Changing Correlations in Foodgrain Mandis of Punjab

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As part of the series[1] based on my postdoctoral research on the agrarian politics around crop diversification in the Indian state of Punjab, in the two-part article on the changes in foodgrain mandis of Punjab, this second article will look at the transforming mandi operations and its impact on the correlations between different agrarian actors. The first part of the article focused on Punjab's contribution to public paddy procurement.[2]

Especially, in the period starting from the mid-1990s, that is since for the first time India attained self-sufficiency in food along with a burgeoning foodgrain stock, there has been a growing clamor for diffusing the role of the Food Corporation of India (FCI) and Public Distribution System (PDS) and greater deregulation of foodgrain markets. In the policy debates over the bulging foodgrain stocks which appeared in this period, a section of economists identified the insufficient PDS coverage and a general decline in purchasing power as the primary causes behind this phenomenon. While on the other side were those who proposed greater liberalization to correct the inefficiencies of the foodgrain markets, which they saw as the fundamental flaw. These set of arguments continue to resonate even today in contemporary discourses on India's food security.

In the foodgrain policies of the early 2000s there was a recognition that efforts to diversify crop production away from rice-wheat in Punjab and Haryana into oilseeds and pulses were needed, to correct the imbalance of surplus foodgrain procurement from these States in view of the ecological concerns. Keeping the average cost of food production low, along with moving into untapped and underdeveloped regions of agricultural development, with the crucial aim of maintaining the food and nutritional security of the country were identified as important aspects of this policy prescription.[3] However, it was noted that unless assured markets for the alternative crops were built, it was improbable to convince farmers of Punjab and Haryana to shift

[1] First article 'Fraught with Contestations: Crop Diversification under Agrarian Distress in Indian Punjab', available at: https://casi.sas.upenn.edu/sites/default/files/upiasi/Fraught%20with%20Contestations%20Crop-Diversification%20under%20Agrarian%20Distress%20in%20Indian%20Punjab%20-%20Ranjini%20Basu.pdf
[2] First part of the article 'We Feed the Nation: Taking Stock of Punjab's Contribution to Public Foodgrain Procurement', available at: https://casi.sas.upenn.edu/sites/default/files/upiasi/We%20Feed%20the%20Nation%20-%20Ranjini%20Basu.pdf
[3] Chand, Ramesh (2004), "India's national agricultural policy: a critique", *Indian Journal of Agricultural Economics*

away from paddy cultivation.[4] But as we discussed in the first part of the article, the proposed geographical shift in procurement has been limited as seen in the case of the Decentralized Procurement Scheme (DPS).

The Farm Laws of 2020 were the latest attempts at regulating the foodgrain markets, however, these came under strong criticism and met with resistance from the farmers' movement. Even though the issue of foodgrain market reforms is yet to be clinched, shifts in procurement operations have taken place over the last two decades, and more specifically after 2014, which has altered the relationship between farmers and other actors in the paddy supply chain. Therefore, to understand the agrarian politics around crop-diversification or the mainstay of paddy in the cropping pattern of Punjab, it becomes imperative to understand these changes in the foodgrain mandis of the State.

Mandi Procurement led by State Agencies

One of the major changes that has taken place in the post 2000s is the significant and greater role of the State Agencies in the procurement process. Among the intentions behind the DPS, one was to transfer the procurement operations to the State government agencies. If one picks up the FCI annual reports from its initial years of operation, as the country was still finding its feet in a coordinated public procurement of foodgrains, we find evidence of the state governments stretching their resources to carry out the massive exercise of procuring the burgeoning foodgrain surpluses that came with Green Revolution. FCI's intervention in the procurement process became crucial. In the 1980s as paddy production rose steadily in Punjab, FCI became the largest purchaser of paddy from the farmers. State Agencies remained unwilling to enter the additional paddy procurement due to their limited resources and capacities, which had already been pushed to the hilt for wheat procurement. For instance, in 1982-83, FCI purchased almost 71 percent of the entire paddy procured through direct purchase in Punjab, while it only procured 26 percent of the wheat in that year from the State. Along with paddy, FCI procured almost the entire stock of levy rice from the Punjab rice-mill owners.[5]

