CHAPTER -V

LEGAL REGULATION OF AGRICULTURAL PRODUCE MARKETING IN INDIA

5.1 Introduction

Law is essential to any orderly system and development. Laws establish the Framework of property, contractual and other rights that form the foundation of markets and are the primary means of regulating the behaviour of participants in markets and the consequences of their actions. Law is one of the key tools available to policy makers wishing to reform agricultural marketing system. Programme to liberalize agricultural marketing have to be based on adequate understanding of relationship between law and the functioning of marketing system. The developing countries world over have recognized the importance of market liberalization programme and the need for legal reforms intended to improve the efficiency and effectiveness of marketing system.\(^1\) An organized marketing service in the country started in 1935 with the establishment of a central organization, the office of the Agricultural Marketing Adviser to the government of India, now known as the Directorate of Marketing and Inspection in the Ministry of Agriculture, Government of India. A series of measures, such as the Agricultural Produce Market Act, the Weights and Measures Act, the Agricultural Produce (Grading and Marketing) Act, etc. have been enacted for the marketing of agricultural produce in more orderly manner beneficial to the farmers. Under these measures, marketing practices are regulated, marketing charges are clearly defined and specified, unwarranted deductions are prohibited, correct weighments are ensured, suitable arrangements for the settlement of disputes regarding quality-weighments, deductions, etc. are made, reliable and correct

information of prices is supplied and suitable quality standards and standard contracts for buying and selling are enforced. The Agricultural Produce Market Act exists in all the states and the union territories, except in Kerala, Manipur and the union territories of Andaman and Nicobar Islands, Dadra and Nagar Haveli, Lakshadweep, and Daman and Diu, to protect the farmers from exploitation by middlemen and traders. So far, 7,418 agricultural produce markets have been regulated under the different State Agricultural Produce Market Acts in the country.

5.2 Legal Framework

The legal and administrative framework for regulation and management of agricultural produce markets has mainly been provided in the provisions of more than 27 regulated Markets Acts in vogue in different States and Union Territories of the country. Although the purpose of enactment of these Acts is basically the same i.e. regulation of trading practices, increased market efficiency through reduction in market charges, elimination of superfluous intermediaries and protecting the interest of producer-seller, many of these Acts differ even in vital contents. All the same, the States and UTs where such Regulated Market Acts have not been enacted and enforced have some administrative arrangements to look after the subject though rudimentary and of varied pattern. Studies indicated that the institutions of regulated markets set up to strengthen and develop agricultural marketing in the country have, however, achieved a limited success in providing transparent and efficient marketing practices, development of required infrastructure, etc. The restrictive legal provisions did not augur well with competitive market structure. The supply chain of agriculture products remain very fragmented with a large number of intermediaries. A study by Global Agri-System of

\(^2\) \textit{Ibid.}
Fruit & Vegetable supply chain in four metros (Delhi, Mumbai, Bangalore and Kolkata) revealed that, on an average there are 5-6 intermediaries between the primary producer and the consumer. The total mark up in the chain added up to 60-75%. As a result the primary producers receive only 20-25% of the consumer price. Moreover, multiple handling by different intermediaries resulted in huge wastage of 15-25% of the value. The present agricultural marketing system in the country revolves around enactment and enforcement of various legislations to protect the interests of producers and regulate market functionaries in the marketing channel.

(ii) Except the States of Jammu and Kashmir, Kerala, Manipur and small Union Territories (UTs) such as Dadra and Nagar Haveli, Andaman and Nicobar Islands, Lakshdweep, etc. all other States and UTs in the country have enacted State Marketing Legislations. The Government of Bihar had repealed its APMC Act since September 2006.

(iii) The APMCs in the country collect market fee in lieu of the services provided by them to facilitate marketing transactions. The rate of market fee varies from as less as 0.5 per cent in Gujarat to maximum of 2 per cent in States like Punjab and Haryana, etc. (iv) APMCs came into existence as service oriented institutions operating to protect the interests of farmers and to check malpractices, if any, in marketing transactions for commodities and jurisdiction notified for the purpose. The advent of regulation of markets helped in mitigating marketing problems of the farmers to a considerable extent but they did not come up to the expectations of efficient marketing system. Over the years, they gradually shifted from service oriented institutions to revenue generating institutions for the State. Over a period of time, these markets have, however, acquired

