

COMMISSION FOR AGRICULTURAL COSTS AND PRICES

REPORT ON PRICE POLICY FOR COPRA FOR THE 2008 SEASON

In this report the Commission presents its views on price policy for Copra for the 2008 season. The Commission recommends that:

- (i) the Minimum Support Prices (MSP) of milling and ball copra for the 2008 season, be fixed as under:

	(Rupees per quintal)
Milling Copra	: Rs. 3660
Ball Copra	: Rs. 3910

(Para 18)

- (ii) *coconut plantations should be covered under the National Agricultural Insurance Scheme.* (Para 3)

- (iii) *Government should appoint a committee of experts and stakeholders concerned to examine the proposal submitted by Government of Kerala and KERAFED to procure green coconut from farmers, so that the benefits of MSP for copra percolate down to the farmers. The Committee would examine the details regarding the methodology, procedure and necessary infrastructure required at the local level for this purpose.*

(Para 10)

- (iv) *Government of India should maintain the import duty structure on edible oils at a rational level to safeguard the interest of coconut farmers in the country.* (Para 12)

- (v) ***R&D efforts aimed at promoting diversification of coconut products should be taken up on a massive scale under public-private partnership mode.*** (Para 14)

2. India is one of the major coconut producing countries in the world. It shares about 15 per cent of the total area and 22 per cent of the total production of coconut in the world. According to the latest available data for the year 2005-06, it produced about 14811 million nuts from an area of 1.95 million hectares. The average yield was about 7608 nuts per hectare. The four southern states, viz., Kerala, Tamil Nadu, Karnataka and Andhra Pradesh account for about 90 per cent of the area and production of coconut in the country. During 1995-96 to 2005-06, area under coconut in the country increased at the rate of 0.62 per cent per year, while production of coconut increased at the rate of 1.35 per cent per year. A close look at Table-1(a&b) would reveal that in the past ten years, the state of Kerala lost about 80 thousand hectares of coconut area, but production of coconut in the state increased from 5908 million nuts in 1995-96 to 6326 million nuts in 2005-06. In growth terms, area of coconut decreased in Kerala at the rate of 0.85 per cent per year, but production increased at the rate of 0.69 per cent, due to increased yield. In Karnataka, area under coconut increased at the rate of 3.29 per cent per year during the same period, but production of coconut declined at the rate of 1.80 per cent per annum. In Tamil Nadu, area under coconut increased at the rate of 1.38 per cent per year, while production growth rate was even higher at 4.10 per cent per annum, due to yield improvement. In fact, the yield of coconut in Tamil Nadu increased from 10101 nuts per hectare in 1995-96 to 13137 per hectare in 2005-06. In Andhra Pradesh, there was an increase in area at the rate of 1.46 per cent, but production declined at the rate of 3.17 per cent per year. In other coconut producing states also, the annual growth rate of production was as high as 3.22 per cent.

**Table-1(a) :Relative changes and compound growth rates in area
under coconut for the period 1995-96 to 2005-06**

State	1995-96 (Area in '000 ha)	2005-06 (Area in '000 ha)	% change in area	Annual Growth Rate in Area (%)
Kerala	980.0	900.0	-8.16	-0.85
Karnataka	278.8	385.4	38.24	3.29
Tamil Nadu	322.5	370.0	14.73	1.38
Andhra Pradesh	90.0	104.0	15.56	1.46
Other States	159.6	190.6	19.40	2.00
All India	1830.9	1950.0	5.69	0.62

Source: Coconut Development Board.

**Table-1(b): Relative changes and compound growth rates in production
of coconut for the period 1995-96 to 2005-06**

State	1995-96 (Production Million Nuts)	2005-06 (Production Million Nuts)	% Change in Production	Annual Growth Rate (%) in Production
Kerala	5908.0	6326.0	7.08	0.69
Karnataka	1450.9	1210.0	-16.60	-1.80
Tamil Nadu	3257.6	4867.0	49.40	4.10
Andhra Pradesh	1231.4	892.0	-27.56	-3.17
Other States	1104.1	1516.0	37.31	3.22
All India	12952.0	14811.0	14.35	1.35

Source : Coconut Development Board.

