3 AGRICULTURE REFORM ORDINANCES – WHITHER FARMER?

ASHA Webinar Series on Food, Farming and Farmers

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What are the three ordinances?

1. **APMC Bypass Ordinance**

APMC's oversight and jurisdiction now limited to the APMC market yard. Rest "Trade area"

2. **Freedom of Food Stocking by Agribusiness Ordinance**

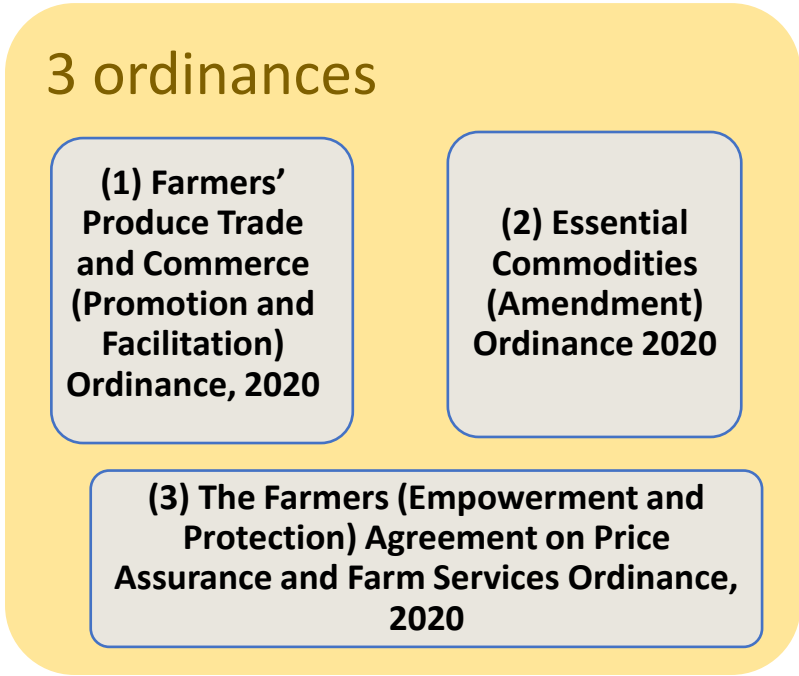
Intended to remove arbitrary and unpredictable notification of stocking limits, by linking it to price triggers.

3. **Contract farming Ordinance**

Provides framework for written agreements between farmers and Sponsors without mandating them.

The three need to be read together.

Shared premise that removing restrictions will lead to gains in efficiency *and these will be passed on to farmers in the form of higher prices*



Situating the 3 ordinances: Principles of market design from a farmer's perspective

- How can we strengthen farmers' right/ freedom to sell to a buyer/mode/place of their choice?
- How can disparities in prices across the country be reduced?
- How can the power imbalance/disparities along the supply chain be reduced?
- How can farmers get a better price?

The above depend on market design…

Larger ecosystem of marketing (transport, infrastructure in markets, assaying, warehousing, storage and finance)

Two principles and the tradeoffs

- **Proximity** : Take markets to the farmer to reduce transactions costs
  - Important when transaction volumes are small
- **Contestability** : More choice of channels, potential buyers per transaction
  - Goal is to ensure competitive markets – thick, rather than thin markets
  - Modality of transaction and organization of markets must allow for transparent price discovery.
    - Spatial transmission of prices in principle would balance regional disparities
    - Price signals for production decision

Typically there is a trade off

(electronic markets, warehouse-based trading, etc. can potentially address these tradeoffs)

- How well do the three ordinances address these tradeoffs?

