

## **EXECUTIVE SUMMARY & MAIN RECOMMENDATIONS**

1. Deeply concerned with the problems that are being faced by the growers of Tea, Coffee, Rubber and Tobacco, and after examining the report and various options recommended by the NCAER, the Department of Commerce proposed to establish a Price Stabilisation Fund (PSF), with a view to demonstrate Government's commitment to safeguard the interests of the growers of these commodities

(Chapter-1:Para 1.6 )

2. The objective of the PSF is to bring about price stabilisation for each of the commodities without resorting to the practice of procurement operations by the Government agencies as in the case of food grains and other commodities such as cotton, jute, copra, etc. Intervention through the PSF means that when the price worsens, the participating growers will be compensated through the fund. In the boom years, the growers will have to contribute a certain amount to the Price Stabilisation Fund.

(Chapter-1: Para 1.7)

3. The Department of Commerce obtained "in-principle" approval from the Government during June 2002 for the setting up of a PSF and constituted a Committee vide order number 10/3/2001 - Plant (B) dated July 10th, 2002 to work out the operational modalities of the PSF with 9 members under the Chairmanship of Shri. L.V. Saptharishi, Additional Secretary, Deptt. of Commerce.

(Chapter-1:Para 1.9 )

4. World prices of almost all agricultural commodities have witnessed a steep decline after experiencing a boom in the mid 1990s. The prices of tea, coffee, rubber and Flue Cured Virginia (FCV) tobacco are no

exceptions to this phenomenon.

(Chapter-2: para 2.1)

5. The considerable fall in the prices, led to a series of Government interventions. The outgo of funds from the Government due to such *ad hoc* interventions during a limited period of four years (1997 to 2001) was of the order of Rs. 100 crore . Due to the *ad hoc* nature of such interventions pressures get built up for physical procurement of these perennial crops just as in the case of foodgrains, which is not desirable for the long-term fiscal sustainability of the interventions.

(Chapter-2: para 2.8).

6. The principle underlying the PSF is to set up a permanent pool of resources, in order to reduce the burden of a sudden and unexpected demand for resources from the Government exchequer. To make such a pool of resources sustainable in the long run, they must be supplemented in non-distress years from the growers.

(Chapter-2: para 2.9).

7. Several ways, including the cost of production method, last few years moving average domestic prices adjusted for inflation and movements in the international prices method and the method of a long term world price estimated on the basis of a regression equation fitted to past 15-20 years data, were considered by the Committee for determining the normal level of prices of the commodities.

(Chapter-2:para2.11-2.15)

8. With integration of Indian economy with the world economy, it would not be advisable to ignore the trends in international prices as this would lead to serious distortions in the domestic prices. Setting international prices of these commodities as benchmarks for domestic prices, would help in maintaining their competitiveness.

(Chapter-2: para 2.19)

9. To provide the reference framework for relief interventions, without interfering in the market, various ways of formulating a price spectrum band were considered by the Committee. Keeping in view, the complexities of the concerned commodity markets and ease of operation, the Committee decided to recommend adopting a uniform band of 40 per cent for all the four commodities. This would mean a price spectrum band of +/- 20% from the seven year moving average of international prices.

(Chapter-2: para2.20-2.25).

10. Given the scarcity of resources it will be extremely difficult to bring each and every grower under the umbrella of the scheme. With this limitation in view it was decided to cover only small growers having an operational holding up to 4 hectares.

(Chapter-3: para 3.1).

11. The Committee considered three alternative schemes to support the growers through the PSF.

**Price Stabilisation Scheme (Alternative 1):** As long as prices remain within the upper and lower bounds (i.e. within 20%), there is no need to intervene and compensate the growers. In a situation when the prices go above the upper bound, 25 per cent of the difference between the upper bound and the actual price will have to be contributed by the growers to the fund. On the other hand, when prices fall below the level specified by the lower bound the growers should be compensated to the extent of 25 per cent of the difference between the actual price and the lower bound. However, the Committee taking note of the problems which are peculiar to the tobacco crop and the difficulties expressed by the Tobacco Board in implementation of this alternative, felt that tobacco crop should be kept out of the operation of this envisaged Scheme.

**Modified PSF Scheme (MPSF) (Alternative 2):** As it would be difficult to guarantee grower contributions to the fund whenever the prices rule above the upper bound in Alternative 1, a modified version of PSF Scheme was considered. The MPSF may, to begin with cover only about 3.42 lakh growers being the most needy amongst those having operational holdings of upto 4 hectares.

Each participating grower would be required to make a non-refundable initial contribution of Rs. 500 as entry fee to the Fund and open an MPSF account with a nationalised bank. In normal years when the prices remain within the price spectrum band, the grower will be required to deposit Rs.500 each year to the MPSF Account by a specified date. The Government will also contribute upto Rs. 500 to the individual grower's account in these years. When price pierces the upper band, the grower's contribution will be minimum Rs. 1000 while the Government will not make any contribution. When prices fall below the lower band, the grower will not be required to contribute any amount, while the contribution from the Govt. will be upto Rs.1000 per account. Government's contribution will be pro rata reduced if the interest earning from the corpus is insufficient.

In a normal year that is when prices remain within the price spectrum band, the grower subscribing to the Scheme will not be allowed to withdraw any amount from his account. When prices worsen, that is, when prices fall below the lower bound, the subscriber shall be permitted to withdraw an amount upto Rs. 1000.

The Scheme will be operational initially for 10 years commencing from April 2003. The Scheme shall come into force in a particular state only after that State Government has made its contribution in full. The

maximum annual outgo by operating this Scheme would be Rs. 34.23 crore covering all four commodities.

