

Economics of edible oils

While there has been a lot of focus on the rising crude oil price with Brent crossing \$ 120/barrel once again, which is not good news for India as the retail prices of petrol and diesel have also been increased, another concern is on the edible oils front. India imports around 60% of vegetable oil requirements and their prices have been increasing since 2021. This has contributed significantly to food inflation with CPI inflation for oils and fats being 16.4% for February and WPI inflation for vegetable and animal fats being 14.9%. With Ukraine being an important producer of sunflower oil, disruptions in production has already had an impact on prices as dealers work on substituting with other oils. High inflation in edible oils has potential to have a secondary impact on the user industries. Most of the user industries have already had one round of price increases due to rising prices of wheat, oils, sugar, spices, etc. they would have to go in for a second round of price increase if this situation persists for a longer period of time.

The table below gives the total imports of vegetable oils in the oil years from 2015-16 to 2020-21.

Table 1: Import of vegetable oils (oil year Nov-Oct)

Nov-Oct	Lakh t	Rs crore	Average Rs/tonnes
2015-16	145.7	69,870	47,955
2016-17	150.8	75,125	49,818
2017-18	145.1	66,942	46,135
2018-19	149.1	62,933	42,209
2019-20	131.8	71,625	54,344
2020-21	131.3	1,17,075	89,166

SEA of India and BOB Research

The interesting points that emerge from the table above is that total imports have been fairly volatile with no clear trend. The sharp fall in 2019-20 was due to the lockdown which affected the demand from bulk users such as hospitality, offices, airports etc. Subsequently there has been a marginal decline in 2020-21 which may be attributed more to higher domestic production which has helped to lower demand for imports after the opening of the economy. Production had increased from 10.7 mn tonnes in FY20 (fiscal year) to 11.3 mn tonnes in FY21.

However, in 2020-21 while imports declined by 0.3%, there was a sharp increase in the average price of imported oils by 64%. USDA data shows that overall supply of major vegetable oils declined marginally from 207.21 mn tonnes in 2019-20 to 206.48 mn tonnes in 2020-21. However, it is expected that supplies will increase in 2021-22 to 211.44 mn tonnes. Clearly it is a case of supply falling short of revival in demand with normalcy being reached post lockdowns and pandemic related issues across the globe.

The table below gives the profile of imports of vegetable oils by India in 2020-21.

Table 2: Import of vegetable oils in 2020-21

Oil	000 tonnes	Share
RBD Palmolein	686	5.2
Crude palm oil	7,491	57.0
Soybean oil	2,866	21.8
Sunflower	1,894	14.4
Others	195	1.5
Total	13,132	100.0

Source: SEA and BOB Research

As can be seen in the table over 93% of total imports consist of crude palm oil, soybean oil and sunflower oil. Disruption in supplies of sunflower oil from Ukraine will mean that we will have to import more from other countries or substitute the same with other oils. So far the preference has been for crude palm oil.

Where do imports originate from?

The table below gives the main suppliers of vegetable oils to India in 2020-21.

Table 3: Sources of Imports (%)

Country	Share in imports 2020-21 %
Indonesia	30.2
Malaysia	29.4
Thailand	3.3
Argentina	19.9
Ukraine	10.8
Russia	1.7
Others	1.7
Total	100.0

Source: SEA

Nearly 60% of our imports come from Indonesia and Malaysia with crude oil palm oil being the dominant product. Ukraine and Russia together accounted for 12.5% of total imports of vegetable oils in 2020-21. Ukraine exported 13.97 lakh tonnes and Russia 2.2 lakh tonnes of sunflower oil to India which accounts for 85% of total imports of this oil. Therefore the war driven disruption is a major challenge for us as sunflower oil accounts for 14.4% of total vegetable oil imports.

Is WPI inflation linked with production?

The table below gives WPI inflation for February 2022 for various oilseeds and juxtaposes the same with growth in production in FY22 (which is fiscal year as against the oil year which is referred to earlier). While overall production of oilseeds is to rise by 3.3%, decline in output is expected in groundnut, sesame, castor and niger seed (the last two are not edible). Inflation for groundnut seed is low even though production has fallen as it is not influenced by global prices since we do not import

groundnut oil. Hence there is reason to believe that higher prices of oils is being driven by global developments on the price front of vegetable oils which get embedded through the import route.

Table 4: WPI inflation and growth in production of important oilseeds

	Inflation Feb	Prod FY22
All commodities	13.1	n.a.
Oilseeds	22.9	3.3
Groundnut Seed	2.2	-3.7
Mustard Seed	21.1	12.2
Sesame	5.9	-13.3
Linseed	37.9	31.5
Castor Seed	25.5	-8.4
Niger Seed	25.7	-4.8
Safflower	23.9	11.1
Sunflower	13.1	16.6
Soybean	41.8	4.00

Source: Ministry of Agriculture (2nd advance estimate)

What all this means is that the supply disruptions of sunflower oil from Ukraine to India would necessitate substitution by other oils thus driving up demand for the same. It has been observed that WPI inflation of crude palm oil is 15.2% and soybean oil 15.6% for February. Given the demand emanating from India for higher imports of these two oils, the global market which is already under demand pressure will witness even further rise in prices. This in turn will keep inflation elevated for the consumers for another 3-4 months. The second round impact will be witnessed in the prices of products which use edible oils such as bakery, confectionery, catering and restaurants, processed foods etc.

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