

Recently, the Ministry of Agriculture released a [draft Model Contract Farming Act, 2018](#). The draft Model Act seeks to create a regulatory and policy framework for contract farming. Based on this draft Model Act, legislatures of states can enact a law on contract farming as contracts fall under the Concurrent List of the Constitution. In this context, we discuss contract farming, issues related to it, and progress so far.

What is contract farming?

Under [contract farming](#), agricultural production (including livestock and poultry) can be carried out based on a pre-harvest agreement between buyers (such as food processing units and exporters), and producers (farmers or farmer organisations). The producer can sell the agricultural produce at a specific price in the future to the buyer as per the agreement. Under contract farming, the producer can reduce the risk of fluctuating market price and demand. The buyer can reduce the risk of non-availability of quality produce.

Under the draft Model Act, the producer can get support from the buyer for improving production through inputs (such as technology, pre-harvest and post-harvest infrastructure) as per the agreement. However, the buyer cannot raise a permanent structure on the producer's land. Rights or title ownership of the producer's land cannot be transferred to the buyer.

What is the existing regulatory structure?

Currently, contract farming requires registration with the Agricultural Produce Marketing Committee (APMC) in few states. This means that contractual agreements are recorded with the APMCs which can also resolve disputes arising out of these contracts. Further, market fees and levies are paid to the APMC to undertake contract farming. The [Model APMC Act, 2003](#) provided for contract farming and was released to the states for them to use this as reference while enacting their respective laws. Consequently, 20 states have amended their APMC Acts to provide for contract farming, while Punjab has a separate law on contract farming. However, [only 14 states notified rules related to contract farming](#), as of October 2016.

What are the issues with the current structure, and how does the draft Model Act seek to address them?

Over the years, expert bodies have identified issues related to the implementation of contract farming. These include: (i) role of APMCs which are designated as an authority for registration and dispute settlement in most states, (ii) provisions of stockholding limits on produce under contract farming, and (iii) poor publicity of contract farming among the farmers about its benefits.

Role of Agricultural Produce Marketing Committees/Marketing Boards

The [NITI Aayog observed that market fees and other levies are paid to the APMC](#) for contract farming when no services such as market facilities and infrastructure are rendered by them. In this context, the [Committee of State Ministers on Agricultural Reforms](#) recommended that contract farming should be out of the ambit of APMCs. Instead, an independent regulatory authority must be brought in to disengage contract farming stakeholders from the existing APMCs.

In this regard, as per the draft Model Act, contract farming will be outside the ambit of the state APMCs. This implies that buyers need not pay market fee and commission charges to these APMCs to undertake contract farming. Further, the draft Model Act provides for establishing a

state-level Contract Farming (Promotion and Facilitation) Authority to ensure implementation of the draft Model Act. Functions of the Authority include (i) levying and collecting facilitation fees, (ii) disposing appeals related to disputes under the draft Model Act, and (iii) publicising contract farming. Further, the sale and purchase of contracted produce is out of the ambit of regulation of the respective state/UT Agricultural Marketing Act.

Registration and agreement recording

The [Model APMC Act, 2003](#) released to the states provides for the registration of contract farming agreements by an APMC. This was done to [safeguard the interests of the producer and the buyer](#) through legal support, including dispute resolution. The procedures for registration and recording of agreements vary across states. Currently, registration for contract farming has been provided with the APMC in few states, and with a state-level nodal agency in others. Further, market fee on purchases under contract agreements is completely exempted in few states and partially exempted in others. The [Committee of State Ministers on Agricultural Reforms](#) recommended that instead of an APMC, district-level authorities can be set-up for registration of contract farming agreements. Further, any registering authority should verify the details such as the financial status of the buyer.

Under the draft Model Act, every agreement should be registered with a Registering and Agreement Recording Committee, which will be set up consisting of officials from departments such as agriculture, animal husbandry, marketing, and rural development. Such a Committee can be set up at the district, taluka or block levels.

Disputes between the producer and the buyer

The Ministry of Agriculture and Farmers Welfare observed certain risks related to upholding the contract farming agreement. For example, producers may sell their produce to a buyer other than the one with whom they hold a contract. On the other side, a buyer may fail to buy products at the agreed prices or in the agreed quantities, or arbitrarily downgrade produce quality. The Committee of State Ministers on Agricultural Reforms recommended that dispute redressal mechanism should be at block, district or regional-level state authorities and not with an APMC.

Under the draft Model Act, in case of disputes between a producer and a buyer, they can: (i) reach a mutually acceptable solution through negotiation or conciliation, (ii) refer the dispute to a dispute settlement officer designated by the state government, and (iii) appeal to the Contract Farming (Promotion and Facilitation) Authority (to be established in each state) in case they are not satisfied by the decision of the dispute settlement officer.

Stockholdings limits on contracted produce

Stockholding limits are imposed through control orders as per the Essential Commodities Act, 1955. Such provisions of stockholding limits can be restrictive and discourage buyers to enter into contracts. It was [recommended that the buyers can be exempted from stock limits up to six months](#) of their requirement in the interest of trade. Under the draft Model Act, limits of stockholding of agricultural produce will not be applicable on produce purchased under contract farming.

Other recommendations

While contract farming seeks to provide alternative marketing channels and better price realisation to farmers, several other [marketing reforms have been suggested by experts](#) in this regard. These include: (i) allowing direct sale of produce by farmers, (ii) removing fruits and vegetables out of the

ambit of APMCs, and (iii) setting-up of farmer-consumer markets, (iv) electronic trading, and (v) joining electronic National Agricultural Market for the sale of produce.

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