TOWARDS AN INDIAN COMMON MARKET:

REMOVAL OF RESTRICTIONS ON INTERNAL TRADE IN AGRICULTURE COMMODITIES

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AMS	Aggregate Measurement of Support
APMC	Agricultural Produce Marketing Committee (APMC) Act
CACP	Commission for Agricultural Costs and Prices
CST	Central Sales Tax
EC	European Community
EC	Essential Commodity Act
EU	European Union
FAO	Food and Agriculture Organization
FCI	Food Corporation of India
FD	Fiscal Deficit expressed as a percentage of Gross State Domestic Product
FICCI	Federation of Indian Chamber of Commerce and Industries
GDP	Gross Domestic Product
HOPCOMS	Horticultural Producers Cooperatives Marketing and Processing Society Limited, in the Cooperative Sector
HP	Himachal Pradesh
HPMC	Himachal Pradesh Horticultural Produce Marketing and Processing Corporation
IFPRI	International Food Policy Research Institute
KCC	Kisan Credit Card
LCV	Light Commercial Vehicles
MADs	Medicinal, Aromatics and Dye Plants
MSP	Minimum Support Price
NAFED	National Agricultural Cooperative Marketing Federation of India Ltd.
NCF	National Commission on Farmers
NCMP	National Common Minimum Programme
NDDB	National Dairy Development Board
NHM	National Horticultural Mission
PFA	Prevention of Food Adulteration Act
PSE	Producer Support Estimate
R & D	Research and Development
RD	Revenue Deficit expressed as a percentage of Gross State Domestic Product
SCC	Selective Credit Controls

SFAC	Small Farmers Agribusiness Consortium
US	United States of America
USDA	United States Department of Agriculture
UTs	Union Territories
VAT	Value-added Tax
WTO	World Trade Organization

1 INTRODUCTION

With adoption of scientific techniques, supported by Government policies and programmes, agricultural production in India today has left behind the era of shortages and dependence on imports. There has been a significant increase in the per capita availability of almost every agricultural or agri-related commodity since independence, including dairy, poultry and fisheries. One of the major avenues to sustain this trend further is to create a vibrant farm sector, for which enhancing returns to the farmers is a prerequisite. Apart from the cultivation of core food grains, diversification of the farm sector towards higher value items, especially horticultural products, is also quite important for successful realization of this objective. However, given the limitations of infrastructural facilities and administrative bottlenecks, there exists further scope to lower the post-harvest losses and other concerns. Furthermore, there is an urgent need to focus on problems originating from restrictions on movements of agricultural commodities in general and horticultural sector in particular.

The key objective of the National Commission on Farmers (NCF), Government of India, is to arrive at a comprehensive medium-term strategy for food and nutrition security in the country to move towards the goal of universal food security over time.1The current study has been undertaken by FAO at the request of the NCF through Government of India, Ministry of Agriculture to study the possibilities of emergence of a farmer centric Indian common market catering to both over a billion consumers within the country and consumers abroad. The technical project has been initiated to study the possibilities of removal of unnecessary restrictions on the movement of agriculture products both within and between States in India and measures that could be taken for better market integration. In this process at the request of the Commission, the FAO studied the European Union market integration experience, and looked into the legislative, political and economic measures taken during the process. The European experience is described not as much to establish any direct applicability but to understand the political processes and the economic measures that led to adoption of a common and eventually a single market in that region (Annexes 1).

The goal of the report is to recommend policies that would enhance farmers' access to markets through the removal of barriers to trade within and between states and ultimately international trade in primary products in India. One of the major potential impacts of removing the inter-state barriers would be enhanced competition in the buyers market due to

[1] 'Saving Farmers and Saving Agriculture', First Report, National Commission of Farmers, Ministry of Agriculture, Government of India, New Delhi, December 2004.

entry of newer stakeholders. This would serve as an enabling device for Indian farmers towards realization of better prices, with the reduction of the distance between them and the final consumers. However other enabling conditions like credit, transport infrastructure, facilities for storage and processing have to be available for farmers, especially small farmers who dominate the Indian scene, to reap maximum benefits from measures to facilitate trade through removal of barriers.

Agriculture sector is the biggest source of livelihood for the domestic population. Several government policies and programmes have been formulated (fertilizer policy, seed policy, minimum support price etc.) to help this sector. It has been observed that in the post reform period the farming community is facing several problems, ranging from lack of the reach of the irrigation network, lower productivity and other issues, which collectively result growing distress originating from lower profitability. There is enough scope for introducing farmer-centric policies by the Government so as to enhance agricultural growth.[2]

The current formal agricultural marketing framework accommodates a number of stakeholders, and the multiple handling involves escalating charges at various layers, resulting lower return to the farmers. The phenomenon is part reflected in the growing rural-urban income disparity in the country.[3] Similarly, the barriers to the inter-state movements involve direct as well as hidden charges on the primary products, the burden of which is ultimately borne by the farmers. The withdrawal of the barriers on inter-state movements of agricultural commodities is likely to reduce these costs, and make the option of trade in agriculture much more lucrative, both for the farmers (individually or as part of a collective body) and the private players. The limitation of the prevailing policy framework has been acknowledged by the policymakers at times:

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[2] Montek S. Ahluwalia, "Reducing Poverty and Hunger in India: The Role of Agriculture" in 'Lessons Learned from the Dragon (China) and the Elephant (India)', IFPRI 2004-2005 Annual Report Essays, International Food Policy Research Institute, Washington DC, 2005.

[3] The UNDP Report entitled "Reflection Paper on Diversities and Disparities in Human Development" noted that, 'The rural-urban divide has resulted in lower levels of income as well as higher incidence of poverty in rural areas.' available at http://www.undp.org.in/report/IDF98/idfrural.htm.

"To a large extent our policy frame work and investment priorities for agriculture were designed for addressing the issue of food security in the country and not really for a more balanced growth of agriculture. Since these policies have roots in the economy of shortages there is an excessive focus on controls on storing and trading of agricultural products. The future direction of policy clearly has to recognize that we are no longer in an era chronic shortage, and that our emphasis now has to be on rapid growth in agriculture–based livelihoods. For this we would need to correct the various distortions that have crept in to our policy framework both in terms of geographical focus as well as incentives to specific crops, it is necessary for us to create conditions whereby farmers can respond to market signals in deciding what and how much they produce and to whom they sell".

Source: Quoted from the words of Dr. Manmohan Singh, the Prime Minister of India from 'IFPRI Forum', March 2005[4]

Apart from the overall agriculture sector, the reform of the policy environment is also likely to benefit growing horticultural sector, especially in the interest of the small farmers.[5] Encouraging the diversification trend through appropriate policy measures would enhance both incomes of the small farmers as well as employment in the food processing sector, which has already come to the attention of the policymakers (e.g., the National Horticultural Mission objective):

"I would like to make it perfectly clear that our vision of Indian agriculture continues and will continue to be based on small holder farming. Strategy for agricultural growth in India would have to be on small holder farming. We do not see any contradiction between small holder farming and rapid growth in agriculture. Small farms can be as efficient if not even more efficient than large farms provided the requisite support system exists. In the main there are three types of support that would be required; infra structure, technology and credit. There is no reason to believe that we can not design appropriate public interventions to make these support systems available to our small farmers."

Source: Quoted from the words of Dr. Manmohan Singh, the Prime Minister of India from 'IFPRI Forum', March 2005

[4] Available at http://www.ifpri.org/pubs/newsletters/ifpriforum/200503/if10Singh.htm
[5] "The demand for fruits and vegetables is expected to rise from 150 mt at the end of the Ninth Plan period to 265 mt per annum at the end of the Tenth Plan period (2007).", "Commodity Study on Diversification of Indian Agriculture", B. Yerram Raju, NABARD Occasional Paper No. 36, 2005, p. 37.

2 INDIAN AGRICULTURE

2.1 An Overview of Indian Agriculture

2.1.1 Growth Trends in Indian Agriculture

It is observed that during the last eight years (1996-97 to 2003-04), India's GDP growth was below 5% for three years, namely, 1997-98, 2000-01 and 2002-03, which were also marked with negative growth of agricultural sector. On the other hand, the high growth rate of agriculture was translated into high overall GDP growth rate during 1996-97 and 2003-04. The average growth rate of this sector over the last eight years (1997-2005) has been 1.75 percent as compared to 5.49 percent and 8.31 percent in case of industry and services sector respectively. Since adequate supply of food grains usually helps in maintaining a steady level of real wage, sustained agricultural growth bears consequences for employment in both secondary and tertiary sectors. Therefore, re-energizing the farm sector is a necessity for the economy as a whole as well as for the population directly involved in it.

The Contribution of Indian agriculture to GDP is on the decline for a considerable period of time. While in 1950-51, the contribution of this sector stood at 59.19 percent, the corresponding current figure is 22 percent in 2004-05. While the phenomenon is part explained by the remarkable growth of the service sector in the nineties, the slower growth rate of the agricultural sector deserve attention.

2.1.2 Productivity Trends

There is enough scope for enhancing the current productivity level, mainly originating from the lack of invested funds in the hands of the farmers for augmenting land fertility, particularly the small and marginal ones. Ensuring better returns to the farmer could reverse this trend. The other factors responsible for the low productivity include disguised unemployment, poor quality of pre-harvest care resulting in huge losses due to pests and diseases, low intensity of high-yielding variety seed usage, absence of farm management techniques and lack of adequate mechanization. It can be argued that all these issues arise out of income poverty and could be tackled, if higher return to the farmers is ensured through appropriate policy measures.

The time trend of the productivity of various crops shows that the growth rate of productivity during the nineties has either declined or stagnated. The productivity trends for select crop groups; food grains, fruit and vegetables are shown in **Annexes 2-4**. It is observed that there is scope for enhancing the productivity level of all these three select categories further.

2.1.3 Fragmentation in production and resultant low bargaining power

The farmers in India are classified according to their area of operation. The five groups, i.e., marginal, small, semi-medium, medium and large holdings are defined by the holding area of - below 1 hectare, 1-4 hectares, 4-6 hectares, 6-10 hectares and greater than 10 hectares respectively.

It is observed from the Census data that while in the early seventies the proportion of the ‘small’ category in terms of number of holding stood at 50.62 percent, it increased to 58.99 percent during early nineties. This atomization of land-holding, i.e., increment in absolute number of marginal holdings could easily be explained by further fragmentation of the already small existing operational holdings and land distribution exercises. On the other hand, all four other categories registered a decrease over the same period. The maximum reduction in number of holding took place in the ‘medium’ category.

The proportion of irrigated area as a percentage of gross cropped area has increased over the last decade, although at a slow pace. At all-India level, the figure stood at 39.22 percent in 1998-99, as compared to 34.03 percent in 1990-91. It is noticed that the intensity is as high as 92.24 and 79.78 in Punjab and Haryana respectively during 1998-99. However, special attention needs to be given towards states like Maharashtra, Orissa and West Bengal, where the irrigation intensity has fluctuated and even declined in late nineties, as well as to drought-prone states like Rajasthan.

Due to the smallness of the holding size and inadequacy of the support from irrigation network, the marketed surplus is often negligible for a significant proportion of the farming community and given the urgency of cash-requirement, they are often forced to sale the produce to the local intermediary just after the harvest.[6] Most of the time, the transaction takes place at throwaway price as the remuneration is at the lowest end of the spectrum during that period. The absence of bargaining power of average Indian farmer vis-à-vis the local trader given the prevalence of small farm size is a major problem.

2.1.4 Employment in agriculture and Farmers’ Income

It is observed from the comparison of the last three census data in **Annex 5** that still a significant proportion of the population is dependent on primary sector as the major source of livelihood. Until and unless the return to farmers increases, the shifting of surplus labours from agriculture to non-farm activities will not materialize. It is observed from the table that in

[6] The presentation by the Mr. Shailendra Nigam, Executive Director of FCI, in the Rice Conference in Rome during 12-13 February, 2004 talks about the need to enhance marketable surplus. http://www.fao.org/rice2004/en/pdf/nigam.pdf.

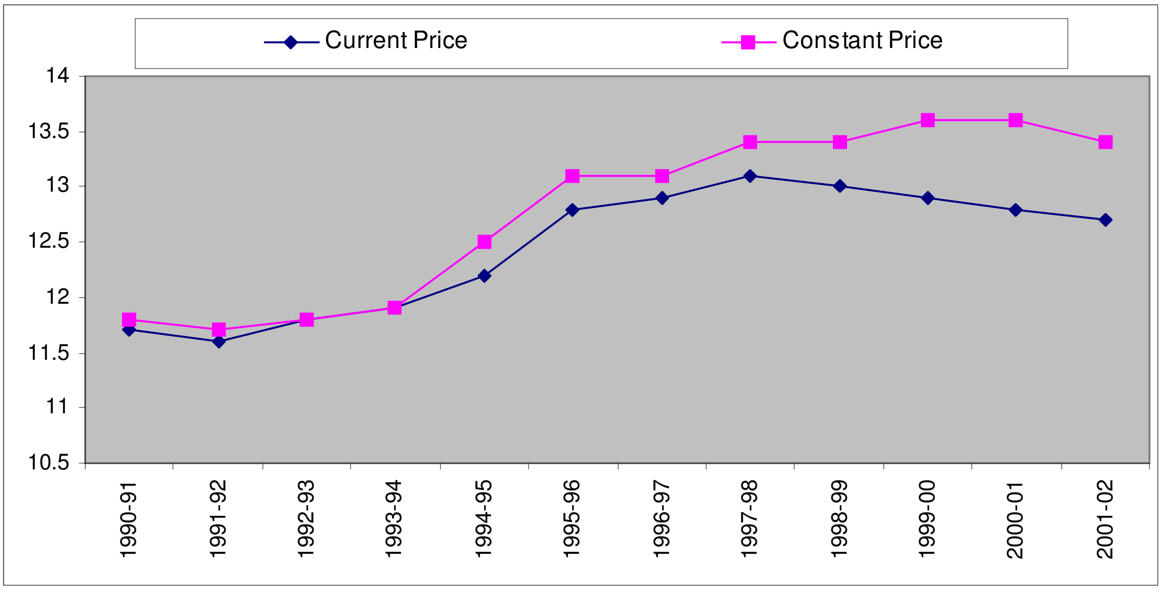
states with relatively lower National State Domestic Product (NSDP) the proportion of cultivators are much higher as compared to the national average. On the other hand, proportional dependence on agriculture is significantly lower in case of Punjab and Haryana, where the agriculture sector is vibrant and agricultural productivity is higher than the national average. The experience of the two states suggests that enhancing farmers' income is capable of ensuring a streamlined agricultural network (i.e., increased non-farm rural employment) and increased agricultural productivity. Conversely, a failure to raise farm incomes risks perpetuating a dangerous downward spiral.

2.1.5 Internal Trade in India

It is generally recognized that trade not only generates employment with very little capital investment but also helps in producers gaining market access to distant and more remunerative markets. In case of agricultural products, higher trade flows generally results in the producers getting a higher share of the consumer price, thus enhancing their income.

