



Monitoring the Agri-food System in Myanmar

Understanding the rapid price increase of vegetable oils

Key findings

- Prices of vegetable oils, and palm oil in particular, have been rising rapidly in the country. Average retail prices rose nationally by 122 percent over the last year (March 2022 compared to March 2021). As vegetable oils typically make up 5 percent of the food expenditures of Myanmar consumers, this price increase is causing significant hardship, especially for poorer households.
- Vegetable oils are less available in retail markets, especially so in conflict-affected areas, compared to the same period last year.
- This lower availability and high prices are leading to lower use: 63 percent of food retailers indicate that less vegetable oils were bought by consumers in March 2022 compared to a year earlier.
- The local price increases and lower availability are explained by:
 - 1) International price increases. Palm oil prices in international markets have gone up rapidly over the last year because of supply issues in producing countries and in the last month in particular because of the crisis in Ukraine (a major sunflower oil supplier).
 - 2) Depreciation of the local currency. The MMK/USD official exchange rate depreciated by 25 percent over the period mid-March 2021 to mid-March 2022. Market rates showed an even higher depreciation.
 - 3) Policy change. The military government put a licensing and import quota system in place, limiting palm oil imports in the country.

Recommended actions

- Licensing, import quota systems, and differential exchange rates seem to lead to lower availability and less transparency in the vegetable oil market. These policies should best be re-evaluated as to assure affordable prices for Myanmar consumers.
- Easing mobility constraints and other measures to ensure efficient trade will facilitate availability in the country overall and in conflict-affected areas in particular.
- To make local oil production more competitive, support is needed for seed growers and oil millers to scale up the existing production capacity and productivity of groundnut, sunflower, and sesame, especially through an improved business setting that includes access to appropriate inputs, credit and capital, and a secure trade environment.

Introduction

This Research Note presents the results from an assessment of the evolution of vegetable oil prices in Myanmar. Vegetable oils are an important product in the diet of Myanmar consumers and high food inflation in the country - 19 percent between December 2022 compared to December 2021 (MAPSA 2022) - is partly explained by substantial price increases for vegetable oils. The purpose of this analysis is to provide insights on what might explain the price increases of vegetable oils in local markets. To do this assessment, we rely on different secondary data sources¹ as well as MAPSA's food vendor survey conducted in March 2022 in all states/regions of the country. In this survey, 419 food vendors provided information on the sale of vegetable oils. We also rely on information from key informants in the sector.

Background on vegetable oils in Myanmar

(1) Consumption

Table 1 shows the share of vegetable oils in total food expenditures, as recorded in the 2015 national household survey. Expenditures on vegetable oils are 5.1 percent of the overall food budget nationally (about a quarter of the level of expenditures on all cereals combined). Table 1 further shows that the expenditures for vegetable oils are higher for the poorest quintile, at 6.6 percent of their food budget. In the Dry Zone, households typically spend 7.6 percent of their food expenditures on vegetable oils, indicating that price increases might affect households located there and the poor the most.

Table 1: Consumption of vegetable oils (share of food expenditures), MPLCS 2015

	Share of food expenditures (%)
Overall	5.1
Urban	4.4
Rural	5.4
Hills and Mountains	4.7
Dry Zone	7.6
Delta	4.2
Coastal	3.6
Poverty quintile 1 (poorest)	6.6
Poverty quintile 2	6.0
Poverty quintile 3	5.4
Poverty quintile 4	5.0
Poverty quintile 5 (richest)	4.2

Source: MPLCS, 2015

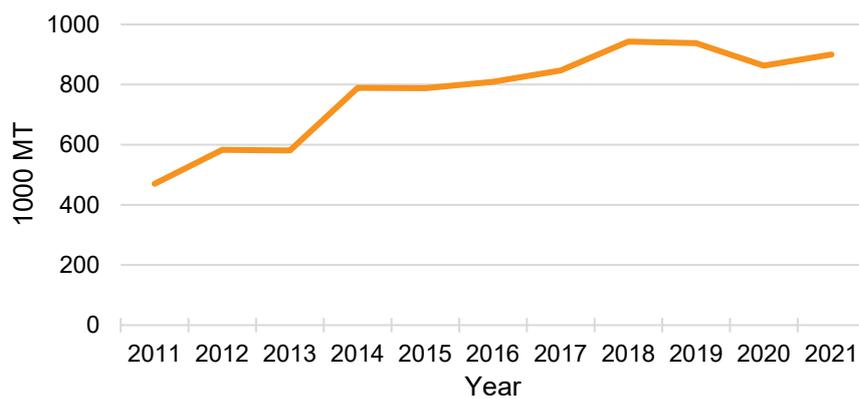
Key informants working in the sector indicate that Myanmar typically uses approximately 1 million MT of edible oil per year. On top of direct consumption by households as seen above, it is estimated that about 40 percent of the vegetable oil – according to these key informants - is used by the food processing sector. Domestic annual vegetable oil production has been estimated to be around 30 percent of local use while imports make up the remaining 70 percent. Palm oil represents 90 percent of all imported vegetable oils.

