Edible Oils Update & Outlook: May 2018

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In the last oil year 2016-17, the oilseed prices declined below the MSP level and in order to alleviate this situation, the government hiked import duty on edible oils consecutively to protect the country from cheap edible oil imports and encourage the farmers to continue to sow oilseeds as cheap edible oil imports depress oilseeds prices. The increase in import duty resulted in higher domestic edible oil prices on m-o-m basis even when international prices declined or remained flat on m-o-m basis. In the coming months, the prices of domestic crude palm oil and refined soybean oil are likely to follow the trend of international prices given that there would be no major changes in the import duty structure of these edible oils.

The government also increased the MSP for oilseeds for the year 2017-18 and decided to announce MSPs at least at one and a half times the cost of production in the Union Budget 2018-19 to encourage the farmers to sow oilseeds. However, raising MSPs does not solve the problem sometimes as the oilseed prices fluctuate depending on the demand-supply situation. Also there is no assured procurement of oilseeds by the government at MSP which compounds the problem for farmers, thus, restricting edible oil production in the country that is already range bound.

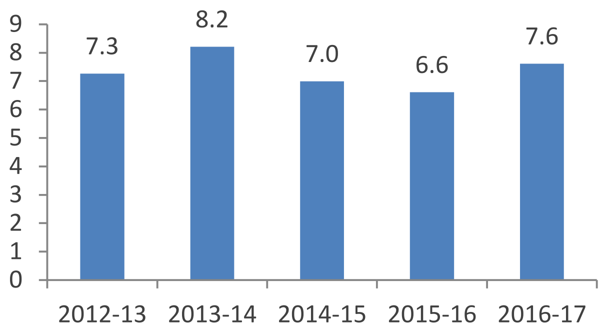
Production

India's edible oil production remained in the range of 6.6-8.2 million tonnes during the last five oil years November 2012-October 2017. The country's edible oil production grew by 15.2% y-o-y to 7.6 million tonnes during 2016-17.

In the ongoing oil year, domestic production of edible oil from oilseeds is expected to remain almost flat on the back of an estimated 2% y-o-y decline in oilseed production to 30.6 million tonnes during the year. The fall in oilseed output will be driven by 16.9% decline in soyabean production due to unfavourable climatic conditions. Lower prices for the crop in the last year are also believed to have impacted its production during the year.

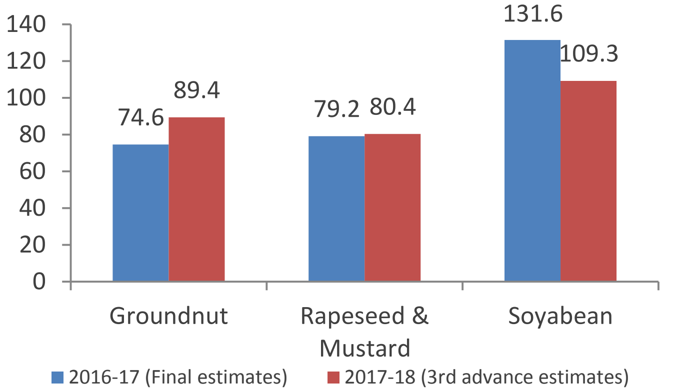
Mustard output is estimated to rise by a marginal 1.5%. The groundnut, mustard and soyabean oilseeds cover about 90% of the country's total oilseed production estimated for 2017-18.

Chart 1: Edible oil production in India (in million tonnes)



Source: CMIE
Note: Year mentioned is oil year November-October

Chart 2: Major oilseeds production in India (in lakh tonnes)

