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Indian new agricultural acts -2020 and minimum support prices (MSP) of agricultural commodities

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ABSTRACT

In September 2020, the Government of India passed three new agricultural laws to promote agricultural development by making changes between agricultural production and agricultural marketing. The present paper attempts to study the impact of new agricultural acts on the agricultural production and marketing system. The research is aimed at understanding the nature of agricultural acts, analyzing the minimum support price under agricultural acts and the opposition of farmers' organizations to the acts. The research presented is based on a second source of data. Research has shown that the main opposition of farmers to this law is in terms of minimum support prices of agricultural commodities. Profit attitude will increase after private companies enter agricultural marketing. Companies will gain control of the agricultural market in order to make a profit through monopoly. Farmers fear that this action will hurt them. Research recommends that the new agricultural law provide for a minimum support price. The laws should include a provision for the government to intervene if any irregularities are found in agricultural marketing.

Keywords: Contract Farming, Essential Commodities, Minimum Support Price, Agricultural Price Policy, Agricultural Market Committee

1. INTRODUCTION

Indian farmers are working to give direction to the country's agricultural economy. Most of the total population of India is dependent on agriculture. Agriculture was first given priority in the first Five Year Plan during the Indian planning period. To meet the food needs of India, the country successfully implemented the Green Revolution in two phases. Today, India is a self-sufficient country in food grains. Some agricultural exports from India are made to various countries. In order to increase agricultural production, it is necessary to increase agricultural productivity. It is necessary to increase the income of farmers to get an appropriate price for their agricultural produce.

In order to accelerate the agribusiness in the 21st century, it is essential to change the old agricultural policies and laws. The committee appointed under the chairmanship of agronomist Dr. M. S. Swaminathan has made important recommendations regarding agricultural production and marketing. However, the Government of India has not implemented this entire recommendation. The Parliament of India passed three new agricultural laws in September 2020. India is debating the pros and cons of the law. The first of the three new laws is the Farmers Produce Trade and Commerce (Promotion and Facilitation) Bill 2020. This law is most important in terms of marketing and pricing of agricultural commodities. In the present article, the law is analyzed in relation to pricing of commodities, pricing policy based on cost of production and minimum support prices.

2. MAIN OBJECTIVES

The following important objectives are considered for the present article.

1. To explain the nature of the new agricultural law.
2. To analyze the price policy of agricultural commodities in the context of the New
3. Agriculture Acts - 2020.
4. To study the process of fixing the minimum support price of agricultural commodities.

5. To explain the impact of agricultural Acts on the agricultural market.

3. RESEARCH METHODOLOGY

The article presented is based entirely on a secondary information source. Information has been collected from new Agriculture Act 2020, existing provisions regarding pricing of agricultural commodities, articles in various newspapers and internet sources. This article is analyzed in a descriptive manner.

4. NATURE OF NEW AGRICULTURAL ACTS – 2020:

The Central Government issued three ordinances in the field of agriculture and later enacted them into law. It is important to understand the nature of these three laws that affect the production, distribution, marketing, storage, sales system, etc. of the agricultural sector.

4.1 Farmers Products Trade and Commerce (Incentives and Facilities) Act-2020:

The law has been enacted with the objective of enabling farmers to get a fair price for their produce and sell their produce anywhere in India and the world. The bill aims to provide alternative sales arrangements to farmers in addition to the Agricultural Produce Market Committee (APMC). Subject to the provisions of this Act, any farmer or trader or electronic trading and transaction platform shall have the freedom to carry on the inter-State or intra-State trade and commerce in farmers' produce in a trade area (See Chapter – II (3) of the Act). With the exception of Agricultural Producers Associations and Agricultural Co-operative Societies, no private trader will be able to conduct agricultural market transactions except for the PAN passed by the Income Tax Department. The main provisions of this Act can be stated as follows.

