AGRICULTURAL MARKETING, TRADE AND PRICES

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TOPIC 1:
AGRICULTURAL MARKETING: CONCEPTS AND DEFINITION, SCOPE AND SUBJECT MATTER OF AGRICULTURAL MARKETING

CONCEPTS AND DEFINITION:

"The National commission on Agriculture (1976) and Farmers commission (2007) has emphasised that it is not enough to produce a crop but, it must be satisfactorily marketed."

The term agricultural marketing is composed of two words agriculture and marketing.

Agriculture, in the broadest sense, means activities aimed at the use of natural recourse for human welfare. It induces all the primary activities of production. But generally, it is used to mean growing and or raising crops and livestock.

Marketing connotes a series of activities involved in moving the goods from the point of production o the point of consumption.

It induces all activities involved in the creation of time, place, form and possession utility.

1. American marketing association defined marketing as performance of business activities that directs the flow of goods and services from producers to consumers.

2. Kohls and Uhl defined marketing as the performance of all business activities involved in the flow of food products and services from the point of production until they are in the hands of consumer.

AGRICULTURAL MARKETING:

According to **Thompson** "The study of agricultural marketing comprises all the operation and the agencies conducting them, involved in the movement of farm-product food, raw materials and their derivatives from farm to final consumers".

Agriculture Marketing is the study of all the activities, agencies and policies involved in the procurement of farm input by the farmers and the movement of agricultural products from producers to ultimate consumers. It's the link b/w farm and non-farm sectors.

3. According to National commission on Agriculture, Agricultural Marketing is a process which starts with discussion to produce a saleable farm commodity, involves all the aspects of market structure.

4. According to Acharya, Agri. marketing can be defined as comprising of all

activities involved in supply of farm inputs to the farmers and movements of agricultural products from the farmers to the consumers.

Agricultural marketing system includes the assessment of demand for farm input and their supply, post-harvest handling of farm products from farm gate to processing industries to the final consumers.

The overall objective of agricultural marketing system in developing country like India Should be to help the primary producer’s viz. the farmers in getting remunerative prices for their produce on the one hand and to provide sight type of goods at right place, in right process to the processors and ultimate consumers on the other.

SCOPE AND SUBJECT MATTER:

Agricultural marketing in a broader sense is concerned with marketing of farm products produced by farmers and of farm input and services required by them in the production of this farm products. Thus, the subject mother of agricultural marketing includes product as well as input marketing. It dealt with both theoretical and practical point of view. It covers what the system is, how it functions, and how the given methods may be modified to get the maximum benefits. Agricultural marketing system also includes the assessment by demand for farm input and their supply, post-harvest handling of farm products from farm gate to processing industries to the final consumers.

The subject of output marketing is as old as civilization itself. The importance of output marketing has become more conspicuous in the recent past with the increased marketable surplus of the crops following the technological breakthrough. . The importance of farm inputs improved seeds, fertilizers, insecticides and pesticides, farm machinery, implements and credit-in the production of farm products has increased in recent years. The new agricultural technology is input-responsive. Thus, the scope of agricultural marketing must include both product marketing and input marketing. In this book, the subject matter of agricultural marketing has been dealt with; both from the theoretical and practical points of view. It covers what the system is, how it functions, and how the given method or techniques may be modified to get the maximum benefit. Specially, the subject of agricultural marketing includes marketing functions agencies, channels, efficiency and costs, price spread and market integration, producer’s surplus, government policy and research, training and statistics on agricultural marketing.

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TOPIC 2:
MARKET AND MARKETING: MEANING, DEFINITION, COMPONENTS OF A MARKET, CLASSIFICATION, MARKET STRUCTURE, MARKET FUNCTIONARIES OR AGENCIES

MARKET:

The word market comes from the **latin** word **marcatus** which mean merchandise or trade or a place where business is conducted.

- It is a place or a building where commodities are bought sold. eg – Super market
- Potential buyers & sellers of a product eg – wheat & cotton market.
- Potential buyers & sellers of a country or region eg –India & Asian market
- An organization which produce facilities for exchange of commodities. eg – Bombay stock exchange.
- A phase or a course of commercial activity eg – dull or bright market

A/C to Duddy - Markets are people with money & desire to spend it
A/C to Chapman**-** Economically interpreted, the term market refers not to a place but to a commodity & buyers & sellers are in free intercourse with one another.

MARKETING: connotes a series of activities involved in moving the goods from the point of production o the point of consumption.

It induces all activities involved in the creation of time, place, form and possession utility.

- American marketing association defined marketing as performance of business activities that directs the flow of goods and services from producers to consumers.
- Kohls and Uhl defined marketing as the performance of all business activities involved in the flow of food products and services from the point of production until they reach to the hands of consumer.

COMPONENT OF MARKET:

For a market to exist, certain conditions must be satisfied. These conditions should be both necessary and sufficient. They may also be termed as the components of a market.

1. The existence of a good or commodity for transactions (physical existence is, however, not necessary)
2. The existence of buyers and sellers;
3. Business relationship or intercourse between buyers and sellers; and
4. Demarcation of area such as place, region, country or the whole world.

CLASSIFICATION OF MARKETS:

Markets may be classified on the basis of each of the twelve dimensions.

1) **On the basis of location or place of operation.**

a. **Village markets**: It is located in a small village. Transaction takes place among the buyers & sellers of a village.

b. **Primary markets:** It is located in towns. Transaction takes place b/w the farmers & primary traders.

c. **Secondary wholesale markets:** It is located at district headquarter or trade centre or near railway junction. Transaction takes place b/w village traders & wholesalers.

d. **Terminal markets:** It is located either in metropolitan cities or at sea ports. It is one where the produce is either finally disposed of to the consumer or processors or assembled for export.

e. **Seaboard markets:** It is located near the sea shore for imports/ export of goods. They are gene

2) **On the basis of vol. of Transaction**

a. **Wholesale markets:** Commodities are bought & solid in large lots on in bulk. These are located either in cities or towns, these markets occupy an extremely important. link in the marketing chain. It can be classified as :

   i. Primary wholesale

   ii. Secondary wholesale

   iii. Terminate wholesale

b. **Retail Markets:** Commodities are bought by & sold to the consumer as per their requirement. Transaction: take place b/w retailers & consumer. The quantity transacted in retail market is smaller than that in the wholesale

c. **rally seaport towns.**

3) On the Basis of Area

a. **Local or Village markets:** A market in which the buying & selling activities are confined among buyers & sellers in local villages.. eg : local milk & Vegetable market

b. **Regional markets:** A market in which buyers & sellers for a commodity are drown from a larger area than the local market eg – food grain.

c. **National markets:** Markets in which buyers & sellers are drown from whole country. eg: Jute & tea

d. **World / International Markets:** Markets in which the buyers & sellers are drown from more than one country or the whole world, e.g. coffee, machinery, gold.

4) On the basis of Time span

a. **Short period markets:** The market which are held only for a day or few hours. The products are of a highly perishable nature – fish, liquid milk, vegetables.

b. **Long period markets:** There are those markets where there is enough time to adjust the supply a/c to the intensity of demands eg – Food grain, machinery.

c. **Secular markets:** These are of permanent nature. Commodities are durable in nature & can be stored for many years. eg: machinery.
market.

5) On the basis of nature of Transaction

a. **Spot or cash markets:** Goods are exchanged for money immediately after the sale.

b. **Forward markets:** A market in which the purchase & sale of a commodity takes place at time but the exchange of the commodity take place on some specified date in future i.e. t+1.

6) On the basis of Number of commodities

a. **General Markets:** A market in which all types of commodities such as food grains, oil seeds, fibre crops, gur etc. are bought & sold. It deals with large no of commodities.

b. **Specialized Markets:** A market in which transactions takes place of only in one or two commodities eg : Food grain market, vegetable, wool & cotton market.

7) **On the basis of Degree of competition**

a. **Perfect Markets :** The general requirement to be a perfect market are :

  i. There must be one price for one grade of a commodity in the entire market at a particular period of time.

  ii. There should be no restriction on the movement of the produce in the market &

  iii. There must be a good no. of buyers & sellers present in the market.

b. **Imperfect Markets:** The buyers & sellers are not aware about each other intension regarding price offer & price demand. The following situation are prevailing in imperfect markets:

  i. **Monopoly markets:** There is only one seller of a commodity. The price of a commodity is generally higher than the other markets like purchasing of electricity for irrigation. When there is only one buyer of a product the situation is known as monopsony market eg – The sugarcane farmers in the catchment area of a sugar factory.

ii. **Duopoly markets:** This has only two sellers of a commodity. In this situation both the sellers agree on prices charged to the consumers for particular products. When there are only two buyers of a commodity in such market is known as duopsony.

iii. **Oligopoly markets:** There are more than two but still a few sellers of commodity. A market having more than 2 buyers is known as oligopsony.

iv. **Monopolistic competitive market:** When a large no. of sellers deals in heterogeneousness & differentiated form of a commodity. eg: Market for diesel of petrol.

8) On the basis of Nature of Commodities

a. **Commodity Markets:** A market which deals in goods & raw materials such as wheat, barley, cotton, fertilizer seed etc. It is classified into :-

   i. Produce exchange
   ii. Manufacture goods
   iii. Bullion market

b. **Capital Markets:** The market in which bonds, shares & securities are bought & sold. eg- money market & share market at is desired into

   i. Money market
   ii. Foreign exchange market
   iii. Stock exchange market

9) On the basis of stage of marketing

a. **Producing markets:** Those market which are mainly meant for assemble the commodity for further distribution to other markets. It is located in producing areas.

10) **Consuming markets:** Market which collect the produce for final disposal to the consuming population. It is located in areas where production is inadequate.

11) **On the basis of Extent of pubic Intervention**

a. **Regulated markets:** Those market in which business is done accordance with the rules & regulation framed by the statutory market organization.

b. **Unregulated markets:** Business is conducted without any set rules & regulation. Traders frame the rules for the conduct of the business & run the market.

12) **On the basis of Type of population Served**

a. **Urban markets:** A market which serve mainly the population residing in n urban area. The nature & quantum of demand for agricultural products arising from the urban population.

b. **Rural markets :** The demand originating from the rural population. They generally have poor marketing facilities.

13) **On the basis of Market functionaries & accrual of marketing margins.**

a. It is classified on the basis of as to who are the market functionaries & to whom the marketing margins accrued. Private trade still handles bulk of the trade in farm products the cooperative marketing has increased its share in the trade of some commodities like milk, fertilizers, sugarcane & sugar. Farmers themselves work as sellers of the products the cooperative marketing has increased its share in the trade of some commodities like milk, fertilizers, sugarcane & sugar Farmers themselves work as sellers of the produce to the consumers.

The market can be:

i. Farmers market

ii. Cooperative markets

iii. General markets

MARKET FUNCTIONARIES OR AGENCIES

A very small proportion of farm produce moves directly from farmers to consumers. Most of the farm products move to consumers through several agencies/ institutions and channels. The role played by marketing agencies and institutions in the marketing system in quiet in disposable as they perform important marketing functions. They also help in expanding the markets for farm products and add value to the products.

There are two main routes through which agricultural commodities reach the consumers:

- **Direct Route**: Sometimes, agricultural commodities directly move from producers to consumers. There is a complete absence of middlemen or intermediaries.
- **Indirect Route:** Agricultural commodities generally move from producers to consumers through intermediaries or middlemen, who are basically, market functionaries performing important marketing functions. The no. of intermediaries may vary from one to many.

