



CARDAMOM MARKETING A STRUCTURAL REORGANIZATION IN AUCTION SYSTEM FOR GREATER TRANSPARENCY - A VIEW

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ABSTRACT:

Cardamom is known as the 'Queen of Spices'. It's cultivated in three important places namely Kerala, Karnataka and Tamil Nadu. In Indian spices cardamom plays a vital role in economic development. Spices Board has introduced e-Auction for the first time for cardamom in Bodinayakanur, Theni District in Tamil Nadu. The Second e-Auction center was established in Vendamettu, Idukki District in Kerala and Sakalespur in Karnataka. In this paper discuss about the marketing channels of cardamom, functions of cardamom auction, price variation and emergence of e-Auction.

Keywords: e-Auction, auctioneers, bidders, cardamom

INTRODUCTION:

Spices play a important role in our national economy and also economy of several spices producing, exporting and importing countries. India is one of the major spices producing and exporting countries in the world. It also substantial portion of its production for domestic purpose. Cardamom is commercially oriented plantation flavor crop spice. It is of two types namely Cardamom small, which is botanically called as "Elecaria Cardamom Maton" and large cardamom which is known as "Amomum Subulatum Roxburg". The small Cardamom is grown in India only in the ever green forests of the southern state of Kerala, Karnataka and Tamil Nadu. The natural advantages in these states and traditional expertisation of people have been the main reason, why this commercial crop is concentrated in these states. Cardamom is identified in various names in different Indian languages. In Hindi and Bengali it is called as 'chhotielachi', in Gujarati it is called 'elaychi', in Kannada as 'yelakki', in Kashmiri as 'aalbuduaal', in Malayalam as 'elathari', in Marathi as 'velchil', in Oriya as 'alaichi'. in Punjabi as 'elaychi', in Sanskrit as 'ela', in Tamil as 'yelakkai or elakkai', in Telugu as 'yealak-kayulu or Elankkayi' and in Urdu as 'illaychi'.

All the forms of cardamom are used as flavoring agents in both food and drink, as cooking spices and as a medicine. Cardamom has a physically powerful, inimitable taste, with a powerfully sweet smelling, resinous fragrance. Green cardamom is one of the expensive spices for its low volume but high cost character. Green cardamom is largely used in South Asia to take care of infections in teeth and gums, to put a stop to and take care of throat troubles, congestion of the lungs and pulmonary tuberculosis, inflammation of eyelids and also digestive disorders. Amomum is used as a spice and as a component in conventional

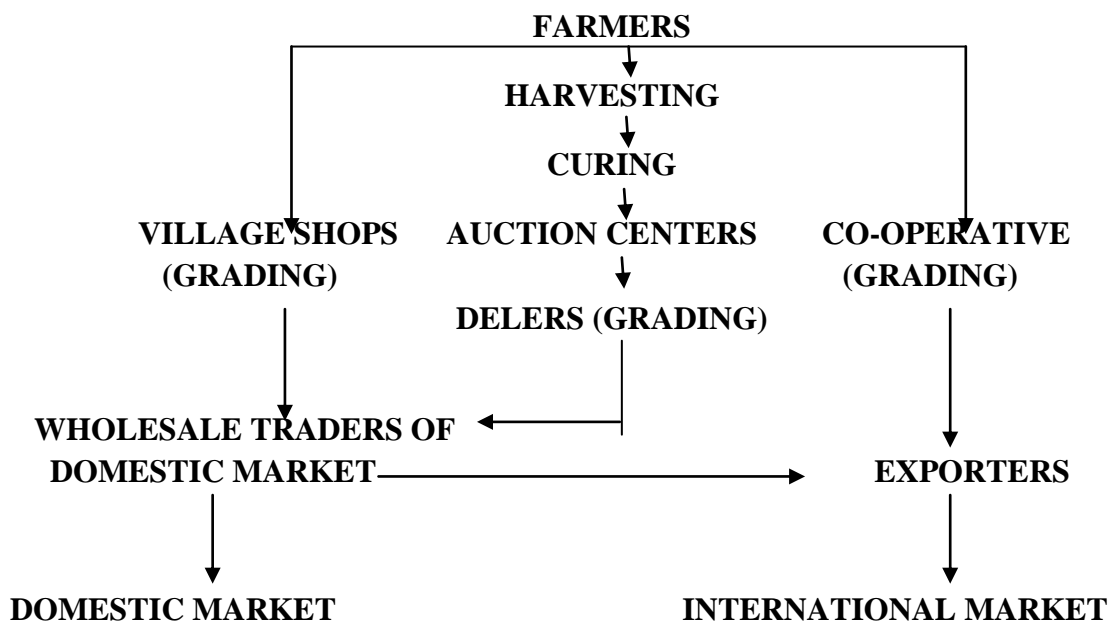
Chinese medicine in China, Ayurveda in India, Pakistan, Japan, Korea and in Vietnam. In Ayurvedic medicine cardamom is used to take care of disorders of the stomach and urinary system, asthma, bronchitis and heart tribulations.

