UNFREE TO SELL
HOW TRADE RESTRICTIONS HURT FARMERS

AUTHOR: ARJUN KRISHNAN
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Arjun Krishnan

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1. Introduction

The Indian growth story of rising incomes, increased wealth, more freedoms, and higher aspirations has not been the reality for many citizens of Bharat. This dichotomy in the way the urban residents of India and the rural residents of Bharat were treated was famously pointed out by Sharad Joshi, a farm leader and economist from Maharashtra (Doshi 1990).

At its core, the distinction is that while government treats its urban, non-agricultural population as rational economic actors capable of reaching decision on who they want to work for, what price they want to sell their goods, and to whom they want to sell their goods, it treats its agricultural population as incapable of doing so.

Farmers in India are subject to excessive regulations at every point of their profession. Rules limit the amount of land they can use, the seeds they can use, the people they can sell to, how much they can sell for and even their ability to sell off their land (Anand, Shah, and Neema 2020).

This approach has left farmers desperately poor and debt ridden (Committee on Doubling Farmers’ Income 2016). One of the more onerous sets of regulations that farmers suffer from is laws restricting to whom farmers can sell their produce. Laws that restrict farmer’s ability to choose who they want to sell their goods to both in domestic markets and international markets.

These laws limit buyers, limit competition, and hence reduce the price that farmers can get for their produce. For instance, in 2010 the gap between the average wholesale price and the average retail price of onions was 132 per cent in Bangalore (Kumar 2016).
1. APMC

Agriculture is an important sector of the Indian economy. Almost 60 per cent of the Indian population is directly dependent on farming and the agriculture sector (Food and Agricultural Organisation 2005). The establishment of regulated markets was meant to help farmers sell goods without fear of volatility. These markets aimed to provide farmers with stability and protect them from private actors, whom governments viewed with a sense of distrust. However, the mandis were not some utopian paradise that provided farmers with adequate incomes. The markets were inefficient and suffered from excessive bureaucratic control, and politicisation. On this issue, the Economic Survey of India, 2014-15 points:

“There is a perception that the positions in the market committee (at the state level) and the market board – which supervises the market committee - are occupied by the politically influential. They enjoy a cozy relationship with the licensed commission agents who wield power by exercising monopoly power within the notified area, at times by forming cartels. The resistance to reforming APMCs is perceived to be emanating from these factors.”

These markets charged high fees and provided inadequate services. The commission charge in particular is high as it is not calculated on the profit but the sales revenue. The combination of these rates (taxes/interest charges/levies) imposed costs ranging from 3% in West Bengal to 19.5% in Andhra Pradesh as estimated in the Economic Survey 2015. Farmer income grew at rates far slower than workers in any other industry.

APMCs aimed to protect the interests of farmers by using a bidding process in which the farmer sells the produce to the highest bidder in an auction. However, the APMC Act regulates trade practices in several ways. It grants permissions and licenses to private players who can enter the agriculture trading market. Such selective licensing has led to political favouritism and corruption. Since the APMC has a large degree of discretionary power, the members could artificially restrict buyers. Second, APMCs levy a market fee on buyers and a licensing fee on the commissioning agents. They also charge other fees from loading agents and warehousing agents. These charges are high, but the services offered in the APMCs are subpar (Anand, Shah, and Neema 2020). The multiple charges end up escalating the prices for the consumers without a commensurate benefit to the farmer. A study in Andhra Pradesh found that only 20% of the retail cost of farm produce went to the farmer (Mukherjee et al. 2013).

The biggest impediment to the success of the APMC Act is the formation of monopolistic market conditions. The licensing of commission agents and private players in regulated markets has led to the cartels. The committees do not issue new licenses in many places due to limitation of space for more businesses to operate. In some states, the minimum requirement to set up a private market is high, which discourages small farmers to come together to form a market-yard. For instance, Maharashtra allowed private markets to function but attached conditions: minimum of 10 acres land; license fee of Rs. 50,000; bank guarantee of Rs. 20 lakh and infrastructure investment of at least Rs. 2 crore (National Bank for Agriculture and Rural Development 2018).

