

COMMISSION FOR AGRICULTURAL COSTS AND PRICES

REPORT ON PRICE POLICY FOR COPRA FOR THE 2009 SEASON

The Commission for Agricultural Costs and Prices (CACP) submitted its report on price policy for copra for the 2008 season on 7.9.2007, recommending Minimum Support Price (MSP) for fair average quality (FAQ) of milling copra at Rs.3660 per quintal and of ball copra at Rs.3910 per quintal. The Government announced the price support for copra on 10th January, 2008, fixing the MSP at the same levels as recommended by the Commission. The Government, for the first time, also fixed the MSP for de-husked coconut for the 2008 season at Rs. 988 per quintal based on the MSP of FAQ variety of milling copra for 2008 season. The present report deals with recommendations of the Commission on the price policy for Copra for the 2009 season. **The Commission recommends that:**

- (i) **The MSP for milling and ball copra for the 2009 season be fixed as under:**

	(Rupees per quintal)
Milling Copra	Rs. 4450
Ball Copra	Rs. 4700

- (ii) **The cluster approach programme being adopted by the Coconut Development Board merits appreciation in view of the predominance of small and marginal coconut holdings in the country. The programme presently covers only less than 1 percent of the total holdings. Coconut Development Board should take necessary steps to extend this programme to all small coconut holdings in the country, so that the impact will be more significant.**

(para 14)

- (iii) **in view of lack of processing facilities with the State level procurement agencies, action may be taken by the State Governments to provide processing facilities to the procurement**

societies involved in converting coconut into copra, on subsidized finance, so that the announcement of MSP for de-husked coconut can be implemented effectively.

(para 15)

- (iv) the announcement of MSP for de-husked coconut by the Department of Agriculture & Cooperation should follow immediately after the announcement of MSP for copra by the Government and the same be given wide publicity so that necessary awareness is created among the coconut growers.**

(para 16)

- (v) considering that the value addition in the coconut sector is at an infancy stage, farmers/ entrepreneurs would require handholding in the form of financial and managerial assistance, on an end-to-end basis till the units come out of the teething troubles. The assistance currently provided through the Technology Mission on Coconut needs to be accordingly strengthened, with the aim to make the products internationally acceptable and competitive.**

(para 19)

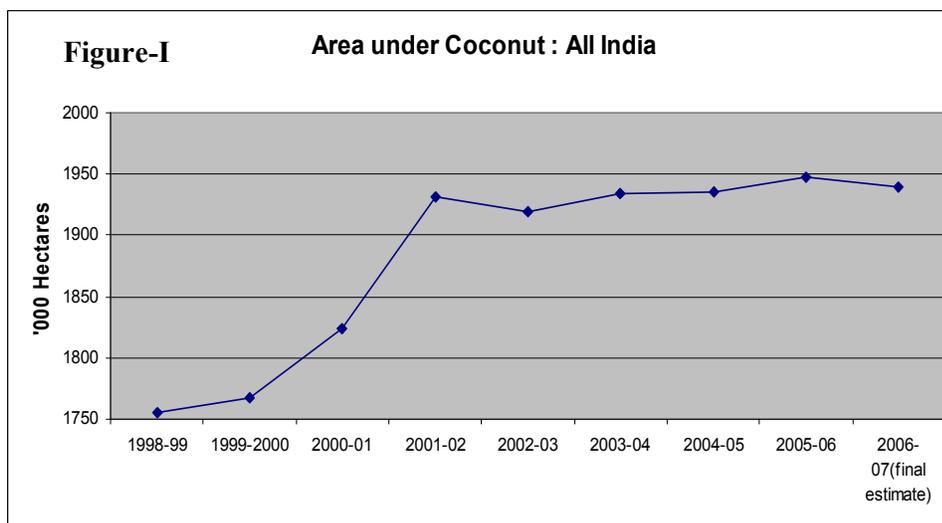
- (vi) anomalies in the interpretation by Central Board of Excise and Customs (CBEC) regarding classification of coconut oil as hair oil and small retail pack of coconut oil as for cosmetic purposes are adversely affecting the revenues of the coconut industry. CBEC may re-examine and resolve the above two issues.**

(para 20)

2. Coconut, a perennial oilseed crop, is grown in more than ninety countries of the world. As per the estimates of Asian & Pacific Coconut Community (APCC), the world coconut production in 2006 was 55.6 billion nuts, with an area coverage of 11.8 million hectares. The major world producers are Indonesia, Philippines and India. In 2006, India overtook Philippines to become the second largest producer of coconut. In that year India accounted for 23.1 percent of the world production after Indonesia (27.0 percent). Philippines with 22.7 percent

ranked third (*APCC Statistical Year Book 2006*). The realized average productivity of 8165 nuts/ha in India is also the highest in the world. India presently has about 5 million coconut holdings, of which 98 percent area is less than one hectare.

