

# THE LONG TERM CAUSES FOR THE DECLINE IN THE PRICES OF COCONUT OIL

1. Price developments of oils and fats after the second world war have shown a striking resemblance to the price trends in the corresponding period after the first world war. In both periods, there has occurred a narrowing of the price spread between various vegetable oils and a general downward movement. In the period after the second world war, these phenomena have been commenced by competition not only within the oil group itself, but also by competitive pressure of substitutes for oils. In recent times, the supply of vegetable oil has been adequate, although occasional damage to crops created temporary shortages. As most of the oils are increasingly substitutable for coconut oil in food uses and as the development of synthetic detergents offers increasing competitions to soap, there is a ceiling on possible price increases. If the coconut oil is to maintain and to expand the present position on the world market, it has to retain or improve the competitive position under the present conditions. Most oils, particularly edible and vegetable oils are interchangeable in the manufacture of a great many end — products due to continuing improvements in processing and in refining techniques. Thus the competitive relation between coconut oil and other oils have increased. In addition, the development of synthetic products have resulted in increasing competition between oil based and synthetic products.

2. The successful introduction of synthetic detergents into the soap market was partly due to the post-war shortage of oils and fats. They are also cheaper than soap. The increasing use of washing machines have also supported the synthetic detergent products. It has been said that the last remaining soap strong-hold is in the manufacture of toilet soap bars. During the last few years, detergent toilet bars too have appeared on the market in Western products.

3. The consumption of butter increases when the price spread between butter and margarine becomes narrow as it happened in Britain in 1959. From 1919—1939, the average price for butter in Europe was approximately twice the margarine price. In 1952 and 1953 the ratio was 3 : 1 and since 1954 about 2.5 : 1.

4. As income rises and the proportion of urban population expands, consumption of food fats such as meat and dairy products excluding butter increases, while consumption of fisible fats stagnates. In addition, the consumption of bread decreases resulting in the contraction of bread spreads. In U.S.A. the utilisation of coconut oil for food uses has declined 20 per cent from 1924/38 to 1953/57, while the utilisation of soya bean oil has increased by 900 per cent.

5. The consumption of margarine in Europe has shown a comparatively up-swing in the post-war period. From 1950—1957 consumption has risen at an annual rate of 45 per cent. In 1957, consumption declined at the rate of increase since 1952 except 1956 which has been decelerating as shown below:

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\*This article was submitted by the Director of Commerce.

**Consumption of Margarine and Butter (thousand metric tons, product weight)**

	<i>Margarine</i>	<i>Percentage change</i>	<i>Butter</i>	<i>Percentage change</i>
1938 ...	1,026		1,569	
1950 ...	1,301	+ 27	1,402	-11
1952 ...	1,585	+ 22	1,301	- 7
1954 ...	1,707	+ 8	1,433	+ 10
1956 ...	1,829	+ 7	1,514	+ 6
1957 ...	1,778	- 3	1,626	+ 7

Source: I.B.R.D.

The future demand for margarine will depend on —

- (a) the response of combined consumption of butter and margarine to rising incomes; and
- (b) the likely relationship between the price of butter and margarine.

The consumption of margarine is likely to increase at an annual rate of around 2.5 per cent until 1965 according to a study made by the I.B.R.D. This is higher than the rate of increase in 1938—1957, but lower than in 1950—57.

6. Since the war the quality of margarine has improved greatly due to skilful blending and to fortifying with vitamins resulting in the nutritional value of margarine being as high as that of butter, while the price has continued to be lower for margarine than for butter. In general, consumers in Western countries have become accustomed to margarine. This position is likely to continue so long as the price of margarine remains competitive in relation to the price of butter.

7. During World War II, Japan gained control of 40 per cent of the vegetable oil production in the Far East. As a result, U.S.A. increased her production of vegetable oils mainly soya bean and cotton seed oil to fill the gap. In the immediate post-war years, production in U.S.A. was stimulated by the Marshall aid programme in Europe where one of the most serious post-war shortages was that of oil and fats. In Africa too, production increased since U.K., Belgium and France turned to their colonies as sources of vegetable oils.

