

ROLE OF TERMINAL MARKET IN FRESH FRUIT EXPORT

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Summary

Terminal markets have been envisaged to improve the availability, in terms of quality as well as quantity, of fresh fruits for domestic as well as export markets with benefits to all in the producer to consumer value chain. India has embarked upon the establishment of Terminal Markets with modern infrastructure and operational mechanisms. The concept has further been elucidated with the example of the proposed Mumbai Terminal Market. The marketing reforms being undertaken in Japan have been mentioned to indicate that the process of adjustments in marketing systems needs to be followed on a continued basis instead of only a one time intervention

1. Introduction

In India, food products constitute almost 53% of private consumption expenditure and their demand is growing at almost 8%. The consumer basket is continuously undergoing change in favour of perishables (such as fruits, vegetables, animal protein, milk etc.) and healthy, hygienic products. The present marketing system, characterized by a long, fragmented supply chain, high wastages, low share of producers in price, is inadequately equipped to meet the growing needs of consumers for quality and safe/ hygienic food. With a view to harness the potential of the emerging consumer demand (domestic and international), there is a need for a professionally managed competitive alternate marketing structure that provides multiple choices to farmers for sale of produce along with a comprehensive solution to meet key needs of the stakeholders. A study by EXIM Bank (Anon, 2005) suggested that region specific export facilitation centres could be developed considering the concentration of production of various fruits and vegetables. While private participation should be enhanced for efficiency and profitability, Government intervention should be limited to effective regulation of these markets and policy initiatives to protect the interests of all players. Thus, the Modern Terminal Markets have been conceptualized with the objective of fulfilling the above goals. United States of America House Committee on Agriculture (Anon, 2006b) defined terminal Market as a central site, often in a metropolitan area, that serves as an assembly and trading place for agricultural commodities. Terminal markets are usually at or near major transportation hubs. Here produce is either finally disposed off to the consumers or processors or assembled for export.

Terminal Market (TM) would endeavor to integrate farm production with buyers by offering multiple choices to farmers for sale of produce such as electronic auctioning and facility for

direct sale to exporter, processor and retail chain network under a single roof (Anon, 2006a). In addition, the market would provide storage infrastructure thus offering the choice to trade at a future date to the participants. It is envisaged to offer a one-stop-solution that provides Logistics support including transport services & cool chain support and facility for storage (including warehouse, cold storage, ripening chamber, storage shed), facility for cleaning, grading, sorting, packaging and palletisation of produce and extension support and advisory to farmers. Each of these services would be provided in lieu of a user charge. The TM would be built, owned and operated by a Corporate/ Private/Co-operative entity (hereinafter called as Private Enterprise) either by itself or through adoption of an outsourcing model. The enterprise could be a consortium of entrepreneurs from agri-business, cold chain, logistics, warehousing, agri-infrastructure and related background.

Implementation and successful operation of this initiative would necessitate State Government support. Thus, the creation of a conducive regulatory and legal framework for entry and operation of the project and provision of a level playing field to the private enterprise would be integral to realization of this vision. The Central Government will need to support the initiative by providing financial support to the project.

2. Terminal Market (TM) Operation

It is envisaged (Anon, 2006a) that a TM would operate on a Hub-and-Spoke Format wherein the Terminal Market (the hub) would be linked to a number of collection centres (the spokes). The spokes would be conveniently located at key production centres to allow easy farmer access and the catchment area of each spoke would be based on meeting the convenience needs of farmers, operational efficiency and effective capital utilization of the investment. The commodities to be covered by the markets include fruits, vegetables, flowers, aromatics, herbs, meat and poultry. Producers, farmers and their associations and other market functionaries from any part of the country may use the infrastructure and facilities of the TM directly or through the collection centers. The TM can source the commodities from the entire State where the project is located and may extend its operations to the whole country, depending on the commodities handled there.

