

Global Coconut Industry in 2009- A Glimpse of the darker side

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Introduction

Coconut oil, a traditional source of oils and fats in the world is considered as a premium priced oil on account of its inherent qualities, wide use and applications for both edible and non edible purposes. The coconut palm is widely distributed throughout Asia, Africa, Latin America and the Pacific region. India, Indonesia, Philippines, Argentina, Sri Lanka, Thailand, Mexico and Vietnam are the major producers and traders of coconut in the world. Coconut is a rich source of dietary fat and fiber. Coconut shell based activated carbon, coir and coir products and coco peat are in great demand throughout the world. Copra meal, the by-product of the coconut oil industry, is a major ingredient in the animal feeds and hence commands global demand. Precisely, all parts of the coconut palm are used to meet human needs as food, drink, shelter, animal feed, fuel etc. More than 130 countries in the world import coconut and coconut products in various forms to meet their domestic requirements. The major importers of coconut oil in the world are U.S.A., Germany, The Netherlands, China, Malaysia, Russian Federation, Belgium, France, Italy, Japan, Korea Republic, Spain and U.K. The major importers of copra are Bangladesh, Belgium, Germany Pakistan, Malaysia, Kenya and U.K. Countries like USA, UK, Germany, Netherlands etc. have long

term trade tie-up with their exporting countries like Philippines, Indonesia, Sri Lanka, etc. for the continuous supply of coconut products particularly, coconut oil, desiccated coconut powder, coconut shell activated carbon etc.

Overview

The major coconut products and by-products that make a dent in the world market are coconut, copra, desiccated coconut powder, coconut oil, copra meal, coconut milk, coco oleo chemicals, nata de coco, coconut water, coir & coir products, coconut shell charcoal and the shell based activated carbon. Among these products, the trade in coconut oil and its derivatives in the world market determines the growth and sustainability of coconut cultivation and industry in all producing countries besides governing the domestic price of coconut and coconut products. Except India, the bulk of the coconut products in the producing countries in the world, are being exported and hence the export market determines the price of the coconut and its products in the respective countries. The domestic price of coconut in these countries is therefore influenced by the international price of coconut oil. After the globalization of Indian economy, the price of coconut in our country is also influenced by the world prices of fats and oils. The domestic demand for coconut in these countries are mainly for cooking oil in the household sector and food

The liquidity crisis coupled with the economic recession experienced in most of the economies of both developed and developing countries has depressed not only the import appetite of many economies in the world but distressed the export expectation of important coconut producing countries. The coconut oil is considered as the most affected commodity due to this sudden downturn of the economy.



Table 1. Monthly fall in the prices of major Vegetable Oils for the Year 2009. (Price in US\$/MT)

Months	Coconut oil			Soyabean oil (InUS\$/MT)			Palm oil (in US\$/MT)			Palm Kernel oil (in US\$/MT)		
	2008	2009	% change over/08	2008	2009	% change over/08	2008	2009	%change over/08	2008	2009	% change over/08
January	1285	734	-43	1251	789	-37	1055	562	-47	1229	570	-54
February	1325	671	-49	1376	758	-45	1121	578	-48	1339	575	-57
March	1570	637	-59	1524	729	-52	1270	597	-53	1477	584	-60
April	1430	709	-50	1415	783	-45	1161	651	-44	1421	652	-54
May	1497	842	-44	1429	902	-37	1197	812	-32	1434	830	-42
June	1613	798	-51	1537	901	-41	1213	742	-39	1407	767	-45
July	1416	677	-52	1554	837	-46	1175	665	-43	1318	662	-50
August	1163	730	-37	1305	907	-30	909	719	-21	1033	710	-31
September	1140	705	-38	1320	853	-35	920	652	-29	1040	700	-33
October	942	706	-25	1085	928	-14	750	678	-10	855	722	-16
November	700	713	2	717	902	26	507	698	38	521	739	42
December	730	760	4	743	956	29	496	784	58	554	817	47
Average	1234	724	-41	1271	854	-33	981	678	-31	1136	694	-39
CV	25	8		22	9		28	12		30	13	

industries such as snack foods and instant noodles. The bulk of the primary processing industries in the world are dominated by small and medium scale entrepreneurs and hence buyers determine the price of the commodity. In India, the primary processing of coconut into copra and to some extent extraction of coconut oil are run by small players and hence the marginal scale returns are inadequate to make them globally competitive. However, the scale of economy in the operation of processing units in the exporting countries is significantly high and hence their products are globally competitive.

