

tmduché&sonsltd



2020 Market Report

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Looking Back at 2019 vs our Forecasts

What we said last January

Brexit

Brexit 2019 was a mess, 2020 should see progress with a majority government in the UK and a clear path to a resolution, the outcome will definitely affect a lot of businesses, however with the actual trade negotiations not yet started, this will be an ongoing challenge to certain businesses across Europe, with some looking to potentially make a move to an EU base or others make a move into the UK in the near future.

Trade negotiations between USA and China are still ongoing and rather like Brexit they are still in flux – hopefully, they are progressing well and should result in a good deal that will settle the markets.

EU recessions, although Germany and Italy have managed to stave off full-scale recession status in 2019, 2020 may see some further erosion of growth across the EU.

Brexit into 2020

The question of Brexit and our trade keeps coming up at the moment especially since UK businesses do so much business in Europe. There are several misconceptions put out by the press and other agencies that don't understand the process of how trade currently works.

January will see the UK pass the first hurdle to begin the Brexit process which is the legal deal to signify that the UK will leave the EU. The next stage which is due to take at least 12 months is the trade deal between the UK and the EU. This will look at tariffs and how goods and services will be traded between the UK and the EU. This process will begin shortly. It may be that an extension is needed for these discussions before we leave the trading partnership. Certainly nothing will change before this deal is agreed.

Goods that are imported into Europe from outside enter under many existing trade deals. Coconut enters the EU under the GSP Plus system which allows zero duty on most coconut products in a none retail form. It does not matter where or which country invoices the goods its purely the GSP that designates the zero-duty level. The EU is not changing this long-established system. It's also likely that the UK will adopt this system, so goods currently zero rated for Europe remain zero rated for the UK.

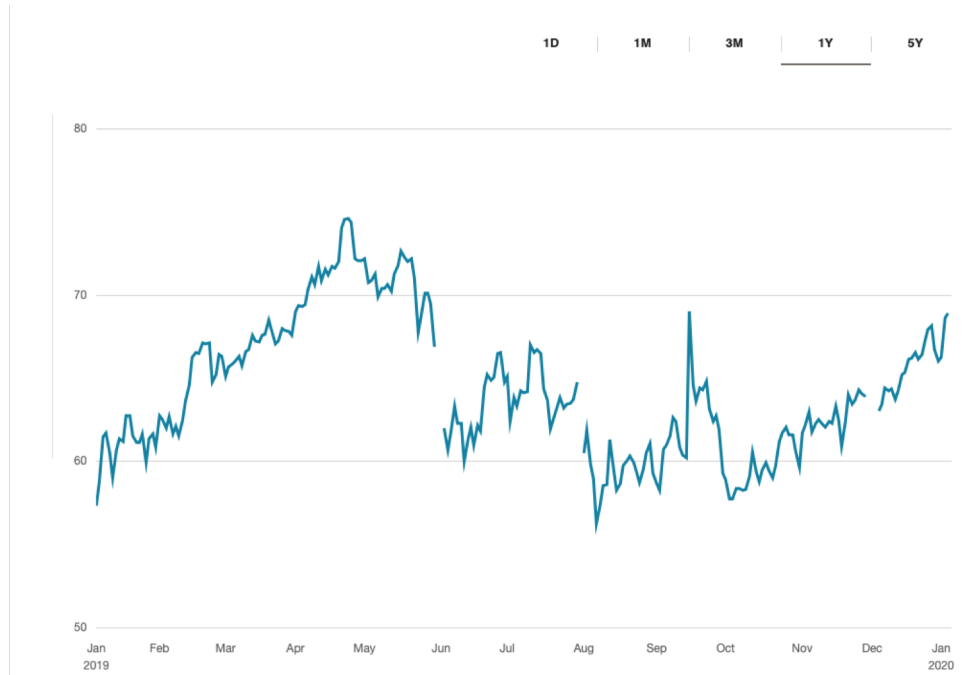
However, the industry is seeing some issues from certain EU countries already, which may cause knock on challenges, in the coming months.