MARKETING AGENCIES

In the marketing of agricultural commodities, the following agencies are involved:

- **Farmers or Producers:** Most farmers or producers, perform one or more marketing functions. They sell the surplus either in the village or in the market. Some farmers, especially the large, they assemble the procedure of small farmers, transport it to the nearby market, sell it there and make a profit. This activity helps these farmers to supplement their incomes.
- **Middlemen: Are** those individuals or business concerns which specialize in performing the various marketing functions. They do this at different stages in the marketing process. The middlemen in food grain marketing may, therefore, be classified into five groups as follows

  a. **Merchant Middlemen:** Are those individuals who take title to the foods they handle. The buy and sell on their own gain or lose, depending on the difference in the sale and purchase prices. They are of following four types:-

     i. **Wholesalers:** Wholesalers are those merchant middlemen who buy and sell food grains in large quantities. They may buy either directly from farmers or from other wholesalers. They sell to retailers, other wholesalers and processors. They do not sell significant quantities to ultimate consumers. They have own go- downs for the storage of the produce.

ii. **Retailers:** Buy goods from wholesalers and sell them to the consumers in small quantities. They are producer's personal representatives to consumers. They are the closet to consumers in the marketing channel.

iii. **Village Merchants:** Are petty merchants who move from village to village, and directly purchase the produce from the cultivators. They transport it to the nearly primary or secondary market and sell it there. Village merchants may have their small establishments in villages. They purchase the produce of those farmers who have either taken finance from them or there who are not able to go to the market. Village merchants also supply essential consumption goods to the farmer. They act as financers of poor farmers.

iv. **Mashakhores :** This is a local term used for big retailers or small wholesalers dealing in fruits and vegetables. Earlier, they used to deal only in one or two fruits and vegetables, purchasing from the commission agents or wholesalers in substantial quantities usually three to four quintals in vegetables. In recent years, they have started retailing to all types of customers without the condition of a minimum quantity.

b. **Agent Middlemen**

Act as representative of their clients. They do not take title to the produce and therefore, do not own it. They merely negotiate the purchase. They sell services to their clients and not the goods or commodities. They receive income in the form of commission or brokerage. They serve as buyers or sellers in effective bargaining. They are of two types.

i. **Commission Agents or Arhatias:** A commission agent is a person operating in the wholesale market who acts as the representative of either a seller or a buyer. Takes over the physical handling of the produce, arrange for its sale, collects the price from the buyer, deducts his expenses and commission and remits the balance to the seller.

They are of two types in unregulated markets: Kaccha arhatias & Pacea arhatias. Kaccha arhatias primarily act for the sellers, including farmers. They sometimes provide advance money to farmers and itinerant traders on the condition that produce will be disposed of through them. A pacca arhatia acts on behalf of the traders in the consuming market.

In regulated markets, only one category of commission agent keeps an establishment. He renders all facilities to his clients. He is, therefore, preferred by the farmers to the co-operative marketing society for the purpose of the sale of their produce.

ii. **Brokers**: Brokers render personal services to their clients in the market; but unlike the commission agents, they do not have physical control of the product. The main function of a broker in to bring together buyers and sellers on the same platform for negotiations. They render valuable service to prospective buyers and sellers, for they have complete knowledge of the market about the quantity available and the prevailing prices. They have no establishment in the market. They simply wander about in the market and render services to clients. There is no risk to them. They play a valuable role in the marketing of other agricultural commodities such as gur, sugar, edible oil, cottonseed and chillies.

c. Speculative Middlemen

Those middlemen who take title to the product with a view to making a profit on it are called speculative middleman. They are not regular buyers or sellers of produce. They specialize in risk-taking. They buy at low prices when arrivals are substantial and sell in the off-season when prices are high. They do the minimum handling of goods. They make profit from shirt-rum as well as long-rum price fluctuations.

Processors

Carry on their business either on their own or on custom basis. Come processors employee agents to beg for them in the producing areas, store the produce and process it throughout the year on continuous basis. They also engage in advertising activity to create a demand for their processed products. They add form utility to agricultural commodities.

d. Facilitative Middlemen

Some middlemen do not buy and sell directly but assist in the marketing process. Marketing can take place even if they are not active. But the efficiency of the system increases when they engage in business. There middlemen receive their income in the form of fee or service charge from those who use their services. The important facilitative middlemen are:

i) **Hamals or labourers:** They physically move the goods in marketplace. They do unload from and the loading on to bullock carts trucks. They assist in weighing the bags. They perform cleaning and refilling jobs and stitch the bags.

ii) **Weigh men:** They facilitate the correct weight and measure of the produce. They use pan balance when quantity in small. Generally, the scale beam balance is used. They get payment for their services through the commission agent. The weighbridge and electronic balance system of weighing also exist in big markets.

iii) **Graders:** These middleman sorts out the product into different grades, based on some defined characteristics, and arrange them for sale.

iv) **Transporters:** They assist in the movement of the produce from one market to another. The main transport means are the railways and trucks, Bullock carts or camel carts or tractor-trolleys.

v) **Communication Agency:** It helps in the communication of the information about the prices prevailing, and quantity available in the market. Sometimes, the transactions take place on the telephone. The postal and telegraph, telephones, newspaper, the radio and informal links are the main communication channels in agricultural marketing.

vi) **Advertising agency:** It enables the prospective buyers to know the quality of the product and decide about the purchase of commodities. Newspapers, the radio, television & cinema slides are the main media for advertisements.

vii) **Auctioneers':** they help in exchange function by putting the produce for auction and bidding by the buyers.

MARKET STRUCTURE

The term structure refers to something that has organisation and dimension- shape, size and design, and which is evolved for the purpose of performing a function. It also refers to the size and design of the market and includes the manners of the operation of the market. Some of the expressions describing the market structure are:

1. Market structure refers to those organisational characteristics of a market which influence the nature of completion and pricing, and affect the conduct of business firm.
2. It affects the trader's behaviour and their performances.
3. It is the formal organisation of functional activity of a marketing institution.

An understanding and knowledge of the market structure is essential for identifying the imperfections in the performance of a market.

COMPONENTS OF MARKET STRUCTURE:

These are the following components of the market structure, which together determine the conduct and performance of the markets are:

1. Concentration of Market Power: The concentration of market power is an important element determining the nature of completion and consequently of market conduct and performance. This is measured by the number and size of firms existing in the market. The extent of concentration represents the control of an individual firm or a group of firms over the buying and selling of the produce. A high degree of market concentration restricts the movement of goods between buyers and sellers at fair and competitive prices and creates an oligopoly or oligoposony situation in the market.
2. Degree of Product Differentiation: Whether or not the products are homogenous affects the markets structure. If products are homogenous the price variations in the market will not be wide. When products are heterogeneous, firms have the tendency to change different prices for their products. Everyone tries to prove that his product is superior to the products of others.
3. Conditions for Entry of Firms in the Market: Another dimension of the markets structure is the restriction, if any on the entry of firms in the markets. Sometimes a few big firms do not allow new firms to enter the market or make their entry difficult by their dominance in the market. There may also be some government restrictions on the entry of firms.
4. Flow of Market Information: A well organised market intelligence information system helps all the buyers and sellers to freely interact with one another in arriving at prices and striking deals.
5. Degree of Integration: The behaviour of an integration market will be different from that of a market where there is no integration either among the firm or of their activities.

Dynamics of markets structure: conduct and performance

The market structure determines the market conduct and performance. The term market conduct refers to the patterns or behaviour of firms, especially in relation to pricing and their practices in adopting and adjusting to the market in which they function.

Market conduct includes:

- Market sharing and price setting policies.
- Policies aimed at coercing rivals and
- Policies towards setting the quality of products.

The term market performance refers to the economic results that flow from the industry as each firm pursues its particular line of conduct. Society has to decide the criteria for satisfactory market performance. Some of the criteria for measuring market performance and of the efficiency of the market structure are:

1. Efficiency in the use of resources, including real cost of performing various functions:
2. The existence of monopoly or monopoly profits, including the relationship of margins with the average cost of performing various function;
3. Dynamic progressiveness of the system in adjusting the size and number of firms in relation to the volume of business, in adopting technological innovations and in finding and/or inventing new forms of products so as to maximize general social welfare.
4. Whether or not the system aggravates the problem of inequalities in inter-personal, inter-regional, or inter-group incomes.

For example, inequalities increase under the following situations.

(a) A market intermediary may pocket a return greater than its real contribution to the national product;

(b) Small farmers are discriminated against when they are offered a lower return because of the low quantum of surplus;

(c) Inter-product price parity is substantially disturbed by new uses for some products and wide variations and rigidities in the production pattern between regions. The market structure, therefore, has always to keep on adjusting to changing environment if it has to satisfy the social goals. A static market structure soon becomes obsolete of the change in the physical, economic, institutional and technological factors.

For a satisfactory market performance, the market structure should keep pace with the following changes;

1. Production pattern. Significant changes occur in the production pattern because of technological, economic and institutional factors. The market structure should be reoriented to keep pace with such changes.

2. Demand pattern: The demand for various products, especially in terms of form and quality, keeps on changing because of change in incomes, the pattern of distribution among consumers, and changes in their tastes and habits. The market structure should be re-oriented to keep it in harmony with the changes in demand.

3. Cost and patterns of marketing function: Marketing functions such as transportation, storage, financing and dissemination of market information, have great bearing on the type of market structure. Government policies with regard to purchases, sale and subsidies affect the performance of market functions. The market structure should keep on adjusting to the changes in costs and government policy.

4. Technological change in industry: Technological changes necessitate change in the market structure through adjustments in the scale of business, the number of firms, and in their financial requirements.

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TOPIC3:

a. MARKETING CHANNEL, MEANING, DEFINITION, CHANNEL FOR DIFFERENT PRODUCTS

b. MARKET INTEGRATION: MEANING, DEFINITION, TYPES OF MARKET INTEGRATION.
MARKET EFFICIENCY: MEANING AND DEFINITION MARKETING COST, MARGIN AND PRICE SPREAD.

c. FACTORS AFFECTING THE COST OF MARKETING, REASON FOR HIGHER MARKETING COST OF PRODUCTS WAYS OF REDUCING MARKETING COST.

MARKETING CHANNELS

Marketing channels are routes through which Agricultural products move from producers to consumers. The length of channel Varies from Commodity to commodity depending on quality or quantity to be moved, the form of consumer demand and degree of regional specialization in production.

DEFINITION: Marketing Channel as alternative routes of product flows from producer to consumers. At every stage of the marketing channel, one or other form of value (Utility) is added to the product.

FACTORS AFFECTING LENGTH OF MARKETING CHANNELS

Marketing Channels for Agricultural products Very from product to product, country to country, lot of time eg. - **Marketing channels for fruits are different from those for food grains.**

The lots originating at small farms follows different route or channels from the one originating in large farm. With the expansion in transportation and communication network changes in the structure of demand and the development of markets, marketing channels for farm products in India have undergone a considerable change, both in terms of length and quality.

Marketing Channels for Cereals:

Some common marketing channels for wheat have been identified as follows

A. Farmer to consumers.

B. Farmer to retailer/village trade to consumer

C. Farmer to whole sealer to retailer to consumer

D. Farmer to village trader to wholesaler to retailer

E. Farmer to co-operative marketing society to retailer to consumer.

F. Farmer to government Agency (FCI etc) to Fair Price shop owner to consumer.

G. Farmer to wholesaler to Flour miller to retailer to consumer.

- **Marketing channels for oilseed**
- **Marketing channels for Fruit & Vegetables**
- **Marketing channels for eggs**
- **Marketing channels for Pulses.**

Some innovative marketing channels (Direct Marketing)

The marketing channels for farm products which are highly perishable should be as short as possible. Perishable farm Product should move quickly from farmers to consumers. It farmers directly shell their produce to the consumers it will not only save losses but also increases Farmers share in the price paid by the consumers. Therefore direct marketing by the farmer is being encouraged as alternative channel; some examples of these channels are given below,

1. **Apni Mandi / Kisan Mandi**

Apni mandi also called “Kisan Mandi” as it is different from the traditional mandi or market yard where the produce moves to the buyer through either a commission agent or trader.In Apni mandi farmers sell their produce directly to consumers without involvement of the middleman.

OBJECTIVE:

i. Better marketing of Agri produce especially of Fruits and vegetables.

ii. Ensuring direct contact at the producer Farmers and enhancing the distributional efficiency of the marketing system.

iii. Increasing the profitability of Agri. crops for producers by minimizing of marketing cost & margin of middleman.

History: The first Apni mandi was started in Punjab state by the Punjab mandi board at chandigharh.

Function: The market committee of the Area where Apni mandi is located provides space water, sheds counters balance and other facilities to the farmer in Apni mandi. The state Agri. marketing Boards provide financial Assistance to the market committee for these services rendered by them to the Apni mandi.

2. **Hadaspar Vegetable market :**

Hadaspar vegetables market is a model market for direct marketing of vegetables in Pune city. This belongs to the Pune municipal corporation and the free for using the space in the market is collected by the municipal corporation from the farmers. In this market there are no commission agents/ middlemen. The market has modern weighing machines for weighing the produce. Buyers purchase vegetable in lots of 100 kgs or 100 numbers. The produce is weighed in presence of licensed weighmen of the market committee and sale bile is prepared. The purchases make payment of the value of produce directly to the farmers.