The year 2009- An unfavorable market situation for coconut industry:

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is considered as the most affected commodity due to this sudden downturn of the economy. The international price at Amsterdam has been crashed and coconut farmers in many producing countries witnessed an all time low price for copra and coconut. The careful, controlled and calibrated measures initiated by the Indian government to absorb the shock of global financial crisis which had engulfed almost all sectors of the economy of our country has resulted

in a sign of firm recovery. The stimulus packages to mitigate the impact of meltdown which were felt in terms of reduction in export earnings and surge in the import of essential commodities to bring down the consumer price index and inflationary pressures have created residual effects on certain sectors. Thus the year 2009 witnessed extravagant vigil and correction measures to arrest the spiraling burst in the prices of essential

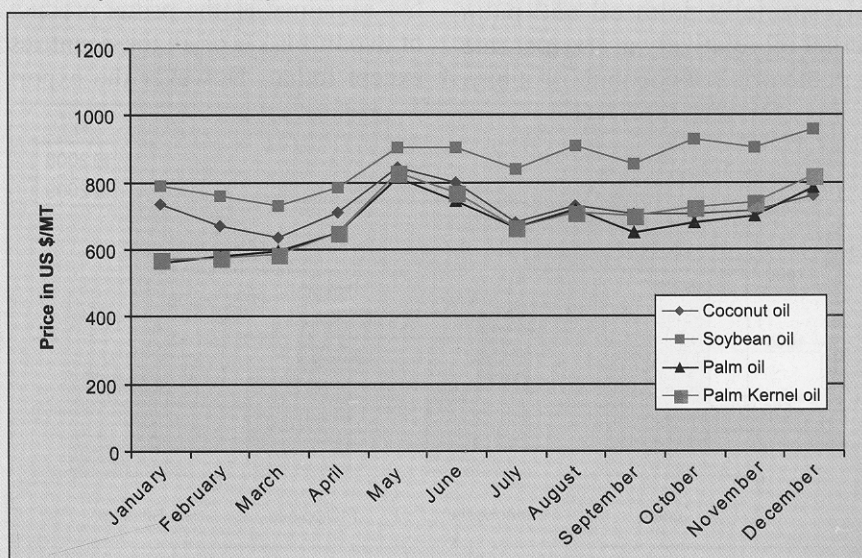
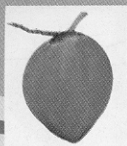


Fig. 1. Monthly price movement of important vegetable oils in the world market



commodities aimed at popping up consumer demand and keeping the wheels of industry moving. Vegetable oil being the priority item in the food basket of Indian consumers and the need for making the vegetable oil access to common man at affordable price prompted the government to allow the import of crude palm oil at zero percent import duty. Consequently, the prices of vegetable oil dwindled abruptly. There was an unprecedented fall in the prices of coconut and coconut products particularly coconut oil in the domestic market due to disguised surplus of copra and coconut oil. Copra processors have abstained from processing activities to avoid the risk of loss due to continuing fall in the prices. The coconuts were piled in the garden without a sound market. The harvests were skipped to avoid harvesting and further costs of production. The gross income of the farmers has been shrunk making a deep hole in their pockets. The farms were kept without maintenance. The unprecedented inflow of vegetable oil especially palm oil and palm kernel oil relatively at cheaper rate kept the price of coconut oil at bay.

