



Enhancing Zimbabwe's Global Competitiveness

ANALYSIS OF COOKING OIL PRICE MOVEMENTS

JULY 2021 - FEBRUARY 2022

22 FEBRUARY 2022

1.0 BACKGROUND

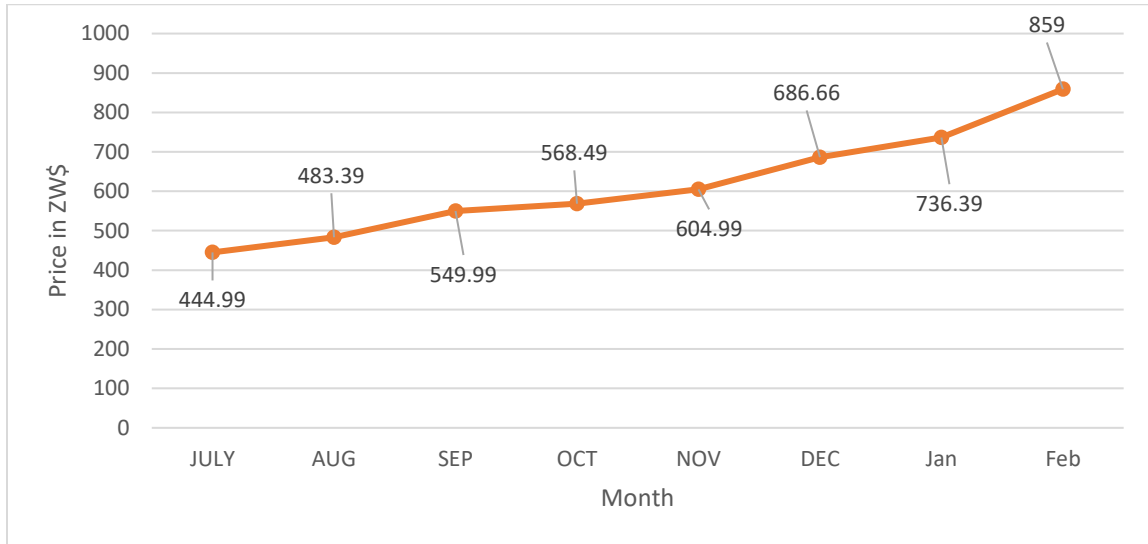
- 1.1 The Ministry of Industry and Commerce tasked the National Competitiveness Commission (NCC) to conduct a survey to explore factors contributing to the sharp increase in cooking oil prices over the last quarter of 2021 and the beginning of year 2022. To this end, NCC together with OPC and Ministry officials held company visits to two cooking oil manufacturing companies on 17 February 2022, namely Surface Wilmar private limited, and ZIMGOLD private limited.
- 1.2 Furthermore, NCC held discussion with Mr. B. Moyo, Chief Executive Officer of United Refineries Limited and Chair of the Oil Expressors Association of Zimbabwe. The meetings deliberated on the cost drivers and factors impeding on the competitiveness of the cooking oil manufacturing industry.
- 1.3 Cooking oil is one of the basic commodities, which forms the base of every household's consumption basket. It also forms the base of raw materials in the catering services industry. Increases in the cost of cooking oil thus tend to have significant welfare impacts as well as induce increases in the prices of other foodstuffs. Cooking oil is largely produced from edible crude oil that is being imported from outside the country, given that the country is not producing adequate soyabean. The annual production is only enough for one-month requirements of cooking oil production, hence the importation of edible crude
- 1.4 As a result, the cost of cooking oil is thus partly dependent on the import cost of edible crude oil and production costs in the local market. To this end, Zimbabwe is a price taker of edible crude oil. This entails that, any price shocks on edible crude oil in international source markets (Argentina, Brazil) are therefore imported into the local market as an exogenous factor. However, changes in the local costs of overheads incurred by oil expressors have also a significant bearing on the final price of cooking oil.

