CHAPTER I

INTRODUCTION

The need to modify and improve the process of agricultural marketing in India, was felt for the first time, sixty years ago, when the Royal Commission on Agriculture published its report in 1928. This report highlighted the various defects and malpractices which were prevalent in the marketing of agricultural produce which resulted in the cultivators being exploited by the middlemen and thus not receiving a fair share of the value of their produce.

It was pointed out in the report of the Royal Commission that the most common method of sale was in the village to a visiting trader or sometimes to a resident trader. Bids were made secretly under a cloth and the seller had to accept the rate fixed. Moreover, the cultivators also did not have information about the rates prevailing in the primary and terminal markets and thus often sold at rates lower than warranted by primary or terminal market conditions. The Indian Cotton Committee had also noted that the cultivator was heavily handicapped in securing an adequate price for his produce and often the difference between the market price of raw cotton and the price paid by the village bania to the cultivator was very great. This was mainly due to the financial obligation of the cultivator to the village
bania. Deductions from price were also claimed on the ground that the produce was not up to the sample and the cultivator had no option but to accept the new rate. Besides, scale and weights and measures were manipulated against the cultivators, a practice which was often rendered easier by the absence of standardized weights and measures. Large quantities of the seller's produce was taken as sample for which he was not paid even when no sale was effected.

Further, the farmers had little capacity to stock and hence were forced to sell their produce immediately after harvest creating a glut in the market leading to low prices. Once the post-harvest glut was over, the price in the primary and terminal market continued to rise till the next harvest season. However, this seasonal difference in price was considered to be much wider than warranted by reasonable carryover costs and the excess was appropriated by the middlemen as the farmer had already sold his produce.

The other factors which were responsible for the exploitation of the cultivators by middlemen were heavy indebtedness of the cultivators, low standard of literacy and non-existent roads and defective communications between the point of production and local markets which hindered the movement of goods and made primary marketing costly, the additional charge falling upon the shoulders of the cultivators.
Since the cultivators were being exploited, the Royal Commission recommended that the most effective means of removing unnecessary middlemen was by providing good roads and the establishment of a sufficient number of well regulated markets, easy of access to the cultivators. This view was subsequently endorsed by the Central Banking Enquiry Committee in 1931. Inspired by these recommendations, several provinces such as the Central Provinces and Berar and Madras enacted basic market legislation. Due to the invention of the Second World War, the progress in the field of regulation of markets was slow and chequered. The regulation of markets, however, gathered momentum after independence when the Planning Commission in their First Five Year Plan laid stress on regulation of markets which led a number of states to take steps in the direction of enacting legislation on agricultural marketing. Thus, marketing of agricultural produce in India was set on a new foot through the various legislative measures which aimed at improving the marketing organization by regulating the market procedures, sales, practices and providing the needed market information to facilitate informed and free competitive conditions of marketing so that the producer-sellers would be able to strike the best possible deals.

In the regulated markets, the system of sale is designed to be open and an opportunity is provided to the producers to sell their produce by a method which ensures the possibility of the presence of several buyers and a
competitive bidding for every lot sold. Thus virorous competition among buyers would result in higher prices for producers. Further, the net returns to the cultivators would also be increased by market regulation eliminating superfluous charges and minimizing the various costs of handling. The regulated markets are designed to ensure that the various market charges are fixed, correct weighing of the produce is assured and arrangements are made for the settlement of disputes. Grading of agricultural produce was introduced in the regulated markets to enable the farmers to get the benefit of it.

Moreover, the Planning Commission in its First and subsequent Five Year Plans made attempts in various other directions to improve the marketing conditions in the country: roads and railroads have been constructed which have helped to shorten distances and have brought villages, markets and towns nearer and easily accessible. With the introduction of better roads, trucks as a means of transport have assumed greater significance. Besides, warehouses have also been constructed for storage of agricultural produce. The Rural Credit Survey Committee of the RBI in 1954 had recommended the establishment of warehouses to increase the withholding capacity of the cultivators and to avoid market gluts leading to lower prices received by them. Accordingly a Central Warehousing Corporation as well as State Warehousing Corporations in every state had been set up.

The Government of India set up the Agricultural
Price Enquiry Committee in 1953 to study the existing agencies which collect market intelligence data and to suggest improvements. As a result, an integrated scheme for the improvement of market intelligence was taken up by the Directorate of Economics and Statistics, Ministry of Food and Agriculture. Under the scheme, daily prices of important agricultural commodities and weekly reviews of food and price situations in the regions are supplied for broadcasting from all the regional stations of the All India Radio. The market committees make arrangements for the dissemination of information on the current price. The price ruling in their market and the terminal market are displayed on the notice board.

The institutional credit agencies, mainly the cooperative banks were required to provide short-term credit to farmers, at very reasonable interest rates, against the receipt of deposit of their produce by farmers. The tremendous expansion of agricultural credit institutions, particularly the cooperative banks and the Primary Agricultural Cooperative Societies created the necessary infrastructure for the purpose.

