

MOVING TOWARDS
RESPONSIBLE SOURCING:

India and Palm Oil

November 2021

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PREFACE

India is one of the largest emerging markets with a complex equation between its increasing population, widening income inequality and food insecurity, combined with climate vulnerability of extreme weather events across its diverse geography and rapidly depleting water tables.

The COVID-19 pandemic has been a stark reminder of the interconnectedness of global supply chains and their intersectionality with issues of access, climate, gender and income. While international trade brings opportunities for employment and economic development, at times, it also contributes to negative environmental and social impacts in producing geographies. India remains heavily reliant on the import of palm oil, which directly contributes to increased deforestation and peatland destruction in Indonesia and Malaysia.

Palm oil is the most commonly used edible oil in India presently. While it remains integral to India's plans to tackle hunger amongst the low income population, the current pattern of palm oil production harms the industry's long term sustainability.

This report is a first view of the Indian market, and it aims to build awareness on palm oil sustainability, demonstrating the link between palm oil imports and deforestation. According to WWF¹, palm oil from high-deforestation risk areas in Indonesia and Malaysia has been traced to India. This report critically examines the palm oil market in India, and recommends a multi-faceted course of action to utilize its demand to drive responsible production of palm oil. It posits that moving a diverse and complex market like India requires coordinated action from multiple stakeholders including the government, supply chain companies, civil society and end consumers.

We are at a decisive point in history, with the IPCC calling for a sobering alert to act quickly in the interest of avoiding a climate catastrophe. There is now no time for delayed action, and the world's rainforests need to be protected by halting further deforestation, restoring degraded forests and improving the ways in which our food is grown.



1. Source: Palm Oil Trade from Key Landscapes in Asia: Risks and Opportunities for Sustainability Action

1. INTRODUCTION

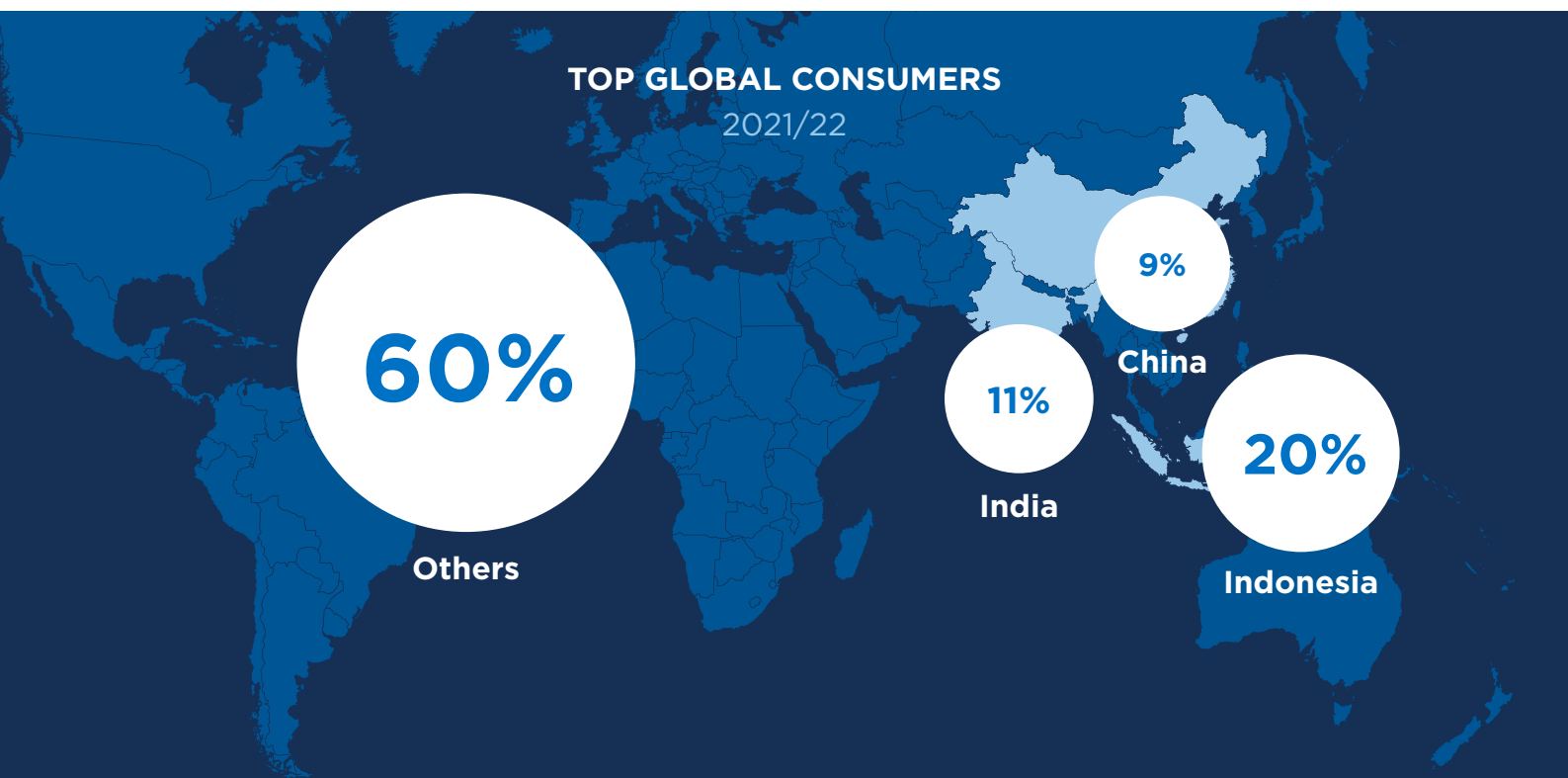
India plays an influential role within the global-political framework of palm oil trade. The Indian market holds a distinguished position on the global stage to influence palm oil-linked deforestation and human rights violations by the virtue of its sheer size.

