



KOKONAS INDUSTRI KOPORESEN

QUARTERLY COCONUT INDUSTRY MARKET REPORT

OCT — DEC 2017

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1. INTERNATIONAL MARKET DEVELOPMENTS

Prices registered for copra and CNO in 2017 are shown in Table 1 and the graphical illustration in Figure 1 below.

In October copra registered US\$883/MT, a decrease of 3.5% compared to the preceding month. In November price increased by 5.9% to US\$935/MT, but decreased by 3.4% to US\$903/MT in December.

CNO prices fluctuated in the fourth quarter. October registered US\$1,435/MT, a decrease of 8.4% compared to the preceding month. November registered US\$1,502/MT, an increase of 4.7% and December registered US\$1,430/MT, a decrease of 4.8%.

The average prices of copra and CNO moved in different fashions where copra prices increased by 0.9% to US\$907/MT and CNO price decreased by 13.7% to US\$1,456/MT compared to the average prices registered in the preceding quarter.

Although there has been a fluctuating price trend

throughout the year, the prices have still been significantly higher from those experienced in 2012 & 2013. The increase in the prices in this period was driven by the shift in global demand to Palm Kernel Oil (PKO) due to the high premium price of CNO over PKO. However, as the price gap of the two commodities is narrowing, the price of CNO is expected to recover (APCC Cocommunity, Vol.XLV No.5).

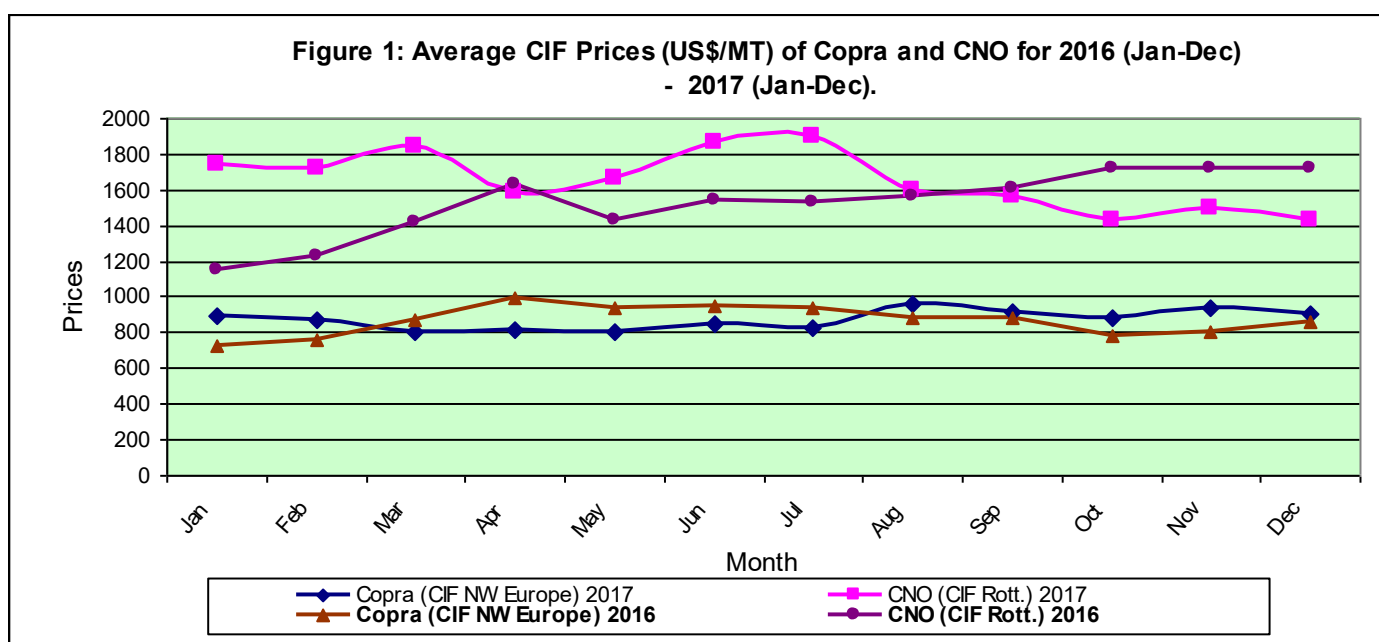
It is expected that the price of CNO in the first quarter of 2017 will increase due to several factors such as increasing demand for CNO and shortage supply in the global market; major global producers of CNO namely Philippines and Indonesia have plans underway to increase the biodiesel blending from 2.5% to 5% and 7.5% to 10% for respectively as reported in the Cocommunity will have bearing on the increase in price for CNO.

