CHAPTER 5

Problems and Prospects
CHAPTER V

PROBLEMS AND PROSPECTS

The personal interviews that the researcher had with the 25 farmers in groundnut growing areas of Salem District and 15 owners of oil mill functioning in the study area revealed some pulsating problems. Again the interviews and personal discussions drive home the point that these problems require immediate solution, if the groundnut oil mills have to function effectively on sound lines.

TABLE: 5.1 Problems faced by the farmers

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Problems</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Defective Marketing</td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>Absence of Storage Facility</td>
<td>80</td>
</tr>
<tr>
<td>3</td>
<td>Presence of Middlemen</td>
<td>60</td>
</tr>
<tr>
<td>4</td>
<td>Defective Co-operative Marketing</td>
<td>40</td>
</tr>
<tr>
<td>5</td>
<td>Lack of Transport</td>
<td>20</td>
</tr>
</tbody>
</table>

(Percentages are not additive since some have stated more than one problem.)
Problems Faced by the Farmers:

From the Table 5.1, it is clear that the most pronounced defects in the existing market system with regard to groundnut are the secret methods of buying and selling, use of defective weights, existence of a large number of intermediaries conducting transactions and large deductions made from sellers' dues. Many intermediaries settle secretly the prices among themselves and play a fraud on innocent farmers with regard to the payments, made for their purchases. This particular problem was faced by all the farmers invariably, in the study area investigated by the researcher. Despite the fact that the Government has introduced standard weights compulsorily, there are still some places where different types of weights are used. Even now, at a few places, stones are used as weights which generally weigh less than standard weights. In some mandies, two types of weights are found to be used—one to make purchases (heavier ones) and the other to conduct sales (lighter ones).

Problem of Middlemen:

As a result of a large number of intermediaries, the cost of marketing goes up and the sales of the produce are not conducted properly. A big share of the price of goods is usually pocketed by these intermediaries. This problem has
been expressed by 15 out of 25 farmers accounting for 60% of the total. There is also lack of grading and standardisation. The consequence is that price, production and quality of the produce bear no relation to one another. Farmers often find it difficult to secure higher prices for their superior quality produce. Thus, producers who want to produce superior quality produce are discouraged. Today, our farmers are selling their produce on individual basis. Arrangements for institutional marketing in the country are grossly inadequate. Naturally, marketable surplus is adversely affected by all these factors.

Lack of Infrastructure: 

Besides, the road infrastructure is still utterly lacking in most of the areas. Transport costs are high, while storage facilities are too insignificant to cope up. Lack of Transport facility was mentioned only by 5 farmers accounting for 10%, thanks to the efforts of Road Transport Corporations. Absence of warehousing facility was felt by 20 out of 25 respondents accounting for 80%. Obviously, a lot needs to be done to improve the conditions. More and more regulated markets in the country may be the right answer. There should be effective checks on their working by competent persons drawn from the Agriculture Ministry. These regulated markets can be a great
help in removing the ills of the present marketing system, in reducing the expenses involved in buying and selling, in saving the farmers from the exploitation by brokers and other intermediaries and in ensuring a fair price for their produce. Although marketing is a subject which falls within the purview of State Governments, the Central Directorate of Marketing and Inspection does render the necessary guidance and assistance to states in farming marketing legislation and in the enforcement of the same. But many States have been paying only a lip sympathy to such legislation. There are too many markets in the country which remain to be regulated. It is also essential that the management of these regulated markets is put on a proper footing. So far, the management has favoured the more powerful sections of the population. As for grading and standardisation, only a few commodities have so far come in its orbit. Some of them are rice, wheat, coffee, tobacco, oilseeds, cotton, leather etc. It is necessary to evolve grading and standardisation in respect of various other important commodities as well.

