CHAPTER-2

AGRICULTURAL MARKETING POLICIES AND PROGRAMME

2.1 Need for an Agricultural Marketing Policy:

The policy of laissez faire is generally believed as a system, which brings efficiency through free market operations. But the experience has been that it has not always been the case. In the absence of fulfillment of requirements of perfect market conditions, the interference of the Government becomes inevitable. This is more so in case of agricultural trade, which is distorted to a large extent due to inherent deficiencies. Further, agricultural commodities being the essentials for living any shortage in production and supply of these commodities may have an adverse effect on the living conditions of the people. Given the basic characteristics of agricultural production process and the nature of demand for farm products, it is obvious that if left to the interplay of market forces the fluctuations in product prices are much more than that in the output. The levels and fluctuations in prices of farm products affect the living standards of both farmers and consumers.\(^\text{21}\) In countries like India where majority of the people depend on agriculture for their living, shortage of agricultural production, will have an adverse effect on the economy as a whole. Under such circumstances it becomes the responsibility of the Governments to protect the interests of the farmers by giving remunerative prices to their produce and to protect the interests of the consumers by making the food grain and other commodities available to them at a reasonable price. Timely intervention with appropriate policies and programmes by the Governments only can mitigate this problem.

\(^{21}\) S.S. Acharya, 1994.
Agricultural marketing policies and programme are, therefore, needed to:

--Ensure a remunerative price to the farmers' produce and thereby encourage him to produce more.

--Provide food security to the people.

--Monitor the activities of buying, selling, movement, stock, import, export, etc.

--Encourage processing, grading, packaging, quality improvement, marketing and export.

--Provide infrastructure facilities for trade, market information, marketing extension, education, training and research, marketing finance, reducing marketing risks, etc.

--Establish institutions to promote production, trade and distribution of agricultural commodities.

--Regulate market practices and procedures to conduct the trade in an organised manner etc.

A policy or programme once formulated may not be a permanent solution of a problem. Further newer problems may arise due to changes in time or place. Therefore, policies and programme need to be changed according to the needs and requirements of the situation. Whenever the old policy becomes inefficient or redundant a new policy has to be formulated. Sometimes policies become instruments of change for better.

2.2 Agricultural Marketing Policies in Selected Countries:

Agricultural marketing policies as they have evolved over time did not have an exclusiveness. On the other hand they have been adopted as a part of agricultural production policy. Only recently attempts are being made to come out with independent agricultural marketing policies owing to the growth and importance of agricultural trade. However, these marketing policies shall be in consonance with the agricultural production policy to be practical and effective.
The references to agrarian history of **England** give the information that even during early 17th century and 18th century Government used to interfere in the agricultural marketing system. The local and central governments retained some concern in the agricultural marketing by regulating the fairs and the functions of middlemen. Regulated markets remained the official focus for trade and fairs retained significance as livestock markets. The legislations existed during the later 17th and early 18th century was designed to prevent frauds and abuses in packaging and marketing of such goods as butter, leather and fruit and the retail trade. Other policy measures taken during this period in England included granting of export bounties on grain, the suppression of the domestic cultivation of tobacco, establishment of quarantine arrangements in livestock markets. In the latter part of 18th century the Government intervention was so much through bounties, navigation laws, export prohibitions and such like that it attracted the odium of Adam Smith.22

In the 20th century various legislations passed in **Great Britain** connected to agricultural marketing need mention. The repeal of financial provisions of the Acts of 1917 and 1920 made provision for guarantees of prices during 1921. The Agricultural Produce (Grading and Marketing) Act, 1928 encouraged grading and standardisation of agricultural commodities. The Agricultural Marketing Act, 1931 encouraged co-operative marketing and not allowed outsiders to be in the co-operative unit thus providing bargaining power to farmers. The Import Duties Act of 1932 imposed quantitative restrictions and duties on imports to the country. The Agricultural Marketing Act, 1933 provided for schemes to promote and conduct co-operation. The role of Government changed in the 1930s from that of a passive onlooker laissez faire was abandoned and Government took measures to encourage farmers to organise voluntarily. On failure of producers to do it Government went a step ahead in announcing protection, setting up reorganisation commission, commodity commission, etc. On the eve of the

Second World War there were 17 producer Boards or bodies to promote production and marketing of various commodities like, hops, potato, pigs and bacon, milk, wheat, sugar, etc. The Agriculture Act, 1947 provided for guaranteed price and assured markets. The Marketing Boards were further strengthened after 1950s.

