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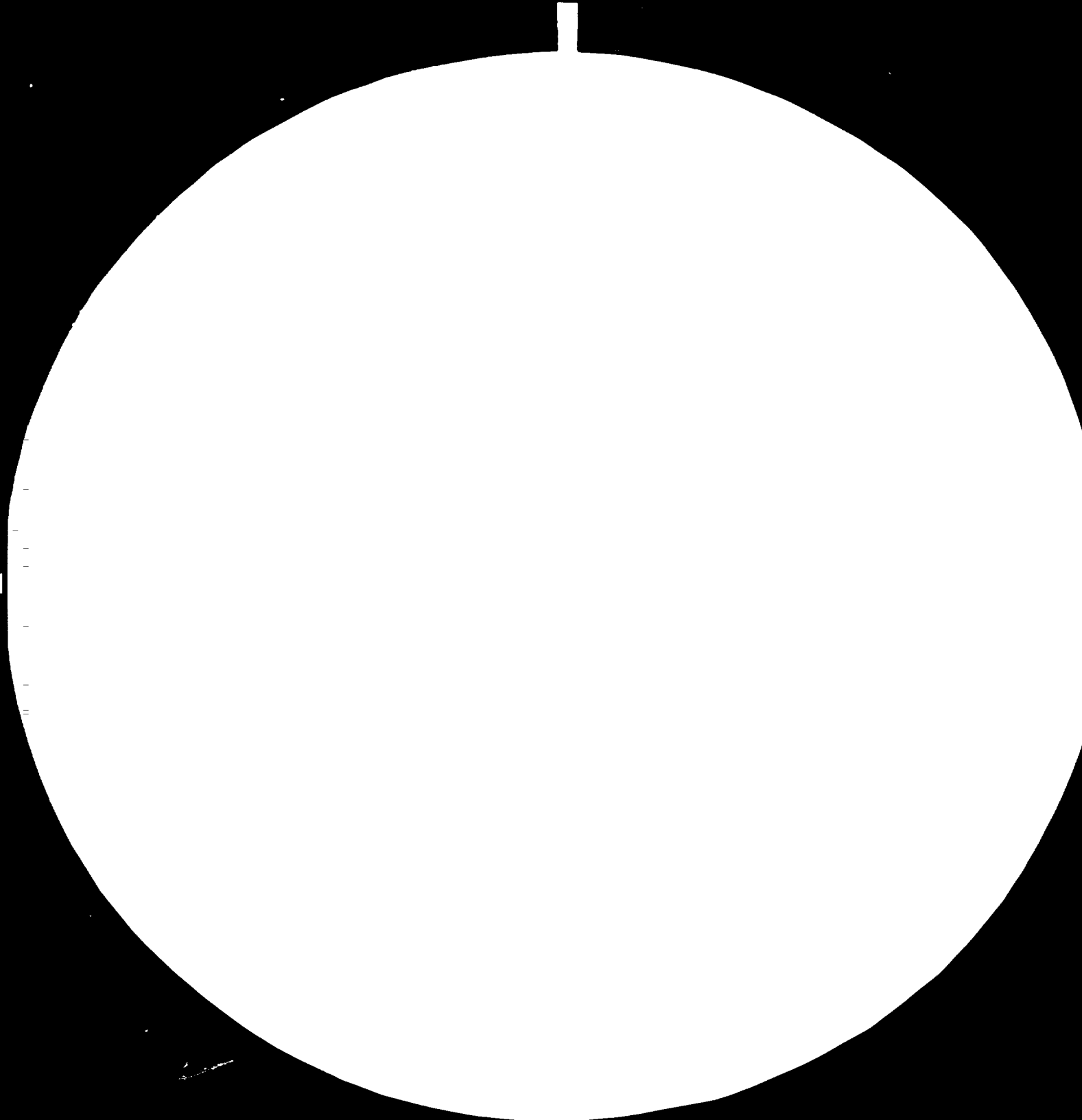
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REVIEW OF THE VEGETABLE OILS AND PATS INDUSTRIES SECTOR OF THE
PACIFIC REGION^{1/}

