

# Central Asia - The Untapped Market

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## INTRODUCTION

The Central Asian Region (CAR) consists of five republics in the core region of the Asian continent, which stretches from the Caspian Sea in the west, to China in the east and from Afghanistan in the South to Russia in the north. Sometimes the area is also referred to as Middle Asia. The republics are Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. All of them are part of the former Soviet Union with a total population of 64.7 million as of 2012. The region continued to post solid economic growth in 2012, though, at 5.7%, which was moderately lower than in previous years. The main contributor to the economic growth in the region is from the gas and petroleum industries especially in Kazakhstan, Turkmenistan and Uzbekistan. However, inflation remained in double digits in Uzbekistan and Turkmenistan, reflecting administrative price increases, faster currency depreciation, and demand pressures from wage increases. Average inflation is expected to rebound moderately in 2013 and 2014, in-line with strong economic activity in the region.

The region has a big population that serves the potentials of a big requirement for food especially in oils and fats. The total population in the region is 64.2 million people with an average growth rate of 1.21%. Since independence, the population of the Central Asian republics has increased in total by about 10%, despite the large out-

flow of Russian-speaking people from the region. Most of the Central Asian countries continued to register high birth rates and a positive population growth especially in Kazakhstan and Uzbekistan, as well as other CAR countries. With the high population growth rates, it is expected that food requirements will also increase and the need for vegetable fats resources will be more challenging. With the slow development of new agricultural technology and limited areas

suitable for oilseeds cultivation, an increase in the dependence on imports of edible oil in the region cannot be avoided.

## THE OILS AND FATS SITUATION IN CENTRAL ASIA

Almost all of the Central Asia republics are producers of oils and fats, however it was not enough to meet the local demand. The local production of oils and fats is only sufficient to meet 71% of the regional requirements of more than 1.1 million tonnes a year.

The region has produced more than 720 000 t of vegetable oils annually since 2008 and it has expanded at an average of 2.35% per year to 798 300 t in 2012. The production of oils is at an increasing trend following the opening of more cultivated areas under oilseeds and with an adoption of new technologies in agriculture practices. As such, the production of oils and fats has expanded at an average of 3.1% per year. The increase in oil production is from the contribution of newly cultivated

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areas under oilseeds, especially in Kazakhstan and Uzbekistan. Major oils produced in the region are cotton oil (53.4%) and sunflower oil (24.75%). Other vegetable oils produced are rapeseed oil (3.91%), soyabean oil (2.66%) and linseed oil (1.05%). Production of animal fats in the region in 2012 was at 113 300 t or 14.19% of the total oils and fats produced; most of them were from tallow (57%), butter (19%) and lard (24%).

Uzbekistan and Kazakhstan are the major producers of oils and fats in the region, at 40% and 39% respectively. Although the region is a producer of oils and fats, it is only sufficient for 71% of its total domestic demand, thus giving rise a need to import to satisfy local demand. The export of oils and fats is at only around 7% of the total production and is mostly confined to countries within the region. Yields of local planted oilseeds are quite low by world standards. Some of the oilseeds produced are exported because of a lack of extraction facilities and high demands from the other countries for the oils and cakes. The oils and fats industry in Central Asia is thus rather underdeveloped.

Central Asia is a big consumer of oils and fats, where their regional disappearance has been more than 1.0 million tonnes since 2009 and this trend has been increasing. The consumption of oils and fats has expanded at an average of 4.5% per year from 943 700 t in 2008 to 1.13 million in 2012. The biggest consumers of oils in the region are Uzbekistan (40%) followed by Kazakhstan (34%) and Turkmenistan (10%). Tajikistan and Kyrgyzstan consumed 7% and 9% respectively.

To ensure the availability of vegetable oils for the region, the region is dependent on imported oils and fats. Since the annual production expansion is at 2.35%, which is lower than the average disappearance rate of 4.5%, the dependence on imported oils in this region has become more important over the years. The total imports of oils and fats by the region in 2012 were at 379 100 t, an increase of 43% over 2008, with total imports of 264 500 t. Sunflower oil remains as the major oil imported in 2012 at 260 800 t, followed by cotton and palm oil at 41 200 t and 29 900 t respectively. The annual increment of oils and fats imported for the last five years has been at an average of 17.2%. A review of the development trends, shows that the region will continue to depend on imported oil products.