Similarly, the announcement every year of support prices for a wide range of agricultural products by the Government of India, on the recommendations of the Agricultural Prices Commission (now Commission on Agricultural Costs and Prices), since 1965, and the creation of state
purchasing agencies like the Food Corporation of India to ensure these support prices in primary markets through unlimited purchase at these prices, have lent a great degree of stability to farm foodgrain prices in the post-harvest season in the regulated markets.

Thus, during the last four decades, various legislative measures have been introduced by the Government to improve the conditions of marketing of agricultural produce. The marketing structure and system have undergone steady changes under the impact of developing road communications in rural areas, improved transport facilities, greater flow of information as well as governmental regulation of marketing activity to ensure free and informed competition. The main object of regulated markets was to regulate the sale and purchases of agricultural commodities and create conditions for free and fair competition and thus ensure fair deal to the farmers.

However, a number of enquiries and studies observed that the intended regulation of markets had not always been carried out and at times proved ineffective. For example, the operation of the Bombay Agriculture Produce Market Act, 1939, was reviewed twice, in 1951 and in 1956. Both these reports indicated the improvements that had taken place in the marketing of agricultural produce, for example, reduction in market charges, standardization of weights and measures, improvements in methods of sale. The reports, however, emphasized that certain malpractices were still
persistent which made the producer remain indifferent to or be reluctant to sell his produce in the markets. The selling practices like bidding under a cover of cloth or negotiated price fixation, unfair deductions on grounds of quality, particularly in case of cotton and groundnut, were found to be widespread. The Bombay Expert Committee of 1956 noted that the market functionaries accustomed to unrestricted freedom, could not reconcile to the spirit of the Act and tried to counteract its repercussions on the strength of their collective influence, power and action. It was also reported by the Cotton Marketing Committee that near monopsony conditions existed in a number of cotton markets, particularly in Berar where only a few buyers, not exceeding a dozen, controlled the whole market. Some of these really controlled a number of markets of a region and were therefore in a position to dictate the price to the producer. The Expert Committee appointed by the Government of Madras in 1957 to review the Madras Commercial Crops Act also emphasized the prevalence of the same phenomenon - the concerted action on the part of the traders to frustrate the purposes of the Act. In Madras, four out of the five markets declared as brought under the Act, could not function as regulated markets owing to collusion amongst traders in bidding low prices. A similar collusion was noticed in the lack of prompt action against breach of rules on part of any trader by the market committee, which was for all practical purposes, dominated by trading interests. It was
also noted that the proportion of village sales was so large that it made the operation of the Act ineffective in providing fair price to the producer.

A case study on the working of the regulated market at Ghoti in the Igatpuri taluka of Nasik district for the year 1961-62 also indicated that sales by the auction method had not been able to improve the situation that was prevailing, before the market was regulated. The understanding and close personal relations among the traders had given them a monopoly power over the market. In this situation, the classic solution of competition by means of auction sales could not be made to work.

Further, a recent study on the Marketing of Rapeseed-Mustard in U.P. has again observed that the Act to regulate marketing of agricultural produce in U.P. was in operation only in a formal sense in the five markets studied. There was no elected market committee in any of these markets, nor a marketyard of the committee where produce could arrive and auctions take place. Sales used to take place in the commission agents shop without any supervised auction. In the case of three primary markets studied (viz. Aligarh, Hathras and Lakhimpur) it was seen that almost every year (of the five year period studied) there were periods of at least six to eight weeks at a stretch when the terminal market (Kanpur) price was considerably in excess of the primary market price (after considering transport and other costs). This showed that
markets were not well integrated. There was a lack of proper arbitrage operations among markets and this could either be because of inadequate and improper provision of information about terminal market conditions or operation of unwritten understanding among traders and commission agents.

Cooperative marketing of agricultural produce which ensured a better return to the primary producer was not very successful. There are, however, exceptions to this; for example, in Gujarat, where the marketing of cotton by cooperatives has made rapid strides and these cooperatives handle a major part of the cotton produced in the State. A similar commendable achievement is in the case of the cooperative sugar factories in Maharashtra where the sugar factories are owned by the primary producers of sugarcane. In general, however, although cooperative societies have come into existence they have not yet covered an appreciable volume of the trade in agricultural marketing. The Estimates Committee (1964-65) of the Maharashtra State Legislature noted that cooperative marketing had not been able to instil and create the necessary faith and confidence amongst cultivators in the State with regards to its efficiency to relieve them from the stranglehold of the trader-cum-moneylenders. The Committee further complained that although there was a fixed rate of commission to be charged by the private traders for goods sold within the marketyards, in actual practice they were charging more. Similar
malpractices were in vogue in the matter of weighment of produce brought to the marketyards. All this had in effect, to a certain extent, nullified the advantages which the regulated markets were supposed to ensure.