- a) Agricultural commodities can be bought and sold outside the market committee approved by the Agricultural Produce Market Committee.
- b) Obstacles to inter-state and intra-state trade in agricultural commodities will be removed.
- c) To provide fair prices to the farmers by reducing the cost of agricultural market and transportation.
- d) To make arrangements for electronic trading. Rules have been prepared for trading in accordance with this Act.
- e) No any market fee or cess under any State APMC Act or any other State laws shall be levied on any farmer or trader or electronic trading and transaction platform for trade and commerce in scheduled farmers' produce in a trade area.
- f) The Central Government will develop price information and market intelligence systems for farmers' products and create a framework for dissemination of relevant information (See Act-II 7(1)).
- g) According to the provisions of this Act, the markets for agricultural commodities will be unregulated.

Some of the above important provisions are included in this Act.

4.2 The Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act-2020:

The most important provision in the Farmers (Empowerment and Protection) Price Assurance and Agriculture Services Bill is about contract farming. Farmers can fix the price of agricultural produce by signing an agreement with any company in advance before they produce the agricultural commodities. Farming agreement may be provide for the terms and conditions for supply of such produce, including the time of supply, quality, grade, standards, price and such other matters. Some of the important provisions of this Act are as follows:

- i. Farmers will fix prices for agricultural commodities in advance by contracting with the company.
- ii. Farmers with less than 5 hectares of land will benefit from this contract farming.
- iii. Farmers will not be at risk of price instability in the market, the responsibility will be on the company.
- iv. If the market price is higher than the market contract price then farmers can sell their produce in the open market.
- v. The minimum period of the farming agreement shall be for one crop season or one production cycle of livestock, as the case may be, and the maximum period shall be five years.
- vi. The Central Government will prepare model farming agreements as it deems fit for the purpose of concluding written agricultural agreements for farmers.
- vii. The quality, grade and standards of pesticide residues, food safety standards, good farming practices and labour and social development standards will also be included in the agricultural agreement.
- viii. The price to be paid for the purchase of agricultural commodities has to be stated in the agricultural contract.
- ix. According to this Act, 2/3 of the amount has to be paid immediately after delivery of agricultural produce as stipulated in the agricultural contract and the remaining amount has to be paid within 30 days.
- x. A farming agreement should be linked with any central or state government or any financial service provider insurance policy.

Some of the above key provisions have been clarified as they are important in the case of this Act. The nature of the law can be clarified from this provision.

4.3 The Essential Commodities (Amendment) Act 2020:

The third important agricultural law of the Government of India is the Essential Commodities (Amendment) Act. This Act has been amended in Section Three of the Essential Commodities Act, 1955. Under the Essential Commodities Act, 1955, traders could stockpile essential commodities (including food, grains, pulses, potatoes, onions, oilseeds and oil) in a limited manner. The stock of food grains such as cereals, pulses, potatoes, onions, edible oilseeds and oils will be regulated by the Central Government under certain conditions. Such an extraordinary situation is when the country is plagued by war, famine, extraordinary price increases and serious natural disasters. Any action on stock limitation will be based on price increase. This should be the next scenario in case of price increase.

- i. If the retail price of horticulture has increased by one hundred percent, and
- ii. If the retail price of non-perishable goods has increased by fifty per cent.
- iii. In the above circumstances, the Central Government will limit the stock of related items. Under normal circumstances, however, there will be no control over the stockpiling of essential goods by various companies or private individuals. In general, the main provisions of this Act can be stated as follows.
- iv. Restrictions on the storage of essential commodities under normal conditions have been removed by this Act.
- v. According to the law, onions, pulses, cereals, oilseeds, potatoes, etc. are excluded from the list of essential commodities.
- vi. Large companies were given the freedom to stock of agricultural commodities as much as they wanted.
- vii. The law gave many large private companies the freedom to enter the agricultural market.

Overall, the above three agricultural laws and their nature make it clear that these laws are likely to lead to radical changes in agricultural marketing policy. It is argued that the monopoly of traders and brokers on the agricultural commodity market will be reduced and the market will become more competitive.

