

COMMISSION FOR AGRICULTURAL COSTS AND PRICES

Report on Price Policy for Copra for the 2004 Season

In this report the Commission presents its views on price policy for Copra for the 2004 season. The Commission recommends that :

- (i) the Minimum Support Prices (MSP) of milling and ball copra for the 2004 season, be fixed as follows:

	(Rs per quintal)
Milling Copra	: Rs. 3500
Ball Copra	: Rs. 3750

(Para 19)

- (ii) in view of the losses being suffered by the farmers due to the vagaries of weather and pests & diseases, coconut plantations should be covered under National Agricultural Insurance Scheme (NAIS). Unless there is risk coverage, the livelihood security of millions of farmers will be affected adversely; (Para 6)
- (iii) a massive and concerted programme be launched involving research and extension backed by suitable subsidy schemes so that the spread of diseases and pests is controlled and regeneration initiatives are started. The Integrated Coconut Development Scheme (ICDS) also needs to be reviewed and expanded so as to cover the rehabilitation and replanting of coconut trees in the states of Kerala, Karnataka, Tamil Nadu and Andhra Pradesh. The review should include participation by farmers so that the programme can be revamped to benefit them; (Para 6)
- (iv) in view of the high investment cost and the need to give relief to the small and marginal farmers, subsidy pattern of drip and sprinkle irrigation should be reviewed and revised upwards; (Para 7)
- (v) the Government should devise an innovative mechanism to address location specific problems and strengthen the price support and procurement mechanism keeping in view the special situation of Andaman and Nicobar Islands and other similar areas; (Para 8)

- (vi) Government should ask NAFED to monitor prices and be ready to intervene in the market if the situation so demands. In case MSP for copra for the 2004 season is delayed beyond December 2003, NAFED should be asked to be ready and continue with support purchases as per existing instructions from the beginning of the marketing year i.e. January 2004 at the existing MSP; (Para 9)
- (vii) 50 per cent subsidy may be given to cooperatives for installation of driers in mainland states and 100 per cent to those in Union Territories of Andaman and Nicobar Islands and Lakshadweep; (Para 9)
- (viii) the NAFED should explore the possibility of entering into arrangements with private parties for the storage of copra and other oilseeds similar to the seven year guarantee scheme of FCI for construction of modern warehouses for the storage of copra and other oilseeds; (Para 10)
- (ix) the Central Government should raise import duty on edible oils which makes the import of large quantity of edible oils into the country uneconomical to protect domestic farmers and industry;(Para 11)
- (x) Government should explore ways of encouraging contract farming of coconut which will provide assured market to the farmers and regular supply of raw material for the industry. Already CDB (Coconut Development Board) is promoting the marketing of diversified coconut products made by industry; (Para 14)
- (xi) CDB and state governments explore domestic as well as export avenues for marketing coconut and its derived products in a cost effective manner; and (Para 14)
- (xii) the Comprehensive Scheme (CS) on cost of cultivation be expanded to cover study of cost of cultivation of coconut and a provision be made for covering on farm processing of coconut into copra. (Para 18)

2. Coconut is an important horticulture crop in India, grown across the states/Union territories of Kerala, Tamil Nadu, Karnataka, Andhra Pradesh Goa, Maharashtra, Gujarat, West Bengal, Orissa, Tripura, and Islands of the Andaman and Nicobar and Lakshadweep. It supports the livelihood of millions of small and marginal farmers. It is interwoven in to our national heritage. Being a versatile crop, coconut has religious and social values and has impacted on the cultural life of the people. Most of the religious rituals and social functions require coconut. It is also a nutritional food, health drink and source

of raw material for a number of industries. In Kerala coconut provides livelihood to as many as 3.5 million families and the entire farming community of Andaman and Nicobar and Lakshadweep Islands depends on it.

3. The area under coconut cultivation in 2001-02 was 18.92 lakh hectares and production was estimated at 12821.7 million nuts. Kerala alone accounts for 50 per cent of area and 44 per cent of production. Over a long period, there has been continuous expansion in area under coconut cultivation. During the period 1981-82 to 1991-92, the acreage grew at a rate of 3.57 per cent per annum followed by an increase at a rate of 2.03 per cent per annum during 1991-92 to 2001-02. The eighties witnessed high area expansion in the traditional states of Kerala, Tamil Nadu and Karnataka. The nineties have seen area expansion in the states of Andhra Pradesh and Tamil Nadu at over 4 per cent per annum. The early years of the new millennium have reportedly witnessed rapid large scale area expansion along the western coast in the states of Maharashtra and Gujarat also. (Table 11)

