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STRUCTURE OF REGULATED AGRICULTURAL MARKETS IN INDIA

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ABSTRACT

This paper explores the structure of regulated agricultural markets in contemporary India. It discusses the evolution of agricultural market regulations from the introduction of APMC Acts after the independence to the recent reforms in agricultural marketing. It critically analyses the arguments made for the deregulation of these markets. Using data from the Situational Assessment of Agricultural Households and Land and Livestock Holdings of Households in Rural India, 2019, the paper also discusses the diverse marketing channels for different crops at the national level.

Keywords: Agricultural markets, APMC acts, Reforms, marketing channels

Introduction

In India, agricultural marketing is among one of the few spheres where market exchange is still subject to state regulation, at least in the legal framework. The framework of this regulation -- state-level Agricultural Produce Market Committee (APMC) Acts -- have been under intense political debate in the recent decade.

The debate regarding deregulation of the agricultural markets is mainly based on two arguments. First, the proponents of deregulation argue that the existing APMC laws restricts market competition. They content that these laws by allowing regulatory power to the market committees, foster an environment where the licensed traders and commission agents wield disproportionate control over the market and that the environment which is conducive to cartelisation. (Chand 2016)

It is argued that the provisions of APMC laws also hinders the emergence of private markets. Therefore, the proponent advocate the removal of these laws, arguing that doing so would pave the way for a more open competitive market in which market forces can operate more freely and hence fostering efficiency and competition. Another related argument is that with globalisation

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and liberalisation of agricultural trade internationally, increased competition is required in domestic trade through the focus on private markets. (Gulati 2013)

The second set of studies argue in favour of deregulation on the basis of the notion that APMC laws have outlived their role in the agricultural trade in the country. the conditions that existed at the time of Independence when these laws were introduced no longer is the case. It is hoped that without regulations and while dealing with private traders, farmers will quote their prices and become price makers.

Evolution of APMC Laws

The introduction of the APMC Acts was based on the understanding that private agricultural trade was characterised by all sorts of malpractices and exploitation of the farmer due to unequal economic power.

There was no regulatory control over most of these markets and the business was carried on according to customary market practices. High market charges were levied in these markets, which included octroi (entry fee), dalali (brokerage), adath (commission charges), majuri (unloading charges), dheri (heaping), safai (cleaning), tuali (weighing), karda (allowance claimed by buyers for dirt), goshala (charity), and mudat (charge for making payment in cash immediately after sale). The method of sale in the market was not fixed and the determination of price through secret bidding had great opportunities for the traders and commission agents to collude (Kulkarni 1949).

It was against this background that the regulation of agricultural markets was considered essential after the Independence. Under the guidance of national planning, the state governments passed the Agricultural Produce Market Committee (APMC) Acts.

These laws empowered the state governments to control and regulate the exchange and storage of agricultural produce. The APMC Acts were aimed at improving the situation of agricultural markets by implementing measures such as reducing and standardising fees, mandatory sale through open auctions, democratically elected market committees to govern the markets and dispute settlement and creating infrastructural facilities like godowns, and auction platforms (Harriss-White 1995).

The first four Five Year Plans consistently stressed upon the need to bring all existing markets under the ambit of regulation. In the second Five Year Plan, emphasis on development of rural marketing and finance through co-operatives was placed, along with the regulation of markets and market practices.

