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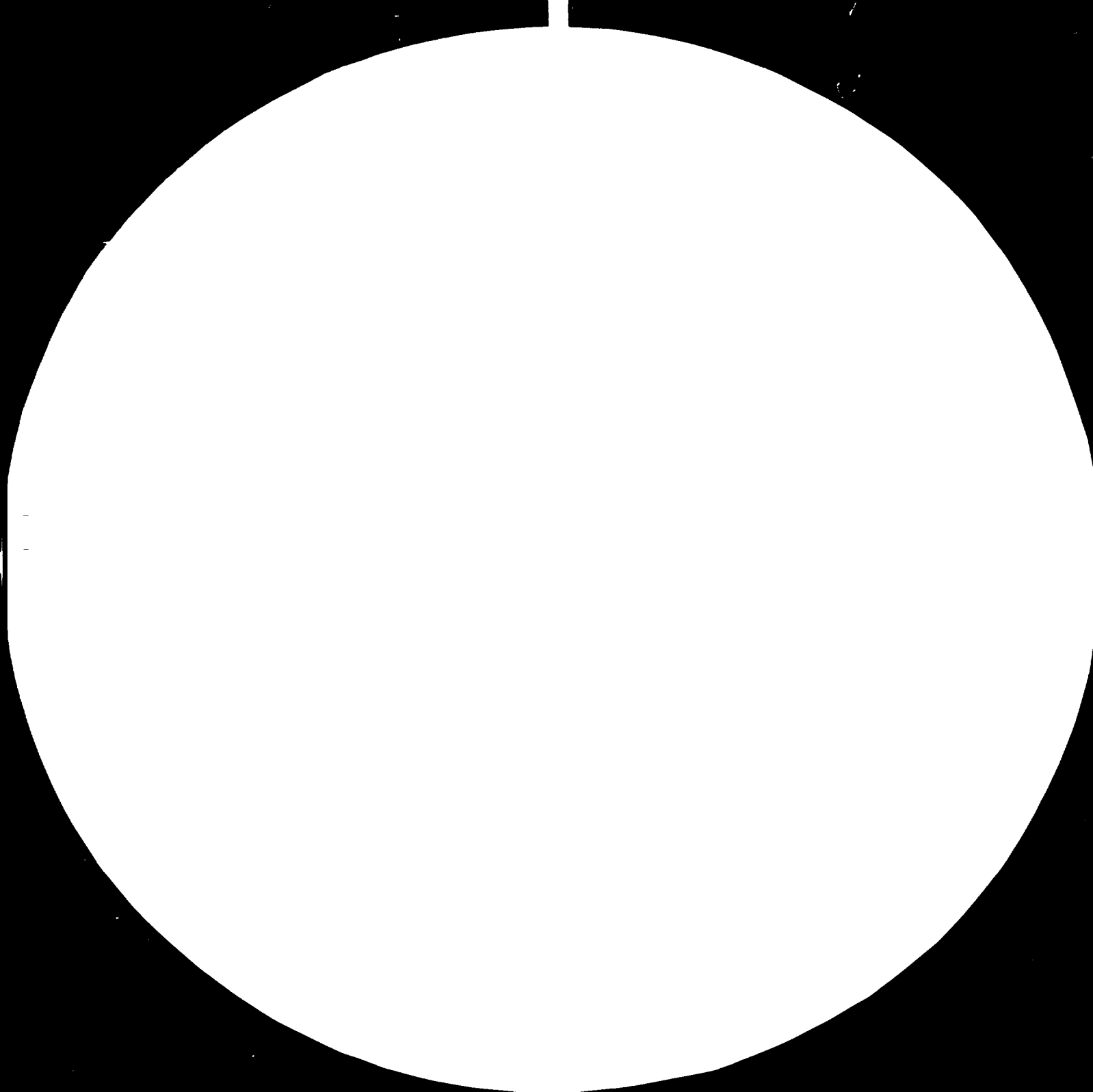
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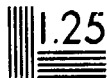
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ENGLISH

REVIEW OF THE VEGETABLE OILS AND FATS INDUSTRIES SECTOR OF THE
PACIFIC REGION^{1/}

DP/RAS/79/031

COUNTRY REPORT ON SOLOMON ISLANDS

Prepared for the Government of Solomon Islands by the United Nations
Industrial Development Organization in co-operation with the Inter-
national Trade Centre UNCTAD/GATT

Based on the work of J. R. Santhiapillai and G. P. Yeats.

