

Food & Allied

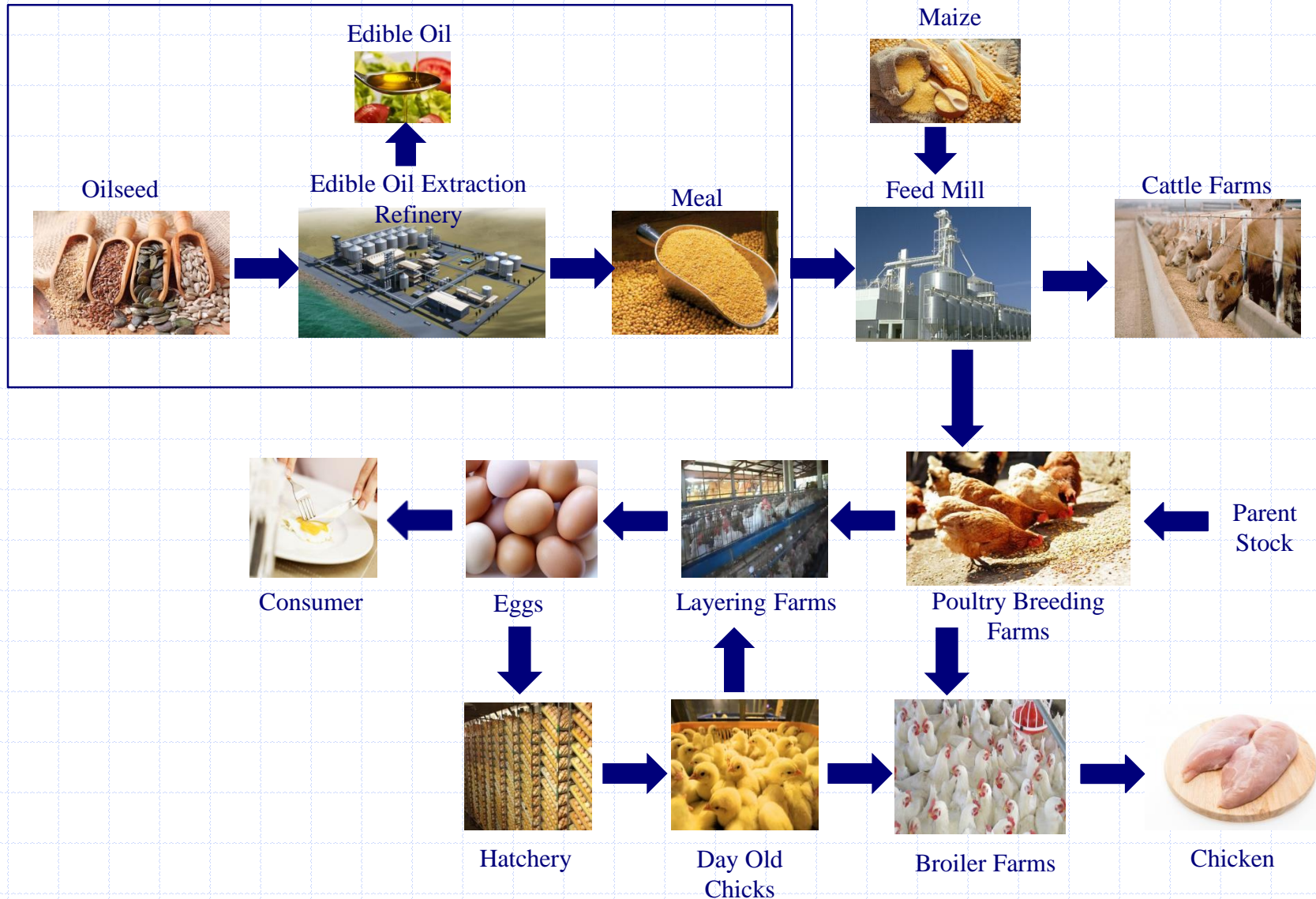
Edible Oilseed & Oil Industry

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February 2018

Industry Process Flow

Edible Oilseed & Oil Industry



Industry Profile

Edible Oilseed & Oil

- **Input:** In Pakistan, oilseeds procured for oil extraction are Soybean, Canola, Sunflower, Cotton Seed & Rape Seed by local solvent extraction, expellers and refining
- **Process:** Edible oil is manufactured through wet-milling (separating seed into its basic components) various oil seeds
- Solvent Extraction process extracts 25% of total available oil content in the oilseed
- Then in Chemical Refinery, semi-refined edible oil is prepared by extracting 40% of remaining available oil content
- Physical Refinery after extracting 34% of remaining available oil content to fully refine the oil for consumption
- Around 1% of oil content resides within the meal, a by-product in the edible oil extraction process

