Acharya N.G. Ranga Agricultural University

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WTO AND INDIAN AGRICULTURE

SUB THEME OF THIS ISSUE

Oilseeds

Annual Budget at State & National level

COVER PAGE

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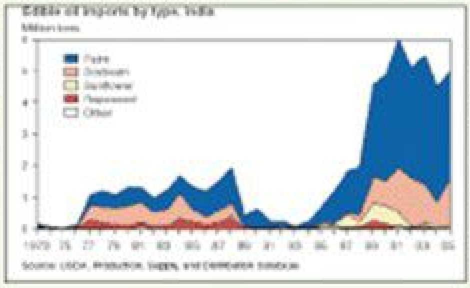
From the Chief Editor's Desk

Oilseeds and Annual budget at state and national level are the current issues of debate. The production of edible oils in the country during 2006-07 was 6.64 million tonnes where as the imports were around five million tonnes. As exporting countries had been increasingly diverting edible oils for biofuel production, imports to India may be affected. This calls for immediate attention to increase oilseed production in terms of yield and oil content.

An appreciable allocation of Rs. 8558 crores at national level and Rs.2142 crores at state level for agricultural and allied sectors in the current year is a welcoming feature to achieve the targeted 4% growth rate in agriculture in a strategic manner with more emphasis on rainfed agriculture, oilseeds, pulses, processed and value added products.

Dr.P.Raghava Reddy
Director of Research

Indian Vegetable Oils - Consumption and Imports



India is a major consumer and importer of vegetable oils and seems to attract 15% of the global vegetable oil trade. The consumption of edible oils shifted from groundnut (which was more than 50% of the edible oils consumed during 1970s), to palm oil and soybean oil (79% of edible oils) reflected by the increased imports of these two oils in the recent years. There is a huge gap of 4-6 million tons between vegetable oil production and the consumption demand including 3-4 tonnes of edible oils. The minimum area required to fulfill this gap and become self-sufficient in edible oils would be around 14 million hectares over the present area under oilseeds. This necessitates tapping the non-traditional areas under paddy and other crops to soybean, sunflower and other edible and non edible oilseed crops. The demand for vegetable oils (both edible and non-edible) was pegged at 19 million tonnes by 2010, out of which edible oils demand 15.6 million tonnes. This calls for a close scrutiny of the situation and finding a solution.

Vegetable Oil Imports Oct'06-Jan'07 (MT)

Particulars	Oct'06-Jan'07	Oct'05-Jan'06	% change
Palm oil	1,140,796	681,014	67.51
Soybean oil	367,443	452,255	-18.75
Sunflower oil	58,195	53,749	8.27
Cocount oil	2,501	1,000	150.10
Total	1,568,935	1,188,018	32.06

Production and consumption scenario of oilseeds and oils in India (Million tonnes)

Oil Year (Nov-Oct)	Oilseed production	Domestic Veg. Oil availability	Oil production gap	Import of Vegetable Oil				Total Veg Oil availability (Edible & Non-edible)
				Edible grade	Vanaspati	Non-edible	Total	
2000-01	20.71	5.8	5.19	4.83	0.10	0.26	5.19	11.00
2001-02	18.44	6.72	4.19	4.42	0.10	0.39	4.91	11.63
2002-03	20.67	5.15	5.49	5.11	0.10	0.28	5.49	10.64
2003-04	14.84	7.59	4.72	4.39	0.10	0.23	4.72	12.31
2004-05	25.19	7.60	5.75	5.10	0.25	0.40	5.75	13.35
2005-06(P)	24.35	8.00	4.85	4.85	0.30	0.55	5.65	13.65

Source : Solvent oil Extractors Association of India, Mumbai

Dr.S.Raghu Vardhan Reddy
VICE-CHANCELLOR
ANGRAU

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Chief Editor:
Dr.P.Raghava Reddy, Director of Research, ANGRAU

Sub Editors:
Dr. Y.Eswara Prasad Prof.& Head (Ag.Eco)
Dr.G.P.Sunandini Senior Scientist (Ag.Eco)
Dr. K.Suhasini, Assoc. Prof (Ag.Eco)
Research Associate: Dr.R.V.Sujatha

