



## TRADE RESTRICTIONS AND THE WAR IN UKRAINE ARE AIDING ESCALATING *Vegetable Oil Prices*

**S**oybean oil, sunflower oil, palm oil, rapeseed oil, and olive oil are some of the most often used vegetable oils and their prices have become quite volatile. The unrest in Ukraine, upcoming harvests and plantings, and tight supply due to production problems in major producing areas have all contributed to this volatility. In January 2022, the Food and Agricultural Organization (FAO) reported the vegetable oil index at 185.9 points which was the highest in history. Palm oil, soybean, and sunflower oil prices were the main drivers of this rise and this has continued in March. With these considerations in mind, it is easy to see why the vegetable and edible oil markets have experienced volatility. As a result, a number of countries, including major global food producers, are scrambling to keep food inflation low, and resorting to unconventional trading tactics **see Table 1**. Food prices are steadily rising across South Africa, as is the case global at the moment. These events appear to have sparked a global wave of trade restrictions, particularly for vegetable oils which have already reached their highest levels **see Table 1**. As a result, global market dynamics have a substantial impact on vegetable oil products such as cooking oil, cosmetics, laundry detergents, and animal feed, and are likely to react accordingly.

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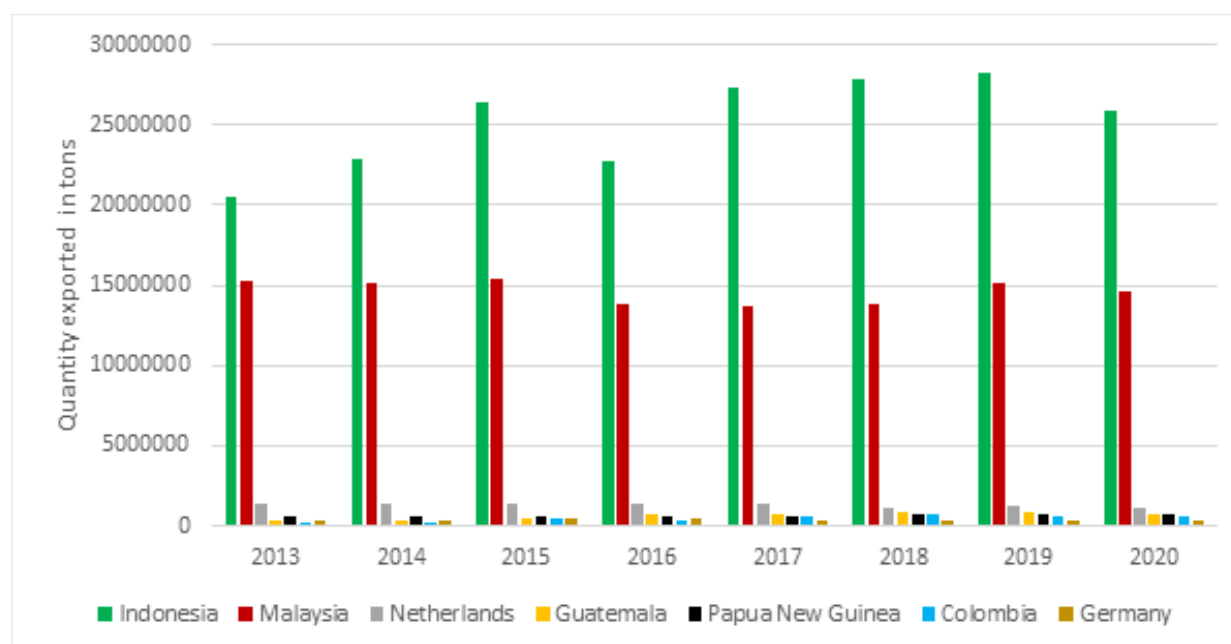


**Table 1: Global policy developments on vegetable oils in 2022**

Date effective	Country	Policy
10 March 2022	Indonesia	30% Domestic Market Obligation (DMO) was applied to palm oil for this season. The DMO policy is a policy that the host country gives to its domestic producers as an obligation to sell a certain amount of products locally before exporting.
13 March 2022	Argentina	On March 13th the government announce that registration for exports of soy oil and soy meal will be halted. On the 21st of March 2022, the government announced an export tax increase on soybean products from 31% to 33%.
17 March 2022	Indonesia	The Indonesian government abandoned the DMO policy but imposed an export tax fee ranging from US\$375 to US\$675 per ton when the reference price hits US\$1500 per ton (Asia market report, 2022).
17 March 2022	Turkey	The Ministry of Agriculture and Forestry in Turkey banned the exportation of oilseeds, cooking oil, bulk olive oil, and margarine.
1 April 2022	Russia	A temporary ban on sunflower and canola seed until 31 August 2022
15 April 2022	Russia	Export quotas of 1.5 million tons for sunflower oil and 700 000 tons for sunflower meal until August 2022
28 April 2022	Indonesia	Indonesia announced on the 22nd of April that from the 28th of April 2022, exports of cooking oil and raw materials majorly palm oil will be banned. The ban is estimated to last between 15 and 20 days.