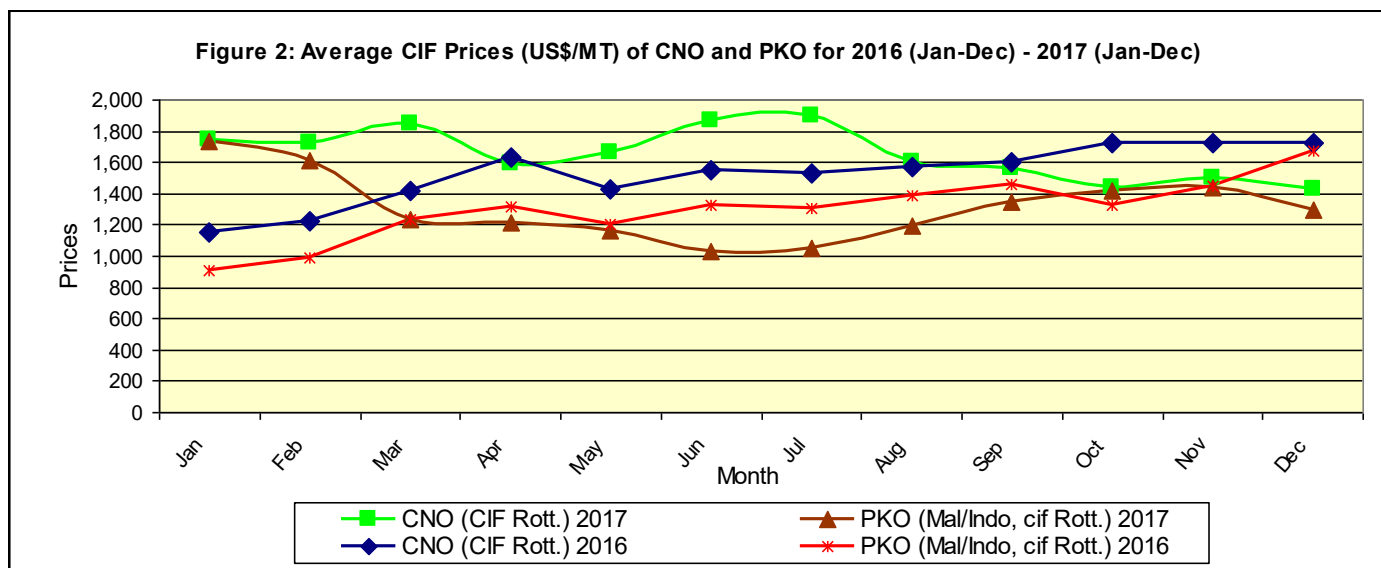
Table 1: Average monthly prices of copra and CNO in 2017 (Jan-Dec)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Copra (CIF NW US\$/MT)	893	870	805	816	803	851	823	959	915	883	935	903
Quarterly Average	856			823			899			907		
CNO (CIF Rott US\$/ MT)	1,748	1,725	1,847	1,588	1,662	1,870	1,895	1,602	1,566	1,435	1,502	1,430
Quarterly Average	1,773			1,707			1,688			1,456		

All figures have been rounded up to one decimal place.

Source: The Public Ledger





2. DOMESTIC MARKET DEVELOPMENTS

2.1 Total Copra Production

Domestic copra production in this quarter decreased from the preceding quarter and aggregately registered 25,625 tonnes as shown in Figure 3. However, the total production registered in this quarter is 23.2% higher compared to the total production (20,799 tonnes) registered in the corresponding quarter of 2016.

