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AGRICULTURAL MARKETING SYSTEM AND PRICE SUPPORT – CHALLENGE, PROBLEMS AND POLICY SUGGESTIONS FOR PRIORITY AREA IN INDIA

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Abstract

Marketing system is the critical link between farm production sector on the one hand and nonfarm sector, industry, and urban economy on the other. Besides the physical and facilitating functions of transferring the goods from producers to consumers, the marketing system also performs the function of discovering the prices at different stages of marketing and transmitting the price signals in the marketing chain. The issues and concerns in marketing relate mainly to the performance (efficiency) of the marketing system, which depends on the structure and conduct of the market.

Keywords: *Marketing system, rural poverty, food insecurity, unemployment, Agro based industry.*

I. Introduction

Strengthening agriculture is critical for facing the challenges of rural poverty, food insecurity, unemployment, and sustainability of natural resources. Agriculture is the science and practice of activities relating to production, processing, marketing, distribution, utilization, and trade of food, feed and fiber. This definition implies that agricultural development strategy must address not only farmers but also those in marketing, trade, processing, and agri-business. In this context, efficient marketing and rural credit systems assume added importance. Paramasivan C, & Pasupathi R (2016) Agro-based industries can play an important role to a large extent in solving the problem of poverty, unemployment and inequality in India and can significantly contribute to the overall development of the economy by efficiently utilizing the local raw materials which consequently may result in increase of gainful employment opportunities to poor people mainly landless, marginal and small farmers. An efficient marketing system helps in the optimization of resource use, output management, increase in farm incomes, widening of markets, growth of agro-based industry, addition to national income through value addition, and employment creation. The rural credit system assumes importance because most Indian rural families have inadequate savings to finance farming and other economic activities. This, coupled with the lack of simultaneity between income and expenditure and lumpiness of fixed capital investment, makes availability of timely credit at affordable rates of interest a prerequisite for improving rural livelihood and accelerating rural development.

II. Main Problems in Agricultural Marketing

Agricultural marketing in India is characterized by pervasive government intervention. The objectives and forms of intervention have changed substantially over time. State intervention in agricultural marketing is by definition aimed at correcting perceived market failures. Several instruments of such state intervention in India have their origin in the experience of the Bengal Famine, where market failure occurred due to inadequate state intervention. In the current situation of agricultural surpluses, however, market failure is occurring due to excessive state intervention. Paramasivan C, & Pasupathi R (2017) Agriculture is the primary occupation and the major economic factor of India. It provides more number of employment opportunities and business strategies to the society. Mostly, peoples from India are concerning with agriculture sector directly and indirectly. Not only agricultural industries, agro based industries are also generating agro products and also it creates more employment opportunities to the peoples like farmers, agricultural workers, industrial workers, wholesalers, retailers exporters and others. Agricultural marketing has changed conspicuously during the last fifty years. The main reasons for this change are increased marketable surplus, increase in urbanization and income levels and consequent changes in the pattern of demand for marketing services, increase in linkages with distant and overseas markets, and changes in the form and degree of government intervention. Some basic features of the system and associated problems are:

- . The market size is already large and is continuously expanding. Farmers market linkages (both backward and forward) have also increased manifold. But the marketing system has not kept pace.
- Private trade, which handles 80% of the marketed surplus, has not invested in marketing infrastructure due to the excessive regulatory framework and dominance of the unorganized sector.
- Increased demand for value-added services and geographic expansion of markets demands lengthening of the marketing channel but this is hampered by lack of rural infrastructure.
- Direct marketing by farmers to consumers remains negligible. In the 30, 000 rural periodic markets, where small and marginal farmers come to the markets, 85% lack facilities for efficient trade.
- For facilitating trade at the primary market level, 7561 market yards/sub-yards have been constructed but they are ill equipped.
- Food processing industry has a high income multiplier effect and employment potential. But in India the value addition to food production is only 7%, mainly because of the multiplicity of food-related laws.
- Due to poor handling (cleaning, sorting, grading and packaging) at the farm gate or village level, about 7% of grains, 30% of fruits and vegetables and 10% of seed species are lost before reaching the market.
- An estimated Rs. 50,000 crore is lost annualy in the marketing chain due to poorly developed marketing

infrastructure and excessive controls.

