

The Palm Oil Market in Pakistan

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INTRODUCTION

Pakistan produces oils and fats locally but it is not enough to cater for its growing domestic market. About 500 000-800 000 t of cottonseed, rapeseed and sunflower are produced yearly. Therefore, imported oils and fats play an important role in meeting Pakistan's requirements. Pakistan imports more than two million tonnes of oils and fats annually, of which, palm oil is the main import. Palm oil imports constituted more than 95% of the edible oils imported into Pakistan from 2010 to 2013, as shown in *Table 1*. As such, it is forecasted that palm oil will continue to dominate Pakistan's oils and fats imports in the future mainly due to its cost advantages.

PALM OIL APPLICATIONS

The main application of palm oil in Pakistan is for the production of vanaspati. Vanaspati is generally preferred in Pakistan with its granular or coarse structure as it appears to be similar to ghee. Vanaspati has a wide application in Pakistan as it can be used as bakery fat, cooking fat and even for frying. Though Pakistan imports large amounts of olein every year, most of it is used as raw material for vanaspati production, besides being sold as in-

dustrial frying oil. Only soft oils are available in the market shelves as cooking oils. The common household cooking oils are canola, sunflower and soyabean oils. However, soyabean oil is getting less popular nowadays compared to canola and sunflower oil.

The main use of palm products in the non-edible sector is in soap manufacturing, which includes both toilet soap and laundry soap. Major products imported by this industry are palm acid oil (PAO) and palm fatty acid distillate (PFAD). However, most of the soap manufacturers have switched to import PAO instead of PFAD for soap

formulation, following a steady increase in the price of PFAD. Furthermore, they can still produce soap of an acceptable quality using PAO. The local palm oil refining industry also provides some amount of PFAD for the local market where the price of local PFAD is lower compared to imported PFAD.

MALAYSIAN PALM OIL MARKET

Pakistan is considered as a price sensitive market and it has been the most consistent buyer of Malaysian palm oil products, especially after the implementation of the Malaysian-Pakistan Free Trade Agreement (FTA) in 2008. In fact, Pakistan became the second largest importer of Malaysian palm oil after China in 2010 and Pakistan's imports hit a record level of 2.13 million tonnes in 2010 (*Tables 2 and 3*).

Olein continues to be the major palm oil product imported from Malaysia in 2013, in which olein consists of more than 60% of total export of Malaysian palm oil products to Pakistan, as shown in

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TABLE 1. PAKISTAN'S PHYSICAL RECEIPTS OF OILS AND FATS FOR 2010-2013 (t)

Products	2010	2011	2012	2013
Palm oil products				
CPO	490 550	749 000	377 388	258 617
RBDPO	187 558	263 443	716 050	1 012 200
RBDPOo	1 202 871	970 746	694 121	951 415
RBDPOs	31 492	49 964	43 844	53 790
PFAD	4 969	-	3 000	3 000
PAO	15 378	8 035	15 110	5 350
Sub total	1 932 818	2 041 188	1 849 513	2 284 372
Palm kernel oil products				
RBDPKO	3 994	1 860	4 694	9 253
CPKO	4 550	5 400	2 005	7 000
PKFAD	-	-	-	1 000
Sub total	8 544	7 260	6 699	17 253
Total palm products	1 941 362	2 048 448	1 856 212	2 301 625
Other oils and fats				
CSBO	46 605	50 300	29 000	15 724
Tallow	34 181	21 190	19 792	-
Sub total	80 786	71 490	48 793	15 724
Grand total	2 022 148	2 119 938	1 905 004	2 317 349

Source: Agro Commodities (2013).

Note: CPO: crude palm oil; RBDPO: refined, bleached and deodorised palm oil; RBDPOo: Refined, bleached and deodorised palm olein; RBDPOs: Refined, bleached and deodorised palm stearin; PFAD: Palm fatty acid distillate; PAO: palm acid oil; PKO: palm kernel oil; RBDPKO: refined bleached and deodorised palm kernel oil; CPKO: crude palm kernel oil; PKFAD: palm kernel fatty acid distillate; and CSBO: conjugated soyabean oil.