## PALM OIL SITUATION

Palm oil import at 33 400 t in 2012 for the region is considered small and has not developed fully. Although the palm oil imports increased in the period 2008 to 2012, it was relatively low compared to the total imports of oils and fats in the region. The region imported about 380 000 t of oils and fats annually and the palm oil market share was only about 9%.

Exports of Malaysian palm oil to the region gradually increased from 13 000 t in 2008 to 22 442 t in 2012. Refined, bleached and deodorised palm oil (RBDPO) is the main palm product imported. Uzbekistan is the major importer of Malaysian palm oil at 18 081 t (80.56%) followed by Kazakhstan at 4168 t (18.57%). Exports of palm kernel oil products and oleochemicals were at 5151 t and

765 t respectively, while the exports of finished products to the region were at 9070 t in 2012. Overall, exports of Malaysian palm-based products to the region in 2012 was at 38 620 t and direct imports from Malaysia for the year 2013 are estimated to be slightly higher due to the strong buying trends from early and middle of the year.

Malaysian suppliers are able to supply bulk palm oil products into the region in ISO-tanks or in flexi-packed in FCL or even in 200-litre drums, to ensure the buyers received good quality products. With the palm oil quality, the buyers can save in terms of processing, storage and transportation costs. Minimum FCL weight should be more than 20 t as the FCL below 20 t are subjected to very high import duties in most of the CAR countries. Due to the small batches, the buyers are able to have a better control of their cash and perhaps will also enable many small companies to buy directly from Malaysia without big capital lay out.

At the same time, the region has also received palm oil products from other sources such as Indonesia which has a joint-venture palm oil bulking installation in Odessa, Ukraine. The traditional trade supply linkage between the former Union of Soviet Socialist Republics (USSR) and the Commonwealth of Independent States (CIS) has made it easier to receive palm oil from Odessa.

Local snack food and confectioneries producers have started using palm oil products especially in Kazakhstan and Uzbekistan. The bakeries and confectioneries industries also provide a good platform for palm-based fats prod-

**TABLE 1. CAR - BALANCE OF OILS AND FATS ('000 t)**

Item	2012	2011	2010	2009	2008
Production	798.3	751.1	762.6	732.8	728.6
Imports	379.1	436.5	345.1	327.5	264.5
Exports	58.6	44.5	59.2	46.9	19.9
Disappearance	1 126.4	1 110.6	1 061.8	1 004.3	943.7

Source: Oil World Annual (2013).

**TABLE 2. CAR - PRODUCTION OF OILS AND FATS ('000 t)**

Products	2012	2011	2010	2009	2008
Soyabean oil	21.2	20.6	19.5	16.5	14.5
Cotton oil	426.6	423.8	417.4	436.1	459.3
Sunflower oil	197.6	152.8	172.0	139.1	122.0
Rapeseed oil	31.2	28.7	34.2	26.3	21.3
Linseed oil	8.4	9.6	7.2	3.2	1.1
Butter, as fat	21.4	21.4	19.8	20.9	22.3
Lard	27.3	29.7	28.7	29.1	28.7
Tallow and grease	64.6	64.5	63.6	61.5	59.4
Total	798.3	751.1	762.4	732.7	728.6

Source: Oil World Annual (2013).

**TABLE 3. CAR - DISAPPEARANCE OF OILS AND FATS BY COUNTRIES ('000 t)**

Countries	2012	2011	2010	2009	2008
Kazakhstan	382.0	374.0	350.2	334.3	315.2
Kyrgyzstan	75.3	72.8	74.0	72.6	64.3
Tajikistan	108.7	106.3	101.6	100.6	102.0
Turkmenistan	111.2	107.5	106.9	93.9	81.6
Uzbekistan	449.2	450.0	429.1	402.9	380.6
Total	1 126.4	1 110.6	1 061.8	1 004.3	943.7

Source: Oil World Annual (2013).