However, the share of trade in Indian economy has remained very low over the last few decades as shown in **Diagram 1.** The contribution of internal trade to GDP has hovered around 11 to 13 per cent reaching a peak level at 13.4 per cent in 1997-98.Even at this level, it is estimated that over 36 million people were engaged in retail and wholesale trade, majority of whom were self-employed.

Diagram 1 Contribution of Internal Trade to GDP



Source: Planning Commission (2004)

Internal trade is made up of trade in goods and services across the country. The major problems faced by the trading community are the diversity of controls exercised by multiple authorities at different levels, restrictions on inter-state and inter-district movement of goods, lack of uniformity in standards laid down by different authorities and agencies and in taxes. Pricing strategies get affected by differential tax rates and become localized. All this has led to breaking up the vast Indian market into a large number of smaller regional markets.

The paperwork involved in complying with the various controls, regulations and licenses, the cost involved in terms of time and resources and the inevitable corruption and malpractices that this leads to have served as big drag on the efficiency of trading operations in the country.

Source : Tenth Five Year Plan : 2002-07, Planning Commission, Government of India.

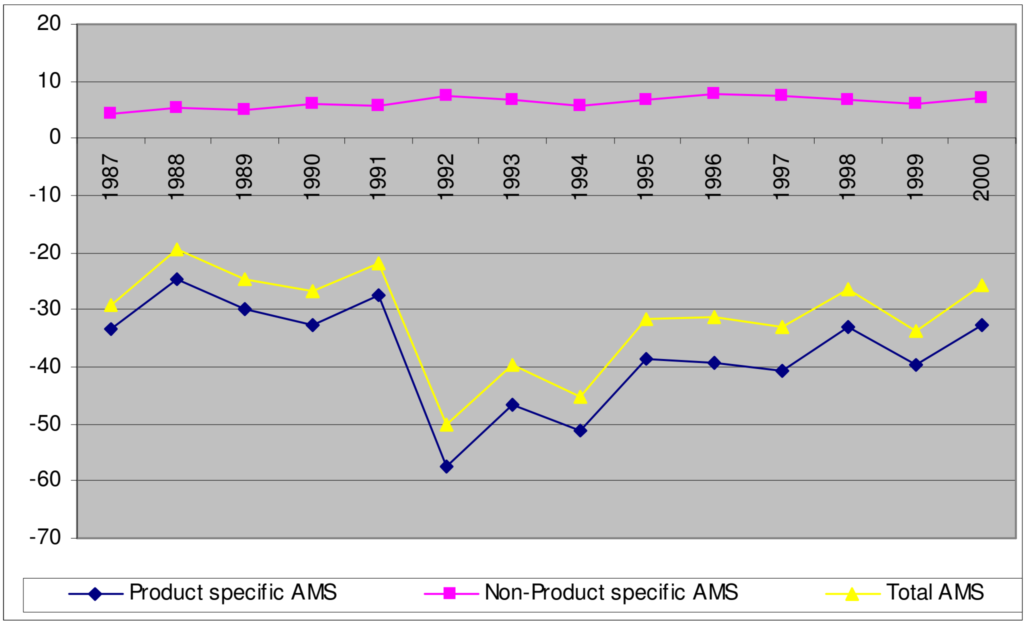
Freeing the domestic trade from restrictions and unnecessary paper work will not only lead to generation of employment, particularly in rural areas, but also will result in higher income to the farmers. Given the fact that only a number of states are self-sufficient in food grains (as pointed out by various Government sources from time to time) and cultivation of horticultural products are unevenly spread, there is further scope for enhancing the level of internal trade in agriculture through removal of inter-state barriers.

2.1.6 Actual Support to the Indian Farmer

It is observed from the AMS trends in Indian agriculture over 1987-2000 shown in **Diagram 2** that throughout the Uruguay Round negotiation period the overall support to agriculture has been negative. The AMS support considered in the analysis includes measures covered both under product-specific and non-product specific categories.

Diagram 2 Trends in AMS in India (1987-2000)

(as % of value of production of selected commodities)



Source: Gulati and Narayanan (2003)

The non-product specific subsidies, i.e., the likes of fertilizer, and power subsidies has always been positive in India, although the overall level of AMS was negative throughout this period. It has been noted by Gulati and Narayanan (2003) that the low administered food prices, maintained for protecting consumer interest, outweighed positive input subsidies, and hence the overall AMS is negative.[7]

2.2 The Marketing Issues

2.2.1 General Concerns

An efficient marketing system provides an incentive to farmers to produce more; changing needs of the economy to enable production planning; fosters competition among traders, and eliminates exploitation, particularly among the small and marginal farmers. The agricultural market in India today is dominated by rural primary markets that meet local demand, secondary markets that service distant demands and wholesale markets that gather large amounts of produce from different sources for the retailers in the country.

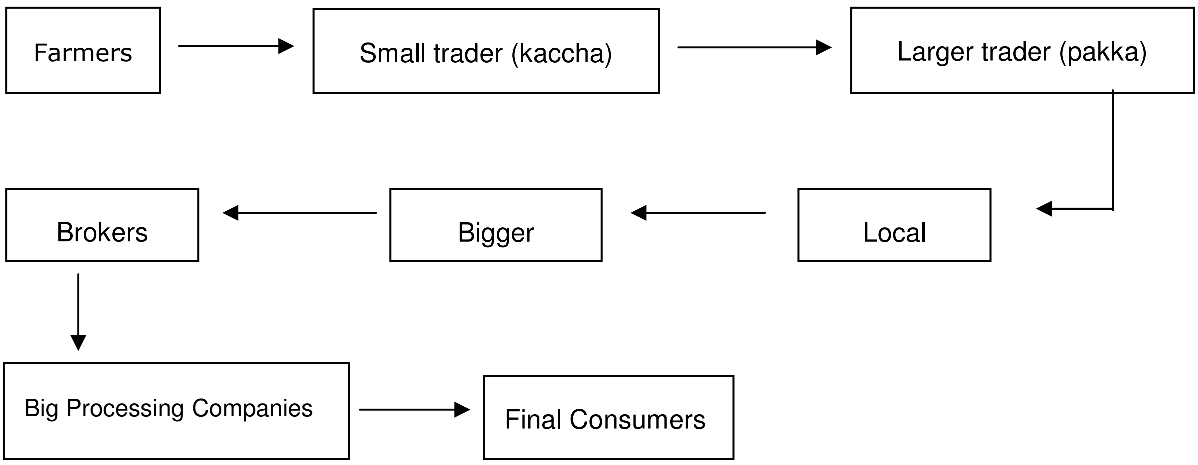
[7] Ashok Gulati and Sudha Narayanan, 'The Subsidy in Indian Agriculture', Oxford University Press, 2003.

2.2.2 Emergence of Intermediaries

The location of market near the village acts as a major determinant of the decision on selling location. It has been noted at times that the markets are generally placed quite far from most of the villages and therefore, the small and medium farmers found it economic to sell their produce to the intermediaries.

The supply chain of the agricultural produce generally prevalent in the country could be shown with the help of **Diagram 3**. Due to the prevailing poor infrastructural scenario, the supply chain remains unreasonably long and results steep escalation in the total cost owing to procurement, transit and other taxes and service charges levied at various layers.

Diagram 3 - The Agrarian Supply Chain in India

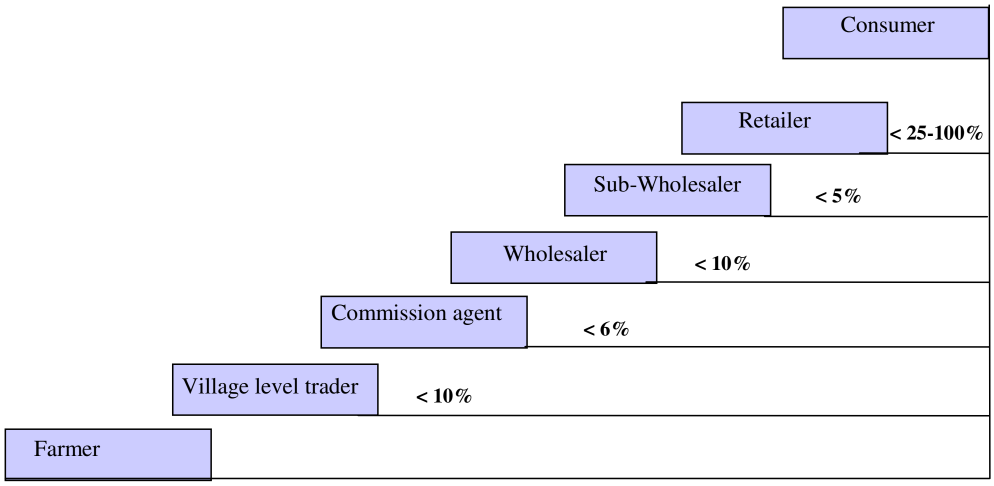


2.2.3 Realization of Lower Price

The direct impact of the emergence of intermediaries is the realization of lower prices by the farmers. The intermediaries appropriate a sizable proportion of the final sales as their service charges. Since each intermediary works out a margin for himself keeping the cost escalation in the next phase in mind, it is the farmer (being the first seller) who bears the ultimate cost. **Diagram 4** shows a graphical representation of this phenomenon for potato.

Diagram 4 Charges for Intermediaries at various stages

(Estimated for Potato on the basis of field surveys)



Source: Global Agri (2004)

One possible way out to the problem is to popularize a 'Warehouse Receipt System' in Indian agriculture. Upon storing his products in the nearest warehouse, the farmer would get a proportion of the price (say, 80%) in cash as advance, and may decide to sellis products at some appropriate future date. The traders can also trade short or long on the stock and give the farmer his share later. The tariff at the warehouses is usually 30 percent lower than the market rate for the farmers.[8] However, most of the small farmers do not access the warehouse network and sell their product locally shortly after the harvest, thereby getting a lower price. This calls for creation of farmers' enterprises / cooperatives, which could collectively perform as a bloc, managed by farmers and support individual members in crisis situations.

It is observed from **Annex 8** that there exist a wide gap between per unit cost of the final produce and the price received by the farmers in case of a number of commodities. In contrast, in US the farmers directly selling their products to private players receive a higher proportion of the final price paid by the consumers for a number of products[9], although realization of lower price is also not uncommon.[10]

[8] Comment by the Chairman of the Central Warehousing Corporation to the FAO team during interactive sessions.
[9] Charles Assisi and Indrajit Hazra, 'ITC's Rural Symphony', Businessworld, 20 January 2003, p. 32.
[10] http://www.ers.usda.gov/data/foodmarketindicators/pricespreadsforfood/pricespreadsforfooditems.xls

"According to the available information from various studies, the producer gets about 25% to 30% of the consumer's price in the case of wheat, maize and rice. However, the milk producers under the 'Anand Model' get about 60% of the final price. In fruits and vegetables, the mark-ups by intermediaries touch about 60% of the cost, while the same is reportedly about 6-8 % in the USA. High mark-up means low returns to the farmers as a percentage of the retail price and secondly the consumer pays a high price. There is a need for tightening the supply chain and eliminate some of the intermediaries."[11]

2.2.4 Marketing Information

One of the major problems for the farmers is non-availability of timely price information. Although the Ministry of Agriculture web-site provides the data on price trends for major commodities, at the village level such information is not always readily accessible. Consequently, farmer income is highly volatile in India, as the bumper crop season causes increasing shift into that crop, thereby resulting the inevitable price crash during the next season. The small and marginal farmers are most severely affected by this phenomenon.[12] , The small farmer accepts whatever price is offered to him at the local market level without any knowledge of the price obtained by intermediaries in the whole sale market. There is an urgent need to make the farmers aware of the movements in prices of various crops, and this is likely to facilitate a shift towards fruit and vegetable sector.

The National Horticultural Mission (NHM) envisages to double horticultural production to 300 million tons by the end of 2011 from 152 million tons in 2000 and facilitates information to the farmers in this regard. Apart from direct Government efforts, the ongoing farmer's initiatives in horticultural marketing with Government support, especially NDDB and HOPCOMS in providing information, are also worth mentioning.

In the recent period, the private sector has supplemented the Government effort to some extent. ITC's e-chaupal model and the operations of other players like PepsiCo deserve attention in this regard. In most of these private initiatives, the cultivation decision is taken

[11] 'Saving Farmers and Saving Agriculture: Crisis to Confidence', Second Report, National Commission of Farmers, Ministry of Agriculture, Government of India, New Delhi, August 2005.

[12] The Chairman of the Punjab Farmers' Commission, Dr. Kalkat commented during the interactive session with the FAO team that there is no need even to boost farmers' income immediately. If the policy measures could stabilize the farmers' income at the current level, that itself would be a major step to begin with towards enhancing farmers' welfare.

after consideration of the movement in the national and international prices, while diversifying from rice and wheat to new commodities.[13] The local information centers of the private players also advise the farmers about the input choice, apart from providing quality seeds as credit. The final output is later procured by the private player at the ongoing market price (or the pre-agreed contract price), which the farmer can verify form the cyber-kiosks, managed locally. However the entry of the private sector in developing market information as well as infrastructure, an urgent need of the hour, has been constrained by the working of the APMC Act until recently.

"The situation of control by the State has to be eased to facilitate greater participation of the private sector, particularly to in general massive investments required for the development of the marketing infrastructure and other supporting services. Investment requirements for the development of the marketing, storage, cold storage infrastructure in the country during the tenth plan have been estimated to the order of Rs. 12230 crores."[14]

2.2.5 Rural Infrastructure

The question of Agricultural marketing and infrastructure are inseparable from each other. It is observed from **Annex 6** that the road infrastructure is quite poor in a number of populous states like Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal. On the other hand, the high-income states like Haryana, Kerala and Punjab, as seen from the table, are quite well equipped with appreciable level of road infrastructure.

The prevailing absence of technology and quality farm inputs calls for enhanced capital formation, which is expected to enable farmers to gain access to technologies leading to value addition. However the proportional share of public investment in agriculture has fallen from 33 percent in 1993-94 to 23.5 percent in 2000-01, recovering to some extent in the subsequent period. However, in absolute terms, the estimated public investment in recent period is even lower than the same in 1994-95. Although the share of private investment in agriculture has increased over this period, the sluggish growth rate of agriculture reinforces the importance of investment in this sector, both from public and private sources.

[13] The World Bank, 'India: Re-Energizing the Agricultural Sector to Sustain Growth and Reduce Poverty', 2005.

[14] Report of the Inter-Ministerial Task Force on Agricultural Marketing Reform, May 2002.

One of the major problems faced by the Indian farmer is the lack of adequate storage facilities, which forces him to dispose the produce at lower price immediately after harvest. For storage of food grains, the covered storage capacity available with FCI, Central and State Warehousing Corporations is around 26.4 million tones. In addition, storage capacity of around 25.3 million tones is available with public, private and cooperative sectors. In the background of 200 million tones production, the available storage capacity of 52 million tones is inadequate. It is estimated that about 20 million tones of grains are stored in the form of Cover and Plinth (CAP), which involves tacking grain bags in pyramid shape.

