

**COMMISSION FOR AGRICULTURAL COSTS AND PRICES
REPORT ON PRICE POLICY FOR RAW JUTE
FOR THE 2003-04 SEASON**

In this report, the Commission for Agricultural Costs and Prices presents its views on price policy for raw jute for the 2003-2004 season. The Commission recommends that

- (a) the minimum support price of TD-5 grade of jute ex-Assam for the 2003-04 season be fixed at Rs 860 per quintal; (Para29)
- (b) the corresponding mini-mum support prices for other varieties and grades of raw jute across locations be fixed keeping in view, apart from normal market price differentials, the aggregate scores assigned to different grades; (Para 29)
- (c) the price policy for raw jute be announced before the commencement of sowing season every year and not be delayed beyond February at the latest;
(Para 2)
- (d) the Government should explicitly incorporate in the proposed Technology Mission on Jute a component, adequately funded, to achieve the objective of replacing the practice of grading raw jute by eye estimation with the sampling plans developed by JIRA and educating both farmers and marketmen alike about the use of the sampling plans so that the currently rampant arbitrariness in identifying the quality of fibre is eliminated within a reasonable time frame;
(Para 5)
- (d) the Government should take all steps to clean the balance sheet of the JCI once and for all and also further strengthen its financial footing so that it can play an effective role in defending MSP on the one hand and in stabilising prices on the other through large scale commercial buffer stock operation; and (Para 14)
- (e) the non-price interven-tions, as suggested, should be implemented as early as possible in order to deal with the aftermath of the two rounds of dilution of compulsory packaging norms under the Jute Packaging Materials (Compulsory use in Packaging Commo-dities) Act, 1987. (Para 21)

2. The Commission submitted its Report on Price Policy for Raw Jute for the 2002-2003 Season on January 20, 2002 recommending Minimum Support Price (MSP) at Rs.850 per quintal for TD-5 grade of raw jute ex-Assam. The Government announced the price policy for raw jute on June 19,2002 fixing the MSP at the recommended level, which was Rs.40 per quintal more than that fixed for the previous season. Despite repeated pleas in the past that the price policy for raw jute be announced well before the commencement of the sowing season (normally between February and April) so that it could influence the farmers' decision regarding resource deployment for jute cultivation, the announcement of the MSP for the 2002-2003 season was once again delayed inordinately. Since this is an important matter on which all stake-holders agree, the Commission is constrained to recommend once again that *the price policy for raw jute be announced before the commencement of sowing season every year and not be delayed beyond February at the latest.*
(Table 1)

3. Based on the MSP fixed by the Central Government, the Jute Commissioner notified on June 26, 2002 the MSP for all grades of jute and mesta for up-country markets in various jute/mesta growing states. As in the past 3 years, this year too, the price differentials between grades/varieties and those across locations have been left unchanged. This was in accordance with the

Commission's recommendation in its 1999-00 report that changes in the price differentials should be kept in abeyance till the Committee appointed at the National Institute of Research on Jute and Allied Fibres Technology (NIRJAFT) gave its recommendations on the matter. The Commission has been informed that the Committee at NIRJAFT has at last submitted its recommendations on grading of raw jute. According to the recommendations, the number of grades should remain unchanged at 8, although the score allotted for different fibre characteristics, namely, strength, defects, maximum root content, colour, fineness and density should be changed. The Commission has further been informed that the recommendations of the Committee have been approved in the meeting of the Jute and Jute Products Sectional Committee (TX03) of the Bureau of Indian Standards (BIS) held on 28.05.2002 at Kolkata under the Chairmanship of Jute Commissioner. Since the Committee has not expressed its views on the magnitude of price differentials by grade/variety, it is expected that Jute Commissioner, who is empowered under the Jute and Jute Textile Control Order, 2000 to fix prices of raw jute for any grade specification across locations, would fix the price differentials for the 2003-04 season keeping in view, apart from normal market price differentials, the aggregate scores assigned to different grades.

(Annexures I & II)

4. While on the subject of grade specification of raw jute, it needs to be mentioned that the rationale for price differentials by grade is to encourage the farmers to adopt better agronomic and retting practices and thereby improve the quality of fibre. Currently, high quality jute fibres like Tossa 1, 2 and 3 form a very small proportion of the large volume of jute production in India. For example, during 2002-2003, Tossa 1, 2 and 3 together constituted barely 11 per cent of Tossa production and only 8.5 per cent of total jute/mesta production, as compared to a desirable (targeted) share of 15 per cent in overall production. Similarly, the share of Tossa 4 and 5, which together currently accounts for 45 per cent of overall production, needs to be increased to 68 per cent based on emerging demand and end-use pattern. Clearly such a massive upgradation of current grade composition would not be easy unless concerted efforts are made for:

