

Chapter V

SUMMARY AND RECOMMENDATIONS

For large economies, self sufficiency/self reliance provides sufficient ground for using tariff as a strategic Policy. However, the current agricultural trade policy for food security 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 it was argued that these products should be a part of the food security and self sufficiency concern.

It was noted that a quantity surge is evident in pulses and edible oils imports in the recent years in the period coinciding with reduced import duties. Pulses with import requirement of only 15 % of total requirement has already been earmarked for major thrust under the National food Security Mission (NFSM). However, given that the edible oil imports have already crossed the 50 % of domestic requirement mark and with no significant domestic policy initiative announced, the focus of the present study on oilseed sector was justified. Further, it was noted that the 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.

With GDP growth rate at 8-9%, demand for fats/processed products, proteins are burgeoning and this along with rising global commodity prices, climate change, demand for biofuels, speculative trading in commodities is

said to have increasingly started affecting the domestic prices of various commodities including edible oils in an open environment.

Oilseeds have always been a problem area in terms of meeting the domestic edible oil requirements. With high share of tradeables and rising international price trends, the domestic edible oil and oilseed prices have not come down and have shown an increasing trend. This along with the rising trend in imports 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 and poor consumers bear the brunt of rising prices.

In Chapter II we saw that the TMOP, ISOPOM and Technology Mission on Coconut were launched as a special purpose vehicle to address the production/ profitability/productivity issues in the oilseed sector to make the country self reliant in a stipulated time, first in a restricted external environment in the late 80's, with remarkable success. The domestic policies later continued in a progressively liberal external environment since late 1990's onwards to meet the edible oil industry requirements. The TMOP managed to address successfully many of the issues through the 4 mini missions. The Mission mode, however, diminished with passing of time. Later, ISOPOM included oil palm and allowed more flexibility to the states in implementation based on regionally differentiated approach. However the programme no longer had a missionary zeal and was operating as a centrally sponsored scheme under a relaxed trade policy environment.

The TMOP focused on oilseeds and there was a noticeable jump in area, production, in the period 1984-85-1992-93. In the initial period, growth in area contributed to the growth. Later, growth trend in oilseed production/area became erratic and did not retain the growth momentum of early years. However, it was noted that the average area/production in the ISOPOM period was higher than the average area and production in the TMOP period. The average production of groundnut fell in the ISOPOM period as compared to the TMOP period. The groundnut area and production trends were observed to be erratic in the entire period. Rape and mustard area grew in ISOPOM period over TMOP period. There was however, wide year to year fluctuation in area and production. In the case of soybean, the area and production doubled in the ISOPOM period over TMOP period. Year to year fluctuations were also observed. There was growth in sunflower, sesame and niger seed although it is not significant from the point of view of edible oil. Castor and linseed are inedible oilseeds. Overall, in the last fifteen years the contribution of soybean in oilseed production has increased while that of groundnut has fallen. Rapeseed contribution has remained more or less same.

Apart from 9 oilseeds, coconut is an important source of edible oil however the area, production and yield have remained stagnant. The Technology Mission on Coconut launched in 2002 did not have a focus on edible oil. Rather it was designed to cater to plant disease and diversified use of coconut. The most glaring failure has been in the case of oil palm which is ironically the plant which yields highest yield per hectare due to various shortcomings such as planting in unsuitable region, uncertain policy

environment, long gestation period, inadequate attention etc. The contribution of oil palm is less than 1 % in edible oil production. As far as productivity trends are concerned, the productivity of oilseeds in ISOPOM period has been higher than TMOP period. However, the trends have remained erratic. The highest growth in yield in the ISOPOM period over the TMOP period was achieved in rapeseed (100%) followed by groundnut and soybean at 14%. In spite of these yield improvements the gap with world productivity remains. Along with this the yield improvements also failed to catch up with levels of productivity required to meet domestic edible oil requirements and make the crop profitable for farmers. The diversion of agricultural land from food crops to oilseeds may not be desirable. Yield improvements are important in this context.

An analysis of shares of various primary and secondary sources of edible oil reveal that over the last fifteen years the contribution of groundnut oil has fallen to from 23% to 16 %, whereas the contribution of rapeseed has remained same at 25 %. The contribution of soybean in oil increased from 11% to only 16 %, although it has registered sharp increase in area and production. The oil content of soybean is only 18%. The contribution of secondary sources like rice bran, solvent extraction oils has also increased from 25% to 29%. Therefore, it is clear that The Technology Missions have been successful in bringing about a lot of improvement by promoting diversified use of oilseeds especially soybean. There is unfinished business as far as scope of increasing yield, area and production is concerned to augment the domestic edible oil supply.

