

COMMISSION FOR AGRICULTURAL COSTS AND PRICES
REPORT ON PRICE POLICY FOR COPRA FOR THE 2010 SEASON

This report deals with recommendations of the Commission for Agricultural Costs and Prices (CACP) on the price policy for copra for 2010 season. The Commission submitted its report on price policy for copra for the 2009 season on September 11, 2008, recommending Minimum Support Price (MSP) for fair average quality (FAQ) of milling copra at Rs.4450 per quintal and of ball copra at Rs.4700 per quintal. The Government announced the price support for copra on March 6, 2009, fixing the MSP at the same levels as recommended by the Commission. Subsequently, MSP for de-husked coconut for 2009 season was fixed at Rs.1200 per quintal. For 2010 season, the Commission recommends that:

- (i) **The MSP for milling and ball copra be retained at last year's level as stated below:**

	(Rupees per quintal)
Milling Copra	4450
Ball Copra	4700

(para 27)

- (ii) **focused intervention may be made through the Technology Mission on Coconut (TMOC) to reverse the low productivity of coconut cultivation in many coconut producing states.** (para 6)
- (iii) **the farmers may be encouraged to take up inter-cropping in coconut holdings and product diversification as group activity to enhance their income and to make coconut cultivation sustainable.** (para 7)
- (iv) **the Government, in consultation with concerned State Governments, NAFED and Coconut Development Board may streamline and strengthen**

the procurement operations of copra at the ground level.

(para 15)

(v) Coconut Development Board (CDB) may expand the scope of the Coconut Cluster Programme to provide assistance for purchase of drying units on a cluster basis, which will enable small and marginal farmers to process copra and take part directly in the PSS operations. (para 17)

(vi) NAFED may be authorized by the Government to assess deviations from FAQ norms in respect of size, moisture content, form etc of copra and strive to procure at a proportionate MSP, which will help a large number of coconut farmers . (para 18)

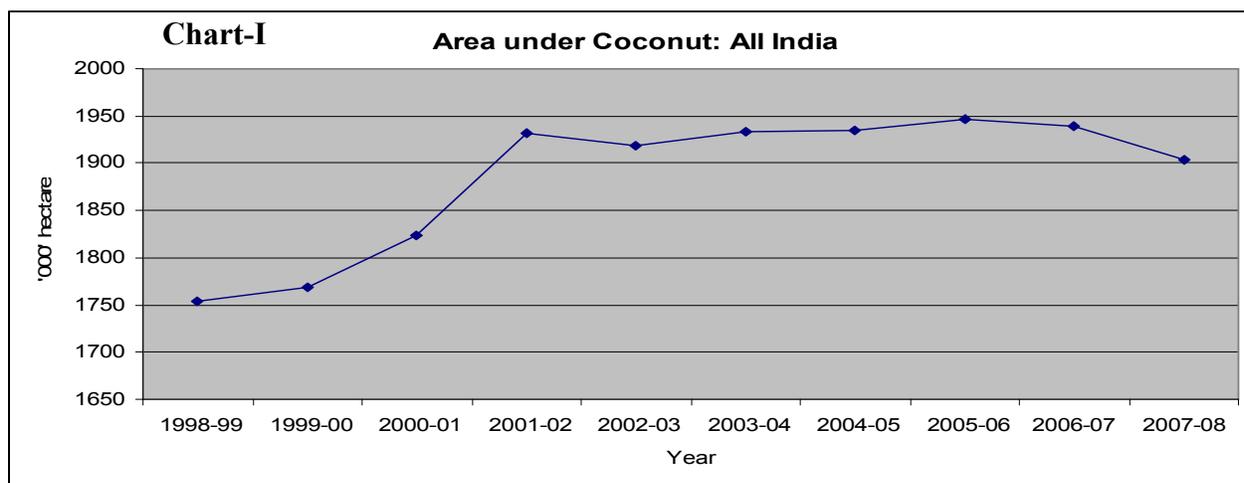
(vii) the anomalies in the classification of coconut oil as hair oil and coconut oil packed in small packs as for cosmetic purposes may be re-examined by the Central Board of Excise and Customs (CBEC) for possible exemption from levy of Central Excise Duty. (para 20)

