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Growth and Efficiency of Commodity Futures Markets in Indian Liberalised Agriculture

Madhusudan Ghosh*

The paper reviews the growth of commodity futures markets in India, and evaluates the performance of the markets in price discovery and price risk management. Commodity derivatives trading experienced massive growth during 2004/05-2007/08. Although the volume of trade declined during 2006/07-2007/08, the value of all commodities traded increased. The volume and value of agricultural commodities traded more than tripled during 2004/05-2005/06. However, while the volume declined consistently and substantially in the subsequent years, the value increased in 2006-07, but declined in 2007-08. Agricultural commodities accounted for more than 68 per cent of the total value of forward trade in 2004-05, and constituted the largest proportion of the trade until 2005-06. Thereafter, bullion and metals have become the most important group accounting for about 65 per cent of the traded value in 2007-08. The findings on the efficiency of futures markets emerged from the estimates of cointegrating relationship between the spot and futures prices of the selected agricultural commodities are mixed. While the futures markets for pepper, mustard, gur and sugar (small) have been efficient in incorporating information, discovering prices and managing price risk, the markets for potato, castor seed, sugar (medium) and wheat have not been efficient. Strong relationship between the spot and futures prices required for efficient functioning of futures market has not yet developed for many commodities. This is likely due to lack of hedging and adequate participation of farmers, unnecessary regulations, infirmities in the spot markets, and absence of free playing of the markets. Therefore, greater integration of the spot and futures markets by encouraging higher participation of farmers and allowing free role of the markets is necessary for the futures markets to perform the price discovery role more effectively and to act as an efficient mechanism of price risk management.

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Marketing and Constraints of Hybrid Cotton in Khandwa District of Madhya Pradesh

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An attempt is made in this study to estimate the various marketing costs and margins and the hybrid cotton grower's share in the consumer's rupee, marketing efficiency of hybrid cotton and the problems faced by the hybrid cotton growers in the marketing of hybrid cotton in district Khandwa in Madhya Pradesh and sale in the Mandi of Khandwa city. Multi-stage random sampling technique was used to select a sample of 60 farmers from six villages in Khandwa block of the district. The data pertained to the agricultural year 2006-2007. The study revealed that the hybrid cotton growers in the study area sold their produce through two marketing channels, viz., Channel I: Producer-Commission Agent-Miller (Consumer) and Channel II: Producer-Village Merchant-Commission Agent-Miller (Consumer).The marketing costs and margins in two channels, are identified in the present study. The channel-I consisted of producer, commission agent and miller (consumer). In this channel, commission agent purchased directly from producers and sold the produce to miller. The producer's net receipt was Rs.2038 per quintal which is equivalent to 85.81 per cent of miller's price. The total marketing cost by the producer was Rs.162, i.e., 6.82 per cent of miller's price. The commission agent enjoyed the margin of Rs.72 per quintal which is 3.03 per cent of the miller's price and his total marketing costs were Rs.265 per quintal of produce. Channel-II consisted of producer, village merchant, commission agent, miller (consumer). In this case, village merchant purchased from village producers and sold to commission agent. The commission agent in turn, sold to the miller. In this channel, producer's net receipt was Rs.2300 per quintal which was Rs.262 less than first channel. In terms of percentage he got 84.40 per cent of the miller's price. The maximum margin was enjoyed by the village merchant and his margin was Rs.76, i.e., 2.79 per cent of the miller's price. The commission agent's margin was Rs.56.75 per quintal, which was equivalent to 2.08 per cent of the miller's price. In this channel, the total marketing costs were Rs.292.25 per quintal by various intermediaries. The producer's low share was mainly due to higher marketing cost and middlemen's charges. The total marketing cost of the channel ranged from 11.15 per pent (Channel I) to 10.72 per cent (Channel II) of the miller's price. However, the total marketing margin of the channels ranged from 3.03 per cent (Channel I) to 4.87 per cent (Channel II) of the miller's price. The price spread ranged from 85.81 per pent (Channel I) to 84.40 per cent in (Channel II) of the miller's price. The marketing efficiency is inversely related to the total costs and margins. As the number of intermediaries increased, costs and margins increased and inverse was the marketing efficiency. A comparison of price spread in different

