Recent Agri Reforms: A boon for Indian Agri Exports

There have been several revolutions in the field of agriculture in this country. The first was the Green Revolution. It was on the farm which led to self-sufficiency in food grains. Then there was the White Revolution in the dairy sector. It resulted in coming up of Amul and the country not only became self-sufficient but was also able to get into value added processing. So, what was required and long overdue was a revolution in the agricultural markets at par with reforms taken in 1991 for the industrial sector.

Converting a crisis into the opportunity so as to change the ecosystem of the agricultural marketing to enable Indian Agri sector to realize its full potential, the Government, has enacted the Farmers' Product Trade and Commerce (Promotion and Facilitation) ACT, 2020 (FPTC) and the Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act, 2020 (FAPAFS) along with another Act by The Essential Commodities Act, 1955 has been amended.

As regards Amendment of the Essential Commodities Act, 1955, the Government has decided to de-regulate cereals, edible oil, oilseeds, pulses, onions, and potatoes by amending the ECA 1955. Hence, stocking limits will not be imposed on these items unless there is an exceptional circumstance like natural disasters, abnormal price rise, etc.

The ECA severely criticised for being an outdated legislation which is counter-productive and acting as an impediment to agricultural growth. The ECA provisions were formulated in a specific context, i.e., a scarcity-hit India in the 1940s and 50s. While it was desirable to maintain the supply of agricultural products, then, the Act is of little benefit today. Today, we are the largest exporter of rice and the second-largest producer of rice and wheat alongwith fruits and vegetables. Our granaries are overflowing, and we do not have the problem of scarcity anymore. Hence, imposing a limit on stocking does not make sense. Further, it discourages private investment in storage facilities, as the ECA did not distinguish between hoarders and firms which genuinely need to hold stock (say a wholesaler). Because of this, the value chain remains fragmented, because lot of intermediaries have to play a role in connecting the farmer with the end consumer. Since the Act dissuades investment in storage facilities, most of what is produced has to be sold, even if there is a bumper harvest. This leads to a lower price for the farmers. Also, selling excess produce leaves very little to be used when the harvest fails. Thus, a country like India experiences substantial price fluctuations in commodities. Onions are a burning and current example of the same. Thus, this agri reform in the form of amending the EC Act, 1955 is indeed welcome as it will pave the way for unified value chains and encourage unhindered investment in post-harvest requirements like storage facilities thereby giving a fillip to agri export. The amendment is significant because :-

- It 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.

The Farmers' Produce Trade and Commerce (Promotion & Facilitation) Act (FPTC)2020 seeks to provide for the creation of an ecosystem where the farmers and traders enjoy the freedom of choice relating to sale and purchase of farmers' produce which facilitates remunerative prices through competitive alternative trading channels. It will promote efficient, transparent and barrier-free inter–State and intra-State trade and commerce of farmers' produce outside the physical premises of markets or deemed markets notified under various State agricultural produce market legislations. Besides, the Act will provide a facilitative framework for electronic trading and matters connected therewith or incidental thereto.

The APMC Act requires the farmers to sell their produce only at designated mandis. The farmers need to take their produce to the mandi and sell their produce to the highest bidder. The auction is organised by agents, who act as intermediaries between the farmers and the traders/bidders. After selling the produce, agents charge a small fee as commission and pay the farmers. The process is such that it increases the transaction costs. The traders may collude to keep the price artificially low. In effect, they end up creating a monopsonic market, where only one single buyer is deciding the price. The traders can collude because bidding licenses are given only to an exclusive group of traders. Farmers often walk back with very little money. Since these mandis regulate a vast area, the farmers have no incentive to take back their produce without selling it for a low price, as they do not want to incur transportation and storage costs. By the new enactment, the farmers will be given access to other channels through which they can sell their produce for local use or exports. The reform will bring relief to exporters in terms of reduced agri-marketing cess by different State Governments, e.g. in case of paddy, there is a relief of 2-5% on account of elimination of mandi fees/cess. The exporters have welcomed the reform as it allows them to interact with farmers directly and bring in transparency of commercial transactions alongwith elimination of unnecessary movement of produce from farm to selling point and then to processing unit. The farm produce can now move to processing place direct from farm. Further, the time consumed in detaining the vehicles at check-posts to collect fees/cess will be eliminated thereby saving time and money. Thus making the produce more competitive. The exporters are seeing a very positive outcome in terms of betterment of farmers alongwith the industry. E-trading also help the farmers to understand where produce is getting higher price and his dependence on selling to Government agencies is reduced. Exporters have freedom to set up private mandis alongwith storage facilities.

