

Date: 3rd Jan, 2003

It is significant that Agriculture continues to occupy pivotal position in the Indian economy in as much as it continues to be main stay of life for majority of Indian population. It contributes around 25% of the GDP and employs 65% of the work force in the country. It is equally encouraging to note that significant strides have been made in agricultural production during the last 55 years of independence & the country is now moving from shortages to surpluses which provide bulwark against critical situations arising from natural calamities like drought etc. The structural transformation that has taken place in Agriculture has inevitably led to forward and backward linkages. The rural demand for manufactured goods and services, which is extremely important for an economy going through transition, also hinges critically on the growth of agricultural sector.

It is said that we can become agricultural super power of the world provided we are able to promote growth in consumption in both foreign and domestic markets by giving boost to agro processing on modern lines with greater emphasis on quality. Income and employment in the farming sector will come about only if the prevailing mismatch between production and post harvest technology, value addition processing of agro-productions and the whole range of agri-business is set right through modernization of agricultural marketing by adoption of reforms in this sector.

Although we are the largest producer of fruits & vegetables in the world, yet hardly 7% is processed whereas in industrialised countries 60% is processed. Despite appreciable increase in food production the benefit of added volume is not available to the farmers due to negligible processing in this sector too. Keeping in view the tremendous scope in this direction & decrease in agricultural income highlight the paramount need for promoting agro-based industries in the rural area by offering attractive fiscal & financial incentives. .i.e. investment & employment incentives & solid infrastructural support. Such a positive & constructive measure will go a long way in maximising production leading to enlargement of employment opportunities & enhancement of exports. This will boost rural incomes which will be translated in to effective demand & thereby help in a rapid revival of the economy which is sagging at present.

It must be recognised that modern agriculture is just as much as high technology activity as in any industry. Therefore a focused approach to agriculture would also require providing appropriate education & training to our agriculturists, developing ways to provide technical information to every farmer & to provide appropriate kinds of infrastructure & institutions for both agricultural production and marketing of the produce including agro-processing. In short, what we should aim at sustainable growth of agriculture technologically, environmentally, economically & socially. Above all, an efficient agricultural marketing system is vital to provide incentive to farmer to produce more & attain higher productivity, to adjust production planning according to changing production needs of the economy and faster competition among the traders and eliminate the exploitation of farmers particularly small & marginal ones & thereby improve their income & living standards & enhance competitiveness of our agri-products in world markets.

In the context of globalization, liberalization & privatisation, it has become imperative for nations to adopt an outward looking economy with sharp focus an international trade in their advance towards economic supremacy. On the agricultural front, our main concerns are how to secure enhanced access to world markets, seek removal of non-tariff barriers & remove imposition of anti-dumping duty by advanced countries on products of developing countries. While developed countries like USA, European union are giving substantial hidden subsidies & have even lately resorted to tax breaks to boost their agricultural products pressure is brought to bear upon us to reduce domestic support & lowering & eventual phase out of export subsidies in the negotiations. These irritants will have to be amicably resolved in the next round of negotiations so as enhance our agribusiness competitiveness & export in the international market.

Having outlined our observations in general, we would like to submit our replies to the

terms of reference mentioned in the standing committee of state ministers to suggest measures to accelerate reforms in Agricultural Marketing Sector.

#### (1) Amendments to APMC ACT

In the emerging context, the APMC Act has become old and out dated and hence requires to be amended urgently to make farmers competitive and enable purchasers to purchase commodities directly from the farmers.

Besides it may be pointed out there are in all 34335 markets in the country but out of that only 7289 markets are having proper marketing facilities. States are unable to spend adequate funds on this activity as they are already hard pressed for resources. It is therefore essential and desirable that the Central Govt. should promote phased programme of providing requisite facilities so that rest of the markets can be improved in infrastructure facilities resulting in benefits to farmers, manufacturers and customers. Unless the marketing structure at grass root level is strengthened, the well-being of the farmers can not be improved. This also highlights the need for making agricultural marketing a central subject.

