

Palm oil ban and Black Sea exports disruption will affect SA

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The world has been in a period of surging food prices for several reasons. These include drought in South America and Indonesia, rising demand for grains and oilseeds in China, and, more recently, the disruption of the global grains and oilseeds exports following the Russia-Ukraine war. In March 2022, the [FAO Global Food Price Index](#) rose to a record level since its inception, illustrating the price increases observed across the world's major agricultural producing and exporting regions.

This challenge of rising food prices is unlikely to change in the medium term as general grains and oilseeds supplies remain constrained, and the higher fertilizer prices have increased uncertainty about the potential harvest in the 2022/23 production season.

With that said, this past week, the FAO Global Food Price Index eased from the all-time high level of March 2022, declining by 1% to 159 points. Still, this is up by 30% from the corresponding period last year.

The easing in prices in April was on the back of a slight decline in the vegetable oil prices. This is an even more complicated issue, as the recent decision by Indonesia to ban the exports of palm oil means that the global export volumes have reduced significantly, and prices have surged since then.

In the last week of April 2022, Indonesia [banned the exports of palm oil](#). Indonesia explained its decision to ensure the protection of domestic consumers from rising prices.

Such a policy approach by a country that has accounted for an average of 54% of global palm oil exports in value terms over the past five years will have profound price implications for the global vegetable oils market.

This export ban also happens when the Black Sea region, which accounts for nearly two-thirds of the sunflower oil, is facing constrained export capacity because of the war and the destruction of infrastructure and agricultural fields. Before this recent ban on palm oil exports, the price impact of the Black Sea export disruption and tighter palm oil supplies in Asia had been visible in rising prices.

For South Africa, these developments have implications on both prices and supplies. South Africa is a net importer of vegetable oil, with an annual average of 450 000 tonnes imported over the past decade. In that volume, Indonesia accounted for 66% of imports. The remainder of the volume was imported from Malaysia.

Thus, the ban on exports of by this key supplier will disrupt the palm oil supplies of South Africa over the coming months. Hence, this latest development will exacerbate the situation of already elevated prices across all vegetable oils such as canola, cotton, soybean, and sunflower oils.

Perhaps, the comforting aspect for South Africa is that these disruptions are occurring when the domestic sunflower seed production has improved notably. The domestic 2022/23 marketing year sunflower seed harvest is [estimated at 959 450 tonnes](#), the second-largest on record.

If the recent wet weather conditions don't reduce the yield or quality of the crop, South Africa will at least have some latitude to fill the palm oil gap with sunflower oil. However, there might be challenges for the businesses that use palm oil for industrial purposes, that might not have stocked up already.

Moreover, in a few weeks, South Africa will begin planting winter crops, which include canola. The tighter global vegetable oil supplies, and higher prices, could also incentivize the domestic farmers to increase their canola plantings. If this could happen, then the domestic market could also fill any gaps in vegetable oil supply with canola from October this year. Still, such decisions are yet to be made by farmers once they have considered the profitability and climatic weather conditions for the coming months. The preliminary indications suggest that farmers will plant a record area for canola in 2022/23 season.

Ultimately, geopolitics has introduced several uncertainties in the global agricultural markets and concomitant food prices, which will have implications for the global and domestic vegetable oil markets.

The FAO data, which showed slight easing in prices in April probably did not fully account for the Indonesia decision, which happened in the last week of the month. We will likely see the price increases reflected in the data from May, which will be released on 03 June. Other food prices such as grains, dairy, meat, and sugar remain elevated, and we don't see a potential change in this trajectory in the near term.

Overall, I think that the slight easing of the global food prices in April was a temporary hiatus, as the underlying fundamentals of price increases over the past few months have not changed. If anything, they have worsened if we consider Indonesia's decision to ban palm oil exports, drought in parts of the US that are currently planting, and the rising fertilizer prices, which could negatively influence planting decisions and in turn yields in the 2022/23 season.

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