

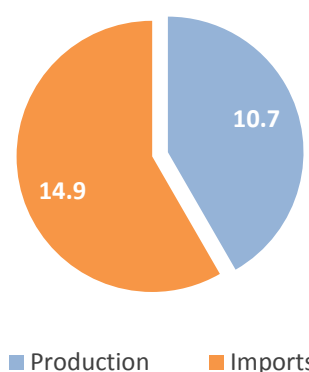
Edible Oils Update December 2019

December 26, 2019 | Industry Research

Overview on Indian edible oils industry

India is one of the top three consumers of edible oils in the world. To fulfil the domestic edible oil consumption needs, the country however largely relies on imports which account for about 60% of the total domestic edible oil requirements. From Chart 1 below, it can be seen that of the total availability of 25.6 million tonnes of edible oils in India during 2018-19, imports accounted for around 58% while the remaining 42% availability is met through domestic production that includes exports and industrial use which are estimated at 6 lakh tonnes.

Chart 1: Total availability of edible oils in India during November 2018-October 2019 (million tonnes)



Source: Department of Food & Public Distribution

Note: Based on 2nd Advance Estimates declared by Ministry of Agriculture in February 2019, the production numbers include castor and linseed oil estimates that are 4.3% % of the total vegetable oil output.

Lower availability of edible oils domestically is the prime reason that pushes India towards imports. The production of domestic edible oils is stagnant and has remained range-bound. The domestic availability of edible oils has been in the range of 8.5-10.5 million tonnes during the last five years 2014-15 to 2018-19.

Variety-wise vegetable oil production during 2018-19

Here we see the break-up of vegetable oils produced in India during the year 2018-19. The primary source includes nine varieties of oil that include mustard oil, soyabean oil, groundnut oil, sunflower oil, sesame oil, nigerseed oil, safflower oil, castor oil and linseed oil. The secondary source includes six varieties of oil which comprises coconut oil, palm oil, cottonseed oil, rice bran oil, solvent extracted oils and tree & forest origin oil.

Contact:

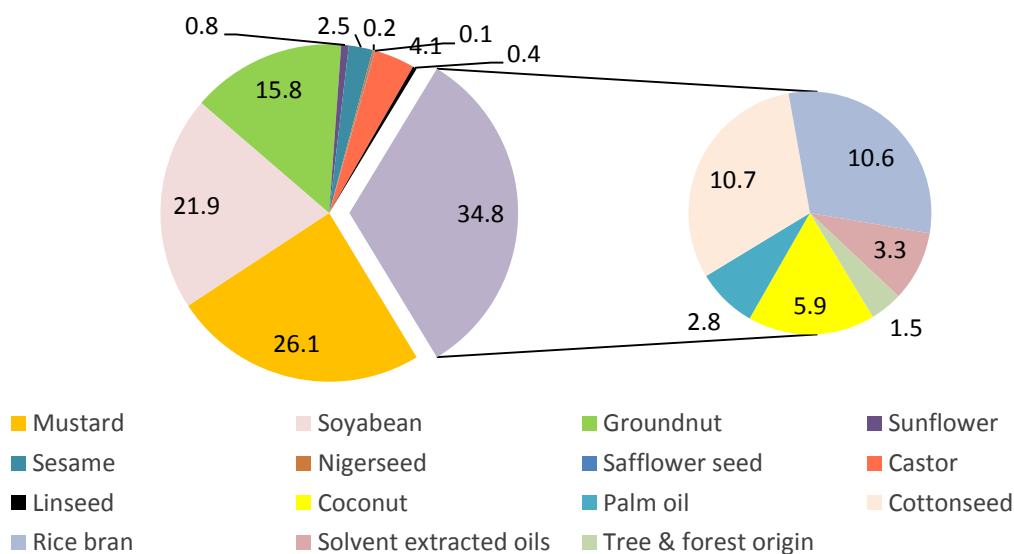
Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-22-6837 4433

Author
Bhagyashree C. Bhati
Deputy Manager – Industry Research
bhagyashree.bhati@careratings.com
91-22-6837 4407

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
91-22-6837 4424

Disclaimer: This report is prepared by CARE Ratings Ltd. CARE Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Ratings is not responsible for any errors or omissions in analysis/inferences/views or for results obtained from the use of information contained in this report and especially states that CARE Ratings has no financial liability whatsoever to the user of this report.

Chart 2: Variety-wise vegetable oil production during 2018-19 (lakh tonnes)



Source: Department of Food & Public Distribution

Note: Based on 2nd Advance Estimates declared by Ministry of Agriculture in February 2019, the production numbers include castor and linseed oil estimates that are 4.3% % of the total vegetable oil output.

