

## PROBLEMS OF COCONUT MARKETING – AN OVER VIEW

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In Sri Lanka, most of the problems of marketing of coconut appear to stem from the pattern of production. Coconut Production is characterised by fluctuations – both annual and seasonal. As against this, the demand for coconut for domestic consumption is more or less static, with a slight annual increase corresponding to the increase in population. This situation affects both the price and the supplies available for processing and export. In turn this is reflected in the area of marketing.

Sri Lanka has a little over one million acres of coconut, the annual production varies owing to the vagaries of weather and erratic use of fertilizer. The production has been as low as 1,821 million in 1977 but reached an all time high level of 3,039 million in 1986. The Central Bank of Sri Lanka in its Review of Economy, 1986, has expressed the view that this fluctuation is "around an increasing trend." However, the Asian & Pacific Coconut Community recently reported a "long term U shaped cycles" indicating declining phases and recovery phases over periods of time. Without expressing an opinion on these contrary views, one may merely note the fact that there are wide fluctuations in the annual production of coconut in Sri Lanka. As for seasonal variations, there are clearly discernible "glut periods" (May-August) and "lean spells" (November-February). It is observed that more than 60% of annual production comes within the glut period and the rest distributed over the longer lean spell.

Apart from these supply "discrepancies which affect coconut marketing, the channels of marketing and the purposes of utilization are also important in understanding some of the problems in coconut marketing. There are no accurate statistics regarding the on-farm consumption of coconut.

However, considering that there are about 700,000 small holdings and about 225,000 acres of estates and taking an average family size of 5.5 persons with per capita consumption of fresh nuts at 90, it appears that about 360 million coconuts are consumed on the farm itself. If the average annual production is taken at 2,400 million (this approximates to the annual average from 1982 to 1986) and on-farm consumption is taken at 400 million for convenience, then around 2,000 million nuts which is "the marketable surplus" enter the coconut market annually. Out of this about 45% or 900 million nuts are handled by dealers – big and small, wholesalers and retailers. This may be broadly called the un-organized sector of coconut marketing. The balance 55% or 1100 million is handled both by dealers as well as through brokers – nearly 40% of the marketable surplus for copra and oil and the balance 15% for desiccated coconut. This is the organized sector of coconut marketing.

A problem common to both the un-organized and the organized sectors of coconut marketing is the wide fluctuation in prices. The local wholesale market price of coconut oil is a good indicator of this price fluctuation

which is reflected throughout the spectrum of products from fresh nuts to desiccated coconut. It is remarkable that within a short period of two years between January 1985 to December 1986 the price of oil varied from around Rs. 6,760 to Rs. 20,380 per MT—a change of over 200%. In fact, at times of high scarcity – like in January 1988 – prices have gone up even to Rs. 45,000 per MT. In terms of farm-gate price of coconut, this variation has extended from a little over Rs. 650/- to about Rs. 5,000 per 1,000 nuts.

The problems arising from this situation in the un-organized sector of coconut marketing, accounting for about 900 million coconuts or 45% of marketable surplus, are more or less un-noticed, except for the fact that there is producer discontent when prices are low and consumer agitation when prices are high. It is in the organized sector, which handles about 1,100 million nuts or 55% of the marketable surplus, that most of the marketing problems raise their collective ugly head. The Ministry of Coconut Industries in its Progress Report for 1987 has summarised the position as follows:

“There are problems which should be within our control but have so far eluded solution. Chief among them is the rampant indiscipline in trading activities. Delay or default in delivery and payment are there right from the farm to the foreign shores. At present only copra auctions are covered by rules but even there the problem is present. The complexity of the trade (unlike other commodities such as tea and rubber) and the multiplicity of operators have compounded the issue.”

