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Wages of confusion

Uniform import duty for edible oils would improve availability and minimise market distortions, says **Uttam Gupta**

EVEN as the edible oil prices continue to surge ahead and shortages mount, practically very little is being done to manage the supply situation. On the contrary, as the recent seizure of about 18,000 tonnes of edible oil stocks with the NDDB in Gujarat will show, the government's intervention has only aggravated the crisis.

Aggregate supply of edible oil is made up of three crucial elements i.e. domestic production, stocks and imports. Production of edible oils is as much dependent on market conditions as it is on supply and availability of oil seeds. Production of the latter itself is highly uncertain and erratic, given the heavy dependence on weather conditions.

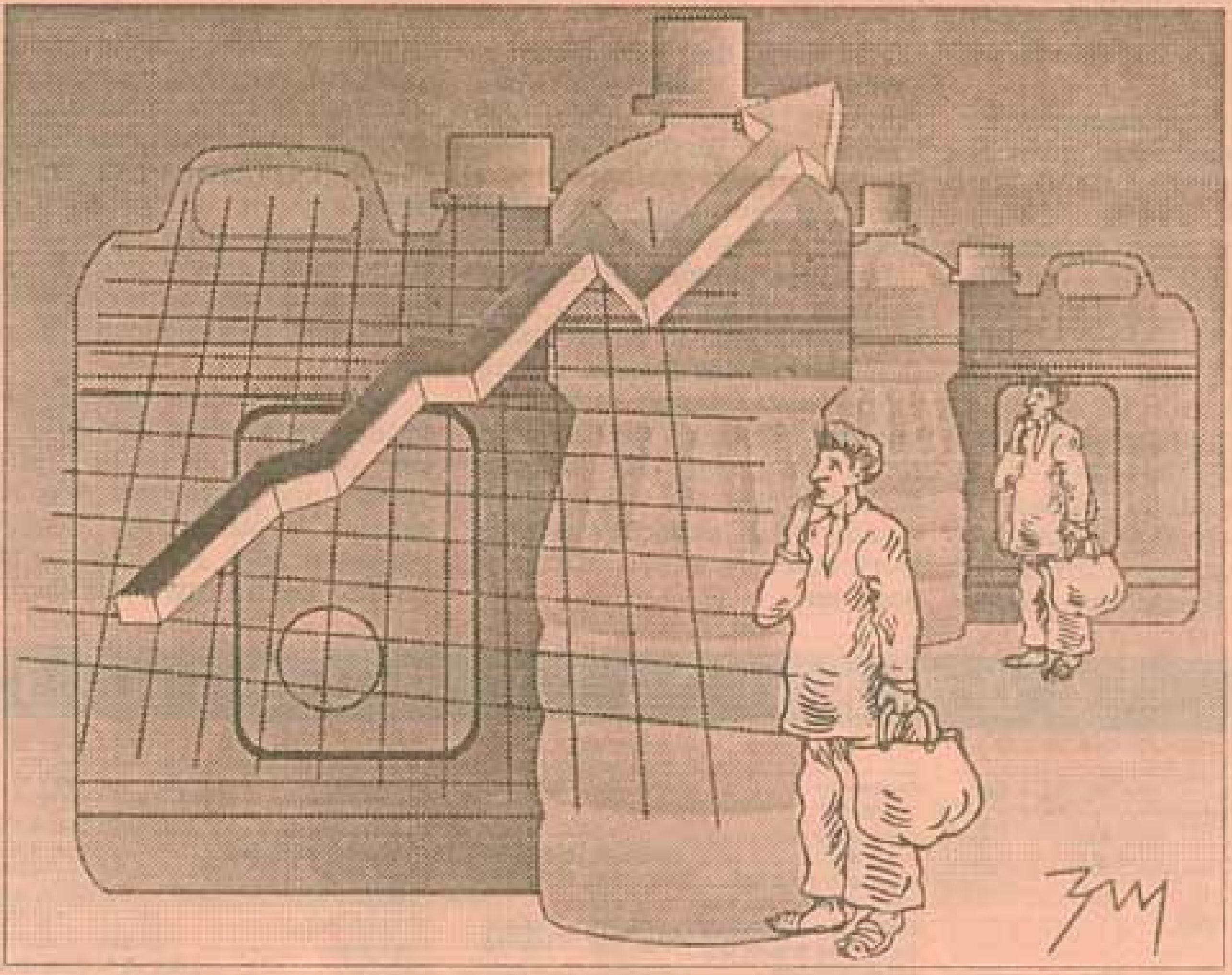
As regards stocks at various levels in the distribution chain, the authorities have virtually no knowledge about the trends. This enables powerful dealers to manipulate effective supplies in the market and, consequently, the price levels.

