Chapter 7. BASMATI MARKETING

Marketing starts right from the decision to produce a commodity. The developmental programmes to increase production will not be a stimulus to economic development, if the producers themselves consume the total production. Every agricultural commodity is, in fact, produced for sale in the market to earn some cash income and thereby meet many other family requirements which are not satisfied on the farm.

This chapter discusses aspects of paddy marketing in Punjab and Haryana. Thereby this chapter has been organized into four sections. The first section discusses the system and trend of paddy marketing in Punjab and Haryana. The second section focuses on the analysis of marketed surplus of paddy. The third section studies price spread of Basmati and the last section reviews the system of contract farming.

7.1. Paddy Marketing – System and Trend

7.1.1. Broad Channels of Paddy Marketing

Talking about trade channels it needs to be stated here that the basic aim of an orderly market system should be to ensure that the producer realises a reasonable price for his produce, that he is subjected less to traditional malpractices and has to pay as little as possible for the services and marketing of his produce. Lesser the number of intermediaries involved, greater is the profitability to farmers (Kumar Parmod, 1996). With the setting up of regulated grain markets, market sales by farmers have increased and physical losses during handling, storage and transportation has been reduced (Chattopadhyay and Sen, 1988).

The trade channel adopted by farmers to sell their produce is mainly through Agricultural Produce Marketing Centres or grain markets commonly known as ‘mandis’. These are regular wholesale markets, which are held in fixed places. Here business transactions take place daily with the help of intermediaries or commission agents locally called ‘arhatiyas’. In the study region it was observed that all farmers irrespective of their farm size sell their produce in mandis through these arhatiyas. Thereby, another hypothesis of this study that farmers’ profitability is inversely proportional to the length of the marketing channel, though very true, does not seem to apply in this case. The arhatiyas auction the produce that reaches the mandis to the
buyers/millers/exporters. All exporters have their own milling, shelling and packing facilities.

**Figure 7.1: Broad Channels of Marketing**

```
  +--------------------------+
  |                           |
  |   Farmer                 |
  |                           |
  +--------------------------+--------------------------+
  |                           |                           |
  | Commission Agent /Aarhatiya |
  |                           |                           |
  +--------------------------+--------------------------+
  |                           |                           |
  |    Miller                |
  |                           |
  +--------------------------+--------------------------+
  |                           |                           |
  | Domestic and Export Market |
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The function of arhatiyas is that they act as the representatives of their client farmers. They negotiate the purchase or sale of produce. They receive income in the form of commission or brokerage from the millers who are the buyers of grains and not the farmers. Those who consign goods or who order the purchase usually grant him broad powers. He takes over the physical handling of the produce, arranges for its sale, collects the price from the buyer, deducts his expenses and commission, and remits the balance to the seller. All these facilities are extended to buyer-firms as well.

Arhatiyas in grain markets are of two types, ‘Kaccha Arhatiyas’ and ‘Pucca Arhatiyas’. Kaccha arhatiyas primarily act for the seller farmers. They sometimes provide advance money to farmers and itinerant traders on the condition that the produce will be disposed off through them. They charge ‘arhat’ or commission in addition to the normal rate of interest on the money they advance. A Pucca arhatiya acts on behalf of the traders in the grain markets. The rice millers employ Pucca arhatiyas as their agents for the purchase of a specified quantity of goods within a given price range. Millers pay 1 per cent commission to the Pucca arhatiyas and 2.5 per cent commission to the Kaccha arhatiyas.

In the grain markets Kachha arhatiyas keep an establishment – a shop, a godown, a rest house for their clients. They extend many facilities to their clients. They advance 40-50 per cent of the expected value of the crop as a loan to farmers to enable them to meet their production expenses. They act as bankers of the farmers. They retain the sale proceeds, and pay to the farmers as and when the latter require the money. They offer advice to farmers for purchase of inputs and sale of products.
