

CHAPTER 8

AGRICULTURAL PRICES AND RISK MANAGEMENT

Administered Prices

Commission for Agricultural Costs and Prices (CACP)

Another method of intervention in the market mechanism has been the announcement of different administered prices *viz.*, minimum support prices, statutory minimum prices, procurement prices and issue prices. These prices are announced for different agricultural crops by the Government of India on the recommendations of Commission for Agricultural Costs and Prices (CACP). This Commission was originally set up in January, 1965 in the name of the Agricultural Prices Commission (APC).

- (i) The Agricultural Prices Commission was set up on the recommendations of the Foodgrains Prices Committee headed by Shri L.K.Jha with the aim of advising the Government on price policy of agricultural commodities with due regard to the interests of both producers and consumers. The price policy of the country aims at evolving a balanced and integrated price structure taking into account the overall needs of the economy and with due regard to the interests of both the groups of the economy

Price Policy

The government has formulated a price policy for agricultural produce that aims at securing remunerative prices to farmers to encourage them to invest more in agricultural production. Keeping this in mind, the government announces minimum support prices for major agricultural products every year. These prices are fixed after taking into account the recommendations of the Commission for Agricultural Costs and Prices (CACP). The Commission of Agricultural Costs and Prices while recommending prices takes into account important factors, such as:

- Cost of production
- Changes in input prices
- Input/Output Price Parity
- Trends in market prices
- Inter-crop Price Parity
- Demand and supply situation
- Effect on Industrial Cost Structure
- Effect on general price level
- Effect on cost of living

International market price situation

Parity between prices paid and prices received by farmers (Terms of Trade)

The terms of reference of the Commission were made broad based in March, 1980 with the change in its name to Commission for Agricultural Costs and Prices. Since 1966, the Commission has set up a fairly logical scheme for arriving at the administered prices of farm products. The Commission has been recommending two sets of administered prices *viz.*, minimum support prices and procurement prices.

The Commission for Agricultural Costs and Prices is a statutory body. The Commission submits separate reports recommending these prices for the kharif and rabi season crops. The Central Government after considering the report of the Commission and views of the State Government and keeping in view the demand and supply situation in the country, takes decision on the level of administered prices.

The Commission for Agricultural Costs and Prices (CACP), which was instrumental in evolving a balanced and integrated price structure in the country, has been manned by several eminent and experienced agricultural economists.

The main objectives of the Government's price policy for agricultural produce, aims at ensuring remunerative prices to the growers for their produce with a view to encourage higher investment and production. Towards the end, minimum support prices for major agricultural products are announced each year which are fixed after taking into account, the recommendations of the Commission for Agricultural Costs and Prices (CACP). The CACP while recommending prices takes into account all-important factors, *viz.*

Cost of Production, Changes in Input Prices, Input/Output Price Parity, Trends in Market Prices, Inter-crop Price Parity, Demand and Supply Situation, Effect on Industrial Cost Structure, Effect on General Price Level, Effect on Cost of Living, International Market Price Situation and Parity between Prices Paid and Prices Received by farmers (Terms of Trade).

Of all the factors, cost of production is the most tangible factor and it takes into account all operational and fixed demands. Government organises Price Support Scheme(PSS) of the commodities, through various public and cooperative agencies such as FCI, CCI, JCI, NAFED, Tobacco Board, etc., for which the MSPs are fixed. For commodities not covered under PSS, Government also arranges for market intervention on specific request from the States for specific quantity at a mutually agreed price. The losses, if any, are borne by the Centre and State on 50:50 basis. The price policy paid rich dividends.