DP/RAS/79/031

COUNTRY REPORT ON FEDERATED STATES OF MICRONESIA

(Yap, Truk, Ponape, Kosrae)

Prepared for the Government of the Federated States of Micronesia by
the United Nations Industrial Development Organization in co-operation
with the International Trade Centre UNCTAD/GATT

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

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RECOMMENDATIONS

1. F.S.M. agricultural policy on coconuts be a national one coordinating all the states Yap, Truk, Ponape and Kosrae.
2. Serious attempts to be made to export copra to Mills in Palau and Marshalls instead of to Japan,
- 3) The F.S.M. should give about 75% tariff protection for locally produced soaps, cooking oils and hair/body oils. If this is not possible a local sales tax on imported products to be introduced in Ponape.
- 4) Manufacture of 63% T.F.M. toilet soaps and coconut oil based shampoos at Ponape.
- 5) The installation of the Soap plant in Truk to be expedited.
- 6) The newly formed Coconut Development Authority to be made operative and all other bodies in Truk and Ponape to be abolished.

In order to do this a General Manager experienced in Coconut and Coconut By Product Industry both in terms of technical and commercial expertise has to be appointed. UNIDO assistance in the form of the above expert for about 2/3 years should be given to the F.S.M. urgently to make the CDA a success.

- 7) Improvements in handling copra could be made.
- 8) The region press for the establishment of a Futures Market for copra and Coconut oil.
- 9) Promote sales of cooking oils, by cookery demonstration and by regular sales visits to bulk users like hotels restaurants and government institutions.
- 10) The FSM and other island countries of the region should initiate a trade declaration to promote trade and production within the region.

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 new 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, coconut and oil palm, such raw materials offer one of few available possibilities for integrated agro-industrial development; vegetable oils and fats, detergents, cosmetic, protein cake/meals, livestock feed and further spin offs 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 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.

Federated States of Micronesia

Population 1980 : Ponape 23,140; Kosrae 4,940;
Truk 38,650; Yap 9,320; Palau 14,800;
Marshalls 29,670.

G.D.P. per capita (1979) : TTPI US\$820.

Land Area : TTPI 1,832 sq. kms.

Sea Area : 6,200,000 sq.kms

Geography : TTPI consists of four separate
entities:
the Northern Mariannas, Palau,
Federated States of Micronesia
(Ponape, Truk, Yap and Kosrae) and
the Marshall Islands.

Agricultural Production : Coconut is the main and only export
agricultural crop.

Total Production of Oils
and Fats equivalent 1979 : 3,800 tons (F.S.M.)

Total Exports of oils and
fats equivalent 1979 : 3,750 tons (F.S.M.)

Imports of Oils and Fats
Equiv : 370 ton (F.S.M.)

Import Dependency 1979 : 88%

Note: All figures excludes fresh nuts and invisible fats
consumption.

GENERAL

The 2 areas visited were Truk and Ponape as only the Federated States of Micronesia (F.S.M.) is part of SPEC study. At present the Trust Territory of the Pacific islands consists of four separate entities: The Northern Marianas, Palau, the F.S.M. (Ponape, Truk, Yap and Kosrae) and the Marshall Islands. All these entities remain part of the TTPI and will remain so until official termination of the Trusteeship agreement expected in end 1981.

The coconut is the most important economic crop of TTPI. Except for 2 copra crushing plants with a total installed capacity of 66,000 tons of copra per annum in Palau (42,000) and Marshalls (24,000), the only other manufacturing activity is a small unit in Ponape manufacturing coconut oil for making laundry soap, refined oils for cooking and hair oils.

The state of Truk has decided to install a small unit to make coconut oil to manufacture soaps.

COPRA PRODUCTION

According to the 1977 Annual Report the area under coconuts in Ponape and Truk are 8,213 h.a. 3,278 h.a. respectively while the copra production is 1,500 tons and 4,500 tons respectively. The copra production in 1979 is one of the highest on record as it would appear that copra production is dependent on the price.

