



**KOKONAS INDUSTRI KOPORESEN**

# **QUARTERLY COCONUT INDUSTRY MARKET REPORT**

**JULY — SEPT 2017**

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&

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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\$899/MT and US\$1,688/MT respectively. Prices registered for copra and CNO in the three quarters of 2017 are shown in Table 1 and the graphical illustration in Figure 1 below.

In July copra registered US\$823/MT which is a decrease by 3.3% compared to the preceding month. In August, it increased by 16.5%, registering US\$959/MT, but decreased by 4.6% to US\$915/MT in September.

CNO opened the quarter by registering US\$1,895/MT in July which is an increase of 1.3% compared to the preceding month. It decreased by 15.5% in August by registering US\$1,602 and further decreased by 2.2% to US\$1,566/MT in September.

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-Sept)**

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept
Copra (CIF NW US\$/MT)	893	870	805	816	803	851	823	959	915
<b>Quarterly Average</b>	<b>856</b>			<b>823</b>			<b>899</b>		
CNO (CIF Rott US\$/ MT)	1,748	1,725	1,847	1,588	1,662	1,870	1,895	1,602	1,566
<b>Quarterly Average</b>	<b>1,773</b>			<b>1,707</b>			<b>1,688</b>		

All figures have been rounded up to one decimal place.

Source: The Public Ledger

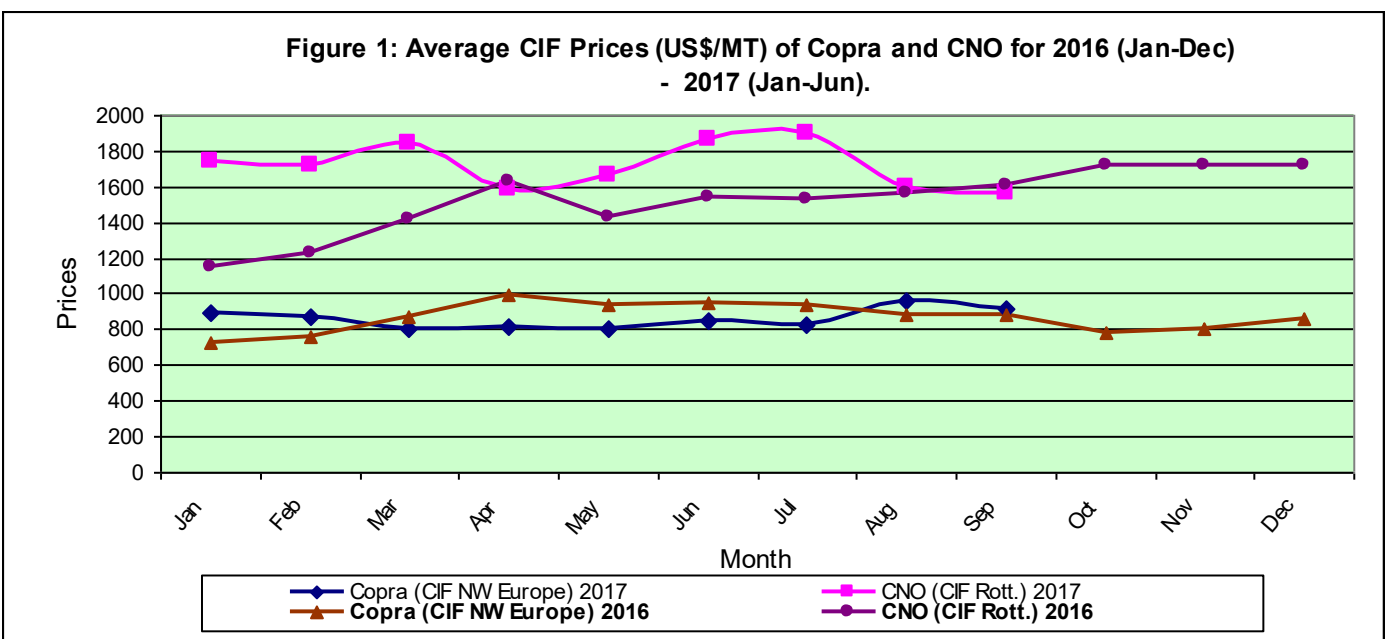
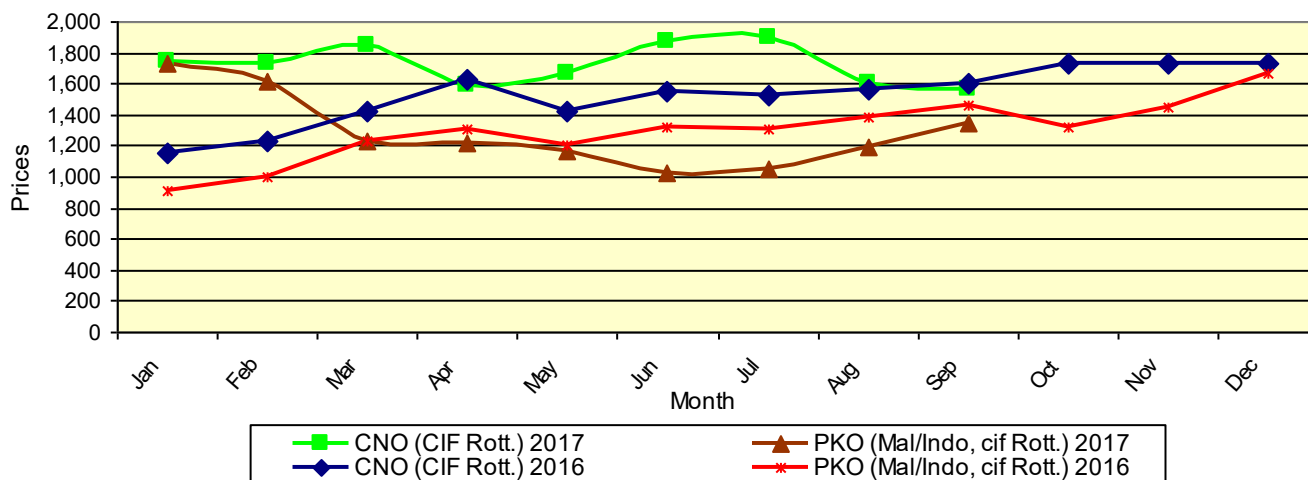