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RECOMMENDATIONS

1. The feasibility of establishing a copra mill in the Solomons should be examined, including new or second-hand machinery, and the possibility of importing copra from PNG.
2. The Solomons, and other regional countries interested in obtaining second hand copra mills from Europe, should approach international banks or aid donors for finance to affect the transfers of mills to the Pacific.
3. If copra milling commences, it should be carried out by the copra Board, with mill management sub contracted to a company experienced in this operation.
4. Until a mill be established in the Solomons, the Board watch the PNG milling of copra in Palau, and if a success also have copra milled there.
5. The feasibility of a palm kernel crushing plant in PNG to also process Solomon's kernels be investigated. This plant be part owned by the SIPL or a stabilization fund for palm producers should this be established.
6. Solomons support PNG in a feasibility study of an oils refining/oils and fats manufacturing industry to service both countries.
7. The soap factory instal bleaching equipment for Palm Oil.
8. The soap factory get expert advise with which to improve factory performance.
9. The Solomons approach the Governments of Vanuatu, Kiribati, and Tuvalu with the aim of sole right of imports of soaps to these markets.
10. A trial should be carried out to market palm oil in the Solomons.
11. The Solomons examine the market for fresh coconuts in Australia.
12. The Solomons and other countries in the region press for payment of copra on delivered quality.
13. The Solomons and other island countries press for the establishment of futures trading in copra, coconut oil copra cake, palm oil and palm kernels.
14. The Solomons adopt a clear policy on internal shipping to include.
 - a) the establishment of a self-accounting government shipping service,
 - b) the government licence shipping to ply on stated routes,
 - c) the government withdraw from all routes on which private companies can operate,
 - d) the government regularly review the routes on which the government shipping service operate to keep them as effective as possible.

INTRODUCTION

1. Project Background and Justification

The first consultation meeting on the Vegetable Oil and Fats Industry was held in Madrid from 12 to 16 December 1977.

This meeting convened by UNIDO in pursuance of the Lima Declaration and Plan of Action and General Assembly Resolution 3362, is part of its efforts to promote co-operation in raising the overall level of industrial production in developing countries. The meeting made a series of follow-up recommendations relating, inter-alia, to global policy for increased international and technical co-operation between the developed and the developing countries and among the developing countries themselves, and for specific follow-up action, both short-term and long term.

UNIDO decided to carry out, through expert services, evaluation studies of the potential of the vegetable oil industries sector in a selected number of developing countries. This evaluation country study was to assess and evaluate the existing situation in the countries to be covered with regard to the availability and utilisation of oil-bearing materials (including the raw material potential), the domestic market situation (present demand) in vegetable oils and protein cake/meals and the present status of the vegetable oil industry. In fulfilment of the above decision, a UNIDO consultant on edible oils made a study of Western Samoa from November 20 to December 4, 1978.

Since the Pacific region is agronomically suitable for production of oil producing species, coconuts and oil palm, such raw materials offer one of few available possibilities for integrated agro-industrial development; vegetable oils and fats, detergents, cosmetics, protein cake/meals, livestock feed and further spinoffs and linkages with the agricultural sector.

It was agreed during the UNDP/ESCAP/SPA/SPEC Inter-Country Programming Meeting held in Suva in February 1979, that this type of study should be made into a Regional Pacific Project.

SPEC would like to see the exercise accord recognition to the concept that effective regional co-operation could be a positive means of reducing costs and rationalising development in the Pacific.

2. Objectives

Development objectives: The long term objectives of this regional project is the promotion of regional self-sufficiency in production, processing and related agro-industrial development of vegetable oils and fats.

The study is to assess and evaluate the existing situation with regard to the availability and utilisation of oil bearing raw material potential, the domestic market situation demands for a vegetable oil industry, protein/cake and the status of the vegetable oil industry at present in operation with a view to its further technical technological, and alternative development. It should provide a specific long range recommendations towards improving the export of vegetable oils and fats, and provide marketing strategies in relation to present export patterns.

Immediate objectives: The immediate objectives is to recommend methods that can be applied for improving local production and distribution and to provide a marketing diagnosis which will stimulate better export strategy which can be implemented in the immediate future.

Whenever applicable, the study should also consider evaluating oils and fats from animal sources and the possibility of developing viable productions and import substitutions.

3. Project

In fulfilment of the above, two consultants

a) Joe R. Santhiapillai - Team Leader and Vegetable Oil Industry Specialist from UNIDO b) George Yeats - Marketing Analyst from ITC, visited, Fiji, Kiribati, Tonga, Western Samoa, Niue, TTPI, Papua New Guinea, Solomon Islands, Cook Islands, Nauru, Vanuatu and Tuvalu and prepared twelve country reports with tables, annexes and assessments made and based thereon. In addition the experts produced a summary of the regional study. The project was for a duration of six months.

4. Acknowledgements

Our sincere thanks are due to all the people we had met during our visits to the different countries. If not for their considerable help and co-operation this project would not have been a success. A list of those people principally involved in discussions is given at the end of the report.

During the project we were based at SPEC, Suva and our special thanks are due to the Director, Deputy Director, Administration Officer and Mr. John Franklin, Trade and Marketing Officer and all at SPEC for their invaluable help and co-operation. Our thanks are also due to Mr. Dello Strologo, SIDFA and all at the UNDP office in Suva for their help in innumerable ways.