The primary oils account for a large share in the total edible oil produced domestically. For the year 2018-19, the primary oil estimates accounted for a significant share of 67.4% and oils from secondary source together accounted for 32.6% of the total oil production estimates. Of the total oil production numbers, mustard, soyabean and groundnut oil had a share of 24%, 20.6% and 14.8%, respectively. Following this, oils from secondary sources, cottonseed oil and rice bran oil each accounted for a share of 10% in the total oil production estimates for the year.

Edible oil imports by India

During the oil year (November-October) 2018-19 edible oil imports increased by 2.7% y-o-y to 14.9 million tonnes. This was primarily driven by 27.9% rise in imports of refined edible oils that stood at 2.7 million tonnes. Resultantly, the share of refined oil imports in total edible oil imports expanded to 18.3% from 14.7% in the previous year.

Table 1: Import of crude and refined edible oils (Qty. in million tonnes)

	Crude edible oils		Refined edible oils		Total quantity
	Quantity	% share	Quantity	% share	
2017-18	12.4	85.3	2.1	14.7	14.5
2018-19	12.2	81.7	2.7	18.3	14.9
% change	-1.6		27.9		2.7

Source: SEA

Note: The period mentioned is for November-October

The share of crude edible oil imports on the other hand contracted to 81.7% in 2018-19 from 85.3% in 2017-18 as its imports declined by 1.6% to 12.2 million tonnes. An expansion in the share of refined edible oil imports or higher refined oil imports poses a threat to the domestic edible oil refineries as it reduces capacity utilization of refineries.

Revision in import duty rates

The prime reason that encouraged higher imports of refined oil during the year 2018-19 was a revision in import duty rates of refined palm oil imported from Malaysia.

On 1 January 2019, the government reduced import duty on palm oil imports from Association of Southeast Asian Nations (ASEAN) to provide deeper tariff concessions in respect of goods imported from these countries. The import duty on crude palm oil from both the nations Indonesia and Malaysia was reduced to 40% from 44%.

Also, the import duty on refined palm oil imports from both these nations was cut from the earlier 54%. The import duty on refined palm oil imported from Indonesia was lowered to 50% while the duty on refined palm oil imports from Malaysia was reduced further to 45%. This brought down the duty differential to 5% from 10% earlier for Malaysia. The duty differential for Indonesian palm oil however was kept unchanged at 10%.

A table on import duty revision during the oil year 2018-19 is provided below.

Table 2: Revision in import duty rates

Products	14-Jun-18	01-Jan-19	04-Sep-19	Effective duty rate
Crude palm oil	44%	40% - Malaysia and Indonesia	40% - Malaysia and Indonesia	44% - Malaysia and Indonesia
RBD palmolein	54%	45%- Malaysia, 50%- Indonesia	50%- Malaysia, 50%- Indonesia	55% - Malaysia and Indonesia
RBD palm oil	54%	54%	54%	59.4%
Crude soybean oil	35%	35%	35%	38.5%
Crude sunflower oil	35%	35%	35%	38.5%
Crude rapeseed oil	35%	35%	35%	38.5%
Refined soybean oil	45%	45%	45%	49.5%
Refined sunflower oil	45%	45%	45%	49.5%
Refined rapeseed oil	45%	45%	45%	49.5%
Crude cottonseed oil	35%	35%	35%	38.5%
Refined cottonseed oil	45%	45%	45%	49.5%

Source: SEA

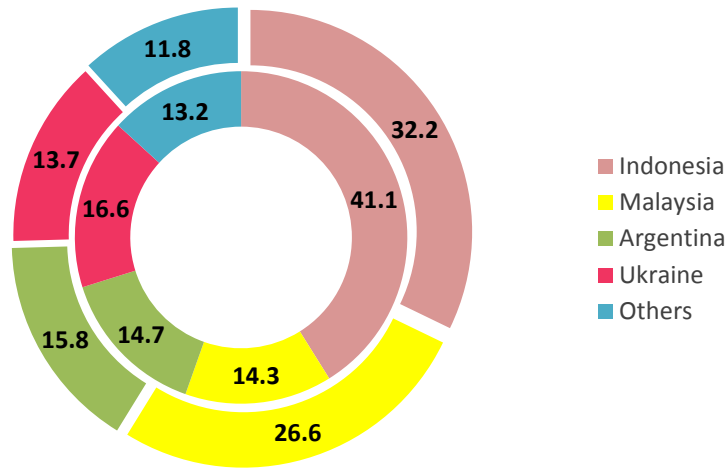
Note: The effective duty rate includes social welfare cess of 10%. The import duty of 50% on Malaysian refined palm oil is applicable for a period of 180 days w.e.f. Sep 4, 2019

Note: The bold figures indicate revision in the import duty of edible oils

Increase in share of Malaysia in edible oil imports

The lower duty differential of 5% and reduced import duty on Malaysian refined palm oil as discussed above compared to 10% duty differential for Indonesian palm oil imports expanded the share of Malaysia in total edible oil imports during the year 2018-19. Malaysia's share increased to 26.6% during 2018-19 compared to the share of 14.3% during 2017-18 while that of Indonesia contracted to 32.2% during 2018-19 compared to that of 41.1% during 2017-18.

