



POTS[®]

PALM OIL TRADE FAIR AND SEMINAR 2018 REGIONAL

Kuala Lumpur, 29 August 2018

MARKET CHALLENGES AND OPPORTUNITIES FOR THE MALAYSIAN PALM OIL IN IRAN

Overview of the Islamic Republic of Iran

- Iran had an estimated Gross Domestic Product (GDP) in 2017 of US\$439.5 billion. It has a population of 80.6 million people according to a 2017 estimate - **a country with a young population, with 63% of its population below the age of 34**
- Iran has the **26th largest economy in the world**, 2nd in Middle East with around 4% GDP growth until 2020f¹ – higher if sanction is removed
- Iran also recorded the **second highest disposable income per capita in the Middle East**, after the UAE, illustrating the country's high spending power

Overview of the Islamic Republic of Iran

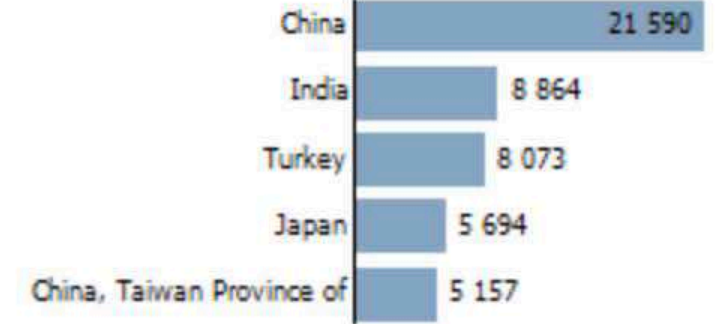
Export structure by product group in 2016

(as % of total exports)



Top 5 partners in 2016

(exports, millions of US\$)



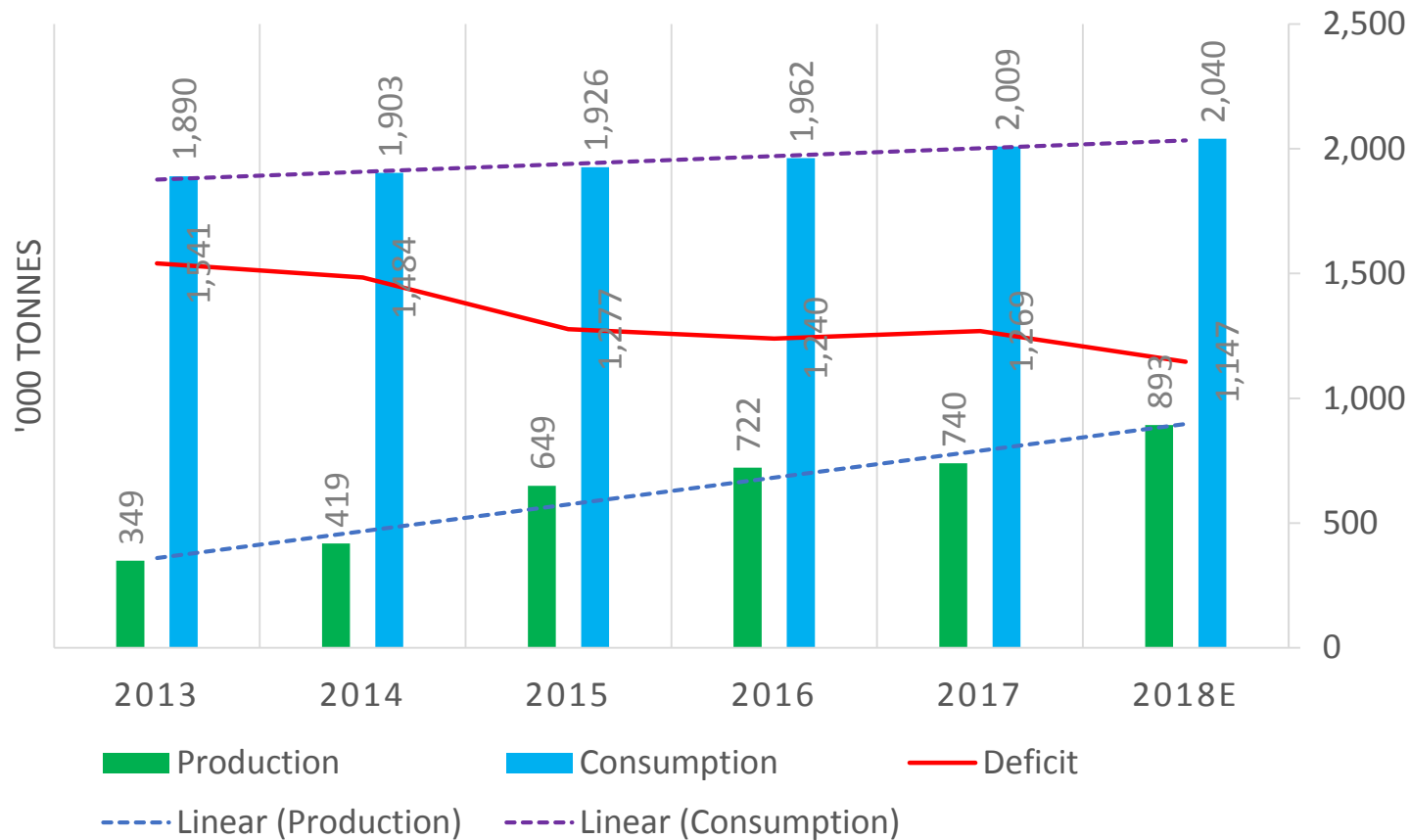
- Iran's economy is reliant on the oils and gas sectors, which accounts for about 80% of its government revenue, but sanctions imposed by Western countries had reduced its production and exports
- New US sanctions effective November this year is expected to cut Iranian's oil & gas production and exports
 - August 6, 2018 – sanction on Iran in acquiring USD, exporting Iranian minerals and precious metal, issuing Iranian debt and auto trading (already take in place)
 - November 4, 2018 – Sanction on Iranian shipping, petrol and energy sectors as well as sanction on foreign financial transactions and insurance
- China, India, Japan, South Korea and Turkey are Iran's main export partners
- EU members is expected to stop trading with Iran

