

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.

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.com



For further details about this publication, please contact:
Economics Research Department

Bank of Baroda
+91 22 6698 5143
chief.economist@bankofbaroda.com