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Value Addition or Value Acquisition

Travails of the Plantation Sector in the Era of Globalisation

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Travails of the Plantation Sector in the Era of Globalisation

The prolonged crisis in the plantation sector has attracted widespread attention. The current situation of growing market uncertainties or depressed farm gate prices of four major plantation crops – natural rubber, tea, coffee and cardamom – is rather unprecedented in gravity and has serious repercussions. The need for strategic interventions to facilitate the growth of producers' consortiums in the conduct of primary marketing of tea, coffee and cardamom deserves due attention. Moreover, the link between instabilities in farm gate prices and duty free imports for value added exports should also be examined.

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Introduction

The protracted crisis entangling the plantation sector in India since the late 1990s has attracted wide attention of the media and policy initiatives from the concerned authorities in recent times. Prima facie, the current impasse manifested in the form of growing market uncertainties or depressed farm gate prices of four major plantation crops in the country – natural rubber, tea, coffee and cardamom – is rather unprecedented for the gravity and context of the repercussions. In fact, except for the marginal decline in the price of cardamom, the observed fall in the annual average farm gate prices of other three crops varied from 25 per cent (natural rubber and tea) to 57 per cent (coffee) during the year 2003 compared to the peak levels attained in the 1990s.¹ Despite the multitude of explanations on the crisis, the incompatibility between professed prescriptions and the basic issues confronting the plantation sector is evident from the immediate responses of the planting community. The survival strategies adopted by the planting community broadly confined to cost saving and labour displacing measures such as dilution and even abandonment of prescribed agro-management practices, labour retrenchment, lockouts and resistance to routine tripartite wage negotiations. Consequently, not only agro-management practices intended to improve yield levels have come to a halt, but also even the routine practices have been bypassed to reduce costs. The contagious effect of such responses will have to be juxtaposed against the question of sustenance of an estimated number of more than 1.1 million producing units (predominantly small and marginal holdings) and about two million annual average daily employment generated in the country. In effect, despite various cost reduction strategies and policy initiatives pursued during the past few years, the chances of long-term survival of the sector are rather bleak mainly due to the absence of a comprehensive exposition of the basic issues perpetuating the crisis.

From the analytical and long-term policy angles, the lingering market uncertainties assume added significance than the fall in prices for the specific context and its policy implications. The context of the observed instabilities in prices have coincided with major trade policy reforms launched in India since the early

1990s which ushered in an era of reduced tariff and non-tariff barriers to imports. Hence, the populist policy perceptions on the crisis revolve around the conventional mismatch between the forces of supply-demand and the 'fear psychosis' of cheaper imports with its concomitant revival packages to tide over the imbroglio. Though it is true that fluctuations in prices of these crops were common to the pre-reforms phase also, the higher levels of protection from external competition during this phase rendered much room for short-term policy manoeuvrings. Conversely, the efficacy of ad hoc policy measures such as price stabilisation schemes, fiscal and export incentives, investment subsidies and free rations to the retrenched labour have serious limitations in the context of the market integration process as is evident from the stalemate. An important analytical corollary of popular perceptions on the crisis is that large volume of cheaper imports have sown the seeds of crisis which in turn exposed weaker links of the domestic plantation sector to external competition. However, in spite of the annual variations, the volume of imports of these crops as a percentage of domestic consumption have rarely exceeded 5 per cent in the recent past with the notable exception of cardamom (Table 3). Therefore, the hypothesis of cheaper imports germinating the crisis is not only unconvincing, but also insulates the core issues from the purview of any systematic analysis and sustainable policy interventions. Alternatively, it is more plausible to hypothesise that the prevailing equations in the sector are vulnerable to even minimal volume of cheaper imports. Hence, the underlying factors of the crisis have to be identified with infirmities within the sector. Though the logic behind this presumption is debatable, it opens up the door for a critical assessment of the issues in the production and marketing segments in the context of the trade policy reforms from a long-term perspective.

It is in this conceptual backdrop that this theme paper is perceived with the twin objectives of highlighting the core structural issues and for appropriate policy interventions. Accordingly, the paper is organised into four broad sections, viz, (i) status of the plantation sector and its regional dimensions, (ii) basic issues; (iii) tariff barriers and cheaper imports; and (iv) policy perceptions.

