

***Indian Government Policy Changes
&
Its Impact on Vegetable Oils***

***At
Palm Oil Economic Review &
Outlook Seminar 2014***

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Presentation Sequence

- **SEA Profile**
- **Incredible India**
- **Indian General Economy**
- **Agricultural Economy**
- **Indian Oilseed Sector**
- **Consumption Pattern**
- **Imports of Edible Oils by India**
- **Policy Changes & its Impact on of Vegetable Oils**



SEA Profile

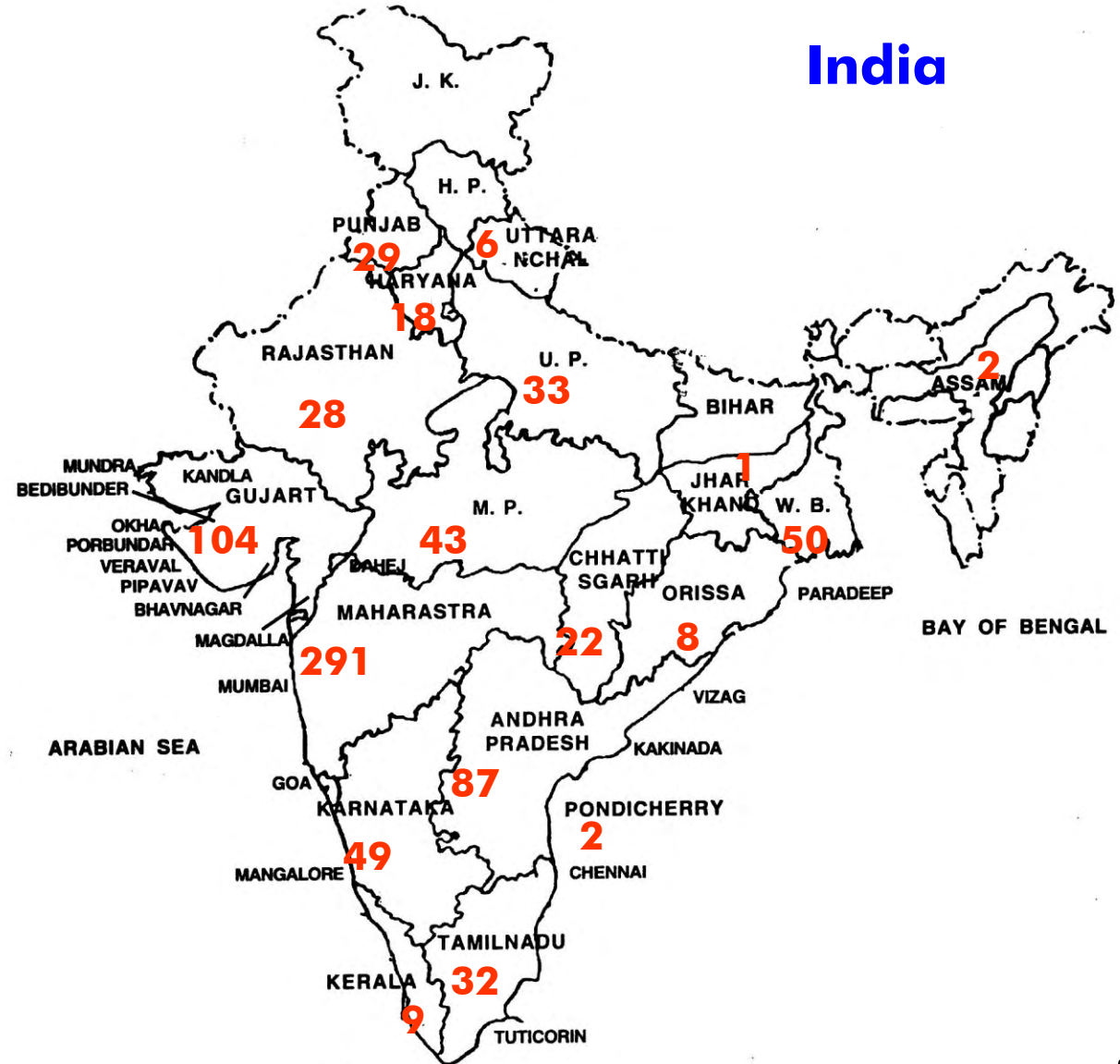
- Formed in **1963** to foster the development & growth of the Solvent Extraction Industry in India
- Largest and Premier Association in the Vegetable Oil Sector in India
- First Association in Vegetable Oil & Oilseed sector to receive **ISO 9001** Certification in India (2004)
- Recognised as **NGO** and **TPO** by Government of India
- SEA celebrating 2013 as Golden Jubilee year



SEA Members

**Over 850
Members**

- S. E. Units
- Oil Millers
- Refiners
- Vanaspati Mnfrs.
- Importers
- Exporters
- Surveyors
- Shipping Agents
- Fin. institutes
- Foreign Buyers & many more....





Incredible India





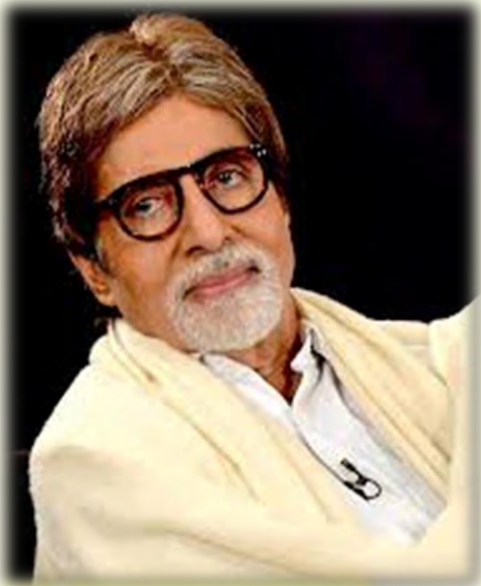
What People Talk About India

- **Second most populous nation**
 - **1.25 Bn people**
- **Largest Democracy**
- **Multi ethnic country**
- **Country with maximum young people**
 - **Median age is 24 years**
- **Amongst the fastest growing economies**
- **Fourth largest economy**
- **Literacy level – 65% (2012)**
- **3 B's....**





BOLLYWOOD





BEAUTY





BRAINS.....