The situation of storage / marketing perishables, especially horticultural produce is even worse. Despite being the second largest producer of fruits and vegetables in the world, pre and post-harvest infrastructure in India is grossly inadequate. For a production of 134.5 million tones of fruits and vegetables per annum, the existing cold storage capacity in the country is only 15.3 million tones – moreover, this is designed primarily for storing potatoes. As a result, it is estimated that produce valued at over Rs. 2000 crores is lost annually due to improper handling, storage and processing. Table 1 summarizes India's post-harvest losses for some select crops.

Table 1 Post-harvest Losses for Select Horticultural Crops – India[15]

Product	India
Banana	14 - 18
Papaya	10 - 11
Cauliflower	18
Onion	17 - 25
Potato	21 - 24

Source: Association for Social and Economic Transformation (ASET) 2003

The post-harvest losses could occur owing to various reasons, spanning over biological, physical as well as psychological ones, apart from the lack of physical infrastructure. Given the perishable nature of horticultural products, widening the cold-storage network, especially in the horticulture-intensive regions, would greatly enhance the opportunities (and consequently incentives) for diversification, especially benefiting the small-farmers. The

[15] The analysis covers a major area of Bihar and Uttar Pradesh. Estimation Loss of Horticulture Produce due to Non-Availability of Post Harvest and Food Processing Facilities in Bihar and Uttar Pradesh, ASET, New Delhi (Socio-Economic Research, Planning Commission, Government of India)

current spread of commodity-specific state-wise cold storage network has been shown in Annex 7.

We must develop mechanisms for giving the power of scale to small producers both in the production and post harvest phases of farming. The mismatch between production and post-harvest technologies should end."[16]

2.2.6 Credit and Insurance Network

The access to credit acts as a major concern to a sizable section of the farming community. The Government rural credit provision serves a dual purpose, raising the investing capacity of farmers on one hand, while protecting them from rural moneylenders on the other. The credit availability to the agriculture and allied sector during the Ninth Plan (1997-02) reached nearly Rs.2,33,700 crore as compared to the projected value of Rs.2,29,000 crore. For the Tenth Plan Period (2002-07) the credit flow into agriculture and allied activities from all banking agencies has been increased by three times and is projected at Rs 7,36,570 crore.

The agricultural credit is currently being provided under a number of newly implemented innovative schemes. For instance, the Kisan Credit Card (KCC) Scheme was introduced in 1998-99 for fostering access to short term credit and has become widely popular. At present, it has been taken up by 27 commercial banks, 378 District Central Cooperative Banks/State Cooperative Banks and 196 Regional Rural Banks throughout the country. The total coverage extends beyond 271 lakh cards. Several modifications of the scheme are currently in progress.

"The primary requirement is credit. After so many committees and task force reports there's no true understanding of the difficulty that the farmer faces in getting money at the right time. We should ensure that every one of the 110 million families has access to Kisan Credit Cards linked to health and agricultural insurance. We must cut transaction costs by a network of rural ATMs. Self help groups are a good conduit for increasing credit to the rural sector."[17]

National Agricultural Insurance Scheme (NAIS) is currently operating under the 'Area Approach', i.e., in the areas affected by natural calamities. However, the scheme is implemented only in 23 states and 2 UTs. Cumulatively, 5.9 crores farmers have been

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[16] Excerpt from the interview of Dr. M. S. Swaminathan with Latha Jishnu, 'Needed: An Indian Common Market', in Business World (21 June 2004) available at http://www.businessworldindia.com/june2104/news07.asp

[17] Excerpt from the interview of Dr. M. S. Swaminathan with Latha Jishnu, 'Needed: An Indian Common Market', in Business World (21 June 2004) available at http://www.businessworldindia.com/june2104/news07.asp

covered by this scheme in the last ten seasons (Economic Survey, 2004-05). Given the total cultivable land in the country, it seems that there is enough scope for extending the coverage of the NAIS programme. The risk of losses is higher in case of high-value crops like horticulture and special insurance coverage is capable of encouraging diversifying trend in agriculture.

2.2.7 Quality control and harmonized standards

Multiplicity of Acts and involvement of various Government departments for governing storage, movement, processing and marketing of agri-produce, health and hygiene, consumer safety, food testing, packaging etc. often creates regulatory concerns. It is believed by the industry that the lack of standardization is a major impediment to the growth of this sector.[18] There are multiple authorities for approving trade in respective agricultural and primary commodities. For instance Fruit Products Order (1955, amended in 1997) is implemented by Ministry of Food Processing Industries, Meat Food Products Order (1973) is implemented by Department of Agriculture and Cooperation, Ministry of Agriculture (earlier done by Ministry of Rural Development), Milk and Milk Products Order (1992) is implemented by the Department of Animal Husbandry and Diary, Ministry of Agriculture etc.

The State Governments sometimes apply widely varying commodity-specific standards on various primary and processed products, with consequences on inter-state trade in associated product groups. Furthermore, while some States are very vigorous in implementing the laws scrupulously, others are not. For instance, sale of Kesari Dal in any form is banned under Rule 44 (a) of the Prevention of Food Adulteration Rules in some States. However, in some States where Kesari Dal is produced in large quantities, sales are allowed. As a result, in one State, the accidental admixture of Kesari Dal with other pulses may lead to punitive action, while in a neighbouring State, it may be allowed.[19] This often creates a disincentive for producers to grow beyond a particular state and debars them from obtaining the benefits of economies of scale. Differing technical standards (e.g. – instruction for labeling, packaging etc.) across Indian States, defining the responsibilities of various implementing agencies are among other major areas of concern.[20]

The problem is reflected at the village level, the starting point of agricultural trade, as well. No harmonized standard exists at the ground level and each market committee is free to

[18] Comment by the industry representatives to the FAO team during interactive sessions.
[19] Bibek Debroy and P. D. Kaushik, "Barriers to Inter-State Trade and Commerce – The Case of Road Transport", Background Paper provided to Constitution Review Commission, Government of India, 2001.
[20] Mohd. Saqib, 'Setting the House in Order: A Study on Technical Standards that Affect Indian Agricultural Trade', Bazaar Chintan Working Paper No. 15, October 2003.

follow their rule in terms of packaging. Establishing a uniform standard throughout the country would be a major step towards enhancing primary exports as well as internal trade.

The new proposed *Food Safety and Standards Bill* (2005) is likely to respond to the current problems to a great extent. The Bill covers entire India and will supersede all State laws on food and food processing, once it becomes a law ratified by Parliament. The Bill clearly defines the food items and in line with the global concerns on food standard, incorporates the provisions of complete traceability on the label of the produce. However, interestingly the stress on the traceability up to the farm-level for agriculture and horticulture category is much lower as compared to the processed foodstuff.[21] In addition, the Bill proposes creation of an apex organization, Food Regulatory Authority of India (FRAI), which would be the supreme authority for standard setting and enforcement of the food sector. Furthermore, the proposed Bill, once enacted, would repeal all the control orders (fruit, meat etc.) maintained by various departments, thereby creating a streamlined regulatory framework.

[21] Harsh Vivek, 'The Food Safety and Standards Bill (2005): Implications for Food Safety' Bazaar Chintan Working Paper No. 39, October 2005.

3 THE CONCERN AREAS IN RESTRICTIONS ON INTERNAL TRADE

3.1 The Constitutional Perspective[22]

While the Indian Constitution does not restrict free flow of trade and commerce; the Centre and the States have the power to regulate it. *Article 19(1)(g)* of the Constitution, *inter alia*, guarantees to every citizen the right to adopt any trade, business or profession, subject to "reasonable restrictions", which may be introduced in the interest of the population. The indirect reference to absence of barrier also comes from *Article 14* of the Constitution, guaranteeing equality before the law and equal protection of the laws.

Article 301 of the Constitution "throughout the territory of India" allows a State legislature to "impose such reasonable restrictions on the freedom of trade, commerce or intercourse with or within that State as may be required in the public interest".

Article 302 authorizes Parliament to impose, by law, restrictions on the freedom as described in *Article 19* in the public interest. Although *Article 302* does not require the restriction to be necessarily reasonable, that requirement follows (by judicial interpretation) from Article 14 and (by express provision) *Article 19(1)(g)*, with *Article 19(6)*. Parliamentary power under *Article 302* is also subject to the restriction imposed by *Article 303(1)*. This prohibits the enactment of any law (by Parliament or State legislature), which gives preference to one State over another, or a law discriminating between the States regarding trade and commerce.

Under *Article 303(2)*, however, the aforesaid restriction can be relaxed by Parliament through law, for dealing with a situation arising from the scarcity of goods in any part of India.

The State Governments are empowered by constitution to legislate on trade and commerce for subjects under the State list, entry 26 (subject to the Concurrent list, entry 33). However, the provisions of *Article 301* are applicable to trade and commerce within the State also. According to *Article 303(1)* neither the State legislature nor Parliament shall have power to make any law, which in effect discriminates between States regarding trade and commerce in any of the lists in the Seventh Schedule. *Articles 302* and *303(2)* are not relevant to the power of States.

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[22] The Section draws from the analysis of Debroy and Kaushik (2001).

Article 304(a) provides that a State legislature may, by law, impose on goods imported from other States or the Union Territories any tax, where similar goods manufactured or produced in that State also receive similar treatment. However, there should be no discrimination between the imported and manufactured goods. This article permits State legislatures, by law, to impose such <u>reasonable restrictions on the freedom</u> of trade, commerce or intercourse with or within that State, as may be required in the public interest. At the same time, by the constitutional provision, no Bill or amendment for the purpose of *Article 304(b)* shall be introduced or moved in a State legislature, without the prior sanction of the President. *Article 304(b)* applies only if the restriction is "reasonable". Courts have held that the test of reasonableness is the same as that applied under *Article 19(6)*.[23]

By dint of these constitutional provisions, the Indian states usually impose taxes and other measures on imports of products form other states and UTs. Therefore, these provisions act as a barrier on the inter-state movement on goods, the extent of which depends on the amount of taxation.

Although *Article 301* is generally in consonance with *Article 19(1)(g)*, there exist certain differences among them as well, as seen in the following.

(i) Article 19(1) (g) is confined to citizens, while Article 301 is not.

(ii) Article 19 (1) (g) refers to "profession, occupation, trade or business", while Article 301, speaks of "trade, commerce or intercourse".

(iii) Article 19(1) (g) does not contain the words "throughout the territory of India", which occur in Article 301. In this sense, Article 19(1)(g) may be relevant for international trade also. Article 301may not apply to international trade.

(iv) Article 19(1) is subject to the provisions of Article 19(6) (which permits the State to impose certain types of restraints). Article 301 is not so subject, though it is very likely that it will be construed as so subject (on the principle of harmonious construction).

[23] (a) Vrajlal Vs. State of Madhya Pradesh, AIR 1970 SC129, (b) Oudh Sugar Mills Vs Union of India, AIR 1970 SC 100.

(v) Article 19(1) (g) confers a fundamental right (on citizens). In contrast, the right conferred by Article 301, though a constitutional right, is not a fundamental right.

(vi) Article 19(1) (g), though it is subject to Article 19(6), is not made subject to any other express qualifications. But Article 301 is made subject to Articles 302 to 307.

(vii) Article 19 is primarily intended to restrict legislative or executive action, but has no direct relevance to the concept of federalism. In contrast, Articles 301-307 have a direct relevance to the concept of federalism. Of course, this does not imply that Article 301 is confined to federal controversies. Its possible scope can be much wider.

(viii) For the reason mentioned earlier, in many proceedings invoking Articles 301-307, disputes can arise between the Union and a State, or between States, - thus attracting Article 131 of the Constitution. In contrast, in cases under Article 19 (1)(g), the controversy will be normally litigated between the Government and a citizen.

Due to the Constitutional overlap, the Centre cannot overrule the State Governments. Any decision on the removal of the inter-state barriers must be taken in agreement with the States. This constitutional overlap led to the persistence of the barriers on internal trade. In addition, the argument of food security has also played a major role in the States' decision to control internal trade.

3.2 Regulatory Issues

3.2.1 Agriculture Produce Marketing Committee Act (APMC)

The wholesaling of agricultural produce is governed by the Agricultural Produce Marketing Acts of various State governments. The specific objective of market regulation is to ensure that farmers are offered fair prices in a transparent manner. The APMC Act empowers state governments to notify the commodities, and designate markets and market areas where the regulated trade takes place. The Act also provides for the formation of agricultural produce market committees (APMC) that are responsible for the operation of the markets. The market committees have the authority to levy and collect market fees on all transactions carried within regulated markets. Although the fee is borne by the trader, not the farmer, the indirect impact comes on the latter group ultimately. Currently there are more than 7,000 regulated markets in the country.

Once a commodity is notified, the earlier version of APMC Act made its transaction mandatory in the regulated market. Various Government Committees noted that this monopoly introduced with the objective of benefiting farmers, has had limited success and recommended suitable reforms. Licensed traders have practically prevented new players from entering these markets. Such entry barriers have created a significant increase in transaction costs apart from lack of accountability, as a result of which important supporting services such as grading, standardization and market facilities have been neglected.

The market fees charged on value of produce sold (known as the *Mandi tax*) do not reflect the actual operation and maintenance cost of the wholesale market. The principle behind the heavy government involvement in agricultural marketing is the premise that government needs to protect farmers. This may have been a valid consideration in the past, but currently acts as an impediment for horti-business development.[24] Furthermore, the non-transparency in the bidding procedure followed in the markets is questionable, which hurt the farmers' interest.

3.1.2.4 Apart from the mandi tax (usually two and a half percent in most of the states), there are several other charges applied on the products entering the regulated market yard (e.g., rural development cess, 2 percent; infrastructure cess, 2 percent; education cess, 0.5 per cent etc.). While the actual utilization of the collected funds for these purposes is questionable, it is the farmer who has to indirectly bear the entire burden, as the trader takes account of these transaction charges in his bidding. The state governments usually find these mechanisms a major source of extra budgetary income, outside the purview of audit.

Direct marketing enables farmers to sell their produce directly to the processors or bulk buyers at lower transaction costs and better prices than what they get from intermediaries or from the wholesale markets. However, the APMC Act in earlier period did not allow direct buying by processing industries, exporters or wholesalers before the 2003 Model Act was introduced, which allowed private agents to set up a market or buy produce directly from farmers. For this purpose the necessary license will be given by an authority of the government such as the State Agricultural Marketing Board.