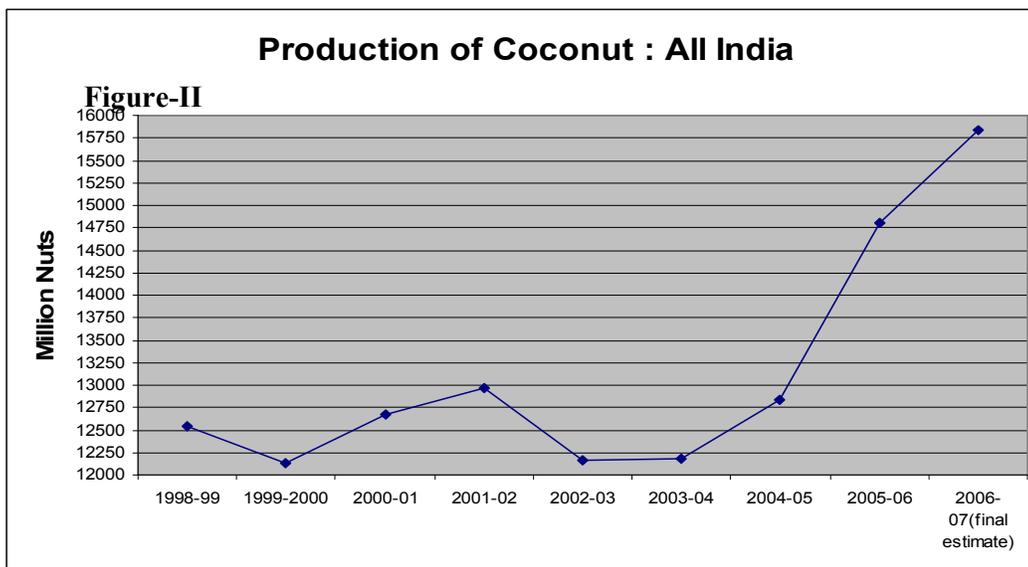
3. India produced about 15840 million nuts (coconut) from an area of 1.94 million hectares during 2006-07, registering an average yield of 8165 nuts per hectare. During 1995-96 to 2006-07, area under coconut in the country increased at the rate of 0.68 per cent per year, while production of coconut increased at the rate of 1.16 per cent per year. The area coverage under the crop, which was at 1.82 million hectares in 2000-01 increased to 1.93 million hectares in 2001-02, declined to 1.92 million hectares in 2002-03 and showed consistent increases up to 2005-06 (1.95 million ha). During 2006-07, area coverage was 1.94 million hectares, a decrease of 0.4 percent over 2005-06 achievement as shown in Figure-I below.