2.0 OVERVIEW OF COOKING OIL PRICE MOVEMENTS IN ZIMBABWE

- 2.1 The 2 liters (L) cooking oil prices in Zimbabwe has been increasing from July 2021 to February 2022, rising from ZWL444.99 to ZWL859.00, respectively. The rapid increase in price over the last quarter of 2021 and the beginning of 2022 has raised an alarm and is contributing much to food inflation and to the general annual inflation, which is currently at 60.6% as January 2022.

2.2 Figure 1 below, depicts that the average 2L bottle cooking oil prices have been on an upward trend over the period under review.

Figure 1: Cooking Oil Price Movements, July 2021 - February 2022

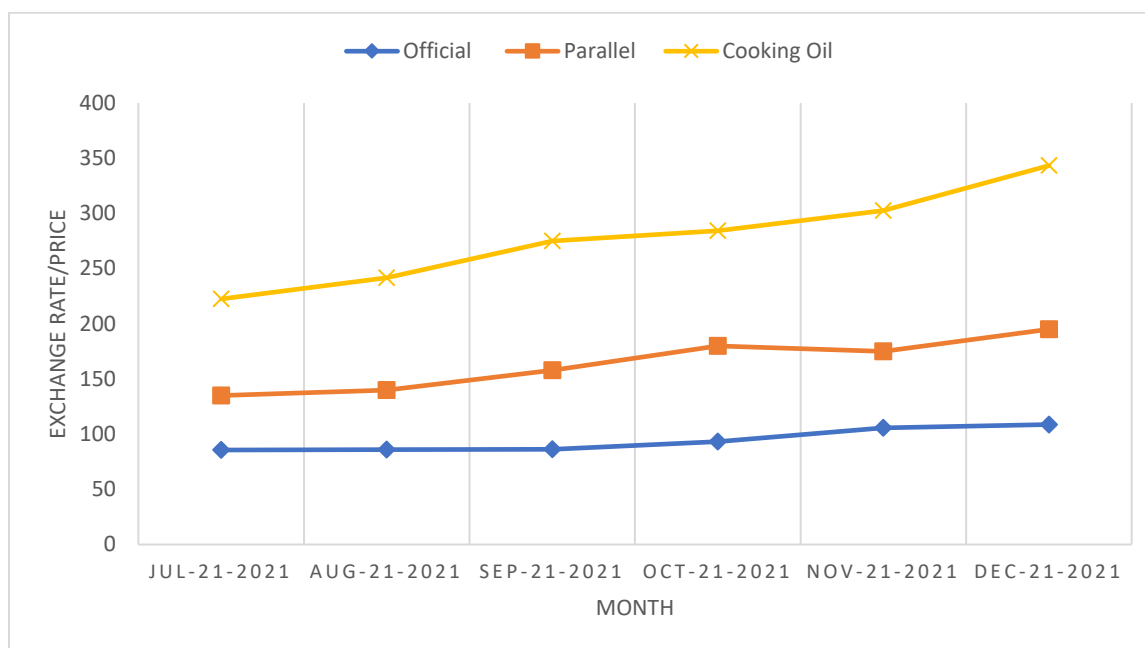


Source: Price Surveys Data, Ministry of Industry and Commerce

2.3 Figure 3 explores the correlation between cooking oil prices, official and parallel market exchange rates for the period July to December 2021.

2.4 It is notable that the trends in prices of cooking oil mirror trends in the parallel market exchange rate depicting a strong influence of the parallel market exchange rate in the pricing model of the cooking oil manufacturing industry.

Figure 3: Official and Parallel Exchange Rates, and Cooking Oil Price Trends, July - December 2022



Source: Ministry of Industry and Commerce & RBZ

3.0 REGIONAL COMPARISON OF COOKING OIL PRICES

3.1 Notwithstanding the above, it is important to benchmark oil prices with other countries and reflect on the peculiarities of country circumstance that generate huge variances in cooking oil prices. The following table summarizes cooking oil prices per 2litre bottle obtaining in the region:

Table 2: Regional Cooking Oil Price Comparison, February 2022

Country	Price in Country Currency	Price in USD
Zimbabwe	ZW\$859	US\$6.93
South Africa	R45.95	US\$3.04
Zambia	ZK48	US\$2.68
Malawi	MK3500	US\$4.36
Kenya	KES616	US\$5.42