Overview of the Islamic Republic of Iran



- Food security is strong in Iran due to government priority to mitigate the concerns for economic sanctions. FAO reported that “Average dietary supply adequacy” is at 129% with “depth of food deficit” is just around 39 kcal underpinned by strong indicators of all 4 pillars of food security¹
- Supported by increased in food manufacturing as exports of food products reached US\$3 billion in 2017/18 as compared to around US\$ 2.5 billion in 2016/17² – nearby regions i.e. Iraq, Azerbaijan, UAE
- These growths in food manufacturing provide opportunities for palm oil as local oil production has not managed to cope with local demand

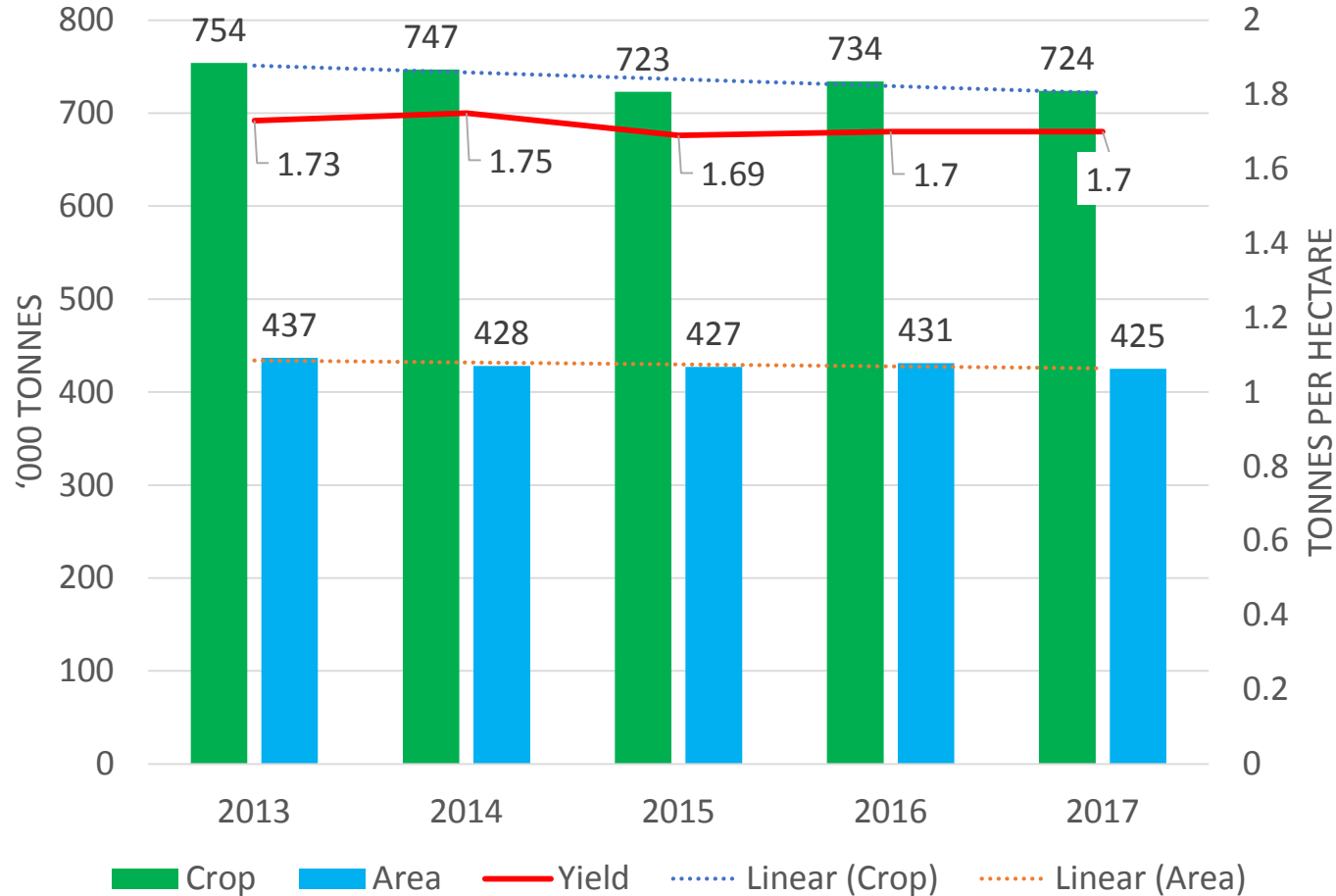
Overview of the Islamic Republic of Iran