Figure 2: Average CIF Prices (US\$/MT) of CNO and PKO for 2016 (Jan-Dec) - 2017 (Jan-Sept)



## 2. DOMESTIC MARKET DEVELOPMENTS

### 2.1 Total Copra Production

Domestic copra production in this quarter increased from the preceding quarter and aggregately registered 33,843 tonnes as shown in Figure 3. However, the total production registered in this quarter is 24.9% higher compared to the total production (27,098 tonnes) registered in the corresponding quarter of 2016.

The third quarter began production with July registering 9,760 tonnes which is 16.4% less than the volume registered in the preceding month. Following on, August registered 11,829 tonnes which is an increase of 21.2%. In September production increased further by 3.6% to 12,255 tonnes. Total copra production (33,843 tonnes) for this quarter is lower by 7.1% 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

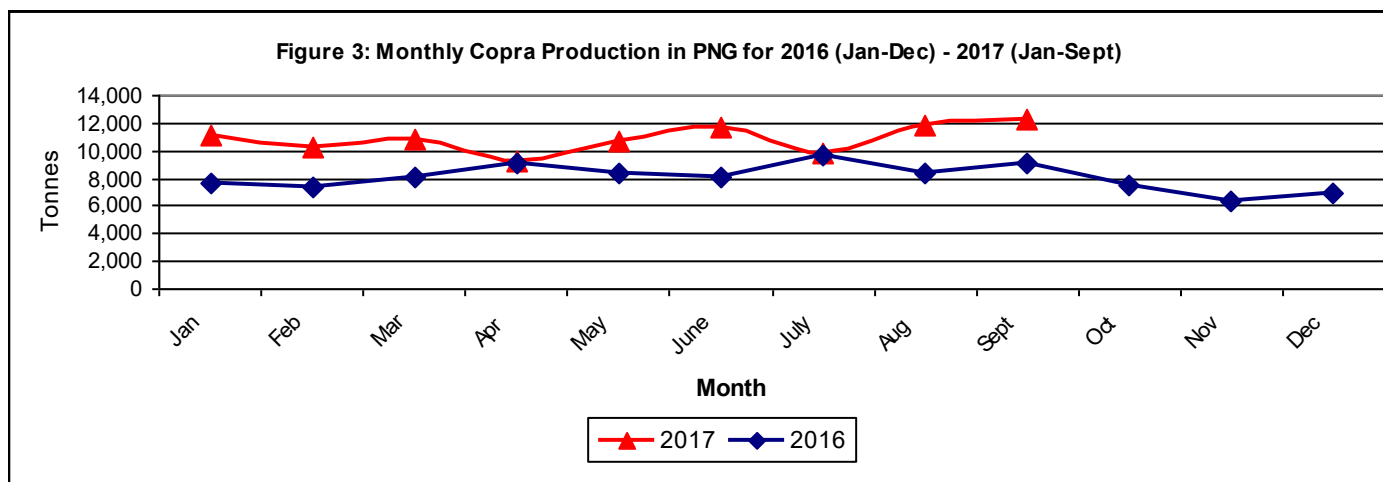
The copra production by the major buying centres for this quarter is shown in Table 2 below.