- **38% of doctors in USA are Indians**
- **12% of scientists in USA are Indians**
- **37% of NASA scientists are Indians**
- **31% of MICROSOFT employees are Indians**
- **27% of IBM employees are Indians**
- **17% of INTEL scientists are Indians**
- **13% of XEROX employees are Indians**





Indian General Economy





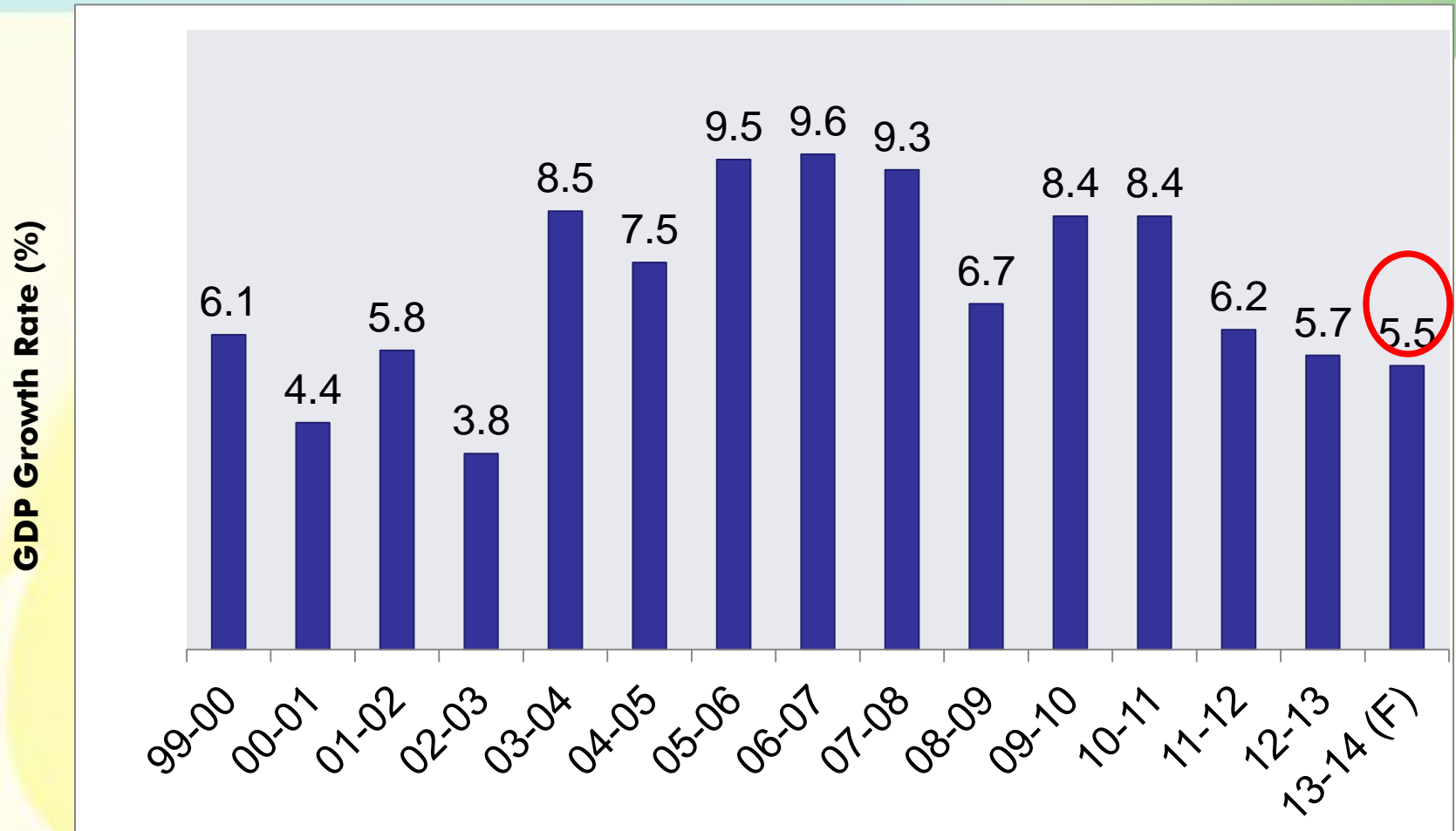
Indian Macro-economic Overview

- **India – a fast growing significant economy in spite of global slowdown**
- **Strong Macro-economic fundamentals**
- **GDP Value: Over US\$ 2.0 Trillion (Tn)**
- **Purchasing Power Parity (PPP): US\$ 5 Tn**
- **Forex Reserve: US\$ 297 Bn**
- **FDI Flow US\$ 24.2 Bn (2012-13)**
- **Household Savings Rate 30.8% (2011-12) (world's highest)**





India's Overall GDP Growth



- The average GDP growth in last five years is registered at 7.1%
- For FY13-14, growth is Forecasted at 5.5%



India's Agriculture Production



India is well connected with cellular phone having 930 Million users and with the talk time rate cheapest in the world