SOLOMON ISLANDS

Population 1980	:	225,000
G.D.P. /capita 1979	:	SIS460 = US\$535
Land Area	:	27,556 sq.km
Sea Area	:	1,340,000 sq.km
Geography	:	Solomon Islands is one of the principal groups of Melanesia. There are 6 main islands stretching from Bouganville, PNG in the north west to the Santa Cruz Islands in the southeast: Choiseul, New Georgia, Santo Ysabel, Guadal Canal, Malaita and San Cristobal.
Agricultural Production	:	Coconut is the main agricultural export crop and accounts for about 25% of the exports. Other agricultural exports are Palm Oil products, cocoa and rice.
Total Production of Oils and fats equivalent 1980	:	35,100 tonnes
Total exports of Oils and Fats Equivalent	:	35,000 tonnes
Total Imports of Oils and Fats Equivalent	:	650 tonnes
Import Dependence on Oils and Fats	:	85%
Per capita consumption of Oils and Fats (food uses)	:	2.2 kgs/annum
Per capita consumption of soaps and Detergents	:	2.5 kgs/annum

Note: All figures exclude fresh nut and invisible fats consumption.

COCONUT

Smallholders account for the greater proportion of coconut production. The copra produced in 1979 by the small-holders is 69% and the plantations the remaining 31%. The domestic consumption of coconuts is estimated to be 12,000 tonnes copra equivalent/annum - i.e. about 1 nut per capita per day.

The method of harvesting coconuts is one which is widely used throughout the Pacific countries i.e. to allow the coconuts to fall to the ground.

Copra is made by hot air driers fired by coconut husks and firewood and by mechanical hot air driers using oil fired burners in the plantations.

COPRA MILLING

Presently the Solomons has no copra mill, and all production is exported. In recent years production of copra has been as high as 33,000t but due to aging of palms and the inadequacy of the proposed replanting scheme to fully compensate for the expected resultant drop in production, a long term production of 25,000t is expected. This on its own is not likely to be a sufficient throughput for a viable mill operation. It is likely, however, that mill facilities will not be available for much longer in Europe, and the Pacific will be forced to make alternative arrangements for milling copra. In this case it is considered that other quantities would have to be imported into the Solomons to make the mill viable. If these supplies could come from Kieta in PNG it would raise the mill throughput to 38,000t. Of course this would also involve transport costs from PNG to the Solomons, but these may be no more expensive, particularly for such a large quantity, than for the copra which would have to be supplied within the Solomons itself to one central point. The siting of a mill should take into account where the major copra-producing areas are, the cost of power for the mill (possible hydro-power supplies), the siting of a possible livestock feed industry utilizing the copra cake, and the situation of shipping within the Solomons, especially the fact that the volume of shipping into Honiara from the rest of the country is about double that out of Honiara to the rest of the country.

Commercial experience in the Pacific is of the opinion that investment in additional copra mills in the area would be un-economic unless secondhand equipment can be purchased. This is said, of course, on the understanding that the equipment has been well maintained and is thoroughly inspected by a competent authority before purchase. The Carpenters mills at PNG and Fiji, for example were both second hand when installed in the early 50's, and continue to operate with an efficiency equal to that of any new mill. Criticism has been made on second hand mills on the grounds of inefficiency, breakdowns and maintenance cost. Any mill, new or old has to have a high standard of management and maintenance, and cannot be considered if conditions for this are not of a first class standard.

It is our assessment of the future market for coconut products that prices might decline, thereby putting even more pressure on producer returns, and unless some measures are taken to increase the return to growers, production may decrease. This would in turn raise the cost of copra handling facilities, and further lower returns to growers. It is recommended that should a detailed study of the above proposal show it is feasible, then milling operations should be carried out by a subsidiary company of the Copra Marketing Board, with a management contract let to a company thoroughly versed in copra milling. Such a proposal may require a change in the legislation under which the Board operates.

It would be desirable for the financing of the installation of a mill to be through such an agency as the World Bank or the Asian Development Bank. However, their present mode of operation excludes use of second-hand equipment, such as would almost certainly be necessary. In view of the shutdown of mills in Europe at present, and the likely necessity of the Pacific islands to make other arrangements for milling copra, we would envisage a transfer of milling equipment from Europe to the Pacific. This would be a major development for the region, and we consider, warrants submission of a special submission to the International bank. Should this not succeed, foreign aid, especially UK, German or Dutch assistance could be sought. These countries are those most likely to be concerned with closing mills in Europe, and are in aid-giving to the Pacific. Their aid could be coupled with their assistance to their own companies in disposing of copra mills.

COPRA MILLING ON CONTRACT WITH THE MILL IN PALAU

Till such time as the feasibility of milling copra either with second hand or new equipment is examined, the Board should watch the result of PNG's experiment with the Palau Mill where they are crushing the copra at a cost of US\$50/ton. On paper this appears to be more profitable than selling copra to Europe. If this is proved to be so then Solomons could also mill the copra at Palau as the capacity of the Palau Mill is 42,000 tonnes of copra/annum.

The Palau mill has to depend on copra from the Pacific islands - PNG and Solomons in particular to make it viable. If it is unable to get the copra the plant can't operate in which event this plant would also be available for sale.

PALM OIL

Oil Palm is grown and Palm Oil extracted by a local company in Honiara called the Solomon Islands Plantations Limited (SIPL) incorporated in 1971. The partners being Commonwealth Development Corporation (CD) (70%), the Solomon Islands Government (26%) and local landowners (4%). Capital employed at 31/12/77, including agricultural trials was SISO.5 million.

