

## **PRICE SPECTRUM BAND 2003**

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## **FOREWORD**

The Price Stabilisation Fund Scheme was launched by the Government of India in April 2003. The Scheme is being operationalised through the Price Stabilisation Fund Trust, New Delhi. The Price Spectrum Band for Year 2003 has since been finalized by the PSF Trust. The Price Spectrum Band Document 2003 is the first such document to be brought out by the PSF Trust, covering all the aspects related to fixation of the Band.

The recommendations contained in the Report of the Committee to recommend operational modalities of the Price Stabilisation Fund for Coffee, Tea, Rubber and Tobacco have served as the basis on which the Price Spectrum Band Document has been prepared and finalised.

The Document contains a detailed description of the methodology of estimation of the Price Spectrum Band, Commodity-wise International and Domestic Prices and Commodity specific Price Spectrum Band 2003.

The PSF Trust would like to place on record its gratitude to experts from the Commodity Boards – Shri KJBV Subramanyam, Executive Director, Tobacco Board, Dr. A.K. Krishna Kumar, Rubber Production Commissioner, Rubber Board, Shri G Boriah, Director of Tea Development, Tea Board and Dr. Radhakrishnan, Dy. Director (Market Research), Coffee Board, for providing extensive guidance and assistance in the finalisation of the Price Spectrum Band for 2003.

I hope this Document would be immensely useful to the Commodity Boards, Bankers, Grower's Associations and Member-growers.

Sd/-  
Abhijit Sengupta,  
Additional Secretary  
& Chairman, PSF Trust,  
Department of Commerce,  
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New Delhi.

## P R E F A C E

The Price Stabilisation Fund Scheme was launched in April, 2003 by the Department of Commerce, Government of India with a view to providing sustained, long-term support to the small growers of Tea, Coffee, Rubber and Tobacco. The Scheme envisages participation between the growers and the Government and provides financial assistance to enrolled growers in the event of price decline below a specified level.

The Scheme provides for declaration of annual Price Spectrum Band by the Government of India. The relationship of the average annual domestic price of each commodity to its respective Price Spectrum Band determines the amount of contribution to be paid by the Government and/or the grower.

While the report of the Committee to recommend “Operational Modalities of the Price Stabilisation Fund for Coffee, Tea, Rubber & Tobacco” had provided an indicative framework for computation of the Price Spectrum Band, a detailed exercise was required to lay down the basic principles for the annual preparation of the Price Spectrum Band. The exercise involved extensive consultations with the Commodity Boards under the guidance of the High Powered Committee of the Department of Commerce.

The Price Spectrum Band Document 2003 contains the basic assumptions and principles under which the Price Spectrum Band 2003 has been calculated. This document is a Manual for computation of Price Spectrum Band in subsequent years and would provide information to the growers and the field officers of the Commodity Boards regarding the methodology adopted for computation.

The PSF Trust thankfully acknowledges the valuable guidance provided by the High Powered Committee, Shri A. Sengupta, Additional Secretary (Plantation), Shri S. K. Arora, Additional Secretary & Financial Adviser, Shri S. M. Desalphine, Chairman, Rubber Board, Shri N. K. Das, Chairman, Tea Board, Ms Lakshmi Venkatachalam, Chairperson, Coffee Board, Dr. P. Dayachari, Chairman, Tobacco Board, Shri Y.C. Nanda, Ex-Chairman, NABARD, Shri Abhijit Sen, Professor, JNU (now Hon'ble Member of the Planning Commission), Shri Anil Sharma, Sr. Principal Economist, NCAER and Smt. Priya Kumar, Deputy Secretary (Plantation). Smt. Preetha S. Babu, Programme Manager, PSFT provided excellent support in compilation and analysis of data and preparation of various scenarios.

It is hoped that the document would be of use to the participating growers, the Commodity Boards, and all officials concerned with the implementation of the PSF Scheme.

Sd/-

( **P. K. Dash** )

Chief Executive Officer  
Price Stabilisation Fund Trust

## **EXECUTIVE SUMMARY**

1. The High Powered Committee recommended the following methodology for estimating the Price Spectrum Band.
  - (i) A single Price Spectrum Band each for Tea, Rubber and Tobacco would be estimated. Two separate Price Spectrum Bands for Coffee (Robusta) and Coffee (Arabica) would be estimated.
  - (ii) For each commodity, both International Price and Domestic Price would be with reference to the variety/grade which accounts for largest share of total quantity sold.

For Tea, CTC prices; for Rubber, RSS-4 prices; for Coffee (Robusta), Robusta Cherry AB prices; and for Coffee (Arabica), Arabica Plantation A prices would be referred.
  - (iii) Price Spectrum Band would be estimated on the basis of International Price of each commodity.
  - (iv) International prices for Coffee (Arabica) and Coffee (Robusta) refers to New York (NYBOT ) and London (LIFFE) Futures Prices, which include C.I.F. International Prices for Natural Rubber refer to F.O.B. Bangkok prices. International Prices for Tea refer to the primary sale price of Tea at various auction centres in India, Sri Lanka (Colombo), Kenya (Mombasa), Malawi (Limbe) and Bangladesh (Dhaka).
  - (v) Except for International Price for Coffee, which is based on Futures Prices, International Price for other commodities would be with reference to auction prices.
  - (vi) Seven years' moving average would be calculated on the basis of average International Price of seven calendar years. The year for which Price Spectrum Band is being estimated would constitute the seventh year in the data range. For example, the seven years' moving average of International Price for 2003 would be estimated by taking into account the average International Price for calendar years 1997 to 2003. To calculate the seven years' moving average for 2004, the average International Price for calendar years 1998 to 2004 would be considered.

- (vii) The average International Price for each of the relevant seven calendar years would be converted from Foreign Currency into Rupees, by using the RBI conversion tables and thereafter, the seven years' moving average of International Price would be calculated.
- (viii) Price Spectrum Band means +/- 20% of the seven years' moving average of International Price. Lower Band would be (-) 20% , and Upper Band would be (+) 20% of seven years' moving average of International Price.
- (ix) Average International Price of the commodity for seven years (the reference year being the seventh year) has been used for constructing the Price Spectrum Band. The prevailing average domestic price of the commodity during the reference year has been compared with this Price Spectrum Band to categorise the reference year as Boom/Normal/Distress year.
- (x) Average Domestic Price would mean the average Domestic Price for the calendar year (January 1 to December 31) which is also the referral period for International Prices taken for construction of Price Spectrum Band.
- (xi) If average Domestic Price for the year is within the Price Spectrum Band, the year would be categorized as Normal Year.  
If average Domestic Price for the year is below the Lower Band of Price Spectrum Band, the Year would be categorized as Distress Year.  
If average Domestic Price for the year is above the Upper Band of Price Spectrum Band, the Year would be categorized as Boom Year.
- (xii) As far as possible, the schedule for announcement of Price Spectrum Band, categorisation of the reference year as Boom/Normal/Distress Year and deposits into PSF SB A/C would be as follows:
- (a) Price Spectrum Band along with the actual average Domestic Prices compared with it would be announced every year on March 31.
  - (b) The Price Spectrum Band and the actual average Domestic Prices would be with reference to the previous calendar year.
  - (c) Small growers who have enrolled upto March 31 would be entitled to receive financial assistance, if any, on the basis of Price Spectrum Band for the previous calendar year.

- (d) Members would make deposits, if required, into their PSF SB A/C latest by June 30 every year.
- (e) PSF Trust would make deposits, if required, into PSF SB A/C of members latest by August 16 every year.

**(Chapter 1, Para 3)**

**2. Price Spectrum Band - Rubber - 2003**

**(Rs/Kg)**

Commodity	I.P. M.A.	Lower Band	Upper Band	D.P. 2003	Boom/Normal/Distress Year
<b>Rubber</b>	<b>33.83</b>	<b>32.09</b> <b>(27.06)</b>	<b>40.59</b>	<b>48.14</b>	<b>BoomYear</b>

The Upper Band was Rs. 40.59. The Lower Band for 2003, as per calculation of seven years' moving average of International Price, was Rs 27.06. However, the HPC decided to fix the Lower Band at Rs. 32.09, which is the prevalent Statutory Minimum Price for RSS-4 Grade Natural Rubber.

Since the average domestic price for 2003 was Rs.48.14, which was above the Upper Band; Year 2003 would be categorized as a Boom Year. Thus, the Member growers would contribute @ Rs.1000/- per Member to their Savings Bank Account, as provided under the Scheme. There would be no pay out from the PSF Trust.

**(Chapter 3 – Para 3.5)**

**3. Price Spectrum Band - Coffee Robusta and Coffee Arabica - 2003**

**(Rs/Kg)**

Commodity	I.P. M.A.	Lower Band	Upper Band	D.P. 2003	Boom/Normal/Distress Year
<b>Coffee-Robusta</b>	<b>45.37</b>	<b>36.30</b>	<b>54.45</b>	<b>33.58</b>	<b>Distress Year</b>
<b>Coffee-Arabica</b>	<b>89.90</b>	<b>71.92</b>	<b>107.88</b>	<b>56.18</b>	<b>Distress Year</b>

### **Coffee (Robusta)**

For Coffee (Robusta), the Lower Band and the Upper Band were Rs.36.30 and Rs.54.45 respectively. Since the average domestic price in 2003 was Rs.33.58, which was below the Lower Band, Year 2003 would be categorized as a Distress Year. Thus, Coffee (Robusta) growers who have enrolled under the Scheme would be entitled to a payout @ Rs.1000/- each from the PSF Trust during 2004-2005.

### **Coffee (Arabica)**

For Coffee (Arabica), the Lower Band and the Upper Band were Rs.71.92 and Rs.107.88 respectively. Since the average domestic price in 2003 was Rs.56.18, which was below the Lower Band, Year 2003 would be categorized as a Distress Year. Thus, Coffee (Arabica) growers who have enrolled under the Scheme would be entitled to a payout @ Rs.1000/- each from the PSF Trust.

**(Chapter 4- Para 4.4.2)**

#### **4. Price Spectrum Band - Tea - 2003**

<b>(Rs/Kg)</b>					
<b>Commodity</b>	<b>I.P.M.A</b>	<b>Lower Band</b>	<b>Upper Band</b>	<b>D.P. 2003</b>	<b>Boom/Normal/ Distress Year</b>
<b>TEA</b>	<b>66.40</b>	<b>53.12</b>	<b>79.68</b>	<b>54.89</b>	<b>Normal Year</b>

For Tea, the Lower Band and the Upper Band were Rs.53.12 and Rs.79.68 respectively. Since average domestic price for 2003 was Rs.54.89 and thus within the Upper and Lower Bands, Year 2003 would be categorised as Normal Year. Thus, Tea growers who have enrolled under the Scheme would be required to contribute @ Rs.500/- each and the PSF Trust would also contribute @ Rs.500/- to the individual account of the member.

**(Chapter 5- Para 5.4.3)**

5. Since no Tobacco grower had enrolled under the Scheme till 31.03.2004, Price Spectrum Band for Tobacco for 2003 was not fixed.

(Chapter 6- Para 6.8)

**6 Price Spectrum Band – 2003- Pay-In & Pay-Out:**

After announcement of Price Spectrum Band for 2003, the Pay-Out and Pay-In liability , in respect of members enrolled upto 31<sup>st</sup> March 2004, would be as under:

(Amount in Rs.)

COMMODITY	Category of Year 2003	No. of members	Deposit by PSFT	Deposit by members	Total deposit in SB A/C of Members
RUBBER	BOOM	16240	--	1,62,40,000	1,62,40,000
COFFEE	DISTRESS	8226	82,26,000	---	82,26,000
TEA	NORMAL	1861	9,30,500	9,30,500	18,61,000
<b>TOTAL</b>		<b>26327</b>	<b>91,56,500</b>	<b>1,71,70,500</b>	<b>2,63,27,000</b>

Thus, during 2004-2005, PSFT would provide financial assistance of Rs. 91.57 lakhs to 8226 Coffee growers and 1861 tea growers. During the year, Rubber and Tea growers would deposit a total amount of Rs.171.71 lakhs in the PSF SB Accounts.

Only Coffee growers would be permitted to withdraw upto Rs. 1000/- from the PSF SB Account. Rubber and Tea growers are not permitted to withdraw any amount.

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## **1. PRICE SPECTRUM BAND ESTIMATION- METHODOLOGY**

1. A Committee set up by the Government of India to work out the operational modalities of the Price Stabilisation Fund had looked into various alternatives to determine a reference price for fixing a price spectrum band. To provide the reference framework for relief interventions, various ways of formulating a price spectrum band had been considered by the Committee. Keeping in view the complexities of the concerned commodity markets, ease of operations, and the need to use international prices of these commodities as benchmarks for domestic prices in order to maintain their competitiveness, the Committee had recommended adopting a uniform price spectrum band for all the commodities. Thus, a price band spectrum of +/-20%, from a seven years' moving average of international prices in respect of each commodity was recommended by the Committee and approved by the Government.

2. Details of the various alternatives considered by the Committee in this regard are contained in Chapter 2 of the Report. Relevant extracts are given in **Annex – I**.

3. However, the HPC noted that the methodology for estimating the Price Spectrum Band has not been spelt out either in the approved Scheme, or in the Report of the Committee. The HPC considered the following issues pertaining to Price Spectrum Band estimation such as:

- b.** Single/multiple Price Spectrum Bands for a commodity.
- c.** Futures or Auction Prices as the referral International Price.
- d.** C.I.F. or F.O.B prices.
- e.** Calendar Year or Financial year.
- f.** Schedule for announcement of Price Spectrum Band and deposit by PSF Trust and growers.

