

WAREHOUSE: MEANING, DEFINITION AND OBJECTIVES

A convenient place is selected to store all this in front of us, a place we call a warehouse. The Warehouse is a place for everything and everything in its place is a basic principle of warehousing. The All India Rural Credit Survey appointed by the Reserve Bank of India in 1954 set the tone for setting licensed warehouses in India. A warehouse is governed by various laws regarding operational and local compliances of warehouses, laws defining rights and obligations of warehousemen, laws concerning quality, safety, and security of goods stored, laws concerning warehouse receipts, etc.



LEARNING OUTCOMES

After studying this lesson the learner:

- discusses basic concepts of warehousing;
- explains historical perspective of warehousing in India;
- identifies growth and development of warehousing;
- compares various laws associated with warehousing set up.

13.1 WAREHOUSE: A NEW ENTITY

Warehouse is a structure or room for the storage of merchandise or commodities. Even if we break the name warehouse into “ware” and “house” it represents, a house for ware (tradable) goods that means a place where marketable or merchandise goods are stored.

Warehouse is a commercial building used by commercial entities like manufacturers, traders, importers, farmers to store raw materials, finished goods etc. till they are



reshipped for sale or consumption. Warehouse is therefore a planned space for efficient storage and handling of goods and materials.

13.1.1 What Is Warehousing

Warehousing is the act or process of storing large quantities of goods in a “storage place” specifically known as a warehouse so that they can be sold or used at a later date. Warehousing has been defined by *Robert Hughes* as a set of activities that are involved in receiving and storing of goods and preparing them for reshipment.



Fig. 13.1 (a) : Importance of Warehousing



Fig. 13.1(b): Type of Warehousing



Fig. 13.2 (c): Function of Warehousing

Traditionally warehousing deals with storage of goods until they are needed for production, consumption and distribution of various types of goods. It is therefore considered as an



important link between production and consumption of various goods. Generally, storage and warehousing are used interchangeably, as warehousing also involves storage but the term warehousing is different from storage. Anyone can undertake storage of his own goods but warehousing always involves storage of stocks owned by other persons, called “Depositors”. The person undertaking storage is called the “Warehouseman”. As per the definition of the State Warehousing Corporation Act, ‘Warehouseman means a person who has obtained a licence under this Act for the purpose of carrying on his business of warehousing’.

Warehousing not only provides adequate storage facilities but facilitates different functions like receipt of goods, their identification, assembly, delivery, transportation etc., so as to ensure availability of goods at all times to all concerned persons to meet their demand.

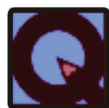
13.1.2 Why Warehousing

It is a well-planned economic activity -

- To ensure safe storage of different commodities.
- To maintain the quality of goods.
- To ensure uninterrupted supply of goods through all seasons
- To fulfill the obligation towards delivery of quality products at all times to all customers.

13.2 TRACE ORIGIN OF WAREHOUSING

Warehousing has played a key role in human history even from the early days of civilization to preserve food due to the unpredictability of food at all times availability. The earliest examples of such facilities included storage pits to store surplus food and seeds. This implies that even during ancient times, the human civilization of the Indus Valley had the vision to adopt warehousing practices for an uninterrupted supply of food materials during the “rainy days”. The granaries of Jordan valley date back as far as 9500 B.C. The available evidence indicates that the storage of food grains started in the Mesolithic period i.e. 8000 B.C. During the 19th century, a number of warehouses were set up on the banks of the Thames River in England to provide proper security and distribution of goods. This concept leads to the growth of warehousing as a milestone of economic development. Big SARAI's apart from accommodation also provided space for the storage of merchandise goods. Today providing food to one and all has become a global priority, thereby necessitating improvisation and growth of warehousing all over the world. ***Warehousing can be described as an important activity of survival, of the people, by the people, for the people at all times.***

**INTEXT QUESTIONS 13.1**

1. The act or process of storing large quantities of goods so that they can be sold or used at a later date is generally referred to as a,
 - a. Inventory management
 - b. Marketing
 - c. Warehousing
 - d. None of the above.
2. Warehousing is an economic activity because it helps to
 - a. Ensure safe storage of different commodities.
 - b. Maintain the quality of goods.
 - c. Ensure uninterrupted supply of goods through all seasons
 - d. All of the above
3. During Maurya period in India, warehouses were set up to tide over_____.
4. What is the difference between warehouse and warehousing?

