

COMMISSION FOR AGRICULTURAL COSTS AND PRICES

Report on Price Policy for Copra for the 2003 Season

In this report the Commission presents its views on price policy for Copra for the 2003 season. The Commission recommends that:

- (i) the Minimum Support Prices (MSP) of milling and ball copra for the 2003 season, be fixed as follows:
(Rs per quintal)

Milling Copra : Rs 3320
Ball Copra : Rs 3570
(Para 20)
- (ii) the Government should ask NAFED to actively monitor the prices and to be in readiness to intervene in the market if the situation so demands. In case, the announcement of the MSP for copra for the 2003 season is delayed beyond December, 2002, for whatever reason, NAFED should be allowed/asked to arrange for support purchases, as per existing instruction, from the beginning of the marketing year i.e. January 2003, at the existing MSP; (Para 10)
- (iii) the Union Government should set a deadline by which the Governments in the main copra producing states would be required to create the necessary marketing and processing infrastructure within the cooperative sector. In the interim, private traders and other intermediaries including cooperatives may be allowed to sell copra to the procurement agencies subject to a system of verification of a minimum parity price of coconut, to be announced by NAFED, paid by them to the coconut growers. The Union Government should also announce that, after the deadline, procurement agencies would stop all dealings with the private traders and other intermediaries under the PSS; (Para 11)
- (iv) the Government should undertake multi-pronged policy initiatives not only to improve the yield for reduction in cost of production of coconut, but also to promote marketing of diversified coconut products in a cost effective, albeit competitive manner; and (Para 15)
- (v) the Coconut Development Board should give a fresh look at the four Mission components and articulate irrigation as a major input for coconut development, set aside a part of the Mission budget towards irrigation assistance as a grant to those states who may agree to match it by earmarking funds out of their respective budget allocations for irrigation, water management and watershed development program-mmes. Besides, there should be adequate research and extension efforts to control eriophyid mite and other diseases which have caused enormous economic loss to the coconut growers. The Government should also explore the feasibility of extending its crop insurance scheme to coconut cultivation for covering the risk of yield loss due to spread of diseases. Furthermore, there should be adequate compensation to farmers who replace their senile and unproductive palms. (Para 16)

2. The Commission submitted its report on price policy for Copra for the 2002 season on December 24, 2001 recommending inter alia that the Minimum Support Price (MSP) of milling copra as well as ball copra be not increased from their respective current level of Rs.3300 and Rs.3550 per quintal. In doing so, the Commission relied on its analysis of the copra situation in the past three years as well as the advice of the Coconut Development Board (CDB) and the National Agricultural Cooperative Marketing Federation of India

Ltd. (NAFED). After having noted that the large scale price support operations during the 2000 season could not influence the abnormally low market prices of copra/coconut and that price support operations had to be suspended, due to non-availability of funds with NAFED, in the main copra producing states during 2001 season, which continued to witness a sustained low prices situation, the Commission examined the trends in coconut oil prices and came to the conclusion that the market situation of copra/coconut was unlikely to improve significantly during the 2002 season. The Commission also noted that the Government, after having failed to intervene in the major markets during 2001, could not make definite arrangements to make available adequate funds to NAFED for resuming price support operations during 2002. This prompted the Commission to recommend a freeze on the existing MSP of copra, which, according to its calculations, happened to be sufficient to cover full cost of production. The Commission's recommendation was, however, accompanied by an exhortation to the Government for making adequate arrangements for full implementation of the MSP during 2002. (Table 1)

3. The Government announced the price policy for copra on July 17, 2002 fixing the MSP at the previous year's level, as recommended by the Commission. However, the announcement came so late that the peak marketing season was almost over. In any case, NAFED was not in a position to intervene in the market in the peak marketing season of 2002 due to non-availability of funds. As discussed in the preceding report of the Commission, the financial logjam NAFED found itself in during 2001 continued during 2002, with the SBI/RBI refusing to sanction a fresh Cash Credit Limit (CCL). In the meantime market prices of copra/coconut witnessed a gradual recovery following an uptrend in the prices of coconut oil. As a matter of fact, prices made a sharp turn-around in December 2001, without any state intervention. Though the prices of copra continued to remain below the MSP through much of 2002, the optimism and confidence in the market was such that only a few missed NAFED's absence from the market. Incidentally, it needs to be mentioned that NAFED's absence from the market during 2002, may have denied it an opportunity to recover part of the huge losses it incurred in the 2000-01 operations, since it appears that with its presence in a significant way market prices in the second half of 2002 could have surpassed MSP by a handsome margin. The moot point, however, is how long the market would sustain the current buoyancy in the prices of copra. An assessment of the behaviour of market prices of copra in the near future is important since a sustained buoyancy would mean that price support would not be necessary. In the contrary situation of the current buoyancy in the prices proving to be shortlived, the Government would have to be better prepared, since half-hearted price support operations tend to be ineffective or even counter-productive.

