Managing the problem of plenty in agriculture: Role of planned production and marketing (PPM)

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Changing face of agri market policy and practice


• **New stakeholders in Wholesale markets:** Wholesale cash ‘n’ carry players; Food retail supermarkets (domestic and foreign); Processors, exporters, and Producer Companies

• Warehouse Receipts Act, 2006

• Integrated food law (Food safety and standards Act, 2006): FSSAI including organic product standards

• State of foodgrain versus perishable produce markets
Fresh Produce Markets (wholesale) in India

- Through regulated (APMC) markets or Unregulated local F&V markets

- F&V markets much less effectively regulated than grain markets

- High marketing/transaction cost due to non-regulation (in Mah, and Chhattisgarh, even farmer pays commission) and large number of intermediaries involved (CAs-kaccha and pucca)

- No/very little appreciation of quality

- Lack of hygiene and convenience (No GAMPs)
Good Agri Marketing Practices (GAMPs)- Missing

• Only 7% produce is graded at farm level (40% in pigeon pea in Gulbarga)
• Manual assessment of quality
• Auction missing or not competitive enough (esp. in perishable produce markets)
What is the issue?

• Poor efficiency of Indian/developing country supply chains?- wastage, high cost, quality loss, high price (table)
• Role of private capital –domestic and foreign, in agri-food markets
• Experience of corporate involvement: contract farming, direct purchase and private wholesale markets
• Opening up of space for private sector- delisting of F&Vs initiative of UPA and now carried forward by NDA (now pulses), e-NAM

• **Objectives of Agril Market Reforms**: Improving efficiency and effectiveness of agril markets i.e. Improving producer share in consumer rupee?, lowering cost, and achieving spatial and temporal integration
Ways to Manage Plenty with PPM

• 1. Warehouse receipt system- much needed but hardly there
• 2. Direct Purchase- not effective as food supermarkets don’t invest
• 3. Contract Farming- much needed but not adequately planned and promoted
• 4. FCMY- experience of Apni Mandis in Punjab and elsewhere but needs a push
• 5. More inclusive and effective institutional finance for Agri- a must for removing interlocking of markets
Contract Farming System in Thailand

Farmer/Farmer Group → Broker/Collector/Cooperative (PGC/LSC)/Local Co. → Company

Seed/Inputs/Payments

Seed / Inputs/ Payments/ Commission

Produce

Credit & Extension

State (BAAC & DOAE) → Coordination & Facilitation

Formal

Verbal
PPM in Taiwan: cases of canned mushrooms, asparagus and pineapple

- Local farmers associations
- Two crop (mushrooms and asparagus) exports 18% of Taiwanese agri exports within 5 years from 9%
- Local innovation in production (bamboo and rice husk huts as growing sites)
- 10% hhs into this production within a few years
- Collection Centre based purchase (jointly run by canners and farmer associations)
- Quality stds. set and monitored by provincial deptt of agri and forestry officials
- PPM introduced when prices turned downwards due to higher production
- Annual projection of export demand for coming year and quotas assigned to each cannery based on its share of previous year and some new quotas. **No one could grow mushrooms for export on their own!**
- Quota were transferable across canners via sale
- Contracts with farmer associations at the township level
- Collective bargaining between canneries and associations under govt. watch for fixing contract prices with written contracts
PPM in Taiwan: cases of canned mushrooms, asparagus and pineapple

• New areas not allowed production
• All canners quoted a single price to importers/buyers
• Empty cans supplied by govt. to all canners at single price with imported raw materials allocated to can makers, to ensure quality of cans
• Distrust in free markets as the basis of govt. intervention
• Exports mostly meant for EU, mainly Germany
• Farmers and canners in asparagus and bamboo shoots also brought under PPM
• Unified law ‘Methods for the planned production and marketing of mushroom, asparagus and pineapple for export’ was brought in
• Projection of next year production by intl trade division in consultation with other relevant ministries
PPM in Taiwan: cases of canned mushrooms, asparagus and pineapple