Defective Co-operative Marketing:

While co-operative marketing is of great significance in the context of Indian conditions, they generally do not have such facilities as godowns, warehouses, transport, grading arrangement etc. Their activities are confined to the field of
agricultural credit and in providing inputs as the government may decide from time to time. Here also, the powerful elements grab the largest share while co-operatives have not spread throughout the country. In Andra Pradesh, Tamil Nadu, Uttar Pradesh and West Bengal, Co-operatives have declined over the years. There is also considerable unevenness in the performance amongst individual marketing co-operatives. Almost 35% of them do not undertake any marketing of agricultural produce. In the study area, 40% of the farmers report the absence of effective co-operative marketing.

The marketing co-operatives are however, suffering from certain organisational, managerial, structural, financial and operational problems. They are yet to develop professionalism. Many of them are not in a position to play their role effectively for lack of infrastructure to handle the situation. It has now become necessary to bring all farmers' families having marketable surplus, within the fold of co-operatives. In fact, today marketing technology need to precede production technology. Since only effective marketing structure can come to the rescue of farmers, co-operative marketing happens to be the only way to provide an institutional arrangement to solve the marketing problems. In future, the marketing co-operative may have to
compete with private and public sectors and as such, the effectiveness of marketing co-operatives would now largely depend upon their efficiency, productivity and service.

Problems of Oil Mill Owners:

In the field of groundnut oil production, almost all the problems are experienced by all the units surveyed by the researcher. The problems of licencing and price fixation are universal as they are experienced by all the units in the study area.

The opinions expressed by the units are represented in Table 5.2. Percentages are not additive since some have expressed more than one problem.

### Table 5.2 Problems faced by mill owners.

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Problems</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>1.</td>
<td>Problem of Licencing</td>
<td>100</td>
</tr>
<tr>
<td>2.</td>
<td>Problem of Price Fixation</td>
<td>100</td>
</tr>
<tr>
<td>3.</td>
<td>Problem of Storage</td>
<td>80</td>
</tr>
<tr>
<td>4.</td>
<td>Increase in Tax rates</td>
<td>60</td>
</tr>
</tbody>
</table>
Problem of Licensing:

Tamil Nadu Essential Trade Articles Order was issued in 1984 which envisages the issue of a single licence for one or more edible oilseeds and edible oil. All the mill owners in the study area feel that this would cripple the smooth functioning of the trade activities. They expressed the view that for a number of years, there is no imposition of levy on groundnut oil. No scarcity conditions have been felt at present warranting control over groundnut oil. By imposing control over groundnut through licensing, trade and industry will be affected severely. Further, the mill owners felt that the inclusion of groundnut oil in the Tamil Nadu Essential Trade Articles Order, is unnecessary. By such inclusion, it is neither beneficial to the Government, nor to the consumers. On the other hand, their premises are subjected to inspection not only by the officials of Civil Supplies Department but also by the C.I.D. (Food Cell) branch attached to police Department which may lead to harassment. The Financial Commitment and establishment cost involved will only add to the cost of finished products and ultimately the consumers have to bear the extra burden. Even for technical minor errors, the entire quality of oils is seized, thus, affecting the party very much, because of these difficulties. The mill owners in Salem District feel that de-licensing of groundnut
oil is a must to adopt the way for healthy trade activities apart from increased production and greater availability of groundnut oil.

**PROBLEM OF PRICE FIXATION**

The price for groundnut oil is fixed in Bombay market which has to be followed uniformly all over the country. It is akin to monopply price. The local manufacturers become helpless in fixing a price depending upon local demand and supply condition. Every day, the producers have to find out the price in the Bombay Market through Oil and Oilseeds Association, Madras to fix the price for the local traders.

The price of groundnut oil does not remain steady. Violent ups and downs are experienced in oil market. Several reason are put forward for the sudden raise in the prices of groundnut oil. Foremost among them appears to be the indiscriminate use of groundnut oil by the vanaspathi manufacturers. This happens despite the directive of the Government of India that only 25% of groundnut oil should be used in the manufacture of vanaspathi. It appears that the industry does not adhere to the directive since groundnut oil remained the cheapest available input in the manufacture of vanaspathy.
Over and above this, the delay in the onset of the South-west monsoon this year in most of the areas in the city also contributed to the raise in prices in the oilseeds market. The delay and inadequacy of rains led to the fears that unless imports of edible oil were liberalised, there would be shortage of edible oils in the country. This turned speculators in the market very active and hoarding on large scale was witnessed.