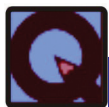
13.3 HERITAGE OF WAREHOUSING IN INDIA

The recommendations of the Famine Commissions led to many institutional developments with a focus on agriculture, rural credit, and warehousing. The establishment of licensed warehouses in India was first recommended by the Royal Commission on Agriculture in 1928. The importance of warehousing was felt seriously in India and the Reserve Bank, in the year 1944, urged all the State Governments by issuing directions to enact legislation for setting up warehouses in their concerned States. Gadgil to report on the ways in which rural indebtedness could be reduced in light of the recommendations of the Policy Committee on Agriculture, Forestry and Fisheries, 1945. In relation to the promotion of warehousing, the committee observed that the lack of proper facilities for the storage and warehousing of agricultural produce had been a serious obstacle in the way of increasing the scale of advances against agricultural produce by cooperative marketing societies or commercial banks. The Committee pointed out that the lack of proper storage and warehousing facilities is a factor responsible for the poor scale of credit advances. The Committee recommended that Provincial Governments should consider the desirability of advancing long-term loans at concessional rates of interest to cooperative societies to build godowns at important market centers. The Committee recommended setting up a Warehousing Development Board with funds contributed by the Central Government, the Reserve Bank of India, and



the provincial Governments. This Board was to be entrusted with the responsibility of promoting the construction of scientific warehouses in the country with the financial support of commercial banks and cooperative institutions.

- a. Establishment of a “National Board” to be called “the National Cooperative Development & Warehousing Board”. The board had to plan and finance the scheme and be in charge of the function of storage and warehousing. Board will also be responsible for the distribution of basic requirements of the producer and consumer.
- b. Establishment of an all-India Warehousing Corporation with the investment in the share capital by Central Government and various institutions, and establishment of State Warehousing Companies having the State Governments and the All-India Corporation as participants.
- c. Co-operative Societies at the ground level.



INTEXT QUESTIONS 13.2

1. Fill in the blanks-
 - a. The establishment of licensed warehouses in India was first recommended in 1928 by the _____.
 - b. In 1954, an All India Rural Credit Survey Committee under the chairmanship of Sh. Gorwala was appointed by _____
 - c. The Government of India appointed a Sub-Committee under the chairmanship of late Prof. D. R. Gadgil to _____

13.4 STRUCTURAL FORMAT OF WAREHOUSES IN INDIA

Based on the recommendation of the All India Rural Credit Survey Committee, the Agricultural Produce (Development and Warehousing) Corporations Act, 1956, was enacted by the Parliament. The markets of all India importance were to be served by the Central Warehousing Corporation (CWC); secondary markets of district-level importance were to be served by State Warehousing Corporations (SWC) and the warehousing needs at the village and community level were to be looked after by Cooperatives. The Act also provided that the share capital of CWC was to be subscribed by the National Co-operative (Development and Warehousing) Board and other institutions like the Banks, Co-operative Societies, Insurance Companies, etc. There was no provision in the Act enabling the Corporation to take up the storage of commodities other than



agricultural produce, inputs, and implements. The share capital of the SWCs was to be subscribed by the Central Warehousing Corporation and the concerned State Government in equal proportion. Thus, both the Central Warehousing Corporation and the State Governments were to be equal owners of the State Warehousing Corporations. In 1962, the Government of India decided to break up the Agricultural Produce (Development and Warehousing) Corporations Act, 1956 into two Acts, namely National Cooperative Development Corporation Act, 1962 and the Warehousing Corporations Act, 1962. The Act defines specific functions and areas of operation of Central and State Warehousing Corporations. The CWC in coordination with SWCs has been assigned to operate at the places of national importance and state importance.

