

Agriculture Marketing Reforms in India: Fixing a Broken System

- The link between economic growth and reforms has always been clear. In 1991, when we reformed parts of our economy, the effects were clear for all to see.
- Yet, one group of Indians were increasingly being left behind. They saw their incomes grow at a slower rate than the rest of India. They were burdened with regulations preventing them for seeking the best prices for the fruits of their labour.
- This group was India's farmers. While the rest of India connected to global markets, our farmers could only sell their produce in their local *mandis*. There was a need for a new policy paradigm, that would place farmers income at the top of the agenda.
- India's agriculture policy saw its genesis when India was a food deficit nation, and regulation was needed to incentivise production and protect the rights of farmers.

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

- Before Independence, our agriculture policy was designed to keep prices for raw materials and consumer goods low. India suffered regular droughts and famines. Once we won our Independence, policy focus was needed on augmenting production and ensuring remunerative prices were received by farmers.
- More regulated markets were needed where farmers could bring their produce to be sold via open auction. Our Constitution kept agriculture within the purview of the States. To protect the rights of farmers, States enacted Agriculture Produce Markets Regulation (APMR) Acts during the 60s and the 70s.
- The prevailing legal framework implied that agriculture produce could only be bought by traders registered in the market area. This meant that anyone who was not a registered trader could not procure from farmers, even outside the physical boundaries of the market yard.
- The objective behind these legislations was to ensure agriculture trade was carried out in a fair and transparent manner.

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

- **Over years, it started to become clear that the system designed to protect farmers, was in fact, harming them.**
- Each APMC market yard functioned as an independent entity, not connected to any other market. The entry of new agents was dependent on the existing market committee, who often did not grant licenses to new entrants.

- Nor were there enough markets. This led to the traders and commission agents in these markets to command substantial influence, with farmers at their mercy.
- A transparent price discovery system transformed into a system where prices were fixed by traders and commission agents.
- The APMC markets also charged a series of mandi fees and commissions raising the cost of the product and reducing the returns earned by farmers. Farmers received a smaller share of the final price paid by consumers as numerous intermediaries grew in the middle.
- These traders and commission agents also acted as informal moneylenders, charging exorbitant rates of interest from farmers.
- With each agriculture market acting as an independent entity, and despite earning substantial revenues from fees and taxes, the infrastructure in these APMC markets was outdated. Because of inadequate agriculture infrastructure, we lose close to Rs. 90,000 crores a year worth of produce due to post harvest losses.
- This is because the policy environment discouraged private sector investment in the agriculture cold chain. We needed cold storages to store produce, we needed packhouses to sort and grade produce and we needed refrigerated vehicles to transport the produce.
- However, the frequency at which Central and State Governments issued orders under the Essential Commodities Act, 1955 made private sector investments in storage and transport unviable.
- While we made cold storages, they existed mostly as single commodity ones (eg: potato), with their capacity lying idle for parts of the year. Infrastructure development, close to the farmgate was ignored by successive governments.
- The system also discouraged linkages of farmers to food processors and exporters. Despite being one of the largest producers of agriculture commodities globally, India only processes 10% of total production. Similarly, India's exports in global food exports stands at 2.3%, well below its potential.
- As our production grew, and we went from a food deficit country to a food surplus one, the need for a new policy paradigm was clear. Yet, the old ways remained. The mechanisms that were designed to protect farmers ended up as instruments of exploitation.
- While the rest of India marched on the road towards prosperity on the back of economic reforms, we failed our farmers by not giving them the same opportunity. Our farmers did not have the freedom to sell the produce where they wanted and to whom they wanted.

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

- Attempts to reform the agriculture marketing system have been going 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, has, however, achieved a limited success. Over a period of time, these markets have, however, acquired the status of restrictive and regulated markets, providing no help in direct and free marketing...*”.
- The Inter-Ministerial Task Force on Marketing Reforms, 2002, noted “*in the present situation, these restrictions are acting as a disincentive to farmers, trade & industries. Legal reforms can play an important role in making the marketing system more 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 as well. First, the existing system of APMC markets needed competition. Second, alternative marketing channels such as direct selling needed to be encouraged. Third, the Essential Commodities Act, 1955 needed to be amended to encourage investments in storage and warehousing. Fourth, contract farming needed an enabling framework and fifth, there was a need for a barrier free, national agriculture market.
- Being a State subject as per the Constitution of India, it was up to the States to implement the necessary reforms. The Central Government tried to take the lead in preparing a Model APMC Act in 2003 and circulating it to States. However, it took the then incumbent government four years to publish the rules, which came in 2007.
- Many government committees noted the slow pace of reforms in this sector, despite efforts on going since 2001. The National Commission on Agriculture (2004) went as far as to recommending that agriculture be brought under the Concurrent List if a serious attempt was to be made in reforming agriculture markets.

