

CONTRACT VIS-À-VIS CORPORATE FARMING IN PUNJAB

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The basic concept of contract farming is to reduce risks for the buyer and producer of a product. The scope for development of contract farming lies in the development of agro-processing industries and related infrastructure. In Punjab, the Punjab Agro Foodgrain Corporation had prepared a plan to promote contract farming in 1.60 lakh hectares in the year 2003, 3.60 lakh hectares in 2004, 5.20 lakh hectares in 2005, 7.20 lakh hectares in 2006 and 10 lakh hectares in 2007. The major thrust has been on kharif corn followed by durum wheat and hyola. Basmati rice and sunflower were two other important crops covered in this scheme. The actual area under contract farming was about nine thousand hectares in 2002-03 which increased to about 95 thousand hectares in 2006-07. The main concentration of area was in Hoshiarpur and Jalandhar districts.

The actual area brought under contract farming was far less as compared to the high targets. During the year 2002-03, the actual area was about six per cent of the target, it was about 21 per cent in 2003-04, about 19 per cent in 2004-05, about 12 per cent in 2005-06 and about 10 per cent in 2006-07. The high targets were not fixed keeping in view the ground reality. The contract price given to the farmers was more or less linked with the MSP of different crops. Since Punjab is the state of small, marginal and medium farmers, therefore corporate farming is not advisable because it is a question of livelihood security of lakhs of farming households. Already about two lakhs small and marginal farmers had left farming due to various reasons during the period between 1990-91 and 2000-01. The scope to absorb the surplus labour of agriculture sector in the industry and service sector is very limited in the state because a majority of the farmers and agricultural labourers lack the skills to do such jobs. Keeping in view all this, the contract farming is a better option vis-à-vis corporate farming.

Keywords : Farming, Contract, Corporate

INTRODUCTION

The basic concept of contract farming is to reduce risks for the buyers and producers of a product. To cover their risks, both the producers and buyers-mainly processors enter into contracts to supply or purchase a specified quantum of the commodity at pre-determined or agreed prices over a period of time. The agreed contract sometimes covers the mode and time of payment, credit facilities, input supply, etc and may be either formal or informal (Bhalla and Singh, 1996). By contracting, the buyer reduces the risk of non availability of raw material and the producer also reduces risk, as a fixed price contract for a given area eliminated the market risk of a grower (Glover, 1990).

The scope for development of contract farming lies in the development of agro-processing industries and related infrastructure. The vastness of India with diversity in its agro-climatic conditions confers comparative advantage in production of most of the high value crops. Most of the developed countries are deprived of this gift of nature, and crops like fruits and vegetables and flowers are cultivated in green houses at a very high cost (Haque and BIRTHAL, 1998). India is the second largest producer of fruits and vegetables in the world (Government of India, 2002). The commercial processing of fruits and vegetables in our country is hardly about two per cent. Against this, the commercial processing is about 70 per cent for Brazil, 83 per cent for Malaysia, 70 per cent for Phillipines and 30 per cent for Thailand (Rangi and Sidhu, 2000). As a result for poor agro-processing infrastructure, 20 to 30 per cent of production is lost every year (Ibid). The processing of farm produce increases its value. i.e. it adds form utility. During 2002, the Punjab Government and its public sector organizations initiated a number of steps to popularize the contract farming scheme. It has been given wide publicity in the newspapers and electronic media. In this paper an attempt has been made to examine some policy issues of the contract and corporate farming in Punjab.

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Data Base

The paper is based on Secondary data published by reputed resources. Notable among these are Statistical Abstract of Punjab. The information published in reputed English news papers is also used.

