

Enhancing Malaysia's Presence in Tanzania's Palm Oil Market

Hisham Hussain* and Isa Mansor*

INTRODUCTION

Tanzania offers a uniquely attractive investment opportunity with her large and growing domestic population, strategic location, abundance of natural resources and internal political stability.

The country is situated in eastern Africa, facing the Indian Ocean, between Kenya and Mozambique. Tanzania has a land size of 885 800 km² and a population of 52.3 million people, the largest in eastern Africa, and with a rapidly growing middle-class. Tanzania has huge potential for palm oil products as she is the natural trading gateway for five land-locked countries surrounding her, namely, the Democratic Republic of Congo (DRC), Rwanda, Burundi, Uganda and Zambia (Figures 1 and 2).

Democratic principles are firmly engrained in the country since its independence in 1961. The country has never suffered a civil war, and its political leaders have come

to power through the electoral process. Free market principles are also firmly implemented, and the government has continued successfully to further explore and liberalise Tanzania's economy. Consequently, Tanzania achieved 7% gross domestic product (GDP) growth at USD 138.5 billion (2015 estimate) and GDP per capita of USD 2766.67 (2015 estimate) for five consecutive years placing her

amongst the top 20 fastest growing economies in the world (Tanzania Investment Guide, 2015).

Tanzania also encourages foreign investments in the country. The Tanzanian economy has been transformed from a centrally planned economy to a market-oriented system which encourages the private sector to lead with less government intervention. This has resulted in positive trends for the macro-economic indicators, with inflation rate falling almost 90% since 1995 (www.tradingeconomics.com, Tanzania Inflation Rate Section).



Figure 1. Tanzania is located in the eastern African region.

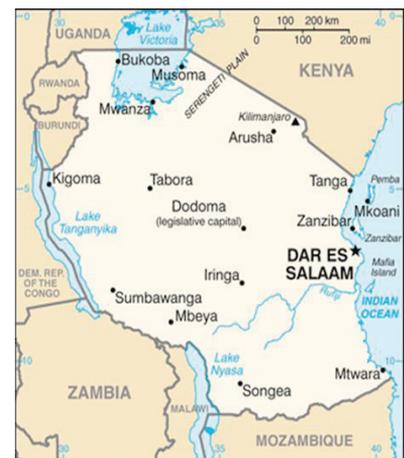


Figure 2. Map of Tanzania.

* Malaysian Palm Oil Board (MPOB),
6, Persiaran Institusi, Bandar Baru Bangi,
43000 Kajang, Selangor, Malaysia.
E-mail: hishamhussain@mpob.gov.my

There are also guarantees against nationalisation and expropriation through various agreements of protection and promotion carried out by local agencies such as the Multilateral Investment Guarantee Agency (MIGA), of which Tanzania is a member.

Investments in Tanzania also open up major markets in the world, such as the United States of America and Europe, through special bilateral trade and investment agreements and arrangements signed by Tanzania in the Africa Growth Opportunity Act (AGOA) which helps to leverage investments in Tanzania.

The downstream sector has potential in Tanzania, especially in the food and animal feed manufacturing industry. This has become one of the main investment opportunities in the country. The appeal to invest in the industry is supported by Tanzania's strategic location, geographic conditions, political peace and stability, and economic characteristics that encourage Public-Private Partnership, all of which makes it exceptionally conducive to foreign investment with incentives and support provided by the local government. Thus far, the country has attracted more than five companies associated with the oil palm industry. Together with the assistance of the Tanzania Investment Centre (TIC), these companies have managed to drive the economy of the oil palm industry, and have contributed 25% of the GDP growth of the country.

CRUSHING AND TRADE OF OILSEEDS IN TANZANIA

Tanzania mainly produces locally grown oilseeds, especially sunflower seeds at 550 000 t in 2015. These seeds are crushed to produce oils and fats which can accommodate 44.6% of the consumption in the country. Local production of oilseeds is also important to generate economic growth in the country, with 112 200 t of oilseeds being exported, these consisting of sesame seed, cotton seed and shelled groundnut. According to Oil World Annual (2016), the crushing of oilseeds and exports of the local oilseeds show an increasing trend, with annual growth rates of 7.5% and 25%, respectively, indicating the importance of the oils and fats industry in Tanzania.

TANZANIA'S OILS AND FATS PRODUCTION

Tanzania's oils and fats production increased by 29.9% from 2010 to 2015 (Table 1). The country's main production is sunflower oil which increased over 100% from 2010 to 2015. However, production of other oils and fats did not show any significant changes in the last six years (2010-2015). Tanzania has voiced interest in developing oil palm cultivation as she has a particularly strong market for palm oil. In fact, palm oil is the main form of oils and fats imported by the country, making up to 88.9% of the total imports of oils and fats in 2010. In 2015, palm oil was still the largest import of oil into the country, contributing 96.1% of the total volume of imported oils and fats (Table 2).

