THE HINDU BusinessLine

Opinion Breaking the impasse on new Farm Acts

MG Chandrakanth | Updated on January 07, 2021 Published on January 07, 2021

Breaking the logjam - Sandeep Saxena

The Centre must not go back on the new farm laws. A regulator for the farming sector may help allay farmers' fears

Stakeholders of APMCs of Punjab and Haryana (PH) have been agitating to legalise MSP operation and repeal the recently-enacted farm laws. While policy makers have no two opinions about supporting agriculture, a balanced approach in policies towards different crops, regions, natural resources and other sectors and consumers is crucial. Challenges in institutional reforms remain, since stakeholders used to a particular system for decades find it difficult to cope with even smallest of the changes. Here are a few options for consideration of the government. As Punjab and Haryana governments fear revenue loss due to the new laws, there must be a provision to charge cess at par with APMCs. Alternatively, a package for five years to meet the revenue loss could be provided to the States.

A case for income support Current subsidies through MSP and PDS operations gradually need to shift to income support. Such direct transfers enable farmers to decide on crop choice fetching greater net returns than rice, wheat, and sugarcane. While MSP is announced for 23 crops, cultivators of foodgrains other than rice and wheat, get a raw deal due to ambivalent policies. Under the National Food Security Mission, the supply of highly subsidised rice and wheat curtails demand for ragi, jowar, bajra. Then, even if the state procures millets at MSP, it is often sold below MSP due to free rice.

Agricultural extension now includes market led extension subsuming quality conscious consumers, middleman, merchants, processors, packagers andlogistics. So creating large scale awareness of exploitation of farmers and consumers in APMCs is crucial. According to a RBI study covering 16 States, 16 food crops, 9400 farmers, traders, retailers, farmers' shares in consumer rupee were 28 per cent in potato, 33 per cent in onion, 49 per cent in rice, the MSP crop. There is still no transparency in price formation and payment.

Farmers approach APMC merchants for quick cash loans and end up selling their produce to the same middlemen who loan them money, becoming price takers. This also leads to distress sales with traders forming cartels and denying farmers remunerative prices. Institutional credit needs to be stepped up to free farmers from such exploitative situations.

The agricultural GDP is at ₹19 lakh crore, and the value of foodgrains is at ₹11 lakh crore. Farmers offer around 50 per cent of foodgrains for sale of which 50 per cent is sold in APMCs which works out to ₹2.75 lakh crore. Adding cost of procurement at 30 per cent, the value of 23 MSP crops is about ₹3.6 lakh crore. The total tax and non-tax revenue is ₹23 lakh crore of which GST is around ₹3.5 lakh crore.

Hence, an MSP commitment of ₹3.6 lakh crore can exceed the entire GST collections. Unless tax revenues increase substantially, legalising MSP will be a challenge. It will also lead to monocropping and groundwater overexploitation. Given the Nominal Protection Coefficient for agriculture at 0.87, farmers can realise at least 13 per cent higher price in international markets if exports are encouraged.

Agricultural markets are starved of capital, competition and commitment in APMCs. Private sector investment in processing and logistics is crucial. Farmers must have the freedom to sell their produce in terms of both quantity and location.

The new provisions of Essential Commodities Act can boost private sector investment. Creating UMP (Unified Market Platform as in Karnataka), E-NAM, resulted in increase of prices (by 38 per cent). Political will is crucial for widening markets and so the government must not repeal the three laws. Under Article 249, the Centre can enact laws in the national interest of saving farmers from exploitation by middleman.

Bihar’s experience, since it scrapped its APMC Act in 2006, is impressive. For the period 2005-2014, agricultural GDP growth rate in Bihar was at 4.7 per cent, while India’s rate was 3.6 per cent,. For the 2014-19 period the respective rates for Bihar and India were 7 per cent and 2 per cent.

Contract farming has enabled farmers to offer produce at predetermined prices. Small farmers have benefited more from contract farming as income they derived per acre was the highest. Farmers in Bidadi, Karnataka now export gourds to EU. In Malur, vegetable farmers now supply to both online and brick-and-mortar chains such as Ninja Kart, Big Basket, Milk Basket, Y-Look, More, Max-Hifer, Future Consumer, Reliance Fresh, who remit proceeds directly to farmers’ bank accounts.
Farmers cannot be left to the free will of markets due to their skewed asset distribution. A National Agricultural Marketing Board on the lines of TRAI or SEBI needs to be created to enhance the bargaining power of farmers and to protect them from exploitation.

The writer is a former Director, ISEC, Bengaluru