Although it is not strictly within the brief of this mission to study coconut production, as there is though in some quarters that it should come under the control of the Coconut Development Authority (CDA) and thus could affect the commencement of its operations, some comment will be made here on research and development of the coconut industry. Currently this is the responsibility of the four state departments of agriculture, with some national involvement of the Federal Department (this extent could not be ascertained.) While it would be most ideal to have these grouped into one service, this is not likely to happen, however it is desirable for the agricultural policy on coconuts to be a national one, co-ordinated on the national level, implemented on the state and jointly planned. If this can be achieved then we are in favour of this function remaining with the Department of Agriculture. It is not likely that the industry can justify specialist coconut extension staff, and yet still get the spread of contact which would be achieved by general extension staff. Also if the needs of the industry are seen to be best served by integration of coconuts with other crops, then this too will be best handled by the agriculture departments.

COPRA MILLING

At present all copra produced in the F.S.M. is exported to Japan while the copra produced in the Marshalls is milled at the copra mill in the Marshalls (capacity 24,000 tons per annum). The copra mill in Palau (capacity 42,000 tons per annum) is now idle owing to some internal problem.

It is unfortunate that the copra from the F.S.M. has to be exported to Japan while the Marshalls mill is working below capacity (about 30%). Serious attempts will have to be made to ship the copra to the Marshalls/Palau Mill so that both parties could benefit.

An oil mill for the F.S.M. would not be viable as the tonnage (6,000 tons) is extremely low.

One of the first things the new C.D.A. would have to examine is the feasibility of exporting the copra to the Marshalls/Palau to make regional cooperation a reality.

Discussions with the Manager of the Marshalls Oil Mill showed that they are keen and that this could be made to work with both Marshalls and F.S.M. benefiting.

It must also watch the result of Papua New Guinea's experiment with the Palau Mill. If this is successful this could be another alternative.

PONAPE FACTORY

The plant at Ponape manufactures laundry soap, cooking oil and an oil for body and hair applications.

In 1974 a Hander type oil expelling unit was installed to produce crude coconut oil. This crude oil was packed in old bottles and marketed but was not a success. In March 1979, soap manufacture was started but sales were extremely poor for various reasons till February 1980. In September 1979 a refinery - one 1½ T Neutraliser and one 1½ T Deodoriser, was installed to produce refined coconut oil for the manufacture of cooking oils and hair/body oils.

In March 1980 UNIDO provided expert assistance to lay down proper procedures and guidelines and to help them in solving their various problems.

Their production was as follows:

	<u>1978</u>	<u>1979</u>	<u>1980 Est.</u>
Soap Tons	Nil	16	80
Cooking Oil lbs	Nil	2,150	2,000
Hair/Body Oil lbs	Nil	1,550	2,000

The sales in 1980 were quite good but the sales from about April 1981 appear to be dropping owing to competition from imported soaps.

If this industry is to survive the Government will have to seriously consider giving a tariff protection of about 75%.

The factory should now consider manufacturing toilet soaps and coconut oil based shampoos as suggested in the previous UNIDO study.

CONSUMPTION OF FATS AND OILS AND FUTURE MARKET TRENDS

Consumption of fats and oils

The Federated States of Micronesia (FSM) has a consumption per head of 1.9 kg per annum vegetable oils, not including consumption of fresh coconuts, and 3.5 kg per head for non-food (soaps and cosmetics.)

The greater consumption of oil-bearing food in FSM is in the form of fresh coconuts, however no estimate of consumption was available, it may be of the order of 200 nuts per head per annum, including those used for pigs and poultry. The method of consumption is rather wasteful in that the nut is usually 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 Micronesia and is important also in that it involves no cash expenditure. As prices of foodstuffs rise, it is likely that the bulk of the population (villagers owning coconut groves) will consume more coconuts to substitute for foods which have to be purchased.

Micronesian consumption of fats and oils is moderate for developing countries, and comparable with other island countries, but based on experience elsewhere, it is likely that as incomes rise, the consumption of fats and oils 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 oil.

