

EDIBLE OIL

September, 2021



Global Snapshot

Market Size
\$ 96.2 Billion

Amid the COVID-19 crisis, the global market for Edible Oils and Fats is projected to reach a revised size of US\$146.7 Billion by 2027, growing at a CAGR of 6.2%.

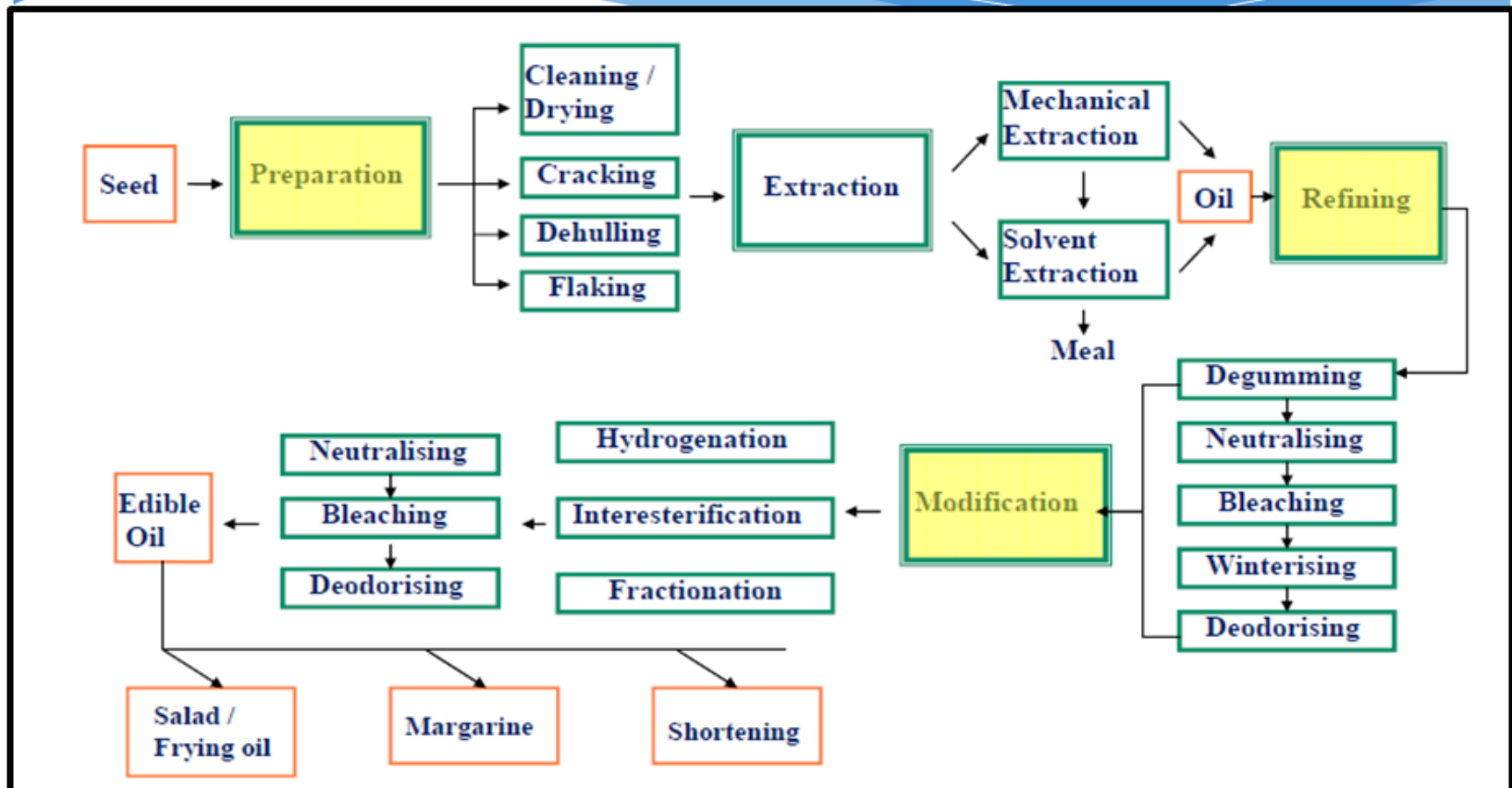
Rising retail sector is projected to be a major boom to global edible oil market along with increasing global population, and rising food consumption.