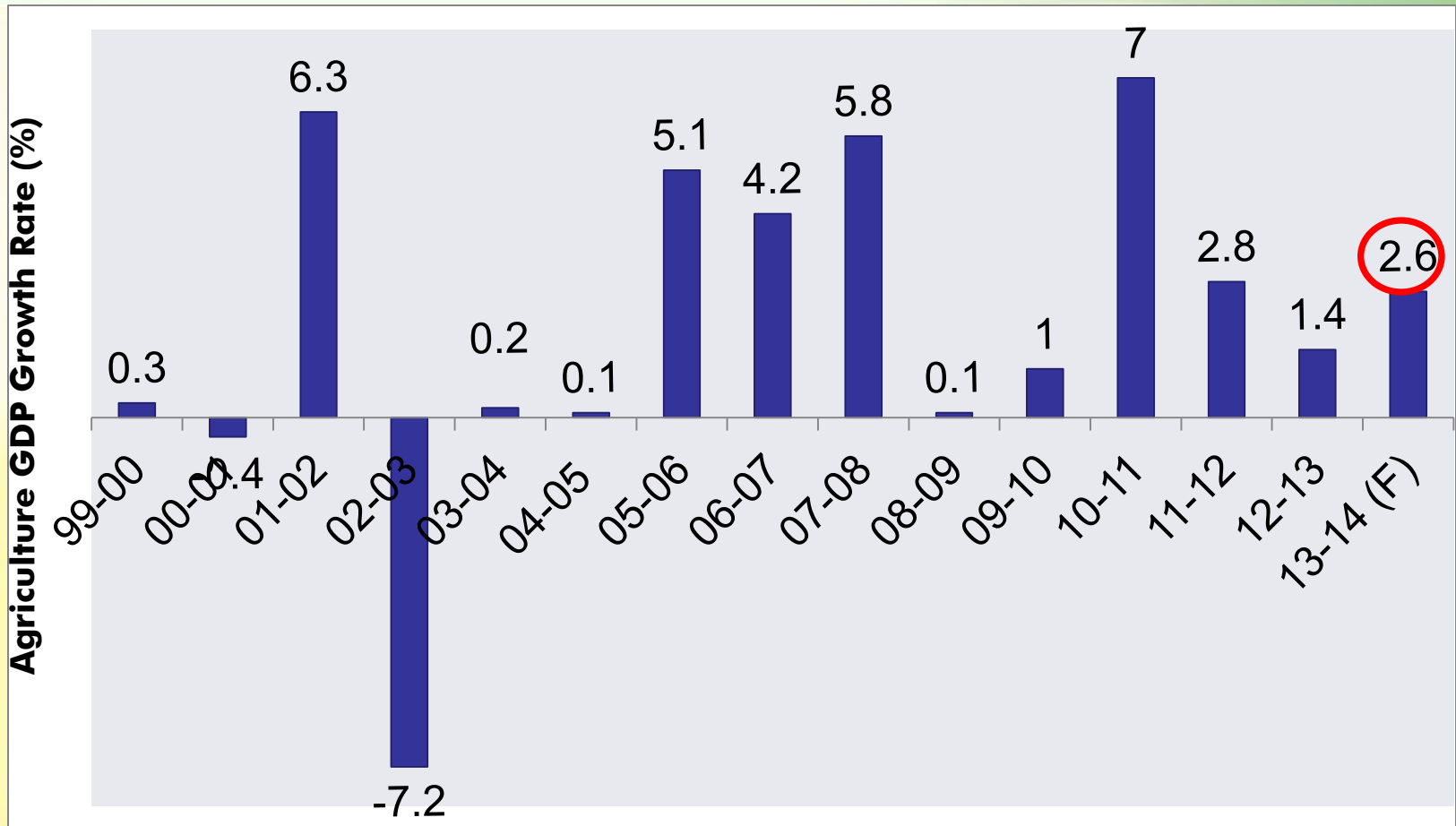


India's Ranking in the World

- **Area (3.3 Mn Km²)** **No. 7**
- **Arable Land (161.7 Mn Ha)** **No. 2**
- **Irrigated land (56.0 Mn Ha)** **No. 1**
- **Milk Production** **No. 1**
- **Rice Production** **No. 2**
- **Wheat Production** **No. 2**
- **Rapeseed Production** **No. 2**
- **Fruit Production** **No. 2**
- **Tea Production** **No. 2**
- **Sugar Production** **No. 2**
- **Cotton Production** **No. 2**
- **Coffee Production** **No. 5**



Agriculture Sector GDP Growth



- Agriculture Sector Growth depends heavily on monsoon performance.
- For the year 2013-14 growth is forecasted at 2.6% compared to 1.4% in previous year



Indian Oilseed Sector

SUPPLY

DEMAND



Demand - Supply

and

Import of Vegetable Oils



Oilseed Sector 2012-13

(Nov-Oct)

- **Area Under Oilseed Cultivation** 26-27 Mn. Ha.
- **Average yield** 1100 Kgs.
- **Output of 9 cultivated Oilseeds** 30.7 Mn. T.
- **Output of Cottonseed & Copra** 10.8 Mn. T.
- **Total** 41.5 Mn. T.

- **Production of Vegetable Oils** 8.20 Mn. T.
- **Demand of Veg. Oils (Edible)** 17.5 Mn.T.
- **Import of Veg. Oil 2012-13 (Nov-Oct) (Edible)** 10.4 Mn.T.

- **Per capita consumption (2011)** 14.3 Kg.
- **Per capita consumption is rising by 3 to 4% per annum.**



Present Status of Indian Vegetable Industry

Particulars	No. of Units	Annual Capacity Mn/T.	Capacity Utilisation
Oil Mills (Crushing Units)	15000	36.0	20% - 30%
Solvent Extraction Plants	600	31.0	35% - 40%
Vegetable Oil Refineries	650	20.0	35% - 40%
Vanaspati (Hydrogenated Units)	250	3.0	30%



Oilseed Sector - Share of India

- **Vegetable Oil Sector Turnover** **US\$ 25.0 bn.**
(Rs.150,000Cr)
- **Import & Export from Oilseed Sector** **US\$ 14.0 bn.**
(Rs.80,000 Cr.)

2012-13

- **In World's Oilseed Production** **7.7 %**
- **In World's Oilmeal Production** **6.5 %**
- **In World's Oilmeal Export** **5.8 %**
- **In World's Production of Veg. Oils** **5.0 %**
- **In World's Vegetable Oil Import** **14.7 %**
- **In World's Edible Oil Consumption** **10.4 %**



Oilseeds Production (2007-08 to 2012-13)

(Qty. in Million Tonnes)

Crop	07-08	08-09	09-10	10-11	11-12	12-13
Major Oilseeds						
Groundnut	9.2	7.2	5.4	7.5	6.9	5.4
Rape/Mustard	5.8	7.2	6.6	7.6	6.6	7.4
Soybean	11.0	9.9	10.0	12.7	12.2	14.1
Sesamum	0.8	0.6	0.6	0.9	0.8	0.7
Sunflower	1.5	1.2	0.8	0.6	0.5	0.6
Safflower	0.2	0.2	0.2	0.2	0.2	0.1
Niger	0.1	0.1	0.1	0.1	0.1	0.1
Linseed	0.2	0.2	0.2	0.2	0.2	0.2
Castor	1.0	1.1	1.0	1.3	2.3	2.1
Sub-Total	29.8	27.7	24.9	31.1	29.8	30.7
Others						
Cottonseed	9.9	8.9	9.2	10.1	10.9	10.2
Copra	0.6	0.6	0.6	0.6	0.6	0.6
Grand Total	40.3	37.2	34.7	41.8	41.3	41.5

Source: Ministry of Agriculture



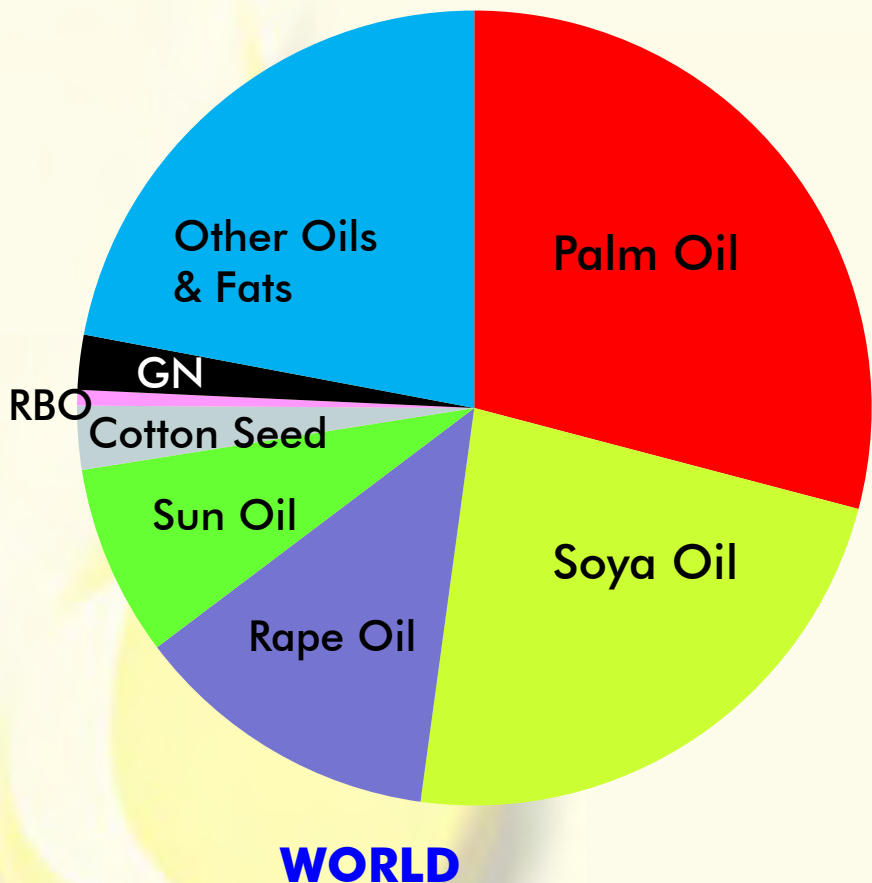
Domestic Oilseeds & Edible Oil Production & Demand of Vegetable Oils