**Procurement / Minimum Support / Statutory Minimum Prices Fixed By The
Government For Agricultural Commodities in Absolute term (As On 12.2.2001)**
(Rs. per quintal)

CROP	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01
Paddy	360	380	415	440	490	510
Jowar	300	310	360	390	415	445
Bajra	300	310	360	390	415	445
Maize	310	320	360	390	415	445
Ragi	300	310	360	390	415	445
Wheat	380	475 ^X	510 ^Y	550	580	
Barley	295	305	350	385	430	
Tur(Arhar)	800	840	900	960	1105	1200
Moong	800	840	900	960	1105	1200
Urad	800	840	900	960	1105	1200
Gram	700	740	815	895	1015	
Groundnut	900	920	980	1040	1155	1220
-in- shell						
Soyabean Black	600	620	670	705	755	775
Soyabean Yellow	680	700	750	795	845	865
Sunflower seed	950	960	1000	1060	1155	1170
Rape & Mustard	860	890	940	1000	1100	
Toria	825	855	905	965	1065	
Safflower	800	830	910	990	1100	
Cotton	1150	1180	1330	1440 ^{XX}	1575 ^{XX}	1625 ^{XX}
	1350	1380	1530	1650	1775	1825
Jute	490 T	510 T	570	650	750	785
Sugarcane #	42.50	45.90	48.45	52.70	56.10	
Tobacco(VFC)	19.00	19.00	20.50	22.50	25.00	26.00
Black Soil						
Light Soil	21.50	22.00	23.50	25.50	27.00	28.00
(Rs.per kg.)						

Copra Milling	2500	2500	2700	2900	3100	3250
(For Calender Year)						
Ball	2725	2725	2925	3125	3325	3500
Sesamum	850	870	950	1060	1205	1300
Niger Seed	700	720	800	850	915	1025

Note:

- x - Including a Central Bonus of Rs. 60.00 per quintal payable on wheat offered for sale to the procurement agencies for central pool upto 30.6.97.
- xx - For J-34 variety also.
- y - Including a central Bonus of Rs. 55 per quintal payable on wheat offered for sale to the procurement agencies for central pool up to 30.6.98.

RISK IN MARKETING AND ITS MANAGEMENT

Meaning and Importance of Risk

Hardy has defined risk as uncertainty about cost, loss or damage. Risk is inherent in all marketing transactions. There is the risk of the destruction of the produce by fire, rodents or other elements, quality deterioration, price fall, change in tastes, habits or fashion, and the risk of placing the commodity in the wrong hands or area.

There is a time lag between the production and consumption of farm products. The longer the time lag, the greater will be the risk. The risk associated with marketing cannot be dispensed with, for this risk contributes to profit. Someone has to bear the risk in marketing process. But most of the risk is taken by market middlemen, as they have the capacity to bear it.

Whenever risks are greater and varied, the margin taken by the risk-bearers is higher, and vice versa. One who holds the commodity in the process is the bearer of the risk, because of which he may be better off or worse off.

Types of Risk in Marketing

The risks associated with the marketing process are of three basic types:

(i) Physical Risk: This includes a loss in the quantity and quality of the product during the marketing process. It may be due to fire, flood, earthquake, rodents, insects, pests, fungus, excessive moisture or temperature, careless handling and unscientific storage, improper package, looting or arson. These together account for a large part of the loss of the product at the individual as well as at the macro level. Such losses are a loss to society, too, and must be averted to the extent possible.

(ii) Price Risk: The prices of agricultural products fluctuate not only from year to year, but during the year from month to month, day to day and even on the same day. The changes in prices may be upward or downward. Price variation cannot be ruled out, for the factors affecting the demand for, and the supply of, agricultural products are continually changing. A price fall may cause a loss to the trader or farmer who stocks the produce. Sometimes, the risks are so great that they may result in a total failure of the business, and the person who owns it may become bankrupt.

(iii) Institutional Risks: These risks include the risks arising out of a change in the government's policy, in tariffs and tax laws, in the movement restrictions, statutory price controls and the imposition of levies.