¹ Including data from the United States Department of Agriculture (USDA), the Myanmar Living Conditions Survey (MLCS), and price data from the Myanmar Edible Oil Dealer Association (MEODA). MEODA publishes price data, gathered by the Supervisory Committee on Import, Storage, and Distribution of Edible Oil. This committee is a government body spearheaded by the Myanmar Ministry of Commerce responsible for determining import quota and monitoring the edible oil market in Myanmar, including setting the quality standards and any supervisory work pertinent to across the edible oil supply chain.

(2) Production and imports

While palm oil production was introduced in the beginning of the 20th century in the country, it never attained its full potential. Under the “edible oil self-sufficiency policy” enacted in 2000, it was planned that 500,000 acres of oil palm would be planted by 2030, specifically in the Tanintharyi Region and Mon State. Subsequently, palm plantation lands were granted to about 44 companies with the aim to achieve import substitution of 30 percent of domestic edible oil demand. However, the domestic production of palm oil was only 138,000 tons in 2018 and never reached the stated target. To fulfill its vegetable oil need, Myanmar has imported about 900 thousand MT of palm oil annually on average over the last five years, mostly from Indonesia (about 90 percent) as well as from Malaysia (about 10 percent) (Figure 1). According to the most recent data from the Ministry of Commerce, palm oil imports were USD 827 million over the 2020-2021 fiscal year, making it the most important agricultural import.

Figure 1: Palm oil imports in Myanmar, 2011 - 2021

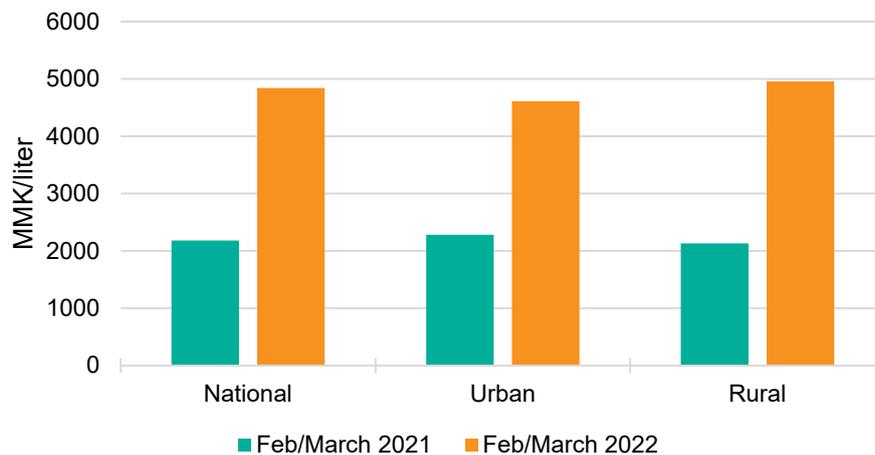


Source: USDA, 2021

The situation in local markets

Figure 2 relies on a large sample of food retailers in the country and presents average retail prices of the cheapest vegetable oils in February/March 2021 and February/March 2022. We see that national prices have increased by 122 percent in the last year. Prices in rural areas are even higher, increasing by 132 percent over the last year. These increases are possibly higher in rural areas because of the higher marketing costs to get the imported vegetable oils to these rural areas, due to higher fuel costs as well as increasing insecurity issues.