The fourth quarter began production with October registering 9,733 tonnes which is 20.6% less than the volume registered in the preceding month. Following on, November registered 5,220 tonnes which is a decrease of 46.4%. In December, production increased by 104.4% to 10,670 tonnes. Total copra production (25,625 tonnes) for this quarter is lower by 24.3% compared to the aggregate volume registered in the preceding quarter.

The high level of production from 2016 that continued into 2017 is attributable to the high prices offered in the global market which has 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, Buka (9,543 tonnes) led the tally followed by Kimbe (5,326 tonnes), Rabaul/Toboi

(5,291 tonnes), Madang (3,251 tonnes), Kavieng/Namatanai (1,710 tonnes) and Alotau (504 tonnes) in descending order.

Buka began the quarter by registering 2,442 tonnes in October and decreased by 49.1% to 1,243 tonnes in November but increased again by 371.2% to 5,857 tonnes in December. Kimbe began the quarter by registering 1,751 tonnes in October and decreased by 6.5% to 1,638 tonnes in November. It increased by 13.3% to 1,938 tonnes in December. Rabaul/Toboi began the quarter by registering 1,650 tonnes in October and increased by 1.5% in November to 1,674 tonnes. It further increased by 17.5% to 1,967 tonnes in December. Madang registered 3,251 tonnes in October. There was no record for the months of November and December. Kavieng/Namatanai commenced with 475 tonnes in October and increased in November by 12.0% to 532 tonnes and further increased by 32.1% to 703 tonnes in December. Alotau started with 165 tonnes in October and decreased by 19.4% to 133 tonnes in November. It increased again by 54.9% to 205 tonnes in December.

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 in the East New Britain Province. The closest rivals after Rabaul/Toboi are Buka and Madang.

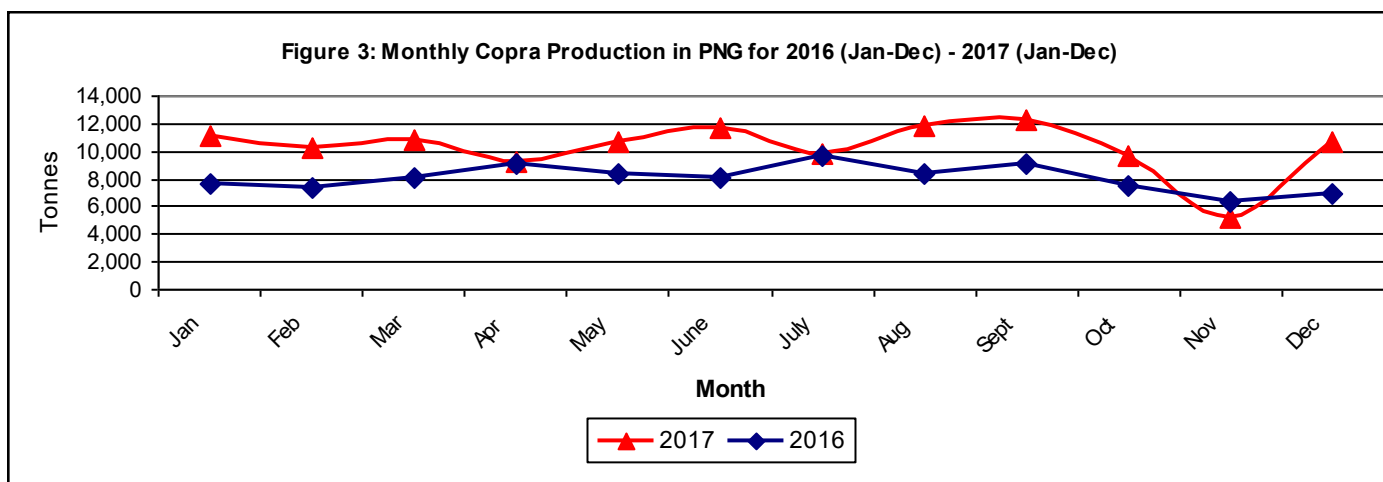


Table 2: Copra production (tonnes) by major buying centres for 2017 (Jan—Dec).

