

India's Edible Oil Policy: Intrinsic Challenges for Malaysian Palm Oil

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ABSTRACT

India is a major player in the global oilseeds scenario, accounting for 14.3% of the global harvested area, but only 6.4% of the global production for the 10 major oilseeds. India's production accounts for 5% of global oils and fats output, but the country's consumption represents 11% of world oils and fats consumption. Faced with low domestic edible oils production, India imports up to 15 million tonnes of edible oils annually. India has been the world's leading importer of vegetable oils, currently accounting for 18% of global vegetable oils imports. Thus, India has an important role in global oils and fats trade and impacts this not only through import quantities but also by policies. Palm oil accounts for 60% of India's vegetable oil imports. Hence, India's edible oil import policies have a profound impact on palm oil. Recently, India's tariff and non-tariff measures have impacted the access of palm oil, and particularly that of Malaysian palm oil into the country. These developments need to be viewed in the context of India's obligations under existing free trade agreements with Malaysia and other exporters of edible oils to India. This paper highlights developments in India's trade policies related to edible oil imports and reviews how these have impacted the access of Malaysian palm oil into the country.

Keywords: import duty, self sufficiency, import policy, non tariff measures, trade agreement.

INTRODUCTION

India is Asia's third largest and the world's fifth largest economy with a nominal GDP of USD2.94 trillion, and the world's second most populous nation with a population of 1.38 billion. India is an important player in the global agricultural sector with over 150 million hectares of arable land, and was placed first among the top 20 countries in this context

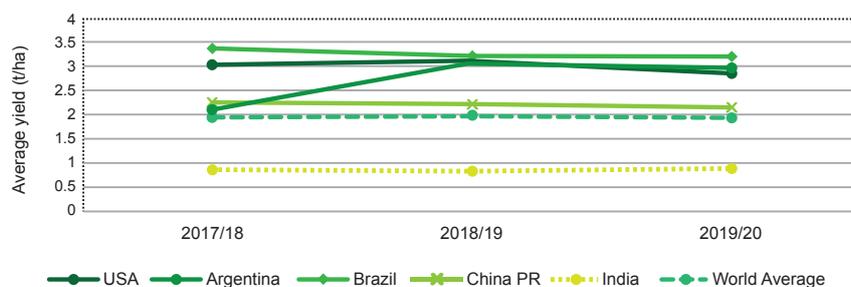
(FAO, 2018). The agricultural sector is an important pillar of the nation's economy, as the sector and its allied activities employ 54.6% of the nation's workforce and accounted for an estimated 16.0% of the country's Gross Value Added (GVA) for the year 2018-2019 (MoA&FW, 2019a).

India is also an important player in the global oilseeds economy as it has the second largest total harvested area for the

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10 major oilseeds (comprising soyabean, cottonseed, groundnut, sunflowerseed, rapeseed-mustard, sesameseed, palm kernel, copra, linseed and castorseed) at 40.94 million hectares (2018/2019 crop year), after the United States of America (41.49 million hectares) (Oil World, 2020). With an estimated production of 34.39 million tonnes in the crop year 2018/2019, India ranks fifth in terms of global production of these 10 oilseeds after the USA (130.21 million tonnes), Brazil (125.69 million tonnes), Argentina (59.00 million tonnes), and China (43.94 million tonnes) (Oil World, 2020). India is the world's leading producer of castorseeds; the second largest producer of groundnuts, after China; and the third largest producer of rapeseed-mustard, after Canada and the European Union (EU) (Oil World, 2020).

The yield of the 10 major oilseeds in India remains extremely low, averaging at 0.83 tonnes/hectare over the 2014/2015 to 2018/2019 period, and remain well below that of world averages and certainly far below that of the world's best yields (Figure 1 and Table 1). Thus,



* Note: 10 major oilseeds are soyabean, cottonseed, groundnut, sunflowerseed, rapeseed-mustard, sesameseed, palm kernel, copra, linseed, castorseed.

Source: Oil World (2020).

Figure 1. Total yields of 10 major oilseeds* for selected countries.

for the 2018/2019 crop year, while India's total harvestable area of 40.94 million hectares accounted for about 14% of the global harvested area of these 10 oilseeds, the country's production of 34.39 million tonnes, represented only about 6% of global production (Table 1). However, as the world's major producer of castorseeds, the average yield of this oil crop in India (1.30 t/ha) is higher than the world's average yield (1.17 t/ha).

Productivity of India's oilseeds is low as the crops are often cultivated by small farmers on marginal and sub-marginal lands of

poor soil quality without irrigation, with low input applications, poor technologies, and with a high dependency on the monsoon rains (Sharma, 2014; Thapa *et al.*, 2019; Department of Food and Public Distribution, 2020a). The Indian oilseed economy faces several technological, institutional and policy-related challenges, coupled with limited efficiency of processing facilities (Sharma, 2014; Narayan, 2016). The low yields and low prices of oilseeds in the domestic market often lead farmers to plant crops other than oilseeds due to priority of remunerative

TABLE 1. COMPARISON BETWEEN INDIA'S AND WORLD HARVESTED AREA, PRODUCTION AND YIELDS OF SELECTED OILSEEDS (2018/2019 crop year)

Oilseed	India's share of global harvested area (%)	India's share of global production (%)	India average Yield (t/ha)	World average yield (t/ha)	India's yield as % relative to world average yield	World best yield (Country) (t/ha)
Soyabean	9.0	2.9	0.92	2.86	32.2	3.40 (USA)
Rapeseed-Mustard	20.9	11.7	1.08	1.92	56.3	3.40 (Switzerland)
Groundnut	18.8	12.1	0.74	1.15	64.3	5.00 (Uzbekistan)
Sunflowerseed	1.0	0.4	0.71	1.92	37.0	3.51 (Uzbekistan)
Sesameseed	18.4	10.0	0.34	0.62	54.8	2.13 (Afghanistan)
Castorseed	79.0	87.4	1.30	1.17	111	1.73 (China)
Linseed	10.2	5.4	0.50	0.94	53.2	1.85 (France)
Cottonseed	37.8	23.7	0.80	1.28	62.5	3.13 (China)
10 Oilseeds	14.1	5.9	0.84	2.00	42.0	3.25 (Brazil)

Source: Oil World (2020).

returns. Thus, the planting of oilseeds remains a major economic challenge for the Indian farmer, and decisions are made based on sometimes uncertain economic returns.

This situation has resulted in low domestic vegetable oil production and high dependence on imports. India is currently the world's leading importer of vegetable oils and in particular of palm oil. Thus, India's trade policies related to edible oil imports have significant impact on the country's palm oil imports.

OILSEEDS AND EDIBLE OILS PRODUCTION TRENDS

In the context of India's agricultural sector, oilseeds are second only to foodgrains in terms of planted area (Table 2). Foodgrains (inclusive of pulses) occupy approximately 65% of India's land area planted with the major crops, while oilseeds account for about 13% of the planted area (MoA&FW, 2020). However, in absolute terms, there has been a decrease in the total area planted with oilseeds over the past decade, as the cultivated area has declined

from 27.22 million hectares (2010-2011) to 25.50 million hectares (2018-2019) (MoA&FW, 2020), possibly due to the low value generation of India's oilseed crops. According to the Report of the Committee on Doubling Farmers' Income (MoA&FW, 2017), while oilseeds took up 13% share of India's cultivated area, the crop contributed only 6% of value created in the agricultural sector. With a stagnation in growth of oilseed area over the past decade due to competing demands, yield rates need to be improved to increase production of oilseeds (Mittal, 2018).

