

Bill No. XXI of 2017

THE INDIAN CONTRACT (AMENDMENT) BILL, 2017

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BILL

further to amend the Indian Contract Act, 1872.

BE it enacted by Parliament in the Sixty-eighth Year of the Republic of India as follows:—

1. (1) This Act may be called the Indian Contract (Amendment) Act, 2017.

Short title and commencement.

5 (2) It shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint.

9 of 1972.

2. After Chapter VI of the Indian Contract Act, 1872 the following Chapter shall be inserted, namely—

Insertion of new Chapter VIA.

"CHAPTER VIA

SPECIAL PROVISIONS RELATING TO FARMING CONTRACTS

10 75A. In this Chapter, unless the context otherwise requires,—

Definitions.

(a) "agricultural produce" means all produce, whether processed or not, of agriculture, apiculture, sericulture, horticulture, animal husbandry or forest;

(b) "appropriate Government"—

(i) in relation to a Union territory, means the Central Government; and

(ii) in relation to a State, means the Government of that State; 5

(c) "buyer" means any person who has agreed to buy the produce of a farmer which the latter will produce in accordance with the contract farming agreement;

(d) "contract farming agreement" means an agreement between a farmer and buyer of agricultural produce, whereby the farmer agrees to produce and supply to the buyer such quantity of an agricultural product with specified quality standards as may be agreed between them and the buyer agrees to provide to the farmer various farm inputs and technical assistance on such terms and conditions as may be agreed between them; 10

(e) "Committee" means the Dispute Resolution Committee constituted under section 75-I of this Act. 15

(f) "prescribed" means prescribed by rules made under this Chapter.

Registration of Contract Farming Agreement.

75B. Every contract farming agreement shall be registered in such manner as may be prescribed and no such agreement shall be valid unless it is so registered with the appropriate authority.

Period of Contract Farming Agreement.

75C. The minimum period of a contract farming agreement shall be one crop season and the maximum period shall be two years. 20

Commitments of buyer and farmer under Contract Farming Agreement.

75D. The contract farming agreement shall clearly lay down, *inter alia*, the following—

(a) the commitments of the buyer in terms of supply of agricultural inputs, technical assistance and the stages at which pecuniary consideration shall be payable to the farmer; 25

(b) commitments of the farmer in terms of quantity and quality of agricultural produce to be supplies;

(c) the extent to which the interest of the farmer shall be secured by insurance by the buyer against failure of crop or destruction of agricultural produce due to unforeseen contingencies or events beyond the control of the farmer; and 30

(d) such other matters as may be prescribed by rules made under this Act.

Buyer's obligation to support production.

75E. The buyer shall provide support to production through, but not limited to, supply of inputs, technical assistance and any other activity related thereto specified in the agreement:

Provided that where the buyer fails to fulfil any of his obligations for production support under the contract farming agreement, and it causes a pecuniary loss to the farmer or any loss in terms of yield of agricultural produce, the buyer shall be liable to copensate the farmer for such loss. 35

Protection of interests of farmer.

75F. It shall be the obligation of the buyer to secure by insurance the interests of the farmer against failure of crop or destruction of agricultural produce due to unforeseen contingencies or events beyond the control of the farmer. 40

Recovery of loans, advances and dues by buyer from farmer.

75G.(1) The buyer shall be entitled to recover any loans, advances or dues owed by farmer to him from the amount of consideration unless anything contrary is provided in the contract farming agreement.

(2) Provided that no amount owed by farmer to the buyer or a financial institution in connection with a contract farming agreement shall be recoverable by way of sale or lease of any agricultural land owned by the farmer.

5 **75H.** (1) If there are sufficient reasons to believe that the buyer is evading payment of consideration amount to the farmer, the agricultural produce purchased by the buyer shall be seized in such manner as may be prescribed.

Seizure of produce from buyer on failure to pay consideration.

(2) The seizure of produce under sub-section (1) of section 75H shall be without prejudice to the right of the farmer to seek compensation for any loss caused to him.

10 **75 I.** (1) The appropriate Government shall constitute a Dispute Resolution Committee at district level for resolution of all disputes arising out of contract farming agreements, in such manner as may be prescribed.

Resolution of Disputes as to Contract Farming Agreement.

(2) On a dispute being brought before the Committee by the farmer or the buyer, the Committee, after giving a reasonable opportunity of being heard to each party to the dispute, shall pass an order within two months or such shorter period as may be prescribed.

15 5 of 1908. (3) The Committee shall have the same powers as are vested in a civil court while trying a suit under the Code of Civil Procedure, 1908 in respect of the following matters, namely:—

(a) summoning and enforcing the attendance of persons, compelling them to give evidence on oath and producing documents or things;

(b) requiring the discovery and inspection of documents;

20 (c) receiving evidence on affidavits;

(d) requisitioning any public records or copies thereof from any court or office;

(e) issuing summons for examination of witnesses or documents; and

(f) any other matter which may be prescribed.

25 **75J.** No civil court shall have jurisdiction to entertain any suit or proceedings in respect of any matter, the cognizance of which can be taken and disposed of by the committee.

Bar of Jurisdiction of courts.

75K. The appropriate Government shall establish, within a period of six months of coming into force of this Act, a mechanism to organise small and marginal farmers, who are desirous of engaging in contract farming, in farmers cooperatives.