Centre/Depot	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Rabaul/ Toboi	3,606	3,276	2,067	3,354	3,086	3,349	3,328	3,781	3,853	1,650	1,675	1,967
Madang	1,667	1,574	1,404	1,280	1,866	2,070	2,029	2,581	2,795	3,251	-	-
Buka	2,643	2,456	2,256	1,936	2,237	2,150	2,424	2,946	3,114	2,442	1,243	5,857
Kavieng/Namatanai	2,319	1,972	1,998	1,746	2,183	3,335	563	667	702	475	532	703
Kimbe	786	852	3,269	721	1,019	772	1,217	1,600	1,792	1,751	1,638	1,938
Alotau	125	180	285	266	224	-	199	253	-	165	133	206
Total	11,145	10,310	11,280	9,303	10,613	11,677	9,760	11,829	12,255	9,734	5,220	10,671

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 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.

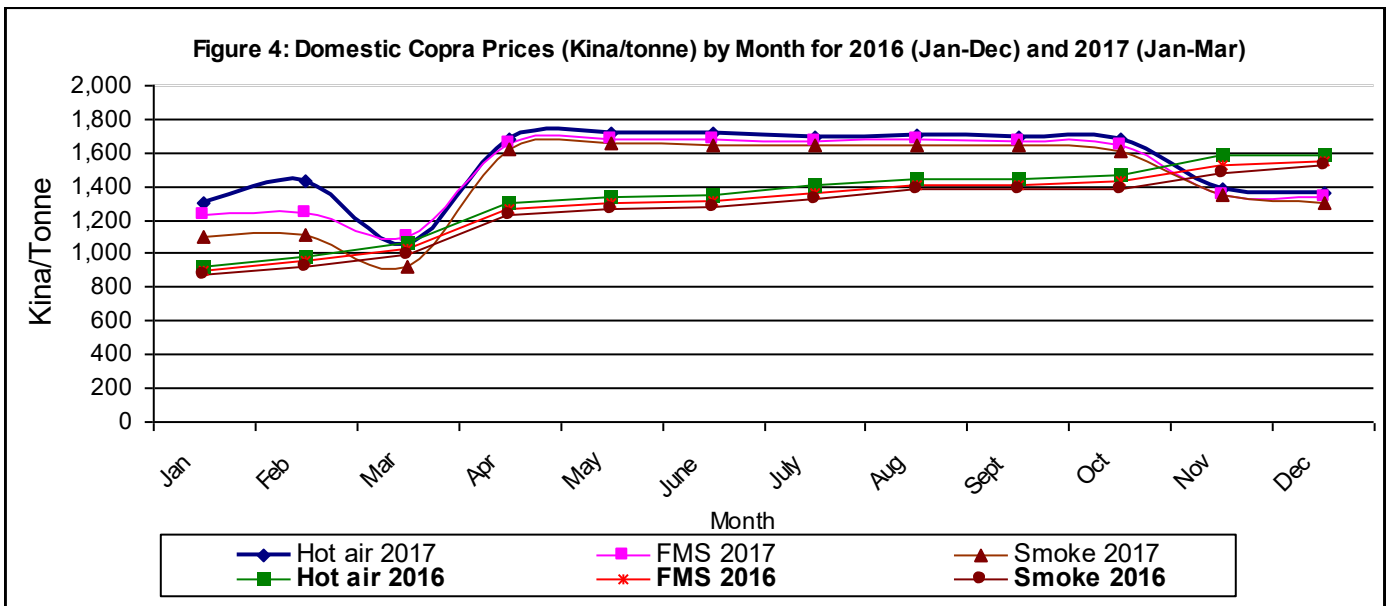
During this quarter, the average Hot Air, FMS and Smoke grade prices were K1,478, K1,441 and K1,414 per tonne, respectively. Based on these figures, the average premium price for hot air grade is K37 per tonne and the discount for the smoke grade is K27 per tonne. Compared to the preceding quarter, the average premium price for hot air per tonne increased by 54.2% and the discount price for the smoke grade remained at K27 per tonne.

Monthly price fluctuations for 2016 and 2017 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 2016. October recorded K1,681/tonne for hot air copra which is 0.5% less than the price of the preceding month. FMS and smoke followed the same trend with a decrease of 1.6% and 1.6%, respectively.

