

# Philippines - Reigning the global coconut market

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Coconut is a crop with innumerable descriptors - the Tree of life; a wonder crop; a crop which protects, feeds and heals; a natural package that provides a high-calorie food, potable water, fiber that can be spun into rope and a hard shell that can be turned into charcoal. Concentrated mainly in the countries in the tropical equatorial belt, coconut is an integral part of the tradition, culture and lives of the communities in the region. And the country of the Philippines leads in the production and export of diversified value added products from coconut. The Philippines is the leading exporter of coconut products in the global market and stands second in area under coconut behind Indonesia and third in production.

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**Philippines is the global leader in production and export of coconut products. The country occupies the second position in area under coconut and third position in coconut production.**

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## Crop on compulsion becomes crop of trade

Coconut was introduced in the Philippines by immigrants from the Indo-Malayan archipelago in the early twelfth and thirteenth centuries. Coconut has been used by Filipinos for food, wine, vinegar and oil when the Spaniards came. The history of commercial coconut cultivation in the Philippines could be traced back to the Spanish colonial era. Coconut started as a colonial crop forced on the natives by gubernatorial edict in 1642 and later began to be an important commercial agricultural crop by the turn of the 20<sup>th</sup> century. Since 1840, coconut products in the Philippines were traded in small quantities with Chinese/Malay traders. Coconut fibers and coconut oil were likewise used by the Spaniards in rigging the Galleon and as food for sailors plying the Manila-Acapulco Galleon trade.

Historical evidences show that in 1898, with the increasing demand for soap and the invention of margarine, copra and coconut oil were exported to Europe as raw material ingredient of the said products. Margarine was also a cheaper substitute for butter. By then, copra export comprised 5% of the total commodity export of the Philippines. The US market came in after the transfer of the Philippines from Spain. By 1926, more than 90% of US demand for desiccated coconut was supplied by the Philippines. During and after World War II, the US continued to buy more copra and coconut oil to extract glycerin needed in the production of explosives. Various fractions of oleo chemicals were also derived for the manufacture of cosmetics, pharmaceuticals, emulsifiers, propellants, paints and insecticides. The heightened demand for copra and coconut oil established the foundation of the coconut manufacturing and export economy as it stood by during the early golden years of industrialization in the Philippines, after its independence in 1946.

Philippines has one of the strongest coconut sectors globally. In spite of the fact that the country has faced constant typhoons, cyclones and pest and disease incidences during the past decade (the most devastating ones like Pablo in 2012 and Haiyan and Yolanda in 2013), coconut has thrived successfully and is still one of the main economic sectors of the country contributing a large share to total national output and being the main provider of jobs in the country. There are also multiple manufacturing and service enterprises that rely heavily on the coconut industry as a source of raw materials and

manufacturing inputs. The Governments have been continuously committed to help improve the economic welfare of millions of coconut farmers. Development efforts and socioeconomic policies are geared towards ensuring a balance between the farming sector and the manufacturing sectors of the coconut industry.

## Coconut Production

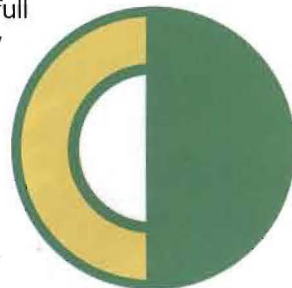
Philippines stand second in area under coconut behind Indonesia and third in production of coconut behind India and Indonesia. The total area under coconut is 3.57 million hectares which is estimated to be around 36% of the total agricultural land in the country. The major coconut producing regions are Calabarzon, Bicol region, Zamboanga Peninsula and Davao region. The total number of bearing palms in the country is estimated to be around 338.7 million in comparison to the 42 million palm population estimated in 1905. Of the total palm population, around 30.4% are below 10 years of age and 62.3% fall in the category of 10 years of age. The palms above 60 years of age come to around 7.3%. There are around 3 million coconut farmers and farm workers and around 25 million more employed in various coconut based enterprises.

A production downturn was noticed in 2016 resulting from the prolonged El Nino induced dry spell in key production areas but coconut production is expected to recover in 2017 to 3.379 million MT. The estimated productivity in 2017 is around 0.948 tons per hectare.

## The Philippine Coconut Authority (PCA)

PCA is the agency of the Philippine Government under the Office of the President responsible for developing the coconut and other palm oil industry to its full potential in line with the new vision of a united, globally competitive and efficient industry. It is the sole government agency that is tasked to develop the industry to its full potential in line with the new vision of a united, globally competitive and efficient coconut industry.