**TABLE 4. CAR - IMPORTS OF OILS AND FATS ('000 t)**

Countries	2012	2011	2010	2009	2008
Kazakhstan	89.7	152.8	78.7	114.1	128.8
Kyrgyzstan	39.6	36.8	40.3	34.4	24.5
Tajikistan	72.4	75.4	72.1	69.5	61.9
Turkmenistan	21.4	16.8	22.9	18.1	12.4
Uzbekistan	156.0	154.7	131.1	91.4	36.9
Total	379.1	436.5	345.1	327.5	264.5

Source: Oil World Annual (2013).

ucts to be marketed in the Central Asian Region. A number of factors contribute to this: a rise in disposable incomes and rapid population growth. Thus the sector has become one of the most important sub-sectors in the food industry and provides a huge potential for palm oil products in the region. The use of palm-based fats such as shortening, dough fats and biscuits fats are well accepted by the bakery and confectionery producers in Central Asia, due to its quality and cheaper prices compared to other sources of fats. Malaysian palm-based specialty fats such as cocoa butter equivalent (CBE) and cocoa butter substitute (CBS) are also exported to Central Asia, especially to Kazakhstan and Uzbekistan. Small amounts of palm-based CBS from Turkey have also been imported by the Central Asian countries. The Central Asian confectionery industry is capable of marketing a wide variety of confectionery products with competitive prices using palm-based fats and new production techniques. It is an opportune time therefore for Malaysian traders to export more palm oil to Central Asia, as it is far more competitive than sunflower oil.

## MARKET DEVELOPMENT

Kazakhstan is currently 82% self-sufficient in oils and fats. During the last five years (2008-2012), the total oils and fats production increased by 43% from 219 000 t in 2008 to 313 500 t in 2012. Sunflower and rapeseed oils are the major vegetable oils produced, *i.e.* 56% and 10% respectively. Other oils produced are soyabean oil, cottonseed oil and animal fats *i.e.* butter, tallow and lard. In order to meet the local requirements, the country imported

89 700 t of oils and fats in 2012 with the main oils imported being sunflower oil (81%) and palm oil (11%). Kazakhstan's total oils and fats consumption in 2012 was 382 000 t and had increased 2% compared to the previous year whilst the consumption for the last five years (2008 to 2012) had expanded at an average of 5%. The per capita consumption of the country with 16.4 million people stands at 23.3 kg person<sup>-1</sup> year<sup>-1</sup>. It is the highest per capita consumption among the other CAR countries.

The import of palm oil products by Kazakhstan is small and stands at about 10 000 t, with most of it from Malaysia. Total exports of Malaysian palm oil products to the country in 2012 were at 10 913 t an increased of two folds compared to 5117 t in 2011. The total imports for January-October 2013 were at 5039 t. Palm oil and finished products are the major products imported directly from Malaysia. Kazakhstan has the potential of importing more palm oil due to the increase in purchasing power of the population. Beside direct imports from Malaysia, Kazakhstan also imports palm oil from Ukraine via shipments from Odessa. Small amounts of palm oil products are also imported from Turkey and Iran.

Local snack food and confectioneries producers also use Malaysian CBS for their confectioneries. Palm oil products have also been used by Kazakhstan margarines and confectioneries industries.

Uzbekistan is 70% self-sufficient in oils and fats. The country's annual production of oils and fats is about 300 000 t, most of which are cottonseed oil. In 2012, Uzbekistan

produced 319 000 t of oils and fats, the same amount produced since 2010. Of that, 88% was cottonseed oil and the rest were animal fats such as tallow, lard and butter. The country depended on imported oils and fats to meet her domestic requirements. With the domestic disappearance of 449 200 t in 2012, the country imported 156 000 t of oils and fats, mostly sunflower oil (76%) from the Ukraine and Argentina. The import of 20 000 t of palm oil products to the country is considered small. The import of palm oil from Malaysia in 2012 was at 18 081 t, while palm kernel oil products stood at 1685 t. The country also imported 2943 t of finished products and 765 t of oleochemicals products from Malaysia. Statistical figures for January-October 2013 were higher, whereby the country imported a total of 31 658 t of palm-based products from Malaysia, exceeding the imports figure for the whole last year.

Palm oil products are also brought in from Russia and Europe. The industrial frying sector seems to be the most potential, but being land-locked, the import of palm oil products directly from South East Asia has been slow due to transport difficulties and the cost factor. Palm oil products imported into Uzbekistan from Malaysia in recent months are mostly consumer packed, hardened fats and palm kernel oil for soap sectors.