Therefore, after detailed discussion, the HPC recommended the following methodology for estimating the Price Spectrum Band.

- (i) A single Price Spectrum Band each for Tea, Rubber and Tobacco would be estimated. Two separate Price Spectrum Bands for Coffee (Robusta) and Coffee (Arabica) would be estimated.

- (ii) For each commodity, both International Price and Domestic Price would be with reference to the variety/grade which accounts for largest share of total quantity sold.
- For Tea, CTC prices; for Rubber, RSS-4 prices; for Coffee (Robusta), Robusta Cherry AB prices; and for Coffee (Arabica), Arabica Plantation A prices would be referred..
- (iii) Price Spectrum Band would be estimated on the basis of International Price of each commodity.
- (iv) International prices for Coffee (Arabica) and Coffee (Robusta) refers to New York (NYBOT ) and London (LIFFE) Futures Prices, which include C.I.F. International Prices for Natural Rubber refer to F.O.B. Bangkok prices. International Prices for Tea refer to the primary sale price of Tea at various auction centres in India, Sri Lanka (Colombo), Kenya (Mombasa), Malawi (Limbe) and Bangladesh (Dhaka).
- (v) Except for International Price for Coffee, which is based on Futures Prices, International Price for other commodities would be with reference to auction prices.
- (vi) Seven years' moving average would be calculated on the basis of average International Price of seven calendar years. The year for which Price Spectrum Band is being estimated would constitute the seventh year in the data range. For example, the seven years' moving average of International Price for 2003 would be estimated by taking into account the average International Price for calendar years 1997 to 2003. To calculate the seven years' moving average for 2004, the average International Price for calendar years 1998 to 2004 would be considered.
- (vii) The average International Price for each of the relevant seven calendar years would be converted from Foreign Currency into Rupees, by using the RBI conversion tables **(Annex VI)** and thereafter, the seven years' moving average of International Price would be calculated.
- (viii) Price Spectrum Band means +/- 20% of the seven years' moving average of International Price. Lower Band would be (-) 20% , and Upper Band would be (+) 20% of seven years' moving average of International Price.

- (ix) Average International Price of the commodity for seven years (the reference year being the seventh year) has been used for constructing the Price Spectrum Band. The prevailing average domestic price of the commodity during the reference year has been compared with this Price Spectrum Band to categorise the reference year as Boom/Normal/Distress year.
- (x) Average Domestic Price would mean the average Domestic Price for the calendar year (January 1 to December 31) which is also the referral period for International Prices taken for construction of Price Spectrum Band.
- (xi) If average Domestic Price for the year is within the Price Spectrum Band, the year would be categorized as Normal Year.  
If average Domestic Price for the year is below the Lower Band of Price Spectrum Band, the Year would be categorized as Distress Year.  
If average Domestic Price for the year is above the Upper Band of Price Spectrum Band, the Year would be categorized as Boom Year.
- (xii) As far as possible, the schedule for announcement of Price Spectrum Band, categorisation of the reference year as Boom/Normal/Distress Year and deposits into PSF SB A/C would be as follows:
- (a) Price Spectrum Band along with the actual average Domestic Prices compared with it would be announced every year on March 31
  - (b) The Price Spectrum Band and the actual average Domestic Prices would be with reference to the previous calendar year.
  - (c) Small growers who have enrolled upto March 31 would be entitled to receive financial assistance, if any, on the basis of Price Spectrum Band for the previous calendar year.
  - (d) Members would make deposits, if required, into their PSF SB A/C latest by June 30 every year.
  - (e) PSF Trust would make deposits, if required, into PSF SB A/C of members latest by August 16 every year.

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## 2 INTERNATIONAL PRICE AND DOMESTIC PRICE- Commodity-wise

### I International Price

1. **COFFEE:** International prices for Coffee are based on the quotation of Futures Prices. Since the 1<sup>st</sup> position prices are likely to bring distortion in the prices, the average price of 2<sup>nd</sup> and 3<sup>rd</sup> position has been used. Prices are as per London (LIFFE) exchange rates for Robusta variety and New York (NYBOT) exchange rates for Arabica variety. The rupee equivalent of these prices has been obtained by using the Annual Average US\$-INR conversion rate provided by RBI.
2. **TEA:** International prices for Tea are estimated on the basis of weighted average of the total quantity of CTC tea sold and price fetched in various auction centres, in India, Sri Lanka (Colombo), Kenya (Mombasa), Malawi (Limbe) and Bangladesh (Dhaka). The rupee equivalent of these prices have been obtained by using the Annual Average US\$-INR conversion rate provided by RBI.
3. **RUBBER:** The source of International Price is as provided by the Malaysian Rubber Board up to 31/12/2002 and the Rubber Research Institute of Thailand through their website ([www.rubberthai.com](http://www.rubberthai.com)) from 1/1/2003. For 2003, FOB prices in Bangkok have been referred. The domestic manufacturers import RSS 3 Grade Rubber in the international market in place of RSS 4 Grade of domestic market, hence International Prices of RSS3 have been taken as the referral price .
4. **TOBACCO:** India produces 'filler' varieties of Tobacco. Therefore, International prices of 'flavourful' varieties cannot be used to estimate the Price Band. Since the Average price of countries exporting filler varieties of tobacco or the unit value of reported export quantities by such countries is not available with the Tobacco board; the average International Price and the price band spectrum have been calculated on the basis of the Average export price of Indian tobacco. Cost on account of processing and yield loss has been excluded from the average Export price on the following basis: Tobacco is exported in different forms such as (1) Total leaf (2) Hand strips (Midrib of the leaf removed manually) and (3) Threshed Lamina (Midrib of the leaf removed mechanically). About 80-90 % of the Indian exports of FCV tobacco are in threshed lamina form. The overhead/fixed costs of the exporters and the FOB expenses have not been included, as they vary from exporter to exporter based on the size of the firm and location of their godowns. The thumb rule of calculation in the trade is that the tobacco purchased from auction platforms, when processed and made ready for export, costs double the farm prices.

## II Domestic Price

1. **COFFEE:** The average annual Domestic Prices have been derived from ICTA (Indian Coffee Trade Association) auction prices of premium grades of Indian Coffee- i.e. Robusta Cherry AB and Arabica Plantation A. For want of any more objective and authentic referral Domestic Price, ICTA auction prices have been referred, even though ICTA auctions account for only about 5% of total domestic trade.
2. **TEA:** Average Domestic Prices are calculated on the basis of All India Auction Prices for CTC Teas.
3. **RUBBER:** The average Domestic Prices are calculated on the basis of average price of daily transactions in the domestic market during the year.
4. **TOBACCO:** For crop year 2003, the auction for Karnataka produce is during September 2003 to March 2004, and the auction for Andhra Pradesh produce is during January to June 2004. Tobacco Board has estimated the average domestic price for 2003 on the basis of the auction prices for produce of crop year 2003. Andhra Pradesh and Karnataka auction prices of the four regional varieties (KLS, NLS, SLS & BCS), up to February 2004 have been used for calculating average domestic price.

Details of Commodity-wise International and Domestic Prices for the period 1994-2003 are furnished in Annex VII

## III Processing Cost

- i. The International and Domestic Prices for Coffee are for cured beans.
- ii. The International and Domestic Prices for Tea are for manufactured Tea.
- iii. The International and Domestic Prices for Rubber are for processed Rubber.
- iv. In case of Tobacco, Domestic Price is for semi-processed Tobacco; whereas the International Price is for Processed Tobacco in the Threshed Lamina Form which constitutes 80-90% of Indian exports of FCV Tobacco . Therefore, processing cost and yield loss have been deducted from exporters' price to derive International Price.

## IV FOB/C.I.F. Prices

International prices for Coffee (Arabica) and Coffee (Robusta) refers to New York (NYBOT ) and London (LIFFE) Futures Prices, which include C.I.F. International Prices for Natural Rubber refer to F.O.B. Bangkok prices. International Prices for Tea refer to the primary sale

price of Tea at various auction centres in India, Sri Lanka (Colombo), Kenya (Mombasa), Malawi (Limbe) and Bangladesh (Dhaka).

### **3. RUBBER**

**3.1** The following suggestions/views were received from Rubber Board for estimating the Price Spectrum Band:

- Only one Price Spectrum Band is proposed.
- The PSF Scheme is for the benefit of the small growers. The small growers process latex to produce Ribbed Smoked Sheet (RSS). There are six grades of RSS, but RSS- 4, the predominantly traded grade, accounts for almost 55% of trade. Therefore, the prices for RSS-4 are relevant for Price Spectrum Band estimation.
- Only annual price band needs to be considered. However, seasonal price band may be considered at a later stage after assessing the performance of the scheme at least for a couple of years.
- Price Spectrum Band calculation may be done on a financial year basis. The price spectrum band can be announced during April so that growers will get sufficient time to remit the money during the final year, say up to December, and subsequently the Government can also remit the money by March during the same year so that the entire remittance takes place during the same financial year. Moreover, price for rubber for all purposes in India is taken on a financial year basis.
- It is proposed that in the good years, i.e., when the price remains above the Price Band, growers may be given option to remit the amount in instalments. However, Pay-Out in bad years should be in one instalment.

### **3.2 INTERNATIONAL PRICES**

- The price for RSS 3 in the international market has been taken as the reference price. The source of International Price is as provided by Malaysian Rubber Board up to 31/12/2002 and Rubber Research Institute of Thailand through their website ([www.rubberthai.com](http://www.rubberthai.com)) from 1/1/2003.
- Price of RSS 3 rubber in the International market is taken as reference price. (Tyre manufacturers import RSS 3 in place of the domestic RSS 4).

- Rubber Board has not adopted any conversion of international price on a landed cost basis. In fact, the option of using the principle of landed cost, i.e., price in the international market plus freight, insurance etc., was discussed at the time of formulation of the Scheme, but later, it was decided not to be adopted.

### **3.3 DOMESTIC PRICES**

- The price compiled and published by the Rubber Board is based on the transactions in the domestic market. The domestic price is not a component of the international price, which is the FOB price in Bangkok
- The price movement during the previous decade may not hold good in the coming years as the market situation prior to 2001 was different from the situation after April 2001 when the Quantitative Restrictions on import of rubber were removed. Prior to April 2001, there was a protected market for Rubber and after April 2001, there has been a demonstrated market integration and therefore, the past experience may not be of much relevance in predicting the future trends. Before the removal of Quantitative Restrictions in April 2001, the domestic prices were moving above the international prices and for the last two years the trend has reversed.

### **3.4 STATUTORY MINIMUM PRICE**

**3.4.1** The Government of India, by Gazette Notification dated 12<sup>th</sup> September 2001, fixed statutory minimum price for RSS 4 and RSS 5 grades of sheet rubber at Rs. 32.09 and Rs. 30.79 per Kg. respectively. Since the Price Band has been prepared with reference to RSS 4 grade, Rubber Board has proposed that the Lower Band should not be below the Statutory Minimum price for RSS 4.

As the SMP for Rubber is a statutory price, the lower band under the PSF Scheme should be pegged at the SMP level, if required.

**3.4.2** The seven years' moving average of International Price for Rubber for 2003 is Rs. 33.83. Therefore, the Lower Band and the Upper Band are Rs.27.06 and Rs. 40.59 respectively. Rubber Board has proposed that the Lower Band should be fixed

at Rs 32.10, i.e., just above the Statutory Minimum Price (SMP) which is Rs.32.09, to avoid litigation.

In this context, Rubber Board was requested to re-examine the issue in view of the following:

1. International price Moving Average (I.P.M.A.), Lower Band (L.B.), and Upper Band (L.B.) are all hypothetical constructs.
2. These constructs are derived from past price data ending on 31.12.2003.
3. The Lower Band for calendar year 2003 was Rs. 27.06. This figure cannot be changed as it is based on actual price data for previous years.
4. The actual average price in 2003 was way above SMP (Rs. 32.09).
5. The declaration of Rs.27.06 as Lower Band for 2003 does not amount to any violation of SMP. It merely means that PSFT would have paid Rs.500/- per member if average Domestic Price for 2003 was between Rs. 27.06 to Rs. 40.59, and Rs. 1000/- per member if average Domestic Price was below Rs. 27.06.
6. Because of the prevalent SMP, and the obligation of Rubber Board to intervene as per provisions of the Rubber Act, the average Domestic Price in 2004 and subsequent years is unlikely to fall below Rs.32.09. Thus, no infringement of the SMP is involved in declaring the Lower Band at a level below SMP.

The following are the views of the Rubber Board:

1. The Rubber Board opined that any declaration of a price less than the minimum notified price, even if it is indicative, will be viewed as a violation of the notification which was done as per the provisions of the Rubber Act. Therefore, there cannot be a situation when the price goes below Rs. 32.09.
2. If a price lower than Rs. 32.09 is declared, it will be an infringement of the Statutory Minimum Price and this would lead to litigation. It could also be interpreted as violation of Court orders.

During the Sixth meeting of the HPC held on 19<sup>th</sup> March 2004, it was explained that:

The Statutory Minimum Price (SMP) involves the liability to ensure sale and purchase at a price not lower than the SMP. Thus, it refers to current or future transactions. However, the Price Spectrum Band for Year 2003, under the PSF Scheme, has been estimated with reference to the average International Price which prevailed during calendar years 1997-2003. The Domestic Price, which is compared to the Price Spectrum Band, refers to the average domestic price that prevailed during calendar year 2003. Thus, both the data ranges are with reference to average prices that prevailed in the past. The SMP was fixed during 2001. The Lower Band for Year 2003 which is (-) 20% of the seven years' moving average of International Price, is lower than the SMP because of the Price trend during 1997-2003. Moreover, the Price Spectrum Band, as per the provisions of the Scheme, is required to be constructed with reference to International Price, not Domestic Price. Thus, both the Upper Band and Lower Band are with reference to average International Price, and the average Domestic Price for 2003 is only compared to it to decide whether the particular year was Boom/Normal/Distress Year.

