

COMMODITY BOARDS

P.P. PRABHU

A study of the functioning of the Commodity Boards
for the

Department of Commerce
Ministry of Commerce and Industry

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1. The first step in the process of identifying a problem is to define the problem clearly. This involves identifying the symptoms of the problem and determining the scope of the problem. Once the problem has been defined, the next step is to identify the causes of the problem. This involves identifying the factors that are contributing to the problem and determining the underlying causes of the problem. Once the causes of the problem have been identified, the next step is to develop a plan of action to address the problem. This involves identifying the steps that need to be taken to solve the problem and determining the resources that will be needed to implement the plan. Once a plan of action has been developed, the next step is to implement the plan. This involves carrying out the steps that have been identified in the plan and monitoring the progress of the implementation. Finally, the last step in the process is to evaluate the results of the implementation. This involves determining whether the problem has been solved and whether the resources have been used effectively.

2. The second step in the process of identifying a problem is to identify the causes of the problem. This involves identifying the factors that are contributing to the problem and determining the underlying causes of the problem. Once the causes of the problem have been identified, the next step is to develop a plan of action to address the problem.

3. The third step in the process of identifying a problem is to develop a plan of action to address the problem. This involves identifying the steps that need to be taken to solve the problem and determining the resources that will be needed to implement the plan. Once a plan of action has been developed, the next step is to implement the plan.

4. The fourth step in the process of identifying a problem is to implement the plan. This involves carrying out the steps that have been identified in the plan and monitoring the progress of the implementation. Finally, the last step in the process is to evaluate the results of the implementation.

5. The fifth step in the process of identifying a problem is to evaluate the results of the implementation. This involves determining whether the problem has been solved and whether the resources have been used effectively.

6. The sixth step in the process of identifying a problem is to determine whether the problem has been solved. This involves determining whether the symptoms of the problem have been eliminated and whether the underlying causes of the problem have been addressed.

7. The seventh step in the process of identifying a problem is to determine whether the resources have been used effectively. This involves determining whether the resources have been used in a way that is consistent with the plan of action and whether the resources have been used in a way that is efficient and effective.

8. The eighth step in the process of identifying a problem is to determine whether the problem has been solved. This involves determining whether the symptoms of the problem have been eliminated and whether the underlying causes of the problem have been addressed.

9. The ninth step in the process of identifying a problem is to determine whether the resources have been used effectively. This involves determining whether the resources have been used in a way that is consistent with the plan of action and whether the resources have been used in a way that is efficient and effective.

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11. The eleventh step in the process of identifying a problem is to determine whether the resources have been used effectively. This involves determining whether the resources have been used in a way that is consistent with the plan of action and whether the resources have been used in a way that is efficient and effective.

12. The twelfth step in the process of identifying a problem is to determine whether the problem has been solved. This involves determining whether the symptoms of the problem have been eliminated and whether the underlying causes of the problem have been addressed.

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1 Crore = 10 million : 1 lakh = 1,00,000

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P.P. PRABHU

May 2001

Executive Summary

Plantation Commodities constitute an important segment of India's agricultural economy. Apart from meeting the domestic requirements, the plantation commodities, the marine products and the agricultural and processed food products contribute significantly to country's foreign exchange earnings.

2. The statutory Commodity Boards formed to look after the development of the plantation commodities, and the Marine Products Export Development Authority and the Agricultural and Processed Food Products Export Development Authority have played a significant role in the growth and development of their respective sectors.

CHAPTER II

3. Over a million growers are engaged in the cultivation of plantation commodities. In addition, the plantation sector alone provides direct employment to nearly two million. The sector also earns substantial foreign exchange for the country. (2.8-9)
4. The growth of production in the last three decades (100% increase in the case of tea to six times increase in the case of natural rubber) as well as the comparatively satisfactory achievement in productivity levels speak for the performance of the Boards. (2.11-13)
5. The expenditure on the bureaucracy of the Boards has not been high. The resources requirements have also been mostly generated from the industry itself by way of cess. (2.14-15)
6. The Boards have been able to develop a sense of belonging and establish a credibility with the growers. The Boards have thus demonstrated their accountability to the growers and so the grower community want the commodity Boards to continue. (2.17-20)
7. Government of India have been allocating sufficient funds to the Boards, much more than the cess amounts collected from the respective sectors. (2.21-22)
8. The suggestion to form a combined plantation Board as a measure of economy is neither practical nor a sound proposal. (2.23-25)
- ✓9. The membership of the Boards can be rationalised and the strength reduced. (2.26-27)
- ✓10. Though Tea, Coffee and Natural Rubber Boards have to be basically grower oriented, it would be advantageous to have representation for all interests and stakeholders in the Boards. (2.29)
- ✓11. The present practice of election to represent large grower representatives in the Rubber Board can be modified. (2.30)

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- ✓12. Effective representation has to be given to small growers in the Boards and hence 50% of the small grower nominees may be selected from among those growers owning less than 4 hectares. (2.31-32)
13. The Boards may form three Board Committees - research, executive and development committees; the Boards with prime mandate of export promotion, may also form an export promotion committee. (2.33)
- ✓14. The financial powers of the Boards be enhanced to rupees one crore, subject to some restrictions. (2.35-36)
15. The organisation of the Boards, as have evolved over the years would need to undergo changes gradually but surely, if the plantation sector has to effectively meet the emerging challenges and demands. (2.37-39)
16. The responsibility for research in respect of all spices except for cardamom is with ICAR. Either the responsibility for major spices should be transferred to the Spices Board or the responsibility for cardamom shifted to ICAR. Both the solutions are encountering practical difficulties. A possible solution could be to place the operational control over the spices research stations with the Spices Board with the scientists/staff continuing to be part of ICAR and continuing to enjoy the privileges. (2.45-49)
- ✓17. Annual evaluation of the research programmes as well as periodical evaluation once in 7,8 years by a technical and scientific team to evaluate the performance of research work and programmes and recommend the future course and direction of research is desirable. (2.50-53)
- ✓18. The Boards may have to concentrate on research, as very little work is being carried out outside the Boards' research stations. The Boards may also explore the possibilities of entrusting some research work to universities. (2.54-57)
- ✓19. Development activity has to continue as an important function of the Boards. The loan and subsidy schemes may have played an important role in the development of the industry but may have to be phased out. Subsidy needs to be confined primarily to quality improvement programmes. (2.58-65)
- ✓20. The extension service has also been an important activity, but most of the services, from supply of planting materials to farm advisory services, soil testing to processing techniques are being increasingly provided by the private sector; hence the Boards may gradually withdraw from these activities. (2.66-68)
21. The Boards may take recourse to growers' participatory workshops for dissemination of advice and information. (2.69)
22. The logical further step and progress will be in the direction of harnessing the communication and computing technologies for providing better extension services.

Establishment of internet kiosks in production centres and converting field offices into virtual extension offices will go a long way in making available the best of extension services to growers. (2.70)

23. There is no justification to continue the Board's foreign offices. The need for the offices arises because of the dissatisfaction with the performance of our commercial missions that they have not been rendering the needed services to exporters and to the industry, as expected of them. UPASI has brought to notice a recent instance of indifference by our commercial missions. (2.72-75)

24. One possible solution could be to place the commercial missions in important countries under the joint control of the Ministry of External Affairs and the Ministry of Commerce. The officers for manning the commercial posts in the missions may be jointly selected out of qualified professionals and held accountable. (2.77)

25. There is little justification to continue domestic promotion outlets which can be progressively privatised. (2.78)

✓ 26. The Boards are not equipped to undertake and may desist from, market intervention operations. The minimum and maximum prices are difficult to implement. (2.79)

✓ 27. Processing, post harvest management and quality assurance are the areas deserving more attention from the Boards. (2.80)

✓ 28. All the control provisions in the various statutes regarding planting, movement, marketing, etc., need to be given up. Experience with the regulations regarding registration of growers has shown that it can not be enforced. Periodical census may be a better option. (2.82-88)

✓ 29. Registration of exporters and export permit system may also be discontinued once the DGCI & S and customs complete the computerisation of their operations. (2.89-94)

✓ 30. Quality certification will become necessary in the future. The Boards may accredit private labs on the basis of transparent criteria for this purpose. (2.95)

31. Schemes for popularisation of cultivation and marketing of organic products may be evolved. (2.96)

✓ 32. Most of the Boards have excess manpower. Rubber Board which has the largest surplus has been creating posts and recruiting additional staff during the last few years. VRS facility when announced by the Government can be extended to the surplus staff. (2.98-100)

33. Most of the Boards bring out useful publications but delay robs them of their utility. There is also scope for improvement in the contents. (2.101 to 106)

34. The Boards have achieved little progress in computerisation and the objectives of achieving efficiency and reducing delay are yet to be achieved. (2.107-115)
35. The web sites of the Boards require to be vastly improved. The Boards have to pay attention to periodical updating also. (2.116-119)
36. There is great potential for the development of plantation commodities in the North Eastern States. The Boards have done commendable work in this regard and are implementing a number of schemes in North East. A well planned programme of development of plantations including the creation of processing and marketing facilities and an effective strategy of implementation, will go a long way in making the programme a success. The development of plantations will ensure employment for thousands and steady incomes and help make some parts of North East as well developed as Coorg or Kottayam. (2.120-153)

CHAPTER III

I. Tea Board

37. The strength of membership of the Tea Board may be reduced to 25. (3.1.10)
38. The present system of industry managed research, with grants from the Board, may continue. The Darjeeling research station may be strengthened for specialised application research relevant to Darjeeling tea. (3.15-23)
39. The orientation of the development activity may be shifted towards the small grower. (3.1.24)
40. Tea houses may be progressively privatised. (3.1.25)
41. The overseas offices of the Board are an unnecessary luxury and the performance does not justify their continuation. (3.1.26-33)
42. Licencing of planting, registration requirements etc., may be discontinued. (3.1.35-41)
43. The provision in the Marketing Control Order 1984 which gives authority to the Board to prescribe a minimum percentage of production to be compulsorily sold through auction may be withdrawn. (3.1.43-53)
44. The auction rules and procedures require to be streamlined. (3.1.54-58)
45. The Tea Warehouse Licencing Order 1989 may not be enforced; the licenses issued to auctioneers may prescribe the specifications for warehouses attached to auction halls. (3.1.59-60)
46. There is no need for any control over distribution or exports of tea. (3.1.61-62)

47. The scope of the Tea Waste Control Order 99 may be restricted only to tea waste moving out of factories for sale. (3.1.63-66)

48. The powers of management or control of tea undertakings or tea units may not be acted upon. (3.1.67-69)

49. The Board is operating a number of schemes: some of them may be phased out; some of the schemes may be reformulated. (3.1.70-72)

50. Tea Board has excess staff; with the withdrawal of licencing work and some of the schemes being phased out, there will be surplus staff in licencing, marketing and development departments – a little over 150 in all. Three offices can be closed. (3.1.73-74)

51. To improve the quality of service, the Board must concentrate on research, productivity improvement, training of labour, improvement of co-op and bought leaf factories and training of small growers. The improvement of auction system, assistance for the setting up of quality labs for independent testing, implementation of a price and market information system, improving the content and quality of websites are other areas for action. (3.1.75-80)

II. Coffee Board

52. The strength of the Coffee Board can be reduced to 24. (3.2. 9)

53. The pool marketing system was the most important activity of the Board till it was disbanded. Now research will have to continue as the most important activity. The extension service will continue to be important. (3.2.12-14)

54. The development schemes have been taking much of the attention and time of the extension personnel. (3.2-20)

55. Some of the tasks such as supply of planting materials etc., can be given up gradually; participatory workshops with farmers groups may be increasingly resorted to. (3.2.22)

56. Market development will be hereafter a knowledge based activity and the Board may have to outsource some of these tasks. (3.2.24-25)

57. The export permit system may be discontinued once the Board is able to obtain the required information from the customs. (3.2.26-27)

58. The domestic promotion outlets may be gradually privatised to cut down the losses. (3.2.28-29)

59. Processing and quality upgradation require greater attention. The logo scheme may be used to encourage quality. Private laboratories may be encouraged. (3.2.30-33)

60. The Board may evolve a scheme to document cup quality to enable aggregation of same cup quality coffees which will facilitate the aggregation of minimum quantities for export. (3.2.34)

61. The Board is operating only one scheme in the area of production, i.e., water augmentation which is essential and may continue. In the area of market promotion some of the schemes may be phased out. (3.2.36-40)

62. The Board has around 200 excess non-technical staff in administration and extension departments; with the discontinuation of some development schemes, a third of the extension staff also will be surplus. (3.2.41-43)

63. The research department has performed fairly well and has many achievements to its credit, but far short of potential. The evaluation of research activity and programmes by an independent technical committee in 1996 has brought out the deficiencies and weak points. The Board has to devote much more attention to research; the strengthening of scientific staff, improvement of physical infrastructure, ensuring better motivation are some of the important areas requiring attention. Funds allocation may also be stepped up. (3.2.44-57)

64. The service most expected of the Board is in terms of high yielding varieties and improved pest control measures. Better extension service, improved and useful website, more information cells are the other areas to which the Board need to pay attention. (3.2.61-69)

III. Rubber Board

65. Rubber production has grown spectacularly in the last two decades as also productivity. Government have extended full protection to the industry and ensured that domestic prices remained at higher levels than international prices. (3.3.5-8)

✓ 66. The constitution of the Board may be recast. The election procedure for selection of large growers may be given up. (3.3.12)

67. Among the activities, research and production need to be given the highest importance. (3.3.15 -16)

68. The production department has established a vast and many tier field set up. Increasing recourse to participatory approach especially with the help of Rubber Producers' Societies will help to render better service to growers. (3.3.17-19)

69. The department also undertakes many subsidiary activities. While perhaps the activity of bio gas plants may continue, the rest of the activities may be handed over to specialised organisations meant for them. Nurseries also need to be run on cost recovery basis. (3.3.20-24)

70. The registration of large estates and collecting production data only from them serves no purpose; can be discontinued. (3.3.27)

71. Licenses are prescribed for the dealers, processors and manufacturers and monthly and annual returns—over 2 lakhs in all—are processed every year only to enable the assessment of consumption of rubber and levy the cess. This is avoidable work and involves cost to all. The whole system can be given up and the cess amount collected along with central excise. If this is not acceptable, then registration may continue only for the manufacturers and half yearly returns only may be prescribed. (3.3.28-33)

72. As part of the processing and product development activity, a number of commercial activities have been started; substantial capital expenditure has been incurred. Most of them could have been encouraged in the private sector. Most of the units may be gradually privatised. (3.3.35-40)

73. The work of the training and consultancy division is important but the consultancy division should progressively become self supporting. (3.3.42-43)

74. The Board operates many schemes, some of them have been continuing for decades. Some of the schemes need to be phased out, excepting quality improvement schemes, tappers training etc. (3.3.44-51)

75. The Rubber Board has huge surplus staff; there have been avoidable recruitment. The establishment expenditure has gone upto over Rs.25 crores annually; substantial reduction is called for. (3.3.54-56)

76. The performance of the research Institute has been very satisfactory. The productivity improvement has been commendable. Most of the research schemes may continue. The major area of concern is the high dependence on a single variety. (3.3.57-62)

77. Some of the regional stations can be converted into demonstration farms. (3.3.65)

78. The Board has instituted an effective system of annual evaluation of its performance. The Board may subject its research programmes to an independent scrutiny once in 7, 8 years to assess the progress of research efforts and set the direction for future research. (3.3.66-69)

79. The Rubber Board may encourage private service providers and increasingly adopt participatory approach in extension. The Board has to become a facilitator and become a knowledge centre. (3.3.70-75)

IV. Spices Board

80. The export of spices has shown excellent progress but with pepper prices coming down, there will be a set back. Notwithstanding our 40% share in world exports, there is considerable need to step up production to meet the growing domestic needs and to maintain our share in the world market. (3.4.3-4)

81. The strength of the Board can be reduced to 20. (3.4.10)
82. The contentious issue of status of cardamom research and development activity has to be settled once for all. The cardamom growers are opposed to the transfer to ICAR, though it is a more logical option; hence the only option feasible appears to be to continue the status quo and strengthen the research activity. (3.4.15-21)
83. The number of offices for the development activities can be reduced. (3.4.23)
84. Post harvest development activity demands more attention and resources. Quality improvement including training and encouragement for the establishment of private laboratories, needs to be followed up. (3.4.24-27)
85. Cardamom marketing is well organised; though there is no compulsion to sell through auctions, nearly 2/3rds of produce is bought to auction. (3.4.29)
86. Export promotion is the major function of the Board, but the Board may withdraw from some marketing activities. The system of registration of exporters may also be withdrawn once the customs and DGFT streamline their procedures. (3.4.31-33)
87. Some of the schemes of the Board may continue, but individual exporter oriented export promotion schemes may be phased out; anyway the incidence of subsidy is too insignificant to make any impact. (3.4.34-38)
88. There is scope for some reduction in the strength of non technical manpower. (3.4.39-40)
89. The performance of the spices research station is not upto expectations though some promising clones are under trials. Lack of irrigation and inadequate attention to farm practices by small growers are the major reasons for low average productivity levels. (3.4.42-45)
90. The Board has to concentrate on research, work closely with ICAR/state governments in the matter of widespread adoption of post harvest practices and control of pesticide usage, and ensure that exports meet international standards. Quality certification has to be popularised, as also a virtual spices bazaar. (3.4.49-57)

V. Marine Products Export Development Authority

91. The strength of the Board can be rationalised to 20. (3.5.10)
92. Among the major activities, the promotion of capture fisheries has to continue as also the promotion of aquaculture, though the Ministry of Agriculture and the state governments should have taken over the responsibility for aquaculture development. The modernisation of processing is another key activity which has to continue to receive attention. (3.5.13)
93. MPEDA maintains two foreign trade promotion offices and their continuation is being justified on the ground that they render high quality service to the industry and not merely to individual exporters. The industry also feels that our commercial missions will not be able to render the required services. (3.5.14-16)

94. The registration and licencing activities can be streamlined and in course of time, accredited private agencies may be encouraged to perform inspection functions. (3.5.18-19)

95. Most of the schemes of MPEDA may continue though some may have to be transferred to the Ministry of Agriculture/state agriculture departments. (3.5.21-40)

96. There is only marginal surplus in the staff strength, in one or two departments. (3.5.41-42)

97. To improve the quality of service, the trade information service has to be improved; assistance needs to be given to shrimp farmers in the control of viral attack; dissemination of developments including rules and regulations regarding aquaculture farming has to be organised. (3.5.43 - 46)

VI. Agricultural and Processed Food Products Export Development Authority

98. The strength of the Board can be reduced to 23. (3.6-7)

99. The mandate of APEDA is wide and apparently overlaps that of Ministry of Food Processing Industries (MFPI) and the Department of Agriculture, but in practice APEDA has been confining its activities to only those aspects relevant for exports (3.6.10-11)

100. The major activities of APEDA – post harvest management, infrastructural upgradation, quality improvement and market intelligence — have to continue. (3.6-12)

101. Most of the schemes of APEDA are relevant for exports. Some of the schemes, though desirable may be phased out as they are not related to exports. A programme to build capacity for risk assessment and analysis may be necessary. (3.6.13-34)

102. The air freight scheme needs to be critically reviewed and discontinued in respect of those products with limited potential. (3.6.36-38)

103. APEDA may establish standards for all scheduled products and work towards harmonisation of standards with international standards. (3.6.39-40)

104. APEDA may encourage quality and testing labs in the private sector. (3.6.41)

105. Special schemes to encourage the cultivation of organic products and fresh fruits and vegetables may be worthwhile. (3.6.42-44)

106. APEDA has so surplus staff. It may be permitted to engage experts and consultants for specialised work and to carry out projects rather than recruiting personnel on a permanent basis. (3.6.45-46)

107. APEDA's major responsibility will have to be in the areas of dissemination of appropriate post harvest management techniques, quality standards etc. The virtual trade fair of APEDA

has to be made a success. The website needs to be made more comprehensive.
(3.6.47-54)

CHAPTER IV

108. A change in the mandate and functions of the Boards may be necessary in the light of the liberalisation policy initiatives of the Government and the developments in the commodity sector and in the economy.

The Boards have to move away from controls to complete deregulation; the emphasis has to shift from mere development and production, to competitiveness. The incentive based approach should give way to capacity building, information and education. The Boards would need to withdraw from many activities and rather than being providers of services and become facilitators. Most important, the Boards should cease to be mere bureaucratic organisations and become knowledge centres.

PART II

109. Plantation commodities are important for many developing countries either because of their contribution to GDP, or trade, or employment. But the commodity producing countries have suffered adverse terms of trade for two decades now.

110. Prices of commodities especially of coffee etc., have been subject to violent fluctuations. In the past, stabilisation of prices was achieved through International Commodity Agreements. International Coffee Agreement restricted supplies through quotas and the The International Natural Rubber Agreement regulated the availability through Buffer Stock Operations. However, the possibility of such arrangements hereafter is remote.

111. Commodity Boards if statutorily authorised, could regulate production and supplies and through a combination of deficiency payments and retention of a portion of the prices when the market prices are satisfactory, can attempt to stabilise prices and incomes. But with the global integration of the economies, the scope for such intervention is limited.

112. Price volatility is a serious problem afflicting the growers in the developing countries only, as the farmers in the developed world are fully protected with subsidies and direct income payments.

113. There have been few worthwhile international attempts to help the developing countries to cope with the problems of price volatility. The World Bank had convened an International Task Force on Commodity Risk Management in the Developing Countries. The ITF's recommendation is for the creation of an International Intermediation which will bridge the gap between the providers of the risk management instruments and the entities in the developing countries.

114. The proposal is for a price insurance scheme under which a guaranteed price based on the quotations of futures exchanges can be ensured against payment of premium. While such an arrangement will no doubt eliminate the uncertainty about the price realisation, the proposal would still fall short of growers' expectations.

115. Growers can be protected from the risks of price volatility either through regulation of production or supplies. Both are not practical. Export tax coupled with deficiency payment is one possible method of stabilisation of prices and indirectly of incomes of growers; but it is an imperfect system and may be possible only in the case of a predominantly export commodity like coffee. Straight subsidy payment to compensate the growers when prices fall to a low level, may be one option but can be resorted to only in exceptional cases in view of the huge financial implications.

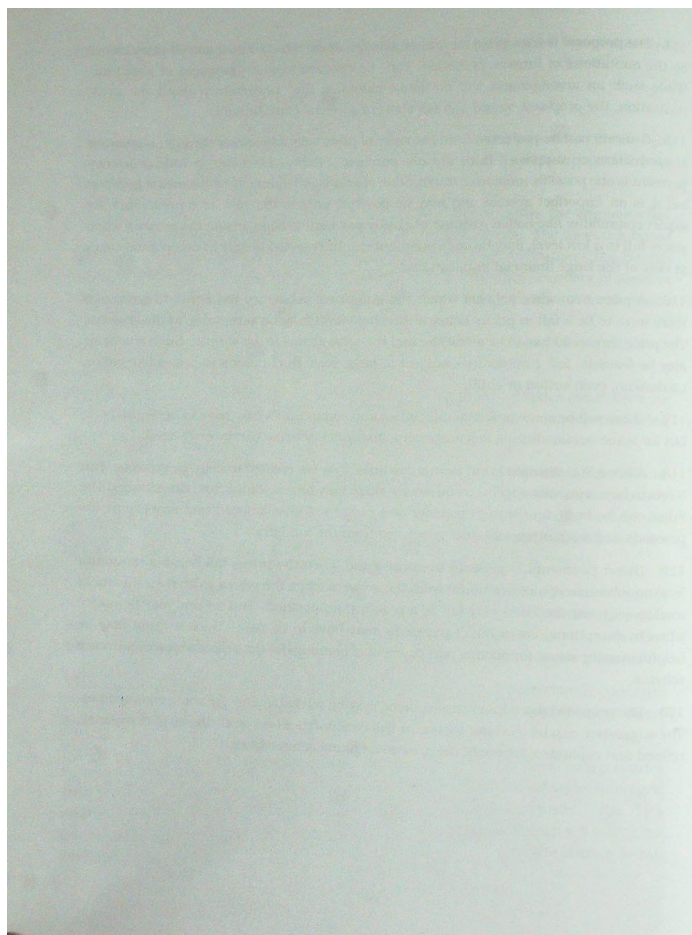
116. A price insurance scheme which will guarantee deficiency payments to growers if there were to be a fall in prices below a threshold level may be acceptable to the growers. The price threshold has to be attractive and the scheme has to be simple. Such a scheme may be feasible for commodities subject to large scale fluctuations in prices like coffee, cardamom, even cotton or chilli.

117. There will be some practical difficulties and some details may have to be worked out, but for some commodities a self sustaining insurance scheme can be envisaged.

118. A Price Stabilisation Fund for commodities may be created to help the growers. But it has to be commodity specific as otherwise there may be resistance from the growers. The Fund can be built up through transfer of a portion of cess amount and any export tax proceeds and such other amounts generated from the industry.

119. Direct payments to growers from the Fund when the prices fall below a minimum level or collection of a cess amount from the growers when the prices go above a threshold level to augment the Fund may not be a practical proposition. But a Fund may be useful when in exceptional cases direct payments may have to be paid. Such a Fund may be helpful in many ways: for making part payment of premium for the proposed price insurance scheme.

120. The proposed price insurance scheme may be workable only for some commodities. The suggestion can be tried out for one or two commodities and on the basis of experience, refined and expanded to benefit the growers of many commodities.



PART I

PART I

CHAPTER - I

Agriculture including plantation commodities and fisheries are the lifeline of many developing countries. Coffee, cotton, fish, fruits, sugar and such primary commodities are of particular importance to many developing countries because of their contribution to gross domestic product, or trade or employment.

2. Plantation commodities - tea, coffee, natural rubber and spices - constitute an important segment of India's agricultural economy. Apart from meeting the country's domestic requirements, the plantation commodities also contribute significantly to the country's foreign exchange earnings.
3. Plantation commodities and marine sector are very important also from the point of view of employment generated in the sectors. The direct employment alone in the plantations exceeds two million. This is apart from the substantial employment in the associated economic activities of processing of plantation crops and in marketing, besides in transportation.
4. India has been known for its tea and spices even before independence. Tea was introduced into the country a little over a century back and the country took to tea plantation in a big way and became the world's largest producer. The domestic demand also grew steadily and tea became the favourite beverage of the people. Tea has been also an important export item for many decades. At the time of independence, tea exports constituted over 13% of country's exports. Given the importance of the tea industry, it was natural that the industry came to be regulated from the very early days. A statutory Tea Cess Committee was constituted way back in 1903 when a cess on export of tea was introduced. The Indian Tea Market Expansion Board was established in 1937. The Central Tea Board Act was enacted immediately after independence in 1949. The present Tea Board came into existence under the Tea Act of 1953 replacing the predecessor, the Central Tea Board. The production of tea has grown in the last five decades from 278 million kgs to over 800 million kgs. The value of exports has also grown from mere Rs. 80 crores in 1950 to over Rs.1966 crores in 1999, - US \$ 450 million. However India's share of world exports has come down from 45% during the early fifties to 16% now.
5. Coffee came to be introduced in the country in the 19th Century. The growth of coffee plantations received a set back for some years, because of outbreak of pests and diseases. The United Planters Association of Southern India (UPASI) which was established in 1892, took the first major step in organising research efforts to tackle pests afflicting the coffee plantations. It organised research efforts and collaborated with the governments to evolve an unique public private partnership in research. An exclusive research station for coffee was established at Balchonnur (in Karnataka state) in the year 1925. The Coffee Board was established later in 1942, when the coffee industry was in turmoil on account of the low prices due to the disruption of export market caused by the world war. The Board was entrusted with full responsibility in all areas and activities of the coffee industry - research, development, processing and also marketing. The production of coffee has grown in the last two decades from a little over one lakh tons to nearly three lakh tons now. Exports have also grown from Rs.214 crores in 1980-81 to over Rs.1900 crores, nearly US \$ 447 million, last year.

6. The Rubber Board was constituted in 1947. At that time the area planted with rubber was very small and the production was less than 20,000 tons. In view of the critical importance of the commodity, and the potential for the development of rubber plantations in the country, the government enacted the Rubber Act with the specific mandate to promote the development of the rubber industry. The Board has been successful in ensuring very satisfactory growth of natural rubber production from a meager twenty thousand tonnes at the time of independence, to over six lakh tonnes now.

7. Though India was known for centuries for its spices, there was no institution for the development of spices. A Board was set up for the development of cardamom in the year 1965. There was a Spices Export Promotion Council looking after the export of spices. In order to give a boost to the export of spices, the Spices Act was enacted in 1987 constituting the Spices Board. Both the Cardamom Board and the Spices Export promotion Council were merged into the Spices Board. However, the functions of research and development of spices other than cardamom were not shifted to the Spices Board. Thus the Board is responsible only for export promotion of spices and the development of cardamom. The export of spices has been steadily increasing and crossed US \$ 430 million during 1999/2000.

8. Fishing has been a traditional occupation for a large number of people in the coastal areas and inland also. Millions in our country are dependent upon fisheries for sustenance, most of them residing along India's long coastline. Till 1960, India's fish production was entirely consumed domestically and there was hardly any export, except to neighbouring countries and consisted mostly of dried marine products. After mid-sixties the export of processed items including frozen and canned items registered a significant rise. The Marine Products Export Development Authority (MPEDA) was established in 1972 with the responsibility to promote the development, under the control of the central government, of the marine products industry with reference to exports. The Authority replaced the erstwhile Marine Products Export Promotion Council which was then looking after the promotion of marine products exports from India. MPEDA has been instrumental in the development of shrimp cultivation in the country. It has contributed to the spectacular growth of exports of marine products from around Rs. 286 crores only in 1981/82 to over Rs.5,000 crores, US \$ 1189 million, during 1999/2000.

9. Export of agricultural and processed food products had not been given due importance till the eighties, though the potential for exports has always been known. The Agricultural and Processed Food Products Export Development Authority was set up in 1985. It is mandated with the responsibility for the development and export promotion of a few specified (scheduled) products; among them are fruits, vegetables, meat and meat products, floriculture, horticultural products, basmati rice etc. APEDA has also been entrusted with the responsibility to look after some non-scheduled items like basmati rice and sugar. The export of the scheduled products has grown to over Rs.7300 crores during 1999/2000 though many agricultural and horticultural items like rice, wheat, onions etc. have been subject to domestic supply constraints and export restrictions. The export of processed foods, horticulture and floriculture items is showing steady growth, though still far below potential.

10. The Commodity Boards have been functioning for many decades and the two Development Authorities, for nearly twentyfive and fifteen years. The Boards/ Authorities can justifiably be proud of their substantial achievement. However in the light of the liberalisation measures initiated by the government and in the context of globalisation of the economy, Government of India decided to undertake an indepth study of the functioning of the Commodity Boards/Authorities. The government constituted a One Man Committee to undertake such a study and to recommend appropriate measures for streamlining their operations.

TERMS OF REFERENCE

11. The terms of reference of the study are:

- i) Review of the existing structure and activities of the Commodity Boards;
- ii) Rationalisation and reformulation of existing or proposed schemes;
- iii) Analysis of the existing manpower ;
- iv) Review of the mandate of the Commodity Boards to determine the need for change in view of the policy initiatives taken in the post liberalisation period;
- v) Review of the functioning of the research programmes and the R&D centres of the Commodity Boards;
- vi) Suggestion of appropriate measures for improving the quality of services being rendered by each of the Commodity Boards;

12. In addition, suggestions for the conceptualisation of a Price Stabilisation Fund for commodities in the present day context, is a part of the terms of reference of the study.

13. A copy of the Office Memorandum constituting the committee is at Annex - I.

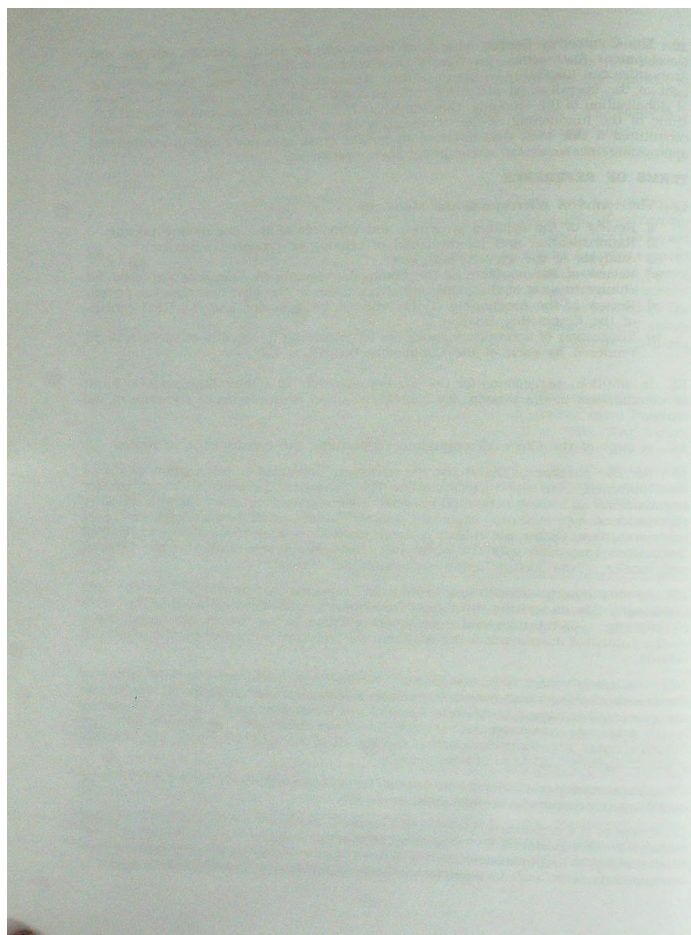
14 . For the purpose of the study, the necessary documents, information and data were obtained from the Boards/Authorities. Discussions were held with grower organisations and many individual growers. Discussions were also held with all other stakeholders - processors, exporters, labour unions, staff associations and user representatives. Coffee and rubber research institutions were also visited and detailed discussions were held with the scientists. Discussions were held with the Director and faculty of the Indian Institute of Plantation Management.

15. In this report, "Board" has been used to denote and refers to, all the four Commodity Boards and the two Export Development Authorities included in the terms of reference. All the data and information relating to the Boards are based either on the published documents or derived from the literature furnished by the respective Boards.

16. The study report is in two parts. The first part deals with the functioning of the Boards. Subjects and issues of common interest and pertaining to all the Boards are covered in Chapter II. Matters specific and relevant to each Board and relating to the schemes, manpower etc. of each Board are dealt with in Chapter III. The Fourth chapter reviews the mandate of the Boards in the light of the post liberalisation policy initiatives and the changes needed.

17. The second part of the report covers ideas and suggestions for a possible price stabilisation scheme for commodities.

18. Some of the recommendations in the report would call for changes in the relevant statutes for implementation. Specific modifications required have not been detailed in the report. Implementation of a few of the recommendations would require consultations with and concurrence of, other ministries of Government of India.



CHAPTER - II

Commodity Boards looking after the development of specific commodities, - Tea, Coffee and Natural Rubber - have been in existence for several decades. The Tea Act specifies that the objective of the Act is, to provide for the control of the tea industry including the control, in pursuance of the International Tea Agreement, of the cultivation of tea in, and of the export of tea from, India and levy a duty of excise on tea produced in India. The Coffee and the Rubber Acts specifically state that the objective is to provide for the development of the industry. The mandate of the Spices Board is promotion of spices exports, besides the development of the cardamom industry. The Marine Products Export Development Authority and the Agricultural and Processed Food Products Export Development Authority have limited mandate, i.e., to promote the exports of marine products and agriculture and processed food products respectively.

2. The constitution, the functions, the responsibilities and the activities of the Boards naturally vary widely, as the purposes for which the Boards were set up were very different. The nature of the commodities, the processing methods and the marketing systems are also not similar. The stakeholders in each industry and the problems of each industry are also different.

3. Organised cultivation of plantation commodities started with tea, and mostly in large estates even now; but the rest of the commodities are now grown in small holdings and by small growers. The share in production of large estates, > 10 ha. is less than 40% in coffee and as low as 10% in natural rubber.

4. Tea used to be an important export commodity. Now, the export share of production is less than 25%. Natural Rubber is almost for domestic consumption, whereas coffee is mostly exported.

5. Over the years, there have been significant changes in every aspect of the commodity sector - production, post harvest techniques, processing, marketing, quality standards as well as exports. With the globalisation of markets, exports is becoming increasingly competitive; the possibility of competition from imports is also real and becoming increasingly worrisome to growers.

6. Certain general aspects and issues of common concern and relevance are discussed in this chapter. Commodity Board specific subjects and matters are dealt within the next chapter under each Board separately.

SECTION I - IMPORTANCE OF PLANTATION SECTOR

7.7. The Statutory Boards were created at different times for each of the four plantation commodities in response to the then felt need for a statutory authority to take up the development of each commodity. The Coffee and Rubber Acts specifically mention this objective. The major objective of establishing separate Boards i.e., to develop the respective industry in an organised manner remains valid even today.

8. Tea is common man's beverage in India. The internal demand for it is growing at the rate of 15-17 million kgs annually. Tea also earns substantial foreign exchange, nearly Rs. 2,000 crores, though our share of world exports has been slipping in the last few decades. Hence there is a definite need to step up production of tea. Coffee is also becoming a valuable foreign exchange earner. Our exports have grown to Rs.1900 crores but constitute just 4% of world exports and hence the scope for growth is substantial. Natural Rubber is an important industrial raw material for automotive sector and we are barely self sufficient. Our spices exports has touched Rs.1860 crores. Though we have nearly 40% of world trade, we need to nevertheless expand production not only to meet the growing domestic demand but to retain our share of world business.

9. Plantation is an important economic activity in some parts of the country. Nearly a million and a half growers are engaged in the cultivation of the commodities and over two million labour are directly employed in the plantation sector. For all these reasons the continued development of these plantation commodities is essential. However the objective would need to be redefined as, not merely to develop the industry but also to make the industry internationally competitive.

SECTION II - JUSTIFICATION FOR STATUTORY BOARDS

10. A question often raised is, why statutory boards are needed for certain plantation commodities, when similar statutory Boards have not been found necessary for more important commodities, say rice or edible oil. The criticism is that these Boards, whatever be the justification for their formation long back, have little role to play in these days of liberalisation; the cultivation and production of plantation crops would continue regardless of the Boards and hence the continuation of the Boards at a huge cost to the exchequer is not necessary.

11. The performance of the Boards may provide a partial answer to this criticism. The overall development of the plantation sector since the formation of the Boards is evident from Table 2.1.

Table 2.1. The development of the plantation sector in India

Commodity	Growth of Production (in tons)			Productivity increase (Kg/hectare) 1980/81 to 1998/99
	1970/71	1990/91	1998/99	
Tea	4,18,517	7,20,338	8,65,000	1461 - 1865
Coffee	1,10,231	1,69,726	2,65,000	620 - 940
Natural Rubber	93,171	3,29,615	6,05,045	788 - 1563
Small cardamom	3,170	4,750	7,900	62 - 149

12. The production of tea, coffee, natural rubber and small cardamom have been growing steadily and significantly in the last three decades. The achievement in the area of productivity also has been satisfactory. The performance has been better

than most other agricultural crops, equally if not more important. The Boards can claim credit for the achievement in the areas of production and productivity.

13. More than the absolute growth in productivity, the appropriate measure of performance would be comparison with the productivity growth in the competing countries. This is all the more relevant and significant in today's globalised world. In this respect also, the plantation commodities have shown satisfactory performance as can be gathered from Table 2.2.

Table 2.2. Comparative productivity performance of plantation commodities

Commodity	India's productivity	Performance of other countries	
	Kg/hectare	Kg/hectare	
Tea	1995	2507 (Kenya)	1059 (Vietnam)
		1447 (Sri Lanka)	
Coffee Robusta	1060*	2014 (Vietnam)	539 (Indonesia)
		747 (Uganda)	
Coffee Arabica	747++	1500 (Costa Rica)	947 (Papua New Guinea)
Natural Rubber	1549	1394 (Thailand)	949 (Malaysia)

* Biennial average

++ Best achievement 906 kg./ha. during 1993/94.

14. It may be argued that the productivity increases in the plantation commodities would have been achieved even without the Boards. But such an argument is neither here nor there. On the other hand it is the universal view of the grower community of plantation commodities that their Boards have been able to effectively transfer research technologies to them and that the Boards have significantly contributed to the growth of cultivation and production. The growth of the industry could be partly attributed to the resources allocated by the government for the development of these commodities through the respective Boards. But the fact that the resources made available to the Boards were used effectively and purposefully is itself a compliment to the Boards. Further the resources for the development of the plantation industry were collected through a levy of cess on the commodity concerned. The allocation of funds for the development of the plantation commodities may not also be comparatively more than the resources made available through the central and the state governments for the development of other crops. The Boards have been able to fulfill their mandate and responsibility for the development of the industry and thus have demonstrated their accountability to the growers.

15. The maintenance of separate Boards no doubt involves expenditure on the bureaucracy of the Boards; but most of the personnel are engaged either in research or many developmental and promotion schemes being implemented by the Boards. This is not to say that there is no surplus staff in these Boards.

16. The best answer to the poser as to why the Boards should continue is that the growers and stakeholders want the Boards to continue. Though there are differences

of views among the grower community as to what should be the new mandate of the Boards and what role the Boards have to play in the present times, the growers of all commodities are unanimous that the Boards have played and can continue to play a significant role in the development of their respective industry. As one grower said in a meeting, he would rather have a bad parent than be an orphan,

17. This aspect comes out clearly in the debate on the current impasse in regard to cardamom. When the Spices Board was constituted merging into it the erstwhile Cardamom Board, the responsibility for cardamom only was transferred to the Spices Board. The responsibility for important export spices like pepper, chilli etc. continued with the Indian Council of Agricultural Research (ICAR). There have been moves on the basis of the recommendations of the Department Related Parliamentary Standing Committee to shift the responsibility for research and development of cardamom also to ICAR, but the cardamom growers have been vehemently protesting against the move. The recommendation for transferring cardamom also to ICAR, is based on rational and sound considerations. Cardamom is not a spice of export significance like pepper or chilli. The transfer of cardamom research to ICAR may help to improve the quality of research as the vast expertise of ICAR in spices research will be available for cardamom. The Central Spices Research Station is also located in Kerala. Nevertheless the cardamom growers are dead against the transfer of cardamom research and development to ICAR. Even the assurances that all the subsisting development schemes including the subsidy schemes would be continued even after the transfer of cardamom to ICAR is not cutting any ice with the growers. They are prepared for the withdrawal of subsidy schemes but not agreeable for the transfer of responsibility for cardamom to ICAR/the Ministry of Agriculture. In fact they have been representing to the Government of India repeatedly that once for all this move should be buried.

18. According to cardamom growers their experience with the Spices Board has been satisfactory: the officers of the Board are more easily accessible and more responsive unlike the scientists of ICAR or the bureaucracy of the state agricultural departments. They also feel that accountability is greater with the Board than with ICAR and hence their confidence that continuing with the Spices Board would any day be more advantageous to them than dealing with ICAR or the state agriculture departments. Growers are firm in their view that the extension machinery of neither the government of India nor the state governments would be as supportive or helpful as that of a Board and hence they are clear that the Spices Board would definitely be a safer bet for them. Arguments that specialisation in research and extensive expertise available with ICAR would be of immense benefit to the growers especially in the matter of development of high yielding varieties have not been able to sway the growers so far. Cardamom growers' federation and many cardamom growers' associations have given written representations and personally expressed their view unequivocally demanding that cardamom should continue to be with the Spices Board. They are clear that if the intention of the government were to make the Spices Board an Export Development Agency, then they would want the erstwhile Cardamom Board to be revived. Incidentally this has been their consistent stand ever since the proposal to shift cardamom to ICAR was mooted first.

19. The perceived benefits of a Commodity Board are, thus, responsiveness to the problems of growers and their greater accountability. Notwithstanding the reservations about the efficiency of the Boards and the disappointment with the performance of the research efforts in terms of release of high yielding varieties etc, the Boards have been able to develop a sense of belonging and establish credibility with the growers. In fact, the growers of tea, coffee and natural rubber also were unanimous and firm in their stand that their Boards should continue. There are obviously differences in their views as to what functions should be given priority by the Boards, what activities should be continued, what should be the new role etc., but all growers and others connected with the industry were emphatic that the statutory Boards for each commodity should continue.

20. The success of the statutory Boards in looking after the interests of their industry has in fact spawned demands for the establishment of separate Boards for tur, chilli etc. Some of the state governments have been representing to Government of India to create separate Boards for these commodities to safeguard the interests of the growers of these commodities.

21. As regards the cost of establishment of the Boards, the cess amount being collected should be more than adequate for all the legitimate functions of the Boards including research. If the surplus staff of the Boards could be pruned and some of the activities and schemes phased out in the coming years, then there would be more than adequate funds with the Boards for many development activities. As can be seen from the following Table 2.3, the cess amounts collected from each commodity are fairly substantial and can easily meet the expenditure of the Boards and in most cases cover the developmental activities also. Hence there may be hardly any need for additional allocation of funds from the government to the Boards, other than the cess amount.

Table 2.3. Collection of Cess amounts and allocation of funds to the Boards for the year 1999-2000

Board	Non - Plan grant	Plan outlay	Total	(in lakhs of rupees)	
				Internal and extra budgetary allowance	Total Cess collected
Tea	1350	2700	4050	50	2698
Coffee	900	1600	2550	255	1103
Natural Rubber	1284	7991	9275	1,479	7556
Spices Board	286	1331	1617	73	1013
MPEDA	440	1160	1600	30	1535
APEDA	300	3070	3370	215	2695

22. The demand of the growers has been that the cess amounts collected each year should be allocated to the Boards automatically and that the Boards should have full authority to decide on the utilization of the cess funds as also the internal resources generated by the Boards. It may be a good idea to give complete autonomy to the Boards in the matter of utilisation of the funds collected as IEBR as such a measure will give an incentive to the Boards to augment internal resources. These resources could be permitted to be credited into the Board funds and permitted to be utilized by the Board for all its activities.

A combined plantation board ?

23. There have been a suggestion that if the Boards had to be continued, then it would be cost effective to amalgamate some of the plantation Boards into one omnibus plantation Board or Authority. This is neither a practical nor a sound idea. The problems and demands of each plantation commodity are different - the research and development needs, the pests and diseases problems, the processing methods and requirements, the marketing scenario- all vary widely and there is little that is common. Hence clubbing all the Boards into one Board will only make it a bigger organisation without being either effective or useful; also focussed attention to any commodity may be a casualty.

24. Further the production of natural rubber is mostly in southern Kerala and in southern Tamil Nadu and North East, whereas coffee is grown mostly in Karnataka and in Wynad district of Kerala and in some parts of Tamil Nadu. Tea is mainly cultivated in Assam, West Bengal and Nilgiris of Tamilnadu and in the Idukki district of Kerala. The headquarters of the Boards have been so chosen and located as to be as near or central to the production regions as possible. Even otherwise there is hardly any advantage of substance to be gained from merging all the Boards together. The cost savings from such an exercise will also be limited. Hence there is little logic or advantage in either merging the Boards or shifting the headquarters of any Board.

