

Price Spread of Agricultural Commodities *

by

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Synopsis: An attempt has been made in this paper to analyse 'Price spread' and the factors associated with them for important agricultural commodities based on the data collected during 1963-'64 marketing season. The profit margin of wholesalers and retailers, the producer's share on consumer's price and the role played by the Regulated Markets in increasing producer's share of consumer's price are also discussed for crops like paddy, banana, onion and groundnut.

Introduction: The difference between the price paid by the consumer and the price received by the producer of an agricultural commodity, is termed as the 'Price Spread'. This price spread usually represents the cost of marketing and includes charges incurred for handling, transport and assembling besides the profits appropriated by the middlemen. Price spread studies enable ascertaining the marketing costs, with a view to find out ways and means of lessening the same for the benefit of both the growers and the consumers. Even in advanced countries like United States of America and England, where the farmers are more enlightened, the share of the consumer's price received by the producer is only about 50 per cent at times. To encourage the agriculturists to produce more, it is imperative that we should create conditions wherein the producer may be able to get a larger share of the consumer's rupee. Hence, these price spread studies are important and necessary, so that the bottlenecks in marketing may be eschewed and a scientific assessment of the need and efficiency of the various agencies employed in marketing may be made.

Agricultural produce, whose production is scattered over wide areas and is grown under diversified conditions, is not standardised and is bulky, sometimes perishable. It arrives in small lots and hence pose a number of problems in marketing unlike manufactured goods. It is, therefore, accepted that marketing of agricultural produce is more expensive than that of manufactured goods. There are numerous middlemen employed in the marketing of agricultural produce, as village merchants, itinerant merchants, commission agents, wholesalers, processors and retailers. It is commonly felt that the margins appropriated by these middlemen is responsible for the wide price spread of commodities. Such general statements are likely to mislead a scientific study of the price spread, and may bog attempts to trace out the actual pitfalls in the existing marketing system. An attempt has been made in this paper, to study the price spread of diversified agricultural commodities like paddy, groundnut, banana, onion and vegetables like brinjal and tomato.

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Methodology: The costs and margins were computed by tracing a particular consignment from the producer to the consumer at different places of sale and storage. The difficulty in this method is that some of the middlemen may not disclose their actual profits. As the marketing costs vary under different conditions, truly representative samples have to be studied. These errors have been minimised by asking the Marketing Officers, who have specialised knowledge of such enquiries, to send the data from the various important growing areas of Madras State and the same have been carefully checked before making use of the material for this study. The data were collected during the 1963-64 marketing season from the normal important trade channels and the inferences are only indicative, as any study of such vast dimensions necessarily should be. The analysis of margins for different items are given below for the different crops.

Results :

A. PADDY: *Price spread of paddy converted into machine milled parboiled rice. (Percentage figures)*

Particulars	Tiruvarur (Thanjavur district) to Cochin (Kerala State)	Kumbakonam (Thanjavur dt.) to Kollengode (Kerala State)	Ammāpet (Thanjavur district) to Quilon (Kerala State)
(1)	(2)	(3)	(4)
1. Producer's share of the consumer's price as received at the village	... 78.50	79.98	80.61
2. Parboiling and milling charges	... 4.61	3.42	3.78
3. Brokerage and commission to village merchants, itinerant merchants, etc.	... 0.78	0.78	1.86
4. Transport charges	... 6.68	6.63	6.38
5. Cost of gunnies	... 2.10	2.00	1.93
6. Wholesaler's margin	... 1.06	1.17	1.45
7. Miller's margin	... 1.87	1.77	1.99
8. Miscellaneous (including Sales Tax)	... 2.10	1.91	0.07
9. Retailer's margin	... 2.30	2.34	1.93
10. Consumer's price	... 100.00	100.00	100.00

In paddy, which is converted into parboiled rice and sold (as is the case mostly), nearly 80 per cent of the consumer's price is passed on to the producer which is a fair share indeed. The intermediaries take away only about six per cent of the consumer's price, while the transport charges account for nearly

six per cent and processing charges four per cent. The cost of containers takes away two percent. This shows the efficiency of marketing of paddy in Thanjavur district.