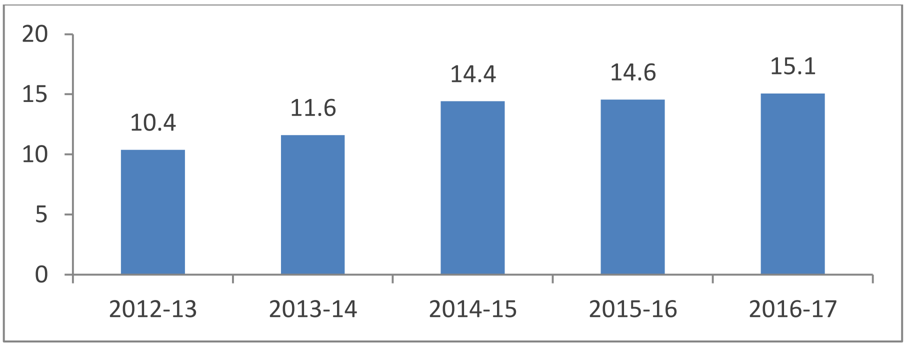


Source: Department of Agriculture Co-operation
Note: Year considered is financial year April-March

Imports

While India's edible oil output from oilseeds is expected to remain flat, the country's demand for edible oil is likely to increase steadily during the oil year 2017-18. Thus, the country will continue to depend on imports of edible oil to meet the domestic requirements. India meets a large part of the internal needs through imports and the country's dependence has increased over the years and currently around 65-70% of the domestic edible oil requirements are met through this route.

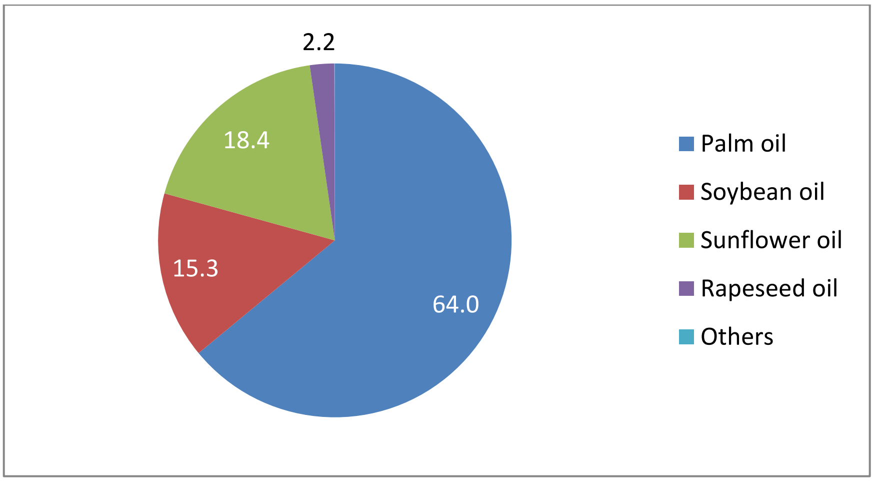
Chart 3: Edible oil imports by India (in million tonnes)



Source: Solvent Extractors' Association of India
Note: Year mentioned is oil year November-October

India's edible oil import requirements grew by a sharp 45.2% from 10.4 million tonnes in 2012-13 to 15.1 million tonnes in 2016-17 as per the Solvent Extractors' Association of India (SEA). The country's edible oil imports had increased by 3.5% y-o-y to 15.1 million tonnes in the last oil year. In the first half of the current oil year, the imports grew by 2.1% y-o-y to 7.1 million tonnes.

Chart 4: Import share of variety of edible oils in India (in %)



Source: Solvent Extractors' Association of India *Note: Palm oil includes RBD palmolein, CPO, crude olein, CPKO*

Of the total edible oil imported by India, palm oil accounts for the largest share as it is one of the cheapest variants of edible oils available. During November 2017-April 2018, palm oil imports stood at 4.6 million tonnes and accounted for the highest share of 64% followed by sunflower oil with a share of 18.4% (1.3 million tonnes), soybean oil with a share of 15.3% (1.1 million tonnes) and rapeseed oil with share of 2.2% (1.6 lakh tonnes).

Hike in import duty of edible oils

In the last one year, the government hiked import duty on different varieties of edible consecutively in order to protect the country from cheap edible oil imports and to encourage the farmers to continue to sow oilseeds. The cheaper edible oil imports results in lower domestic edible oil prices which, in turn, depresses domestic oilseed prices. This discourages the farmers to sow oilseeds and affects the domestic production of edible oils that is already range bound.

