



KOKONAS INDUSTRI KOPORESEN

QUARTERLY COCONUT INDUSTRY MARKET REPORT

JAN — MAR 2018

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1. INTERNATIONAL MARKET DEVELOPMENTS

Global prices of copra and copra oil (CNO) saw a declining trend since the beginning of the year. This quarter registered quarterly averages of US\$703/MT US\$1,773/MT respectively for copra and CNO. These prices are lower by 22.5% and 12.0% respectively compared to the average prices registered in the preceding quarter. Prices registered for copra and CNO in the preliminary quarter of 2018 are shown in Table 1 and the graphical illustration in Figure 1 below.

In January, copra registered US\$763/MT which is a decrease of 15.5% compared to the last month of the preceding year. In February it decreased again by 4.9%, registering US\$741/MT. It further decreased by 18.4% to US\$605/MT in March.

CNO opened the quarter by registering US\$1,525/MT in January which is an increase of 6.6% compared to the preceding month. It decreased by 19.7% in February by registering US\$1,225, and further decreased by 10.6% to US\$1,095/MT in March.

The fall in prices of both copra and CNO is due to over supply of copra and stiff competition faced by CNO in

the lauric oil markets.

Demand for CNO and close substitute, palm kernel oil (PKO), 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 trend may improve all through 2018. Major global producers of CNO namely Philippines and Indonesia have plans underway to increase the bio-diesel 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 2018 (Jan-Mar)

	Jan	Feb	Mar
Copra (CIF NW US\$/MT)	763	741	605
Quarterly Average	703		
CNO (CIF Rott US\$/ MT)	1,525	1,225	1,095
Quarterly Average	1,282		

All figures have been rounded up to one decimal place.

