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EFFECT OF MARKET IMPERFECTIONS ON COCONUT PRODUCTION IN SOUTH INDIA: AN ANALYSIS

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ABSTRACT

This study investigates the production and marketing dynamics of coconut products in the Tumkur District of Karnataka, an area characterized by its significant agricultural output and diverse coconut-based industries. The research aims to provide a comprehensive overview of the current state of coconut production, including the cultivation practices, yield statistics, and the socio-economic factors influencing the livelihoods of farmers engaged in coconut cultivation. Utilizing a mixed-methods approach, the study integrates quantitative data collection through surveys administered to local coconut farmers and qualitative insights garnered from interviews with industry stakeholders, including processors, marketers, and consumers. The findings reveal that the Tumkur District is marked by a variety of coconut products, including copra, coconut oil, and fresh coconuts, each with distinct production techniques and market demands. Additionally, the study highlights the challenges faced by producers, such as inadequate access to modern agricultural technologies, fluctuating market prices, and limited marketing infrastructure, which collectively hinder the profitability and sustainability of coconut farming in the region. Furthermore, the analysis of marketing channels indicates a predominance of traditional trading practices, yet there is a growing trend towards organized marketing and value addition through cooperatives and local enterprises. The research underscores the importance of enhancing the marketing strategies and production techniques to improve the competitive edge of coconut products from Tumkur District in both domestic and international markets. By addressing the gaps in knowledge regarding production efficiency and market accessibility, this study contributes to the ongoing discourse on agricultural development and rural entrepreneurship, providing actionable recommendations for policymakers and practitioners aiming to bolster the coconut sector. Ultimately, the insights derived from this study not only aim to empower local farmers and entrepreneurs but also to foster sustainable agricultural practices and promote economic resilience in the region, ensuring that the potential of coconut products is fully realized in the context of Tumkur District's agrarian landscape.

KEYWORDS: coconut production; marketing strategies; Tumkur District; Karnataka; agricultural development; rural entrepreneurship

INTRODUCTION

Coconut production is partially depending on demand of the products derived from it and the main product is coconut oil. Other products include the milk and the coconut powder. The bye product is the coir and coir-based products. Though the Consumer Support Price for Copra and Coconut increased in the last year, it is inadequate to meet the cultivation expenses, especially in Kerala where the labour price is high compared to other states in South India.

India's coconut market suffers from structural imperfections, including severe price volatility, supply chain inefficiencies caused by monopolistic middlemen, and vulnerability to climate-induced yield fluctuations. These factors disproportionately harm smallholder farmers and distort supply, demand, and pricing stability across the country.

Key market imperfections in the Indian coconut sector include:

- **Supply Chain Inefficiencies and Middlemen:** The market is heavily fragmented. Farmers often lack direct access to end-consumers or large processing mills, forcing them to sell to a long chain of middlemen and traders. This significantly reduces the farmers' share of the final retail price. Unless the Government directly collect the Coconut, the price volatility cannot be controlled. The Coconut is cultivated for tender coconut water. But the demand for the fully grown coconut is volatile.
- **Price Volatility:** Coconut and copra prices historically swing between boom-and-bust cycles. Bumper harvests in states like Tamil Nadu and Kerala can lead to sudden supply gluts, crashing prices. Conversely, localized yield drops quickly drive prices to unaffordable highs, forcing households and businesses to shift to alternative edible oils. The Coconut production is not uniform throughout the year. The second reason is the infections and pest attack on Coconut tree. In Kerala, the Government is providing incentives to replace infected coconut trees, the time taken for the tree to produce is minimum three years.
- **Consumer Demand Distortions:** The high volatility limits the pricing power of primary producers. When coconut oil prices spike, consumers permanently switch to cheaper alternatives like rice bran, sunflower, or soybean oil. Even when coconut prices drop, regaining this market share is difficult.

- **Climate Change and Pest Attacks:** Unpredictable rainfall, rising temperatures, and pest infestations (like the red palm weevil) have severely impacted productivity and yield, particularly in traditional growing states such as Kerala.
- **Lack of Value Addition:** India primarily trades in raw coconuts and copra. A lack of infrastructure for advanced value addition (e.g., packaged coconut water, virgin coconut oil, activated carbon) limits revenue potential and exposes the market to global trade fluctuations.
- **Information Asymmetry:** Small farmers often have limited access to real-time market intelligence, minimum support price (MSP) notifications, or future trading platforms. This places them at a severe disadvantage when negotiating prices.