Over the next decades, FCI's role in paddy procurement in Punjab came down drastically. At the beginning of the 2000s there were news reports about the State Agencies grappling with the sudden rise in procurement operations that they dealt with as the FCI slowly weaned off its presence from the State. The central government announced FCI's rollback of paddy procurement in Punjab and encouraged the State government

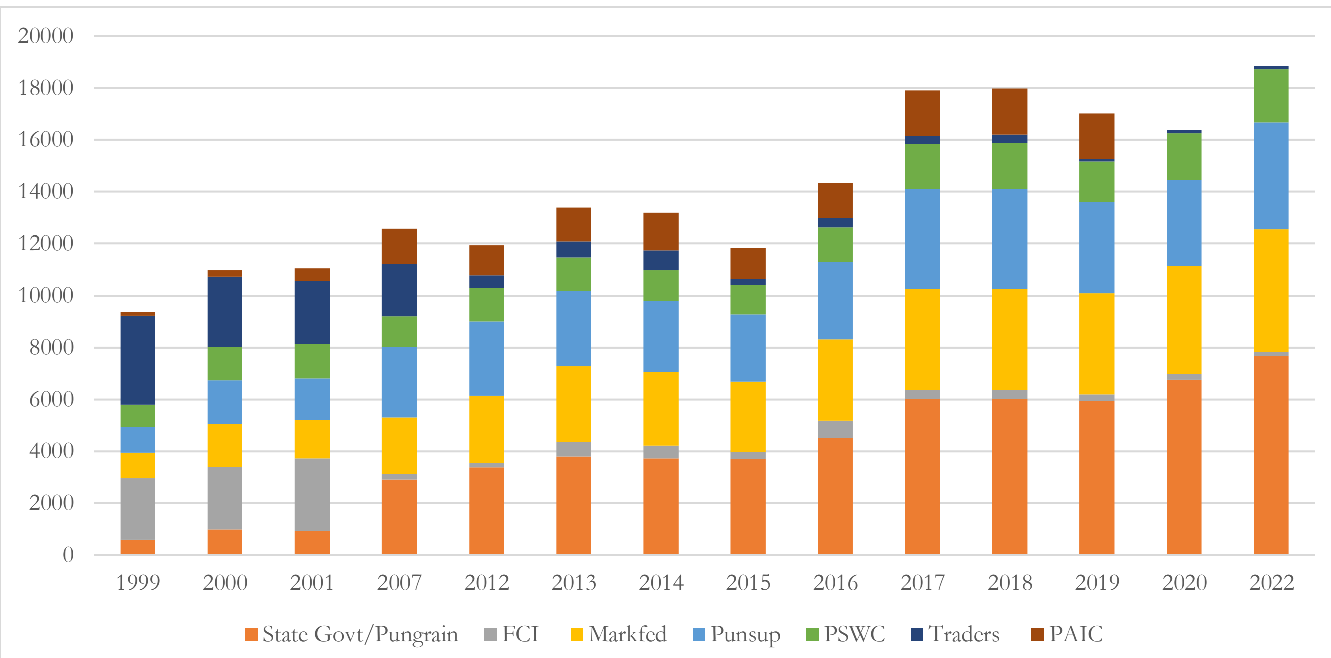
[4] See discussion in the Report of the Long- Term Grain Policy, 2021 headed by economist Abhijit Sen.

[5] Food Corporation of India, Annual Report 1983-84

to increase procurement through rice mills.[6] Although, the FCI did not completely exit from the operations, its presence in the mandis during paddy season drastically fell afterwards. Figure 1 shows the agency wise distribution of paddy procurement in Punjab for various years, as gathered from different issues of the Statistical Abstract of Punjab. The Civil and Food Supplies Department used to conduct the procurement on behalf of the Punjab government till 2003. Later the Punjab Foodgrain Corporation or Pungrain was setup on the direction of the Reserve Bank of India (RBI), aimed at cleaning up the state finances. The other State Agencies involved in the paddy procurement are Markfed, Punsup, Punjab State Warehouse Corporation (PSWC) and Punjab Agro-Industry Corporation (PAIC). Paddy procurement by PAIC ended in 2020.

As the figure shows, the share of paddy procurement by the FCI has become almost negligible and taken over by the State led agencies. The proportion of paddy purchased by the private traders also registered a sharp decline over the years, commensurable with the fading away of the levy system, which we will discuss later.