(viii) taking into consideration the adverse impact of existing liberal import duty of palm oil on the domestic coconut/coconut oil sector, the Government may revisit the existing import duties on palm oil and its fractions so as to allow level playing field for domestic edible oils, especially in case of coconut oil in the present case. (para 21)

2. Coconut, a major tree-borne oilseed in the country, is grown mainly in the states of Kerala, Tamil Nadu, Andhra Pradesh, Karnataka, Goa, Andaman & Nicobar Islands and Lakshadweep. The crop has its presence also in the states of Assam, Maharashtra, Orissa, West Bengal, and Puducherry. India produced 14744 million nuts during 2007-08 from an area of 19.03 lakh hectares, registering an average yield of 7747 nuts per hectare. (Data source: Directorate of Economics and Statistics, Ministry of Agriculture). Globally, India is one of the major producers of coconut alongwith Indonesia and Philippines. India emerged as the largest producer of coconut in 2007, accounting for

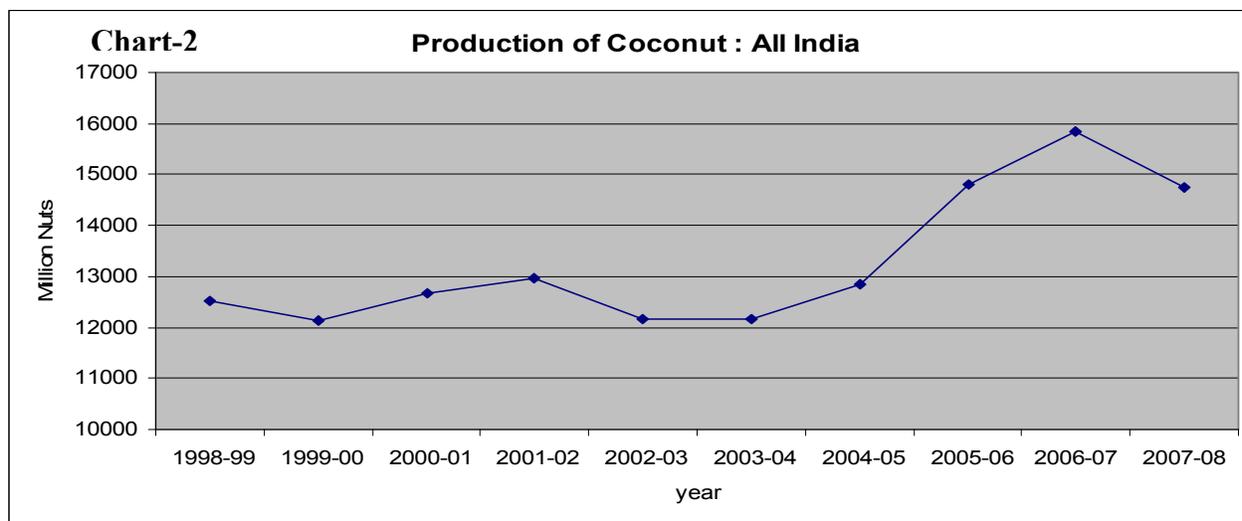
26.8 percent of the world production followed by Indonesia (25.9 percent) and Philippines (20.86 percent). In area coverage, during the same period, India came third with an area of 19.4 lakh hectares under coconut cultivation. Productivity of 8166 nuts/ha achieved in India during the same period was also the highest in the world (Source: Asian & Pacific Coconut Community, Statistical Year Book 2007). However, the coconut/coconut oil economy of India still suffers from serious problems like predominance of small holdings, old and senile trees, prevalence of pests and diseases, lack of processing infrastructure, competition from cheaper imported edible oils and limited value addition.

