Customs duty waiver on edible oil imports: will it help control prices?

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ON WEDNESDAY, Commerce Minister Piyush Goyal announced that the government has decided to waive customs duty on import of crude sunflower, palm and soyabean oil, a move aimed at controlling their prices.

Consumption & imports

Of the 20-21 million tonnes of edible oil that India consumes annually, around ₹4-15 mt is imported. India is second only to China (34-35 mt) in terms of consumption of edible oil. Palm oil (45%) is the largest consumed oil, mainly used by the food industry for frying namkeen, mithai, etc, followed by soyabean oil (20%) and mustard oil (10%), with the rest accounted for by sunflower oil, cottonseed oil, groundnut oil etc. Crude and food-grade refined oil is imported in large vessels, mainly from Malaysia, Brazil, Argentina, Indonesia etc.

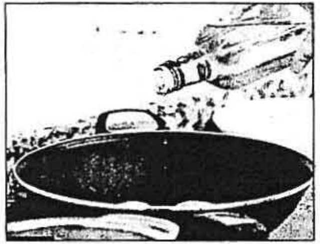
Given the heavy dependency on imports, the Indian edible oil market is influenced by the international markets. Homegrown oilseeds such as soyabean, groundnut, mustard, cottonseed etc find their way to domestic solvent and expellers plants, where both the oil and the protein-rich component is extracted. The latter is an exportable commodity.

Prices and politics

Prices of edible oil have been rising across the country In the last few months. Data collated by the Price Monitoring Cell (PMC) of the Ministry of Food and Consumer Affairs show that most edible oils are trading between Rs 130-Rs 190/litre.

Given the fact that elections are scheduled in Uttar Pradesh, Punjab, Himachal Pradesh, Goa and Uttarkhand early next year, high prices of edible oils are the last thing any government would like to face the electorate with. Also, the festive season will see increased buying of edible oils.

The government has not only abolished the basic customs duty on crude palm, soyabean and sunflower oil, but also slashed the agri cess levied on these until March 31, 2022. This comes days after the Centre authorised the states to impose a stock limit on oilseeds and oil to control prices.



The duty waiver is the latest in a series of government interventions. *Express*

The government has been slashing duty rates on both crude and refined oils since February. This will be the fifth such intervention to control prices.

Impact on prices

Industry sources say consumers might not see a drastic reduction immediately in prices of edible oil. Atul Chaturvedi, president of Solvent Extractors Association of India, said in a statement that the total benefit of duty reduction may not fully accrue to the consumer.

"The impact of the duty reduction on Crude Palm oil is about Rs 14,000/- while on crude soyabean oil and crude sunflower seed oil is about Rs 20,000/- per tonne. In fact, today after the announcement the duty reduction, the Malaysian Market has gone up by about RM 150 to 170 per tonne. Also, the rumours in the market in the last few days have already discounted the domestic price to some extent. The refined oil may further reduce by Rs. 6 to 8 per kg," his statement read.

B V Mehta, executive director of the Association, said international prices are high and show no immediate sign of cooling down. Be it the production of palm in Indonesia and Malaysia, or soyabean in Argentina/Brazil, or sunflower in Ukraine, chances of immediate improvement of supplies are slim. "Market sources talk about improvement in supplies post December-January when prices would cool down significantly," he said.

Impact on farmers

With harvesting already underway or set to start post-Dussehra, mandi prices of all major oilseeds are going to be affected adversely. Thus, the average traded prices of soyabean in Latur's wholesale market in Maharashtra dipped by Rs 300/quintal on Thursday. The oilseed had traded around Rs 5,600/quintal on Wednesday but after the announcement, the price dipped to Rs 5,300/quintal. The average trade prices of groundnut in Gujarat, too, has dipped.

Heavy rainfall in September has already caused crop loss to farmers in Maharashtra. Groundnut growers in Gujarat suffered from moisture stress prior to August and reported a loss in yield. The reduction in duty is expected to affect the earnings of oilseed growers across the country.

Soyabean growers, in fact, have complained of a double whammy as the Centre had earlier allowed import of genetically modified soyameal cake to help the poultry industry. After that decision was taken, soyabean prices across the country dropped by more than Rs 4,000-5,000/quintal. Farmers fear the present decision will hit their earnings further.

Long-term implications

Over the last few years, the government has taken a series of steps to remove India's import dependency on pulses, and tried to do the same for oilseeds through national missions. However, frequent market interventions that ultimately bring down prices, the industry said, would backfire on the government and veer farmers away from growing oilseeds. "We need continuity in prices to help farmers stick to oilseeds or pulses. Otherwise domestic production is not going to pick up," said a trader from Latur.