

# Chapter I

## INTRODUCTION

The Introductory chapter is divided in five sections. Section I carries out a detailed analysis of the Oilseed sector. Section II carries out a brief literature survey of theory and impact studies related to agricultural trade liberalization. Section III provides the background on the agricultural trade policy in India, Section IV discusses some recent measures taken in agriculture trade policy to address food security concern pertaining to cereals, pulses and edible oils and lastly Section V covers the scope of the present study, its objective, methodology and chapterization scheme.

### I. Oilseeds

The edible oil requirements in India are to be met from vegetable sources given the dietary preferences as well as cultural practices in the country. Therefore, cultivation of oilseeds assumes great significance with 26.11 million hectares under cultivation and 24.93 million MT production of 9 oilseeds (rape seed, groundnut, soybean, sesame, niger, sunflower, safflower, castor and linseed) in 2009-10 (Agriculture Statistics At A Glance, 2010). Nine states (Rajasthan, Madhya Pradesh, Gujarat, Tamil Nadu, Maharashtra, Andhra Pradesh, Haryana, UP and Karnataka) account for 95% of oilseed cultivation. Gujarat, Madhya Pradesh and Rajasthan are the leading oilseed producers in the country.

India is among the leading producer of oilseeds in the world. Besides, it is also a leading producer of coconut. Though it has the largest cultivated

area under oilseeds in the world (Solvent Extractors Association Handbook, 2009) annual crop yields ranged from 1/3 to 2/3 of world annual average yields for 2006-08 period in major oil crops except castor seed and coconut (Table II.1). The oilseeds, raised mostly under rainfed conditions, are important for the livelihood of small and marginal farmers in the disadvantaged arid and semi arid regions of the country.

Low productivity of oilseeds is primarily due to their cultivation in un-irrigated drought prone areas. There is high risk in oilseed cultivation due to vagaries of nature and susceptibility to a number of insect- pests and diseases as also abiotic stresses like drought, salinity and alkalinity. Soils are hungry and thirsty because the resource poor farmers particularly under dry land conditions are constrained to provide the needed inputs of fertilizers, water or plant protection. Hybrids in mustard and some pest resistant varieties were developed. Hybrids are not available in groundnut, sesame, soybean and niger. As we would see in Chapter II, lower monetary returns accrue from cultivation of oil seeds in comparison to crops like rice, wheat and cotton in leading oilseed growing states. Sometimes, absence of assured market coupled with non- remunerative prices results in distress sale of oilseeds during the harvesting period. However, what is encouraging is that cultivation of oilseeds like soybean, groundnut and mustard contributing 80% to total oilseed production are increasingly practiced in the rainfed area of the country. Soybean was not traditionally grown but has now become well adapted oilseed crop in India. The area under Soybean has increased from 30 thousand hectares in 1970-71 to 9.79 mn hectares in 2009-10. Productivity of mustard has increased from 674 kg/ha in 1985-86 to 1159 kg/ha in 2009-

10. Development of hybrids and thermo insensitivity to climate has helped in the cultivation of sunflower.

India is the fifth largest producer of oilseeds in the world, ranked behind only USA, Brazil, Argentina and China. However, she is ranked first in sesame and castor seed (Solvent Extractors' Association Handbook, 2009). Oilseeds grown have varying proportion of oil content and due to advances in processing technologies, extraction of oil produces by - products of economic value such as de oiled cakes. Some oilseeds are consumed directly as spice, nuts and condiments (sesame, mustard, peanuts), bird feed (safflower, niger) and industrial purposes (linseed, castor). Similarly coconut is a versatile crop put to various uses. In fact it will not be an exaggeration to say that coconut cultivation is a way of life in the southern coconut growing coastal states.

India has traditionally been an importer of vegetable oils and an exporter of oilcakes, but a negligible trader of oilseeds. Currently, India accounts for 8.6% of world oilseeds output; 7.3% of world oil meal production; 7.5% of world oil meal export; 6.0% of world vegetable oil production; 14% of world vegetable oil import; and 10 % of the world edible oil consumption (compiled from Solvent Extractors' Association Handbook, 2009 and Ministry of Food Processing Industries website). Three oilseeds - Groundnut, Soybean and Rapeseed/ Mustard - together account for nearly 75 % of domestic edible oil supplies. Copra has also traditionally been used for oil. Recent advances in extraction technologies such as chemical extraction using solvent extracts have encouraged oil extracted from soybean as well as other oil-bearing material like cottonseed, forest tree borne fruits and rice.

bran and their contribution to domestic vegetable oil pool has increased in the last few years. The oil extracted from inedible seeds- castor and linseed - are put to industrial use or exported. The contribution of palm oil- the most significant source of edible oil in the world- is insignificant in domestic production.

The Indian vegetable oil industry has grown around expanding consumer demand and consists of 15,000 oil mills, 600 solvent extraction units, 650 vegetable oil refineries and 250 vanaspati units spread across the country crushing/ processing oilseeds, oilcakes, rice bran and vegetable oils (Table I.1). The domestic turnover of the vegetable oil industry is over Rs.100,000 crores (Solvent Extractors Association, Mumbai). Broadly, edible oil/fat products can be categorised in three categories of value added products i.e. vegetable refined oil, hydrogenated oil (vanaspati), bakery fats/margarine, and de-oiled cakes.