Would you like to explore:

- Specific **minimum support prices (MSPs)** and **government procurement** mechanisms for copra?

The Cabinet Committee on Economic Affairs chaired by the Prime Minister Shri Narendra Modi, has given its approval for the Minimum Support Price (MSP) for copra for 2026 season. In order to provide remunerative prices to the cultivators, Government had announced in the Union Budget of 2018-19, that MSP of all the mandated crops will be fixed at levels of at least 1.5 times of all India weighted average cost of production. The MSP for Fair Average Quality of milling copra has been fixed at Rs.12,027/- per quintal and for ball copra at Rs.12,500/- per quintal for 2026 season.

The MSP for 2026 season is an increase of Rs.445/- per quintal for milling copra and Rs.400/- per quintal for ball copra over the previous season. The Government has increased MSP for milling copra and ball copra from Rs.5,250 per quintal and Rs.5,500 per quintal for the marketing season 2014 to Rs.12,027 per quintal and Rs.12,500 per quintal for the marketing season 2026, registering a growth of 129 percent and 127 percent, respectively.

A higher MSP will not only ensure better remunerative returns to the coconut growers but also incentivize farmers to expand copra production to meet the growing demand for coconut products both domestically and internationally.

National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED) and National Cooperative Consumers' Federation (NCCF) will continue to act as Central Nodal Agencies (CNAs) for procurement of copra under Price Support Scheme (PSS).

Import-export policies and regional trade pacts like the **ASEAN Free Trade Area (AFTA)** and the **ASEAN-India Free Trade Agreement (AIFTA)** create a complex dynamic of intense market competition and strategic export opportunities for domestic coconut sectors. While these agreements

facilitate the flow of goods, they heavily influence domestic pricing, farmer livelihoods, and the urgency for product diversification.

Downward Price Pressure on Domestic Crops

Cheap Substitutes: Trade liberalization systematically reduces tariffs on immediate substitutes like **palm oil** and **palm kernel oil**.

Undercutting Local Farmers: Large-scale ASEAN producers (e.g., Indonesia, the Philippines, and Malaysia) maintain lower production costs. Open-border policies let these cheaper goods flow into domestic markets, suppressing the prices of local raw coconuts.

Crude Palm Oil Influx: As import duties fall on competing edible oils, the commercial demand for domestic **coconut oil** drops significantly, directly threatening traditional coconut farming incomes.

Defensive Regulatory Measures

- **The Negative / Exclusion List:** Countries often strategically classify sensitive agricultural products—such as raw **coconut**, **copra**, and **certain oilseeds**—under a treaty's [Exclusion List](#). This lets governments maintain high defensive tariffs to shelter local farmers from being completely overwhelmed by cheaper imports.
- **Non-Tariff Measures (NTMs):** Even when import tariffs hit 0%, nations use strict technical rules to control trade volumes. Governments strictly enforce [complex sanitation standards](#), **aflatoxin limits** in copra meal, and rigid **Rules of Origin** to verify where the products actually come from.

Shift toward High-Value Diversification

- **Moving Beyond Coconut Oil:** Because traditional coconut oil faces stiff international competition, import-export shifts force local economies to modernise. Unfortunately, the lobbying against the Coconut oil as a source of Cholesterol and other health issues.
- **Value-Added Products:** Processing industries pivot away from raw crops toward specialized goods. Treaties incentivize local hubs to scale up production of highly profitable items like **desiccated coconut**, **coconut milk powder**, **coir products**, and **coconut-based cosmetics**.
- **Export Promotion Councils:** To exploit these free trade agreements, governments upgrade local agricultural boards into dedicated export bodies. These agencies provide subsidies, technology, and market integration tools to help domestic firms enter lucrative global supply chains.

