FAQs on Farm Bills

Q1.Why are the farmers protesting in India?

The farmers' protests relate to two new laws passed by the Parliament of India in September 2020: (i) the Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act 2020 or the **FPTC Act**, and (ii) the Agreement on Price Assurance and Farm Services Act 2020 or the **APAFS Act**; and the amendment carried out in the **Essential Commodities Act 1955** (ECA).

Q2. What do the new laws entail?

i. The first law, **the FPTC Act**, offers farmers the **choice** to sell their produce within the Government regulated physical markets existing prior to the passage of the Act **or** outside it; to private channels, integrators, Farmer Producer Organizations, or cooperatives through a physical market or on an electronic platform; and directly at farm or anywhere else. Essentially the law provides more options to farmers to sell their produce.

ii. The second law, **APAFS Act,** is a simplified and improved version of the **Contract Farming Act** that has already been adopted by 20 Indian states. Contract farming acts as a form of price assurance. The new law is intended to **insulate interested farmers** against the market and **price risks** so that they can go for cultivation of high-value crops without worrying about the market and low prices in the harvest season.

iii. The third reform involves modification in the **Essential Commodities Act** and lays down **transparent criteria** in terms of price triggers behind Government decisions to regulate the supply of essential commodities under extraordinary circumstances. This **removes the arbitrariness** in invoking the Act.

Q3. Why were the new laws/amendment required? What was the situation before the enactment of the new laws?

Agriculture is a priority sector for India. It contributes about 17% of India's Gross Value Added, and is the largest source of livelihood in India. Reform of the agriculture marketing system has been an ongoing process, with the need for it felt across party lines. These measures fulfill this longstanding need.

The **issues plaguing the sector** which these reforms intend to address are as follows:

i. **Earlier legal framework** required the farmers to sell their produce only at State Government designated physical markets called the Agriculture Produce Marketing Committee (APMC) markets.

ii. **Fragmented and insufficient markets:** Each of these APMC markets functioned as a separate entity, hampering intra and interstate trade. At the same time, there were not enough markets to deal with growing produce.

iii. **Restriction in licesing:** Entry to the APMC markets as a licensed agent was restricted, discouraging competition and encouraging cartelization.

iv. **High intermediation costs:** Taxes, various commissions and a fragmented system led to high intermediation charges raising costs for consumers, while depressing prices received by farmers.

v. **Information asymmetry:** Farmers often lacked market information, which traders and commission agents withheld from them.

vi. **Inadequate agricultural infrastructure:** Despite market taxes, infrastructure in markets remained underdeveloped and not in tune with modern supply chains. An outdated and inadequate agriculture infrastructure, led to high post-harvest losses, estimated at Rs. 90,000 crores (over USD 12 billion) in 2014. This is because the policy environment discouraged private sector investment in the agriculture cold chain.

vii. **Inadequate credit facilities:** Informal credit channels still dominated formal channels.

viii. **Prevailing system discouraged linkages of farmers to food processors and exporters:** Despite being one of the largest producers of agricultural commodities globally, India only processes 10% of its total production. Similarly, India's share in global food exports stands at 2.3% which is well below its potential.

ix. **Disparity between agriculture and other sectors:** The major economic reforms carried out in 1991 in India did not cover agriculture. While the rest of India marched on the road towards prosperity on the back of the 1991 reforms, agricultural growth remained stuck at the earlier level, with negative growth in agricultural income in five out of 12 years following 1990–91. It was long recognized that the agriculture sector too needed pro-farmer reforms to **double the income of the farmers.**

x. **Liberalised markets are more favourable to agricultural growth:** There has been indication that liberalised markets are more favourable to agricultural growth than government support and market intervention. For example, areas such as horticulture, milk and fishery, having little or no market intervention by the government have shown a 4-10% annual growth, whereas the growth rate in cereals, where interventions are high, remained 1.1% after 2011-12.

xi. **Contract farming** existed earlier in some States, but these States had their own laws on the subject. A national framework on contract farming was missing. With the passage of the new law, contract farming has now been nationally enabled at terms favourable to farmers. It will also provide price assurance to farmers even before sowing of crops and enable them to access modern technology and other inputs. It has also eliminated the complicated system of registration/licence, deposits, and other compliance measures required for contract farming in various States, and created a legal framework for agreements between farmers and sponsors.