**Edible oil
Production**
**209m MT in
2020/2021**

Oilseed Production
**596m MT in
2020/2021**

Decline of 18% USA Crops led to the drop in global oil seed production in FY20. Forecast for the next fiscal year 2021 is 3.5% higher at ~596m MT.

Process flow of Edible Oil Industry



Edible Oil-Global Dynamics

- * Edible oils are produced using oil seeds of different fruits and vegetables.
- * The most widely grown crops globally for oil extraction include seed cotton, soybean, palm, coconut, sunflower, and rapeseed.
- Of total global oil production of 209m MT in 2021, around 36% comprises Palm oil, 29% comprises Soybean followed by Rapeseed and Sunflower seed contributing 13% and 9%, respectively in the production mix.
- Indonesia and Malaysia account for around 84% of total palm oil exports worldwide, producing around 64.2m MT in 2020/21. European Union and China are the top two producers of rapeseed oil, accumulating to around 15.6m MT out of the total rapeseed oil production in 2020\21.

Global Edible Oil Production' 21

Type of Edible Oil (mln MT)	2017/18	2018/19	2019/2020	2020/21
Palm and Palm Kernel Oil	78.7	79.01	78.97	79.19
Soybean Oil	55.15	55.82	57.93	60.27
Rapeseed	27.91	27.68	27.98	27.64
Sunflowerseed Oil	18.5	19.47	21.48	19.27
Palm Kernel Oil	8.28	8.59	8.55	8.77
Peanut Oil	5.92	5.86	6.25	6.12
Cottonseed Oil	5.1	4.97	5.13	4.86
Coconut Oil	3.67	3.76	3.6	3.57
Olive Oil	3.27	3.28	3.13	3.2

Top 4 Producers	Top 4 Importers	Top 4 Exporters
Indonesia	India	Indonesia
China	China	Malaysia
Malaysia	EU	Argentina
EU	Pakistan	Ukraine

Global Oilseed Production'21

- Oil seeds are the raw material for production of edible oil. Global Oil seeds production was recorded at 596m MT during 2020/2021.
- USA is the largest producer of soybean seeds in the world
- In 2020, Brazil continues to be the largest oilseeds producing country followed by India, China and Argentina.

Type of Oilseed Produced (mln MT)	2019/2020	2020/21
Soybean	355.4	362.05
Rapeseed	74.8	68.87
Sunflowerseed	50.9	49.46
Cottonseed	45.8	41.8
Peanut	44.9	47.79
Palm and Palm Kernel Oilseed	20.1	19.96
Copra	5.8	5.75

Disruptions in Global Edible Oil Industry and Covid19

- * Production levels of Oil seeds were hampered on account of COVID-19 led slowdowns. However, overall demand was largely unaffected due to oil classifying as an essential commodity.
- * Palm oil supply has fallen because of labour shortage in Malaysia, the world's second-largest producer in the world. Similarly, in Indonesia and Malaysia, the B30 and B20 biofuel mandates, which increase the amount of vegetable oils mixed in fuel, has increased local consumption.
- * In OY20 (oil year – November to October) the production of soybean, groundnut, mustard, and cottonseed oil was impacted due to lower acreage and crop damage.

Global Prices trends

- * Prices of edible oil in 2019 were at its lowest as a result of slowdown in global demand and US-China Trade war.
- * However, since Dec'2020, prices of edible oils such as mustard, vanaspati, soya, palm, sunflower, and groundnut are more than their highest in a decade.
- * International prices are rising because of lower output in major producers Indonesia, Malaysia, Argentina, Ukraine and Russia, mostly because of bad weather, COVID-19 lockdowns and low global inventories.
- * Soybean oil prices are rising because of dry weather in Argentina, the largest exporter, and higher demand from major consumers India and China. Similarly, sunflower oils prices are up because of drought-like conditions in Ukraine and Russia, the largest producers and exporters of the commodity.
- * Given the subdued sentiment due to the pandemic, so far, most companies have been cautious about passing on the price rise to consumers, but analysts say, if prices rise further, companies will have to decide whether to take hit on their margins or to pass on the burden to the consumer.