Aggregately, Rabaul/Toboi (10,962 tonnes) led the tally followed by Buka (8,484 tonnes),

Madang (7,405 tonnes), Kimbe (4,608 tonnes), Kavieng/Namatanai (1,932 tonnes) and Alotau (452 tonnes) in descending order.

Rabaul/Toboi began the quarter by registering 3,328 tonnes in July and increased by 13.6% in August to 3,781 tonnes. It further increased by 1.9% to 3,853 tonnes in September. Buka began the quarter by recording 2,424 tonnes in July and increased by 21.5% to 2,946 tonnes in August and increased again by 5.7% to 3,114 tonnes in September. Madang registered 2,029 tonnes in July and increased by 27.2% to 2,581 tonnes in August and increased again by 8.3% to 2,795 tonnes in September. Kimbe began the quarter by registering 1,217 tonnes and increased by 31.5% to 1,600 tonnes in August. It increased further by 12.0% to 1,792 tonnes in September. Kavieng/Namatanai commenced with 563 tonnes in July and increased in August by 18.5% to 667 tonnes and further increased by 5.2% to 702 tonnes in September. Alotau started with 199 tonnes in July and decreased by 27.1% to 253 tonnes in August. There was no record for the month of September.

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 Centers for 2017 (Jan—Sept)**

Centre/Depot	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept
Rabaul/ Toboi	3,606	3,276	2,067	3,354	3,086	3,349	3,328	3,781	3,853
Madang	1,667	1,574	1,404	1,280	1,866	2,070	2,029	2,581	2,795
Buka	2,643	2,456	2,256	1,936	2,237	2,150	2,424	2,946	3,114
Kavieng/Namatanai	2,319	1,972	1,998	1,746	2,183	3,335	563	667	702
Kimbe	786	852	3,269	721	1,019	772	1,217	1,600	1,792
Alotau	125	180	285	266	224	-	199	253	-
<b>Total</b>	<b>11,145</b>	<b>10,310</b>	<b>11,280</b>	<b>9,303</b>	<b>10,613</b>	<b>11,677</b>	<b>9,760</b>	<b>11,829</b>	<b>12,255</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.

