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## CHANGING MARKETING STRUCTURE AND POLICY: A CASE OF TOBACCO IN ANDHRA PRADESH

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Marketing is a pre-requisite for any agricultural improvement. Over the years, there have been some structural changes in the marketing of agricultural commodities, both food and non-food, due to active involvement of private, co-operative and government agencies and also due to changes in government's policies in the marketing process. An attempt is made in this paper (i) to examine the marketing structure of tobacco in Andhra Pradesh, the relative roles played by different agencies in the marketing process and to highlight the changes in the marketing structure and their consequences and (ii) to discuss the policy of State intervention and support prices and suggest ways and means to remove bottlenecks in the present structure of marketing.

Tobacco plays an important role in the national economy. It has assumed a significant place in the daily life of the people as a commodity of consumption. Being an important commercial crop and an agro-based industry, it has involved 7.5 lakh farmers and 5 lakh curers in the production process and also provides employment to more than 3 million people in several other allied activities such as grading, redrying, packing, loading and unloading and also in industries manufacturing cigarettes, bidies, etc. The Union Government gets a revenue of over Rs.1,050 crores (1982-83) by way of excise duties. Overseas trade in unmanufactured tobacco and tobacco products secures about Rs.215 crores (1981-82) as foreign exchange to the country.

Andhra Pradesh stands foremost among the tobacco producing States contributing 41 per cent of the total area and 37 per cent of the total production in the country (1981-82).<sup>1</sup> The State holds the pride of place with a near monopoly in the cultivation of Flue-Cured Virginia (F.C.V.) tobacco and accounts for about 85 per cent of the total annual exports of F.C.V. tobacco from India to other countries. The cultivation of Virginia tobacco in the State is mainly concentrated in Prakasam and Guntur districts and to a lesser extent in Krishna, East and West Godavari districts. The cultivation of *Natu* tobacco for cigarette manufacture is also concentrated in these districts.

The entire quantity of F.C.V. tobacco in the State is released into markets for sale by the producers and nothing is retained for domestic consumption. The cultivators, producing *Natu* or country tobacco for chewing or for cheroot, retain a small quantity for personal consumption as permitted under excise rules.

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1. In 1981-82 the area under tobacco was 1.8 lakh hectares and its production was 1.92 lakhs tonnes in Andhra Pradesh as against 4.5 lakh hectares and 5.25 lakh tonnes respectively for all-India. During 1982-83 the area under tobacco in Andhra Pradesh was 1.7 lakh hectares which came down to 1.1 lakh hectares in 1983-84. Its production was 1.60 lakh tonnes in 1982-83 and declined to 93,000 tonnes in the next year.

The bulk of the tobacco growers are small farmers, who sell the crop immediately after harvest. It is estimated that over 95 per cent of the tobacco crop produced in Andhra Pradesh normally finds its way to markets from February to April. The proportion of farmers' crop sold so late in September/October after harvest is extremely small.

#### STRUCTURE OF TOBACCO MARKETING

As in the case of most of the agricultural commodities, tobacco marketing in Andhra Pradesh consists of (a) primary, (b) secondary and (c) terminal markets. Some of the farmers dispose of their produce on their holdings and these form the primary markets. However, the proportion of farmers willing to sell their tobacco on the holdings are very few. The bulk of the tobacco crop is sold by the growers in the villages after curing and grading. Therefore, the so-called tobacco markets are really secondary markets for assembling and distribution where small traders, commission agents or brokers assemble tobacco purchased by them in the villages. Even in these markets, there is no open place for assembling the produce, but mostly purchases are undertaken on the premises of the farmers.

There are certain assembling centres that comes next in order. These constitute the buying platforms of larger companies. Guntur is the largest centre for cigarette tobacco. Other centres are Kovvur, Rajahmundry, Vijayawada, Mangalagiri, Chirakaluripet, Parchoor, Vetapalem, Ongole and Tadikonda.