4. It appears that the turn-round in the prices of copra in December 2001 and the subsequent uptrend during 2002 has been a consequence of convergence of several factors, both on the supply and the demand side. One, prices of copra, which has been declining since the beginning of 2000, had bottomed out by the end of November 2001. This is evident from the movement of the index of wholesale prices (WPI) of copra as well as the month-end wholesale prices in the major markets. By the end of 2001, NAFED had also liquidated almost the entire stock it built up from its operations during 2000 and 2001. According to information furnished by NAFED, procurement of copra under price support scheme was a record at over 2.34 lakh tonnes, consisting of about 2.28 lakh tonnes of milling copra and about 6 thousand tonnes of ball copra. The entire quantity of milling copra - 1.13 lakh tonnes in copra form and 1.15 lakh tonnes in oil form, was sold by NAFED during 2000 itself at a huge loss of about Rs.1000 per quintal in a depressed market. Similarly, NAFED had disposed off about 13 thousand tonnes of copra out of its procurement of 15 thousand tonnes in 2001 at a substantially reduced loss of about Rs.550 per quintal. The losses would be magnified if the ex-godown cost is considered. With NAFED's stocks exhausted, there was no more a readily available cheap source of supply in the 2002 market. Two, supplies of coconut/copra during 2002 reportedly declined considerably due to drought. Apart from reduced supply, the cumulative effect of the eriophyid mite infestation has reduced the size of copra in the major producing states of Tamil Nadu, Kerala and Karnataka. Further, CDB has reported that sale of tender coconut in all the states and usage of coconut for manufacture of diversified products have increased significantly. All these factors have combined to effect a significant decline in supply of copra. Three, according to some observers, resumption of futures trading in coconut oil in October, 2001 under the auspices of First Commodities Exchange of India Ltd., Kochi, after a gap of three decades, has brought about a see-change in the coconut industry and trade. Copra crushing industry which suffered a setback in the past decade, with many units on the verge of closure, had started reviving. As a result, competitive demand for copra had received a boost. This had helped push up prices of

coconut oil and copra which were ruling at very low levels prior to the commencement of trading to the presently respectable levels, without any government intervention. Subsequently, resumption of futures trading in copra beginning June, 2002 had further strengthened the market, since millers were able to trade in copra/coconut oil in advance with proper risk management. The growers were also able to plan well in advance the quantity and the rate at which coconut/copra to be sold by watching the future quotations, instead of the panic sales they were forced to resort to earlier. Four, an un-anticipated uptrend in the prices of coconut oil helped push up the prices of copra.

(Tables 2 and 9)

5. Of the four factors mentioned above, the most influential and decisive one in driving up the prices of copra appears to be the uptrend in the prices of coconut oil. As is well known, there is a direct and often one-to-one relationship between the prices of coconut oil and those of copra, particularly milling copra. The average WPI of coconut oil fell by over 24 per cent during 2000, followed by a further fall of 12 per cent in 2001. In tandem with the fall in prices of coconut oil, the prices of copra also fell. In fact, the decline in prices of copra was sharper by about 27 percent in 2000 and over 18 percent in 2001. The WPI of coconut oil, which staged a sharp turn-around in December 2001, registered an average increase of about 12 percent during 2002 (January-October). In response, the WPI of copra accelerated faster by over 32 percent in the corresponding period of 2002. In absolute terms, the month-end wholesale prices of coconut oil, which ruled in the range of Rs.2800-3250 per quintal during January-October 2001 in Alappuzha and in the range of Rs.2900/3400 in Kozhikode, spurted to Rs.3400/3750 and Rs.3650/4160 in November/December 2001 respectively in the above named markets. With some initial hesitancy the prices of coconut oil gradually moved up during 2002 and the average quotation in October 2002 was Rs.4600 per quintal in Alappuzha and Rs. 4800 in Kozhikode. In tandem with the movement of prices of coconut oil, the prices of copra, which ruled in the range of Rs.1950-2300 per quintal in Alapuzha and Rs.1800-2200 in Kozhikode in January-October, 2001, spurted to about Rs.2600/2700 in November/December 2001, and gradually moved up to about Rs.3200 per quintal in October, 2002.

