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# **Agriculture Marketing Reforms in India**

Fixing a Broken System

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## Agriculture Marketing in India: Background

*In 1950, there were 236 regulated markets in India.*

*Today, this number has crossed 6,600.*

*There also exist 22,000+ Rural Periodic Markets,  
lacking basic amenities & infrastructure.*

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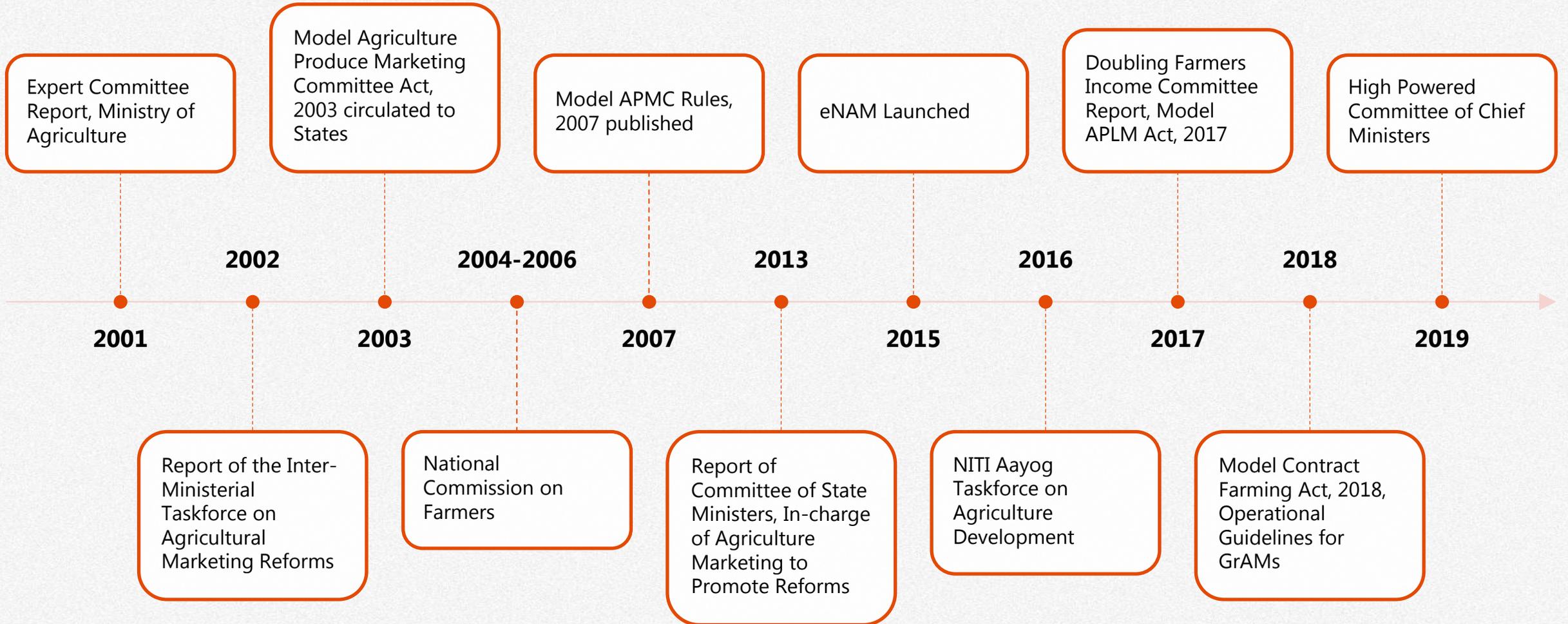
## *Organised Agriculture Marketing saw its Genesis post-Independence*

- *Before attaining Independence, policy focused on keeping prices for consumers and end industry low.*
- *Post Independence, augmenting production required incentivising farmers through remunerative prices, in a fair and transparent manner.*
- *Low price realisation, high costs of marketing and considerable post harvest losses necessitated the development of regulated primary wholesale markets.*
- *The Royal Commission on Agriculture, 1928 called for regulation of marketing practices and establishment of regulated markets.*
- *States enacted Agriculture Produce Markets Regulation (APMR) Acts during the 60s and 70s, bringing all primary wholesale markets under their ambit. **Only State Governments could set up markets.***
- *For each market area, an Agricultural Produce Market Committee (APMC) was constituted to frame and enforce rules.*
- *The objective behind setting up of regulated markets was to ensure a fair and transparent environment for agricultural trade and commerce.*

