



Rise in Edible Oil Prices: A Ruinous Effect to India's Economy

Biplob Dey*, Roop Kishore Sharma, Pallavi Bhatt and Debjeet Sharma

Department of Agriculture Agronomy, Doon PG College of Agriculture Science and Technology, India

***Corresponding Author:** Biplob Dey, Department of Agriculture Agronomy, Doon PG College of Agriculture Science and Technology, India.

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Abstract

The food and pharmaceutical sectors have taken notice of the unusual physical, functional, and nutritional qualities of edible oil. In recent years, the price of edible oil has increased dramatically. This paper focuses on examining the impact of the price changes on major edible oils (rapeseed, soybean, palm, and sunflower), which are the main edible oil source in the Indian Agriculture Industry. We examine the scale of the impacts, which are mostly commodity-specific, as well as the causality from first to last consequences on individuals as a result of edible oil prices. Finally, in the conclusion section, we explore how we might address the issue of growing prices.

Keywords: Price; Edible Oil; Economy; Oil Seed; Market

Introduction

Oilseeds are not high-yielding crops as compared to grains and other comparable crops. Traditional cereals crops are often riskier as compared to oilseeds that are mostly cultivated under rainfed conditions. The market price support is also ineffective. However, India is a key player on the global oilseeds map, both in terms of area and production. India is the 4th largest contributor of oilseeds after the USA, China and Brazil (*National Mission on Oilseeds and Oil Palm, NMOOP*). India accounts for around 20 percent of the world's land area and 10 percent of global output. Mustard seeds and their oil is used in cooking purposes and young plant leaves are utilized for vegetable purposes. The oil cake prepared is used to feed livestock.

India is one of the world's major importers of edible oils because domestic production falls short of demand (*Business Standard, 10th May 2022*). To bridge the gap between demand and supply, the economy must significantly rely on imports. Imports account for about 56-60% of the edible oils consumed in the nation (*The Economic Times, 11th July 2022*).

Madhya Pradesh leads it way in overall oilseed output (31%), followed by Rajasthan, Gujarat, and other states in India. Smaller

oilseeds are mostly farmed in Gujarat, Madhya Pradesh, Rajasthan, Punjab, and Haryana in northern India. Larger oilseeds are mostly farmed in Kerala, Tamil Nadu, Andhra Pradesh, and Karnataka in India's southern states.

Indian oil seed market

A diverse range of oilseed crops is grown in the various agro-climatic areas in country. Groundnut, soybean, and rapeseed-mustard account for more than 88 percent of the total oilseed output. Soybean is the most valuable crop farmed, with more than 95 percent of total output coming from Madhya Pradesh, Maharashtra, and Rajasthan.

The second most important oilseed mustard crop is widely grown in India's northern states. Rajasthan has the highest mustard cultivation rate, at 46.06 percent, followed by Haryana (12.60 percent), Madhya Pradesh (11.38%), Uttar Pradesh (10.49%), and West Bengal (7.81%).

Groundnut, which was the largest oilseed crop production in the 1990s, has declined in production and is currently the third most significant oilseed, produced in Gujarat, Andhra Pradesh, Tamil Nadu, Rajasthan, Karnataka, and Maharashtra, which account for around 91% of total groundnut output in the nation.

Year	Production(%)	Consumption(%)	Export(%)	Import(%)
2010	3.96	5.93	2.53	0.08
2011	4.10	6.00	2.27	0.13
2012	4.08	5.94	2.25	0.12
2013	3.48	5.64	1.60	0.12
2014	3.05	5.33	0.85	0.16
2015	2.75	5.26	0.47	0.13
2016	3.02	5.46	0.67	0.12
2017	3.06	5.57	0.67	0.11
2018	3.08	5.65	0.65	0.11

Table 1: India's position in the global oil seed market.

Source: NSAI (National Seed Association of India), Company Reports and ICFA (Indian Chamber of Food and Agriculture), 2018.