Figure 1: Procurement of Paddy in Punjab, by agency, various years, in Thousand Tonnes



Source: Statistical Abstract of Punjab, various issues
Note: Pungrain or Punjab foodgrain Corporation was set up in 2003 to replace the Civil and Food Supplies Department of the Government of Punjab in the procurement process. The Punjab Agro-Industry Corporation (PAIC) closed in 2020.

[6] Gill, PPS (2000), "FCI not to procure paddy", *The Tribune*, 27 July, https://m.tribuneindia.com/2000/20000727/main4.htm

Impact on State Finances

We can understand the direct impact of this shift towards the State Agencies conducting the paddy procurement through the status of state finances. Punjab has one of the biggest domestic debts in the country. In 2019-20 the States's outstanding debt to GDP ratio was a whopping 42.5 percent.[7] Among the two major contributors to this massive internal debt are the Cash Credit Loans (CCL) taken from the RBI to facilitate foodgrain procurement and other being the Ujwal DISCOM Assurance Yojana (UDAY). Since the decentralization of the procurement operations, States feel forced to take the CCL for operationalizing foodgrain procurement as the Centre delays the release of dedicated funds.

A white paper on State Finances from 2017 pointed out that due to a huge, accumulated gap between the outstanding CCL and the value of the foodgrain stocks, RBI was on the verge of banning further CCL to Punjab. Faced with such a scenario, the State government then led by the Akali-BJP alliance converted a CCL gap of Rs 29919.96 crore into a clear term loan, making it a legacy debt and passing burden onto the State exchequer. The paper says that the Government of Punjab also agreed to "square up any gap between the outstanding CCL and value of stock that might emerge in the future as well." Further, the paper raises a fundamental question regarding the roots of this financial gap, pointing out that the "cardinal principle of the Centralized Procurement Scheme that the State procurement agencies being agents of the Government of India are neither to make any profit nor to incur any loss in the procurement operations and the Government of India is expected to reimburse all bona fide cost of procurement incurred by them."[8] Thus, on the one hand as the scale of procurement operations continued to expand in Punjab, financial resources to assist this expansion faced restrictions as a result of the dichotomy in Centre-State fiscal relationship.

Changes in circuit of procurement

The other change brought about by the shift in procurement agencies, has had a greater bearing on the correlations between the different actors in the foodgrain mandis of Punjab- the farmer, *arhtia* or commission agent, and the rice millers. A clarification at this point would be that these three actors are not mutually exclusive in the context of Punjab agrarian relations. There is scholarly evidence to showcase that in the period especially after the 1990s, sections of the rich and big Sikh-Jatt farmers have diversified their agricultural incomes by entering the commission agent and rice-milling trades.[9] There is also a section of the commission

