

CHAPTER III

SOURCES OF COPRA SUPPLY.

A. The Demand for Copra by the Penang Oil Millers.

An examination of the Federation Statistics for 1955 gives the following figures for copra:

Estimated Copra Consumed in Federation 1955 ✓

Copra production (Estates and small holdings)	144,000 tons ✓
Net imports of Copra	<u>25,000 tons</u> ✓
Total copra consumed in the Federation	169,000 tons ✓
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The production of coconut oil in the Federation in 1955 is given as 95,000 tons and assuming an extraction rate of 56% (the Federation average) the equivalent amount of copra would be 170,000 tons. ✓

Thus if we ignore any difference in stocks between the beginning and the end of the year, an equivalent weight of the copra produced in the Federation together with the net imports of 1955 was turned into coconut oil. Of this total production of coconut oil the four large mills at Penang produced 43,300 tons whilst their maximum capacity is 66,700 tons, a shortfall of 23,400 tons of coconut oil or the copra equivalent of 42,000 tons.

One of the great problems of the oil millers of Penang as well as those in the other parts of the Federation and Singapore, is to get a steady supply of copra at an

economic price and keep the mills in production.¹

Well over 9/10 of all copra that enters world commerce from primary producing areas comes from five centres, the Philippine Islands, Indonesia, Ceylon, and the South Sea Islands.

The Penang oil millers get their supply of copra mainly from Sumatra and the Federation. Attempts are also being made to get Philippine copra.

B. Copra from Sumatra.

The average monthly imports into Penang for the 2nd Quarter of 1956 was about 3,000 tons. Sumatran copra fetches a higher price than Mainland small-holders' copra because it contains less moisture and is prepared with greater care.

The imports into Penang are almost exclusively from the Atjeh region in North Sumatra. The amount imported in post-war years has varied greatly and depends chiefly on the trade regulations adopted by the Indonesian authorities to protect their foreign exchange reserves.

1 Oil Millers in the Philippines have a more serious problem even though the Islands export large quantities of copra: the actual production of oil is far behind the pre-war level owing to the inability of the mills to obtain their copra requirements to make it possible for them to operate at full capacity. This is mainly because the trade in copra is in the hands of foreign firms which carry out a policy of encouraging copra exports.

Imports of Copra from Sumatra. *into Penang*

<u>Year</u>	<u>Amount of Copra Imported</u>
1938	9,516 tons
1947	2,084 tons
1948	10,230 tons
1949	12,838 tons
1950	14,958 tons
1951	20,041 tons
1952	10,751 tons
1953	9,070 tons
1954	23,243 tons
1955	25,898 tons

Source: Malayan Statistics ³

The low import figures for 1947 was because the copra trade came under the control of the International Emergency Food Council (I.E.F.C.).* Prices in Malaya and the Dutch East Indies were controlled by the I.E.F.C. whereas competitors from the Philippines were getting one-third as much again for a similar article.

Since 1948 there has been a steady increase in the amount of copra imported except for the two years, 1952 and 1953. In these years the import of copra was only half that of 1951 and this was entirely due to the change in the system of trading between Sumatra and Penang.

* During the War the first international organisation, the Combined Food Board was established in 1942 and its primary function was to plan the distribution of reduced available supplies of food and ancillary materials among the different allied countries. It was succeeded in 1946 by the I.E.F.C. with a broader basis of membership but with similar functions. Various commodity committees were created by the Council and one of these has dealt solely with the procurement and international distribution of oils and fats. From the end of 1947 the I.E.F.C. was absorbed in, and its work carried on by, the Food and Agricultural Organisation (F.A.O.)

The 30/70% barter¹ trade was replaced in 1952 by the Letter of Credit System² which greatly reduced the trade between Sumatra and Penang.

However the fall in the imports of copra during this period was not as great as that of rubber which was imported into Penang under the same conditions. This was because of the great demand for copra by the Penang oil millers who were prepared to pay higher prices and reduce the margin on milling.