It has to be realised that the Systems and Acts for agriculture marketing have been developed a century ago under planned marketing system. What is worse such an old system is not in tune with the present scenario of WTO and liberalisation. Besides it has failed to improve farmers income due to less use of improved technology and methods.

Even today the traders have to undergo 28 legal Acts including Essential Commodities Act and APMC Act. Viewed in this context, it is essential to remove Essential Commodities Act and review other 27 Acts so as to facilitate free trade. Such system is prevailing in South Africa which can be considered as model and may be suitably adopted to Indian conditions.

In addition to above, it is of utmost importance to encourage quality verifying laboratories by Govt. and private agencies and agriculture markets be made Central Subject to meet with requirements of globalization.

In addition to above following measures are also required to be taken viz. private & cooperative sectors be enabled to establish & operate agricultural marketing infrastructure to facilitate direct marketing of agricultural commodities from producing areas & farmers fields, to permit contract farming programmes by processing or marketing firms, simplification & rationalization of market fees & introduction of single point levy for products traded in the market only, boost market infrastructure development projects, deregulation of areas where new market will be set up, allocation of suitable land for market with necessary suitable land for market with necessary approval & infrastructure facilities, long term capital for initial capital investment etc

#### (2) Direct Marketing & Contract farming

(a) Direct Marketing : There is no denying the fact that direct marketing encourages farmers to undertake grading of farm produce at the farm gate and obviates the necessity to haul produce to regulated market for sale. Direct marketing enables farmers and processors and other bulk buyers to economise on transportation cost and to considerably improve price realization. In south Korea, for instance, as a consequence of expansion of direct marketing of agricultural products, consumer prices declined by 20 to 30 % and producer-received prices rose by 10 to 20 %. This also provided incentive to large scale marketing companies to increase their purchases directly from producing areas.

Direct marketing enables farmers to meet the specific requirements of wholesalers from the farmers' inventory of graded produce and of retail consumers based on consumers' preferences, thus enabling farmers to dynamically take advantage of favourable prices and improve their net margin. Direct marketing thus enables farmers and buyers to economise on transportation costs and to improve price realization considerably.

The promotion of direct marketing is suggested as one of the alternative marketing structure that sustains incentives for quality and enhanced productivity, reduce distribution losses, improving farmer incomes with improved technology support and methods. The market will operate outside the purview of the Agricultural Produce Marketing Act and will be owned by professional agencies in private sector, wholesalers, trade associations and other investors. The government's role should be that of a facilitator rather than that of having control over the management of the markets.

Direct Marketing by farmers to the consumers was experimented in Punjab and Haryana with certain improvements. The concepts also got popularized in A.P & in Tamil Nadu. Considering, the vastness of the country, more and more such markets need to come up in organised sector with private investment so that they can be developed in tune with market requirements with backward and forward linkages. This calls for preparation of common code of conduct and modalities with regard to ownership, operation and need based infrastructure and the same be circulated widely to spread the concept of direct marketing by the farmers.

In order to facilitate direct marketing concept, it is essential & desirable that concept of mega markets for Agriculture should be encouraged as per details given below.

An efficient agricultural marketing is essential for the development of the agricultural sector, in as much as it provides outlets and incentives for increased production, the marketing system contributes greatly to the commercialisation of subsistence farmers. Worldwide, Government's have recognised the importance of liberalizing agricultural markets. Government's policy has to effectively address issues of marketing and help to overcome the constraints faced by various organisations including private sector involved in agri-marketing. The ever increasing production, spread of latest technologies, changing socio-economic environment, increasing demand for downsizing the distribution chain and reducing the margin between farmers and ultimate consumers as well as challenges emerging out of liberalization and globalization in the post WTO period requires a vibrant, dynamic and assimilative marketing structure and system.