(Tables 3, 4 and 10)

6. In view of an almost axiomatic relationship between prices of coconut oil and copra, it may be interesting to explore the underlying reasons behind the behaviour of the former during the past three years, within a demand-supply framework. According to industry estimates, domestic production of coconut oil has in recent years varied in the range of 4 to 4.5 lakh tonnes. The estimates of CDB is similar, but within a narrower range of 4.4 to 4.5 lakh tonnes. Official statistics (DGCIS) show that net import of coconut oil, despite very low international prices as compared to domestic prices, has been insignificant in volume terms in recent years. Apart from high tariff of 85 percent, coconut oil continues to remain a canalized item since it can be imported only through an authorized state trading organization such as State Trading Corporation or Hindustan Vegetable Oil Corporation. This had obviously discouraged large scale import. Although showing an increasing trend, recent net import levels of about 9 thousand tonnes in 2000-01 and 24 thousand tonnes in 2001-02 have not really materially affected the supply situation of coconut oil in the country. On the demand side, however, the situation appears to be subject to large variations due essentially to relative-price induced substitutability of coconut oil by other oils, particularly in the non-household sector. According to CDB, the industrial demand for coconut oil has considerably shifted to other vegetable oils especially palm kernel oil in such sectors as paints, soaps and detergents. CDB has also reported that large scale shifting of demand away from coconut oil and towards RBD palmolein has taken place in sectors like bakeries, banana chips units, hotels/restaurants, hostels and canteens where large quantities of edible oils are consumed. As for direct household consumption, CDB has stated that demand for coconut oil as a cooking medium is on the increasing trend. Indeed, NSS data (Report No.461: Consumption of some Important commodities in India, 1999-00) on all-India per capita consumption of coconut oil per 30 days over three quinquennial rounds, namely, 43rd round (1987-88), 50th round (1993-94) and 55th round (1999-00) show that this has remained constant over the years in rural areas and has actually registered an increase in the urban areas in the 55th round. Since household consumption of coconut oil is confined to Kerala or Keralites elsewhere, it could be safely assumed that the all-India data reported above refers to Kerala alone. Being confined to Kerala means that the consumption base of coconut oil is extremely narrow and its annual growth rate is less than 1 percent, being the recent growth rate of population in Kerala. Such a low rate of growth of household demand for coconut oil in Kerala often fails to compensate for sudden large scale shift in demand from non-household sectors. It is generally believed that such shifts in demand are not permanent and are reversible depending on the movement of relative prices of substitute oils.

7. As mentioned above, palm oil and palm kernel oil are the two primary substitutes of domestic coconut oil. The former competes with coconut oil in the edible oils segment and the latter in the non-edible oils segments of the consumption base. As a matter of fact, palm oil is a major competitor of all other edible oils. Being of foreign origin, domestic prices of palm oil and palm kernel oil depend heavily on the prevailing world prices, which along with the applied tariff rates determine the volume of imports. Although subject to wide fluctuation, palm oil prices are globally cheaper than other major edible oils. As a consequence, palm oil not only dominates the Indian import scene, but also tends to transmit the price signals to the domestic edible oils/oilseeds prices. Although the behaviour of world prices of palm kernel oil is similar to that of palm oil, its influence on the domestic market is rather insignificant due to limited demand and consequently low volume of imports. In order to evaluate how world prices of palm oil and palm kernel oil have influenced the domestic prices of coconut oil in the past few years, summary data on these and other related parameters are presented in a table annexed to this report. (Annexure I)

8. A few inferences can be drawn from the summary data. One, higher tariff rates did not deter large scale imports of edible oils, including palm oil over the last 3 years. However, there has been a radical compositional change in favour of crude palm oil following the upward revision of tariff rates beginning 2000. Two, substantially lower world prices of both RBD palm oil and crude palm oil had meant that these were available at very low prices in the domestic market during 2000 and 2001. It would not be unreasonable to surmise that this had lured consumers, particularly in the non-household sector, away from coconut oil, forcing domestic prices of coconut oil to go down to unprecedented low levels during 2000 and 2001. The data also show that, with the world prices staging a turn around, followed by a rally, palm oil had become substantially costlier during 2002 as compared to the preceding two years. By all accounts, this had resulted in a reverse movement of demand towards coconut oil. As a consequence, prices of domestic coconut oil witnessed a sharp turn around beginning 2002, followed by a sustained rising trend all through the year. Three, the import volume of palm kernel oil appears to be unaffected by both the tariff rates and the levels of world prices. This indicates that palm kernel oil has a niche market, but a small one, which does not allow it to exercise any significant influence on either the demand for or the price of domestic coconut oil.