25. A suggestion has also been made that when the responsibility for cardamom is transferred to ICAR, then the mandate of the Spices Board would be limited to export promotion only and it could be merged with the Agricultural and Processed Food Products Exports Development Authority (APEDA) which has the responsibility for the export promotion of certain agricultural and processed food products. Spices exporters however feel that the specialised attention now being given to, and is definitely needed for, the export of spices will be lost if the responsibility for export of spices is entrusted to APEDA. Spices exports are reaching Rs. 2000 crores and definitely deserve focussed support. Anyway the possibility is contingent upon the transfer of responsibility for cardamom to the ICAR/Agricultural Ministry. But as discussed above, the growers are vehemently opposed to the move. If cardamom were to be shifted to ICAR, then the Spices Board will become a compact organisation as most of the existing personnel of the Board for cardamom research, development and extension services may have to be transferred to ICAR. Hence it should not be unviable to continue the Spices Board as an independent entity. Also as the export problems of spices are somewhat

different from those of other agricultural and processed food products. It would be appropriate to continue the present separate Board for spices exports.

SECTION III - The Constitution of the Boards

26. The constitution of the Boards vary, reflecting the differing mandates of the Boards, the kind of activities entrusted to them and the nature of processing and marketing of the commodities etc. But all the Boards have large membership as may be seen from Table 2.4 and there is considerable scope for reducing the size of the Boards, while retaining adequate representation to the different stakeholders.

Table 2.4. Membership Strength of the Boards

	Tea	Coffee	Natural Rubber	Spices	MPEDA	APEDA
Chairman	1	1	1	1	1	1
Members of Parliament	3	3	3	3	3	3
Govt. of India representatives	-	-	-	3	5	10
State Government representatives	6	6	3	3	9	5
Growers: Small Large	8	7 3	3 4	6	-	-
Processors/Manfrs.	2	3	2	-	4	-
Labour interests	5	4	4	-	-	-
Trade	4	3	-	-	3	-
Consumers	2	2	-	-	-	-
Exporters	-	-	-	11	-	12
Representatives of technical bodies	-	-	-	5	1	7
Others	-	1	6	-	4	2
Total	31	33	26	32	30	40

27. In all the Boards, representation is given to all stakeholders but the membership strength is fairly large. It should be possible to give representation to all the concerned interests and still keep the strength limited to around twenty. In practically all the Boards there are a large number of government nominees, both of the central and the state governments, in addition to representative of other government agencies. As the interests of growers and all other interests are well represented in the Boards and as all Boards are headed by senior Government officers, the number of government nominees on the Boards can be reduced. Suggestions in respect of each Board is given in the next chapter.

28. It is also recommended that the system and practice of government departments sending observers to participate in the meetings of the Boards even at the expense of the Boards may be discontinued.

Board as a growers body?

29. Some growers have been representing that the Boards should be predominantly grower oriented, if not grower dominated, as the Boards are meant to serve the interests of growers. The former Agricultural Marketing Boards in the developed world, on the model of which the commodity Boards evolved in India, were grower controlled organisations. Obviously, Coffee, Tea and Natural Rubber Boards have to be basically grower oriented as the development of the industry is the major mandate of the Boards. But all-round development of any industry will be facilitated with closer co-ordination and positive interaction with all the stakeholders in the industry, including processors, traders and plantation labour. The Boards can thus provide an effective forum for mutual understanding among all the interested parties. Hence it would be advisable to continue with the representation in the Boards for all the stakeholders in the industry including the labour.

Mode of selection of members

30. There is the connected issue of selection of members. At present the nomination of members is by selection by Government of India. Excepting the Rubber Act/Rules which lay down the provisions for the election of nominees of large growers, the other statutes do not prescribe election at all. The election procedure may be democratic but fraught with difficulties and entails registration of voters, conduct of election etc. There is no great gain to be derived from the election method unless it can be made universal; but considering the fact that the number of small holdings is nearly a million in natural rubber and 1,40,000 in coffee, it is obvious that the election mode will present many practical difficulties. Government normally nominates prominent growers or representatives of major and active growers' associations, and hence the present procedure of Government of India making the selection of members appears to be more practical than the election of nominees. The rules may however lay down the number of grower members to be nominated from each state and under each category depending upon the area under cultivation or the production from such states.

Representation for small growers

31. Another connected issue is representation for small growers. The definition of a small grower is different in the different statutes. There is no classification in the Tea Act though there are now an estimated one lakh small growers cultivating less than 10 hectares. Coffee Act limits the acreage to 25 acres to qualify as a small grower. In the Rubber Act, a small grower means an owner whose estate does not exceed fifty acres in area. But in the case of natural rubber the small growers cultivating less than 2 hectares constitute over 95% of the cultivators.

32. In the circumstances it is recommended that a holder of less than 10 hectares may be classified as a small holder. To ensure that really very small holders are represented on the Boards of Coffee, Natural Rubber and Spices, a provision could be made that 50% of the representation for small growers may be from among growers whose total holdings are less than four hectares.

Committees of the Boards

33. The statutes under which the Boards have been constituted have made it mandatory on the part of each Board to constitute different Board committees in keeping with the functions and the mandate of the Boards. The marketing function is no more performed by the Boards. The development functions also may have to be phased out in course of time. Even the extension service may tend to get restricted to specialised areas as discussed in the subsequent part of this chapter. The major functions of the Board will be research and quality control. Besides the Boards will have to perform the role of a facilitator and will have to become knowledge centres. The committees of the Board could be organised in line with the revised roles that the Boards have to perform. The Board committees could be,

- (a) Research and quality Committee to oversee research activities and programmes, the development and extension services, the dissemination of post harvest techniques, quality assurance etc.
- (b) Executive Committee for the administrative, financial and other functions.
- (c) Development Committee to oversee the performance of the functions and activities as a facilitator and as a knowledge centre.
- (d) In the case of Boards with the prime mandate of export promotion, that responsibility may be overseen by an export promotion committee.

34 The Boards naturally should have complete authority to constitute other sub committees and adhoc bodies depending upon the special needs and requirements.

SECTION IV - Financial Powers of the Boards

35. The Boards have at present limited financial authority and autonomy even where the plan schemes have been approved and funds sanctioned. The general limit is Rs.20 lakhs only. There have been demands for full financial autonomy to the Boards. There have been suggestions that the cess collections from the industry should be made available to the Boards automatically. There have been also demands that the Boards should be conferred with full authority to deploy the internally generated funds for any legitimate activities of the Boards without prior government sanction. Such dispensation, it is claimed, will be an added incentive to augment the internal generation of resources. There is considerable merit in these suggestions. Actually the Government of India have been making available to the Boards, sufficient funds for all the legitimate activities of the Boards as is evident from Table 2.3: in fact more than the cess amounts collected. However, the boards need to be given greater autonomy if they have to become dynamic and play a pro-active role. The emerging mandate of the Boards will call for greater operational freedom and autonomy to the Boards.

36. It is recommended that the financial powers of the Boards may be enhanced to Rs. 1 crore and greater autonomy given in all other matters also, subject to the following conditions/guidelines:

- a) The Boards shall not create or sanction any new posts and the posts to be abolished as per approved restructuring plans are so abolished.
- b) No commitments involving subsidy or grant are entered into, except within the resources available with the Board and further such financial commitments also shall not extend beyond the period of one financial year.
- c) Participation in overseas fairs and exhibitions shall be planned well in advance at the beginning of the year and proposals formulated and approvals obtained for the expenditure, including the number of participants from the Boards. The procedure of approvals in each individual case may be dispensed with.
- d) The authority to hire consultants for specific duties/responsibilities shall be exercised subject to adherence to the prescribed procedures.
- e) The authority to take experts on deputation from other government departments and technical organisations/universities for specific work shall vest with the Boards but the period may be limited to a maximum of four years.

SECTION V - Organisation of the Boards

37. The organisation of the Boards have evolved over the years, in response to the geographical spread of cultivation, the relative importance that came to be attached to the various functions and activities of the Boards and the developmental and other schemes being implemented by the Boards. Thus the concentration of the Rubber Board on production function has led to the establishment of a large number of field offices, while in the case of Coffee Board, the pool marketing activity dictated the creation of a huge marketing set up. The organisational structures have been undergoing modification in tune with the changing roles/mandate of the Boards.

38. For the Boards to play a more purposeful role in the years to come, the organisational structure will have to undergo a total transformation, from a bureaucratic structure to a knowledge centre. The hierarchical structure may have to be replaced with professional work force specialised in their respective fields and capable of responding to the requirements and expectations of the different sections of the industry - growers, processors, exporters, dealers, overseas clients etc. The organisation will need to have specialists in all areas such as, research, post harvest management and processing, quality assurance including standards, export and domestic marketing, facilitation, market research and information systems. There will be very little need for significant administrative or accounting support for such activities. The number of field offices may have to be reduced. Thus the conventional organisational structure will have to undergo complete modification with more and more professionals joining the organisation, even for short periods wherever called for. The size of the bureaucracy of the Boards will have to be pruned considerably. The computerisation process will have to be completed early and all offices linked.

39. Such major organisational changes can not be effected overnight. The change of work culture will take much more time; but a beginning has to be made. There is bound to be resistance to change, more because of the fear of uncertainty. Status quo and continuity provide comfort and therefore preferred but will be at the cost of advancement and progress. If the Boards have to play a meaningful and effective

role in the coming years, the role and the functions of the Boards will have to change, and accordingly the organisational structure.

40. The Boards have to endeavour to allay the apprehensions of existing personnel to make the transition smoother and better, but bring about the transformation sooner by setting forth clear objectives and work towards definite goals.

SECTION VI - Activities and Schemes of the Boards

41. The functions and the mandate of the Boards have been determining and influencing the nature of the activities and the choice of the schemes of the Boards. The Boards which were formed earlier were charged with the heavier responsibility from production to processing and also marketing. Coffee Board thus was fully into research, development, extension, processing and marketing till recently. The Rubber Board also performs all functions other than marketing. Only the Tea Board, because of historical reasons is neither into research nor direct marketing but heavily involved in promotion. As the plantation sector except tea was in infancy when the respective Boards were formed, the main focus of the Boards have been on the development of the industry, especially production. The research and extension activities were geared to these objections; and the Boards did perform admirably as brought out earlier.

42. All the Boards have been successful in encouraging the growth of cultivation, in improving dramatically the productivity and thus ensuring steady growth in production. The progress has been achieved through concentrated attention to crucial aspects of research, extension, and where necessary processing and marketing.

Research activity

43. Research will continue to be the most important activity of the Boards. With the removal of quantitative restrictions on imports, competition from efficient overseas producers can not be avoided. Even in export markets, competition is becoming tougher. The competitiveness of the plantation sector can be maintained only through productivity enhancement on a sustained basis; that is why research efforts need to be given the highest priority by the Boards.

44. In the case of coffee and rubber, the research stations and research activities form part of the organisation of the respective Boards. Both of them have performed well, though there are some weak points and deficiencies. In the case of tea, the research is being managed by the tea industry. Tea Board funds the research work partly, and also conducts independent studies and carries out experiments in various technical and scientific institutions. Since the growers are happy with this arrangement, this dispensation may continue. The Board has established a tea research station in Darjeeling to address the special problems of Darjeeling tea which is India's prestigious product. But the station has not taken off. It is recommended that the station be strengthened and the research work put on a systematic basis, as every effort is required to be made to sustain and support the cultivation and production of Darjeeling tea.

45. In the case of spices, only the research and production of cardamom is the responsibility of the Board. When the Board was formed, the Cardamom Board was not merged with the Spices Board but the responsibility for other spices was transferred to the Board. Thus the Spices Board is effectively an export promotion organisation for spices without any control over research or production.

46. Ideally the responsibility for research, development and production of all spices should have been transferred to the Board at the time of the formation of the Board and the Board entrusted with these functions also along with export promotion. Export promotion without any link with production and post harvest management is a hard task. In the case of coffee and natural rubber the entire responsibility is with the Boards. Even in the case of tea, research is under growers' control.

47. However, transferring the responsibility for research and production of all spices to the Spices Board now may not be practically possible. The scientists of ICAR get much higher compensation than the scientists of the Boards and their terms and conditions of service are also better. Hence the scientific personnel of spices research stations of ICAR may not be willing for transfer to the Spices Board.

48. The other alternative is to transfer the responsibility for cardamom research and production also to ICAR. This is also the recommendation of the Department Related Standing Committee. However, the cardamom growers are totally and unequivocally opposed to the proposal though the proposition is much more logical and may be more beneficial to cardamom growers.

49. A third alternative even though imperfect, could be the transfer of the operational management and control of the spices research stations of ICAR to the Spices Board while the personnel continue to be under the ICAR set up and continue to be governed by the service conditions etc., of ICAR. Under such an arrangement there will be accountability of research and production to the growers and to the industry. There could be some operational problems in such an arrangement but they should not be insurmountable. There may not be separate specialised research stations for some spices. But major spices are few - pepper, chilli, turmeric, ginger etc. Atleast the research stations exclusively meant for spices can be placed under the operational control of the Spices Board. The allocation of funds, the career prospects of the personnel, their terms and conditions of service etc., could continue to be with ICAR. This may appear to be a via media and a somewhat adhoc solution, but as the other two neater solutions are not practicable in the present circumstances, it is worthwhile considering this proposal. In fact there are persistent demands for the formation of a separate Board for chilli.

Evaluation of research programmes

50. Though the performance of the research stations under the control of the Boards has been satisfactory, there is a growing perception among the growers that the research work in all the plantation commodities - tea, coffee, rubber and spices have of late shown a slackening tendency. Not only the growers, but even expert technical bodies have expressed serious apprehensions. The growers do not want any change in the organisational set up of research activities but would want the Boards to pay

far greater attention to the performance of the research stations, their activities and programmes. The following aspects would need attention and follow up:

- a) The improvement of the physical infrastructure in the research farms and stations and allocation of adequate funds to improve the conditions.
- b) Some of the research stations are situated in difficult and far away places; suitable compensation atleast by way of better facilities and perquisites for the technical and scientific staff working in the places may be in order.
- c) The financial compensation of the scientific and technical staff are less attractive than that are applicable to ICAR scientists. Atleast the career prospects can be brought on par as a measure of motivation, subject to periodical review of performance.

51. The pay scales and service conditions of the research personnel of the Boards have remained somewhat inferior to that of ICAR professionals and this has been a sore point with the scientists of the Boards. It is recommended that motivation for sustained better performance be provided to the scientific and technical personnel, though adequate and deserving career progression, perquisites as provided in ICAR institutions, improved physical infrastructure at the research stations, proper recognition and reward of performance and reasonable creature comforts especially in those stations situated in remote places. The Boards need to look into these aspects to provide the required incentives and motivation to the scientific and technical personnel in the research institutions of the Boards.

52. The work in the research departments of the Boards may tend to fall into a routine and become repetitive. It is recommended that the research programmes and work be submitted to an annual scientific and technical review by an independent team of experts including one or two growers. The implementation of the recommendations of the team may be reviewed by the research sub-committee of the Boards atleast once in 3-4 months.

53. Plantation commodities are long gestation crops and any evaluation and recommendation regarding new selections or any other recommendation will require many years of breeding, field trials etc., and there can not be any short cuts. It is therefore suggested that the Boards may constitute once in 7- 8 years a high powered scientific and technical committee consisting of outside experts including one or two knowledgeable growers, to assess the direction of research and the results of scientific and technical research being carried out in the various stations, study the trends and developments worldwide and make recommendations for future course and direction of research. Such an effort involving also fully the research scientists of the Board, will be necessary to ensure that the country does not fall behind in the crucial areas of fundamental and applied research.

54. Tea research has been with the industry managed research institutions for decades. In the case of coffee and rubber, there has been hardly any research work in the universities or in the private sector. Enterprising growers and some large

corporates have been conducting on their own field experiments and some educated and scientifically inclined growers have been able to develop excellent seed farms. In the case of small cardamom, it is the planting material of a private estate that is popular with the growers in some parts. However fundamental research in these commodities is still not attracting private resources. With Breeders' Rights expected to be protected under a national legislation soon, there are possibilities of resources and funds being invested in the field of research. Quite likely a lot more interest may be evinced in the coming years in basic research and in the development of new varieties, improved farm practices etc. But worthwhile results from these possibilities are a few decades away and for the present there is no alternative to the Boards giving utmost priority to research activity and allocating adequate funds for research. The viability of any industry and competitiveness in an integrated world would depend upon not being left behind in the race for improvement of yields, higher productivity and better quality.

55. The Boards may also entrust to universities and other technical bodies any specific aspects of research in areas where such institutions have specialised expertise and experience. Tea Board is already utilising the capabilities available in many technical and scientific institutions across the country. Such project based assignments by outside technical bodies will help the Boards as well as their research departments to get the benefit of expertise available outside the Boards and enable the Boards to concentrate on those aspects/areas in which only in-house capabilities and expertise are available or have to be built. The Boards may also evolve a programme to engage on contract, experts and retired scientists for research work, say in demonstration farms for carrying out research activities. If some experts want to undertake research at these places on their own, the Board may also consider providing opportunities to them, subject to safeguards.

56. The Boards have also many tie ups with international scientific and technical bodies. Their interactions and exchanges will be useful not only for enhancement of capabilities as well as the enrichment of knowledge of research personnel, but also help in knowing and learning about the developments in the rest of the world. It is recommended that the Boards liberally permit such interaction and overseas visits by research personnel. The facility of access to scientific publications as also internet facility need to be also expanded.

57. Research efforts require proper direction and operational freedom, besides funds and facilities. The heads of research, departments may be given the status, the operational flexibility, adequate resources authority and autonomy. But there shall be accountability and the Board may hold the heads of research divisions answerable for performance and results.

Development activity

58. Development and extension services were two major activities of all the commodity Boards. This is also because the major objective of, and therefore the function of the boards has been, the development of the industry. The Boards have been concentrating mainly on extension of planted area, replanting, adoption by growers

of improved farm practices, irrigation development etc. The Boards first started granting loans to growers for the development activities and in course of time increasingly started giving subsidies also, to encourage the growers to plant high yielding varieties, adopt improved farm practices etc. The Tea, Coffee and Rubber Boards have been implementing such development schemes for decades. The schemes were in different forms - loans only, loans at concessional interest rates, loans combined with subsidy schemes etc. Huge amounts have been given to growers so far. Rubber Board has given subsidy for the development of rubber cultivation to over half the cultivators in the last twenty years. The total worth of the subsidy in today's value will be substantial. Tea Board has been giving loans even to large corporates. Similarly, Coffee Board has been giving development loans since the fifties, though only around one third of the growers could be assisted so far, because of inadequate funds allocation. All the Boards have also been granting subsidies for many years. The Boards have been giving initially subsidies for production related activities such as improved processing, quality improvement etc; but gradually the subsidy schemes were extended for marketing activities also.

59. The grant of development loans and subsidies cast enormous responsibility on the Board personnel - the initial scrutiny of the eligibility of the applicants for loan/ subsidy, and after the grant, the close monitoring of the utilisation of the loan and subsidy, periodical visits to plantations for monitoring the growth of the plantations and for recovery of the loans in cases where repayments were not forthcoming voluntarily. The tasks involved have been engaging much of the time of the extension staff which should have been devoted to solid extension work.

60. The implementation of the schemes have also necessitated an administrative set up at the field and head office levels. Apart from the huge cost of subsidy and the loss on account of defaults in repayments of loans, besides the diversion of the valuable time of the technical staff, the large administrative machinery set up for the implementation of the schemes has been an additional burden on the Boards. The Rubber Board has employed a large complement of ministerial staff in the production department to deal with the loan and subsidy schemes.

61. The growers have no doubt benefitted from the loan and subsidy schemes of the Boards which were being implemented all these years. The schemes have played an important role in promoting new planting, replanting, adoption of improved farming methods etc. However, excessive concentration on loan and subsidy schemes have been diverting of late, the attention of the extension staff, from the core extension duty to the monitoring of the proper utilisation of the loan and subsidy funds by the beneficiaries of loans and subsidy.

62. Now that the plantation industry has been well established, the loan and subsidy schemes can be withdrawn gradually. The withdrawal of subsidy on new planting/ replanting may not have any serious repercussion on the growth of the plantation industry. It is the prospect of good prices and the availability of resources with the growers that determine and influence their decisions on area extension or replanting. It has been argued by the Boards that subsidies will be necessary to induce the growers to take up new selections or adopt new farm practices. But this kind of argument

can not be carried too far. New varieties/improved farm practices can always be demonstrated in Board's demonstration farms and in the plantations of many enterprising growers who will be willing to test new varieties/farm practices. Subsidy schemes for such purposes are no longer justified and can be discontinued without fear of any repercussion on replanting. It is the confidence of the growers on the recommendations of the Board's research and extension staff which will determine the degree of acceptance/adoption of new varieties/improved practices. A study has established that practically all new planting by the natural rubber growers who have not been beneficiaries of Board's assistance, consisted only of the high yielding varieties recommended by the Board.

63. The plantation industry has matured in the last few decades and the growers are better informed and better placed than the growers of other agricultural crops. They should be able to access normal financial channels - Banks and Co-operative Institutions - for their fund requirements. The Boards need not have to continue the development loan schemes and may gradually phase them out. Specific recommendations have been given in the next chapter.

64. The Boards have been giving subsidies not only for plantation development but also in the areas of processing, marketing etc. The tendency also appears to be to continue the subsidy schemes in one form or other continuously. There is bound to be always a pressure to extend and justify subsidies practically for all activities.

65. It is not that all subsidies are unnecessary. To encourage replanting of old uneconomic trees and bushes it may be necessary to continue some measure of subsidy. The potential loss has been a deterrent to replanting and hence subsidy may be justified for some more time. Another area where subsidy would be justified is quality improvement. The commodity sector will have to face increasing competition in export markets and from imports in domestic markets. As cost and quality will determine competitiveness, quality improvement is essential more so definitely for exports. The culture of quality is yet to percolate at all levels, - in cultivation practices, in harvesting, post harvest handling, processing, in storage and transport. Not only the advantages are not perceived, and even where the benefits are understood and appreciated, the gains expected to be realised are not considered commensurate with the additional efforts and cost involved in quality control improvement and assurance. Hence, it will be necessary for the Boards to continue not only with education and training in quality aspects, but also subsidy to popularise quality improvement measures. Schemes involving subsidy may have to be continued for some more time covering all quality aspects and in all areas - organic cultivation, improved processing methods/harvesting techniques, post harvest management, storage and movement, quality assurance, laboratory upgradation, testing equipments and of course training and education. All the Boards have of late been earnestly devoting resources to quality awareness and improvement programmes and it is recommended that available subsidy funds be allocated first for these activities.

Extension services

66. All the Boards have also built up vast extension machinery for rendering extension service to growers. In all the Boards, the extension service is kept distinct from

the research department. In the Rubber Board, production and extension department has become the biggest employer accounting for over half the staff strength. Tea Board has the smallest complement as there is no extension responsibility for the Board. In the past, the transfer of research findings to the field, education of the farmers on best cultivation practices and on pest and disease control and training in all aspects of cultivation and harvesting used to be the important responsibilities of the extension staff. But with the advent of loan and subsidy schemes, the time and attention of the personnel were getting diverted to the granting of loans, monitoring the utilization of subsidy etc and the core extension work was getting ignored. It has been recommended that some of the schemes may be phased out; then the extension staff can and should be able to concentrate on their prime duty and responsibility.

67. Increasingly some of the traditional extension services are being provided by the private sector and more efficiently also. Already in seed and planting material production, private sector has become the dominant player. Soil testing facilities are also coming up in the private sector. Advisory services in fertilizer applications and pest control are also becoming common. It will be a matter only of time before all the extension services are available from the private sector, albeit at a price; but competition will ensure that the services are efficient and cost effective. The functions and the role of the Boards' extension machinery will in due course become limited and specialised. Of course the Boards' services may have to be made available in non-traditional areas, as the private sector may not find the provision of extension services in such places viable. Some poor growers even in the traditional areas may not be able to afford the services of private service providers. But there is no doubt that most of the extension services could be phased out in the coming years.

68. Some of the services of the Boards are no more required to be provided and where continued also, definitely not required to be rendered at subsidised rates. Supply of planting materials at subsidised rates is one example. A beginning can be made by removing such subsidies on planting material except perhaps in the non-traditional areas for some more time. The cost of planting material form a small portion of the total cost of new planting/replanting, and hence the removal of the element of subsidy should not have any adverse consequence. The private nurseries anyway are becoming popular and even now meeting most of the growers' requirements. The growers should be willing to pay full price for the planting/seed material of the Boards, if they are willing to pay higher prices for the planting material from private sources. The Boards may introduce a system of certifying private nurseries on the basis of clear and transparent norms and guidelines. In the entire agriculture field, private seed supplies have become common and there is no reason why in the plantation sector also private seed/planting material supplies should not be the normal mode. The Boards may continue their own nurseries only if viable on full cost recovery basis. May be this activity can be given up after some time.

69. Regarding dissemination of improved farm practices, including fertilizer applications, pest control methods etc., the Boards may have to concentrate more on training and education of growers in groups rather than on individual basis. Already Rubber

Board has popularised Rubber Producers Societies. Coffee Board has, as part of its reorientation of extension strategies have successfully tried Farmers Participatory Method in small growers sector. The pilot attempt has been a success; not only the participation has been high but also that more than 75% of the participants found such workshops useful. Over 60% have indicated their inclination to adopt the practices and technologies learnt at the workshops. Improvement may be required in the techniques of dissemination and training; like the use of more audio visuals and greater participation of research scientists. Such meetings/workshops where joint interaction with groups of 10 to 25 growers take place should be the preferred future approach to delivery of extension services. Such programmes will help in better understanding of local field problems, help in verification of field validity of different technologies/practices and give the field feedback to the research scientists. Such group efforts will help to maximise the output of competent and qualified extension personnel and also keep them on their toes as they will be exposed if they were inadequate in their jobs. Group workshops/meetings is a new challenge to extension machinery of the Boards.

70. Logically the further movement and progress will be in the direction of harnessing the communication and computing technologies for rendering better extension service to growers. The Boards' research and extension departments can create comprehensive web sites which could be tapped by the extension staff during the meetings with growers to answer all their queries and respond to all their problems. The Boards may also help growers' organisations to set up information cells/kiosks in all production areas, where with the assistance of a qualified assistant- the present extension staff if necessary - any grower may be able to obtain any data or information he wants or get clarification on any doubt he has and seek advice relating to cultivation, processing or market related issues. The Board may also start an E-mail service and provide instant reply if received between specified hours on specific days. It may appear that this manner of providing extension service may be elitist but the rapid expansion of the internet facility will ensure that such a method of extension service becomes popular and more cost effective. In fact, information cells/kiosks in all production centres can be started. Such information kiosks will not be an expensive proposition either. However such a facility will be useful only if the websites of the Boards are comprehensive and address all the problems of growers and are constantly updated and improved. The growers' organisations in various places could be assisted to establish and maintain such kiosks/cells. Once a few such kiosks are successfully run, the idea will automatically catch up. The field offices of the Boards can also be developed into virtual extension centres. It is recommended that the Boards commission a study to examine the creation of such a facility and test the usefulness and feasibility of the exercise by opening a few centres.

Promotion & marketing

71. Tea and Coffee Boards have been actively involved in generic promotion on the ground that being beverages, their domestic promotion is necessary. Tea Board has been also promoting Indian tea abroad for decades on the premise that continued promotion is essential for the sustained growth of exports and prosperity of the industry.

72. Tea Board has been maintaining a number of foreign offices to promote Indian tea, even though India has been known throughout the world for decades for its high quality tea. The promotion efforts have only to show by way of results, huge expenditure on the maintenance of the foreign offices. In the last twenty years the share of Indian tea in the world exports has actually come down to around 16%. The promotion office in United States has been functioning for nearly 35 years but the total exports of tea to US has been going down from 12m kgs in 1951-52 to around 6m kgs now. The role of foreign offices is sought to be justified on grounds that they perform liaison functions, gather market intelligence, facilitate participation in exhibitions and fairs etc. Coffee exports have grown from Rs. 324 crores to over Rs. 1900 crores and spices exports from Rs. 242 crores to Rs. 1860 crores in the last just one decade, against stiff competition without the benefit of foreign offices. APEDA's exports is now nearly Rs. 7000 crores. None of them have exclusive foreign offices, though India has not been known for these commodities unlike tea for which India has been justifiably famous. Even today high quality teas fetch very good prices. Moreover the tea trading contacts are well established and tea exports is dominated by big exporters. MPEDA, whose exports are around Rs. 5000/- crores, have only two foreign offices, one in Tokyo and another at New York. Tea Board has been maintaining five foreign offices at a cost of over five crores per annum.

73. The Ministry of Commerce had initiated an exercise to utilize the Tea Board's foreign offices as common commodity offices so that the officers posted in the foreign offices could be gainfully employed and the huge expenditure on the foreign offices made worth while. A beginning was made with the London and New York offices; they were to cater to the export trade of coffee and spices also and the total cost of the offices shared. The efficacy of the arrangement has not yet been established.

74. Both the Tea Board and MPEDA which maintain foreign offices strongly contend that their's are specialised products and altogether different business and hence can not be clubbed with the promotion of other commodities. They also feel that the exercise of financial powers will pose difficulties if the foreign offices were answerable to more than one Board. The more important reservation is on ground of accountability; it is firmly contended that such a multi commodity office will not be answerable to any Board and will become like another commercial mission of India. This is definitely a valid point but does not justify the huge expenditure by the Tea Board on the foreign offices.

75. In addition to the offices of Tea Board and MPEDA, the Indian Trade Promotion Organisation (ITPO) under the Ministry of Commerce and Industry have also a number of foreign offices though the charter of the ITPO offices is somewhat different. A comprehensive review of all the foreign offices so as to minimise the expenditure and maximise the benefits is necessary. Any way the foreign offices for tea promotion only is hardly justified.

76. The functions which these foreign offices are expected to perform are, in the normal course, expected to be carried out by our commercial missions abroad. The department of commerce incurs crores of rupees expenditure on these commercial

missions. Many missions do not come upto the expectations of our trade and industry. The plantation industry are not happy with the services being rendered by the missions. UPASI brought to attention a recent instance wherein they had sought from a few missions some information about the plantation industry in their countries. It appears that barring the counsellor from Sri Lanka who promptly collected the information and sent it, and our Thai embassy which responded with the address of an organisation that UPASI could contact, none of the other twelve missions even bothered to acknowledge the correspondence. According to our Boards and the industry, if this is the fate of a simple enquiry by a well known and reputed organisation, it shouldn't be difficult to imagine how the commercial missions may respond to the requests of ordinary individual exporters.

77. One possible solution could be to place the commercial missions in important export destinations like London, Newyork, Tokyo, Brussels, Dubai, Moscow etc. under the joint control of the Ministry of External Affairs and the Ministry of Commerce and Industry. While the missions will continue to be under the complete control and jurisdiction of the head of the foreign missions, the commercial counsellor of the mission may report to the Ministry of Commerce and Industry in matters relating to trade - commercial intelligence, studies and reports, representation in fairs, trade delegations, commercial work etc. Since the expenditure on the commercial missions are any way being met from the funds of the Ministry of Commerce and Industry, this arrangement should not pose any problems, operational or otherwise. The Boards as well as the trade and industry can then confidently approach the missions for their export promotion work. The individual foreign offices of the Boards could then be disbanded. Such a system will save considerable expenditure to the Boards and at the same time the needs of the industry will also be met. As regards personnel to be posted in the missions, a panel of officers could be formed from among the officers of the Commodity Boards of the Ministry of External Affairs and from the Indian Trade Service. Officers specialised in trade and marketing profession preferably with knowledge of a foreign language could be considered for empanelment and a board consisting of the secretaries of the Ministries of External Affairs and Commerce and Industry could select the candidates for appointment against the foreign posts. The performance of the officers in the overseas commercial missions may be a factor in the further advancement in their careers. Such a system will also avoid the present system of officers being selected on adhoc basis and the posting to the foreign offices being perceived more as a reward or bonus, than through a process of selection on merit.

78. As regards domestic promotion outlets, both tea and coffee houses, the Boards need not run them anymore. The Boards may continue the outlets in the Parliament House and in their own head offices but there is no logic in continuing them elsewhere for the purpose of domestic promotion of tea or coffee. It is recommended that these coffee/tea centres be progressively privatised.

79. Marketing activity has not been a part of the mandate of any Board except that of Coffee Board, that also has been given up. It is recommended that the Boards may not involve themselves in marketing activities. The Boards are also not equipped

to carry out market intervention operations either. It would be almost impossible for the Board to administer the provisions regarding minimum and maximum prices. It is practically impossible to enforce maximum prices. Even the implementation of minimum prices is fraught with risk. The development of a grey market can not be avoided in such a market situation and may lead to undesirable developments. It may not be prudent to interfere with market forces and mechanism when implementation may not be feasible.

Processing and post harvest management

80. The Boards have of late been paying increasing attention and allocating more resources, to processing, post harvest management and quality assurance. So far these have been the weakest aspects of India's agriculture, as also of the plantation sector. Developed world especially, have become very strict in the enforcement of quality standards which are also becoming increasingly stringent year by year. Hence improvement in processing techniques and post harvest management have become essential for the purpose of meeting international quality, safety and hygiene standards. Wastages and poor keeping quality in agriculture are all due to the neglect of these important aspects. However, awareness, attention and adherence leave a lot to be desired. The Boards in recent times, have put in serious efforts in this direction. Rubber processing has considerably improved due to the efforts of the Board. In the case of coffee also, processing has received due attention. Tea Board and UPASI are doing considerable work among small growers and with the Bought Leaf and co-operative factories to improve the quality of Tea. The Spices Board and APEDA have been devoting resources in select areas to inculcate appropriate post harvest management techniques among farmers to ensure that exports are not affected. But quality culture has to spread wide and far. In this respect ICAR and the state agricultural departments have a vital role to play. They have to take up the challenge of dissemination of correct post harvest management techniques much more intensively. It is recommended that in the meanwhile the Boards may, apart from continuing their existing schemes, devise strategies/draw up schemes to popularise the improved processing methods/post harvest techniques for their commodities from the point of improving quality/shelf life.

81. As part of the processing activity, the Rubber Board has started many ventures ostensibly for demonstration purposes. Not only these projects have involved huge capital outlay, but the running of the centres may result in operational losses. While improved processing methods and techniques may have to be demonstrated and popularised, it would be prudent on the part of the Boards to avoid the temptation to stray into commercial activities in the name of demonstration projects. The Boards may at best encourage the private sector with some capital assistance to set up such improved processing units.

Controls and regulation

82. The objective of constituting the Coffee and Natural Rubber Boards was to ensure the arround development of the respective industries. The statutes therefore provided for complete and total control of the Boards over cultivation, production and marketing.

Thus under the Rubber Act, even planting requires a licence. The growers have to give returns regarding planting and replanting of natural rubber. All processors, dealers and users have to take out licences. Movement of natural rubber requires a licence. Coffee Act was less restrictive and provides only for registration of estates with the state governments. But the statute provided for compulsory pooling of coffee and the processing and marketing of coffee was placed under the Board's control. The Spices Act provides, as in the case of coffee, registration of estates with the state governments, and returns to be provided by the growers.

83. Tea Act also provides for control over planting and replanting. The chapter headings themselves are "Control over the extension of Tea Cultivation", "Management or control of Tea undertakings or Tea units by the Central Government"; and "Control over the export of Tea and Tea Seed". Such controls had to be provided in the Act so as to fulfill the obligations under the then subsisting International Tea Agreement to which India was a party.

84. All the statutes under which the Boards have been established provide for licencing of exports. In the case of coffee, separate permits are required for exports; in the case of tea and spices only one time registration of exporters is required, though the validity of the registration period is maximum three years. The system of registration in all the Boards is however well streamlined and there is hardly any complaint or representation from the exporters. Even the permit system of the Coffee Board operates smoothly without any hassles.

85. The basic issue is the rationale or need for continuing the system of licencing/registration/permits whatever be the justification for such regulations in the past. The need for licencing/permissions for planting/replanting obviously has no place in the present times. Even the Rubber Board is not enforcing the rules though Tea Board still does. It is recommended that these practices and licencing can be dispensed with and the regulations modified.

86. The Boards however feel that a regulation providing for one time registration by all growers would be useful, as such registration will facilitate the collection of data on area and production which may otherwise be difficult to collect. The point made is that there should be no difficulty in furnishing information at the time of planting and replanting and anyway this obligation will be only on very few growers every year. It is contended that registration of estates will be in the interests of growers also, as the certificate can be a record of cultivation and will be helpful to the growers as a prima facie documentation for obtaining assistance from banks and Boards and also from the state governments. The Coffee and Spices Act provide for registration with the state governments and the Boards need not have to register the estates.

87. The Boards also feel that the system of annual returns from the growers may continue as it will enable the collection of current data on production with otherwise will not be available. The general perception is that if the Boards can not collect the information directly from the growers and have to depend upon the states/central governments, then the data may be incomplete apart from the inevitable delay in collection of information. But in respect of all crops from cereals to fruits, the

governments do have a system of collecting data on cultivation, production etc. The same system can be followed for the plantation commodities also. There is no great advantage to be gained from duplicating the collection of data regarding area planted, production etc.

88. At present the data on area and holdings is on the basis of incomplete returns from growers and from the state governments. The Boards may like to arrange to conduct a census of holdings, say once in 10 years. Comprehensive data can be more accurately collected and more important, valuable information about varieties planted, age of trees/bushes and such other details may be obtained through such a census. On the basis of data, some sample surveys to ascertain the cost of cultivation and adoption of farm practices can also be conducted. Such a census once in 10 years can be specially funded but may not be expensive. The expertise of the Central Statistical Organisation may be available for this purpose.

89. Another issue regarding which the Boards feel strongly is about the registration of exporters. The view of all the Boards is that registration of exporters and even permits for exports will have to continue. Permits facilitate the collection of cess and the export returns help in the collection and analysis of data on exports that too without delay. Further a compulsory registration system alone can facilitate and give authority to the Boards to discipline the export trade against poor quality, unfair trade practices etc.

90. All these grounds may have been valid earlier. Data from the Directorate General of Commercial Intelligence & Statistics (DGCI&S) used to be enormously delayed but it is now available with a time lag of a few months. The Ministry of Commerce is also confident that soon the time lag will come down. The customs department has an ambitious plan to computerise the operations in all ports and therefore the import and export data may be available almost on line to DGCI&S. Hence the very basis for insisting on submission of returns by the exporters may not subsist after sometime. The Boards may require some more information than that are normally made available by DGCI&S but then it should be possible to collect from the customs such additional information also. MPEDA is stated to be obtaining a copy of the export shipping bill from the customs to collect such needed information. Hence a simple system of collecting the required information from the shipping bills of say a spice exporter or coffee exporter can be easily worked out with the customs. Then the present elaborate procedure of collecting returns from the exporters only for the purposes of compilation of data on exports may not be necessary in the future and can be discontinued.

91. The other argument of the Boards is that collection of cess is facilitated by the exporter registration system; this perception is misplaced. The cess is collected on the basis of the item of export and even if there were to be no permits, cess payment will not escape the attention of the customs authorities. Cess is payable on many items which are permitted to be exported without permits.

92. Another argument in favour of the registration system for exporters is that the Board will have the authority and opportunity to discipline erring exporters only if the registration system continues. This again is not a valid argument. Before any export

can be made every exporter has to obtain a valid Importer - Exporter code from the Directorate General of Foreign Trade(DGFT). The Foreign Trade Development and Regulation Act gives enough authority to the DGFT to take action against any exporter for irregularities committed in export import trade. Perhaps a way can be found to confer on the respective Boards the power to conduct enquiry into any complaint in their respective industry and make suitable recommendation to the Directorate General of Foreign trade for further action in case of any irregularities in export trade.

93. Any rationalisation of procedures which will lead to simplification and avoids transaction costs has to be welcomed. Any licencing/ permit system, however smooth, simple and transparent will involve a transaction cost. If the purpose and objectives of the licencing/permit system can be achieved without duplication of efforts then definitely it will be in the interest of the country to introduce the improvement and the system change. It is therefore, recommended that as soon as the customs computerisation is completed and the DGFT's powers of taking action against exporters for violations of export conditions or for any defaults/irregularities can be conferred on the relevant Boards, then the system of concurrent registration of exporters and export permits may be dispensed with.

94. An apprehension has been expressed that if the Boards do not have powers of registration, then it may not be possible to specify certain special conditions such as quality standards for specific products. These conditions could be the hygiene norms for the products, quota restrictions where applicable, permissions to use the logo of the Board only under certain conditions, compulsory quality certificates or many such restrictions/conditions. This apprehension again is misplaced: the powers and the authority to prescribe conditions are vested under various statutes. Separate registration with the Boards may not be necessary to prescribe the special export regulations/conditions which the competent authorities can always do.

Quality certification

95. Export of agricultural products, marine products and commodities have always been subject to safety and hygiene standards. The specifications and sanitary and phyto-sanitary measures are becoming more stringent and the developed world especially, have become increasingly strict in enforcing all such regulations. Our marine products had to face a temporary ban in the European Union Countries and our meat and meat products are still not acceptable in some countries. Meeting the quality standards is the primary requirement for exports. The Spices Board has established a quality control lab for the testing of export products. But many more testing labs and certification labs have to be promoted all over India not only for plantation commodities but also for processed foods and marine products. Some of the Boards have already formulated schemes to encourage the setting up of testing and certification labs in the private sector. Quality certification may have to be prescribed especially for agricultural products in the interests of maintaining the country's image in the world. For this purpose many testing centres/labs may have to be qualified and accredited. To facilitate this development, the Boards may lay down guidelines and norms for recognition of such private labs, the equipments that they must possess, the scientific and qualified personnel that they must engage etc.

The guidelines would also need to lay down a transparent procedure for periodical inspection of labs by an independent panel of experts, provide for appeals and such other aspects also. The national standards have also to be established if not already existing and harmonised with the international standards wherever necessary within a time frame.

96. Organic products are becoming popular in the developed world and organic products command a premium also. India can exploit this opportunity available, as organic cultivation can easily be promoted in many parts of the country. Tea, Coffee and Spices Boards have taken active interest in this respect and are popularising the cultivation of organic products. Since the cultivation is mostly by small growers especially in coffee and spices and in the case of cereals also, the cost of certification becomes expensive and marketing that much more difficult because of smaller volumes. The Boards have programmes to help cultivators of organic products. It is recommended that they address the issue of certification so as to bring down the costs, evolve a credible indigenous certification system and help also in marketing the products by partly subsidising market promotion.

97. The Department of Commerce have already finalised the protocol for the establishment of National Standards. The Boards may popularise the concepts and disseminate information about the Standards so that more and more growers may benefit from this opportunity.

SECTION VII - Analysis of the existing manpower

98. Most of the Boards have surplus staff, mostly in the non-technical cadres. Partly it is because of the legacy of the past. Some marketing staff of the Coffee Board continued with the Board, even though that activity was given up and all the staff were given the VRS option. There have been avoidable excess recruitment of staff in some Boards for the administration of subsidy schemes. The production department alone of the Rubber Board has 671 ministerial staff including 111 Group A & B officers. The following Table 2.5 clearly brings out the excess supporting staff, mostly in the non-technical cadres in the Boards.

Table 2.5. Staff strength of the Boards

Name of the Board	Total strength of personnel	Of which group C & D cadres	Technical, scientific and professional staff	Ministerial and supporting staff
Rubber Board	2274	1463	435	1028
Coffee Board	1106	950	228	722
Tea Board	740	627	53	574
Spices Board	590	508	76	432

99. The problem is somewhat less in the Export Development Authorities. MPEDA staff are mainly employed in shrimp seed farms and for the promotion of shrimp farming. APEDA's total strength is less than 100.

100. Government of India has announced that a VRS scheme will be introduced for the surplus staff of the government. The Boards may also offer the same facility to its surplus staff. In addition, the Boards may arrange to provide to their staff, computer literacy so that some of them may be able to find alternative openings elsewhere. Nevertheless surplus staff will remain. The posts however could be abolished and the staff rendered surplus can be placed in the surplus pool and redeployed when vacancies arise due to retirement etc.

SECTION VIII - Publications

101. All the Boards bring out periodically many publications. The Boards have been commended by the growers for the comprehensive data base developed by them and the wealth of information being made available for the benefit of all. The only drawback is the enormous delay and time lag in bringing out the publications. The latest edition of Tea Statistics brought out in March 2000 contains information upto 1997/98 only. Even the Tea Digest 1999 published in August 2000, contains information upto 1998 only. With computerisation of all activities perhaps the delay can be brought down.

102. Coffee Board brings out a Data Base on Coffee (bimonthly publication and also a quarterly) and Market Intelligence Report which contains upto date information but a comprehensive compilation such as Tea Statistics is not being brought out. The Rubber Board brings out a comprehensive publication called Indian Rubber Statistics. The latest publication contains information upto 1998- 1999. The Board also brings out a monthly newsletter. The Spices Board brings out an annual publication, Spices Export Review and at regular intervals, Spices Statistics but the last publication was in 1998. The other occasional publication is Area and production of Spices in India and the World and the latest issue expected to be published soon will contain information upto 1998/99. The Board also brings out a useful 'Spices Market' weekly.

103. APEDA brings out a number of publications including one on Export Statistics. The information is fairly upto date. MPEDA brings out annually publications containing export data besides monthly and weekly newsletters.

104. Thus all the Boards bring out annually and periodically useful publications, some very comprehensive. It is recommended that each Board go through the publications of other Boards and try to make their annual publications more comprehensive so that all the required data would be available at one place. Every effort may be made to be as upto date as possible. Besides, the special publications meant for the different sections of the industry and the newsletters may also continue.

105. With the computerisation of all activities and with data from the Directorate General, Commercial Intelligence and Statistics also expected to be available with very little delay, it should be possible to bring out hereafter the publications with the latest data.

106. Coffee and Spices Boards have brought out CDs containing data, topics of interest etc. It is recommended that all the Boards bring out their publications and other useful information in the CD format also.

SECTION IX - Computerisation

107. The Boards have made a beginning in computerisation. The process of computerisation in Tea Board was initiated in 1988 on the basis of the plan of action recommended by the Indian Institute of Management, Calcutta. Initially the computerisation of certain departments like statistics and licencing were taken up. Now more departments are being covered. The Darjeeling Certification Trade Mark Protection Process has been computerised through an on-line system.

108. Tea Board has two websites:

<http://tea.nic.in> which is a more general site and
www.tea.india.org conceived as a comprehensive tea portal but now meant for trade. The website is yet to be fully developed.

109. Rubber Board has also taken up the computerisation of it's work. Most activities in the production department, including the monitoring of subsidy schemes have been fully computerised. The Board has a website, www.rubberboard.com, which however is weak in its content.

110. Coffee Board has made some progress in computerisation, though many activities are yet to be computerised. The Board has a website, www.indiacoffee.org which requires to be considerably improved.

111. Spices Board has computerised almost all its activities-including trade information services, analysis and delivery of spice samples received for quality evaluation, market services and analysis etc. The website of the Spices Board, www.indianspice.com contains all the information useful for trade like prices, trade data, policy changes, important events etc.

112. MPEDA has made a beginning in the computerisation of its activities and at present export registration, export data and financial accounting have been taken up. The website of MPEDA, www.mpeda.com contains information about MPEDA's schemes for aquaculture, product catalogues, market promotion etc.

