

VIS

Credit Rating Company Limited

EDIBLE OIL REPORT

Table of Contents

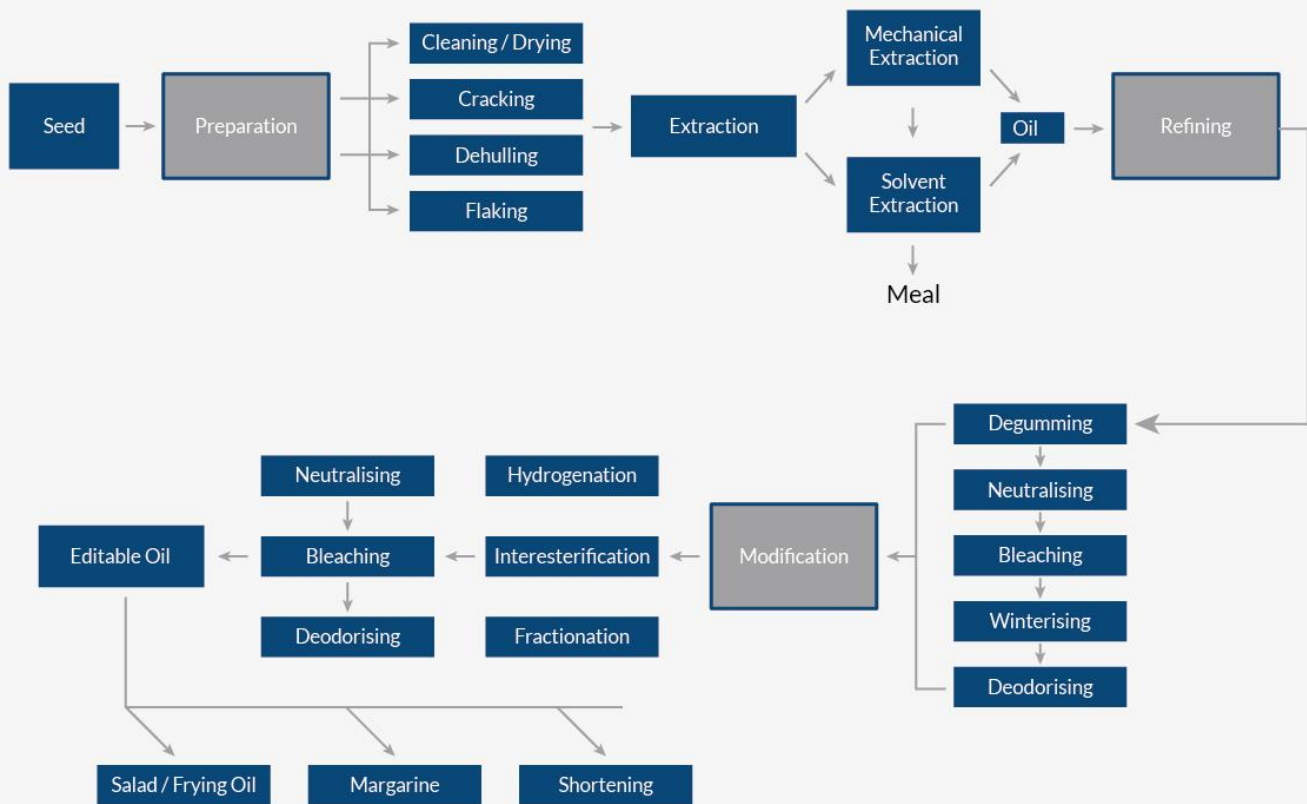
INTRODUCTION	3
GLOBAL PERSPECTIVE.....	4
PRICE TREND	6
LOCAL PERSPECTIVE.....	7
PRICE TREND	8
BUSINESS RISK	9
SWOT ANALYSIS.....	10
CONSOLIDATED INDUSTRY RISK	10
INDUSTRY OUTLOOK: STABLE.....	12
REFERENCES.....	12
RESEARCH & PUBLICATIONS.....	13



INTRODUCTION

The edible oil industry is a vital component of the global food supply chain, supplying essential fats and oils used in cooking, food processing, and various industrial applications. It involves the extraction, refining, and distribution of oils from diverse sources, including oilseeds like soybean, sunflower, and rapeseed, as well as tropical crops such as palm. Over the past few decades, global production of edible oils has expanded significantly, driven by rising demand for cooking oils, processed foods, and biodiesel. The market is primarily dominated by few major crops, with palm oil making up around 35% of global production and soybean oil contributing roughly 28%. In contrast, specialty oils like palm kernel, peanut, cottonseed, coconut, and olive oil collectively account for 1-4% of total global output.

