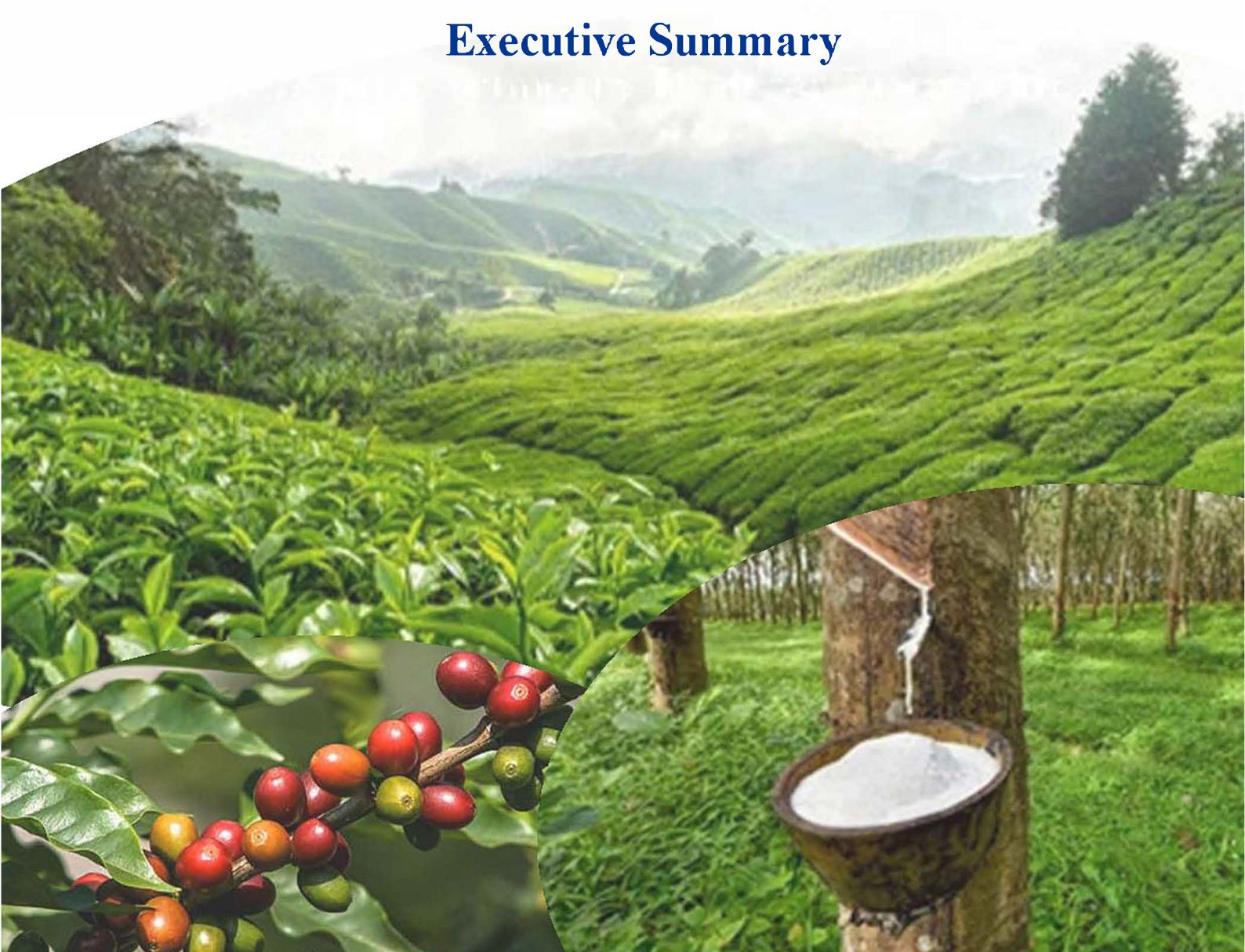




Department of Industries & Commerce
Government of Kerala

Study on Diversification and Modernization of the Plantation Sector in Kerala

Executive Summary



September 2024



भारतीय प्रबंध संस्थान कोषिकोड
Indian Institute of Management Kozhikode
Globalizing Indian Thought

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September 2024

Prof. Ashutosh Sarkar

Prof. Venkataraman S

Executive Summary

The plantation industry has been a pillar of Kerala's economy and employment base for several decades. It also plays a crucial role in Kerala's environment sustainability map, having contributed to the maintenance of a relatively strong green cover for the state, significant in proportion to the overall land area, as compared to many others. In the backdrop of Kerala's ingrained and acknowledged orientation to being labour friendly state, the plantations also traditionally played a major role in being a major employer and thereby opportunities for many unskilled and skilled labour.