Presently about 3,500 h.a. are planted and under production. Installed capacity (24 tonnes of fruit/hour) of the plant could service a total of about 5,000 h.a. and the company would like to expand the cultivation area, the required land is expected to become available when political and other issues are resolved.

In 1981 the expected production is 15,300 tonnes of Palm Oil and 2,400 tons of Kernels.

The mill has proved to be efficient and with high quality fruit, the oil and kernel extraction ratios being about 23% and 4% perhaps as high as anywhere in the world.

The Government is now actively looking for investors to develop another Palm Oil Plantation in a new undeveloped area in Kolombangara as initial feasibility studies would appear to indicate that this is feasible.

The oil scheme, is currently marketing its palm oil and kernels in Europe. A little of the crude oil may be used for consumption in the Solomons, in addition to the small quantity used by the soap factory, but the bulk will continue to be exported.

As for the kernels, further processing to palm kernel oil and cake would be very unlikely to be profitable in the Solomons because of the small quantities, i.e. 3000t at present, and up to 5000t if all proposals for expansion of the areas under production came to fruition. However, if a mill were considered which would cater for both the Solomons and PNG, then a throughput of 25,000t kernels is likely, with further schemes possible in both countries. As the process is the same as crushing copra, the same arguments apply as given above. The ownership of such a mill would ideally be such as for the copra mill, however no such oil palm marketing body exists in either PNG or the Solomons.

If a stabilization fund is commenced in PNG as is proposed, then we suggest that the body controlling the fund would be a suitable entity, in conjunction with the company owning the Solomons oil palm scheme, to own the mill, with the management contracted to one of the commercial companies involved in the oil palm industry, or a consortium formed by them. If small-holders become involved in the industry in the Solomons, whence a stabilization scheme would be advisable, then the body administering the fund would be the appropriate organisation to participate in the mill ownership on behalf of the Solomons. It is considered desirable for both countries to have a share (proportional to their production) in the ownership of the mill, rather than the Solomons just sell kernels to the mill as this would ensure both countries benefitted in the added value the mill would create, and firm the commitment of both countries to maintenance of supplies to the mill.

REFINING OF PALM OIL

The maximum market for Vegetable Oils, Fats and Margarine is about 500 tonnes, and maximum possible use for soaps, assuming 100% Palm Oil formulation is about 200 tons of palm oil. Hence maximum possible local consumption of about 700 tonnes of palm oil per annum which is fairly small and hence might not be enough to make a refinery viable.

On the other hand if the PNG & Solomons market is taken together on refinery could prove viable. In which case the Palm Oil could also be fractionated to produce Palm Oil & Palm Stearin. The Palm Olein fraction could be used to produce liquid cooking oils and the Palm Stearin for the manufacture of Dripping, Margarines etc.

This would then be possible only if PNG & Solomons could come to an agreement whereby processing is done only in one country.

TALLOW

At present there is one abattoir in Honiara, which produces about 15 tonnes per annum of inedible tallow. All this tallow is purchased by the Soap Factory.

There are about 22,000 head of cattle but the policy of the Government is to increase this to about 50,000 head of cattle.

The possible future potential would therefore be only about 50 tons of tallow/annum assuming also that more animals would be slaughtered in the abattoir. All the tallow produced could easily be purchased by the soap factory.

ANIMAL FEEDS

In the years 1978-80 the Solomons imported an average of 151 tons of animal feeds per year. This is probably too low to be the basis of an animal feeds industry. However should demand rapidly increase in the next few years, copra cake, if available could be used up to 50% in pig meals and up to 30% in poultry meals.

SOAP PRODUCTION

Soap is produced by a private Company called Solomons Soaps Limited. Soap production started in 1978.

In 1980 the tonnages produced were as follows:

Laundry Soaps	-	114 tons
Toilet Soaps	-	68 tons
Detergents	-	<u>64 tons</u>
Total		<u>246 tons</u>

Soap is produced by the fully boiled process using an oil formulation of 27% coconut oil and 63% crude palm oil. The coconut oil is produced in the factory by expelling copra but the cost of coconut oil produced (\$840/tonne) would appear to be high. The palm oil is purchased from the palm oil factory at \$430/tonne. Tallow in small quantities (1 ton/month) is used whenever available from the local abattoir at a price of \$430/tonne.

The soap is produced in slab form by cooling in Miag Coolers without addition of perfume.

In the case of Laundry soaps these slabs are cut into bars and sold unperfumed.

In the case of Toilet soaps the slabs, are cut into fine chips and dried in the sun to about 75% T.F.M. These chips are then mixed with perfume and fed into a small roller mill and through a plodder, where they are cut into tablets and hand stamped.