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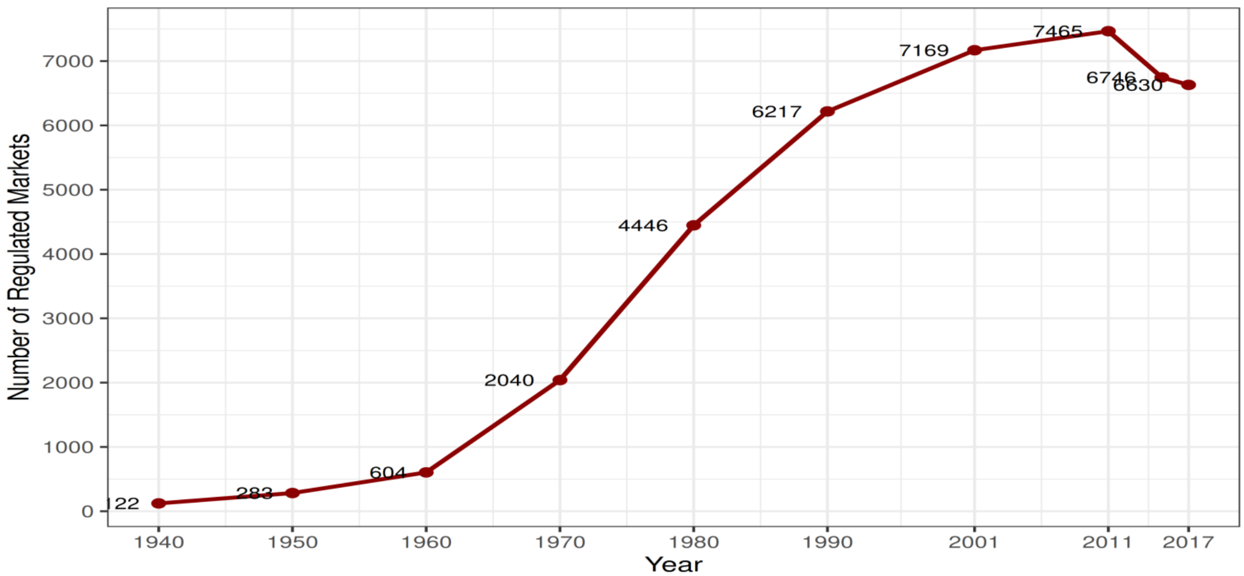
Figure 1: Number of regulated markets in India, 1940 — 2017



Another objective of the regulation of the agricultural trading was to ensure remunerative prices to the farmers to induce them to adopt new technology and increase the foodgrain production. The Fourth Five Year Plan (1969) mentioned that, "the objective is to see that imperfections in the marketing system do not act as constraints on agricultural production".

The expansion of regulated agricultural markets brought significant improvements in the marketing of crop produce in the country and was a major factor behind the achievements of the Green Revolution (Acharya 2004). While the number of regulated markets continued to increase till 2000s, the growth in the establishment of new markets slowed down considerably after 2000s. In fact, the number of regulated markets has declined since 2011 (see Figure 1).

Towards Deregulation of Agricultural Markets

It was argued that the while the original intent of the Act may have been good, the act turned out to be counterproductive and restricted the competitiveness of the markets. It created the monopoly of the existing traders and commission agent and restricted the development of private markets (Chand 2012).

The Shankerlal Guru Committee (2001) was the first step towards the deregulation of agricultural marketing, which recommended a removal of legal provisions inhibiting the establishment of private markets. A task force was formed to propose actions to put into practice the suggestions made by the Guru Committee. The Task Force's report on Agricultural

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Marketing Reforms. The Task Force argued that the government should not have control over the management of the agricultural markets and that its role should be that of a facilitator.

The government then drafted a model state Agricultural Produce Marketing (Development & Regulation) Act in 2003, to allow different private marketing channels such as contract farming, direct purchases from farmers, and the establishment of private markets. Additionally, it proposed levying a single market fee in the entire notified area. In the same year, the restrictions on futures trading in agricultural commodities were also removed. Over the year, several states amended their APMC Acts based on the model act. In Bihar, the state APMC Act was entirely repealed in 2006.

In 2020, the central government introduced wide ranging changes in the agricultural marketing laws through the enactment of three new Acts. Despite, agriculture and agricultural marketing being a domain of the state legislature, the central government encroached upon the state's domains to enact these laws through the central parliament.

The three acts introduced in 2020 were:

1. Farmers’ Produce Trade and Commerce (Promotion and Facilitation) Act, 2020 (FPTCA). This law was mainly aimed at de-regulating the agricultural markets. Under this law, the regulatory powers of the market committees were confined to the physical boundaries of the APMC market yard. The Act allowed any one with a permanent account number (PAN) allotted under the Income Tax Act to buy directly, or set up a private market. Further, the Act did not provide for any regulation regarding the process of price discovery in the private trade between farmer and buyer.

2. Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act provided a new national framework for contract farming

3. Essential Commodities (Amendment) Act, was aimed at removing the restrictions on stocking specified food items (cereals, pulses, oilseeds, edible oils, onions and potatoes, and any other items that the government may notify) by processors, exporters and other value chain participants

The proponents of the reforms argued that the deregulation of the agricultural marketing would improve the price realisation for the farmers and lead to increased private investment in agricultural markets (Chand 2020).

“Due to inadequacies of the APMC markets, more than half of the marketable surplus is sold outside the mandis. Such deals lack transparency and fairness as they are in violation of APMC

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regulation; due to their underhanded nature, there is also the constant fear of being busted upon by APMC officials. The new Act legalizes such transactions, which is favourable for farmers. The best part of the new Act is that it allows direct purchase from farmers at their doorstep or farm, as is the case with milk. For the first time, farmers will have the opportunity to quote the price for their produce.”