RESULTS AND DISCUSSION

Need for Contract Farming

During the last three decades or so, the cropping system in the state has witnessed a distinct shift in favour of paddy-wheat rotation, creating some serious imbalances in the farm production pattern accompanied by several related problems on production, market and input supply fronts. The predominance of paddy-wheat rotation has some far reaching implications for the state in the form of soil health, multiplication of pests and diseases, intensive use of energy, particularly commercial energy and deterioration in the overall agro-eco-system of the state (Johl et al, 1986). The Expert Committee on Diversification of Agriculture in Punjab (popularly known as Johl Committee) recommended in 1986 that at least 20 per cent of the area presently under wheat and paddy must be replaced by other competitive and profitable alternative farm enterprises. Only then, the diversification would have any perceptible impact on the economy of the state. Due to various reasons, the recommendations of the Johl Committee (1986) were not accepted by the Government of India as well as Punjab Government although the policy makers, farmers, administrators and agricultural scientists talked about the need for diversification of agriculture.

Keeping in view all these aspects the State Government again constituted a committee after a gap of 16 years under the Chairmanship of Dr S.S.Johl, an internationally known agricultural economist. In the year 2002, again the Chief Minister Advisory Committee of Agricultural Policy on Restructuring recommended that ten lakh hectares of area under wheat and paddy (each crop) should be replaced by other crops which consumes less water, are compatible ecological and are in demand in the country (Johl et al, 2002). For this purpose, the Government of India may give cash compensation @ Rs 12500 per hectare to the state farmers. This target of shifting one million hectares of land from under wheat-rice rotation to other crops can be achieved at the cost of Rs 1280 crores by providing compensation to the farmers for not growing rice and wheat and shifting area to other crops (Ibid). The recommendations of the Johl Committee-II are still in the pipeline and Government of India has taken no final decision so far in this regard. Some people say the report on diversification has been placed in bureaucratic deep freeze at the capital level (Gill, 2003).

The farm income in Punjab started improving with the introduction of high yielding varieties (HYV) of the wheat in mid 1960s and HYVs of paddy in the early 1970s. Since the mid 1980s, the real income of the farmers did not show any remarkable increase due to stagnation in the farm productivity (Rangi and Sidhu, 1999). Rather, there was decline in cotton productivity during the last one decade or so. For these reasons, further improvement in farm income has been increasingly difficult. In fact, it would be a great challenge even to maintain the real farm income at the present level in the coming years. Above all, the total indebtedness of the Punjab farmers was around Rs 5700 crore in 1996-97 (Shergill). If further increased to about Rs. 21064 crore in 2005-06 in the State (Singh, Kaur and Kingra, 2007). This study further highlighted that as many as 89 per cent of the farmer households were under debt in Punjab (Ibid).

Shift in Cropping Pattern

The cropping pattern of the state is shown in Table I. The figures show that during the year 2006-07, about 80 per cent of the total cropped area was under foodgrains, about 11 per cent under cash crops, i.e. cotton, sugarcane, oilseeds and potato and 2.12 per cent was occupied by fruits and vegetables. Per cent area under cereals increased from about 51 per cent in 1966-67 to about 80 per cent in 2006-07. It may be

mentioned here that wheat alone occupied about 44 per cent of the total cropped area in this year. Similarly, rice crop had about 33 per cent of the total area. In this way, both wheat and paddy occupied about 77 per cent of the cropped area. All other cereal crops like maize, jowar, bajra, barley, etc had only about three per cent of the total cropped area. On the other hand, the area under pulses declined from 13.4 per cent in 1966-67 to only 0.37 per cent in 2006-07. Similarly, the area under oilseeds declined from 6.20 per cent to 0.89 per cent, sugarcane from 3.00 per cent to 1.26 per cent and cotton from 8.40 per cent to 7.72 per cent in the corresponding period. The area under cotton was fluctuating in the last decade as the attack of American bollworm on the cotton crop adversely affected the production and productivity of this crop in the State. Under these circumstances, since area under cotton shifted to paddy on account of stable yield and assured price for paddy crop. The area under fruits and vegetables increased from 0.8 per cent in 1966-67 to 2.12 per cent in 2006-07. This shift has not been significant although fruits and vegetables earn 20 to 30 times more foreign exchange per unit area than cereals (Dahiya, 1999). This analysis reveals that cereals, particularly wheat and rice, have come to dominate the cropping pattern in the state in the wake of new farm technology and the axe has fallen mainly on pulses and oilseeds.