- Iran lacks edible oils and fats supplies to meet its local consumption.
- Main productions are soybean oil at 359,800 MT and rapeseed oil, 158,800 MT (2015), and sunflower oil 91,400 MT
- Even though Iran is the world's largest producer of saffron, pistachio, honey and spices, it depends on imports for oils and fats supply.

Overview of Oils and Fats – Oilseeds Production

Local Oilseeds Production



- Local oilseeds production has been stagnating due to flat growth for planted area and yield
- Water usage for agri too high due to inefficient method. More oilseeds planted vs rice (97% surface water, 40% underground water)
- Unless significant improvements is seen in
 - Capital put in by the government to improve irrigation, funds to subsidize and help farm expansions
 - Which leads to more planted area
 - Technology that improve yield, better irrigation and increased mechanisation (1 HP per hectare vs Europe’s 5 HP per hectare)
 - Incentives to stop urban migration especially among youths

Overview of Oils and Fats – S & D Outlook

	2013	2014	2015	2016	2017	2018E
Open Stocks	300	740	565	455	295	335
Production	349	419	649	722	740	850
Imports	2,095	1,401	1,327	1,164	1,413	1,241
Exports	105	83	160	84	105	105
Consumption	1,890	1,903	1,926	1,962	2,009	2,040
End Stocks	740	565	455	295	335	281

- Iran will most likely import less vegetable oil in 2018 due to increased imports of soybean due to favourable pricing, increasing crushing activities to meet local feed demand increasing the availability of local supply of soybean oil. Also high carry over stocks impacted on imports.
- Depreciation in Rial will get importers to use USD in getting more Rial as compared to trade
- This has resulted in lesser imports of oils & fats by 12% to just 1.24 million MT - major drop in soybean oil and rapeseed oil imports, slight drop for palm oil
- Domestic consumption is expected to grow at 1.5% CAGR (2013 – 2017) to 2.04 million MT – around 30,000 MT more than last year’s 2.01 million MT. This is mainly due to demand from the food sector while use for the industry has been stagnating

Overview of Oils and Fats – Imports

IMPORTS	2013	2014	2015	2016	2017	2018E
Soybean oil(a)	798	233	499	253	230	210
Cotton oil	8	6	9	3	6	3
Sunfloweroil(a)	201	322	267	342	523	482
Rapeseed oil(a)	5	5	5	19	2	2
Corn oil(a)	16	17	22	22	27	24
Olive oil	6	5	4	3	3	3
Palm oil	997	755	465	465	571	510
Palmkern oil(a)	18	18	23	20	25	20
Coconut oil(a)	8	7	11	7	9	8
Butter,as fat(a)	38	35	22	29	19	18
Total	2,095	1,401	1,327	1,164	1,413	1,281

