

THE ECONOMIC IMPACTS OF SELECTED GOVERNMENT INTERVENTIONS ON
THE COCONUT SECTOR OF SRI LANKA

By

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ABSTRACT**THE ECONOMIC IMPACTS OF SELECTED GOVERNMENT INTERVENTIONS ON THE COCONUT SECTOR OF SRI LANKA**

This study evaluates the impact of three major price policy instruments on the coconut sector of Sri Lanka; i.e., i) the coconut cultivation subsidy, ii) the tariff on other edible oils and, iii) the export tax on desiccated coconut. The fresh coconut, coconut oil and the desiccated coconut markets are specifically selected to evaluate the impact of these three policy instruments. To achieve the objectives of the study, a partial equilibrium framework for the coconut markets is developed. The behavioural relationships for the coconut markets are established, econometrically estimated and simulated. The results of the econometric estimation show that the supply and demand elasticities for all the coconut markets are relatively low. The simulation of the model is carried out assuming that these policy instruments were not implemented in the domestic coconut sector, i.e., that the three markets exist in an open economic situation. The results of the policy simulation show that the coconut cultivation subsidy has positive impacts on the supply of fresh coconuts, coconut oil and desiccated coconut. The simulation exercise for the tariff policy shows that the protection in the edible oil market generates marginal impacts to enhance the domestic coconut oil supply, while the edible oil consumers are adversely affected by paying a higher price. The export tax/cess on desiccated coconut does not have substantial negative impact on the desiccated coconut supply.