Status of the Plantation Sector

Historically, plantation agriculture in India had been developed under the large-scale estate system of export-oriented production by European firms. There has been a significant transformation leading to indigenisation of ownership, dominance of the small holdings (with the major exception of tea) and domestic market orientation except coffee². Table 1 shows the major indicators of the status of plantation sector in India.

As it is evident from Table 1, the share of the plantation sector in India's gross cropped area is only less than 1 per cent. However, the relative importance of the sector vis-a-vis other sub-sectors in agriculture is evident from the fact that its share in agricultural GDP is more than two times of the share in gross cropped area. A relatively higher value of output per unit area and higher labour intensity vis-a-vis other sub-sectors in agriculture even during a phase of depressed market conditions underline the socio-economic dimensions of this sub-sector. From a policy angle, apart from the predominance of an estimated number of more than 1.1 million small- and marginal holdings, the regional dimensions of plantation agriculture in India assume more importance due to the concentration of area under cultivation, production and employment in south India. Table 2 shows the regional and sectoral dimensions of the plantation sector in India.

The most discernible feature evident from Table 2 is the concentration of area under plantation crops in south India and more specifically, the dominance of the state of Kerala accounting for more than 42 per cent of the total area in the country. Another important feature is the importance of natural rubber in the plantation sector having a share of more than 37 per cent in the total area. However, the two obvious aberrations from the observed regional and sectoral concentration are: (i) a less than proportionate share of South India in the total value of output (59.51 per cent) compared to its share in the total area (67.74 per cent) and; (ii) the decisive share of tea in the total value of output (50.43 per cent) compared to its share in the total area (33 per cent). The observed deviations in the regional and sectoral shares in the total value of output vis-à-vis respective shares in the total area have important policy implications and merit further explanation.

First of all, the consequences of the current impasse arising from uncertain prices and steady increases in cost of inputs will be more serious in the case of the regional economy of south India for two reasons: (i) more than 67 per cent of the total area under the crops is located in the region; and (ii) almost 99 per cent of the total number of producing units of the four crops are in south India. Conversely, the potential implications of the crisis in north India will be primarily confined to the dominant tea sector as the region's shares in natural rubber, coffee and cardamom are negligible. In north India, around 900 large estates in the size group of above 100 hectares control about 94 per cent of the area under the crop.³ Therefore, the policy implications of the crisis for south India with smaller size of holdings and a highly diversified distribution of crops will be different from the less diversified scenario of North India dominated by the corporate sector. At a more disaggregate level, Kerala is more vulnerable to the crisis not only due to its unique position of having substantial shares in the area under cultivation of natural rubber (84 per cent), cardamom (more than 56 per cent), coffee (more than 23 per cent) and tea (more than 7 per cent) but also on account of the smaller size of operational holdings (except

tea) and the larger number of dependent households. Therefore, operationally, Kerala can be considered as the 'plantation enclave' of the country and total area under these four crops accounts for about 22 per cent of the gross cropped area in the state [GoK 2004]. This unique position of the state makes it more vulnerable to the market uncertainties gripping the plantation sector compared to other states.

Given this regional, sectoral and structural contours of the plantation sector, it is necessary to focus on the basic issues of the crisis for a detailed analysis.

Basic Issues

Despite the crop-specific issues and the regional variations of the same, the basic issues confronting the plantation sector can be broadly classified into two: (i) the operational level issues related to the proximate causes of the crisis and responses since the late 1990s; and (ii) the structural issues rooted in the asymmetries evolved in the sector over time and accentuated in the context of trade policy reforms since the early 1990s. Technically, although the structural issues trigger the observed operational level issues, popular focus and policy interventions have been on the latter as is evident from the responses and consequences. Conversely, the structural impediments related to basic farm management issues and producers' share in the value chain appear to have been relegated to the background as concerns of only academic curiosity. Notwithstanding, the polemical overtones of such perceptions and the resultant policy interventions over time, the intrinsic relationship between the two issues has become more evident in the era of globalisation.

