

## Chapter IV

### **MEETING EDIBLE OIL REQUIREMENTS: AGRICULTURE TRADE POLICY AND EXPORT AND IMPORT IN EDIBLE OIL/OIL SEED SECTOR**

The present chapter proposes to examine the recent export/ import trends in the oilseed sector in the period co terminus with the TMOP and ISOPOM within the context of the policy pattern that emerged. Although 1985-86-2009-10 period coincides with the operation of the Technology Missions and economic liberalization after 1991, the disaggregated data required for the detailed analysis which is available readily from 2001 onwards from the Department of Commerce Export Import Data Bank has been used to analyse the trend. The Chapter is divided in four sections. Section I deals with the import policy regime during the period of the study and the import trends that have emerged. Section II deals with the export policy and trends in export sector. Section III analyses the implication of this pattern of trade for self sufficiency and self reliance. Lastly Section IV summarizes the chapter.

#### I

### **Import Policy and Import of Edible Oil/Oil Seed**

Oilseed import is restricted under the extant Foreign Trade Policy and import of seeds/plant material for sowing/propagation and planting have to acquire import permit after necessary clearance from plant quarantine authorities and any such requirement laid down from time to time. The

import/export of seeds is regulated by the EXIM Committee for Seeds set up in the Department of Agriculture. Import of animal origin fats is also not permitted under policy laid down vide "Schedule I- Import Policy for Animal Fats or Vegetable Fats etc." of the foreign Trade Policy 2009-2014 (dgft.gov.in). The import duties on oilseeds have generally been at 30% *ad valorem* with duties bound in the WTO at 100%. India's bound rates for edible oil are as high as 300% *ad valorem*, except for 45% on soybean oil, and 75% for rapeseed oil. The gap between bound and prevailing applied rates provide the policy space to balance the interest of various stakeholders in meeting the needs of the economy. The import of edible oils have been put on Open General Licence only since 1994 implying removal of quantitative restriction and a duty of 65% was imposed on palm oil, the same year. The duties on all edible oils have seen tremendous fluctuation in the period since 1994 (Appendix Table VI). This reflects the pressures and counter pressures in balancing the interest of various stakeholders i.e. oilseed farmers, oil producers and consumers. A study of the salient trend in import duties reveals that the duties on crude and refined edible oils were brought down progressively until 1998 and thereafter frequent duty changes in either direction (sometimes 2-3 times in a year) were brought about.

These changes generally involved higher protection to refined edible oil as compared to crude oil. One important feature was that maximum benefit of duty reduction were given to vanaspati manufacturers by facilitating cheaper imports of crude oil by reducing duties on crude palm oil for vanaspati industry (Vanaspati is prepared by hydrogenating crude palm oil). Meanwhile, effective

duties differed from customs tariffs due to imposition of surcharges and Special Additional Duties (SAD). Thereafter, the latter part of the TMOP period saw progressive reduction of duties which effectively reduced the protection for raw materials for vanaspati and also the refining industry. The reduction were affected on crude and refined palm oil not produced locally. rape, groundnut, soybean oil duties were not tinkered with. These crops were sensitive due to dependence of large number of farmers in rainfed areas. With cheap availability of palm oil it is not surprising that Palm Oil production had made no head away in the 1990s since the inclusion of palm oil in the Technology Mission in 1992-93.

Therefore, import duty changes have been used to cater to the interest of the edible oil industry with highest duties for refined oil or a duty differential with refined oils. It is noticed that at times the duty was lowered for crude oils specifically to protect the domestic vanaspati industry in the TMOP period.

Subsequently, however, Rape, sunflower oils were subject to Tariff Rate quota (TRQ) i.e. limited assured access of 1.5 lakh tonnes each with lower duties of 45 % and 50% respectively since November, 2001 with designated agencies for canalizing the import. The imports under tariff rate quotas have been negligible except sunflower (Table IV.1) because of cumbersome procedure. The TRQ for oils was never filled in any of the years.

