



KOKONAS INDUSTRI KOPORESEN

QUARTERLY COCONUT INDUSTRY MARKET REPORT

JULY — SEPTEMBER 2018

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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\$545/MT and US\$867/MT respectively, which were lower compared to the preceding quarter. Prices registered for copra and CNO in the first, second and third quarters of 2018 are shown in Table 1 and the graphical illustration in Figure 1 below.

In July, copra registered US\$542/MT which is an increase 1.1% compared to the preceding month. In August, it increased by 1.5%, registering US\$550/MT. However, it decreased by 1.1% to US\$544/MT in September.

CNO opened the quarter by registering US\$870/MT in July, which is a decrease of 1.9% compared to the preceding month. It slightly increased by 0.3% in August by registering US\$873, but decreased by 1.6% to US\$859/MT in September.

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 cause CNO prices to increase as well.

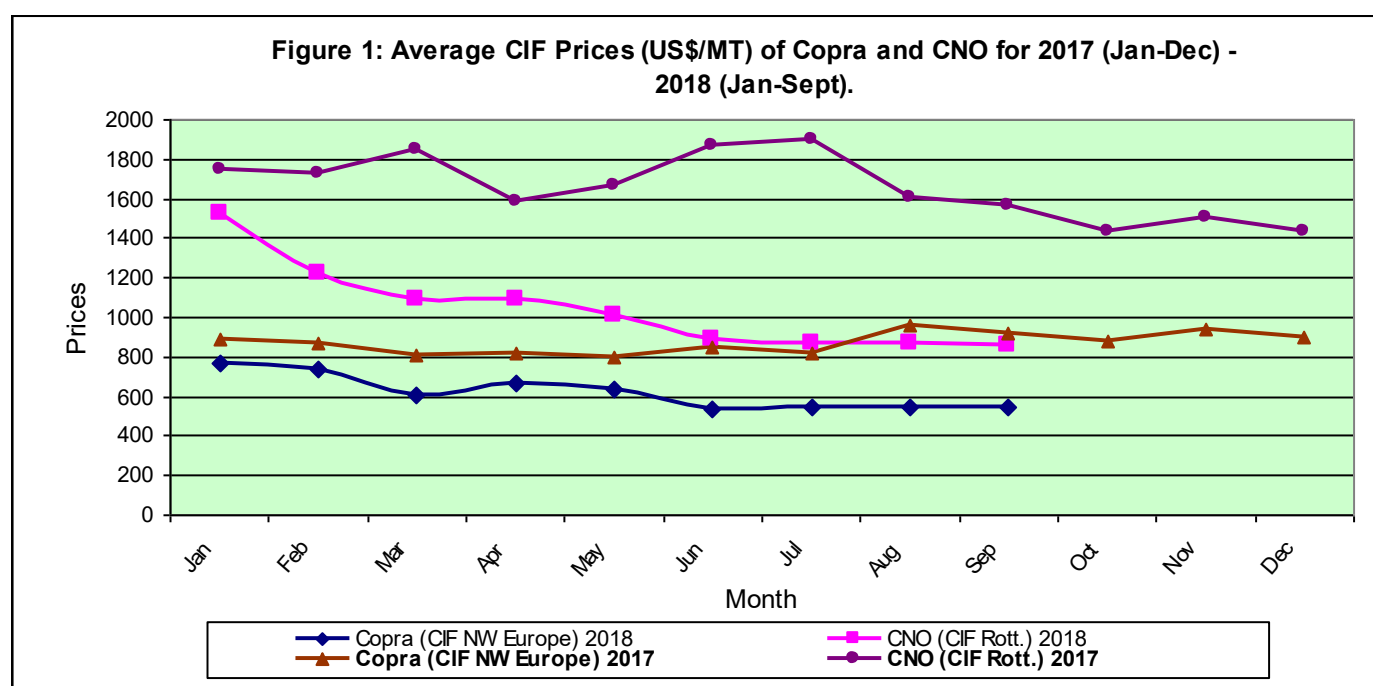
Demand remains high for both CNO and PKO in the lauric oil market due to the continuing expansion and demand increase of the oleo chemical, cosmetic and other manufacturing industries.