113. APEDA is making all out efforts to computerise its activities in the head office. Monitoring the status of financial assistance schemes, commodity quota allocation etc have been computerised. APEDA hopes to complete the process before 2001. APEDA's website www.apeda.com has been well appreciated as it contains all the information relating to agro trade, besides providing information about APEDA's schemes. It has information on EU regulation on quality standards etc.

114. All the Boards have made serious efforts to develop computerised applications but the pace has been slow and what is more, the objective of reducing paper work has not been really achieved. Efficiency improvement and transparency are the major objectives of computerisation. Integration of all applications to improve overall efficiency, connectivity with regional and sub offices so as to avoid/reduce delay and the need

to avoid data entry etc. have yet to be achieved. All the Boards may look into these aspects closely so as to gain real benefits from the computerisation process.

115. The Boards may also start an E-mail facility; any grower should be able to send directly or through the extension staff, seeking clarification on any issue or advice which the Board should organise itself to provide within a day if not instantly. During a specific time period on two, three days a week, on line facility could be provided. The queries of the growers may help the Board to update the website also by incorporating the advice/clarification given to the growers, if the issues were to be of general interest.

116. Websites have been developed by all the Boards and efforts are on to constantly update and make them more useful. But the content as well as the regularity of update of the contents leave much to be desired. At present the websites contain basic data and information which are included in their regular publications. Most of the information is meant for trade; there is hardly any information or advisory service useful to the growers. The spread of internet booths in smaller towns in course of time would mean that more and more growers may be able to utilize the facility for accessing information and knowledge and to seek advice about cultivation practices, inputs availability, processing techniques, prices and market trends and such other useful information. It has been elsewhere recommended that the Boards may assist grower organisations in establishing information cells/kiosks in the plantation areas. These cells/kiosks may develop into virtual extension offices of the Boards from where a grower may be able to get all the information he wants, including research findings, clarifications and advice on all aspects of cultivation, processing, prices etc.

117. The Boards may redesign their websites into portals for their respective commodities so that they become the prime source of all information, relevant to the commodity, for the growers, processors and the trade. An effective web site will thus help to make available the best extension service to all growers, once the internet facility becomes widely available. The field visits can then be reduced and organised in a more orderly manner, on need basis. The websites should have all the information useful to the trade also eg., sanitary and phyto sanitary measures in all importing countries import regulations including duties and other barriers, data on prices etc. They should contain general trade information/data also including of the previous years.

118. The design of a web site is important. It is recommended that the Boards may, if necessary, jointly entrust this task to a common agency. More important is regular updating of information, adding new features on the basis of experience and developments etc. A system and a procedure with definite responsibility for ensuring this has also to be developed.

119. A number of private web sites and portals have also started. Some trading firms and auctioneers have developed very useful sites but all of them however excellent they are, have specific but limited objectives and purposes. They cater to a particular clientele and target audience. The Board's portals must be much more

comprehensive and address the requirements, demands and expectations of all interests in the industry especially the growers and the trader. Also all the information/data included in the publications and newsletters of the Boards may be included in the websites.

SECTION X - Development of plantations in the North Eastern States

120. There is great potential for the development of plantation commodities including spices in the North Eastern States (North East). Floriculture also offers a promising prospect. The climate, the elevation and the rainfall in most parts of North East are ideally suited for the growth of plantation commodities. When fully developed the plantations will not only generate enormous employment all through the year, but also provide substantial incomes and can be the engine of growth of North East. The incidental benefit will be the preservation of ecology through the prevention of soil erosion and the denudation of forests.

121. The tea industry already provides direct employment to over six lakh people in North East. Coffee and Natural Rubber will come up well in North East. The development of these plantations will not require much inputs from outside North East. A development programme of spices, orchids and ornamental fish will help create additionally some more employment besides generating incomes and exports.

122. The Ministry of Commerce and the Boards have done commendable work to develop plantation commodities in North East. The action taken by the Boards in this regard, the scope and opportunities for further development and an action plan is detailed in this Section.

TEA

123. Tea has been North East's major plantation crop but mostly in Assam. In fact a little over 50% of the country's area under tea is in Assam. All the schemes of the Board cover North East especially schemes for replanting of old and uneconomic sections, extension advisory services, creation of irrigation facilities etc. Tea Board also operates a special programme in North East for the control of Jhum cultivation, the objective of which is to wean away growers from the practice of shifting cultivation. The expenditure in North East by the Tea Board is obviously quite high. Nearly 50% of the amounts utilized during the year 1998/99 by the Tea Board towards development schemes and other various activities of the Board were disbursed in North East.

124. Tea cultivation is being taken up by small growers in North East, especially in Assam. With the domestic demand for tea growing steadily and export prospects also good, tea cultivation will be very viable. The Board has a number of schemes to help small growers take up fresh cultivation and also the rejuvenation of existing

plantations. It has been separately recommended that the available funds of the Tea Board be first earmarked to benefit small growers.

COFFEE

125. Coffee development programmes in North East were started by the Coffee Board in the early sixties, primarily to address the problem of Jhum/shifting cultivation and arrest the denudation of forest lands. Effective plantation development started only in the last one decade. The Board has identified an area of 44,000 hectares as suitable for coffee cultivation. So far, 8740 ha. have been brought under coffee, mainly in Mizoram, Nagaland and Assam. Only half the area is bearing coffee now and the average productivity is very low, at 50 kg/hectare compared to the national average of 850 kg/hectare.

126. Insurgency, poor communication and frequent turnover of technical staff are the reasons for such poor performance. Coffee Board operates the following special schemes in North East.

Name & nature of the scheme	Expenditure during the period 1997/98 to 1999/2000 (Rupees in lakhs)			Subsidy element
	97-98	98-99	99-00	
a) Special package for NE Grant Subsidy	47 77	59 177	85 45	Rs. 15,000 per hectare is provided as subsidy
b) Improvement of Coffee Demonstration Farms. There are 5 demonstration farms.	37	58	69	The farms are owned and maintained by Board but due to insurgency problem, one farm at Noney (Manipur) was handed over to the State Govt during the eighties.
c) Training and manpower development in North East	10	12	19	

127. The total expenditure of the Coffee Board on the development schemes during the last three years was Rs. 2.99 crores. In addition, a sum of Rs.3.96 crores was spent on the establishment. Coffee Board has established a wide extension net work in North East, headed by a Joint Director and assisted by two Deputy Directors, and nine Liaison Officers to provide technical support to coffee growers. In addition a regional research station has been established at Diphu under a Deputy Director (Research). In all, 31 Technical staff, assisted by an equal number of ministerial staff are working in Coffee Board's offices in North East.

128. Coffee has great potential, as only 20% of the area fit for coffee cultivation in North East has been brought under coffee so far. Coffee plants once they start bearing will give returns for decades. The coffee plantations also help preserve tree cover. The ready market for coffee in the eastern states, apart from the export potential make it a commodity to be aggressively promoted. The Board has enough funds and

technical expertise to promote coffee cultivation intensively in North East. A target of 10,000 hectares in the next few five years may not be difficult to achieve. The cost of a new plantation is estimated at Rs.30,000 per hectare and the labour cost of new plantations in 10,000 hectares will be atleast Rs. 20 crores. In addition, the plantations will create permanently around 10,000 jobs.

NATURAL RUBBER

129. Many parts of North East offer excellent opportunities for the cultivation of Natural Rubber (NR). Already Tripura has emerged as the second most important natural rubber area next only to Kerala. A study done by the Board reveals that in North East, rubber can be grown in one lakh hectares. So far 45,000 hectares have been brought under rubber cultivation. The production is only 14,200 tonnes still; that is because most of the plantations are young and the farm practices are yet to be stabilised.

130. The Board has established a strong and extensive field organisation in North East. There are 2 Zonal offices, 8 regional offices and 21 field offices. There are also 5 regional Nurseries, 6 tappers training schools and one rubber estate and training centre. Under the World Bank project recently completed, planting of nearly 10,000 hectares was subsidised in Tripura.

131. The following special schemes are being operated by the Board in North East.

Name of the Scheme	Expenditure during the period 1997/98 to 1999/2000 (Rupees in lakhs)	Nature of assistance
a) Improvement of North East Extension Training Centre at Agarthala	95	Fully funded
b) Scheme for Block planting	505	The subsidy element was Rs. 22,000/ha..
c) Free supply of barbed wires etc.	46	Full cost is met by the Board
d) North East DDC/NRETC	205	Fully funded
e) Research Schemes in North East	387	Fully funded

132. In addition to the above special schemes, the normal schemes of the Board, such as rubber plantation development scheme, promotion of irrigation, nurseries etc., were also being operated by the Board in North East. In all, during the three years 1997/98 to 1999/2000, the total outlay in North East was nearly Rs. 31 crores, out of the total plan expenditure of about a little over Rs. 200 crores during the period.

133. Rubber Board has done commendable work for the spread of natural rubber cultivation in North East. The scope is still substantial. As India is barely self sufficient in this vital raw material and as there is a big market for rubber in the eastern states of India, rubber cultivation needs to be taken up with greater vigor in North East. A target of 5000 hectares per year may be achievable. It is estimated that Rs.70,000 per hectare will be the cost of planting over a period of five years. Hence with an outlay of just 175 crores nearly 25,000 hectares can be brought under NR in North East. Of this expenditure nearly Rs.130 crores will be in the form of labour expenses only and hence the plantation scheme itself will create much gainful employment in the area. Even if the 25,000 hectares plantations produce half the national yield (though in Tripura it is established that yields can be as good as in other parts of India) the annual production would be worth more than 60 crores. The employment potential will be around 15,000.

SPICES

134. The Spices Board is entrusted with the responsibility for the development of only cardamom. North East has good potential for chilli, pepper long, ginger, turmeric etc. The development plans for these spices have to be prepared by the Indian Council of Agricultural Research in association with the state governments. The role of the Spices Board would be in the field of training and education of farmers in post harvest management.

135. A number of spices are being grown in the North East which have export potential. Apart from chilli, ginger and turmeric which are extensively cultivated, pepper and cinnamon have also good production potential. The spices Board is implementing the following programmes to popularise spices cultivation in North East.

Name of the Scheme	Objective	Expenditure during 1997/98 to 1999/2000 (Rs. In lakhs)
1. Scheme for drying yards for black pepper and chilli	Post harvest management is key to quality. In order to encourage drying under hygienic conditions the Board gives a subsidy for construction of drying yards.	14.00
2. Setting up of warehouses/construction of cold storages and processing facilities	To encourage scientific storage - the subsidy is a maximum of Rs. 1.25 lakhs per warehouse.	25.00
3. Scheme for training of officers and farmers	Training is given at the Indian Institute of Spices Research, Calcutt etc.	4.16

136. Organic spices have not only good export potential but also likely to fetch a premium in the international market. The Board is already implementing a UNDP programme in the states of Manipur, Assam, Nagaland and Meghalaya through NGOs. The organic cultivation of ginger, turmeric and chilli is promoted under the programme.

1	2	3
4. Varietal improvement of Bird eye chilli which is a promising variety	To improve the existing variety and make available quality seed material; the project is being implemented through the Assam Agricultural University and the Central Agricultural University, Imphal.	2.50
5. Scheme for the development of cinnamon, tejpat and pepper long	These are being imported; hence the objective is to establish nurseries and make available the seed materials to farmers.	2.00
6. Scheme for supply of dryers to ginger farmers; 50% of cost subject to a maximum of Rs.10,000/- is given as subsidy	To convert fresh ginger into dry form.	10.00
7. Scheme for production of organic pepper. 50% of the cost is subsidised subject to a maximum of Rs.20,000 per hectare.	Organic spices command a good price and N.E. is a suitable location for such production.	3.5
8. Scheme for setting up spice powdering/curry powder units to add value to the produce	The proposal is to set up eight units jointly with the Khadi Village Industries Commission.	

137. In order to ensure that the farmers get reasonable prices, the Spices Board may promote curry powder and oleoresin projects in selected places with appropriate subsidy. Good prices for spices will help to increase the area under cultivation and promote larger production and make such processing projects viable after a few years. However, initially till production volume increases, the manufacture of value added products will become viable only if the capital cost of the projects is subsidised.

Marine Products Export Development Agency (MPEDA)

138. MPEDA's functions include promotion of Indian marine products exports. Export of ornamental fish is one of the thrust areas identified by MPEDA and North East is an important source of ornamental fish in India. MPEDA has a subsidy scheme for the breeders of ornamental fish; MPEDA also gives subsidy on export of ornamental fish. However, so far none from North East has availed the benefit.

139. Scampi (fresh water shrimp) has also a good export potential. In the last three years the export of scampi has grown from a mere 1000 tonnes four years ago to nearly 14,000 tonnes this year. Production from North East is nil though there is a potential for the cultivation of scampi.

140. MPEDA may undertake a study of the potential as well as the problems of cultivation of ornamental fish in North East and the viability of production and export from North East so as to devise appropriate strategies for encouraging the breeding and export of ornamental fish. The problem of cultivation of scampi in North East can also be studied for further course of action to popularise scampi farming.

Agricultural and Processed Food Products Export Development Authority (APEDA)

141. APEDA is mandated to develop the export of scheduled products, including fruits, floriculture etc. Among its five regional offices in the country, one is located in Guwahati. APEDA has virtual offices in Manipur, Nagaland and Tripura.

142. APEDA has undertaken a study of the export potential from North East and has been conducting quality awareness programmes and training programmes on pre and post harvest.

143. To improve infrastructural facilities in North East, walk-in type cold storages have been provided at Guwahati and Agartala Airports; Reefer trucks have been given to a few organisations.

144. Floriculture has a good potential in North East but the high cost of transportation may not make the projects viable except for orchids and other high value items. APEDA has already conducted a detailed survey of the potential for floriculture exports including orchids. APEDA is already setting up an orchid farm in Sikkim and one more in Arunachal Pradesh. APEDA may liberally finance few more demonstration orchid projects in North East.

145. Organic food products command a premium in the world market. A number of growers have taken up to organic farming in plantation commodities, spices, and also cereals. APEDA is promoting four model organic farms for jowar rice, sugarcane, passion fruit and pineapple in Assam and Manipur. APEDA has organized workshops on organic farming in Assam, Tripura and Meghalaya and growers have been trained in organic cultivation. APEDA may prepare a more ambitious project for the development of organic food products, as North East is ideal for the cultivation of organic food.

146. Thus the Boards can, in the next five years, help to bring about a few thousand hectares under plantation commodities and also encourage the cultivation of exportable spices. All these projects will help to create employment in the thousands and generate incomes on a permanent basis.

Action strategy

147. The implementation of the above programme will be a challenge to the Boards, given the insurgency, the poor communication facilities, the administrative inadequacies, lack of plantation culture except in Assam and the shortage of trained and skilled manpower. However, the benefits of a development strategy are enormous and obvious. Full involvement of the state governments is essential for the successful implementation of any development programme. The following action plan is recommended:

- a) A senior officer of the rank of Joint Secretary may be appointed as the Liaison Officer stationed at a convenient location in North East. He will be the interface

between the state governments and the Boards. The Boards may also consider alternatively posting their own officer in North East for liaising with the state governments but the officer has to be preferably from the area or from the cadres of the North Eastern States.

- b) Wherever possible the schemes be implemented through the state governments.
- c) The Boards prepare the development programmes and inform the states to select the beneficiaries in advance so that the training programmes can start well in time.
- d) As far as possible, plantations may be taken up in easily accessible areas for administrative convenience and in contiguous areas for ease of training, effective dissemination of farm practices and closer supervision in the initial years.
- e) The states be given full briefing on the likely benefits in terms of employment, income generation etc., so that in turn they can canvass enough volunteers to take up cultivation.
- f) Financial requirements may be shared between the Boards, the NEC and the states as far as possible and the contribution of the beneficiaries be limited to a portion of the labour cost only, so that the programmes really take off.
- g) Wherever planting materials are required, the Boards may arrange to supply them.
- h) Processing facilities is essential for the success of the initiative. The Boards may also devise schemes to encourage the setting up of processing units in North East, if necessary through appropriate subsidy schemes.
- i) The Boards may also help to identify distribution channels, export markets etc. and make available funds for this purpose.

148. Since the Boards have earmarked funds for development activities in North East, the co-operation expected of the states will not be in financial terms; but their assistance will be crucial in the following areas:

- a) Selection of the contiguous areas where planting can be taken up, from among the zones found suitable for cultivation. This will help in the dissemination of technical advice and supply of inputs in a cost effective way.
- b) Selection of suitable beneficiaries after local survey and consultation.
- c) Help in dissemination of the advantages/benefits of plantation commodities and other crops.
- d) Extending all support to Boards by way of security.
- e) Provision of infrastructure facilities, including communication.
- f) Full involvement of the local agriculture/horticulture departments in the exercise.

149. It is very necessary to educate the growers who are new to plantation commodities and convince them of the advantages of taking up scientific cultivation of the commodities. Development of plantations is a long term affair and it is necessary to sustain the interests of growers. The key to success lies in convincing the growers of the permanent long term advantages of plantation commodities. In the Araku vally in Andhra Pradesh prone to extremist violence, it is the enthusiasm of the local growers

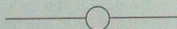
who have been convinced of the benefits of coffee cultivation that is helping the rapid expansion of the area under coffee there. Similar movement has to be created in North East.

150. Processing facilities and marketing in the initial years will be a problem because of small and unviable production levels. It is therefore, recommended that a few processing units may be heavily subsidised by the Boards in the initial years, like curing units for coffee, curry powder units or oleoresin plants for spices, processing facilities for natural rubber etc. Similarly, packaging facilities for floriculture units or transportation equipments for ornamental fish or scampi farms can be helped. As the major constraint or disadvantage of the pioneering units will be the high costs of processing and transport due to low volumes, the viability will become better if capital costs can be brought down. Once the volumes pick up, the new processing units may come up on their own and may not require heavy subsidy.

151. North Eastern Development Fund created by the Government of India with APEDA may be one source of funding for such processing units.

152. Marketing will be another major problem initially. The coffee growers used to get a pittance because of lack of organised marketing activity till the Coffee Board stepped in and helped to find suitable markets. The Boards may have to identify suitable marketing channels for the commodities and also provide financial assistance till the marketing channels are established and stabilised.

153. The prospect of gainful employment for thousands and steady incomes, apart from incidental benefits of environmental improvement make it imperative that the every effort is made to implement such a development programme. Many parts of North East can become as prosperous and developed as Coorg or Kottayam once the plantation culture becomes widespread.



CHAPTER-III

TEA BOARD

3.1.1 Tea is India's most important plantation crop. At the time of independence, tea used to be one of India's major export item. The plantation estate culture began in India with the tea gardens. The dilution of ownership of foreign owned tea plantation companies started after the FERA Act came into being in 1973.

1.2 Even today, large estates dominate the tea sector unlike in coffee and natural rubber cultivation, where small holdings predominate. Though a large number of small growers estimated at nearly a lakh now, have taken to tea cultivation in recent times, the area with large estates (> 100 hectares) is still as high as 94% in North India and 65% in South India. Small holdings of less than 100 hectares contribute around 20% of total production, though in the South it is around 38%. Small growers are mostly in the Nilgiris, where tea cultivation substituted potato crop that was grown earlier in the lands.

1.3 Tea is declared an essential commodity. Its price and availability are monitored regularly, though there have been attempts in the past by the industry to get the item deleted from the list of essential commodities since it is only a beverage.

1.4 Tea industry contributes since the last two years, substantial revenues to the central government by way of excise duty. In addition, tea is subject to dual taxation - 40% of the income is taxable under the Central Income Tax and 60% under Agricultural Income Tax of the concerned state governments. The rates of Agricultural Income Tax generally vary between 40 to 65%. There is also sales tax on tea. In Assam and West Bengal a cess on green leaf production is also levied.

1.5 In addition to Central Excise, a cess is collected on tea which is meant for the development of the industry. The funds allocated for the activities and schemes of the Tea Board, and the cess and central excise now being collected from the industry by the central government are given in the following Table 3.1.1.

Table 3.1.1. Resources generated and funds allocated to the Tea Board

Year	Excise duty on Tea (Rs in crores)	Cess collected (Rs in crores)	Allocation of funds (Rupees in crores)		
			Plan	Non Plan	Total
1995/96	Not applicable	11.62	22.00	16.00	38.00
1996/97	N A	11.50	21.30	14.00	35.30
1997/98	N A	24.53	28.00	16.00	44.00
1998/99	115.98	25.57	27.00	15.00	42.00
1999/2000	128.84	26.98	27.00	13.50	40.50

Growth of tea cultivation

1.6 Tea cultivation and production has been growing steadily since the last few decades. Though the area under tea has increased only marginally during the last 15 years, the production has been growing satisfactorily. The growth of the industry is evident from the following Table 3.1.2.

Table 3.1.2. Growth of tea industry and exports

Year	Area under tea (in hectares)	Production (in million kgs)	EXPORTS		
			In million Kgs	Of which exports of value added tea (in million kgs)	Value in dollars (millions)
1970	354133	418	202	4.3	204
1980	381086	569	225	34	533
1985	398966	656	215	30	565
1990	416269	720	210	73	636
1995	427065	756	168	83	372
1999	437857	805	192	79	456

1.7 Of the total production, Assam accounts for a little over 400 million kgs and West Bengal around 180 million kgs. Of the little over 200 million kgs produced in the south, Nilgiris accounts for nearly 90 million kgs and Idukki district 50 million kgs.

1.8 The average number of permanent labour employed in tea plantations has been estimated at around 10.5 lakhs. In addition, non resident temporary labour employed is around 1.5 lakhs. Thus tea industry is a major employer. Plantation labour are provided benefits under the Plantation Labour Act, including pucca housing, medical facilities, free education etc. Tea Board also implements some welfare measures.

1.9 The tea productivity has been improving steadily and the average productivity per hectare has gone up from 971 kg in 1960 to 1995 kgs in 1998. The productivity is higher in the southern tea plantations, at 2247 kgs per hectare. The lowest yield is in Darjeeling, at 540 kgs but the price obtained for Darjeeling tea is also the highest. In 1992, Darjeeling tea of one estate was sold at Rs.13,011 per kg.

Constitution of the Board

1.10 The Tea Board has the largest membership among the Commodity Boards. The Act provides for a maximum of 41 members including the Chairman. Tea Rules provide for a strength of 31 members. As discussed in Chapter 2, the membership strength can be reduced. It is suggested that the Board may consist of, besides the Chairman and three Members of Parliament, ten grower members - either outstanding growers or representatives of growers' associations; of them atleast two representatives may

be from Assam, two from West Bengal and one from Nilgiris. Of the growers' representatives, atleast two representatives may be either small growers or representatives of small growers' associations, - one from Assam and one from south india. Other members may be three representing tea plantation labour, two exporters, one manufacturer and one internal trader and one expert in tea research. In case the representatives of state governments are proposed to be included, then it may suffice, if one representative of each of the state governments of Assam, West Bengal and Tamil Nadu are included as members.

Organisation of the Tea Board

1.11 The Tea Board has been organised into following seven divisions broadly corresponding to the activities of the Board.

- a) Research
- b) Development
- c) Marketing and promotion
- d) Licensing and registration
- e) Statistics
- f) Administration and finance.

1.12 The Tea Board has two zonal offices, one in Guwahati and one in Coonoor, Tamil Nadu. The Zonal offices have regional and local offices under them; in all, there are 10 regional and 5 sub regional offices including three under the Head Office. The regional offices process the applications for loans and subsidy. The Tea Board has also a Tea Research and Development Centre at Kurseong in Darjeeling. The Board maintains five promotion offices abroad.

1.13 The Tea Board has no direct responsibility either for tea research or extension, nor for marketing.

A review of the activities

Research

1.14 The Board has limited responsibility for tea research.

1.15 The tea industry was earlier completely dominated by large corporates and hence the research work was being carried out by the tea industry itself. Tea research dates back to the year 1900 when the Indian Tea Association (ITA) organised its first scientific department and established the experimental station at Toklai in Assam in 1911. It has been serving the interests of the tea industry in North East and West Bengal since then.

1.16 The United Planters' Association of South India which was also taking interest in research in plantation commodities established its own research centre in Nilgiris in 1925, to serve the southern tea industry. The main station is now located at Valparai in Coimbatore district in Tamilnadu.

1.17 Thus there are two research stations funded by the tea industry. The Toklai station was transferred to the Tea Research Association which was formed in 1964.

1.18 Tea Board's own research activity is confined to Darjeeling region, where the Board has established its own "Darjeeling Tea Research and Development Centre" at Kurseong. It is a tea experimental farm in 20 hectares and with just two scientists. The work is limited as can be expected, and only confined to soils and agronomic aspects of tea cultivation and manufacture. Biochemical research on flavour chemistry which is the prime need of the hour for Darjeeling tea has not yet been taken up.

1.19 Though basic research is being carried out in the industry managed research stations, the research department of the Tea Board also undertakes a number of research studies of a specialised nature in different institutions in the country like CFTRI. The transfer of technology to the industry on successful completion of the research schemes is also progressed by the department. The schemes cover a wide field, from flavour tea to packaging and from technical specifications of standards to nutritional aspects.

1.20 The Board has an adhoc Tea Research Liaison Committee to look after the activities under the various research schemes and advise on all matters.

1.21 A National Tea Research Foundation (NTRF) was set up in 1988. It is an unique enterprise involving the tea industry, the Tea Board and NABARD. It has now a corpus of over 13 crores. NTRF supports specific research projects addressed to basic and applied aspects of tea research such as tea biotechnology, pesticide residue and biochemical aspects of tea quality. A governing body consisting of the members of the tea industry, the Tea Board etc., lay down the policy and programmes of NTRF.

1.22 The tea growers are of the view that the responsibility for research as well as the control over the research institutions need not be transferred to the Board like in the case of coffee and natural rubber. According to them the present system of the two industry associations managing research with adequate grants from the Tea Board has been found to be serving the industry well and may continue. The Tea Board maintains close co-ordination with the two associations and is represented on the committees of the two research stations. The Tea Board gives grants both to TRA and UPASI and monitors periodically the progress of the research programmes. The funding of TRA is based on certain guidelines laid down by the government of India. During 1999/2000, the grants sanctioned to TRA was Rs. 2.76 crores and Rs. 2.13 crores to UPASI.

1.23 TRA was passing through a difficult phase and there was a concern that the research activity may suffer. The difficulties have since been overcome and TRA has been very well revived. Considering the fact that the growers are happy with the system of industry controlled research efforts and there is direct accountability to the growers' organisations, it is recommended that the present system may continue including the annual grant-in-aid to the research stations. It is however recommended that the Kurseong Centre may be strengthened without being expanded, with the addition of two to three scientists so that the interests of Darjeeling tea can be safeguarded. The Kurseong DTRDC would be necessary for specialised application research relevant to Darjeeling tea which is India's most admired and prestigious tea.

Development

1.24 The development activities of the Tea Board are being implemented mainly through loan and subsidy schemes. During the first three years of the 9th Plan, nearly Rs.83 crores were distributed of which around Rs.34 crores was by way of loan

assistance. The regional and local offices administer the schemes and a large number of employees are involved in this exercise. The Board extends loans to large corporates also. The development function and activity will have to continue but the focus may be shifted to the medium and small growers.

Marketing and promotion of tea

1.25 Tea marketing is entirely with the private sector. However, the Tea Board has been promoting tea in the domestic market and also abroad. The Board runs 7 tea centres in India. The tea centers incurred a loss of a little over Rs. 70 lakhs during 1999/2000 after taking into account all the expenditure on staff. It is recommended that except the tea center in the Parliament House and the centre in the head office of the Board, the other centres may be gradually privatized. There is no need to promote tea consumption in India, that too incurring a huge expenditure, when it is already established that 65% of rural households and 73% of urban households are tea drinkers.

1.26 Tea Board opened a foreign office in New York in 1960 and started another office in London in 1963 to promote indian tea abroad. Tea Board also ran a tea centre in London besides one in Sydney. Both had to be closed in 1990 as they were incurring losses. The tea centre in London was also given to the Hotel Corporation

Table 3.1.3. The performance of the foreign offices of Tea Board

Name of the foreign office	Jurisdiction	When started	India's exports to the region in million Kgs						Total expenditure on the office in the year 1998/99 (Rupees in lakhs)
			1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	
London	UK, Ireland	1963	26.43	30.84	24.77	27.92	29.86	25.25	115.23
Moscow	Scandinavian countries								
	Russian federation and most of erstwhile Soviet Russia	1991	59.8	49.64	75.84	57.81	100.12	94.24	43.31
Dubai	Wana Region	1991	31.48	26.25	26.46	38.41	43.42	52.51	96.18
New York	US and Canada	1960	5.6	7.1	3.9	5.8	6.2	7.5	95.79
Hamburg	Europe excluding UK, Ireland, Scandinavian countries	Since 1963 originally in Brussels, now in Hamburg	22.02	31.02	21.11	24.05	19.13	18.40	175.95

of India for its running. It was also a disaster. The total loss written off on account of London enterprise alone was Rs.8.54 crores.

1.27 The Tea Board opened some more foreign offices subsequently with a view to promote tea exports. The performance of all the foreign offices is given in Table 3.1.3.

1.28 The Tea Board feels that the foreign offices should continue as continuous promotion of Indian tea is necessary in view of stiff competition for Indian tea from other destinations. However, the exports to these destinations from India have not shown any improvement despite many years of promotion. It is a moot point whether the promotion offices have been able to make any contribution to exports and whether without these offices the exports would have suffered any reduction either.

1.29 The assertion of the departmental officers of the Tea Board is that the unsatisfactory performance has been partly due to the posting to these offices of deputationists who have had no background or knowledge of the product or experience in promotion. This does not explain the poor export performance even in the regions covered by those offices which were headed by Tea Board officers. The Moscow and Hamburg offices were being manned by the Promotion Department officials and even the Dubai office till May, 1999. The another defence of the promotion department is that without the efforts of the foreign offices, the exports would have suffered greater decline. This kind of argument can never be accepted as a valid defence of performance. Another explanation is that enough funds were not given for promotion efforts and no staff support was also available. It is obvious that if more funds cannot be found for these activities, then the foreign offices should be closed down or alternatively the number of offices reduced to make the remaining offices effective.

1.30 The arguments advanced in favour of continuation of the foreign offices are as follows:

a) The presence of officers of the Board in important markets is required to act as an interface between Indian exporters and local buyers and for gathering market intelligence etc.

Export of tea is mostly by large exporters in India. Top twenty exporters account for over 70% of India's exports. Moreover, export of Tea has been going on for decades and commercial contacts are well established. Also the tasks of collection of market intelligence can be undertaken by our commercial missions abroad which are specifically mandated to undertake such activities. After all, for other commodities our commercial missions render similar services. Further much of commercial information can be gathered now a days through various other sources also.

b) It has been possible to ensure participation in many fairs and exhibitions being held abroad at affordable rates only because of foreign offices.

The issue is not participation in fairs etc, but benefits from such participation. The fact is that there has been hardly any improvement in exports over the last few years; also when marketing is entirely in the hands of private tea companies, participation by the Tea Board by itself may not really help in exports.

c) The foreign offices prepare and maintain country profiles and data bases and attend to trade enquiries. Public relations work and identification of market opportunities

performance ev

are the other functions performed by these offices. These activities and functions will either suffer, if there were no foreign offices or will have to be sourced from other agencies at great expense.

The validity of the argument is not supported by the export performance which is the purpose of data bases and public relations exercises. From the export figures, the only conclusion that can be drawn is that either these functions were not performed effectively or they did not make any difference to exports.

d) The foreign offices have been able to achieve considerable improvement in value growth of tea exports.

The export figures do not support this assertion except in the case of UK and Dubai offices. The value increase is on account of higher export of value added tea such as Tea Bags, Instant tea and Packet tea. In fact Tea Bags contribute 80% of the tea market in UK and is controlled by a few companies. Hence the role of Director of Tea promotion in the promotion of export of tea in such markets can be only limited.

(e) Tea promotion requires special expertise and knowledge, and that the commercial wings in the missions will not be able to provide the specialised support required for the promotion efforts.

This is a weak case for continuation of the offices. The fact which is irrefutable is that over the last many years the exports have been coming down and many of these offices have been manned by Board officials also. Commercial missions support exporters of a variety of goods from engineering to electronics and from spices to rice. Tea alone cannot be said to require a different expertise.

(f) An awareness among the consumers of tea the world over about the quality of India has to be created through regular promotion, publicity and campaign. Such promotion will not be undertaken by any individual or corporate body or even by exporters as they would like to promote their brand only. Promotion of origin, i.e. Indian tea as a whole could only be undertaken by a public body from public fund and Tea Board only can be that body.

Promotion of Indian origin has been going on for decades and India's share used to be high for many years. Therefore, it is difficult to appreciate the argument that there is lack of awareness about Indian tea among the tea trade.

(g) The foreign offices can play an important role in organizing ground work for visits of trade delegations.

So many trade delegations go from India and for all of them the commercial missions make arrangements. Tea delegations may not require any special efforts which the missions cannot handle.

1.31 Apart from the above arguments for the continuation of the foreign offices, the Board also feels that there are many officers in departments other than the promotion department who have also excellent knowledge of tea and would do very well in foreign offices and they should be eligible to be posted to foreign offices rather than reserving

the posts only for the officers of the promotion department. While this option of wider choice of candidates for the foreign offices may help to get more competent officers for manning the foreign offices, the basic issue is the justification for the continuation of the foreign offices on which a huge expenditure is being incurred without any commensurate benefit.

1.32 The tea industry representatives when consulted broadly agreed that barring one or two offices, others have not been of any help. A section of the industry was of the view that the offices should be made effective and accountable and competent marketing experts should be appointed to head the offices. Their argument is simply that our missions abroad may not be of much help and hence it is better to continue the offices of the Tea Board. A suggestion was made that the foreign missions could be permitted to charge the users for the services rendered by the offices and thus earn the income required for maintaining the offices. The real worth of the services of the foreign offices will be known only then. An inventory of services expected of the foreign offices can be prepared as well as the charges that can be paid for the various services. The continuance of any office will then depend upon its earning ability which in turn will depend upon the actual services rendered and the quality and usefulness of the services; at best a portion of the expenditure on the foreign offices could be given by the Board as subsidy.

1.33 On the whole, as discussed in Chapter II, there is hardly any justification for continuing the foreign offices by the Tea Board. At best the offices in Moscow and Dubai may be continued for sometime as the market is large and these regions may require special attention for some more time. But even these offices can be closed down after a few years. The Board has pointed out that Srilankan Tea Board maintains four overseas offices. Srilanka has to practically export all its production. Further their example is not a good argument for continuing our foreign offices. The Board may help the export efforts of the industry in other ways, but foreign offices which are not able to help in improving our exports in any way may not be the best way of helping exporters. The closure of the offices will result in a saving of over five crores of rupees annually to the Tea Board.

Licensing and registration

1.34 Licensing and registration is at present an important activity of the Board. The extension of tea cultivation as well as new plantations require permissions under Sections 12 to 15 of the Tea Act.

1.35 Tea industry has been under some sort of government regulation for decades. A levy of cess on export of tea was introduced in 1903 and a statutory Tea Cess committee was constituted to administer the funds collected. The Committee consisted of the representatives of the tea industry. Government also set up the Indian Tea Licensing Committee to regulate the planting of tea in the country to fulfill the obligations under the International Tea Agreement 1933. The Agreement provided for export quotas among the countries. India spread the quotas equitably among the estates and froze the expansion of area. Under the International Tea Agreement signed in 1950 also, the new extensions were limited to 5% and replacements upto 10%, subject to uprooting of a corresponding area of old tea.

1.36 This is the background of the various control provisions in the Tea Act which even now under Sections 12 to 15 seek to control extension of tea cultivation. The Tea Agreement came to an end in 1955 but the control provisions continue, including licences for cultivation and for exports.

1.37 According to Tea Board, the number of cases of new planting was just ninety last year and extensions around hundreds only. Even otherwise there is no justification or rationale for continuing the system of permissions/approvals for planting etc. It is recommended that these regulations be dispensed with.

1.38 The Board feels that compulsory registration of estates would be necessary to facilitate the collection of comprehensive data on estates, production etc. According to the Board, information about estates would be required for undertaking developmental activities such as dissemination of information to growers on farm practices etc. The data base would also be useful when it becomes necessary to render help to small growers as in this year when it was decided to give subsidy to small growers. According to the Board, the data cannot be collected from the state governments; the experience shows that up-to-date data/information may not be available with the state governments, and not easy to collect either.

1.39 In the case of coffee and also spices, the relevant statutes provide for compulsory registration of estates with the state governments. The coffee registration certificate(CRC) is obtained by the grower as the CRC also serves as a record.

1.40 The Tea Board is of the view that in view of the many benefits of compulsory registration, the system of one time registration should continue especially when such a regulation would not also be a burden on the growers. However, it is admitted that even now only 70% of the growers are sending the returns and hence the data is not complete. As regards annual returns by estates, the percentage of compliance is said to be around 50% only.

1.41 One time registration may not cause any difficulty to growers but if the compliance is partial and the regulation cannot be enforced, then there is little justification to persist with the system. It is true that the experience of the Boards has been that information and data about area is not available with any degree of accuracy from the states. The census as proposed in Chapter II may offer a partial solution.

1.42 There are four other control orders issued under the Tea Act. These are discussed below:

The Tea (Marketing) Control Order - 1984

1.43 This order lays down that manufacturers have to obtain a certificate of registration and that the organisers of, and the brokers in, tea auction should obtain licences; that the manufacturers/organisers of auction and brokers have to maintain accounts in the prescribed manner etc. Compulsory auctions are held at seven places and the number of auctioneers and brokers registered with the Board are 8 and 19 respectively.

1.44 Some of the manufacturers of tea have been representing against a specific provision of the Control Order (Number 17) under which the Board has the power to lay down that not less than a percentage of tea manufactured by him in a year shall be sold through public auctions. The Board had prescribed a percentage of 75 % and only the tea marketed directly by the tea manufacturers in the form of consumer packs, green tea and direct export used to be exempted.

1.45 Neither coffee nor rubber nor spices are subject to such a condition of

compulsory sale through auction system. Even in the case of cardamom, where the auctions are conducted under the Rules of the Spices Board, there is no compulsion to sell only under the auction system, though nearly 60-70% of production is brought for sale through the auctions. The producers bring cardamom to the auction centers voluntarily because they perceive benefits from the auction system.

1.46 The objective behind the compulsory auction system was to ensure that producers got remunerative prices. The benefits of the auction system in the case of tea are obvious:

- (a) The quality of tea varies from garden to garden, season to season and from lot to lot, and hence the auction method provides a cost effective medium for obtaining the best prices.
- (b) In the auction system all types of traders including retailers and packers can participate and such wide participation will ensure better prices.
- (c) There is a guarantee of payments to producers on time.
- (d) The producer is assured of continual sale without build up of stocks.
- (e) The cost of sale to producer is low - less than 2% and the producer is assured of the best possible price for his produce.
- (f) In an auction system the sale prices are transparent and easy to monitor; in the absence of auctions, there will be scope for under valuation.

1.47 There is no doubt that a transparent auction system will be a boon to producers especially in the case of commodity like tea. The reservation of the producers is not against the auction system, but about the provision under which they had to sell a minimum of 75% of their production through the auctions. They are also not happy with some of the rules and practices prevailing in the auction system and they have been demanding a review.

1.48 According to some growers, the regulation under which a minimum of 75% of production had to be compulsorily sold through auction gave the buyers an unfair advantage and took away the freedom and flexibility to producers to optimise their returns. They have been representing that these restrictions are anachronistic and that it should be left to the producer to decide the medium of sale in his best interest including direct sale or through auctions. If sale through auction could give him better returns he would naturally prefer the system.

1.49 It had been argued that the present restriction on sale of tea except through auctions has been in operation for many years and that the restriction has not posed any problem to the producers. The argument that the auction system has been working well for nearly 100 years is no argument for not reviewing the many features of the system. Till 1960 only public warehouses were permitted but now private warehouses have come to stay.

1.50 The further argument has been that the producers have not been able to build up their own marketing outlet even though they were free to sell 25% of their production directly. This again is not an acceptable defence of the rule. The counter argument could be that the creation of a marketing network may be viable only if a higher percentage of direct sale is permitted. The other argument advanced is that without the auction system there will be anarchy in the market. But this surmise is not based on any sound reasoning. The apprehension of under invoicing is also unwarranted as in the case of other commodities, compulsory auction system is not there either. In case any tea manufacturer indulges in any malpractices, then there are enough

provisions in various statutes to take appropriate action against the erring tea manufacturer.

1.51 As regards the monitoring of wholesale and retail prices, the collection of such information shouldn't be difficult at all, even if there were to be no compulsory auction sale. The data in respect of all other essential commodities are collected every week by different agencies and the Tea Board itself gathers regularly data on retail prices at different centres every week.

1.52 Manufacturers/producers need to be given complete freedom to adopt any innovative marketing techniques to maximise their realisation. In fact most manufacturers will continue to bring their goods for sale through auction even without the compulsion.

1.53 Government of India have recently given freedom to the registered manufacturers to market their tea and there are no reasons to go back on this welcome initiative.

1.54 The growers also feel that some of the rules and many practices of the auction system need to be changed. A committee under the chairmanship of Shri S.S.Ahuja the former chairman and consisting of representatives of all sections had been formed to study the auction rules. The Committee had made certain recommendations. IIM Calcutta had also, after a study suggested some improvements in certain practices. The Board has since issued directions to all the auction organisers for the implementation of the recommendations.

1.55 Growers still feel that there are many other features of the auction system that are still in favour of the buyers and many improvements are definitely needed in the rules.

1.56 One criticism is that the auction practice allows little time for meaningful bidding to take place and hence the use of electronic consoles must be made compulsory (the names of the bidders will be then known only to the auctioneer). Another demand is that the minimum mark up should be increased to Re.1/-. The most important change wanted is that the lot quantity should not be divisible. This change, the producers feel, will prevent the possibility of any arrangement/understanding among buyers to share good quality teas at lower prices.

1.57 Tea Board may look into all these suggestions and demands and incorporate suitable changes in the system after wide consultation. The Board may also examine whether the lengthy time period prescribed for cataloguing is really necessary now-a-days. Further, the participation in auction is at present limited to registered buyers; whether participation can be made open also to small buyers in individual auctions, on payment of suitable security amount in advance may also be examined by the Board.

1.58 The implementation of all the changes recommended by IIM Calcutta, and by the Ahuja Committee and the further changes proposed by the growers may help to reassure the producers and allay partly the reservations about the fairness of the auction system.

The Tea Warehouse (Licencing) Order - 1989

1.59 This order prescribes that warehouses carrying on the activities of storing, blending or packaging of tea shall take a licence. The order is apparently meant to

regulate the storage of tea brought for auction, as the order prescribes the applicability in terms of distance from the auction hall in the towns/cities where the public tea auctions are held. The Tea Board has registered 130 warehouses of which 126 are situated within the prescribed distances of auction halls.

1.60 The order prescribes the specifications to which the warehouses shall conform to. All the conditions/specifications are reasonable and unexceptionable. Every warehouse storing agricultural produce shall have to meet certain specifications. The objective behind the prescription of the conditions is also clear- to ensure the quality of tea. But the basic issue is whether there is need for such licencing by the Tea Board of warehouses. The auctioneers' licences can prescribe the standards of warehouses attached to auctions. As regards other warehouses, there appears no need for regulation by the Tea Board. Regarding the maintenance of quality of tea, the regulations laying down quality, specifications and hygiene standards of tea can take adequate care of the concerns. Hence this control order need not be continued. However, the licences issued to auctioneers may lay down the specifications for warehouses attached to auction halls.

3. The Tea (Distribution & Export) Control order - 1957

1.61 This order prescribes that distributors and exporters shall take a licence. The order also contains provisions regarding packaging standards, size of chests etc. Even when there is an agreement between the foreign buyer and the exporter regarding packing materials as well as the sizes, the approval of the Chairman of the Tea Board will be required as per this control order. The objective of the control order is to ensure quality and prevent adulteration etc. While the control order may have been relevant long back when it was promulgated, it is no longer required or necessary. The packaging materials, standards, sizes of containers etc., obviously have to be left to the contracting parties. Distribution again need not be subject to registration. As manufacturers are subject to Central Excise control, subsequent marketing and distribution channels need not be subject to any licencing or controls.

1.62 As regards export licencing also, there is a need for review. At present exporters of all plantation commodities including coffee and spices are required to take a licence. The issue has been covered in Chapter II. Export licencing also may be given up at the appropriate time.

The Tea Waste (Control) Order - 1999

1.63 The purpose of this order is to ensure that tea waste is not passed off as tea. The order prescribes that tea waste can be used only as raw material for the manufacture of instant tea or caffeine.

1.64 There are two views on the desirability of continuing this order. One view is that misuse of tea waste can take place anywhere and such restrictions serve little purpose except to give unnecessary powers to bureaucracy over the manufacturers. The holders of this viewpoint argue that as the generation of tea waste will vary between one manufacturing unit to another manufacturing unit, the whole exercise

may result in avoidable disputes and give scope for harassment. Since the sale of any tea which does not conform to the specification for tea laid down under the Prevention of Food Adulteration Act 1954 is not permissible, and what is more punishable, a separate control order with licencing and inspection powers to Tea Board may not be warranted.

1.65 A contrary view is that the purpose of the control order is to prevent any tea waste going out of the manufacturing unit and If such control is not exercised there will be a possibility of tea waste being mixed with regular tea and sold in rural areas to gullible customers. Further the order applies to manufacturers who anyway are registered with the Tea Board and subject to central excise control also and hence the manufacturing units should have no difficulty in complying with the order and obtaining licences. According to Tea Board, during the calendar year 2000, sale / purchase permission for undenatured tea waste was given in around 1500 cases for 8.50 million kgs. Hence the volume of work to manufacturers is fairly large. The number of cases of denatured tea waste was around 200. The tea waste that is generated but not sold is either destroyed or used for compost purposes.

1.66 The reservation about this control order is mainly because of the power of harassment inherent in the order. There are two aspects; one is the right to destroy unsold waste i.e., the manufacturers should have the right to destroy the tea waste after giving notice to the Central Excise official and to the Tea Board, even if no Central Excise or Tea Board official is present to witness the destruction. The second is about the quantum of tea waste generated. The authority under the control order should be restricted only to the tea waste that moves out of a manufacturing unit and not extend to questioning the extent of generation of waste. If these two aspects are taken care of, then the opposition to the control order would be less. It is recommended that the control order may be modified to make the coverage of the order very restrictive and applies only to tea waste moving out of the factory for sale or other uses and does not apply to tea waste destroyed by the manufacturer.

Management and control of tea undertakings

1.67 Chapter III A of the Tea Act (Sections 16 A to 16M) deal with powers for management or control of tea undertakings or tea units by the central government in certain circumstances. The power extends to causing investigation to be made in relation to a tea undertaking or tea unit in certain cases. The central government after due investigation can issue directions to the undertaking/unit. The central government has also the power to authorise any person or body of persons to take over the management of the whole or a part of the undertaking/unit.

1.68 A few tea gardens have been under the management of Tea Trading Corporation of India under this provision. But the Corporation has not been able to turn round the estates; on the contrary the Corporation itself has become terminally sick.

1.69 The Tea Board has reported that as per the survey conducted by them, the number of gardens reported as sick/weak during 1998 in West Bengal and the Barak valley in Assam has come down considerably to 46 only, as compared to 75 estates reported in 1993. Even otherwise it is doubtful whether a change in the management

of tea estates brought about through these provisions of the Act will really yield any desired result. The normal commercial process of sale/acquisition of such estates is the prudent solution to sickness/non-viability/mismanagement. It is recommended that the provisions of Chapter III A of the Tea Act may not be continued or acted upon.

