New Development of Palm Oil Trade in China

*by Teah Yau Kun**

INTRODUCTION

The vegetable oil industry holds considerable potential for further development and expansion in China. During the past several years, the oils and fats market in China has developed rapidly following the reform policy with its prime emphasis on economic development. Over the last three years the trade pattern of palm oil in China has changed considerably and palm oil now occupies a very important position in the Chinese vegetable oils and fats trade. Prior to 1985 hardly any palm oil was imported by China but since then imports have increased to just over one million tonnes during 1991. Being a newcomer to the Chinese import market palm oil's performance can be considered as dramatic. It is also foreseen that palm oil will remain one of the most important oils and fats in China for many years to come.

OILS AND FATS SITUATION IN CHINA

China is one of the largest producers of oilseeds. The main oilseeds produced are rapeseed, groundnut, cottonseed, soyabean, sunflower seed and sesame seed. Lard is the main animal fat produced in China. The production of oils and fats over the last five years is shown by *Table 1*. The demand for oils and fats is expected to increase with the acceleration and intensification of the economic reforms adopted by the government of China.

With the continued industrialization programme embarked upon by the Chinese government, the rate of increase in total cultivable land for oilseeds is limited because as the country develops more land is giving way to urbanization. Currently, the per capita consumption level for the general masses in China is still low at about 7.7 to 8.0 kg/person/year as compared to the world average of 11 - 13

TABLE 1. CHINA: PRODUCTION OF OILS AND FATS ('000 tonnes) OVER THE LAST FIVE YEARS

Production	1987	1988	1989	1990	1991
Soyabean oil	752.3	767.2	566.6	503.5	551.2
Cottonseed oil	767.1	872.6	842.1	839.5	1007.1
Groundnut oil	1336.3	1365.9	1275.6	1220.4	1315.6
Sunflower oil	300.1	250.2	229.9	234.7	278.4
Rapeseed oil	1959.7	1770.4	1664.7	1964.3	2189.3
Sesame oil	152.5	123.3	98.2	104.6	127.1
Corn oil	14.1	15.2	16.0	20.7	28.1
Palm oil	10.0	11.5	12.1	13.1	14.0
Palm kernel oil	0.4	0.6	1.4	1.1	1.1
Butter as fat	47.0	48.9	51.9	54.0	57.0
Lard	1302.8	1407.0	1451.3	1539.7	1625.9
Fish oil	11.2	13.8	14.0	14.0	10.6
Linseed oil	119.2	117.7	119.1	115.9	135.6
Castor oil	61.9	79.2	80.0	80.8	92.3
Tallow & Grease	209.9	230.8	246.5	267.1	288.5
TOTAL	**7044.5**	**7074.2**	**6669.4**	**6973.4**	**7721.8**

* *PORIM Hong Kong Technical Advisory Sercice*
c/o Office of The Comissioner for Malaysia
22nd Floor, Malaysia Building, 50, Gloucester Road
Wanchai, Hong Kong

kg. The 'ration' system for the general population is 250g/person/month and this ensures that the population has a basic supply of oils and fats. If this is to be increased to 500g/person/month, it will create an additional yearly demand of about 300,000 tonnes of oils and fats for basic consumption. With the ever increasing living standards of the population, the basic supply can barely satisfy the needs for oils and fats. The population can purchase any quantity of oil in the open market and this open market demand is very large indeed. As the government's efforts towards the so called 'socialist free market economy' intensifies, a lot of the subsidies have been lifted and their ultimate objective is to free the subsidy completely including that on oils and cereals. All these new developments have given an entirely new scenario to the oils and fats trade in China as compared to years ago when purchases were controlled by central agencies. The reforms have also encouraged a boom in the manufacturing sector. This has also created more avenues for palm oil and the pattern of utilization is also changing. More and more manufacturing industries and joint venture investments are pouring into China. There is a new influx of investment projects into China especially from countries like Hong Kong, Singapore, Taiwan, S. Korea and Malaysia. The majority of the projects involve the manufacturing sectors such as refineries, instant noodles, snacks and other food industries. Palm oil could be an ideal raw material for these industries and the future uptake by this sector will increase further. Currently, the majority of the palm oil products imported are for the industrial sector such as deep-fat frying (*Figure 1*) and soap manufacturing (*Figure 2*). The consumption by this sector will further increase together with more specialized applications as the industries develop. The general household sector is still untapped and a vast potential for palm oil exists in this particular sector. PORIM is adopting two approaches to help and service these industries:

