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Indonesia palm oil export ban: Buyers like India have limited alternatives

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Synopsis

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In India, the world's biggest vegetable oil importer, palm oil prices rose by nearly 5% over the weekend as industry prices in shortages in the coming months. Prices also rose in Pakistan and Bangladesh.

Indonesia typically supplies nearly half of India's total palm oil imports, while Pakistan and Bangladesh import nearly 80% of their palm oil from Indonesia

"Nobody can compensate for the loss of Indonesian palm oil. Every country is going to suffer," said Rasheed JanMohd, chairman of Pakistan Edible oil Refiners Association (PEORA).

In February, prices of vegetable oils jumped to a record high as sunflower oil supplies were disrupted from the Black Sea region.

The price rise raised working capital requirements for oil refiners, who were holding lower inventories than normal in anticipation of a pullback in prices, said a Mumbai-based dealer with a global trading firm.

Instead, all oil prices have rallied further.

Global edible oil consumers have no option but to pay top dollar for supplies after Indonesia's surprise palm oil export ban forced buyers to seek alternatives, already in short supply due to adverse weather and Russia's invasion of Ukraine.

The move by the world's biggest palm oil producer to ban exports from Thursday will lift prices of all major edible oils including palm oil, soyoil, sunflower oil and rapeseed oil, industry watchers predict. That will place extra strain on cost-sensitive consumers in Asia and Africa hit by higher fuel and food prices.

"Indonesia's decision affects not only palm oil availability, but vegetable oils worldwide," James Fry, chairman of commodities consultancy LMC International, told Reuters.

Palm oil - used in everything from cakes and frying fats to cosmetics and cleaning products - accounts for nearly 60% of global vegetable oil shipments, and top producer Indonesia accounts for around a third of all vegetable oil exports. It announced the export ban on April 22, until further notice, in a move to tackle rising domestic prices.

Call for dialogue

Meanwhile, the cooking oil national industry body -- Solvent Extractors' Association (SEA) of India has suggested immediate initiation of government to government (G2G) dialogue with Indonesia on the proposed palm oil export ban from April 28 by them as it would have an adverse repercussions in India. Indonesia, which is the world's largest producer of palm oil and meets nearly 50 per cent of the total palm oil requirement in India annually, had announced to ban exports till further notice apparently to contain edible oil prices in their domestic market.

"We have suggested our government initiate dialogue with Indonesian counterparts at the highest diplomatic level on the cooking oil export ban. This will have serious repercussions in our domestic market as half of our total imports of palm oil is from Indonesia and no one can fill up this void," SEA director general B V Mehta told PTI.

SEA liaisons with the Union Food ministry, he said.

Mehta said, "... the industry was not expecting a ban.There will be an immediate impact on prices in the domestic market from Monday itself as the news of the ban has distorted the sentiment."

The cooking oil industry was prepared for a tweak in export duty at worst by Indonesia which is grappling with its cooking oil price spike in their domestic market by about 40-50 per cent.

Indonesia was levying USD 575 per tonne export duty.

"The news will push Malaysia oil prices higher which is our major alternate sourcing market," Mehta said.

"India consumes 22.5 million tonne of edible oil annually of which 9-9.5 million tonne is met by domestic supplies and the rest by imports. About 3.5-4 million tonne of palm oil is imported by India annually from Indonesia," he said.

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