Indian Economy: Some Contemporary Perspectives Professor Wasim Ahmad

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Lecture 12

Indian Economy: Agriculture Policy 4

So welcome back, so we are now going to start one more lecture on agriculture marketing and in this particular lecture we will be mostly devoting on post 2000 developments, mostly from 2013 onwards what are the major changes and we will also highlight the recent changes that we have made. So, 2020 whatever the new laws that we had implemented. So, the

reference for this particular lecture will remain same like previous lecture.

And then if you want to refer the material of this particular lecture whatever the references you can refer to the previous lecture and wherever I have discussed about those references you can have a look and it remains the same. Wherever I have referred those I have cited otherwise it is generally accepted and I have referred all those documents just to make sure that we cover each and every detail about these events.

So, as I told you till 2013 we had gone for a major structural change in terms of major APMCs act also.

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- Agriculture Marketing
 - The Department of Agriculture and Cooperation (DAC) drafted a model APMC in 2003 and shared with states.
 - · The model inserted a clause on setting-up new markets by legal persons, growers and local authorities,
 - · Producers to sell produce in market other than the regulated markets.
 - · Establishment of direct purchase centers.
 - · Consumers'/farmers' markets for direct sale
 - Promotion of PPP in the management and development of agriculture markets.
 - · A new chapter on 'Contract farming' was also added.

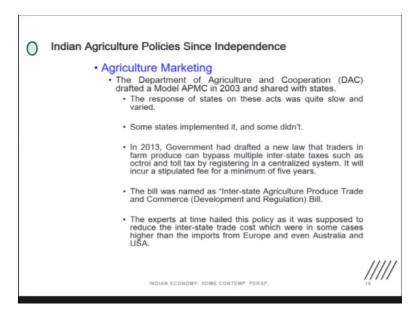
INDIAN ECONOMY: SOME CONTEMP. PERSP

So, here in this is the APMC act of 2003 that we had gone for. So, in this particular act there was a special provision to setup a new market by legal person they will be having a license growers and local authorities will be given incentives to setup, producers to sell produce in market other than the regulated markets. Establishment of direct purchase centers which means that if the traders or anyone wants to purchase they can.

Consumers market or farmers market for direct sell and then promotion of public private partnership PPP, in the management development agriculture market then there was also the contract farming that I have already discussed. So, these were the norms at that time in the APMC 2003. Then, we had the APMC separate some amendments were made in 2007 with regard to the infrastructure setup plus it was also regarding the same the first clause.

The model inserted a clause on setting up new markets. So, there was some special provisions made and some states had implemented those measures. So, that is why it became one of the important developments and I thought I should be discussing it.

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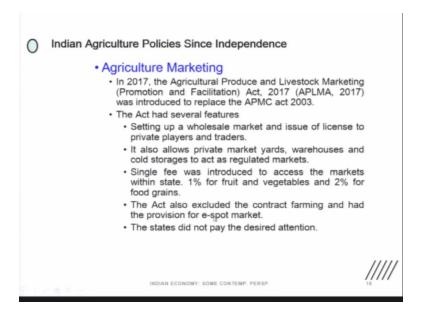
Then in this particular APMC act it continue and then some states had a very cold response to this. So, some states implemented, some states did not. In 2013, government had again drafted a law for traders to bypass multiple interstate taxes and some economists for instance Professor Ramesh Chand had mentioned that because of this high interest rate taxes sometime it is cheaper to import from outside.

Rather than buying or transferring produce from one state to another. So, as compared to importing from Europe and even Australia and US the cost is much lesser compared to when you go for buying from or transferring from the abundant states to the deficient states. So, it becomes really difficult and that is why it was also designed to incur a stipulated fee for a minimum period of five years.

The bill was named as interstate agriculture produce trade and commerce bill. It was introduced in 2013 by then UPA government and it had lot of in terms of provisions for the market efficient measures and that is why it was held by all the policy makers and it was thought that maybe in future the states will realize and they will also go for rationalization of interstate taxes.

