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Marketing System and Market Structure for Secondhand Tractors in Punjab

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Abstract

The secondhand tractor markets in Punjab have assumed special significance. Around 20000 tractors are transacted annually in these markets, which are generally held on a fixed day of the week specific for each market. About 80 % of the secondhand tractors sold pass through the marketing channel: Farmer ! Agent / Sub-agent ! Farmer. The markets are unorganized and unregulated. The market place is also not proper, congested, costly, inconvenient with hardly any facility. Generally the large farmers sell their secondhand tractor to replace with a new one and the small farmers purchase the secondhand tractor. The price determination is fairly competitive. The distress sale has not been ruled out but has declined with escalation in land prices. The malpractices have been rare but as usual the farmer is the weaker party. The stdy has suggested that secondhand tractor markets in Punjab should be organized and regulated; the dealers should be registered and the market charges should be fixed. The market agency should maintain record of transactions in the market

Introduction

Agricultural machinery, particularly tractorization helped the farmers of Punjab to go for timely land preparation and sowing of crops and intensive cultivation. However, the tractors have become a status symbol also for the farming community in Punjab. There are more than 4 lakh tractors in Punjab for about 10 lakh operational holdings / farmers cultivating a little more than 40 lakh hectares land. The over-capitalization of Punjab farms is obvious from this level of tractorization but it is often referred to be due to the tractors with small and marginal holdings. About 13 per cent marginal farmers (< 1 ha) and 31 per cent small farmers (1 – 2 ha) possess tractors (Singh *et al*., 2007). The tractors have been not only a source of lump-sum finance but also an asset to hedge against insecurity.

Generally, the large farmers have a passion to own new tractors. On the other hand, as a tractor gets old, its working efficiency decreases and therefore these farmers sell their old tractors to other farmers, who have a relatively less use for it, and they buy a new one. This phenomenon, in the beginning, has been a sound economic rationale that gradually developed into a general practice and led to the development of a large-scale market for the secondhand tractors. The determinant factors were increasing prices of tractors, declining profitability of agriculture, and increasing indebtedness of the farmers, which had its own systemic incursion into the system, leading to buying and selling of a tractor in distress.

The markets for secondhand tractors started developing in Punjab during the early-1990s and

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soon gained the momentum. Incidentally, these markets are concentrated in the suicide-prone belt, which is the cotton belt, comprising the southwestern region of the state. These markets are being held regularly. There are 4 large markets for secondhand tractors in Punjab, at Moga, Barnala, Kot Kapura and Talwandi Sabo, where around 2000 to 4000 tractors are available on sale on the market day. However, only around 100-120 tractors are transacted on each market day. There are many medium- and small-scale markets; the small ones are those where only about 100 tractors are available and may be only up to 10 or so get transacted on a single market day. The low proportion of transactions to availability is in itself due to some chain of transactions, which have formed a part of the development of such markets, and may be exploitative for the small players. This forms the context of this study.

The study has examined the significance of secondhand tractor markets in Punjab, the general profile of sellers and buyers of these tractors, the middlemen engaged in the system and the *modus operandi* followed in these markets. The important market channels have been highlighted and the total volume of business of secondhand tractors has been estimated. The reasons for sale / purchase of secondhand tractors, and the distress purchase / sale of tractors have been examined. Finally, some suggestions have been given to improve the efficiency of the market and the need for an organized system has been stressed.

Markets and Marketing System

Market Places

The markets for secondhand tractors are held at many places in the state. These markets are generally held on a specified day of the week at most of the places and are held once or twice a month on specified dates at some other places. The important markets along with the number of dealers and the day of marketing are given in Table 1.

The dealers in these markets (mostly) send the secondhand tractors in fleets on demand to other states like U.P., etc., where there is demand for them from the farmers. These dealers generally have the license as 'junk dealers' and the markets are known more as the junk-dealers' markets, though only a few tractors, which are very old and, which the junk dealers dismantle and sort out the usable parts that can be sold (at a discount price of course) for use in other tractors. Only a few of the dealers are the junk dealers in reality.

