

CHAPTER VI

Price of Raw Jute

6.1. Importance of Price of Jute.—Our terms of reference do not require us specifically to examine the question of prices of raw jute, but we feel that the problem of jute prices is fundamental to the question of increasing the quantity and improving the quality of raw jute produced in the country. The Conference on Promotion of Jute Production, which proposed the appointment of this Committee, discussed the question of minimum prices at some length and the consensus of opinion at that Conference was that the problem needs a thorough examination. As we have pointed out later in this chapter, the question of minimum prices of raw jute has continuously been raised by practically all jute growing States at several meetings and Conferences. In a recent Press Note of 14th June 1957¹, the Government of India have assured the agriculturists that the prices of foodgrains and other agricultural commodities would not be allowed to fall below economic levels. The Government have further assured them that suitable steps would be taken by it from time to time to achieve this end. In view of this important policy announcement by the Government as well as the crucial role which the prices play in the production of raw jute, we have considered it necessary to examine this important aspect of the jute economy in our report.

6.2. Need for Fixation of Minimum Price of Jute.—The price of raw jute before the sowing time is by far the most important factor which affects the acreage as also inputs like labour and fertiliser devoted to jute in a particular season, and it is for this reason, if not for others, that a demand is often made for fixing a minimum price of jute. The fixation of a minimum price of jute has, however, special difficulties of its own and calls for consideration of several factors. In the first place, there is the need for protecting the interest of the cultivator and of ensuring him a reasonable return on his produce. Secondly, there is the question of maintaining a fair relationship between the prices of raw jute and jute goods. Thirdly, there is the problem of paddy *versus* jute which are competitive crops and the relative level of prices of which influences, to a large extent, the decision of the cultivator to grow more of one or the other crop in a particular season.

6.3. Cultivator's Point of View.—Those who advocate the cause of the cultivator assert that it is the responsibility of the State to ensure him a fair return on his produce. In a predominantly agricultural country like ours, the need for protecting the interests of the cultivator, it is argued, is paramount. The examples of minimum and maximum prices of cotton, minimum prices of sugarcane and the minimum support prices of wheat, jowar, bajra, maize, gram and rice recently fixed by the Government are cited in this context.

Appendix No. A-1.

* Average of 1

6.4. The principle of fixation of minimum prices of agricultural commodities was accepted and advocated by the Prices Sub-Committee of the Policy Committee on Agriculture, Forestry and Fisheries as long back as 1947. The various meetings of the representatives of the State Governments, particularly of the State Agriculture Ministers held at Mussoorie in 1956, have time and again stressed the need for ensuring a minimum price of raw jute to the cultivators. Some of the State representatives have stated, rather emphatically, that unless a reasonable price is guaranteed to the grower of jute, it would be difficult to achieve the target of additional production envisaged in the Second Five Year Plan. It is also maintained by some that the demand for jute being dependent on the foreign demand for jute goods, which is subject to wide fluctuations, the cultivator of jute is more exposed than others to the vicissitudes of the international market and if jute production is to be protected against such vagaries of the market, it is necessary to ensure relatively stable prices of raw jute. Stable prices of raw jute, it is argued, will be welcomed even by foreign buyers who often suffer heavy losses from sharp speculative fluctuations in the prices of jute goods. It is also pointed out that the existing ban on the export of raw jute has cut off competition from foreign buyers and given virtual monopoly of purchase to the Indian jute mills. It is, therefore, a moral obligation of the government, which has banned export, to protect the jute growers from monopsonistic exploitation by fixing a minimum price for raw jute. Some advocates of the cause of the cultivator go even so far as to say that just as no industry can be permitted to exist on sweated labour in a welfare State, similarly it would be unjustified for an industry to exist on raw material which is produced by the sweated cultivator. They further maintain that the industry can and in fact does adjust itself to changes in cost and the fears of losing ground in world markets are greatly exaggerated.