- (i) intensifying the production of certified seeds and their timely distribution to farmers;
- (ii) development of new varieties of seeds/strains with high cellulose content and lower level of lignin;
- (iii) development of location specific integrated disease and pest management system to control the fibre defects caused by disease and pests;
- (iv) setting up additional retting facilities, preferably of community type, in selected areas;
- (v) popularizing mechanical extraction of fibre (ribbon technology) developed by NIRJAFT and retting of ribbons alone instead of whole plants;
- (vi) replacing the practice of grading raw jute by eye estimation with the sampling plans developed by Indian Jute Industries Research Association (IJIRA) leading to elimination of arbitrariness in identifying the quality of fibre. To be effective, appropriate training in the use of sampling plans needs to be imparted to both jute growers and market men who handle jute for the balers and the JCI.

5. The last point is very important since field observations suggest that farmers generally are not aware of the distinguishing characteristics of as many as 8 grade specifications. In such a situation, farmers are susceptible to exploitation by middlemen and traders. Under the circumstances, even if substantial improvement in quality of fibre takes place in the future, presumably under the proposed Technology Mission on Jute, farmers are unlikely to benefit. The Commission, therefore, recommends that *the Government should explicitly incorporate in the proposed Technology Mission on Jute a component, adequately funded, to achieve the objective of replacing the practice of grading raw jute by eye estimation with the sampling plans developed by IJIRA and educating both farmers and marketmen alike about the use of the sampling plans so that the currently rampant arbitrariness in identifying the quality of fibre is eliminated within a reasonable time frame.*

6. According to the quick assessment of the Directorate of Economics and Statistics (DES), the all-India production of the jute and mesta, which witnessed a substantial increase from about 93 lakh bales in 2000-01 to about 105.5 lakh bales in 2001-02 has declined sharply to about 99 lakh bales in the 2002-03 season. The DES, as usual, has not released the corresponding estimates of either the area or the yield, making it difficult to identify the reason/s for the sharp decline in production in the 2002-03 season. Weather situation in the jute growing states was generally favourable. Therefore, decline in production could not be attributed to sharply reduced yield. It also appears unlikely that area coverage, which is known to be sensitive to prices, has decreased significantly since the price situation in the preceding season was better than the earlier three seasons. In any case, a substantial lower production leading to lower supply should have kept the prices in the open market buoyant; this has not been the case right from the beginning of the 2002-03 marketing season. Thus, it appears to the Commission that the DES's quick assessment has severely under-estimated the production of jute and mesta during 2002-03 season. Indeed, the Directorate of Jute Development, Kolkata has indicated to the Commission that production of jute and mesta during the 2002-03 may turn out to be substantially higher at about 114 lakh bales, a figure which is close to the estimate of 115 lakh bales put out by the Jute Advisory Board (JAB) before the marketing season commenced. JAB has, following the commencement of market arrivals, revised the production estimates downwards to 110 lakh bales, exactly the same projected by the Commission in its report for the 2002-03 season. The Commission is inclined to believe that actual production of jute and mesta during 2002-03 would be close to 110 lakh bales, as is being presently estimated by the JAB. (Tables 7 & 8)

7. According to the JAB's balance sheet total supply of raw jute during 2001-02 was 116 lakh bales, comprising an opening stock at a relatively low level of 7 lakh bales, production of 105 lakh bales and imports of 4 lakh bales. As against this, total disposals were 100 lakh bales comprising 92 lakh bales mills consumption and 8 lakh bales non-mills domestic consumption, leaving a closing stock of 16 lakh bales. It needs to be noted that JAB's production estimates for 2001-02 was very close to, unlike in the recent past, that of the DES, implying a higher degree of reliability of the closing stock for the 2001-02 season. With production in all likelihood at 110 lakh bales and imports projected at 7 lakh bales, the total supply during 2002-03 is currently estimated at 133 lakh bales, an all time high. As against this, JAB has estimated mills and non-mills consumption at 90 and 8 lakh bales respectively leaving an estimated closing stock for the current year (2002-03) at 35 lakh bales. Since this is over two times higher than the normal opening stock requirement of about 2 months consumption of about 16 lakh bales, the usual expectation would be for a substantial decline in the prices into the next crop season, if the crop-size, assuming normal weather, remains at about the level of the preceding season.

(Table 8)

8. The Commission has reason to believe that the price situation in the coming season could be worse than is implied by the projected high opening stock of 35 lakh bales. It appears that the JAB's estimate of mills consumption at 90 lakh bales in the current season (2002-03) is an over-estimate since it has failed to take cognizance of the immediate fall-out of the Central Government's decision to progressively dilute compulsory packaging norms under the Jute Packaging Materials (Compulsory Use in Packaging Commodities) Act, 1987 (JPMA in short). According to an estimate by Indian Jute Mills Association (IJMA), the decision to dilute compulsory packaging norms by 20% in respect of foodgrains and 25% in respect of sugar with effect from July, 2002 will result in a total loss of market by 1.7 lakh tonnes, forcing jute mills to cut back production of jute goods to that extent, equivalent to mills consumption of raw jute of about 10 lakh bales. Although such a drastic cut back in production of jute goods and corresponding reduction of mills consumption of raw jute may not materialise in the current season, it would be reasonable to assume that mills consumption may be substantially lower than 90 lakh bales estimated by JAB. In all likelihood, therefore, opening stock of raw jute in the coming season (2003-04) would be substantially higher than 35 lakh bales.

