

Commodity profiles

5.26 Among essential commodities, seven items, namely jowar, potato, tea, sugar, gur, coking coal and groundnut, exhibited high inflation rates in 2004-05. An analysis of trends of weekly WPI inflation rates of these items since 2002-03 indicates the following:

- (a) Jowar prices rose rapidly in drought-affected 2002-03, declined in 2003-04 and started increasing again in the current year. Price increase was moderate until the end of July 2004, but the rate of increase reached double digits in August and November 2004. Price pressure started easing from mid-December 2004.
- (b) Potato prices declined sharply in 2002-03 and 2003-04, but picked up in 2004-05.
- (c) Tea prices declined sharply in the first half of 2002-03. Although prices recovered somewhat in the second half of 2002-03, they declined again throughout 2003-04. Tea prices are recovering since May 2004.
- (d) Coking coal prices remained unchanged in 2002-03 and during the first quarter of 2003-04. After a moderate increase by 8.8 per cent in July 2003, prices remained unchanged until May 1, 2004. Thereafter, inflation accelerated to reach 26.9 per cent in

August 2004. Coal prices have remained unchanged since then.

- (e) Sugar and gur prices remained subdued throughout 2002-03 and until the third quarter of last year. Prices started increasing since February 2004. However, the prices of sugar have started softening since the middle of January, 2005.
- (f) Inflation rate for groundnut oil was very high throughout 2002-03 and until the middle of August 2003, after which prices declined throughout 2003-04 and until the end of August 2004. Prices increased to some extent during the festival season September-October 2004, but started declining since then.
- (g) Inflation rates for jowar, potato, tea, gur and groundnut oil have decelerated significantly in the recent weeks, that of coking coal has remained stable, and there is a steady increase of the inflation rate in the case of sugar. Absolute prices of these items have settled at higher levels as on January 22, 2005. Last year at this point of time, inflation rates of groundnut oil, potato and tea were negative; inflation rate for jowar was almost negligible and those of sugar, gur and coking coal were moderate.

Coarse cereals

5.27 In contrast to rice and wheat, which have experienced low inflation in the current year, two coarse cereals, viz., jowar and bajra, witnessed high inflation because of the adverse impact of delayed and erratic

monsoon on kharif production of coarse cereals (Table 5.9). As indicated in Chapter 8 on agriculture, according to the second advance estimates of agricultural production released by the Ministry of Agriculture, the total output of coarse grains (comprising jowar, bajra, maize, ragi, small millets and barley) at 31.9 million tonnes in 2004-05 would be lower by almost 6 million tonnes than 37.80 million tonnes achieved in 2003-04. Total foodgrains production in 2004-05, estimated at 206.4 million tonnes, is significantly lower than 212 million tonnes achieved in the previous year.

Potato

5.28 Production of potato has remained almost stagnant around 25 million tonnes since 1999-2000. Production declined marginally from 25 million tonnes in 1999-2000 to 24.44 million tonnes in 2000-2001 and 2001-2002 and increased to 26.5 million tonnes in 2002-2003. Potato production declined again to 24.5 million tonnes in 2003-04.

5.29 Potato prices have followed a cyclical pattern over the years. Wholesale prices of potato, after declining sharply in both 2002-03 and 2003-04, picked up in the current year. Higher wholesale potato prices in June-September 2004 reflected the lean season with limited availability of supplies from cold storages. The unseasonal rains in producing areas had an unfavourable impact on production and subsequent supply to the markets. The price hike in diesel also tended to add to the transportation cost of vegetables at all stages from producing areas to ultimate consumers. With the arrival of new crop in mandis in large quantities from Punjab and other producing areas, potato prices

Table 5.9 : Annual WPI inflation (per cent)

Items	Weight	24-01-2004	01-01-2005	08-01-2005	15-01-2005	22-01-2005
Rice	2.45	-0.5	2.5	2.6	2.0	2.4
Wheat	1.38	6.3	-1.1	-1.3	-1.1	-1.5
Jowar	0.22	0.1	10.6	7.9	6.4	4.8
Bajra	0.11	-20.3	19.0	13.1	21.2	18.8

Months	2003	2004
January	4.1	5.1
February	5.1	5.2
March	5.1	4.5
April	2.3	1.4
May	3.7	4.4
June	4.7	5.4
July	5.4	5.2
August	4.9	4.7
September	5.5	7.0
October	7.1	5.7
November	NA	9.4
December	8.2	8.5

Source: Department of Food and Civil Supply.

started to decline from November 2004 (Table 5.10).