MARKETING OF CARDAMOM:

The Spices Board has been playing a leading role in streamlining the system of marketing of Cardamom mainly through auction system. Auctions are monitored continuously by the Spices Board Officers stationed in auction centers to ensure compliance of rules and regulations with the objective of safeguarding growers' interests as well as ensuring availability of exportable grades to the exporters.

Regular interaction with growers, auctioneers, traders and exporters ensure smooth functioning of the marketing system. Other issues related to the sector are also resolved from time to time by close interaction with the concerned authorities. In order to streamline the system of auction and to ensure ready payment, the Spices Trading Corporation Ltd., have started conducting auctions in Bodinayakanur from 1989-1990 onwards. This has helped in making available good quality cardamom to exporters to ensure ready payment to growers.

Common Marketing Channel of Cardamom



The marketing system for cardamom has been characterized by large number of seller (both large and small) a small number of exporters – many of them are dealers and few of them, in addition to being dealers, are growers as well – a large number of dealers and a few auctioneers. Auctioneers are one of the major actors in the marketing of cardamom who bring together the buyers and sellers of the product. During 1980s when the auctions were conducted in the conventional outcry manner and held in the premises of the auctioneer, there were 14 auctioneers in India spread over the cardamom growing States, viz. 5 in Kerala, 2 in



Tamil Nadu and 7 in Karnataka. Vandanmettu in Kerala, Pattiveeranpatty in Tamil Nadu and Sakalespur in Karnataka were the major auction centers in India.

The cardamom exporters are another important link in the marketing system of cardamom. According to the Cardamom (Licensing and Marketing) Rules of 1977, the exporters shall not procure cardamom directly from a grower or from an auctioneer unless he is in possession of a license as dealer. The number of exporters varies from year to year as the license is issued for a year after which it should be renewed to carry on business.

ROLE OF CARDAMOM AUCTIONEERS:

The auctioneer brings together the producers holding registration certificate and the dealers (also referred to as 'bidders') holding license issued by the Spices Board to deal in cardamom. As per the cardamom rules, the dealers shall not purchase cardamom from an estate owner who has not registered his estate or from an auctioneer who has not been licensed by the Spices Board (formerly Cardamom Board). Further, no dealer shall solicit or accept any amount in cash or in kind from cardamom producers or auctioneers whether by way of discount or commission. A dealer participating in auction shall pay full value for the entire quantity of cardamom producers or auctioneers whether by way of discount or commission. A dealer participating in auction shall pay full value for the entire quantity of cardamom in the lot purchased by him.

Cardamom market was characterized by high level of concentration at all levels. During 1980s, according to an earlier study, though there were 5 auctioneers in Kerala, one of them (CMC Vandamettu) accounted for more than 70 percent of the product sold through auctions. Apparently, the availability of large supply attracted large number of bidders and the consequent increased degree of competition pushes the price up. The realization of higher price in the particular centre induces more sellers to register their product with that Center.

FUNCTIONING OF THE CARDAMOM AUCTIONS:

Functioning of the market has been governed by the institutional innovations in the form of marketing rules brought about by the erstwhile Cardamom Board. The growers register their product with the auction centre, sufficiently before the auction, and may get an advance from the auctioneer which will be deducted from the sale proceeds. The auctioneer maintains a warehouse where the produce is kept till the time of auction. If the product is withdrawn from the auction, (the seller can withdraw the product if the price quoted is unsatisfactory) the seller is liable to pay the warehouse charges at the rate of 15 paise per Kg per day.

