SEMINAR ON "HAS APMC REGIME HIT END OF THE ROAD?"

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REPORT OF THE PROCEEDINGS

Background

The CUTS project, "National Competition Policy & Economic Growth in India (ComPEG project)" has been undertaken with the support of British High Commission (BHC). The project aims to take forward the agenda of adoption of the draft National Competition Policy. As part of the first phase of the project (18 months) CUTS deepened the research based on the preliminary work done by CIRC/IICA, and covered three sectors: Pharmaceutical, Electricity and Agriculture Product Marketing to identify existing gaps against the touchstone of competition and measure the benefits of correcting the same on the entire Indian economy.

Having reached the end phase of the project, the aim is to advocate competition enhancing reforms in the select three sectors (Agriculture product marketing in case of this seminar) based on the findings of the sectoral studies undertaken during the course of the project.

Objective

The purpose of the seminar was to assess the relevance of the Agricultural Produce Market Committee (APMC) regime from the findings of the project and the experience of the stakeholders. Agriculture is a state subject and in case of APMC, there has been mixed response in the states for its adoption and full implementation. The seminar provided a platform for bringing on board the views of parliamentarians, government officials, academics, media representatives etc on the applicability of the APMC in the agriculture market in India.

Opening Meeting

Pradeep S. Mehta, Secretary General, CUTS International opened the session by welcoming everyone. CUTS has been working on competition reforms for more than two decades now, and strongly believes that it is a necessary element for achieving consumer welfare through reduced cost and better availability of quality goods and services.

He introduced the thirteen sector specific studies that have jointly been managed by India Institute of Corporate Affairs (IICA) and CUTS Institute of Regulation and Competition (CIRC). These studies have reviewed the laws, regulations, policies and above all practices in the selected sectors.

He went on to mention that one of the key and alarming findings of the ComPEG project is that private sector is reluctant to participate in the agricultural marketing sector even after amendments in the law. States like Orissa, Bihar, West Bengal and Assam have seen a significant rise in the produce of rice over the past 5 years. But even after dismantling the APMC act from their states, they have found it difficult to invite the private sector in the marketing of food grains.

Additionally the states like Uttar Pradesh, Punjab etc. where the APMC act prevails and has lived through its life cycle, have been able to create the infrastructure to the farmers at a certain level only. Here too the entry barriers for the private sector are prevalent. The other constraint in the development of progressive markets is the small landholdings of the farmers. The states lack the enabling environment to integrate these holdings and lead to better development of modern markets (by way of provision of infrastructure like integrated supply chain, better storage etc).

There is a major problem of storage in India being short by 10 MT of cold storage capacity. This leads to the wastage of 30% of agriculture produce every year. The percentage of processed food in India is as low as 7%. The Philippines, fellow developing country, also processes as much as 45% of its agricultural produce. Citing the above scenarios as example, Mr. Mehta offered three propositions for discussion and consideration for the panel:

i) To dismantle the APMC regime
ii) States to become more proactive to develop infrastructure to incentivise private investments
iii) Adoption of the APMC model act

Devi Prasad Tripathi, Member of Parliament (Rajya Sabha), was welcomed to provide his views on the issue. He appreciated CUTS' work and its initiative to highlight the reforms needed in the major sectors across India including electricity, pharmaceuticals and agriculture. He stated that agriculture produce markets are often price conscious and therefore the traders always end up gaining the most from these markets. This situation is compelling and hence the introduction of reforms is very important. Unfortunately 17 out 35 states and union territories in India have introduced some reforms in the agriculture produce markets. But the major farm states like Punjab and Haryana have only introduced marginal reforms in APMC causing serious problems to the farmers.

Mr. Tripathi strongly advocated the dismantling of the APMCs and bringing about reforms in agriculture marketing sector by way of technology like e-procurement, e-trading, e-auctioning etc. According to him the Indian agriculture scientists and researchers have done monumental work in the field of modernising agriculture even though their resources are limited. Sadly, their innovations are not applied as the primary functions of the markets i.e., price discovery and transparent transactions are not realised by the APMCs.

He questioned the lack of application of the IT innovations in the agriculture marketing sector. E-trading of vegetables like potatoes cannot be done in India at this stage even when the lack of proper market infrastructure is leading to wastage of the agricultural produce.