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3 Ibid.
the status of restrictive and monopolistic markets, providing no help in direct and free marketing, organised retailing and smooth raw material supplies to agro-industries. Exporters, processors and retail chain operators cannot procure directly from the farmers as the produce is required to be channelised through regulated markets and licensed traders. There is, in the process, an enormous increase in the cost of marketing and farmers end up getting a low price for their produce. Monopolistic practices and modalities of the state-controlled markets have prevented private investment in the sector. Post-harvest losses are estimated to be of the order of 5-7 per cent in food grains and 25-30 per cent in the case of fruits and vegetable.\footnote{\url{http://agricoop.nic.in/AnnualReport06-07/AGRICULTURAL\%20MARKETING.pdf}} The agriculture sector needs well-functioning markets to drive growth, employment and economic prosperity in rural areas of India. In order to provide dynamism and efficiency into the marketing system, large investments are required for the development of post-harvest and cold-chain infrastructure nearer to the farmers’ field. A major portion of this investment is expected from the private sector, for which an appropriate regulatory and policy environment is necessary. Also, enabling policies need to be put in place to encourage the procurement of agricultural commodities directly from farmers’ fields and to establish effective linkage between the farm production and the retail chain and food processing industries. Accordingly, the state governments were requested to suitably amend their respective APMC Acts for deregulation of the marketing system in India, to promote investment in marketing infrastructure, thereby motivating the corporate sector to undertake direct marketing and to facilitate a national integrated market.\footnote{\textit{Ibid.}} Agricultural marketing is witnessing major changes world over, owing to liberalization of trade in agricultural
commodities. To benefit farming community for the new global market access opportunities, the internal agricultural marketing system in the country needs to be integrated and strengthened. In this context, Government of India in the Ministry of Agriculture appointed an Expert Committee on 19th December 2000 followed by an Inter Ministerial Task Force to review the present system of agricultural marketing in the country and to recommend measures to make the system more efficient and competitive. The Committee and the Task Force in their Reports of June 2001 and May 2002 respectively, have suggested various reforms relating to agricultural marketing system as well as in policies and programs for development and strengthening of agricultural marketing in the country. The reports have noted that the situation of control over agricultural markets by the State has to be eased to facilitate greater participation of the private sector, particularly to engender massive investments required for the development of marketing infrastructure and supporting services. In view of liberalization of trade and emergence of global markets, it was necessary to promote development of a competitive marketing infrastructure in the country and to bring about professionalism in the management of existing market yards and market fee structure. While promoting the alternative marketing structure, however, Government needs to put in place adequate safeguards to avoid any exploitation of farmers by the private trade and industries. For this, there was a need to formulate model legislation on agricultural marketing. The Ministry of Agriculture, Government of India accordingly set up a committee under the chairmanship of Shri. K.M. Sahni, Additional Secretary, Department of Agriculture and Cooperation to formulate a model law on agricultural marketing in consultation with the States. Other members of the Committee are Shri Jamini Sharma, Principal Secretary,
Govt. of Madhya Pradesh, Shri. Shivajirao Deshmukh, Secretary (Cooperation and Marketing), Govt. of Maharashtra, Shri. S. Bhalerao, Principal Secretary (Cooperation and Marketing) Govt. of Andhra Pradesh, Shri. V. Ramnath and Shri. A.K. Goel, Director General, National Institute of Agricultural Marketing, Jaipur and Shri. P.K. Agarwal, Joint Secretary (Marketing) as Member Secretary of the Committee. The present Model Legislation has been drafted by the Committee after holding discussions with the State officials at Bhopal on 3 – 4th May, 2003, at Pune on 22-23rd May 2003, at Shillong on 31st May 2003 and at Srinagar on 7th June, 2003. The draft legislation was thereafter discussed with the State Governments at the National Institute of Agricultural Marketing, Jaipur on 11th and 12th June 2003 and finalized. The participating States included representatives from the State of Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Madhya Pradesh, Punjab, Rajasthan and Uttar Pradesh. The draft model legislation was fully discussed by the Committee at Pune on 8th and 9th September 2003 and finalized. The draft model legislation titled the State Agricultural Produce Marketing (Development and Regulation) Act, 2003, provides for establishment of Private Markets/yards, Direct Purchase Centres, Consumer/Farmers Markets for direct sale and promotion of Public Private Partnership in the management and development of agricultural markets in the country. It also provides for separate constitution for Special Markets for commodities like Onions, Fruits, Vegetables, Flowers etc. A separate chapter has been included in the legislation to regulate and promote contract-farming arrangements in the country. It provides for prohibition of commission agency in any transaction of agricultural commodities with the producers. It redefines the role of present Agricultural Produce Market Committee to promote alternative marketing system, contract farming, direct
marketing and farmers/consumers markets. It also redefines the role of State Agricultural Marketing Boards to promote standardization, grading, quality certification, market led extension and training of farmers and market functionaries in marketing related areas. Provision has also been made in the Act for constitution of State Agricultural Produce Marketing Standards Bureau for promotion of Grading, Standardization and Quality Certification of Agricultural Produce. This would facilitate pledge financing, E-trading, direct purchasing, export, forward/future trading and introduction of negotiable warehousing receipt system in respect of agricultural commodities.

5.3 Salient Features of the Model Act.

5.3.1 Private Markets

There is no compulsion on growers to sell their produce through existing regulated markets. The Model Act suggests provisions for private markets or yards managed by persons other than APMCs. Out of 35 states and UTs, the States of Andhra Pradesh, Arunachal Pradesh, Assam, Gujarat, Goa, Himachal Pradesh, Karnataka, Madhya Pradesh (only direct purchase), Maharashtra, Mizoram, Nagaland, Orissa (excluding for paddy/rice), Rajasthan, Sikkim, Tripura, Jharkhand and Uttarakhand have the provision for private market yards but Rules/bye-laws have not been formulated by all. Tamil Nadu is stated to have provided enabling provision through executive orders and Madhya Pradesh has provision for direct purchase and not for private market. Andhra Pradesh has formulated Rules, which stipulate a license fee of Rs 50,000 and minimum cost of Rs.10 crores for setting up of private markets. Orissa has not permitted private markets for paddy/rice. Some States have also prescribed a minimum distance of these markets from the APMC markets. Such stipulations are likely to be prohibitive and
may not encourage private markets. Only the States of Maharashtra, Karnataka, Gujarat and Tamil Nadu have issued license to Private Markets. However, only one Private Market has come up in Maharashtra so far, but is reported to be having problems.