Sometimes they also provide food and accommodation (resting place) to the farmers when the latter come to the market for the sale of the produce. They provide storage facility and advance loans against the stored product up to 75 per cent of its value. They arrange, if required by the farmer, for the transportation of the produce from the village to the market and they help the farmers in times of personal difficulties.

The arhatiyas auction the produce that reaches the mandis to the buying firm. As has been observed in the field survey, the ‘Open Auction Method’ for buying and selling of paddy is prevalent in the grain markets of Punjab and Haryana. By this method the prospective buyers (Pucca arhatiyas) gather at the shop of the commission agent around the heap of the produce, examine it and offer bids loudly. This method ensures fair dealing to all parties and farmers with superior quality of produce receive higher price. After milling of paddy in rice mills, the rice is packed sold. Some of it is sold in the domestic market through wholesalers and retailers and some is sent for exports.

7.1.2. Trend of Market Arrivals

‘Depending upon the local conditions of demand, quantity of supply varies across mandis’ (Datta S.K., 2000). Figure 7.2 (a) and (b) shows Basmati rice market arrivals in some grain markets of Haryana and Punjab. However, in the face of lack of published data on Basmati market arrivals in both states such a comparison based on a few selected mandis is unrealistic. But a fact remains (as has been stated by mandi officials) that, earlier rice millers of Punjab were buying directly from the farmers so as to evade official market taxes and cesses. This was the reason market arrivals in Punjab is less during the early nineties (Figure 7.2). But now due to strict enforcement of rules by the state government and mandi boards, millers have started to buy from the mandis through arhatiyas and so markets arrivals in Punjab have started to increase in recent years. In the present survey there has been no instance of millers purchasing paddy directly from the farmer.
Market arrivals in both states are less in certain years and this could also indicate the incidence of lesser yields because of crop damage at a later stage as the Basmati crop is highly susceptible to diseases and pests.

7.2. Marketed Surplus

Every agricultural commodity including foodgrains which are grown by the farmers are not merely meant for satisfying their own family requirements but are also meant for satisfying the needs of non-farming population in the towns and cities. But of course, the surplus available for sale varies from farmer to farmer for various reasons.
All the produce of these crops is not available for sale because some quantities are
retained for home consumption which includes consumption for seed purpose as well
as family consumption, gifts to friends and relatives and some quantities are lost due
to spoilage, etc. Thus, two concepts viz., 'marketable surplus' and 'marketed surplus'
have been used to ascertain the quantity of produce available for marketing and the
quantity actually marketed.

Herein it would be interesting to understand some scholarly views on the issue
of marketed and marketable surplus. Many scholars have pointed out that marketable
surplus is smaller in small farms and high in large farms (Utsa Patnaik., 1975,
However, according to Chattopadhyay and Sen (1988), “Per capita availability of
cultivated land among the large farmers is certainly higher compared to the small
ones, but per capita availability of land under a specific crop need not be higher in the
larger farm size groups than the small farms. The phenomenon of marketable surplus
should be examined not in terms of size-classes of holdings but with the average of
individual crops separately against each size-class”. Hassel (1975) concluded higher
prices would result in higher quantities marketed. Boothalingam (1969) concluded
that farmers sowing commercial crops on their field spend relatively more on
agricultural implements than farmers who sow subsistence crops. Thus, rise in farm
assets should lead to rise in marketed surplus. Nevertheless, according to Ninan
(1988), small farmers try to concentrate on commercial crops and grew food crops
only for self-consumption. Big farmers grew food crops not only for subsistence
purpose, but also for the market. Further, he observed that there was no conclusive
evidence to support the view that small farmers were paid less for their produce than
those offered to big farmers and that the price differentials across size classes was
smaller when the market outlet was a cooperative against an agent. It also needed to
mention here that an issue of ‘forced commercialization’ has been raised where small
farmers are forced to sell a high proportion of their output to raise immediate cash
requirement which forces them to buy again from the market. This phenomenon has
also been termed as ‘distress sales’ by Dharam Narain (1961).