9. A reasonable conclusion that can be drawn from the foregoing discussion is that the domestic prices of coconut oil, and consequently of copra, especially of milling copra, in the past few years were mainly driven by the violently fluctuating world prices of palm oil. Currently, world prices of all major edible oils, namely, palm oil, sunflower oil, soyabean oil and rapeseed oil are experiencing a bull run. In sympathy, domestic prices of all edible oils, including coconut oil, are ruling at very high levels. For example, the composite WPI of edible oils, on a point-to-point basis was higher by 22.6 percent in October, 2002. On the same basis, mustard oil, groundnut oil, soyabean oil, sunflower oil, sesamum oil and coconut oil was higher by 19.1, 21.9, 50.1, 14.7, 18.8 and 22.9 percent respectively. Although it is difficult to forecast with any degree of accuracy as to how long the bull run would continue, there are reasons to believe that the current buoyancy in the world edible oil prices would be sustained over next 12 months. There are several reasons for this prognosis. First, according to USDA estimates, after successive annual increases in recent years, global output of major oilseeds is expected to decline by about 2 million tonnes during 2002-03. Lower soyabean crop in the USA, reduced rapeseed crop in Canada and setback to kharif oilseed crop and an anticipated setback to rabi crop in India have all combined to effect a significant decline in world oilseeds output, despite record output of soyabean crop in both Brazil and Argentina during 2002-03. Apart from overall decline in output, decline in production of high oil content oilseed, namely, rapeseed in Canada and India will contribute to tightening of global supply of edible oils, keeping global prices buoyant during 2002-03. Second, palm oil production growth in Malaysia during 2002-03 is expected to be negative as compared to a robust growth in the past. Third, drought-induced setback to kharif oilseeds crop and an anticipated reduction in rabi oilseeds, mainly, rapeseed/ mustard, has already impacted the domestic market prices. Shortages of domestic supply has come at a time when the world prices are high and the imports in the current oil year so far (November 2001 to September 2002) has registered a significant decline by about 5 lakh tonnes. The outlook, therefore, is a sustained buoyancy in the edible oils prices in the next 12 months. For coconut oil, the prognosis is that prices would ride on the overall buoyancy in both the world prices and domestic prices of edible oils in general. Since coconut oil is a derived product of milling copra, the prices of the latter are also expected to remain buoyant. As for ball copra, the prices normally enjoy a

large premium over those of milling copra, and therefore, the buoyancy in the prices of latter is expected to be transmitted to those of the former.

10. According to latest data supplied by CDB, price of milling copra in several markets of Kerala has already (November 10, 2002) crossed Rs.3500 per quintal, substantially higher than the current MSP of Rs.3300 per quintal. Similarly, CDB has reported that price of coconut oil in Kochi market has crossed Rs.5200 per quintal. However, it needs to be noted that these are lean season prices and are likely to witness some declines in the first few months of the 2003 season beginning January. Based on the earlier assessment that prices would remain buoyant during 2003 and that the current prices relate to the lean season, it may be reasonable to assume that the open market prices of coconut oil during 2003 are likely to soften around an average of Rs.5000 per quintal. At an optimistic conversion norm of copra into coconut oil (64 percent oil recovery and 32 percent meal recovery), using conservative estimates of processing and related charges, taking credit for value of cake at current prices and allowing for 5 percent wholesaler's margin, the parity price for milling copra during 2003 can at best be about Rs.3000 per quintal, compared to the current MSP of Rs.3300 per quintal. For the open market price of milling copra to rule at the current MSP of Rs.3300 per quintal, which would ensure that no price support operation is required, the market price of coconut oil will have to rule around an average of Rs.5400 per quintal on a sustained basis. This is unlikely to be the case, particularly in the first half of 2003 season, implying that substantial price support would be required in the peak arrival months for defending the MSP of milling copra even at the current level. As for ball copra, prices are currently ruling in the range of Rs.3700-4000 per quintal, substantially above the current MSP of Rs.3550 per quintal. Given the strong bullish sentiment in the market, it is unlikely that prices of ball copra would fall below the current MSP during 2003. Nevertheless, there is a need for vigilance on this front since price spikes in milling copra tend to be transmitted to ball copra too. In view of the likelihood of the prices of milling copra falling below the MSP in the peak season and the possibility of ball copra experiencing occasional price spikes during 2003, the Commission recommends that the Government should ask NAFED to actively monitor the prices and to be in readiness to intervene in the market if the situation so demands. In case, the announcement of the MSP for copra for the 2003 season is delayed beyond December, 2002, for whatever reason, NAFED should be allowed/asked to arrange for support purchases, as per existing instruction, from the beginning of the marketing year i.e. January 2003, at the existing MSP.