Table 1 : Shifts in Cropping Pattern in Punjab, 1966-67 to 2006-07

(%age area under crops)

Year/ Crop	Cereals	Pulses	Food grains	Oil-seeds	Sugarcane	Potato	Cotton	Fruits and vegetables
1966-67	50.90	13.40	64.30	6.20	3.00	0.30	8.40	0.80
1971-72	61.90	6.70	68.60	5.60	1.80	0.80	8.50	0.80
1976-77	64.70	6.30	71.00	4.00	1.80	0.50	8.80	0.70
1981-82	67.50	4.70	72.20	3.20	1.50	0.50	9.90	1.30
1986-87	73.50	3.10	76.60	2.30	1.50	0.40	8.70	1.80
1991-92	73.80	1.20	75.00	2.80	1.50	0.40	9.60	1.80
1996-97	71.60	1.20	72.90	3.10	2.20	0.60	9.20	2.10
2001-02	76.90	0.60	77.50	1.00	1.80	0.70	7.60	1.80
2005-06	79.47	1.49	80.96	0.80	1.06	0.94	7.05	2.72
2006-07	79.72	0.37	80.09	0.89	1.26	0.97	7.72	2.12

Source : Statistical Abstract of Punjab, various issues.

Table 2: Contract Farming Plan of Punjab, 2003-07

Crop/Year	Target plan in hectares				
	2003	2004	2005	2006	2007
Hyola	30000 (18.75)	80000 (22.22)	120000 (23.08)	160000 (22.22)	200000 (20.00)
Barley	2000 (1.25)	6000 (1.67)	10000 (1.92)	16000 (2.22)	28000 (2.80)
Winter maize	1200 (0.75)	2000 (0.56)	4400 (0.85)	5000 (0.69)	6000 (0.60)
Durum Wheat	40000 (25.00)	80000 (22.22)	120000 (23.08)	160000 (22.22)	200000 (20.00)
Sunflower	5000 (3.13)	16000 (4.44)	40000 (7.69)	60000 (8.33)	90000 (9.00)
Spring corn	2000 (1.25)	6000 (1.67)	6000 (1.15)	16000 (2.22)	32000 (3.20)
Basmati	10000 (6.25)	20000 (5.56)	28000 (5.38)	40000 (5.56)	60000 (6.00)
Kharif corn	60000 (37.50)	120000 (33.33)	160000 (30.77)	200000 (27.78)	280000 (28.00)
Guar gum	2000 (1.25)	2400 (0.67)	3000 (0.58)	4000 (0.56)	5800 (0.58)
Castor/ Jatropha	2000 (1.25)	4000 (1.11)	8000 (1.54)	16000 (2.22)	20000 (2.00)
Groundnut	400 (0.25)	600 (0.17)	6000 (1.15)	8000 (1.11)	10000 (1.00)
Organic basmati	400 (0.25)	1200 (0.33)	2000 (0.38)	2800 (0.39)	6000 (0.60)
Vegetables	800 (0.50)	1600 (0.44)	2400 (0.46)	4000 (0.56)	8000 (0.80)
Others	4200 (2.63)	20200 (5.61)	10200 (1.96)	28200 (3.92)	54200 (5.42)
Total	160000 (100.00)	360000 (100.00)	520000 (100.00)	720000 (100.00)	1000000 (100.00)

Note: Figures in parentheses indicate percentages to total

Source: Punjab Agro Food Grain Corporation Ltd., Chandigarh

Contract Farming Plan (2003 to 2007)

The Punjab Agro Foodgrain Corporation had prepared a plan to promote contract farming in 1.60 lakh hectares in the year 2003, 3.60 lakh hectares in 2004, 5.20 lakh hectares in 2005, 7.20 lakh hectares in 2006 and 10 lakh hectares in 2007 (Table 2).