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channels indicated that price spread was lowest in channel-II followed by channel-I. Therefore, it could be concluded that linking farm to processing unit directly without any intermediaries would be most beneficial to farmers followed by sales through regulated markets. Purchase of hybrid cotton from regulated market was most beneficial to millers followed by direct purchase from the farmers. The millers purchased directly from the farmers only in special cases such as familiarity of the farmers etc. It is evident from the study that inadequate storage facilities and lack of organisations like co-operative societies and lower price due to seasonal glut are the main problems faced by the hybrid cotton growers in the study area. High cost of marketing and transportation are also some of the problems faced by the farmers in the study area.

The setting up of Technology Mission on Cotton (TMC) with four Mini Missions to upgrade research and extension capabilities as well as modernising marketing and processing sectors has been one of the most welcome steps taken up by the Government. The success of this mission will depend upon the integration of the results from these four mini missions by various public institutions involved. Development in two technologies, information processing and molecular biology is being exploited effectively in cotton improvement. Besides bank credit and financial assistance should be available to the individual farmers for developing production technology and marketing infrastructure. Training of farmers in the areas of production technology, grading, standardisation of produce, quality control and modern methods of marketing will prove to be a viable move option.

Futures Market of Maize Cob in Raipur District of Chhattisgarh

Bhag Chandra Jain*

An attempt has been made in this study to investigate the future marketing systems, the marketing costs, margins and price spread of maize cob. For the present study owing to acreage concentration, the Raipur district in which 12 growers were selected purposively, who sold their maize cob to businessmen and hawkers. The data related to the year 2007-08. The study revealed that at the overall level, per hectare total quantity of produce was 90000 cobs out of which 90 per cent quantity was marketed through businessman and hawkers as per prior agreement of price and quantity decided. Nearly 60 per cent of the produce were marketed through producer – hawker/retailer – consumer channel with producer share in consumer's rupee being 72.05 per cent only. The major constraints pertaining to marketing of maize were lack of transportation facilities, follow up of agreement and payment in part etc. It is suggested that organisational way security facilities should be built up so that maize cob can be protected from wild animals. The study also suggests that Government of

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Chhattisgarh should expand the seasonal marketing programme for maize cob marketing in tribal areas.

Economic Viability of Different Marketing Channels of Soybean in India

Hari Om Sharma[†]

An attempt is made in this paper to identify the different marketing channels and analyse the price spread among different marketing channels of soyabean and identify the various constraints faced by the cultivators in marketing of the produce. The study covers all major soybean producing agro-climatic zones of Madhya Pradesh as well as the states of Maharashtra and Rajasthan contributing major share in production of soybean in the country. The economic viability of different marketing channels was observed in India's soybean producing states, viz., Madhya Pradesh, Rajasthan and Maharashtra. Using multistage sampling 1079 soybean growers, 30 village merchants, 20 commission agents, 58 wholesalers, 103 retailers, and 4 processors/refiners were identified for the study. The study pertained to the agricultural year 2003-04. The study revealed that soybean growers disposed off their produce through six marketing channels, viz., Channel I : Producer-Village Merchant-ITC (soya choupal)-Processor; Channel II: Producer-Village Merchant-Wholesaler at Regulated Market-Processor; Channel III: Producer-ITC (soya choupal)-Processor; Channel IV: Producer-Wholesaler at Regulated Market-Processor; Channel V: Producer-Village Merchant-Commission Agent- Wholesaler at Regulated Market-Processor; Channel VI: Producer-Commission Agent-Wholesaler at Regulated Market-Processor. Amongst all these channels, channel IV was observed to be more popular since the majority of soybean growers sold their produce through this channel, although the marketing Channel III was found more efficient than the rest of the channels. The average marketing efficiency of all these marketing channels was found to be 1:9.14. The lack of market intelligence services, ware-housing facilities, value addition technologies, and market news were the major constraints identified in the study area. Channel III was found to be the most efficient because through this channel producers obtained higher margins and physical facilities. Thus, there is an urgent need to take effective measures to remove all the constraints present in an efficient marketing of soybean by creating all the facilities tuned to the corporate sector (ITC) by the government so that growers can benefit through open competition and also meet the global challenges of quality assurance.