Over the past 2 years, the Markets team for IDH in India has been working on promoting responsibly sourced palm oil for this market. In October 2020, the team commissioned the first-ever baseline study on palm oil import volumes into India through KPMG. The study triangulated data points from figures reported to the Government of India, port level import volumes and as reported by downstream companies in India to voluntary standards and certification agencies. The study was concluded in March 2021 and serves as an essential tool to understand and improve sector governance through verifiable import data in India for palm oil and responsibly sourced palm oil.

The oil palm tree produces high-quality oil which finds utility as an edible oil across the world. Growing populations across the Global South and surging demand for affordable edible oils are some of the key driving factors that are likely to expand the global market for palm oil. While Asia accounts for two thirds of the global demand, the markets in Indonesia, India and China alone contribute to 40% of global palm oil consumption.

Within this context, India is the largest importer of palm oil globally. There is extensive use of palm oil and derivatives in food (90%) and cosmetic/personal hygiene industry (10%). Palm oil consumption has increased by at least 230% in the last two decades. Indian industry and policy stakeholders are beginning to also become aware of the offshore deforestation and peatland destruction issues associated with palm oil imports, primarily from Malaysia and Indonesia.

Palm oil lies at the core of India's edible oil market owing to its low prices and the country's need for food security. However, understanding of palm, its various derivatives, and daily interactions with the commodity through various segments (cosmetics, confectionery, pharmaceuticals, and others) remains limited in the Indian consumer context. Furthermore, deforestation risk associated with India's ecological footprint receives negligible media attention in the country and is further exacerbated owing to an absence of on-product labelling.



PALM OIL IMPORTS AND CONSUMPTION IN INDIA



India has the potential to play a vital role in influencing efforts to stop deforestation and peatland destruction in production geographies. Due to a growing demand in edible oil, and global land scarcity, oil palm emerges as the most productive oilseed. On a per hectare basis, oil palm trees are 4-10 times more efficient at producing oil than temperate oilseed crops such as rapeseed, soybean, olive and sunflower. Thus, a switch to other vegetable oils would lead to further loss of tropical ecosystems and worsen global greenhouse gas emissions.



The Framework Agreement on Comprehensive Economic Cooperation between ASEAN and India, signed in October 2003 serves as a legal basis to conclude further agreements in the ASEAN-Indian Free Trade Area (AIFTA). Economic co-operation activities under the AIFTA are now being undertaken on agriculture, fisheries and forestry as well as government procurement. There is also the Act East Policy, a diplomatic initiative by the Government of India to promote economic, strategic, and cultural relations with the vast Asia-Pacific region at different levels. These could be further used to improve India's stewardship on climate change in the South-South trade narrative.