5.30 In contrast to high inflation (40.7 per cent) of wholesale prices of potato as on January 22, 2005 retail prices of potato remained moderate. On January 22, 2005 retail prices of potato per kilogram in four metropolitan cities (Chennai, Delhi, Kolkata and Mumbai) ranged between Rs.3 in Kolkata and Rs.7.50 in Mumbai. Retail prices were higher a year ago in these cities except in Delhi indicating that retail margins for potato might have declined.

Tea

5.31 Lower levels of production coupled with sustained exports of tea in the current year put pressure on tea prices. Production of tea in April-October 2004 at 623 million kgs was significantly lower than 653 million kgs produced in April-October 2003 (Table 5.11).

According to the Tea Board, exports of tea in April-October 2004 amounted to 104 million kgs compared to 102 million kgs in April-October 2003.

5.32 Retail prices of loose tea in metropolitan cities were more or less stable during the last five years. This year prices are recovering from the low levels. In general, there has been an increasing trend of average auction prices at all centres. Annual WPI inflation as on January 22, 2005 was 11.3 per cent compared to negative inflation (-7 per cent) a year ago.

5.33 The Government is working on a relief package to boost the tea industry, which has been languishing due to low productivity and non-remunerative prices. However, it is a medium term programme whose impact would be felt only after some time lag.

Sugar and gur

5.34 Production of sugar had been consistently higher than domestic consumption between 1999-2000 and 2002-03. Consequently, the sugar industry faced the problem of surplus stocks and near stagnant sugar prices.

5.35 With carry over stock of 116.16 lakh tonnes from the 2002-03 sugar season, total availability of sugar during sugar year (October to September) 2003-04 amounted to 261.27 lakh tonnes as against consumption requirement of 175 lakh tonnes and export of 2.94 lakh tonnes.

5.36 In view of high carry forward stocks of sugar, decline in sugar prices in the open market and high cane price arrears,

Year	Production	Exports		Imports		Domestic consumption
		Quantity	Value	Quantity	Value	
1998-99	855	206	2192	8.9	65	620
1999-00	835	192	1933	10.4	62	638
2000-01	848	204	1890	15.2	95	658
2001-02	847	190	1696	16.0	83	678
2002-03	838	184	1665	19.7	91	698
2003-04	850	180	1553	8.3	51	719
Apr-Oct 2004	623	104	905	19.1	82	...
Apr-Oct 2003	653	102	975	5.0	32	...

Source : Ministry of Commerce and Industry.

Government decided to create a buffer stock of 20 lakh tonnes of sugar for a period of one year with effect from December 18, 2002. In view of the persistence of the problem, Government extended the period of maintenance of buffer stock of sugar by one more year beyond December 17, 2003.

5.37 Area sown under sugarcane during kharif 2004 declined to 39 lakh hectares from 46 lakh hectares in kharif 2003. Production of sugar in sugar year 2003-04 is estimated at 137.3 lakh tonnes compared to 201 lakh tonnes in 2002-03. Sugar production is projected to be only 125 lakh tonnes in sugar year 2004-05. The shortfall of production is due to drought in major sugar producing states like Maharashtra, Andhra Pradesh and Karnataka. Lower anticipated production and an increase in the statutory minimum price (SMP) of sugarcane from Rs.73 per quintal to Rs.74.50 per quintal for the sugar season 2004-2005 have put pressure on prices of both sugar and gur.

5.38 Carryover stock from previous sugar season 2003-2004 (Oct-Sept) was 8.5 million tonnes. With anticipated import of sugar at 1.43 million tonnes, the total availability of sugar for the current sugar season is expected to be 22.43 million tonnes. Domestic consumption of sugar is expected to be 18 million tonnes, which will leave a stock of 4.43 million tonnes at the end of the current sugar season.

5.39 Taking into account the rising trend in prices, Government has been releasing higher free sale quota of sugar every month. For the quarter October-December 2004, Government released 40 lakh tonnes of free sale sugar quota. For the next quarter January-March 2005, a total of 40.45 lakh tonnes of sugar (both free sale and levy quota) have been released. In addition to this, another 4 lakh tonnes have also been announced for release for this quarter.