The private sector has also not invested significantly in infrastructure or logistics in agricultural markets. The low investment is, in part, because of the lack of a framework for contract farming, regulatory uncertainty and harsh penalties imposed by the Essential Commodities Act, 1955. Warehouses and stock rooms can be made illegal overnight, and price intervention has meant farmers and private industry are unable to make money when the price is high.
Impact of Farmers Produce Trade and Commerce (Promotion and Facilitation) Act, 2020 on APMCs

The Rajya Sabha passed The Farmers Produce Trade and Commerce Act on 20th September 2020. It took another step in liberalising agriculture markets in India. The Act allows barrier-free trade of produce outside the markets regulated and identified by state APMCs. The law also enables electronic trading platforms to facilitate online direct buying and selling of farmer’s produce.

The Act defines a farmer as an individual engaged in the production of ‘farmers produce’ such as food items, fodder for cattle and raw cotton and jute; or by hired labour, including Farmer Producer Organisation (FPO) (Ministry of Law and Justice 2020a).

This reform is a big step towards unlocking the vastly regulated agricultural markets of the country. Again, it expands choices for farmers and reduces cost due to competitive pricing. It breaks down existing formed cartels and monopolies of the market. Very importantly, it can make sure there is a close to uniform pricing of produce within the country. Increased investment in warehousing and transport, coupled with the lifting of regulations on inter-state trade of commodities, the price across the country should start to stabilise. This is because when the price goes up in one market, more producers will move goods there to increase their profits.
2. International Trade

This development has liberalised the domestic market to a certain extent. Another possible avenue of sale is international markets. International markets for agricultural commodities remain heavily regulated.

International trade is essential for several reasons. It allows a country to specialise in the production of specific goods and reap the benefit of economies of scale, thereby improving production efficiency. Trade also leads to employment generation and with time, creates added possibilities for a country to develop. It is an essential factor in promoting economic growth. This growth has led to a reduction in absolute poverty levels and has furthered growth in many developing economies that were essentially stagnant not so long ago (Makhmutova 2017).

However, Governments have frequently restricted international trade using a variety of tools.

Tools of restriction

Trade protectionism is the act of placing trade barriers with the specific goal of protecting an economy from the possible perils of international trade. The objective is to protect the country’s economic interests in its key industries, commodities, and employment of workers. Governments either prohibit or increase the cost for residents to purchase goods and services from other countries.

Tariffs are a tax on imports from other countries and foreign markets. Here, the government imposing the tariff looks to restrict imports of foreign goods and services to protect its industries and domestic companies manufacturing similar items. The government also gives subsidies to help domestic producers by lowering their manufacturing costs. Local content requirements, administrative trade policies, antidumping policies and exchange rate controls are other instruments continuously relied upon by the government for restricting trade.

The rationale behind restrictions

Governments provide a variety of reasons to restrict trade

1. Infant industry argument: New manufacturers find it difficult to compete against well-established foreign companies. So, governments limit imports to protect new industries.

2. Important Industry: Politicians argue that a country could lose its long-established industries and companies due to competition against foreign firms.

3. Revenue raising: The opportunity to raise revenue through tariffs gives yet another motivation for tariffs.

4. Diplomacy: Tariffs are sometimes used as a diplomatic tool. Imposing targeted tariffs against goods from another country will reduce the trade from that country since prices will go up.

5. Protecting consumers: Policymakers argue in favour of trade restriction to protect consumers from fall in supply as a result of exports. For example, countries may restrict the export of agri goods to try and lower the price of food commodities.

Despite the intent, trade protectionism has negative consequences

A critical effect of trade protectionism on consumers is that it limits the choice and quality of products available to them. Further, consumers have to pay more for the limited quantity of products available.

