Indonesia’s palm oil crisis, and its implications for India

What is the issue?

The price controls and export curbs measures over palm oil by Indonesia owing to domestic shortages will have implications on India.

Why is Indonesia famous for Palm Oil?

- Indonesia is the world’s largest producer and exporter of Palm oil. It contributes almost 60% of the total global output.
- Palm oil production for 2021-22 (October-September) is around 45.5 million tonnes (mt).
- It is way ahead of the next bigger producer Malaysia (18.7 mt).
- Around 84% of global palm oil production comes from Indonesia and Malaysia.

Why there is domestic shortage for palm oil in Indonesia?

Supply disruptions in other cooking oils -

- **Sun flower oil -** Ukraine and Russia together account for nearly 80% of the global trade in sunflower oil.
- Russia’s invasion of Ukraine has resulted in port closures and exporters avoiding Black Sea shipping routes.
- Sanctions against Russia have further curtailed trade in sunflower oil, the world’s third most exported vegetable oil.
- **Soyabean oil -** Soyabean oil is facing supply issues due to dry weather in South America.
- The USDA has projected the combined soyabean output of Brazil, Argentina and Paraguay for 2021-22 to fall by 9.4% (the continent’s lowest harvest in six years).
- Such supply disruptions has in turn shifted the consumption towards palm oil.

Use of palm oil as a bio-fuel –

- Since 2020 Indonesian government has made 30% blending of diesel with palm oil mandatory as part of its plan to slash fossil fuel imports.
- Palm oil getting increasingly diverted for bio-diesel is leaving less quantity available, both for the domestic cooking oil and export market.
- Such diversion has become all the more attractive with Brent crude prices hardening ($127.98 per barrel) post the Ukrainian war.
- As a result prices of cooking oil spiraled from around 14,000 Indonesian rupiah (IDR) to 22,000 IDR per litre between March 2021 and March 2022.

What measures were taken by the government?

- **Price Control Measures -** As a result government has introduced price controls measures and curbs on shipments.

- Prices were fixed at 13,500 IDR to 14,000 IDR
- The price caps, however, led to the product disappearing from supermarket shelves
- Reports of hoarding and consumers standing in long queues for hours to get a pack or two.
- **Export Curbs -** The government made it compulsory for exporters to sell 30% of their planned shipments in the domestic market.
- However recently the Indonesian government lifted its retail price caps as well as domestic market sale obligation on exporters in lieu for a progressive tax on exports, linked to a reference price for CPO.

How will it impact India?

- India is the world's biggest vegetable oils importer.
- Out of its annual imports of 14-15 mt, the lion's share is of palm oil (8-9 mt), followed by soyabean (3-3.5 mt) and sunflower (2.5).
- Indonesia has been India's top supplier of palm oil although it was overtaken by Malaysia in 2021-22.
- However with restrictions on exports (in the form of levy) India will have to get used to lower supplies from Indonesia taking into cognizance Indonesia's higher population of 27.5 crore.
- Although import prices of edible oils have eased from their last month peaks, it is higher than one year back.
- That should provide some relief, both for households and industrial consumers (including soap and cosmetic makers) in India.
- Malaysia with a population of 3.25 crore is yet to fully implement even 20% palm oil admixture in diesel can be a meantime alternative for India .

Reference

1. https://indianexpress.com/article/explained/express-explained-indonesias-palm-oil-crisis-7858818/lite/

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