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Farm Bills: Liberalisation of agricultural marketing is necessary

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Providing his perspective on the farm bills, Bharat Ramaswami contends that the liberalisation of agricultural marketing is the necessary direction – a view endorsed in the past across the political spectrum. The departure is the use of legislation by the Centre. There are also no immediate gains for the procurement-surplus states.

The Parliament has recently passed three farm bills relating to agricultural markets, regulation of commodity stocks, and contract farming. I will follow the popular usage of referring to them together as the farm bills. Excellent explanations of each of the bills can be found elsewhere (for instance, Narayanan 2020). My discussion below is confined to the issues highlighted by this Symposium.

For long in India, the State has found reasons to suppress agricultural marketing – whether to protect consumers (ban exports, restrict stocks), to protect

producers (license traders, regulate markets, ban direct purchases) or to protect the State's own procurement from private trade (monopolise procurement, ban movement).

However, the State has been in retreat ever since the failure of the nationalisation of wholesale wheat trade in 1974. The policies that coerced cheap grain to government granaries have largely been given up. While some consumer-oriented prohibitions still come into place every now and then (for example, export bans), official reviews since the early 2000s concluded that the State-legislated Agricultural Produce Marketing Acts that granted local monopoly to regulated *mandis* have outlived their utility. These are the so-called APMC (Agricultural Produce Market Committee) markets.

The reasons are simple to understand: the monopoly deterred entry and competition, and discouraged investments in the marketing chain. To remedy the situation, the central government drafted model acts in 2003, 2007, and 2017, each of which successively enlarged the scope of private markets and reduced the monopoly of the regulated *mandi*. In 2013, similar recommendations were made by a committee of 10 state agriculture ministers constituted by the central government's Ministry of Agriculture. These included state ministers from Haryana and Punjab.

The present-day farm bills are the culmination of these efforts. While the bills represent continuity with past policies, shaped by consensus across political parties and state governments, they also mark a significant departure. Previous governments drafted model acts but did not enact them because they believed that was the domain of the states. The model act was just that – a helpful template for states to enact their own laws, which many of them did to varying degrees. The enactment of marketing acts by the parliament, therefore, marks a substantial encroachment into the domains of states.

The vocal criticism, however, is that the reform would endanger support prices and is the proverbial Trojan horse that would sabotage the established policy and practice of buying farm produce at remunerative prices. There is nothing in the bill that permits a direct confirmation of these fears.

The bill neither facilitates nor obstructs a policy to do away with minimum

support prices (MSP). All it does is allow free entry to agents who wish to set up markets – whether they be private individuals, producer collectives, or cooperatives. This means that the Food Corporation of India (FCI) (and other associated procuring agencies) can procure in the traditional *mandis*, or in a new market established under this law – or in its own backyard. Thus, the argument that procurement will necessarily cease because of an impending demise of the regulated *mandi*, is flawed.

The bill prohibits state governments from imposing market fees on the new private markets. A plausible scenario, therefore, is that the FCI may move its procurement to new markets set up by others or by itself and, thereby, avoid the state government-mandated market fees and commissions. The state governments may, therefore, have to reduce market fees in order to retain business in the APMC market.

This has its pros and cons. In the past, even when state governments allowed direct purchases from farmers, they exploited the monopoly provisions to require that *mandi* fees be paid on them even though these were transacted outside the *mandi*. Thus, what was justified as a user charge became a *de-facto* tax appropriated by the APMCs. On the negative side, the revenue loss will make it more difficult for the states to recoup their investments, let alone invest more. In terms of centre-state finances, the procurement-surplus states stand to lose a steady transfer provided by the central government. Besides, their farmers already have their market – in the form of the FCI. Understandably, the farm bills hold little appeal to Punjab and Haryana.

The law provides an entry for corporates (just as it does for cooperatives or producer collectives, neither of which is uncontroversial or presumably welcome for the critics). Is corporatisation inevitable?

Corporates already have a major presence in the supply of chemicals and machinery. However, the large corporates do not have much of a presence in the hybrid seed market. This probably that has to do with lack of economies of scale in seed production (done by contract growers anyway) and distribution. Except for biotech, large companies are not important in plant breeding. In the rest of the world, it is the concentration in retail that has allowed corporates to extend backwards. Groceries are typically the last item to enter supermarket value

chains and it is unlikely to be any different in India. This depends not just on conditions internal to agricultural marketing but also on patterns of urbanisation, cost of land, cost of private transport, and the friendliness of urban spaces to small vendors.

The entry of private capital does, however, open opportunities for new markets to arise in higher quality produce that supply exports and affluent urban markets. Such markets will not face much competition from traditional markets. As incomes rise, the preference for quality will lead the new markets to displace the traditional markets. However, that is still a long way off for now.

Contract farming complements these new markets. It may be the only way to procure supplies because the quality attributes that distinguish these private markets requires coordination with farmers and providing them with an assurance of purchase. For instance, while mills may desire long staple cotton fibre, farmers produce short staple fibre because the main market channels do not segregate these items and so do not reward farmers growing higher quality long fibre.

Contract farming is not an easy arrangement because the temptations of default are strong especially when enforcement costs are high. Default is more likely when there are alternatives. It is for this reason contract farming does not replace the markets for standardised commodities. For such commodities, the depth and the liquidity provided by the APMC markets will be hard to replicate.

The absence of restrictions presents many opportunities for entrepreneurial energy that is hard to anticipate. In the last few years, creation of new markets by coordinating supply with demand have been the focus of tech start-ups in agriculture. The new laws would add to this momentum.

To sum up, my view is that the liberalisation of agricultural marketing is the necessary direction for diversified agriculture and greater farm incomes. Needless to say, this is not a magic bullet. The process of diversification and growth requires support in terms of R&D, technology dissemination, credit, and insurance. The process of growth would be a lot more inclusive if farmers were organised into marketing associations. It is also clear that agricultural markets (whether APMC or the proposed new ones) need governance on the terms of

exchange, payment, and market data and intelligence.

Going by the protests in Punjab and Haryana, farmers do not think they have the luxury of taking this long view. Despite the poor physical state of the regulated *mandis* and their own inferior bargaining position, farmers recognise the complexity of their relationship with the *mandi* traders and are understandably nervous about disturbing the present arrangements. It is these relationships, flexibly bound with information, advice, and credit that enabled agricultural markets to cope with the disruptive effect of demonetisation. While the bills are irrelevant to MSP, the way in which they have been pushed through without bothering about Centre-state legislative boundaries may suggest to farmers and state governments that the government is not bound by prior institutional arrangements and commitments.