CHAPTER V.

MARKETING OF THE OIL

A. Export Statistics:

Large scale exports of coconut oil from Penang date back to 1934 and just before the outbreak of the War the yearly exports amounted to 33,000 tons as against 70,000 tons for the whole of Malaya. In the exports of coconut oil Malaya became second in importance after Ceylon in 1953 and first in 1954. The exports from Penang as well as Malaya have shown a steady increase in recent years.

Exports of Coconut Oil.

	1952	1953	1954	1955
Penang	37	43	42	50
Rest of Malaya	29	19	37	42
Total Malaya	66	62	79	92

All figures are in thousands of long tons.

Source: Malayan Statistics.

The oil exported is crude with a free fatty acid content of less than 3½%. It finds a ready market as an article of food in many Eastern countries but its chief use is in the manufacture of soap and margarine in which it serves as a principal ingredient.

B. The Malayan Market for Coconut Oil:

From the production and export figures that are published, the consumption of oil within Malaya can be calculated; about one-third of the oil is consumed locally.

Malayan Consumption of Coconut Oil

	1952	1953	1954	1955
Production	107	95	135	129
Exports	66	62	79	92
Consumption	41	33	56	37

All figures in thousands of long tons.

Source: Malayan Statistics.

In the pre-war years the Penang millers had a virtual monopoly of the North Malayan market for coconut oil. It is estimated that 1,000 tons per month were sold locally* and used mainly for cooking purposes while smaller amounts went into the manufacture of soap.

In the post-war years, the Penang oil millers gradually lost the Mainland market owing to two reasons: (a) the establishment of a large number of small oil mills in the Mainland, (b) the export duty on Mainland copra.

*About half this quantity was sold in Penang Island and the rest in the Mainland.

Immediately after the Japanese Occupation of Malaya a large number of small mills were established in the coconut growing districts of the West coast. These mills were in an advantageous position for they could adapt themselves to the changing conditions of supplies of copra and as they were right in the midst of the consumers of the oil, the product could be distributed with little or no transport costs. Moreover these mills could get the copra at a lower price than the Penang millers as there is an export duty of 5% on copra leaving the Mainland. This export duty gives the Federation Government an average revenue of $57,000 a month.

<u>The Export Duty</u>: The shortage of copra throughout Malaya led to keen competition in buying and if the Penang millers required this Mainland copra, they had to bear the export duty. Under such conditions, they were unable to offer their oil at competitive prices in the Mainland market.

The following figures for the four mills will show the great fall in exports to the Mainland in the post-war months when compared to a similar period just before the outbreak of the Pacific War.

Reduction in Sales to the Mainland by the Four Penang Oil Mills in the Immediate Post-war Years.

MILL	Oil sold to Federation for period December 1951 to March 1952.	Oil sold to Federation (former F.M.S.) for period August - November 1941.
	Piculs	Piculs
A	nil	14,720
B	600	8,000
C	nil	9,140
D	nil	6,182
Total	600	38,042

Source: Confidential.

As a result of strong representations by the Penang Oil Millers' Association, Government agreed in July 1953 to the refund of the 5% export duty on copra exported to Penang for processing when equivalent quantities of coconut oil were re-imported into the Principal Customs Area of the Federation. For claiming this drawback the minimum quantity for export should be not less than an equivalent of 200 x 4 gallon tins or 800 gallons or 1 ton. The expression ratio of coconut oil to copra is based on the ratio 65: 100. The supporting duty receipts of copra should be dated not more than three months prior to the actual date of the importation of the coconut oil into the Principal Customs Area. Since this refund in 1953, larger quantities of oil are being sold to the Mainland and the Penang millers are gradually driving their smaller Mainland rivals out of production for they are unable to compete in either the quality of the oil produced or in its price.

