

# **The world market for coconut production: An economic analysis from the perspective of the Philippines**

## Overview Objectives

The coconut palm provides a substantial export income for many tropical countries, as well as food and drink for home consumption and fuel and shelter. Of the exported products, copra, the dried kernel, is a major source of vegetable oil and coconut oil, and shredded and dried kernel is widely used in the bakery and confectionery trades as desiccated coconut. 'Copra cake', left after oil extraction, is a valued animal feed, especially for dairy cattle.

The leading coconut producer nations are (in order) the Philippines, Indonesia, India, Sri Lanka, Thailand and Malaysia. While production from nations such as Fiji, Papua New Guinea, Solomon Islands, Samoa, Tonga and Vanuatu is relatively small, the coconut trade is a major source of export revenue for these countries. In some years, copra comprises more than 50% of Vanuatu's export income.

The coconut industry is the highest net foreign exchange earner of agricultural exports in the Philippines, accounting for about 1.5% of GNP. It employs, directly or indirectly, some 20 million people (about one-third of the population) and earns more than US\$510m annually. However, the industry's ability to meet demand and expand may be jeopardised by:

- . the declining share of coconut oil in the world's oils and fats market;
- . a proposed levy on vegetable oil imports to the European Community and a campaign against coconut oil in the US;
- . more stringent aflatoxin regulations imposed in the international copra market;
- . erosion of the European desiccated coconut market;
- . lack of a market development and expansion program; and
- . low incomes for coconut farmers.

Aware that failure to respond to changing patterns in world trade in coconut products could have adverse effects on employment and revenue, the Philippines Coconut Authority and Department of Agriculture requested ACIAR assistance. As a result, this project was set up to:

- . define the factors that drive international coconut product markets;
- assess the factors that determine demand in the major consumer nations of the world; and
- . identify threats to the industry's viability posed by US and European Community trade restrictions, competition from other oils, and mycotoxin contamination.

Two databanks will be created to facilitate the study: one to hold data relevant to monitoring trends in international product markets; the other, data relating to Philippine domestic production, consumption and prices of coconut products. The research team will apply econometric modelling techniques to provide supply, demand and price projections for the major coconut product markets; evaluate the implications of these projections for the economic viability of the Philippines coconut export sector; and analyse a range of domestic policy options. They will give particular emphasis to the opportunities for additional value-added processing in the Philippines coconut industry.

Economists from the commissioned organisation - the Centre for Applied Economic Research, University of New South Wales - have a diverse range of economic skills, and prior experience in coconut-sector policymaking. They will be assisted by staff of the University of the Philippines at Los Banos, the Philippines Coconut Authority, the Philippines Department of Agriculture, the United Coconut Association of the Philippines, and the Asian and Pacific Coconut Community (APCC), located in Jakarta, Indonesia. The Australians will be concerned mainly with the international component of the study; and their Philippines colleagues, with the domestic component. Regular meetings and workshops in Sydney and Manila, and two research training workshops in Jakarta, will help project coordination.

The project will assist the Philippines Government to adopt domestic policies to facilitate the growth (or contraction) of sectors of the coconut industry in order to make it more efficient. APCC will disseminate the results to other member nations, and this is expected to have substantial flow-on benefits to India, Sri Lanka and Indonesia, as well as to many South Pacific nations that rely heavily on export revenue generated by the coconut industry. Australia produces many commodities that compete with coconut products, and thus the results will interest Australian oil-based industries. By reducing the need for direct financial assistance to nations heavily dependent on export revenue from coconut products, the project is also likely to have a positive effect on Australia's economy.