Organising marginal farmers in cooperatives.

30 **75L.** (1) The appropriate Government shall establish, within a period of six months of coming into force of this Act, a mechanism to make qualitative assessment of all agricultural produce, as may be prescribed.

Establishment of an authority for Qualitative Assessment of agricultural produce.

(2) In case of a difference of opinion between the farmer and the buyer as to the qualitative aspects of agricultural produce, the decision of the competent authority established by the appropriate Government for qualitative assessment under this section shall be final."

STATEMENT OF OBJECTS AND REASONS

Agriculture has been and continues to be the backbone of Indian society and economy. Even in today's era of economic liberalisation where gigantic corporations, both domestic and multi-national, control majority of economic activities, farm incomes still are an important driver of economy. This is so since even today, agriculture employs about half of our workforce, though it only accounts for one-sixth of total Gross Domestic product (GDP). That is why any decline in farm incomes tends to have a decelerative impact on the entire economy; and the converse holds too. The economic importance of sustaining farm incomes cannot, therefore, be overemphasised. Acknowledging the significance of farm incomes, the present Government has set a target to double farm incomes by the year 2022.

The model of contract farming was touted as one such model which could help ameliorate the plight of poor farmers of India. The model was successfully applied by many large corporations in different parts of the country including cultivation of basmati rice in Punjab and parts of western Uttar Pradesh; cotton in Tamilnadu and barley in northern Karnataka. However, of late, the farmers and sponsoring companies have been facing several problems which have dented the expectations from the contract farming model. Some of the problems faced are:—

(i) As per agricultural census of 2010-2011, the average size of operational agricultural land holding is 1.15 hectare and marginal holdings (less than 1 hectare) account for about 67% of total operational holdings. Given the scale and nature of contract farming, it is obvious that such small sized holdings are not suitable for contract farming. As a result, small and marginal farmers are excluded from the benefits of contract farming.

(ii) There have been incidents where sponsoring companies have reneged on their contractual obligations on the pretext of sub-standard quality of agricultural produce or delay in delivery of produce and the like. In some cases, farmers have also failed to fulfill their contractual obligations and sold their produce in open market when market prices have risen considerably. This has vitiated the environment encompassing contract farming and created trust deficit between parties to the contract.

(iii) Some companies have failed to supply proper agri-inputs and make timely payments to farmers during the production process and after the produce has been delivered to them.

(iv) Many a time, farmers, who have borrowed money to finance agricultural operations, have been caught in difficult situations due to delay in payments by companies.

(v) There is lack of fair and reliable mechanism to assess the qualitative parameters of farm produce, due to which farmers have to rely completely on the internal mechanisms of buyer companies, which often compromise the interests of farmers in favour of the companies.

Considering the problems being faced by farmers and the fact that farmers are in no position to bargain when faced with the financial might of large corporations, it becomes necessary that suitable safeguards within the legislative framework are provided to farmers. It is, therefore, proposed to amend the Indian Contract Act, 1872 to insert a new Chapter relating to farming contracts, providing *inter alia* that:—

(i) Every contract farming agreement shall be registered in such manner as may be prescribed;

(ii) The contract farming agreement shall clearly spell out the obligations of the buyer and the farmer so as to avoid any dispute;

(iii) The appropriate Government shall constitute district-level Dispute Resolution Committees to resolve disputes arising out of contract farming agreements;

(iv) The Committee shall resolve a dispute within two months or such shorter period as may be specified by rules;

(v) The buyer shall secure the interests of farmer by insurance against unforeseen contingencies;

(vi) The appropriate Government shall establish suitable mechanism for qualitative assessment of agricultural produce;

(vii) The appropriate Government shall organise small and marginal farmers in cooperatives so that their interests *vis-a-vis* large corporations are duly protected; and

(viii) The buyer shall be under obligation to support production process through supply of inputs, providing technical assistance, etc.

The Bill seeks to achieve the above objects.

NARAYANLAL PANCHARIYA

FINANCIAL MEMORANDUM

Clause 2 of the Bill seeks to insert new section 75 I in the Indian Contract Act, 1872 providing for establishment of district level Dispute Resolution Committees. In so far as such Committees are constituted in Union Territories, the enactment of the Bill shall involve expenditure out of the Consolidated Fund of India. It is estimated that a non-recurring expenditure of rupees ten crore and a recurring expenditure of rupees two crore per annum shall be required to be incurred to implement the above legislative proposal. The Bill does not involve and other recurring or non-recurring expenditure.

MEMORANDUM REGARDING DELEGATED LEGISLATION

The proposed section 75B provides that the manner of registration of contract farming agreements may be prescribed by rules. Sub-clause (d) of proposed section 75D provides that the Central Government may by rules specify the matters which may be laid down in a contract farming agreement. The proposed section 75H provides that the manner of seizure of agricultural produce may be specified by rules. Sub-section (2) of section 75I provides that in certain cases a period shorter than two months may be prescribed by rules for dispute resolution under that section.

The matters in respect of which the rules and regulations may be made under the aforesaid provisions among others are matters of procedure and administrative detail and it is not practicable to provide for them in the Bill itself. The delegation of legislative power is, therefore, of a normal character.

RAJYA SABHA

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further to amend the Indian Contract Act, 1872.

(Shri Narayan Lal Panchariya, M.P.)