In March last year, the government had permitted free imports of edible oil under OGL. But the objective of improving availability in the domestic market with consequential stabilising effect on prices was frustrated by allowing imports only at a high customs duty of 65 per cent. The recent reduction of duty on six major edible oils to a uniform level of 30 per cent has come too late to make any impact on the spiralling prices.

The government had authorised imports for NDDB and STC at a concessional duty of 20 per cent for sale through the PDS only. The arrangement continues even now. As for the supplies in the free market, the NDBB's market intervention operations (MIO) were stopped a year back. Having lost the mandate it is unlikely that NDDB will have any role in improving availability and stabilising prices in the market, particularly when the Board itself is carrying huge stocks.

During 1994-95, NDDB imported only a fraction of what was authorised resulting in reduced availability even for the PDS. How much of this was actually made available to the weaker sections remains a moot point. A much higher duty paid on supplies from imports coming in the free market with consequential high cost only added to the incentive for leakages from the PDS. Despite the recent duty reduction to 30 per cent, the distortion still continues as the duty paid on imports by the government agencies continues to be lower at 20 per cent. For RBD, palm oil and kernel oil, the customs duty is still higher at 35 per cent.

Recent reports point towards the possibility of NDDB making some sales in the free market. But, in an overall shortage situation and prices settling at higher levels, it is anybody's guess whether it would at all be interested in passing on the benefit of lower duty to the hapless con-



sumers. For this very reason, all along the NDDB has been opposed to reduction in the customs duty on imports by private parties.

The logic of allowing import at concessional duty of 20 per cent by state agencies was to facilitate availability of edible oil at lower prices to the consumer. Considering that this basic objective is far from being realised, the need for taking away this special privilege and introducing a uniform duty of 20 per cent cannot be overemphasised.

This would help in improving availability, smothering prices and minimising market distortions caused by the existing dual tariff structure. This would also impart a blow to the manipulation by the traders and bring hidden stocks into the market.

Further, a uniform duty dispensation is in no way incompatible with the need to supply edible oil through the PDS at a reasonable price. The measure is only an attempt to reduce the cost of overall supplies and inject a fair degree of competition in the market place.

Management of the supply and pricing of edible oil needs to be handled with extreme care. For, unlike wheat and rice wherein the conditions for production and planning by the farmers are relatively stable, planting of the oilseed crops is determined predominantly by the market conditions. The latter indeed cause the quantities that can be sold as well as the price to fluctuate violently.

Uncertain sale prospects have, in the past, led to significant shrinkage in the cultivated area under oilseeds. Further, farmers have never taken to cultivation of oilseed crops seriously as borne out by the virtual stagnation in the productivity which hovered in the range of 680 kgs per ha. to 720 kg per ha. during the past decade or so. In the absence of stable and assured markets, there has not been any major breakthrough in the technology (high yielding variety seeds) for production.

Oil seeds are predominantly rainfed crops. This injects a further element of vulnerability. Add to it the government's excessive preoccupation with wheat and rice in the post green revolution period, which led to diversion of best tracts of cultivated land including irrigated areas. Unless these trends are corrected, prospects of agriculturists taking to oilseed crops on a long term basis is poor.

Currently, the edible oil deficit is about 10 per cent of the total domestic consumption needs. With little bit of care, production can be enhanced to outstrip not only demand, but, generate significant surpluses for increasing exports. To reap the potential, the government should promptly announce the new agricultural policy in which the role of oilseed/edible oil should be clearly stated. Research, extension and input delivery systems need to be strengthened. The government's huge paraphernalia in these areas should be effectively utilised for facilitating development of appropriate HYV technologies for oilseed crops and their timely availability to the farmers. Adequate supply of credit and arrangements for risk coverage are two other essential conditions.

Second, the government should catalyse a policy environment that provides farmers an "assured" market on a sustained basis and at attractive prices. Clearly, its direct involvement through state agencies will not work. It can, however, help in setting up farmers' associations who should arrange to purchase, sell and export the produce. Financial support from the banks/FIs, can enable the former to set up their own processing units. The government will have to play the role of a facilitator by providing the necessary infrastructure and taking care of other missing links. The NDDB can carry out this role besides its MIO mandate. However, there is need to completely debureaucratise its functioning and convert it into a totally professional body.

Development of export markets on a sustained basis will have to receive top priority. Adequacy and responsiveness of the infrastructure is even more critical in the context of exports. An effective market intelligence network is another crucial input.

All these elements are unavoidable links in a long chain and any weakness in any of these will result in breaking the chain and eventual collapse of the oilseeds/edible oil economy.