Table IV 1 List of TRQ Items and Imports

HS Code	Item	TRQ ( in MT)	Concessional duty	AR at present	BR	Import (quantity in MT)							
						2006-07		2007-08		2008-09		2009-10	
						Total Import	Quota Import	Total Import	Quota Import	Total Import	Quota Import	Total Import	Quota Import
151211	Crude oil (Sunflower/Safflower Oil)	150000	50%	0%	300%	108867	95883	87086.12	NA	281868	0	521480	NA
151419	Other refined (Rapeseed /Mustard Oil )	150000	45%	7.50%	75%	3.89	NA	0.6	NA	NA	0	NA	NA
151499	Other refined (Rapeseed /Mustard Oil ) edible grade	150000	45%	7.50%	75%	12.89	NA	45.49	NA	NA	0	41.31	NA

Source: DGFT, Ministry of Commerce & Industry.

In order to check the instances of under-invoicing of Edible Oil imports (A practice by which importer would quote lower international prices to evade duty on crude oils), with effect from 3<sup>rd</sup> August, 2001, the Government started the practice of fixing tariff values on import of certain Edible Oils followed by revisions from time to time in accordance with the variations in the international prices of such oils. All these additional measures have been influencing the effective duties. The reduction in import duty to 50 % in 2002-03 coincided with one of the lowest level of oilseed production of 148 lakh tonnes, thereby negating the gains of the Technology Mission since its inception. The percentage of self sufficiency of around 95% during 1990-91 and 1992-93 came down to only 50 % during 2002-03 (Table of chapter III.1).

The import duties moved up in the beginning of the ISOPOM period but subsequently the import duties have progressively come down especially on crude palm oil, sunflower oil and soybean oil reflecting the diversification of

edible oil requirements. Vide notification no.2(RE-2006)/2004-2009 dated 7/4/2006 the DGFT had imposed a condition on import of GM Food only after the approval of Genetic Engineering Approval Committee (GEAC) in the Ministry of Environment and kept extending it vide subsequent notifications until 2007. In September, 2007 vide notification no 11(RE-2007/2004-09) the DGFT informed that this condition was no longer enforceable as the GEAC accorded one time approval for import of refined Soybean oil derived from GM sources. Since then the Solvent Extractors Association are only required to provide the relevant data on import from GM sources to the DGFT vide the same notification. In many of source countries like USA, Brazil and Argentina crop genetically modified soyabean crop are allowed to be produced. We are importing refined soyabean oil from these countries without the need for the importer to go through GEAC procedure, on the ground that the refined products do not have trace of DNA. GM cultivation is allowed in India only in cotton. Cotton seed is also used as a secondary source of oil. Refined Oils sourced from GM crops have in all probability found their way in the country. Careful consideration of harnessing crop biotechnology for raising productivity in oilseeds is required in view of food security concerns.

During the ISOPOM period several free trade agreements were signed with noticeable implication for the import duties being reduced to nil in the India –Sri Lanka Free Trade Agreement on vanaspati initially. The Agreement was later modified with vanaspati import restricted to a TRQ of 2.5 million tonnes. The ASEAN-India Free Trade Agreement has also been concluded and although on most sensitive agricultural tariff lines no concessions have been given the Crude and refined palm oil applied rates will have to be

brought down to 37.5% and 42.5 % by 2018. This would imply that although the WTO Agreement provides flexibility to raise tariffs upto 300% in effect that policy space is restricted with respect to our major source countries (Malaysia and Indonesia) due the free Trade agreement with the ASEAN Nations. More recently, import duties were reduced to zero in 2008 to zero on all crude edible oils and 7.5 % on all refined oils. With this the TRQ have also become redundant for rapeseed oil and sunflower oil. The Government had introduced the tariff value system during August 2001 to check under invoicing and revision of tariff value was taking place every 15 days. However, tariff value has not been revised since 15<sup>th</sup> March 2007. Currently tariff value for Refined Bleached and Deoderized (RBD) palmolein is fixed at US\$ 484 Per Metric Ton (PMT), CPO at US\$ 447 (PMT), Soybean crude Oil at US\$ 580 (PMT) for the purpose of collecting the custom duty. Currently, there is no duty on crude palm oil and soybean oil, however, RBD palmolein attracts the duty at 7.5% plus 3% education cess on Custom duty i.e. total 7.73%. According to industry sources, the current CIF price of RBD Palmolien is US\$ 1072 (PMT), whereas the duty is being collected at the rate of 7.73% on US\$ 484 (PMT) and therefore the effective duty is less than half. Currently, India is importing about 11.5 lakh tonnes of refined palmolein. The importer pays effective duty less than 3.5% and in process, the Government is losing revenue too. The lower effective duty on refined oils also encourages import of finished products instead of raw material (crude oils), hitting the domestic refining industry. Indonesia has reportedly imposed export tax on crude palm oil exports thus retaining the benefit of price or volume hike within their borders.

