Agricultural Marketing Scenario
CHAPTER - II

AGRICULTURAL MARKETING SCENARIO

Agricultural Marketing is a crucial issue. Although the country has a vast marketing net work spread over the nook and corner, the proliferation of primary marketing facilities to farmers remain none too encouraging. The present day agricultural marketing system in India is the story of exploitation of the farmer by the middlemen. Though the agricultural produce has touched an all time high, marketing area lacks proper channelisation. As a result, the producers are subjected to all kinds of harassment and exploitation. The present system of individual marketing should be replaced by institutional/co-operative marketing through the regulated markets, if the farmer is to reap the fruits of his hard labour. Development of agricultural marketing is a must, for well balanced regional development.

Oilseeds, Cotton, Jute, tobacco, Ginger, Pepper, Chillies, Coffee and tea are important cash crops grown in India. Among cash crops oilseeds form the most important group. In India groundnut occupies five per cent of the total cultivated area in the country. Groundnut is cultivated in an area of 7.2 million hectares in the country and this represents 48.6% of the area under oilseeds.
In India the Agricultural Market Scenario is dominated by two systems working side by side, viz., organised and unorganised systems of marketing. The organised system of marketing is free from exploitation of the primary producers but the value of transactions held in this system is very low. It is the unorganised system which accommodated bulk of trade in practice that cause concern and therefore, efforts should be taken towards improving groundnut marketing and also in extending the ambit of organised marketing.

Organised marketing consists of the following four segments.

1. Regulated markets
2. Government's direct purchase
3. Commodity Boards
4. Co-Operative marketing societies

Regulated Markets:

In the organised system of marketing of groundnut produce, the regulated markets play an important role in helping the farmers to sell their produce in an atmosphere free from exploitation. The existence of a number of intermediaries in the marketing channel was causing concern to the Government.
Due to a variety of reasons such as ignorance of the farmers, their poor withholding capacity, lack of communication and transport facilities and absence of other avenues of marketing, the farmers were not able to secure fair prices for their produce from the traders. The Government thought that it was necessary to control and regulate the marketing of agricultural produce and hence, the first attempt made in regulating markets in India was the passing of the Cotton and Grains Market Act, 1897. Inspite of its shortcomings, the Act being first of its kind was responsible for spreading the idea of regulated markets throughout the country.

In Tamil Nadu, the concept of regulated market was borne out, by enacting Madras Commercial Crops Market Act, 1933. That is to establish regulated markets in important areas for commercial crops to be administered by market committees. The main functions of market committee were, to open market yard for notified areas, regulate market charges and market prices, eliminate malpractices, check the weights, supply market information wherever necessary, conduct auctions and fix the standards of quality. The first market committee was constituted under the Act in 1935 in Tirupur in Coimbatore district for cotton. Later in 1939, South Arcot district was notified for groundnut.
The number of regulated markets in the country was about 5600 by the end of the Sixth Plan as against 286 existed on the eve of the First Plan. There are 214 Regulated Markets in the state functioning directly under 13 Market committees. The total quantity of agricultural produce sold through the regulated markets had progressively increased from 2.5 lakh tonnes in 1972-73 to about 6 lakh tonnes in 1986-87. Groundnut, paddy, cotton and sugarcane, Jaggery are the most important commodities marketed through the regulated markets which together accounted for more than 80 percent of the quantity handled by them. About 20 percent of groundnut, 36 percent of cotton, 6 percent of Jaggery and 2 percent of rice are marketed through the regulated markets.

**Government's direct purchase:**

The Government also purchases certain agricultural commodities particularly food grains directly from the producers. The objective of state procurement is twofold. At the time of harvest, the price generally decreases and as a measure of protecting the farmers from unremunerative prices, the government intervenes and buys a certain portion of the produce from the farmers at support prices. Secondly, the State requires stocks
to maintain the public distribution system which helps the vulnerable section of the population particularly in urban areas. The state's procurement operations mainly relate to paddy.