5.3.2 Private Yards

Provision is made for the purchase of agricultural produce through private yards or directly from agriculturists in one or more than one market area. Thus, the Act provides for granting licenses to processors, exporters, graders, packers, etc. for purchase of agricultural produce directly from farmers. The States of Andhra Pradesh, Arunachal Pradesh, Assam, Gujarat, Goa, Himachal Pradesh, Karnataka, Madhya Pradesh (only direct purchase), Maharashtra, Mizoram, Nagaland, Orissa (excluding for paddy / rice), Rajasthan, Sikkim, Tripura, Jharkhand and, Uttarakhand have so far made this provision. In Andhra Pradesh, the license fee (Rs 50,000) prescribed for such a procurement centre is prohibitive. In Punjab and Chandigarh, there is an exemption of market fee for direct purchases of certain commodities by selected/identified processors. The States of Maharashtra, Gujarat and Karnataka have issued common license for direct procurement from farmers. Provision is made for the establishment of consumers’/ farmers’ market to facilitate direct sale of agricultural produce to consumers. Further provision is made for resolving of disputes, if any, arising between private market/ consumer market and Market Committee. State Governments conferred power to exempt any agricultural produce brought for sale in market area, from payment of market fee. Market Committees permitted to use its funds among others to create facilities like grading,
standardization and quality certification; to create infrastructure on its own or through public private partnership for post harvest handling of agricultural produce and development of modern marketing system\textsuperscript{10}.

5.3.3 Special Commodities Markets

Already there are special markets for fruit and vegetables. The Model Act 2003 provides for declaration of any market as a special market or special commodity market with proper market infrastructure. The States Andhra Pradesh, Gujarat, Maharashtra, Karnataka, Nagaland, Sikkim, Tamil Nadu, Tripura, Jharkhand and Uttarakhand have only made this provision in their amended Act.

5.3.4 Provisions for Contract Farming

The Model Act provides for permitting contract farming by registration of contracts with APMCs, allowing purchase of contracted produce directly from farmers outside market yards, and exemption of market fee on such purchases. So far, the States of Andhra Pradesh, Arunachal Pradesh, Assam, Chhattisgarh, Goa, Gujarat, Himachal Pradesh, Haryana, Jharkhand, Karnataka, , Maharashtra, Mizoram, Nagaland, Punjab, Chandigarh (enabling provision in Rules), Orissa, Rajasthan, Sikkim, Tripura and Uttarakhand have incorporated these provisions, except the exemption of market fee. Only 11 States have exempted the market fee on purchases under contract agreements. The States of Karnataka has only exempted 30% of market fee under contract farming. Andhra Pradesh APMC Act requires the buyer to render a bank guarantee for the entire value of the contracted produce. One of the biggest concerns is that APMC, who is the major market player, is also a registering authority for contract farming and the arbitration process is not time bound. A new Chapter on ‘Contract Farming’ added to

\textsuperscript{10} Ibid., Section-59
provide for compulsory registration of all contract farming sponsors, recording of contract farming agreements, resolution of disputes, if any, arising out of such agreement, exemption from levy of market fee on produce covered by contract farming agreements and to provide for indemnity to producers’ title/possession over his land from any claim arising out of the agreement. The Model Act provides for permitting contract farming by registration of contracts with APMCs, allowing purchase of contracted produce directly from farmers outside market yards, and exemption of market fee on such purchases. One of the biggest concerns is that APMC, who is the major market player, is also a registering authority for contract farming and the arbitration process is not time bound. Model specification of contract farming agreements provided in the Addendum to the model law. Provision made for direct sale of farm produce to contract farming sponsor from farmers’ field without the necessity of routing it through notified markets. Only 13 States have provided provisions for single point levy of market fee.

However, the rates of market fee vary generally between 0.50% to 2.00%. In many States, market fee is recovered by APMCs not only at the check-gates for transactions carried out in the notified area of APMCs but also outside the physical APMC yard thus, hampering the smooth flow of goods and services. In addition to above, in some of the States, additional developmental fee/cess/purchase tax is levied on the commodities traded in the market. For example, in Punjab the total markets charges on transactions of food grains are around 15.50% (Market Fee-2%, development Cess-2%, Purchase Tax-4%, Commission Charge-2%, Infrastructure Cost-1.5%, VAT-4%,) ad valorem apart the charges for weighing Rs.0.55, loading Rs.0.40, Brokerage Rs.0.16, Hamal Rs.1/- and cleaning 0.65/bag/qt. Besides, this fee/cess, the commission agents

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11 See, Chapter-VII, *ibid.*
also charge their commission (payable by the buyers) on the transaction. In many states
the agricultural commodities are subjected to cascading market fees when traded in
subsequent markets within the State or in other States. The States of Chhattisgarh,
Gujarat, Goa, Himachal Pradesh, Madhya Pradesh, Mizoram, Karnataka, Nagaland,
Sikkim, UT of Chandigarh, Punjab, Jharkhand and Uttarakhand have made the provision
for single point levy of fee. Provision made for imposition of single point levy of market
fee on the sale of notified agricultural commodities in any market area and discretion
provided to the State Government to fix graded levy of market fee on different types of
sales. (Section-42) Only 13 States have provided provisions for single point levy of
market fee. Licensing of market functionaries is dispensed with and a time bound
procedure for registration is laid down. Registration for market functionaries provided to
operate in one or more than one market areas. (Section-44) Commission agency in any
transaction relating to notified agricultural produce involving an agriculturist is
prohibited and there will be no deduction towards commission from the sale proceeds
payable to agriculturist seller. (Section-44(6)) Commission agents in the market provide
an essential service to both buyers and sellers. The existing APMC Acts authorize
APMCs to prescribe the rate of commission and also to specify whether to be collected
from buyer, seller or both (though the first Model Act of 1960s desired that the farmer or
seller should not be required to pay any charge including the commission) The model
Act, 2003 stipulates prohibition of commission agents in any transaction of agricultural
produce of the farmers. The States of Madhya Pradesh, Chhattisgarh, Mizoram,
Nagaland and Sikkim have amended the Act and made the provision, it is doubtful
whether this provision will be implemented in letter and spirit.
5.3.5 Commission Agents