**Table I.1 Indian Vegetable Oil Industry**

	No. of Units	Annual Capacity Mn/T.	Capacity Utilization
Oil Mills (Crushing Units)	15000	36.0	20%
Solvent Extraction Plants	600	31.0	40%
Vegetable Oil Refineries	650	12.0	60%
Vanaspati (Hydrogenated Units)	250	3.0	40%

*Source: Solvent Extractors Association, Mumbai, 2010.*

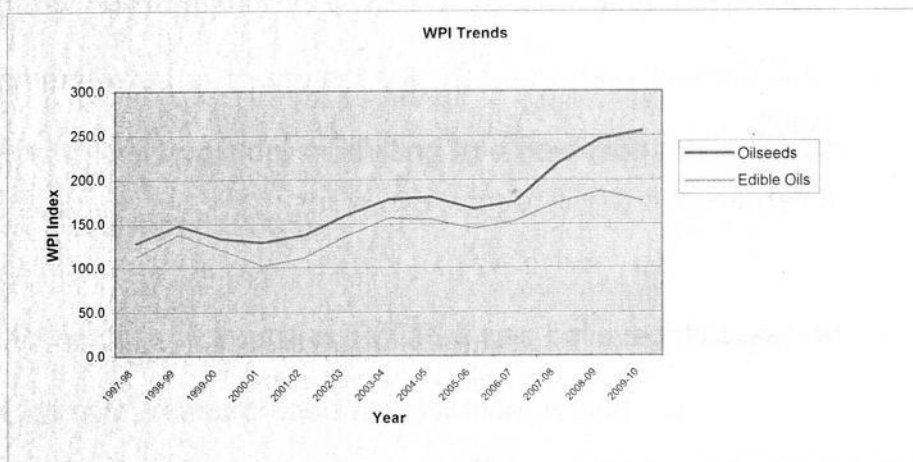
The total installed capacity at present is 82 mn MT (for processing oilseeds/oil bearing material/oils) whereas the average capacity utilization is about 40%. Shortage and unpredictability of domestic supply of raw material, uncertainty in policy and international economic environment is the main

reason for capacity under utilization. Over the years, the industry has gradually succumbed to imported raw material to meet the local demand for value added products. Therefore, the key problem that has emerged is that of inability of domestic oilseed production to meet the growing requirements of edible oil industry to satisfy consumer demand year after year. All put together, the edible oils derived from oilseeds, coconut and other oil bearing materials domestically could only meet about 60% of annual domestic requirements of 16-18 million tonnes which is expected to rise to a level of 24 million tonnes by 2014-15 (Table III.1).

With extreme inflation sensitivity, the rising demand in the economy is sought to be met by import of edible oils to keep domestic prices low. In the 1990-91 to 2009-10 period, the annual average dependence on imported edible oils has been about 43%. Agricultural imports account for 4-5% of national imports while agricultural exports account for 11% of national exports resulting in agricultural trade surplus (Table IV.4). Edible oil alone accounted for 43 % of agricultural imports and 18 % of agricultural exports in 2009-10. In 2009-10, about 10 mn MT edible oil (largely crude palm oil, refined palm oil and crude soya oil) valued at Rs. 26,000 crores were imported (Agriculture Statistics at a Glance, 2010) mainly from Indonesia, Malaysia, Argentina, Brazil and USA. Oilseeds have diversified uses and extraction of oil by processors, also generates by products and India has also carved out a niche for itself in the world especially for sesame seed, castor oil and oilcake export. In 2009-10, the export of oil meals, castor oil and oilseeds were valued approximately about Rs.13,000 crores (Agriculture Statistics At A Glance, 2010). Oilseed and edible oil prices have displayed a rising trend especially

in the period coinciding with the implementation of Integrated Scheme of Oilseeds, Pulses, Oilpalm and Maize (ISOPOM) period (2004-05-2009-10). Both prices and import quantities going up reflect excess demand for edible oils.

**Chart I.1- Wholesale Price Index (1993-94=100)  
Trends for Oilseeds and Edible Oils**



Source: *Agriculture Statistics At a Glance, 2010.*

The most important policy initiative for promotion of oilseeds has been the Technology Mission on Oilseeds and Pulses (TMOP) which was launched in 1986 and later expanded in scope by including Maize and renamed as Integrated Scheme on Oilseeds, Pulses, Oil Palm and Maize (ISOPOM) in 2004. Oil palm was included in the Technology Mission in 1992-93. A Technology Mission on Coconut was launched in 2002. The Technology Mission is a technique or a method to achieve specific development in a stipulated time frame. Ideally, it should function as a Special Purpose Vehicle. Technology Missions were designed to be technology rich and to comprehensively transfer the available technology to enhance the profitability and income of farmers through appropriate attention to both production and post harvest and processing issues. Missions were also supposed to be



driven by dynamic Mission directors with capacity to comprehend technology as well as the delivery system with the necessary vision. Further, Technology Missions as a special instrument are based on end to end approach with Mini Missions on crop technology, farmer support, post harvest technology and processing technologies. Ideally, Technology Missions work best when backed by appropriate price policy support and supportive trade policy environment in order to protect the income of the farmers who are trying to raise yield in existing crop, or shifting to a new crop (National Commission on Farmers, Third report, 2005).

At the time of launch of TMOP, it was believed that we had the strength of soils, climate, research and development infrastructure to grow horizontally and vertically by encouraging oilseed crop cultivation and also by use of need-based necessary inputs. The yield gap was a great opportunity to exploit. Since the soil and climatic conditions of the country were very diverse, a number of oilseed crops could be grown. The Mission mode contributed greatly in the beginning, however, performance in Area, Production and Yield reached a plateau soon. In the last few years of the Mission, the Mission mode focus was lost and it ran like a routine Government programme under a liberal economic and trade policy environment without credible public procurement support. The Government is currently reviewing the production and productivity of important crops and is considering launching a Technology Mission on Oilseeds and Oil Palm in the XII the Plan.

Procurement Policies were biased towards cereals all along as documented in the literature (Chand Ramesh, 2003, Acharya S.S., 1993).

