ONE-STOP DESTINATION FOR TAXMAN AND TAXPAYER

Oil Palm - MSP - Shielding whom?

SEPTEMBER 13, 2021

By Naresh Minocha, Consulting Editor

THE Modi Government has enriched farm pricing mess by coining two new terms -Viability Price (VP) and Formula price (FP).

These have been contrived to shield edible oil companies from paying minimum support prices (MSP) to oil palm (OP) farmers. The difference between VP and FP would be known as viability gap funding (VGF). It would be paid by the Government. It is thus a deemed subsidy for oil mills.

The corporate giants that operate in this business are Adani Wilmar, Patanjali group's Ruchi Soya and Godrej Agrovet Limited (GAL) and Cargill India.

It is perhaps for the first time that concept of VGF has been applied to crop cultivation, OP farming to be precise. This confirms Government's aversion towards statutory MSP for major crops demanded by farmers. It certainly doesn't want agro-processing companies to buy farm produce at MSP or at a higher rate under contract farming.

The aversion surfaced from exclusion of the term 'MSP' in The Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Service Act, 2020 (FEPAPAFSA). This central law overrides States' contract farming laws/rules. Some of these, such as the ones enacted by Rajasthan and Haryana stipulated MSP as the threshold under contract farming.

Would OP plantations be the new battle ground between the three Central Farm Laws & respective State's oil palm law (OPL)? At present, each OP state has its own OPL. Such enactment empowers a State Government to regulate cultivation, production, pricing and marketing of OP produce. Each farmer is assigned a specified processor/oil mill to which it is required to sell FFBs at state-determined prices.

The Union Government has defined VP and FP in relation to pricing of fresh fruit bunches (FFBs) that OP farmers sell to processors/oil mills. VP & FP figure in new centrally sponsored scheme named National Mission on Edible Oils - Oil Palm (NMEO-OP).

Announcing Cabinet approval for this scheme, an official release dated 18th August 2021 claimed that VP for FFBs will serve as the Centre's price assurance to farmers. This will protect the farmers from the fluctuations of the international Crude Palm Oil (CPO) prices and protect them from volatility. The release is silent on OPL of States. How OPLs and FEPAPAFSA interact? Would there be fresh litigation over FFBs pricing as has happened under Andhra OPL.

The VP shall be the annual average CPO price of the last 5 years adjusted with the wholesale price index to be multiplied by 14.3 %. This will be fixed yearly for the oil palm year from 1st November to 31st October.

As put by the release,
"This assurance will inculcate confidence in the Indian oil palm farmers to go for increased area and thereby more production of palm oil". FP will be fixed as 14.3% of CPO. The industry will be "mandated" to pay 14.3% of the CPO price. It will eventually go up to 15.3%, the release says.

FP will be revised every month. VGF
"will be the VP-FP and if the need arises, it would be paid directly to the farmers accounts in the form of DBT (direct benefit transfer)", it adds.

There would have been no need for VP and FP, had Modi Government replaced palm oil import prices-linked pricing formula for FFBs with cultivation cost-based MSP. For this, it had to merely notify oil palm under MSP ambit of Commission for Agricultural Costs and Prices (CACP).

NMEO-OP will subsume National Food Security Mission-Oil Palm programme. The new scheme lays special focus on development of OP farming in the North-East region and the Andaman and Nicobar Islands. As operational guidelines have not yet been unveiled, it is difficult to know how much increase in FFBs price is actually paid with VGF. The present Centre-advised pricing formula for FFBs was notified during August 2013. The formula is 13.54% of net crude palm oil (CPO) weighted average price. It is linked to 18% oil extraction ratio plus 75.25 percent on 9% recovery of palm kernel nuts weighted average price. Any variation in OER results in change in the pricing.

The official release is silent on applicability of VGF-based pricing to existing plantations in North-East. Can there be two different pricing formula in same State, say Mizoram? Should VGF-based pricing not be extended to other OP states such as Andhra Pradesh and Telangana?

Has Centre not drawn lesson from bifurcation of united Andhra into AP & Telangana and its fall-out on marketing of the FFBs? The answer is embedded in the plight of GAL. Its plantations are largely in AP but are located at border of two States.

As put by GAL Managing Director Mr. Balram S Yadav at a conference call on quarterly results held on 7th May 2019, ***"There was a differential of 1% in terms of price to be paid to the farmers and Telangana was higher by 1% and most of our fruits started escaping to Telangana because Telangana government was paying slightly higher. So in those districts, we had to pay Telangana price and that was one cause. The second cause (was) we were expecting Andhra Pradesh government to react and implement the act because as per the act, they have to prevent this kind of an outflow from our areas to some other areas, but as you know the government can control very little. By the time, we realized that there is no other go, but to pay more almost 30,000 tonnes of fruits had escaped to Telangana, so that was a hit".***

Under NMEO-OP with outlay of Rs.11,040-crore, it is proposed to bring an additional area of 6.5 lakh hectare under OP till the year 2025-26. This would enhance country's total OP area to 1 million hectares.

OP is highest oil yielding crop and it holds the key to reducing burgeoning edible oils import bill. As put by CACP in its July 2021 report on Rabi crop pricing policy, ***"The Oil Palm can be the most feasible alternative to substitute edible oils imports competitively".***

It is the highest yielding edible oil crop. OP yields 4 to 6 tonnes of crude palm oil per hectare and 0.4 to 0.6 t of palm kernel oil from 4th to 30th year of its life span. Double oil yielder OP is also a land-saving crop in overpopulated India.