Coconut oil exported from the Mainland is subject to a 5% export duty whereas there is no duty on the oil leaving Penang as the Mainland copra imported into the Island has already been subject to a 5% export duty. This may appear to place the Penang millers at no disadvantage when compared to their Mainland rivals when exporting to overseas' markets but one must bear in mind that a given weight of copra only produces about 56% of that weight of coconut oil. So it would be fair to suggest that either the rate of export duty for Mainland copra should be only 56% of 5% the rate of duty payable in respect of exports of coconut oil (this would mean an export duty of 3% on copra) or the export duty on Mainland oil should be raised from 5% to 8%.

The refund of 5% export duty on re-imports of oil into the Mainland based on an expression ratio of 65: 100, (the Penang expression ratio is only about 56%) favours the Penang millers to produce for the Mainland market while the 5% export duty on oil gives the Mainland millers an advantage in the world market - a paradox, for in practice, the oil milled in the Mainland is consumed domestically while Penang exports most of her oil.

Benham, in his book, "The National Income of Malaya", estimates that 12,000 tons of oil was used locally in 1947 to produce 29,000 tons of soap. For the succeeding three years 10,500, 8,000, and 7,000 tons went into the making of soap.

Probably this is an overestimation of the oil used and the soap made by some 30% for he assumes that a large proportion of the soap is manufactured by families in their back-yards, a thing that one never sees.* However, in the last few years increasing amounts of oil have been used locally for the manufacture of soap and Malaya is now a net exporter.

SOAP PRODUCTION IN MALAYA

YEAR	WEIGHT Cwt. (thousands)
1952	314.7
1953	452.2
1954	526.4
1955	541.4

Source: Malayan Statistics.

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*Ungku Aziz, Lecturer in Economics, University of Malaya, who has been doing research in the rural areas for the last ten years, substantiates my statement for he too has not come across the making of soap in the kampongs; moreover there is little necessity for doing so for one can conveniently obtain this article from the local dealer especially when it is given on credit.

It is most probable that Benham has got this fact from the "Report of the Committee which investigated on the economic condition of the Coconut and other Vegetable Oil producing Industries in Malaya, 1934", for a similar statement is made in that book.

NET EXPORTS OF SOAP FROM MALAYA

Year	Imports cwt. thousands	Exports cwt. thousands	Net Exports cwt. thousands
1952	146	93	-53½
1953	53	86	33
1954	7	98	91
1955	6	90	84

½ indicates net imports.

Source: Malayan Statistics.

The Malayan market for coconut oil can be further developed for at present large quantities of ground nut oil and lard are imported. The Chinese are considerable consumers of these: they dislike the peculiar smell and taste of coconut oil. If by modern methods of refining, it is possible to remove the odour and taste of coconut oil and by careful blending impart to it the flavour of lard or groundnut oil, then the Chinese population can be induced to substitute one form of oil for another. This will extend the local consumption of coconut oil and reduce the imports of lard and groundnut oil.

IMPORTS OF GROUNDNUT OIL AND LARD

YEAR	GROUNDNUT OIL		LARD	
	wt. tons	value	wt. tons	value
1952	1690	$2734,761	1554	$2416,527
1953	1982	$2927,164	1641	$2657,351
1954	2017	$2955,300	1383	$1881,654
1955	2202	$2573,078	1386	$1448,545

Source : Malayan Statistics.

The great difference in prices between coconut oil and the above two oils will certainly make it worth while to blend coconut oil to give the necessary flavour.

Comparative Costs of Groundnut Oil, Lard and Coconut Oil.

	1952	1953	1954	1955
Groundnut oil	1617	1426	1465	1170
Lard	1555	1619	1361	1045
Coconut oil	815	950	940	740

All figures in dollars per ton.

Local Distribution of the Oil: The mills market the oil in two qualities, first and second.* First quality oil has a free fatty acid content of less than 2% while the inferior oil contains ~~contains~~ between 2% and 3½%: low grade oil has poorer keeping qualities because of its higher percentage of fats.

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*With copra of a very high quality it is possible to get an even finer quality containing less than 1% of free fatty acid but at present such extraction is not possible for lack of good copra.