Even recently after the global food price rise in 2008, various measures were undertaken, one of them being hike in MSP of rice and wheat in 2007-08. However, as far as oilseeds and pulses were concerned, the MSP was raised only a year later in 2008-09. Even the highest procurement figure for oilseeds (by NAFED) in the last five years in 2005-06 was only 4 % of rice and wheat procured in the same year (Table II.2). Therefore, the oilseed farmers did not get assured market or price signals to enhance production for a long while.

The Public Distribution System has not been able to address subsidised edible oil supply through PDS retail units. Recently, in order to provide relief to the poorer section of the society from the rising prices of edible oils, the Central Government had introduced a Scheme for Distribution of 10 lakh tons of edible oils in 2008-09 at a subsidy of Rs.15/- per kg through State Governments/UTs@ 1 kg per ration card per month with an additional subsidy of Rs.10/- per kg from January, 2009 to March, 2009 on oils imported by PSUs and not lifted by States. Four Public Sector Undertakings (PSUs), namely, PEC, MMTC, STC and NAFED had been entrusted the job of import, refining, packing and distribution of subsidized edible oils to the States. 29 State who had asked for oil under the Scheme were allocated oil by the Department of Food & Public Distribution from April 2008. The distribution of packed edible oil under this scheme was operational only in 12 States. Upto 31-03-2009, of the 3.6 Lakh tons of edible oils contracted by the PSUs, only 2.61 lakh tons of packed edible oils was handed over to States for distribution. The total amount of subsidy distributed on oils was Rs.424.25 crores. Government decided to dispose of the balance quantity of edible oil lying with PSU's in the open market. The Scheme was available upto 31/03/2011.



For meeting the domestic oil requirements, increasingly, the country is becoming import dependent with the help of a favourable duty structure to promote imports of crude oil required by the edible oil industry as well as public procurement agencies in the above instance to meet the consumer demand and keep domestic prices in check. Export policy incentives are available for promotion of diversified oilseeds product.

The import duties have been reduced especially after 1997-98 progressively to facilitate the import of edible oils to meet the requirement of domestic industry. The flexibility available under WTO to calibrate applied duty is already stretched to the other extreme and cannot go down any further. The rising trend in edible oil prices is continuing even with zero duty on crude oils and nominal duties on refined oils. With tight global stock to production ratio in oilseeds, increasing demand for palm oil as biofuels, climate uncertainties etc. resorting to imports from a very few countries has the potential to lead to extreme dislocation, transmission of inflation, arbitrary policies by suppliers and so on. With increase in share of tradable in domestic consumption, there is a threat of importing inflation due to import dependence. All this points to the urgent attention required on the supply side to address structural problems in enhancing edible oil supplies domestically. This will also benefit the oilseed farmers.

## II. Literature Survey

The decade of promotional efforts in the oilseed crop coincided with the era of economic and trade Liberalization. Agricultural trade liberalization was acknowledged as an emotive issue, however, economic liberalization or New Economic Policy (NEP) was expected to correct the bias against agriculture inherent in import substituting industrialization. The protection in industry kept industrial prices higher relative to agriculture causing diversion of resources to industry. The overvalued exchange rates made agricultural exports uncompetitive. The NEP did not attempt any major liberalization in agriculture (Ahluwalia MS, 1996, Singh Manmohan, 1995).

Neo classical theory argues that differences in productivity and opportunity cost of production between countries form the underlying reasons why it is advantageous for countries to engage in trade. The classical pure theory of trade, Heckscher-Ohlin theorem, the most widely accepted explanation of pattern of trade, states that trade differs because of the differences in factor endowment resulting in comparative advantage in goods using abundant factor and is the basis of mutually advantageous trade. Advocates of free trade also argue that under perfect competition trade maximizes potential economic welfare.

The small country assumption of neo classical theory does not hold for India and China (Bhalla GS, 1995). Further, trade theory has also brought out arguments for protection- large country better off by optimal tariff, infant industry protection, political economy and revenue earnings. Justifying protectionist policies in agricultural trade for furthering development especially

in the Indian context, Dhar (2007) has quoted studies that have pointed out that episodes of trade liberalization could hurt the workers because rigidities in the labour market in some developing countries are quite pervasive. Structure of Indian Agriculture also reflects this reality where share of agriculture has come down in GDP but not in labour. In these countries, the imperatives of providing the population with the basic food items at affordable prices took precedence and this meant that agricultural producers were unable to obtain remunerative prices for their products. Further, public investment in these countries was biased against agriculture. Dhar (2007) has also quoted works of strategic trade theorists who argue that the interventionist trade policies may have beneficial strategic effects especially to counter the trade distorting policies in agriculture induced by the developed countries. Two broad options have generally been followed by countries attempting to achieve adequate levels of food security: food self- sufficiency and food self- reliance (FAO, 2003). While food self- sufficiency refers to meeting domestic requirements by domestic production, self -reliance refers to the capacity to back import requirements.

Dhar (2007) has provided empirical justification for promoting domestic agriculture for realizing the objective of food security. Firstly global trade in major commodities has not expanded during the past decade and secondly global stocks of major cereals have experienced steep declines since the late 1990s. There are now nearly 50 Net Food Importing Developing Countries (NFIDCs), and recently there were instances of food riots and consequent political upheaval in several countries. In this situation, food imports by a country of sub continent proportion like India is a cause for worry for global

organizations like FAO/WFP and questions such as "Who will feed India and China?" spring up in the International Forums. Substantial international/national literature is available for economic liberalization, Structural Adjustment Programmes and trade liberalization policies ushered in many countries during 1991-2000 and their impact. Besides, useful methodological/conceptual approaches were framed (FAO, 2003). Between 1999& 2002, FAO conducted country case studies to evaluate the impact of the WTO AoA and other trade related reforms on Agriculture Trade & Food Security with help of the following frame work:

- Trade related reforms affecting agricultural sector;
- Institutional setting & policy environment;
- How did the reforms affect the incentive (output/input prices);
- Impact on agricultural performance- production/productivity/trade;
- Impact on small and marginal farmers and
- Impact on food security.

