

WTO and internal factors which impact on the oilseed economy of India

P.R. Kumar¹ and **S.K. Jha²**

1 MGRMNET, SDA, New Delhi-110016, India Email priya_ranjankumar@yahoo.com

2 National Research Centre on Rapeseed-Mustard, Sewar, Bharatpur-321303 (Rajasthan), India Email skjha_99@yahoo.com

Abstract

India is amongst the largest producer and consumer of vegetable oils. In the face of huge imports of edible oils by mid 1980s, the government made a concerted effort to make oilseeds more attractive to growers, through a combination of mission mode programmes. High prices of oils caused expansion of processing capacity and increase in oilseeds production by over 70 % in six years. India became almost self-sufficient in edible oil (up to 98%) and the imports of edible oil was reduced to 0.1 million tonnes in 1992-93 from 1.5 million tonnes in 1986-87. Removal of all quantitative restrictions (QR) on imports and regulation through tariff in 1994 under WTO rules fundamentally changed the import regime of India's edible oil and from 0.1 million tonnes in 1992-93 the country's import has reached to 4.3 million tonnes in 2002-03. The corresponding export earnings however, have been much lower due to depressed prices in international market (due to quality consideration). There has been a shift away from oilseed cultivation in India due to the decline in relative profitability. The country's demand for edible oils is expected to rise more than double from the current level in the next 12 years. India's future self sufficiency under WTO is examined. Factors discussed include international oil prices and consequent impact on domestic availability and demand, importing of oilseeds instead of oil for local crushing, fiscal incentives for motivating the farmer to shift to oilseed cultivation; ICAR- led research initiatives for increasing the productivity of oilseeds, and agricultural reforms and modernization of oilseed industry to reach world standards.

Media summary

India's import of edible oil has gradually reached to 4.3 million tonnes after WTO. Self-sufficiency is subject to fiscal incentives to and technology for oilseed growers and processing industry.

Key Words

Marketing, domestic production, oilseed industry, level of consumption, rapeseed-mustard, strategy

Introduction

India is amongst the largest producer and consumer of vegetable oils. It was self sufficient in vegetable oils in the 1950s; however, by the 1960s the domestic demand-supply equilibrium almost vanished. The turning point came in 1988, when the country faced shortfall of 2 million tonnes (mt) of oil, necessitating imports worth \$1bn. Alarmed at this situation, government made a concerted effort to make oilseeds more attractive to growers, through a combination of specialized extension campaigns including the high-profile Technology Mission. As a result, the country became almost self-sufficient (maximum 98% in 1992-93 and 1993-94) in edible oil. In early 90s, the high prices of oils encouraged the entry of more firms into the business, including some blue chips, in a major way. The result was a substantial expansion of processing capacity and an unprecedented increase in oilseeds production, in particular soybeans, by over 70 per cent in six years. However, the liberalization of Indian economy at this point of time fundamentally changed the import regime of India's edible oil particularly in 1994 when as part of its obligations under WTO rules, India eliminated the state monopoly on imports and placed the imports under a privatized open general license (OGL) system. Under the new rules, India also agreed to eliminate import quotas and placed upper bound limits on tariff levels. These changes made the rules governing edible oil import more transparent and more responsive to market forces. Imports of edible oil which were 1.5 million tonnes in 1986-87 gradually declined to 0.1 million tonnes in 1992-93 but have now

touched 4.3 million tones (2002-03). Population pressure coupled with better standard of living, low oilseeds production due to aberrant weather for several years, and liberalization of import-export policy, are the causes behind such an import scenario. The corresponding export earnings however, have been much lower due to depressed prices in the international market.

India's Area, production and productivity of oilseeds

Oilseed crops account for 14.1% of the gross cropped area in India. Their area, production and productivity (yield) in India have registered steady increase since the inception of Technology Mission on Oilseeds and Pulses (TMOP) in April 1986 and reached the peak of 26.23 million ha, 24.75 million t and 0.94 t/ha in 1998-99, respectively. Nevertheless, area, production and yield (productivity) of oilseeds in India have been fluctuating because of several biotic and abiotic stresses affecting the crops. Another important factor contributing to insufficient domestic production/ productivity of oilseeds has been the small area under irrigation, which has increased by merely 3% in the last one decade from 23.2% to 26.3%. India's domestic price support programme, which has often favoured production of crops that compete for area with oilseeds, is also responsible for such a scenario.