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Impact of Agricultural Subsidies and Procurement Prices on Production and Income Distribution of India

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The study analyses the impact of various agricultural subsidies and procurement prices on production and income distribution in India. Using time series data the study has employed regression analysis as the analytical technique to quantify the response of yield and averages of crops to various factors including procurement prices of wheat and prices of fertiliser. The results showed that despite the price stabilising effect of buffer stock, the impact of food subsidy on agricultural production was favourable, since it was essentially a consumer subsidy which resulted in cutting down the productive plan expenditure, the overall impact on national income was negative. As regards the effects of various input subsidies on agricultural production and national income, the largest favourable impact on national income and agricultural production was observed in the case of subsidy on interest rate and electricity in agriculture. For this subsidy, the benefits in terms of increased agricultural production and national income were the highest. On the basis of the above analysis, electricity, irrigation and fertiliser subsidies are recommended to be continued and to support these inputs, agricultural interest rate subsidy should receive the highest priority. To avoid aggravation of regional disparity in income due to input subsidies, the irrigation resources in those states which are deficient in irrigation be developed. As regards food subsidy, its continuance is necessary for maintaining the buffer stocks, for stabilising the agricultural prices for promotion of agricultural development in the country, but since in most of the years it has acted as a consumption subsidy, the rationing system and the distribution machinery have to be modified so that its benefits may accrue to the poor classes not only in the urban areas but also in the rural areas. There have been very few empirical studies to measure the impact of various kinds of subsidies. Subsidies are amongst the most powerful tools for promoting growth and equity, yet this area has remained neglected from the point of view of empirical studies. Various empirical studies need to be undertaken to evaluate the role of subsidies for fresh or additional use of inputs in influencing relative prices, resource availability and resource allocation patterns, interaction effects of different subsidies simultaneously offered, intangible effects of subsidies etc.

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Empirical Scenario of Price Behaviour of Groundnut in Markets of Uttar Pradesh

Anil Kumar†

An attempt has been made to estimate the price behaviour of groundnut crop in Uttar Pradesh. The study is confined to four major groundnut growing districts for the study of the growth rates and four markets of zone III-A, viz., semi-arid eastern plain zone for the price reporting centres for the groundnut crop in the state. The data on for growth rates were analysed for the period 1999-2000 to 2004-05 and for price behaviour from 1990-2000 to 2005-06 for Exponential Model was used to study the growth in area, production, productivity and price changes. Production of groundnut has increased in the three major districts out of the four districts selected for the study. In the districts of Hardoi and Farrukhabad production increased at the rate of 4.23 per cent and 6.15 per cent per annum, respectively. In all these districts area under the crop also increased at a significant level. Productivity of the crop increased only in Hardoi, Unnao and Farrukhabad districts. The prices of groundnut as well as other agricultural produce also varied from season to season and month to month, in addition to the yearly variation. The indices of seasonal variation, coefficient of average seasonal price variation and coefficient of variation in wholesale prices of groundnut in the selected markets of Uttar Pradesh state during the period 1999-2000 to 2005-06 indicates that the price indices of groundnut crop were lowest during the peak arrival months. The study clearly indicates that the prices of groundnut crop increased during the last decade continuously except in few years. The rate of increase had been slightly higher in small sized markets compared to big sized markets. The intra-year price behaviour revealed that there existed seasonality in prices of groundnut in all the markets, though the extent of seasonality differed in magnitude in the selected markets. The bigger quantity of arrivals and regularity of arrivals of the produce minimised the magnitude and intra-year price variation. The magnitude of price variation was less in Jhansi and Mau markets because of more and regular arrivals of the groundnut pods brought by the farmers of these districts as well as arrival from other adjoining areas. Further, the price variation can be checked in the long run by increasing the production of the crop as per the demand. It is imperative to concentrate efforts for increasing the productivity of the crop as large potential exists for this crop.