3. **Rythu Bazars :**

Rythu Bazars have been established in the major cities of Andhra Pradesh state Rythu Bazars started functioning in the A.P. state from Jan 20, 1999, within five years 96 Rythu bazars were operating in all the 23 districts of the state there is no government involvement in price fixation.

The function is left to farmers who organised those salves into consideration the whole sale and retail prices prevailing in the nearby town.

4. **Uzhavar Sandies :**

Uzhavar Sandies were established in selected municipal and panchayat areas of the Tamilnadu in 1999 by the states Govt. In these market farmers enjoy better marketing infrastructure free of cost and also receive considerably high prices for the products than what they use to receive from middleman at village or primary markets of towns.

5. **Shetkari Bazar :** It was established in the state of Maharashtra for the marketing of fruits and vegetables. This Bazar by eliminating intermediate links producers direct to the consumers, reduce price-spread and enhances producers share in consumer's rupees.

6. **Krushak Bazars :** This Bazar in state of Orissa in the year 2000-01.

7. **Mother Dairy Booths**

8. **Safal Market**

9. **Vegetable & Fruit Promotion council Keralam**

MARKET INTEGRATION

Integration shows the relationship of the firms in a market. The extent of integration influences the conduct of the firm and consequently their market efficiency. . It refers to the expansion of firms by consolidating additional marketing functions and activities under single management e.g. Establishment of wholesaling facilities by food retailers.
Kohls & Uhl defined market integration as a process which refers to the expansion of firms by consolidation additional marketing functions and activities under a single management.
There are three basic kinds of market integration.

1. **Horizontal integration:** It is most common types of integration. When a firm gains control over other firm, performing similar marketing functions, known as horizontal integration. It is advantageous for the members who join the group or sell their produce in bulk and reduce their cost of marketing. Parent Agribusiness firm: Firm (A) Firm (B) Firm (C) Firm (D) are in one group.

2. **Vertical integration**: When a firms perform more than one activity in the sequence of the marketing process. It is linking together of two a more functions within a single firm or under a single ownership. e.g. Floor mil which has been engages in retailing activities.. Following are the benefits of vertical integration
    a. It reduces the cost of marketing
    b. Greater market power in term of supplies or distribution network.
    c. It reduces the number of middlemen in the marketing channel.

Two type of vertical integration:

1). **Forward integration**: If a firm assumes another function of marketing close to the consumption function, e.g. a wholesalers assuming the function of retailing.

2). **Backward integration**: This include ownership or a combination of sources of supply for example when a processing the produce from village.

3. **Conglomeration**: A combination of organises or activities not directly related to each other, may when it operates under a unified management, be termed as conglomeration. e.g. Hindustan lever Ltd. Delhi cloth and General Mill (Cloth & Vanaspati)

. MARKETING EFFICIENCY:

Marketing efficiency is the degree of market performance. Marketing efficiency is so broad and dynamic term.
According to Kohls and Uhl: Market efficiency is the ratio of market output to marketing input. As increase in this ratio represents improved efficiency and a decrease denotes reduce efficiency.

According to Clark: Marketing efficiency has been defined as

i. The effectiveness with which a marketing service is performed.
ii. The cost at which the service is performed; and
iii. The effect of this cost and the method of performing the service on production and consumption.

Of the three components, the last two are the most important because the satisfaction of the consumer at the lowest possible cost must go hand in hand with the maintenance of a high value of farm output.

Efficient market:

A movement of goods from producer to consumers at the lowest possible cost, consistent with the provision of the services desired by the consumer, may be termed as efficient marketing. A change that reduces the cost of accomplishing a particular function without reducing consumer's satisfactions indicates an improvement in the efficiency. But a change that reduces costs but also reduces consumer satisfaction need not indicates increase in marketing efficiency.

Component of Marketing Efficiency

i. Effectiveness with which a marketing service is performed
ii. The cost at which the service is provided.
iii. The effect of this cost and the method of performing the services as production and consumption.

Assessment of Marketing Efficiency

1. **Technical or physical or operational efficiency**: It pertains to the costs of performing a function; Efficiency is increase which the cost of performing a function per unit of output is reduced. eg. Storage processing, handling etc.

2. **Pricing/ Allocate efficiency**: System is able to allocate farm products either over time, across the space or among the traders, processors and consumers at a point of time in such a way that no other allocation would make producers and consumers better off. This is achieved via pricing the product at different stage, place, times among different users, pricing efficiency refers to the structural characteristics of the marketing system, when the sellers are able to get the true value of their produce and the consumers receives true worth of their money.

Empirical Assessment of Marketing Efficiency

A reduction in the cost for the same level of satisfaction or an increase in the satisfaction at a given cost results in the improvement in efficiency.

$$E = \frac{O}{I} \times 100$$

Where, E = Level of efficiency
O = Value added to the marketing system
I = Real cost of marketing

Shepherd's formula of marketing efficiency:

$$ME = \left(\frac{V}{I} - 1\right) \times 100$$

Where,
ME = Index of marketing efficiency.
V = Value of the goods sold or price paid by the consumer.
I = Total marketing cost or input of marketing.

Marketing Costs, Margins and Price Spread

Market functionaries or institutions move the commodities from the producers to consumers. Every function or service involves cost. The intermediaries or middlemen make some profit to remain in the trade after meeting the cost of the function performed.

In the marketing of agricultural commodities, the difference between the price paid by consumer and the price received by the producer for an equivalent quantity of farm produce is often known as farm-retail spread or price spread. Sometimes, this is termed as marketing margin.

The total margin includes:

(i) The cost involved in moving the product from the point of production to the point of consumption, i.e., the cost of performing the various marketing functions and of operating various agencies;

(ii) Profits of the various market functionaries involved in moving the produce from the initial point of production till it reaches the ultimate consumer. The absolute value of the marketing margin varies from channel to channel, market to market and time to time.

Concepts of Marketing Margins
There are two concepts of marketing margins.

(i) **Concurrent Margins**

These refer to the difference between the prices prevailing at successive stages of marketing at a given point of time. For example, the difference between the farmer's selling price and retail price on a specific date is the total concurrent margin. Concurrent margins do not take into account the time that elapses between the purchase and sale of the produce.

(ii) **Lagged Margins**

A lagged margin is the difference between the price received by a seller at a particular stage of marketing and the price paid by him at the preceding stage of marketing during an earlier period. The length of time between the two points denotes the period for which the seller has held the product. The lagged margin concept is a better concept because it takes into account the time that elapse between the purchase and sale by a party and between the sale by the farmer and the purchase by the consumer. The method of calculating lagged margins is based on the same principle as that involved in the first in-first out method of accounting. However, it is difficult to obtain data on time lags between purchase and sale with a view to maintaining continuous series of marketing margins.

Importance of Study of Marketing Margins and Costs

Studies on marketing margins and costs are important, for they reveal many facets of marketing and the price structure, as well as the efficiency of the system.

(i) The magnitude of the marketing margins relative to the price of the product indicates the efficiency or otherwise of the marketing system. It refers to the efficiency of the intermediaries between the producer and the consumer in respect of the services rendered and the remuneration received by them. While comparing the efficiency of the marketing system by means of marketing margins over space or time, the difference in the value added to the product through various services/functions is taken into account;

(ii) Such studies help in estimating the total cost incurred on the marketing process in relation to the price received by the producer and the price paid by the consumer. The cost incurred by each agency in different channels and the share of each agency in the cost have been revealed. This knowledge ultimately helps us to identify the reasons for high marketing costs and the possible ways of reducing them; and

(iii) The knowledge of marketing margins helps us to formulate and implement appropriate price and marketing policies. Excessive margins point to the need for public intervention in the marketing system.

Estimation of Marketing Margins and Costs

Regular monitoring of marketing margins at regional levels is essential for the formulation and successful implementation of marketing and price policies. A study of marketing margins should include an estimation of the producers' share in the consumer's rupee, the cost of marketing functions and the margins of intermediaries. Marketing margins and costs vary from commodity to commodity, and depend on the amount of processing involved and the market structure for handling of the commodity. Even for the same commodity, the margin may vary from place to place and time to time. A number of factors, such as the method of assembling, the location of the market and the mode of transportation, influence marketing costs and margins. The method of sale, weighment and other facilities, too, affect the marketing costs. Because of a lack of standard grading in agricultural commodities, it is very difficult to make valid.

Three methods are generally used in the computation of marketing margins and costs.

***(i)* Lot Method**

A specific lot or consignment is selected and chased through the marketing system until it reaches the ultimate consumer. The cost and margin involved at each stage are assessed. The difficulties or limitations of this method are:

(a) It is difficult to chase the movement of a lot from the producer to the ultimate consumer.

(b) Most of the lots lose their identity during the process of marketing, because either the product gets processed or the lot gets mixed up with other lots.

(c) There is no assurance that the lot selected is representative of the whole product.

This method is appropriate for such perishable farm commodities as fruits, vegetables, and milk, because the lag between the time the commodity enters the marketing system and time of its final consumption is very small.

(ii) **Sum of Average Gross Margins Method**

The average gross margin at each successive level of marketing is worked out by dividing the difference of the money value of sales and purchase by the number of units of the commodity transacted by a particular agency. The average gross margins of all the intermediaries are added to obtain the total marketing margin as well as the break-up of the consumer's rupee.

(iii) **Comparison of Prices at Successive Levels of Marketing**

Under this method, prices at successive stages of marketing at the producer's, wholesaler's and retailer's levels – are compared. The difference is taken as the gross margin. The margin of an intermediary is worked out by deducting the ascertainable costs from the gross margin earned by that intermediary. This method is appropriate when the objective is to study the movements of marketing costs and margins in relation to prices and cost indices. The main difficulties encountered in the use of this method are:

(a) Representative and comparable series of prices for the same quality of successive stages of marketing are not readily available for all the products;

(b) Adjustment for a loss in the quality of the product at various stages of marketing due to wastage and spoilage in processing and handling is difficult;

(c) The price quotation may not cover the price of a product of a comparable quality; and

(d) The time lag between the performances of various marketing operations is not properly accounted for

Producer's Price

This is the net price received by the farmer at the time of first sale. This is equal to the wholesale price at the primary assembling centre, minus the charges borne by the farmer in selling his produce. If P_A is the wholesale price in the primary assembling market and C_F is the marketing cost incurred by the farmer, the producer's price (P_F) may be worked out as follows:

$$P_F = P_A - C_F$$

Producer's Share in the Consumer's Rupee

It is the price received by the farmer expressed as a percentage of the retail price (i.e., the price paid by the consumer). If P_r is the retail price, the producer's share in the consumer's rupee (P_S) may be expressed as follows:

$$P_S = (P_F \div P_r)\ 100.$$

Marketing Margin of a Middleman

This is the difference between the total payments (cost + purchase price) and receipts (sale price) of the middleman (i^{th} agency). Three alternative measures may be used.

(a) Absolute margin of i^{th} middleman (A_{mi})

$$A_{mi} = P_{Ri} - (P_{Pi} + C_{mi})$$

(b) Percentage margin of i^{th} middleman (P_{mi})

$$P_{mi} = PRi - (P_{Pi} + C_{mi}) / PRi \ *100$$

(c) Percentage mark-up of the i^{th} middleman (M_i)

$$M_i = PRi - (P_{Pi} + C_{mi}) / PPi \ *100$$

Where

P_{Ri} = Total value of receipts per unit (sale price)

P_{pi} = Purchase value of goods per unit (purchase price)

C_{mi} = Cost incurred on marketing per unit

The margin thus calculated include the profit of the middleman and the returns which accrue to him for storage, the interest on capital and overhead, and establishment expenditure.

Total Cost of Marketing

The total cost, incurred on marketing either in cash or in kind by the producer seller and by the various intermediaries involved in the sale and purchase of the commodity till the commodity reaches the ultimate consumer, may be computed as follows:

C = CF + Cmi + Cm2 + Cm3 + ... + Cmn

Where

C = Total cost of marketing of the commodity,

CF = Cost paid by the producer from the time the produce leaves the farm till he sells it, and

Cmi = Cost incurred by the ith middleman in the process of buying and selling the product.

Some of the costs are linked with the quantity marketed and some are linked with the value of the commodity. The former is a fixed charge, while latter is a variable one. The actual rates of charges are converted in terms of the weight unit or Rs.100 worth of produce sold. The ad valorem charges are calculated on the basis of the actual market price for the physical unit or Rs.100 worth of produce sold.