Edible Oil demand projection for India

Particulars	2004	2010	2015
Total demand (Mln. Tonnes)	10.9	15.6	21.3
Total area under oilseeds (Mln. Hectares	23.4	28	32
Yield (Tonnes/hectare)	1.07	1.2	1.4
Production of oilseeds (Mln. tonnes)	25.1	33.6	44.8
Domestic supply of edible oils (Mln. tonnes)	7.0	10.1	13.4
Total edible oil imports-(Mln. tonnes)	4.3	5.9	8.3
Imports as share of demand	39.4%	39.1%	39.5%

Source : Rabo Bank

Oilseeds production expected to rise by 16% in 2007-08

Global production of major oilseeds is projected at 399 million tonnes for 2007-08, lowered by 3.8 million tonnes from 2006-07. It will be the first year-to-year decline in global major oilseed production since 1995-96. On contrast, Indian oilseeds production is expected to increase during 2007-08. Oilseeds production in India is projected at 26.9 million tonnes during 2007-08, 16 per cent higher than the 23.3 million tonnes produced in 2006-07 as per the review of Centre for Monitoring Indian Economy (CMIE).

Apart from the yield, area under oilseed cultivation is expected to rise by 1.3 million hectares and reach 28 million hectares during 2007-08. The expected increase in oilseeds production would largely contribute towards a higher 5.5 per cent growth in non-food crop production during 2007-08 as against one per cent decline in 2006-07. Similarly, as a result of expected increase in oilseed production during the year, the crop production too is projected to grow by 2.6 per cent in 2007-08 as against 0.3 per cent increase estimated for 2006-07.

The government is increasing its focus on the edible oil industry, given that it has the second largest import bill after crude petroleum. The main emphasis of the government is on reducing the import bill and improving oilseed production.

Current effective Duty rates for Edible oils in India after Jan. 24, 2007

Edible oil category	Duty (%)	C.V.D	Cess on C.V.D	Edu. Cess (%)	S.A.D (%)	Effective Duty (%)
Crude Palm oil &Crude Olein	60	---	---	2	4	67.6
Varlaspati	80	---	---	2	4	88.8
Crude Sunflower Oil	65	---	---	2	4	72.9
Other Crude Edible oil for Vanaspati & Refiners	90	---	---	2	4	99.4
Refined Palm oil & RBD Palmolein	67.4	---	---	2	4	75.6
Refined Rapeseed oil	75	---	---	2	4	83.5
Refined Sunflower Oil&other Oils	75	---	---	2	4	83.5
Refined Soybean Oil	45	---	---	2	4	50.8
Degummed Soybean Oil	45	---	---	2	4	50.8

*-Countervailing Duty **- Special Additional Duty Source : USDA reports

Inflationary trends lead to duty cut on edible oils

Excise duty on edible oils has been cut by 15 per cent. In January, 2007, the Government cut import duties on crude palm oil and Palmolein to 60 per cent, and those on refined, bleached, and deodorized palm oil and Palmolein were brought down to 67.4 per cent. However domestic edible oil makers are not happy with the removal of the 4 percent Counter veiling duty on edible oils which protects domestic oil makers from international competition. The government has also removed excise duty on instant food mixes and on packaged biscuits priced lower than Rs50 per kg.

Oilmeal exports up

Oilmeal exports during Oct'06 to Jan'07 increased by 32 percent to 2.2 million tons from 1.7 million tons during the corresponding period of 2005/06. Most of the increase was in soybean meal and rapeseed meal, because of India's price competitiveness. Forecasts for 2006-07 oilmeal exports were lowered to 4.5 million tons compared to 4.8 million tons exported last year. The export forecast was kept low on account of reduced production estimates for kharif and rabi crops, despite the export demand during the first four months of the 2006/07 registering a 32 percent increase over the same period covered last year. The export forecast for soybean meal is 3.6 million tons, compared to 3.7 million tons last year.