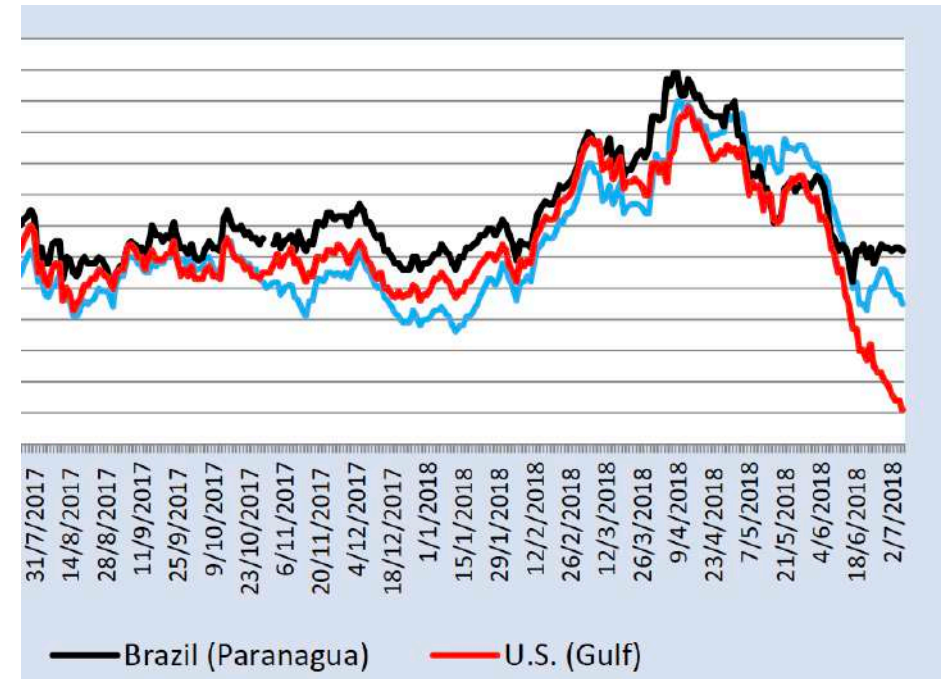
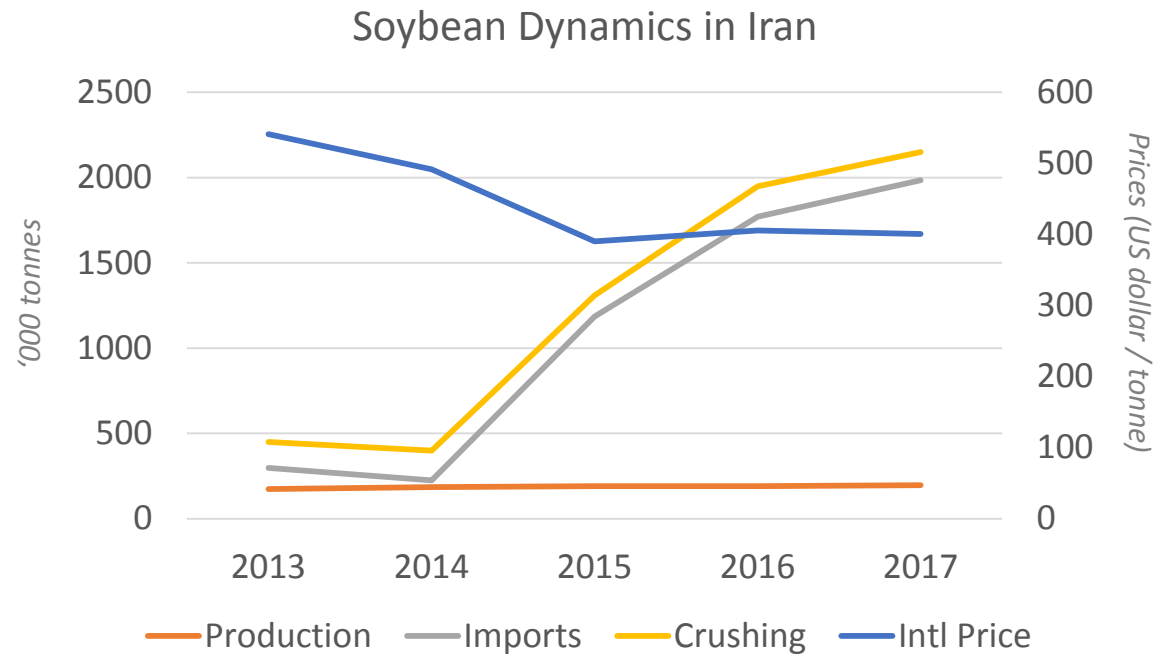
- Overall imports are expected to drop by 9% this year due to increased local production, tight sunflower oil supply and sanctions by the US
- Palm oil dropped 11% due to expectation that Malaysia, as the main supplier's weak export figures Jan – Jul dropped 20% to just 236,061 MT

Overview of Oils and Fats – Consumption

Consumption	2013	2014	2015	2016	2017	2018E
Soybean oil	537	478	598	648	554	558
Cotton oil	12	8	14	10	11	11
Sunfloweroil	244	336	349	371	540	570
Rapeseed oil	144	152	145	164	161	165
Corn oil	16	17	22	22	27	31
Olive oil	6	5	4	3	3	3
Palm oil	757	735	625	570	541	526
Palmkern oil	18	18	23	20	25	26
Coconut oil	8	7	11	7	9	9
Butter,as fat	149	146	135	145	136	133
Linseed oil	0	1	1	2	3	8
Total	1,890	1,903	1,926	1,962	2,009	2,040

- Iran mainly uses soybean oil, sunflower oil, rapeseed oil and palm oil
- Consumers prefer to have different types of oil for different usages as they have different formulation to suit customers' needs
- Cooking oils and fats are mainly categorized into frying oil, salad oil and for baking applications
- Changes in consumption pattern from soybean and sunflower due to high production of sunflower in recent years