- State Agricultural Produce Markets Regulation (APMR) legislation hampers contract farming initiatives, which otherwise can be highly successful.
- Farmers shifting to higher-value crops face increased risk of fluctuation in yield, price and income.
- While agricultural price policy and associated instruments have induced farmers to adopt new technology and thereby increase physical and economic access to food, they have reduced private sector initiative and created several other problems in the economy.

III. Priority Areas in Agricultural Marketing

Based on the problems identified in the earlier section, six areas need priority attention.

Regulation of Agricultural Produce Markets

To improve the marketing system of farm products wholesale agricultural produce markets began to be regulated in the 1950s and 1960s. Based on a Model Act circulated by the central government, almost all major states (27) enacted APMR legislation. This legislation covers 7161 markets, which cover more than 98% of the identified wholesale markets in the country. In the emerging scenario, however, the relevance of the market regulation program seems to have declined.

Policy Suggestion

a. Simplification and Rationalization of Regulations Related to Marketing

Apart from the regulation of primary wholesale markets, several other legal instruments were enacted by the central government and the states to influence the conduct of the market . An illustrative list of 222 such enactments is available in Government of India marketing website. Several of these enactments have been repealed, rescinded or lifted during the last five years. There are also at least fourteen enactments governing food- processing activity, administered by fifteen different departments and ministries. The unfinished agenda of domestic agricultural marketing reforms would need to take the following into account:

- Despite deregulation, small-scale low-technology firms established under the old restrictive laws still dominate the food processing industry.
- Licensing requirements, stocking limits and movement restrictions for major agricultural products have only been temporarily removed. In some states these restrictions still prevail in effect. The threat of their reimposition discourages both domestic and foreign investment.
- Also, restrictions on investment in bulk handling and storage have been removed only temporarily. Though investment incentives have been provided the private sector is hesitant to invest in bulk handling and storage.
- Despite automatic approval of foreign equity up to 100% in food processing, the multiplicity of food laws hampers the investment potential. The Unified Food Law is yet to be formalized and put in place.
- Restrictions on sale of sugar by sugarcane processors continue, though at a reduced level. The government levies 10% of the controlled releases in the market.
- Restrictions on futures trading in livestock products continue.
- Monopsony procurement of raw cotton in Maharashtra is still in place, which hampers free marketing of raw cotton in the country.

b. Simplification and Rationalization of Regulations Related to Food Processing

The uncertainty created by the unstable regulatory environment has discouraged private sector investment in supporting marketing infra- structure, agro-processing, and agro-industry, that could have expanded demand for primary agricultural products and generated employment in rural areas. The potential for growth in the food processing sub-sector can be exploited by quickly enacting the Unified Food Law. A draft Integrated Food Law is now under the consideration of Parliament. The objective should be to make food laws more industry-friendly and move from multi-level and multi-departmental control to integrated line of command and integrated response to strategic issues, regulations, and enforcement. Greater reliance needs to be placed on self-compliance by the industry rather than regulatory regime. Several food-related laws need to be repealed and several others modified to encourage the growth of the food processing sector, which will help both farmers and consumers.

Withdrawal of restrictions on storage, movement, bulk handling, and other activities being temporary, investment from both domestic and foreign investors is not flowing into the sector. To allay fears of reimposition of such restrictions either the Essential Commodities Act can be replaced with a simplified legislation which empowers the government to impose such restrictions only during an emergency or the withdrawal of restrictions widely publicizing to allay investors. wariness. It is recommended that (a) the provisions in the Draft Food Safety and Standards Bill 2005 (brought out by the Group of Ministers) should be expeditiously passed by Parliament after due consideration; and (b) to allay the fears of reimposition of restrictions, either the Essential Com modities Act should be replaced with simplified legislation empowering the government to impose such restrictions only during an emergency or the withdrawal of restrictions should be given wide publicity.

Agricultural Price Policy and Food Management Agricultural price policy has considerably influenced the marketing system of agricultural commodities. The policy was primarily intended to stabilize agricultural prices and influence the price spread from farm gate to the retail level. Its objectives, thrust, and instruments have conspicuously shifted during the last fifty years. By creating a fairly stable price environment the policy has been instrumental in inducing the farmers to adopt new production technology and thereby increase output. Geographically dispersed growth of cereal production, coupled with Public Distribution System (PDS) of cereals, helped in increasing physical access to food. Supply of subsidized inputs to farmers and subsidized distribution of food grains pushed down the real prices of staple cereals vis-à-vis per capita incomes, which improved economic access to food. These policy measures also enabled the organized sector and industry to keep their wage bills low, as cereals have a considerable weightage in the consumer price index. The benefits of price policy and input/food subsidies have, thus, been shared by all sections of society, i.e. surplus-producing farmers, farmers deriving their entitlement from production, other farmers who are net purchasers of foodgrains, landless laborers, urban consumers, and industry (Acharya, 1997, 2000).

