Edible Oil Prices Hike in India: A Global Shock

- Puja Putatunda*

The second wave of Covid-19 and its consequent death toll has engulfed almost all the daily newspapers' columns. However, very few other news has still managed to occupy some places among which the steady rise in retail prices of edible oil is one.

The average retail prices of edible oils hit record highs in May'2021 with soyabean oil prices climbing to nearly Rs 150 for a kilo and sunflower oil to Rs 170. The prices of both edible oils have jumped around 50% from the levels prevailing when the country was under a national lockdown. Retail prices of other edible oils too jumped. Mustard oil was up 40% to Rs 165 a kilo, groundnut oil climbed 20% to Rs 175 and palm oil by 50% to more than Rs 130 a kilo. Even the prices of vanaspati soared 44% to Rs 130 a kilo. A similar increase was also seen in the prices of rice bran oil. As per the government data, the retail prices of edible oils have risen over 62 per cent in the last one year. The bar diagram shown below makes a comparison between prices of different edible oils in May'2020 and the corresponding figures in May'2021 which confirm these sharp rises in prices of all types of edible oils.

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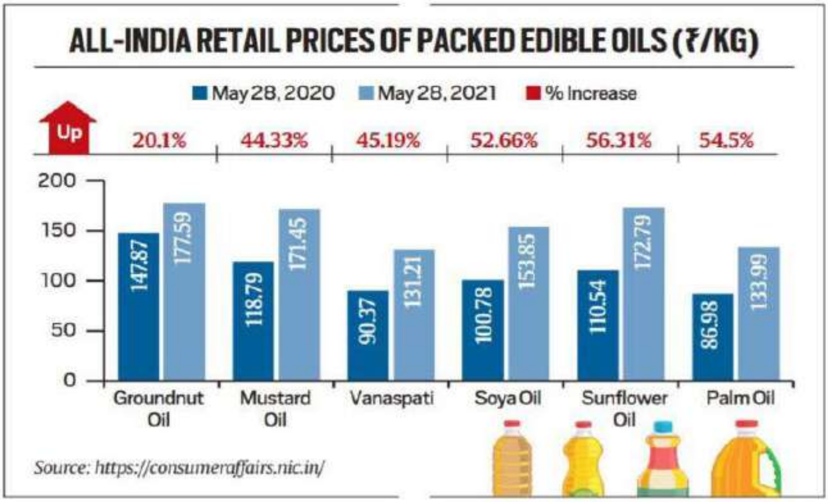

Such a steady rise in the prices of edible oil has affected the consumers heavily throughout the country amidst the heavy shock of the second wave of COVID-19 on the income of the households. In this article, I have tried to focus on some possible reasons behind such a sharp rise in oil prices and the remedial measures to curb down this problem,

In 2019-20, domestic availability of edible oils from both primary sources (oilseeds like mustard, groundnut etc.) and secondary sources (such as coconut, oil palm, rice bran oil, cottonseed) was only 10.65 million tonnes against the total domestic demand of 24 million tonnes – a gap of over 13 million tonnes. So, India has to rely on imports to fill up this gap.

However, this is nothing new. India has been importing on average 15 million tonnes per year in the last 5 years. The total acreage under oilseeds had increased by 18 lakh hectares or 10% during the 2020 Kharif season, aided by the increased availability of labour after migrant workers returned to their home in rural areas. The acreage for groundnut rose 30% increase, and for soybean by about 7%. Similarly, the acreage under oilseeds in the 2020-21 Rabi season was up almost 4%. Mustard is the primary oilseed grown during the winter cropping season and the area under the crop was up almost 5%. Consequently, according to the third advance estimates of production for the 2020-21 agriculture season, output expanded by 10% to 365.65 lakh tonnes, with the soybean crop rising almost 20% and mustard by a little under 10%. Further, demand was muted through most of the year, as eating out was not an option during the lockdown and restaurants were order to shut. Even after the lockdown was eased, most of the people avoided dining in restaurants. So, domestic demand is unlikely to have exerted any additional upward pressure on prices. Therefore, the sharp rise in prices of the edible oil cannot be explained in terms of the gap between domestic demand and supply. However, as India is the largest importer of edible oils meeting up almost 60 per cent of domestic demand, any increase in global prices of the oilseeds and edible oil is bound to be transmitted into domestic prices. This was what happened in recent time. Sunflower oil prices rise almost 125% in the last one year. Moreover, global prices continued to rise sharply due to a substantial fall in output. Drought-like conditions during last summer in the Black Sea region countries such as Ukraine and Russia are responsible for such drastic fall in production. Ukraine is the largest producer of sunflower seeds and Russia, the second-largest, while India and China are the largest consumers of sunflower oil. Reduction in acreage in Argentina also reduced the total availability of the oilseed during the year.

Now, how to tackle this sharp rise in the price of edible oil and oilseeds is the question. The immediate solution is to cut down on import tariff. However, this is merely a short-term solution having some adverse side effect. Moreover, cutting of import duty may only help overseas suppliers and demotivate farmers from expanding oilseed acreage. Rather, the government may remove 5 per cent GST on mustard seed and mustard oil. Agricultural cess may also be removed from edible oils. The head of the Solvent Extractors' Association of India (SEA) suggested that the government help poor people without cutting import tax by providing subsidised edible oils. However, all these measures are short-term solutions providing temporary relief. The main problem is rooted in the huge deficit in domestic production as compared to domestic consumption in oilseeds and edible oil. This gap compels India to import a significant amount of edible oil from the global market. Consequently, this sector is highly sensitive to global shocks. So, in the long run, the government has to take measures for a substantial increase in domestic production of edible oils to make the country self-sufficient in edible oil production. The Central Government has already undertaken a plan under 'National Mission on Oilseeds' emphasizing on productivity to make India self reliant (Atmanirbhar) in the production of edible oils within the next 5 years. However, this is a long-term process. The government needs to maintain a balance between short-term measures of controlling price hike and long-term measures of keeping India self-sufficient in edible oil production.

> We are what our thoughts have made us; so take care about what you think. Words are secondary. Thoughts live; they travel far.
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> - Swami Vivekananda