Overview of Oils and Fats – Soybean Market



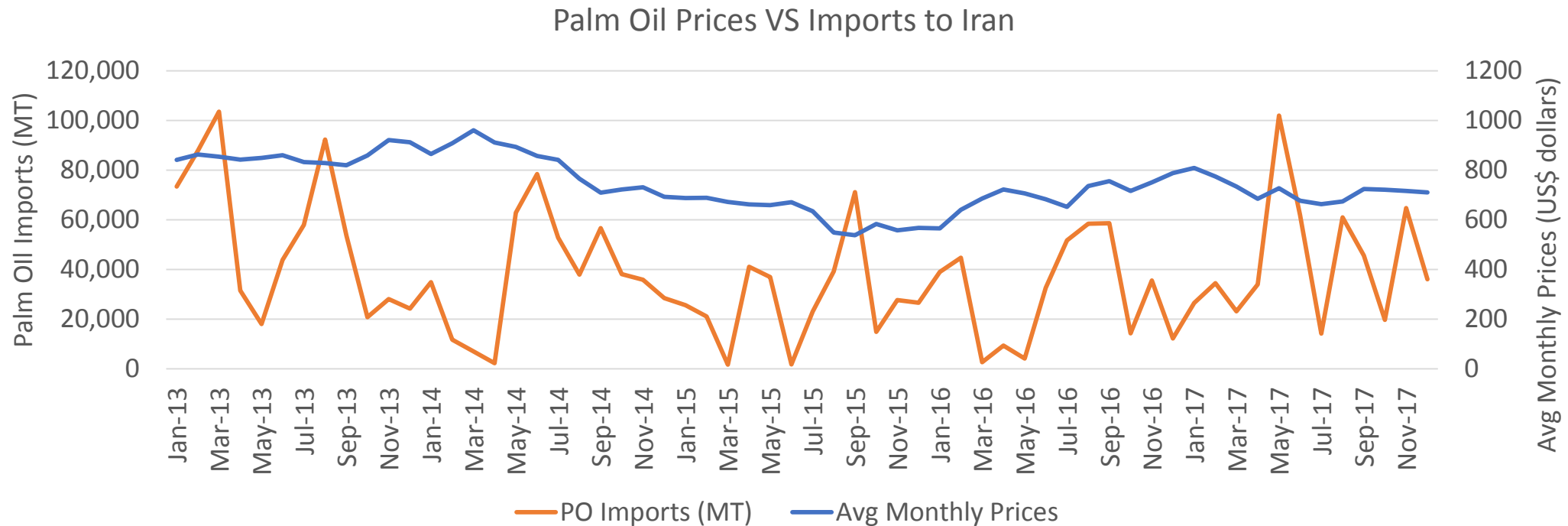
- Increased local soybean production and crushing activities to cater domestic demands for feed and soybean oil, despite strong import figures for the first half of Oct – Sep 17/18 marketing year.
- Soybean imports increased as prices immediately dropped since China's intention to imposed the 25% import duty on US beans underpinned by strong production and high stock figures for USA and Brazil – though Ukraine is main supplier

Overview of Oils and Fats – Palm Oil

Palm oil	2013	2014	2015	2016	2017
Indonesia	310,200	278,500	83,900	51,000	38,300
Malaysia(c)	650,000	442,900	332,800	377,600	499,700
U Arab Emirates	35,000	33,000	48,500	36,500	32,500
Oth Countries	2,100	100	100	200	0
Total	997,300	754,500	465,300	465,300	570,500
MPO Share (%)	65.18	58.70	71.52	81.15	87.59
PO Market Share (%)	47.60	53.84	35.07	39.97	40.37

- Malaysian palm oil has managed to be the main suppliers to Iran. Despite fluctuations in imports trend, MPO managed to get 87.59% of the market share last year 2017 and the trend will likely continue
- That is reflected to around:
 - TOTAL PALM OIL: 40% of total oils & fats imports (2017)
 - MALAYSIAN PALM OIL: 35% of total oils & fats imports (2017)
- Palm oil is the leading source of oils & fats imported by Iran

Overview of Oils and Fats – Palm Oil



- Interesting to see that monthly prices did not reflect significant impact on the imported volume of oil by Iran
- Imports based on needs – stocks of other soft oil, production forecast, company quota
- Maybe due to palm oil has already been the lowest price regardless of its global pricing, limited suppliers

Overview of Oils and Fats – Palm Oil Products

PALM PRODUCTS	VOLUME (MT)
PALM OIL	523,515
RBD Olein	389,840
RBD Palm Oil	112,321
RBD Stearin	10,185
FINISHED PRODUCTS	25,125
Shortening	11,595
Cocoa Butter Substitute	5,466
PALM KERNEL OIL	22,860
HRBD Palm Kernel Stearin	8,385
OLEOCHEMICAL	53,015
Purified Glycerine	12,652
Lauryl Myristyl Alcohol	10,560
Soap Noodles	5,436

- Based on the products imported in 2017, food sector contributed the most through significant imports of RBD olein and stearin
- Palm oil made up of majority of imports into Iran, followed by oleochemical products



Overview of Oils and Fats – Local Products

Brand	Manufacturer	Value Share
Ladan	Behshahr Industrial Co	24.58%
Bahar	Behshahr Industrial Co	11.80%
Aftab	Margarine Mfg Co	6.12%
Ghoo	Pars Vegetable Oil Co	5.87%
Ghoncheh	Keshto Sanat Shomal Co	3.23%

- Domestic brands led the oils and fats market. Domestic companies have the benefits of long-established consumer loyalty alongside the effective nationwide distribution of their products.
- Most of the successful brands are categorized as standard or economy. There is no tendency among Iranian consumers to purchase premium brands and sales of these products remained limited to higher-income consumers in certain urban areas.



