



Ban on Export of Sugar

For Prelims: Sugar, Retail inflation rate, wholesale inflation, agri-cess on crude palm oil, soyabean oil, crude sunflower oil, wheat exports, AIDC

For Mains: Rising Inflation and issues, Growth & Development, Government Steps to Tackle Inflation

Why in News?

Recently, the government announced **curbs on exports of sugar**.

- Also, to **provide required relief to consumers**, customs duty and **Agriculture Infrastructure Development Cess (AIDC)** on 20 Lakh metric tonnes yearly import of crude soyabean and sunflower oil was exempted for two financial years (2022-23 and 2023-24).
- The exemption of import duties will **help cool domestic prices and control inflation**.

What is the Agriculture Infrastructure Development Cess?

- Cess is a kind of **special-purpose tax** which is levied over and above basic tax rates.
- The purpose of the new AIDC is to **raise funds to finance spending on developing agriculture infrastructure**.
- The AIDC is **proposed to be used to improve agricultural infrastructure** aimed at not only boosting production but also in helping conserve and process farm output efficiently.

What are the Reasons for the Decisions taken?

- **Ban on Sugar Export:**
 - **Reason:**
 - These steps were taken to **maintain “domestic availability and price stability of sugar”**.
 - The decision was in the wake of **“unprecedented growth in exports of sugar”** and the **need to maintain sufficient stock of sugar** in the country.
 - It is for the **first time in six years** that the Centre is regulating sugar exports.
 - **Exemption:**
 - Sugar mills and traders who have **specific permissions from the government will only be able to export sugar** (including raw, refined and white sugar) till 31st October, 2022 or until further orders.
 - Additionally, the **restriction is not applicable for exports to the [European Union \(EU\)](#) and the United States**.
- **Duty-Free Import of Edible Oil:**
 - It was announced in the **wake of a [surge in edible oil prices in India](#)**.

- **India is one of the world's largest vegetable oil importers** and relies on imports for 60% of its needs.
- Meanwhile, after [Russia's invasion of Ukraine](#), edible oil prices have shot up significantly.
 - **Sunflower oil is imported into India** majorly from Ukraine and Russia.
- In February 2022, [agri-cess on crude palm oil](#) was reduced to 5% with effect from the earlier 7.5%.
- **To Contain Severe Inflationary Pressures:**
 - These steps were taken in **view of the government's efforts to contain severe inflationary pressures**, with prices of food, fuels and crop nutrients soaring.
 - [Retail inflation rate](#) had surged to an **eight-year high of 7.79% in April 2022** while wholesale inflation has been in **double digits for 13 consecutive months**.
 - Retail edible oil inflation **remained at 20-35% level** all through 2021, with the latest print for inflation rate for oils and fats recorded at 17.28% for April 2022.

What are the other Steps taken to Contain Inflationary Pressures?

- **By India:**
 - **Cuts Tax on Petrol and Diesel:**
 - The Centre **announced tax cuts on petrol, diesel, coking coal**, and raw materials for making steel over the weekend as part of its efforts to cool mounting inflationary pressure.
 - The **cut in fuel taxes could help reduce inflation directly by around 20 basis points** in June 2022 when its full impact will be visible.
 - **Reduction in Repo Rate:**
 - The [Reserve Bank of India](#) while [reducing the repo rate by 40 bps](#) in an out-of-turn [monetary policy](#) meeting in May, 2022 had expressed concern over high food and fuel prices feeding into inflation.
 - **Ban on Wheat Export:**
 - Earlier, the government decided to ban [wheat exports](#).
 - **India is the world's second-biggest wheat producer**, and it chooses to ban export to **protect food security** for its mammoth population despite inflation concerns.
- **In Asia:**
 - [Indonesia's ban on Palm Oil Exports:](#)
 - Indonesia, the **world's biggest producer, exporter, and consumer of palm oil**, has announced that it would be banning all exports of the commodity and its raw materials to reduce domestic shortages of cooking oil and bring down its rising prices.
 - **Malaysia Halting Chicken Sales Abroad:**
 - Malaysia will halt exports of 3.6 million chickens a month from June 1 and scrap the approved permit requirement for importing wheat until production and prices stabilize.

What is the Role of India as a Sugar Exporter?

- India is the **biggest producer of sugar in the world and the second largest exporter after Brazil**.
 - The move comes in a year when the country is set to register its highest-ever exports.
- About **82 lakh MT sugar has been dispatched from sugar mills** for export and approximately 78 lakh MT have been exported.
 - Export of sugar in the current sugar season 2021-22 is at its historic high.
- The **closing stock of sugar at the end of sugar season remains 60-65 lakh MT** which is equivalent to about three months' stocks required for domestic use.

What about the Edible Oil Economy in India?

- There are two major features which have **significantly contributed to the development of**

this sector.

