ANNEX - 1

Statistical information of cess collection, levies, export earnings, employment generation & market intervention/procurement in respect of Tea, Coffee, Natural Rubber & Tobacco

---

Cess Collection

Value (Rs. Crore)

Year	Tea	Coffee	Rubber	Tobacco
1990-91	12.07	2.13	14.73	0.12
1991-92	10.88	2.65	16.81	0.11
1992-93	14.87	2.07	18.05	0.14
1993-94	9.22	2.96	19.82	0.15
1994-95	10.56	3.60	26.23	0.12
1995-96	10.34	5.50	43.58	0.11
1996-97	10.43	6.06	47.00	0.09
1997-98	26.26	7.86	48.20	0.17
1998-99	26.07	9.11	50.05	0.16
1999-00	25.17	11.03	75.56	5.98*
2000-01	25.06	9.95	82.19	4.18*
2001-02	26.47	7.15	81.14	3.06*

* Includes cess collected under the AP Cess Act, 1940

Excise Duty & other levies

Value (Rs. Crore)

Year	Tea (Excise duty & Baisc duty on tea including tea waste)	Coffee (Estimated, sale tax, purchase tax, agricultural income tax)	Rubber (Estimated, sale tax, purchase tax, agricultural income tax)	Tobacco (Excise duty)
1990-91	76.29	40.05	67.10	1630.32
1991-92	75.08	47.75	75.90	1874.54
1992-93	67.89	29.44	95.80	2155.96
1993-94	Withdrawn	20.20	108.10	3126.68
1994-95	Withdrawn	N.A.	165.20	3499.27
1995-96	Withdrawn	N.A.	252.80	4051.00
1996-97	Withdrawn	N.A.	258.10	4649.35
1997-98	Withdrawn	98.80	200.00	5214.32
1998-99	115.98	88.82	171.80	6537.01
1999-00	152.04	73.60	182.70	7262.11
2000-01	125.16	N.A.	182.30	8182.35
2001-02	132.81	N.A.	193.30	8182.00 (Estimated)

Export Earnings

Value (Rs. Crore)

Year	Tea	Coffee	Rubber & Rubber Products	Tobacco
1990-91	1071.10	278.89	263.05	263.69
1991-92	1212.27	349.00	322.66	390.40
1992-93	1058.70	381.31	712.85	507.74
1993-94	1062.04	586.99	886.68	485.72
1994-95	986.41	1096.33	951.02	267.78
1995-96	1244.52	1527.16	1101.96	421.04
1996-97	1301.46	1467.08	1235.28	826.52
1997-98	2003.15	1707.59	1346.12	1061.19
1998-99	2191.84	1751.53	1439.28	806.19
1999-00	1932.66	1901.21	1511.40	1050.22
2000-01	1889.79	1376.90	2162.96	903.38
2001-02	1695.79	1049.50 (Provisional)	2170.31	888.52

Employment Generation (lakhs)

	Tea	Coffee	Rubber	Tobacco
Direct Employment	12.32	5.26	3.50	166
Indirect Employment	12.32	10.52	3.00	141
Total	24.64	15.78	6.50	307

Market intervention/ Procurement of Tobacco/Natural Rubber by Government through Tobacco Board/STC

Commodity	Period	Quantity	Loss
Natural Rubber	Sept.,97 to April, 2001	53,687 MT	Rs. 55.49 crore
Tobacco	1999-2000	27,436 KG	Rs. 2.62 lakh

ANNEX – 2

Visits of the Committee

The Committee visited certain areas where Tea/Coffee/Rubber/Tobacco are grown for a first hand information about the cultivation of these crops, their processing and manufacturing techniques and also interacted with the growers and other segments of the industry for a better understanding of the problems being faced by them. The Committee also had detailed discussions with the representatives of the concerned State Governments in the matter. The views and suggestions of the concerned Boards, various stake holders and the State Governments have helped the Committee in formulating the modalities for operationalising the Price Stabilisation Fund. The areas visited and the discussions held were as under:-

i) **Kottayam from 18-20 August 2002** and held discussions with the officials of the Rubber Board, Board Members, representatives of the State Govt. of Kerala, growers, dealers, processors, exporters and manufacturers. The Committee Members also undertook field visits to Malankara Rubber Estate and TSR factories in the private sector at Thodupuzha and Aimcombu Rubber Producers Society Pala.

ii) **Bangalore, Hassan and Chikmagalur from 25-26 August, 2002** and held discussions with the officials of Coffee Board, Coffee Board Members, representatives of State Govt. of Karnataka, coffee curers, coffee processors, coffee growers and growers associations. The Committee also visited Sri Annapurneshwar Estate.

iii) **Guwahati from 4-5 September 2002** and held discussions with Tea Board officials and various segments of the industry, including Indian Tea Association. The Committee Members also called on the Chief Secretary of the State Govt. of Assam. The Committee also **visited Kolkata on 3rd October 2002 and Chennai on 5th October 2002** and interacted with small tea growers and officials of the concerned State Governments.

iv) **Hyderabad, Guntur & Bangalore from 12 –14 September, 2002** and held discussions with Tobacco Board, Members of the Tobacco Board, representatives of tobacco growers, tobacco growers associations, representatives of State Govt. of Andhra Pradesh and various tobacco companies.

ANNEX-3

List of Government Representatives and Associations with whom the Committee held discussions and from whom representations were received.

