

CHAPTER FOUR

MARKET REGULATION AND TOBACCO PRICES

Generally market efficiency is measured in two ways:

(a) operational efficiency, and (b) pricing efficiency.

Operational efficiency is measured in terms of marketing costs and marketing margins. Pricing efficiency is measured in terms of correlations of price movements of the same product in separate markets.

The primary producers come into contact with traders in both primary and secondary markets and dispose off their entire produce. Once the sale transaction is over the primary producer is out of the scene. Hence, this stage of marketing has the greatest significance in the mechanism of agricultural marketing. Moreover, a very large number of agriculturists are involved at this stage. This is true, particularly, in case of tobacco producers. Improved marketing facilities and organization are essential if full advantage of the favourable production opportunities is to be taken. In certain situations there may also be a need for much elaborate and comprehensively organised marketing system. The argument advanced is that the government should intervene to improve the market conditions to give the primary producer an opportunity to obtain his rightful income from the market. Regulation of the market is one of the instruments used by the government in this direction and Agricultural Produce Market Committees are the statutory agencies for the purpose. An efficient working of the market committees results into the creation of a well-developed

marketing infrastructure, a disciplined market and a condition of free play of market forces. The overall impact of such an improvement is the reduction of the price-spread between the consumer's price and the producer's price for an agricultural commodity. The primary producer has a double benefit: a reasonable price for the produce and the largest possible share in the consumer's price. Here lies the operational efficiency of an agricultural produce market. Hence, in order to gauge the operational efficiency of a market committee, its working needs to be studied. In the context of the subject under investigation, the performance of Agricultural Produce Market Committee (APMC) Nipani, of Belgaum district in Karnataka State is analysed in the following pages.

MARKETING INSTITUTIONS

Bidi tobacco is grown in innumerable farm units scattered over different agro-climatic regions. Consequently, each producer produces a very small proportion of the marketed surplus¹ and hence cannot influence the price on the strength of the quantity he produces. Moreover, possibility of product deterioration if not processed sooner and urgency of money make the producer sell his produce immediately after harvesting often at an unfavourable price. Absence of scientific gradation, inadequate storage facilities, irrational market practices and lack of proper arrangements for dissemination of market information make the private trader win over the producer-seller in the market. A large

number of transactions do take place in the villages and as such every village has become a market.

For eliminating the market imperfections, normally, various measures are suggested and are brought into routine. The basic objective is improvement in the character of the market so as to ultimately give better returns to the primary producer. Voluntary efforts take the shape of co-operative marketing societies whereas the government intervention is by way of giving legislation for establishment of regulated markets, taking over the entire trade or entering into the open market to make support prices effective.

In the bidi tobacco market in Nipani Tract, these measures are, by and large, ineffective. Support prices and monopoly purchase of tobacco were never tried and hence are conspicuous by absence. Cooperative marketing societies were non-existent till as late as 1980. In the course of the farmers' agitation and its aftermath in 1981 that the multi-purpose cooperative societies came forth with some services of marketing. The marketing function of the cooperatives was more or less a resultant of the endeavour to raise a counterforce against the existing trade channels. It was an outcome of the sentiments and emotions of the farmers at the time. Sooner the heat cooled down. But the Tract failed to evolve a systematic and perennial marketing channel through the cooperatives.

On the side of the government, the Tobacco Processing and

Marketing Federation was established as an aid to the farmers in marketing their produce. It entered into the market in the tobacco season of 1981-82, made huge purchases at exorbitant prices without sufficient preparations for storage, processing and sale of tobacco. It was overburdened by huge inventories and hence did not participate in purchase activity so far. The Federation, thus, is yet to make its mark on the entire marketing system in the Tract.

The only worth considering arrangement that remains is the regulated market. Basically, it is government intervention indirectly by making legislative arrangements for regulation of agricultural marketing. Generally, producer sells his produce in the primary market. Due to smaller quantity of produce, imperfect knowledge of market conditions, indebtedness, etc., the farmer is exploited by the traders. The result is that the market for agricultural produce becomes the buyer's market. By law, market committees are established for specific areas in order to regulate the marketing of principal commodities within their jurisdiction. This is in order to create orderly conditions of marketing so as to improve economic relations between not only the agriculturists and traders but traders and traders also. For market discipline and effective enforcement of legal provisions, concentration of all the trade in a specific place is a sine qua non; development of a market yard is its manifestation. A well regulated market eliminates malpractices, use of standard weights and measures is

encouraged, open auction sales take place, machinery is set up to look into the disputes, market information through all the available media is disseminated, scientific gradation of the produce is possible and a number of other services incidental to marketing help the producers in making a better bargain. Herein the moving spirit of the market committee makes every functionary behave within the sanctions of the law. Code of conduct is declared and the wrong doer is punished by law. This leads to reduction in the cost of marketing, increase in the income of the producer and staggering of the market arrivals. The total produce is spread throughout the year and hence seasonal variations in the prices of agricultural commodities are minimised. Well developed market yards bring about a tremendous change in the system of agricultural marketing and positively improve the gains of the agriculturists. The functioning of the APMC, Nipani will be examined in this light.