The infrastructure and services that are to be provided to farmers, traders, consumers and other stakeholders, at the TM and the Collection Centres (CCs) are presented in Figure 1 below:

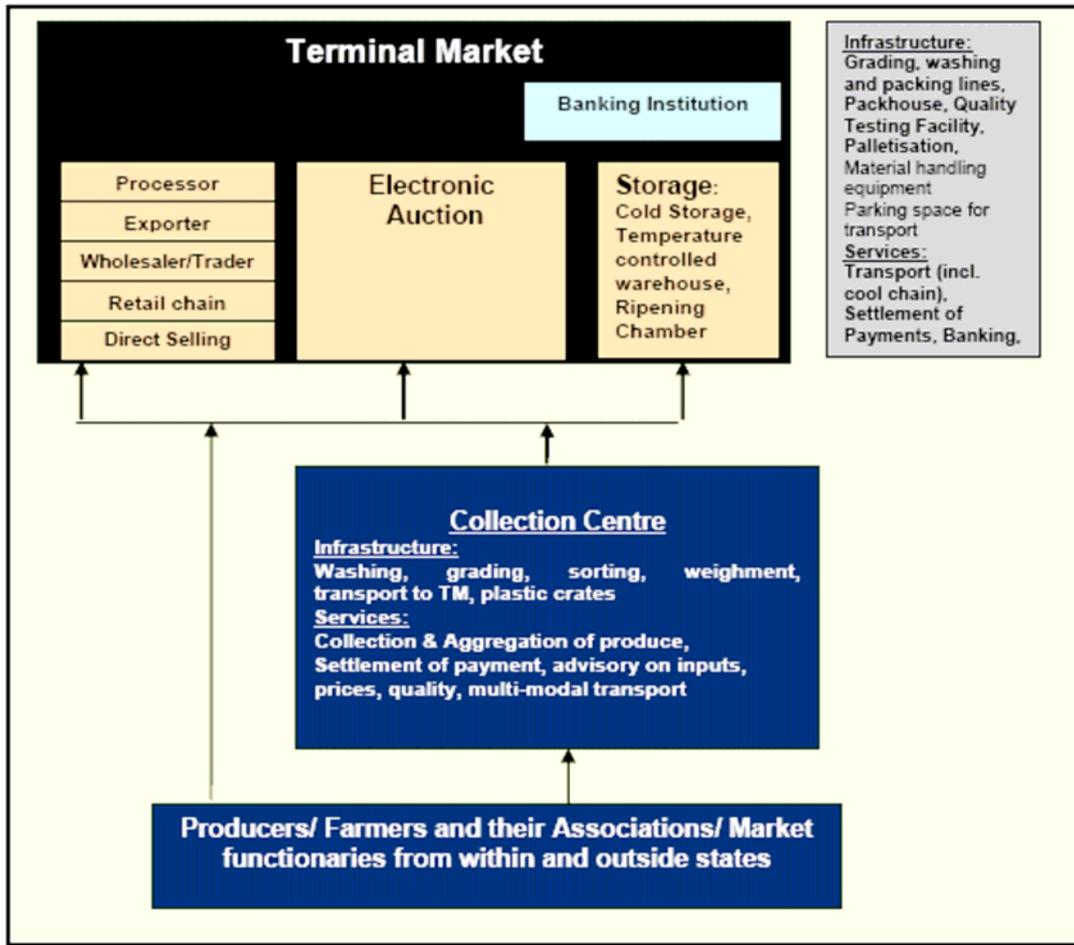


Figure 1 Structure of a typical Terminal Market

The infrastructure and services to be provided by the TM and CC should be in conformity with recognized national/ international standards and can also be outsourced.

3. Role and Responsibilities of the Concerned Agencies

For the successful operation of the Terminal Market Complex Projects, the roles and responsibilities of the concerned agencies in implementation and operation of the project may be as follows:

3.1 Role of the Private Enterprise

The Private Enterprise would have the following rights and obligations:

- The enterprise would have to necessarily provide the infrastructure facilities and services as stated in Figure 1 at the TM and CC complex in the 'Hub-and-Spoke' Format;
- The Terminal Market (the hub) would be linked to a number of collection centers (the spokes). The Collection Centers would be located at key production centers to establish backward linkage with growers and to allow easy access to farmers for the marketing of their produce;

- The enterprise would have the option to provide additional facilities to render complimentary services such as input supply, processing, agro machinery and equipments, durables etc.;
- The enterprise would have the option to deal in non perishable commodities at the terminal market complex in order to attain volumes and economic viability of the project;
- The enterprise would have the freedom to buy the commodities from the farmer directly or through the TM/ CC;
- The enterprise would facilitate the farmers in making direct supply to processing units, retail chain and exports, at their choice;
- The enterprise would provide advisory services to farmers on inputs, prices, quality, multi-modal transport and exports;
- Farmers would be free to sell their produce either through the CC/ TM or the TM directly or to any other marketing channel not related with the project;
- The enterprise would promote Farmers' Associations and progressively involve them in the operation and management of the CCs;
- The enterprise would be responsible for the acquisition of land for setting up of the TM and the CCs and obtain necessary licenses, clearances and approvals for the establishment and operation of the market;
- The enterprise would be free to collect user charges (determined by commercial considerations) from market participants and producers, for the infrastructure and services provided by it. The charges for providing the basic services of aggregation at collection centers and auction at the Terminal Market should, however, not exceed a reasonable limit, say 2% of the value of the produce.
- The Private Enterprise would be free to collect taxes, duties, fees (including market fees) etc. from the market users.