## The Need for Reform

Fragmented Markets	<ul style="list-style-type: none"><li>• Each market functioned as a separate entity, hampering intra and interstate trade.</li></ul>
Insufficient Markets	<ul style="list-style-type: none"><li>• At the same time, there were not enough markets to deal with growing produce.</li></ul>
Market Fees & Charges	<ul style="list-style-type: none"><li>• Taxes, various commissions raised the cost of the final product, while reducing the returns to farmers</li></ul>
Inadequate Infrastructure	<ul style="list-style-type: none"><li>• Despite market taxes, infrastructure in markets remained underdeveloped and not in tune with modern supply chains</li></ul>
Post Harvest Losses	<ul style="list-style-type: none"><li>• This inadequate infrastructure led to high post harvest losses, estimated at Rs. 90,000+ crores in 2014</li></ul>
Restriction in Licensing	<ul style="list-style-type: none"><li>• Entry as a licensed agent was restricted, discouraging competition and encouraging cartelisation</li></ul>
High Intermediation Costs	<ul style="list-style-type: none"><li>• The fragmented system led to high intermediation costs, raising costs for consumers, while depressing prices received by farmers</li></ul>
Information Asymmetry	<ul style="list-style-type: none"><li>• Farmers often lacked market information, which traders &amp; commission agents withheld from farmers</li></ul>
Inadequate Credit Facilities	<ul style="list-style-type: none"><li>• Informal credit channels still dominated formal credit channels.</li></ul>

## Previous Reform Attempts



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## Previous Reform Attempts: Finding & Recommendations

***The Report of the Expert Committee on Strengthening and Developing of Agriculture Marketing, 2001 noted that*** "the institution of regulated market, has, however, achieved a limited success. Over a period of time, these markets have, however, acquired the status of restrictive and regulated markets, providing no help in direct and free marketing..."

***The Inter-Ministerial Task Force on Marketing Reforms, 2002, noted*** "in the present situation, these restrictions are acting as a disincentive to farmers, trade & industries. Legal reforms can play an important role in making the marketing system more effective and efficient..."

1. ***Mandi system needed to be reformed***
  - a) *Deregulation of areas where new markets will be set up*
  - b) *Rationalisation of market fees*
  - c) *Unified single license for traders*
2. ***Alternative marketing systems needed to be developed***
  - a) *Direct marketing needed to be encouraged*
  - b) *Private market yards*
3. ***The Essential Commodities Act, 1955 needed to be amended to encourage private investments in storage and warehousing.***
4. ***Contract Farming Needed an Enabling Framework***
  - a) *APMC should not be the authority for registration/dispute settlement*
  - b) *States should promote farmer associations/groups to encourage contract farming*
5. ***Barrier Free Markets: National Market for Agriculture***

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## Previous Reform Attempts: Parliamentary Debates & Answers (1/3)

*In 2005, the then Minister of State in the Ministry of Agriculture stated in the Rajya Sabha that "...State Governments have been advised to amend the State law dealing with agriculture marketing (APMC Act) in order to allow for development of competitive markets in the private and cooperative sectors to encourage direct marketing and contract farming programmes..."*

*Responding to a question in the Rajya Sabha on agriculture marketing reforms in May 2012, the then Agriculture Minister, Sh. Sharad Pawar stated that "Sir, there are some which have already been accepted, for instance, recommendation regarding liberalizing agri-procurement...We have requested all the Cooperation Ministers in the States to make amendment in the APMC Act."*