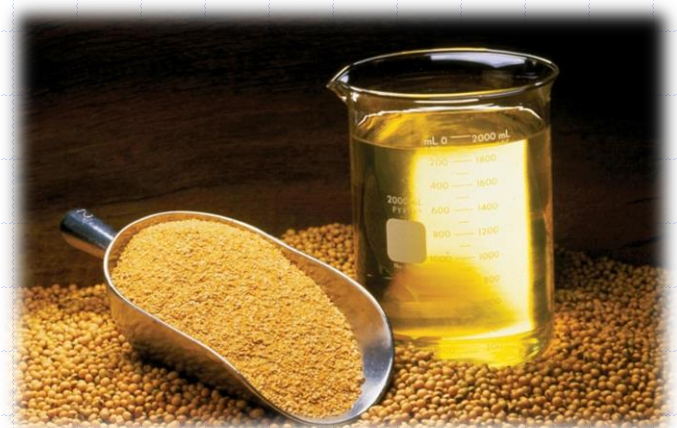
Edible Oilseed & Oil

- **Output:** Following are the two main outputs
 1. Refined Edible Oil is manufactured
 2. Meal is sized & stored to be sold to feed mills
- Pakistan's total oil availability, from locally produced oilseed, 0.56 is MMT annually
- However, country's appetite for edible oil hovers around 4.0 MMT annually



Soybean Oilseed & Oil

- Among edible oils, soybean oilseed & oil import stands out
- Soybean oilseeds annual import bill for FY17 ~ \$800 million
- Its a short duration crop that accounts for 57% of world's total oilseed produce
- It contains 40% protein plus amino acids & 18-22% edible oil
- If planted 1 kg per acre, it gives a return of 8 kg per acre, plus 7 tons soil organics



Industry Structure

Edible Oilseed & Oil

Consumption

Pakistan is the 4th largest market for edible oil

- Pakistan's per capita consumption ~ 20.3 kg
- Est. average consumption in developing countries ~ 18 kg
- World's average consumption ~19.5 kg

Local Production

Edible oil ~ among top 5 revenue generating sectors as per FBR

- Annual crushing capacity FY17 ~ 6.6 MMT
- Total Production in FY17 ~ 30% of total demand - 1.2 MMT
- Edible oil production from local oilseed ~ 14% of total demand - 0.56 MMT

Edible Oilseed & Oil

Import

Pakistan is the 3rd largest global importer of edible oil

- Annual Edible Oil and Oilseed import in FY17 ~ 86%
- Import bill ~ PKR 285 billion (US\$ 3 billion)

Oilseed Import

Annual Oilseed Import in FY17 ~ 2.9 MMT

- Fulfils 16% of total demand ~ 0.64 MMT edible oil

Oil Import

Annual Edible Oil Imports in FY17 ~ 2.8 MMT

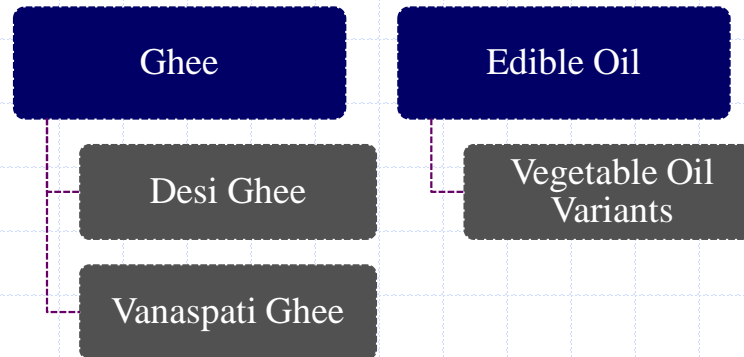
- Fulfils 70 % of total demand

Edible Oilseed & Oil

- 4 local bodies governs Pakistan's edible oil industry:
 - Pakistan Vanaspati Manufacturing Association (PVMA)
 - All Pakistan Solvent Manufacturing Association (APSEA)
 - Pakistan Edible Oil Refiners Association (PEORA)
 - Pakistan Soap Manufacturers Association (PSMA)
- There are 122 units manufacturing of edible oil and other allied products
- As per APSEA, in Pakistan there are 95 solvent extraction entities – 30 are in working state
- In Pakistan, there are more than 150 Ghee manufacturing units
- Moreover; Kohlus, about 15-16,000 operational units, primarily used for processing rapeseed and mustard, are mostly located in villages