Commission agents in the market provide an essential service to both buyers and sellers. The existing APMC Acts authorize APMCs to prescribe the rate of commission and also to specify whether to be collected from buyer, seller or both (though the first Model Act of 1960s desired that the farmer or seller should not be required to pay any charge including the commission). While Madhya Pradesh has reportedly abolished the system of commission agents in agricultural produce markets, the commission is payable by sellers in AP, Tamil Nadu and Delhi. In all other States, it is payable by the buyers. The commission charges vary from 1% to 2.5% in food grains, and 4% to 8% in case of fruit and vegetables. It has been reported that transactions of fruit and vegetables, the commission is charged from both buyers and sellers. The model Act, 2003 stipulates prohibition of commission agents in any transaction of agricultural produce of the farmers. The States of Madhya Pradesh, Chhattisgarh, Mizoram, Nagaland and Sikkim have amended the Act and made the provision, it is doubtful whether this provision will be implemented in letter and spirit.

5.3.6 Provision for Direct Marketing

The Model Act provides for granting licenses to processors, exporters, graders, packers, etc. for purchase of agricultural produce directly from farmers. Direct marketing: Farmers’ Markets were introduced with a view to eliminate the middlemen and arrange facilities for the farmers to sell their produce directly to the consumers at reasonable rates fixed every day. On account of the scheme, both the farmers and the consumers are benefited. Some examples of these channels are Apni Mandi, Rythu Bazars, and Uzhavar Sandies. These channels are mostly adopted in sales transactions of agricultural
commodities like fruits, vegetables and flowers which are highly perishable. In this channel, the produce move quickly from farmers to consumers due to absence of middlemen. If 17 farmers directly sell their produce to the consumers, it not only saves losses but also increases farmers’ share in the price paid by the consumer. There is need to promote more of Rythu Bazaars / Kisan Bazaars which allows farmers to directly sell their produce to consumers without intermediaries. Direct marketing by farmers is being encouraged as an innovative channel. The States of Andhra Pradesh, Arunachal Pradesh, Assam, Gujarat, Goa, Himachal Pradesh, Karnataka, Madhya Pradesh (only direct purchase), Maharashtra, Mizoram, Nagaland, Orissa (excluding for paddy / rice), Rajasthan, Sikkim, Tripura, Jharkhand and Uttarakhand have so far made this provision. In Andhra Pradesh, the license fee (Rs 50,000) prescribed for such a procurement centre is prohibitive. In Punjab and Chandigarh, there is an exemption of market fee for direct purchases of certain commodities by selected/identified processors. The States of Maharashtra, Gujarat and Karnataka have issued common license for direct procurement from farmers.

5.3.7 State Marketing Boards

State marketing boards are to be established to promote standardization, grading, quality certification, market led extension and training of farmers and market functionaries in marketing related areas. The State Agricultural Marketing Board have been envisaged under the Model Act are made specifically responsible for:(i) setting up of a separate marketing extension cell in the Board to provide market-led extension services to farmers;(ii) promoting grading, standardization and quality certification of notified agricultural produce and for the purpose to set up a separate Agricultural Produce
Marketing Standards Bureau. Funds of the State Agricultural Marketing Board permitted to be utilized for promoting either on its own or through public-private partnership, for the following: market survey, research, grading, standardization, quality certification, etc.; Development of quality testing and communication infrastructure. Development of media, cyber and long distance infrastructure relevant to marketing of agricultural and allied commodities.

5.3.8 Constitution of State Marketing Standards Bureau

Constitution of State Marketing Standards Bureau for promotion of grading, standardization and quality certification of agricultural produce.

5.3.9 Market Committee Funds

The existing State APMC Acts provide for creation of market committee funds to meet establishment expenses and cost of market development. The market development fund is created at the level of SAMB with contributions from APMCs. The development heads vary from market to market depending on the volume of transactions and number of market players visiting and using the market yards. There is no specific provision in the Act, which prohibits spending of Market Committee fund or development fund on purposes other than market development. As a consequence, a considerable part of these funds built out of market fee is transferred to the general account of the State Governments. To check such practices, the Model Act provides for application of market committee fund or development fund for creation and promotion, on its own or through public-private partnership, infrastructure of post-harvest handling, cold storage, pre-cooling facilities, packhouses, etc. for modernizing the market in 

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12 Section-73
13 Section-79
system. Out of seventeen States, which have recently amended their Acts, three have no such suggested provision.