Minimization of Risk

The agencies engaged in marketing activities worry about the risk associated at every stage; and they continually try to minimize the effects of these risks. A risk cannot be eliminated because it also carries profit. The agencies which do not take risks hardly earn profit. The risk management by the adoption of some of the measures listed below may minimize the risks:

1. Reduction in Physical Loss

The physical loss of a product (quantity and quality both) may be reduced by the adoption of the following measures:

- (a) Use of fire-proof materials in the storage structures to prevent accidents due to fire;
- (b) Use of improved storage structures and giving necessary pre-storage treatment to the product to prevent losses in quality and quantity arising out of excessive moisture, temperature, attacks by insects and pests, fungus and rodents;
- (c) Use of better and quicker transportation methods and proper handling during transit; and
- (d) Use of proper packaging material.

2. Transfer of Risks to Insurance Companies

The burden of physical risk may be minimized by shifting it to insurance companies. There are specialized professional agencies to bear such risks. They collect some premium and provide full compensation to the party in case of loss due to the reasons for which the products are insured. In this way, the company insures a number of farmers against losses.

3. Minimization of Price Risk

The risk associated with the variations in the prices may be minimized by the adoption of the following measures:

- (a) Fixation of minimum and maximum prices of commodities by the government and allowing movements in prices only within the specified range;
- (b) Marketing arrangements for the dissemination of accurate and scientific price information to all sections of society over space and time. This should include information on market demand, acreage under a particular crop, estimates of market supply and of the import and export of commodities;
- (c) An effective system of advertising may reduce price uncertainty and create a favourable atmosphere for commodity;
- (d) Operation of speculation and hedging. The price risk associated with the commodities for which the facility of forward trading is available may be transferred to professional speculators through the operation of hedging. A detailed exposition of speculation and hedging follows.

Risk Management Strategies in Agricultural Marketing

Speculation and Hedging

Speculation and hedging are important ways of minimizing price risk in business. In the former, risk is taken by the person specializing in the business without much consideration of business trends, while in the second, a calculated risk is taken.

Speculation

The fundamental idea underlying speculation is the purchase or sale of a commodity at the present price with the object of sale or purchase at some future date at a favourable price. The speculator is normally concerned with profit-making from price movements. He purchases when prices are low. He is, therefore, not a normal or regular trader. The difference in the prices prevailing at two times constitutes his profit. Speculator may lose in this process. The essentials of a speculator are:

- (i) He enters the trade at current prices;
- (ii) The transactions of speculators are completed on some future date;
- (iii) The speculators enter the trade with the sole object of making profit from price movements. Sometimes, they indulge in hoarding as well;

- (iv) Except in a few cases, the physical delivery of produce is neither taken nor given. Only the difference in the prices is paid or taken; and
- (v) Speculators are not regular buyers and sellers in the market. They do not conduct any regular business apart from speculative business.

Based on the legalities involved, speculation is of two types:

(i) Speculation Proper

Speculation proper refers to speculation on the part of a person who makes it his profession. Such professional speculators devote their whole time and energy to the collection of information about the future course of price movements. The decisions of the speculator are not hunch decisions. These are intelligent forecasts based on predicted trends. This type of speculation is beneficial for the economy as a whole and is usually accepted by the society.

(ii) Illegitimate Speculation

This is a gamble in business. The speculators adopt such manipulative practices as create conditions of artificial scarcity in the market and lead to a rise in prices. The main aim of the speculator is to earn a big profit. This type of speculation is not based on any rationale, though it influences the prices of products. Such speculation is prohibited by the government in the best interest in the economy.

Economic Benefits of Speculation

(i) **Speculation Dampens Price Fluctuations:** Speculators buy at current prices in anticipation of a rise in prices in the future which results in pushing up the current prices. This encourages production and discourages consumption. Other speculators, who sell in the present period in the expectation of a fall in future prices, bring about a fall in the current prices, which encourages consumption and discourages production. The sum total of the effects of these speculative activities results in dampening price fluctuations.

(ii) The price differentials in different markets are bridged to some extent.

(iii) Speculation helps in the adjustment of the supply of, and demand for, commodities at normal prices.

Related Terms

(i) **Spot/Cash Transactions:** A transaction in which payment is made on the spot or within a prescribed short period, and delivery is taken on the same day or within a specific period are known as spot or cash transactions. Three things are essential in cash transactions:

(a) The purchaser has to take the delivery of the produce immediately after sale;

- (b) The seller has to deliver the goods immediately; and
- (c) Payment for the produce has to be made immediately.