The Solomons soap factory, after some period of difficulty due to quality problems, is now producing at least eight different types of toiletsoap, a laundry soap and is packaging a synthetic detergent powder. The soaps are the best we have seen in the region, and moulds, colour, perfume and packaging were all good. The long laundry bar could have marks in it to enable it to be readily cut into more manageable tablets and the small tablet for hotel supply have a convex base, rather than a flat one to make its handle better, and to have less area in contact with the surface on which it is resting so that it doesn't become too soft and dissolve. The soap does have a tendency to be soft and dissolve more quickly than imported ones made largely with tallow.

GENERAL OBSERVATIONS

- 1) Since the palm oil used is not bleached, not only would it be difficult to maintain a uniform colour but also the soap produced would tend to change colour with age. This would create a consumer resistance. Further since the Palm Oil is not bleached, soap can't be produced with 100% Palm Oil. If it is bleached 100% Palm Oil could be used thereby reducing costs considerably.

- 2) It would appear that the % age of perfume added is excessive - perhaps to mask the base odour. Again bleaching of Palm Oil might help.

- 3) With a tariff protection of 50% this factory should be able successfully compete with imported soaps particularly as the wrappers and cartons are extremely well designed and the shape of the tablet (correct shaped) is quite modern.

- 4) If some expertise is made available this factory could be made to run very much more profitably and produce a better quality soap.

CONSUMPTION OF FATS AND OIL AND FUTURE MARKET TRENDS

CONSUMPTION OF FATS & OILS

The Solomons Islands produce about 35000t of vegetable oil (in oil equivalent terms) and imports a further 650t (in oil equivalent) of oils or fats as butter, margarines, animal fats, and soaps. Production has traditionally been of coconut products, however one oil palm estate has recently been established and now produces slightly over half of the Solomons exports of vegetable oils and fats (in oil equivalents). This could rise to 60% if the scheme is expanded to fully utilize the processing factory capacity, and to 75% if a new scheme to plant oil palm, now under consideration, is implemented. Of course an increase in coconut production following current replanting schemes could alter this situation significantly.

Exports in oil equivalent terms are about equal to production (35,000t) with 53% in the form of copra, 44% as palm oil and 3% as palm kernels.

The subtraction of exports from the combination of production and imports gives the Solomons (human consumption of oils (in oil equivalents) as about 750t (3.3 kg per head per annum.) Use is divided into food use of 500t (2.2 kg per head per annum) and non-food (soaps and cosmetics) of about 250t (1.1 kg. per head).

In this figure we have not included consumption of fresh nuts as food by humans and by animals. This is because there are no reliable data on this available. A range of 175 nuts/head per annum to 365 is often quoted for the Pacific Islands. If the figure of 365 were taken (Department of Agriculture), the oil equivalent of this quantity would be 12,000t, making it easily the largest source of oil consumed in the Solomons, and an important proportion of production of the coconut industry. This method of consumption is rather wasteful in that usually the nut is split in half, the "water" wasted, the "meat" is grated, and the resultant "cream" extracted. The residual "meal" is discarded or fed to livestock. However this is part of the culinary tradition of the Solomons, and is important also in that it involves no cash outlay. As prices of all foodstuffs rise, it is likely that the bulk of the population (villages owning coconut groves) will consume more coconuts to substitute for foods which have to be bought.

Solomons consumption of oils and fats is similar to that of other Pacific island countries, and based on experience elsewhere, it is likely that as incomes rise, the consumption of fats and oils will rise even faster. This extra intake will most probably be in the form of greater consumption of fresh coconuts, as mentioned above, but also as edible fats and oils. Given a preference, this most likely would be animal fats, however margarine would also be acceptable and could be made using a major component of coconut or palm oil.

MARKETING OF OILS LOCALLY PRODUCED

It would be useful if palm oil could be made available for consumption in the Solomons. This would not only substitute for higher priced imports, but is desirable from the dietary point of view due to its high carotene content in the crude form. The price received for palm oil exported is about S1\$450t for Honiara at present, or about 22.5c/litre. It would be possible for the producer to wholesale small amounts of the oil for bottling and local sale. Twenty litre containers could be provided for the bulk catering trade. The bottled oil could be expected to retail at 90c/litre including transport, bottling, labelling, and a profit to the businessman. As low a price as possible should be set in order to capture the maximum market, bearing in mind the Tongan and Ponapean situations where locally-produced coconut oil does not seem to be finding a ready market. This may partly be because the price is too high. The scale of operation should be kept small at the onset, both to gauge the size of the market, and to keep overhead costs at a minimum. At the same time, it is recommended that the bottles be distinctively and attractively labelled, and some promotion take place in the form of posters and cooking demonstrations.