Under India's agro-ecological conditions, there are nine annual oilseed crops of significance, which are considered primary sources of oils. Of these, seven are sources of edible oils, i.e. groundnut, nigerseed, rapeseed-mustard, safflowerseed, sesameseed, soyabean and sunflowerseed; while two provide non-edible oils, i.e., castorseed and linseed. Other oilseeds or oil bearing crops are regarded as secondary sources of oils, and these include coconut, cottonseed, oil palm, rice bran,

solvent extracted oils and oils from trees and forest origin (MoA&FW, 2019b).

In accordance with weather and rainfall patterns, India's oilseed crop seasons are classified as rabi (winter) and kharif (monsoon) crops. The rabi crop is sown in winter (typically October to December) and harvested in summer (April to June), and kharif crops are sown during the monsoon months (June to July) and harvested in September to October. Soyabean, sesameseed, nigerseed and castorseed are kharif crops; but rapeseed-mustard, safflowerseed and linseed are rabi crops. Groundnut and sunflowerseed are planted both during the rabi and kharif seasons. Though the kharif season is the major oilseeds growing season in India, the productivity of rabi oilseed crops is higher due to less pest problem and availability of irrigation (Reddy and Immanuelraj, 2017).

As shown in Table 3, the total area planted with India's 9 primary oilseeds has actually recorded a slight decrease over the past three years, i.e. declining from 26.09 million hectares (2015-2016) to

**TABLE 2. INDIA: AREA, PRODUCTION AND YIELD OF MAJOR CROPS
(2015-2016 to 2018-2019, November to October)**

Crops	Area (Million hectares)				Production (Million tonnes)				Yield (kg/ha)			
	2015-2016	2016-2017	2017-2018	2018-2019	2015-2016	2016-2017	2017-2018	2018-2019	2015-2016	2016-2017	2017-2018	2018-2019
Food-grains ^a	123.22	129.23	127.56	123.94	251.54	275.11	285.01	284.95	2 041	2 129	2 235	2 299
Oilseeds ^b	26.09	26.18	24.51	25.50	25.25	31.28	31.46	32.26	968	1 195	1 284	1 265
Sugarcane	4.93	4.44	4.74	5.11	348.45	306.07	379.90	400.16	70 720	69 001	80 198	78 248
Cotton ^c	12.29	10.83	12.59	12.66	30.01	32.58	32.81	28.71	415	512	443	386
Jute and Mesta ^d	0.78	0.76	0.74	0.73	10.52	10.96	10.03	9.77	2 421	2 585	2 481	

Note ^a Includes rice, wheat, maize and nutri-cereals;

^b Includes groundnut, nigerseed, rapeseed-mustard, safflower, sesame, soyabean, sunflower, castorseed and linseed;

^c Production in million bales of 170 kg each;

^d Production in million bales of 180 kg each.

Source: MoA & FW (2020).

TABLE 3. INDIA: AREA, PRODUCTION AND YIELD OF NINE PRIMARY OILSEED CROPS (2015-2016 to 2017-2018, November to October)

Oilseed	Area ('000 ha)			Production ('000 t)			Yield (kg/ha)		
	2015-2016	2016-2017	2017-2018	2015-2016	2016-2017	2017-2018	2015-2016	2016-2017	2017-2018
Groundnut	4 596.3	5 338.1	4 898.7	6 733.0	7 462.0	8 942.5	1 465	1 445	1 825
Nigerseed	251.7	256.4	223.7	74.0	85.0	75.3	295	339	337
Sesameseed	1 950.9	1 666.9	1 566.1	850.0	747.0	743.9	436	470	478
Rapeseed-Mustard	5 745.5	6 073.8	6 006.3	6 797.0	7 917.0	8 041.0	1 183	1 281	1 339
Safflowerseed	127.5	144.3	81.0	53.0	94.0	45.1	416	529	557
Sunflowerseed	487.2	381.1	328.8	296.0	251.0	194.0	608	647	590
Soyabean	11 604.5	11 183.4	10 440.5	8 570.0	13 159.0	10 933.7	738	1 235	1 047
Total edible oilseeds	24 763.6	25 044	23 545.1	23 374.0	29 630.0	28 975.5	944	1 218	976
Castorseed	1 060.7	807.9	823.0	1 752.0	1 376.0	1 489.7	1 652	1 803	1 810
Linseed	262.9	325.2	330.1	125.0	184.0	172.8	477	506	523
Total non-edible oilseeds	1 323.6	1 133.1	1 153.1	1 877.0	1 560.0	1 662.5	1 418	1 476	1 167
Total nine oilseeds	26 087.3	26 177.1	24 698.2	25 251.0	31 276.0	30 638.0	968	1 229	1 195

Source: SEA (2019a).

24.69 million hectares (2018-2019). The three major oilseeds in terms of hectareage were soyabean, rapeseed-mustard and groundnut. Total production of the nine oilseeds increased from 25.25 million tonnes (2015-2016) to 31.27 million tonnes (2016-2017) but then declined slightly to 30.64 million tonnes (2017-2018). Over this period, the yields of the nine oilseeds increased from 968 kg/ha (2015-2016) to 1229 kg/ha (2016-2017) and then declined to 1195 kg/ha (2018-2019).

The production of oils from India's nine primary oil crops and secondary sources such as cottonseed, rice bran, copra, solvent extraction from oilcakes, oil palm and trees of forest origin is shown in *Table 4*. Production of oils from India's domestic sources has not shown a significant increase over the past six years, as it was 10.90 million tonnes in 2013-2014, and 10.95 million tonnes in 2018-2019, albeit reaching an estimated high of 11.01 million

tonnes in 2017-2018. The primary oilseed crops contribute more than 65% of India's domestic vegetable oil production, with the major oils produced being mustard, groundnut and soyabean oils. These three oils collectively account for 55%-59% of the total domestic vegetable oil production in India over the 2015-2016 to 2017-2018 periods. However, India's total vegetable oil production which currently averages around 10-11 million tonnes per year, remains low by global standards. As such, India's domestic vegetable oil production accounts for only about 5% of global production (Patnaik, 2019).

EDIBLE OIL IMPORT TRENDS

Since the late 1970s, India had begun imports of edible oils almost exclusively through the State Trading Corporation of India (STC), based on state-imposed quotas, whereby an inter-ministerial committee determined the annual

import quantum taking cognisance of a multitude of factors, including domestic supply-demand, consumer requirements, domestic and international markets, balance-of-payment and availability of foreign exchange (Gautam *et al.*, 2008, Sharma, 2014). Despite these strict controls, the import dependency had reached 39% by the 1980s, and mitigation efforts to reduce this dependency were initiated, which also included a programme to achieve self-sufficiency in edible oils (Gupta *et al.*, 2012; Narayan, 2016). As a result of these efforts, India became a relatively small importer of edible oils in the mid-1990s with imports of 1.75 million tonnes in 1996-1997, comprising mainly RBD palm olein (1.22 million tonnes) and crude sunflower oil (0.41 million tonnes).

In line with India's obligations under the World Trade Organisation (WTO), edible oil imports were placed under the open general license (OGL) system effective 1994 (Dohlman *et al.*, 2003). Initially,

TABLE 4. INDIA: PRODUCTION OF OILS FROM PRIMARY AND SECONDARY SOURCES (2013-2014 to 2018-2019, November-October)

Oilseed/Source	Quantity ('000 t)					
	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Primary Source						
Rapeseed-Mustard	2 442	1 947	2 108	2 474	2 581	2 897
Groundnut	2 234	1 702	1 527	1 716	2 082	1 518
Soyabean	1 897	1 660	1 373	2 210	1 759	2 209
Sesameseed	221	257	265	245	234	236
Sunflower	166	143	98	80	70	73
Nigerseed	29	23	21	24	21	19
Safflower	31	27	15	22	14	7
Castorseed	691	748	616	499	551	427
Linseed	41	47	32	39	44	40
Sub-Total (Primary sources)	7 752	6 554	6 055	7 309	7 356	7 426
Secondary Source						
Cottonseed	1 240	1 215	1 005	1 224	1 264	1 113
Ricebran	810	920	990	1 031	1 069	1 068
Coconut	530	480	432	520	601	590
Solvent extracted oils	310	300	350	285	350	325
Palm oil	138	171	198	230	220	280
Tree and forest origin	120	160	150	150	150	150
Sub-Total (Secondary sources)	3 148	3 246	3 125	3 440	3 654	3 526
Total vegetable oils	10 900	9 800	9 180	10 749	11 010	10 952
Total non-edible oils	732	795	648	538	595	467
Total edible oils	10 168	9 005	8 532	10 211	10 415	10 485

Source: Department of Food and Public Distribution (2018; 2020a).

