

### Overview of Oils and Fats

Rapeseed used to be the most important oil-bearing crop, but this has been replaced by soybean. The principal domestic sources of vegetable oil are, in order of decreasing production volume, soybean, rapeseed, groundnuts and cottonseed. Soybean oil now accounts for nearly 34 percent of the total domestic oils and fats production, followed by rapeseed oil at 22 percent. Historically, the production of animal fats, particularly lard has not dwindled either, with output reaching 3.2 million tonnes in 2008. The underpinning of this growth is China's growing demand for meat. However, competition for land from other crops like grains, and urbanization will continue to limit any substantial increases in oilseed planted areas.

Total consumption of oils and fats was estimated at 29.4 million tonnes in 2008, of which vegetable oils accounted for 84 percent or 24.8 million tonnes. The combined effect of rising incomes and an increasing population is a vast potential market for vegetable oil in China. Market growth of 5.6 percent annually for the past five years has been driven predominantly by rising real incomes. The average per capita use of vegetable oil is currently between 17-18 10 kg per person per year. Even though the Chinese oil consumption has grown rapidly during the recent years, there still is significant growth potential before it reaches the level of Taiwan and other similar fast developing Asian nations.

Because domestic vegetable oil supply has not matched rising demand, the major imported oil —palm and soybean — have accounted for an increasing share of total oil consumption. Between 2000 and 2008, palm oil's share has risen from 9 percent to 19 percent. In terms of import shares, both oils combined have accounted for roughly 86 percent.

Historically, China has been a net importer of oils and fats. Chinese consumers are demanding more and more, which explains the increase in imports. So, it should not be a surprise that China, as the world's largest consumer of vegetable oils and fats, is not able to produce enough to meet local demand. The country is today the world's biggest importer of palm oil and soybean oil. Last year, China imported nearly 9.5 million tonnes of oils and fats, of which nearly 60 percent or 5.59 million tonnes comprise of palm oil. Soybean oil import currently accounts for 27 percent or 2.58 million tonnes with Argentina being the largest supplier.

Since China joined the World Trade Organisation (WTO), its import of palm oil has been increasing significantly, resulting from the higher Tariff Rate Quota (TRQ) allocated and favourable import duty for RBD palm stearin. This has made China the world's single largest palm oil

### Statistics

Production of Oils & Fats ('000 tonnes)					
	2000	2002	2004	2006	2008
Soybean	2,843	3,758	4,827	5,966	6,719
Rapeseed	4,695	4,114	4,252	4,753	4,388
Lard	2,782	2,948	3,183	3,365	3,204
Groundnut	2,176	2,398	2,121	2,003	1,916
Others	2,460	2,930	2,930	3,384	3,669
<b>Total</b>	<b>14,955</b>	<b>16,147</b>	<b>17,313</b>	<b>19,470</b>	<b>19,896</b>

Imports of Oils & Fats ('000 tonnes)					
	2000	2002	2004	2006	2008
Palm oil	1,764	2,660	3,851	5,462	5,593
Soybean	356	1,013	2,515	1,543	2,586
Coconut	96	119	114	166	146
Tallow	343	326	312	319	372
Other	387	236	3,143	521	793
<b>Total</b>	<b>2,946</b>	<b>4,354</b>	<b>7,420</b>	<b>8,011</b>	<b>9,490</b>

Domestic Requirement of Oils & Fats ('000 tonnes)					
	2000	2002	2004	2006	2008
Soybean	3,204	4,653	7,322	7,411	9,231
Palm oil	1,618	2,640	3,681	5,450	5,692
Rapeseed	4,729	4,234	4,545	4,672	4,690
Groundnut	2,161	2,441	2,086	1,990	1,944
Lard	2,819	2,925	3,164	3,356	3,233
Others	6,218	8,146	10,874	11,587	13,852
<b>Total</b>	<b>17,545</b>	<b>20,385</b>	<b>24,349</b>	<b>27,055</b>	<b>29,410</b>

Palm Oil Imports ('000 tonnes)					
	2004	2005	2006	2007	2008
Malaysia	2,578	1,013	2,515	1,543	2,586
Indonesia	1,147	95	168	291	1,906
Others	125	3,212	2,779	3,665	1,102
<b>Total</b>	<b>3,851</b>	<b>4,320</b>	<b>5,462</b>	<b>5,499</b>	<b>5,593</b>

Soybean Oil Imports ('000 tonnes)					
	2004	2005	2006	2007	2008
Argentina	1,632	1,367	1,256	2,247	1,721
Brazil	862	322	262	404	689
Others	21	5	25	171	176
<b>Total</b>	<b>2,515</b>	<b>1,694</b>	<b>1,543</b>	<b>2,822</b>	<b>2,586</b>

Source: Oil World

# CHINA

## OILS & FATS BRIEF PROFILE

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importing country since 2004, surpassing even the total palm oil imported by the 27 European Union countries in 2006.