The common operational level farm management issues challenging the survival of the four plantation crops are primarily threefold: (i) steady increases in the cost of inputs without commensurate improvements in the yield and prices; (ii) the resultant erosion in profit margins or even losses; and (iii) a strategic vacuum of potential avenues for survival within the production sector in the context of growing market uncertainties. Though there are crop and region-specific variations in the gravity of these issues, the developments in the plantation sector of the

Table 1: Status of Plantation Sector in India (2002-03)

Major Indicators	Value
Total area cultivated under the four plantation crops (Million ha)	1.51
Area cultivated under the four crops as a percentage of gross cropped area (per cent)	0.80
Estimated total value of output of the four crops (Rs million)	95127
Total value of the output as a percentage of Agricultural GDP (per cent)	1.87
Estimated annual average daily employment in the plantation sector (Million mandays)	2.00

Note: Data pertain to only natural rubber, tea, coffee and cardamom.

Source: GoI 2004; CMIE 2004; UPASI 2004; Rubber Board 2004.

Table 2: Regional and Sectoral Concentration of the Plantation Sector (2002-03)

Region/Sector	Share (Per cent)
Relative share of south India in total area under the four crops	67.74
Relative share of Kerala in the total area	42.32
Relative share of natural rubber in the total area	37.73
Relative share of south India in the total value of output	59.51
Relative share of tea in the total value of output	50.43

Note: South India refers to the states of Kerala, Tamil Nadu and Karnataka only.

Source: UPASI 2004; Rubber Board 2004.

southern states since 1997 bear testimony to the severity of the crisis. Paradoxically, the professed prescriptions doled out by the relevant agencies are synonymous with the popular slogans in the era of globalisation, viz, competitiveness in cost, quality and value addition. Apparently, the logical premises of the prescriptions rest upon two major presumptions: (i) there exists unlimited scope for yield improvements and labour replacement or other cost-reducing measures; and (ii) an increase in yield and quality upgradation at the farm level will lead to a proportionate increase in the farm income. However, given the technological possibilities for yield enhancements within the existing institutional framework and scale of operations, the biological limits for attaining the professed goals are too evident. In an operational sense, the prescribed priorities tend to underline the point that for an uncertain market, the strategy for survival is the maximum exploitation of the biological and technological possibilities at the farm level with appropriate structural adjustments for cost competitiveness.

Theoretically, the two options available for reducing the average unit cost of production across the four plantation crops are: (i) slashing the expenditure on major cost components; and (ii) improving the yield to overcome the increases in costs of material inputs and depressed prices. As the crop harvesting expenses account for a significant share in the operational costs of the four crops, the planting community in general resorted to either wage cuts or freezing the same with immediate effect. Therefore, operationally, there has been a conscious effort to shift the burden of the crisis to the plantation labour with crop- and region-specific variations. Perhaps, the worst-hit victims of this survival strategy are the tea plantation labourers in Kerala as already a few estates have declared lockouts and many estates have temporarily abandoned the routine operations [Raviraman 2003]. In fact, the inherent contradictions of this strategy of targeting labour displacement for improving the cost competitiveness are primarily twofold: (i) labour displacement and the consequent dilution in the prescribed cultural practices at the farm level will have serious implications on the yield potential; and (ii) projection of labour displacement as the universal solution to the lingering crisis will certainly sidetrack the critical crop-specific issues and the persistent dichotomy between farm gate prices realised by the growers and retail prices paid by the consumers.

The second option of attaining cost competitiveness through yield improvements appears to have serious limitations in the prevailing circumstances for various reasons. First of all, as perennial crops, there are well-defined biological and technological limitations for introducing improved planting materials with immediate effect to overcome the crisis. The point becomes more explicit when compared to annual crops for three important reasons: (i) higher initial investment and a longer immature phase; (ii) a prolonged economic life ranging from 15-60 years across the four crops; and (iii) a highly commercialised production process with unique farm management practices have been considered as agricultural enterprises equivalent to industry. Therefore, unlike in the case of annual crops, relative flexibility in shifting the cropping pattern or divesting the resources is rather limited unless the salvage cost is more than justified by prospective streams of income. Moreover, the region-specific agro-climatic suitability of existing areas under the four crops sets the limits for yield improvements as historically higher levels of protection from external competition, remunerative prices

and exemptions from land ceiling legislations led to expansion of area even to agro-climatically marginal areas at the expense of traditional crops [George and Tharakan 1986; George et al 1988; Sen and George 1992; George 1999a; Lekshmi and George 2003].