Basically, the whole tobacco marketing in the State at different levels is controlled by the private agencies. However, with the emergence of co-operative marketing society and government agencies, some changes were noticed in recent years. The role of different agencies in the marketing process of tobacco and their impact on the farmers have been analysed below:

##### *1. Private Agencies*

The private agencies can be divided into three categories on the basis of their size and nature of business operations. The first category comprises large companies, viz, Indian Leaf Tobacco Development Co. Ltd. (ILTD), National Tobacco Company, Navabharat Tobacco Company, etc. While the ILTD purchases about 40 per cent of the total marketable surplus to meet the needs of their cigarette factories in India and for exports, the other companies purchase 30 per cent of the crop solely for export overseas markets.

The second category consists of firms as well as individual exporters, who are well established in the trade having set up redrying plants of their own mostly in Guntur and Chirakaluripet, undertake exports mostly on definite orders. They account for about 10 per cent of the total output.

The third category includes a large number of small traders and intermediaries like commission agents and brokers who buy and sell to the above categories or purchase on their behalf.

*Method of Sale:*— The bulk of tobacco produced is sold in the villages by the growers, who are also curers, after grading into 6 to 8 *kacha* grades, and the rest is taken to the assembling centres. However, the farmers are prone to several disadvantages at both the places due to certain imperfections in the marketing system, which are beneficial to the trader.

At the village level, some of the farmers with advance financial obligations with traders, commission agents or brokers, have to sell the top grades of their tobacco at the prices dictated by them. Due to lack of storage facilities and fear of quality deterioration during the monsoon, need for money to meet immediate requirements, lack of information on current prices for different grades, floating of rumours by the agents of companies about low demand and declining prices, and to avoid some of the marketing and incidental charges, the farmers sell their stocks in the villages at unproductive prices.

Some farmers bring their *kacha* bundles of various grades of tobacco to the purchasing platforms of the companies in bullock carts or lorries and stacked neatly in rows. The experienced buyer of the company breaks open each bundle, pulls out different samples, from different depths and fixes the price according to his own estimate of higher and lower grades contained in each bundle. In case, the prices offered are not acceptable to the grower, he is obliged to take back his produce in the absence of storage facilities at the depots of the companies. The farmer invariably chooses to part with his produce, though unwillingly, to avoid the ordeal of tying up the broken bundles again and transporting them back to his village after having waited for a considerable time for getting the chance of examination and assessment of his produce by the company's buyer, along with his colleagues hoping for assessment of their produce, fulfilling all the excise formalities. Another important factor that compels the farmer to part with his produce, for whatever price offered, is that F.C.V. tobacco, if not redried in time after curing, will rapidly deteriorate in quality, and in which case his tobacco would not fetch even this price then offered, at a later stage. Thus the farmer is at a disadvantage to bargain for a better price or hold back his produce awaiting for a better market. The companies in their own interests, lest should they lose their customers, maintain such price policy, as not to dissuade them from taking back his produce. It is more often alleged by the producers that some of the companies discriminate between farmer and farmer and the prices offered in some cases are not in consonance with their quality, though more attractive in colour and texture. It is also alleged that payment is delayed by some of the buyers.

The companies thus acquire the entire stocks at a cheaper price, process the stocks and at a later date export at a high margin of profits.

## 2. *The Guntur District Tobacco Growers' and Curers' Co-operative Marketing Society Ltd., Ongole*

This society with its headquarters at Ongole and branches at Guntur, Sattenapalli, Chirala and Kandukur in Guntur and Prakasam districts, consists of 8,364 members. It commenced sales of cured leaf during 1949-50. It is the only society taking unique interest in co-operative marketing of tobacco in the entire country. The society pools the member's produce, grades as per Agmark standards and arranges the sale of graded tobacco, adopting the closed tender system of sales, while assuring a parity price. It also exports tobacco to foreign countries. The society advances 60 per cent of the value of *kacha* graded bales to the farmers immediately on delivery to meet the urgent financial needs of the producers.

The society bestowed special interest in bulk purchases of coal and its proper distribution to barn holders and supplies chemical fertilizers, insecticides, agricultural implements to members on credit sales through its depots at various centres.

However, the society is at a disadvantage in several respects. It does not have adequate funds to meet market finance resulting in limited purchases. This has become a serious bottleneck in the functioning of the society. It has no godowns of its own for storage purposes at several working centres. It is also in need of trained grading personnel to assist in grading as per Agmark standards.