The Model Act in principle follows the framework of the existing APMC Act with some modifications and additions to facilitate contract farming and direct marketing. The waiving of the market fees only applies to specified produce sold under contract farming; direct sale is

[24] Various Government representatives commended the results of contract farming in India so far to the FAO team during interactive sessions.

still subject to the market fee. Despite clear advantages of the amended version of the Act, there is further scope for reforming it in the interest of the farmers. While Tamil Nadu has already changed the provisions, Maharashtra, Haryana and Karnataka and certain other states have partially modified their laws. On the whole, direct marketing under the model act ensures higher income to the farmers, as the trader need not pay any additional cess, apart from market fee. Apart from this, it has been observed that wherever the private players have entered, the local mandis became quite responsive to the farmers and started functioning in a much better manner, an event that is no less important.

Multiple collections of mandi taxes is another major problem, as Market Committees insist on collection of market fee again when the product comes from another Market Committee jurisdiction. If a product comes from outside the State, then the seller has to pay the market fee again, even if he has paid it in the state of origin. This procedure of double taxation needs to be removed.[25]

3.2.2 Essential Commodities Act (ECA)

The Essential Commodities Act (ECA) is a Central legislation used to control the storage and sometimes also the movement in a large number of agricultural commodities including food grains, edible oils, pulses and sugar. It dated back to an era of food scarcity when secured supply of essential commodities was considered a necessary government responsibility. Under this act, the State Governments had the powers to issue Control Orders, give license to traders, impose stock limits, restrict movement of commodities, enforce compulsorily purchase of the commodity at the levy price and prescribe trading practices. In 2002, the Central Government issued an order removing the licensing requirement and all restrictions on purchase, stocking, transport of specified commodities including wheat, rice, oilseeds and sugar, and decontrolled it further in the following period.[26] However, Control Orders are still in place in many States as seen from **Annex 9**, although some of them are not used. The regulations are maximum in states like Andhra Pradesh, Maharashtra, Delhi, Punjab, West Bengal. In **Annex 10**, the control orders applicable on agricultural commodities are described. Although the number of commodities notified under the ECA has been heavily pruned and only 15 commodities remain notified under ECA at present, the powers to notify any commodity remain in the hand of the authorities, unless the statute is repealed altogether. It is often argued that removing controls on the movement

[25] Comment by the industry representatives to the FAO team during interactive sessions. Also commented by the farmers to the FAO team during interactive sessions at the Punjab Agro Industries Coop Limited.
[26] The Gazette of India, Ministry of Consumer Affairs, Food and Public Distribution, Order dated 16 June 2003 (No. 285), Order dated 15 February 2002 (No. 87).

and stocking of agricultural commodities across the country would result in incentives for the producer enterprises, cooperatives and private sector to invest in modern storage and bulk handling facilities for a range of commodities. Investment in these facilities from non-government sources is likely to increase market efficiency and reduce post harvest losses.[27]

It is observed that several states like Andhra Pradesh, Tamil Nadu, Karnataka, Jammu and Kashmir and Madhya Pradesh have imposed statutory restrictions on movements of rice outside the State with a view to maximize procurement. Some States also imposed informal restrictions on movement of food grains outside the state during particular periods of the year. The Tenth Five-Year Plan (2002-07) noted that:

"There are a number of other statutory controls, either arising from Essential Commodities Act, 1955 or other statutes, which discourage the private sector from taking up various infrastructure ventures. The stock and storage limits, restrictions on inter-state and inter-district movement of food grains, controls on blending and processing of oilseeds, Prevention of Food Adulteration Act (PFA), 1954 FPO etc. are responsible for the slow growth of infrastructure and marketing development. This has adversely affected the potential of private sector initiatives and, consequently, agricultural development. Therefore, steps would be taken for dispensing with major control measures or reforming many of them, coupled with the removal of high fiscal levies." (para 5.1.142).

The problems in movement of primary products are still persistent, as noted by the Mid-Term Review of Tenth Plan (Planning Commission, 2005):

"The NCMP has stated that controls that depress the incomes of farmers will be systematically removed. The Tenth Plan had identified the Essential Commodities Act, 1955 (ECA) as one such impediment and, in May 2002, an Inter-Ministerial Task Force on agricultural marketing reforms had enumerated more than 200 control orders by various states. Although a number of agricultural commodities have been taken off the ECA, the rigid rules framed under the Act continue, for the most part. However, the NCMP also states that the ECA will not be diluted. It has been suggested that the ECA be so amended that rules framed under it apply in specified situations without hampering normal market activity (para 5.90)."

[27] "Unfortunately, despite evidence of lower trading costs and margins for private operators as opposed to public agencies, the government so far seems to be wary of private trade and continues with policies such as Selective Credit Control (SCC) to impose a credit squeeze and limit stock holdings of traders." Jha and Srinivasan (2004), p. 61.

Despite the superficial absence of direct utilization of Control Orders, their mere presence creates uncertainty and thereby distortions as any consignment could be stopped any time and detained for examination. It further keeps certain powers with the food inspectors, often liable to be misused.

3.2.3 The Operation of MSP Mechanism and Associated Issues (incentive for non-diversification

Assurance of a remunerative and stable price environment is considered very important for increasing agricultural production and productivity since the market for less agricultural produce tends to be inherently unstable, which often inflict undue losses on the growers, even when they adopt the best available technology package and produce efficiently. Towards this end, minimum support price (MSP) for major agricultural products are fixed by the government each year, after taking into account the recommendations of the Commission for Agricultural Costs and Prices (CACP).

MSP applies to nearly 25 crops, major food crops as well as industrial crops such as cotton and jute. The respective commodity boards buy the latter two at these MSPs. However, various country experiences (Japan, EU) suggests that support price mechanism causes inefficient and marginal producers to keep producing traditional crops, rather than become more efficient or diversify to other produce. It is believed that the FCI and the Boards should buy at prevailing market rates rather than at an MSP.[28] The recent Government practice to follow the MSP level recommended by the CACP is likely to allow the market forces to operate and help increased diversification towards horticultural commodities.

Through the Food Corporation of India (FCI), the Government procures about 25% of the wheat and rice, confined to selected surplus areas in mainly four states for wheat (Punjab, Haryana, Andhra Pradesh, Uttar Pradesh) and additionally for rice in Chhattisgarh.[29] Given the localized operation of the FCI, the argument of MSP benefiting farmers, especially small farmers, across the country does not hold. On the other hand, it might have consequences on the pace of diversification.

National Agriculture Cooperative Federation (NAFED) has a mandate to promote cooperative of agriculture produce for the benefits of farmers. It is the central nodal agency for procurement of oilseeds and pulses under price support scheme (PSS) and for

[28] FICCI Report (2003-04).
[29] The FCI initiative to procure from other States through decentralized operation is yet to be very effective, due to unsatisfactory response from them (Learnt during the interaction of the FAO team with the Chairman of FCI).

procurement of horticultural commodities under the market intervention scheme (MIS) since 1983-84. It also undertakes buffer stocking of onions on behalf of central government for checking price rises in the consumer market. As per the guidelines of MIS, the losses, if any over and above 25% of procurement cost, have to be borne by the concerned procurement agencies.

However, experience in implementing the MIS over the years has shown that it has not proved beneficial to the farmers to the desired extent.[30] Horticultural commodities undertaken under MIS are highly perishable in nature. The short shelf life adds to the transit losses and transportation to distant markets procured, the stocks are often dumped in the same market creating a situation of glut. Furthermore, the implementation of the scheme quite often results in heavy losses on the part of state and central government.

3.2.4 Problems in movement of agricultural commodities: Experiences of FCI, NAFED, Farmers Groups and private sector.

Although FCI sends the procured food grains in the deficient regions, it mostly does the same through rail freights (92% of the total transfer).[31] Therefore, the concerns associated with road transport are not as acute with it as with the other stakeholders. However, it needs to pay 2.5% to arthiyas (commission agents) as market fee, which adds to its cost, although not significantly.

During the course of procurement from Mandi yard to nearest warehouses, NAFED has to pay a number of charges. These include Mandi fee, Cess, Purchase tax (4%), loading charge (0.5%), cost of bag (1.5%) etc. For example procurement cost of premium variety of chilli (Rs 2700/ Qt) goes up to Rs 3058/ Qt as the final disposal price in Andhra Pradesh. Apart from all overheads, additional transaction costs has to be borne for the smooth and timely transport of the produce across a number of state borders, in the absence of which the truck with loaded perishables has to wait for four-five hours for clearance. NAFED officials estimate that at least 10% of the costs would be saved if restrictions on inter-state movement are removed.[32]

[30] Department of Agriculture and Cooperation, Ministry of Agriculture, Document No. L – 15016/11/99 – MPS (Dated 30.7.2001).
[31] 'Assuring Food Security of Nation' presentation prepared by the FCI (2005).
[32] Learnt during the interaction of the FAO team with the NAFED officials.

3.3 Fiscal Issues

3.3.1 Budgetary Taxes

There exist various forms of budgetary taxes on the traded commodities in India. There exist appreciable variations in the applied market charges and taxation rates across states. Despite the market fee being low, it becomes a major impediment with various cess being added to it. The commission charges vary widely across the states. While in Gujarat, Haryana, Maharashtra and Rajasthan the tax rate is quite high on horticultural products, it has been phased out in Assam, Kerala and Madhya Pradesh. Central Sales Tax (4%) is another major fiscal barrier. Last year in Punjab the collection under CST has been Rs. 450 crore. The government recently decided to bring down CST to the zero level over the next couple of years. The scheme of VAT-ing the state sales tax has been a major step towards setting a common market, streamlines the earlier system of differing cross-state tax rates, and likely to facilitate the movement of goods. Under VAT system, barriers would still be there in state-borders to check payment of the taxes earlier, but there will be no tax payment requirement. A handful of Indian states are yet to adopt VAT. However, it is observed that for the food grains sector, VAT-ing is not yet complete even in some VAT-states.[33]

There are in general not very many direct taxes on agricultural products at the borders but the existing ones are quite distorting. Apart from the taxes on agricultural products, sales of form (mostly @ Rs. 5/-), additional goods taxes etc. are a major source of income. The trucks are supposed to submit VAT filled-up declaration forms to the counters at the border in triplicate.

The power of the check-post officers to determine tax rates might often result rent-seeking activities. In Himachal Pradesh the vegetables (Rs. 2.5/- per quintal) and fruits (Rs. 5/- per quintal) are taxed on the basis of *HP Taxation (on certain goods Carried by Road) Act (1999). Similar charges are levied on the forest produces*.[34] Clearly the purpose of the Act is to generate revenue from a vibrant economic profession. Furthermore, the staff at the border check-posts usually has the power to determine the tax rate applied on the product as classified under the distance slab (in Himachal Pradesh single rate is applicable in case the distance is lower than 250 KM, and double rate otherwise). Often the government loses revenue due to underreporting of distances in such cases.

In the following, **Tables 2** and **3** show the tax collection figures in Parwanoo Border (Himachal Pradesh) and Balongi Border (Punjab). It is observed from **Table 2** that the

[33] Comment by the industry representatives to the FAO team during interactive sessions.
[34] The HP Taxation (on certain goods Carried by Road) Act (1991).

proportion of the collection at the border check-post from apple, the major export of Himachal is quite high and increased significantly after 2002-03. In Punjab, similarly the collection from the border check-post reported here is quite high, although the first few months of the current year has generated lower revenue as compared to the last year.[35]

Table 2 The Tax Collection at the Parwanoo Border (Himachal)

(Rs.)

Year	Apple	Total	Tax on Apple as a % of total collection
2002-03	24615689	112918176	21.79
2003-04	32849333	108482878	30.28
2004-05	33986100	114118971	29.78

Source: Data collected from the Parwanoo border during the field survey

While the Himachal Pradesh Government has reduced the coverage of products from barriers at Do-Sarka (23rd September 2000) and at Deli (near Gate of Terminal Market Parwanoo) in Solan District (16th November, 2000) the amount of tax collection from fruits, vegetable products and forest produce are still quite high under the Himachal Pradesh Taxation (on certain goods Carried by Road) Act (1999).[36] The aforesaid order can be seen in the following box.

Table 3 The Tax Collection at the ICC, Balongi, Mohali (Punjab)

(Rs.)

Month	2005-2006	2004-05
April	331350	638267
May	788190	714716
June	471850	887186
July	1178005	909400
August	598420	514000
September	-	670905
Total (April-August)	3367815	3663569

Source: Data collected from the Mohali border during the field survey

Variation in collection procedures across entry points even within a state is also a major problem. For instance, the FAO team learnt during their field visits that in Sambhu border of

[35] Although total revenue is provided for Balongi, Punjab being an agricultural state a significant proportion of this total collection comes from primary commodities.
[36] The FAO team visited the Check-Post and confirmed with the Check-Post Officers during the interaction meeting at Parwanoo.

Punjab both export and import is taxed. So the trucks from the bordering districts of the neighbouring states even prefer to travel by a longer route so as to avoid the additional expenditure at that particular entry-point, and have to incur increased fuel cost and undergo longer travel time in that process.

The taxes are however always imposed technically only on the traders and not on the farmers. The taxes are imposed both on three-wheeler and four-wheeler carriages crossing the state borders. However farmers doing so by means of hand-trolley are normally exempted.

The Toll taxes at various points (Rs. 10-15/- at each gate) are another financial burden on trade in primary commodities, which is collected for creation and maintenance of the infrastructure. However like the earlier case, the farmers carrying their produce in a trolley are exempted.

3.3.2 Non-Budgetary Payment / Time Requirements

Apart from the budgetary taxes, the non-budgetary financial burden is also significant. At each state border the drivers need to fill up the forms (usually @ Rs. 5/- each) at the customs check-point usually in duplicate, and sometimes in triplicate. In case the truck carries a consignment of more than one product, it has to fill a separate form for each of them (i.e., for eight products, the driver need to fill eight forms and pay Rs. 40/-). The staff at the check-point also verifies whether the papers (invoice of sales, address of the final recipient etc.) regarding the consignment are in order. The information is keyed-in in the computers maintained at the borders. While the charge looks moderate on the face value, it involves an enormous time to get the clearance (sometimes five-six hours during rush-periods). Similar declarations have to be provided in case of horticulture products as well, for which the time-loss is quite serious.

Apart from the declaration on the content of the consignment, the states often charge a number of improvised taxes on horticultural products. *Bardana tax* applied in Punjab (tax on gunny bags) is a fair example of one such measure. The idea is while primary products carried by the truck can not be charged with a tax, the gunny bags which are carrying the products (say apple, cauliflower etc), being an industrial product, could be. In Punjab earlier there were differential rates (ranging over Rs. 200/- to Rs. 300/- per truck) applied at various entry points on the commodities. However, it was later harmonized at Rs. 300/- by a government decision. However, for small trucks usually Rs. 150/- is charged. Clearly, these types of transaction costs ultimately end up hurting the farmers.[37] It is also these types of non-budgeted earnings, which lead the cash-starved states to maintain the restrictions on inter-state transport.