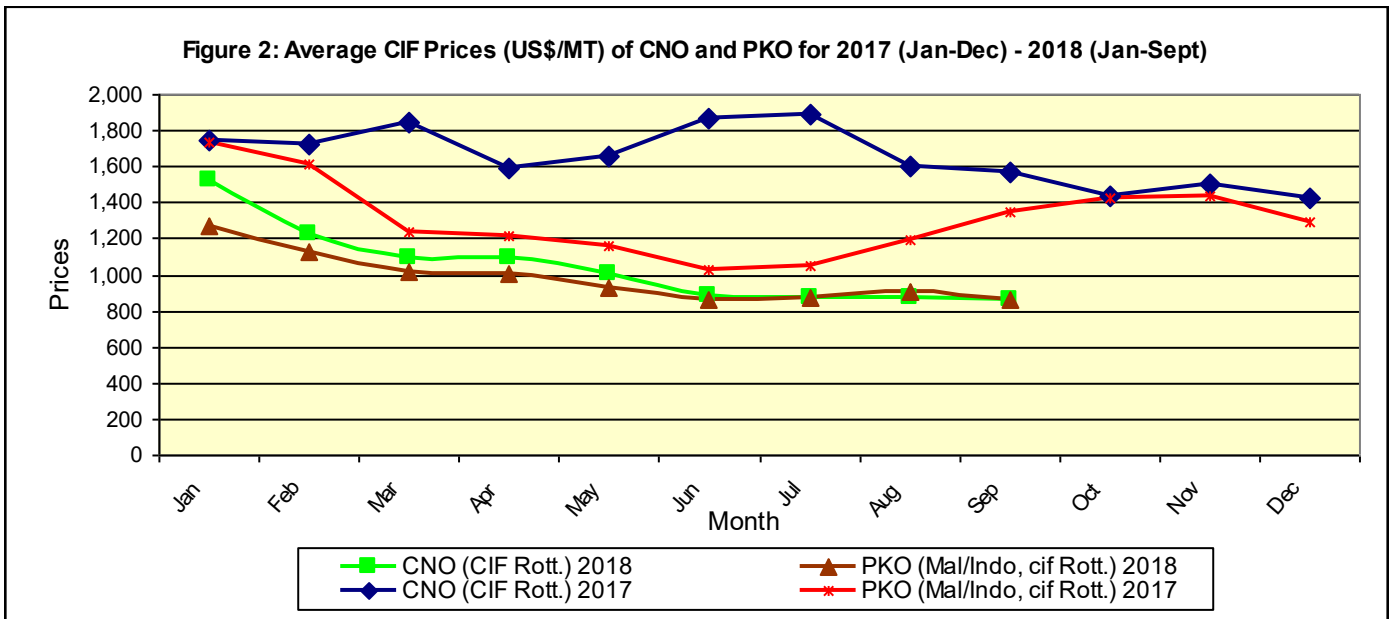
Table 1: Average Monthly Prices of Copra and CNO in 2018 (Jan-Sept)

	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept
Copra (CIF NW US\$/MT)	763	741	605	669	638	536	542	550	544
Quarterly Average	703			614			545		
CNO (CIF Rott US\$/ MT)	1,525	1,225	1,095	1,090	1,011	887	870	873	859
Quarterly Average	1,282			996			867		

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 compared to the preceding quarter and aggregately registered 24,540 tonnes as shown in Figure 3. The total production registered in this quarter is 27.5% lower compared to the total production (33,843 tonnes) registered in the corresponding quarter of 2017.

The third quarter began production with July registering 9,268 tonnes which is 26.0% higher than the volume registered in the preceding month. Following on, August registered 7,976 tonnes which is a decrease of 13.9%. In September, it decreased further by 8.5% to 7,295 tonnes. Total copra production (24,540 tonnes) for this quarter is lower by 17.3% compared to the aggregate volume registered in the preceding quarter.

The low level of production in this quarter compared to the corresponding quarter of 2017 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 (7,081 tonnes) led the tally followed by Madang (6,434 tonnes), Buka (6,211 tonnes), Kimbe (2,859 tonnes), Kavieng/Namatani (1,235 tonnes), and Alotau (719 tonnes) in descending order.