7.2.1. Marketed Surplus of Paddy

In this study only the ‘marketed surplus’ of paddy have been taken into consideration. From Table 7.1 it is seen that the marketed surplus of Basmati as a percentage of total production is slightly more in Haryana (95.34 per cent) than Punjab (93.98 per cent). In both states the percentage of marketed surplus of Basmati is slightly lower than Non-Basmati. Therefore, home consumption (farm saved seeds and consumption within the family) for Basmati as a percentage of total production is a little more than Non-Basmati in both states and home consumption is slightly higher in Punjab (6.02 per cent) than Haryana (4.66 per cent).

Since the marketed surplus is so high for both rice varieties, it suggests that rice is not a subsistence or staple crop of the people in these regions but is like a commercial crop and is meant mainly for the market.

Table 7.1: Marketed Surplus of Paddy as a Percentage of Total Paddy Production (%)

<table>
<thead>
<tr>
<th></th>
<th>Basmati Paddy</th>
<th>Non-Basmati Paddy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small Farmers</td>
<td>Medium Farmers</td>
</tr>
<tr>
<td>Punjab</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% age Marketed Surplus</td>
<td>91.79</td>
<td>94.94</td>
</tr>
<tr>
<td>% age Farm Saved Seed</td>
<td>0.48</td>
<td>0.49</td>
</tr>
<tr>
<td>% age Family Consumption</td>
<td>7.72</td>
<td>4.57</td>
</tr>
<tr>
<td>Haryana</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% age Marketed Surplus</td>
<td>94.12</td>
<td>94.98</td>
</tr>
<tr>
<td>% age Farm Saved Seed</td>
<td>0.38</td>
<td>0.42</td>
</tr>
<tr>
<td>% age Family Consumption</td>
<td>5.50</td>
<td>4.60</td>
</tr>
<tr>
<td>Punjab &amp; Haryana</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% age Marketed Surplus</td>
<td>93.30</td>
<td>94.97</td>
</tr>
<tr>
<td>% age Farm Saved Seed</td>
<td>0.41</td>
<td>0.45</td>
</tr>
<tr>
<td>% age Family Consumption</td>
<td>6.29</td>
<td>4.59</td>
</tr>
</tbody>
</table>

Source: Primary Field Survey, (Appendix Table F-1)
From Table 7.1 it is noticed that for both Basmati and Non-Basmati large farmers have higher marketed surplus as a percentage of total output compared to small farmers. This trend is same for all varieties of Basmati as well as across Punjab and Haryana (Table 7.2). Though marketed surplus as a percentage of Basmati output is directly related to farm size, the increase is not statistically significant (Appendix Figure F-1). From Table 7.1 it is also observed that both Basmati and Non-Basmati are used for home consumption. Small farmers consume more at home as a percentage of total production, compared to large farmers. This is because small farmers tend to use their own production for family consumption purposes rather than purchasing from the market. On account of low seed rate, less than 1 per cent of total production is used as farm saved seed for successive sowing. Family consumption is higher in Punjab compared to Haryana for all categories for farmers, although the difference is not substantially high for medium farmers.

7.3. Share of Producer’s Price in Consumer’s Price

The efficiency of agricultural marketing is assessed by the size of share, which the producer obtains, in the ultimate price paid by the consumers (retail price). The relationship between the producers’ and the consumers’ price is manifested by what is known as ‘price spread’. It explains the variance between the prices received by the producer and that paid by consumers. The magnitude of variance represents the cost of marketing, which in turn determines the producers’ share in the consumers’ price. In order to secure a sizeable share of the produce it would be imperative to minimize the variance as much as possible (Joshi and Sharma, 1979).