Chart 3: Country-wise edible oil imports by India (in %)



Source: CMIE

Note: Inner circle represents imports in oil year 2017-18 (14.5 million tonnes) and outer circle represents edible oil imports in oil year 2018-19 (14.9 million tonnes)

Government hikes import duty on Malaysian refined palm oil

On September 4, 2019, the government hiked the import duty on Malaysian refined palm oil by 5% to 50% for a period of 180 days (Refer Table 2 above) to provide some support to the Indian edible oils industry. With this, the import duty differential for palm oil imported from Malaysia and Indonesia now remains at par at 10%. Post the hike in import duty rate on Malaysian refined palm oil in September 2019, the total imports of refined palm oil fell by 54% in the next month immediately on a sequential basis. The refined palm oil imports dropped sharply to 1.19 lakh tonnes in October 2019 and 1.22 lakh tonnes in November 2019 from the levels of 2.57 lakh tonnes in August 2019 and 2.64 lakh tonnes in September 2019.

To talk specifically about Malaysia after import duty hike, the edible oil imports from Malaysia fell by 9.6% to 4.2 lakh tonnes in September 2019 and declined by a sharper 32.7% to 2.8 lakh tonnes in October 2019 on m-o-m basis. In addition to this, the top trade body SEA had asked its members to avoid buying palm oil from Malaysia till the time there is some clarity on the government’s move towards the controversial remark given by Malaysia on Jammu & Kashmir at the United Nations session in September 2019. This is also believed to have impacted palm oil imports from Malaysia.

Significance of India in Malaysian palm oil industry

It can be seen from Table 3 below that of the total palm oil produced in Malaysia, around 85%-90% is exported which shows that exports are very significant for this industry. When it comes to exports, India is the top export destination for Malaysia. Of the total palm oil exports made by Malaysia, India accounted for a share of 14.6% during January-November 2018 which increased to a share of 25.1%, that is a quarter of total exports during January-November 2019 as the exports to India surged by a sharp 91.5% to 4.3 million tonnes from 2.2 million tonnes earlier.

Table 3: Malaysian palm oil data

Palm oil (Jan-Nov)	2018	2019	% change
Production (mn tn)	17.7	18.6	4.9
Total exports (mn tn)	15.1	17.1	13
Exports to India (mn tn)	2.2	4.3	91.5
End-stocks (mn tn)	3 (as on Nov 2018)	2.2 (as on Nov 2019)	-26.7
Share of India in Malaysia’s total oil exports (in %)	14.6%	25.1%	

Source: Malaysian Palm Oil Council (MPOC)

The reduction in import duty on Malaysian palm oil by India was the prime reason for the surge in exports to India which has already been discussed in the report. Thus it can be seen that India is a very important market for Malaysia given the fact that edible oil consumption in India will be on an upward trend. Consequently, it is difficult for Malaysia to avoid Indian edible oil market as a whole.

N

It can be seen from the Chart 2 below that the international prices of palm oil saw a fluctuating trend during the last two oils years 2017-18 and 2018-19. The international palm oil prices declined on m-o-m basis in most of the months during these two years. An increase in palm oil output from Indonesia and Malaysia are the prime reasons that led to the fall in prices.