3. The area under the crop has been stagnating around 19 lakh hectares since 2001-02, with minor inter-year fluctuations. The area coverage under the crop, which was at 19.32 lakh hectares in 2001-02, reduced to 19.19 lakh hectares in 2002-03, however, consistently increased during the next three years to reach a level of 19.47 lakh hectares in 2005-06. The year 2006-07 witnessed a reduction in area under the crop to 19.40 lakh hectares. It further reduced to 19.03 lakh hectares during 2007-08. The rate of growth in area during the period 1996-97 to 2007-08 was 0.62 percent compared to the growth rate of 3.88 percent achieved during the earlier period of 1986-87 to 1996-97. The area under coconut is expected to either remain stagnant or even marginally decline in the coming years. In many areas, coconut is being replaced by more lucrative crops. The trend in area coverage is shown in the Chart-1.



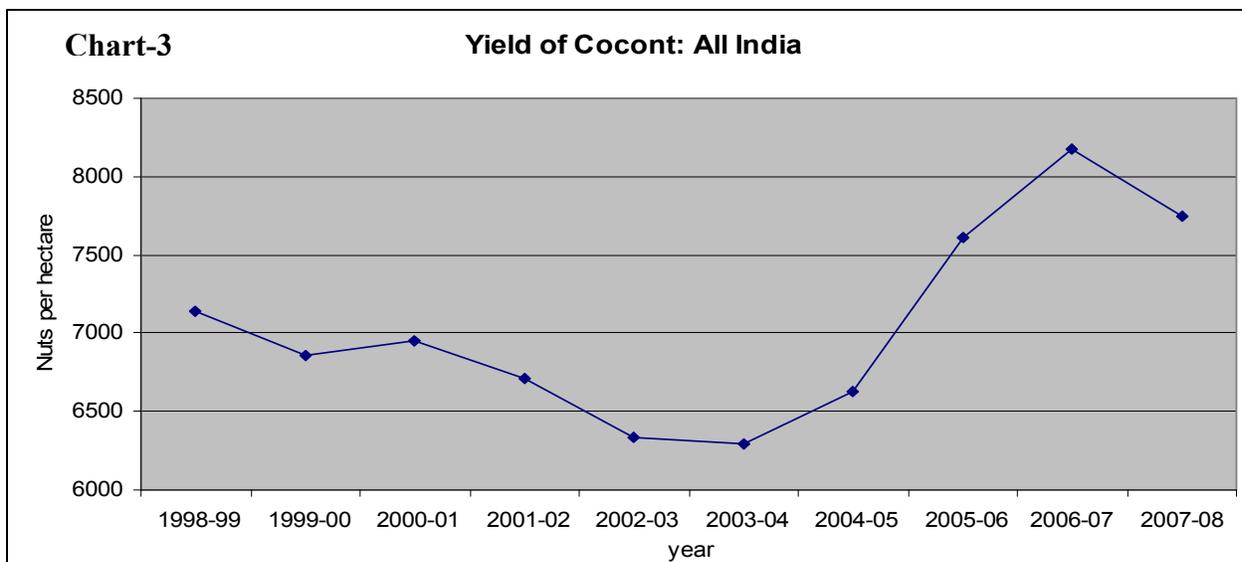
Source: Directorate of Economics & Statistics

4. The production of coconut during 2007-08 was 14744 million nuts, a decrease of 6.92 percent over the production of 15840 million nuts achieved in 2006-07, thus breaking the trend of continuous increase in production witnessed since 2002-03. The coconut production, which was 12160 million nuts in 2002-03 increased to 12833 million nuts in 2004-05 and further increased to 14811 million nuts in 2005-06 and further to 15840 million nuts in 2006-07.