The EU/UK trade deal may vary what happens when goods enter say Europe first and then are transported to the UK or vice versa. However, we won't know this until that trade deal is done.

As we don't ship any products coconut or otherwise from the UK into Europe. All our EU goods are delivered from outside the EU. There will be some business that don't do this; therefore, the EU/UK trade deal could have a big impact on their business.

For now, in 2020 nothing much will change either legally or in trade terms. It's likely though that we will see each side EU/UK try to gain the upper hand in those trade talks.

Crude Oil



Brent Crude Prices 2019 – source *BBC.com*

Crude oil prices rose as predicted to April, then began to fall to the end of October matching January prices and we're currently seeing a steep rise.

In a market update, Bjørnar Tonhaugen, head of oil market research at Rystad Energy, argues that a balanced oil market in 2020 is contingent on these pillars:

1. No global recession
2. Continued OPEC production cuts
3. The effect of new IMO 2020 regulations

As we begin 2020 with an unstable middle east situation, we predict that the price will rise steeply initially in 2020 effecting the markets significantly.

However, these will hopefully again fall later in the year.

Philippines Typhoon Effects

This season there have been two very late typhoons in the Philippines causing widespread devastation across the central islands and sadly a large number of fatalities. With the last one making landfall on Christmas Day.

In 2019 there were 21 cyclones to hit the Philippines.

The 2019 Pacific typhoon season was the costliest season on record, just ahead of the previous year. The 2019 season was above average, producing 29 named storms.

In 2014 some 33 million coconut trees were damaged or destroyed by Super Typhoon Haiyan which was the deadliest in recent years.

The government estimated that the latest typhoons have caused damage to overall agriculture and infrastructure worth US\$21 million, nowhere on the scale of 2014, but enough to significantly affect the markets in 2020.

We, therefore, expect that crops will be affected in the coming months with an initial abundance of fallen nuts, following the high winds.

This would normally lead to an initial dip in prices with an over-supply into January and February.

However, there was a strong magnitude 6.8 earthquake on 15th December in the Davao region and this affected many of the production facilities in the area, leading to a gap in production in the run-up to the holiday period when there is also a break in production.

Also, the transport infrastructure has been affected by the two typhoons and the earthquake, leading to delays in the transportation of harvests to production facilities.

This means the harvest and production cycles will have been broken and while there will be an initial oversupply of nuts, production will be fighting to catch up in the first two months of the year.

Then the knock-on effects of the typhoon damage on the harvests will begin to come into play with a shortage in the harvest in the first months of 2020.

Leading to inevitable lower harvests and production and price increases that could remain well into Spring and potentially even early Summer.

Market Predictions for 2020, Overview

The story of the coconut market since the second half of 2018 is one of oversupply. With some of the largest ever crops, so prices hit all-time modern lows.



Source - mintecanalytics.com

Ultimately this couldn't last and by November the first signs that prices would rise had started. But with only very limited increases in edible oil, it looked likely that prices were only due for some small increases.

However, in December we saw two late large typhoons as mentioned above and the market is still reeling.

Most shippers just withdrew as they were scared to offer too quickly. To make the situation worse one of the top 5 Indonesian shippers had closed defaulting on all their shipments.

In November the price was around \$1,600 a tonne, at the beginning of 2020, it is trading at around \$2,200.

Shortages caused by delayed shipments due to the typhoons are only making the situation worse. It's likely that prices will rise another \$100-200 a tonne.

So, the first half of 2020 is likely to be defined by shortages and spiralling prices.

We wait to see just how high it will go before we can look at the second half of the year.

The recent Indonesia bankruptcy of "PT Harvard" will impact the markets, as their customers look to find new suppliers and the loss of their production volumes will no doubt lead to an increase in some costs in market.

Indonesia also has had dry weather during the latter half of 2019, and dry weather will reduce crops.