Pakistan's Edible Oil Industry

Market Size

**500 Billion
PKR in MY20**

Pakistan is amongst the leading consumers of edible oil. Edible Oil's share in Pakistan's GDP is 2.8%. Current per capita consumption stands at ~22 kg/year for 2020 compared to global average of ~24 kg/year.

Around 75% of the annual oil consumption emanates from imported oil depicting high reliance on imports. With demand expected to continue to grow at historical rate of 5%, total edible oil consumption for 2021 is forecasted at ~4.1m MT.

Annual Edible Oil Consumption

**3.9m
Metric Tons in
MY20**

Oilseed Supply

**5.9m MT
in 2020**

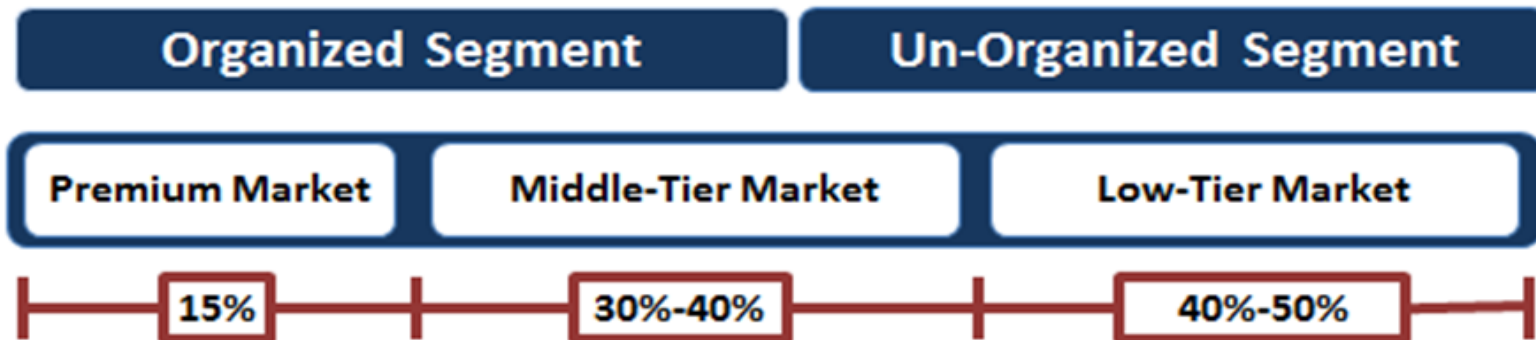
Around 58% (3.45m MT) of which is local oilseeds and remaining is imported seeds used for edible oil production.

Industry Structure- Local Edible Oil

- * There are over 200 registered cooking oil and ghee manufacturing companies in Pakistan, including around 50 ghee manufacturing units, collectively producing 10,000 tons of oil and ghee on daily basis.
- * Pakistani Vanaspati Manufacturers Association (PVMA) is the representative body of around 125 ghee and oil manufacturers in the organized sector which has an installed capacity of over 4m MT.
- * Pakistan's edible oil industry is characterized by high competitive intensity due to fragmentation and low barriers to entry, resulting in limited pricing power and thin profitability margins.
- * While the leading players are playing important part in catering to demand for packaged edible oils, fragmentation in the industry is evident from no single entity registering a double-digit market share.

Industry Structure- Local Edible Oil

- * Industry is divided into two segments; a few large national level players in the organized sector who target the middle and high income groups and enjoy strong brand equity by quality and advertisement campaign. The other but larger segment is highly fragmented and caters to middle and lower income groups with players often dominating in selected regional areas.
- * The key market players are Dalda Foods; Habib Oil Mills; Sufi Banaspati & Cooking Oil; Seasons Edible Oil, Mezan Cooking Oil & Banaspati; Punjab Oil Mills Limited and Kashmir Cooking Oil & Banaspati.