APMC NIPANI

The APMC, Nipani with its headquarters at Nipani was established in the year 1956. The whole area of Chikodi taluka of Belgaum district was declared as its market area. Establishment of a market committee and regulation of marketing of principal agricultural commodities in this area was strongly opposed by the trading class and the action was challenged in the court of law. A legal clearance was obtained in December, 1968 and a notice was issued by the committee that it would regulate business in gur.

groundnut (shelled and unshelled), chillies and tobacco within the market area with effect from 7.12.1968. This move was again challenged by the traders in the court of law. Ultimately the committee started functioning from 1972. Till then it was defunct. Thus, for about 16 years since the statutory establishment of the APMC in 1956, market regulation could not at all be effected and the traditional system with all its drawbacks continued. A notice was issued in the year 1968 to declare municipal limits of Nipani town as its 'market' and bazar localities of Dalal Peth, Lohar Galli, Tandul Peth and Satwai Road of Nipani town as the 'market yard'. In due course of time the APMC acquired two sites at different places: one measuring 70 acres 30 gunthas for locating commodity market and the other measuring 46 acres 6 gunthas for locating livestock market. Regulated commodities were gur, groundnut (shelled and unshelled), chillies and tobacco.

Till 1980, Nipani was the only 'market' within the entire 'market area', covering Chikodi taluka. A sub-market at Chikodi was established in 1980. The APMC has proposed to establish in future 17 sandies within the market area. So far this has not materialised. As 'livestock market' is the latest development, 'commodity market' invites our major attention. Among the four regulated commodities, tobacco occupied the place of pride. It could be observed from Table-1 that the arrivals of chillies stopped literally since 1976-77 and the arrivals of gur and groundnuts showed declining tendency. While the market arrivals

Table-1

ARRIVALS AND VALUE OF NOTIFIED AGRICULTURAL COMMODITIES IN NIPANI
MARKET YARD (1976-77 to 1982-83)

Years	Tobacco		Gur		Groundnuts		Chillies	
	Arrivals (Quintals)	Value (Rs.)	Arriv- als (Qtls.)	Value (Rs.)	Arri- vals (Qtls.)	Value (Rs.)	Arrivals (Quintals)	Value (Rs.)
1976-77	1,98,414	16,57,31,170	12,532	23,94,368	4,190	10,51,692	-	-
1977-78	2,35,020	9,74,51,430	13,987	19,24,110	460	1,08,774	-	-
1978-79	2,25,222	8,59,73,810	12,673	15,85,315	1,364	2,94,944	-	-
1979-80	1,71,104	10,74,72,445	7,158	18,10,610	2,153	6,17,571	-	-
1980-81	1,43,470	9,25,48,400	8,993	33,66,060	1,469	5,55,475	-	-
1981-82	2,24,492	12,69,97,650	8,401	21,93,255	1,941	7,64,690	-	-
1982-83	2,52,919	18,63,37,820	7,227	16,16,805	852	3,31,695	-	-

92A

Source: Annual Reports of the APMC, Nipani.

of tobacco were on increase, gur, groundnuts and chillies lost their importance because of the higher tax rates imposed by the Karnataka State. As Nipani market falls on the boundary between Karnataka and Maharashtra States and as the boundary line is within a reach of one-and-a-half kilometers, the traders shifted their trade in these commodities to the Maharashtra area across the nearest border area as a result of tax enhancement by Karnataka. And there was no return. As regards the volume of arrivals and the value of turn-over tobacco had no match. Hence the operational efficiency of the APMC can be judged on the basis of its performance in regulating the tobacco trade within its jurisdiction.

Financial Position of the APMC

Table-2 gives an idea about the financial position of the APMC. Main sources of income were licence fees and market fees. The bulk of the income, nearly 80 per cent was shared by market fees (cess) and the rest of 20 per cent by the licence fees and miscellaneous sources such as registration fees, form fees, transfer fees, penalty, sale of tender forms, etc.