So, octroi and toll tax were removed after GST implementation these taxes have now been removed and now most of the taxes are going through the online platform. So, there is a less chances of leakage in the tax collection.

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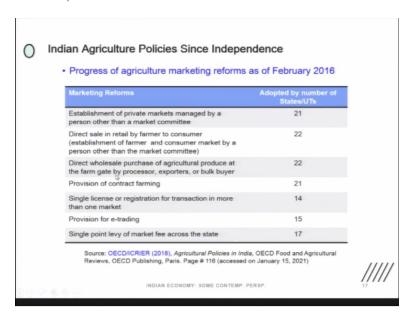


Then in 2017 Agriculture Produce and Livestock Marketing so APMCs was renamed and then it was livestock was also incorporated and then become APLMA act 2017. So, it was also setting up a wholesale market, issue of license to private players and traders. So, this was for the first time we had gone for issuing license to private players, traders. It allows private market yards, warehouses and the cold storage to act as a regulated market.

So, now since we have now gone from scarcity to abundance. So, now government also wants that there should be storage of those items. So that in case of any deficiency we do not have to just rush for import and we can simply utilize this. Single fee was introduced to access the market within a state. So, 1% for fruit and vegetables and 2% for food grains was imposed.

The act also excluded the contract farming and had provision for e-spot market where you can go for online settlement of selling of your produce. Some states paid attention to this, some state did not pay attention.

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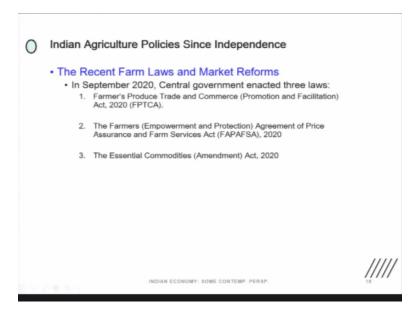


So, I have while going through this OECD, ICRIER paper I found this particular table really interesting, so I thought I should be discussing. So, these are the number of states which have implemented the law. So, establishment of private market managed by a person other than a market committee it is there in 21 states. Direct sale in retail by farmer to consumer. It is also implemented in 22 states. Direct wholesale purchase of agricultural produce at the farm gate by processors, exporters and the bulk buyer it is also in 22 states.

What is more important is the provision for e-trading. So, under the digital India platform so there are some efforts have been made and even start up India is also helping in e-trading. So, there are different types of startups supporting these endowers of the state. Single license or registration for transaction in more than one market it is only in 14 states. So, as per the last slide that we discussed about the role of these states it appears that in this particular case especially for the single market less states have done or have worked on this particular issue.

Single point levy or market fees across the state it shows a better picture. Now 17 states have responded to it. So, it shows the status or the state of affairs about the agriculture marketing how states are not paying attention to these details.

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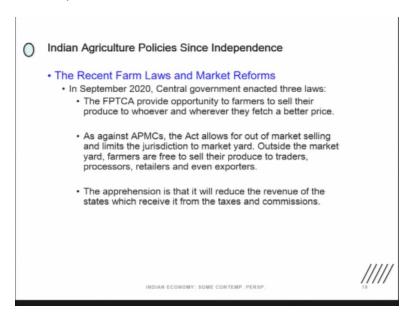


In September 2020, Central government enacted three laws. So, it was a Farmer Produce Trade and Commerce the title was Promotion and Facilitation Act 2020. In short form it is called FPTCA and this particular act is also having a certain provision for expansion of the market, but certain rules and regulations are quite caution able. The farmers empowerment and protection agreement of price assurance and the farm services act.

FAPAFSA 2020 then essential commodities amendment act 2020. So, these are the three acts which government has enacted in order to make sure that it helps the farmers, but at the same time it also considers certain dimensions which are in the contemporary context if we think then it looks reasonable and it looks rational also because we often find that in some states because of these measures there is a deficiency.