Some of the issues confronting the sector are chronic. But the generally more munificent external environment in the latter half of 1900s allowed many of the sector players sufficient margins to tide over these issues. However, the uncertainty and volatility in global prices of the plantation crops have significantly raised the business and financial risk exposure of this sector, leading to dwindling revenues and profitability, over the last decade or so. In addition, the sector's operating context in Kerala including labour related issues, inflexibilities in legal dispensations, and several ground-level administrative impediments, have combined to contribute to the sector's declining competitiveness. This context has also led to a vicious cycle – weak prospects leading to poor investment attractiveness and degradation in the produce and returns, further hindering the much-needed investments required for competitiveness.

On account of sheer size and share of cultivation/production, Rubber is the most impactful of all the plantation crops for Kerala. So, Kerala plantation sector's overall economic fortunes are significantly and inextricably linked to the economic prospects and problems of its rubber plantations. While the plantation crops in Kerala have been impacted due to global market linkages as well as internal issues, the biggest impact in overall output and revenues has been on account of rubber. Individually taken, crops like tea and coffee have of course struggled over the past decade or more, and at times perhaps even more than rubber; however, considered in aggregate, Rubber is the key crop in Kerala that makes a difference. **Consequently, while all the crops are important and have their specific issues to be addressed, to make any significant difference to the overall sector economics, the issues pertaining to rubber plantations definitely need to be addressed.**

If this overall situation is allowed to continue, what was once a preferred and thriving sector will likely become a sunset sector. Such an eventuality can have disastrous consequences not just for plantation owners but for the whole state of Kerala. If the plantations go into a state of disuse and abandonment, large number of jobs could be lost and there will also be significant loss to the exchequer. Moreover, there could be severe environmental damage, as the Government is no condition to be able to operate these plantations in a viable manner, as the past has demonstrated. Therefore, **there is a dire imperative for a clear vision and a roadmap for the strategic revival of the Kerala plantation sector. The study team's recommendations are presented in this context.**

Key problem issues

The key issues identified in the case of Kerala plantation sector, can be summarized as follows:

1. The economics of plantations highlight that the core issue is fundamentally that of **reducing profitability, and increasing operating/ economic risk exposure**, rather than one of fundamental unviability. However, the current state of economics has had a significant impact on the sector's vulnerability and its ability to make continued investment that is critical for scale and modernization.
2. **The sector players have become more of price takers rather than price setters, because of weak market connect, limited scale, and their inability to harness any uniqueness or go up the value chain.** Lack of concerted and cooperative efforts towards brand building, or towards creating collective resources, has not helped build this competitive dimension.
3. **Archaic and inflexible legal provisions and the constraints of operating within a cumbersome operating framework**, further exacerbated by constant ground level interferences and bureaucratic activism combine to create a highly unattractive and invariably hostile business environment. While the need for maintaining checks and balances is necessary to weed out undesirable and illegal practices, or to prevent opportunism, are undeniable, there is equally also a need for a drastic mindset change in the administrative network relevant for plantations.
4. Only prosperity can beget prosperity. In the case of plantations however, rising costs of operations, on account of falling yields/productivity, labour costs and the unfriendly operating environment have led to a situation where despite mandatory requirements, the plantations may be driven to cut corners if they can. They may be constrained to operate in ways whereby, while they may be correct by the letter of the law, the spirit is missing, and overall labour welfare may be hampered. This also creates huge risks to jobs and far worse, even endanger lives. For strong labour welfare, labour prosperity and shared value creation to happen in plantations, the root causes need to be addressed.
5. **Preservation and conservation:** Many of the issues indicated above are directly or indirectly related to the aspect of ecological degradation – whether it is the issue of poor economics, regulatory issues, bureaucratic activism, lack of investment attractiveness, human-animal conflict, or the issue of mono-cropping. Therefore, any roadmap or recommendations for the future, need to also take into consideration centrally, the environmental aspects and impacts.
6. **Labour Welfare:** Labour is central to plantation operations, especially Kerala being a model state in the context of labour welfare. It needs to be ensured that the matter of revitalizing the plantation sector also ensures the continued welfare of labour. To this extent, the Government can also consider taking an active role in terms of allowing steps such as bringing the plantation workers under ESI schemes.

