Repeal of Farm Laws

What is the issue?

Prime Minister Narendra Modi has announced the repeal of the three contentious farm laws which had witnessed protests from farmers, mainly from Punjab and Haryana for more than a year.

What is the status of agriculture sector in India?

- As per MOSPI data, the share of GVA of Agriculture and Allied sector to total economy in 2020-21 is **20.2%.**
- The small and marginal holdings constitute almost **90%** of our total agricultural land holdings.
- The top 10%of the households are today cultivating almost 50% of India's total cultivable lands whereas the bottom 50% are cultivating less than 0.5 % of India's cultivable lands.
- Almost two thirds of Indian agriculture is rainfed.
- The income levels of farmers on an average have come down to roughly Rs. 9,000 per month per various government reports.

What were the farm laws that have been repealed?

The Farmers Produce Trade and Commerce (Promotion and Facilitation) Act, 2020

- The act aimed at allowing trade in agricultural produce outside the existing APMC (Agricultural Produce Market Committee) mandis.
- It seeks to provide for the creation of an ecosystem where the farmers and traders have the choice relating to sale and purchase of farmers' produce.
- This facilitates remunerative prices through competitive alternative trading channels.
- It thus promotes efficient, transparent and barrier-free inter-State and intra-State trade and commerce of farmers' produce.
- The produce will have a reach outside the physical premises of markets or deemed markets notified under various State agricultural produce market legislations.
- It will also provide a facilitative framework for electronic trading.

- It will also help farmers of regions with surplus produce to get better prices and consumers of regions with shortages, lower prices.

The Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Act, 2020

- The act seeks to provide a framework for contract farming.
- It thus seeks to protect and empower farmers to engage with agri-business firms, processors, wholesalers, exporters or large retailers.
- They can take up farm services and sale of future farming produce at a mutually agreed remunerative price framework.
- It will also enable the farmer to access modern technology and better inputs.
- It will reduce the cost of marketing and improve income of farmers.
- Farmers will engage in direct marketing thereby eliminating intermediaries resulting in full realization of price.
- Effective dispute resolution mechanism has been provided for with clear time lines for redressal.

The Essential Commodities (Amendment) Act, 2020

- The Act seeks to remove commodities like cereals, pulses, oilseeds, edible oils, onion and potatoes from the list of essential commodities.
- This will remove fears of private investors of excessive regulatory interference in their business operations.
- The freedom to produce, hold, move, distribute and supply will lead to harnessing of economies of scale and attract private sector/foreign direct investment into agriculture sector.

What is the need for implementation of the three laws?

- **Agricultural Marketing** -There were restrictions for farmers in selling agri-produce outside the notified APMC market yards.
- The farmers were also restricted to sell the produce only to registered licensees of the State Governments.
- Further, barriers existed in free flow of agriculture produce between various States owing to the prevalence of various APMC legislations enacted by the State Governments.

- **High Risks** - Indian agriculture is characterized by fragmentation and the average operational farm size in India today stands at 1.13 hectares.

- It has certain weaknesses such as weather dependence, production uncertainties and market unpredictability.
- This makes agriculture risky and inefficient in respect of both input and output management.
- In this context, a legislation is needed to transfer the risk of market unpredictability from the farmer to the sponsor.
- **Price instability** - India has become surplus in most agri-commodities but farmers have been unable to get better prices due to lack of investment in cold storage, warehouses, processing and export.
- Farmers suffer huge losses when there are bumper harvests, especially of perishable commodities.
- There needs a law that will help both farmers and consumers while bringing in price stability.
- There is a need to create competitive market environment and to prevent wastage of agri-produce that happens due to lack of storage facilities.



Why were the reasons for opposition against the farm laws?