Table 1: Import duty on edible oils

Products	23rd Sept 2016	11th Aug 2017	17th Nov 2017	2nd Feb 2018	1st Mar 2018	Social welfare cess	Effective duty
Crude palm oil	7.5%	**15.0%**	**30.0%**	30.0%	**44.0%**	10.0%	48.4%
RBD palmolein	15.0%	**25.0%**	**40.0%**	40.0%	**54.0%**	10.0%	59.4%
RBD palm oil	15.0%	**25.0%**	**40.0%**	40.0%	**54.0%**	10.0%	59.4%
Crude soybean oil	12.5%	**17.5%**	**30.0%**	30.0%	30.0%	10.0%	33.0%
Crude sunflower oil	12.5%	12.5%	**25.0%**	25.0%	25.0%	10.0%	27.5%
Crude rapeseed oil	12.5%	12.5%	**25.0%**	25.0%	25.0%	10.0%	27.5%
Refined soybean oil	20.0%	20.0%	**35.0%**	35.0%	35.0%	10.0%	38.5%
Refined sunflower oil	20.0%	20.0%	**35.0%**	35.0%	35.0%	10.0%	38.5%
Refined rapeseed oil	20.0%	20.0%	**35.0%**	35.0%	35.0%	10.0%	38.5%
Crude cottonseed oil	-	-	**12.5%**	**30.0%**	30.0%	10.0%	33.0%
Refined cottonseed oil	-	-	**20.0%**	**35.0%**	35.0%	10.0%	38.5%

Source: Solvent Extractors' Association of India *Note: The bold figures indicate revision in import duty of edible oils*

As can be seen from the above table, the government has been increasing import duty over the past few months. The import duty was increased for all the varieties in November 2017. More importantly import duty was introduced for crude and refined cottonseed oil. All the varieties of edible oils attracted an education cess of 3% before February 2018. The education cess however has been has been replaced by social welfare surcharge of 10% with the announcement of Union Budget 2018-19 on 1st February 2018.

The last hike undertaken by the government was in March 2018 when the import duty on crude palm oil, RBD palmolein and RBD palm oil was increased by 14% for each of the varieties. Resultantly, the import duty is 44% on crude palm oil and 54% on each of the varieties, RBD palmolein and RBD palm oil. The import duty on these varieties had reached this level way back in July 2007. In addition to this, all the varieties of edible oils attract a social welfare surcharge of 10%. Thus, the effective duty rate is higher and is mentioned in the above table.

Though the government raised the import duty on crude and refined edible oils, the industry’s demand to keep a duty differential of 15%-20% between the two was not met. Nevertheless, the share of refined edible oils reduced to 13.7% to 9.8 lakh tonnes during November 2017-April 2018 from 19.5% to 1.4 million tonnes in the corresponding period ago. Also, the share of crude edible oils increased to 86.3% to 6.2 million tonnes from 80.5% to 5.6 million tonnes during November 2016-April 2017.

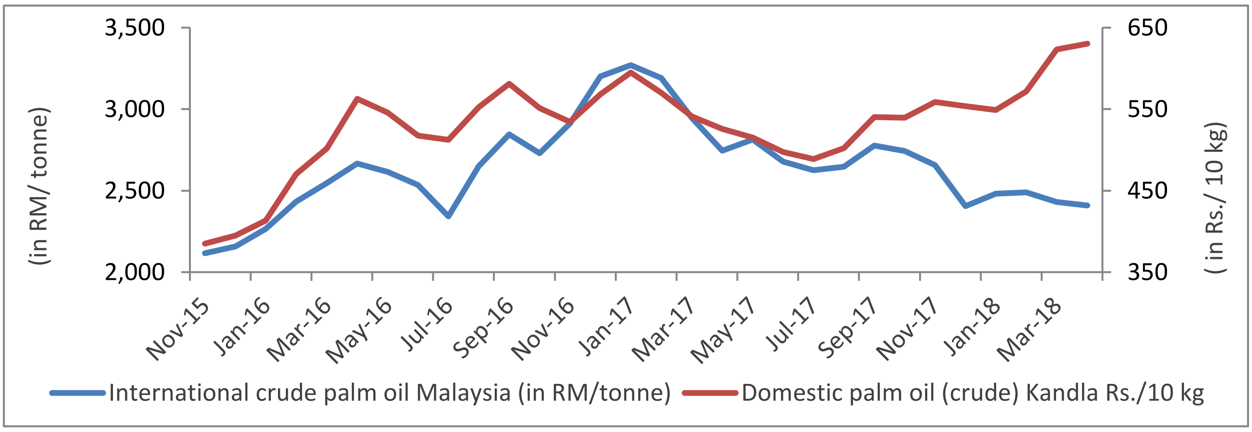
The import duty hike undertaken by the government in 2017 increased the duty differential for refined and crude palm, sunflower and rapeseed edible oils. This, in turn, is believed to have resulted in higher share of imported crude edible oil compared with the corresponding period a year ago. The increase in duty differential encourages the edible oil refiners to increase their capacity utilization in the country.