5. EXISTING AGRICULTURAL PRICE POLICY AND MINIMUM SUPPORT PRICES (MSP)

Before evaluating the new agricultural law, it is essential to study how the minimum support prices of agricultural commodities are determined. After the Green Revolution, the minimum support price for agricultural commodities was announced. Generally, in the year 1966-67, the first minimum price base of wheat was declared. Initially, wheat was the only crop. At present, a total of 23 major crops have been included in the MSP by the Central Government. These minimum support prices are announced every year according to the level of inflation. The Commission for Agricultural Prices and Cost (CACPC) plays an important role in setting the price policy of agricultural commodity in India. The Commission fixes the cost of production of agricultural commodities and recommends a minimum support price based on it to the Central Government. Prices of important crops like wheat, rice, maize, soybean, cotton, cereals, pulses, oilseeds etc. are fixed. Market Committees are ordered to purchase agricultural commodities at this basic price. Although the Central Government has the right to set the minimum support price, there is no competent mechanism or law to enforce these prices. Only the law exists to enforce pricing (Fair and Remunerative Price - FRP) in the case of sugarcane crop.

There are several obstacles in the implementation of the existing agricultural pricing policy. At present, there is no mechanism in the market to see whether commodities are procured at minimum support prices. In Maharashtra, food grains are procured from the Food Corporation of India (FCI) at the minimum support price for certain major crops as per the orders of the Government. Due to inadequate / limited nature of warehouse system of Food Corporation of India, this purchase cannot be completed. According to the National Sample Survey (NSS) 2012-13, only 10 per cent of the country's agricultural commodities were procured at MSP. In fact, an average of 6 per cent of India's agricultural produce is procured under this scheme.

5.1. Procedure of the Minimum Support Price Fixation for Agricultural Commodities:

It is important to analyze the process of determining the minimum support prices of agricultural commodities. The Agricultural Cost and Price Commission reviews the production and productivity of agricultural commodities every year. The Commission is responsible for calculating the average production cost of major crops in the country. Some cost concepts have been clarified by the Commission while considering the cost of production of agricultural commodities.

Cost - A:

Cost 'A' Consists of cash and kind expenses actually incurred by the cultivators. This cost includes the value of hired human and bullock labour, value of owned bullock labour, machinery charges, cost of seeds, manures and chemical fertilizers (owned and purchased), irrigation charges, value of pesticides, depreciation of implements and farm buildings, land revenue and other taxes and interest on working capital.

Cost - B:

The cost B includes the cost - A + the rental value of owned land and the interest on value of owned fixed capital assets.

Cost - C:

The cost C includes the cost -B plus imputed value of family labour (male and female) use.

The Government of India says that the cost of agricultural commodities is fixed on the base of above cost concepts plus one and a half times the profit is assumed. The reality, however, is different. At present, the minimum support price includes cost-B and one-and-a-half times profit. Today, the value of farmers' owned labor is not taken into account by the government when calculating farm costs. The minimum support prices are announced twice by the Government of India for the kharif and rabi seasons. The trends in the minimum support prices announced by the government for the last few years are given in Table 1. Agricultural commodities are procured by the government at the minimum support price. The minimum support prices of agricultural commodities for the period 2016-17 to 2020-21 are given in Table-1. Looking at the minimum support prices of major crops in the last five years, it seems that the highest price rise was in the prices of bajara and jawar. The minimum support price of the cash crop of cotton in the year 2016-17 was fixed Rs. 4160 / - and it is increased up to Rs. 5821/- in the year 2020-21, which is an increase of about 40%. The trend of minimum support prices over the last five years shows that the minimum growth was 20 per cent and the maximum growth was 61 per cent.