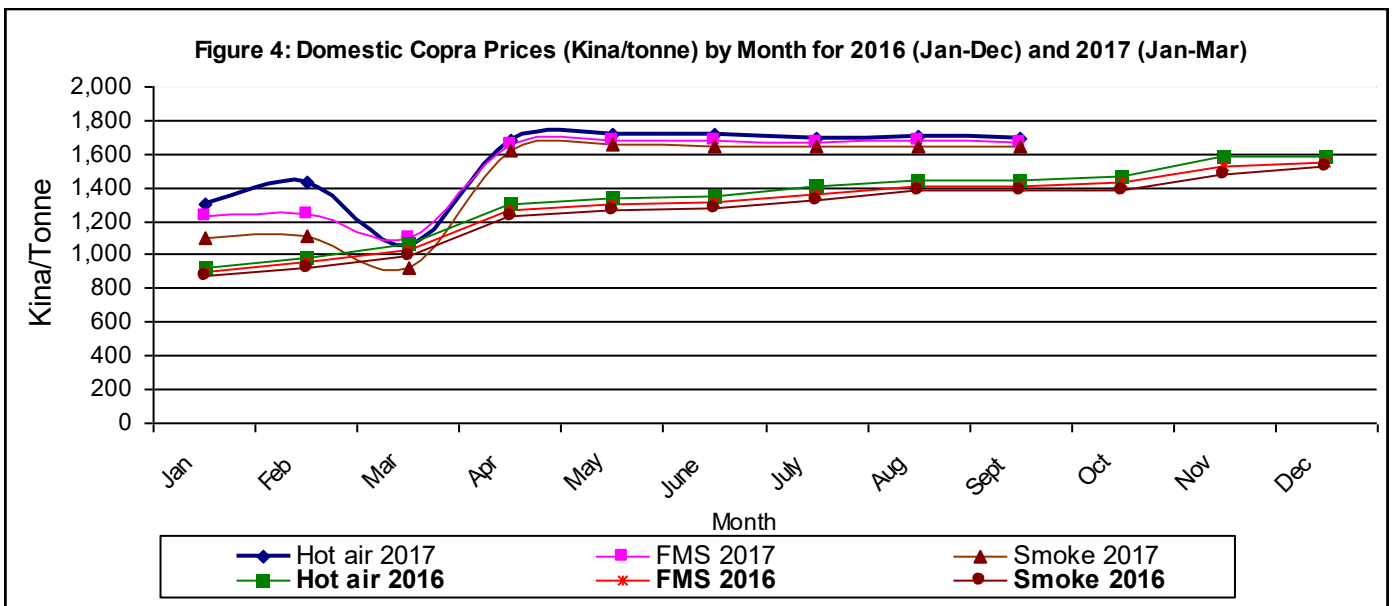
During this quarter, the average Hot Air, FMS and Smoke grade prices were K1,694, K1,670 and K1,643 per tonne, respectively. Based on these figures, the average premium price for hot air grade is K24 per tonne and the discount for the smoke grade is K27 per tonne. Compared to the preceding quarter, the average premium price for hot air per tonne decreased by 25% and the discount price for the smoke grade also decreased by 3.6%.

Monthly price fluctuations for 2016 and the three quarters of 2017 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. July recorded K1,694/tonne for hot air copra which is 1.2% less than the price of the preceding month. FMS and smoke followed the same trend with a decrease of 0.6% and 0.4%, respectively.

In August the prices for the copra grades increased. Price for the hot air increased by 0.3% to K1,699/tonne, FMS rose by 0.3% as well to K1,675/tonne and the smoke grade improved by 0.4% to K1,648/tonne.

In September, hot air copra was priced at K1,690/tonne, a decrease of 0.5%. FMS decreased by 0.5% to K1,666/tonne and smoke grade also decreased by 0.5% to K1,640/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 K1,882/tonne, a decrease of 1.5% compared to the price of the preceding quarter. FMS was priced at K1,875/tonne an increase of 1.1% and smoke was priced at K1,854/tonne, an increase of 0.9% compared to the prices of the preceding quarter.

Following Madang was Kimbe that priced hot air at K1,858/tonne, a decrease of 2.0%, FMS at K1,808/tonne, a decrease of 1.9%, and Smoke at K1,758/tonne, also a decrease of 1.9%.