Schemes of the Board

1.70 During the 8th Plan period, the Tea Board was operating a number of loan and subsidy schemes. There were in all 15 schemes and the total outlay on these schemes during the 8th plan period was Rs 81.52 crores including Rs. 39.88 crores of subsidy.

1.71 The schemes under implementation for the present and the outlay during the last three years 1997/98 and 1999/2000 are as follows:

Name of the Scheme	Objective	Expenditure during the three years of the 9 th Plan (Rs in lakhs)	Comments
Plantation Development Scheme 1. Long Term loan-cum-subsidy scheme for extension planting, replanting and irrigation; interest charged at 18% with a rebate of 3% for timely repayment.	To motivate owners to undertake production oriented activities	1078.06	Comments given below
2. Tea processing & packaging scheme	Assistance for renovating and augmenting processing facilities. The co-op. sector is also assisted for setting up new factories, creation of facilities for packing, generation of power etc.	867.10	Comments given below
3. Tea development schemes for the North Eastern States; cultivation subsidy is given for planting.	The incidental benefit of the scheme is arresting Jhum cultivation and prevention of degradation of forests.	190.77	Hardly 600 hectares have been covered. The scheme may continue and a larger area be targeted to be brought under cultivation.
4. New Area development scheme - subsidy scheme at 25% of the unit cost	To encourage the setting up of new plantations in non-traditional area, other than North East	69.44	Though the subsidy amount is small, only 11 persons have been benefitted. May be merged with the small growers development scheme.

5. Small Growers Development Scheme	A comprehensive scheme involving subsidy for planting, imparting training to growers etc	240.10	The scheme may continue but subsidy may be given only for new planting/replanting and training may be given free for the duration of the plan period. All other services may be charged at actuals. However, under the special component plan and tribal sub-plan, the various remaining components of the subsidy scheme can continue.
6. Marketing development and export promotion scheme	The scheme is a hold-all scheme covering market research, brand promotion, production of publicity materials, import of machines for packet tea, tea bag etc.	777.10	Comments given below
7. Human resources development scheme.	The scheme covers strengthening of training centres, labour welfare scheme etc.	43.50	May continue
8. Research and development scheme	The scheme covers areas such as biotechnology, integrated pest management, quality improvement computerisation etc.	1931.57	All the schemes are important but the Board may constitute a technical committee to review periodically the implementation of the schemes and their outcome to ensure that the objectives are achieved and the results are satisfactory.

1.72

- a) The tea companies are permitted to retain 20% of their profits under Section 33 AB of the I T Act for ploughing back into replantation, rejuvenation etc. It should be possible for tea companies to find the resources required for replantation, rejuvenation, irrigation requirements etc., by setting aside funds during good years. In the latest Budget this provision has been further expanded and now 40% of the profits have been permitted to be set aside for development purposes.

Hence it may not be necessary hereafter for the Tea Board to make available loans for this purpose excepting to small and medium growers, who do not have the facility of 33 AB provision.

- b) The earlier practice of the Board crediting the loan recoveries to the Consolidated Fund and seeking fresh budget sanction for grant of loans has since been modified and the Tea Board has been permitted to utilize the loan recoveries (including the interest earned every year), for advancing fresh loans. The Tea Board may utilise the loan funds for granting assistance to small growers including to SC/ST applicants and to applicants from North East and only the surplus if any, may be given to medium size estates. The Board may like to ensure that the amounts retained by the estates for development have been utilised for replanting, rejuvenation, irrigation, plant improvement, modernisation of equipments and quality improvement measures.
- c) Irrigation development is essential; the scheme for encouraging irrigation development may continue.
- d) A major concern is the age profile of tea bushes in India. It is estimated that nearly 50% of tea bushes are over 40 years old and need to be replaced. However, the reluctance to do so, is because of the loss potential. The Tea Board therefore, feels that the replanting subsidy scheme should be continued. But the large tea estates have the facility of 33 AB. Perhaps Tea Board may after examination recommend to government that a part of the Development Account of the Tea companies, say 1/3rd of the amount shall be utilized only for replanting. Replanting is a dire necessary and if the tea companies are reluctant to take up replanting without some assistance, the possibility of increasing the cess amount to collect additional funds only for this purpose may be examined by the Tea Board.

The problem is acute in Darjeeling where nearly 75% of the bushes are over 50 years old. The Board may introduce a special scheme to encourage replanting in Darjeeling. The savings from the closure of foreign offices could perhaps be diverted for this purpose.

- e) The tea processing and packaging scheme may continue but the scheme may be confined to renovation of processing facilities including generation of power.
- f) A comprehensive package for quality improvements in the small and medium sector may be developed. The package may cover training in recent techniques in cultivation, training in plucking, improvement of Bought Leaf factories, establishment of quality control and testing labs and replanting of old bushes. Funds may be allocated on priority for quality improvement especially in the non-corporate sector.
- g) The marketing development scheme covers many activities and the subsidy is given for a wide range of activities. While the Board would be the best judge to decide where its resources are best utilized, it appears that subsidy is being given to large exporters also and for production of publicity materials, promotion campaign etc. The total subsidy given is also substantial. The benefit from such increased subsidy is not reflected in export sales. It is recommended that in future, the subsidy may be given only for quality improvement activities like the installation

of modern machinery for tea bags, ready to drink manufacture, promotion of organic tea, research on packaging materials etc. At best some support may be given for market research, surveys, and brand promotion. Allocation of funds for participation in fairs abroad may be given only to new exporters and that too for maximum two times. Subsidy for export marketing needs to be phased out as tea export is not a new activity.

Analysis of the existing manpower

1.73 The Tea Board unlike Coffee and Natural Rubber Boards do not have direct responsibility for research or extension. Hence, the staff requirement is limited. The staff strength has been coming down steadily in the last one decade as can be seen from the following Table 3.1.4.

Table 3.1.4. Staff strength of Tea Board

Group	Total Strength			
	1991	1995	1997	2000
A	38	43	44	44
B	65	67	71	69
C	438	390	381	371
D	311	256	272	256

1.74 Nevertheless there is surplus in various departments. As can be seen from Table 3.1.5, the development, marketing and promotion departments have surplus staff. Some of the tea Board offices have no useful functions to perform. The Amritsar office has already been closed. The Chennai office can be closed; also the Cochin office as there is an office in Kottayam. The licencing department will have little work after the withdrawal of all compulsory registrations and licencing. Little residual work if any can be managed with a handful of staff. Once the tea houses except in the parliament house and in the head office are privatised, there will be surplus staff in the promotion department also, if the tea house staff continue with the Board. The development department can manage with around 125 staff. Thus nearly a little over 150 staff will become surplus in course of time. As and when retirement takes place or VRS is introduced and availed, the surplus posts can be abolished.

Table 3.1.5. Activitywise distribution of staff in Tea Board

Nature	Officers	Staff activity
Marketing Promotion*	15	188
Licencing & Registration	4	66
Finance & Accounts.	69	185
Statistics, Administration etc.	3	23
Research	22	165
Development		

* Of these five are working in foreign officers and 72 staff are working in tea centres

Quality of service

1.75 The major activities of the Tea Board have been the administration of the Tea Plantation Development loan and subsidy schemes, the implementation of the various control orders, the overseeing of the foreign offices and the promotion of exports. This year the Tea Board was given the responsibility to distribute subsidy to the small growers to compensate for the steep fall in the price of tea in Nilgiris. But this will not be a regular activity.

1.76 The tea industry would like greater assistance from the Board for the development of the industry and in the promotion of tea abroad and in India. The industry would like the Tea Board to proactively take up the industry's problems with the government and help to reduce the tax burden. The industry has been apprehensive of possible dumping of tea from abroad and want the government to prevent this.

1.77 As regards research, the growers want the present system to continue i.e., the research institutes to remain under the control of grower associations. Hence the research activity of the Board would be confined to the Darjeeling region and Darjeeling tea and specialised research studies.

1.78 The industry definitely would not like the Board to interfere in marketing either. Thus the activities to be performed by the Board are limited.

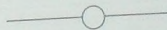
1.79 The Tea Board's main function is to interface with all sections of the industry - the producers, the trade including the auctioneers, and the consumers. The major role of the Tea Board will hereafter be facilitation. To improve the quality of its service to the various sections, the Tea Board will have to devote attention to the following aspects/issues:

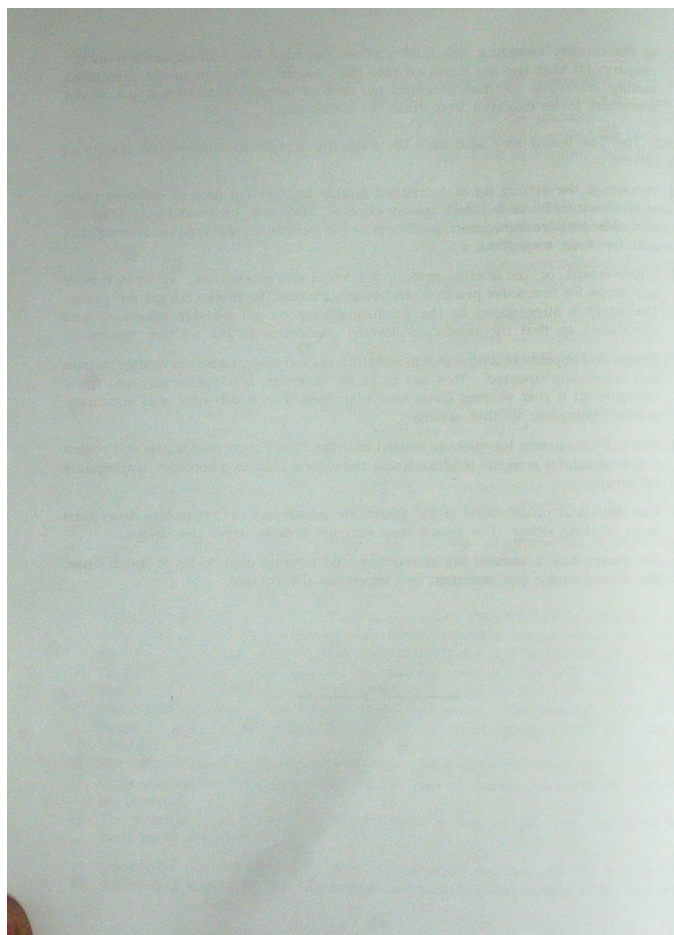
- a) Concentrate on productivity improvement. Increase of production is more likely through improvement of productivity in the existing plantations. A special scheme may have to be evolved to encourage the replanting of old bushes. Highest attention has to be paid to this aspect.
- b) Research studies obviously will have to continue. They may cover integrated pest management and plant protection measures, nutrition management and use of micro nutrients, use of bio control and bio fertilizers and biotechnology. Though research is being undertaken in the industry managed research institutes, the Board has to closely monitor the direction of research and the results.
- c) Small growers need to be trained in tea cultivation. The present efforts of the Board in association with UPASI have shown encouraging results and may be extended.
- d) The improvement of smaller tea manufacturing units including the factories in the co-operative sector from the point of view of quality improvement needs to be pursued.
- e) The training of tea labour including sardars, in finer tea plucking standards may have to be intensified.
- f) Quality aspects will need to be given highest attention. Towards this end, the Tea Board may ensure (1) the continuous monitoring of the quality of tea marketed

in the country including the quality of tea imported into and exported from the country, (2) that the tea imported into the country conform to the prescribed quality standards (3) that imported tea even if blended with Indian tea is not permitted to be exported from India as Indian tea.

1.80 The Tea Board may also take the following actions to improve the quality of its service:

- (a) encourage the setting up of accredited quality and testing labs in different parts of the country to facilitate quality checks: they can be used for certification also. Also prepare transparent guidelines for the recognition of accredited laboratories, and for their inspection.
- (b) Improvement of the auction system, the rules and procedures, so as to remove any scope for restrictive practices and to ensure that the producers get fair prices. The various suggestions of the producers may be got quickly examined and introduced so that the producers develop confidence in the auction system.
- (c) Design and implement a price and market information system which is comprehensive and constantly updated. This has to be on electronic mode obviously and made available on a cost sharing basis once stabilised. The Board may also encourage private enterprise in this activity.
- (d) Internet tea auction has already started in India. The Board may watch and review how beneficial it is to the producers and consumers alike and consider appropriate follow-up.
- (e) The statistical publications of the Board are useful but the enormous delay robs them of their utility. The Board may examine how to avoid the delays.
- (f) The Board has a website but it requires vast improvement to be of much use. The Board may pay attention to improving the content.





COFFEE BOARD

3.2.1 Coffee is the most important plantation commodity in the world. It is grown in over 50 developing countries, but mainly consumed in the developed countries. The world export of coffee had touched US 12 billion dollars during the year 1998, when the prices were ruling quite high. For many countries coffee is an important source of employment and incomes as well as foreign exchange earnings.

2.2 Commercial cultivation of coffee had started in India more than 100 years back but systematic cultivation started only in the last 60 years. Coffee research however, is over 75 years old.

2.3 At present coffee is grown in the country in nearly 3,40,000 hectares. Karnataka accounts for 57% of the area under coffee in India and 72% of production. Out of the total 1,40,000 holdings, nearly 1,20,000 holdings are with small growers cultivating less than two hectares. Kerala accounts for over 59% of such small growers. Of the total area, 35% are under large plantations - above 10 ha., and their total contribution to production is around 40%.

2.4 Apart from the 1,40,000 growers of coffee, the daily average number of persons employed in coffee plantations is estimated at a little over 5 lakhs. This is besides employment in the processing of coffee in the curing establishments and in marketing.

2.5 The Coffee Board, over the last four decades, has been able to encourage the cultivation of, and increase the area under, coffee. Consequently there has been a steady growth in production enabling the country to increase its exports and earn substantial foreign exchange.

Table 3.2.1. Growth of area, production and exports of coffee

YEAR	Area under cultivation (In hectares)	PRODUCTION (In tonnes)	EXPORTS		
			In lakh tons	In Rs. crores	Value in US \$ Min.
				7	15
1960-61	120320	68169	0.14	25	33
1970-71	135463	110231	0.15	214	273
1980-81	208269	118646	0.85	278	108
1990-91	270821	169726	1.00	587	187
1993-94	292467	212000	1.36	1467	452
1996-97	303821	205000	1.81	1900	447
1999-00	340306	292000	2.44		

2.6 Over 80% of India's coffee has to be exported, as domestic demand is still low; but India's exports constitute hardly 4% of world exports. Hence the scope for enhancing export is substantial.

Cess Collection and funds allocation to the Board

2.7 Coffee export has been subject to a duty of customs; at present it is levied at Rs. 0.50 per Kg. Coffee was subjected in the past to Central Excise also. However now

only instant coffee has to pay Central Excise. The State Governments levy either purchase tax or sales tax on coffee. Government of India had also collected in the past a special export duty on coffee. During the 12 years' period from 1976/77 - 1987/88 the total export duty collected from the sector was over Rs.400 crores.

2.8 The Central Government has been making available to the Coffee Board funds for developmental activities. The amounts collected during the last few years as duty of customs and the amounts made available to the Coffee Board under Plan and as Non-Plan grants is given in Table 3.2.2.

Table 3.2.2. Allocation of funds to Coffee Board and the cess amount collected
(Rupees in lakhs)

Year	Duty of customs collected	Plan outlay	Non plan grants	Total
1990-91	359.88	632		632.00
1995-96	550.03	732.85	585.00	1317.85
1996-97	606.11	730.00	550.00	1280.00
1997-98	786.41	2300.00	550.00	2850.00
1998-99	910.90	2300.00	1000.00	3300.00
1999-2000	1103.05	2400.00	900.00	3300.00

Constitution of the Board

2.9 The Coffee Act provides for the representation of all the interests in the Coffee Board including the labour and the consumers. As discussed in chapter two, the strength of the Board which is thirtythree now, could be rationalised. The membership could consist of the Chairman, three Members of Parliament and ten grower members, of whom six could be from Karnataka, one from Tamil Nadu, two from Kerala, and one from other states. Minimum eight, including two from Kerala may be small growers. There could be seven other members, - one to represent the domestic trade, two exporter representatives and two to represent labour and one curer representative. One technical and research expert can also be included. In case representation to states is proposed to be provided in the Boards, then three additional members, of which one each to represent Karnataka and Kerala States and one to represent other states may be included.

Organisation of the Coffee Board

2.10 The Coffee Board is organised on a functional basis with the following departments:

- a) Research
- b) Extension
- c) Market development - export and domestic promotion
- d) Quality upgradation and assurance.
- e) Accounts and administration.

2.11 The research department has, besides the main research station at Balehonnur, Karnataka, five regional research stations and eighteen demonstration farms. There is a separate Biotechnology unit at Mysore and one Quality Evaluation and Upgradation Centre at Hassan, apart from one at head office, Bangalore. The extension department has three zonal offices and nine regional offices and fiftyseven field offices. The promotion department runs fourteen coffee houses, of which five are located at places outside Delhi and Bangalore.

The Marketing mandate

2.12 The Coffee Act was enacted in 1942 when due to disruption of coffee exports because of world war II, the growers were facing enormous difficulties. Their problem was further compounded by the outbreak of pests and diseases. The view at that time, based on the model of the Agricultural Marketing Boards started in the developed world during the thirties, was that a Commodity Board taking over the entire production under its control, and marketing the crop in a regulated manner, would be more beneficial to the growers. Therefore the Act provided for compulsory pooling of coffee to the Coffee Board which then marketed the coffee abroad and domestically. In the year 1962, the International Coffee Agreement was negotiated and export quotas were determined for all members including India. The pooling system facilitated the easy and effective implementation of the quota system which continued to be operative till 1989, under successive Agreements. The export of coffee to non member countries and the sale of coffee in the domestic market was also managed by the Board in such a manner as to optimise the total realisation from the sale of coffee. The Coffee Board got the coffees cured, stored and then marketed through auctions. A point system was developed and refined over the years to ensure that the planters were paid in accordance with the quality, grades and the quantities of the produce delivered by them.

2.13 However with the collapse of quota system in 1989, the prices plunged to very low levels. There was dissatisfaction with the pooling system, as the identity of coffee was getting lost and innovating marketing was not possible. The growers also felt that the pooling system was not conducive for the improvement of quality. Due to the persistent demand of the growers, the pooling system was dismantled during the period 1993-96, in phases. At present the growers are free to process and market their coffee.

2.14 During the period the pooling system was in operation, the Coffee Board was maintaining two Accounts - The Pool Fund and a General Fund. The Pool Fund was an independent Fund and all transactions on account of purchases, processing, curing and sale of coffee as well as payments to growers were accounted in the Pool Fund. Periodic payments, after an initial payment on the pooling of coffee to the Board, were being made to growers as and when the coffee was being sold. With the dismantling of the pooling system, the elaborate marketing organisation established by the Board to collect, cure, store, and auction the coffee had become superfluous. A Voluntary Retirement scheme was introduced and most of the marketing employees took advantage of the scheme and left the services of the Board. Thus the Pool Marketing that used to be the major activity of the Coffee Board came to an end in the last few years.

A review of the activities

2.15 The present activities of the Board can be broadly classified under :

- a) Research and development
- b) Extension
- c) Market development - export and domestic promotion
- d) Processing and quality improvement.

Research and development

2.16 Coffee Research is nearly 75 years old in India. The first major steps in organising research efforts to tackle various pests and diseases afflicting the coffee plantations was initiated by the United Planters Association of Southern India. An exclusive research station for coffee was established in 1925 and the experimental station was taken over by the Board in 1946. Five more regional stations have also been established for location specific research. The Research department has also established a Tissue Culture and Bio-Technology division in addition to a training section.

2.17 There is hardly any research work or activity being carried out on coffee in the private sector or in the universities either. Hence, the Research activity has to continue as the core activity of the Board, but requires considerable strengthening and more focussed attention.

Extension

2.18 Extension service complements research and an effective extension machinery and network is necessary for the dissemination of the research findings. Popularisation of new high yielding varieties, best cultivation practices, appropriate pest control and harvesting techniques are essential for achieving higher productivity and thus an efficient extension machinery can contribute to the healthy growth of the plantation industry.

2.19 The Extension division of the Coffee Board is organised into five broad areas - Karnataka, Kerala, Tamil Nadu, Non-traditional areas and North Eastern states. The entire country is further divided into regions and each region into liaison zones.

2.20 Coffee growers are highly motivated and the literacy levels are high. Nevertheless the growers perceive the extension activity to be important. Though the extension machinery has delivered satisfactory results all these years, the emphasis had in the last few years, shifted to the administration of development schemes, especially subsidy programmes. An independent Evaluation Committee constituted by the Coffee Board in 1996 had commended the efforts of the extension department in the control of berry borer which is a serious pest; but the Committee had also observed that "the performance seems to have been overshadowed by loan recovery responsibilities". The Committee had further to add "that the extension work appears to have turned to be more ritualistic than productive". Another comment was that "the technical service output appears to be far less than the potential of the extension personnel".

2.21 In addition to translating the research findings to the field and to the growers, the real challenge to the extension department lies in the dissemination of post harvest techniques and practices which affect the quality of coffees. But as observed by the Committee, the extension department has been devoting attention to loan and subsidy schemes which might have detracted their focus from their main function and activity. In the last three years there have been hardly any subsidy schemes being implemented. Even otherwise the extension department ought to concentrate on the basic task of transferring research technology to the growers.

2.22 The Coffee Board has been experimenting with participatory workshops with growers' groups. This method has proved effective and is well liked by the growers. Some improvements may be necessary but the growers have been appreciative of the new methodology of extension; they want even research scientists to participate in the workshops and answer their queries and clear the doubts.

2.23 Extension activity has a useful role but the service has to become a knowledge based activity. There is also no need for many levels of supervision. The hierarchical levels for the purpose of supervision can be reduced to three in the traditional areas. In the non-traditional area the extension staff can be strengthened with the deployment of the surplus staff from the traditional area.

Market development and promotion

2.24 With the abolition of the pool marketing system, Coffee Board's marketing activity has been reduced to collection of data and information about world market trends, prices, and such other information which are useful to growers and exporters. However Coffee Board assists exporters in many ways such as through participation in international fairs, special promotion efforts for organic and specialty coffee, etc.

2.25 The Marketing activity hereafter will have to be a knowledge based activity whether it is publication of journals, innovative efforts at improving the image of India's coffee or market research. Hence the quality of manpower for these tasks has to be very specialized and knowledgeable. Such expertise cannot be developed inhouse. It may be better to outsource the tasks depending upon the specific needs and tasks. These activities have become important and the Board can undertake these activities through contract services of outside experts, as that will be more productive and very cost effective also.

Export permit systems

2.26 At present, coffee exporters have to not only obtain registration but also seek permits for exports. Such a system is not prevalent in the case of either tea or spices. Though permits are given on an automatic basis, the procedure nevertheless involves cost. The Board feels that the system helps in the collection of data on a day to day basis and not only on the quantities exported but also very useful information about grades and types of coffee exported. Further, destination wise data is important and the permit system enables all such data to be collected in real time. The Board's further argument is that as permits are given in a day's time and almost automatically, there should be no reason to withdraw the system as no exporter has any complaint of harassment or delay or arbitrariness.

2.27 The issue is not whether there is any problem in obtaining permits; there is a cost involved in any transaction. The objective which the permit system aims to fulfill can be achieved if a copy of the export shipping bill can be made available to the Coffee Board. All the details and data which the Board wants can be included in the Export Shipping Bill. It is therefore recommended that as soon as the system can be introduced under which the Coffee Board can be furnished with or can obtain a copy of the Export Shipping Bill, the permit system may be discontinued. The system of exporter registration can also be discontinued as soon as DGFT and Customs complete their computerization programmes.

Domestic promotion

2.28 Domestic promotion of coffee has been one of the major activities of the Board for many years and the Board used to run many coffee houses/vans. Even at present 11 coffee houses and three coffee depots are being run by the promotion department employing in all 129 staff. The purpose of starting the coffee houses and vans was to popularise coffee consumption in major metropolitan cities. Pure coffee also used to be sold through these houses/depots. These promotional measures may have helped to increase the taste for good coffee; however these efforts have not really succeeded in promoting domestic coffee consumption. From the Table 3.2.3 below, it can be seen that there is hardly any growth in domestic consumption of coffee over the years.

Table 3.2.3. Export and domestic sale of coffee

(In tonnes)

Year	Total Production	Exports	Estimated domestic consumption
1990-91	1,69,726	1,10,000	55,000
1995-96	2,23,000	1,70,990	50,000
1996-97	2,05,000	1,81,225	50,000
1997-98	2,28,300	1,79,053	50,000
1998-99	2,65,000	2,11,621	50,000
1999-2000	2,92,000	2,44,834	50,000

2.29 Domestic coffee marketing has always been in the private sector. Their efforts in popularising coffee, albeit their own brand of coffee, - both fresh coffee as well as instant coffee - through advertisements and other promotion campaigns at a huge cost, running into crores of rupees, have done far greater service for coffee promotion than Coffee Board's efforts. The Board's coffee houses are being run more like canteens and most of the revenues are from the sale of eatables etc. The coffee houses put together excluding the coffee house in Parliament House incurred a huge loss of Rs.98.85 lakhs during the year 1999/2000 after taking into account all the staff expenditure. These coffee houses can be progressively privatized, starting with the loss making ones and only the two coffee houses in the Parliament House and in the Coffee Board Head Office may be continued. There will be then substantial cost savings to the Board.

Processing and quality upgradation

2.30 Coffee is processed in two ways and sold as parchment and cherry. The price depends upon market perception about the quality of different grades and varieties of coffee. There is considerable scope for improving the quality of indian coffee. The parchment commands much higher prices, but the preparation of parchment coffee entails additional cost and involves a process, needing water and strict quality control. The preparation of washed coffees is much more in Arabica than in Robusta. Nevertheless the price advantage justifies greater thrust on preparation of parchment coffee. Export price depends on many factors, including the ability to ensure sustained supply as well as maintain consistent quality. The perception of trade is that there has been improvement in the quality of indian coffee over the years and that is why, the difference in prices between indian coffee and coffees of other origins has narrowed down in recent years and that in the case of Robusta Parchment, the premium over other coffees has gone up.

2.31 Coffee Board has been bestowing attention upon improvement of quality especially on better post harvest techniques and the modernization of curing houses. The Board has been contemplating logo certification for indian coffee and this process can be made an effective instrument for ensuring high quality standards. The Board may also examine whether prescribing minimum quality standards for exports would not help to gradually improve the image of indian coffee and incidentally help to increase the average unit realization.

2.32 Coffee Board has been implementing some schemes for quality upgradation including process improvement. Coffee curing plays an important role in ensuring quality and the Board may consider making use of the Logo scheme to encourage quality processing by restricting the grant of Logo only to such coffees which are processed in certified curing houses only.

2.33 Quality certification will become increasingly necessary in the coming years but this activity need not be undertaken by the Board. But accreditation will be necessary and for this purpose the Board may establish the norms - the equipments required, the number of qualified personnel to be in position etc.- and lay down guidelines, for recognition of such certification labs. A transparent procedure for initial verification and periodic inspection of such quality labs also needs to be evolved soon by the Board.

2.34 The inability of the exporters to offer minimum quantities of the same cup quality is a handicap which has to be overcome. The Board may evolve a scheme for documenting the cup quality of the coffees of different estates so as to facilitate the aggregation of coffees for supply to overseas roasters so that the country could realise better prices for coffees.

2.35 The demand for organic coffee is picking up and it may be necessary to extend some assistance to growers to encourage them to take up the production of organic

coffee, as the returns to growers will be less in the initial period. The cost of certification will also be an additional expense. Hence a comprehensive programme of assistance including subsidy towards the cost of certification, assistance in the printing of brochures and in marketing may be necessary. The Board could help in sending literature and brochure about Indian organic coffee to potential foreign buyers and thus help in popularising Indian organic coffee. The National Standards for Organic Coffee are expected to be announced soon and the system of certification has to be made easy so as to reduce the cost to growers.

Schemes of the Board

2.36 The Board has been operating a few development and promotion schemes. Some of the loan schemes such as intensive cultivation loans, replanting loans, special purpose loans have been continuing for over two decades. Some schemes like crop hypothecation loans and assistance for purchase of equipment were also being implemented. All these loan schemes have been discontinued since the middle of the 8th Plan period.

2.37 The Board has also been operating till the 8th plan, a few subsidy schemes to encourage planting/replanting and thereafter the subsidy schemes were discontinued. Replanting of old bushes needs to be encouraged as a large percentage of bushes are quite old, but the replanting subsidy scheme was not continued for want of funds. The only subsidy scheme being implemented is the water augmentation scheme.

Scheme	Objective	Subsidy given during the period 1997- 98 to 1999-2000
Subsidy for water augmentation; started in 1994-95.	Provides 25% of the cost as subsidy to encourage growers to take up water augmentation	Rs. 193.99 lakhs

2.38 Since irrigation is the key to productivity improvement, the scheme may continue. As regards the schemes to encourage replanting/intensive cultivation, the Board may work out a scheme to encourage the replanting of old bushes, as that is the best way to achieve optimum improvement in productivity. Since replanting would result in a loss for some years, some assistance may be in order only for replanting of old bushes. The scheme could also be in the form of interest subsidy.

2.39 Quality improvement schemes would need to be continued including schemes for post harvest technology, assistance for setting up labs and tasting centres, promotion of organic coffee, etc. The adoption of recommended growing, storage, and processing practices to help avoid defects in the cup needs to be popularized and for this purpose the training of growers and processors, has to be given priority.

2.40 The Board is implementing a number of schemes in areas of export promotion. The recommendations in respect of these schemes, which are listed below, is given against each of them.

Name of the Scheme	Objective	Expenditure during 1997/98 to 1999/2000 Rs. in lakhs	Comments
Market intelligence unit	Trade information, website, etc.	126	Important services; may continue.
Auction Centres	Creation of physical infrastructure for conduct of auction.	0.07	Will be taken up two-three places only.
Warehouse	To provide modern warehouses.	0.84	Will not be necessary to continue the scheme once the tasks are completed.
Export promotion	Participation in fairs inviting delegations, developing CD rom.	0.99	May continue but in the case of participation of fairs, the cost may be recovered from participants, though the Board may facilitate the participation, make arrangements, etc.
Internal promotion	Conduct of workshops, publications of periodicals etc.	0.81	The activity may be confined to publications, research studies etc.
Quality evaluation	Analysis of samples, training personnel etc.		Important activity. May be necessary in all production centres. The Board may encourage with some capital subsidy, the private sector to set up such centres in all others places.
Demonstration plots	For transfer of technology	0.02	Only little expense is involved. May continue.
HRD programme		1.67	May continue. But the subsidy for subsidiary occupations like bee boxes etc., may be discontinued.

Analysis of the existing manpower

2.41 The employee strength of the Board was considerably reduced when the pooling system was discontinued, as a large number of marketing staff left the services of the Board on VRS. Most of the posts were abolished. However 49 employees of the erstwhile marketing department decided to continue in the services of the Board and they have been accommodated in different departments. Even otherwise there is considerable surplus staff in the Board. The strength of the various departments is as follows:

Table 3.2.4. The manpower of Coffee Board

Department	Officers (Gr. A & B)			Group 'C' Staff			
	Technical	Scientific	Ministerial	Technical	Scientific	Legal/ Statistical Professional Library	Admini- stration, Accounts
Research	7	48	4	40	37	1	70
Extension	80	—	2	144	—	—	7* 151
Administration	—	—	11	—	—	5	104
Marketing/ Promotion	1	—	3	—	1	—	34* 19
Total	88	48	20	184	38	6	385

* Field

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Group 'A' & 'B'	156
Group 'C'	613
Group 'D'	288 + 49* = 337
TOTAL	1057 + 49* = 1106

*Daily wages conferred with temporary status.

2.42 Of the total staff, the promotion department employs in all 129 group C and D staff in the coffee houses. When some of the coffee houses are privatised, the staff of those coffee houses will become surplus, if they continue in the services of the Board. The surplus in other departments is mainly in the non-technical cadres and mostly in administration and in the extension department. It is estimated that the surplus in the ministerial cadres will be approximately around 100 in the group D and around 100 in the group C cadres in all the departments put together, excluding the coffee houses.

2.43 In the extension department also there will be a surplus. The change in the method of delivery of extension services and the increasing use of virtual offices will result in some redundancy in the field cadres especially in group C category. It has been estimated, that atleast a third of the posts can be abolished as and when the wastages occur.

The functioning of the research programmes and R&D centres

2.44 The Board has its main research centre at Balehonnur in Karnataka, one of India's oldest agricultural research centres. The centre's main achievements include the establishment of a massive gene bank, the development of a few successful selections which have helped to improve yields, evaluation of biocontrol of coffee berry borer which is a serious problem, standardization of vegetative propagation techniques, establishment of tissue culture lab and standardisation of protocols for rapid multiplication etc.

2.45 Apart from the main research station at Balehonnur, the research department has five subsidiary research stations one each in Tamil Nadu, Kerala, Karnataka, Andhra Pradesh and North East. In addition the tissue culture division is operated as a separate station at Mysore. The strength in these stations is, in all 132 technical, scientific, and field staff and 120 in the administration, accounts and other support functions. There are also 18 Coffee Demonstration Farms in different zones.

2.46 The Research Programmes have been reviewed by an Evaluation Committee in 1996. This is the fifth in a series of periodical evaluation of the research programmes of the Coffee Board. The Independent Evaluation Committee has opined that coffee research has progressed more as a routine and repetitive work from year to year.

2.47 Research in a perennial crop like coffee will be a long time effort and will have to be a continuous activity as any safe and sound evaluation and recommendation will be possible only after many years of field trials and data generation of any selection, either for yield or drought resistance or biological control. The research department has claimed the following major achievements to its credit

- (a) The release of high yielding semi dwarf Arabica variety - *Cauvery*.
- (b) Standardization of vegetative propagation techniques through stem cuttings in cross pollinated robusta coffee.
- (c) Standardization of the method of top working for conversion of off-type and unyielding plants in established fields.
- (d) Successful development of biological control of mealybug
- (e) Development of a cost effective method of lime spray to the coffee stem for the control of coffee white stem borer.

2.48 The research department has claimed that many farm practices have been standardized and techniques transferred to growers.

2.49 While the performance may be satisfactory, much more could have been achieved in the research institute as reported by the Evaluation Committee a few years back. The growers have been hoping for some better varieties and some more productive work in the areas of pest and disease control.

2.50 A quick review indicates that the weaknesses in the following areas persist:

- (a) Strengthening of the technical and scientific staff at the research stations;
- (b) Improvement of physical facilities and infrastructure in the research farms and demonstration farms.
- (c) Close working relationship between research and extension wings;
- (d) Transfer of post harvest techniques and practices to growers.

2.51 It is recommended that the Board address these issues on priority. The Breeding programme is the key area that requires close attention and high quality human resources. It is recommended that the Board deploy more scientists and devote more resources to strengthen this crucial area of research. It is also recommended that the physical facilities which are not in good shape at Balehonnur be improved.

2.52 The coffee research institutions are located in remote places and to sustain the motivation of research personnel, improvement of physical infrastructure at work space and facilities for good living are essential. The scientific and technical staff have also to be given better deal in terms of facilities and perquisites.

2.53 The administrative system at the research station needs to be strengthened and tightened. It is recommended that to ensure proper direction at the Central Coffee Research Institute, the director with full authority may be posted at the Institute but he must be made fully responsible also. The Board may also review the implementation of the Evaluation Committee's other recommendations for implementation.

2.54 The Research department is implementing, inter alia, the following important programmes and they need to be continued.

- (a) Production of improved planting material for identification of elite types in Robusta and Arabica selections and to establish clonal seed plots.
- (b) Cataloguing and conservation of coffee gene pool.
- (c) Biotechnology project – for studies on clonal multiplication through micro propagation to undertake research on DNA markers for improving the efficiency of conventional breeding.
- (d) Project for physiological aspects of Biotic and Abiotic stresses for increasing coffee productivity.
- (e) Integrated management of coffee leaf rust and other diseases.
- (f) Project on national mission on control of coffee berry borer (which is a major threat to coffee plantations now).
- (g) Post harvest management including survey and studies on pesticide and mycotoxin contamination of coffee.

2.55 While the projects need to be supported fully, a close monitoring of the work on the projects and the results on an annual basis by an independent technical team is recommended to ensure that the projects are on course and purposeful.

2.56 The performance of the demonstration farms needs to be improved. If they have to serve as demonstration farms, they have to become ideal estates, adopt the best cultivation practices and achieve high productivity. But the actual performance has been far short of expectations. A definite target for improvement has to be set so that the demonstration farms can become really demonstration centres.

2.57 The total expenditure on research, during the last five years is as follows:

Table 3.2.5. Total expenditure on coffee research

(Rs. in lakhs)

Year	Establishment including expenditure on staff	Capital expenditure	Other expenditure	Total	Total Budget of the Board
1995-96	122.49	161.62	109.16	393.27	2689
1996-97	173.01	35.64	165.69	374.34	3147
1997-98	94.78	194.29	221.03	510.10	4808
1998-99	238.22	132.28	193.60	564.10	4120
1999-2000	278.31	33.99	266.67	578.97	4845

2.58 The research and extension departments' performance can be partly judged from the improvement in productivity achieved over the years.

Table 3.2.6. Increase in coffee yields over the years

(in kg/ha)

Year	Arabica	Robusta
1980-81	625	623
1990-91	722	795
1995-96	860	982
1996-97	724	997
1997-98	760	832
1998-99	678	1055
1999-2000	815	1065

2.59 The yield of coffee increases especially Robusta yields, with assured irrigation. A part of the increase in robusta yields over the last decade is particularly due to widespread usage of irrigation. The area under irrigation has increased from 30,000 ha. during 1990/91 to 40,000 ha. in 1995/96 and 60,000 ha. in 1999/2000.

2.60 Substantial improvement in productivity levels is possible. The growers are hoping that promising high yielding varieties which are also resistant to pests will be developed by the institute soon.

Quality of service

2.61 The Coffee Board was everything for the growers for many decades, as the Board was looking after every aspect of the industry, from production to processing and to marketing. In the last few years the major functions of processing and marketing have been shed.

2.62 The growers now want the Board to concentrate on research and expect the research station to succeed in developing a few selections of high yielding varieties, especially pest resistant varieties. The major complaint of the grower community has been that the Board's research institute has not been able to show any worthwhile results in this area. Pests and diseases are becoming a serious problem and this is another area where the growers want the research department to come out with positive results. The low market prices for coffee is the biggest problem for the growers now. Apart from that, the prospect of competition from low cost overseas competitors has been causing serious worry. Hence the emphasis by the growers on high yielding varieties and control of pests. The real service that the growers want and expect from the Board is in these two fields. The Board has to pay utmost attention to the functioning of the research department and ensure that the research stations do come up with some positive results.

2.63 The organic coffee growers also want the Board to subsidize inspection and certification fees and assist in marketing, through publication of brochures to popularize their organic coffee. The growers also want special assistance for promoting specialty coffee, which is a growing business. The Board may continue its present scheme of assistance for export promotion of such coffees.

2.64 The growers would want the extension support to growers to be continued. The Board's participatory workshop method is a welcome initiative and will help the Board to extend high quality extension support. The Information Cells for the establishment of which the Board has given some assistance, is another effective way of assisting the growers. Such cells can be upgraded as virtual extension offices, once the Board's web site is revamped.

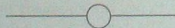
2.65 An area of major concern is the age profile of coffee bushes; a large percentage of bushes is over 50 years. The replanting of old bushes needs to be encouraged in a systematic way. The Board may have to evolve an effective scheme to realize the important objective.

2.66 There is considerable scope for expansion of area in the non-traditional area, especially arabica cultivation. The Board may ensure that the cultivation and processing in such areas is given all the help. In the initial years, processing units could be subsidised in those places, as a measure of encouragement.

2.67 The Board can render an important service to the industry by encouraging the establishment of cup tasting and quality evaluation centres in important production areas. This facility coupled with the profiles of coffee estates being compiled, will enable the exporters to source the coffees of the same taste and quality of the grades they are interested in and offer to the overseas roasters significant quantities of coffee which is so essential to generate purchase orders for even good coffees.

2.68 Internet coffee auction of specialty coffee has started. The Board may keep a watch on the development and if such coffee trading becomes popular, devise a method to help the traders to participate in such coffee auctions.

2.69 The trade information service requires vast improvement as also the website of the Board www.indiacoffee.org. The Board would do well to engage professionals on contract to improve the quality of these services.



NATURAL RUBBER

3.3.1 Natural Rubber is an important industrial raw material. The major use of natural rubber(rubber) in India is in automotive tyres which consume a little over 50% of domestic production. Other uses are in cycle tyres, belting, footwear and rubber goods. In view of the importance of rubber especially for the transportation sector, the Government of India enacted the Rubber Act in 1947 providing for the development of the rubber industry, under the control of the Union.

3.2 The major functions of the Rubber Board, constituted under the Rubber Act are to undertake and encourage scientific, technological and economic research, supply of technical advice to rubber growers, to improve the marketing of rubber and to secure better working conditions and improved amenities and incentives for workers.

3.3 The Rubber Board has done commendable work during the last five decades and through its research and development and extension machinery has been able to encourage the growth of cultivation of rubber, as well as improve land productivity. The area under rubber which was only 75,000 hectares in 1950-51, increased to 2,84,000 hectares in 1980-81 and by 1990-91 increased further to 4,75,000 hectares. The area under rubber is now estimated at 5,58,584 hectares. The production has also been steadily improving i.e., from 15,830 tonnes in 1950-51 to 1,53,100 in 1980-81 and to 5,06,910 by 1995-96 and 6,22,265 tonnes in 1999/2000. Rubber is mainly grown in Kerala, with one district, Kottayam alone accounting for 1,10,000 hectares under rubber. Kerala's contribution to country's production is over 90%. In the recent years, cultivation has picked up in Tripura. The potential for cultivation of rubber in North East is very high.

3.4 Small growers dominate the cultivation of rubber. There are nearly 9.48 lakh small holdings (< 2ha.) accounting for 75% of area. The number of estates with over 20 hectares is only 321, accounting for 70,000 hectares. The industry also employs in the plantations, on an average around 3.5 lakh workers daily and hence the industry is important from employment point of view also. Rubber is also subject to purchase tax/sales tax by the states and thus contributes to the revenues of state governments also.

Growth of the industry

3.5 While the demand for rubber has been growing within the country in tune with the growth of the economy, the steady increase in production matching the growth in demand has enabled the country to remain fairly self sufficient in rubber, reducing the necessity to import rubber. The details of the area under cultivation, productivity and imports, are given in Table 3.3.1.

Table 3.3.1. Growth of Natural Rubber production and productivity

year	area under plantation (in hectares)	production (in tonnes)	productivity (in kgs/ hectares)	imports (in tonnes)
1960-61	143905	25697	365	23125
1970-71	217198	92171	653	2496
1980-81	284166	153100	788	9250
1990-91	475083	329615	1076	49013
1995-96	524075	506910	1422	51635
1996-97	533246	549425	1503	19770
1997-98	544534	583830	1549	32070
1998-99	553041	605045	1563	26413
1999-2000	558584	622265	1576	16436

3.6 The import of rubber has been under restriction till recently as a measure of protection to the domestic industry. However there have been some imports to meet the demands for special grades of rubber, and under advance licences against export of tyres Occasionally to meet the deficit imports were being permitted. The price of rubber, after reaching high levels, during 1995 and 1996, started climbing down from the middle of 1997 and have remained at low levels since then. In fact for the first time, in many years, the domestic prices went even lower than the international prices.

3.7 In order to help revive the prices, Government of India directed the State Trading Corporation of India to procure rubber so as to reduce the surplus in the market and improve the prices. The Government of India also took subsequently the extra-ordinary step to ban the import of rubber against even advance licences and directed the holders of licences to procure the material from STC. The Government however made available the required grades at international prices so that exporters were not at all disadvantaged and absorbed the difference between the cost and the sale price to exporters. The domestic price has however not been improving because of a slackening in the growth rate of domestic demand for rubber. The world situation is no better: The International Natural Rubber Organisation has also discontinued its buffer stock operations (please see Part II) consequent upon the termination of the International Natural Rubber Agreement.

3.8 Though the rubber growers have been facing difficulties during the last three years because of the fall in the price of rubber, the growers have been receiving remunerative prices in the past, thanks to the protection given to the industry against imports. As could be seen from the Table 3-3-2 below, the domestic prices have remained at higher levels than the international prices during the last twenty years. This was of course the incentive as well as the motivating factor for the area expansion of rubber, which helped to increase production during the last two decades. A study by the Centre for Management Development, Trivandrum on the World Bank assisted India Rubber Project, has brought out that the main reason for undertaking rubber cultivation has been its economic advantage over other crops.

Table 3.3.2. Natural Rubber Price in India and abroad

Year	Average price for 100 kgs (in Indian rupees)	
	Indian Price RSS 4	International Price RSS 3
1981	1423	872
1986	1670	988
1991	2128	1796
1992	2463	2457
1993	2546	2538
1994	3107	3455
1995	5059	5030
1996	5122	4764
1997	3988	3614
1998	3013	2884
1999	2997	2664
2000	3125	3007

Resources-collection and allocation

3.9 Under the Rubber Act, a duty of excise as a cess, is payable on all rubber produced in India and shall be collected either from the owner of the estate on which the rubber is produced or from the manufacturer by whom such rubber is used. The cess is now levied at the rate of Rs.1.50 per kg on the users. At the current price level, it constitutes a little over 5% of producer's price. The total funds provided to the Board as against the cess amounts collected and the internal resources generated by the Board are given below in Table 3.3.3.

Table 3.3.3. Resources collected by way of cess and the funds allocated to the Rubber Board

(Rupees in Crores)

Year	Plan assistance	Non Plan grant	Total	Cess collected	IEBR
			48.88	43.58	11.32
1995-96	35.50	13.38	56.43	47.00	12.35
1996-97	42.09	14.34	70.73	48.20	13.57
1997-98	59.91	10.82	83.23	50.05	12.74
1998-99	70.97	12.26	92.75	75.56	14.79
1999-2000	79.91	12.84			

3.10 The central government have been financing the promotion of rubber cultivation and the development of the industry, through plan assistance and non plan grants. As can be seen from the above table, the Central Government have been allocating more funds for the development of the industry than the cess amounts collected every year.

Constitution of the Board

3.11 The Rubber Act provides for the constitution of a Board consisting of 25 members including the Chairman. Among the Boards, the Rubber Board has the smallest strength. Of the members, 10 (2 from Tamil Nadu, and 8 from Kerala) are to represent the rubber producing interests and 10 more members are to be nominated by the Central Government, of which 2 shall represent manufacturers and 4 Labour.

3.12 Over the years, the cultivation of rubber has gained importance in other states, mainly in Tripura, besides Karnataka. Today the area under cultivation is more in Tripura and in Karnataka than in Tamil Nadu. The tyre manufacturing sector continues to be the major consumer of rubber. It is recommended that the number of grower representatives may be 10, of which 8 could be from Kerala, and of the other two, one grower representative may be alternatively from Karnataka and Tamilnadu and similarly one grower representative alternately from Tripura and other North Eastern States. Among the grower representatives, maximum two, could represent large estates; the election procedure could be given up. As regards other interests, one representing automotive tyre sector, one representing other consuming interests, one representing the processors and one representing the dealers and two representing labour could be nominated. One technical or marketing expert could be another member. Thus the overall composition of the Board would be 21 including 3 Members of Parliament. If it is decided that nominees of state governments have also to be appointed, then there could be a nominee of Kerala government plus one more nominee, by rotation, of the three other major producing states.