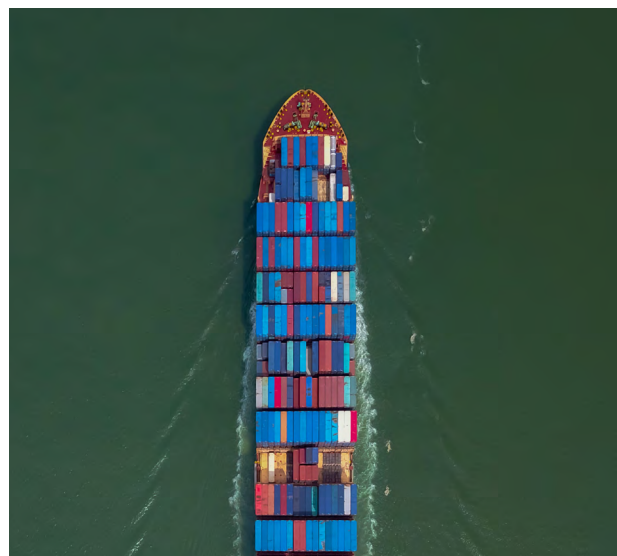
2. KEY FINDINGS

A majority of palm oil imports to India originate from Indonesia, Malaysia, and Thailand. According to the EXIM database, the total imports from these three countries in 2019 and 2020 accounted for over 90% of the total palm oil imports.

The entry of the oil into India takes place from more than 27 different ports. In 2019 and 2020, imports from the top 10 ports covered 96.5% of the total imports. Crude palm oil was found to be the highest imported palm oil category, followed by RBD palmolein.

The process of palm oil imports further adds to the already complex value chain. The chain of custody begins at the palm oil plantations, flows through traders, ship owners, clearing and forwarding (C&F) agents, refiners and finally reaches companies.

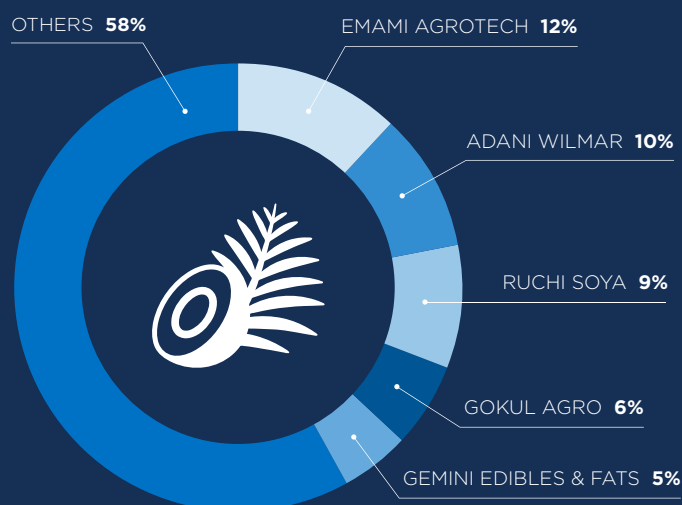
Over 30% of the total palm oil was found to be imported by just three companies in India: **Emami Agrotech, Adani Wilmar and Ruchi Soya Industries.**



TOP 10 PORTS FOR PALM OIL IMPORTS



IMPORTS BY COMPANIES



At the time of this study, India specific data on responsible sourcing commitments by these companies was not available

3. CONSUMPTION – TRENDS

Palm oil constitutes about 56% of the total edible oil imports in India. There is a uniform consumption pattern across India with minor seasonal variations.

Palm oil has been distributed by several state governments over the past few years under various social welfare schemes such as the Public Distribution System (PDS), ICDS (Integrated Child Development Services) and many other special state specific schemes. The respective State Civil Supplies Corporations are the governing bodies responsible for procurement of palm oil as per the states' requirements. Since the placement of refined palm oil under a restricted category, these agencies do not import palm oil directly but procure it from local refiners and traders through a tendering process. The states of Andhra Pradesh, Tamil Nadu and Karnataka were found to be actively distributing palm oil under these social welfare schemes.