PROCESS FLOW OF EDIBLE OIL INDUSTRY



The edible oil manufacturing process involves three stages in order to produce edible oil.

Seed Preparation: Before extraction, oilseeds (such as soybeans, sunflower seeds, or rapeseed) are cleaned to remove impurities like dust, stones, or plant matter. This ensures the quality of the oil and prevents damage to the equipment.

Oil Refining: The refining process starts with degumming, which removes impurities, followed by neutralization, where free fatty acids (FFAs) are eliminated to prevent rancidity. The oil is then bleached using activated clay or carbon to remove color pigments and contaminants, enhancing its clarity. Deodorization is the final step, where the oil is heated under a vacuum to eliminate odors and flavors, resulting in a neutral, long-lasting product. Optional steps like winterization and hydrogenation are applied to certain oils for added stability or specific characteristics. This process ensures that the oil is pure, stable, and ready for use in cooking and food products.

Modification: The modification process in edible oils involves altering their physical or chemical properties to enhance functionality, stability, or nutritional profile for specific applications.

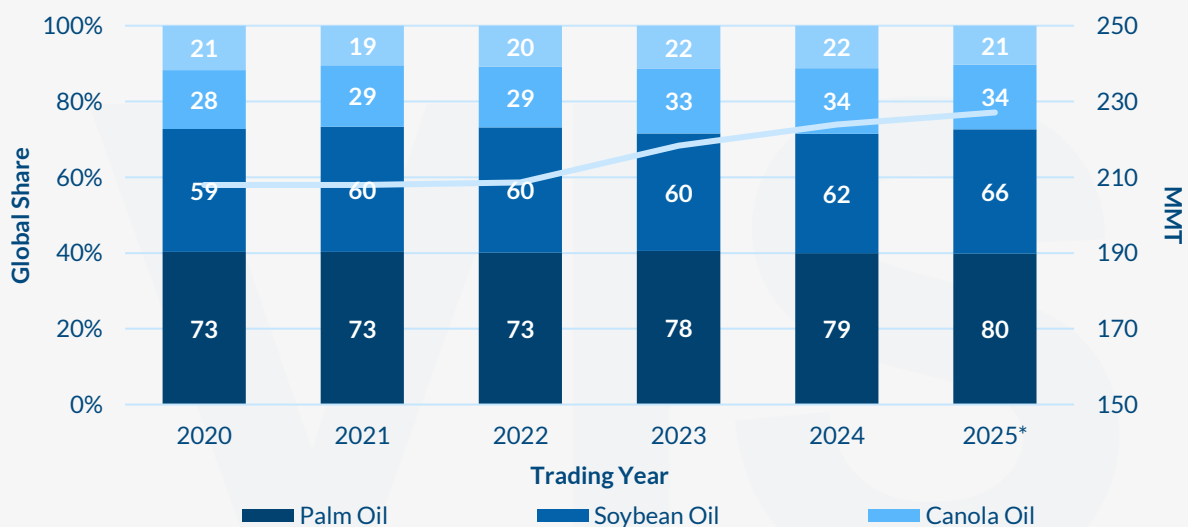
GLOBAL PERSPECTIVE

The global edible oil market size was valued at approximately USD 205 billion in 2023 and is expected to grow to approximately USD 218 billion by 2024. With an estimated compound annual growth rate (CAGR) of 6.79% between 2024-2032, the market is projected to reach USD 369 billion by 2032.

In the trading year (TY) 2024, global oilseed production is expected to reach a record 657 million metric tonnes (MMT), with production forecasted to rise to 682 MMT by TY 2025. This continued growth is due to higher soybean oilseed production and a recovery in sunflower seed output.

In TY 2024, global soybean seed production is expected to reach 395 MMT, an increase from 378 MMT in TY 2023. This is attributable to improved yields in Argentina, the world's leading exporter of soybean oil. While sunflower seed production in Ukraine has recovered slightly following the Russia-Ukraine conflict, growth is expected to remain subdued in TY 2025.