13.4.1 Functions of Central Warehousing Corporation

The functions of Central Warehousing Corporation as defined under section 11 of the act and notifications issued there under are:-

- Acquire and build godowns and warehouses at suitable places in India as it thinks fit.
- Run warehouses for the storage of agricultural produce, seeds, manures, fertilisers, agricultural implements and notified commodities offered by individuals, co-operative societies and other institutions.
- Arrange facilities for the transport of agricultural produce, seeds, manures, fertilisers, agricultural implements and notified commodities to and from warehouses.
- Subscribe to the share capital of a State Warehousing Corporation.
- Act as agent of the Government for the purposes of purchase, sale, storage and distribution of agricultural produce, seeds, manures, fertilisers, agricultural implements and notified commodities.
- Carry out such other functions as may be prescribed.

Initially the private sector was shy of entering into the warehousing business which was considered to be a highly capital intensive industry. It was a monopoly business for the Central and State Warehousing Corporation on which the government and the banking sector had a greater trust. This situation continued till 1995, where after, economic liberalisation, and various policies and schemes of the Government supporting construction of warehouses helped in increasing penetration of private players. The massive growth in private warehousing capacity led the Government to develop regulatory processes for a credible warehousing ecosystem in the country.



INTEXT QUESTIONS 13.3

1. In 1962, Agricultural Produce (Development and Warehousing) Corporations Act, 1956 was bifurcated into two Acts, namely National Cooperative Development Corporation Act, 1962 and the _____.
2. Food Corporation of India was made under _____ act _____



Notes

13.5 AIMS, OBJECTIVES

Within a company's supply chain, warehousing logistics encompasses activities related to the **correct storage, protection and conservation** of goods in an installation for the period of time required. It also involves the **management, transportation, location, handling and conditioning** of this merchandise from receipt to dispatch.

The warehouse is the key element that enables you to regulate the flow of goods between supply and demand. It is here that the **management of the materials that a business moves, stores and handles** is concentrated to respond to commercial and production needs. Installations, thus, are the cornerstone of warehouse logistics.

The **objectives of warehousing** are also known as the **importance of warehousing** and the points are:-

1. Primary Objectives

- A. Deployment of marketable goods:** The primary objective or goal of warehousing is to meet the diverse needs of a company's marketing function. Any company is not so famous that it has an advance order to supply. Moreover, production and supply have a significant time difference. Warehouses are considered to be holding finished goods for future delivery.
- B. To meet consumption requirement:** In general, companies don't produce according to market needs. Once the product is manufactured it is stored in order to maintain the economies of production, the availability of labour, raw material, and fashion in the market.

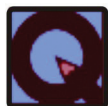
2. Secondary Objectives

- A. Speculative purpose:** Some traders used warehouses to dump goods and create artificial scarcity of the item on the market in order to demonstrate the importance of warehousing. Scarcity increases prices in the market, and traders profit by selling them at increased prices.



B. As production against anticipated supply: Sometimes, goods are kept in warehouses to cater to anticipated demand in the future. Through this factor, the prices of products can also be affected. And Salient Features of Warehousing (Development and Regulation) Act, 2007.

The main objectives of the Warehousing (Development and Regulation) Act of 2007 are to make provisions for the development and regulation of warehouses, negotiability of warehouse receipts, the establishment of a Warehousing Development and Regulatory Authority (WDRA) and related matters. Section 3 of the Act prescribes the requirement of registration of a warehouse for issuing negotiable warehouse receipts as under: Further provided that no such registration shall be required for warehouses which do not propose to issue a negotiable warehouse receipt. The Warehousing Development and Regulatory Authority (WDRA) set up under the Act has so far notified 123 agriculture and 26 horticulture commodities for issue of negotiable warehouse receipts (NWRs) including cereals, pulses, oil seeds, spices, rubber, tobacco and coffee.