4. Coconut production in the country at 12822 million nuts in 2001-02 was lower than the peak production of 14925 million nuts achieved in 1998-1999. Production grew at 1.77 per cent per annum during the period 1991-92 to 2001-02 alongside an increase in area of 2.03 per cent per annum. Unfortunately, the yields of copra are falling. Even though the official data for the years 2002-2003 and 2003-04 are not yet available, the Commission's interaction with state Government officials and farmers revealed that there has been a significant decline in the production due to Eriophyid mite disease as well as drought. The states of Andhra Pradesh, Karnataka, Maharashtra and West Bengal have all seen lower growth in production than in area during the nineties. However, the recent area shifts indicate that production is likely to increase in non-traditional as well as in new states in the coming years since coconut starts yielding fruits after a gap of 5-6 years. The new plantations can be expected to yield more nuts as they would be planted with new varieties. Besides, new plantations will have the advantage of a younger age profile.

5. A distressing factor on the productivity front has been deceleration of yields at the rate of 0.25 per cent per annum in the nineties at the aggregate level. During the period 1991-92 to 2001-02, the yields in Andhra Pradesh fell by 3.28 per cent per annum, Karnataka by 0.98 per cent and Tamil Nadu by 2.63 per cent per annum, while the yields in Kerala improved slightly by 1 per cent per annum. The experience of yields in Kerala at 6114 nuts per hectare is no cause for comfort, the largest coconut producing state occupies only the 9th place in terms of yield in the country. It is one third of the yield of 19667 nuts per hectare (nph) recorded in Lakshadweep which is placed in a similar agro climatic condition. (Table 11)

6. Adverse age structure of the coconut plantations in Kerala has led to a sizable percentage of senile and unproductive trees in each holding. According to state government estimates, around 2 per cent of trees have become senile and unproductive. They need to be replaced urgently. The incidence of debilitating diseases like root wilt and leaf rot have also taken their toll as upto 40 per cent of the trees in five southern districts have been affected . Root wilt diseases bring down productivity to 25 nuts per tree. The eriophyid mite has also spread to 20 million trees. In Kerala, under ICDS during the two years of 1997-98 and 1998-99, 4 lakh trees were cut. However in subsequent years, the numbers have come down to 1.25 lakh in 2001-02. Similarly the numbers treated with plant protection measures have declined from 4.39 lakh plants in 1997-98 to 2.77 lakh trees in 1999-2000. The mite infestation results in shrinkage of the coconut and leads to higher requirement from about 5000 nuts to 7000 nuts to make a ton of copra. The dehusking process become more laborious and there is deterioration in the quality of coir fibre. The Commission recommends that in view of the losses being suffered by the farmers due to the vagaries of weather and pests & diseases, coconut plantations should be covered under National Agricultural Insurance Scheme (NAIS). Unless there is risk coverage, the livelihood security of millions of farmers will be affected adversely. The Commission has noted with concern that the research and extension efforts have not been able to cope with the magnitude and extent of the problems faced by the coconut cultivators. They have fallen short of expectations. Further, the Commission recommends that a massive and concerted programme be launched involving research and extension backed by suitable subsidy schemes so that the spread of diseases and pests is controlled and regeneration initiatives are started. The Integrated Coconut Development Scheme (ICDS) also needs to be reviewed and expanded so as to cover the rehabilitation and replanting of coconut trees in the states of Kerala, Karnataka, Tamil Nadu and Andhra Pradesh. The review should include participation by farmers so that the programme can be revamped to benefit them.

7. About 90 per cent of the coconut is grown under rainfed condition in the country. Many of these areas get sufficient rainfall for coconut plantations on yearly basis. However the trees face water stress during the dry season and hot summer months. During these months, they need supplementary irrigation. The Commission recommends that in view of the high investment cost and the need to give relief to the small and marginal farmers, subsidy pattern of drip and sprinkle irrigation should be reviewed and revised upwards.

8. The Andaman and Nicobar Islands also face considerable problems in effective price support. Most of the procuring agencies are facing delayed payments from NAFED. The quality of copra produced by the island is not considered FAQ because of the traditional system of drying by tribal farmers. There is no regulated market in Andaman and Nicobar Island. The farmers cannot benefit from government schemes because of the community ownership of land. The Commission recommends that

the Government should devise an innovative mechanism to address location specific problems and strengthen the price support and procurement mechanism keeping in view the special situation of Andaman and Nicobar Islands and other similar areas.