In November the prices for the copra grades decreased. Price for the hot air decreased by 17.6% to K1,385/tonne, FMS decreased by 18.1% to K1,347/tonne and the smoke grade also decreased by 18.1% as well to K1,323/tonne.

In December, hot air copra was priced at K1,366/tonne, a decrease of 1.4%. FMS decreased by 1.1% to K1,332/tonne and smoke grade also decreased by 1.3% to K1,306/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, Madang offered the highest prices for hot air. It priced hot air at K1,825/tonne, a decrease of 3.0% compared to the price of the preceding quarter. FMS was priced at K1,813/tonne a decrease of 3.3% and smoke was priced at K1,800/tonne, a decrease of 2.9% compared to the prices of the preceding quarter.

Following Madang was Rabaul that priced hot air at K1,772/tonne, an increase of 7.3%, FMS at K1,756/tonne, an increase of 7.1%, and Smoke at K1,751/tonne, also an increase of 7.9%.

Kavieng followed Rabaul by pricing hot air at K1,750/tonne, FMS at K1,600/tonne and smoke at K1,500/tonne and these prices are higher by 13.5%, 9.1% and 7.8% respectively compared to the prices of

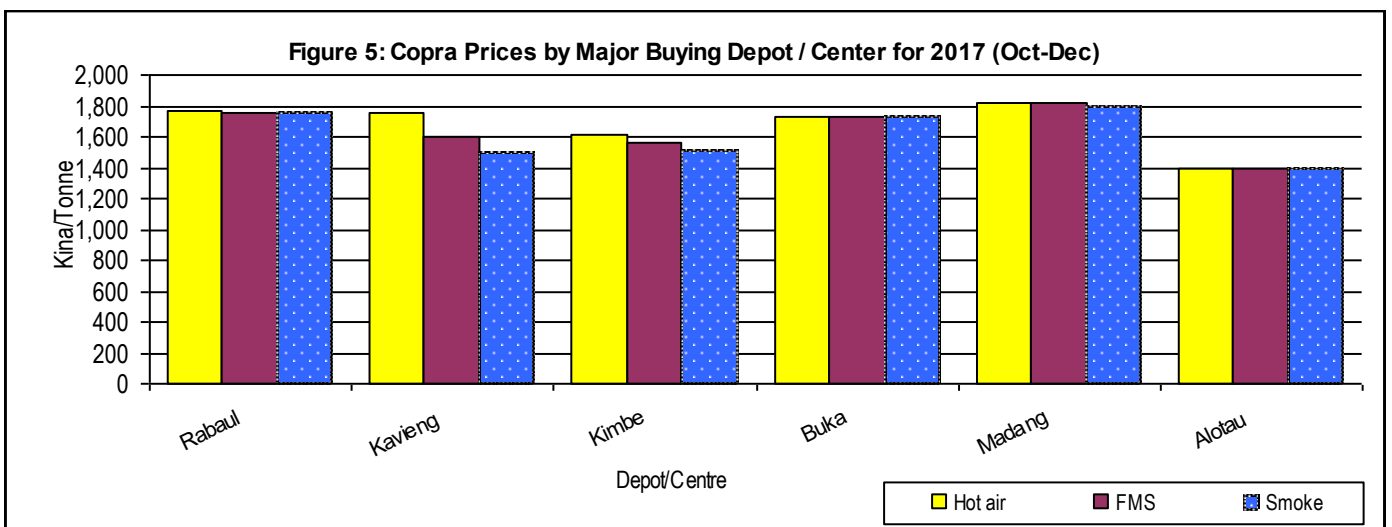
the preceding quarter.

Buka rallied behind Kavieng pricing all grades at a flat rate of K1,727/tonne, a decrease of 5.8% compared to the preceding quarter.

Kimbe followed Buka by pricing hot air at K1,608/tonne, a decrease of 13.5%, FMS at K1,558/tonne, a decrease of 13.8%, and smoke grade at K1,508/tonne, an increase of 14.2%.

Alotau offered the lowest 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.