GLOBAL PRODUCTION OF PRIMARY EDIBLE OILS



Note: TY 2025 are forecasted figures.
Source: USDA

Global primary and specialty oil production in TY 2024 is set to reach an unprecedented level of 224 MMT, an increase of 2.5% from 218 MMT in TY 2023. This growth is driven by increased production of soybean and canola oils, with canola oil output rising in Canada and China due to improved crush rates.

Over the past decade, Indonesia and Malaysia have been the predominant producers of palm oil, together accounting for 84% of total production. Indonesia has contributed an average of 40 MMT, while Malaysia has produced an average of 19 MMT. Both countries benefit from optimal conditions for palm oil cultivation, making them key producing regions. Conversely, China and the United States have been major sources of soybean oil, together representing 48% of global production. Over the same period, China has averaged 16 MMT of soybean oil, with the US producing an average of 11 MMT.

Over the past decade, the European Union (EU) and China have been leading producers of canola oil, accounting for 56% of the global production with an average output of 10 MMT and 7 MMT, respectively. Similarly, Russia and Ukraine have been the major producers of sunflower oil representing 57% of the global production with an average output of 5 MMT and 6 MMT, respectively.

Import Volume (MMT)				
Commodity	Attribute	TY 2022	TY 2023	TY 2024
Palm Oil	Global	41.6	47.1	45.3
	India	8.0	10.0	9.0
	China	4.4	6.2	5.3
	EU	5.0	4.5	4.1
	Pakistan	2.8	3.7	3.6
	Others	21.4	22.7	23.3
	Soybean Oil	Global	11.3	10.9
	India	4.2	4.0	3.0
	Others	7.1	6.9	7.5

Source: USDA

In TY 2024, overall global imports of palm oil and soybean oil inched down by 3.8%. The decline was primarily due to lower imports of palm oil from India (↓10%) and China (↓14%), as well as a significant drop in soybean oil imports from India (↓25%). The decrease in imports is largely attributed to improved domestic production of soybean oil, which increased by 10% in India and 3% in China.

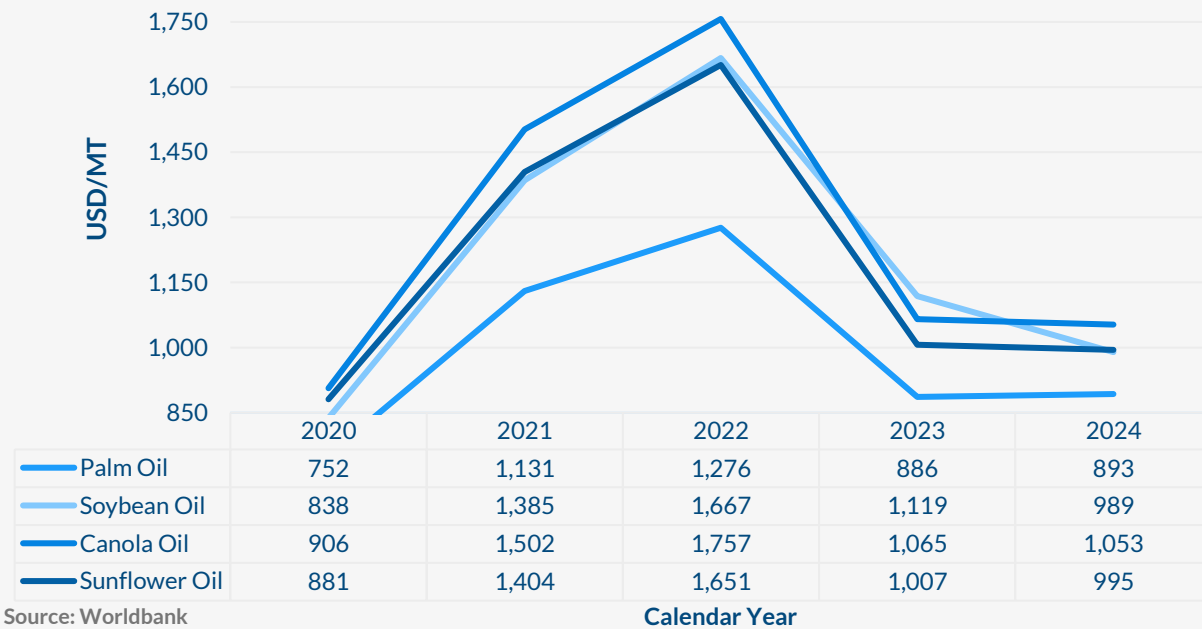
Export Volume (MMT)				
Commodity	Attribute	TY 2022	TY 2023	TY 2024
Palm Oil	Global	43.9	49.5	47.2
	Indonesia	22.3	28.0	25.5
	Malaysia	15.5	15.4	15.8
	Others	6.1	6.1	5.9
Soybean Oil	Global	12.4	11.7	11.1
	Argentina	4.9	4.1	4.8
	Brazil	2.4	2.7	1.4
	Others	5.1	4.9	4.9