Since 2010, palm oil was the major oil consumed compared

with the other locally produced oils and fats from oilseeds producers such as sunflower, groundnut and cottonseed oils. Palm oil consistently dominated the oils and fats market due to its price competitiveness and availability in the market. Furthermore, due to the limited supply of the local oilseeds, the huge demand from local industries, such as the food services sector, packaged food industries as well as the export market, together with the fast economic growth, has made palm oil the main choice to realise the local needs for oils and fats.

Tanzanian consumption of oils and fats has been expanding since 2010 (Table 2). Based on the statistics published by Oil World Annual (2016), oils and fats consumption has increased by 63.2% over the last six years, *i.e.* since 2010. Tanzanian per caput use of oils and fats has been moderate at a 39.8% growth from 2010 to 2015.

Tanzania is totally dependent on imports for palm oil. One of the country's major sources of palm oil is Malaysia. Since 2010, the Malaysian palm oil market share has been on an increasing trend (Table 3), and was 46.2% in 2015. Other important palm oil players in Tanzania include Indonesia, Singapore and Kenya.

PALM OIL APPLICATIONS AND ACCEPTANCE

Tanzania is largely a liquid oil market and consumes on average 626 867 t of oils and fats per year; thus, self-sufficiency is moderate with 44.6% of local oils and fats production accommodating domestic consumption. Imports

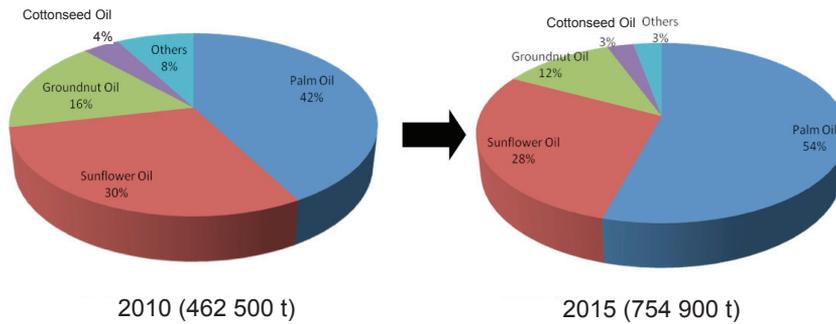


Figure 3. Tanzania's major oil consumption pattern.

of oils and fats by the country accounted for 462 500 t in 2015 (96.1% of which was contributed by palm oil).

The Tanzanian oils and fats market is currently dominated by palm oil by more than 50%. The market for oils and fats in the country is predominantly captured by liquid oil, with palm olein being the most preferred product due

to its affordability and availability. Similarly, both palm stearin and palm fatty acid distillate are also mainly imported for the mature market of the soap manufacturing industry.

Tanzania has a large capacity in both oil refining and soap production. The refining capacity of the METL Factory turns out 2250 t day⁻¹, making it the largest

refinery in Africa. Palm oil is mainly sold in the form of refined, bleached and deodorised (RBD) palm olein with the specified Cloud Point 8 (CP 8) as stated by the national regulatory standard. The consumer usually uses palm olein for frying, for which it is the most preferred oil due to its affordability. The product packaging is mostly in 20-litres drums, and consumers tend to buy the oil in this type of packaging so as to keep the drum for water storage (Figure 4). Consumers, especially in the rural areas, will use the drum to transfer water from one place to another, and also use the drum to store water for their irrigation system in their small farms. RBD palm olein in 20-litres drums has captured more than 50% of the market share due to the versatility of its product packaging.

TABLE 1. TANZANIA'S PRODUCTION OF MAJOR OILS AND FATS ('000 t)

Production	January - December					
	2010	2011	2012	2013	2014	2015
Cottonseed oil	17.8	17.5	23.5	24.9	24.0	20.8
Groundnut oil	76.0	95.0	106.4	79.8	87.4	87.4
Sunflower oil	152.1	218.4	222.6	212.9	218.0	217.3
Coconut oil	13.9	13.4	13.2	12.8	12.2	12.0
Total	259.7	344.4	365.7	330.4	341.6	337.4

Source: Oil World Annual (2016).

TABLE 2. TANZANIA'S IMPORTS OF OILS AND FATS ('000 t)

Volume	January - December					
	2010	2011	2012	2013	2014	2015
Total imports of oils and fats	258.3	250.9	282.4	386.1	411.2	426.5
Import of palm oil	229.7	225.5	263.6	360.6	390.0	410.0
*Total demand for oils and fats	462.5	551.4	607.9	668.1	716.4	754.9

Source: Oil World Annual (2016).

*Note: Total demand covers soyabean, cottonseed, groundnut, sunflower, palm, palm kernel and coconut oils, lard and others.