Restricting exports limits the ability of producers to sell their products to international markets. This hurts producers, since it limits the pool of potential consumers. India has often and arbitrarily resorted to different ways to restrict exports through quotas, duties, bans, and minimum export price (Committee on Doubling Farmers’ Income 2016).
Agriculture trade in India

Indian agriculture has come a long way since the inception of the planning process in 1951 under Pandit Jawaharlal Nehru. Back then, the critical concern of development policy was with the attainment of self-sufficiency in food (Balakrishnan 2007). The result was that India grew from an absolute shortage of food grains supplies in the 1960s to increasing production to more than 72 million tons in 1965-66 and 195 million tons by 2000-01. Imports, which was the lion’s share in consumption, is now a smaller part of the food economy and India has also emerged as an exporter of wheat and rice (Khan 2015).

Agriculture is still the primary source of livelihood for approximately 58% of India’s population. The Department of Commerce estimates Gross Value Added (GVA) by agriculture, forestry and fishing was Rs 19.48 lakh crore (US$ 276.37 billion) in FY20. Growth in GVA in agriculture and allied sectors was 4% in FY20 (Indian Brand Equity Forum 2020). The Indian food industry is poised for fast growth in its contribution to world food trade, given its immense potential for value addition, particularly within the food processing industry.

World agricultural trade was relatively stagnant between 2013 and 2017 as a result of a fall in global prices. The sharp drop in oil prices was also a significant contributor to the softening of agricultural commodity prices. However, the volume of trade did not reduce, thereby indicating the presence of strong demand in the global market. Due to the effect of fall in global prices and back to back to drought in the country between 2014-15 and 2015-16, India’s agricultural export dropped. However, with normal production in 2016-17, India’s agrarian exports recovered significantly despite a tight global market situation.

A comparative analysis of India’s ten-year agriculture exports with some of the major trade partners of India reveals an optimistic picture. Indian agricultural exports grew as high as 9%, while China, Brazil and the US grew at 8%, 5.4% and 5.1% respectively between 2007 and 2016 (ICFA 2019). Despite this, the volume of India’s agriculture exports is lower than countries like Thailand and Indonesia, which have much less agricultural land.

India’s agriculture today is structurally different than what it was during the Green Revolution era. During the maturing stage of the green revolution, i.e. between the early 1970s to the late 1990s, India’s annual Agricultural Gross Domestic Product (AGDP) expanded from about US$ 25 billion to over US$ 100 billion. The growth during this period was sluggish and primarily limited to wheat and rice. However, post-2000, till 2015, the country’s agricultural production surged from US$ 101 billion to about US$ 367 billion, driven mainly by high-value agriculture commodities like poultry and dairy (Department of Commerce 2018).

India’s diversified food and non-food agriculture base give it the ability to be a leading player in the world agricultural trade. India’s export basket is a diversified mix led by cereals, marine products, and meat which together constitute approximately 52% of its total agricultural exports (Department of Commerce 2018). India has a little over 2% share of world agricultural trade, estimated at US$ 1.37 Trillion as on 2017 and has remained at the lower end of the global agricultural export value chain as a majority of its exports are low value, raw or semi-processed and marketed in bulk. The share of

Change in Agri Trade from 2000 to 2018
Adapted from: Department of Commerce 2019
India’s high-value agricultural products in its agricultural export basket is less than 15% compared to 25% in the US and 49% in China. India is unable to export its horticultural produce due to the lack of uniformity in quality and its inability to curtail losses across the value chain (Department of Commerce 2018). Given the globalisation of value chains, it is pertinent that India makes concerted efforts to boost exports of high margin, value-added and processed products. The policy should involve a paradigm shift from residual export after meeting domestic demand to targeted export according to preferences of the overseas market.

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<th>Pattern of Processed Food Trade (% share 2016-18)</th>
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### Trade Restrictions

The Economic Survey 2019-20 highlights the governments’ mercantilist approach to free trade, i.e., an overriding concern with trade deficit and self-sufficiency. Such an approach goes against the principles of basic trade theory where the emphasis is not on trade deficit but on the advantages that accrue from an efficient allocation of resources arising from free trade. The frequent interference in international trade through export and import controls and the prioritisation of domestic consumption needs over free trade hinders the development of stable trade relations. The 2019 Trade Barrier Index ranks a total of 86 countries on their use of trade barriers. India is at the bottom of the Index, with a poor record of using tariff restrictions (Tompson 2019).