As the APMC spent very little of its income every year surplus went on accumulating at the rate of 65 to 70 per cent of its income. As a result, on 1.7.1981 it had a very strong financial position with a bank balance (in cash and fixed investments) of Rs. 60,71,107. The APMC was never under any

Table-2

SOURCES OF INCOME AND YEARLY SURPLUSES OF THE APMC (1976-77 to 1982-83)

Years	Income (Rs.)				Total	Surplus for the year (Rs.)
	Licence fees	Market fees	Miscellaneous	Total		
1976-77	71,535 (5.46)	10,76,557 (82.32)	1,59,741 (12.21)	13,07,833 (100)	9,77,081 (74.71)	
1977-78	81,570 (6.57)	9,82,746 (79.21)	1,76,384 (14.22)	12,40,701 (100)	8,16,891 (65.84)	
1978-79	81,133 (8.76)	8,44,748 (91.23)	2,50,537 (21.30)	11,76,418 (100)	5,16,704 (43.92)	
1979-80	74,960 (4.30)	13,98,510 (80.15)	2,70,833 (15.52)	17,44,806 (100)	12,50,937 (71.69)	
1980-81	78,095 (6.29)	9,79,826 (78.86)	1,84,602 (14.86)	12,42,523 (100)	7,62,527 (61.36)	
1981-82	74,116 (2.90)	20,75,054 (81.13)	4,08,566 (15.97)	25,57,736 (100)	18,81,936 (73.57)	
1982-83	72,633 (1.98)	19,01,256 (51.71)	17,03,087 (46.32)	36,76,976 (100)	27,56,065 (74.93)	

Note: Figures in parentheses indicate percentages to total income.

Source: Annual Reports of the APMC, Nipani.

exigencies and therefore finance was never a bottleneck in its development and in regulation of trade of the commodities concerned.

Efficacy of Market Regulation

The performance of the APMC can be judged on the following grounds:

- (1) development of market yards;
- (2) method of sales;
- (3) market charges;
- (4) supervision of market practices;
- (5) grading; and
- (6) market intelligence.

(1) Development Activities

At the beginning of market regulation, the existing bazar locality of Nipani town was declared as the market yard. It was expected that a well structured market yard would take shape in the near future and the trading activities would be shifted to this yard. A period of 10 years can be considered as more than enough for the process of land acquisition, layout and erections. Finance cannot be the bottleneck for assistance from State and Central governments is easily available. Even after 28 years of its inception, the bazar locality of Nipani continues to be the principal market yard of the APMC. The work of the market yard has been in progress and so far office building, rayat niwas,

police outpost, two water throughs, ten sundry shops, ten tobacco godowns, two cattle sheds, bank-cum-Post Office and grading units have been completed. Other works like fencing of the yard, roads within, sanitary blocks, cattle sheds, open auction platforms, sundry shops, market committee godowns are in progress. This will take another two years at least. The perspective plan for 1982-83 to 1988-89 comprises facilities such as shop-cum-godowns for traders, drainage, electricity, water, telephone, canteen, sale halls, etc. With the completion of all these the APMC will be in a position to shift the trading activity to its own premises. Assuming that a fully developed market yard will be found by the end of 1990, till then the trade will continue with all its drawbacks in the bazar locality as at present. Sub-market yard at Chikodi functions in the bazar locality of the town. It is proposed to purchase land for it in 1985-86 and from 1986-87 development work will be undertaken.

(2) Method of Sales

Market regulation by the APMC was supposed to eradicate indirect sales and sales under cover and promote direct sales and sales by open auction. Such a change was effected by the APMC in case of gur, groundnuts and chillies though not fully. However, tobacco marketing was only marginally touched. The traditional method of sale and purchase of tobacco continued unabated. Traders visited the villages of the producer-sellers and on examining the samples completed the negotiations. Not less than 50 per cent

of the produce was purchased in this way. Literally, every village happened to be a market. Many times the producers themselves or through agents in the villages approached the traders at their business premises and sold their produce. The price of the produce was influenced by not a single factor but many factors such as visual and smoking tests, terms of payment, personal relations between the seller and the buyer, prices prevailing in Gujarat market, stocks held by the traders, price policy of the vanguards in the market, etc. The small producer-seller, often debt tied, had very little say in quoting the price and had to accept the price quoted by the buyer-trader. At the best he could very modestly request the trader to push up the price a little which was often turned down. More than 90 per cent of the sales in tobacco in the market area of the APMC were effected privately. Very exceptionally some sale proceeds took place in the market yard. All the sales at the village level as well as at the premises of the traders took place without any auction.