Table 1. Particulars of markets for secondhand tractors along with the number of dealers and the day of marketing

Market	No. of dealers	Market day
Large markets		
Talwandi Sabo	62	Wednesday
Moga	35	Sunday
Barnala	30	Monday
Kot Kapura	20	Monday
Medium and small markets		
Zira	15 - 18	Wednesday
Sunam	10 -12	Friday
Malout	10	Monday
Muktsar	8 -10	Sunday
Jhunir (Mansa)	7- 8	Thursday
Maur	5 - 7	Friday
Gidarbaha	3 - 4	Friday
Samrala	4	10th and 25th of every month
Morinda	2	3rd and 17th of every month
Daily markets		
Patiala		Daily
Amritsar		Daily
Jalandhar		Daily

Kind of Tractors Transacted

Most of the tractors 'on sale' in these markets were 4 to 15 years old and some were even older. Some 2 –3 years old tractors were also available but their number was small. During the survey conducted in 2007, we did not come across any tractor of 2006 model for sale in these markets. However, there were a few tractors that appeared almost like the new ones. All the tractors were in the working conditions. The tractors were brought after proper cleaning for sale to these markets.

Market-yards and Facilities

These markets are usually held along the roadside on the vacant plots. These do cause traffic congestion and inconvenience. The platform is *katcha,* full of dust with no proper arrangements. The agents either own the plots or in general, pay for the use of plot. The payments ranged from Rs 16,000 per month collectively by all the 22 dealers in Barnala (2 dealers had their own plots nearby) to Rs 40,000 - Rs 50,000 per plot (of one kanal each) per year (1st April to 31st March) by each dealer (Talwandi Sabo). At some places, e.g. Kot Kapura, these markets are held at the market-yards of Punjab Mandi Board. At some other places (e.g. Barnala), these markets were earlier held in the market-yards of Punjab Mandi Board but the local pressures from vested interests (e.g. plot owners who earn quite handsomely from renting their plots for the market) managed to get the markets shifted to the private plots again.

The markets are unorganized without any permanent infrastructure / facilities. However, the traders / dealers like commission agents who facilitate the transaction between the buyer and the seller provide some facilities like water tea, sitting arrangements, etc. to them.

Sellers and Buyers

The sellers, at the first sale, are the farmers who want to sell the tractor. The final buyers of the tractor, except in the case where a tractor has gone too old and carries only the junk value and is purchased by the junk dealers, are also the farmers, who want to buy the secondhand tractor for various reasons. But, in most cases, the tractor is purchased from the farmers by the agents (middlemen), who later on resell it, either directly (and act as a dealer) or through another regular agent / dealer in the market, the latter may be called a sub-agent. These agents / sub-agents buy the secondhand tractors even from the farmers directly in the villages, for which they have their own contacts for information. Thus, the sale in the market from the agent is the second-sale. There are many agents, who have specialized in this business and carry their sale / purchase in more than one market every week.

In most of the markets studied, as many as 80 per cent tractors for sale belonged to the agents. The dealers in the tractor markets of Talwandi Sabo, Moga, Barnala, etc. have their stalls in the market and each one keeps a rolling fleet of 5 - 10 tractors (some even have more), purchased from farmers and are displayed for sale. They also negotiate for the sale of tractors brought by others (farmers and sub-agents). In some cases, the farmers, both seller and buyer, also collude on the deal and transact directly after leaving the market. However, such cases are rare.

