Agriculture Marketing Reforms in India: Fixing a Broken System
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- The link between economic growth and reforms has always been clear. In 1991, when we reformed parts of our economy, the transformational effects were clear for all to see.

- Yet, the farmers, a crucial sector of the Indian economy saw income grow at a slower rate than the rest of India and remained burdened by price controls and other regulations that prevented them from going for the best price for their produce. **While the rest of India connected to global markets, our farmers could only sell their produce in their local markets – the traditional *mandis*.**

- There was a need for a new policy paradigm.

- India's agriculture policy was outdated – it had taken shape when India was a food deficit nation - and regulation had been necessary to incentivise production and protect the farm sector.

I. Background: Organised Agriculture Marketing saw its Genesis post-Independence

- In independent India , policy focus was on augmenting production and ensuring remunerative prices for farmers.

- The Constitution of India identified agriculture as a state subject – i.e. within the purview of the various State Governments of India's federal system. To protect farmers'rights, States enacted Agriculture Produce Markets Regulation Acts in the 60s and the 70s.

- The legal framework that evolved restricted purchase of agriculture produce to registered traders. The objective was to ensure fair and transparent trade in agricultural products.

II. The Need for Reform: The Prevalent Agriculture Marketing System Did More Harm Than Good

- **However, gradually instead of protecting farmers, the system began to harm them.**

- Each market yard functioned as an independent entity; entry of new agents was regulated by the market committee, which became increasingly restrictive.

- Nor were there enough markets. This allowed traders and commission agents in these markets to increase their own influence – and farmers remained at their mercy.

- A transparent pricing system evolved into one where prices were fixed by traders and commission agents.

- The APMC markets also charged a series of fees and commissions , raising the cost of produce and reducing returns to farmers. **Farmers received a smaller share of the final price paid by consumers as intermediaries and vested interests controlled markets.**

- It is well known that these traders and commission agents also functioned as informal moneylenders who preyed off farmers , charging exorbitant rates of interest.

- While independent mandis earned substantial revenues and fees and taxes, their infrastructure remained outdated: produce worth more than GBP 9,000,000,000 perished annually due to post harvest mismanagement.

- The policy environment, thus, had discouraged private sector investment in the agriculture cold chain. India desperately needed cold storages to store produce, packhouses to sort and grade produce and refrigerated vehicles to transport the produce. However, private sector remained disinterested in making investments in storage and transport due to the frequent changes to laws and regulations by India's various state governments.

- Cold storages that existed were mostly for single commodities - with capacity lying idle much of the year. Infrastructure development close to the farmgate was ignored.

- The system also discouraged linkages of farmers to food processors and exporters. **Despite being one of the largest producers of agriculture commodities globally, India currently <u>processes merely 10% of total production</u>.** Similarly, India's exports in global food exports stands at 2.3% - well below its potential.

- As production in India's agriculture grew, and India progressed from food deficit to a food surplus nation, the need for a new policy paradigm became clear. There was a need to do away with instruments of exploitation.

  Farmers needed to be free to sell produce – in markets and to buyers of their choice.

III. The Demand for Reform: Parliamentary Debates, Demand of States and Expert Views

- Reforms to India's agriculture marketing system have been attempted for over two decades. The Report of the Expert Committee on Strengthening and Developing of Agriculture Marketing, 2001 noted that ***the institution of regulated market had achieved limited success. Over a period of time, markets had become restrictive and regulated, preventing direct and free marketing sales.***

- The Inter-Ministerial Task Force on Marketing Reforms, 2002, noted *"in the present situation, restrictions act as disincentives to farmers, trade & industries. Legal reforms can play an important role in making the marketing system effective and efficient…"*

- Multiple Expert Committees, Inter-Ministerial Task Forces, Commissions, Groups of State Agriculture Ministers and Chief Ministers ***have made the same observation for the past twenty years: that the present system of agriculture marketing was proving to be a disincentive to farmers, trade & industries.***

- The Standing Committee on Agriculture of the 17th Lok Sabha noted in its report that the ***existing APMC markets were not working in the best interest of farmers.***

- All of these expert groups, committees and task forces made similar recommendations:
  - (i) the existing system of APMC markets needed competition.
  - (ii) alternative marketing channels such as direct selling needed to be encouraged.
  - (iii) Essential Commodities Act, 1955 needed to be amended to encourage investments in storage and warehousing.
  - (iv) contract farming needed an enabling framework and
  - (v) there was a need for a barrier free, national agriculture market.

Reforms needed to be taken up at state level

- Being a State subject, it was up to the various states of the India federal system to implement reforms. The Central Government prepared a Model APMC Act in 2003.

- The National Commission on Agriculture (2004) recommended that agriculture be brought under the Concurrent List if reform was to be achieved.

Parliamentary Debates & Answers

- The need for reform was clear across political lines. In 2005, the then Minister of State in the Ministry of Agriculture stated in the Rajya Sabha that *"…State Governments have been advised to amend the State law dealing with agriculture marketing (APMC Act) in order to allow for* *development of competitive markets in the private and cooperative sectors to encourage direct marketing and contract farming programmes…”*.

- Responding to a question in the Rajya Sabha on agriculture marketing reforms in May 2012, the then Agriculture Minister, Sh. Sharad Pawar stated that *“Sir, there are some which have already been accepted, for instance, recommendation regarding liberalizing agri-procurement…We have requested all the Cooperation Ministers in the States to make amendment in the APMC Act.”*

- The Standing Committee on Agriculture (2019-20) of the 17th Lok Sabha in its report noted that existing APMC markets are *“not working in the interest of farmers”* and was *“surprised to note lukewarm response of the State Governments towards reforms in the APMC Market”*.