Impact of WTO on India's oilseed economy

The import of edible oils

Trade in oilseeds has been completely deregulated within a short span of time and oils are now freely importable with relatively low incidence of custom duties. The impact of this liberalization on the import of edible oil has been phenomenal and from 0.10 million tonnes in 1992-93 the country's import has reached to 4.3 million tonnes in 2002-03. The share of bills for the import of edible oil in the total agricultural imports has ranged from 6% to 52% during 1991-92 to 2002-03. Almost four out of 12 years, the country has spent 50% of the total expenses on agricultural imports for the import of edible oil. The dramatic decrease in self-sufficiency in the last 5 years is a clean indication that globalization has already made an impact of far reaching consequences in this sector. The country was almost self-sufficient in edible oils during 1991-92 to 1994-95 when the sufficiency level was in the range of 95 to 98 %. However, gradually it has declined to about 53% in 2002-03.

Level of tariffs for imported oil

With the commitments under Uruguay round Agreement on Agriculture, India has removed all quantitative restrictions (QR) of imports of edible oil. Under the new WTO rules, imports are to be regulated through tariff. Uruguay round agreement provided option to member countries to convert QRs to equivalent tariffs and provided a mechanism to declare maximum level of tariff for the base period for each commodity. As per this provision, India can impose a tariff up to 300% on import of palm oil and up to 100% on vegetable oils, except soybean for which maximum tariff is fixed at 45%. Presently, imports of edible oils are made under Open General License (OGL) at 45-85 per cent import duty. The maximum tariff ceiling bindings established by India for the oilseed sector is much below the bound tariff for the refined oil like RBD Palmolin, perhaps keeping in mind the interest of consumers with low purchasing power.

Export of oil meals

India has been exporting the oil meals, however, their export has declined from as high as 4.84 in 1993-94 to 1.61 million tonnes in 2002-03. The share of oil meals in total agricultural exports of the country has also declined from 18.5% to 4.2% during the same period more because of presence of some anti nutritional factors and contaminants in the oilseed cakes and meals.

Demand projections for India's edible oil

By 2010, India's total requirement of vegetable oils for the projected population of 1.25 billion at the projected per capita consumption of about 15 kg/annum is expected to be around 19.0 million tonnes,

which is roughly equivalent to 57.0 million t of oilseeds. This is a big challenge to achieve in a short time of six years from now, considering the fact that the per capita edible oils consumption has gone up from a mere 4.5 kg in 1981-82 to 9.5 kg in 1998-99.

Strategies to meet the challenges of WTO

The vegetable oil complex is today at a cross roads and the cherished goal of self sufficiency is subject to the following five factors. Of them, while the first two factors can affect self-sufficiency in the short term, the last three factors can only impact it only in medium to long term.

International oil prices and consequent impact on domestic availability & demand

There has been a shift away from oilseed cultivation the world over; in India it is due to a decline in relative profitability of oilseed cultivation the farmer has switched back to grain cultivation. More dependence on the international market for large quantity of oils/oilseeds would be risky in two ways: one production in some major exporting country may fall, and two, demand in some major importing country may go up. In both the cases, international prices would go up. Continuous rise in population and income would increase the demand for edible oils. Unless domestic production keeps pace with increasing demand, the dependence on imports would increase, causing international prices to rise. A global glut in oil production in the late 1990s led to stable or even declining international prices. As the value of oil has fallen, crushers have come to rely increasingly on recovering meal value to sustain margins. The result is high domestic meal prices and declining exports.