Relative Imports of Rubber and Copra into Penang from Sumatra in the Years 1951 and 1952.

	<u>Copra</u>	<u>Rubber</u>
A. 1951	20,041 tons	56,583 tons
B. 1952	10,750 tons	8,630 tons
Fall of % of imports	46%	85%

Source: Malayan Statistics. ?

1. 30/70% barter trade existed in 1950 and 1951 and promoted trade between the two countries. According to this system, 70% of the value of all exports from North Sumatra to Penang had to be remitted to Indonesia through banks at the official rate of exchange and the other 30% was taken back in goods. Lack of banking facilities, long distances and bad communications have made the barter system the most convenient trading arrangement for traders on both sides.

2. According to this system exports from Sumatra were first valued at the port of export by the Indonesian authorities and the value was based on the sellers' F.O.B. price at Singapore. To effect this transaction the importer in Penang had to accept the valuation and open a Letter of Credit through a Bank in favour of the exporter. Importers in Penang had to face two problems: (i) the copra was valued at the Singapore F.O.B. sellers' price which was too high for profitable trade. (ii) there was an interval of time between the valuation of copra and the time of shipment. If, in the meantime, there was an increase in price, the exporter will inform the importer that the export permit had been refused and he would then sell the same copra at a higher price.

Realising that the Letter of Credit System was killing trade, the Indonesian Authorities re-introduced in June 1954 a modified form of the old 30/70% barter trade which had proved to be successful. This System is still in operation and has helped to promote trade between Sumatra and Penang.

Sumatra is an important source of supply of copra to the Penang Oil Millers. But if Penang is drawn into the Principal Customs Area¹, then the free port status of the island will be lost: the trade with Sumatra will be affected as the exports from Penang become dearer; Sumatra will turn its attention to Singapore for trade. And it is also unlikely that the loss in imports from Sumatra can be replaced by greater imports from the Federation, for Penang is already tapping the copra producing areas in Northern Malaya and high transport costs will prohibit any greater import from the Federation into Penang.

If there is a free and unrestricted importation of copra from Sumatra, then the millers of Penang can expect to get the requisite amount of copra from Sumatra at economic prices and have their mills going at full capacity. With this in their minds, the Penang Oil Millers' Association has already requested the Federation Government to discuss this question

1. Principal Customs Area, a phrase which is used to describe the whole of the Federation of Malaya except the Island of Penang.

of an increase of copra supplies from Sumatra in their trade talks with Indonesia¹.

C. Copra from the Federation:

In 1939 Malaya produced about 190,000 tons of copra, occupying fourth place in the world copra production with 7% of the world total. In the post war years there has been a drop in the production of copra. The coconut industry suffered grievously during the Japanese Occupation for the palm is extremely susceptible to soil conditions, especially drainage deficiencies: coastal bunds were allowed to deteriorate and in estates the water control gates were not worked. Large areas in Perak and Johore have gone out of production for the lands have been flooded.

The greater part of Penang's imports of copra from the Federation is from the Bagan Datoh and Bernam River areas and the amount imported from these places is approximately equal to that of Sumatra². In 1955 the monthly average from these areas was 2,040 tons but in the first half of 1956 imports fell to 1,420 tons. Smaller amounts of copra are brought in from Kedah and Province Wellesley. There is an export duty of 5% on copra shipped to Penang from the Mainland and this places the Penang millers in a disadvantageous position when compared with the Mainland millers.

1. The trade talks with the Indonesians were made in September 1955 and the leader of the delegation was Mr. Marshall, the then Chief Minister of Singapore. It was a joint Federation and Singapore delegation.

2. The Statistics in these paragraphs are from the Economic Affairs Office, Penang.

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The Penang millers obtained from the Mainland in 1955, 51,500 tons of copra which is about 35% of the Malayan production, a very fair percentage in view of the location of the island in the north of the country.