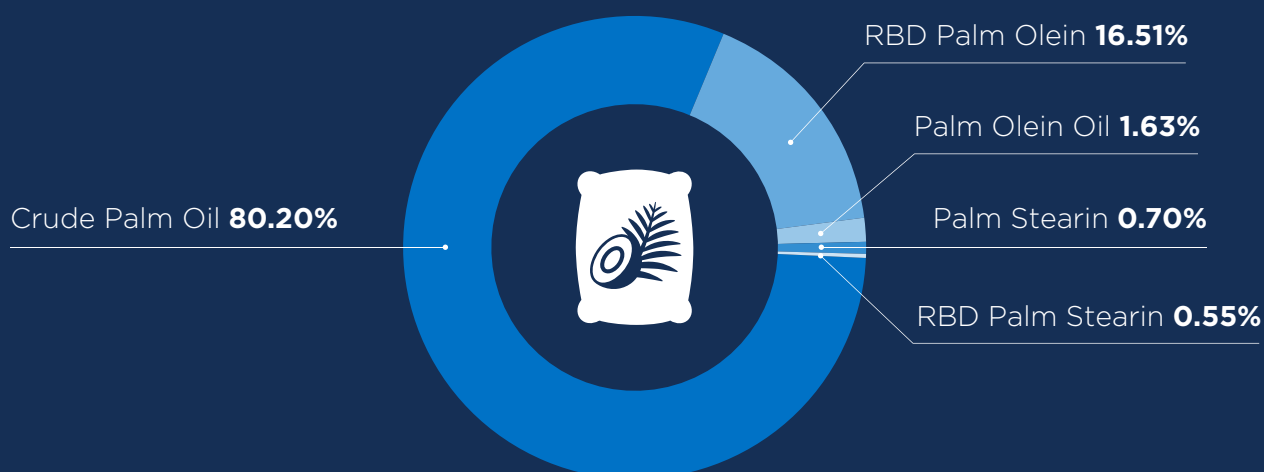
Palm oil remains a highly price-sensitive commodity. Fluctuating import duties, increased domestic production and potential shifts to alternative edible oils remain key factors affecting palm oil imports and will continue to shape the industry in future as well. Similarly, the lack of plantation status to palm and inadequate irrigation sources pose threats to domestic palm production.

India is a snacking powerhouse with the market valued in 2018 at US\$ 4.4 billion, which is expected to reach US\$ 7.8 billion by 2022. Palm oil and palm olein are the most suitable oils to be used in the snacks industry, particularly, for deep-fat industrial frying of snacks. The storage stability of palm oil that offers long shelf life to fried products and excellent frying medium, coupled with its semi-solid and trans-fat free nature and odourless profile are huge advantages for the food industry. This could very well translate to increased imports in the long run to keep up with the growing industry and its demand.





CATEGORY WISE IMPORT OF PALM OIL 2019 & 2020



Palm oil is extracted from the mesocarp of the fruit of an oil palm species called *Elaeis guineensis*. **Crude palm oil** (CPO) is normally processed by a physical refining process in which the oil is turned into a golden yellow refined oil for further end use applications.

Palm oil is further separated into two products, palm olein and palm stearin, through a process called fractionation which cools the oil under controlled conditions to low temperatures, followed by filtration of the crystals through membrane press. Palm oil that has been refined, bleached and deodorized from crude palm oil to remove smell and coloration is called **RBD palm oil**, which is further used to produce palm olein and palm stearin.

Palm olein is the liquid fraction obtained from fractionation of palm oil. It is fully liquid at ambient temperature in warm climates. It can be blended with various vegetable oils in different proportions to obtain liquid oils which can withstand lower temperatures.

Palm stearin is the solid fraction from the fractionation of palm oil. It can be used in blends with other vegetable oils to obtain suitable functional products such as margarine fats, shortenings, vanaspati and others. Palm stearin is a useful natural hard stock for making trans-free fats. Besides edible usage, palm stearin also possesses suitable properties for making soaps and formulating animal feeds.²