Export restrictions have continuously been used in the past and continue to be a trade policy instrument to control agricultural markets. India has justified the use of these measures as an attempt to contain the growth of domestic prices and ensure sufficient domestic supplies, as a response to rising food prices. Indian restrictive policy in agriculture is, therefore aimed at ensuring food security and price stabilisation.

Recently, when the Government of India felt the price of onions had gotten too high, the government invoked the Essential Commodities Act (ECA) and imposed stock limits on Onions. The Ministry of Commerce and Industry issued a notification banning exports under the Foreign Trade (Development & Regulation) Act, 1992 (Ministry of Commerce & Industry 2020).

The ECA has frequently been used to curb trade and limit the trade prospects of farmers. For instance, the Economic Survey notes that stock limits on commodities have increased “the volatility
of the wholesale and retail prices instead of smoothening them”. The ECA criminalises large stocks, so traders tend to buy far less than their capacity and farmers suffer from lower sales. Export policies also tend to restrict international trade at the point when prices are high, so farmers lose potential revenue.

While export restrictions provide temporary relief as an emergency measure, in the long run, its effects on consumer protection tend to disappear. Export restrictions were not effective in preventing an increase in food prices and just delayed the inevitable. Furthermore, these constraints tend to distort incentives for farmers who shift land and inputs away from commodities facing frequent bans and move them towards other products for which policy measures are more predictable.
Agricultural Export Policy of 2018 and other Reforms in Agricultural trade

India is currently ranked eighth amongst the major exporters globally as per World Trade Organisation (WTO) trade data for 2019, having exported goods worth USD 39 billion. The high growth rate of agri-food production offers an opportunity to capture overseas markets to earn foreign exchange and enable producers to earn higher prices for farm produce.

The vision of doubling farmer’s income and reinvigorating the value chain requires a series of interventions to ensure better price realisation for farm produce and economising the cost of production. To achieve the same, a dedicated Agricultural Export Policy was launched in 2018 (Department of Commerce 2018). It seeks to establish a monitoring framework at the Centre with the Ministry of Commerce being the nodal department and representation from various Ministries/Departments and Agencies to oversee the implementation of the Agriculture Export Policy.

The Ministry predicted a total outlay for implementation of the policy to be 1400 crore, including the amount already existing under different schemes. The policy seeks to diversify the country’s export basket and trade partners, by boosting high value and value-added agricultural exports, with a focus on perishables. The aim is to change the direction from the current scenario where rice, meat and marine products account for more than 50 per cent of Indian agriculture-exports to the export of indigenous, traditional and non-traditional agricultural products.

Policy recommendations fall into two broad categories - strategic and operational. Within strategic recommendations, the key takeaways are:

1. Policy Suggestions- Hold discussions with public and private stakeholders across the agricultural value chain on the specific structural changes that are required to boost agricultural exports. These comprise both general and commodity-specific measures that may be undertaken at little to no financial cost but with subsequent gains.

2. Infrastructure and logistics – Improving the presence of robust infrastructure is a critical component of a robust agricultural value chain. These investments encompass pre and post-harvest handling facilities, storage & distribution, processing facilities, roads and world-class exit point infrastructure at ports facilitating smooth trade. Given the perishable nature and stringent import restrictions for most of the agricultural products, efficient and time-sensitive handling is vital to agricultural commodities.

3. A holistic approach to boost exports - Agricultural exports are often influenced by supply-side factors, food security, processing facilities, infrastructure bottlenecks and several regulations. Thus, strategic and operational synergy across ministries is vital to boost productivity and quality.

Operational Recommendations:

1. Focus on Clusters: Governments can put in place institutional mechanisms for effective engagement of small and medium farmers for the entire value chain. This can be organised as group enterprises within clusters of villages at the block level. This will enable benefits realisation and empower the farming community to double their income through the entire value chain.