The IIMK study team's approach to forgoing recommendations are predicated on seeking to address the above key problem issues. To address the above issues, a concerted and holistic approach is required to moderate the sector's inherent risk exposure and elevate its economic prospects, to enable the Kerala plantation sector to live up to its potential of being a significant employment generator, and an environmental and social sustainability champion.

Principles Underlying Recommendations

To address the above issues that have led to a critical situation for the plantation sector, **a vision-driven strategic approach is the need of the hour**. Kerala has the potential to **reclaim a prominent competitive position** in many of the current plantation crops as well as new crops such as tropical/exotic fruits, where it enjoys a natural advantage. To achieve this vision, **the current policy dispensation and operating framework/dispensation needs review**, to bring it in harmony with the altered economic and social landscape. In line with the above vision, we recommend that the renewed policy recognize the **following principles underlying this study's recommendations**:

1. **Scale economies, balanced modernization and regular investments** are critical to enable plantations to operate with optimal costs and to reclaim competitiveness in the global markets.
2. The revised policy framework needs to **drive and facilitate economic flexibility, growth and competitiveness** while also **balancing protection of the environment, flora and fauna, and animals, and ensuring labour welfare**.
3. Further environmental degradation (than already done) must not be allowed, and **Government and plantations need to work collaboratively to ensure environmental restoration and well-being, and strong carbon sequestration, to help reduce risk of climate-linked disasters**.
4. Kerala's labour-welfare oriented social and political climate is a long-standing legacy and is progressive to the extent that it helps counter potential labour exploitation; but it also has unwittingly created a broader sense of entitlement and frequent hurdles for industrial advancement. For plantations, this welfare legacy and culture needs to be channeled in a positive and collaborative manner, to **correctly ensure healthy/safe working conditions and a progressive and non-exploitative remuneration/compensation framework that allows strong shared value creation**. However, **this legacy welfare culture also needs to be consciously balanced with near-full freedom for plantations to modernize operations and usher in efficiency and productivity improvements**. Otherwise, plantations will find it challenging to survive in a globally competitive context, if they are held to ransom at every turn, for every investment aimed at efficiency and modernization. This is a **delicate "tightrope walk", that requires the Government to take on a facilitating role** and is crucial.
5. Facilitation of enhanced operating efficiency needs to be supplemented **with a concerted and well-conceived branding programme**, to create a stronger positioning for Kerala produce,

especially in products like Tea, Coffee, and Cardamom. The same approach can also be extended to exotic tropical fruits, once there is the possibility of greater scale of production.

6. Greater value appropriation from farm produce needs to be encouraged **through a thrust on value-added products**, wherever relevant.
7. The implementation of the policy needs to be driven by a **strategic, state government-level consensus on a masterplan like approach**. The execution needs to cut across any potential biased departmental positions and ensure that resolution of issues balanced and swift.

Specific Recommendations

The revised policy framework for plantations may be grounded in the fundamental principle of the need for overall business resilience, as well as all around sustainability, including protection of ecology, social welfare and protection of all flora and fauna. Accordingly, the renewed policy may *inter alia consider* the aspects listed below:

Crop Diversification

1. Crop diversification, particularly regarding tropical/ exotic fruits may be allowed. For such diversification to be meaningful for risk diversification, growing at scale is critical and may be allowed.
2. Specific choices of fruit crops (within an allowed and declared list of crops) may be left to the farmers/plantation owners, giving them full freedom, to enable them to adapt in an agile manner to global market trends, without any micro-management by the Government. This flexibility that is accorded for the purpose of ensuring business agility and business risk diversification should not compromise environment/ ecology in any manner, including biodiversity. One principle that needs to be strongly considered is that such **diversification be allowed only for crops having a minimum life of 10 years; this will ensure sufficient carbon sequestration, and therefore contribute to environmental sustainability and net-zero goals.**
3. In line with the above recommendation, farmers/planters should also be allowed the freedom to switch between crops as they deem fit from time to time, without any needless bureaucratic interference, so long as such switching is within the already laid down choices of crops as above.
4. **Silviculture/Agroforestry to be encouraged as part of diversification, subject to checks related to any biological risks that may be posed by introduction/expansion of such wood varieties.** To facilitate timber trade and revenue to the Government exchequer, the seigniorage fee as practiced may be replaced with GST. Promoting silviculture would not only help Kerala economically but also increase carbon sequestration.
5. To facilitate the above, **the existing definition of plantation need to be expanded to include any crop having a minimum life of 10 years.** This would also facilitate multi-cropping and sequester atmospheric carbon.