Palm oil has become one of the most widely sought edible oil for industrial usage. Palm oil is a practical way to meet China's requirement for oils and fats because it can be sourced from nearby countries at competitive prices. Palm oil demand is much more widely spread across different sectors than other vegetable oils. The instant noodles sector is one of the most important industrial markets for palm oil, and instant noodle manufacturers in China find it difficult to replace palm oil with other oils because of its competitiveness. Furthermore, China's close proximity to Malaysia and other major palm oil producers gives palm oil the advantage of lower shipping costs relative to other oils. Therefore this sector is of particular interest to palm oil producers because it provides a secure outlet and strong market growth.

The size of the market for household cooking oil is so large in China that it cannot be ignored. The palm oil exporters cannot simply ignore it. Assuming an average per capita demand for cooking oil of 6.5 kg (*rural people may consume less than urban people*) and multiplying across the Chinese population of 1.3 billion, this implies direct household usage of some 8.5 million tonnes. Today, 5-6°C low melting point palm oil products in the market have helped to boost applications for palm oil in the household sector. Palm oil can be blended with groundnut oil throughout the four seasons and with rapeseed oil and soybean oil most of time. This has resulted in substantial growth in the demand for palm oil, notwithstanding the fact that price competitiveness do made palm oil the most favoured choice for blending with other vegetable oils.

The most favoured oil product in China is RBD palm olein or widely known as "the 24°C oil" by the Chinese. Although official data on the total volume of RBD palm olein imported into China is not available, the breakdown of palm oil products exported from Malaysia confirms that RBD palm olein made up the highest composition of total palm oil products being imported.

Last year's palm oil exports to China from Malaysia comprised of 2.9 million tonnes of RBD palm olein, 0.41 million tonnes of RBD palm stearin and some 299,278 tonnes of crude palm oil. From Jan-Oct 2009, China has already imported some 3.27 million tonnes of palm oil from Malaysia, of which 2.53 million tonnes were in the form of RBD palm olein.

Imports of Palm Oil from Malaysia (tonnes)		
	2008	Jan-Oct 2009
Crude Palm Oil	299,278	206,180
RBD Palm Olein	2,922,542	2,536,576
RBD Palm Stearin	415,102	481,138
Others	157,572	51,549
Total	3,794,494	3,275,443

Source: MPOB

### COUNTRY AT A GLANCE



#### Basic Statistics

Area: 9,596,961 km<sup>2</sup>

World's fourth largest country

Capital: Beijing

Major cities: Beijing, Shanghai, Guangzhou

Ports: Dalian, Guangzhou, Qingdao, Ningbo, Shanghai, Shenzhen, Tianjin.

Population: 1.388 billion (Jul 2009 est)

Urban population: 43% of total population

Population Growth: 0.665% (2009 est)

GDP: US\$ 4.402 trillion (2008 est)

GDP per capita (PPP): US\$ 6000 (2008 est)

GDP Real Growth: 9% (2008 est)

Total Exports: US\$ 1.4335 trillion (2008 est)

Commodities: Electrical & machinery, data processing equipment, apparel, textiles, iron & steel, optical & medical equipment.

Major Partners: USA(18%), Hong Kong(13%), Japan (8%), South Korea(5%), Germany (4%)

Total Imports: US\$ 1.074 trillion (2008 est)

Commodities: Machinery & equipment, oil and mineral fuel, metal ores, plastics, organic chemicals.