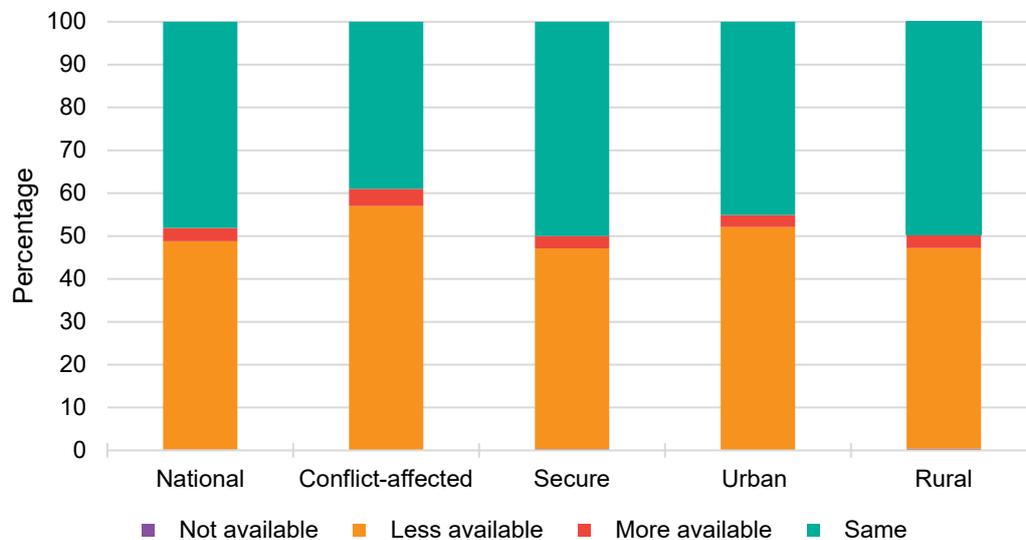
Figure 2: Retail prices for vegetable oils in Myanmar, March 2021 – March 2022



Source: Authors' calculations based on MAPSA food vendor survey

On top of high prices, we also increasingly see issues of availability of vegetable oils in retail markets. Food vendors were asked to indicate how the availability of vegetable oils had changed over the last year. Almost half of the food vendors indicate that vegetable oils were less available in March 2022 compared to the same period in 2021 (Figure 3). Few vendors indicated that vegetable oils were more available. Availability was especially an issue in the conflict-affected areas (Chin, Kayah, Kayin, Kachin, and Sagaing) where 57 percent of the food vendors indicated lower availability compared to last year.

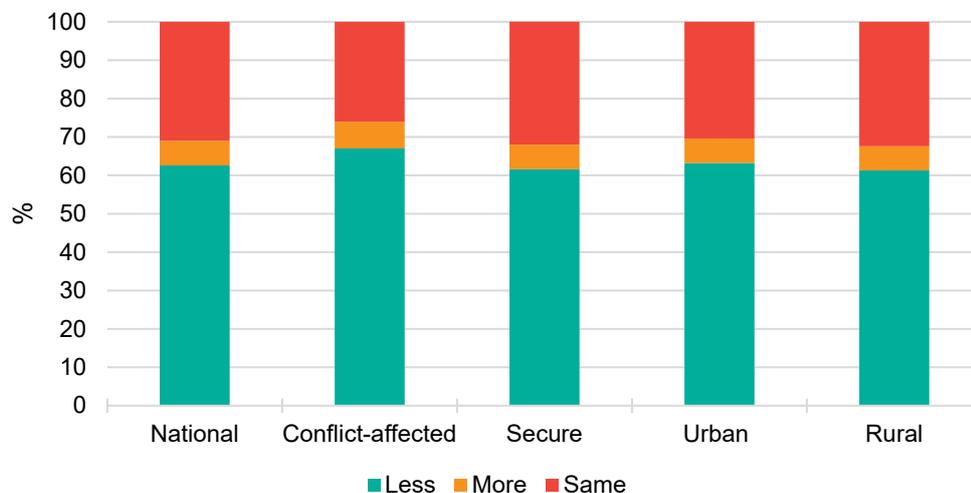
Figure 3: Availability of vegetable oils compared to same period last year, March 2022



Source: Authors' calculations based on MAPSA food vendor survey

High prices, lower availability, and reduced incomes leads to lower purchases of vegetable oils by consumers (Figure 4). Nationally, 63 percent of the food vendors indicate that less vegetable oils are being bought by their clients. This goes up to 67 percent of the food vendors in conflict-affected zones/regions. There are few differences between urban and rural areas with purchases reported to be down to the same extent.