Rabaul/Toboi began the quarter by registering 2,862 tonnes in July and decreased by 25.8% in August to 2,125 tonnes and decreased further by 1.5% to 2,094 tonnes in September.

Madang registered 2,314 tonnes in July and decreased by 7.1% to 2,150 tonnes in August and decreased further by 8.4% to 1,970 tonnes in September

Buka commenced with 2,116 tonnes in July and decreased in August by 1.9% to 2,076 tonnes. It further decreased by a by 2.7% to 2,019 tonnes in September.

Kimbe began the quarter by registering 1,108 tonnes in July and decreased by 13.3% to 961 tonnes in August. It declined further by 17.7% to 791 tonnes in September.

Kavieng/Namatani began the quarter by recording 489 tonnes in July and decreased by 3.9% to 470 tonnes in August and decreased further by 41.2% to 276 tonnes in September.

Alotau started with 379 tonnes in July and decreased by 48.8% to 194 tonnes in August and further decreased by 24.7% to 146 tonnes in 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, 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.

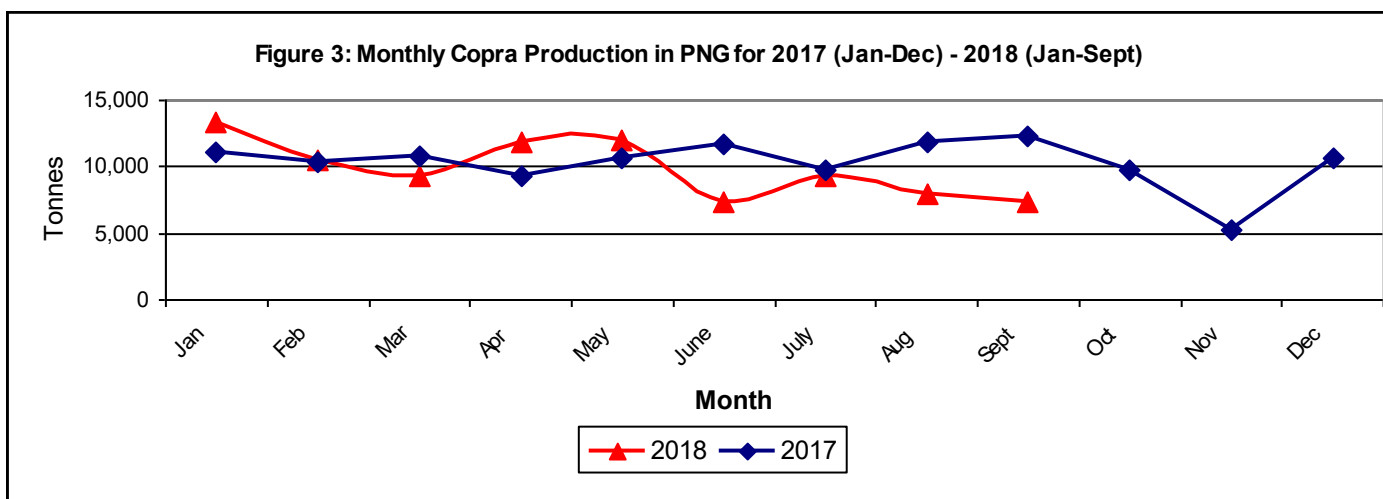


Table 2: Copra production (tonnes) by Major Buying Centers for 2018 (Jan—Sept)

Centre/Depot	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept
Rabaul/ Toboi	4,470	3,209	3,186	4,040	3,828	2,638	2,862	2,125	2,094
Madang	2,496	2,267	1,142	1,871	2,443	847	2,314	2,150	1,970
Buka	2,950	2,585	2,117	2,477	2,478	1,856	2,116	2,076	2,019
Kavieng/Namatanai	1,238	790	876	748	700	578	469	470	276
Kimbe	2,015	1,386	1,562	2,338	2,034	1,016	1,108	961	791
Alotau	211	278	419	445	481	422	379	194	146
Total	13,379	10,514	9,300	11,919	11,965	7,356	9,268	7,976	7,295