5.40 The retail prices of sugar indicate a steady increase during the last two months. On January 25, 2005, retail prices of sugar in four metropolitan cities ranged between Rs18.50 and Rs. 20.50 per kg.

Edible oils

Production, demand and imports

5.41 In recent years, edible oils demand of around 9 to 10 million tonnes has exceeded domestic production of around 5 to 6 million tonnes leading to heavy dependence on imports. Oilseeds production attained a record level of 25.1 million tonnes in 2003-04, and improved domestic production of oil to over 7 million tonnes in 2003-04 (Table 5.12). Kharif production of oilseeds in 2004-05, estimated at 15.4 million tonnes exceeds the preceding year's estimate of 15 million tonnes. The current rabi acreage under oilseeds also exceeds last year's sown area. As a result, production of oilseeds in 2004-05 is expected to exceed last year's record level.

Year	Production of oilseeds	Net domestic availability of oils
1998-99	24.8	6.96
1999-00	20.7	6.01
2000-01	18.4	5.50
2001-02	20.7	6.20
2002-03	15.1	4.73
2003-04	25.1	7.08

5.42 Import of edible oils has been in the range of 4 to 5 million tonnes in recent years, accounting for almost 50 per cent of domestic requirement (Table 5.13). The import of edible oils in 2003-04 oil year (November-October) at 4.4 million tonnes was lower than 5.1 million tonnes imported in 2002-03, on account of

	Quantity (million tonnes)		Percentage share	
	2002-03	2003-04	2002-03	2003-04
	Nov.-Oct.			
Palm oil	3.8	3.4	74	78
Soft oil	1.3	1.0	26	22
Total	5.1	4.4	100	100
Refined oil	0.3	0.8	7	18
Crude oil	4.8	3.6	93	82

higher domestic production of edible oils coupled with high international prices. Palm oil accounted for over 70 per cent of total edible oils imports in recent years, while other edible oils (mainly soyabean, sunflower and rapeseed oil) accounted for the remaining 30 per cent.

Customs duty & tariff value

5.43 Imports of edible oils are subject to differential customs duty ranging from 45 per cent to 90 per cent (Table 5.14). In order to check under-invoicing of edible oil imports, Government had fixed tariff values on import of certain edible oils with effect from August 3, 2001. Since then, tariff values on these oils have been revised from time to time. In order to contain rising prices of edible oils, the Department of Revenue vide Notification No.105/2004-Customs (NT) dated September 15, 2004, reduced tariff values of crude palm oil and its fractions and of crude soyabean oil by 10 per cent from their previous tariff values. The Department of Revenue again reduced tariff values for crude palm oils and other palm oils while increasing import duties on these oils with effect from February 15, 2005 to take care of interest of both the farmers and the consumers.

Domestic and international prices of edible oils

5.44 The domestic prices of edible oils, after remaining high in 2003 as compared to 2002, softened in 2004. Record production of oilseeds, combined with softening of international prices, had a sobering impact on domestic prices of edible oils during 2004.

Table 5.14 : Present custom duty structure of crude and refined edible oils

(in per cent)

Item	WTO binding	Current rates on crude edible oils	Current rates on refined edible oils
Soyabean oil	45	45	45
Palmolein	300	80	90
Palm oil	300	80	90
Groundnut oil	300	75	85
Sunflower/ Safflower oil	300	75	85
Coconut oil	300	75	85
Rapeseed/ Mustard oil	75	75	75
Other oils	120/300	75	85

International prices of edible oils, after remaining high in 2003, softened in 2004 (since the second half of 2004) with the US Department of Agriculture forecast of a record world oilseeds output of 379.1 million tonnes in 2004-05, up 43.2 million tonnes from 335.9 million tonnes for 2003-04. A significant part of the global production increase would come from soyabean. All the three major producers -the US, Brazil and Argentina - were forecast to harvest record soyabean crop, with higher acreage driven by attractive prices in 2003-04.

5.45 The subdued outlook for the international prices of edible oils in the coming months combined with good prospects for domestic oilseeds crop in 2004-05 is expected to keep the domestic prices of edible oils at a moderate level in the coming months.