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. October registered 2,447/tonne, an increase of 9.3% from the preceding month. November registered K2,428/tonne which is a decrease of 0.8%, but increased in December by 15.5% to K2,804/tonne.

Price of CNO in this quarter began by registering K4,245/tonne in October, a decrease of 14.1% from the preceding month. November increased by 5.0% to K4,457/ tonne, but decreased again by

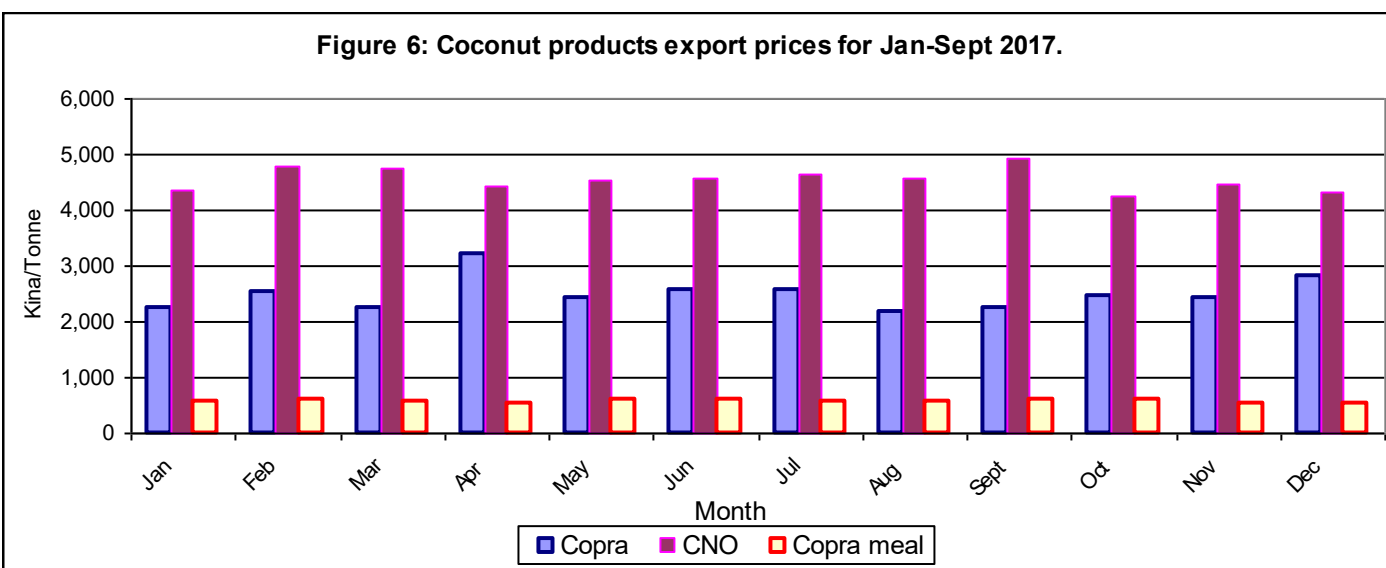
3.2% in September to K4,316/tonne.

Copra meal export prices experienced a fluctuating trend this quarter. It registered K606/tonne in October but decreased by 13.4% to K525/tonne in November, and increased by 0.4% to K527/tonne.

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.

Figure 6: Coconut products export prices for Jan-Sept 2017.



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 dropped from the preceding month into this quarter. The kina equivalent FOB price in the international market has decreased by 3.1% from the preceding month and registered K2,827/tonne in October. It increased by 6.2% to K3,001/tonne in November but decreased again by 3.1% to K2,908/tonne in December.

The mill gate price behaved in a different fashion. October registered K1,644/tonne which is a decrease of 1.3% compared to the preceding month.

In November, it also decreased by 18.1% to K1,347/tonne, and further decreased by 1.1% to K1,332/tonne in December.

The price trends both at the international and domestic markets have resulted in export margins of 72.0%, 122.8% and 118.3% respectively for July, August and September.

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 Fourth Quarter (Oct–Dec) 2017

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)
October	0.3124	883	2,827	1,644	1,183 (72.0%)
November	0.3116	935	3,001	1,347	1,654 (122.8%)
December	0.3105	903	2,908	1,332	1,576 (118.3%)

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 of copra and CNO increased while copra meal declined compared to the preceding quarter.