In this context, it may be emphasized that on account of green revolution and other research in agricultural field, the agricultural production in the country has increased manifold and will continue to do so in the years ahead. There is therefore all the more need and justification for development of modern competitive marketing in the form of "Mega Markets" so that with the provision of scientific storage, infrastructure facilities, remunerative price for products could be ensured to the farmers. Thus production cost could be reduced, losses could be minimized and exports could be augmented. Given the comprehensive ultramodern marketing facilities for agricultural produce, the new concept of mega market can revolutionise the entire marketing system and give benefit of value addition of farmers.

❖ It is significant to note that over Rs.50,000 crores of agricultural produce is being currently wasted which is six times, that of the annual food subsidy of the nation. Besides agri-processing sector has an employment elasticity of two to four times more than that of the manufacturing sector. It is therefore necessary to encourage and facilitate the industry to enter into direct contract with the farmers for the procurement of their raw material by taking measures on the following lines.

- ❑ Create Mega Market whereby
1. create four-way alliances-farmers, suppliers, food processors and credit or insurance suppliers.
  2. Create alliances to infrastructure to improve efficiency between grain handling equipment, transporters and storage.
  3. Integrate food and consumer laws to avoid multiple legislation and regulating authorities and harmonise these with international requirements.
  4. Lower excise and other taxes on processed food products to expand markets rapidly.

(b) Contract Farming :

It is significant to note that Indian agriculture is not akin to Agri business that is prevalent in US or Europe. It is a way of life in India. As a matter of fact, private sector participation in Indian Agriculture is imperative so as to provide much needed impetus for growth. Viewed in this context, contract farming in India is essential so as to promote rural self-reliance in general by pooling local available resources and expertise to meet new challenges. It will also reduce migrations from rural to urban areas and reduce load of procurement. It will promote processing and value addition.

Challenges in implementing contract farming are many as success stories in a classical mould are few. However, one can not deny the accomplishments of a range of Indian contract farming models in India viz. Amul, NDDDB, the Maharashtra sugarcane co-ops, the rapid spread of poultry projects etc. In fact true success and rapid spread will come with deep seated changes in mindset and policy reform.

There is therefore need to enact laws of contract farming to facilitate activity between corporates and farmers. This is needed along with strengthening the overall legal frame work concerning agriculture. The land holdings have gone down. The challenge for the nation lies in deriving direct benefit from R & D, scientific and technological innovations and knowledge infrastructure created by agriculture scientists and corporate houses for 2 acres of land. Diversification in agriculture to fisheries, horticulture, poultry are very important and hence private sector is crucial. It would create better technologies and improve marketability of agricultural produce.

In order to encourage this activity, Govt. fiscal support is a must as mentioned below.

- a) Food processors involved in contract farming be exempted from all taxes.
- b) However, they should be encouraged and induced to invest in lieu in rural infrastructure and farmers upliftment to the extent of tax exempted.
- c) No taxes or duties on import of agriculture equipment be levied.
- d) Abolish all fees, taxes, cess, duties, levy on procurement effected by a registered contract farming programme.

In order to ensure success of the concept not only contract farming be made legal with adequate institutional arrangement with forward & backward linkages to enable small farmers to participate in it. The contracts should be transparent & participatory and adequate bank finance for small and marginal farmers be ensured. There should be contract farmers associations or cooperatives to safe guard their interest which should ensure sustainability of contract & higher income to farmers on stable basis. Above all, strong & adequate infrastructural facilities be provided to farmers and land use planning be suitably taken care of. Last but not the least, it may be stressed that the contract farming could prove counter productive, unless organised markets exist. In any case the contract farming approach had considerable potential in the light of preponderance of small and marginal farmers who can no longer be competitive without access to modern technology & support.

### (3) Rationlisation of Market Fees

Analysis of market fees etc levied in various states indicate that they are not only varied but also do not bear any relationship with the quality of service or efficiency of market operations. The present system of levy of fee at multiple points for the same commodity at different stages of transaction needs to be replaced, by single point levy of market fee in the entire process of marketing in the state. Further, collection of market fee should be more in the nature of service charge based on the quality services provided. The levy of fee can be at different slabs inconsonance with the type of scale of services/facilities provided to all market users. There is also considerable variation in the structure of taxes and fees on the agricultural produce in various states, which distorts the operation of the domestic market. There is need for bringing uniformity in the state level tax structure in agricultural commodities for improving the marketing efficiencies.

