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# Impact of duty cut on palm oil

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## Overview

The domestic production of edible oils is not sufficient to meet the country's demand and hence India imports around 60-65% of its requirements through imports out of which palm oil (crude and refined) accounts for 55-60%. Palm oil is mainly imported from Malaysia and Indonesia. Hence as the country heavily relies on imports, the domestic prices of edible oils are primarily influenced by the movement in international prices.

## Global prices

Production shortfalls in palm oil has resulted in steep price increases as output was affected by adverse weather condition in southeast Asia. Global price averaged $ 601/tonne in 2019 and increased to $ 752/tonne in 2020. It had increased successively in each of the quarters and in the Q1-2021 reached $ 1014/tonne. The World Bank has forecast price to average $ 975/tonne in 2021.

## Duty Rate Cut

The central government via a notification dated 29th June, 2021 reduced the basic custom duty on crude palm oil and refined palm oil (RBD Palm Oil, RBD Palmolein, RBD Palm Stearin and any Palm Oil other than Crude Palm Oil) to 10% and 37.5% respectively as shown in table 1 below. This duty rate cut comes against the backdrop of record rally in international and domestic prices due to demand-supply mismatches in the global and domestic markets and this move is expected to provide some relief to consumers. The all India average retail price for palm oil in Q1FY22 stood at Rs 130/kg, a growth of 46% as against Rs 89/kg in the same period a year ago as per the data released by Department of Consumer Affairs.

Palm oil is the cheapest edible oil available in the market and competes with others such as soybean and sunflower oil within imports. Palm oil accounts for around 55-60% of the imported edible oils and is mainly used by bulk consumers such as hotels, restaurants and cafes (HoReCa) and is also used a raw material by FMCG companies for home and personal care products like hair oil, soap etc.

In terms of government finances, India imported crude palm oil of Rs 41,993 crores and 739 crore kgs at an average cost of Rs 57 per kg in FY21. This duty rate cut of 5% will lead to annual savings of Rs 3 per kg and hence may not prove to be as impactful as perceived. Meanwhile, it can still be expected that the industry players will import more quantities of palm oil and stock up higher inventories of the oil in the coming three months as this rate is applicable till 30th September 2021. At this level of imports the loss to the exchequer on customs would be around Rs 3360 crore.

**Table 1: Basic customs duty rates for palm oil in current oil year**

| Type of palm oil | w.e.f from 27.11.2020 | w.e.f from 02.02.2021 | w.e.f from 30.06.2021 |
|---|---|---|---|
| **Crude palm oil** | 27.50% | 15% | 10.0% |
| **RBD palmolein** | 45% | 45% | 37.5% |
| **RBD palm oil** | 54% | 54% | 37.5% |

Source: The Solvent Extractors' Association of India (SEA), CBIC

Table 2 below gives information on the imports of palm oil. The overall imports of palm oil had reduced in oil year 2019-20 by 23% due to fall in institutional demand from bulk users on account of the outbreak of Covid-19 and restrictions imposed within the country to arrest the spread of the virus.

**Table 2: Imports of palm oil (in '000 tonnes)**

| Oil Year (Nov-Oct) | CPO | CPKO | RBD Palmolein | Total palm oil imports |
|---|---|---|---|---|
| **2018-19** | 6,534 | 144 | 2,731 | 9,409 |
| **2019-20** | 6,666 | 130 | 421 | 7,217 |
| **2020-21*** | 4,441 | 94 | 26 | 4,561 |

Note: CPO- Crude Palm Oil, CPKO- Crude Palm Kernel Oil
Note: *2020-21 data is Nov-May
Source: SEA

## Refined palm oil under 'free' category

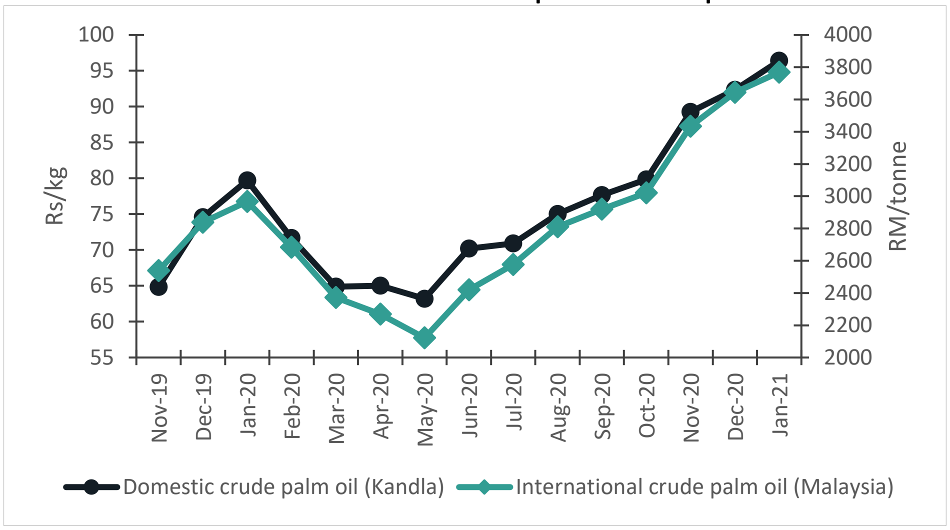
In addition to the rate cuts announced, import of RBD Palm Oil and RBD Palmolein under 'free' category has been allowed with immediate effect from 30th June, 2021 to 31st December, 2021. The commodity had been placed under the 'restricted' category from 8th January, 2020 which had led to a sharp decline in import of RBD palmolein by 85.2% to just 421 thousand tonnes in oil year 2019-20 from the earlier import of 2,731 thousand tonnes in oil year 2018-19 as shown in table 2 above. Furthermore, imposition of safeguard duty of 5% on 4th September, 2019 for a period of 180 days on RBD palmolein originating in Malaysia and imported under India-Malaysia Comprehensive Economic Cooperation had also contributed to this decline. While allowing refined palm oil to be imported freely till 31st December, 2021 within the country is expected to reduce the pressure on prices, it could adversely affect the capacity utilization of domestic refineries.