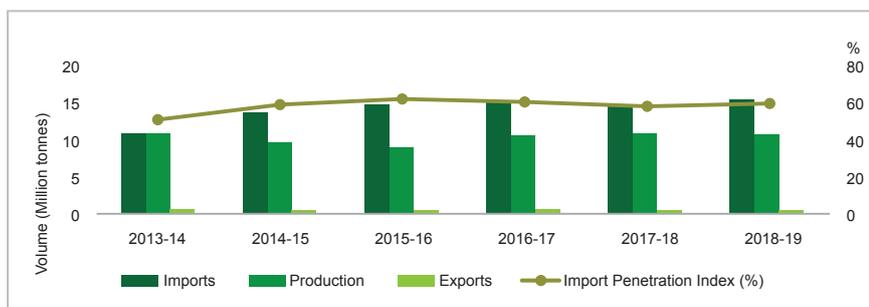
refined bleached deodorised (RBD) palm olein was placed under the OGL in April 1994, subject to an import duty of 65% (Ministry of Finance, 2006). In March 1995, the OGL was further expanded to include other edible oils, with the exception of RBD palm oil, RBD palm stearin, coconut oil and palm kernel oil, subject to an import duty of 30% (Thomas *et al.*, 2013). The placement of edible oil under the OGL allowed private importers to freely import the products, subject to the applicable import tariffs (Sharma, 2014). Following deregulation, imports of edible oils grew steadily, spurred by increasing domestic demand from a growing population as well as

increased per capita consumption due to economic growth (Thomas *et al.*, 2013). The liberal imports resulted in a change in India's edible oils scenario, as India again became a net importer with 15.8% import dependency (1995-1996), which increased to 48.7% in 2000-2001 due to the drought (Narayan, 2016).

As the growth rate of domestic edible oil production at 2% could not keep pace with consumption growth at 6%, imports of edible oil began to increase (Mruthyunjaya *et al.*, 2005; Thomas *et al.*, 2013). In addition, the real price of vegetable oils actually declined in the post-WTO period, allowing consumers better access to edible

oils due to the lower prices and the increase in per capita income (Narayan, 2016). Dependence on imports may be measured by the Import Penetration Index, a ratio of imports to apparent consumption (domestic production+imports+exports) (Jha *et al.*, 2012). The Import Penetration Index was 18% (1980-1981) and increased to 38% in 1988-1989 but it dropped to 2% (1989-1990) as India's domestic edible oil production began to increase momentarily (Jha *et al.*, 2012).

Recent trends in India's Import Penetration Index are shown in Figure 2. It can be seen that production and imports were almost evenly matched in 2013-

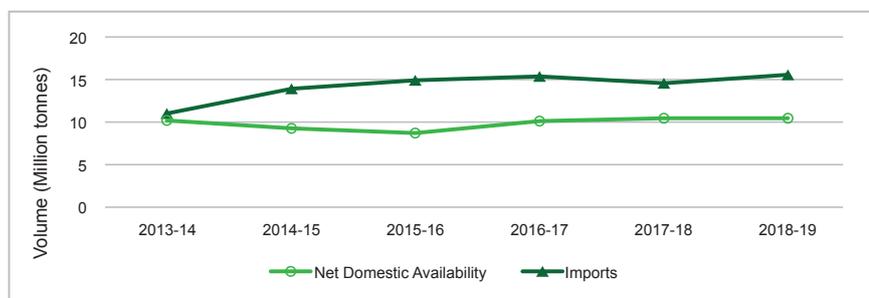


Source: Department of Food and Public Distribution (2018; 2020a).

Figure 2: India. Imports, production, exports and import penetration Index trends (2013-2014 to 2018-2019, November to October).

2014 (i.e. 10.9 million tonnes and 10.98 million tonnes, respectively), but imports have increased well above production over the years. Consequently, the Import Penetration Index had gradually increased from 51.9% (2013-2014) to 60.1% (2018-2019), peaking at 63.3% (2015-2016). Therefore, India needs to import almost 15 million tonnes of edible oils each year, with imports accounting for meeting 60% of the country's edible oil requirements (Figure 3).

each with about 14% share (FAS, 2020). The major oils imported by India are crude palm oil (CPO), crude soyabean oil, RBD palm olein, crude sunflower oil and crude rapeseed oil (Figure 4). From the import trend of palm oil (CPO and RBD palm olein) compared to crude soft oils (soyabean, sunflower and rapeseed oils) shown in Figure 5, it can be seen that share of palm oil had remained fairly stable at about 80% over the 2008-2009 to 2012-2013 period, but this



Source: Department of Food and Public Distribution (2018; 2020a).

Figure 3. India: Net domestic availability of edible oils and imports.

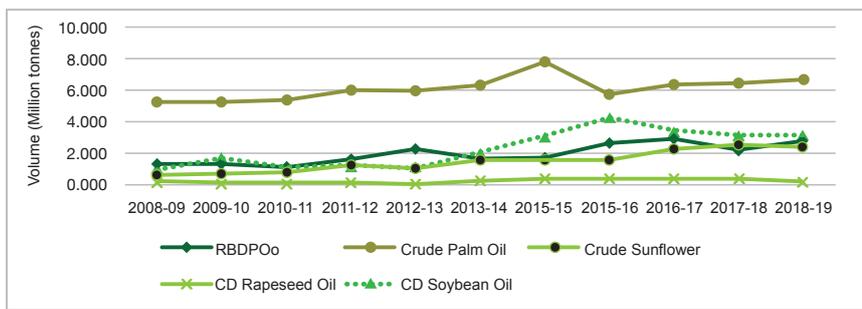
Edible oils are an item of mass consumption, but India's domestic edible oil production is unable to meet demand. Hence, imports remain necessary to bridge the supply-demand gap. Given the present huge disparity in the supply-demand gap (Figure 3), India is the world's leading vegetable oil importer, with a 19% share in global vegetable oil imports, ahead of China and the European Union,

had been reduced to about 60% since 2015-2016. Among the soft oils, soyabean oil has maintained a major share of imports, almost doubling its share from 12% in 2008-2009 to 20% share in 2018-2019, while the share of sunflower oil had grown from about 7% to 16% in the same period. India's import growth is expected to remain strong at an annual growth rate of 3.7% over the 2019-2028

period to reach annual imports of 22 million tonnes, which would represent about 25% of global vegetable oil imports (OECD-FAO, 2019).