Table 2. Countrywise average prices of coconut oil, 2008 - 2009 (price in US\$/MT)

Months	India		Indonesia		Philippines		Srilanka	
	2008	2009	2008	2009	2008	2009	2008	2009
January	1348	1175	1152	610	1358	734	2281	1327
February	1348	1094	1262	535	1392	671	2492	1284
March	1450	1027	1328	510	1783	693	2913	1337
April	1519	1030	1276	568	1630	771	2451	1488
May	1392	1019	1327	765	1624	821	2080	1552
June	1458	964	1481	714	1729	779	1942	1470
July	1535	977	1360	590	1666	643	1875	1254
August	1483	988	1571	636	1218	758	1571	1449
September	1424	942	1590	516	1194	674	1590	1375
October	1219	946	738	629	1077	680	1404	1471
November	1204	956	506	612	898	678	1340	1609
December	1449	1090	657	663	780	696	1458	1726
Yearly average	1402	1017	1187	612	1362	717	1950	1445
CV	8	7	30	13	25	8	26	10

Global Coconut Industry Situation in 2009:

The estimated world production of coconut in 2009 was 11.04¹ million MT of copra equivalent recording an increase of 4 per cent over 2008. India and Indonesia had a dip in the production on account of deficit rainfall while Philippine received fairly a well distributed rainfall in 2008 and hence the production recorded an increase of 4 per cent over 2008. Coconut oil has remained as the prime product of export basket of all the countries except India. However the export

volume in the major exporting countries had slide down due to the sudden fall in demand on account of global meltdown. While Philippine's export was down by 6.4 per cent and that of Indonesia's by 31 per cent in 2009 than 2008, India's export was increased by 44.6 per cent. The major reasons attributed to the lower export volume of coconut oil in Philippine were due to economic crisis as well as the increasing domestic allocation of coconut oil for the production of methyl ester (CME) for utilizing as bio-fuel. The desiccated coconut, the other important commodity traded in the world market recorded a marginal growth of 3 per cent. Similarly, the export of shell based activated carbon and coir and coir products had also witnessed a similar trend with 4 per cent increase over 2008. Precisely, coconut industry in the world was affected adversely by the global financial crisis mainly on account of diminution of purchasing ability of the consumers and subsequent decline in the import appetite particularly in the EU countries.

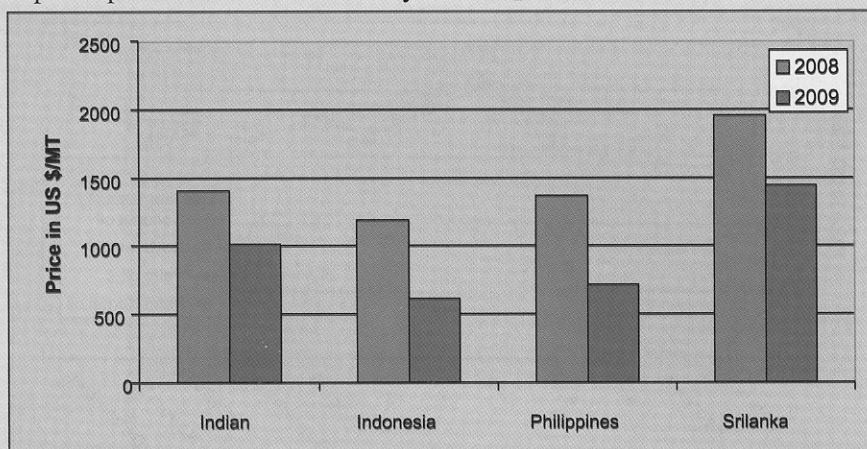


Fig. 2. Average Annual Prices of Coconut oil in major coconut growing countries



Table 3. Monthly Average Prices of coconut oil. Domestic v/s International 2009 (Price US\$/MT)

Months	Price at Kochi	International Prices	Differences in %
January	1175	734	60
February	1094	671	63
March	1027	637	61
April	1030	709	45
May	1019	842	21
June	964	798	21
July	977	677	44
August	988	730	35
September	942	705	34
October	946	706	34
November	956	713	34
December	1090	760	43
Average	1017	724	34