Nevertheless, the APMC took pride in making a false statement in its every Annual Report that, "With effect from 30.3.1975 this market committee has introduced and implemented the open auction system of sale of tobacco in Nipani market yard successfully under the direct supervision by the staff of the market committee which provides an encouragement to all the growers of tobacco to understand the prime principles of getting better competitive price to their produce."² The fact is that open auction system was just an exception while the general practice was trade through

private negotiations. It is interesting to note that the claim made by the APMC was self-defeating when it made another statement in its Annual Report that, "tobacco is generally sold at villages at the doors of the growers".³ Actually, undeveloped market yard happened to be the chief constraint for the APMC in consolidating sales in the yard.

(3) Market Charges

In order to prevent the misdeeds and malpractices prevailing in the market rationalisation of market charges is a must. The APMC fixed commission, weighment fees (recoverable from sellers), brokerage (recoverable from the party on whose behalf he acts) and coolie charges (recoverable from the sellers and owners as the case may be) for sales in regulated commodities. There were other significant items for which standardisation of practices had to be done and enforced by the APMC. These items were weight of tobacco container (called 'bodh' locally) and deductions on account of stalks, stems, earth and air. The latter was the biggest source of margin to the traders. The quantity to be discounted ranged from 2 to 6 kgs. per bodh. Valued at an average price of Rs. 8 per kg, the agriculturist lost Rs. 16 to 48 per bodh due to the absence of effective supervision over the trade by the APMC.

Market fee (cess) was another source of exploitation of the producers. According to the rules of the APMC, market fees are to be paid by the buyer-trader on aggregate net value of the

commodity at the rate of Re.1 per Rs. 100 of value. Prima facie it looked that the buyer-trader paid the market fees but in reality more often he deducted the market fees from the sale proceeds of the seller and thus passed the incidence to the latter. Moreover, the examples of deducting market fees at the rate of Rs. 2 per Rs. 100 value were not uncommon. However, the study revealed that this practice of recovering market fees from the seller was stopped since 1982-83, not because of the APMC's efforts but because of the consciousness generated among the producer-sellers by the farmers' movement.

Weighment of the consignment in the godowns of the traders also was an opportunity to exploit the producer-seller. Weighment was done by the clerk of the trader in the absence of the representative of the APMC. The weighmen-clerks of the traders very systematically and deliberately understated the weighment of bodhs so that a clear cut margin of at least 1 kg. per bodh was enjoyed by the traders. The practice of taking 1 kg. on entire consignment known as 'Kata soot', 'Kalam soot' or 'labh' also was not uncommon. The APMC did nothing as regards these practices.

Over and above all these the bill of the sold out tobacco was not paid to the producer-seller in a single instalment but in 5 to 6 instalments throughout the year barring the producer-sellers whose bills were moderate and hence whose payments in full were done sooner. No interest was paid upon the unpaid

amount of the producer-seller. On the contrary, interest was recovered from the producer-seller upon the amount which he had borrowed during the rainy season. The due dates of the instalments mutually fixed were many times not adhered to by the traders. As a result, the farmers had unnecessarily to spend on transport for collection of the bills. Though the rules of the APMC provided for the payment of the bill, whatever be the amount, within a stipulated time, the system of late payments continued and was rampant.

(4) Supervision of Market Practices

Arrivals, sales, purchases, stocks, etc. were not strictly supervised by the APMC and hence unjustified profits were made by the traders very systematically keeping themselves intact within the framework of the law. Section 77 of the Karnataka Agricultural Produce Marketing (Regulation) Act, 1966 provides that as soon as sales are effected the agreements (known as 'Kabulayat') in triplicate are to be prepared by the respective commission agents in the market yard and by the respective traders in the remaining market area, a copy of which is to be given to the seller and the APMC each for information and record. Similarly, with the final sale note (known as 'patti'). The APMC accepted agreements and pattis submitted by the traders without questioning the contents. Gap between the fact and actual reporting can well be shown with the help of the following factual illustration of the business done in 1983.

Main details of the business are as under.

20 bodhs of tobacco

Gross weight (as declared by the trader) 1,171 kg.

Price agreed Rs. 10.55 per kg.