Source: The Public Ledger

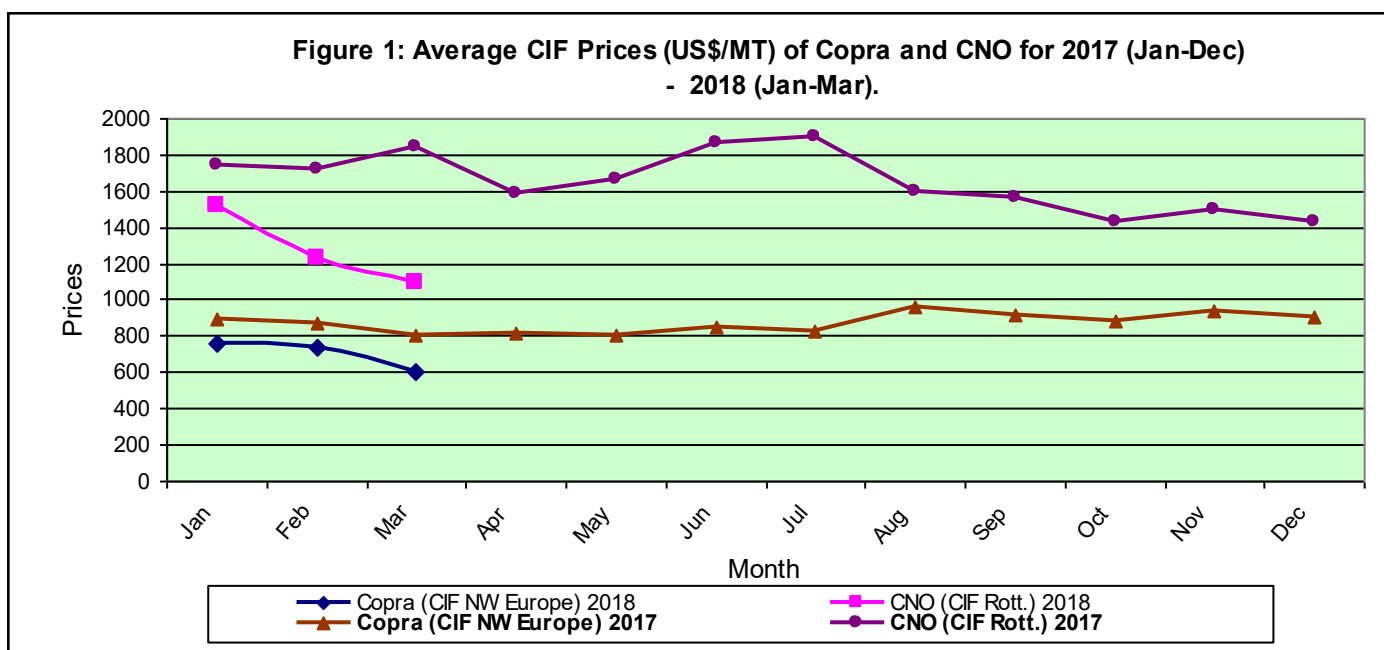
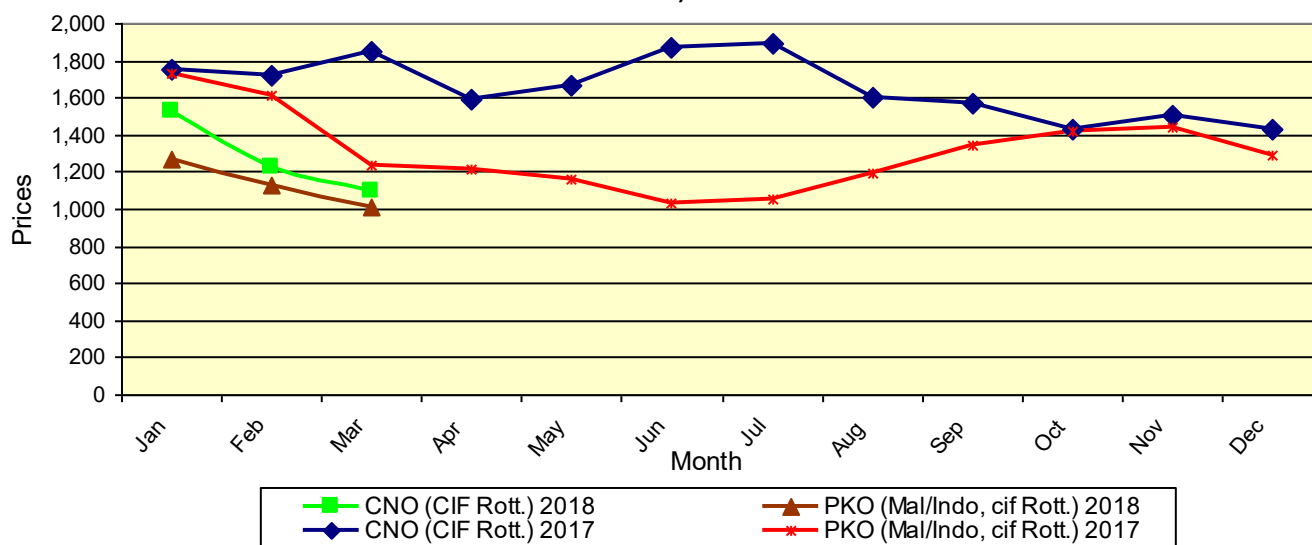


Figure 2: Average CIF Prices (US\$/MT) of CNO and PKO for 2017 (Jan-Dec) - 2018 (Jan-Mar)



2. DOMESTIC MARKET DEVELOPMENTS

2.1 Total Copra Production

Domestic copra production in this quarter increased from the preceding quarter and aggregately registered 33,193 tonnes as shown in Figure 3. The total production registered in this quarter is 1.4% higher compared to the total production (32,736 tonnes) registered in the corresponding quarter of 2017.

The first quarter began production with January registering 13,379 tonnes which is 28.7% more than the volume registered in the preceding month. Following on February registered 10,514 tonnes which is a decrease of 21.4%. In March production decreased further by 11.5% to 9,300 tonnes. Total copra production (33,193 tonnes) for this quarter is higher by 29.5% compared to the aggregate volume registered in the preceding quarter.