- **APMC mandis -** Farmers feared that the existing APMC mandis where they sell their produce would be shut down once private players started trading in agri-produce outside the mandi premises.
- **MSP demand -** MSP matters more in the states of Punjab and Haryana where the government purchases over 80% of wheat and rice output for NFSA supply.
- There has been fear that that once the APMC mandi system became redundant, procurement based on MSP too would come to an end leading to demands of legal backup for MSP.
- Also, the government fixes MSP at 1.5 times the cost of production using A2 formula of calculating cost of production.
- But farmers are demanding the government to rely on C2 formula as recommended by the **National Commission for Farmers** headed by agricultural scientist **M S Swaminathan.**

'A2' covers all paid-out costs directly incurred by the farmer in cash and kind on seeds, fertilisers, pesticides, hired labour, leased-in land, fuel, irrigation, etc.

A2+FL' includes A2 plus an imputed value of unpaid family labour.

'C2' is a more comprehensive cost that factors in rentals and interest forgone on owned land and fixed capital assets, on top of A2+FL.

- **Cooperative federalism -** Agriculture and markets are State subjects – entry 14 and 28 respectively in List II.
- So the farm legislations are being seen as a direct encroachment upon the functions of the States against the spirit of cooperative federalism enshrined in the Constitution.
- The Centre, however, argued that trade and commerce in food items is part of the concurrent list.
- **No mechanism for price fixation -** The Price Assurance Act does not prescribe the mechanism for price fixation.
- There is apprehension that the free hand given to private corporate houses could lead to farmer exploitation.
- Farmers are apprehensive about formal contractual obligations owing to the unorganised nature of the farm sector.
- There is also the lack of resources for a legal battle with private corporate entities.
- **Food security** - Easing of regulation of food commodities in the essential commodities list would lead to hoarding of farm produce during the harvest season when prices are generally lower.
- This could undermine food security since the States would have no information about the availability of stocks within the State.
- **Method of implementation** - The government initially cleared them as ordinances with haste that ignited the protests.
- The communication to the people, in general, and farmers, especially added to the issue.
- The demand for scrutiny of the Bills by a parliamentary panel was dismissed and the government rushed the passage of legislation.

What were the consequences of the passage of the farm acts?

- The sporadic protests against the farm laws later expanded to a nationwide road blockade where farmers' unions in Punjab and Haryana gave a call for a 'Delhi Chalo' movement.
- The protests that began in Punjab moved to the outskirts of the national capital and involved farmers from Punjab, Haryana, Rajasthan, western Uttar Pradesh and Madhya Pradesh.
- 11 rounds of talks were held between the government and representatives of farmer leaders between October 14, 2020 and January 22, 2021 but

yielded no result.
- In January 12, 2021, the Supreme Court stayed the implementation of the three laws and since the stay, the laws have been suspended by the government.

What features have got lost in the outcry of protest?

- **Elimination of Cartelisation –** The act aimed to prevent the pressure under which the farmers were put by the trader cartels.
- A few big traders with well-connected networks played a big role in markets distrupting the fair pricing mechanism.
- **Solving the middlemen issue -** The farmers were at the mercy of the presidents of APMC yards who were more powerful than village and wielded political clout.
- The act gave farmers choices of selling their produce beyond the APMCs.
- **Product quality** - The quality of the produce has been a point of dispute between traders and farmers and the act ensured farmers to take their produce to any part of the country or sell to anyone with whom they were comfortable in case of such dispute.
- **Contract farming -** The Price Assurance Act enabled contract farming where the buyer couldn't have backed off after entering into an agreement but its impact was lost in the political outcry.
- **Distress sale -** The objective of Essential Commodities Act's amendment was to ensure that farmers didn't have to resort to distress sale.
- This amended provision too got buried in the sand of protests.
- **Strengthening the output side** - It was for the first time that any government at the Centre focussed on strengthening the output side of farming.
- These reforms would have looked at agriculture as a business and focussed on agri-produce marketing.

What does the repeal indicate?

- The repeal underlines that any future attempts to reform the rural agricultural economy would require a much wider consultation, not only for better design of reforms, but for wider acceptance.
- What the agrarian structure needs is a New Deal, an assurance that the farmers' interests would not be hitched to immediate compulsions of interest groups, be it political or corporate.

Reference

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