9. Since the main objective of minimum support price is to support farmers, ideally the Government should have been recommending the support price of coconut and not copra. The Commission submitted its report on price policy for copra for the 2003 season on December 31, 2003 recommending inter alia that the Minimum Support Price (MSP) of milling copra as well as ball copra be fixed at Rs.3320 and Rs.3570 per quintal respectively. The Government accepted the Commission's recommendation and fixed MSP for milling copra at Rs.3320 and ball copra at Rs.3570 per quintal for 2003-04 marketing season. The MSP was announced on May 12, 2003 much after the marketing had begun. The Commission recommends that Government should ask NAFED to monitor prices and be ready to intervene timely in the market if the situation so demands. In case MSP for copra for the 2004 season is delayed beyond December 2003, NAFED should be asked to be ready and continue with support purchases as per existing instructions from the beginning of the marketing year i.e. January 2004 at the existing MSP. The Commission in previous reports has drawn the attention of the Government to this fact. Two years ago in the report for 2002 season, the Commission recommended that the Government may consider the possibility of effecting direct purchase of green coconut from farmers as also its processing into copra by cooperative agencies and farmers' organisations through an appropriate system of incentives and infrastructural support. While the Government has continued with MSP for copra it is heartening to note that with the objective of production of good quality copra, at farm level and also to help the small and marginal farmer to get remunerative price for their produce, the Government of Kerala is implementing a programme of distributing copra dryers to women self help groups. The scheme may be extended to cover cooperative societies of small and marginal farmers in all states. The Commission recommends that 50 per cent subsidy may be given to cooperatives for installation of driers in main land states and 100 per cent to those in Union Territories of Andaman and Nicobar Islands and Lakshadweep.

10. Since coconut farmers are generally small and marginal farmers and MSP is fixed for copra and these farmers are not directly deriving benefit from the procurement schemes. The price support operations require huge working capital and adequate godown facilities. The government should consider decentralising procurement by allowing state level agencies to purchase. The procured copra has a longer life than green coconut, but this too turns rancid and has a storage life of less than six months. The procurement agencies do not have sufficient godown facilities for keeping the stock bought by them. The Commission recommends that the NAFED should explore the possibility of entering into arrangements with private parties for the storage of copra and other oilseeds similar to the seven year

guarantee scheme of FCI for construction of modern warehouses for the storage of copra and other oilseeds.

11. The country produces about 4.5 lakh tonnes of coconut oil equivalent to about 6.9 lakh tones of milling copra. About 40 per cent of the coconut is used for production of oil and oil prices are a decisive factor in determining price of copra and coconut. Tamil Nadu and Kerala account for 90 per cent of oil production. The usage of coconut oil as a cooking medium is confined to Kerala. There are some misplaced fears of the high level of cholesterol present in the oil which need to be remedied through publicity by CDB and other agencies. The Commission has estimated that the demand for coconut oil as a cooking medium has been increasing at about 1 per cent per annum and about 1.6 lakh tonnes of oil are used annually for direct house hold consumption. About 2.9 lakh tonnes every year is used for non household purposes such as the manufacture of hair oil, cosmetic preparations and assorted industrial consumption. Palm oil and palm kernel oil are the two primary substitutes of coconut oil. The former competes with coconut oil in the edible oils segment and the latter in the non edible oils segment of the consumption base. Palm oil prices are globally cheaper than other major edible oils. Palm oil not only dominates the Indian import scene but also tends to transmit price signals to domestic edible oils and also oilseed prices. In view of large imports of palm oil in recent years, which has dampened the domestic prices of edible oils and oilseeds, the Commission recommends that the Central Government should raise import duty on edible oils which makes the import of large quantity of edible oils into the country uneconomical to protect domestic farmers and industry.

12. The average index number of wholesale prices with base 1993-94 for edible oil, coconut oil and copra stood at 156.7, 140.7 and 146.6 during January-September 2003. During the current year, the market prices of copra were generally much higher as compared to the previous year. The First Commodities Exchange of India Limited at Cochin has been recognised for conducting futures trading in coconut oil, copra and copra cake. While the index number of edible oil reflects the general scarcity of edible oils in the country following the drought in 2003, the lower increase in the index number for coconut oil indicates that demand has become sluggish . The price of copra has however risen faster than coconut oil, perhaps because there has been increasing demand for coconut, copra and its derived products. (Tables 2 and 4)

13. Even when the relative price increase for coconut oil has been lower than other oils, in absolute terms, coconut is costly compared to its substitutes. The market price of coconut oil in wholesale markets of Allapuzza (Kerala) ruled at Rs.6,250 per quintal and Rs.7,840 per quintal at Chennai in September 2003. During the month of September 2003, the sesamum oil ruled at Rs 6000 and

groundnut ruled at Rs 4500 per quintal at Chennai (Tamil Nadu) where as the landed price for imported crude palm oil was only Rs 3171 per quintal in September 2003.(Table 10)