The major thrust has been on kharif corn followed by durum wheat and hyola. Basmati rice and sunflower were two other important crops covered in this scheme. It may be mentioned that vegetable crops are labour intensive and can provide 4-5 times more employment opportunities as compared to wheat and paddy crops. At the same time, about 30 per cent of the operational holdings in Punjab consist of small and marginal farmers. A look at the contract farming plan indicate that less importance has been given to the vegetable crops due to their perishable nature. The price fluctuation is also more for vegetable crops. In this way, the policy makers of this scheme have ignored vegetable cultivation. Even in the year 2007, the area under contract farming proposed for vegetable crops was only 8000 hectares, a very small figure of only 0.64 hectare per village in the state.

Another aspect that has been ignored in the contract farming plan is the seed. The seed requirement for a single durum wheat crop has been estimated at about 0.40 lakh qtls in 2003, 0.80 lakh qtls in 2004, 1.20 lakh qtls in 2005, 1.60 lakh qtls in 2006 and 2.00 lakh qtls in 2007. The seed supply management had not been properly formulated.

Already, the winter maize crop, particularly in Nawan Shahar district, has totally failed under contract farming during the year 2002-03. The Agriculture Minister of Punjab had ordered an enquiry into the failure of winter maize grown under contract farming after the farmers protested in this regard (Singh, 2003). At the same time, the Punjab Government had kept the Punjab Agricultural University and the agriculture technocrats out of this picture, which is not good (Sidhu, 2003). The private companies have a run of Punjab fields with no check on seed quality, gene pool safety or legal safeguards for farmers (Ibid). It has been found that castor oil seed and cotton are confirmed enemies of each other and the farmers spent years getting castor oil seed out of Malwa region of the state but Punjab Agro Foodgrain Corporation is now recommending the sowing of crop in the cotton belt (Fazilka) under a new scheme.

AREA UNDER CONTRACT FARMING

The information regarding actual area of different crops under contract farming in Punjab from 2002-03 to 2006-07 is shown in Table 3. The total area under contract farming was about 8925 hectares during the year 2002-03, out of which the maximum area, i.e. about 44 per cent was under hyola followed by sunflower (about 38 per cent), maize (about 14 per cent) and barley (about four per cent). The area under contract farming increased to about 74902 hectares in 2003-04. During this year, the maximum area was under basmati (about a 48 per cent) followed by maize (15 per cent), sunflower (about 12 per cent), hyola (about 10 per cent), durum wheat (about 6 per cent) and barley (about three per cent). The rest of the area was under moong, guar and castor. The area under contract farming was about 98124 hectares in 2004-05. Again the basmati had the maximum area (about 41 per cent) followed by hyola (about 26 per cent), maize (about 13 per cent), sunflower (about 13 per cent) and durum wheat (about 3 per cent). The rest of the area was under moong, barley and castor. The actual area under contract farming scheme declined to about 86473 hectares in 2005-06. Hyola crop was at the top with about 32 per cent of the area followed by maize (about 30 per cent), basmati (about 20 per cent), sunflower (about 8 per cent), potato seed (about three per cent), and barley (about two per cent). The area under contract farming again increased to about 95172 hectares in 2006-07. During this year, the maximum area (about 44 per cent) was under maize followed by hyola (about 23 per cent), basmati (about 15 per cent), sunflower (about 13 per cent) and barley (about 5 per cent). The remaining area was under guar. The information about crop-wise actual area under contract farming scheme

received that priority was to the non-perishable crops. Under these crops, the price variation is not very high and demand is also stable. The major concern is about perishable agricultural commodities like fruits and vegetables where there is a wide price fluctuation due to small change in the demand and supply forces.

