INDUSTRY CAPABILITY REPORT

COCONUT & COCONUT BASED PRODUCTS

Prepared by:
Export Development Board (EDB), Sri Lanka
March, 2012

CONTENTS

1. INTRODUCTION

Coconut and coconut based products sector plays a pivotal role in the foreign exchange earning by offering a wide array of products to the international market. A total of 394836 Hectare of area is under coconut cultivation with around 18 % of the area is under large estate holdings and 10 % of this area is for producing king coconut (a popular variety of coconut in Sri Lanka) This sector employs around 140,000 people in all parts of Sri Lanka.

Approximately two third of the nut production is consumed locally and the balance one third is exported as value added products in different categories. Coconut products could be divided in edible category with nuts, coconut water, desiccated coconut, coconut oil, coconut cream, coconut milk etc. and industrial with activated carbon, coir and coir based products, crafts out of shell, brooms, brushes etc.

2. TYPE OF PLAYERS

- Growers
- DC Millers
- Copra Manufacturers
- Coconut Oil Manufacturers
- Fiber Millers
- Shell charcoal manufacturers
- Value added Fiber Products Manufacturers
- Activated Carbon Manufacturers
- Exporters

3. KEY PRODUCTS AND VARIETIES

- Desiccated coconut (60 mills) (10-12 ISO 9000 Certified)
- Coconut oil /virgin coconut oil
- Coconut fiber
- Activated carbon
- Brooms/brushes
- Coconut milk & cream
- Coconut milk powder
- Geotextiles
- Horticulture related Coir Products
- Coconut Water (King Coconut)

4. SUPPORT INSTITUTIONS

- Ministry of Coconut Development & Janatha Estate Development
- Coconut Development Authority (CDA)
- Coconut Research Institute (CRI)
- Coconut Cultivation Board (CCB)
- Industry Development Board (IDB)
- Coconut Products Associations

5. SEASONAL VARIATION

Season: April-November (fresh affected most, but processors also face shortages)

6. GEOGRAPHICAL DISTRIBUTION ACROSS THE COUNTRY

West and North Western provinces are mainly the coconut intensive areas – otherwise known as the "Coconut Triangle". Three main districts in coconut production are Kurunegala, Puttlam and Gampaha.

7. SIZE IN TERMS OF PRODUCTION

Sri Lanka has a huge domestic household market for consumption of coconut based products which is close to two thirds of the total production of around 1.5 billion nuts per annum. The per capita consumption of Coconut in Sri Lanka is 110 per annum and has an influence on availability or raw materials beside the benefit of promoting the industry.

8. NUMBER OF PEOPLE EMPLOYED IN THE SECTOR

A total of around 140,000 people are directly associated with this sector.

9. KEY PLAYERS

The top five players in the industry are as follows:

1. Silver Mill Holdings Ltd
2. Jafferjee Brothers
3. Hayleys Group
4. Jacobi Carbons Lanka Pvt Ltd
5. Canro Exporters

10. GOVERNMENT POLICY AND SUPPORT AVAILABLE IN THE SECTOR

The Coconut Development Authority is a premier government institution involved with the development of this sector in Sri Lanka. They run capacity building and hand holding programs for farmers as well as processors in three areas of Farming practices, new product development and market linkages. They also conduct auctions of coconut so as to enable farmers get a better return on their produce.

11. R&D AND PRODUCT DEVELOPMENT FACILITIES AVAILABLE

A couple of technical institutions are involved in developing technology for coconut processing for making value added products. The key institutions working in this sector are:

- Coconut Research Institute: for product development
- ITI – for processing machinery
- Universities – for product testing

12. AVAILABILITY OF TECHNOLOGY AND SKILLED LABOUR

Sri Lanka pioneered a unique drum based technology for Fiber extraction from Coconut. This technology is not available in competing countries .On the other hand the desiccated coconut processing capacity remains underutilized .The processors looks for trade-off between DC and oil processing as Sri Lanka has a huge consumption of coconut oil and government also protects the local industry by not promoting imported edible oil into the country.

Sri Lanka has enough of skill for both growing and processing coconut into coconut products.

13. TOTAL EXPORTS OF PRODUCTS IN SELECTED CATEGORIES

Sri Lanka has a relative comparative advantage in this sector due to its legacy and geographical location, skilled labor and indigenous technologies for processing. At 2 % world market share, Sri Lanka stood at **9th** largest exporter of the coconut based products in **2011**. With a massive increase in exports in 2011, mainly desiccated coconut, Sri Lanka's position will have climbed significantly.