Edible Oilseed & Oil

- Edible oils classification is as follows:



- Consumption pattern of each is based on geographical factors; i.e. urban and rural
- The oil industry is structured is perfectly competitive in nature
- Hence, there are large players in the market
- Few larger industry players have been operating for a longer period of time thus creates barriers for new firms
- As there are many competing brands available in the market, bargaining power of buyers is a considerable threat

Industry Performance

Edible Oilseed & Oil

- Cultivation area for commonly used oilseeds & production related information are shown in the table below

Area Sown & Production of Major Oilseed crop			
FY16-17			
Crop	Area '000' Acres	Production '000' Tons	
		Oilseed	Oil
Soybean*	-	318	46
Cottonseed	5,931	2,816	338
Rapeseed/Mustard	494	190	61
Sunflower	216	109	41
Canola	33	15	6
<i>Total</i>	6,674	3,448	492

- Quality of edible oil depends on presence of fatty acids & melting point
- Higher the level of unsaturated fats, better the nutritional quality

Quality of Edible Oils	
Edible Oil	Fatty Acids %
Soybean	5
Cottonseed	27
Rapeseed/ Mustard	7
Sunflower	12
Canola	8

* Soybean oilseed and oil production of world's top 5 countries
Source: Pakistan Economic Survey (FY17)

Edible Oilseed & Oil

- Table below shows an increase in total available edible oil in Pakistan

Total Edible Oil Available (000 - MT)					
Year	Canola	Sunflower	Soybean	Total	All Available Oil Variants
FY13	310	206	55	571	3,221
FY14	483	151	124	758	3,524
FY15	392	79	296	767	3,540
FY16	499	72	360	931	3,600
FY17	525	35	554	1114	4,236

- Table below shows an increase in total oilseed import in Pakistan

Total Oilseed Import (000 - MT)				
Year	Canola	Sunflower	Soybean	Total
FY13	500	250	0	760
FY14	1000	200	10	1179
FY15	800	10	550	1417
FY16	1100	30	900	2150
FY17	1200	10	1800	3078

- Industry's annual growth rate is around 3-5%

Regulatory Structure

Regulatory Structure			
	Soybean Seed	Canola & Sunflower Seed	Stage of Imposition
Custom Duty	3%	3%	Import of machinery/oilseed
Additional Custim Duty	1%	1%	Import of machinery/oilseed
Federal Excise Duty	40 paisa per kg	41 paisa per kg	At production or import
Sales Tax	10%	16%	On sale

- Withholding Income tax of 5.5% is payable for canola & sunflower edible oil by refineries
- Old industrial undertakings are subject normal tax as per Income Tax Ordinance 2001
- However, new industrial undertaking "shall" be given a tax credit equal to 100pc tax payable, on account of minimum tax and final tax payable under any of the provisions of ordinance for a period of five years beginning from the date of setting up of the unit or commencement of commercial production, whichever is later. Moreover, the company is incorporated and industrial undertaking is setup between 01-July-11 and 30-Jun-12
- Edible oil imported by a new unit could be sold in local market or consumed by the existing unit that has also set up a new unit under Section 65D of the Ordinance 2001

Key Challenges

- No oilseed related guidance is available to farmers
- High cost of planting soybean locally leads to high soybean oilseed import figures
- Custom duties and taxes, at import stage, are much higher than the levies in neighboring countries
- Imposition of Export Duty, due to which, the Refineries in Pakistan are not getting their raw material at workable and affordable price and as a result many oil refineries are forced to stop their operation
- Hindrance recently caused by Punjab Food Authority and discouraging use of Vanaspati Ghee
- High transportation cost from Port Qasim Terminals to Industrial units, due to petroleum products/fuel price hike is affecting Ghee Industry



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