

# A Study on “Agricultural Reforms: The Act provides the farmers the freedom of choice related to sale and purchase of produce”

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## ABSTRACT

*The Government of India brought two new laws and amended an earlier one, all the three dealing with Agriculture in India, in 2020. One nation, one market the Act will help create One India, One Agriculture Market and will lay the foundation for ensuring golden harvests for our hard working farmers. The Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Act, 2020 The two new laws seek to promote barrier-free interstate and intra-state trade in agricultural produce and allow farmers to engage with processors, aggregators, wholesalers, large retailers, exporters in the form of contract farming. The third is an amendment to the Essential Commodities Act to liberalize the regulatory environment around stock holding limits for food items. These changes seek to pave the way for greater private investment in agriculture value chains and modernise Indian agriculture. The government of India claims that these reforms were long pending and will hugely benefit Indian farmers while some farmers' groups vehemently contest these claims. In this paper, we detail the issues involved and review both sides of the argument. The freedom to produce, hold, move, distribute and supply will lead to harnessing economies of scale and attract private sector/foreign direct investment into the agriculture sector. We find strong rationale behind these reforms and believe that these reforms are a step in the right direction for the future of Indian farmers.*

**Key words:** APMCs, ECA, WPI, ENAM, PPO

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## INTRODUCTION

Since 1970 Agriculture sector has experienced cyclical growth path around longrun annual average of 2.8 per cent. This is in sharp contrast to performance of non agriculture sector which shows acceleration in growth over time particularly after 1991 when the country embraced economic reforms. As a consequence the disparities in growth path of agriculture and non agriculture sectors increased sharply after early 1990s. These disparities got translated to disparities in per worker income in agriculture and non agriculture and income of cultivators and non farm workers. A worker in agriculture sector earned less than one fifth of income of non agriculture worker and a cultivator (farmer) earned less than one third of the income of a non farm worker during 2011-12. Slow growth in agricultural income and rising disparities are the major source of persistent agrarian distress in the country which has become a serious challenge for the country.

The Government with the aim of transforming agriculture in the country and raising farmers' income have passed three important legislation from Parliament.

These legislations sought to bring much needed reforms in the **agricultural marketing system** such as removing restrictions of private stock holding of agricultural produce or creating trading areas free of middlemen and take the market to the farmer.

The Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020,  
The Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Act, 2020, Essential Commodities (Amendment) Act, 2020.

### Objectives of land(Agricultural) reforms:

- Redistribution of land(Agricultural) across society so that land is not held in the hands of a few people.

- Land ceiling to disburse surplus land amongst small and marginal farmers.
- Removal of rural poverty.
- Abolition of intermediaries.
- Tenancy reforms.
- Increasing agricultural productivity.
- Consolidation of land(Agricultural) holdings and prevention of land fragmentation.
- Developing cooperative farming.
- To ensure social equality through economic parity.
- Tribal protection by ensuring their traditional land is not taken over by outsiders.
- Land (Agricultural)reforms were also for non-agricultural purposes like development and manufacturing

#### **The Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020 Features**

**Freedom to the Farmers:** The Act provides the farmers the freedom of choice related to sale and purchase of produce.

**Liberation from the Cess:** The farmers will not be charged any cess or levy for sale of their produce under this Act. Further there will be a separate dispute resolution mechanism for the farmers.

#### **Benefits:**

**Promotes trade:** It promotes barrier-free inter-state and intra-state trade and commerce outside the physical premises of markets notified under State APMCs.

**Better price:** It will open more choices for the farmer, reduce marketing costs for the farmers and help them in getting better prices

**One nation, one market:** The Act will help create **One India, One Agriculture Market** and will lay the foundation for ensuring golden harvests for our hard working farmers.

#### **The Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Act, 2020 Feature:**

Aims to provide for a national framework on farming agreements that protects and empowers farmers to engage with agri-business firms, processors, wholesalers, exporters or large retailers for farm services

#### **Benefits**

**Level playing field:** The new legislation will empower farmers for engaging with **processors, wholesalers, aggregators, wholesalers, large retailers, exporters** etc., on a level playing field without any fear of exploitation.