Price trend

A sequence of import duty hikes by the government have led to m-o-m increase in the domestic prices of palm and soyabean oil in the past few months even when the international prices of respective varieties remained flat or declined on m-o-m basis in these months. The domestic prices of palm and soyabean oil largely move in line with the international prices as can be seen from the charts below (Chart 5 and Chart 6). This is because India is heavily dependent on imports of palm oil and most of the domestic soyabean oil requirements are also met through imports.

a. Palm oil

Chart 5: Movement in international and domestic palm oil prices



Source: CMIE *1 RM = Rs.17.2 as on 23rd May 2018*

In oil year 2015-16, the international palm oil prices in Malaysia averaged at RM 2,492 per tonne. The prices which were at RM 2,115.2 per tonne in November 2015 increased in the initial 5 months and then declined in the next 3 months on m-o-m basis. However, the prices grew again and increased to RM 2,845.9 per tonne in September 2016. The rise in prices was on account of a fall in global palm oil production due to El Nino event.

In the oil year 2016-17, the prices continued to increase and touched a high of RM 3,270.5 per tonne in January 2017. While the prices fluctuated in the next months, they averaged at RM 2,879.1 per tonne during the year 2016-17, implying a growth of 15.5% y-o-y. Though palm oil production in Malaysia was higher on a y-o-y basis during the year; it was lower than the production level that was before El Nino event. This is believed to have aided the growth in prices.

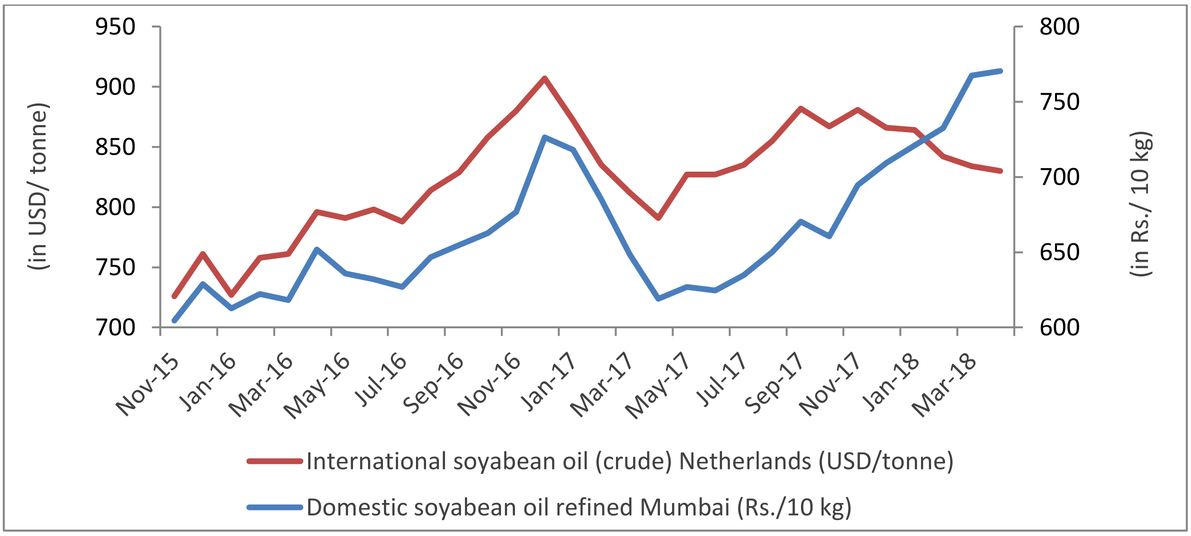
In the ongoing oil year 2017-18, the international prices remained flat or declined on m-o-m basis in each of the months till April 2018 except for January 2018 where prices rose by 3.2% due to expected higher palm oil output during the year. The prices averaged at RM 2,408.4 per tonne in April 2018. In contrast, the domestic palm oil prices grew on m-o-m basis during February-April 2018 primarily on account of a rise in import duty and on a y-o-y basis the domestic crude palm oil prices averaged 4.5% higher during November 2017-April 2018.

