Vintage Oil Sector needs a driver

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Edible Oil industry is a vintage industry struggling to peak up to people's needs. Orthodox bullock driven crushers co-exist with the latest expander/extruder, in a strange mix of traditional and modern technologies

The world economy went for a rapid fire in the mid-last decade of the 2nd millennium, and as we transcedented Y2K, the world trade vitality shifted focus, and new countries began to dominate World Trade. China, with US $ 1.24 trillion exports is number one in the world exports. Germany stands second with US $ 1.06 trillion while United States of America was pushed to the III spot. India made formidable bouts and stands at 18th place with US $ 175.6 billion. The victims of the second millennium became the masters of world trade in the third millennium.

World Trade in agricultural products stood at US $ 852 billion (2005-06), having 8.4% share in world merchandise trade. Exports are expected to go a long way in making agriculture a remunerative occupation in times to come, especially for farmers of developing countries like India. India's agricultural, floriculture, fruits, vegetables, animal products and processed foods clocked a turnover of around $ 9.7 billion (12% growth) against 8.1 billion (13.88% growth in 2008-09) while total exports in 2007-08 was US $ 7.11 billion. The composition of diet is undergoing change in functional terms, characteristics terms and product terms. In functional terms, there is a shift from unprocessed and lightly processed to processed and prepared foods and value added fresh foods. In product terms, the trend is toward diet diversification moving from staples towards fruits and vegetables. Food preferences are changing with increase in income (from staples to high value food items). These high value food items tend to exhibit high income elasticity of demand. 34% of India's exports (high value food items) (1970-76) has gone up to 54% during 2006 indicating that the high value items are having a substantial share in the food exports. (Rs 1,276.14 Cr in 1970-76) to (Rs 78,467.97 Cr in 2000-06), registering a 62% increase.

Global production of oils and fats stood at 160 million tonnes. Indonesia has emerged as a leader in processor and manufacturer of Crude oil, Crude Palm oil, and Malaysia RBD Palm Oil and Argentina major supplier of Soya bean oil. Palm Oil and Palm kernel oil accounted for 48 million tonnes or 30% of the total output and soyabean with 37 million tonnes stood at the second place with 23%. About 38% of the oils and fats produced were shipped across oceans (around 60.3 million tonnes). Palm oil and Palm kernel oil occupies 60% of the shipped oil. Malaysia with 45% of the market share dominates the Palm oil trade.

India is one of the largest producers of oilseeds in the world. India grows

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oilseeds in an area of over 26 million hectares, with productivity of around 1000 kg/ hectare. Currently, India accounts for 7.0% of world oilseeds output; 7.0% of world oil meal production; 6.0% of world oil meal export; 6.0% of world veg. oil production; 14% of world veg. oil import; and 10 % of the world edible oil consumption. Self –reliance in edible oils is not in sight and the country imports almost half of its edible oil to meet its requirements.

India has a wide range of oilseeds crops grown in its different agro climatic zones. Groundnut, mustard/ rapeseed, sesame, safflower, linseed, Niger seed/castor are the major traditionally cultivated oilseeds. Soyabean and sunflower have also assumed importance in recent years. Coconut is the most important amongst the plantation crops.. The Indian edible oil industry is composed of around 15,000 oil mills, 600 solvent extraction units, 250 vanaspati units and about 1000 refining units. employing more than one million people. The total market size is at Rs. 600,000 million and import export trade is worth Rs.130, 000 million. There are very few big companies having listings in the national stock exchange involved in the production of various edible oils. KS Oils, Ruchi Soya, National Diary Development Board (Anand), ITC-Agro Tech, Marico, and some Kerala Oil Companies. Promoters of these companies own the major share-holding who deal in the organized market. Otherwise, Indian edible oil industry is highly fragmented with a large number of small producers in the un-organized sector. There are mini industries catering to rural markets.

The empowering of the middle-class who has investible surplus and their daily chores forced them to change their dietary including the traditional food. Many economists fear and freely confess that, "there will be food scarcity in India. Pulses, edible oils and sugar are scarce in a growing country like India". Raw material (read Oil seeds) is an issue. The Land Ceiling Act does not allow corporate farming in India. So, Indian Oil companies have been importing and now they want to become self sufficient. For this, they are buying lands in places like Indonesia, Malaysia, and even Ethiopia. They intend to import palm seeds and process it to Palm oil.

With growing quality consciousness and plummeting price differences between packaged and non-packaged edible oils, the packaged edible oil sector will capture 50% of the market share in the coming years. The packaged branded edible oil industry is growing incrementally @ 12% annually.