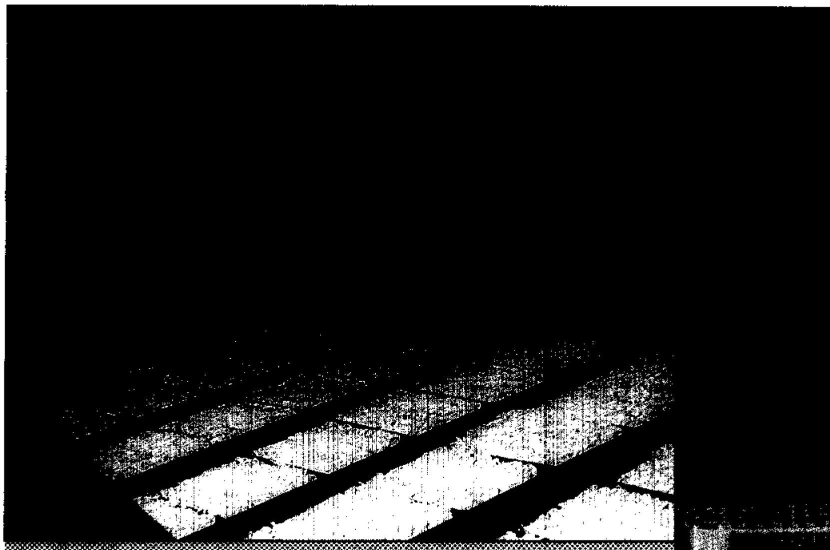

Figure 1. Instant Noodle Plant in China - Palm Olein is used as a Frying Medium.

Figure 2. Soap Plant in China - Palm Stearin is one of the Fats Used.

1) To explore and promote technically new uses for palm oil and palm oil products in the Chinese industries. Identification of areas where palm oil and palm oil products could be used by the food industries will form one of the major technical advisory activities of PORIM while still servicing the existing industries. This will involve specialized formulations for specific uses.

2) To explain and propagate the advantages of palm oil and to develop blends for different territorial usage depending on the types of oil preferred. The primary objectives are to promote the advantages of palm oil blends and to educate the consumer on the nutritional balance of such blends while accepting cloudity of such blends during winter.

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DEVELOPMENT OF THE PALM OIL TRADE IN CHINA

The increasing acceptance and popularity of palm oil has resulted in a change to the oils and fats situation in China especially over the last few years. In the past, purchases of palm oil were done by the central agencies and any requirements by the industries or the country were centrally planned annually. The lack of understanding of palm oil had hindered its wide acceptance in China and with the restrictions and inflexibility of the purchasing system, only a limited amount of palm oil was imported at that time. With the introduction of market reforms, more rural enterprises were encouraged and the introduction of the instant noodle industry in China in the early 1980's resulted in the wide acceptance of RBD palm olein for frying purposes. Palm oil and palm olein are particularly useful for these deep-fried products and the advantages of palm oil were immediately realized. Products fried in palm oil has a better flavour stability and a longer shelf-life when compared with other oils and fats. This unique advantage of palm oil has provided a good reference for PORIM's subsequent promotional efforts.

The economic structural reforms have also brought about an effort to decentralize the rigid state planning and more attention is being paid to the role of market regulations and investment returns. With these reforms, the provinces and localities have gradually established the rights to set up their own trading companies in Beijing to handle their business. This has also helped towards the dramatic increase of imports of palm oil by China over the last five years. The coastal provinces have tended to dominate China's import picture. The obvious explanation for this is that they can use the foreign exchange from their exports to pay for imports. Thus, Shanghai, Tianjin, Beijing and Guangdong lead the provinces in both exports and imports. In addition, powerful provincial level cities like Shanghai, Tianjin and Beijing, for instance, may receive extra support for their import needs from the central government. Whereas areas like Guangdong and Fujian have large independent sources of foreign exchange to spend on imports due to remittances from overseas Chinese relatives and high tourism earnings from the many overseas visitors. In addition, the special economic zones such as Zhuhai, Xiamen, Shantou and Shenzhen have been the entry points of vast quantities of palm oil in the last three years. This was the result of special tariff rates given to goods imported to this region.

