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EDIBLE OIL

Hoarding For The Future

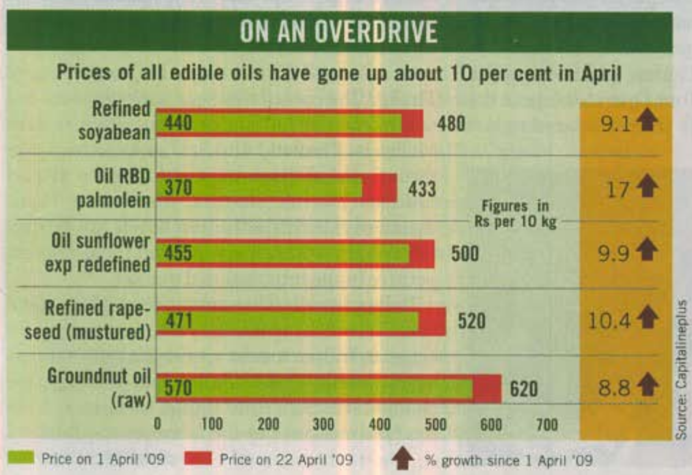
Duty cuts on edible oils have led to higher imports, but not lower prices

PRICES OF EDIBLE OIL SUCH AS PALM, SOYABEAN and sunflower are showing no signs of cooling down this summer. Though prices shoot up every summer, the surge this year — by as much as 10-17 per cent in a span of just 20 days — has ominous portents to it.

A surprisingly high demand from rural India and possibility of lower supplies — drought in South America has severely reduced global availability of soyabeans — may push prices further 10 per cent up. "Prices may rise by another 10 per cent or more as wholesale suppliers would pass on the entire burden soon to the retail level," says Angshu Mallik, vice-president, Adani Wilmar, which owns the Fortune brand. The consumption of all edible oils in rural India has nearly doubled compared to last year due to more disposable income and lower impact of recession. These factors have allowed wholesale traders an effective leverage to hike prices at will.

OUT OF CONTROL? Edible oil prices could rise by 10 per cent

BLOOMBERG



India is heavily dependent on imports of edible oil, and the 11 million tonnes of supplies are playing a critical role in the rising prices. Large traders of edible oil are using the favourable duty regime to import heavily and hold stocks at various ports in anticipation of a jump in prices. They had sniffed the opportunity as early as October-December 2008 when global palm oil prices crashed despite the prospect of a lower output. Indian importers have flooded global suppliers with orders, which has taken imports to 12 mt. "Supplies for two-four months have been stocked up in India," says Sanjay Agarwal, managing director of KS Oil.

The government had softened the duty structure — as part of the stimulus package — on most edible oil imports to zero per cent to stem the price rise mid way into the current edible oil season. "Duty structures are usually calibrated to reduce fluctuation in the landing price," says an industry source, who adds that today prices of two edible oils, soya and sunflower, are almost on par. Soyabean oil is currently hovering in the range of Rs 430-500 for 10 kg in the domestic market after it fell Rs 50-55 following import duty cuts on crude soya oil in March. "Soya prices are hardening further due to lower supply from top exporting countries in South America, while the demand from China remains strong," says Amol Tilak, analyst at Kotak Commodities.

In the current edible oil season (November 2008 and March 2009) so far imports of crude edible oils were to the tune of 3.4 mt as against 1.9 mt in the same period last season. Crude palm oil led imports with 200,000 tonnes while soyabean oil at 320,000 tonnes and sunflower oil at 290,000 tonnes, were equally bullish. Most of the major ports have seen a surge in imports in this period: Mundra (140,000 tonnes), Kandla (900,000 tonnes), Kakinada (440,000 tonnes), JNPT (410,000 tonnes), Mangalore (255,696 tonnes) and Kolkata (600,000 tonnes). An industry source estimates the current stocks held at ports at 700,000 tonnes almost double the average of 300,000-400,000 tonnes every year.

The build up of stocks means constricted supply, which will soon translate into higher prices. The new government will have to immediately take a decision on the import duty regime, which has so far helped only traders rather than the consumers.

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