INTEXT QUESTIONS 13.4

1. What are the objectives of Warehousing?
2. When the provisions of Warehousing (Development and Regulation) Act, 2007 were made effective
 - a). 25th Oct. 2010.
 - b). 25th Sep. 2010.
 - c). 25th Nov. 2010.
 - d). None of these

13.6 IMPORTANT LAWS CONCERNING WAREHOUSES

State Warehouses Acts & Rules are one of the oldest Acts regulating warehousing in the country. A license is required under the State Warehouse Act to carry out warehousing business in the State concerned. It is obligatory for any person carrying on the business of warehousing to run his warehouse according to the terms and conditions of the license granted for the purpose and the commodities listed in the Schedule of the Act. The State Warehouse Act and Rules also outline the obligation and duties of warehousemen and depositors.

13.6.1 Laws Governing Operational and Local Compliances of Warehouses

A. The Customs Act, 1962

Chapter IX of this Act (Section 57-73) deals with warehousing to bonded warehouses.



It sets the procedure for appointing public warehouses, licensing private warehouses and provisions of a warehousing bond to be executed by an importer of the goods.

B. Central Excise Act, 1944

Section 37, sub section (1) (viii) of the Act provides for the powers of the central government to make rules to provide for the appointment, licensing, management and supervision of bonded warehouses and the procedure to be followed in entering goods into and clearing goods from such warehouses.

Chapter VII of the Central Excise Rules 1944 provides for the procedure for operation of excise bonded warehouses, while Chapter VIIA deals with licensing of warehouses.

C. The Shops and Establishments Act of respective State Governments

However, as per the Act, all shops and commercial establishments operating within each state are covered by the respective Shop & Establishments Act. The Shop and Establishment Act is regulated by the Department of Labour and regulates premises wherein any trade, business or profession is carried out.

D. The Insecticides Act, 1968

It is an Act to regulate the import, manufacture, sale, transport, distribution and use of insecticides to prevent risks to human beings or animals, and for matters connected therewith. Since the agri. warehouses use a substantial quantity of pesticides for the preservation of stored agri. commodities, they have the obligation to comply with the provisions under this Act. The warehouses have to make judicious use of pesticides to keep the stored goods free from pesticide residues and keep them safe and also be compliant with various provisions of the Act.

E. The Fertiliser (Control) Order, 1985

The FCO provides for compulsory registration of fertiliser manufacturers, importers, and dealers, specification of all fertilisers manufactured/imported and sold in the country, regulation on the manufacture of fertiliser mixtures, packing and marking on the fertiliser bags, the appointment of enforcement agencies, setting up of quality control laboratories and the prohibition on manufacture/import and sale of non-standard/spurious/adulterated fertilisers. The order also provides for the cancellation of the authorization letter/registration certificates of dealers and mixture manufacturers and imprisonment from 3 months to 7 years with a fine to offenders under the Essential Commodities Act.

F. The Legal Metrology Act, 2009

The Legal Metrology Act, 2009 (Act 1 of 2010) repeals and replaces the Standard of Weights and Measures Act, 1976 and the Standards of Weights and Measures



(Enforcement) Act, 1985. Section 24 (1) of the Act provides that every person having any weight or measure in his possession, custody or control in circumstances indicating that such weight or measure is being or is intended or is likely to be, used by him in any transaction or for protection, shall, before putting such weight or measure into such use, have such weight or measure verified at such place and during such hours as the Controller may, by general or special order, specify on this behalf, on payment of such fees as may be prescribed. Since warehouses use different types of weighing scales, they must keep all their weighing scales stamped timely.