5.3.10 Karnataka Amendment

To implement the recommendations of Government of India in its Model Act, 2003, which aims at uniformity in development, reformation in regulation of marketing of agricultural produce, the Karnataka Agricultural Produce Marketing (Regulation) Act, 1966 was amended by Amending Act 23 of 2007, to provide for (1) the better regulation of marketing of agricultural produce and the establishment and administration of markets for agricultural produce in the State. It was felt necessary to incorporate the provisions to development of efficient marketing system, promotion of agricultural processing, agricultural exports and the establishment and proper administration of agricultural markets, to provide effective infrastructural facilities for marketing in addition to the regulation of marketing of agricultural produce; (2) the wider meaning to the definitions of ‘agriculturist’, ‘buyer’, ‘marketing’ and ‘processing’ in terms of Model Act; (3) setting up a “Revolving Fund” to implement the Floor Price Scheme to protect the interest of the farmers against distress sale; (4) exemption of market fee from new Agricultural Produce Process Industries in line with new Industrial Policy; (5) the establishment of private market yards, farmers consumer markets and to empower the Director/Commissioner of Agricultural Marketing to issue licenses and regulate the activities in such markets, so as to promote development of a competitive marketing infrastructure to enable the farmers to get a remunerative price; (6) contract Farming System for encouraging marketing of agricultural produce with a predetermined agreed price, to ensure constant supply of agricultural produce to agri-processing sector which
helps the growers to get remunerative price by way of value addition and also empower
the Market Committees to regulate the activities of Contract Farming and Contract
Farming Agreements; (7) Agricultural Produce Marketing Standards Bureau to take up
quality certification and branding of commodities to encourage export oriented activities
in the field of agricultural marketing; (8) settlement of disputes, to ensure prompt
payment of sale proceeds to the seller etc; (9) disqualification of members of the
Committee who do not attend three consecutive meetings; (10) enhance the penalty for
non payment and delayed payments to the seller by the buyer or Commission Agent;
(11) establishment of spot exchange to facilitate e-trading of notified agricultural
produce; (12) payment to the sellers through the Market Committee in respect of such
goods as may be notified; (13) Certain consequential amendments also.

5.4 Alternative Marketing Models

India has made many strides on production front but awfully lacking in the field
of agricultural marketing. These inadequacies are becoming more acute with the
significant changes taking place in agri-food systems in domestic and overseas markets;
the attainment of competitiveness is becoming increasingly dependent on the capacity of
the country to develop effective and efficient agricultural marketing. Presently
agricultural marketing system in India suffers from number of constraints which are
either infrastructure related or government regulation related or technology related or
related to poor information on domestic and overseas markets and opportunities or related
to unstable and uncertain produce prices or related to delayed and late payment to
producers and finally related to low producer’s realization. The existing marketing
infrastructure in the form of Rural Primary Markets, regulated wholesale and assembling

\footnote{L.A.Bill No.11 of 2007}
markets, grading and quality control systems, retail markets, storage including cold chain infrastructure, infrastructure required for linking the commodity futures with the farmers, perishable cargo centres, rural farm road infrastructure, market information infrastructure, infrastructure for livestock markets, poultry and livestock meat markets, slaughter house facilities and quality assurance infrastructure of various agricultural commodities is far below the desired / required levels both in terms of capacity as well as quality of the facilities. This infrastructure is also inadequate to realize the potential competitiveness of multiple commodities for taking them to the global markets.

5.4.1 Alternate Marketing Systems

Indian producers are unable to realize optimal value from their produce and progress further due to fragmentation of land holdings and lack of grass-root level organizations. On the other hand, processors are not in a position to get quality raw material in right quantity. Besides the share of producer in consumer price is abysmally low due to the presence of middlemen. To overcome these problems, direct marketing, contract farming, direct linkage with Retailers/ Processors/ Exporters and market oriented production are some of the approaches. Recently many initiatives have been taken by NABARD and other organizations to promote and involve Self Help Groups, Joint Liability Groups, Farmer clubs, Farmer Federations, SHG Federations, Producer organizations such as Producer Companies, Producer cooperatives, etc in direct marketing of the farmers’ produce for better price realization. Government Initiatives: To promote direct interactions of producers with consumers in fresh produce, there have been farmers’ markets in India in the form of Apni Mandis in Punjab, Rythu Bazaars in Andhra Pradesh, Uzhavar Santhai in Tamil Nadu, and Shetkari Bazaar in Maharashtra,

15 http://planningcommission.nic.in/aboutus/committee/wrkgrp12/agri/weg_rep_market.pdf
promoted by state agencies. Farmers’ markets have helped participating farmers to become aware of the products required by the markets and helped farmers to improve product quality and diversify their product portfolios, besides bringing about resource use maximization. However, farmers’ markets have not had a major impact on farm incomes as sales through this marketing channel are generally small, both in terms of number of the farmers participating and volumes of produce. The more significant govt. initiatives include Horticultural Producers’ Coop. Marketing & Processing Society (HOPCOMS – a cooperative) in Karnataka and SAFAL F&V project of National Dairy Development Board (NDDB) in Bangalore.