The mandate of PCA concentrates on the promotion of rapid integrated development and growth of the coconut sector to ensure that coconut farmers become direct participants in and beneficiaries



of development and growth. The vision of PCA gives thrust on food security, improved income and enhanced participation by all stakeholders. The main programs include Production Services (which include projects on coconut planting and replanting, coconut rehabilitation and maintenance of seed farms, institutional development, and farm diversification), Market Development Services (which revolve around activities to promote the coconut industry), Research and Development (which includes projects on varietal improvement, crop protection and product development) and Regulatory Services (which include the implementation of the coconut cutting act, the registration of key products and stakeholders, and upholding quality standards).

### Projects for Poverty Reduction and Empowerment of the Poor and Vulnerable

The Kaanib Enterprise Development Project (KEDP) promotes institutionalization of coconut-based enterprise through an integrated resource service convergence approach to increase farm productivity and income of the small coconut farming communities. It promotes establishment of coco-based enterprises which may be coconut farmer's organization (CFO's) or cooperative and establishing start-ups or expanding mature community-based enterprise engaged in coconut processing, inter cropping and livestock raising. The major components of KEDP are Coconut Intercropping Project (CIP) and Community/Household level coconut processing (CHLP) to foster the entrepreneurial skills of the community or household members for coconut processing.

### Projects for Rapid, Inclusive and Sustainable Economic Growth

The projects under this key area include the Coconut Fertilisation Project (CFP) and the Kaanib Coco Agro-Industrial Hub (KCAHP) in the hub and

spoke model. The Central Business Unit (CBU) that will act as primary or secondary processor of coconut products into value added products, integrator, consolidator, market, as well as source of technology and information; and the "spokes" which shall form the base for entrepreneurial business operations of the CBU. Initially, they shall act as primary processor of coconut products or medium-large scale supplier of raw materials.

### Market Development Services- Investment and Trade Promotion

This involves the participation in trade fairs/ exhibition and conduct of missions, market match, industry dialogues to promote coconut products, both in local and foreign markets.

### Research and Development

The Research and Development Branch (RDB) is the agricultural research and development arm of the Philippine Coconut Authority that manages the research and development functions of the Authority with the institutionalized support of the three major strategic research centers located in Albay, Davao and Zamboanga. It is involved on the enhancement of the major concerns of the industry such as: food security, environmental protection, sustainable agriculture and environmental management of natural resources, income enhancement and profitability of farmers; global competitiveness through world class R&D products and technologies; and stable production and supply. The seven disciplines include Varietal Improvement; Crop Agronomy, Nutrition and Farming Systems; Biotechnology; Food Product Development (FPD); Non Food product Development (NFPD); Integrated Crop Protection and laboratory and Technical Services.



## **Integrity of the Environment and Climate Change Mitigation and Adaptation**

The projects under this key area include Accelerated Coconut Planting and Replanting (with the components Participatory Coconut Planting Project, Coconut Seedlings Dispersal Project and Indigenous Peoples Outreach Program), Maintenance of Coconut seed Farm/Seed garden and the Small holder Oil palm Development.

### **Regulatory Services**

It is the policy of the State to provide for the regulation of the cutting of coconut trees as well as to promote the growth of the industry by embarking on a sustainable and efficient replanting program, quality standard for high-value coconut products and by-products for export and referential and the registration of coconut products/by products traders/dealers and manufacturers

### **Yolanda Rehabilitation and Recovery Program**

As an immediate response to the Yolanda crisis, Philippine Coconut Authority implemented the project in the provinces affected by Typhoon Yolanda in Region 6 (Western Visayas), Region 7 (Central Visayas) and Region 8 (Eastern Visayas) to recover the coconut farmer's livelihoods back fast. The components included coconut planting/replanting, coconut intercropping, Coconut fertilization, Debris management and Integrated Rhino-beetle control.

### **Integrated Pest Management**

It is the concern of Philippine Coconut Authority to control or at least contain damage to coconut brought about by insects pests in different regions of the country. As part of the treatment protocol against Coconut Scale Insects and other pests and diseases, activities like trunk injection, leaf pruning and massive production of biocontrol agents are being undertaken. Biocontrol laboratories are established to increase the production of both predators and parasitoids required to control and prevent CSI.

### **Processing of Coconut and its value added products :**

Philippines processing industry in coconut has been a strong sector since the colonial periods and has been growing sustainably since then. Philippines produce the maximum number of products from

coconut. There are around 3216 registered traders and manufacturers of coconut products in the country. Coconut oil continues to be the most traded commodity.

A good portion of coconut production is converted into copra for coconut oil milling, around 70-80%. The coconut oil produced is shipped in bulk for export whereof the traditional markets of US and Europe jointly corner at least 80%. The by-product copra meal is mainly exported to South Korea, Vietnam, China, India, Japan etc. In the local market, coconut oil is utilized for the most part as edible oil for cooking/frying; as raw material for margarine, shortening, and specialty fats; as milk fat replacement for fortified skim milk; as spray oils for biscuits and crackers, among others. For non-edible oil application, it is used mainly as raw material for oleochemicals, laundry/toilet soap, and biodiesel production.