Qty in Mn. Tonnes

Year (Nov-Oct)	Oilseeds Production	Domestic Availability of Veg. Oils *	Consumption of Veg. Oils *
2001-02	20.66	6.72	10.1
2002-03	14.84	5.12	9.6
2003-04	25.18	7.59	10.3
2004-05	24.35	7.59	10.8
2005-06	27.98	8.03	11.3
2006-07	24.29	7.76	11.8
2007-08	29.76	8.24	12.3
2008-09	27.72	8.21	14.0
2009-10	24.88	7.77	14.8
2010-11	32.48	8.52	15.7
2011-12	29.80	8.15	16.3
2012-13	30.72	8.20	17.3



World & India Production of Oils & Fats 2012-13



Qty : Mn T

Oil & Fats	World	India
Palm Oil	55.95	0.08
Soya Oil	42.29	1.76
Rape Oil	24.26	2.34
Sun Oil	13.74	0.21
Cottonseed Oil	4.95	1.11
Groundnut Oil	3.78	0.28
Rice Bran Oil	1.20	0.93
Other Oils & Fats	41.59	1.49
TOTAL	187.40	8.20

Major Veg.Oils produced in India are Rapeseed Oil, Soybean oil, Cottonseed Oil, Rice Bran Oil & Groundnut Oil



Per Capita (kg) Disappearance of Oils and Fats in Selected Countries and World

Country	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08
EU-27	59.7	59.4	60.0	61.6	60.1	57.3
U.S.A.	56.7	56.2	52.9	50.5	51.3	54.9
Argentina	64.6	90.8	78.5	65.6	46.4	35.7
China	25.9	25.1	24.5	23.8	22.9	21.8
India	15.4	14.9	14.5	14.3	13.8	12.5
Indonesia	36.4	33.1	29.6	25.7	23.4	21.8
Pakistan	21.6	21.6	21.5	21.8	21.6	21.5
Bangladesh	11.7	11.4	10.5	9.9	9.4	9.4
Thailand	27.4	26.0	25.2	23.6	22.2	19.1
World	26.32	25.95	25.30	24.66	23.89	23.42

➤ Number shown includes consumption of oils and fats for Bioenergy



Consumption





Consumption Pattern

- Consumption trends in India are marked, not just rising overall consumption, but by changing the patterns of consumption as well.
- In the early 1970's almost all vegetable oils consumed in India comprised Groundnut, Rapeseed & Cottonseed Oil. Palm, Soybean & Sunflower Oil accounted for only 4%.
- However over the years, Palm Oil, Soybean Oil have become the leading Edible Oil consumed because domestic production has not been able to keep pace with the Demand



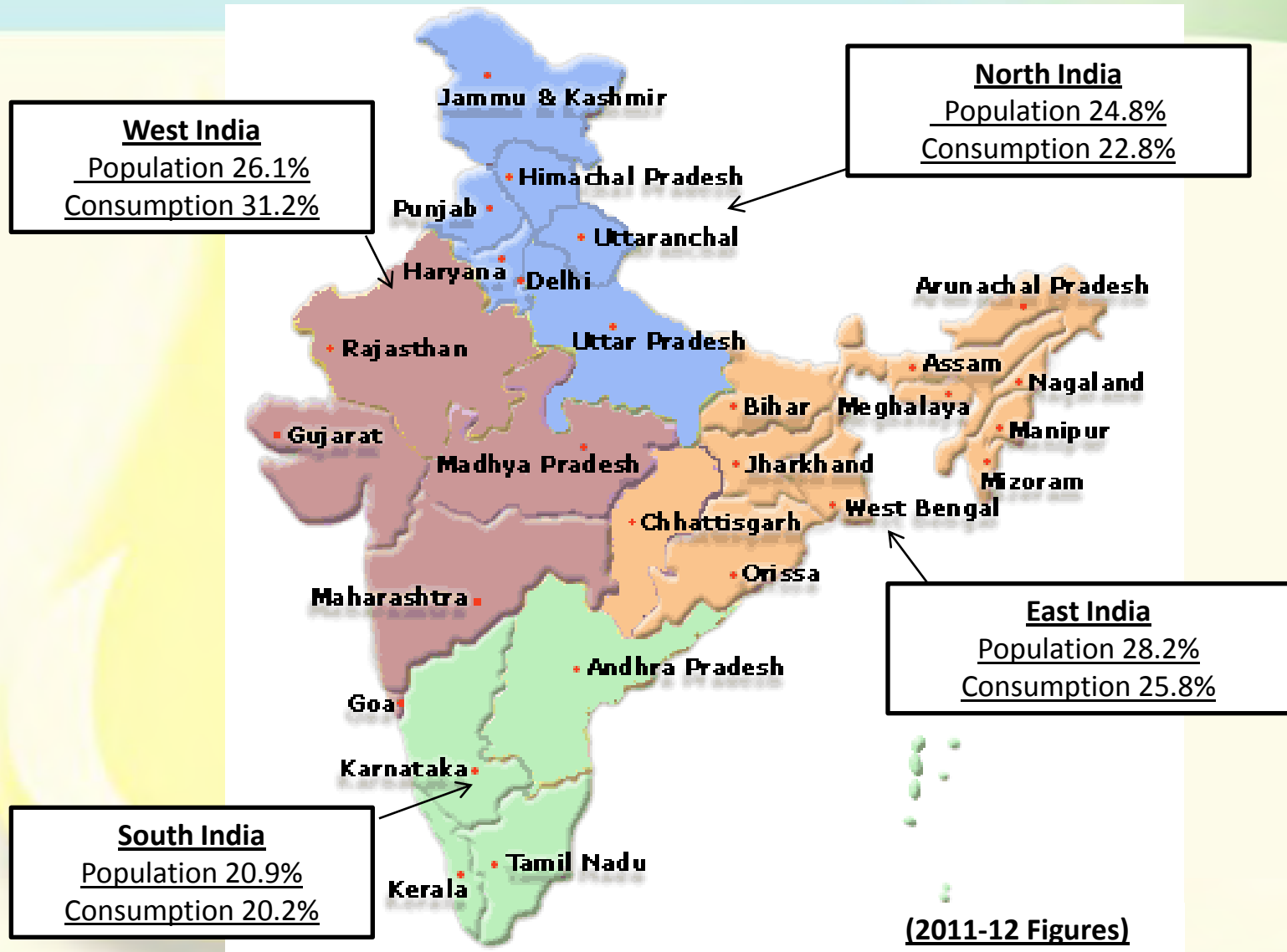
Change of Edible Oil Consumption in India 2001-02 to 2012-13

