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Impact of India's New Farm Act, 2020 on Farmers and Markets

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Abstract

At the end of September 2020, the Farmer's Produce Trade and Commerce (Promotion and Facilitation) Bill, 2020, and the Farmers (Empowerment and Protection) Price Assurance and Farm Services Bill, 2020 were approved and notified as legislation. The primary provisions of the proposed legislation are intended to assist small and marginal farmers, who have no means of either negotiating for a better price for their produce or investing in technology in order to increase farm productivity. The Agri market bill seeks to allow farmers to sell their produce to whoever they want outside 'mandis'. Even at their farm gates, everyone may purchase their produce. Although 'commission agents' of the 'mandis' and states could lose 'commissions' and 'mandi fees' respectively (the main reasons for the protests), by competition and cost-cutting on transport, farmers will get better prices by this law.

Introduction

In the midst of strong protests from opposition members over their demand for a division of votes on their motion to refer the legislation to a select committee, the Rajya Sabha has passed two primary farm bills. The Upper House passed the Farmer's Produce Trade and Commerce (Promotion and Facilitation) Bill, 2020, by voice vote, and the Price Guarantee and Farm Services Bill Agreement for Farmers (Empowerment and Protection), 2020. The bills have already been passed by Lok Sabha and have now been informed on 27th September, 2020 as legislation. On the other hand, contract farming legislation would enable farmers to enter into a pre-agreed price contract with agribusiness companies or large retailers for their goods. This will assist small and marginal farmers as the law will move from the farmer to the sponsor the risk of market unpredictability. The 2020 Essential Commodities (Amendment) Bill seeks to delete the list of essential commodities such as cereals, pulses, oilseeds, edible oils, onions and potatoes. It implies that, except in exceptional circumstances such as war and natural calamities, the law would do away with the imposition of stock-holding limits on such products.

The Reasons behind the Protest against the Bill

Political parties and farm organisations such as the Bhartiya Kisan Union (BKU) and the All India Kisan Sangharsh Coordination Committee (AIKSCC) have been protesting against the bills they claim are intended to benefit large corporate houses at the expense of farmers and other organisations such as Shetkari Sanghatana, based in Maharashtra, are supporting such reforms. The bills were all opposed by the opposition parties, calling them 'anti-farmers.'

A majority of farmers who may stand to gain more choices proposed by the new laws might not be preferred by the old system. On the other hand, in 'mandis' the laws are likely to affect powerful 'commission agents' (known as 'arhatiyas' in Punjab and Haryana) who don't want to lose their hold on farmers. Due to the 'Mandi Tax' loss, a strong source of revenue, the state governments of Punjab and Haryana will be most affected. The 'arhatiyas' would also lose their commissions as well as their traditional company, officials explained. The issues and concerns raised by the protesters include the end of the minimum support price (MSP) regime, the lack of relevance of the 'mandis' of the State-controlled Agricultural Produce Market Committee (APMC), the risk of losing land rights under the contract farming rule, the reduction of farm produce prices due to market dominance by large agribusinesses and the exploitation by large contractors of farmers through contents.

New Farm Laws to Bring More Freedom and Better Prices in India

Three proposed agricultural reform laws have been protested against by opposition parties and some farmers' organisations. These provide much-needed changes that, by cutting out middlemen and improving marketing efficiencies, will help farmers to get a better price. The protests stem from false allegations that the new laws mean that central and state governments have abolished minimum support prices (MSP) and procurement. The new legislation gives farmers the right to sell their products anywhere in India. It is not an appealing profession to farm. Surveys reveal that 42% of farmers want to get out of it. The number of farms more than doubled from 71 million to 145 million between 1970-71 and 2015-16, while the average farm size more than halved to 1.08 from 2.28 hectares. According to a report of the Hindu Business Line on 21st January, 2020, Government of India has no clue, how many farmers are there in India. According to the Agriculture Census 2015-16, Uttar Pradesh has the highest agriculture landholdings, followed by Bihar, Maharashtra, Madhya Pradesh, Karnataka, Andhra Pradesh, Tamil Nadu and the remaining in other States (Figure 1). In the States above, however, the number of farmers registered for PM-Kisan is much less.