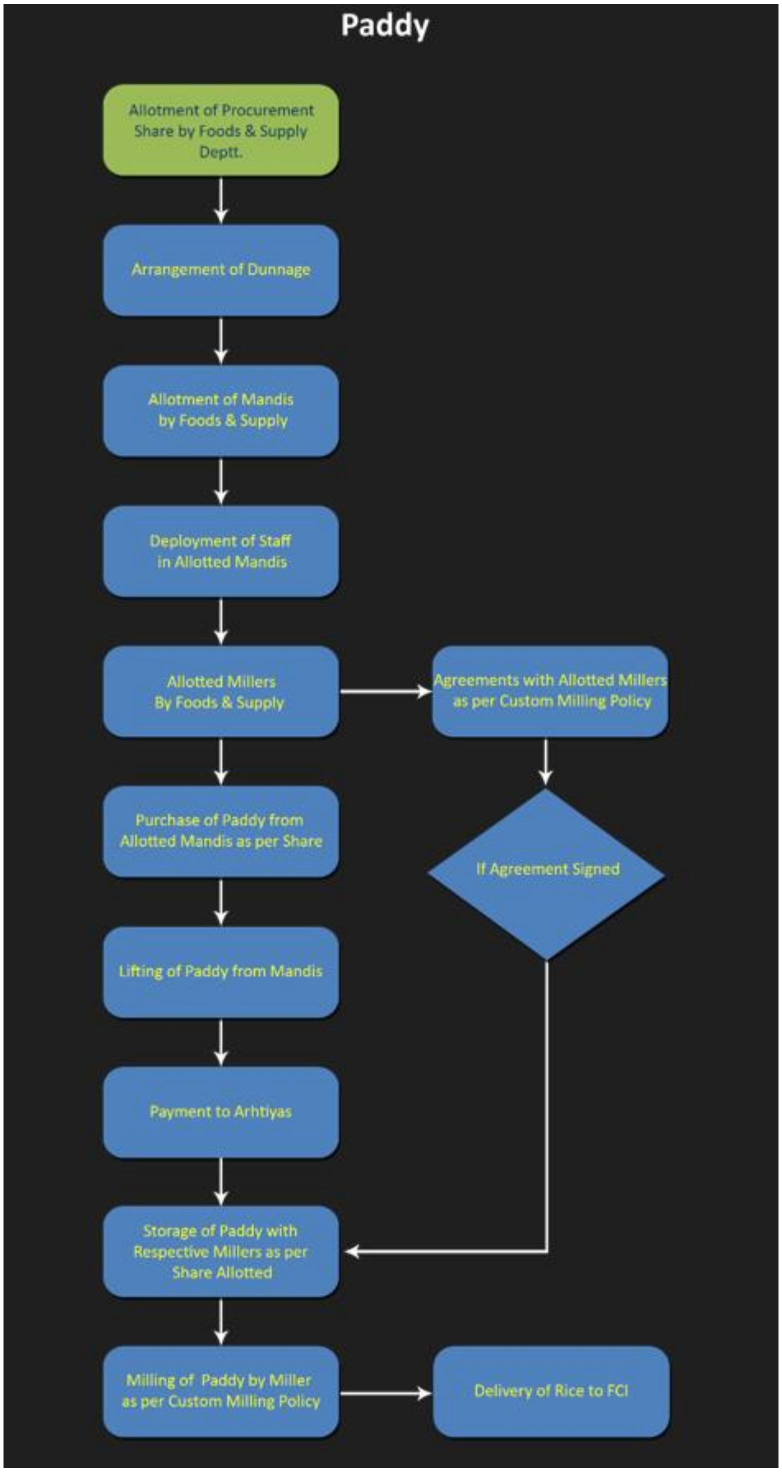
[7] Government of Punjab (2022), *White Paper on State Finances*, Department of Finance

[8] Government of Punjab (2017), *A White Paper on State Finances*, Department of Finance

[9] Sinha, Shreya (2019), "Politics of the market: Farmer-trader relations under neoliberalism in Punjab, India", *Journal of Agrarian Change*, 1-15

agents who own rice mills, preying on the paddy procurement and custom milled rice supply links in the State. As a result, kinship and caste ties have further bolstered into the Punjab agrarian production and marketing relations.

Figure 2: Flow chart of Paddy Procurement Circuit by State Agencies, Punjab



Source: Punjab State Warehouse Corporation

We now come back to the changing procedures of procurement in the foodgrain mandis of Punjab. Due to the limited resources of the State Agencies and as part of the efforts to lower storage costs, the procured paddy gets transported from the mandis to the designated rice mills. The rice mills on completion of the paddy processing are supposed to deliver the custom milled rice to the FCI. Previously when the FCI dominated the paddy procurement operations, the purchased paddy would move from the mandis to the FCI godowns and then released to the rice mills for custom milling. Figure 2 provides the flow chart of paddy procurement circuit followed by the Punjab State Warehouse Corporation, which is representative of all State Agencies. The procurement circuit followed by the State Agencies has brought the rice millers to the center stage and turned them into significant actors. The State government has gradually become more dependent on the rice millers, due to its own paucity of adequate storage space resulting from its lagging capacities and delays experienced in lifting of foodgrains by the FCI. Under these circumstances, the rice mill complexes have turned into alternative storage spaces.

In the backdrop of increased paddy production and rise in yields in Punjab, the significant place of the rice mills in the paddy procurement process has become known in the cases of collusion and corruption between different actors, including agency personnel, rice millers and commission agents. These cases have been related to making windfall profits by mixing lower grade and cheaper varieties of rice bought from other States with the paddy procured within Punjab, along with non-delivery of stipulated quantity of custom milled rice to the FCI.[10]

End of Levy Rice System

Punjab for the longest time had the advantage of being the sole State from where FCI bought paddy and got custom-milled for the central pool. Thereby rice mills in Punjab turned into lucrative business enterprises. Under the levy system, introduced in 1978 and governed by the Essential Commodities Act (1955) and corresponding State Acts, the rice mills were legally bound to procure a certain percentage of paddy from the farmers and the government in turn bought the milled rice from them at a pre-announced levy price. In Punjab, the proportion of levy rice bought by the government from the millers was set at 75 percent of the total rice milled by them.

