Edible oil industry has a dependency problem

Indonesia's ban on palm oil exports has refocused attention on the efficacy of the government's policy to boost domestic production

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Recently, a senior official with the government of Indonesia, the world's largest producer of palm oil, quelled market speculation by saying that the unprecedented ban on exports imposed in April will stay unless domestic prices fall below a fixed threshold. But given the policy flip-flops that Indonesia has made in the last couple of months on palm oil, the market was sceptical.

Volatile market movements in edible oils exposed, once again, India's well-known vulnerability to international conditions, something it will have to live with for many years to come unless drastic measures are taken.

These spikes are expected to get more acute as more and more edible oil is diverted to producing biofuels.

India first started importing edible oils in a big way in the 1990s. Since then, trade sources say that in the past 20 years (1990-91 to 2020-21), imports have more than doubled in volume terms. In value terms, imports rose from ₹7,000 crore to almost ₹117,000 crore in 2020-21.

In 2018-19, India imported its highest-ever volume of edible oils at 14.9 million tonnes.

"We have been saying for long that India has to reduce its dependency on imported edible oils or else we will remain exposed to such uncertain market behaviour hitting our consumers and farmers alike," B V Mehta, executive director of the Solvent Extractors' Association of India (SEA), said.

Mehta, who has closely tracked the sector for decades, said India needs concrete steps to boost domestic oilseeds production, something on the lines of a dedicated national oilseeds mission. In a recent paper, he also called for a technological breakthrough in seeds to boost productivity.

India imports 13-13.5 million tonnes of edible oils a year, of which 8-8.5 million tonnes (63 per cent) is palm oil. Of the 8-8.5 million tonnes of palm oil, 45-50 per cent comes from Indonesia and the rest from neighbouring Malaysia. The remaining is imported soya oil and sunflower oil.

According to an SEA assessment, India's domestic oilseeds production by 2025-26 at normal growth rate is projected to increase from current levels of 30 million tonnes to 38-40 million tonnes, and domestic vegetable oil production is projected to increase by 3 million tonnes to 12-13 million tonnes. Against this, India's consumption or demand for vegetable oils will be around 26 million tonnes (*see chart*). "This gap of about 12-13 million tonnes is expected to be bridged only through imports," the SEA said.

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To lower India's rising import dependency on edible oils, the government has been working on a multi-pronged strategy for some time. The cornerstone of this has been to announce a minimum support price (MSP) that is higher than that for cereals, and measures to improve the procurement of oilseeds at times when prices crash. To this programme, a renewed focus on expanding the area under oil palm cultivation and boosting the production of rice bran oils has been added.

A major drawback to most of these schemes is the lack of a strong procurement system and ready markets, which act as a sort of guarantee on investments made by farmers. Without this basic institutional base, experts said, the big switch from cereals and pulses to oilseeds is unlikely to happen.

Consider this. Between 2014-15 and 2020-21 (July to June), when the MSP of paddy (common) was raised almost 37 per cent, the acreage under the crop dipped only marginally — by around 2.5 per cent.

And when the MSP for wheat increased 36.2 per cent in the same period, there was a 10 per cent increase in its area under cultivation.

In contrast, in this same period, the area under soya bean cultivation increased nearly 10 per cent on the back of its MSP rising almost 51.5 per cent.

In other words, though higher MSPs may have encouraged farmers to grow more oilseeds along with pulses, there has been no simultaneous shift away from wheat and paddy.

In the past few years, for instance, India's pulses production has risen from just 14-15 million tonnes to 22-23 million tonnes, not just due to higher MSPs but also because of an assured procurement system by state agencies.

This year (2022-23) too, India's mustard seed production has jumped almost 30 per cent over last year as open market prices for oilseeds have been remunerative for farmers.

In terms of oilseeds, the performance of the much talked-about Pradhan Mantri Annadata Aay SanraksHan Abhiyan (PM-AASHA) — that lays down a framework for central intervention if oilseeds, pulses and coarse cereal pulses fall below MSP — has also not been up to the mark.