It has surfaced during the field visits that Himachal trucks carrying apples through Punjab area are charged for the *Bardana* (gunny bags) at the check points, which causes to them to travel through the neighboring state Haryana where no such barrier exists.[38]

It is observed that at Balongi borders the vehicles usually need to wait for 3-5 hours at times for getting the clearance. Although computerization has taken place in most of the border check-posts, the filling up of the forms by the drivers and entering the data by the personnel is still a time-consuming affair.

At each point of entry, in case of any friction with the authorities, the drivers need to pay an 'informal fee' of minimum Rs. 50/- at each occasion. This increases the cost of the final product for the consumers substantially.[39]

3.3.3 Special and Additional Local Taxes

Octroi is used as a major local tax levied on the products entering the territory of a city or Municipal Corporation. It is currently not a major problem barring select destinations. For instance, tax rate in Mumbai is still quite stringent and therefore traders usually undertake the additional expenditure of sending their products to 'Nayee Mumbai', from where it enters the territory of Mumbai through informal channels. Also the agricultural goods traveling from Chandigarh to Amritsar are taxed (Rs. 10-15/- each, depending on vehicle) at least four times. More than the fiscal burden, the procedure involves harassment and long delays, sometimes leading to rent-seeking activities as well. [40]

Whenever the agricultural products enter the area of another *mandi* jurisdiction, it can technically be stopped and detained for checking payment of market fee at the point of purchase any time. This acts as a major harassing force on the movement of primary commodities.

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[37] Currently a case is going on at Punjab & Haryana High Court (*Excel Automation vs Punjab State*), which challenges the imposition of *bardana tax*. C.W.P. No. 4702 of 2005.
[38] Comment by HPMC representatives to the FAO team during interactive sessions.
[39] Comment by the industry representatives to the FAO team during interactive sessions.
[40] Comment by the farmers to the FAO team during interactive sessions at the Punjab Agro Industries Coop Limited.

The Government at times has acknowledged the problem originating from these local taxes and procedures, as the Tenth Five-Year Plan (2002-07) notes:

> "Apart from providing a policy framework for the expansion of agriculture infrastructure, there is need to substantially reduce levies such as excise, customs, central sales tax etc. *State Governments will have to consider rationalizing sales tax and other local levies, wherever these are applicable*. As agricultural infrastructure is seasonal, concessional credit requirements need to be considered." (para 5.1.142).

3.4 Non-Fiscal Issues

3.4.1 Building Adequate Infrastructure

It has been discussed earlier that (**Annex 8**) infrastructure scenario is quite weak and the analysis of state financial accounts reveals that devolution of state fund for enhancing the same is not forthcoming. Although a number of states are currently encouraging the concept of toll roads, maintained by user-payment approach, there is enormous scope to extend such measures throughout the country. It is time to appreciate the fact that while freeing trade at the border is likely to solve congestion at that point, absence of four-lane roads in most part of the country might create bottleneck at the other parts.

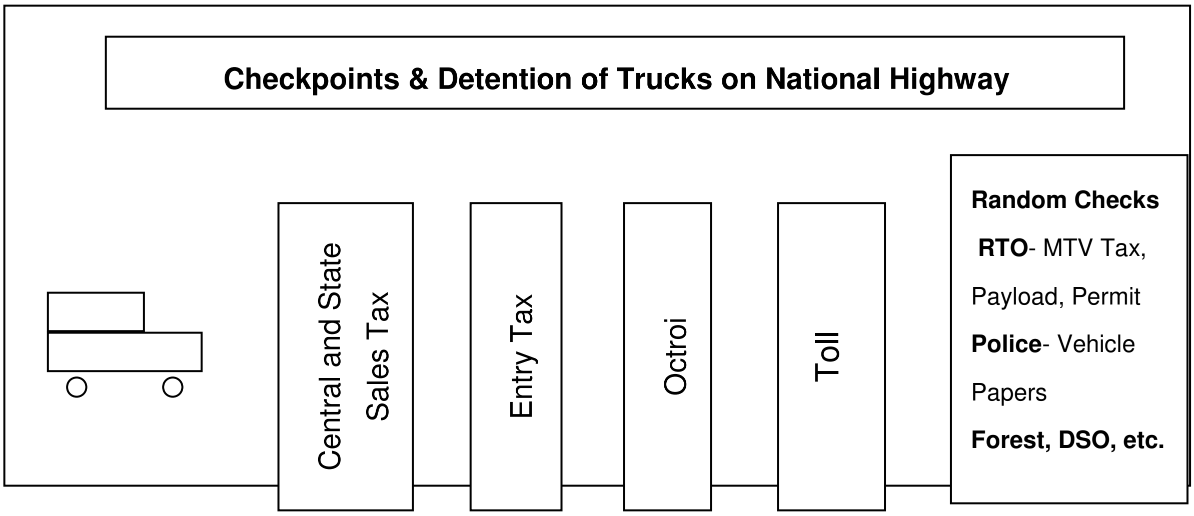
The 'Golden Quadrilateral' scheme of the government is currently planning to link the four metropolitan cities, which would further be extended to other areas in the subsequent period. The sooner the scheme is materialized, the more will be the benefits of the primary sector transportation.

3.4.2 Transport Constraints

One major way of reducing the transaction cost incurred at roads is to shift towards railway transport of goods. However the current legal provisions do not permit individual entities to do that. If any such entity (producers' cooperative or private company) builds a specialized wagon for this purpose, it will ultimately be included in the railway pool. Therefore, it is not economic for a company to invest in building of specialized coaches. On the other hand, trucks usually go for 700-800 KM. Therefore, a company or a cooperative sending its products over 1000 KM need to deal with more than one truck union, which increases the cost appreciably.

The laws affecting the trucking industry like Motor Vehicles Act, the Motor Transport Workers Act, the Carriage of Goods Act, etc is a major concern area. Smooth flow of goods carriage is hampered to a great extent by frequent stoppage of vehicles for a variety of reasons. Vehicles are frequently detained for checking essential documents, like sales tax, payment of market fee, octroi, entry permits, law and order concerns, protection of environment and the endangered species etc. Besides, there are numerous other reasons under different legal provisions that can detain a vehicle, like check on the movement of essential commodities, food adulteration and hazardous chemicals etc.[41] These checks are generally conducted by respective agencies at separate points, resulting in more than one detention. There exist flying squads or surprise checking teams other than normal checkpoints, who are empowered to stop and check the vehicle at any point within their jurisdictional limits and detain it for any violation[42]. The Scenario is shown with the help of **Diagram 5**. Additionally, the taxes charged on commodities and services by State Governments as well as the taxation structure imposed on various types of vehicles is quite significant, and it is highly unlikely that the states will sacrifice these collections.[43]

Diagram 5 Checkpoints & Detention of Trucks on National Highway



Source: Debroy and Kaushik (2001)

It has been noted by Debroy and Kaushik (2001) that poor enforcement of trucking industry related acts is a major problem. For instance there is a lack of coordination between the Labour Department, responsible for implementing the MTW Act and State Transport Departments, responsible for poor implementation.

[41] At the border, the vehicles are sometimes stopped at four to five occasions. Apart from the customs check-point, the other check-points include (i) forest produce check-point, (ii) marketing committee check-point, (iii) motor-vehicle check-point etc.
[42] M. P. Singh (1999), 'Barriers to Inter-State Trade and Commerce'.
[43] Mahesh C. Purohit, 'Taxes on Commodities and Services in India: Estimating Revenue Potentials of Harmonised Central and State Taxes', Foundation for Public Economics and Policy Research, December 30, 2003.

There is a need to assess whether the removal of barriers would improve the return to the farmers, given the structure of the trucking industry. It is observed that the medium and large operators currently account for nearly 87 per cent of the business.[44] Besides, large fleet operators maintain a network of branches in various cities, resulting in a major market share commanded by them.[45]

A number of intermediaries, namely booking agents and brokers, play vital roles in the trucking industry. While the broker is a person (or a group of persons) who takes commission from truck owners and ensures the supply of trucks to the transport contractor, the booking agent engages in the business of collecting, forwarding or distributing goods carried. In addition, some of these agencies also provide finance and godown and storage facilities. It has been observed that the majority of brokers have been in the business for more than eight years and are sole proprietors, indicating that new entrants are few in number. This business has developed more as a family business rather than as organized industry.[46]

It is a well-known fact that new entrants in the business are not welcome, and it is not possible even for a big farmer to enter into primary product transfer business. Only the big private players or a farmers' collective / producer enterprise can afford to do that. Also there is no undercutting among the top 100 truck owners, which makes the possibility of getting a margin from the truck owner by a farmer, with low bargaining power rather bleak.[47]

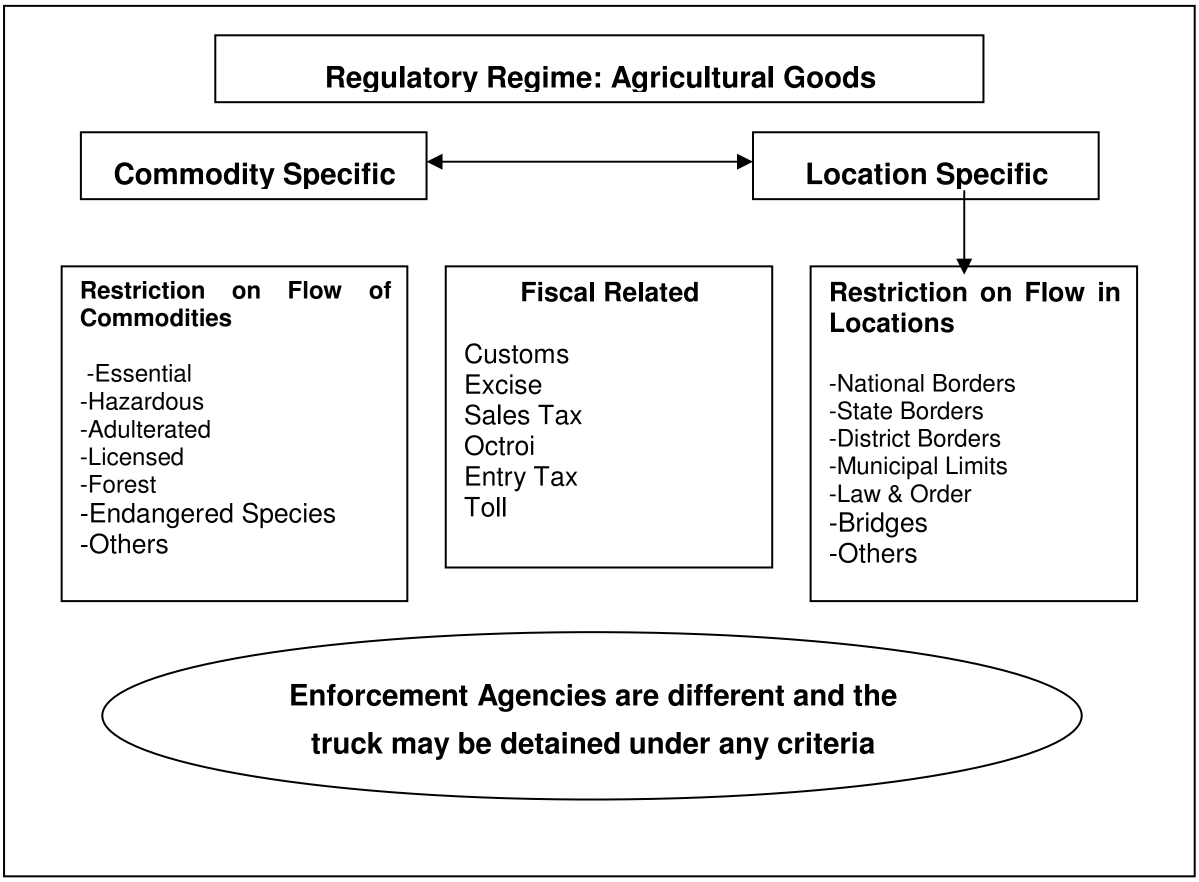
3.5 Potential Impact of a Common Market on Indian Farmers

States usually consider the movement of primary products out of their territory as 'exports' and influx of primary products as 'imports'. While export is taxed, the consignment of import is only 'verified'. However, both could be stopped at the state borders any time for checking the content and detained for long hours on obscure grounds.

The problems faced by the players in inter-state movement of goods could be summarized in **Diagram 6** in the following. The major barriers on agricultural products (both primary as well as processed) could be placed under three headings, commodity-specific, fiscal and location-specific. Under each of these three headings, there could be several types of barriers on inter-state movement on agricultural products.

[44] The usual classification of the industry can be on the basis of fleet sizes owned by them, e.g., small truck operators (< 5 trucks), medium-sized operators (6-50 trucks), and large operators (> 50 trucks).
[45] Debroy and Kaushik (2001).
[46] Debroy and Kaushik (2001).
[47] Comment by various groups to the FAO team during interactive sessions.

Diagram 6 - The Regulatory Regime for Inter-State Movement of Agricultural Goods



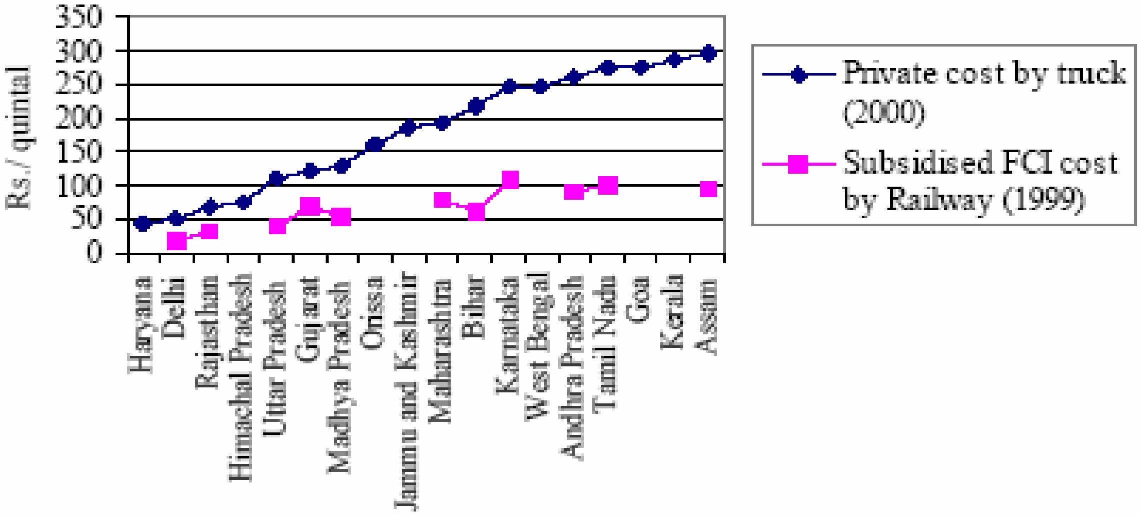
Source: Debroy and Kaushik (2001)

The check-posts maintained at the state borders are supposed to ensure food safety by checking samples of the quality of the produce. It also checks against the probable over-exploitation of natural resources (forest produce) and endangered species. Also the documents are regularly checked in order to verify proper payment of the market fees (mandi charges) etc. An implicit argument of maintaining the borders also revolves around maintaining the food security in each state.