The positive trend in production from 2017 that continued into the first quarter of 2018 is attributable to the high demand in the global market. Despite the fall in copra prices, PNG farmers and producers continue producing copra to earn income to support their families due to the current economic situation in the country.

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 (10,864 tonnes) led the tally followed by Buka (7,651 tonnes), Madang (5,905 tonnes), Kimbe (4,961 tonnes), Kavieng/Namatanai

(2,903 tonnes), and Alotau (908 tonnes) in descending order.

Rabaul/Toboï began the quarter by registering 4,470 tonnes in January and decreased by 28.2% in February to 3,209 tonnes and decreased further by 0.7% to 3,186 tonnes in March. Buka registered 2,950 tonnes in January and decreased by 12.4% to 2,586 tonnes in February and further decreased by 18.1% to 2,117 tonnes in March. Madang began the quarter by registering 2,496 tonnes and decreased by 9.2% to 2,267 tonnes in February. It declined further by 49.6% to 1,142 tonnes in March. Kimbe commenced with 2,015 tonnes in January and decreased in February by 31.2% to 1,386 tonnes. It then increased by a massive 12.7% to 1,562 tonnes in March. Kavieng/Namatanai began the quarter by recording 1,238 tonnes in January and decreased by 36.2% to 790 tonnes in February and picked up again by 10.9% to 876 tonnes in March. Alotau started with 211 tonnes in January and increased by 31.8% to 278 tonnes in February and further increased by 50.7% to 419 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, 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/Toboï are Buka and Madang.

Figure 3: Monthly Copra Production in PNG for 2017 (Jan-Dec) - 2018 (Jan-Mar)

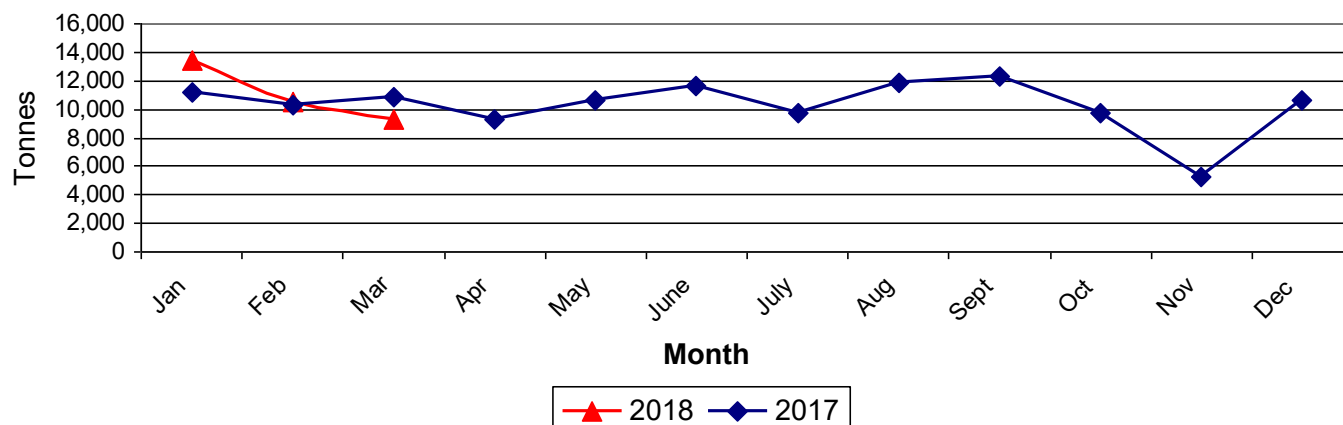


Table 2: Copra Production (tonnes) by Major Buying Centers for 2018 (Jan—Mar)

Centre/Depot	Jan	Feb	Mar
Rabaul/ Toboi	4,470	3,209	3,186
Madang	2,496	2,267	1,142
Buka	2,950	2,585	2,117
Kavieng/Namatanai	1,238	790	876
Kimbe	2,015	1,386	1,562
Alotau	211	278	419
Total	13,379	10,514	9,300

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 K1,477, K1,448 and K1,409 per tonne, respectively. Based on these figures, the average premium price for hot air grade is K29 per tonne and the discount for the smoke grade is K39 per tonne. Compared to the preceding quarter, the average premium price for hot air per tonne decreased by 21.6% and the discount price for the smoke grade decreased by 44.4%.