Factors Affecting the Cost of Marketing

Studies on the cost of marketing reveal that there is a large variation in the cost per quintal or per Rs.100 worth of the produce. The factors which affect marketing costs are:

(i) Perishability of the Product: The cost of marketing is directly related to the degree of perishability. Higher the perishability, the greater will be the cost of marketing, and vice versa.

(ii) Extent of Loss in storage and Transportation: If the loss in the quality and quantity of produce, arising out of wastage or spoilage or shrinkage during the period of storage or in the course of transportation is substantial, the marketing cost will go up.

(iii) Volume of the Product Handled: The larger the volume of business or turnover of a product, the less will be per unit cost of marketing.

(iv) Regularity in the Supply of the Product: If the supply of the product is regular throughout the year, the cost of marketing on per unit basis will be less than in a situation of irregular supply or supply restricted to a few months of the year.

(v) Extent of Packaging: The cost of marketing is higher for the commodities requiring packaging.

(vi) Extent of Adoption of Grading: The cost of marketing of ungraded product is higher than that of the products in which grading can be easily adopted.

(vii) Necessity of Demand Creation: If substantial advertisement is needed to create the demand of prospective buyers, the total cost of marketing will be high.

(viii) Bulkiness of the Product: The marketing cost of bulky products is higher than that of which are not bulky.

(ix) Need for Retailing: The greater the need for the retailing of a product, the higher the total cost of marketing;

(x) Necessity of Storage: The cost of the storage of a product adds to the cost of marketing, whereas the commodities which are produced and sold immediately without any storage attract lower marketing cost.

(xi) Extent of Risk: The greater the risk involved in the business for a product (due to either the failure of the business, price fluctuations, monopsony of the buyer or the prevalence of unfair practices), the higher is the cost of marketing.

(xii) Facilities Extended by the Dealers to the Consumers: The greater the facilities extended by the dealer to the consumer (such as return facility for the product, home delivery facility, the facility of supply of goods on credit, the facility of offspring entertainment to buyers, etc.), the higher the cost of marketing.

Reasons for Higher Marketing Costs of Agricultural Commodities

Generally, the cost of marketing of agricultural commodities is higher than that of manufactured products. The factors responsible for this phenomenon are:

(i) **Widely Dispersed Farms and Small Output per Farm**: There are innumerable producers of agricultural products, each producing a small quantity. Producers are widely dispersed. Hence the cost of assembling is high.

(ii) **Bulkiness of Agricultural Products**: Most farm products are bulky in relation to their value. This results in a higher cost of transportation.

(iii) **Difficult Grading:** Grading is relatively difficult for agricultural products. Each lot has to be personally inspected during purchase and sale – a fact which increases marketing costs. The sale or purchase by contract or sample is not easy because an inspection of each lot of the product is required by reason of variation in their quality.

(iv) **Irregular Supply**: Agricultural products are characterized by seasonal production. Their market supply, therefore, fluctuates during the year. In times of glut, prices go down and the cost of marketing functions, on value basis.

(v) **Need for Storage and Processing**: There is a greater need for the storage of agricultural products because of the seasonality of their production. The processing of agricultural products is a necessity because all the agricultural products are not consumed in the raw form. Storage and processing add to the cost of marketing. Losses of agricultural products in storage are also high because of their perishability.

(vi) **Large Number of Middlemen**: In food grain marketing, the number of middlemen is larger because there is no restriction on their entry in the trade. Contrarily, there are mainly restrictions on the entry into the trade of industrial products. For example, the cumbersome licensing procedure, high risk and high capital requirement make entry into trade in non-farm goods somewhat difficult. The larger the number of middlemen, the higher the marketing costs.

(vii) **Risk involved**: The risk of price fluctuations is higher in agricultural products. The higher risk leads to higher risk premium,

How to Reduce Marketing Costs

There are various ways of reducing marketing costs. No single factor can bring about any perceptible reduction in these costs. However, a combination of factors may bring about a significant reduction in the cost of marketing. Some ways of reducing marketing costs for farm products are:

(i) **Increase the Efficiency of Marketing**

An increase in the efficiency of marketing can be brought about by a wide range of activities between producers and consumers. Some major areas in which improved efficiency may result in a reduction in marketing costs are:

(a) **Increasing the Volume of Business**: By increasing the quantity to be handled at a time, one can effectively reduce marketing costs and increase marketing efficiency.

(b) **Improved Handling Methods**: The new methods of handling, such as pre-packaging of perishable products, the use of fast transportation means, the development of cold storages and an efficient use of labour are some of the methods by which efficiency may be increased and costs reduced.

© **Managerial Control**: The adoption of proven management techniques increases efficiency. By a constant monitoring of costs and returns, the efficiency at each stage in marketing may be stepped up.

(d) **Change in Marketing Practices and Technology:** Changes in marketing practices and technology (such as sale of orange juice instead of orange, retailing food services through super markets, and integration of marketing functions) reduce marketing costs and increase marketing efficiency.

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TOPIC 4:
THEORIES OF INTERNATIONAL TRADE, GATT, WTO, AOA, MARKET ACCESS, DOMESTIC SUPPORT, EXPORT SUBSIDIES, EXIM POLICY AND MINISTERIAL CONFERENCES

International trade is the exchange of goods and services between countries. International trade is the exchange of capital, goods, and services across international borders or territories, which could involve the activities of the government and individual. This type of trade gives rise to a world economy. Trading globally gives consumers and countries the opportunity to be exposed to new markets and products. Almost every kind of product can be found on the international market: food, clothes, spare parts, oil, jewellery, wine, stocks, currencies and water. Services are also traded: tourism, banking, consulting and transportation. A product that is sold to the global market is an export, and a product that is bought from the global market is an import. Imports and exports are accounted for in a country's current account in the balance of payments.

Free Trade vs. Protectionism

International trade has two contrasting views regarding the level of control placed on trade: free trade and protectionism. Free trade is the simpler of the two theories: a laissez-faire approach, with no restrictions on trade. The main idea is that supply and demand factors, operating on a global scale, will ensure efficient production. Therefore, nothing needs to be done to protect or promote trade and growth because market forces will do so automatically. In contrast, protectionism holds that regulation of international trade is important to ensure that markets function properly. Advocates of this theory believe that market inefficiencies may hamper the benefits of international trade and they aim to guide the market accordingly. Protectionism exists in many different forms, but the most common are tariffs, subsidies and quotas. These strategies attempt to correct any inefficiency in the international market.

Free-Trade Theories

Many countries following mercantilist policy tried to become as self-sufficient as possible. Here we discuss two theories supporting free trade: absolute advantage and comparative advantage. These theories hold that nations should neither artificially limit imports nor promote exports. The market will determine which producers survive as consumers buy those products that best serve their needs. Both free trade theories imply specialization. Just as individuals and families produce some things that they exchange for things that others produce, national specialization means producing some things for domestic consumption and export while using the export earnings to buy imports of products and services produced abroad.

GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)

General Agreement on Tariffs and Trade (GATT) was a multilateral agreement regulating international trade. According to its preamble, its purpose was the "substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis." It was negotiated during the United Nations Conference on Trade and Employment and was the outcome of the failure of negotiating governments to create the International Trade Organization (ITO). GATT was signed by 23 nations in Geneva on October 30, 1947 and took effect on January 1, 1948. It lasted until the signature by 123 nations in Marrakesh on April 14, 1994 of the Uruguay Round Agreements, which established the World Trade Organization (WTO) on January 1, 1995.

rounds of negotiations

Eight rounds of negotiations occurred under GATT. The first real GATT trade rounds concentrated on further reducing tariffs. Second round on Concentrated on Tariff, rules and trade policies in **Annecy**, third round at Torquay on tariffs and cutting the 1948 tariff levels by 25%, fourth round meeting held at Geveva on Tariffs, admission of Japan in 1964. Fifth round on tariffs at Dillon and Then, the Kennedy round in the mid-sixties (1964) brought about a GATT anti-dumping agreement and a section on development. Seventh Tokyo round during the seventies was the first major attempt to tackle trade barriers that do not take the form of tariffs, and to improve the system, adopting a series of agreements on non-tariff barriers, which in some cases interpreted existing GATT rules, and in others broke entirely new ground. Because these plurilateral agreements were not accepted by the full GATT membership, they were often informally called "codes". Several of these codes were amended in the Uruguay round, and turned into multilateral commitments accepted by all WTO members. Only four remained plurilateral (those on government procurement, bovine meat, civil aircraft and dairy products), but in 1997 WTO members agreed to terminate the bovine meat and dairy agreements, leaving only two. Well before GATT's 40th anniversary, its members concluded that the GATT system was straining to adapt to a new globalizing world economy. In response to the problems identified in the 1982 Ministerial Declaration (structural deficiencies, spill-over impacts of certain countries' policies on world trade GATT could not manage etc.), the 8th GATT round known as the Uruguay round was launched in September 1986, in Punta del Este, Uruguay.

Main features of GATT

i) Reduction in agricultural tariffs by 30% for all agricultural commodities from1994.

ii) Agricultural input subsidies are reduced by 30%, export subsidies by 36% and value of subsidized exports by 21%.

iii) Trade liberalisation policies would bring about 2-10% rise for agricultural commodity prices in international markets resulting in a gain of $200 billion.

iv) As import tariffs are reduced, the domestic demand for imports increases putting pressure on trade balances. The developing countries have to resort to real exchange rate devaluation to increase their exports.

v) GATT reforms are more beneficial to developed countries because of high prices for export goods such as capital goods, machinery etc.

vi) According to GATT, India can offer subsidy to increase its export competitiveness without altering policy related to PDS, food security etc.

vii) Under TRIPS, seeds and plant varieties must be protected either by patents or by an effective system of its own or a combination of both.

viii) All regulations, rules, restrictions (QRs), export duties, minimum export prices have to be removed to boost exports.

ix) TRIMS: No restrictions on quantum of foreign investment.

WORLD TRADE ORGANIZATION (WTO)

Bretton wood conference of 1944 recognized the need for an institution to oversee the liberalization of free trade across the world. The world trade organization (WTO) is an intergovernmental organization which regulates international trade. The WTO officially commenced on 1 January 1995 under the Marrakesh agreement, signed by 123 nations on 15 April 1994, replacing the General Agreement on Tariffs and Trade (GATT), which commenced in 1948. WTO was established on the basis of Dunkel draft at Geveva and present member are 162 countries as on year 2015. The WTO deals with regulation of trade between participating countries by providing a framework for negotiating trade agreements and a dispute resolution process aimed at enforcing participants' adherence to WTO agreements, which are signed by representatives of member governments. The goal is to help producers of goods and services, exporters, and importers conduct their business across the globe with the taking care of environment.

Main Functions of WTO:

1. In addition to goods, it covers trade in services, TRIPs and TRIMs.
2. Dispute settlement system is faster and more automatic aims at solving trade problems.
3. WTO has global states similar to IMF and World Bank.

Three divisions of WTO:

1. Ministerial level conference: Meet once in two years to take principal policy decisions.
2. General council: Consists of all members, handles day to day work of WTO.
3. Bodies: (a) Dispute settlement Body, (DSB) (b) Trade policy Review Body (TPRB).

AGREEMENT ON AGRICULTURE (AOA)

The Agreement on Agriculture (AoA) is an international treaty of the World Trade Organization which came into effect with the establishment of the WTO from 1 January, 1995. AOA was signed as part of the Uruguay round agreement in April 1994. The AoA has three central pillars i.e. domestic support, market access and export subsidies.

i) Developed countries have to reduce their tariffs by an average of 36% over a period of 6 years from 1995-2000, while developing countries to reduce by 24% in a span of 10 years from 1995 to 2004. Least developed countries are exempted.
ii) India is under no obligation to reduce domestic support or subsidies currently extended to agriculture.

iii) No export subsidy has been extended in India.