Market Channels

In brief the market channels for secondhand tractors (farmer to farmer) were as follows:

Channel I: Farmer → Farmer (in the village either directly or after the market)

Channel II: Farmer → Farmer (through dealer in the market)

Channel III: Farmer → Sub-agent / Agent → Farmer (all transactions in the market and generally, the first deal on one day and the second deal, later on)

Channel IV: Farmer → Subagent / Agent (in the village before) → Farmer (in the market)

Channel V: Farmers → Junk-dealers [very old (few) tractors for dismantling, better ones (a few) for resale]

Channel VI: Sub-agent / Agent → Sub-agent / Agent (revolving / resale or 2nd / 3rd sale) → Farmers.

Dealers, Agents and Sub-agents

A 'dealer' is the one who negotiates the price (deal) between the buyer and the seller. The dealers who also purchase tractors in the first hand and then put them on sale are the 'agents'. The 'sub-agents' purchase the tractors in the first hand and generally sell them in the market through the dealers.

There are a variety of sub-agents, agents and dealers in the secondhand tractor markets. They are from commission agents, farmers, general traders or

any body who has developed some expertise in purchase / sale of tractors. There is no record of these persons because neither the markets are regulated nor there is any formal registration of these agents. However, they have formed some associations by themselves and at places, contribute to some common cause, say to Red Cross in lump-sum, voluntarily or on direction of the local administration. For instance, in Moga, the dealers collectively contribute Rs 10,000 per month to the Red Cross Fund. In Talwandi Sabo, the dealers pay Rs 100 for each tractor sold to the Red Cross Fund, which they collect as Rs 50 each from the seller and the buyer (in rare cases, dealers have to pay from their commission, if the buyer and / or the seller become adamant on this part of the deal).

Price Determination and Transactions

The sellers display the model (year) of the tractor and the price at which it is available for sale. However, it is the maximum expected price and is negotiable. The final price is usually about Rs 5,000 to Rs 20,000 less than the displayed price. The displayed price ranged from around Rs 100,000 for very old models to close to Rs 400,000 for the latest models. Thus, the negotiation margin worked out to be around 5 per cent of the displayed price. Once the deal was settled, the payment was to be made by the buyer either instantly or on the agreed-upon date before handing over the tractor. In some cases, if a known intermediary took the responsibility of payment, the tractor was passed on to the buyer. The dealer issues a receipt with the complete addresses of both buyer and seller. The dealers maintain a complete record of these sales for future reference, which may facilitate in some cases when the documents are lost. They also facilitate the transfer of papers. In some cases, where the loan is due to a bank, the dealers arrange to make the payment to the bank for obtaining 'No Objection Certificate'. This may even be arranged before the tractor is brought to the market for sale. In general, it was also displayed that the tractor on sale was free of the (bank) loan

The commission charges of the dealers vary from market to market. In some markets they charge one per cent from the buyer and one per cent from the seller. From the seller sub-agent, the dealers generally charge less commission (clandestinely), as they are the regular customers and offer more business to them. In some other markets, the charges are fixed at Rs 1000 each from buyer and seller. In these markets, the tractor implements, mostly the tractor trollies, which cost less than Rs 100,000, are also for sale, for which the commission is Rs 500.

Malpractices/Fraudulent Sales

The existence of malpractices and fraudulent sales of secondhand tractors were also reported in these markets. Although the number of such cases was small, each case taught a lesson to the dealers and made them more cautious. Some of the malpractices being followed included:

- Luring of a farmer to hire-out his tractor on a monthly rent, ranging from Rs 15,000 to Rs 20,000; paying the rent for some months and then procuring his ration card, photo and signatures on false excuses to prepare fake documents of sale of tractor.
- Selling a tractor as a bank-loan cleared instrument when the bank loan was still to be paid. In some cases, banks have even confiscated the tractors and the cases are pending in the courts.
- Collusion of Company's employees with dealers in befooling the information-poor farmer. In one such case in the Barnala Market, the discount offered by the Company on its 2004 model tractor was not passed on to the farmer-buyer and was shared by the dealer and the Company's employees.