After detailed discussion, it was decided that the Price Band Spectrum under the PSF Scheme should be in consonance with the Statutory Minimum Price notified under the Rubber Act, to avoid any litigation. Therefore, even though the Lower Band for 2003, as per calculation of seven years' moving average of International Price was Rs 27.06; the Lower Band for 2003 would be fixed at Rs 32.09, which is the SMP for RSS – 4 grade rubber.

### 3.5 PRICE SPECTRUM BAND FOR 2003:

The Price Spectrum Band for Rubber for the Year 2003 was approved as under:

**(Rs/Kg)**

<b>Commodity</b>	<b>I.P. M.A.</b>	<b>Lower Band</b>	<b>Upper Band</b>	<b>D.P. 2003</b>	<b>Boom/Normal/Distress Year</b>
<b>Rubber</b>	<b>33.83</b>	<b>32.09(27.06)</b>	<b>40.59</b>	<b>48.14</b>	<b>BoomYear</b>

For Rubber, the Lower Band and Upper Band were Rs. 32.09 and Rs.40.59 respectively. Since the average domestic price for 2003 was Rs.48.14, which was above the Upper Band; Year 2003 would be categorized as a Boom Year. Thus, the Member growers would contribute @ Rs.1000/- per Member to their Savings Bank Account, as provided under the Scheme. There would be no pay out from the PSF Trust.

**3.6** Detailed proposal of Rubber Board is given in **Annex - II**.

## **4. COFFEE**

**4.1** The following suggestions /views were received from Coffee Board for estimating the Price Spectrum Band:

- Two separate Price Spectrum Bands should be fixed - one for Coffee (Robusta) and the other for Coffee (Arabica).
- Only the prime grades of Arabica and Robusta to which the international prices are referenced are taken for the purpose of calculating the Price Spectrum Bands.
- January is the ideal period of announcement of the Price Band since it has been agreed to calculate the Price Spectrum Band on calendar year prices.
- Only nominal prices (in US cents/lb or US\$/ tonne) is used and no deflators have been used in the computation.

### **4.2 INTERNATIONAL PRICES**

As per information provided by Coffee Board, International prices for Coffee are based on the quotation of Futures Prices (average of 2<sup>nd</sup> and 3<sup>rd</sup> position, since the 1<sup>st</sup> position is likely to bring distortion in the prices). International prices for Arabica (NYBOT) and Robusta (LIFFE) generally equate to Premium Grades of cured and washed coffee beans of Indian coffee namely Arabica Plantation A and Robusta Cherry AB.

The prices are based on the daily closing prices of both the exchanges. Monthly and yearly averages are obtained from these daily prices.

The US\$- INR exchange rates used are those provided by Reserve Bank of India.

### **4.3 DOMESTIC PRICES**

**4.3.1** Average Domestic price has been estimated on the basis of ICTA auction prices. Coffee Board suggested that Domestic Price should refer to 'bulk grade' price and not the premium grade price. Though the International Prices generally equate to Premium Grades of Indian coffee namely Arabica Plantation A and Robusta Cherry

AB, these are not the sole grades that determine the average price of the growers. Other grades such as B,C, Black Bits and Browns are also important. The price that could best reflect grower's price is the ICTA auction prices of various grades of clean coffee converted to 'bulk' grade on the basis of weighted averages. The main justification for bulk grade price is that it correlates to the average price realization of the grower.

As domestic price have their own built in differentials, it will not be equal to international prices. As such, the reference domestic price should be one that is equal to international prices. To estimate Average Domestic Price, the only reliable source of data would be ICTA (Indian Coffee Trade' Association) auctions. Even though the total volume of sales through the ICTA counters is only about 5% of the total coffee sales, for want of any better, more reliable data sources, the Coffee Board is constrained to use this data.

**4.3.2** The price of bulk grade is obtained by applying the following weights (%) to the respective average grade prices obtained in the ICTA auctions. These prices are based on the published weekly reports. The methodology adopted to calculate bulk prices is illustrated in the Table below:

Methodology to calculate bulk price of Arabica plantation			
Grades	Weights (%)	ICTA Auction Price (Rs/Kg)	Weighted Price
<b>PB</b>	10	54.34	5.43
<b>A</b>	62	56.18	34.83
<b>B</b>	10	50.64	5.06
<b>C</b>	15	41.09	6.16
<b>BBB</b>	3	30.48	0.91
<b>Bulk Price (Rs./Kg)</b>			<b>52.41</b>

Methodology to calculate bulk price of Robusta Cherry			
Grades	Weights (%)	ICTA Auction Price (Rs/Kg)	Weighted Price
<b>PB</b>	12	31.67	3.80
<b>AB</b>	65	33.48	21.76
<b>C</b>	16	29.15	4.66
<b>BBB</b>	7	27.35	1.91
<b>Bulk Price (Rs./Kg)</b>			<b>32.14</b>

**4.3.3** The premium grade constitutes 62-65% of the total coffee production. Therefore, the prices of premium grades are representative of the total coffee production and sale. The Committee felt that the average Domestic price for premium grade Coffee- Robusta Cherry AB for Robusta and Arabica Plantation A for Arabica would be comparable to the Futures prices of similar premium grade coffee. Therefore, it decided in the 6<sup>th</sup> meeting of the HPC held on 19<sup>th</sup> March 2004, that for both International and Domestic price, the prices of premium grade coffee should be referred.

#### **4.4 PRICE SPECTRUM BAND FOR COFFEE**

##### **4.4.1 Option 1**

Coffee Board proposed the following Price Spectrum Band for 2003, on the basis of International Price for Premium Grades and Domestic Price for Bulk Grade:

<b>(Rs/Kg)</b>					
<b>Commodity</b>	<b>I.P. M.A.</b>	<b>Lower Band</b>	<b>Upper Band</b>	<b>D.P. Annual Avg. 2003</b>	<b>Boom/Normal/ Distress Year</b>
<b>C-Robusta</b>	<b>45.37</b>	<b>36.30</b>	<b>54.45</b>	<b>32.14</b>	<b>Distress Year</b>
<b>C-Arabica</b>	<b>89.90</b>	<b>71.92</b>	<b>107.88</b>	<b>52.41</b>	<b>Distress Year</b>

##### **4.4.1.1 Coffee (Robusta)**

For Coffee (Robusta), the Lower Band and the Upper Band would be Rs.36.30 and Rs.54.45 respectively. Since the average domestic price in 2003 is Rs.32.14, which is below the Lower Band, Year 2003 would be categorized as a Distress Year. Thus, Coffee (Robusta) growers who have enrolled under the Scheme would be entitled to a payout @ Rs.1000/- each from the PSF Trust during 2004-2005.

##### **4.4.1.2 Coffee (Arabica)**

For Coffee(Arabica), the Lower Band and the Upper Band would be Rs.71.92 and Rs.107.88 respectively. Since the average domestic price in 2003 is Rs.52.41, which is below the Lower Band, Year 2003 would be considered a Distress Year.

Thus, Coffee (Arabica) growers who have enrolled under the Scheme would be entitled to a payout @ Rs.1000/- each from the PSF Trust.

#### **4.4.2 Option 2:**

After considering the Coffee Board's proposal under Option 1, the HPC in its Sixth meeting held on 19<sup>th</sup> March 2004, decided to benchmark the Domestic Prices of Premium grades of Robusta and Arabica Coffee against the Price Spectrum Band of seven years' moving average of International Prices. Accordingly, the Price Spectrum Band for 2003 would be as under:

					(Rs/Kg)
Commodity	I.P. M.A.	Lower Band	Upper Band	D.P. Annual Avg. 2003	Boom/Normal/ Distress Year
C-Robusta	45.37	36.30	54.45	33.58	Distress Year
C-Arabica	89.90	71.92	107.88	56.18	Distress Year

##### **4.4.2.1 Coffee (Robusta)**

For Coffee (Robusta), the Lower Band and the Upper Band were Rs.36.30 and Rs.54.45 respectively. Since the average domestic price in 2003 was Rs.33.58, which was below the Lower Band, Year 2003 would be categorized as a Distress Year. Thus, Coffee (Robusta) growers who have enrolled under the Scheme would be entitled to a payout @ Rs.1000/- each from the PSF Trust during 2004-2005.

##### **4.4.2.2 Coffee (Arabica)**

For Coffee(Arabica), the Lower Band and the Upper Band were Rs.71.92 and Rs.107.88 respectively. Since the average domestic price in 2003 was Rs.56.18, which was below the Lower Band, Year 2003 would be categorized as a Distress Year. Thus, Coffee (Arabica) growers who have enrolled under the Scheme would be entitled to a payout @ Rs.1000/- each from the PSF Trust.

#### **4.4.3 Option 3:**

The feasibility of constructing a Price Spectrum Band for Coffee Robusta and Coffee Arabica on the basis of International Spot Prices was also considered. The relevant worksheet is annexed at **Annexe III- A**. However, the Coffee Board recommended that International Futures Prices are preferable as the referral International price. Therefore, the Committee did not consider this scenario.

4.4 Detailed proposal of Coffee Board is given in **Annex- III**.

## **5. TEA**

**5.1** The following suggestions/views were received from Tea Board for estimating the Price Spectrum Band:

- A single Price Spectrum Band for CTC Tea would be appropriate.
- However, two separate Price Spectrum Bands may also be considered for North India and South India Tea.
- There are numerous grades and qualities of Tea. However, it will not be possible to fix a separate Price Spectrum Band for separate grades and qualities of Tea. The Price Spectrum Band would be uniform for all the grades and qualities of Tea as the moving average is arrived at by taking into account the average of the prices for the total tea sold in various auction centers.
- Price Spectrum Band may be calculated on Calendar year prices.
- Price Spectrum Band may be announced by 31<sup>st</sup> January every year.
- It may be worthwhile to take into account only the prices of CTC teas sold in the international markets for the purpose of fixing a realistic price spectrum band since the entire tea produced by the small growers is used for manufacture of CTC Teas.

### **5.2 INTERNATIONAL PRICES**

Since the entire tea produced by the small growers is used for manufacture of CTC Teas, it was decided that the referral International Price should be based on prices for CTC Teas, and not on prices for All Teas (CTC & Orthodox). The seven years' moving average of International prices is estimated by taking weighted average of the total quantity of tea sold and price fetched in each of the following markets, viz. All-India, Bangladesh, Sri Lanka, Indonesia, Kenya and Malawi. The rupee equivalent of these prices have been obtained using the Annual Average US\$-INR conversion rate provided by RBI.

### **5.3 DOMESTIC PRICES**

Domestic Prices have been taken on the basis of average prices of All –India CTC prices obtained in the Indian Auctions.

In view of the considerable disparity in the prices of North India Tea and South India Tea, the feasibility of estimating separate Price Spectrum Bands for North India Tea and South India Tea was examined. Two different options (Option 1 & 2) for estimating Price Spectrum Band for North India Tea and South India Tea were considered. A third option for a single Price Spectrum Band was also considered.

#### **5.4 PRICE SPECTRUM BAND 2003**

The following options for fixing Price Spectrum Band for 2003 for Tea were considered;

**Option 1:** Separate Price Spectrum Bands for North India tea and South India Tea have been proposed. Separate International Prices have been estimated for North India Tea and South India Tea on the basis of prices of countries producing similar CTC Teas.

**Option 2:** Separate Price Spectrum Bands for North India Tea and South India Tea have been proposed. Separate International Price for South India Tea has been estimated by discounting the average differential between North India Tea and South India Tea from the International Price.

**Option 3:** A single Price Spectrum Band has been proposed on the basis of average CTC prices.

##### **5.4.1. OPTION 1**

Two separate Price Bands for North India Tea and South India Tea have been prepared. The two Price Bands have been estimated on the following basis:

1. Referral International Price for North India Tea has been estimated on the basis of average price for CTC Tea sold by India, Kenya and Malawi.
2. Referral International Price for South India Tea has been estimated on the basis of average price for CTC Tea sold by India, Bangladesh and Malawi.

3. Since Sri Lanka mostly produces premium grade of Orthodox Tea, prices for Sri Lanka Tea have not been included for constructing average International Price for North India and South India Tea.

The detailed proposals are as under:

On this basis, the Price Band for North India and South India Tea for the Year 2003 would be as under:

Commodity	I.P. M.A.	Lower Band	Upper Band	(Rs/Kg)	
				D.P. 2003	Boom/Normal/ Distress Year
North India Tea	71.24	56.99	85.49	59.28	Normal Year
South India Tea	50.42	40.33	60.50	39.72	Distress Year

In case of North India Tea, the Lower Band and the Upper Band would be Rs.56.99 and Rs.85.49 respectively. Since average domestic price for 2003 is Rs.59.28 and is within the Upper and Lower Bands, Year 2003 would be considered a Normal Year. Thus, Tea growers who have enrolled under the Scheme would be required to contribute @ Rs.500/- each and the PSF Trust would also contribute @ Rs.500/- to the individual account of the member.

In case of South India Tea, the Lower Band and the Upper Band would be Rs.40.33 and Rs.60.50 respectively. Since average domestic price for 2003 is Rs.39.72 and is below the Lower Band, year 2003 would be considered a Distress Year. Thus, Tea growers who have enrolled under the Scheme would be entitled to a payout @ Rs.1000/- each from the PSF Trust

**5.4.2 OPTION 2:**As suggested in the previous HPC meeting, the Price Band for North Indian and South Indian Tea, have also been estimated using a different method:

**1** Price Band for North India Tea has been estimated on the basis of seven years moving average of International Price for CTC Tea. Average Domestic Price for North India CTC Tea for 2003 has been used to categorise Year 2003 as Boom/Normal/Distress Year.