A fact which has contributed to this situation, which is again directly related to uncertain and erratic supplies, is the high degree of speculative trading. Perhaps a certain amount of speculation cannot be avoided in commodity trade – in fact it is considered in knowledgeable circles as the spice of commodity trading itself. However, the position becomes intolerable when parties sell or buy forward without adequate cover. This necessarily leads to repudiation of contracts or dishonouring of their obligations. As a result, considerable

delay or complete default of delivery and payments have become a common feature in coconut marketing.

The position is made still worse due to the absence of any internal mechanism to regulate and discipline the trade. This is in direct contrast to marketing of other major agricultural commodities such as tea and rubber, where Traders' Associations exist and operate under the umbrella of powerful and reputed Chambers of Commerce. Except for a few well-run producer co-operatives, there are no organizations in the coconut sector undertaking any marketing or related activities. The few agitational bodies perform a useful function in keeping the administration on its toes; but do much dis-service by offering archaic and instant solutions which are no longer practicable but enthusiastically endorsed by an unsuspecting group of trading partners, little realising that these solutions are opposed with equal vehemence by others.

In the absence of any internal mechanism to regulate and discipline the coconut trade, much reliance is placed on the relevant statutory body—the Coconut Development Authority (CDA) for this purpose. However, unlike the Ceylon Coconut Board (CCB) which concentrated in copra auctions or the Coconut Marketing Board (CMB) whose responsibilities were limited to marketing, CDA has a wide range of activities covering sector co-ordination, processing development and marketing. Further, being a State organization, its main task – like that of the former CCB and CMB is to help formulate and then implement Government policy on coconut development. Anyway, these statutory bodies have, from time to time, undertaken programmes in coconut marketing with all or some of the following objectives:-

- (a) Help the producer
- (b) Stabilize prices
- (c) Ensure maximum foreign exchange earnings.
- (d) Encouragement of public/cooperative sector participation in coconut marketing.

Programmes carried out by the CMB and the CDA in the past are:-

- (i) Copra Auctions
- (ii) Floor Prices - internal and export
- (iii) Direct procurement of coconut oil
- (iv) Export bans
- (v) Lending to BCC and Co-operatives
- (vi) Duty adjustments—through the appropriate Government Agencies
- (vii) Licensing and other regulatory measures in export trade
- (viii) Market information
- (ix) Market promotion
- (x) Amicable settlement of disputes.

These government interventions may have had some short-term impact on coconut marketing but it is generally accepted that they have failed to achieve the desired objectives — well-being of the producer through a remunerative price for his produce over-time and that of the consumer by shielding him against periodic sky-rocketing of prices; both leading to a degree of stability which in turn helps orderly trading in coconut and coconut products. Also, *ad hoc* interventions on the basis of pressure from interest groups may have distorted the market mechanism and put sales procedures out of gear. There appears to be growing disillusionment on this account, though some of the heat generated may be another way of exerting pressure to intervene of behalf of one or the other pressure group, for their own personal/group benefit.

It is in this context that an appropriate mechanism has to be developed to deal with problems arising in the area of coconut marketing. Perhaps what is required is joint and collaborative effort by both, the organizations in the industry and the Government agencies concerned. The establishment of an institution, preferably affiliated to a trade chamber, representing all sections of the coconut industry, appears to be of utmost urgency. This proposed institution can develop its own internal mechanisms to deal with marketing problems, including trade disputes.

The role of the state agency—in this case the CDA—can then be confined to three basic areas—viz:-

- (i) Market studies, information and promotion;
- (ii) Direct assistance to the state and co-operative sector organisations handling coconut marketing to the extent of its own resources; and,
- (iii) Determination of external rules and regulations and arbitration of disputes, where the internal mechanisms fail or are considered inadequate.

To sum up, problems in coconut marketing arising from supply discrepancies could not be eliminated altogether. However, there are problems which would be within the control of the industry and the authorities concerned. Failure to tackle them in the past has contributed to much confusion and has even affected the good name of the commodity. Therefore, a collaborative effort has to be made by the industry and the Government agencies concerned. Setting up of appropriate industrial mechanisms and complimenting their efforts with Government intervention where necessary, appear to be the way out of the present situation.