Rubber

1. Shri V. Thyagarajan, Chairman, Kerala State Agricultural Prices Board.
2. Shri K.K. Ramakrishnan, Secretary, Kerala State Agricultural Prices Board.
3. Ms. M. Viswamony, Additional Secretary , Department of Agriculture, Government of Kerala.
4. Shri P.H. Kurian, Director of Industries & Commerce, Government of Kerala.
5. Shri T.S. Jayachandran, Deputy Director of Agriculture (Marketing), Government of Kerala.
6. Shri G. Mohandas, Managing Director, Kerala State Warehousing Corporation.
7. Shri Raju Michael, General Manager(M), Kerala State Warehousing Corporation.
8. Members of Rubber Board.
9. Shri K.J. Joseph, Secretary, Association of Planters of Kerala.
10. Shri J. K. Thomas, Malankara Rubber Limited.
11. Shri K.M. Ganapati, Harrisons Malayalam Limited.
12. Shri A.V. George, UPASI.
13. Shri Jacob Thomas, UPASI.
14. Shri K.N. Raghavan, Managing Director, Rubber Mark.
15. Shri K.S. Prathapa Chandran, General Manager, R.K. Latex (P) Ltd.
16. Shri Satish Abraham, Association of Latex Producers.
17. Shri K.P. George, RUBCO.
18. Shri D. Ravindran, DG, ATMA.
19. Shri G. Chandrasekaran, Ceat Ltd.
20. Shri K. John Cherian, MRF Ltd.
21. Shri N. N. Nair, Apollo Tyres Ltd.
22. Shri M. K. Mehta, J. K. Tyres.
23. Shri P.K.J. Tharakan, Good Year India Ltd.
24. Shri K. Vinayraj, J. Thomas & Co. Pvt. Ltd.
25. Indian Rubber Dealers Federation
26. The Cochin Rubber Merchants Association
27. The Velimalai Rubber Co. Ltd.

Coffee

1. Shri Sageer Ahmed, Minister, State Government of Karnataka.
2. Shri D.C. Sreekantappa, Member of Parliament, Chikmagalur.
3. Shri Javare Gowda, Member of Parliament, Hassan.
4. Shri Puttaswamy Gowda, Member of Parliament.
5. Shri B.L. Shankar, Sabhapathi, Legislative Assembly.
6. Members of Coffee Board.
7. Chairman, Karnataka Planters Association.

8. Shri H.R. Lakshmana Gowda, President, KGF, Chikmagalur.
9. President, Kasaba Hobli Growers Association, Chikmagalur.
10. President, Avathi Hobli Growers Association, Avathi.
11. President, Aldur Hobli Growers Association, Aldur.
12. President, Khandya Hobli Growers Association, S. Pet.
13. President, Sahyadri Growers Association, Jayapura.
14. President, Vasthare Hobli Growers Association, Vasthare.
15. Sirvase Growers Association, Sirvase.
16. Coorg Planters Association, Madikeri.
17. Hassan District Planters Association, Hassan.
18. Wayanad Coffee Grower's Association.
19. Kerala State Coffee Small Growers Association, Kalpetta.

Tea

1. Shri Master Mathan, M.P., The Nilgiris.
2. Shri P.K. Datta, Chief Secretary, Government of Assam.
3. Shri N. Narayanan, Secretary (Finance), State Government of Tamil Nadu.
4. Shri Sakthi Kanta Das, Secretary(Commercial Taxes), State Govt. of Tamil Nadu.
5. Shri K. Skandan, Secretary (Industries Deptt.), State Govt. of Tamil Nadu.
6. Shri D. Rajendran, Secretary to Govt.(Small Indust. Deptt.), State Govt. of Tamil Nadu.
7. Shri G. Ramamoorthy, Dy. Secretary (Agriculture) State Govt. of Tamil Nadu.
8. Shri D. Chakrabarti, Commissioner, Jalpaiguri Division, West Bengal.
9. Shri G. Selvakumar, Jt. Commissioner (Commercial Taxes), State Govt. of Tamil Nadu.
10. Smt. Supriya Sahu, Collector, The Nilgiris, Tamil Nadu.
11. Shri A.K. Choudhury, Director of Tea, State Govt. of Assam.
12. Shri Karuthiah Pandian, Director (Industries & Commerce), State Govt. of Tamil Nadu.
13. Shri K. Dhanavel, Director (Horticulture & Plantation crops), State Govt. of Tamil Nadu.
14. Shri C. Arokyaswamy, Addl. Director (Agrigulture), State Govt. of Tamil Nadu.
15. Shri John Mathais, Dy. Director(Food), Small Industries Service Institute.
16. Shri K.L. Biswas, Deptt. of Commerce & Industry, State Govt. of West Bengal.
17. Members of Tea Board.
18. Shri D.M. Jain, President, T.A.I.
19. Shri S.U. Kalyani, Indian Tea Planters Association.
20. Shri Prabir Seal, President, North Bengal Tea Producers Association.
21. Shri R. Kanodia, Terai Indian Planters' Association.
22. Shri Md. Zahiruddin, Chairman, United Forum of Small & Tea Growers' Association, Darjeeling.
23. Shri P.K. Bezboruah, Assam Tea Planters' Association.
24. Shri Bharat Bajoria, Chairman, Indian Tea Association.
25. Shri Deepak Sarma, President, Guwahati Tea Auction Buyers Association.
26. Shri Biswajit Borah, Assam Company Ltd., Guwahati.
27. Shri B. Bordoloi, Tata Tea Company.
28. Shri T. Udhayachandran, Special Officer, The Indocoserve, Coonoor.
29. Shri D. K. Dowerah, Secretary, North Eastern Tea Association.
30. Shri K.K. Saharia, Chairman, Bhartiya Cha Parishad.
31. Shri N. C. Baruah, Secretary General , Assam Tea Association of India.
32. Shri N. Dharamraj, Chairman, UPASI, Tea Committee.