**2** Since there is a significant disparity in the price realization for North India Tea and South India Tea; if average price for South India Tea is compared to the

seven years' moving average of International Price, it is likely that most of the years would be categorized as Distress Price Years. Therefore, it is felt necessary to discount the average International Price to make it comparable to average Domestic Price for South India Tea.

The International Price has been discounted on the following basis:

The average price over a ten year period (1994 to 2003) has been estimated for North India CTC Tea and South India CTC Tea.

The average difference (percentage) between North India and South India average prices has been used to discount International Prices. Same percentage discount has been made to average annual International Price for each year during 1997-2003. The discounted annual average price has been used to estimate the 7 years' moving average price to derive a separate Price Band for South Indian Tea.

On the basis mentioned above, the Price Band for North India and South India Tea for the Year 2003 may be fixed as under:

(Rs/Kg)					
Commodity	I.P. M.A.	Lower Band	Upper Band	D.P. 2003	Boom/Normal/ Distress Year
North India Tea	66.40	53.12	79.68	59.28	Normal Year
South India Tea	43.23	34.58	51.87	39.72	Normal Year

In case of both North and South Indian Tea, since the average domestic prices are within the respective Lower and Upper Bands, Year 2003 would be considered a Normal Year. Thus, Tea growers who have enrolled under the Scheme would be required to contribute @ Rs.500/- each and the PSF Trust would also contribute @ Rs.500/- to the individual account of the member.

**5.4.3 OPTION 3:** As a third Option, Tea Board proposed , a single price Band for CTC Tea for the year 2003, which is as follows:

(Rs/Kg)					
Commodity	I.P.M.A	Lower Band	Upper Band	D.P. 2003	Boom/Normal/ Distress Year
TEA	66.40	53.12	79.68	54.89	Normal Year

For CTC Tea, the Lower Band and the Upper Band would be Rs.53.12 and Rs.79.68 respectively. Since average domestic price for 2003 is Rs.54.89 and is within the Upper and Lower Bands, Year 2003 would be considered a Normal Year. Thus, Tea growers who have enrolled under the Scheme would be required to contribute @ Rs.500/- each and the PSF Trust would also contribute @ Rs.500/- to the individual account of the member.

**5.4.4 The HPC felt that the referral International prices under Options 1 & 2 are not based on actual prices, but are derived approximations. Therefore, the HPC in its Sixth meeting held on 19<sup>th</sup> March 2004, approved of a single Price Spectrum Band, as proposed under Option 3, since it is based on actual auction prices.**

**5.5 Detailed proposal of Tea Board is given in Annex-IV.**

## 6. TOBACCO

**6.1** The following suggestions/views were received from Tobacco Board for estimating the Price Spectrum Band .

- Multiple Price Spectrum Bands would be appropriate for Tobacco as Tobacco is grown in different soil regions and the prices paid vary from soil region to soil region. Price Spectrum Bands should be fixed separately for:
  1. Karnataka Light Soils (KLS)
  2. Black Soils of Andhra Pradesh (NBS, CBC & SBS)
  3. Southern Soils of Andhra Pradesh (SLS)
  4. Northern Light Soils of Andhra Pradesh (NLS)

The Price Spectrum Band is worked out for total average of the crop of each soil region; not to the individual grades.

- Only one Price Spectrum Band would be announced during the crop year.
- The Price Spectrum Band announcement, should be just before the auction sales commence, i.e. 1<sup>st</sup> week of January for Andhra Pradesh, Orissa and Maharashtra crop and 1<sup>st</sup> week of September for Karnataka.
- The average prices have been worked out for the crop year.
- There should be a single pay-in / pay-out by Government and growers for a crop season. The crop seasons for A.P. and Karnataka are different. In A.P., the auction sales of FCV tobacco commence in January and close by July whereas in Karnataka, the auctions commence in September and close by February.
- The global farm prices of FCV Tobacco for American , Brazilian, Zimbabwean, Canadian, Malawian, Italian and Argentinean tobacco are available.
- Of the Global Farm Prices of FCV tobacco , American, Brazilian, and Zimbabwean, tobaccos are categorized as “flavourful tobaccos” in the world and the demand and pricing pattern for these tobaccos is on the high side and these prices are in no way comparable with the prices of Indian tobaccos, as there is a difference of 1-3 US\$ in the prices of said countries and Indian tobaccos. Hence, the International prices of the above countries will not provide any basis for fixing

Price Spectrum Band of Indian tobaccos. If these prices are considered for fixing the price band for Indian tobaccos, the Price Spectrum Band will be at the maximum level. The domestic prices realized in Zimbabwe are on the higher side and in no way are comparable with the prices of Indian tobaccos, as there is a difference of 1-3 US\$ in the prices of Zimbabwe and Indian Tobaccos .

- Prices of Italy and Argentina tobaccos are heavily subsidized and cannot reflect true market dynamics. Only filler tobacco produced in Indonesia, Thailand, China and some small African countries like Tanzania are somewhat comparable to Indian tobaccos. However, price data on these tobaccos is not available to workout the trends or to adopt them for calculation of price band. Some of these countries, may be giving indirect subsidies to growers, which are not revealed by them.

***Therefore, Tobacco Board has suggested that International Prices for FCV Tobacco cannot be used for calculating Price Band for Tobacco.***

- RBI's rates of USD-INR have been used for conversion purposes.

## **6.2 INTERNATIONAL PRICES**

6.2.1 As per the original data furnished by Tobacco Board, the International Prices of Tobacco are based on

- ❖ Canada & Zimbabwe- Auction Prices
- ❖ USA- Avg of Auction & Contract Prices from 2001. prior to 2001 only Auction prices
- ❖ Brazil & Argentina- Contract Prices
- ❖ Nowhere in the world, tobacco is marketed on futures prices
- ❖ Export Prices for tobacco are “FOB” prices collected from year end data published by respective countries
- ❖ Tobacco grading is a complicated process, where different countries adopt different systems and different grades. The grades vary from about 20 to a few hundreds in different countries, taking several quality parameters. The importers of tobacco place orders for blends of different grades and qualities and basically take the chemistry of the blend into account. There are no

international prices as such for tobacco, since the importers depending on their requirement, advise the supplier to send tobacco consisting of a specified chemistry, particularly nicotine and sugars. As the blends vary from time to time and the blends are different from customer to customer, it is difficult to arrive at the average international prices.

**6.2.2** In the meeting held on 28.01.2004 to discuss various issues relating to fixation of Price Band for year 2003, ED, Tobacco Board reiterated that Prices of Zimbabwean Tobacco and Indian tobacco are not comparable since the former is flavourful and the latter is of the filler variety. He also mentioned that it was difficult to derive the Average International Price for Tobacco because of lack of adequate, reliable data of all major Tobacco producing countries. It was, therefore decided that,

Tobacco Board would use the weighted average auction price of the four regional varieties for calculating average domestic price. For Tobacco, Yearly Average international price may be calculated on the basis of

(a) Average price of countries exporting filler varieties of tobacco. In case, comprehensive data about certain countries producing filler varieties of tobacco is not available, then the unit value of reported export quantities may be used to derive their average price of; **or**

(b ) the Average export price of leading exporters of Indian tobacco, along with discounts, if any, may be used to derive the Average price fetched by Indian tobacco in the international market

As the Average price of countries exporting filler varieties of tobacco and the unit value of reported export quantities is not available with the Tobacco board, the average price and the price band spectrum have been calculated on the basis of the Average export price of Indian tobacco which includes the processing charges.

**6.2.3** The Tobacco Board was requested to submit further details of Export Prices exclusive of processing costs and yield loss. Tobacco Board has responded thus:

Tobacco is exported in different forms such as (1) in Total leaf form (2) Hand strips (Midrib of the leaf removed manually) and (3) Threshed Lamina (Midrib of the leaf removed mechanically). About 80-90 % of the Indian exports of FCV tobacco are in threshed lamina form. The overhead/fixed costs of the exporters and the FOB expenses have not been included, as they vary from exporter to exporter based on the size of the firm and location of their godowns. The thumb rule of calculation in the trade is that the tobacco purchased from auction platforms, when processed and made ready for export, costs double the farm prices.

### **6.3 DOMESTIC PRICES**

Tobacco Board has used the weighted average auction price of the four regional varieties for calculating average domestic price. The methodology adopted for deriving weighted Averages is as under:

Total value of the tobacco is arrived at by multiplying the quantity marketed in Andhra Pradesh (including small quantities of Orissa and Maharashtra) and Karnataka by the respective Average prices separately and then the total value of tobacco sold in both the States is divided by the total quantity sold in both the States.

### **6.4 PRICE SPECTRUM BAND 2003**

The following two suggestions of the Tobacco Board were considered for fixing the Price Spectrum Band for Tobacco for the Year 2003.

**6.4.1 Option 1:** Seven years' moving average of International Prices of FCV Tobacco may be estimated on the basis of average price fetched by Exporters of Indian Tobacco, exclusive of Processing Costs. Accordingly, the Price Spectrum Band for 2003 would be as under:

<b>(Rs/Kg)</b>					
<b>Commodity</b>	<b>I.P. M.A.</b>	<b>Lower Band</b>	<b>Upper Band</b>	<b>D.P. 2003</b>	<b>Boom/Normal/ Distress Year</b>
<b>Tobacco</b>	<b>49.47</b>	<b>39.58</b>	<b>59.37</b>	<b>36.83</b>	<b>Distress Year</b>

The Lower Band and the Upper Band would be Rs.39.58 and Rs.59.37 respectively. Since average domestic price for 2003 is Rs.36.83 and is below the Lower Band, year 2003 would be considered a Distress Year. Thus, Tobacco growers who have enrolled under the Scheme would be entitled to a payout @ Rs.1000/- each from the PSF Trust.

**6.4.2** However, Tobacco Board apprehended that the Average International Prices, derived on the basis of average Export Prices may not be realistic. Therefore, Tobacco Board suggested that it would be more appropriate to fix the Price Spectrum Band on the basis of 7 years Moving Average of Domestic Prices.

As proposed by Tobacco Board, the Price Spectrum Band for Tobacco for the Year 2003 (Basis: Domestic Prices of FCV Tobacco) would be as under:

**(Rs/Kg)**

<b>Commodity</b>	<b>D.P. 2003</b>	<b>D.P. M. A</b>	<b>Lower Band</b>	<b>Upper Band</b>	<b>Boom/Normal/Distress Year</b>
<b>Tobacco</b>	<b>36.83</b>	<b>38.21</b>	<b>30.57</b>	<b>45.85</b>	<b>Normal Year</b>

The Lower Band and the Upper Band would be Rs.30.57 and Rs.45.85 respectively. Since average domestic price for 2003 is Rs.36.83 and is thus in between the Lower and Upper Bands, year 2003 would be considered a Normal Year.. Thus, Tobacco growers who have enrolled under the Scheme would be required to contribute @ Rs.500/- each and the PSF Trust would also contribute @ Rs.500/- to the individual account of the member.

**6.4.3** Tobacco Board has further pointed out that, in a given year , all the four regions cannot be grouped into one and categorised as BY/NY/DY, as the average domestic price is different for each region. If the total domestic prices are taken as the basis for categorizing the year, some regions otherwise falling in Normal Year category, would be categorized as Boom Year. It has therefore, been suggested by the Tobacco Board that separate Price Spectrum Bands for different soil regions should be fixed.

## **6.5 Minimum Support Price and Price Band**

As per the notification furnished by the Tobacco Board, the Minimum Support Prices for F2 and L2 grades of Tobacco for 2003-2004 crop were announced by the Government of India. The MSP has been declared for 10 grades of Tobacco grown in black soils (Farm grades) and for 65 grades of Tobacco grown in light soils (Plant position grades). The MSP ranges from Rs.11.80 (F9) to Rs.33.80 (F1) in case of Farm Grades and from Rs.16.00 (TMG) to Rs. 36.60 (L10) in case of Plant Position Grades. In view of the multiplicity of the Minimum Support Prices, it will not be possible to correlate the price band with the MSP.

6.6 Initially, Tobacco Board had proposed that –

- I. 7yrs. Moving Average of Domestic Price should be the referral price.
- II. Average Domestic Price for 2003 should be compared to it.
- III. Four different Price Bands for soil region types should be fixed.

**6.6** In its revised proposal, Tobacco Board has proposed that two separate Price Bands for Light Soils and Black Soils should be fixed. However, Tobacco Board is not in a position to furnish the referral/equivalent International prices for light Soils and Black Soils due to the following reason:

The FCV tobacco produced in the world is basically categorized into flavourful/semi-flavourful and filler tobacco. Indian FCV tobacco is considered as Filler Tobacco. Other FCV filler tobacco producing countries are Argentina, Bangladesh, Philippines, Thailand, Uganda, China and Indonesia. The prices of these countries except for Argentina are not available with the Board. The prices of Argentinean tobacco are heavily subsidized and cannot reflect true market dynamics. Only filler tobacco produced in Indonesia, Thailand, China and some small African countries like Tanzania are comparable to Indian tobacco. However, price data of these countries are not available to workout the trends or to adopt them for calculation of Price

Spectrum Band. Even in these countries, some may be giving indirect subsidies to growers, which may not be revealed.