### Table 7.3: Price Spread

<table>
<thead>
<tr>
<th>Time Period</th>
<th>A Wholesale Price of Basmati Rice in Delhi (Rs/Qtl) (Consumer’s Price)</th>
<th>b Basmati Paddy Farm Harvest Price / Mandi Price (Rs/Qtl)</th>
<th>c Basmati Rice Farm Harvest Price(^{31}) / Mandi Price (Rs/Qtl) (Producer’s Price)</th>
<th>d Variance between Producer’s Price and Consumer’s Price (Rs/Qtl) (a-c)</th>
<th>e Producer’s Price as a % of Consumer’s Price (c/a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Winter - Nov, Dec, Jan (2002-03)</td>
<td>3900.00</td>
<td>1941.00</td>
<td>2940.91</td>
<td>959.10</td>
<td>75.41</td>
</tr>
<tr>
<td>Spring - Feb-March Apr 2003</td>
<td>4339.58</td>
<td>1660.00</td>
<td>2515.15</td>
<td>1824.43</td>
<td>57.96</td>
</tr>
<tr>
<td>Summer - May, Jun, Jul 2003</td>
<td>4333.39</td>
<td>1504.00</td>
<td>2278.79</td>
<td>2054.60</td>
<td>52.59</td>
</tr>
<tr>
<td>Monsoon - Aug, Sep, Oct 2003</td>
<td>4275.00</td>
<td>1500.00</td>
<td>2272.73</td>
<td>2002.27</td>
<td>53.16</td>
</tr>
<tr>
<td>Winter - Nov, Dec, Jan (2003-04)</td>
<td>3779.93</td>
<td>1657.50</td>
<td>2511.36</td>
<td>1268.57</td>
<td>66.44</td>
</tr>
</tbody>
</table>

Source: Data for Wholesale prices of Basmati rice collected from Economic Times newspaper and Farm harvest prices of Basmati paddy collected from New Anaj mandi, Kamal.

In this study the wholesale prices of Basmati rice in Delhi has been taken as the consumer price as Delhi is a big consuming market and serves as a main distribution centre for Northern India. In Table 7.3 the ‘price spread’ between the producer’s price and the consumer’s price has been seen in different seasons. The winter season represents the harvest period of Basmati during the months of November December and January. The winter harvesting season is followed by the spring, summer and monsoon seasons. It is seen here that during the harvesting season (winter months) the producer’s share in the consumer’s price is the highest and this is low during the subsequent seasons. This phenomenon can be explained by demand and supply factors. During the harvesting season the grains contain moisture so farmers tend to store their produce till most of the moisture evaporates and then sell it when more quantity of the produce can be sold as a result of lessened moisture. However, the farmers store their grains for a maximum of 15-20 days after harvesting. Thus, farmers generally sell off most of their produce during the harvesting season\(^{32}\).

\(^{31}\) Basmati paddy farm harvest price converted to Basmati rice farm harvest price. Conversion - 100 Kg of Basmati paddy yields 66 Kg Basmati rice (Information received from rice millers)

\(^{32}\) During the field survey all farmers surveyed reported selling of their entire Basmati produce during the harvesting season.
The reason for this is that during the harvesting season there is better competition due to more number of sellers and the prices are competitive.

In the post harvesting season or the lean period comprising the spring, summer and monsoon months the supply of grain is less and thereby the farm harvest prices should be higher. But at this time most farmers do not sell their grain as most of it is sold off in the harvesting season. There is less competition and thereby less competitive prices during this time due to less number of sellers.

During the winter months the wholesale prices of Basmati rice in the Delhi market tend to drop in response to high supply. This is because the winter months correspond to the harvesting season of paddy during which the supply of grain is high in the Delhi markets, thereby reducing its prices. On the other the large number of buyers and sellers at the grain mandis result in better competition and thereby high farm harvest prices. Therefore, high farm harvest prices and low wholesale prices cause producer's share to go up in the consumer's price.

This phenomena reverses during the spring, summer and monsoon months when farmers sell less quantities of rice and receive less farm harvest prices due to less competition. At the same time low supply causes wholesale prices to increase. Thus, low farm harvest prices and high wholesale prices cause producer's share to go down in the consumer's price.