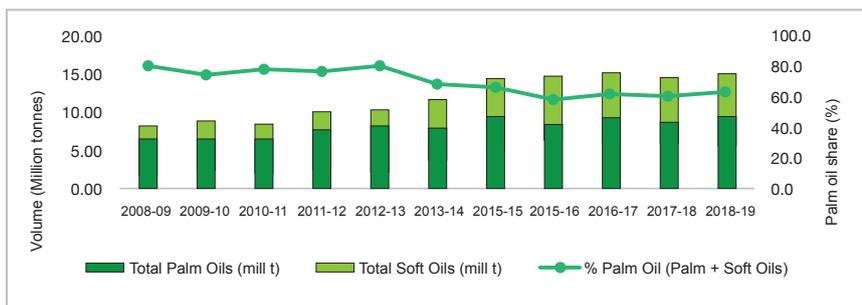
Total consumption of edible oils in 2018-2019 was estimated at 25.9 million tonnes (Department of Food and Public Distribution, 2020a). Per capita consumption of edible oils in India has been on an increasing trend and had increased from 15.4 kg (2012-2013) to 19.8 kg in 2018-2019, but remains below that of world per capita edible oil consumption (Figure 6). India's future demand for vegetable oils is expected to continue to grow, driven by growing population, increasing income levels, urbanisation, changes in consumer food preference and increased consumption of processed foods (Singh, 2019). As per estimates by the Committee on Doubling Farmers' Income (MoA&FW, 2018a), India's total vegetable oils requirements by 2022 would be 33.20 million tonnes, of which 29.08 million tonnes would constitute direct consumption, and 4.12 million tonnes for industrial use, assuming a per capita consumption of 21.70 kg. With an anticipated total vegetable oil production of 17.03 million tonnes, this would suggest import requirements for 16.13 million tonnes of vegetable oil by 2022 (MoA&FW, 2018a).

According to local vegetable oil interest groups, India's imports of vegetable oil imports are deemed to be excessive, with reference often being made to annual import bills in excess of Rs700 billion. Vegetable oil imports were valued at Rs730.39 billion (2016-2017), Rs749.96 billion (2017-2018) and Rs690.23 billion in (2018-2019) (Table 5). Although these figures may represent 44%-50% of the country's agricultural import values during these periods, the actual contribution of vegetable oils to



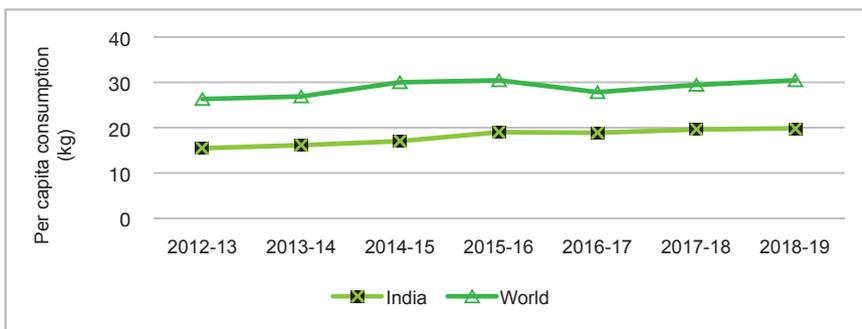
Source: SEA (2019a; 2019b).

Figure 4. India: Import trends of major edible oils (2013-2014 to 2018-2019, November to October).



Source: SEA (2019a; 2019b).

Figure 5. India: Total edible oil imports and palm oil share of imports (2013-2014 to 2018-2019, November to October).



Source: Department of Food and Public Distribution (2018; 2020a).

Figure 6. India: Per capita consumption of edible oils 2012-2013 to 2018-2019.

India's total annual imports bill is well below 3%. However, there is increasing internal pressure from within the domestic edible oils industry to put in place measures to reduce imports of edible oils, and these include suggestions for positive measures such as increasing self-sufficiency, as well as negative measures, such as imposition of various tariff and non-tariff barriers.

EFFORTS TOWARDS SELF-SUFFICIENCY

Efforts to reduce import-dependency began with the setting up of the Technology Mission on Oilseeds (TMO) in May 1986 (Gupta *et al.*, 2012; Narayan, 2016). The TMO was a comprehensive programme that covered areas related to production, management of input supplies, processing and marketing oilseeds (Mruthyunjaya *et al.*, 2005; Jha *et al.*, 2012). The TMO paved the way for India's transformation from a net importer in the early 1980s to nearly 97% self-sufficiency during the early 1990s as oilseeds production doubled from 11 million tonnes to about 25 million tonnes towards the early 1990s (Punia, 2010; Reddy *et al.*, 2011). This significant growth in oilseeds production (especially soyabean, rapeseed-mustard and groundnut) during this phase referred to as the 'Yellow Revolution' is attributed to improvements in

TABLE 5. INDIA'S IMPORT OF PRINCIPAL AGRICULTURAL COMMODITIES

Commodity	2016-2017		2017-2018		2018-2019	
	Value (billion Rs)	% Vegetable oil relative to	Value (billion Rs)	% Vegetable oil relative to	Value (billion Rs)	% Vegetable oil relative to
Vegetable oil	730.39		749.96		690.23	
Total agricultural imports	1 647.27	44.34	1 520.95	49.31	1 370.19	50.37
Total national imports	25 776.75	2.83	30 010.29	2.49	35 946.75	1.92

Source: MoA&FW (2020).

oilseeds production technology, the introduction of higher yielding oilseed crops with higher oil content, crops with higher resistance to pests and disease, improved responses to fertilisers, increased planting area, and market and price support policies (Gupta *et al.*, 2012; Dastagiri *et al.*, 2014). The efforts to increase domestic oilseeds production were also supported by the Government's assurance of a stable pricing mechanism, whereby a minimum floor price was set for 24 major crops, including oilseeds through Minimum Support Price (MSP) (Malamasuri *et al.*, 2013). The TMO had been launched with a goal of achieving full sufficiency by 1990, and was carried out under conditions which kept edible oils imports strictly regulated, where only the STC and specified public sector bodies such as the National Agricultural Cooperative Marketing Federation (NAFED) were allowed to import edible oils (Thomas *et al.*, 2013).

However, the impressive success of the 'Yellow Revolution' could not be maintained for a longer period (MoA&FW, 2017). Annual oilseeds production growth has remained fairly stagnated at around 30 million tonnes over the last two decades (Gupta *et al.*, 2012). Several possible reasons have been suggested for the inability to sustain the success of the 'Yellow Revolution', among which are cultivation of oilseeds under energy-starved conditions, lack of plant nutrients and fertiliser application, insufficient irrigation facilities, poor application of technology, small and marginal farms, and shortage of essential inputs (Gupta *et al.*, 2012). Oilseeds also faced strong competition from other crops, such as maize, cotton and chickpea which were more profitable due to prevailing market conditions (Rethinam, 2019). Another reason attributed to the failure was the

low international prices of edible oils, high-cross elasticity among oilseeds and the liberalisation of imports beginning 1994 as part of India's commitments under the WTO (Reddy *et al.*, 2011).

Following the somewhat limited success of the 'Yellow Revolution' of the 1980s/90s, renewed efforts were consistently being undertaken towards achieving self-sufficiency over the past two-decades. According to the Indian Agricultural Research Institute (ICAR-IARI) Vision 2050 document, the commercialisation and diversification of India's agricultural sector would be driven by high value products (ICAR-IARI, 2015). The document also notes that while moderate growth in food grain production would suffice, production of pulses, oilseeds, horticultural products and livestock needs to be significantly increased. In line with the policy to enhance oilseed production, the Report of the Committee on Doubling of Farmers' Income (MoA&FW, 2018a) proposes policy recommendations towards achieving domestic self-sufficiency and import substitution over the next decade. The phase-wise policy goals are as shown in Table 6.

The Report of the Committee on Doubling Farmers' Income

(MoA&FW, 2018b) proposed the urgent setting up of an 'Oilseed Technology Mission' with a specific target to bridge the supply gap in three phases, *i.e.* 2022-2023, 2025-2026 and 2030 by which time India should become self-sufficient. The strategy will include the primary and secondary oilseeds and tree-borne oils (TBOs), including oil palm and coconut. The Report also proposes providing incentives and price supports to Indian oil palm farmers by creating an 'Edible Oil Development Fund' (EODF), by imposing a special levy of 0.5% on imports of crude palm oil and RBD palm olein (MoA&FW, 2018b).