— Chand (2020)

However, it is unclear how engaging in 'underhanded transactions which are in violation of APMC regulations' would benefit the farmers. Even in the case of milk, there is ample evidence that suggests that farmers selling milk to cooperative dairy societies are price takers (Newsclick 2021, Gaon Connection 2021)

Furthermore, the arguments made in favour of the reforms does not take into account that price realisation for farmers depend on their class position and bargaining power vis-a-vis the traders and other agents, and that a large number of farm-gate purchases from the farmers by traders are characterised by exploitation through cheating in weights, use of various forms of inter-locking and other unfair practices (Rawal et al. 2020)

Distribution of Regulated Markets across States

There is a considerable variation in the number and type of regulated markets across states (see Table 1).

In most states, each market committee manages one primary market and one ore more sub-market yards. A sub-market yard is usually a smaller market with less developed market infrastructure. In some of the states, the number of primary yards are very less, and a majority of regulated markets are sub-market yards. For example, in the case of West Bengal, there are only 22 market committees regulating 22 primary markets and 515 sub-markets. The market committee of Coochbehar alone manages 72 sub-market yards. These sub-markets include a large number of periodical markets which mainly functions as retail markets.

Table 1: Number of Regulated Markets across states in India

State	Number of Blocks	Number of Market	Principal Yards	Sub Yards	Total Regulated
Andhra Pradesh	679	191	191	157	348
Assam	157	24	20	206	226
Chhattisgarh	249	69	69	118	187
Gujarat	270	224	224	176	400

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Haryana	143	108	108	173	281
Jammu & Kashmir	208	16	5	20	25
Jharkhand	264	28	17	173	190
Karnataka	236	162	162	352	514
Madhya Pradesh	424	257	257	298	555
Maharashtra	358	307	307	597	904
Odisha	476	66	54	431	485
Punjab	96	153	151	281	432
Rajasthan	426	142	142	315	457
Tamil Nadu	313	23	281	6	287
Telangana	594	189	189	88	277
Uttar Pradesh	351	251	251	372	623
Uttarakhand	129	27	27	44	71
West Bengal	346	22	22	515	535
All-India	7129	2342	2558	4388	6946

The National Commission on Agriculture (1976) recommended that the market area of each committee should not exceed that of a revenue sub-division of tehsil/taluk.. However, in most states the number of existing market committees and primary yeards are much less than the number of sub-districts in the state. Only in Punjab, Haryana, Maharashtra and Gujrat, the number of market committees are comparable to the number of sub-districts. In other states, such as West Bengal, Tamil Nadu, Odisha, Jharkhand, Assam and Jammu & Kashmir, there are very few primary market committees.

However, since the area of each state (sub-district within states) varies, the concentration of markets is also looked in terms of density of regulated markets (calculated by dividing the total geographical area of the state by the number of regulated markets). This is represented in Figure 2, which shows the average geographical area per primary yard (panel A) and average geographical area per regulated markets (including both primary and sub-market yards) (panel B).

The figure reveals that the concentration of regulated markets is (i) high in Punjab (117 square kilometer per regulated market), Haryana, , Telangana and Tamil Nadu, followed by the central states, including Maharashtra (340 square kilometer), Madhya Pradesh, Gujrat, Chattisgarh, Rajasthan (748 square kilometer) and southern states of Karnataka (373 square kilometer) and Andhra Pradesh (468 square kilometer). This is true in case of both, concentration of primary yard as well as total regulated markets.

