

Agricultural Produce Marketing

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In order to understand the nature of the Indian economy, significant attention should be paid to marketing the agricultural produce in a country where more than 60 % of the population is agrarian in nature.

This study focuses on the nature and functions of the Markets that are regulated by the Government and are often referred to as the Regulated Marketing Committees. The agricultural marketing board in Tamil Nadu establishes these. The study is restricted to Erode district in Tamil Nadu and concentrates on the regulated market in Avalpoondurai, which comes under the Erode Agricultural Produce Marketing Committee.

I have studied the functions and powers of these Agriculture Produce Marketing Committees (APMC's) and have attempted to analyse the extent of government intervention in the day to day functioning of the market activities and the outcomes of such policies. The study finally contrasts the observed results with the intended goals, where I have highlighted the informal market that is thriving along with the formal markets¹ as a consequence of the government tax policies. The factors that set apart the Avalpoondurai regulated market have also been discussed.

Methodology

The players who were taken in to account were farmers, small and large-scale traders, government officials in the regulated market committee, mill owners and the workers in the these mills. The study was not restricted to any particular sample size but was undertaken till saturation point was reached in response. The interviews were conducted in the lines of an informal questionnaire. Quantifying the extent to which the informal trade was happening was extremely difficult, partly because of the resistance shown in revealing actual details, so I had to settle for approximations that were quoted by many people.

Powers and The Functions of The Marketing Committees

Agricultural Marketing got governments attention as early as 1922, when the government appointed a 'Royal Commission' that recommended the formation of Regulated Market Committees in various states. The commission's recommendations regarded that these regulated markets will enable the farmer to sell his produce without any middlemen in the process of the sale, without any discards² and fetch a good price for at the correct weight, which would be ensured by the competition among various buyers.

Following these recommendations, Chennai commercial Agricultural Produce Marketing Act 1933 was passed in 1933. Tirupur, now widely known as the '*Baniam city*' in Tamil Nadu, was where the first ever Regulated Marketing Committee was formed in 1935; cotton, groundnut and tobacco were the notified crops. After independence, in 1959, Agricultural Produce Marketing Act was enacted to overcome the shortcomings of the pervious Act. Later the Tamil Nadu Agricultural Produce Marketing (Regulation) Act of 1987 was established and this came into effect from 1st February 1992. The intentions of this Act is establishment and proper administration of markets for agricultural produce in the state of Tamil Nadu and thus better regulation of the buying and selling activities of the agricultural produce.

¹ Informal markets refer to the market for the particular commodity other than the regulated markets. This includes direct procurements, procurements through commission agents etc.

² Discards here refer to a practice by which the buyer will quotes a price after assuming that a certain percentage (per quintal or per hundred pieces as the case may be) as pieces that will have to be discarded, without actually going through the entire purchased commodity. This approximation practice is prevalent even today in the informal markets

Establishment of Regulated Markets and Its Functions

I have attempted to closely examine the functioning of the regulated markets that are established by the market committee. The process of establishing the market committee requires the government to notify the particular area about its intention to regulate the marketing of the agricultural produce³. The Act specifies that the government shall establish a market committee for every notified area and every market committee shall establish in the notified area such number of markets providing such facilities, as the government may, from time to time, direct for the purchase and the sale of the agricultural produce⁴.

These regulated markets may have one or more subsidiary markets⁵ under them. The notification has significant importance in the way the markets function. The free play of the demand and the supply forces is checked in these areas. As per the Act⁶ no person within the notified area shall-

- a) Set up, establish or use or allow to be continued any place for the purchase or sale, storage, weighing, measurement or processing of any notified agricultural produce, or
- b) Operate as a broker, weigh man, measurer, trader, warehouseman or any other capacity in relation to the buying and selling of any notified agricultural produce except under, in accordance with the conditions of a license granted to him by a market committee.