33. Shri R. Chaliha, Green Gold (Assam) Pvt. Ltd.
34. Shri Sankar Poddar, Limtex Tea India Ltd.

FCV Tobacco

1. Shri V. Sobhanadreeswara Rao, Minister for Agriculture, Government of Andhra Pradesh.
2. Shri D. Anjaneyulu, Minister for Marketing & Warehousing, Government of Andhra Pradesh.
3. Shri Y.V. Rao, Member of Parliament & Chairman, Best India Tobacco Suppliers.
4. Shri M. Rajashekar Murthy, Member of Parliament.
5. Shri A. Manju, MLA- Arakalgud.
6. Shri H.C. Basavaraju, MLA-Periapatna.
7. Shri Kodi Pappanna, MLA Hunsur.
8. Dr. Y Sivaji, Ex Member of Parliament and Honarary President of the Virgenia Tobacco Growers Association of India, Guntur.
9. Shri Vijayshankar, Ex. Member of Parliament.
10. Shri B.S. Patil, Additional Chief Secretary & Development Commissioner, Government of Karnataka.
11. Shri Asutosh Mishra, Secretary, Government of Andhra Pradesh.
12. Shri A.K. Agarwal, Principal Secretary, Agricultural & Horticulture Department, Government of Karnataka.
13. Dr. S.C.V. Reddy, Additional Director, Government of Karnataka.
14. Shri Babu Rao, Additional Director of Agriculture, Government of Andhra Pradesh.
15. Members of Tobacco Board.
16. Shri Swaroop Reddy, ITC.
17. Shri T.L. Narasaiah, V.S.T.
18. Shri M. Lakshamaiah, M.L. & Co.
19. Shri G. Mangaiah, Jayalakshmi Tobacco Co. Pvt. Ltd.
20. Shri H.H. Rudrappa, GPI Limited.
21. Shri Mittapalli Rama Rao, Mittapalli Audinarayana & Co.
22. Shri M. Subba Rao, Indian Tobacco Dealers Association.
23. Shri K. Surya Prakash, Chaitanya Tobacco Company.
24. Shri Santhi Bhushan, M/s K.R.&Co.
25. Shri G. Sitaramaiah, President, Nellore & Prakasham District Growers Association, Kandukur.
26. Shri S.M. Ananthramu, President, VFC Tobacco Growers Forum.
27. Shri L. Anand, Secretary, VFC Tobacco Growers Forum.
28. Shri Muthuraj, President, Periyapatna VFC Tobacco Growers Association.
29. Dr. Vasanth Kumar, Secretary, Periyapatna VFC Tobacco Growers Association.
30. Andhra Pradesh Rythusangham, Hyderabad
31. Periyapatna Taluk Varginiya Thambaku Growers Co-operative Society Limited, Kaggundi, Periyapatna, Maysore.

<u>ANNEX-4</u>

Implementation Modalities - Tea

1. **Coverage**: It is proposed, to begin with, to extend the benefit of the scheme only to small tea growers having holding size 4 ha and below. The number of growers in this category is in the region of 86,000 spread over all the major tea producing states and account for 120 million kg, that is, 75% of the total production of the small sector in the country.

2. **Participation fee**: The small tea growers, in order to avail of the benefit of the scheme shall have to pay one time entry fee at the rate of 25 paise per kg of green leaf. The ownership of the holding shall be verified through the land title deeds, land revenue receipts and membership with co-operative tea factories. Similarly, the crop harvested shall be determined on the basis of the total green leaf supplied by the grower to the bought leaf factories (BLF) during the past three years preceding the year of joining the scheme. The grower will have to express his intention to become member of the scheme by providing an undertaking to the concerned BLF to the effect that his membership fee as well as his contribution to the PSF as and when falls due shall be deducted from the value of green leaf payable to him by the factory. Once the entry fee is paid for the declared volume, it would become the basis for determining the compensation to be paid to the grower in the event of price falling below the lower band and the contribution to be made to the PSF when the price pierces the upper band and no appeal for deviation or relaxation shall be entertained at a later stage.