Globally coconut oil competes with 16 other oils and fats. Among these soybean oil, palm oil, sunflower oil and rapeseed oil are the major oils the prices of which are closely integrated with each other. Coconut oil faces tough competition from these oils especially palm oil and palm kernel oil. In recent years, the cultivation of oil palm is increasing at a rapid stride in many countries like; Malaysia, Indonesia, PNG etc. In many of these countries, the crop is cultivated on a plantation scale and because of its scale of operation and high rate of out put per unit area comparing to other oil seed crops its cultivation is highly competitive and sold as the cheapest oil in the world. As a result of the increasing trend in area, production and productivity the palm oil and palm kernel oil are the cheapest oil available in the world market for import into many oil deficit countries. During 2009, the total world production of crude palm oil was 45.12 million MT and that of Palm Kernel oil was 5.21 million MT from an area of 12.18 million ha recording an increase of 173 per cent and 145 per cent respectively over 1995 production. Indonesia and Malaysia constitute 85.4 per cent of

the total production of crude palm oil². The tremendous growth in area and production of oil palm during the post WTO era has made the palm oil and palm kernel oil occupying a dominant position in the total vegetable oil pool in the world. During 1995, the share of the palm oil and palm kernel oil in the total vegetable oil pool was 22.68 per cent and 2.96 per cent respectively and that of coconut oil was 4.4 per cent. In 2009, the share of these oils reached 32.86 per cent in case of palm oil and 3.86 per cent in respect of palm kernel oil. The share of coconut oil has shrunk to 2.4 per

cent. While the annual compound growth rate (CGR) in the production of total vegetable oil was 4.63 per cent over a period of 14 years the corresponding growth rate with respect to palm oil and palm kernel oil was 7.43 and 6.62 per cent respectively. The rate of growth in the production of coconut oil was only 0.19 per cent which indicates that coconut oil has become a minor oil locked up in a competitive battle with other vegetable oils in the world market. In short the palm oil and its derivative oils have now turned to become the cheapest oil in the world. The production of palm kernel oil (PKO) as a lauric oil similar to coconut oil is growing faster than the production of coconut oil. Coconut oil and Palm kernel oil are almost interchangeable in many applications because of their similar fatty acid composition. Coconut oil and palm kernel oil are called lauric oils because of their high level of lauric acid (C12) which make them unique among all the other vegetable oils.

International Price of coconut oil

In general, the price of coconut oil is influenced by the prices of other vegetable oils and fats in the