6.5. **Relationship between Jute Paddy Prices.**—The relationship between the prices of jute and paddy is also a very important consideration because of the substitutability of these two crops. The investigations conducted by the Economic Research Section of the Indian Central Jute Committee show that the jute grower spends a major portion of the cash he gets by selling jute in purchasing paddy during the lean months before 'Aman' crop is harvested round-about November-December. The cultivator is therefore vitally interested in jute/paddy price ratio and it is this factor which largely determines his decision to grow more of one or the other crop. The statistical analysis of the prices and acreage of jute and paddy over a number of years shows that there is a close correspondence between the raw jute/paddy (or rice) price ratio and the acreage sown under jute. In fact a recent study on jute prepared by the F.A.O. demonstrates that even a simple linear relationship "when applied to the data (of jute/rice price ratio and jute acreage) does, in fact yield a relatively high degree of correlation"¹. A striking proof of the close relationship between the price ratio and acreage sown to the two crops is provided by the experience of 1953-54 when because of the fall in jute prices in 1952-53 season by about 45%, as against the decline of 30% in the case of rice, acreage under jute fell from 18 lakhs acres to only 12 lakh acres and the production of jute fell from 46 lakh bales to 31 lakh bales in one year. The acreage under rice during the same period went up by more than 3 million acres in the whole country and in West Bengal, the main

¹ F.A.O. Jute Survey, 1957, pp. cit. p. 21.

jute growing State, it went up by more than 3 lakh acres. The following figures for the last few years will further bear out the close relationship between jute and paddy (or rice) prices and their acreages:—

TABLE No. 14
Jute/Rice Price Parity and Acreages

(Thousand acres)

Crop Year	Jute/rice price parity before sowing time†	Area under Jute All India	Area under Rice—All India
1	2	3	4
1952-53	2.38 (3.57)	1,813	74,056
1953-54	1.11 (1.66)	1,228	77,318
1954-55	1.72 (2.57)	1,243	75,949
1955-56	2.41 (3.62)	1,739	76,253

NOTE.—Figures in brackets in Col. No. 2 show Jute/paddy price parity.

†Average for four months—January to April.

In view of such a great impact of price ratio on the acreage of the two crops, the need for maintaining a proper parity between the prices of these two competing crops assumes great significance.

6.6. The question of fixation of minimum parity prices of raw jute has been discussed on several occasions. The Flood Commission which examined the question in detail in 1938—40 recommended the fixation of a normal parity between jute and paddy prices. Although the Jute Enquiry Commission (1954) did not specifically recommend the fixation of minimum price of raw jute, it suggested, nevertheless, that a fair price of jute should be fixed and notified by the Jute Board before the sowing season. The fair price suggested by the Commission was to be worked on the basis of parity between prices of raw jute and jute goods. The Commission felt that “the notification of parity of fair price is of particular significance to the grower before the sowing season. It will give him a proper lead and its prescription would in itself improve the morale of the grower.”¹

6.7. Relationship between Raw Jute and Jute Goods Prices.—In is generally admitted that in view of our vulnerable position in the foreign markets, the fixation of a minimum or fair price of jute on any arbitrary basis would not be desirable. Of the total production of jute goods in the country, about 80% is expected and the increasing competition from

¹ Jute Enquiry Commission's Report—1954, p.76-77.

Pakistan and also Japan makes it imperative that the cost of the raw material which forms about 60% of the total cost of production of jute goods, should be at a competitive level. The maintenance of a fair relationship between the prices of raw jute and jute goods is, therefore, as important as the guarantee of a minimum or 'parity' price to the jute grower. Thus the main factors which have to be taken into account in the fixation of a minimum price of jute are: a reasonable return to the cultivator, a normal parity between paddy (or rice) and jute prices and a fair relationship between the prices of raw jute and jute goods. All these factors need detailed examination from season to season and only a permanent price fixing organisation will be in a position to examine them on a regular and scientific basis. We have, however, made an attempt to work out, by way of illustration, the broad levels of prices for raw jute on the basis of these three criteria.

