

China: Oils and Fats Scenario

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INTRODUCTION

China is the world's most populous country with a population of over 1.3 billion. China consumed more than 32 million tonnes of oils and fats but produced only 22.8 million tonnes of oils and fats. The huge differences between production and consumption can only be met by imports. The country is now one of the leading importers of oils and fats in the world market; amounting to about 15% of the total oils and fats traded in the world market in 2011 (*Table 1*). Palm oil is one of the major oils and fats imported by China, accounting for about 64% of all oils and fats imported by China in 2011.

CURRENT OILS AND FATS SITUATION

China's oils and fats production has been increasing steadily in the last 10 years with an average annual growth rate of 4.23%. Its production increased from 16.1 million tonnes in 2001 to 22.8 million tonnes in 2010. The major oils produced were soyabean oil, rapeseed oil and lard (*Table 2*). However, production of the major local oilseed crops such as soyabean, rapeseed, groundnut, sun-

flower, cottonseed has remained stagnant in the last few years. This is due to the decreasing amount of land available for such crops and the competition for land among grains and oilseeds. Between 2006 and 2010, China's agricultural land was reduced by more than 2 million hectares. The growth potential for local oilseeds production is thus limited. However, due to the significant incline of soyabean imports in the last six years, production of soyabean oil has increased in tandem. Soyabean imports increased from 26.6 million tonnes in 2005 to 54.8 million tonnes in 2010.

However, the consumption of oils and fats in China has increased over the years with an average annual growth rate of 7%. China's consumption increased from 19.1

million tonnes in 2001 to 32.4 million tonnes in 2010. The increase in consumption is attributed to a number of factors: high economic growth, increase in disposable income and the migration of rural population to the cities. This creates a huge demand for processed food and increase in food consumption. The local production of oils and fats is unable to meet the demand and the shortage has to be covered by imports; the oils and fats imports in China increased from 6.94 million tonnes in 2005 to 9.8 million tonnes in year 2010. The major oils imported were palm oil and soyabean oil.

CURRENT PALM OIL SITUATION IN CHINA

Globally, China is the second largest importer of palm oil after India. Palm oil accounts for about 60% of its vegetable oil imports in the 2010/2011 period and imports had been increasing in the last 10 years. The increase in palm oil consumption in the country is driven by the expansion of the food processing industries as well as local consumption. The major palm oil products imported by China were refined, bleached deodorised (RBD) palm

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TABLE 1. CHINA IMPORT OF VEGETABLE OIL AND PALM OIL (1000 t)

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total import	4 354	6 203	7 410	6 940	8 011	9 795	9 489	10 808	9 751	10 106
Palm oil	2 660	3 353	3 850	4 320	5 461	5 499	5 593	6 557	5 804	6 172

Source: *Oil World*.

TABLE 2. CHINA PRODUCTION OF MAJOR OILS AND FATS (1000 t)

Oils and fats	Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*
Soyabean oil	3 757	4 563	4 826	5 500	5 965	6 202	6 710	7 462	8 632	9 385
Rapeseed oil	4 162	3 814	4 252	4 607	4 752	4 359	4 534	5 275	5 320	4 794
Lard	2 942	3 072	3 183	3 341	3 365	3 129	3 203	3 311	3 432	3 531
Groundnut oil	2 413	2 216	2 121	2 058	2 002	1 864	1 797	1 903	1 940	1 872
Total	16 120	16 522	17 320	18 759	19 491	19 118	19 908	21 576	22 846	23 129

Note: * 2010/2011.

Source: *Oil World*.

TABLE 3. CHINA IMPORT OF MAJOR PALM OIL PRODUCTS (million tonnes)

Palm oil products	Year						
	2005	2006	2007	2008	2009	2010	2011
RBD palm olein	2.66	3.49	3.94	4.03	4.51	4.11	4.91
Palm stearin	1.49	0.94	0.71	0.64	1.32	1.38	1.21
Palm kernel oil	0.23	0.29	0.38	0.33	0.51	0.45	0.39

Source: China Custom.

olein, palm stearin and palm kernel oil. In 2011, China imported 4.91 million tonnes of palm olein, 1.21 million tonnes of palm stearin and 391 584 t of palm kernel oil (*Table 3*). Malaysia and Indonesia are the two major exporters of palm oil into China, with a market share of 60%-70% and 30%-40% respectively (*Figure 1*).