Source: Directorate of Economics & Statistics

5. The average productivity of 7747 nuts/ha achieved in 2007-08 was 5.13 percent lower than the productivity achieved in 2006-07. The productivity, which was at 6860 nuts/ha in 1999-2000 declined to 6298 nuts/ha in 2003-04. The subsequent three years upto 2006-07 witnessed consistent increases in productivity. The annual rate of growth in yield during the period 1996-97 to 2007-08 was 0.98 percent compared to 3.40 percent achieved during the earlier period, 1986-87 to 1996-97. The decline in the growth rate of yield during 1996-97 to 2007-08 was due to stagnation that prevailed in the production in early years of the period. The trend in productivity of coconut is indicated in the Chart-3.



Source: Directorate of Economics & Statistics

6. Kerala, Tamil Nadu, Karnataka and Andhra Pradesh are the major coconut producing states in the country in terms of area and production. Kerala tops the list with area coverage of 8.19 lakh hectares and production of about 5641 million nuts, as per 2007-08 data. However, in terms of productivity, Tamil Nadu is at the first position among the four major coconut growing states with an average productivity of 12959 nuts/hectare, followed by Andhra Pradesh (11047 nuts/hectare). Higher productivity in Tamil Nadu is attributed to factors like initiation of hybrid varieties and drip irrigation system, presence of younger trees, big size plots, use of modern and scientific system of farming etc. While Kerala accounts for largest production of coconut in the country, productivity of coconut in Kerala is 6889 nuts/ha, lower than the All India yield of 7747 nuts/ha achieved in 2007-08. Kerala continues to suffer from limitations like existence of old and unproductive palms, small size of farms, lack of irrigation and high incidence of plant diseases, pest attack etc. Though Karnataka stands second in terms of area coverage under coconut in the country after Kerala, it has one of the lowest productivity in the country (4037 nuts/ha during 2007-08). Severe attack of mite experienced in the state since 2001-02 coupled with drought conditions have reportedly affected productivity. The crop is also grown in states like Assam, Goa, Gujarat, Maharashtra, Orissa, Tripura, West Bengal, Andaman & Nicobar Islands, Lakshadweep, Puducherry

and Nagaland. The productivity of states like West Bengal (12430 nuts/ha), Maharashtra (8338 nuts/ha), Puducherry (12091 nuts/ha) and Lakshadweep (19630 nuts/ha) has been higher than some of the major producing states (as per 2007-08 data). However, states like Assam, Goa, Orissa and Andaman & Nicobar Islands suffer from low productivity (Table 2). In view of the fact that low productivity is still a serious problem in many areas, the Commission recommends that **focused intervention may be made through the Technology Mission on Coconut (TMOC) to reverse the low productivity of coconut cultivation in many coconut producing states.**

7. Coconut cultivation is pre-dominated by small and marginal farmers. Presently, the coconut sector survives mainly on coconut oil industry, which is vulnerable to substitution, resulting in high fluctuations in coconut prices, adversely impacting the income of the farmers. The Commission recommends that **the farmers may be encouraged to take up inter-cropping in coconut holdings and product diversification as group activity to enhance their income and to make coconut cultivation sustainable.**

8. The domestic demand and supply position of coconut oil, the single largest produce from coconut, remains comfortable, as indicated in the Table –1.

Table-1: Demand and Supply Position of Coconut Oil

(Quantity in '000 MT)

	2004-05	2005-06	2006-07	2007-08	2008-09*
Opening stock	0.0	0.0	13.7	32.0	73.4
Production	433.0	465.0	468.0	515.0	509.0
Imports	12.8	4.1	14.1	8.1	13.6
Exports	6.0	5.4	3.7	6.8	8.7
Consumption/crushing	439.9	450.0	460.0	475.0	490.0
Closing stock	0.0	13.7	32.0	73.4	97.3