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 K959, K934 and K893 per tonne, respectively. Based on these figures, the average premium price for hot air grade is K25 per tonne and the discount for the smoke grade is K41 per tonne. Compared to the preceding quarter, the average premium price for hot air per tonne decreased by 3.8% and the discount price for the

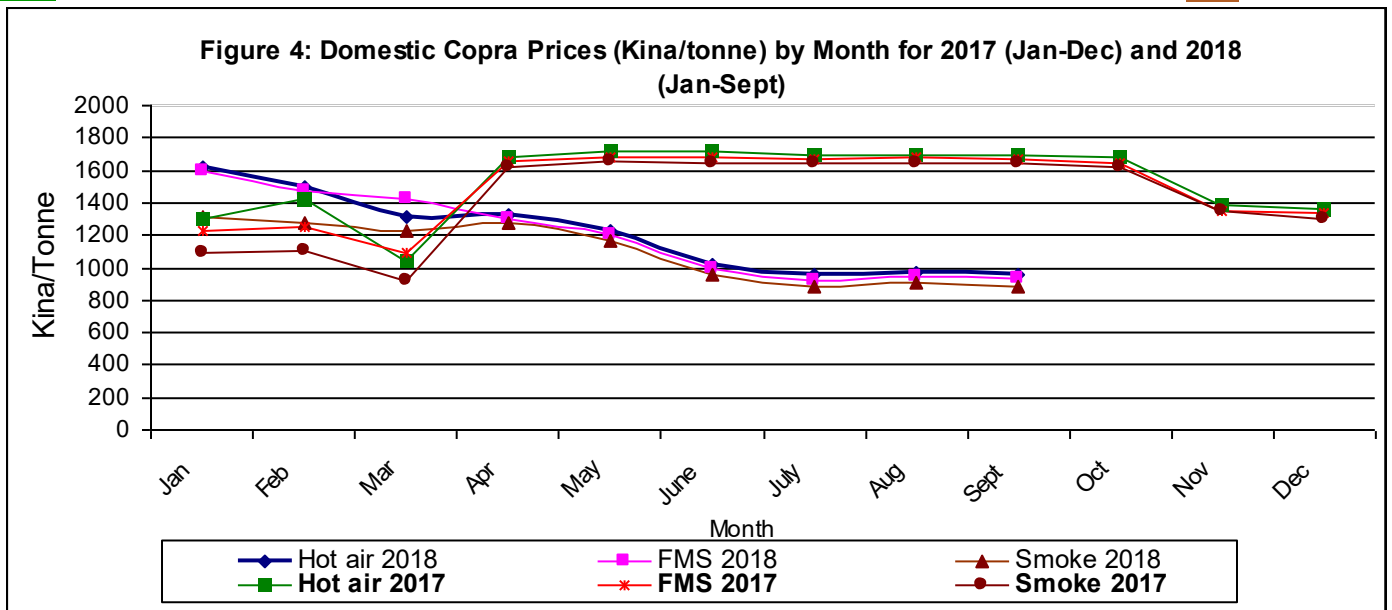
smoke grade increased by 20.6%.

Monthly price fluctuations for 2017 and the three quarters of 2018 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. July recorded K954/tonne for hot air copra which is 7.1% less than the price of the preceding month. FMS and smoke followed the same trend with a decrease of 7.9% and 8.9% respectively.

In August the prices for the copra grades increased. Price for the hot air increased by 1.6% to K969/tonne, FMS rose by 2.5% as well to K949/tonne and the smoke grade improved by 3.3% to K912/tonne.

In September, hot air copra was priced at K954/tonne, a decrease of 1.5%. FMS decreased by 2.2% to K928/tonne and smoke grade also decreased by 3.1% to K884/ 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 K1,176/tonne, a decrease of 1.5% compared to the price of the preceding quarter. FMS was priced at K1,168/tonne an increase of 1.1% and smoke was priced at K1,160/tonne, an increase of 0.9% compared to the prices of the preceding quarter.

Following Madang was Alotau that K1,000/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 lower by 6.3% compared to the price offered in the preceding quarter.