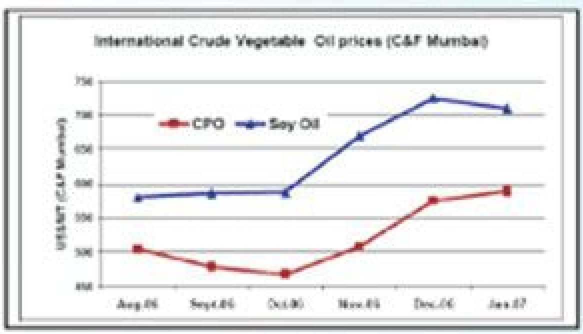
Oilmeal exports, Oct'06 to Jan'07(1000MTs)

Particulars	Oct'06-Jan'07	Oct'05'Jan'06	%change
Soybean	1689	1403	20.39
Rapeseed	297	123	141.10
Groundnut	22	37	-40.01
Rice Bran	87	45	92.70
Sunflower	----	0.75	---
Castor	93	50	86.69
Soybean	2189	166.	31.90

Source : Solvent Extractors' Association of India

International price trend for Soybean oil and Palm oil

The international price trends for crude Palm oil and crude soybean oil which are the major imported oils of India are presented below.



The price of soybean oil registered a 42 percent increase over the past ten months. Import demand for soybean oil is declining as the Indian market is highly price sensitive and soybean oil is priced higher than palm oil. However, the situation may change, as palm oil is increasingly used for biofuel and other industries.

The current duty reduction and relatively stable tariff values are likely to drive demand for increased palm oil imports in the coming months.

Annual Budget Plan for 2007-08 in Andhra Pradesh (crores)

Sl. No	Sector	Revised Estimate 2006-07	Budget Estimate 2007-08
1	Agriculture and Allied Activiteis and Rural Development	1,701.98	2,198.82
2	Irrigation	10,040.19	13,002.00
3	Power	108.01	230.75
4	Social Services	5,667.06	10,815.69
5	Transport	946.63	1,428.97
6	Other (Industreis, General Economic Services etc)	1,253.57	2,337.31
	Total	19,717.44	30,013.54

source: www.*ap.gov.in*

Irrigation received a whopping outlay of Rs. 13,002 crores, a 30 per cent increase over last year's. To save the crops in the rabi season of 2007, an amount of Rs.1,250 crores has been earmarked for power purchase in this budget.

Union Budget - Central Plan Outlay by Sectors:2007-08 (crores)

Sl. No	Sector	Revised Estimate 2006-07	Budget Estimate 2007-08
1	Agriculture&Allied Activities	7391	8558
2	Rural Development	18268	20342
3	Irrigation and flood control	462	507
4	Energy	68825	79158
5	Industry and minerals	12588	20434
6	Transport	49819	71589
7	Communications	17851	25812
8	Science, Technology and environment	6774	8816
9	General Economic services	2566	3632
10	Social Services	59143	80315
11	General services	542	829
	Total	244229	319992

Source : www.indiabudget.nic.in

Impact of Union Budget on Fast Moving Consumer Goods (FMCG)

Proposals

- Increased investment (upto 2% of GDP) in agriculture and related activities
- Commercial Sales Tax reduced to 3%.
- Excise duty exemption for packed biscuits with maximum retail sale price (MRP) not exceeding Rs.50per kilogram.
- Customs duty on crude sunflower oil reduced from 65% to 50% and on refined sunflower oil from 75% to 60%; Exemption from additional CV duty of 4%.
- Excise duty exemption for food mixes (including instant food mixes)

Impact

Thrust on increased investment in agricultural activities and rural infrastructure would be positive for the sector. CST reduction expected to lower manufacturing costs of FMCG players. Companies like Britannia, Parle and ITC to benefit from excise exemption on biscuits. The reduction in customs duty on crude sunflower oil is in line with Government's earlier reduction in duty on edible oil and is aimed at controlling inflationary pressure. The impact of the same on industry players would be largely neutral. Excise duty exemption on food mixes is positive for the industry. Increase in dividend tax would adversely impact major FMCG companies, many of which have large dividend payouts.