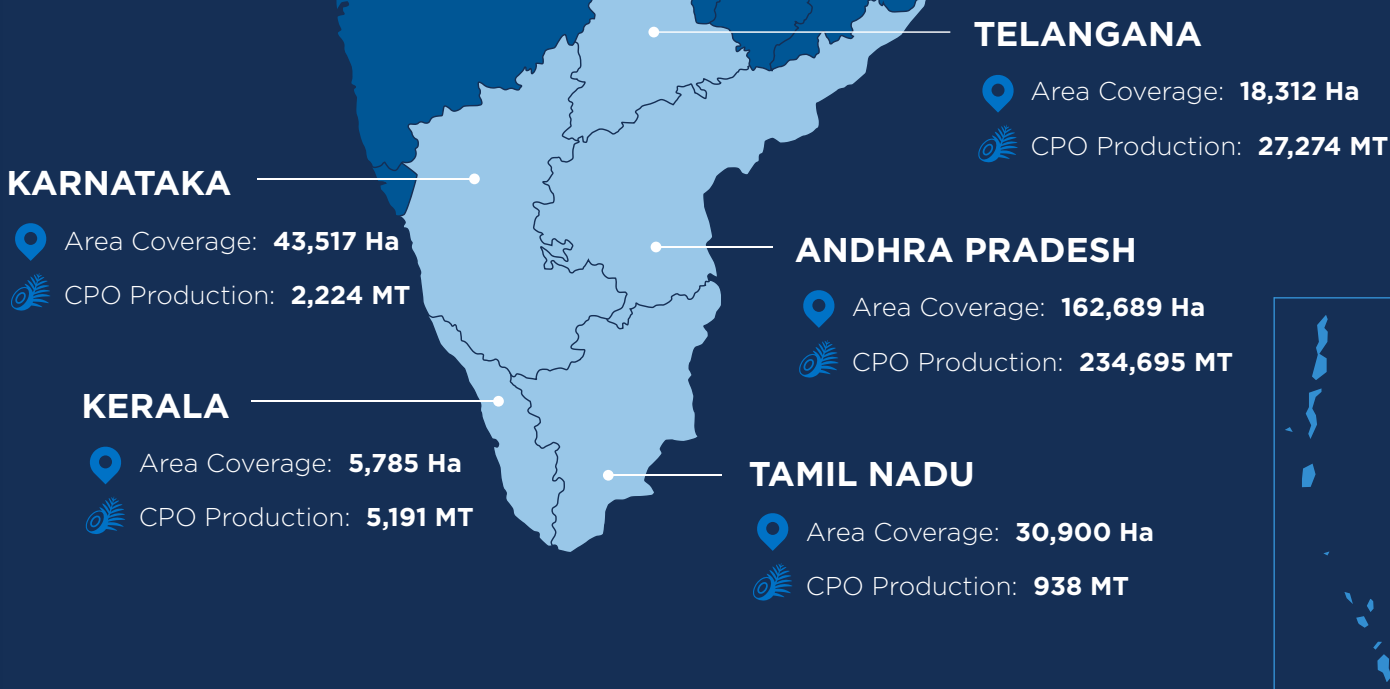
2. Malaysian Palm Oil Board (MPOB)

4. PRODUCTION IN INDIA – KEY HIGHLIGHTS

As of 2017, palm oil cultivation is actively undertaken in 16 states in India. According to National Mission on Oilseeds and Oil Palm, Andhra Pradesh leads palm oil production in India contributing approximately 87% of the country's production, followed by Telangana (6-9%), Kerala, Karnataka and Tamil Nadu. Other palm oil-producing states include Orissa, Gujarat, Goa and Mizoram.

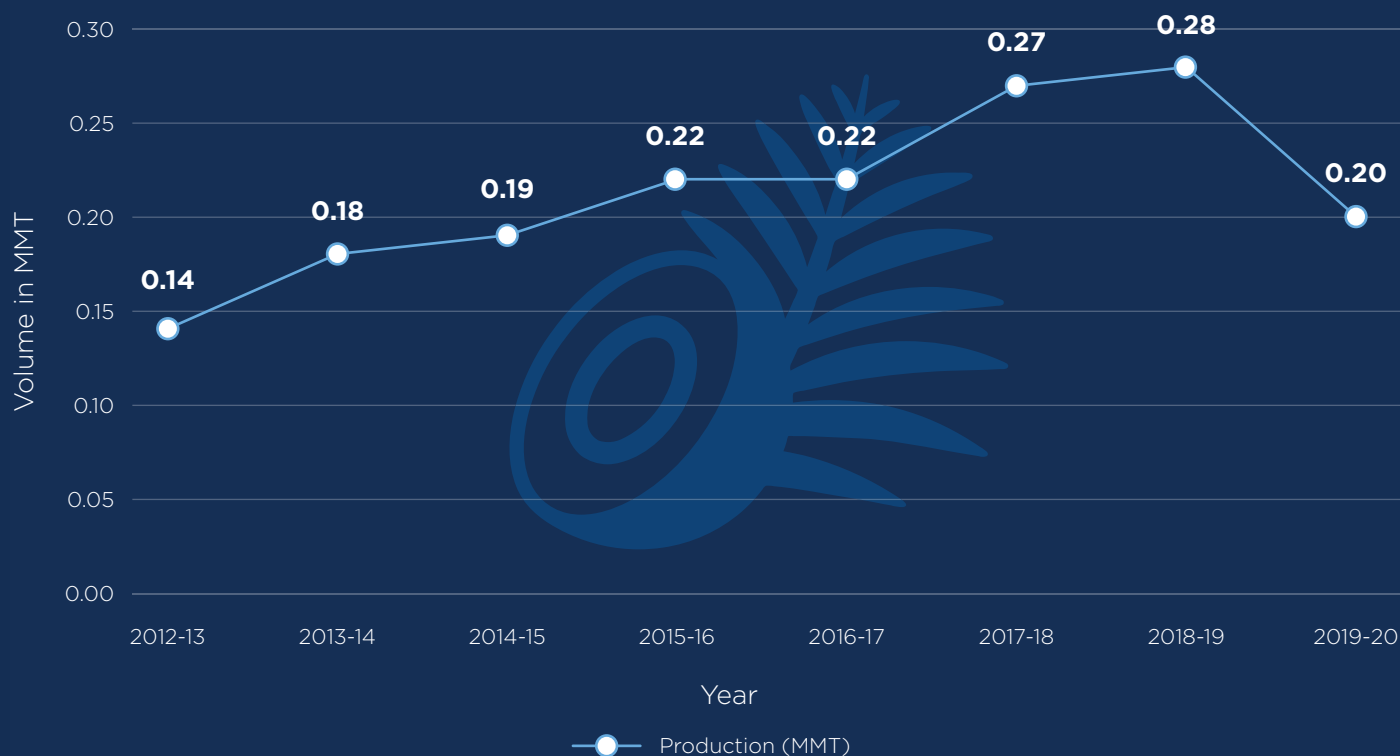
The total CPO production for 2017-18 amounted to 270,322 MT and the total area under cultivation up to March 2018 was 331,082 hectares as opposed to 8585 hectares in 1991-92³.