Table 4. Although olein from Malaysia remains competitive in the Pakistani market, the Indonesian refined, bleached and deodorised palm oil (RBDPO) has a higher market share in Pakistan compared to the Malaysian RBDPO due to its cheaper price and availability. Industry members have found that the landed Indonesian RBDPO price in Pakistan was even cheaper compared to the local RBDPO produced by refiners in Pakistan. Hence, most of palm oil refiners in Pakistan had to stop or reduce their production. As a result, the import

of crude palm oil (CPO) has decreased since 2012.

THE PALM OIL REFINING INDUSTRY IN PAKISTAN

The palm oil refining industry in Pakistan started with the setup of a Malaysian-Pakistan joint venture company *i.e.* Mapak Edible Oils in Port Qasim on 2006. Since then the industry has grown and Pakistan at this moment has more than 10 palm oil refineries with a total production capacity of 5250 t day⁻¹. Pakistan Edible Oil Refiners

Association (PEORA) estimated that these refineries can consume up to 1.5 million tonnes of CPO per year. However, the total import of CPO in recent years has averaged at only about 500 000 t yr⁻¹.

After the signing of Malaysian-Pakistan FTA agreement, the imports of CPO into Pakistan increased to a record level of more than 700 000 t in 2011. It provided a good margin for the refiners in Pakistan, as the import duty for CPO was reduced, especially for CPO imported from Malaysia. A

number of new physical refineries were constructed in Pakistan during that time. However, palm oil refining in Pakistan lost its advantage at the end of 2011, when Indonesia made changes to its palm oil export duty. At the end of 2011, the Indonesian Government instituted restrictions on CPO exports by imposing a higher export duty and encouraging exports of processed palm oil, especially as no export duty was imposed to RBD-PO. It also made the landed prices of Indonesian RBDPO in Pakistan even cheaper compared than that produced locally.

Malaysia abolished the duty free export quota in January 2013 and imposed a new export duty for CPO based on its price. Since then, most of PEORA members continued to rely on the supply of crude palm oil from Malaysia compared

to Indonesian CPO, which has a higher export duty. In 2013, Pakistan imported 258 617 t of CPO, of which more than 73% came from Malaysia.

Pakistan and Indonesia formally agreed to implement the Preferential Trade Agreement (PTA), which was signed in 2011, effective 1 September 2013. The PTA was only implemented after the signing of a Mutual Recognition Agreement (MRA) on plant quarantine and sanitary and phytosanitary (SPS) measures between Indonesia and Pakistan on 30 August 2013. Under the MRA, Indonesia officially acknowledged Pakistan as a pest-free area for kinnow (orange) and allowed the importation of Pakistan's kinnow and granted market access for Pakistan kinnow at 0% tariff. In return, Pakistan extended a 15% Margin of Pref-

erence (MoP) over the standard tariff to selected Indonesian palm oil products, similar to that which was given to Malaysian palm oil products under the Malaysia-Pakistan FTA. The details of Pakistan's import duty for palm products is shown in Table 5.

MARKET PROSPECT

Despite being the main imported edible oil in Pakistan, palm oil use remains concentrated on vanaspati production. The usage of palm oil products for other applications particularly in the food industry can provide potentials for market expansion in Pakistan. In fact, the food industry is the second largest industry in Pakistan after the textile industry. In-house technical seminars for manufacturers can be organised to promote the usage of palm oil products in their formula-

TABLE 2. PAKISTAN'S PALM OIL IMPORTS IN 2007-2012 ('000 t)

	2007	2008	2009	2010	2011	2012
Malaysian palm oil	1 070.1	1 285.8	1 701.3	1 918.9	1 745.8	1 345.6
Total palm oil	1 731.0	1 847.0	1 925.0	2 010.2	2 014.4	2 035.9
Malaysian palm oil share (%)	61.8	69.6	88.4	95.5	86.7	66.1

Source: Oil World Annual (2013).

