Ind. Jn. of Agri. Econ.
Vol. 65, No. 1, Jan.-March 2010

SUMMARIES OF GROUP DISCUSSION

Subject I

Futures Market in Indian Agriculture and Its Impact on Production and Prices

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Futures trading has potential role in minimising the price risk faced by the farmers. It provides efficient and transparent price mechanism that may help the farmers to take decisions on production, processing and storage activities. Besides risk transfer, futures market provides the important economic function of price discovery. In India, futures trading is at nascent stage and a well developed futures market will play significant role in promoting technology and investment in agriculture.

Five full length papers and thirteen abstracts published in this subject of Conference volume were taken up for discussion in this session. The discussion focused on the five broader issues related to futures trading in Indian agriculture. These issues include impact of futures trading on spot price volatility, production and storage, farmers' participation in future trading, impact on farmers' income and regulatory framework. The major points which emerged on each of these issues are:

1. *Impact of Futures Trading on Spot Price Volatility*

The available empirical evidences show that the futures and spot prices are in the long run equilibrium relationship. Any disturbances in that due to external shocks are adjusted by spot prices. However, in the short run dynamics, changes in lagged futures prices positively affect the changes in spot prices. It indicated unidirectional causal relation from futures to spot prices. However, in price discovery process among others, futures contract derives its value from spot market. In that case, causal relation may also exist from spot to futures prices. The group felt that more in-depth analysis needs to be carried out to study linkage between futures and spot prices and to ascertain the impact of introduction of futures on spot price volatility. Further, factors influencing the price formation in futures trading should be analysed taking global supply and demand situation also into consideration.

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At present, commodity exchanges issue contracts which are of short term (60 days) in nature and in most of the cases they do not cover a complete crop cycle. The group felt that the duration of contract should be long enough to facilitate the farmers to hedge against price risk effectively.

2. *Impact of Futures Trading on Agricultural Production and Storage*

Futures market provides price signals to farmers to take decisions on what to produce and when to sell? This may have implications for changes in cropping pattern, cropping intensity and crop diversification. The group opined that hardly any empirical studies are available on assessing the impact of futures trading on agricultural production in the Indian context. In this direction, supply response models incorporating the futures prices may be attempted. An assessment of available storage facilities with commodity exchanges should be made wherever physical delivery of commodities is taking place. Further, accredited storage facilities which can provide quality certification for produce to farmers should be developed and extended across major commodity producing centres.

3. *Issue of Participation of Farmers in Futures Trading*

Since futures contracts are standardised in terms of quantity, quality, delivery, variety and so on, farmers who are able to meet minimum contract size could participate in it. For instance, if contract size for a commodity is one tonne and a farmer producing only 50 quintals of that commodity would not be able to participate in trading. Thus, in the present form only large farmers who meet the minimum contract size could participate through registered brokers or traders.

In this context, aggregator who can pool produce from the marginal and small farmers and trade through exchanges can assume greater role in protecting the interests of these farmers. The group deliberated on the importance of aggregator in great detail by reviewing the existing models in marketing of fruits and vegetables in Himachal Pradesh and Alphonso mango in Konkan region of Maharashtra. A possibility of emulating such models in futures trading can be explored. Further, the group also felt that all the existing spot marketing models involving aggregator should be documented.

India's futures market is thinly traded and is further characterised by large number of sellers and small number of buyers. This may lead to cartelisation of traders that would result in exploitation of farmers. Thus, the group opined that detailed study of futures market structure and conduct should be undertaken.

Availability and accessibility of information related to futures and spot prices to farmers is important to make decisions on production and marketing of farm produce. Market intelligence surveys should be periodically conducted and shared with the farmers by National and regional commodity exchanges.

4. *Impact on Farmers' Income*

By taking careful positions in the futures market, farmers can not only hedge against price risk but can also do profit booking. Since, empirical studies are not available in the Indian context, the group felt that micro level case studies need to be undertaken to assess the impact of futures trading on farmers' income.

5. *Regulatory Framework*

Government often intervenes in the efficient functioning of futures markets for various reasons. This creates a kind of uncertainty in the minds of traders. Forward Market Commission should be given more autonomous powers in the same line as Securities and Exchange Board of India (SEBI) to regulate and facilitate commodity futures trading in India.

On the whole, the group felt that there are several grey areas in which in-depth empirical studies need to be undertaken. For this purpose, a network of Universities/research institutions should be created to conduct multi-commodity research studies on various dimensions of agricultural commodity futures trading. Joint proposals may be prepared and submitted through Indian Society of Agricultural Economics (ISAE) to Ministry of Commerce and Ministry of Agriculture. Efforts may also be made to include futures trading as part of Agricultural Economics curriculum.