B. GROUNDNUT :

Particulars	Cuddalore (S. Arcot district). Crushed into oil and cake in the expeller machine
1. Producer's share at the Farm	... 81.96
2. Brokerage and commission charges	... —
3. Transport charges	... 3.26
4. Cost of gunnies	... 1.47
5. Processing charges	... 3.59
6. Wholesaler's margin	... 3.02
7. Miscellaneous (including Sales Tax)	... 2.67
8. Retailer's margin	... 4.03
9. Consumer's price	... 100.00

Groundnut is largely grown in South Arcot district and the price spread study in Cuddalore is representative of the South Arcot conditions. The Marketing legislation for groundnut in South Arcot district is functioning very well with large arrivals of groundnut kernels to the various Regulated Markets, functioning there. No commission or brokerage is incurred as the groundnut kernels are purchased in the Regulated Market at Cuddalore and only cess is paid by the purchaser to the Market Committee. Nearly 82 per cent of the consumer's rupee is passed on to the grower of groundnut in South Arcot district, thus showing the efficiency of marketing as effected by Regulated Markets in Madras State.

C. BANANA: (*Poovan variety*)

	Thanjavur to Madras	Nanguneri (Kanyakumari district) to Tirunelveli
1. Producer's share of the consumer's rupee as sold at the plantation	... 60.42	71.59
2. Brokerage or commission	... 1.51	1.73
3. Transport	... 13.63	8.27
4. Wholesaler's margin	... 9.03	8.96
5. Miscellaneous (including Sales tax)	... 1.51	3.33
6. Retailer's share	... 13.90	6.12
7. Consumer's price	... 100.00	100.00

Poovan variety of banana is largely grown in the districts of Thanjavur and Kanyakumari. Here, only about two thirds of the consumer's rupee is passed on to the grower. The wholesaler's and retailer's margin are fairly high varying from 15 to 23 per cent to cover the risks of loss by spoilage being a perishable commodity. The transport charges also are more, as the commodity has to be transported without getting damaged.

D. ONION :

	Tiruppur to Avanashi (within Coimbatore district)
1. Producer's share of the consumer's price at the farm ...	75.77
2. Brokerage or Commission ...	1.58
3. Transport charges ...	4.40
4. Cost of gunnies ...	0.92
5. Wholesaler's margin ...	4.68
6. Miscellaneous (including Sales tax) ...	1.38
7. Retailer's margin ...	11.27
8. Consumer's price ...	100.00

In the case of onion, which is not highly perishable like vegetables, nearly three fourth of the consumer's rupee is passed on to the grower. The retailer's margin is unduly high, as he takes the risk of the onion getting spoilt.

E. VEGETABLES :

	Brinjals from Kulathur (Salem district) to Madras	Tomatoes from Dindigul (Madurai district) to Madras
1. Producer's price at the farm ...	52.62	66.68
2. Commission at Madras ...	4.19	4.50
3. Transport charges ...	12.58	6.27
4. Cost of gunnies ...	2.13	1.92
5. Spoilage ...	5.58	4.88
6. Miscellaneous (including Sales tax) ...	4.79	2.73
7. Retailer's share ...	18.11	13.02
8. Consumer's price ...	100.00	100.00

Vegetables, find a market in places even 200 to 300 miles away and hence, the transport charges take away a big slice. The growers or their agents usually bring the produce to Madras and sell it through commission agents. If the growers employ brokers or sell it to village merchants, the price obtained by the grower would be still lower. From the commission agents, it is distributed to

retailers in Madras City. The commission of four per cent and more is fairly high considering the volume of transactions and the risks taken. It is seen that the retailer's share accounts for nearly 15 per cent even after allowing for actual spoilage. In marketing of vegetables, transport and retailers are mainly responsible for the higher prices. Spoilage to the tune of five per cent which is the normal loss, is allowed and there may be cases, when the spoilage may be more due to some adverse conditions.