Monthly price fluctuations for 2017 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 2017.

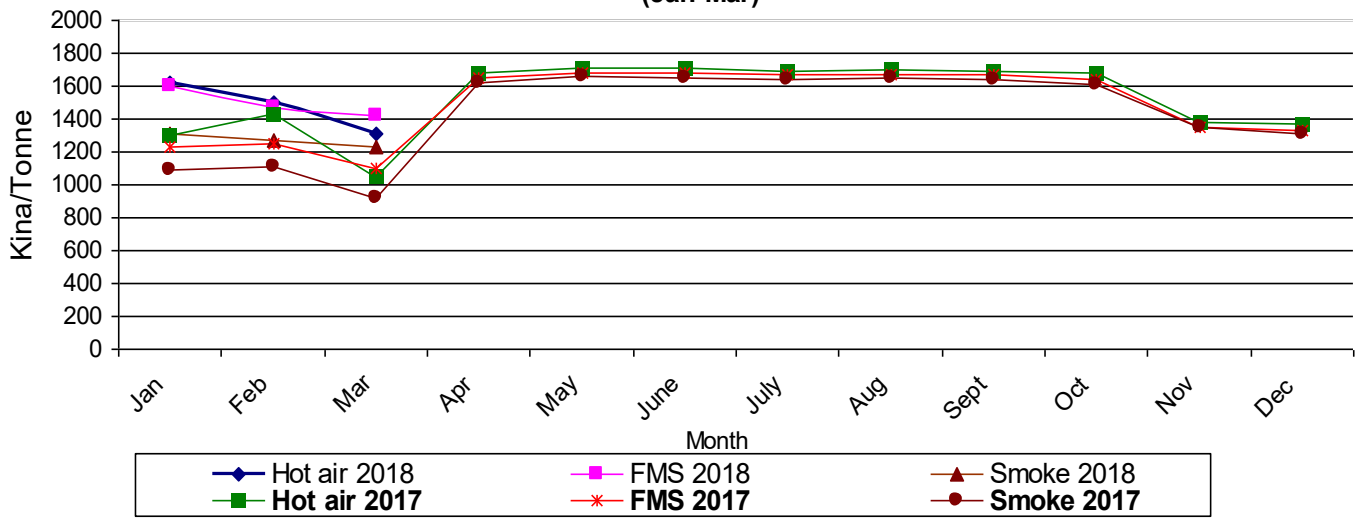
January recorded K1,618/tonne for hot air copra which is 18.4% more than the price of the preceding month. FMS and smoke followed the same trend with an increase of 20.2% and 20.9% respectively.

In February the prices for the copra grades declined. Price for the hot air decreased by 7.2% to K1,501/tonne, FMS decreased by 8.2% to K1,469/tonne and the smoke grade decreased by 3.1% to K1,423/tonne.

March also saw a declining trend for hot air, FMS and smoke. Hot air copra was priced at K1,311/tonne a decrease of 12.7%, the FMS decreased by 13.2% to K1,274/tonne and smoke grade decreased by 13.8% to K1,226/tonne.

The decline in domestic prices depicts the trend in the global market.

Figure 4: Domestic Copra Prices (Kina/tonne) by Month for 2017 (Jan-Dec) and 2018 (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 prices for hot air. It priced hot air at K1,619/tonne, a decrease of 11.3% compared to the price of the preceding quarter. FMS was priced at K1,602/tonne a decrease of 11.6% and smoke was priced at K1,590/tonne, a decrease of 11.7% compared to the prices of the preceding quarter.