Table 3: Area of Different Crops Under Contract Farming Scheme in Punjab, 2002-03 to 2006-07

(Area in hectares)

Crop/Year	2002-03	2003-04	2004-05	2005-06	2006-07
Hyola	3919.20 (43.91)	7644.40 (10.21)	25600.00 (26.09)	27352.80 (31.63)	22200.00 (23.33)
Sunflower	3416.40 (38.28)	8805.60 (11.76)	12600.00 (12.84)	7176.80 (8.30)	12000.00 (12.61)
Durum Wheat	-	4544.80 (6.07)	2561.60 (2.61)	800.00 (0.93)	-
Malting Barley	328.00 (3.68)	2136.40 (2.85)	1528.80 (1.56)	1826.40 (2.11)	4560.00 (4.79)
Moong	-	1797.20 (2.40)	1881.60 (1.92)	1538.40 (1.78)	-
Basmati Pure	-	36211.60 (48.35)	40000.00 (40.76)	16903.60 (19.55)	14000.00 (14.71)
Maize	1261.20 (14.13)	11235.60 (15.00)	13151.60 (13.40)	25636.00 (29.65)	42000.00 (44.13)
Guar	-	1860.00 (2.48)	-	454.40 (0.53)	412.00 (0.43)
Castor	-	666.80 (0.89)	800.00 (0.82)	-	-
Mantha	-	-	-	1869.20 (2.16)	-
Potato Seed	-	-	-	2915.60 (3.37)	-
Total	8924.80 (100.00)	74902.40 (100.00)	98123.60 (100.00)	86473.20 (100.00)	95172.00 (100.00)

Note: Figures in parentheses indicate percentages to total

District-wise Area Under Contract Farming

The information about district-wise area under contract farming for the years 2005-06 and 2006-07 is shown in Table 4. During the year 2005-06, the maximum area (about 17 per cent) was in Hoshiarpur district followed by Jalandhar district (about 12 per cent), Ludhiana and Sangrur districts (about 8 per cent each), Nawan Shahr, Amritsar, Roopnagar and Patiala districts (about 7 per cent each) and rest of the area was in other districts. Similarly, during the year 2006-07, the maximum area under contract farming was in Hoshiarpur district (about 25 per cent) followed by about 14 per cent in Jalandhar district. Except Ropar and Patiala districts, the area under contract farming in each of other districts was about less than five per cent. In the former two districts, it was about 7 per cent.

Table 4: District-wise Area Under Contract Farming in Punjab (Area in hectares)

Sr.No	District/Year	2005-06	% age to total area	2006-07	% age to total area
1	Gurdaspur	4166.40	4.82	4858.40	5.10
2	Amritsar	6091.20	7.04	4240.00	4.46
3	Tarn Taran	-	-	2399.20	2.52
4	Kapurthala	2514.00	2.91	4878.00	5.13
5	Jalandhar	10109.20	11.69	13601.60	14.29
6	Nawan Shahr	6464.80	7.48	9454.80	9.93
7	Hoshiarpur	14342.00	16.59	23673.60	24.87
8	Rupnagar	5983.60	6.92	6961.60	7.31
9	S.A.S Nagar	-	-	205.20	0.22
10	Ludhiana	7202.80	8.33	3386.00	3.56
11	Ferozepur	2194.00	2.54	2980.40	3.13
12	Faridkot	849.60	0.98	537.20	0.56
13	Muktsar	1239.60	1.43	1435.20	1.51
14	Moga	1933.60	2.24	659.60	0.69
15	Bathinda	3423.60	3.96	3168.00	3.33
16	Mansa	3912.80	4.52	1897.60	1.99
17	Sangrur	6704.40	7.75	2746.40	2.89
18	Barnala	-	-	-	-
19	Patiala	5972.00	6.91	6296.00	6.62
20	Fategarh Sahib	3369.60	3.90	1793.20	1.88
21	State	86473.20	100.00	95172.00	100.00

Source: Statistical Abstract of Punjab, various issues

Table 5: Target vis-a-vis Actual Area Under Contract Farming in Punjab, 2002-03 to 2006- 07