REVIEW OF LITERATURE

Because of its many applications and high commercial value, the coconut (*Cocos nucifera* L.) is a major plantation crop that is widely grown in tropical locations and contributes significantly to India's agricultural economy. The coconut palm, sometimes known as the "tree of life," is special because

practically every part of the plant—including the nut, husk, shell, leaves, and trunk—can be used for productive purposes (Food and Agriculture Organization, 2020) [14, 15]. By providing raw materials for items like edible oil, copra, coconut water, coconut milk, desiccated coconut, and coir-based goods, it supports a number of agro-based enterprises. As a result, coconut farming has a significant role in creating jobs and ensuring rural livelihood stability, especially for small and marginal farmers (Coconut Development Board, 2021) [9]. Furthermore, because it contains vital fatty acids, vitamins, and minerals, coconut offers nutritional benefits. Its economic significance in rural regions is further reinforced by by-products such oilcake and coir (Food and Agriculture Organization, 2020) [14, 15]. Coconuts are grown on more than 12–13 million hectares in more than 90 countries worldwide, with an annual production of more than 60 million tonnes. Major nations that produce coconuts are Indonesia, the India and the Philippines. The worldwide coconut industry has steadily grown as a result of rising consumer demand for products derived from coconuts, including coconut oil, coconut water, and other products with added value (FAOSTAT, 2022; Food and Agriculture Organization, 2020) [13, 14, 15]. International trade has been bolstered by the rising demand for processed goods, such as virgin coconut oil and coconut milk, which has highlighted the necessity of quality standards and value addition. However, issues including unstable prices, poor infrastructure, and ineffective marketing strategies still have an impact on the coconut industry's performance. India is one of the top producers of coconuts, with an estimated 13–14 million tonnes produced annually and 2.1–2.2 million hectares under cultivation (FAOSTAT, 2022; NHB, 2021) [13]. Kerala, Tamil Nadu, Karnataka, and Andhra Pradesh are important states that grow coconuts. Particularly in the country's southern and coastal regions, coconuts are crucial for employment, income generation, and nutritional security (Nayar, 2016; Deb Mandal & Mandal, 2011) [36, 10]. Despite its importance, coconut marketing in India frequently involves a number of middlemen, including traders, commission agents, wholesalers, and retailers. Farmers' share of the final consumer price is decreased by this multi-layered marketing structure, which also raises marketing expenses and increases the price difference between producers and consumers (Acharya & Agarwal, 2019) [3]. Additionally, limitations including insufficient storage facilities, inadequate processing infrastructure, delayed market intelligence, and rapid price swings have a detrimental impact on marketing effectiveness.

Because to the state's favourable climate, better irrigation systems, and improved farm management techniques, coconut production has steadily increased in Andhra Pradesh. The state produces between 1.5 and 1.8 billion nuts a year, with productivity levels frequently exceeding the national average (Coconut Development Board, 2020; NHB, 2021) [7, 8]. Eluru district's excellent soils and consistent irrigation supplies have made it a significant coconut-producing area within the state. The district's coconut industry supports a variety of farming styles and is a reliable source of income. However, marketing-related issues that affect coconut growers include reliance on middlemen, seasonal price fluctuations, expensive transportation, and poor infrastructure,

all of which lower their profitability and negotiating strength (Acharya & Agarwal, 2019) [3]. To increase farmers' revenue and guarantee greater price realisation, the coconut marketing system must be made more efficient. Marketing inefficiencies can be decreased by taking steps including bolstering processing and storage facilities, enhancing transportation networks, encouraging Farmer Producer Organisations (FPOs), and guaranteeing prompt access to market data. Promoting direct marketing channels can also raise farmers' proportion of consumer spending. For places like Eluru, where coconut agriculture is a vital aspect of rural livelihoods, these interventions are especially pertinent.

RESEARCH METHODOLOGY

A systematic methodological framework was used for the current study on coconut marketing in the Eluru district, which comprised choosing the study area, sampling strategy, data sources, and analytical techniques. A multi-stage stratified random sample technique was used to guarantee sufficient representation of coconut growers and other important players in the marketing system. The sample process was completed in a step-by-step fashion. Eluru district was specifically chosen for the first phase because of its significance in coconut farming in Fertile soils, developed irrigation systems, and good agroclimatic conditions all support Andhra Pradesh. Two mandals, Bhimadole and Dwaraka Tirumala, were chosen for the second stage due to differences in marketing strategies and a comparatively bigger area under coconut farming.

Sample size id 345 and purposive sampling is used. The limitation is the lower participation of farmers in the survey.