*: Provisional

Source: Coconut Development Board

9. The prices of raw coconut reported upward trend during 2008. The price of coconut, which opened at Rs. 3800 per thousand nuts in January 2008 at Kozhikode market closed at Rs. 4700 per thousand nuts in December 2008, showing a gain of Rs.900 per thousand nuts. The Mangalore market reported an average price of Rs.6374 per thousand nuts during 2008, which was around 12 percent higher than that of the previous year. However, the price of raw coconut in all the markets is reported to be showing downward trend during the current year. At the Kozhikode market in Kerala, the price declined from Rs.5000 per thousand nuts in January 2009 to Rs.4100 per thousand nuts in July 2009 and at the Mangalore market in Karnataka, the price which was ruling at Rs.7700 per thousand nuts in January 2009 declined to Rs.5500 per thousand nuts in July 2009. The WPI for coconut (fresh) for July 2009 showed a decline by 12.66 percent over the corresponding period of 2008. (Tables 6 & 7)

10. The WPI of copra which was at 134.2 during January 2008 increased to 160.85 by December 2008, showing an increase of 19.82 percent. The year 2009 opened with a WPI of 155.38, however, consistently declined to reach a level of 130.18 in July 2009, registering a decline of 16.22 percent in the seven months of the current year (Table 3). The average wholesale price of milling copra (FAQ-smoked) at Alappuzha market in Kerala, which opened at Rs. 4000 per quintal in January 2009, declined to reach a level of Rs.2950 per quintal in June 2009, however increased to Rs.3125 per quintal in July 2009, all along ruling below the MSP of Rs.4450/quintal (Table 4). The price of ball copra also showed the same trend with the average price at Tiptur market, in Karnataka declining from Rs.4089 per quintal in January 2009 to Rs. 4036/quintal in June 2009. July 2009 witnessed increase to Rs.4326/quintal, however still below the MSP of Rs.4700/quintal announced for 2009 season.

11. The market price of coconut oil at Kochi market in Kerala during 2008 averaged at Rs.6011/quintal, an increase of 23.43 percent over the average price ruled in 2007. During 2009, the price of coconut oil opened at Rs.5779/quintal in January 2009 and consistently reduced and June 2009 price was Rs.4637 per quintal. Similar trend was observed in other markets except at Thanjavur market in Tamil Nadu, where the prices

increased during April and May 2009 from the lower levels of February and March 2009. The average WPI of coconut oil in 2008 showed an increase of 15.67 percent over the corresponding index for 2007. The WPI for January 2009 was 167.72 which reduced in the later months to reach a level of 153.2 in July 2009. (Table 5)

12. India's imports of coconut products during 2008-09 (upto December 2008) valued Rs. 9169.2 lakhs, showed an increase of about 223 percent over the imports during the corresponding period of the previous year. About 82 percent of the imports during 2008-09, in value terms, were accounted for by the import of coconut oil, the increase in which could be attributed to the fall in price of coconut oil in the international market. The fall in the import of coconut oil cake during 2008-09 also could be attributed to the same reason, since extraction of oil from oil cake was not found economical at the prevailing international prices. During the same period India exported coconut products worth Rs. 14059.56 lakhs, showing an increase of about 225 percent over the realization during the corresponding period of the previous year. Major items of export were refined and crude coconut oil and copra, which accounted for about 66 percent of the total export. Export of activated carbon, a highly promising value added product of the coconut registered increases in terms of both quantity and value during 2008-09. The other major items of export from coconut like shell and shell charcoal and desiccated coconut also increased during 2008-09 in terms of quantity and value.