3.2 Role of the State Government

The State Government would play a pro-active role and constitute a committee for terminal market complexes. The responsibility of the Committee would include

- Approval of the number and location of the terminal market complexes;
- Approval of the bidding process and implementation modalities of the project;
- Technical appraisal and approval of the detailed project report (DPR) of the complex;
- Regulatory Clearances, issue of licenses and granting of permission for facilitating establishment and operation of market complexes and the collection centres;
- Identification of land and, if necessary, provision of Government land for TM and CC;
- Convergence with other development programmes for infrastructure support to TM/ CC such as road connectivity, power and water supply;
- The State Government could participate in the equity of the project either through direct funding, land/ infrastructure support and/ or transfer of existing market assets.

- Selection of the private enterprise through an open, transparent competitive bidding process.
- Make recommendations to Central agencies for the release of Central equity and for its redemption and allocation to farmers' associations doing business with the TM complex.
- Set up institutional mechanism for resolution of disputes, if any, arising out of the implementation of the terminal market complex.

3.3 Role of Central Government

The Central Government will support the project through participation in its equity capital through Venture Capital fund. The terms for participation would be as follows:

- Central Government (SFAC) would provide equity assistance
- SFAC/ State participating in equity capital will retain option to allocate on redemption, its equity in favour of farmers organizations feeding business to the market complex.
- Assist the State governments in fixation of throughput per day and yearly handling capacity of the terminal market complex.

4. Example: Terminal Market for Fruits and Vegetables for Mumbai

It is designed to cater to around 30 % fruits and vegetable needs of Mumbai city (Anon, 2006c). The Terminal Market Project proposes backward integration (all the way to farmers and production centers) and forward integration (all the way to distribution centers and retail outlets). Key features include modern post harvest management and marketing infrastructure including cold chain, processing unit, electronic auction center and marketing facility. The total cost of the project is estimated at Rs. 250 crores (US \$ 55 million). Of this the State's contribution will be limited to providing of required land with remaining funds expected to come from Private entrepreneurs and farmer's cooperatives. The following are the essential components of the Terminal Market

4.1 Auction Facility

The primary source of supply of produce to the Terminal Market will be Collection Centers owned and professionally managed by Farmers Associations. Graded produce is auctioned at a single time with all buyers competing for lots of each grade. The terminal Market would be professionally managed, self-financed with income generated by service charges levied on growers/ buyers and rentals/ fees for use of facilities. Volume and price information will be rapidly and widely disseminated backward to Farmers' Associations as well as forwarded to Retailers and Consumers. Key facilities include: Auction Hall, Traders Shops, Distribution Halls, Cash & Carry Counter, Administration and Ancillary buildings.

4.2 Cold Storage

A Commercial Cold Storage with 10,000 MT storage capacity for a variety of fruits and vegetables (i.e. a multi chamber/ multi product storage facility), set up within the Terminal Market premises for use by the traders, the management/ the operating company and other

interested parties. Attached to the Cold Storage would be a facility to handle, grade and pack fruits and vegetables.

4.3 Processing unit

Terminal Market would also have a Processing unit to handle 50,000 MT of fruits and vegetables annually. Available rejects and low grade fruits and vegetables not considered suitable for fresh sale, and quality material that is available at competitive rates during peak harvest season is processed. The processing unit would be flexible enough to process a variety of produce. Transport logistic support system in terms of refrigerated trucks /insulated trucks or other means of transportation would be made available for efficient and speedy delivery in and out of the market as required.

4.4 Volumes

The Terminal Terminal Market would handle around 3,50,000 – 7,00,000 MT annually of pre-sorted, graded, quality horticultural produce from a number of Collection Centers spread across key production areas.

4.5 Backward and Forward Linkages

The terminal Market is planned with both backward linkages, for supply of produce and forward linkages for marketing. The key backward linkage includes Collection Centers and the key forward linkage includes the Wholesalers Distribution Centers, Cash and Carry Counters and Retail Store network. The backward and forward linkages would be owned and operated jointly by private entrepreneurs, farmers associations, farmer co-operatives or private individuals.

