

## FOURTH SESSION OF THE F.A.O. GROUP ON COCONUT AND COCONUT PRODUCTS\*

The Fourth Session of the FAO Group on Coconut and Coconut Products was held in Trivandrum, Kerala, India from 4th to 8th December, 1961. The Session was attended by delegates from Australia, Ceylon, France, India, Netherlands, Philippines, Thailand, U.K. and the U.S.A. The South Pacific Commission was represented by an observer.

2. The Group on Coconut and Coconut Products was set up in 1957 by the FAO to provide a forum for consultations on the economic aspects of production, consumption, trade and marketing of coconut and coconut products. At its Annual Sessions the factors affecting world production, trade, utilization and prices are discussed in addition to reviewing the current situation as well as future prospects of the international trade in coconut and coconut products. These discussions are of immense value to both producing and consuming countries in order to take suitable steps to expand the trade in coconut and coconut products. The Group has also sponsored studies on trends in coconut industry specially of trends in use in import markets and of the effects of national agricultural policies on trade in copra and coconut oil.

3. At the request of the Group the Coconut Situation is published semi annually. This publication contains detailed current statistics on world production of copra and coconut products, utilization of coconut oil in importing countries and information on prices. Each issue of the publication also contains an analysis of the current economic position of the industry.

4. Ceylon was represented at its Fourth Session by Mr. B. Mahadeva, Commissioner of Coconut Rehabilitation, Mr. R.H.de Mel of the Ceylon Coconut Board and Mr. W.D. Soysa of the Department of Commerce.

5. At its Fourth Session the Group had discussed the current situation and outlook exhaustively. The Group had also discussed among other matters a subject which is of great interest to all countries exporting copra and coconut oil, viz; The effects of National Agricultural Policies on International Trade in Copra and Coconut Oil.

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\*An article submitted by the Director of Commerce.

## Current Situation and Outlook

6. On the basis of the figures furnished to the Group the world total exports of copra and coconut oil in 1961 are likely to be within 5 or 10 per cent of the 1956/1957 level. The consumption of coconut oil in Western Europe, however, had not recovered so fully in the first half of this year. Increased exports and lower consumption had apparently led to a build up of stocks. Production of margarine the principal outlet for coconut oil in Western Europe as well as the proportion of coconut oil used in margarine manufacture in Western Europe had been lower in 1960 than in 1956/1957 but had increased in the first half of 1961 as compared to 1960. In U.K. and Netherlands coconut oil in margarine had been replaced largely by marine oil which has begun to offer strong competition to coconut oil with its low prices and increasing supplies.

7. This rapid increase in the supply of fish oils is accounted for mainly by a rapid expansion in the fishing industry of Peru since 1957. There had also been substantial increases in the South African production of this commodity. World production of fish oil has risen rapidly from 359,000 tons in 1957 to an estimated 533,000 tons in 1961. Production in Peru had increased from 8,000 tons to 90,000 tons while the production in South Africa had increased from 21,000 tons to 60,000 tons. This rapid increase in supplies had been accompanied by a fall in prices from £. 78 in 1957 to about £. 52 in 1961. It is likely that Peruvian fish oil production will expand further in the next five years, though not, of course at the rate of expansion in recent years. Such an increase is possible either by increasing the catch or by increasing the extraction rate.

However, the extent to which fish oil can be substituted for coconut oil is limited by the preference for vegetable oils by margarine manufacturers. Fish oil is, in fact, the least preferred oil due to its bad odour and refining costs. The threat from this oil, however, arises from its low prices and increasing supplies.

8. The production of soap, the second largest outlet for coconut oil, was also lower in 1960 than in 1956/1957.

9. On the other hand, the discussion by the Group had revealed that the use of coconut oil in certain non-edible products such as detergents and insecticides have increased considerably in U.S.A. and may increase in Western Europe in the near future. In U.S.A. the volume of coconut oil used in these inedible products had increased very sharply from 100,000 metric tons in 1959 to 140,000 tons in 1960. This increased use should be encouraged by the present low prices of coconut oil compared with the prices of other vegetable oils such as ground nuts and soya bean.

10. The world prices of coconut oil continued to decline gradually during the first nine months of 1961 and in early October equalled the post-war low of August 1952. The price of fish oil relative to the price of coconut oil was lower in 1961 than in 1956/1957. The prices of other oils were approximately in the same relationship to coconut oil as in 1956/1957. The group had discussed the causes for the continuing decline in prices in 1961 and had agreed that the main factors were the increase in the world production of copra, greater availability of oils and facts particularly soya bean and marine oils and the time lag in adjusting manufacturing formulae to the new conditions of plentiful supply of coconut oil.

11. As regards the future, the Group had concluded that coconut oil is likely to face very strong competition from other oils and fats. Supplies of these competing oils are not likely to fall and they have been found suitable for the production of both margarine and soap. On the other hand, the upward trend in the use of coconut oil in products which require the special properties of coconut oil particularly in new chemical uses offers prospects of an increase in demand.