Organisation of the Board

3.13 The Board is divided into eight departments broadly corresponding to the activities of the Board, Administration being an independent department, separate from Finance and Accounts. In the field there are three zonal offices, six supervisory offices, 40 regional offices and 172 field offices. There are also 12 regional research stations, two breeding substations, besides the main research station. The licencing department has nine offices located throughout India.

A review of the activities

3.14 The activities of the Board can be broadly grouped under:

- a) Research
- b) Rubber Production
- c) Processing and Product Development
- d) Licencing
- e) Training and Technical Consultancy
- f) Statistics & Planning
- g) Administration, Accounts, Labour Welfare etc.

Research

3.15 Research is a major activity and has been given great importance and obviously should continue to be the core activity of the Board. No other central or state government organisation nor any university has the facility or the expertise for undertaking research activities in rubber. The subject is discussed in detail in a subsequent part.

Rubber Production

3.16 The Board has given the highest importance to this activity as, according to the Board, the success achieved in increasing the area under rubber and improving the productivity has been entirely due to the excellent and effective extension system and machinery developed by the Board. The extension staff have been able to transfer the technology of rubber production to the field and educate and train the growers to adopt the best cultivation practices. The production department also runs the nurseries. The expansion of rubber cultivation in North East is another example of the successful service rendered by the department.

3.17 The department has established a large organisation for discharging its responsibility. There are 3 zonal offices including 2 in North East, 7 supervisory offices, 41 regional offices (15 in the non-traditional region) and 172 field offices. In addition, the department runs 23 tappers training schools, 15 nurseries and 5 District Development Centres. The justification for this elaborate, many tier field setup is said to be the policy of decentralisation followed by the Board, especially the decentralisation of the administration of the subsidy schemes as well as the decentralisation of the supervision of the work of field offices. The purpose of establishing so many field offices is to ensure that the extension staff are close to the growers. However, these are not offices in the conventional sense; no supporting staff is provided.

3.18 The field offices have been implementing the plantation development scheme, started in 1979 and under which so far, nearly three lakh hectares have been covered (planting and replanting). The field machinery also visit nearly 1,75,000 holdings and transfer farm technology to nearly a lakh growers. The department's functions include also assistance for primary processing.

3.19 The production department has justified the vast extensive network on the ground that it has to reach nearly 9 lakh growers. The rubber growers are a well motivated and knowledgeable community; in fact over 97% are literate. Hence it should be easier to communicate with them and also disseminate the research technology and farm practices to them.

3.20 In the coming years, the extension methodology has to undergo a change. Some of the extension activities will be taken over by private service providers and the Board may not have to provide such services except perhaps in the non-traditional area. Participatory approach would have to be increasingly adopted. The Board has successfully experimented with participatory extension management for the dissemination of production technologies. The Board has also assisted in the setting up of over 2000 Rubber Producers' Societies. The transfer of technology, advisory services etc., can

be to a group of growers arranged through such RPSs or otherwise. The advantage of such a method will be that knowledgeable extension staff can be deputed to participate in such meetings. The really competent extension personnel will also like the challenge as they will have to be well prepared for such meetings. There will be greater accountability also. The RPSs may be encouraged to set up internet kiosks; then the RPSs can serve as the extension arm of the Board and develop into virtual extension offices, once the Board creates the necessary data base and an useful web site.

3.21 The Production department has also been undertaking apart from its core functions, some subsidiary activities like promotion of bee keeping, bio-gas plants etc.. The Board is of the view that these activities help to increase the subsidiary incomes of small growers and hence should be continued. The research department of the Board is also having scientists working on bee keeping in rubber plantation. But these activities are better undertaken by specialised agencies meant for these functions.

3.22 As regards encouragement for biogas plants, the Board's view is that biogas plant using rubber effluent has been perfected by the Rubber Research Institute and the biogas produced can be used for drying rubber sheet and even for cooking and the treated waste water can be used for irrigation and thus the biogas plant is also a means of pollution control. The Board's contention is that the scheme was started only three years back and needs to be popularised in view of the stringent environmental regulations. Hence the Board wants the scheme to be continued. The issue is not the relevance of the scheme, but whether the Rubber Board should undertake this activity. Government of India in association with the concerned state agencies do implement similar schemes. Duplication has to be avoided; also such schemes are better implemented by the technical agencies which have the necessary expertise. However, if similar pollution control schemes are not being implemented by other agencies, perhaps the scheme may continue till the end of the Tenth Plan. The production department need not however devote its time and resources to pursue schemes like bee keeping etc. and let them be implemented by the specialised agencies meant for such activities.

3.23 Nurseries also need to be hereafter operated on a full cost recovery basis. Private commercial nurseries have become popular and already meeting over 80% of the demand. In course of time, the Board may wind up those nurseries which are not fully viable. Tappers training schools will have to however continue for some more years as there is shortage of trained tappers and scientific tapping will enhance productivity.

3.24 If some of the subsidiary activities are phased out, the number of regional offices can be reduced by ten atleast and the supervisory offices by two. Especially with the cessation of some other schemes there may not be a need for so many offices. Nurseries can work directly under supervisory offices. Alternatively, the number of zonal offices can be increased to five and the supervisory tier can be entirely done away with. That will ensure greater accountability and reduce an unwanted tier of supervision and help speed up communication.

3.25 In this connection, the findings of the Centre for Management Development, Trivandrum, on the impact of World Bank assisted INDIA Rubber project is revealing. According to the study, only 10.96% of the replanting beneficiaries and 13.41 % of new planting beneficiaries have availed technical assistance either directly from the Rubber Board or from the extension agents. Perhaps they obtain technical and other advice from Board's technical staff during their regular inspection visit to the holdings. Also it is revealing that only 20.44% and 13.67% of the beneficiaries respectively have availed soil and leaf analysis facilities. It is clear that the extension department's focus has been diverted to subsidiary activities and subsidy schemes. The production department would do well to concentrate on the basic and core activity of extension services and production of rubber.

Licencing activity

3.26 When the Rubber Act and Rules were framed, the objective was to closely monitor rubber cultivation. Besides, as rubber consumption was more or less for the domestic market, control over its marketing was felt necessary so as to facilitate the collection of cess, meant to provide the Board with funds for the development of the industry. Therefore, the Act and Rules provided for an extensive system of licencing. In fact any person owning land planted with rubber has to register his licencing. In fact any person desiring to undertake planting or replanting estate under Section 17 and any person desiring to furnish to the Board returns giving is also required to take a licence. The licence was being given for a period of one year and the holder of the licence was required to furnish to the Board returns giving areas of planting or replanting. Every small grower has also to submit to the Board monthly and annual returns giving the particulars of stock held, produced etc. Rubber Board have since 1991, dispensed with all these regulations though the Rules remain on the statute book. Large estates i.e., other than the small growers, whose estates exceed 20 hectares have to still register their estates and furnish the information to the Board.

3.27 Rubber Board's view is that for the purpose collecting data on area, production etc., it shall be made mandatory at least for the large estates to furnish the returns. However, it does not serve any purpose to collect information only from large estates as the production from that sector is only about 75,000 tonnes as against the total domestic production of over 6,00,000 tonnes. Hence it does not appear necessary to continue the system of registration or submission of returns under the Act and Rules only to enable collection of data. All these regulations can be dispensed with.

3.28 The Act and Rules also provide for a large number of licences for the dealers, manufacturers and processors. Section 14 provides for licencing of transactions in rubber - there is a provision for general licence and also for a special licence. Every dealer has to take a licence and every person wanting to process natural rubber has to take a licence, indicating where the units are located. In the case of new units, even the project report has to be furnished. Every manufacturer wanting to purchase rubber, has also to take a licence. Dealers have to send monthly returns and the processors have to send monthly and annual returns. A number of forms have been prescribed for licences. For interstate transfer of rubber also, licences have been prescribed. Rubber Board has to maintain a number of registers of estates and licences issued.

3.29 As such today, large estates, processors, dealers and manufacturers all have to take licences and submit periodical returns. According to the Rubber Board, the number of returns submitted during the year 1999-2000 were as follows:

**Table 3.3.4. Number of returns received by the Rubber Board
for the year 1999-2000**

Licencees	Monthly	Half yearly	Annually	Total returns
Large growers	323	-	323	4,199
Dealers	10599	-	-	1,27,188
Processors	146	-	-	1,752
Manufacturers	5494	11000	5494	93,422
Total				2,26,561

3.30 The justification for licences/returns are two fold. One is to enable the collection of data on production and consumption and the other major reason is to track transactions for use in the assessment and collection of cess. The returns from processors, dealers and Interstate licensors are meant for cross checking the information obtained from the manufacturers who have to pay the cess. Rubber Board collected over Rs.75 crores from the manufacturers during the year 1999-2000. It has been argued that without such elaborate licencing/returns, it may not be possible to assess the quantity consumed by the manufacturers and to levy and collect the cess from them, especially as the manufacturers are spread all over India and the number of units is very large, nearly 11,000. Unlike in the case of coffee or other commodities which are exported and therefore the cess can be easily collected from the exporters, the collection of cess from the domestic manufacturers would be difficult if there were to be no licencing. Around 140 Rubber Board employees are employed for the licencing work, including on check post duty, random inspections and for collection of cess etc.

3.31 Rubber is the only commodity with an elaborate licencing system meant for the collection of data on production, processing and marketing. It appears unnecessary, as data in respect of rubber can be collected in the same way as is done for other commodities. Whether it is rice or coffee, data is important, but there is a mechanism for collection of data in respect of both agricultural crops as well as industrial units; they can be very well used for collection of the required data in the case of rubber, both production as well its use.

3.32 As regards cess collection, a far simpler method to collect cess could be to collect it along with the central excise. The levy will not then be assessed by the Rubber Board personnel, but by the Central Excise staff. Also some small scale units consuming rubber may not then be paying cess, as some small scale units may be exempted from payment of central excise. But the amount that will escape the tax net or be exempted will be very small. A little over 50% of the cess amount is paid by the automotive tyre manufacturers alone. Most of the consumers of rubber will be paying central excise and hence there should not be any concern about serious

shortfall in collection of cess. There could be some evasion but the incidence of such avoidance may be small. If the collection of cess along with central excise were to be cumbersome, then the other alternative could be that Government of India makes an assessment of the cess amount liability on the basis of production data and make available the funds to the Board. Such a method will obviate the need to have an elaborate licencing system and machinery. Then nearly 140 persons employed for this work could be gainfully deployed for other activities. The unproductive workload of dealers, processors and manufacturers in furnishing returns would be eliminated. The saving to the Rubber Board alone from the abolition of licencing activity would be over a crore of rupees per annum.

3.33 However if both alternatives are not acceptable, then the registration may be made mandatory only for the manufacturers and half yearly returns may be prescribed. On the basis of such returns the cess amount could be levied and collected. Even then a small complement of around 10 to 15 personnel should be sufficient to administer the system.

3.34 The licencing department can be merged with the department of statistics and planning and can perform the major function of facilitation.

Processing and product development

3.35 Rubber processing is the important post harvest operation that of late has been receiving increasing attention. The price obtained by the growers depend partly upon the quality of processing. The extension machinery advise the growers on the processing techniques. The Board also provides technical assistance in setting up rubber processing factories and extends technical and financial assistance to Rubber Producers' Societies/Co-operatives for group processing and marketing. While it is necessary for the Rubber Board to develop and impart improved processing knowhow to growers and to processors, the tendency to stray into commercial activities has been seen in the last few years.

3.36 The contention of the Board is that the Board had to get involved in the processing and marketing of rubber in a limited way, to strengthen processing and marketing in the small holding sector which accounts for 87% of the production. The Board's claim is that it was not entering into any commercial ventures, only it has been providing share capital to the ventures of the RPSs for building facilities for value addition of scrap rubber, latex and rubber wood by setting up factories which are technology intensive and requiring larger investment. Some of the ventures were for the establishment of distribution network of agricultural inputs so that the small growers have an alternative trade outlet besides the private sector. The Board's further point is that there is no subsidy in all these cases.

3.37 It has also been contented by the Board that some of the ventures had made profits and distributed dividends also in the initial years before low prices affected their profitability. The contention of the Board is that quality improvement is possible only through technology upgradation and additional investment.

3.38 While the dissemination of technical know-how is a legitimate activity, direct involvement in commercial activities through equity investment in processing and

trading ventures is an entirely different matter. While a number of RPSs have been extended assistances to set up processing units and a number of co-operatives have been assisted with equity, a number of firms and marketing societies have also been extended short term loans for trading activities. Thus the Board has been drawn into assessing the viability of commercial activities. In addition, under the World Bank Project, a Rubber Wood factory has been given assistance of over Rs. 6 crores, a model TSR factory has been set up at a cost of over Rs.8 crores and a RVNRL Plant has been established at a cost of over one crore rupees. A Rubber Wood laboratory has also been started, incurring over Rs.1.5 crores expenditure.

3.39 The Board had established in 1976 a Pilot Crumb Rubber Factory (PCRF) to demonstrate the potential of block rubber as a technically and economically viable alternative to ribbed smoke sheet; the plant is said to be already obsolete. Rubber Board is of the view that it is necessary to operate the crumb rubber facility for the processing of styrene grafted natural rubber after primary processing at the RVNRL factory, which itself is being justified on the ground that it is required to standardise the processing of styrene grafted rubber. The RVNRL project was set up for the production of radiation vulcanised rubber but because there is low demand for it, the unit is being used for styrene grafted rubber that is said to be a substitute for SBR which is imported. Though the project may be a part of the processing activity it would have been better to encourage such an activity in the private sector. There is also a Pilot Latex processing centre established by the Rubber Board in 1989 to undertake research on improving the quality of latex concentrate. This is again said to be a demonstration project to popularise the processing and marketing of low ammonia latex concentrate.

3.40 All these post harvest facilities, while may be important, could have been undertaken in the private and co-operative sectors. In fact a number of crumb rubber factories have come up in the private and co-operative sectors. Apart from the huge initial capital expenditure already incurred on these projects, permanent recurring costs and expenditure may become a burden on the Board. As it is, during 2000-2001, on these activities, the total revenue loss is said to be Rs. 32 lakhs. It is true that Rubber Board has surplus staff who are partly being deployed for these activities; nevertheless it is necessary to ensure that these units are run efficiently and therefore, it is advisable to shed these activities in phases. It is recommended the rubber wood factory be privatised in a year or two; the TSR factory be converted into an independent cost centre and later on privatised and similarly the RVNRL factory. The pilot crumb rubber factory, if it has to continue for the development activities can be run with the surplus staff so as to reduce the losses but may be run as a separate cost centre.

3.41 If any processing technique or new technology has to be encouraged or popularised, it may be worthwhile to give a capital subsidy to encourage the setting up of such facilities in the private or co-operative sector rather than the Board itself undertaking such activities.

Training and technical consultancy

3.42 Training activity is important not only for growers, but also for processors, product manufacturers, quality control managers, marketing managers etc.. These

activities have to continue but it is advisable for the Board to start collecting atleast nominal fees for all the training courses being organised for outsiders. Such action will bring out the utility and value of the courses to the users. According to the Board, the training and consultancy division has started collecting fees for many of its courses. During the year 1999-2000, a sum of Rs. 10.77 lakhs was collected as fees against the total expenditure of Rs. 105.24 lakhs on this activity. It is recommended that the target to be achieved may be progressively increased to one third of the total expenditure.

3.43 The functions of the technical consultancy division include provision of project profiles, development of rubber products, compilation of trade directories etc. The division also provides testing facilities for rubber, rubber chemicals and rubber products. These activities have to be made self paying and the Board may make technical consultancy into a self supporting division. The worth of the consultancy division will be known and can be assessed only when the services are continued to be sought, even after the levy of user charges to cover atleast a substantial portion of the cost. The funds allocation for this activity could be tapered down progressively and the division made to pay for itself in say, three to four years' time.

Schemes of the Board

3.44 The Board has been operating a number of schemes for the last many years. The Board has also been sanctioning some schemes under its delegated powers. Many schemes may have evolved in response to specific needs in the past, but it is seen that the tendency appears to be to continue the schemes indefinitely, only varying the scale of subsidy under the schemes. A review of the major schemes is given below:

Name of the Scheme	Expenditure during 1987/88 to 1999/2000 (Rs. in lakhs)	Budget provision during 2000-2001 (Rs in lakhs)	Remarks
Rubber Plantation Development Scheme. Grant of subsidy for replanting and new planting at Rs.16,000 per hectare in the non-traditional area and Rs.12,000/- in the traditional area.	5131.30	1571.59	This is the major scheme continuing for nearly two decades. More than 50% of area has already been covered. Can be phased out gradually.
Special Component Plan and Tribal Sub plan.	378.43	165.31	To be continued as the achievement has been far short of targets during the last few years.
Block planting in Tripura for rehabilitation of SC/ST people.	442.25	87.69	The project has shown good promise; may be extended.

Development of rubber plantation in non-traditional areas.	979.98	850.50	North East has great potential for rubber cultivation. There is a direction to earmark 10% of plan funds for North East. The scheme may continue.
Rubber Estate and Training Centre in Andaman Island.	146.88	62.50	The unit was meant to act as a demonstration plot. Hence there is no reason why the plantation can not give substantial yields to cover the full cost of maintaining the plantation. A definite target to achieve this objective must be set; otherwise the center can be closed.
Supply schemes including supply of planting materials, plant protection materials, sprayers etc.	442.75	138.95	Comments given below
<p>These miscellaneous schemes can be dispensed with, except in North East, and there too for a limited period only. The Board should provide advisory services and information about the standard equipments, where they may be available, what are the prices etc. It is recommended that such subsidy schemes may be closed by the end of this plan period.</p> <p>The issue is not the amount of subsidy but the cost of the manpower employed in procurement and distribution and the time of extension staff devoted for distribution etc. The benefits are not commensurate.</p>			
15 Nurseries of which 8 are in the traditional area	148.05	258.91	It is recommended that the nurseries in the traditional area may be run on full cost recovery basis progressively as the subsidy is not required.
Tappers training school	15.00	50.12	In view of the shortage of tappers, the scheme may continue for some more years. But for each school, specific targets may be fixed.
Assistance to RPSs to engage extension agents and tapping assistants.	115.00	275.39	The Board has a huge surplus staff. It is better to depute them to RPSs and discontinue the subsidy scheme.
Demonstration-plots	150.50	438.31	While the objective is acceptable, it is recommended that the subsidy to RPSs be withdrawn. RPSs can use the services of extension machinery for conducting demonstrations.
Distribution of estate inputs; this is primarily meant for small holders (< 5 ha)	675.00	2293.45	The subsidy on inputs may not continue as it is not needed. In fact, the cost is already subsidised as the staff costs are not recovered from the beneficiaries.
Overseas training of growers.	25.00	27.90	With the World Bank Project coming to an end, this scheme will not continue
Women Development	121	213.15	Comments given below :

These activities like garment making, goat rearing, poultry, bio-gas plants etc. are not for the Rubber Board to sponsor, subsidize and monitor, however laudable are the objectives. There are specific agencies who should be requested to undertake these programmes. The Board may discontinue all of them. On the other hand the women could be giving training in tapping, grafting, processing and such rubber production related subjects.

3.45 According to the Rubber Board, it has been possible in the last two decades to enthuse the growers to take up re-planting and adopt improved production processes, only because of the planting and re-planting subsidy schemes being operated by the Board for the last twenty years. The Rubber Plantation Development Scheme was started in 1980 and has been continued through successive plan periods in four phases from 1980 to 2000. Over five lakh beneficiaries of which a little over two lakhs for replanting and little over of two lakhs for new planting have been given crores of rupees assistance by way of subsidy. Thus over 50% of rubber growers have already benefited from the scheme and according to the Board, the scheme has been useful because the growers are required under the scheme to take up planting of improved high yielding varieties only and in addition also adopt optimum agronomic practices. This scheme according to the Board has thus helped to achieve very high productivity levels in our country.

3.46 The subsidy under the scheme during the 9th plan period was Rs. 18,000 per hectare in the traditional area and Rs 22,000 per hectare in the non-traditional area. Now with the completion of the World Bank Project, the subsidy has been reduced to Rs.12,000 per hectare in the traditional area and Rs. 16,000 per hectare in the non-traditional area. The Board has quoted as a justification for the continuation of the subsidy scheme, the observation of World Bank experts that "planting grant is a highly effective means of transferring new technology to small holders because it enforces an important measure of discipline that is unlikely to take place through regular extension services alone". What the Board is indirectly saying is that without the bait of subsidy the growers would not have got convinced of the benefits of new and high yielding varieties and appropriate farm practices. This is not a good certificate for the extension service of the Board. Anyway this observation of World Bank is not supported by the study by the Centre for Management Development, Trivandrum. According to the findings, even non-beneficiaries have been planting the high yielding RR 11-105 variety only and the differences in the matter of fertilizer applications etc., is not also much between those who were beneficiaries under the Rubber Board schemes and non-beneficiaries.

3.47 According to Rubber Board the cost of planting and maintenance of rubber plantation during the immaturity period has been estimated at Rs.72,000 (October 1998) of which only Rs.20,500 is on account of materials including the planting material; the subsidy was meant to cover most of the non-labour portion of planting and replanting cost.

3.48 According to CMD study, family labor utilized by the replanting beneficiaries accounted for only 15.24% of the total labour expenses; in the case of new planting beneficiaries, the percentage is slightly higher at 17.85%. This percentage of family

labour is significantly higher at 25.32% and 23.85% respectively in the case of non-beneficiaries. Obviously, the beneficiaries are better off than those who have not been getting subsidy and even small growers among the beneficiaries do not use family labour, even though most of the cost is on account of labour. The IMD study also brings out that maximum new planting was during the years 1996 and 1997 and the motivation was the high prices during the previous years. Hence, it is the price of rubber which will influence the decisions on taking up replanting and new planting. Also the study reveals that the economic condition of the rubber growers who were the beneficiaries of the World Bank Assisted Rubber project was satisfactory, over 30% owned vehicles, over 76% owned TV and 47% refrigerator. Among the growers owning 2 to 5 hectares, 83% had telephones, as against 18% on an average in Kerala. Considering all these factors and also that more than 50% of the cost is towards labour given the subsidy benefits already and further that most of the cost is towards labour expenses, the subsidy scheme may be phased out by the end of the 10th plan period if not earlier. Meanwhile, the subsidy scheme may perhaps be converted into an interest subsidy scheme for the remaining period. The subsidy may however be given only for replanting of old uneconomic trees. The subsidy may continue under the Special Component Plan and Tribal Sub plan for SC/ST growers. Also in North East where rubber cultivation is yet to be firmly established, the scheme may continue during the 10th Plan. As regards other subsidy schemes the recommendations have been given against each scheme.

Processing & marketing schemes

3.49 The Board has been implementing a few processing and marketing schemes. The comments on each of them are given in the remarks column.

Name of the Scheme	Expenditure during the three years 1997/98 to 1999/2000 (Rs in lakhs)	Comments
A number of miscellaneous schemes such as for share capital contribution to co-op. societies, processing companies, trading companies etc., grant of financial assistance to them for various purposes including establishment of processing units, construction of godowns, procurement of lab equipments etc.	537.45	Board may continue only those schemes meant for quality upgradation, purchase of lab equipments, etc., and for acquiring accreditation under ISO 9000, ISO 14000 systems.
RVNRL Project	130.80	Initially set up in 1990 and expanded in 1997. It is still running at a loss. May be corporatised and then privatised.
Rubber Park Project - equity has been proposed	217.52	The project is yet to take off. The Board may not take on any more financial liability than what was committed, nor management responsibility.

Pilot Latex Processing Centre for processing field latex into concentrated latex.	238.90	A huge amount has been spent; the centre may be made into a separate entity and then privatised.
Pilot Crumb Rubber facility for processing into technically specified block rubber.	358.90	Has been under loss since inception. Since the Board feels that it is necessary to continue the factory for research and demonstration purposes, the facility can be continued with surplus staff to reduce the cost on its operations.
Expansion of model TSR factory.	682.88	This project again is going to demand huge resources. May be made into a separate entity and later on privatised.
Laboratory for Rubber Wood; Promotion campaign for rubber; establishment of model Rubber Wood factory etc. Initially, the objectives of the Board was to demonstrate the usefulness of rubber wood and popularise the use.	684.42	Now the proposal appears to be more ambitious i.e., to participate in international exhibitions and to give assistance for setting up show rooms etc. These are direct marketing activities and the Board may avoid the temptation to plunge into such areas which are clearly the area for the private sector.

3.50 The Board's justification for short term loans to RPSs is that this is a better alternative to the earlier practice of procurement and distribution of inputs particularly for technologies which need further promotion. The Board contends that the loans are repaid with interest. It is difficult to accept the contention that private trade can not provide the distribution services effectively. The RPS's can, and should take up these activities, but the Board need not become a banker to them. There are enough sources for co-operatives and other organisations to obtain credit for such activities. Since the Board has already provided enough funds for the start up of these activities, it is recommended that the loan schemes for trading etc. may be discontinued.

3.51 As indicated in the remarks column, some schemes like grant of share capital contribution to processing companies, subsidy for diesel generator, assistance for bee-keeping etc., capital and short term loans to trading companies, promotion campaign for rubber wood etc. may be phased out by the end of the plan period. The contribution of these schemes to the fulfillment of the basic objective of the Board is limited and further these schemes fritter away the time and attention of the extension staff.

3.52 The total subsidy amount per annum by the Board has been exceeding Rs.20 crores in the last two years. These resources would need to be utilized judiciously for quality improvement and such other activities.

3.53 The Board may have to continue the subsidy schemes in the following areas in the 10th plan period also.

- a) Improvement of harvest (tapping) techniques and tappers training. It has been demonstrated that improved tapping method enhances yield. It is necessary to popularise the techniques till the knowledge of the improved techniques become

- widespread. Since there is a shortage of trained tappers the training programmes may also have to continue.
- b) The training centre for growers and processors- though the rubber growers are a literate community there is need for training in many aspects.
 - c) Schemes meant for quality upgradation are essential and such schemes may continue.
 - d) As rural areas lack proper storage, a scheme for the construction of humidity controlled storages may also be considered.

Analysis of the existing manpower

3.54 Rubber Board has a huge staff strength. The department/activitywise strength is given below:

Table 3.3.5. Rubber Board - employees strength

Department	Technical & Scientific staff	Field Staff	Accounts, Legal, Statistics staff	Administration and supporting staff	Total
Research and development	248	81	9	142	480
Production and extension	442	210	9	662	1323
Licencing	-	-	24	118	142
Processing & product development	45	-	14	24	83
Tring. & Technical consultancy	23	-	1	21	45
Finance, Accounts, Statistics and Administration	-	-	37	164	201
Total	758	291	94	1130	2274*

* excludes 33 deputation staff

3.55 The staff devoted to the core activity of research, extension and processing is very small. There is a large contingent of staff devoted to administration, licencing and subsidy administration. It is clear that in all the departments there is surplus staff but the largest surplus is in production department. Even with the present set up, the support staff strength can be brought down by a third. When the subsidy programmes are phased out, there will be further redundancy of atleast another hundred ministerial support staff in the production department. Further when the work in the department is streamlined a third of the field staff will be redundant. When the licencing work is abolished atleast 130 staff will be surplus in the licencing department. The administration and finance department can also shed some personnel. The supporting staff in the research can be brought down by about 50 in group C & D cadres.

3.56 The Board unfortunately has been recruiting staff every year. In the last one decade, the Board has increased its officers cadre by 60% in Group A and by 35% in Group B cadres. The increase in group D strength has also been almost 50%. In the last two years alone, over a hundred additions to strength have been made. The expenditure on personnel have doubled in just five years' time from 11.23 Crores in 1994/95 to Rs.25.19 crores in 1999/2000. Because of pay commission recommendations, the cost is bound to go up in the coming years. Hence it is necessary to prune the staff strength considerably. The age profile shows that there will be only a few retirement in the next two years- just 270 only. Perhaps a VRS for the surplus non-technical and non-scientific staff may be necessary. It will be economical to give an encouraging VRS and reduce the staff than continue the staff for many more years. As and when the VRS is announced for government staff, the scheme may be extended to the surplus Rubber Board staff also.

A Review of the functioning of the research programmes and R&D centres

3.57 The Rubber Research Institute of India (RRII) was established in 1955 and the institute can be justifiably proud of its achievement. The contribution of the institute can be seen from the dramatic improvement in productivity achieved over the years. The productivity in terms of average yield per hectare which was around 365 kg in 1960-61 increased to 788 in 1980-81 and 1076 in 1990-91. The present productivity level of 1563 kgs per hectare is better than that of Malaysia - 949 kg per hectare and of Thailand - 1394 kgs per hectare and Sri Lanka - 859 kg per hectare.

3.58 The RRII's major achievements include; release of high yielding clone RRII 105, which covers nearly 50% of the area under rubber, development of tissue culture plants from high yielding clones, recommendation of controlled upward tapping (CUT) for long term exploitation, discriminatory fertilizer recommendation, plant protection systems including management of major pests etc.

3.59 The RRII maintains close collaboration with major research centres, the Indian Council of Agricultural Research and the Universities and thus has been able to get the benefit of technical co-operation. The Institute is currently involved in some of the frontier areas of research in agricultural science and post harvest technology of rubber, including genetic engineering.

3.60 The Research Institution, apart from the main station at Kottayam has twelve regional stations for location specific research. North East has great potential for the development of rubber plantations. Rubber cultivation besides being labour intensive, will give regular income and hence is an ideal crop for North East. The cultivation of rubber has picked up in Tripura, but in North East there is scope for substantial expansion of the area under rubber that is so necessary for achieving sustained increase in production of rubber in the coming years. The Research Institute has to give special attention to the development of rubber varieties suitable for North East.

3.61 The Research Department has been operating a number of schemes. The details and the recommendations are given below:

Name of the Scheme	Budget for 2000-2001 (Rs. in lakhs)	Objectives	Comments
Strengthening of regional research stations	112.00	Maximise the potential of newly developed clones. The scheme also includes strengthening of plant breeding; setting up of more soil and leaf testing laboratories; strengthening of plant physiology labs etc.	Individual programmes may be examined and approved by the Board on the recommendation of a technical committee; these programmes should be linked to specific objectives/goals. However, soil and leaf testing laboratories may not be necessary.
All India co-ordinated research programme	200.00		The scheme should be time bound and with clear objectives. The purpose should not be only to meet establishment expenses.
Biotechnology and Tissue Culture	20.00		
Establishment of rubber research and training centre	15.00		-do-
Strengthening of technical and supporting services	47.50		-do-
Research schemes in North East	210.00		Here again specific goals and targets need to be laid down.
Central facilities for soil testing	3.50		The need for additional facilities should be first established.
World Bank schemes	52.00		The World Bank scheme is not being extended. The Board has to see that the facilities created are privatised and till then efficiently run.
Miscellaneous schemes			The justification for continuing the schemes will have to be examined by the Research Committee and sanctioned.

3.62 In the area of research, an area of concern is that at present nearly 50% of the plantation is under one clone RR11-105. It is necessary to develop new varieties; naturally they have to have better potential than the present high yielder RR11 105. RR11 has now some potential winners which are being tested. But any tree crop evaluation will have to be a patient long term effort.

3.63 The funds allocated to research out of Rubber Board's resources during the last five years is given in Table 3.3.6. However half the expenditure on research is towards pay and allowances of staff including 179 supporting staff. The Board needs to devote more funds for its research activities.

Table 3.3.6. Allocation of funds for rubber research

Year	Total funds of Rubber Board (actual expenditure) (Rs. in lakhs)	Allocation for Research (Rs. in lakhs)
1990-91	2827	419
1992-93	3437	521
1994-95	4035	533
1996-97	5639	958
1998-99	8323	934
1999-2000	9275	1091

Research stations

3.64 The Rubber Board has, besides the main research institute at Kottayam, ten regional research stations and two breeding sub-stations. Of them, 4 regional stations are located in North East, one in West Bengal, one each in Madhya Pradesh, Maharashtra and Orissa. One more station is in Kerala. The justification for starting such a large number of regional stations is to facilitate the evaluation of the suitability of the various varieties for the different agro climatic zones and also help to develop optimum farm practices. In North East where the potential for the development of rubber is very good, four stations were established, one in each of the potential states. Given the difficulty of transport and communication in those parts, perhaps the establishment of individual stations in each of the states would be justified.

3.65 The Board maintains that the stations are being maintained with existing manpower and further some income from rubber after the trees are established, would reduce the cost of running the regional stations. Nevertheless, the number of regional stations could be reduced to six by converting one station each in North East/West Bengal and one in Kerala into demonstration farms. They may be developed into ideal farms and hence should be able to generate enough revenues to cover all the costs.

3.66 Though the performance of the research department is quite impressive, it is necessary to evaluate periodically, by an independent technical evaluation team consisting of experts, knowledgeable growers and agricultural scientists, the performance of the research station, the direction of research and chart the future course of research.

3.67 The Rubber Board has evolved a monitoring and evaluation system for evaluating the research programmes of the Board. Annual review is being undertaken and eminent scientists in different disciplines are invited and the scientists of the research institute present their work to them. Close interactions with the scientists in the respective disciplines are also held. The panel of experts then offer, for the consideration of the Board, their comments and suggestions for improvement.

3.68 While the system of annual monitoring of research programme is an useful exercise, it is recommended that once in 7, 8 years a thorough review of the research activities and the performance of the department may be undertaken by an independently constituted evaluation committee of experts. Such a committee may consist of not more than 5-6 eminent persons including two knowledgeable growers, who may go through the various projects undertaken and the progress of the research efforts in the different disciplines. The Committee may also evaluate the usefulness of the new clones developed, critically review the results of field trials and experiments undertaken etc. Evaluation Committee may make its recommendations to the Board on the future course and direction as well as the orientation of research and advise on the work programme of the department. The Board may periodically review the implementation of the recommendations of the Evaluation Committee.

3.69 Though India's land productivity is the highest, the cost of production is still not lower than in other countries. Hence there is every reason and need to concentrate on research and extension activities not only to aim at higher productivity through widespread use of appropriate farming techniques and through informed participation of growers, but also to achieve environmentally sustainable production and processing system and quality improvement so as to achieve cost reduction and become internationally competitive.

Quality of service

3.70 The rubber growers' community are quite satisfied with the performance of, and the services provided by, the Board. The success of the research department in developing high yielding varieties and the useful research work and technical support in tapping and in processing of rubber have generally been appreciated by the growers' community. Similarly, the growers are quite satisfied with the extension services provided by the production department.

3.71 The growers' major concern is about the low prices and that the Board is not doing enough to get them better prices. When the prices were ruling high three years back, the consumer sector was unhappy and was complaining that the Board only looked after the interests of the growers.

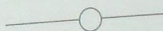
3.72 The production department has 172 field offices for transfer of technology to the field. Given the fact that the rubber planters' community is literate and educated, the Board may also use other modes of communication including periodical newsletters etc., for dissemination of knowledge and information. RPSs have to be increasingly used by the extension department for group meetings of growers. The field offices may be converted into virtual extension offices as also the offices of RPSs. They may be asked to set up information Kiosks also. Once the web site of the Board has been devised for a comprehensive extension service, these kiosks can provide useful extension service in the coming years.

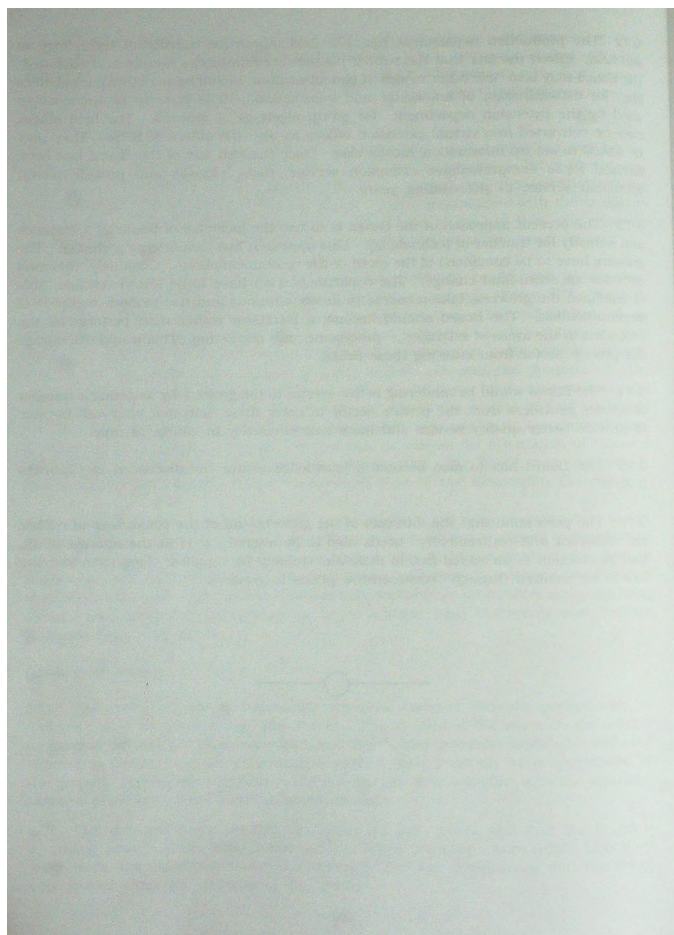
3.73 The present approach of the Board is to use the incentive of financial assistance and subsidy for transfer of technology. This approach has to undergo a change. The growers have to be convinced of the merit of the recommendations. Obviously, this task calls for an attitudinal change. The department staff have to be knowledgeable, able to convince the growers, take recourse to demonstrations and use modern methods of communication. The Board should become a facilitator rather than perform all the functions in the areas of extension, processing and marketing. This would discourage the private sector from entering these fields.

3.74 The Board would be rendering better service to the growers by assisting a number of service providers from the private sector to enter these activities; they will be able to provide better quality service and more cost effectively in course of time.

3.75 The Board has to also become a knowledge centre as discussed in Chapters II & IV.

3.76 The perception that the interests of the growers and of the consumers of rubber are different and contradictory needs also to be altered; it is in the interest of all, that production is increased but to maintain stability in supplies, long term viability has to be ensured through remunerative prices to growers.





SPICES BOARD

3.4.1 India has been known for centuries for its spices. There was no separate institution for the development of spices or for the promotion of its exports till the mid-eighties. A statutory Board had been formed in the year 1965 for looking after the development of cardamom. The export of spices was being looked after by the Spices Export Promotion Council formed in the year 1965. In order to give a boost to the export of spices, the Cardamom Board was re-constituted as Spices Board under the Spices Board Act 1986 and the Spices Export Promotion Council was merged with the Board. When the Spices Board was constituted all the employees of the Cardamom Board and of the Council were transferred to the Spices Board.

4.2 The functions of the Board are to develop, promote and regulate the export of spices, undertake programmes and projects for promotion of export of spices etc. The mandate of the Board is quite wide and includes controlling the quality of spices for export, grant of certificate to exporters, providing warehouse facilities etc. The functions of the erstwhile Cardamom Board also continue to vest with the Spices Board. Under the Spices Act, only 52 spices in any form including curry powder, spice oils, oleoresins and other mixtures where spices content is predominant, come under the purview of the Spices Board Act. In terms of export significance, the major spices are pepper, chilli, turmeric, mint oil, coriander, cumin, curry powder, ginger, spice oils and oleoresins and cardamom.

Growth of exports

4.3 There has been a steady growth in the export of spices during the last one decade. The quantity exported increased from 1,09,636 tons in 1990/91 valued at US \$ 134.97 million to 2,36,142 tons in 1999/2000 valued at US \$ 468 million. One of the reasons for the good performance in value terms is, apart from the increase in the export of value added spices like spice oils and oleoresins, the unprecedented increase in the export price of pepper during the last four years- the average price going up from Rs.29 per kg in 1992-93 to Rs.84 in 1996/97 and to Rs.215 in 1999-2000. Pepper exports now account for a little over 1/3 rd of the country's spices exports. With the production in, and exports of pepper from, many other countries increasing this year, the prices have come down and India's share of world export of pepper has also come down to less than 50%.

4.4 Though India accounts for a little over 40% of world spices exports, the competition is growing for principal spices like pepper, chillies, ginger and cardamom. Hence the urgent need is to step up production, productivity and also increase the share of exports of value added spice derivatives like spice oils & oleoresins.

4.5 Though India is a major exporter of spices, huge quantities of spices are also being imported, partly for re-export and partly to meet domestic consumption. The total import was over 63,000 tons during the year 1999/2000, valued at over rupees 286 crores. Pepper, garlic, ginger, large cardamom, poppy, cloves, nutmeg are the major items of import.

4.6 The scope for exports and the volume of imports indicate the need for a vigorous drive for expansion of spices cultivation and production.

Resources for the Spices Board

4.7 A cess is collected on export of spices. For many years there were some exemptions and also the rates of cess were varying. From December, 1998 onwards, an uniform cess of 0.5% is levied on all spices exports. The cess amounts collected and the funds allocated to the Spices Board are given below:

Table 3.4.1. Resources generated and funds allocated to the Spices Board

Year	Value of exports (in million dollars)	Cess amount	Internal & extra budgetary resources	Funds allocated to the Spices Board
			(Rupees in lakhs)	
1995-96	241.43	860	45	1139
1996-97	346.97	988	110	1122
1997-98	394.45	1134	53	1630
1998-99	419.68	1116	65	1403
1999-2000	430.20	1013+	73	1550

+ provisional

4.8 The cess amount collected increased from Rs.492 lakhs in 1994-95 to Rs.1043 lakhs in 1998-99. The cess collection declined during the year 1999-2000 due to rationalisation of cess @ 0.5%

4.9 Around 50% of the Board's resources are spent on cardamom research and development. According to the spices exporters, the cess amount is collected from the export of other spices, but utilised for the development of cardamom which contributes little for exports. They have been pressing that cardamom research and extension activities should be shifted to ICAR/Ministry of Agriculture as the responsibility for all spices including pepper, chilli etc. rests with ICAR/Ministry of Agriculture. Their argument is that there is no logic in keeping with the Spices Board only one spice that is also mostly consumed domestically. The issue is discussed below under "Activities of the Board".

Constitution of the Spices Board

4.10 The Spices Board Act provides for a membership of thirty three, including the Chairman and three Members of Parliament. Since the Board is responsible for research, development and production of only one spice viz., cardamom and in respect of other spices the responsibility of the Board is limited to export promotion only, the strength of the Board could be rationalized. The membership could consist of, besides the Chairman and three Members of Parliament, (a) four cardamom growers from the four major cardamom producing states, Kerala, Tamilnadu, Karnataka and Sikkim, so long as the responsibility for cardamom continues with the Spices Board, (b) one representative of the Indian Institute of Spices Research, Calicut, (c) one representative of the Central Food Technological Research Institute, Mysore (d) seven Exporters in all, of which one exporter each may represent the three major export spices- chilli, turmeric and mint oil, one exporter to represent seed spices, and one to represent all other spices and two pepper exporters; and (e) one member to represent oleoresins manufacturers. A representative of the Ministry of Commerce and Industry and the Horticulture Commissioner of Government of India may be the other members. The grower representatives may only be from among small growers only.

Organisation of the Board

4.11 The Board has two distinct areas of responsibilities. One responsibility relates to the development of cardamom, which function devolved with the merger of the erstwhile Cardamom Board into the Spices Board and other responsibility is the development of export of spices.

4.12 The organisation of the Board is along the lines of its major activities which are:

- (a) Cardamom research and extension
- (b) Development of cardamom plantation
- (c) Post harvest development including quality improvement of spices
- (d) Marketing and
- (e) Export promotion.

4.13 The main research station for cardamom is at Myladumpara in Kerala State and there are three other stations. The development department has six regional offices, 13 Zonal offices and 30 field offices; there are seven departmental certified nursery centres. Export promotion and marketing department has nine offices spread all over India.

A review of the activities

Research

4.14 The Spices Board's responsibility for research and development is limited to only cardamom.

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4.15 There have been suggestions that the responsibility relating to research, development, and production of cardamom should be transferred to ICAR/Ministry of Agriculture. This suggestion was made as way back as in 1994 by the Department Related Parliamentary Standing Committee on Commerce in its Seventh Report (on Spices) presented in June 1994. The Committee expressed in favour of the option of transfer of all the research work on cardamom from the Spices Board to the ICAR. The Committee also opined that indeed pre harvesting of all spices should be the jurisdiction of the Ministry of Agriculture, whereas post-harvesting operations should be the sole ambit, so far as spices are concerned, of Spices Board.

4.16 The argument of exporters is also that the responsibilities in respect of all other spices including pepper, which account for a third of spices export are with ICAR and not with the Spices Board and hence it is all the more logical that the responsibility for cardamom which is mostly consumed domestically, should also be with ICAR/Ministry of Agriculture. It has been contended that if research and production responsibility is transferred to ICAR / the Indian Spices Research Institute, Calicut, then there will be better possibilities of specialist expertise being available for cardamom research and development. There is also the general point that spices research should not be broken up into compartments.

4.17 The further argument of exporter-members of Spices Board has been that, were the funds allocated to the Board to be spent on export promotion of spices than being utilised for cardamom research/ development, then the returns would be far better. Earlier almost 80% of the resources of the Spices Board were being utilized for the cardamom sector, but it has now been brought down to 50%; but the exporters feel that even 50% allocation is very high.

4.18 Cardamom growers on the other hand have been arguing that it is not the question of funds being spent on cardamom research which is the relevant issue. According to them, even if the responsibility for cardamom were to be shifted to ICAR, the Government of India may have to continue to earmark under ICAR Budget for cardamom research, production and extension activities, the same amount that is now being spent on cardamom by the Spices Board, if not more. The cardamom growers' plea all along for the continuation of the present arrangement has been based on their experience with both the Spices Board, the ICAR and the state agricultural departments. They are satisfied with the attention given by the officers and the responsiveness of the Board to their problems and concerns and more important the accountability of the Board to the growers, which will be missing if the function were to be transferred to ICAR. This is the key reason for their persistent demand to continue cardamom under the Spices Board. This is their firm view, despite the fact that the research department of the Spices Board has not been able to release any really promising high yielding variety of cardamom so far; for that matter even the extension department's record is also not outstanding as can be seen from only a limited improvement in productivity.

4.19 As discussed in Chapter II, it will be definitely advantageous to place the responsibility for research and development of a commodity under the respective commodity Board. It would have been better, had the responsibility for research and development of all spices been also transferred to the Spices Board when the Board was constituted. Now there will be many problems in effecting such a transfer. The research scientists and other personnel of ICAR get much higher salaries and enjoy better pay scales than the scientists of the Boards and their terms and conditions of service are also better; they also form part of a larger scientific cadre. Hence the technical and scientific personnel dealing with spices may not be willing to be transferred to the Spices Board. Also there are spices like chilli, seed spices etc., which are grown all over the country and close liaison with local governments, universities and other institutions may be necessary for their development.