9. Although overall price situation of any commodity is better assessed by the movement of the wholesale price index (WPI), in the case of raw jute there appears to be a serious problem in doing so because of apparent infirmities in the data used for constructing the monthly indices. The problem

clearly is with the monthly data on the WPI of raw jute (base 1993-94 = 100) for the period August 1998 to January, 2000, when for each of the months the WPI is reported to be constant at about 107.8, which does not appear to be correct. As a consequence, movement of WPI, particularly for the period beginning 2000-01 season, does not reflect the price situation of raw jute correctly. For example, based on WPI, prices of raw jute on average accelerated by over 30 per cent during 2000-01 season. This is not borne out by either the data on month-end wholesale prices in different markets compiled by the DES or the average prices compiled by IJMA for the Kolkata market or the maximum/minimum/average prices compiled by Jute Commissioner based on daily quotations published by Jute Balers Association. According to all these latter sources, raw jute prices during most of the 2000-01 season were either flat or lower than those in the previous season. Similarly, these sources indicate that the raw jute prices improved marginally during 2001-02, followed by a sharp decline during the current season so far (July to October, 2002). This is clearly at variance with the movement of WPI which shows an increase in the prices of raw jute by about 10 per cent during 2001-02, followed by a decrease of only about 5 per cent during the current season so far.

(Tables 6, 9, 19 & 20)

10. That the price situation was generally bad, having been in a slump during 2000-01 and 2001-02, followed by a sharp decline in 2002-03 season so far, is also borne out by the fact that open market prices tended to fall below the respective MSP in each of the three seasons intermittently, requiring price support operations by Jute Corporation of India (JCI). Based on information received from Jute Commissioner as well as JCI, the season 2000-01 started with prices of raw jute ruling above the support level in all up-country markets fixed on the basis of Rs. 785 per quintal for TD-5 grade ex-Assam. Following the commencement of market arrivals of new crop, prices started sliding downward and touched support level in many areas till about mid-September, 2000. However, JCI in association with state agencies had started MSP operation in selected places and procured a total quantity of 4.64 lakh bales which constituted about 4.2 per cent of the total crop of 90 lakh bales, based on JAB estimates. As a proportion of arrivals, procurement was over 7 per cent. The prices started moving upward from October 2000 onwards showing a bullish trend from February 2001 until June 2001, when the bull run ended in anticipation of a bumper crop in the following season. The season 2001-02 began with prices of raw jute ruling above the MSP in all up-country markets fixed on the basis of Rs.810 per quintal for TD-5 grade ex-Assam, except in some pockets where prices of inferior and lower grades of jute touched support level. However, with the entry of JCI and the state level cooperatives into the market, prices started ruling steady. JCI and state cooperatives together procured 2.46 lakh bales, which was approximately 2.34 per cent of the total crop of 105 lakh bales assessed by the JAB. As a proportion of arrivals, procurement was about 3.6 per cent. As for the current season (2002-03), another bumper crop of 115 lakh bales was originally anticipated by JAB. Although the prices initially ruled above the support level fixed on the basis of Rs 850 per quintal for TD-5 grade ex-Assam for the 2002-03, following market arrivals of new crop prices of all grades slumped to near support levels particularly in the areas of South Bengal, Bihar and Orissa. JCI in association with state level cooperatives entered into the market right from the beginning of the season and procured about 11 lakh bales upto the middle of December 2002 or about 10 per cent of the downwardly revised estimated production of 110 lakh bales. As a proportion of arrivals, procurement during the current season has been over 18 per cent, a record in the recent past. At the time of writing this report, the JCI was still in the market and purchasing odd lots at the support price. According to JCI, open market prices would remain depressed during the rest of the current season due to absence of adequate buying support from the mills and the traders in view of the depressed jute goods market, particularly hessian and B-Twill bags. In this connection, it needs to be noted that whenever the mills anticipate that there would be ample supply of jute in the future months, they do not buy more than their monthly requirement. The buying effort by the mills during the current season so far signifies this attitude. (Table 10)

11. In contrast, the effort of the JCI in holding the price line at the support level has been quite commendable. It needs to be mentioned in this context that 171 purchase centers of JCI are not adequate to hold the price line in a depressed market such as the one being witnessed in the current season. In order to increase its market coverage and reach the growers directly, JCI had, since the 2000-01 season, forged a linkage arrangement with Apex Cooperative Societies of the Jute growing

states. Under this arrangement, these cooperatives are working as agents of JCI for procurement of raw jute directly from the growers at the MSP. During the current season (2002-03), 68 cooperative societies are working as agents of JCI. Apart from this, JCI has also involved village level service societies who procure raw jute directly from the growers and deliver the same to the nearest JCI/Cooperative Centres. During the current season, 78 village level service societies are functioning.