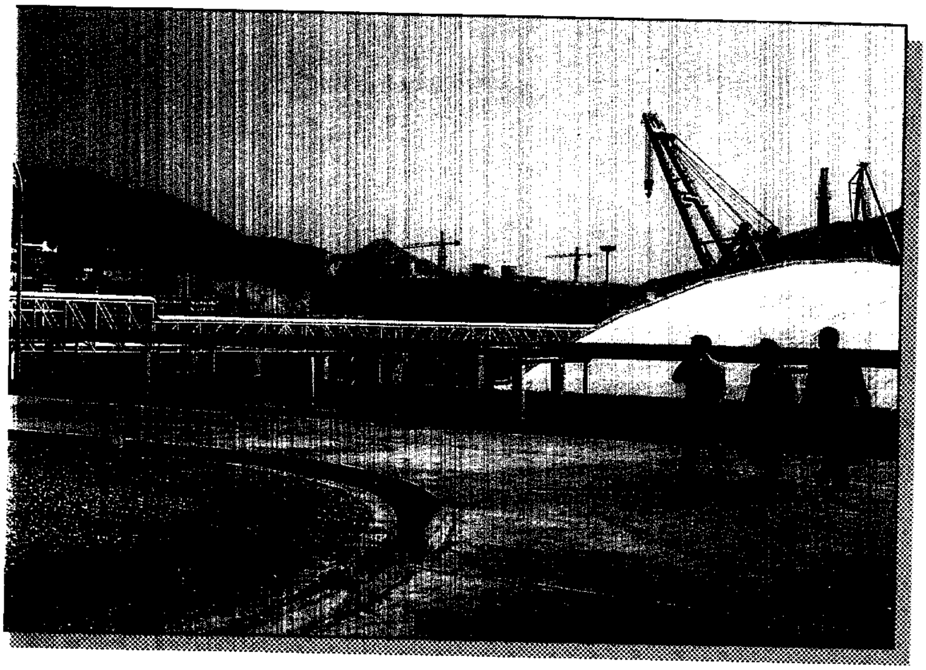

Figure 3. Southsea Oils and Fats Ltd. - One of the Pioneer Joint Venture Refineries in China Showing Pipelines linking from Refinery Directly to the Port.

While the coastal provinces were the major importers of palm oil, the inland provinces are beginning to narrow their exporting and importing gap with the coastal provinces. Inland provinces are important markets for palm oil where the masses of the population will form the ultimate consumers. Due to inland transport difficulties and infrastructural constraints, the majority of the palm olein (for edible purposes) and palm stearin (for soap making) imports were in drums. Only a limited number of provincial ports can handle bulk shipments *i.e.* Shanghai, Tianjin, Qingdao and Guangdong. Moreover, these facilities are not entirely ideal for handling palm oil and its products.