It was noted that while it is relatively straight forward, where data exists (including the household level) to track changes over time in economic and policy variables including Food Security indicators at the national and household levels and hence in the before and after reform situation) it is more difficult to disentangle the effects of specific policy reforms from other factors that have contributed to the observed economic and food security outcomes.

The analytical approach taken in the FAO study was an adaptation of the case study methodology which combines qualitative and quantitative analysis (Harmon Thomas, 2006, FAO). The self sufficiency/self reliance

protagonists usually apprehend an import surge/price crash due to lowering of import protection. With global agricultural prices affected by trade distorting subsidies and volatility, option to apply safeguard action is considered to be crucial in economies with significant population dependent on agriculture. The price and volume trigger (i.e. surge in import quantity or crash in import prices) are the basis of remedial action under the WTO (Agreement on Agriculture), Special Agricultural Safeguard and is also proposed to be the basis of safeguard action under the Special Safeguard Mechanism currently under multilateral negotiation. FAO had conducted a series of study of import surges in various countries using case study methodology trying to capture showing the adverse impact of import of meat dairy etc on domestic farmers with the help of observed trends in import/ domestic production, stakeholder consultation etc. (FAO, 2005). In the Harmon (2006) country case study used the Before/After framework and carried out price decomposition analysis investigating the extent of price transmission from international markets to domestic market and the relative effect on domestic prices of changes in the exchange rate, international prices, import protection. Significantly, in the FAO study it was noted that while it is relatively straight forward, where data exists (including the household level) to track changes over time in economic and policy variables including Food Security indicators at the national and household levels and hence in the before and after reform situation, it is more difficult to disentangle the effects of specific policy reforms from other factors that have contributed to the observed economic and food security outcomes.

The surge in import volume is readily observed, however the price crash is difficult to establish due to availability of appropriate price data. The

impact on domestic prices of the concerned commodities would be different on different categories of farmers depending on their integration with the markets for their marketable surpluses. It may affect producers adversely by bringing down production, productivity and the returns over costs. This would affect the livelihoods and consequently food security of poor producers. The situation is exacerbated in the absence of institutional support in the form of irrigation, input subsidies and appropriate technologies. Lowering of income may affect purchasing power of poor producers and their access to food.

In the Indian case study, under the FAO, carried out by R. Chand and Pradumna Kumar ( Thomas Harmon, 2006) the impact of economic liberalization in 1991 and implementation of WTO on domestic agricultural prices, poverty and food security etc. was examined. It was observed by them that since at the time domestic prices were depressed as compared to international prices, there was a steep rise in domestic prices to reduce the gap and agricultural terms of trade became favourable, cereal production and productivity rose as a result. But this was restricted to a limited area due to concentration of procurement operations in states where high yielding varieties were introduced. Agricultural exports and imports also rose. Cereal net availability and consumption declined and protein and calorie intake also fell. The study then points out impact of several domestic factors in the outcome of overall reforms. R Chand (1999, in Malik, 2009) quantified the impact of globalization of agriculture on producer surplus, consumer surplus and net social welfare in the case of four crops namely paddy, maize, chick pea and rapeseed-mustard. The study concluded that in the case of studied crop, free trade is likely to have sharp positive impact on net return from



production of exportable like maize and rice, whereas, it is likely to have small negative impact on net return from importable like rapeseed-mustard. Chand (February, 2003) concluded that meeting a deficit of edible oil and pulses through imports is causing an adverse impact on domestic producers who are concentrated in dry land and unfavourable regions. There are no alternatives available for producers of such regions and a strong case based on equity considerations to protect and promote pulses and edible oil production in the country is advocated. He also asserts that diversification of crops holds the key to national food and nutritional security and diversification towards oilseeds, legumes, fruits, vegetables, milk and milk products, poultry and pisciculture is essential.

Gulati and Sharma (1998) suggest that inefficiencies in oil processing sectors and subsidy driven ability of producers to sell cheap oil led to transmission of volatility in world prices to domestic markets. In another study on oilseeds it was claimed that as a result of successive lowering of tariffs in edible oils from 65 to 30% and further to 15% in 1998, imports soared and India became largest importer from self-sufficiency in just 5 years. As a result thousands of Indian farmers lost their livelihoods (Mark Fried, 2004).

Sathe and Agarwal (2004) have shown that pulses import have not augmented to such an extent that there would be strong negative relation between prices and imports of pulses. The import duties on pulses have been such that they have not depressed prices in a substantial way. A study by Sekhar (2004) attempted to assess the implication for food security of the poor through transmission of international price volatility into domestic market

which arises on account of globalization of agriculture. The commodities selected for study were wheat, rice, groundnut oil, soybean oil, coconut oil, sugar, cotton and coffee. His study shows that extreme volatility in commodity prices, particularly of food commodities adversely affect poor agriculture labourers and those in unorganized sector.

Glipo (2006) suggests that import surge after WTO led to decline in domestic food production, a collapse of traditional farming livelihoods, displacement of farmers, and decline in farm gate price and incomes in developing countries. FAO (2005) in a series of studies has detailed instances when a sudden spike or a surge in imports lasting several years could cause injury to competing domestic industries and related sectors, and impact negatively on employment, rural poverty and food security.

Devinder Sharma (2005) suggests that trade liberalization in agriculture has to be seen for the impact it leaves behind on farming livelihoods and national food sovereignty. The report concludes that post WTO, agriculture liberalization impact on farming community and landless workers has been disastrous. Rural Livelihood collapse, Rural-Urban Migration, unemployment, import surges in many developing economies have not only shifted terms of trade but led to further marginalization of rural communities. National Commission on Farmers set up by the Government of India have carried out extensive commodity study in their fifth Report on the adverse impact of agricultural tariff liberalization on domestic prices of tradable affecting livelihoods.