Priorities for Agriculture in Union Budget 2007-08

- ***Farm credit***: Target of Rs.225,000 crore for 2007-08 with an addition of 50 lakh new farmers into the banking system.
- ***Mission for Pulses***: Integrated Oilseeds, Oil palm, Pulses and Maize Development programme to be expanded with sharper focus on scaling up the production of breeder, foundation and certified seeds.
- ***Plantation Sector***: Financial mechanisms for re-plantation and rejuvenation to be put in place for coffee, rubber, spices, cashew etc.
- ***Accelerated Irrigation Benefit Programme***: 35 projects likely to be completed in 2006-07 and additional irrigation potential of 900,000 hectares to be created; outlay to be increased from Rs.7,121 crore to Rs.11,000 crore.
- ***Rainfed Area Development Programme***: Proposed allocation of Rs.100 crore for the new Rainfed Area Development Programme.
- ***Ground Water Recharge***: 100% subsidy to small and marginal farmers and 50% subsidy to other farmers to be given to divert rain water into 'dug wells'.
- ***Training of Farmers***: Indian Council of Agricultural Research (ICAR) to set up one teaching-cum-demonstration model of water harvesting in each of 32 selected State Agricultural Universities and ICAR institutes.
- ***Extension System***: New programme to be drawn up that will replicate Training and Visit (T&V) programme; Agriculture Technology Management Agency (ATMA) now in 262 districts to be extended to another 300 districts with an increased provision from Rs.50 crores to Rs.230 crores.
- ***Fertilizer Subsidies***: Based on study to be conducted, a pilot programme to be implemented for delivering subsidy directly to farmer.
- ***Agricultural Insurance***: National Agricultural Insurance Scheme(NAIS) to be continued with a provision of Rs.500 crore; a weather based crop insurance scheme with Rs 100Crores to be started by Agricultural Insurance Corporation on a pilot basis as an alternative to NAIS.
- ***National Bank for Agriculture and Rural Development***: To augment its resources for refinancing rural credit cooperatives, NABARD to issue Government guaranteed rural bonds to the extent of Rs.5,000 crore with suitable tax exemption.
- ***Rural Infrastructure Development Fund***: Corpus of RIDF-XIII to be raised from Rs.10,000 crore to Rs.12,000 crore; with a corpus of Rs.4,000 crore for rural roads.
- ***Social Security***: New scheme called 'Aam Admi Bima Yojana' to be introduced for death and disability insurance cover through LIC to rural landless households; Government to bear 50% of premium of Rs.200 per year per person.

No incentives for exports in Union Budget 2007-08

The Union budget has not provided any incentive for exports, acting as a hurdle to India emerging as an export hub.

Expectations not met

- Removal of inverted duty structure especially in lieu of current free trade agreement regime
- No major infrastructure development projects announced especially for ports and Special Economic Zones (SEZs)
- Sunset clause on export oriented units not extended

Impact of Fertilizers Subsidy in Union Budget on Farming community

Proposals

- Revised Budget Estimate for fertilizer subsidy in 2006-07 is Rs. 22452 Cr from Rs. 17253 crores.
- Budgeted subsidy for 2007-08 is Rs. 22451 crores.
- Pilot scheme in atleast one district of each State for direct payment of subsidy to the farmers, to be launched in 2007-08.
- 100% subsidy for small & marginal farmers and 50% subsidy for other farmers under ground water recharge programme.
- Intensification of farm credit programme.
- GoI to act on the recommendations of Dr. R. Radhakrishna committee on agricultural indebtedness.
- Seed development programme for the production of pulses

Impact:

Even after the hike, the subsidy provision, as per estimates is expected to be lower by around Rs 10000 crores compared to the requirement, and this is, likely to result in working capital problems for fertilizer companies. Success of the pilot project for direct payout of the subsidy to the farmers remains to be seen, in case it is successful ,the existing cost-plus scheme may itself be discontinued in the current form. Emphasis on agriculture and irrigation, should increase the demand for fertilizers, helping all fertilizer companies.

