

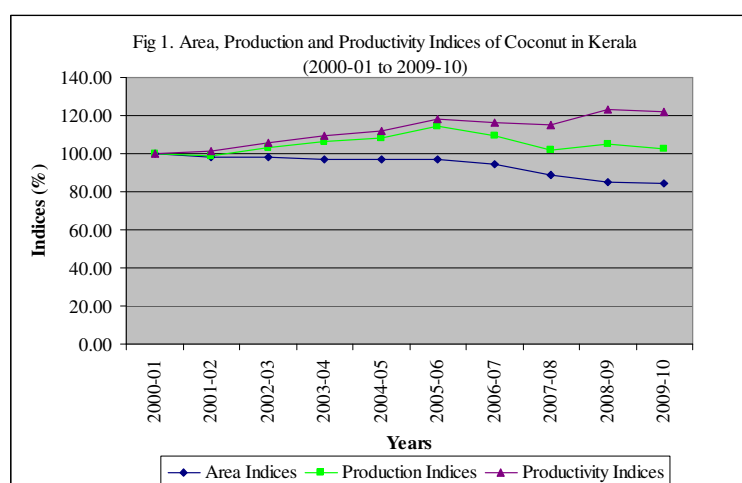
Supply Constraints to Keep Coconut Prices Firm

The price forecast on coconut released by the Agricultural Market Intelligence Centre of Kerala Agricultural University on 18-10-10 had identified a likely reduction in coconut production in the State by 15-20 per cent, and the prevalence of a price cycle on account of global shortfalls in coconut and lauric oil production. A reassessment of the coconut production scenario indicates that the shortfall in production would be more than the initial estimates because of area reduction and declining productivity (Table 1 and Fig 1.). The area under coconut has been drastically shrinking in Kerala continuously from 2000-01 onwards due to a host of factors like depressed price for nuts, high wage rates, shortage of labour especially for the timely harvest operations, high incidence of diseases and pests, declining crop productivity, coupled with less relative profitability vis-a vis competing crops like rubber and higher level of urbanization. The area under cultivation reduced from 9.26 lakh hectares in 2000-01 to 7.79 lakh hectares in 2009-10, a reduction by 1.47 lakh ha (ie. 15.87 per cent reduction). The production during the corresponding period has increased marginally from 5536 million nuts to 5667 million nuts (2.37 per cent increase), thanks to productivity enhancements recorded during the period.

Table.1. Area, Production and Productivity of Coconut in Kerala

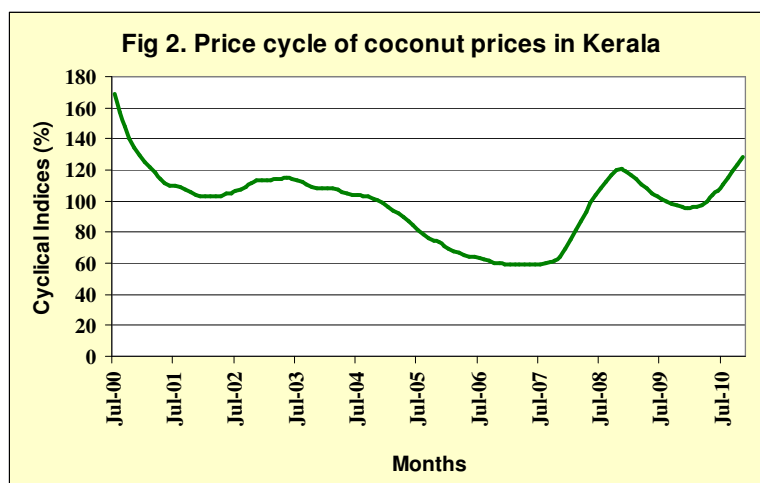
Year	Area (in lakh ha)	Production (in million nuts)	Productivity (nuts /ha)
2000-01	9.26	5536	5980
2001-02	9.06	5479	6049
2002-03	9.06	5709	6303
2003-04	8.98	5876	6540
2004-05	8.99	6001	6673
2005-06	8.98	6326	7046
2006-07	8.73	6054	6935
2007-08	8.19	5641	6889
2008-09	7.88	5802	7365
2009-10	7.79	5667	7278

The shifts in climatic pattern due to erratic rains and non availability of labour in time have affected the crop management in Kerala, with the result that the crop seasons are slowly disappearing.



A market analysis conducted by the Agricultural Market Intelligence Centre of the Kerala Agricultural University attached to the Department of Agricultural Economics, College of Horticulture, Vellanikkara reveal the following market sentiments prevailing:

- According to the Asian and Pacific Coconut Community, coconut production has been affected globally by climate changes during the last two years, of which the rise in temperature has hit the palms more hard. As a result, the production in all major coconut producing countries like Philippines, Indonesia and Sri Lanka has been reeling. Sri Lankan production has recorded a 15 year low of 2.533 Billion nuts in 2010 as against the annual average production of 2.7 Billion nuts. The rise in domestic price has compelled the Sri Lankan Government to ban export of coconut and felling of coconut palms, and even arranging imports of nuts.
- With the Sri Lankan sources drying up, importers in Bangladesh, Pakistan, Nepal and Middle East countries has started outsourcing fresh nuts increasingly from India. This has kept the price of coconut firm despite the onset of “peak season” in the major producing states of Tamil Nadu and Kerala.
- The corporate buyers who were keeping away from the market for the prices to cool will have to re-enter once the message sinks. With their entry into the market imminent in view of the increased industrial demand, the prices are likely to firm up. Usually, the production in Kerala is fully absorbed in the state itself to cater to the domestic demand, and hence the large industrial users were procuring their supply mainly from Tamil Nadu. Hence, arrivals from the neighboring states to Kerala are expected to be low during this year as compared to last year.
- With the price of crude petroleum surging ahead, the bio-diesel industry is growing fast world wide. The diversion of lauric oils into the bio-diesel industry are not properly tracked now. It is expected that any further increase in crude petroleum would place higher demand on bio-diesel because bio-diesel is a cleaner burning fuel.
- The price of substitute oils, especially palm oil is also remaining buoyant amidst conflicting reports about the extent of La Nina effect on Indonesian and Malaysian output. Reports of China, the biggest user of cooking oil, importing more than 7.85 lakh MT of lauric oils could upset all bearish sentiments in this direction.
- With Northern India bearing the brunt of peak summer, the demand for tender coconut is also expected to rise. At present, Karnataka, Andhra Pradesh, West Bengal and Orissa are meeting this demand. Hence possibility of surplus availability of nuts from these nuts is also bleak, at least in the short run.



Based on the market survey and the econometric analysis of monthly prices of partially dehusked coconut at Trichur market during the last 12 years from January 2000 to May 2011, the Centre is of view that the coconut prices are unlikely to come down in the ensuing months as widely believed due to the widening gap between demand and supply. On the other hand, coconut prices are likely to remain firm on account of supply constraints and the operation of the price cycle (Fig.2). A price range of Rs.21.00 – Rs.24.00 per kg is expected to prevail for partially dehusked during the next three months. As there is no selling pressure on farmers to liquidate their stocks, they are advised to take advantage of the emerging market opportunity.

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