Customs tariff on edible oil continues to be the most important and dynamic area of government intervention. India adopted a modified tariff schedule for agricultural products in March 2000. The tariff bindings, subsequent to revision in 1996 and renegotiations within the WTO in 1999 retain the overall structure notified after the Uruguay Round with the downsizing of bound rates. However, import of Coconut (Copra) Oil is canalized, and is subject to Basic duty. Rate of duty for all crude and edible oils is 100% and this is specified in the First Schedule to the said Customs Tariff Act with respect to edible oil read with any oher Notification issued in respect of such goods under sub Section 1 of Sec 25 of Customs Act + Preference duty (90%) CVD+ Edu Cess (0%) + 4% SAD (edible grade vegetable oils and their edible grade fractions exempt from Spl CVD vide Notification No 20/2006-Cus dated 1-3-2006). The total import duty comes to 111.12% (Rate of duty for all crude and edible oils is 'nil' while for refined and edible grade, it is 7.5% vide Notification No 21/2002-Cus, dated 1-3-2002<General Exemption No 122 Part 8>). However, all other edible oils and vanspathi substitutes can be 'freely' imported under Open General Licence (OGL). India reduced its bound rates for edible oil @ 52.5% ad valorem, except for 45% on edible oils. But a sensitive item like Crude oil which was in short supply against consumption was required for industrial applications and uses as the industrial growth was the main driver of economic growth, and shortage in plenty in edible oil, with high inflation in food commodities at Consumer Price index level, has made India liberalize Imports. Government reduced excise duty for edible and non edible oils in the Import duty structure by 4% w.e.f 7th Dec 2008 while the Duty +Contraveiling duty+Cess on CVD+Education Cess+SAD works for Crude Palm Oil and Crude Palmolein at 'nil' , RBD Palmolein @ 7.5% (Duty) + 3%(Ed Cess) making it 7.33%. Other Non edible oils like Crude Palm Stearin (19.57%), Crude Palm kernel Oil (17.37%), Palm Kernel Fatty Acid Distilate (32.76%), Split Palm kernel Fatty Acid (32.76%).

Between Nov 2009 and August 2010, the total import of India's edible oil stood at 71, 00,540 (against 81.83 lakh tonnes in Nov 2008-Oct 2009). Kandla accounted for import of edible oil to the tune of 19.18 lakh tonnes, Nhava Sheva 7.01 lakh mt, Chennai 9.16 lakh mt, Haldia 8.24 lakh tonnes. Though at Kolkata Port, the import stood at 10.36 lakh tonnes during 2008-9 (oil year), it was 'nil' during the period Nov 2009-Aug 2010. Mundra (3.72 lakh tonnes), Mangalore (4.81 lakh tonnes), Mumbai (2.55 lakh tonnes) and Tuticorin (1.95 lakh tonnes) were the other Ports who handled edible oil (import) cargo during the current oil year.

India as a nation took measured steps to project its neck out as an important Country sticking to its guarded principles but with guided expanded growth to increase its GDP through external trade. However, CAGR in agricultural growth in terms of production is very low and in decimals against 4% envisaged during the XI Five Year Plan. In order to meet consumption, there is need to import edible oils as oil seeds production has been dismally low due to erratic west and east based monsoons and lower than expected yield in rabi and kharif crop seasons. Different countries exporting commodities are facing stringent certification and labeling provisions notified by the developed countries. Owing to high retail concentration in the developed countries most of the standards have come from private players especially the retailers like BRC Global Standard-Food, International Food Standards(IFS), SQF Codes, Dutch HACCP Code, Global Gap, ISO 22000, Global Food Safety Initiative(GFSI). The different exporting countries have harmonized the phytosanitary and sanitary measures based on international norms. However, the focus of nature of food standards has globally witnessed changes like:

- Shift of focus from technical norms to reduce transaction cost, to product differentiation, agri food chain co-ordination and market creation;
- Shift from Public towards private standards;
- Shift from visible product characteristics to invisible like food safety, work conditions and location authenticity;
- Shift from product performance towards process standards.

Food safety management in developed countries, apart from food safety and quality is expected to include dimensions such as environmental standards and social standards in the context of food trade. Exporters from developing countries should make the right calls for sustainability in the future. The increased cost of compliance and non tariff barriers disguised in the form of safety measures in the long run will be reflected as problems of the consumers in their domestic markets in the form of high price and non availability of food products.

Edible Oil industry is a vintage industry struggling to peak up to people's needs. Orthodox bullock driven crushers co-exist with the latest expander/extruder, in a strange mix of traditional and modern technologies. Raw filtered cooking oil also fights for shelf space with modern refined packaged oil. Yet, the demand-supply gap is widening. Supply shortage is hurting the industry. This cascades down to the pricing of the indigenous production of oil.

WTO norms have made Indian oil industry to fundamentally usher in 'certain fundamental changes' in the operating envoironment. The pressure has had a cascading effect on the Processing industry as a result of these changes. Capacity utilization has fallen to around 35-40%, resulting in idle capacity hovering around 60%. With razor thin break-even, the industry is operating in a **Catch-22** situation, which calls for course correction at the Policy and structural levels. With stringent quality standards, poor productivity due to failure of monsoons which saw depletion of production of oil seeds and its conversion to oils, and a large idle capacity of mills, this vintage industry needs a powerful driver.

[The views of the author are his Personal]

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