A National Market for Agricultural Commodities- Some Issues and the Way Forward

08

CHAPTER

8.1 Introduction

Presently, markets in agricultural products are regulated under the Agricultural Produce Market Committee (APMC) Act enacted by State Governments. There are about 2477 principal regulated markets based on geography (the APMCs) and 4843 sub-market yards regulated by the respective APMCs in India. Effectively, India has not one, not 29 but thousands of agricultural markets. This Act notifies agricultural commodities produced in the region such as cereals, pulses, edible oilseed, fruits and vegetables and even chicken, goat, sheep, sugar, fish etc., and provides that first sale in these commodities can be conducted only under the aegis of the APMC through the commission agents licensed by the APMCs set up under the Act. The typical amenities available in or around the APMCs are: auction halls, weigh bridges, godowns, shops for retailers, canteens, roads, lights, drinking water, police station, post-office, bore-wells, warehouse, farmers amenity center, tanks, Water Treatment plant, soil-testing Laboratory, toilet blocks, etc. Various taxes, fees/charges and cess levied on the trades conducted in the Mandis are also notified under the Act.

8.2 APMCs levy multiple fees, of substantial magnitude, that are non-transparent, and hence a source of political power

Tables 8.1-8.3 convey a sense of the magnitudes and multiplicity of fees arising from the operation of the APMCs. They charge a market fee of buyers, and they charge a licensing fee from the commissioning agents who mediate between buyers and farmers. They also charge small licensing fees from a whole range of functionaries (warehousing agents, loading agents etc.). In addition, commissioning agents charge commission fees on transactions between buyers and farmers.

The levies and other market charges imposed by states vary widely. Statutory levies/mandi tax, VAT etc. are a major source of market distortion. Such high level of taxes at the first level of trading have significant cascading effects on the prices as the commodity passes through the supply-chain.

For rice, listed in Table 8.1, these charges can be as high as 14.5 percent in Andhra Pradesh (excluding the state VAT) and close to 10 percent in Odisha and Punjab. For wheat, too, these charges can be quite high (Table 8.2).

Even the model APMC Act (described below) treats the APMC as an arm of the State, and, the market fee, as the tax levied by the State, rather than fee charged for providing services. This is a crucial provision which acts as a major impediment to creating national common market in agricultural commodities. Removal of this provision will pave a way for creating competition and a national common market for agricultural commodities.

Moreover, though the market fee is collected just like a tax, the revenue earned by the APMCs does not go to the State exchequer and hence does not require the approval of State legislature to utilize the funds so collected. Thus APMC operations are hidden from scrutiny.

Table 8.1: Taxes/ Levies/Interest Charges/ Incidentals etc.as % of MSP on procurement of Rice/ Paddy in KMS 2013-14 and price after Tax

		Taxes/ levies/ Interest Charges/ Incidentals etc. (%)	Price after tax over MSP (₹ 1310/ qtl.)
1	Andhra Pradesh*	19.5	1565.45
2	Bihar	6.5	1395.15
3	Chhattisgarh**	9.7	1437.07
4	Gujarat	3.5	1355.85
5	Haryana	11.5	1460.65
6	Jharkhand	3.5	1355.85
7	Karnataka	4	1362.4
8	Madhya Pradesh	4.7	1371.57
9	Maharashtra	3.55	1356.51
10	Odisha***	15.5	1513.05
11	Punjab	14.5	1499.95
12	Rajasthan	3.6	1357.16
13	Uttar Pradesh	9	1427.9
14	Uttarakhand	9	1427.9
15	West Bengal	3	1349.3

* Mkt. Fee=1%, VAT=5%, Driage=1%, RD Cess= 5%, Comm. To society=2.5%, Admin. Charges=2.5%, Custody & Maintenance charges+ Interest Charges=2.5%

** Mandi Fee=2%, Commercial tax=5%, Comm. To society=2.5%, Nirashrit Shulk=0.2%

*** Mkt. Fee=2%, VAT=5%, Driage=1%, Comm. To society=2.5%, Admin. Charges=2.5%, Custody & Maintenance charges+ Interest Charges=2.5%

Source: **FCI, DFPD and States.**

The rate of commission charged by the licensed commission agents is exorbitant, because, unlike direct taxes, which are levied on net income, the commission is charged on the entire value of the produce sold. The license fee charged from various market licensed operators is nominal, but the small number of licences granted creates a premium, which is believed to be paid in cash.