### III. Agricultural Trade Policy in India: The Background

As far as agricultural trade policy in the country is concerned, food security, livelihood security and rural development are the overarching concerns and all policy/negotiating stands are guided by these fundamental concerns. In the Indian context, agricultural trade reforms are guided by the objective of achieving food and livelihood security. India's bound tariff rates average 113.1% for agricultural products while the average applied rate is about 31.8% (India Tariff Profile, WTO, 2009). Standard applied rates are at or near bound rates on cereals, pulses. State trading continues to be used for imports of cereals (wheat, rice, maize, rye, oats, and coarse grains), and copra and crude coconut oil. The Government also monitors imports of a number of agricultural products- about 150 -considered to be sensitive, including milk products, fruit and nuts, coffee, tea, spices, cereals, and edible oils. India maintains bound tariff rate quotas on milk powder, maize, sunflower seed and safflower oil, and rape, colza or mustard oil (14 tariff lines at the HS 8-digit level); although with the exception of sunflower seed and safflower oil, quotas are generally not utilized. Substantially higher bindings on some agricultural products (mainly cereals) that were previously bound at 0% in the WTO in 1995 were renegotiated. Tariffs on agricultural products are all *ad valorem* except for two lines (shelled and non-shelled almonds).

India also uses "reference prices" to calculate customs duty applicable on imports of, *inter alia*, palm oil (crude and RBD), palmolein oil (crude and RBD), and crude soybean oil. Under Section 14(2) of the Customs Act, reference prices can be fixed by the authority "if satisfied that it is necessary

or expedient to do so"; customs duty on these imports are calculated on the basis of the reference prices (tariff values) rather than the price quoted by the importer. (India Trade Policy Review, WTO, 2007) With reduction in applied rates, there has been an increase in the gap between average bound and current applied rates. Due to this, on the one hand, the exporters of agricultural products to India feel that this difference creates uncertainty for them and therefore the agriculture bindings should be brought down substantially in the Doha Round for all tariff lines. On the other hand, the Government maintains that the high bindings are necessary to provide the flexibility to calibrate the tariff to the extent required to balance the interest of consumers and producers from time to time. This is evident in the policy changes carried out in the last few years. The import duties have been subject to changes in the case of cereals, pulses and edible oils but more frequently in the case of edible oil (India Trade Policy Review, WTO, 2007). The recent duty exemptions for cereals, pulses and edible oils are also ad hoc in nature and in the nature of temporary notifications which can be either extended or withdrawn.

In the last 10 years, many free trade agreements were initiated and some preferential access to agriculture is provided under these free-trade agreements. Negotiations on some Preferential Trade Agreements (PTAs)/ Free Trade Agreements (FTAs) are at various stages of progress and the negotiating stand/commitments here also are guided by the concern that agricultural commodities which are vulnerable to global competition and which are crucial for food security and livelihood security be kept out of the purview of FTAs/RTAs. Besides, stringent rules of origin norms and built-in

safeguards are being negotiated to protect the interest of farmers. Rules of origin ensure only goods wholly or substantially obtained in the trading partner country domestically and the FTA does not become a conduit for third country import. Likewise with tariffs coming down provision for safeguard duties are required in case the FTA leads to an import surge. Imports of tallow, fat and oils of animal origin, are prohibited on moral/religious grounds. The important implication of this measure is that the imported edible oils are sourced from vegetable oils like palm oil and soya.

As a producer of a wide variety of agricultural products, India incentivises horticultural products, the same through programmes such as Vishesh Krish Gram Upaj Yojana Scheme, Focus Product scheme under the Foreign Trade Policy. The incentive is an import duty credit equivalent to 5% of the f.o.b. value of exports in the previous year beginning 1 April 2004 (1 April 2005 for dairy, poultry, and related processed goods). The duty reimbursements dilute the impact of import duties. However, sensitive products cannot be imported against these entitlements.

As with its import policy, India also takes into consideration the domestic supply of items crucial for its food security. Thus, notifications are made from time to time to restrict exports or lift export restrictions in order to maintain domestic supplies and stability in domestic prices. For example, currently there a ban on exports of edible oils except coconut oil.

#### **IV. Agriculture Trade Policy: Food Security Concern and Recent Policy Measures**

Although protection of agricultural products has declined, India continues to use trade policy to support its overall goals of food availability and price stability. Thus, tariffs, the main instrument of trade policy, continue to be adjusted from time to time to ensure sufficient domestic supply of key products.

As we have seen, there is theoretical justification that for large economies, self sufficiency/self reliance provides sufficient ground for using tariff as a strategic Policy. However, the current food security policy takes a narrow view of food security and is heavily biased towards cereals. With high GDP growth, rising population, the demand for diversified products is growing and these products should be a part of the food security and self sufficiency concern. Moreover, it will addresses the viability and livelihood of farmers opting for diversified agriculture. As far as cereals are concerned, a ship to mouth policy was abhorred since the green revolution days. But as far as two other vital component of food i.e. pulses and edible oils is concerned, this caution is thrown to the wind. It may be recalled that there was a focus on cereals when rate of growth was 3-4%. With rate of growth at 8-9% demand for fats/processed products, proteins are burgeoning this along with rising global commodity prices, climate change, demand for biofuels, speculative trading in commodities have increasingly started affecting the domestic prices of various commodities including edible oils in an open environment. However, substantial dependence on imported oils did not seem to attract the