1. APMC bypass ordinance

"*creating of an ecosystem where farmers and traders enjoy freedom of choice*"

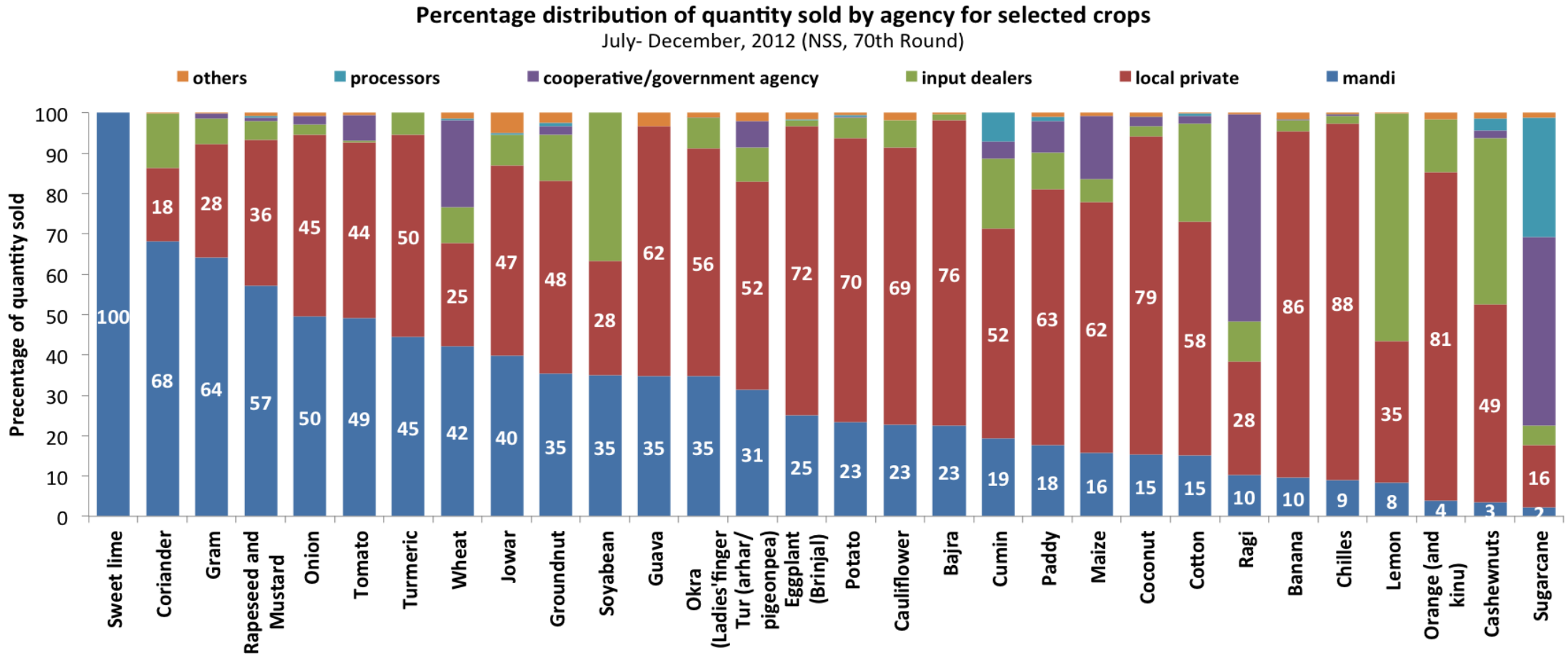
- "competitive alternative trading channels"
  - "trade area" is where trade happens that is not already under APMC (I.2.m)
- "promote efficient, transparent and barrier-free inter-State and intra-State outside APMC" (II.4.1)
- "facilitative framework for electronic trading"

<u>In principle</u>,

- Allows space for small players, FPOs .
- No market fee – attracts small players / pass on the savings to farmers
- Farmer's freedom – competition between trading channels, will bid up farmer prices.

Reality Check:
APMC not as dominant, but important for price discovery

Figure 1: Marketing channels used by farmers for select crops (Kharif, 2012)



1. Bypassing APMC : Potential problems, huge gaps

- Replicate old structures outside the mandi?

  Encourages interstate trade but mandates payment on day of transaction or within three days.