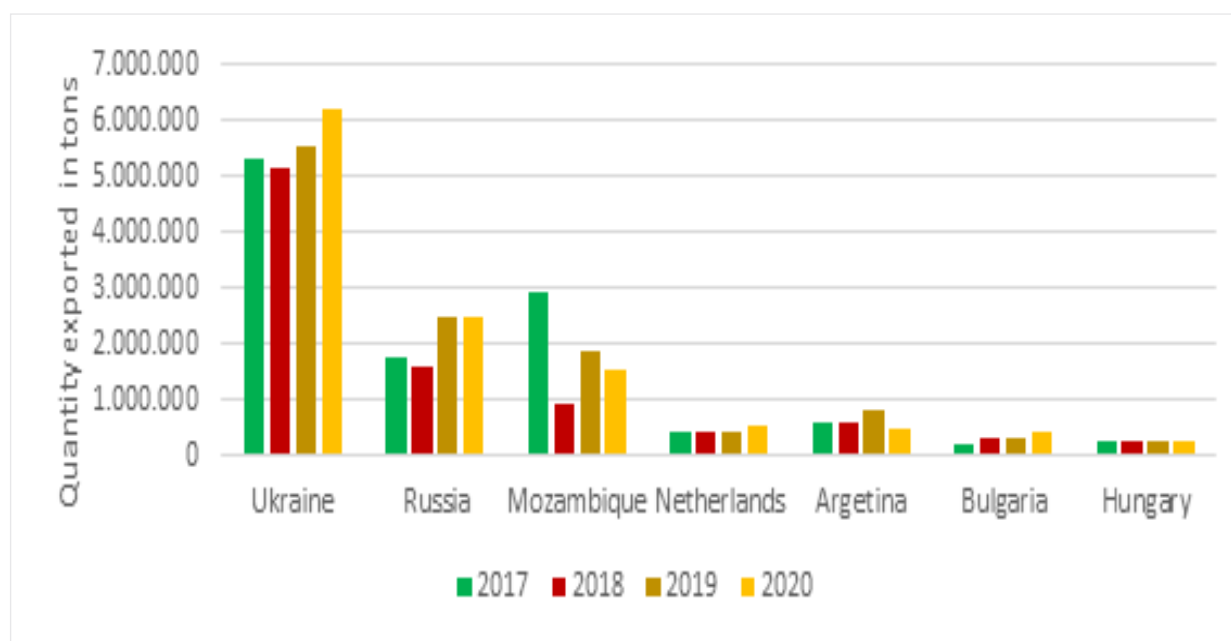
**Source:** AgriCensus, Food and Agricultural Organisation (FAO), and Palm Oil Analytics

**Figure 1** presents global palm oil leading exporters. Indonesia is the world's biggest producer (60%) and exporter (57%) of palm oil. Following Indonesia's early trade limitations for palm oil, world palm oil prices have risen, with prices from Malaysia, the world's second-largest supplier, reaching new highs in late February 2022. Because South Africa relies heavily on both Indonesia and Malaysia for palm oil supplies, price hikes and trade restriction policies are anticipated to have a greater impact on products containing palm oil, such as cooking oil, cosmetics, and others. South Africa imported approximately 470 000 tons of palm oil in 2021, with Indonesia accounting for 78% of total imports and Malaysia accounting for 22%. As observed in **figure 1**, Indonesia and Malaysia are by far the largest palm oil exporters globally which means not only South Africa relies on these countries for supply but a large share of the world.