The Sri Lankan coconut industry has developed capabilities for exports in the following coconut product groups:

Desiccated coconut, coconut cream and milk, coconut milk powder, virgin coconut oil, coconut fibre products such as brushes and brooms, coir twine, geo-textiles, coco-peat products, activated carbon made from coconut shells and etc. There has been an upsurge in demand for Desiccated coconut in EU markets which also matches with capability of Sri Lankan exporters.

HS	Product Label	2009 (US$ Mn)	2010 (US$ Mn)	2011 (US$ Mn)
	KERNAL PRODUCTS			
080111	Desiccated Coconut	46.4	47.1	126.3
200819	Coconut Milk Powder	15.6	14.7	22.8
200819	Liquid Coconut Milk	5.1	6.5	10.2
200819	Coconut Cream	3.1	2.8	6
080111	Copra	3.7	0.7	2.5
151311	Virgin Coconut Oil	3.6	4.5	6.2
0801190	Coconut - Fresh	16	11.7	6.3
	FIBRE PRODUCTS			
530500 5305110	Coconut Fibre(Bristle, Mattress & Mixed)	61.9	71.1	88.7
140490	Coconut Husk Chips	9.6	5.9	6.1
530511	Coco peat & Fibre Pith	15.2	20.8	26.5
560790	Coir Twine & rope	5.5	4.3	7.9
530810	Coir Yarn	1.6	2.9	0.6
5603100	Brooms & Brushes	9.9	10.1	13.3
530519	Moulded Coir Products to be used in Horticulture	14.1	20.0	26.2
5311000	Geotextiles	1.9	2.8	4.0
5702200	Floor Covering of Coconut Fibre - Mats & rugs	3.6	3.6	6.3
	COCONUT SHELL PRODUCTS			
380210	Activated Carbon	42.8	51.1	71.6
440290	Shell Charcoal	1.1	1.3	2.5
140490	Shell Pieces & Powder	0.2	0.3	0.2

Sri Lanka is amongst the top sourcing destinations for coconut based products in the world due to the following factors:

- Environment friendly factories
- Ethical practices - known to the world as a producer of
- Over 3 decades of experience

European Union is a high potential market for various kinds of coconut products from Sri Lanka. The main product categories exported to EU are fresh coconut nuts, desiccated coconut, activated carbon and geo textiles made out of fiber. Desiccated coconut is one of the potential products from Sri Lanka to the EU. There has been a marked improvement in demands as well as exports of all these coconut products from Sri Lanka after the sudden fall in 2008-2009 period.

Sri Lanka is a top supplier of geo textiles products to EU and at number 3 after Philippines and Indonesia in desiccated coconut. Sri Lanka has improved its position since 2006 by becoming amongst the top 10 suppliers of activated carbon with high growth.

14. POTENTIAL FOR EXPANSION IN THE SECTOR

The following factors could be considered for the expansion of this sector in Sri Lanka:

- Increase in raw material production is now feasible in areas earlier affected by war and Tsunami and some other untapped areas
- Coir products can be produced from excess husk
- Shift towards natural products in global markets
- Booming demand for coconut water as energy drink based on hydrating properties
- Increasing infrastructure across the country – roads, railways, ports
- New varieties being introduced to reduce gestation period and reduce height of trees for easier harvesting

15. STRENGTHS AND WEAKNESSES OF THE SECTOR

Strengths	Weaknesses
Year-round supply of the fresh coconut	Shortage of fresh coconut to use as a raw material in kernel based products (DC production capacity underutilized 50%)
Growing consumer trends to eco friendly chemical free natural products	Very high local consumption (110 per capita consumption) has an influence on availability or raw materials beside the benefit of promoting the industry
394,000 Ha under coconut cultivation plus opportunities for exploitation of new areas in North & East	Lack of investment in value added process/ quality improvement
State support through the Coconut Deployment Authority(CDA) , Coconut Research Institute (CRI) etc	Lack of research & development
International recognition for quality fiber based products (Bristle fiber)	Lack of raw material for processing and value addition
Adherence to GMP, HACCP requirements	High prices of the raw materials (coconut husks) use in the industry
high quality of the desiccated coconut (whiteness and distinctive taste) & coconut oil	Reducing the share in the existing markets

Strengths	Weaknesses
Fibre extraction system (drum system) is not available in competing countries	Cost competition in the international market
	Limited number of companies with export potential
Comparatively enough market information available with CDA & EDB	Lack of market knowledge and market mechanism
	Comparatively high cost of energy

Disclaimer:

The Sri Lanka Export Development Board, (EDB), has taken every care in the preparation of the content of this report, but the EDB cannot be held responsible for any errors, defects, lost profits, or other consequential damages arising from the use of any information obtained either directly or indirectly from this report. The EDB accepts no liability whatsoever.