Although each of the mills has its own trade mark, consumers generally do not differentiate between the oils of the various mills, for the product differentiation is purely artificial and one of trade names only; consumers buy according to the quality they desire - the first quality being invariably used for cooking.

Each of the mills has a sales department which sends out its representatives or salesmen in trucks carrying four gallon tins of oil. These salesmen cover practically all the retail groceries in both the urban and rural areas. It is quite usual for a small grocery in the rural areas which takes a few tins to be called upon weekly by various travelling salesmen. From the point of view of the industry as a whole, the large number of salesmen appears highly wasteful and in view of the small turnover, this must amount to 10% of the total manufacturing charges. But from the standpoint of individual firms, these salesmen are necessary to maintain sales especially with the smaller retail shops where the personal element of salesmanship is important.

The oil is distributed locally in charged tins of four gallons, the charge being refunded on the return of the tins. It is normally sold at a "delivered in" price but some grocers who have their own transport vehicles often prefer to buy the oil direct from the mills at a price equal to the "delivered in" price less an allowance for the actual cost of transport. However, the millers do not encourage this: they keep a number of delivery vans, and, the general practice is to possess only that number as can be kept continuously employed.

With the exception of 1953, the average price of coconut oil in the Penang market followed reasonably closely the F.O.B. export price for crude coconut oil.

Comparison of Local and F.O.B. Export Price of Coconut Oil.

	1952	1953	1954	1955
Average Penang Market Price	805	1000	930	750
Average F.O.B. Export Price	815	950	940	740

All figures in dollars per ton.

Source: Penang Chamber of Commerce and Malayan Statistics.

1953 was the year with the lowest production for the period under review and it is reasonable to expect the local price to harden a little.

C. Foreign Trade in Coconut Oil:

Restriction of Exports 1946-1948.

After the Re-occupation of Malaya, the British Military Administration issued a Proclamation forbidding the exports of coconut oil to foreign countries and all exports were to be shipped to the Ministry of Food in the United Kingdom. The price of coconut oil was fixed at £57 per ton i.e. $28.50 per picul while that of copra was £31 5s. per ton, i.e. $15.75

per picul. As only a small amount of copra was forthcoming into the market at that price, there was little oil produced and the exports for the second half of 1946 was only 870 tons. Early in 1947 the official price of oil was raised to £70 per ton but the world market price was about twice as great.

The Penang Oil Millers were badly affected by this restriction. Their best pre-war customer, India, was buying from the Philippines in gold dollars at a higher price than what the Penang millers received. The Philippines were permitted by the International Emergency Food Council to sell to any country which had received an allocation but Penang could not. The effect of this strict control of exports was that Penang was losing its old trade, the Sterling Group was losing dollar exchange and the world thousands of tons of edible fats of which she was in great need.[x]

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[x] It can be shown that the loss to Malaya was greater than the gain by the Ministry of Food. By buying 9,100 tons (2nd half 1946) at £57 and not at the world would be market price of £120, Ministry of Food gained = £573,300. Malaya in 2nd half of 1946 could have exported 25,000 tons at £120 but actual exports were 9,100 tons at £57 (here it is assumed that the world price of £140 per ton would be lowered to £120 as a result of all the oil going into the world market; allowance is also made for a smaller quantity of oil being produced in the immediate post war years). Therefore loss to Malaya = £(25,000 x 120) - (9,100 x 57) = £2,481,300.

One problem of the oil millers was to find sufficient serviceable 44 gallon drums and 4 gallon tins to export the oil. So acute was the position that the Ministry of Food indicated its willingness to pay a premium of approximately £5 per ton for oil packed in new drums. No advantage was taken of this as drums were in short supply and the premium was inadequate to serve its purpose. Under these circumstances a new and far reaching development took place - bulk shipment of coconut oil.