In addition, internal trade is subjected to a multiple licensing system from a number of authorities, which are periodically checked and renewed, and involve a complex system of submission of returns, display of stocks and prices. All these unproductive administrative works ultimately lead to corruption and harassment.

In **Diagram 7** (quoted from Jha and Srinivasan, 2004), the extent to which the cost of a particular private player in transporting the agricultural product (grains in the quoted study) from Punjab to Assam gets inflated is presented. A comparison is also provided between the private and the public players as well. It is clearly observed from the diagram that the cost of the private traders are much higher as they have to rely to a major extent on road transport and do not enjoy the kind of freight subsidy FCI usually obtains from the government.[48]

Diagram 7 - Transport Cost From Punjab / Haryana to other parts of the country



Source: Jha and Srinivasan (2004)

The extent to which the inter-state barriers inflate cost further becomes obvious from **Table 4** (quoted from Chand, 2002).[49] It is observed from the table that the cost of importing grains from Thailand to the coastal states is cheaper than transporting the same from another state of the country. Even the cost of importing from the US ports to India (select ports) is cheaper than the road transport of grains from Punjab to Andhra Pradesh. While the analysis is exploratory in nature, it clearly establishes the abnormally high transport cost one has to incur within the country for undertaking road transport.[50] Jha (2004) has also noted "individual states find it attractive to import from abroad than buying locally from other states."[51]

[48] Shikha Jha and P.V. Srinivasan, "Achieving Food Security in a Cost Effective Way: Implications of Domestic Deregulation and Reform Under Liberalized Trade", MTID Discussion Paper No. 67, Markets, Trade, and Institutions Division, International Food Policy Research Institute, May 2004.
[49] Ramesh Chand, *"Trade Liberalization, WTO and Indian Agriculture: Experience and Prospects*", Mittal Publications, New Delhi, 2002.
[50] Interaction of the FAO Team with Dr. Ramesh Chand, Acting Director, National Centre for Agricultural Economic and Policy Research (NCAP).

[51] Jha and Srinivasan (2004), p. 90.

Table 4 - Domestic Transport Cost of Grains with Oceanic Freight Charges (Rs/Tn)

Mode (Year)	From	To	Rate
Truck	Punjab	Mumbai	1915
Mid - 2000	Punjab	Andhra Pradesh	2610
	Punjab	Tamil Nadu	2750
	Punjab	Kerala	2865
	Punjab	West Bengal	2470
	Delhi	Mumbai	1210
	Delhi	Andhra Pradesh	2278
	Delhi	West Bengal	1611
Ship	Europe	India	1365
2000	US Ports	India	1886
	Australia	India	1000
	Bangkok	India	534
Railways	Punjab	Mumbai	800
For FCI - 1999	Punjab	Andhra Pradesh	878
	Punjab	Tamil Nadu	1014
	Punjab	Kerala	1202

Mode (Year)	From	To	Rate
	Punjab	West Bengal	792
	Delhi	Mumbai	684
	Delhi	Andhra Pradesh	814
	Delhi	Tamil Nadu	931
	Delhi	Kerala	1176
	Delhi	West Bengal	675

Source: Ramesh Chand (2002)

The removal of the inter-state barriers would facilitate the internal trade on one hand, while indirectly facilitating the foreign trade on the other. This would lead to welfare gains to all parties concerned including the farmers, processing and exporting firms as well as the final consumers.[52]

It may be argued that the existing restrictions on internal trade indirectly offered a degree of protection to farmers in deficit states as the influx of farm goods from surplus area would have depressed prices otherwise. In such a case, the farmers in deficit states may not gain much. However, there is no doubt that the removal of restrictions on internal trade or free movement of farm products would encourage efficiency in production and lead to each region growing crops which is most suited to its comparative advantage.

[52] "As restrictions on domestic trade are relaxed, *prices stabilize across states and there are welfare gains to producers, consumers and wholesale traders at the national level*… In a liberalized trade regime for both domestic and foreign trade, states make new trading partners domestically and may even prefer to trade abroad than domestically to make the best of price differences… *The gains illustrated to accrue from liberalizing domestic and foreign trade are derived from small policy changes that reduce/eliminate movement restrictions and also from reduced transportation cost*.", Jha and Srinivasan (2004), p. *iii-iv*.

4 THE EUROPEAN UNION EXPERIENCE: ITS RELEVANCE TO INDIA

When a truck approaches a State border in India, its driver knows that he may be in for a long wait before it can be checked and he can pay various charges that are due before he will be allowed into the next State. Both the wait and the charges themselves add to the transaction costs, so the cost to the ultimate consumer on the other side of the border is increased and the return to the producer is reduced. And resource allocation within India is distorted because producers on the other side of the border are benefiting from a kind of internal tariff protection. In the Europe Community (EC), when a truck approaches a border between two member states, the driver may glance at the sign to see that he is entering a new country but he has no other reason to slow down. He will not be subject to customs control, because all customs posts on the internal borders within the EC have been closed since the beginning of 2003, when the European Single Market came into effect. This is not all. The company that dispatched the goods he is carrying will have been able to fill the order without needing to have in stock products that fit any legally required specifications in the EC country of destination. Either the specification will have been harmonized so that it is the same throughout the single market. Or the standards that apply in the country of production will be accepted in the country of destination under a system of mutual recognition. So a producer can regard the whole of the EC market as one domestic market.

Given that India is a single nation, albeit with a Constitution that reserves certain powers to the individual Indian States, and has a democratically elected central Government, whilst the EC is a Union of independent states, with no central government and without even a common currency that is used by all its members, it is at first sight rather surprising that the EC has achieved a greater degree of market integration than India. The fact that the EC has found this possible should be encouraging to India, as it contemplates a single internal market for agricultural products, as it shows that the difficulties this may pose can be overcome and some of the experiences of Europe may serve as an inspiration or a warning to India. **Annex 1** of this paper outlines the step that brought the EC to its present position. **Annex 1A** outlines the transitional arrangement that were used by the original Six members to establish a common market and a common agricultural policy and the further steps that were taken in the run up to 2003 to develop the common market into a Single market. This part of the paper attempt to summarize the key points.

The motivation for the original six members to establish, in the first instance, a common market, involving poling of their sovereignty in various areas, emerges clearly from the preamble to the Rome Treat of 1957. This expresses the desire to lay the foundations for an ever-closer union between the peoples of Europe and to ensure economic and social progress by eliminating barriers between them. In other words, the objective was partly political, to bind up the wounds of war and partly economic, to foster economic progress by liberalizing trade. These objectives overcame any reluctance they may have had to losing some of their separate sovereignty. In pursuit of the objective of economic integration, they decided to form a common market and that this should extend to agriculture. Given that removing the trade barriers that at that time existed between the members would mean that they could no longer pursue their previous national agricultural price support policies, which depended on control of imports, the founding Treaty provided for the establishment of a common agricultural policy (CAP). The Treaty did not lay down the details of the CAP but provided a legal basis on which it could be constructed and set out its broad objectives. A key objective was improving the individual earnings of people engaged in agriculture by promoting the rational use of resources, particularly labour. This was understandable, given that at that time an average of 25% of the working population was engaged in agriculture and was producing a much lower percentage of GDP. Indeed even 10 years later, when the Commission proposed a package of structural reforms, it was estimated that 75% of EC farms were too small to provide real employment for ¾ of a work unit. In other words, a very large proportion of the farms were, if worked by one or more people full time, either not being farmed with modern techniques or were providing a form of disguised unemployment.

The Treaty laid down the initial steps that were to be taken to eliminate quantitative restrictions and tariffs on trade between members and it established the institutions that were to decide on the final stages and on the details of other policies, including the CAP. The three institutions were the Commission, that was charged with making proposals, the Parliament, that was to give its opinion on proposed legislation before it was adopted (and which later acquired the power under certain Treaty Article, to amend Commission proposals), and the Council of Ministers, which could adopt these proposals and thereby turn them into law. After an initial stage when the Council was to act by unanimity, the Council could adopt Commission proposals by qualified majority (roughly speaking by a 2/3 majority) but it required unanimity to amend them. The Council consists of Ministers from the member states, so EC legislation is, in effect, adopted by member states and it therefore follows that member states are bound to implement it.

By 1968 the EC had a common external tariff and common regimes for almost all agricultural products and had eliminated customs charges between member states and virtually all quantitative restrictions (with the exception of some applied on bananas, a product for which no common regime had yet been adopted.). But fiscal charges continued to be applied at national borders and certain border charges and subsidies were introduced under the CAP the following year to offset the effect of changes in exchange rates. Also, there were other impediments to trade arising from differences in technical standards and from controls on the spread of animal and plant diseases. A gradual process of getting rid of these kinds of impediments by harmonizing legislation was instituted but progress was very slow, because each type of technical standard was tackled separately, which meant that the overall objective got lost in a mass of detail and because the Treaty provisions dealing with this kind of issue required the Council to act by unanimity.

During this phase of EC history there were three successive waves of enlargement, in which first the UK, Denmark and Ireland joined, then Greece, and then Spain and Portugal. To join they had to subscribe to Community policy as it then existed and therefore to accept the same degree of pooling of sovereignty. They did so from a mixture of political and economic reasons (although not necessarily the same ones as had inspired the original members). Each of the new members were granted, or had imposed on them, a transitional period, during which tariffs between the new and old members were gradually reduced and their external tariffs were gradually aligned with the common external tariff. In parallel they moved their agricultural support prices to the common price levels.

By this time, the EC also had a budget that was used to finance the CAP and to part fund some other policies that were pursued at member state level. Originally member states paid into this budget in accordance with a budgetary key but a Decision of 1970 foresaw these being replaced by a system of “Own Resources” which mainly consisted of the proceeds of external customs and levies and of up to 1% of a harmonized VAT base. But the “Own Resources” decision did not give the EC institutions the power to collect taxes. Customs duties are collected by member states and the VAT contribution is simply a means of calculating how much in addition to the proceeds of customs duties member states have to pay to the budget. Furthermore the total EC budget is very small compared with the budgets of member states.

In 1988 the Commission launched a programme, to be achieved by 2002, to move from a common market to a single market, meaning by this that all charges applied at frontiers of what ever kind should be abolished and therefore all internal customs posts should be closed and all legislative impediments to trade should either be removed by harmonizing the relevant provision or should cease to be an obstacle through the adoption of the mutual recognition principle under which a product that could be legally sold in any member state could be legally sold in any other. It also proposed that the Treaty be amended, inter alias to allow harmonization of legislation to be passed by qualified majority. Although it might have been desirable for the removal of fiscal charges at frontiers to be achieved by the harmonization of indirect taxes, in practice this proved both difficult and unnecessary. Instead minimum levels of such taxes were agreed and the principle was established that where products were taken across border for sale in the country of destination, the tax to be applied would be the one due in the country of destination but where an individual took goods across borders for his own use, he should only be charged the tax application in the country of purchase. In neither case is there anything to pay at the border.

Moving to a Single Market required some changes in the CAP. The subsidies and charges that had been applied at borders to offset the effect of exchange rate changes were abolished. Veterinary and Phytosanitary legislation was harmonized or changed, so that any necessary checks could be made at destination. And a common regime was introduced for bananas. By coincidence, the move to a Single Market coincided with the introduction of other major changes in the CAP that were needed to deal with problems arising from faulty price policy that had been pursued in the 1960s and 1970s and from the imminent conclusion of the Uruguay Round of Trade negotiations. These changes in agricultural policy had a beneficial effect on farm incomes and obscured any effect that the creation of a Single Market may have had on them.

The changes in the CAP were the culmination of a series of attempt that had been made to deal with the problem of agricultural surpluses. When the original six members had arrived at common prices, it had proved difficult to persuade the highest priced country (Germany) to move her support process down to the average of support prices in the other members. So in the end, the common price level was closer to the German price than to the average, implying an average price increase. Then, in the 1970s, high inflation and a theory that was then prevalent that the World was about to run short of soft commodities, led the Council to make a series of support price increases. These both stimulated output and reduced demand, especially because the Community had a liberal import regime for oilseeds and cereal substitutes, which became more competitive with higher priced EC cereals, butterfat and milk protein. In an attempt to curb the resulting surpluses, during the 1980s the EC introduced quotas on milk production and made some support price reductions and the Commission proposed to commit the EC to continue to cut prices as part of the conclusion of the Uruguay Round, then due to take place in 1990. The effect on farm incomes of these support price cuts and the prospect of making a further series of cuts during the Uruguay Round implementation period led the Council to demand a new policy. This new policy was adopted in 2002. It involved major reductions in support prices with compensation in the form of direct payments not linked to current output and, in the arable, sector conditional on leaving part of the arable area fallow in set aside. This policy proved very successful, the balance of the market improved and farm incomes rose, thereby obscuring any effect there might have been from moving to a single market. It should be noted that the means by which economic theory predicts that trade liberalization will increase wealth is that it increases efficiency as resources move according to the principle of comparative advantage. Economic theory does not predict that trade liberalization will improve incomes in all sectors, only that it will improve GDP overall. The reforms that were made in the CAP in order to tackle the problems of surpluses, as they involved production controls based on past references at local or national level, tended to stifle the normal effect of trade liberalization, because they inhibited expansion in the more agriculturally efficient regions and kept up production in less efficient regions.

Following the introduction of the Single market, Sweden, Austria and Finland joined the EC but they were not permitted a period of gradual adaptation of prices as the EC was determined not to set a precedent for the reapplication of border charges. For the same reason, the new members had to conform, from the day of their entry, to EC harmonized technical and health standards. The main transitional measure that was permitted was that Finland and Austria, whose support prices were higher than those of the Community, were permitted to pay national aids on a digressive basis, to top up the level of support provided by the CAP.

The same principle of the immediate application of EC price levels was followed when in 2004 ten further counties joined. In the pre accession period, the EC also gave financial assistance to these countries to help them to make the necessary adaptations to their structures, for example in their slaughterhouses) to enable them to conform to Community standards. Also, to ease the practical problems of introducing EC direct subsidies, which they were only permitted to do over a transitional period, they were permitted initially to pay them on a flat rate basis.

Shortly after agreement had been reached in the accession negotiations with the ten, the EC made another reform of it agricultural policy. This latest reform involved further reduction in support prices and a new principle for paying direct aids. With some exceptions, these will in future be decoupled both from output and from the use of the factors of production. Decoupled aids can be based on the subsidies previously received by individual farms or on the average per hectare receipts in the region concerned. There is no requirement that the farmer continues to produce the same products on he basis of which he received subsidies in the past, or indeed that he produces at all. This reform was accompanied by an increased emphasis on rural development policy, which, in conjunction with regional policy, is designed inter alias to provide increased opportunities for off farm income. Further details are to be found in **Annex 1B.** Within these broad principles, member states have far more discretion in the application of this new policy than was usual in the past. This is recognition of the principle of "subsidiary" that has been developed as a by-product of the Single Market initiative. In effect, that initiative involved so much legislation being passed at EC level that it began to provoke resentment against EC policy for unduly intruding into areas of life that had previously been the preserve of the member states. To counterbalance this, the principle was propounded that decisions should always be taken at the lowest effective level of government, meaning that legislation should only be adopted at EC level when its objects could not be achieved at national or local level.