Figure 4: Purchases of vegetable oils by food vendor customers compared to same period last year, March 2022



Source: Authors' calculations based on MAPSA food vendor survey

Understanding the changes in local markets

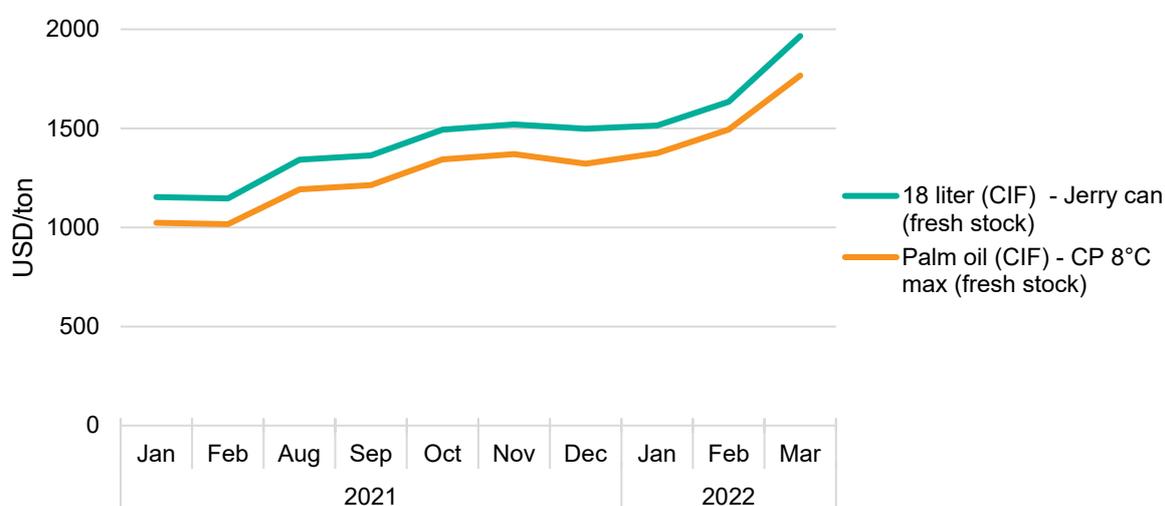
(1) Policy change

The Government of Myanmar has attempted to reduce palm oil imports over time through different policy measures, with the intention to promote consumption of locally produced edible oil such as groundnut, sunflower, and sesame oils. Prior to 2010, the Myanmar government set up quotas limiting imports to 20,000 tons per month. From May of 2011 onwards, this restriction was lifted but the State Administration Council (SAC) re-established import restrictions at 50,000 tons per month at the end of 2021.² Currently, the Government permits 81 companies to import edible oils.

(2) The international palm oil market

Global palm oil prices have increased in the last year, driven by lower supply and palm oil industry policy adjustments in major global suppliers Malaysia and Indonesia (Figure 5). The Council of Palm Oil Producing Countries (CPOPC) forecast indicates that palm oil stocks are tight internationally and that higher prices will likely stay high in 2022, given the conflict in Ukraine which is a major supplier of vegetable oils, especially sunflower oils (CPOPC 2022). According to the Malaysian Palm Oil Board³, there were 2 million tons of palm oil stock in 2019 but only 1.55 million tons of stock remained in January 2022, before the crisis in Ukraine. Decreased supply resulted from the lack of foreign workers in Malaysia due to the COVID-19 pandemic but also climate issues, low production, and policy changes.

Figure 5: International price changes of palm oil (CIF), January 2021 - March 2022



Source: Authors' calculations based on data from MEODA

(3) Depreciation of the Myanmar kyat

The kyat has shown substantial depreciation over the last year. The reference rate published by the Central Bank of Myanmar indicates a depreciation of about 25 percent over the period of mid-March 2021 to mid-March 2022, from 1,418 MMK/USD to 1,778 MMK/USD. Moreover, this official exchange rate seems to be misaligned and there is an increasing wedge between the official and market exchange rate (World Bank 2022).

² Under the Ministry of Commerce (MoC), the Department of Consumer Affairs has been spearheading this effort. A "Supervisory Committee on Import, Storage and Distribution of Edible Oil", led by a Director-General of MoC, was formed. This entity determines needed edible oil import volumes as well as monitors and publishes the palm oil price in the country. The committee is also mandated to ensure good quality palm oil imports (imported palm oil is stored according to food safety standards, weighted measurements are consistent, package quality is maintained to ensure cleanliness and hygiene), as well as distribution at an affordable price to consumers.