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Critical Assessment of Problems and Constraints on Indian Agriculture Commodity Futures

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An attempt is made to examine the present condition of commodity trading and identify the constraints being faced in augmenting futures trading in India. The study is based on primary and secondary sources of data. There are a few perceptions the Indian regulator can draw from the US experience in futures trade and its regulation. The exchanges and the commission need to have a pragmatic, comprehensive and multi-pronged approach to develop a vibrant market. The most important characteristics of the US regulatory systems is its thrust on self-regulation. The CFTC has clearly allocated the regulatory responsibilities based on the distinction between what a state regulator can do and what should be left to private traders. Firstly, as a regulatory authority the commission has to play a developmental role. It can regulate only when there is a market wherever regulation gets priority without focus on development markets fail. Secondly, the exchanges in consultation with the Commission shall put in place an operationally viable and growth oriented trading system with a sound institutional setup. All other reforms are secondary to this. The Commission together with these exchanges shall utilise all their resources towards the creation of institutional infrastructure for trading, clearing, settlement and delivery. Thirdly, the Commission has to prioritise various initiatives according to their urgency and significance in the context of overall development of the markets. Fourthly, the commission has two important roles to play, an enabling role and an oversight role. These two roles shall be sequenced in a such fashion that the former gets the thrust during the initial stage and the later role becomes active thereafter. The regulatory intervention should be most active at the time of establishment of the exchange and of contracts. If the contracts are well formulated, and delivery modalities provide effective line of defence against attempts at manipulation, the Commission has to only act as watchdog intervening only when necessary. Finally, it is necessary to isolate the exchanges from vested interest groups to make them serve the larger interests of the Society. Some exchanges have long been remained the domain of a few traders who have business interests in particular commodity segment. The Commission has taken the right steps to correct this by establishing national level, on-line, multi-commodity exchanges.

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Rationality, Social Responsibility and Market Failure: A Case of Futures Trading of Wheat in India

Arvind Awasthi and Abhishek Mishra†

The paper has examined the validity of ban imposed on futures trading of wheat in India by analysing the behaviour of futures contract prices as well as providing plausible rationale in case it has exhibited speculative behaviour. Its impact on spot prices, minimum support prices (MSPs) and food subsidy bill of the government is also evaluated. It is clearly brought out during the course of analysis that futures prices of wheat have not exhibited any significant speculative behaviour during rabi marketing season (RMS) 2005-06, but in RMS 2006-07, as well as with the beginning of price discovery for RMS 2007-08, speculative behaviour in the futures prices of wheat was fairly visible. It was especially on account of substantial shortfall of wheat procurement by the government due to reduced market arrivals, since big companies like ITC, Cargill etc. have sucked enough supplies through direct purchase of wheat from farmers. This is not unusual on the part of private players, rather they acted rationally to maximise their profits. The behaviour of the government too was rational as it has not raised MSP of wheat beyond a limit, as well as imported it to meet the shortfall in procurement requirements. This has facilitated in substantially mitigating speculative behaviour of futures along with stabilising the market prices. However, its impact on government food subsidy bill was significant which lasted even beyond RMS 2007-08 and has resulted in raising food subsidy bill by 80 per cent during the last 5 years, i.e., from 2005-06 to 2009-10. The evidences has clearly highlighted that in the case of agricultural commodities like wheat and rice in which government has to fulfill social responsibility of providing foodgrains to all, the rational expectations of players operating in futures as well as rational behaviour of the government has led to market failure. It also had a great setback for the private stakeholders operating in the futures market as well as for the government. Therefore, futures trading in such commodities is not a rationally viable option either for the private stakeholders or for the government and the ban imposed on it since February 2007 is indeed valid.