A number of agricultural commodities in **British Columbia** are regulated under the Natural Products Marketing Act which is enabling legislation that provides for the establishment of commodity boards. Working with British Columbia Farm Industry Review Board, the provincial government has implemented a number of initiatives to advance good board governance and decision making, with the overall objective of improving the economic performance within these sectors. In July 2004, the Ministry of Agriculture, Food and Fisheries released the Regulated Marketing Economic Policy, with the objective of providing clear policy direction to further improve the economic growth and development and long term viability of these important agricultural sectors. In 2005, the Ministry announced a policy framework to provide for the development of specialty markets within the supply managed agriculture sectors.

The literature on **United States of America** on agricultural marketing reveals that there were several state and federal Government programme (1) to regulate business structure and practices among processors and handlers of farm products (2) to authorise and support farmer co-operatives, through which farmers hope to any inputs cheaper or sell products more advantageously and (3) to enhance farm prices and incomes via various marketing and production control programme.²³

During 1920s and early 1930s the agricultural problem was a price instability problem. In late 1930s the price stabilising programme changed to price supporting programme. Commodity Credit Corporation was set up in 1933 to provide credit against pledge of produce and undertake storage activities to

²³ Harold F. Breimyer, 1968.
avoid instability in prices during different seasons. In 1958 two options were given to farmers- (I) the existing programme of high supports and restricted acreage and (ii) Lower supports and no acreage restrictions.

The United States Department of Agriculture have the programme to control the supply of farm products by restricting output indirectly by restricting inputs and restrict output directly by use of marketing quotas. Some of the programmes like direct payment to farmers of wool production during 1963, efforts to increase foreign demand for products by selling products in international markets at less than domestic prices and making payment to farmers at domestic prices, a farmer adjustment programme where excess farmers interested to pursue employment in urban areas were encouraged, etc., were some of the activities taken up by the U.S. Government in agricultural marketing.

In Latin America installation of state channels for the procurement, storage and distribution of basic grains at controlled prices, price support for certain commodities, first control and then liberalisation of grain and coffee markets, selling of IRA (Instituto Regulador de Abastecimientos in El Salvador) and INCAFE (The Instituto Nacional de Cafe) storage centres, etc. are a few examples of Government programme in agricultural marketing.\textsuperscript{2.4}

In Nicaragua, during 1979-87 period state intervention predominated and shaped agrarian markets, particularly those for grains and traditional exports such as cotton and coffee. The process of institutional change since 1988 was dominated by the withdrawal of the state from many social and economic sphere.\textsuperscript{2.5}

\textsuperscript{2.4} Max Spoor, 1994.
\textsuperscript{2.5} Ibid.
Agrarian transition in some of the **Central Asian States** (Former Soviet Union) and the process of privatisation and market liberalisation were made possible because of the Government efforts.

There are instances of state monopoly in agricultural trade as was in **Romania**, which was later, dismantled and a mixed economy with private and state engaging in activities related to agricultural marketing. It is the case with Russia where soon after liberalisation policies were introduced marketing channels increased significantly.

Among recent policies embarked upon by the government of **Nigeria** in favour of agriculture are trade liberation and the abolition of agricultural commodity boards, which has hitherto exercised monopoly control over produce marketing and exports. Similar types of reforms were brought in other African countries as well, which were designed to reduce or eliminate distortions in the agriculture sector.

### 2.3 Agricultural Marketing Policies in India:

The agricultural marketing policies followed in India could be examined taking into consideration the time period as the base. They are; Policies before Independence, Policies after Independence and up to mid-sixties, Policies after mid-sixties and up to 1990-91 when economic reforms were initiated and Policies after the starting of reforms up to the present day.

#### 2.3.1 Policies before Independence:

Prior to the dawn of the 20th century conditions of self- sufficiency prevailed over the greater part of the country. With the advent of British rule, improvement of communication gave impetus for growth in agricultural production resulting in surplus. Fairs and village bazars became prominent centres of trade for agricultural commodities. Each market was left free to initiate and develop its own trade practices and the agricultural producers had no voice
in their determination even though they were the victims. The establishment of markets and fairs without any regulation was the source of dispute between the owners of the land where markets sprang up and the farmers. The Government of Bombay, therefore, enacted the Markets and Fairs Act, 1862, where no one was allowed to establish a market without the permission of the District Magistrate. Then in order to regulate the supply of cotton to the textile mills in Manchester, the first market at Karanja was regulated in 1886 under the Hyderabad Residency's Order. Thereafter, a special law, known as, the Cotton and Grains Markets Law was enacted in the year 1897 in the Berar region, then known as the Hyderabad Assigned District which empowered the British Residency to declare any place in the Assigned district a market for trade and appoint a committee for its supervision. As per the recommendations of the Central Cotton Committee in 1918, the Bombay Cotton Markets Act, 1927 was enacted to regulate the cotton business taking the interests of traders and millers.