A Technology Mission on Oilseed and oil palm is being contemplated in the Ministry of Agriculture. It has been acknowledged that the ISOPOM needs "urgent re-structuring to ensure increase in production and yield within a specified time frame with substantially enhanced investment and modified interventions" (www.agricoop.nic.in). Mission mode, dedicated leadership and special focus on Research and Development for enhancing and stabilizing oilseed yield and last but not the least a supportive trade and price policy environment will be essential here.

Promotion of diversified use of oilseeds has certainly made the oil crop remunerative for farmers and is desirable from the point of crop diversification and value addition. However, attaining self sufficiency in edible oils would imply added focus on crops like oil palm with higher oil yield. Not only this, in view of unutilized potential of oil palm, its high yield and substantial import dependence high priority should be accorded to it. The Department of Agriculture has assessed that the cultivation of Oilpalm in one hectare is financially viable on major financial indicators. Annual return exceeds annual expenditure from first harvest in Year 4 and total return is more than total investment in Year 6. What is more important, it has the capacity to provide year long income and employment. It has been successfully adapted to suit the need of small holders; it can thus prove a powerful tool for poverty alleviation and income generation in rural areas. Small holders groups should be encouraged with link up with marketing agencies like NDDDB for facilitating extension advice and marketing channels. The Chaddha committee had already identified the potential area for expansion but the same could not be attained in the 11th Plan due to lost focus on food security. Other suitable

areas including wastelands could also be identified. Since the crop needs assured irrigation, the funds available under other schemes for this purpose should be directed to these plantations. Under RKVY district level plans could include irrigation for oil palm. Necessary support through research, price support, subsidy and supportive trade policy environment would be necessary during the operation of the Mission on Oil Palm as we have seen from the experience of the TMOP/ISOPOM.

It is also necessary to harness the potential of non conventional oils. Refined Rice Bran Oil is used as premium cooking oil in countries like Japan, Korea, China, Taiwan, Thailand & U.S.A and also now in India. Besides refined rice bran oil, a number of value-added products including nutraceuticals are produced from the by-products generated during the refining of rice bran oil. Although India is the second largest producer of paddy in the world, but the concept of production of value added products is in the infancy stages in the country. It needs to be encouraged through appropriate policy measures.

There is vast potential to procure Tree Bourne Oils (TBOs) because of very large forest areas in our country having many different types of oilseed bearing trees. Presently, this Potential is not fully explored and only 5.0 lakh tons of TBOs are collected which gives 1.25 MT lakh tons of oils. If proper measures are undertaken this collection can be increased 30.0 to 35.0 lakh tons of TBOs yielding 6.0 lakh tons of oils & would generate employment in a big way thereby helping tribals & downtrodden people of the society.

In the interest of improving household food security and lessening socio-economic inequity, and also of raising national agricultural production research should give greater attention to various problems in rainfed areas. Major crop specific institutes carry out useful research. This research should be demonstrated to the farmers by organizing Farmers' Mela, Demonstration of the Farm, etc. The industry should also play its role in communicating and educating the farmers for various researches done by the Institutes.

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. A Biotechnology research Regulatory framework is necessary to enable biotechnology risk assessment of crops important for food security in a manner that inspires confidence in the public as well as professional scientists.

As far as price policy environment is concerned, the public procurement and price support is less favourable in the case of oilseeds as compared to the cereals. This could reflect the problems in reach of procurement as well as firm market prices for oilseeds not requiring public purchase support. However, the market price trends reflected in the WPI of oilseeds and edible oils do not show a declining trend in the period since 1997-98. The rise in WPI of oilseeds is not benefiting the oilseed sector as prices of cereals, pulses are also growing negating relative profitability. These crops, except pulses are not being imported and therefore the rise in prices is entirely accruing to domestic trader/farmers keeping their relative profitability

higher. The study has utilized trends in WPI prices for drawing above conclusions. The wholesale prices may not capture the farm gate prices correctly and the transmission from trader to farmer could not be ascertained in the study. The transmission of prices from consumers to farmers is an area that needs further study. Besides, the transmission of international prices to domestic prices of commodities also needs to be studied with the help of sophisticated techniques in view of recurring episodes of global price inflation.