Following Alotau was Kavieng that priced hot air at K883/tonne, a decrease of 24.4%, FMS at K833/tonne, a

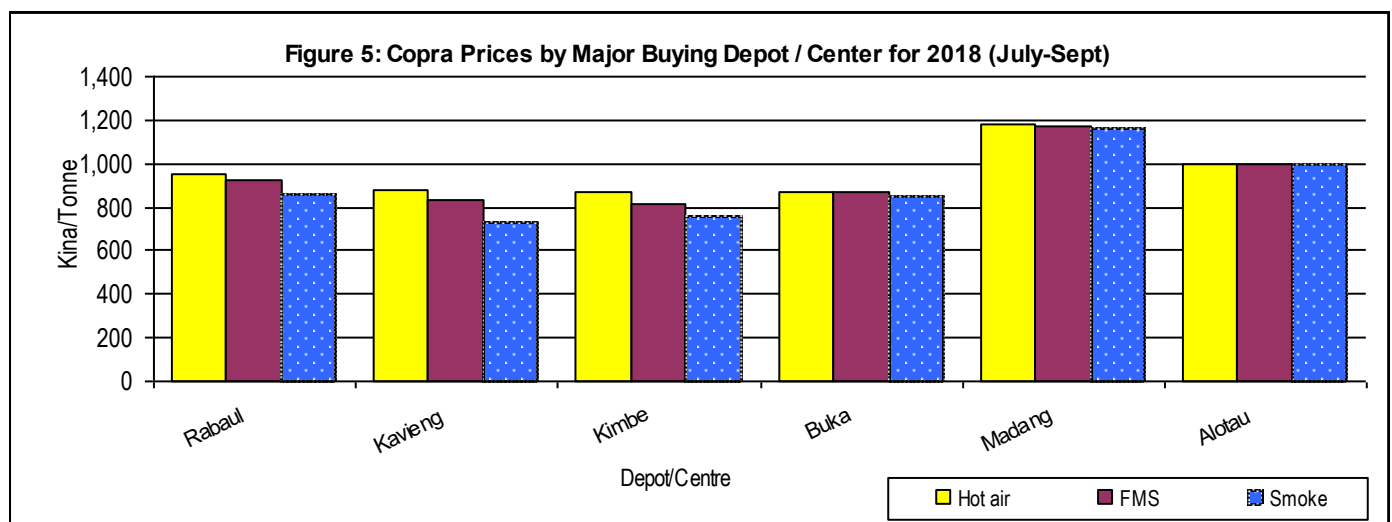
decrease of 21.0%, and Smoke at K733/tonne, also a decrease of 28.0%.

Kimbe rallied behind Kavieng pricing hot air at K873/tonne, a decrease of 28.3%, FMS at K815/tonne, a decrease of 30.2%, and smoke grade at K756/tonne, an increase of 31.6%.

Rabaul followed Kimbe by pricing hot air at K951/tonne, a decrease of 22.2%, FMS at K925/tonne, a decrease of 22.1%, and smoke grade at K862/tonne, an increase of 23.2%.

Buka offered the lowest price at K872/tonne for hot air, FMS at K865/tonne and smoke at K847/tonne. These prices are lower by 24.4%, 24.5% and 24.9% 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.