The Royal Commission on Agriculture in its report submitted in 1928 recommended the regulation of market practices and the establishment of regulated markets in order to remove the defects in the sale of agricultural commodities in the primary markets and to protect the interests of the farmers against the exploitation by middlemen. The defects pointed out by the Royal Commission included, non-adoption of standard weights and measures, exorbitant market charges, exploitation in payment of sale proceeds to farmers, uncompetitive price discovery, lack of facilities for trade, etc. The Central Banking Enquiry Committee, 1931, subsequently endorsed this. As a result of this the Government of India established the office of the Agricultural Marketing Advisor (Central Marketing Department) now called as the Directorate of Marketing and Inspection (DMI). This gave a boost for the enactment of agricultural marketing legislation by various states and provinces, which led to the establishment of regulated markets in different parts of the country. The Hyderabad Agricultural Markets Act, 1930; the Central Provinces Cotton Markets Act, 1932; The Madras Commercial Crops Markets Act, 1933; The Agricultural Produce Markets Acts of
Bombay, of Mysore and of Punjab, 1939, were some of the early legislations in the country which resulted in the establishment of regulated markets in the country. The Agricultural Produce (Grading and Marking) Act, 1937 was enacted in order to promote grading and standardisation of agricultural produce.

The direct involvement of the Government in trade of food grains was felt owing to the bad experience of Bengal Famine of 1943 as the death and suffering was caused more due to market failures than to shortage of food. So the policy was to control the rise in prices and to make available sufficient quantity of food grains for the people. The objective of first agricultural policy statement adopted by the Government in the wake of 1943 famine in Bengal included, increased production of food grains, use of better methods of production, improved marketing, better prices for the producers, fair wages for agricultural labour, fair distribution of food, increased production of raw-materials and improvements in research and education. These were the basis for agricultural marketing policies during the first and second five-year plan periods. Keeping the farm prices low and establishment of regulated markets were the priorities of Government till Independence. There were 432 regulated markets in the country by this time.

2.3.2 Policies after Independence and up to mid-sixties:

After 1947 when India got independence up to mid-sixties the policy of the Government was one of price control in order to keep the cost of living in check. Even for industrialisation the raw materials were needed at a cheaper rate and therefore, the Government pursued the same policy. The Prevention of Food Adulteration Act, 1955, was enacted to avoid adulteration of commodities. The Essential Commodities Act was passed in 1955 to control the supply, prices and distribution of essential commodities. To keep the prices under control the policy of import of food grains, including under P.L.480 of U.S.A. and distribution at a lower rate than market price to the targeted consumers was followed. Since Independence the over-riding consideration of the Government in controlling
prices and exercising other food controls has been to keep down food prices in a bid to check inflation. At the same time, attaining self-sufficiency and dispensing with imports at the earliest has been the declared goal of our national food policy for a long time.\textsuperscript{26} As a result the prices received by the farmers did not increase during the ten-year period from 1950-51 to 1960-61 even though the production was almost stagnant.\textsuperscript{27}

In order to review the implementation including the benefits to producers of the Bombay Agricultural Produce Markets Act, 1939 the Government of Bombay appointed an expert committee in 1950 under the Chairmanship of Prof. Dantwala, which submitted its report in 1951. In its report the committee made certain suggestions for bringing amendments to the Act for better results. Subsequently, the Government of Bombay appointed another expert committee in 1955 under the chairmanship of Dr. T.G.Shirname to review the old Agricultural Produce Markets Act of 1939 and suggest amendments to it. The Committee submitted its report in 1955 and made several recommendations. Major being, to bring all types of transactions under regulation for all commodities, to make the market committees more representative, strong and alert, to strengthen the supervision, direction and assistance to market committee by the Government.

Similarly the Government of Hyderabad appointed an ad hoc committee in 1954 under the Chairmanship of N.Farid Uddi, which also recommended certain improvements in the Hyderabad Markets Act. The expert committee appointed by the Madras state in 1957 under the Chairmanship of W.S. Krishnaswamy Naidu, retired high court judge, to review the working of the Madras Commercial Crops Markets Act, 1933 also recommended various amendments including inclusion of agricultural, horticultural, forestry products and animal husbandry under the provisions of the Act. During this period the regulation of markets were speeded up and between 1950 and 1964, 580 additional regulated markets were set up.