MARKETING OF OILS LOCALLY PRODUCED

Coconut oil is produced in small quantities by the villagers for their own use and for sale in the markets and towns. This is largely as a skin lotion, and its price is of the order of US\$4-5 for a 13 fluid oz. bottle. This is comparable with the cost of similar imported cosmetic oils. Consequently the "MARKESO" cosmetic oil produced at the Ponape Agricultural and Trade School (PATS) and which retails for \$1.30/7oz. is selling well. Deodorised coconut oil for cooking, produced by the same plant, however, is not selling well. It retails for 95c per lb, while competing vegetable oils sell for between \$1.58 to \$2.17 per lb, vegetable fats from \$1.14 to \$1.39 per lb and a mixture of animal and vegetable fats sold at 95c per lb. It is not certain why the cooking oil is not selling well, but there could be several factors involved: as the factory is presently arranged, the deodorised oil has to pass through the same pipeline as the un-deodorised oil, and although the pipeline is cleaned, this may not be adequate to eliminate all coconut taste; the coconut oil is not as widely distributed as it could be, especially in small village stores; coconut oil solidifies at a lower temperature than competing oils (but not fats) and is slightly more opaque and viscous (this may make it unsuitable for use on some dishes); no attempt has been made to promote the oil by talks, distribution of information on how to use the oil, and cooking demonstrations; (this may be particularly relevant as some consumers do not realize the oil has been deodorised, and is thus suitable for cooking some dishes for which a coconut flavour is not required) and there is almost certainly a taste preference for other oils.

There is some move by the factory management towards design of a new container for the oil. While this is not undesirable, we are not convinced that this by any means the major barrier to increasing sales, and that a more effective way may be to carry out a promotion campaign particularly with cooking demonstrations through the various women's groups. Bulk users of oil such as hotels, restaurants and government institutions should be contacted by a sales agent of the factory, who can supply them with samples and arrange orders.

MARKETING OF PONAPE SOAP

The main product of the factory is laundry soap. Since the factory was established sales have been running at about US\$1,000 per month, but these increased dramatically to US\$5,000 in January 1980, and reached a monthly peak of US\$14,000 in November 1980. This was due to two factors: and UNIDO study team visited the area early in the year, and was able to solve some important problems; and also about the time of the UNIDO mission visit, the USA supplier of laundry soap went bankrupt and imports ceased altogether until later in the year. At the time of our visit, the situation had returned to the pre-1980 position, and the factory was faced with mounting soap stocks and running at very much below capacity.

The soap produced is well accepted as a laundry soap, and has been widely used as a toilet soap also because it is attractively coloured and perfumed. However, because it is an 100% coconut oil soap it wastes more quickly than other soaps. The PATS soap retails at between 71.3c - 99.0c (US) per lb, and competing soaps from Australia and USA from between 78.2 - 90.7c (US) per lb. As the price range is very similar, the fast wasting rate (confirmed from several sources and by personal observation) does make the soap much more expensive than imported soaps. The consumer has been quick to recognise this, and urgent action is needed to restore usage of the local soap.

As a low wasting soap cannot be made with 100% coconut oil using known technology, except to a minor extent by adding a filler, then other measures must be taken. One of these involves market promotion and consumer education. The above-mentioned promotional measures aimed at expanding sales of cooking oil could equally be applied to the soap, and the two products promoted together. The manager of the factory claimed and it is a known technical fact that the soap lathered better than competitors, and thus needed less rubbing to achieve the same result. This would consequently result in lower wastage. This needs education of the consumer; and could result in some increased sales of the soap, however it is not expected to have a large enough effect to recapture the major share of the market required for most efficient operation. To do this an import duty would have to be imposed.

This is preferred to a ban on imports because there is still some price restraint on the local product, and should there be a major break-down, then it is easier for imports to fill the gap. A 75% level of duty would probably be necessary. There is some difficulty in imposition of this duty at this stage, because it would have to be imposed nationally, and thus apply to the other states of Truk, Yap and Kosrae as well as Ponape, where the factory is situated. The factory could supply the needs of all states, but with the cost of interstate shipping, it may not be competitive with imports. There are plans well advanced (discussed below) to establish a similar factory at Truk (to also supply Yap; it is planned that Kosrae state will be supplied from Ponape), and until that is operational, it is recommended that a state sales tax be imposed on imported soap. This would also take less time for implementation. In the meantime, the necessary

procedures should be taken to implement the tariff.