Qty : '000 T

Particulars	2001-02		2012-13	
	Qty	%	Qty	%
Palm Oil	2944	29.08	8572	49.49
Soy Oil	2258	22.30	2729	15.76
Mustard Oil	1721	17.00	2043	11.80
Sunflower Oil	309	3.05	1171	6.76
Cotton Oil	443	4.38	1130	6.52
Groundnut Oil	1216	12.01	148	0.85



India's 4 Zones for Consumption Pattern



(2011-12 Figures)



Consumption & Characteristics of Indian Consumer

- **Palm is the main oil in, Out-of-Home consumption like HORECA, chips - savory manufacturers etc.**
- **The Lower and middle class Indian consumers are very price sensitive and switch to cheaper oils.**
- **Palm being the most economical edible oil lower by Rs 50-100 per 10 kgs or \$100-200 per tonne from other edible oils is used in blending with other oils.**



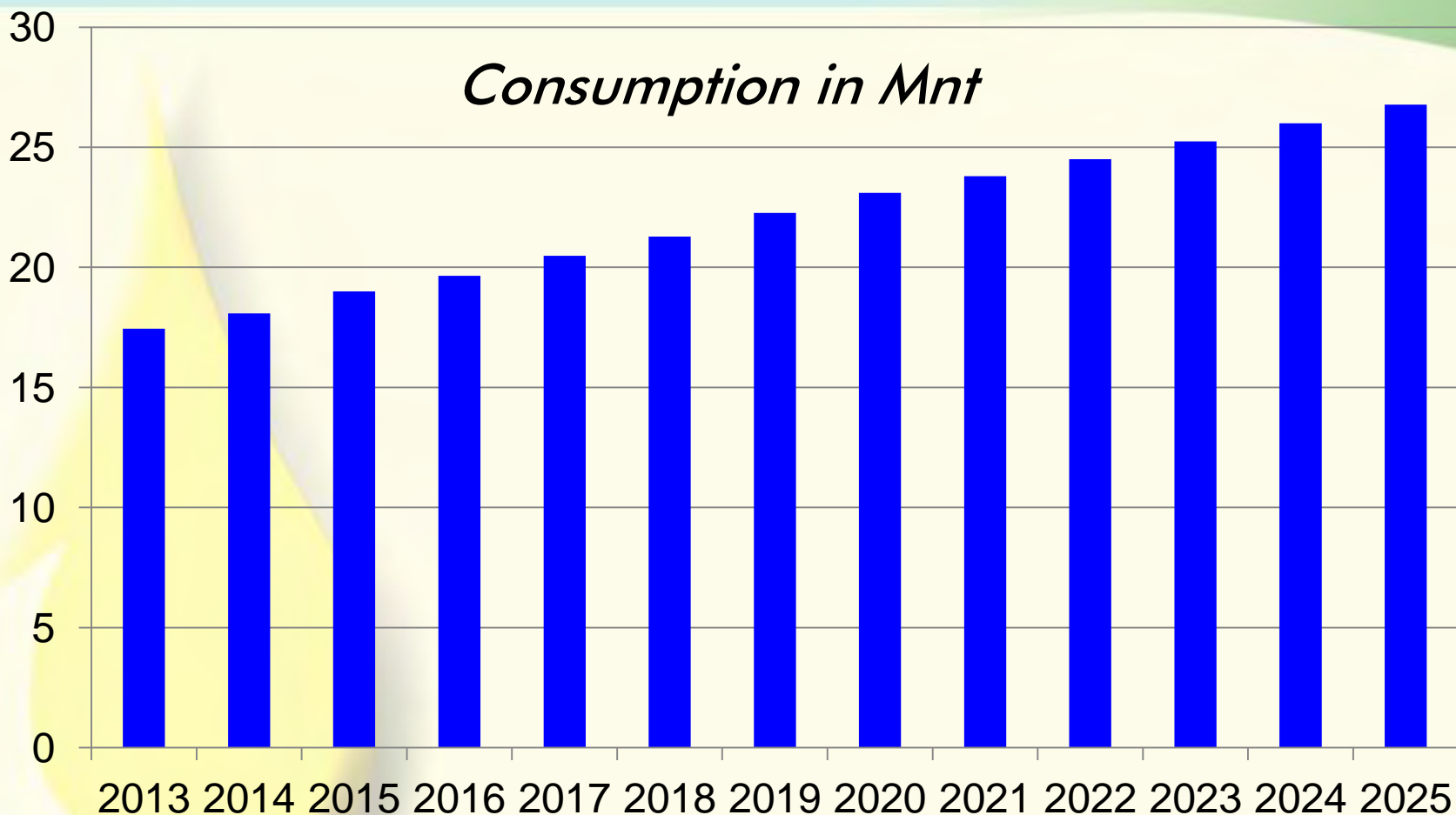
Consumption & Characteristics of Indian Consumer

- **Share of food budget is 47% v/s Total expenditure budget of an average middle class consumer, which justifies their sensitivity towards oil price.**
- **A big portion of Palm oil imported in India is due to a cheaper substitution to other oils and to fill the gap of other oils.**
- **Overall oil and palm oil consumption in India seems very promising.**



Demand / Consumption of Edible Oils in India

Projection up to 2025



Demand Scenario upto 2025

Due to high growth in income levels, increasing trend in spending & better living standards; India promises to continue high growth in consumption of edible oils and consumption may reach 26.78 ml T by 2025 from present level of 17.5 Mn Tonnes @ 3% growth rate.