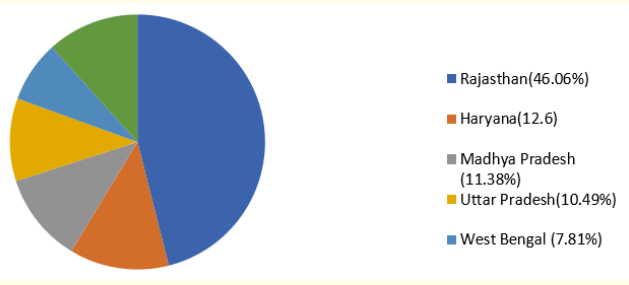


Figure 1: Mustard Producing States.

Source: APEDA (Agricultural and Processed Food Products Export Development, 2020 Authority).

Year	Production (kt)	Consumption (kt)	Export (kt)	Import(kt)
2010	33992.00	32,661.00	407.00	181.00
2011	34422.00	34,495.00	328.00	351.00
2012	35234.14	35,170.84	320.90	381.38
2013	36303.23	36,147.58	341.21	363.03
2014	36,262.84	36,429.32	297.24	370.20
2015	37,045.89	37,075.93	286.67	348.80
2016	37,479.40	37,548.34	267.51	336.25
2017	37,796.85	37,915.62	246.48	333.85
2018	38,637.23	38,557.07	247.22	318.65
2019	40,004.94	39,686.14	272.87	294.55
2020	41,008.93	40,795.18	289.29	282.95
2021	40,679.24	41,150.47	242.74	264.73

Table 2: Indian oil seed market- production, consumption, export and import analysis.

Source: OECD Statistics (Organization for Economic Co-operation and Development), 2022.

Domestic issues which affect Indian oil seed production

- **Lack of awareness:** Indian farmers primarily practice traditional farming methods and techniques. Farmers were hesitant to use new varieties, methods, and technology since they were unfamiliar with them.
- **Climate:** Climate change is another major aspect influencing production. Farmers in India are heavily reliant on the weather; changes in the weather, such as heavy rainfall, temperature, and frost, have a detrimental influence on productivity.
- **Poor Transportation System:** India's transportation system is poor; mostly in rural regions, transportation occurs via road, but the quality of the road is nearly ruined, and rising petrol and diesel prices are also factors for the price rise of various products.
- **Traders Issue:** Middlemen buys produce or harvested product from farmers with very little money and store it; when grain prices rise, they release the grains and profit greatly.

In May 2022, the price of edible oil reached 11-year highs, as the monthly average retail price of cooking oils increased by more than 60 percent in a year, further alarming customers already suffering from economic and health problems as a result of the coronavirus pandemic.

The reason behind the price increase

In February 24, 2022, Russian President 'Vladimir Putin' started "special military operations" to "demilitarise and denazify" in Ukraine. Western countries have implemented punitive penalties to deter Putin's hostile behavior. As a result of these sanctions, Russia has become the world's most sanctioned country. The price of crude oil has risen to its highest point in eight years. This has a direct or indirect impact on the global financial system, as well as in India.

According to a report, Ukraine is the world's top sunflower grower, which may result in a 25 percent or 4-6 lakh tonne crude sunflower oil supply deficit in India next fiscal. Ukraine supplies about India's 70% of crude sunflower oil while Russia supplies roughly 20% of India's demand. Sunflower oil from Russia and Ukraine accounts for up to 90% of India's sunflower oil. According to figures supplied by the commerce ministry, India consumes around 2.5 million tonnes (mt) of sunflower oil each year, but only produces 50,000 tonnes and imports the rest. Sunflower oil accounts for 14% of all imported edible oils. It is the 4th most con-

sumed edible oil, after palm (8-8.5 mt), soybean (4.5 mt), and mustard/rapeseed (3 mt). Sunflower oil prices increased from Rs -95 per liter in February 2019 to Rs -206 per liter in April 2022.