Source: USDA

In TY 2024, global export volume of palm and soybean oil decreased by 5%. The decline was due to lower exports of palm oil from Indonesia (↓10%), along with a significant decline in soybean oil export from Brazil (↓48%). These reductions were largely due to the biodiesel blending mandates implemented by Indonesia and Brazil, which constrained export availability. As the year progressed, these factors continued to impact the global supply dynamics.

PRICE TREND

GLOBAL EDIBLE OIL PRICE TREND

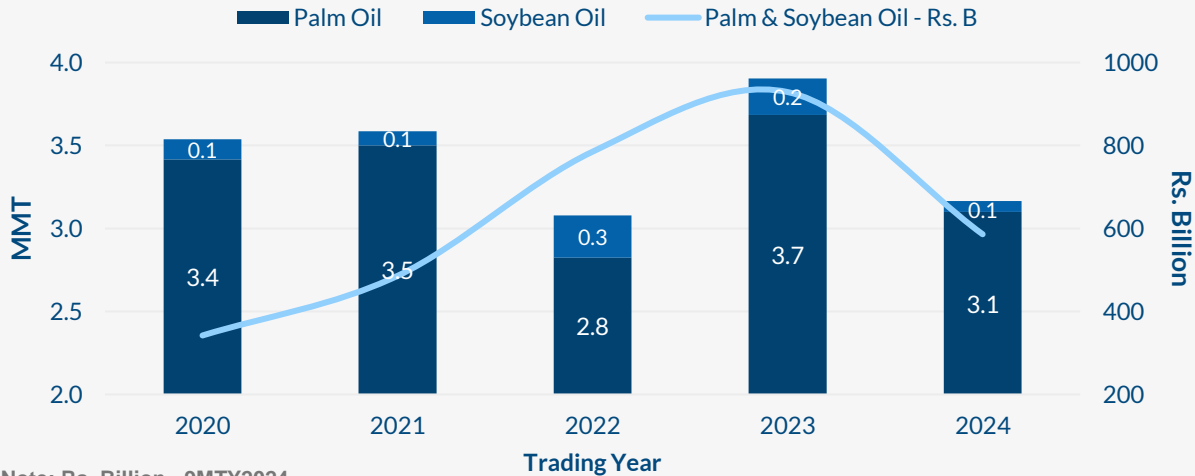


Over the past four years, global oilseed prices have been highly volatile, driven by several key factors. Extreme weather conditions like droughts and floods in major producing regions (South America, Canada, Ukraine) significantly impacted supply. Geopolitical tensions, particularly the Russia-Ukraine conflict, caused a spike in sunflower seed prices and boosted demand for alternatives like soybean and rapeseed. Supply chain disruptions due to the COVID-19 pandemic further exacerbated price instability. Additionally, rising biofuel demand, especially in the EU, contributed to upward pressure on oilseed prices. Prices peaked in 2022 but began to stabilize in 2023.

In 2024, oilseed prices have been influenced by several key factors. Soybean prices experienced a slight decline due to favourable weather conditions in major producing regions like the U.S., and higher-than-expected crop forecasts. However, towards the end of the year, prices showed some recovery due to increasing demand from China and concerns about dry conditions in Brazil. Canola oil prices have also slightly weakened despite lower production forecasts in the EU and China, driven by seasonal harvest pressures. Sunflower oil prices remained stable, supported by concerns over drought-impacted production in key regions like the Black Sea. While oil prices have begun to stabilize after volatility in previous years, there are still upward pressures, especially due to biofuel demand and geopolitical uncertainties.

LOCAL PERSPECTIVE

ANNUAL PALM OIL IMPORT TREND



Note: Rs. Billion - 9MTY2024.
Source: USDA, PBS

In Pakistan, the per capita consumption of edible oil had been on the rise, currently estimated at 24 kg per person, highlighting the increasing demand for cooking oils among the population. However, the local agriculture sector struggled to meet this demand, resulting in a heavy reliance on imports. The country’s edible oil consumption was approximately 4.8 MMT, of which only 1.1 MMT (30%) was produced domestically. The remaining 3.6 MMT (70%) was primarily sourced through imports of refined palm oil, particularly from Indonesia and Malaysia, along with soybean and other vegetable oils.