Leveraging Scale Economies & Value Addition

1. Encourage Diversification, Scale and Value Addition.
2. Introduce policies to encourage Farmer Co-operatives and Farmer Producer Organisation (FPOs) to create shared facilities for farmers with small holdings. This will enable small farmers to reap the benefit of scale without the need to individually invest in capital intensive facilities.
3. Encourage Public-Private Partnerships, especially for promoting a premium positioned and geographically tagged “Kerala brand” in products like fruits, spices etc. This will reduce the individual burden on small farmers, while allowing them to offer value added products, especially for the export markets.
4. Value addition and economies of scale needs to be encouraged but can be done creatively.
5. Sustainable farming and good agricultural practices may be hugely encouraged and non-sustainable practices/ heavy chemical need to be disincentivized.
6. **Government may provide brand building and support** and facilitate Geographical tagging to promote a **Kerala-linked brand** for several crops. Brand building and positioning to be promoted in a creative manner, and facilitated by the Govt. of Kerala, in conjunction with the farmers. The aim of such intervention should be facilitation, and not standardisation that curbs individual creativity.

Government in the Role of a Facilitator rather than an Administrator

1. The current bureaucratic interference is partly due to the 5% relaxation given for diversification. **If full freedom is granted to farmers for crop diversification, this issue of interreference can be significantly reduced.**
2. Single window clearances may be introduced to enhance ease of doing business.
3. **Reduce/ Eliminate** the possibility of **administrative interference at ground level. There can be well-conceived regulations**, which are clear, and detailed, **but they need to be administered with a light hand**, so that the business environment does not emerge as hostile.
4. One of the major bureaucratic interferences is due the efforts in identifying, assessing, and conversion of excess land that is exempt under KLRA because they are considered as plantation land (referred to as “excess plantation land” hereinafter). This not only creates difficulties and uncertainties for the planters but also adds to significant administrative efforts. To ensure that bureaucratic hassles are eliminated, and that exempted land remains as plantation, **it is recommended that a separate land classification be made for excess plantation land.** Classifying excess plantation land as separate from the ownership of such land would help easy identification and make implementation of the KLRA easy, with minimum administrative control and effort. **Such classification would also remove ambiguities about the identification of plantation land under the Kerala Forest Act 2003.** The ownership of plantation land, under such a dispensation would essentially mean buying of right to earn revenues by way of engaging

in plantation activities. **However, reasonable control may be put on conversion of such land (classified as plantation) for exceptional circumstances.** Conversion of such land could be allowed in exceptional instances, such as for projects of national importance after ensuring reasonable compensation to the planters as well as equivalent amount of afforestation.

Labour Welfare

1. The **scope of ESI may be extended to all plantation workers**, with due contributions maintained from both employers and employees.

Preservation and Conservation

1. The planters/farmers have faced harassment and arbitrary actions under the Kerala Forest Act 2003, which interestingly provided for exemption for plantation land. While the implementation of the recommendations of this report on a separate classification for plantation land would remove many bureaucratic hassles and arbitrary actions by Forest Department taken primarily on the argument of being a fallow land or abandonment of plantation activities, the greater concerns of the risks posed by an ecologically fragile areas would remain. Whereas the justification for protection of ecologically fragile land cannot be disputed, the arbitrary implementation and actions at the ground can threaten the economic viability and investments without seriously benefitting preservation and conservation. Thus, Government should ensure that while declaring a plantation land as ecologically fragile, such decisions are taken based on an objective and independent evaluation.
2. Preservation and conservation might not have been the focus of the law makers when the KLRA was originally enacted. However, with greater and legitimate concerns currently prevalent on account of the dangers of degradation of environmental and ecological balance, **preservation and conservation should also be at the forefront of policy making considerations.** So, this study recommends that an independent research institution be created with a mandate to regularly map the ecological environment of Kerala. The Government can seek help of such a research institution in formulating good practices for plantation activities including preservation of wildlife and rare and endangered species. As such, an institution of this kind would be a unique and serve as a model that can be emulated by other states, and the Kerala government may also seek funding support from the Union Government for establishing such an institution.
3. Government should **encourage multi-cropping on plantation land.** It is also recommended that reasonable restriction be put on clearcutting and promote the practice of optimal crop planning as part of agricultural best practices.
4. Kerala Government should take initiatives to earn carbon credits for its preservation and conservation efforts.