**6.7 The HPC decided that Price Band for Tobacco cannot be estimated with reference to seven years' moving average of Domestic Price. Since the Scheme provides for reference to International Price, the proposal of Tobacco Board is not in accordance with provisions of the Scheme. Therefore, the proposal of Tobacco Board was not considered by the Committee.**

**The HPC further noted that no small grower has been enrolled under the scheme till date. Therefore, there is no need to fix Price Band for Tobacco at present**

**6.8 Detailed proposal of Tobacco Board is given in Annex- V**

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## **7 SCHEDULE FOR PRICE SPECTRUM BAND ANNOUNCEMENT**

**The revised schedule for Price Band fixation and announcement every year would be as follows: -**

- Commodity Boards to furnish information regarding price trends to Department of Commerce – January 31.
- High Powered Committee to decide the Moving Average Prices and the Price Spectrum Band – March 15.
- Announcement of Price Band for all crops – March 31.
- Contribution by the grower to his PSF Savings Bank Account – June 30.
- Contribution by PSF Trust to the Grower's PSF Savings Bank Account – August 16.



## ANNEX I

### **PRICE SPECTRUM BAND ESTIMATION – ALTERNATIVES CONSIDERED BY THE COMMITTEE TO RECOMMEND OPERATIONAL MODALITIES OF THE PSF FOR COFFEE, TEA, RUBBER AND TOBACCO**

- 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% 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% of the difference between the actual price and the lower bound. The Committee while recommending consideration of this alternative with respect to coffee, tea and rubber growers, has suggested that tobacco should be kept out of this Scheme, on account of problems peculiar to the tobacco crop and the difficulties expressed by the Tobacco Board in the implementation of this Scheme.
- Alternative 2:** The second alternative was to fix the price on the moving average of domestic prices adjusted for inflation or movements in international prices or a combination of both. Initially intended to cover 3.42 lakh growers, this alternative required each participating grower to make a non-refundable initial contribution of Rs.500 as entry fee to the Fund and open a PSF account with a nationalized 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 PSF Account by a specified date. The Government would also contribute up to Rs.500 to the individual growers' account in these years. When the price pierces the upper level of the bound, the growers' contribution will be minimum Rs.1000 while the Government will not make any contribution to his account. When prices fall below the lower bound, the grower will not be required to contribute any amount, while the contribution from the Government will be up to Rs.1000 to his account. In a normal year, the grower subscribing to the Scheme will not be allowed to withdraw any amount from his account.
- Alternative 3:** This Scheme envisages providing relief to affected growers by enabling them to have access to multipurpose finance from a bank to meet their

variable consumption needs, input costs, income stability and cost of shift to alternate crops in the event of a secular price decline. Any drawal from this account would have to be paid back by the grower, with interest, as per terms of agreement between the bank and grower.

4. The Committee examined the merits and demerits of each of the above three alternatives and evaluated them on the basis of criteria like relation of subsidy to depressed prices, net subsidy on actuarial basis, immunity to strategic manipulation, data requirements, cognitive simplicity, secular price change signals, fiscal outgo and allied factors. After consideration of all these factors, the Committee categorically recommended adoption and implementation of the alternative 2 for the benefit of small growers.
5. Several methods, including the cost of production method, last few years' moving average of 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.
6. The first method is the cost of production method. However, the problem with cost of production method as a basis for determination of normal price, is that, there is no single estimate of cost of production because costs vary according to farm size, region and other factors such as type of land, etc. It is practically impossible to fix a price that would cover the cost of production of each and every farmer, nor is it easy to determine cost of production at the margin at which the market would clear under competitive conditions. Accordingly, normal prices of perennial commercial crops should not be based on the cost of production.
7. A second methodology is to base the exercise on the last few years moving average domestic prices adjusted for inflation, and movements in the international prices, or a combination of both. In a liberalized economy, price trends in the international market are becoming increasingly important, ignoring which would amount to encouraging inefficient production, higher costs of price stabilization and an ever increasing threat of imports. The main advantages of this method

- would be that the resulting prices are transparent, difficult to manipulate while also addressing issues of extreme variations by taking averages over a sufficiently longer period of time.
8. A third method would be a long-term world price estimated on the basis of a regression equation fitted to the past 15 to 20 years data. This method is based on the long term trends in the international market and a sufficiently longer time frame provides an indication of the long term secular trend in prices. However, this method is data intensive and requires specialized skills to judge the right model that fits data well.
  9. The Committee felt that the support to be provided through the price spectrum band mechanism, should not in any way encourage inefficient production by sending wrong signals to the growers to persist in commodities in which they are uncompetitive. Further, attempts to assist the growers should be seen only as an instrument for stabilizing income and address problems that occur due to short-term random price volatility, and not to deal with difficulties that originate from the long term secular decline in prices.
  10. In terms of grades and varieties, each one of the Commodities has a plethora of grades and varieties, and accordingly the prices as well as variations in prices differ from variety to variety. It would not be feasible to fix the prices of each and every variety in terms of price spectrum band. From the point of operational ease, therefore, it is advisable that the principle of weighted average of the auction prices at selected centres may be used as an indicator of a representative price of all the varieties with respect to each of these commodities.
  - 11. Keeping these concerns in view, the Committee decided to recommend adopting the principle of the moving average of international prices as the reference prices for these commodities. With the integration of Indian economy with the world economy, it would not be advisable to ignore the trends in the international prices as it would lead to serious distortions in the domestic prices. As the commodities are also being exported, setting international prices of these commodities as benchmarks for domestic prices, would help in maintaining their competitiveness.**

12. To select an appropriate price band which would provide the reference framework for relief interventions, without interfering in the market, these alternatives were considered. The basic rule underlying the formulation of a price band is that the band should reflect normative as well as efficiency considerations. Narrower bands entail outgo of more funds as movement of prices in a narrow band does not allow the market intermediaries to buy and store commodities, as the narrow range does not allow them to make profits after care of storage and other costs. On the other hand, when the band is wider, it is profitable for the market intermediaries to buy, store and sell during leaner times when the prices are high.
13. One way of finding a proper price band is to estimate the average seasonal factor and variations around the trend, from the monthly price data for these commodities. As a rule, seasonal factors are supposed to take care of the storage, other incidentals and normal profits. Another way of estimating a price band is to estimate the level of actual expenses incurred by the market intermediaries, including profit margins over and above the costs. Yet another simple way may be to determine the normal price wedge between the lowest and the highest price averaged over a long period of 15 to 20 years.
14. Given the sensitivity of committing huge resources on the basis of the fixed price bands, and in view of the liberalization of imports and highly concentrated nature of markets for some of the selected commodities, as well as the non-encouraging experience in fixing and defending price bands in the past, the Committee addressed the issue of price bands with the greatest care.
15. The calculations based on the normal price wedges between the lowest and the highest prices averaged over a period of 21 years (from 1981 to 2001) and the coefficients of variation for these commodities reveal that price variations in the case of tea, rubber and tobacco range between 20 to 30 per cent and between 30 to 40 per cent in the case of Coffee (NCAER, 2001).
16. Based on these numbers, the price bands for tea, rubber and tobacco may be possible to fix at 30 per cent while for coffee at 40 per cent. However, to keep the band a little wider and allow market intermediaries to take care of natural variations in prices, the Committee after taking into account implications

concerning various commodities decided to fix a uniform band of 40 per cent for all the four commodities. This would mean a price band of +/- 20% from the 7-year moving average of international prices.

1. Rubber Board letter dated 11<sup>th</sup> September 2003- suggestions on Price Spectrum Band estimation

1. Only one Price Spectrum Band is proposed.
2. The PSF Scheme is for the benefit of small growers. The small growers process latex to produce Ribbed Smoked Sheets (RSS), Though there are six grades of RSS, all grades are not proposed to be covered under the PSF Scheme. Only RSS-4, the predominantly traded grade, accounting for almost 55% of trade, is proposed to be included in the scheme.
3. The question of seasonal Price Spectrum Bands was deliberated during the formulation of the scheme, and it was decided that only annual Price Spectrum Band needs to be considered. However, seasonal price band may be considered at a later stage, after assessing the performance of the Scheme at least for a couple of years.
4. Price Spectrum Band calculation may be done on a financial year basis. The Price Spectrum Band can be announced during April so that growers will get sufficient time to remit the money during the final year, say up to December, and subsequently the Government can also remit the money by March during the same year so that the entire remittance takes place during the same financial year. Moreover, price for rubber for all purposes in India is taken on a financial year basis.
5. The average price is computed on a monthly basis.
6. It is proposed that in the good years, i.e., when the price remains above the Price Spectrum Band, growers may be given option to remit the amount in two instalments. However, Pay-Out in bad years should be in one instalment.

**2. Rubber Board letter No. 59/2003/Ext. dated 14<sup>th</sup> January 2004- Annual average International and Domestic price of Rubber.**

Rubber Board has furnished the Annual average International and Domestic price of Natural Rubber for the period 1993 to 2003 in the table hereunder:

**NATURAL RUBBER- ANNUAL AVG. PRICES**

(Rs/Kg)

Year	Domestic Price	International Price
1993	25.46	25.38
1994	31.07	34.87
1995	50.59	50.30
1996	51.22	47.64
1997	39.88	36.14
1998	30.13	28.84
1999	29.97	26.44
2000	31.25	30.07
2001	31.09	27.32
2002	36.21	36.96
2003	48.14	51.01

Rubber Board has also furnished the seven years' moving average price of Natural Rubber in International and Domestic markets for the period 1993 to 2003 in the table hereunder:

**NATURAL RUBBER- SEVEN YEARS' MOVING AVERAGE PRICE**

(Rs/Kg)

Year	Domestic Price	International Price
1993	21.29	17.88
1994	23.20	21.09
1995	27.84	25.99
1996	32.25	30.68
1997	34.88	33.81
1998	36.14	35.36
1999	36.90	35.63
2000	37.73	36.30
2001	37.73	35.25
2002	35.68	33.34
2003	35.24	33.83

**3 Rubber Board letter D.O. No. 59/5/2003/EXT dated 30<sup>th</sup> January 2004- Details regarding International and Domestic prices of Rubber**

1. Seven years' annual moving average price for RSS - 3 in the international market has been taken as the reference price. The source of International Price is as provided by Malaysian rubber Board up to 31/12/2002 and Rubber research Institute of Thailand through their website ([www.rubberthai.com](http://www.rubberthai.com)) from 1/1/2003.
2. Price of RSS - 3 rubber in the International market is taken as reference price. (Tyre manufacturers import RSS - 3 in place of the domestic RSS - 4).
3. Board has not adopted any conversion of international price on a landed cost basis. In fact, the option of using the principle of landed cost, i.e., price in the international market plus freight, insurance etc., was discussed at the time of formulation of the Scheme, but later it was decided not to be adopted.

**4 Rubber Board letter D.O. No. CM/3/2004 dated 9<sup>th</sup> February 2004 - Price Spectrum Band 2003**

- The rationale for choosing international price for fixing the Price Band was that in a liberalized economy, price trends in the international market are becoming increasingly important. The Committee set up by the Government of India to work out the operational modalities of the Price Stabilisation Fund had looked into various alternatives to determine a reference price for fixing a price band. The first alternative was to fix the normal level of prices on the basis of cost of production. The second alternative was to fix the price on the moving average of domestic prices adjusted for inflation for movements in international prices or a combination of both. The Committee finally decided to recommend adopting the principle of moving average of the international prices. The Committee felt that with the integration of Indian economy with the World economy, it would not be advisable to ignore the trends in the international prices as it would lead to serious distortions in the domestic prices. However, for determining a trigger price for extending relief to the farmers, the domestic price is more relevant, as on a day to day basis, international price has no relevance.

- The price compiled and published by the Rubber Board is based on the transactions in the domestic market. The domestic price is not a component of the international price, which is the FOB price in Bangkok
- The price movement during the previous decade may not hold good in the coming years as the market situation prior to 2001 was different from the situation after April 2001 when the Quantitative Restrictions on import of rubber were removed. Prior to April 2001, there was a protected market for Rubber and after April 2001, there has been a demonstrated market integration and therefore, the past experience may not be of much relevance in predicting the future trends. Before the removal of Quantitative Restrictions in April 2001, the domestic prices were moving above the international prices and for the last two years the trend has reversed
- For rubber, the existing methodology of moving average of international price for fixing the Price band and domestic price for deciding the relief to growers is recommended.

#### **5. Rubber Board letter D.O. No. 59/2004/Ext dated 5<sup>th</sup> March 2004- Comments on Agenda notes**

The Lower Band may be kept as Rs. 32.10.

#### **6. Rubber Board letter D.O. No. 59/2004/Ext dated 18<sup>th</sup> March 2004- Re-examinaion of Price Band for Rubber**

1. International Price Moving Average (IPMA), Lower Band and Upper Band worked out cannot be treated as hypothetical, as these are based on actual prices.
2. While retaining the Lower Band price of Rs. 27.06, it has to be clearly mentioned that in view of the prevailing notified minimum statutory price for rubber, Rs. 32.10 has to be reckoned as the Lower Band.

3. Any declaration of a price less than the minimum notified price, even if it is indicative, will be viewed as a violation of the notification which was done as per the provisions of the Rubber Act. Therefore, there cannot be a situation when the price goes below Rs. 32.09.
4. If a price lower than Rs. 32.09 is declared, it will be an infringement of the Statutory Minimum Price and this would lead to litigation. It could also be interpreted as violation of Court orders.
5. Rubber Board had consultations with their legal advisors and it has been advised that Government or any agency cannot declare a price less than the minimum notified price for rubber.