## Movement in prices

The upward trend in the international price of CPO (Malaysia) from the month of November 2019 to January 2020 declined by 28.5% as it fell from RM 2,968 per tonne in January to RM 2,121 per tonne in May of oil year 2019-20 as shown in chart 1 below. Trade restrictions imposed on import of refined palm oil by India (the largest palm oil importing nation) in January 2020 and weak global demand largely owing to Covid-19 adversely impacted the price. It nevertheless began improving month-on-month on a sequential basis from June 2020 onwards as lockdown measures across the globe were eased.

The domestic CPO (Kandla) price moved in accordance with the international prices and fell by 21% from Rs 80 per kg in January to Rs 63 per kg in May of current oil year. In addition to this, improvement in domestic crude palm oil price was witnessed from June 2020 onwards. It averaged at Rs 106/kg in the current oil year (Nov-Jun), a rise of 104% in comparison with Rs 52/kg in oil year 2018-19 (Nov-Jun). Similarly, domestic RBD palm oil price (Mumbai) stood at Rs 115/kg, an increase of 89% in comparison with Rs 61/kg in oil year 2018-19 (Nov-Jun). The record increase in prices in the current oil year was driven by tight supplies in major exporting nations of palm and soybean oil and labour constraints in Malaysia. Further, increased buying from China for soyabean, delayed sowing of soyabean in Brazil (one of the major exporters of soyabean), rise in demand for biofuels amongst other factors led to this record surge in prices. It is to be noted that the prices of palm oil are also influenced by prices of rival edible oils like soyabean.

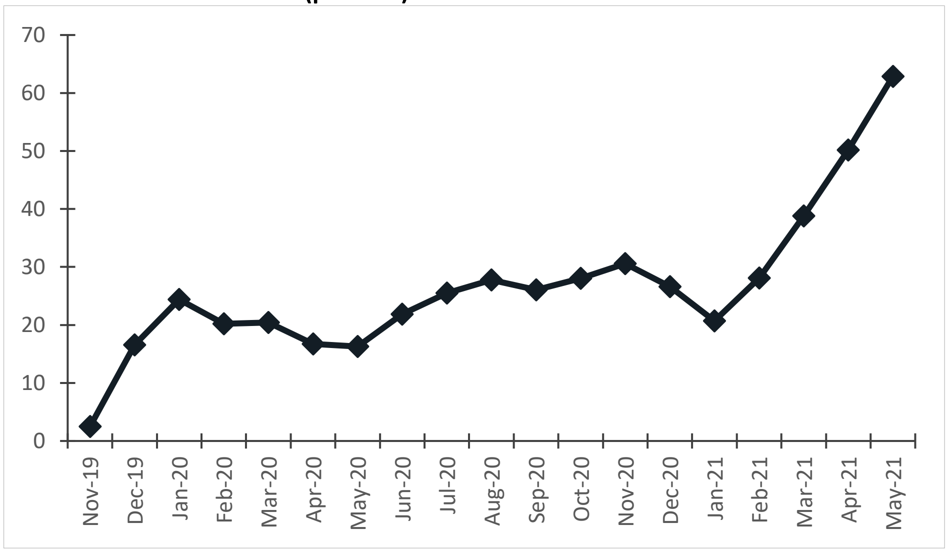
**Chart 1: Movement in domestic & international prices of crude palm oil**




Source: CMIE

The increase in domestic prices can also be ascribed to rising international prices. The wholesale inflation in palm oil has been increasing on a sequential basis y-o-y since June 2020 barring the y-o- decline in January 2021 as shown in chart 2 below and grew by 57% during April-May 2021 as compared to the corresponding period a year ago.

**Chart 2: Movement in WPI (palm oil)**




Note: Chart denotes y-o-y % change
Source: CMIE

**Concluding Remarks**

The international prices of crude and refined palm oil have been showing signs of decline over the past one month while the domestic prices have remained elevated. Amidst muted institutional demand for palm oil within the country due to recent increase in Covid-19 cases and state-wise imposition of restrictions from April 2021 onwards which have started easing in a phased manner from June onwards, it will be interesting to see how the demand-supply dynamics play out within the country and impact prices in the remaining months of the current oil year. We may expect demand to pick up as the services sector open in a more significant manner.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