

Contract farming exempted from limits under the Essential Commodities Act

September 9, 2019

Source: PIB, *The Hindu & Business line*

Recently the Department of Consumer Affairs has exempted agricultural produce purchased under contract farming from certain stock restrictions specified under the Essential Commodities Act, 1955.

Key highlights about the exemption

- Under contract farming, production is carried out on the basis of a pre-harvest agreement between buyers and producers.
- Post-harvest, the producers sell the produce to the buyers as per the terms and conditions of the agreement.
- The Department has granted an exemption to contract farming produce from stock limit provisions specified under any order made under the Act.
- **Application of the exemption:** The exemption is applicable to buyers who are registered under any of the respective state Acts pertaining to contract farming.
- However, the products purchased by these buyers will continue to be subject to maximum limits as specified under the respective state Acts

About the Essential Commodities Act(ECA), 1955

- The Act is used by the Government to regulate the production, supply, and distribution of a whole host of commodities it declares 'essential' in order to make them available to consumers at fair prices.

- List of items: The list of items under the Act include drugs, fertilizers, pulses, and edible oils, and petroleum and petroleum products.
- The Centre can include new commodities as and when the need arises, and take them off the list once the situation improves.

How does the act works?

- If the Centre finds that a certain commodity is in short supply and its price is spiking, it can notify stock-holding limits on it for a specified period.
- The States act on this notification to specify limits and take steps to ensure that these are adhered to.
- Anybody trading or dealing in a commodity, be it wholesalers, retailers or even importers are prevented from stockpiling it beyond a certain quantity.
- A State can, however, choose not to impose any restrictions. But once it does, traders have to immediately sell into the market any stocks held beyond the mandated quantity. This improves supplies and brings down prices.
- As not all shopkeepers and traders comply, State agencies conduct raids to get everyone to toe the line and the errant are punished.
- The excess stocks are auctioned or sold through fair price shops.

Significance of the Act

- The Act gives consumers protection against irrational spikes in prices of essential commodities.
- The Government has invoked the Act many times to ensure adequate supplies.
- It cracks down on hoarders and black-marketeers of such commodities.
- Without the ECA the common man would be at the mercy of opportunistic traders and shopkeepers.

- It empowers the government to control prices directly too.
- The recent amendment to the Legal Metrology (Packaged Commodities) Rules 2011 is linked to the ECA. The Government can fix the retail price of any packaged commodity that falls under the ECA.