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Globalisation of Indian Commodity Futures Markets: Some Perceptions from International Acquaintance

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The paper examines the experiences of the two international futures exchanges in India with a focus on strength and weaknesses of their infrastructure and regulation vis-à-vis that of the best in the world. It reviews the existing institutional capacity, business processes and procedures that have been relied upon for conducting international futures trading in these exchanges. It tries to provide insights in the agenda for capacity building for an appropriate regulation for fostering technology-oriented and internationally competitive commodity futures exchanges in the country. The study is based on the recommendations of the Committee on the forward markets, 1994 known as Kabra Committee report. The Government has assigned international status to two existing exchanges. The globalisation of these Indian commodity markets still remains a non-starter even after eight years of their existence. In the Indian context, the scope of commodity exchanges in general is limited to futures trading. Most of the exchanges are associations of members who retain trading rights and ownership which are integrated in the membership rights. This mutual set up with intertwined interests of the promoters poses serious threat to the integrity of exchanges. For ensuring financial integrity of the exchange and for counterpart risk-free trade position limits have been imposed on clearing members apart from mandatory margins. The exchange has not only indicated that the quality would be certified by internationally renowned independent testing being encountered in augmenting futures trading in India. As against National Commodity Exchanges, the position and functioning of regional commodity exchanges is dismal. Most of the regional exchanges are quite old however, one third of them has been promoted after 1997. The trading system is still out crying in majority of exchanges. The dissemination of price information and use of banks has not been adopted by many exchanges. Inspite of all these, the growth in commodity futures trading has been substantial both in agricultural vis-a-vis other of the total commodities traded for agricultural commodities accounted for nearly 95 per cent till 2004-05. It is interesting to mention that with the removal of ban, share of National Commodity Exchanges increased from nearly 6 per cent to 73 per cent and that of Regional Exchanges declined to 24 per cent from 27 per cent during the period, only about 22 per cent of the despondents are aware about futures trading. Knowledge about the working pattern and procedure adopted by various exchanges are also not known to trader community. Due to this trader does not feel confident in futures trading. The

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farmers complained about poor accessibility of commodity exchanges at the grassroot level. More than 90 per cent farmers opined that commodity exchanges are confined to either close to mega markets or markets serving urban consumers currently, the commodity exchanges are present in around 500 cities. However, to reach to the farmers located in villages, the exchange terminals should penetrate to the far interiors of the country. Not many members have the capacity to expand to the extent with their own resources. The survey indicates that there is lack of transparency at the yard level. The study concludes that inspite of more than a century long experience in commodity futures business, India still continues with a nascent market in terms of physical infrastructure, systems and procedures. Creation of a liquid and vibrant domestic market with adequate infrastructure and transparent practices should be the priority of the regulator. It is felt that when markets are deep, business rules and processes are fair and transparent alongwith 'appropriate regulation', the demarcation between a domestic and an international exchange will cease to exist.

Agricultural Prices and Futures Trading: Interactions and the Transfer of News

Sangeeta Chakrabarti and Nilabja Ghosh[†]

The analysis considers the price behaviour of three dominant farm products in India and seeks to unravel some of the complex inter-relations that possibly tie the open market and the futures market mutually with each other and bring out the positive role of futures trading as an effective price discovery mechanism. The data for the commodities covered the periods, June 2005 – April 2009 for wheat, January 2005 to April 2009 for maize and April 2004 to May 2009 for chana. Price behaviours of wheat, maize and chana in India are modeled using time series approach to confirm the positive effect of future price movements on prices. Also a positive effect on the volatility only in maize is observed. The results however indicate that any positive movement of price enters as an input to increase the futures price raising the conjecture that the content of new information in the futures price may be limited by evidence that past price dynamics is significant in deciding the futures price.