(ii) *Futures Transactions:* This is a transaction in which prices of commodities are settled in cash but the commodities are delivered on some future date as agreed. Generally, in futures transactions, the loss or profit is paid or received on the expiry of the time instead of the physical handing over of the commodity.

In futures transactions, two groups of persons are involved, i.e., the bulls and the bears. Persons who expect that prices will go up in future are bulls; but those who expect that prices will go down in future are bears. The futures transactions take place as a result of action on the part of these two groups of persons.

(iii) *Contract:* A contract is a promise to deliver or accept delivery of specific grade of a commodity at a specified time in future.

Hedging

Meaning

Hedging is a trading technique of transferring the price risk. It protects traders from extreme crash in prices. Hedging has been defined as follows:

"Hedging is executing opposite sales or purchases in the futures market to offset the purchases or sales of physical products made in the cash market".

- *Shepherd*

"Hedging is the practice of buying or selling futures to offset an equal and opposite position in the cash market and thus avoid the risk of uncertain changes in prices".

- *Hoffman:*

Hedging refers to the purchase or sale of a commodity in a futures market accompanied by a sale or a purchase in the cash market. In this approach, each sale is entered into with an equivalent, purchase of the commodity. It is assumed that prices in the two markets move exactly parallel, and that the losses arising in one market are offset by profit in another market. Hedging is based on two assumptions:

- (a) The future and cash commodity prices move up and down together, i.e., the basis of price changes remains unchanged.
- (b) The mechanics of hedging includes the making of simultaneous transactions, but of opposite nature, in the futures and cash markets.

Benefit of Hedging

The benefits of hedging are:

- (i) It protects the hedger from sustaining loss and enables him to earn his normal trade profit;
- (ii) Hedging enables him to keep the trade margins at a lower level because there is no risk; and
- (iii) Hedging facilities the financing of inventories of stored commodities to the maximum possible extent.

Hedging is employed by many traders to protect themselves against losses due to market price fluctuations by executing cash purchases and sales practically simultaneously with future transactions in the opposite side. It is the performance of mainly the two contracts of an opposite, though corresponding nature at the same time, one in the spot market where the commodity physically is handled, and the other in the futures market; where the commodity exchange takes place. In short, there are two opposite responsibilities balancing each other.

One other example should make the operation and logic of hedging clear. Suppose, a cotton trader contracts a deal with some overseas firm in February 2010 to supply 1000 quintals of cotton lint at a price of Rs.4200 per quintal to be shipped in May 2010. In order to protect himself from a possible loss, he buys cotton futures at a ruling futures price of say Rs.4210 per quintal. Now in the month of May 2010, he discovers that the ruling spot price of cotton is Rs.4250 per quintal. As he had contracted to ship 1000 quintals at a price of Rs.4200, he loses Rs.50 per quintal on this deal. But the future prices also have moved up (say) to Rs.4260 per quintal, in sympathy with the spot or ready or cash prices. Hence, he sells cotton future at Rs.4260 per quintal (which he purchased at Rs.4210 per quintal) and gains Rs.50 per quintal. This way, his loss on the spot or ready or cash market is compensated by the gain in futures market.

Difference between Speculation and Hedging

The basic differences between speculation and hedging are:

	Speculation	Hedging
(i)	Purchases and sales in the cash as well as in future markets are made with the objective of making profit.	The purchases and sales in the cash and futures markets are made to protect oneself against excessive price fluctuations.
(ii)	The activities of buying and selling are not necessarily opposed to each other.	The activities of buyers and sellers are always opposed to each other.
(iii)	It is not necessary that the two types of	It is obligatory to buy and sell the goods

	transactions should be of equal quantity.	in equal quantities in the two markets.
(iv)	Under speculation, the speculator purchases goods and sells them when prices rise as per his expectations.	The commodities are not stored by traders. Only the difference in the price is given or taken on the due date.