Recently, the Government of India earmarked US\$15 billion under National Mission on Edible Oils-Oil Palm (NMEO-OP) to further boost domestic production. The mission will have a special focus on the North-eastern states and the Andaman and Nicobar islands, due to the conducive weather conditions in the regions. This is an effort towards the broader goal of reducing import dependence, generating employment and increasing farmer incomes.



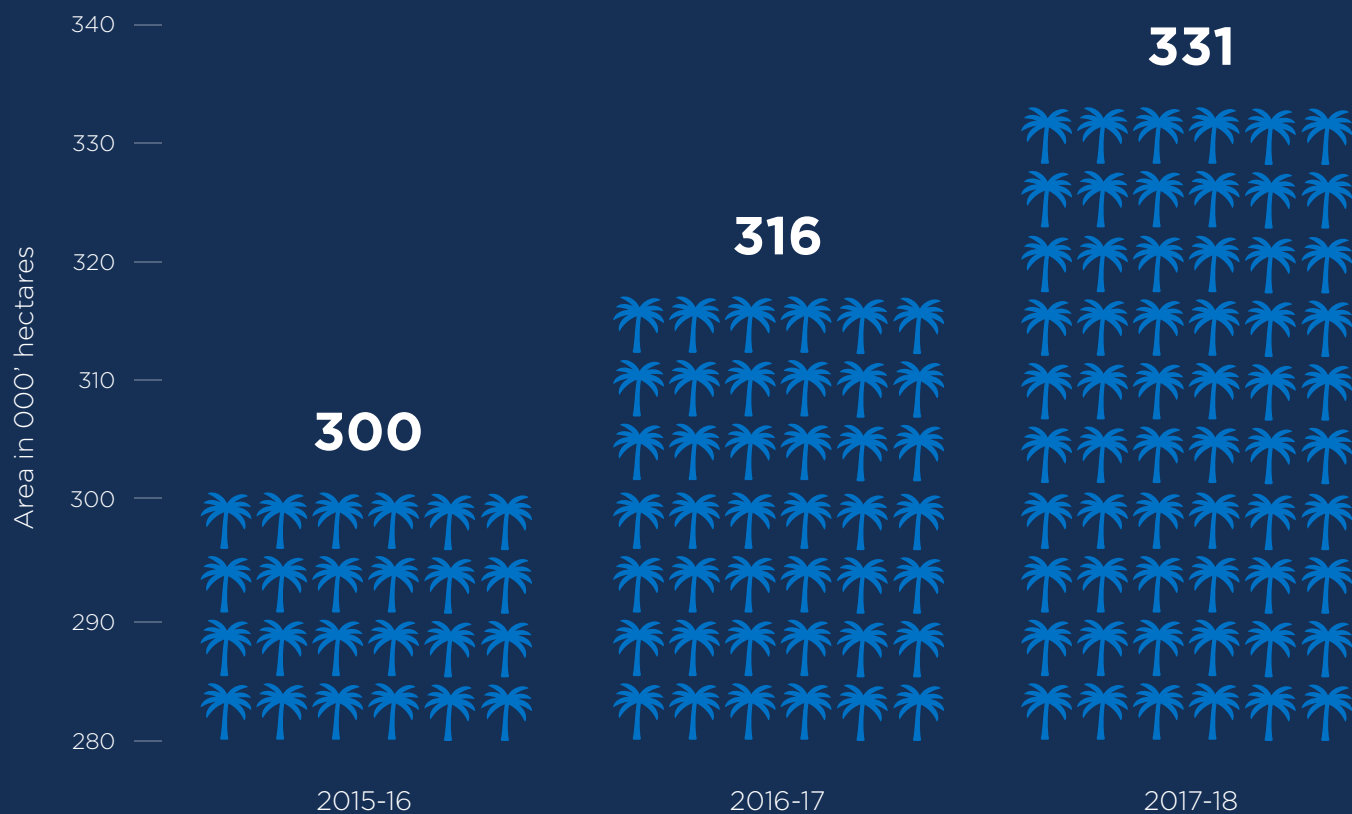
3. Brief Note on Oil Palm, National Food Security Mission, 2018