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 cosy 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.

Table 8.2: State-wise Taxes and Levies imposed on sale of wheat by farmers

		Taxes/ Levies/ (as % of MSP) MSP	Price after tax (₹ 1350/qtl.)
1	Andhra Pradesh	5	1418
2	Assam	0	1350
3	Bihar	6	1431
4	Chhattisgarh	2.2	1380
5	Gujarat	0.81	1361
6	Haryana	11.5	1505
8	Jharkhand	3.5	1397
9	Karnataka	0	1350
11	Madhya Pradesh	9.2	1474
12	Maharashtra	0	1350
13	Orissa	5	1418
14	Punjab	14.5	1546
15	Rajasthan	3.6	1399
16	Tamil Nadu	0	1350
17	Uttar Pradesh	8.5	1465
18	Uttarakhand	7.5	1451
19	West Bengal	2.88	1389

* As on 17.01.2014;

Source : **Food Corporation of India (FCI).**

8.3 Essential Commodities Act, 1955 vs APMC Act

The scope of the Essential Commodities Act (EC Act) is much broader than the APMC Act. It empowers the central and state governments concurrently to control production, supply and distribution of certain commodities, including

Table 8.3 : Details of Five Big APMCs in the Country in Terms of Revenue Realization

	Name of APMC	Income (Rs. in crores) for 2013-14	Rate of Market fee	Rate of Commission charge
1	APMC Vashi (Mumbai)	126.00	0.8 % of the value of the produce	-Perishables-(i) Onion – 6.5%(ii) Vegetable- 8%(iii) Fruit- 10%Non- Perishables – up to 2.75 % of the value produce
2	APMC Azadpur (Delhi)	90.09	Market fee—— 1 % of the (Fruits and Vegetable Market)	6% of the value of the produce value of the produce
3	Galla Mandi APMC Indore	59.70	Market fee——2 % (Except Orange, Cotton and Banana on which it is 1.0 %) of value of the produce)+Nirashrit Shulk—0.2%	No Commission agent exists
4	APMC, Gultekari (Pune)	47.00	1 % of the value of the produce	-Perishables- 6.0% of the value of the produceNon- Perishables –3.0% of the produce
5.	APMC, Yashwantpur	44.00	Market fee ——1.0 % + 0.5 % for revolving fundIn case of dry grapes (kishmish), it is only 0.1 % only	Fruits and Veg.—5.0 % of the value of the produceOthers- 2.0% value of the produce

pricing, stock-holding and the period for which the stocks can be kept and to impose duties. The APMC Act on the other hand, controls only the first sale of the agricultural produce. Apart from food-stuffs which are covered under the APMC Act, the commodities covered under the EC Act generally are: drugs, fertilisers, and textiles and coal.

8.4 Model APMC Act

Since these State Acts created fragment markets (2477) for agricultural commodities and curtailed the freedom of farmers to sell their produce other than through the commission agents and other functionaries licensed by the APMCs, the Ministry of Agriculture developed a model APMC Act, 2003 and has been pursuing the state governments for over a decade now to modify their respective Acts along the lines of the Model APMC Act, 2003. The Model APMC Act:- (a) provides for direct sale of farm produce to contract farming sponsors; (b) provides for setting up "Special markets" for "specified agricultural commodities" – mostly perishables; (c) permits private persons, farmers and consumers to establish new markets for agricultural produce in any area; (d) requires a single levy of market fee on the sale of notified agricultural commodities in any market area; (e) replaces licensing with registrations of market functionaries which would allow them to operate in one or more different market areas; (f) provides for the establishment of consumers' and farmers' markets to facilitate direct sale of agricultural produce to consumers; and (g) provides for the creation of marketing infrastructure from the revenue earned by the APMC.

The model APMC Act provides some freedom to the farmers to sell their produce directly to the contract-sponsors or in the market set up by private individuals, consumers or producers. The model APMC Act also increases the competitiveness of the market of agricultural produce by allowing common registration of market intermediaries. Many of the States have partially adopted the provisions of model APMC Acts and amended their APMC Acts. Some of the states have not framed rules to implement the amended provisions, which indicate hesitancy on the part of state governments to liberalize the statutory compulsion on farmers to sell their produce through APMCs. Some states —— such as Karnataka —— have however adopted changes to create greater competition within state.