In this connection, we would like to make certain concrete suggestions in this regard.

- (a) Cess should be collected only for the transactions done within the market premises & that too only if service is rendered.
- (b) For sales done in the Bazaar where traders procure goods by their self effort & sell in their shops, cess should not be demanded.
- (c) Where there is no service by the market committee, there is no justification for demanding cess.

Considering the facts and circumstances mentioned above, we respectfully urge upon you to kindly have the matter reviewed and reconsidered on an urgent basis and please arrange see that due justice and fair deal is done to Gujarat in the resolution of the above problems on the following lines:

(4) Modernisation & developments of existing markets

(a) On Line Future Trading  
When the country is rapidly moving from shortages to surpluses in respect of agricultural commodities etc. it is highly essential and desirable that necessary online linkages with Bombay Commodity Exchanges and with other commodity exchanges in the country be facilitated through provision of incentives and facilities. Such a measure will go a long way in ensuring regular availability of commodities to industries at reasonable prices with benefit to the farmers and the consumers. Even the State Govts. be advised to provide relief in stamp duty for such transactions. Since the working of futures trading on healthy lines is in the larger interest concerned and online trading will give tremendous boost to it, it is desirable that the Central govt. should provide all incentives to such activity for a period of atleast five years.

Besides it is essential to ensure Convergence Bill to cover subjects like Agriculture, co-operation, Food, PDS and customer Affairs be worked out..

Additionally it is utmost essential to introduce forward contract and certified godown system with development of negotiable instruments to have easy access to credit.

(b) Forward & Futures Markets  
In the light of the perceived advantages from forward and futures markets in terms of price discovery and risk management, as market based instruments, such markets have been identified as important tools of price stabilization. Extension of forward and future markets to all major agro commodities has, therefore, assumed great importance. This urgency is also reflected in the National Agricultural Policy of Government of India announced in the year 2002. The need for commencing futures trading in all agricultural commodities has been further reiterated in the Budget Speech [2002-03] of the Finance Minister.

The Commodity composition of futures trading is such that major voluminous commodities (such as grain, pulses, metals etc.) are out of the purview of futures trading ; minor agricultural products are the ones generally permitted (exception

being oil complex and sugar, just recently approved). Many of these 'prohibited' commodities are under such controls and policies such as MSP that commencing future trading has no meaning, as there is virtually no price risk to manage. Such a 'defensive approach' might have had its logic at the time of scarcity it requires a change in the approach in the liberalized system gearing up for international competition in the post WTO era. Only if the markets are allowed to function under proper regulatory environment, the agricultural economy - one of the largest in the world - can fully exploit the benefits of markets in the country and abroad.

Commodity futures trading in the country also suffers from a number of their limitations viz limited membership of exchanges, essence of many hedgers who have substantial underlying positions, absence of transparency, limitation of prudential regulation and absence of a legal framework for warehouse receipt system with full negotiability & transferability. Concerted efforts, therefore, need to be made to expand the scope of futures trading, along with general economic reforms. Efforts have to be made for increasing the number of commodities permitted for futures trading.

It is needless to stress that, the system of warehouse receipts needs to be universalized in futures trading for enhancing trade volumes and in minimizing transaction costs. Warehousing Receipts should act as good evidence of the receipt for goods and the terms of the contract and storage, proof for their quality and condition, or "apparent order and condition". Warehousing receipts (WHR) would go a long way in achieving these objectives apart from covering quality risk, which is an important risk component of commodity futures trading. If quality risk is not covered price risk management by means of futures contracts have limited meaning and could have only qualified success. Legal framework for making warehouse receipt transferable and negotiable has to be strengthened in making negotiable warehouse system the demat of commodity futures trading.