6.8. Cost of Production of Jute.—From the cultivator's point of view, it is essential that a reasonable return should cover his cost of production plus a reasonable profit. Some studies have been made on the cost of production of jute by the Economic Research Section of the Indian Central Jute Committee. According to Indian Central Jute Committee's studies, the cost of production of jute in five selected centres during the last few years was as follows:—

TABLE NO. 15
Cost of Production of Jute

	[Rs. per md.]					
	1950-51	1951-52	1952-53	1953-54	1954-55	1955-56
Monoharpur (West Bengal)	49-7	28-3	34-5	28-3	28-2	30-4
Belakoba (North Bengal)	28-14	26-13	19-3	14-14	20-13	16-14
Purnea (Bihar)	26-0	26-13	17-3	17-1	14-0	15-2
Kendrapara (Orissa)	23-5	24-8	17-4	21-1	16-10	16-15
Nowgong (Assam)	25-0	33-9	22-3	17-5	18-1	21-9

6.9. It will be observed from the above table that the cost of production of jute varied widely from centre to centre. The maximum cost was in Monoharpur (West Bengal), while in Purnea (Bihar) it was the lowest. Most of the fibre grown in Purnea is of inferior variety and the cost of production figures for this area should be considered with reservation. Since the bulk of jute is grown in West Bengal, which is also proximate to the main consuming centre, Calcutta, the minimum price should cover the cost of production in West Bengal. The fibre grown in Monoharpur is, however, of a relatively better quality and appropriate adjustments may have, therefore, to be made for fibre of relatively inferior quality in fixing minimum prices. Account should also be taken of the fact that while cost of production in up-country centres is lower, the cost of transport from those centres to Calcutta is higher.

6.10. The second consideration in fixing a minimum price is the normal parity between jute and paddy prices. The Floud Commission considered 3 : 1 as the normal parity between jute and paddy prices while the

Jute Commission was of the view that "there is no special significance about the ratio of 3 : 1 which has prevailed mainly during the World War II. In fact, throughout the decade before the War, the ratio of jute to paddy prices was nearer 2 : 1." The comparison with what existed before or during the War may be of little practical significance now. Costs and prices have changed and have adjusted to new levels since the end of the War. It may, therefore, be more desirable to consider the conditions as exist at present than what prevailed about two decades ago.

6.11. Parity between Raw Jute and Paddy Prices.—We have examined the data for the last five years 1951-52 to 1955-56, as given in Appendix B-XVI which show that the average fair parity would be 2.7:1 between jute and paddy prices or 1.8 : 1 between jute and rice prices. During this quinquennium the ratio of raw jute to paddy prices varied greatly and its effects were reflected in significant changes in acreages sown under jute¹. Over 60 per cent. of the parity ratios in various centres during these years clustered within the interval of 2.1 to 3.3 and the midpoint of the central interval works to about 2.7. It will also be observed from these data the most favourable parity for jute as compared with paddy was in 1951-52 season—being 4.26 : 1—with the result that the production of jute in 1952-53 was next to the record production since partition. On the other hand, the parity was most unfavourable to jute during 1952-53 season—1.66:1—which had its repercussions on jute production in 1953-54 when it dropped by about 50 per cent. as compared to the previous year. The parity again improved slightly in favour of jute during 1954-55 season and the production of jute in 1955-56 went upto nearly 42 lakh bales as against 29.28 lakh bales in the previous year. It will thus be seen that the production of jute received considerable stimulus when the price parity was more than 3:1 as compared to paddy. In fact, the parity price, in 1951-52 which was responsible for almost record production in the following season, was about 4.5 : 1 in West Bengal, 3.1 : 1 in Assam and 4.5 to 4.75 : 1 in Orissa, as compared to paddy.

6.12. The surveys conducted by the Economic Research Section of the Indian Central Jute Committee in the following five centres reveal that the parity between jute and paddy prices during 1954-55 was 2.8 while in 1955-56 it was 2.63:—

TABLE NO. 16
Jute Paddy Price Parity

Centre.	1954-55	1955-56
Monoharpur (West Bengal)	2.57	2.37
Belakoba (North Bengal)	3.01	2.79
Purnea (Bihar)	2.59	2.52
Kendrapara (Orissa)	4.91	3.84
Nowgong (Assam)	2.28	2.44
All centres weighted average	2.80	2.63

¹ In the absence of paddy prices, calculations have been made with rice prices of coarse variety and the ratios have been converted in terms of paddy i.e., $1\frac{1}{2}$ times of rice.

