

## India's Palm Oil Imports

### What is the issue?

- India has cut import duty on crude palm oil (CPO) and refined, bleached and deodorised (RBD) palm oil.
- It also moved RBD oil from the “free” to the “restricted” list of imports.

### How much palm oil does India import?

- India imported 64.15 lakh metric tonnes (MT) of CPO and 23.9 lakh MT of RBD in 2018-19, the bulk of which was from Indonesia.
- The official data show India imported \$10 billion worth of vegetable oil in 2019-20, making it the country's fifth most valuable import.

### Why does India need so much palm oil?

- It is the **cheapest edible oil** available naturally and its **inert taste** makes it suitable for use in range of foods.
- It stays relatively stable at high temperatures, and is therefore suitable for reuse and deep frying.
- It is the **main ingredient in vanaspati** (hydrogenated vegetable oil).
- It is unlikely that restricting the refined palm oil imports will impact food inflation immediately, as palm oil is not used in Indian homes and also CPO continues to be imported.

### Why India has restricted import of Malaysian palm oil?

- The move has been construed as retaliation against Malaysian Prime Minister who has criticised India's internal policy decisions.
- Since 2017, Malaysia has also been sheltering the Islamic preacher Zakir Naik, who is wanted by India on charges of money laundering, hate speech, and links to terror.
- The import of RBD palm oil has been restricted (not banned) from all countries, not just Malaysia. CPO can still be imported freely.
- Under the trade classification system that India follows, all goods whose import is not restricted or prohibited are traded freely.
- Normally, a special licence is required to import a restricted good.
- The government has neither specified what the restrictions entail nor issued any licences for the import of the restricted RBD.

## Who will be impacted by the decision?

- **Indonesia and Malaysia** together produce 85% of the world's palm oil, and India is among the biggest buyers.
- Both Indonesia and Malaysia produce refined palm oil.
- However, Malaysia's refining capacity equals its production capacity - this is why Malaysia is keen on exporting refined oil.
- Indonesia can supply CPO which would allow India to utilise its full refining capacity.
- The entire refining process increases the price of a barrel of crude oil by about 4%.
- Additionally, there are costs to transporting the crude, which makes it more cost-effective to import the refined oil.
- But the **refining industry** has been demanding that the import duty on refined oil be increased, which would make importing crude oil cheaper than importing refined oil.

## Will restricting imports of RBD palm oil help farmers?

- Restricting refined oil imports will not help farmers directly, as they are not involved in the process of refining.
- However, the restrictions have caused refined palm oil prices to increase.
- If prices continue to hold, farmers will get a better realisation for their crop.
- But the timeframe over which the changes in import policy will have an effect on domestic crop realisation is fairly long, given that palm trees take over 4 years to provide a yield.
- Also, if the demand is met entirely by importing and refining CPO, farmers will be left out of the picture.

## How will Malaysia be affected?

- Malaysia has said that it cannot retaliate against India because it is too small.
- With imports to India, its largest market restricted, Malaysian palm oil futures fell.
- India and Malaysia signed a free trade agreement in 2011, Malaysia-India Comprehensive Economic Cooperation Agreement.
- Under the agreement, India was required to reduce import duty,
  1. On CPO to 37.5% (from 40%) by December 2019, and
  2. On RBD to 45% (from 54%) by December, 2018.
- In 2018, Malaysia exported 25.8% of its palm oil to India.
- If India does not issue licenses for importing refined oil, Malaysia will have to find new buyers for its product.

**Source: Indian Express**