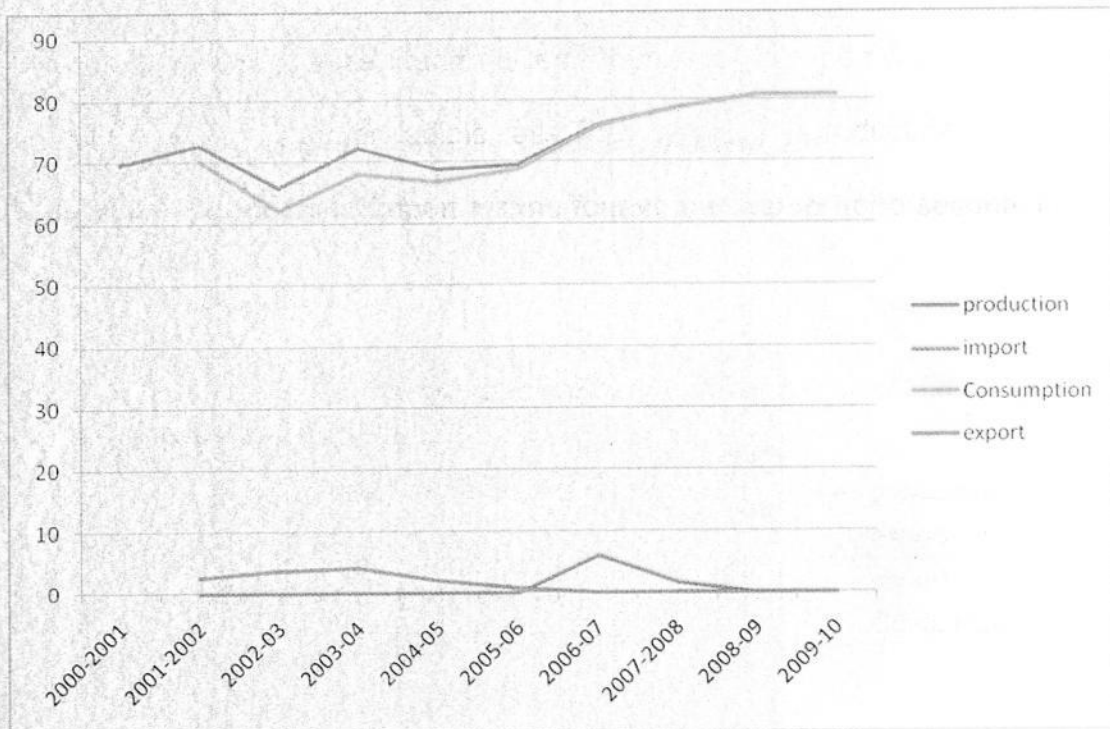


necessary urgent response to meet domestically the growing requirements so far.

Although we are among the largest producers of pulses and oilseeds it is not sufficient to meet our domestic requirements. These two have always been and still stand out amongst the largest agricultural imports. Recently, what is significant, applied tariffs were brought down and remain nil for cereals (wheat, rice, maize), pulses, and edible oils with effect from April 2008 and have remained nil since then. Export bans were put on non-basmati rice, wheat, pulses (except kabuli chana) and all edible oils except coconut and castor oil. All these crops are significant as far as food and livelihood security is concerned. However, these measures were put in place to bring down domestic prices and improve availability of cereals, pulses and edible oils in the economy in the backdrop of global commodity price inflation in 2008. A comparison of trends in production, consumption, import and export of cereals with oilseed and pulses will show that although the duties were brought down and exports banned, due to canalization of cereal import in place, no wheat or rice was imported. This is evident from the charts below. The pulses and edible oils saw a major increase in imports especially in 2008-09 and 2009-10. India has always had a structural surplus in wheat and rice and deficit in pulses and edible oils. However, due to the narrow view of food security taken, a small fall in production and shortfall in buffer requirement targets that resulted in import of wheat in 2006 drew the attention of policy makers. A major programme, the National Food Security Mission (NFSM) was launched for augmenting rice, wheat and pulses production. Pulses were transferred from ISOPOM to NFSM reflecting the

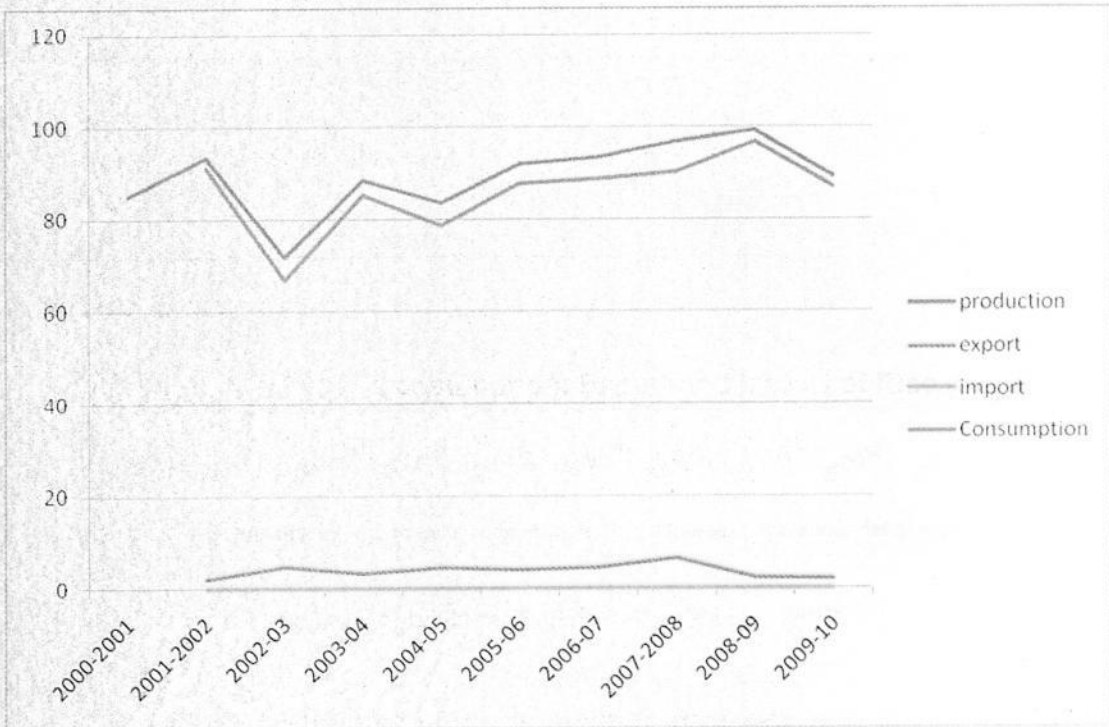
concern over protein deficiency. Oilseeds did not see any such policy impetus and were completely left out although they account for large and increasing trend in demand. There were substantial hike in MSP of wheat, rice and pulses in 2007-08. The oilseed procurement prices were also raised an year later. Meanwhile, import duty was completely exempted on all crude oils with a duty of 7.5% on refined oils which is also effectively halved due to the practice of using frozen tariff values. There are no import policy restriction like canalization etc. for edible oils. The trends in production, domestic consumption, export and import for the four crops vital for food security in the last 10 years can be seen below.