3. **Collection of entry fee and the contribution to the PSF**: As it would be difficult to collect the entry fee and the contribution to PSF directly from the small growers, it would be collected from the Bought leaf factories and co-operative factories to which they supply their green leaf for processing of made tea At present, there are 356 such factories including co-operative factories. Nearly all the BLF/Co-operative factories in South India and good number of factories in Assam and North Bengal sell the made tea through public auctions at Coonoor, Coimbatore Cochin, Guwhathi and Siliguri. The factories keep proper account of the green leaf supplied by the individual growers. Normally, the growers are paid the value for the green leaf only after realising the sale proceeds from the auction. The green leaf price is fixed after deducting the manufacturing and marketing cost from the gross sale proceeds. In view of this established practice, no difficulty is envisaged either in ensuring the reach of the compensation to the individual grower or in collection of entry fee and his contribution to PSF as and when the price pierces the upper band. In other words the entry fee payable by the growers and the contribution to be made by them in the event of tea prices piercing the upper band of the price spectrum, shall be deducted from the sale proceeds at the point of sale in the auction by the auction organizer/concerned broker and the funds so collected shall be remitted to PSF Account. The practice of deduction from the sale proceeds by the brokers is already in vogue. Normally the tea factories avail working capital from the commercial banks against hypothecation of the crop. A tripartite agreement is executed by the factory with bank and the broker. Accordingly, the bank's

dues are deducted at the point of sale by the broker and remitted to the designated account of the BLF. Similarly, the factories also avail cash advances from the brokers against the invoice of tea to be sold and such advances are settled with the broker immediately after the sale of the invoice in the auction.

4. **Formation of Self Help Groups**: During the 10^{th} plan period, it is proposed to encourage the small tea growers to organise themselves into to small self help groups on the lines of existing Rubber Producer Societies. Such societies shall be made use of for implementing the PSF.as and when they are set up during the plan period.

5. **Compensation from the PSF**: Compensation to be paid to the growers shall be determined by the Tea Board based on the six-months transactions and the amount so determined shall be routed through the concerned auction organiser/Broker for onward transmission to the concerned tea factories who in turn will disburse the compensation to the growers according to their entitlement based on the actual volume of green leaf supplied during the preceding six months.

6. **Maintenance of Accounts**: The entire accounts, relating to individual tea growers in respect of the entry fee/contributions received and the relief i.e., the compensation paid at the time of auction prices piercing the lower band of the price spectrum, shall be maintained by the concerned BLF/Co-operative factories. Similarly, the concerned Auction organiser/Broker will maintain accounts with regard to actual volume of tea traded, average price realised and the deductions made at source etc. Both the factory as well as the brokers will be suitably compensated for the service rendered. The accounts will be verified by Tea Board from time to time through random checks.

7. **Dealing with the Defaulters:** As the entry fee as well as the contribution payable by the growers is deducted at the point of sale by the concerned auction organiser/Broker, the chances of default are remote. The growers willing to join the scheme will have to provide an undertaking to the concerned BLF/Co-operative for enabling it to deduct the entry fee as well as the contribution to be made to PSF subsequently from the payment due to him/her on account sale of green leaf supplied.

8. **Penalty for Exit from the Scheme:** The duration of the scheme is expected to be ten years. Withdrawal from the scheme during the mid course is not permitted except permanent closure of the concerned BLF/co-operative factory. Those factories which opt out of the scheme during the mid course shall have to forego the initial entry fee as well as the contribution made to the PSF during their stay under the scheme. During the currency of the scheme, no relaxation or deviation shall be allowed with regard to the volume of tea based on which the amount to be deducted shall be determined as and when the price pierces the upper band. In other words, the BLFs shall have to declare at the time of joining the scheme, the actual volume of tea to be supplied to the auction for sale on behalf of its member growers. Once the entry fee is paid for the declared volume, the subsequent deduction on account of contribution shall be made on the basis of such volume declared and no appeal from the BLF for deviation or relaxation shall be entertained

9. **Revision of Price Band and its announcement**: In view of the wide price difference between North Indian and South Indian teas, the price band will be fixed separately for North and South. I.e., there shall be two separate price bands These price bands will be revised every year and will be announced to all the participating BLFs/Co-operative factories at the beginning of the calendar year.

10. **Determination of Compensation/Contribution:** The compensation to be paid and the contribution to be collected shall be determined on monthly basis, based on the weighted average of the prices in the five major auction centres viz: Guwhathi, Siliguri,for North India and Coonoor, Coimbatore, and Cochin, for South India. The actual amount shall be fixed on the basis of the green leaf supplied by the individual growers subject to maximum ceiling limit of the optimum productivity level for the concerned geographical region, which shall be certified by the TRA for the North India and UPASI-TRF or KVK for the South India.

11. **Time of Pay in and Pay out**: The compensation to be paid to the growers shall be made in two instalments at half yearly interval after determining the amount of compensation for the previous six months and adjusting it against the contribution to be made if any during the said period. The amount so determined shall be paid to the concerned BLF/Co-operative, which in turn shall pass on the same to the member growers.

12. **Role of Tea Board in implementation of the Scheme**: The Board would set up an implementation committee to be headed by Chairman Tea Board to oversee the entire operation of the scheme. The Board has good network of field offices covering all the major tea growing regions. Through the field offices, the data relating to the small grower profile, particularly, their holding size, green leaf production and the factory to which they supply their green leaf shall be verified. The Board's zonal offices located at Guwhathi and Coonoor will oversee the transaction made in the auction centers falling under their respective jurisdictions. The Board, on the basis of the feedback received from zonal offices as well as directly from the auction centres, shall estimate the anticipated outflow of the fund and submit the requisition to the PSF for release of funds at half yearly interval. The utilization certification for the amount so drawn from the PSF shall be submitted to the ministry before claiming the subsequent instalment.

ANNEX - 5

Implementation modalities - Rubber

The Rubber Board will implement the scheme. The Rubber Production Department of the Rubber Board has a network of Regional Offices and Field Stations covering the major rubber producing areas and these offices will be directly responsible for the implementation of the scheme.