And there is inefficiency also in terms of production and distribution. So, we will be discussing one by one to each. And for this I would always recommend (08:43) article on this and he has highlighted different act it is quite interesting to read.

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Here in September 2020 Central government enacted three laws so it was FPTCA provide opportunity to farmers to sell their produce to whosoever and wherever they want, wherever they have better price. So, if I am a farmer and I have a wheat or rice and if I want to sell so it is up to me to sell these produces wherever it is giving me a better price or whosoever is giving me the better price.

As against APMC act allows for out of market selling and limits the jurisdiction of the market yard. Outside the market yard farmers are willing to sell their produce to traders, processer, retailers and even exporters. So, one you have APMCs, but farmers are now allowed to go for settlement outside the market. So, they do not have to enter into the APMC area. They can go for advance settlement or they can sell it outside.

So, this has been the new provision and that is why the farmers are protesting because it will simply if there are large number of traders settling outside then artificially it will have the impact on the price. So, they may take the price down and this will result in the loss of everyone. The apprehension is that it will reduce the revenue of the states also because states also receive revenue when the farmers enters into the APMC market.

And when they sell their produce so there are certain taxes which they incur. So, as I told in case of Punjab around Rs. 3,600 crores of income come from these activities.

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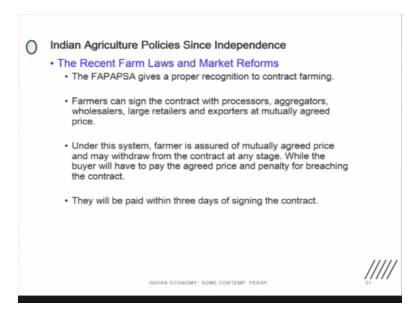
So, outside the APMC market is referred to as the trade area. So, trade area is a designated area and it was not just a new thing it has been there for a long time the APMC rule 2007 mentions about this. So, in the trade area there is no obligation to pay market fee or cess or even states cannot levy any tax or cess under APMC act. So, once these farmers are willing to sell outside and in the trade area then of course he or she is not supposed to pay anything.

But when I looked at some news reports then I found that this is not a new move it has been there in Maharashtra in 2005 and 2006 when the state government had allowed setting up private markets and collection center under direct marketing license and licenses were given to traders to sell it to entrepreneurs or even aggregators collection centers. So, private mandis were setup in Maharashtra.

So Big Basket then you have the Reliance Fresh and ADM agro industries they were procured, but the rule was that there was these traders and license holders cannot buy below minimum support prices. So, in some cases what had happened that these license holders when they see that price of the produce is going below minimum support price then they simply do not use that or simply they request for suspension of the license so that there will not be any action against them and their license will not be revoked.

So, this DML holder idea and the idea of the trade area it has been there in assets. It was implemented during the era when Vilasrao Deshmukh was the Chief Minister of Maharashtra. So, at that time Maharashtra government had taken this measure.

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So, then here we have second law which is about the FAPAPSA gives a proper recognition to this is about the second law. So, this law gives about the contract of farming.

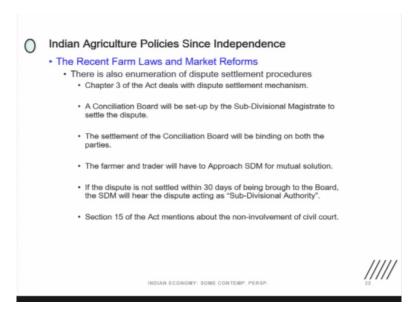
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And if you want to know the FAPAPSA full form so here it is the Farmer Empowerment and Protection Agreement of Price Assurance and Farm Services Act. So, FAPAFSA is this particular act that deals with. Now under this contract the farmers can sign the contract with the aggregators or the trader or the private seller and they can go for the mutual agri price. So, they can settle the contract for the preharvest or the post harvest it is up to the mutual decision of these two individuals, the farmer and the traders and they can decide about.

