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Palm Oil Crisis in India's FMCG Sector – A Sustainability Dilemma

Namrata Kishnani[1]
Prof. Dr. Vivek Sharma[2]

Abstract:

The FMCG companies in India and world over relies heavily on Palm oil as one of the core ingredients is going through difficult times. Oil Palm plantations have resulted in phenomenal ecological damage and biodiversity in southeast Asian countries which played a significant role in socio-economic development of the local community earlier. The supply chain disruptions along with pressing environmental or social concerns have negatively affected the balance sheets of Indian FMCG companies who was already under the strain of foreign currency fluctuations due to high import dependency. The government has initiated multiple programs under National Mission on Edible Oil to develop prospective solutions to resolve the crisis through sustainable palm oil agricultural practices as supporting environmental norms yet profitable outlook for self-consumption, leveraging government subsidies, inputs and technology through research and knowledge transfer. The study suggests the best competitive strategic measures which can be adopted.

Keywords: *Sustainable, Palm oil, Crisis, Dilemma*

Introduction:

India is the second largest consumer of Palm Oil after Indonesia in world. Nearly 90% of Palm oil of 8.5 million tons imported is widely used edible oil used in packaged food items such as cookies, packaged breads, packaged soups, cakes, biscuits, ice creams, margarine, chocolates, noodles, frozen meals, pancakes, dried nuts, infant formula, fast foods-pizza base, cereals, non-dairy creamers, stock cubes or gravy granules, salad dressings, apart from lipsticks, soaps, shampoo or detergents. Fast Moving Consumer Goods (FMCG) companies highly depend on the Palm Oil or vegetable oil (glyceryl) as it is popularly known. 72% of the world demand of palm oil comes from the food industry as it increases the shelf life of the food items while it is colorless and odorless. It is partially hydrogenated unlike other edible oil that creates trans fats increasing the cholesterol level in food. It is also known as one of the most efficient food crops relative to other oils. The productivity is nine times more per hectare without much use of fertilizers and pesticides. India is a leading consumer of Palm Oil, importing 1.08 million metric tons in July 2023 mainly from South East Asian countries like Indonesia, Malaysia and Thailand.

Palm plantations in the last decade have been economically significant to the economic development of South Asian countries like Indonesia and Malaysia as most of the landholding belong to marginal farmers. However, the increasing demand of palm oil for commercial reasons by companies from 13% to 30% in the last two decades has threatened the

[1] Assistant Professor -The Bhopal School of Social Sciences
[2] Director-CRIM Barkatullah University- Bhopal

environmentally rich and bio-diverse forest areas of the world. The commercial development of palm forests has led to wide scale clearance of the diverse forests that have been the habitat of endangered wild animals like tigers, elephants, rhinos, and many more since decades in developing countries. Indonesia is the world's largest edible oil supplier that accounts for more than a third of world's supply.

However, the latest developments in the supply chain and diversion of palm oil usage towards biodiesel has led to further worries for both the Indian FMCG companies and the government alike. Indian FMCG companies like Hindustan Unilever, Godrej foods, Marico, Nestle, Patanjali, ITC and others faced a huge setback on their profit margins with the surge in the prices of palm oil and ban on exports of palm oil by Indonesia in November 2022. The global markets are severely affected by the political tensions by the war between Russia and Ukraine and tensions in Gulf, are hit by the poor supplies of edible oil and inflationary pressures spiraling to economic crises. Government and companies were at crossroads due to escalating national security tensions and concerns led by food shortages, inflation and economic emergency. The high dependence of FMCG sector on palm oil imports from South Asia is falling short of supplies due to import restrictions imposed from Indonesia. Increasing demand for raw materials and stressed supply chain has forced FMCG companies (Godrej consumer products, Unilever, Nestle, Amul and rest) to pass on some burden to consumers by increasing the prices of their products by 10-20% on the consumers leading to shrinking profit margins and poor sales.

Review of literature:

Giacomin (2018) South East countries have emerged as a leading producer of palm oil having a pre-dominance in global markets with increasing demand for palm oil. Soon after the end of colonial era in 1950s poor infrastructure, regulation and wages of labour hampered the growth of trade in Africa that diversified the production to south east Asian countries. Cooperation for resource optimization, knowledge exchange within the public private sector and competition between Africa and South East Asia has led to historical development of palm oil production in Asian countries with nearly same climatic and natural conditions substituting rubber plantation. The diverse commercial use and dynamics of agricultural trade supported socio-economic development. However, it fails to address the global concerns on sustainability, carbon emissions, regulatory standards and conflicts of marginal land holdings. It suggests sectoral commitment and initiatives by the stakeholders to develop new performance standards leveraging research technology.