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## ANNEX III

### COFFEE

#### **1. Coffee Board letter D.O. No. MAR/MIU/33/03-04 dated 9<sup>th</sup> October 2003 -Suggestions on Price Spectrum Band estimation**

1. Two separate Price Spectrum Bands should be fixed - one for Coffee (Robusta) and one for Coffee (Arabica).
2. Only the prime grades of Robusta and Arabica to which the international prices are referenced are taken. Taking prices of about 25 grades of coffee for the Price Spectrum Band fixation will only lead to complications.
3. Only one price band in case of Coffee is proposed.
4. January is the ideal period of announcement since it has been agreed to take calendar year prices.
5. Only nominal prices (in US cents/lb or US\$/tonne) have been used and no deflators used in the computation.
6. Prices are based on the daily closing prices of New York (for Arabica) and London (for Robusta) markets. Monthly and yearly averages are obtained from these daily prices.

Coffee Board has also furnished the Annual average prices of Coffee (Robusta) and Coffee (Arabica) in the International markets as given in the Table hereunder:

Yr	<u>ARABICA (New York)</u>		<u>ROBUSTA (London)</u>			Ex-rate	ARABICA		ROBUSTA	
	Cents/L B	Cents/Kg		Cents/L B	Cents/Kg		Rs/Kg	Rs/Kg 7 Yrs MA	Rs/Kg	Rs/Kg 7 Yrs MA
		Avg CIF	Avg FOB		Avg CIF	Avg FOB				
1981	120.63	265.94	261.94	93.92	207.06	203.06	8.69	22.76		17.65
1982	127.54	281.17	277.17	97.79	215.59	211.59	9.49	26.30		20.08
1983	128.44	283.16	279.16	116.50	256.84	252.84	10.14	28.31		25.64
1984	139.84	308.29	304.29	131.14	289.11	285.11	11.37	34.60		32.42
1985	149.35	329.26	325.26	119.27	262.94	258.94	12.36	40.20		32.01
1986	201.83	444.95	440.95	145.06	319.80	315.80	12.61	55.60		39.82
1987	119.63	263.74	259.74	100.30	221.12	217.12	12.96	33.66		28.14
1988	132.24	291.54	287.54	91.45	201.61	197.61	13.91	40.00		27.49
1989	104.26	229.85	225.85	69.57	153.37	149.37	16.20	36.59		24.20
1990	93.78	206.75	202.75	50.03	110.30	106.30	17.50	35.48		18.60
1991	89.18	196.61	190.61	44.53	98.17	94.17	22.69	43.24	40.68	21.37
1992	68.14	150.22	144.22	38.33	84.50	80.50	25.92	37.38	40.28	20.87
1993	71.32	157.23	151.23	47.15	103.95	99.95	30.55	46.20	38.94	30.54
1994	145.93	321.72	315.72	113.13	249.41	245.41	31.37	99.05	48.28	76.99
1995	145.54	320.86	312.86	118.31	260.83	256.83	32.42	101.42	57.05	83.26
1996	111.18	245.11	237.11	74.51	164.26	160.26	35.43	84.01	63.83	56.78
1997	163.04	359.44	351.44	75.02	165.39	161.39	36.32	127.65	76.99	58.62
1998	126.27	278.37	270.37	76.39	168.41	164.41	41.27	111.57	86.75	67.84
1999	106.48	234.75	226.75	64.07	141.25	137.25	43.06	97.64	95.36	59.10
2000	94.58	208.51	200.51	40.11	88.43	84.43	44.94	90.11	101.64	37.94
2001	58.86	129.76	121.76	23.92	52.73	48.73	47.19	57.45	95.69	23.00
2002	57.02	125.71	117.71	25.88	57.06	53.06	48.60	57.21	89.38	25.78
2003	65.12	143.56	135.56	34.45	75.95	70.95	46.00	62.36	86.28	32.64

## **2. Coffee Board Fax dated 1<sup>st</sup> March 2004 –Revised Price Spectrum Band estimation**

International prices of Arabica and Robusta have been used for fixing the Price Spectrum Band. The International price for Coffee represents the average price of 2<sup>nd</sup> and 3<sup>rd</sup> position, as referred in the respective Coffee Exchange of New York(NYBOT) and London (LIFFE) . The average annual domestic price represent the ICTA auction prices converted to ‘bulk grade’ basis. The price of ‘bulk grade’ is

obtained by applying appropriate weights (%) to the respective average grade prices obtained in the ICTA auctions. These prices are based on the published weekly reports. The methodology adopted to calculate bulk prices is illustrated in the Table below:

Methodology to calculate bulk price of Arabica plantation			
Grades	Weights (%)*	ICTA Auction Price (Rs/Kg)	Weighted Price
<b>PB</b>	10	54.34	5.43
<b>A</b>	62	56.18	34.83
<b>B</b>	10	50.64	5.06
<b>C</b>	15	41.09	6.16
<b>BBB</b>	3	30.48	0.91
<b>Bulk Price (Rs./Kg)</b>			<b>52.41</b>

Methodology to calculate bulk price of Robusta Cherry			
Grades	Weights (%)*	ICTA Auction Price (Rs/Kg)	Weighted Price
<b>PB</b>	12	31.67	3.80
<b>AB</b>	65	33.48	21.76
<b>C</b>	16	29.15	4.66
<b>BBB</b>	7	27.35	1.91
<b>Bulk Price (Rs./Kg)</b>			<b>32.14</b>

*Note: \* The weights are based on the formula adopted by Coffee Futures Exchange India Ltd (COFEI), Bangalore.*

Coffee Board has furnished revised calculations of Price Spectrum Band for 2003 (furnished in the next page).

### **3. Coffee Board Fax dated 16th March 2004 –Clarification on Bulk/Premium Prices**

On the subject of the trigger price for payout under the PSF Scheme, Coffee Board has clarified as under:

The International prices for Arabica (NYBOT) and Robusta (LIFFE) generally equate to the prime grades of Indian coffee namely, Arabica Plantation A and Robusta Cherry AB. However, these are not the sole grades that determine the

average price of the growers. Other grades such as B,C, Black Bits and Browns are also important. The grower's price represents the 'bulk' price of all these grades.

Hence, Coffee Board has suggested that the 'bulk' grade should be taken as the reference price.

The price that could best reflect grower's price is the ICTA auction prices of various grades of clean coffee converted to 'bulk' grade on the basis of weighted averages. The main justification for bulk grade price is that it correlates best to the average price realization of the grower.

As domestic price have their own built in differentials, it will not be equal to international prices. As such, the reference domestic price should be one that is equal to international prices. Hence, it is recommended that the Committee may consider the bulk Domestic Price, for declaring pay-outs. The enclosure given below also shows three reference price levels of coffee i.e. Bulk grade, prime grade and international price. All of these compared with the Price Spectrum Band indicate Year 2003 as Distress Year.

<b>Price Band for Arabica</b>			
<b>Sl No.</b>	<b>Particulars</b>	<b>Arabica (Rs/Kg)</b>	<b>Classification of the Year 2003</b>
1	Upper Band (International*)	107.88	
2	Lower Band (International*)	71.92	
3	ICTA Market Price (Bulk Grade)	52.41	LPY
4	ICTA Market Price (Plantation A)	56.18	LPY
5	International Price Rupee Equivalent	66.78	LPY
<b>Price Band for Robusta</b>			
<b>Sl No.</b>	<b>Particulars</b>	<b>Robusta (Rs/Kg)</b>	<b>Classification of the Year 2003</b>
1	Upper Band (International*)	54.45	
2	Lower Band (International*)	36.30	
3	ICTA Market Price (Bulk Grade)	32.14	LPY

4	ICTA Market Price (Robusta Cherry AB)	33.58	LPY
5	International Price Rupee Equivalent	34.87	LPY

\* Refers to the NYBOT for Arabica and LIFFE for Robusta

## ANNEX IV

### TEA

#### **1. Tea Board Fax dated 25<sup>th</sup> November 2003 -Suggestions on Price Spectrum Band estimation**

1. Two Price Spectrum Bands may be fixed - one for North India and one for South India Tea.
2. There are numerous grades and qualities of Tea. However, it will not be possible to fix a separate Band for separate grades and qualities of Tea. The Price Spectrum Band would be uniform for all the grades and qualities of Tea as the moving average is arrived at by taking into account the average of the prices for the total tea sold in various auction centers.
3. Price Spectrum Band may be calculated on calendar year prices.
4. Price Spectrum Band may be announced by 31<sup>st</sup> January every year.
5. The average prices are estimated by taking weighted average of the total quantity of tea sold and price fetched in each of the International markets, viz. Mombasa, Colombo and Indian auction centers.

#### **2. Tea Board Fax dated 27<sup>th</sup> January 2004 – Basis of Price Spectrum Band estimation**

1. For the purpose of working out the seven year moving average of international price, the prices of all teas sold in the following markets have been considered- (1)All-India, (2) Bangladesh, (3) Sri Lanka, (4) Indonesia, (5) Kenya and (6) Malawi.
2. The exchange rates have been taken from the ITC Bulletin, which in turn, has been sourced from currency conversion data from IMF and International Financial Statistics.
3. It may be worthwhile to take into account only the prices of CTC teas sold in the above markets for the purpose of fixing a realistic price band since the entire tea produced by the small growers' sector is of CTC variety.
4. Tea Board has furnished Tables in **Annexure I** for All Teas and **Annexure II** for CTC Teas.

### 3. Tea Board letter No. 9(15) DTD/2002/Part-II dated 16<sup>th</sup> March 2004 - Revised Price Spectrum Band estimation

In light of the decision taken in the 5<sup>th</sup> HPC, to consider separate Price Spectrum bands for North India Tea and South India Tea , the Tea Board has recalculated the Price Spectrum Band , and furnished three scenarios, by taking into account, the following factors:

#### **Scenario I**

Two separate reference Price Bands to be worked out by clubbing the prices of comparable CTC Tea producing countries. For this purpose, the North Indian domestic prices have been compared with the seven year moving average of the international prices derived by clubbing North Indian Auctions, Kenya and Malawi.

In the case of South India, the South Indian Auction prices have been compared with seven- year moving average of international prices by clubbing the prices of South India with that of Bangladesh and Malawi.

In this exercise, the prices of Sri Lanka has been left out, since it produces, mainly, Orthodox Teas.

Detailed calculation have been made in **Annexure III.**

#### **Scenario II**

A single Price Band based on seven-year moving average of the domestic price for North India and South India and the emerging mean average difference between North India and South India prices in relation to the international prices has been taken as a discounting factor and the same has been applied over the

reference price for deciding on the categorization of the given year as boom/normal/distress year.

Detailed calculation have been made in **Annexure IV.**

As a third Option, Tea Board proposed , a single price Band for CTC Tea for the year 2003, which is given in **Annexure V.**

## ANNEXE V

### TOBACCO

#### 1. **Tobacco Board letter dated 7<sup>th</sup> October 2003 -Suggestions on Price Spectrum Band estimation**

- Multiple Price Spectrum Bands would be appropriate for Tobacco as Tobacco is grown in different soil regions and the prices paid vary from soil region to soil region. Price Spectrum Bands should be fixed separately for:
  5. Karnataka Light Soils (KLS)
  6. Black Soils of Andhra Pradesh (NBS, CBC & SBS)
  7. Southern Soils of Andhra Pradesh (SLS)
  8. Northern Light Soils of Andhra Pradesh (NLS)
  
- Only one Price Spectrum Band would be announced during the crop year.
- The Price Spectrum Band is worked out for total average of the crop of each soil region; not to the individual grades.
- The Price Spectrum Band announcement, should be just before the auction sales commence, i.e. 1<sup>st</sup> week of January for Andhra Pradesh, Orissa and Maharashtra crop and 1<sup>st</sup> week of September for Karnataka.
- The average prices have been worked out for the crop year.

- There should be a single pay-in / pay-out by Government and growers for a crop season. The crop seasons for A.P. and Karnataka are different. In A.P., the auction sales of FCV tobacco commence in January and close by July whereas in Karnataka, the auctions commence in September and close by February.

## **2. Tobacco Board letter dated 19<sup>th</sup> November 2003 – Basis of Price Spectrum Band estimation**

- The global farm prices of FCV Tobacco for American , Brazilian, Zimbabwean, Canadian, Malawian, Italian and Argentinean tobacco have been made available.
- Of the Global Farm Prices of FCV tobacco , American, Brazilian, and Zimbabwean, tobaccos are categorized as “flavourful tobaccos” in the world and the demand and pricing pattern for these tobaccos is on the high side and these prices are in no way comparable with the prices of Indian tobaccos, as there is a difference of 1-3 US\$ in the prices of said countries and Indian tobaccos. Hence, the International prices of the above countries will not provide any basis for fixing Price Spectrum Band of Indian tobaccos. If these prices are considered for fixing the price band for Indian tobaccos, the Price Spectrum Band will be at the maximum level.
- Prices of Italy and Argentina tobaccos are heavily subsidized and cannot reflect true market dynamics. Only filler tobacco produced in Indonesia, Thailand, China and some small African countries like Tanzania are somewhat comparable to Indian tobaccos. However, price data on these tobaccos are not available to workout the trends or to adopt them for calculation of price band. Some of these countries, may be giving indirect subsidies to growers, which are not revealed by them.

