Essential Commodities (Amendment) Bill, 2020

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