

IV

Special focus area – edible oils

Oilseeds/edible oils – widening shortfall

8.67 The success the country achieved in raising production of foodgrains, sugar, fruits, vegetables and various plantation crops perhaps lulled us into believing that the shortfall in oilseeds and pulses could likewise be successfully addressed. The Technology Mission on Oilseeds (1986) has had some initial success but accelerated annual GDP growth of 6 percent in later years as also continued expansion in population (1.9 percent) caused demand for oils to rise (now 100 – 110 lakh tonnes annually), which the domestic output (60-70 lakh tonnes) is unable to meet. Edible oil is an essential commodity, more so, when a large majority of Indians are vegetarians and animal fats cannot be a substitute. Import of over 40 lakh tonnes annually (valued at Rs 6465 crore in 2001-02) currently meets almost half the country's demand.

8.68 Raising domestic production of three principal oil crops – groundnut, mustard and soyabean - has serious limitations. First major limitation is the lack of any genetic advance in technology in evolving high productivity seeds. Second limitation is the compulsion of raising oilseeds on unirrigated soils (80 percent of area) and the third limitation is low productivity per ha. which can never match rice/wheat productivity levels even if grown on irrigated soil and, finally, the high risk in losing production due to extreme sensitivity to adverse weather (frost/hailstorm) especially in case of mustard crop.

8.69 Unlike rice, wheat, sugar, bajra, jowar and cotton; farmers do not and cannot raise oilseed as a principal crop because of extreme risk factor. It is a supplementary cash crop and a 'proverbial gamble' amidst weather uncertainty. Price is an important issue. Diversion of area from foodgrains to oilseeds is widely talked about, and the key to this diversion is thought to lie in raising MSP of oilseeds to provide oilseed growers a comparative price advantage relative to rice and wheat. Unfortunately this is unlikely to help as long as yield rates in oilseeds are so low relative to rice and wheat. Doubling or even tripling the MSP of oilseeds will not match their gross return per ha. vis-à-vis foodgrains (Table 8.27).

Oil palm : Can the lost opportunity be retrieved?

8.70 Out of total agri imports valued at \$1.5 billion in 2002-03 (April-October) the share of edible oil import alone was 63 percent (\$940 million). Full year oil import may even touch \$1.75 billion out of total agri imports of nearly \$3 billion.

8.71 Given the current low productivity levels in three major oilseeds – groundnut, mustard and soyabean, and the limitations to raising productivity levels, the country's dependence on imports to meet almost half of its requirements is unavoidable. Doubling of international price in 2002 caused little or no reduction in Indian imports which is evidence of inelasticity of demand at current levels of GDP and population growth in the country. High import duties too had little effect on imported volumes. Improvements in yield rates and favourable pricing policy together with a high

Table 8.27 : Current productivity levels and comparative gross return per hectare

	Yield (Qtls/ha)	MSP (Rs/Qtls)	Gross return at MSP (Rs/ha)
Wheat (Haryana-Punjab)	40 – 45	620	24800 – 27900
Rice (A.P. – Punjab)	28 – 34	860	24080 – 29240
Groundnut (AP-TN)	10 – 17	1340	13400 – 22780
Karnataka	8	1340	10720
Gujarat	4	1340	5360
Mustard (Raj., UP, MP)	9 – 10	1200	10800 – 12000
Haryana	14	1200	16800
Soyabean (MP-Raj.)	10 – 11	885	8850 – 9735
Maharashtra	14	885	12390
Copra (Karnataka, Kerala)	8	3300	26400
Palm Oil (Malaysia)	40 - 60 (cpo)*	\$300-400 (fob)	58000 - 78000 (fob)

* Crude palm oil

Table 8.28 : World palm oil production*(million tonnes)*

Year	Malaysia	World
1976	1.4	3.1
1980	2.5	4.6
1990	6.1	11.0
2000	10.8	21.8
2002	12.3	25.8

WTO compatible tariff wall can at best make only a marginal impact. Dependence on large volume of imports is bound to continue.

Oil palm production

8.72 Malaysia produces 12 million tonnes of palm oil annually from 3.2 million ha. area. The speed with which this country expanded its production is indeed amazing (Table 8.28).

8.73 The second largest producer is Indonesia, which produced 8.8 million tonnes of palm oil in 2002. Both these countries have proved that the alternative to poor yielding seasonal oilseed crops are the high yielding perennial tree crops – earlier it was coconut, which has now found a better substitute in oil palm. There are reports that rubber trees are being uprooted in Malaysia to create space for oil palm expansion.

Comparative Advantage

8.74 Commencing production from fourth year of planting, the annual average yield of oil palm per ha. is 3-4 tonnes of crude palm oil (CPO) which in no way can be matched by any of the traditional oilseeds.

8.75 Is there a domestic alternative that could, in the medium term (say 5 years), at least meet annual incremental demand of 3 to 4 lakh tonnes? The answer was seen in propagating oil palm with the launching of Oil Palm Development Project (OPDP) in 1992. The progress has been very slow, even halting. Out of a potential area of 6.8 lakh ha. in the three states of Andhra Pradesh, Karnataka and Tamil Nadu, just about 50 thousand ha. have been planted under oil palm during the last ten years.

8.76 MSP of single copra nut, the Government has fixed at Rs 4.60 (Rs 3200 per quintal as 700 nuts weigh one quintal). CACP says cost of production per nut is Rs 3 and, because coconut growers were used to

receiving higher prices prior to year 2000, the CACP was persuaded to add Re1 as profit per nut (25 percent). Over production has caused coconut prices to drop and market was unable to pay more than Rs1800/qtl Government had to buy, and incur a loss (subsidy) of Rs 470 crore in 2000-2001 and Rs 51 crore in 20001-02. It is a dole, a direct income support, totally non developmental. If oil palm were allocated even half of Rs 400 crore annually for development, the country would have benefited.

8.77 One must recognise three main problems generally faced in introducing a new crop/product. The first is 'seeding' of demand for a new product. The second is convincing the investor of its long-term profitability and the third is the stability of the policy environment. Whereas the first two factors in case of oil palm pose no serious problem, it is the third – the policy environment that would play a vital role. Oil palm area expansion cannot be an independent activity unless it is linked with assured processing infrastructure with institutional support. Support to grower in first five years is a necessary condition. But this is not enough. Going by earlier experience of soyabean, we have to strive simultaneously towards increasing processing facilities with speed. Oil palm is a fruit and hence highly perishable, unlike oilseeds and copra which have a shelf life of more than a year.

What Should be done

- (i) Being a perennial tree crop, declare oil palm as a plantation crop just as we have rubber, coffee, tea, coconut etc. This will free area expansion from land ceiling restriction thus providing an important incentive for investors.
- (ii) Assure growers minimum guarantee price (MGP) and not MSP, which after five years should become import parity price, worked backwards from CPO (fob) price.
- (iii) Provide concessional investment funding for processing plants and involve active participation of private sector and even cooperatives for oil palm production.
- (iv) The Government provides heavy subsidy on purchase of tractors, power tillers, drip irrigation equipment and other inputs. The same should be extended to all machinery required for oil palm processing plants.