Pakistan ranked fourth globally in palm oil imports, following India, China and the EU. In TY 2024, total oil consumption – comprising both locally produced and imported oils – declined by 3% to 4.8 MMT. This decrease was primarily driven by a substantial reduction of 77% in imported soybean oil, which fell from 0.22 MMT in TY 2023 to 0.05 MMT in TY 2024.

LOCAL OILSEEDS CULTIVATION



Note: TY 2025 are forecasted figures.
Source: USDA

This sharp decline was attributed to the tightening of government regulations concerning the import of Genetically Modified Organisms (GMO), in accordance with the established Plant Quarantine and Seed Regulations.

Soybean seeds are exclusively imported and cottonseed is locally cultivated, whereas, canola and sunflower seeds are both locally cultivated and imported. Over the past decade, cottonseed accounted for approximately 85% of the primary oilseed crop grown locally. Since TY 2020, oilseed cultivation fluctuated with a decline in TY 2021 and TY 2023 and a forecasted decline in TY 2025. Most recently, the decline in TY 2023 was attributed to the massive floods which damaged the cotton crop. However, in TY 2024, oilseed cultivation increased by 45% as the cotton crops rebounded.

PRICE TREND

LOCAL EDIBLE OIL PRICE TREND



Note: 9MCY2024
Source: PBS

■ Edible Oil — USD/PKR

Overall, the domestic edible oil prices follow the international trend, however, the addition of logistics and the weakening of the Pakistani rupee against the US dollar reduced the full benefit of the lower global edible oil prices. This is evident especially in 2023 where the Pakistani rupee depreciated significantly, leading to higher local prices relative to global prices.

Duty Structure

PCT Code	Description	Custom Duty		Additional Custom Duty		Regulatory Duty		Total	
		FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
12.07	Oilseeds (Sunflower & Canola hybrid seeds meant for sowing)	3%	3%	2%	2%	-	-	5%	5%
1511.9020	RBD Palm Oil	Rs. 10,800/MT	Rs. 10,800/MT	2%	2%	-	-	Rs. 10,800/MT; 2%	Rs. 10,800/MT; 2%
1511.9030	Palm Oil Olein	Rs. 9,050/MT	Rs. 9,050/MT	2%	2%	-	-	Rs. 9,050/MT; 2%	Rs. 9,050/MT; 2%

Source: USDA

BUSINESS RISK

Market Structure

The local edible oil industry is characterized as a fragmented market with a mix of organized players along with a significant number of unregistered, informal businesses. This fragmentation has led to intense competition, as numerous small and unregulated businesses vie for market share. Due to Pakistan's heavy reliance on imports, especially palm and soybean oils, local producers have limited bargaining power, as pricing is largely dictated by the international market trends and import parity. As a result, the industry's margins remained constrained, leaving businesses vulnerable to price fluctuations in global oil markets.

Entry Barriers

Setting up refineries and production facilities requires significant initial investment, which may discourage new entrants. Moreover, compliance with government regulations, such as GMO restrictions, adverse changes in import duties and taxes on edible oil imports increases entry barriers for both local producers and importers. Therefore, any changes in tariffs, subsidies or government efforts to promote local oilseed production can shift the dynamics of the industry, affecting pricing and profitability.

Raw Material Supply Risk

Pakistan's heavy reliance on imported raw materials like palm and soybean oil makes the sector vulnerable to international supply chain disruptions. Furthermore, price fluctuations due to geopolitical tensions, such as trade restrictions from key suppliers like Indonesia and Malaysia can have a direct impact on availability and cost of edible oils locally.

Additionally, limited domestic cultivation of local oilseeds (e.g. cottonseed and sunflower) contributes to supply shortages, leaving the country exposed to global market dynamics. Consequently, the sector is dependent on advancements in local agriculture, including the adoption of better seed varieties, improved farming practices and government support to reduce import reliance.

Operational Risks

Efficient import processes, seamless port operations and robust logistics are critical for ensuring a consistent supply of edible oils in Pakistan. However, inefficiencies in these areas – such as shipping bottlenecks, custom delays and logistical challenges – can disrupt the timely availability of raw materials. Such disruptions not only lead to supply shortages but also exacerbate price volatility. Additionally, the refining process's high energy requirements make the sector particularly vulnerable to fluctuating electricity and fuel costs, further impacting production schedules and operational efficiency.