4.20 In the present circumstances, there are three possibilities as discussed in Chapter II. However if the transfer of the responsibility for research and development of other major spices to the Spices Board is not possible, then it appears far more logical to transfer the responsibilities in respect of cardamom research and development to the Indian Institute of Spices Research, Calicut/ICAR/Ministry of Agriculture. Obviously then the staff of the research and development departments of the Spices Board have also to be transferred to ICAR. The Spices Board will then become an export development authority for spices.

4.21 A third alternative has been proposed in Chapter II. If that is also not feasible then the best compromise appears to be to continue cardamom with the Spices Board, as the growers of cardamom are totally opposed to the transfer to ICAR. It is the growers' interests which should be given the highest priority and their wishes respected. If cardamom has to continue with the Spices Board, then research activity has to be strengthened and given all the support and the needed resources so that better service can be rendered to the growers.

Development

4.22 The Spices Board has a network of six Regional Offices, 13 Zonal Offices and 30 Field Offices for its development activity. The development department has in all 273 staff - 183 technical and scientific staff and 90 supporting staff including for administration and accounts. Of them 31 are located in North East. Part of the development and extension machinery is also used for post harvest development, quality improvement as well as training. Development is an important activity but considering the fact that productivity increase has been only nominal, the performance of the extension services can not be said to be very satisfactory. Perhaps much of the attention of the development staff has been devoted so far to subsidy schemes.

4.23 The justification for the large development and extension network is the presence of a large number of small cultivators in cardamom, a little over 40,000 holdings. The number of field offices for extension work is said to be only 21, headed by Assistant Directors. Eight offices are meant for post harvest management and training. It is recommended that the Spices Board also, like Rubber and Coffee Boards increasingly utilize the medium of growers' societies/groups for extension work - for transfer of farm technology, farm practices etc. Such an approach will be more effective and a sense of responsibility on the part of the extension personnel will be inculcated and there will be greater accountability. Once the system stabilises, the three tier field administrative set up could be reorganised and only regional offices and field offices can continue. It is recommended that in course of time, the field offices be upgraded but the number gradually reduced to twenty five, the number of regional offices increased to eight and all the zonal offices abolished. In the meantime also, there is little justification for so many zonal offices. It is recommended that the zonal offices in West Bengal and Andhra Pradesh could be abolished and the number reduced by one each in Karnataka, Kerala and Sikkim.

Post harvest development

4.24 The export of spices have started encountering and will continue to face increasingly stringent specifications and very high quality standards. In view of a number of quality problems being encountered relating to pesticide residue, aflatoxin levels etc., it would be necessary for the Board to liaise with ICAR and the state governments to ensure that knowledge and practice of appropriate post-harvest technologies and practices are widely disseminated among spices growers, especially growers of important export spices like chilli, pepper etc.

4.25 Post harvest management is strictly outside the ambit of responsibility of the Spices Board. However the Board can assist and encourage studies and research for improvement of processing quality, techniques of grading and packaging of spices. The future of spices exports would very much depend upon quality and compliance with international specifications and standards. Till date, little success has been achieved in this respect except in isolated pockets, as post harvest aspects and quality standards are not given much importance in the present scheme of things. In the long run, such activities have to become widespread and common practice. The Spices Board has to closely work with the agricultural departments of the central and state governments, to intensively propagate the adoption of appropriate post harvest practices by spices growers. However till post harvest technology becomes an important part of the ICAR's programmes, the Spices Board, like APEEDA, may have to take up the responsibility and devote greater attention and resources in that direction; also devise appropriate strategies and schemes to inculcate the culture of post harvest management in respect of selected crops especially in those areas from where exports generally take place so as to improve the quality of the export produce. Incidentally, these measures will also ensure better shelf life of products, help in avoidance of wastage etc.

Quality improvement

4.26 Spices Board has established a quality lab for offering analytical services at subsidised rates. The quality evaluation laboratory set up by the Spices Board is certified to ISO 9002 and 14001 systems by the British Standards Institute, UK. The laboratory has the facility to test the physical and microbial parameters including pesticide residue, aflatoxin, trace metal etc. as per the requirements of international agencies. The Board also assists processors and exporters in setting up in-house laboratories, acquiring ISO certification, installing facilities for checking pesticide residue etc. Some of these activities are undertaken through subsidy schemes. All these activities may have to continue as part of wider education and training of processors and exporters. As our spices and all agricultural and processed foods would have to meet international standards which are becoming increasingly stringent, the Board's major activity and responsibility will be in the areas of education and training of growers in scientific post harvest management techniques. The Board may have to also disseminate to the exporters the data and information on world standards and regarding developments in this area. The Spices Board may evolve a procedure of consulting the exporters in regard to developments and deliberations in the Codex Alimentarius body.

4.27 There is also a need to upgrade the domestic standards to international standards in stages where necessary. It is recommended that the Spices Board closely pursue and assist in the exercise started by the Director of Marketing and Inspection to harmonise domestic specifications with the international standards so that the major effort is completed early. It is also necessary to identify the agency for prescribing the export specifications. It is recommended that the Spices Board follow up these aspects through the Ministry so that these issues are resolved soon.

4.28 The state governments have a vital role to play in regard to improvement of post harvest management and the Board has to pro-actively canvas the implementation of schemes by the central and state governments for training of growers in, and adoption of, such technologies and techniques through various promotional measures. The Board has been conducting training programmes to growers/traders/exporters which have yielded tangible results in many spices. Over three lakh growers have been trained by the Board on post harvest and avoidance of physical contamination. These activities have to be continued.

Marketing activities

4.29 The marketing of cardamom also comes within the purview of the Board. Though the growers are free to dispose of their produce in any manner they wish to and there is no compulsion to bring cardamom for sale in auction, nearly 60 to 70% of cardamom is brought to and sold in, auction centres. The auction system is monitored by the Board in terms of Cardamom (Licencing and Marketing) Rules 1987, and the auctioneers are licenced by the Board. The auctions are conducted in 13 places in India and there are at present 27 licenced auctioneers. The sales take place through open bidding. The farmers place their lots in the auctions through samples and they are

at liberty to withdraw the stocks from the auction. Under the Rules, the auctioneers are bound to make payments to growers within 21 days.

4.30 The auction system is closely monitored by the Board. The domestic marketing of cardamom is thus quite organised.

Export promotion

4.31 The export of spices is entirely in the hands of private exporters. The Board in the discharge of its primary responsibility of export promotion has been assisting export efforts. The programmes of the Board include providing assistance for technology transfer and process upgradation, promoting branded and value added products, new product/ packaging development, participation in trade promotion efforts, popularising Indian cuisine abroad, undertaking marketing research etc. While some innovative promotion measures may be necessary for some more time, it is recommended that the Board withdraw from activities such as direct participation in fairs etc. These have to be undertaken by private exporters and at best the Board may facilitate their participation. As indicated in a subsequent part, some of the schemes being undertaken in this regard may no longer be needed and may be discontinued.

Certification of registration for exporters

4.32 Every exporter of spices has to get a certificate of registration as exporter of spices as per Spices Board (Registration of Exporters) Regulations 1989. No licence or permit is required for exports- only one time registration. The Certificate is valid for a period of 3 years. The procedure has been totally simplified and there has been no criticism from exporters of any delay or any other problems. Over 2000 exporters have taken registration, though the number of active exporters is small.

4.33 Every exporter has also to obtain an Importer Exporter Code (IE Code) from the Directorate General of Foreign Trade and hence another certification appears redundant. The view of the Board is that the certification system apart from helping to get all required data about exports and imports, also help in other ways - in the matter of dissemination of trade and other relevant information to exporters. The Board also feels that the certificate system could be used to ensure that the exporter not only fulfills his contractual obligation but also that supplies conform to quality parameters agreed upon between the parties. Actually the Foreign Trade Development & Regulation Act has enough teeth to take care of these requirements: The I.E.Code can be cancelled in case of irregularities in import export business. But the Spices Board feels that special registration to identify spice trade would be useful especially in the matter of collection of cess, as otherwise due to oversight there could be some lapses in collection. This is not a valid argument as the customs will have to collect the cess on all spices exports. The issue has been dealt with in Chapter II and as recommended therein, a separate registration certification for exports may be dispensed with, once DGFT streamlines the procedures for taking action against the exporters for lapses in fulfilling their export obligations and when complaints of cheating on quality etc. are established.

Schemes of the Board

4.34 The Spices Board have been operating a number of schemes for promoting the development of cardamom and for promotion of spices exports. The details are given below:

Name of the Scheme	Objective	Total expenditure during 1997/98 to 1999/2000 (Rs.in lakhs)	Remarks
1. Supply of planting material - 7 departmental nurseries, and 3 certified nurseries.	To supply quality planting material	76.08	The subsidy may be phased out gradually as there are many certified nurseries of growers. In fact, the selection which is popular in Idukki is a product of a private nursery.
2. Cardamom replanting schemes; subsidy of Rs.12,500 per hectare to small and marginal growers and Rs.6000 to others	To increase productivity	195.00	To be phased out.
3. Irrigation development in Kerala and Karnataka - subsidy scheme - the rate of subsidy upto 50% - operated jointly with the Western Ghat Development Authority.	For promoting irrigation	133.54	The scheme may continue as irrigation is key to achieving productivity.
4. Scheme for supply of irrigation equipment	"		Included in the above
5. Tribal Development Programme - subsidy scheme to take up replanting and also raise planting material in polybag nurseries.	To help tribals engaged in the cultivation of cardamom	9.39	To continue
6. Development of infrastructure for post harvest improvement and storage of spices	A number of subsidy schemes like supply of polythene sheets, construction of drying yards, pepper threshers etc.	181.07	Though an evaluation of the scheme has established that the scheme has benefited and helped to improve quality, there is considerable scope for misuse and wrong use of the subsidy; the scheme may be phased out. Education of growers, dissemination of information about sources of supply are more important steps and would produce better results.

7. Miscellaneous schemes for development of technology and infrastructure.	Include a number of subsidy schemes such as vanilla development, production of white pepper, cambogia grafts, enzymatic pre-treatment of turmeric, organic farming certification scheme etc.	53.35	The schemes are meant for the development of new spices like vanilla, or for quality improvement etc: may continue.
8. Development of spices in the North Eastern states.	Include a number of subsidy schemes, such as construction of warehouses, training of officers etc		NE has good potential for the cultivation of many spices. Knowledge of the crops that can be grown, supply of planting material, creation of processing facilities are important steps to be taken, with definite targets for the next few years.
9. Number of schemes for quality improvement, including survey on quality of spices, training of technical personnel abroad, computerisation of the lab etc.	To upgrade the knowledge level of scientific personnel	188.87	These are important programmes - human resources development, quality improvement etc. may continue.
10. Export development - includes a number of schemes like logo promotion, product promotion, reimbursement of air freight for sending business samples, printing of brochures etc	All involve subsidy	79.17	Individual oriented schemes may be phased out
11. Technology processing and infrastructure upgradation: includes grant-in-aid for inflow of hightech, assistance for packaging development etc.	To introduce improved technology and upgrade processing for promoting value addition	149.50	May continue
12. Infrastructure improvement for quality upgradation	For encouraging adoption of ISO 9000/HACCP	96.39	May continue
13. Trade promotion - includes Buyer Seller meets, participation in international meetings, export development in identified markets etc.	Different levels of subsidy	171.70	The role of the Board should be only facilitation and not direct involvement. May be gradually phased out. Only for promotion in new markets, or of new products, or for special promotion efforts etc., the Board may continue the scheme.

14. Product and end use development; includes market surveys, trade information etc.	Develop spice based end-products; research on markets	14.39	May continue
15. Export development in North East; include the setting up of curry powder unit.	To promote small scale units in North East, promote organic products etc		May continue
17. Publicity and propaganda	Printing and publication of market reports and fairs participation	103.99	The trade information and publication services have been found useful; these activities may continue but participation in fairs should be on cost recovery basis except for some common expenses.
18. Human resource development	Improve efficiency through regular training etc.	86.24	May continue

4.35 The major subsidy scheme is in respect of small cardamom and consists of giving a subsidy for replanting and it has been continuing from the 8th plan period. The subsidy is at the rate of Rs. 12,000/- per hectare against the present estimated cost of Rs.80,000/- per hectare for replanting or fresh planting. Out of this total cost, around Rs.20,000/- only is on account of materials and the rest of the expenses is on account of labour cost; hence the subsidy is said to be limited to a part of the cost of planting material and the cost of other materials. According to the Board, only 23,000 hectares i.e. 30% of the area have been covered under high yielding varieties and extensive replanting will be necessary if the yields have to be improved. The Board is therefore of the view that it is necessary to continue the scheme till atleast 50% of the area is brought under high yielding varieties. However, in view of better price realisation for cardamom, it may not be necessary to continue the subsidy scheme indefinitely, when anyway the subsidy amount meets only a portion of the total cost. It is therefore recommended that this major subsidy scheme may be phased out before the 10th plan period, once 50% of the area is covered under replanting. However the scheme may continue under the Special Component/Tribal Sub Plan for SC/ST growers; also in the North East region the scheme may continue for some more time till spices cultivation becomes popular.

4.36 Some of the marketing schemes of the Board were meant to encourage process upgradation, including better packaging. The rate of subsidy was not also much, 25% to 33% only. The schemes have helped to attract investment in process modernization for ensuring quality and consistency. Hence those schemes which help to upgrade the processing, improve the quality, develop value added spices etc. may be continued.

4.37 IIM Calicut had evaluated the export promotion schemes and has recommended that the following sub components of some of the schemes be phased out :

- a) Adoption of ISO 9000/HACCP
- b) Purchase of power generation units
- c) Packaging cost reimbursement
- d) Reimbursement of courier charges
- e) Promotion of gift packets
- f) Cleaning, processing and storage facilities at terminal markets

4.38 IIM had also suggested the restructuring of some more schemes. A Board Sub-Committee has more or less endorsed the recommendations. The point which has also been brought out in the study is that only half of the total exports of spices have been eligible for or receiving subsidy during the last five years. Most important point that has emerged is that the total subsidy given during the two years 1998/99 and 1999-2000 was just Rs.232 lakhs against their export value of US \$ 412 million eligible for subsidy. The corresponding figures for the last five years are Rs.486 lakhs and US \$ 846 million. The total subsidy given to spices exporters is thus very little. Another way of looking at the data is that the subsidy element being so insignificant a percentage of sales, its absence or withdrawal cannot and may not make any difference to exports. Seen in this perspective the continuation of the many export promotion subsidy schemes may not stand scrutiny and as recommended above, individual oriented schemes could be phased out.

Analysis of the existing manpower

4.39 The employees strength of Spices Board is 590 including research and development staff. The distribution of employees among the various activities of the Board is as follows in Table 3.4.2.

Table 3.4.2. Spices Board - Staff Strength

Departments	Officers		Staff		Total
	Technical	Non Technical	Technical Field	Non Technical	
Research	20	2	36	48	106
Development and extension	24	1	158	94	277
Market development including export promotion	-	17	-	37	54
Administration, finance etc	-	18	-	135	153
Total	44	38	194	314	590

Of the research and development personnel, 55 in all are stationed at the Myladumpara research station. The quality control laboratory at Cochín also functions under the research department and consists of 10 employees.

4.40 Maximum number of employees of Spices Board are employed in development and extension service, including 33 staff posted in North East. Some extension staff are utilised for implementing various subsidy schemes. The extension department has 94 supporting staff-clerks etc. With the closure of some of the offices and the discontinuation of some of the schemes as proposed, the strength of the extension staff also could be pruned. The ministerial staff strength can be easily brought down by around 30 and the field staff strength by around 25 to 30. The surplus in the Administration, Accounts and support departments is estimated at around a third which could also be shed in stages.

A review of the functioning of the research programmes and R&D Centres

4.41 The Spices Board has a major research station at Myladumpara in Idukki District, Kerala established in 1978, by the erstwhile Cardamom Board. Three more regional stations, have been established to address location specific problems- one each in Karnataka, Tamilnadu, and Sikkim. The regional station at Sikkim was established in 1983 for large cardamom.

4.42 The mandate of the research station is primarily to develop suitable production and post harvest technologies for small and large cardamom. The station has released four selections of small cardamom for cultivation but the variety popular with the cultivators at present is the one developed by a private estate in Idukki district. However that variety is said to be location specific. No new variety can be released by any research station without atleast a few years of evaluation. The research department has claimed that the varieties of the research station which are undergoing trials have shown great potential. The research department has claimed that it's overall contribution in regard to development of agricultural practices has been significant as also in the fields of integrated pest and disease management and post harvest technology developed and disseminated to growers.

4.43 The station is also engaged in adaptive research programmes on other spices especially vanilla, black pepper etc. The research institute has also developed successfully biotechnology protocols, for cardamom, vanilla, ginger and curry leaf. The research station may continue its development activities in spices like vanilla, paprika, camboge etc., which have good export potential but not receiving adequate attention elsewhere.

4.44 The improvement in overall productivity has been satisfactory in the case of small cardamom - from 78 kg per hectare in 1990/91 to 194 kgs per hectare in 2000-01. The improvement is around 150% but there is scope for much higher achievement as the potential for productivity improvement is high. In the case of large cardamom there has been hardly any improvement in productivity over the last one decade.

Table 3.4.3. Cardamom productivity improvement

Year	Small Cardamom		Large Cardamom	
	Production in Tonnes	Productivity kg/hectare	Production in Tonnes	Productivity kg/hectare
1990/91	4750	78	4400	211
1995/96	7900	128	4750	221
1997/98	7900	149	5265	236
1999 /2000	9330	174	2353*	125

* an unusual year. The estimate of production for 2000-2001 is 4700 tonnes.

4.45 The claim of the Board is that with irrigation, the clones evolved by the research department will yield production levels of 600-750 kgs per hectare and the reasons for the current lower level of productivity are, smaller holdings, lack of irrigation, and non-intensive cultivation coupled with less than optimum farm practices.

4.46 The only major competitor to India in cardamom is Guatemala which produces around 12,000 tonnes. Because of the low cost of production and very little demand outside Middle East for cardamom, the small cardamom used to get smuggled into India, thus dampening the domestic prices. During the last few years the domestic prices were at very low levels and hence cardamom cultivation was not considered an attractive proposition. However in the last two years, the prices have looked up, due to a fall in smuggling, consequent upon damage to crops in Guatemala.

4.47 The domestic demand for cardamom is improving steadily; hence there is need to improve productivity substantially in the coming years. There will be scope for export of cardamom once the world gets to know the taste of cardamom. There is need for greater thrust on research so that it is possible to improve the productivity levels in the country.

4.48 The Spices Board reviews periodically the performance of research and extension departments but in view of the uncertainty about the continuation of cardamom under the Board and all the anxiety generated by repeated attempts to shift cardamom to ICAR, there has not been perhaps that much of concentration on, and follow up of progress of, research activity. Once for all, this issue needs to be settled so that the Board as well as its research and development staff can give full attention to research. The Board has to also fund the research activity adequately and offer better motivation to its research staff.

Quality of service

4.49 The cardamom growers would like to continue to be under the Spices Board as they are generally satisfied with the performance of the Board. The prompt and positive response of the Board staff to the concerns and problems of growers has been appreciated by the growers.

4.50 The competition to India is from a low cost competitor and hence some positive development in terms of high yielding varieties and improved cultivation techniques so as to increase the yield is the prime need. Hence the strengthening of the research activities should be the priority concern of the Board. However this would call for a firm and final decision on the vexed issue of transfer of the responsibilities in respect of cardamom research and extension to ICAR/Department of Agriculture of Government of India.

4.51 As suggested in Chapter II, it is recommended that an independent evaluation committee consisting of technical experts including a few knowledgeable growers, may be constituted by the Spices Board for a thorough review of the functioning and performance of the research stations and set the future direction of research including the priority areas.

4.52 Spices exporters are quite happy with the quality of service rendered by the Board though they would very much like greater allocation of funds for marketing and greater attention being given to the popularisation and adoption of post harvest technologies. Their major demand is that the Board should impress upon ICAR and the state governments to concentrate upon augmenting production and improving the productivity so that Indian exports can continue to be competitive. The exporters want that the quality upgradation schemes and projects in respect of major spices be fully funded by the Board and also supervised.

4.53 The exporters' another major demand is that the Board effectively liaise with the state governments and ensure that the pesticide usage is controlled and post harvest management is more widely and extensively adopted. They are disappointed that the efforts of the Board in this direction have been ineffective. The exporters feel that to retain the pre-eminent position that is at present being held in the world spices market by our country, the Spices Board has to proactively continue its efforts and succeed in increasing the production of spices and further popularising the correct post harvest techniques to ensure quality, hygiene and safety of spices.

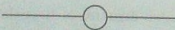
4.54 Spices, being food additive, will increasingly be subject to high quality standards and stringent specifications in international markets. The Board may pursue with the Government of India and ensure that a central authority is authorised to lay down the specifications and standards which are at present being handled by

different agencies in India) and that these standards are brought up to international levels within a specified time frame.

4.55 One of the responsibilities of the Board is to evolve suitable quality standards and introduce certification of quality through quality marketing of spices for export. The Board awards a quality certification logo to exporters who satisfy the specifications. The Board may prescribe quality standards for all the export spices as soon as possible. The Board may also encourage the setting up of quality certification laboratories in the private sector and accredit those labs which meet the standards set by the Board. The accredited labs only may be authorised to issue quality certification for exports. To improve the service to export trade, the Board may encourage the setting up of quality labs at important production and market centres.

4.56 The export development strategies should focus on the introduction of new technologies for further value addition, adequate R & D support for extraction of oleoresin with new solvents which have no health hazards and development of new markets for Indian spices. It is recommended that the Board evolve programmes to realise the above strategic objectives and earmark necessary funds for the programmes.

4.57 The information services provided by the Board to the exporters is quite good. A number of useful publications are brought out. The web site is quite informative. It is recommended that the Board revamp the market information system to benefit the processors also, besides the exporters. The contents may include sanitary standards of different countries and such other information including quality standards and packaging requirements in different markets. A virtual Spice Bazar may also be thought of. Initially these services could be provided free and once the service stabilises and finds increasing acceptance, user charges can be levied.



MARINE PRODUCTS EXPORT DEVELOPMENT AUTHORITY

3.5.1 The Marine Products Export Development Authority (MPEDA) was established in 1972 under the Marine Products Export Development Authority Act of 1972 for the development of the marine products industry under the control of the Union. The Authority replaced the Marine Products Export Promotion Council.

5.2 The main function of the Authority is to promote the development of the marine products industry with special reference to exports, through such measures as it thinks fit. The Act has given wide flexibility and powers to the Authority in regard to the measures it can take. The measures can include fixing of standards and specifications for marine products for purposes of regulating their export, the registration of exporters, registering fishing vessels, processing plants and storage premises for marine products and carrying out inspection of marine products in any fishing vessel, processing plant, storage premises, conveyance etc., for the purpose of ensuring the quality of such products.

5.3 The functions of the Authority are wide and accordingly the powers given are also extensive. But fisheries is a state subject and all coastal states are vitally interested in the subject, as millions of fishermen are dependent upon fisheries. In Government of India, the Ministry of Agriculture, looks after the development of fisheries including aquaculture development. The Ministry of Food Processing looks after the development of fisheries industry also.

5.4 There have been attempts in the past to clearly demarcate the functions of the different agencies so as to avoid duplication of functions and also to ensure purposeful coordination among all agencies in the interest of all-round development and export of fisheries.

5.5 MPEDA however carries out those functions, which are not being performed by other central government agencies and the states. In the case of capture fisheries, the emphasis is on export promotion only. In the case of culture fisheries, MPEDA's role extends to development. Having pioneered shrimp/prawn farming, it was concentrating on hatchery technology; now that the technology has been transferred to farmers, MPEDA is now concentrating on improvement of process technology and export promotion.

Growth of exports

5.6 The export of marine products has been growing satisfactorily over the last one decade. The growth of export of frozen marine products, especially shrimp and the growth of aquaculture in the last decade have greatly helped to step up exports as can be seen from the following Table. 3.5.1.

Table 3.5.1. Exports of marine products

(Quantity in tonnes, value in million dollars)

Year	Exports		Export of shrimps		Production of aquaculture shrimp
	Quantity	Value	Quantity	Value	
1970-71	35883	47	NA	NA	NA
1980-81	75591	301	NA	NA	NA
1990-91	139419	499	62395	371	35500
1995-96	296277	1111	95724	748	70573
1996-97	378199	1153	105426	756	70686
1997-98	385818	1296	101318	867	66868
1998-99	302934	1107	102484	800	83634
1999-2000	343031	1189	110275	847	86000

5.7 Shrimps has become the most important item of export contributing nearly 70% by value, of total exports. Cultured shrimps from aquaculture farms contribute nearly 80% of such exports.

Allocation of funds to MPEDA

5.8 Under the MPEDA Act, a cess is leviable on all marine products exported. The present rate of cess is 0.3%. The total amount collected by way of cess and the amounts made available to MPEDA for its activities are given below:

Table: 3.5.2. Cess amounts collected and funds allocated to MPEDA

(Rs.in lakhs)

Year	Cess amounts collected	Other revenues generated by MPEDA	Funds provided to MPEDA (Plan & Non Plan)
1995-96	1751	47.90	1241
1996-97	1678	35.70	1278
1997-98	1409	31.96	1166
1998-99	1388	39.67	1341
1999-2000	1535	29.66	1600

5.9 The rate of cess was brought down from 0.5% to 0.3% w.e.f. November 1996. The other revenues generated have come down with the closure of the Frozen Storage at Cochin.

Constitution of the Board

5.10 The Act provides for a membership of 30, including the Chairman and three members of parliament and the Director of MPEDA. There are nominees of five Central Government departments and twenty other members to represent, the states, the owners of fishing vessels, dealers, labour etc. The membership strength can be reduced. As regards the Government of India nominees it is enough if the nominees of the Ministries of Agriculture and Commerce are included as members. Since the involvement of the states in this sector is very intimate, atleast four nominees of state governments and one nominee of union territories may be included. Since there are eight coastal states, two could be from among the states on the west coast and two from the states on the east coast.

5.11 The other nominees could be, one to represent fishing vessels and one to represent processing plants; since shrimp exports from aquaculture farms is the major export item, one aquaculture farmer may be nominated. Five exporters and one expert from research institutions could be other members. Thus the total membership could be 20 including the Chairman and three members of parliament.

Organisation of MPEDA

The organisation of the Authority is along the following lines.

- a) Prawn Farming/aquaculture
- b) Development
- c) Quality control
- d) Marketing services
- e) Extension
- f) Appraisal and investment
- g) Registration

In addition, there are Administration, Accounts, Personnel, Statistics and Publicity departments.

5.12 The Authority is maintaining six regional centres and four sub-regional centres to cater to the development of prawn farming. There is also a prawn farming project complex. In addition there are six regional offices and five sub regional offices. These offices carry out registration duties, inspections and implement the development schemes. There are three trade promotion offices including two overseas offices, one at Tokyo and one in New York.

A reivew of the activities

5.13 The organisation is geared to perform the developmental/promotional objectives of MPEDA. The major activities are:

- a) Promotion of capture fisheries to exploit the hitherto unexploited resources in deeper Waters.
- b) Promotion of aquaculture with special reference to shrimp, scampi and other exportable species.
- c) Modernisation of processing facilities
- d) Market promotion.

a) Promotion of capture fisheries

Capture fisheries contribute around 25% of exports; there is scope to exploit hitherto unexploited resources in deep waters. The export of capture fisheries has to continue as a major responsibility of MPEDA.

b) Promotion of aquaculture

Aquaculture farming was actually started by MPEDA in the eighties. The Ministry of Agriculture of Government of India and the state governments should have taken over the responsibility for the promotion of aquaculture farming. Though MPEDA is an export development authority, MPEDA is continuing to take deep interest in the promotion and development of aquaculture. MPEDA has great stake in the health of the industry as 75% of exports by value come from shrimps.

MPEDA has established an extensive and effective organisation for the promotion of aquaculture. A substantial number of MPEDA personnel are also devoted to this activity. As growth of exports has been entirely due to aquaculture, which industry is also beset with many problems, MPEDA would like to concentrate on this activity. The large network of ten regional centres and subcentres have been established with a view to look after the industry. Contrary to general perception, shrimp farming is mostly in small holdings; 90% of the total area under shrimp farms are with small farmers cultivating less than 2 hectares. Shrimp farms are also susceptible to viral diseases; the farmers need to be educated on controlled use of pesticides and antibiotic. Considering the magnitude of the tasks, the present ten centres covering the entire country would be necessary. The training and education of farmers, close monitoring of shrimp feed as also pesticide and antibiotic residue would also need to continue.

Shrimp hatcheries were first started by MPEDA when shrimp farming was new to India. Now there are nearly 250 hatcheries in the country. MPEDA nevertheless feels that this activity has to be continued for research on disease control and for training etc. This activity may be continued as part of the overall function of promotion of aquaculture development.

c) Modernisation of processing

The modernisation of food processing facilities would in the ordinary course be the responsibility of the Ministry of Food Processing Industries; but in respect of fisheries, MPEDA has taken over the responsibility as marine exports will be jeopardised if the processing facilities are not modernized and that too, soon. In fact, the ban for sometime by the European Union of marine imports from India gave a spur to the modernisation drive. As hygiene and safety aspects will continue to be critical to exports, MPEDA may have to continue to concentrate on this actively.

d) Market promotion

This is the main function of MPEDA. All its activities are geared to achieve maximum exports of marine exports and market promotion is the activity meant to boost exports.

Trade promotion offices abroad

5.14 MPEDA maintains two trade promotion offices, one in Japan and the other in New York. both are major export destinations for marine exports. The exports to these two destinations constitute over 60% of MPEDA's exports. These offices perform the usual role of collecting trade information, assisting Indian exporters, liaising with local importers, maintaining contacts with local governments and generally acting as eyes and ears of Indian marine industry. The establishment cost of the two foreign offices is around Rs.200 lakhs but MPEDA is firmly of the view that not only these offices are required but one more office in an European country may be necessary as Europe is also becoming an important destination for marine exports.

5.15 The functions which these offices perform are not different from what our commercial missions abroad are supposed to perform for other industries. But both the marine products industry and MPEDA feel that these markets are important and our commercial missions would not be able to devote time and attention to the many problems of the industry especially relating to quality aspects etc., which would call for immediate responses and hence MPEDA's own offices are absolutely necessary. The marine products exports have been going up but what has been the contribution of the foreign offices and whether it is significant or not is difficult to analyse. The industry's argument is that they are paying a cess and out of the funds generated by the industry, the foreign offices can be maintained. This is not a logical argument. Exports of coffee, spices and agricultural products are also significant and those sectors also contribute huge cess amounts. If exporters feel that they really benefit from these foreign offices, then the individual exporters should have no objection to paying for the specific services rendered by these offices.

5.16 MPEDA's argument is that the foreign offices perform valuable services to the industry as a whole and not merely to individual exporters. These include, besides the collection of trade information, including import details, consumption patterns and price levels, maintaining liaison with the local governments regarding laws and regulations and gathering information on tariff barriers etc. More important, they are able to address and counter non tariff barriers like environmental issues and quality control aspects (the TED law in US and the EU ban on marine products import on hygiene and food safety grounds, are the examples cited) MPEDA's contention has been that only because of the presence of MPEDA officers in these centres, it has been possible to be proactive and effective in these matters.

5.17 As discussed in Chapter II, there may not be any need for separate foreign offices of individual Boards, once the functioning of our overseas commercial missions is streamlined. Till then these offices may continue.

Registration and licencing

5.18 As part of its functions, MPEDA registers fishing vessels, cold storages, processing centres and even ice plants and conveyances used for transport of marine products. The statute provides for one time registration only, unless cancelled and the fees

are moderate. But all those who have taken registration have to file returns. Some of the facilities may not be for export at all like some small ice plants. Though fishing vessels may bring sea fish catch, it is practically impossible to inspect even a small percentage of the over 15,000 vessels now registered with MPEDA. In fact there could be many more vessels not registered. Hence it is recommended that registration could be restricted to vessels of more than 15 meter OAL. The states may register smaller length vessels. Similarly registration of transport vehicles, could be dispensed with except those connected with export processing units. As regards, pre-processing centres, freezing plants etc, the argument of MPEDA is valid that registration and inspection is necessary to ensure that these facilities conform to certain minimum standards. It is not possible to restrict registration requirement only to those units from which exports are sourced, as it will be difficult to monitor the actual sourcing. Even otherwise it is necessary to ensure that processing facilities like freezing plants, processing units etc., conform to prescribed standards. Hence their registration may continue.

5.19 However in course of time MPEDA may encourage the system of inspection by qualified, independently accredited technical agencies who may also certify compliance with all regulations, safety norms and hygiene practices.

5.20 Registration of exporters is another issue common to all Boards. As discussed in Chapter II, registration could be discontinued when DGFT and the customs computerise all their operations and the procedure of automatic transfer of one copy of export shipping bill to MPEDA is introduced.

Schemes of the Authority

5.21 MPEDA have been implementing a number of subsidy schemes. The details of the schemes, the objectives and recommendations are given below:

Nature of the Scheme	Objective	Subsidy involved	Actual expenditure during the period 1997-98 to 1999-2000 Rs in lakhs
1	2	3	4
1) Financial assistance for installation of fish finders, global positioning system etc.	To increase the efficiency of mechanised vessels	30% of the cost subject to a maximum of Rs.50,000 per vessel	110.12 lakhs

5.22 This scheme was introduced by MPEDA two years ago on a pilot basis in Kerala. It enables mechanised fishing vessels to undertake multi days fishing in waters hitherto not accessible to them, of species which could never have been caught by these vessels. It has been stated that nearly 20,000 tonnes of deep sea shrimp valued at Rs.100-200 crores were landed in Kerala during 1999-2000 by vessels fitted with these modern gadgets. Because of the excellent response from Kerala, MPEDA has decided to extend the pilot scheme to other states as well. The idea of MPEDA introducing the scheme is to demonstrate to the boat owners the advantages of modernising the vessels with the new gadgets.

5.23 This scheme however is not directly related to export promotion. This kind of assistance is properly the responsibility of the Ministry of Agriculture, Government of India/the state governments. It is recommended that the scheme be operated in other states as a demonstration project only, say for 2,3 years in a limited way. In the meanwhile the Ministry of Agriculture may be persuaded to take over the scheme.

1	2	3	4
2) Subsidy for new farms - culture fisheries	To encourage the development of new shrimp farms	25% of the capital cost subject to a maximum of Rs.3000 per ha. and Rs. 1.5 lakh per beneficiary.	36.51 lakhs

5.24 MPEDA inform that neither the Department of Agriculture, Government of India nor the state governments give any such assistance except in some isolated cases like in Kerala. Since shrimps from culture farms is the mainstay of exports, MPEDA feels that it is necessary to continue the scheme.

1	2	3	4
3) Subsidy for shrimp /scampi hatcheries	To encourage the setting up of hatcheries	Subsidy varies from 15% of the cost to 25% for medium scale hatcheries - i.e. capacity of 30 million seeds subject to a maximum of Rs. 5 lakhs.	299.50 lakhs

5.25 There are already 250 hatcheries in the country and there is no compelling reason to continue the scheme. But most of the hatcheries are located in Andhra Pradesh and Tamilnadu and there is said to be shortage of seeds in other areas. Hence it is recommended that the scheme may be continued only for hatcheries located in other states, that too for a maximum period of 3,4 years. Similarly, it has been stated that there is enormous shortage of scampi seeds in the country, as a result of which the price has shot up to 90 paise per seed. A modified scheme in respect of scampi hatcheries may be continued including in Andhra Pradesh and Tamil Nadu but the subsidy benefit and the ceiling amount may be reworked by MPEDA.

1	2	3	4
4) Subsidy for effluent treatment system	To facilitate the setting up of effluent treatment systems	25% of the cost subject to a maximum of Rs.6 lakhs per beneficiary	Implementation has not yet started for want of approval of design by the Aquaculture Authority.

This scheme is necessary to encourage the shrimp farms to install effluent treatment plants.

5.26 Schemes for modernisation of processing facilities and development of infrastructural facilities include the following schemes.

1	2	3	4
5) Assistance for flake ice making	To encourage the installation of machineries for quality ice	25% of the cost subject to a maximum of Rs.2 lakhs	91.92 lakhs
6) Assistance for upgrading deficient cold storage	Improving the quality of processing	25% of the cost subject to a maximum of Rs. 2.5 lakhs	8.94 lakhs
7) Assistance for the setting up of mini laboratory	For effective quality control	50% of the cost subject to a maximum of Rs.50,000/-	22.89 lakhs
8) Assistance for establishing chill room facility	To ensure maintenance of quality	25% of the cost subject to a maximum of Rs.3 lakhs per chill room and maximum 2 chill rooms only	Being implemented only from 2000-2001
9) Assistance for installation of water purification system	To ensure quality in processing	25% of the cost subject to a maximum of Rs.2.5 lakhs	Being implemented only from 2000-2001
10) Assistance to establish captive peeling sheds	To encourage integrated facilities for better control over processing	50% of the cost subject to a maximum of Rs.7.5 lakhs for renovation. Rs.15/- lakhs for a new stall	338.78 lakhs
11) Assistance for water effluent treatment plants	To make processing an eco-friendly operation	25% of the cost subject to a maximum of Rs.7/- lakhs	Being implemented only from 2000-2001

5.27 All the above schemes are primarily intended to ensure quality in the processing stage so essential to ensure acceptability of the products and compliance with international standards. Subject to ensuring that there is no duplication of subsidy, the schemes may continue. It is seen that a number of units have availed the facilities. The number of processing units certified as fit for exports is around 350. Hence, perhaps the schemes may continue for three, four years by which time all the remaining units may be given an opportunity to avail the facility. Thereafter the need for continuation of the schemes may be reviewed by the Authority, and the schemes discontinued unless there are compelling reasons to continue one or two schemes.

12) Scheme for IQF machinery, surimi making equipments and other processing equipments	To encourage value addition	25% of the cost subject to a maximum of Rs.15 lakhs	143.83 lakhs
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5.28 Achievement of value addition is an important objective. Hence the scheme for acquisition of IQF machinery, surimi making equipments and other value adding processing equipments to facilitate the manufacture of value added products, may continue till the 10th plan.

13) Interest subsidy - assistance for seafood processing units	To facilitate upgradation of seafood processing units to prescribed standards	Around 7% subject to a maximum of Rs.15 lakh per year for a period of 5 years.	24.87 lakhs Being implemented only from 1999-2000
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5.29 The subsidy scheme is continuing only upto 2002. Already 25 processing units have taken advantage of the scheme and 100 processing units have upgraded their standards to achieve equivalency to EEC Directives.

5.30 The interest subsidy scheme has been introduced to reduce the cost to indian exporters. Many have benefited from this scheme which may continue for a few more years by which time, perhaps all those certified for exports would have taken advantage of this scheme.

14) Distribution of insulated fish boxes	For preservation of raw material	50% of the cost	24.87 lakhs Being implemented only from 1999-2000
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5.31 This is very important and much needed initiative but responsibility for this improvement is that of the fishery departments of the state governments; also this is not directly related to exports; Hence, may be discontinued and the Ministry of Agriculture be persuaded to adopt the scheme.

5.32 The following schemes are meant for market promotion.

15) Assistance for ornamental fish exporters		10% of the export value subject to a maximum of Rs.2 lakhs	23.51 lakhs
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5.33 The export of ornamental fish has been of the order of Rs.190 lakhs only during the last two years. North East has great potential but yet to be exploited. The scope is vast but a major constraint in increasing our export of live ornamental fish is the high cost of air freight involved. Hence, the scheme may continue for sometime. However, if after a few years it is seen that exports can not be stepped up then this scheme may be given up.

16) Subsidy for ornamental fish breeders	To encourage production of ornamental fish for export	50% of the cost or Rs.40,000 whichever is lower.	Being implemented only from 2000-2001
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5.34 The scheme may continue for a few more years and later on, the scheme may be merged with the export subsidy scheme if exports pick up; otherwise may be discontinued.

17) Assistance for setting up chill storages	To encourage processors to preserve the quality of fish during processing	50% of the cost or Rs.30,000/- per ton whichever is less subject to a maximum of Rs.2.5 lakhs.	Implementation started only from 2000-2001
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5.35 As infrastructure is our weakest link, this scheme may continue, though it is seen that only one unit has shown interest so far.

18) Grant in aid for setting up chilled storage at Airports	To promote export of chilled fish	Rs.20 lakhs per beneficiary	Being implemented from 2000-2001
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5.36 The scheme will help to improve infrastructural facilities. May be continued if response from private parties is encouraging.

19) Joint participation in international fairs	To promote exports in new markets	50% of space rent for maximum 6 sq.meters plus 30% of air fare	45.34 lakhs
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5.37 MPEDA feels that the most cost effective way of marketing Indian seafood is through participation in fairs. Though export of sea food has grown, wholesalers abroad do not mention India as the source and the country of origin and therefore the scheme is necessary to create a positive brand image for the country. MPEDA is of the strong view that there are about 6 or 7 major seafood fairs held in the world at Brussels, Boston, Japan etc., where MPEDA has been setting up India pavilions continuously for several years and MPEDA's absence from these fairs will send totally wrong signals in the market especially because all the major players participate in these fairs and expect other major players also to participate.

5.38 The issue is not participation in fairs nor facilitation by MPEDA, but the recovery of cost of participation. At present MPEDA pays for the staff deputed for organising the fairs and in addition pays 35% of the air fare of exporters besides 50% stall rent. MPEDA may discontinue the subsidy on air fare though it may continue stall subsidy for some time. In course of time the subsidy may be withdrawn; the industry must pay for their participation and MPEDA's role should be only facilitation including ground work, co-ordination etc.

20) Assistance for adoption of bar coding	A marketing tool	75% of the cost subject to a maximum of Rs. 15,000/-	Only Rs.3.0 lakhs in 1999-2000. Implementation will be over in 2000-2001
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5.39 Since this is new to exporters, the scheme may continue, till all exporters adopt bar codes.

5.40 The schemes of MPEDA for improvement of processing units and quality upgradation have helped to modernize the industry. A number of processing units have taken advantage of the scheme. May be in 3.4 years' time most of the units would have upgraded their facilities. The need to continue the scheme in the present form can be reviewed then. But quality assurance, adherence to hygiene and safety standards are of paramount importance. These aspects and promotion of aquaculture production need MPEDA's closest attention. The schemes of MPEDA may be directed towards these prime activities.

Analysis of the existing manpower

5.41 The manpower of MPEDA is mostly devoted to shrimp cultivation and developmental activities.

Table 3.5.3. Manpower of MPEDA

	Officers		Staff		Total	
	Tech-nical	Others	Tech-nical	Others	Tech-nical	Others
Shrimp Cultivation including seed farms	29	-	42	73	71	73
Quality Control and Laboratory	28	-	2	3	30	3
Extension	1	-	1	2	2	2
Registration	1	-	1	1	2	1
Research & Product Development	2	-	-	2	2	2
Marketing Services & Development	75	13	27	79	102	92
Statistics	2	-	2	6	4	6
Administration	-	6	-	52	-	58
Accounts	-	7	-	12	-	19
Total	138	26	75	230	213	256

5.42 Of the above staff of MPEDA, 117 are deployed in regional centres for aquaculture technical extension services and 31 are employed in Prawn Farming Projects complex. 115 people are employed in regional offices for registration, liaison work etc. Many functions of MPEDA like registration, scrutiny of applications for subsidy, instructions etc. are performed at regional offices. MPEDA has brought down its staff strength in the last few years. However, with the reduction of the non-registration work and withdrawal of some subsidy schemes, the strength of the non-technical support staff can be brought down, especially in marketing services and in administration.

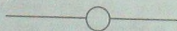
Quality of service

5.43 The exporters are generally happy with the services being rendered by the Authority. MPEDA has been taking up exporters' problems with the central government effectively. The exporters want one more office to be opened in Europe. They also want MPEDA to extend greater assistance for participation in international fairs.

5.44 MPEDA can render better service to the exporters by making the trade information service more comprehensive and topical. For this purpose MPEDA may have to keep a close watch on the developments in the major markets especially in the matter of quality, hygiene and safety standards so that exporters are forewarned of such barriers. MPEDA must strive to, not only upgrade the quality and hygiene standards of all processors but also closely monitor the maintenance of such standards by all the exporters lest the lapses of one or two exporters should bring a bad name for the entire marine exports of the country.

5.45 The services rendered to shrimp farmers have been excellent. The industry has been facing many problems especially viral attack. The maintenance of quality is of paramount importance especially control over pesticide and antibiotic use and MPEDA shall have to continue its education and training programmes for farmers. Since most of the farmers are small holders the responsibility of MPEDA is all the more important. Advice on the availability of quality shrimp seeds and feeds and dissemination of information on prices are the services which MPEDA can render to growers apart from keeping them informed of the developments in the industry including any changes in the rules and regulations and directions governing aquaculture farming.

5.46 What aquaculture farmers want from MPEDA is assistance for, and technical help in, the control of viral diseases which otherwise can ruin the farmers. The technical and scientific personnel have a major responsibility in this regard. The best service that MPEDA can render to the industry is in the area of control of diseases through suitable advice and assistance and technical help.



AGRICULTURAL AND PROCESSED FOOD PRODUCTS EXPORT DEVELOPMENT AUTHORITY

3.6.1 The Agricultural and Processed Food Products Export Development Authority (APEDA) came into being from 13th February 1986 under the Agricultural and Processed Food Products Export Development Act. APEDA replaced the Processed Food Export Promotion Council.

6.2 APEDA is responsible for the development and export promotion of fifteen scheduled products, the most important of which are fruits and vegetables, meat and meat products, poultry and poultry products, horticulture and floriculture products and rice (non-basmati).

6.3 In addition, APEDA has been entrusted with the responsibility to look after some non-scheduled items such as basmati rice, wheat, sugar etc.

Growth of Exports

6.4 The export of products looked after by APEDA has been showing steady increase, though the exports of cereals has been erratic due to a variety of reasons, including substantial variations, from year to year, in the availability of surplus for exports as well as fluctuations in their international prices. The following table brings out the growth of exports of the scheduled products during the last few years:

Table 3.6.1. Growth of exports of APEDA scheduled products
(Quantity in tonnes, value in rupees - crores)

Item	1991/92		1995/96		1997/98		1999/2000	
	Qty.	Value	Qty.	Value	Qty.	Value	Qty.	Value
Floriculture & Seeds	8419	30.89	9446	103.22	5851	137.13	8180	189.00
Fruits & Vegetables	493609	294.45	544105	531.12	566896	585.25	502778	647.00
Processed Fruits & Vegetables	79969	157.78	193509	497.57	298931	761.47	373912	994.00
Other Processed foods	126150	196.24	448191	1163.09	523720	1494.88	352156	1494.49
Animal products	166727	251.09	183898	674.34	197930	908.37	195382	905.08
Cereals	11,98,233	920.28	55,74,578	4,951.78	24,04,306	3,383.57	17,06,794	3,113.83
Grand total	20,73,107	1,850.73	69,53,727	7,921.12	39,97,634	7,270.67	31,39,202	7,365.40

Allocation of funds to APEDA

6.5 APEDA receives funds from the Government of India for plan schemes and also gets non-plan grants. The allocation matches more or less with the cess amounts collected at the rate of 0.5% ad valorem on export of the scheduled products.

