

Liberalisation of Indian Agriculture: Creating Efficient Farm Markets

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Summary

India has amended its Essential Commodities Act of 1955, enabling farmers to directly sell various agricultural commodities to traders and retailers. This could be a game-changer for Indian agriculture by attracting large investments in food retail and encouraging farm exports.

India has introduced a couple of legislative ordinances amending its more than six-decade old Essential Commodities Act (ECA) of 1955. These ordinances – the [Farmer's Produce Trade and Commerce \(Promotion and Facilitation\) Ordinance, 2020](#), and the [Farmers \(Empowerment and Protection\) Agreement on Price Assurance and Farm Services Ordinance, 2020](#) – were promulgated by the President on 5 June 2020. Both amendments introduce major flexibilities in the ECA of 1955 and are of far-reaching significance for Indian agriculture, the rural economy and farmers.

The ECA of 1955 is a law regulating various products as 'essential' commodities. The Act empowers the central government to regulate or even prohibit the production, supply, distribution and attendant trade and commercial functions for commodities that are essential. The ostensible reason for such regulation is to ensure adequate supplies of different commodities at affordable prices for the people of the country.

The ECA was definitely justified at the time when it was enacted in 1955. Less than a decade after the country achieved independence and the catastrophic experience with famines and food shortages still vivid in the minds of people, supplies had to be regulated. It was all the more important given that the country was not self-sufficient in the domestic production of various food grains, such as wheat, rice, vegetables, fruits, pulses, spices and sugarcane, relying heavily on imports.

Over time, however, the ECA became a major obstacle towards the growth of efficient food markets in India. It prevented farmers from selling produce at market-determined prices. As a result, the government determined much of the food prices in India. Dedicated agents procured food grains and other produce at this fixed procurement prices. Apart from not allowing agricultural produce to be driven by prices arising from their demand and supply, this entailed huge government expenditure outgo on food subsidies for buying food grains at pre-determined prices. The ECA also disincentivised farmers from building stockpiles to sell to organised traders or exporters out of fear that such stockpiling would be construed as potential supply disruption and invite action under the Act.

Several benefits are expected from the amendments. Foremost among these is the opportunity arising for farmers in India to directly access traders, exporters and other

agencies to sell their produce. Not bound by regulations, farmers can look forward to obtaining market prices on their output. The commercial prospects for farmers are manifold as they will be able to tailor their produce on the basis of consumer demand, as communicated by traders, as well as external demand, similarly conveyed by exporters. Other benefits include bright prospects for organised retail, particularly food retail in the country as retailers get direct access to farmers.

With most transactions between farmers and traders expected to go through electronic trading platforms, both parties can be relieved at the prospect of avoiding intermediaries who have been among the major imperfections in India's agriculture market. The possibility of buying produce directly from farmers at market prices should encourage considerable investments from organised food retailers in cold chain, warehousing and other distribution facilities, necessary for storing both perishables and non-perishables. At the same time, the possibilities of agricultural exports become considerably brighter. Farmers can now build sufficient stocks for meeting large export orders and obtain price premiums from selling in global markets that has eluded most of them till now.

Some operational concerns remain. Despite the amendments making clear that farmers will not be hampered by selling conditions stipulated by state Agriculture Produce and Marketing Committee (APMC) Acts, procedural clarifications might be required for states that are yet to amend their APMC Acts. There are also worries over whether future episodes of supply shortage for certain produce might make the government regulate their stocks and selling price by declaring them 'essential' again. Finally, there are concerns over how the core objectives of the deregulation will be balanced vis-à-vis the larger social welfare objectives of providing free food grain to the poor. If the government continues to declare higher procurement prices for food grain, most farmers might continue to be driven by such prices, defeating the greater objective behind the ECA reform.

Notwithstanding these concerns, amending the ECA is a bold step in the right direction. It might provide Indian agriculture the much-needed policy drive by creating effective agricultural markets it has been lacking till now.

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