## 3. *Government Agencies*

(a) *Market Committee, Guntur*— Attempts were made earlier by the Market Committee, Guntur, to regulate the conditions of tobacco marketing. It has set up auction floors and tried at three centres in and around Guntur during the period 1951-53. But this system did not work as there were fundamental defects in it. Grading was not insisted as per Agmark standards. Private negotiators were allowed, provided the transaction was routed through records of the auction floor, thus violating the fundamental principles of an open auction. The auction floor covered only limited area, *i.e.*, 5 miles. Moreover, there was no agency to take over stocks, which were not bid for.<sup>2</sup>

In 1953, the Government of Andhra Pradesh appointed a one-man commission which recommended the introduction of compulsory auction to cover the Virginia belt simultaneously with an adequate number of auction yards, consisting of storage and other facilities with competent grading staff. The Market Committee, Guntur, purchased sites, constructed warehouses and provided other amenities for grading and storage, etc., at as many as seven places in Guntur district.<sup>3</sup> But these were not utilized properly.

2. K. Subrahmanyam, "Much Left Undone by Tobacco Board", *Capital*, Vol. 183, No.4573, September 3, 1979, p.2.

3. Report on the Marketing of Tobacco in Andhra Pradesh, 1967-68, Directorate of Marketing, Government of Andhra Pradesh, Hyderabad, 1975, p.76

Again in 1971, a Sub-Committee of officials and non-officials was constituted for improving the system of marketing of Virginia tobacco in the State under the Chairmanship of Shri M.R. Pai. The Sub-Committee discussed the 'norms' of facilities required for the setting up of auction warehouses in the jurisdiction of the different Agricultural Market Committees in the tobacco belt.<sup>4</sup> However, these did not materialise until recently requiring huge funds.

(b) *State Trading Corporation*: – The State Trading Corporation (STC) has come to the rescue of agitating farmers on many occasions, due to glut in production and slump in prices, who demand Government intervention to bring buoyancy in the market. In 1965 and 1972, the STC undertook price support operations and until 1976, it concluded purchase contracts after entering into sale contracts with foreign buyers. During 1977-78 a scheme was initiated under which the STC enrolled a number of small and medium packers as its associates from whom tobacco was procured for export. Again in 1978, 1979 and 1983, the STC undertook price support operations. It has yet to find buyers for the stocks it held.<sup>5</sup> But even the STC prefers only the top grades leaving the low grades with the farmers.<sup>6</sup> It was alleged that in almost all such instances, the STC has lost heavily and this has not provided a solution to the everlasting problems of the farmers.<sup>7</sup>

(c) *Tobacco Board*: – Setting up of a Tobacco Board, it was felt, would act as a permanent cure for all the ills of the leaf industry and a Board was set up in 1976 under the Ministry of Commerce with 20 members. Its functions include regulation of production having regard to the demand, ensuring a fair and remunerative price for the grower and export promotion. Purchase of Virginia tobacco from growers when it becomes expedient to protect their interest is also included among the functions of the Board.<sup>8</sup> In spite of its existence since eight years, very little has been done to provide remunerative prices to the farmers excepting regulation of production. Although a tobacco leaf purchase voucher scheme was introduced in 1978 to ensure timely payment to growers by buyers, contrary to expectations, the growers found the scheme causing only greater hardship.<sup>9</sup> It is alleged that the Board is overburdened with too many functions and has not lived upto expectations.

It can be seen from the foregoing analysis that there are no organized markets for tobacco in the State, for that matter in the country as a whole and no control over the private agencies. Whenever any crisis arises due to glut in

4. *ibid*, pp.81-83.

5. B.S. Padmanabham, "Production Glut and Price Slump", *The Hindu*, April 20, 1984, p.8.

6. G.L. Garg, "Raw Tobacco Export: Problems and Prospects", *Eastern Economist*, Vol.74, No.3, January 18, 1980, p.133.

7. Subrahmanyam, *op.cit.*, p.4.

8. N.K. Muralidhara Rao, "Indian Tobacco Board and Its Role", Proceedings of a Seminar on Indian Tobacco Exports, January 31 – February 5, 1977, Hyderabad, pp.5-6.