Pacheco *et.al.* (2018). The rapid expansion of the palm oil industry, covering approximately 20.2 million hectares globally, particularly in Malaysia and Indonesia, has sparked significant social and environmental concerns. The industry faces a complex regulatory landscape, where both state and non-state actors influence sustainability measures. Effective governance involves balancing legitimacy and effectiveness, addressing stakeholder conflicts, and promoting regulatory harmonization. Noteworthy policy measures include declaring oil palm as a plantation crop, providing low-cost credit, and enhancing distribution of quality planting materials. Research and development, subsidies for critical inputs, and infrastructure improvements are crucial for supporting smallholders and boosting production. Efforts to

protect forests and peatlands, such as Indonesia's moratorium on primary forest conversion, are vital, though they have had limited success in curbing deforestation. International initiatives like RSPO and ISCC certifications aim to foster sustainable practices, yet smaller producers struggle with financial and technical barriers. Comprehensive multi-level governance and innovative solutions are essential to address these challenges and promote sustainable palm oil production.

Sagar *et.al.* (2019) India being the largest consumer of palm oil globally as per the reports of H.S. Sagar, Kiel University (2019) has raised ecological concerns on sustainable consumption. The study discusses India's status of palm oil production with recent initiatives of government to promote domestic cultivation. The widespread economic and ecological consequences of growing palm oil imports from south east Asian countries like Malaysia and Indonesia have led to socio-economic discussions worldwide. There have been reports suggesting depletion of ground water reserves, scattered and heavy precipitation in few areas while prolong draught conditions in most of the region with evidences of extinction of species that may result in collapse of ecosystem in North eastern states of India. The article accentuates adoption of an integrated model involving communities across the scientific research, environment, industry and socio-political areas for developing sustainable effective framework. Strict adherence to organic agricultural policies with larger involvement of local community, Roundtable on Sustainable Palm Oil (RSPO), NGOs and village panchayat for ethical promotion of knowledge sharing and participative decision making as per international environmental regulations. Managed Aquifer Recharge, injection wells and infiltration structures have proven fruitful in other countries like Australia may result in dual goals of community welfare and environment conservation.

A study by K. Latha (2024) explored the trends in India's palm oil imports from April 2007 to March 2023. Using various statistical methods, including linear regression and non-parametric tests, they identified significant import growth in specific months, notably September. The analysis revealed a weak but noticeable trend in import growth, with the data showing autocorrelation and deviation from normal distribution. These findings highlight the complexity of import patterns, The study concluded that understanding these trends is crucial for policymakers and industry stakeholders to make informed decisions. Future research should investigate the impact of policies, market dynamics, and sustainable practices on imports. Insights from this study can guide strategic decisions regarding production, imports, and sustainability in the edible oil sector.

Rao *et.al.* (2024) The study gives insights on agronomical status of palm oil production, economic feasibility and limitations of indigenous palm oil varieties in Andhra Pradesh. It draws significant evidences for integration of indigenous and exotic agricultural practices to address sustainability issues. The researchers recommend valuable contributions for agriculturalists, industry and policymakers for incentivizing sustainable palm oil production domestically. In order to meet with ever increasing demand the government has initiated seed banks for supplying both hybrid and indigenous varieties under Oil Palm Development Programme (OPDP), the Government of India. It gives a comparative trend analysis of current performance of both types of seeds based on soil adaptation, climate resilience, yield and economic market considerations through careful experiments and secondary data of

agricultural department. The study highlighted the significant role of government for increasing the area under cultivation and yield of palm oil by several measures such as subsidies on raw materials, seed banks, processing mills, and so on. The higher production capacity of exotic seeds has drawn other states like Karnataka and Tamil Nadu in the mission. The study is limited to secondary data evaluation on a restricted area where the stakeholders such as policy makers have been proactive in potential adoption of the sustainable practices of palm oil cultivation where long term effects are not analysed.