13.6.2 Law Defining Rights and Obligations of Warehousemen

A. The Indian Contract Act, 1872

A warehouseman is a bailer, who in the ordinary course of business enters into a contract for the storage of goods belonging to a depositor. Chapter IX of the Indian Contract Act, 1872 covers in detail the concept of bailment. It defines that a “bailment” is the delivery of goods by one person to another for some purpose, upon a contract that they shall, when the purpose is accomplished, be returned or otherwise disposed of according to the directions of the person delivering them. The person delivering the goods is called the “bailer”. The person to whom they are delivered is called the “bailee”.

13.6.3 Laws Concerning Quality, Safety and Security of Goods Stored

A. Agricultural Produce (Grading and Marking) Act, 1937

The Directorate of Marketing and Inspection, Ministry of Agriculture and Farmers Welfare enforces this Act. Under the Act, Grade standards are prescribed for agricultural and allied commodities. The rules shall include determining grade designation to point out the quality of any article described under the Schedule, characterising the quality of the product specified under the grade designation, denoting grade designation marks to symbolise specific grade designation and empowering a person or group of persons to provide grade designation mark to any product with regard to which the mark is set down or any covering included with or label fastened in any product.

B. The Food Safety and Standards Act, 2006

It is an Act to consolidate the laws relating to food and to establish the Food Safety and Standards Authority of India for laying down science-based standards for articles of food and regulate their manufacture, storage, distribution, sale, and import, to ensure the availability of safe and wholesome food for human consumption and matters connected therewith or incidental thereto. It is a statutory body for prescribing science-based standards for articles of food regulating, manufacturing, processing, distribution, sale, and import of food to ensure safe and wholesome food for human consumption.



C. National Food Security Act, 2013

National Food Security Act 2013 under the heading public distribution system, the section 22 and 24 of the Act, directs central and state government to create and maintain required modern and scientific storage facilities at different levels including State, District and Block levels, being sufficient to accommodate food grains required under the Targeted Public Distribution System and other food-based welfare schemes. This is an Act to ensure food security to enable assured economic and social access to adequate food and life with dignity, for all persons in the country, at all times, in pursuance of their fundamental right to live with dignity.

13.6.4 Law Concerning Warehouse Receipts

A. The Sale of Goods Act, 1930

Negotiable Warehouse Receipts are regarded as a document of title to have its negotiability established. It was only covered under the Sale of Goods Act, 1930, Section 2 (4) which defines a document of title to goods as under “document of title to goods includes a bill of lading, dock warrant, warehouse keeper’s certificate, wharfinger’s certificate, railway receipt, warrant or the order for delivery of goods and any other document used in the ordinary course of business as proof of possession or control of goods, or authorising or purporting to authorise, either by endorsement or by delivery the possession of the document to transfer or receive goods thereby represented”. Negotiable Warehouse Receipts were considered as a form of warehouse keeper’s certificate.

13.6.5 The Law Regulating the Depositors, Consumers and Manpower

A. The Essential Commodities Act, 1955

Under the Essential Commodities Act, the state government issues dealer licensing orders, which require a person to obtain a license before buying or storing specific commodities. While the licensing government also specifies stock limits for commodities declared as essential commodities. Such orders of the government act as an impediment to the promotion of the warehousing business. Under such situations, trading of warehouse receipts becomes limited, as only licensed holders can buy and sell such warehouse receipts.

B. The Consumer Protection Act, 1986

This Act protects consumers against any deficiency in the supply of goods and services by an entity. Warehousing, being a Service industry, falls under the ambit of this Act. Deficiency is described as a fault, imperfection, shortcoming or inadequacy in quality,



standard and manner of performance which is required to be maintained by or under any law for the time being in force. Though the Act is consumer-centric, there is provision for rejection of frivolous complaints. It says that where a complaint instituted before the District Forum, the State Commission or the National Commission, is found to be frivolous or vexatious, it shall, for reasons to be recorded in writing, dismiss the complaint and make an order that the complainant shall pay to the opposite party such cost, not exceeding ten thousand rupees, as may be specified in the order.