Demand Dynamics- Edible Oil & Oilseeds

- At present the annual edible oil/consumption is 3.9m MT out of which annual import of edible oil is 2.9m MT.
- The remaining demand is fulfilled by local oil production (through local and imported oil seeds). Edible oil produced locally is 0.4m MT and Oil extracted from imported seeds is 0.7m MT in 2020.
- Pakistan is the world's 4th largest edible oil importing country. After petroleum products, edible oil is the second largest import item that costs around USD 3.1 billion annually the import bill.
- Palm oil constitutes almost 94% of the total imported edible oil followed by soyabean, sunflower, and canola. Crude and refined palm oil are imported mainly from Malaysia (75% of total edible oil imports) and Indonesia. Soyabean oil is imported from North America and Brazil.
- During Marketing Year (MY) 2020 [Oct-Sep], Pakistan imported **palm oil** worth 3.4m MT as against 3.3m MT in MY 2019.
- Moreover, Pakistan imported 2.5m MT (MY19: 2.9m MT) of oil seeds in MY20 which are used extensively to produce ghee and oil.

Demand Dynamics- Edible Oil & Oilseeds

- Currently, estimated share of ghee/banaspati (largely palm-based hydrogenated oils) is around 70% of the market while cooking oil contributes 30% of sales.
- Demand switch from ghee to cooking oil has been witnessed on a timeline basis for health reasons predominantly in the Punjab and North region.
- Price differential between ghee and cooking oil will limit the increase in share of cooking oil particularly in rural areas.
- As per industry estimates, 62% of industry demand is generated from direct retail consumers (home) and the remaining being from industrial consumers.
- High population growth rate has translated in to volumetric growth in sales of edible oil industry over the years.
- Going forward, overall demand is likely to expand on the back of growing demand for frying and processed food, increasing number of restaurants, urbanization and growing disposable incomes along with ongoing shift from unpackaged to packaged products.

Supply Dynamics- Edible Oil & Oilseeds

- * In past few years, Pakistan has witnessed a significant growth in oilseed imports due to reduced import duties, growing importance of oilseed meals in poultry sector and increasing demand of local oil production. On the other side, government's focus to enhance oilseed cultivation is also resulting in a slight increase of oilseed production.
- * Local demand is met through import of edible oil and crushing of oilseeds. The highest locally produced oilseed is Cottonseed and highest imported oilseed is Soybean.
- * Cottonseed is the principal oilseed crop grown in Pakistan, accounting for more than 84 percent of domestic oilseed production. Cotton is a key cash crop and an important input for Pakistan's textile sector, which is a major contributor to the country's gross domestic product.
- **Domestic Production (3.45m MT in 2020):** In domestic oilseed production, around 84% share is contributed by cottonseed, estimated at 2.9m MT. This is followed by sunflower seed and rapeseed.
- **Oilseed Imports (3.11m MT in 2020):** Total MY 2020/21 oilseed imports are estimated at 3.1 MMT and MY 2021/22 imports are on pace to reach 3.3 MMT, due to demand from end user industries. Soybean imports are driving the rise in the volume of oilseeds imports, with MY 2021/22 soybean imports projected to reach 2.6 MMT and MY 2020/21 imports estimated at 2.4 MMT. Pakistan imported 2.3 MMT of soybeans during MY 2019/20. Importers have shifted from Indian soymeal to take advantage of competitively priced soybeans from other countries. Rapeseed/canola imports are declining and are estimated at 700,000 tons in MY 2020/21 and 680,000 tons in MY 2021/22, a decline of three percent, mainly due to competition from lower-priced palm oil imports.