(Table 12)

13. World production of coconut during 2007 was 59.10 billion nuts, with an area coverage of 12.2 million hectares (source: Asian and Pacific Coconut Community (APCC) Year Book 2007), spread over more than ninety countries of the world. In 2007, India became the largest producer of coconut overtaking Indonesia. India accounted for about 27 percent of the world production, followed by Indonesia (26 percent), and Philippines (21 percent). In terms of productivity, the achievement of India at 8166 nut/ha during 2007 was also the highest in the world compared to 3937 nuts/ha of Indonesia and 3674 nuts/ha of Philippines. The international monthly average price of

copra started at US\$ 931/MT in April 2008 increased in the next two months to reach a level of US\$ 1125/MT in June 2008, however declined consistently during the succeeding months and the prices dropped to a level of US\$ 427/MT in March 2009. The price of copra increased to US\$ 447/MT in April 2009 and further to US\$560/MT in May 2009.

14. For 2009 season, Government announced MSP for milling copra at Rs.4450/ quintal and for ball copra at Rs. 4700 /quintal in March 2009. However, the progress of procurement operations in major coconut producing states like Kerala, Tamil Nadu, Karnataka and Andhra Pradesh has been reported to be slow and inadequate to have any significant impact on the prices of coconut/copra in various markets. The State designated agencies reportedly commenced the procurement operations only in the latter half of May, 2009, after the general elections got over, by which time the peak production season in Kerala almost got over. The onset of monsoon in June 2009 affected the availability of FAQ grade milling copra. The procurement status as on 27th August, 2009 is given in the Table -2.

Table-2: Procurement of Copra under PSS during 2009 season

State	Quantity purchased (in MT) (as on 27.08.2009)
1. Copra (milling)	
Kerala	10249
Tamil Nadu	6219
A&N Islands	1375
Lakshadweep	nil
Karnataka	1469
2. Ball copra	
Karnataka	1250

Source: NAFED

15. One major issue, which requires attention of the Government, is the weaknesses in the procurement operations of copra at the ground level, especially in Kerala and to a certain extent in Tamil Nadu. NAFED procures copra from Primary Cooperative Marketing Societies and many of these societies do not have adequate processing facilities for conversion of coconut into copra. Many of these Societies, which exclusively deal with MSP operations, are finding their operations unviable. The State Governments need to take a more pro-active role to see that the Primary Societies involved in copra procurement are sufficiently equipped with processing unit/drier etc and also continue to operate in a viable manner. State governments can assist the Societies in the purchase of processing units through subsidized finance. The units themselves can try options like diversifying into other agricultural activities, taking up coconut conversion additionally on a commercial basis etc to keep the operations viable. To make the procurement operations more efficient, the procurement agencies and the State Governments can think of involving multiple agencies (for eg. Rubber Marketing Federations in Kerala) in the work of procurement, taking on lease copra driers from the private sector during Price Support Scheme (PSS) operations etc. In order to make procurement operations effective, the Commission recommends that **the Government, in consultation with concerned State Governments, NAFED and Coconut Development Board may streamline and strengthen the procurement operations of copra at the ground level.**

16. Procurement of green coconut or de-husked coconut has been a long standing demand of farmers from Kerala as only less than 5 percent of the farmers have the capacity to convert coconut into copra and hence MSP does not directly benefit the farmers. Government, in 2008 for the first time, announced MSP for de-husked coconut. However, as reported by the Coconut Development Board, the procurement of raw coconut has not been successful because of the same reasons which are affecting the procurement of copra, i.e. non-availability of infrastructure at the ground level. As indicated earlier, the State Government needs to comprehensively address the bottlenecks in effective procurement at the ground level.

17. Long term solution to the existing practice of procuring copra from traders/middlemen is to equip the farmers with drying units/dryers. Considering that vast majority of coconut farmers are in the small and marginal category, it may not be viable for individual farmer to purchase dryers, since it also involves sheds for housing the dryer, storage space etc. The Coconut Development Board is presently implementing a Coconut Cluster Programme which provides for input management, plant protection measures etc on a community basis. The Commission is of the view that **CDB may expand the scope of the Coconut Cluster Programme to provide assistance for purchase of drying units on a cluster basis, which will enable small and marginal farmers to process copra and take part directly in the PSS operations.**

