

Conclusions

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. The analysis also suggests that future trade or domestic policy changes aimed at improving the performance of the sector could have trade implications of potential significance for world and U.S. trade.

Our analysis indicates that further hikes in oil tariffs are likely to generate limited producer gains and add to already high consumer costs, while providing further support to an inefficient processing sector. By contrast, lower oil tariffs provide significant benefits (reduced costs) for consumers, with only minor adverse impacts on processors and producers.

More effective implementation of the minimum support price (MSP) system to boost oilseed prices would provide direct benefits to producers and processors with negligible consumer impacts, and may be consistent with current priorities for diversifying agricultural production. Such a policy would likely entail budgetary costs and be complex to implement in a way that ensures processor incentives, and may also conflict with WTO domestic support disciplines.

Because of India's large surplus of processing capacity, liberalization of oilseed imports with current oil tariffs in place would lead to windfall gains for processors. Most oilseed producers would benefit from somewhat higher prices, although rapeseed producers would require continued tariff protection to avoid losses. Impacts on consumers, who would continue to pay tariff-adjusted world prices for oil, would be negligible. Analysis suggests that when processor gains from oilseed import liberalization are reallocated to consumers (through lower oil tariffs) or to producers (through a small oilseed tariff), producers, consumers, and processors may all be better off than under existing policies. This assessment, however, assumes that an acceptable, low-cost solution can be found to nontariff barriers that currently restrict oilseed imports.

The ongoing consolidation of India's oilseed processing capacity by larger domestic and multinational which have relatively low costs of investment and operating capital and may achieve further economies in vertical integration and marketing—threatens the viability of inefficient processors even under existing policies. Over time, larger consolidated units will likely put less efficient smaller units out of business. However, the resulting gains in

processing efficiency indicate potential benefits for producers and consumers, and for the processing sector as a whole.

It is unclear which policy approach India will adopt to meet growing demand for oilseeds and products, while addressing policy goals concerning producers, consumers, and processors. Most major producing countries, while affording some tariff protection for producers and/or processors, provide much lower levels of protection than India. This translates into lower oil prices and more efficient processing, as well as higher average oilseed yields, than in India. China is a recent example of a developing country that lowered protection in its oilseed and products sector to serve dynamic growth in edible oil and feed demand (Tuan et al., 2004).

In the Indian case, the analysis suggests that a large surplus of processing capacity creates the potential to liberalize trade in a way that provides benefits to producers, consumers, and processors. In the long run, if domestic processors invest in larger, more efficient plants that vertically integrate more processing and marketing enterprises, the potential gains to be shared by producers and consumers would be even larger than indicated in this study. Access to imported raw materials would help transform oilseed processing from an inefficient and underutilized industry dependent on high oil tariffs to a more efficient and dynamic sector that better serves producers and consumers.

Finally, if India were to allow oilseed imports, the United States, which tends to be more competitive at exporting soybeans than soy oil, may benefit. Although the United States would still face considerable competition from Brazilian soybeans, oilseed trade liberalization would improve the U.S. competitive position as Indian imports of South American soybean oil are replaced by imports of soybeans.