

# **Malaysian Palm Oil Trade Fair & Seminar in Kuala Lumpur (POTS KL 2012)**

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## **Ethiopia's Oils & Fats Overview: Market Challenges and Opportunities**

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**Organized by MPOC**

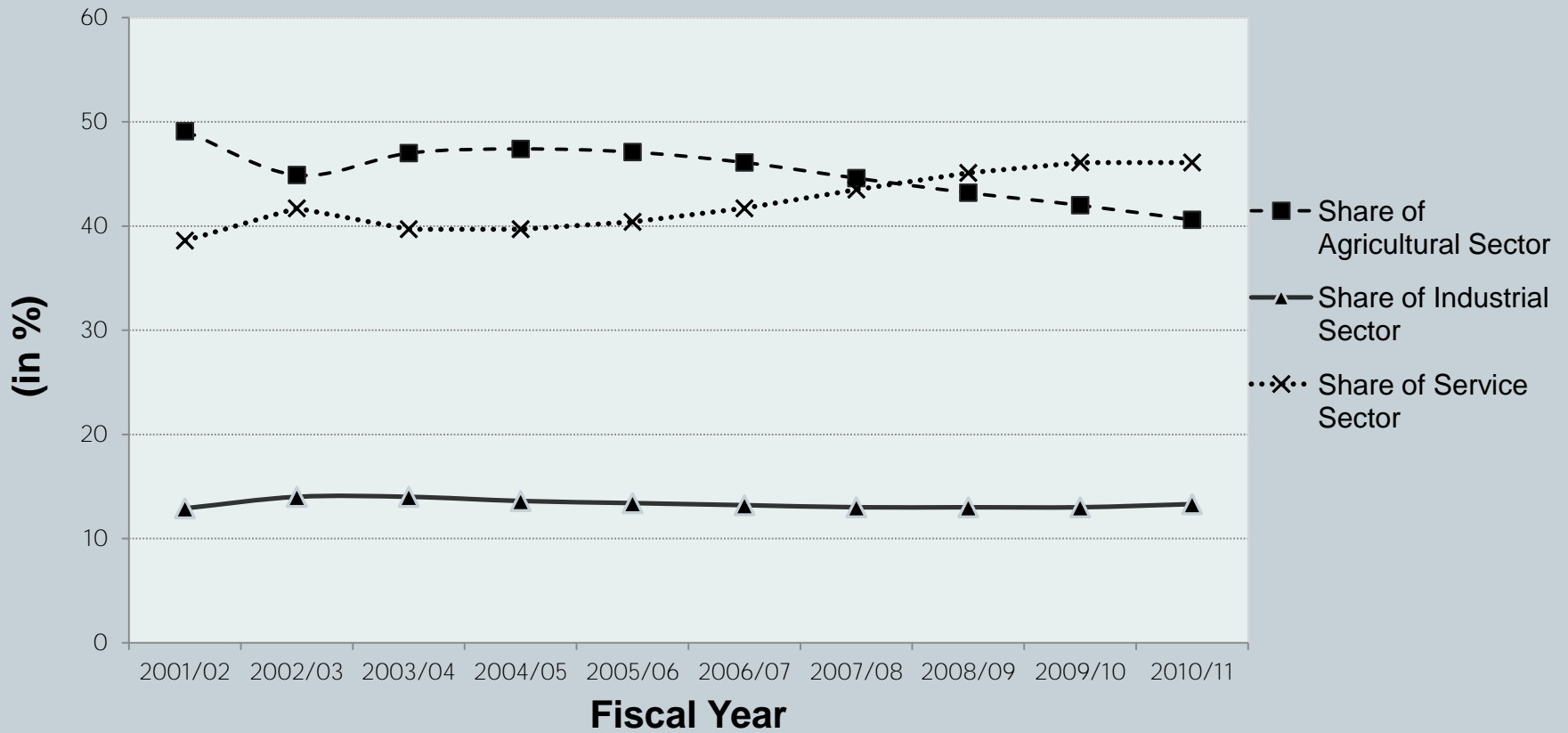
# Outline of the Presentation



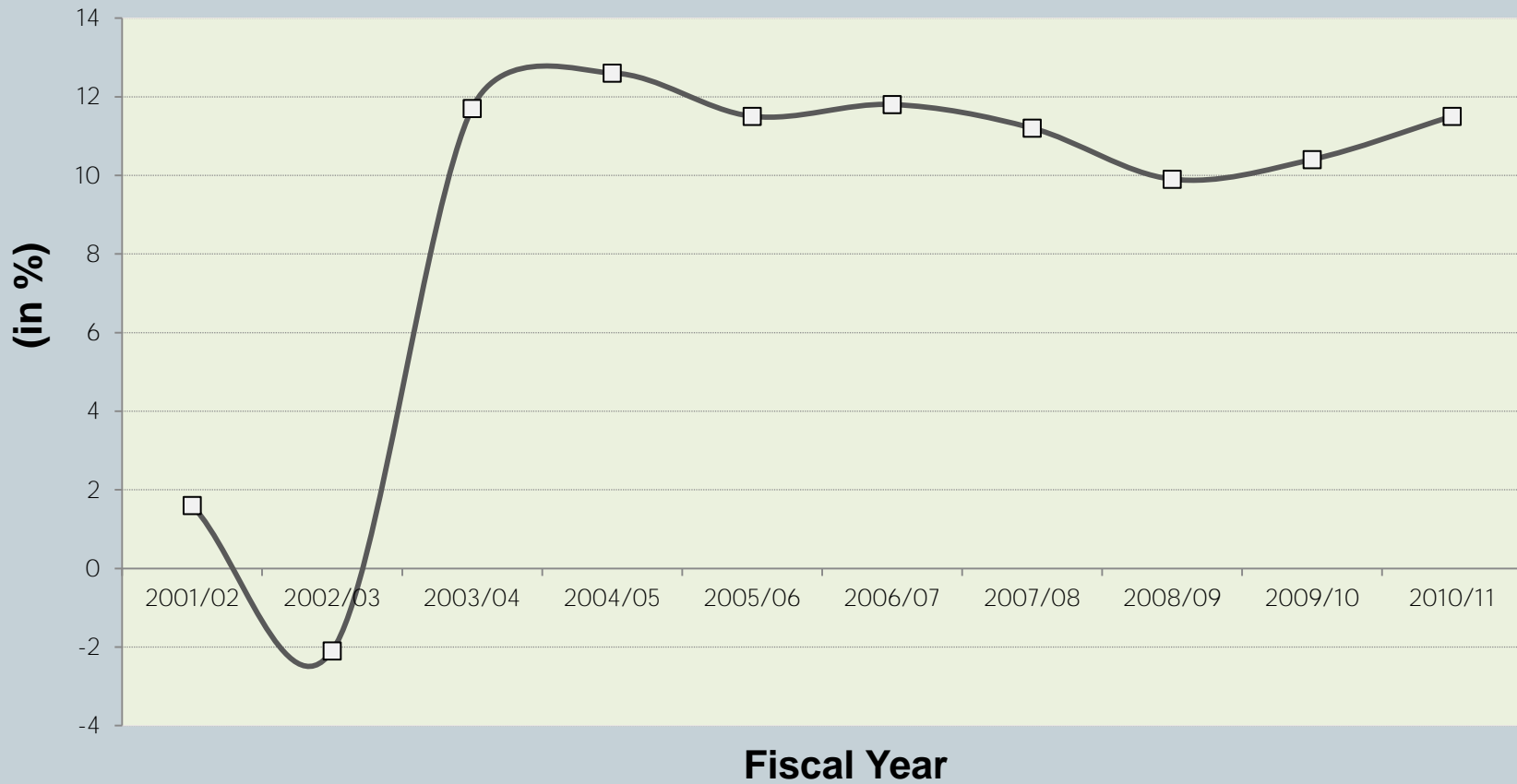