According to 2012 CACP report, one million hectares under oil palm is akin to more than 15 million hectares under other mix of oilseeds.

While approving NMEO-OP, the Union Cabinet overlooked recommendations of certain committees. It failed to present a holistic policy/ approach on OP.

A case in point is the ignored recommendations of committee on doubling farm income (DFI) in five years. Ironically, DFI is a favourite theme of Mr. Modi.

In its 14th and final report submitted in September 2018, DFI committee suggested that OP farmers should be compensated whenever FFBs price falls below a threshold of US$800 per tonne. It mooted creation of an Edible Oil Development Fund (EODF) to finance such a price mechanism. EODF should be created by levying special cess @ 0.5 per cent on the imports of CPO and RBDPL.

To facilitate expansion of OP area, it recommended assured FFB price of Rs. 9500 - 10,000 per tonne ***"for at least 4-5 years"*** . In its eighth report on oilseeds, DFI committee also mooted ***"Declaration of assured FFBs prices as per cost of cultivation".***

Another panel whose recommendations have been ignored by Modi Government is the High-Level Expert Group (HLEG) on Agriculture Exports that submitted its report to 15th Finance Commission in 2020. It stated:
"Oil palm prices are regulated by the government, and procurement is done by designated local mills (private or public). The pricing is decided by a pre-determined formula which is a function of landed prices of imports. Competitive imports from Malaysia and Indonesia affect the farmers' remuneration, affecting their profitability. Market trends show a variability of up-to 50% over the past 15 years, with instances of prices falling below farmers' cost of production. This even leads to farmers uprooting their plantations during such distress years".

HLEG recommended:

"Increasing the attractiveness of Oil Palm for farmer adoption through a loan cycle aligned to the gestation period and necessary price support. A mechanism to link pricing to the cost of cultivation of farmers can ensure farmer profitability and ensure increased adoption of the crop. Until the domestic crop stabilises at the desired scale, the price competitiveness vs global market could be managed through tariffs, especially the difference between crude and refined oil import duties".

Similarly, CACP, in its report titled ***'Oil Palm: Pricing for Growth, Efficiency & Equity'*** stated:

"As CACP has been recommending MSP for all crops in its mandate (24 in number) across the country without any state-specific differential, formula for pricing FFBs be the same across all the states". This sole report on OP from CACP was prepared in 2012.

It recommended Government compensation to the farmers for opportunity cost of land for first three years of crop when it does not bear any fruits. CACP mooted compensation at the rate of Rs. 30,000 per annum per hectare during this period. It also recommended one-time subsidy for irrigation system at rate of Rs.36000 per hectare.

It reckoned that this would cost the Government Rs.10,080 crores to bring additional 8 lakh hectares of area under OP. And in return it can save the foreign exchange outgo worth US $117 billion on edible oil imports.

Government gave CACP the mandate to work out rational FFB pricing formula after a 2011 committee failed to arrive at consensus among farmers and FBB processors & oil mills.

That, all is not well with FBB pricing was also underscored by Karnataka Evaluation Authority's 2014 study on Oil Palm Development Programme in State.

It observed:

"Only glitch is the price offered and none of the oil palm grower is satisfied with the current price of Rs.7,000/- for a ton of FFBs. Majority of them expect a minimum price of Rs.12,000/- per ton of FFBs".

The Study noted:

"reports from oil palm growing areas of Karnataka said that growers were uprooting oil palm trees. This is because they are unhappy with the price they are being offered. For the current quarter, Karnataka Govt has fixed Rs. 7/- for a kg of fresh fruit bunch. The price is revised periodically 3 to 4 times a year".

It thus recommended:

"The view of the farmers, officials from Department and Company is that growers should be given a fixed price for a term of at least five years. Another view is that the Government has to find a way to sustain the growers' interest through some additional payment. Enhance the price of FFBs and ensure a minimum price of Rs. 12/- per ton of FFBs will help the existing oil palm farmers to continue and encourage others to take up oil palm cultivation ".

Fair and stable pricing of FFBs was pitched for by a Committee on Oil Palm (COP) way back in 2006. It was constituted by Union Agriculture Ministry under the chairmanship of an agricultural expert, Dr. K.L. Chadha. It is here pertinent to mention that he chaired an earlier working group on OP, whose 1988 recommendation to constitute National Oil Palm Development Board for focused regulation and promotion of OP was ignored. This demand has been reiterated time and again by different committees and industry representatives with zero effect on the Government.

Noting that FFBs price fixed is 10-12% of CPO price, COP pointed out that price fixation varied from state to state. It thus recommended:

"a uniform pricing policy by a Central Committee representing different interests, once in every three months".

COP noted that Oil Palm Act has already been enacted and implemented in 4 States. COP recommended:

"its enactment should be made mandatory for all states participating Centre's oil palm cultivation schemes ".

COP reiterated:

"the long-time suggestion for establishment of price stabilization fund by collecting certain percentage of money from FFB sale to support the farmers when prices fall abnormally".

Even some industry representatives appreciate the importance of protecting OP from fluctuations under imported palm oil prices-based FFB pricing formula.

According to 'Status of Oil Palm Development in India 2020' prepared by two industry veterans, one way to address ***"FFB price volatility is to fix the Minimum Support Price (MSP) based on the cost of production, change in input prices, input-output price parity, inter- crop price parity, cost of living and a minimum 50% as the margin over the cost of production".***

This discourse should help the Government realize that it has to take a holistic view on critical importance of stable and remunerative pricing regime for OP. The Government ought to take a call on futility of governing diversified agriculture through flawed Central laws, framed without consulting farmers and the States.