If not processed into copra, the coconut is raw material in the manufacture of desiccated coconut, virgin coconut oil, coconut milk, coconut cream, all of which also are largely exported. These raise the value of fresh mature coconut. As new products spin off, more value added ensue. Other new products have been introduced into the export market with great success. From other parts of the coconut, activated carbon adds value to charcoal derived from coconut shell; coir nets, mats, mattress, brush, peats, and pet accessories drive the value of coconut husk upward. The coconut water which used to be a waste product that is costly to dispose of due to environment concerns presently has value of its own, boosting income from fresh nuts.

As leading agriculture export earner, coconut turns in USD1.694 billion annually (2011-2015 average). Coconut oil remains the primary foreign exchange contributor with annual turnover of USD1.086 billion representing two-thirds of total export income. The new wave of coconut products and by-products which we call non-traditional exports has seen increasing contribution to total coconut revenue.

### **Export Scenario of coconut products**

Philippines is the leading exporter of coconut products across the globe. This is primarily due to large exports from Philippines and also high amount of domestic consumption of coconut in the leading coconut producing countries of India and Indonesia. The Netherlands is a re-exporter of coconut oil for the most of Europe. Coconut and its value added products constitute the top agricultural export product in the Philippines and the export values were at USD

FOB 2.12 billion and USD FOB 1.27 billion in 2014 and 2015 respectively. As a consequence of El Niño, exports in 2016 dropped by about 13.5% from the earlier year. Forecast however, indicate that exports will recover by at least 7%. Coconut oil exports have actually increased over 70% year on year in the first five months of the 2017. The major export commodities include: fresh coconut, copra, coconut oil, desiccated coconut, coconut milk/cream, virgin coconut oil, oleo chemicals, nata de coco, coconut water, coconut sugar, coconut flour, charcoal, activated carbon, coir fibre and copra meal. Increased demand of coconut coir, peat and activated carbon are anticipated.

Export is undertaken mainly to Europe, USA, Asian countries and Australia. Notwithstanding the impact of El Niño, revenue from exports was higher for 2016 and is expected to improve further in 2017 driven by higher volumes and prices. Moreover, local consumption of coconut products rose by 3.7% from the prior year. Favorable forecast for sustained growth in domestic demand is also seen in 2017.

The Philippines has long graduated from copra as major export item with the advent of coconut oil milling units in the country producing crude coconut oil. The major players earlier were multinational companies and some local millers. This has expanded the country's export mix with the addition of coconut oil and copra meal in the export items. Later, two new coconut oil types were introduced, the cochin oil (semi-refined or refined, bleached oil) and RBD oil (fully refined or refined, bleached and deodorized oil), raising the bar from basic material copra.

RBD oil is the vegetable oil used locally as cooking oil. Apart from the households and institutional users like hotels, restaurants, and fast food chains which use edible coconut oil mainly for cooking and frying, other major consumers of coconut edible oil utilize it as material for other food products like margarine,

shortening, and other vegetable fats products, milk fat substitutes, biscuits, oleo fats for the production of various specialty oil products and tailor-made oils for special clients.

Further, higher value products from coconut oil were developed and marketed like oleochemicals such as coconut methyl ester, coco fatty acid, and coco fatty alcohol. The oleochemicals moved another step forward with the introduction of alkanolamide. Later the biodiesel sector was added which provides the biodiesel for blending with fossil diesel, as mandated, for use in the transport sector. Glycerin is by-product of oleochemical production as copra meal is to coconut oil.

On the other hand, desiccated coconut has been a mainstay export item for decades with the likes of Franklin Baker Co. of the Philippines, Peter Paul Philippine Company, Red V Coconut Products as pioneers. Practically all of Philippines' desiccated coconut production from its 13 desiccated coconut plants is exported. Merely less than 3% is retained for domestic consumption mainly by institutional users like hotels, restaurants, pastries and bakery industries.

After desiccated coconut came other food products like coconut milk, coconut cream, creamed coconut, nata de coco which are derived from fresh mature coconut. Except for nata de coco, these products are largely produced by desiccated coconut manufacturers. The process for making desiccated coconut provides some flexibility for the manufacturers to allow room for making these food products. Moreover, the newest addition to the coconut exportables like virgin coconut oil, coconut flour and coconut water are produced in bulk by desiccators. Coconut sugar, meanwhile, remains a small scale operation like nata de coco. The Philippine export mix comprises of about 40 major products. ■

*(To be continued in April 2018 issue.)*