Field level implementation.
The Board has been facilitating formation of grass roots level organization of small growers called Rubber Producers' Societies (RPS) and they are being strengthened to function as an extension arm of the Board . There are 2130 RPS in the country at present. These societies are registered under the Charitable Societies Act and the Field Officer of the Rubber Board is also a member of the Board of Directors. The average membership of these societies is around 150-200. The societies are involved in the bulk purchase of inputs and distribution to the growers, trading in field latex, Ribbed Smoked Sheets (RSS), group processing and also participating in the various extension programmes of the Rubber Board. Besides these societies there are also Rubber Marketing Cooperative Societies established under the Cooperative Societies Act which are involved in the marketing of rubber. The scheme is proposed to be implemented with the active involvement of these societies.

Almost 70-80 % of the holdings are either registered with the Board as per the provisions of the Rubber Act or have been supported under the various plantation development programmes, and this involves verification of land documents etc. The RPS maintains a complete database of the member growers with regard to the area under rubber and the details of rubber traded by the members are also maintained in the RPS. The extent of land and the owner ship will have to be verified by the recommending officer of the Board to his/her satisfaction based on land records.

Collection of Initial contribution and pay in
Initial contribution, as determined, will be collected by the RPS, and will remit the same to the Rubber Board. When the market price pierces the upper band, the contribution also will be collected by these societies.

A good number of growers are selling rubber through the RPS and in such cases the implementation of the scheme will be easier. The RPS can obtain an undertaking from the grower to deduct contributions from the payment due to him on account of sale of rubber as and when the price pierces the upper band.

Coverage of growers
Besides the member growers of the RPS owning less than 4 ha of rubber area the scheme will also be open to those growers who are not members of the RPS and the respective RPS can enroll the growers within their jurisdiction, generally delineated by a geographic/revenue unit. However, the scheme will be operated only through these societies.

Maintenance of individual accounts

The RPS will distribute membership cards and provide receipt of the money received to the members. It is proposed that a passbook be issued to the growers which will record the contributions received and also the relief paid. Each member participating in the scheme will be provided with a passbook, the initial documentation of which will be done by the concerned Regional Office of the Rubber Board. However, subsequent maintenance of the passbook will be done by the RPS under the overall supervision of the extension officer of the Board in the locality. All the Regional Offices of the Board are computerised and the Board has programmes for providing computers to the RPS (a few RPS have already procured computers). This will enable maintenance of individual accounts easier.

Participation in the scheme

Those growers who are willing to join the scheme will enter in to an agreement with the RPS/the co-operative society, which will indicate details of the scheme. Those growers who are not trading with the RPS or non-members also will enter into an agreement with the RPS, if they propose to participate.

Payment of the initial contribution is a prerequisite to obtain membership. Those growers who are not making the contributions will be served with a notice and if the due amount is not paid with in a prescribed time limit the member ship will be cancelled and the initial contribution forfeited. The duration of the scheme is 10 years and once a grower joins the scheme his participation will be for 10 years and will not have the option to with draw from the scheme. If any RPS defaults remittance of the contribution collected from the growers ,the RPS will be disqualified from participating in the scheme and there will be appropriate provisions built in the agreement the Board enters with the RPS to proceed legally. However chances of occurrence of such situations are remote as there are safe guard measures to ensure that the RPS do not default. The local extension officer who also is a director on the Board of the RPS will recommend the respective RPS for participation in the scheme.

Determination of the price band and pay out

The price band will be revised every year during April and will be announced. The band will be approved by the Board proposed to be set up. The compensation/contribution will be calculated on a monthly basis based on the average monthly price in the domestic market. The reference price to be adopted is the price of RSS4 grade at Kottayam and this will be applied to other forms of rubber marketed by small growers on the basis of the dry rubber content. Compensation /contribution will be limited to the national average productivity of the respective year or the quantity declared by the grower, which ever is less. Pay in and pay out will be done on a half yearly basis.

Operational expenses

These RPS/Cooperative Societies will be provided with a service charge for assisting the Board in implementing the scheme

Though it is not proposed to create any staff for the operation of the scheme, Board may have to meet some incidental expenses, the quantum of which will have to be determined.

The Rubber Board will estimate the anticipated out flow and indent for funds from the ministry and will provide utilization certificate at the beginning of the quarter along with the request for funds.

Monitoring

The Rubber Production Department will implement the scheme. However a committee headed by the Chairman Rubber Board will over see implementation of the scheme. The committee also may include representative of the RPS.

The RPS advisory committee in the respective regions will oversee the implementation at the regional level. The RPS advisory committee comprises of Presidents of the various RPS under the jurisdiction of the Regional Offices and officers of the regional offices of the Board. This will facilitate better accountability among the RPS joining the scheme

Building up awareness

Once the scheme is finalized salient features of it will be given wide publicity and the farmers will be educated through the regular extension programmes of the Board. The RPS office bearers also will be given a thorough training on the *modus operandi* of the scheme.

ANNEX - 6

Implementation modalities – Coffee

Programme Coverage

For the purpose of scheme the entire production is categorized into two major types of coffee viz. Arabica and Robusta. As per the latest production estimates, the total production for the crop year 2002-03 would be 2.8 lakh tones divided between arabica and robusta at 1.06 lakh tones and 1.74 lakh tones respectively.