Crop/Year	2002-03		2003-04		2004-05				
	Target of area	Actual Area	Actual area as %age of target	Target	Actual Area	Actual area as %age of target	Target	Actual Area	Actual area as %age of target
Hyola	30000.00	3919.20	13.06	80000.00	7944.40	9.56	120000.00	25600.00	21.33
Barley	2000.00	328.00	16.40	6000.00	2136.40	35.61	10000.00	1528.80	15.29
Winter maize	1200.00	1261.20	105.10	2000.00	11235.60	561.78	4400.00	13151.60	298.90
Durum Wheat	40000.00	-	-	80000.00	4544.80	5.68	120000.00	2561.60	2.13
Sunflower	5000.00	3416.40	68.63	16000.00	8805.60	55.04	40000.00	12600.00	31.50
Spring corn	2000.00	-	-	6000.00	-	-	6000.00	-	-
Basmati	10000.00	-	-	20000.00	36211.60	181.06	28000.00	40000.00	142.86
Kharif corn	60000.00	-	-	120000.00	-	-	160000.00	-	-
Guar gum	2000.00	-	-	2400.00	1860.00	77.50	3000.00	-	-
Castor	2000.00	-	-	4000.00	666.80	16.67	8000.00	800.00	10.00
Groundnut	400.00	-	-	600.00	-	-	6000.00	-	-
Organic basmati	400.00	-	-	1200.00	-	-	2000.00	-	-
Vegetables	800.00	-	-	1600.00	-	-	2400.00	-	-
Others	4200.00	-	-	20200.00	-	-	10200.00	-	-
Total	160000.00	8924.80	5.58	360000.00	74902.40	20.81	520000.00	98123.60	18.87

(Area in hectares)

Crop/Year	2005-06			2006-07		
	Target of area	Actual Area	Actual area as %age of target	Target	Actual Area	Actual area as %age of target
Hyola	160000.00	27352.80	17.10	200000.00	22200.00	11.10
Barley	16000.00	1526.40	11.42	28000.00	4560.00	16.29
Winter maize	5000.00	25636.00	512.72	6000.00	42000.00	700.00
Durum Wheat	160000.00	800.00	0.50	200000.00	-	-
Sunflower	60000.00	7176.80	11.96	90000.00	12000.00	13.33
Spring corn	16000.00	-	-	32000.00	-	-
Basmati	40000.00	16903.60	42.26	60000.00	14000.00	23.33
Kharif corn	200000.00	-	-	280000.00	-	-
Guar gum	4000.00	454.40	11.36	5800.00	412.00	7.10
Castor	16000.00	-	-	20000.00	-	-
Groundnut	8000.00	-	-	10000.00	-	-
Organic basmati	2800.00	-	-	6000.00	-	-
Vegetables	4000.00	-	-	8000.00	-	-
Others	28200.00	-	-	54200.00	-	-
Total	720000.00	86473.20	12.01	1000000.00	95172.00	9.52

Source: Punjab Agro Food Grain Corporation Ltd, Chandigarh.

Table 6: Contract Price vis-à-vis Minimum Support Price of Different Crops in Punjab, 2002-03 to 2006-07

Crop/year	2002-03			2003-04			2004-05		
	Contract price (A)	MSP (B)	Price difference between A & B in % age	Contract price (A)	MSP (B)	Price difference between A & B in % age B	Contract price (A)	MSP (B)	Price difference between A & B in % age
Hyola	1250	1340	(-) 6.72	1600	1600	-	1700	1700	-
Sunflower	1210	1210	-	1250	1250	-	1340	1340	-
Durum Wheat	-	630	-	650	630	(+) 3.17	650	640	(+) 1.56
Malting Barley	535	505	(+) 5.94	505	525	(-) 3.81	525	540	(-) 2.78
Moong	1335	1335	-	1370	1370	-	1410	1410	-
Basmati	850-1350	-	-	850-1350	-	-	850-1350	-	-
Maize	-	490	-	500	505	(-) 0.99	525	525	-
Guar	750	-	-	-	-	-	800	-	-

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Crop/year	2005-06			2006-07		
	Contract price (A)	MSP (B)	Price difference between A & B in % age	Contract price (A)	MSP (B)	Price difference between A & B in % age
Hyola	1715	1715	-	1715	1715	-
Sunflower	1500	1500	-	1565	1500	(+) 4.33
Durum Wheat	720	700	(+) 2.86	800	850	(-) 5.88
Malting Barley	725	550	(+) 31.82	750	565	(+) 32.74
Moong	1520	1520	-	1520	1520	-
Basmati	850-1350	-	-	850-1350	-	-
Maize	540	540	-	540	540	-
Guar	-	-	-	-	-	-

Source: Statistical Abstract of Punjab, various issues

Table 7: Classification of Land Holdings in Punjab, 1980-81 to 2005-06.