This could have been perhaps, avoided to a great extent if support price operations to check the prices of groundnut oil from falling, had been taken. Sizeable stocks of groundnut oil could have been built up and timely releases for direct consumption as well as for vanaspathy manufacture in the current lean season would have checked the large fluctuations in oil prices. Instead, the prices of groundnut oil declined considerably at the time of harvesting. The Government then, thought that the increased consumption of groundnut and other edible oils itself will lift the prices of oils to a reasonable level. To some extent, this purpose was sought to be achieved by exporting 5000 tonnes of groundnut oil. But the export of 5000 tonnes of groundnut oil and 1,10,000 tonnes of Hand Picked special groundnuts contributed for the rise in prices.
Another reason for scarcity conditions and spurt in prices is said to be the unofficial ban on the export of groundnut oil, which has been in operation in the States of Gujarat and Tamil Nadu. In Gujarat oil millers have reached a voluntary agreement to keep 70% of groundnut oil production for consumption inside the State and export the remaining 30%. In Tamil Nadu, there is no confirmation of a ban even of a voluntary nature. However, the fact remains that very small quantities are reaching other centres from these two states. Meanwhile to check the uptrend in prices, the Government of India has taken several measures. These include (1) directive to the State Governments requiring them not to hesitate in invoking the provisions of the maintenance of Internal Security Act, the Defence of India Rules and Essential commodities Act against the hoarders and unscrupulous elements. (2) Advice to the States of Gujarat and Tamil Nadu to remove the informal restrictions imposed on the movement of groundnut oil from these States to the other parts of the country. (3) Banning the export of Hand Picked Special groundnuts. (4) Making the use of imported oils, rapeseed oil, palm oil and Soyabean oil obligatory at least to the extent of 50% in the manufacture of vanaspathy. (5) Abolishing the import duties on rapeseed oil, palm oil and soyabean oil.
The sobering influences in the oilseeds and oils markets are mainly due to the arrivals of imported oil and expectations of a bumper oilseeds crop. Most groundnut producing areas have received good rainfall intermittently and there have been bright spells of sunshine required for the healthy growth of the crop.

Meanwhile, the Government has taken a series of steps to ensure adequate supplies of oils. The S.T.C. has made arrangements to import groundnut oil. The vanaspathy industry is also ensured of supply in advance of imported oil so that there may not be any bottleneck later. The State Government have been asked to gear up their distribution system and to handle STC's supplies. The Government has also announced a rise in support prices which will ensure that the prices of oilseeds will not fall below economic levels thereby assuring minimum income to the growers, especially to small farmers who are generally forced to sell their produce immediately after harvest.

Apart from this, the Government wants to increase the production of edible oils by tackling the problems of the farmers who grow oilseeds, through increasing supplies by adopting better methods of extraction.
It is sad that even with the present low level of consumption of edible oils, we are not in a position to manage effectively the oil situation. In the years to come, when consumption of vegetable oils is expected to rise, the problem of supplies is likely to be more acute. The crisis situation prevailing in oilseed and oil markets can only be remedied with an effective intervention of the Government to ensure the availability of edible oils to the consumers at fair price and also at economic price to the producers. Again, much depends on the co-operation extended by the State Government having surplus of production of oilseeds and also the private trade industry dealing in oilseeds and oils.

PROBLEM OF STORAGE:

Yet another difficulty is faced by the mill owners in respect of storage. A dealer has to obtain a separate licence for each place of business in each district where he may stock or sell his oil. A dealer having a number of godowns in one and the same district is forced to obtain separate licence, for each of the godown by approaching different licencing authorities of different localities in the same district and has also to deposit cash as security for each place of business. This, 80% of oilmill owners feel, leads to financial commitment and
therefore, it is suggested that it is enough if one licence for each district issued by one authority irrespective of the number of godowns in the same district, is obtained.

