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MAD- 2020
Day – 15
Economy

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Question:

When India received independence, it opted for heavily regulated agriculture sector. After 70 years, India is set to re-visit its choices with a set of agriculture related reforms. Critically analyse.

Structure of Answer:

- A quick introduction on the **good intentions on why heavy regulation** in the initial days, that the **past was exploitative**.
- How the **regulations became exploitative**.
- **Steps over time** to amend them.
- **Recent steps**.

Why the initial heavy regulation

In India, agricultural produce market regulations have been in place even during the British rule since the producers had to incur high marketing costs due to varied reasons such as hatta system (no open auction), traders' monopoly, high commission, no proper weighment, a stream of deductions, no prompt payment, etc.

A quick history of Indian Agriculture Before

- India got independence, agricultural marketing policy was mainly focused on controlling the price of food for consumers and availability of Agri raw material.
- It was only after independence that the focus was shifted to protect the farmers' interests. Since the British rulers wanted to make cotton available at reasonable prices in the textile mills of Manchester, the first regulated market (Karanja) was established in 1886 under Hyderabad Residency Order.
- Berar Cotton and Grain Market Act of 1887 was the first legislation under which an empowered British Resident could decide any place in the assigned district as a market and set up a committee to supervise regulated markets.
- The act was considered a model for the rest of the country.
- The recommendation of the Royal Commission of Agriculture is considered an important landmark in the history of agriculture marketing.
- This included regulation of trade and establishment of mandis in the countryside. Later, in 1938, a model bill was prepared and circulated by the Government of India but did not make any progress.
- While by the end of 1950, there were only 286 regulated markets in the country, there are about 2500 principal regulated markets based on geography (the APMCs) and around 5000 sub-market yards regulated by the respective APMCs in India.

Major Constraints because of heavy regulations of the Agricultural Marketing System –

- **Markets highly fragmented:** Multiple license requirements for trading in a State and levy of market fee at multiple point points along with high incidence of fee and charges further have an

incremental impact

- **Insufficient Number of Markets:** There is a huge variation in the density of regulated markets in different parts of the country, which varies from 118.78 sq km. in Punjab to 11215 sq km. in Meghalaya. The recommendation of the National Farmers Commission (2004) that a regulated market should be available to farmers within a radius of 5 Km (corresponding market area of about 80 sq. km.).
- **Inadequate Marketing Infrastructure:** Studies indicate that covered and open auction platforms exist only in two-thirds of the regulated markets, while only one-fourth of the markets have common drying yards. Cold storage units exist in only nine per cent of the markets and grading facilities innless than one-third of the markets. Electronic weighbridges are available only in a few markets.
- **High Incidence of Market Fee/ Charges:** Market Committee is authorized to collect market fees ranging 0.30% to 2.0%, from the buyers/traders on the sale of notified agricultural produce. In addition, commission charges are to be paid to commission agents which varies from 0.5% to 4.5% in food grains, and 3.0% to 7.0% in case of fruit and vegetables. In addition to these, other charges, such as, various types of development cess, entry tax, purchase tax, weighment charges and hamal charges, etc are also required to be paid resulting in to higher transaction cost and low price realization by the farmers in a regulated market.
- **High Post—Harvest Wastages:** Study conducted by ICAR (2015), indicates that the range of post-harvest losses of various commodities ranges from 4.65-5.99% for cereals, 6.36-8.41% for pulses, 3.08- 9.96 for oilseeds , 6.7-15.88% for fruits, 4.8-12.44% for vegetables, 0.92% for milk, 7.19 % for eggs and 6.74% for poultry meat.
- **The monopoly of Government controlled markets, infrastructure gapsand high incidence of market charge** have cascading effect on present marketing system and limit private sector to invest in development of required marketing infrastructure in the country.
- **Restrictions in Licensing:** The licensing of commission agents in the regulated markets has led to the monopoly of these licensed traders acting as a major entry barrier in existing APMCs for a new entrepreneur thus, preventing competition
- **Many States do not permit setting up of private markets,** direct marketing and contract farming which hinder competition and do not allow access to alternative marketing channels for the farmers.
- **Less Remuneration to the Farmers and High Intermediation Cost**: Long supply chain incurs disproportionate marketing cost and margin In order to provide the remunerative prices to the farmers, there is aneed to reduce the intermediation by providing alternative marketing channels like direct marketing, contract farming etc. for which reforms in agricultural marketing system is necessary.
- **Market Information Asymmetry:** It is often not possible for the farmers to obtain information on exact market prices in different markets. So, they accept whatever price the trader offer to them. The price quotation are sometimes not reliable and sometimes have a great time lag. The trader generally offers less than the price quoted by the Government news media.
- **Inadequate Credit Facilities:** Indian farmer, being poor, tries to sell his produce immediately after the crop harvesting though prices at that time are very low. The safeguard of the farmer from such "forced sales" is to provide him credit so that he can wait for better times and better prices.
- **Different states, different APMC acts:** Agriculture, falls under the purview of the State, as per the Constitution of India. Intra-state trade in commodities falls under the State list as well, but inter-state trade and commerce falls under the Union List. That is, intra-state trade in agricultural