12. The Commission also appreciates the efforts of the Central Government (Ministry of Textiles) in providing support to JCI for conducting a successful price support operation during the current season. In its meeting with the Commission, JCI emphasized the point that MSP operation which has become a regular feature since the past three seasons, is likely to be the order of the day in the future, and that success of the MSP operation depends upon the quantity of jute that can be procured in the early part of the season, when small and marginal farmers dispose of their produce. One of the critical factors that decide the volume of procurement at MSP is the availability of government guarantee in lieu of margin money that is required for operating cash credit limit (CCL) with the bankers for undertaking MSP operation on hypothecation of stock procured. JCI has informed the Commission that it has not faced any problem in obtaining government guarantee in time in the past few years, since it was able to square up the bank dues in time on sale of the stock procured. The Commission has further been informed that CCL for MSP operation has this season been increased to Rs.100 crore from Rs.33 crore earlier. Apart from Government guarantee one important factor that had helped keep JCI solvent is an un-interrupted B-Twill linked sale arrangement for disposal of stock procured by JCI under MSP operation to the mills in the past few years. However, during the current season, JCI has been forced to hold an unsold quantity of over 8 lakh bales out of its procurement of about 11 lakh bales in the absence of adequate B-Twill linked sale orders from the state level foodgrains procurement agencies as well as the Food Corporation of India (FCI). The huge unsold stock and the consequent cash flow problem has, according to JCI, caused a setback to the MSP operation in the later part of the season. Non-availability of adequate B-Twill linked sale orders has, particularly, affected the procurement operation of the Cooperative Societies due to interruption in the disbursement of cash to them by the JCI. In this context, both Jute Commissioner and IJMA informed the Commission that their strenuous efforts to prevail upon FCI and other state agencies to commence procurement of B-Twill jute bags for Rabi 2003 marketing season has so far (December 9, 2002) proved unsuccessful. Orders of only about 50000 50-kg B-Twill bags each from Haryana and Punjab have been received so far. As apprehended by the Commission, it is now clear that the Government's decision to dilute compulsory packaging norms under the JPMA is already motivating the foodgrains procurement agencies to move away from the jute bags.

13. It should be clearly understood that the B-Twill link sale arrangement protects the JCI from losses inherent in MSP operations, particularly in a market characterized by a sustained low price sentiment, keeps it solvent and thereby makes the MSP operation sustainable. Under this arrangement, jute mills, who receive orders for supply of B-Twill bags through DGS&D/ Jute Commissioner, pay JCI its cost based price, known as derivative minimum price, which tends to be much higher than the cost/price of the private trade such as that of the Jute Balers Association(JBA). JCI's derivative price also tends to be much higher than the open market price in a dull market conditioned by a demand-supply imbalance. For example, for the 2002-03 season, JCI's minimum derivative Kolkata landed price based on support price of TD-5 ex-Assam has been estimated at Rs.1178 per quintal as compared to MSP of Rs.850 per quintal and an average market price of Rs.845 per quintal for TD-5 grade jute ex-West Bengal at Kolkata. A part of the difference of over Rs.300 per quintal between JCI's derivative price ex-Assam and market price ex-West Bengal at Kolkata is attributable to higher operational cost of JCI vis-a-vis the private trade such as JBA. For example, operational cost of JCI for ex-upper Assam jute is about Rs.100 per quintal higher than that of the JBA for the same jute. In case adequate B-Twill link orders do not materialize, JCI would incur a loss of over Rs.300 per quintal on its MSP operations in Assam. Even for West Bengal operations there would be some losses because of difference between cost and market price. Hitherto, such potential losses of JCI were being absorbed by the users of jute bags. Therefore, any slowdown and eventual breakdown in the B-Twill linked sale has the potential of making JCI sick in no time, unless the Government (Ministry of Textiles) commits to underwrite JCI's losses arising out of sale of jute at

market related prices. Unfortunately, policy of the Government in this regard appears ambiguous and unhealthy for the JCI's financial standing.