Table 3.6.2. Cess amounts collected and allocation of funds to APEDA

Year	Allocation of funds (in crores)			Total cess amount collected (in crores)
	Plan	Non-Plan	Total	
95-96	19.32	2.00	21.32	33.48*
96-97	19.64	2.75	19.39	28.64
97-98	33.20	2.75	35.95	27.86
98-99	30.70	3.00	33.70	38.97*
99-2000	30.70	3.00	33.70	26.95

*Export of non-basmati rice was around Rs.4000 crores.

Constitution of the Authority

6.6 The statute provides for a membership of 40 as under:

- i) A Chairman, three Members of Parliament, the Agricultural Marketing Adviser to the Government of India, one representative of the Planning Commission, eight members to represent the various concerned ministries of Government of India, five members to be appointed by the central government by rotation in the alphabetical order to represent the states and the union territories; and seven members representing various central government institutions. In addition there are to be twelve members to represent the following industries:
- ii) fruit and vegetable products industries;
- iii) meat, poultry and dairy products industries;
- iv) other scheduled products industries;
- v) packaging industry;

Central Government may also appoint two members from amongst specialists and scientists in the field of agriculture, economics and marketing of scheduled products.

6.7 The Authority has too many nominees of governments and government institutions, and the strength is also large. As discussed in Chapter 2, it would be suffice to have a smaller and compact board. It is recommended that besides the chairman and three Members of Parliament, the rest of the membership may consist of five members to be appointed by rotation, to represent the states in the alphabetical order; a

nominee each of the following departments of Government of India-Commerce, Agriculture and Food Processing, and one nominee each of the following organisations: -National Horticulture Board, Central Food Technological Research Institute, and the Indian Council of Agricultural Research; seven exporters, one each from the following groups of industries- floriculture, seeds, fruits and vegetables, processed fruits and vegetables, animal products, other processed foods and cereals; two more members from among experts or specialists in foreign trade or scientists or outstanding exporters of any of the industries coming under APEDA's mandate.

Organisation of APEDA

6.8 The organisation of APEDA has evolved in response to the importance attached to the various functions and activities. The division of work is along the following lines:

- a) Fresh and processed fruits and vegetables
- b) Animal products
- c) Floriculture and infrastructure
- d) Other processed fruits
- e) Cereals, registration & trade information and
- f) Administration and Finance.

The function of trade information, facilitation and computerisation will require APEDA's closer attention. APEDA may like to organise these activities into a compact division but looked after by a professional well versed in these aspects.

6.9 APEDA has 5 Regional Offices to attend to export promotion, registration and such other activities and for liaising with the state governments. In other states, APEDA has virtual offices.

Functions of the Authority

6.10 The major functions of the Authority are:

- a) The development of the industries relating to the scheduled products for export
- b) The registration of persons as exporters of the scheduled products
- c) The fixing of standards and specifications for the scheduled products for the purposes of export
- d) Improving the packaging of the scheduled products
- e) Improving the marketing of the scheduled products outside India
- f) The promotion of export orientated production and development of the products

6.11 The mandate of APEDA is thus quite wide; and especially the developmental function of the scheduled industries appears to duplicate some of the business, responsibility and mandate of the Ministry of Food Processing Industries(MFPI), the National Horticulture Board(NHB) and the Ministry of Agriculture. The National Horticulture Board extends assistance for the development of post harvest infrastructure and marketing of horticultural products; and MFPI gives assistance for food processing and marketing of horticultural products; and MFPI gives assistance for food processing and marketing of horticultural products; and MFPI gives assistance for food processing and marketing of horticultural products; and MFPI gives assistance for food processing and marketing of horticultural products. APEDA has been confining its activities only to those aspects of the scheduled industries which have relevance for exports. The focus of APEDA has been on post harvest improvement, quality upgradation, infrastructural development etc., and hence in practice, there has not been any conflict in terms of jurisdiction nor any duplication of schemes.

A review of the activities

6.12 The major activities of the Board can be broadly classified as :

- a) Post harvest management
- b) Infrastructural upgradation
- c) Quality improvement
- d) Market intelligence and export promotion

a) Post harvest management

This is a neglected aspect of India's agriculture and is the main cause of the huge wastage at farm level and damage to quality of agricultural products. However, in the present scheme of things, this aspect receives not much attention from the state agriculture departments. But exports will become increasingly difficult if quality aspects are not given due attention; hence the importance of adoption of appropriate post management practices. Therefore, till these practices become widespread, APEDA may have to continue to concentrate on this activity in select areas.

b) Infrastructural upgradation

Infrastructural deficiency is another major problem for Indian agriculture and is the basic reason for the huge storage losses and shorter shelf life of agricultural products. This deficiency is also the weakest link in India's agricultural export marketing. APEDA may have to, not only continue to perform this role but will also have to devote more resources for this activity. The focus has to shift to development of infrastructure in the entire chain of activities from farm to the market. APEDA may have to play the role of co-ordinating and dovetailing the activities of state and central government agencies involved in infrastructural development.

c) Quality improvement

The importance of quality can not be overemphasized. This activity should also cover activities such as the establishment and notification of standards, improving packaging etc. As quality standards are becoming increasingly important, this activity will also have to receive APEDA'S major focus.

APEDA may have to become more proactive in developing product, production and hygiene standards and inspection procedures for products of export interest. APEDA have to co-ordinate the activities relating to creation of a data base of such standards of important importing countries with a view to harmonising India's standards in line with those standards and that of Codex Alimentarius].

d) Market intelligence and export promotion including the registration of exporters etc.

Export promotion would entail market research both with regard to the existing as well as potential markets. Analysis of these markets is imperative for evolving any meaningful export strategy. Market intelligence should also include work relating to technical standards, quota structure, customs duties and non tariff barriers to trade

in those markets. APEDA would need to equip itself to gather such information on a continuous basis and thus be able to guide the exporters on a proactive basis.

Schemes of the Authority

6.13 APEDA has been operating a large number of schemes in pursuance of its major objective of export promotion. They are detailed below:

Market surveys

Name of the Scheme	Objective	Subsidy involved	Subsidy given during the period 1997/98 to 1999/2000	
			Number of beneficiaries	Rupees in lakhs
Scheme for feasibility studies and surveys, consultancy and data base upgradation	To generate data base for the benefit of the industry	50% of the cost subject to a maximum of Rs.2 lakhs per individual and Rs.10 lakhs to PSUs/Government etc.	60	554

6.14 Many useful studies have been undertaken and surveys conducted so far, varying from studies on export of mushroom and on ethnic food, to studies on setting up common infrastructure facility for eggs and on micro propagation through tissue culture techniques. This facility for conduct of studies and surveys is essential. A review of the findings of the studies and the follow up activities necessary may be undertaken by the Authority annually.

6.15 Under infrastructure development the following schemes are being operated:

a) Assistance for purchase of specialised transport units for meat, horticulture & floriculture sector	To reduce the cost of the capital equipments	25% of the cost subject to a maximum of Rs.2.5 lakhs.	33	55.40
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6.16 Since the capital cost of reefer vans in India is high, subsidy is necessary to make the export viable. This scheme may continue till the 10th plan.

b) Mechanisation of harvest operation of the produce	To ensure that the quality of the export products is maintained	50% of the cost subject to a maximum of Rs.5 lakhs	—	—
c) Setting up of sheds for intermediate storage and grading/cleaning operations			18	78.21

d) Purchase of intermediate packaging materials for domestic transportation of the product			7	8.16
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6.17 Infrastructural facilities are crucial for making exports possible as well as viable, but the responsibility for all these activities rests with the agriculture departments of the states and the centre. APEDA may continue the schemes only in respect of export products and that too in areas from where export products are normally sourced. The scheme for purchase of intermediate storage materials which is of a recurring nature may be discontinued at the end of this plan period.

a) Setting up of mechanised handling facilities including for sorting, washing	To improve the quality of perishables	50% of the cost subject to a maximum of Rs. 10 lakhs	21	97.97
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6.18 These are essential facilities to ensure quality as well as quick handling, they may be continued.

b) Setting up pre cooling facilities		50% of the cost subject to a maximum of Rs. 10 lakhs	79	379.16
c) Facilities for preshipment treatment		25% of the cost subject to a maximum of Rs.10 lakhs	1	1.39
d) Setting up of integrated post harvest handling system - Pack Houses	To improve overall quality and preservation	25% of the cost subject to a maximum of Rs.25 lakhs	5	61.70

6.19 Essentially these schemes should be operated by the agriculture departments of the states/ ICAR. In their absence, APEDA may continue the scheme for export products only. However, the pack-house concept needs to be promoted on a more aggressive note and APEDA may continue to co-ordinate with the state governments for the purpose of exports.

6.20 APEDA may also formulate a scheme whereby assistance could be provided to entrepreneurs for setting up pack-houses, purchase of reefer vans, specialised cold stores and other infrastructure requirements to cater to the needs of smaller exporters and farmers/societies who are not in a position to invest in such infrastructure

because of smaller volumes and or due to financial constraints. The advantage of such infrastructure development by private entrepreneurs would be to bring economies of scale resulting in the overall development of the economic activity in a given area.

e) Setting up of vapour heat treatment facilities	To ensure acceptability of the products	50% of the cost subject to Rs. 50 lakhs	--	--
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6.21 This is a specialised facility which is required to ensure acceptability of the products such as mangoes. These facilities will not come up in the private sector, hence may have to be continued.

f) Setting up of environment control system	To encourage units to control pollution	50% of the cost subject to a maximum of Rs.50 lakhs	1	22.83
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6.22 This is an important measure but not specific to exports only. Ministry of Environment and Forests in association with the state governments operates a similar scheme. Hence, it is recommended that the scheme may be phased out.

g) Specialised cold storage facilities	To enhance shelf life	50% of the cost subject to a maximum of Rs.50 lakhs	3	17.46
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6.23 This kind of an infrastructure facility will not be viable for some more time till volumes pick up, but it is essential. Hence the scheme may continue.

6.24 The following schemes are being operated as part of export promotion and market development activities:

a) Supply of product samples	To help exporters to find new markets/	Cost of sample or freight subject to a maximum of Rs.50,000	-	-
b) Assistance to exporters for publicity through literature etc.	-	40% of the cost subject to a maximum of Rs.2 lakhs	47	18.55
c) Brand publicity through advertisement	-	40% of the cost subject to a maximum of Rs.1 lakh	-	-

6.25 These individual exporter oriented schemes may be phased out by the end of the plan period. All the marketing related schemes should be a part of a larger package of promoting identified produce/product in a designated market. Any publicity is meaningless until it is a part of a campaign backed by a supply of quality product. The schemes should emanate out of a well thought out comprehensive programme of export promotion. Isolated subsidization of a particular activity without backward and forward linkages will not help to achieve definite growth in exports.

6.26 APEDA itself prepares product literature, publicity materials etc., to help exporters as a class. Such efforts including publication in foreign languages may continue as these measures will help the industry as a whole. This however, should be a part of overall package.

d) Development of packaging standards	To improve packaging & to add value	50% of the cost subject to a maximum of Rs. 50 lakhs	223	192
e) Assistance for using standards and specific packaging materials	-	30% of the cost subject to a maximum of Rs.1 lakh	-	-

6.27 The above two packaging schemes could be discontinued. APEDA may work with the Indian Institute of Packaging for any development needs or requirements and meet a portion or full cost of development of new packaging materials or systems. Standards so developed by IIP should also be utilised by exporters so that the products exported are of better quality, shelf life and presentation. For this purpose, APEDA may develop suitable schemes to encourage exporters to adopt such packaging as are developed by IIP or other international agencies.

6.28 The following schemes are being implemented with a view to ensure quality improvement, compliance with quality standards etc.

a) Assistance to exporters for setting up/ strengthening labs	To ensure safety of food products	50% of the cost subject to a maximum of Rs.5 lakhs.	-	-
b) Assistance to exporters for installing quality control systems	To improve quality	50% of the cost subject to a maximum of Rs.2 lakhs	-	325
c) Upgradation of labs for export testing		50% of the cost subject to a maximum of Rs. 50 lakhs. 100% can be considered for state governments Universities etc.	-	-

6.29 Adherence to quality standards is essential for export of agricultural products and processed foods and since this culture is only taking root now, it is necessary to continue the schemes till the 10th plan to encourage exporters to set up quality labs, adopt quality assurance systems etc. The scheme of assistance to exporters for installing quality systems like ISO, HACCP etc., may also be extended to all related laboratories both in the private and public sector. The upgraded labs can be utilized for issue of export inspection certification.

6.30 APEDA could also take up a new scheme for assisting export of agricultural products in value added form.

The following schemes are part of human resources development efforts:

HRD schemes involving subsidy for training, for organising seminars, study tours etc.	To train farmers and exporters	The subsidy amount varies but a maximum of 50%	62	98
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6.31 APEDA has been developing quality manuals for important products like mangoes, grapes etc. Such efforts have to continue for all other scheduled export products; also preparation of good hygiene practices. APEDA may have to continue its training and quality awareness programmes in association with ICAR, state governments, grower societies etc.

6.32 APEDA has introduced the following scheme to improve the slaughter houses.

Schemes for upgradation of slaughter houses/ processing plants engaged in export.	To improve hygiene	85% of the cost in case of government or municipal slaughter houses; 25% in case of privately owned slaughter houses, subject to a maximum of Rs. 25 lakhs.	8	143
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6.33 The improvement of slaughter houses is the responsibility of the state governments and of the Ministry of Urban Development and the Department of Animal Husbandry. The schemes may be phased out.

Research Schemes

Schemes for supporting research and development	To increase competitiveness	50% of the cost subject to a maximum of Rs. 5 lakhs to private institutions and 10 lakhs to governments	51	364
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6.34 In addition to supporting research schemes, APEDA itself carries out research through recognised institutions. Some of the research programmes like disinfection of fruits from pests fall within the ambit of ICAR being its normal work. But if these aspects are not given the due priority by ICAR, then APEDA may continue to conduct such research work through ICAR and other institutions; similar course of action may be taken in the interest of export promotion in regard to the activities such as the setting up of CA laboratory to improve shelf life. APEDA may however fund only such research work which will help in improving exports.

6.35 At present, no work is being done in the country on risk assessment and analysis of various products. There is a tendency amongst developed countries to lay down strict standards for developing countries like India. We may have no option but to accept them in the absence of such risk analysis. There is a need to develop scientific capability and capacity for risk analysis to enable effective participation in Codex Alimentarius deliberations and to ensure that unnecessarily stringent standards are not prescribed. Such analytical work would also help in monitoring imports in the new trade scenario. With this objective in view, APEDA may take up such research activity through suitable research institutions. APEDA may develop a scheme to encourage private sector research on risk analysis.

Air freight scheme

6.36 APEDA is continuing the air freight subsidy scheme for certain fruits, vegetables and floriculture. The subsidy is limited to 1/3rd of FOB value, or Rs.10/- or Rs.25- depending upon destination, or 25% of IATA rate, whichever is least.

6.37 The justification for the subsidy is the inadequate and poor infrastructure in India which increases the cost, as also the high cost of air freight from India when compared to other competing countries. A study by the National Council of Applied Economic Research has established that the assistance by APEDA has really helped the exporters to gain a foot hold in the world markets. The study also brings out the cost effectiveness of the subsidy; every rupee spent during the period of 1993/94 to 1997/98, by way of financial assistance in the case of grapes, has generated on an average, US \$ 0.44 worth of foreign exchange.

6.38 Assistance will be required in the initial years when a new product - especially an agricultural product has to make an entry into a new market; however, the subsidy cannot be continued perpetually. Subsidy is justified only where the growth potential is high and such growth prospect is visible. It may be more beneficial to exporters if excellent infrastructural facilities are created and assistance is extended in production and post harvest management etc. At present the air freight subsidy amount is not high- around Rs. 10 crores only - but it is recommended that the need for, as well as, the quantum of subsidy may be reviewed after say 2, 3 years on the basis of following criteria:

- a) that the export market for the product is large;
- b) the export volume has been improving steadily;
- c) we have inherent cost advantage in the production of the commodity;
- d) the ratio of sale price realised to transportation cost has been improving gradually.

Responsibility relating to standards

6.39 An important function of APEDA is laying down standards. APEDA has notified so far standards for meat, animal casing products, egg products, dairy products and poultry meat. It is recommended that APEDA may take expeditious steps to finalise the standards for all scheduled export products.

6.40 Two related areas require the close attention of APEDA. Different agencies have the authority for laying down standards in India for different products and the enforcement agencies are also different. Many departments/agencies of Government of India are also involved. There is a need for a single authority to harmonise Indian standards with the international standards and notify them. The notification of such export standards can be done under The Export (Quality Control and Inspection) Act or any other statute but the process of harmonising the standards do not brook delay. Ministry of Commerce, through APEDA and other Commodity Boards may take the lead to carry out the exercise.

6.41 A system has also to be evolved for accreditation of laboratories/institutions which will be qualified to issue certificate of compliance with export standards. Guidelines have to be prepared and notified for recognition of such certifying labs, the norms of recognition and their responsibilities. It will be necessary also to notify the agencies which will be responsible for monitoring the institutions/laboratories which will be permitted to issue the quality certification for export. A transparent inspection procedure has also to be established. Since quality standards are going to be biggest constraint for exports, APEDA may take the lead in this direction through the Ministry of Commerce.

Organic Products

6.42 The demand for organic products is growing and already exports of organic tea, coffee and spices etc., have commenced. The Ministry of Commerce, have already done commendable work in the area of standards for organic food etc. Further action to notify the agencies which will establish specific standards is stated to be under way. It is recommended that APEDA and other Boards formulate an integrated programme to help agricultural producers of organic products. The assistance could cover the preparation of their publicity material, the reimbursement of inspection fees etc.

6.43 A major trend overseas is towards greater consumption of fresh fruits and vegetables. India has great opportunity to capture the market for fresh fruits and vegetables but there is need for improvement in the following areas, apart from management, quality and consistency, processing reliability of supply - post harvest management, quality and consistency, processing and packaging, hygiene and safety. Obviously, the entire range of actions required to ensure all round improvement in all these areas cannot be undertaken by APEDA. But the success achieved by APEDA in grapes, the export of which has grown from just Rs. 6 crores ten years back to Rs. 66 crores last year is an example to follow for other products also.

6.44 Export marketing calls for volumes, as well as improvement of quality, including packaging. APEDA has proposed the development of Value Added Centres at around 60 places, based on the production profile of horticultural products. At these centres all the required facilities for drying, grading, sorting, warehousing including cold

storage, price information, marketing assistance etc., are expected to be provided. It would be cost effective to provide all the facilities in these identified places because of volumes. It is recommended that APEDA devise a strategy and evolve a programme to start a few pilot centres, so that the concept really catches on.

Analysis of the existing manpower

6.45 APEDA has the smallest component of manpower among the Boards as it has no production or research functions. The distribution of staff strength is as follows:

Table 3.6.3. Manpower of APEDA

Functions	Officers	Staff	Total
Head Office			
Administration including Finance	6	11	17
Trade Fair & Information Registration etc.	6	11	17
Product Divisions	14	39	53
TOTAL	26	61	87
Regional Offices			
Bangalore	1	3	4
Guwahati	1	1	2
Hyderabad	2	2	4
Kolkata	1	2	3
Mumbai	2	4	6
TOTAL	7	12	19
GRAND TOTAL			106

6.46 APEDA, notwithstanding the need to concentrate on post harvest management may not create new posts or recruit any additional staff for such activities. Most of the tasks will call for special expertise or qualified personnel and their services may be required for short duration only. APEDA may either appoint consultants for any special studies/tasks, or take experts on deputation for specific projects. This is the best way to have the services of highly qualified experts for specific projects, without having to continue their services permanently. It is recommended that APEDA be given the authority to take on deputationists or appoint qualified consultants for approved projects. APEDA may evolve suitable guidelines in this regard.

Quality of service

6.47 APEDA has rendered satisfactory service to exporters of agricultural and processed food products. The major constraint is the lack of interest in, and attention to, post harvest management and quality aspects in our country except in isolated pockets. The concept of food safety and hygiene are also being recognised and accepted only of late. Absence of a long term export policy for agricultural products is another major handicap in exports.

6.48 Exporters would like APEDA to concentrate on infrastructural improvement projects, besides continuing the work on post harvest management. The exporters also want the subsidy regime to continue. APEDA has created cold storage infrastructure at Airports. APEDA may pursue with the Airport Authority of India the privatisation of the cold chains at Airports so as to ensure sufficient flexibility in operations and efficiency in management.

6.49 APEDA may maintain close liaison with ICAR/state governments in regard to improvements in post harvest management of a few selected agricultural products and atleast in selected production centres.

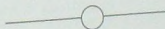
6.50 An excellent service by way of unique virtual trade fair has been started. APEDA would be rendering a grand service to exporters by making the internet based Virtual Trade Fair an effective trade promotion measure. The cost of participation may be kept low for the present, so that it is affordable to even small scale exporters. APEDA may also launch initiatives to popularise the virtual trade fair and also give publicity through overseas missions.

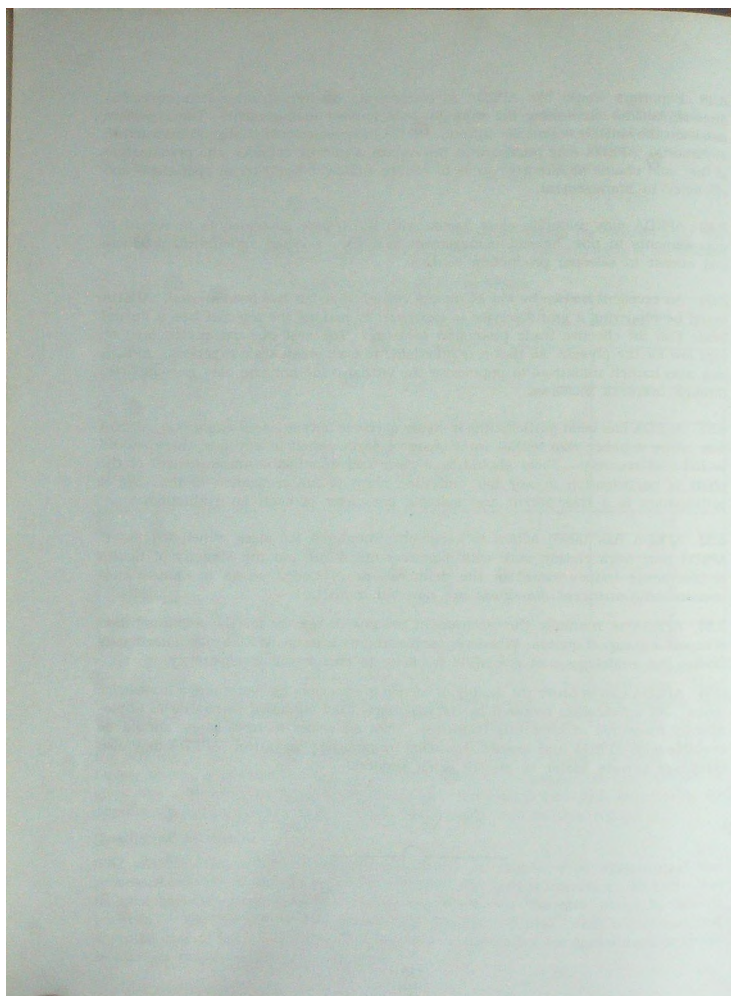
6.51 APEDA has been participating in many overseas fairs to assist exporters. APEDA may evolve a policy that within three years of participation in any fair, there should be full cost recovery. There should be a clear and quantifiable measurement of the utility of participation in any fair and the norm of full realisation of the cost of participation is a transparent and suitable barometer of such an evaluation.

6.52 APEDA has taken action to establish standards for many scheduled items. APEDA may work closely work with exporters and ICAR and the Ministry of Health to coordinate india's stand in the deliberations of Codex so as to ensure that unnecessarily stringent standards are not laid down.

6.53 APEDA is normally the government designated agency for the administration of import and export quotas. Whenever such authority is given, APEDA may immediately finalise the guidelines and give wide publicity to ensure full transparency.

6.54 APEDA can improve the quality of service to exporters by becoming a knowledge centre. All information required by the exporters, from national standards to phytosanitary measures of importing countries, data on prices to tariff rates, should be available with APEDA and readily accessible by exporters, for a fee. APEDA may also encourage private sector to provide such services.





CHAPTER IV

4.1 The orientation of Tea, Coffee and Natural Rubber Boards has so far been towards production, as the development of the industry is the main mandate of the Boards. The main focus of the Export Development Authorities has been on export promotion; they do not have the responsibility for the development of the industry. The Spices Board's major function has been the promotion of spices export, along with the responsibility for the development of only one spice, viz-cardamom.

4.2 The Commodity Boards which were formed earlier were vested with enormous authority and complete control over the industry. Thus the Coffee Act regulated entire processing and marketing. The Rubber Board regulated even planting though marketing was not part of its mandate. The Tea Act gave powers to the Board to control even area expansion because, as per commitments under the then International Tea Agreement, area expansion had to be regulated and new planting controlled.

4.3 In view of the liberalisation policy initiatives taken in the last one decade and in the light of the developments in the economy and in the commodity sector, it would be appropriate to review the mandate of the Boards to determine the need for a change in the mandate, the functions and the activities of the Boards.

Controls to deregulation

4.4 A change that is overdue is in the control and regulation functions of the Boards. The plantation sector was in nascent stages when the Boards were formed and hence comprehensive management of the industry was required. All the development functions and activities had to be necessarily performed by the Boards. Many of the control provisions in the various statutes were considered necessary for the orderly growth and development of the industry.

4.5 In the last few decades, the situation has completely changed. The plantation sector has come of age. The circumstances which necessitated the various control measures and warranted the regulation of the different aspects of the industry either no longer exist or cease to be of relevance. The demand of the growers now is for withdrawal of all controls and needless regulation. It is the coffee growers who spearheaded the movement towards complete liberalisation of coffee marketing from the earlier 100% monopoly of the Board. There is also no need to regulate planting. What was needed or relevant a few decades back is not even rational today. Hence all the control provisions in the statutes can be withdrawn. Already some of the provisions are not being enforced, like regulation of planting in the case of rubber; but the Tea Board is still continuing with the activity. Control over movement in the case of rubber and control over warehouses, marketing etc. by the Tea Board are also continuing. The Coffee Board has given up processing and marketing controls but is continuing the export permit system. All the controls need to be given up and the process of deregulation completed. This is an overdue reform.

Production to competitiveness

4.6 Earlier the emphasis of the Boards has been on growth of production. The growers had to be provided with knowledge and service in the areas of production and processing and extended all assistance in the related matters. Now the growers have become knowledgeable; there is extensive and widespread awareness of technology including of farm practices and processing techniques. Growers have started keeping themselves abreast of the developments, including of the market conditions and prices. A study has revealed that there is high awareness, among the growers of rubber, of the daily movement of market price of rubber in the Kottayam market and hence the growers are able to demand from the dealers and also obtain at the farm gate level, over 90% of the reported market prices. Many coffee growers are known to follow the price quotations of New York coffee futures, apart from the domestic auction prices. The small growers in cardamom also are generally well informed and the participation in auctions is very high.

4.7 The environment in which the commodity sector operates today is totally different from what was prevailing in the early days of the Boards. The changes have been rapid in the last few years. The competition in the overseas markets has become fierce and the threat of competition from imports is real. Hence the need is for efficiency and capacity to face competition. The growers are well prepared for this and their demand and expectation is not for protection, but for a level playing field.

4.8 Rightly the emphasis in the past has been on production. The concentration on this primary mandate has paid rich dividends and the Boards have really achieved excellent progress. Now the orientation has to shift to productivity and quality improvement and competitiveness. Production has to be encouraged and has to grow but the industry has to become also competitive, so that not only in the international market it is possible to compete effectively but in the domestic market also it becomes easier to face competition from imports. To be able to achieve this objective, the Boards have to devote all attention to productivity enhancement as well as quality improvement and assurance. Research will have to become the most important activity of the Boards and receive the highest attention and adequate resources. The Export Promotion Authorities will have to concentrate their attention on post harvest management. The focus has to shift to quality assurance and quality control. Only through productivity improvement and quality enhancement and assurance, the plantation sector can remain competitive. The mandate of the Boards has to be not mere production or development but also achievement of competitiveness.

Subsidies and incentives to Capacity Building and Information

4.9 The growth of production has been the most important objective of the Boards. Loans and subsidies were the major instruments through which the development objective of the Boards was sought to be achieved. The developmental assistance extended by the Boards has no doubt been instrumental in giving a fillip to the growth of the plantation sector. A large percentage of growers have been assisted with developmental assistance. In the case of rubber almost 50% of the growers have

benefited from replanting/ new planting subsidies. Coffee and spices growers have also been receiving substantial assistance. In the case of tea there is a special provision to set apart a portion of the profits into a reserve fund for use for the purpose of replanting and rejuvenation. However, the tendency of the Boards has been to continue the schemes of assistance including subsidy schemes indefinitely, so much so that the major activity of the Boards has become in recent years, the administration of subsidy schemes. The time of the extension personnel were being devoted more to the administration and monitoring of the development schemes than to the provision of extension service. The subsidy culture has not been confined only to the area of production but extended to other areas such as processing and marketing.

4.10 Subsidies have a role and would be necessary in some circumstances. Some subsidy may be justified where for various reasons, the costs are high or new processes have to be introduced or ideas popularised; or where growers have to be induced to adopt measures which are more for the benefit of the society as a whole like pollution control measures. The Boards may have to continue assistance for quality upgradation and assurance till the culture of quality permeates the entire commodity sector and the society.

4.11 The Boards however need to get out of the loan and subsidy syndrome. Even the subsidies in the limited fields/areas justified now, may be withdrawn by the end of the 10th plan period. The plantation sector has to tap the financial sector for its resources requirements like the rest of the agricultural sector. The growers have to be provided with information and knowledge about sources opportunities and facilities; they have to be provided with market literacy. The objective should be to enhance the capacity and capabilities of the growers through knowledge and information. The purpose of such enhancement of capacity should be to enable the growers to access credit and inputs and adopt appropriate farm practices, take informed decisions about marketing etc.

4.12 Thus the Boards may have to shift their focus from subsidies and assistance to awareness and capacity building of growers and move away from incentives to information.

Provision of Services to Facilitation

4.13 The Boards have been performing many activities in the areas of seed supply, extension services, quality control and marketing. In the past all these functions had to be carried out as there were no private service providers. But in the last few years, many of these services are being provided by the private sector. Private nurseries are meeting most of the planting material/seed requirements. Advisory services in the field of fertilizer applications and pest control are offered by the private sector, as also soil testing, leaf analysis and all processing and marketing services. In fact, practically all services are now available from, and perhaps can more efficiently be provided by, the private sector.

4.14 The constraint in some areas is the cost of services. The major problem in the case of laboratories and testing facilities is the cost of equipments coupled with low volumes which make the provision of services at reasonable and affordable rates, either difficult or non viable. But it may be more cost effective and definitely better to subsidise the private sector to some extent to enable them to provide the services, at affordable rates, rather the Boards themselves trying to provide the services. Whether it is soil testing or quality control labs, advisory services or cold storages, the Boards would do well to encourage a number of private service providers to establish facilities.

4.15 Similarly, the Boards may withdraw from direct marketing and promotion activities. Assistance for participation in fairs and exhibitions etc., may continue for some more time, but subsidy for such activities can be gradually phased out. The role of the Boards even in regard to fairs abroad could be confined to advance preparation, dissemination of information, co-ordination and assistance for participation but not direct participation in the fairs.

4.16 Only in the area of fundamental research, the Boards may have to continue to be fully involved and allocate substantial resources. Even in this area, some private initiative has begun especially in seed multiplication. Some privately funded research efforts have succeeded in developing new varieties. The proposed legislation to confer rights on plant breeders would definitely encourage investment in basic agricultural research. However large scale efforts and useful results are a few years away. Hence, the Boards will have to devote adequate resources for research in its own stations and through universities.

4.17 The future role of the Boards would be facilitation and transparent rule making. The Boards may help and assist private sector to provide all the needed services. But control and inspection may not be necessary. Even where the Boards lay down standards and quality parameters, the task of verification need not be undertaken by the officers of the Boards. The Boards may accredit certifying agencies which may check compliance with standards.

4.18 The Boards may certify seed/planting material producers but not involve themselves in seed production. The Board may educate the growers about prices, disseminate market information to growers, improve awareness, regulate the auction system but not conduct auctions or involve in market intervention operations. As regards overseas marketing, the Boards may assist, say in publication of brochures and facilitate the participation of exporters in fairs and exhibitions but not market the products themselves or conduct fairs. In every field, Boards may have to ensure transparency and fair play by service providers and for this purpose, lay down guidelines, procedures etc., but the Boards need not provide or perform the services hereafter.

Bureaucratic Organisation to a Knowledge Centre

4.20 The Boards have evolved over the years into bureaucratic organisations. The bureaucratic administrative set up was perhaps necessary and unavoidable in the past when the emphasis and thrust was on the development of the industry and the

major instrument of extension and development was subsidy schemes. The Boards had also to perform many control functions and had to carry out a number of activities which necessitated a large conventional organisational set up. But with the liberalisation of the economy, the role and functions of the Boards will be different hereafter. Many functions may have to be shed and many activities may have to be given up. When the subsidy schemes are phased out and the promotion units closed, a large part of the organisation of some of the Boards may also become redundant. Moreover many of the existing personnel of the Boards may have to completely be retrained and reequipped to be able to fit into the new role of the Boards.

4.21 The major functions of the Boards will be facilitation; and the Boards will have to become also the primary source of all relevant information to growers, processors and exporters, in fact, all stakeholders. The communication and computer technologies will greatly facilitate this transformation to take place and make it more effective. Then the role of the bureaucracy of the Boards will cease to be mere administration. The Boards will have to become knowledge centres.

4.22 Knowledge will be the key to survival as well as success in the coming years in any field. Knowledge spreads fast and every nation has the advantage of benefiting from the emerging technologies and achieving growth and efficiency. If Indian commodity sector has to remain competitive, then in all fields - research, adoption of improved farm practices, post harvest techniques, quality assurances and marketing - it has to be world class. In these areas, knowledge has to be disseminated to the growers, the processors and the trade. In the field of marketing, quality norms and consumer preferences, packaging standards to hygiene and safety aspects, all critical inputs to success, as well as, information about prices to standards, from tariff to non-tariff barriers, have to be gathered and passed on to the exporters. The communication and computer technology can help quick and widespread dissemination of such information, data, analysis and knowledge.

4.23 The Boards will have to evolve a system to acquire knowledge and information in real time in all fields; then only the Boards can help all stakeholders. The present administrative set up obviously may not be equal to the task. The Boards have to develop expertise, not necessarily inhouse; the Boards may have to tap various sources for realising this objective. Hiring consultants, outsourcing some tasks, entrusting the responsibilities to specialised units or institutes may all be required. The Boards will have to be given all the freedom and flexibility for this purpose. The objective to be achieved is to develop expertise, acquire knowledge in all fields so as to provide competent and quality service to all sections of the industry, efficiently and effectively.

4.24 Simultaneously, the process and method of dissemination of information and sharing of knowledge may have to be streamlined. Apart from the conventional methods of group meetings and seminars, field visits to publications, the use of internet may have to be popularised. The Boards may have to quickly improve their web sites, critically examine the contents and evolve an effective method of updating the contents and data. These tasks are neither difficult nor will be expensive. The Boards can

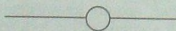
also make every field office into an virtual extension and marketing office so that any grower or processor or exporter, in fact any interested party, can get the best of services from these offices. The Board may also encourage grower organisations to establish internet kiosks to help growers to obtain all the information and advisory services which they need and want from the Board. The Board may also provide the facility to seek information or advice through electronic mail and even obtain licences/ permits if needed at all. All these ideas and suggestions may look futuristic now or may appear out of place today, but will become common in the days to come and the Boards may become the trend setters in this new, but exciting and effective medium as they are best suited to make a success of the technological tools.

4.25 This paradigm shift in the role and functions of the Boards will also call for a change in the ethos and work style of the organisations. Obviously the Boards will have to become leaner, with many experts and knowledgeable people joining the organisation. But then the Boards would need less administration.

4.26 The changes that will become necessary in the organisation and in the work place cannot be effected quickly. There may be and will be resistance to change. The transformation hence may have to be gradual without causing any difficulties and injury to the existing personnel. But the move towards the new role and functions will have to start and the direction set. Then only the Boards will be able to contribute to the strengthening commodity sector and make it globally competitive and prosperous in the years to come.

4.27 The mandate and the functions of the Board thus will have to change from controls to deregulation, from mere development to achieving competitiveness, from incentives to information and from direct provision of services to facilitation; and the Boards will have to be transformed from mere bureaucratic organisations into knowledge centres.

4.28 The Commodity sector will then in the coming years become globally competitive and flourish and be able to significantly strengthen India's agricultural sector and contribute to the growth of the economy.



PART II

An approach to Commodity Price Stabilisation

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Over a million planters in India, most of them small growers are engaged in the cultivation of plantation commodities -Tea, Coffee, Natural Rubber and Spices. The direct employment in the commodity sector exceeds another two million. The number of families sustained by plantation commodities will be much more if employment in input supplies, processing, transportation and marketing are taken into account.

2. Agriculture including the plantation commodities and fisheries are important not only for India, but also for a large number of developing countries. A great majority of the population in many of these countries earn their livelihood from commodities. More than fifty developing countries, depend upon three or fewer leading commodities like coffee, for more than half their export earnings. In fact, all Heavily Indebted Poor countries depend upon commodities and for 15 HIP countries, 90% of the export receipts came during 1997, from a few commodities like cocoa and coffee¹.

Importance of commodities to developing countries

3. According to a report of the Common Fund for Commodities, the number of countries for which commodities are of particular importance, either through their contribution to GDP, trade or employment is as follows:

Table 5.1. Importance of commodities to developing countries

Commodity	Total developing countries	Of which LDC
Coffee	35	18
Rubber	9	0
Fruits (all kinds)	26	6
Fish	21	13
Sugar	15	4
Cotton	26	17
Cocoa	14	4

4. Economic development of many developing countries thus depends upon, or is determined by, world commodity prices. Unfortunately the commodity prices have been depressed for quite some time. According to one estimate² the commodity prices, in real terms, have now been at historically depressed levels for two decades. Consequently the commodity exporting countries have suffered large terms of trade losses over this period. The rate of loss has risen sharply from about \$ 5 billion a year for the period 1981-85 to almost \$ 55 billion a year for the period 1989- 91. The total terms of

¹ Discussion Paper for the Round table on Commodity Risk Management in Developing countries, (1999) the World Bank.

² Alfred Matzels, (1999) Oxford University, UK. Economic Dependence on Commodities. A paper prepared for the UNCTAD.X High level Round Table on Trade and Development.

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trade loss from 1980 to 1992, has been estimated at about \$ 350 billion, with more losses in subsequent years. This is one of the major causes for the indebtedness of some of the poorer L D Cs in Africa.

Price fluctuations in commodities

5. Another characteristic of commodity prices especially plantation commodities has been their extreme volatility. The composite indicator coffee prices had swung from 71.73 c/lb during 1975 to US 229.21 c/lb in 1977. In the nineties, the robusta prices fluctuated from 52.50 c/lb in 1993 to 125.68 c/lb in 1995 and the composite indicator price from 61.63 c/lb to 134.45 c/lb.

6. The extreme volatility in prices has been afflicting Indian agriculture also and causing serious losses to growers, whether of coffee or potato. The vulnerability has only increased, of late. The prospect, at the time of sowing, of obtaining a reasonable price for the produce, but encountering depressed price at the time of harvest, has become a familiar situation and a serious problem for the Indian farmers. The assurance of Minimum Support Price is available for cereals and a few other commodities only and further the operation of the scheme is fairly effective only in respect of two major cereals, paddy and wheat. In respect of other commodities, the growers are exposed to the vagaries of the market.

Past attempts at price stabilization

7. Even since the depression years in the thirties, the commodity price fluctuations have been a central issue for the international community. It was realized that volatility in commodity prices would have adverse consequences for economic growth, apart from worsening income distribution, raising poverty and impeding investment. Though there were different options and schemes for consideration for the stabilization of prices, the preference of the commodity exporting countries was for International Commodity Agreements (ICA), with consumers' participation³. This is because, collective action by the producers to improve the commodity prices were found either difficult or had limited effect. Producers were concerned not only with the volatility in prices but also with the terms of trade, which were becoming adverse to commodities. Both the producers and the consumers wanted to ensure stability in supplies and prices. The motivation for the producers to seek International Agreements was the real possibility of low prices, due to excess supplies or disturbance in demand. The consuming nations' interests were in ensuring stability in supplies and to see that the producing nations were not driven to cartel arrangements.

8. The basic objective of ICA's have been the stabilization of prices and ensuring sustained and uninterrupted supplies. The other objectives of ICA's have been the stabilization of export earnings, increasing the consumption so as to ensure demand growth, provide a forum for consultations, besides acting as an institution for collection and publication of information etc.

3 S. Ghosh, C1 Gilbert & A.J Hughes Hallett (1987). Stabilizing Speculative Commodity Markets. (Clarendon Press, Oxford).

9. There have also been Commodity Agreements like the Jute Agreement, the objective of which has not been price stabilization but to implement projects in areas such as research and development, market promotion, trade expansion etc., besides acting as a forum for consultations and co-operation between producers and consumers.

10. There have been Agreements in the past in many commodities like Tea, Wheat, Cocoa, Sugar etc.

11. The International Coffee and Natural Rubber Agreements were two ICAs in operation for a number of years and were instrumental in ensuring a great degree of stability to coffee and natural rubber markets. A brief review is at Annex II.

12. Though the International Coffee and Natural Rubber Agreements were successful in stabilizing the prices during the period the economic clauses in the Agreements were in operation and in ensuring reasonable prices to the producers, there appears to be little likelihood of IC Agreements with economic clauses being renegotiated by the consuming nations, given the momentum towards liberalization and globalization and the emphasis on competition. Limiting supplies which is the key to the maintenance of prices, either through quotas or through the operation of a buffer stock scheme at international level may not be easy. OPEC's ability to maintain prices at high levels is entirely due to their ability to enforce supply discipline. One factor in their advantage is that the petroleum stock is not lost if production is deferred unlike in the cases of agricultural commodities especially tree crops like coffee or natural rubber, which commodities can not also be stored for long. Hence the buffer stock system or quotas may not be resurrected now, especially with the markets getting integrated and becoming increasingly competitive. Other avenues and methods have to be examined to ensure price stabilization.

Commodity Boards for price stabilization

13. The basic objective of and the motivation to ensure price stability, is in effect to assure a stable and reasonable income to growers every year. Marketing Boards were earlier considered a good mechanism for ensuring this objective. Boards were constituted in many developed countries to look after commodities - from potato to wheat. The Boards with a marketing mandate, had wide-ranging powers⁴. Under the British Potato Marketing Scheme, the Board could regulate production and control the volume marketed. In New Zealand, marketing Boards were established to look after the interests of the producers. The Primary Products Marketing Department established in 1936 provided for purchases at guaranteed price levels from producers, thus insulating them from the vagaries of the export market. Some of the Marketing Boards were required to purchase all the production from the growers and market the crop in the international market or/and domestically.

14. The earlier mandate of India's Coffee Board was also to procure all the domestic production, process the coffee and market the entire coffee either abroad and/or in

⁴ Sidney Hoos (1979). Agricultural Marketing Board - An International perspective. (Ed) (Ballinger Publishing Company)

the domestic market. The growers were given an advance against delivery and the balance after the sale of the coffee. Though Indian Coffee Board was mandated to procure all the coffee produced, neither there was any price guarantee by the Board nor any subsidy or help from the Government even during years of low prices; the growers were only spared the marketing botheration. The compulsory pooling system was relaxed by the government in stages and was given up a few years back as per the wishes of the growers. In the rest of the world also, the system of commodity Boards acting as monopoly marketing organizations of the producers has more or less been given up. Now the growers in India are averse to Commodity Boards undertaking any marketing functions, given the perceived inefficiencies and the inbuilt constraints against innovative marketing that any bureaucratic set up will suffer from.

15. A Commodity Board with marketing responsibility could act as an intermediary to even out the price realization for the producers by withholding a part of the price realization during the years of high prices and using the accumulated resources for supplementing the price offered to the growers when the prices fall below a threshold level. In New Zealand the support prices used to be guaranteed to the producers by the Wool Marketing Corporation. The Board used a combination of deficiency payments and market intervention to maintain support prices. One aspect of the arrangement was the retention of a portion of any growers' sale receipts that exceeded the government specified trigger prices. Such a system might be effective and acceptable to the grower community if the quantities and the quality of the commodity do not vary from year to year, except marginally, and the variations in prices are not also erratic, nor the price cycle too long.

16. Theoretically, the commodity Boards could also operate a buffer stock system to even out supplies and maintain the market prices. In practice however there could be many problems in the operation of such a scheme. Apart from funds constraint, a government or even a grower managed organization would face too many management problems, were large scale operations to become necessary.

The role of International Institutions and other efforts

17. With the collapse of all ICA's, the growers of commodities have been at the mercy of markets for quite some time. The international community, not even UNCTAD has any plans in the direction of alleviating the sufferings of commodity growers or commodity dependent countries. The only international arrangement is the Common Fund for Commodities established with the objective of financing international buffer stocks as well as commodity development through funding of specific projects. The Fund was established in 1980 following the UNCTAD Resolution calling for an integrated program for commodities covering ten core commodities. The function of financing buffer stocks has not been performed because the international buffer stocks have ceased to exist. Hence CFC has only been utilizing its funds for commodity development and supporting commodity processing to meet the requirements of global trade and trade financing development and assisting in commodity market development. As at the end of December 1998, CFC's financial resources amounted to just US \$438 million, including equity shares.

18. The International Monetary Fund introduced a scheme in 1963, to help commodity dependent countries facing temporary Balance of Payments difficulties. The European Community has also been operating a scheme to overcome the problems faced by African, Caribbean and Pacific states from shortfall in earnings from agricultural exports (Annex III). But all these efforts may, at best, help commodity exporting countries to tide over temporarily the problems arising out of volatility in commodity prices. None of these measures would really benefit, except marginally, the individual producers in these countries.

19. Price stabilization is now not even considered a desirable objective. A view advocated by an influential section is that artificial control of the market and regulation of market prices is neither desirable nor would be beneficial. Hence there is opposition to the revival of commodity management, notwithstanding the success of OPEC in realizing higher total revenues on lower dispatches of crude.

Price volatility is a problem for the developing countries only

20. The problem of volatility in prices affects only the poor and the developing countries. The farmers in the developed world are looked after well by the respective governments. Europe, Japan and US restrict imports of agricultural items of interest to them like rice, sugar etc. and thereby ensure high farm prices to their farmers. Producer prices for some key agricultural items were guaranteed in US until recently. The Common Agricultural Policy of the European Union has established a price support mechanism, which combines price support with direct income payments. This is in addition to the safety of high prices through import regulations and high tariffs. In view of the huge resources available with OECD countries, they could support their agriculture and extend subsidies to the agricultural producers to the tune of US 274 billion in 1998⁵. The access to the markets of the developed world is not available to developing countries because of such subsidies, besides high tariffs. Every farmer in OECD received in 1998 on an average US \$ 11000 and a farmer in US received on an average US \$ 19000. Agriculture producer subsidy is as high as 45% of farm output in EU and 63% in Japan(in 1998). The subsidies vary inversely with the market prices and thus the farmers in OECD are not affected by price volatility like the farmers in the poorer countries. Moreover most farm households in the developed world receive some income from non -farm sources. But in the developing countries, the producers will hardly have any alternate sources of income. The Governments also will not have the resources to support agriculturists when the production falls or when the prices slump.