Oil palm cultivation in Mizoram, India, has expanded across seven out of eight districts and offers significantly higher income potential compared to cereal crops. However, farmers encounter challenges such as inadequate market facilities and environmental impacts, including soil and water quality deterioration, biodiversity loss, and deforestation. Sati V. (2023) study highlights Mizoram's high potential for oil palm cultivation due to its favorable agro-climatic conditions. The economic viability is evident as the income from oil palm exceeds that of cereal crops. Despite its promise, market monopolies by a few companies keep Fresh Fruit Bunch (FFB) prices low, affecting farmer profits. Environmental sustainability is a pressing concern that needs addressing through improved practices. Policymakers, farmers, and environmental agencies must collaborate to enhance market facilities, implement sustainable practices, and mitigate negative environmental impacts. Future research should focus on sustainable cultivation methods and long-term socio-economic benefits to ensure the growth and success of oil palm cultivation in Mizoram.

A study by Wilcove & Koh (2010) on oil palm agriculture highlights the significant threat it poses to biodiversity in Southeast Asia. From 1961 to 2007, the global land area under oil palm quadrupled, and further expansion is planned in regions like Kalimantan, Papua New Guinea, and Brazil. This rapid growth has led to the conversion of tropical forests into oil palm plantations, causing severe environmental impacts, including biodiversity loss and deforestation. Koh emphasizes the need for a combination of regulations, financial incentives, and disincentives to alter the palm oil industry's behaviour and protect forests. The study suggests that successful strategies should involve promoting certified sustainable palm oil, encouraging manufacturers and consumers to choose certified products, and leveraging REDD payments to make forest conservation economically viable. Future efforts should focus on integrating these approaches to balance economic development with environmental sustainability and mitigate the negative impacts of oil palm expansion.

Research Objective

The research study attempts to understand the strategies adopted by government of India to promote the domestic production supplies of Palm Oil for reducing the dependency on imports from south east Asian countries. The study gives insights from the existing literature on the challenges faced by increasing demand for palm oil by Indian FMCG companies due to disruption in the supplies from the south east Asian countries. The researcher adopts an exploratory study through a secondary data analysis to describe explicitly the challenges and measures undertaken in India. Thus, the study aims to:

(1.) Study the problems persisting due to disruption in supplies by Indian companies.

(2.) Measures employed by government of India to address the socio-economic problems of sustainable palm oil cultivation domestically.
(3.) Suggest facilitative initiatives and policy measures based on other studies and current performance trends.

Research Design

The study presents a detailed account on the current trends, limitations and prospects of sustainable palm oil cultivation in India. It is an exploratory study which relies on secondary data collected from several news articles, excerpts of news, interviews, research papers and news items on company's website in press. The study gives a descriptive account of the measures undertaken by government and companies facing the disruption in supply chain of palm oil from south Asian countries. The study will give deeper insights into the strategic measures to counter the economic and environmental challenges posed by palm oil supplies.

Discussion:

The huge imports of palm oil and foreign outflows compelled the Indian government to resurrect the National Mission on Edible Oils – Oil Palm (NMEO-OP) in 2021 to promote domestic production of palm oil catering to huge domestic demand. It aims at stimulating corporates and farming communities to pick up palm oil crop plantations by incentivising the program by subsidies, technical training of farmers and indigenous community by policy measures. The lessons from National Mission on Oilseed and Oil Palm in 2015-16 to incentivise cultivation in nearly 22 states of India which failed to deliver results marred by inadequate water supplies, irrigation concerns, shortage of processing mills in the vicinity due to perishability of cultivated output and ecological concerns has laid the foundation for bringing synergy between public and private partners. The recent debate on the ecological damage due to high palm oil cultivation in the neighbouring countries have added worries to existing challenges of long gestation period, huge investment, unpredictability of the output has given the mission a big jolt.
Hindustan Unilever Limited (HUL), one of India's largest FMCG companies, has committed to sourcing sustainable palm oil. HUL joined the Roundtable on Sustainable Palm Oil (RSPO) and has been implementing sustainable sourcing practices across its supply chain (HUL, 2023). However, it faces a huge challenge in ensuring full traceability of palm oil supply chains and in balancing cost considerations with sustainability goals. While Patanjali Ayurved Limited (earlier Ruchi Soya Ltd.) facing regulatory challenges in sourcing of oil supplies has adapted by investing in sustainable agriculture practices domestically. The company is working closely with Indian government, that has introduced the National Action Plan on Sustainable Palm Oil, outlining guidelines for sustainable palm oil production and consumption in India (Ministry of Environment, Forest and Climate Change, 2021) and lobbying for clearer regulatory guidelines (Patanjali, 2022). On the same account ITC is also working on sustainable agriculture and reforestation taking proactive measures to mitigate ecological footprints and achieve 100% sustainable sourcing of palm oil by 2025.
HUL has made multiple strides to achieve 100% sustainable palm oil sourcing by 2025 in alliance with the suppliers to improve transparency and compliance with RSPO standards to

