
Governance and Administrative Reforms for Agriculture sector

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- **Reform Measure One**
 - Amendments to Essential Commodities Act to enable better price realisation for farmers

Introduction to Essential Commodities Act

- ECA was enacted to provide, for the control of the production, supply and distribution of, and trade and commerce, in **certain commodities**.
- The ECA controls the production, supply and distribution of, and trade and commerce in, certain goods such as vegetables, pulses, edible oils, sugar etc. which are treated as essential commodities.
- Under the Act, the power to implement the provisions of the Act are delegated to the States.
- When the price of any of these essential commodities rises, the regulator can impose stockholding limits on the commodity, restrict movement of goods, and mandate compulsory purchases under the system of levy.
- Consequently, all wholesalers, distributors, and retailers dealing in the product must **reduce their inventories** to comply with the holding limit.
- The purported aim of this Act is to ensure affordability of essential commodities for the poor by restricting hoarding. It is an overarching legislation regulating agricultural marketing and production.

Constitutional framework

- By virtue of Article 246(2), the Parliament and State Legislature have power to make laws with respect to any of the matters enumerated in List III in the Seventh Schedule.
- **Entry 33 of the List III (Concurrent List)** provides for both Parliament and State Legislature to make laws in respect of following matters:
 - **Trade and Commerce in, and the production, supply and distribution of,-**
 - (a) the products of any industry where the control of such industry by the Union is declared by Parliament by law to be expedient in the public interest, and imported goods of the same kind as such products;
 - (b) **foodstuffs, including edible oilseeds and oils;**
 - (c) cattle fodder, including oilcakes and other concentrates;
 - (d) raw cotton, whether ginned or unginned, and cotton seed; and
 - (e) raw jute.

Essential Commodities Act

- Essential Commodity means a commodity specified in the Schedule.
- Few of the Essential Commodities specified in the Schedule to ECA:
 - Food stuffs, including edible oil seeds and oils;
 - Seeds of food crops and seeds of fruits and vegetables
- The Central Government may, by order regulate or prohibit the production, supply and distribution of essential commodities and trade and commerce therein.
- The object of invocation of ECA:
 - Maintaining or increasing supplies of any essential commodity
 - For securing their equitable distribution
 - Availability at fair prices
 - Securing any essential commodity for the defence of India or the efficient conduct of military operation

Economic Survey 2019-20

- **Economic Survey 2019-20** summed the said problem as under:
 - The Act is **anachronistic** as it was passed in 1955 in an India worried about famines and shortages; it is irrelevant in today's India and must be jettisoned.
 - With enhanced production and integration of markets, the ECA has become an instrument of coercion and inhibit proper functioning of markets of these essential commodities.
 - **Competitive markets are effective** in allocating resources in an economy. Frequent and unpredictable imposition of blanket stock limits on commodities under the ECA distorts the incentives for the creation of storage infrastructure by private sector.
 - **Imposition of stock limits on onions in September, 2019 had no effect on the volatility of the retail and wholesale prices of onions.**

Background

- **What the Finance Minister said:**
- EC Act, 1955 was enacted in days of scarcity. During those days, food shortage was common. Indian farmers were trying to produce, but could not, due to lack of agriculture led impetus.
- Now, farmers are producing **abundant crops**. This leads to issues because they want to export while we do not permit them to export to make sure that prices do not go up.
- Because of flip flops, farmers do not get benefit, sometimes consumers also suffer.
- Farm produce prices is highly affected due to uncertainty created by ECA.

Amendments proposed

- **What the Finance Minister said (Contd.):**
- ECA requires amendment largely to make sure that **cereals, edible oils, oilseeds, pulses, onions and potato** will be completely **deregulated**. Unless there is an extraordinary situation, there will not be a requirement to invoke ECA.
- Stock limits will be imposed under **very exceptional circumstances** like national calamities, famine or where there is huge surge in prices.
- **Limited to that extent, ECA will be amended.**
- **Stock Limit in aforesaid situations not to apply in case of food processors or value chain participant**
- No such stock limit shall apply for **processors** or **value chain participant**, subject to their installed capacity or to any exporter subject to the export demand.
- This is so because today value addition happens at the doorsteps of the food processors. Today, if he has kept stocks of pulses, and if ECA comes into force, then even his premises are raided and whole lot of explanation is sought.

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- **Reform Measure Two**
 - Agriculture Marketing Reforms to provide marketing choices to farmers

Agriculture Produce Market Committees

- Farmers, at present are bound to sell agriculture produce only to Licencees in Agriculture Produce Market Committee.
- The Agriculture Produce Market Committees were constituted under respective State legislations.
- APMCs operate on two principles:
 - Ensure that farmers are not exploited by intermediaries (or money lenders) who compel farmers to sell their produce at the farm gate for an extremely low price.
 - All food produce should first be brought to a market yard and then sold through auction.