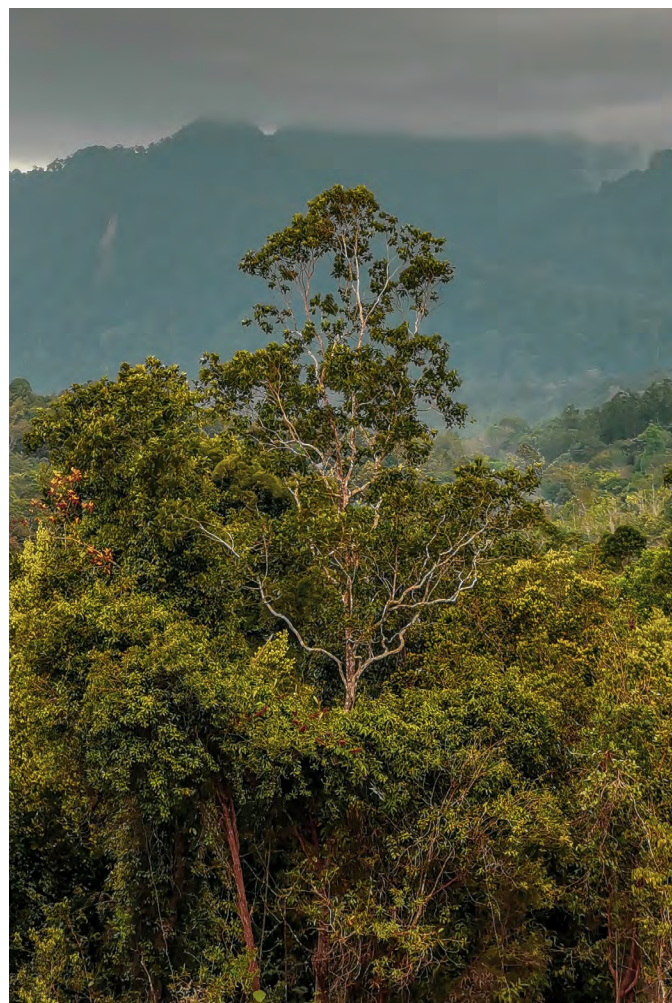
DOMESTIC PALM OIL PRODUCTION



TOTAL CULTIVATED AREA

ANDHRA PRADESH / KARNATAKA / KERALA / TAMIL NADU / TELANGANA





The central government has recently begun encouraging private player participation to scale up the existing efforts on domestic production with companies like Godrej, Ruchi Soya and 3F Industries. The companies sign a Memorandum of Understanding (MoU) with the respective State government, and are allocated area/Mandals/districts for new plantations.

Despite the ambition of central government to boost domestic production, some of the industry experts interviewed for this study believed that domestic production is unlikely to keep up with India's growing consumption levels.

Establishing large-scale plantations of oil palm can pose challenges including:



The Land Ceiling Act

which limits farmers from buying or leasing more land (beyond the ceiling limit), expand and make operations efficient for increased output.



Palm lacking 'plantation' status

compared with other plantations like tea and coffee, hence depriving farmers of government incentives in the form of tax benefits, subsidized loans and extension services. The issue is governed by both state and central laws - the implementation of which may differ regionally.