In the coming months, the international palm oil prices are expected to remain under pressure on account of higher global supplies. As per the USDA, palm oil output from Indonesia and Malaysia are estimated to increase by 6.9% to 38.5 million tonnes and by 8.7% to 20.5 million tonnes, respectively, on a y-o-y basis during October 2017-September 2018. These two countries are the major palm oil producers in the world.

Consequently, the domestic crude palm oil prices are expected to follow the trend and soften in the coming months on m-o-m basis. However, considering that that there would be no major changes in the import duty structure of palm oil, the domestic crude palm oil prices are expected to average at Rs.59.9 per kg during November 2017-October 2018, this implies a growth of 11.9% on a y-o-y basis.

b. Soybean oil

Chart 6: Movement in international and domestic soyabean oil prices



Source: CMIE

In November 2015, the average international soyabean oil (crude) in Netherlands stood at USD 726 per tonne. The prices increased on m-o-m basis for most of the months in oil year 2015-16 and averaged at USD 783.9 per tonne during the year. An increase in requirement of soybean oil for biodiesel production as stated by the U.S. Environmental Protection Agency (EPA) supported the price rise. United States is the second largest producer of soyabean oil in the world next to China. Also, lower global palm oil production resulted in an increased demand for soyabean oil thus supporting the price rise. In the next oil year, the prices increased amid fluctuations and averaged at USD 849.2 per tonne during 2016-17.

In the current oil year, the international prices increased only in the first month and then continued to decline on m-o-m basis in the next months and averaged at USD 830 per tonne in April 2018. On the other hand, the domestic refined soyabean oil prices in Mumbai remained higher on m-o-m basis in each of the months during November 2017-April 2018 on account of higher import duty imposed by the government.

In the coming months, the international soybean oil prices are expected to remain stable or rise marginally backed by a rise in global domestic soybean oil consumption. As per the USDA, global domestic consumption is likely to increase by 3.8% y-o-y to 55.6 million tonnes in the oil year 2017-18. Though global soybean production is estimated to increase by 3.6% y-o-y to 55.8 million tonnes, it will be almost at par with global consumption which is expected to support the prices. The marketing year considered by the USDA for most of the countries is October-September. As per the World Bank, the soybean oil price is forecasted to average at USD 857 per tonne in calendar year 2018, y-o-y growth of 1.3%. The international soybean oil prices averaged at USD 842.5 per tonne during January-April 2018.

The domestic soybean oil prices are also expected to rise marginally or remain stable on m-o-m basis following the trend of international prices. Also, expected lower domestic soybean oil output in the oil year 2017-18 are likely to support the prices. On a y-o-y basis as well, the domestic prices of refined soyabean oil are likely to average higher during November 2017-October 2018 assuming that there would be no major changes in the import duty structure of soybean oil. They are expected to average at Rs.76 per kg during the year, a rise of 14.8% y-o-y.

(Note: The exchange rate considered for calculating domestic prices of edible oils is the average of INR against USD for the month of March 2018.)