Sanjeev Chopra, Joint Secretary (NHM), Department of Agriculture and Cooperation, Government of India, agreed to the view of dismantling the APMCs and added that the model APMC act too has become redundant. The time this act was formed the level of technology and the market dynamics were different to what they currently are. The definitions as stated in the act are not applicable anymore. For instance in a city like Delhi, the definition of agriculturist in the APMC act does not hold good as there is no agriculture activity (agricultural farms) in Delhi per se.

Moreover, these definitions restrict the further dynamics as big mandis like the Azadpur Mandi in Delhi, receives produce from across India and overseas as well. The Indian mandis, in fact transact much more, than is recorded and the traders / artiyas take advantage of this redundancy in the act by under invoicing the transactions. This leads to erroneous demand estimations and therefore the infrastructure is always lacking to account for the surplus.

Responding to the issue of lack of private investments in the sector in question, he stated that failure of the APMC is not the only reason. The lack of infrastructure like proper roads, power for cold storage facilities etc. is equally responsible for keeping the private sector away. He added that these are not just policy constraints but erroneous practices that the states often follow. This makes investments not only financially unviable but practically as well.

He mentioned that reforms and modernisation would eventually be bought because of new demand and volumes and not because of the APMCs. He cited the example of marketing of apples from Himachal Pradesh and Jammu and Kashmir. The projects being run by private firms like Adanis, Suris etc. are providing better storage facilities and assess to the markets, leading to the farmer being benefited. Towards the end, he added that reforms would be bought about by the change in the political economy of the farmers and focussing on the demand rather than just policies.

Panel Discussion on "Has APMC Regime hit end of the road?"

Vijay Paul Sharma, Post Graduate Programme in Agribusiness Management, Indian Institute of Management, Ahmedabad commenced the panel discussion by thanking Pradeep Mehta for the interesting APMC session. He said that to understand the agriculture sector, it is important to look at it from a broad perspective and turned the attention towards the recent demand and supply alterations. He explained that with the increase in income, demand for non-food items has increased, while for food items have decreased. For instance, in rural India, about 48% of total expenditure is on food items while about 53% is on non-food items. Similarly, in urban areas 38% is on food and the rest on non-food.

Further, even the composition of food being consumed is undergoing a change. The demand for basic staples like pulses is declining while demand for high value commodities like fruits, vegetables, milk products and meat, etc is increasing. However, the bottom rung people still are spending about 60% of expenditure on food items, where expenditure on the cereals is on the high side.

Hence, keeping this in mind, when we look at APMC, rice and wheat are policy driven commodities. Also, with National Food Security Act, the government intervention in the rice and wheat sector would only increase.

Accordingly, Vijay stressed that to ensure efficient functioning of the APMC, such an infrastructure shall be created where public investments can be supplemented by private investments. At this point there are not much private investments as private investors don't find investments financially viable.

Sanjeev Chopra intervened by asking if in Bihar the farmers were worse off due to the abolishment of APMC? He claimed that as the APMC Act was not there in Bihar, Kaushalendra was able to bring out a lovely experiment where he was able to buy and sell directly from the farmers. Thereby Sanjeev cited that as a farmer in Bihar was not worse off, it was time to scrape off APMC. To Sanjay's interjection, **Vijay** replied that it was not about having/ not having APMC. The issue is to create a space for private investment. For example, in case of transport, direct procurement of farmers, no private investor would want to invest.

Aimee Hampel, Senior Researcher, German Institute, DIE, started her session by exclaiming that she was happy to be at the panel and represent the women farmers' voice which plays an integral role in farming. Aimee explained that she, along with a bunch of post graduate colleagues were conducting a research on the APMC in Andhra Pradesh. She shared that as per their findings, through surveys of public and private players, traditional value chain under the APMC was more efficient than the modern value chain. She elucidated that for the Indian habit of preferring fresh fruits and vegetables over frozen fruits and vegetables, the APMC provided a better infrastructure.