2.5.1 Copra

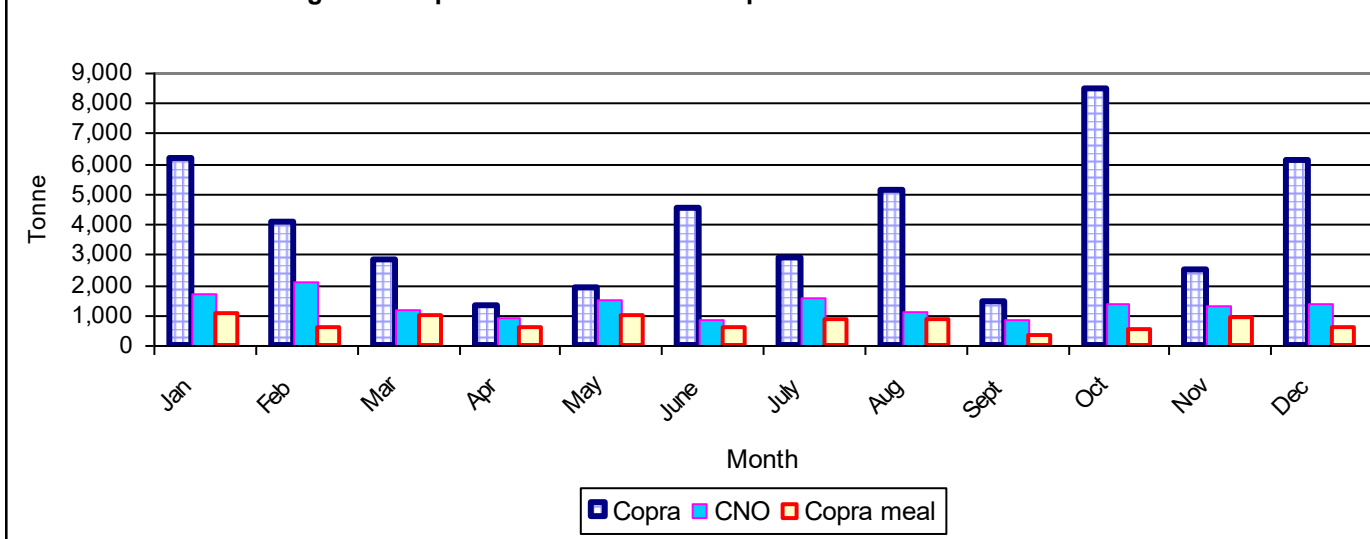
In this quarter copra export in October was 8,504 tonnes. It decreased in November by 71.0% to 2,475 tonnes, but increased by 147.5% to 6,125 tonnes in December.

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Aggregately, this quarter recorded a total export volume of 17,104 tonnes of copra which is an increase of 80.2% compared to the total export volume (9,492 tonnes) of the preceding quarter and increased by 53.4% compared to the total volume (11,150 tonnes) in the corresponding quarter of 2016.

The increase in copra exports depicts the response of price sensitive farmers as influenced by the increase in the domestic price offered by the local traders during this quarter.

Figure 7: Export volumes of coconut products for Jan - Dec 2017.



Export by destination

In this quarter, PNG exported a total of 17,104 tonnes of copra to four overseas markets namely Philippines, Bangladesh, Australia and Singapore.

Of the total volume, Philippines bought 66.7% (11,404 tonnes), Bangladesh 13.6% (2,322 tonnes), Australia 10.9% (1,862 tonnes) and Singapore 8.9% (1,516 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) 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 17,104 tonnes undertaken by seven exporters namely Coconut Products Ltd (CPL), Kimbe Bay Shipping Ltd (KBSL), AERO Ltd, Emirau Marine Products Ltd (EMP), Sankamap Ltd, XLT Enterprises, Samarai Murua and Sankamap Ltd.