\textsuperscript{26} B.M. Bhatia, 1970.
\textsuperscript{27} S.S. Acharya, 1994.
Another important policy of the Government during this period was to encourage co-operative marketing of agricultural produce and development of scientific warehousing system. Therefore, the National Co-operative Development Corporation, other Co-operative Marketing Federations at state level and primary marketing co-operative societies were set up during this period. Central and State Warehousing Corporations were also established to take up scientific storage and provide pledge loan facility to farmers under the Agricultural Produce (Development and Warehousing Corporation) Act, 1956. Standard weights and measures were introduced and the Department of Weights and Measures was established to supervise and control these activities after the enactment of The Standard Weights and Measures Act, 1958. During the 2nd Five Year Plan period importance was given for the establishment of rural godowns, co-operative sugar factories and other processing units. An integrated scheme for market intelligence was launched for collection and dissemination of market information.

2.3.3 Policies from mid-sixties to 1990-91:

During mid-sixties the Government policy continue to be provision of food grains at low price to the consumers. However, along with this the interests of farmers also started gaining importance in order to increase the agricultural production. The result was the green revolution. The Agricultural Prices Commission (now called as the Commission for Agricultural Costs and Prices) was set up during 1965 and asked to advice the Government on the price policies to be followed. Accordingly, support prices are announced for different agricultural commodities to help the farmers. The support price policy was used as an instrument to bring changes in the cropping pattern during this period. Similarly, the Food Corporation of India was established in the same year to take up procurement, storage, transportation and distribution of food grains at a reasonable price to the consumers. Food rationing was introduced to supply essential commodities at a fair price to the targeted consumers. During this period the Government also started the policy of creation of buffer stock in order
to meet unforeseen contingencies. Levy system was introduced to procure food grains either from the farmer or from the trader or from the miller. Dual pricing system was in operation where prices offered under levy was lower than the open market price and the prices at which food grains were supplied to targeted consumers were lower than the open market prices. The movement restrictions were introduced and zones were declared for selling food grains.

After the reorganisation of the states in 1951 the old marketing legislations were repealed and new Acts came into existence in the states. The establishment of regulated markets continued to gain importance during this period. Along with regulation of market practices the development of primary wholesale markets by providing basic infrastructure facilities gained momentum during this period. Some of the states took financial assistance through external sources including the World Bank and developed the primary wholesale agricultural markets. By 1990-91 nearly 6752 wholesale markets in the country were brought under regulation. Emphasis was given for export of agricultural commodities when the Export (Quality Control and Inspection) Act, 1963 was passed which was aimed at assuring quality before export of various agricultural commodities from the country.

Some of the other developments that took place during this period were: passing of Meat Food Products Order, 1973; Cold Storage Order, 1980; establishment of commodity boards and corporations including the National Council of State Agricultural Marketing Boards. The expert group set up in 1981 under the chairmanship of M.S.Swaminathan to examine the promotion of farmers organisations for purchase and marketing of perishable commodities has recommended that there is a need for immediate action in developing an institutional framework which will enable production, processing and marketing of perishable commodities to be organised in such a manner that the interests of both producers and consumers are well served. Accordingly, The National Horticulture Board was set up in 1984 during the 6th five year plan and The
Agricultural and Processed Food Products Export Development Authority was established during the 7th plan period.

2.3.4 Policies after the Commencement of Economic Reforms in 1990-91 up to the Present Day:

During 1991-93, India introduced major policy reforms to Industrial, trade and exchange rate, which helped achieve faster economic growth. These macro economic reforms have had at least two important impacts on agricultural sector. Deregulation of industry, more open trade and devaluation has stimulated a significant improvement in the rate of economic growth thus strengthening and diversifying the food demand. Second, although domestic and border policies directly affecting agriculture were not included in the reforms, reduced levels of industrial protection have improved incentives for investment in agriculture through improvement in the sector's domestic terms of trade. These reforms followed by signing of WTO agreement by India on 1st January 1995 led to various policy reforms in the agricultural marketing sector. These include, (a) temporary removal of licensing requirements, stocking limits and movement restrictions for certain commodities. (b) Removal of plant scale restrictions and licensing requirements for most food processing industries. (c) Removal of restrictions on futures trading on 54 commodities. (d) Allowing large scale investments in new processing capacity related to milk and milk products, etc. (e) The system of announcing procurement prices of cereals has been replaced by that of support prices. (f) Dispensing with levy system for procurement of food grains. (g) The purchase of commodities by public agencies has been made commercial at market price through open bidding and helps raise the open market price to benefit farmers. (h) Market intervention by public agencies to help farmers in case of distress sale, e.g., potato, tomato, etc. Encouragement to exports and expansion of scientific godowns were other programmes taken up during this plan period.