FRAMEWORK FOR CONTROL OF THE COCONUT INDUSTRY

The Truk soap factory as recommended by the 1980 UNIDO team has had the necessary money voted it by the state (\$50,000) and the Federation (\$100,000), and land set aside, however implementation is slow. This is partly because no individual has been given the sole task of implementing the project, and the control of the factory has become nuclear because government has made a piecemeal approach to this and the coconut industry as a whole. The implementation of the project depends on the body controlling the factory, and this problem must be solved first.

The Trust Territory of the Pacific Islands Copra Stabilization Board (CSB) is the body responsible for purchase and export of copra in Micronesia. The CSB determines the price at which the copra is bought from the producer and this price is dependent on the export price of copra. The Board endeavours to stabilise the price by operating a copra stabilization fund.

The Federated States of Micronesia Coconut Processing Authority (MCPA) is the body formed to control copra processing, however Truk state has also established its own Authority to control the coconut products.

In addition, in March 1981 the Federation created the Copra Development Authority (CDA), designed to supersede all other bodies involved in copra purchase, processing and export. The functions are briefly as follows:

- 1) Engage in the manufacture and processing of all products derived from the coconut tree.
- 2) Buy, collect, market, sell, export and deal generally in all products derived from the coconut tree.
- 3) Inspect and improve the quality of products derived from the coconut tree.
- 4) Fix all prices to be paid to the producers or sellers of products derived from the coconut tree, operate a stabilization fund and perform all acts necessary regarding purchase, marketing and sale of said products.

At present the implementation of this legislation is held up pending transferral of copra funds held by the US High Commissioner to the Trust Territory. It is not known why the CDA cannot operate before these funds are transferred, but it is of some urgency that the CDA be made operative and simultaneously the other three bodies be abolished.

In order to make this successful a General Manager experienced in the coconut industry both in terms of technical and commercial expertise is needed. At present there is no one available in the F.S.M. This General Manager has to organise the purchase and sales of copra and also supervise the already existing factory in Ponape and the factory which is to be installed in Truk.

It is recommended that UNIDO assistance is given in the form of an expert for about 3 years to assist the F.S.M. in the initial stages and train a person to take over thereafter.

The wording of the CDA legislation is not as clear as it may have been in some aspects, but the recommendations of this report are: that the four of five members of the board of CDA, to be appointed by the states, as well as representing the states should as much as possible represent growers, processing, consumers and agricultural services; that a manager for the Truk soap factory be appointed shortly before the factory commences operations, and not as appears to be in the legislation, that the general manager of the CDA would also manager the factory; that control of grading of copra be transferred to the CDA upon cessation of the CSB, which now has this authority (this is necessary to ensure a uniform standard for all Micronesia - agricultural services are not suited for this purpose as they are now organised on a state basis).

COPRA HANDLING AND GRADING

Present practice is for the CSB to licence private copra buyers. We observed the Truk Navigation Company's (Transco) buying point in Truk. The operation involved a supervisor/recording clerk, fork lift driver, two labourers loading bags onto a pallet on the ground, and two unloading the bags off the pallet at the top of the stack. The farmer brings his copra in bags together with two assistants; the bags are emptied into an inspection tray by the farmer and his assistants; the copra is inspected by the clerk and graded as 1, 2 and 3, or rejected (prices/lb for 1, 2 and 3 at the time of our visit were UScents 10, 9.5 and 9.0 respectively); the farmer then shovels the copra back into the bag held by his two assistants (the main purpose of bring them); the bags are weighed, weights recorded, and the farmer paid for his copra plus provided with replacement bags; the bags are stacked for shipment. Some improvements are recommended in this system: as long as a minimum standard is set which is acceptable to the export trade, then it is now worth-while having three grades. This is also so in view of the standard of the clerk/inspector; a sampling technique should be instigated, whereby for lots of 10 bags or less a minimum of the one bag should be opened and inspected, for bag lots greater than 10, no less than 10% of the bags should be inspected. This should be done entirely by staff of the purchasing agent to save the farmer bringing his assistants with him.