11. In all its recent reports, the Commission has repeatedly emphasized that the underlying objective of price support operation on copra is to ensure a fair price to the coconut growers for their produce i.e. coconut. However, comparative data on prices provide ample evidence that MSP operation on copra does not translate into a corresponding parity price for coconut. For example, in the 2000 season, NAFED had conducted large scale price support operations on milling copra at the then MSP of Rs.3250 per quintal, and in the process incurred heavy losses. Assuming that the net cost of conversion of coconut into milling copra was about Rs.250 to Rs.300 per quintal, the parity price for coconut comes to over Rs.4000 per thousand nuts. However, most of the coconut growers received prices in the range of Rs.2800-3000 per thousand nuts during the greater part of the season. Similar was the situation in 2001 season, when procurement was suspended in the major copra growing states. The main reason is that coconut growers, with few exceptions, do not themselves produce copra, particularly the milling variety. Inability of the price support scheme (PSS) for copra to reach benefits of MSP to coconut growers has also been highlighted in the report of the High Powered Committee (HPC) set up in January, 2001 to review procurement of copra under PSS by NAFED, its disposal and other related issues. The HPC has noted that the process of making copra out of green coconut involves a time consuming process of de-husking, cutting and drying etc., apart from sizable investment, which can not be undertaken by most of the farmers. The processing of green coconut is done by private traders mainly and also by a few cooperative societies. In the circumstances, the benefit of MSP is monopolised by the private traders and other intermediaries who play a significant role in supplying copra under PSS. In order to ensure that the coconut growers get their due share of the MSP, the HPC had underlined the need for strengthening and equipping genuine cooperative societies which could provide an effective link in the procurement chain. After mentioning that cooperative societies would have to be helped for acquiring necessary infrastructure, working capital etc. the HPC had recommended that procurement of copra under PSS may be restricted to the cooperative societies and a system of verification of purchases made by cooperatives from farmers on random basis may be introduced to minimize the possibilities of private traders being benefited by PSS operation. The views expressed and recommendations made by the

HPC are similar to those expressed by the Commission in its earlier reports. Unfortunately, very little progress in strengthening marketing and processing infrastructure within the cooperative sector has been made in any of the copra procurement states. Under the circumstances, it may be counter productive to restrict procurement of copra to the cooperative societies, having processing facilities, alone. The Commission, therefore, recommends that the Union Government should set a deadline by which the Governments in the main copra producing states would be required to create the necessary marketing and processing infrastructure within the cooperative sector. In the interim, private traders and other intermediaries including cooperatives may be allowed to sell copra to the procurement agencies subject to a system of verification of a minimum parity price of coconut, to be announced by NAFED, paid by them to the coconut growers. The Union Government should also announce that, after the deadline, procurement agencies would stop all dealings with the private traders and other intermediaries under the PSS. (Tables 5 and 6)

12. Although the recommendation above, if implemented, should go a long way in ensuring that the benefit of MSP to copra reaches the coconut grower, this by no way is a remedy for long spells of depressed market sentiment of copra/coconut oil such as those experienced in 2000 and 2001 season. Periodical recurrence of such sentiments is likely to be more frequent in future since the country's oil prices, including the prices of coconut oil which is substitutable, are now globalised and global prices are historically volatile. As experienced in 2000 and 2001 season, the immediate fall out of a depressed market price situation is that price support operations become ineffective on the one hand due to a large gap between the MSP and the market prices and unsustainable on the other because of heavy losses involved in large scale procurement. This creates an atmosphere of disaffection on the part of farmers, who tend to neglect yield-raising farming practices, and a sense of despair on the part of the governments in the states and the Center, who find that scarce resources, which could be spent on coconut related developmental activities, get frittered away in ineffective price support operations.

