

Iran: A Growing Potential Market for Palm Oil

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INTRODUCTION

Iran is situated at the crossroads of Central Asia, South Asia and the Arab states of the Middle East. Her neighbours are Turkmenistan, Azerbaijan and Armenia to the north, Afghanistan and Pakistan to the east, and Turkey and Iraq to the west (*Figure 1*). The country's strategic position and its access to the Persian Gulf in the south have made Iran an important country throughout its history. Tehran is the capital of the country. Located in the north-western part of Iran, Tehran is the country's largest city as well as the political, cultural, commercial and industrial center of the nation.

The election of President Hassan Rouhani in June 2013 generated expectations of economic development and better international engagement for Iran. In July 2015, after almost two years into his term, President Rouhani successfully secured the promise of relief from sanctions for Iran by signing the Joint Comprehensive Plan of Action (JCPOA) with P5+1¹. JCPOA, which severely limits Iran's nuclear program in exchange for unfreezing Iranian assets and reopening Iran to

international trade, should bolster foreign direct investment, increase trade, and stimulate growth. This deal is an example of President Rouhani's moderate approach in rebuilding international relationships, especially with the Western countries.

17 January 2016, was a historic day for the country as the Iranian economic sanction was officially lifted after the International Atomic Energy Agency (IAEA) verified that Iran had implemented its nuclear-related commitments under JCPOA. After years of economic isolation, this development has made Iran a country with a huge untapped economic potential. CNN has described Iran as the Germany of the Middle East, with nearly 80 million people, an educated

workforce, and having a proud tradition of manufacturing. The potential is also true for the market for oils and fats, including palm oil.

OILS AND FATS SITUATION IN IRAN

In 2015, Iran recorded a consumption of 1.98 million tonnes of oils and fats, and this shows an increasing trend. Based on the *Oil World* statistics, soyabean oil has become the major oil consumed at 653 700 t, followed closely by palm oil at 635 300 t, sunflower oil at 318 100 t and rapeseed at 145 300 t in 2015.



Figure 1. Map of Iran.

¹ The P5+1 refers to the UN Security Council's five permanent members (the P5); namely China, France, Russia, the United Kingdom, and the United States; plus Germany. The P5+1 is often referred to as the E3+3 by European countries (EEAS, 2014).

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The major oils and fats produced in the country include soyabean oil, rapeseed oil and butter as fat. In 2015, the total production of oils and fats in Iran was recorded at 640 800 t (Figure 2), showing a significant increase of 58.8% over the 403 600 t in 2014. Production of soyabean oil in Iran registered significant growth to 319 600 t in 2015, compared with only 93 300 t in 2014.

Iran also relies on imported edible oils with 1.34 million tonnes recorded in 2015, a slight decrease of 4.5% from the 1.40 million tonnes in 2014. Soyabean was the major oil imported in 2015 accounting for 499 100 t (37.3%), followed closely by palm oil at 465 300 t (34.8%) and sunflower oil at 267 400 t (20.0%). Iran imported 330 930 t of Malaysian palm oil in 2015, valued at RM 794.14 million.

Malaysia remains the major exporter of palm oil to Iran over the last five years, with Indonesia and UAE coming second and third (Figure 3). Malaysia's share of the palm oil market was around 50%-70% compared with Indonesia's at around 20%-40%.

As a result of an insufficient supply of oils and fats and the growing demand for edible oils in the domestic market, Iran does not export much of her oils and fats. The country only exported small amounts of soyabean, cottonseed and sunflower oils over the last five years. Therefore, the volume of oils and fats exported has varied very slightly between 2011 and 2015. Nevertheless, based on the *Oil World* statistics, Iran's exports of oils and fats recorded a significant growth by 85.1% in 2015 compared with the previous year

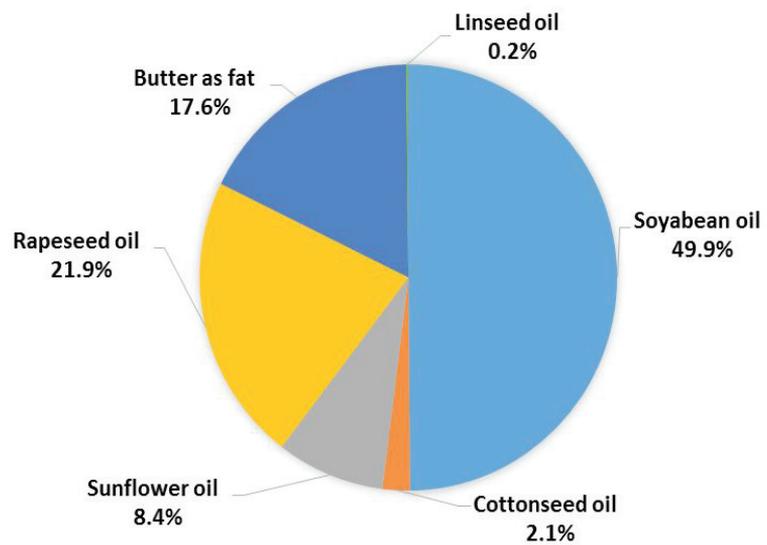
(Table 1), this as a result of a surge in soyabean oil production in 2015. Soyabean oil being the primary oil exported accounted for around 70%-90% of the total exports of oils and fats.