18. There are also state-specific problems with regard to PSS operations. After the onset of monsoon in Kerala in June, the copra from the state finds it difficult to conform to the FAQ norms of 6 percent moisture content. In case of Andhra Pradesh, due to specific harvesting methods used in the state, majority of the coconut/copra is in wrinkled form, which does not conform to the FAQ standards. In Karnataka, due to shortage of rainfall in the past 4-5 years, size of the coconut /copra has reduced below the FAQ norms of 75 mm. Instead of rejecting such nuts outright, **NAFED may be authorized by the Government to assess deviations from FAQ norms in respect of size, moisture content, form etc of copra and strive to procure at a proportionate MSP, which will help a large number of coconut farmers.**

19. Coconut being a perennial crop, NAFED reportedly is facing the problem of continued procurement, extending upto eight to ten months in a year. Since NAFED can start disposing of the copra only after the close of procurement, disposal of copra becomes difficult in view of the limited shelf life of the crop. In order to address the operational problem faced by NAFED, it may be appropriate that the procurement of copra in a year may be limited to the peak harvesting season in each state. This may be decided in consultation with the concerned State Governments, since the peak harvesting season differs from state to state.

20. Of the total coconut production, about 35 percent is used for conversion of milling copra into coconut oil. Thus, prices of coconut and copra are largely determined by the price of coconut oil. Coconut oil has multiple end uses, unlike other edible vegetable oils, and this has resulted in classification of coconut oil as hair oil and is subjected to Central Excise Duty. Also coconut oil packed in small retail packs is subjected to excise duty on the presumption that the coconut oil packed in retail packs is for cosmetic preparation. The Commission reiterates its earlier recommendation that **the anomalies in the classification of coconut oil as hair oil and coconut oil packed in small packs as for cosmetic purposes may be re-examined by the Central Board of Excise and Customs (CBEC) for possible exemption from levy of Central Excise Duty.**

21. One issue which came up repeatedly during discussions with stakeholders is the adverse impact of liberal import duty of edible oils on the prices of coconut oil. Palm oil and its fractions are presently being imported at zero duty, which has resulted in abundant availability of palm oil in the coconut producing states at cheaper prices compared to coconut oil. In view of the price advantage, consumers are increasingly shifting to palm oil resulting in continued low prices of coconut oil. NAFED had indicated that PSS operations of copra are not having an impact on the prices of copra/coconut oil in the domestic market because of easy availability of imported edible oils. The Commission is of the view that **taking into consideration the adverse impact of existing liberal import duty of palm oil on the domestic coconut/coconut oil sector, the Government may revisit the existing import duties on palm oil and its fractions so as to allow level playing field for domestic edible oils, especially in case of coconut oil in the present case.**

22. Cost of cultivation/production constitutes one of the important factors in the determination of minimum support price for copra. In the last report, the all India weighted average cost of production worked out to Rs.5.56 per nut, exclusive of

conversion cost. However, it may be mentioned here that the cost of production per nut in respect of Kerala, for which the overall cost estimates are available for the period between 2003-04 and 2007-08, reveals that total C₂ cost of production per nut is Rs.4.53 for the year 2007-08, up by 5.10 percent from Rs.4.31 in 2006-07. The per nut cost of production during the period 2003-04 to 2007-08 that fluctuated between Rs.4.31 in 2006-07 and Rs.5.02 in 2004-05 shows the extent of fluctuations. The cost estimates as available from the Directorate of Economics and Statistics put the total cost of production per nut at Rs.4.53 for 2007-08 for Kerala. The actual cost estimates for the years from 2005-06 to 2007-08 have been used to project for the year 2010 by taking into account upward movement in prices of items of inputs such as human labour, machine labour, fertilizer and manures, pesticides, irrigation, and other miscellaneous expenses. The prices of these items of input have been appropriately scaled up on the basis of wholesale price indices, updated wage rates and information from the State Government of Kerala.