- *Agriculture fell under the State List as per the Seventh Schedule of the Constitution.*
- *States alone were empowered to initiate the process of setting up regulated agriculture markets.*
- *In the spirit of cooperative federalism, States were nudged to amend their individual APMC Acts for reforms to take place, first in 2003 and then in 2017.*
- *Essential Commodities Act, 1955 needed to be amended through the Lok Sabha and the Rajya Sabha.*
- *In pursuing reforms of the APMC system, States had to amend/repeal/replace their existing APMC Acts.*
- *The Standing Committee on Agriculture (2019-20) of the 17th Lok Sabha in its report noted that existing APMC markets are "not working in the interest of farmers" and was "surprised to note lukewarm response of the State Governments towards reforms in the APMC Market"*

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## Previous Reform Attempts: Demand of States (2/3)

The first recommendation made in the **Report of Committee of State Ministers, In-charge of Agriculture Marketing to Promote Reforms, 2013** was that **"States should amend their APMC Acts on the lines of the Model Act..."**

It also recommended a Central Legislation to deal with **"Inter-State Agricultural Marketing, promotion of agribusiness, trade and commerce at the national level"**

and the need to **"develop a National Single Market for agricultural produce, by removing all the existing physical, legal and statutory barriers"**

The High-Powered Committee of Chief Ministers for 'Transformation of Indian Agriculture', also recommended the creation of multiple marketing avenues for farmers, stressed the importance of contract farming & amendments to the Essential Commodities Act.

- *In essence, the APMC Acts treated agriculture marketing as a localised subject, ensuring that the produce grown in the notified area was only allowed to be sold to traders within the notified area.*
- *Existing APMC Acts went to the extent of prohibiting end users and processors located elsewhere from buying directly from farmers, if they did not have a license with the respective APMC.*
- *The Report of Committee of State Ministers, In-Charge of Agriculture Marketing recommended that a Central Legislation to deal with interstate trade of agricultural goods.*
- *Item 42 of the Union List empowers the Central Government to pass legislation pertaining to inter-state commerce and trade.*
- *It was recommended that the Central Act should facilitate the following:*
  - *Central Level licensing/registration of market functionaries, enabling them to deal across the country*
  - *These licenses would allow for the functionaries to procure directly from farmers*
  - *Provide for the setting up of alternative forms of agriculture marketing, including electronic markets*

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## Previous Reform Attempts: Views of Experts (3/3)

### *Volume IV of the Report of The Committee on Doubling Farmers' Income noted that*

*"The one-India market concept may benefit from placing agricultural marketing under the Concurrent List. While cultivation is limited to the land and area of farming operations, has no boundaries and needs to operate on a pan-India level to meet demand across the country, and further afield"*

- Soon it was clear that States were not taking the lead in promoting marketing reforms in agriculture. The Model Acts prepared by the Ministry of Agriculture, first in 2003 and then in 2017, saw few takers.*
- The National Commission on Farmers (NCF), 2004, made the recommendation of placing agriculture on the **Concurrent List**, meaning that both the Union and States could pass legislations pertaining to agriculture marketing.*
- However, placing agriculture on the **Concurrent List** would require a **Constitutional Amendment**, requiring the ratification of all States as well.*
- With States already reluctant to institute reforms in the agriculture marketing laws, the probability of success was limited if this course of action was pursued.*
- Action would be required by the Central Government, keeping in mind the principles of federalism.*

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## What Was Done Differently?

*Rather than seeking to dismantle the existing structure of State APMCs, the Bills introduced in Parliament ensured competition for the notified market yards*

*Complementing these reforms, a Rs. 1 Lakh Crore **Agriculture Infrastructure Fund** has been launched to create infrastructure close to the farm-gate.*

*Along with investments in infrastructure, a huge thrust is also being placed on the **collectivisation of farmers** through farmer producer organisations (FPOs)/farmer producer companies (FPCs)*

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*As India moved from a food deficit nation to the food surplus one, the focus of policy needed to shift from deficit management to surplus management.*

*The previous attempts at reform, which required States to take the lead in instituting legislative changes to their own APMC Acts bore little fruit. Agriculture remained a State subject, however, Inter-State Commerce and Trade remained on the Union List.*

*The Electronic National Market for Agriculture (eNAM) was launched in 2016, with the objective of promoting electronic trading in agriculture produce. While over 1,000 mandis have been onboarded to eNAM, a true national market for agriculture remained far from reality.*