Q4. What are the benefits of the said reforms?

i. The reforms are aimed at **ensuring that the objective of 'Doubling Farmers' Income'** is realized.

ii. The new legal framework **unshackles agricultural marketing** in India**.** Farmers will have the **freedom** to sell their produce **to who they want and where they want**. The new law gives the farmers the freedom of choice to sell in the APMC market or choose any other seller. This also increases competition and farmers' **bargaining power** which will lead to better returns for them.

iii. APMC markets will **now face competition** from other markets, prompting them to **improve their own functioning** to remain competitive.

iv. Farmers will **no longer** be bound to pay a long list of **market fees, taxes, and cesses on their produce**, thereby improving their returns.

v. Contract farming acts as a form of **price assurance**. It is now nationally enabled and on **terms favorable to farmers.**

vi. Farmers will be empowered to **access modern input, services and protection against price risk.**

vii. **Export competitiveness will increase**, benefitting the farmers.

viii. The modification in Essential Commodities Act **will attract** much-needed **private investments** in agriculture from input to post-harvest activities.

ix. **Incentives** are now aligned for private sector **investments** across the entire cold chain.

x. Increased investments in the sector and development of infrastructure will **reduce post-harvest losses, improve remuneration through grading and sorting and boost linkages to terminal markets** in food processing, retail, and exports.

xi. India's agriculture and food processing industries will receive a much-needed fillip with a liberal procurement regime.

xii. **Employment** in the food processing sector **will rise,** and this can put India on the path towards becoming the leading food exporter in the world, whilst maintaining our food security**.**

xiii. **Promotion of electronic trading:** The Electronic National Market for Agriculture (eNAM) was launched in 2016, with the objective of promoting **electronic trading in agriculture produce**. However, the potential of eNAM was being **hindered by the prevailing legal provisions**. While over 1,000 mandis have been onboarded to eNAM, a true national market for agriculture remained far from reality. eNAM can fulfil its potential of serving as the **national platform for electronic trading in agriculture produce**.

Q5. If the laws are beneficial to the farmers, why are they protesting?

The farmers are protesting against the provisions of these laws as they fear that the the procuement under the **Minimum Support Price (MSP)** system may be removed.

In addition, they fear that they will be left at the mercy of large corporations/traders who may exploit them and take away their land.

Q6. Will the current reforms have any effect on procurement under the MSP system?

The MSP **system stays**. The new law **will not affect MSPs adversely**. MSP purchase on agricultural produce is done through State Agencies and there is no change in this due to this law. MSP procurement from farmers is the top priority of the Government and it will continue to be so.

Q7. Will the new Act affect the functioning of the APMCs?

The new Act is **not intended to replace the State APMC Act and does not affect the functioning of the APMC markets.** APMCs will continue to regulate the marketing of agricultural produce within the physical boundaries of market yards. They can levy market fee within physical mandi as per their regulations.

The Act **only provides farmers with additional marketing opportunities outside existing APMCs.** Both the laws will co-exist for the common interest of farmers.

Q8. How will the Act on contract farming ensure that the farmers are not exploited by the traders, especially if the farmers will be bound by contract farming?

The Act provides **sufficient and elaborate mechanisms to protect the interest of farmers.** Simple, accessible, quick and cost-effective **dispute resolution mechanism** is prescribed for the farmers against traders to prevent and curb any unscrupulous acts.

Moreover, to curb any malpractices deterring **penal provisions** have been put in place for traders. These provisions will act as deterrent against any fraudulent motives, thus **safeguarding farmer payments.**

The Contract Farming Law does not require any farmer to enter into a mandatory agreement, the decision is left entirely on the farmer. Besides, the **law clearly disallows any transfer, including sale, lease and mortgage of the land or premises of the farmer** and ensures that **buyers/sponsors are prohibited from acquiring ownership rights or making permanent modifications on farmers' land.**
Farmers can withdraw from the contract at any point without any penalty.