7.4. **Contract Farming**

This method of farming is a new institutional arrangement that allow firms to participate in production and exert control over the production process without owning or operating the farms. Contract farming is a system in which agricultural commodities are produced and supplied to a particular buyer, mostly processors under pre-negotiated arrangement about price, quality and quantity. The processors provide material inputs and extension services to farmers and buy back the products at a rate specified in advance. This method of farming is emerging as an important mode of procurement of raw materials by agri-business firms in India. It is an important initiative for reducing transaction costs by establishing farmer-processor linkages. It brings producers and processors closer on mutually beneficial terms. The firm is assured of steady supply of quality raw materials at a stable price and the producers get ready market and remunerative price under the arrangement.
In India contract farming can be traced back to colonial period when commodities like cotton, indigo etc were produced by Indian farmers for English factories. Seed production has been carried out through contract farming by the seed companies quite successfully for more than four decades in the country. Recently in the year 2000 the New Agricultural Policy announced by the Government of India sought to promote growth of private sector participation in agribusiness through contract farming and land leasing arrangement to accelerate technology transfer, capital inflow and assured market for crops. There are several agricultural and horticultural crops such as Tomatoes, Potatoes, Chillies, Gherkins, Baby corn, Rose onions, Cotton, Wheat, Basmati rice, Groundnut, Flowers, Medicinal plants etc that are produced in some form of contractual arrangement with the farmers in India. Broiler production in Tamil Nadu is entirely under contract arrangement. Big corporate houses such as Hindustan Lever, Pepsi Foods, A.V.Thomas, Dabur, Thapars, Marico, Godrej, Mahindras, Wimco etc have undertaken contract farming for many crops apart from several small players. Some of the corporate houses have tripartite arrangements with commercial banks for providing necessary credit to the farmers.

7.4.1. Contract Farming for Basmati in Punjab

In India the Green Revolution, which ushered in agricultural transformation in the late 1960s and early 70s was losing momentum in Punjab the largest beneficiary of Green Revolution. Faced with stagnating yield and increasing costs, farming in the state was heading towards a crisis. Hence, the state government appointed a committee in 1985 under the chairmanship of S.S.Johl to recommend policy measures for sustaining the growth of the sector. The committee came to the conclusion that agriculture in Punjab had to be diversified away from the Paddy, Wheat rotation. This is because in India it has long been realised that the economic condition of a vast majority of the farming community cannot be changed unless Indian farmers, especially the small and marginal ones diversify their cropping pattern according to the fast changing tastes of the global community (Kumar Parmod, 2006). Crop diversification tends to reduce certain types of risks by providing for a more stable production system with less price fluctuations. Thereby the committee felt that at least 20 per cent of the area needed to be allocated to fruits, vegetables and oilseeds (Singh and Asokan, 2003). The crop diversification programme was sought to be implemented by the system of 'contract
farming. The apex body-coordinating contract farming in Punjab is the Punjab Agro Foodgrains Corporation (PAFC). Their function is to implement the contract between the farmer and the exporter.

Punjab has been traditionally identified with Basmati cultivation. Moreover, from this study it is seen that small farmers are the major Basmati producers and thereby the case of crop diversification into high value Basmati assumes all the more importance as poverty related distresses could be minimized if small and marginal farmers take to high value crop cultivation. (Chaddha, Sen and Sharma, 2002). Therefore, the crop diversification strategy in Punjab was extended to Basmati for several reasons. Firstly, India has been exporting Basmati rice for more than two decades and its exports have been growing considerably. During 1980-81 India exported 4.40 lakh tonnes of Basmati rice worth 205 Million US dollars. In the year 2000-01 Basmati exports from India increased to 8.51 lakh tonnes valued at 474 Million US dollars and this increased to 11.61 lakh tonnes worth 687 Million US dollars during 2005-06 (Appendix Table G-1). Secondly, Punjab is being adversely affected by declining ground water tables and since Basmati paddy requires comparatively lesser irrigation than Non-Basmati paddy, it can provide an effective substitute for Non-Basmati. Thirdly, there had been an over-stocking of Non-Basmati varieties because stocks accumulated excessively than demand. These stocks had to be reduced by giving huge subsidies to rice exporters. By this way the Non-Basmati varieties were disposed off but it created a severe financial crunch to the government exchequer as the rice were sold at cheaper rates in the international market. Therefore, it was thought that a high value crop like Basmati with only one competitor i.e., Pakistan would be a good alternative to Non-Basmati which is valued less in the international market and also has several competitors and lastly the crop diversification strategy also aimed to increase the marketability of Basmati rice.