Pillars of Agreement on Agriculture (AOA)

i) **Domestic support –** The first pillar of the Agreement on Agriculture is "domestic support". The WTO Agreement on Agriculture negotiated in the Uruguay round (1986–1994) includes the classification of subsidies into "boxes" depending on their effects on production and trade: amber (most directly linked to production levels), blue (production-limiting programmes that still distort trade), and green (minimal distortion). While payments in the amber box had to be reduced, those in the green box were exempt from reduction commitments. All must comply with the "fundamental requirement" in paragraph 1, to cause not more than minimal distortion of trade or production, and must be provided through a government-funded programme that does not involve transfers from consumers or price support to producers.

ii) **Market access –** it refers to the reduction of tariff (or non-tariff) barriers to trade by WTO members. The 1995 Agreement on Agriculture required tariff reductions as 36% average reduction by developed countries, with a minimum per-tariff line reduction of 15% over six years; 24% average reduction by developing countries with a minimum per-tariff line reduction of 10% over ten years. Least developed countries (LDCs) were exempt from tariff reductions, but they either had to convert non-tariff barriers to tariffs a process called tariffication or bind their tariffs, creating a ceiling that could not be increased in future.

iii) **Export subsidies –** these are the third pillar of Agreement on Agriculture, 1995. According to this, developed countries need to reduce export subsidies by at least 36% (by value) or by 21% (by volume) over six years and developing countries were required cuts 14% (by volume) and 24% (by value) over ten years.

iv) **Aggregate measures of support (AMS) –** WTO agreement envisages two kinds of support to agriculture, viz. domestic support and export subsidies. Domestic support is further classified into five categories: (a) aggregate measure of support (AMS) which includes product specific and non-product specific support (b) green box support (c) blue box support (d) de minimus support and (e) special and differential (S&D) treatment box. Out of these, WTO agreement requires reduction only in AMS and export subsidies, whereas, support under all other heads is exempted.

The AMS means annual level of support (subsidies) expressed in monetary terms, provided for an agricultural product in favour of the producers (product specific) of the basic agricultural product and non-product specific support provided in favour of agricultural producers in general. The Aggregate Measurement of Support consists of two parts—product-specific subsidies and non-product specific subsidies. Product-specific subsidy refers to the total level of support provided for each individual agricultural commodity. For example wheat AMS is the subsidy given specifically to wheat. Non-product specific subsidy, on the other hand, refers to the total level of support given to the agricultural sector as a whole, i.e., subsidies on inputs such as fertilizers, electricity, irrigation, seeds, credit etc. Usually, these non-product subsidies are given to all crops. Aggregate Measure of Support includes (a) sum total of subsidies on inputs like fertiliser, water, credit, power etc and (b) market price support measured by calculating the difference between domestic administered market price and external reference price (world price) multiplied by quantity of production eligible to get applied administered price. If domestic prices are lower than the world reference price, then (b) is negative, and if this negative component is higher than input subsidies then AMS turns out to be negative. As per the WTO norms, the AMS can be given up to 10 % of a country's agricultural GDP in the case of developing countries. On the other hand, the limit is 5% for a developed economy. This limit is called de minimis level of support.

v) **A Sanitary and Phyto sanitary measure (SPS)**

The SPS Agreement also known as Agreement on the Application of Sanitary and Phytosanitary Measures, is an international treaty of the World Trade Organization. The sanitary and phytosanitary ('SPS') measures covered by the agreement are those aimed at the protection of human, animal or plant life or health from certain risks. SPS deals with standards for food safety and animal and plant health. WTO encourages member countries to use international standards or guidelines to determine suitable measures and levels of protection, and explicitly recognizes the standards developed by the joint FAO/WHO Codex Alimentarius Commission. Under the SPS agreement, the WTO sets constraints on member-states' policies relating to food safety (bacterial contaminants, pesticides, inspection and labelling) as well as animal and plant health (phytosanitation) with respect to imported pests and diseases. There are 3 standards organizations who set standards that WTO members should base their SPS methodologies on and they are the Codex Alimentarius Commission (Codex), World Organization for Animal Health (OIE) and the Secretariat of the International Plant Protection Convention (IPPC).

vi) **Trade Related Intellectual Property Rights –** TRIPS is also an international agreement administered by the WTO that sets down minimum standards for many forms of intellectual property (IP) regulation as applied to nationals of other WTO Members. It was negotiated at the end of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) in 1994. TRIPS requires WTO members to provide copyright rights, covering content producers including performers, producers of sound recordings and broadcasting organizations; geographical indications, including appellations of origin; industrial designs; integrated circuit layout-designs; patents; new plant varieties; trademarks; trade dress; and undisclosed or confidential information. TRIPS also specifies enforcement procedures, remedies, and dispute resolution procedures. Protection and enforcement of all intellectual property rights shall meet the objectives to contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations. Different form of intellectual property rights (IPR) identified by TRIPs Agreement governed by WTO as followings:

1) **Patent** – A patent is an exclusive right granted to the inventor to use and market the invention for a limited period of time in consideration of the disclosure of the invention. The product must be (a) novel, (b) have industrial application and (c) must be useful for entitlement of a patent. Patents are given only for inventions. Inventions are solutions to specific problems in the field of technology. An invention may relate to a product or a process.
2) **Copy rights** – Copy right law deals with the rights of intellectual creators. It is concerned with protecting creativity and ingenuity. It promotes and disseminates national cultural heritage. It is meant for original literary, dramatic, musical and artistic works, cinematographic films and software. Copy right is registered at Ministry of HRD which is valid for 60 years after authors death.
3) **Trade mark** – It is a sign that individualize the goods of a given enterprise and distinguishes them from the goods of its competitors. It is limited to word marks, abbreviations, names, figures and hologram.
4) **Industrial Designs** – A design includes features of structure, configuration, pattern, ornament, or composition of lines and colours applied to an article in 2 or 3 dimensional forms by any technical process. The process or product can be manual, civil, electrical, chemical and mechanical or combination of all.
5) **Trade secret** – It is the agreement between the employer and employee to keep the research information secret or confidential. The employer can recover damages from the improper disclosure or use of his trade secret by the employee.
6) **Geographical indication** – Place names used for identification of a product such as Basmati rice and Banarasi saries. They provide legal means so that interested parties can stop the use of such geographical indications for products that do not originate from the used place name or do not have the usual characteristics associated with that place name.

EXIM POLICY OF INDIA

Exim Policy is a set of guidelines and instructions established by the DGFT in matters related to the import and export of goods in India. It is also known as ‘foreign trade policy. The foreign trade policy of India is guided by the Export Import policy of the Indian Government and regulated by the Foreign Trade Development and Regulation Act, 1992. DGFT (Directorate General of Foreign Trade) is the main governing body in matters related to Exim Policy. The main objective of the Foreign Trade (Development and Regulation) Act is to provide the development and regulation of foreign trade by facilitating imports into, and augmenting exports from India. Foreign Trade Act has replaced the earlier law known as the imports and Exports (Control) Act 1947. Indian EXIM Policy contains various policy related decisions taken by the government in the sphere of Foreign Trade, i.e., with respect to imports and exports from the country and more especially export promotion measures, policies and procedures related thereto. Trade Policy is prepared and announced by the Central Government (Ministry of Commerce). India's Export Import Policy also known as Foreign Trade Policy, in general, aims at developing export potential, improving export performance, encouraging foreign trade and creating favourable balance of payments position. In 1962, the Government of India appointed a special Exim Policy Committee to review the government previous export import policies. The committee was later on approved by the Government of India. Mr. V. P. Singh, the commerce minister and announced the Exim Policy on the 12th of April, 1985. Initially the EXIM Policy was introduced for the period of three years with main objective to boost the export business in India.

Objectives of Exim Policy

Government control import of nonessential items through the EXIM Policy. At the same time, all out efforts are made to promote exports. Thus, there are two aspects of Exim Policy; The import policy which is concerned with regulation and management of imports and the export policy which is concerned with exports not only promotion but also regulation. The main objective of the Government's EXIM Policy is to promote exports to the maximum extent. Exports should be promoted in such a manner that the economy of the country is not affected by unregulated exportable items specially needed within the country. Export control is, therefore, exercised in respect of a limited number of items whose supply position demands that their exports should be regulated in the larger interests of the country.

Following are the main objective of EXIM policy:

1) To accelerate the economy from low level of economic activities to high level of economic activities by making it a globally oriented vibrant economy and to derive maximum benefits from expanding global market opportunities.
2) To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components,' consumables and capital goods required for augmenting production.
3) To enhance the techno local strength and efficiency of Indian agriculture, industry and services, thereby, improving their competitiveness.
4) To generate new employment opportunities and encourage the attainment of internationally accepted standards of quality.
5) To provide quality consumer products at reasonable prices.

Governing Body of Exim Policy

The government of India notifies the Exim Policy for a period of five years under section 5 of the foreign trade (development and regulation act), 1992. The current Export Import policy covers the period 2015-2020. The Exim policy is updated every year on the 31st of March and the modifications, improvements and new schemes became effective from 1st April of every year. All types of changes or modifications related to the EXIM Policy is normally announced by the union minister of commerce and industry who coordinates with the ministry of finance, the directorate general of foreign trade and network of DGFT regional offices.

MINISTERIAL CONFERENCE

The ministerial conference is the top decision-making body of the World Trade Organization and usually meets every two years. It brings together all members of the WTO, all of which are countries or customs unions. The ministerial conference can take decisions on all matters under any of the multilateral trade agreements. There have been nine conferences from 1996 to 2015.

1. **First ministerial conference –** The inaugural ministerial conference was held in Singapore in 1996. Its primary purpose was to initiate an international effort among global trading nations to overhaul the structure and mechanisms of the General Agreement on Tariffs and Trade (GATT) while preserving the considerable progress and success achieved by that system since its inception in 1948. Disagreements, largely between developed and developing economies, emerged over four issues initiated by this conference; afterward these were collectively referred to as the "Singapore issues".

2. **Second ministerial conference –** It was held in Geneva in Switzerland.

3. **Third ministerial conference –** The third conference in Seattle, United States ended in failure, with massive demonstrations and police and National Guard crowd control efforts drawing worldwide attention

4. **Fourth ministerial conference** – The fourth conference was held in Doha In Persian Gulf nation of Qatar. The Doha Development Round was launched at the conference. The conference also approved the joining of China, which became the 143rd member to join.

5. **Fifth ministerial conference** – The ministerial conference was held in Cancún, Mexico, aiming at forging agreement on the Doha round. An alliance of 22 southern states, the G20 (led by India, China [2] and Brazil), resisted demands from the North for agreements on the so called “Singapore issues” and called for an end to agricultural subsidies within the EU and the US. The talks broke down

without progress

6. **Sixth ministerial conference – The sixth WTO Conference Ministerial was held in** Hong Kong from 13 December – 18 December 2005. It was considered vital if the four year old Doha Development Agenda negotiations were to move forward sufficiently to conclude the round in 2006. In this meeting, countries agreed to phase out all their agricultural export subsidies by the end of 2013, and terminate any cotton export subsidies by the end of 2006. Further concessions to developing countries included an agreement to introduce duty free, Tariff free access for goods from the least developed countries, following everything but arms initiative of the European Union but with up to 3% of tariff lines exempted. Other major issues were left for further negotiation to be completed by the end of 2006

7. **Seventh ministerial conference** – it was held 30 November – 2 December 2009 in Geneva, Switzerland. The general theme for discussion was "The WTO, the Multilateral Trading System and the Current Global Economic Environment.

8. **Eighth ministerial conference** – it was held 15–17 December 2011 in Geneva, Switzerland. Membership agreement where made for Russia, Samoa, and Montenegro.

9. **Ninth ministerial conference** – it was held 3–6 December 2013 in Bali, Indonesia. 159 members of World Trade Organization agreed to the Bali Package which eases barriers to international trade.

10. **Tenth ministerial conference** – it was held 15- 18 December 2015 in Nairobi, Kenya. The completion of Afghanistan and Liberia's accession to the WTO was on the agenda. It is chaired by Kenya's Cabinet Secretary for Foreign Affairs and International Trade, Amina Mohamed.

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TOPIC: 5
COOPERATIVE MARKETING, STATE TRADING, WAREHOUSING CORPORATION AND FOOD CORPORATION OF INDIA

A cooperative marketing association is a voluntary business organization established by its member patrons to market farm products collectively for their direct benefit. It is governed by democratic principles, and savings are apportioned among members on the basis of their patronage. In other words, it is an organization formed by a group of producers of a particular type of product, who work together to encourage people to buy their products.

Functions of Co-operative Marketing Societies

- To market the produce of the members of the society at fair prices
- To safeguard the members from excessive marketing costs and malpractices.
- To make credit facilities available to the members against the security of the produce brought for sale.
- To make arrangements for the scientific storage of the member's produced.
- To provide the facilities of grading and market information which may help them to get a good price for their produce
- To introduce the system of pooling so as to acquire a better bargaining power than the individual members having a small quantity of produce for marketing purposes.
- To arrange for the export of the produce of the members so that they may get better returns.
- To act as an agent of the government for the procurement of food grains and for the implementation of the price support policies.
- To make arrangement for the transport of the produce of the members from the villages to the market on collective basis and bring out a reduction in the cost of transportation.
- To arrange for the supply of inputs required by the farmers such as improved seeds, fertilizers, insecticides and pesticides.