Cultivation of oil palm as a major source of edible oils was initiated under the Oil Palm Development Programme (OPDP), introduced in 1992. This was later taken up under the Oil Palm Area Expansion (OPAE), 2011-2014 and since then, under the National Mission on Oilseeds and Oil Palm (NMOOP) (Sagar *et al.*, 2019). Effective from 2018-2019, the NMOOP scheme has been merged with the National Food Security Mission (NFSM) and operated as the National Food Security Mission (Oilseeds and Oil Palm) ((NFSM (OS and OP)), which targets production of 45.64 million tonnes of primary oilseeds by 2022-2023,

TABLE 6. INDIA: TARGETS TOWARDS SELF-SUFFICIENCY

Focus area	Target
Production of 9 primary oilseeds	<ul style="list-style-type: none"> Increase production from 30 million tonnes to 45 million tonnes, with a targeted productivity of 1500 kg/ha to be achieved through improved agronomic practices
Production of oil from primary and secondary sources	<ul style="list-style-type: none"> Increase production from 10.52 million tonnes (2017-2018) to 16.34 million tonnes (2022-2023) The 3 major oilseeds identified are rapeseed-mustard, soyabean and groundnut
Production of palm and coconut oil	<ul style="list-style-type: none"> Increase production from 0.80 million tonnes (2016-2017) to 1.00 million tonnes (2022-2023)
Import policy framework	<ul style="list-style-type: none"> To maintain balance between market price and import duty
Export policy framework	<ul style="list-style-type: none"> Enhance export incentives on oil, cake and oilseed commodities.

Source: MoA&FW (2018a).

with a total oil output of 13.69 million tonnes (MoA&FW, 2019a). The total availability of vegetable oils in 2022, from both primary and secondary sources is estimated at about 17.03 million tonnes, which would reduce import dependency by about 15% (MoA&FW, 2019a).

The local edible oils industry has been strongly urging the Government of India to launch the National Mission on Edible Oilseeds to boost domestic production and achieve self-sufficiency. The 'Make in India' campaign, was introduced by India's Prime Minister Narendra Modi in September 2014 to encourage global companies to invest in India, as an effort to stimulate the economy, create employment and turn the country into a global manufacturing hub (Shettar, 2017). The campaign focuses on 25 sectors, one of which is food processing. The 'Make in India' campaign has been repeatedly referred to by the Indian edible oils industry, particularly the Solvent Extractors' Association of India (SEA) to lobby for increasing the imports of CPO at the expense of RBD palm olein, citing the need to enhance local value addition, utilisation of refining capacity and generation of employment. The calls to limit imports of edible oils on the basis of not only protecting the domestic oilseed farmers but also with the aim of protecting local industries, may be seen as a protectionist measure for the entire edible oils industry, from the farmer to the end processor. In addition to the 'Make in India' campaign, the move towards 'Atmanirbhar Bharat' or 'Self-reliant India' was mentioned in Prime Minister Modi's announcement on the economic package to modulate the effects of the COVID-19 pandemic. The edible oils sector has been one of the product groups that has been identified for self reliance under 'Atmanirbhar Bharat' (Financial Express, 2020).

India's drive for self-sufficiency in edible oils has been described as being a part of the nation's drive towards self-sufficiency in foods, and the Government of India is reported to be targeting to reduce import dependence to about 50% of the country's requirements by 2025 (Bernama, 2020).

While the efforts to increase self-sufficiency in edible oils and reduce import dependency are certainly a positive move by India, the downside of this effort is the introduction of elements of protectionism that have negative impact on international trade in vegetable oils. Efforts to achieve self-sufficiency may be via increasing domestic oilseeds productivity by addressing the yield gap between Indian oilseed crops and global averages, and perhaps expanding the area through crop substitution. However, recommendations such as the imposition of import cess of 2% on crude oils and 10% on refined oils (SEA, 2020a) to fund self-sufficiency programmes are perhaps debatable on the basis of principles of free trade. These proposed levels of import cess were even much higher than the 0.5% special levy that was proposed in the Report of the Committee on Doubling Farmers' Income (MoA&FW, 2018b).

IMPACT OF INDIAN TRADE POLICIES ON MALAYSIAN PALM OIL EXPORTS

While imports of edible oils had been allowed by the Government of India to meet increasing domestic demand and control price rise, import policy continued to play an important role in regulating imports (Jha *et al.*, 2012). Prior to liberalisation in 1994, India had pursued the Import Substitution Industrialisation (ISI) policy that protected the oilseed/edible oil industry by imposing quantitative restrictions (QRs)

and canalised imports through state enterprises such as the STC, which imported edible oils for sale through the Public Distribution System (PDS) (Jha *et al.*, 2012). India's trade liberalisation came about with the backdrop of rapid economic growth and increasing availability of cheaper imported oils. Liberalisation initially saw the relaxation of controls and this freedom allowed open market and healthy competition, in place of protection and control (Punia, 2010). However, numerous control mechanisms have been established to control the country's edible oil imports.

Curbing Imports via Tariff Measures.

Post-liberalisation of edible oil imports in 1994, India had abolished QRs, leaving only tariffs in place to regulate imports, subject to certain limits as imposed by WTO-bound rates (Jha *et al.*, 2012). Indeed, India has frequently revised import duties to control imports post-liberalisation. The period immediately after liberalisation may be divided into three phases, i.e. progressive reduction of customs duty to 15% between 1994 and 1998; progressive increase of customs duty between 1999 and 2005, with duty on palm RBD olein reaching 99% in 2005; and reduction in import duties over the 2005-2008 period (Ministry of Finance, 2006; Reddy *et al.*, 2011). Frequent changes were made to import tariffs beginning 1998 to protect domestic oilseed producers and farmers from imports and modulate the effect of international edible oil price variations on the domestic market (Sharma, 2014). In addition to the overall trend of increasing import tariffs since April 2000, a more complicated tariff regime began to emerge as adjustments were also made in tariffs for the

different types of oil, e.g., palm vs. soyabean oils and crude vs. refined oils (Dohlman *et al.*, 2003). Hence, despite the ostensible liberalisation post-1994, India's frequent policy changes, albeit within its WTO commitments, created uncertainties for import demand and relative shares of the different oils (Dohlman *et al.*, 2003).

The period between 1994 and 2005 witnessed 17 import duty revisions, which created concerns among edible oil producers and importers (Ghosh, 2009). Import growth was observed to be the highest during 1996-2000 when tariffs were relatively lower, but imports declined over the 2001-2005 period, which corresponded with the period of increasing tariffs (Gautam *et al.*, 2008). The Report of the Committee on Rationalisation of Customs and Excise Duties on Edible Oils and Oilseeds (Ministry of Finance, 2006) in fact, had observed that the wide disparity between import duties on the different edible oils (with soyabean oil at the lowest WTO-bound rate of 45%) needed to be addressed and that the maximum applied rate for all other crude vegetable oils should be set at 65%. It was further recommended that the low value addition of the refining process only necessitates a maximum of 7.5% import duty difference between refined and crude oils so as to protect consumer interest (Ministry of Finance, 2006). The Committee also recommended the stability of the tax regime, and keeping it unchanged for a period of five years. The potential negative impacts and disruptions due to short-term adjustments in tariffs, in view of domestic and international market uncertainties were also highlighted in the Report of the Committee on Doubling Farmers' Income (MoA&FW, 2018a).