Considering the ease of implementation and the limitations of the fund, at the initial stage of implementation, the coverage will be restricted to all small growers of less than than 4 ha category who have taken institutional credit. Of the small growers with < 4 ha of coffee holdings who have credit exposure to banks number 65,000 covering a total cultivated area of 33,000 ha with a production of about 46,000 tonnes. In the later stages when the coverage is to all small growers, the scheme could be implemented through grower organizations/cooperatives or grower groups

Participation fee

Though the participation is voluntary for the small growers, in order to avail the benefit of the scheme the growers shall have to pay an initial contribution of Re.1.00/kg in the case of arabica coffee and Re.0.50 in the case of robusta coffee as a one-time entry/participation fee. The total participation fee for a grower will be based on the number of hectare and per hectare productivity as determined by the implementing authority from time to time.

Estimation of yields for pay-in and pay out

Yield/ha is the single most important factor not only determining the level of income of the grower but also the extent of pay-in and payout to the Fund. The individual grower`s yield which is computed for the purpose of crop loans cannot be considered owing to the possibility that they could be inflated above the national average yields. Additionally small growers average yield levels vary across the coffee producing states. Therefore in order to ensure equitable pay-in and pay-out, the average state/zonal yields as assessed by the Coffee Board separately for arabica and robusta will form the upper limit. If the yields assessed by the credit institution is lower than the averages then that level will be admitted for computation of pay-in and pay-out.

Determination of the bench mark average prices for the scheme

The average prices can be determined based on the daily international coffee prices of NYBOT (New York Board of Trade), New York for arabica and LIFFE, London International Financial Futures and Options Exchange) for robustas for the following reasons:

1.These markets are truly competitive.

2.Volume of trade is large and are liquid

3.Prices are available almost daily

4.Impossible for any one to rig the prices

5.They form the benchmark prices for Indian coffees with appropriate differentials.

The N.Y and London market prices are futures prices, and the average of second and third position will be taken for computing the averages. These international prices less the CIF costs will be taken as the fob prices. With appropriate exchange rate of any given year the benchmark price per kg of arabica and robusta will be arrived at.

The Indian Coffee Trade Association's weekly auction prices will be used to compute the average price trigger in each season. The auction is held once in a week and the prices are found to move in tandem with the international prices.

Trigger price for pay in and pay out

The price band will be announced before the beginning of the full season based on the moving average prices covering a full year. The trigger prices for pay-outs and pay-in will be ideally determined by the monthly average price once in the first half (preferably during march) and again during the second half (September). If the both periods show pay out or pay-in, then the pay out or pay in will be restricted to one time only. On the contrary if it results in one pay-in and one pay-out both will be accounted for. This will avoid undue speculations and frequent pay-ins and payouts.

Operation through credit institutions

- Consequent the dismantling of the Pool marketing system, Coffee Board is completely divested with its marketing operation and as such the operation of the fund cannot be made mandatory to any of the intermediaries like curers, traders, exporters or auctioneers. In the liberalized marketing situation, Coffee Board will endeavour to implement the scheme through credit institutions. Moreover the experience of the Board in operating the Interest Subsidy scheme through the Banking Institutions can be drawn with appropriate modification to operationalize the fund.

- By linking to credit institutions the scheme could be easily operationalized since banks might have verified the basic records of the growers, assessed the production potential of the individual farms. Moreover they can easily collect and canalize subscription and payments into the fund and disburse the pay-outs to the genuine participants. More over, the coverage in terms of holdings and acreage are fairly higher and well spread.

- The initial contribution of the participating small growers will be deposited to their respective accounts with an advice to transfer the same to PSF. The banks will send the details of the membership to the Coffee Board for scrutiny.

- Based on the movements in prices, contributions to the fund (Pay-in) and payments to the growers (pay-out) will be assessed by the competent authorities (duly assisted by the Coffee Board) and the respective banks will be advised appropriately after getting the details of the member accounts.

- As the scheme is linked to bank loans, the banks may have to guarantee to the PSF a suitable interlocking agreement with growers. While pay out could be canalized easily, the pay-ins at times of high prices will be ensured through legally enforceable agreements.

- The envisaged lock in period is 10 years and the participating growers are expected to remain with the designated credit institution throughout this period. The participating growers will give appropriate undertaking so that the pay-in is collected and routed to PSF. Since the legal documents are deposited with the bank the grower will not be allowed to opt out of the scheme without fulfilling his obligatory dues to the fund, mainly the dues outstanding in terms of pay-in, if any.

- In the case of default i.e. if there is a failure in depositing the Pay-in amount within a reasonable period of time as fixed by the PSF his/her membership will be cancelled and the initial contribution will stand forfeited.

ANNEX –7

PRICE STABILIZATION IN TOBACCO SECTOR THROUGH SPECIAL PURPOSE VEHICLE

The Board had introduced an open and transparent auction system for sale of Flue cured Virginia tobacco in Karnataka and Andhra Pradesh during 1984 and 1985 respectively. The Board every year takes into account the demand for FCV tobacco in the domestic as well as export market and fixes the crop size after deducting the carried over stocks, if any, from the previous year. The tobacco growers are authorized by the Tobacco Board to produce tobacco in accordance with the crop size authorized by the Tobacco Board. Nevertheless, FCV tobacco growers of Andhra Pradesh and Karnataka have been producing far in excess of the authorized crop size and thus creating conditions of glut.