The World Bank initiative

21. The World Bank realizing that the problems of volatility in commodity prices are serious and are required to be addressed, had convened in 1999 an International Task Force (ITF) on commodity risk management in developing countries to explore new, market based approaches to assist developing countries better manage their vulnerability to commodity price fluctuations.

5. World Trade Organisation document G/AG/NG/W/14 dt 23.6.2000

22. The discussion paper of the International Task Force in its preface brings out clearly the problems to the developing countries on account of price volatility - "In many of these (more than fifty developing countries, many of them in Africa) commodity production and trade affects the livelihood of millions of people, the governments' fiscal revenue and public expenditure, as well as the country's trade balance, foreign reserves and creditworthiness. Poverty reduction is a major objective in addressing the challenge of commodity risk management. Recent research has established that the uncertainty generated from commodity price fluctuations hampers growth and is associated with increases in poverty. Inability to manage uncertainty makes it difficult for farmers to plan their crops, allocate the resources, obtain credit for inputs and even simply recover costs. It also weakens the ability of governments to maintain a stable environment for domestic business and to implement policies and programs to reduce poverty"

23. The members of the Task Force after wide consultations have accepted that with liberalization, the small scale producers face the full volatility of international commodity markets with few measures to manage their risk exposure. It is their view that it is not possible nor desirable to eliminate price fluctuation in commodity markets; neither it is sustainable for governments or multilateral agencies to interfere in market mechanisms to suppress price changes.

24. The view of the ITF is that the risk management tools that markets themselves provide and allow the producers and commercial entities to reduce the revenue uncertainty that results from volatile prices, could provide market based price guarantees to producers.

25. The consensus conclusion of ITF is that there is a need to bridge the gap between the providers of risk management instruments and the entities in developing countries that lack access to these instruments. The recommendation rests on the assumption that what best can be and needed to be done to help the developing countries to mitigate the ill effects of violent fluctuations in commodity prices is to establish a mechanism which will facilitate the local entities (banks, traders, wholesalers, co-operatives etc) in commodity dependant countries to benefit from the risk management tools provided by the commodity futures markets. The objective is not to insulate the producers from price fluctuations in the market but to reduce the uncertainty. The basis for this recommendation is that the entities in the developing world have little or no access to price risk management instruments in the international markets particularly for agricultural products.

26. The ITF has therefore recommended "International Intermediation" on the rationale that access to risk management instruments and the development of risk management markets to full potential will allow a degree of insurance against commodity price risks.

27. The World Bank has always been a strong advocate of the virtues of futures market⁶. The 1996 World Bank report "Managing Price Risks in India's Liberalized Agriculture: Can futures market help?" - also notes that futures market would have contributed to price risk management but for restrictive policies.

6. Andrew Schmitz (1984) Commodity Price Stabilization- The Theory and its' Application. (World Bank Staff Working Papers 668.)

28. The proposed scheme of ITF is expected to work as follows:

A co-operative of producers or a Commodity Board wishing to purchase a price insurance contract will approach the intermediary to help out and share the premium. The intermediary in turn will secure the insurance but will be able to obtain the insurance at a lower cost and also provide or arrange to provide credit etc. In the event the sale price goes below the agreed reference price, the co-operative or the Board will be able to recover the balance from the insurer and in the event of the sale price turning out to be better, take advantage of the market. The benefit of International Intermediation is simply that price insurance or the access to futures is easier and will be less costly than what would be possible without the International Intermediary.

29. The ITF proposal as acknowledged in the report is not meant to address the issue or the problem of price instability. The scheme would leave market price volatility unaffected and would only reduce the uncertainty associated with that level of volatility. The scheme will ensure that the farmers or their associations get an assured price as per the commodity futures market quotations. Thus the scheme is not meant to deal with the problems associated with the secular commodity price trend but only deal with protection against short term volatility.

30. There is no doubt that futures markets apart from providing for price discovery and the advantage of hedging will help to stabilize prices to some extent. A rise or fall in futures quotations will definitely exercise considerable influence on spot prices. To that extent, an effective and independent futures market will have a stabilizing effect on prices of commodities.

31. Futures trading is not new to India. In fact India has long experience in operating and managing commodity futures markets. Among plantation commodities futures trading exists for coffee and pepper and futures trading in natural rubber is likely in the near future. The quotations in the Coffee Exchange of India mostly follow the quotations in New York Coffee Sugar and Cocoa Exchange and the London International Financial Futures and Options Exchange. However, the use of these opportunities in India is limited and it is doubtful that in the near future the inclination to benefit from this tool will grow (Annex. IV). But the proposal of ITF is welcome in that such instruments will guarantee in advance a certain price against the payment of a premium but at the same time the grower will be able to take advantage of the market price if that were to be better. The scheme as envisaged by ITF will help to remove the risk of uncertainty. There would be incidental benefits also, no doubt, such as easier and enhanced access to credit and financing because of guaranteed price realization.

32. In the ITF report there is also a suggestion that the price insurance may help the producers to diversify the cropping pattern as price trends will be known. But this option will not be available to producers of tree crops. The ITF report quotes how in two countries market based instruments have been used to benefit growers. But it is acknowledged that such efforts are limited in scope and coverage. The benefit is more in terms of improved credit access.

33. The world Bank/ITF's proposal though interesting will not address the major problem of ensuring a minimum return to the growers. This is not to say that futures trading should not be developed or promoted. On the contrary, futures markets have to be strengthened in terms of institutional and structural capability. The National Agricultural Policy says clearly that "the government will enlarge the coverage of futures markets to minimize the wide fluctuations in commodity prices as also for hedging their risks. The endeavor will be to cover all the important agricultural products under futures trading in course of time."

34. However the development of futures trading will take time and it is unlikely that benefits from such strengthened futures markets can be expected in the near future. The development of confidence in futures will be a very slow process.

The problem of price volatility

35. The commodity producers in the developing countries need to be protected from, and a safety net provided against, extreme and violent fluctuations in market prices. The ITF report acknowledges that the vulnerability of the poor to price fluctuations has increased as the liberalization of the markets has shifted price risk from governments to small producers (and consumers).

36. A major objective of a price support measure is to ensure reasonable income stability to the growers, besides benefitting the consumers from wild fluctuations in prices. The price volatility in international market is beyond the control of producers and even individual governments. Even within the domestic market, commodity prices fluctuate depending upon the forecasts of and market perceptions about, demand and supply. Interference with domestic market mechanism may not be prudent. In the case of export commodities like coffee or pepper international prices fully influence the domestic prices. Even in the case of other commodities, given the increasing integration with the world economy it may not be easy to keep the domestic prices out of alignment with the world prices. This is not to say that import tariffs should be reduced even in respect of export commodities. It may be necessary to continue reasonable tariff protection for commodities and further take strict action against attempts to circumvent the tariff protection through under valuation etc. But it may not be desirable to hold out any promise of an assured price for any commodity which may not be sustainable in the medium term, as the fulfilment of any such commitment may be possible only with substantial subsidies from government.

37. The problem in respect of many commodities is the volatility in prices from year to year. The following Table 5.2 gives the prices of some of the plantation commodities during the past one decade.

Table 5.2. Prices of plantation commodities

	Small Cardamom average auction price In Rs/kg	Coffee Spot Price-Average ICO indicator price In cents/lb		Natural Rubber RSS IV domestic price (Kottayam) In Rs./kg
		Arabica	Robusta	
1990-91	251.67	89.15	54.99	2129
1991-92	267.92	84.97	49.80	2141
1992-93	465.37	63.60	43.63	2550
1993-94	340.06	70.07	53.50	2569
1994-95	255.38	147.87	119.46	3638
1995-96	201.58	149.36	126.80	5204
1996-97	365.82	119.34	82.31	4901
1997-98	276.44	184.99	80.59	3580
1998-99	567.52	132.22	83.89	2994
1999-2000	487.42	101.45	67.63	3099
10 years Average	347.92	114.30	76.24	3280

Note: Coffee is mostly exported; hence international prices which also influence the domestic prices are more relevant and are indicated. The data in the case of coffee is for calendar year; the figure shown against 1990-91 is for the calendar year 1990 and so on.

38. It may be seen that the average price realization has been fairly satisfactory in respect of the plantation commodities but there have been wide variations in prices from one year to another and that means variations in incomes also. The benefit of high incomes in certain years do tend to get dissipated and even higher taxes may have to be paid without any possibility of corresponding set off in the bad years. Price variations from year to year can not be avoided due to various factors including supply disruption not only within the country but elsewhere in the world or bumper production or sudden change in demand. The issue is whether a compensatory mechanism can be evolved to even out, to some extent, the income flows to the producers.

Approaches to price stabilization

39. A study of the different measures adopted in the past and the various efforts so far to realize the objective of price and income stabilization indicates that, the options available are, controlling production, regulating market supplies, taxation of exports coupled with compensatory payments or straight subsidy.

Controlling production

40. This method has been employed in the past to control supplies and thereby influence the market prices. The International Tea Agreement provided for strict regulation of production; it even cast a responsibility on the member countries to regulate new planting/replanting. Some of the earlier Marketing Boards in the developed world had the authority to control acreage and production like in the British Potato Marketing Scheme. The Tobacco Board of India recently decided on a crop holiday as a measure of controlling production. However, such a measure may not be possible for most of the commodities and definitely not for tree crops. As regards annual crops also, though perceptions and expectations about market prices do influence the decisions of growers to plant a particular crop, say chilli or cotton, such options may be limited and confined to situations where possibilities of growing more remunerative alternative crops are available. Anyway statutory control of production is not a practical proposition now, nor possible in the case of commodities like coffee or natural rubber.

Regulation of supplies

41. Regulation of market supplies is another method of influencing prices. The International Coffee Agreement achieved this objective through quotas. The current initiative of the Association of Coffee Producing Countries is based on the same logic. However such a method will work in cases where the excess supply is due to bumper production in a year and the surplus is not expected to persist but will get adjusted through contraction in production in the subsequent period; or where the excess supply is due to sudden contraction in demand caused by temporary disruption in movement or stoppage of imports or such factors and the constraint is expected to be overcome within a reasonable period. If the market perceives that the oversupply would persist and not be liquidated in the near term period or that the excess supplies available in the exporting countries are bound to come into the market clandestinely or otherwise, then the market prices may not be influenced by such regulation. The experience of International Coffee Agreement has clearly brought out the difficulties and problems in managing excess supplies in the medium term period. The method of regulation followed in the International Natural Rubber Agreement was to build a buffer stock to temporarily impound the excess supply and thereby adjust the supply to demand. In such cases, if in the medium term period the supplies do not get contracted to the level of demand, the buffer- stock operations, apart from requiring huge resources may not be able to achieve the objective of stabilizing the price level.

42. The efforts of the Government of India during the years 1997 and 1998 to build a buffer stock of natural rubber could not be sustained for long, because the demand pick up which was hoped for, did not materialize. The buffer stock operations may not succeed in improving the price level if the excess supply were to persist for over 2,3 years, especially in the case of commodities which cannot be stored for long, such as natural rubber or coffee.

Taxation coupled with compensatory payments

43. Another method of stabilizing prices of those commodities which are mostly exported is to levy a tax/cess on exports when export prices rule high and to subsidize the exports with a subvention/subsidy when prices fall below a threshold level. When exporters have to pay an export tax they will in turn reduce the domestic procurement price as the export prices will be determined or influenced by the international price levels and not by domestic prices. As a consequence the procurement prices in the domestic market will be lowered. Conversely when the export prices go below a threshold level, an export subsidy/subvention can be given. The expectation is that the exporters will definitely take into account the subsidy/benefit or the supplemental assistance that they will get on export and accordingly pay a higher price for the commodity in the local market to the extent of the subsidy/benefit.

44. A simple model of such a system would be as follows. If the export price of pepper were to go above say Rs.200 per kg, then the export tax could be levied and collected at the rate of Rs.20 per kg and if the price were to go down any time below say Rs.120 per kg, the exporter could be given a subvention of Rs.20 per kg. In the former situation the producer price will be reduced to Rs.180 per kg but in the latter case, the producer price will be up to Rs.140 per kg (subject to adjustment in all cases on account of transport charges, taxes and other costs). The variation in the domestic market prices would be narrower. Rs.40 per kg only which, without the tax/subsidy regime would have been Rs.80 per kg.

45. Such a system of export tax and export benefit will be easy to operate as the number of exporters will be few and such a scheme will be transparent. Further such a system will ensure that the foreign exchange earnings do not come down but at the same time help the domestic consumers to get the commodity at reasonable prices even when the international prices go up. The European Union Regulations provide for levies to be imposed on exports. During 1995/96 when world cereal prices were high, export levies have been applied i.e. export taxes. European Union Regulations in respect of sugar also provide for export levy when the world market price of sugar exceeds the EU intervention price.

46. The scheme of export tax/subsidy will benefit the producers of the commodity only if certain conditions are met.

- a) The nature of the scheme and the benefits that will accrue to the growers are well understood so that the growers may not be deprived of the opportunity of obtaining higher prices than what in the normal course would be warranted by the export prices.
- b) The conditions which will attract the tax and subsidy provisions are also very clear; e.g. the number of continuous days the international price should remain above or below a certain level to attract the tax or get the benefit and such other conditions should be clearly laid down and the operation of the scheme should be transparent.
- c) The commodity should be fairly homogeneous without much variation in quality or brand preferences and extensively traded in the international market and the price quotations are clearly available. For example tea may not lend itself to such

a scheme in view of the wide variations in the prices on account of variations in the quality of the produce of different estates etc.

- d) The prices which will serve as the reference prices for determining the tax leviable or the benefit payable shall be free from the influence of speculators and should not be capable of being influenced by either the traders' or the exporters' actions. For example for coffee, the reference price could be the New York Coffee, Sugar & Cocoa Exchange price quotations.
 - e) The number of players in the business i.e. the exporters should be large and the competition really fair and extensive. The rationale of supplementing low export prices is that the exporter will take the element of subsidy/benefit into account while bidding for the commodity in the local market and that fair competition among the exporters will drive up the domestic price to the extent of the subsidy and thus the benefit of the subsidy will get passed on to the market and to the growers.
47. When an export tax is levied, the country will continue to realize the full export price but the local market price will be less to the extent of the tax. Hence an export tax, without disturbing exports, will help to cool down the local market and domestic price to a certain extent. An export tax thus is a better alternative to banning the export when the local prices rise, as is normally done, to maintain the availability of the commodity within the country.
48. An export tax is not the ideal way to ensure price stabilization. Markets being not perfect, the entire subsidy/benefit given to the exporters may not be passed on to the growers. Also when the prices are high in a particular year, the incidence of tax may be borne by one group of growers producing a particular grade/variety but the benefit may not accrue to them in another year, if in that year the production of that grade/variety is affected. Further exporters citing the possibility of taxes being leviable, may offer lower prices to growers and thus depress the local prices. There could be unintended benefits to the traders-exporters under such a system.
49. The system will not also be relevant or possible in respect of commodities which are not exported, say natural rubber. But it may be a simple method of ensuring stabilization of prices, in the case of say, coffee or pepper or cotton.
50. Government of India levied a tax on coffee export during the seventies and eighties when the export prices were quite attractive. A sum of over Rs.400 crores were collected by the government but it was appropriated to the government revenues. Had the tax collection been put into a Price Stabilization Fund, then a fairly sizeable amount would have been available to help the growers during the years of low prices. For example exporters could have been given a subsidy/assistance this year for every ton exported and definitely that benefit would have percolated into the domestic auction prices, and helped the growers to realize better prices. Automatically the prices of coffee in the domestic market also would have been to that extent higher, bringing more benefit to the growers.

51. An export tax scheme and subsidy by way of refund when export prices go below a prescribed threshold level is one method of stabilizing the prices but suitable in the case of a fairly homogeneous commodity like coffee whose export share of production is fairly substantial but share of world trade is very small. Even for pepper, sugar, cotton etc, perhaps this scheme may be possible. However the application of such a scheme may be possible only in a limited number of commodities.

Income support to growers

52. One method of safeguarding growers' income is to give straight subsidy to the growers when the market prices go below a particular threshold level. The MSP is a variant of an income support measure as the support price guarantees a minimum price, regardless of the market situation. The grower may need to avail the benefit of MSP only when the market price falls below MSP. But under the scheme, the growers will have to sell the commodity to the government designated agencies, if they wish to avail the benefit. The government agency will also have to take on the responsibility to store and market the commodity. MSP may be appropriate in cases of essential articles which anyway government may like to procure for public distribution. However under the income support scheme the grower can be given the freedom to dispose of the produce as he likes but he can nevertheless be given a subsidy amount to make up for the shortfall in his price realization due to a fall in market prices. But such a price support scheme will be expensive if the benefit has to be extended to many commodities and especially if the possibility of the price falling below the threshold level is high and frequent. But such a subsidy scheme to make up for the shortfall in price realization i.e a straightforward income support payment, may be a simpler and much more cost effective way of helping the growers than MSP operations, for commodities other than essential articles.

53. Recently, government of India introduced a limited income support scheme for small tea growers in Nilgiris when the market price fell below a certain level. There have been and will be problems and difficulties in the implementation of such a scheme especially in ensuring that the benefit goes only to eligible small growers and in avoiding bogus claims etc. But these are issues which can be tackled through appropriate ways, so long as the operation of the scheme is limited to a few thousand growers. However, an income subsidy system will be an expensive proposition if it has to be extended to cover many commodities as huge resources will be required and may not be affordable.

54. All the above measures of price and income stabilization have one lacunae or the other. Controlling production or a buffer stock operation are not within the realm of practical possibilities. Export tax coupled with a subsidy regime may not be possible except in the case of a few predominantly export oriented commodities; and it is at best an imperfect system as it may not be possible to ensure that the growers really get the full benefit of the subvention/subsidy that will be given to the exporters. A straight income supplement scheme will require large resources and there may be many practical difficulties and lapses in the actual implementation of the scheme. These various measures have their limitations. Some methods will have operational difficulties.

Protection to growers from price volatility

55. However price fluctuations even extreme volatility in prices is a reality. It is necessary to give protection to the growers from the vagaries of the market. While it may not be easy to influence the price levels (release of buffer stocks in the case of cereals, export tax in the case of some export commodities are some possibilities) it should be possible to help grower to realise reasonable income when the prices fall to very low levels. The ITF proposal, as discussed above, may be helpful in some cases. While the market based instruments may be flexible and efficient, the growers would want something better - not mere guarantee of a price based on quotations of futures market. Growers would want in a bad year, when the prices fall below a threshold level, that they are given supplementary price payment. One possibility is a price insurance scheme which can ensure this objective, mostly with growers contribution by way of annual premium.

56. The purpose of the scheme would be to help the growers to overcome the adverse consequences of unexpected and large price and therefore income decline in any particular year due to reasons such as a drop in international prices, or unusually excessive production in any year etc. The scheme may not be able to assure a price level not sustainable over a medium term. The demand supply factors will influence the market prices and hence the objective of the scheme can not be to influence the price levels but only provide for income deficiency payments in the event of unexpected steep fall in prices.

57. Such a scheme may have to be self supporting as government may be able to provide only marginal assistance for such a price and income support proposal. That means in the normal circumstances the premiums to be collected from the growers supplemented by whatever resources that can be generated from the industry and the little contribution from the government should be able to support deficiency payments in the years the prices fall below the threshold levels. It may not be possible nor necessary for the government to support such a scheme except marginally, barring exceptional circumstances.

Outline of a Price Insurance Scheme

58. Within the above broad parameters a possible price insurance scheme can be evolved. A broad outline of the scheme and how it may work is detailed below:

59. A grower who wishes to participate in the price insurance scheme would be required to take out a price insurance policy and pay a premium every year. The insurance policy will assure him a compensatory payment if the price were to go below a particular threshold level. Assuming that for natural rubber the threshold price of Rs.35 per kg has been determined under the policy; if the price were to fall below Rs.30 per kg the insured grower would be entitled to receive Rs.5 per kg. If the price goes higher than Rs.35 per kg he will get higher returns from the market; then the grower will only lose the premium that he has paid at the beginning of the year.

60. This is a simple example and many details will be involved and may have to be finalized, such as the basis of determining the threshold price, the premium amount payable, the manner of ascertaining the reference price which will be the basis for determining the eligibility for claims, the minimum period of enrollment under the scheme before a participant may become eligible to receive or entitled for any benefits, and many other details.

61. One more example may bring out the different features and the possible safeguards that can be built into a feasible price insurance scheme. An arabica coffee grower may like to take out the insurance policy for 5000 kgs; the guaranteed price determined being as Rs.70/- per kg on the basis of the past five years' average prices. Under the scheme the grower would be required to subscribe to the scheme atleast for one year and in addition he will be obliged to pay the premium for the second year also before he could become eligible for any benefit under the scheme. The reference price for determining the eligibility for claim could be 15 days' moving average price during the reference period January -April: the deficiency claim will be payable only if the moving average price falls below, 70 cents/lb for 30 days continuously during this period; the compensation then would be Rs.5 per kg. (i.e. Rs.25,000 in this case), if the average price falls below 65 cents/lb and Rs.10 per kg (i.e. 50,000 to the grower) if the average price falls below 60 cents/lb for 30 days continuously. No compensation shall be payable if the moving average price does not fall below 70 cents/lb for 30 continuous days during the period January-April. The grower will be free to sell his coffee at any price and at anytime. The policy will ensure him a minimum income i.e. market price plus the insurance claim.

62. The objective of the price insurance scheme is not stabilisation of the prices nor to influence the market prices. It may not be possible to interfere with the market prices of commodities, nor it may be necessary if the objective is to stabilise the earnings to the growers.

63. The scheme as outlined above may not look on the face of it attractive to the growers, but is better than not having protection against volatility in prices. The insurance benefit may appear small. But the premium amount and the benefit obviously are linked. If the threshold price has to be higher then the premium payable every year will have to be also higher. Especially if government may not be able to help with much resources, only a modest scheme can be considered.

64. A Price Insurance Scheme as outlined above and meant to even out the income flows may be suitable only for plantation commodities like coffee, pepper, rubber and commodities like cotton or chilli. The scheme may be feasible and worthwhile only in the case of commodities subject to fairly large fluctuations in prices from year to year but the average price realization is satisfactory. The scheme is not meant to nor expected to provide any price subsidy. The scheme will only help through the insurance route to set apart a portion of the price during the years the prices are high for reimbursement during the years the prices fall below a threshold level. Through such a measure, the grower will be able to realise a reasonable income, even in those years in which prices fall below the threshold level. The operation of the scheme may not require any government subsidy except in exceptional circumstances.

65. For the scheme to be viable, the following conditions would need to be met:

1. There should be even chances of the prices ruling above the threshold level:

2. The commodity has to be fairly homogenous; at least one leading grade/variety must set the price levels and the prices of all other grades/varieties must move in tandem.

66. There may be a criticism that there is really no benefit to the grower from the scheme if all that the scheme seeks to achieve is to take away a portion of the price every year by way of premium and return the amounts during bad years. It has to be realised that without support from the government or subsidy, any form of income support to the growers has to be paid for by the growers themselves. The price insurance scheme only seeks to achieve this objective. Any insurance only spreads the risks. In a price insurance scheme the risk is spread over a period. In a normal insurance policy, the premium is collected from a large number of policy holders but the unfortunate few get the compensation. In commodity price insurance, the compensation would be available only in bad years; but most of the policy holders would get the benefit; or none may get any compensation in a year of good prices.

67. If all that the proposed price insurance scheme seeks to do is to literally pay back to the grower in some bad years the premium amounts collected over a period of time, it may appear that the grower may be better off operating a self insurance scheme. There are many reasons why an independent insurance scheme is better. One reason is that self insurance discipline is simply difficult to practice. Secondly an insurance agency will be able to spread the risks, invest the funds wisely and thus able to offer better terms. Most important, professional insurance may be safer if unfortunately the misfortune of low prices were to persist for a longer period. Some government assistance may be possible in such circumstances.

68. There could be some criticisms and skepticism about the benefits from a price insurance scheme. The growers may perceive the benefits to be inadequate especially if the guaranteed price were not really satisfactory. If the average price of the commodity for the last 5.6 years is the basis for the determination of the threshold price, after making due allowance for inflation, then perhaps the growers may be satisfied. It needs to be explained to the growers that the objective is not to guarantee an average price which is not sustainable. The demand and supply will determine the market prices and interference in the market mechanism may not be advisable. The growers need to be educated that the scheme is not a subsidy scheme but only a measure of price and income stabilization and that the scheme only envisages the collection of a portion of the price every year and returning the amounts back to them during the years the prices fall below the threshold level. It has to be explained that if the guaranteed price has to be higher, then the premium amounts payable every year may have to be also higher. It needs to be explained that the premium is a small safety insurance payment when compared to the assurance of a minimum guaranteed price every year especially as the real value of the shortfall amounts that they will be receiving in a bad year will be higher.

There could be some reservation about the practical aspects of the scheme. For example, there may be a criticism that there could be a possibility of manipulation or rigging of the market price. Obviously the market price to be chosen as the reference

price for determination of eligibility for payment of claims has to be outside the influence of speculators.

69. There could be a criticism that the price behaviour of different grades of a commodity, say coffee or natural rubber may not be the same and if the price of a leading grade or even a composite price of a few grades is taken as the reference market price, the possibility of some grades fetching market prices above the reference price and still becoming eligible for insurance may be there. Conversely some grades may not be getting any benefit even when their market prices fall below the minimum threshold level if by chance the market price of the standard reference grade do not fall below the threshold price. There could be some such stray instances of difficult cases but to cater to each individual grower problems, it may not be worthwhile complicating the system. May be one way out could be to ask the growers in such stray cases to deliver the commodity against the claim of insurance and take the assured price rather than meet the shortfall in price as per the insurance policy but any insurance agency acquiring the commodity will encounter many difficulties. There would be disputes about quality, there will be problems of storage and eventual disposal. Hence it may be a neat system to pay a compensation as per policy against claims on the basis of a reference market price and leave the growers to dispose of the produce as best as they can.

70. Some practical difficulties in the operation of the scheme can be envisaged. Growers may agree to join the scheme during the years the market prices are depressed and many demand compensatory payment in the same year. This difficulty can be avoided as explained in the coffee example, by prescribing that eligibility for claims will arise after one year of joining the scheme and only after the payment of the premium for the second year. Such a condition may act as a disincentive and make the scheme a non starter but then the scheme needs to be marketed. Perhaps, the government may help to popularize the scheme by agreeing to meet half the premium payments for the first two years.

71. There can be a few other difficulties in initiating such a scheme. No insurance company may be willing to take up the responsibility of offering a price insurance, being a new area for them and new concept also. The experience of crop insurance has also not been encouraging. But Government may have to entrust the responsibility to a public sector insurance company initially. The private sector is being permitted to enter the insurance field and may be some private sector insurance company takes interest in the area of price insurance also in the future. Initially even a Commodity Board could operate the scheme on a pilot basis and test the usefulness as well as the operational problems and on the basis of the experience gained, refine the scheme.

72. The fixation of the premium amount may be a problem. The premium payable and the benefits will be obviously linked. The level of premium will be determined by the insurance agency in such a manner that the insurance scheme on the whole is not a losing proposition. Especially where the commodity prices are volatile and are influenced by international market conditions, any insurance agency will be very cautious and pitch for a safe margin. But a high premium will deter possible

acceptance of the scheme by the growers. Government as proposed earlier could perhaps subsidize the first two year's premium by say 50% to reduce the cost to the growers. There may be criticism that such assistance is nothing but a subsidy but such help to growers is compatible with our international obligations. Also the amounts that the government may have to spare will be small as such assistance may be necessary for only 2.3 years in the initial period to make the scheme popular. As a price insurance scheme will be of great benefit to the growers, the small subsidy that may be incurred will be definitely worthwhile and justified.

73. It will be necessary to ensure that the traders do not get the benefit of such subsidy. This aspect can be easily taken care of by making the scheme applicable only to small growers, say holding less than 10 ha. or even less area. Since records of all holdings are available, it should not be a problem to identify eligible growers who can be issued the policy. Further the maximum value of the benefit under the insurance policy can be limited to the estimated production of each grower based on his holdings multiplied by the average productivity of the crop.

74. As the objective of a price insurance scheme is to help the small growers, the insurance scheme may have to be restricted to small growers only, atleast initially. Then the large growers may be encouraged to adopt the self insurance option. The large growers can be given the option to set aside a portion of profits at the same rate as applicable to small growers and keep the amounts in a Price Stabilization Fund, perhaps deposited in a designated financial institution. They may be permitted to withdraw the amounts during the years the small growers are permitted to claim insurance compensation. Such a facility can also be permitted to large tea companies, as it may be difficult to introduce a price insurance scheme for that commodity because, an independent determination of market prices is difficult in practice in the case of tea. In such cases self insurance may be the answer. For example, tea companies may be permitted to set aside every year funds calculated at a predetermined rate for every kg of tea marketed by the company into a price stabilization fund; the amount may be permitted to be deposited with a designated financial institution. Drawal from the fund may be permitted for every kg of sale at a rate as may be determined by the government in those years in which the prices fall below a threshold level. A transparent criteria, for determining the threshold price levels need to be evolved after discussion. The tea companies may welcome the option provided the transfer to the price stabilization is permitted to be treated as an expense. At present there is a provision to set aside a percentage of profit as a Development Reserve for use by the company for designated purposes. The transfer to price stabilization fund could be treated along similar lines. Of course only those companies who are subject to tax may benefit from such a self insurance scheme, but this facility could be extended to the tea sector.

75. It may appear that the price insurance scheme may be difficult in the case of a commodity like natural rubber which is processed throughout the year; but then it should be possible to offer separate price insurance for the different quarters of a year; the growers may be offered for each quarter separate policies with different threshold prices.

76. The administration of a price insurance scheme may become expensive and uneconomical if the acceptance is not widespread. However if a large number of growers join the scheme and the insurance scheme extended to a few commodities, the cost of administration could be considerably lower.

Price Stabilisation Fund

77. There have been suggestions that the best way to help the growers when prices fall below remunerative levels is to pay them a direct subsidy; and for this purpose constitute a Price Stabilisation Fund for commodities. The proposal is that government may determine the lower and upper price band for the target commodities and if the price falls below the minimum level extend a subsidy to the growers and when the price goes above the maximum level, collect from the growers a cess which could be ploughed into the Price Stabilisation Fund.

78. Though the suggestion appears simple and rational, there will be many practical difficulties in the operation of any such scheme. The minimum price however carefully fixed may be considered inadequate by the growers and pressure will mount on the government to improve upon the price. This was the experience of the government in the case of tobacco and some other commodities.

79. Secondly it will be a daunting task to make deficiency payments in the case of rubber as the number of small growers exceed 9,00,000. Even in the case of coffee the number of growers exceed a lakh.

80. Thirdly it may be almost impossible to collect a cess when the price goes above the upper band. Assessing the cess amounts payable and collecting the cess will call for a huge administrative set up and there will be practical problem in collection.

81. Fourthly the financial burden may be huge, especially if the prices stay depressed for a long period.

82. The creation of a Price Stabilisation Fund itself may not be a problem. In fact it may be a good idea to create a Price Stabilisation Fund for each commodity. Such a Fund may be useful and may be necessary to make a success of the proposed price insurance scheme. A part of the premium payable by the growers may be subsidised out of the Fund. If the run of low prices for a commodity lasts for a longer time than assessed by the insurance company then the operation of the scheme may be in jeopardy. In such cases the Fund may be useful to tide over a difficult period.

83. A Price Stabilisation Fund can be built up, by diverting a part of the cess amount collected from the industry. The cess amount can be also slightly raised in the case of coffee and tea for building such a Fund. In the case of rubber, the incidence of cess is already high but a portion of the cess amount can be easily diverted into the Price Stabilization Fund by effecting economies in expenditure.

84. Export tax in a good year can yield substantial revenues, especially in the case of coffee, pepper, cardamom etc. All proceeds of export tax could be ploughed into the Stabilisation Fund. The cardamom growers are now contributing at the rate of Re. 1/- per kg of cardamom sold through auctions. Tea industry can raise some resources in same manner.

85. The major problem will be that growers may oppose a common Price Stabilisation Fund applicable to all commodities. Coffee growers may not like the proceeds of export tax on coffee to be utilized for the benefit of growers of other commodities. Hence the Price Stabilization Funds may have to be specific to each commodity, and utilised for the benefit of the growers of that commodity only.

86. The utilisation of Price Stabilisation Funds may have to be judiciously undertaken. It may not be prudent to use the fund to give a straight subsidy to growers as it may be very difficult to administer such an income subsidy scheme. The more practical approach will be a price insurance scheme as proposed, as there will be contribution from the growers also. It is only fair that a grower contributes to any scheme which will help him in distress years. Especially if a grower receives good prices during some years, there is no reason why a small portion of the higher prices realised by him can not be spared by him for his own benefit during the years when the prices fall to distress levels. The advantage of an insurance scheme is that it will be easy to administer the income support measure and the financial burden on the government if at all, will also be minimal.

87. There may be a criticism that while the resources for the fund is collected from the industry as a whole, the amounts would be spent for the benefit of a few growers who may opt for the insurance scheme. The answer could be that the scheme is open to all small growers. Most of the growers would have to be educated and induced to avail the benefit of the price insurance scheme.

Conclusion

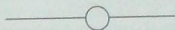
88. To sum up, the growers of commodities definitely need protection from volatile prices and unpredictable price fluctuations. A grower faces production as well as price risks. The crop insurance scheme is expected to take care of the production risk; but at present, there is no safety net against a price fall. But unlike in the developed world, lack of resources will be our major constraint in helping the growers with income support measures when the prices fall below uneconomic levels. However it may be necessary to help the growers with measures that will ensure reasonable income stability. There are many ways of providing the shelter to the growers. MSP benefit may be a better option for certain commodities. Straight income subsidy may be necessary in extreme cases. A price insurance scheme may be one method of helping the growers of some commodities. This can not be an universal measure as such a scheme can not be operated for many commodities like tea or in cases where the prices will vary enormously due to the inherent nature of the commodity, like vegetables or fruits.

89. The other methods such as controlling production or adjusting supplies to influence price levels are not practicable and can be ruled out. A direct subvention may be possible and may be necessary in extreme cases but cannot be the normal mechanism to help the growers. The insurance scheme proposed by the International Task Force is one way of addressing the problem but the scheme will only reduce the uncertainty associated with the price realization but will not guarantee a reasonable price to the growers. The proposed price assurance scheme will guarantee a minimum price each year and thus ensure a minimum income, but then the grower will be contributing

most of the resources required for operating such a scheme. For some commodities like coffee, natural rubber, pepper, even cotton, chilli, pulses etc, a price insurance scheme may be one possible method of stabilizing growers' incomes.

90. The details of any new scheme like this will have to be worked out and refined over time on the basis of experience but a beginning can be made on a pilot basis for a commodity like coffee or natural rubber.

91. Aprixe insurance scheme will be fully in line with the National Agricultural Policy which declares that "endeavour will be made to provide a package insurance policy for the farmers, right from sowing of the crops to post harvest operations including market fluctuations in the prices of agricultural produces".



No. 1-21(2)/2000-O&M
Government of India
Ministry of Commerce & Industry
Department of Commerce

Udyog Bhawan, New Delhi
September 27, 2000

OFFICE MEMORANDUM

Subject : Constitution of One-man Committee to undertake an in-depth study of the functioning of the Commodity Boards.

It has been decided with the approval of Commerce & Industry Minister to constitute a One Man Committee under the Chairmanship of Shri P.P. Prabhu, Ex-Secretary, Department of Commerce, Ministry of Commerce & Industry to undertake an in-depth study of the functioning of the Commodity Boards under the administrative control of the Department of Commerce, viz., Tea Board, Coffee Board, Spices Board, Rubber Board, Marine Products Export Development Authority and Agricultural & Processed Foods Export Development Authority and recommend appropriate measures for streamlining their operations.

2. The terms of reference of the study will be as follows:

- i. Review of the existing structure and activities of the Commodity Boards;
- ii. Rationalisation and re-formulation of existing or proposed schemes;
- iii. Analysis of the existing manpower
- iv. Review of the mandate of the Commodity Boards to determine the need for change in view of the policy initiatives taken in the post-liberalization period;
- v. Review of the functioning of the research programmes and R&D centres of the Commodity Boards.

3. The study will suggest appropriate measures for improving the quality of services being rendered by each of the Commodity Boards.

4. In addition to the above, Shri Prabhu will also give his suggestions for the conceptualisation of a Price Stabilization Fund for Commodities in the present day context.

5. Shri Prabhu will submit his report within four months.

6. Shri Prabhu shall be given the fullest possible cooperation and assistance by all Commodity Boards in the execution of the study.

7. Shri Prabhu will be entitled to out of pocket expenses of Rs. 1,000/- per day for the days when he holds meetings with the Commodity Boards. The Commodity Boards will also bear the cost of travel, board & lodging of Shri Prabhu and provide secretariat assistance for preparing the report.

Sd/-
(Kirthy Kumar)
Director
T.No. 301 6286

To
Chairmen of Tea Board, Coffee Board, Spices Board, Rubber Board, MPEDA and APEDA.

International Commodity Agreements

The International Coffee Agreement

The earliest attempt to achieve international co-operation to overcome the problems of over supply of coffee was an agreement by Latin American countries in 1957 to withhold coffee from the market. At that time the Latin American countries' exports accounted for nearly two thirds of world consumption, with Brazil alone supplying nearly 50% of world exports. By 1959 some African coffee exporting countries also joined the agreement. Subsequently, it was decided to establish a study group under the auspices of UN to consider the negotiation of an Agreement, covering both the exporting and consuming nations. Thus the International Coffee Agreement was born. Most of the coffee producing countries and majority of the coffee consuming countries became members.

The Coffee Agreement was based on a system of export quotas for all producers to member consumer nations. The objective was to limit supplies to equal the demand in the consuming country members in order to maintain the price line. During the operation of the quota scheme, under the successive Agreements, many refinements were introduced to fine-tune the operation of the scheme. Imports by consumers from non member countries was restricted through a system of certificates of origin which were required to accompany every import consignments. The quotas were selectively adjusted in response to changes in indicator prices of particular groups of coffee. The Agreement was renegotiated periodically and continued upto 1989.

By the eighties, there was a shift in the world opinion which was veering around to the view that interference in the operation of the market forces would not be in the long term interests of either the producers or the consumers. This paradigm shift in policy also contributed to the lack of interest in, if not open opposition to, the economic clauses in the ICA.

The quota system collapsed in 1989 and the International Coffee Agreement ceased to have any stabilizing effect, though the International Coffee Agreement was renegotiated and has continued since then without the quota element.

The collapse of the quota system was due to major reasons. Though the quota system was effective, there was always surplus coffee, which the producers could dispose of, to non-members. Such sales to non members were mostly at a discount, as the supplies were large and chasing a limited demand. There was also a problem of inter-group allocation of quotas. The preference for washed arabicas was growing over the years but a larger allocation to the group at the cost of quotas to other groups was posing problems. The consumers were against the distortion in the quota system which limited the supply of high quality arabicas, besides having to pay prices higher than what were being enjoyed by non-member countries.

The International Coffee Agreement did help the producers to get reasonable prices for coffee for many years. The international prices of coffee during the years the quota clauses in the Agreement were in operation, and the prices during the subsequent years is given below:

Table 5.1. The ICO composite indicator prices of coffee - annual averages

in US cents/lb.

Year	Other milds	Robusta
1970	52.01	41.44
1975	65.41	61.05
1976	142.75	127.62
1977	234.67	223.76
1978	162.82	147.48
1979	173.53	165.47
1980	154.20	147.15
1981	128.23	102.61
1982	140.05	109.94
1983	132.05	123.90
1984	144.64	137.75
1985	146.05	120.14
1986	194.69	147.16
1987	113.62	101.99
1988	137.60	94.31
1989	108.25	75.09
1990	89.46	53.60
1991	84.98	48.62
1992	64.04	42.66
1993	70.76	52.50
March 2001 *	65.95	31.96

For about 15 years the International Coffee Agreement helped the coffee producers to secure good prices for their coffees. From 1989 onwards the producers suffered on account of depressed prices. Prices got a boost in 1994 due to disruption of supplies following a frost in Brazil and the situation continued till 1998. Thereafter the prices have been coming down and this year the prices have plummeted. The producers have again been put to serious losses. The steep fall in prices has been causing a loss of billions of dollars in earnings and export revenues to coffee exporting countries.

The steep fall in coffee prices motivated the Central American exporters to envisage some sort of new arrangement among producers. The consensus that developed was that a retention of a certain portion of exportable supplies would be necessary to bolster the prices. A coffee retention scheme was envisaged. The Producers have formed the Association of Coffee Producing Countries (ACPC) in order to pursue their concept of the coffee retention scheme. But there has been no visible effect of the move on the prices as yet, due to the overhang of the surplus stocks in the market.

The International Natural Rubber Agreement

The International Natural Rubber Agreement was first negotiated in 1979 and renewed in 1981 and 1995. The Agreement aimed at stabilizing the price of Natural Rubber (NR), through the route of Buffer Stock operation. The scheme provided for market intervention price as well as floor and ceiling prices. Effective lower and upper trigger action prices were laid down and the International Natural Rubber Organization was required to buy and sell Natural Rubber (NR) at lower and upper trigger prices. There was a provision for automatic revision of the trigger prices and also the intervention prices at which NR may be purchased or sold. The reference prices were revised depending upon the international price and subsidy trends. The continuous decline in prices since 1997, forced the producer countries to examine whether any Agreement which only helped them to get such low prices was worthwhile and whether supply management through export controls should be explored. With the major producers, Malaysia and Thailand deciding to withdraw from the Agreement, there was no alternative to the termination of the Agreement and the Agreement has ceased to have any effect on prices. India was not a member of the Agreement as its share of the world trade was insignificant.

International efforts to help commodity dependent countries

IMF Compensatory Financing Facility

Realizing that the developing countries, especially dependent upon foreign exchange earnings from export of commodities could face temporarily serious balance of payments problems due to a decline in export earnings, IMF began to offer financing to countries facing such temporary decline in export earnings. The scheme called Compensatory Financing Facility was introduced by IMF in 1963 to help countries cope with temporary exogenous shocks affecting export earnings without resorting to undue and unnecessary adjustment. A complex system of access limits and sub limits was also developed, though over the years the scheme underwent modification. A contingency element was established in 1988.

Since 1989, 28 members of IMF have made use of the facility (amounting to SDR 8.4 billion), 20 out of 28 members were middle income countries. IMF, on the basis of the experience gained, is examining whether to eliminate the CFF or alternatively limit the access to only those cases where balance of payments position, apart from the temporary export shortfall, is satisfactory. While the CFF facility may help the countries to manage the Balance of Payments position temporarily, it may be of no consequence to individual producers.

European Community initiative

European community has been operating a scheme for stabilizing export earnings (STABEX) of the agricultural sector in the African, Caribbean and Pacific States (ACP). The scheme covered fifty specific products - raw and processed agricultural, fishery and forest products - and was meant to remedy the harmful effects of export earnings instability either due to slump in prices or drop in production. Over the two decades 1975-1995 nearly ECU-3 Billion has been transferred to beneficiary countries - LOME convention signatories and some overseas territories of EC member states. Most of the transfers were on account of a few major crops - coffee, cocoa, groundnuts and cotton.

Futures trading in India in plantation commodities

Futures trading in a commodity offers an opportunity to the participants to lock in a price for the commodity months in advance of delivery and thus eliminate the uncertainty about the sale price. Futures trading is now available in India for coffee and pepper, among the plantation commodities. Coffee Futures Exchange of India, Bangalore (COFI) commenced operations two years back and the Indian Pepper and Spice Trade Association, Cochin has been conducting futures trading in pepper for nearly four decades.

The main benefit of futures is price discovery and the major advantage is hedging. The Exchanges generally permit trading atleast six months forward and hence the quotations for future months will give a broad idea of the long term trend of prices and thus enable more informed decisions regarding sale and purchase. Also a grower can take up futures short position and be assured of payment at the contracted price at the time of sale. Thus he can avoid the risk of possible lower prices. Of course he may notionally lose if the spot prices were to go up at the time of sale/delivery.

At present pepper futures are available only for six months forward but there is the possibility of rolling over contracts at a price. In the case of coffee, futures trading is possible for 18 months ahead.

There is very little interest among growers in futures trading and very few exporters also take advantage of futures in India.

- a) there is a misconception that futures trading is only speculation. This is partly due to lack of information and also possibly due to the negative perception in India about stock exchanges and commodity exchanges - that manipulation takes places in these exchanges and only traders and brokers benefit at the cost of other participants.
- b) There is also the perception that the Exchange prices are manipulated by a few traders who dominate the trading in the Exchange.

While it may be a fact that the number of players is small, the perception that the prices are manipulated is not borne out by facts; A comparison of the movement of New York Coffee Sugar and Cocoa Exchange/London International Financial Futures and Options Exchange (LIFFE) quotations and COFI prices indicate that Indian Coffee Exchange prices have more or less been influenced by New York and London markets and move in tandem.

In the case of pepper there is no futures trading abroad.

- c) There is also the wrong notion that the cost of trading is high when compared to the benefits.

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But futures trading can offer possible benefits. The following table gives a comparison of the price quotations, in the case of coffee at COFI in the contract months and the actual spot prices.

	Contract Months 2000			
	January	March	May	July
Plantation A Futures prices on 1.98	98.10	96.25	96.00	none
Prices when contracts became spot contracts	100.10	87.55	79.15	81.50
Robusta Futures prices on 2.11.98	72.50	73.60	67.20	none
Prices when contracts became spot contracts	54.85	52.80	53.00	53.00

It can be seen that the farmer who had entered into forward contracts would have gained in most of the cases.

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Growers exporters can take advantage of the futures trading only through authorized traders who will naturally charge the customers a fee for the services. But the cost of trading is not high. The total trading and clearing fees plus interest on the margin requirements has been estimated in the case of coffee, at less than half a rupee per kg for 150 days and may be 75 paise for 270 days. The problem is with initial margin requirements and daily margin requirements, which a trader has to put in. In the Coffee Exchange, it is Rs.10,000 per ton for arabica and Rs.5,000 per ton for robusta. Since the minimum lot is 600 kgs the fund requirements is large. This requirement makes trading an almost impossibility for an ordinary grower. The margin requirement is halved if a bank guarantee can be given. This margin requirement cannot also be given up as it is meant to ensure that no default takes place in the Exchange.

Thus, apart from the lack of information and knowledge about the benefits from futures trading, there are two inhibitions /constraints which have come in the way of growers taking greater advantage of futures to reduce risks.

- The grower may lose if the prices were to go up, contrary to what the futures market trend may indicate.
- The huge margin requirement for which the grower may have to divert his own resources or secure credit.

Also when the futures price quotations show an increasing trend, the grower may feel that he would benefit from the physical market. If the futures price quotation are low, like in the present days, the grower may take a view that there is nothing to be gained from taking a position in the Exchange.

For exporters futures offer opportunities for hedging. Now exporters can directly or through their agents hedge in New York Exchange or LIFFE and a few exporters are known to take advantage of this opportunity. Many exporters also hedge at COFI and ISPTA.

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