Data source: Directorate of Economics & Statistics

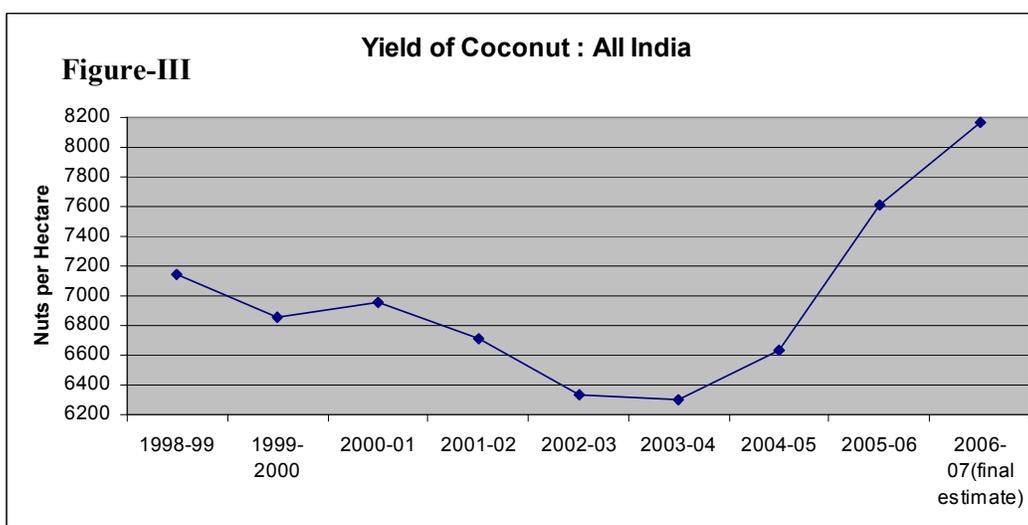
4. Regarding production, the year 1996-97 showed a high of 13061 million nuts, which could not be surpassed till 2004-05. The year 1999-2000 and 2002-03 witnessed deep slump in production. However, production showed steep increases from 12833 million nuts to 14811 million nuts and further to 15840

million nuts respectively during 2004-05 to 2006-07. Production during 2007-08 is expected to be of the same level as of 2006-07.



Data source: Directorate of Economics & Statistics

5. The average productivity of 7145 nuts/ha achieved in 1998-99 could not be repeated upto the year 2004-05 when the yield levels varied between 6951 nuts/ha in 2000-01 to 6298 nuts/ha in 2003-04. However, the trend was reversed in 2005-06 and the average yield increased to 7608 nuts/ha and the trend continued in 2006-07 with 8165 nuts per ha.



Data source: Directorate of Economics & Statistics

6. The major producers of the crop are the states of Kerala, Tamil Nadu, Karnataka and Andhra Pradesh, accounting for over 90 per cent of the area and production of coconut in the country. Among the four major coconut growing states, Tamil Nadu has the highest productivity (14495 nuts/ha) followed by Andhra Pradesh with a productivity of 12629 nuts/ha. Higher productivity in Tamil Nadu can be attributed to big size of plots, cultivation in irrigated conditions and better management practices. While Kerala accounts for the largest production of coconut in the country, productivity of coconut in Kerala is 6951 nuts/ha, even below the All India yield of 8165 nuts/ha achieved in 2006-07. Major reasons reported for the low productivity in Kerala are old and unproductive palms, small size of farms with average farm size at around 50 cents, lack of irrigation and high incidence of root (wilt) disease, eriophyid mite attack etc. While Karnataka has the second largest coverage under coconut in the country after Kerala, it has the lowest productivity in the country (4052 nuts/ha as on 2006-07), next to Tripura. Severe drought and mite infection experienced in the state since 2001-02 are reportedly the reasons for the low production and productivity. The other coconut producing States in the country include Assam, Goa, Gujarat, Maharashtra, Orissa, Tripura, West Bengal, Andaman & Nicobar Islands, Lakshadweep, Puducherry and Nagaland. Productivity-wise, some of these states, viz. Maharashtra (8338 nuts/ha), West Bengal (14307 nuts/ha), Lakshadweep (19630 nuts/ha) and Puducherry (13286 nuts/ha) performed better than some of the major producing states (as per 2006-07 data).

(Table 2)

7. The domestic demand and supply position of coconut oil, the single largest produce from coconut, remains comfortable, as indicated in Table –I below:

Table-I : Demand and Supply Position of Coconut Oil

(Quantity in '000 MT)

	2003-04	2004-05	2005-06	2006-07	2007-08 (provisional)
Opening stock	13.9	0.0	0.0	13.7	24.0
Production	392.0	433.0	465.0	460.0	460.0
Imports	13.8	12.8	4.1	14.1	2.7
Exports	6.0	6.0	5.4	3.7	4.4
Consumption/crushing	413.6	439.9	450.0	460.0	460.0
Closing stock	0.0	0.0	13.7	24.0	22.3

Source: Coconut Development Board

8. The annual average Wholesale Price Index (WPI base 1993-94 =100) for coconut (fresh) for the year 2003 (January-December) was 146.5, which increased to 155.2 during 2004. However, WPI for coconut declined to 138.6 in 2005 and further to 126.6 in 2006. The year 2007 witnessed an increase in WPI of about 2.6 percent over the WPI for the year 2006, at 129.9. The average WPI for the current year ending July 2008 was 147.8. With the July 2008 WPI peaking at 162.4, an increase of 27.3 percent over the WPI of July 2007 (127.6).