8. U.S.A. and China account for 93 per cent of the world output of soya bean. As these two countries belong to the two rival political blocks of the world, both countries appear to be competing with each other in capturing the markets for soya bean.

9. Copra production has risen at an annual rate of 2 per cent from 1948/52 to 1954/58. Copra may continue to increase at about 3 per cent according to an estimate of the I.B.R.D. Although coconut oil has suffered severe competition in soap manufacture from synthetic detergents, their total demand did not contract until 1958 as coconut oil is considered to be an excellent oil for margarine manufacture.

However, it has to compete now with the other edible oils in the European margarine market. In these circumstances, price has become the most important factor.

10. From 1948/52 — 1954/58, Philippine rate of expansion of copra and oil (oil equivalent) exports has been more than double the world rate of 2 per cent, resulting in the Philippine share of the market increasing from 32 per cent pre-war to 54 per cent.

11. In the post-war period there was a shift to larger exports of oil in relation to the seed in the case of vegetable oils, except coconut oil. Copra's share of world coconut oil exports has been maintained at 75 per cent due to Philippines continuing to ship the bulk of their exports in the form of copra. At present about 45 per cent of the world vegetable oil exports are in the form of oil compared with 26 per cent before the war. Countries in Western Europe prefer to import copra, in order to help their milling industry. It is for this reason that no import duty is levied on the imports of copra or any other oil seeds, while a duty is levied on the imports of oils. Both U.S.A. and China export a major portion of their exports of soya bean in the form of beans and not oil.

12. Although Western Europe is the leading world market for oils and fats, their share of the market has been contracting notwithstanding the slightly rising trend in their volume of imports. Imports into the U.S.A. have declined from 15 per cent pre-war to 6 per cent, resulting in their absolute volume of imports of vegetable oils being about one-half of the I.B.R.D., imports to Western Europe is likely to rise slightly less than 2 per cent yearly, compared with 3.5 per cent from 1950—1952—1957.

13. Within the Common Market, competition between the various vegetable oils is likely to intensify as the estimated annual rate of growth in consumption of these oils over the next ten years is expected to decelerate.

14. According to the I.B.R.D. the increase in demand for a rising world population can be met only by soya bean, cotton seed and groundnut oil, as their production can be expanded quickly. Hence, the short term outlook for coconut oil is for continued low prices.

### IMMEDIATE CAUSES

1. European vegetable oil users made adjustments in their production processes to enable them to handle U.S. soya bean oil in large quantities when the prices of coconut oil advanced steadily during 1958-1959. As a result of this, the traditional consumer preference for coconut oil appears to have been reduced in Western Europe. The soya bean oil price at that time was low enough to overcome the trade ties and preferences which the African and Far Eastern suppliers had on the European market.

2. World net export supplies of oils for shipment in 1961 are estimated at 8,550,000 metric tons, oil basis compared with actual world net exports of 8,193,000 in 1960. The increase is 357,000 tons or 4.4 per cent.

3. In 1961 a sharp drop in exports of soya bean and groundnut from China and palm oil from Congo did not help coconut oil prices to remain high. This is due to the fact that net import requirements of four important West European countries (U.K., West Germany, Italy and Spain) in 1961 are likely to be down by 349,000 tons from the actual net imports of 1960. This decline probably is sufficient to offset the reduction in Chinese exports.

4. World butter output increased by 187,000 tons in 1960 and is expected to be up about 100,000 tons in 1961. Heavy stocks have been built up in Western Europe. The effects of this on margarine consumption is expected to become apparent in 1961.

5. Imports of oils and oil seeds into Western Europe in 1960 were heavy compared to 1959.

6. Although world net export supplies of copra and coconut oil in 1960 were about 200,000 tons oil equivalent below 1956-1957 average, the coconut oil prices in December 1960 fell to 24.9 U.S. cents per kilo compared with 25.9 cents in 1957. This was due to the sharp increase in the supply of other competitive oils. Output of edible oils rose by 844,000 tons in 1960.