13. In view of the above, there is an urgent need to think about ways to insulate the coconut economy of the country, largely concentrated in the Southern states and the Islands of the country, from the baneful influences of the violently fluctuating world prices of edible oils. It should be noted that world prices of edible oils do not have any influence on the coconut economy of the rest of the states where coconut is not used for production of copra. Therefore, an obvious way to delink the coconut economy of the Southern States from the world prices of edible oils is to bring about a drastic reduction in the supply of copra/coconut oil. This is perhaps the only way to stabilize the prices of coconut, which is extremely important for survival and growth of the coconut economy, since livelihood of millions of people, particularly in Kerala, is inextricably linked with it. Apart from livelihood, coconut plantations, which provide perennial green cover over large tracts of landmass and protect soil from run-offs in the plains and hilly tracts and from sea erosion in the coastal belts, are an irreplaceable source of environmental benefits. There are also strong cultural and aesthetic reasons for maintaining and promoting coconut cultivation.

14. Reduction in the supply of copra/coconut oil for stabilizing their prices would not, however, be an easy task since this implies diversion of a significant proportion of green coconut presently being utilized for production of copra for other uses. The enormity of the task is underlined by the fact that currently the country produces about 4.5 lakh tonnes of coconut oil, equivalent to about 6.9 lakh tonnes of milling copra, of which Tamil Nadu and Kerala together accounts for over 90 percent. Thus the problem of over production is concentrated in these two states. Based on NSS 55th round (1999-00) data, the Commission's estimates of annual direct household consumption of coconut oil is about 1.6 lakh tonnes only. The remaining 2.9 lakh tonnes are presently used annually for other purposes, namely, non-household consumption, hair oil/cosmetics preparation and assorted industrial consumption. This is the quantity of coconut oil whose demand fluctuates depending on the relative prices of alternative oils. Assuming that roughly half of the surplus over household consumption, say, 1.5 lakh tonnes needs to be withdrawn from the market to bring about a balance between the demand and supply of coconut oil, the task boils down to reduction in the production of milling copra to the extent of 2.3 lakh tonnes. In terms of green coconuts, this comes to about 1.6 billion nuts, which needs to be diverted for direct sale as tender coconut as well as for production of diversified coconut products such as desiccated coconut, coconut milk, coconut milk powder, coconut jam and cream, bottled tender coconut water etc. In the short-run, this appears an uphill task since currently

utilization of green coconuts for manufacture of diversified products falls far short of 50 million mark. Under the circumstance, as discussed in the Commission's preceding report, there is a need for concerted efforts for creating conditions for the promotion of demand for and expanded production of diversified products. In this regard, the Commission reiterates its considered view that it is essential to persuade the big players in the fast moving consumer goods (FMCG) sector to enter the coconut complex in a big way. It is this sector only which is capable of bringing in sizable investment, technology and marketing expertise to the coconut sector.

15. One of the pre-conditions for attracting large scale investment in the coconut sector is to assure the investors that manufacture of diversified products would yield reasonable profit. There are apprehensions in this regard on two counts. First, the experience of the existing small scale units in the sector has not been favourable; the general complaint has been that the price of green coconuts, whether tender or matured, is too high which makes the products too costly and unattractive to the consumers. An oft-quoted example is the cost/price of bottled tender-coconut water which can not compete with the popular soft drinks like Pepsi or Coca Cola. However, coconut water is a natural health drink and much superior to carbonated soft drinks, for which there is need for lot of awareness campaign and publicity. Similar is the case with other products such as coconut powder/milk/cream etc. which can not compete with alternatives because of high cost/price. Unless cost reducing technologies are available and adopted, diversification would not take place. Second, entrepreneurs are unsure of regular supply of sizable quantity of green coconuts on daily basis. The Commission recommends that the Government should undertake multi-pronged policy initiatives not only to improve the yield for reduction in cost of production of coconut, but also to promote marketing of diversified coconut products in a cost effective, albeit competitive manner.