The Penang oil millers had jointly put up bulk installation facilities in the Harbour Board Area but did not succeed in putting these into use before the War. The main reason was that the greater part of the export trade was with those ports where no facilities for bulk shipment existed. Moreover, coconut oil solidifies at 70 degrees Fahrenheit and therefore tanks of vessels, storage houses and transporting vehicles in temperate countries must be fitted with running heating tubes.

Since the first shipment in May 1947, the quantity exported in bulk had greatly increased but is still confined to the United Kingdom and Continental ports where facilities for bulk handling exist. Bulk shipment offers great economies as containers are costly and it also cuts down handling charges and stops the malpractice of pilfering which takes place in lighters while the oil is transported to ships.

Partial De-restriction of Exports: After representations had been made by the oil millers, Chambers of Commerce and the Press, there was a partial de-restriction of exports. Government eventually permitted as from November 20th 1947, the exports of coconut oil to foreign countries provided that oil of an equivalent amount to that exported to foreign countries was sold to the Ministry of Food in the United Kingdom. This step was taken to enable the oil millers to sell in the world markets where the prices were much higher than the prices fixed by the Ministry of Food, and thus enable the millers to carry on production on a fairly remunerative basis. This only refers to oil milled from Malayan copra; oil made from imported copra could be sold without restriction to any destination, the basis of calculation being that 60 tons of coconut oil is taken as equivalent to 100 tons of copra. However, Penang millers could not take advantage of this concession when compared to their opposite numbers in Singapore, because the opportunity for importing copra was not as great as that of Singapore as imports from Sumatra were severely controlled by the International Emergency Food Council.

The announcement of partial de-restriction was followed by a sharp rise in the price of copra and oil. Any increase in the price of copra had to appear as a more than threefold increase* in the price of oil for export outside the United Kingdom since the price for the United Kingdom remained static at £70. When this partial de-restriction was announced the price of oil for shipment outside the United Kingdom was £140 per ton c.i.f. but this fell fairly rapidly to £125 c.i.f. by the end of the year.

The removal of restriction on coconut oil produced in Malaya took place in two stages. On May 1st 1948 all restriction of export from Singapore was removed and on 15th September 1948 the Federation restriction was lifted and from then all coconut oil produced in the Federation was freed for export to any destination.

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*This can be shown mathematically:

Let £x be the cost of copra

Therefore cost of coconut oil $= £\frac{5x}{3}$

Fixed price for Ministry of Food $= £70$

Therefore world price to cover cost must be $= £\left(\frac{10x}{3} - 70\right)$

Let £y be the increase in price of copra

New cost of coconut oil $= £\left(\frac{5x + 5y}{3}\right)$

Fixed price for Ministry of Food $= £70$

World price to cover cost must be $= £\left(\frac{5x+5y}{3} - 70 - \frac{5x+5y}{3}\right)$

$$= £\left(\frac{10x+10y}{3} - 70\right)$$

Therefore increase in price $= \left(\frac{10x+10y}{3} - 70\right) - \left(\frac{10x}{3} - 70\right)$

$$= \frac{10y}{3}$$

i.e. increase in world price is $\frac{10}{3}$ times the increase in the price of copra.

It was during this period from May to September 1948 that the Penang oil millers were hit hardest and some of the mills were temporarily closed. De-restriction of oil in Singapore meant that oil could be exported to all parts of the world and the higher prices obtained enabled the Singapore millers to divert to their mills the Bagan Datoh and Sabak Bernam copra which normally found its way into Penang.

<u>Free Market for Coconut Oil</u>.

The de-controlling of exports in September 1948 enabled the oil-millers to produce at the world market value and there was a sudden increase in the exports of oil.

<u>SHIPMENTS OF COCONUT OIL FROM MALAYA</u>.

1948	38,000 tons
1949	61,000 tons
1950	57,000 tons

Source: Malayan Statistics.