In this contract farming system, many private and government companies called ‘nodal agencies’ are joining hands with private Basmati rice-exporting mills and are entering into a contract with farmers. The nodal agencies approach the rice millers for willing to act as nodal agencies. A contract has to be fixed for 3 or 4 years. The rice mills through these nodal agencies provide seeds, manual for production and a package of practices, fertilizers, pesticides and also loans to farmers. The farmers are supposed to buy seeds from these nodal agencies and pay an amount fixed for supervision purposes.

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The nodal agencies fix a minimum selling price for farmers who enter into a contract with them. The farmer is thus supposed to sell his produce only to the contract or nodal agency at the end of the agricultural season. However, if the price quoted by the nodal agency is lower than the prevalent market price, the farmer can exercise his discretion and sell his produce whenever the price is higher than the nodal agency price. But generally, the nodal agencies will see to it that their prices do not go below the prevalent market price. Just in case the nodal agency price is lower than the market prices, the farmer will try to raise it by entering into a bargain. The nodal agencies get 1 per cent commission from the rice mills.

An agreement between farmers, exporter and a nodal agency is registered with the PAFC under the Punjab government. An exporter doing contract farming is given relaxation of taxes to the tune of 0.25 per cent from 2 per cent for Road Development Fund (RDF), 0.25 per cent from 2 per cent for Market Fees and 0.25 per cent from 1 per cent for Punjab Infrastructure Development Fund (PIDF).

The only government nodal agency in Punjab is Markfed. All others are private ones. These are Hindustan Lever, PepsiCo, Mahindra, RKK, and Escorts etc. Most of the major rice mills in Punjab have entered into contract farming in 2003, viz., Satnam Overseas, LT Overseas, DD International, Ameera Exports etc. Each company has been allotted a particular area in Punjab by the Punjab government for contract farming. LT Overseas has been allotted the border areas of Punjab. Satnam Overseas has been allotted Sangrur, Ferozepur, Ludhiana and Moga and PepsiCo and Hindustan Lever have been allotted Gurdaspur, Batala and Amritsar.

Singh and Asokan (2003) studied four different cases of contract farming one of them being the contract farming of Basmati paddy by PepsiCo in Punjab. In this section this particular case study has been reviewed.

The Punjab Agro-Industries Corporation with support from the Bhartiya Kisan Union and the ruling Akali Dal brought in PepsiCo (US MNC) in 1988 as a joint venture partner, the third partner being Voltas, a domestic corporate firm (Kumar Parmod, 2006). PepsiCo entered India to manufacture, distribute and market beverages and snack food. But this was with the precondition to invest in horticulture based processing in Punjab. PepsiCo identified processing of Tomato into paste for export to fulfill the condition. Pepsi Foods Limited (PFL) was established in 1989. The company invested in a state of the art processing plant and initiated contract farming with the farmers in Punjab to grow Tomatoes. Later in 1994 PFL introduced

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contract farming in Potato in the state and the scheme was extended to states like Madhya Pradesh, Karnataka and Uttar Pradesh. Chillies and Groundnut were the other crops in which PFL tried contract farming.