**Commodity Boards:**

The Government of India has constituted Boards comprising growers, traders, processors, and other interested groups for specific commodities like coffee, tea etc. The boards play an important role in promoting the production and marketing of specific crops for which they had been formed. Besides advising the Government on improving the production levels, the boards help the growers in many ways, ranging from extension work and providing market information, to assisting them in marketing their produce. Coffee, tea, rubber and cardamom are the important plantation crops in Tamil Nadu for which boards have been established.

**Co-operative Marketing Societies:**

There are 115 primary Co-operative Marketing Societies in the State of Tamil Nadu, and they are organised on a traditional basis at the rate of one society for every taluk. The societies generally deal in all commodities grown in their area.
of operations. A few societies have been formed to deal exclusively in a single commodity such as potato, rubber, tobacco, etc. The membership of the primary societies is open to individual agriculturist and village credit societies. The apex organisation for the Co-operative marketing structure in the State is the Tamil Nadu Co-operative Marketing Federation.

The Societies in the State handled about Rs.23.10 crores (1976-77) worth of agricultural produce excepting sugarcane. Foodgrains mainly paddy, groundnut, cotton, potato and coffee are the most important commodities handled by PCMS and they account for 85 percent of the value of the produce handled. In items of quantity, it will be about 17000 tonnes of rice, 6000 tonnes of groundnut and 21000 tonnes of cotton kapas.4

The total quantity of agricultural produce marketed through the organised marketing system forms only a small portion of the marketable surplus of which the Government procurement accounting for the bulk. About 40 per cent of the marketable surplus of cotton is sold through public agencies particularly through regulated markets. About 20 per cent of the marketable

4. Compiled from Records maintained in the office of the Directorate of Agricultural Marketing, Tamil Nadu.
surplus of groundnut is sold through regulated markets and Co-operative Marketing Societies. Only about 20 to 25 per cent of the marketable surplus of important agricultural commodities in the state is sold through organised marketing channels while the bulk of the agriculture commodities marketed is still handled by private trading agencies which are primarily concerned with their profit maximisation and show least interest in what the producers get. In fact, the producers are exploited in varying degree by the wholesale merchants, Commission agents, village merchants etc.

Unorganised system of Marketing:

Bulk of the agricultural commodities grown in the state are sold by farmers in the unorganised system of marketing. The unorganised sector extends over the entire state and operates through wholesale private merchants, Commission agents, itinerant traders, brokers and agents of processing mills and factories. In this system, as a large number of private traders operate in the marketing of agricultural produce, the producers are in a disadvantageous position owing to a number of factors. They are invariably at the mercy of the traders, since a large number of farmers also happen to be illiterates or ill-informed
about a wide range of unethical trade practices like under-weighment, withholding of market trends, unreasonable commission and other market charges, deferred payments and discounts.

a. Wholesale Markets:

There are about 238 wholesale markets in the State dealing in agricultural produce. Usually these markets transact business daily and are situated in the district/sub-divisional or taluk headquarters and other important production centres well connected by rail or road. A large number of traders - wholesale, retail commission agents etc., are operating in these wholesale market centres. Going by the licences issued by the various market committees, the number of traders under different categories is about one lakh. (Information provided by the State Agricultural Marketing Board, Madras-4.) Practically, the entire marketing operation is done by private merchants. The shops, godowns, processing units etc. connected with wholesale transactions are generally located in different parts of the Town/Market centre. In certain places, a number of shops, processing units etc. are connected by a single road/street and usually such a place is called the "Mandi Area". Communication and transport facilities and the type of commodities that arrive into the markets are the main determinants for agricultural produce raised within a radius of 20 to 30 km. from the centre.
In the 238 wholesale markets functioning in Tamil Nadu all the commodities are handled by wholesalers but some markets are more important for particular crops which are handled in larger quantities because of concentration of production of that crop around the market centre. eg., groundnut in Tindivanam and Tiruvannamalai and cotton in Tiruppur. The growers themselves or the village merchants bring the produce to the market centres. But a majority of the sellers in the wholesale markets are village merchants who procure small quantities of agricultural commodities in the village surrounding the market centre. Sometimes the village merchants operate as agents of wholesale merchants and purchase and deliver the goods to the wholesaler for a small margin. The growers who bring the produce themselves directly to the wholesale market are the large farmers who have considerable marketable surplus.

b. Village-level Sale.