As an additional mechanism to the tariff structure and to curb under-invoicing, a tariff rate value (TRV) system was introduced as the basis for reference price of edible oils for the purpose of

calculating import duty, initially for palm oil in August 2001 and later in September 2002, for soyabean oil (Gautam *et al.*, 2008; Sharma, 2014). The reference price was to be periodically revised based on international price, but delays in revision sometimes resulted in TRVs that were not reflective of actual international market prices, and effective tariffs that were actually not in accordance with the prevailing applied rates (Dohlman *et al.*, 2003). However, as per current practice, the TRVs for palm oil products and crude soyabean oil are revised regularly by the Ministry of Finance via Customs Notifications, published at the middle and end of each month, stating the TRVs that would be applicable for the next two week period.

According to Ghosh (2009), there have been differences of opinion on the impact of tariff liberalisation among different groups; where on one side, the conservative left wing and domestic edible oil industry have opposed liberalisation; but on the other hand, practitioners and supporters of free trade have argued that import liberalisation would benefit the economy. It has also been argued that import tariffs, while placing a large burden on the consumer actually help processors more than the oilseed farmers (Srinivasan, 2005). Thomas *et al.* (2013), however, opined that the lower tariffs were beneficial to the 'better-off consumer', but reduced the incomes of the poorer oilseed farmers. Taking cognizance of the need to harmonise the interest of farmers, processors and consumers, the Government of India had continuously reviewed the import duty structure for edible oils from time to time. Government intervention, however, needs to balance the interests of the different stakeholders and avoid the pitfall of providing benefits to some at a cost to others (Punia, 2010). In addition to being perceived as a safety measure for the domestic

oilseeds farmer, import tariffs are a source of revenue to the government (Thomas *et al.*, 2013).

Edible oils are an item of mass consumption, and on account of this, import duties have generally been kept low in the recent past to protect consumer interest, but since 2017-2018, import duty hikes have increasingly been used to support domestic prices and provide incentives for local production (MoA&FW, 2018a). Table 7 summarises the rates of import duties and the effective dates of imposition for the major edible oils imported into India, and it is obvious that the import duties have seen frequent changes. Import duty on CPO had been reduced to 0% and duty on RBD palm olein was set at 7.5% in 2008, and these levels were maintained until 2013. The 7.5% duty difference between CPO and RBD palm olein was maintained until July 2017, when the difference became 15%.

In addition to the basic customs import duty, effective 18 March 2009 India had also imposed other duty components on imports, such as countervailing duty (CVD), cess on CVD, education cess and special additional duty (SAD) (Punia, 2010). This resulted in an effective duty that totaled more than the basic customs import duty. However, effective 1 March 2018, these additional duty components were replaced with a 10% Social Welfare Cess (SWC) applicable on the basic customs import duty. Thus, the effective duty on CPO and RBD palm olein from 1 March 2018 were:

CPO: Customs import duty (44%) + 10% SWC on 40% (=4%) = Effective duty 44%

RBD palm olein: Customs import duty (54%) + 10% SWC on 40% (=5.4%) = Effective duty 59.4%

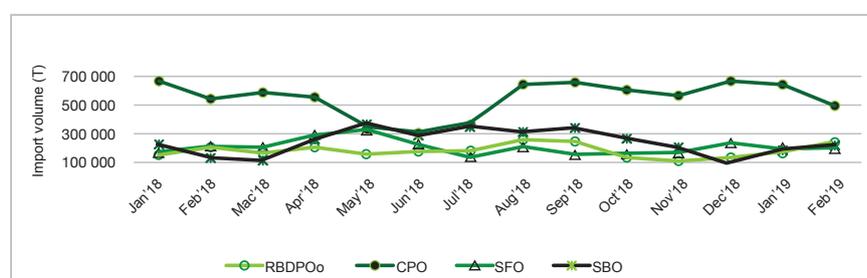
More significantly, the revisions to the import duties for CPO and RBD palm olein on 1 March 2018

TABLE 7. INDIA: BASIC OIL CUSTOM IMPORT DUTIES ON IMPORTED OILS (up to 1 January 2019)

Effective Date*	Imported oil (Applied rate)								
	Crude palm oil (%)	RBD palm olein (%)	Crude soya-bean oil (%)	Refined soyabean oil (%)	Crude sunflower oil (%)	Refined sunflower oil (%)	Crude rapeseed oil (%)	Refined rapeseed oil (%)	Others
17 Mar 2012	0	7.5	0	7.5	0	7.5	0	7.5	-
23 Jan 2013	2.5	7.5	2.5	7.5	2.5	7.5	2.5	7.5	-
20 Jan 2014	2.5	10	2.5	10	2.5	10	2.5	10	-
24 Dec 2014	7.5	15	7.5	15	7.5	15	7.5	15	-
17 Sep 2015	12.5	20	12.5	20	12.5	20	12.5	20	-
23 Sep 2016	7.5	15	12.5	20	12.5	20	12.5	20	-
11 Aug 2017	15	25	17.5	20	12.5	20	12.5	20	-
17 Nov 2017	30	40	30	35	25	35	25	35	-
02 Feb 2018	30	40	30	35	25	35	25	35	Crude-30% Ref -35%
1 Mar 2018	44	54	30	35	25	35	25	35	Crude-30% Ref -35%
14 Jun 2018	44	54	35	45	35	45	35	45	Crude-35% Ref -45%
1 Jan 2019	40	45 MAL 50 IND	35	45	35	45	35	45	Crude-35% Ref -45%
WTO Bound Rate	300	300	45	45	300	300	75	75	

Source: Department of Food and Public Distribution (2020b).

were the highest in more than a decade, as there was a 14% increase in the import duty on CPO, i.e. from 30% to 44%; while import duty on RBD palm olein was also increased by 14% from 40% to 54%. The duty hike was somewhat discriminatory as other competing oils (soyabean and sunflower oils) were not subject to any increase in import duty, being retained at 30% and 35%, for crude and refined oils, respectively until 14 June 2018. The 1 March 2018 hike was the third duty revision on palm oil within a 6-month period, and had a significant negative impact on India's palm oil imports vis-à-vis imports of other oils (Figure 7), as the spread between RBD palm olein and crude soyabean oil was narrowed due to the higher import duty on the former. According to analysis of the Indian Agricultural Research Institute (2019), as an



Source: SEA (2019b).

Figure 7. India impact of import duty revisions on edible oil imports.

<p>1 March 2018 CPO – 30% to 44% RBDPOo – 40% to 54%</p>	<p>14 June 2018 CSBO – 30% to 35% CSFO – 25% to 35% CRSO – 25% to 35%</p>
<p>1 Jan 2019 CPO – 44% to 40% RBDPOo – 54% to 45% (MICECA) RBDPOo – 54% to 50% (AIFTA)</p>	

immediate effect of the duty hike, imports of CPO and RBD palm olein were reduced by 12.08% and 11.06%, respectively. While the duty increase was seen as having a possible positive effect on domestic prices of CPO and RBD palm olein, the reduction in consumer surplus was expected to outweigh producer surplus and government revenue, and therefore having a net negative effect on the economy (IARI, 2019).

Hence, increasing import tariffs on edible may be viewed as a burden to both consumers and sellers due to the inelastic supply and inelastic demand of edible oils (Gupta, 2020). In fact, Renjini and Jha (2019) had postulated that tariff hikes should not be an only solution, as it would provide short-term benefits to the farmers, but hurt the majority of consumers; and thus, tariff rates should be at levels that will balance the interest of consumers and domestic producers. A point that has been made is that higher prices of edible oils resulting from the increased tariffs will ultimately be passed on to edible oil-based consumer products, which would result in a price increase for such products and the net effect of this would be a reduction in the net household savings and investment rates that ultimately would stifle the country's economic growth (Gupta, 2020).

India's free trade agreements with Malaysia and ASEAN.

Malaysia and India had executed a Comprehensive Economic Cooperation Agreement (MICECA, 2010) on 24 September 2010, and the agreement came into force on 1 July 2011. MICECA covers trade in goods and services, investments and movement of natural persons; and was meant to further facilitate and enhance two-way trade, services, investment and economic relations in general.