The demand for palm oil in China remains strong due to its more competitive pricing compared to soyabean and rapeseed oil. There is also a large demand for palm oil in China's cooking oil

market, where palm oil is blended with other vegetable oils. The process food industry (instant noodles, snacks and biscuits, *etc*) is another major user of palm oil in China. There are over 600 instant noodle manufacturers in the country, which produced over 6.9 million tonnes of instant noodles in 2010. These ready to eat noodles are cheap and convenient and are popular with migrant workers, office workers, travellers *etc*. The demand for these instant noodles are expected to continue to grow, along with the need for palm oil in food applications.

ECONOMIC AND POPULATION GROWTH IN CHINA

Food security and grains production are of major concerns of China's government. Due to land limitations and competition with grain production, the domestic production of oils and fats will not be able to meet the increasing oils and fats demand. China will continue to depend on imported vegetable oils from other countries.

The current average annual population growth in China is 0.493%, which accounted for

about an annual increase 6.5 million people. The most recent population survey conducted in 2010 showed that China's population increased from 1.27 billion in 2000 to 1.34 billion in 2010. Until the early 1980s, the urban population made up about 30% of the population. By 2010, China's urban population had increased to about 50% (Figure 2). This shift in the composition

of population is the result in the high economic growth in the country since China's more open economic policy. The high economic growth in the last 30 years has also steadily increased the disposable income of the population. This can be shown by the increase in the per capita oil consumption from 19.7 kg in 2005 to 24.4 kg in 2010 (Figure 3).

In the 1990s, the consumption of vegetable oils and fats by rural and urban households were about 3.54 kg per capita and 6.40 kg per capita respectively. The oil consumption increased to 5.52 kg per capita for rural households and 8.84 kg per capita for the urban households in 2010. It is noted that the per capita consumption of vegetable oils by the rural population is

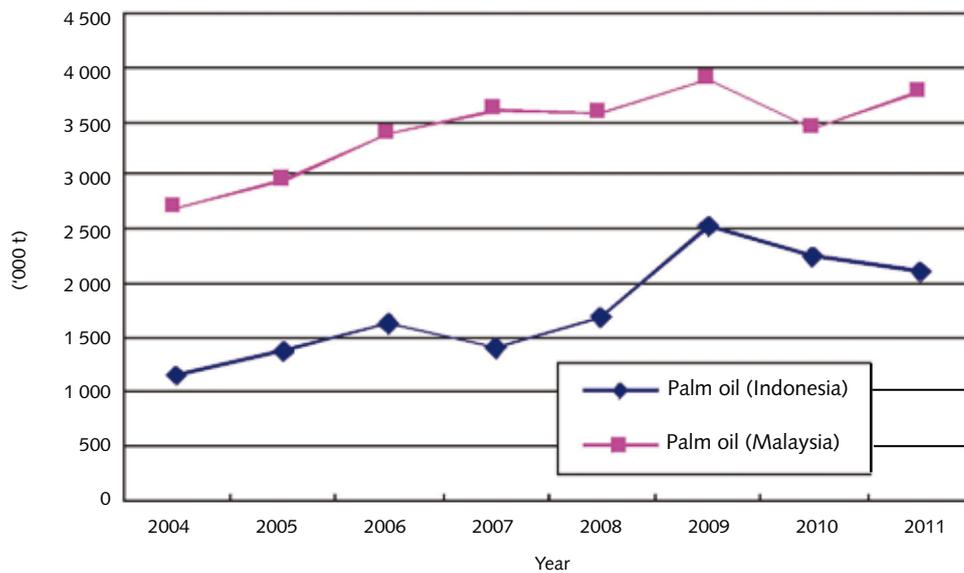
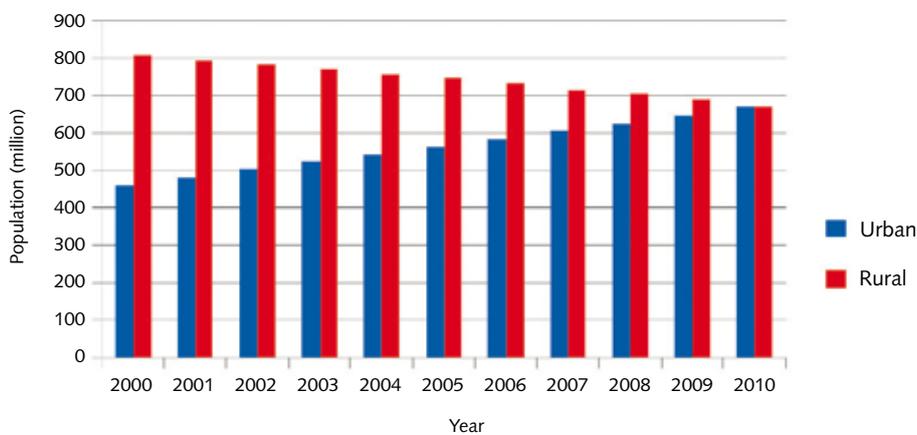