Demand of States

- In essence, the APMC Acts treated agriculture marketing as a localised subject, ensuring that the produce grown in the notified area was only permitted to be sold to traders within notified areas.

- End users and processors located elsewhere were in fact prohibited from buying directly from farmers with licence (issued APMCs) .

- The first recommendation made in the Report of Committee of State Ministers, In-charge of Agriculture Marketing to Promote Reforms, 2013 was that *“States should amend their APMC Acts on the lines of the Model Act…”*.

- A High Powered Committee of Chief Ministers for ‘Transformation of Indian Agriculture’ recommended **creation of multiple marketing avenues for farmers, stressed the importance of contract farming & amendments to the Essential Commodities Act.**

- It was clear that these reforms had been a long standing demand across party lines.

IV. A New Approach Was Needed

- As India moved from a food deficit nation to the food surplus one, a policy shift was necessary - from deficit to surplus management.

- Previous attempts at reform requiring States to institute legislative changes to APMC Acts had not borne fruit. Agriculture remained a State subject though Inter-State Commerce and Trade was a Union subject.

- The potential of electronic national market for agriculture (eNAM) was thus hindered by local rules.

- Bringing agriculture under the concurrent list would involve Constitutional Amendments as it would require the ratification of all States as well. **A new approach was needed if agriculture marketing in India was to be unshackled.**

- A new approach was necessary to unlock India's agriculture markets and help enhance farmers' income.
- **It was necessary to deregulate agriculture marketing outside the physical area of notified markets, promote contract farming and amend the Essential Commodities Act.** Complementing these reforms, a GBP 10, 000,000,000 Agriculture Infrastructure Fund has been launched to create infrastructure close to the farm-gate.
- Along with investments in infrastructure, **a huge thrust is also being placed on the collectivisation of farmers through farmer producer organisations (FPOs)/farmer producer companies (FPCs), to improve their bargaining power.**

- In May 2020, Government of India took steps to free farmers from artificial shackles through three Ordinances; recommendations of the **Committee of State Ministers In-charge of Agriculture Marketing to Promote Reforms (2013)** to introduce a Central Legislation facilitating inter-state trade of agriculture produce were pursued.

V. Historic Reforms in Agriculture Marketing

In September 2020, 3 Bills were passed by Parliament of India (Lower and Upper Houses):

1. **Farmers' Produce Trade and Commerce (Promotion and Facilitation) Bill, 2020:**

    a. Intra and Inter State Trade of farmers produce was now allowed beyond the physical premises of existing markets: Trade in/at: (i) farm gate, (ii) factory premises, (iii) warehouses, (iv) silos and (v) cold storages.

    b. online trading of farmers produce was allowed and farmer organizations and private sector were enabled to set up their electronic trading platforms.

    c. State Governments would not levy market fees, cess or levies outside the physical market area

2. **Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Bill, 2020:**

a. Farming agreements between farmers and buyers have been made possible, for production or rearing any farm produce.

b. The price of the produce will be clearly mentioned in the contract.

c. A clearly specified dispute resolution mechanism, protecting the rights of both farmers and buyers.

3. The Essential Commodities (Amendment) Bill, 2020

a. The Central Government may **only invoke the provisions of the Essential Commodities Act, 1955 in an extraordinary situation** (war, famine, extraordinary price rises and natural calamities)

b. Imposition of **stock limits must only be based on price rises** - if there is a 100% increase in retail price of horticultural produce and a 50% increase in the retail price of non-perishable produce

- ***Importantly , these bills do not dismantle the existing structure of State APMCs***; rather, they provide competition to this system by opening up alternative marketing structures, direct buying, and contract farming.

- **These bills do not replace the prevailing system of public procurement at MSP.**

VI. Intended Benefits: Towards One Nation, One Agriculture Market

- **The ambitious goal of 'Doubling Farmers' Income' hinges critically on unshackling agriculture marketing. Reforms undertaken in September 2020 ensure exactly that.**

- India has been integrated as "One Nation, One Market": Bills of September 2020 give farmers the freedom to sell produce where and to whom they choose. **APMC Market yards will face competition from other markets and will be forced to improve their own functioning.**

- Farmers will no longer be bound to pay a long list of market fees, taxes, and cesses on their produce, thereby improving their returns.

- Development of infrastructure close to the farmgate will reduce post-harvest losses, improve remuneration through grading & sorting and boost linkages to terminal markets in food processing, retail, and exports.

- This will also lead to the **development of better price discovery mechanisms for farmers, leading to better remuneration for their produce.**

- National platform for electronic trading in agriculture produce will finally be effective .

- Contract farming can act as a form of price assurance and will boost backward linkages with food processing sector. Investment in the agriculture sector will receive a boost through better backward linkages, assured prices, and contracts for farm services.

- These reforms are aimed at transforming India's agriculture and food processing industries. With India only processing 10% of its produce and contributing 2.3% of global food exports, both sectors will receive a boost through liberal procurement.

- **Incentives are now aligned for private sector investments across the entire cold chain, reducing post-harvest losses and ensuring better prices received by farmers.** Better backward linkages will ensure **better quality of produce, leading India to capture a bigger share of global export markets.**

- **Employment in the food processing sector will rise, and this will put India on the path towards becoming the leading food exporter in the world, whilst maintaining her food security.**

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