Infrastructure at collection centers would be set up by farmers/ producers from respective areas, with or without financial involvement from traders, management of Terminal Market and the Government. Similarly Cash and Carry Counter, Distribution Center and Retail stores will be set up by private entrepreneurs and or farmers associations or public sector. All sorted, graded and packed, quality horticulture produce received at the Terminal Market, would be available for sale mainly in the domestic market with a small portion of high quality produce sourced and exported by trader-exporters.

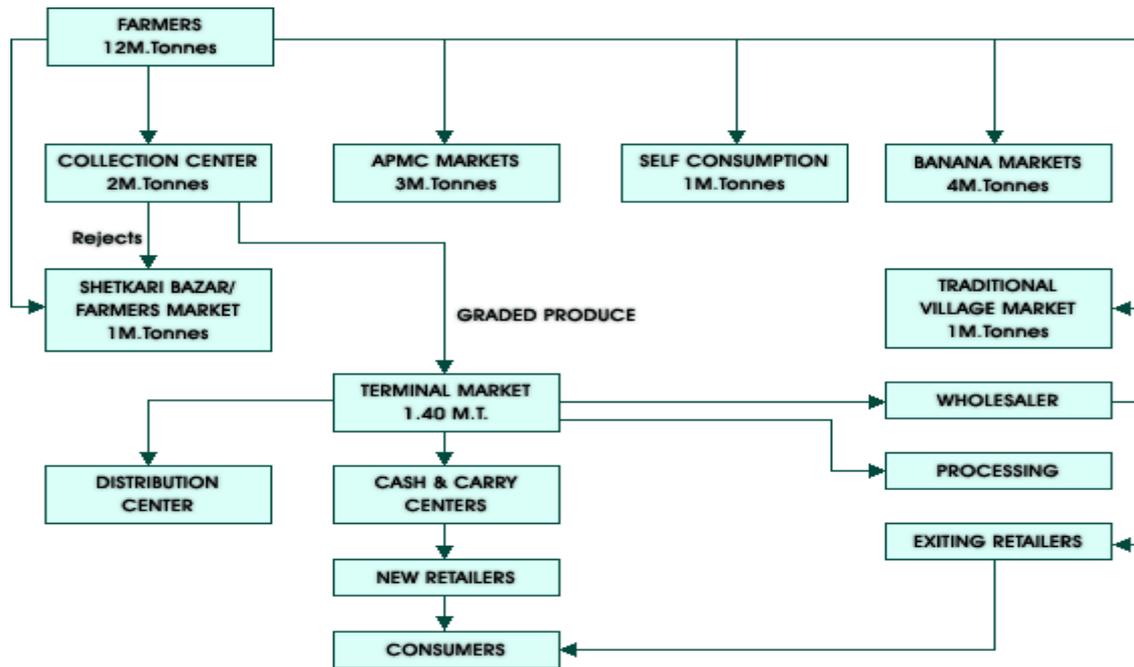
4.6 Government support

Besides providing required land for the Terminal Market, as its equity contribution, the Government may also provide additional equity and act as a facilitator. The Government will bring about necessary changes in existing Agricultural Produce Marketing rules and regulations, exemption of levy or cess and exempt activities of the proposed Terminal Market from local laws and regulations.

4.7 Benefits

With no service charges, fewer intermediates, less handling, better and modern infrastructure for handling and processing of perishable horticultural produce, the Terminal Market will ensure better produce quality, better storability and efficient marketing thus benefiting farmers and consumers. The farmers can expect better price realization for their produce through value addition, significant reductions in spoilage, reduced quality losses and processing activities. In addition the Terminal Market will act as a competition and extract better service and efficiency from traditional markets thus contributing to overall improvement in marketing activities in the State.

Figure 2 Flow Diagram of Mumbai Terminal Market



5. Example: Japan's Wholesale Sector being modernized

The Japanese wholesale market is being modernized to make way for new technologies, as well as new realities, such as increased supply from overseas sources. Wholesale products are gathered in terminal markets, which totaled 86 central markets and 1,351 local markets in 2002. Wholesalers operating in these markets sell to retailers and intermediate wholesalers, the latter by auction. The Wholesale Market Law was amended in June 2004 to revitalize the wholesale sector through measures such as allowing third-party and direct sales. In third-party sales, wholesalers sell goods directly to retailers without the involvement of intermediate wholesalers. Under the direct procurement system, intermediate wholesalers can purchase perishable goods directly from producers without the involvement of wholesalers, thereby saving time while preserving product quality.

