO and copra meal registered a significant decrease in export revenue this quarter.

Copra, CNO and copra meal revenue registered in this quarter were lower by 50.1%, 74.5% and 58.8% respectively, compared to the revenue registered in the corresponding quarter of 2018.

The aggregate export revenue generated from coconut products in this quarter is 56.7% lower than the total export revenue registered in the corresponding quarter of 2018.

The decrease in revenue registered in this quarter is attributable to the fall in prices at the global market since the last quarter of 2018.

Table 5: Export earnings from coconut products for the first quarters of 2018 & 2019

Coconut Product	Jan-Mar 2018 (Kina)	Jan-Mar 2019 (Kina)
Copra	42,054,610	20,990,526
CNO	15,492,632	3,953,879
Copra Meal	1,371,908	565,111
TOTAL	58,919,150	25,509,516

Source: *Kokonas Indastri Koporesen*

4. CONCLUSION

Generally, prices of copra and CNO both on the aggregate and average levels decreased in this quarter compared to the preceding quarter. Average prices of copra and CNO decreased by 5.6% and 7.6% respectively, 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 a decrease in terms of production and export volumes. Copra production decreased in this quarter by 6.4% from the preceding quarter, and this had an impact on the exports of copra, CNO and copra meal which all recorded a decrease in terms of export volumes.

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

General export earnings of all coconut products recorded a decrease this quarter compared to the preceding quarter. The decrease in export revenue has mainly been attributed to the decrease in global prices in the international market.

Global CNO price is determined or affected by the supply and demand situation of other vegetable oils, mainly close substitute, palm kernel oil (PKO). If the supply of PKO decreases, this will result in an increase in PKO prices which will then cause CNO prices to increase as well.