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Changing Marketing Landscape - Challenges for Business Sustainability

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PAKISTAN OILS & FATS BUSINESS: MARKET EXPECTATIONS AND ANTICIPATIONS

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**SESSION 3
MARKET FUNDAMENTALS & PRICE OUTLOOK**

Pakistan Oils and Fats Business: Market Expectations and Anticipations

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Abstract

Pakistan has always remained dependent on the Import of Edible Oils to meet its domestic requirements. The per capita consumption of Edible Oil is around 15kg. Total consumption is around 3.00 Million Tons. Local Production is between 0.6 to 0.8 Million Tons. Import is around 1.8 Million Tons and Oil extracted from Imported seeds is around 0.4 Million Tons. Pakistan present Re[ning Capacity is about 4,000 M.Tons Per Day and is expected to be 5,000 M.Tons Per Day by the end of this year. Presently Pakistan is importing Crude and Re[ned Palm Oil. With the present re[ning capacity, Pakistan is no more importing Pal Fatty Acid Distillate (PFAD).

Pakistan Re[ning Industry is [nding diYculty in the disposal of PFAD as the production is higher than the demand. In Crude Palm Oil (CPO), DOBI is a real problem as we are not getting desired quality of DOBI which is eXecting the yield as well as the quality of the product. Apart from Import of Edible Oils, Pakistan is importing around One Million Tons of Seeds mostly Canola / Rapeseed and get about 43% of Oil contents. Solvent Extraction Industry is expanding in Pakistan as the trend towards Soft Oil is increasing. Although Pakistan will remain a consistent player to import Palm Products from Malaysia, we expect 5-10% reduction in the overall import this year in view of high prices and various uncertainties.



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“Pakistan Oil & Fats Business : Market Expectations and Anticipations”

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CONSISTENT MARKET

- Pakistan has always remained dependent on the Import of Edible Oils to meet its domestic requirement. In spite of being an Agricultural based economy, we do not have enough Production of our own Oilseeds. Time and again Government have made several efforts to increase the Production of local Oilseeds but due to inconsistent policies and priority being given to other crops, Oilseed indigenous production has remained insignificant.
- Pakistan’s spending on the import of Edible Oil and Oil Seeds have gone upto US\$ 2.0 Billion and US\$ 750 Million respectively.
- The per capita consumption of Edible Oil is around 15 kgs. which is perhaps highest in our region.
- Our Population as per the official figures is estimated to be 160.9 Million with 2.6% growth per annum.

PAKISTAN CONSUMPTION

| | Fig. In M.Tons |
|--|---------------------------|
| Total Consumption | Around 3.0 Million |
| Local Production | 0.6 ~ 0.8 Million |
| Import of Edible Oils | 1.8 Million |
| Oil Extracted from Imported Seeds | 0.4 Million |

DUTY STRUCTURE

Although Edible Oil is an essential item and a necessity for a common man, the import of the same is subject to heavy duty. The details are as under:

| Production | Custom Duty Rs. /MT | Federal Excise Duty Rs. /MT | Central Excise Duty | Advance Income Tax | Warehouse Surcharge |
|--------------------|------------------------|--------------------------------|---------------------|--------------------|---------------------|
| RBD Palm Olien | 9,100 | 1,000 | 16% | 2% | 0.25% |
| RBD Palm Oil | 10,850 | 1,000 | 16% | 2% | 0.25% |
| Crude Palm Oil | 9,050 | 1,000 | 16% | 2% | 0.25% |
| Crude Soyabean Oil | 9,050 | 1,000 | 16% | 2% | 0.25% |

After FTA between Malaysia and Pakistan Duty is reduced by 10% on imports from Malaysia.

On the Duty Structure, I would like to quote two famous quotations of Late President of United States Mr. Ronald Reagan.

“Government’s view of the economy could be summed up in a few short phrases : If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it”.

“Government is like a baby. An alimentary canal with a big appetite at one end and no sense of responsibility at the other”.

**IMPORT OF EDIBLE OIL IN PAKISTAN
(BASIS ARRIVAL) IN M.TONS
FOR JAN-DEC.06,07 AND JAN-JUNE.08**

| Product | 2006 | 2007 | Jan-June-08 |
|--------------|------------------|------------------|----------------|
| Olien | 1,303,287 | 1,146,241 | 528,426 |
| RBDPO | 15,693 | 2,299 | 501 |
| CPO | 427,955 | 482,599 | 268,447 |
| CDSBO | 20,120 | 96,164 | 31,219 |
| Total | 1,767,055 | 1,727,303 | 828,593 |

**IMPORT FROM MALAYSIA AND INDONESIA (BASIS ARRIVAL)
IN M.TONS**

| Product | 2006 | | 2007 | | Jan.-June 2008 | |
|----------------|---------------|---------------|----------------|---------------|----------------|---------------|
| | Malaysia | Indonesia | Malaysia | Indonesia | Malaysia | Indonesia |
| Crude Palm Oil | 206814 48% | 220598 52% | 268082 55% | 215385 45% | 154227 57% | 114220 43% |
| RBD Palm Olien | 661086 51% | 640733 49% | 735855 64% | 625879 36% | 402668 76% | 125758 24% |
| Total | 867900 | 861331 | 1003937 | 841264 | 556895 | 239978 |

Share of Malaysia and Indonesia was almost 50:50 in 2006 and in First Half of 2007. However, subsequent to the FTA between Pakistan and Malaysia, which allows 10% reduction in Duty, Malaysia share is going up.