[10] For instance see The Tribune (2022), "2 millers among five convicted in Rs 8-crore in Ferozepur paddy scam", September 24, https://www.tribuneindia.com/news/punjab/2-millers-among-five-convicted-in-rs-8-crore-ferozepur-paddy-scam-434734 and The Tribune (2018), "Punjab millers use PDS rice to meet shelling target, recycle paddy", October 1, https://www.tribuneindia.com/news/archive/punjab/punjab-millers-use-pds-rice-to-meet-shelling-target-recycle-paddy-661324

As seen in figure 1, the proportion of paddy procured by private traders, who in other words are the rice-mill owners, was significant for Punjab till the late 1990s. However, subsequently the element of levy rice procurement became smaller. The levy system of rice became less and less significant as procurement at Minimum Support Prices (MSP) became a more sought-after way of providing direct support to farmers.[11] In the period post the 2000s, there was a wide-ranging discussion on the viability of the different methods of procurement. The levy system, although became less preferred, some argued that it promoted competition among millers via the auction system and raised the purchase price of paddy.[12] While there was also another set of opinion who argued that the levy system was accruing losses to the millers. Additionally, it was identified that though the levy system, millers were keeping the better grade rice with them while supplying the poorer quality rice to the FCI which was then becoming difficult to be sold in the open market.[13]

Finally, the levy rice procurement system was dissolved nationally in 2015. In Punjab, the levy rice procurement system had become redundant a few years before that. One of the primary reasons for this, as one rice miller explained to me, was the absence of a domestic market for non-basmati rice in Punjab, making it difficult for the millers to sell rest of the rice left after the levy purchase by the government, in the open market.

Although, with the end of the levy rice procurement, the system of paddy auctioning has completely stopped, as the State Agencies have become the monopoly purchaser of paddy in the mandis. Thereby, the interface between the rice millers and the farmers has become marginal, and in turn the relationship of farmers and the commission agents has attained greater strength.

CONFLICT IN QUALITY REGULATION: CHANGING CORRELATIONS BETWEEN FARMERS, ARHTIAS AND MILL OWNERS

The central government had promoted and projected that by doing away with the levy system and shifting towards direct procurement by the State Agencies and cooperatives, a better monitoring of the foodgrain quality would be possible.[14] Under the Decentralized Procurement Policy the State Agencies were bestowed

[11] Food Corporation of India (2021), Levy System of Procurement

[12] Gupta, Neha (2013), "Government Intervention in Grain Markets in India: Rethinking the Procurement Policy", Working Paper 231, Centre for Development Economics

[13] Chand, Ramesh (2003), *Government Interventions in Foodgrain Markets in the New Context*, Policy Paper 19, National Centre for Agricultural Economics and Policy Research (ICAR).

[14] Press Information Bureau (2015), *Levy on rice reduced to encourage direct procurement from farmers*, Ministry of Consumer Affairs, Food and Public Distribution, Government of India, https://pib.gov.in/newsite/PrintRelease.aspx?relid=121421

with the responsibility of maintaining quality of the procured foodgrains. In recent times, there has been a greater stress on the quality control of procured foodgrains, especially which moves into the central pool and gets distributed through the PDS, to avoid wastage and longer durability of the stocks.[15] FCI prescribes the Fair Average Quality (FAQ) of foodgrains, which is admissible for procurement and eligible for payment of MSP. For paddy, this quality prescription includes specifications about admissible quantities of foreign matter, damaged and shriveled grains, admixture of lower class and moisture content. Along with the paddy quality, there are also specifications for admissible quality of custom milled rice. While the FCI sets the prescribed quality check, it is the State Agencies that conduct lion's share of the procurement as discussed in the earlier part of the article, including in Punjab from where maximum amount of custom milled rice gets transferred to the central pool. According to policy the FCI only accepts foodgrains from the States which comply with the prescribed FAQ and returns those procured lots which do not adhere to the norms.