Chart 2: Movement in international palm oil prices

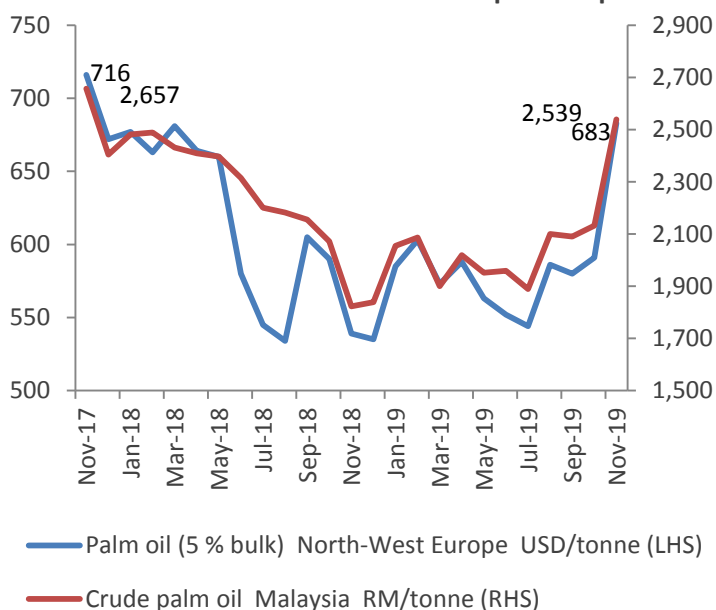
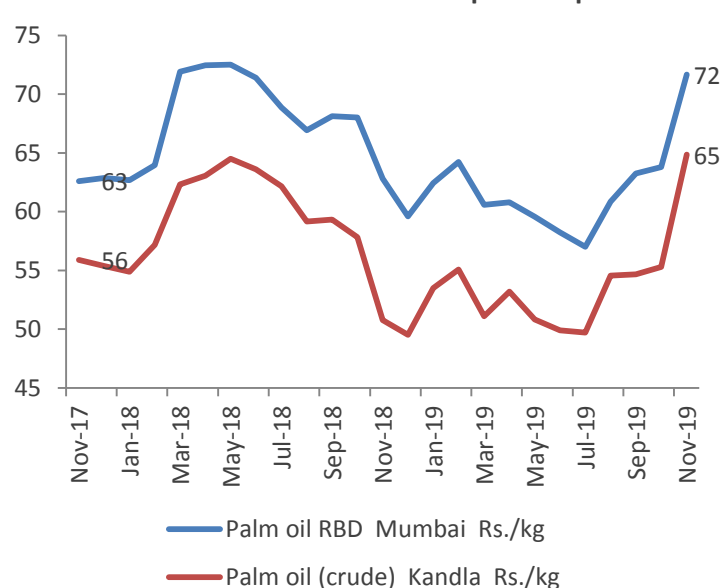


Chart 3: Movement in domestic palm oil prices



Source: CMIE

1 RM = Rs.17.3 as on 26 December 2019

In December 2018, the prices of North-West Europe palm oil fell to USD 535 per tonne from USD 716 per tonne in November 2017, a decline of 25.3% and the prices of Malaysian palm oil declined by a sharper 30.8% to RM 1,839 per tonne in December 2018 from RM 2,657 per tonne in November 2019. On an average, the international palm oil prices fell in the range of 10%-15% in 2018-19. The North-West Europe palm oil prices averaged at USD 570 per tonne and Malaysian palm oil prices averaged at RM 1,987 per tonne during the year. Likewise, the domestic crude and refined palm oil prices

averaged lower in 2018-19. The refined palm oil prices in Mumbai were down by 9.8% to Rs.61 per kg and that of crude palm oil prices in Kandla declined by 12.2% to Rs.52 kg during the year.

It is to be noted that the prices of palm oil in North-West Europe increased by 15.6% to USD 683 per tonne and that of crude palm oil in Malaysia grew by 19.1% to RM 2,539 per tonne in November 2019 on m-o-m basis. This is on account of biodiesel mandate in Indonesia and Malaysia (the top two producers of palm oil in the world) that will divert palm oil to be blended in diesel fuel. Also unfavourable weather condition in these nations is expected to impact palm oil output during the next year. These two reasons primarily prompted the growth in prices during November 2019. **Taking a cue from these factors, it is expected that the international palm oil prices will remain firm and may rise on a sequential basis in the coming months. This, in turn, will keep the domestic palm oil prices elevated as well.**

During November 2019 on m-o-m basis, the prices of crude palm oil in Kandla rose by 17.3% to Rs.65 per kg and the refined palm oil prices in Mumbai were up by 12.3% to Rs.72 per kg primarily influenced by the upward movement in international palm oil prices.

Concluding remarks

- India is the top export destination for Malaysian palm oil industry and accounted for a share of 25% during January-November 2019 in total palm oil exports. Likewise, Malaysia had a share of 27% in India's total edible oil imports during the oil year 2018-19. This signifies the inter-dependency of the two nations on each other in terms of edible oils trade. Resultantly, any trade spat between the two nations will disrupt edible oils' demand-supply thus impacting the edible oils industry in Malaysia as well as India.
- Also, any trade dispute will affect the global demand and supply situation of the palm oil industry with India being the largest importer of palm oil globally and Malaysia being the second largest palm oil producing nation internationally.
- Diversion of palm oil to be blended with diesel fuel and unfavourable weather conditions in the top two palm oil producing nations (Indonesia and Malaysia) are likely to impact the global supplies of palm oil. Thus, **taking a cue from these factors, it is expected that the international palm oil prices will remain firm and may rise on a sequential basis in the coming months. This, in turn, will keep the domestic palm oil prices elevated as well.**

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022. CIN: L67190MH1993PLC071691

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457

E-mail: care@careratings.com | Website: www.careratings.com

Follow us on  /company/CARE Ratings
 /company/CARE Ratings