Quality Assurance for Coconut Raw Materials in 2020

At TM Duché we are committed to providing the best quality, pure coconut products that meet the highest expectation of our customers.

Our quality control team of highly experienced technicians oversee the specialized testing procedures in our in-house laboratories, that meet with all our customers' requirements around the world from the EU to the Americas.

Our quality control testing starts with farmers and their management of the crops and farming infrastructure followed by the screening of raw materials prior to reaching the production facilities.

We monitor the products analytically at every stage of production from the commencement of processing until the final product to ensure 100% quality assurance.

This is also audited by our customers throughout the year.

We pride ourselves on the quality of our final product ensuring consistency is maintained and is internationally compliant.

The entire process of manufacture is standardized across our production facilities in the Philippines and is audited under controlled conditions by our teams from the UK and the Philippines.

Our factories in the Philippines are of global standard particularly in quality assurance and product certification.

Our products are also Ethically certified to the standards laid out by **SEDEX**. Our in-house and associated facilities have **BRC** and **GMP** certifications.

Testing Facilities

Laboratory tests are carried out according to specifications and test methods laid out by global standards.

Our Quality Control & Quality Assurance Division provide the services to guarantee the quality of coconut products manufactured for exports, including Pre-shipment microbiological and Physico-chemical test for Kernel products & Non-Kernel products

Our testing ensures maintenance of quality standards in manufacture for export of coconut products

Examples of Quality Control of Virgin Coconut Oil

Virgin coconut oil (VCO) is the purest and finest grade of coconut oil.

Production Process

The main difference between ordinary coconut oil & Virgin coconut oil (VCO) is the process of extraction.

VCO is produced using the cold process, so no heat is applied during extraction. The absence of heat during extraction is very important because this preserves the lauric acid and the medium-chain triglycerides content of the oil.

VCO is extracted from mature coconuts without the use of deodorization, heat, bleaching, additives or any other chemical processing, making it natural.

Initially, coconuts are shelled followed by paring and dewatering. Pared coconuts are then shredded through a coconut cutter with sieve plate. Fresh coconut milk is extracted from the shredded coconut gratings using a screw/ hydraulic press. This process is regularly maintained and audited for hygiene and

The coconut milk is subsequently filtered and passed through a high-speed centrifuge in which the coconut oil gets separated from the coconut milk.

Quality Control

To test and quantify the clarity of the VCO, the transmitted colour of the VCO can be determined by using a spectrophotometer that comes with a transmittance chamber. This is calibrated vs pure water.

Below is a general guide on when to accept or reject a sample VCO.

Color Data $\Delta E_{a^*b^*}$	Accept / Reject	Action
0.0 to 0.5	Accept	Ready for packaging
0.51 & above	Reject	Reprocessing required

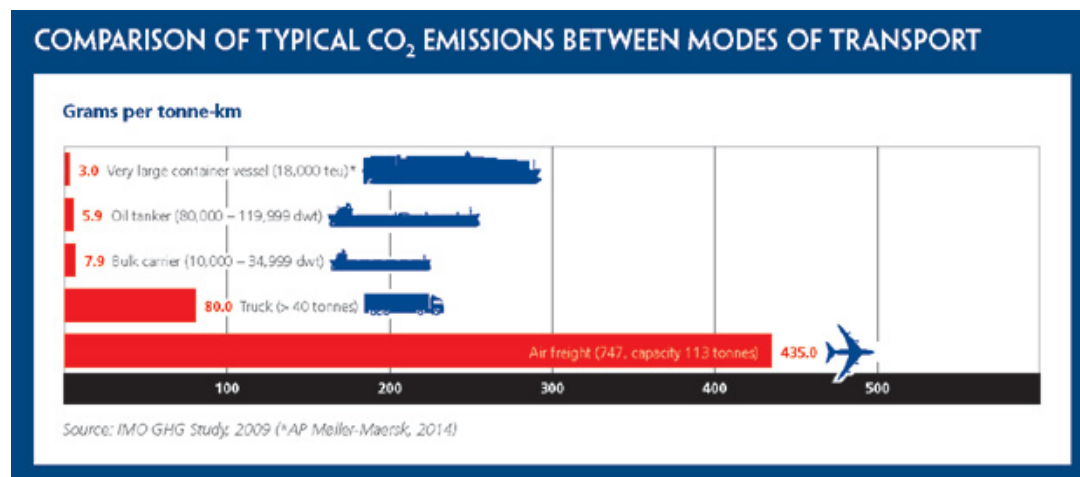
Note that this is only a guide and the final acceptance data value still depends on individual producers and market preferences.

