India's Domestic Agricultural Markets

Mark Miller & Shalini Mitra

CCS RESEARCH INTERNSHIP PAPERS 2004

Centre for Civil Society
K-36 Hauz Khas Enclave, New Delhi 110016
Tel: 2653 7456/ 2652 1882 Fax: 2651 2347
Email: ccs@ccsindia.org Web: www.ccsindia.org

Most countries, whether officially free-market or socialist, regulate and subsidise agriculture to a much greater extent than industry. India's official justification for its system of regulation is to work towards achieving the dual objectives of food security and rural poverty alleviation. The most important piece of legislation dealing with agriculture is the Essential Commodities Act of 1955, which authorises the state and central governments to regulate prices, quantities held by any one individual or family (to prevent hoarding) and movement of goods between districts or states.

A Brief History of Essential Commodities Act Regulations

Under the Essential Commodities Act, the following goods were considered "essential":

- Cattle fodder, including oilcakes and other concentrates
- Coal, including coke and other derivatives
- Component parts and accessories of automobiles
- Cotton and woollen textiles
- Drugs
- Foodstuffs, including edible oilseeds and oils
- Iron and steel, including manufactured products of iron and steel
- Paper, including newsprint, paperboard and strawboard
- Petroleum and petroleum products
- Raw cotton, either ginned or unginned and cotton seed
- Raw jute

Source: Prasad 2003, pp. 40

However, the list of essential commodities has changed over the years as the Essential Commodities Act authorises the central government to issue Control Orders adding or removing commodities from the scope of law.

ADDED	REMOVED
Jute textiles	Silk and synthetic textiles
Fertilizer	Cement
Yarn made wholly from cotton	General lighting service lamps
Seeds of food crops, fruits, vegetables, cattle fodder and jute	Household appliances
Onion (removed in mid-2004)	Electrical cables and wires

Source: "List of commodities declared essential under the Essential Commodities Act, 1955" and *Gazette of India, No. 173*

Additionally, the government has removed restrictions on purchase, stocking, sale, transport and distribution of the following crops:

- Wheat
- Rice/paddy
- Coarsegrains
- Sugar
- Edible oilseeds
- Edible oils

Source: "The removal of (licensing requirements, stock limits and movement restrictions) on specified foodstuffs order, 2002

Central and State Government Roles in Regulating Agriculture

Prior to the passage of the Essential Commodities Act, regulating agriculture was exclusively a state subject. Even under the Essential Commodities Act, regulations are still primarily issued by the states although the central government is given ultimate authority to repeal existing regulations or enact new ones. The following table presents a summary of existing central control orders issued under ECA:

Commodity	Movement	Price	Storage	Levy
Pulses			Pulses Storage Control Order, 1977	
Sugar				Levy Sugar Supply Control Order, 1979

Source: List of Control Orders Issued by the Central Ministries/Departments Administering Various Essential Commodities

As agriculture is still primarily a state subject, the list of control orders issued by states is much more extensive; the most important or relevant ones appear in the table below:

Commodity	Movement	Price	Storage	Levy
Cotton	Tripura Cotton Cloth and Yarn Control Order, 1971			
	W.B. Cotton Cloth and Yarn Control Order, 1960; Cotton Control Order, 1955			
Salt	Delhi salt (Manufacture, Movement & Price) Control Order, 1960			
	Salt (Prohibition of Movement into J&K) Order, 1973			
	Sikkim Salt Control Order, 1980			
Tea			J&K Tea (Registration of Dealers & Declaration of Stocks) Order, 1984	
			Kerala Tea (Registration and Declaration) Order, 1983	

Source: Control Orders Issued Under the Essential Commodities Act, 2002

The Rice Levy

India's Public Distribution System buys produce from farmers and then distributes the food through the state governments for purchase at so-called "Fair Price Shops" by low-income households. PDS procurement of rice is unique in that it relies on a mandatory levy on rice millers rather than on market purchases. The responsibility of setting the levy is left to each individual state. The following table shows each state with its rice levy percentage, if any:

State/Union Territory	Rice Levy
Andaman & Nicobar Islands	None
Andhra Pradesh	50%
Arunachal Pradesh	None
Assam	50%
Bihar	40% on millers, 25% on wholesalers
Chandigarh	None
Chhatisgarh	None
Dadar & Nagar Haveli	None
Daman & Diu	None
Delhi	75%
Goa	None
Gujarat	10%
Haryana	75%
Himachal Pradesh	50%
Jammu & Kashmir	None
Jharkhand	None
Karnataka	33.33%
Kerala	None
Lakshadweep	None
Madhya Pradesh	30%
Maharashtra	30%
Manipur	None
Meghalaya	None
Mizoram	None
Nagaland	None
Orissa	75%
Pondicherry	10%
Punjab	75%
Rajasthan	50%
Sikkim	None
Tamil Nadu	50%
Tripura	None
Uttar Pradesh	60% in West, 40% in Eastern districts
Uttaranchal	60%
West Bengal	50%