3.2 Table 2 shows that Zimbabwean cooking oil is the most expensive in the region at US\$6.93, using the prevailing auction rate as at 22 February 2022, followed by Malawi at US\$4.36 while the most competitive price is of Zambia at US\$2.68. However, using the alternative parallel exchange rate of US\$1: ZWL\$230, the USD equivalent price for the locally manufactured cooking oil will be US\$3.73, which is competitive to regional comparator countries suggesting that the price of cooking oil is being indexed to the parallel market exchange rate, despite the sector accessing forex on the Auction System. Thus, the observed variation in regional cooking oil prices is partly explained by use of an overvalued exchange rate

4.0 COST DRIVERS IN THE COOKING OIL INDUSTRY

4.1 The following cost drivers were highlighted, by cooking oil manufactures, as pertinent and causing the industry to frequently increase the price of cooking oil:

- International Crude/Soya bean oil cost/mt
- Delays in availing foreign currency to winning bids by the Central Bank
- Finance costs
- Refining costs
- Bottling costs
- Packaging costs

4.2 The breakdown of the industry`s cost drivers for the period between February 2019 and February 2022 is as depicted in Table 1.

Table 1: Cooking Oil Cost Drivers, February 2019 and February 2022

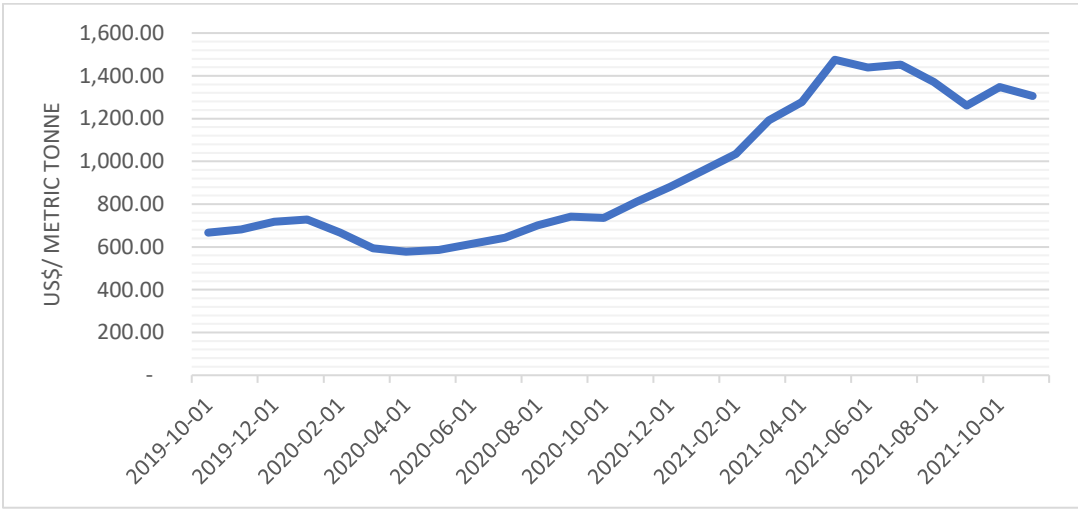
COST DRIVER	PERIOD			
	2019	% Contribution to total cost per 2litre bottle	2022	% Contribution to total cost per 2litre bottle
Crude oil cost/mt	850.00	74	1,750.00	73
Finance costs	2.48	0.25	175.00	7.3
Total crude oil	852.48	74	1,925.00	80
Refining costs	100.00	8.7	150.00	6.2
Bottling costs	60.00	5.2	120.00	5.0
Packaging costs	140.00	12.1	210.00	8.7
Total costs	1,152.48	- -	2,405.00	
Margin	172.87	15	360.75	15
Price per case (US\$)	19.28		40.23	
Price per 2l bottle (US\$)	2.41		5.03	
Price per 2l bottle at rate of 120	289.17		603.44	

4.3 Table 1 illustrates that the largest cost driver for cooking oil production is crude oil, which constituted 74 % and 73% contribution to total cost of 2litre bottle of cooking oil for the same period in 2019 and 2022, respectively. The firms, however, maintained about 15% profit margin over the period. It is also of interest to note that the contribution of the cost of capital increased from 0.25% to 7.3% over the period.