14. Although the declared policy of the Government is to reimburse fully the losses incurred under price support operation by way of subsidy, this has not been followed in the case of JCI. According to the Annual Report 2001-02 of the Corporation, the Government had discontinued payment of subsidy since 1996-97. Instead, the Government has been providing the JCI interest bearing loans for meeting establishment expenses including salary and wages. In the year 2000-01 and 2001-02, the Government had provided Rs 35 crore each for such purposes. Since JCI relies on borrowed funds, which in fact have been the only source of finance for procurement operation, there is no way it can repay the interest on the Government loans. To get over the problem, JCI has been adding the interest accrued on Government loans to its subsidy claims on the Government. This practice has unduly bloated the amount of subsidy claimed by JCI from the Government. Against subsidy claims aggregating Rs. 529.33 crore, the Corporation has received payments amounting to Rs.222.40 crore upto the year ended March, 2002. Thus, the unpaid subsidy claims as on 31.03.2002 stood at Rs.306.93 crore. Apart from unpaid subsidy, an amount of Rs.64.13 crore against raw jute deliveries made earlier along with an accumulated interest of another Rs.202.50 crore is due from NJMC, a PSU under the Ministry of Textiles, for more than 7 years. Realisation of these long outstanding dues would significantly improve the JCI's working capital base and operating strength and thereby restore its financial health. In view of the difficult time ahead for the raw jute sector, the Commission recommends that *the Government should take all steps to clean the balance sheet of the JCI once and for all and also further strengthen its financial footing so that it can play an effective role in defending MSP on the one hand and in stabilising prices on the other through large scale commercial/buffer stock operation.*

15. Enabling JCI to undertake commercial/buffer stock operation is critical not only for stabilizing prices of raw jute, which display large intra and inter-seasonal fluctuations, but also for sustaining it in a profitable fashion, without too much dependence on governmental hand outs in the form of subsidy and loans. With its present financial position and the marketing infrastructure that could be supported with it, JCI can at best purchase only about 10 to 15 percent of the total arrivals of raw jute in the market. With this capability, it is clearly impossible for JCI to intervene in the market effectively in the event of a large glut, particularly because it is required to sell its acquisitions immediately. With the B-Twill linked sales arrangement having already become fragile, due to dilution of compulsory packaging norms under the JPMA, it is in any case no longer possible for JCI to sell its entire acquisition immediately, except at a loss. Therefore, the only option for JCI to avoid losses in its MSP operations is to hold on its stock and treat this as a buffer stock to be disposed of in an improved market environment later in the season. Apart from buffer stocks, which are normally expected to be created during years of depressed prices, requiring price support operations, JCI is in dire need of doing large scale commercial operations in order to sustain its annual over head cost of about Rs.35 crore. Both buffer stock and commercial operations require a strong financial leverage which JCI at present lacks. It is in this context, the Commission's recommendation above should be seen. The Commission believes that putting JCI on a sound financial footing is more urgent now than ever before, since it appears that a general lack of buoyancy in the prices of raw jute is going to be the order of the day in view of the emerging imbalance between supply and demand for raw jute.

16. Emerging imbalance between supply and demand is attributable to successively increased production of raw jute significantly outstripping stagnant consumption in the past two years, leading to large build up of carryover stock at the beginning of the forthcoming season. As mentioned earlier, carryover stock beginning the 2003-04 season could exceed 35 lakh bales, an all time high. Longer term trends also suggest that production would have continued to exceed consumption of raw jute in the next few years. With the Government's decision to progressively dilute compulsory packaging norms under the JPMA, forcing a cutback on mills' consumption of raw jute, production is likely to exceed demand for raw jute by a higher margin.

17. Although the medium term outlook for production of raw jute is grim in most of the jute growing states, this is likely to be compensated by a reasonably good performance in West Bengal,

which has historically dominated the jute scenario in the country. In this connection, it needs to be mentioned that in the past decade (1991-92 to 2000-01) growth of area under jute has declined in every other state except Bihar; and yield of jute has also declined in every other state (including Bihar) except Andhra Pradesh which produces a small quantity of mesta. In contrast, West-Bengal, which commands a share of over 60 percent of area and 73 percent of production (based on TE 2000-01, DES data), has registered a growth of 2.6, 3.8 and 1.2 percent in area, production and yield respectively in the past decade. The yield of jute at 2181 kg per hectare (TE 2000-01) is also the highest in West Bengal, as compared to an average of only about 1220 kg per hectare in the rest of the jute growing states. There is no reason to believe that dominance of West Bengal in the production of raw jute is going to be diminished in the near future. Therefore, it is essential to focus on West Bengal, since what happens there would determine the all-India production situation. West Bengal has a number of compulsions to continue to produce jute. According to a study conducted recently under the auspices of FAO, over 3 million farm families and nearly 2 lakh jute mill workers depend on jute directly for livelihood. In addition, another 2 lakh persons are engaged in jute-related trade, transport, insurance, handling, export etc. in the state. Jute remains a major contributor to the State exchequer. Use of jute in decentralized units producing diversified jute goods is expanding both in textile and non-textile areas. Jute continues to remain the major cash crop in most of the districts in West Bengal. Socio-culturally, also, this is an important cash crop as it is harvested just before the major festival season in West Bengal. Apart from these reasons, there is a core area of about 4.5 lakh hectares, or about 70 percent of area under jute in West Bengal, is unsuitable for any crop other than jute. There are other reasons such as resistance of jute to climatic variations relative to weather-risks involved in other substitute crops and farmers' need for jute sticks for fuel, fencing and thatching purposes etc., for which jute is likely to continue to be an important product of this state.