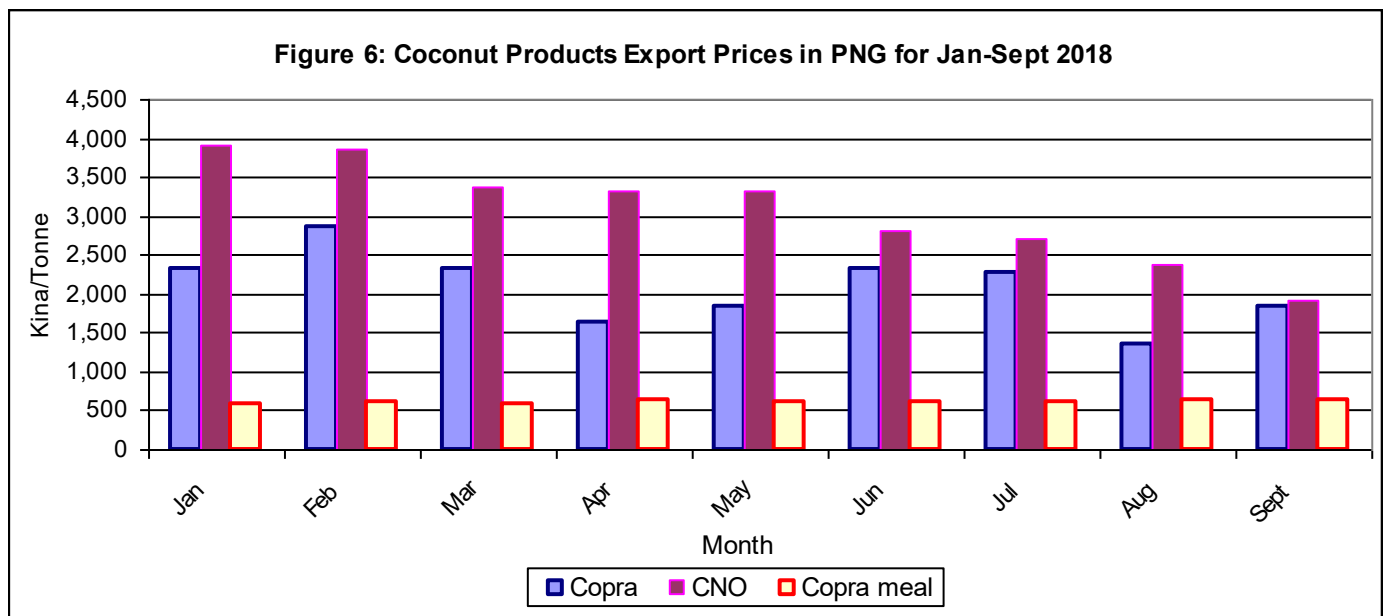
In this quarter, Copra prices fluctuated. July registered K1,670/tonne, a decrease of 6.2% from the preceding month. August registered K1,363/tonne which is a decrease of 18.4%, but increased in September by 16.6% to K1,589/tonne.

Price of CNO in this quarter began by registering K2,708/tonne in July, an increase of 30.4% from the preceding month. In August, it decreased by 11.7% to K2,390/tonne, and decreased further by 19.5% in September to K1,923/tonne.

Copra meal export prices experienced an upward trend this quarter. It registered K602/tonne in July and increased by 4.8% to K631/tonne in August, and further increased by 2.2% to K645/tonne in September.

The actual FOB price in kina received by the exporters was less by K860 in July, K876 in August and by K885 in September, due to costs such as handling, shrinkage inter alia.

The low prices of export coconut products experienced since the first 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.



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 depreciated from the preceding month into this quarter. The kina equivalent FOB price in the international market has decreased by 4.7% from the preceding month and registered K1,786/tonne in July. It increased by 2.2% to K1,825/tonne in August but decreased by 0.7% to K1,813/tonne in September.

The mill gate price behaved in a similar fashion. July registered K926/tonne which is a decrease of 7.9% compared to the preceding month. In August, it increased by 2.5% to K949/tonne, and decreased by 2.2% to K928/tonne in September.

The price trends both at the international and domestic markets have resulted in export margins of 92.9%, 92.3% and 95.4% 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) 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 (Kina/tonne)
July	0.3034	542	1,786	926	860 (92.9%)
August	0.3019	551	1,825	949	876 (92.3%)
September	0.3006	545	1,813	928	885 (95.4%)

Source: Kokonas Industri Koporeesen

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.