Company Market Shares of Oils & Fats

Rank	Companies	Shares(%)
1	Behshahr Industrial Co	37.3
2	Pars Vegetable Oil Co	8.0
3	Margarine Mfg Co	6.1
4	Keshto Sanat Shomal Co	3.3
5	Jahan Vegetable Oil Co	2.6
6	Kalleh Dairy Co	2.6
7	Iran Khorram Dairy Packaging Co	2.5
8	Shakelli Co	1.7
9	United Foods Co PSC	1.5
10	Pegah Dairy Co	1.3

- With a 37.3% of market share, Behshahr is the leader in Iranian oils and fats market.
- Oils and fats recorded a 17% retail value and 2% retail volume growth reaching USD 5.82 billion and 1.3 billion
- 4% value CAGR is predicted for the year 2020 with sales reaching up to USD 7.22 billion.

List of Palm Oil Importers in Iran

COMPANY	CONTACT	COMPANY	CONTACT
Aman Co	shoaie469@msn.com	Mehrvandad	rajabi@mehrvandadco.com
Chamber of Commerce Industries, Mines & Ag	a.farshchi@iccim.ir	Nejati Industrial Group	Anata.purchasing@gmail.com
Farazabi (Confectionery)	farazabico@hotmail.com	Novin Gostar Meshkat	rad.roya@meshkatgroup.com
Farda Co.	abolhasan_khalili@yahoo.com	Pars Vegetable Oil Co.	hosseinghaffari@yahoo.com
FBS General Trading LLC	Safavi@fouladbs.com	Savola Behshahr Co. (Edible Oil)	mameri@savola.com
Frico	frico@frico.ir	Savola Foods	mbahmaie@savola.com
Golestan Dezful Co.	golestani3333@yahoo.com	Shayesteh Tabar Trading Co.	mehrdadshtster@gmail.com
Haj Abdollah Zaeri & Sons Co.	adeltea@hotmail.com	SIS International Group	sis@sisintgroup.com
Ham Star Food Industries	export@hamfood.com	Techno Pars	rouzbeh@mehrvandadco.com
J.T.G.	amir.jtg@gmail.com		
Kharazmi Trade Developers Co. Ltd.	beyk@kharazmitrade.com		
Mahidasht Kermanshah Vegetable Ghee	fmadadi@hotmail.com		

Buyers Preferences in Iran

- **Ease of doing business** has been highlighted by various traders in picking a buyer. They need someone that can accept their LCs and more importantly trust – some successful Malaysian companies let them make payment after the oil are discharged from the vessels
- **Quality is not being particularly highlighted** as they normally reprocessed for their own formulation (within spec)
- **Price** – as 40% imports are imposed vs 21% for other vegetable oil as palm did not have significant advantage due plus shipping costs

Recent Developments

Kourosh Food Industry company as a subsidiary of Golrang Industrial Group was established in 2011 and started its work as a producer, importer and exporter of oil and related products in 2013. Brands: Oila, Famila, Kimball, Suintin.



Products: sunflower oil, canola oil, sesame oil, olive oil, corn oil, frying oil, free-palm frying oil, vegetable ghee. Location of manufactures: Eshtehard(Kourosh 1), Takestan(Kourosh 2).

- Kourosh Food Industry has started the “no palm oil” label in Iran – not surprising, as “responsible companies” use palm oil as an easy target i.e. Iceland Foods Ltd