5 COMMON MARKET IN A FEDERAL STRUCTURE AND OPTIONS FOR CONSIDERATION

A common market for agricultural products means a market within which there are no institutional or legal barriers to the free circulation of such products, so that producers or traders can sell with the same freedom across state borders as he can within his own state. The analogous concept in the EU is a single market (because the EU used the term "common market" to refer to the stage in its development when there were no longer any customs duties or quantities restrictions in its internal trade but there were still fiscal charges and non-tariff barriers). In India at present there are no internal customs duties but certain fiscal levies and administrative orders are sometimes applied to restrict or prevent movement of agricultural products from one state to another, which have led to erection of check posts at borders. So India is close to being what, in European terminology, would be called a common market but has several steps to take to reach what, in EU terminology, would be called a Single Market.

In a common market that applied to all goods there would be no need or justification for the existence of customs officers at state borders and all such customs posts would be closed down, as has happened in the EU. The mandate for this study was limited to the establishment of a common market for agricultural products and we have not, therefore, examined the case for, and means of establishing, a common market in India encompassing all goods. Nevertheless, we observed that a comprehensive common market for good would have advantages compared with a common market confined to agricultural products both for the Indian economy as a whole and agriculture. For the economy as a whole, it would improve efficiency by encouraging the optimum allocation of resources, thereby raising GNP. For agriculture, it would allow the easier "import" of agricultural inputs into states that are in deficit. And the closure of customs posts would ensure that the objective of a common market for agricultural products was not circumvented by ingenious devices like taxes on non-agricultural products that are used in transport of agricultural products, like the tax on bags used in the transport of apples referred earlier. Furthermore some of the accompanying measures that can be taken to make a common market work more effectively, in particular road construction and improvement are better justified as part of a comprehensive common market than of a common market confined to agriculture.

Analogies between the EU and India have to be interpreted with caution as the two are very different entities. India is a single nation, albeit with a form of federal constitution that provides separate powers for the Centre and the States and India is a developing country, and like most other developing countries, has a very large proportion of its population engaged in agriculture. The EU is a union of independent developed countries that have agreed to pool their sovereignty in certain areas. However, there are certain similarities. In the EU some matters are dealt with collectively at the EU level and others remain at the competence of the member states or regions within the member states. In India, the Constitution prescribes sharing of power between States and Centre in certain subjects in the Concurrent List but allows exclusive jurisdiction to each in the other subjects which are well demarcated.

The original 6 members of the EU came together for both political and economic reasons. Politically they wished to move towards greater unity, in order to bind up the wounds of the war and to remove the risk of a new one. Economically they hoped that by trading freely between each other they could create wealth. It was recognized from the outset that a common market was not consistent with the retention of separate agricultural policies and that these should therefore be replaced by a single common policy. For some (e.g. Germany) this was seen as the "price" to be paid for having a common market in other products. For others (e.g. France) it was an advantage to be gained in return for providing free access to their markets for other products. The various countries that have joined the EU since it original foundation have similarly felt drawn to do so for a mixture of political and economic reasons. And, as was the case with the original Six, some see the CAP and the support it provided for farmers as an additional incentive to join, whilst for others it is a cost to be paid in return for the other advantages, political or economic, of being a member. For example, of the countries that joined in 1973, it was seen as an advantage by Ireland and Denmark and a cost by the UK. And the fear that the CAP would provide a lower level of support than their national policy was one of the factors in the decisions of Norway and Switzerland to not to join the EU. Although, however, different EU members see the CAP as a cost or a benefit, up to now, all have accepted that a common market does imply the need for most powers relating to agricultural support to be exercised at EU and not national level. However, member states can still take their own decisions in relation, for example, to agricultural extension services or research, (although there are also some common research projects) and they have some discretion on the precise way in which some EU wide measures are applied. For details of the measures adopted under the CAP see **annexes 1 and 1B.**

As for the impact of the market integration on farmers in the EU,,the setting up of the common market in the 1960s necessitated the removal of national price support policies and the establishment of a common agricultural policy (CAP) with common support prices. The same is true of subsidies. The move from a Common Market to a Single Market in 1993 did not, of itself, necessitate any change in the level of common support prices or of subsidies but it happened to coincide with major changes in both that were being introduced, for other reasons, at the same time and whose impact on farm incomes was clearly positive. This makes it impossible to identify the impact on incomes of the reduction of transaction costs that arose from the ending of border formalities. At a theoretical level, the reduction of transaction costs in international trade can be compared with the reduction of a tariff. In both cases the impact will be to facilitate the flow of goods from a surplus to deficit countries, which will tend to increase prices in exporting countries and reduce them in the importing countries. So the reduction in transaction costs will have had this kind of impact on market prices (which can differ significantly from the support prices fixed under the CAP) within the EU. The fact that prices for some farmers will have been increased and those of others will have been reduced does not mean that the benefits for some farmers were exactly offset by the losses for others. Trade is not a zero sum game and can be mutually beneficial. For example, Spain frequently has a deficit of feed grains which is made up by imports from other EU member states, in particular France and the UK. A reduction in transaction costs on this trade will have been of direct benefit to French and UK cereals farmers but it will also have benefited Spanish livestock producers for whom feed grains constitute an input cost."

More generally, the common and then single markets should have created wealth through their impact on the non agricultural parts of the economy where, with no common support price system, the principle of comparative advantage has applied more freely. To the extent that this has improved the overall economy by comparison what would otherwise have been the case, it will have boosted the employment prospects of people who have left the agricultural sector (or chosen not to enter it) and this will have had a favourable impact on the incomes of those who remained in the farming sector.

5.1 The Federal Structure in India

In India, where the Constitution provides for a federal structure, the situation is somewhat analogous. Although agriculture is a State subject, a number of major policy decisions impacting the sector are taken by the Central Government. This includes the budgetary allocations under the Five Year Plan and several central Government programmes and policies including laying down of Minimum Support Price for selected agriculture products and input subsidies. However, State Governments retain the right to impose fiscal levies on agriculture products which constitute a considerable source of income for them. They also have the power to fix the prices of certain major inputs like electricity and water which are provided through public utilities. States also have considerable flexibility in providing support services to agriculture like extension services, research and development, although there are several central government programmes in these areas which are available throughout the country. Agricultural marketing is a state subject and most states have taken steps to organize and regulate the wholesale markets in agricultural products through the State enacted Agriculture Produce Marketing Committee (APMC) Acts.

Indian Constitution guarantees to every citizen freedom of trade, business or profession, but the State legislatures are empowered to impose such a reasonable restriction on the freedom of trade, commerce and intercourse with or within the State as may be required in public interest. This implies that absolute ban on import or export of goods or quantitative restrictions on movement cannot be imposed by any State Government in India. However, in practice this freedom guaranteed by the Constitution has been somewhat restricted by several regulatory and fiscal measures imposed by different State Governments. Unfortunately, whilst in Europe, custom duties or fiscal changes which have equivalent effect, are specifically banned by legislation adopted under Treaty of Rome in India these restrictions cannot be done away by a legislative or administrative order of the Central Government. The States have to be persuaded or induced to remove these restrictions in order to derive the benefits of an Indian Common Market.

5.2 Regulatory Concerns

5.2.1 Essential Commodity Act

The *ECA* was introduced during a period when India was not self-sufficient in agriculture and controlling the movement and storage practices acted as an efficient check against dishonest business practices. However, given the fact that India has now created a respectable buffer stock of food grains against any disaster, thanks to the operation of the FCI, there is scope for re-looking at the actual utility of the provision. Several government committees (e.g. – Mid-term review of Tenth Plan, Planning Commission) as well as key policymakers have at times expressed concerns over the provision. There is reason to believe that the law has outlived its utility and is only contributing to the rising transaction costs. Although in the last few years both the State and the Central governments have taken number of steps to reduce the rigors of the ECA and the number of commodities covered by it has been drastically cut down, the government still retains the right to bring any commodity under its purview, if need be. Out of the 15 commodities still kept in the list, 11 are related to agricultural products. The mere threat of potential Government action keeps the private sector participation in storage, transport and processing at a low level. It also bears consequences on verifications made at the inter-state borders on movement of goods.

The powers for states to restrict the movement of agricultural products out of their territory granted by the ECA are incompatible with the principle of a single market. They may have served a purpose in helping to preserve local food security but at the cost of reducing food security for India as a whole. For these reasons the provision should gradually be phased out.

5.2.2 Amendment of APMC Act

As regards the collection of market fees through the APMC Act, it still continues to be a major hurdle on the free movement of primary agriculture products from not only between States but also even within the States from one market area to another. As already stated, it sometimes results in double taxation of the same products. Moreover, its operation creates monopolies of the State Marketing Board/Market Committees in regulating the wholesale market by not allowing direct marketing, often leading to cartelization of a few brokers or arthiyas and non-transparency in price setting to the disadvantage of the farmers. The monopolistic operation of the market committee also acts as a disincentive to private sector in setting up processing units for value addition, as they do not have direct linkage with the farmers, which would otherwise help them in getting raw materials of assured quality and quantity. The policy framework should give farmers the liberty to freely market their produce anywhere including direct marketing to processors or other buyers without paying any market fees. However, in case they want the facilities of the market yard, they have to pay a service charge, which should be sufficient to cover the operation costs of the market committee. **It is therefore recommended that farmers, processor companies or other private operators may be allowed to operate their own wholesale market and charged a suitable fee for the service. This would encourage more investment in setting up infrastructures and create opportunities for providing better and more cost-effective services.**

The reform of APMC would facilitate free movement of agriculture products between different States and from jurisdiction of one market committee to another. However, as market fee is a major source of income for a number of States, it may result in loss of revenue to some of them. It is felt that in the major cereal producing States like Punjab, Haryana, Western UP and Andhra Pradesh where bulk of food grains are procured by the FCI for the central pool, the loss of market fee may not be significant as the FCI and the State Government agencies are expected to continue their procurement through the existing

Mandi structure. However, the mechanism of collection of market fees is widely being used to collect a number of add-on taxes, education cess, infrastructure cess, R & D cess etc., and alternate source of finance need to be formulated. **Collection of all additional fees and cess in the market should be withdrawn and alternative sources of revenue should be found for the same. In case the State Government feel that the abolition of market fees would lead to a loss of revenue, the rate of VAT on processors or semi-processors of agriculture produce can be increased suitable to compensate the loss of revenue for (e.g. by 0.5%). As of now, most of the horticultural products are already exempt from VAT.**[53]

5.3 Budgetary Issues

5.3.1 Purchase Tax and VAT

To create single market requires inter alia that there should be no customs barriers or measures having an equivalent effect at state borders or at borders within states. There are in principle two ways to fulfill this objective. One is to exempt agricultural products from indirect taxes. The other, which would be analogous to the one the EC has used, would be to change the administration of taxes so that no border measures would be needed.

Most of the physical barriers on primary agricultural commodities at State borders are on account of collection of sales/purchase tax or APMC cess or Octroi. Furthermore, verification of purchase tax return etc. is also another major function of these posts. The introduction of uniform rates of VAT in all the States and network connectivity between authorities where information regarding movement of goods from one VAT jurisdiction to another can be exchanged online may do it away with need for having physical barriers. The Government of India has stressed a lot on introduction of uniform VAT rate throughout the country and most States are agreeable. **On processed and semi-processed agriculture products, it is recommended that a uniform rate of VAT should be applicable in all the States and that it should be collected at the first point of sale and retained by the State in which it is sold. If the product undergoes further value addition in the same State or on different State, VAT should be charged on the enhanced value and the VAT collected earlier would be rebated. This process could be facilitated by electronic exchange of information.**

[53] Further, State Governments have been empowered to exempt cereals and pulses from VAT. News Report in Hindustan Times, January 28, 2005.

The limited experience of the States where VAT has been introduced has indeed been very positive as it resulted in a more transparent and efficient system of collection.[54] Moreover tax collection itself has improved greatly in the States which have introduced VAT. It is therefore likely that other States will follow suit and uniform Vat rate will prevail throughout the country before too long and the government need to expedite the process. Most of the fiscal barriers on agricultural commodities would go in case the APMC be removed, and the check-posts of the market committees would also be redundant. Further removal of the documentation requirement would be extremely important for ensuring free flow of trade at the borders. **It is recommended that the establishment of an electronic network for VAT may be expedited so that electronic exchange of information may substitute physical checking at the borders and would cut down a lot of documentation requirements.** By VAT-ing taxes on the semi-processed products, there will be no need to check the produce at the borders.

The EU currently has dispensed with all border formalities without having reached the stage of full harmonization of indirect taxation. Instead of full harmonization, minimum rates of such taxes have been decided at EU level (e.g. for VAT the minimum rate is currently 15%) but member sates remain free to set higher rates. In order to avoid trade distortions arising from these tax differences the principle has been established that products for sale in another member sate are sent across the border free of tax and tax is then applied on sale at the rate applicable in the member sate of sale. The one exception to this rule is that individuals are free to purchase products that are for their own use in another member state and bring them across the border without having any further tax to pay. The EU Commission regards this system as less than ideal, in particular because of the control problems arising from product being moved without have been taxed and has proposed fuller harmonizing but this proposal has not yet been adopted.

Abolishing indirect taxes on agricultural products is a policy that would not only resolve the problem of border taxes but would also be more socially equitable. As farm incomes lag behind average Indian incomes and the poorest sectors of non farm society spend the highest proportion of the income on food, indirect taxes applied to food products are doubly regressive. Furthermore, removing internal indirect taxes on agricultural products would tend to make Indian agricultural products more competitive on export markets. **It is therefore recommended that Purchase tax or VAT should be exempted on primary agriculture**

[54] There is no physical barrier left in Haryana as it has abolished barriers on movement of foodgrains and local barriers like *octroi* long back (a trader only need to fill form ST 38 for exporting to another state). Learnt from the Government Officers in Haryana during interactive sessions with the FAO team.

products. It may be noted that a number of States are not collecting any purchase tax on primary agriculture products. Moreover, State Governments have recently been empowered to exempt cereals and pulses from VAT.

The alternative would be to retain indirect taxes on agricultural products but not permit them to be collected or controlled at state borders. Purchase tax, for example, would be paid on first sale wherever first sale took place. Within this option, there is a choice between elaborate systems under which, if first sale took place outside the state of production, the collecting state would remit the proceeds to the State of production. Or the principle that the collecting states would retain the tax, which is the one that applies in the EC could be chosen. In either case, it would be desirable to unify the rate of tax, to avoid distortions under which operators would seek to make the first sale in the State with the lowest tax or, as a second best, to follow current EC practice and establish minimum tax rates that all States would agree to apply.