## ❖ Synopsis

- 1. Ethiopia – Country Profile (Macroeconomic Overview)**
- 2. Overview of Oilseed in Ethiopia**
- 3. Overview of Oils and Fats (Supply & Demand)**
- 4. Challenges**
- 5. Opportunities**
- 6. Recommendation**
- 7. Conclusion**

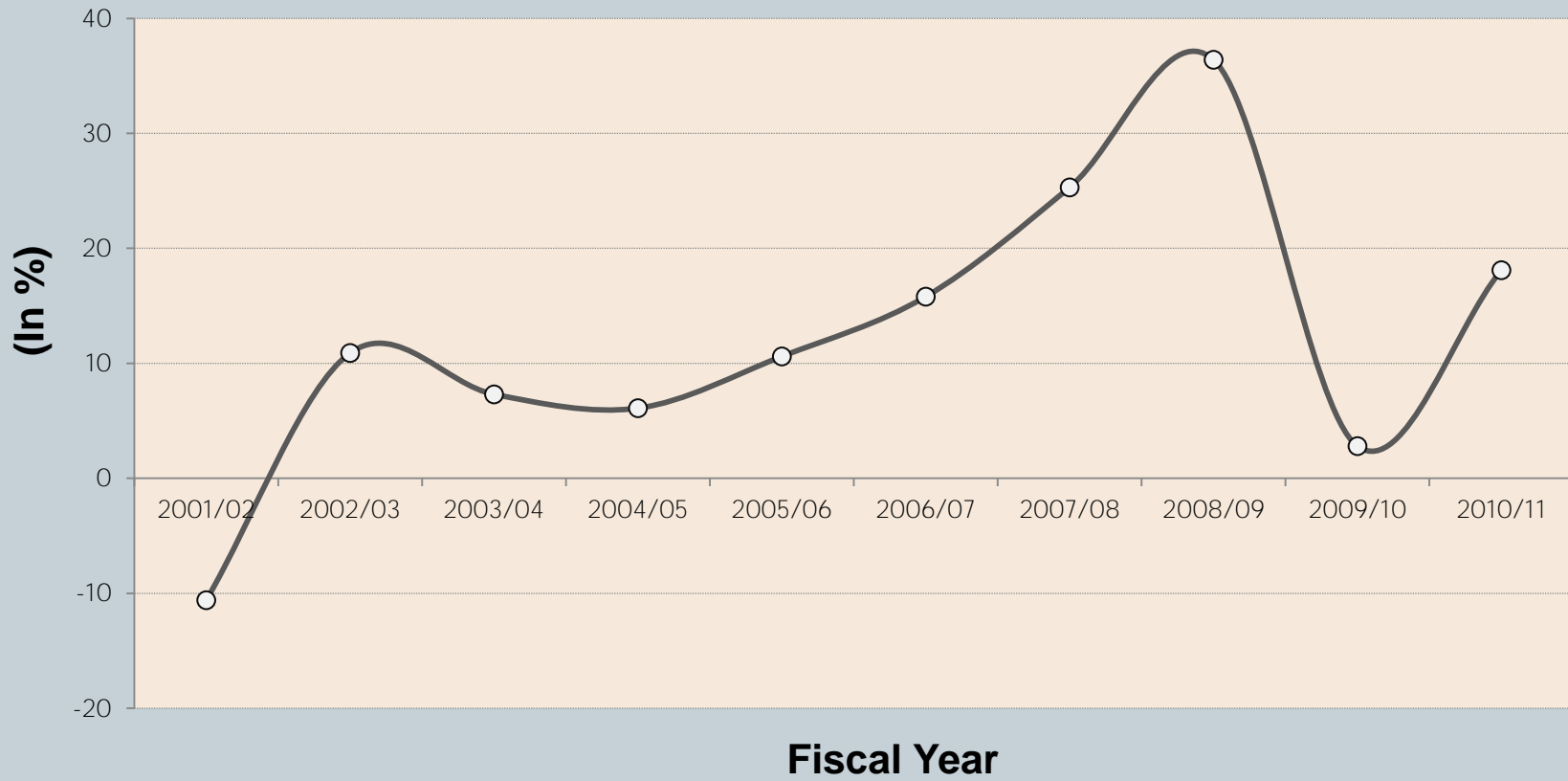
# 1. Macroeconomic Indicator (GDP Share by Sector)