Farm Category/ Numbers	1980-81		1990-91			
	Number	%age of total number	% age of area operated	Number	%age of total number	% age of area operated
Marginal	197323	19.21	3.03	296131	26.50	4.07
Small	199368	19.41	7.22	203842	18.24	8.13
Semi-medium	287393	27.98	20.32	288788	25.84	20.87
Medium	269072	26.20	40.21	261481	23.40	40.23
Large	73941	7.20	29.22	67172	6.02	26.70
Total	1027097	100.00	100.00	1117414	100.00	100.00
Total area operated (000, hect)			3890			4033
Average size of holding (hect)			3.79			3.61

Continued...

Farm Category/ Numbers	2000-01			2005-06		
	Number	%age of total number	% age of area operated	Number	%age of total number	% age of area operated
Marginal	122760	12.31	1.91	134000	13.36	2.09
Small	173071	17.35	6.02	183000	18.25	6.51
Semi-medium	328231	32.91	21.78	319000	31.80	21.57
Medium	300954	30.17	43.04	296000	29.51	42.91
Large	72356	7.25	27.25	71000	7.08	26.92
Total	997372	100.00	100.00	1003000	100.00	100.00
Total area operated (000, hect)			4022			3964
Average size of holding (hect)			4.03			3.95

Source: Statistical Abstract of Punjab, various issues

Target vis-à-vis Actual Area Under Contract Farming

The data given in Table 5 clearly brought out that actual area under contract farming was far less as compared to the target of this scheme. During the year 2002-03, the actual area was about a six per cent of the target, it was about 21 per cent in 2003-04, about 19 per cent in 2004-05, about 12 per cent in 2005-06 and about a 10 per cent in 2006-07. Therefore, we can conclude from these figures that targets were not fixed keeping in view the ground reality. Beginning of any development programme should be small one and after getting adequate experience of our strength and weaknesses, the programme should be expanded slowly and steadily. Since the two major crops of Punjab, i.e. wheat and paddy are covered under the Minimum Support Price (MSP) programme of the Union Government and effective public procurement is there, the Punjab farmers had not shown much interest to shift to other alternative crops. The yield of these two crops is also high as well as stable. These crops provided more net returns to the farmers as compared to other alternative crops in the state.

Contract Price vis-à-vis MSP of Different Crops

The information about contract price and MSP of different crops from the years 2002-03 to 2006-07 is given in Table 6. The contract price of different crops was more or less very close to the MSP except in case of barley during the years 2005-06 and 2006-07. It was due to the malting barley because MSP was for the ordinary barley. Therefore, the policy makers of the contract farming scheme has kept the MSP of different crops as base of the contract price. From the farmers point of view, the incentive to the contract farmers was very little, therefore, they did not come forward in a big way for this scheme although the State Government incurred a lot of expenditure on its publicity in the print and electronic media.