3. On the whole, the coconut sector of the country has been looking up in the recent past, enabled by the favourable natural conditions in terms of rainfall and climate, more control over the mite infestation, and the support rendered by the programmes/schemes for coconut development. Coconut Development Board

(CDB) has forecasted coconut production at around 15310 million nuts in the year 2006-07, which would be an all time record. The major components of the schemes/programmes that are being implemented for the enhancement of production and productivity of coconut in the country include production and distribution of hybrid seedlings, establishment of regional coconut nurseries, aid to private nurseries, expansion of area under coconut, integrated farming in coconut holdings for productivity improvement, technology mission on coconut for development, demonstration and adoption of technologies for the management of pests and disease affected coconut garden, etc. The programme of Integrated Farming for Productivity Improvement implemented by CDB focuses on cutting and removal of disease advanced plants, especially root wilt, a serious disease affecting plants in Kerala, Tamil Nadu, etc. These efforts would lead to improvement in production and productivity of coconut in the country. It is well recognised that research and extension would play a vital role in improving the health of coconut economy. However, the thrust of *research should be on development of disease-resistant varieties of coconut and also varieties which could survive efficiently in rain-fed conditions. Field visits to coconut farmers by the Commission reveal that, in addition to irrigation, the attack of pests and diseases could be averted/minimized by application of bio-fertilizers.* As already brought out in our earlier Report, the risk in coconut cultivation has of late increased and the coconut growers are suffering loss due to lower yield caused by frequent occurrence of natural calamities and attack of pests and diseases. Hence, the Commission *reiterates* its earlier recommendation that **coconut plantations should be covered under the National Agricultural Insurance Scheme.** Besides, all-out efforts should be made to conserve the soil moisture to mitigate dry spell effects and adopt appropriate farm management practices for control of pests and diseases. Moreover, field demonstration and training programme in root (wilt) areas has to be organized to motivate the farmers to adopt the technologies and increase their income level through enhanced yield.

4. The Commission submitted its report on price policy for copra for the 2007 season on October 13, 2006, recommending the Minimum Support Price (MSP) for the fair average quality (FAQ) of milling copra at Rs.3620 per quintal and of ball copra at Rs.3870 per quintal. The Government, in turn, announced the price

support for copra on 8th March, 2007, fixing the Minimum Support Price (MSP) at the same levels as recommended by the Commission. These prices marked an increase of Rs.30 per quintal each for milling and ball copra over the respective MSP fixed for the preceding season. (Table 1)

5. The Commission has been emphasizing in its earlier reports that the MSP for copra should be announced before its marketing season. The MSPs for copra for the earlier two seasons (2005 and 2006) were announced by the Government in the month of January of the respective year, enabling the farmers and the various stakeholders to get timely price signals well before the marketing season began. However, there was delay in the announcement of MSP for copra by the Government for the 2007 season. The Commission, therefore, reiterates that the practice of announcing MSP for Copra by the Government in the month of January should be maintained.

6. The market for coconut (with husk) since 2003 has been quite volatile. The annual average Wholesale Price Index (WPI base 1993-94 =100) for coconut (fresh) for the year 2002 (January-December) was 121.4. During 2003, the WPI increased to 146.5 and peaked at 155.2 in 2004. But average WPI sharply declined to 138.6 in 2005 and further to 126.6 in 2006. The WPI for July, 2007 at 126.6 indicated an increase of 6.3 per cent over the WPI of July, 2006 (119.0). The maximum price recorded at Thiruvananthapuram was Rs.7,013 per thousand nuts in February, 2005. However, the prices declined to Rs.3,975 per thousand nuts by June, 2007. The prices of both milling and edible copra displayed buoyancy from 2003 to the first quarter of the year 2005, and remained above the MSP, not necessitating any market interventions. However, the market buoyancy did not sustain and a reversal of price trend was noticed from April, 2005. The WPI of copra for December, 2004 was at all time high of 210.6. By December, 2005, the WPI slumped to 155.5 and further declined to 143.1 in December, 2006. During July, 2007 it was depressed to 126.3. Analysis of price of copra in two major markets, viz., Kochi and Alappuzha from January, 2006 – July, 2007 reveals that the monthly average price of milling copra ruled below the MSP declared by the government. Owing to the festival demand, there was some recovery on price front in October-December, 2006. However, the quantum of procurement during the current season (upto July, 2007) has been reported to be 1,011 tonnes in