Edible crude oil

4.4 The industry highlighted that increase in international edible crude oil prices have been the major factors behind the upsurge in cooking oil prices. Price shocks on edible crude oil in source markets are therefore imported into the local market as an exogenous factor. Figure 2 depicts trends in international Soya Bean Oil Price Movements, October 2019 - November 2021 in US\$ per metric tonne.

Figure 2: International Soya Bean Oil Price Movements, October 2019 – November 2021



source: FRED Economic Data 2022

4.5 There has been a continuous increase in international soya bean oil prices from US\$ 585.39 per Metric tonne in May 2020 to US\$ 1451.68 per Metric ton in July 2021 after which a downward fluctuation to a minimum of US\$1305.90 was recorded in November 2021 as indicated in Figure 2. The graph also indicates that Global cooking oil prices declined between May and September 2021. Global Soya bean oil prices fell from US\$ 1451.68 per Metric tonne from July 2021 to US\$ 1261.38 per Metric tonne in September 2021. However, there was no corresponding reduction in the cooking oil prices to match the fall in international soya bean oil prices. The local cooking oil prices actually rose from \$ZWL 444.99 to \$ZWL 549.99 per 2litre bottle over the same period and continued on an upward trend contradicting to the industry’s purported positive correlation between international crude soya bean oil and local cooking oil prices.

Freight Charges

4.6 Due to the Covid 19 supply chain disruptions and the attendant lockdowns, the cost of international freight has gone up by at least 250% over the period from January 2020 to January 2022. to this end, the local cooking oil manufacturers are price takers, and these increases are being passed on to consumer in the form of rising prices for cooking oil.

Foreign Currency Auction

- 4.7 The cooking oil manufacturers requires US\$ 15 Million per Month to import edible crude oil to produce cooking oil. In 2021, the industry received US\$10 million representing 5.6% of their annual total requirements. This situation is also exacerbated by delays averaging 2 – 3 weeks in availing of foreign currency to winning bids at the auction by the Central Bank, forcing cooking oil manufacturers to rely much on accessing foreign currency for operations from the parallel market at higher premiums as well US\$ sales of cooking oil.
- 4.8 The industry players indicated that the RBZ is now preferring to allocate foreign currency to non-productive sectors at the expense of the productive sector. They expressed that the effects of middlemen on the auction who are accessing forex, importing crude oil and selling to the industry at a premium is creating arbitrage profit, which is passed on to consumers as higher prices in basic cooking oil products.

Interest Rates

- 4.9 High interest rates of close to 60% are also major costs impacting on the price of cooking oil. The situation is worsened by the impact of auction funds that are tied up for up to 3 months without disbursement. The increase in working capital requirement is met by borrowing from the commercial banks, and the cost is consequently passed on to the final consumer.
- 4.10 An overview analysis of the entire cooking oil production value chain indicates that cooking oil prices are high in Zimbabwe due to over reliance on crude oil imports and poor output of oil crushing seeds. The following are the major value chain challenges posing debilitating effects on the production of cooking oil:
- High interest rates for contracted farmers are around 40%;
 - Fertilizers in Zimbabwe cost 20-30% more than regional peers. Malawi, Zambia, and South Africa;
 - Erratic electricity supply that reduces ability to increase yields, which drives up the cost per tonne and;
 - The arbitrage in the macroeconomic environment that is increasing the cost of herbicides and other additives.

5.0 GOVERNMENT SUPPORT AND POLICIES

5.1 The Government is supporting the cooking oil value chain with a view to enhance self-sustenance and competitiveness of the sector. Some of the policies or support measures include the following, among others:

Zero-Rating of Crude Oil

- 5.2 In order to encourage local value addition in view of the limited capacity by local farmers, as well as enhance affordability of cooking oil, Soya Crude oil is zero-rated for VAT purposes.
- 5.3 Furthermore, crude oil attracts modest rates of customs duty of 5%, which is lower than the 10% levied in South Africa and Botswana.
- 5.4 It is also important to note that crude oil is in the non-sensitive (Category A) under Zimbabwe's AfCFTA Tariff Liberalization offer, meaning the 5% tariff will be immediately eliminated.