(Table 6)

9. The WPI of copra showed maximum increase during 2004 at an average of 185.8, with December, 2004 witnessing an all time high of 210.6. By December, 2005, the WPI declined to 155.5 and further declined to 143.1 in December, 2006. During Dec, 2007 it was at a further low level of 131.2. However 2008 showed a reversal in the trend with monthly WPI showing consistent increases to reach a level of 169.8 in July 2008. Prices of milling copra, as reported by Coconut Development Board (CDB), showed declining erratic trend in all major markets during 2007. However, the trend was reversed in 2008, with the price crossing the MSP by March 2008. The price of ball copra witnessed upward movement from 2004, which continued till 2006, with prices ruling 70 to 89 percent above MSP. However, the price of ball copra declined by

the end of 2006 and the same decreasing trend continued during 2007. The prices ruled below MSP during 2007. However, the price showed an increasing trend since 2008 and ruled above MSP since March 2008 at major marketing centres.

(Table 3)

10. The year 2004 showed increases in the price of coconut oil with an average WPI at 175.5. The market prices were ruling between Rs. 6150-7200 per quintal. The price registered decline from March 2005 with the WPI for 2005 averaging at 162.7. Market prices came down to around Rs. 4900 per quintal at the end of the year 2005. The price of coconut oil remained depressed during the 1st half of 2006, but showed upward movement during the second half. In 2007 (upto July), the prices of coconut oil remained generally low. But from November 2007 prices started rising and the upward trend is still continuing in 2008 with WPI for July 2008 reaching a level of 172.4. The market prices are presently ruling around Rs. 6300-6400 per quintal.

(Table 5)

11. As per APCC report, world coconut production is projected to increase modestly by 6.4 percent from 10.26 million MT (in copra terms) to 10.9 million MT in 2008. APCC report also predicts that the anticipated sustained demand for coconut oil would enable the price to remain high or rise further backed by other factors like spillover support from the high demand for other vegetable oils, rising prices of fuels etc. The world prices of coconut oil (CIF Rotterdam) reached the peak during 2007 with the average price at USD 919 per metric tonne, the highest since 1996. The sharp increase in price is continuing during 2008 with June 2008 registering a price of USD 1551 per metric tonne. The average world price of copra (Philippines, Indonesia, and CIF Europe) also exhibited similar trends with prices rising steeply in 2007 to reach an average of USD 607 during 2007 and further consistent increases during 2008, with June 2008 price reaching a level of USD 1063 per metric tonne. As per *World Bank Commodity Price Data*, the prices of coconut oil and copra showed decline during July-August 2008. The price of copra showed decline to USD 946 per metric tonne in July 2008 and further to USD 780 per metric tonne in August 2008 and the price of coconut oil

declined to USD 1436 per metric tonne and USD 1189 per metric tonne respectively during the same period.

(Tables 8&9)

12. India imported coconut products worth Rs.2410 lakh during the period 2007-08 (upto November 2007) as against Rs.5406.66 lakh during the corresponding period of 2006-07, a decline in import by 55.43 percent in value terms. Import of coconut oil of refined variety also declined to 2120 tonnes in 2007-08 from 12394 tonnes in the corresponding period of previous year. The decline in the quantity of oil imported may be due to the increase in the prices of coconut oil in global markets. The import was mainly from Indonesia and Malaysia. The quantity of oil cake imported also showed a decline of 29.1 percent during the period to 24403.76 tonnes from 34395.98 tonnes in the previous period. On the export front, there has been growth particularly in the export of shell charcoal and activated carbon. India's exports of coconut products during 2007-08 (upto November 2007) increased by 12.1 percent compared to the corresponding period of the last year, from Rs. 33.91 crore to Rs. 37.99 crore. Import duties have been brought to zero in case of crude edible oil and to 7.5 percent in case of refined oil in April 2008 to counter food inflation.