The Commission for Agricultural Costs and Prices (CACP), in a recent report, said there is an urgent need to review PM-AASHA and address the implementation issues.

It recommended forming a committee of central and state governments and the private sector to review the scheme and suggest changes to make it effective.

One major initiative recently announced to boost domestic edible oil production is revamping the oil palm mission with the objective of producing 2.8 million tonnes of palm oil locally by 2025-30. However, even if the mission succeeds, it will not be enough to significantly lower the import dependency.

At 2.8 million tonnes, by 2025-30, domestic palm oil production will still be less than 35 per cent of total imports at the current pace of growth. However, if the target is achieved, it will still make a significant contribution.

"Oil palm production did not pick up so far in the country despite being in place for the last several years as price volatility wasn't hedged for the growers," Sougata Niyogi, CEO, oil palm, Godrej Agrovet Limited, had told *Business Standard* some time back.

"Secondly," he added, "the incentive for the crop in terms of subsidy on seeds, fertilisers and so on was not passed on by the states. And finally, the sites chosen for oil palm cultivation weren't suitable." Godrej Agrovet is one of the biggest players in the domestic oil palm production market.

Ashish Khandelwal, managing director, BL Agro Ltd, one of the big domestic edible oil brands, said that for long-term self-sufficiency, we should have a duty structure that supports domestic oilseeds production. Also, prices of imported refined oil should not be less than domestic oils.

The third major way the government is looking to boost domestic edible oil availability is by raising rice bran oil production from the current 1.0-1.1 million tonnes a year to 1.8 million tonnes.

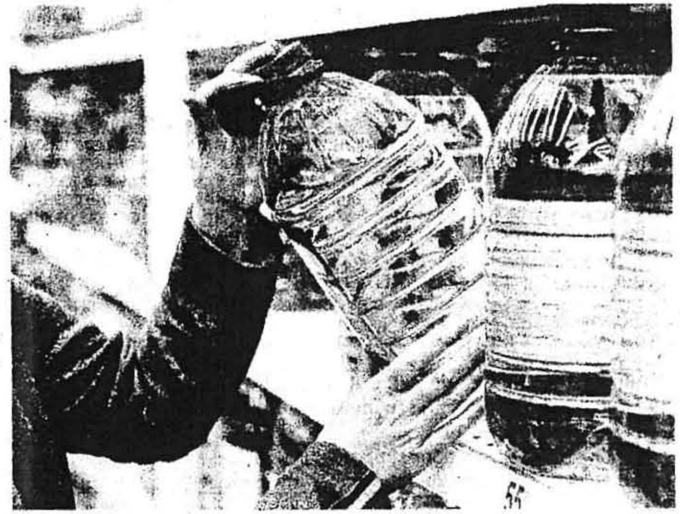
But taking production beyond the targeted 1.8 million tonnes so that it makes some tangible impact on domestic edible oil availability is a big challenge, trade sources pointed out.

India at present produces around 120 million tonnes of rice a year and increasing it beyond this level looks challenging.

Estimates show that one metric tonne of paddy yields 1.6 per cent of crude rice bran oil. When refined, the yield drops to 1.4 per cent.

Market players say that to reduce dependence on imported edible oils from the current level of 65 per cent to 10 or 15 per cent in the next 10 years, India needs to focus on raising local oilseeds production from 27-30 million tonnes to 45 million tonnes by 2025-26 and 60 million tonnes by 2030-31.

Whether current policies are good enough to achieve this is a big open question.



AN APPETITE FOR IMPORTS

India's vegetable oil demand and supply balance sheet (in million tonnes)

Items	2020-21	2021-22	2025-26*
Oilseeds production	28	30	38-40
Local vegoil output	9.5	10	13.5-14
Vegoil demand	22.5	22.7-23	25-26
Vegoil import	13.1	12.9	11-12.0

*Forecast Source: Solvent Extractors' Association of India (SEA)