6.13. It is also interesting to note from the following figures collected by the Indian Central Jute Committee that the ratio between cost of jute and paddy in these centres was more than 2 : 1 during these two years:—

TABLE NO. 17
Jute Paddy Cost Ratio

Centre	1954-55	1955-56
Monoharpur	1.84	2.62
Belakoba	2.19	1.99
Purnea	1.19	1.54
Kendrapara	2.42	2.59
Nowgong	1.68	1.85
All centres weighted average	2.09	2.63

6.14. Though the cost ratio is a little lower than the price ratio between jute and paddy, it may be noted that the paddy grower has to put in less effort and bear less risk and trouble compared to the jute grower on account of the very nature of the two crops. Since jute requires a greater input of human labour, the proportion of hired labour used in jute is higher than in paddy and this involves a higher paid operational cost for jute as compared to paddy and requires a substantial investment both in the total as well as in cash. These factors, among others, explain why a large shift from paddy to jute cultivation is not possible unless the parity is significantly in favour of jute.

6.15. A fair relationship between raw jute and jute goods prices is no less important. The Jute Enquiry Commission felt that when the price of 100 yards of Hessian 40"×10 oz. was Rs. 44 to Rs. 46 and of Sacking (per 100 bags) was Rs. 108 to Rs. 114, the fair price of jute would be between Rs. 24 to Rs. 26. Assuming that this was a reasonably correct assessment based on the detailed analysis of the cost of production of jute goods, the fair price of jute since the Commission reported would have been as follows:—

TABLE NO. 18
Fair Price of Raw Jute on the basis of Jute Enquiry Commission's Formula

	1954-55	1955-56	1956-57*
Average price of Hessian 40" × 10 oz. per 100 yds.	44 13 0	39 9 0	42 7 0
Fair price of raw jute	23 6 0	21 9 0	23 2 0
	to 25 5 0	to 22 6 0	to 24 1 0
Average price of Sacking B Twill per 100 bags.	117 9 0	109 9 0	112 10 0
Fair price of raw jute	24 12 0	23 1 0	25 0 0
	to 26 13 0	to 24 15 0	to 25 11 0
Actual market price of raw jute			
Assam (Bottom, Calcutta)	29 11 0	27 4 0	30 7 0

*Average of 10 months—April—January.

6.16. In the above table, the actual market prices have also been given separately for purposes of comparison. It will be observed that on the basis of the formula suggested by the Jute Enquiry Commission, the actual market prices which prevailed during 1954-55, 1955-56 and 1956-57 were higher than those which would have been regarded "fair." This obviously, shows that the industry has been able to pay a substantially higher price than what was considered "fair" by the Jute Enquiry Commission. It has been argued by some that as a result of higher price of raw jute the mills have suffered losses and some of them have closed down recently. We understand, however, that the closure of some of the mills in recent months was really due to reasons other than high cost of raw material. In any case, the fact that the industry has been able to export more jute goods in recent years and has maintained its competitive position in world markets even after paying a higher price of raw jute, compared to what was considered fair by the Jute Enquiry Commission, shows that the "fair" price indicated by the formula suggested by the Commission was an underestimate, to the extent of Rs. 4 to Rs. 6.

6.17. 'Minimum', 'Reasonable' and 'Fair' Prices of Jute.—From the foregoing analysis there emerge a few sets of prices of raw jute which may be regarded as 'minimum' from the cost of production angle, 'reasonable' from parity ratio point of view and 'fair' in terms of relationship between raw jute and jute goods. These are indicated below:—

TABLE NO. 19
Price of Jute on three Different Basis

	Cost of production			Jute/paddy parity basis			Raw jute/jute goods relationship basis								
	(a)			(b)			J.E.C.'s formula (c)			On the basis of current year's price of jute (d)					
	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.
1954-55	28	3	0	27	11	0	25	0	0	32	0	0			
1955-56	28	2	0	32	0	0	23	0	0	29	0	0			
1956-57	30	4	0	34	2	0	24	8	0	30	7	0			

(a) Cost of production figures are based on I.C.J.C.'s survey and relate to Monoharpur Centre.

(b) These figures have been worked out on the basis of jute/paddy parity ratio of 2.7 : 1 or jute/ricc parity ratio of 1.8 : 1.