**Figure 1: Global Palm oil exporters**

Data source: ITC trade-map (2022), NAMC Research

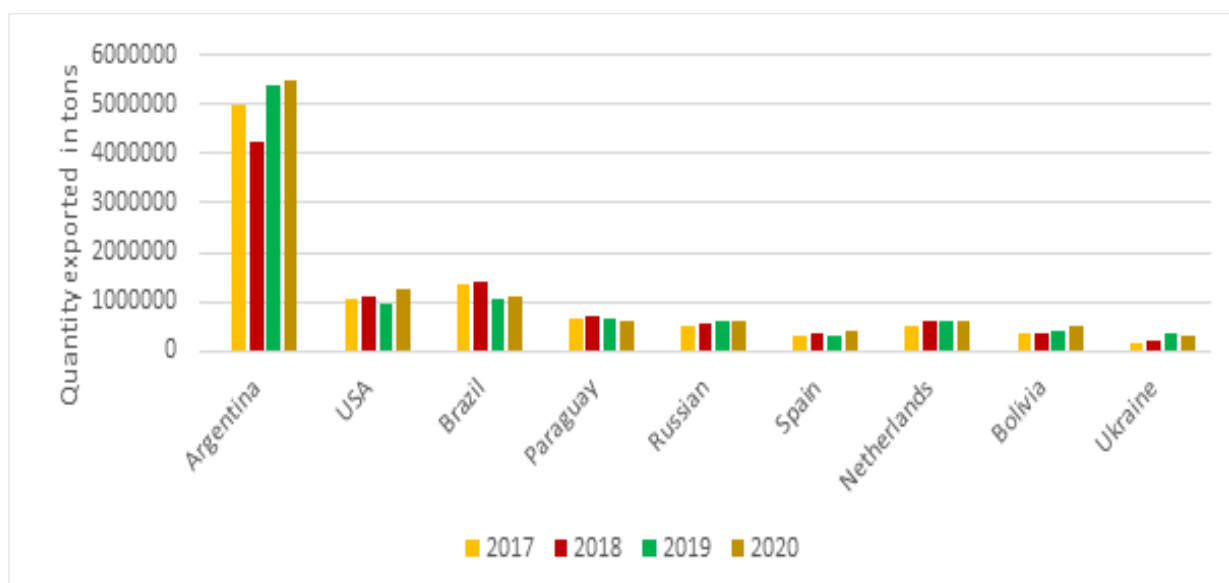
**Figure 2** presents global leaders for sunflower exports. The conflict between Russia and Ukraine, which accounts for at least 55% of world sunflower oil exports as observed in **figure 2**, is adding to the already catastrophic situation in terms of global commodity prices. South Africa has imported roughly 164 995 tons of crude sunflower seed annually on average over the last five years. Due to favourable rains in last season's production period which boosted yields, in 2021 South Africa imported 65 542 tons of crude sunflower seed, with Bulgaria accounting for 66% followed by Romania (27%), and Portugal (6%).



**Figure 2: Global Sunflower oil exporters**

Data source: ITC trade-map (2022), NAMC Research

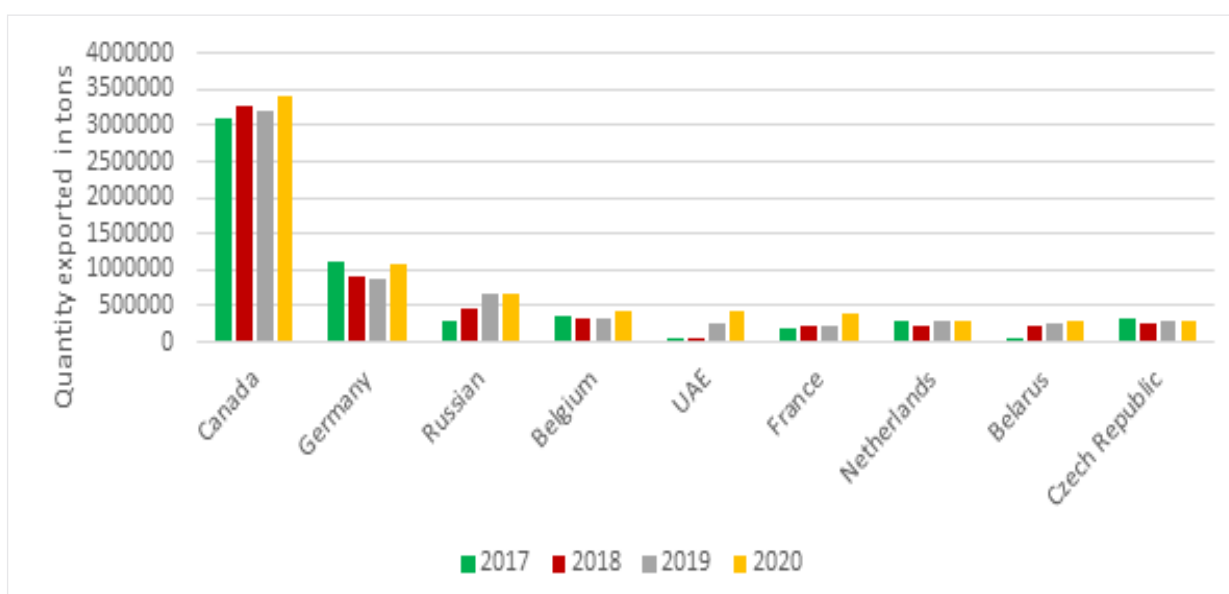
**Figure 3** presents the global leading soybean oilcake exporters from 2017 to 2020. Brazil and Argentina produce half of the world's soybeans, and the International Grain Council (IGC) (2022) decreased global soybean production in March 2022 due to drought concerns in South America mainly from Brazil. Argentina is the world's leading exporter of both soy oil and soy meal, with 50% of soy oil and 40% of soy meal expected to be exported during the current marketing season (USDA, 2022). This is not good news, especially for the poultry and pork industries. South Africa's soybean production has been increasing over the years, but the country remains a net importer of soybean meal. Argentina and Uruguay are the prominent suppliers of South Africa's soybean meal. As a result, trade policy restrictions from these countries will always have an effect on South Africa and subsequently the poultry and pork industries which will later be transmitted to the consumers unless alternative suppliers are found.



