



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Vol XXXIX
No. 3

ISSN 0019-5014

CONFERENCE
NUMBER

JULY-
SEPTEMBER
1984

INDIAN JOURNAL OF AGRICULTURAL ECONOMICS



INDIAN SOCIETY OF
AGRICULTURAL ECONOMICS,
BOMBAY

Changing Marketing Structures/Marketing Policies

INSTITUTIONAL FACTORS AND MARKETING BEHAVIOUR — A STUDY OF THREE MAJOR ARECANUT MARKETS IN KARNATAKA†

V.S. Satyapriya*

I

An accepted precept of the Government's policy towards the development of agriculture has been the establishment of regulated or centralised markets at the primary level for agricultural products. Through the establishment of such markets it is envisaged to create conditions more conducive to a better performance of the private trade rather than creating an alternative marketing system. Some important results of a detailed examination of the working of three major regulated markets for arecanut in Karnataka are presented in this paper. The study was based on data collected from the records of the Market Committees, other relevant official records and from the various market functionaries and producers in the course of an intensive survey during 1966-67 and 1980-81. The three major markets selected were Sirsi, Shimoga and Mangalore, serving the districts of North Kanara, Shimoga and Chickmagalur, and South Kanara respectively.

Arecanut, like many other plantation crops, is a location-specific crop. As such its production is largely confined to the three States of Karnataka, Kerala and Assam, the share of Karnataka being around 41 per cent of the country's production of arecanut. Even within Karnataka its production is further concentrated in four districts, namely, North Kanara, Shimoga, Chickmagalur and South Kanara, contributing a little over 80 per cent to the State's production. Around 4 to 6 per cent of the gross cropped area in these districts is devoted to cultivation of arecanut against only 0.3 per cent at the State level. Between 1956-57 and 1980-81, the area under arecanut in these districts increased at an annual rate of 2.57 per cent, production and yield per acre increasing at 4.85 per cent and 2.16 per cent respectively. While the production is so heavily localised, its consumption is fairly widespread over the entire country.

II

The establishment of a regulated or a centralised market is to facilitate free and informed competition in the existing system without its attendant malpractices. And by such an action an opportunity is created to the producer to sell his produce by a method which ensures the presence of several buyers, open sales and a competitive bidding for each lot sold, and a more vigorous

† The paper is based partly on the data collected for the author's Ph.D. Dissertation covering the period 1960-61 to 1966-67 and partly on the data collected for an on-going project on arecanut marketing covering the period 1966-67 to 1980-81.

* Institute for Social and Economic Change, Bangalore-72.

competition among buyers would result in higher prices. The legislative measures do not make it compulsory for the producers in the market area to sell their produce only in the centralised market (as in the case of the silk cocoons). Instead, voluntary action on the part of the producers to take advantage of such a market is assumed. This is a very important assumption, though generous. The major producing areas in the districts of Mangalore, Shimoga and Chickmagalur are located some 35 to 70 miles from the market centres. The location of production being largely independent of the location of an organized market and being entirely a market-oriented crop, the location of the market becomes important. Arrivals in the regulated markets as a proportion of production at the State level though appeared encouraging, it was so only in the major producing areas (see Table I). The higher proportions in the major producing areas was due to a considerable quantity of arecanut arriving into Mangalore market from the neighbouring Kerala State. While the markets in North Kanara district handled the entire production of the district, it was around 80 per cent in the case of Shimoga market. Distantly located regulated markets appear as a major hindrance to the producers taking advantage of the regulated markets.

TABLE I — PERCENTAGE OF PRODUCTION ARRIVING IN THE REGULATED MARKETS

Year	State	Major producing areas (4 districts)	Minor producing areas
1978-79	90.30	107.06	19.38
1979-80	92.44	111.86	10.81
1980-81	78.26	92.78	17.97
1981-82	83.84	100.64	14.59

A detailed analysis of one year data (1966-67) for Sirsi market revealed that the effective supply area to Sirsi market extended to a radius of 20 miles which appeared to be more extended than in the case of other commodities.¹ The large area served by a single market in the present case may be because of the mountainous region with sparsely distributed population over a generally forbidding landscape.