CORPORATE FARMING

An impression has been created in the country that Punjab is a land of big farmers. This is far away from the ground reality. In the recent years, corporate farming is also in the news due to economies of large scale farming. Corporate farming refers to the direct ownership or leasing of farm land by business organizations in order to produce for their captive processing requirement or for the open market. What may be suitable in the developed countries cannot be replicated in the over populated developing countries like India. In the developed countries, the percentage of population dependent on agriculture is less than 5 per cent. On the other hand, agriculture sector in the India gives employment to about 59 per cent of the work force of the country and about 82 per cent of the operational holdings of India consists of small and marginal farmers and the average size of holding is about 1.32 hectares which is further divided into 2.70 parcels in each case. Even in Punjab, the average size of operational holding is 3.95 hectares and about 32 per cent are the marginal and small holdings. (Table 7). The total number of operational holdings was about 10 lakh in 2005-06. Between 1990-91 and 2000-01, about two lakh small and marginal farmers had left farming due to various reasons. The encouragement to the corporate farming will render lakhs of other small and marginal farmers to leave the agricultural sector. It is worthwhile to point out that agricultural workers do not have much skill to opt for job opportunities in the industrial and other sectors of the economy. Moreover, the non-farming sector is also capital intensive and has limited capacity to absorb the surplus labour of the farm sector. Therefore, the corporate farming is not in the overall interest of the Indian economy in general and agricultural sector in particular. It may be stated that number of small and marginal farmers was about 39 per cent in 1980-81 which increased to about 45 per cent in 1990-91. Due to agrarian crisis during 1990s about two lakhs small and marginal farmers left the agricultural sector in Punjab and their share declined to about 30 per cent in 2000-01. Therefore, out of these two types of farming, the contract farming is better vis-à-vis corporate farming because in the contract farming, the farmers remain busy in the profession of farming whereas in the corporate farming, the farmers in general small and marginal farmers in particular will become simply landless labourers and they will lose their social and economic status in the rural society.

Conclusion and suggestions

The basic concept of contract farming is to reduce risks for the buyer and producer of a product. The scope for development of contract farming lies in the development of agro-processing industries and related infrastructure. In Punjab, the Punjab Agro Foodgrain Corporation had prepared a plan to promote contract farming in 1.60 lakh hectares in the year 2003, 3.60 lakh hectares in 2004, 5.20 lakh hectares in 2005, 7.20 lakh hectares in 2006 and 10 lakh hectares in 2007. The major thrust has been on kharif corn followed by durum wheat and hyola. Basmati rice and sunflower were two other important crops covered in this scheme. The actual area under contract farming was about nine thousand hectares in 2002-03 which increased to about 95 thousand hectares in 2006-07. The main concentration of area was in Hoshiarpur and Jalandhar districts.

The actual area brought under contract farming was far less as compared to the high targets. During the year 2002-03, the actual area was about six per cent of the target, it was about 21 per cent in 2003-04, about 19 per cent in 2004-05, about 12 per cent in 2005-06 and about 10 per cent in 2006-07. The high targets were not fixed keeping in view the ground reality. The contract price given to the farmers was more or less linked with the MSP of different crops. Since Punjab is the state of small, marginal and medium farmers, therefore corporate farming is not advisable because it is a question of livelihood security of lakhs of farming households. Already about two lakhs small and marginal farmers had left farming due to various reasons during the period between 1990-91 and 2000-01. The scope to absorb the surplus labour of agriculture sector in the industry and service sector is very limited in the state because a majority of the farmers and agricultural labourers lack the skills to do such jobs. Keeping in view all this, the contract farming is a better option vis-à-vis corporate farming.

The following policy measures will bring improvement in the contract system in the state:

- i) This system may be made legal. It should be obligatory on the part of contract farmers and the buying companies to strictly adhere to the contract. Both parties, i.e. farmers and the company, may keep one copy of the agreement. The contract farmer may be blacklisted in case he does not deliver the produce. Similarly, the company may be fined in case of non-acceptance of the produce. The State Government may bring suitable legislative measures in this regard.
- ii) The Punjab Agricultural University and the Department of Agriculture, Punjab may be actively associated with this scheme. Only PAU recommended varieties of various crops may be sown under the contract farming system in the State.
- iii) The seed and other farm inputs supplied to the farmers by the companies should be of good quality and tested as per Punjab soil and other climatic conditions.
- iv) The present contract farming is pro-large farmers. The small and marginal farmers should be covered under this scheme.
- v) The manpower available in the Department of Agriculture must be used for extension activities of the system instead of on payment by the companies.
- vi) More processing units should be set up in the state so that agro-processing and value addition for perishable is undertaken on a large scale which is the mandate of the Punjab Agro Industries Corporation.
- vii) To cover the production risk, crops under this system should be covered under crop insurance schemes.
- viii) There should be a dispute settlement mechanism in the contract system.

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