

241

SUPPLY AND DEMAND PROSPECTS FOR PHILIPPINE COCONUT OIL
AND IMPLICATIONS ON INTERNATIONAL TRADE
(A PRELIMINARY ANALYSIS)

by

EVELYN M. LACHICA

A.B. Economics, Far Eastern University, 1968

A MASTER'S REPORT

Submitted in partial fulfillment of the .

requirements for the degree

MASTER OF SCIENCE

AGRICULTURAL ECONOMICS
Department of Economics

KANSAS STATE UNIVERSITY
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... to my beloved mother who unfailingly guided me through the years, this work is lovingly dedicated.

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Errors that remain are the responsibility of the author.

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AN ABSTRACT OF A MASTER'S REPORT

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The Philippines is almost wholly dependent upon agricultural exports for foreign exchange. In recent years, the coconut industry alone has accounted for 58.4 percent of the country's foreign exchange earnings.

Under the direction of the Philippine Coconut Authority (PCA), a major long-term program is under way to upgrade the industry and increase coconut production. Because copra and coconut oil compete with other fats and oils in the world markets, an understanding of these markets is important for the success of the Philippine program.

The objectives of this study are to examine the factors which influence the Philippine coconut oil trade in the world markets, to determine the impact of changing demand within importing countries and to analyze the trade barriers affecting the industry. The preliminary analysis in this study will serve as basis for more in-depth study by the author upon her return to her post in the Philippines.

Demand and supply factors were subjected to multiple regression analysis in order to evaluate the future markets for Philippine coconut oil and the implications for international trade with importing countries. Demand and supply models were formulated to reflect the impacts of competing products such as Malaysian

palm oil. Time series data on volumes, prices and incomes for a 16-year period were used to make the empirical analysis.

Results of the study indicate that Philippine coconut oil faces several problems in international markets. Demand in the major importing countries is income inelastic, so that future quantities demanded will not increase proportionately with increases in purchasing power. Competitive oils and synthetics will be purchased instead of coconut oil when relative prices favor doing so. Recent changes in tariff policies by importing countries and market associations have worked to the relative disadvantage of Philippine coconut oil. International marketing policies and programs by the Philippines have not been in tune with the changes and developments in the world markets.

The present program to increase the efficiency of the Philippine coconut industry and insure more stable supplies of coconut oil in world markets will likely ward off further substitution against coconut oil in the major importing countries. However, the Philippines needs to develop more effective intelligence in the world fats and oils markets and to plan export policies and programs to maintain market shares. These steps are necessary in order to insure future sales of coconut oil for foreign exchange earnings and stable incomes for the small coconut producers in the Philippines.