



Contract Farming in India's Agriculture

For Prelims: [Contract Farming](#), [Organic Fertilizers](#), [Maximum Residue Level \(MRL\)](#), [Soil Degradation](#), [Monocropping](#), [Food Security](#), [Farmer Producer Organizations \(FPOs\)](#), [Farmers' Empowerment and Protection Agreement on Price Assurance and Farm Services Act, 2020](#), [Andes Region](#), [Protection of Plant Varieties and Farmers' Rights Act, 2001](#), [High Court](#).

For Mains: Advantages and concerns related to contract farming.

Source: [IE](#)

Why in News?

Contract farming has had a **positive impact** in India, particularly for processed potatoes, and this success can be **extended to other crops** and food products.

What is a Contract Farming Model?

- **About:** **Contract farming** is a system where **farmers (producers)** and **buyers** enter into an agreement regarding the **production and marketing** of farm products.
 - The agreement specifies the **price, quantity, quality standards, and delivery date** for the farmer's produce **before the production process begins**.
- **Advantages:**
 - **Efficient Supply Chain Management:** It **reduces wastage of perishables** ensuring **fair pricing** for producers and consumers.
 - **Access to Credit and Inputs:** Farmers benefit from **credit, inputs, and extension services** provided by contracting firms for **improved quality and production**.
 - **Enhanced Operational Efficiency:** It helps firms **reduce costs, boost efficiency, and meet demand** for high-value, non-traditional crops.
 - **Increased Income for Farmers:** Contract farmers often **earn higher incomes** than non-contract farmers due to **improved yields, guaranteed prices, and efficient practices**.
 - An **RBI paper** revealed that **farmers receive only 31%-43%** of the consumer price for fruits and vegetables that can **increase under contract farming**.
 - **Meeting Food Safety Standards:** Firms often train farmers in **food safety practices**, such as using **organic fertilizers** and pesticide control, to meet international standards like the **Maximum Residue Level (MRL)**.
 - **Better Price for Consumers:** It **cuts intermediaries**, offering **better prices** for consumers and **competitive rates** for products without middlemen markups.
- **Concerns:**
 - **Power Imbalance:** Small farmers often **lack bargaining power** with large agribusinesses that may lead to **exploitative terms**, especially when **dependent on contracts and investments** in specific crops or assets.
 - **Risk of Default:** **Farmers** may default if market **prices rise**, while **firms** may refuse procurement after a **price crash**, leaving farmers without a market.

- **Loss of Control Over Land:** Firms often supply all inputs, leaving farmers with **only land and labor to offer**. It can create situations of **forced cultivation** and **indirect land grabs by firms**.
- **Environmental Degradation:** **Intensive contract farming** can harm the environment through excessive water use, **monocropping**-related infestations, and increased pesticide and fertilizer application.
- **Food Insecurity:** Farmers might prioritize **high-value cash crops** for contract farming at the cost of growing **food crops**, affecting **local food security**.
- **Policy Status:**
 - **Model APMR (Agricultural Produce Marketing Regulation) Act, 2003:** It introduced **compulsory registration** for contracting firms, **dispute resolution**, **market fee exemptions**, and protected farmers' land ownership under contracts.
 - **Model Agriculture Produce and Livestock Contract Farming Act, 2018:** Key provisions included **state-level authorities for contract farming implementation**, promotion of **FPOs**, **insurance for contracted produce**.

What are Key Points on Potato Production in India?

- **About Potato:** A potato is a **starchy root vegetable** rich in carbohydrates. It originated in the **Peruvian-Bolivian Andes region** of South America.
 - Potatoes need **friable, porous, well-drained soil**.
- **Potato Production:** India is the **2nd-largest** potato producer globally after **China**.
 - **Top Producer: Uttar Pradesh, West Bengal, and Bihar.**
 - The **Kufri varieties of potato** were developed by the **Central Potato Research Institute (CPRI), Shimla**.
- **Legal Dispute (PepsiCo vs. Indian Farmers Case):** In **2016**, PepsiCo **filed lawsuits** against farmers in Gujarat, accusing them of **unauthorized cultivation** of **FL 2027** (potato variety) and demanded compensation.
 - In 2024, the **Delhi High Court** reinstated PepsiCo's FL 2027 registration under the **Protection of Plant Varieties and Farmers' Rights Act, 2001** reviving the dispute.

Way Forward

- **Enhancing Farmers' Bargaining Power:** The government should promote collective action through **FPOs** and cooperatives to help **small landholders** negotiate **better terms and reduce exploitation**.
- **Land Reform Programs:** Land reform programs like **land consolidation** should be strengthened to **ease access to land leasing and contracts**, addressing ownership issues and enabling smallholders to participate more effectively in contract farming.
- **Product-Specific Strategies:** Policymakers should create **tailored contract farming** strategies for **different crops, regions, and market needs** to maximize benefits, especially in high-value sectors.
- **Protection of Farmers' Interests:** A legal framework should protect farmers from exploitation by ensuring **clear, fair, and legally binding agreements**, with strong **dispute resolution mechanisms**.
- **Partnerships with Firms:** The government should **partner with agribusinesses** to align interests with farmers' welfare, promote **fair practices**, and **focus on technology transfer, farmer training** to boost productivity and reduce risks.

Drishhti Mains Question:

Q. Examine the advantages and concerns associated with contract farming in India. How can policy reforms address these concerns?

UPSC Civil Services Examination, Previous Year Question (PYQ)

Mains

Q. In view of the declining average size of land in India which has made agriculture non-viable for a majority of farmers, should contract farming and land leasing be promoted in agriculture? Critically evaluate the pros and cons. **(2015)**

Q. How did land reforms in some parts of the country help to improve the socio-economic conditions of marginal and small farmers? **(2021)**

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