Futures Trading

Meaning

Futures trading is a device for protection against the price fluctuations which normally arise in the course of the marketing of commodities. Stockists, processors or manufacturers utilize the futures contracts to transfer the price risk faced by them.

Futures trading includes both hedging and speculation. But since hedging is its *raison d'etre*, it is also known as hedge-trading. Futures markets are, therefore, known as "hedge" markets.

Widely divergent views exist on the effects of futures trading. A few are convinced that commodity futures trading tend to stabilize prices and reduce price variations. Others not only disagree with this view but vigorously allege that, more often than not, futures trading aggravate the price trends and increase both the magnitude and frequency of price variations. A third group denies that futures trading have any influence, either favourable or adverse, on commodity prices.

Futures trading in various groups of commodities was established about the end of 19th century. In cotton, futures trading was started in Bombay. The Europeans took a hand in founding the Bombay Cotton Traders Association in 1875 for the regulation of cotton trade, which was the first step in the evolution of an organized futures market. The futures markets were established for oilseeds at Bombay in 1900, for wheat at Hapur in 1913, for raw jute and jute goods at Kolkata in 1912, and for bullion at Mumbai in 1920. Subsequently, similar markets for these commodities were established at other places also. To provide against unhealthy speculation, forward trading in agricultural commodities was regulated under the Forward Contracts (Regulation) Act, 1952. The Act was enacted with a view to regulating forward contracts prohibiting options in goods and dealing with certain other related matters. This job has been assigned to the Forward Market Commission, which was established in September, 1953. The government has regulated or banned forward trading in several commodities in order to

check unhealthy speculation. The Act has been amended from time to time to plug the loopholes.

The Forward Markets Review Committee, set up by the Government of India under the chairmanship of Prof. M.L.Dantwala, recognized the need for futures trading even in conditions of short supply, and upheld the view that speculations in futures markets should be recognized as a necessary factor for their proper working.

Commodities for Futures Trading

The commodities permissible under futures trading must satisfy the following conditions:

- (i) Commodities should be in plentiful supply. If a commodity is in short supply, a few traders may corner the whole supply and charge any price they like to the buyers.
- (ii) The commodity must have a minimum degree of perishability, i.e., it must be storables for futures delivery.
- (iii) The commodity should be homogeneous and capable of being graded so that its future deliveries may be made without problems regarding quality.
- (iv) The commodity should have a large demand from a number of independent consumers so that a single buyer may not be in a position to impose his terms for his purchase.
- (v) The supply of the commodity should not be controlled by a few large firms. It should be available with a large number of suppliers.
- (vi) The price of the commodity should be liable to fluctuations over a wide range, and
- (vii) There should be free flow of the commodity to and from the market without any outside interference/control.

Services Rendered by a Forward Market

The forward market renders the following services to the economic system:

- (i) It enables the merchants, stockists and processors to protect themselves against the risk of adverse fluctuations in the prices of the commodity. It reduces price fluctuations so that the margin of profit may be small;

- (ii) The highly competitive character of the market smoothens out price fluctuations and ensures an even flow of goods from the purchaser to the consumer, avoiding gluts in the peak season and shortages in the slack seasons;
- (iii) It brings about an integration of the price structure of commodities at different points of time in the same way as transportation and communications bring about an integration of prices in different parts of the market;
- (iv) It facilitates large purchases and sales of the commodity at short notice in advance of delivery and in the absence of production; and
- (v) It brings about a co-ordination of the current and future expectations by a continual revaluation of stocks of goods in the light of the changing supply and demand conditions.

Dangers of Forward Market

The dangers arising out of the forward market are:

- (i) The forward market opens out the way for a large number of persons with insufficient means, inadequate experience and information to enter into commitments which may be beyond their means. In such conditions, market gets demoralized.
- (ii) It enables unscrupulous speculators, with little interest in the actual supply of, and demand for, a particular commodity, to corner the supplies and organize bear raids and bull raids on the market in the hope of making easy money for themselves. This results in violent fluctuations in prices.

