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Effects of Indian import duty rise 'minor'

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THE favourable long-term outlook of palm oil is expected to neutralise the bearish influence emerging from India's move to raise import duty on refined palm oil, traders said.

India, the world's biggest consumer of edible oils at 10 million tonnes a year, on Thursday raised its import duty on refined palm oil to 75 per cent from 70 per cent.

India, however, maintained import duty on crude palm oil (CPO) at 65 per cent. Its Finance Minister, P. Chidambaram, made the announcement during a recent federal budget speech.

Malaysian Palm Oil Association chief executive M.R. Chandran said any downward pressure on prices as a result of that will be short-term and minor.

"India's action in increasing import duty on refined palm oil was expected since the new Government won the election on the mass rural support.

"However, a host of bullish fundamentals should exert considerable upward pressure on prices in the coming months and the current volatility in the market is only temporary," Chandran told Business Times in Kuala Lumpur yesterday.

"Among the positive factors are China's unwavering demand for edible oils, low domestic inventories of edible oils, widening use of palm oil in the European Union (EU) and improving demand from the US due to health reasons," he added.

On Bursa Malaysia Derivatives Bhd yesterday, CPO prices reacted slightly with spot month July easing 0.4 per cent, or RM6, to settle at RM1,479 a tonne.

Chandran expects China's demand to remain stable despite expectations of its economy heading for a rough landing.

India's per capita consumption of oils and fats is around 5kg less than China and 9kg less than the world's average of 20kg.

"Indian traders are likely to begin heavy imports of palm oil in the next three to four months, especially with the festival seasons around the corner, despite higher domestic production expectations."

Chandran said there is also a widening use of palm oil in the EU given its concerns on genetically-modified soya and corn, and switching of tallows to vegetable oils in industrial manufacturing. "There is also an improving demand from the US due to its search for trans-free fats in view of the coming into force of food labelling by 2006."

India in the past had given its undertaking to review the high duties it had imposed on imports of the commodity with a view of not to burden Malaysia. This pledge was made by its former Prime Minister Atal Bihari Vajpayee during bilateral talks with Malaysia's former Prime Minister Tun Dr Mahathir Mohamad in Kuala Lumpur in May 2001.

India imposed its heaviest-ever import duty of 75 per cent on CPO and 85 per cent on refined palm oil in February 2001 to stem imports and protect the local industry.

This compares with 45 per cent on rival soyabean oil.

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