MSP for oilseeds

Table 2: MSP of oilseeds (in Rs. /quintal)

Crop	2013-14	2014-15	2015-16	2016-17	2017-18
Groundnut in shell	4,000	4,000	4,030	4,220*	4,450**
Sunflower	3,700	3,750	3,800	3,950*	4,100*
Soyabean	2,560	2,560	2,600	2,775*	3,050**
Sesamum	4,500	4,600	4,700	5,000**	5,300*
Nigerseed	3,500	3,600	3,650	3,825*	4,050*
Rapeseed/Mustard	3,050	3,100	3,350	3,700*	4,000*
Safflower	3,000	3,050	3,300	3,700*	4,100*

Source: Indian Institute of Oilseeds Research

*Note: * - includes bonus of Rs.100/quintal, ** - includes bonus of Rs.200/quintal*

Note: MSP for kharif and rabi crops of five seasons

The government tries to encourage domestic production of oilseeds not just by imposing import duty on edible oils but also by hiking Minimum Support Prices (MSP) for oilseeds. However, raising MSP sometimes does not solve the problem as the farmers have to sell their crops in the mandis where the prices for oilseeds fluctuate depending on the demand-supply situation. Soybean, rapeseed and groundnut were sold lower than the MSP and their prices declined in the range of 20-30% on a y-o-y basis as per July 2017 notification of Solvent Extractors' Association (SEA).

However when the oilseed prices fall below MSP, procurement by government agencies is to be undertaken to stabilise the prices under Price Support Scheme (PSS). Yet sometimes, there is no assured procurement of oilseeds by the government at MSP and this enhances the problem for farmers.

According to National Agricultural Co-operative Marketing Federation of India (Nafed), the federation procured 2,22,169 tonnes of oilseeds whereas oilseed production during 2016-17 was 31.3 million tonnes. This implies procurement of marginal 0.7% of the oilseeds produced in 2016-17. *The low procurement/ lack of assured procurement amid fluctuations in oilseed prices acts as a barrier and deters farmers to produce more oilseeds which, in turn, restrict the country's domestic edible oil production.*

In the Union Budget 2018-19, the government made announcement of providing MSPs to farmers at one and a half time of the crop's production cost. Also, the government discussed about putting in place a full-proof mechanism so that the farmers get appropriate price for their crops. *With elections ahead, it becomes important to see if the government delivers what it has assured for the benefit of farmers.*

Concluding remarks

- *A sequence of rise in import duties by the government have led to m-o-m increase in the domestic prices of palm and soyabean oil in the past few months even when the international prices of respective varieties remained flat or declined on m-o-m basis in these months.*

- *The consecutive import duty hike undertaken by the government in 2017 increased the duty differential for crude and refined palm, sunflower and rapeseed oil varieties. This, in turn, is believed to have resulted in higher share of imported crude oil during November 2017-April 2018 compared with the corresponding period a year ago. The increase in duty differential encourages the edible oil refiners to increase their capacity utilization in the country.*

- *In the coming months, the international palm oil prices are expected to remain under pressure on account of higher global supplies and the international soybean oil prices are expected to remain stable or rise marginally backed by a rise in global domestic soybean oil consumption.*

- *Following the international price trend, the domestic prices of crude palm oil are expected to remain under pressure and prices of refined soybean are likely to rise marginally or stay stable in the coming months. Also, expected lower domestic soybean oil output in the oil year 2017-18 are likely to support the soybean oil prices. On a y-o-y basis, the prices of domestic crude palm oil and refined soybean oil are likely to average at Rs.59.9 per kg (growth of 11.9% y-*

o-y) and at Rs. Rs.76 per kg (rise of 14.8% y-o-y), respectively, during November 2017-October 2018 considering that there are no major changes in the import duty structure of these edible oils.

- *The low procurement amid fluctuations in oilseed prices acts as a barrier and deters farmers to produce more oilseeds which, in turn, restrict the country's domestic edible oil production.*

- *With elections ahead, it becomes important to see if the government delivers what it has assured for the benefit of farmers.*

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