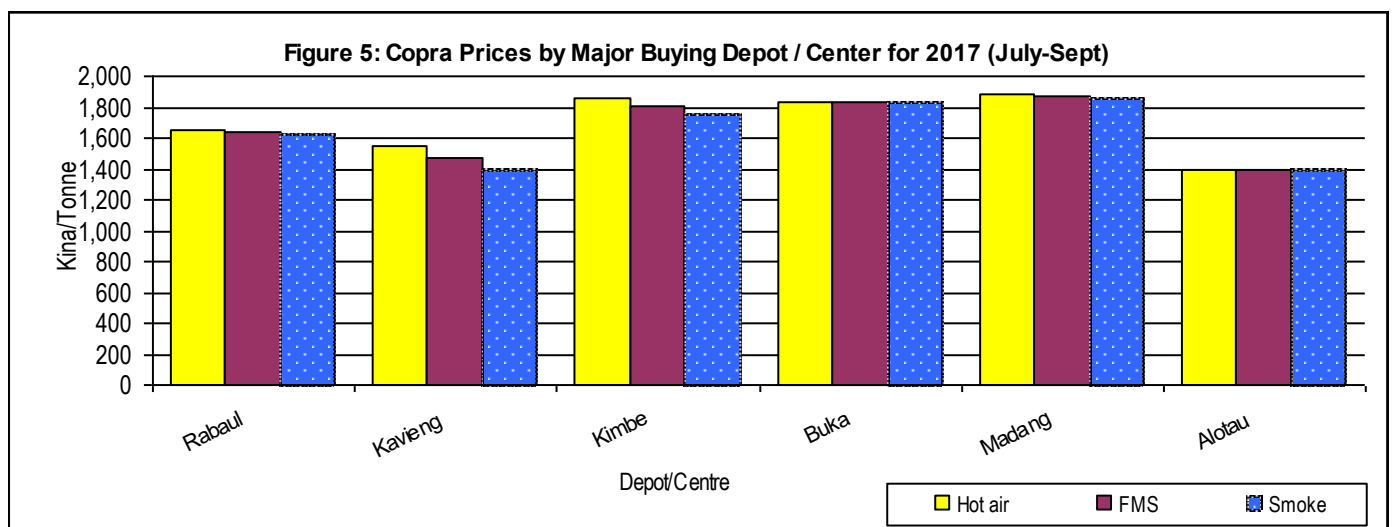
Buka rallied behind Kimbe pricing all grades at a flat rate of K1,833/tonne, an increase of 0.8% compared to the preceding quarter.

Rabaul followed Buka by pricing hot air at K1,652/tonne, a decrease of 1.4%, FMS at K1,639/tonne, a decrease of 1.3%, and smoke grade at K1,623/tonne, an increase of 2.8%.

Kavieng followed Rabaul by pricing hot air at K1,542/tonne, FMS at K1,467/tonne and smoke at K1,392/tonne and these prices are higher by 1.6%, 1.2% and 1.2% respectively compared to the prices of the preceding quarter.

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. July registered 2,561/tonne, an increase of 0.1% from the preceding month. August registered K2,186/tonne which is a decrease of 14.6%, but increased in September by 2.4% to K2,239/tonne.

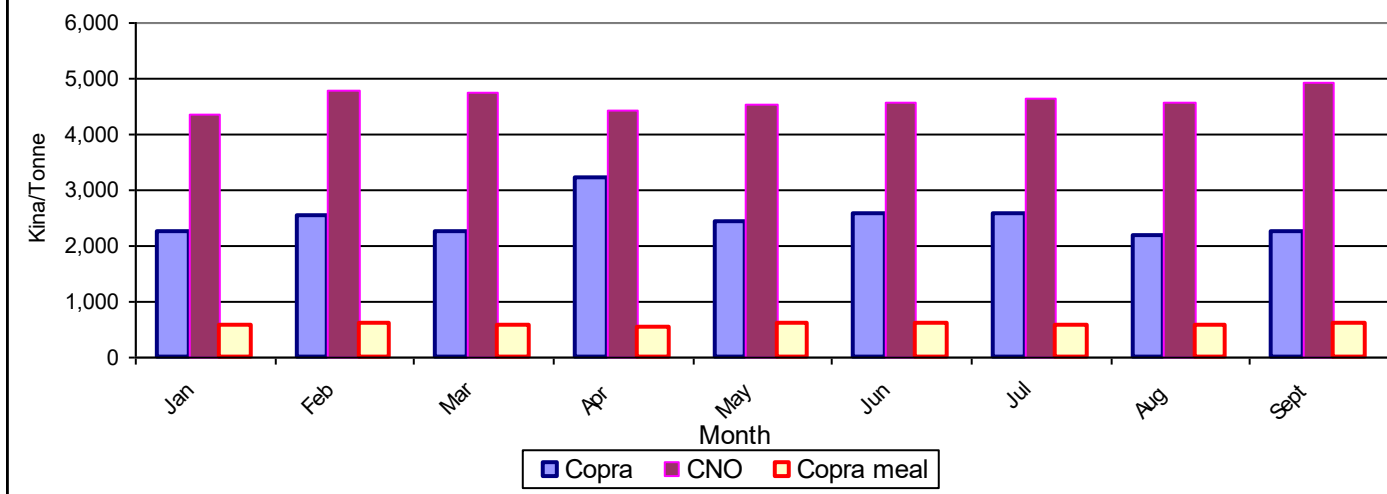
Price of CNO in this quarter began by registering K4,634/tonne in July, an increase of 1.0% from the preceding month. August decreased by 1.3% to K4,574/tonne, and increased by 8.0% in September to K4,939/tonne.