Benefits of Cooperative Marketing

1. Economies of scale

2. Improving farmer's bargaining power
3. Access to professional assistance/expertise
4. Timely supply of agricultural inputs to farmers
5. Better remunerative prices of farm produce

Types of Cooperative Marketing Societies

The cooperative marketing societies have both two-tier and three-tier structures. Two-tier structure / Three-tier structure State level marketing Federation Primary co-operative marketing District marketing societies (Taluk Level) Taluk Primary Cooperative marketing societies. Three-tier structure is found in Assam, Bihar, Kerala, Madhya Pradesh, Karnataka, Orissa, Rajasthan and West Bengal. In all other States, two tier structure is functioning. On the basis of the commodities dealt in by them, the cooperative marketing societies may be grouped as

i) Single commodity marketing societies – e.g. Sugarcane cooperative marketing society, Cotton cooperative marketing society, Milk cooperative marketing society

ii) Multi-commodity cooperative marketing societies

iii) Multi-purpose, multi-commodity cooperative marketing societies

Suggestions for strengthening of Cooperative Marketing Societies

i) The area of operation of societies should be large enough so that they may have sufficient business and become viable.

ii) Storage facilities, transport facilities, accommodation and drinking facilities should be strengthened in the societies.

iii) Cooperative feeling among members should be inculcated by proper education and adequate representation should be given to small and marginal farmers in their organizational set up.

iv) In selection of officials of cooperative marketing societies weight age should be given to business experience and qualification and after selection proper thinking should be given.

STATE TRADING

It refers to the direct intervention by the Government on its part in trading of agricultural commodities to ensure the supply of essential commodities to the people. State trading done through government-owned or controlled firms which generally engages in procurement of important raw materials and/or export of commodities and merchandise. State trading enterprises are enterprises authorized to engage in trade (exporting and/or importing) that are owned, sanctioned, or otherwise supported by government.

The State Trading Corporation of India

The State Trading Corporation of India Ltd. (STC) is a premier International trading company of the Government of India engaged primarily in exports, and imports operations. It was set up in 1956 primarily with a view to undertake trade with East European Countries and to supplement the efforts of private trade and industry in developing exports from the country.

Followings are the main objectives:

- To develop core competencies in selected areas and exploit the market opportunities in these areas to the best advantage of the Corporation.
- To make best use of financial strength of the Corporation in expanding its business.
- To lay emphasis on quality of services to customers so as to develop long-term business relationship with buyers and suppliers in and outside the country.
- To undertake market intervention operation as and when advised by the Government of India.
- To create new infrastructure and make optimum utilisation of infrastructure available with the Corporation.
- To strive to pay adequate returns to the stakeholders.
- To ensure an efficient and streamlined system of operations, with minimum transaction costs.
- To act as a facilitator to small and medium exporters and importers.

Presently, there is no item export or import of which is canalized exclusively through STC. The present business handled by STC can broadly be classified into three categories viz. (i) import of items like edible oils, pulses and fertilizers on behalf of the Govt. of India, (ii) business carried out on behalf of business associates on back-to-back basis and (iii) direct buying and selling in items like tea, soybean seed, chana, etc.

WAREHOUSING

Warehouses are scientific storage structures especially constructed for the protection of quantity and quality of stored products. The warehousing scheme in India is an integrated scheme of scientific storage, rural, credit, price stabilization and market intelligence and is intended to supplement the effort of co-operative institution

Followings are the major functions of warehouses:

i) **Scientific storage**: Here, a large bulk of agricultural commodities may be stored. The product is protected against quantitative and qualitative losses by the use of such met hod of presentation as are necessary.

ii) **Financing**: Nationalisation banks advanced credit on the security of warehouse receipt issued for the stored products to the extent of 75 %of their value.

iii) **Price stabilisation**: Warehouse help in price stabilization of agricultural commodities by checking the tendency to making post-harvest sale among the farmers. Warehouse help in staggering the supplier throughout the year. Thus, helps in stabilization of agricultural prices.

iv) **Market intelligence**: Warehouse also affects the facility of market information to persons who hold their produce in them. They inform them about the prices prevailing in the period, and advise them when to market their products. This facility helps in presenting distress sales for immediate needs or because of lack of proper storage facilities. Its gives the producer holding pencer, he can wait for the emergence of favourable market conditions and get the best value his product.

Warehouse in India

In 1928, the Royal commission on agriculture underscored the need for a warehousing system in India. The central banking enquiry committee, 1931, too, drew attention to this need. The Reserve Bank of India emphasized the need for warehouses as easy as in 1944, and proposed that every state government enact legislation to regulate the functioning of warehouses. The Reserve Bank of India also made comprehensive recommendation for the development of warehousing as an integrated scheme of rural credit and marketing. As a result of the recommendations of the committee, the government of India enacted the Agricultural produce corporation act, 1956. The act provided for the establishment of a National co-operative development and warehousing board (1956), the establishment of central warehousing corporation (1957) and the establishment of state warehousing corporation in all state in the country (1958).

Central Warehousing Corporation

Central warehousing corporation is a premier warehousing agency in India, Established during 1957 providing logistic support to the agricultural sector, and one of the biggest public warehouse operators in the country offering logistic services to a diverse group of clients. CWC is operating 475 warehouses across the country with a storage capacity of 13.3 million tonnes providing warehousing services for a wide range of products ranging from agricultural produce to sophisticated agricultural industrial products.

Major functions:

i) To acquire and build go-downs and warehouse at suitable place in India.
ii) To acquire as an agent of the government for the above commodities.
iii) To arrange facilitate for the transport of above commodities.
iv) To subscribe to the share capital of SWC.

State Warehousing Corporation

SWC were operating 1440 warehouses with total capacity of over131.38 lakh tonnes. The total share capital of the SWC is contributed equally by the concerned state government and CWC. The areas of operation of the SWC are centres of distinct importance. The warehousing scheme envisages providing storage facilities for food grains and other agriculture commodities, seeds, manures and fertilizers to minimise losses and deterioration in storage. The scheme also aims to enable farmers to have easy and cheap credit facilities from Banks against pledge of the warehouse receipt to improve the holding capacity of the produce to avoid distress sales in harvesting seasons. According to section20 (a) of the warehousing corporation ACT 1962, The General Superintendence and Management of the affairs of the State Warehousing Corporation are vested in a Board Consisting of 11 director of whom 5 are nominated by the Central Warehousing Corporation. The chairman of the Board is appointed by the state Government with the prior approval of the Central Warehousing Corporation.

FOOD CORPORATION OF INDIA (FCI)

The food Corporation of India was set up under the food corporation Act 1964, in order to full fill following objectives of the food policy.

i) Effective price support operation for safeguarding the interest of the farmers.

ii) Distribution of food grains throughout the country for public distribution system; and

iii) Maintaining satisfactory level of operational and buffer stocks of food grain to ensure National food security.

The government felt the necessity of an organisation which can act as its main agency for handling food grains, acquires a commanding position in the food grain trade as a eventually force to the speculative activities of private and at the same time, work on commercial lines. Toward the government is function of trading in food grains to the public sector. Legislation was enacted and the food Corporation India (FCI) was born on "January, 1st 1965. It is the largest corporation in India and probably the largest supply chain management in Asia. It operates through 5 Zonal offices and 24 regional offices. Each year, the food corporation of India purchases regularly 15-20 per cent of India's wheat out and 12-15 per cent of its nice input. The purchases are made the farmers at the rate declared by Government of India. The Government of India Introduced a scheme called Targeted public Distribution scheme (TPDS) effective from June, 1997. The stock is issued under this scheme in the following two categories:

a). **Below poverty line (BPL)**: Determination of the families under this category in various state is based on the recommendation of the Planning commission. A fixed quantity of 35 kg food grain per family per month is issued under this category. The stocks are issued at highly subsidized price of Rs. 4.15 kg. of wheat and Rs. 5.65 per kg rice. Antyodaya Anna Yojna: During the year 2000-01 Government of India decided to replace food grains under Antyodaya Anna Yojana. Under this scheme the poorest strata of population out of earlier identified BPL population is covered. Food grains are being provided to 1.5 Crores poorest of the poor families out of the BPL families at highly subsidized.

b). **Above poverty line (APL)**: Families which are net concerned under BPL are placed under this categories. The stocks are issued at central issue price of Rs. 6.10 per kg of wheat and Rs, 8.30 per kg of rice.

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TOPIC: 7
QUALITY CONTROL, GRADING AND STANDARDIZATION, AGMARK

Quality control of agricultural commodities for long has remained the responsibility of the Directorate of Marketing and Inspection. The directorate has prescribed grade slanderers for various agricultural products under the agriculture produce (grading &marketing) Act, 1937. Agricultural commodities are graded under their Act on the basis of specification laid down under grade standardised graded produced bear the AGMARK label; indicating parity and quality of the products.

GRADING, STANDARDIZATION AND QUALITY CONTROL

Grading & standardization is marketing function which facilitate or the movement of produce. Produce is graded according to quality standards. Standardization means the determination of quality standards to be estimated for different commodities. Grading follows standardization which means sorting of unlike lots of the produce into different lots according to quality specifications. The grade standards are weight, size, colour, appearance, texture, moisture content, staple length, amount of foreign matter, ripeness, sweetness, taste & chemical content.

Type of Grading

i) Fixed grading/ mandatory grading.
ii) Permissive / variable grading.
iii) Grading a product at producer's level.

Criteria for grade standards

i. Characteristics which the users feel important.
ii. Should be based on standards which can be accurately measured and interpreted.
iii. Should be uniformly all levels of marketing channel.
iv. Cost of operating & operating &grading must be reasonable.

Inspection and Quality Control

Inspection involves the testing of graded goods with a view to determining whether they conform to prescribed standards. It ensures quality control. The network of AGMARK laboratories in the country for testing the quality includes a central AGMARK laboratory Nagpur and several regional AGMARK laboratories (RALs). The RALs are located at Amritsar, Bhopal, Chennai, Guntur, Jaipur, Kanpur, Kochi, Kolkata, Mumbai and New Delhi. The no AGMARK laboratory has been increase from 566 to 1133 now.

Labelling

The graded products according standard fixed by the Agricultural Marketing Advisor, Government of India bear the label 'AGMARK'. It's an abbreviation for 'agricultural marketing'. Label indicters the purity and quality of the products on the basis of standards that had been laid down. AGMARK products are of assured quality and different from adulteration & spurious goods.

Advantage of Grading

i. Grading before sale unless farmers to get a higher price for their produce. For example, graded apple, mango.
ii. Facilitates marketing for size, colour, qualities and other grade designations of the products are known.

iii. Grading widens the market of the product, buying can take place by distant parties.
iv. It reduces the cost of marketing by minimizing the express on physical inspection of the produce.
v. Help consumers to get standard quality products.
vi. Contributors to market competition and pricing efficiency.

vii. Makes it easier for farmer to get easy finance and strong facilities as well.

AGMARK

The term AGMARK was coined by joining the words 'Ag' to mean agriculture and 'mark' for a certification mark. This term was introduced originally in the bill presented in the parliament of India for the Agricultural Produce (Grading and Marking) Act. The entire system of AGMARK, including the name, was created by Archibald Macdonald Livingstone, agricultural and marketing advisor to the government of India, from 1934 to 1941. He was supported by a staff of several hundred. The system was designed to benefit local growers throughout India who were, in the absence of a certification as to quality, exposed to receiving less for their produce from dealers than its true worth.

AGMARK is a certification mark employed on agricultural products in India, assuring that they conform to a set of standards approved by the Directorate of Marketing and Inspection, an agency of the Government of India. The AGMARK is legally enforced in India by the Agricultural Produce (Grading and Marking) Act of 1937.

AGMARK Laboratories and commodities certified under AGMARK

The present AGMARK standards cover quality guidelines for 205 different commodities spanning a variety of pulses, cereals, essential oils, vegetable oils, fruits & vegetables, and semi processed products like Vermicelli. It is given to the packers authorising them to grade their commodity under AGMARK. Period of Validity will be 5 years. For granting new certificate of authorization separate application for each commodity should be produced.