MARKETING OF THE SOLOMON SOAP

Solomons soap has been exported: we have seen it in Nauru and know it has been sent to one outlet in Sydney. However sales have not been successful. The Nauru consignment was the "Solomona" brand, for which there are not likely to be large scale sales in any case. There is also no direct shipping to Nauru, so only small consignments can be considered until better transport arrangements are available. The Australian and New Zealand markets are well supplied with soaps, including salt water soaps, which can more than compete with Solomons soap on both price and quality. It is not likely that these countries will give a special price advantage to Pacific islands soaps, thus it will make it very difficult to sell any substantial quantities there in future. In any case, the cost of marketing will undoubtedly be so high that other larger and more attractive markets nearby should first be considered. There is good, direct shipping to Vanuatu, Kiribati and Tuvalu which together have a soap market of about 450t. Only one of these, Vanuatu has a soap industry, and then it is very small, and producing only laundry soap. It is suggested

that the Solomons approach the government of these three countries, and request preferential access to their markets for soap. In the case of Vanuatu this would only be toilet soap, and where either of the other two countries began producing laundry soaps, then Solomons would agree to withdraw their supplies. As it would be desirable to apply this preferential tariff to the region as a whole, rather than to the Solomons alone, it would be necessary to get agreement from Fiji that it would allow the Solomons to supply these markets. Fiji has a well established soap industry, but it also has a large home market which is a sufficient base on which to operate an efficient soap industry. It is possible that this will still not be effective, as the Fiji government has no control over the destination of its exports, in which case Vanuatu, Tuvalu and Kiribati would have to institute a system of import licencing to ensure supplies coming in under preferential tariff conditions were from the Solomons. Papua New Guinea has a large and expanding soap industry also, and may have to be treated in the same way as Fiji.

MARKETING OF FRESH COCONUTS

The Solomons is one of the major sources of seed coconuts in the Pacific due to the occurrence of the "Rennell" strain. This large coconut would be particularly suited to the fresh coconut trade, which is rapidly expanding in Australia (is expected to grow from 2m nuts last year to 4m nuts this year).

For isolated and distant island groups from the export ports, such as the Rennells, this trade, which can pay considerable higher prices than the copra trade, would be particularly suited. Nuts would have to be in good condition and supplied regularly.

COPRA MARKETING

The Solomon Islands Copra Board, established in 1953, is charged with the responsibility for regulating and controlling the marketing and export of copra. The Board attempts to reduce fluctuations in prices by accumulating funds when copra prices are high and vice versa. The estimated costs of the Board is about SI\$15 (US\$18) per ton of copra to cover administration, handling and storage stevedoring and wharfage charges.

The copra is received by the Board at three receival points- Honiara (45%), Yadina (26% and Gizo (29%). Before acceptance the copra is inspected and graded by inspectors from the Ministry of Agriculture. In 1979, Grade 1 was 66%, Grade 2 was 19% and Grade 3 was 15%. Prices paid for the grades were (at 6th May 1981):

Grade 1	SI\$260/t
Grade 2	250.
Grade 3	240

Each of these included SI\$70 from the Accumulated Fund. The price paid to the copra producer depends not only on the grade, but also on the area of origin of the copra. As part of the government's policy of equalization of opportunities throughout the country, the Board has recognized four zones from which copra comes. For each zone there is an allowance to cover the freight paid from that zone to the shipping points, to attempt to equalize the returns to growers. The nearer the zone less the price paid and vice versa so that the transport costs of distant producers are at least partially covered. It would have the same effect, and lessen the administration if all allowances were reduced by the amount paid to the least subsidized zone, number 5 i.e. the following would apply;

	<u>current zone allowance</u>	<u>proposed zone allowance</u>
Zone 1	\$50	\$35
Zone 2	35	20
Zone 3	25	10
Zone 4	15	-

The copra price without zone allowances would in effect then rise by \$15/t.

Another practice which is not directly costing the copra producer, but which is borne by the taxpayers generally is that of over-grading of copra. The present system which is administered by the Department of Agriculture has in fact four grades: first, second, third and reject. The accepted grades are each separated by a price margin of \$10, which is not related to the difference in cost of producing these grades. The copra is not sold according to these grades, but in fact all are mixed together, the result being in fact an average of all grades. This study therefore recommends that the present system be reviewed, taking into account the costs of production of the various grades of copra, the standards of the grading service, and the price paid for various qualities of copra, with the aim of instituting a system which is more effective, less costly and more simple than the existing system. This report would also recommend that the region press for a system of payment of quality both for copra and oil. Then depending on the prices decided so each country could aim for a quality to get the best price while taking into consideration the conditions in the country. It is a salutary lesson to learn that while Fiji is in theory maintaining a strict grading system not dissimilar to that in the Solomons, the quality has been gradually deteriorating.

Each year the Board enters into contracts with various buyers in Europe and Japan for the supply of copra. Sales of copra to Japan gives a better return to the Board but unfortunately Japan is unable to take all the copra available.

FUTURES TRADING, A MARKETING AID

A major trend which has emerged in many major world commodities in recent years is that of trading in futures. 1. "The futures market is basically an auction where contracts for future supply of commodities are traded. Contracts are bought and sold by members of the exchange on behalf of their clients. A futures contract is an agreement to buy or sell an amount of a commodity at a price at a future date. A futures contract should not be confused with a forward contract. A futures contract can be bought and sold on a futures market, whereas a forward contract is a private agreement between one buyer and one seller. Most futures contracts do not in fact result in physical delivery of goods. The whole purpose of the futures market is to transfer the risk to price movements from the producer and end user to speculators. In this way producers can use futures to secure a fixed price for a commodity. This is known as hedging. In the same way one may hedge against fluctuations in currency exchange fluctuations". As yet there is no futures market in copra/coconut oil, but this report recommends that the countries of the region press for its establishment, and then take advantage of the opportunities it would give for stabilizing prices. Participation in futures trading is a skilled activity and in order

*1. Taken From "Export Crops Quarterly Review", Vol. 3, No. 1, April 1980, Department Primary Industry, PNG.

to enable the island countries to make best use of such a facility it is recommended that a suitable consultant be asked to address a future meeting of the Asian Pacific Coconut Community on this subject. This is further discussed below in the chapter on regional co-ordination.