Discussion and Conclusion: The Royal Commission on Agriculture in their report (1928) stressed that bad communications and chaotic conditions of marketing encourage a superfluity of middlemen and the more effective means of removing unnecessary middlemen are the provision of good roads and the establishment of a sufficient number of well regulated markets, easy of access to the cultivators. While dealing with groundnut, it has been shown conclusively as how the price spread is narrowed down considerably, due to the existence of the Regulated Markets. It is imperative that the entire state is covered by Regulated Markets, so as to provide marketing facilities to the agriculturists, within ten miles radius, so as to enable them to market their produce for the best price without the intervention of unnecessary middlemen. In Madras state, seven districts are covered by the Madras Agricultural Produce Markets Act, 1959 and the remaining districts would be brought under regulation shortly. There are already 81 Regulated Markets and it is expected to have 150 more by the end of the Fourth Five Year Plan, so that all the assembling centres of agricultural produce may have fair marketing facilities. A survey of the existence of proper roads from the interior, undeveloped pockets of production to the marketing centres is being made and with this information, it should be possible to provide all road facilities for transport of agricultural produce from undeveloped pockets of production to the assembling centres for remunerative marketing.

Regulation of marketing conditions in the entire notified area, like fixing the maximum brokerage, commission and weighing charges, prohibition of unauthorised deductions like charity, "Mahimai" sample etc, ensuring correct weighments and adherence to the proper unit weights as provided for in the Madras Agricultural Produce Markets Act enable the agriculturists to market their produce in a fair manner. While regulated markets may afford the marketing facilities; some of the functions performed by the middlemen like financing, long term storage and transport, may have to be undertaken by some agencies. The Co-operative institutions are the best substitutes for the middlemen. The functions of the village merchants and the itinerant merchant can be accomplished by the village credit or multipurpose co-operative societies. Co-operative Societies of agricultural producers in the primary markets can easily displace the commission agents. At the consumer's end, the retailer can be substituted by Consumer's Co-operative Societies like the Triplicane Urban Co-operative Society in Madras. Thus, a chain of Co-operatives linking the producers and consumers can effectively replace the middlemen. Coordinated work with the Warehousing Corporations for additional financing and long term

storage and with the Regulated Markets for fair marketing conditions, should certainly bring in an era of prosperity to the producers and the consumers of agricultural produce by narrowing down the price spread.

Financing the agriculturist, both for crop growth and marketing of produce, which has largely remained in the hands of the middlemen, should be replaced by cheaper and proper financing by the co-operatives and the banks through the bonded warehouses. Storage facilities on scientific lines, which is badly lacking, is to be provided by the co-operative societies in the villages and the warehouses in the big assembling centres. Sale of produce by the agriculturists after standardisation and grading, always brings in good returns. Scientific grading facilities should be afforded to the agriculturists to pool their produce and have them sold according to grades. Such grading facilities do exist in the regulated markets of the State for groundnut and paddy. Grading should be enforced in the co-operatives so that the produce can be purchased and sold on the basis of quality only and the agriculturists may be benefited by the same. Pooling of produce is possible in the co-operatives and large bulks of specific grades can be offered for sale at better prices, so that the producer can reap the benefits of grading. As it is, the traders grade the produce after purchase from the growers and reap the benefits of grading themselves. It should be possible, in due course to transact business according to specific grades, preferably "Agmark" grades and to announce on the All India Radio the prices of commodities according to grades.

In the case of perishables like fruits and vegetables, the cost of marketing is high due to the risks. Efforts are needed to reduce the wastage in transport and this can be ensured by making available suitable wagon facilities with quick transport. Air conditioned wagons may be introduced wherever necessary. Cold storage facilities in the exporting and importing centres of perishables besides providing cold storage vans from the production centres to the leading points and from the terminal points to the storage places, should go a long way in accomplishing proper marketing. Such facility at reasonable cost is lacking in Madras state. The Agricultural Department is taking steps to grow vegetables around the consuming centres so that the transport and the storage losses may be minimised.

The retail prices of perishables show that the retailer of vegetables takes a larger share of the consumer's rupee. In Madras City, fair price shops for vegetables have, in a way, kept down the prices of vegetables for the benefit of the consumer. A regulated market for vegetables at Madras would be beneficial both to the growers and consumers, as Madras is a very big consuming centre and also since vegetables are imported from places even 300 miles away. Consumer's Co-operative Societies for vegetables with cold storage facilities will enable the agriculturist to realise better profits for his perishable produce and the consumer to get fresh vegetables at fair prices. Co-operatives can also undertake transport of vegetables and other produce to pool them in the assembling centres.