Although it is the buying agent's responsibility to make his operation as efficient as possible, it will be mentioned here that it is hardly necessary for a fork lift and driver to be employed plus four labourers simple to stack copra. This agent did supply transport from boat landing point to the copra store as part of his service. Buyers in other areas purchase from small outer islands, which is very encouraging to producers. The manager of Transco estimated production of copra could double, were good shipping/purchasing facilities available in remote areas. There was not time in the study to investigate collection of copra within Micronesia but it appears that an improvement in the present system may result in a substantial increase in copra produced. This study recommends that a small marketing trial be commenced whereby local buying agents be appointed (say on some of the atolls of Truk) with simple but adequate storage facilities to take double the copra now produced between calls of the boat picking up copra for the central depot. A bag count would be made on transfer too the boat and a weighing and sample grading be made at the depot. Bags should be identified simply with growers name and purchase point, so that any sub-standard copra would be identified, that grower notified, and his copra carefully inspected at purchase point until it improved. If this scheme results in improved copra sales then it should be extended to other areas.

The current system used for loading ships at Truk is for bags to be taken to the ship and emptied into bulk holds. As most of the vessels are containerised, it would seem preferable to bulk load containers in preparation for the ship's arrival. This would save in turn around time of vessels and should result in lower charges to the CDA.

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.

¹ Taken from "Export Crops: Quarterly Review", Vol. 3 No. 1, April 1980, Department Primary Industries, PNG.

A futures contract is an agreement to buy to 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 of 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 future trading is a skilled activity, and in order 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

Internal shipping in FSM is of two types: that provided between the main ports of the four states by overseas vessels, and that plying from these ports to the outlying islands and atolls. The former is adequate and will be discussed in more detail below, however, the latter is a significant limiting factor in raising copra production, and returns received by producers. As was discussed above, there is some local opinion that an improvement in small inter-island shipping could considerably improve copra production, and a small pilot project is suggested to test this. It is likely that this is most needed for short hauls from producing areas within ten miles of the larger collection centres (including the four state capitals). Copra from these areas is normally brought by outboard motor-powered dingy, which is very high cost.

One farmer we interviewed at Truk had brought in 9 x 100 lb (9.83c/lb average - source Transco) bags for which he received US\$88.47. His transport costs were 3 men each way at US\$24, i.e. 27% of his return. Added to this would be food bought for the three during the day, and other purchases for the help of the assistants. Thus the marketing costs of the farmer would be about 35% of gross return, and less for smaller amounts of copra. If this particular farmer had been able to sell his copra at "farm gate", his net return could be the same, if the price were 7.39c/lb (allowing that the farmer would still make the trip to town to buy provisions and for social reasons). This would provide a fair margin for the operations of a 20t diesel inboard-powered work boat calling at small atolls and islands up to half a day's sail from the main collecting centres.

International shipping is well supplied to Micronesia, but limited in its contact with other South Pacific island countries. It is currently served by four shipping lines. The Philippines, Micronesia and Orient Navigation Co maintain a three weekly service importing goods from USA to all main Micronesian ports, then to the Philippines, where they are fully loaded with pineapples for the USA. This line doesn't have tanks for coconut oil, nor does it carry copra. The Saipan Line, associated with the Japanese Kyowa line maintains a monthly service originating in Japan, thence Saipan, Guam, other Micronesian ports, South Pacific ports and then to Japan. This is a useful link with other South Pacific countries, but because of cargo being carried to them from Japan, there is limited cargo space from Micronesia to other South Pacific countries. The Nauru Pacific Line provided a 40 day service from Micronesia to the USA and return, and a service from from Micronesia to Nauru then Australia (Melbourne) and return. The most important overseas line servicing Micronesia at present, from the point of view of the coconut industry is the Tiger Line operated by the co-operative company, United Micronesia Development Corporation (UMDA). The UMDA is the licenced buyer of copra on behalf of the Copra Stabilization Board and the Tiger Line's agent in Truk, Transco is a licenced sub-buyer.

