

Price fall in Coconut sector : a short term phenomena

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India has produced 14.70 million tonnes of coconut in 2020-21 from 2.2 million hectare area with a per hectare productivity of 6.8 tonnes/ha (FAO stat data 2021). Coconut production in the country has increased from 10.89 million tonnes during the year 2010-11 to 14.70 million tonnes in 2020-21 with 3.0 percent compound annual growth rate of production. Productivity also has shown an upward trend from 5.7 tonnes per hectare in 2010-11 to 6.7 tonnes in 2020-21. The compound growth rate of productivity was found to be 1.63 percent during the period. As per the latest estimates, the production of coconut during 2020-21 was recorded at 14.7 million tonnes with a positive growth rate of 7.6 percent over the previous year.

Kerala is the leading coconut producer in the country with an annual production of 4.81 million tonnes, followed by Tamil Nadu which produces 3.75 million tonnes annually. The coconut palm exerts a profound influence on the rural economy of many states where it is grown extensively and it provides sustenance to more than 12 million people. The export earnings derived by India from coconut

during 2020-21 was around Rs.6074 crores, through the export of coir products (Rs. 3779 Cr.) and coconut products (Rs. 2295 Cr.). The processing and related activities centered on the crop generate employment opportunities for over two million people in India. As an oil seed, coconut holds around 15 per cent share of the total oilseed value output in the country.

Endeavoring to prioritize the issues associated with coconut, it is realized that coconut farmers are confronted with market-related difficulties such as low and highly fluctuating prices and difficulty to find favorable market outlets for their products. Moving up the global value chain poses many challenges for the coconut sector in the country since price competitiveness is less due to high domestic prices in comparison with the international market. However the gap between the domestic prices and the international prices is narrowing recently which is bound to increase the export competitiveness of coconut and its products.

During the current period, we are witnessing a decreased price trend in the domestic level while an increasing trend is found in the international



level. The Indian price of coconut oil averaged at Rs. 163/Kg in December 2021 which has come down from Rs.203/kg twelve months ago or a decrease by 20% as indicated in Table-1. The international price showed an increased trend during the same period. The international price of CNO averaged at Rs 144.95/kg in November 2021 which was up from Rs107.73/kg eleven months ago in December 2020 which was an increase of 34.5% over the period as indicated in table-1.

Table 1. Price trend in coconut oil in domestic & International market

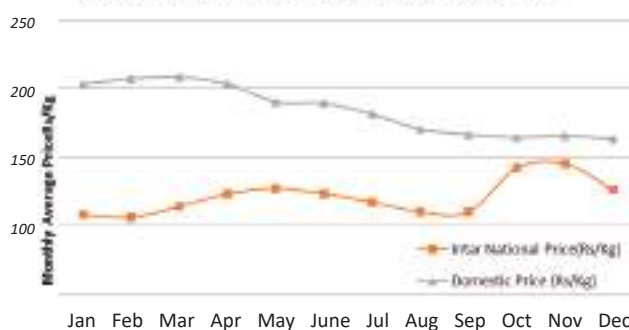
Month	Average Int. price (Rs/kg)	Average dom. prices (Rs/kg)
Dec-20	107.73	202.97
Jan- 21	108.16	202.60
Feb- 21	106.79	207.45
Mar-21	113.90	207.95
Apr-21	122.69	203.12
May-21	126.80	189.85
June-21	123.51	188.67
July- 21	117.11	180.70
Aug-21	110.42	169.63
Sep- 21	109.78	166.36
Oct-21	142.14	164.22
Nov-21	144.95	165.69
Dec-21	125.71	163.00

Source: 1. World Bank Pink Sheet (December 2021).
2. Directorate of Economic & Statistics, Ministry of Agriculture & Farmers Welfare
3. Indian Coconut Journal, December 2020 to December 2021-Market Review

Although some of the researchers analyses it as just a bubble, the decrease in trend in the case of coconut oil price in recent times in India has certainly caused confusion among all the stake holders of the sector. Since the price of raw coconut and copra depends on the price of CNO this down ward trend reflected in these main products also.