Geopolitical Risks

Political and economic instability in neighboring countries can severely disrupt trade routes and supply chains. Furthermore, protectionist policies or export restrictions implemented by key supplier nations can significantly affect the availability and cost of edible oils.

Consumer Behavior Risk

Rising inflation has diminished consumer purchasing power, leading to a preference for lower quality, often unregulated products. The market’s high price elasticity makes it particularly sensitive to global cost increases, further exacerbating the challenges faced by consumers and businesses alike.

This inflationary pressure has shifted demand toward cheaper, lower-quality brands, placing additional strain on formal sector producers who are more vulnerable to rising costs and regulatory requirements. Moreover, the edible oil industry in Pakistan, which is heavily reliant on imports, is particularly exposed to both international price fluctuations and domestic economic instability. The fragmented and competitive nature of the market only compounds these challenges, forcing local producers to navigate narrow margins and shifting consumer preferences.

Environmental and ESG Compliance Risks

The edible oil industry, particularly the palm oil sector, faces significant Environmental, Social, and Governance (ESG) concerns. Environmentally, palm oil production contributes to deforestation, habitat destruction, and carbon emissions due to the large-scale clearing of tropical rainforests. Socially, labor conditions in palm oil-producing countries like Indonesia and Malaysia raise serious issues, including forced labor and underpayment, drawing global scrutiny and potential trade restrictions. Governance issues involve the need for compliance with sustainability certifications to meet international market demands and avoid reputational damage. These ESG challenges are pushing the industry towards more ethical and sustainable practices.

SWOT ANALYSIS

Strengths	Weaknesses
<ul style="list-style-type: none"> Large demand base Established Import Network 	<ul style="list-style-type: none"> Dependency on imports Constrained Margins
Opportunities	Threats
<ul style="list-style-type: none"> Potential for local oilseed cultivation Biodiesel markets 	<ul style="list-style-type: none"> Geopolitical tensions Volatile energy prices

CONSOLIDATED INDUSTRY RISK

Cyclicality: The edible oil industry exhibits low cyclicality as it is a staple commodity with consistent year-round demand. As edible oil is a key ingredient in daily cooking across households and the food industry, its consumption remains relatively stable, irrespective of economic cycles. Even during periods of economic downturn or high inflation, edible oils are considered essential and demand shows resilience. Furthermore, the heavy reliance on imports shields the industry from domestic cyclicality, as global market trends and production patterns dictate supply and pricing.

However, while domestic demand stabilizes the sector, external factors can introduce periodic instability. Palm and soybean oil exhibit higher cyclicality due to weather sensitivity, trade dependencies and industrial linkages, while canola and sunflower oils are generally less cyclical due to stable production practices and consistent demand. Overall, the edible oil’s essential nature underpins its low cyclicality.

Competition: The edible oil industry in Pakistan is highly competitive, with both local and international players competing for market share. Major domestic companies face competition from imported oils, particularly palm oil which

is cheaper. Companies differentiate themselves through pricing, product quality and brand loyalty while also vying for better distribution networks. The risk of barriers to entry is high due to low capital requirements for the refining infrastructure and regulatory compliance creates challenges for new entrants. Established players dominate the market through economies of scale, making it difficult for new entrants to compete. Moreover, risk of substitutes is low as edible oil is an essential ingredient for cooking however, close substitutes are butter or ghee. However, increasing consumer health awareness leads to a preference for healthier oils, posing a risk to palm oil demand which is perceived as less healthy. Lastly, risk of growth trends is low as the industry demonstrates steady growth due to population expansion and rising food consumption.

Capital Intensity: The edible oil industry in Pakistan is characterized by low capital intensity, particularly for businesses involved in importing, processing and packaging. This is largely due to Pakistan’s reliance on imports to meet demand, which enables these companies to operate without the need for significant investments in large-scale infrastructure.

Technological Change: Technological change is gradually evolving in the industry with companies adopting more advanced machinery and refining techniques to improve efficiency and product quality. Automation in oil extraction, refining and packaging processes helps reduce costs and meet the growing demand for edible oils. However, the pace of technological adoption can be slow due to high capital costs and limited access to cutting-edge technologies. The industry is also influenced by global innovations in oil processing and packaging, but local players often face challenges in fully integrating these technologies due to financial constraints and market dynamics. As a result, technological change in the sector is moderate but has the potential to drive increased efficiency and competitiveness in the long term.