13. Since 2004-05, the sector has been witnessing consistent increases in production and productivity. However, this should not lead to a situation of complacency on the part of various stakeholders. On the other hand, R&D efforts at improving the quality of saplings, controlling the menace of pests and diseases should be continued. There is a need for a concerted move to continuously improve productivity, innovate, diversify and add value so as to sustain a healthy growth for coconut and coconut products.

14. One characteristic which distinguishes coconut from other oilseeds like palm oil and soyabean is that it is predominantly a small holders' crop. In India about 98 percent of the holdings are below 1 hectare. This makes the cultivation of the crop vulnerable to pest and disease outbreaks, shortage of skilled labour,

use of outdated technology etc. Coconut Development Board is implementing a cluster approach programme with common labour bank, facilitation for input collection and application, marketing of coconut at the appropriate time etc to achieve maximum returns. **The cluster approach programme being adopted by the Coconut Development Board merits appreciation in view of the predominance of small and marginal coconut holdings in the country. The programme presently covers only less than 1 percent of the total holdings. Coconut Development Board should take necessary steps to extend this programme to all small coconut holdings in the country, so that the impact will be more significant.**

15. The State Governments have been representing regarding fixing of MSP for green coconut, so that the benefit of a minimum assured price will accrue directly to the farmers. Subsequently, Government has fixed MSP for de-husked coconut for 2008 season at Rs. 988 per quintal. During Commission's interactions with NAFED and State Governments, it was reported that absence of processing facilities with the local level procurement societies is a major constraint in implementing the scheme. **In view of lack of processing facilities with the State level procurement agencies, action may be taken by the State Governments to provide processing facilities to the procurement societies involved in converting coconut into copra, on subsidized finance, so that the announcement of MSP for de-husked coconut can be implemented effectively.**

16. During discussions with the Commission, various stakeholders expressed appreciation regarding fixing of MSP for de-husked coconut for 2008 season. However, there were concerns regarding the timely announcement of the MSP for de-husked coconut. Further, many farmer representatives were unaware of the above new decision of the Government. **In view of above, the announcement of MSP for de-husked coconut by the Department of Agriculture & Cooperation should follow immediately after the announcement of MSP for copra by the Government and the same be given**

wide publicity so that necessary awareness is created among the coconut growers.

17. To protect the interest of coconut growers in Kerala the Central Government has put a ban on import of palm oil products through any Port of Kerala. Imports are permitted at all other Indian ports. Prices of copra and coconut oil have shown a marginal improvement largely due to the restriction of palm oil imports through the ports in Kerala. According to Coconut Development Board, import ban on all south Indian ports will bring the desired impact on price.

18. One major concern expressed by the farmer representatives and the State Governments during Commission's consultations with the stakeholders relates to the liberalized imports of palm oil, of which the crude palm oil is imported at zero percent customs duty. Further, a subsidy to the tune of Rs.15 per litre is extended to imported palm oil. Since palm oil is a strong substitute for coconut oil, the above concessions are reportedly adversely affecting the economy of coconut and coconut oil production. While Commission is aware of the compulsion of the Government to ease consumer prices, the coconut economy having predominance of small and marginal farmers and wide prevalence of diseases which do not have curative solutions, deserves a level playing field with comparative concessions.

19. Coconut has a distinct advantage since the fruit as well as the palm tree have numerous uses. The sector should take advantage of this fact and should take up value addition and product diversification on a large scale and in a viable manner. The main constraints in adoption of product diversification in coconuts are lack of proper quality products and effective mechanisms in enforcing these standards which often leads to adulteration and unhealthy competition, absence of reliable data on consumption and demand for coconut products at national level, insufficient consumer awareness on various coconut products, lack of organized markets etc. The sector should also increasingly aim at overseas buyers. This would require adhering to international quality specifications and quarantine requirements. Long term sustained development of coconut sector

would require large scale diversification into innovative value added products from coconut, for catering to both domestic and overseas markets, with due adherence to international quality and quarantine specifications. **Considering that the value addition is at an infancy stage, farmers/ entrepreneurs would require handholding in the form of financial and managerial assistance, on an end-to-end basis till the units come out of the teething troubles. The assistance currently provided through the Technology Mission on Coconut needs to be accordingly strengthened, with the aim to make the products internationally acceptable and competitive.**