8.5 Karnataka model

In Karnataka, 51 of the 155 main market yards and 354 sub-yards have been integrated into a single licensing system. Rashtriya e-market Servies Ltd. (ReMS), a joint venture created by the State government and NCDEX Spot Exchange, offers automated auction and post auction facilities (weighting, invoicing, market fee collection, accounting), assaying facilities in the markets, facilitate warehouse-based sale of produce, facilitate commodity funding, price dissemination by leveraging technology. The wider geographical scope afforded by breaking up fragmented markets has enabled private sector investment in marketing infrastructure.

8.6 Inadequacies of Model APMC Act

The provisions of the Model APMC Act do not go far enough to create a national – or even state-level common market for agricultural commodities. The reason is that the model APMC Act retains the mandatory requirement of the buyers having to pay APMC charges even when the produce is sold directly outside the APMC area, say, to the contract sponsors or in a market set up by private individuals even though no facility provided by the APMC is used. The relevant provision (No.42) in the model APMC Act is:

"**Power to levy market fee "(single point levy)**: Every market shall levy market fee (i) on the sale or purchase of notified agricultural produce, whether brought from within the State or from outside the State into the market area."

Though the model APMC Act bars the APMCs and commission agents from deducting the market fee/commission from the seller, the incidence of these fees/commission falls on the farmers since buyers would discount their bids to the extent of the fees/commission charged by the APMC and the Commission agents.

Though the model APMC Act provides for setting up of markets by private sector, this provision is not adequate to create competition for APMCs even within the State, since the owner of the private market will have to collect the APMC fees/taxes, for and on behalf of the APMC, from the buyers/sellers in addition to the fee that he wants to charge for providing trading platform and other services, such as loading, unloading, grading, weighing etc.

8.7 Alternative ways of creating national market for agricultural commodities

The 2014 budget recognizes the need for setting up a national market and stated that the central government will work closely with the state governments to reorient their respective APMC Acts to provide for the establishment of private market yards/private markets. The budget also announced that the state governments will also be encouraged to develop farmers' markets in towns to enable farmers to sell their produce directly.

More steps may have to be taken and incremental moves may need to be considered to get the states on board. For example, first, it may be possible to get all the states to drop fruits and vegetables from the APMC schedule of regulated commodities; this could be followed by cereals, pulse and oil seeds, and then all remaining commodities.

State governments should also be specifically persuaded to provide policy support for setting up infrastructure, making available land etc. for alternative or special markets in private sector, since the players in the private sector cannot viably compete with the APMCs in which the initial investment was made by the government on land and other infrastructure. In view of the difficulties in attracting domestic capital for setting up marketing infrastructure, particularly, warehousing, cold storages, reefer vans, laboratories, grading facilities etc. Liberalisation of FDI in retail could create the possibilities for filling in the massive investment and infrastructure deficit which results in supply-chain inefficiencies.

8.8 Using Constitutional provisions to set up a common market

If persuasion fails (and it has been tried for a long time since 2003), it may be necessary to see what the center can do, taking account of the allocation of subjects under the Constitution of India. The Constitution of India does empower the States to enact APMC Acts under some entries in the List II of Seventh Schedule (State List), viz., Entry 14: 'Agriculture …', Entry 26: 'Trade and Commerce within the State ….' And Entry 28: 'Markets and fairs'.

However, the perception that the Constitution will have to be amended if the centre has to play a decisive role in creating a national market remains open. There are provisions/entries in List III of the Seventh Schedule (Concurrent List) in the Constitution which can be used by the Union to enact legislation for setting up a national common market for specified agricultural commodities, viz., Entry 33 which covers trade and commerce and production, supply and distribution of foodstuffs, including edible oilseeds and oils raw cotton, raw jute etc. Entry 42 in the Union List, viz., 'Inter-state Trade and Commerce' also allows a role for the union. Once a law is passed by the Parliament to regulate trading in the specified agricultural commodities, it will override the state APMC laws, paving the way for creating a national common market. But this approach could be seen as heavy-handed on the part of the center and contrary to the new spirit of cooperative federalism.