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A Study on Contract Farming of Mentha in Chhattisgarh

A.K. Gauraha and K.N.S. Banafar*

The paper analyses the working of the contract Mentha (*mentha arvensis*) farming system adopted by the Chhattisgarh Agricon Pvt. Ltd., to tap new sources of supply of menthol oil while promoting rural livelihoods in a governance framework. It examined the experience and performance of contract mentha farming schemes of major private players in this sector, i.e., Emami Bio Tech Ltd., Kolkata in terms of the nature of partnership schemes initiated by this company and the reasons behind the adoption and success/failure of such schemes in order to assess the potential of the project for meeting future raw material needs to the mint oil based companies and promoting rural livelihood. For the purpose of study 69 farmers were selected from three districts, viz., Raipur, Mahasaumand and Durg, during the year 2006-07.

The Agricon operates through a network of Agri-clinic and Agri-Business Centre spread in villages to district head quarter in Chhattisgarh state. Agricon works at four levels namely, input supplier, finance provider, farm produce purchases and knowledge providers. The main activities of the company were organic farming, contract farming with Emami Bio-Tech (Mentha oil extraction), Vegi fresh marketing etc. The experience of these schemes was mixed for all three parties were involved. Although some of the farms made good profit out of this scheme, many others lost heavily. The per ha cost of cultivation was found to be Rs. 17000 and processing cost was Rs. 4000 per ha. The potential farms got 120 kg oil production per ha. The net profit was found to be about Rs. 15000. The per kg oil price was Rs. 300. In the first year only 600 kg Mentha oil was produced. The major reasons for the failure of the scheme were delays in arrival of planting material, high temperature, continuous power cut, delays in installation of oil distillation unit, lack of enthusiasm among farmers, higher price at the time of oil sale, delay in execution of project caused losing of farmer's interest in Mentha cultivation etc. As a result, in the next two years Mentha cultivation drastically declined. Only 16 ha and 4 ha land were cultivated respectively in the year 2008-09. On the basis of above results the study inferred that Mentha cultivation was not suitable in the summer season in Chhattisgarh due to the high temperature, continuous power cut etc. There is a role for the state agencies, NGOs and the private entrepreneurs to intervene in contract situations as intermediaries to protect the farms and broader local community interests. The NGOs can also play a role in providing information, and in monitoring and regulating the working of contracts. Better cooperation and co-ordination between companies and co-operatives for agricultural development also needs to be encouraged. Further, both companies and state should promote group contracts with the intermediation of local NGOs and other organisations and institutes so that the

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contractual relationships are more durable, enforceable, and fair. An insurance component in farming intervention is a must to protect the farmer interest and it is noted that some companies are already doing it. But the most important thing is to ensure market for the farmer produce at better price under these agribusiness projects. Government should also play an enabling role by legal provisions and institutional mechanism, like helping farmer's co-operatives and groups, to facilitate smooth functioning of contract system.

Commodity Futures Markets and Its Future Role in Indian Economy

Swami Prakash Srivastava and Bhawana Saini[†]

