Vol XVII
No. 2

ISSN 0019-5014

CONFERENCE NUMBER

JANUARY-MARCH 1962

INDIAN JOURNAL OF AGRICULTURAL ECONOMICS

INDIAN SOCIETY OF
AGRICULTURAL ECONOMICS,
BOMBAY

PRICE POLICY FOR AGRICULTURAL DEVELOPMENT WITH REFERENCE TO COFFEE

M. C. SATYANARAYANA
Coffee Board, Bangalore

The importance of evolving and reviewing the price policy for any agricultural commodity has been realised in all quarters. In the present system of economy, the price constitutes the main incentive to the growers and hence the need for a correct price policy. In so far as coffee is concerned, the importance of a proper price policy has long been realized not only as a method for providing an effective incentive to the growers, but also to build up strong markets for the Indian coffee.

Before examining the price policy with regard to coffee, it may not be out of place to mention here a few salient features of the coffee industry in India. Coffee cultivation is mainly confined to the Malnad regions of the States of Mysore, Madras and Kerala in South India. The Mysore State accounts for a major portion of the area and production of coffee in India. As on 31st July, 1959, there were 47,848 coffee estates with a total planted area of 2,72,298 acres. Two main varieties of coffee are grown in India, *viz, Arabica* and *Robusta.* The area under *Arabica* is estimated at 1,67,136 acres while that under *Robusta* is 1,05,162 acres. Coffee production is showing a steady increase and in the year 1960-61, the crop was a record figure at 67,550 tons made up of 39,250 tons of *Arabica* and 28,300 tons of *Robusta.* Table I shows the latest available figures regarding the area and production of coffee in India.

TABLE I—AREA AND PRODUCTION OF COFFEE IN INDIA.

Sl. No.	Name of the State	Planted Area under Coffee (1958-59)			Estimated Production* (1960-61)		
		Arabica	*Robusta*	Total	*Arabica*	*Robusta*	Total
			(*In acres*)		(*In Metric Tons*)		
1.	Mysore	1,04,627	55,892	1,60,519	33,035	18,180	51,215
2.	Madras	58,192	5,565	63,757	5,750	1,190	6,940
3.	Kerala	4,044	43,697	47,741	465	8,930	9,395
4.	Orissa	19	3	22	NA	NA	NA
5.	Assam	—	5	5	NA	NA	NA
6.	Maharashtra	180	—	180	NA	NA	NA
7.	Andhra	74	—	74	NA	NA	NA
	Total	1,67,136	1,05,162	2,72,298	39,250	28,300	67,550

*Subject to revision.
NA: Not available.

The Coffee Board, with its Head Quarters at Bangalore, plays a very important role in the marketing of Indian coffee. This Board is a statutory body incorporated under the Coffee Act (VII of 1942) and is functioning for the past 20 years under the Ministry of Commerce and Industry, Government of India. According to the provisions of the Coffee Act, all coffee growers in India are required to deliver to the surplus pool administered by the Board, all the coffees grown by them excepting such small quantities as are allowed to them by the Board for their domestic use and seed purposes. The Coffee

Board is responsible under this Act for storing, curing where necessary, and marketing the coffees delivered to the surplus pool both in India and abroad and to distribute the sale proceeds less certain expenses, to the growers in proportion to the quality and quantity of coffee delivered to the pool by them. Thus the Coffee Board has control over the entire marketable produce in India and is charged with the function of marketing this coffee.

Having been entrusted with the functions as described above, the Coffee Board has built up a system of marketing both in India and abroad. During the course of its working, it becomes very necessary for the Board to review the price policy and also to fix the payments to be made to the growers from time to time. While doing so it has got to take into consideration the quality and quantity of coffee delivered by each grower to the pool and for this purpose, has developed an ingenious method known as the "Price Differential Scale." According to this Scale, the standard unit of each standard grade of coffee (*viz.*, 50 Kgs.) is given a certain number of points for 'Fair Average Quality'. For any particular lot of coffee delivered to the pool, on advance payment basis, samples are drawn and sent to the Head Office, Bangalore, for assessment of its value. A panel of assessors examine the samples and determine whether it is 'Fair Average Quality' or deserves + points or — points, in accordance with certain prescribed rules and procedures. Thus each lot of coffee delivered to the pool gets valued and obtains a certain number of points. Ultimately all payments to the growers are made by the Board on this point basis and the final payment to the growers is also declared in terms of the final point value. Thus, the question of price policy reduces itself in the case of coffee in determining the value per point which has to be paid to the growers for each season.

The question of evolving a proper price policy, so far as coffee is concerned, is beset with a number of problems. Firstly, one has to see that the growers get a reasonable profit margin and also necessary incentive to develop coffee estates. At the same time the Board has also to see that the price to the consumers in India does not shoot up unduly high for the internal market in India is very important for the Indian coffee industry and high internal prices are likely to be conducive to the development of consumer resistance which might harm the industry ultimately. The Board has also to take into consideration the cost of storing, curing, marketing, pool agency commission, etc., properly so as to arrive at the value to be paid to the growers. Further when the coffee crop is delivered to the pool, as soon as picking is over, some initial payment is made to the growers at the time of delivery, and subsequent interim payments are also made and the final payments are deferred to a later date till the entire crop is disposed of and the sale proceeds are realized by the Board. The rate at which initial payment and subsequent interim payments are to be made is another problem which faces the Coffee Board.