At the village level a number of agencies operate to procure the surplus from the producers which include the small merchants in the village who sell their consumer items to the growers in exchange for their agricultural produce, the commission agents, the itinerant traders, brokers and agents processing units like rice mills, etc. Thus, the marketable
surplus that leaves the farm moves from smaller to larger urban centres through a multiplicity of intermediaries before it reaches the ultimate consumers. A majority of the farmers sell their produce mainly in an unprocessed form at the village site itself to one of the several types of intermediaries mentioned above. Only a small proportion of the farmer bring their produce directly to a nearby wholesale or to the regulated market.

c. Shandies:

Another avenue for the farmers to market their produce is through the "Shandies". Generally, a cluster of villages has a market usually called "shandy" which assembles once or twice in a week. The days on which these markets meet are fixed so that the itinerant traders and others can pay routine visits to the area to make the purchase. Most of the transactions in those markets involve small quantities. Part of the produce particularly food grains is purchased by the small retailers who in turn sell it to the rural population. Producers from within a radius of 10 to 20 km. assemble in these markets to sell their surplus.

Mode of functioning of the unorganised sector:

A large number of farmers have to dispose of their produce almost immediately after harvest, out of sheer necessity.
Their poor withholding capacity, their immediate need for cash (in the production centres), problem of storing the produce, lack of processing facilities are the major constraints which force them to sell the produce immediately after the harvest at the most unfavourable price. The private merchants who have the necessary financial resources, storage godowns, ability to mobilise lorries, trucks and packing materials, processing units like rice mill, groundnut decorticators, oil mills, cotton gining press etc., quickly plunge into action and procure the surplus from the producers either directly or through a band of brokers, commission agents, etc. A number of merchants also advance money to the farmers when they are in need of it especially at the commencement of cultivation. Such farmers who have received advance from merchants have no other course but to sell their surplus to them regardless of the price they pay. Then the merchants release the produce either in its raw form or after converting the product into the form in which it can directly be sold to the consumers. There is considerable seasonal and special variation in the price of a number of agricultural commodities, with the result, neither the producer nor the consumer gets any benefit out of the price variation but it is the middlemen, the villagemen, the wholesaler and the processor who reap the maximum benefit exploiting both the producers and the consumers because of their vulnerabilities.
The interests of primary producers are also affected in the unorganised market in other crops. Besides, paying price to the producers which is more common where sales are effected at the village level, a number of unauthorised deductions are made by the buyer which result in a substantial reduction in the final payment. A recent study on the subject has listed out the various kinds of deductions made by the merchants. They are:

1. Commission Charges
2. Broker Charges
3. Handling Charges
4. Weighment Charges
5. Service Charges
6. Holding the bags for weighment or measurement
7. Pushing forward the grains to the scalepan
8. Charity Charges
9. Leaving the balance in favour of the buyer
10. Charity in kind, for temples
11. School Fund
12. Free Samples
13. To pay for milk, for children of buyers
14. Sweeper or water carrier Charges
15. Clerk's Allowances
16. Refraction Allowances
17. Discount for immediate payment
18. Cost of Sale Slips
19. Rent for gunny bags supplied
20. Godown Rent
21. Ground Rent
22. Rent for weights and measures
23. Rent house charges.

Buying and Selling Function:

Buying and selling are the most important activity in the marketing process. At every stage, buyers and sellers come together, goods are transferred from seller to buyer and thereafter the possession utility is added to the commodities.

The buying activity involves the purchase of the right goods at the right place, at the right time, in the right quantities and at the right price. It involves the problems of what to buy, when to buy, from where to buy, how to buy and how to settle the prices and the terms of purchase.
The selling activity involves personal or impersonal assistance to or persuasion of a prospective buyer to buy a commodity. The objective of selling is to dispose of the goods at a satisfactory price. The prices of products, particularly of agricultural commodities vary from place to place, from time to time and with the quantity to be sold. Selling, therefore, involves the problems of when to sell, where to sell, through whom to sell and whether to sell in one lot or in parts.

