Making farm markets deliver

The spurt in food prices and their divergence across locations have not escaped the notice of producers and consumers. The case for organised retail has become stronger in view of the infirmities in the distribution chain.

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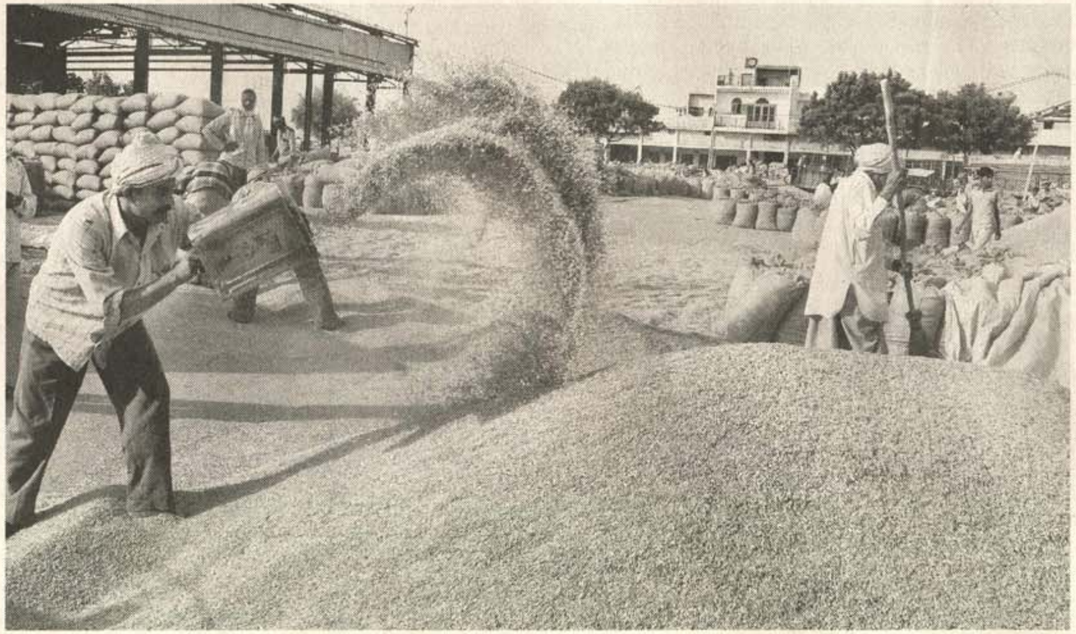
The unyielding nature of food inflation draws one's attention once again to the opaque marketing systems for farm products. It is interesting that the consumers who are keenly aware of the wide margin between wholesale and retail, and the farmers who are aware of the gap between the prices they receive and the market prices, have been reduced to helpless actors. The wide marketing margins between the farm level price and wholesale trade on the one hand and between wholesale and retail level on the other, have been hotly debated and have led to government intervention from time to time.

Even as the share of agriculture in the overall economy and that of basic farm commodities in the consumption basket are on the decline, the matter of opaque margins in distribution has not lost its importance in public policy. Policy reforms are underway to reverse the original systems.



Grain mandi at Panipat, Haryana...The potential for making a quick profit seems to be significant at some point in the marketing chain.

UNACCEPTABLE MARGINS

It is not the case that markets have not functioned at all. But they have not been able to eliminate volatility or divergence across locations, even when the supply disruptions are not significant or long-term. The potential for making a quick profit seems to be significant at some point in the marketing chain. It is precisely these features of the market that led to original interventions. However, these interventions may have lost their effectiveness, even in theory.

It is also interesting that in the case of high-value products, markets seem to function with less distress. Perhaps the fact that the products are high- value in nature ensures that everyone gets to share this value, despite the high margins. It is also likely that competition prevails at least to the extent that the producers get reasonable value or service, because there is enough value to exploit. The consumer pays the expected high price. The market intermediaries make the necessary investments to keep the marketing chain efficient.

The need for margins is obviously not contested, but the extent of it certainly is. In reality, the margins between the point of production and that of retail have not been as widely debated in the case of manufactured products as in agriculture. Of course, the farmer is the seller in a perfect competition model, unlike the case of a manufacturer. Indirect taxes and levies routinely drive a wedge at different stages of the movement of goods from the producer to the consumer.

CASE FOR ORGANISED RETAIL

Farm produce is not completely immune from this. The large difference between the cost of production and retail prices in the case of petroleum products is accepted as a revenue raising measure of the government. In many other cases, the wedge remains unknown and the consumer pays the price.

The focus of attention in the current phase of marketing reforms in agriculture is on the APMCs. The idea is to increase competition for buying farm produce. The prevailing system of regulated markets prevented purchase of the produce by large buyers, except in the regulated markets — and their entry in the regulated markets was not easy. But this is only one end of the marketing chain. The wholesale to retail chain is opaque as well.

Reforms which allow for organised retail — FDI or domestic — in the farm produce will establish the alternative marketing system which may become easier to monitor for policy purposes. The reforms would not be complete without providing necessary flexibility to the intermediaries on stocking of the produce and its movement.

Why should reforms work? The case for reforms of the present system has intensified in the recent episodes of high and persistent food inflation. The sudden spurts in onion prices and prices of other vegetables or fruits have made the divergence in prices across cities or over time glaring to the consumer and to the producer.

The case for reforms is also strong because of the changed circumstances. It is important to recognise that the market for farm produce is changing in terms of both supply and demand. Demand has increased sharply. A significant proportion of consumers is now richer than ever before. They can pay higher prices for good quality produce, which will allow investments in the marketing chain by the intermediaries.

INFORMATION FLOWS

The improved infrastructure in terms of transportation and storage has also made investments relatively within reach for the intermediaries. There is greater likelihood that information on prices and supplies is more widely available than before within the marketing system.

The expectations from reforms are huge: fresh investments in the marketing system, higher share of the producer in the consumer's rupee and greater stability in prices.

One area where investments are needed in any case is the information on prices and supplies. Easy access to information is necessary to spur competition to match demand with supplies. Marketing innovations will continue to be necessary as the farm markets transform and no consumption need can be left unmet.

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