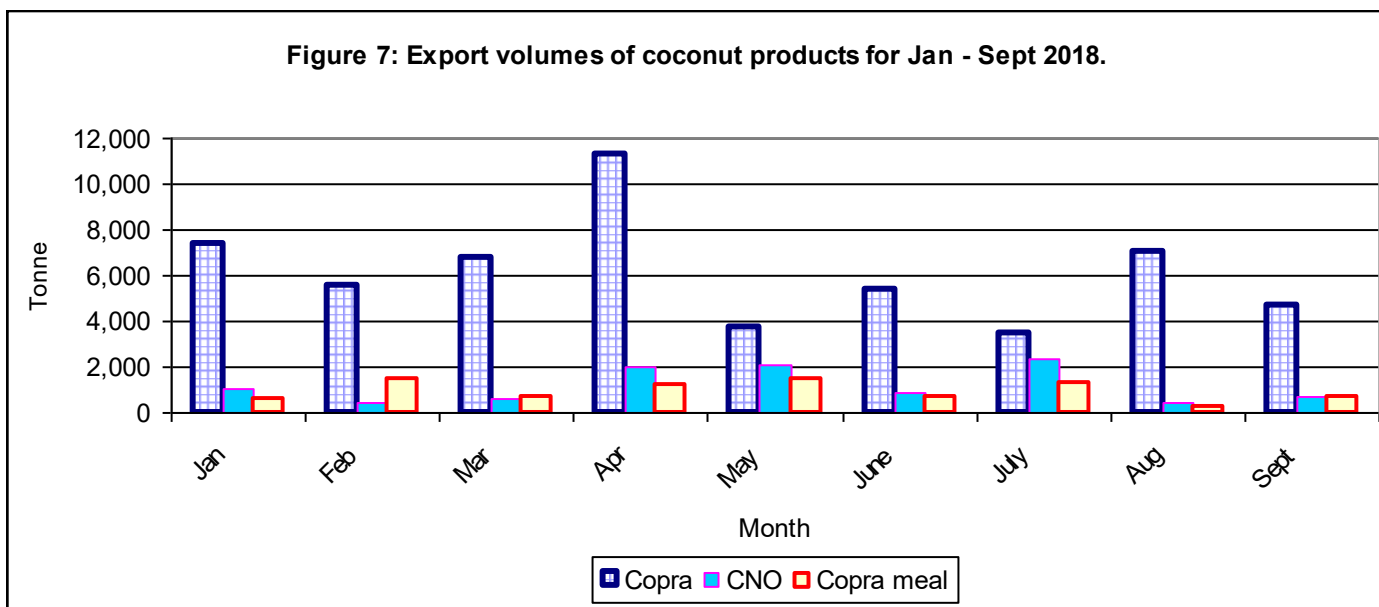
2.5.1 Copra

In this quarter copra export in July was 3,503 tonnes. It increased in August by 101.4% to 7,056 tonnes, but decreased by 35.3% to 4,656 tonnes in September.

Aggregately, this quarter recorded a total export volume of 15,215 tonnes of copra which is a decrease of 7.6% compared to the total export volume (16,470 tonnes) of the preceding quarter however an increase of 60.3% compared to the total volume (9,492 tonnes) in the corresponding quarter of 2017.

The decrease in copra exports, compared to the preceding quarter, depicts the response of price sensitive farmers as influenced by the decrease in the domestic price offered by the local traders during this quarter.

Figure 7: Export volumes of coconut products for Jan - Sept 2018.



Export by destination

In this quarter, PNG exported a total of 15,215 tonnes of copra to four overseas markets namely Philippines, Bangladesh, Malaysia and India.

Of the total volume, Philippines bought 74.7% (11,360 tonnes), Bangladesh 17.9% (2,726 tonnes), Malaysia 6.0% (913 tonnes) and India 1.4% (216 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 15,215 tonnes undertaken by eight (8) exporters namely Kimbe Bay Shipping Ltd (KBSL), Coconut Products Ltd (CPL), Aero Ltd, Sankamap Ltd, Pacific Lama Traders, Autonomous Bougainville Commodity (ABC) Ltd, GTM Distributors and Garden Enterprise.

Of the total volume KBSL led the tally by exporting 32.5% (4,937 tonnes). After KBSL was CPL with 23.1% (3,514 tonnes), Aero Ltd with 18.4% (2,797), Sankamap

Ltd with 9.5% (1,443), Pacific Lama with 8.9% (1,354 tonnes), ABC Ltd with 16.6% (1,575), ABC with 4.0% (607 tonnes), GTM Distributors with 2.2% (341 tonnes) and Garden Enterprise with 1.5% (221 tonnes) in descending order.

Despite the price fall in the global market, there is competition among domestic buyers for copra. Those who offer a higher price to the farmers, get more volume. This has triggered production increase, and that further had positive chain reaction effects on export.

Table 4a: Copra exports and market share for July—September 2018.