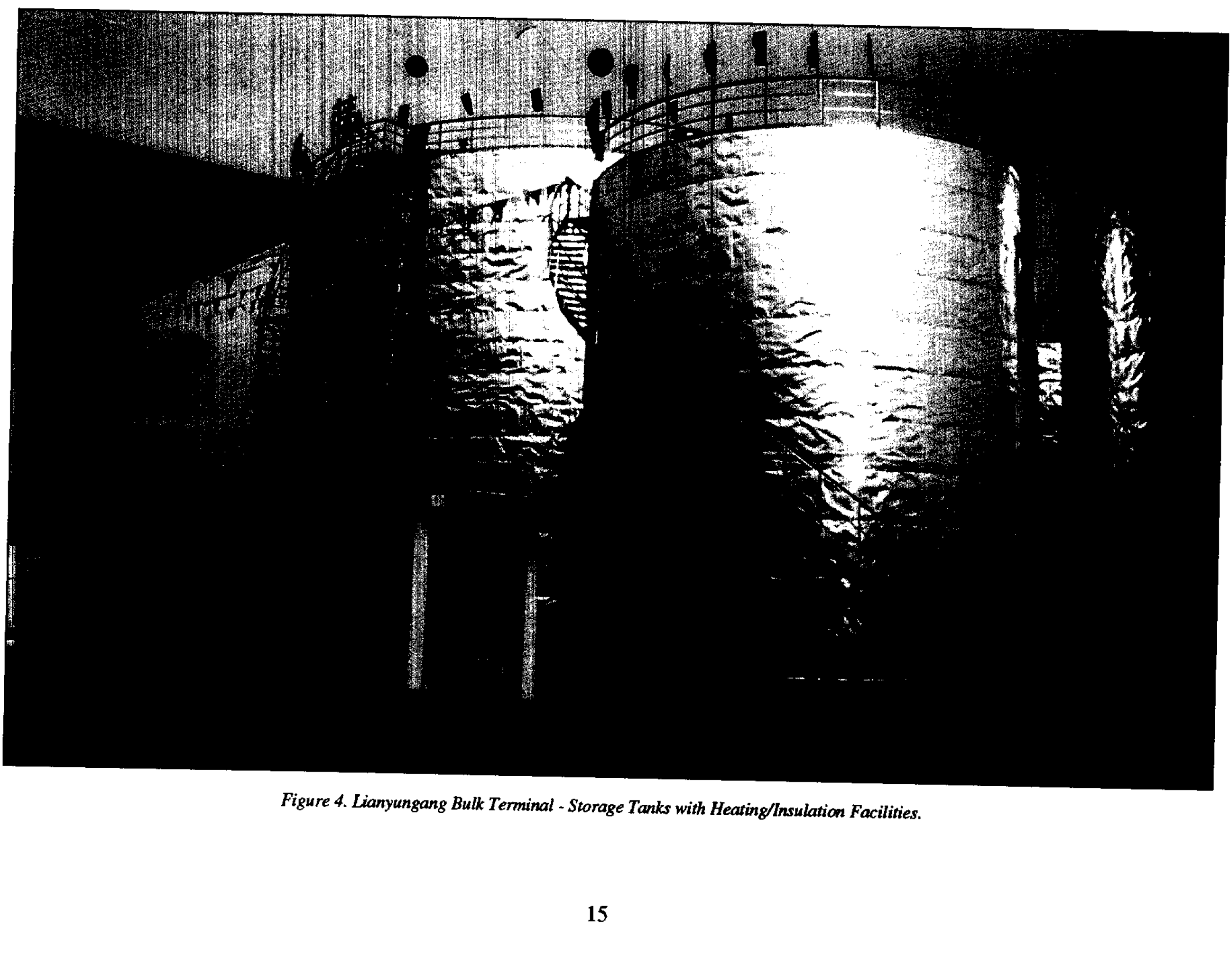

Figure 4. Lianyungang Bulk Terminal - Storage Tanks with Heating/Insulation Facilities.

The new investment climate in China has changed dramatically. More and more joint investments in palm oil refineries and bulk oil handling facilities in China have set a new trade pattern for palm oil. More bulking facilities are now available to handle palm oil and the oil will then be repacked in drums and transported internally. The future will see less drums imported from Malaysia while bulk shipments will increase. This will be especially so when most of the joint venture projects are in operation. Currently, the projects now in operation and those to be operational in the next two to three years include:

1) Southsea Oils and Fats Ltd. - Chiwan, China (*Figure 3*)
2) Garner-Smith Bulk Storage (5000 tonnes storage) Guangdong Province, China
3) Lianyungang Bulk Storage (10,000 tonnes capacity) Lianyungang, China (*Figure 4*)
4) Xiamen Refinery - Xiamen, China
5) Indonesia-China Joint Venture - Fujian Province, China
6) Guangxi Autonomous Region - Guangxi, China
7) Shanghai Joint Venture Refinery - Shanghai

With the current emphasis and the intensification of the government's reforms towards a free-market economy, the investment climate for the manufacturing sector has never been better. The boom in the manufacturing sector will bring about a demand for raw materials for their food and non-food industries. Palm oil specialty products could play a very important role in this sector. In the future, import of palm oil from Malaysia will be in bulk while less will be imported in drums.