**Chart 1.2 - Production, Consumption, Export and Import of Wheat (mn MT)**



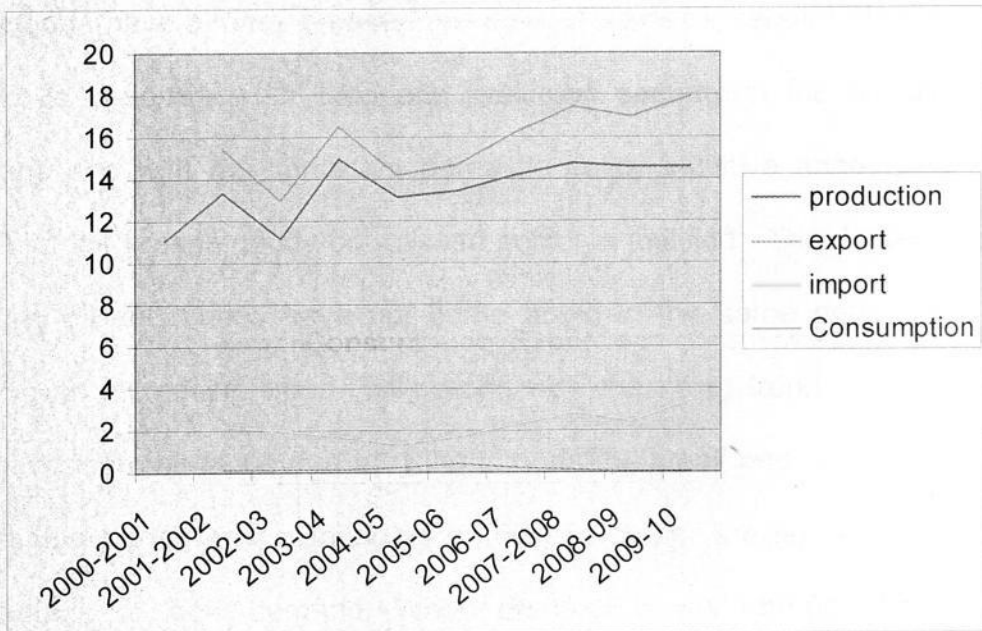
Source: Agriculture Statistics At a Glance, 2010.

**Chart I.3 - Production, Consumption, Export and Import of Rice (mn MT)**



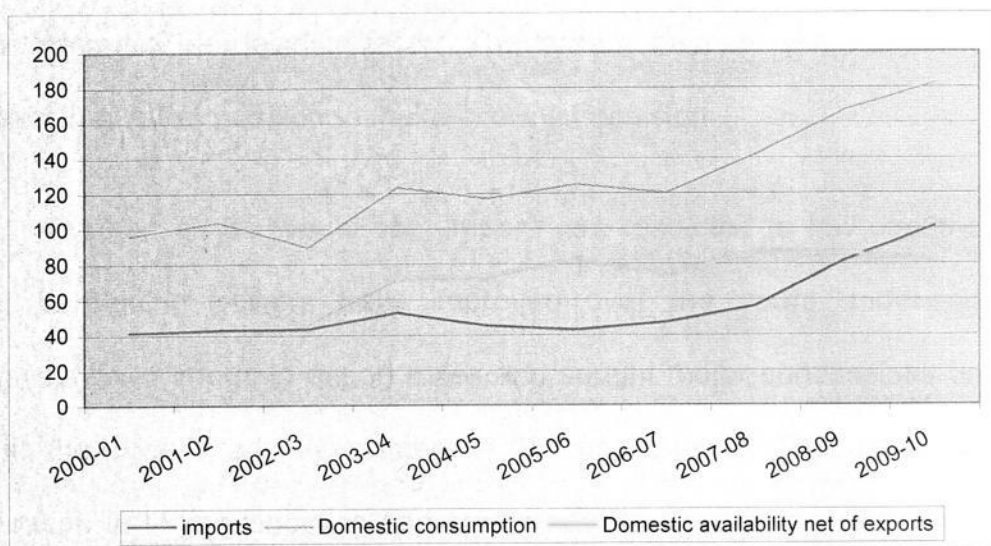
Source: Agriculture Statistics At a Glance, 2010.

**Chart I.4 - Production, Consumption, Export and Import of Pulses(mn MT)**



Source: Agriculture Statistics At a Glance, 2010.