5.4.2 Producer Groups / Farmer Groups (PG / FG) – Producers’ Associations (PAs) – Farmer Common Service Centers (FCSCs)

Group Activity is more effective for the benefit of the members of the group than the individual efforts. Informally formed small groups called as self help groups have exhibited their strengths in various fields including agriculture, in improving financial conditions of the members. Farmer Common Service Centers (FCSCs) are conceptually small scale commercially viable entities owned by Producers’ Associations PAs). The FCSCs will support 250-300 members, through Producer Groups / Farmer Groups of around 12-19 active members in each Producer Groups (PGs). Around 15-20 PGs in a village or a group of villages within the radius of 3-5 Kms. 15 can be federated in to a PA which will be registered under the Society Registration Act, 1860 with the Charity Commissioner to have the legal status / other suitable Acts. The FCSC can mainly deliver some basic value added activities, in grain and horticulture and carry out input and output marketing. This could involve supply of inputs like seeds, fertilizers, manures, pesticides, cattle feed to the members & farmers and also could help in aggregation of produce, its
cleaning, grading & marketing. The following illustrative options could be available to the members of the PAs after using the services provided by the FCSCs: (i) Take their produce to a State Agencies Warehouse or to APMC warehouse or sell in APMC. (ii) Obtain finance against their produce through the Warehouse Receipt Financing from banks for the produce store in the State Warehouse or other accredited warehouses. (iii) They can sell the produce on spot or future market depending on price situation known through the warehouses. (iv) The produce can be sold to direct marketing license holder who may be a trader, exporter, processor or retail chain operator. An estimate of the potential additional returns that farmers can obtain by using the FCSC for their producer association to grade, clean and pack grain and to facilitate marketing through the Mandi, the Spot Market at a warehouse facility, or to store at warehouse for three month contrasted with the returns for a farmer selling un-graded produce through the Mandi shortly after harvest shows higher returns to the farmers as 5%, 10% & 15% respectively.

5.4.3 Pledge Loan linked to Warehouse Development

Availability of finance against stored produce and improved knowledge on price risk management allows farmers and farmers’ organizations to obtain better price realization for their produce. In addition, trading through Electronic Commodity Exchange provides an alternative marketing channel, which increases potential for better price realization. With the amendment of the APMC Act in states, establishment of Electronic Spot Markets that allow online trading through electronic commodity exchanges (outside APMCs and across state boundaries) have become possible. The three national commodities exchanges, namely, the National Commodity and Derivative Exchange Limited (NCDEX), the Multi Commodity Exchange Limited (MCX), and
National Stock Exchange Limited (NSEL) are in the process of setting up systems that make this feasible. This provides the farmer with the choice of other marketing channels, which are lower in cost, transparent in processes, prices and quality assessment, provide assured payment and which enable farmers to store produce and take advantage of warehouse credit, futures markets and electronic spot exchanges. Representatives of the PAs handling Cereals and Pulses, and the representatives of the associated Producer Groups (PGs) will need to be trained on price risk management. This training can encompass price analysis; systems and procedures to aggregate produce, access financing, and trade as a group; and, benefits and risks in warehouse receipt financing and e-trading.

5.4.4 Virtual Markets

Development of quality testing and communication infrastructure, Development of media, cyber and long distance infrastructure relevant to marketing of agricultural and allied commodities. One of the recent phenomena in agriculture marketing in India has been the advent of Virtual Markets. The virtual market in the context of Agriculture Marketing may be defined as “an electronic market which enables producers and buyers in the supply chain to access each other spread across the country, with a view of transact at the most efficient and transparent prices, thereby reducing the cost of intermediation, improving marketing efficiency and producers realisation coupled with reduction in consumer paid price”. Example of such virtual markets is Future exchange, Spot Exchange, Warehouse Receipt System and Web Marketing. The functions of these markets are enabled by ICT based market information. Out of the above forms of virtual markets, spot exchanges and negotiable warehouse receipt system effect physical
delivery of the goods and may therefore be recognised as more effective marketing instruments for the primary producers. Producers can hedge their goods or take pledge loans against the warehouse receipts so that they are not forced to resort to distress sales. However today, the spot exchanges seem to be operating in a legal vacuum as there is no specific law regulating them. Some States have issued licenses to Spot Exchanges as a buyer under the existing APMC acts. There is a need for Government of India to enact legislation to enable spot exchanges.

The concept of E-trading or ‘Virtual Market’ is innovative and experimental. Virtual Markets for agricultural products are very much in their infancy but with new technological development, field results are undergoing significant revision and refinement. Various states have amended the APMC Act on the lines of the Model Act and the Rules under the Act provides for e-trading. States have already granted licenses to MCX and NCDEX for carrying out trading activity. The e-trading system would enable producers, user organizations, electronic traders and existing traders to be able to offer product to the market and that a system would be in place that would enable buyers and sellers to broadcast buying needs and product requirements to one another. Under an electronic trading platform, there are possibilities for secured buying processes to be put in place and it is envisaged that traders would subscribe to the service and the cess income would cover the private management costs as well as provide an income stream for the State Government.

5.5 Supply / Value Chains

The fragmented marketing system and lack of infrastructure are the serious constraints and are acting as challenges against competitiveness for our commodities. In a
globalised trade regime, it is essential to link the farmers with the markets with state-of-art infrastructure. This effective linkage can alone remove the constraints of logistics, quality maintenance and thus, compete with global products. Analysis of international market development scenario reveals that encouraging large scale integrated players to develop the supply chains in various commodities with latest technology infrastructure is the right approach suitable for Indian conditions. The existing system of fragmented handling of various supply chains should be converted into integrated handling systems with state-of-art infrastructure so as to ensure better realization to the farmers. Contract farming and supermarket procurement arrangements are two supply chain arrangements that are gaining ground amid active debate in India. Recent experience in India indicates that contract farming and supermarket procurement approaches will have to involve small-scale farmers in the medium term, because the farm structure obliges them to do so.