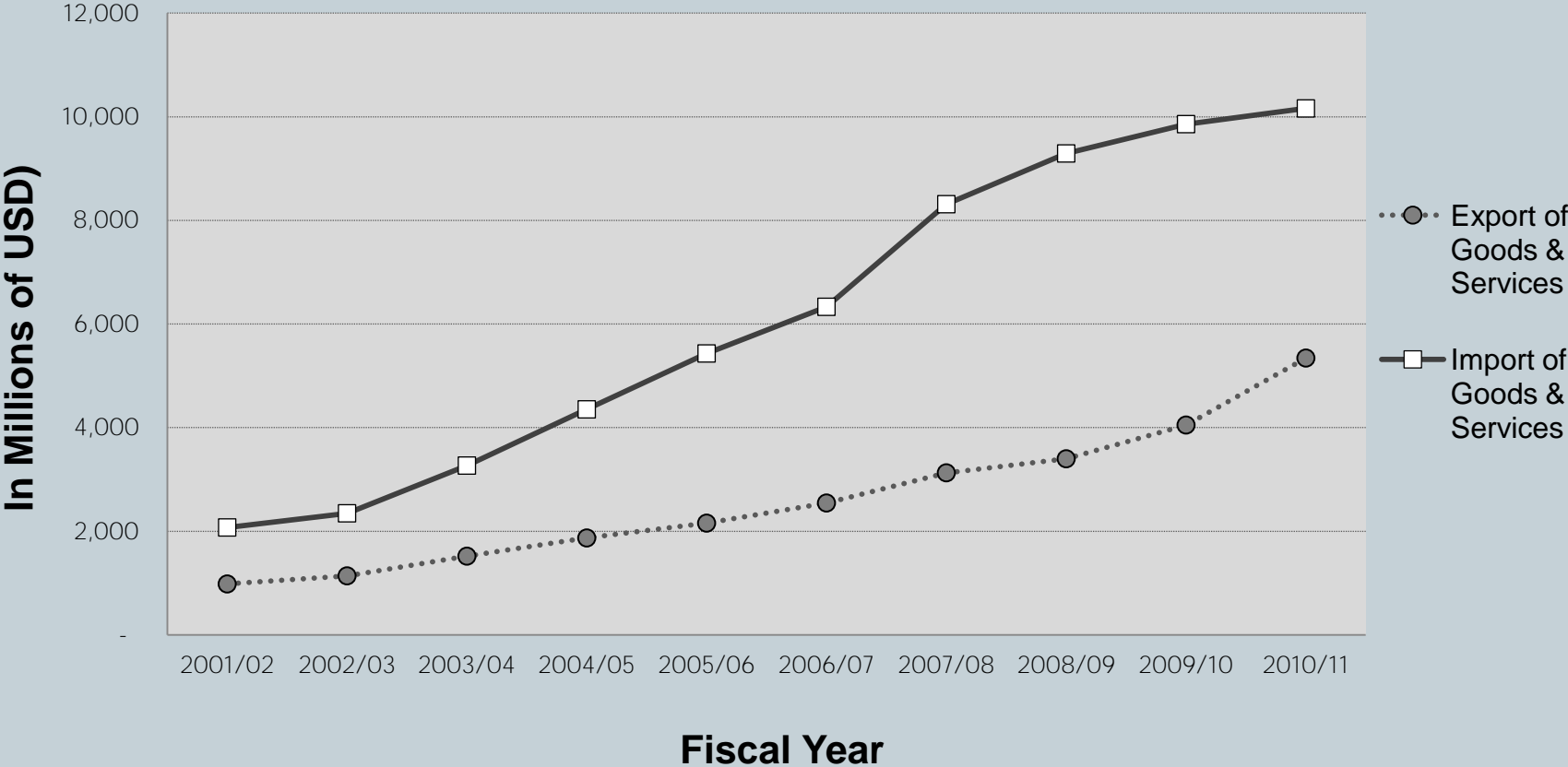
# Macroeconomic Indicator (Real GDP Growth)



