'National Mission on Edible Oils – Oil Palm' - A move towards 'Atma Nirbharta' in palm oil

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National Mission on Edible Oils – Oil Palm (NMEO-OP) is a significant step towards increasing country's palm oil self-sufficiency by increasing the area under palm oil cultivation and also aims at benefiting palm oil farmers through a remunerative pricing mechanism.

High import dependence for edible oils to the extent of 2/3rd

The domestic production of edible oils is able to meet only a part of the country's edible oil demand and hence India is dependent on imports for around 2/3rd of the demand. Amongst edible oil imports, palm oil accounts for a lion's share of around 60% to 65% and is mostly imported from the South-East Asian countries of Malaysia and Indonesia. For instance, during FY21 (refers to financial year 2020-21), India imported crude palm oil (CPO) of about 74 lakh tonnes worth around Rs.420 Billion. India also imports other varieties of palm oil such as crude palm kernel oil (CPKO) and refined palmolein. Table 1 below illustrates the total value of imports for some of the key varieties of palm oils for FY 21. In terms of volume, for the current oil year starting November 2020, the total palm related import volume was 56 lakh tonnes till July 2021 as per the Solvent Extractors' Association of India (SEA).

Table 1: Import mix of palm oil in FY21

Varieties of Palm Oil	in Rs Billion
Crude palm oil (CPO)	419.93
Crude palm kernel oil (CPKO)	7.59
RBD Palmolein	5.44

Source: Department of Commerce, Government of India

Palm oil is generally used by bulk consumers such as hotels, restaurants and cafes and is also a key raw material used by FMCG companies for home-care and personal-care products.

NMEO-OP will boost the area under palm oil cultivation while providing viability prices to farmers

Government of India (GoI) has recently announced a new scheme on palm oil, 'National Mission on Edible Oils – Oil Palm (NMEO-OP)' to curtail the country's high reliance on imports. The mission aims to increase the area under cultivation of palm oil crops through additional coverage of 6.5 lakh hectares from 3.7 lakh hectares that is under palm oil cultivation currently. This will help in achieving a target of 10 lakh hectares till 2029-30. Increase in area under cultivation is projected to lead to an increase in the production of crude palm oil to 11.2 lakh tonnes and 28 lakh tonnes by 2025-26 and 2029-30 respectively. This increase in area under cultivation is still significantly lower than the overall potential area of 28 lakh hectares as per an assessment by the Indian Institute of Oil Palm Research in 2020.

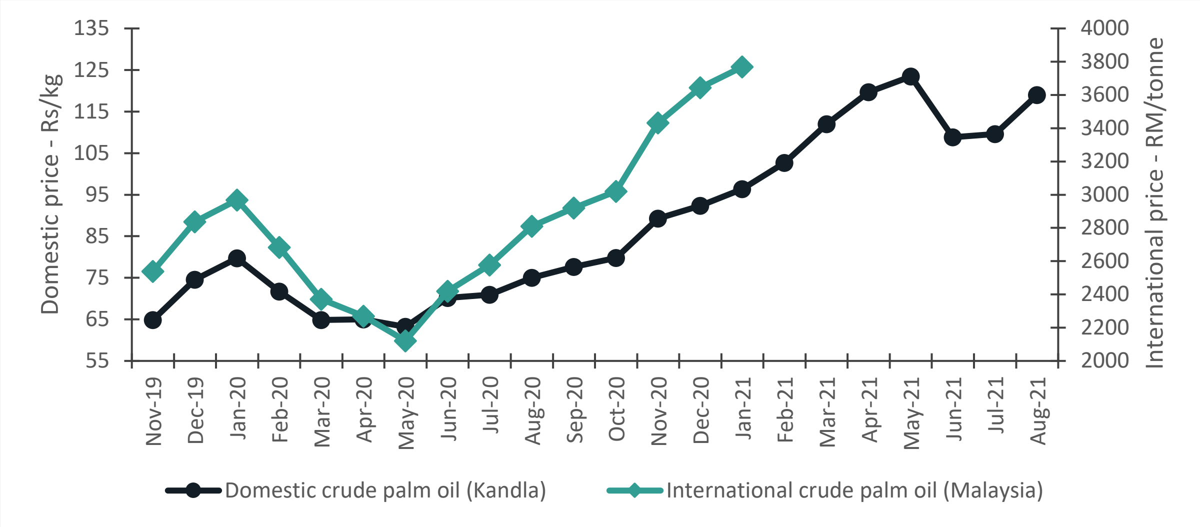
With a total capital outlay of Rs 110.40 billion, the scheme has been launched with a special focus towards the North Eastern region and the Andaman and Nicobar Islands. Rs.88.44 billion is expected to be contributed by the GoI while the remaining is expected to be contributed by the respective state governments.