(c) The figures have been worked out on the basis of the formula suggested by the Jute Enquiry Commission for determining a fair relationship between jute/jute goods prices.

(d) The figures have been worked backward on the basis of current year's 1956-57 prices of raw jute at Calcutta (average for 10 months—July to April).

6.18. The three sets of figures given in the above table vary widely. The price of jute as indicated by the cost of production may no doubt be the rock bottom below which it should not be allowed to fall. But since cost of production varies widely from place to place it cannot by itself be a firm basis for price fixation. The reasonable price based on jute/paddy price ratio is the one which will maintain the desired cropping pattern. The 'fair price' based on the price of jute goods, on the other hand, indicates in a way the limit upto which raw jute prices can go without adversely affecting the competitive position of our jute goods in the world markets. In effect, therefore, all the three sets of prices will need careful consideration before a minimum support price can be announced and enforced by the Government. Moreover, in fixing the actual level of the minimum support price in a particular year factors like market conditions, cropping pattern desired at a particular time, etc., will have also to be taken into account besides the above three sets of prices.

6.19. **Minimum Prices in up-country Markets.**—The minimum price of jute at up-country centres will naturally be lower than the minimum price at Calcutta, suggested above. Normally, the difference between the minimum up-country price and Calcutta price should be indicated by the transport charges from village to market and from market to Calcutta. According to a survey conducted by the Economic Research Section of I.C.J.C., these transport charges in 1955-56 in a few up-country centres were as follows:—

TABLE NO. 20

Transport Charges from Up-country Markets to Calcutta during 1955-56

Secondary market	Transport & other costs from village to markets		Cost of transport to Calcutta (including Calcutta expenses)		Total	
	Rs.	a. p.	Rs.	a. p.	Rs.	a. p.
Sheoraphuli (West Bengal)	0	4 0	0	13 0	1	1 0
Belakoba (West Bengal)	0	3 10	2	12 8	3	0 6
Purnea (Bihar)	0	2 4	2	4 2	2	6 6
Danpur (Orissa)	0	5 10	2	0 5	2	6 3
Nowgong (Assam)	0	5 0	4	2 1	4	7 1

This, while considering the factors for determining the minimum price of jute to be guaranteed to the grower, the cost of transport from the up-country centres in a State to the main consuming centre, Calcutta, will also have to be taken into account by the authorities concerned and adjustments made accordingly.

6.20. It is easy, however, to fix and announce a minimum support price of jute. The difficulty arises when this price has to be enforced in practice. One of the main objections put forward by the Chairman of the Indian Jute Mills Association against the fixation of a minimum price of jute was that it would be difficult to enforce it in practice. While we fully realise the practical difficulties in enforcing any minimum price, it seems to us, that they are not insuperable and in any case not more difficult than for cotton for which minimum and maximum prices are being fixed.

every year as a matter of routine. In fact, minimum and maximum prices of raw jute used to be fixed by the Government during the War period, though this was done more from the point of view of preventing prices from going above a certain level than for protecting the interests of the cultivators by not allowing them to fall below a minimum level.

6.21. Methods of Supporting Minimum Prices.—In case minimum support prices of jute are now fixed by the Government, they can be enforced if need arises, in several ways. In practice, however, we feel that the possibility of the Government being required to enter into the market for supporting the price at specified minimum price is not likely to arise in the present circumstances. In our view, the mere announcement of the minimum prices should tone up the market and keep prices well above the minimum. If, however, prices do sag and tend to fall below the minimum level, either of the following methods can be considered for action.

6.22. Buffer Stock Operations.—The most effective method of supporting prices is what is known as 'buffer stock operations'. In this case the Government organisation enters into the market and buys the commodity on its own account at the specified minimum price and thus checks them from falling below that level. This, however, requires a certain amount of working capital and adequate warehousing facilities. This method was followed successfully in the case of foodgrains in 1954-55. If the experience of the foodgrains is any guide, it is unlikely that for imparting the necessary strength to prices, more than 2 per cent. of the total production of raw jute and mesta will have to be bought by the Government at any time. This will require a working capital of about Rs. 2 crores. There is little possibility of incurring a loss in these transactions for it is more likely that jute would, ordinarily, be sold late in the season at higher prices than those at which it would have been bought and the organisation may, in fact, make some profit. Even if some loss is incurred by way of storage charges, administrative expenses, wastage etc., the amount involved is unlikely to be more than 1 to 2 per cent. of the total outlay, *i.e.* roughly about Rs. 2 to Rs. 4 lakhs. This, by no means, is a large amount and can be treated as subsidy by the Government to the grower of raw jute. In all likelihood, the eventuality of incurring a loss on the buffer stock operations will not arise so long as the internal supply continues to remain short of the demand.