TABLE 3. PAKISTAN'S IMPORT OF MALAYSIAN PALM PRODUCTS IN 2008-2013 (t)

Products	2008	2009	2010	2011	2012	2013
Palm oil	1 257 396	1 769 321	2 134 604	1 820 931	1 343 254	1 427 605
Palm kernel oil	8 760	7 846	10 584	8 377	10 355	4 003
Oleo	11 980	14 849	11 274	12 660	17 208	23 494
Finish product	27 435	35 932	16 428	10 242	11 350	16 828
Palm kernel cake	30 008	15 608	19 871	72 510	54 116	57 062
Other products	6 465	11 538	8 920	5 655	3 239	4 813
Total	1 342 044	1 855 095	2 201 681	1 930 375	1 439 522	1 533 806

Source: MPOB (2014).

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TABLE 4. PAKISTAN'S IMPORT OF SELECTED MALAYSIAN PALM OIL PRODUCTS IN 2008-2013 (t)

Products	2008	2009	2010	2011	2012	2013
Crude palm oil	309 968	368 112	514 021	697 787	374 176	189 129
Refined, bleached and deodorised palm oil	376 203	641 919	188 929	146 568	156 304	233 481
Olein	500 561	604 421	1 303 119	937 752	750 317	925 265
Palm fatty acid distillate	6 086	5 863	4 658	1 730	3 001	3 308
Palm acid oil	11 167	45 940	35 492	15 262	28 322	28 785

Source: MPOB (2014).

TABLE 5. PAKISTAN'S IMPORT DUTY STRUCTURE FOR PALM OIL PRODUCTS

Pak HS Code	Products	Normal Tariff Rs ^t	Malaysia-Pakistan FTA 1 Jan. 2010	Indonesian-Pakistan PTA 1 Sept. 2013
15111000	Crude palm oil	8 000	6 800	6800
15119010	Palm stearin	9 050	7 692.5	7 692.5
15119020	Refined, bleached and deodorised palm oil	10 800	9 180	9180
15119030	Palm olein	9 050	7 692.5	7 692.5
15119090	Others (other form of palm oil products)	10 800	9 180	9180
15132100	Crude palm kernel oil (CPKO)	9 050	7 692.5	7 692.5
15132900	Other (processed palm kernel oil)	10 800	9 180	9 180
15171000	Margarine excluding liquid margarine	10 800	8 640	na
15179000	Other (CBS, CBE etc.)	10 800	8 640	na
15200000	Glycerine/crude/ lyes	20%	8%	na
23066000	Palm kernel cake	10%	0%	na
34011900	Soap noodles	30%	20%	na
38231100	Stearin acid	20%	20%	na
38231200	Oleic acid	5%	0%	0%
38231920	Palm acid oil	10%	0%	5%
38231990	Others (palm kernel acid oil except distilled fatty acid)	15%	5%	9%

Source: Pakistan Custom Book (2013/2014) and Indonesia-Pakistan PTA (2013).

Note: na=not available.

tions, besides developing custom-made formulation to meet their requirements.

The technical promotion of Malaysian palm kernel cake (PKC) for animal feed formulations has provided market potential for PKC in Pakistan for a few years. After a few trial runs by farmers in Pakistan; Malaysian PKC has been proven to be suitable for animal feed applications in Pakistan. The demand for animal feed raw material is expected to grow in line with the Pakistan Government's plan to increase local meat and milk production. An insufficient supply of local products for animal feed raw material has made Pakistan rely on imported raw materials such as PKC from Malaysia.

CONCLUSION

Pakistan continues to rely on import for its oils and fats requirements and has a market size of

more than two million tonnes for palm oil. Therefore, Pakistan will continue to be an important market for Malaysian palm oil.

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