- One was the setting up of the **Technology Mission on Oilseeds in 1986** which was converted into a **National Mission on Oilseeds and Oil Palm (NMOOP) in 2014**.
 - Further it was merged with [NFSM \(National Food Security Mission\)](#).
 - This gave a thrust to **Government's efforts for augmenting the production of oilseeds**.
- The **other dominant feature which has had significant impact** on the present status of edible oilseeds/oil industry has been the **program of liberalization under which the Government's economic policy allows greater freedom** to the open market and encourages healthy competition and self regulation rather than protection and control.
- The **Yellow Revolution is one of the color revolutions** that was launched to increase the production of Edible oilseeds in the country to meet domestic demand.
- The government has also launched the [Kharif Strategy 2021 for oilseeds](#).
 - It will bring an **additional 6.37 lakh hectare area** under oilseeds and is likely to produce 120.26 lakh quintals of oilseeds and edible oil amounting to 24.36 lakh quintals.
- **Edible Oils Commonly Used in India:** The major edible oils consumed in the country are mustard, soyabean, groundnut, sunflower sesame oil, niger seed, safflower seed, castor, and linseed (primary source) and coconut, palm oil, cottonseed, rice bran, solvent extracted oil, tree and forest origin oil.

Way Forward

- While this decision will have a moderating influence on price pressures in the economy, the worry is that **inflation has become entrenched and is likely to remain above the RBI's medium-term inflation target of 2-6%**.
- There should be **consistency in import policy as that sends appropriate market signals in advance**. Intervening through import tariffs is better than quotas which leads to greater welfare loss.
- This also calls for more accurate crop forecasts using satellite remote sensing and [Geographical Information System\(GIS\) techniques](#) to indicate shortfall/surplus in a crop year much in advance.

UPSC Civil Services Examination, Previous Year Questions

Q. A rise in general level of prices may be caused by (2013)

1. an increase in the money supply
2. a decrease in the aggregate level of output
3. an increase in the effective demand

Select the correct answer using the codes given below:

- (a) 1 only
(b) 1 and 2 only
(c) 2 and 3 only
(d) 1, 2 and 3

Ans: (d)

Exp:

- Inflation is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over a period of time.
- It is the constant rise in the general level of prices where a unit of currency buys less than it did in prior periods. Often expressed as a percentage, inflation indicates a decrease in the purchasing power of a nation's currency.
- Types of Inflation: Demand-Pull inflation, Cost-Push inflation and Built-in inflation.
- The Consumer Price Index (CPI) and the Wholesale Price Index (WPI) are the most commonly used

inflation indices.

▪ **Causes of Inflation:**

- Overall increase in demand for goods and services more rapidly than the production capacity in an economy. In such a situation, there occurs a decrease in the aggregate level of output which results in inflation. Hence, statement 2 is correct.
- A demand-supply gap with higher demand and lower supply increases the effective demand, which resultantly contributes in rise in the general price level. Hence, statement 3 is correct.
- An increase in the money supply also contributes to rise in the general price level. The reason is that with an increase in the money supply, there occurs a situation where more money chases the same number of goods. Therefore, the increase in monetary supply causes firms to put the prices up. Hence, statement 1 is correct.
- An increase in the prices of production process inputs also contributes in inflation.
- Increased wages result in higher cost of goods and services due to rise in prices of goods and services. Therefore, option (d) is the correct answer.

Q. Which one of the following is likely to be the most inflationary in its effect? (2013)

- (a) Repayment of public debt
- (b) Borrowing from the public to finance a budget deficit
- (c) Borrowing from banks to finance a budget deficit
- (d) Creating new money to finance a budget deficit

Ans: (d)

Exp:

- The rate of inflation depends on the rate of growth of the money supply in an economy.
- Creating new money to finance budget deficit would result in increase in money supply and is likely to be the most inflationary in its effect. Therefore, option (d) is the correct answer.

Q. Consider the following statements: (2013)

1. Inflation benefits the debtors.
2. Inflation benefits the bondholders.

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Ans: (a)

Exp:

- **Inflation:** It is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over a period of time. It is the constant rise in the general level of prices where a unit of currency buys less than it did in prior periods. Often expressed as a percentage, inflation indicates a decrease in the purchasing power of a nation's currency.
- **Impact of Inflation on Debtor:** During periods of rising prices, debtors gain. When prices rise, the value of money falls. Though debtors return the same amount of money, but they pay less in terms of goods and services. This is because the value of money is less than when they borrowed the money. Hence, statement 1 is correct.
- **Impact of Inflation on Bond Holder:** Inflation reduces the purchasing power of each interest payment a bond makes. Thus, inflation impacts negatively the bond holder. Hence, statement 2 is not correct. Therefore, option (a) is the correct answer.

Q. With reference to inflation in India, which of the following statements is correct? (2015)

- (a) Controlling the inflation in India is the responsibility of the Government of India only
- (b) The Reserve Bank of India has no role in controlling the inflation
- (c) Decreased money circulation helps in controlling the inflation
- (d) Increased money circulation helps in controlling the inflation

Ans: (c)

Exp:

- Controlling of inflation is the responsibility of both the GoI and the RBI. z Decreased money supply helps in controlling inflation as people have less money to spend. z Increased money supply does not help in controlling the inflation, rather it increases inflation. Therefore, option (c) is the correct answer.

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