Copra meal export prices experienced a fluctuating trend this quarter. It registered K580/tonne in July and increased by 1.2% to K587/tonne in August, and further increased by 3.2% to K606/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 remained unchanged from the preceding month into this quarter. The kina equivalent FOB price in the international market has increased by 3.3% from the preceding month and registered K2,617/tonne in July. It increased by 16.5% to K3,049/tonne in August but decreased by 4.2% to K2,920/tonne in September.

The mill gate price behaved in a similar fashion. July registered K1,670/tonne which is a decrease of 0.6% compared to the preceding month. In August, it increased by 0.3% to K1,675/tonne, and decreased by 0.5% to K1,680/tonne in September.

The price trends both at the international and domestic markets have resulted in export margins of 56.7%, 82.0% and 75.3% 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 Third Quarter (July–Sept) 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)
July	0.3145	823	2,617	1,670	947 (56.7%)
August	0.3145	959	3,049	1,675	1,374 (82.0%)
September	0.3134	915	2,920	1,666	1,254 (75.3%)

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.

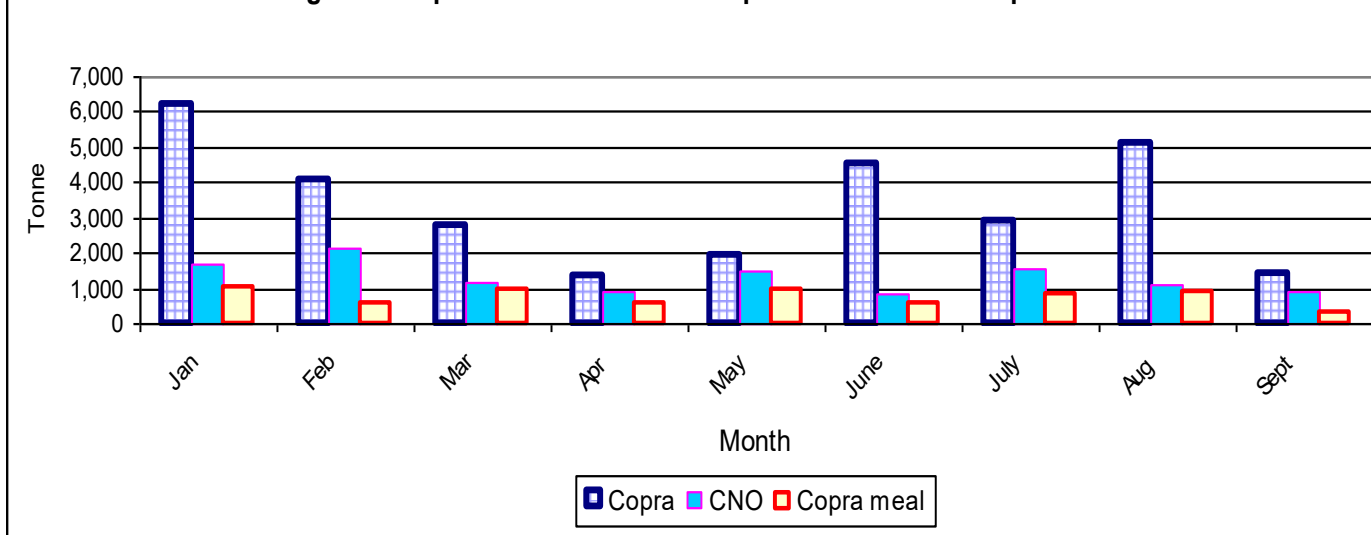
**2.5.1 Copra**

In this quarter copra export in July was 2,919 tonnes. It increased in August by 75.9% to 5,134 tonnes, but decreased by 72.0% to 1,439 tonnes in September.