EDIBLE OIL TRENDS IN IRAN

Iran represents a huge market for edible oils. With the average domestic disappearance of 1.9 million tonnes and per capita

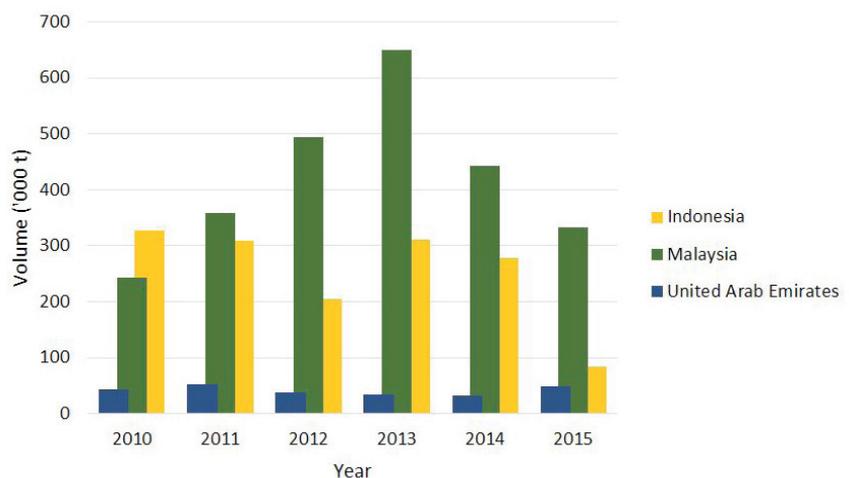
consumption of about 24 kg yr⁻¹, production of edible oils in Iran is not sufficient to meet the local demand, especially from the food processing industry. As such, the shortfall has to be met by imports. Key food manufacturers in the country rely heavily on imports of edible oils, particularly palm oil.

Production of specially formulated fats such as margarine and shortening is another sector which has high potential in



Source: Oil World (2016).

Figure 2. Iran: Oils and fats production in 2015.



Source: Oil World (2016).

Figure 3. Iran: Imports of palm oil by country ('000 t).

Iran. However, only a handful of companies in Iran specialise in manufacturing these types of products. Palm oil and its products have a range of distinctive properties which meet most of the quality and technological requirements necessary for the formulation of fat-based products. This being the case, its versatility is highly sought after by the associated industries in Iran. More edible oil players in the country are seen to be interested in venturing into this market sector, especially for manufacturing palm-based fat formulations.

There is also an emerging presence of sesame, grapeseed and walnut oils being sold in major supermarkets and hypermarkets in Tehran, Iran. This is a new trend, not observed previously. Although these types of oils are still considered to satisfy a niche market at present, this development is forecast to continue, especially following the lifting of economic sanctions on Iran.

PALM OIL SITUATION IN IRAN

Palm oil could be considered a fairly new vegetable oil in Iran. Palm oil was even assumed to be inedible in the early 1990s. Import of palm oil into the country was then negligible. In 1998, the release of ISIRI Standards for palm oil initiated the inflow of the oil into the country. However, usage of palm oil was restricted to blending with other vegetable oils for the production of vegetable ghee; this was basically due to a lack of understanding of the standards, reminiscent of the old misunderstanding of palm oil properties, and an unfamiliarity with the oil. However, the palm oil market in Iran has improved

significantly over the years. Palm products are now used in vegetable ghee formulations, as an industrial frying oil, in the domestic blended-cooking oils and in the confectionery industries. A surge in the use of palm products in soap, detergent and non-food applications is also observed.

Over the years, Iran has become an important market for Malaysian palm products. Iran imports predominantly Malaysian palm oil. This is followed by oleochemicals, palm kernel oil and finished products. Exports of Malaysian palm products to the country have increased significantly from only 58 335 t in 2000 to 311 427 t in 2008. These exports to Iran continued to escalate and reached their peak in 2013 at 700 729 t. According to the Iranian Vegetable Oil Industry Association (IVOIA), the requirement for palm oil in Iran is about 850 000 t yr⁻¹; this does not include its use in the non-food sector.