**Transfers the risk:** It will transfer the risk of market unpredictability from the farmer to the sponsor and also enable the farmer to access modern technology and better inputs.

**Attracts private sector:** This legislation will act as a catalyst to attract private sector investment for building supply chains for supply of Indian farm produce to national and global markets, and in agricultural infrastructure.

**Eliminates intermediaries:** Farmers will engage in direct marketing thereby eliminating intermediaries resulting in full realization of price.

#### **Amendments to Essential Commodities Act (1955) Background:**

India has become surplus in most agri-commodities but farmers have been unable to get better prices due to lack of investment in cold storage, processing and export.

The imposition of the curbs on stocking of farm produce and regulation of the prices of commodities, etc. under

**Essential Commodities Act (ECA)** are some of factors responsible for less entrepreneurial spirit and thus less investment in the farm sector.

#### **Benefits of Amendments**

The amendment would deregulate the commodities such as cereals, edible oils, oilseeds, pulses, onions and potatoes. It will help to lessen the fears of private investors of excessive regulatory interference in their business operations.

Any limits under ECA over these commodities will be imposed only in exceptional circumstances such as war, famine, extraordinary price rise and natural calamity.

The freedom to produce, hold, move, distribute and supply will lead to harnessing economies of scale and attract private sector/foreign direct investment into the agriculture sector.

It will help drive up investment in cold storages and modernization of the food supply chain. The amendment is expected to help both farmers and consumers while bringing in price stability.

It will also create a competitive market environment and also prevent wastage of agri-produce that happens due to lack of storage facilities.

It is considered as a step towards transformation of agriculture and raising farmers' income.

#### **Significance of these Acts**

The reforms are expected to **accelerate growth** in the sector through private sector investment in building infrastructure and supply chains for farm produce in national and global markets.

They are intended to **help small farmers** who don't have means to either bargain for their produce to get a better price or invest in technology to improve the productivity of farms.

The legislation on **contract farming** will allow farmers to enter into a contract with agri-business firms or large retailers on pre-agreed prices of their produce.

It will also help farmers of regions with surplus produce to **get better prices** and consumers of regions with shortages, lower prices.

It will promote the creation of **Farmer Producer Organisations (FPO)** on a large scale and will help in creating a farmer-friendly environment for contract farming where small players can benefit.

**Competition** is the best protector of stakeholders whether it is consumer or the farmers. Having a variety of buyers will protect farmers from exploitation and by having more sellers (farmers), consumers can buy better products at better deals.

### **FARMERS PROTEST AND ISSUES INVOLVED**

**Federal Angle:** The provisions in the Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020, provides for unfettered commerce in designated trade areas outside APMC jurisdictions.

Apart from this, the Act empowers the Centre government to issue orders to States in furtherance of the law's objectives.

However, matters of trade and agriculture being the part of subjects on the State list, have caused resentment in States.

**Lack of Consultation:** First the ordinance route and now the hastily attempt to pass the Acts without proper consultation adds to the mistrust among various stakeholders including farmers.

Also, by allowing 'trade zones' to come up outside the APMC area, farmers have become apprehensive that the new system would lead to eventual exit from the minimum support price.

**Absence of any regulation in non-APMC mandis:** Another issue that is raised by the farmers is that it gives the preference for corporate interests at the cost of farmers' interests.

In absence of any regulation in non-APMC mandis, the farmers may find it difficult to deal with Corporates, as they solely operate on the motive of profit seeking.

**Non-Favourable Market Conditions:** While retail prices have remained high, data from the **Wholesale Price Index (WPI)** suggest a deceleration in farm gate prices for most agricultural produce.

With rising input costs, farmers do not see the free market based framework providing them remunerative prices. These fears gain strength with the experience of States such as Bihar which abolished APMCs in 2006. After the abolition of mandis, farmers in Bihar on average received lower prices compared to the MSP for most crops.

## IMPACT ON STAKEHOLDERS

**Farmers:** The farmer is now the producer and the seller of his own produce and will be free to enter into agreement with private trade directly.