This means no one is allowed to purchase and store agricultural produce except for domestic consumption or for own usage as seeds. The market committee requires all the trade that takes place in the notified area must be within the knowledge and its permission. The Act notifies around 40 agricultural products. The formation of a regulated market is also carried out on the basis of request of the producers following which the viability is examined and the regulated market or a sub yard is established. Any producer can bring their produce on the day of the market activity and sell it.

Some of the markets are daily markets; as in the case of turmeric and whereas others are weekly markets like the coconut market in Arachalur. Some of them are even biweekly. Number of days the market functions is predominantly determined by the season. Products like copra have biweekly markets during the heavy season and weekly markets during off-season when the arrivals are normally low.

The market committee also extends a lot of welfare schemes for the farmers, which include pledge loans, stocking facilities, free health care facilities, free weigh bridge and free drying yards.

The licensing procedure is surprisingly simple and it does not take more than a day or two to have the license in your hand. The license fees for various categories are mentioned below:

³ Tamil Nadu Agricultural Produce Marketing (Regulation) Act 1987, chapter I, section 3 (1)

⁴ Tamil Nadu Agricultural Produce Marketing (Regulation) Act 1987, chapter II, section 6 (1)

⁵ Mentioned as sub yard of the main market.

⁶ Tamil Nadu Agricultural Produce Marketing (Regulation) Act 1987, chapter II, section 8(1) (a) and (b)

Table 1: License fees for various categories

Category	Time period	License fees
1. Whole sale trader (transactions above Rs.25 lac per annum)	Once in 3 years	Rs. 300
2. Other traders (transactions between Rs.5 -25 lac)	Once in a year	Rs. 75
3. Small traders transactions up to Rs.5 lac	Once in a year	Rs. 25
4. Weigh men	Once in a year	Rs. 25

Case Study: Avalpoondurai Regulated Market

Avalpoondurai Regulated market is one among 270 regulated markets in the state that come under the Erode market committee.⁷ It was a sub-yard for the Erode Regulated market till 1983; later it became an independent regulated market. At present it has one sub market, which is located at Arachalur.

Avalpoondurai Regulated market covers an area of 6.44 acre and houses 10 go-downs, drying yards, a weighbridge and free Sidhaa nursing home for the farmers. It is one of the largest regulated markets in Tamil Nadu for copra, although other produces such as coconut, groundnut, and gingiley are also marketed.

In a nutshell, the Avalpoondurai and its surrounding villages house countless coconut trees and agriculture is the prime occupation. It is located 45 kilometres from Kangayam, which is widely known for its 200 odd oil mills⁸. The market operates two days in a week. The copra market is held on Friday and the coconut, groundnut markets on Saturday and gingiley market is on Tuesday. If the arrivals of any commodity increase, the market for that commodity is held separately on one of other days.

The guard at the gate first registers the commodity⁹ brought and the details are registered. These details include the vehicle's register number, name and address of the producer and the number of bags. There is no entry fee and the producers start bringing their produce from Wednesday onwards for the Friday market. They stock their produce for free till the market day. No vehicle is allowed to leave the premises without the permission of the authorities with baggage. The bags are lined up and on the market day, all the bags are emptied one by one and are repacked making sure that the quality of the item is uniform. This system was brought into practise because of the discontentment of the buyers due to the variation between the sample of copra found on the top of the sack and the actual quality found in the middle.

A secret tender system is followed where around forenoon the buyers quote their maximum offer for the commodities. The tender box is opened in the presence of the superintendent and other officials of the regulated market along with the producers and buyers. The person quoting the highest bid gets the right to procure the commodity if the producer is willing to trade. The producer has an option to cancel the sale if he feels that the price is not

⁷ Erode district is located in northern Tamil Nadu and the market committee is one among the 16 in the state.

⁸ Vellakovil is another centre for oil crushing that is located near Avalpoondurai.

⁹ Hereafter refers to copra

adequate. The maximum prices quoted are announced along with the name of the person who quoted the price via a microphone.