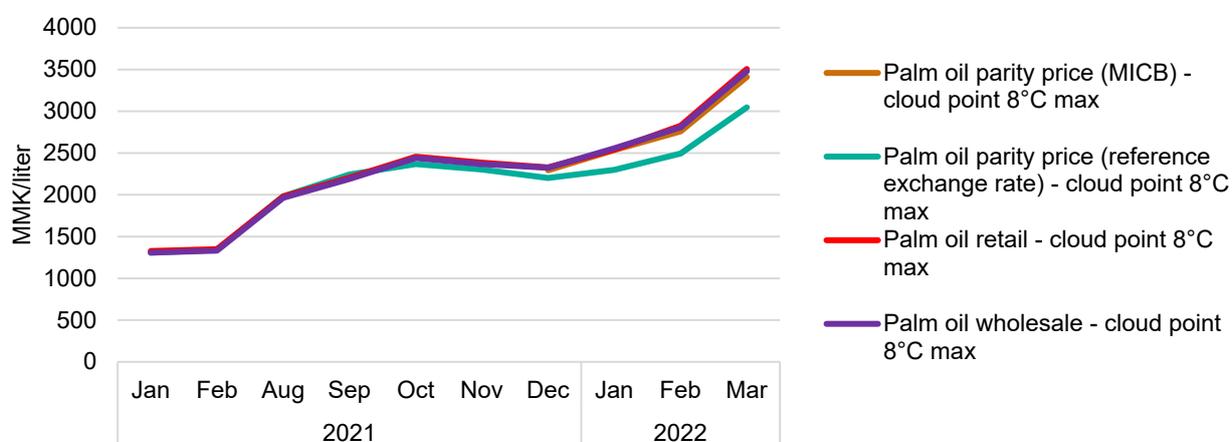
³ https://bepi.mpob.gov.my/index.php/en/?option=com_content&view=category&id=107

These international developments as well as local changes have led to significant impacts in local markets. If there would be no trade and market restrictions, the price of imports in the local market should be determined by the full cost of imports that include cost, insurance, freight charges, prices of imports at the port, tariffs, taxes, transport, handling and marketing, and exchange rate costs. To compare prices of imported palm oil with local palm oil prices, we calculate import parity prices, reflecting the FOB price, at the major port in Yangon. We plot these import parity prices against a price series of local wholesale and retail prices in Yangon (Figure 6).

Using the market exchange rate⁴, we note that local palm oil prices have been tracking import parity prices very well over most of the period analyzed. However, we see an increasing wedge when official reference exchange rates are used, indicating that the market rates determine sales prices in the local market. It is to be noted that the Myanmar Edible Oil Dealers' Association has been able to use the reference exchange rate to import and sell some of the cooking oil at cheaper prices (World Bank 2022). However, those sales at that more advantageous price have been limited.

Nonetheless, international and domestic prices of palm oil have increased steadily from mid-December 2021 onwards (Figure 6). Comparing the price increase between CIF and local retail prices in Yangon in March 2022 to a year ago, the increases are 74 percent and 110 percent respectively. These price increases are worrisome, especially with prices of vegetable oils on international markets currently higher than during the 2008/9 global food price crisis.

Figure 6: Import parity and local prices of palm oil, January 2021 - March 2021-2022



Source: Authors' calculations based on MEODA

Recommended actions

- Since Myanmar is a net importer of edible oil, unhindered international trade is essential to meet domestic consumers' need. Access to appropriate banking and financial services for importers will further support improved efficiency of palm oil trade.
- As international price increases make local oil production more competitive, support is needed for seed growers and local oil millers to scale up the existing local production capacity and productivity of groundnut, sunflower, and sesame oil, especially through an improved business setting that includes access to appropriate inputs, credit and capital, and a secure trade environment.

⁴ MEODA made changes in the usage of the exchange rate in calculating parity price as a result of a Central Bank of Myanmar (CBM) directive. The dark teal line in Figure 6 indicates palm oil parity price using traders' export earnings (market exchange rate). Moreover, from 19 November 2021 to the present, the parity price is calculated after adding 0.5 percent to the CBM reference rate (CBM instructed that exchanged must be done in accord with the CBM reference rate $\pm 0.5\%$). The orange line in Figure 6 shows the parity price calculation using the Myanmar Investment and Commercial Bank (MICB) reference rate, which is considered the market exchange rate among traders, which covers from 14 December 2021 to the present.

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