Kerala, 1,344 tonnes in Tamil Nadu and 3,522 tonnes in Andhra Pradesh which were inadequate to induce any meaningful impact on the market price. The expected increase in production of copra in the coming season compared to previous years may result in further decline in the farm gate prices of coconut.

(Tables 3, 6 & 10)

7. The market prices of coconut oil ruled quite high in 2004 and for some months in 2005. However, in 2006, the price of coconut oil began to slide and in 2007 (upto July), the prices of coconut oil remained generally depressed.

8. CDB has reported that the average monthly prices for ball copra at Tiptur market during 2004 and 2005 were Rs.6,383 per qtl. and 7,238 per quintal respectively which were higher than the MSPs fixed for the corresponding years. The maximum wholesale monthly average price for ball copra was recorded at Rs.7,700 during the month of November, 2004 at Tiptur. The increase in the price of ball copra is due to the sharp decline in the production of ball copra. However, a change in the price behaviour of edible copra was noticed from January, 2006 onwards. The price of ball copra declined by the end of 2006 and the decreasing trend was continuing in the year 2007. The price has been ruling below the MSP since February, 2007. It reached Rs.3,549 in June, 2007 which is lower than the MSP declared for the season 2007. The quantum of procurement of ball copra during the 2007 season (upto July, 2007) was 19158 tonnes in Karnataka.

(Table 10)

9. It has been repeatedly brought to the notice of the Commission that the MSP operation for copra provides price safeguard only to the traders who make copra out of coconuts and not to the coconut cultivators or farmers. Whereas copra is a processed form of coconut, most of the farmers dispose of their coconut at farm level to petty copra processing agents. Generally, small farmers have no infrastructural facilities and financial soundness to convert the coconut into copra. They have to depend upon traders/middlemen for processing of coconut. It is estimated that around 80 per cent of the farmers dispose their coconut to such agents. Therefore, the benefit of the scheme may go only to those farmers who convert their coconut into copra for delivering to PSS agencies. The demand is

pending from several quarters that green coconuts are to be procured rather than copra. The State Government of Kerala has already taken definite initiatives in this regard. During the price policy discussions, the Commission was given to understand that the Government of Kerala has recently decided, in principle, to procure green coconuts direct from the growers for further processing. KERAFED will be entrusted with the procurement operations. Further details and modalities of the operations are under the active consideration of the state government.

10. The Commission in its last year report had recommended that the State Governments in consultation with NAFED, KERAFED, TANFED and other similar organizations should work out a parity price for green coconut/raw coconut, based on weight and other relevant factors and fix MSP for green coconut so that the benefit of minimum support price for copra is transmitted to coconut growers and also ensure that green coconut is procured at MSP and processed immediately by concerned agencies. For this, necessary drying and procuring facilities should be strengthened at the local level. It is understood that the CDB has already initiated preliminary discussions on this aspect at various levels for working out a suitable methodology to fix the parity price for coconut based on the MSP of copra. The size of coconut, kernel thickness, copra content and oil percentage etc. varies from state to state and season to season. Hence, these parameters are to be arrived at prior to the selection of matured green coconut. In this connection, the CDB has also suggested formation of Farmers' Co-operative Groups or Societies to procure nuts from farmers direct, process into copra (community level processing) and sell / deliver the copra to NAFED. The Commission recommends that the **Government should appoint a committee of experts and stakeholders concerned to examine the proposal submitted by Government of Kerala and KERAFED to procure green coconut from farmers, so that the benefits of MSP for copra percolate down to the farmers. The Committee would examine the details regarding the methodology, procedure and necessary infrastructure required at the local level for this purpose.** A suggestion has also been placed before the Commission that the specification of ball copra may be reduced to 6.5 cm. diameter from the prescribed limit of 7.5 cm. This is mainly to accommodate Kerala's requirements. In Kerala, the product is

prepared in the traditional way which does not satisfy the present yardstick. Therefore, the suggestion deserves favourable consideration.