Major Partners: Japan(13%), South Korea(9%); USA (7%), Germany (5%)

Currency: Renmimbi Yuan (RMB)

Exchange Rate: RMB 6.827 US\$1 (7 Nov '09)

While the import of palm oil continues to increase in the post-TRQ era, the composition of palm oil products being imported has changed since the government lifted the amount of palm oil that can be imported. The year 2006 saw the import of crude palm oil (CPO) significant leapt from 104,000 metric tonnes (MT) in 2005 to approximately 655,000 MT that year. The distribution of palm oil in China is somehow linked to freight and logistical differences, and therefore the demand in area near or with ports on the coastline like Guangdong, Jiangsu and Tianjin seem to take relative larger volumes of palm oil.

The fractionation facilities in China has also expanded in the recent years. At the end of 2006, fractionating capacity had surpassed 3.6 million tonnes. Today, with new and expansion of existing fractionation plants, country's total palm oil fractionation capacity is estimated at 4.5 million tonnes. The boom in domestic palm oil fractionation capacities and the increase in the fractions of palm oil have contributed to the overall growth in palm oil usage in the country.

The absence of official data makes it difficult to calculate the importance of palm oil in different end uses sectors. However strong demand continues to increase the demand for processed foods, especially instant noodles, which use large amounts of palm oil. Industry sources estimate that instant noodle production reached 489 million packets during 2007, up 18 percent over 2003. The catering sector is an important user of palm oil in China, and provides an outlet which has the potential to grow rapidly. The burgeoning catering and fast food sector has the potential to increase its adoption of palm oil dramatically.

### Import Policies

The oilseed industry leaders have been lobbying the Government on promoting domestic oilseeds production in recent years. Among the initiatives taken by the Government include plans to boost domestic oilseeds production, including soybeans, rapeseed, and peanuts through increasing agriculture inputs, increase yields and marketing efficiency.

The "biotech-free" soybean production policy remains unchanged and is not likely to be changed in the near future as the Government still regards genetically modified (GM) food as a sensitive issue. Moreover, this policy ensures China can export with a premium to European and Asian markets. In early 2007, the Ministry of Agriculture extended the GM soybean safety certificates to February 20, 2010. Although shipment-by-shipment certification is unnecessarily burdensome, this move has not create any major trade disruption.

The GOC reduced the import tariff rate for soybeans to one percent from three percent for three months effective October 1, 2007. The one percent rate was extended until September 2008. The import duty now remain at three percent in line with China's WTO bound rate, despite earlier rumors that the Government may increase the import duty "significantly" to protect domestic farmers' interests.

China's WTO accession agreement stipulates that imports of soybean oil, rapeseed oil, and palm oil will remain subject to TRQs until Jan 1, 2006. China agreed to open TRQs (Tariff Rate Quotas) that would allow fixed quantities of vegetable oil to be imported at a reduced tariff of 9%. For example, TRQs for palm oil were increased in stages, i.e. 2002 - 2.4 million tonnes; 2003 - 2.6 million tonnes; 2004 - 2.7 million tonnes and finally in 2005 - 3.168 million tonnes.

On Jan 1, 2006, China eliminated the TRQ for vegetable oils (soy oil, palm oil and rapeseed oils) in compliance with its WTO commitments. The TRQ was then replaced it with an "automatic import licensing system (AILS)". While some perceived that AILS was a Government mechanism to monitoring oil imports, its main aim is to facilitate the control of market risks, and ensuring smooth flow of trade while instituting a stable market discipline.

Import Tariff on Major Imported Oils and Fats

HS Code	Description	MFN Rate (%)	VAT
15071000	Crude Soybean oil, whether or not degummed	9	13
15079000	Others	9	13
15111000	Crude Palm oil, whether of not degummed	9	13
15119010	Palm oil, Liquid	9	13
15119020	Palm oil, Solid	8	13
15119090	Palm oil, others	9	17
15121100	Crude Sunflower oil	9	13
15121900	Other Sunflower oil	9	17
15131100	Crude Coconut oil	9*	13
15131900	Other Coconut oil	9*	13
15132100	Crude Palm kernel oil	9*	13
15132900	Other Palm kernel oil	9*	17
15149110	Crude Rapeseed or Colza oil	9	13
15149190	Crude mustardseed oil	9	13
15149900	Other Rapeseed oil	9	17

\* Note: Various tax rates applies under the China-ASEAN agreement.

Source: GAIN Report - CH8010

### References:

1. Malaysian Palm Oil Board (MPOB)
2. Malaysian Palm Oil Council (MPOC)
3. Oil World
4. USDA/FAS