Although ultimately the final value per point paid to the growers depends on the total sale proceeds realized into the pool, less certain expenses such as marketing costs, central excise duty, etc., still the Board is faced with the problem of evolving and reviewing the correct price policy ever since its inception in the year 1940. For the Board has also to frame its marketing policies in such a way that a certain minimum return to the grower may be aimed at and for this purpose, has to fix the minimum pool release price or in other words a reserve price at which the several grades of coffee have got to be released from the pool. The correct basis for determining this has been one of the problems faced by the Board continuously. The one basis which suggested itself to the Board for determining the minimum return to the grower has been the cost of production of coffee. The Board has been collecting data regarding cost of production of coffee for each season on the lines indicated by the Government Cost Accounts Officers. There have also been enquiries into the cost of production of coffee by three Government Cost Accounts Officers (recently by the Plantation Inquiry Commission also). Until the year 1951-52, the minimum pool release prices were usually based on the cost of production. In some years, however, the minimum pool release prices were fixed at a rate below the cost of production with a view to control the high prices in the internal market. Early in 1953, under instructions from the Government of India the return to the grower was fixed at Rs. 2.25 per point for 1952-53 crop and the minimum release prices were reduced from Rs. 2.25 per point to Rs. 2.12 per point, from May 1952 in respect of releases to co-operative societies and Propaganda Department in the hope that the difference would be made up by higher realizations from exports. Subsequently the value has been kept under constant review from time to time. Table II shows the cost of production per point and the final payments made to the growers per point.

TABLE II—COST OF PRODUCTION AND FINAL PAYMENT

(In Rupees)

Sl. No.	Season	Estimated Cost of Production per point (on Cwts. basis)	Final Payment per point made to the Growers
1.	1948—49	Rs. 1.45	1.88
2.	1949—50	Rs. 1.95	2.30
3.	1950—51	Rs. 2.02	2.26
4.	1951—52	Rs. 2.40	2.76
5.	1952—53	Rs. 2.47	2.32
6.	1953—54	Rs. 2.43	2.84
7.	1954—55	Rs. 2.45	2.39

It was then found in February 1956 that the method of fixing the minimum pool release prices on the basis of cost of production of coffee as determined by either the Board or the Government from time to time proved most unsatisfactory in view of the fact that the factors governing cost of production of coffee from region to region and from estate to estate in the same region varied so markedly that it was not possible by these means to arrive at an equitable or workable cost of production figure. It was, however, found at that time that there was an increase of 5,000 tons in crops harvested over the year 1948 and this increase in the past 7 years could be largely attributed to a stable economic return to the grower. It was expected that if the then prevailing conditions continued to exist, a further increase in production of 17,000 tons would take place by the end of the next 15 years. At the same time the internal consumption in India also increased appreciably. It was therefore decided that the average return to the grower made by the Board during the last 7 years ending 1954-1955 be adopted as a basis for fixing the minimum release prices in auctions so that this average return may be maintained for the next 5 years provided that major increases, if any, in the cost of production should be borne equitably both by the consumer and the producer. This method would help give the producer a definite idea about the return he might expect on his produce during the next 5 years and thereby give him necessary confidence for increasing his investments for the improvement of his estate. As a result of this decision, the price policy was aimed at securing to the planter, an average return at Rs. 2.40 per point.

The position during the next 5 years is as indicated in Table III.

TABLE III—AREA, PRODUCTION, COST OF PRODUCTION AND FINAL PAYMENT (1955-56 TO 1959-60)

Sl. No.	Season	Total Planted Area under Coffee (Acres)	Total Production of Coffee (Million Tons)	Estimated Cost of Production per point	Final Return to the Grower per point
				(on Cwt. Basis)	
1.	1955—56	2,54,449	35,028	2.35	2.56‡
2.	1956—57	2,60,401	42,572	2.22	2.81
3.	1957—58	2,68,472	44,490	2.33	2.51
4.	1958—59	2,72,298	46,605*	2.23†	2.45†
5.	1959—60*	NA	49,740*	2.11†	2.24†

N.A.: Not available.
* Estimates subject to revison.
† On 50 Kgs. basis.

It may be seen from Table III that the production of coffee in India increased very considerably although the area did not increase to the same extent. The returns to the grower, however, fell steeply in recent years owing to the fall in the export earnings as a result of surplus coffee production in the world. Consequently, the profit margin that was being received by the growers is lessening and the earlier decision of basing the return to the grower on the average of the 7 years ending 1954-55 is no longer workable owing to a steep decline in the prices of coffee particularly in the export market. As a result of this, the price policy to be followed now is due for a revision and is receiving the attention at the hands of the growers, the Board and the Government. Suggestions have been made that it is better to link the return to the grower with the cost of production to be ascertained by an impartial authority like the Tariff Commission, and efforts should be made to revise or re-orient the marketing policies of the Board to handle the growing production more efficiently.

PRICE POLICY FOR AGRICULTURAL DEVELOPMENT

C. P. SHASTRI[1]
Agricultural Economist, Bihar, Kanke, Ranchi

Effect of Price Level on Agricultural Production

A satisfactory and dependable level of prices for farm crops is one of the greatest economic incentives for agricultural production. It is a common knowledge that Indian farmers have experienced wide fluctuations in the price

1. Views expressed are personal.