Methods:

The following methods of buying and selling are prevalent in all the markets of Tamil Nadu and other States, in our country.

(i) **Under Cover of a cloth** (Hatha System)

By this method, the prices of the produce are settled by the buyer and the commission agents of the seller by pressing/twisting the fingers of each other under cover of a piece of cloth. Code symbols are associated with the twisting of the fingers and traders are familiar with these. The negotiations in this manner continue till a final price is settled. When all the buyers have given their offers, the name and offer price of the highest bidder is announced to the seller by the commission agent.
This system provides opportunities of cheating the seller, for the seller is not aware of the price that has been offered by other buyers; the commission agent may not communicate various prices to the seller, and may strike a deal in favour of one who offers a lower price. This method has been abolished now by the Government because of the possibility of cheating. But it continues to prevail even now, in some markets.

(ii) Private Negotiations:

By this method prices are fixed by material agreement. This method is common in unregulated markets or village markets.

Under the method, the individual buyer come to the shops of commission agents at a time convenient to the latter and offer prices for the produce which they think are appropriate after the inspection of the sample. If the price is accepted, the commission agent conveys the decision to the seller and the produce is given, after weighment to the buyer.

In villages too, private negotiations take place directly between buyers and sellers. The seller takes the sample to the buyer and asks him to quote the price. If it is acceptable to the seller, a contract is immediately executed. This however,
is a slow and time-consuming process and is not suitable when either large quantities have to be sold or a large number of buyers exist in the market. The advantage of this method is that the seller gets a good price, for buyers are not aware of the prices offered by other buyers. Each buyer, therefore, tries to bid the highest to get the products.

(iii) Quotations on samples taken by Commission Agent:

By this method, the commission agent takes the sample of the produce to the shops of the buyers instead of the buyer going to the shop of the Commission agent. The price is offered, based on the sample, by the prospective buyers. The Commission agent approaches the prospective buyers until none is ready to bid a price higher than the one offered by a particular buyer. The produce is given to that buyer whose bid was the highest.

(iv) Dara Sale Method:

By this method, the produce in different lots is mixed and then sold as one lot. The advantage of this method is that, within a short time, a large number of lots are sold off. The disadvantage is that the produce of a good quality and one of a poor quality fetch price. There is a loss of incentive to the farmer to cultivate good quality products.
This method is common for such crops as Leera in many markets of the country.

(v) Moghum Sale Method:

By this method, the sale of produce is effected on the basis of a verbal understanding between buyers and sellers without any pre-settlement of price, but on the distinct understanding that the price of the produce to be paid by the buyer to the seller will be the one as prevailing in the market on that day or at the rate at which other sellers of the village sold main produce. This method is common in villages for farmers who are indebted to the local money lenders. Often the buyer pays less than the prevailing market rate on the plea of the poor quality of the produce.

(vi) Open Auction Method:

By this method, the prospective buyers gather at the shops of the commission agent around the heap of the produce, examine it and offer bids loudly. The produce is given to the highest bidder after taking the consent of the seller-farmer. This method is preferred to any other method because it ensures fair dealing to both parties and the farmer bringing the superior
quality of produce, receives a higher price. In most regulated markets the sale of the produce is permissible only by the open auction method.