6.23. Purchase by Co-operative Marketing Board or a Marketing Association.—In case the Government itself does not want to undertake the buffer stocks operations, the work can be entrusted to a Co-operative Marketing Board or a Marketing Association of the trade or of mills which would purchase raw jute from the cultivators at the specified minimum price, wherever necessary, hold stocks at appropriate stages in the process of marketing and sell them in the market so as to maintain the prices within the range fixed by the Government. The State can exercise supervision over such a body and if need arises make good the loss it may suffer in the process. In this case the Government would not have to find the working capital and as the possibilities of a loss are remote, it may, in fact, achieve the purpose by simply announcing the prices of raw jute and entrusting the work to an independent organisation.

6.24. Buying Programme of the Mills.—An indirect method of enforcing minimum prices is to lay down a buying programme for the mills so that specified quantities are brought by them according to a fixed time table.

This would discourage their tendency to keep off the market during the harvest time. Such a scheme was worked in 1940-41, when, in pursuance of a decision reached between the Government of India and the Indian Jute Mills Association, the latter agreed to recommend to its members the adoption of a buying programme upto a specified quantity according to a fixed time table. It was also agreed at that time that any deficiency in the purchase by the mills was to be made good by maintaining purchases by the Government of Bengal (which eventuality, however, did not arise as the announcement of the buying programme by Indian Jute Mills Association itself produced a stabilising effect on prices). The buying programme can either be worked voluntarily or statutorily if necessary. In our opinion, voluntary efforts of the Indian Jute Mills Association, which is an enlightened body, would serve the purpose and it may not be necessary for the Government to prescribe a buying programme statutorily. The buying programme have to be supplemented by a proper stock policy of mills as well as import policy with regard to raw jute. We have discussed these aspects of the problem elsewhere in the report.

6.25. Need for watching the Situation.—We recognise that for various reasons it may not be possible for Government to fix statutorily the minimum price of jute. Nevertheless, it will be necessary to calculate the minimum price of jute every season for the purpose of the implementation of Government's announcement dated the 14th June, 1957 referred to earlier. If market prices tend to fall below the minimum, the Government may take one or more of the measures suggested above for ensuring economic price to the grower. This will have the advantage of avoiding any statutory obligation on the part of the Government to enter into the market and buy jute on its own account, and at the same time achieve the object of protecting cultivators' interests. We may add, however, that if minimum price for rice is fixed in pursuance of the Governments' announcement dated the 14th June, 1957 referred to earlier, fixation of minimum price for jute at a corresponding parity may become necessary if jute production is to be stepped up.

6.26. Pakistan's Price Policy.—It would not be out of place to mention here the recent decision taken by the East Pakistan Government to set up a Jute Marketing Corporation with an authorised share capital of Rs. 8 crores. The Government of Pakistan would contribute about Rs. 2 crores towards the share capital of the Corporation. The Corporation, whose aims and objects are to ensure fair prices to the jute growers and bring about stability in the jute market, is expected to start open market operations from 1st July, 1957. It would not be a profit making concern and the transactions will be on the basis of minimum rock bottom prices to be determined by the Government for season in relation to the export minimum prices which will be fixed by the Government. This indicates that the Indian jute mills may have to pay a higher price of jute as may be determined from time to time by the Pakistan Marketing Corporation in the interest of their own cultivators and economy. Obviously, the effect of this would be far-reaching on our competitive position in world markets *vis-a-vis* Pakistan. The need for stepping up our internal production of jute as early as possible becomes, in this context, very pressing and the desirability of giving proper price incentive to the cultivator for this purpose becomes all the more urgent.