Climate Change & Global Transportation Infrastructure



What We Are Doing Today

Global shipping is in theory the most efficient method of transportation in terms of CO₂ emissions



Off the back of the growing focus on Climate Change in the news and the growth of groups like 'Extinction Rebellion', greener shipping & distribution has become a key issue for our industry to address.



"The growing exposure of climate impact and increased societal and regulatory expectations, decarbonizing ocean shipping is no longer an impossible dream but a real business continuity challenge," said **Angie Farrag-Thibault**, Director of Transportation & Logistics at BSR and Program Director of Clean Cargo.

Improvements in technology have led to lower Carbon Dioxide emissions for shipping containers.

Carbon dioxide emissions from 17 of the world's leading ocean container carriers, representing approximately 80% of global containerized shipping, continued to fall in 2018.

Since 2015, CO2 emissions per container carried have **dropped by 9.6 percent**.

Source (<https://www.clean-cargo.org>)

Clean Cargo's aggregate average Trade Lane CO2 Emissions Factors are compiled from the carbon dioxide emissions data reported by over 3,200 ships

Update

At the end of 2019 it was reported in the Guardian that Zero-carbon ships on horizon under fuel levy plan.

All Shipping companies that signed onto the plan about 80% of the world's total, would have to pay a small levy on every tonne of fuel they use under proposals aimed at developing zero-carbon vessels within 10 years, transforming the high-carbon global shipping business.

Future ships designed to run on hydrogen or ammonia as fuel are thought to be technically possible, but more research and development is needed to bring forward the development of prototypes.

The International Chamber of Shipping (ICS), that represents 80% of the global shipping industry, is proposing a \$2 levy on every tonne of fuel consumed by ships.

This would potentially raise \$500m a year and would be devoted to research and development of zero-carbon vessels.

"This is a very positive proposal," said Guy Platten, the secretary general of the ICS. "We need to get to zero carbon [for shipping] and this is a transparent mechanism for raising funds that we need to help us do that. We have worked for years on this with the support of our members."

Our maritime carriers here at TM Duché, including our biggest partner, Yang Ming Marine Transport Corp, are part of the Clean Cargo initiative.

The Future of Shipping

Even with all the initiatives of organisations such as The International Chamber of Shipping, the growing increase in demand for sea transportation is likely to offset this to some extent in the coming years. According to Wired.com, “Left unchecked, shipping-related emissions are on track to soar by as much as 250% by 2050 as global trade expands”. And although there is some over-supply of ships and the increase in size of the fleets there is a crossover period coming when new ships with improved engineering technology will begin to be built and although these newer ships should be more efficient, the timescales and investment in R&D will mean realistically pace of change proposed will take decades to improve.

United Nations International Maritime Organization (IMO), have adopted an initial strategy on the reduction of greenhouse gas emissions from ships, setting out a vision to reduce GHG emissions from international shipping and *phase them out, as soon as possible in this century*.

However, we see that the rise in the agenda of global warming and the increase in political pressure from groups like Extinction Rebellion means that every year the pressure to review improve and change transport infrastructure, to a more greener solution means that change will no doubt happen faster than many organisations realise.

Back in 1857 TM Duché used sailing clippers from the Far East to transport our goods to Europe, we imagine that by then end of this century there will be a return to wind propulsion for some sea transportation.