Supply Dynamics- Edible Oil & Oilseeds

Oilseed Import Statistics	MY 2015/2016	MY 2016/2017	MY 2017/2018	MY 2018/2019	MY 2019/2020	MY 2020/2021	MY 2021/2022
Items (Mln MT)	Actual Data	Actual Data	Actual Data	Actual Data	Actual Data	Estimate	Projection
Rapeseed/Canola	1.10	1.18	0.82	0.91	0.79	0.70	0.68
Sunflower Seed	0.05	0.10	0.04	-	-	-	-
Soybeans	1.13	1.60	2.18	2.00	2.32	2.40	2.60
Total	2.28	2.88	3.04	2.90	3.11	3.10	3.28

Source: All Pakistan Solvent Extractor Association (APSEA), FAS Islamabad and USDA Official

Total Oil - Pakistan	2019	2020	2021
Market Begin Year (1000 MT)	Market Year begin: Oct 2019	Market Year begin: Oct 2020	Market Year begin: Oct 2021
Production	1347	1316	1330
MY Imports	3339	3534	3725
Total Supply	4994	5132	5401
Industrial Domestic Consumption	113	116	105
Food Use Domestic Consumption	4523	4576	4877
Feed Waste Domestic Consumption	76	76	76
Total Domestic Consumption	4712	4768	5058

Domestic Prices

- * The sector is highly dependent on imported oil seeds and refined palm oil due to shortage of local supply. Therefore, this industry is highly correlated to exchange rate movements and international prices.
- * Average price of edible oil during FY20 was recorded at PKR~238/kg as compared to PKR~201/kg during FY19.
- * The price of executive grade edible oil was increased from Rs310 per kilogram to Rs328 per kg while the rate of grade two cooking oil increased from Rs290 per kg to Rs320 per kg.
- * Going forward, internal edible oil prices are expected to increase as discussed before due to low inventory levels.
- * Further, projected increase in consumer demand may result in a demand push price hike.

Duty Structure

(Figures in Percentage and in Pak. Rupees \$1.00=Rs.156)

Item	Canola	Sunflower	Soybeans	SBM	RBD Palm Oil	Palm Olein	CDSO
Customs Duty	3%	3%	3%	10%	10,700	9,050	9,050
Duty Discount (Malaysia/ Indonesia)	-	-	-	-	15%	15%	NA
Additional Duty	1%	1%	1%	1%	-	-	-
Reg. Duty	-	-	-	-	Rs. 50/MT	Rs. 50/MT	Rs. 50/MT
Sales Tax	16%	16%	6%	10%	-	-	-
CED	-	-	-	-	16%	16%	16%
FED	Rs.400/MT	Rs. 400/MT	Rs. 400/MT	-	Rs. 1,000/MT	Rs. 1,000/MT	Rs. 1,000/MT

Duty Structure

- * RBDPO: Refined Bleached Deodorized Palm Oil
- * CPO: Crude Palm Oil
- * CDSO: Crude Deodorized Soybean Oil
- * SBM: Soybean Meal
- * CED: Central Excise Duty
- * FED: Federal Excise Duty

Key Business Risks

- * **Market Risk**

- * Favorable demand prospects for the edible oil industry in general and soybean products in particular. Sales volume and profitability might be adversely impacted due to intensification of competition. High competition from cheaper varieties of imported edible oils and unorganized sector can dampen sales volumes and margins.

- * **Price Fluctuations and Currency Exchange Risk**

- * Given the relative inelasticity of demand in edible oil, the risks relate to managing of foreign exchange and price volatility in imported raw material procurement. Ability to manage margins depends on efficient inventory planning and pass through to consumers, which in turn, is linked to degree of competition and operational efficiency.

- * **Regulatory risk**

- * Regulatory risks relates to changes in government policies which may affect the industry. Changes in regulatory framework can impact the performance of any sector of the industry, such as the action by the Punjab Government in February 2015 in imposing price controls on banaspati and cooking oil in the province. Changes in duty structure can impact competitiveness.

Key Business Risks

- * **Agro-Climatic Risk**

- * The irrigated areas are indirectly dependent on monsoons. Thus production of oilseeds gets negatively impacted in years when there is a drought or deficient rainfall. Besides, the edible oil manufacturers are also impacted by the inventory levels and at times by larger credit period to push sales.

The key determinants of business risk profile of edible oil companies are their ability to overcome the regulatory risk and agro-climatic conditions. Other operational factors include operating efficiency, product diversity, market position, ability to secure raw material and commodity price & exchange rate risk management.

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