This information service enables the farmer to know the prevailing rates in the market¹⁰. Then after the licensed weigh-men finish weighing the commodity using standardised weighing machines the people get on their wheels after the coolies pack the purchase for the buyer and load it in their trucks. The bills are prepared and the buyer settles the payment to the producer without any intervention by the market officials. Any shortcomings on the buyer's part, are rare as gathered from a variety of sources, are reported to the superintendent who makes sure the transactions are carried on properly in the market premises. One look at the efficient functioning of this regulated market takes one by surprise¹¹.

The procedure is similar for the rest of the crops too. Open auction was the method of price determination for a long time for coconut in this market, but it was replaced by a secret tender system. It seemed as a better alternative as it was likely to fetch a better price. Open auction also favours big players; who manipulate with the rates while the auction is going on, depending on the demand conditions. As soon as the small players have procured the necessary amounts, they stop bidding high rates altering them to their favour. In such a system the position of the commodity in the rows matter a lot.

The interesting point to be noted is the informal written agreement that exists between the regulated market, licensed purchasers and the producers which prohibits the buyer from discarding practises, and everyone binds with the agreement. In the current system the entire produce is divided in to various 'lots' of homogeneous items depending on the size and quality. The rates are quoted for these lots accordingly. By this method a single seller can sell different lots to different people; depending on the highest quote¹².

Benefits Accrued To Farmers and Traders

What is special about the Avalpoondurai regulated market? What is in it for farmers and traders? These were some of the questions that were posted to the market committee officials, farmers and buyers. Prithiviraj, Former Superintendent, Avalpoondurai Regulated Market; currently posted as the Inspector of Licensed Premises, vouches that Avalpoondurai is one of the better run markets that are achieving the goals set out by the market committee.

He feels that the producer is benefited as the correct weight, price according to quality, which is kept competitive by secret tender system; immediate sale and payment are assured. Further, he adds that the elimination of intermediaries, brokers and commission agents proves to be beneficial for the farmers. No deductions are made from the producers and all services availed in the markets are offered for free to the producers. They have storage facilities and market information service is also provided. They also benefit from the pledge loans that are offered by the regulated markets.

The availability of the required products at the same place and the absence of middlemen have benefited the traders. They also have the choice of good quality and graded produce. The prime reason being the variety of the products that the trader gets to choose from. By

¹⁰ The importance of this is discussed later in the paper.

¹¹ Without any reference to the way the 'market' functions, I have merely described the orderly way in which the system functions in contrast to the typical institutions that are carry along with them the '*Sarkari Office*' Tag in India.

¹² Profit maximising sellers and utility maximising purchasers are the ones considered here.

making use of the go down facilities and market information the buyer spends less on the overhead charges. They also save a lot of their travel, labour expenses and time, as they do not have to travel across the district to procure the commodity. The trader pays the market service charges. The list of charges that the trader has to pay includes:

1. 1 percent cess for the market committee.
2. Rs.7.50 per quintal of copra as loading, unloading and refilling charges¹³
3. Rs.4.50 per quintal of copra as weighing charges which includes billing process.

The seller pays only the unloading charges for unloading the produce from the vehicle, which amounts to Rs 2 per bag. They say that they also benefit from the fact that many traders are involved in purchasing at the same time; thereby exhausting all the benefits as a result of the competitive cloud that prevails. A report on the annual sale of copra for the last few years has been listed below:

Table 2: Report on copra sales in the past years

Year	Arrivals in ton	Value in Rs. Lac	Highest rate per quintal	Lowest rate per quintal
1995-96	1248	295	3048	1410
1996-97	1953	557	4806	3136
2001-02	6766	1392	2645	2200
2002-03	9150	2737	4000	3800
2003-04	3545	1362	4655	4265

The table translates the high volume of trade, which is an important factor that makes this regulated market attract big players like Marico Industries, parachute and NAFET¹⁴.

It was not long before it struck me that the volume of trade that goes on here is low compared to the amount of coconuts produced in this region¹⁵. This requires one to understand the various activities that require the use of coconuts. It can be used for edible purposes in the form of dried coconuts in households, as copra, in the preparation of coconut oil (in the form of copra) and as tender coconut.

