



Sustaining the Coconut Industry to Benefit the Small Coconut Farmers and Farm Workers



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I. Background

The coconut is considered as the country's most valuable agricultural resource being a top dollar earner and a significant job provider for millions of Filipinos. It is regarded as the “tree of life” because of its various uses from roots to tips for culinary, industrial, wellness, handicrafts, among other purposes. No other tree or agricultural crop could match the economic value it bestows humankind. The world needs coconut because it is one of only two sources of fatty alcohol and fatty acids used by global manufacturers as primary ingredients of cosmetics, detergents, hygiene products, and other consumer goods that billions of people need to live daily with. The plant is cultivated throughout the archipelago and is always a subject of picturesque depiction of the islands. However, behind the beautiful façade of the pristine beaches and mountains swathed with coconuts are stories of struggles, opportunities, challenges, and hope of the very people that grow them – the coconut farmers.

It is inevitable to discuss the coco levy anomaly when we refer to coconut industry because the coco levy funds were set up primarily to develop the industry. It resulted from a systematic scam in the guise of development initiatives way back in the Marcos regime. In 1973, the government created the Philippine Coconut Authority (PCA) in 1973 merging all coconut-related bodies to set up a mechanism of managing the industry. The agency was then authorized to collect a levy of P0.55 for every 100 kilograms of copra sold to stabilize domestic prices of coconut products and later increased to P20 to fund the development of hybrid coconuts. Unfortunately, though, the levies that were exacted on the farmers did not serve their primary purpose. The funds were invested in several companies; most of these have nothing to do with the life and welfare of the coconut farmers and the interest of the industry, and are now estimated to be more than P2 billion. The courts decided in favor of the farmers but the funds remained frozen and unavailable for use of the farmers and the industry. Worse, the issue even divided the ranks of the farmers where the misinformed few are up for compromise with the perpetrators.

Major decisions were won by the government at the Sandiganbayan on cases involving United Coconut Planters Bank (UCPB), CIIF Oil Mills and San Miguel Corporation (SMC) shares. The court ruled in 2003 that UCPB is public and owned by the government. The year after, Sandiganbayan underscored that the CIIF Oil Mills, 14 Holding Companies, and the CIIF-SMC shares is public, owned by the government in trust for the coconut farmers. Earlier in 2001, the Supreme Court ruled that coco levy funds are not only affected with public interest but are prima facie public. Despite court victories, it



is ironic that the present government is holding negotiations with the Coconut Farmers Federation (COCOFED) and Eduardo Cojuangco Jr., primary accused in the cases, for out-of-court settlement. Current talks on the coco levy defrayal suggests that P56 billion will pay shares of stocks at P75 per share, 40 percent will be allocated to the CIIF companies, 20 percent to COCOFED, 20 percent to PCA, and another 20 percent to PCA-accredited coconut farmers.

The talks are brashly amiss with serious discussion on local mechanisms for delivery of programs and benefits to the coconut farmers. What's more perilous is no discussion on concrete and sustainable programs to benefit the farmers is ever considered. The absence of a development framework to sustain the industry is very disturbing. The Supreme Court finally ruled in an en banc decision last December 14, 2001 that the coco levy funds are prima facie public and directed the Presidential Commission on Good Government (PCGG) to appoint representatives to the highest policy-making bodies of the coco levy-funded companies. This paved the way for the appointment of coconut farmers and their representatives to the governing bodies of different corporations established out of the coco levy money.

As one of the country's leading farmer organizations whose majority of members are dependent on the coconut industry, Pambansang Kilusan ng mga Samahang Magsasaka (PAKISAMA), is committed to put forward policy recommendations and immediate intervention to sustain the coconut industry for the benefit of millions of small coconut farmers and farm workers.

II. Problem Statement

The industry promises so much but coconut farmers remain poor. One of several reasons why they linger in abject poverty is their heavy dependence on copra production as primary means of livelihood. Up to now, their severe dependence on copra has not improved their lives any better. As they solely rely on copra production for their livelihood, the fluctuating copra prices have somehow determined their fate. When price hits the bottom millions of them excruciatingly suffer the crunch to the point of making optional the education of their children and primary health care for their family.

The income derived from copra production is very low amid high inflation because farmers do not benefit from price differentials between farmgate and final processing prices. Copra traders and



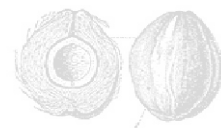
other intermediaries get the better share from the trade. The poor farmers cannot do anything about what the traders and processors dictate. It is so ironic that farmers who have the most significant contribution in the value chain but get the lowest margin.