Raj Bhatia, Secretary, Azadpur Mandi, Delhi agreed with Aimee and argued for the APMC Act. He maintained that the Azadpur mandi is an organised and systematic mandi, where the farmers are not at the mercy of traders but are the assistants of the traders. He explained that the mandi is a 24/7 organisation which creates a lavish market for the farmers and traders. The market ranges from sellers like the adanis selling apples procured from Himachal, to big private company buyers like Reliance. Raj mooted that the APMC cannot be abolished as it had helped create a strong bond between farmers and traders. Only reforms need to be introduced in the current APMC Act, he argued. The private players who come into the sector want transparency in the chain. Hence, there should be a regulatory body to control the market.

Sanjeev interjected that though the regulatory bodies need to be there, their functions and consequent practices need to be very clearly defined. He reminded the audience of the NAFED incident in 2011 where India witnessed a sharp inflation in onion prices. In order to control the prices, the government asked NAFED to scale up distribution to control the price. It was suggested that to reduce the distribution cost, some of the onions may be brought to Okhla mandi from Azadpur mandi. But, to everyone's surprise, NAFED was denied license by the Okhla mandi. The reason cited was that NAFED did not have a premise in Okhla. When asked to then provide premises in the mandi, the prompt reply was that there was no premise available. The primary issue, therefore, he stressed was the entry barriers in such mandis. The loophole was in the sub-rule 61(b) to APMC Act which provides that one cannot get a license unless he/she has premise in the Azadpur mandi.

PG Chengappa, Director of Instructions (Agri), College of Agriculture, Bangalore, on the other hand, maintained that we cannot totally dismantle APMC all of a sudden. Furthermore, he mentioned the country is not ready for virtual markets. With paucity in basic infrastructure, like warehousing, virtual marketing would not be possible. Chengappa explained that the long term goal is to abolish the APMC; however, it has to be achieved gradually. At Sanjeev's point on the licensing issue, he replied that the practice is contrary in Karnataka, where anybody can get the license. Further, there are about 60 APMCs which have been successfully computerised.

Raj here added that the need for basic reforms. He illustrated, in the entire mandi was no single marketing officer with the knowledge of marketing and agriculture. Further, the Act prevailing in Delhi is the same for fish poultry, horticulture, pulses and grains. To Raj's point, **Sanjeev** replied that the said issues were petty as a special act for agriculture is not required. He explained that price discovery is an important feature of the market; however, it is not present in the Azadpur mandi. Similarly, there are 108 traders of onions in Delhi, but only about 15-2- have complete control on the onion market. There was no logic to onions being sold at Rs.7 in Laselgaon and Rs.25 in Delhi.

Open Discussion

Shirish Deshpande, from the Mumbai Graham Panchayat, commented that the APMC was a racket. His organisation was unable to procure directly from the farmers only for APMC. He said it was APMC was an opaque system where only the traders benefitted. **Shyamal Ghosh,** IYC provided two significant alternatives for the APMC, E-Chopal as in the soya sector and mobile phone for price discovery, as being used by the Kerela fishermen. He also flagged privatisation as an important element for competent marketing. **Abhishek Kumar**, CUTS asked if dismantling the APMC would disadvantage the small and marginal farmers which were a majority in the country. He further asked could cartelisation be prevented from farmer's side.

Panel

Aimee replied by reiterating her argument that APMC should not be dismantled as it would harm the small and marginal farmers. She argued for reforming the current APMC to involve private infrastructure. **Chengappa** also fully agreed with Aimee. He argued that the marketing efficiency is low in terms of physical and marketing efficiency, which immediately needs to be fixed. There has to be coexistence between the APMCs and private markets. **Raj** too agreed with the speakers and added the need to adapt to modernization.

Vijay summarised his observations after the discussion and maintained that firstly, Information Technology (like E-Chopal)can play an important role in providing information, however, the dominant farmers in the chain are the traditional farmers, and hence, how do we equip them with technology. Secondly, transparency has to be introduced and thirdly, there has to be some sort of rationalisation with the tax structure in agriculture through the country. He too echoed the argument that APMC cannot suddenly be removed.

Sanjeev, however, maintained that the way the APMCs are currently functioning is what the main issue is. Factors like entry barrier and monopoly are degrading the market efficiency. He concluded by saying that things will look better and the movement is going to be in the right direction and there will be coexistence in the traditional and private markets.

On that note Pradeep concluded the APMC session by thanking the panellists for providing their stimulating insights and participants for actively participating in the session.

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