Figure 1. China palm oil market share.



Source: Oil World.

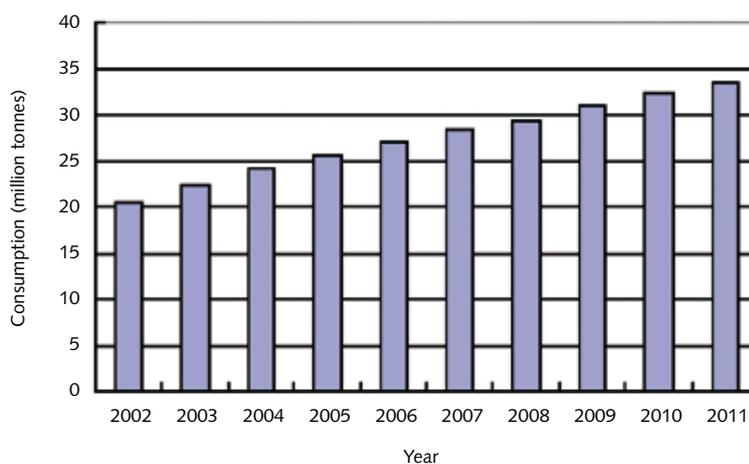
Figure 2. Urban rural distribution of population in China.

about 2.5 kg lower than the urban population (Figure 4). There is potential for higher consumption by the rural population as disposable incomes increases. There is a slight decrease in the per capita consumption of vegetable oil by the urban population. This may be due to the change in lifestyle choices by urbanites; less home cooking and health concerns related to oils and fats consumption.

In 2000, rapeseed oil was the major oil consumed while the other oils, e.g. soyabean oil, groundnut oil, lard and palm oil, were evenly distributed. By 2011, the major oils consumed had shifted to soyabean oil and palm oil. Soyabean oil has now the largest market share for oils consumed in China followed by palm oil (Figure 5). This shift towards soyabean oil and palm oil is partly due to the limited produc-

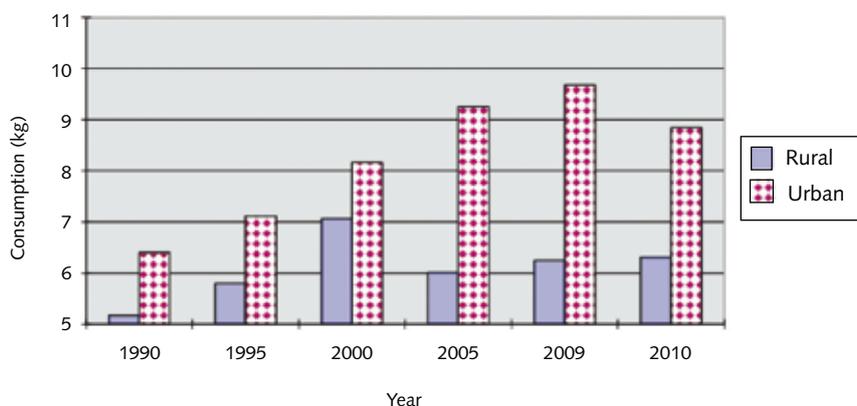
tion of local oilseeds, huge demand for animal feed, demand for processed food and the high economic growth the last decade. The demand for animal feed led to huge imports of soyabean and crushing activities.