#### (5) Development of Rural godowns & cold storages

In order to ensure optimum utilisation of agricultural crops as also fruits and vegetables and reduce waste to the minimum so as to ensure enhancement of income of the farmers, it is highly essential to strengthen cold chain and other infrastructure and to examine the feasibility of introduction of irradiation system on semi perishable produce.

Since cold storages become prohibitively costly due to high cost of electricity and other taxes and duties, suitable subsidy be given to such activity so as to promote investment in such cold storages.

Storage infrastructure is found necessary for carrying the agricultural produce from production to consuming periods. Country needs much more storage facility than what is available now. This is specially more important for hill and remote areas in several states. For an additional 20 million storage capacity the investment required is estimated at Rs. 5400 crores. The private sector needs to be encouraged to enter the storage and warehousing activity and make investment of this magnitude. Village Panchayats, cooperatives, SHGs and farmers organizations may be encouraged for undertaking warehousing.

However, we recognize the relevance and utility of cool chains and therefore support the government programme of end used subsidies for cold storages. Cold storages are most important infrastructural need for perishable and semi perishable commodities, which need an immediate attention. The present storage capacity available is sufficient only for 10% of total production of fruits and vegetables. In the next 10 years, 15000 cold storage units would need an investment of the order of Rs. 27000 crores. The investment should basically be made by the private sector. In future, there would be a need for multi-chamber type of cold storage units for various entrepreneurs there is a need in the country. For encouraging private entrepreneurs

there is a need to provide incentives to make the units viable for some initial years.

The country require reefer containers / vans for transport of perishable items for domestic and export marketing. At present their availability in the country is negligible in comparison to the present production of perishable commodities. For handling the expected higher production in the 10 years, at least 3000 reefer containers/vans with a capacity up to 8 tonnes each would be required. This would require an investment of rs. 600 crores, which should be created by private, cooperative and joint sector. There is a need to encourage the investors in the area by providing suitable incentives. The Govt's role in the matter should be positive, constructive & facilitative to induce private sector participation.

(6) Promotion of pledge financing & marketing credit

The credit flow to the rural sector still remains riddled with problems and the government is trying ways and means to make it more farmer friendly. Experts feel that there is an urgent need for revamping the institutional set-up.

The taskforce on agriculture credit has estimated a credit flow of Rs. 7,36,570 crore during the Tenth Plan period for achieving the 4 to 4.5 % growth rate in the farm sector as envisaged in the National Agriculture Policy. This seems to be a challenging task as the total credit flow to agriculture in the year 2000-01 has been only Rs. 53,504 crore and is expected to be Rs. 66771 crore in 2001-02.

It may be boldly pointed out that not all the commercial banks have achieved the target of 18 % priority sector lending. The bank loans to the farmers carry much higher rates of interest than those for housing, transport and purchase of car and consumer durable.

About 40% of the farmers are unable to access credit from institutional agencies and depend upon local moneylenders who charge much higher rates of interest. The average interest rate on farm loans charged by institutional agencies is around 14%, while that for housing loan is 9.5% and transport and commercial activities is 12%.

It is pleaded that the indian farmer cannot have access to global markets by making their produces cheaper in a situation of such interest rates. It is also stressed that biotechnology sector need nor just credit support but venture capital as well.

Therefore the focus should be on a combination of measures, such as encouraging group loans, providing tractors to PACs for custom hiring, encouraging state agro-industries corporations to acquire tractors and combine harvesters for custom hiring and providing loans for tractors and power tillers to rural youth under self employment schemes.

The other startling facts which are given below call for detailed irrestigation by the agri. Minister & RBI so as to take corrective measure to ensure adequatre and regular flow of credit to agriculture at reasonable rates.

- Priority sector lending of commercial banks was only 11% of the net direct credit in 2000-01 as against target of 18%.

- Commercial banks have a bias towards urban areas - credit disbursement 10.1% rural areas 11.7% semi urban areas and 78.2% urban areas.

- Share of Regional Rural Bank in credit flow to agriculture is meagre 7% & thair CDR is very low 41% while their investment deposit ratio is 70%. Interest rate for farm loan charges by RRB is 14 to 17% as they have adopted investment route for viability.