Turkmenistan produced a small quantity of fats and oils with an annual production of about 90 000 t. Cottonseed oil was the major oil produced (91%). In 2012 the total production of oils and fats was 91 100 t, of which 82 600 t was cottonseed oil. Turkmenistan

TABLE 5. CAR - IMPORTS OF OILS AND FATS ('000 t)

Products	2012	2011	2010	2009	2008
Soyabean oil	22.4	22.3	22.8	17.7	20.0
Cotton oil	41.2	47.0	54.7	47.8	35.7
Sunflower oil	260.8	323.6	219.6	209.5	148.3
Rapeseed oil	1.7	0.8	0.1	0.6	1.2
Corn oil	-	0.3	0.5	0.1	1.5
Palm oil	29.9	21.5	24.4	22.5	32.6
Palm kernel oil	3.5	3.0	3.5	4.9	5.9
Coconut oil	4.4	3.7	4.0	3.0	2.3
Butter, as fat	13.3	13.4	15.0	20.9	18.5
Linseed oil	-	-	-	-	-
Tallow and grease	1.7	1.2	0.9	0.5	0.3
Total	378.9	436.8	345.5	327.5	266.3

Source: Oil World Annual (2013).

TABLE 6. CAR – IMPORTS OF PALM OIL BY COUNTRIES AND PALM OIL MARKET SHARE ('000 t)

Countries	2012	2011	2010	2009	2008
Kazakhstan	11.4	5.3	7.2	10.1	19.4
Kyrgyzstan	1.9	2.3	2.1	1.8	3.3
Tajikistan	-	-	-	-	-
Turkmenistan	0.2	0.2	0.2	0.2	0.2
Uzbekistan	19.9	16.4	17.9	15.2	14.1
Total	33.4	24.2	27.4	27.3	37
Total import of oils and fats	379.1	436.5	345.1	327.5	264.5
Palm oil share (%)	8.8	5.5	7.9	8.3	14.0

Source: Oil World Annual (2013).

TABLE 7. CAR – IMPORTS OF MALAYSIAN PALM OIL PRODUCTS (t)

Products	2012	2011	2010	2009	2008
Palm oil	22 442	15 355	16 668	13 208	12 758
Palm kernel oil	5 151	3 628	2 431	5 949	4 592
Oleochemicals	765	480	580	100	12 397
Palm kernel cake	-	-	-	-	-
Finished products	9 070	13 679	15 416	17 312	12 397
Others products	1 192	-	-	-	-
Total	38 620	33 142	35 095	36 569	42 144

Source: Oil World Annual (2013).

imports a small amount of oils and fats, averaging 18 300 t annually (2008-2012). Most of the oils are imported in small quantities, but sunflower oil is imported in a relatively bigger volume - which was 11 800 t in 2012. With the small population of five million people, Turkmenistan consumed only about 111 200 t of oils and fats in 2012, a slight increase from 107 500 t in 2011.

Direct imports of palm oil products from Malaysia are very small. In 2012, the country imported a total of 333 t of palm products from Malaysia; mainly palm-based finished products at 275 t (83%); and palm kernel oil products at 58 t (17%).

The oils and fats business in Turkmenistan can be considered to be monopolised by a single Turkish owned company. The company markets a large volume of Turkish finished goods to be sold on the shelves in Turkmenistan. The company also has a good distribution network in the country. Imports of vegetable oils into the country are subjected to an import duty of 10%.

Kyrgyzstan is the future import and re-export centre for goods destined for Central Asia because it has liberalised its economy and trade. Kyrgyzstan is a small country and most of its land is mountainous and as such it has to survive through expansion of international trade. Fast customs clearance, zero taxation agreement with Kazakhstan, Ukraine and Russia, and custom clearance agreements with all CIS states are the tools they are now using. They are supposedly adopting the Singapore model. The Kyrgyzstan economy and business

have been gradually scaling to new heights of development since its independence from the Soviet block. Major economic reforms were introduced in the country in the post-independence period leading to progressive changes.

Kyrgyzstan imports about 40 000 t of oils and fats annually but with its re-export activities, more inflow can now be expected. Malaysian palm oil can take advantage of this opportunity to make inroads into the Kyrgyzstan market to expand export opportunities. This is the best opportunity for Malaysian exporters to grab in view of the expansion of local confectioneries production. Low per capita consumption of fats at 13.8 kg caput<sup>-1</sup> is the potential market growth. Besides confectionery fats, frying oil and ice-cream fats can be the immediate market for Malaysian palm oil. At present, Kyrgyzstan hardly exports any edible oils and fats. As discussed above, Kyrgyzstan's open economy policy is beginning to show that this country is moving towards becoming the import and re-export hub for the whole Central Asian region.