Size of Market

The sale of secondhand tractors is totally unorganized. There are no regular records of sale / purchase of secondhand tractors and no monitoring is done by any agency. Thus, it is difficult to make a precise estimate of the number of tractors that get transacted in these markets. According to a rough estimate, the four major markets in Talwandi Sabo, Moga, Barnala and Kot Kapuro deal with 2,000 to 4,000 secondhand tractors each year and the total volume of business per year in these markets could

be around 10,000 to 12,000 tractors. The small markets transact less than 200 tractors per year while medium ones market around 2000 secondhand tractors. The total business in these small and medium markets may be of 5,000 to 10,000 tractors. Some tractors are sold more than once between the agents / sub-agents themselves. Thus, the total volume of business is of over 20,000 secondhand tractors per year in the markets of Punjab.

A recent survey conducted by Singh *et al*. (2007) on 600 farmers showed that 295 tractors were owned by 292 farmers, of whom 137 had purchased secondhand tractors, i.e. there was a ratio of 54 : 46 between new and secondhand tractors On an average about 25,000 new tractors are sold in Punjab; in a good crop year, this number may even cross 30,000, while in a bad (failure) crop year, it may come down to 10,000 only. Calculations based on these data revealed that around 22,000 tractors are purchased as secondhand tractors in Punjab in one year. Amongst the tractors sold in the secondhand tractor markets by the farmers, about 55 per cent had originally purchased new tractors, while the remaining 45 per cent had in the first instance also purchased a secondhand tractor. This ratio also worked out to be almost same and gave the total size of secondhand tractor markets to be of more than 20,000. Thus, on an average, the size of market was estimated to be of around 20,000 secondhand tractors per year.

It may be noted that the annual sale of new tractors is mainly determined by the harvest condition of crops; if the season is good, their demand (purchase of new tractors) is more and vice versa. In the case of secondhand tractors, the condition of crop harvest is also a factor but it is a complex one. In the case of a good harvest year, a higher demand for new tractors also means more secondhand tractors for sale, and also, the demand / purchase of secondhand tractors is higher. When a crop season is bad, more people offer their tractors for sale, some even under distress, and the addition of new tractors is less. Thus, marketing of secondhand tractors is again higher. Some calculative farmers buy a secondhand tractor before the season (in terms of tractor use) and sell it again after the season. In such cases, the total cost to a farmer for tractor use (purchase price *minus* sale price *plus* the fuel expenses, etc.) is expected to be less than or equal to the cost of hiring a tractor and thus is a better option. Sometimes, a farmer may even get the same or even higher price than his purchase price. Thus, the secondhand tractor markets have been able to assume more prominence than of the new tractors.

Reasons for Sale/Purchase of Secondhand Tractors

A majority of the farmer-sellers (70 %) wanted to replace their old tractors. The other major reasons for sale were high maintenance costs, high oil consumption, and uncertainty in bearing the farm work-load (particularly of large farmers). Repayment of loans and observance of some social festivities were the other reasons mentioned by 5 per cent and 15 per cent respondents, respectively. The crop-failure years inflate the last two reasons.

The tractors have become a status symbol in Punjab and therefore every farmer desires to possess at least one tractor. The condition of tractors in these secondhand markets is good enough to match the needs of farmers ranging from small to full load. The high price of a new tractor (90 %) and low use on farm (70 %) were the other reasons. In a few cases, the need / desire to have an additional tractor on the farm for petty activities was also the reason for buying of a secondhand tractor.

Distress Sale of Tractors

Tractor being a fixed asset, is a hedge against some risks like crop failure, in meeting some sudden heavy social responsibility and in times of distress. However, the distress situations are not the wishful ones; neither the society nor the polity wishes the farmers to get trapped in such situations. Thus, all the secondhand tractors sales may not be the 'arms length sales', which refer to the transfer of ownership from a *willing seller* not under *compulsion to sell* to a *willing buyer* not under *compulsion to buy*. There are 2 '*wills'* and 2 '*compulsions'* in the axiom; and any one of the four may be out of alignment. These situations may be very few and should not be a hindrance in furthering the development of such markets.