The benefits and significance of FPTC are summarized as under;

Benefits of the Act:

- It will create an ecosystem where the farmers and traders would enjoy freedom of choice of sale and purchase of agri-produce.
- It will also promote barrier-free inter-state and intra-state trade and commerce outside the physical premises of markets notified under State agricultural produce marketing legislations.
- The Act also proposes an electronic trading in transaction platform for ensuring a seamless trade electronically.
- It also proposes to set up a separate dispute resolution mechanism for the farmers.

Significance:

- It will open more choice for the farmer, reduce marketing costs for the farmers and help them in getting better prices.
- It will supplement the existing Minimum Support Price (MSP) procurement system and will help to provide stable income to farmers.
- It will also help farmers of regions with surplus produce to connect with consumers of regions with shortages and get better prices.
- It is expected to pave the way for creating One India, One Agriculture Market in the country.

The Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act (FAPAFS) 2020 will 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 and sale of future farming produce at a mutually agreed remunerative price framework in a fair and transparent manner and for matters connected therewith or incidental thereto.

In this regard it is to be noted that in contract farming, growers enter into contracts with a buyer, who provides the inputs, know-how, and transportation facility to the farmers. In turn, they buy the produce at a fixed pre-determined price. This leads to price security for the farmers, as they deal in forward contracts. Therefore, contract farming is a form of an insurance scheme. It has various other advantages as well. It can solve the problem of scale, because when one corporation enters into a contract with several small farmers, their farmlands are, in a way, consolidated. This can solve a significant policy challenge that has been haunting policy-makers for a long time now. Since corporations provide the quality inputs and the know-how, productivity will increase manifold. These corporations may also invest in storage facilities. Contract farming will also lead to crop diversification. At present, crop choices are mainly dictated by MSPs and other government schemes which are directed towards rice and wheat. But contract farming will allow the farmers to grow a wide variety of crops. The exporters are welcoming the reform as it gives them a platform to enter into agreement with farmers to produce variants to suit the export market rather than being left to the mercy of dealing in products which are produced by farmers by default. Also contract farming reliefs the farmers from borrowing from commission agents / aadhtis who lend money at an extra ordinary high rate of interest. The farmer will be more like a businessman in deciding what to grow and when to grow. The farmers will also adhere to the quality norms as they would have entered into the contract to supply the consistent quality and quantity. This will restructure the agriculture at large.

The contract farming will also bring in technical advancement to the farm gate. The better infrastructure will also help in saving post-harvest crop loss. The benefits and significance of FAPAFs are summarised below:

Benefits of the Act:

- It empowers farmers for engaging with processors, wholesalers, aggregators, wholesalers, large retailers, exporters etc. and thus eliminating intermediaries resulting in full realization of price.
- Farmers have been provided adequate protection. Sale, lease or mortgage of farmers' land is totally prohibited and farmers' land is also protected against any recovery.
- It also provides an effective dispute resolution mechanism for with clear timelines for redressal
- It contains mechanisms which would transfer the risk of market unpredictability from the farmer to the sponsor.

Significance:

- It also enables the farmer to access modern technology and better inputs. It will reduce the cost of marketing and improve income of farmers
- It will help to attract private sector investment for building supply chains for supply of Indian farm produce to global markets. .

Finally, to put these reforms in the right perspective, it is pointed out that India has a strong advantage in the Agriculture sector which contributes to about 15% of the GDP and livelihood for more than 50% of the population. The country is the fourth largest producer of agrochemicals, has the largest livestock population of around 31% of world's livestock and largest land area under irrigation. However food processing in India is less than 10% and the target is to increase it to 25%. There is increasing demand for value-added health-fortified and processed food. The global organic market is growing at 12% per annum. Hence, developing a strong Agri ecosystem by providing access to better marketing avenues for farmers' produce and freeing up the sector from restrictive laws is paramount for which the above cited three new Acts been announced. These reforms will enable barrier-free trade in agriculture produce, and also empower the farmers to engage with sponsors of his choice. Further, they will set in to motion the process of transforming farmers into entrepreneurs with higher incomes and better quality of life, making agriculture the "go to" investment opportunity, and making India the "Food Basket" for the world and major agro trading nation.

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