An examination of the break- up of imports in the Table from 2004-05 to 2009-10 period when the ISOPOM was under implementation shows that the crude palm oil imports have substantially increased in 2008-09 and 2009-10. The other important imports include refined palm oil and crude soya oil. The import duty is zero for all oils during the last three years but the import of rape seed oil, groundnut oil etc has not taken place substantially. Only sunflower oil has registered substantial increase after duties were reduced to zero. The Sun flower oil had reported higher imports under the TRQ earlier up till 2006-07. Due to zero out quota duty since 2008, the import under the TRQ has stopped in 2007-08 to 2009-10(Table IV.1) but substantially increased otherwise (especially in 2009-10).

**Table IV.2 Break-up of Edible Oil Imports 2004-05 to 2009-10**

Values in Rs.Crores

S.No.	HSCode	Commodity	2004-2005	2005-2006	2006-07	2007-08	2008-09	2009-10
1	150710	SOYA BEAN CRUDE OIL W/N DEGUMMED	2705.18	3788.36	3032.86	2673.41	1866.00	4112.55
2	150790	OTHER SOYA BEAN OIL & ITS FRACTIONS	249.82	111.55	70.82	74.84	5.94	4.80
3	150890	OTHR REFND GRND NUT OIL & ITS FRACTIONS	0.07	0.11	0.04	0.03	0.27	0.02
4	151110	CRUDE PALM OIL & ITS FRACTNS	3227.45	3639.38	5112.35	6121.91	9083.40	14878.71
5	151190	REFINED PALM OIL & ITS FRACTIONS	4463.82	924.03	516.79	590.16	2781.19	4233.71
6	151211	CRUDE OIL OF SUNFLOWER & SAFFLOWER SEED	105.50	176.79	322.44	254.06	1207.42	2122.00
7	151219	OTHER SUNFLWR & SAFFLWR OIL & THEIR FRCTNS	4.36	7.88	100.54	1.03	45.69	24.56
8	151311	COCONUT (COPRA) CRUDE OIL & FRACTIONS	4.16	2.82	0.17	0.00	13.89	39.26

9	151319	COCONUT (COPRA) REFINED OIL & FRACTIONS	36.71	8.64	51.69	35.26	67.53	13.77
10	151321	CRUDE PALM KERNEL/BABASU OIL & ITS FRACTNS	245.07	290.96	319.61	531.70	699.42	819.19
11	151329	REFND PALM KERNEL/BABASU OIL & ITS FRACTNS	24.07	3.79	3.56	1.09	13.17	40.67
12	151411	CRUDE LOW ERUC ACID RAPE COLZA OIL & ITS FRACTIONS	0.00	0.00	0.10	0.00	40.18	153.23
13	151491	LOW ERUC ACID RAPE COLZA OIL & ITS FRACTNS OTHER THAN CRUDE	0.00	0.00	0.01	0.00	6.35	29.13
14	151499	OTHER RAPE, COLZA, MUSTERED OILS OTHER THAN CRUDE	0.04	0.15	0.06	0.21	0.00	0.33
15	151550	SESAME OIL & ITS FRACTIONS	0.59	0.94	0.89	0.79	1.29	1.40
		<b>Total of above oils</b>	<b>11066.84</b>	<b>8955.41</b>	<b>9531.92</b>	<b>10284.49</b>	<b>15831.74</b>	<b>26473.33</b>

*Source: Department of Commerce, Government of India, Export, Import Data Bank*

The edible oil imports have seen a higher increase in 2008-09 and 2009-10. As per break-up of direction of trade from DGCI&S data for 2008-09 and 2009-10, 99% of crude palm oil import is sourced from Indonesia and Malaysia with Indonesia's share at 85%. However, in the case of refined oil the share of Malaysia is 35% with Indonesia's share at 65%. Crude soya oil the other significant import was imported from Argentina (60%), USA (20%) and Brazil (16%) in 2010. The source of import thus is confined to few countries.