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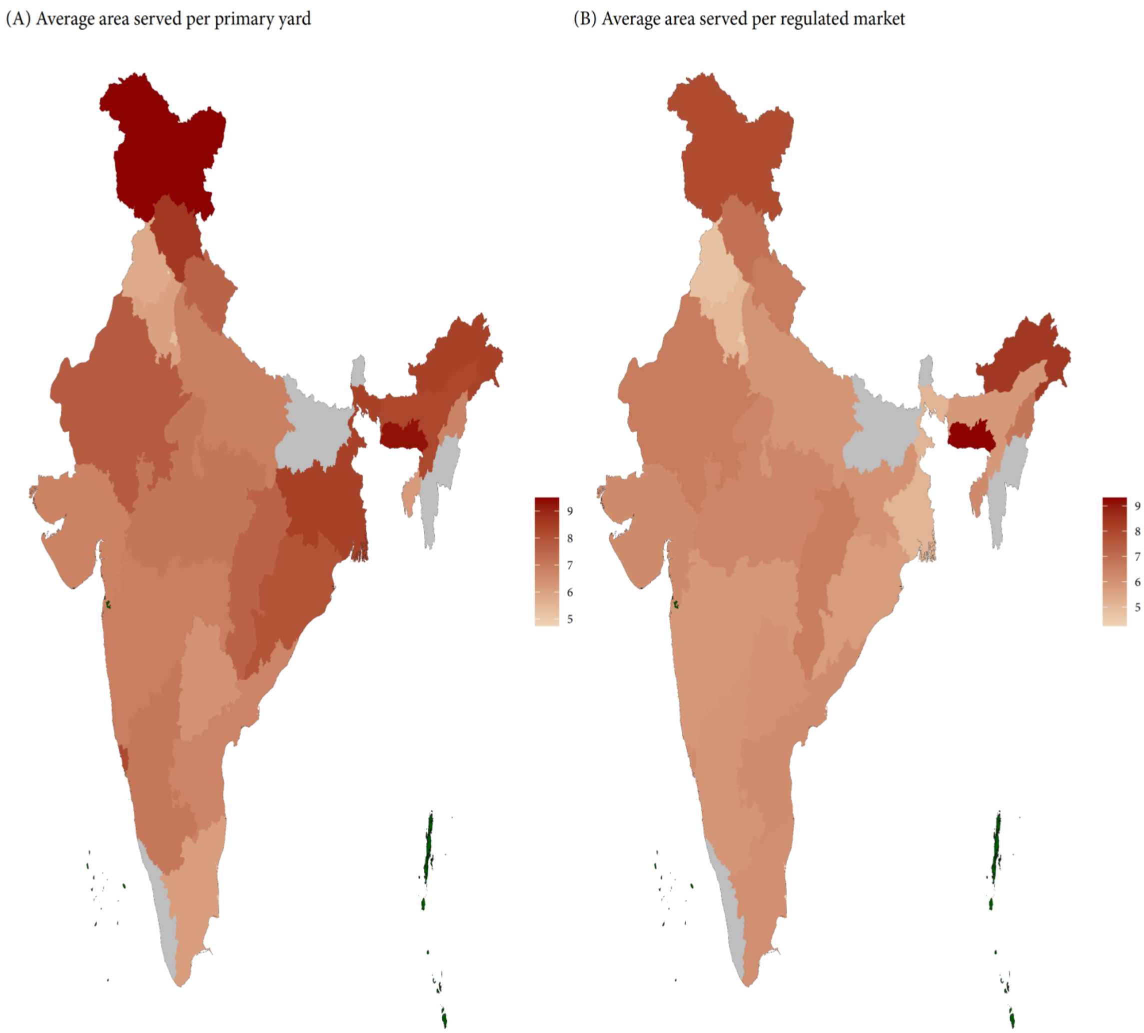
On the other hand, in case of eastern Indian states (West Bengal, Jharkhand, Orrisa and Assam), the concentration of primary market yards is very less, but in terms of total markets, their concentration is much higher. This is because these states have a larger number of sub-markets and periodical markets.

The concentration of regulated markets is very low in states such as, Jammu & Kashmir, Himachal Pradesh, and Meghalaya (4408 -- 11215 square kilometer), both in terms of primary yard and total market yards.

Figure 2: Average area served per primary market and area served per total regulated markets



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Moreover, the condition of physical infrastructure at the existing agricultural markets remained poor. Standing Committee on Agriculture (2018—19) provides the status of infrastructure in regulated markets through a sample survey of regulated markets conducted by the Department of Marketing and Inspection in 2015.

Table 2 provides the percentage of regulated markets having different types of infrastructure and facilities available. It shows that necessary infrastructure such as weighing facility, drying and grading facility was not available in more than half of the regulated markets. Even basic facilities like drinking water and toilet facility were not present in a large proportion of markets.