The copra price has started declining in accordance with the fall in domestic price of coconut oil in the third and last quarter of 2021 and reached below Minimum Support Price (MSP) for Fair Average Quality(FAQ) milling copra which was at Rs. 103.35 per kg in 2021 and further increased to Rs. 106.00 during 2022. It is essential to undertake price support operations at the MSP by the nodal agencies in the coconut growing States to protect farmers

Domestic vs International Price of Coconut oil



from the price fall. During the month of November 2021, the price of milling copra at Kangayam a major copra market in Tamil Nadu opened at Rs. 97/- per kg and closed at Rs.99/- per kg which is very much below the declared MSP. Since majority of coconut farmers are small and marginal, it may not be possible for individual farmer to invest for installing copra making units. Government of Kerala has also taken initiatives to start procurement of de-husked coconut @ Rs 32/- per kg to protect the farmers from the price fall. Interventions for procurement at MSP under the Price Support Scheme have to be undertaken on priority basis for supporting the small and marginal farmers.

The domestic price of coconut oil (CNO) has been broadly stable during the first two quarters and started showing declining trend thereafter.

Major factors behind the price decline

It is pertinent to seek out the reasons behind the recent price fall in the domestic market, especially after having reasonable price experienced for a long time. The average open market price of coconut oil which touched a high of Rs 208 per kg in March 2021 was hovering around' Rs 163 per kg in December 2021. A variety of factors certainly have contributed to the persistence of this price decrease about which not much is still known. The price of coconut oil is influenced by several factors such as coconut production and its use in food and non-food sector, price of other substitute vegetable oils, trade policy for edible oils, world prices of edible oils in general and palm oil in particular. A modest attempt has been made in this paper to analyze some of these factors based on secondary data on price published by various agencies.

The coconut market in India is always unstable and uncertain resulting in frequent fluctuation in price. The seasonal and annual variation in production



apart from competition from other edible oils particularly palm oil also have an impact on the prices. The general trend noticed during the past years is a higher price reported during the lean production periods of November-December and lower price during April – May which coincides with the peak production periods in the major coconut producing states in India. These seasonal variations in prices of coconut and coconut oil are thus traced back to supply factors than demand factors. Usually, the magnitude of fluctuation is higher during lean period compared to peak period. Normally price should decrease in the peak production period. Contrary to this, during the last season the increasing trend continued in the peak season and the decreasing trend continued in lean season, which shows that the price fall is not strictly due to seasonal variation in production.

As per the second advance estimates of Horticulture Statistics Division, Department of Agriculture & Farmers Welfare, the production of coconut during 2020-21 was recorded at 14.6 million tonnes with a positive growth rate of 7.6 percent over the previous year. Further after a significant drop of 16.5 percent, coconut oil production in 2018-19, in the country has seen a gradual increase over the successive years. The CNO production increased by 8.53% from 5.3 lak MT in 2018-19, to 5.75 lak MT in 2020-21. The increase in supply due to the growth in production and increase in the balance stock of previous years may be one of the reasons attributed for the downward trend in the

lean production season.

If we look in to the production and trend in coconut oil price and other main competing edible oils especially palm oil and soybean oil we can see that a tremendous shortfall in production of all edible oils have been experienced internationally which subsequently, resulted in the increase in prices of edible oils during 2021. The coconut oil sector had to directly compete with these edible oils in the international trade. Therefore, price of coconut oil is also influenced by the supply and demand of competing oils.

As per World Bank Commodities Price Data (The Pink Sheet) 2021, considerable increase in prices of coconut oil was observed in 2021 in the international market. The price averaged at US\$ 1,960.68 /MT in November 2021 which was up from US\$1464.96/MT a year ago in December 2020 or an increase by 34%. Like coconut oil, the price of palm kernel oil in 2021 also significantly increased by 99.9% to reach US\$ 2,069/MT in November 2021 as against US\$ 1035/MT in December 2020. Similarly, the prices of soybean oil have also risen by 106.3 percent and that of palm oil increased by 76.5 percent during the same period. Malaysia, from where major fraction of palm oil is imported to India, has been experiencing production deficits due to unsavory climate and acute labour shortage. This in turn, had curbed the price advantage enjoyed by palm oil.