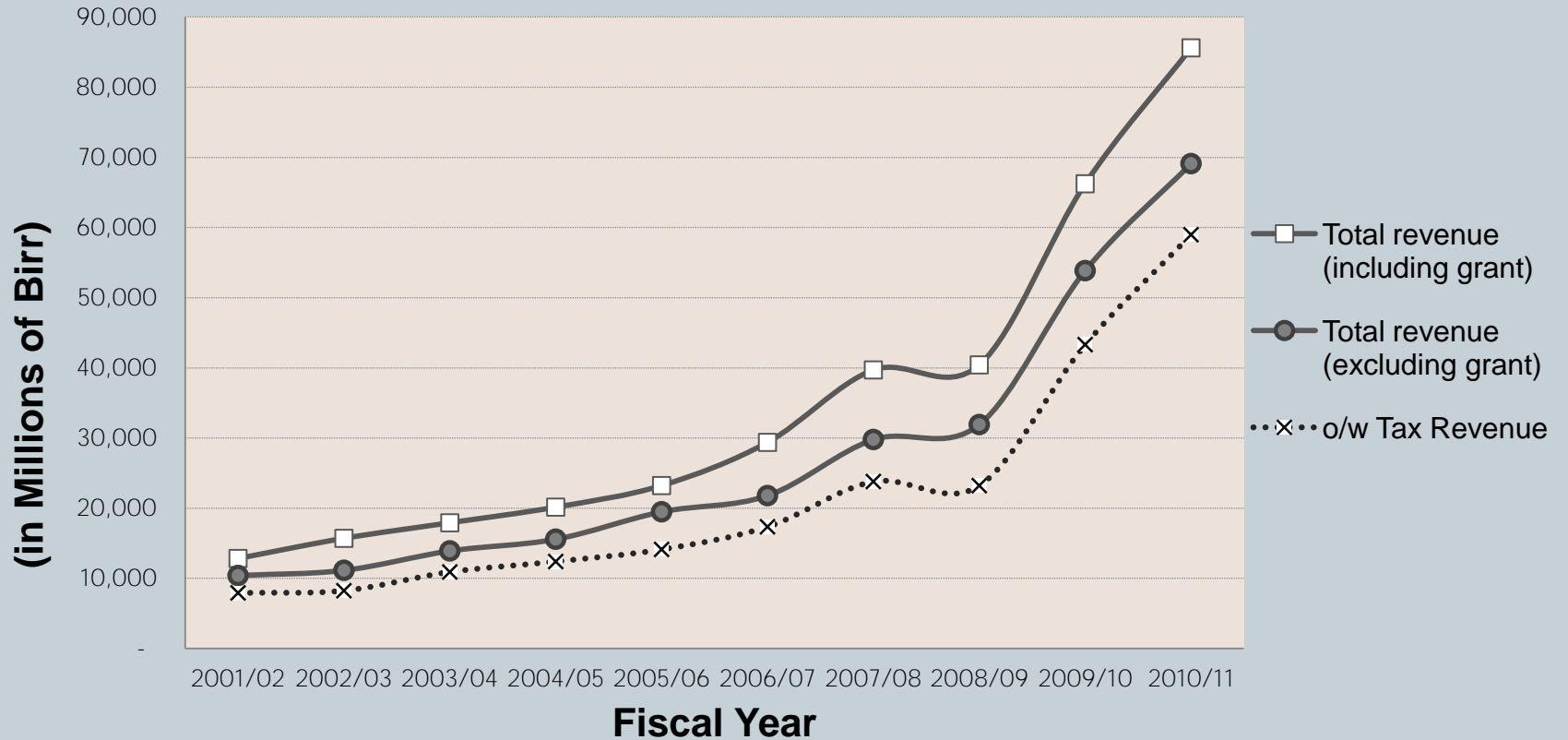
# Macroeconomic indicator (General Inflation (CPI))



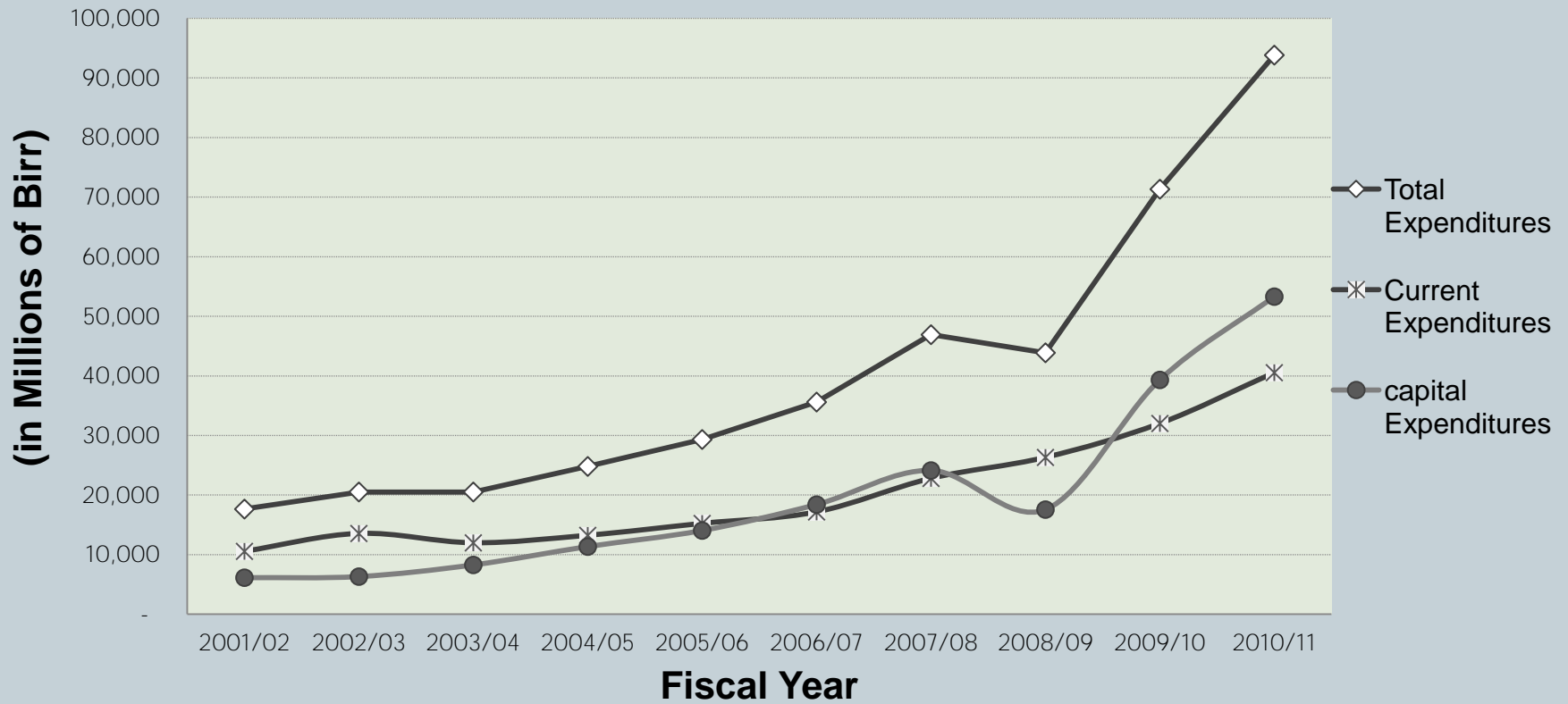
# Macroeconomic Indicator (External Trade of Goods & Services)