#### **Effects of National Agricultural Policies on International Trade in Coconut and Coconut Products.**

12. At the Third Session of the Group the Ceylon Delegation requested the FAO to study the effects of national agricultural policies on international trade in copra and coconut oil. The Group had specially requested that information be presented to the Fourth Session on Developments in European Common Market Policies as related to International Trade in Copra and Coconut Oil and that a preliminary study be made on the effects of national price supports for commodities that compete with copra and coconut oil.

13. In July 1961 the Commission for the European Economic Committee published its proposed plan for fats and oils and oil seeds in the Common Market. The document describing this plan and its probable implications for international trade in copra and coconut oil was circulated to the Group. The Delegations from Ceylon, Philippines and U.S.A. expressed their apprehensions that concessions granted to the crushing industry within the Six as well as in Associated Overseas Territories would adversely affect the crushing industries of the other exporting countries. The Group also requested the FAO that the member countries be kept informed of further studies by the FAO on developments in EEC policies likely to affect the coconut industry.

## Effects on Price Support, for Competing Oil Seeds.

14. The Group discussed at length the Report of the FAO Secretariat on the effects of the U.S. Price/Support Programmes for soya bean on international trade in copra and coconut oil. This report revealed that soya bean areas harvested in U.S.A. had expanded from an average of 3,337,000 hectares between 1940 and 1944 to 8,657,000 hectares in 1955 to 1959. The production of soya bean oil in U.S.A. had increased from 5.2 million metric tons in 1944 to 19 million metric tons in 1961. This rapid increase in production had been accompanied by a similar increase in exports particularly under Government programmes. Exports of soya bean oil under PL 480 alone have increased from 126,600 tons in 1956 to 341,100 tons in 1959 and 274,900 tons in 1960. Payments for such exports under PL 480 are made in local currencies of the recipient countries and that too can be made within a period of 20 years. Among the recipient countries were Yugoslavia, Italy, Turkey, Pakistan, Iran and Israel. Pakistan, Iran, Israel and Italy were important markets for coconut oil.

15. The Commodity Credit Corporation of U.S.A. announces the Government Support Prices or the price at which it would purchase soya beans from farmers, before each sowing season and this Corporation also provides credit facilities to the farmers. The assurance of this guaranteed price was one of the most important factors in raising the production of soya bean in the U.S.A. However, this encouragement resulted in the production of soya bean substantially in excess of the quantity which could be consumed in the U.S.A. and sold to foreign markets. The C.C.C., therefore, had to acquire large stocks of soya beans and the U.S. Government without removing the Price Support enacted the Agricultural Trade Development and Assistance Act or PL 480 in 1954 in order to get rid of the burdensome surplus stocks of soya bean as well as other products.

16. Since this method of surplus disposal was bound to affect the traditional exporting countries adversely representations were made to the U.S. Government. Consequent to these representations the U.S. Government began to inform the traditional exporting countries before any Agreement was signed to supply soya bean and cotton seed oils under PL 480. The U.S. Government also gives the assurance that the recipient country would continue to import her normal requirements of coconut oil. Experience has shown that although the U.S. Government gives this assurance to the traditional exporting countries there are no safeguards to ensure that the recipient country would, in fact, fulfil her obligations.

17. The Working Paper prepared by the FAO Secretariat was recognized as dealing with an important and controversial subject and the Group was divided as to the correctness of the conclusions of the analysis. The Ceylon Delegation did not agree with most of the conclusions of the Working Paper and explained to the Group very clearly that the production of soya beans in the U.S.A. had increased in excess of domestic demand and normal exports as a direct result of the Price Support Policy and exports under PL 480. It was also pointed out that the U.S. Government was able to maintain the prices of soya beans at or above the Support Price by removing the surplus stocks under PL 480. The Ceylon Delegation informed the Group that the quantities of soya bean oils given as aid are so large and the period of the aid so long that the consumer preference may well be shifted away from coconut oil during this long period.<sup>1</sup> It is, therefore, not surprising that a publication of the U.S. Government has referred to PL : 480 as the best bridge between aid and trade.

18. The Group appreciated the arguments of the Ceylon Delegation and the Ceylon Delegation was requested to submit a written statement embodying all the criticisms of the Working Paper. The Paper which was submitted by the Ceylon Delegation was studied by the Group and in view of the valid arguments used to support the theory that PL 480 shipments of soya bean oil had affected the market for coconut oil adversely, the Group decided to revise the FAO Working Paper in the light of the discussion at the meeting. The Working Paper was, therefore, referred back to the FAO Secretariat for redrafting. It may also be pointed out that at the discussion of this subject Mr. J.C. Glover a member of the U.K. Delegation and a well known expert on fats and oils declared that the price of coconut oil would have been as high as caviare in the absence of competition from soya bean oil