Agriculture Produce Market Regulation

- History of agriculture produce market regulation programme in India dates back to British period.
- A Royal Commission on Agriculture, 1928 gave its recommendations for regulation of marketing practices and establishment of regulated markets.
- It provided for **regulating the trade practices** and **to establish market yards in the countryside**.
- Based on the recommendation, Government prepared a **Model Bill in 1938** and circulated to all States but not much headway was made till independence.
- Later, most of the States enacted Agriculture Produce Markets Regulation Acts **during sixties and seventies** and put these in operation.

Constitutional Framework

- State Legislatures trace their power to make laws in the matter of Agriculture Produce Market Regulation from List II of Seventh Schedule.
- Entry 14 provides for State to make laws on the matter of :
 - Agriculture, including agriculture education and research, protection against pests and prevention of plant diseases
- Entry 27 provides for State to make laws on the matter of:
 - Production, supply and distribution of goods subject to the provisions of Entry 33 of List III
- **Entry 28** provides for State to make laws on the matter of:
 - **Markets and fairs**

Background to proposed law

- APMC Act of the States divides the entire area of the State into various notified Market Committee areas and has delegated the responsibility of regulating Agriculture marketing practices in such areas to the specified APMCs.
- The market of Agriculture produce thus has become **highly fragmented**, not only across the country but even at the level of the State itself, which hinders both, proper market access for farmers and also the development of required infrastructure for handling the produce.
- The existing regulatory framework **does not support free flow of agriculture produce; and direct interface of farmers with the processors/ exporters/ bulk buyers/ end users**, and in sequel has let in large number of intermediaries who may or may not be adding any value along the value chain.
- This is neither advantageous to the farmers nor serves well the interests of the consumers.

Model Agriculture Produce and Livestock Marketing Act, 2017

- A Committee on Marketing Reforms was constituted on 12.08.2016.
- The Committee has formulated “The State Agriculture Produce and Livestock Marketing (Promotion and Facilitation) Act, 2017” as a model APLM Act encompassing a host of reforms that addresses the diverse and complex segments of a large sector like Agriculture.
- The salient features of the Model APLM Act are:
 - Abolition of fragmentation of market **within the State/ UT** by removing the concept of notified market area
 - Full democratization of Market Committee
 - Integration of farmers with processors, exporters, bulk retailers and consumers
 - Creation of a conducive environment for **setting up and operating private wholesale market yards (licensees) and farmer consumer market yards**, so as to enhance competition among different markets and market players for the farmer’s produce, to the advantage of the latter

Model Agriculture Produce and Livestock Marketing Act, 2017 (Contd..)

- Promotion of direct interface between farmers and processors/ exporters/ bulkbuyers/ end users so as to reduce the price spread bringing advantage to both the producers & the consumers
- Giving freedom to the agriculturalists to sell their produce to the buyers and at the place & time of their choice, to whom so ever and wherever they get better prices
- Promotion of e-trading to enhance transparency in trade operations and integration of markets across geographies.
- The law promotes multiple market channels like private market yards, direct marketing and even godowns and silos can be notified as markets
- **Observation**
- Twelve years ago, a report prepared by National Commission on Farmers said that a regulated market should be available to farmers **within a radius of 5 km**. However, the situation on the ground is very disappointing.
- The model APLM Act, 2017 has been adopted **only by few states** including Punjab, Uttar Pradesh and Madhya Pradesh.

Report of Expert Committee on Integration of Commodity Spot and Derivative Markets dated 12.02.2018

- In the Budget announcement for 2017-18, the Department of Economic Affairs had set up a Committee to study and promote creation of an operational and legal framework to integrate spot market and derivatives market for commodity trading.
- **Observation**
- The present system of agriculture marketing mandates sale/ purchase of agricultural commodities through notified market yards. This is depriving farmers from sale of produce through any other better paying channel.
- **Suggestion:**
- There should be multiple modes of selling of farm produce, so that farmers can sell their produce at the competitive prevailing price.
- Whenever the facilities of APMCs are not used, that is, if sale is done outside the APMC premises, such as sale on a regulated electronic platform, or regulated private markets, fee or levy on such sale outside APMCs or mandis should be waived.

Background to proposed law

- What the Finance Minister said:
- At the moment, a farmer is bound to sell his produce only to licensees in APMC.
- This restriction has been one of the reason why farmer is unable to fetch fair price.
- The Finance Minister remarked why should farmers be constrained to sell their produce only to few licensees?
- It is the view of the Government that farmers should be given a choice to market his produce.
- Such restriction of sale is not there for any industrial produce.

New Central Law

- What the Finance Minister said:
- Central Government to come up with Central Law so that farmers will be able to have a **choice to sell their produce at attractive price**.
- The Government wants to ensure that there is **no barrier in inter state trade**. At the moment, inter-state trade is restricted.
- Government to come up with a framework for farmer to have his produce e-traded, to engage in **e-trading of his produce**.
- A Central Law is being proposed to give farmers the choice to sell their produce at attractive price, barrier free trade and to enable farmers to e-trade the produce.