SHIPPING

Inter-island shipping in the Solomon's group is characterised by a large number of small boats picking up small cargoes at many points. The government shipping service is a subsidised one which effectively keeps rates down on the commercially viable routes as well as the others. On the commercial routes, private companies compete with one another and the government service. This is frequently so fierce that there is an apparent cyclical movement of overcapacity on these routes, followed by company failures and shortage of shipping space. Although there is more than adequate capacity in the Solomons, this over-crowding and excess -competition on some routes, poor level of management (due partly to inexperience) of most private companies, and lack of a coherent government policy on internal shipping combine to produce a less than adequate shipping service.

We would strongly urge the adoption of a clear government policy on internal shipping, and recommend it contain the following components: the establishment of a self-accounting, but not necessarily self-financing government shipping service (only in this way can the government know the real cost of this service), the government licence routes on which companies may operate, and this be done to prevent over-capacity and excess competition detrimental to the service; that the government withdraw from all routes on which private companies can operate; and that the government regularly review the routes on which the government shipping service operates with a view to making them as effective as possible and operating at the least subsidy possible. An efficient, cheap service is essential to the copra industry expanding, and keeping shipping and handling costs at a minimum to producers.

The Solomons Islands are serviced by at least ten international shipping lines. The bulk of the trade is with Australia, Japan, Singapore and Europe. Only 3.8% of imports (in value terms) come from other countries of the region in 1979, and 7.4% of exports went to other countries in the region.

Pan Ocean Lines, the Bank Line and Columbus Line carry copra, palm oil and palm kernels to Europe. The Toyo Line and the Kyowa Line carry copra to Japan and south-east Asia. The Forum Pacific Line and the Sofrana Line service New Zealand and certain island countries. The Chief Container Service runs to Australia, and the Papua New Guinea Shipping Corporation links the Solomons with the west coast of USA and certain island ports.

Within the region, existing shipping links bring in imports from Fiji and Papua New Guinea, and the Solomons are linked to Papua New Guinea, Vanuatu, Tuvalu and Kiribati, to where exports could go. Thus there are adequate links to neighbouring island countries to promote trade between them.

REGIONAL CO-OPERATION

Regional Co-operation in trade or industry is not well developed between the Solomons and other island countries in the region, although trade has certainly grown over the years. In 1965 imports (in value terms) from other islands countries were 0.7% of the total and in 1979, 3.8%. For exports the corresponding figure are 0.6% and 7.4%. Because of the similarity of the production from most island countries, this trade is not likely to build up unless there is a positive move to do this. It is our belief that this is desirable to build a broader base for manufacturing industry and so that trade becomes more with economies at similar levels of development. In this way industries may develop which would otherwise not have been able to when most trade was with highly industrialized nations.

As mentioned above in the marketing section, it is recommended that the Solomons supply toilet and laundry soaps to Vanuatu, Kiribati and Tuvalu until such times as these countries develop their own soap industries. This will most likely be production of laundry soaps initially, in which case the Solomons should withdraw supplies of laundry soap and continue only with exports of toilet soap to these countries. This would involve agreement of these countries to limit imports to that coming from the Solomons.

IMPORTS OF SELECTED PRODUCTS

	1978		1979		1980	
	<u>Tonnes</u>	<u>SI\$</u>	<u>Tonnes</u>	<u>SI\$</u>	<u>Tonnes</u>	<u>SI\$</u>
Butter	56	70,810	56	73,650	59	90,660
Margarine	2	2,570	3	3,300	3	3,410
Other fats	68	54,620	129	102,420	74	62,250
Veg.Oils & Fats	200 ^e	166,690	500 ^a	581,280	400 ^a	401,380
Laundry Soaps	178	125,960	151	112,240	92	79,260
Toilet Soaps	62	90,730	69	111,520	73	124,200
Detergents	n.a.	152,650	n.a.	183,850	n.a.	179,250
Animal Feeds	205	51,800	138	54,420	109	37,300

a = Estimated

EXPORTS OF PALM PRODUCTS

	<u>Palm Oil</u>		<u>Palm kernels</u>		Total SI\$'000	% of Total Exports
	Tonnes	SI\$'000	Tonnes	SI\$'000		
1976	3549	1160	250	53	1213	6.3
1977	6246	2895	1300	282	3177	11.0
1978	10334	4653	2050	421	5074	17.2
1979	12779	6590	2045	616	7206	12.2
1980	16655	6650	2250	386	7036	n.a.

Note: All Palm Oil is exported to UK, Germany and Netherlands.

n.a. = not available.