**Consumers:** The consumers would now get the produce at much lower costs.

**Middlemen:** Although the role of middlemen is not going to end completely, their hold on the trade will not be as strong.

**State governments:** The state govt. of states such as Punjab and Haryana will be adversely affected as there will be a huge loss in annual revenue collection.

### **The genesis of the recent agricultural reforms:**

In our earlier work, we have referred to and elaborated on structural issues in Indian Agriculture due to which it has not been able to realise its full potential. Opaque market practices that lead to low farm gate prices, growth that is far below industrial and service sectors,

The importance of reforms in agriculture sector was realised and emphasised by several experts during 1990s when country felt significant gains of reforms in non farm sector for the economy. Accordingly, some efforts were made in early 2000s to liberalise agricultural marketing and internal trade. A Model APMC Act (2003) was proposed to replace the old Agriculture Produce.

Market Regulation Act in various states. Milk and Milk Product order was reformed to attract private investments in dairy processing. Another significant reform undertaken in year 2002 was removal of restrictions (licensing and permit) on purchases, movement and stock of agricultural commodities under the Essential Commodities Act. The changes made in ECA were completely withdrawn during 2006 and 2007. Model APMC Act was partly adopted by some states that too in a patchy and diluted form.

Realising the importance of policy reforms in raising growth and farmers income and also serving consumers interest the Central government first came with the initiative of E-NAM (electronic trading platform for national agricultural market) followed by a set of reforms in agricultural marketing and some other areas. E-NAM The E-NAM was launched on 14 April 2015 as a Central Sector Scheme. It provides financial assistance of Rs. 75 lakh, for each mandi brought under ENAM, for putting in place required infrastructure and mechanism for electronic auction of farm produce. This will network existing APMC Mandis to create Pan India unified agricultural market using NAM portal and enable any trader in any part of the state/country to participate in the bidding process of agricultural commodities using on-line platform.

This was followed by an agenda for farmer friendly agricultural reforms in three areas namely Agricultural Markets, Land Lease and Forestry on Farm and private lands prepared by NITI Aayog. Our agricultural markets did not evolve with time and suffered from poor infrastructure and competition due to legal and regulatory restriction.

The reforms in agricultural market require provisions for:

- Setting up private mandis
- Direct marketing (purchases) from farmers
- Contract farming
- E-trading
- Single point levy
- Direct sale to consumers by farmer
- Single traders license
- Special treatment to fruits and vegetables and
- Rationalisation of taxes/fee/ levy in market.

The aim of these reforms is to attract modern capital to agricultural marketing, provide alternative options to farmers to sell their produce, promote competition and value chains, reduce number of intermediaries and their margins through integrated supply chain, and add scale to market operations.

The second area of reforms pertain to liberalisation of leasing agricultural land. Liberalised land lease market offers solution to several problems of Indian agriculture like consolidation of operational holdings, fallow lands, access to institutional credit, and productive use of land belonging to farmers unwilling or unable to engage in farming. A transparent land leasing law that allows the potential lessor or tenant or sharecropper to engage in written contracts with the landowner is a win-win reform. Under the model law,

NITI Aayog is facilitating States to enact their land-leasing laws and create awareness amongst different stakeholders about the benefits of land leasing. Third area selected for reforms is forestry or tree plantation on private land. Forestry on private land is regulated by restrictions on felling of trees and transit permit for marketing of tree products. These regulations have put high barrier and disincentive to growing trees on private lands. To relax these restrictions and to facilitate raising of trees on private lands the Ministry of Environment, Forest & Climate Change, Government of India has circulated Advisory to States. India meet major part of timber demand from import and there is very good scope of supplement farmers income from sale of tree produce.

### CONCLUSION

The above mentioned legislation basically aims at creating additional trading opportunities outside the APMC market yards to help farmers get remunerative prices due to additional competition. It proposes an electronic trading in transaction platform for ensuring a seamless trade electronically. None of the legislation affects the Minimum Support Price in any way as the MSP is an administrative decision not a law. Agricultural Produce & Market Committee (APMC) will still be available as a choice to sell their products. The sale, lease or mortgage of farmers' land is totally prohibited and farmers' land is also protected against any recovery.

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