While the produce arrived from beyond the effective supply area, it declined with an increase in the distance from the market centre depending upon the pull of competing markets. And the decline was sharper if the competing market was a regulated one. The per seller arrivals to Sirsi clearly showed that, by and large, the bigger producers preferred to travel a longer distance, skipping possibly a smaller market, to take advantage of a bigger market and preferred a regulated market to an unregulated one. The temporal pattern of arrivals did not seem to be affected by the distance from the market centre.

1. The effective supply area was found to be in a radius of 5 miles in the case of a major wheat market in the Punjab. See Walter C. Neale *et al.*, "Kurali Market: A Report on the Economic Geography of Marketing in Northern Punjab", *Economic Development and Cultural Change*, Vol.XIII, No.2, January 1965, pp.129-168.

III

Given the seasonality in agricultural output, how far the temporal patterns of arrivals and sales are related to the structure and functioning of the marketing organization needs to be looked into. If they are related in any way it is possible to alter that structure to make the system function more effectively while it may not be always possible to change the seasonal pattern of agricultural output. The three markets presented three different types of situations (Table II): Sirsi market with a high seasonality, almost of the same order, in arrivals and sales; Shimoga market with a high seasonality in arrivals and a very low seasonality in sales, and Mangalore market where though the seasonality in arrivals was higher than in sales, they could hardly be regarded as large.

TABLE II — DEVIATIONS OF THE AVERAGE SEASONAL PATTERN FROM ZERO SEASONALITY (1960-61 TO 1980-81)

Market	Arrivals	Sales	Arrivals as per cent of sales
Sirsi	5.16	4.68	15.05
Shimoga	6.65	1.45	358.62
Mangalore	2.83	1.63	74.75

While fluctuations in arrivals within a season depend on factors like timing of harvests, weather, availability of transport, credit, etc., fluctuations in sales within a season stem mainly from the waiting capacity of the sellers and their price judgment.

It may be mentioned at this stage that each of the three regulated markets had a co-operative marketing society. Though basically the aim of these societies was to get the best possible deals to their members, the sphere of operation of these societies varied because of a restriction imposed either from outside or from within. While these societies acted as selling agents to their members, the Sirsi society acted as a trader also. This difference in the activities of the society had its impact on the course of seasonal fluctuations particularly of sales.

Sirsi Market: The sellers in Sirsi market were predominantly the producers of the crop, the role of petty traders operating as sellers in the market was restricted to about two per cent of the volume of sales in the market (1966-67). Prior to the enforcement of a uniform marketing legislation covering the entire State (Act of 1968) by a provision made in the bye-law of the Market Committee, the commission agents could buy the produce for which they act as selling agents. The new Act restricted this activity of the commission agents. With the introduction of this new restriction, the society started acting as a buying agent for the Central Arecanut Marketing and Processing Co-operative (CAMPCO) Ltd., Mangalore. The new role only changed the name of the purchaser from the 'society' to CAMPCO while all other features remained the same. Prior to this situation, the society purchased about 50 per cent of the produce for which it acted as a selling agent. During the years 1973-74 to 1976-77 as a buying

agent of the CAMPCO, the society purchased between 37 per cent to 46 per cent of the total sales of arecanut in the market. With its dominant position as the single biggest buyer of arecanut, the society counteracts the dampening effect of heavy arrivals on prices so that carrying the stock to the lean marketing period would not become profitable. It is basically this fact that resulted in the pattern of seasonality in arrivals and sales of an identical magnitude.

Shimoga Market: The producers brought the produce to the market as and when it was ready, but they regulated the sales almost uniformly throughout the year indicating that they are not risk averse. The society which handled around 17 per cent of the arrivals into the market did not enter the buying operations either directly or indirectly because of a legal restriction. After the CAMPCO came into being the society started acting as its buying agent. During 1973-74 to 1977-78 the purchases of the society on behalf of the CAMPCO ranged from 2.2 per cent to 11 per cent. Because of its low level of operation, the functioning of the society could not have any perceptible influence on the marketing behaviour of the producers. The producers themselves took upon the task of moderating the impact of heavy arrivals on the prices by regulating the quantity sold. Stocking the produce in the market, however, had certain distinct advantages to the producers like availability of credit, ease in delivering the stock when the prices are favourable, etc.