Note: Unless otherwise specified, levy is imposed on rice miller or dealer. Information is for the 2003-04 marketing season.
Source: Levy and Control Orders

Agricultural Produce Marketing Acts
Most states in India also regulate the wholesale market for agricultural goods by requiring farmers to sell their produce only in government-authorised *mandis*, or markets. Officially, such regulations are intended to ensure uniform market prices for agricultural goods and prevent farmers from being exploited by unscrupulous wholesale agents.

The state of Karnataka requires that all wholesale transactions for certain goods be carried out in a government-run *mandi*. The multi-national company Metro Cash & Carry applied for permission to open a wholesale store in Bangalore and finally opened for business in 2003. Metro is, as of January 2004, still unable to sell certain kinds of produce due to the Karnataka Agricultural Produce Marketing Act. By one estimate, between 20 and 25 percent of India's agricultural output is lost along the chain of distribution (The Economist, 2001). Furthermore, wholesale traders at Bangalore's APMC *mandi* went on strike when Metro opened in Bangalore. Clearly, they were worried that competition might whittle their profits down.

Analysis of Agricultural Liberalisation
Restrictions on the interstate movement of agricultural goods were removed in February 2002. Since, as this is being written, two years have passed since the controls were removed, this allows us to analyse the effect of liberalisation on the agricultural sector. One obvious aspect of the agricultural sector to examine is the dispersion of prices and compare this pre- and post-liberalisation. We will measure price dispersion by computing the standard deviation of wholesale prices across all the states of India for which data is available. In states where there is more than one major wholesale market, we just use one market.

Wheat

Year	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
00-01	168	191	223	229	219	195	209	70	79	184	135	82
01-02	90	109	116	184	193	183	179	162	174	182	193	194
02-03	222	109	112	117	121	119	119	111	107	96	306	122
03-04	129	128	120									

As this table shows, prices across states have converged since liberalisation in February 2002 as shown by the declining value of the standard deviation.

Prior to 2002, there were much greater differences in prices among the states of India due to restrictions on movement. Ironically, the way the government addressed the problem of high grain prices in some states was to procure foodgrains from "surplus" states like Haryana and Punjab and send them to deficit states and sell the grains at subsidized prices through the Public Distribution System. Yet as this chart shows, the most effective way to eliminate disparity between states as far as price is concerned is not to get the government into the foodgrain procurement and distribution business, but just to remove controls on interstate movement.

Conclusion
Thirteen years after India began the process of liberalisation for industry, agriculture has remained a low priority for reform by the government. However, a reform process for agriculture has started with the removal of most restrictions on foodgrains, sugar, and

edible oils and Manmohan Singh's comments on the need to create a common agriculture market in India point towards possible further liberalisation and reform[1]. Restrictions on the movement and marketing of produce, rather than helping poor farmers, instead lead to higher inequality by deepening the differences between states in terms of agricultural markets.

[1] "PM's `new deal': India Inc responds positively," June 26, 2004.

References

Prasad, Sarjoo. 2003. *Sarjoo Prasad's Essential Commodities Act with Central Control Orders*. Allahabad: Law Publishers (India) Pvt. Ltd.

"Control Orders issued under the Essential Commodities Act." Compiled 23 October, 2002. Provided by RC Sethi, Ministry of Agriculture.

"India retail: Metro Cash & Carry's bumpy ride." *The Economist Intelligence Unit*. January 30, 2004. Accessed 1 July, 2004. http://home.aigonline.com/content/0,1109,16869-1665-ceo,00.html. Internet.

"Levy and Control Orders." Accessed 8 June, 2004. http://fcamin.nic.in/dr1.htm. Internet.

"List of commodities declared essential under the Essential Commodities Act, 1955." Provided by RC Sethi, Ministry of Agriculture.

"List of Control Orders issued by the Central Ministries/Departments administering various essential commodities." Provided by RC Sethi, Ministry of Agriculture.

Ministry of Consumer Affairs, Food and Public Distribution. 15 February, 2002. "The removal of (licensing requirements, stock limits and movement restrictions) on specified foodstuffs order, 2002. GSR 104(E). *The Gazette of India*. No. 87.

Ministry of Consumer Affairs, Food and Public Distribution. 15 February, 2002. S.O. 206(E). *The Gazette of India*. No. 173.