In the Federation 75% of the copra is produced in small holdings and the rest by estates. Production by the estates has shown a steady increase since 1949 while that of small holdings has fluctuated from about 86,000 tons in 1949 to 124,000 tons in 1954, (see appendix C) which shows that production from small holdings is more sensitive to changes in the price of copra. It is also interesting to note that there is a fair seasonal increase in both estate and small holding production from July to September.

The copra produced by the small holders is generally of an inferior quality though with a little care a first class product can be turned out. The small holder regularly overloads his kilns and hastens drying with the result that some of the copra is under-dried and nearly rotten, some burnt and all attacked by fungi and this leads to rapid deterioration. But because of the prevailing sellers' market, the disposal of copra, no matter of what quality has been a comparatively easy matter and the incentive to improve quality and to grade before marketing scarcely exists.*

The larger estates of Malaya¹ produce copra of a higher quality than the small holdings and this is exported. It finds a ready market in Britain and the Continent and also fetches a higher price.

Comparative Prices of Estate and
Imported Small holders' Copra

	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>
Imports (C. I. F.)	405	515	460	380
Exports (F. O. B.)	520	620	575	495
Differential	115	105	115	115

All figures in dollars per ton

Source: Malayan Statistics.

Although this differential may be considered high, it must be realised that only the best quality copra is exported, since the high freight charges to Europe where the bulk is sent, would not be worth while on the inferior grades. The local oil millers accept the poorer grades and thus the Singapore, and to a smaller extent the Penang markets, provide the services of an entrepot port by accepting all grades from nearby sources, sorting them, exporting the best qualities and absorbing the rest in local mills. In 1955 the Pan Malayan exports of copra was 42,000 tons and was mainly from Singapore.

It may be asked why the Penang millers should not have obtained the 43,000 tons of copra which was exported², and

1. Total acreage under coconuts is about 500,000 acres and of this only about 97,000 tons, i.e. one-fifth, is in holdings exceeding 100 acres. See appendix D and E.

2. Penang is importing increasing amounts of copra from Singapore in 1956.

work their mills at the maximum capacity. But this would ignore the fact that Singapore is an entrepot and the main purchasers of copra for export are Continental buyers who are operating from Singapore. Had the Penang merchants entered the market for the whole quantity of copra, the price would have risen and milling with high cost copra may not be profitable. The Penang millers must look elsewhere for their deficit supply of copra and such a place would be the Philippines.

D. Imports from the Philippines.*

The Penang Oil Millers' Association has approached the Government for the necessary hard currency to import copra from the Philippines where it is available at economic prices. If the millers of Penang together with the Copra Association of Singapore can put up a workable joint control scheme for the importation of Philippine copra, there is a likelihood for the scheme to be approved and a certain amount of hard currency reserved for the importation of copra.

The Penang Millers here have a case for even though there is a shortage of hard currency, the millers are justified in their demands, for this need not be a long term arrangement. Once the Indonesian exports from Sumatra are available in larger quantities, then this importation from Philippines can come to an end.

* In 1955 the Philippines produced 931,247 tons of copra and of this total production 263,991 tons was crushed for oil and the rest exported. Nearly 40% of the copra exports and over 94% of the crude coconut oil exports from the Philippines went to the United States.

The United States dollars would be well spent for they will keep an important Malayan industry going. The 48,000 tons of copra which the oil millers have asked to be imported from the Philippines will not cost more than Malayan \$8 million annually. It is unfortunate that the exports of coconut oil go to the surrounding countries and Continental ports and there will be no return of U.S. dollars for the expenditure in the Philippines.

The Philippines too, would benefit trading with Malaya for the Philippines exports about 40% of copra and more than 90% of her coconut oil to the United States only. Thus her trade and economy has become too dependent on the fluctuations in the United States demand and at times the Philippines cannot get good prices or plan her trade in these commodities. Thus it would be expedient for her to explore new markets with a view of improving the prospects of her trade.