***Therefore, Tobacco Board has suggested that International Prices for FCV Tobacco cannot be used for calculating Price Band for Tobacco.***

Global Farm Prices of FCV Tobacco have also been furnished in the Table below:

(US\$/Kg)

<b>Country</b>	1996	1997	1998	1999	2000	2001	2002	2003
Canada	2.65	2.68	2.40	2.42	2.54	2.59	2.54	---
USA	4.05	3.90	3.86	3.83	3.94	4.10	4.02	4.03
Zimbabwe	2.94	2.33	1.72	1.74	1.69	1.75	2.27	2.26
Malawi	2.27	1.91	1.41	1.47	1.35	1.92	1.86	1.78
Brazil	2.04	1.83	1.70	1.08	1.17	1.20	1.18	1.35
Italy@	0.80	0.83	0.69	0.63	0.61	0.62	---	---
Argentina	3.18^	2.80^	2.65^	2.40^	1.85^ (1.13*)	2.02^ (1.18*)	1.92^ (0.83*)	1.16*
India	0.96	1.15	1.00	0.84	0.70	0.80	0.74	---
KLS	1.50	1.10	0.82	1.03	1.24	0.82	0.90	0.90
NLS	1.20	1.30	1.08	0.92	0.78	1.08	0.82	0.87
SLS	0.90	1.11	1.00	0.82	0.71	0.72	0.65	0.72
BCS	0.86	1.07	0.93	0.74	0.65	0.68	0.64	0.67

^ includes Govt. subsidy of about US\$ 1.20 to \$0.65/kg.

\* excluding Govt. subsidy (Argentina 2000-2003 years).

@ excluding price premium of 2.98 Euros per kg.

3. Tobacco Board letter No. 5(6A)/TW-2003/2320 dated 29<sup>th</sup> December 2003 – Comments on estimation of Price Spectrum Band

As per the data, the International prices(Zimbabwe), have been used to calculate the seven year moving average, +/-20% Price Spectrum Band and the Pay-out/Pay-in scenario as provided under the PSF Scheme. The domestic prices realized in Zimbabwe are on the higher side and in no way are comparable with the prices of Indian tobaccos, as there is a difference of 1-3 US\$ in the prices of Zimbabwe and Indian Tobaccos . Tobacco is grown in different soil regions and the prices paid vary from soil region to soil region. Hence, Price Spectrum Bands have to be fixed separately for KLS, NLS, BCS and SLS regions. Therefore, Tobacco Board has suggested that the Lower and Upper Bands may be worked out soil region wise based on domestic prices.

4. Tobacco Board letter No. 5(8)/TW-2003/ dated 12<sup>th</sup> February 2004 – Comments on revision of estimation of Price Spectrum Band and source of Price data

1. The average price of countries exporting filler varieties of tobacco and the unit value of reported export quantities are not available with Tobacco Board.
2. The average export price of Indian Tobacco includes processing charges.
3. International price-

(3.1)Data Source

**i.** Tobacco: World Markets and Trade- country-wise Tobacco situation reports- Published by USDDA on its website.

**ii.** Supply and Demand report and monthly crop and market reports published by Universal Leaf Tobacco Company on its website.

**iii.** Various International Tobacco Journals viz., World Tobacco, Tobacco Reporter, Tobacco Journal International, Tobacco International, Tobacco Asia.

(3.2) Canada, Zimbabwe: Auction Prices

USA : An average of auction and contract prices from 2001. Prior to 2001, only auction prices.

Brazil & Argentina: Contract Prices.

Nowhere in the world, Tobacco is marketed on futures prices.

(3.3) Export prices for tobacco are “FOB” prices only which has been sourced from year end data published by respective countries.

4. Tobacco grading is a complicated process, where different countries adopt different systems and different grades. The grades vary from about 20 to a few hundreds in different countries, taking several quality parameters. The importers of tobacco place orders for blends of different grades and qualities and basically take the chemistry of the blend into account. There are no international prices as such for tobacco, since the importers depending on their requirement, advise the supplier to send tobacco consisting of a specified chemistry, particularly nicotine and sugars. As the blends vary from time to time and the blends are different from customer to customer, it is difficult to arrive at the average international prices.

5. The methodology adopted for deriving weighted Averages is as under:

Total value of the tobacco is arrived at by multiplying the quantity marketed in Andhra Pradesh (including small quantities of Orissa and Maharashtra) and Karnataka by the respective Average prices separately and then the total value of tobacco sold in both the States is divided by the total quantity sold in both the States.

**5. Tobacco Board letter No. 5(8)/TW-2003/ dated 24<sup>th</sup> February 2004 –**

**Clarification on Export prices of Indian Tobacco**

- a. Source of data is the statutory returns of the exporters submitted in Form 34 to Tobacco Board on monthly basis.
- b. All the exporters, who are actively doing business in tobacco are included in the computation of this data. Approximate number of exporters range from 50 to 66.
- c. Tobacco is exported in different forms such as (1) in Total leaf form (2) Hand strips (Midrib of the leaf removed manually) and (3) Threshed Lamina (Midrib of the leaf removed mechanically). About 80-90 % of the Indian exports of FCV tobacco are in threshed lamina form. The overhead/fixed costs of the exporters and the FOB expenses have not been included, as they vary from exporter to exporter based on the size of the firm and location of their godowns. The thumb rule of calculation in the trade is that the tobacco purchased from auction platforms, when processed and made ready for export, costs double the farm prices. An illustrative statement showing the cost of conversion per kg. Of FCV (Threshed Lamina) tobacco purchased from farmers for export purpose is given below:
  - d. Cost of one Kg of processed tobacco purchased from the farmers (on the auction platforms) at Rs. 40/- per kg.

1. Cost of Tobacco at 70% net yield*	Rs. 57.15
2. TB Service Charges	Rs. 0.68
3. Transport of Raw Tobacco	Rs. 0.95
4. Warehousing	Rs. 1.90
5. Threshing Charges	Rs. 7.15
6. Case packing	Rs. 3.00
7. Fumigation	Rs. 0.27
8. Labour charges for restacking, inspections	Rs. 0.27
9. Transport- Internal movements	Rs. 0.54

10. Insurance	Rs. 0.54
11. Grading/shuffling	Rs. 1.00

\* The semi processed green leaf purchased from growers, when processed at the exporters level gives a net yield of 60-70% depending on the grade and structure of the leaf.

The overheads/fixed costs of the exporters and the FOB expenses are not included in the statement, as they vary from exporter to exporter based on the size of the firm and the location of their godowns.

It may be seen from the above statement that tobacco purchased at Rs.40/- per kg, after processing works out to Rs.73.45, which is about 84%, excluding the overheads and FOB expenses of the exporters.

- d. A statement showing the export prices, inclusive and exclusive of the processing costs/yield losses has also been furnished below.. Neither the export prices inclusive of processing costs nor the export prices exclusive of processing costs gives a realistic picture, when compared to the average prices realized by the growers on the auction platforms.

<b>STATEMENT SHOWING THE AVG. EXPORT PRICE/FARM PRICE/EXPORT PRICE INCLUSIVE/EXCLUSIVE OF PROCESSING COSTS PER KG. (Rs/Kg)</b>					
<b>YEAR</b>	<b>EXPORT AVG. PRICE</b>	<b>AVG PRICES REALISED BY THE GROWERS ON AUCTION PLATFORMS</b>	<b>EXPORT PRICES INCLUSIVE OF PROCESSING COST (3+5)</b>	<b>PROCESSING COSTS &amp; YIELD LOSS (4-3)</b>	<b>EXPORT PRICE EXCLUDING PROCESSING COSTS &amp; YIELD LOSS (2-5)</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
1996	68.60	38.38	70.48	32.10	36.50
1997	69.00	42.60	78.23	35.63	33.37

1998	85.43	38.45	70.61	32.16	53.27
1999	98.61	36.55	67.12	30.57	68.04
2000	80.00	37.69	69.35	31.66	48.34
2001	84.94	38.55	70.79	32.24	52.70
2002	80.19	36.80	67.58	30.78	49.41
2003	71.73	36.54	67.10	30.56	41.17

**6. Tobacco Board Fax dated 3rd March 2004 – Notification on Minimum Support Price**

**Notification**

The Minimum Support Price for F2 and L2 grades of Tobacco for 2003-2004 crop were announced by the Government of India. The prices for various grades of tobacco grown in black soils (Farm grades) and light soils (Plant position grades) for 2003-2004 crop are as follows. The prices are applicable only to the authorized crop.

**I. MINIMUM SUPPORT PRICES FOR FARM GRADES FOR 2003-2004 (BLACK SOILS TOBACCO)**

<b><u>GRADE</u></b>	<b>MSP (Rs/Kg)</b>
<b>F1</b>	<b>33.80</b>
<b>F2</b>	<b>31.00</b>
<b>F3</b>	<b>25.70</b>
<b>F4</b>	<b>19.50</b>
<b>F5</b>	<b>15.60</b>
<b>F6</b>	<b>22.30</b>
<b>F7</b>	<b>18.00</b>
<b>F8</b>	<b>14.60</b>
<b>F9</b>	<b>11.80</b>
<b><u>F10</u></b>	<b>13.60</b>

**II. MINIMUM SUPPORT PRICES FOR PLANT POSITION GRADES FOR 2003-2004 (LIGHT SOILS TOBACCO)**

<b>GRADE</b>	<b>MSP (Rs/Kg)</b>	<b>GRADE</b>	<b>MSP (Rs/Kg)</b>	<b>GRADE</b>	<b>MSP (Rs/Kg)</b>
<b>P1L</b>	<b>32.70</b>	<b>BMG</b>	<b>17.10</b>	<b>P3J</b>	<b>25.40</b>
<b>P2L</b>	<b>31.40</b>	<b>P1O</b>	<b>33.30</b>	<b>P4J</b>	<b>21.50</b>
<b>P3L</b>	<b>27.70</b>	<b>P2O</b>	<b>32.50</b>	<b>P5J</b>	<b>16.50</b>

P4L	23.10	P3O	28.30	X1J	32.00
P5L	27.20	P4O	23.20	X2J	30.00
X1L	34.00	P5O	17.30	X3J	26.80
X2L	32.70	X1O	36.00	X4J	21.60
X3L	29.40	X2O	34.00	X5J	16.60
X4L	23.80	X3O	30.40	L1J	32.40
X5L	17.40	X4O	25.10	L2J	30.40
L1L	35.30	X5O	18.50	L3J	26.70
L2L	33.00	L1O	36.50	L4J	23.00
L3L	29.40	L2O	34.30	L5J	16.70
L4L	23.80	L3O	30.70	T2J	28.70
L5L	17.50	L4O	24.80	T3J	25.10
T2L	30.70	L5O	18.80	T4J	21.10
T3L	27.10	T2O	32.70	T5J	16.50
T4L	22.10	T3O	28.40	L4R	24.80
T5L	17.30	T4O	23.40	L5R	18.50
TG	25.80	T5O	17.50	T4R	23.80
BG	20.70	P1J	29.00	T5R	17.80
TWG	16.00	P2J	29.00		

**Note: Types/grades of Tobacco that do not attract support prices  
Saline, Mixed, Badly Handled, Wasted, Funked, Mouldy, No grade, Soft, damaged  
and Bulk Burn Tobacco**

### **7. Tobacco Board letter dated 3rd March 2004 – Response to Draft Agenda**

#### **Notes**

A statement (**Annexure VI**) showing the average prices of different soil regions has been given below. It may be seen that within the given year some regions fall in the category of HPY and some in NPY. If the total domestic prices are taken as basis for categorizing the year, some regions though they fall under the category of NPY, would be treated as HPY because of the high overall prices and growers would have to pay Rs.1000/- to their PSF SB A/C, in spite of their averages being less than the Upper Price Band.

Therefore, it would be more appropriate to take soil region wise prices as basis for calculation and categorization of the year.

### **8. Tobacco Board letter dated 15th March 2004 – Re-examination of Price Spec trum Band estimation**

Tobacco Board has re-examined the Price Spectrum Band, based on the seven years' Moving Average of International Prices, and furnished the Table hereunder:

(Rs/Kg)

Year	DPMA	Lower Band	Upper Band	Soil- wise Prices	
				LIGHT SOILS	BLACK SOILS
1997	31.02	24.82	37.22	45.58	37.60
1998	31.94	25.55	38.33	38.59	38.23
1999	33.56	26.85	40.27	39.20	32.05
2000	36.23	28.98	43.48	42.04	29.96
2001	37.80	30.24	45.36	38.31*	Crop holiday
2002	38.31	30.65	45.97	39.41 (NPY)	30.15 (LPY)
2003	38.21	30.57	45.85	38.79	31.50

It may be seen from the statement that during the last seven years, except for 1998, where the domestic market was buoyant due to global shortage of tobacco, rest of the years, the price parity between Light soils and Black soils has been very high thereby altering the categorization in some years. Therefore, the Board reiterates that the fixation of Price Band would be realistic and appropriate, if the domestic prices are taken as referral prices and the Price Spectrum Bands are fixed for Light soils and Black soils separately, as Light soil and Black soil Tobaccos cater to different customers all over the world and fetch different prices based on their chemical properties.

The issue of fixation of Price Spectrum Band based on domestic and export average price was discussed in the Registration Committee consisting representatives of growers on the Board from Andhra Pradesh and Karnataka. They opined that small growers of Tobacco need Price Stabilisation in the form of market intervention by a Government agency or Non-Government agency, as the PSF Scheme neither compensates the losses in the event of a market crisis nor creates competition in the market.

**9.Tobacco Board letter dated 17th March 2004 – Referral International Prices for Light Soils and Black Soils**

FCV tobacco produced in the world is basically categorized into flavourful / semiflavourful tobaccos and filler tobaccos. Indian FCV tobacco is considered as

Filler tobacco. Other FCV filler tobacco producing countries are Argentina, Bangladesh, Phillipines, Thailand, Uganda, China and Indonesia. Except for Argentina, prices of none of the other countries are available with the Board. The prices of Argentinean tobaccos are heavily subsidised and cannot reflect true market dynamics. Only filler tobacco produced in Indonesia, Thailand, China and some small African countries like Tanzania are somewhat comparable to Indian tobaccos. However, the price data on these tobaccos is not available to workout the trends or to adopt them for calculation of Price Spectrum Band. Some of these countries may be giving indirect subsidies to growers, which are not revealed by them.