7. In the past three years, manufacturers of margarine particularly in Western Europe have become accustomed to using soft oils, particularly soya bean and a price discount from 1957 level is therefore necessary to induce manufacturers to switch back to using more coconut oil.

8. The low prices of soya bean in 1959 and 1960 induced the record imports by Western Europe and Japan.

9. In 1960, the world trade in copra and coconut oil increased sharply as production in Philippines recovered from the depressed level of 1957/58.

10. In London the prices of Ceylon coconut oil fell from £140 per ton in January 1960 to £95 in December, 1960. In 1961, the prices dropped from £96 in January to £95 in the first week of April. The decline in prices reflected in the continuation of the recovery in Philippine copra production that began in late 1959 after a two year period of drought.

11. There is a decline in Western Europe in margarine consumption since the fourth quarter of 1960 due to the increase of the supply and consumption of butter. It is estimated that the world butter production in 1960 reached 3,924,000 tons. The increase from 1959 is 187,000 tons or 5 per cent. Margarine production in 1960 was up by 126,000 tons or by 3.6 per cent to 3,631,000 tons. The reason for the increased consumption of margarine despite the increase in the production of butter in 1960 was the adjustment of butter consumption to increased supplies to take place with a lag of 6/9 months. Consumption does not react until the price decline has reached a certain level. This point was reached in the last quarter of 1960. In the fourth quarter of 1960, world margarine output was down by 200,000 tons.

12. In August 1960, thousands of people in the Netherlands suddenly showed symptoms of a hitherto unknown skin disorder. This was imputed to an ingredient which Unilever had added to margarine in order to reduce the spattering when used for frying. It is most likely that this skin disorder would have contributed to a reduction in the consumption of margarine.

### COPRA AND COCONUT OIL

1. According to a study made by the F.A.O. a 10 per cent increase in the supplies of copra, normally leads to a 7 per cent reduction in the price of copra.

2. Production of copra has risen at 2 per cent annually. Yearly variations have been wide ranging from 11 per cent increase to an 8 per cent decline. In 1958, production was 8 per cent below 1957 due to bad weather.

3. The acreage in Philippines increased by 50 per cent between 1938 and 1955.

4. Exports of copra and coconut oil in 1960 were up by 179,000 tons to 1,116,000 tons and 1961 world net export availabilities are expected to increase to 1,250,000 tons.

5. According to the F.A.O., the world copra production in 1960 rose to 2 million tons in oil equivalent compared with 1.8 million tons in 1958 and 1959 and 2.2 million tons in 1957.

6. The Philippine's copra shipments in 1960 were up by 40 per cent. Their total exports in 1960 rose to 918,116 tons from 657,861 tons in 1959, the increase of about 260,000 tons. Their exports to Europe were 555,715 tons, to U.S.A., 296,732 tons and to other countries, 65,669 tons. Their exports to

in 1959 to these countries were 319,048 to Europe, 289,281 to U.S.A. and 49,532 tons to other countries. Exports of copra and coconut oil from Philippines (oil equivalent) since 1956 have been as follows:—

1956	.. ..	705,174
1957	.. ..	689,021
1958	.. ..	546,745
1959	.. ..	392,219
1960	.. ..	574,330

7. The present development seems to tend towards price relationships prevailing in 1957 i.e. relatively high prices for most soft oils, while palm oil prices are likely to remain on the present low level. The situation in Congo remains a potential threat to palm oil supplies, since Congo contributes about 30 per cent of the total world supply of palm oil exports of 560,000 tons.

### OTHER POINTS REGARDING OILS AND FATS

1. The rate of increase in world consumption in oils and fats by mid 1960 is estimated to be at an annual rate of 3 per cent.

2. A rapid increase in consumption of oils and fats in low income areas and a stagnation or a decline in the per capita consumption in the higher income countries are likely to take place.