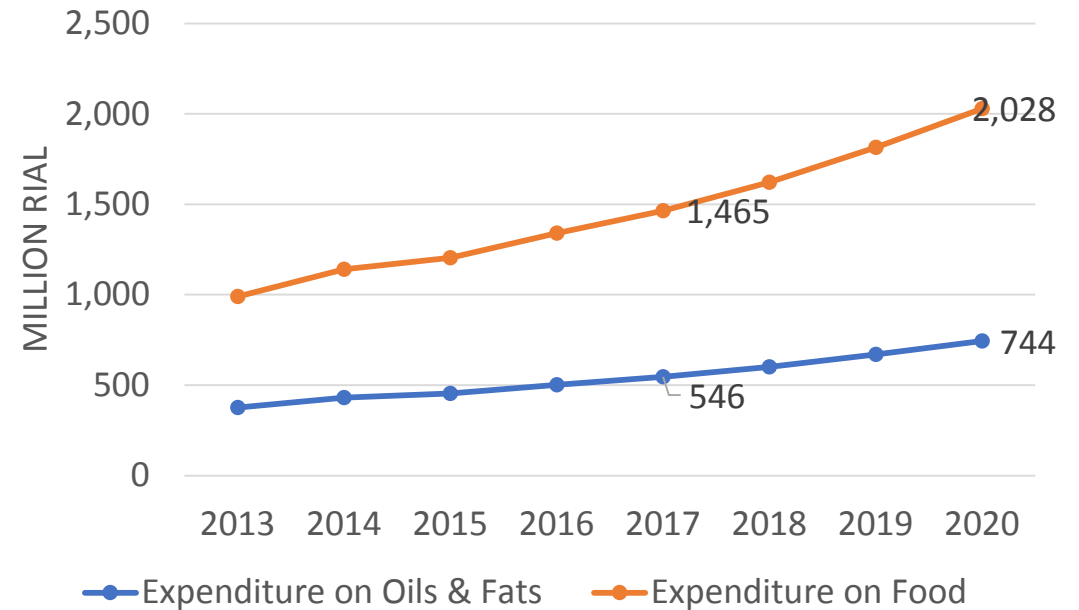
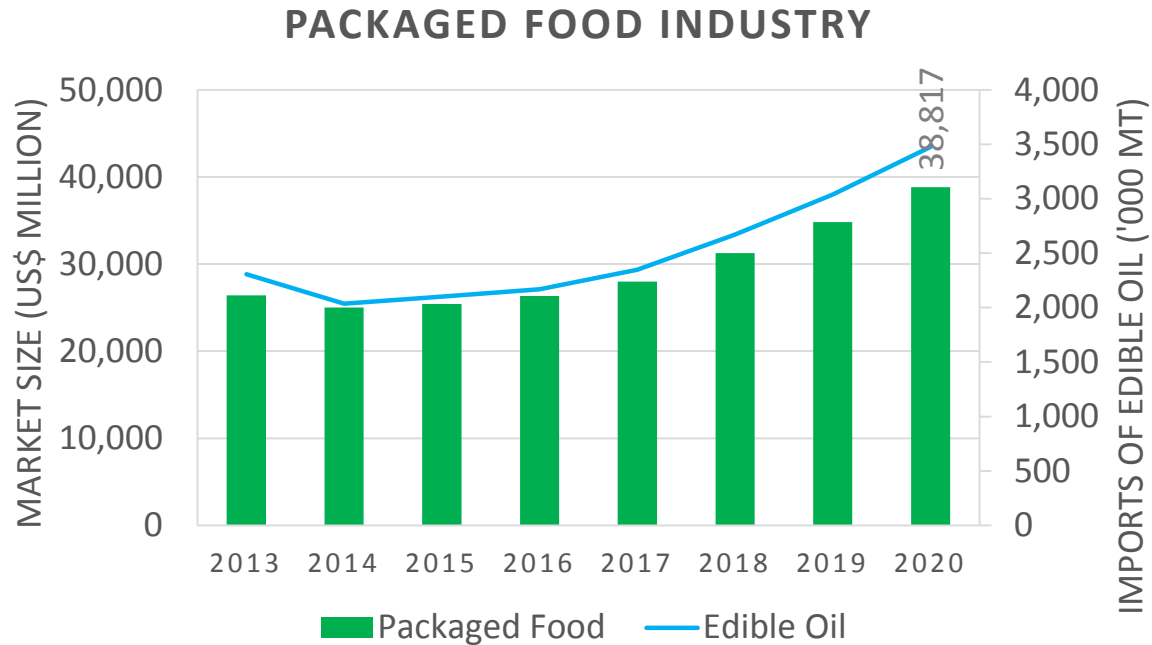
Recent Developments

- Credit issues: Limited bank / payment options
 - Participating foreign banks are facing backlash by US administration despite signed MoUs last year; Iran – Europe Bank and Iran – Slovak Bank
 - Last year, Malaysia signed PTA cooperation deal with Iran – could be in agenda but how long? Will current government continue the previous government's policy?
- Oil politics: Reshuffling of cabinet last year is hoped to change some stance of the previous administration (highly influenced by traditional oilseed traders). **Increased efforts will be done to improve government and public perception**

Recent Developments

- Latest US sanction on Iran has already depreciated Iranian Rial. This could mean that palm oil will continue to be imported into Iran as the most affordable source of oils and fats – to continue feeding the growing food industry
 - Plus the potential increase in Brent prices to US\$79¹ a barrel could lead to increase in overall vegetable oil prices
 - EU, India and Japan held talks with US on zero waiver by Nov 2018
 - Recent positive development that Trump wanted to renegotiate terms is hoped to bring positive outlook

Opportunities – Growing Food Sector



- The packaged food sector has been one of the biggest growth in Iran, highest in Middle East
- The availability of cheap raw materials, increasing demand through better purchasing power has increased packaged food market size – a trend likely to continue
- In 2020, it expected that packaged food market could grow up to US\$38 billion, while edible oil imports are expected to be around 3.47 million MT
- Cost of production is low from abundant supply of raw materials

Opportunities – Main Export Destination

	Value (US\$), 2017	% of Total Imports from Malaysia
All products	753,018	1
Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal ...	423,995	56.31
Rubber and articles thereof	78,440	10.42
Miscellaneous chemical products	43,772	5.81
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	33,197	4.41
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	173,614	23.06

- Iran is one of Malaysia's trading partner among the Middle East countries (2015)
- Matrade Malaysia encourages trade with Iran. Malaysia Iran Friendship Association (MIFA) provides assistance to newcomers in doing business.