Secondly, even to maintain the current yield levels, the continuance of the prevailing agro-management practices are of crucial importance. However, for maintaining the status quo, adequate internal sources of funds are essential prerequisites without which the operational level validity of this proposition will be of only academic significance. Thirdly, the polemical issue of the biological limits to yield improvements across the crops require a comprehensive analysis as a growing share of area under the uneconomic age group poses serious questions on the sustainability of yield and the resultant issues of cost competitiveness. While cardamom (8.42 per cent) and natural rubber (2.19 per cent) have exhibited positive growth rates in annual average yield, growth rate in yield of coffee declined marginally (-0.68 per cent) and that of tea registered a marked decline (-3.93 per cent) during the 10-year period between 1993-94 and 2002-2003.⁴ Though the mixed trends observed in annual average growth rates in yield of the four crops could be construed as crop-specific issues, lingering market uncertainties in the post-reforms phase would lead to a convergence of the basic issues across the four crops as is evident from the responses. Finally, all the concerted efforts at the farm level will bear sustainable results only if the farm gate prices are remunerative. More specifically, if the cost reductions achieved through substantial yield improvements at the farm level are nullified by a more than proportionate fall in farm gate prices, cost competitiveness will not deliver the desired results for the planting community. In short, there are serious limitations in responding to the crisis by singularly focusing on the farm management issues. Hence, any realistic attempt to streamline a comprehensive policy package has to consider the core issues of the prevailing infirmities in the marketing system and the share of farm gate prices in the value chain.

Limits to Free Market

Historically, the organic relationship between farm gate prices of the plantation crops and the retail consumer prices has been characterised by a persistent divergence with crop-specific variations. While it is widely recognised that during the colonial and post-colonial phases a major portion of the value added had been appropriated outside the purview of the plantation sector [Best 1968; Beckford 1972; Manoharan 1974; George 1980; 1984; 1999b; Dawood 1980; Corea 1992], the persistent polarisation of the prices even in the era of globalisation has not been subjected to comprehensive analysis for appropriate policy initiatives. Very often, the critical issue of the appropriation of a major share in the value added outside the purview of the production sector has either been conveniently overlooked or neglected. Apparently, the genesis of this neglect could be the colonial heritage of considering value appropriation as the 'sacred domain' of the tail-enders. Therefore, in effect, any revival or survival strategy ignoring the crucial issue of the stagnant or declining share of farm gate prices in the value chain is equivalent to subsidising the tail-enders for two reasons: (i) improvements in the cost competitiveness will not necessarily lead to a higher net farm income due to the rigidities in the primary marketing;

whereas (ii) the relative profit margins of the tail-enders are protected mainly due to control of the retail markets by a handful of big players. Table 3 shows the salient features of the plantation crops' primary markets and external trade.

Table 3 clearly highlights the following points: (i) except natural rubber, the major marketing channel of the other three crops are auctions; (ii) among the four crops, only coffee has a high degree of export orientation; and (iii) the import intensity of domestic consumption of all the crops (except cardamom) is rather negligible. Though conceptually the primary marketing of the three plantation crops through auctions are considered to provide a 'level playing field' for both producers and buyers, in practice, there are at least two serious constraints, viz. (i) a large number of small producers are tied up with a few big buyers in the auctions; and (ii) the producers are linked to the buyers mainly through established intermediaries/brokering firms. Therefore, the price behaviour is very often isolated from market forces and tend to nestle around an artificial level, exposing itself to powerful oligopsonistic buying manoeuvres.⁵ Although the share of imports in the domestic consumption of all the crops except cardamom is insignificant, it is possible that the timing and announcement of imports are used to create uncertainties in the primary markets to reap maximum benefits at the tail-enders' level. This point requires further explanation.