During the Eighth Five Year Plan (1992-96) the main thrust of the agricultural policy was not only aimed at continued self-sufficiency in food production, but also included plans to generate surpluses of some agricultural commodities for export. Further, during the 8th five year plan period a High Power Committee on Agricultural Marketing was appointed by Government of India in 1992 to study the existing agricultural marketing system and suggest steps to be taken up for its improvement.

Some of the programmes initiated during this period affecting the wholesale marketing of agricultural commodities are: launching of agmarknet portal for collection and dissemination of market information; incentive programme for construction of scientific godowns in the rural areas for encouraging scientific storage and pledge loan facility to farmers; scheme for development and strengthening of agricultural marketing infrastructure; amendments to Agricultural Produce Marketing Acts for promotion of direct marketing and contract farming, development of agricultural markets in private and co-operative sectors, establishment of farmers/consumers markets, public-private partnership in providing post-harvest infrastructure facilities, etc.; expansion of future trading to cover all agricultural commodities; use of information technology to provide market led extension services to farmers; scheme to provide venture capital assistance to agri-business projects and a project development facility to assist producer groups/organisations in formulation of economically viable agri-business projects; removal of quantitative restrictions and reduction of import tariffs in phases, etc.

During the 9th five year plan period other initiatives taken up by the government included the development of rural markets under Rural Infrastructure Development Fund, promotion of exports, market intervention to protect the farmers interests, encouragement to private and co-operative participation in agricultural marketing development.
During the 10th five year plan period (2002-2007) emphasis of the agricultural marketing policy was on export promotion, value addition, quality improvement, provision of market and storage infrastructures including cold chains and encouragement to private participation in market infrastructure development.

2.4 Impact of Agricultural Marketing Policies and Programme:

Agricultural marketing policies and programmes have had some positive impact in improving the agricultural marketing system even though there were a few failures. The Government policies followed by Great Britain during later 17th and early 18th century helped prevent frauds and abuses in packaging and marketing of commodities such as butter, leather, fruits and also retail trade. More sophisticated market structures opened up new export markets for grain and other goods and within Britain advanced the long-distance droving trades. Most agricultural products felt the impact of improved transport and more active middlemen through more efficient markets. Agricultural Produce (Grading and Marking) Act, 1928 encouraged grading and standardisation of commodities. The Agricultural Marketing Act, 1931 provided bargaining powers to the farmers.

The American policy related to agricultural marketing by provision of input and export subsidies helped the farmers to increase agricultural production and exports.

The agricultural marketing policies and programmes initiated by the various governments in India have helped in achieving food self-sufficiency and food security for the country. The price support programmes helped increase the production of various commodities, which were in short supply before. The operation of buffer stock and procurement helped stabilise market prices. The establishment of commodity marketing Boards and Corporations not only helped increase production but also export of various commodities.
The number of regulated markets in the country rose to 7062 in January 2002. The over-all marketed surplus-output ratios of various agricultural commodities rose to 64.1 percent in 1999-2000. The value of farm products handled by the marketing system during 1990-91 was Rs. 1069 billion, which is around 64 per cent of the total value of output.\textsuperscript{2.9}

The available evidence suggests that by and large market sales by farmers have increased, physical losses during handling, storage and transportation have reduced, the process of price discovery in most of the markets is visibly open, market charges have been rationalised and backward and forward linkages of wholesale markets have considerably increased.\textsuperscript{2.10}

The analysis regarding the policies and programmes on agricultural marketing reveal that these have played a predominant role in all times of history in increasing the agricultural production and protecting the interests of the farmers and the consumers. Sometimes the regulatory mechanism did help solve the problems but is not long lasting. Later the governments have to change their policies to liberalise trade and achieve higher growth in the agricultural sector. A particular policy or programme may not always be a permanent solution to a particular problem. The policies and programmes to be kept changing according to the types of problems to be solved. The policies followed by India since independence have greatly benefited in agricultural production enhancement and improvement of the marketing practices and facilities at the primary wholesale markets level. The policy of establishment of regulated markets in the country has all along getting the attention of the governments. But the activities performed by these organisations in the changed circumstances and scenarios are relevant or not are to be reviewed. In case these activities are not required what other roles these regulated markets have to play have to be specified and programmes to be initiated in this regard. These and such other related aspects are discussed in the case study.

\textsuperscript{2.9} R.S. Deshpande and D.V. Gopalappa.
\textsuperscript{2.10} S.S. Acharya, op.cit.