Edible Oil Demand and Import Long Term Projection

Year	Population @ 1.76% Growth	Consumption @ 3% Growth		Consumption @ 4% Growth		Consumption @ 5% Growth	
	In Bn.	Per Capita Kgs	Mn T	Per Capita Kgs	Mn T	Per Capita Kgs	Mn T
2013	1.22	14.3	17.44	14.4	17.56	14.5	17.69
2015	1.25	15.2	19.00	15.6	19.5	15.9	19.87
2017	1.28	16.0	20.48	16.8	21.50	17.4	22.27
2019	1.31	17.0	22.27	18.0	23.58	19.1	25.02
2021	1.34	18.0	23.79	19.5	25.70	21.0	27.72
2023	1.38	19.0	25.24	21.1	27.80	23.2	30.56
2025	1.42	20.2	26.78	22.8	30.0	25.6	33.69

(Excluding Non-edible Oils)



Import of Vegetable Oils by India



India - Import Duty Structure on Edible Oils

Jan - 2014

Item Description	WTO Bound Rate	Duty on Crude Edible Oils	Duty on Refined Edible Oils	Current Tariff Value US\$/Tn (31.12.13)
Soybean Oil	45%	2.5	10%	958
Palmolein	300%	2.5	10%	928
Palm Oil	300%	2.5	10%	922
Sunflower Oil	300%	2.5	10%	-
Rape/Mustard Oil	75%	2.5	10%	-



Import of Vegetable Oils

**Edible, Vanaspati & Non-edible
2006-07 To 2012-13 (Nov – Oct)**

(Qty in Mn T)

Vegetable Oils	12-13	11-12	10-11	09-10	08-09	07-08	06-07
Edible Oils	10.40	9.98	8.37	8.82	8.18	5.61	4.71
Non-edible	0.29	0.21	0.29	0.42	0.46	0.65	0.63
Vanaspati	--	--	--	--	0.02	0.05	0.25
Total	10.69	10.19	8.66	9.24	8.66	6.31	5.59

➤ **Import of Veg Oils is rising from year to year to bridge the demand and supply gap**



India – Country Wise Import Of Edible Oils (Jan. –Dec)

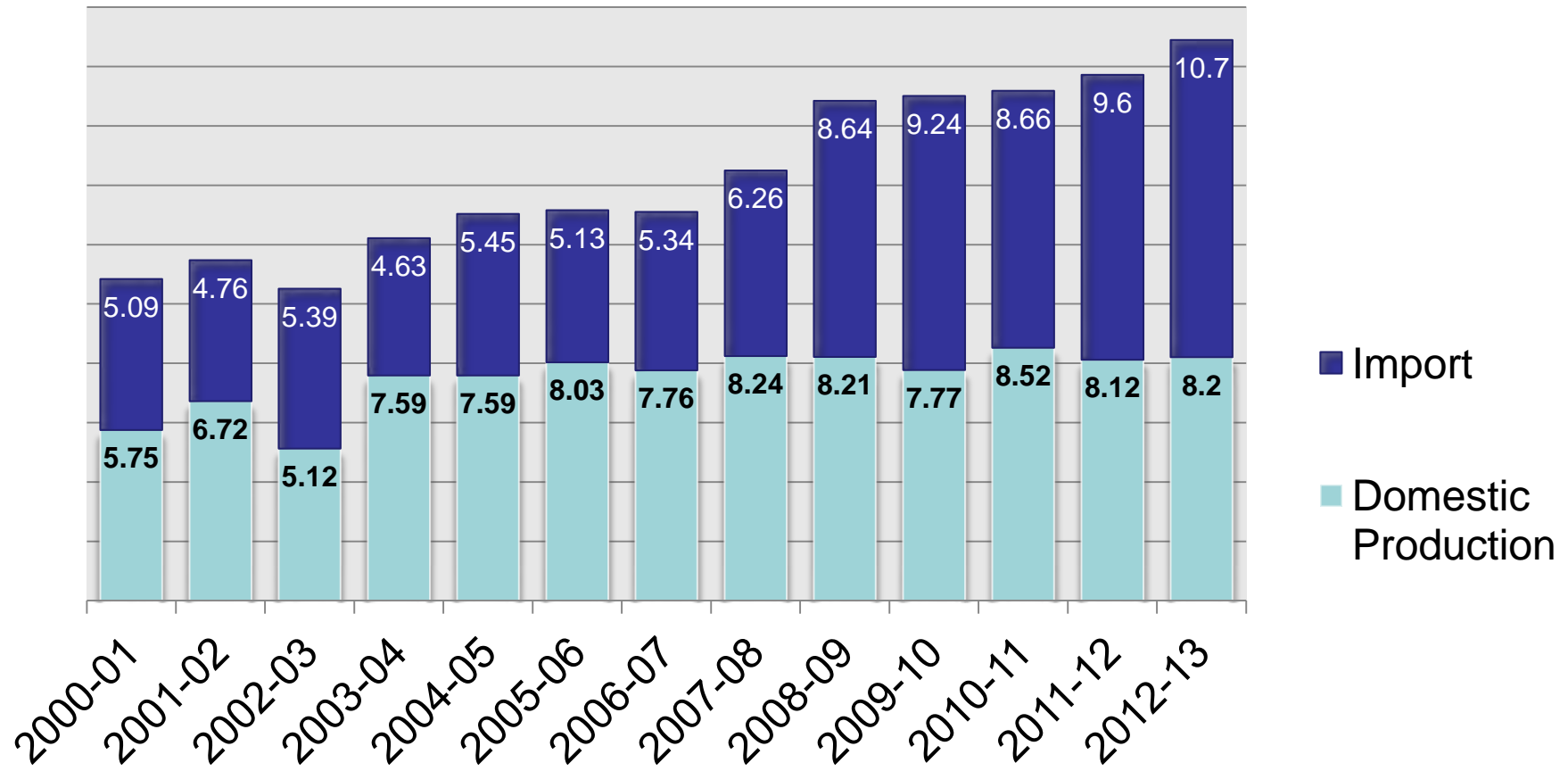
(Figures in '000T)

Country	2012	2011	2010	2009	2008
<u>Soybean Oil</u>					
U.S.A.	18	-	161	146	--
Argentina	817	746	1284	693	635
Brazil	313	144	78	202	172
Other Countries			45	66	28
Total	1180	941	1569	1107	835
<u>Sunflower Oil</u>					
Ukrain	1055	812	586	494	21
Argentina	37	43	39	93	29
Other Countries	24	16	38	56	19
Total	1116	871	663	643	69
<u>Palm Oil</u>					
Indonesia	5300	5011	5435	5255	4684
Malaysia	2494	1677	1190	1542	980
Thailand	4	49	21	28	83
Other Countries	11	8	3	3	6
Total	7809	6745	6649	6828	5753
Other Oils	307	228	296	351	193
Grand Total	10412	8785	9177	8929	6850