TABLE 3. TANZANIA'S PALM OIL IMPORTS FROM 2010-2015 ('000 t)

	2010	2011	2012	2013	2014	2015
Malaysian palm oil	81.2	36.8	39.4	68.4	244.2	180.0
Total imported palm oil	212.4	234.9	236.7	246.1	429.5	390.0
Malaysian palm oil share (%)	38.2	15.7	16.6	27.8	56.9	46.2

Source: Oil World Annual (2016).



Figure 4. Villagers carrying their water supply in used cooking oil drums.

The two manufacturers have a combined refining capacity of 3100 t day⁻¹, which means they can process 1.13 million tonnes of palm oil in a year. This capacity is more than what the country needs, which is reflected by the 410 000 t of palm oil consumed in 2015 (Oil World Annual, 2016). Thus, such a refining capacity allows Tanzania to serve as an export hub to the neighbouring five land-locked countries.

MARKET PROSPECTS

Tanzania, although currently accounting for only 8.9% of the total palm oil imports into the African Region (Table 6), has the potential for further growth as the country plays a significant role as a gateway for re-export of palm products to its land-locked

MALAYSIAN PALM PRODUCTS IN TANZANIAN MARKET SEGMENT

In 2015, Tanzania imported 250 798.83 t of palm oil and palm products, generating RM 612.34 million in revenue for Malaysia (Table 4). Crude oil is preferred by the local importers as well as the exporters because the tariff structure is set at 0% for crude oil, whereas the import duty for refined palm products ranges between 10% and 25% (Table 5).

THE PALM OIL REFINING INDUSTRY IN TANZANIA

Despite being a big country with a large population, Tanzania has mainly two oils and fats manufacturers, namely, the East Coast Oils and Fats Ltd (ECOF) and the Murzah Oil. ECOF is a subsidiary company of the METL Group.

TABLE 4. MAJOR MALAYSIAN PALM PRODUCTS IMPORTED BY TANZANIA

Product detail	January-December 2015	
	Volume (t)	Value (RM million)
Crude palm oil	121 504.12	281.42
Crude palm olein	54 260.96	124.49
RBD palm stearin	5 518.75	11.09
RBD palm olein	54 342.04	153.27
Palm fatty acid distillate	1 725.59	2.71
Cooking oil	2 746.71	8.00
Others	10 700.66	31.36
Total	250 798.83	612.34

Source: MPOB (2016).

TABLE 5. IMPORT DUTIES FOR PALM OIL AND ITS FRACTIONS, WHETHER OR NOT REFINED, BUT NOT CHEMICALLY MODIFIED

Tariff code	Product	Unit of quantity	Rate
1511.10.00	Crude oil - Others	kg	0%
1511.90.10	Palm olein, fractions	kg	10%
1511.90.20	Palm stearin, fractions	kg	10%
1511.90.30	Palm olein, RBD*	kg	25%
1511.90.40	Palm stearin, RBD	kg	25%
1511.90.90	Others	kg	25%

Source: EAC Common Tariff External Tariff Book (2015).

Note: *RBD: Refined, bleached and deodorised.



Refined palm olein in drums and jerry cans.



Margarines and cooking fats in Tanzania.



Detergent powder, toilet cleaner and laundry soap in Tanzania.

Figure 5. The major palm-based products that are available in Tanzania are palm olein in the forms of cooking oil, bakery fat, margarine, detergent powder and soaps (for toilets/ laundry).

TABLE 6. MALAYSIAN EXPORTS OF OIL PALM PRODUCTS TO MAJOR AFRICAN COUNTRIES (volume and value)

Countries	January – December 2015	
	Volume (t)	Value (RM million)
Benin	358 626	1 087.78
Egypt	299 465	797.55
Nigeria	275 159	665.41
Tanzania	250 799	612.34
South Africa	207 583	549.55
Angola	171 780	559.85
Ghana	168 716	406.19
Kenya	142 629	375.29
Mozambique	115 612	259.86
Others	815 605	2 353.00
Total	2 805 974	7 666.37

Source: MPOB (2016).

neighbours. The development of infrastructure for the refining of crude palm oil made Tanzania the strategic location for sustainable growth, especially for Malaysian palm oil.

In 2016, palm oils and palm products are expected to continue to generate healthy growth in Tanzania contributing mostly to her agriculture sector, and fueled by population growth and the Tanzanians' love of fried food. Nowadays, cooking oil is an essential ingredient in every Tanzanian household, as it is widely used for sautéing and frying. Oils and fats benefit from population expansion, which continuously widens the consumer base for these products. Therefore, it is strongly recommended that Malaysian oil palm industry players take advantage by tapping on these opportunities and riding on the fast growth of the Tanzanian economy.

CONCLUSION

Tanzania offers huge market potential for Malaysian palm oil, especially in the downstream sector if advantage is taken of the high demand for Malaysian palm oil. Promotional activities by MPOB and oil palm industry members can be done to further raise awareness in the usage of oleochemicals as the demand for these products is still low. With a huge population of 52.4 million, palm oil remains an essential source of oils and fats for the people, and also contributes to the economic growth of the country.

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