14. The sluggish demand at existing prices of coconut oil would necessitate augmentation of the demand base for tender coconut and raw copra based products. The preconditions for attracting investment into coconut/copra based products are that profits need to be commensurate with investment. Besides, there should be certainty of adequate supplies of raw materials . There are apprehensions that neither of the conditions holds good for this sector. First, the experience of existing small scale units have not been encouraging with many units closing down operations within a short time. The working units generally purchase coconut/copra from wholesale markets since the quantity required by them for further processing is beyond the capacity of an individual farmer to supply. Second, the cost of nuts as raw material is high in most of the important growing states. Although coconut tree yields coconut throughout the year, entrepreneurs are unsure about the supply of raw material because of market as well as weather determined factors. In view of these constraints, the Commission recommends that Government should explore ways of encouraging contract farming of coconut which will provide assured market to the farmers and regular supply of raw materials for the industry. Already CDB (Coconut Development Board) is promoting the marketing of diversified coconut products made by industry. The Commission recommends that CDB and state governments explore domestic as well as export avenues for marketing coconut and its derived products in a cost effective manner.

15. The domestic market for coconut/ copra have so far remained insulated from international price trends as domestic prices of copra have historically been less than half the MSP. The international price for copra during 2003 was Rs.1366 per quintal as compared to a price of Rs.3814 at Allappuzha (Kerala) and Rs.3,655 at Mangalore (Karnataka). The net import of coconut oil, despite very low international prices , has been insignificant in volume terms in recent years but has been successively increasing. Apart from high tariff of 85 per cent, coconut oil continues to remain a canalised item since it can be imported only through an authorized state trading organization such as state Trading Corporation or Hindustan Vegetable Oil Corporation. This has obviously discouraged large-scale imports. Although small in volume, the import of coconut oil has shown an increasing trend from 1999-2002 to 2002-2003, (Tables 3 and 12)

16. In a globalized world, the aim of policy should be to make the coconut as well as its dependent industry competitive by providing facilitating conditions. This would require exploring ways to increase productivity as suggested in earlier paragraphs and also to reduce costs.

17. No official data on cost of production exist as no cost estimates have been generated under the Comprehensive Scheme(CS) for the crop which is the main source of data. The Commission therefore

relies on cost estimates provided by CDB, NAFED and the state Governments. Kerala has given an estimate of Rs.5.90 per nut for the year 2003-04 which is on the higher side. The reason for this may be attributed to the high rate of interest used by the state government in calculating the annuity index . As against this, the state Governments of Karnataka and Andaman & Nicobar Islands have given estimates of Rs 4.64 for the year 2003-04 and Rs 4.00 for 2004-05 per nut respectively. Government of Tamil Nadu has given establishment cost but no details on the maintenance cost. The estimate of Karnataka is inclusive of Rs 0.77 (20 percent of the per nut cost) as farmer's profit. Excluding this, the per nut cost comes to Rs. 3.87 per nut . The cost estimate given by CDB is at Rs.4.25 per nut. This estimate is based on a pilot study on cost of production of coconut in Kerala primarily undertaken to generate reliable cost of production estimates for coconut. The study was carried out in three districts of Kerala namely Kozhikode, Ernakulam and Thiruvanthapuram and is funded by CDB . On the basis of the cost estimates and conversion cost provided by the respective state governments and CDB, the weighted average C2 cost of one quintal of copra works out to Rs. 3397 per quintal which excludes managerial cost. With 10 percent managerial cost, this (C3) works out to Rs. 3737. (Annexure – l)

18. In view of the disparate nature of data on which the Commission is obliged to work , it is recommended that the Directorate of Economics and Statistics takes urgent steps to ensure regular and timely availability of data on cost of production of coconut under the CS. The Commission recommends that the comprehensive scheme (CS) on cost of cultivation be expanded to cover study of cost of cultivation of coconut and a provision be made for covering on farm processing of coconut into copra.

19. Based on the discussion above, the Commission recommends that the Minimum Support Prices (MSP) of milling and ball copra for the 2004 season, be fixed as follows:

	(Rs per quintal)	
Milling Copra	:	Rs. 3500
Ball Copra	:	Rs. 3750

Sd/-
(T. HAQUE)

Sd/-
(RAMADHAR)
November 1, 2003

Sd/-
(M. RAGHUPATHY)