*Bringing agriculture under the concurrent list would involve Constitutional Amendments as it would require the ratification of all States as well. A new approach was needed if agriculture marketing in India needed to be unshackled.*

*Therefore, a decision was taken to deregulate agriculture marketing **outside the physical area of notified markets, promote contract farming and amend the Essential Commodities Act..***

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## The Present Reforms (1/2)

- *Turning a crisis into opportunity, In May 2020, we took the historic steps of freeing the farmers from the artificial shackles placed on them by the archaic APMC Acts, through three Ordinances.*
- *The Recommendation of the **Committee of State Ministers, In-charge of Agriculture Marketing to Promote Reforms, 2013** to introduce a Central Legislation facilitating inter-state trade of agriculture produce was pursued.*
- *In September 2020, these Ordinances were institutionalized through legislative action, when the Lok Sabha and Rajya Sabha passed the:*
  1. **Farmers' Produce Trade and Commerce (Promotion and Facilitation) Bill, 2020**
  2. **Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Bill, 2020**
  3. **The Essential Commodities (Amendment) Bill, 2020**

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## The Present Reforms (2/2)

- *The Essential Commodities (Amendment) Bill, 2020 allows for:*

1. *The Central Government may only invoke the provisions of the Essential Commodities Act, 1955 in an extraordinary situation (war, famine, extraordinary price rises and natural calamities)*
2. *Imposition of stock limits must only be based on price rises, and can only be imposed if there is a 100% increase in retail price of horticultural produce and a 50% increase in the retail price of non-perishable produce*

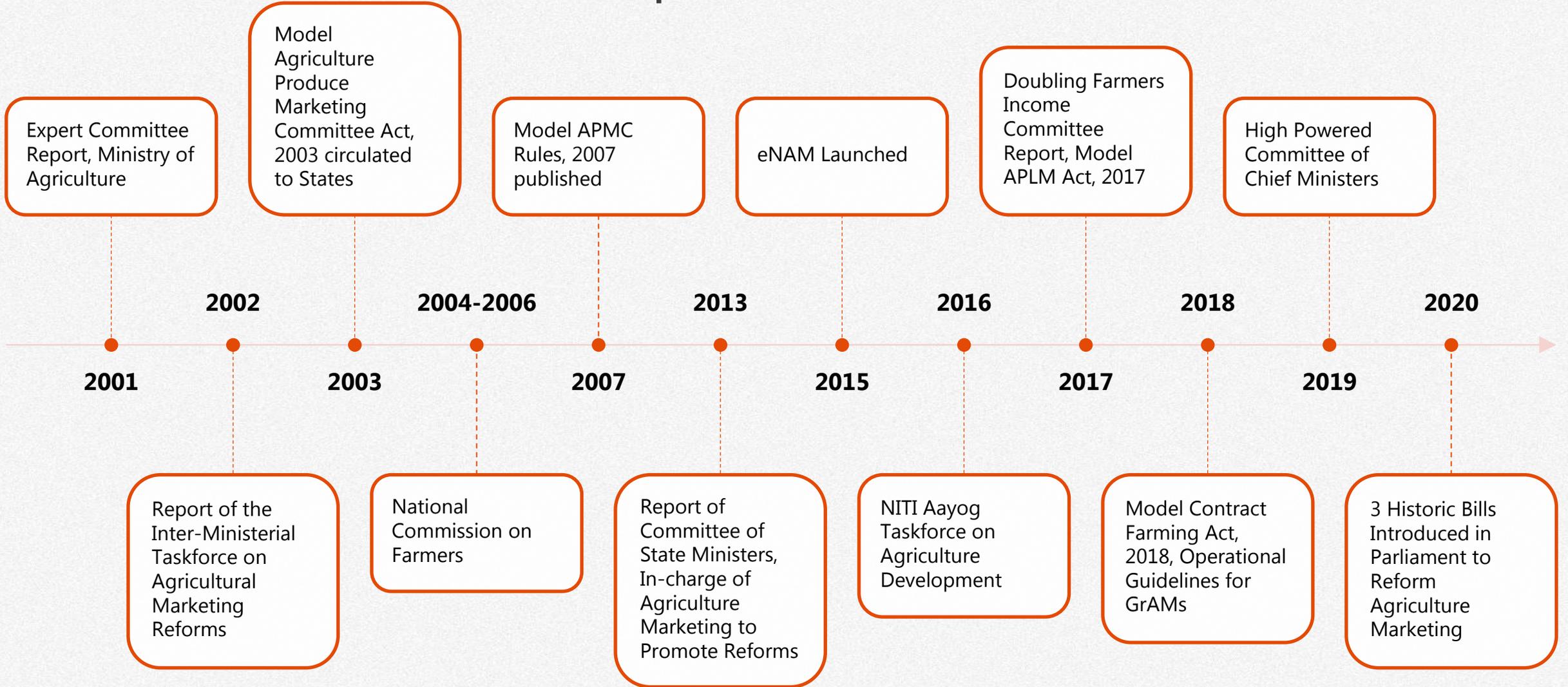
- *Farmers' Produce Trade and Commerce (Promotion and Facilitation) Bill, 2020 allows for:*