18. With West Bengal likely to do well in jute, it is unlikely that production of jute in the country would trend downwards from the range of 90-110 lakh bales achieved in recent years as per JAB estimates. This prognosis is based on the assumption that production of jute goods would continue to grow at over 2 percent annum, as has happened in the 1990s. Otherwise, prices of raw jute would come under severe downward pressure and that would over time discourage jute production. As the FAO study reveals, there are a sizable number of families with larger land holdings who, being dependent on hired labour, are already finding jute cultivation unremunerative and moving towards alternative crops. Nevertheless, on balance, the Commission's view is that at current level of consumption of raw jute, production is likely to be stable around the range of 90-110 lakh bales annually, unless weather situation turns real bad in a particular year resulting in production going below 90 lakh bales. As for the coming season (2003-04), despite relatively low jute prices in the current season, production of jute and mesta together is expected to be at the level of 110 lakh bales, same as estimated for the current season, provided weather remains normal. This optimism on the production front is derived from the Commission's understanding that parity between the prices of raw jute and paddy would continue to favour jute, as has been the case in the past few years due to a sharp reduction in the prices of paddy in West Bengal. It needs to be remembered that unlike paddy, raw jute receives considerable price support at the growers level in that state.

19. As regards the demand for raw jute, mills consumption has stagnated in the range of 90 to 92 lakh bales over the past 5 years. Since non-mills domestic consumption has not increased beyond 8 lakh bales, overall consumption has remained in the range of 97 to 100 lakh bales during that period. It needs to be noted that export demand for Indian raw jute is negligible due to lack of price competitiveness with the jute of Bangladesh origin. Stagnating demand for raw jute essentially reflects stagnant internal consumption of jute goods at about 14 to 14.3 lakh tonnes in recent years, except in 2001-02, when internal consumption rose to 14.6 lakh tonnes due to higher demand for sacking following record production and procurement of foodgrains. According to optimistic projections made by Jute Commissioner, internal consumption of jute goods may fall back to 14.3 lakh tonnes in 2002-03. According to IJMA's assessment, however, internal consumption may go down to as low as 13 lakh tonnes in 2002-03, following dilution of compulsory packaging norms for foodgrains and sugar by the Government w.e.f. July 2002. Indeed, according to data furnished by Jute Commissioner, demand for B-Twill bags from Government sources has already come down

substantially to 2.23 lakh tonnes during April-September 2002 as compared to 3.18 lakh tonnes in the corresponding period of 2001. Actual lifting has also similarly come down drastically from 3.44 lakh tonnes to 2.36 lakh tonnes in that period. Given current trends, export of jute products, which had declined sharply from 1.87 lakh tonnes in fiscal 2000-01 to 1.48 lakh tonnes in fiscal 2001-02 may increase marginally to 1.85 lakh tonnes in 2002-03, as per the projections of Jute Commissioner. This, however, makes little difference to the overall demand for jute goods. Thus production of jute goods in the country during 2002-03 is likely to be of the order of about 16 lakh tonnes as per Jute Commissioner and only about 15 lakh tonnes as per IJMA. Based on current production trends also, it appears that fiscal 2002-03 would end up with a production level of about 15 lakh tonnes, accounting for consumption of about 87 lakh bales of raw jute. Adding another 8 lakh bales towards non-mills domestic consumption, total demand for raw jute during 2002-03 may be placed at about 95 lakh bales, about 3 lakh bales less than the current projections of Jute Commissioner. This means that the jute year 2002-03 (July-June) is likely to end up with a closing stock of 38 lakh bales, as compared to 35 lakh bales currently estimated by Jute Commissioner, implying a severe downward pressure on raw jute prices in the coming season.

Tables 13, 14 & 18)

20. The demand for raw jute is likely to sag further in the 2003-04 season, since the second round of dilution of compulsory packaging norms under JPMA is scheduled to take effect from July, 2003. According to notification already made, compulsory use of jute bags for packing foodgrains and sugar would come down to 60 and 50 percent respectively in 2003-04 from 80 and 75 percent in the current season (2002-03). This is expected to result in a total loss of market of about 1.7 lakh tonnes, bringing down mills consumption by another 10 lakh bales to 77 lakh bales in 2003-04. Overall consumption of jute is, therefore, likely to be about 85 lakh bales including 8 lakh bales of non-mills consumption as compared to a supply of about 155 lakh bales (Production of 110 lakh bales, imports of 7 lakh bales and carryover stock of 38 lakh bales) as compared to 133 lakh bales in the current season. The widening gap between supply and demand is, therefore, expected to severely affect the price situation during 2003-04.