The study reviews the performance of Indian commodity futures markets and tries to assess the unresolved issues and futures prospects. The commodities future market has made enormous progress in terms of technology, transparency and trading activities. Interestingly, this has happened only after the Government protection was removed from a number of commodities, and market forces were allowed to play their role. This should act as a major lesson for the policy makers in developing countries, that pricing and price risk management should be left to the market forces rather than trying to achieve these through administered price mechanisms. The management of price risk would assume even greater importance in future with the promotion of free trade and removal of trade barriers in the world. All this augurs well for the commodity futures markets. The value of trading has been booming and is likely to cross the $ 6 trillion mark in 2009. After a prolonged ban on commodity futures the Government of India recently has given its nod for opening of Commodity Futures Exchanges, monitored by Forward Markets Commission (FMC), the regulator for these markets. In this scenario, a few national level Multi commodity exchanges became operational. Though in India, agricultural products dominate the commodity sectors, trading in non-agricultural commodities has been dominating particularly, from 2006-07 onwards. The trading volumes of non-agricultural commodities have shot up almost twice than that of agricultural commodities during the same period. Overall, the Indian commodity market has shown tremendous growth in terms of both value and the number of commodities traded in the last five years. As the largest commodity futures exchange during 2007-07, both in terms of turnover and number of contracts, the growth of MCX is comparable with some of the international commodity futures exchanges such as Dow Jones AIG Commodity Index (DJAIG) and Reuters/Jefferies Commodity Research Bureau (RJCRB). After the commencement of trading in the national level exchanges and as a consequence of the developmental programmes and policies of the government and FMC, the futures market has grown substantially during the past five years. The potential for

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further growth of the futures market is huge. In this context, it is imperative that FMC is strengthened and made autonomous on the pattern of SEBI, Simultaneously, reforms in the physical markets are urgently required for creating a single national level market.

The futures markets help farmers in taking correct decisions in regard to the crops to be sown and sale of the crops. The farmers can also bargain for more remunerative prices for their produce based on their knowledge of futures prices. Besides it allows farmers, other producers, processors, merchandisers, exporters and others to hedge the price risks at a small cost. By performing the functions of price discovery and price risk management in an efficient and orderly manner, future markets contribute to the growth of the economy. India is one of the top producers of agricultural commodities and a major consumer of bullion and energy products. Given the importance of commodity production and consumption in India, it is necessary to develop the commodity markets with proper regulatory mechanism for efficiency and optimal resource allocation.

Marketed Surplus and Price Spread of Milk in Bay Islands: Micro Level Analysis

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An attempt is made to identify the different marketing channels and to study the marketing costs, margins of intermediaries, price spread in various channels and marketed surplus of milk in South Andaman district of Bay Islands. The reference year of the study is 2006-07 to 2007-08. Two tehsils of the Andaman district were purposively selected for the study. Three villages from each tehsil and a total of 186 respondents were selected randomly for detailed study. The findings revealed that descript and non-descript bovine livestock exist in the study area. The incidence of diseases in the livestock was also less as compared to mainland. Based on sample survey it was observed that, on an average, family size were six members in a family. The overall land holding size was found to be 1.23 ha per family. The milk marketing channels involved in milk procurement both co-operative societies and private agencies. Marketing costs, margins and price spread were examined in the following channels I- producer–vendor-consumer, II- producer–co-operative society-consumer, III- Producer- tea shops- consumer, IV- producer-consumer.

The study clearly indicated that increasing the production and productivity in these islands is not the end of the problem. The strong marketing infrastructure mechanisms have to be devised to provide the reasonable price to the producer as well as the consumers. To increase the marketed surplus, the intermediate agencies

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involved in the milk marketing have to be reduced so that consumer pay a reasonable price and producer gets remunerative return for his hardwork. Therefore, marketed surplus of milk has important role to play in enhancing the farmers' income and meeting the nutritional demands of the non-producing segments of the society. Efforts to strengthen dairy co-operative network in the region besides providing a fairly good marketing infrastructure like milk procurement, transport, integrated fodder development programmes to the dairy entrepreneurs, is hoped will boost marketed surplus of milk in the region. Attempts to step up milk production of the households, by policies, aimed at providing better veterinary services to the dairy herd, creating greater awareness regarding feeding breeding and management of the dairy herd through well informed extension team and improving the service infrastructure relating to credit and marketing are advocated which would brighten the possibility of stepping up marketed surplus of milk in these islands.