In the open market, coconut oil together with palm and palm kernel oil, ground nut oil, olive oil, and tallow are used extensively in the manufacture of margarine, cooking oils and soap. Moreover, margarine and cooking oils are "inferior" goods which enter into competition with butter and lard and any marked increase of production and corresponding decrease of prices in the latter, will lead to decreased consumption of the substitute products. From the manufacturers' point of view these raw materials are closely connected and over-production in any one may seriously affect consumption of the others.

As far as world imports of coconut oil are concerned, the United States were the main market in pre-war years taking in about 44% of the total, but they were replaced by Germany in 1951-53, as they reduced their import of oil to one-third, while the latter country increased its imports. The other large importers, the United Kingdom, India, Italy, Burma and Canada, have increased their purchases of coconut oil in post war years.

The direction of trade of the Penang oil follows very closely that of Malaya*, about half the exports go to the Eastern countries of Burma, India and China while the rest is absorbed by the United Kingdom and the Continent. The market is affected by many factors - political and other disturbances, the price of Ceylon and Philippine coconut oil and other vegetable oils and the availability of sterling by the importing countries.

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*Until the outbreak of the war the coconut producing countriés were colonial possessions of the copra and coconut oil importing countries of the world. The mother countries favour the products of their dependencies either by direct tariff regulations and processing taxes or by business, shipping and commercial ties which exist between the various parts of the Empire. Thus we find that the Philippines furnished the United States with most of the copra and coconut oil, Malaya, Ceylon and British South Sea Islands supplied the British Empire with the imports of similar products and the Dutch East Indies found their major market in the Netherlands. For direction of Malayan trade in coconut oil see Appendix G.

Thus in late 1948 the first post-war shipment from Penang to the United States took place. The United States market is normally the prerogative of the Philippines, but during the coastal strike in the West Coast of the United States, imports had to be diverted to the East Coast and the Penang exporters were quick at making use of this opportunity and sold 500 tons for payment of United States dollars*.

The United Kingdom in 1949 and 1950 did not get any oil from Malaya as the Ministry of Food had made arrangements to get supplies from Ceylon in 1949 and from Fiji and Zanzibar in 1950. But in 1951 the Ministry came into the open market as a buyer and Malaya sold 8000 tons of oil. In June 1954 imports of coconut oil into the United Kingdom were permitted for private account and this led to a sudden increase in exports in the second half of 1954 and 1955.

In 1949 and 1950 the demand for Malayan and Ceylon coconut oil from Continental Europe fell off owing to a shortage of sterling. The availability of United States dollars under the European Recovery Programme enabled these countries to buy from hard currency areas at lower prices. Again in 1954 shipments of oil to the North Continental ports declined sharply. One of the reasons was that the British Ministry of Food sold its stocks of coconut and palm kernel oils on European markets.

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*Annual Report of Penang Chamber of Commerce 1948.

Exports of Coconut oil from Penang.

	1952	1953	1954	1955
United Kingdom	1657	291	1973	9101
Burma	6830	3186	4552	1762
Republic of India	9179	10114	10986	5559
Germany	2361	7308	2587	5757
Italy	4658	5893	4864	7815
Netherlands	9580	8499	2403	6303
China	-	-	4658	1400
Other Countries	2375	7230	16012	12613
TOTAL	36640	42521	42035	50310

All figures in tons.

Source: Malayan Statistics.

Burma is one of the chief markets for Penang's coconut oil. But in 1955 the deterioration in her foreign exchange reserves compelled her to restrict her imports. The exports from Penang decreased sharply from 4552 tons in 1954 to 1762 tons in 1955.

India which normally imports about 10,000 tons of oil from Penang had a good harvest of groundnuts in the 1954-55 season and this accounted for the fall in her imports in 1955 to about half her usual amount.

China in recent years is becoming the chief buyer of

Malayan Coconut oil, exports taking place mainly through Singapore. Her buying in large quantities (20,000 tons in 1954 and 15,000 tons in 1955) has helped to maintain the price of oil and made good the fall in demand from Burma and India.