So, what happens to the rest of the coconuts? How are they marketed? Why are not they marketed it in the regulated markets if these seem like the impeccable boon to the agricultural sector? What is in it for the traders? Finding answers to these questions led me to uncover a complete system of informal¹⁶ activity that is massively and efficiently organised. I have addressed them as parallel markets from hereon.

The Parallel Markets and Their Characteristics

Before examining the reasons for the existence of these markets, it is vital to understand how these markets operate. These are highly decentralised markets with various levels of operations. The players in this market are the producers, the intermediate purchasers,

¹³ The refilling mentioned here is analogous to the process of ensuring uniform quality of the produce and hence preparing a sample reflecting the exact quality.

¹⁴ NAFET is a government enterprise that procures agricultural commodities through co-operative societies and regulated markets.

¹⁵ In Kangayam around 2500 bags of copra are purchased. But this not only includes the copra produced in the district of Erode but also the copra from near by districts and Kerala. This is in sharp contrast to the present day high arrivals of around 1500 per week in the Avalpoondurai regulated market.

¹⁶ As mentioned by Hernodo de Sotto

brokers and the oil mill owners. The produce¹⁷ is purchased in the field directly and the purchaser is either a broker or a small-scale trader. He either sells the coconut either to the mill owner or sends it to the line or he transforms these coconuts into copra and stocks it for selling it in the market where high rates prevail. If the purchaser is a broker, he normally brokerages for some oil mill and gets a share which is four percent approximately. If he is a small scale trader he procures the coconut and converts them into copra, dries them and brings them to the regulated market which will fetch him a decent price as he purchases the coconuts at price that ensures him a respectable margin. The same algorithm applies to a stocker as well.

The informality seeps in from the fact that all this trade is not brought to notice of the market committee. Although some of these traders' possess a license and have licensed weigh men, all of their trade is not reported. In fact a huge portion of it is not brought in to books because; doing so will require them to pay a cess of one percent of the total value of the purchase as prescribed by the Tamil Nadu Agricultural Produce Marketing (Regulation) Act 1987. One may feel that one percent cess is a good deal to avoid all the headaches of unaccounted business. This line of thought is perfectly valid. But the story doesn't end here. Paying one percent cess brings the purchase in to account; which is later entitled to a four percent crushing tax¹⁸, 4.2 percent sales tax and the retailer faces a one percent resale tax. This makes it a sizeable 9.2 percent for the edible oil manufacturers. If the commodity has to cross the state border, it is mandatory to pay a CS Tax of two percent for obtaining the permit. In fact the purchaser of any commodity produced in the notified area is required to pay the cess to even transport it from the jurisdiction of the market committee¹⁹ to another place within the state.

These high tax rates can be digested if the raw material is available at cheap rates. But the copra market has seen high prices prevailing for the last couple of years. This does not leave the small-scale oil businessmen with an option to undertake a proper documented affair, specially the ones who do not brand their product and sell their oil in local retail outlets. The big players have very little option to participate in this all week- anytime, everywhere economy if they are a 'private limited' company. These people find it easy to do business via the formal route as they have the advantage of a brand name that fetches them a decent margin.

A mill owner in Kangayam who chooses to remain anonymous is one of the three biggest players in the business today. He admits that more than 85 percent of the business that is currently undertaken is unaccounted. He feels that this is due to high competition, fluctuating nature of the oil prices and high tax rates. In the competitive atmosphere he chose the parallel route to sustain his business and run it profitably.

When asked about the preventive measures and inspections held by the market committee officials, he feels that it is all a farce. He says that tackling them with money is far cheaper than paying tax for operations in the scale that he does. He says that these officials negotiate for a price and let these men get away with a small fine, which enters the fine receipts, and the lump sum amount enters his pocket. A market committee official also admits that such behaviour is not completely absent to the least. He worked in check-post for some time and admits that 8 out of 10 vehicles pass the check-post without permit.