As regards marketing of Basmati, there were several private companies who purchased the paddy from the spot market, processed it as per the requirements of their clients and exported it. PFL was also one of the players in the market. It procured paddy from the mandis in Haryana and Punjab and processed it in its plant at Sonepat in Haryana. The major share of PFL's exports was to the bulk buyers in Europe. It had its own brand 'Season's Harvest' which was largely marketed in the Middle-East countries. The company envisaged that a growing and health conscious market in Europe and elsewhere would require 'traceability' of all imported food in the future. Hence in order to have better control over its purchases the company invested in backward linkages and introduced contract farming of Paddy in Punjab during 1999.

The company entered into an oral contract with the farmers. The oral agreement covered price quality and purchase arrangements. Regarding input supply the company's role was limited to supply of seed. The company charged half the cost of the seed at the time of buying and the other half was deducted at the end of the season from the Paddy supplied by farmers. Charging half the cost of seed in no way would relieve the farmers of any working capital constraints as the amount involved was very small. Since the company was not supplying any other input or machinery getting half the amount for the seed supplied may be largely to demonstrate to the farmers its intent to buy back the paddy from them thus induce confidence to undertake the activity.

PFL Basmati programme was spread over 7 districts of Punjab namely Amritsar, Jalandhar, Kapurthala, Patiala, Sangrur, Rampura and Ludhiana. Since the induction of the programme the area under contract farming has been fluctuating. From 764 acres in the year 2000 it increased to 6218 acres in 2001 and came down to 2265 acres in 2002. The programme during its peak in 2001 covered 352 villages and 775 farmers. The programme basically targeted large farmers.

In case of PFL Basmati growers it was crop rotation in such a manner so as to have regular cash flow that determined taking up Basmati paddy. PFL Basmati paddy nursery was raised in June and sowing done in July and harvested in mid November. The Non-Basmati paddy nurseries were raised in end of May and sowing done in June.

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and harvested in October. The one month time in sowing PFL Basmati paddy resulted in some advantage to the farmers. As the monsoon would be active during crop growth PFL Basmati paddy needed less number of irrigation. Between harvest of Wheat in March/April and sowing of PFL Basmati paddy farmers could cultivate Moong as it was of very short duration before their other cycle of paddy. Since Moong is a leguminous crop it is helpful in fixing nitrogen to the soil. PFL contract growers cultivated Non-Basmati paddy as well. When it was harvested in October the land was prepared for Potato cultivation, in the mean time in November the PFL Basmati paddy was harvested. The land was then readied for Wheat cultivation. So farmers had income first from Non-Basmati paddy followed by PFL paddy, Potato, Wheat and vegetables/pulses in that order. Apart from the crop rotation assured price and market were important factors for the farmers to take up the activity.

Most farmers reported that they handed over the Paddy within two hours of reaching the mandi. There was no delay in taking delivery from the company staff. PFL paddy reached the mandi a month after Non-Basmati paddy because of its delayed sowing therefore space and labour was available in plenty which the farmers could use to clean and dry the material without much delay. Therefore, farmers unlike in case of Non-Basmati paddy delivered PFL paddy with much less hassles. This was another advantage to the contract farmers. None of the farmers reported that their Paddy was rejected due to quality problems. However, since the company specified only certain mandis as buying centres farmers had to transport the Paddy in some cases upto 60-70 kms. This added to the time and cost of the farmers and was thereby a minus point.

Once the company took delivery of the Paddy, payment was made in one cheque within 15 days. This was a major strength of the company as almost all the farmers surveyed appreciated this. Farmers’ experience with market channels in case of Non-Basmati paddy was frustrating to them. Apart from market fluctuations, waiting for the announcement of procurement price etc, they had to wait between 3 to 6 months to get the full amount from the traders which were made in several installments.