Following Madang was Buka that priced hot air at 1,560/tonne, a decrease of 9.7%, FMS at K1,549/tonne, a decrease of 10.3%, and Smoke at K1,532/tonne, a decrease of 11.3%.

Kavieng rallied behind Buka pricing hot air at K1,504/tonne, a decrease of 14.1%, FMS at K1,446/tonne, a decrease of 9.6%, and smoke at K1,365/tonne, a decrease of 9.0%, compared to the prices offered in the preceding quarter.

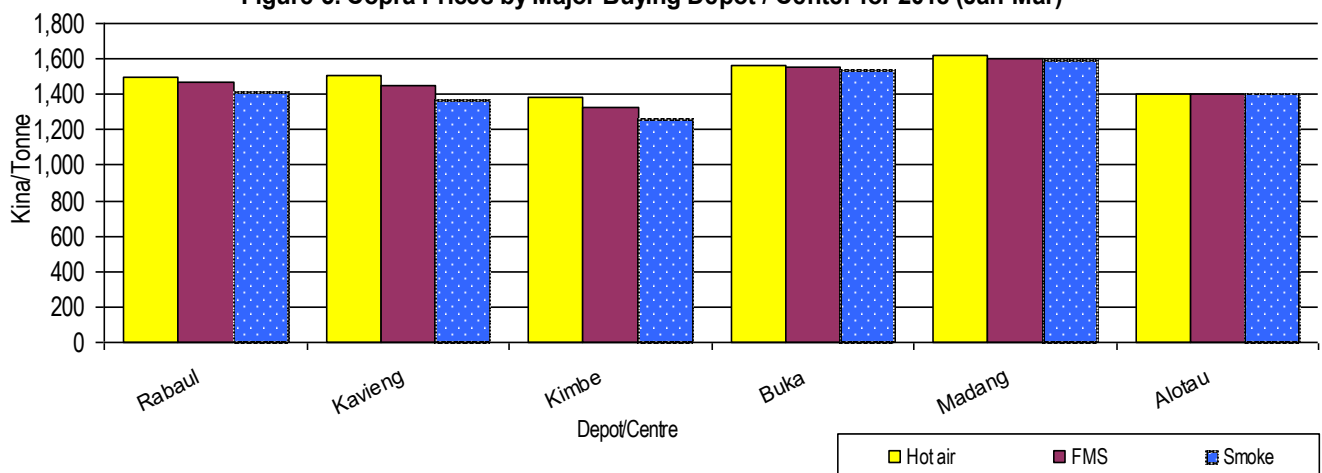
Rabaul followed Kavieng by pricing hot air at K1,494/tonne, FMS at K1,468/tonne and smoke at K1,411/tonne and these prices are lower by 15.7%, 16.4% and 19.4% respectively compared to the prices of the preceding quarter.

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.

Kimbe offered the lowest prices of all by pricing hot air at K1,383/tonne, FMS at K1,325/tonne and smoke at K1,258/tonne. These prices are lower by 14.0%, 15.0% and 16.6% 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 2018 (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 K2,317/tonne, a decrease of 17.4% from the preceding month. February registered K2,867/tonne which is an increase of 23.7%, however it decreased in March by 19.3% to K2,314/tonne.