21. Thus, the overall prognosis for 2003-04 and perhaps for 2004-05 is fairly unsatisfactory, with supply expected to exceed demand with progressively higher margins, causing severe strains on the already poor market sentiment. Consequently, there is scarcely any reason to use price policy to further improve the parity price of jute and attract more area into the crop. Although the Government has indicated that the two rounds of dilution of compulsory packaging norms under the JPMA would be reviewed by 30.06.2004, it is yet uncertain as to which direction the move will proceed. Assuming that no further dilution would be effected, the situation would still call for a number of non-price interventions to soften the destabilising impact of the two-rounds of dilutions already carried out. First, the Government should create a level playing field for jute bags vis-a-vis synthetic alternatives; by laying down standards for both, based on at least two criteria, namely biodegradability and food-safety and then allow the market to determine their relative competitiveness and consequently their consumer acceptance. The Commission believes that jute bags, by virtue of their several advantages such as higher reusability, strength, stackability, recovery after hooking etc. apart from bio-degradability and food-safety, would successfully counter-balance their lack of price competitiveness vis-a-vis synthetic bags made of PP/HDPE. Second, the Government should provide adequate R&D support to help the jute industry to shift its focus, to new exportable jute products like foodgrade bags, jute geo-textiles, jute floor coverings, hand and shopping bags etc., which also have a strong potential domestic demand. Fortunately, India enjoys technical and quality advantages over Bangladesh in respect of the above mentioned special jute products vis-a-vis the traditional jute goods, namely hessian, sacking and yarn on which the latter enjoys strong cost-advantages. As a matter of fact jute geo-textiles could emerge as a strong source of domestic demand for raw jute, if the Government takes a policy decision to make their use mandatory for construction of rural roads. Third, the Government should immediately review the Special Jute Development Programme (SJDP) whose performance has deteriorated over the years, particularly after it was transferred to the State Governments under the Macro Management Mode w.e.f. October 2000. It is observed that after its transfer, the total outlay as well as total expenditure have decreased as compared to the previous period. Besides, Andhra

Pradesh has not implemented the programme during 2001-02 and perhaps 2002-03. Similarly, the outlay in some of the states like Assam and Bihar has also been reduced by the respective Government of these states. Apart from the above, the Commission in its preceding reports had pointed out a number of problems associated with the implementation of SJDP, and recommended that a full review of the programme be conducted before launching the proposed Technology Mission on Jute (TMJ). Unfortunately, TMJ has not yet been approved and is apparently awaiting approval of the Planning Commission. TMJ should be expedited so that measures can be initiated to increase yield and thereby to reduce cost, and in view of emerging supply demand imbalance, allow some diversion of area to other crops. Diversion of area to other crops would in any case take place, if the price environments continue to remain poor. However, TMJ can help in orderly shift in acreage in the low yield states/areas. Last, but not the least, jute growers should be allowed to discover future prices and accordingly allow their acreage under jute to adjust to emerging demand profile. Although the Central Government has consented to forward/futures trading in raw jute, there are some reservations on the part of the Government of West Bengal, the major producing state as well as IJMA. Based on discussions with the Government of West Bengal, IJMA as well as Forward Market Commission (FMC), the Commission got the impression that there is no real basis for apprehensions expressed. The Government should, therefore, move quickly and introduce forward/future trading in raw jute without further loss of time. The Commission recommends that *the non-price interventions, as suggested, should be implemented as early as possible in order to deal with the aftermath of the two rounds of dilution of compulsory packaging norms under the Jute Packaging Materials (Compulsory use in Packaging Commodities) Act, 1987.*

22. After the submission of the Commission's last Report on Price Policy for Raw Jute in January, 2002, estimates of cost of cultivation/production of the crop have become available from the Directorate of Economics and Statistics (DES) under its Comprehensive Scheme (CS) in respect of Assam, Orissa and West Bengal for the year 2000-01. The details of these estimates and those pertaining to the preceding year are presented in the table below.