In the last few years, palm oil imports into Iran showed a reduction from 700 729 t in 2013 to 405 982 t in 2015, mainly due to certain policies governing such imports into Iran. However, palm oil is expected to regain a higher market share in Iran following a recent development with the palm oil import limit being removed in March 2016. Although the palm oil tariff has been increased to 26% from 10% early this year, as is the case with other refined edible oils such as sunflower, corn and soyabean oils, palm oil imports into Iran have recorded positive growth in these last few months. Exports of Malaysian palm oil to Iran registered at 315 454 t for the period from January-October 2016 compared with 276 680 t in the corresponding period in 2015. The new policy also imposes a higher import tariff of 40% on palm oil importers who do not purchase local seeds at the price set by the Ministry of Agriculture of Iran. Nevertheless, imports of cocoa butter equivalent (CBE),

TABLE 1. IRAN: EXPORTS OF OILS AND FATS ('000 t)

| Oil exported | January - December | | | | |
|--------------|--------------------|-------------|--------------|-------------|--------------|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| Soyabean | 155 | 71 | 92.7 | 55.3 | 95.7 |
| Cottonseed | 5.8 | 9.5 | 10 | 9.5 | 11 |
| Sunflower | 8 | 10.7 | 11.2 | 11 | 7.5 |
| Total | 168.8 | 91.2 | 113.9 | 75.8 | 114.2 |

Source: Oil World Annual (2016).

TABLE 2. SUMMARY OF MALAYSIAN EXPORTS OF PALM PRODUCTS TO IRAN (t)

| Product | January - December | | | | |
|-------------------|--------------------|----------------|----------------|----------------|----------------|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| Palm oil | 330 930 | 447 058 | 635 258 | 548 603 | 342 423 |
| Palm kernel oil | 20 968 | 16 007 | 17 561 | 8 304 | 19 421 |
| Palm kernel cake | 0 | 0 | 0 | 0 | 0 |
| Oleochemicals | 36 068 | 32 251 | 35 611 | 47 977 | 34 908 |
| Finished products | 18 017 | 19 898 | 12 299 | 8 977 | 17 206 |
| Other products | 0 | 16 | 0 | 80 | 36 |
| Total | 405 982 | 515 231 | 700 729 | 613 941 | 413 994 |

Source: MPOB (2016).

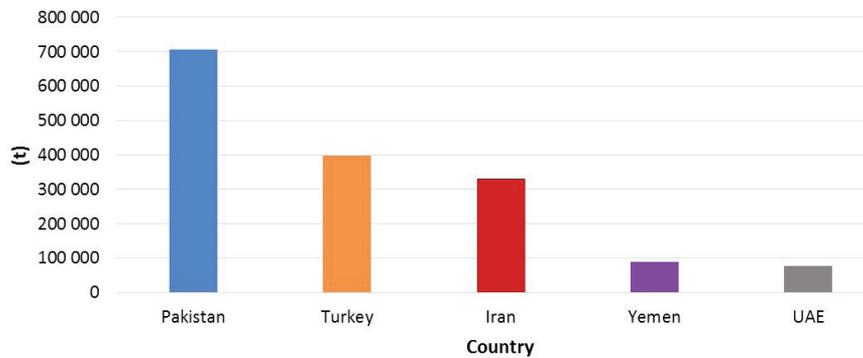
cocoa butter replacer (CBR) and cocoa butter substitute (CBS) used as raw materials for the confectionery industry in Iran enjoy a lower import tariff of 5%. This development is indeed much welcomed and has resulted in an immediate surge of Malaysian CBS exports to Iran.

Despite several challenges facing palm oil in Iran, the country continues to be an important importing country for Malaysian palm oil. In 2015, Iran was the third largest importer of palm oil in the West and Central Asia Region, coming after Pakistan and Turkey (Figure 4).

CONCLUSION

Iran remains one of the important markets for palm oil with a potential import volume of more than 800 000 t yr⁻¹. Although the palm oil market situation has been uncertain in these last few years, the lifting of the economic sanction on Iran in January 2016 is forecast to present positive prospects and ample opportunities for palm oil products in Iran.

Furthermore, due to her strategic location, Iran is one of the growing alternative gateways for goods into the Central Asian Republics (CAR) and Afghanistan as Iran re-exports considerable amounts of edible oils to these



Source: Oil World (2015).

Figure 4. Major Malaysian palm oil importing countries in the West and Central Asia Region in 2015.

countries every year. This potential will help boost the demand for oils and fats, including palm oil, in the future years.

The production of blended cooking oil, high-quality confectionery products, and palm oil applications in other foods and for non-food purposes, such as in the production of nutraceutical and pharmaceutical products, has high potential in the Iranian growing market. Confectionery industries is also a booming sector in Iran, with specialty fats exporters having a good advantage, especially with lower import tariffs applied post-sanction.

Palm oil with its versatility and availability, its varied applications in the processed food industry as well as in non-food industries, coupled with a competitive price compared

with other vegetable oils, is indeed very attractive to the Iranian market. The demand for palm oil in Iran will continue to soar in the future.

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