India's Vegetable Oil Production & Imports

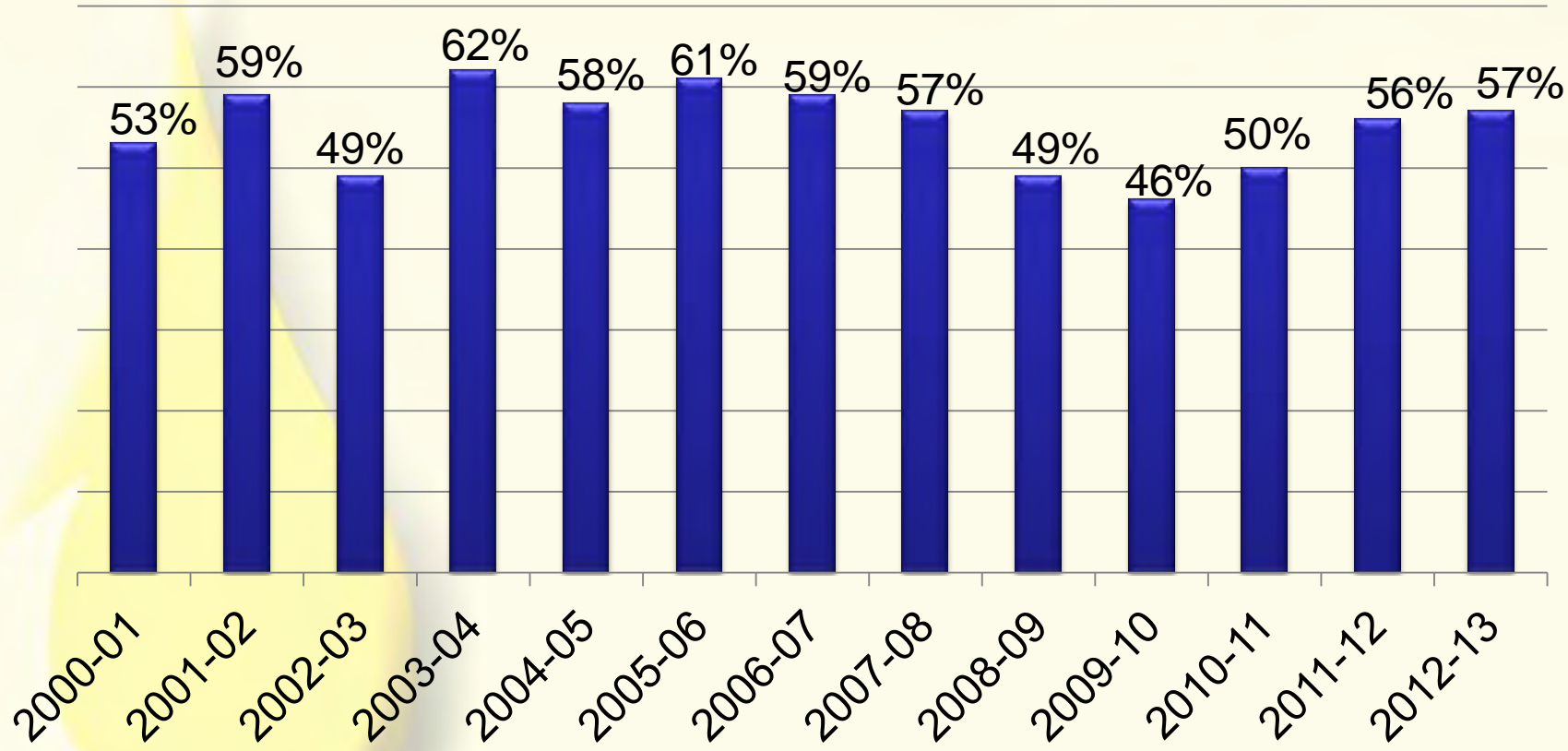
Figures in Mln.Tn



Stagnant Domestic oil production is leading to higher imports YOY to feed the growing Indian demand.



India's Growing Dependence on Imports



In last 3 years, Import dependence has increased much more due to rising consumption and stagnant domestic production.



India has a Promising Demand Growth

Demand drivers in India

- Consistent GDP growth rate at or above 7 % in last 5 years (But current year it may be below 6%)
- The big emerging Indian middle class.
- Urbanisation
- Nucleus Family
- Change in Food Habits
- The double digit growth of out of home consumption of edible oils.
- Per capita consumption of Edible oils in India at 14.0 kg (2012) which is still a lot below threshold level of consumption.
- Even with a moderate population growth the absolute increase in number of people is quiet High.



India has a Promising Demand Growth

Governments Support

- **Scheme like NREGA (National Rural Employment Guarantee Act) and rising labor income is increasing the income level of people who are consuming much below the all India level.**
- **Supply of edible oils , mainly palm oil, by the Government at subsidized rates under PDS .**
- **Meager 2.5% duty on crude and 10.0% duty on refined oil imports has facilitated lower oil price to consumers and in turn push demand.**



Indian Government's Policy Changes & Its impact on Vegetable Oils



Edible Oils Industry – Policy Background

- **Up to 1992, India was nearly Self Sufficient in terms of Edible Oil Requirement**
- **In 1994, Edible Oil Imports brought under OGL (Freely Allowed)**
- **From 1994-1999, the rate of Custom Duty was the same for Crude & Refined Oils.**
- **1999- Indian Government introduced Duty Difference between Crude & Refined Oils to encourage value addition of Refining within the country**



Edible Oils Industry – Policy Background

- After this, huge port based refining capacity were set up in the country mainly at Kakinada, Kandla & Haldia
- Current capacity of Refining is 15 Million Tonnes and Investment over US\$ 2 Bn.
- Import Duty Structure in India has undergone many changes since inception to take care of the consumers interest on one side and farmers on the other.



India – Import Duty Structure

Period	Crude Palm Oil	RBD Palmolein	Difference
	%	%	%
June.2000	15	35	20
Nov.2000	25	65	40
Feb. 2001	75	85	10
Oct. 2001	65	85	20
Apr. 2003	65	70	5
Jan. 2004	65	70	5
Jul. 2004	65	75	10
Jan. 2007	50	57.5	7.5
Jul. 2007	45	52.5	7.5
Mar. 2008	20	27	7
Apr. 2008	Nil	7.5	7.5
Nov. 2008	Nil	7.5	7.5
Dec. 2008	Nil	7.5	7.5
Mar. 2009	Nil	7.5	7.5
Mar. 2011	Nil	7.5	7.5
Jan. 2013	2.5	7.5	5
Jan. 2014	2.5	10.0	7.5



Duty Structure by Indonesia & Malaysia.

