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Essential Commodities (Amendment) Bill, 2020

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Why in News

Recently, the Parliament passed the **Essential Commodities (Amendment) Bill, 2020**. The Bill replaces an **Ordinance promulgated in June 2020** and amends the **Essential Commodities Act (ECA), 1955**.

Key Points

- **Features of the Bill:**

- **Removes commodities** like cereals, pulses, oilseeds, edible oils, onion and potatoes from the list of **essential commodities**.
- Aims to **remove fears of private investors** of excessive regulatory interference in their business operations.
- **Ensures that interests of consumers** are safeguarded by regulating agricultural foodstuff in situations such as **war, famine, extraordinary price rise and natural calamity**.

However, the installed capacity of a value chain participant and the export demand of an exporter will remain exempted from such regulation so as to ensure that investments in agriculture are not discouraged.

- **Background:**
 - The ECA 1955 was **used to curb inflation** by allowing the Centre to enable control by state governments of trade in a wide variety of commodities.
 - The states **imposed stock limits** to restrict the movement of any commodity deemed **essential**. It helped to **discourage hoarding** of items, including food commodities, such as pulses, edible oils and vegetables.
 - However, the **Economic Survey 2019-20** highlighted that government intervention under the ECA 1955 often **distorted agricultural trade** while being totally **ineffective in curbing inflation**.
 - Such intervention does enable opportunities for **rent-seeking** and **harassment**.
 - **Rent-seeking** is a term used by economists to describe unproductive income, including from corruption.
 - Traders tend to **buy far less** than their usual capacity and **farmers often suffer huge losses** during surplus harvests of perishables, since large stocks held by traders can be outlawed under the ECA 1955 anytime.
 - This led to **farmers being unable to get better prices** due to **lack of investment in cold storage, warehouses, processing and export**.
 - Also with the **Food Corporation of India (FCI)** controlling stocks before, there were less investment and buyers.
- **Benefit:**
 - The freedom to produce, hold, move, distribute and supply will lead to **harnessing economies of scale** and **attract private sector/foreign direct investment** into the agriculture sector.
 - **Investment in cold storages** and **modernization of the food supply chain** will increase.
 - It will create a **competitive market environment** and also **prevent wastage of agri-produce** that happens due to lack of storage facilities.
 - It will help both farmers and consumers while bringing in **price stability**.
- **Issues Involved:**
 - It will be a highly centralized law and will **infringe upon the States' powers**, as they will not be able to regulate let say the menace of hoarding, black marketing etc.
 - The stock limit relaxations under the ECA may lead to **black marketing** and **hoarding** rather than benefiting the producers. This will lead to **increase in inflation** and **monopoly of few individuals** over prices of certain goods.

Way Forward

The ECA 1955 was brought when India was not self sufficient in food grains production. But now India has become surplus in most agri-commodities, and the amendments in the ECA 1955 is an important step by the government to achieve its target of **doubling farmers' income** and also for **ease of doing business**.

Source: IE