One of the major problems in contract farming is the opportunistic behaviour of one party. In PFL contract farming for Paddy the contract was for each season and there was no long term commitment from the farmers therefore, the farmer could stop producing PFL paddy if the company reneged on its promises. Even the produce

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could be sold in the local market to recover the cost. Thus, there is little scope for the company to undertake any steps that might hurt the farmers' interest. On the other hand the company had custom hired a plant at Buddewal near Ludhiana so it would ideally like to run it full capacity. Since for three out of four Paddy varieties grown for PFL had no local market the chances of farmers not delivering the produce were minimal. However, in case of pure Basmati there were diversions. The price offered by the company was higher than the market price in the initial two years but during 2002 market price increased sharply and the gap between the contract price and market price was more than 100 per cent. Such a high difference may be a rare phenomenon. The company was not into contract farming for any market failure considerations. The company could still procure the required quantity of Paddy from the open market to fulfil its obligations to its clients. Thus, it would be able to run the plant to the maximum capacity possible. In this case there was no asset specific investment by both the parties that is the farmer and the firm.

Singh and Asokan (2003), observed that Basmati paddy growers who entered into contract farming with PFL were not satisfied as their yields and income were lower compared to Non-Basmati paddy. The reason for some farmers wanting to continue contract farming was to have a staggered income flow as the payment schedule was the strong point of the contracting firm PFL.

Another study on contract farming was carried out by Parmod Kumar (2006) where an attempt was made to analyse contract farming operations in Punjab in the framework of small versus large farmers. The study indicated that the system of contract farming in the state was skewed toward medium and large farmers. This is because the companies preferred to contract with large growers to avoid problems of dealing with too many small growers. Further, contract farmers of all categories saw contracting as a risk of loosing returns in case of crop rejection and therefore tried to maintain immunity by leaving at least two thirds of their operated area under non-contract crops. Contract farming had brought about some diversification in cropping pattern in case of Rabi crops. Cost of cultivation crops and crop productivity of contract farmers were greater than non-contract farmers. In case of Basmati the yield was higher for contract farmers but the price received by them was lower than that received by non-contract farmers. Profit was higher in contract farms as compared to non-contract farms.
As a follow up to contract farming the government has also formed Agricultural Export Zones (AEZ) in Uttar Pradesh, Uttaranchal and Punjab in 2003. Its function is to focus on all aspects of Basmati rice from seeds to marketing.

The phenomenon of crop diversification was kept in mind during the present field survey. However sample farmers surveyed have reported no cases of contract farming. This is because awareness of the phenomenon is relatively new and is spreading very slowly in the surveyed regions.

7.5. Concluding Remarks

This chapter discussed the system and trend of paddy marketing in Punjab and Haryana, analysed marketed surplus and price spread of Basmati paddy and lastly reviewed the system of contract farming in India.

The channels of marketing showed that all farmers irrespective of their farm size category sold their produce in mandis through commission agents called ‘arhatiyas’ who helped to facilitate the bidding through ‘open auction method’ and eventual selling of the produce to millers/exporters.

Another hypothesis of this study that farmers’ profitability was inversely proportional to the length of the marketing channel, though very true, did not apply in this study as it was observed that all farmers irrespective of their farm size sold their produce in mandis through arhatiyas.

The marketed surplus as a percentage of total output was above 90 per cent for both Basmati and Non-Basmati paddy varieties which suggested that rice was not a staple crop of the people in these regions and was meant mainly for the market. The marketed surplus as a percentage of output of Basmati was directly related to farm size though the relationship was not statistically significant.

Farmers generally sold off their produce during the winter harvesting season when they received the highest prices due to better competition. During this time the wholesale prices of Basmati rice in Delhi was low compared to other seasons as supply during this time was generally higher. Thus, during the winter season the price spread between the farmer’s price and the wholesale (consumers’) price was the least and the share of the producer farmer in the wholesale price was the highest when compared to other seasons.

This chapter also discussed the concept of contract farming including a review of PepsiCo Company’s contract farming of Basmati in Punjab. However, no case of
contract farming was found amongst sample farmers during the year of survey. The formation of Agricultural Export Zones (AEZs) was also found to be an important development in Punjab agriculture.