Even so, some important emerging problems related to agricultural price policy and food management system may be noted:

- During the last six to seven years, the government fixed the minimum support prices (MSPs) of rice and wheat at levels much higher than recommended by the Commission for Agricultural Costs and Prices (CACP). This led to accumulation of excessive stocks and also raised the public cost of foodgrain policy. With coalition governments being the more likely political dispensation in the future, the likelihood of considerations of political economy outweighing rational factors in determining the level of MSPs also increases.

- Foodgrain stocks with the government also increased because of frequent relaxation of fair average quality (FAQ) norms, inappropriate timing of raise in issue prices of grains for PDS, and improper meshing of export-import policy. Currently, however, the stocks are below or close to the minimum prescribed levels
- For sugarcane, many state governments have been fixing what may be called State Advised Prices (SAP), much higher than the Statutory Minimum Prices fixed by the Center. Sometimes the sugar industry finds them unremunerative. SAPs, coupled with the policy of levy on sugar factories, has frequently led to piling up of cane price arrears and ultimately to the phenomenon of sugarcane/sugar cycles in the country.
- Other than in Punjab, Haryana, western Uttar Pradesh and Andhra Pradesh, price support operations for rice and wheat are not being implemented in some states. A result has been that surpluses have emerged during the last decade, but farmers could not get the MSP for their produce. This happened mainly because the nodal agency (Food Corporation of India, FCI) and state agencies in the new emerging surplus states are not geared to undertake price support operations. The FCI remains occupied with large volumes of purchases in traditional surplus-producing states. Some decentralized procurement and refocusing the operations of FCI to nontraditional states may help in this regard.

Reduction of Farmers

Marketing Risks Farmers face both yield and price risks. Yield or production risk can be covered by crop insurance and weather or rainfall insurance. For marketing risks, three instruments are available. One is MSP. Notwithstanding the defects in its implementation, it has helped a large number of farmers in surplus producing states to cover a part of their price risks. Effective implementation of MSP policy, as suggested earlier, will help farmers reduce their price risks. A second instrument for covering price risk is the emerging scenario of contract farming arrangements, which are in way future contracts on prices. There are several success stories relating to such arrangements. A precondition for contract farming to expand is amending state APMR legislation. This apart, a Model Contract has also been formulated and circulated to states. However, several complementary measures are needed for contract farming to expand on a large scale. It will need

(a) Organization of farmers./producers groups;

(b) Legislation and effective implementation of a contract law;

(c) Improvement in the quality of input delivery and research and extension services; (d) training of farmers in maintenance of quality standards;

(e) Provision of complementary infrastructure, including IT kiosks (like e-choupal) in rural areas; and

(f) Development of an effective land record and administration system. This will also require identification of a group of villages for each niche commodity and provision of credit and incentives for the farmers to shift to the identified commodity.

A third instrument is the Farm Income Insurance Scheme (FIIS), introduced on a pilot scale in eighteen districts during Rabi 2003-4 and extended to one hundred districts of sixteen states during 2004-5. FIIS covers both price and yield risks. The scheme is compulsory for loanee farmers but optional for others. FIIS replaced the National Agricultural Insurance Scheme (NAIS) but NAIS continues in uncovered districts. The government has announced a subsidy on other farmers. The success of this laudable scheme will depend on the speed with which the estimates of area yield and prices realized by the farmers are arrived at. These parameters both at area and individual farmer’s level are not easy to compile objectively. Further, the guaranteed level of income is also based on indemnity of 80% of moving average of seven years of actual yield. Statistically reliable yield estimates below the district level are not available and special yield estimation surveys at sub-district or lower levels have all the limitations of losing objectivity. The experience of pilot tests of FIIS has not yet been made available. Whatever may be the outcome of pilot testing, the long-term solution for insuring farmers risk is an effective FIIS. Till it is put in operation in all the areas covering every farmer, a combination of MSP policy, contract farming and crop/livestock insurance scheme would need to continue.

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