Approaches to promote equitable participation by large- and small-scale farmers include:

a) Facilitating entry and competition among buyers (for example, improving the rural infrastructure or establishing collection centers to reduce the transaction costs involved in sourcing from small scale farmers);

b) Organizing farmers into formal or informal groups to meet the volume requirements and strengthen farmers’ bargaining power;

c) Enhancing farmers’ capacity to adopt improved production and post harvest techniques to meet the required higher quality standards;

d) Assisting farmers to obtain the capital to make on-farm improvements and other required investments (for example, in irrigation, greenhouse, grading, or
cooling facilities) and acquire essential national and international certifications;

e) Training farmers and buyers about their rights and obligations under contract farming arrangement and in the design of contracts; and

f) Developing institutions that assist farmers to settle contract disputes (such as commodity or market associations).

In some countries, public-private partnerships have been instrumental to the success of new supply chain arrangements (for example, in providing extension and technical assistance to improve the quality and safety of produce and accreditation of farmers). A convergence platform at National, State and District level where private players join hands with large number of farmers through various ongoing schemes and programmes of Central and State Governments in a PPP mode may be a good beginning during 12th Five Year Plan.

5.6 Recommendations for the XII Plan

The Planning Commission has made the following recommendations to be implemented during 12th Plan Period.

1) **Producer Organizations**: Producers organizations (PO) could be the best alternative for enabling farmers / producers to get better remuneration for their produce because it enables aggregation of the produce and in turn gives the necessary bargaining power to get better price. To strengthen the Producer Organizations and to make them play an effective role in alternate marketing the following areas need attention: Credit availability, Capacity Building, Alternatives to Equity, Venture Capital Fund, State Support to Producer Companies (PCs), and Convergence of various schemes to PO.
2) **Linkage with Retailers / Processors / Exporters**: Linking directly producers with Retailers / processors / Exporters is another alternative marketing system which is cost efficient, technology friendly and enables quality improvement. Well designed interventions for the same are needed.

3) **Price discovery**: Market Intelligence and market information services would be a critical aspect in future. State interventions through a platform of virtual market could be one such instrument.

4) **Direct marketing**: Promote more of Rythu Bazaars / Kisan Bazaars which allows farmers to directly sell their produce to consumers without intermediaries, as it not only saves losses but also increases farmers’ share in the price paid by the consumer. Keys to inclusion of smallholder farmers in dynamic markets

5) **Organized retailing**: To be promoted by removing all restrictions on FDI for creating good competition for domestic players and to bring new technologies and management practices provided commodities are procured only from Producers Organizations.

6) **Market Access for small producers**: The market access depends on: (a) understanding the markets, (b) organizing of the firm or operations, (c) the existence of communication and transport links, and, (d) an appropriate policy environment. Understanding the markets in a modern context involves understanding the value chains and networks and their dynamics from a small producer perspective. Interventions like Farmer Common Service Centers could be an appropriate forum for such a market access.

7) **Reforms for efficient traditional markets**: The functioning of traditional markets (APMCs) needs to be improved to enhance their cost efficiency so that producers and
consumers can realise better prices. The amended APMC Act allows for the setting up of private markets. It is also necessary to enforce an open auction system, improve buyer competition in markets, provide better facilities such as cold storage, and improve farmers’ access to market information. These markets are important to small farmers and even a significant proportion of medium and large farmers, who still depend on them; they also serve as main competitors to contract farming and can improve the terms offered to contract growers.

8) Integrated Value Chain Promotion: There is a need to combine value chain promotion with livelihood perspective to enable the resource poor to enter into and stay in to globalized commercial markets. Innovation in smallholder market linkage are needed in terms of partnership, use of information and communication technologies, leveraging networks, value chain financing, smallholder policy, and, even in contracts that can promote both efficiency and inclusiveness of the linkage.

9) Promotion of Innovative Marketing Models: Choosing the right market and a market development strategy is essential to scale up the operations that can come only by innovation of products and business models. It is not market access but effective market participation that is at the heart of success of any market linkage for primary producers.

10) PPP for efficiency and effectiveness: Partnership with the private sector can come in handy as they can provide technology, and upgrade business (quality) and social standards. For this, POs and their staff and farmers should be more market-oriented and have the capacity to work with and negotiate fair contracts with private agencies. This requires training of PO personnel and farmers in modern markets and their dynamics which includes contract negotiation, business management, market research, supply or
value chain analysis, basic business documentation and crop and farm plans and budgets. Farmers also need to be made aware of the need to respect contracts and specific terms and conditions including prices, rejections and penalties for default.\(^{17}\) Private sector agencies also need to invest in linkage building. Contracting agencies may provide inputs on credit to their contract growers in India as cost of production and transaction for high value crops is generally higher and difficult for growers to provide for from their own resources and networks. Convergence with various ongoing programmes for backward linkages provided to a private player taking care of forward linkages could be the desired model for PPP.

Besides, APMC Acts there are several other legal instruments used by both central and state governments to regulate the functioning of agricultural markets. Amongst various Acts the most pervasive one has been the Essential Commodities Act, 1955. Most of restrictions related to movement, storage, processing and stock limits are contained in this Act. The operation of ECA has created obstacles in the free flow of commodities from surplus to deficit region. This has widened the price wedge between the different parts of the country and increased the cost of marketing. ECA has prevented large scale participation of private traders in various marketing activities. In fact, private investment in large-scale storage and marketing has been non-existent due to restrictive provisions of this Act and Control Orders issued thereof. Presently, there are about 15 essential commodities are covered under this Act.


\(^{17}\) *Ibid*, p.21.

