News_BMFE_2000-50.pdf

13/05/00 Island

Falling coconut prices – an analysis

by Dr. U. P. de S. Waidyanatha
Chairman, Coconut Research Board

The bumper coconut harvests last year and continuing into this year have sharply depressed coconut prices. Relatively good prices prevailed throughout the last several years, and particularly the last year was exceptional in that good harvests combined with good prices contrary to the oft experienced inverse relationship between price and production. Growers who enjoyed good incomes last year are, naturally, exceedingly disappointed with the present price downswing.

Improved harvests are also anticipated from other leading producing countries, and this year's world production is expected to exceed the 1999 production by at least 5%. Prices of desiccated coconut (DC) in the world market have dropped by over 15% in the first quarter of this year, due largely to higher exports at the end of last year, and large stocks in the hands of the importers. Concurrently, coconut oil prices have also plummeted by about 25% consequent on competing supplies of cheaper palm oil. All these have exacerbated the downswing of nut prices both locally and elsewhere in the world. For example, fresh nuts prices in the Philippines and Indonesia have dropped by more than 20% over the last two months, comparable in magnitude to the drop in the current local nut prices.

Local Production Trends

Increased rainfall, in the coconut triangle, more significantly the better distribution, during the last few years with no marked dry spells, attractive coconut prices leading to improved input application as also effective technology transfer thrusts by the Coconut Research Institute (CRI) and the Coconut Cultivation Board (CCB), have all synchronized and synergrised towards increased coconut production. Improved management of coconut lands, for example, is shown by some 20% increase in the use of fertilizer during the last four years compared to the previous period (Table 1). However, fertilizer use yet remains at 35 - 40%, of the optimal demand for coconut. There are also discernible improvements in other agronomic and cultural practices.

See Table 1

The production for 1999 has been 2830 million nuts. In the first quarter of this year, the production *in the coconut triangle is about 10% in excess of* that of last year. With reasonably conducive weather prevailing, it is likely that production for this year would reach the 3000 million mark, which happened last in 1986. There are also other good reasons to expect this high production trend to continue. Firstly, there is a net increase in the extent under coconut (Table 1) contrary to alarm expressed in various quarters that the extent under coconut is shrinking. Coconut cultivation has expanded in several non-traditional areas such as the Moneragala, Ratnapura, Kegalle and Polonnaruwa Districts, and there appears to be an excess of production over consumption in these areas, depressing nut prices in them relatively more than in the traditional areas, because of lack of processing industries to absorb the excess production. Secondly, CRI has been releasing genetically improved material under its seednut production programme at a rate of about 2 million seednuts per year from 1980. Issues of seedlings from the CCB nurseries raised from improved CRI seed nuts have exceeded 36 million over the last 20 years. This material will come into production over the coming years. Thirdly, the CCB has been having an effective programme of coconut planting in home gardens aimed at increasing the nut supply for household consumption and making way for production from larger holdings for the industry. Fourthly, there is now unprecedented interest for replanting of senile plantations aided by assistance schemes of the CCB. All these factors should continue to increase coconut production over the years except when droughts interfere.

Based on time series analysis CRI predicts, on average a production of about 2780 million nuts per annum for the next three years. Accordingly, on the basis of the current local utilization of coconuts as shown below, there will be an 'over production' of about 250-300 million nuts per annum which may continue to have an adverse impact on nut prices:

Anticipated mean annual production -	2780 million
DC industry -	480 million
Coconut oil industry	300 million
Local consumption	1650 million
other-	80 million
Excess -	270 million

Channels for processing this 'excess' production into economically marketable products have therefore to be found. In the short term however, it would appear unlikely to be able to utilise such a large amount in any non traditional enterprises, and the DC and oil industries should absorb bulk of it.

See Table 2

Source: Sri Lanka Customs Tariff Guide (various years). Policy Planning & Research Division, Sri Lanka Customs and personal communications

DC Market

Sri Lanka's DC exports for 1999 reached 63,000 MT earning US$ 72 million, an increase of 49% over the previous. This was largely a consequence of the 30% waiver of tariff on substitute vegetable oils in November, 1998, (Table 2) stimulating more nuts to be diverted to the desiccated coconut industry from the copra/coconut oil industry. In a liberalised economy such tariff waivers are logical to provide the consumers access to cheaper vegetable oils and to support the more competitive DC industry

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Table I

Period	Coconut Extent ('000 ha)	Mean Production (Mln nuts/yr)	Mean Rainfall (Inches/Yr)	Mean Fertilizer Use ('000 MT/Yr)	Mean Nut Price (Rs./Yr)
1981-85	412	2398	78.5	38.5	1.76
1986-90	392	2457	72.4	35.9	1.98
1991-95	401	2404	75.6	32.0	3.87
1996-99	434	2627	84.1	38.3	6.72

Sources: Coconut Development Authority, National Fertilizer Secretariat, Coconut Research Institut

Table 2

Tariff rates (%) for importation of coconut oil and other vegetable oils

Date	Coconut Oil			Other Vegetable Oils		
	Tariff	Waiver	Effective rate	Tariff	Waiver	Effective rate
09.11.1995	35	20	15	35	-	35
11.06.1996	35	20	15	35	30	05
15.01.1997	35	20	15	35	15	20
19.11.1998 to 14.02.2000	35	-	35	35	30	05
15.02.2000 to 26.04.2000	25	-	25	25	20	05
27.04.2000 to-date	25	-	25	25	-	25

Source: Sri Lanka Customs Tariff Guide (various years). Policy Planning & Research Division, Sri Lanka Customs and personal communications