Needless to say the trade policy changes had adverse consequence for self sufficiency in edible oils. It has created a permissive environment for



cheap raw material for the domestic edible oil industry especially since the late 90's. While it can be argued that the policy move towards import of edible oils under OGL was a component of the trade liberalization set in motion in 1991 for commodities across the board, it can be said that they certainly did not provide conducive environment for implementing the Technology Missions. The impressive gains in the first ten years of the Technology Mission for increasing domestic production were reversed and self reliance is under threat to do so.

## II

### **Export Policy and Export of Edible Oil, Oilseeds**

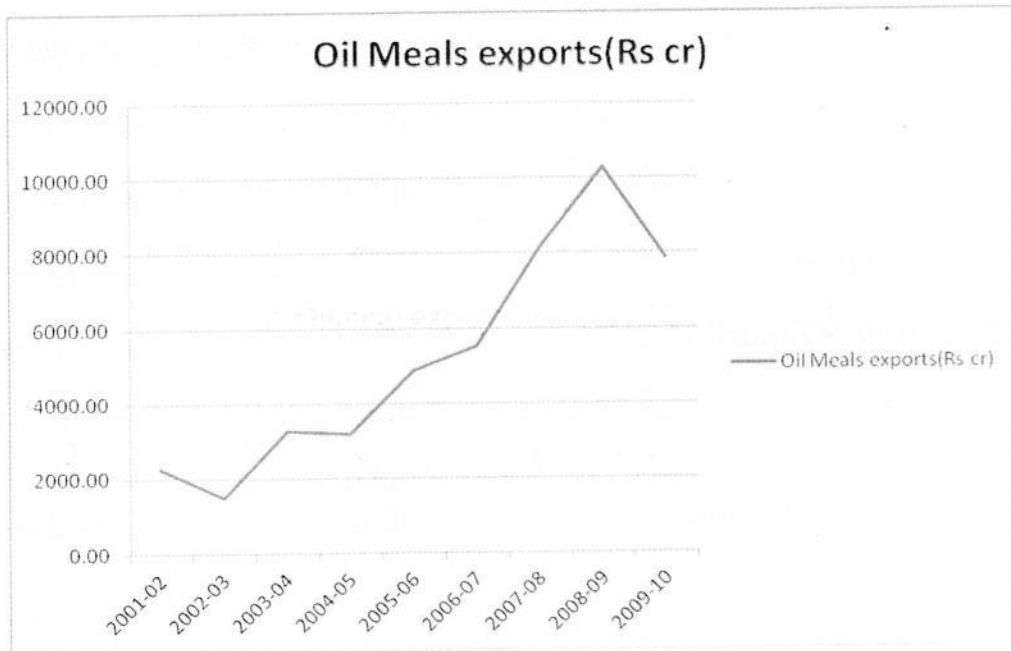
Overall export policy aims at incentivising exports through benefits under the Agricultural Products export incentive scheme like the Vishesh Krishi and Gram Udyog Yojana (VKGUY) in the Foreign Trade Policy, the Duty Entitlement Passbook Scheme (DEPB) and the Focus Product Scheme (FPS) essentially offer benefit to exporters in the form of import duty reimbursement entitlement of 3-5%. The products that can be imported have to be related to the exportable as per standard Input Output Norms subject to any restriction in place from time to time. Under VKGUY, oil, oilseed and oilcakes are listed under eligible products. Oilcakes from soyaoil are eligible for export benefit under the Focus Product Scheme for duty reimbursement. Oilcakes of solvent variety are eligible under VKGUY. Benefits are also available to oilseeds and oils. However, if DEPB benefits have been availed, VKGUY benefits are available at reduced rate. The export of all edible oil is banned with effect from 1.04.2008 vide notification no dated No. 85 (RE-

2007)/2004-2009 dated 17<sup>th</sup> March, 2008 .The export of castor oil and coconut oil is exempted from this ban. The purpose of export policy has thus been to improve the availability of edible oil and incentivise the diversified product. India is a leading producer and exporter of oil seeds and the leading exporter of castor, an inedible oil. The break- up of exports has been compiled in the Appendix Table VII. It can be seen that the export of castor oil rose from 213000 MT valued at Rs 625.94 crores in 2001-02 to 397700 MT valued at Rs2177.57 crores in 2009-10. Besides, India is also a major exporter of sesame, groundnut and niger seed. India is the topmost producer of sesame seeds in the world and second largest producer of groundnuts in the world in 2008 (FAO). The sesame seeds exports rose from 218970 MT valued at Rs.562.23 crores in 2001-02 to a peak of 317000 MT valued at Rs.1642 crores in 2007-08 but fell down to 215980 MT valued at Rs.1495 crores in 2009-10. Likewise groundnut seeds also rose from 112810 MT valued at Rs 250.54 crores in 2001-02 to 339980 MT valued at 1424.55 crores in 2009-10. India is the leading exporter of sesame seed. Export of niger seed has started more recently.