Among the four crops, except natural rubber, all are edible consumer products. Moreover, the relative shares of material costs in the net value added beyond the production sector is rather insignificant in the case of these three crops compared to natural rubber. Hence, the prevailing contradictions between farm gate prices and retail consumer prices are more transparent in the cases of tea, coffee and cardamom. Even at the lower end of the retail market segment, while the average consumer price of loose tea was 70 per cent higher than the farm gate price, it was 68 per cent in the case of coffee powder and around 100 per cent in the case of cardamom (personal enquiry). However, the gap is more in the organised upper end of the retail markets controlled by a few big firms which have a strong bearing on the price formation in the lower end of the retail markets. First of all, the 'price setters' in the retail markets of tea and coffee have been the packet tea and coffee segments with established brand images and controlled by a few large corporate groups with strong global links. Therefore, in spite of a larger share in the domestic retail markets, the prices of loose tea and coffee powder do not adequately represent the extent of value appropriation by the tail-enders. Technically, tea sold at the auctions is a finished product suitable for consumption which is subsequently subjected to blending and packing with minimum material costs for retail sale with maximum margins facilitated by the concentration in the retail market. The observed differences between packet tea prices and the farm gate prices range from 120-300 per cent. A substantial portion of this margin is constituted by oligopoly profits and corporate establishment costs. The two largest players in the retail packet tea control around 55 per cent share in this upper end of the domestic market even in the year 2000 [UPASI 2002]. Similarly, the material costs incurred for coffee processing beyond the farm gate level is insignificant and it was reported to be only 3.83 per cent of the sale price in the case of pure coffee powder and 5.75 per cent for coffee blends [Indira 1996]. In the domestic packet coffee market, one large corporate group (which also has a substantial share in

packet tea segment) alone controls 45 per cent of the market [UPASI 2002]. Moreover, 60-65 per cent of global market of processed coffee is controlled by 10 transnational corporations [Scholer 2004].

Thus, the value appropriation at the retail segments arising from concentration and market control has been considered to be compatible with the prevailing policy environment and conveniently ignored as the 'sacrosanct' of the tail-enders. The potential implications of this academic or policy level hypocrisy have been succinctly exposed in the case of global trade in coffee. It was reported that while the total value of global trade in coffee increased from US \$ 30 billion in the 1990s to US \$ 50 billion by the turn of the century, the share of farmers has declined from US \$ 12 billion to US \$ 8 billion [Venkatachalam 2002]. These trends amply demonstrate the perennial vulnerability of the planting community to the forces of free market competition vis-a-vis the freedom of the corporate giants from the free market competition.

However, natural rubber being a versatile industrial raw material, the relative shares of material costs and profit margins in the net value added vary significantly across thousands of rubber products. Although the estimation of net value added and surplus appropriated is rather complex in the case of natural rubber, the sustenance of the historical polarisation between resource base and value appropriation is reported at the regional and international levels [George 1999b; Joseph and George 2000]. Moreover, new forms of discrimination in the primary marketing of natural rubber has been reported in the context of growing market uncertainties arising from the steep fall in the prices since 1997 and after the removal of quantitative restrictions (QRs) on rubber imports from March 31, 2001 [George et al. 2002; Veeraputhran and George 2003].

Tariff Barriers and Cheaper Imports

Perhaps, the most important contributory factor attributed to the observed market uncertainties is the cheaper imports under a liberalised trade policy regime. A critical assessment of the issue requires analysis of two important aspects related to imports, viz: (i) the tariff policy regime; and (ii) the unit CIF value of imports. Table 4 shows the current status of tariff barriers on imports of the four crops.

Among the four crops, except in the case of dry forms of processed natural rubber, the bound rates of all other products vary from 100 per cent to the unbound status of latex. As the bound rates denote only the potential flexibility in protective tariff barriers, the prevailing rates of basic import duty assume more

Table 3: Salient Features of the Market

Crop	Major Primary Marketing Channel	Market Orientation	Exports as a Percentage of Production* (Per Cent)	Imports as a Percentage of Estimated Domestic Consumption* (Per Cent)
Tea	Auctions	Domestic	22.1	2.0
Coffee	Auctions	Export	55.6	2.9
Cardamom	Auctions	Domestic	20.1	34.0
Natural rubber	Three-tier system-dominated by private dealers	Domestic	2.8	4.3

Note: *Triennial average during the year ending 2002-03.