Table No. -1: Trends of Minimum Support Price of Major Agricultural Commodities (Rs. per quintal)

Sr. No.	Crops	Minimum Support Price of Agricultural Commodities for ...					
		2016-17	2017-18	2018-19	2019-20	2020-21	Increase current year MSP over 2016-17 (per cent %)
A. Kharip Crops							
1	Paddy	1470	1550	1750	1815	1868	27.07
2	Jowar (Hybrid)	1625	1700	2430	2550	2620	61.23
3	Bajra	1330	1425	1950	2000	2150	61.62
4	Maize	1365	1425	1700	1760	1850	35.53
5	Moong	5225	5575	6975	7050	7196	37.72
6	Urad	5000	5400	5600	5700	6000	20.00
7	Cotton (Long Staple)	4160	4320	5450	5550	5825	40.02
8	Groundnut	4220	4450	4890	5090	5275	25.00
9	Soybean	2725	3050	3399	3710	3880	42.38
B. Rabbi Crops							
1	Wheat	1625	1735	1840	1925	1975	21.53
2	Gram	4000	4400	4620	4875	5100	27.50
3	Barley	1325	1410	1440	1525	1600	20.75
4	Safflower	3700	4100	4945	5215	5327	43.97

Source: Minimum Support Prices, farming.gov.in, Retrieved 2020-12.25

There is no special mechanism in place to procure agricultural commodities through the Agricultural Produce Market Committee at this minimum support price. In India, there is no law to purchase agricultural commodities at minimum support price except for sugarcane. More and more wheat and paddy are procured at a minimum support price in Punjab and Haryana states of India.

6. NEW AGRICULTURAL ACTS – 2020 AND MSP-RELATIONS

The Government of India passed a total of three Acts in 2020 with a view to ensure a fair price for farmers' produce. The first of these important laws regarding agricultural pricing is known as the "Agricultural Products Trade and Commerce (Incentives and Facilities) Act, 2020. All three laws have not been implemented in India at present." Looking at all the three laws, it seems that none of the laws have included the minimum support price of agricultural commodities. The new law stipulates that farmers will decide the price of agricultural produce themselves. In order to increase competition in the sale of agricultural commodities, buying and selling outside the regulated markets has been allowed. The policy underscores the policy of strengthening the e-trading system. According to the government, the policy on minimum support prices of agricultural commodities will continue as per the prevailing norms. Farmers' organizations, however, have opposed the three laws. With the removal of storage limits for agricultural commodities as per the Essential Commodities (Amendment) Act, 2020, there is a danger that various companies will create artificial scarcity of agricultural commodities in the market and create a situation of price rise. So there is no doubt that after the implementation of the new agricultural laws, there will be huge changes in the agricultural market, minimum support prices and storage of agricultural commodities.

7. WHY FARMERS OPPOSE NEW AGRICULTURAL LAWS?

The Government of India says that new agricultural laws have been enacted with the aim of improving the country's agricultural sector and increasing agricultural income. The Indian Parliament has passed these three Acts and the Central Government is trying to implement them. Various farmers' organizations in the country have started opposing the implementation of the laws. The farmers' agitation in the national capital, Delhi, has been going on for the last three months. Earlier, farmers in Punjab had been protesting in their state since the law was passed in Parliament. It is important to discuss what the farmers' associations have to say about these three laws and why they are opposed to them.

- 1) Until now, the market for agricultural commodities was regulated by the Agricultural Produce Market Committee. The new Agriculture Act seeks to change the nature of this market committee. According to the law, farmers will be able to sell their produce anywhere in the country. The government will have no control over this market. Farmers feel threatened by the control of private brokers or companies over the agricultural market.
- 2) The laws will close the market fees of market committees for marketing of agricultural commodities. This means that the new laws will cut off the sources of income of the market committee and the state government, so the laws are being opposed by the market committee and various states.
- 3) The Agriculture Acts does not provide for a minimum support price for agricultural commodities. There is a risk that the minimum support price plan will collapse.
- 4) Adya, brokers and porters working in the market committee will be unemployed.
- 5) The e-trading system proposed by this Act cannot function without a regulated market committee.
- 6) The farmer is also opposing the law regarding contract farming. According to this law, there will be an agreement between the farmer and the company regarding agricultural production, quality, price etc. Farmers fear that the deal will be dominated by private companies due to lack of bargaining power of farmers.
- 7) In India, the proportion of marginal and small farmers is close to 80%. Can these farmers enter into agreements with companies?