# Macroeconomic Indicator (Total Revenue Vs Tax Revenue)

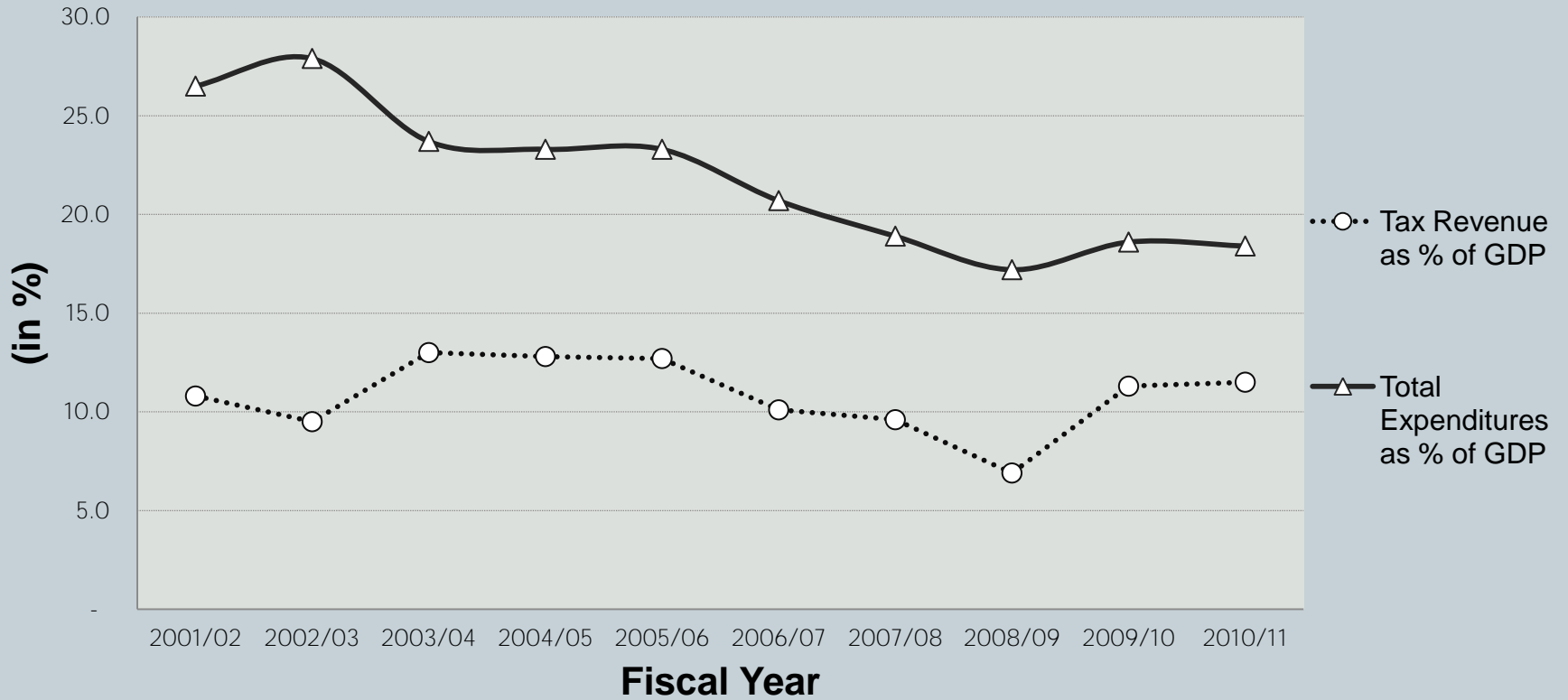


# Macroeconomic Indicator (Government Expenditure)

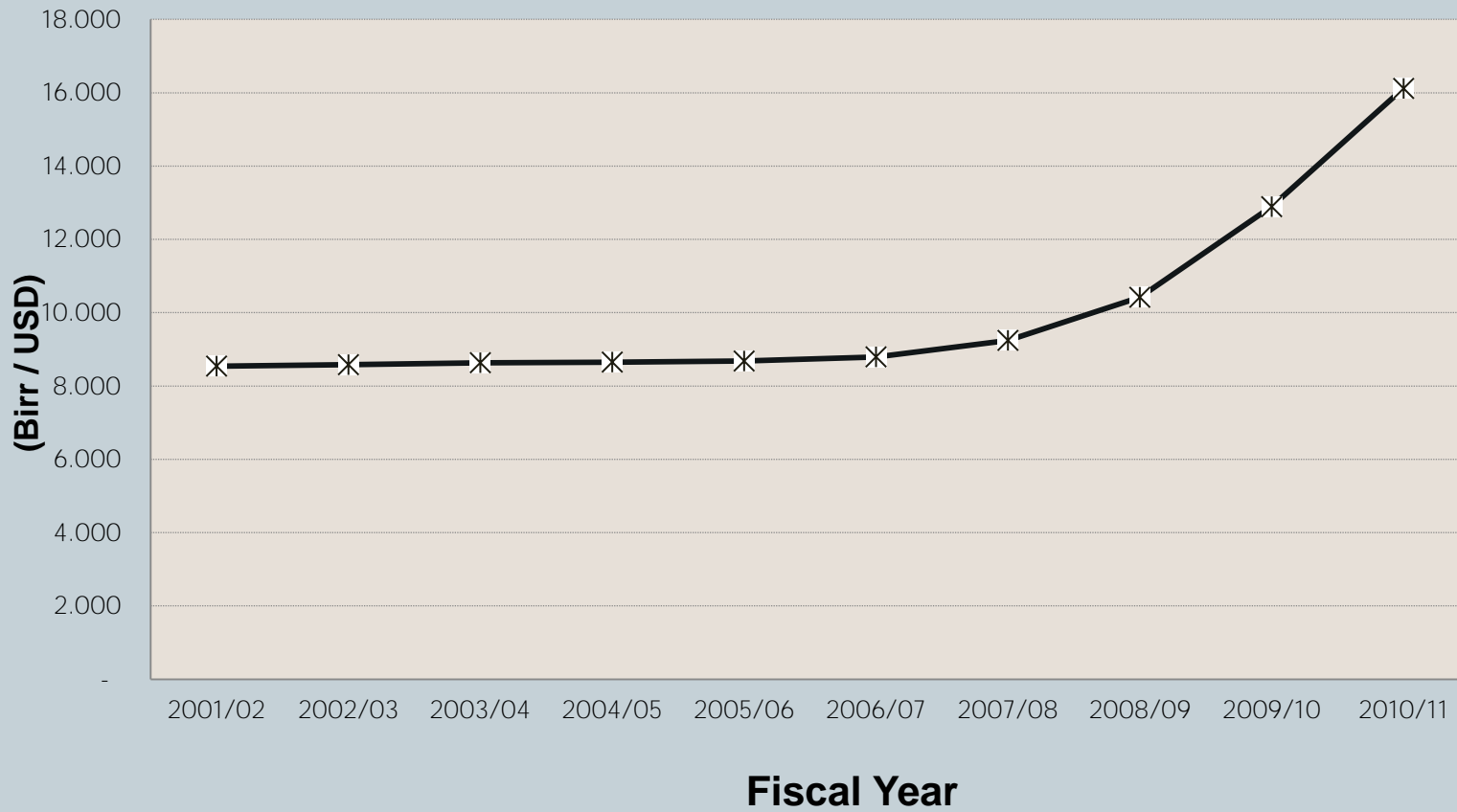




# Macroeconomic Indicator (Tax Revenue & Total Expenditure as % of GDP)



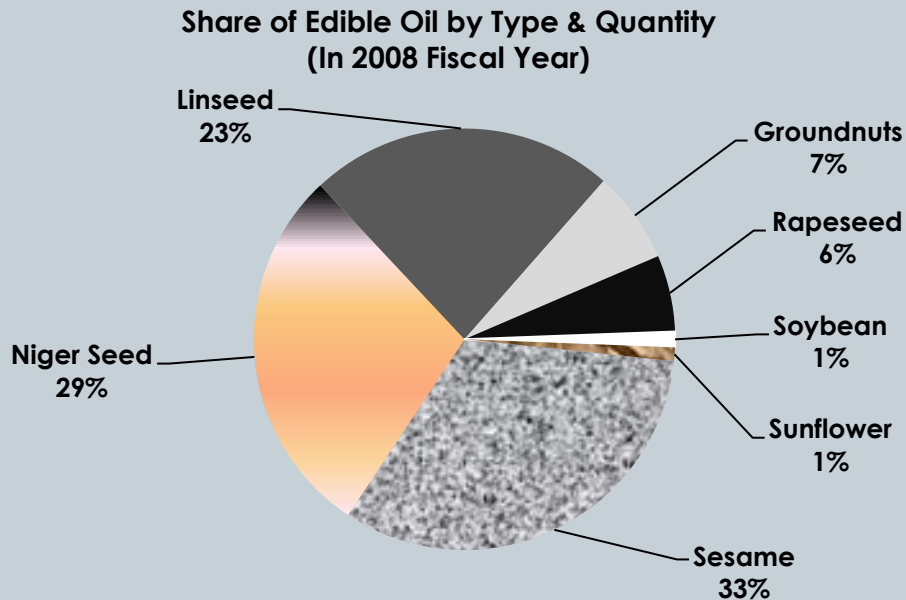
# Inter-bank Forex Market Rate (Period Weighted Average)



## 2. Overview of Oilseed in Ethiopia (Ethiopia in the Global Oilseed Chain)

### a) Ethiopia in the Global oilseed chain

- Key Findings
- Production of Ethiopian Oilseeds
- International Trade in Oilseeds
- Import and Export (Edible Oil vs. Oilseeds)