Lack of adequate irrigation facilities

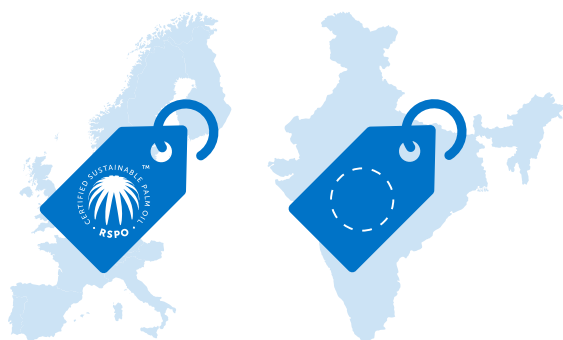
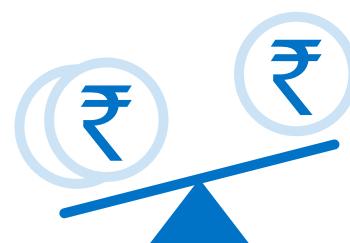
required for palm, as it has a significant water demand amounting to about 240 litres per plant per day.

5. BARRIERS FOR UPTAKE OF RESPONSIBLY SOURCED PALM OIL

Some of the major barriers to large scale uptake of responsibly sourced palm oil in India are listed below:

Price Implications

The price of certified sustainable palm oil remains higher than its conventional counterpart and is the deciding factor in sourcing decisions as it directly affects the bottom line.



Lack of Accountability and Awareness

There is limited awareness about responsibly sourced palm oil in the Indian market and amongst individual consumers. Strong regulatory requirements around responsible sourcing of palm oil further can very quickly push for positive action to limit offshore deforestation risks inherent in our food system.

Large Population

With over 1.37 billion citizens, India continues to have a rising population. About 84 million people in India live in extreme poverty which makes up 6% of its total population as of May 2021⁴, and achieving food security through enhanced production and affordable sourcing often takes precedence over responsible sourcing for the Government of India. The cost-effectiveness of palm oil makes it a preferential choice for large-scale industrial edibles and consumer goods production. A common sentiment observed amongst some industry stakeholders was that even if the international companies push towards responsible sourcing, there would still be many small Indian industry actors who would continue to follow the same procurement practice to maintain cost-effectiveness, thus, defeating the overall purpose of addressing a global cause.



4. Source: World Poverty Clock

6. WAY FORWARD

Thought Leadership within the Government of India

Since palm oil import and trade concerns multiple ministries and key departments in India, there is a need for centralised coordination along with a defined steering role on the sustainability agenda in relation to palm oil and India's deforestation footprint. India is also well positioned to lead regional stewardship for sustainable trade and set a precedence within the Asian continent.



Monitoring System for Tracking Import Details

A key government agency could be designated for maintaining a central repository of palm oil imports at all terminals and ports. This will improve transparency and accountability through better documentation of origin, port of import, company specific responsibly sourced volumes and overall volumes. This will, in turn, aid the Government of India to inform policy decisions and improve performance on SDGs.

Standardization of Duty and Tariff applicable on Palm Oil

Fluctuating tariffs and duty structure were found to be some of the recurring sourcing risks for market stakeholders during the study. Long-term tariff structures will help in providing stability to the sourcing risks faced by companies.



Strengthening Efforts on Procurement of Responsibly Sourced Palm Oil

The lack of a strong regulatory push on deforestation-free supply chain in palm oil imports has been a driver for the low uptake of responsibly sourced palm oil. There is a need to strengthen existing work by the Sustainable Palm Oil Coalition of India (I-SPOC) and the Indian Palm Oil Sustainability Framework (IPOS) to improve the Global South dialogue. This would also serve as a step towards creating a level playing field to help Indian companies in transitioning towards responsible palm oil sourcing practices.



EU countries have revised their guidelines in recent years and now use RSPO certification as a major criterion for green public procurement. The European Sustainable Palm Oil initiative also offers a government endorsed concerted effort on sustainable consumption of palm oil. With its global experience and teams, IDH is working on co-creating solutions, such as SourceUp, promoting thought leadership within the Government of India and strengthening efforts on responsible sourcing in India.

Effective Partnerships: NGOs and industry associations like Indian Vegetable Oil Producers'

Association (IVPA) and Solvent Extractors' Association (SEA) could leverage their combined expertise for improved awareness on environmental and social issues linked with palm oil production and imports.

As global commodity prices, trade relationships, as well as regional stewardship evolve in a post-COVID-19 world, it will be an opportune time for India to strengthen its own position in setting the sustainability agenda. This can be crucial in South-South deliberations and global efforts to combat climate risk, halt deforestation and address human rights violations related to palm oil production.

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