BACK GROUND:

The Ministry of Commerce, Government of India, on the basis of a study by NCAER, New Delhi, came out with the proposal of Price Stabilization Fund. The Price Stabilization Fund Committee headed by the Additional Secretary, Ministry of Commerce had interacted with the FCV tobacco growers of Andhra Pradesh and Karnataka.

The tobacco growers of Andhra Pradesh appealed to the committee that the need of Price Stabilization in the form of market intervention by a Governmental or Non-Governmental agency. They further appealed to the Committee that the best way to stabilize the prices in tobacco is to liquidate some quantity from open market which can be effectively be done by the Special Purpose Vehicle (SPV). The farmers have further stated that they were not looking to any price subsidy but some kind of market intervention to create buoyancy in the market and thus stabilize the prices. When compared to plantation crops such as Coffee, Tea and Rubber, Tobacco is an annual crop, the prices of which continue to fluctuate. Moreover the prices received by the farmers in India by the tobacco growers are not only the lowest in the World but also do not have the relationship with the International price trends.

FCV tobacco has ten (10) farm grades and sixty-nine (69) plant position grades. Thus, the multiplicity of grades will render the implementation of price stabilization mechanism extremely difficult in view of the need to have the price band to each of the grades on a continuing basis. For determination of price band for FCV tobacco the prevalent international prices also cannot be taken into account since, they have no relationship with the relevant prices in India. Moreover the facility of having an exchange at the international level in the plantation grades such as Coffee and Tea are not available for tobacco since, the International merchants source their tobaccos from nearly 100 countries with variable prices. The plantation crops also witness the cyclical fluctuation that the farmers are prepared whereas the tobacco being an annual crop and being sensitive to weather and price fluctuations, the farmers cannot withstand wide fluctuations resulting in severe hardship. The proposed mechanism of providing direct income to the farmers through growers driven scheme of Price Stabilization Fund has not found favour with the farmers of Andhra Pradesh and Karnataka mainly for two reasons namely,

1) The International merchants who dictate the prices to the domestic exporters are likely to bring down the prices lower than the lower price band fixed by the Price Stabilization Committee and thus entailing the farmers to obtain subsidy which indirectly means providing subsidy to the International merchants / trade. The trade within the country could also adopt similar tactics.

2) The farmers who produce quality tobacco fetch better prices will have to contribute to the Price Stabilization Fund when their average price pierces the upper price and thus efficient farmers will be subsidizing the inefficient farmers.

In view of the difficulties in the implementation of the Price Stabilization Fund for FCV tobacco and also keeping in view the views of the tobacco farmers, it is proposed to set up a Special Purpose Vehicle (SPV), which will act as a market intervention agency in terms of market crises to help to stabilize the prices.

AUCTION TRENDS IN FARM PRICES SINCE 1985

A statement showing the average prices realized region wise during 1985 to 2000 is appended. A glance into this statement reveals that grower prices witnessed wide fluctuations.

In 1987, the Flue cured tobacco auction market in the State of Andhra Pradesh witnessed a severe glut and steep fall in the auction prices. The STC of India Ltd. had entered the market to stabilize the prices. The Trading wing of the Tobacco Board also entered the market and bought tobacco at Minimum Support Price with a view to relieving the growers from distress sale.

Grower's prices in 1990 have again declined significantly over that of 1988 and 1989 despite reduced production, in that year. Grower prices witnessed substantial decline in 1993, 1994 and 1995, which have almost touched the 1988/1989 level, despite increase in cost of production year after year.

The surplus production by the registered as well as the unregistered farmers has reached such proportions that the Board at the request of the farmers had to agree not to fix any crop size for the States of Andhra Pradesh and Maharashtra during the crop season 2000-2001. As per Section 8(2)(b) it is the duty of the Board to watch Virginia tobacco market both in India and Abroad and ensure remunerative prices to the growers and that there are no wide fluctuations in the prices of this commodity.

There has been a constant demand from the growers for some kind of Price Stabilization mechanism. This issue was discussed in several Board meetings and the Board had sent several proposals to the Government, which are under the consideration of the Government of India.

MARKET STATUS

Encouraged by the catalyst role of the Tobacco Board, farmers are producing the crop over and above the registered hectarage. The farm productivity also improved over the years, due to introduction of new varieties and propagation of improved package practices by the Tobacco Board. This resulted in increase in the production of the crop over and above the authorized crop. The details of the authorized crop in the State of Andhra Pradesh for the period 1992 through 2000 is given hereunder:

Year	Authorized Crop size(M.Kgs)	Actual Crop size (M.Kgs)	Ave.Price/Kg.(Rs.)
1992	126	133	27.63
1993	103	125	20.74
1994	72	77	20.95
1995	66	74	25.62
1996	75	90	33.03
1997	84	111	40.00
1998	110	131	40.12
1999	99	147	34.85
2000	102	132	32.16

As can be seen from the above table, that authorized crop between the years 1994 to 1997 is the period of low production and the prices during the same period are on increasing trend, and the same trend continued for the year 1997 and 1998.
The surplus production over the years resulted in higher inventory of unsold stocks, which had an impact on the prices in the years 1999 and 2000 where the prices are on a declining trend.
The prices of agricultural products, like any other product, are driven by the supply and demand factors. Tobacco is not an exception to this market reality. The prices for Indian tobacco are also influenced by the supply and demand factor in the International market. This has led to building up of high inventory of unsold stocks in India.