Though international price of coconut oil has increased along with other edible oils in the second and last quarter of

2021, domestic price of coconut oil has been above the international price, but the gap between the two have been reduced significantly which was 87% in the month of January 2021 and reduced to 14% in the month of November 2021. This was indicated by the increasing import demand of coconut oil in European countries and increasing trend in international price. As the total import demand of lauric oils is higher than the export supply, it is predicted that the price of coconut oil in the world market for the coming months will remain high.

Import duty on edible oils is also a major factor that impacted the cost of edible oils and thereby domestic prices. Slashing down the basic import duty of all edible by the Government of India to control the increasing price of all edible oils in the domestic market is another reason for the steep decline in coconut oil price during the third and last quarter of the year 2021 in Indian market. In order to check increasing prices of edible oils in the country where more than 60% of which was imported to meet the demand, the Government of India, reduced the basic import duty on crude palm oil from 27.5 percent to 15 percent in February 2021. Further, from 30th June 2021 to 30th September 2021 the basic customs duty on crude palm oil was again reduced from 15 percent to 10 percent and that on refined palm oil from 45 percent to 37.5 percent. Further, Department of Commerce vide notification dated 30th June 2021 has issued revised import policy for RBD Palm Oil and RBD Palmolein by removing both from "Restricted" to "Free" category with immediate effect for a period up to 31st December 2021. This has resulted in tremendous increase in the import of these competing vegetable oils of CNO.

The imports of RBD palmolein rose to 24,000 tonnes in December 2021 from 900 tonnes in the year-ago period. Among soft oils, the import of soybean oil increased 21.57 per cent to 3.92 lakh tonnes in December 2021 as against 3.22 lakh tonnes in December 2020. Similarly, the shipment of sunflower oil rose 10 per cent to 2.58 lakh tonnes in December 2021 from 2.34 lakh tonnes in the year-ago period.

The move of the government to slash the standard rate of duty on edible oils and a massive difference in daily wholesale prices of all edible oils including coconut oil has been witnessed. The prices of eight types of edible oils including coconut oil in the wholesale markets across the country have been showing a declining trend since then. The wholesale prices of groundnut, mustard oil, vanaspati,

sunflower oil, palm oil, coconut oil and sesame oil declined during the last two quarter of 2021. The daily wholesale prices of packed palm oil dropped by 2.50%, followed by sesame oil by 2.08%, coconut oil by 1.72%, packed groundnut oil by 1.38%, packed sunflower oil by 1.30%, packed mustard oil by 0.97%, packed vanaspati by 0.71% and packed soya oil by 0.68% in September 2021 (Report by The Economic Times). The government has also taken steps against hoarding and asked wholesalers, millers and refiners to provide details of their stock on a web portal to boost domestic supply.

These measures leads to boost the supply of edible oils especially palm oil and sunflower oil in the domestic market which lead to substitution of CNO with other cheaper edible oils affecting the CNO market.

Conclusion

Through this analysis an attempt has been made to characterize the price fall in coconut sector in India during the past one year (2021) and also delineated the major possible reasons behind the price fall. The analysis reveal that the declining trend in coconut oil price associated with slash in basic import duties of all edible oils by Government of India is to control the domestic price of edible oil consequent to global shortfall in edible oil supply and measures to boost domestic supply and curb hoarding. However, the production may increase due to favorable climatic conditions during the last two years and is expected to reach peak in South India during January to March 2022. Nevertheless, the insufficient stock to cater to the large industrial demand, and the delicate demand-supply balance is expected to keep the coconut oil prices firm at least in a short period. However a systematic study on the various factors associated with the fall in coconut price is required to prove the extent to which the above factors affect the magnitude of fall in price of coconut oil copra and raw coconut and its sustainability.

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