Q9. Does the Act provide a price guarantee for farmers?

The Act clearly says that the **price of farming produce will be mentioned in the farming agreement itself,** which assures the price. It also says that**, in case, such price is subject to variation,** then the **agreement shall explicitly provide for a guaranteed price to be paid for such produce.** If the **contractor fails to honour** the agreement and does not make payment to the farmer, **the penalty may extend to one and half times the amount due.**

Q10. Can companies take away farmers' lands or assets forcibly under contract farming?

The contract farming agreement between the farmer and the company is **only for the crop, NOT for the land**. The new laws have no provision for leasing out land by the farmers in any manner to the sponsors or the companies. The Act expressly prohibits the sponsor from acquiring ownership rights or making permanent modifications to the land. Thus, the apprehension that companies or sponsor will take away farmers' land or assets is misplaced.

Q11. Have there been previous attempts to reform India's agricultural marketing system?

Attempts to reform the agriculture marketing system have been going on **for over two decades**. Multiple Expert Committees, Inter-Ministerial Task Forces, Commissions, Groups of State Agriculture Ministers and Chief Ministers have made the observation for the past twenty years, that the **present system of agriculture marketing was proving to be a disincentive to farmers, trade and industries**. The Standing Committee on Agriculture of the 17th Lok Sabha (Lower House of the Parliament) noted in its report that the existing APMC markets were not working in the best interest of farmers.

All of these expert groups, committees and task forces made similar recommendations:

i)The existing system of APMC markets needed **competition.**

ii)**Alternative marketing channels** such as direct selling needed to be encouraged.

iii)The Essential Commodities Act, 1955 needed to be amended to **encourage investments** in storage and warehousing.

iv)Contract farming needed an **enabling framework.**

v)There was a need for a **barrier free, national agriculture market.**

Many government committees noted the slow pace of reforms in this sector, despite efforts ongoing since 2001. **The Government has set an ambitious, but achievable goal of doubling farmers' income.** Marketing reforms were going to be critical in achieving this.

Yet, it was found that State Governments had not adopted marketing reforms in true letter and spirit. To this end, the Union Government issued the Model Agriculture Produce Livestock Marketing Act, 2017 and the Model Contract Farming Act, 2018 for States to adopt. **Yet, the reform process was piecemeal and cosmetic in nature.**

Q12. Why was a new approach required?

From deficit management to surplus management: As India moved from a food deficit nation to a food surplus one, the focus of policy needed to shift from deficit management to surplus management. The previous attempts at reform, which required States to take the lead in instituting legislative changes to their own APMC Acts bore little fruit. Agriculture remained a State subject, however, Inter-State Commerce and Trade remained on the Union List.

It was also clear that a new approach was needed to unlock India's agriculture markets and make the goal of doubling farmers' income a reality. Therefore, the decision to deregulate agriculture marketing outside the physical area of notified markets, promote contract farming and amend the Essential Commodities Act, was taken. Complementing these reforms, a Rs. 1 Lakh Crore Agriculture Infrastructure Fund has been launched to create infrastructure close to the farm-gate.

Along with investments in infrastructure, a huge thrust is also being placed on the collectivisation of farmers through Farmer Producer Organisations (FPOs)/Farmer Producer Companies (FPCs), to improve their bargaining power.

Q13. Who are the protesting farmers ?

Farmers from reportedly 500 farmer associations are protesting under a common banner called the *Samyukta Kisan Morcha* in India. The number of protesting farmers would be in thousands, and not 250 million, as reported by some media outlets. The protest is not happening across the country – this is mainly limited to the northern parts of India, around Delhi. The protests have been peaceful, and there has been no law-and-order situation linked to these protests.

Q14. What is the Government of India doing towards resolution of the issue?

Government has been engaging the farmers on a regular basis with a view to address their concerns and find amicable solutions. Five rounds of talks have been held between the Government and the farmers' delegation under the *Samyukt Kisan Morcha*. A delegation of farmer leaders under the banner of *Samyukt Kisan Morcha* has also met the Home Minister on 8 December 2020.