FROM PLATE TO PLOUGH

THE GOVERNMENT SHOULD HAVE BEEN BOLDER WITH THE PALM OIL MISSION AND TARGETED A COVERAGE OF 2 MILLION HECTARES INSTEAD OF JUST 1 MHA

Nurturing palm oil in India

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THE GOVERNMENT HAS just announced MSP of rabi crops for marketing season 2022-23. Wheat MSP is up by 2% while rapeseed-mustard (R-M) MSP is up by 8.6%, perhaps indicating that the government wants to focus more on oilseeds. This is the right approach given bulging stocks of wheat at home and massive imports of edible oils. However, given the large procurement programme for wheat, but meagre R-M procurement even when prices fall below the MSP, implies relative incentives are still highly in favour of wheat. So, we doubt if farmers will switch from wheat to R-M in any meaningful manner to bridge the edible oil deficit.

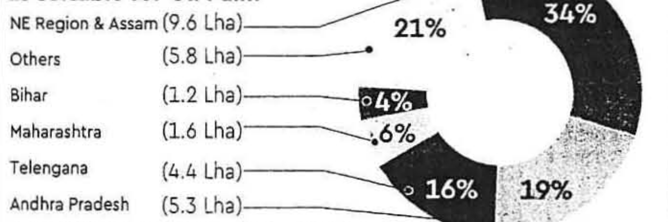
In this context, it may be noted that the prime minister recently announced the ₹11,000-crore National Edible Oil Mission-Oil Palm (NEOM-OP) as a part of 'Atmanirbhar Bharat'. This is a bold step to augment domestic supplies of edible oil, given 60% of our edible oil consumption is imported—more than half of which is palm oil followed by soybean and sunflower. In FY21, edible oil imports touched $11 billion (13.5 million tonnes). Despite this, edible oil inflation in July 2021 (y-o-y) was 32.5%.

Against this backdrop, NEOM-OP is a step in the right direction. Oil palm is the only crop that yields upto 4 tonnes oil/hectare with good farming practices. But it is a water-guzzler, requires 150 mm rainfall every month, and thrives best in areas with temperature between 20-33 degrees Celsius. The National Reassessment Committee has identified 28 lakh hectare (Lha) area suitable for oil palm cultivation. The actual area under oil palm is only 3.5 Lha. Thus, a large potential is waiting to be tapped. Much of this (34%) is in the north-eastern states, including Assam. Andhra Pradesh has 19%, Telangana 16%, and the rest is in other states.

NEOM-OP aims to create additional 6.5 Lha under oil palm by 2025-26, with a focus on the North East and irrigated tracts of Telangana, hoping to cover 1 million hectares (Mha) under oil palm by 2025-26. The government could have been bolder and tried to cover 2 Mha to bridge the widening edible oil deficit. Achieving edible oil self-sufficiency through other oilseeds complex would require additional 45 Mha or so under oilseed cultivation. This is not possible without drastically cutting down area under cereals. Thus, the best alternative is to ensure proper care of oil palm, provide good planting material, better irrigation, fertilisers and other inputs to raise productivity up to 4 tonnes oil/hectare.

The NEOM-OP focuses on productivity and area expansion by providing: (a) input assistance of ₹20,000-29,000/ha to farmers for planting material; (b) additional ₹12,500/ha for fooouur years to cover farmers' maintenance/opportunity cost, with no limits on acreage; (c) ₹5 crore to the industries for a 5 tonnes/hour processing unit in that area; (d) assistance to seed gardens of up to ₹100 lakh in North East and up to ₹80 lakh in other states for 15 hectares land; (e) additional support for undertaking vermiculture, irrigation and mechanisation etc. Hopefully, this will attract farmers as well as industries to augment edible oil production in a globally-competitive manner.

Potential area identified as suitable for Oil Palm



Source: Agricultural Statistics at a Glance, DES (2020)

The critical element of the strategy is the pricing formula for fresh fruit bunches (FFB) of oil palm. There would be no MSP. But FFB price would be fixed at 14.3% of average landed CPO price of last five years, adjusted with wholesale price index. The pricing formula needs to be carefully calibrated. However, the litmus test of pricing will be dovetailing it with import tariff policy to protect the farmers in case landed prices fall below the cost of production. Recently, the effective duty on CPO imports has been slashed against high global prices, to 30.25% and 41.25% on refined palm oil. Soya and sunflower also fall in the same range, though for rapeseed and cottonseed oil, the effective duty is 38.5% for crude and 49.5% for refined. It is this high import duty, against surging global edible oil prices (by almost 70%), that has caused high domestic inflation in edible oils (32.5%). In 2012, the Commission for Agricultural Costs and Prices, in 'Oil Palm: Pricing for Growth, Efficiency & Equity', recommended that India should keep an import-duty trigger at $800/tonne, i.e., if the import price falls below $800/tonne, the tariff must go up immediately, in a countercyclical manner. Thus, syncing import duty with rational domestic price is a necessary condition to give a fillip to atmanirbharta in edible oils. But, a sufficient condition would be revisiting the existing incentive structure that unduly favours rice, wheat and sugarcane through heavy subsidisation of power, fertilisers and open-ended procurement. The need is to devise a crop-neutral incentive structure where cropping patterns are aligned with demand patterns, and production happens in a globally-competitive manner. Can the Modi government do that? Only the time will tell.