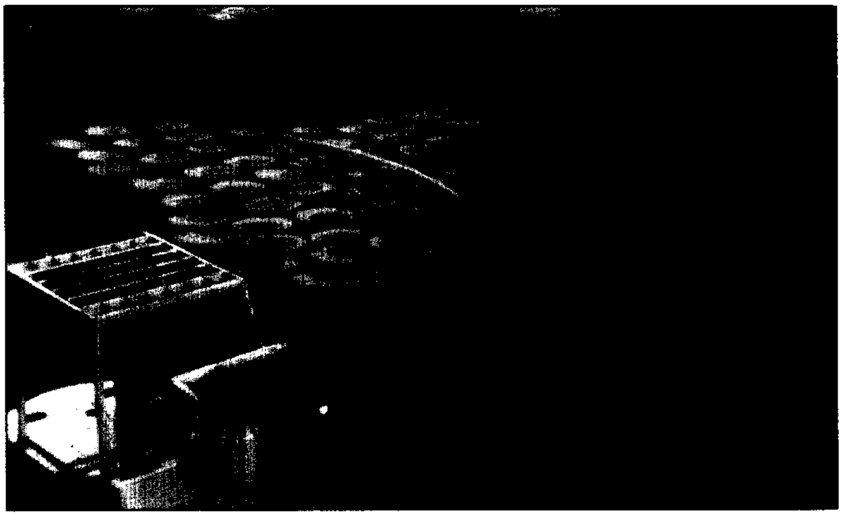

Figure 5. RBD Palm Olein Drums Used for Instant Noodle Frying in Qingdao. (A Joint Venture Company Between South Korea and Qingdao Authorities)

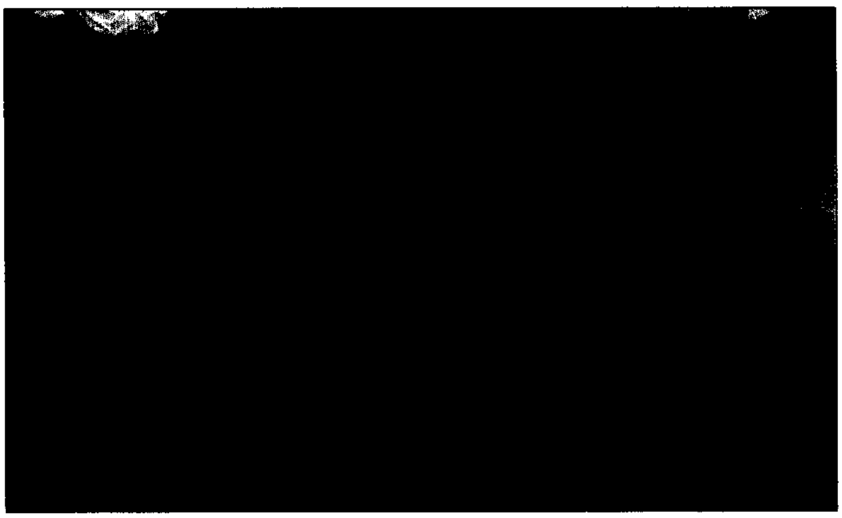

Figure 6. RBD Palm Olein Drums in Zhuhai Port Manual Delivery to the Users.

CONCLUSION

From the onset, PORIM's role has been to introduce and familiarize the consumers and buyers in China on the goodness and versatility of palm oil. With the new developments in China, PORIM's promotional efforts will have to shift their emphasis in order to synchronize with these new development patterns. After 10 years of promotional efforts by PORIM in China, the majority of the people involved in the trade in China know about palm oil. However, with the current emphasis and trends in the Chinese palm oil trade, technical promotion is becoming more important in view of the upcoming manufacturing sector. Specific uses and formulations have to be introduced for the users and manufacturers. PORIM will have to work closely in tandem with the manufacturers and technical institutions of China in order to intensify their promotional efforts. While there may be a temporary set-back in term of palm oil imports from time to time as a result of the transition and change in policies in China, the market potential of palm oil remains bright in the long term.