Furthermore, one of the primary objectives of NMEO-OP is to provide remunerative prices to palm oil farmers. The mechanism will ensure a price assurance that will hedge the farmers from volatility in international prices. It is a Minimum Support Price type mechanism which is fixed at 14.3% of CPO price and going up to 15.3%, with a sunset clause in November 1, 2037. This price assurance is a Viability Price defined as 14.3% of the WPI adjusted average CPO prices for last 5 years. The mission also has provisions for additional assistance for planting material for oil palm, seed gardens as well as to attract industry participation. Overall, this is expected to adequately assure the crop farmer of a realisation that helps increase income levels of the farmers as palm oil is expected to provide highest return on investment per acre versus other commercial crops.

And the domestic prices continue to have high dependence on international prices

As India is heavily dependent on imports, the domestic prices are influenced by the movement in international prices. The international price of crude palm oil (Malaysia) that was on an upward trajectory in the beginning of previous oil year (period starting November 2019 and ending in October 2020) fell from RM 2,968 per tonne in January 2020 to RM 2,121 per tonne in May 2020. Trade restrictions imposed on import of refined palm oil by India (one of the largest palm oil importing nations) in January 2020 and weak global demand largely owing to Covid-19 pandemic has adversely impacted the international prices. Further as illustrated in Chart 1 below, the domestic CPO (Kandla) price moved in accordance with the international prices and seems to have a significant correlation with the international prices as reflected in a decline of around 21% from Rs 80 per kg in January 2020 to Rs 63 per kg in May 2020 during the previous oil year.

Chart 1: Movement in prices of crude palm oil



Source: CMIE

Both the international and domestic prices of CPO began improving on a sequential (month-on-month) basis from June 2020 onwards as restrictions were eased across the world. However, global demand-supply mismatches led to sharp growth in prices. The international prices grew by 78% from 2,121 RM/tonne in May 2020 to 3,769 RM/tonne in January 2021. Similarly, domestic CPO prices increased significantly by 88% from Rs 63 per kg in May 2020 to Rs 119 per kg in August 2021 albeit witnessing a marginal decline in June 2021. The substantial increase in prices in the current oil year has also been driven by tight supplies in major exporting nations of palm and soyabean oil and labour constraints in Malaysia.

Moreover, increased buying from China for soyabean, delayed sowing of soyabean in Brazil (one of the major exporters of soyabean), rise in demand for biofuels amongst other factors led to this record surge in prices. It is to be noted that the prices of palm oil are also influenced by prices of rival edible oils like soyabean and sunflower oil. GoI through an earlier notification dated August 19, 2021, had reduced the basic custom duty on crude and refined sunflower and soyabean oils effective August 20, 2021 up to September 30, 2021. This action is expected to partially ease the pressure in the prices of palm oil over the near term.

Earlier, in June 2021 also GoI had reduced the basic custom duty on crude palm oil and refined palm oil (RBD Palm Oil, RBD Palmolein, RBD Palm Stearin and any Palm Oil other than Crude Palm Oil) to 10% and 37.5% respectively. In addition to these rate cuts announced, import of RBD Palm Oil and RBD Palmolein under 'free' category has been allowed with immediate effect from 30th June, 2021 to 31st December, 2021. All these measures helped reduce the pressure on prices and supported in the reduction in domestic prices of crude palm oil in June 2021.

NMEO-OP expected to benefit the domestic palm oil industry

The domestic prices of palm oil over the medium term will depend on the movement in international prices and the gradual pick in domestic institutional demand for palm oil which was affected due to the second wave of Covid-19 pandemic in the country.

Further, the mission assumes significance in the light of India's demand for edible oils which is expected to grow to 200 lakh tonnes by 2030. Due to heavy dependence on imports for edible oils, it becomes imperative for India to make efforts for increasing the domestic production of edible oils which will be driven by both increasing area under cultivation as well as increasing the productivity of oil palms. GoI's capital investments under NMEO-OP will significantly benefit palm oil farmers and will also help the country in becoming more self-sufficient / Atma Nirbhar over the long run.

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