3. In the Soviet Block countries there is a rising trend in consumption of oils and fats since the present level of consumption is still fairly low (it is but half the level in West European countries). Their climate too is conducive to a high fat diet. The estimated consumption of fats and oils in these countries in 1965 is 11.5 million tons compared with 7.4 million tons in 1955-57. According to the I.B.R.D., the world consumption in 1965 may reach 38 million tons compared with 28 million tons in 1957-58. The world production of edible oils increases at an annual rate of 3.5 per cent. The world vegetable oil exports have grown at 6 per cent per year from 1948-1952 to 1954-1958. Within this, edible oils have increased by 12 per cent for the same period. Palm oil too has increased at 1.7 per cent.

4. The possibility of a general downward movement depends on two factors:—

(i) How far the prices can decline before the producers commence to shift to another crop. It is estimated that price of copra can go down to £ 60 per ton c.i.f. European ports.

(ii) Future production policy in U.S.A. for oils and fats. The demand for soya bean meal is firm and this has enabled the crushers to sell their oil at low prices. European countries too prefer to import seeds rather than oil due to the increase in demand for the meal.

From a feeding stuffs point of view, soya bean cake is the most valuable cause which has the highest protein content relative to other oil seeds. It is followed by groundnuts. From an oil point of view, copra is the most valuable.

	<i>Protein</i>		<i>Oil</i>
Soya bean	50%	—	15%
Ground-nut	45%	—	42%
Copra	18.20%	—	63%

**AVERAGE ANNUAL PRICES**  
**1909 — 1913, 1921 — 1938 and 1948 — 1956**

<i>Groundnut oil (UK)</i>	<i>Soya bean oil (UK)<sup>1</sup> (Manchurian) Europe</i>	<i>Cotton seed oil (US) New York</i>	<i>Coconut oil (Seychelles) London</i>
US DOLLARS PER METRIC TON			
1909	—	131	125
1910	—	179	169
1911	—	139	155
1912	—	138	184
1913	—	160	214
1921	161	173	191
1922	193	225	171
1923	206	247	199
1924	215	241	210
1925	227	237	226
1926	210	260	212
1927	210	213	207
1928	189	218	193
1929	168	214	164
1930	149	180	140
1931	121	136	104
1932	111	84	84
1933	98	99	75
1934	100	144	67
1935	158	231	98
1936	154	216	119
1937	153	200	124
1938	105	174	78
1948	436 <sup>1</sup>	595	421 <sup>1</sup>
1949	392 <sup>1</sup>	306	384 <sup>1</sup>
1950	303 <sup>1</sup>	397	282 <sup>1</sup>
1951	329 <sup>1</sup>	458	338 <sup>1</sup>
1952	358 <sup>1</sup>	331	260
1953	385 <sup>1</sup>	357	340
1954	389	344	306
1955	301	320	260
1956	379	348	262

\*interpolated

<sup>1</sup>fixed prices.

## PRICES OF SELECTED VEGETABLE OILS

(Prices in U.S. cent per kilo c.i.f. European port)

<i>Period</i>	<i>Ground- nut oil</i>	<i>Soya bean oil</i>	<i>Cotton seed oil</i>	<i>Coconut oil</i>
1957	36.0	30.6	34.5	25.9
1958	27.6	—	—	30.2
1959 Jan./Mar.	28.3	24.1	26.0	36.1
April/June	32.9	24.2	—	33.5
July/Sept.	29.4	22.4	24.6	34.7
October	28.9	22.1	24.0	38.5
November	28.7	20.8	22.4	37.3
December	30.0	20.3	22.1	35.4
1959	30.0	23.1	24.5	36.7
1960 Jan.	33.4	20.2	23.1	36.9
Feb.	34.1	19.7	22.8	36.2
March	33.0	19.7	22.7	35.1
April	33.3	20.2	23.8	33.1
May	33.5	20.5	23.9	31.7
June	33.4	21.4	23.9	27.6
July	33.6	21.9	24.2	27.8
August	33.6	23.3	—	27.5
September	32.2	22.7	22.5	26.0
October	30.9	23.6	22.9	25.8
November	30.1	25.4	25.1	25.1
December	30.1	25.4	25.1	25.1
1960	32.7	22.1	23.6	29.9
1961 January	32.9	27.4	27.1	25.5
22nd Feb.	34.6	29.3	29.8	25.9