Draft law on Contract farming

Why in news?

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Union government has proposed a law on contract farming.

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What is contract farming?

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- Contract farming can be defined as agricultural production carried out according to an agreement between a buyer and farmers.
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- It establishes conditions for the production and marketing of a farm product or products.
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- Typically, the farmer agrees to provide agreed quantities of agricultural product with required quality standards at pre-determined time.
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- In turn, the buyer commits to purchase the product and, in some cases, to support production through, for example, the supply of farm inputs, land preparation and the provision of technical advice.
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What is government recent move on contract farming?

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- Union agriculture ministry has drafted a model contract farming act that states can adopt as per their needs.
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- It aims to protect farmers from price risks and provide incentives to buyers to procure produce directly from farmers.
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- The act bars the transfer of ownership of the farmer’s land to companies under all circumstances.

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- It allows these contracts to be governed outside the purview of state agriculture produce marketing committees (APMCs).
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- This essentially means companies can purchase produce directly from farmers and save the 5-10% usually spent in market fees.
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- The contracts are meant to be registered with a State-level agency called Contract Farming (Development and Promotion) Authority.
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- It can levy a fee of no more than 0.3 per cent on the contracted produce and it acts as a dispute resolution body.
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- Besides there will be local-level recording committees to register these contracts and implement them effectively.
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What are the prospects of contract farming?

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- It can potentially link Indian farmers to global supply chains, particularly in high-value horticulture produce where wastage can be significantly reduced.
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- Food-processing will get a boost as an employment generator.
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- It lays the foundation for the entry of large players in food retail, upping the gains for both the producer and the consumer.
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- It also gives farmers an alternative in cases where the procurement mechanism is ineffective.
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- This large-scale shift from subsistence to contractual farming is likely to improve yields and incomes.
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What challenges need to be addressed?

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- The centre had earlier drafted a model agriculture marketing act which states have been reluctant to adopt and the new model act on contract

farming may see the same response.
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- The model act allows for direct purchase from farmers and therefore states have to amend their APMC acts to make this happen.
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- If prices rise sharply compared to the contracted price, it will be difficult to force the farmer to sell the produce and such challenges needs a proper solution.
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- The tendency of sponsors to opt for middle and large farmers with a large asset base needs to be addressed, as it may create socio-economic distortions.
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- In order to create a level playing field between small farmers and sponsors, the former should enter into ‘group contracts’ with the latter.
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Source: Business Line, Live Mint

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