Kyrgyzstan's vibrant economy with a robust GDP growth of about 8%; coupled with the apparent newly achieved stable political situation and free market economy, may soon develop to become the business hub of Central Asia. Oils and fats consumption will likely increase to 16 kg caput<sup>-1</sup> in two or three years. This will create a potential consumption of 100 000 t of oils and fats a year. As the country is mountainous, an increase in agricultural output is not likely to happen, thus resulting in an increase in the import of edible oils from 40 000 t to over 70 000 t.

Some companies obtained their supply of palm-based shortening from agents in Turkey, with whom they have established good delivery and payment terms for many years. MPOB has recorded that the direct palm oil product import from Malaysia was about 1293 t in 2012; an increase of 32% compared to 980 t in 2011. As Kyrgyzstan practices free monetary policy and free trade, Malaysian traders should take advantage of the situation to deal with Kyrgyz traders. Malaysia should capitalise on Kyrgyzstan potential as the re-export hub for Central Asia. Most of the current direct exports of Malaysian goods to Kyrgyzstan are made through the Chinese eastern port of Qingdao or Vladivostok in Russia.

The volume of direct import from Malaysia seems small but for a country that is small and isolated as Kyrgyzstan, it is significant. From market information received, it was learnt that palm oil is re-exported to other CIS countries through Bishkek.

## **CHALLENGES IN TRANSPORTATION TO CENTRAL ASIA**

Transportation is a major challenge in exporting palm oil products to Central Asia as the region is landlocked. Although all the Central Asia countries are inter-connected by roads or railways, the land transportation is time consuming and costly, thus making the landed price of palm products uncompetitive compared to the vegetable oils produced locally.

There are three major routes through which palm oil comes to Central Asia that is either through

China, Ukraine or Iran. China has modernised and increased the access of its rail and road systems to Kazakhstan, Kyrgyzstan and Tajikistan. Iran has also done the same to its neighbouring country of Turkmenistan. The time needed to export from and import to CAR countries has reduced over the past few years, but it is still time consuming. The China route is reported as the most practical and cheapest way of sending palm oil products to Central Asia. Palm oil may be sent to Kazakhstan through Qingdao, a port in China which is connected to Kazakhstan, Kyrgyzstan and Uzbekistan and then by road and rail through the districts of Chang-an, Lan Chow and Urum-Chi. It will take 25 to 42 days to reach the Central Asia countries. It is reported that the government of China is in the process of building double rail systems from China to Kazakhstan to boost trade between the two countries.

In Ukraine, there is a bulking installation in Odessa for supply of palm oil products to the region. However the monopolistic situation is not very acceptable to the buyers because of the restriction of choice in terms of palm oil prices. Palm oil transported from Odessa to Kazakhstan by rail wagon (50 t wagon<sup>-1</sup>) will normally take 6-7 days.

Palm oil can also be brought into Central Asia by truck on roads or rail wagon through Bandar Abbas or Bandar Imam Khomeini of Iran to Turkmenistan and Uzbekistan; or by rail to Bandar Anzali in the Caspian Sea and then by ships

to the Kazakhstan ports. Russia can also be an alternative route through Vladivostok in the East or through St. Petersburg in the west by rail wagons.

Another challenge is the policy by which certain countries control the economy and also impose restrictions on the importation of food products including oils and fats such as in Uzbekistan. The importing companies have to register the import contracts with the Ministry of Foreign Economic Relation (MFER) and need to obtain licenses for foreign exchange from the Central Bank. However, the import license is granted selectively. Imports of oils and fats are also subjected to these strict procedures.

## CONCLUSION

Although Central Asia is a producer and user of edible oils such as sunflower oil, the region has potential to import more palm oil products. The demand of oils and fats is increasing, since there is an increase in the buying power in the region. Palm oil is needed in solid fats production such as margarine, dough fats and shortening, which are widely used in the country. Most of the food producers in the country operate as small and medium scale industries. As such, Malaysian palm oil companies may request to go and meet the palm oil buyers and offer them good prices and credit terms to attract them to buy our palm oil. As Central Asia is a temperate region with an arid to semi-arid climate, lotions and skin care products are popularly used. Palm-based oleochemical may therefore

be introduced into the country for use in toiletries and skin care industries.

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