Table 2: Percentage of regulated markets having required infrastructure, India

Infrastructure/Facility	Existing in Regulated Markets (%)
Weighing facility	49
Drying platform	29
Grading facility	22
Covered Platform	66
Godown	83
Cold Storage	15
Drinking water	76
Toilet facility	65
Farmer's Rest house	38
Canteen	32
Banking	7

Table 3 shows the percentage of agricultural households selling crop produce through different marketing channels, based on data from National Sample Survey, 2018—19. It shows that for all major crops, more than two-third of the agricultural households sold their produce in local market, including to local traders. The percentage of farmers selling their produce at APMC markets is very small, ranging from about 3 per cent to 9 per in Gram. Paddy and Wheat are two major commodities that are procured by the government agencies. As a result, the share of farmers reporting sale to government and co-operative agencies is much higher. On the other hand, sale through contract farming remains very low, although many states had already amended their APMC Acts a long time ago.

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Table 3 : Percentage of quantity of various crops sold through different marketing channels, India, 2018--19

Crop	Local Market	APMC	Government / Cooperative	Private Processors	Contract Farming	Others
Paddy	74.0	2.8	13.5	4.1	0.4	5.1
Wheat	81.0	5.7	5.8	2.5	0.0	5.0
Maize	88.1	3.6	1.8	2.7	0.0	3.6
Bajra	82.6	8.3	1.9	3.0	0.0	4.2
Gram	79.0	8.9	3.6	2.8	0.0	5.6
Mustard	82.0	8.0	3.6	2.8	0.0	3.5

Source: Author's calculation based on NSS Data

Table 4 shows the share of different marketing channels in terms of quantity of crop produce sold by state. It shows that the share of APMC sales is much higher in states such as Haryana (42 per cent), Punjab (14 per cent) and Madhya Pradesh (11 per cent). In addition, the share of quantity sold through government and cooperative agencies is also much higher in these states, as the government procurement in these states are also done through the APMC markets and purchase centers managed by the market committees.

Table 4: **Percentage of quantity of Paddy sold through different marketing channels, 2018--19**

State	Local Market	APMC	Government/ Cooperative	Private Processors/	Others
Telangana	37.5	12	42.3	5.7	2.4
Punjab	47.2	13.6	32.7	6.4	0.1
Andhra Pradesh	77.1	0.6	4.4	10.6	7.4
West Bengal	87.5	1.7	4.9	2.5	3.3
Uttar Pradesh	81.3	3.6	8	3.2	3.9
Chhattisgarh	18.2	0.3	79.1	0	2.3
Bihar	90.1	0.2	4.2	3.1	2.4
Haryana	43.7	42	11	2.7	0.6
Assam	90.4		0	4.9	4.6
Odisha	54.2	1.1	32.6	1.3	10.8
Tamil Nadu	69.1	1.9	22.9	5.8	0.2
Karnataka	95.4	2.5	0.6	1.3	0.2

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Madhya Pradesh	54.6	11.4	32	0.5	1.5
Maharashtra	64.8	2.8	7.5	15	9.8
Uttarakhand	54	8.4	27.2	10.1	0.3
Gujarat	67.4	1.3	0.4	25.3	5.6
Jharkhand	93.8	0.6	0.8	1.1	3.6

The development of APMC infrastructure in these states has not only led to a larger proportion of farmers having access to these markets, but has also helped the marginal and small farmers, who usually sell in local markets, to fetch a better price. Table 5 shows the percentage of farmers who received a price less than the MSP for paddy and wheat. It clearly shows that this percentage is very low in states where either the sales through APMC or government/co-operative agencies are high.

Table 5: Percentage of farmers received price below MSP for paddy and wheat across states, India

State	Wheat	Paddy
Andhra Pradesh	--	73
Assam	--	97
Bihar	78	92
Chhattisgarh	38	16
Gujarat	31	60
Haryana	7	15
Jammu & Kashmir	70	7
Jharkhand	58	92
Karnataka	0	57
Kerala	--	2
Madhya Pradesh	26	19
Maharashtra	17	28
Odisha	100	63
Punjab	26	8
Rajasthan	46	2
Tamil Nadu	100	58
Telangana	--	23
Uttar Pradesh	52	63
Uttarakhand	59	63
West Bengal	88	91

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Conclusion

This paper shows that there is a large variation in the existence of regulated APMC markets in the country. While there is a well-developed network of mandis in Punjab and Haryana, in other states, the marketing infrastructure is not as developed. The public procurement has also remained limited to these states with better marketing infrastructure, though some of the state have expanded the procurement through cooperative agencies. There is a high prevalence of sales through local informal markets, where the scope for malpractices such as cheating in weights and exploitation by local traders through inter-locking of output with credit is large in the absence of any regulation. This paper, therefore, argues that there is urgent need to develop the market infrastructure throughout the country.

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