- Indonesia since introduced, Export Duty an aggressive pro their refining industry Duty structure in Oct 2011, higher duty on CPO & Lower Duty on RBD Palmolein
- Malaysia too, to protect their refining industry till recently allowing crude Palm Oil Export only under quota, had to follow similar structure like Indonesia



Indonesia Export Duty on CPO & RBD Olein

Month	CPO			RBD Olein			Duty Difference between CPO & RBD Olein
	Base Price \$/T	Duty %	Duty \$/T	Base Price \$/T	Duty %	Duty \$/T	
Oct' 11	1001	16.5	165.17	1121	8	89.68	75.49
Jan' 12	960	15.0	144.00	1054	7	73.78	70.22
Apr' 12	1076	18.0	193.68	1109	9	99.81	93.87
Jul' 12	944	15.0	141.6	972	7	68.04	73.56
Oct' 12	918	13.5	123.93	950	6	57.00	66.93
Jan' 13	709	7.50	53.18	773	2	15.46	37.72
Apr' 13	780	10.5	81.9	803	4	32.12	49.78
Jul' 13	781	10.5	82.01	800	4	32.00	50.01
Oct' 13	764	9.00	68.76	765	3	22.95	45.81
Jan' 14	856	12.0	102.72	820	5	41.00	61.72

Indonesian Exporters pay duty of US\$103 for Export of CPO, however they pay only US\$41 if ship RBD Palmolien, a clear advantage of US\$62/T



Malaysia's Export Duty on CPO

Month	Duty %	Reference Price (RM/T)	Change in Ref. Price (RM/T)	Duty (RM/T)
Jan 13	Nil	2147.81		Nil
Apr 13	4.50	2383.84	77.73	107.27
Jul 13	4.50	2382.32	50.30	107.20
Oct 13	4.50	2306.11	24.39	103.77
Jan 14	5.00	2549.98	97.55	127.50

In, Malaysia, Duty on Refined Oil is NIL while current Duty on CPO is 5%



Impact of Inverted Duty Structure by Indonesia & Malaysia.

- **Inverted Duty structure by Indonesia and Malaysia changed the Import Pattern in India.**
- **The Gap between CPO & RBD Olein which was used to be US\$ 60 to 80 p.m.t. before this structure, today stands at US\$20 p.m.t indicating that the refining cost is being subsidized through Indonesian Duty Structure**



Quantum Of Refined Palmolein Import by India V/S Total Palm Imports

(Qty in '000 Tonnes)

Period	Total Palm Oil	Crude Palm Oil	Refined Palmolein	
Nov - Oct	Tonnes	Tonnes	Tonnes	%
2007-08	4809	4079	730	15.00
2008-09	6535	5295	1240	19.00
2009-10	6386	5173	1213	19.00
2010-11	6461	5380	1081	16.73
2011-12	7669	6092	1577	20.56
2012-13	8292	6069	2223	26.80

Inverted Duty Structure by Indonesia & Malaysia has changed the Indian Import Pattern



Change in Pattern for Import

- In January 2013, the duty difference between Crude Palm Oil and Refined Palm Oil/Palm Olein was reduced to 5%, there has been a surge in imports of Refined Palm Oil/Palm Olein, thereby severely affecting refining capacity utilization. Today, the refining margins are zero to negative and the industry is in a deep crisis and verge of closure.



Month Wise Import of CPO & RBD (Jan-Dec)2013

Qty: '000 Tonnes

Year (Nov-Oct)	RBD Palmolein	CPO
Jan-13	153.0	721.2
Feb-13	116.2	669.6
Mar-13	137.4	558.8
Apr-13	253.4	233.9
May-13	373.8	382.0
Jun-13	296.2	353.5
Jul-13	213.8	354.4
Aug-13	143.2	378.6
Sep-13	167.6	452.7
Oct-13	154.3	613.3
Nov-13	208.0	550.6
Dec-13	164.0	691.7
Jan – Dec 13	2381.3	5960.9
Jan – Dec 12	1574.3	6116.3



Plea by Indian Refining Industry

- Domestic Vegetable Oil Industry had demanded to raise Custom Duty on RBD Palmolein to create Duty Difference of 7.5% (as per Commission Report) plus Duty Difference on Indonesia i.e 7% total 14.5%
- On 9th of this month the Government of India partially accepted and announced to raise Import Duty on Refined Oils to 10% from 7.5% creating Duty Difference of 7.5% between Crude & Refined to protect the Domestic Refining Industry and Domestic Farmer.
- The meager change will not help much to Indian Domestic Refiners and Import of RBD likely to increase in 2014-15 at new high.



Import of Edible Oils by India Current year and next year

(Qty: '000 T)

Oils	2013-14	2014-15 Projection
Crude Palm Oil	5889	4300 ↓
RBD Palmoein	2223	3800 ↑
Crude Soybean Oil	1091	1400 ↑
Crude Sunflower Oil	973	1200 ↑
Palm Kereneel Oil	180	200 ↑
Rape (Canola) Oil	13	50 ↑
Others	16	50 ↑
Total	10385	11000 ↑

India also Imports about 200,000 tonnes of Non-Edible Oil for Industrial Purpose



Summary

- ⇒ India has been an importer of edible oil for long year because of a mismatch between demand and domestic production. In recent years, the supply shortfall has widened rapidly, driven by rising incomes and population pressure.
- ⇒ Every increase in income translates to a rise in demand for food products including cooking oil. Consumption-driven demand growth has outstripped domestic supply growth, worsening the country's import dependence.
- ⇒ Another aspect is food inflation. Since 2008 India has been facing high levels of food inflation triggered by domestic and international factors. For the government the policy context is turning increasingly complex. Policymakers have to first address domestic political compulsions; and for the edible oil sector, the political compulsion relates to satisfying the demands of two large sections of stakeholders - growers and consumers.



Summary

- ➔ The policy of recent years has attempted to balance the interests of these two groups. For growers, the minimum support price for oilseeds is hiked year after year. For consumers, imports are allowed liberally in order to augment supplies and contain any price rise. Unrefined oils are allowed at just 2.5% Import Duty while refined Oils till 9th Jan 14 was allowed at 7.5% Duty which is now increased to 10 %
- ➔ The domestic industry covering oil mills, solvent extraction, vanaspati and refineries is unfortunately caught in this policy framework of support to growers and consumers. The industry is already reeling under excess processing capacity; while costs are high and rising (cost of raw material, cost of money, cost of power, logistics costs etc).
- ➔ Liberal import has further blunted the competitive edge of the Indian industry. Such a policy has willy-nilly impacted the domestic processing industry. Many units are closed down; idle capacity is rising; employment is under threat; and self-reliance has become a mirage.



Summary

- ➔ I do not fault the government policy that seeks to support growers and consumers; but somewhere along the line the industry's concerns have also to be taken into account. In sum, Indian government's policy towards the vegoil sector has not been kind to the domestic industry at all.
- ➔ Whether or not the policy stance would change is tough to predict. If food inflation comes under control, I would believe, the policymakers may begin to pay attention to the woes of the industry.
- ➔ Government of India is seriously considering to Lower Duty on Oilseeds from present 30% to 5 or 10%. If this happened, would encourage Import of high content oilseeds Like Rapeseed and Sunflower seeds. This will change the Current Level of Import of Veg. Oil by India as happened in China



TIME
OUR MOST
PRECIOUS
RESOURCE



Thank
You



Dr. B. V. Mehta
Executive Director

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