Low copra prices lure farmers to cut down coconut trees, senile or otherwise, sold to log traders at relatively higher prices. More and more farmers have followed suit bringing down the industry performance in copra terms in a staggering low -- a profit squeeze of 23% from US\$ 850 million in 2000 to US\$ 650 million last year. The indiscriminate cutting of trees have not yet been addressed even when RA8048 (Coconut Preservation Act) was signed into law 19 years ago. Data gathered from PCA show that for every tree planted 23 are cut. Seemingly, the law justified the enormous cocoland “deforestation” even more.

What pulls down the economic situation of coconut farmers is the skewed design of the industry. For example, the oil mills established to serve as bulwark of the industry are located in secluded places making it very expensive to reach the intended markets. The processing plants and production facilities were established in outlying regions.

It is sad to note that existing mechanisms that are supposed to develop the entire industry with the coconut farmers as subject to benefit much are in place to serve other interests. For example, the United Coconut Planters Bank (UCPB) which was set up to address the perennial credit problems of the farmers has not served its original purpose. Other corporations created to advance the industry as well as the economic welfare of the farmers do not serve their real mandate.

On the other hand, several farmers are still tied up with the usurious tenancy relations. Their meager income is further squeezed because they need to remit the biggest share of the fruit of their labor to the landowner. Out of the 1.2 million hectares of coco lands for distribution only 700,000 were so far given to the farmers. If all farmers will own the land they till, at least their income will be better.

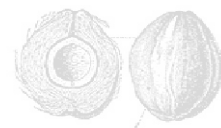


III. Objectives

The growth and sustainability of the coconut industry depends on the concerted efforts and commitment of the different sectors with direct or indirect stake on the industry. This policy paper is drafted to elicit collective action that will:

1. Sustain continuing advocacy on coconut levy recovery, resource tenure improvement, and coconut industry development;
2. Facilitate market access and market information directly to the coconut farming communities;
3. Provide maximum access to programs, projects, facilities, and resources of government institutions catering to coconut farmers and the industry by small coconut farmer organizations;
4. Push for the active involvement of appropriate government, private and non-government institutions in addressing the identified coconut industry issues and concerns;
5. Achieve additional gains in lobbying and advocacy on three main issues, namely: coconut levy recovery, resource tenure improvement, and coconut industry development based on the current situation;
6. Install a functional business processing and facilitation system to aid small coconut farmers in their coco-based enterprise activities; and,
7. Provide alternative value chain and direct market access in place through establishing of agri-based social enterprise.





IV. Options

The coconut industry remains attractive yet small coconut farmers and farm workers remain poor. One way to address the poverty of coconut farmers is to leverage the real worth of the coconut industry with the following options:

1. Produce high-value products from coconut and other usable parts. However, it does not mean that copra production will be out of the picture. Copra will still be produced but not solely for CNO but for other posh finished products.
2. The nut will be processed into copra and in turn into CNO and copra meal; coconut milk into VCO; and desiccated coconut. Another will be to make copra cake from copra and in turn processed into feeds for livestock; CNO to be processed into margarine, edible oil, soaps, bio-fuels, and oleo-chemical processed into fatty acids, fatty alcohol, methyl ester, among others; coconut shell into charcoal, accessories, etc.; coir fiber into several finished products; and midribs for broom and handicrafts.
3. Aside from the tree itself value addition could come from the full utilization of the lands where coconuts are planted. Some enterprising farmers in Davao and Quezon planted fruit trees, vegetables, coffee, and banana, among others under coconuts and have since enjoyed better income than when they solely relied from copra production. Others are also raising ruminants serving niche markets in big demand centers of the country.
4. In light of value-addition, farmers need to continuously to innovate to be able to cope with the burgeoning and changing global and domestic demands. Value-addition should rather be taken in the context of continuous improvement and innovation to survive the treacherous and uncertain global competition.



V. Analysis of Options

With the continued haplessness of the coconut farmers we are made to believe that the coconut industry has already reached its sunset. However, contrary to such belief is the dawning fortune set before the eyes of the farmers and other stakeholders. The level of awareness of farmers on the beneficial uses of coconuts needs to be raised several notches higher. There is an unexplored gold mine above the ground – that is in the cocolands. The coconut industry promises better returns more than imagined as the demand for several coconut-based products – raw or finished – is rapidly increasing. The composite value of a nut is pegged at P150 when processed into high value products compared to a meager P20 per kilogram of copra from three nuts combined. More than copra, farmers could make products and by-products of higher value like virgin coconut oil (VCO), desiccated coconut, copra meal, coco milk, coco flour, charcoal, and many more.