Under this system, the farmer is assured of mutually agreed price and may withdraw from the contract at any stage while the buyer will have to pay the agreed price and penalty for breaching the contract. So, this time the buyer which the trader he has been given there is a check on the buyer, but the seller which is the farmer, farmer is ready to decide about when to sell and how to sell. They will be paid within three days of the signing of the contract. So, once the farmer comes into the contract so within three days they will be paid and as per the law this is the agreement.

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There is also a mechanism and it is important to highlight because this has become controversial issue because contract farming was always there, but contract farming under this new law it becomes quite a different kind of issue because of the dispute settlement mechanism that the government has proposed. So, chapter 3 of the act deals with dispute settlement mechanism.

It is as per the law sub divisional magistrate will settle this dispute and form the conciliation board and this conciliation board will have members decided by this. A settlement of the conciliation board will be binding on both the parties. The farmer and the trader will have to approach SDM for mutual solution. So, there will be particular application writing and then these particular SDM will decide about.

If the dispute is now settled within 30 days of being brought to the board the SDM will hear the dispute acting as a sub divisional authority. So, this SDM will be now more powerful and he will have the more role to play. Section 15 of the act mentions about the non-environment of the civil court which means that there is a concern that since this sub divisional magistrate is the government employee.

So, it may happen that this particular guy will not be (())(15:34) too much, but the not involvement of civil court has become one of the contagious issue because this particular provision will simply demoralize the farmer because then there is a hope that this particular sub divisional magistrate may not be that much active in terms of settling, but with this provisions even farming community is not happy because there should be provision of going to civil court.

But after 30 days even if there is no settlement then this will go at the level of joint secretary and then they will decide about this particular settlement of the contract, but in order to make sure that there is efficiency in the system. So, that is why I think the civil court law or the role of civil court has been ruled out because in most of the cases it becomes a quite tedious task to deal with the courts in India.

And in order to bring efficiency or in order to bring more contract it looks like that government has gone for that, but there is a one more angle from the farmer that if farmer is not being heard appropriately then he is having limited avenues to explore.

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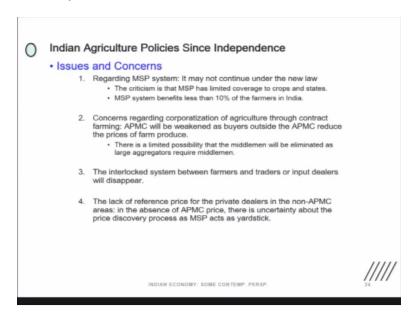
So, there is an enumeration of dispute settlement procedures. Third law about ECA amendment 2020 removes stockholding limits which is the third which is the ECA amendment 2020. It talks about the stockholding limits on several commodities except under extraordinary circumstances such as war and natural calamities. There is also a check on some kind of limit in terms of price upward which means that if there is some kind of sudden increase in price or spike in price.

Then there is a control mechanism implemented there also that what is the price in the last 12 months if there is a 100% price for vegetables and all other perishable items and for non-perishable items it is the appreciation rate has been kept as 50% in last five years and the last five years price whichever is the minimal that will be taken care. So, in order to make sure that apart from stockholdings limits that the government had decided there should not be also aberration in price and high volatility in price.

Otherwise, it will be completely difficult to control on inflation. So, just to make sure that inflation is not impacted by this particular act they have decided, but stockholding limits the justification of the government is that since we have gone from food shortage to food abundance now there is a chance, there is a high requirement that we should remove this stockholding limits.

And this will bring investment in food storage, cold storage business and there will be whole lot of sectoral development into this and there will be interstate or the export import business growing because of this stockholding capabilities. The new law is expected to attack investment in cold storage warehouses and the regulatory interference that the government had decided.