The most remarkable feature of exports in the oilseed sector has been the tremendous leap in exports of oilmeals especially soymeal cakes. The export of oilmeals rose from 2781720 MT valued at 2262.93 crores in 2001-02 to 4688850 MT valued at 7849 crores in 2009-10.

As far as the main category of exports in the oilmeal sector is concerned, soya oilcakes form the largest share in exports (20%) and are exported mainly to Vietnam (23%), Bangladesh(12%), Japan(12%) and Thailand(8%).

**Chart IV.1 Oilmeal exports during 2001-02 to 2009-10**



*Source: Agriculture Statistics At A Glance, 2010*

### III

## **Agriculture Trade Policy, Self-sufficiency and Self-Reliance**

As noted earlier, with steady growth in population and personal income, Indian per capita consumption of edible oil has been growing steadily. However, oilseeds output and in turn, vegetable oil production have been trailing consumption growth, and imports resorted to for meeting domestic supply shortfall. India has always been short on edible oil and resorted to imports but when efforts to boost domestic production of oilseeds were put in place in mid 80's import of edible oils saw a major dip in 1992-93 (Table II.1). Imports, however registered a substantial jump in 1999-2000 and averaged around 43% of domestic consumption in the period thereafter. Imports of edible oils crossed the 50% mark (of domestic requirement) in 2009-10 with

edible oil import at 55% of domestic requirements (Table III.1). The import dependence has, therefore increased rapidly especially in the last three years with availability of cheaper imports. For large economies, food self sufficiency or food self reliance has been given as necessary justification for protectionist policies as seen in the literature survey. The Technology Missions also set self reliance as their goal. The external and domestic consequence of using import policy in the short run may be unavoidable. However prolonged use can increase external and domestic vulnerabilities.

**Table IV.3 India's Agriculture Trade and Total Trade 2001-02 to 2009-10**

(Value in Rupees Crore)							
Year	Agriculture Imports	Total National Imports	%age Agriculture Imports to Total National Imports	Agriculture Exports	Total National Exports	%age Agriculture Exports to Total National Imports	Agricultural trade surplus
1	2	3	4	5	6	7	
2001-02	16256.61	245199.72	6.63	29728.61	209017.97	14.22	13472.00
2002-03	17608.83	297205.87	5.92	34653.94	255137.28	13.58	17045.11
2003-04	21972.68	359107.66	6.12	37266.52	293366.75	12.70	15293.84
2004-05	22811.84	501064.54	4.55	41602.65	375339.53	11.08	18790.81
2005-06	21499.22	660408.90	3.26	49216.96	456417.86	10.78	27717.74
2006-07	29637.86	840506.31	3.53	62411.42	571779.28	10.92	32773.56
2007-08	29906.24	1012311.70	2.95	79039.72	655863.52	12.05	49133.48
2008-09	37183.03	1374435.55	2.71	85951.67	840755.06	10.22	48768.64
2009-10 (P)	59367.62	1356468.65	4.38	89522.59	845125.21	10.59	30154.97

Source: Agriculture Statistics At a glance, 2010, Department of Agriculture & Cooperation

While overall there has been trade deficit year after year in the balance of Payments, India's total agriculture exports have so far exceeded agricultural imports leading to surplus in annual agricultural trade balance. Agricultural imports averaged 5% of national imports whereas exports averaged 11 % of national exports. As far as the oilseed sector is concerned, Edible oil is not only the largest oilseed sector import but also the largest

agricultural sector import and ranged from 32% in 2006-07 to 53% of total agricultural imports in 2003-04 in value terms. Import of oilseeds, vegetable and animal fats is negligible. Edible oil imports accounted for 13 % of agricultural exports in 2006-07 and 30% of exports in 2009-10 in value terms (Table IV.4). Let us now look at the balance in oilseed sector trade.