C. The Industrial Dispute Act, 1947

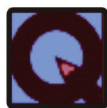
Since a warehouse employs both regular employees and outsourced contractual employment, it falls under the provisions of this Act

D. Essential Services and Maintenance Act, 1981

It is An Act to provide for the maintenance of certain essential services and the normal life of the community. Storage and distribution have been defined as essential services under section 2. (1) (a) of the Act . It gives powers to the central government to prohibit strikes in any of the essential services and impose a penalty for any violation.

E. Contract Labour (Regulation & Abolition) Act, 1970

Since warehouses employ a large number of contract labour for various operational purposes, it falls under the ambit of this Act. The objective of the Act is to prevent the exploitation of contract labour and also to introduce better conditions of work. A workman is deemed to be employed as Contract Labour when he is hired in connection with the work of an establishment by or through a Contractor. Contract Labour differs from Direct Labour in terms of the employment relationship with the establishment and method of wage payment. The warehouse operator becomes the Principal Employer who has to apply for registration in respect of each establishment.



INTEXT QUESTIONS 13.5

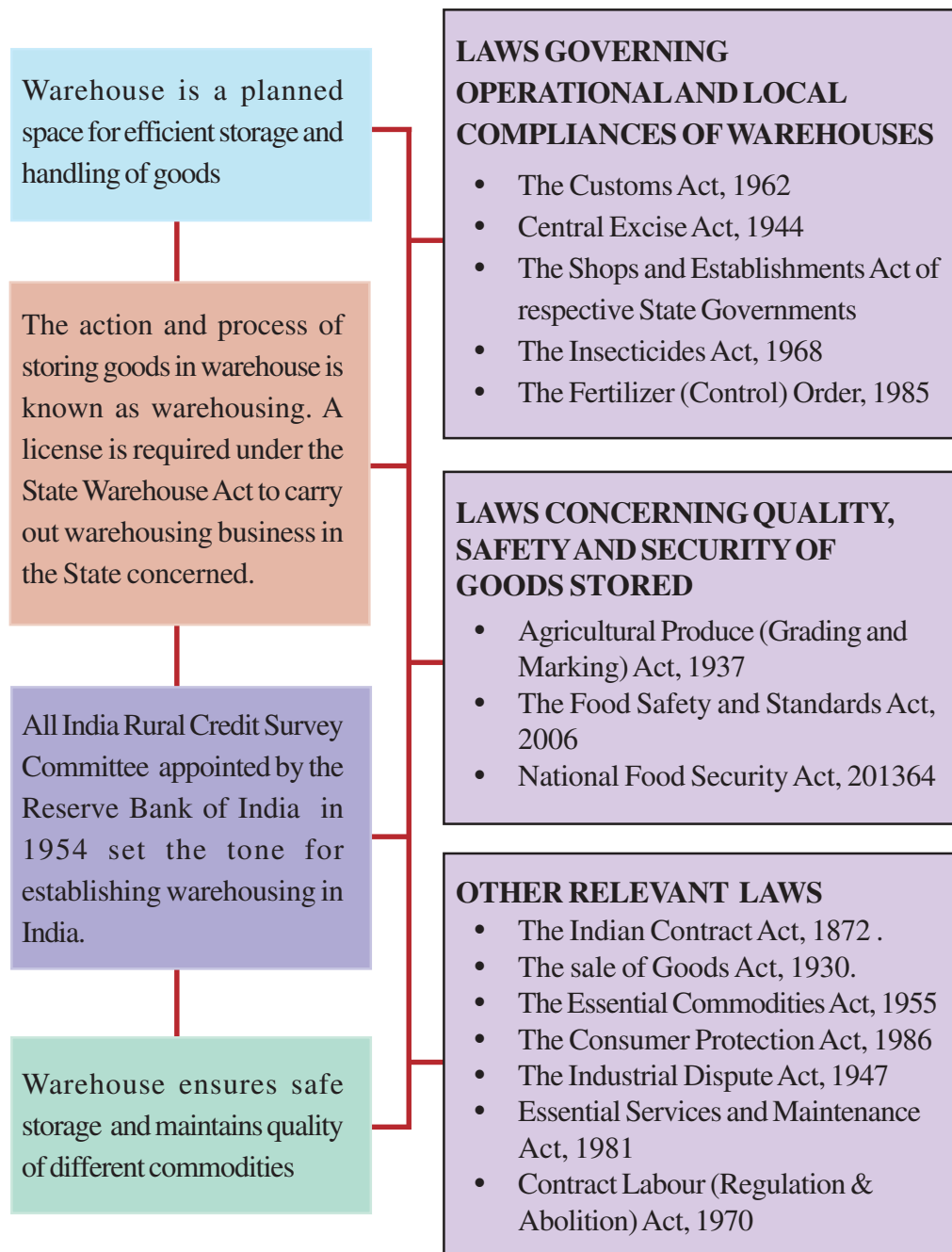
1. Can any warehouse issue NWR without registration with WDRA.
2. The Food Safety and Standards Act, 2006 has been made after replacing 8 old laws.
3. National food security act 2013 was enacted to ensure _____, for all persons in the country, at all times, in pursuance of their fundamental right to live with dignity.