11. In the international market also, the prices of copra as well as that of coconut oil has been displaying volatility. The average world price of copra (Philippines, Indonesia, CIF Europe) was USD 301 per metric tonne in 2003, which rose to USD 450 per metric tonne in 2004. The world prices of copra started declining from March, 2005 and reached USD 403 in 2006. However, after January, 2007, it started rising again and in June, 2007 it reached USD 613 per metric tonne. The world prices of coconut oil (CIF Rotterdam) were buoyant during 2004 and the average price was USD 661 per metric tonne. During 2005, the average world prices of coconut oil declined to USD 617 per metric tonne and in 2006 it had fallen to USD 607 per metric tonne. However, it has started rising sharply after January, 2007 and in July, 2007 it was USD 929 per metric tonne.

(Tables 8 & 9)

12. It is well known that the behaviour of coconut oil prices is substantially governed by the overall supply and demand of oils and fats in the country. The cheaper and abundant availability of palm oil indigenously in the liberalized import regime alongwith the considerable growth of alternative vegetable oils have depressed the demand for coconut oil in the country. Added to this, in the interplay of market forces related to coconut oil, the supply force has emerged as stronger than that of demand in recent times, in the wake of the increased production of coconut. The custom duty on crude palm oil has been reduced to 45 per cent from 50 per cent and on refined palmolein (RBD) it has been reduced from 57.5 per cent to 52.7 per cent, while custom duty on crude soyabean oil has been reduced from 45 per cent to 40 per cent and crude sunflower oil has been reduced to 40 per cent from 50 per cent. The tariff on refined sunflower oil has been reduced to 50 per cent from 60 per cent. It has been observed that the cheaper availability of other alternative vegetable oils is causing a shift in consumption towards such oils from coconut oil. Palm oil is the major competitor with coconut oil in the edible oil segment. In the sectors where large quantities of edible oils are consumed, coconut oil is being substituted with palm oil as it is

cheaper. The industrial demand for coconut oil has also shifted to other vegetable oils especially palm kernel oil. All these will adversely tell upon the coconut growers. However, it is expected that prices of palm oil would rise in the international market due to the growing demand of palm for bio-diesel in Malaysia and Indonesia which may have price augmenting effect on coconut and coconut oil in India. Nevertheless, the Commission believes that unless the import duty structure on edible oils is rationalized and there is proper co-ordination between price support policy and import policy of the Government, coconut growers in India may continue to suffer from price fluctuation. Hence, the Commission recommends that the **Government of India should maintain the import duty structure on edible oils at a rational level to safeguard the interest of coconut farmers in the country.** An appropriate campaign should also be launched for popularizing the use of coconut oil. Besides, efforts should be made to improve the international competitiveness of domestic coconut industry.

13. The Commission has been informed that in several places, adequate godown facilities are not available for smooth procurement operations. Further, some of the procuring agencies are facing the problem of delayed payments from NAFED. Every effort should be made to make the payments in time so that the interests of farmers are not in any way affected. Finance for PSS is sourced from Commercial Banks against Government Guarantee/Comfort Letter. Timely issuing of such instruments may help in sourcing the funds for smooth remittance to procuring agencies against hypothecation of stock.

14. Despite the fact that coconut offers excellent opportunities for product diversification and value addition, India has not made much stride in the development of varied products from coconut and its commercial exploitation. The countries like Philippines, Thailand, Vietnam, Indonesia, etc have made tremendous achievement in the post harvest processing of coconut and its commercial exploitation. One of the reasons for India having not made any dent in the field of product diversification and by-product utilization, is the absence of adequate investment in the R&D sector of post harvest management. However, in