**Chart I.5 Domestic Availability (net of exports),  
Consumption and Import of Edible Oils (mn MT)**



Source: Agriculture Statistics At a Glance, 2010.

Therefore, a quantity surge is evident in pulses and edible oils in the recent years in the period coinciding with reduced import duties. Pulses import requirement is about 15% of total requirement and has already been earmarked for major thrust under the NFSM. However, given that the edible oil imports have already crossed the 50% of domestic requirement mark and given its importance for food and livelihood security in the disadvantaged regions and with no significant domestic policy initiative announced, the focus of the present study on oilseed sector is justified. The domestic edible oil and oilseed prices have not come down in the same period and have shown an increasing trend. This along with the rising trend in import is of great concern because due to rising imports the small and marginal farmers in disadvantaged area depending on oilseed crops are not able to take full advantage of local demand. When demand is met through imports, the domestic prices get aligned to international prices that are volatile and

transmit the global uncertainties. With freer imports the link between farmers and traders is weakened. For the traders ease of availability of oil and cheap price becomes the deciding factor. The farmers become vulnerable with only traders in a better position to make informed decision.

Further, as we would see, imports are restricted to few countries and their bargaining powers have improved over the years. Indonesia and Malaysia have imposed export taxes and sought major concessions on palm oil in the Free Trade Agreement (FTA) negotiations. Production failures/saturation in their production can create havoc in our prices. The competing use of oilseeds for biofuels also has the potential of keeping the position of global edible oil stock to production ratio tight. In the short run, import may be the only solution for food security and price concern but production, productivity and demand management need to be addressed in the long run.

## **V. Agriculture Trade Policy and Livelihood in Oilseeds**

Placed in the above context, therefore it is clear that versatile oilseed sector with diversified uses is important not only due to growing demand for edible oils in the country, in the context of wider view of food security (taking into account cereals, pulses and fats) but also profitability and sustainability of livelihoods in dry land areas and rain fed farming systems. The oilseed production, however, is unable to meet the requirements of the domestic edible oil industry resulting in substantial and growing import dependence for edible oils. Oilseeds have always been a problem area in terms of meeting the domestic edible oil requirements. Important domestic initiatives like the Technology Missions and Public Procurement Support were put in place, first



in a restricted external environment in the late 80's with remarkable success. The policies later continued in an progressively liberal external environment since late 1990's onwards to meet the edible oil industry requirements but with performance falling short of potential as well as domestic requirements. The stagnant domestic production and yield, problems in disadvantaged regions which increase the costs and uncertainties with little support from public procurement affects the relative profitability of oilseeds and livelihoods of the oilseed farmers. Meanwhile, the domestic demand is growing unabated as reflected in dependence on imports and rising prices. It is important to address the issue and improve the relative profitability of the oilseed crop so that the domestic oilseed farmers benefits from the imploding domestic demand//prices and improve their livelihood security. With excess demand, market price trend have remained firm in the oilseeds a crop with high marketable surplus to production ratio. As we have seen, self sufficiency is a justifiable goal and stepping up production/productivity is in the realm of possibility provided necessary measure are put in place. With appropriate policy systems and linkages, incentive structure, addressing the woes of farmers in disadvantaged areas in a supportive external policy environment will work towards improving the livelihoods of farmers from the versatile and lucrative oilseed sector in the long run.

### **Objectives of the Present Study**

- ✓ Examine the trends in production/productivity/ profitability of the oilseed sector (including nine oilseeds, palm oil, coconut and other oil bearing materials) in the backdrop of implementation of Technology Missions,



Public procurement and Distribution Policies and progressively liberal Trade Policy Environment over the period of implementation of the Technology Missions on Oilseeds/ISOPOM (1985-86-2009-2010).

- ✓ Highlight Some Aspects of Edible Oil Demand to understand the growing requirements in the economy.
- ✓ Taking a wider view of food security that includes edible oil consumption and examining, how far, the trade policy that was in place during the period of operation of the Technology Missions, was able to address self-sufficiency/self reliance and its sustainability in the long run.
- ✓ In the light of above analysis suggestions on appropriate policies, systems and linkages, incentive structure, addressing the problems of farmers in disadvantaged areas in a supportive external policy environment will be attempted

## **Methodology and Chapterization**

The study will be guided by the framework of analysis used in the Literature on the subject. Review of the Literature showed that the impact of agriculture trade policy on imports, domestic prices and further to livelihood and food security indicators such as changes in production, productivity, area income etc can be captured with the help of qualitative as well as quantitative analysis or a combination of both. Further, it was noted that it is difficult to isolate the impact of domestic policies. The present dissertation is based on the Analysis of domestic policies and trade policy changes and trends in import, export, area, production of edible oils, oilseeds, productivity in

oilseeds, domestic prices, return over cost, and procurement with the help of data from secondary sources both national as well as international available in the public domain. Besides discussion were held with senior policy advisors in the Agriculture Ministry, technical experts, State Government, Industry and farmers association.

TMOP was launched in 1986. Subsequently, as a part of overall economic liberalization, tariff liberalization were also carried out 1994 onwards with accelerated trends in import duty reduction in the recent period. Chapter II examines the role of the policies in the sphere of production/ procurement /trade on the emerging trends in the area, production, productivity and profitability of oilseeds/other oil bearing materials. Chapter III examines the reasons for growing demand for edible oil and the course adopted by the industry as a consequence. Chapter IV examines the changes in policy environment in an effort towards bridging of supply gap through imports. Due to diversified use of oilseeds there have been successes in export in this sector i.e. oilseeds, oilmeals, castor oil. Clearly this helps in self reliance in the sector. The Chapter also looks at the long run sustainability of trade policy. Chapter V provides a summary of findings from each of the Chapters and provides some recommendations in the light of trends observed under extant policies.