2. Promoting value-added exports with a focus on: Product development for indigenous commodities and value addition Promoting value-added organic exports Promoting Research and Development for new products in upcoming markets

3. Skill development

4. Marketing and promotion of “Brand India.”

5. Attracting private investments in export-oriented sectors and infrastructure.

6. Miscellaneous - Creation of Agri-start-up fund to enable entrepreneurs to start a new venture in Agri products exports during their initial period of establishment.
Further, the three new Acts, the Farmers’ Produce Trade and Commerce (Promotion and Facilitation) Act, 2020 (FPTC), the Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Act, 2020 (FAPAFS), and the Essential Commodities (Amendment) Act, 2020 are also a welcome step by allowing greater freedom to farmers. The recent amendments to the ECA are particularly important for international trade. It excludes exporters from stock limits, as long as the stock matches the “demand for export” (Ministry of Law and Justice 2020b). However this is a vague standard and leaves a lot of discretionary power to the state.

These acts enable the farmers to enjoy the freedom to directly trade with whomever they chose to trade with. Farmers are empowered to do direct marketing which will reduce the role and number of intermediaries in the supply chain. Farmers will end up having a higher percentage of the final price.
The potential impact on farmers

The Agricultural Export Policy and the recently passed farm Acts aim to make agricultural markets work better for farmers by enhancing their welfare and removing hindrances to ensure smooth functioning of the markets. The agricultural export policy encourages the involvement of critical organisations related to agricultural production to ensure the promotion of export. Krishi Vigyan Kendras will take export-oriented technology to farmers and create awareness among farmers about export prospects. Simplification and uniformity in mandis and other allied fees across states will create a transparent supply chain that will empower the farmer and provide him with greater access to markets and enable free trade across the country.

The recommended approach of developing product-specific clusters in different climatic zones of the country would help in dealing with various supply-side issues concerning soil nutrients management, higher productivity, use of best agricultural practices, etc. Integration of processors and exporters with farmers will ensure better returns and create a stable market for international trade. Gramin Rural Markets(GrAM) are village level markets that help farmers sell their produce locally. There are presently 22000 GrAM(s) across the country which seek to provide flexibility to farmers to sell their produce without being subjected to regulations constraining the decision to buy and sell.

While a marginal farmer may not be able to export directly, implementation of the suggested recommendations would allow the combined resources of farmers to facilitate exports, thereby enabling active export clusters at the district level to tap the export potential of small and marginal farmers. Farmers would also benefit from common facilities of infrastructure such as cooling and warehousing facilities, thus, reducing the cost of market linkage and improving standards of product quality. Finally, farmers would also be able to protect themselves from uncertainties through the provision of mutually-owned insurance as recommended by the policy. Brand building of products at the local level would strengthen the supply chain and help avoid losses. It would further enable setting up of new start-ups in the agricultural export sector at the village level.

The new legislation will give power to the farmers for engaging with processors, wholesalers, aggregators, large retailers, exporters, and others in a competitive environment and prior price determination will shield them from the volatility of market prices. Improved access to modern technology, better seed availability, and other inputs will mitigate the cost of marketing and enhance the income of farmers. An effective dispute resolution mechanism facilitated under the Act would enable timely redressal.

The Agriculture Export Policy and the Farm Acts of 2020 will set the foundation to make Indian agriculture globally competitive. While introduction of the ease of doing agricultural business index, an index that evaluates agricultural performance of Indian states on the basis of primarily three parameters and its sub-parameters, namely, agricultural market reforms; land lease reforms and reforms related to forestry on private land, will encourage healthy competition between the states, transport and marketing assistance schemes will allow Indian agricultural exporters to gain competitiveness in the global market by cutting the cost of distribution. Though the productivity of Indian Agriculture is presently low, with the help of reforms, India can enhance the productivity of agricultural goods and potentially propel itself into being a real agricultural powerhouse.
Bibliography


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