  Disintermediated trade unlikely for inter-state trade – traders buy after inspection

- Fragmented markets
  - What is the price discovery mechanism? What replaces APMC, if at all, as offering a reference price?
  - Many electronic platforms disconnected from each other (interoperability)
- Uncontested markets: fragmented markets means monopsonistic markets
  - Vague enough that small players will want to wait and watch; might not pass on the gains
- Unregulatable – invisibilizes transactions “If you can’t see it, you can’t regulate it”
  - No oversight possible
  - Price information and market intelligence is very weak – section II7(1) and (2)
  - Fragmented regulatory structure – many existing warehouses and private yards will be under APMC, new ones will not?
- Dispute resolution mechanisms: weak and likely difficult for the farmer
  - Interstate-trade
  - Electronic platforms

1. Bypassing APMC: What needs to be done?

1. Grow a national spot (and forward exchange)
   - Hub and spoke – connects e-platforms including e-NAM, offers a template for interoperability (NeML already exists)
   - Transparent and regulatable, needs regulatory oversight
   - FPO policy “10,000 FPOs” – complementary public investments on a large scale to enhance direct participation – relying on agribusinesses to pass on gains to farmers far-fetched.
2. Data architecture – for transparency and policy making
3. Regulatory architecture : infeasible to regulate all primary transactions, but can’t abandon all regulation nor have multiple regulatory systems.

2. Essential Commodities Act

- What was the purpose?
  - Sought to address arbitrary and unpredictable restrictions on stocking limits
  - These were thought to limit private investment in post-harvest supply chain.
  - Thus far, bigger problem for larger players
- Price controls will be imposed only in extraordinary circumstances
  - 100% increase in retail price (horticulture) and 50% increase in retail price of non-perishable agricultural foodstuff
  - Base price – preceding 12 months or average retail price of last 5 years, whichever is lower
- Removes unpredictability and benefits supply chain actors, but
  - Trigger price is too high to be relevant?
  - Spatial differences in prices are high, so an average countrywide base price
  - Stocking limits need to be commensurate with “export orders or processing capacity”
  - Premise that this will transmit to farmers as benefits might be far-fetched.

Invisibilizes stocks – registered warehouses versus private players - (implications for trade policy and food support)

3. Contract farming ordinance: A non-starter?

A long history of Model Contract Farming Acts (starting 2001); past experience is instructive; Indian Contract Act exists, but not used

- Current version: What is new?
  - Expands scope to include farm produce and farm services
  - For written contracts alone, does not mandate written agreements
  - Having a written agreement frees the transaction from “State Act” or ECA (II.7.1 & 2)
- Barriers
  - Neither farmers nor agribusinesses keen on written agreements, for different reasons.
  - Farmers unlikely to be able to seek formal dispute resolution, firms unlikely to do so, except to demonstrate that they mean business.

“we would never take a farmer to court; it would jeopardize relations with all the farmers and not just the one who defaulted”. Agribusiness Survey, Mettupalayam, Tamil Nadu, 2007.

  - Calls for “third-party qualified assayers” (II.4.4) and third party enforcement
  - Written contracts costly to work with a large number of farmers.

Markets

National spot exchange

National, federated regulatory authority

Data architecture for policy making

Complementary investments (FPOs, credit, infrastructure, etc.)

Federalism

3 ordinances

The Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Ordinance, 2020

Farmers' Produce Trade and Commerce (Promotion and Facilitation) Ordinance, 2020

Essential Commodities (Amendment) Ordinance 2020

State intervention in agriculture

Price support

Income support

Public investment (R&D, infrastructure, natural resources, etc.)

Institutions (regulatory, quality, food safety, market intelligence)

Markets

Complementary reforms

Federalism

Regulation

State role in agri-food markets

3 ordinances

Farmers' Produce Trade and Commerce (Promotion and Facilitation) Ordinance, 2020

Essential Commodities (Amendment) Ordinance 2020

The Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Ordinance, 2020

Support to agriculture

- Can Indian agriculture thrive free of state support/intervention?
  - Cochrane's treadmill
  - Global distortions in support
  - Power imbalance between large agribusinesses and farmers
- Price support (output price versus input price, usually both)
  - MSP, price deficiency payments, subsidized price for inputs (vouchers and stamps)
  - Self targeting but distortionary
- Income support
  - Targets persons (farmers) and hence focusses on individual wellbeing
  - But who is a farmer?

Conclusion

- The 3 ordinances change the rules of the game

Changing the rules of the game is not enough

  - Who is equipped to play?
  - Who is the referee?
  - Will the game end well?

- Neither proximity nor contestability is guaranteed; translation into farmer price is a pipedream.
- Needs substantial complementary efforts; role of the state is more important than ever before.