The AGMARK certification is done through fully state owned AGMARK laboratories located across the nation which act as testing and certifying centres. In addition to the Central AGMARK Laboratory (CAL) in Nagpur, there are Regional AGMARK Laboratories (RALs) in 11 nodal cities (Mumbai, New Delhi, Chennai, Kolkata, Kanpur, Kochi, Guntur, Amritsar, Jaipur, Rajkot, and Bhopal). Each of the regional laboratories is equipped with and specializes in the testing of products of regional significance. Hence the product range that could be tested varies across the centres.

The testing done across these laboratories include chemical analysis, microbiological analysis, pesticide residue, and aflatoxin analysis on whole spices, ground spices, ghee, butter, vegetable oils, mustard oil, honey, food grains (wheat), wheat products (atta, suji, and maida), gram flour, soyabean seed, Bengal gram, ginger, oil cake, essential oil, oils and fats, animal casings, meat and food products

TOPIC 8
PRICE CHARACTERISTICS OF AGRICULTURAL PRODUCTS: MEANING, NEED FOR AGRICULTURAL PRICE POLICY.

Characteristics of Agricultural product prices

In agricultural based economies like India, prices of farm products undergo wide variations than in industrial goods. They have profound effect on the economy. The characteristics of agricultural product prices are presented below to design appropriate price policy

Production and supply of agricultural products cannot be adjusted quickly to changes in prices or demand.

a) Variability in cost of production from region to region.
b) Wide variation in quality of products and hence prices.
c) The prices of farm products in general exhibit movement at least within a group.
d) The prices of farm products vary across space.
e) The prices of farm products in general remain low in the post-Harvest period.
f) There are multiple prices in the same market at a point of time.

Need for Agricultural Price Policy

Agricultural Price Policy has special significance when there is maladjustment in demand and supply and jump up and down the equilibrium price level. Several government interventions were initiated to protect farmers and consumers. Government undertakes the following measures.

- Procurement operations.
- Public distribution at fixed issue prices, rationing, and restrictions on movement of food grains from one place to another place i.e. state to state.
- Maximum controlled prices, assured minimum prices, statutory minimum prices, ban on exports, stepping up of imports, regulation of futures trading.
- Minimum price for sugarcane to sugar factories.
- Floor and d ceiling prices, controls on futures trading and imports have been the major policy measures taken for regulation of prices of raw cotton and jute.

Administered Prices: Prices fixed by the government with the objective of protecting farmers against a decline in prices during the year of bumper production, protecting consumers from excessive price increases and ensuring procurement for buffer stocks or operation of PDS. These are three types:

1. **Minimum Support Price, (MSP)**: Price fixed by the government to protect farmers against excessive fall in prices.

2. **Procurement Price**: Refers to the price at which government procures from producers to maintain buffer stocks and feed Public Distribution System.

3. **Issue Price:** Price at which the commodity is made available to consumers at fair price shops. It is always higher than procurement price.

Background of administered prices:

Commission for Agricultural Costs and Prices (CACP): Another method of intervention in the market mechanism has been the announcement of different administered prices viz., minimum support prices, statutory minimum prices, procurement prices and issue prices. These prices are announced for different agricultural crops by the Government of India on the recommendations of Commission for Agricultural Costs and Prices (CACP). This Commission was originally set up in January, 1965 in the name of the Agricultural Prices Commission (APC)

(i) The Agricultural Prices Commission was set up on the recommendations of the Food grains Prices Committee headed by Shri L.K.Jha with the aim of advising the Government on price policy of agricultural commodities with due regard to the interests of both producers and consumers. The price policy of the country aims at evolving a balanced and integrated price structure taking into account the overall needs of the economy and with due regard to the interests of both the groups of the economy Price Policy The government has formulated a price policy for agricultural produce that aims at securing remunerative prices to farmers to encourage them to invest more in agricultural production. Keeping this in mind, the government announces minimum support prices for major agricultural products every year. These prices are fixed after taking into account the recommendations of the Commission for Agricultural Costs and Prices (CACP). The Commission of Agricultural Costs and Prices while recommending prices takes into account important factors, such as:

Cost of production, Changes in input prices input/output, Price Parity, Trends in market prices, Inter-crop Price Parity Demand and supply situation Effect on Industrial Cost Structure Effect on general price level Effect on cost of living International market price situation.

The APC has been renamed as CACP on similar lines as has been done to the industry in 1985. The significant contributions during 1965-77 were

a. **MSP**: Chief function is to set a floor to the downward fluctuations in the market prices. It is a insurance against price uncertainty.

b. **Maximum Ceiling Prices**: APC has not favoured maximum or ceiling prices for agricultural commodities. In the case of food grains, the states were unable to enforce legally fixed maximum prices. Private stocks tended to go underground. Cotton: Price of several varieties ruled well above the ceiling prices in all the years.

c. **Procurement Prices**: Always higher than MSP. Government procures for deficit states and vulnerable sections of population. APC takes into account market prices, minimum prices announced in the season, marketing and processing costs, the likely impact of levels of procurement prices on farmer's own cost of living, cost of production of the agricultural based industries, and the external competitiveness of the commodities concerned.

d. **Issue Prices**: These are below open market prices and always higher than procurement prices. Food grains prices supplied through fair price shops and rationing at subsidized rates are issue prices. The practice led to several malpractices and uneconomic use of imported grains (wheat) shifted towards coarse grains. APC favoured levy on producers on acreage basis for procurement.

Determination of Administered Prices:

Demand and supply forces determine market prices. Administered prices are the prices fixed by the government under varied circumstances. Government makes a commitment to purchase all the produce offered for sale through MSP. Government buys at its discretion without any compulsion to meet its obligation procurement price. When procurement is done under compulsion from the millers, the procurement price is called levy price. Government considers various issues suggested by CACP on fixation of prices.

Parity between prices paid and prices received by farmers (Terms of Trade):

The terms of reference of the Commission were made broad based in March, 1980 with the change in its name to Commission for Agricultural Costs and Prices. Since 1966, the Commission has set up a fairly logical scheme for arriving at the administered prices of farm products. The Commission has been recommending two sets of administered prices viz., minimum support prices and procurement prices. The Commission for Agricultural Costs and Prices is a statutory body. The Commission submits separate reports recommending these prices for the Kharif and Rabi season crops. The Central Government after considering the report of the Commission and views of the State Government and keeping in view the demand and supply situation in the country takes decision on the level of administered prices The main objectives of the Government's price policy for agricultural produce, aims at ensuring remunerative prices to the growers for their produce with a view to encourage higher investment and production. Towards the end, minimum support prices for major agricultural products are announced each year which are fixed after taking into account, the recommendations of the Commission for Agricultural Costs and Prices (CACP). The CACP while recommending prices takes into account all-important factors, viz. Cost of Production, Changes in Input Prices, Input/output Price Parity, Trends in Market Prices, Inter-crop Price Parity, Demand and Supply Situation, Effect on Industrial Cost Structure, Effect on General Price Level, Effect on Cost of Living, International Market Price Situation and Parity between Prices Paid and Prices Received by farmers (Terms of Trade).Of all the factors, cost of production is the most tangible factor and it takes into account all operational and fixed demands. Government organises Price Support Scheme (PSS) of the commodities, through various public and cooperative agencies such as FCI, CCI, JCI, NAFED, Tobacco Board, etc., for which the MSPs are fixed. For commodities not covered under PSS, Government also arranges for market intervention on specific request from the States for specific quantity at a mutually agreed price. The losses, if any, are borne by the Centre and State on 50:50 bases.

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TOPIC 9:
RISK IN MARKETING, SPECULATION, HEDGING, FUTURE TRADING AND CONTRACT FARMING

RISK IN MARKETING:

Risk is inherent in all marketing transaction and may be defined as uncertainty in regard to cost, loss, or damage. Hardy has defined risk as uncertainty about cost, loss or damage and longer the time lags between production and consumption, greater the risk in marketing. Most of the risk is taken by the middlemen in marketing process. The risks associated with the marketing process are of **three basic types.**

2) **Physical risk** – this includes a loss in the quantity and quality of the product during marketing process. It may be due to fire, flood, earthquake, insects, pests, fungus, excessive moisture or temperature, careless handling unscientific storage, improper packing, looting and arson.
3) **Price risk –** Prices change not only year to year, but also during month-to-month, day-to-day or even on the same day.
4) **Institutional risk** – these include risks arising out of changes in government's budget policy, in tariffs and tax laws, in the movement restriction, statutory price controls, and the imposition of levies.

Measures to minimize risk in marketing

- Reduction in physical loss through fire proof storage, proper packing, and better transportation.
- Fixation of minimum and maximum of prices of agricultural commodities by the government.
- Dissemination of price information to all sections of the society over the space and time.
- Operating of speculation and hedging, futures trading, forward market, contract farming and contract marketing.
- Agricultural insurance against damage, fire etc also helps in reducing agricultural marketing risk.

Speculation

Speculation involves purchase or sale of a commodity at the present price with the object of sale or purchase at future date at a favourable price. Speculator is concerned with profit making from price movements. He purchases when prices are low, so he is not a normal or regular trader. The difference in the prices prevailing at two times constitutes his profit.

Hedging

It is trading techniques of transferring the price risk. It refers to the purchase or sale of a commodity in a futures market accompanied by a sale or purchase in the cash market.

Basic difference between Speculation and Hedging:

Speculation	Hedging
1. purchases and sale in the cash as well as in future market are made with the objectives of making profit	**1.** purchases and sale in the cash and future markets are made to protect oneself against excessive price fluctuations
2. The activities of buying and selling are not necessarily opposed to each other	**2.** The activities of buyers and sellers are always opposed to each other
3. It's not necessary that the two types of transaction should be of equal quantity	**3.** It's obligatory to buy and sale the goods in equal quantity in the two markets.
4. Under speculation the speculator purchase goods and sale them when price rise as per his expectation	4. The commodities are not stored by the traders. Only the difference in the price is given or taken on the due date

Future trading:

It is a device for protecting against the price fluctuations which normally arise in the cause of the marketing of commodities. Stockists, processors, and manufacturers utilize the futures contracts to transfer the price risk faced by them.

Commodities for future trading –

1) Plentiful supply of the commodity.
2) Commodity must be storable.
3) Commodity should have a large demand.
4) Supply of the commodity should not be controlled by few large firms.
5) The price of a commodity should be liable to fluctuate over a wide range.

CONTRACT FARMING

Contract farming involves agricultural production being carried out on the basis of an agreement between the buyer and farm producers. Sometimes it involves the buyer specifying the quality required and the price, with the farmer agreeing to deliver at a future date.

Sometimes it refers to cases where the buyer specifies the quality required and the price offered, and the farmer commits to deliver at a future date. Commonly, however, contract farming implies more than a farmer just having a contract to supply a buyer. The important feature is that the buyer has some say in how, when and where a product is produced and harvested. For example, a farmer who is growing certified seeds at an agreed price, using the foundation seed supplied by a seed company, using inputs either supplied by or recommended by the company and following all recommended production practices is doing contract farming. This leads to a simple definition,

"Contract farming is agricultural production carried out according to an agreement between farmers and a buyer, which places conditions on the production and marketing of the commodity"

Types of contract farming arrangement

There are many ways in which companies work together with farmers. Three examples are given here but many other approaches can be found. The simplest approach is when the company supplies extension and all inputs to the farmers including, sometimes, land preparation services, and then deducts the cost of those inputs and services from the final price paid to the farmer after harvest and delivery.