This line operates a service every 2-3 months to Japan and other ports in the Orient from all Micronesian ports. All copra from Micronesia is carried on this line. The vessels carry a majority of cargo in containers but have a bulkhold for copra. Freight rate from Truk to Japan is US\$54/t copra and Truk-Majuro \$24 (where a coconut oil mill is situated.) There would be no difficulty in shipping copra to either of the two oil mills at Palau or Majuro, however it appears that it is more profitable to send copra to Japan, as no large amount goes from FSM to the Micronesian mills, despite the duty-free access Micronesia has with coconut oil to USA. Palau Mill has in fact been importing copra from the Solomons and Papua New Guinea.

REGIONAL CO-OPERATION

Micronesia had traditionally been isolated from the rest of the South Pacific region because of its geographic position, astride the north of the region, and because of its control by Japan between two World Wars, and USA since, and its consequent trade and political links with those countries rather than the Pacific Islands. Of the seven states of Micronesia, three have opted to become independent nations, while the other four joined together in a federation. At present, therefore, within Micronesia the trend seems to be towards national interests rather than sub-regional co-operation. The FSM has not yet gained its complete independence from USA, so it is not clear at this stage what its attitude will be towards the South Pacific region, however there seemed to be quite an interest in this from discussions we had with officials. There are good shipping links within Micronesia; there is a link south to the region, but with limited space for cargo, which perhaps could be improved were there cargo to ship from Micronesia to South Pacific; and shipping has been made available for copra from the Solomons and PNG to Micronesian mills.

Because of Micronesia's geographical position and long term political links with USA, its trade will likely remain largely with this countries for some time. Emphasis on this type of trade, however, will tend to suppress the growth of Micronesian industries as they will always be competing with efficient Japanese and US industry. Some kind of protection will have to be offered local industries if they are to survive. As the local market is small for reasonable cost efficiency, the possibility of export markets will have to be considered. Except for products such as coconut cream and dessicated coconut, where the fresh primary product is processed, these small island countries are not likely to have a cost advantage over the industrialised nations. Thus it may be worthwhile to look to other island countries in the region.

Unless positive steps are taken to site industries in the islands, and many as suggested above, will be on a regional basis, the existing pattern of development is likely to become intensified i.e. trade between the islands and outside industrialized countries, rather than trade between the islands. Under this system, establishment of industries in the islands is always discouraged unless special measures are taken to promote industry. These developments have so far not met with a good deal of success if measured against effective local control and ownership.

To encourage trade within the region, it is recommended that FSM and other island nations included in this study initiate a trade declaration to promote trade and production in the region on a more co-ordinated basis than presently. This declaration could be used as a basis on which trade in, and production of, specific items could be discussed between island countries, and as a stronger negotiating force when dealing with the non-island SPARTECA agreement countries of New Zealand and Australia and with other trading partners around the world. In particular, such a declaration should request New Zealand and Australia to more fully implement the intention in the SPARTECA agreement that these countries use their Trade Commissioners to investigate markets abroad for island products. Presently this is done on a limited scale, but needs positive promotion.

In this context, copra movements within the region could be discussed, and siting of industries to the mutual benefit of all island countries agreed. It is unlikely that Japanese copra crushing interests will voluntarily allow this industry to pass to the producing countries, even to the extent of allowing existing island mills an increase in their share of processing. However, were the Pacific trade pact able to negotiate on behalf of all members, then, for example, all Micronesian copra may be able to be processed by their own mills.

The Micronesian coconut industry is facing higher costs, compared to most of the rest of the region, particularly as it is predominantly labour intensive in its production phase. Its lower freight rates compared to the rest of the region, are more than offset by its wage rates which are 3-4 times that of those in the major regional producing countries. It also suffers from long-term neglect and lack of a co-ordinated plan of development. It would be true to say that the islands' coconut industry was still at the "gathering" stage and had not reached that characterised by the term "cultivation". Yet, these subsistence farmers are part of an economic system where wage rates are many times what they earn in a year and their consumption patterns are based increasingly on expensive imported goods. Any improvement in the industry in the way of increases in yield, improvement in quality, greater efficiency of cultivation, and better processing methods seem unlikely or at the most, distant. The maximum efficiency that can be achieved in marketing is thus of crucial importance and could give quickest results. This should involve a regional trade declaration.

