

Indonesia palm oil export ban to hit packaged goods cos

Suneera Tandon

suneera.t@livemint.com

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Indonesia's abrupt export ban on palm oil could disrupt supplies and drive up prices, impacting packaged consumer goods firms and consumers alike. On Friday, Indonesia announced an export ban on palm oil with effect from 28 April. The country is the world's top palm oil producer.

India imports about 8 million tonnes of palm oil annually; the commodity accounts for nearly 40% share in India's overall edible oil consumption basket. Palm oil and its derivatives are used in producing several goods of daily consumption such as soaps, shampoos, biscuits, and noodles.

Companies and industry associations flagged near-term pressure on both supplies and prices of products, including packaged foods and edible oils.

"While there are a lot of unknowns, including the duration of the ban, input (on palm oil and its derivative) prices are likely to stay firm in the near term, with a potential risk to supplies as well. The unorganized sector may face severe constraint but given the tough demand environment, listed players face earning risks on demand and margins—Hindustan Unilever Ltd (HUL), Godrej Consumer Products Ltd (GCPL), and packaged foods have the highest exposure," analysts at Jefferies said in a note on Sunday.

Indian consumer staples have seen high inflation and volatility in input prices. "This development would exacerbate pressures and become a key worry for HUL, GCPL, Britannia, Nestle," the analysts said.

Parle Products Pvt. Ltd, India's largest biscuit maker, said the move poses a big challenge for firms across the packaged consumer goods industry. "That's not just for the food companies, but for FMCG companies at large because there are many other players beyond food firms, including those who



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manufacture soaps and other things. So, it's going to be very challenging. Malaysia, the second biggest palm oil exporter, is facing a production shortfall due to a pandemic-induced labour shortage, and is unlikely to be able to plug the gap. So, the expectation was that Indonesian supplies would take care of it, but this is going to be very difficult. There are already issues with sunflower oil, because of the Ukraine-Russia situation. This is going to add to the challenges," said Mayank Shah, senior category head at

Parle Products.

In the last 12 months, palm oil prices have gone up by 50%; and nearly tripled over the last two years. Meanwhile, sunflower oil supplies and prices have remained volatile

amid the Ukraine war.

On Saturday, *Mint* reported that domestic edible oil prices are set for a surge amid Indonesia's move to ban exports.

Shah said the firm will have to figure out the real impact on prices and how it will mitigate the situation. It has concluded a round of price hikes across its portfolio. On future price hikes, he said it will wait and watch.

Firms have taken a spate of price increases over the last several quarters to tide over volatile commodity prices. Key raw and packaging material prices are witnessing multi-year highs. "There will be an impact and pressure on prices for end consumers. There is clearly a demand-supply gap, this will impact prices," said B.V. Mehta, executive director at The Solvent Extractors' Association of India.

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