The Food Safety and Standard Authority of India (FSSAI) has been established under *Food Safety and Standards Act*, 2006. It consolidates various acts and orders that have hitherto handled food related issues in various Ministries and Departments. FSSAI has been created for laying down science based standards for articles of food and to regulate their manufacture, storage, distribution, sale and import to ensure availability of safe and wholesome food for human consumption.18

In recent years, there is huge enthusiasm generated regarding forward trading of agricultural commodities and is expected to provide price stability in the domestic market. *Forward Markets (Regulation) Act*, 1952 regulates the commodity futures markets in India. The Forward Markets Commission (FMC) performs the functions of advisory, monitoring, supervision and regulation in futures and forward trading.19 Futures’ trading is conducted in exchanges owned by the private associations registered under the Act. These exchanges operate independently under the guidelines of their bylaws approved by the FMC. Futures’ trading in agricultural commodities is a recent phenomenon. Government has permitted futures trading in 54 agricultural commodities with effect from April 2003. Futures are traded in 24 commodity exchanges of which 3 are national exchanges and 21 are regional exchanges. Agricultural commodities constitute over 60 per cent of total volume of trade in 2005-06. The major commodities

traded in futures market in terms of decreasing order of value are guar seed, chana (gram), urad (black gram), soy oil, tur (red gram), menth oil and guar gum (Forward Markets Commission, 2008). The participation of traders and farmers in the futures trading is very much limited due to uncertainty in the policies of government of India. The government uses futures trading as one of the instruments to contain raise in prices of agricultural commodities. In February 2007, government banned futures trading in rice and wheat. Further, in May 2008, four more commodities such as potato, gram (Chana), soya oil and rubber have been added to the list of banned commodities. Commodity trade in futures markets in 2009 included various agricultural commodities, bullion, crude oil, energy and metal products. Some new commodities were included including almond, imported thermal coal, platinum and carbon credits. The average daily value of trade in commodity exchanges increased from Rs. 164 billion in 2008 to Rs. 232 billion in 2009.

Another important legislation relating to agricultural produce marketing is the *Agricultural Produce (Grading and Marking) Act*, 1937 which provides for the grading and marking of agricultural products.

**Prescription of grade designations**

The Central Government may, after previous publication by notification in the Official Gazette, make rules to carry out the provisions of this Act and such rules may provide for all or any of the following matters; namely:-

(a) fixing grade designation to indicate the quality of any scheduled article,

(b) defining the quality indicated by every grade designation,

(c) specifying grade designation marks to represent particular grade designations,
(d) authorizing a person or a body of persons, subject to any prescribed conditions, to mark with a grade designation mark any article in respect of which such mark has been prescribed or any covering containing or label attached to any such article,

(e) specifying the conditions referred to in clause (d) including in respect of any article conditions as to the manner of marketing, the manner in which the article shall be packed, the type of covering to be used and the quantity by weight, number or otherwise to be included in each covering.

(f) providing for the payment of any expenses incurred in connection with the manufacture or use of any implement necessary for the reproduction of a grade designation mark or with the manufacture or use of any covering or label marked with a grade designation mark or with measures for the control of the quality of articles marked with grade designation marks including testing of samples and inspection of such articles or with any publicity work carried out to promote the sale of any class of such articles.

(g) providing for the confiscation and disposal of produce marked otherwise than in accordance with the prescribed conditions with a grade designation mark,

(h) any other matter which required to be, or may be, prescribed.

The Agricultural Produce (Grading and Marking) Act, 1937 (Amended in 1986) provides for the grading and marking of the agriculture and allied commodities. Agricultural produce has been defined to include all produce of agriculture or horticulture, and all articles, food or drink, wholly or partly manufactured from any such produce, and fleeces and the skins of animals. The Act has a provision for making Rules

20 Section 3.
to carry out the provisions of the Act. Till date, 119 grading and Marking Rules covering 181 commodities have been notified. Standards prescribed under the provision of the Act are popularly known as ‘Agmark standards. The purity standards under the provision of Prevention of Food Adulteration (PFA) Act, 1954; Prevention of Food Adulteration (1st Amendment) Rules, 2002; Prevention of Food Adulteration(Amendment) Rules, 2006; Prevention of Food Adulteration (5th Amendment) Rules,2008 and Bureau of Indian Standards (BIS) Act, 1986; The Bureau of Indian Standards Rules, 1987; The Bureau of Indian Standards (Certification) Regulations, 1988 are invariably taken into consideration while framing the Agmark standards. Certification of commodities notified under the provision of the Act is carried out on voluntary basis. Grading is carried out in accordance with the standards notified, following meticulous procedure of sampling, testing, packaging, marking and sealing as per the instructions issued under the Act and Rules. It serves a means of describing the quality of commodities to be purchased or sold by the buyers or sellers all over the country and abroad. This establishes a common trade language and avoids the need for physical checking and handling at many points. The system of grading and quality control under Agmark certification benefits both the sellers and buyers in view of the fact that the government acts as the third party to guarantee quality of the products with this certification mark. Vegetable oils, ghee, spices, wheat atta, besan, honey, pulses, etc., are popularly graded and certified under Agmark. More than 10,000 authorized packers are attending to grading and certification of agricultural commodities. Agmark standards are being harmonized with standards framed by international organizations such as Codex Alimentarius Commission and International Organization for Standardization keeping in view the requirement of World Trade
Organization. All the fresh fruits and vegetables exported to European Union are to be inspected and certified by the Directorate of Marketing and Inspection. For this purpose, grade standards of 18 fruits and vegetables have been formulated and harmonized with the standards of European Union and Codex\textsuperscript{21}.

\textsuperscript{21} http://www.icar.org.in/files/Agril-Legislation.pdf