23. For the year, 2010, the projected C₂ cost of production per nut in respect of Kerala worked out to Rs.5.25, with the total projected cost of cultivation per hectare estimated at Rs.54521.55 and the estimated yield of about 10377 nuts per hectare. This cost of production per nut projected for Kerala for 2010, which is less than Rs. 6.15 per nut projected for 2009, is due to increasing trend of yield on average for the years of 2004-05 to 2007-08. Since the Commission has only single cost estimate for copra under Comprehensive Scheme, it has used projected costs of different states to arrive at all-India cost of production per nut. The cost projections for the year 2010 have been received from the states of Kerala, Andaman & Nicobar Islands, Tamil Nadu and Karnataka. The Commission also has received the detailed replies from such agencies as NAFED and CDB. In keeping with the methodology of cost projection as followed in other crops, the Commission has recast the per unit cost of production of coconut for these states and arrived at the per nut cost of production of Rs.6.00 for Kerala, Rs.5.50 for Andaman & Nicobar Islands, Rs.5.00 for Tamil Nadu and Rs.4.83 for Karnataka. The all India weighted average cost works out to Rs.5.10 per nut, weights being the production shares of each of the coconut growing states in their total production.

24. In the light of recommendations of the Alagh Committee Report, as approved by the Government, the Commission canvassed additional items of input cost like transportation, marketing and crop insurance from the concerned State Governments as well as other agencies to capture information to arrive at the overall cost of production. From the replies received, only the States of Karnataka and Kerala have provided information on transportation and marketing charges. Till the Directorate of Economics and Statistics builds up the estimates on these additional items of cost by redesigning their schedules of inquiry, the Commission will continue with the ad-hoc approach of arriving at the overall input cost on account of transportation, marketing and crop insurance. Based on the available information, the average transportation cost at all-India level is put at Rs.12.90 per quintal and marketing charges at Rs.4.49 per quintal. In this connection, it may be mentioned that coconut has not been included within the purview of the National Agricultural Insurance Scheme (NAIS).

25. 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. The conversion charges per quintal, comprising 750 nuts come to about Re.0.55 per nut i.e., Rs.412.50 per quintal. By adding Re.0.55 towards conversion charge per nut to all India weighted average cost of Rs.5.10 per nut, the total cost of milling copra per nut stands at Rs.5.65. The per quintal cost for milling copra works out to Rs.4238.93. The modified cost that accounts for transportation and marketing charges of Rs.12.90 per quintal and Rs.4.49 per quintal respectively comes to Rs.4256.32 per quintal (approximately Rs.4256).

26. The month end wholesale price of coconut in different markets of the country has recorded an overall downward trend despite seasonal fluctuations, as per the wholesale price data available upto July, 2009 from the Directorate of Economics and Statistics, Ministry of Agriculture. The wholesale price for coconut that ruled during June to July, 2009 in different states ranges between Rs.3.7 per nut and Rs.5.5 per nut. In similar vein, world price of copra during January to June, 2009 on an average has dropped down to \$480 per metric tonne i.e., Rs.2360 per quintal from \$964 per metric tonne i.e., Rs.4194 per quintal in the corresponding period of the previous year. The order of

decline is (-) 50.2 percent in dollar terms and (-) 43.7 percent in rupee terms. Currently, the price level of copra in the wholesale market is ruling in different places below the minimum support price fixed for the year 2009.

27. 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 2010 season, be retained at last year's level as stated below:**

(Rs. per quintal)

Milling copra : Rs. 4450/-
Ball copra : Rs. 4700/-

(S. MAHENDRA DEV)

CHAIRMAN

(R. VISWANATHAN)

MEMBER

(RAJ VIR SINGH)

MEMBER

(K. G. RADHAKRISHNAN)

MEMBER SECRETARY

SEPTEMBER 9, 2009