4. The warehouseman as a bailey is described in the,
- a). Essential Commodities Act, 1955
 - b). Indian Contract Act, 1872
 - c). Sale of Goods Act, 1930
 - d). None of the above.



WHAT YOU HAVE LEARNT



MODULE - 3

Introduction to Warehouse



Notes

Warehouse: Meaning, Definition and Objectives



KEY TERMS

| | | |
|----------------|---------------------------------|--------------|
| Warehouse | Warehousing | Safe storage |
| Grain quality | Central Warehousing Corporation | |
| Negotiability, | Bailey | |



TERMINAL EXERCISE

1. Do we require a license to carry out warehousing business in the State concerned?
2. Why was the private sector shy of entering into the warehousing business in the initial years?
3. Agricultural Produce (Development and Warehousing) Corporations Act, was enacted in which year?
4. Who first recommended the establishment of licensed warehouses in India?
5. The Warehousing Corporations Act was made in which year?
6. What were the recommendations of the Rural Credit Survey Committee (1954)?
7. List important functions of Central Warehousing Corporation.
8. What you understand from the Legal Metrology Act, 2009.
9. Please write a short note on the salient features of the Sale of Goods Act, 1930.
10. What is the role of the Central Goods and Services Tax Act, 2017.
11. Mention briefly about the National Food Security Act, 2013.
12. How do you differentiate between warehouse and warehousing?
13. Write a short note on the factors which necessitate the need of warehousing?



14. What are the basic requirements of issuing negotiable warehouse receipts?
15. Write in brief about the steps taken in a post independent area to develop warehousing?
16. Describe relevant laws governing operational and local compliances of warehouses in India.
17. What are the laws concerning quality, safety and security of goods stored in warehouses.
18. What is Contract Labor (Regulation & Abolition) Act, 1970- discuss its implications in the services being rendered by food storage depots.
19. Discuss about history of pre and post- independence era warehousing in India.
20. Explain the salient features of Warehousing (Development and Regulation) Act, 2007?



ANSWERS TO INTEXT QUESTIONS

13.1

1. c
2. d
3. food crisis at the time of distress.
4. Warehouse is therefore a planned space for efficient storage and handling of goods and materials whereas warehousing is the act or process of storing large quantities of goods in a storage place.

13.2

- a. Royal commission of Agriculture.
- b. Reserve Bank of India.
- c. To report on the ways to reduce rural indebtedness.

**13.3**

- i) Warehousing corporation act 1962
- ii) Food corporation act 1964

13.4

- i) a

13.5

- i) No
- ii) Yes
- iii) Food Security
- iv) b

**DO AND LEARN**

Imagine a situation where you are in a location where there is no production of agri commodities but you need to provide food items to a large number of populations. What do you think about solving this issue? Give step wise solutions.