Sources: Gol 2004b; Rubber Board 2004; UPASI 2004.

importance from both analytical and policy angles. Except for processed forms of dry rubber, rates of basic import duty on other product groups range between 70-100 per cent. Therefore, technically, natural rubber is relatively more vulnerable to external competition compared to tea, coffee and cardamom. In a comparative sense, while cheaper imports of dry forms of natural rubber is possible through duty paid channels, such imports in the case of other three crops are ruled out unless import prices are cheaper enough to compensate for the higher rates of import duty. This points assumes significance in the case of cardamom as the higher share of import in the domestic consumption (34 per cent) even with 70 per cent basic import duty during the triennial period. In Table 5, details on the share of major product category imported within each crop, major source of imports, unit Cost Insurance Freight (CIF) value of imports and comparative differences with domestic prices during the triennial period are provided.

Table 5 clearly illustrates two points: (i) significant levels of concentration in the product category imported as well as sources of imports; and (ii) given the differences between domestic and import prices, chances of imports through duty paid channel are rather remote. While the minimum difference between the domestic and import prices were observed in the case of tea (6 per cent) and natural rubber (6.3 per cent), maximum differences were evident in the case of cardamom (39.3 per cent) and coffee (31.6 per cent). However, the observed differences are not adequate enough to justify imports through duty paid channels as the rates of basic import duty are higher than the price advantage. Therefore, it is plausible to presume that imports had been primarily routed through duty free channels for value added exports. Among the four crops, the salient features of cardamom imports during the triennium merit some explanation for three important reasons, viz. (i) higher share of import in domestic consumption (Table 3); (ii) the highest product concentration in imports

(94.4 per cent) as well as source of imports (99 per cent); and (iii) highest difference between domestic prices and import prices (39.3 per cent). First of all, more than 90 per cent of the imported

Table 5: Major Product Groups, Sources and Unit Value of Imports (2000-01 to 2002-03)
(Per Cent)

Crop	Major Product Category Imported	Relative Share in Total Volume of Imports (Per Cent)	Major Source of Import (Per Cent)	Unit CIF Value of Imports (Rs/Kg)	Unit CIF Value of Imports as a Per Cent of Domestic Prices
Natural rubber	Smoked sheets (HS 4001 21)	32.6	Thailand (45.5)	31.8	93.7 ^a
		52.0	Indonesia (38.5)	38.8	63.4 ^b
Coffee	Not roasted and not decaffeinated (HS 0901 11)				
Tea	Other black tea (fermented) and other partly fermented tea (HS 0902 40)	78.6	Indonesia (31.8)	55.5	94.0 ^c
Cardamom	Cardamom large (amomum) (HS 0908 30 01)	94.4	Nepal (99.0)	95.0	60.7 ^d

Notes: Figures in brackets of column 4 represent relative share of respective countries in the total volume of import of the given product category.
(a) – domestic prices of natural rubber refer to triennial average price of RSS-4.
(b) – domestic price of coffee refers to triennial average of auction price of Arabica Plantation 'A' as the entire quantity of coffee imported from Indonesia during the triennium consisted of different rates of Arabica only.
(c) – domestic prices refer to triennial all India average auction price of black tea.
(d) – domestic price of cardamom refers to triennial average price reported for amomum variety at Gangtok market.

Sources: Gol 2004b; Rubber Board 2004; Spices Board 2004; UPASI 2004.

Table 4: Bound Rates and Basic Import Duty in India (2003-04)

Item	HS Code	Description	Bound Rate (Per Cent)	Basic Duty (Per Cent)	Import Policy (Free/Restricted)
Natural rubber	4001 10	Latex, whether or not prevulcanised	Unbound	70	Free
	4001 21	Smoked sheets	25	20	Free
	4001 22	TSNR	25	20	Free
	4001 29	Other	25	20	Free
	4001 30	Balata gutta percha, guayule, etc	40	20	Free
		Not roasted			
	0901.11	– Not decaffeinated	100	100 ✓	Free
	0901.12	– Decaffeinated	150	100 ✓	Free
		Roasted			
	0901.21	– Not decaffeinated	150	100 ✓	Free
Coffee	0901.22	– Decaffeinated	150	100 ✓	Free
	0901.30 (0901. 90 10)	– husks and skins	100	100 ✓	Free
	0901.40 (0901. 90 20)	– substitutes containing coffee	150	100 ✓	Free
	0902.10	– Green tea (not fermented) in immediate packings of a content not exceeding three kg	150	100 ✓	Free
Tea	0902.20	– Other green tea (not fermented)	150	100 ✓	Free
	0902.30	– Black tea (fermented) and partly fermented tea, in immediate packings of a content not exceeding three kg	150	100 ✓	Free
	0902.40	– Other Black tea (fermented) and Other partly fermented tea	150	100 ✓	Free
Cardamom	0908.30	Cardamoms	100	70 ✓	Free*