TTPI EXPENDITURE ON GDP FY 1975
(excluding the Marianas)

	\$ Million
Private Consumption	54.7
Government Consumption	46.0
Gross Capital Formation	24.4
Exports	10.9
Less Imports	<u>50.6</u>
TOTAL:	<u><u>85.4</u></u>

COPRA PRODUCTION - TONS

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Yap	303	295	586	1,082
Truk	1,650	n.a.	3,000	4,500
Ponape	1,629	n.a.	1,163	1,511
Kosrae		n.a.	500	600
Palau	128	n.a.	150	700
Marshalls	<u>5,684</u>	<u>n.a.</u>	<u>5,876</u>	<u>6,906</u>
	9,394	n.a.	11,275	14,799
TOTAL:	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

ESTIMATED IMPORTS IN 1979 (t)

	<u>Truk</u>	<u>Ponape</u>	<u>Kosrae</u>	<u>Yap</u>
Laundry Soaps	110	110	10	Nil
Toilet Soaps	40	40	5	15
Cooking Oils/Shortening	50	60	8	14
Washing Powders	35	15	3	1

11.

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 bulk ex- ¹ Rott.	Palm Oil Malaysian 55 Cif. Europe	Palm Kernel Oil, Dutch Feb. ex- mill ³	Sunflower oil, n.o. ex-Tank Europe	Cobra Phil/Indo Cif N.W. Europe	Soybean U.S. n 2 Yell Cif. Rott.
1969	347	197	173	306	213	202	107
1970	379	236	269	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	491	348	290
1974	998	832	672	1,046	977	670	277
1975	394	563	433	409	739	256	220
1976	418	433	405	433	581	275	231
1977	578	575	530	620	639	402	280
1978	683	697	600	764	665	471	268
1979	984	662	654	1,064	762	673	298
1980	674	593	584	763	633	453	296
<u>1981</u>							
Jan.	614	545	625	629	690	433	323
Feb.	603	515	640	621	650	411	306
Mar.	574	505	620	605	650	392	305
Apr.	552	491	598	592	672	387	316

- 1) Prior to December 1970 = n.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: COMMODITY

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

(Metric Tons)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Belgium-Luxembourg	20,247	18,000	15,000	13,200	5,200
Canada	21,274	42,931	20,035	22,400	13,300
France	63,879	71,582	61,000	52,100	55,700
Netherlands	166,491	148,000	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	9,300	19,900	9,800	14,500
Singapore	27,100	43,700	40,800	73,300	36,100
Japan	<u>89,866</u>	<u>110,856</u>	<u>97,785</u>	<u>30,400</u>	<u>55,559</u>
TOTAL:	<u>920,792</u>	<u>1,062,697</u>	<u>786,070</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.

PERSONS INTERVIEWED

1. The Hon. Vice President, F.S.M.
2. The Hon. Governor State of Ponape.
3. Senator Saso H. Gouland, Chairman R & D Committee F.S.M. Congress
4. Senator Kisande Sos Truk Legislature
5. Mr Kikuo Apis Special Asst. to the President F.S.M.
6. Mr Catalino Sam, Chairman MPCA
7. Mr Redley Killion Director R & D, Truk
8. Mr Dan Perrin National Planner F.S.M.
9. Mr Dave Ivra, Truk Agriculture Dept.
10. Rev. Fr. Hugh Costigan J.J. Director PATS
11. Mr Erik Thompson, Economic Adviser, Truk Legislature
12. Mr Taka Mori, General Manager Transco Shipping Co.
13. Manager Truk Navigation Co.
14. Mr. D Twun-Barina-Economic Advisor F.S.M. Congress
15. Mr E Rosenberg - Adviser Ponape Development Authority
16. Mr Higinio Weirlangt, General Manager, Ponape Federation of Cooperative Associations.
17. Mr D R Berggren, State Planner, Truk.