REFINING INDUSTRY

- Present Refining Capacity is about 4,000 M.Tons per day. If run on optimum level, will consume about 1.20 Million Tons of Crude Palm Oil per annum.
- Expected further capacity of 1,000 M.Tons by End of this year which will give total Refining Capacity of 5,000 M.Tons per day. If run on optimum level, Pakistan consumption of Crude Palm Oil (CPO) will be 1.5 (M) Tons. This will be a paradigm shift in our Import pattern which will have following consequences.
 - a) Import of RBD Olien will substantially reduced.
 - b) Pakistan would be saving considerable foreign exchange as Import of CPO is much cheaper than the Refined Palm Products.
 - c) Pakistan will not be required to Import any PFAD as our local production will be more than sufficient to meet the demand of our Soap Industry. If we run our Refineries on optimum level, our production of PFAD will be more than 75,000 Tons per annum which is even higher than the local demand.
 - d) Since we would be having sizeable Refining Capacity in Pakistan, the Government should revisit their Tariff on the Import of RBD Palm Olien enabling the Refineries to add Fractionation Plant within their Refineries which will add further value and will enable Pakistan to produce RBD Palm Olien.

Contd.....

- e) Pakistan Oleo Chemical Industry is now developing and the Refiners could produce Stearin with the help of the Fractionation Plant to meet the demand of Oleo Chemical Industry.
- f) Lately the differential in price between RBD Olien and RBD Palm Oil has increased which has resulted in the increase in the Import of Palm Oil. This development will practically reduce the Import of Olien significantly and will have enormous pressure on the local Refineries who are only producing RBD Palm Oil.

Problems faced by the Refining Industry.

- The Refineries are paying Duty on CPO basis 100% of the volume of Import whereas we are only getting 94% max. RBDPO, 5% PFAD and 1% is our loss. Although PFAD is a by-product, the local prices are weak and its costing is very negative since our calculation is based on the duty paid on CPO Tariff.
- Since the local PFAD Market is very small, the Refiners always remain dependent and have to follow the market dictates.
- Due to high percentage of FFA and lower value of DOBI, our processing cost is very high.
- Although Pakistan Government has given 10% discount on the import of CPO from Malaysia under FTA, the Malaysian Government have not reciprocated by increasing the Quota allocation of CPO for Pakistan.

DUTY STRUCTURE OF OIL SEEDS

| Year | Import Duty | Central Excise Duty | Sales Tax |
|-----------|-------------|---------------------|------------------------|
| 2004-2005 | Nil | Nil | 15% |
| 2005-2006 | Nil | Nil | Soyabean:6% Canola:13% |
| 2006-2007 | Nil | Nil | Soyabean:6% Canola:13% |
| 2007-2008 | Nil | Nil | Soyabean:6% Canola:13% |

Production of Major Oil Seeds Crops

| | 2006-2007 Production | | 2007-2008 Production | |
|---|----------------------|------------|----------------------|------------|
| | Oilseed | Oil | Oilseed | Oil |
| | (000 Tons) | (000 Tons) | (000 Tons) | (000 Tons) |
| Cotton Seed | 3980 | 478 | 3568 | 428 |
| Rape Seed / Mustard | 188 | 63 | 172 | 58 |
| Sunflower | 662 | 251 | 696 | 264 |
| Canola | 180 | 65 | 218 | 83 |
| Total | | 857 | | 833 |
| Source: Pakistan Oil Seed Development Board. | | | | |

Pakistan harvested good Sun seed Crop in the year 2008. The Industry believes that during May-July-08 the indigenous production of Sunflower Oil was around 275-300,000 M.Tons

IMPORT OF OILSEEDS IN PAKISTAN IN MT (BASIS ARRIVAL)

| | 2006 | 2007 | JAN-JUNE-08 |
|-------------------|----------------|----------------|----------------|
| Rapeseed / Canola | 694,820 | 867,867 | 284,426 |
| Soyabean | 10,000 | 0 | 0 |
| Sunflower | 272,852 | 72,156 | 0 |
| TOTAL | 977,672 | 940,023 | 284,426 |



Thank You