Regulatory Interference: Regulatory interference is significant, as the government plays a key role in shaping the market through policies on import tariffs, taxes and subsidies. Changes in import duties on raw materials like palm oil can directly impact prices and the profitability of local producers. The government also enforces food safety standards and quality regulations, which companies must comply with, adding to operational costs. While regulatory policies are intended to support local production and ensure consumer safety, they can sometimes create volatility in the market, especially when policy shifts occur frequently or without sufficient industry consultation.

Energy Sensitivity: The industry demonstrates medium sensitivity to energy costs, with energy playing a crucial role in refining, packaging and transportation, making it a key operational expense. However, the industry’s reliance on imports of crude palm and soybean oil means that much of the energy-intensive production, such as cultivation and initial processing, occurs abroad. While energy costs remain a significant driver of production expenses, the industry’s partial dependence on global supply chains and relatively smaller-scale domestic processing operations help moderate its overall sensitivity to energy fluctuations.

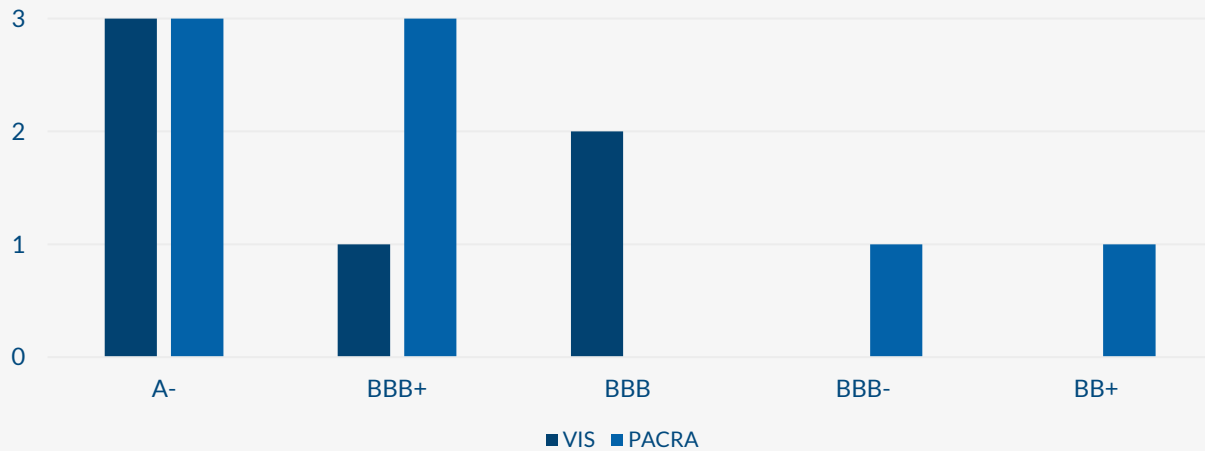
Edible Oil									
Cyclicality	Competition				Capital Intensity	Technological Risk	Regulatory Framework	Energy Sensitivity	Overall Industry Risk
	Risk of barriers to entry	Risk of substitutes	Risk of growth trends	Overall					
Low	High	Low	Low	High	Low	Medium	Medium	Medium	Medium

INDUSTRY OUTLOOK: STABLE

The edible oil sector of Pakistan faces both challenges and opportunities. Pakistan relies on imports to fulfil the domestic demand of edible oil which poses significant threats to supply chain disruptions and the broader economy due to fluctuations in the global prices. If Pakistan becomes self-sufficient by cultivating oilseeds locally, the dependency on imports will be reduced alongside promoting sustainable agricultural practice which will reduce the indirect contribution to environmental consequences and allow for control over GMO issues. In addition, the challenges increase as various producing countries restrict exports of oil due to alternative uses such as for renewable energy solutions.

Looking ahead, the outlook for Pakistan’s edible oil sector is mixed, with potential for growth through increased local cultivation and sustainable practices. Significant improvements in technology, infrastructure and policy reforms are essential to accomplish this. By developing a more resilient and sustainable edible oil industry, Pakistan can enhance its food security, support local farmers and contribute to the broader economy.

Ratings Chart



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RESEARCH & PUBLICATIONS

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