## 2. Overview of Oilseed in Ethiopia (The Ethiopian Oilseed Chain)



### b) The Ethiopian Oilseed Chain

#### Key Findings:

- **The Value Chain:** The oilseed value chain has many actors at production and collection levels.
- **Breeding and Primary production:** Use of high yielding sowing seeds, other inputs and better agricultural practices can double to quadruple yields per Ha. Crop grown in a rotation scheme has much higher yields and gross margin than mono-cropping.
- **Collection and Trade:** The Ethiopian Commodity Exchange (ECX) may enhance the market efficiency in oilseeds, by increasing transparency, standard setting, market clearing, and payment certainty.
- **Oilseeds Processing, Crushing and Refining:** Oilseeds crushers produce around 10% of the domestic consumption of edible oil: 90% is imported as palm oil, sunflower, and Soybean oil. Underutilization of the capacity for oilseed crushing and refining enables a larger production quantity for substitution of imported oil and for export.
- **Organization of the chain:** There are no well-defined and structured value chain in the procurement and logistical facilities. As it is collected from small farmers with infrastructural proximity problem, the handling cost and logistical constraint is severe.
- **Price Formation:** the cumulative effect of all the above activities culminate on the result of higher price for oilseed which could not compete in the international market and would not be feasible to substitute palm oil which is cheapest in all aspects

### 3. Overview of Oils and Fats Market (Demand, Supply & Consumptions)



#### a) Demand & Supply

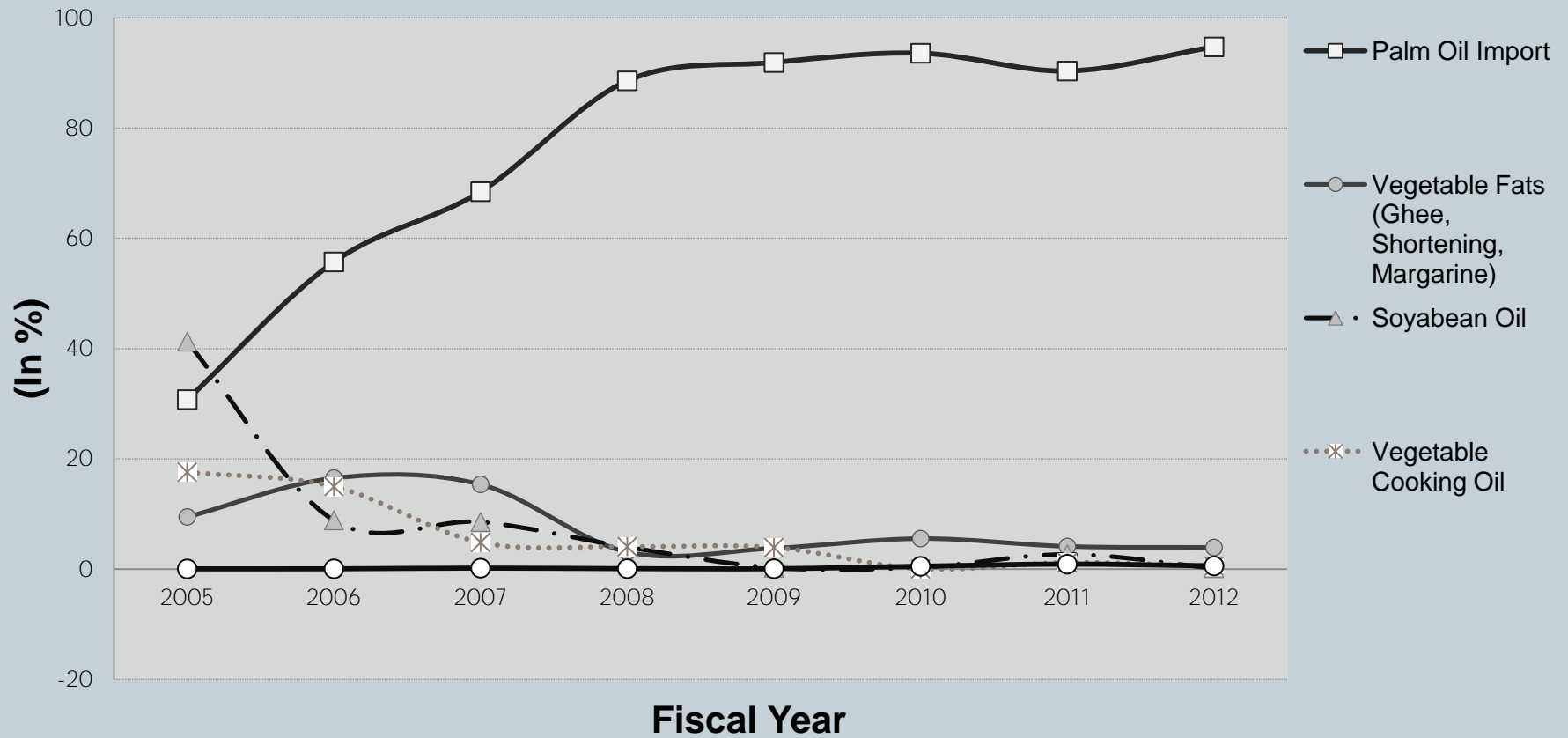
##### Demand/Supply for Fats (Vegetable as well as Animal Fats)

- The total estimated annual demand for edible oils & fats is 360,000 MT out of which the fats part will cover only 8% which is 30,000 MT.
- 33% of Fats is imported which amounts to 10,000MT which is consumed in households and industries (biscuits factories, bakeries, pastries, HoReCa). They are used as shortening, margarine, and butter substitutes.
- The remaining balance is supplied locally through two recently established shortening and margarine processing factories and through traditionally prepared butter from animal fats and processed animal fats from very limited Milk & Dairy processing factories.