• Advantage of the PPM system:
  a. Stable farmer prices and incomes
  b. Guaranteed supply for canners

• Disadvantages of PPM system:
  I. Single Taiwanese price led to price cuts by other countries as Taiwan became *price protection umbrella* for the world.
  II. Absence of completion among canners led to lower quality products

• Outcome:
  ✓ Domination of world canned asparagus market by Taiwan for 20 years
  ✓ Single largest exporter of canned mushroom for 20 years
Policy Lessons from PPM in Taiwan

• Role of farmers’ associations (expelled landlord members and limited membership to families with at least 50% income from farming)
• FAs Federated into county and provincial federations
• Single organisation (FA) run by farmers themselves co-ordinated package of inputs, credit and marketing for farmers
• Provision of public goods like roads and irrigation by the state
• Publically funded research with autonomous research bodies on new crops (JCRR and TARI)
• Public-private partnership for smallholder risk reduction (thru mandatory planning of its export crops) (*sophisticated and creative interplay b/t the two., even in Thailand*) e.g. facilitation of CF between farmers and companies
• Role of large agribusiness companies for accessing global markets as local markets are generally thin (for fresh and high value processed produce)
• State went beyond ‘market friendly’ role of the state approach due to dissatisfaction with ‘free markets per se’.
• ‘Government need not govern the least to govern very successfully’.
• Organisational and institutional innovations important
Making Agri Markets Work

• Encourage/enforce Formal contract farming, not ‘contact farming’
• Incentivise smallholder inclusion (unlike MoFPI and Pb. Govt. Schemes)
• Link credit to CF, though not mandatory or exclusive (lower interest rates for CF?)
• **Incentivise/promote Group contracts** to reduce information asymmetry between firm and growers, transaction cost of dealing with small growers and for better bargaining power to growers
• Exempt F&V crops from APMC rules only for CF and Direct purchase
• Promote Producer Companies to organise/encourage market oriented and business like co-operatives (New Generation Co-operatives) which can deal with CF agencies
• Reform APMC markets- **free licensing for better competition, e-payment of market fee, ensure open auction system, better facilities, PC representation in APMC mgt., Denotification of CAs/Arthiyas like in MP** (APMC markets serve as competitors to contract farming and ‘direct’ purchase practiced by retail chains, and can help improve the terms offered by retail chains to growers as contract/direct prices are benchmarked to APMC prices
• **Learn from the Thai Experience**
Making Agri Markets Work

• How Much regulation? Bihar v/s Gujarat v/s MP in APMC Act!

• Some recent examples of bad policy making: Maharashtra MSP mandatory for private trade; Gujarat farmers and traders demanding BBY (DPP) instead of MSP and procurement by NAFED; Punjab disallowing direct payments to farmers by FCI/CCI

• **Role of the state:**

  - Promotion of producers’ organizations for marketing of farm produce as PPP
  - Provide more of marketing extension to growers
  - Market orientation in terms of improved marketing practices at the farmer level.
Way forward in Agri markets

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- Encourage private wholesale markets (50 operational in Maharastra)
- More direct linkages with farmers: CF or direct purchase can help save natural resources and help farmers produce more with less, like MIS mandatory in Gujarat for McCain CFs;
- Brings in new and more sustainable technologies/systems like organic, fair trade (groundnut from Gujarat already in fair trade channel thru PCs);
- Group marketing and group contracts (Gujarat already practices but model Act does not recognise it)
- Multi-stakeholder initiatives like BCI or food chain partnerships
- Good Agricultural Marketing Practices needed (three types of mango from Maharashtra in Star Bazaar-conventional, Globalgap and organic certified).
- Involve PACS in procurement under MSP like MP, Bihar and UP
- Enact state cold storage Act for monitoring of rentals and quality of storage
- Integration into and control by farmers in value chains/GPNs needed through FPOs
- State level FPO policy needed
Thanks