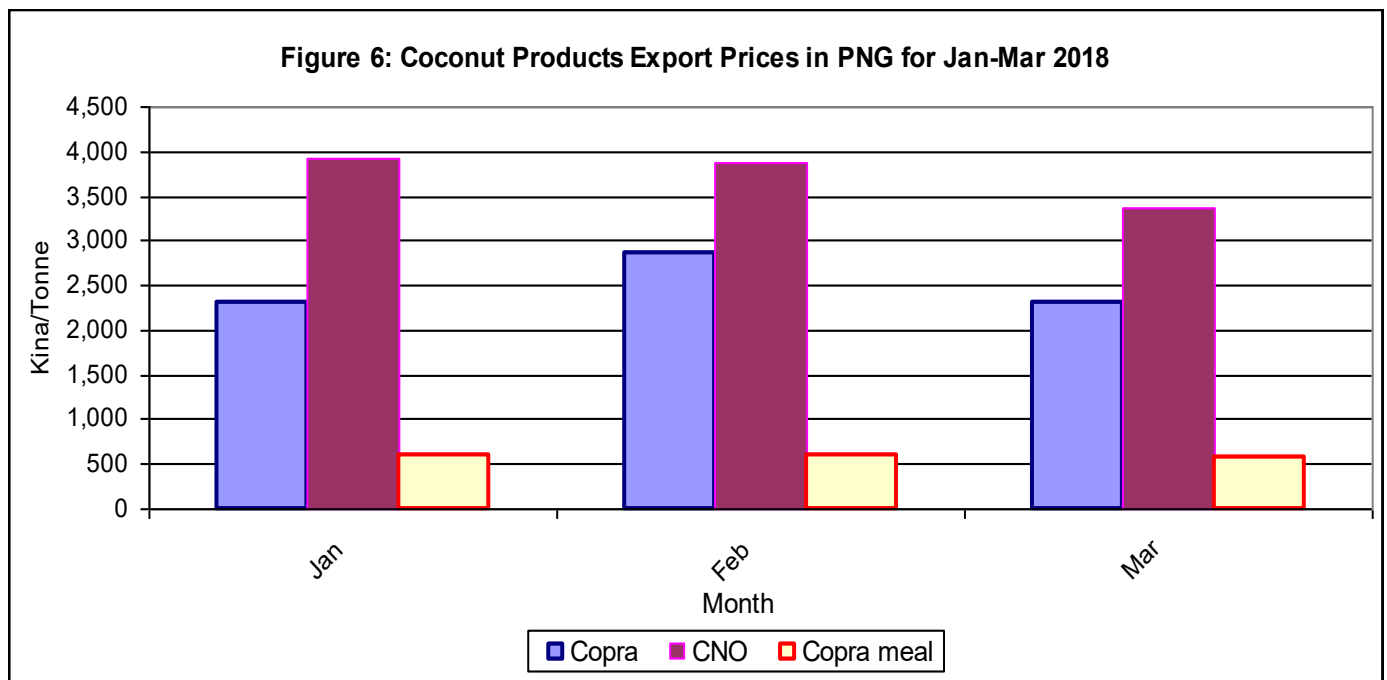
Price of CNO in this quarter saw a declining trend. January registered K3,913/tonne, a decrease of 9.3% from the preceding month. February decreased

further by 1.2% to K3,867/ tonne and March recorded K3,374/tonne, a decrease of 12.7%.

Copra meal export prices experienced a fluctuating trend this quarter. It registered K597/tonne in January and increased by 1.7% to K607/tonne in February, while March however, registered K584/tonne, a decrease of 3.8%.

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 declining prices of export coconut products experienced in this quarter is due to over supply.



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 declined 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 K2,459/tonne in January. It decreased by 2.5% to K2,397/tonne in February and decreased further by 18.0% to K1,965/tonne in March.

The mill gate price behaved in a similar fashion.

January registered K1,601/tonne which is an increase of 20.2% compared to the preceding month.

In February it decreased by 8.2% to K1,469/tonne, and decreased further by 16.5% to K1,226/tonne in March.

The price trends both at the international and domestic markets have resulted in export margins of 53.6%, 63.2% and 60.3% respectively for January, February and March.

This indicates two assumptions, either the cost of production in PNG is very high or the exporters of coconut products have inflated prices due to high operational costs.

Table 3: Copra Export Margin for the First Quarter (January-March) 2018

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
January	0.3103	763	2,459	1,601	858 (53.6%)
February	0.3091	741	2,397	1,469	928 (63.2%)
March	0.3079	605	1,965	1,226	739 (60.3%)

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.