Forward Market Commission

The Forward Market Commission (FMC) was established Under Section 3 of the Forward Contracts (Regulation) Act, 1952 and has executive as well as advisory functions. The functions assigned to the commission are:

- (i) To advise the government in respect of recognition or withdrawal of recognition of associations conducting forward trading.
- (ii) To keep forward markets under observation.
- (iii) To draw the attention of the government to the various developments that are taking place in the different forward markets with suitable recommendations.
- (iv) To collect and publish information as regards trading conditions in respect of markets falling under its jurisdiction.
- (v) To submit periodical reports to government on the operation of the Act and on the working of the forward markets, and

(vi) To inspect accounts of recognized associations generally with a view to improving the organization and working of forward markets.

Contract Farming/Contract Marketing

(Farmer – Processor Linkages)

Meaning

Contract farming or marketing essentially is an arrangement between the farmer-producers and the agri-business firms to produce certain pre-agreed quantity and quality of the produce at a particular price and time. It can only be a pure procurement transaction or can extend to the supply of inputs or even beyond.

Contract farming is emerging as an important mode of procurement of raw materials by agri-business firms in India due to the development in the field of agricultural marketing, changes in food habits and in agricultural technology in the new economic environment. This is an important initiative for reducing transaction costs by establishing farmer-processor linkages in addition to the already existing methods of linking the farmers to the consumers.

The distinction between 'sales' and 'contract to sell' needs to be understood clearly. In the case of sale, the title or ownership of goods is transferred at once whereas in the 'contract to sell', the goods are transferred at a later date. A contract to sell is not in the true sense of the word a sale, rather it is merely an arrangement to sell. A contract is an agreement but an agreement is not necessarily a contract.

In contract farming, companies or organizations engaged in processing and marketing of agricultural products are entering into contracts with the farmers. They provide inputs to the farmers and buy back the product at a rate specified in advance. Following type of inputs and services are normally provided by the company to the farmers:

- Seeds of the variety they need for processing/marketing
- Guide lines to grow the crops
- Pesticides which do not result in residual toxicity
- Extension services
- Fertilizers/harmones required for the crop
- Other material if not locally available.

The contract may be entered into by parties anytime from the start of the sowing or planting to the harvesting, processing, packaging and marketing stage of the crop.

Normally, the contract is entered before the start of the sowing or planting because the buyer can then stipulate the conditions of cultivation, use of the seed variety needed by them, use of pesticides and insecticides, and requirement of onfarm grading, sorting, packaging and processing. The buyer of the product generally keeps the right to monitor the crop at every stage of its growth.

Following documents are obtained/given to selected farmers by the companies:

- Application/Registration form
- Contract farming agreement
- Issue of pass book
- Issue of ID Card

Advantages of Contract Farming

Contract farming/marketing is beneficial both for the producer-farmers as well as to the processing company in several ways:

To the farmer, contract farming

- (i) Reduces the risk of price/production
- (ii) Ensures the price as market is assured
- (iii) Increases the quality consciousness
- (iv) Ensures higher production because of better quality seeds and pesticides
- (v) Reduces marketing costs
- (vi) Provides financial support in cash or kind
- (vii) Ensures efficient/timely technical guidance almost free of cost.

To the processing company, contract farming –

- (i) Ensures supply of quality agricultural produce at right time and at lesser cost to the company.
- (ii) Canalizes direct private investment in agricultural activities.
- (iii) Ensures that the toxicity level is reduced as per requirement for export.

Government is increasingly looking towards the corporate sector to augment the rural incomes and employment through agro-processing. In this context, policy makers see the contract farming/marketing as an important avenue to ensure greater private sector participation in agriculture.

Flip Side of Contract Farming

The important weaknesses of contract farming are:

- (i) Contract farming is involved mostly in cash crops which may lead to shift in area from food crops which, beyond a limit may endanger food security, biodiversity and agricultural crops cycle of the country.
- (ii) Contract farming may create the danger of imposition of undesirable seeds.
- (iii) The temptation of getting commercial profits from cultivation of a variety of the crop may cause permanent damage to the land.
- (iv) Market making outside the country may cause market breaking inside the country.