1. *Intra and Inter State Trade of farmers produce beyond the physical premises of the existing markets. Trade can be conducted in/at: (i) farm gate, (ii) factory premises, (iii) warehouses, (iv) silos and (v) cold storages.*
2. *Permits online trading of farmers produce, allowing farmer organizations and private sector companies to set up their own electronic trading platforms.*
3. *State Governments may not levy any market fees, cess or levies outside the physical market area*

- *Farmers' (Empowerment and Protection) Agreement of Price Assurance and Farm Services Bill, 2020 allows for:*

1. *Farming agreements between farmers and buyers are made possible, for production or rearing of any farm produce.*
2. *The price of the produce will be clearly mentioned in the contract.*
3. *A clearly specified dispute resolution mechanism, protecting the rights of both farmers and buyers.*

## The Culmination of Previous Reform Attempts



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## Intended Benefits: “One Nation, One Agriculture Market

*The ambitious goal of ‘Doubling Farmers’ Income’ hinges critically on unshackling agriculture marketing. The reforms undertaken in September 2020 ensure exactly that.*

*Despite the rest of India being integrated as “One Nation, One Market”, this could not be further from reality for the agriculture sector before the introduction of reforms in September 2020.*

*Several benefits are expected to accrue from these reforms:*

- 1. Farmers are no longer bound to sell their produce only at APMC Market yards. APMC Market yards will now face competition. Farmers will no longer be bound to pay a farrago of market fees, taxes and cesses on their produce, thereby improving their returns.*
- 2. Development of infrastructure close to the farmgate will reduce post harvest losses, improve remuneration through grading & sorting and boost linkages to terminal markets in food processing, retail and exports.*
- 3. Better price discovery mechanisms for farmers, leading to better remuneration for their produce. eNAM can finally fulfil its potential of serving as the national platform for electronic trading in agriculture produce.*
- 4. Contract farming can act as a form of price assurance, and will boost backward linkages with the **food processing sector**.*
- 5. These reforms will also boost investment in the agriculture sector, through better backward linkages, assured prices and contracts for farm services. Incentives are now aligned for private sector investments across the entire cold chain, reducing post harvest losses and ensuring better prices received by farmers.*
- 6. Better backward linkages will ensure better quality of produce, leading India to capture a bigger share of global export markets.*
- 7. It will also provide a fillip to the digital transformation of the agriculture sector, as several agritech startups operate in the space of ‘Farming as a Service’.*

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## Fulfilment of Long Standing Demands

*For close to two decades, it was clear that urgent reforms were required in agriculture marketing to enhance the welfare of our farmers. The design of India's federal structure meant that States had to take the lead in instituting these reforms.*

*Yet, despite all evidence pointing towards the need for reforms, the pace undertaken by States was uneven and slow, which "surprised" the Standing Committee on Agriculture of the 17th Lok Sabha.*

*Strong and decisive action was required to fulfil these long-standing demands, in the larger public interest. For too long we had held our farmers back by creating artificial boundaries. The reforms undertaken finally provide freedom to our farmers.*

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# Thank You