address supply chain complexities and consumer expectations (HUL, 2023). Nestlé India Limited, in order to manage the complex supply chain dynamics in palm oil sourcing is focusing on supplier diversification to bring resilience in supply chain ensuring efficient risk assessment. It aims to encounter price volatility and geopolitical uncertainties to bring operational efficiencies (Nestlé India, 2022). Marico has partnered with NGOs to educate consumers and promote sustainable palm oil usage with eco-friendly certifications such as RSPO. The company is leveraging the strategy for brand differentiation and customer retention (Marico, 2023). Dabur India Limited, emphasizes fair trade practices and sustainable livelihood enhancement for local communities. Integrating societal responsibility through welfare initiatives fostering inclusive development. (Dabur India, 2023).

Adopting innovative technologies and practices is crucial to enhancing efficiency and reducing environmental impacts in palm oil production. The major FMCG companies in India are emphasizing to integrate cost-effective measures and technology advancements to streamline palm oil sourcing and processing investing huge sums for captive consumption. The company invests in research and development of sustainable agriculture to improve yield and reduce ecological footprints. Optimizing supply chain logistics and adopting efficient practices can mitigate costs associated with sustainable palm oil sourcing. Investing in education and skills training for communities dependent on palm oil cultivation can improve livelihoods and promote sustainable development.

Policy Measures and Suggestions:

Indian government experiencing the ethical dilemma to balance between sustainable consumption of palm oil for meeting the economic needs to reduce import dependency without ecological damage, aims to enhance transparency, strengthen regulatory frameworks, and support the adoption of sustainable palm oil among FMCG companies (Ministry of Environment, Forest and Climate Change, 2021).

Fostering sustainable palm oil production requires several key policy measures that involve and engage all the stakeholder's needs. Firstly, declaration of oil palm as plantation crop along with dissemination of low-cost credit to farmers and distribution of quality inputs like planting material at subsidized rates. Creating strategic linkage and synergies between public and private initiatives for resource optimization with use of research and technology dissemination at various levels and infrastructure development. State government in collaboration with the private partners shall take proactive measures to develop infrastructure to support production, processing and supply of palm oil from farms to markets. It shall requisite FFBs collection Centre, processing industries, equipment and facilitative systems like availability of adequate water, electricity, roads and transport system ensuring timely procurement and support pricing for Fresh Fruit Bunches (FFBs). enhancing post-harvest management and value addition with responsible financing is the key to socio-economic growth. However, it necessitates effective legal framework for forest conservation while protecting rights of local community. India can ensure higher production of palm oil cultivation with sustainable and environmentally responsible techniques of land selection, soil health and water management, pest management and socially responsible behaviour.

Conclusion

FMCG companies in India facing the palm oil crisis presents multifaceted challenges related to supply chain resilience, regulatory compliance, environmental sustainability and community expectations. While companies and the government have taken initial steps to address these challenges through sustainable sourcing, regulatory frameworks, and consumer education. The findings will contribute to produce valuable understanding on the limitations and drivers for designing targeted interventions aimed at promoting the intentional purchasing of sustainable palm oil products by addressing barriers such as lack of knowledge, uncertainty about product viability, weak green consumption attitudes and engagement of stakeholders. Further it suggests policy interventions through collaborative partnership efforts to develop innovative solutions for cost optimization and efficient resource allocation. The government should promote transparent socio-economic audit, accountability, and environmental responsibility to move towards a more sustainable and resilient palm oil supply chain with stakeholders involved for long term strategic gains. Future research and strategic collaborations for addressing the challenges faced by oil palm growers, improving market facilities and processing units. Knowledge exchange, technology transfer and environment financial bonds is the key to implement sustainable practices for minimizing the detrimental impact.

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