Opportunities – Government Support

FTAs Currently Negotiated

Malaysia is currently **undertaking four FTA negotiations** namely:

1. Regional Comprehensive Economic Partnership (RCEP)
2. Malaysia-Iran Preferential Trade Agreement (MIPTA)
3. Malaysia-European Free Trade Area Economic Partnership Agreement (MEEPA)
4. Malaysia-EU Free Trade Agreement (MEUFTA)

FTAs Signed but Pending Ratification and Entry into Force

1. ASEAN-Hong Kong Free Trade Agreement (AHKFTA) – signed on 12 November 2
2. Trans-Pacific Partnership Agreement (TPPA) – signed on 4 February 2016
3. Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

Last Updated 2018-05-03 12:25:57 by Fauziah Osman



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- Efforts are being made by both governments to facilitate trade growth
- PTA is currently negotiated – hopefully import quota and preferred import duty for palm oil



News ID: 194298 Published: 0637 GMT June 07, 2017

Minister: Iran-Malaysia trade to go beyond \$2b



Head of the Iran-Malaysia Joint Economic Cooperation Commission estimated that bilateral trade will exceed \$2 billion.

Mahmoud Vaezi, who is also Iran's minister of communications and information technology, made the remarks after signing a cooperation deal with Malaysian Minister of International Trade and Industry Mustapa Mohamed at the ministry in Tehran, IRNA reported.

"With the signing of the cooperation deal, trade between Iran and Malaysia, which is currently \$700 million, will triple," Vaezi said.



Economy

10 June 2017 - 10:59



Malaysia opens trade bureau in Tehran



TEHRAN, Jun. 10 (MNA) – Malaysia's industry minister has reported on establishment of a bureau on Tehran for exports of palm oil to Iran.

Malaysian Minister of International Trade and Industry is Mustapa Mohamed made the remarks during the MoU-signing ceremony of the Joint Economic Commission Meeting between Islamic Republic of Iran and Malaysia held in Tehran. The session was also attended by ICT Minister Mahmood Vaezi who represented the Iranian side.

Opportunities – Free Trade Zones



Carrier in Port Bandar Abbas	Base
CSAV	Chile
Evergreen Marine Corp.	Taipei
Islamic Republic of Iran Shipping Lines	Tehran
Libra	Rio de Janeiro
Mediterranean Shipping Company (MSC)	Geneva
MISC Berhad	Kuala Lumpur
Mitsui OSK Line Ltd	Tokyo
Orient Overseas Container Line Ltd	Hong Kong
Pacific International Lines Ltd	Singapore
Yang Ming	Taiwan

- Main port for palm oil with two terminals.
- One of the terminals, Shahid Rajaee, is classified as a special economic area of Free Trade Zone.
- Import and export of goods without paying custom duties and income tax for processing, production, conversion, completion, and etc.
- Ability to export, transit, transshipment, and re-export of goods without any customs formalities
- There are two berths in the Port for import and export of liquid cargoes, particularly oil.

Challenges with Dealing with Iran

- **Payment** is an issue: LCs from Iranian banks are mainly linked with Euro, Rubel and Yuan
- Despite the lift of **palm import quota** (previously at 30% of total vegetable oil imports), it is still being controlled through certain mechanism (30 – 40%)
 - Cheaper oil availability by GTC
 - Price setting in the domestic market
 - Higher import tariff vs other imported oilseeds
- **Misconception by local government (through political influence)** affecting perception by consumers on health related issues – now being capitalize by local companies as USP

Recommendations

- Open an account in banks that does transactions with Iranian connected banks as payment is the first hurdle to doing business with Iran
 - EIH (Germany), Mediobanca (Italy), Kunlun (China), Halk (Turkey) are among banks that does transactions with Iranian banks
- Find reliable companies that has physical presence, that operates in FTZs. These companies will get discounted import duties as low as 21%
- Companies that has other interests in importing oilseeds will also get discounted import duties for palm oil imports and will most likely do
- Malaysia Iran Friendship Association (MIFA) involvement could potentially linked to generate trust between buyers and sellers

Conclusions

- Local oilseeds production has been stagnating for the last 5 years, unless the government comes up with drastic changes in terms of technology and increased subsidies, it will remain that way for years to come
- Iran will continue to import vegetable oils to support its growing needs especially to support the growing food industry underpinned by its young, growing population
- Despite its challenges, palm oil managed to grab 40% of the oils & fats imports in Iran due to its versatility and affordability and the trend will likely to continue.

Conclusions

- Exports of vegetable oil is controlled as for food security – showing how important is edible oil for Iran
- Palm oil has the potential to be imported close to 1 million MT in Iran but potential was stunted due to international and local political interventions
- Palm oil imports is likely to drop this year due to the renewed sanction by US, depreciating Rial
- Despite the challenges, palm oil has thrive in Iranian market – most imported oil




Conclusions

- Financial tool is the most important criteria for dealing with Iranian buyers
- A payment mechanism that minimizes financial costs i.e. interests, deferred payment, insurance costs will make it easier for buyers to pay
- No matter how small, try to make a connection because when things turned to stabilize, more imports will come. Always be on the lookout for recent development for this “Mother of all tensions”

THANK YOU

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