At the time of registering the produce for auction, the auctioneer mixes the produce thoroughly and takes a sample from each lot. The Cardamom (Licensing and Marketing) rules (1977) describes the procedure of taking the sample as follows:

“The auctioneer shall draw 500 grammes out of each lot of cardamom offered for sale as sample. Expose 350 grammes out of it for bidders to examine at the place of auction four



hours before the commencement of the auction and circulate a list indicating quantity of each lot, weight in grammes per litre⁷ and reserve price⁸. The 100 grammes out of the sample shall be given to the highest bidder and the balance of 50 grammes shall be kept by the auctioneer in a sealed polythene bag for a period of seven days for verification in case of any dispute. On expiry of the said period or on settlement of the dispute, as the case may be, the owner of the cardamom shall be entitled to receive back the cardamom from the auctioneer.”

But the actual procedure of taking sample and auctioning was stated to be different from what is stipulated by the rules. The auctioneers in Kerala take a sample of 750 grammes of which 500 grammes is paid at the rate at which the rest of the quantity is sold. Out of the 250 grammes, 100 grammes is given to the highest bidder and the rest 150 grammes is appropriated by the auctioneer in addition to the one per cent commission. Further, the auction report showed that 8 percent of the sales tax is taken from the seller as handling charges. Thus from each lot, whatever may be its size, 250 grammes is lost by the seller in addition to 8 percent of the sales tax as handling charges. The practice of deducting fixed quality from each lot as sample irrespective of the lot size, make the effective price (the price that the seller get per kg after all deductions) much less than the actual price (the price quoted in auction). This discrepancy between actual price and effective price reduces as the lot size increases. Thus the registered sellers with a lot size below a certain minimum quantity may not find it profitable to sell their produce through the auction centres because of the institutionally set rules.

Under the conventional auctions, it used to take place in the premises of the auctioneers and procedure used to be as follows. The dealers (bidders) will be seated around a round table and a small tray will be kept in front of each of them, and out of the 750 grammes of cardamom taken as sample from each lot, 500 grammes will be spread in all the trays for examining the lot. Then the intending buyers bid upwards for individual lots and the highest bidder will be given lot. The process of bidding starts with the announcement of the lot number and lot size. It is a quick process and each lot takes hardly a minute to get auctioned. The seller has the freedom to withdraw her product from auction before the bidding is over. Once the price is determined through bidding, the seller loses his right over the produce.

Once the bidding is completed, a slip showing the weight of the lot and the agreed price is given to the seller by the auctioneer, not the value of product sold. The slip also shows all the deductions and charges to be paid by the seller. The payment is made later, usually after 20 to 45 days as the case may be. There is, thus, an in-built credit facility extended by the growers which in turn is guaranteed by the auctioneers. The possible explanation for this delay may be the huge capital requirement on the part of the dealers because of the high unit value of the product. Therefore, the growers will have to wait for the product to be exported or to be dispatched to the consuming centres. Some of the growers were of the view that the delay in payment had been perpetuated both by the dealers and the auctioneers. The auctioneer could refrain from paying to the sellers for the single reason that a few of the dealers have not made the payment even though all the others have paid. The



delay in payment, therefore, keeps away those growers without the holding power (presumably the small holders) from the auction system a typical case of illusive exclusion.

A perusal of the auction procedure described above reveals that there were many inherent weaknesses in the system. There were a large number of growers who were not having the registration certificate and hence confronted problems like institutionally set practice of granting fixed sample from each lot regardless of the quantity offered for sale. In many cases the growers are forced to sell their produce at the auction centres, even at an unsatisfactory price, because of the inability to repay the advance already received by them, a typical case of illusive inclusion. If they withdraw the product they will have to pay the go down charges at the rate already mentioned.

It is pertinent to note that, the system of taking sample which prevailed in the auction centres in 1940s was on the basis of quantity sold. For example, in Bodinayakanur, a sample of 2 lbs was taken from lots up to 10 thulams (1 thulam = 10 Kg) and 3 lbs from the lots above 10 thulams and the payment was made at the time of sale. Therefore, the effective price realised was proportional to the price quoted the same for all sellers. In other auction centres rather than taking any sample, a services fee of 8 annas per thulam was charged. Needless to say, since the service charge was fixed per unit quantity, irrespective of the size of the lot, the effective price received by the sellers was proportional to the auction price.