The units surveyed by the researcher also expressed the difficulty in sending groundnut oil outside the State. Though there is no legal restriction on the transportation of groundnut oil from one state to another, the authorities insist that a certificate with the signature of the licencing authority should accompany the vehicle transporting groundnut oil. They feel that this should be controlled or deleted as it gives room for much harassment and unwanted practices.

The mill owners also feel that the rule that a wholesaler should not sell groundnut oil to another wholesaler in the same district should be removed as this affects the regular channel of distribution. They also express the view that the rule 'no wholesale dealer shall hold any stock of groundnut oil for a period exceeding fifteen days from the date of physical receipt of such stocks' will lead to collapse of the market structure, inflicting hardship to consumers and farmers.
INCREASE IN TAX RATES:

A very important problem faced by the oil industry is the rate of tax. An oil miller in Tamil Nadu who purchases edible oilseeds for the first time pays sales tax on such purchases at 3% apart from additional sales tax at 1% on the value of seeds purchased. Many of the millers who obtain the oil and cake by crushing the seeds sell the same in black market thus, evading the tax due on oil and cake produced. Thereafter the miller either obtains a bill of trading for equivalent quantity of oilseeds originally crushed from another dealer or shows as having been sold as seeds to another party. Thus, the tax due on oilseeds is also lost to the Government. This tendency has become more rampant and assumed large proportion with the result that the Government is not getting the tax due either on oilseeds or oil and cake. Further an honest miller is not able to find a buyer in the local market as the burden of tax payable by the honest miller works out to more than 10%. Hence, he is forced by circumstances to get out of this. 60% of the mill owners feel that the Government should exempt the edible oils from taxation or at least to reduce the rate of tax on oils locally produced thus, lessening the tax burden on oils.
The mill owners suggested certain steps to curb the anti-Government activity of evading the tax throughout completely at least to revitalise the oil milling industry to grow and function on proper lines and to be of relief to the consumers in the price of the oil consumed by them.

(a) The amount of sales tax alone paid by a local oil manufacturer on the purchase of oilseeds must be refunded to him, provided the oil and cake produced by him has suffered the tax locally. This concession should be shown only to local millers who have already paid the tax on edible oilseeds and who have also paid the tax on the oil and cake produced by them to the State Government. However, the additional sales tax paid on the value of seeds purchased need not be refunded.

(b) The edible oils and oil cakes locally produced within the state should be levied at the rate of one percent single point at the point of first sale in the state, apart from the payment of additional sales tax at the existing sales.

(c) Edible oils and oil cakes other than those produced within the State, imported from other states or countries, should be levied at the existing rate of 4% single point at the point of first sale in this state.
Lack of drying Yard:

One common difficulty experienced by the units is the absence of drying yard for drying the groundnuts, leads to loss in the extraction of oil and deterioration in the quality in the form of 'food fat acid' in groundnut oil. Since the manufacturers of refined oil need groundnut oil free from food fat acid, they give only a low price resulting in loss for groundnut oil manufacturers. Hence, it is suggested that the Government should provide necessary drying yards with infrastructural facilities, which will benefit the farmers as well as oil mill owners.

Problem exporting Groundnut Deoiled cake

The business of solvent extraction units depends upon the export market for deoiled cake. This export, however, has been more or less stagnant and has been widely fluctuating. Over years the Government of India has imposed several restrictions in the export of deoiled cake. Firstly, export by traders was banned on the ground that it deteriorates the quality of exported cake. Then, export was canalised through the Groundnut Extraction Export Development Association by fixing quota for each unit. The export trade was taken over by the State Trading Corporation of India, later.
The above changes in Government policies have created an atmosphere of uncertainty among the solvent extraction units. On discussion with the managers of some units in the study area, it was revealed that the most frustrating situation for them crops up when the Government remain unresponsive to the repeated pleas for additional quota for export. In the absence of export quota, valuable trading opportunities are lost during peak export market, particularly during January and May every year. When such a situation prolongs, oil cake and deoiled cake stocks pile up at the mills, blocking significant amount of their capital since there is no demand for deoiled cake domestically. This is the reason why every year a number of solvent extraction units remain dormant or face closure.