Cost Estimates of Raw Jute

(Rupees)

States	Years	A ₂ +FL /hec	C ₂ /hec	A ₂ +FL /qtl	C ₂ /qtl	C ₃ /qtl	Yield /hec (qtl)	Implicit Price	MSP (qtl)
Assam	2000-01	10412	13350	553.55	709.27	780.20	16.91	759.35	785
	1999-00	11222	14645	530.69	693.22	762.54	19.04	805.15	750
Orissa	2000-01	11691	15680	640.13	858.71	944.58	16.31	806.40	785
	1999-00	10583	14937	521.03	736.07	822.57	17.77	777.33	750
West Bengal	2000-01	13543	18338	604.73	818.63	986.68	19.82	759.09	785
	1999-00	12872	18692	519.32	753.77	903.45	22.25	830.39	750

23. It is observed that between 1999-00 and 2000-01, the estimates of cost of cultivation of raw jute have declined marginally in the states of Assam and West Bengal. However, the unit cost of production has gone up in both the states because of substantial decline in yield. In Orissa, the estimated cost of production has increased due both to higher cost of cultivation and lower yield. For Bihar, no cost data has become available after 1998-99. (Tables 25 & 26)

24. Raw jute is predominantly a labour intensive crop. As per information available from Labour Bureau, between March-October, 2001 and March-October, 2002, the actual wage rates for agricultural labour have increased by 6.66 per cent and 4.20 per cent respectively in the states of Orissa and West Bengal. The wage rates in Assam for the same period have marginally declined. The prices of other farm inputs, as measured by WPI, have increased moderately between November 2001 and October 2002 by 5.58 per cent for electricity (irrigation), 8.80 per cent for diesel (HSDO), 4.34 per cent for lubricants, 3.53 per cent for fertilizer, 1.56 per cent for non-electrical machinery and 1.31 per cent for cattle feed. The prices of fodder have, however, increased sharply by 30.04 per cent. Increased prices of fodder on an all-India basis may not reflect the true position in the Eastern jute growing states, where fodder prices usually remain low. (Tables 22, 23 & 24)

25. As per the projection methodology used in the Commission, each of the latest three years estimates of cost of production of raw jute for the three states have been projected for the ensuing crop season of 2003-04 and then their averages have been considered. On the basis of the actual price movements observed so far and assuming an annual inflation rate of 4-5 per cent, the variable input price index has been constructed for each of these states. According to this index, the variable input costs between 2000-01 and 2003-04 are estimated to be higher by 5.8, 16.7 and 13.2 per cent in Assam, Orissa and West Bengal respectively. On this basis, the C₂ cost of production of raw jute for 2003-04 is projected to an average of Rs 786, Rs 942 and Rs 859 per quintal respectively for the states of Assam, Orissa and West Bengal. The weighted average C₂ cost of production works out to Rs 853 per quintal for the same year. The C₃ cost of production for these states is projected at Rs.864, Rs 1036 and Rs 945 per quintal respectively with weighted average C₃ cost working out to Rs 938 per quintal. (Tables 27 & 28)

26. Along side these projections of costs, the Commission has also considered the cost of production estimates received from the state governments of West Bengal and Assam. It is observed that the estimate of cost C₂ from West Bengal for 2000-2001 at Rs 857 per quintal is higher by about 5 per cent than the corresponding CS estimate mainly because of much higher expenses considered for human labour. The state of Assam has given the projection of the total cost C₂ for the year 2003-04 at Rs 777 per quintal which is lower than the Commission's projection at Rs 786 per quintal. This year, the Commission has also received an estimate of cost of production of raw jute from the Central Research Institute for Jute and Allied Fibres (CRIJAF), who had conducted a survey in the districts of Hooghly and North 24-Parganas of West Bengal. According to CRIJAF, cost of production of raw jute in these districts works out to about Rs 809 per quintal for 2002-03 and Rs 874 per quintal for 2003-04. These are very close to the Commission's projection for West Bengal based on CS data.

27. Apart from cost, the Commission, as usual, has considered the issue of price parity of raw jute against other crops, particularly paddy/rice, as well as jute products and notes that relative price of raw jute, as measured by WPI (base:1993-94=100) had improved considerably between 1997-98 and 2001-02, before showing signs of deterioration during the current season (2002-03). Nevertheless, the relative price of raw jute during 2002-03 continues to be marginally higher than that of rice, all commodities, fibres in general, hessian and sacking. In comparison to agricultural commodities as a group, however, relative price of jute has fallen by about 4 percent during 2002-03, after showing an improvement of about 8 percent in the previous year. A similar comparison of MSP of raw jute with the WPI of other commodities/crops shows that the MSP of raw jute had increased at a much higher rate than the growth of market prices of all other commodities in the past 3 years. Therefore, on the ground of parity, there is hardly any need to increase the MSP of raw jute from its current level. (Table 29)

28. As against the weighted average C₂ cost of production at Rs 853 per quintal projected by the Commission for the ensuing season, Government of Assam and Government of West Bengal have asked for an increase in MSP to Rs 1000 and Rs 1070 per quintal respectively. Directorate of Jute Development has suggested a MSP of Rs 950 per quintal. Although no figure has been indicated, both JCI and Jute Commissioner have suggested an increase in MSP over the current year's level at Rs 850 per quintal. The Commission's own view is that MSP of raw jute should at least cover the