It is this discrepancy between the norm setting by the FCI and the actual procurement conducted by the State Agencies that has resulted in conflicts during the paddy season in the Punjab mandis. As the levy system of paddy procurement ended, the State Agencies became the monopoly buyer of paddy from the mandis. With this the auction of paddy lots, which also had a role in regulating the quality of paddy arrivals, came to a halt. Additionally, due to the paucity of funds and resources, the State machinery with a limited number of mandi-inspectors, has become reliant on the commission agents and rice millers to operationalize the procurement process.

The *arhtias* or commission agents have emerged as the *de-facto* inspectors, who are now entrusted with the task of checking the moisture-content of the arriving paddy lots brought by their farmer clients and coordinating with the rice-millers and truck-transporters for operationalizing the off-take of procured paddy from the mandis to the rice mills. As a result of this changed circuit of paddy procurement which has in-turn led to new correlations in the mandis, the reliance of the farmers, and especially the small farmers have increased on the commission agents. This emerging scenario bodes contrary to the efforts of the central government which has been consistently attempting to curb the influence of the *arhtias*, whether through the introduction of the Direct Beneficiary Transfer of MSP to the farmers or by putting a cap on the commission paid to the agents.

[15] Committee on Public Undertakings (2021), *Food Corporation of India*, Third Report, Committee on Public Undertakings, Ministry of Consumer Affairs, Food and Public Distribution, Lok Sabha Secretariat

Additionally, the uptake of short-term paddy varieties such as PR 126 and the delayed sowing of the predominant long-term varieties such as PUSA 44 because of the restrictions posed by the Punjab Preservation of Subsoil Water Act of 2009, have further complicated the quality regulation issue.[16] As a result of the changes in sowing and harvesting dates, combined with climatic conditions have brought in newer challenges of tackling higher moisture levels in the arriving paddy. The moisture levels have been higher than those stipulated by the FCI and accepted by the rice-mill owners or shellers. During my fieldwork in the mandis of Ludhiana district at the time of the paddy harvest season in 2023, there were logjams between the *arhtias* and the rice millers, who were not lifting the paddy from the mandis due to its high moisture levels. This created a scenario where mandis were overflowing with stacked gunny bags, and there was no room for the incoming paddy lots. There were negotiations taking place between the rice millers and the *arhtia* association of the mandi, with no presence of any State Agencies and authorities, to break the logjam and compromise on a moisture limit. The *arhtias* complained about the mismatch between the paddy-quality norms set by the FCI, and the changing realities on the ground due to shift in harvesting conditions. Respondents that I spoke to also confirmed that in most cases these negotiations between the *arhtias* and the rice-mill owners would end up in monetary deals.

Recent efforts by the Aam Admi Party led government to streamline the paddy allocation process for custom milling, and to restrict the flow of procured paddy from a commission agent's shop to a rice mill owned by the same kin or blood-relation, has had the inadvertent effect of consolidating the commission agents as a trading class. This has gained the commission agents more heft to negotiate with rice mill owners to fasten lifting of foodgrains from the mandis.[17]

The direct consequence of this incongruency between policy and reality, along with the changes in the procurement circuit, at the micro level of the Punjab mandis, is the changing correlation between the different actors of the paddy cycle- farmers, *arhtias,* and rice mill owners.

Behind the often-highlighted State led foodgrain procurement system, is a complex intermingling of various actors and only a focus on these interlinked relationships can tell us the story of emerging alliances. The

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[16] A more thorough discussion on the paddy varieties can be found in the first article of this series, 'Fraught with Contestations: Crop Diversification under Agrarian Distress in Indian Punjab', available at: https://casi.sas.upenn.edu/sites/default/files/upiasi/Fraught%20with%20Contestations%20Crop-Diversification%20under%20Agrarian%20Distress%20in%20Indian%20Punjab%20-%20Ranjini%20Basu.pdf

[17] Government of Punjab (2022), *The Punjab Custom Milling Policy for Kharif 2022-23*, Department of Food, Civil Supplies, and Consumer Affairs, Punjab

centrality of the *arhtias* or commission agents as the 'shock-absorbers' and 'negotiators' on behalf of the farmers in the contemporary foodgrain mandis of Punjab, calls for alterations in their previous characterization of mere exploitative intermediaries and moneylenders. Finally, this also provides us a window to understand why were the *arhtias* accepted as allies during the farmers' movement against the Farm Laws.