5.3.2 Octroi

As regards Octroi, it is well recognized that it is an onerous tax and the cost of collection is huge. More and more States have gradually abolished Octroi. However, it is an important source of revenue for the local bodies like Municipal corporations, which are often fund starved. **Therefore it is suggested that if Octroi has to be continued as a revenue source, at least primary agriculture produce should be exempted from its coverage so that the farmers can be benefited.**

5.3.3 Other Local Taxes

Some states have introduced certain other taxation measures which impact agricultural products by impeding their movement and thereby adversely affect farmers' income. It is recommended that they should be abolished. The measures like Himachal Pradesh Taxation (On Certain Goods Carried by Road) Act, 1999 are put in place in order to build up infrastructure by exploiting the frequently traded primary products. **The same objective could be met by introducing indirect taxation policies (e.g. – by introducing an equivalent amount of cess on petrol so as to compensate the loss in revenue) in Himachal and other willing states. The indirect taxation introduced like this at least would create minimum distortion on the price received by the farmers.**

5.4 Transport related issues

It has been observed that the reduction of the inter-state barriers might not lead to any direct benefit received by the farmers, given the prevailing cartelized nature of the transport industry. **In order to translate the regulatory reforms undertaken into material gains received by the farmers (individuals as well as farmer cooperatives), the government must enact a definitive law against cartelization of the road transport industry.**

In the EU the construction and maintenance of transport infrastructure is a national not a EU responsibility. But the contribution that transport links can make to regional development and the need to improve certain key intra Community transport links in order to create a Trans European transport network in the interests of improving the Single Market has been recognized. Therefore, member states may use some of the EU funds that are allocated to them under the EU's regional policy, to part finance the construction of roads. And, as a means of improving the internal market, the Council and Parliament adopted in 1996 Community Guidelines covering roads, railways, waterways and traffic management systems in order to improve certain key connections. Under this, Directives have been addressed to member states in respect of key projects within this overall project and EU funding to cover part of the cost is being made available under a variety of legal instruments. India would do well to emulate the EU example in this respect.

5.5 Standardization and Harmonization of the Quality Standards:

It has been mentioned earlier that the technical standards prevailing across the states are quite divergent and confusing at times. The prevailing scenario is also in a way responsible for the current level of lower internal trade. In addition, the regional confinement due to diversity of standards often does not allow the players to enjoy the economies of scale. Furthermore, in coming years organized retail is going to be very important in the country, and therefore there is an urgent need to ensure harmonization of the various prevailing standards across Indian states. Given the wide difference in the use of standards as well as selection of units prevailing in the country, the harmonization need to be introduced in every stage (e.g. – grading, packaging) to facilitate quick transaction. *Apple* is a fair example in this regard, where the level of standardization in the country is quite comprehensive, explaining the intensity of inter-state trade in it all over the country. The Food Safety and Standards Bill (2005) is a welcome step by the Government, which will ensure the desired harmonization as it would supersede the State laws, once enacted.

Harmonization of standards removed many non tariff barriers in the EU. If, when the Food Safety and Standards Bill in India has been enacted, it emerges that there remain some state standards that differ from national standards then the principle of mutual recognition that applies in the EU in areas where there is no EU wide standard could be applied. Under this principle, whilst member states can establish their own standards in cases where there is no EU wide standard, they are not permitted to prevent the sale on their market of products that meet the standards applied in another member state.

The absence of common grading standards can also act as a form of non tariff barrier even if it is not compulsory to use the standards applicable in the state of sale, because the absence of standards inhibits direct sales from producers to distant markets, because as such standards are needed to allow contracts to be entered into without prior sight of the products. Again the Food Safety and Standards Bill should help to address this issue.

In India the Bureau of Indian Standards (BIS) and AGMARK are there but the level of enforceability varies widely across states. Indian standards are formulated through participation from various stakeholders, including representatives from the government, consumers and industry. The standards are laid for various categories like vegetable and fruit products, spices and condiments, animal products and processed foods etc., and product quality is checked through either ISI laboratories at Delhi, Bombay, Calcutta, Madras, Chandigarh and Patna or in a number of public and private laboratories recognized by them. On the other hand, the AGMARK 'seal' provided by AGMARK standard, set up by the Directorate of Marketing and Inspection of the Government of India in 1937, ensures quality and purity of a product. The government should utilize both these provisions for ensuring harmonization across the country, apart from the provisions of Food Safety and Standards Bill (2005). While ISI certification is purely voluntary, AGMARK seal has been made mandatory for only a few products. As a result, a large number of products are brought to market without standardization. Moreover, there is no compulsory standard packaging requirement except for edible oils and vanaspati. **More products should be brought under the ambit of AGMARK and that even packaging should be standardized. The fluidity and transparency of a Single market would be further enhanced if grading standard for food process, particularly horticultural products, were established on an India wide basis.**

5.6 Non-Regulatory Issues

5.6.1 Policy Support for Creation of Farmer-Centric Environment

The gain from removing indirect taxes or savings in transaction costs as described earlier would initially benefit traders and the transport industry. Both are areas where competition is limited, by the accreditation system that limits free entry into the trading sector and by the agreement that exists between truck owners. It is difficult to ascertain whether these limitations on competition in fact raise the charges they make above the cost of providing their services but, to ensure that the savings arising from the removal of border checks were transmitted back to growers and on to consumers, it would be desirable to increase competition, by freeing up access to the trading sector and forbidding restrictive agreements in the transport sector. The realization of the benefits of market integration to benefit small farmers depends on the measures to address supply side constraints which prevent this category of farmers to take advantage of the opportunities opened up by greater market access ,and help them to increase competitiveness or diversify. Some of these issues are examined below..

5.6.2 Formation of Producer Organizations

The economies of scale in procurement, technology adoption and marketing are better attained if small farmers combine together as producers groups. From the supply side it is not easy for value addition enterprises to work with a large number of small farmers, which involve problems of product uniformity, product traceability and variation in cropping programs leading to a greater management input and raw material procurement cost. In a number of countries Governments also encourage small farmer involvement in agro-enterprises. **The motivation for the enterprises comes from government offering tax breaks and concessions, a supporting bureaucracy or relaxing zoning laws when companies are establishing new processing units or retail outlets, Government support services related to strategic crop production, specialization etc. Consequently, the small farmer gains access to the market, the consumer welfare increases substantially, 55 and the processors and pack houses have a focal point, for example, a producer group or association to work with.**

[55] In Venezuela the largest chain of supermarkets in the country is CATIVEN, which has 50 outlets each with more than 2,000 m^2 floor space and 5 hypermarkets (more than 10,000 m^2 floor spaces). CATIVEN has a policy to work with farmer groups for their supplies. The government helps establish the groups and provides extension officers to work with the buyer and offers land for the supermarket to build new stores. The supermarket benefits by having greater involvement at field level, it has begun to encourage farmers to specialize in one or more crops (Category Management) and now has a wider range of fruit and vegetables on its shelves and the shelf life of a number of perishable lines has improved. The consumer is now aware that for the range of fruit and vegetables CATIVEN is the market leader.

The farmer's group operation would facilitate export requirements for quality and traceability, which is currently not always possible with numerous small-holdings. In farmer communities, due diligence will be accorded through proper record keeping and monitoring on the farm during the production process and with strong linkages within the supply chain.

The formation of farmers' organizations would further facilitate crop specialization in clusters. Farmers in specific agro-climatic zones with comparative advantage for certain crops or products can obtain a comparative and competitive advantage by crop specialization in conjunction with other farmers in the location. **Already there are areas in the country that have a reputation for growing certain types of horticulture crops - Nasik for grapes and onions, Nagpur for mandarins, Nawasari for chikoos, Durg for papaya, Kullu for apples, the Kashmir Valley for saffron and Hoshiarpur for kinnow.** The three main reasons for specialization are; (i) the limited and finite resources in the area can be channeled to work with the farmer groups on those crops or products; (ii) processors and industry will become concentrated[56] and established in the production zone, if the region can provide sufficient volumes of product and continuity of supply to make a processing enterprise viable; and (iii) farmers can manage a particular crop or a group of crops in order to achieve specialization.

The proposed producer companies enterprises could take various forms, e.g. - agricultural cooperatives etc. The agricultural cooperatives in India have so far suffered from various institutional drawbacks (poor management quality, absence of the right decision-making capability, excessive government control etc.)[57] and are moderately successful. **The government should provide start-up capital to these producer enterprises through institutional support policy (credit in easy terms) as well as technical support (opening training centres to provide management skills to the village-level select representatives from the cooperatives) to avoid the potential problems.** National Dairy Development Board being the best example of the success story. **The Company Law has been recently amended to permit formation of producer companies which have certain tax and other advantages.** This form could be well suited to form strong farmer enterprises.

[56] Argentina produced 1.1 million tons of lemons in 2002 (USDA, 2003) of which 207,000 tons were exported fresh. The majority came from Tucuman province and the area under production has increased by 90% in the last decade. Now there is an abundance of raw materials, the agro processing industry is established with 9 integrated processing plants to produce juices, aromas, essential oils and dehydrated skins for pectin and 40 pack houses for fresh fruit distribution.
[57] Samar K. Dutta, 'Co-Operatives in Agriculture', Vol. 24, 'State of Indian Farmer: A Millenium Study', Academic Foundation in association with Ministry of Agriculture, Government of India, 2004.

5.6.3 Credit Policy

One of the major goals of the study is to recommend suitable policy frameworks towards creation of a common agricultural market. While the need for extending the credit net for enhancing agricultural growth has been well-known, its necessity for creation of the common market is also quite obvious. The driving motive behind the creation of the common market is to increase the return to the farmers through enhanced internal trade in agriculture and increase in agricultural production as well as the productivity is a pre-requisite for that. Given the resource-constraint of the average Indian farmers, it is unlikely that they would be able to increase investment in land or productivity on their own. In that case, the gains from the creation of the common market would bypass a major segment of the farming community, and the whole purpose would be defeated. **Therefore, the government needs to formulate a much stronger and wider credit policy, working in the interest of the small and the marginal farmers.**

While the current government credit policy is already focusing on extending the facilities to the small farmers, there is an urgent need to the broad-base it further. It will not be possible for the government to help the formation of producer enterprises all over the country in one go. While the formation of producer enterprises could be encouraged in some select areas (where specialization is readily possible) initially through financial and technical support, access to credit could be extended to the uncovered regions both directly as well as indirectly. A significant proportion of the farmers is not covered by the official credit net, and has to go to the money-lenders or *arthiyas* for credit. The regional rural banks need to be energized to solve this problem. Secondly, having a vibrant private sector would indirectly contribute in this regard as they have already started providing credit to the farmers selling their product to them in the form of quality farm inputs.[58] Removing the remaining barriers for private sector operation would facilitate this trend further.

5.6.4 Provision of Market Information

It has been noted earlier that absence of market information (both on prices and appropriate post-harvest measures) acts as a major negative force on Indian farmers. **It is the responsibility of the Government to provide the timely information especially to the small and medium farmers. The current level of Government effort remains mostly inaccessible by these groups at large.** The Private sector initiatives like the e-choupal model of the ITC and the innovative marketing strategies of several other private players are successfully supplementing the Government initiatives and appropriate policy measures

[58] Debashis Chakraborty, 'Corporate Participation in Marketing Activities: Scopes and Challenges to Indian Agriculture', in Bibek Debroy and Amir Ullah Khan (Ed.) "Enabling Agricultural Markets for the Small Indian Farmer", pp. 185-234, Bookwell Publishers, New Delhi. , India, 2003.

must be undertaken in order to encourage these types of arrangements. The proposed reform of the AMPC Act would be a major step in facilitating the entry of more private players in this sector. The optimality of the operation of private players have already been reflected through higher price to the farmers and increased productivity.

5.6.5 Creation of Rural Infrastructure:

In order to create a common market, creating a minimum level of infrastructure connectivity is necessary. Infrastructure services such as roads, electricity supply and telecommunication and others are limited in rural areas. Warehouses, cold storages and post-harvest practices are awfully inadequate. As private investors are generally shy in investing in such infrastructure which is more in the nature of public good, government must continue to be the major investor in creating rural infrastructure. A recent study undertaken on behalf of IFPRI on "Linkages between Government Spending, Growth and Poverty in Rural India" found that for each Rs. 10 Lakh spend on roads, 165 people will be lifted above the poverty line. Rs. 10,000 crores are spent on roads will increase productivity growth by more than 3 percent as well as increase in non-agricultural employment.

Ongoing projects like "Bharat Nirman" will certainly help in achieving the objectives. Apart from enhancing the government support to the agricultural sector, the private sector has to be encouraged to invest more in the infrastructure building, as the state participation is clearly less than satisfactory. There is a need to adopt various innovative projects to enhance public-private partnership to build adequate infrastructure, both marketing as well as physical, for the primary sector.

"To attract promoting agencies to take up infrastructure projects, the Central / State Governments need to additionally extend support in the allocation of suitable land to set up the market, provisions of village land for farmers' association and collection centres, deregulation of area from the APMC Act where new markets were to set up, ensure first approval of foreign technical assistance, import of equipment and services like electricity, service, sewage, telephones etc."[59]

The disguised unemployment in Indian agriculture is a major problem, and transfer of the surplus labours to other economic activities is a major challenge to the government. Although extension of labour intensive horticulture is capable of absorbing a proportion of the excess labours employed in traditional agriculture, there are limits to diversification and

[59] 'Saving Farmers and Saving Agriculture: Crisis to Confidence', Second Report, National Commission of Farmers, Ministry of Agriculture, Government of India, New Delhi, August 2005.

promoting off farm opportunities is quite important. Apart from focusing on '*Bharat Nirman*', the government needs to concentrate on 'PURA', which plan to enhance physical, electronic and knowledge connectivity of the villages, with significant positive externality on agriculture sector.

Apart from strengthening the road network, attention also needs to be paid to the mode of transportation of agricultural produce. Railways are an efficient means of transport of goods over long distances, but most railway wagons in India are not designed to carry agricultural and food products in bulk. Products have to be generally transported in gunny bags in open or closed wagons which do not have any facility for mechanical loading or unloading. Silostorage or bulk handling and movement is rarely undertaken. Cost of transportation could be greatly reduced if suitable steps are taken for bulk handling for agricultural produce by trains. There is also a need to increase availability of refrigerated vans for carriage of fresh farm produce which are highly perishable, this would minimize travel and transit losses and be time and cost efficient.

Another cost-effective means of transport would be to encourage internal trade in agriculture through inland waterways. There is an extensive network of rivers and canals in the country and most of the productive regions are adjacent to them. However, unlike in Europe, China and many other countries in the world, inland waterways are rarely used in India to transport bulk commodities. In fact, overtime most of the waterways have gone into disuse. They need to be revamped by regular ridging, if necessary. One additional benefit of introducing this would be a favorable impact on environmental pollution.