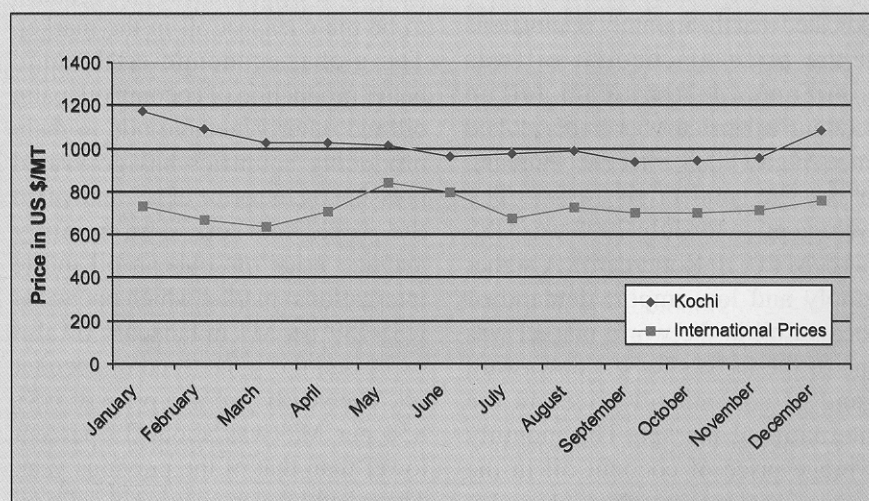


Fig. 3. Domestic and International Prices of Coconut oil - 2009

international market. The vulnerability of coconut market to the volatility in the prices of other vegetable oils, particularly when the price difference are significantly high, the coconut farmers in all the producing countries in the world are deprived of remunerative prices which in turn narrow down the gross income of the farm family. The year 2009 witnessed a massive slow down in the demand for vegetable oils which subsequently brought down the prices. The monthly prices of major vegetable oil in the international market for the calendar years 2008 and 2009 are given in table 1 and Fig. 1. In the world market the price of the major vegetable oils has fallen down which is 31-41 per cent less than that of the corresponding prices of 2008. While the average annual price of coconut oil price in the international market was down by 41 per cent, the fall in prices of palm oil and palm kernel oil was 31 and 39 per cent respectively (see table). While comparing to the prices of 2008, the year 2009 witnessed more or less stable prices in all the major vegetable oils except in the case of palm kernel oil. Among all the oils coconut oil registered a low value of CV which indicated that the monthly fluctuations in the price of coconut oil was minimum. A significant fall in coconut oil price was experienced since August 2008, after the beginning of the financial crisis in US. The average price for July 2008 was US\$ 1416 /MT (CIF Rotterdam). A higher supply and low import demand of coconut oil in the world market was one of the factors for the downward trend of coconut oil prices in the international market. The monthly average price of coconut oil in the international market which opened at US\$ 734 per MT during the month of

January 2009 expressed a downward trend till March. The price improved to US \$842 in May '09 and thereafter the price slid to US\$ 677 per MT in July '09. The price improved to US\$ 705 in September and thereafter expressed an upward trend and reached US\$760 per MT in December '09. The monthly average price of US\$ 760 per MT was about 7 percent higher than that of the previous month. The yearly average price of US\$ 724 per MT was about 41 percent lower than that of the previous year.

Among the major coconut growing countries in the world, the price fall was very sharp in Philippines and Indonesia mainly on account of the poor export performance. The domestic market in India and Sri Lanka kept the coconut oil prices comparatively at comfortable positions. In Sri Lanka, imposition of higher duty on the import of palm oil kept the domestic price at parity level. In India, the removal of import duty on the crude palm oil and significant reduction of duty on refined palmoline and palm kernel oil has eased the import and their distribution in the domestic market at competitive rate. In 2009, palm oil and palm kernel oil continued to be the cheapest oil in the market. The global economic crisis amid better production of coconut oil, palm oil and other vegetable oils in main producing countries has generated pressure on the price of coconut oil in the world market. The monthly average price of soybean oil in the international market which opened at US\$ 789 per MT in January '09 also expressed the same trend of coconut oil. The yearly average price of US\$ 854 per MT was about 33 percent lower than that of the previous year. The monthly average price of palm oil in the international market which

opened at US\$ 562 per MT in January '09 expressed an upward trend and reached US\$ 812 in May '09 and thereafter slid to US \$ 652 per MT in September '09. The price improved to US\$ 784 in December '09, which was about 12 percent higher than that of the previous month. The yearly average price of US\$ 678 per MT was about 31 percent lower than that of the previous year. The monthly average price of palm kernel oil in the international market which opened at US\$ 570 per MT expressed an upward trend and reached US\$ 830 in May '09, thereafter expressed a downward trend and reached US\$ 700 per MT in September '09. The price improved to US \$ 817 per MT in December '09 which was about 11 percent higher than that of the previous month. The yearly average price of US\$ 694 per MT was about 39 percent lower than that of the previous year.

In general, the year 2009 witnessed a fall in the demand for coconut products in many consuming countries on account of resource crunch and structural rigidity. Similarly, the pace of export growth in coconut and coconut products have been distinctly low in all the exporting countries particularly in Philippines and Indonesia resulting in a price contrast in all the coconut products. The only exception was observed in Sri Lanka where the price remained at a high rhythm due to import restriction on the import of palm oil. In a free market economy the prices are determined by both the demand and supply. Consumers are considered king in the free market society.

^{1&2} Various issues of the Co-Community, APCC, Jakarta
Various issues of the SEA News