EXPORTS OF COPRA

	<u>Tonnes</u>	<u>SIS'000</u>	<u>% of Total Exports</u>
1976	23015	3634	18.9
1977	26915	7988	27.7
1978	26103	7856	26.7
1979	34430	16992	28.7
1980	28820	10517	n.a.

COPRA EXPORTS BY MAJOR DESTINATIONS IN 1980-TONNES

Netherlands	20,003
Japan	5,472
Singapore	1,500
TTPI	782

WORLD TRADE - MAJOR IMPORTING COUNTRIES
SHIPMENTS OF COPRA INTO THE FOLLOWING COUNTRIES

(Metric tons)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Belgium/Luxemburg	20,247	18,000	15,000	13,200	5,200
Denmark	21,274	42,931	20,095	22,400	18,300
France	63,879	71,582	61,000	52,100	55,700
Netherlands	166,691	148,500	74,000	78,700	57,700
Norway	11,000	15,000	13,000	10,000	15,600
Portugal	11,100	17,000	25,900	24,300	18,200
Sweden	38,505	38,600	41,600	37,000	13,000
United Kingdom	28,988	21,545	25,598	19,100	22,074
West Germany	413,142	525,183	351,400	211,000	53,900
U.S.S.R.	29,000	9,800	19,900	9,800	14,500
Singapore	27,100	43,700	40,800	73,300	36,100
Japan	89,866	110,856	97,785	90,400	55,659
Total	<u>920,792</u>	<u>1,062,697</u>	<u>786,078</u>	<u>641,300</u>	<u>365,933</u>

Source: 1979 Annual Review Frank Fehr + Company Limited

Note: Main drop in imports is in Netherlands and West Germany. Total drop from 1975 to 1979 is 554,859 mt. Philippines drop in exports in the same period was about 650,000 mt.

BALANCE OF TRADE (SIS'000)

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Domestic Exports	19244	28806	29458	59282
Re exports	708	808	1136	902
Total Exports	19952	29614	30594	60184
Imports	21083	25753	30879	50574
Balance of Trade	-1136	+3861	-285	+9610

CUSTOMS TARIFFImport Duties

Butter	Free
Margarine & other fats	Free
Oil Seeds	20%
Animal & Veg.oil & fats	5%
Fixed Veg. oil like soya oil, peanut oil, palm oil etc.	Free
Soaps Laundry	50%
Soaps Toilet	50%
Detergents	50%
Animal Feed Stuffs	Free

Export Duties

- 1) Copra i) On first \$180 per m.t. f.o.b. - Free
 ii) Over . \$180 " " " - 20% ad valorem
- 2) Palm Oil)
 & - 10% ad valorem
 Palm Kernels)

INTERNATIONAL PRICE OF SELECTED OILS
AND OIL SEEDS, 1969 - 1981 (US \$/M.T.)

Year	Oils					Oilseeds	
	Coco Oil Phil/Indo. Cif.Rott. 2)	Soybean Oil Dutch fob ex-mill	Palm Oil Malaysian 5% Cif Europe	Palm Kernel Oil, Dutch fob ex- mill ³⁾	Sunflower oil, a.a. ex-Tank Europe	Copra Phil/ Indo Cif. N.W. Europe	Soybeans U.S. no. 2 Yellow Cif. Rott.
1969	347	197	173	306	213	202	107
1970	379	286	260	367	330	222	121
1971	353	304	262	336	374	190	132
1972	254	241	217	219	326	142	144
1973	513	436	376	506	481	348	290
1974	998	832	672	1046	977	670	277
1975	394	563	433	409	739	256	220
1976	418	438	405	433	581	275	231
1977	578	575	530	620	639	402	280
1978	683	607	600	764	665	471	268
1979	984	662	654	1064	762	673	298
1980	674	593	584	763	633	453	296
<u>1981</u>							
Jan.	614	545	625	629	690	433	323
Feb.	603	516	640	621	650	411	306
Mar.	574	535	620	605	650	392	305
Apr.	552	531	588	582	652	387	316

- 1) Prior to December 1970 = a.o. ex-tank. Rott.
- 2) Prior to January 1973 = Sri Lanka cif. bulk. CIF Europe Ports
- 3) Prior to January 1972 = West African, CIF Europe Ports

Source: Cocomunity

PERSONS INTERVIEWED

1. Mr P Downie - Senior Trade Development Officer, Ministry of Trade, Industry & Labour
2. Mr S Osifela - Trade Development Officer, Ministry of TIL
3. Mr E Mason - Chief Agricultural Officer, Ministry of Agriculture
4. Mr Martin G. Osmond - Manager Abattoir Cattle Development Authority
5. Mr John Martin - Central Planning Office
6. Mr I Taylor - Chief Statistician
7. Mr Don Shirley - Copra Board
8. Chemist - Solomon Soaps
9. Mr Colin Gatt - General Manager Solomon Islands Plantations Ltd
10. Mr Pillai - Chemist, Solomon Islands Plantations Ltd
11. Officer in Charge, Marine Services
12. Mr Basil, Tradco Shipping Co.