commodities is regulated by the state whereas the same between states is regulated by the Central Government. Thus, different states have different APMC Acts, and the marketing committees are set up as per the law prevalent there.

Revisiting the choices:

APMC Model Act (2003)

- In 2003, based on the recommendations by an Inter-Ministerial Task Force, to bring about a much-needed reform in the agriculture market, the then government released the 2003 Model APMC Act that brought about new market channels such as:
    - Private wholesale markets
    - Direct purchase
    - Contract farming
    - Special markets for onions, fruits, vegetables, and flowers
    - Rationalization of market fees
    - Replacement of existing licensing system with a simple one

However, only 16 states made amendments to their APMC Acts and provided for direct marketing, contract farming and establishment of markets in the private/cooperative sectors with the objective to increase competition.

The Model Act has its own shortcomings

- One major drawback of the APMC model is the restriction imposed on farmers: A farmer is not allowed to sign a contract with a manufacturer or processor. It is mandatory that they sell their produce through the specified channels.
- Even though the act is planned to avoid monopoly, the act tacitly allows monopoly of the APMC over buying the farmer's produce.
- Prevalent corruption in APMCs –
- Typical bureaucratic machinery also acts as hindrances to the farmer.
- These acts also impose multiple levies of mandi fee and multiple licenses need to be acquired

These shortcomings have been hotly debated in the light the COVID-19 induced lockdown. So, the government has come up with a few amendments in order to de-regulate the agriculture sector through the following ways

Amendments to Essential Commodities Act –

- Farmers have been unable to get better prices due to lack of investment in cold storage, warehouses, processing and export
- It is so because for private investors there are always fears of excessive regulatory interference in their business operations under the Essential Commodities Act.
- It makes farmers suffer huge losses when there are bumper harvests, especially of perishable commodities.
- With adequate processing facilities, much of this wastage can be reduced.
- Union Cabinet has approved a amendment to the six-a-and-half decade old Essential Commodities

Act.

- It will deregulate food items, including cereals, pulses and onion.
- It has the potential to transform the farm sector and help raise farmers' income.

Reforming APMCs –

- The cabinet has approved 'The Farming Produce Trade and Commerce (Promotion and Facilitation) Ordinance, 2020'.
- The Ordinance will:
    - Open more choices for the farmer
    - Reduce marketing costs for the farmers
    - Help them in getting better prices.
    - Help create an ecosystem where the farmers and traders will enjoy freedom of choice of sale and purchase of Agri-produce.
    - Will promote barrier-free inter-state and intra-state trade and commerce outside the physical premises of markets notified under State Agricultural Produce Marketing legislations.
    - It will help farmers of regions with surplus produce to get better prices and consumers of regions with shortages, lower prices.
    - The ordinance also proposes an electronic trading in transaction platform for ensuring a seamless trade electronically.]
    - The farmers will not be charged any cess or levy for sale of their produce under this Act.
    - There will be a separate dispute resolution mechanism for the farmers.
    - It will help create "One India, One Agriculture Market".
    - Creating additional trading opportunities outside the APMC market yards to help farmers get remunerative prices due to additional competition.
    - This will supplement the existing MSP procurement system which is providing stable income to farmers.