20. Coconut Development Board has indicated some interpretational anomalies by the Revenue Department which are adversely affecting the coconut oil industry. Firstly, in many states coconut oil is treated as hair oil and is subjected to Central Excise Duty. The plea is that the coconut oil should be considered as a vegetable oil and exemption from central excise duty should be granted. Secondly, excise duty is levied on coconut oil packed in small retail packs on the premise that coconut oil packed in small pack is for cosmetic preparation, which is in contravention to an earlier order of Central Board of Excise and Customs (CBEC) dated 29.12.1995, which had stated that coconut oil whether pure or refined and whether packed in small and large containers merits classification under Chapter 15 instead of Chapter 33 of the Central Excise Tariff Act. (as quoted by CDB). CDB has requested reiteration of CBEC's earlier clarification to address this issue. **Since anomalies in the interpretation by CBEC regarding classification of coconut oil as hair oil and small retail pack of coconut oil as for cosmetic purposes are adversely affecting the revenues of the coconut industry, CBEC may re-examine and resolve the above two issues.**

21 A single major impediment to increase in production and productivity of coconut in many states is the wide spread prevalence of pests and diseases. Central Government through the Technology Mission on Coconut and the State Governments, through state specific projects are assisting the farmers to take up adoption of integrated nutrition and pest management, removal of disease

advanced palms, replanting with disease tolerant and healthy seedlings etc. However, continuance of this menace is a concern, which may restrict full realisation of the growth opportunities of the sector, in the context of the decreasing production in Philippines, increasing global demand due to demand from bio-fuel sector etc.

22. The cost of cultivation/production is by far one of the most important considerations in determination of MSP for Copra. The Commission submitted its last report on price policy for copra on 7th September, 2007 for the copra season 2008. Therein the all India weighted average cost of production was worked out to Rs.4.79 per nut, exclusive of the conversion cost of Rs.193 per quintal comprising 725 nuts, as worked out by NAFED. Since then, several inputs going into coconut cultivation have registered increase in prices. The cost estimates for coconut under Comprehensive Scheme have been made available for the year 2006-07 for the state of Kerala only. The total cost of production per nut for the state of Kerala as given in the CS estimates for the year 2006-07 is put at Rs.4.54 per nut. This actual cost for the year 2006-07 has been projected for the year 2009-10 by taking into account the upward movement in prices of items of variable cost such as human labour, fertilizers and manures, pesticides, irrigation, machine labour, repairs and other miscellaneous expenses. The prices of these items of variable cost have been revised upwards based on wholesale price indices, updated wage rates and state Government replies. The projected cost of production per nut in respect of Kerala works out to Rs.6.15 per nut. Since the Commission is left only with the single cost estimate under CS Scheme for Coconut, it has used the projected cost of different states and agencies to arrive at all India cost of production per nut. Moreover, the cost projections for the year 2009-10 have been received from the states of Kerala, Andaman and Nicobar Islands, Tamilnadu and Karnataka and the agencies of NAFED as well as Coconut Development Board (CDB). With due adjustments in line with the cost projections methodology adopted by the Commission, the per unit cost of coconut for Kerala is put at Rs.6/- per nut, for Andaman and Nicobar Islands, at Rs.5/- per nut, for Tamilnadu at Rs.5/- per nut and for Karnataka at Rs.4.83 per nut. The all India weighted average cost works out to Rs.5.56 per nut. In order to arrive at the estimated cost per quintal for copra, the Commission has taken to the

standardized conversion charges as given by NAFED. Based on the information provided by NAFED, it is observed that Rs.168.75 is the conversion charges per quintal comprising 750 nuts. Therefore, the cost of producing one quintal of copra is estimated at Rs.4339 per quintal.

23. Thus, based on all the relevant factors, namely demand-supply situation, market prices, cost of production, etc., the Commission recommends that ***the Minimum Support Prices (MSP) of milling and ball copra for the 2009 season, be fixed as follows:***

(Rs. per quintal)

Miling copra : Rs. 4450
Ball copra : Rs. 4700

-Sd-

(S. MAHENDRA DEV)

CHAIRMAN

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MEMBER

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(K. G. RADHAKRISHNAN)

MEMBER SECRETARY

September 11, 2008