Mangalore Market: The co-operative society which handled nearly one-third of the arrivals in the market as a commission agent did not operate as a buyer in any significant way. Mangalore, the only regulated market in the district, was distantly located from the major producing areas in the district. Also, this market served as an outlet for the production of the neighbouring Kerala State, where the development of regulated markets had not made much headway. These factors gave rise to the existence of a large number of petty traders among the sellers in the market. Even a conservative estimate of the Market Committee put the share of the small traders at around 30 per cent of the arrivals in the market. Because of a large trader component, the pattern of arrivals appeared to be induced by the prevailing market prices rather than by the timing of production. This was further supported when the seasonal pattern of arrivals and sales was examined separately for the co-operative society and the rest. The society exhibited a higher degree of seasonality in arrivals than the rest; the sales effected by the society during the heavy marketing period was much smaller than arrivals. The holding back of stock during the peak arrival period was either to influence the price in the market which is directly related to the quantity it handles or to take advantage of a seasonal rise in price.

Returns to Storage: While three different situations in the pattern of arrivals and sales closely related to the structure and functioning of these markets were identified, the seasonal fluctuations in prices showed a more or less identical pattern in these markets. A closer examination of the returns to storage in these markets revealed interesting results. In Sirsi, the average returns to storage were uncertain and fluctuating. This coupled with the buying operations of the co-operative society explains why postponement of sales was not preferred by the sellers. The behaviour of arecanut prices in Shimoga and

Mangalore markets showed that returns to storage were positive and considerable. The pattern of sales over the season in these two markets clearly showed that the sellers, by and large, took advantage of the seasonal rise in price running counter to the view that the farmers, by and large, are unable to take advantage of the off-season rise in prices.

IV

While private trade is allowed to play a substantial role in the field of agricultural marketing with some State intervention to ensure that the system works efficiently towards achieving the desired goal, it has been a target of constant attack. This attack is more pointed particularly where there is a high concentration on the ground that such a situation leads to monopoly gains.² This is a major criticism and in all fairness needs to be examined. The two arecanut markets provided an opportunity to examine this criticism based on detailed data collected for the year 1966-67.

During the reference year there were 48 traders of arecanut in Sirsi including the co-operative society, of which 24 were commission agents as well as traders. Nearly 87 per cent of the purchases were made by 17 purchasers including the co-operative society. (The society was the single biggest purchaser having a share of a little over 16 per cent in the total sales.) In fact, the commission agents purchased 83 per cent of the total sales of arecanut in the market leaving only 17 per cent to 24 traders. The extent of inter-group purchases and the number of buyers from each commission agent clearly indicated the degree of buying competition. Further, looking at the overall position the average price paid was the highest for the top from buyers, with a share of 34 per cent in the total purchases. This clearly suggested the prevalence of competition in buying even though there was a high degree of concentration.

In Mangalore, there were 66 purchasers and the top five traders accounted for nearly 45 per cent of the purchases. In fact, around 89 per cent of the purchases were made by 20 traders. Differences in the price paid by the different size-groups of traders did not appear to be large enough to warrant any specific gain to the big purchasers. In fact, the first group of traders with a share of 23 per cent in the purchases paid the highest price, and the price paid by different groups ranged from Rs.594 per quintal to Rs.587 per quintal (22 per cent of the purchases). Considering the total number of traders, method of sale (which is by secret tenders) and the uniform pattern of purchases by different size-groups of traders over the season, the difference in the price paid by the bigger and small groups suggests the prevalence of competition in the buying of arecanut despite a high degree of concentration in the trade.

In the context of the government's continuing efforts to improve agricultural marketing through the establishment of regulated markets, the study has brought into focus certain relevant issues. The location of a regulated market in relation to the supply area is as important as the establishment of the market

2. Report of the Expert Committee on the Review of Bombay Agricultural Produce Markets Act, 1939, Government of Bombay, Bombay, 1956, p.30.

itself, as with an increase in the distance from the market centre it was the relatively bigger producers who could take advantage of the regulated market. The regulated markets had a salutary impact on the functioning of private trade; the sellers could take advantage of the off-season rise in price, wherever possible, either through co-operative or individual action. Despite a high degree of concentration, there was prevalence of competition in the buying of arecanut and the prices paid by the different size-groups of buyers did not warrant any specific gain to the big purchasers. However, the little evidence that is available may not be sufficient to make broad generalisations valid for wide geographical areas and for all commodities as such. A positive step in the direction of fostering competition is to extend the system of market regulation to areas where it has not made any major strides. These could be done in a more effective way when the policy makers have the feedback as to how the system is functioning particularly at the individual commodity and market levels.