5. Kerala Government may seek monetary compensation from the Union Government for its preservation and conservation efforts at the cost of foregoing economic opportunities that can be received through industrialization and urbanization.
6. **Additional buffer zones may be created in a collaborative manner by planters and Government, that will allow a large area/ domain for wild animals than available at present**, especially in areas where there is significant human-animal conflict. While such a zone may be contiguous across parts of the state, multiple buffer zones may also have to be created. For this to happen, existing plantations, big and small may have to mandatorily sacrifice part of their land holdings in larger interest to create this new buffer zone. Such extraction of existing land may be reasonably compensated by the Government and the Government can further add on to the buffer substantially through its own plantation holdings.
7. If such additional buffer-forest zones are created and populated with the correct kind of flora, it can also introduce the possibility of a common resource of *wildlife safaris* - This can add an impetus to eco-tourism initiatives.
8. There is the risk of fragmentation of land that arises when the private plantation land gets passed down through natural succession and inheritance. This can ultimately lead to scale dis-economies and conversion of plantation land for non-plantation purposes, as they would be freed from the purview of land ceiling restrictions. **To reduce this risk, it may be ensured in the policy framework that even if plantation land gets distributed down generations, the use of such inherited land must be only for growing plantation crops**. This is because plantations serve a critical role of contributing to green cover and carbon sequestration - aspects that are much needed in today's context where climate change related risks threaten the very survival of humanity. Although this purpose may not have been explicitly articulated in the original Land reform Act / KLR dispensations that allowed special allowance for plantation lands to be exempted from the 15 acre land ceiling, it is imperative to recognise and impute this objective retrospectively to plantations. This is a complex issue involving multiple perspectives and finding perfect solutions to this issue is challenging. However, creative approaches may be considered to ensure this objective, while also maintaining the natural economic right of plantation owners and their heirs. Corporatisation of plantation holdings is one way of addressing this issue, wherein beneficial interest in the land can be maintained while the commercial and plantation-characteristics of the land stays unchanged.

Promoting Eco-tourism

1. **Eco-tourism may be encouraged as part of diversification - but within clear limits to ensure that the green cover and “character” of plantations are maintained.** However, in the name of eco-tourism, the allowances granted should not lead to “concretisation”, or competitive crowding/ degradation, as has already happened in locations like Munnar.
2. There are already certain allowances for eco-tourism in the current legal framework (10% of 5% of plantation holding, with a maximum 10-acre limit). While these appear to be reasonably adequate for medium to large sized farms, there is a case for reviewing the same, mainly to allow smaller farm holders to operate tourism facilities with a minimum scale. **However, any such review or relaxation of allowances from the present, need to be part of the development of a concerted tourism masterplan at the state level.** This is needed to ensure that the individual tourism related initiatives develop in a harmonious and synergistic manner, and that parts of plantations do not over time get converted to “concrete jungles”, depleting the green cover. If there are no checks and balances, there is a clear and present danger of such crowding and degradation, as also of haphazard development. **A tourism masterplan, with a clear mapping of plantation regions and localities, and the creation of enabling transport infrastructure etc. needs to first be in place, before any further allowances be granted,** as otherwise it would turn out to be arbitrary.
3. The principle underlying facilitation of ecotourism should be more about complementarity with plantation business and a facilitation of brand building for plantation produce, and not as much about revenue risk diversification, by foraying into the hospitality business. **Therefore, any ecotourism allowance must ensure that the fundamental character of plantations be maintained.**
