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The Role of Policy and Industry Structure in India's Oilseed Markets

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Abstract

High tariff and nontariff protection of the Indian oilseed sector imposes costs on consumers, supports an inefficient processing industry, and has led to negligible gains in oilseed output. Model-based simulations indicate that higher levels of protection would increase the burden on consumers, but do little to meet key policy goals of supporting producers and reducing import dependence. A shift to direct support of oilseed producer prices would increase output, but may be complex to implement and subject to WTO discipline. Liberalization of oilseed imports, by permitting large gains in processing efficiency, could generate a stream of benefits that would allow producers, consumers, and processors to be better off, and also improve the trade balance.

Keywords: India, oilseeds, soybeans, vegetable oil, meal, processing industry, industry structure, policy, trade liberalization.

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Summary

Oilseeds and oilseed products emerged during the 1990s as one of the fastest-growing components of global and U.S. agricultural trade, with developing countries accounting for most of the growth in both supply and demand. India is the world's second most populous country, the third largest economy in Asia, and one of the world's fastest growing developing economies. India is also a major producer and consumer of oilseeds and their products, emerging in the late 1990s as one of the world's largest importers of vegetable oils. Higher incomes, low productivity in domestic oilseed production, and more liberal policies for edible oil imports are all expanding trade.

What Is the Issue?

Stronger income growth in India is likely to be sustained, leading to continued strong demand for oils and oil meals, as well as other foods. Without significant improvement in yields, India is likely to have a growing deficit in vegetable oils to be met by imports of either oils or oilseeds for processing. And, without improved oilseed productivity, particularly for soybeans, rapid growth in meal demand is likely to continue to reduce India's oil meal surplus, eventually creating a deficit in feed protein.

Current policies, which aim to support oilseed producers by imposing high tariffs on oil and prohibitive restrictions on oilseed imports, have not led to significant gains in oilseed area or yields. In addition to imposing substantial costs on all consumers of oil, oil and oilseed import barriers have propped up a processing sector that is technically inefficient and heavily underutilized. As a result, policy change is likely to determine the future growth and composition of India's oilseed and product trade. This report reviews recent developments in India's oilseed sector and, with a model-based evaluation of alternate scenarios, assesses the implications of current and potential policies for oilseed producers, processors, Indian consumers, and international trade.

What Did the Project Find?

India's current policy of high tariffs on oilseeds and oil affords little benefit to oilseed producers, while supporting processors and imposing high costs on consumers. Direct support of domestic oilseed prices would help growers more, and at lower cost to consumers, but could be costly and difficult to implement so as to ensure processor incentives.

Liberalization of tariff and nontariff barriers to oilseed imports, with high oil tariffs continuing, would lead to large-scale imports of oilseeds, primarily soybeans, as imports of the raw material substitute for imports of the processed commodity. Improved access to oilseeds would allow processors in India to boost capacity utilization, resulting in lower processing costs, and increased net revenues and employment. The windfall gains in processing efficiency and processor returns could be reallocated to producers and consumers through adjustments in oilseed and oil tariffs, with the potential

for growers, consumers, and processors to all be better off than under existing policies.

The ongoing process of consolidation of ownership in India's oilseed processing sector is likely to generate benefits for Indian producers and consumers, as larger, consolidated processors compete more effectively for scarce raw materials and pass on economies associated with increased scale, process integration, and capacity utilization. In this context, liberalization of oilseed imports that boosts raw material supplies may allow smaller-scale processors to remain competitive.

The United States is a minor player in India's edible oil market because Latin American soybean oil and Asian palm oil are less costly than U.S. soybean oil. However, the United States is a competitive supplier of soybeans, and U.S. producers stand to gain if India follows some other developing countries—most notably China—by reducing barriers to oilseed imports. Although U.S. soybeans and products would still face considerable competition from Latin American suppliers, trade liberalization that results in India's substituting imports of soybeans for imports of oil is likely to improve U.S. trade prospects.

How Was the Project Conducted?

The ERS India Oilseed Sector Model illustrates the impacts of alternative oilseed policies on India's supply, demand, and trade of oilseeds and their products, including implications for producers, consumers, and processors. The model incorporates supply, demand, and trade relationships for each of India's major oilseeds (soybean, peanut, rapeseed, and sunflower) and their products, as well as demand relationships for palm oil. The model first generates a 10-year projection (2001-11), or reference scenario, for India's oilseed sector. The reference scenario is based on existing policies and assumed changes in key exogenous variables, including income growth, exchange rates, and world prices. Policy scenarios analyzed are (1) increased oil tariffs, (2) increased oilseed price supports, (3) oilseed import liberalization, (4) increased ownership consolidation in the oilseed processing industry, and (5) composite scenarios involving changes in both oilseed and oil tariffs. Data were collected from secondary sources and through ERS interviews with oilseed traders, processors, and industry representatives in India. Support for this study was provided by the ERS-India Emerging Markets Project.