The Agriculture Census is carried out at five-year intervals in India. In 2015-16, the new one was finished and contrary to that, in Bihar, for example, only 52.5 lakh farmers have been tracked by the State Government and data given to the Centre against the 1.64 crore farmer families that the Census says. Just 86.7 lakh farmers were on record in the case of Maharashtra, where the Census said there are 1.5 crore active land holdings. In Madhya Pradesh, just 55.05 lakh farmers are registered for PM-Kisan against the 1 crore farmers' holdings. In UP, 2 crores

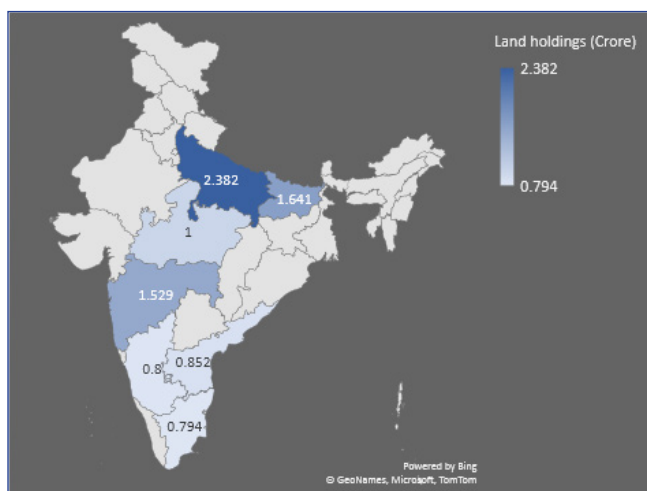


Figure 1: Agriculture Land Holding (Agricultural Census 2015-16)

farmers have enrolled for the scheme compared to the Census number of 2.38 crore farmer families (Figure 2). Nobody can earn a respectable income from such small farms.

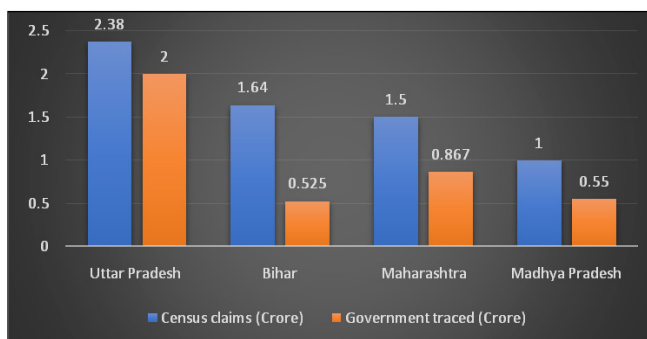


Figure 2: Farm families Claimed by Agriculture Census 2015-16 and Traced by GOI

The main solution lies in shifting individuals out of agriculture into production and services. Opposition parties say freedom to sell will require the termination of government procurement by MSPs. It is a simple lie. The government will continue selling some products to MSPs. Small farmers are turning to animal husbandry, vegetables and fruit, as one hectare of cereals will not produce a decent income. These produce more earnings from less ground. But vegetables and fruit are perishable and slow-moving government agencies cannot procure and distribute them. The best way forward is to enter into contracts with agro-processors for groups of farmers. Contract farming provides economies of scale for producers and ensures a minimum price.

Over two decades, ITC has set up e-choupals, electronic information procurement centres that allow farmers to monitor prices on mandis and overseas markets, satisfying themselves that they are getting a fair price. In 35,000 villages across 10 states, e-choupals help up to four million farmers

growing soybeans, coffee, wheat, rice and pulses. Yet the profits of the ITC are so modest that competitors have not rushed to copy it. In contract farming, the same would be true. In addition, contract farming would enable small farmers to reap economies of scale by community farming. The purchasing companies will have a strong incentive to provide the best new technologies and farming practises to farmers, something that government extension services have failed to do miserably. Decades ago, the Essential Commodities Act was enacted to stop hoarding. For traders, states could decree stock limits and prevent them from moving goods across states. It has affected farmers in operation, too. They were not safe if the prices of potatoes or onions dropped, but when prices increased, they were prevented from reaping high profits. It also meant little investment in agricultural warehouses that were important to other countries' agriculture. When prices increase, the amendment to this Act would help farmers benefit.

Conclusion

Some politicians claim the solution is government purchase of all farm produce at a high price. Global experience shows, however, that if the government-guaranteed price is above international levels, this will cause a surplus for which domestic or foreign demand is not present. High farm support prices were used by the European Union,

which produced mountains of unsold meat and butter and lakes of milk, which were eventually sold to the Soviet Union at a huge loss. The EU has now shifted mainly to direct farmers' income support. With Telangana's Rythu Bandhu scheme (Rs. 10,000.00 per acre) and Modi's PM- Kisan scheme (Rs. 6,000.00 per acre), India is moving in a similar direction. The best is Odisha's KALIYA, which not only provides landowners but also tenants and shareholders with cash transfers (Rs. 10,000.00 per acre); Rs. 12,500.00 to landless households to start poultry, goat-rearing and fisheries; Rs. 25,000.00 over five years to purchase inputs for small and marginal farmers; and insurance benefits. In short, in the meantime, farmers need freedom to sell, move out of farming, and cash support rather than high prices and the new farm act will help the Indian farmers.

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