- Cooperative banks accounts for 41% share in credit flow to agriculture and cater to

the needs of 50% of the small & marginal farmers.

- Despite the fact that bank rate has been brought down to 6.25% lending rates of commercial bank to agriculture have not been responsive & reduced.

- Interest charged by primary agriculture cooperative (PACs) is in the range of 14 to 15%. This is due to Nabard providing refinance for only 23% of the total lending at the rate of 5.5% to 7.5% to state cooperative banks, high transaction cost of the three tier system and state coop. Banks retaining a margin of 3 to 3.5% on refinance availed from Nabard while simultaneously charging higher interest rate on SAO loans provided to the district cooperative banks from their own resources and similar practices adopted by DCCBs towards PACs.

- It is strongly felt that speedy recapitalisation of cooperative banks, reduction in Nabard's interest rate on refinance and augmentation of refinance fund & operation of the proposed apex national cooperation bank of India can solve the problem.

Besides , RBI need to formulate appropriate marketing credit policies and to introduce a separate MIS for loans given for pledge financing in order to monitor progress. NABARD need to augment the resources of State Marketing Cooperatives to provide pledge financing facilities to farmers and to provide 100% refinance to RRBs, on similar lines as that of cooperative banks. RBI should also consider evolving an appropriate arrangement to ensure that warehousing receipts / godown receipts issued by licensed operators of rural godowns are acceptable to bankers for providing credit to farmers. To facilitate easy access to pledge loan, RBI should evolve a simplified procedure in consultation with commercial banks.

#### (7) Promoting of information Technology

Market information is needed by farmers in planning production and marketing, and is equally required by other market participants in arriving at optimal trading decisions. The existence and dissemination of complete and accurate marketing information is the key to achieving both operational and pricing efficiency in the marketing system and IT has an important role to play in the process.

There are several areas of agricultural marketing with which farmers need to be fully familiarized in order to improve price realization. Promotion of nationally and internationally acceptable standards of grading and standardization, packing and labeling, storage and warehousing and sanitary and phyto-sanitary measures and quality certification in farm sector will enable trade and processing sector to undertake large scale agricultural marketing operations in domestic as well as international markets. Once the farm produce is standardized and labeled, backed by reputed quality certification, it can be directly offered for sale in national and international markets.

Besides, decisions taken directly affecting marketing by concerned ministries be made public through press as well as on website & internet. Moreover a detailed atlas on agricultural markets in English & Gujarati be prepared & widely circulated in rural areas. Market information network be strengthened & with that end in view there is urgent need for introduction of kisan T.V. Channel. Even facility of electronic trading or E-commerce should be provided & private sector be encourage & induced for provision of the infrastructural in the market yard. In addition to above, with liberalisation of trade and removal of barriers to trade, efforts will have to be made to meet and apply sanitary & phytosanitary standards to enhance market access and need of domestic consumers.

#### (8) Reorientation of training & extension systems

With the globalisation & liberalisation of markets, agricultural marketing is under going tremendous transformation. This underlines the paramount need for agriculture being made market driven, cost effective, competitive, innovative & responsive to

high tech & IT applications. Major areas of extension and training in marketing are land reforms, grading and standardization, packaging , pledge financing, transportation , forward & future market , commodity exchange agribusiness, direct marketing , contract farming, storage & cold chain. warehousing, market infrastructure, quality certification & WTO & its implications. All these major areas will have to be oriented for beneficiaries so that necessary capacity could be built up for major operations in local language. The underlying objective should be to promote good farming practices in the larger interest of farmers as well as consumers.

Privatisation of extension services in the form of tailor made packages with adequate financial support is necessary so as to cope up with the limited reach of public extension services. Ministry of Agriculture, in association with NABARD, has recently launched a unique programme to take improved methods of farming to each & every farmer across the country with the assistance of agricultural graduates. Even agriclinics and agri-business centres would provide paid for services for enhancement of agricultural production and income of farmers.