Possibility of India adopting the Chinese approach, i.e. importing oilseeds instead of oil

China has been the topmost oilseeds producing country in the world; however, the country has been substantially importing the seed rather than the edible oil to feed its population. Heavy imports of seed rather than the edible oil by China in comparison to India, logically favours the vegetable oil crushing industries of the former, and provides meal to meet the booming animal feed demand..

Government of India's fiscal incentives for motivating the farmer to shift to oilseed cultivation

During the early 1990s, Minimum Support Prices (MSPs) for food grains were kept in check relative to oilseeds and the government controlled import monopoly dramatically lowered oil imports. This contributed to a sharp improvement in domestic oilseed prices relative to competing crops and increased the oilseed production by 70% between 1987-88 and 1994-95. However, after mid-1990s, oilseed prices declined relative to other crops, mainly due to the increased domestic oilseed supplies and liberalization of edible oil imports initiated in 1994. MSP level for food grains were raised more than for oilseeds since the mid-1990s. As a result, increasingly favourable returns from rice and wheat have drawn area away from oilseeds, lowering oilseed production. Since 1998-99, however, the MSP of the major edible oilseeds have been moving upward more decisively, intending to lure the growers towards the oilseed crops.

ICAR- led research initiatives for increasing the productivity of oilseeds

The research programmes on oilseeds started in April 1967 with the establishment of All India Coordinated Research Project on Oilseeds (AICRPO). These programmes of Indian Council of Agricultural Research (ICAR) and State Agricultural Universities (SAUs) have developed a large number of high yielding varieties of oilseeds along with the production management technologies suited to various agro climatic conditions of the country and have increased the productivity of oilseeds. Complementing the research programmes, Govt. of India has the programme of "Frontline demonstrations in Oilseed Crops" which provides ample opportunities for the researchers to demonstrate improved technology to farmers and obtain feed back for fine-tuning to improve their acceptability and suitability of real farm situations. Oilseed crops ecological zoning would be the ideal strategy in realizing potential yields with limited efforts and inputs. The seed production is primarily left with public sector agencies with many

limitations. While there is enough breeder seed production, further seed multiplication through foundation and certified seed production are the key constraints for availability of quality seed at farmers' level. Further, the industries/private houses should support goal-oriented basic and strategic research to enhance research and development activities especially in frontier research areas like biotechnology for diseases and pest management of oilseeds crops in India. Contract farming with a back up support for marketing also needs encouragements from private concern. The Punjab Agro in collaboration with the oil industries has taken initiative to encourage cultivation of the double low quality strain of gobhi sarson (*Brassica napus*), Hyola-401 with buy-back provision of the seed produce.

Agricultural reforms' policy

The ability of India's oilseed sector to compete with vegetable oil imports is hampered by a processing industries that is fragmented, small scale and suffers from low capacity utilization. Their future does not seem to be bright unless and until they upgrade and modernize their technology to reach world standards. In the foreseeable future; it is almost certain that only industries with ultra- modern extraction technology and with huge refining capacity may survive, and that only if oilseeds imports as well as domestic production give them sufficient raw material at internationally competitive price. A novel policy framework for the processing industry will have to balance the interests of four constituent factors: an incentive price for farmers; an affordable price for consumers; reasonable profit margins for industry with the incentive to modernize; and satisfactory levels of employment, income, exports and public revenue. It is also imperative that differential development programmes are formulated for different situations and maximum efforts are made for production and supply of quality seeds and the domestic price environment commensurate with the quality of oilseed produce. Further, policy measures also require to be extended to utilize the by-products in an efficient and economic way and also to extend the value addition before exporting the oilseeds, for increasing the profitability and, in turn, industrialization in the country.

Conclusion

Diversification of production system along with environmental and economic sustainability is the underlying need for the future of oilseeds in India. The domestic oilseeds and edible oils industry has been exposed to the realities of the world trade and industry. The government, through variable import duty policies as well as some incentives to the domestic industries and programmes for enhancement of oilseeds productivity could ensure that the sector is reasonably protected, and the imports do not go beyond control. Similarly, the domestic industry has to quickly and immediately modernize their production technology to world standards in order to not only survive, but to protect the country from complete dependence on imports.

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