The Black soil category of FCV tobacco is produced in India, constitutes 33% of Indian FCV tobacco production.

#### ANNEXE VI

##### EXCHANGE RATES OF THE INDIAN RUPEE VIS-À-VIS THE US DOLLAR (CALENDAR YEAR – ANNUAL AVERAGE)

**SOURCE: HANDBOOK OF STATISTICS ON TH INDIAN ECONOMY- 2002-2003**  
**Published by the Reserve Bank of India**

YEAR	US DOLLAR
1970	7.5668
1971	7.5244
1972	7.5563
1973	7.6742
1974	8.0375
1975	8.4058
1976	9.0017
1977	8.7625
1978	8.2133
1979	8.1467
1980	7.8800
1981	8.6926
1982	9.4924

1983	10.1379
1984	11.3683
1985	12.3640
1986	12.6053
1987	12.9552
1988	13.9147
1989	16.2238
1990	17.4992
1991	22.6890
1992	25.9206
1993	31.4439
1994	31.3742
1995	32.4198
1996	35.4280
1997	36.3195
1998	41.2665
1999	43.0552
2000	44.9401
2001	47.1857
2002	48.5993
2003*	46.5800

\* Figure provided by RBI; not yet published

NOTE: 1. Data from 1970 to 1992 are based on Official Exchange Rates.

2. Data from 1993 onwards are based on FEDAI (Foreign Exchange Dealers' Association of India) Indicative Rates.

**ANNEXE VII**

**PRICE DATA FOR THE PERIOD 1994- 2003**

**RUBBER**

(Rs/Qtl)

YEAR	INTERNATIONAL PRICE (KUALA LUMPUR ) RSS- 4		DOMESTIC PRICE (KOTTAYAM) RSS- 3
	MALAYSIAN RINGGIT	EQUIVALENT RATE IN Rs	INDIAN RUPEES
1994	288.60	3467	3107
1995	390.40	5030	5059
1996	342.90	4764	5122
1997	273.80	3614	3988
1998	273.10	2884	3013
1999	231.50	2644	2997
2000	252.50	3007	3125
2001	218.50	2732	3109
2002	286.80	3696	3621
2003		5101	4814

**Source: Indian Rubber Statistics, Volume 26, 2003**

## PRICE DATA FOR THE PERIOD 1994- 2003

### COFFEE

#### I COFFEE ROBUSTA

YEAR	INTERNATIONAL PRICE (LONDON)		DOMESTIC PRICE	
	CENTS/LB	EQUIVALENT RATE IN Rs	BULK GRADE	PREMIUM GRADE
1994	113.13	78.25	77.67	76.72
1995	118.31	84.55	77.46	83.64
1996	74.51	58.20	54.61	64.69
1997	75.02	60.07	55.39	65.70
1998	76.39	69.50	71.12	73.54
1999	64.07	60.82	56.20	60.10
2000	40.11	39.74	38.28	39.92
2001	23.92	24.88	28.06	29.36
2002	25.88	27.73	26.68	27.92
2003	33.94	34.87	32.14	33.58

#### II COFFEE ARABICA

YEAR	INTERNATIONAL PRICE (NEWYORK)		DOMESTIC PRICE	
	CENTS/LB	EQUIVALENT RATE IN Rs	BULK GRADE	PREMIUM GRADE
1994	145.93	100.93	107.57	95.91
1995	145.54	104.01	96.24	97.25
1996	111.18	86.84	88.21	93.48
1997	163.04	130.55	124.48	128.28
1998	126.27	114.87	110.78	114.28
1999	106.48	101.09	73.99	80.84
2000	94.58	93.71	74.19	80.08
2001	58.86	61.23	52.98	56.58
2002	57.02	61.09	52.19	56.86
2003	65.00	66.78	52.41	56.18

Source: Database on Coffee published by Coffee Board

**PRICE DATA FOR THE PERIOD 1994- 2003**

**CTC TEA**

Year	INTERNATIONAL PRICE (ALL WORLD AUCTIONS)		DOMESTIC PRICE (RUPEES)		
	(US\$)	EQUIVALENT RATE IN Rs	NORTH INDIA	SOUTH INDIA	ALL INDIA
1994	1.32	41.41	42.58	30.89	39.88
1995	1.37	44.42	49.09	40.95	46.92
1996	1.33	47.12	49.93	40.77	47.53
1997	1.81	65.74	67.83	57.55	64.61
1998	1.80	74.28	78.31	67.56	74.40
1999	1.66	71.47	78.73	55.81	71.71
2000	1.52	68.31	67.37	42.49	59.66
2001	1.35	63.70	68.08	44.85	60.47
2002	1.25	60.75	60.67	40.37	54.59
2003	1.30	60.55	59.28	39.72	54.89

Source: Tea Board

**PRICE DATA FOR THE PERIOD 1994- 2003**

**TOBACCO**

Year	Domestic Price	International Price (Excluding Processing Costs & Yield loss)
1994	21.93	40.15
1995	30.42	29.08
1996	38.38	36.50
1997	42.60	33.37
1998	38.45	53.27
1999	36.55	68.04
2000	37.69	48.34
2001	38.55	52.70
2002	36.80	49.41
2003	36.83	41.17

Source: Tobacco Board

**No.3/3/2004-Plant (C)  
Government of India  
Ministry of Commerce & Industry  
Deptt. of Commerce  
(Price Stabilisation Fund Trust)**

**Dated the 27<sup>th</sup> July, 2004**

**ORDER**

**Subject: Fixation and announcement of the Price Spectrum Bands for the year 2003 in respect of tea, coffee, rubber and tobacco.**

Government of India has set up a Price Stabilisation Fund for the benefit of growers of Tea, Coffee, Natural Rubber and Tobacco w.e.f. April, 2003. The objective of the Price Stabilisation Fund Scheme is to provide financial relief to the growers when the prices of these commodities fall below a specified level. Contribution to the Member – Grower’s Savings Bank A/c, by the Government and/or the Member – Grower, in a given year would be on the basis of categorization of the year as boom/normal/distress period. Such categorization would be done on the basis of a Price Spectrum Band, which would be fixed and announced every year. A uniform band of 40% for all the four commodities would be adopted with the Price Spectrum Band of +/- 20% from the seven years’ moving average of international prices of the commodities. The Scheme is based on the principle of contribution from the growers and from the Government depending upon boom/normal/distress periods, with a provision for withdrawal by the growers during the distress period. The contribution of the participant growers as well as of the Government would be made to the savings bank account of the participating growers opened for the purpose with any nationalized bank. The contribution of the participant grower/Government in the growers’ account and withdrawal there from would be with reference to the price band so specified.

2. When the average domestic price of a commodity falls below the lower band, the year for the concerned commodity would be categorised as “Distress year”, where upon the Government will contribute Rs.1000/- to the growers’ savings bank account. When the average domestic price of a commodity is above the upper band, the year for the concerned commodity would be categorised as “Boom year”, where upon the grower will

contribute Rs.1000/- to his savings bank account. When the average domestic price of a commodity remains within the lower band and the upper band, the year for the concerned commodity would be categorised as “Normal year”, where upon both the Government and the grower will contribute Rs.500/- each to the grower’s savings bank account.

3. In accordance with the Price Stabilisation Fund Scheme, the Government has, on the basis of data relating to seven years’ international prices of each commodity obtained from the Commodity Boards, fixed the Price Spectrum Bands for the year 2003 for Tea, Coffee and Natural Rubber as under: -

#### 3.1 Tea –

Seven Years’ Moving Average of International Price for Tea for 2003 is Rs.66.40. Therefore, the Lower Band and the Upper Band are Rs.53.12 and Rs.79.68 respectively.

The Average Domestic Price for Tea during year 2003 was Rs.54.89/kg. Since the Average Domestic Price was between the Lower and the Upper Band, **year 2003 was a Normal Year for Tea.**

#### 3.2 Coffee-Robusta –

Seven Years’ Moving Average of International Price for Coffee-Robusta for 2003 is Rs.45.37. Therefore, the Lower Band and the Upper Band are Rs.36.30 and Rs.54.45 respectively.

The Average Domestic Price for Coffee-Robusta during year 2003 was Rs.33.58/kg. Since the Average Domestic Price was lower than the Lower Band, **year 2003 was a Distress Year for Coffee-Robusta.**

#### 3.3 Coffee-Arabica –

Seven Years’ Moving Average of International Price for Coffee-Arabica for 2003 is Rs.89.90. Therefore, the Lower Band and the Upper Band are Rs.71.92 and Rs.107.88 respectively.

The Average Domestic Price for Coffee-Arabica during year 2003 was Rs.56.18/kg. Since the Average Domestic Price was lower than the Lower Band, **year 2003 was a Distress Year for Coffee-Arabica.**

### 3.4 Rubber –

Seven Years' Moving Average of International Price for Rubber for 2003 is Rs.33.83. Therefore, the Lower Band and the Upper Band are Rs.27.06 and Rs.40.59 respectively.

However, keeping in view the Statutory Minimum Price for RSS-4 grade Rubber, the Lower Band for 2003 is fixed at Rs.32.09.

The Average Domestic Price for Rubber during year 2003 was Rs.48.14/kg. Since the Average Domestic Price was higher than the Upper Band, **year 2003 was a Boom Year for Rubber.**

3.5 Commodity-wise data tables for computation of Price Spectrum Band 2003 are given in **Annex – 1**.

4. As no Tobacco grower has enrolled under the Scheme, no price spectrum band is fixed for the Tobacco growers.

5. As on 31.3.2004, 26,326 growers (Tea - 1861, Coffee - 8225 and Rubber - 16,240) have enrolled themselves as members participating in the Price Stabilisation Fund Scheme with the respective Commodity Boards.

6. As per the calculation of the price spectrum bands indicated in para 3 above, the year 2003 was a normal year for Tea. Therefore, each member enrolled under the Scheme upto 31.3.04 will deposit Rs.500/- to his PSF SB Account. On confirmation of such deposit by the member, the Price Stabilisation Fund Trust would deposit Rs.500/- to his PSF savings bank account.

7. For Coffee growers (Robusta & Arabica), the year 2003 was a distress year. The Price Stabilisation Fund Trust will deposit Rs.1000/- per member

to the PSF savings bank accounts of the Coffee growers who have enrolled under the Scheme up to 31.03.04.

8. For Rubber, the year 2003 was a Boom Year. The member growers who have enrolled under the Scheme up to 31.03.04 would deposit Rs.1000/- per member to their PSF savings bank Account.

9. The Member-Growers of Tea and Rubber are required to deposit their contributions, as indicated above, in their PSF SB Accounts latest by **August 31, 2004**. For member growers of Tea and Coffee, Price Stabilisation Fund Trust/concerned Commodity Boards would deposit the required amount as per calculations indicated in para 3 above, in their savings bank accounts, latest by **September 15, 2004**.

10. Concerned Commodity Boards are directed to inform the concerned member growers, their Associations, concerned Bankers and all their Field and Extension Officers regarding fixation of Price Spectrum Bands, categorisation of the year 2003 as Boom/Normal/Distress Year and for deposit of the calculated amount in the growers' savings bank accounts within the specified time limit.

Sd/-  
(P K Dash)  
Chief Executive Officer

To The Chairpersons of  
Rubber/Tea/Coffee/Tobacco Commodity Boards

Copy to : DS (Plantation), Department of Commerce

## ANNEX – I

### PRICE SPECTRUM BAND – 2003

#### TEA

(Rs/Kg)

Year	I.P.	I.P.M.A.	Lower Band	Upper Band	D.P.	Boom/Normal/ Distress Year
1997	65.74					
1998	74.28					
1999	71.47					
2000	68.31					
2001	63.70					
2002	60.75					
2003	60.55	66.40	53.12	79.68	54.89	<u>Normal Year</u>

#### COFFEE-ROBUSTA

(Rs/Kg)

Year	I.P.	I.P.M.A.	Lower Band	Upper Band	D.P.	Boom/Normal/ Distress Year
1997	60.07					
1998	69.50					
1999	60.82					
2000	39.74					
2001	24.88					
2002	27.73					
2003	34.87	45.37	36.30	54.45	33.58	<u>Distress Year</u>

#### COFFEE-ARABICA

(Rs/Kg)

Year	I.P.	I.P.M.A.	Lower Band	Upper Band	D.P.	Boom/Normal/ Distress Year
1997	130.55					
1998	114.87					
1999	101.09					

2000	93.71					
2001	61.23					
2002	61.09					
2003	66.78	89.90	71.92	107.88	56.18	<b><u>Distress Year</u></b>

### NATURAL RUBBER

(Rs/Kg)

Year	I.P.	I.P.M.A.	Lower Band	Upper Band	D.P.	Boom/Normal/ Distress Year
1997	36.14					
1998	28.84					
1999	26.44					
2000	30.07					
2001	27.32					
2002	36.96					
2003	51.01	33.83	(27.06) 32.09*	40.59	48.14	<b><u>Boom Year</u></b>

**\*(-) 20% of I.P.M.A.(33.83) is 27.06. However, in view of prevalent Statutory Minimum Price for RSS-4 Grade Rubber, the Lower Band has been fixed at Rs.32.09.**

#### **NOTES**

- **Lower Band is (-) 20% of I.P.M.A.**
- **Upper Band is + 20% of I.P.M.A.**
- **Year 2003 has been categorised as Boom/Normal/Distress Year on the following basis:**
- **Boom Year – When D.P. is higher than Upper Band.**

- **Normal Year – When D.P. is in between Lower Band and Upper Band.**
  
- **Distress Year – When D.P. is lower than Lower Band.**

(I.P.-International Prices, I.P.M.A.-7years' Moving Average of International Prices, D.P.-Domestic Prices).