Note: Figures in brackets in column two denotes revised HS (2002) codes of the concerned products.

* Except for HS 0908 30 50 and 0908 30 90.

Source: Gol 2002, 2004b.

variety is the inferior large cardamom (amomum) from Nepal intended mainly for value added exports. Conversely, the shares of this variety in India's total production and consumption are lower compared to the shares of the superior variety of small cardamom. While the major producing region of south India produces the high valued small cardamom, production of large cardamom in India is confined to the states of Sikkim and West Bengal. The average price difference between the two varieties is reported to be around 300 per cent [Spices Board 2004]. In spite of the reported differences in quality, the recent trends indicate that the cheaper variety is making significant inroads into the specific domestic market segments though it is not considered to be even a closer substitute of small cardamom.

At this stage, it is pertinent to examine the link between the hypothesis on cheaper imports germinating uncertainty in domestic farm gate prices and the summary of observations emerging from Tables 3, 4 and 5. The four important inferences drawn from the analysis are: (i) the relative shares of imports of the four crops in the domestic consumption are not significant enough to germinate the uncertainty; (ii) the observed contradictions between higher rates of imports duty compared to the differences in prices invariably suggest that the substantial volume of imports had been routed through duty free channels for value added exports; (iii) such imports appear to have been catalytic to the transmission of perennial uncertainty in world market prices to the domestic primary markets; and (iv) whereas, the retail market segments remain unperturbed by virtue of a remarkable control of the markets by a handful of big players.

In this analytical backdrop, it is only logical to surmise that the most explicit outcome of the trade policy reforms on the plantation sector has been the emphasis given to duty exemptions on imports for value added exports. The apparent anomalies of this export promotion scheme in the plantation sector are: (i) except in the case of natural rubber, the extent of material transformation in other three crops is insignificant; and (ii) therefore, the trade surplus generated in the form of value added exports will be confined to only the trading segments with remote chances of the benefits percolating down to the production sector. Conversely, relative flexibility of the trading segments in the domestic market is strengthened by the facility of duty exemptions on imports with its deleterious consequences on the production sector. From a comparative perspective, there has been an elevation in the status of the trading segments as the key players in the era of export-oriented growth strategy. In effect, not only the trade policy reforms in the sector have transmitted uncertainties in world market, but also provided clear signals on the prospective shares of the production sector and trading segments in the surplus generated through value addition.

Policy Perceptions

The two broad streams of interrelated issues addressed in this theme paper are the operational level constraints contributing to the proximate causes of the crisis and structural deficiencies contradicting ad hoc policy interventions. In this connection, top priority shall be given to a detailed agro-climatic zoning of the producing regions under the four crops in order to demarcate and rank the relative agro-climatic suitability of the regions. This proposition assumes significance in the context of regional

variations in yield irrespective of comparable farm management practices. The results of detailed investigations are expected to provide useful inputs for long-term strategies to achieve potential realisable yield under the given techno-economic options. An equally important priority is documenting the share of area to be replanted across the crops. In the current context, an upward revision of replanting subsidy is essential to maintain the tempo of growth in yield. However, it is also important to evolve a transparent monitoring mechanism to examine the progress of replanting and utilisation of the subsidy component. In the labour front, instead of isolating labour costs as the principle factor behind the crisis, it may be viewed in relation to trends in yield and labour productivity.