Most significantly, the MICECA provided a graduated reduction of customs import duties on various palm products over a period of time beginning 1 July 2011 till 31 December 2019. *Table 8* shows the schedule for duty reductions on various palm oil fractions under MICECA during the final 3-year phase, beginning 1 January 2017, till the final duty applicable effective 31 December 2019 onwards.

In addition, the Association of South-East Asian Nations (ASEAN) and India had also signed the Agreement on Trade in Goods Under the Framework Agreement on Comprehensive Economic Cooperation between the Association of South-East Asian Nations and the Republic of India (AIFTA, 2009). The initial framework of this agreement was signed on 8 October 2003 in Bali, Indonesia and the final agreement was signed on 13 August 2009. The agreement which came into effect on 1 January 2010, among others, provided for a schedule of import tariff reduction imposed by India on imports of products from ASEAN members, including for palm oil and its products. Under this agreement, both CPO and RBD palm olein were placed under the special product category, and were accorded a slower rate of import duty reduction, whereby rates were kept as per Most Favoured Nation (MFN) rate from the base year of 2007 (Renjini and Jha, 2019).

Effective 1 January 2019, import duties on CPO and RBD palm olein were reduced in accordance with India's commitment under MICECA (for Malaysia) and AIFTA (for other ASEAN member countries), as per rates shown in *Table 9*. Under MICECA, RBD palm olein was subject to an effective duty of 49.5%, while CPO attracted an effective duty of 44.0% (difference of 5.5%). On the other hand, under AIFTA, RBD palm olein was subject to an effective duty of 55.0%, while

CPO attracted an effective duty of 44.0% (difference of 11.0%). Though the effective import duty on CPO at 44% was similar under both MICECA and AIFTA, RBD palm olein under MICECA enjoyed a 5.5% duty advantage over that under AIFTA. Moreover, the difference in effective duty between RBD palm olein and CPO under MICECA was 5.5%, compared to 11.0% under AIFTA.

Given this duty advantage, Indian importers began to import much larger quantities of RBD palm olein from Malaysia than CPO from either Malaysia or Indonesia. The increased imports of RBD palm olein vis-à-vis CPO in 2019 compared to the previous year drew a strong negative response from the Indian edible oils industry, which resulted in the imposition of the safeguard duty of 5% on RBD palm olein imported from Malaysia under the MICECA.

Imposition of bilateral safeguard duty under MICECA.

The SEA, on behalf of a group of local Indian refiners, had instituted a petition against the significant increase in imports of RBD palm olein into India over the January-June 2019 period. This resulted in a Notification of Bilateral Safeguard Investigation issued by the Directorate General of Trade Remedies (DGTR) dated 14 August 2019 (DGTR, 2019a). The investigation by the DGTR concluded that imports of RBD palm olein/palm oil from Malaysia at a preferential import duty under MICECA had 'caused serious injury/threat to the domestic producers of the same products' and therefore, 'it was considered appropriate to impose a provisional bilateral safeguard measure', and recommended a 5% increase in the import duty on RBD palm olein imported from Malaysia for a 180 day period (DGTR, 2019b).

TABLE 8. INDIA'S COMMITMENT UNDER MALAYSIA-INDIA COMPREHENSIVE ECONOMIC CO-OPERATION AGREEMENT (MICECA)

HS Code	Description	1 Jan 2017 (%)	1 Jan 2018 (%)	31 Dec 2018 (%)	1 Jan 2019 (%)	31 Dec 2019 onwards (%)
15111000	CPO	48	44	44	40	37.5
15119010	RBD palm oil	58	54	45	45	45
15119020	RBD palm olein	58	54	45	45	45
15119090	Other	58	54	45	45	45
15132110	CPKO	58	52	45	45	45
15132910	Palm kernel oil and fractions	58	52	45	45	45

Source: MICECA (2010).

TABLE 9. IMPORT DUTY RATE DIFFERENTIAL ON PALM OIL PRODUCTS UNDER MICECA AND AIFTA EFFECTIVE 1 JANUARY 2019

Oil	Import duty MFN (%) 14 June 2018	Effective import duty* (%)	Import duty MICECA (%) 1 Jan 2019	Effective import duty* (%)	Change in duty (%)
CPO	44.0	48.4	40.0	44.0	(4.4)
RBD palm oil	54.0	59.4	45.0	49.5	(9.9)
RBD palm olein	54.0	59.4	45.0	49.5	(9.9)

Oil	Import duty MFN (%) 14 June 2018	Effective import duty* (%)	Import duty AIFTA (%) 1 Jan 2019	Effective import duty* (%)	Change in duty (%)
CPO	44.0	48.4	40.0	44.0	(4.4)
RBD palm oil	54.0	59.4	50.0	55.0	(4.4)
RBD palm olein	54.0	59.4	50.0	55.0	(4.4)

Note: *Effective import duty - includes 10% social welfare surcharge on customs import duty.

Source: AIFTA (2009); MICECA (2010).

TABLE 10. IMPORT DUTY RATE DIFFERENTIAL ON PALM OIL PRODUCTS UNDER MICECA AND AIFTA EFFECTIVE 1 JANUARY 2020

Oil	Import duty MFN (%) 14 June 2018	Effective import duty* (%)	Import duty MICECA (%) 1 Jan 2019	Effective import duty* (%)	Import duty MICECA (%) 1 Jan 2020	Effective import duty* (%)
CPO	44.0	48.4	40.0	44.0	37.5	41.25
RBD palm oil	54.0	59.4	45.0	49.5	45.0	49.5
RBD palm olein	54.0	59.4	45.0	49.5	45.0	49.5

Oil	Import duty MFN (%) 14 June 2018	Effective import duty* (%)	Import duty AIFTA (%) 1 Jan 2019	Effective import duty* (%)	Import duty AIFTA (%) 1 Jan 2020	Effective import duty* (%)
CPO	44.0	48.4	40.0	44.0	37.5	41.25
RBD palm oil	54.0	59.4	50.0	55.0	45.0	49.5
RBD palm olein	54.0	59.4	50.0	55.0	45.0	49.5

Source: AIFTA (2009); MICECA (2010).

On 4 September 2019, the Department of Revenue, Ministry of Finance India issued a notification which imposed a 5% safeguard duty on imports of refined palm oil (RPO) from Malaysia under the MICECA, taking the import tariff to 50% (Customs import duty of 45% + 5% safeguard duty) for six months (from 4 September 2019 until 2 March 2020) (Ministry of Finance, 2019).

The imposition of the 5% safeguard duty with respect to imports of RBD palm olein under the MICECA had a serious detrimental impact on Malaysia's export of the product to India. It effectively wiped out the import duty advantage offered to RBD palm olein under the bilateral MICECA, over similar product under AIFTA. Hence, monthly exports of Malaysian RBD palm olein to India had steadily declined since September 2019. However, India's imports of RBD palm olein had continued (Figure 8). This suggests, despite the safeguard duty that had been put in place to rein-in imports of RBD palm olein from Malaysia and 'protect the refining industry', Indian importers continued to import the product from other sources, and had not switched back to importing CPO, which was claimed to be required by the refineries to improve their refining capacity utilisation.

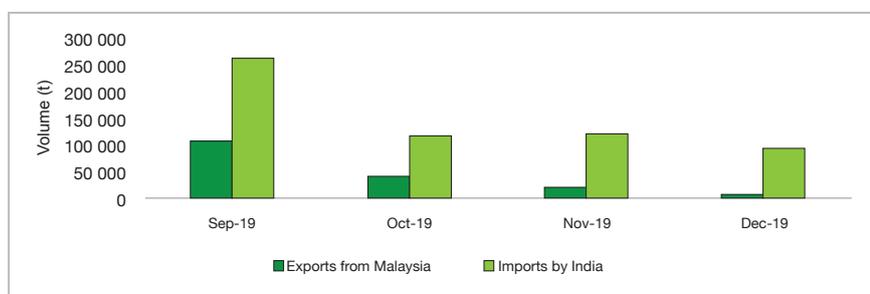
Restrictions on imports of refined palm oil.