¹⁷ Produce here refers to coconut

¹⁸ Crushing tax: this is a tax that has to be paid for crushing any agricultural produce for the purpose of manufacturing oil and oil cakes

¹⁹ Refers to the notified area

One other mill owner revealed that he sends oil from Tamil Nadu to northern states as far as Kashmir without permit. A back of the envelope calculation was shown by him which says that to send a 15 kilogram coconut oil tin which costs around Rs 1000 to Kashmir one has to pay a tax of Rs 100 and say he fixes a margin of Rs 10, which amounts to Rs 1110 per 15 kilograms. But he says via route no: 2, one spends around Rs 20-25 per 15 kilograms to bribe all the officials at the check post. This helps them to get business as they can supply for 60 rupees cheaper.

In the demand side, the government rule says that there should not be any cash purchase for any amount exceeding Rs 20,000 in the markets. But this economy plays the fact that paying a farmer by cheque when they are loading coconuts from the farm late in the evening is an inconceivable notion, to its advantage. An income-tax-phobic farmer will choose to receive cash in hand any day. In addition to this he is relieved from the task of transporting the produce to the regulated markets. This way the purchaser feels that he does not attract the attention of the income tax officers.

Working out the economics of the trade shows that the additional costs incurred by the farmer to transport his produce will negate or fetch only a slightly higher price in the regulated markets during the times of low prices. The purchasers either commit to these producers by giving them an advance, or by leasing the entire fields of coconut trees on the basis of payments per tree. As most of the small farmers do not possess a drying yard to convert the coconuts in to copra, they sell them off. The advance payment is prime de force of the parallel markets as the much desired credit is availed by the farmers whose incomes are periodical with huge intervals.

The parallel markets are highly competitive and carefully engineered. Most of these mills operate on generators in order to avoid the income tax raids based on the amount of electricity used. High electricity means high activity in the crushing point. So they use generators to avoid the tax trouble and the cost is managed with the amounts saved from bypassing the tax payments. Adulteration of coconut oil with palm oil, palm seed oil, white paraffin as a reaction to the high copra prices, fluctuating oil prices, high tax rates and severe competition among the players is an issue of great concern in these industries.

A lot of people who I spoke to feel that this kind of an alternative, parallel, unaccounted market will prevail and they cannot be done away with especially in a country like India where credit is an important factor which wins the producers' vote. The trade off between price and advance payments is readily observable in these markets. The buyer quotes a slightly lower price when compared to the rates he offers in the regulated markets. It must be noted that these traders do not operate exclusively in these markets. They purchase in both markets. Indeed, it is necessary to undertake formal-trade to a certain extent to play safe.

The distinction between a producer and a trader is hazy in these markets. The so-called producers are often those traders who purchase from a lot of interior villages and bring their purchase to the regulated market every week, or, in some cases they stock their purchase waiting for a good rate. Typically, Regulated markets fetch high prices compared to these informal markets in the periods of high demand. Hence it is readily observable that these two markets are closely intertwined.

Conclusion

No doubt that regulated markets like Avalpoondurai do serve the farmers and other agricultural producers. Their functioning is as good as it can get in the government sector.

But, a social scientist must always get out of the bubble and examine whether a policy like Agricultural Produce Marketing is an effective tool in improving the socio-economic status of the farmers, whether the good intention fits in with the market mechanism. Equally essential is the issue of right for free flow of goods and services within the state. The restricting trade practises via the Regulation of agricultural marketing are impulses to which the market responds by creating an alternative, informal mechanism, as seen in the study above. The response of the market to these signals is rapid and well devised to tackle the current regulations. Having redundant policies that control the flow of goods and lead to increased bribing at check-posts are worth introspecting. This merely makes a small pocket of people affluent, but little benefit trickles down to the farmer. The objective of the Agricultural Produce Marketing is hence not realised in reality. I feel that Agriculture Produce Market Committee is not the solitary boon to the farmers, as one would expect it to be.