16. As far as high cost of coconut is concerned, the required policy initiative is fairly straight forward, namely, adoption of measures to raise the yield of coconut. Although this is relevant for all coconut growing states, priority needs to be given to the problem- states where either yield of coconut is low or dependence on copra is high or both. On this basis the problem states are Kerala, Karnataka and Tamil Nadu. These are the three states where enlargement of demand for coconut through a process of product diversification is more urgent. Lured by high MSP, Andhra Pradesh has also lately entered the copra scene and the production of copra in that state is on the increasing trend. If this trend is not curbed by extreme moderation in fixing MSP of copra, Andhra Pradesh also would soon join the club of problem- states. However, Andhra Pradesh has a fairly high yield of coconut and consequently cost per nut is fairly low. In the case of Tamil Nadu, although a major copra dependent state, the yield of coconut is fairly high and cost per nut is low. In the case of Karnataka, copra is not a source of serious problem since it produces ball copra, which is rarely used for deriving oil and the product has a fairly good demand across the country. However, Karnataka's yield rate is very low and that makes the cost per nut so high that product diversification becomes unviable. The most problematic state is, of course, Kerala which is not only dependent on milling copra but also has the highest cost per nut. Kerala's problem is deep-rooted and serious since its economy is heavily dependent on coconut. Kerala accounts for over 52 percent of the area under coconut and over 43 percent of production in the country; coconut accounts for over 40 percent of its own net cultivated area. This implies that, unlike other states, a large section of Kerala's population particularly the poorer section, is dependent on coconut cultivation for livelihood. Therefore, cost-plus price per nut is very important. Unfortunately, prices of coconut are inextricably linked with the prices of milling copra/coconut oil which are subject to vagaries of world prices of edible oils. This is essentially the reason why Kerala's dependence on copra/coconut oil needs to be reduced drastically through diversification of usage of coconut kernel/water. As explained earlier, diversification is not possible if cost per nut remains high due to low yield. Kerala, which has the longest history of coconut culture, unfortunately, has a variety of state-specific reasons for its low yield of less than 6000 per hectare. Apart from a sizable percentage of senile and unproductive palms, extensive incidence of chronic diseases like root-wilt and associated leaf-rot, further aggravated by the exotic wind-borne pest, the eriophyid mite, have severely reduced the yield of coconut in the state. Apart from diseases, which are also prevalent in various degrees in other coconut growing states, the most debilitating reason for extremely low yield in Kerala is that about 90 percent of the crop is grown under rainfed conditions. It has been proved that coconut responds well to irrigation coupled with application of fertilizers/nutrients. This sure-shot source of productivity enhancement, however, could not be exploited in Kerala because of scattered and fragmented holdings by the resource poor small and marginal farmers. A community irrigation system funded by the Government is, therefore, needed. What is true about Kerala is also to a degree true about other states,

particularly, Karnataka. In this context, the Commission in its 2001 report on copra had made a specific recommendation to the effect that resources of Coconut Development Board be suitably augmented to fund an irrigation assistance component as a grant which may finance community irrigation schemes for coconuts in the states on matching contribution from the concerned State Governments. Unhappily, nothing seems to have been done in this regard. The Commission also notes with concern that the Technology Mission on Coconut has also failed to explicitly mention irrigation as a component for coconut development, although it talks about establishment of convergence and synergy among numerous ongoing governmental programmes in the field of coconut development in order to bring in horizontal and vertical integration of these programmes. The Commission's apprehension is that neglect of the irrigation component may undermine or even undo all the good work that is being done by various research Institutes, particularly the Central Plantation Crops Research Institute (CPCRI), in the areas of crop protection, crop improvement, coconut-based mixed farming, post-harvest technology and various activities for promotion and development of the coconut economy. Since lack of irrigation is a major constraint in enhancing yield of coconut, particularly in Kerala and Karnataka, the Commission recommends that the Coconut Development Board should give a fresh look at the four Mission components and articulate irrigation as a major input for coconut development, set aside a part of the Mission budget towards irrigation assistance as a grant to those states who may agree to match it by earmarking funds out of their respective budget allocations for irrigation, water management and watershed development programmes. Besides, there should be adequate research and extension efforts to control eriophyid mite and other diseases which have caused enormous economic loss to the coconut growers. The Government should also explore the feasibility of extending its crop insurance scheme to coconut cultivation for covering the risk of yield loss due to spread of diseases. Furthermore, there should be adequate compensation to farmers who replace their senile and unproductive palms. (Table 11)

17. As far as the apprehension regarding sourcing of sizable number of green coconuts on daily basis is concerned, the problem could be easily resolved if the Governments in the concerned states act on the earlier recommendation of the Commission regarding strengthening of marketing infrastructure within the cooperative sector. It should be possible for the cooperatives, who are already in the business of coconut/copra, to set up extensive net work of purchase centers for collection of green coconuts directly from the growers and feed the requirements of manufacturers of diversified products. To facilitate transactions between farmers and cooperatives on the one hand and the cooperatives and the manufacturers of products on the other at fair prices, model contracts would have to be worked out under the auspices of the state administration.