Parliamentary Debates & Answers

- The need for reform and the long wait was clear across political lines as well. 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”*.
- We set an ambitious, but achievable goal of doubling farmers income. Marketing reforms were going to be critical in achieving this. Yet, it was found that State Governments had not adopted marketing reforms in true letter and spirit.
- To this end, the Central Government issued the Model Agriculture Produce Livestock Marketing Act, 2017 and the Model Contract Farming Act, 2018 for States to adopt. Yet, the reform process was piecemeal and cosmetic in nature.

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 allowed to be sold to traders within the notified area.
- Existing APMC Acts went to the extent of prohibiting end users and processors located elsewhere from buying directly from farmers, if they did not have a license with the respective APMC.
- 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...”* . It also noted the slow pace and uneven nature of reforms undertaken by State Governments.
- The Committee also made the recommendation to *“develop a National Single Market for agricultural produce, by removing all the existing physical, legal, and statutory barriers”*
- It also recommended that a Central Legislation to deal with *“Inter-State Agricultural Marketing, promotion of agribusiness, trade and commerce at the national level”*
- The High Powered Committee of Chief Ministers for ‘Transformation of Indian Agriculture’, also recommended the creation of multiple marketing avenues for farmers, stressed the importance of contract farming & amendments to the Essential Commodities Act.
- Therefore, it was clear that these reforms were in demand for a long while, with the demands coming from across party lines.

IV. What was Done Differently? A New Approach Was Needed

- As India moved from a food deficit nation to the food surplus one, the focus of policy needed to shift from deficit management to surplus management.
- The previous attempts at reform, which required States to take the lead in instituting legislative changes to their own APMC Acts bore little fruit. Agriculture remained a State subject, however, Inter-State Commerce and Trade remained on the Union List.
- The potential of electronic national market for agriculture (eNAM) was being hindered by the prevailing legal provisions. While 1,000 *mandis* have been onboarded to eNAM, a true national market for agriculture remained far from reality.
- 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 needed to be unshackled.
- It was also clear that a new approach was needed to unlock India's agriculture markets and make the goal of doubling farmers' income a reality.
- *Therefore, a decision was taken to deregulate agriculture marketing outside the physical area of notified markets, promote contract farming and amend the Essential Commodities Act.*
- Complementing these reforms, a Rs. 1 Lakh Crore 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.
- Turning a crisis into opportunity, In May 2020, we took the historic steps of freeing the farmers from the artificial shackles placed on them by the archaic APMC Acts, through three Ordinances.
- The Recommendation 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 was pursued.

V. The Present Reforms: Historic Reforms in Agriculture Marketing

These Ordinances were institutionalised with the passage of the following in the Lok Sabha and Rajya Sabha in September 2020:

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

- a. Intra and Inter State Trade of farmers produce beyond the physical premises of the existing markets. Trade can be conducted in/at: (i) farm gate, (ii) factory premises, (iii) warehouses, (iv) silos and (v) cold storages.
- b. Permits online trading of farmers produce, allowing farmer organizations and private sector companies to set up their own electronic trading platforms.
- c. State Governments may not levy any 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 are made possible, for production or rearing of 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, and can only be imposed if there is a 100% increase in retail price of horticultural produce and a 50% increase in the retail price of non-perishable produce
- It is important to note that *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.
 - Nor do these bills replace the prevailing system of public procurement at MSP. These Bills were designed to address many of the prevalent shortcomings in agriculture market and to fulfil long standing demands of reforms in this sector.

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

- The ambitious goal of ‘Doubling Farmers’ Income’ hinges critically on unshackling agriculture marketing. The reforms undertaken in September 2020 ensure exactly that.

- Despite the rest of India being integrated as “One Nation, One Market”, this could not be further from reality for the agriculture sector before the introduction of reforms in September 2020.
- Our farmers will now finally have the freedom to sell their produce to who they want and where they want, an option denied to them up until now. APMC Market yards will now face competition from other markets, prompting them to improve their own functioning if they want to stay relevant in this day and age.
- 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. eNAM can finally fulfil its potential of serving as the national platform for electronic trading in agriculture produce.
- Contract farming can act as a form of price assurance and will boost backward linkages with the food processing sector. These reforms will also boost investment in the agriculture sector, through better backward linkages, assured prices, and contracts for farm services.
- The impact of these reforms will see India’s agriculture and food processing industries transformed. With India only processing 10% of its produce and commanding a share of 2.3% in global food exports, both these sectors will receive a much needed fillip with a liberal procurement regime.
- 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 our food security.

VII. Fulfilment of Long Standing Demands

- For close to two decades, it was clear that urgent reforms were required in agriculture marketing to enhance the welfare of our farmers. The design of India’s federal structure meant that States had to take the lead in instituting these reforms.

- Yet, despite all evidence pointing towards the need for reforms, the pace undertaken by States was uneven and slow, which “surprised” the Standing Committee on Agriculture of the 17th Lok Sabha.
- Strong and decisive action was required to fulfil these long standing demands, in the larger public interest. For too long we had held our farmers back by creating artificial boundaries. The reforms undertaken finally provide freedom to our farmers.