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Now there are issues and concerns regarding this particular act. So, regarding MSP system it may not continue under the new law so which means that there is a concern that if the government is not committed to have the minimum support prices then it may happen that there will be no threshold decided by the sellers and it will completely decided by the buyers and buyers may artificially attack the market determent price and this may not be the most efficient system because in some states where APMC act is not applicable for example Bihar.

In case of Bihar APMC act was revoked in 2006 and since then the private players manage the buy and sell of their agriculture produce and sometime feel cheated and exploited because they artificially reduce the price and buy the produce. Concerns regarding the corporatization of agriculture through the act, but one more concern about the MSP is that it has the limited coverage.

And MSP benefits only 10% of the farmer because the smaller marginal ratio is more than 85%. So, a smaller marginal farmer they do not have that much say in this MSP only the larger farmers have a bigger say, but one good thing is that through MSP their produce is also decided. So, it is good thing to have the minimum support price at least it checks the price in terms of fair price discovery.

Concerns regarding corporatization of agriculture through contract farming. So, APMCs will be weakened as buyers outside the APMC reduce the price of the farm produce. So, this is also one reason why in certain states contract farming has become a big controversial subject

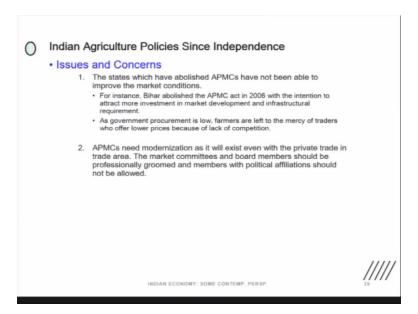
especially in some cases in Maharashtra where they buy from the producers in the beginning of the season.

For example, potato now it has come in the market so these traders will buy at a cheaper price and in turn when the prices are higher they will be selling at higher price to the same sellers from where they have purchased. So, such type of incidences has been reported and there is likelihood that this particular contract farming enforcement may bring that kind of distortions to the agriculture marketing.

But the role of middleman will not be reduced because the large aggregators they need that and they want as a bargaining mechanism. The interlocked system between farmers and traders or input dealer will disappear because it has been found in certain state that the middleman and the traders become the input supplier to the farmer and they come under the implicit agreement with the farmer.

And the farmer is bound to sell to them their produce. The lack of reference price for the private dealers in the non APMC area it will become a big issue and it may create one more hazard for the farmers for selling the price because there will be lack of concern about this.

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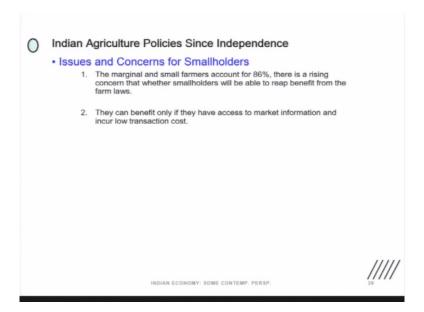
Now one more concern is that whatever taxes that the farmers and even traders pay the money goes to the state government and state government use that money for market development. Even market committee which they take some shares of that they also use that money for investment and the argument of the government that APMC is highly detrimental

that is not the case in case of Punjab it has been there are success stories and especially those states which have not been part of APMC act they have also not done well.

For instance, in case of Bihar as I mentioned that Bihar has no APMC act, but you will also find that the APMC Mandi or even the market or the local market, agriculture markets are also in a very bad shape because there is no one to take care at least through this you have a people to take care. APMCs needs modernization in terms of their organization structure, they need more professionally oriented people.

And there should be less interference from the state government and the large farmers and they should be equal representation from the margin is small and these FPO the farmer producer organization should also play a role in this. So, that is why these are the concern and because of these concerns' farmers are also protesting and there has been a limited dissemination information from the government to convince the certain stakeholders about this.