Aggregately, this quarter recorded a total export volume of 9,492 tonnes of copra which is an increase of 22.1% compared to the total export volume (7,774 tonnes) of the preceding quarter and increased by 7.8% compared to the total volume (8,808 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 - Sept 2017.**



**Export by destination**

In this quarter, PNG exported a total of 9,492 tonnes of copra to two overseas markets namely Philippines and Bangladesh.

Of the total volume, Philippines bought 94.5% (8,973 tonnes), and Bangladesh 5.5% (519 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 9,492 tonnes undertaken by six exporters namely East New Britain Development Corp (ENBDC), Sankamap Ltd, Autonomous Bougainville Commodity (ABC) Ltd, Coconut Products Limited (CPL), Aero Ltd, and Emirau Marine Products Ltd (EMP).

Of the total volume ENBDC led the tally by exporting 29.5% (2,802 tonnes). After ENBDC was Sankamap

Ltd with 26.7% (2,026 tonnes), Pacific Lama with 26.7% (2,533 tonnes), ABC Ltd with 16.6% (1,575), AERO Ltd with 16.4% (1,552 tonnes), CPL with 5.5% (519 tonnes) and EMP with 5.4% (510 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 July—September 2017.**

Exporter/Port	Third Quarter 2017 Export Volumes (Tonnes)	Market Share (%)
ENB Development Corporation	2,802	29.5%
Sankamap Ltd	2,533	26.7%
ABC Ltd	1,575	16.6%
AERO Ltd	1,552	16.4%
CPL	519	5.5%
Emirau Marine Products	510	5.4%
<b>TOTAL</b>	<b>9,492</b>	<b>100%</b>

### 2.5.2 Coconut Oil Exports

A total of 3,583 tonnes of CNO was exported from PNG in this quarter. The month of July registered an export volume of 1,577 tonnes followed by August with 1,120 tonnes which is a decrease of 29.0%, and further decreased in September by 20.9% to 886 tonnes. Compared to the export volume (3,261 tonnes) of the preceding quarter, this quarter's total export volume increased by 9.9%.

#### Export by destination

CNO exported in this quarter went to four 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 2,027 tonnes of copra meal was exported from PNG which is a decrease of 7.4% compared to the total volume (2,190 tonnes) registered in the preceding quarter.

The quarter began by registering 828 tonnes in July and increased by 6.0% to 878 tonnes in August, however, it decreased by 63.4% to 321 tonnes in September.

#### Export by destination

Copra meal exported in this quarter went to five destinations overseas namely India, Australia, USA, UK and South Africa. Of the total export volume, India bought 44.6% (903 tonnes), Australia 40.5% (820 tonnes), USA 10.1% (204 tonnes), UK 4.0% (80 tonnes), and South Africa 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 third quarters of 2017 and 2016 are summarised in Table 5 below.

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

Copra and CNO revenue registered in this quarter were higher by 49.5%, 82.5%, while copra meal registered a decrease of 21.7% compared to

the revenue registered in the preceding quarter.

The aggregate export revenue generated from coconut products in this quarter is 67.4% higher than the total export revenue registered in the corresponding period of 2016.

Revenue in the nine months to September 2017 registered 19.4% higher than the revenue earned in the corresponding period in 2016.

**Table 5: Export earnings from coconut products for the third quarters and nine months of 2017 & 2016**

Coconut Product	July-Sept 2016 (Kina)	July-Sept 2017 (Kina)	Jan-Sept 2016 (Kina)	Jan-Sept 2017 (Kina)
Copra	16,305,117	21,105,995	45,594,018	50,394,896
CNO	6,696,426	16,927,006	31,848,807	42,079,387
Copra Meal	408,306	1,151,719	3,686,671	4,430,084
<b>TOTAL</b>	<b>23,409,849</b>	<b>39,184,720</b>	<b>81,129,496</b>	<b>96,904,367</b>

Source: *Kokonas Industri 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 increased by 9.2% while CNO decreased by 1.1% in this quarter, 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 decreased in this quarter by 7.1% 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 bio-diesel 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.