(I) Actual Payments to the Cultivator

(i)	Gross weight	...	1,171 kg.
(ii)	LESS: a) Tare 2 kg. per bodh for 20 bodhs - 40 kg.		
	b) Stalks, stems, earth etc. 3 kg. per bodh for 20 bodhs -60 kg.		
		<u>100 kg.</u>	<u>100 kg.</u>
(iii)	Net weight	...	1,071 kg.
(iv)	Valued @ Rs.10.55 per kg.		Rs. 11,299.05
(v)	LESS discount @ 5 per cent for cash payments		Rs. 565.00
	Net Payment		<u>Rs. 10,734.05</u>

(II) Calculations for Submission to the APMC

(i)	Gross weight	...	1,171 kg.
(ii)	LESS: a) Tare 2 kg. per bodh 40 kg.		
	b) Stalks, stems, earth etc. 2 kg. per bodh		
		<u>40 kg.</u>	<u>80 kg.</u>
		<u>80 kg.</u>	<u>80 kg.</u>
(iii)	Net weight	...	1,091 kg

For reporting to the APMC, the trader revealed only the net weight 1,091 kg. as calculated above, hiding the gross weight. He mentioned the amount paid to the seller as Rs. 10,734.05 as calculated in (I) above. From these two figures he deduced the rate paid for tobacco as (Rs. 10,734.05 ÷ 1,091 kg) Rs. 9.84 per kg. These details were given in the agreement as well as patti prepared by the trader. The seller accepted the copies of both by putting up his thumb impression or signature. He was least bothered about the manipulations made. The income that the producer-seller should have received actually was as below:

(III) The income the seller should have received actually

(i)	Gross weight	...	1,171 kg.
(ii)	LESS: Tare 2 kg. per bodh	...	40 kg.
(iii)	Net weight of tobacco	...	1,131 kg
(iv)	Value @ Rs. 10.55 per kg.	...	Rs. 11,932.05

In the light of the factual illustration it could be noted that because of the submission of manipulated statements of accounts to the APMC the stated price (Rs. 9.84) was less than the actual price agreed and paid (Rs. 10.55). Consequently, the price data of the APMC reflected, by and large, lower levels than those actually prevailed in the market. Further, the grower received less income. He received Rs. 10,734.05 instead of Rs. 11,932.05, thus bearing monetary loss of Rs. 1,198.00, that is, 10 per cent of the just returns.

(5) Grading

Grading of tobacco was being done haphazardly on the basis of smoking test to judge the aroma, observation of colour, thickness of leaves and keeping quality and smelling test to know the flavour. In the situation of total absence of scientific grading, traders had always an edge over the producers in quoting the prices. The Tobacco Research Station of Nipani so far did nothing to establish even broad grades on the lines of which the APMC could proceed.

(6) Market Intelligence

An appropriate system of dissemination of market information for the benefit of all concerned was missing. The APMC had not gone beyond publishing the market rates of tobacco in Pudhari (a Marathi daily) and Samyukta Karnataka (a Kannada daily) and daily announcements on Dharwad Station of All-India Radio. Annual Reports of the APMC had a very limited circulation and they lacked in many details of value. Farmers were not provided with the information such as area under tobacco, daily arrivals, sales, stocks, demand, price movements, etc. Consequently, the producers took their own decision as to when to sell and submitted themselves fully to the mercy of the traders. Furthermore, the wholesale prices published in the Annual Reports of the APMC were not trustworthy. When most of the tobacco never arrived in the market yard and when open auctions in the market yard never took place,

how could the APMC know the market prices ? Under the prevailing practices, detailed above, the APMC relied upon the patts submitted by the traders. As seen earlier, the patts underrated the rates.

CONCLUSION

The account of the APMC, Nipani reveals glaringly that so far it could not develop a well-structured market yard wherein the entire marketing activity in the regulated commodities could be concentrated. In the absence of this, the APMC did not develop a system of actual supervision over the trade particularly in bidi tobacco. Naturally, there was no change in the character of trade in spite of its regulation. The APMC continued to be a body concerned largely with cess collection. The producer-seller continued to struggle for a better return, but in vain. Neither was the cost of marketing reduced substantially nor was the efficiency of services improved. This is a negative reflection on the operational efficiency of the APMC, Nipani. True, that the APMC can do nothing directly to settle specific prices of the commodities, but through the infrastructure creation and rigid regulation, certainly it can indirectly help the market forces in effecting reasonable prices for the produce. Bidi tobacco trade in Nipani Tract is thus deprived of the benefits of marketing institutions in realising better prices for the produce of the agriculturists.

REFERENCES

- 1 In case of bidi tobacco marketable surplus and marketed surplus are the same for whatever is produced is marketed.
- 2 Annual Report of the APMC, 1980-81.
- 3 Ibid.