When Indonesian President Joko Widodo announced his plan to ban exporting palm oil on April 22, it threw the crude edible oil and derivatives market into a frenzy, with crude palm oil prices soaring 10% within days. After all, Indonesia is the world's top producer and exporter of crude palm oil, with 2.2 million tonnes exported each month. Exports of crude palm oil, refined palm oil, refined, bleached, and deodorized palm olein, palm oil mill effluent, and used cooking oil are all banned in Jakarta. The supply interruption occurs against a backdrop of a 25% increase in the average price of refined edible oils year over year this fiscal year, while crude edible oil prices have risen due to supply-side issues. We saw a similar issue with soybean crude oil, crude soybean oil has soared following a bad crop in Brazil.

Soybean oil and crude palm oil contribute to more than 75% of the country's edible oil imports, and any further increases in raw material prices may force manufacturers to take on more debt to satisfy increased working capital needs.

How did India's edible oil economy recover?

"India's progress would be challenged by the rising issues emanating in the world," Finance Minister Nirmala Sitharaman said earlier at the annual Asia Economic Dialogue. Peace is under threat, and after the Second World Conflict, a war of this magnitude, with such global impact, is unlikely to be felt,"

The slow growth of oil seed production in India can also be attributed to a lower level of farm mechanization, as several studies show a direct relationship between farm mechanization and crop productivity, as the use of improved implements has the potential to increase productivity while lowering cultivation costs.

To bridge the gap, the government of India has announced the National Mission on Edible Oils as a centrally-sponsored project, which is being executed collaboratively by the national and state governments, with a specific focus on the northeast area and the Andaman and Nicobar Islands.

We just need to understand the fact that issues are only going to get worse. We must believe in and appreciate our Indian farmers if we want to revive our agricultural sector. Our edible oil busi-

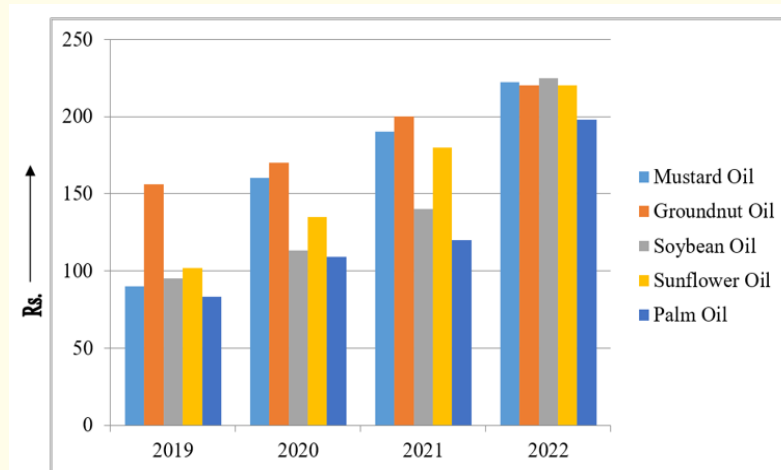


Figure 2: The price difference between various years in edible oil.

Source: Times of India,2022.

ness will benefit from an MSP-style framework on oil seed crops. Farmers in India must also learn new agricultural technologies and procedures and put them into practice in the field.

The Centre wants to cover an additional area of 6.5 lakh hectares for oil palm by the year 2025-26 and thereby reaching the target of 10 lakh hectares ultimately. The production of crude palm oil is expected to rise to 11.20 lakh tonnes by 2025-26 and to 28 lakh tonne by 2029-30, according to some research report [1-10].

Conclusion

In these recent days edible oil price is a little bit reduced , in this meantime, we don't need to celebrate. Due to USA's economic strategy, global inflection is rising we must need to prepare ourselves for future strick. If we need our agriculture economy sector to be inflation free then we must need to believe in our desi farmer, need to improve agriculture techniques, and provide more government agriculture schemes only then price rising issue will be solved.

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