It is also possible to carry out sales through auction, bidding or separately between the seller and individual buyers. These types of transactions are only permitted, however, up to a fixed limit, namely, a percentage of the quantity expected to be handled by a market. The local government overseeing the market makes such determinations, generally on a product-by-product basis.

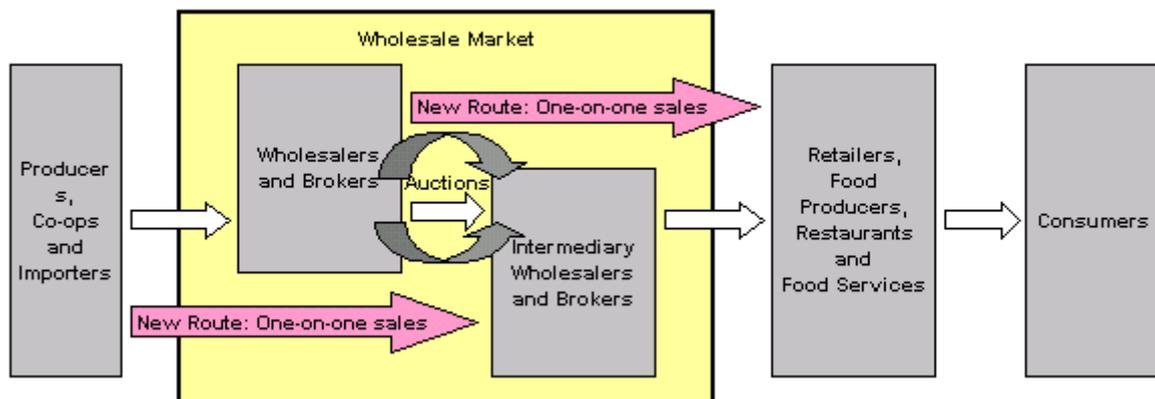
Under the reforms, conventional market functions have generally been preserved to ensure the stability of supplies and prices. But the revised law has paved the way for electronic wholesaling of certain kinds of items, such as relatively standardized products that do not necessarily need to be brought to market. This is in contrast to the past, when the law required the physical presence of goods to be sold.

Another change is the deregulation of wholesale commissions, which will take place in April 2009. For example, producers traditionally pay wholesalers a fixed percentage of sales to intermediate wholesalers. Nationally unified commissions vary by category, such as 8.5% for vegetables, 7.0% for fruit, 5.5% for fisheries products, 9.5% for flowering plants and 3.5% for meat excluding chicken. But this system will be lifted to allow commission rates to be set in accordance with the specific functions and services of wholesalers in particular fields. Intermediate wholesalers will continue to be able to sell purchased products at discretionary prices.

The dividing line between wholesalers and intermediate wholesalers will effectively vanish once third-party sales and direct procurement become common practice and commissions are liberalized. This will inevitably intensify competition. Companies that are not on solid footing may be driven out of business and the industry will further get reorganized.

5.1 Deregulation of the Wholesale Sector

As indicated above, the reforms will eventually lead to the deregulation of the wholesale sector and the producers and consumers will have minimum connecting links. Figure 3 below shows the new pathways as against the conventional marketing channels.



5.2 Linking producers and consumers

Distribution in Japan involves more layers than in Europe or the United States. This is particularly noticeable in the fisheries sector, where wholesale markets play a major role in the distribution process. The amendment to the Wholesale Market Law will stimulate competition and reform among primary and intermediate wholesalers without inhibiting the

crucial function of the free-market auction. It will also streamline the circulation of domestic and imported fresh foods. Moreover, it will enable consumers and producers to make direct contact, which should facilitate the development of products that are closely aligned with consumer tastes and demands.

6. Recommendations

1. National Governments in the Asian and Pacific region must undertake the marketing reforms in tune with the globally compatible technologies and policies so as to minimize the losses in the value chain and to benefit the stakeholders.
2. The countries in the Asian and Pacific region may enter into collaborations to bring about complementarity in terms of food quality and safety.
3. The countries may also collaborate in terms of infrastructure and human resource development for sustainable agricultural progress in the region.
4. APCAEM may offer to play the pro-active role in this process of regional agricultural reforms.

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