Of the total volume CPL led the tally by exporting

54.5% (9,329 tonnes). After CPL was KBSL with 17.5% (2,997 tonnes), AERO Ltd with 8.9% (1,516 tonnes), EMP with 6.0% (1,033 tonnes), XLT with 5.3% (910 tonnes), Samarai Murua with 4.8% (817 tonnes), and Sankamap with 2.9% (503 tonnes) in descending order.

Reticent farmers have already been 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 October-December 2017.

Exporter/Port	Fourth Quarter 2017 Export Volumes (Tonnes)	Market Share (%)
Coconut Products Ltd	9,329	54.5%
Kimbe Bay Shipping Ltd	2,997	17.5%
AERO Ltd	1,516	8.9%
Emirau Marine Products	1,033	6.0%
XLT Enterprises	910	5.3%
Samarai Murua	817	4.8%
Sankamap Ltd	503	2.9%
TOTAL	17,104	100%

2.5.2 Coconut Oil Exports

A total of 4,066 tonnes of CNO was exported from PNG in this quarter. The month of October registered an export volume of 1,391 tonnes followed by November with 1,301 tonnes which is a decrease of 6.5%, but increased again in December by 5.6% to 1,374 tonnes. Compared to the export volume (3,583 tonnes) of the preceding quarter, this quarter's total export volume increased by 13.5%.

Export by destination

CNO exported in this quarter went to five overseas markets namely Indonesia, Malaysia, Sri Lanka, Singapore and Australia. Of the total volume exported: 54.0% (1,935 tonnes) to Indonesia, 38.1% (1,135 tonnes) to Malaysia, 3.0% (109 tonnes) to Sri Lanka, 3.0% (108 tonnes) to Singapore and 1.9% (67 tonnes) to Australia.

Export market share

The export of CNO in this quarter was undertaken by Pristine Co.101 Limited from its two copra oil mills operating in the country located in Madang and Buka and Globe Manufacturing Ltd from its Madang copra mill.

2.5.3 Copra Meal Exports

In this quarter a total of 2,009 tonnes of copra meal was exported from PNG which is a decrease of 0.9% compared to the total volume (2,027 tonnes) registered in the preceding quarter.

The quarter began by registering 520 tonnes in October, and increased by 71.2% to 890 tonnes in November, however, it decreased by 32.7% to 599 tonnes in December.

Export by destination

Copra meal exported in this quarter went to six destinations overseas namely India, Australia, USA, UK, Indonesia and South Africa. Of the total export volume, India bought 74.1% (1,489 tonnes), Australia 11.9% (240 tonnes), USA 8.0% (160 tonnes), UK 4.0% (80 tonnes), India 1.0% (20 tonnes) and South Africa also bought 1.0% (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.

3. EXPORT EARNINGS FROM COCONUT PRODUCTS

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

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

Copra revenue registered in this quarter was higher by 92.1%, CNO revenue registered was higher

by 4.7% while copra meal registered a 5.2% decrease compared to the revenue registered in the preceding quarter.

The aggregate export revenue generated from coconut products in this quarter is 19.3% higher than the total export revenue registered in the quarter of 2016.

Revenue in 2016 registered 19.1% higher than the revenue earned in the corresponding period in 2016.

Table 5: Export Earnings from Coconut Products for the Fourth Quarters & Twelve months of 2016 & 2017

Coconut Product	Oct-Dec 2016 (Kina)	Oct-Dec 2017 (Kina)	Jan-Dec 2016 (Kina)	Jan-Dec 2017 (Kina)
Copra	23,803,053	40,534,838	69,397,071	90,929,734
CNO	24,698,381	17,729,485	56,547,188	59,808,872
Copra Meal	1,327,275	1,092,652	5,013,946	5,522,736
TOTAL	49,828,709	59,356,975	130,958,205	156,261,342

Source: *Kokonas Industri Koporesen*

4. CONCLUSION

Generally, prices of copra and CNO both on the aggregate and average levels moved in opposite directions. The average price of copra for this quarter increased by 0.9% while the average price of CNO decreased by 13.7% 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. Copra production decreased in this quarter by 24.3% from the preceding quarter, which had an impact on the exports of copra, CNO and copra meal which all recorded a decrease in terms of export volumes.

The increase in export revenue 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.