Exporter/Port	Third Quarter 2018 Export Volumes (Tonnes)	Market Share (%)
Kimbe Bay Shipping	4,937	32.5%
Coconut Products Ltd	3,514	23.1%
Aero Ltd	2,797	18.4%
Sankamap	1,443	9.5%
Pacific Lama Traders	1,354	8.9%
ABC Ltd	607	4.0%
GTM Distributors	341	2.2%
Garden Enterprise	221	1.5%
TOTAL	15,215	100%

2.5.2 Coconut Oil Exports

A total of 3,469 tonnes of CNO was exported from PNG in this quarter. The month of July registered an export volume of 2,316 tonnes followed by August with 472 tonnes which is a decrease of 79.6%, and but increased in September by 44.3% to 681 tonnes. Compared to the export volume (5,620 tonnes) of the preceding quarter, this quarter's total export volume decreased by 38.3%.

Export by destination

CNO exported in this quarter went to five overseas markets namely Malaysia, Indonesia, Sri Lanka, Australia

and United States of America (USA). Of the total volume exported: 54.2% (1,880 tonnes) to Malaysia, 34.8% (1,208 tonnes) to Indonesia, 5.8% (201 tonnes) to Sri Lanka, 4.6% (160 tonnes) to Australia, and 0.6% (20 tonnes) to USA.

Export market share

The export of CNO in this quarter was undertaken by Pristine Co.101 Limited, Globe Manufacturing Ltd, Markham Farming Ltd and Tropic Frond Oils Ltd.

Table 4b: Copra Oil (CNO) exports and market share for July—September 2018.

Exporter/Port	Third Quarter 2018 Export Volumes (Tonnes)	Market Share (%)
Pristine Co.101 Ltd	1,453	41.9
Globe Manufacturing Ltd	1,096	31.6
Markham Farming Ltd	780	22.5
Tropic Frond Oils Ltd	140	4.0
TOTAL	3,469	100%

2.5.3 Copra Meal Exports

In this quarter a total of 2,333 tonnes of copra meal was exported from PNG. which is a decrease of 29.4% compared to the total volume (3,303 tonnes) registered in the preceding quarter.

The month of July registered an export volume of 1,316 tonnes followed by August with 300 tonnes, a decrease of 77.2%, however it increased again by 139.0% to 770 tonnes in September.

Export by destination

Copra meal exported in this quarter went to five

destinations overseas namely Australia, USA, India, UK and South Africa. Of the total export volume, Australia bought 68.9% (1,607 tonnes), USA 12.7% (297 tonnes), India 11.5% (269 tonnes), UK 6.0% (140 tonnes) and South Africa 0.9% (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 July—September 2018.

Exporter/Port	Third Quarter 2018 Export Volumes (Tonnes)	Market Share (%)
Pristine Co.101 Ltd	1,453	41.9
Globe Manufacturing Ltd	1,096	31.6
Markham Farming Ltd	780	22.5
Tropic Frond Oils Ltd	140	4.0
TOTAL	3,469	100%

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 2018 are summarised in Table 5 below.

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

Copra, CNO and copra meal revenue registered in this quarter were lower by 25.9%, 50.2% and 33.5% com-

pared to the revenue registered in the preceding quarter.

The aggregate export revenue generated from coconut products in this quarter is 17.0% lower than the total export revenue registered in the corresponding quarter of 2017.

Revenue in the nine months to September 2018 registered 45.9% higher than the revenue earned in the corresponding period in 2017.

Table 5: Export earnings from coconut products for the third quarters and nine months of 2017 & 2018

Coconut Product	July-Sept 2017 (Kina)	July-Sept 2018 (Kina)	Jan-Sept 2017 (Kina)	Jan-Sept 2018 (Kina)
Copra	21,105,995	22,146,189	50,394,896	94,078,495
CNO	16,927,006	8,994,913	42,079,387	42,473,675
Copra Meal	1,151,719	1,390,292	4,430,084	4,854,203
TOTAL	39,184,720	32,531,394	96,904,367	141,406,373

Source: Kokonas Industri Koporeesen

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 11.2% and 13.0% 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 17.3% 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.

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.