THE IMPACT

i) In the Market

Accumulation of unsold in the market, providing an opportunity to the buyers to bargain for low prices. This also reduces the ability of the traders to actively participate and pay higher prices to the farmers in the auction platform.

ii) To the farmers-

Unremunerative prices to the farmers resulting in distress sale.

This fall in prices is not one off situation and farmers are facing problems periodically as can be seen from the declining price trends during the period 1993 to 1995 and 1999-2000.
The accumulation of unsold stocks, coupled with wide price fluctuations in the auctions, farmers demanded a crop holiday for the year 2001. It was envisaged that such measures will improve the price realization and also create the demand for the crop.

iii) To the importers -

Buyers are apprehensive about the consistency of supply and wide fluctuations in prices.

iv) To the Government -
The impact on the Government is multi dimensional and concerns are-

- Disruptions in conducting the auctions coupled with prolonged periods of auctions.
- Lack of active participation by the trade in the auction platforms.
- Demand on the Government, for purchase of tobacco through STC and / or other agencies from time to time.
- Lack of confidence in the International buyers in terms of continuity of supplies.
- Declining Tobacco exports in value terms.

THE NEED FOR SPV

- **To provide for futures trading in Tobacco.**
- **To minimize wide fluctuations in farm price in the auctions.**
- **To ensure continuity of auctions and remunerative prices to the farmers.**
- **To eliminate the demand on Government to intervene and purchase tobaccos from time to time.**
- **To create confidence to the international buyers and domestic manufacturers in terms of continuity of supplies.**

CURRENT PROPOSALS

To set up an independent organization, ("Special Purpose Vehicle"(SPV) incorporated with the specific objectives of :

- Ensuring remunerative prices to the farmers through proactive market intervention to minimize price fluctuations and to ensure continuity of markets.
- SPV will be funded by the various stakeholders - Tobacco Board, Manufacturers, Exporters, Financial Institutions and farmers.

CAPITAL STRUCTURE

The proposed Capital Structure for the SPV

Share Holding		**Investment %**
Government of India/Tobacco Board		26%
FCV tobacco growers of AP. KK, Orissa and Maharashtra		26%
Trade	Upto	40%
Financial institutions(Balance equity)		8%
TOTAL		100%

It is proposed to have an equity of Rs. 25 crores which will enable the SPV to draw loans to the extent of Rs.100 crores which will provide the financial power required to enter the market.

In case the trade is not willing to come forward to contribute its share of 40% of the equity, farmers may contribute the same.

It is envisaged that the SPV will be a professionally run organization and will be grower-driven sustaining on its own without depending upon either the Government of India or Tobacco Board.

The rationale for the proposed stake holding is-

TOBACCO BOARD

Tobacco Board being the regulator for crop production, quality improvement and marketing can sustain the growth of the industry and facilitate for getting the remunerative prices to the farmer, by promoting an innovative market intervention mechanism outside the government purview.

FINANCIAL INSTITUTIONS

Can utilize the opportunity of investing their funds, in the domestic market, for the working capital requirements of the Farmer and the Trade, with time up mechanism for assured recoveries.

Exim Bank can provide market opportunities, with attractive credit facilities, to the exporters and helps in increasing the exporters from India, by providing buyers credit to the importers.

TRADE

Unfortunately none of the trade members has sustaining capacity for futures trading in tobacco. This SPV provides an excellent opportunity to the trade in this regard. Create markets for tobacco in the domestic markets and in the international markets. Trade can also utilize this stock base as source for their export opportunities.

FARMERS

Can market their produce at remunerative prices, continuously in the market.

Functions of the SPV

a) To participate in the auction platform on an ongoing basis and purchase tobacco when the market is depressed.
b) Purchases will be made as and when the prices for the specific grades are falling below the MSP or any particular price level as fixed from time to time.
c) To offer the Tobaccos purchased in the green form, for resale during the periods of price buoyancy.

d) Unsold green stocks through resale to be processed at designated processing plants with international specifications.
e) To offer the packed Tobaccos for exports to international buyers or to the exporters/domestic manufacturers in India.
f) To ensure the returns to the stake holders.

GOVERNANCE:

SPV will be incorporated as a Public Limited Company and comply all the Rules and Regulations, as per Companies Act.

SPV will be managed by the experienced and competent professionals who have the ability to analyze tobacco market dynamics and enter and exit the market at appropriate time.

Purchasing and processing activities will be outsourced as they are seasonal activities.

The Governing Board shall review:

- The market situation
- Timing of entry into the market
- Purchase Policy(including quantity and prices)
- Sales and Credit Policies
- Periodical review of Operations
- Statutory compliance and audit
- Mobilization of capital resources, and
- Other matters as required under Companies Act.

It is proposed that Government of India may provide corpus fund out of the funds proposed for the Price Stabilization Fund as part of its share holding in the equity to the extent of 13%. It is proposed to an equity of Rs.25 crores which will enable the SPV to draw loans to the extent of Rs.100 crores which will provide the financial power required to enter the market.

In case the trade is not willing to come forward to contribute its shareof 40% of the equity, farmers are willing to contribute the same.

It is envisaged that the Tobacco Board and Government of India may offer handholding to the SPV in the initial years and subsequently the SPV will be an organization driven by the farmers and self sustaining on its own without depending upon by the Government of India or Tobacco Board.