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- **Reform Measure Three**
 - **Agriculture Produce Price and Quality Assurance**

Background of Contract Farming

- The government has been making efforts to integrate farmers with agro-industries to ensure that they get better prices for their produce.
- Companies which are engaged in contract farming in India at present in some states for select crops have been helping farmers in procuring better seed qualities and also training them in better methods of farming, which can improve yields.
- Contract farming is effectively the biggest insurance scheme for farmers.
- As the sale of their produce is guaranteed, they don't have to fret about drought, excessive rains, floods or other acts of gods.
- **What is Contract Farming?**
- Contract farming in essence is a pre-production season agreement between farmers (either individually or collectively) and sponsor(s), that transfers the risk of post-harvest market unpredictability from the former to the latter.

Model Contract Farming Act, 2018

- Pursuant to Budget Announcement for 2017-18, Hon’ble Union Agriculture Minister constituted a **Model Contract Farming Act drafting Committee**.
- **Purpose**
- Integrate farmers with agro-industries so as to ensure better price realization for their produce, reduce post-harvest losses and create job opportunities in rural areas.
- **Key Features of the Model law**
 - Setting up of an appropriate and unbiased state level agency called “**Contract Farming (Development and Promotion) Authority**” to carry out the assigned mandates under the provisions relating to contract farming and popularize it among the stakeholders.
 - Constitution of a “**Registering and Agreement Recording Committee**” at district/block/taluka level for registration of contract farming sponsor and recording of contract, so as to implement effectively contract farming

Model Contract Farming Act, 2018 (Contd..)

- **Key Features of the Model law**

- Enables production support, including extension services to the contracting farmers or group of farmers through supply of quality inputs, scientific agronomic package of practices, technology, managerial skills and necessary credit. Contract farming produce / product is covered under crop / livestock insurance in operation.
- Contract farming to **remain outside the ambit of respective Agricultural Produce Marketing Act of the states/UTs**. The additional benefit in consequence to the buyers is **freedom from market fee and commission charges**, resulting in a saving of 5 – 10 per cent to their transaction costs.
- **Prohibiting contract farming sponsor from raising permanent structure** on contract farming producers' land and premises
- **No rights, title ownership or possession to be transferred or alienated or vested in the contract farming sponsor etc**
- Ensuring buying of entire pre-agreed quantity of one or more of agricultural produce, livestock or its product of contract farming producer as per contract, consistent with the provisions of this Act and Rules made thereunder.

Constitutional basis of Model Contract farming law

- The Act falls under **Entry 7 of List III** of Seventh Schedule.
- Entry 7 provides for:
 - “Contracts, including partnership, agency, contracts of carriage , and other special forms of contracts , but not including contracts relating to agricultural land”
- Hence, the Parliament and the State Legislature, in accordance with Article 246 (2), is competent to enact the law on farming contract.

Background

- Farmers do not have a standard mechanism which can be enforced for him to get a predictable price, predictable sale of his produce at time of sowing.
- If he is lucky, and no monsoon or disaster reaches, he is able to produce, but does not know how much of it can be sold or the price it will command.
- Private sector investment in provision of inputs and knowhow in the agriculture sector hindered.

Legal Framework

- Facilitative legal framework will be created to enable farmers for engaging with processors, aggregators, large retailers, exporters etc. in a fair and transparent manner.
- The Government is desirous of providing a framework whereby a farmer, prior to his sowing, well before every season, can be given a assured price return and quantity to be bought. This will lead to fairness for the framework.
- Government will bring in framework for engaging farmers with processors, aggregators, large retailers, exporters etc. in a fair and transparent manner.
- In the result, farmers will benefit from better technology, assistance, high quality seeds from buyer.
- The said framework will be intended to provide assurance to farmers each time he sows, before Rabi or Kharif.
- Risk mitigation for farmers, assured returns and quality standardisation shall form integral part of the framework.

•Key Learnings

Key learnings

- **What we can expect:**
- The Government has proposed amendments to the ECA with the object to deregulate cereals, edible oils, oilseeds, pulses, onions and potato.
- The Governance and Administrative reforms proposed by the Government have a direct bearing in the entire supply chain of food grains, right from farmer to consumers.
- Earlier, we have seen that ECA disincentivized modern warehouses insofar as storage facility entrepreneurs were discouraged by uncertain times when the Government would invoke ECA leading to raids in their premises.
- Now, with the proposed amendment, food processors and value chain participant are free to keep buffer stock subject to their installed capacity.
- In case of abundant crops, farmers will be free to export their produce without worrying about excessive regulation.

Key learnings (Contd..)

- **What we can expect:**
- The Government while going ahead towards making India self-reliant has expressed its intent of empowering farmers by giving them choice to sell their produce at competitive prices.
- Earlier, the farmers could sell their produce only to licensees, they may be to Notified Mandi or to licensed private market yards. Resultantly, there was no liberalization in marketing of agriculture produce.
- The proposed legislation would help usher in a revolution towards enabling and empowering farmers.

Key learnings (Contd..)

- **What we can expect:**
- The Central Government has expressed its intent to bring in a legal framework which would give assurance to the farmer with respect to the three most essential traits of farming:
 - Quality
 - Quantity and
 - Price
- The said legal framework will work out a mechanism, for assuring farmers of the quality, quantity and price of their produce every time, before sowing seeds, for either Rabi or Kharif season.

THANK YOU

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