<u>The Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Ordinance, 2020</u> –

- Indian Agriculture is characterized by fragmentation due to small holding sizes and has certain weaknesses such as weather dependence, production uncertainties and market unpredictability.
- This makes agriculture risky and inefficient in respect of both input & output management.
- Farmers will engage in direct marketing thereby eliminating intermediaries resulting in full realization of price.
- It will empower farmers for engaging with processors, wholesalers, aggregators, wholesalers, large retailers, exporters etc., on a level playing field without any fear of exploitation.
- It will transfer the risk of market unpredictability from the farmer to the sponsor.
- It will enable the farmer to access modern technology and better inputs.
- It will reduce cost of marketing and improve income of farmers.

- It will help the farm sector attract private sector investment for building supply chains for supply of Indian farm produce to global markets.
- In order to provide adequate protection to farmers, Sale, lease or mortgage of farmers' land is totally prohibited and farmers' land is also protected against any recovery.
- Effective dispute resolution mechanism has been provided for with clear time lines for redressal.

1 lakh-cr Agri Infra fund

- Union Cabinet recently approved a ₹1-lakh crore Central government sponsored scheme to provide:
    - Medium-to-long term debt financing facility for investment to build post-harvest management infrastructure and community farming assets through interest subvention
    - Financial support
    - Moratorium on repayment.

The Scheme is available for

- Warehouses
- Cold storage
- Cold chains
- Godowns
- Silos
- Grading and assaying facilities.

The Scheme is available to

- 1 lakh crore will be provided by banks and financial institutions as loans to:
    - Primary agricultural credit societies (PACS)
    - Marketing cooperative societies o Farmer producers organisations (FPOs)
    - Self-help group (SHG)
    - Farmers
    - Agri-entrepreneurs
    - Start-ups

Major benefits

- Currently nearly 20 per cent of agricultural produce is lost in post-harvest losses. Creating such infrastructure across the country would help farmers cut down the loses

Extra:

What all commodities are 'essential'?

- There is no specific definition of essential commodities in The EC Act.
- The Act gives powers to the central government to add or remove a commodity in the "Schedule."
- At present, the "Schedule" contains 9 commodities — drugs; fertilisers, whether inorganic, organic

or mixed; foodstuffs, including edible oils; hank yarn made wholly from cotton; petroleum and petroleum products; raw jute and jute textiles; seeds of food-crops and seeds of fruits and vegetables, seeds of cattle fodder, jute seed, cotton seed; face masks; and hand sanitisers

What happens when a commodity is declared Essential

By declaring a commodity as essential, the government can control the production, supply, and distribution of that commodity, and impose a stock limit.

Why was ECA Legislated

- The EC Act was legislated at a time when the country was facing scarcity of foodstuffs due to persistent abysmal levels of food grain production.
- The country was dependent on imports and assistance (such as wheat import form US under PL-480) to feed the population.
- In this scenario, to stop the hoarding and black marketing of foodstuffs, The Essential Commodities Act was enacted in 1955

What has changed now

- Compared to 1955:
  - Production of wheat has increased by 10 times.
  - Production of rice has increased more than four times.
  - The production of pulses has increased by 2.5 times
  - India is now an exporter of several agricultural products.

What are the changes in the Act

- Ordinance has introduced a new subsection (1A) in Section 3 of The Essential Commodities Act, 1955
- The amended law provides a mechanism for the "regulation" of agricultural foodstuffs, namely cereals, pulses, oilseeds, edible oils, potato, and supplies under extraordinary circumstances, which include extraordinary price rise, war, famine, and natural calamity of a severe nature
- Now, any action on imposing stock limits will be based on the price trigger.

What will be various triggers

- In case of horticultural produce, a 100 per cent increase in the retail price of the commodity over the immediately preceding 12 months or the average retail price of the last five years, whichever is lower.
- For non-perishable agricultural foodstuffs, the price trigger will be a 50 per cent increase in the retail price of the commodity over the immediately preceding 12 months or the average retail price of the last five years, whichever is lower

What will be its Impact

- With the amendment to Essential Commodities Act, commodities like cereals, pulses, oilseeds, edible oils, onion and potatoes will be removed from list of essential commodities.
- The freedom to produce, hold, move, distribute and supply will lead to harnessing of economies of scale and attract private sector/foreign direct investment into agriculture sector. It will help drive up investment in cold storages and modernization of food supply chain.