China's economy is expected to continue to grow. In 2010, China GDP was valued at USD 5.87 trillion and became the world's



Source: Oil World.

Figure 3. Consumption of vegetable oil in China.



Source: China Statistical Yearbook, 2011.

Figure 4. Comparison of rural and urban per capita consumption of edible oil.

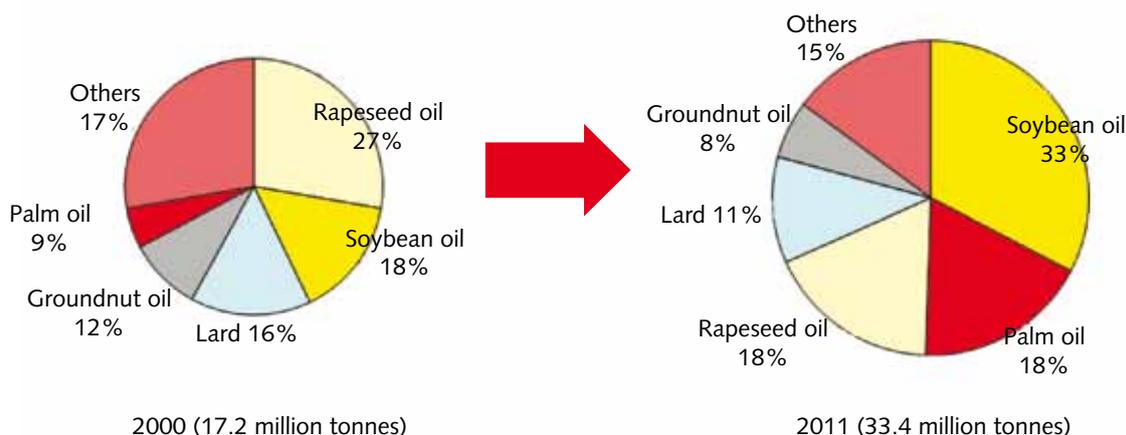


Figure 5. China major oil consumption pattern.

second largest economy after United States. China may become the world's largest economy in the next 10 years. With such high growth, China's vegetable oil consumption will hit 35 million tonnes in the next few years. The future demand for palm oil import is estimated to reach 10.5 million tonnes by 2020.

PROSPECTS FOR PALM OIL IN CHINA

In the late 1970s, China started to move from a closed, centrally planned economy system to a price driven and market-oriented economy system. As of result, China became the world's largest exporter in 2010. The reforms of China brought significant industrialisation and modernisation of the country. Issues such as sustainability, *trans*-fat free, low saturated fat, low contaminants in food processing,

became new challenges for the oils and fats market in China. In brief, the people in China of today and in future are not just consuming food for satiety but also for health reasons.

Palm oil with its competitive pricing compared to the other vegetable oils, versatility in the processed food and non-food applications, as well as its availability makes palm oil an attractive vegetable oil resource. The increase in innovative products and technology in the oils and fats industry, fractionation capacity and blending of palm oil with other vegetable oils in China will further stimulate palm oil consumption.

China's regulations on labeling of *trans* fatty acid to reduce the use of hydrogenated fats which will take effect from the 1 January 2013 is to palm oil's benefit. Palm

oil being free from *trans* fatty acid, would play a more important role in the market of specialty fats, bakery fats and human milk fat substitutes.

China will continue to import palm oil and its dependency on imports would continue to increase in the near future. With its clear advantages, palm oil will play a greater role in fulfilling China's oils and fats market demand.

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