(Chapter-3:para 3.12-3.27)

**Multipurpose Loan Scheme (MLS) (Alternative 3):**The Scheme envisages providing relief to affected growers by enabling them to have access to multipurpose finance from a bank to meet his variable consumption needs, input costs, income stability and cost of shift to alternate crops in the event of secular price decline. The intended beneficiaries may be enabled to open a bank account, be given a credit card and allowed drawal facilities upto an agreed credit limit based on net worth of the grower. Any drawal from this account would have to be paid back by the grower, with interest, as per terms of the agreement between the bank and grower. The interest earning of the corpus would be used to subsidise the interest on the drawals by small growers only, although otherwise the scheme may cover all growers.

(Chapter-3:para 3.29-3.30)

12. The Committee examined the merits and demerits of each of the 3 alternative Schemes and evaluated them on the basis of criteria like relation of subsidy to depressed prices, net subsidy on actuarial basis, immunity to strategic market manipulation, data requirements, cognitive simplicity, secular price change signals and fiscal outgo.

(Chapter-4:para 4.2)

## **MAIN RECOMMENDATIONS**

13. After due consideration of all the factors, the Committee categorically recommends adoption and implementation of the Modified PSF Scheme (Alternative 2) for the benefit of small growers having holdings upto 4 ha in the tea, coffee, rubber and FCV tobacco sectors.

(Chapter 4: para 4.11)

14. After initial groundwork and preparatory steps are put in place, the scheme should become effective from April 2003 onwards.  
(Chapter 4: para 4.11)
15. The Committee also recommends that Government should take initiative and facilitate the establishment of Commodity exchanges with provision for futures trading.  
(Chapter 4:para 4.12)
16. During its interaction with the State Governments, the Committee drove home the point that since the PSF is ultimately intended for the larger benefit of the growers located in these states, the concerned States also should come forward to participate in the Scheme by making some contribution to the corpus of the Fund. The response of the States to this suggestion has been positive but not specific.  
(Chapter-5: para 5.3-5.4 ).
17. The Committee recommends that in the interest of making this Scheme genuinely participatory from the standpoint of both the Central Government and the State Governments, the contribution of concerned States to this Fund could be based on the size and operations of the plantation crops in these States, their relevance for the economy of the States and the number of small growers of 4 ha and below.  
(Chapter 5:para 5.5)
18. The Committee is of the view that the Corpus can be built up over a period of two financial years according to the contributions coming from the Central Government/State Governments/ subscribers in suitable instalments.  
(Chapter-5: para 5.8)

19. The Fund depending upon its efficient operations, should attract contributions from IDA credit (soft loan window of World Bank) or other multilateral funding agencies sympathetic to the cause of the commodities and their revival and progress. It is also suggested that commercial banks having maximum exposure to the plantation sector should also come forward and participate in the scheme at some stage or other by contributing to the Fund appropriately.

(Chapter-5: para 5.10)

20. The fundamental principle that should govern operation of the scheme is that the corpus of the fund remains undisturbed and the interest earnings alone be utilised for operations with respect to different commodities.

(Chapter-5: Para 5.11)

21. It is proposed that the contribution of the Central Government should be kept in the Public Deposit Account and the interest earned on the amount should be credited to a separate account to be operated by NABARD or any designated commercial bank on behalf of the Government under this Scheme.

(Chapter-5: para 5.12).

22. The State Governments' contribution and the growers' contribution should be credited to the NABARD/designated bank account, which should keep these funds in an interest-earning corpus, and the interest earnings thereon should be added to the interest amount coming from the Central Government's corpus contribution.

(Chapter-5: para 5.13).

23. The Committee suggests that a Trust Fund could be created for operating this Fund.

(Chapter-5: para 5.15).

24. The NABARD/designated bank will set up a Plantation Cell for implementing the PSF Scheme with a multi-disciplinary and professional team drawn from the concerned Commodity Boards and other financial institutions/commercial banks.

(Chapter-5: Para 5.16)

25. A senior officer, with suitable background and experience should be appointed by the NABARD/designated bank, with the concurrence of the Deptt. of Commerce, as the Chief Executive Officer of the Fund and head the Plantation Cell..

(Chapter-5: para 5.17).

26. The monitoring of the fund should be entrusted to the High Powered Committee to be set up under the Chairmanship of Commerce Secretary/Additional Secretary (Plantations) Deptt. of Commerce and Additional Secretary & Financial Advisor, Deptt. of Commerce, representative of Ministry of Finance, Chairman, NABARD/designated bank, Chairman participating banks, representatives of the State Govts. of Kerala, Assam, Tamil Nadu, West Bengal, Karnataka and Andhra Pradesh, three distinguished economists/Commodity Experts having wide ranging national and international exposure to the problems of the commodity sector as members and the Chief Executive Officer of the Fund as the Member Secretary.

(Chapter-5: para 5.18)

27. Meetings of the High Powered Committee should coincide with the commencement of the concerned crop seasons.

(Chapter 5: Para 5.20)

28. The Scheme should be reviewed after a period of 5 years and if need be new features should be incorporated in response to emerging needs and requirements of exit of uncompetitive growers.

(Chapter-5: para 5.22).

29. The Committee recommends the establishment of a wing, comprising personnel having relevant experience, in each of the Commodity Boards for disbursement of compensation and receipt of contributions from the growers. The Committee does not recommend addition of any new staff to the Commodity Boards for this purpose and they have to retrain and re-deploy their existing personnel for discharging responsibilities in this area. The Commodity Boards should also work out their relationships with the various banks concerned in which the subscribing growers will have MPSF accounts.

(Chapter-5: para 5.24-5.25)