Sometimes, however, the company does not want to get involved in the physical handling of inputs or in carrying out land preparation. For example, it may not have the staff to do this work. So, where suitable local input dealers are available it may use those. The arrangement looks something like the

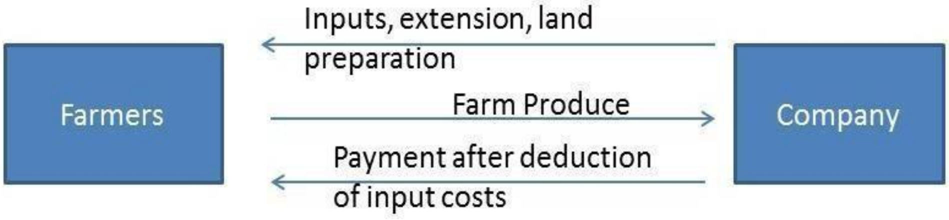
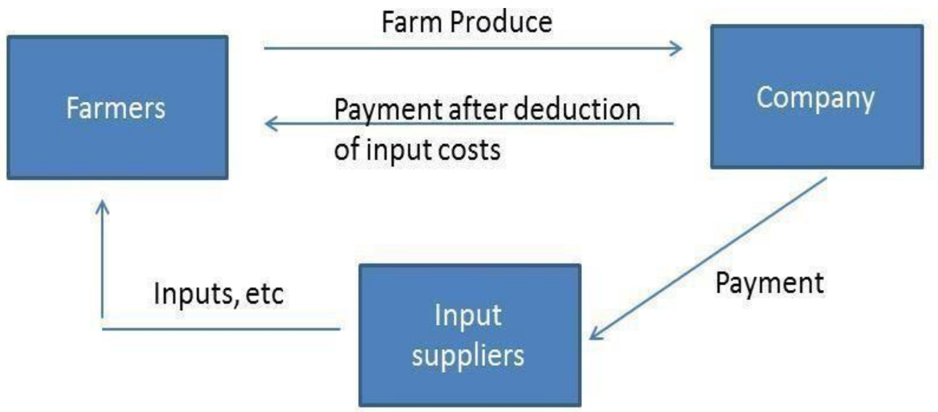
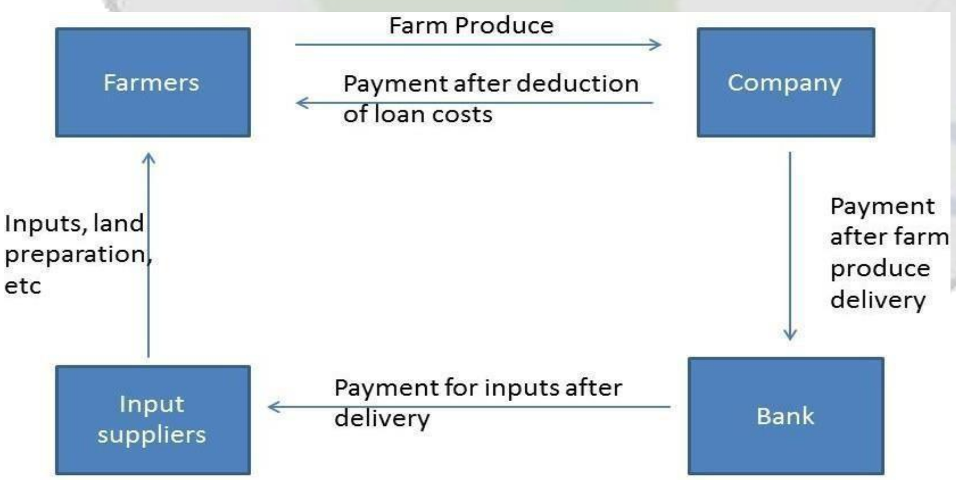


Diagram below: the company will normally still provide extension but other services are provided by private companies who are paid by the company after they have been delivered.



In other cases the company may not have enough cash to pay for the inputs and also wait several months until it can get the product from the farmer and then sell it on to other buyers, either in the same form or processed. In this situation the company needs to borrow money from a bank. The input dealers supply the inputs to the farmers, the bank pays the dealers and the company repays its loan from the bank, often not until it has been able to sell the products it makes from those delivered by the farmer. The company may even have to borrow money from a bank in order to pay its farmers, although companies with such limited resources may be risky for farmers and, possibly, best avoided.



Advantages of contract farming for companies:

There are potentially many. First, smallholders have land. Companies may indeed prefer to run large plantations and not have to deal with lots of small farmers but large areas of land are rarely available. Also it is politically sensitive and controversial to take over large chunks of African land. Even if foreign companies could succeed in obtaining suitable land they could be accused of "land grabbing". For large international companies this would be very damaging to their reputation.

Spreading production over a large number of smallholders also spreads the risks from disease, pests or drought. The entire crop on a plantation could be wiped out but this is unlikely to be the case for the entire production of all smallholders. Moreover, some crops, such as many horticultural crops and tobacco, are generally considered to be more suitable for smallholder production. Indeed, in some cases companies may lease plots to farmers who are short of land, providing they use it for contract farming. The company prefers the crop to be grown by smallholders. In addition, when companies operate estates they have to pay the workers from Day 1. With contract farming they can make advances to farmers for inputs and may sometimes also give cash advances but they only pay the full cost to smallholders when the produce is delivered.

But you may still ask why companies go to all the trouble of working with so many farmers and providing them with extension and inputs. Why don't they just announce that they are buying products at their factory and wait for farmers to deliver? In the first place, of course, farmers are not going to make an investment in crops with a long growing period unless they can be sure of a market. For a farmer to invest in crops that need to be processed soon after harvest, such as oil palm or rubber, a guarantee is required that someone will buy the product once the trees are mature. So if companies want to obtain supply of this sort of product contract farming is almost essential.

Problems of contract Farming

Offsetting the many advantages to companies of using contract farming are a number of potential problems. Companies have the right to expect that if they supply inputs, advice, etc. to farmers then those farmers will honour their side of the bargain. But farmers sometimes sell the inputs or use them on other crops. Or they may use all the inputs correctly, but then sell the products to an entirely different company or to a small trader who visits their farm. Alternatively, they may supply too much to the company, buying produce from neighbouring farmers. Consider the implications for a company and all of its farmers if it is selling fresh vegetables in Europe as "free of pesticides" and some of its farmers buy from their neighbours vegetables grown with pesticides.

It can be extremely expensive for companies if contract farming arrangements break down. If they don't get any products from their farmers they will not be able to meet the contracts they have with their buyers, such as supermarkets in Europe. Alternatively, they may have spent a fortune on a processing facility, only to see it lying idle. They will not get back the money they have spent on inputs and other services supplied to the farmers. For these reasons it is certainly not in the interests of reputable companies to upset their farmers.

The advantages for farmers

Contract farming should provide farmers with a reliable outlet for their production, at a predetermined price. The alternative is to grow or rear a product and then hope that someone will buy it, a very risky venture. By growing to the quantity specifications of the company, farmers minimise unnecessary time and resources spent on producing something they can't sell or have to sell at a give-away price.For contract farming to work it has to be a "win-win" for both companies and farmers. So, what are the potential advantages for farmers? First, it is generally easier for them to obtain productivity-enhancing inputs. In many rural areas there are no companies supplying seeds, fertilizers, chemicals, etc. or, if there are, they often have little stock. Life is made easier for farmers when companies take over responsibility for organizing input supply. Second, it can also be very difficult for farmers to obtain credit for their agricultural activities. The fact that companies are prepared to provide inputs without payment until the crop is delivered removes farmers' need for credit. Sometimes companies are also prepared to advance inputs for family food crops. Something else in short supply in much of Africa these days is good-quality agricultural extension. Working under contract can provide farmers with extension advice that may otherwise be unavailable, although in a few cases extension support offered by companies also proves ineffective. Farmers may also have access to land preparation services which, again, are often not available to farmers without a

Contract.

Disadvantages:

There is obviously a risk for farmers that companies may fail to honour their contracts. This could occur if the company finds that the venture is not profitable enough or if it loses the market for the products it is selling. Products such as tree crops, for which there is nearly always a market, are less risky than fruits and vegetables, where supplying European supermarkets is very cut-throat. For example, a supermarket chain that has bad experiences with suppliers from Kenya may switch almost overnight to buying from Senegal, or vice-versa. On the other hand, vegetables that grow in just a few months are less of a long-term risk than tree crops. If a vegetable contract collapses the farmer loses the time and money spent on growing just one harvest. If an oil palm factory goes broke the farmer may have no other outlet for the fruit and may be stuck with hectares of palms that suddenly have no value.

So it is important that farmers and their organizations do some research about the company offering the contract. The higher the level of risk, the more that farmers need to be reassured about the reliability of the company. They also need to make sure that legal protection for farmers is built into the contract.

Other possible disadvantages include the fact that farmers tied to a contract are unable to benefit from high prices on the open market. Offsetting that, of course, is that in some years the open market prices may be much lower than the contract prices, and in that case farmers benefit. However, companies do recognize that farmers will be very tempted to ignore their contracts when local market prices are higher than agreed with the company and there are different pricing mechanisms that can be used in contracts to take this into account. Farmers investing in crops with a long growing period receive no income until the crops bear fruit. For most small farmers such investments are impossible without funding from a company, the government or a development bank. Even if such funding is available it is unlikely to come as a gift and thus farmers become more indebted than they would if following traditional farming practices, even though in the long run they may be much better off.

Not all farmers are suitable for contract farming

Contract farming has to be commercially viable for companies. They are private organizations, not development institutions, NGOs or charities. In the same way that someone running a business in a city would aim to choose the best possible employees, so companies want to choose the best available farmers. In deciding on areas to work with farmers, companies consider factors such as agronomic suitability of the land, climate, pests and diseases, the location of the farm, availability of input supplies and services and infrastructure such as roads, electricity and communications. Having identified a suitable location they may then choose which farmers to work with based on a whole range of other factors. Farmers should have some assets and access to finance other than from the company. They often need to employ labourers and these want to be paid daily whereas the farmers only get paid when they deliver the crops. Companies may also want to assess whether individual farmers have the capacity to meet market requirements, for example in terms of fully following cultivation instructions. To do this, they may consider the farmer’s level of education or visual evidence from inspecting the farmer’s fields. Reliable companies will also look at how much land is available to the farmer. Sometimes too much land is used for contracted crops, making it difficult for families to meet all their food needs from the farm.

What can go wrong?

While some farmers may not be suitable for contract farming, the same can be said of some companies or, at least, some management teams. Managers who lack the skills to develop good relationships with farmers can cause major problems. When a company goes into contract farming for the first time its staff may have no previous experience of smallholders and no knowledge of their problems. A common difficulty is that companies have unrealistic expectations of the yields that can be achieved. Estimates are often based on yields achieved on research farms, sometimes not even in the same country, rather than on yields achieved by smallholders. As a result farmers are promised high yields and high incomes, which are never achieved. Companies operating “nucleus estates”, where they run a small plantation and are surrounded by smallholder out growers, are best able to avoid such problems because they have a better understanding of the production environment. Contract farming is much more likely to succeed where the so-called “enabling environment” is most suitable. This means that political, legal, and financial factors must be supportive of both the private sector and of the contract farming concept. To start with there must be a strong national and local political understanding of the purpose and requirements of contract farming but, unfortunately, there are too many examples of both national and local politicians seeking political advantage by encouraging farmers to break their contracts.

While written contracts are legal documents it is unlikely that small farmers, other than through their organizations, will take companies to court, or vice versa. Nevertheless, it is still important that a country has in place laws of contract on which contracts can be based. Many African countries have inadequate land tenure laws and this can cause difficulties: farmers will not invest in long-term tree crops if they don't have tenure. If farmer organizations or associations are to be involved with contract farming then rules governing associations are necessary. A strong banking environment is essential if companies, service providers and farmers are to be able to finance their activities, and if companies are to trade and export with the minimum of risk.

In addition to providing an appropriate enabling environment, governments can also undertake proactive measures to support contract farming growth. For example, they could assist companies to identify suitable farmers, something that is already being done by NGOs. Public-Private Partnerships (PPPs) are being talked about a lot these days. Examples of such PPPs for contract farming could include government financial support to farmers planting long-term crops, government research station assistance to companies, or government construction of roads to connect farmers with processing facilities.

How can potential problems be avoided?

The most important word in contract farming is "trust". The whole process will not work if farmers don't trust the company and the company doesn't trust the farmers. Contracts will only work when both parties believe they are better off by engaging in them and for this to happen there must be an understanding of each other's' needs and problems. This requires a willingness to collaborate and share information.

Maximising communication is essential. Companies have to visit farmers to understand their difficulties. Ideally they should have extension workers "on-the-ground" and also organize regular meetings. Farmers have to visit the premises of the companies in order to understand what the companies require in terms of product quality, delivery arrangements, etc. Disagreements over product grading are particularly common. The contract should give clear specifications. Simplicity is key and the fewer the different standards the better. Having the farmer or a representative of farmers present when the crop is received and graded can avoid many problems. Late payment can also cause major difficulties. Companies should aim to pay within a week, if not at the time of delivery or collection. Contracts must be clearly understood by all the farmers and, as noted earlier, should have some flexibility to allow for extreme events such as high prices on the local market or bad weather.

References and Suggested Reading:

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