**Table IV.4 The Oilseed Sector Trade**

					In Rs Crores				
Import of edible oil oilseeds and fats					Total Oil sector Exports	Import			
Year	Edible Oil	Oilseed	Veg./animal fat	Total oil sector import	(Export of oilseeds, oil meals and castor oil)	as % of agri export	as % of agri imports	Oil sector X/ oil sector M	
2001-02	6464.97	1.34	10.37	6476.68	3749.89	21.79	39.84	57.90	
2002-03	8779.64	11.49	11.61	8802.74	2726.34	25.40	49.99	30.97	
2003-04	11683.24	13.89	12.68	11709.81	4839.37	31.42	53.29	41.33	
2004-05	11076.89	28.41	12.78	11118.08	5576.29	26.72	48.74	50.16	
2005-06	8960.99	47.03	14.24	9022.26	7135.29	18.33	41.97	79.09	
2006-07	9539.9	104.47	11.19	9655.56	8399.34	15.47	32.58	86.99	
2007-08	10301.09	149.32	12.48	10462.89	12202.87	13.24	34.99	116.63	
2008-09	15837.46	129.58	12.2	15979.24	15195	18.59	42.97	95.09	
2009-10 (P)	26483.52	183.36	23.31	26690.19	12971	29.81	44.96	48.60	

Source: Agriculture Statistics At a glance, 2010, Department of Agriculture & Cooperation

Oilcakes formed the biggest export and together with castor oil and oilseed export this could finance a substantial proportion of edible oil imports. In fact, oilseed sector became a net exporter in 2007-08. However, in 2009-10 the oilseed sector exports could finance only 48 % of the sector's imports. Therefore import- export policy has not helped in being able to achieve the goals of self-sufficiency. However, due to the success achieved on the export front and the kind of production pattern and exports that emerged, the oilseed sector could support the import requirements almost fully in several years.

We turn now to see how sustainable is this pattern in the long run. The diversified uses of seeds enabled us to take advantage of value realization from by products. The unit value realization for principal import and principal export are compared below.

**Table IV.5 Annual Average Market Price Trend of various Oils, Oilseeds and Extractions**

Year/RS /tonne	2009	2008	2007	2006	2005	2004
Soya extractions	21080	17504	11898	9105	9462	12202
Sesame seed	61170	67942	37685	30528	31564	39267
Castor seed	25343	28180	20326	15967	15921	17676
RPO	37514	48827	46207	40564	36418	40517
CPO	33005	42662	42314	37799	33055	38210
Soya oil	42600	55509	40896	38260	33945	41146

*Source: Solvent Extractors Association, Mumbai.*

Clearly, the specialization and export is moving towards a product which has lower value realization while import dependence is increasing in high value item. The large scale export of oil meals may be symptomatic of hidden hunger among farm animals. With rising demand for poultry, animal meat within the country, there might be pressure on the domestic demand for oilcakes. Therefore relying on export of oilcakes may not be profitable, sustainable or desirable in the long run.

## IV

### Chapter Summary

Thus the above sections captured how in view of domestic shortages import policy was resorted to as a facilitator for the domestic edible oil sector raw material (crude oil) requirements who had developed the necessary

infrastructure and capacity in refining. Refining oil /crushing operations generated by products and also enabled finishing of seeds for export requirements. A permissive duty structure stretched over a long period of three years (2008-2011) enabled excessive import of crude oil and also import of refined palm and soya oil imports. India is now amongst the largest importers of edible oils in the world today. It is the 5<sup>th</sup> largest importer of palm oil (FAO). Trade policy has thus adversely affected self sufficiency in edible oils. While per capita availability of edible oils has increased because of increased availability of imported oil, it has not helped the domestic oilseed farmers avail of the opportunity to gain from a commodity in demand within the country. Since imports are sourced from very few countries the domestic economy is extremely vulnerable to dislocations in these countries due to manmade or natural reasons.

Export policy was geared to incentivise low value products like oil meals. The diversified use of oilseeds i.e. oilcakes, seeds oil also enabled to achieve self reliance even with high structural requirement for crude oil imports in 2007-08. However, the capacity of oilseed sector exports to finance imports have come down in 2009-10. The pattern of export- import is not sustainable or profitable or geared towards a path of self reliance in the long run. As a result the goal of self reliance, sustainability and profitability for domestic oilseed farmers in this sector has become elusive.