It thus appears that the situation in regard to agricultural marketing in India has improved compared to the situation prevailing at the time of independence, but rather unevenly. Consequently, in some regions like in Western U.P., the sale of produce in the village is no longer at great disadvantage compared to the sale in the regulated market. There are, however, other regions, like Bihar, Orissa, M.P., etc., where even the support price of foodgrains noted by the Agricultural Price Commission in recent years is not operative mainly because of poor roads, communications and market centres. Radio and newspapers have been giving daily information about terminal market prices. But in many regulated markets there is no provision of displaying the latest terminal market price for sellers to note. In many regions, regulated markets exist only in name, without a marketyard or supervised open auction sale of produce. That the force of collusion among traders is still significant even when open auction takes place is indicated by some studies. Prices of arecanut, in the regulated markets of North Kanara district of Karnataka show that the average price bid in auction is somewhat higher in those regulated markets where a cooperating marketing organization is competing with private traders
than where such cooperatives are absent. Seasonal price differences unavoidably persist but it is not always that the late season prices are much higher than immediate post-harvest prices. In fact this difference in late season and post-harvest price often covers only the carryover costs. Cooperative marketing has not become common, except in regard to a few crops (like cotton and sugarcane) and that too only in some specific regions.

The very uneven development of regulated markets, the inability to fight the vested interest of traders, the persistence of traces of collusion amongst traders even in regulated markets and the inability of cooperative marketing organizations to make an effective entry into agricultural marketing resulted in the State entering into the agricultural markets, especially with respect to selective sensitive commodities to ensure a fair price to the producer. A prominent example of this type of State intervention in the market can be observed in the case of cotton. The State intervention has been of two types: the first type was the setting up of a State sponsored agency to compete with the private traders in open auction, so that collusion can be fought out and thus farmer-producers can be ensured a fair price. This role was performed by the Cotton Corporation of India which enters into primary cotton markets as a competing trading agency. The second was the decision of the Maharashtra State Government to enter
the cotton market in the State through its agency as a monopolist, banning all private traders and fixing the price of cotton to be paid to the producers. Thus a scheme of Monopoly Marketing of Cotton was introduced in Maharashtra and this scheme assured the grower of a fair and remunerative return by way of (i) a guaranteed price at the time of sale (ii) sharing with the farmer a part of any excess price received from sale of cotton by the Federation after deducting the costs of marketing. Further, compulsory recovery of cooperative dues from the cultivators was also effected at the time of payment of initial price.

While the main objective of these state agencies was to provide remunerative prices to the growers and increase their share in the mill price, it was also expected that these agencies should impart the needed stability to cotton prices. The Cotton Corporation should do so by intervening in the markets when the cotton prices are falling and withdraw from the markets when prices are going up to an unreasonable level.

The present thesis attempts a modest analysis on the extent to which the Maharashtra Federation as well as the Cotton Corporation of India have been able to fulfil their objectives. The main focus of the present study, however, will be on the scheme of Monopoly Procurement of Cotton in Maharashtra since adequate data required for our analysis were readily available. With respect to the
Cotton Corporation whose activities are spread over all regulated markets in the cotton growing States of the country, the relevant data required for our analysis were not available. Hence an in-depth analysis on the working and performance of the Cotton Corporation could not be conducted. However, with the help of the data available, a limited analysis of the performance of the Cotton Corporation is attempted.

Our study is divided into nine chapters. The present Introductory chapter is followed by Chapter II which reviews the research literature on the marketing of cotton chiefly by private traders and helps us to formulate a part of our hypothesis. A study was also conducted by us to observe the efficiency in marketing of cotton by private traders. In Chapter III, we have discussed in detail the various factors that prompted the governments to introduce these agencies and also the objectives that these agencies are supposed to perform. The broad features of these agencies are also discussed. In Chapter IV the broad objectives of our study, the sources of data and methodology used are discussed. Chapter V studies the year to year marketing costs of the Monopoly Procurement Scheme and the Cotton Corporation of India. The share of the farmer in the mill price is also calculated for every year since their inception till 1986-87. With the help of certain data available from the cooperative societies in Gujarat, the efficiency in the marketing of cotton by these
cooperatives has also been observed. Finally in this chapter we have tried to observe the relative benefits to the farmers by these different marketing organizations. Chapter VI studies the extent to which, the Cotton Corporation of India by its entry in the various primary markets, as one more trader, has helped to reduce intra-seasonal fluctuations in prices. An attempt has also been made to observe if the inter-seasonal fluctuations in prices of Kapas have been reduced with the introduction of these agencies. Chapter VII compares the prices of Kapas in Maharashtra with those in the adjoining markets of the neighbouring States to observe if the farmers in Maharashtra are better off than their counterparts in other States as a result of its Monopoly Procurement Scheme. Chapter VIII studies the extent to which the recovery of cooperative dues has improved with the implementation of the Monopoly Procurement Scheme. Finally in Chapter IX the summary and conclusions of our study have been discussed and certain policy measures have been suggested.
References and Notes


4. It must, however, be noted that earlier in 1897, the Government of India had enacted the "Cotton and Grain Market Law" in Berar for the purpose of establishment of regulated markets. In no other province of British India was any such legislation in force, trying to regulate agricultural produce.


14. The Food Corporation of India has also been operating as a trading agency in the primary markets, where it operates along with private traders. But since it purchases at government announced support price which is higher than what the market price would be in the absence of such support, the nature of its operation is different, in that it is not meant to make the marketing organization more effective and competitive.