It is worthy to note that big markets around the world prefer coconut products and by-products as major component of processing important household commodities like detergents, bath soap, toothpaste, health and wellness goods, and other products. In fact, interested parties from the European Union, USA, and South Korea have sent fillers to COIR expressing their need for coconut products and by-products. A group from Europe needs 20,000 MT of CNO and 100,000 MT of shells for their monthly production requirement. Businessmen from the USA relayed to COIR their need for 3,500 MT CNO for processing of oleo-chemicals and surfactants for use by world's leading detergent manufacturers like Unilever, Henkel, and Procter and Gamble. On the other hand, South Korean investors are eyeing 10,000 MT monthly supply of CNO for processing of finished goods for their own domestic market. The *halal* markets composed of rich Islamic countries also have huge requirement for CNO and other coconut products. All oil mills under UCPB-CIIF are *halal*-certified.

It is not only the foreign markets that promise more growth and better yield for the industry. The Bio-fuels Act of 2006 (RA9637) hastens the local demand for CNO as it obliges all vehicle owners to use a blend of bio-fuel and diesel. The law requires at least one percent blend of bio-diesel to fossil fuel in the first phase of implementation. A blend of 5 percent is soon to be required. This will be translated into hundreds of thousands of barrels considering the number of vehicles in the country. The Philippines is the only ASEAN country that mandates the use of bio-diesel and seriously considers cutting down its dollar spending on importation of petroleum products.



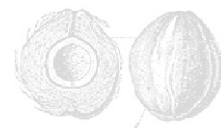
On the other hand, the livestock industry is perennially faced with exorbitant feed prices accounting to over 60 percent of total production cost. Copra meal, molasses, and CNO are important ingredients in feed manufacturing. With the availability of high technology copra meal could be processed as an alternative primary feed ingredient for use of all sectors in the livestock industry. The livestock sector remains robust as the country's population constantly increases alongside per capita consumption of Filipinos.

The growth of the industry is influenced by several factors. The popular movement to address climate change and global warming, waning sources of raw materials for manufacturing goods, and changing lifestyles are serious demand drivers for coconut products and by-products. To wit, the world requirement for CNO is increasing because of the CNO's high lauric fatty acid content essential for detergent and cosmetic production. The growing demand for environment-friendly and wellness products lift demands further.

The existence of huge market potential for coco chemicals like fatty alcohols and acids, methyl esters, tertiary amines, alkanolamides, and glycerin is very evident. Big demand centers in EU member countries, USA, Japan, and South Korea have become ardent customers of coco peat, geo-textiles, activated carbons, among other coconut by-products. Also, the local and export markets of VCO continues to expand. Trade liberalization under the auspices of GATT-WTO also provides opportunities for the industry abroad.

The Philippine coconut industry commands a comparative advantage against other coconut-producing countries in Asia because it is capable of satisfying the requirements of foreign markets at a lower cost. Unlike Indonesia and India which consumes 80 per cent of its production in the domestic market, Philippines trade most of its coconut produce abroad.

The coconut is tagged as the most sustainable bio-fuel crop that does not bear any issue against food security unlike other popular crops producing oil. Allowing massive propagation of bio-fuel crops besides coconut endangers the food security of the country as big tracks of lands planted with vegetables, rice, and corn will be converted. Coconut lands are highly fit for growing other cash crops like corn, citrus, banana, coffee, legumes, etc. complimentary to the growth and yield of coconuts.



VI. Recommendations

To successfully attain a sustainable coconut industry that will greatly benefit the small coconut farmers and farm workers, the following recommendations are put forward:

1. A comprehensive national coconut industry development agenda must be crafted and put in place to once and for all address the perennial problems of the industry, poverty of coconut farmers, and to seize industry opportunities. This will be initiated by coconut farmer organizations with the support of other coconut industry stakeholders (traders, processors, capital providers, etc.) and the government (Philippine Coconut Authority, Department of Agriculture, Department of Trade and Industry, etc.);
2. Local Coconut Development Councils need to be organized and convened in view of the Local Government Code to implement and manage policies for the betterment of the industry. This special body will set proactive directions enjoining other stakeholders and decision makers. The formation and activation of which is also one way of preparing farmers and other stakeholder of the significant and sustainable utilization of coconut levy funds when they become available. The mechanism espoused in the body will ensure that the resources from the coco levy will not be dissipated and will be put to good use for the benefit of all coconut farmers. Other industries are successful because they are organized. Therefore, only when the stakeholders are organized will create a strong foundation for the industry and in commanding better negotiating power in the global market;
3. It is high time that in light of several opportunities in the industry, the farmers should be equitably compensated. If there are no coconut farmers there is no coconut industry to speak of. Their involvement in different levels of production and policy making should also be encouraged; and,
4. Efforts to recover the multibillion coconut levy funds must be strengthened directed at the Executive, Legislative and Judicial branches of government.



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