EXPLOITATION OF GROWERS THROUGH PRICE VARIATION IN CONVENTIONAL AUCTION SYSTEM:

The market power of different actors involved; from the sellers side there is the market power of the growers of cardamom, both the large and small, who could withdraw the product from auction if the price quoted in the auction is found to be unsatisfactory. The auctioneers, similar to the sellers, are also interested in obtaining higher prices for the following reasons. First and foremost, since the auctioneers were also the growers of cardamom, higher prices would lead to increase in their sale proceeds. Secondly, higher the price realised in auction, higher the commission accruing to them and thirdly, higher price quotation in a certain auction would attract more sellers to that centre thereby increasing the total revenue accruing to the auctioneers by way of taking sample.

Coming to the market forces operating on the buyers' side it needs to be noted that exporters, as a category, consist of both large scale exporters and small scale exporters and the leading exporters are found to be the major buyers in the auction centres. Since the profit of the dealers and exporters depends on the margin between the export price and auction price, the dealers and exporters would try to depress the auction price with a view to increase their margin. This is because the export price has been exogenously determined and therefore the exporters may not be able to manipulate the export price. Hence, in the bidding process in the auction centres, the exporters quote the price in accordance with their price agreements with the importers to other countries.



Under these conditions one could postulate the process of price formation in auction centres in the following way: In the bidding process the bidders (the exporters and dealers) would endeavour to reduce the price, given the fact that they have already made commitment to their counterparts at a certain price, with a view to add to their margin. At the same time, the growers and the auctioneers would be interested in obtaining the maximum possible price. If the price quoted is unsatisfactory the sellers would withdraw the product from auction. The relevant question is, which category of sellers will be able to withdraw the product? Obviously, only those with adequate holding power and good storage facility could withdraw the product. On the other hand, those sellers without adequate holding power and who have already at the price quoted in the auction. Thus, there is the possibility of price discrimination across different lots sold through auctions wherein the smaller lots (smaller growers) realising a lower as compared to the larger lots.

In this context, the pertinent question is to what extent the bidders could discriminate across different lots? This depends on the supply and demand conditions in the market. Given the export demand, if the domestic production is higher than what the export demand warrants (excess supply) the price quoted in the auction centres will be low and the price discrimination tends to be higher. On the contrary, in a situation of low production (excess demand) the price quoted in the auction centres would be relatively high and the price discrimination across different lots may be low.

EMERGENCE OF E-AUCTION:

In a context wherein the traditional auction system has not been successful in ensuring remunerative prices for the small holders the Spices Board introduced e-auction in place of convention auctions with a view to make the marketing system more efficient and ensure remunerative price to all growers by harnessing information technology.

Under the e-auction, major change is in the auctioning system and that there is hardly any change in the rules governing auctions or the way in which samples are taken or in the time of payment. Unlike in the earlier system, auctions do not take place in the premises auctioneer, instead in a state of the art auction centre established by the Spices Board with over 60 computer terminals networked to a server and a few large display boards that display the details regarding the lots being auctioned (like reserve price, lot number, quantity, number of bags current highest bid). In the new system, licensed dealers are provided with a user id and password. The dealers have to login to the system to participate in an auction. In each week a particular day is assigned for each auctioneer for auctioning the product registered with them. The auction starts with the reserve price and a bid by dealer is made with key depressions (each depression indicates an addition of fixed amount). As in the previous system the grower has the freedom to withdraw the product if the price is not satisfactory. Identity of bidder is protected during the auction process. Highest bidder's name is displayed only on the Auction Masters' terminal.

It should be noted that by the time e-auction was introduced in Kerala, significant changes had taken place in terms of total production, productivity and export intensity. There



has been a significant increase in the production of cardamom from about 4400 MT in mid 1980s to over 10,000 MT in 2009-10. Similarly, productivity increased from about 55 kg per hectare in 1980-81 to 269 kg per hectare in 2009-10. More importantly, share of export in production (export intensity) steadily declined from over 60 per cent in the mid 1980s to less than 10 per cent since 1990s

CONCLUSION:

The aforesaid discussion clearly reveals that a structural change has been undertaken in the process of modernization of cardamom trade more particularly in the auction process. The study adherence of rules and regulations and close monitoring of Spices Board coupled with wider awareness of stake holders in the marketing process will bring glory to the Indian Cardamom trade.

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