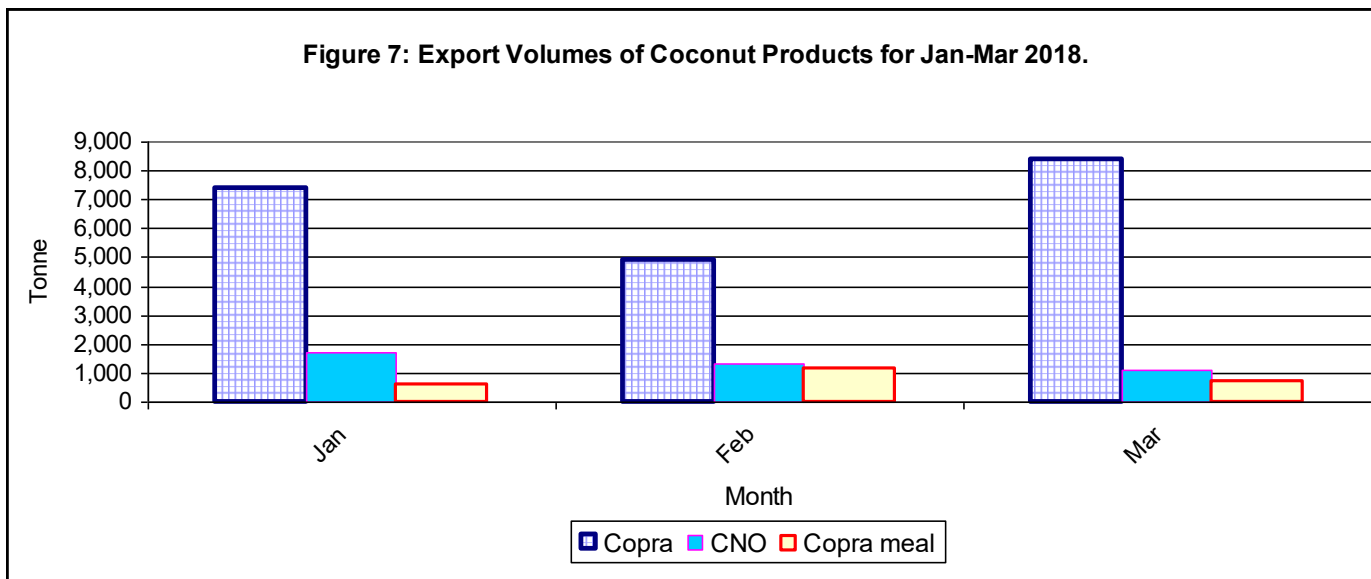
2.5.1 Copra

In this quarter, export in January was 7,380 tonnes of copra and decreased in February by 33.4% to 4,916 tonnes and but increased again by 70.6% to 8,386 tonnes in March.

Aggregately, this quarter recorded a total export volume of 20,682 tonnes of copra which is an increase of 20.9% compared to the total export volume (17,104 tonnes) of the preceding quarter, and by 57.6% compared to the total volume (13,121 tonnes) in the corresponding quarter of 2017.

The increase in copra exports is due to over supply depicting the positive response of farmers who are working hard to make a living given the current unfavourable economic conditions faced by the country.

Figure 7: Export Volumes of Coconut Products for Jan-Mar 2018.



Export by Destination

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

Of the total volume, Philippines bought 87.3% (18,055 tonnes), Bangladesh 11.7% (2,422 tonnes), and Malaysia 1.0% (204 tonnes).

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; (3) More companies are going into High Value Coconut Products such as virgin coconut oil, soap, body oils/lotions, etc.

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 20,682 tonnes undertaken by six exporters namely Coconut Products Ltd (CPL), Kimbe Bay Shipping Ltd (KBSL), Sankamap Ltd, AERO Ltd, ABC Ltd and XLT Enterprises.

Of the total volume, CPL led the tally by exporting 32.0% (6,627 tonnes). After CPL was KBSL with

28.6% (5,911 tonnes), Sankamap with 16.1% (3,334 tonnes), Aero Ltd with 11.1% (2,300 tonnes), ABC Ltd with 7.8% (1,602 tonnes) and XLT Enterprises with 4.4% (908 tonnes) in descending order.