The profitability comparison of oilseed and non oilseed crop based on net returns calculated using the CACP data for the 2000-01 to 2008-2009 period shows that the profitability of oil crop is less compared to non oil crops even in the states which have comparative advantage in producing oilseed crops. For crop diversification decision, relative profitability is very important. Relative low return and yield instability coupled with bias in procurement policies may have played a key role in production of oilseeds not keeping pace with demand even in the recent period analysed in the study. This does not have favourable implications for livelihoods depending on oilseeds either. Also, the return over cost will be lower for crop which use less subsidized inputs like water, fertilizer and electricity. The oilseeds are grown in disadvantaged regions where soils are hungry and thirsty with relatively less subsidies as compared to cereals. This also affects return over costs. In these areas therefore there is urgent need for investment in drainage, land development, water conservation and application of soil nutrients. Investment in watershed development and water saving technologies in the rainfed areas, enhanced water and fertilizer use efficiency crop-livestock integrated farming

systems etc. could help improving return over cost. Improvement in risk mitigation system and support in time of natural disasters is essential.

The Public Distribution also takes a narrow view of food security. There is a large infrastructure already in place for distributing food and expanding the scope of PDS with innovative solutions like selling oil in small pack which may act as an effective method to shield the poor against rising prices. The scope of the very well established FCI can be expanded and diversified to cover select oil seeds and popular pulses, even if it is on a pilot basis in the southern and western states and through select regional offices only. They are very well equipped to carry out quality control, scientific storage, and support price operations. They undertake large scale milling operations in the case of paddy and effectively interact with bulk buyers in the case of wheat. Moreover they are constantly blamed for having excess manpower and underutilised storage space in many regions.

In chapter III we have seen that due to rise in income, population the demand for edible oils has increased. The demand is not restricted to the rich or middle class sections of the society. Poor strata also contribute to this demand. Besides there has been a rapid increase in institutional; demand from food processing industries, commercial Establishment etc. The demand is growing for branded oils perceived to be less harmful and also mass consumption refined oil.

The domestic industry has organized itself around the diversified use of oilseeds, i.e. crushing for oil, oilcakes and finishing of exportable oilseeds. However, they are far from efficient and suffer from excess capacity due to

erratic and deficient supply of oilseeds and unstable policy environment as well as global uncertainties. The industry has also come to rely on imported crude oils for its raw material requirements. The domestic consumption has risen by 6% annual average rate in the last twenty years and the projected requirement for edible oil is 24.5 million tonnes by 2015 as against that for 2009-10 at 18 million tonnes. The sustainability of present import trends is questionable and needs to be addressed. When demand is met through imports, the domestic prices get aligned to international prices which are volatile and transmit the global uncertainties. With freer imports the link between farmers and traders is weakened and ease of availability of oil and cheap price becomes the deciding factor. The import is largely restricted to crude palm oil which is not produced domestically in spite of policy push since early 1990s. Factors like its lower price, logistical advantages, contractual flexibilities, and consumer acceptance have been identified for its popularity. It is very important to understand the demand structure, estimation and projection for various oils for a choice of appropriate product mix for promotion domestically.

There is a further need to educate the consumers about the various rules and regulations that regulate nutritional labelling, health messages and legislations that protect Consumers Rights, prevent Black Marketing and regulate stock holdings etc. Besides, it is necessary to enforce the legislations for strict compliance. The small and marginal farmers' suffer losses due to distress sales immediately after harvest and are also on receiving end against the traders. Market Support Prices should be protected across the country and Market Intervention System should be used effectively across the country

while operating any promotional programme. An efficient marketing system with farmer' organization as important players could significantly add to farmers' income for his produce. The 'Dhara' initiative can be replicated and more oilseed cooperatives promoted with manufacturing/ packing and undertaking to market nationally under one brand. This will ensure processes that are more equitable and empowers rural producers.

Chapter IV 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 5th 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 the imports are restricted to few countries 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. With no or very low duties there is revenue loss implication too. Besides removal of duty on all oils has encouraged the import of sunflower oil recently which is used by the high income segment. The import policy should not undo the gains that can be brought by the interventions proposed in near future. Therefore while duties may have come down temporarily, in the long run adequate flexibilities should be available under free trade and multilateral Agreements to resort to duty enhancement as and when required.

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. Besides large scale export of oilcakes may be symptomatic of hidden hunger in the livestock. 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. The pattern of export- import is not sustainable or profitable or geared towards a path of self reliance in the long run as it is leading to specialization and export of low value items while import dependence is increasing in high value item. As a result, the goal of self reliance, sustainability and profitability for domestic oilseed farmers has become elusive and needs immediate prioritization.