It was reported that earlier it was only the tractor for which the lump-sum loan was more easily available from the banks. The farmer in need of a lump-sum amount (for some social festivity, medical / healthcare or to pay to the money lender / commission agent in the hope of repaying in installments and thus saving the land from sale, which otherwise will be foregone for ever) resorted to such distress purchase / sale (often simultaneously) of tractors. However, normal crop harvests complemented with the high rise in land prices over the past 2-3 years have been able to control such first-order distress situations. Also, the lump-sum bank loans are now available even otherwise against the land hypothecation / mortgage. However, the second-order distress element in some cases, where a better secondhand tractor is sold and older secondhand tractor is purchased or the purchase is delayed to meet some urgent / sudden obligatory needs cannot be ruled out. And, it must be acknowledged that even in such cases the existence of secondhand tractor markets provides a better opportunity to seek a competitive price for the tractor.

Concluding Observations

The secondhand tractor markets are held regularly in Punjab, but in an unorganized manner. These markets provide a reasonable platform for a fair and competitive price to both the sellers and the buyers. The study has made the following suggestions:

- The secondhand tractor markets in Punjab need to be organized and regulated like the cattle markets.
- There should be proper and specified place for these markets. The grain markets, which remain unutilized for most of the time in a year, may be allowed for this purpose. At places like Kot Kapura, these are already held at such venues.
- The dealers should be registered and their charges should be fixed.
- There should be no entry fee for the seller; a very nominal fee may be charged in case of the materialized sale.
- The market agency should maintain record of transactions in the market.

Reference

Singh, Karam, Singh, Sukhpal, Kaur, Manjeet and Kingra, H.S. (2007) *Flow of Funds to Farmers and Indebtedness in Punjab,* a study conducted by Department of Economics, Punjab Agricultural University, Ludhiana, and sponsored by The Punjab State Farmers Commission, Government of Punjab.

Annexure

Executive Brief

A. Total number of operational holdings in Punjab		10 lakh
B. Total number of tractors in Punjab		4 lakh
C. Average farm size		4 hectare
D. Annual sale of tractors in Punjab		
New : Good crop year		Around 30,000
Bad crop year		10,000-15,000
Average / normal year		Around 25,000
Secondhand:		Around 20,000
E. Secondhand tractor markets in Punjab		
Number of markets		
Large (2000 to 4000 tractors sold per year)		4
Small and medium (less than 2000 tractors sold per year)		10 +
Frequency – Generally once a week on a fixed day		
Daily markets		3
- Main market channel		
Farmer → Agent / Subagent → Farmer	-	80%
- Actual price as % of farmers' displayed / perceptive price	-	95%
- Commission: Varies from market to market		
Generally Rs 1000 from each buyer and seller to 1 % of the price		
Rs 500 for transactions of less than Rs 1 lakh (implements, etc.)		
- Volume of original purchase: New ones	-	55%
Secondhand ones	-	45%
- Main reasons for sale of tractors by the farmers (multiple responses):		
To buy new one / replace old one	-	70%
High cost on repairs, high oil consumption, etc.	-	25-50%
For social festivities	-	15%
Repayment of loan	-	5%
- Why buy secondhand tractor (Main reason – multiple responses)		
High price of new ones	-	90%
Low use on farm	-	70%

- Overall: - Price to farmer-seller and buyer: Fairly competitive
- System: Unregulated, unorganized
- Distress sales: Now rare, have declined with escalation in land prices
- Malpractices: Rare, but as usual, the farmer is the weaker party
- Commission agents: Mostly act as traders / sub-agents, unregistered
- Market place: Not proper, congested, costly, hardly any facility, inconvenient

- Need for: Facilitating, organizing, regulating, registering, monitoring and supervising (FORRMS) of these secondhand tractor markets