The observations on the prevailing arrangements in the primary markets highlight the need for strategic interventions to facilitate the growth of producers' consortiums. Though the validity of this proposal across the four crops is questionable, promoting producers' consortiums in the conduct of primary marketing of tea, coffee and cardamom deserves due attention. As edible consumer products with minimal material transformation beyond the production sector, an integrated marketing strategy combining interventions in both primary and retail markets seems to be more feasible so as to enhance the share in the value chain. In fact, the individual initiatives taken by a few tea companies in the country towards direct retail sales through super market chains illustrate the validity of the perceptions outlined in this paper. The formula behind the success of those who managed to build up an individual brand image has been fixing a remunerative price higher than the average auction prices, but lower than the average retail prices of the dominant brands of packet tea. Though these isolated individual initiatives provide only broad indications for the potential policy inputs to be pursued in a liberalised trade regime, a sustainable institutional framework for embarking on a hitherto unexplored avenue requires pooling the inherent strengths of planters' organisations and commodity boards for a paradigm shift in the policy perspectives.

On the external trade policy front, while the flexibility provided by higher bound rates for all the crops except natural rubber though projected as a basis for erecting strong tariff walls, negotiations on tariff reductions under the WTO is a continuous process aimed at more reforms and transparency. Another potent source of threat to the sector is the regional trade agreements already signed and to be signed by India shortly. In this context, the emergence of Vietnam as a major exporter of tea, coffee and natural rubber to India merit attention.⁶ Therefore, conceptually, there would be well-defined limits for tariff protection in future. In this connection, the major issue to be examined in detail is the link between instabilities in farm gate prices and duty free imports for value added exports. For value added exports, a clear distinction has to be drawn between the sources (domestic or imported) of such exports. Otherwise, growth in exports based on duty free imports will be at the expense of a gradual demise of the domestic production sector. Even the vast domestic market may have to depend on imports in future. Therefore, certain revisions in the norms for tariff exemptions such as the minimum required material transformation and the incremental value as well as WTO compatible quality standards have to be introduced. These requirements at different ranges can be effectively used for evolving a grading system in value added exports. The grades obtained can form the basis for discriminatory tariff concessions

on imports for value added exports. Such a policy initiative is expected to act as a check on indiscriminate cheaper imports. Although these broad conceptual constructs have to be examined in the crop specific contexts, the propositions underline the need for serious introspection in prospect rather than finding solace in higher tariff barriers.

To conclude, from a long-term perspective, only a comprehensive policy package addressing the structural issues both in the farm management and trading segments with a conscious effort to enhance the share of production sector in the value chain will ensure success or survival of the plantation sector. **[EW]**

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Notes

- 1 Though decline in the price of cardamom was only 1.13 per cent, comparative instability in the prices was the highest compared to other crops. The coefficient of variation in cardamom prices was 36.33 followed by coffee (32.51), natural rubber (23.56) and tea (19.58) during the 10-year period between 1993-94 and 2002-03.
- 2 The dominance of large-scale estate system of tea production in the major tea producing countries is primarily necessitated by the scale economies in black tea manufacturing [Hayami 1994]. It was reported that to exploit the full advantage of a tea factory of the smallest size, the required minimum area under tea cultivation should be at least 300 acres in the Indian context [GoI 1956].
- 3 North India accounts for more than 75 per cent of the area and output of tea in the country.
- 4 Another important trend observed has been crop-shifts favouring short-term crops among the smallholdings across the major plantation regions in south India.
- 5 The historical asymmetries in the primary marketing of tea is relatively well-documented [GoI 1952; Manoharan 1974; George 1980: 1984; Sen and George 1992] compared to other crops. However, the prevailing buying concentration in the primary markets of other three crops is also evident. In the case of natural rubber, bulk transactions higher than 1,000 tonnes per annum are controlled by less than 3 per cent of the licensed dealers. About 40 per cent of total volume of global green coffee imports is controlled by five international trading houses [Scholer 2004]. In the case of cardamom the reported margin even at the level of dealers at the auction centres is around 35 per cent.
- 6 During the year 2002-03, the share of Vietnam in total volume of imports of tea, coffee and natural rubber were 32.11 per cent, 31.01 per cent and 5.52 per cent, respectively. The issue assumes significance in the context of the proposed Indo-ASEAN FTA in which India is expected to offer unilateral tariff concessions to new member countries of ASEAN, including Vietnam.

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