recent years, the CDB has ventured into developing new technologies for product diversification and by-product utilization, in tune with those of other leading countries and has set up a Technology Development Centre for undertaking research projects in areas like product development, design and fabrication of coconut processing machineries and development of cost effective packaging systems for coconut products. These efforts for evolving technologies for the development of new value products are to be further emphasized and expanded. In fact, there are tremendous potentials for revitalizing the coconut economy through alternative uses of coconut and value addition through product diversification. There is considerable potential in the use of coconut fibre waiting to be tapped, in the making of various food items and confectionaries. The fibre-rich ingredients could supplant sugar in respect of several items without sacrificing their textural properties. Further, it is now getting widely recognized that tender coconut water can be concentrated and canned in tetra-packs for export as well as domestic purposes. There is a great potential for promoting tender coconut as a natural source of nutritious food and beverage. Production of high-value products out of coconut oil is another possible line of action to improve the competitiveness of coconut industry. An advisable course of action could be for the private industries and R&D institutions to join hands and strive for development of state-of-the-art technologies to facilitate product diversification for strengthening the coconut sector in general and income of the coconut growers in particular. Accordingly, the Commission recommends that ***R&D efforts aimed at promoting diversification of coconut products should be taken up on a massive scale under public-private partnership mode.*** Another option for elevating the economic lot of coconut farmers is the adoption of coconut-based multiple cropping system as inter-cropping of coconut alongwith other crops is feasible.

15. A project entitled 'Standardization of extraction and preservation techniques of palm sap (toddy) from coconut' was sanctioned by ICAR and the same got started at Regional Agricultural Research Station, Nileshtar. The objectives are to standardize technologies for post harvest handling, processing and value addition of coconut inflorescence sap. Value added products such as CIS RTS, CIS Honey and CIS granules were developed from coconut inflorescence sap. Quality and accessibility of the products were assessed. Machineries were

fabricated and a Pilot Plant was established for demonstration of technologies for willing entrepreneurs as part of technology transfer. With the procedure for the transfer of technology having been finalised, a policy decision from Government is awaited to give licence for tapping coconut palms. A decision in this regard may be expedited.

16. The Coconut Development Board has been taking steps for encouraging coconut oil manufacturers to adopt packaging and branding of coconut oil and achieve quality standards with the intent of increasing market share as well as protecting the interests of consumer. Coconut oil can hope to retain its pride of place as a premium oil only by reinforcing purity and quality in the various processes involved in its production and packaging as well as in the end products. The Commission, therefore, would like the CDB to reinforce its focus and initiatives in this direction.

17. Cost of cultivation/production is one of the most important parameters considered in the determination of Minimum Support Prices (MSP). The cost estimate for coconut under CS (Comprehensive Scheme) has been made available for the year 2005-06 for the state of Kerala only. Moreover, the projected cost for the year 2008-09 has been received from Andaman & Nicobar Islands, Karnataka, Kerala, Tamil Nadu and CDB (Coconut Development Board). After making certain adjustments to make these costs comparable in line with the projections made by CACP, the per nut unit cost for coconut is arrived at Rs.5.68 for Kerala, Rs.5.00 for Tamil Nadu, Rs.4.83 for Karnataka and Rs.6.00 for Andaman & Nicobar Islands. The projected cost estimated by CDB comes to Rs.5.50 per nut. The cost data provided by the states are very useful and considered while making overall cost projections. The cost projections for coconut for the year 2008-09 for Kerala based on CS data have been worked out at Rs.4.64 per nut. The weighted average total cost of production (weights being the relative shares of production of these states) works out to Rs.4.79 per nut. Assuming that 725 nuts are required for producing one quintal of copra and considering the conversion cost at the same level of Rs. 193 per quintal as worked out by the NAFED for the previous season, the cost of producing one quintal of copra is estimated at Rs.3666.

18. 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 2008 season, be fixed as follows:***

	(Rs. per quintal)
Miling copra	: Rs. 3660
Ball copra	: Rs. 3910

sd/-

(T. HAQUE)
CHAIRMAN

sd/-
(K. PONNUKANNU)
MEMBER

sd/-
(M.S. GREWAL)
MEMBER

sd/-
(V.M. JADHAV)
MEMBER

sd/-
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MEMBER SECRETARY

September 7th, 2007