Effective 1 January 2020, India had, in accordance with commitments under the MICECA and AIFTA reduced the import duty on CPO and RBD palm oil/palm olein (Table 10). As a result, import duty on CPO was reduced from 40.0% to 37.5% (under both MICECA and AIFTA), while import duty on RBD palm oil/palm olein was reduced from 50% to 45% (under AIFTA); and import duty on RBD palm oil/palm olein remained at 45% (under MICECA). Therefore, the duty difference between RBD palm oil/palm olein and CPO was reduced from 10% to 7.5% under AIFTA, but increased from 5% to 7.5% under MICECA. There appeared to be a level playing field for both Malaysia and Indonesia under MICECA and AIFTA in 2020 as the import duty for both CPO and RBD palm oil/palm olein had been harmonised, irrespective of origin.

However, the gap of 7.5% in import duty difference between RBD palm olein and CPO that came into effect under MICECA and AIFTA on 1 January 2020, was almost immediately negated by the non-tariff measure imposed on 8 January 2020 through the issuance of Notification No 39/2015-2020 (DGFT, 2020a). This notification

amended the import policy for items under Exim Code 1511 90, i.e., RBD palm oil (Exim Code 1511 90 10), RBD palm olein (Exim Code 1511 90 20) and palm oil products under Exim Code 1511 90 90), as they were moved from the 'Free' category to 'Restricted' category, and the restriction was applicable irrespective of origin. The placement under the 'Restricted category' meant that the importation of these products would require an import license issued by the DGFT, whereby the importers need to apply for Import/Export Certificate (IEC) from the DGFT. The restriction on imports of RBD palm oil/palm olein was welcomed by the SEA, on the basis that the decision would go a long way in supporting the domestic refining industry that had been operating at an average capacity of 40% in 2019 and greatly help the farmers in receiving remunerative price for their produce (SEA, 2020c). The SEA had also described this decision as a 'good opportunity to restrain unabated growth of refined palm oil shipments from abroad' and proposed that imports of RBD palm oil/palm olein be kept at a bare minimum and be limited to a maximum of 50 000 tonnes per month (SEA, 2020c).

On 28 February 2020, the DGTR had issued Notification (SG) 04/2019 that it did not recommend further extension of the bilateral safeguard duty (DGTR, 2020) that had been imposed on 4 September 2019 for 180 days. The order acknowledged that the safeguard duty under MICECA was futile, unless a similar safeguard was also imposed under the AIFTA. Further, it noted that restrictions on imports of RBD palm oil and palm olein in place since 8 January 2020 already ensure that the imports of such products shall remain regulated. Nonetheless, DGTR's decision not to extend the imposition of the safeguard duty did not provide any relief toward exports of Malaysian



Source: Exports from Malaysia – MPOB (2020a) Imports by India – SEA (2019b; 2020b).

Figure 8. India – Comparison for exports of RBD palm olein from Malaysia and total imports by India (September-December 2019).

RBD palm olein to India, as the imports of the product remained highly regulated. In fact, exports of RBD palm olein to India which had touched 1.57 million tonnes (from January to June 2019) was reduced to an insignificant 5438 tonnes from January to June 2020 (MPOB, 2020b).

Though RBD palm oil and RBD palm olein had been placed under the restricted list effective 8 January 2020, there was little clarity on the conditions for issuance of import licences for these products for a period of more than three-months. On 13 April 2020, the DGFT issued Trade Notice No. 2/2020-21 which specified conditions for import of refined palm oils, applicable to products under Exim code 1511 90 (RBD palm oil and RBD palm olein). The conditions specified in the notification are as follows (DGFT, 2020b):

- i. The applications for import authorisation should be accompanied with pre-purchase agreement and details of the import of the above items for past three years.
- ii. Validity period of import licenses/authorisations for refined palm oil will be six months in place of the usual 18 months.
- iii. Total non-utilisation of import authorisation by the applicant will lead to disqualification of the importer from getting any further license for these items in future.
- iv. Customs will be required to diligently enforce the Rules of Origin criteria for import of these items originating from Nepal and Bangladesh.

Though this notification is clearly being very restrictive on imports of refined palm oil products as it imposed some onerous requirements, the SEA had still expressed concerns on the Trade

Notice which could potentially allow imports of RBD palm olein and had actually requested the concerned authorities to reconsider this decision.

On 11 May 2020, the DGFT announced the suspension of 39 licenses that had been issued for import of refined palm oil (olein) since 8 January 2020 (DGFT, 2020c). The memorandum makes specific reference to imports from Bangladesh and Nepal (at zero-duty) and the need to adhere to Rules of Origin (RoO) under the South Asia Free Trade Agreement (SAFTA) and for imports from Indonesia, under the AIFTA. The Memorandum states that the DGFT 'suspects that exports from these countries are taking place without strict adherence to RoO under SAFTA/AIFTA'. The suspension was most welcome by the the SEA, which described it as 'a decision to protect domestic refiners'.

Thus, the imposition of the safeguard duty, the restrictions on imports of RBD palm olein, and the imposition of unduly strict conditions for imports of RBD palm olein could be viewed as protectionist measures to curb the imports of this product. While in the recent past, imports of edible oils had been controlled by imposition of tariffs, the present scenario uses non-tariff measures, and is reminiscent of the protectionist import policies prior to the introduction of OGL back in 1994.

IMPACT OF COVID-19

Since March 2020, India has been grappling with the menace of COVID-19, and a nation-wide lockdown was imposed from 25 March 2020, and had been extended till 8 June, after which the country began to open up in phases. The lockdown resulted in a severe impact on the economy with massive losses of incomes and jobs,

and also mass reverse-migration of more than 100 million people from the cities to the villages, panic buying, supply chain disruptions, and increase in retail prices of food items, including edible oils (Chandrashekhar, 2020). On the other hand, significant demand destruction for out-of-home consumption and the hotels, restaurants and catering services (HoReCa) sector, that is a major user of palm oil, accounting for 30% to 35% of India's palm oil consumption, had negatively impacted demand for palm oil (Desai, 2020). As the outlook for the HoReCa and out-of-home consumption remains subdued, the overall consumption demand for edible oils in the year is expected to be reduced by between 8% and 10%, ranging from 21 to 22 million tonnes (Chandrashekhar, 2020; Desai, 2020), with total palm oil imports for 2019-2020 being expected to average at 7.5 million tonnes. The economic fallout due to the COVID-19 situation has also been referred to as a basis for the Government of India to save foreign exchange by reducing dependency on imports of edible oils (Bernama, 2020).

CONCLUSION

India has been the major importer of edible oils, and an important destination market for palm oil. However, India's recent import policies, characterised by increasing import tariffs, imposition of safeguard duty on RBD palm olein imported from Malaysia in September 2019 and restrictions on imports of RBD palm olein since January 2020 have not been favourable to palm oil. India's plans for self-sufficiency in edible oils could pose further challenges to palm oil for access into the Indian edible oils market, especially if the plan is accompanied by protectionist measures such as

increased tariffs, import restrictions and imposition of import quotas or levies. While it is acknowledged that India has a legitimate right to protect the domestic edible oils industry, steps taken towards this end should not be discriminatory towards any imported oil or source country. There is also an obligation upon India to fulfil commitments made towards liberalisation of tariffs under existing free trade agreements, and these should not be negated by impositions of non-tariff measures. A close monitoring of the developments in India's edible oils import policy in the context of existing free trade agreements is therefore necessary.

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