VAT Zero-Rating of Cooking Oil

- 5.5 In order to ensure affordability, cooking oil is zero-rated for VAT purposes. Soya bean is, however, now vatable, after being zero-rated for the period February 2009 and July 2012. This was after farmers continued to operate on the assumption that soya bean was zero rated for VAT purposes. As a result, no VAT was collected on sales of the commodity. The measure was meant to support the continued cultivation of soya bean, which is a critical input in the production of cooking oil and stock feeds through provision of relief to farmers.

Duties on Cooking Oil

- 5.6 Cooking oil attracts punitive rates of duty at 40% or US\$0.50 per litre plus surtax of 25%. This is meant to level the playing field between imported and locally produced cooking oil as well as discourage importation of the same.

6.0 RECOMMENDATIONS FROM INDUSTRY

6.1 The industry suggested the following recommendations for the Government to resolve the crisis:

- Return import permits for crude oil imports to remove middlemen from the value chain, and only support established manufacturing companies;
- Introduce interest incentives for productive sector;
- Prioritize productive sector with auction foreign currency allocation to increase volumes, which in turn will drive down unit costs of production; and
- Enhanced engagement between Government through Ministry of industry and Commerce with industry players in order to dialogue on issues affecting the sub sector so that they can take an active role of influencing monetary and fiscal policy regarding operational issues, particularly the auction system.

7.0 NCC RECOMMENDATIONS

7.1 In-order to ensure viability of the industry and at the same time ensuring availability and affordability of cooking oil by consumers, NCC proffers the following recommendations for consideration:

- NCC to conduct a cooking oil value chain analysis to unearth the factors impeding on the competitiveness of the cooking oil industry;
- Ministry of Industry and Commerce to recommend companies, with established manufacturing plants to be allocated foreign currency from the auction system as opposed to the re-introduction of import permits, which is viewed as an additional regulatory cost. This measure will remove middle man in the importation of edible crude oil;
- The oil expressors should take advantage of the Rules of Origin for cooking oil, which are yet to be agreed under the AfCFTA and propose rules of origin that promote local productivity and enhance competitiveness of the sector;

- The existence of a positive correlation between cooking oil prices and the parallel exchange rate calls on the importance to reflect on drivers of the parallel market exchange rates to proffer effective policy interventions; and
- Blending of forex exchange rates to derive the market price for cooking oil is a major cause of the positive correlation between the cooking oil prices and the parallel exchange rate. To this end, there is need for the Ministry of Industry and Commerce to lobby and play a critical role in the allocation of foreign currency to the cooking oil manufacturing industry.
- Government to upgrade efforts in promoting local production of oil crushing seeds such as soya bean and sunflower, which has been reported to contain more oil than other seeds. Other countries such as Zambia produces a large proportion of soya bean for the manufacture of cooking oil, hence has the lowest cooking oil prices in the region as alluded above.
- VAT zero rating on Soya bean and investment in irrigation infrastructure to promote local production is also critical.

8.0 CONCLUSION

- 8.1 The National Development Strategy 1 (NDS1) recognizes soya bean as a strategic crop due to its multiple use and value as a food, cash, industrial raw material and soil-improving crop. Soyabean crop is used as an affordable source of protein for livestock feeds. It is also used in making cooking oil, margarine, soya chunks, soap, milk to name a few. In the SADC region, countries with Soya production potential are South Africa, Zimbabwe, Zambia, Democratic Republic of Congo, Malawi and Madagascar.
- 8.2 Cognizant of this, the Commission is looking forward to conducting a benchmarked soyabean to cooking oil value chain analysis aimed at outlining the main competitiveness challenges facing the sector in Zimbabwe and proffer policy responses to deal with the challenges that would have been identified.
- 8.3 It is critical to note that improving the performance of the value chain is key in underpinning the country's food and nutrition security, import substitution and generation of jobs.

NATIONAL COMPETITIVENESS COMMISSION

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