Reticent farmers have already awoken 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 2018

Exporter/Port	First Quarter 2018 Export Volumes (Tonnes)	Market Share (%)
Coconut Products Ltd	6,627	32.0%
Kimbe Bay Shipping Ltd	5,911	28.6%
Sankamap Ltd	3,334	16.1%
AERO Ltd	2,300	11.1%
ABC Ltd	1,602	7.8%
XLT Enterprises	908	4.4%
TOTAL	20,682	100%

2.5.2 Coconut Oil Exports

A total of 4,120 tonnes of CNO was exported from PNG in this quarter. The month of January registered an export volume of 1,732 tonnes followed by February with 1,302 tonnes which is a decrease of 24.8%, and decreased again by 16.6% with 1,087 tonnes in March. Compared to the export volume (5,980 tonnes) of the preceding quarter, this quarter's total export volume increased by 1.3%.

Export by Destination

CNO exported in this quarter went to three overseas markets namely Indonesia, Malaysia and Singapore. Of the total volume, 55.3% (2,276 tonnes) went to Malaysia, 34.2% (1,409 tonnes) went to Indonesia, and 10.6% (435 tonnes) went to Singapore,

Export Market Share

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

2.5.3 Copra Meal Exports

In this quarter a total of 2,444 tonnes of copra meal was exported from PNG which is an increase of 21.7% compared to the total volume (2,009 tonnes) registered in the preceding quarter.

The quarter began by registering 580 tonnes in January and increased by 97.6% to 1,146 tonnes in February, but decreased again by 37.3% to 718 tonnes in March.

Export by Destination

Copra meal exported in this quarter went to five destinations overseas namely: India, Australia, United States (US), United Kingdom (UK), South Africa. Of the total export volume, India bought 47.6% (1,164 tonnes), Australia 32.7% (800 tonnes), US 13.1% (320 tonnes), UK 5.7% (140 tonnes) and South Africa 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 and Markham Farming Ltd.

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 2017 are summarised in Table 5 below.

In comparison to the corresponding quarter of 2017, copra registered an increase while CNO and copra meal registered a decrease in export revenue this quarter.

Copra income registered in this quarter is higher by 44.9%, while CNO and copra meal income registered a decrease of 32.2% and 3.5% respectively. The aggregate export revenue generated

from coconut products in this quarter is 10.6% higher than the total export revenue registered in the corresponding period of 2017.

The general revenue increase registered in this quarter is attributable to the rise in prices at the global market in the last quarter of 2017, and excess supply in this quarter of 2018 despite the declining prices. It is assumed that the current trend in price may continue into the next quarter given the current supply and demand conditions at the international level.

Table 5: Export Earnings from Coconut Products for the First Quarters of 2018 & 2017

Coconut Product	Jan-Mar 2018 (Kina)	Jan-Mar 2017 (Kina)
Copra	42,054,610	29,021,060
CNO	15,492,632	22,843,862
Copra Meal	1,371,908	1,421,871
TOTAL	58,919,150	53,286,793

Source: *Kokonas Industri Koporesen*

4. CONCLUSION

Global prices of copra and CNO declined in this quarter compared to the preceding quarter. The average price of copra and CNO decreased by 22.5% and 12.0% respectively compared to the preceding quarter. The fall in prices of both copra and CNO in this quarter is due to over supply of copra and stiff competition faced by CNO in the lauric oil markets.

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 29.5%. Exports of copra, CNO and copra meal all recorded an increase in terms of export volume.

General export earnings of all coconut products recorded an increase this quarter compared to the earnings recorded in the corresponding quarter of 2017. The general revenue increase is attributable to the rise in prices in the global market in the last quarter of 2017, and over-supply in this quarter of 2018 despite the declining price trend.

It is assumed that the current trends in price and production of the major coconut products will continue into the next quarter of 2018 due to the current conditions in the global market such as supply and demand.