**Figure 3: Global soya-bean oil, whether or not refined exporters**

Data source: ITC trade-map (2022), NAMC Research

**Figure 4** presents rapeseed oil global leading exporters. Following a poor producing season from the main producing regions, Germany, the leading producer of rapeseed in Europe and the second-largest global exporter after Canada, was reported in short supply by the end of January 2022 (AgriCensus, 2022b). As a result, rapeseed prices were reported to have risen significantly in Germany. It is worthy of note that Russia is also the world's third-largest exporter of rapeseed. Every year, South Africa imports roughly 5 420 tons of rapeseed oil (Canola). The Netherlands contributed 96% of South Africa's rapeseed in 2021, followed by France with 2%. Unfortunately for South Africa, the Netherlands which is by a margin the largest supplier of rapeseed oil (Canola) relies on Germany for its own supply, which has also been reported to be short on supplies this season. However, because rapeseed oil imports are insignificant for South Africa, they may not have a significant impact on the country's food inflation compared to other vegetable oil products but the substitution effect on vegetable oils might.



**Figure 4: Global rapeseed oil leading exporters**

Data source: ITC trade-map (2022), NAMC Research





### Concluding remarks

These discoveries occur at a time when the demand globally for vegetable oils to combat rising prices intensifies. Palm oil is one of the most widely used ingredients in manufacturing cooking oil, margarine, biscuits, chocolate, cosmetics such as lipsticks and soaps, laundry detergents, and other items. Trade restriction policies in Indonesia and other key exporting countries are likely to escalate vegetable oil prices globally because of the position these countries hold in the global market. The closure of ports and crushing facilities in Ukraine resulted in a decline of 57% in sunflower seed exports, 14% in sunflower oil, and 13% in meals in March 2022 (USDA, 2022). However, Ukraine authorities have reached an agreement with Lithuania to export grains and oilseed which are most likely to be transported via railway through Poland to ports in Lithuania. This is most likely to bring needed relief to global prices, especially for oilseeds in the coming weeks but, this will be a slow process as trains cannot necessarily carry larger quantities to the ports in Lithuania.

Although South Africa does not necessarily buy sunflower seeds from Russia or Ukraine, the impact of its unavailability or being available in small quantities from these countries into the global market is putting upward pressure on other vegetable oil prices which in turn affects South Africa during 2022. It is also a misconception to blame the current vegetable oil, or its product prices hikes like cooking oil for the war solely. On top of other factors already mentioned above, issues such as high input prices, trade restrictions, and high ocean freight rates are fuelling the uncertainty in the global market. In March 2022, ocean freight rates were reported 37% higher year-on-year and 70% more than the 4-year average. Additionally, the latest sanctions which include coal against Russia by the EU are likely to have a knock-on effect on power generation which talks to crude oil prices that are already high as it is.

Due to the combination of all these global market challenges, in March 2022, domestic sunflower oil prices were recorded at 16% more when compared to the same period the previous year and these numbers are anticipated to even increase further due to the increasing uncertainty globally which is now driven by trade restrictions and the war in Ukraine. Also, possibilities are that when China opens up from the current lockdown following a surge in Covid-19 cases, it may return heavily to the market. For South Africa, production projections point to relatively higher production for sunflower seed for the coming season, while amply carryover stocks for soybean are anticipated. These events should be able to somewhat cushion domestic prices, however, this will also depend on the global situation improving.