However, contract farming is a welcome development. But the contract should be made under high scrutiny possibly because of exploitation of the farmers. The terms of the contract should be spelt out in advance and a consent letter is obtained both from the farmer and the company. The government should establish a monitoring mechanism and a dispute settlement body to ensure that both parties adhere to the terms of contract.

Experience in Contract Farming

The following companies are presently under the tie-ups in India for contract farming for the products specified:

Poultry	- Contract farming of broilers between the Coimbatore hatchery with farmers
Pulpwood	- ITC/WIMCO/JK Papers and farmers in Andhra Pradesh, Orissa, Punjab and Uttar Pradesh.
Organic dyes	- Marigold farmers and extraction units in Coimbatore.
Dairy Processing	- Chitale of Pune and small farmers in Maharashtra and Gujarat.
Tomato Pulp	- Pepsi Company and farmers of Punjab and Rajasthan for tomato growing
Exotic vegetables	- Trikaya Foods/VST and small farmers of Maharashtra and Andhra Pradesh
Mushrooms	- NAFED and Sonepat (Haryana) farmers
Gherkins	- Exporters with farmers of Bangalore
Edible oils	- ITO Agro-Tech and sunflower cultivators in Andhra Pradesh and Karnataka

Other areas where farmer processor linkage (contract farming) are being practiced in India are:

- Baby corn cultivation
- Tomatoes for manufacture of sauce and ketchup
- Chillies for manufacture of chilly paste
- Garlic and onion for manufacture of paste, powder and dehydrated products
- Special varieties of Banana
- Potato for making chips and wafers
- Barley in making of beers
- Onions and Mandarin Oranges
- Durum Wheat

Presently contract farming is confined to few selected crops in selected pockets. However, there is enormous scope for contract farming/marketing because with the increasing income, consumers are becoming more health and quality consciousness and look for branded products.

Incentives for Promoting Contract Farming

Contract farming is means of allocating/distribution of risk between processor and the farmers. It will succeed if both the parties share the risks and rewards.

The Ministry of Food Processing Industries of Government of India has launched a scheme entitled 'Grant Under Backward Linkages' to promote contract farming. Under this scheme, a grant of 10 per cent of value of raw material purchased from the contract farmers (subject to a maximum of Rs.10 lakhs per annum) is provided to food processing units upto three years. The Ministry has also prescribed a model agreement form. The criteria for the grant are:

- (i) The processing unit should provide seed, insecticides, fertilizers and extension services to contract farmers at reasonable charges;
- (ii) The number of contract farmers should be atleast 25;
- (iii) There should be an agreement prior to the period of contract farming for a maximum period of one year;
- (iv) The processing unit should give advance intimation about its contract with farmers to the Ministry as well as State Nodal Authority (One Month before the contract comes into operation).
- (v) The claim for reimbursement should be recommended by the State Nodal Authority.

Model Quiz

1. Which of the following is correct about CACP?
 - a. CACP recommends minimum support price in kharif only.
 - b. CACP recommends minimum support price in rabi only.
 - c. CACP recommends minimum support price in kharif and rabi.
 - d. CACP does not recommend minimum support price for food grains.

Ans: c

TRUE or FALSE

1. Procurement prices are announced by Govt. Of India during sowing period every year. (False)
2. Procurement prices of food grains are usually lower than their market price. (True)
3. Most of the risk in agricultural marketing is borne by middlemen. (True)
4. The longer the time lag between production and consumption, the greater will be the marketing risk. (True)
5. Risk in marketing forms the part of profit earned. (True)
6. Risk in marketing always rests with the owner of the commodity. (False)
7. Hedging is the trading technique of transferring physical risk. (False)
8. Persons who expect the prices will go up in future are known as bears. (False)
9. Hedging involves purchasing and selling in both cash and futures market. (True)

Notes and References

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