M S Swaminathan says there is 'No recipe for Agricultural renewal' in the Budget

Having identified the problem in both human and statistical dimensions, the budget fails to provide a strategy for agricultural renewal. The budget has provided funds for bringing 2.4 million hectares more under irrigation. The expansion of farm credit to cover an additional 50 lakh farmers and total credit availability of 225,000 crores are also welcome steps, although such figures alone are not going to prevent farmers affected by economic penury from committing suicides.

The proposal for restoring local water bodies as well as for groundwater recharge is also a welcome one. Unfortunately there is no mention of steps to improve the efficiency of water use on the pattern of the proposal developed by the Union Ministry of Water Resources for increasing income and production per drop of water.

The need to revitalize the extension system has been given importance but the method proposed to be adopted is unlikely to yield the desired benefit. The idea of reforming the fertilizer distribution system is good and it will be better that the large subsidies given to fertilizer companies are directly provided to farmers through smart cards, so that they can buy the needed macro and micro nutrients based on soil health cards. It is good that the Pulses Mission started during Rajiv Gandhi's period is going to be revitalized. The single important cause for stagnation in the production of pulses is not the absence of seeds but the lack of a remunerative marketing system at the field level in dry farming areas. When remunerative and assured marketing is introduced, we can see faster progress in the production of both pulses and oilseeds. The milk revolution cited in the Economic Survey has many lessons for extrapolation to other

For further details, contact the following Editorial address

Dr.Y.Eswara Prasad
Professor & Univ. Head
WTO CELL,
College of Agriculture, ANGRAU,
Rajendra Nagar
Hyderabad-500030

Government is formulating contract farming policy

The Central government is working on a contract farming policy to ensure that land belonging to peasants is not leased out or sold to private sector companies The contract farming model which is going to be implemented in India will ensure that land will be permanently owned and cultivated only by the farmers. The Government will not encourage a model of leasing land and allowing private sector to acquire it for cultivation.

Since the small farmers face problems relating to credit, technology, inputs and market access, agribusiness firms should integrate farmers in their supply chains through institutions such as cooperatives, producers' associations and contract farming. The Government is encouraging farmers to form grass-root level associations/informal cooperatives owned and managed by

India rejects WTO's call for flexiblity on agri imports

India dug in its heels over agricultural issues in troubled World Trade Organisation (WTO) talks on May 4th 2007 held at London and rejected a call to be more flexible on imports. In suggestions for breaking a deadlock in farm talks, a key part of the WTO's Doha round aimed at reducing trade barriers across the board, developing countries would have to soften demands to shield up to 20 percent of their agricultural market from competition.

Leading WTO states, among them India, say they want a final deal in the 5-year-old Doha round, which aims to reduce poverty and boost growth, by the end of this year. This means a blueprint must be agreed by August, 2007. Washington has indicated that it could lower the ceiling on trade-distorting farm subsidies to $17-19 billion a year, from the $22-23 billion it is formally offering. Even that is way above what it actually spends and therefore offers developing countries no inducement to open their markets further to either farm or manufactured goods which

Indian Mangoes on their way to Japan now

After a gap of almost two decades, Banginapalle mangoes from Andhra Pradesh are being exported to Tokyo. Though Japan lifted the ban in June 2006, it is only this year that bulk export has started. It was in the late 1980s that Japan banned them on health grounds. After long negotiations, Japan agreed to allow the import of six varieties Alphonso, Banginapalle, Chausa, Kesar, Langra and Mallika. Market access for the Malda and Dushehari varieties are under review.

After the U.S., it is now Japan that has been added to the list of nations receiving Indian mangoes. The Government is negotiating with the Australian Government, and from the next year onwards Indian mangoes might be available in the Australian markets too. Indian mangoes are already being exported to European markets and China. Though India accounts for 50 per cent of the world's total mango production, its share in the global mango trade was only 5 per cent. Issues related to health standards and excessive use of pesticides are the main reasons behind poor exports. Hence, there is a need of educating farmers on how to bring about a qualitative change in the production and also setting up modern processing units to