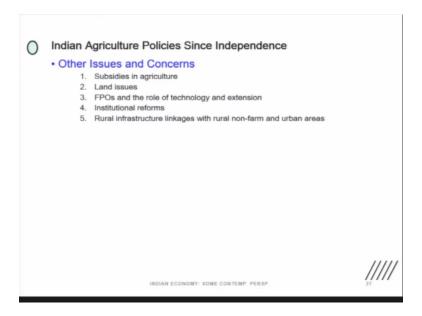
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The marginal and small farmers in India account for 86% so in 1950s we had the land holding of around 2.54 hectares, but now we hardly have 1.09 or 1.20 hectares of land and even in terms of land holding in terms of acres it has come down quite significantly and that is why it becomes really important to note. So, less than 1 acre also we have the farm holding.

So, most of the small and marginal farmers their interest should also be consider and there should also be given benefit of this. The dissemination of information is the most crucial task in terms of implementing these three laws and keeping in mind the marginal and small farmers government should setup certain bodies or should take some initiatives so that this farming community should be made aware about certain developments.

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There are also concerns about other issues for instance subsidies in agriculture is one area where government should look for and think about rationalizing it because agriculture subsidies have been topic of debate because this has not only had burden on exchequer, but also it has created some kind of hazard in terms of productivity. We have now more cases of cancer reported due to different types of nitrogen-based fertilizers are also making our lands completely unproductive.

So, there is some kind of mechanism to be involved and subsidy should be transferred in a different form, some organic farming mechanism should be evolved and some amount from subsidies should be transferred to such initiative. Then, the land issue so there is a need to revamp the financial norms in India because those norms are seeming to be outdated and in this regard what professor Mahendra Dev mentions that there is a need to look at different set of patterns.

Land records and how digitalization of land record will improve. So, maybe government has already taken the measures and maybe government will help. Now FPOs and the role of technology extinctions now different initiatives of the government under digital India and the

startup India some startups have helped a lot the farming community in terms of technology and extension and these should continue and government should put more effort into this.

So that the farming community should be more about the recent mechanism or the recent development agri farming techniques and this can be only done when there is a particular participation coming from the entrepreneurial side. Institutional reforms are required unlike APMCs government should not consider it has a big detriment to the market development rather as I mentioned that these institutions need a different set of reforms.

For example, the members selection, the formation of market committee and rationalization of taxes, we have already taken some initiative under eNAM. So, first at this level government should work. They should also think about the storage and wastage of food because of the heavy I would say procurement by FCI. So, there should be one alternate body also to look at those things that why there is a so much wastage.

And how it can be reduced and it can be channelized to the needy people where they will have the access to food very easily. A national food security act also be modified to make sure that it is implemented Antyodaya, (()) (27:40) should also be given more priority. In terms of making sure that we do not have the wastage of food, rural infrastructure linkage with rural nonfarm and urban area also one area government should do.

The Swarnjayanti Gram Sadak Yojana and further we have the Bharatmala project so those projects have helped, but especially in terms of making the rural segment of having a more market-oriented development such linkage required not just in terms of physical infrastructure, but also in terms of digital infrastructure. So, apart from these things I thought I should be discussing it.

There is a more to explore on this so those who are interested in exploring more they can read more about it, but I hope with this lecture it will be easier for you to take it up and then analyze these things in a more detailed way and I have gone for preparing all these slides from different sources. So, if you want you can refer my previous lecture and see the reference wherever I have mentioned.

And read more about it I think in coming days there will be more communication from the government to streamline certain jargons in these policy documents and they will be also coming up with new form. The role of NITI Aayog becomes really important in these reforms

because over a period of time the role of NITI Aayog has been increased and this will continue in future also.

So, there is a whole lot of effort to not just legalize the contract farming and other development there is also need to understand the conventional evolved mechanism and what are the efficient norms which are there and try to stick with it. Thank you so much.