- 8) If the purchase of farm produce from the company is not done at a fair price as stipulated in the agreement, then there is no competent adjudication mechanism in the law. Only farmers can lodge a complaint with the Sub-Divisional Officer. But if there is no justice, the farmer will not be able to seek justice anywhere.
- 9) The Essential Commodities (Amendment) Act has removed the limit on storage of agricultural commodities. As a result, farmers fear that private companies will stockpile unlimited commodities and create a shortage of agricultural commodities in the market.
- 10) The entry of companies in buying and selling in the agricultural market will drive the profit trend. This profit will not go to the farmers but to the traders or the company.

The Central Government should consider the above main points which are opposed by the farmers. Opposition to the law will continue until the fears of farmers are allayed. According to Union Agriculture Minister Narendra Singh Tomar, there is no change in the new Agriculture Bill regarding the existing minimum support price. All the provisions in the new agricultural acts clearly indicate that there is no provision in the Act for the purchase of agricultural produce by a private company at a minimum support price. No effective enforcement mechanism exists when procuring commodities as per the prevailing minimum support pricing policy. Also, the rate of purchase of agricultural commodities from the government is very low. As a result, farmers have to sell most of their produce to private traders at low prices. In the midst of all this confusion, the agitation against the new agricultural law seems to be intensifying.

8. EVALUATION OF MINIMUM SUPPORT PRICE UNDER THE NEW AGRICULTURE ACTS - 2020

According to the Central Government, even after the enactment of the new Agriculture Acts, the policy on MSP for agricultural commodities will continue as per the existing provisions. Even today, farmers' farm produce is not bought at the absolute minimum support price. Only an average of six per cent of the total agricultural produce is procured under this scheme. Punjab and Haryana is the big share for all these purchases. So far, the government of any political party has not accepted the recommendation of the Swaminathan Committee. According to the committee, the prices should be fixing as per the total cost of agricultural produce; market transportation cost and One and a half fold more of the lowest price. The new agricultural laws do not even mention the minimum support price. The new agricultural laws will adversely affect the functioning of the Agricultural Market Committee. Market committees are run by farmers on co-operative basis. Once the new law is implemented, agricultural market committees will be weakened and some market committees will close. These companies will dominate the procurement of agricultural commodities and create a monopoly on the procurement of agricultural commodities. Even though agriculture is a state subject, some state governments feel that the Center has encroached on the rights of the state by enacting such laws.

The Food and Agriculture Commission of India appointed a committee under the chairmanship of Mr. Shantakumar in 2015 to review the work of the Commission and suggest improvements. An important point raised by the committee's recommendation was that only 6 per cent of farmers were benefiting from the MSP. In other words, 94% of the farmers were selling their produce in the private market. A study conducted by the Policy Commission in 2016 found that farmers were unaware of the minimum support price. There is confusion in determining the fixation of minimum support prices of agricultural commodities every year. Due to the fact that the cost of production of the same agricultural commodity is different in each state and the minimum support price of this commodity is the same for all, some farmers in the state are benefiting while others are losing.

Under the new Agriculture Act, farmers have the right to set the prices of agricultural commodities, but are Indian farmers able to exercise this right? The bargaining power of the farmers is definitely low, as today about 80 per cent of the farmers in India are marginal and small. There is no guarantee that the interests of farmers will be served by this Act. Against this backdrop, it remains to be seen whether the new agricultural laws will protect the prices of agricultural commodities. According to the Central Government, new Agricultural Laws-2020 has been formulated to enhance competitiveness, transparency and private participation in the agricultural market.

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