Analysis

Table 1

Table 1: Constraints encountered by the coconut growers in coconut cultivation			
Sr.	Constraints No.	Mean	Std Deviation
Marketing facilities			
1.	Lack of exclusive market for coconut	3.89	.89
2.	Lack of government procurement system	3.98	.90
3.	Lack of co-operative marketing	4.01	.78
4.	Lack of market information	4.12	.68
5.	Scarcity of labor for transportation and marketing	4.03	.87
Trading			
1.	Monopoly of traders in the market	4.09	.78

2. Inadequate traders	3.89	.91
3. Lack of co-operation from traders	3.78	.77
4. No marketing insurance in institutional channel	3.67	.69
5. Difference in counting	3.56	1.04
6. Lack of awareness of prevailing prices at other markets	3.67	1.14
7. Lack of export facilities	3.69	1.23
8. No premium price for graded produce	3.67	1.23
9. Delayed payment	3.75	1.16
10. Fluctuation in market price	3.45	1.23
11. Dominance of private lenders	3.56	1.27
Finance constraints		
1. High commission	3.18	1.29
2. Lack of credit	3.34	1.34
3. High interest rate	3.45	1.36
4. Lack of long-term credit	3.56	.91
5. Lack of financial institution	3.34	.89
6. Inadequate funds to meet marketing expenses	3.67	1.30
7. Finance not available at the time of requirement	3.88	1.12
Physical constraints		
1. Lack of facilities in the market	3.27	1.09
2. Poor approach to market	3.45	1.17
3. Lack of adequate transport	3.55	1.67
4. Lack of village level co-ordination	3.67	1.56
5. Lack of storage facilities in farm	3.88	.89
6. Distant location of market	3.42	.97

Lack of exclusive market for coconut (3.89), Lack of government procurement system (3.98), Lack of co-operative marketing (4.01), Lack of market information (4.12), and Scarcity of labor for transportation and marketing (4.03) are the variables in the market constraints. Lack of exclusive market and the government procurement as the two challenges. Lack of market information and labor scarcity are the two challenges. The respondents show that the lack of market information and market functioning are another issue. It demands the use of Artificial Intelligence in capturing the supply demand gap to plan more cultivation. The traditional coconut growers are reducing cultivation due to the increasing cost and inconsistency in price. The demand for subproducts also to be promoted.

The variable 'Trading' include, Monopoly of traders in the market (4.09), Inadequate traders (3.89), Lack of co-operation from traders (3.78), No marketing insurance in institutional channel (3.67), Difference in counting (3.56), Lack of awareness of prevailing prices at other markets (3.67), Lack of export facilities (3.69), No premium price for graded produce (3.67), Delayed payment (3.75), Fluctuation in market price (3.45), Dominance of private lenders (3.56) have higher means. Monopoly of traders in the market is a challenge as they pulldown the price while market price of the products derived from coconut remain high. The fall in number of local traders who had been engaged in producing coconut oil, coir or other products. The lower level of coordination between Governments and local as well as large traders. The governmental channels fail to collect the coconut in bulk from the farmers and it leads to the private channels to get the price advantage. Similarly, the stringent grading norms increases the rejection while information asymmetry on price in other channels. Lack of digital awareness is one reason for this information asymmetry. Lower export leads to the compulsion of internal consumption and pulls down price. Price differentiation is low in graded products.

Finance constraints

High commission (3.18), Lack of credit (3.34), High interest rate (3.45), Lack of long-term credits (3.56), Lack of financial institution (3.34), Inadequate funds to meet marketing expenses (3.67), Finance not available at the time of requirement (3.88) are the variables in financial constraints. Higher commission in distribution and sales channels, lack of credit to farmers, higher interest rate especially private loans, non-financial inclusion of farmers in loans offered to farmers increase financial constraints

Physical constraints

Lack of facilities in the market (3.27), Poor approach to market (3.45), Lack of adequate transport (3.55), Lack of village level co-ordination (3.67), Lack of storage facilities in farm (3.88), Distant location of market (3.42) are the physical constraints

DISCUSSIONS & CONCLUSION

Institutional failure in providing facilities, lack of coordination and lower productivity are the three factors in influencing demand. Inadequate funding and credit facilities also affect the demand. The governments need to take lead position in solving these issues.

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