9. The opening of the markets was delayed by three months resulting in huge stocks piling with the growers. The resultant loss to the growers in 1978 season was estimated at Rs.25 crores. On complaints of non-payment of dues to the growers by the buyers, the Board cancelled the registration of some firms in 1983 and denied registration for the current year. See for details, Padmanabham, *op.cit.*, p.8.



production and slump in prices due to low demand in and outside the country, the Government agencies step into the market following the agitations of the farmers and purchase certain quantities of the crop at different prices, while announcing the support prices. But there is no permanent solution to the many ills of the farmers.

#### GOVERNMENT INTERVENTION

The intervention of Government in fixing remunerative procurement and support prices in the marketing of tobacco and for that matter in the case of all important agricultural produce is justified on the ground that it should protect the farmers from unhealthy competition among buyers and the vagaries of marketing. Unless the farm producers are at least assured of a fair return for their produce, no amount of increase in production and productivity will raise their standard of living. A farmer does not want to increase the production of agricultural produce, especially if it leads to a fall in the price of tobacco, which ultimately leads to a drastic reduction in his total money income. A reduction in total money income will in the final analysis result in low purchasing power, which in turn causes a reduction in his standard of living. This reduction in the total money income of the farm producers will manifest itself in low effective demand for industrial goods and services, thereby leading to a low level of industrial activity in the country affecting the national economy.

And since one of the basic objectives of our economic planning and policy is to increase industrial growth substantially, it explains how important it is to sustain the level of effective demand upon which depends the scope for industrial growth. Following the logic that aggregate effective demand is a function of money income, it obviously explains why it is important to ensure the minimum remunerative price to the farmer taking into consideration the cost of inputs, the general price level and the cost of living and increase in his general well-being. Unless it is done, we are afraid, we are only caught in the vicious circle of low economic activity and can never get over it.

Although Government had fixed the minimum export prices for standard grades, a corresponding price is not offered to the growers on the plea that the growers do not grade their produce properly.<sup>10</sup> Minimum prices were also not offered for tobacco consumed by the cigarette industry. This inconsistent pricing policy may prove convenient to the traders to keep off the records the huge difference between what they pay to the growers and what they get from the cigarette industry. Besides, they adopt grades different from that of Agmark, which are meant only for exports. This encourages the 'typical imperfect competition' where the exploitation is maximum.<sup>11</sup>

10. While the poor grower is forced to undersell the crop at Rs.700 to 1,000 a quintal, the Government had fixed the price at Rs.1,450 per quintal of export variety.

11. Special Correspondent: "The Blight of Growers", *Commerce*, Vol. 128, No. 3290, June 1, 1984, pp. 7-8. Considering the high cost of production, the Government of India raised the minimum export prices by 20 per cent on Agmark grades Nos. 1 to 4 and by 25 per cent on medium grades of 1974 tobacco crop over the prices of 1973 crop. But it was reported that the grower was benefited only to the extent of 6 to 7 per cent.



Even the support prices offered by the STC at different periods are low in view of high cost of production, curing, grading, etc., and there is a need for upward revision of the support prices.

It is reliably learnt that a working group of officials set up by the Commerce Ministry has suggested the introduction of auction system for tobacco for the whole State of Andhra Pradesh and also in Karnataka. Under this system, the internal method of marketing of tobacco is for farmers to grade the produce by what is known as plant position and offer the graded product at auction floors. This ensures a fair deal to the farmers and gives them direct knowledge about manufacturers' requirements in terms of quality. Minimum floor prices are fixed and tobaccos for which there are no bids are taken over by the auction floor for re-offer subsequently or held as buffer stocks. The working group also suggested a stabilising agency on the lines of Zimbabwe, Canada and U.S.A., where such stocks held under this account are taken note of in planning the subsequent year's production. The Tobacco Board was favoured to act as the stabilising agency. The Board should be given autonomous status, chaired by a technically qualified person with allround knowledge of tobacco and fair representation from different parties as Board members and introduce auction floor cess, while abolishing the existing ones. This will go a long way in improving the incomes of farmers and thus saving the national economy.