18. Having outlined a road map for transition of the coconut economy in the Southern states from copra to diversified coconut products, the Commission has a duty to recommend MSP of copra for the 2003 season primarily on the basis of current cost of production of coconut. Unfortunately, no official data on cost of production of coconut exist. The Comprehensive Scheme for Studying the Cost of Production of Principal Crops in India has once again failed to generate data pertaining to coconut. The Commission, therefore, has to rely, as in the past, on the estimates provided by the State Governments and the Coconut Development Board (CDB). This year, the Commission has received estimates of cost of production from CDB and the Governments of Kerala, Karnataka, Tamil Nadu and A & N Islands. Based on the data received, the Commission has calculated cost per nut for different states by adding the annual amortized cost, derived from a cost recovery formula, with the annual maintenance cost and dividing the total cost with the yield indicated. In the case of Kerala, the yield taken is the model yield since the cost data of that state are based on norms and not on actual usage of inputs. Details are given in Annexure II of this report. According to these calculations, cost per nut varies from as low as Rs 1 per nut in A & N Islands to as high as 3.75 in Kerala. It appears that estimate of A & N Islands is an under-estimate due to data deficiencies. On the other hand, Kerala's estimate is high due to longer gestation period assumed. In fact, Kerala Government's own estimate is over Rs 6 per nut, based on a low yield of less than 6000 per nut. Similarly, the Karnataka Government's own estimate at Rs 4.6 per nut is high due to undue escalation of establishment cost by a factor of 1.5. The Commission believes that CDB's estimate at about Rs 3 per nut reflects the ground situation accurately. It need to be mentioned that CDB's estimate is based on a recent survey conducted in seven major coconut growing districts of Kerala. Since conditions in Karnataka are similar to those in Kerala, CDB's estimate also appear to reflect the ground situation in Karnataka well. Cost per nut in Tamil Nadu is decisively lower than both Karnataka and Kerala due to substantially higher productivity in that state. Similar would be the case in Andhra Pradesh where conditions are similar to Tamil Nadu.

19. Based on an estimated cost of Rs 3 per nut and assuming net conversion cost of Rs 300 per quintal for an estimated 700 nuts needed for one quintal of copra, cost of production of milling copra comes to Rs 2400 per quintal. It needs to be noted that hitherto 685 nuts were enough to produce one quintal of copra. However, following CDB's assessment that size of nuts has become smaller due to eriophyid mite infestation and more nuts are required for making one quintal of copra, the Commission has enhanced the quantity to 700 nuts in its calculation. Thus the cost of production of copra is substantially lower than the current MSP of Rs 3300 per quintal. Allowing for a substantial margin of profit over cost, if the price of coconut is considered at Rs 4 per nut, the cost of production of milling copra comes to only Rs 3100 per quintal. However, in their submission to the Commission, Kerala, Andhra Pradesh and Lakshadweep have demanded an increase in the MPS of copra for the 2003 season to Rs 4600, Rs 4100 and Rs 4000 respectively. Tamil Nadu, apparently satisfied with the current MSP, has not suggested any hike. Karnataka has demanded an increase in the MSP of ball copra from the current Rs 3550 to Rs 4550 per quintal. A & N Islands has indicated that they are happy with the current MSP of both milling and ball copra. However, in view of suffering of coconut growers due to widespread eriophyid mite and other diseases, drought situation prevailing in coconut growing regions, affecting the yields, and the current buoyancy in the market prices of both coconut oil and copra, the Commission is of the opinion that the MSP of copra could be marginally increased.

20. Based on the discussion above the Commission recommends that the Minimum Support Prices (MSP) of milling and ball copra for the 2003 season, be fixed as follows:

(Rs per quintal)

Milling Copra : Rs 3320

Ball Copra : Rs 3570

Sd/-

(T. HAQUE)

Sd/-

(RAMADHAR)* (M. RAGHUPATHY)

Sd/-

(S.K. ROY)

December 5, 2002

*** : On leave**

(T. HAQUE)

(RAMADHAR)*

(M. RAGHUPATHY)

(S.K. ROY)

December 5, 2002

• : On leave