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Subject III

Implications of Corporate Entry into Agricultural Input and Output Markets and its Impact on Small Producers and Consumers

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The session commenced with the presentation of the rapporteur's report on the conference papers which initiated the discussion by highlighting major issues emerging from the submitted papers which were:

1. Use of 'producer's share in consumer's rupee' methodology to measure marketing efficiency of different channels in the context of value added agricultural produce.

2. Nature of farming contracts with primary producers and their practices across crops and new situations especially price terms and discovery of contract price.

3. Logic and utility of 'contact farming' (as against contract farming) as practiced by most of the retail chains, from a producer's risk reduction perspective.

4. Ecological and resource use implications of corporate intervention in the longer term from farmer livelihood sustainability and resource use sustainability perspective.

5. Implications of contract farming type of mechanisms for farm workers, gender, and child labour.

6. Impact of retail chains and private markets on the traditional wholesale markets.

7. Mechanisms designed or attempted by farmers/groups/consumers to deal with large corporate sellers and buyers and their effectiveness.

8. New and better employment generation, improvement in food quality, and lower consumer prices due to entry of food retail chains.

9. Employment and livelihood implications for small traditional retailers/vendors due to entry of retail chains.

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10. Market concentration vis-a-vis higher competition due to entry of large corporates into agricultural input markets and food retail.

11. Impact of agricultural input retail chains on local input dealers and their perceptions and strategies.

12. Effectiveness of policies in input and output markets and new policies needed to leverage the positive effects and minimise the negative impacts of food and agricultural input retail chains, especially the amended APMC Act.

The discussion, based on these issues, led to many scholars emphasising the role of regulation in contract farming to protect the interest of farmers, especially in high value crops, where farmers need to invest large sums of money and take risk to grow these crops which, many times, have no alternative local markets. There were also many apprehensions and misunderstanding of the concept of contract farming which led to questions and comments like farmers' land being taken away by the companies. But, it was clarified by the session chair that the amended APMC act provides the farmer asset indemnity in case of contract default. Also, corporate farming is not a part of contract farming and it is not even legal in India.

But, it was also highlighted by a few participants that contract farming not only excludes smallholders but also promotes reverse tenancy as firms prefer larger land operators who lease in land from smallholders to become eligible contract growers, thus shifting farming out of smallholders' hands into that of large or medium land operators by default. It was pointed out that contract farming is not bad per se as a system of vertical co-ordination. What determines its farmer impact are factors like: type of contracting agency, contracted crop, and terms and conditions of the contract, besides type of farmers and technology involved.

It was also pointed out that in order to promote inclusiveness in contract farming, small farmers need to be organised into collectivities of various types to give them better bargaining power and lower transaction cost of the contracting agency. Additionally, farmers also need to be more market oriented and provided marketing extension through various ICT modes to produce quality and cost effective produce. Some of the National Horticulture Mission (NHM) funds could be used for this purpose instead of just using them mainly for promotion of production.

There is need to appreciate that corporate sector has a role to play in effectively linking smallholders with markets as without market, there is no point in producing high value perishable produce. Corporates have a better understanding of markets and resources to deal with markets which should be leveraged for smallholder benefit. But, it was also highlighted that though private sector is being given a greater space in agricultural markets, there is need to emphasise the role of the state for smallholder benefit who can not be left at the mercy of the market alone. For example, abolition of the APMC Act in Bihar is a retrograde step which was taken as part of the agricultural market reforms.

This discussion led to the identification of following issues for research and policy:

RESEARCH ISSUES

1. Many alternatives for linking farmers with markets have been attempted in different parts of India by various stakeholders like corproate agencies, NGOs and government which need to be studied for their effectiveness and scalability.
2. Use of 'producer's share in consumer's rupee' methodology to measure marketing efficiency of different channels and producer benefit in the context of value added agricultural produce needs to be reassessed for its validity and other methodologies explored.
3. Nature of contracts with primary producers and their practice across crops and new situations especially price terms and discovery of contract price need to be studied.
4. Implications of contract farming type of mechanisms for farm workers, gender, and child labour are important to explore.
5. Impact of retail chains and private markets under the amended APMC Act on the traditional wholesale markets needs to be examined
6. Employment and livelihood implications for small traditional retailers/vendors due to entry of retail chains is an issue which needs to be given more attention from research angle.
7. Market concentration vis-a-vis higher competition due to entry of large corporate agencies into agricultural input markets and food retail is important to examine as an issue as monopoly power is these markets are growing due to mergers and acquisitions.

POLICY SUGGESTIONS

1. There is need to ensure better monitoring of input quality and fix responsibility for input failure.
2. More conducive environment for contract farming needs to be created especially in states where APMC Act has still not been amended. Further, some optional provision of the model APMC Act like extension, input supply, insurance, payments, etc. should be made part of mandatory provisions.

3. The policy and contract agencies should promote crop and weather insurance as part of contract farming arrangements to reduce contract farmer's production risk.
4. There is need to promote contract farming in a competitive manner to ensure better farmer benefit.
5. The state should set up and improve the working and performance of fruit and vegetable markets for the benefit of non-contract farmers and as an alternative market for contract and contact growers.
6. The development agencies, including the state, should promote and encourage new farmer institutions and organisations like producer companies and new generation co-operatives which are more market oriented and have freedom to operate unlike traditional co-operatives.
7. The state, through banking sector and extension machinery, should provide funds and support for contract growers/groups with lower rate of interest and direct free/subsidised extension especially through NHM funds.
8. There is need to make labour conditions and minimum wages a part of contracting agencies' responsibility and the state agencies should monitor these at the farm level to promote better working conditions and labour welfare.