**Groundnut Oil Marketing:**

With regard to groundnut oil marketing, the wholesale markets comprise three major levels namely local markets, assembly or primary markets and terminal markets. The operations in all of them are controlled by commission agents and brokers and subject to considerable speculation. Peaks and troughs characterise the annual fluctuations in the price of oils in the course of a year, obscured in certain years by unexpected events. Sales at the Bombay market are of three types. The first is the spot or ready transaction for goods that are ready or about to arrive. Usually about 90 per cent of the price is paid in advance by the buyer against railway receipts endorsed in the buyers' favour and if the lot is rejected, the advance must be returned in five days. The next category of sales are called future transactions and these can be concluded in terms of delivery or of buyer buying. The last type of sales is the teji-mandi, which involves double operations; teji is the option to buy and mandi is the option to sell and in such transactions, payment is protected and there is a good chance of profit.
Co-operative Marketing:

A plan has been launched for the co-operative marketing plan and marketing of vegetable oils by the National Dairy Development Board in order to make these operations more efficient, and protect them from speculative influences. This envisages control over two to four lakh tonnes of Groundnut oil annually, both indigenous and imported. To start with oil received at first from foreign countries will be used as a tool to generate the investment required to modernise and restructure the vegetable oil sector. Thus, substantial expansion in co-operative marketing of oilseeds and groundnut oil may be expected over the next five to seven years.

Retail Marketing:

Retail marketing is the last stage in the marketing operations for vegetable oil. Oil is sold through small shops scattered all over every town and city of India; these are owned by retailers and are under municipality, handled by the same agencies, such as adatyas, delals, shroffs and brokers, who deal in oil-seeds. Oil Producing mills and solvent extraction plants also have direct marketing arrangements for either packaged or loose oil with large or small dealers. Ghani-produced oil
is vended either directly from the producing units, through local oil-mongers, or through the larger marketing system.

**Use of groundnut and Groundnut oil:**

It is estimated that per capita consumption of oil as 6 kilograms in Tamilnadu. It's total population is 4.8 crores. Hence, the human consumption of all edible oils is 2.68 lakh tonnes. For other purposes 1 lakh tonne is being used. Therefore, the total demand for oil is equal to 3.88 lakh tonnes. Out of this 2 lakh tonnes of groundnut oil is demanded by the general public. The remaining is composed of gingely oil (0.50 lakh tonnes), coconut oil, (0.25 lakh tonnes) vanaspathi and others (1.13 lakh tonnes). This shows the importance of groundnut oil in the consumption habits of the people of Tamil Nadu. Therefore, it is necessary to take steps to improve the marketing facilities for the Groundnut and oil. Groundnut, apart from being consumed directly as edible product, is also used in the preparation of several foods, sweets and other confectionery items. The direct uses of groundnut are many. Thus, the habit of consuming groundnut kernals roasted, salted or fried is wide spread in all parts of the country. The practice of mixing groundnut kernals with other dry fruits is a common feature. Though
the available local varieties are mostly used for such direct edible purposes, "Bold" nuts with low oil content are preferred, as far as possible.

Groundnut kernals are also used all over the country in such food preparations as chutni, chivda, sweets etc. Similarly, kernals constitute an important ingredient in food dishes on days when religious fasting is observed. Groundnut kernals are also used in many confectionery items like chocolates and cakes. Of late, groundnut flour is being increasingly used in the preparation of various supplementary protein diets like Milpro and Balahar. In the developed countries like United States of America, groundnut forms the main constituent in a number of food preparations such as peanut butter, peanut soup and peanut salad. Some of these preparations may gain popularity in the years ahead in this country. Except for the small quantities of groundnut retained for seeding purposes by cultivators, and some quantities used for direct food, almost the entire output of most of the oilseeds grown is crushed to yield oil and cake. The quantity so consumed ranges from 6% to 25% for groundnut.

Groundnut oil is used for both food and non-food purposes. As product, groundnut oil is used either directly
or indirectly in the form of Vanaspathi. In the early days groundnut oil accounted for 70% of the total oil input in vanaspathi. But now, vanaspathi industry is required to use groundnut oil only to the extent 25% of its total consumption of oil. The non-food uses of oil mainly include the manufacture of soap, paints and varnishes. The other non-food uses include lubrication, manufacture of fatty acid, glycerine, soap stock, etc. Oil cakes which are the residue left over from groundnut after oil extraction, is used either as organic manure or fed directly to animals. With the development of the solvent extraction industry to recover residual oil left over in expeller or ghani cakes, increasing quantities of oil meals are being exported abroad.