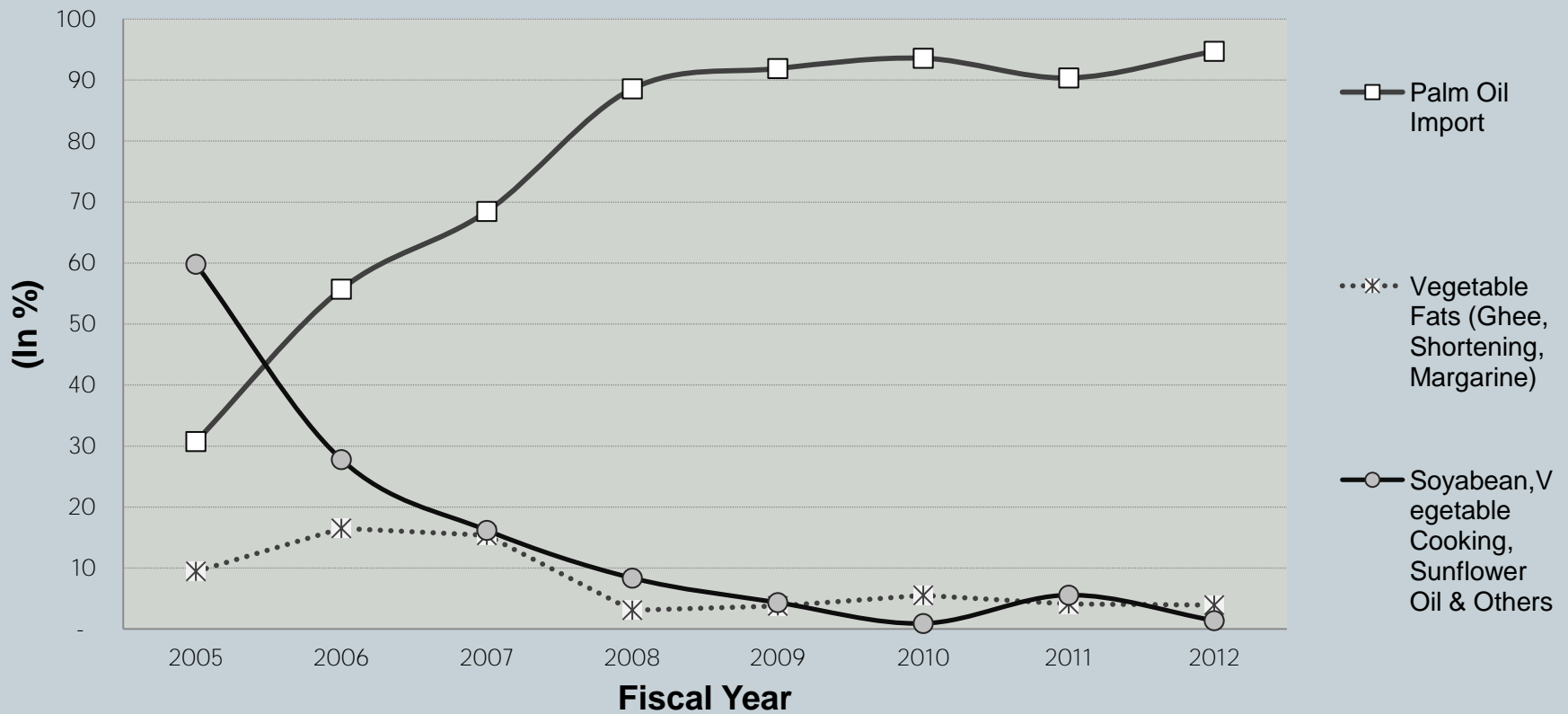
##### Demand/Supply for Edible Oil (Soft as well as Palm Oil)

- The Total estimated annual demand for Edible Oil is 330,000MT; out of which 30,000MT is soft oils consumed and are supplied currently through importation and local production.
- The local production only contributes to 6% (i.e. 20,000MT) of all the consumed edible oil and they are only soft oil extracted, crude, semi-refined and refined from cottonseed, Niger seed, linseed, rapeseed, soybean, groundnut, and sunflower seeds.
- 10,000MT of the soft oils comes through importation and humanitarian aid. It is mainly soybean and sunflower oil.
- The remaining balance (i.e. 300,000MT) for consumption covered by the palm oil coming from Malaysia and Indonesia all in consumer pack of 25, 20, 10, 5, 3, and 1 liters.

# Demand & Supply (Share of Imported Oil by Type & Quantity)



# Demand & Supply (Share of Imported Edible Oil by Type & Quantity)



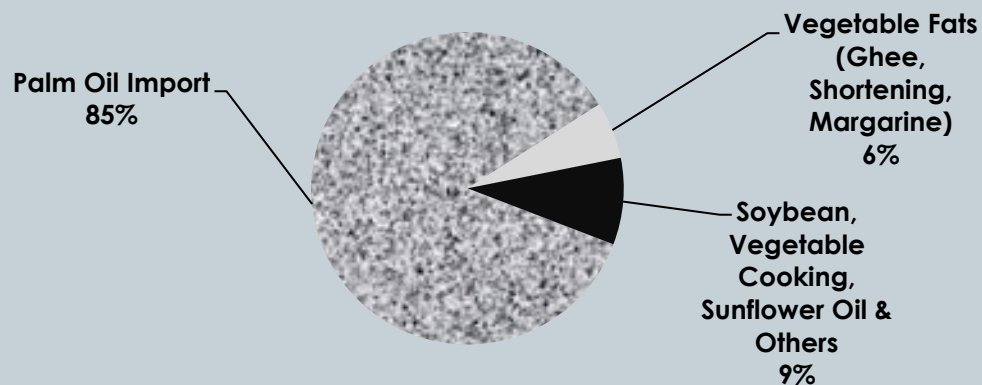
# Demand & Supply (Average share of Imported Edible Oil & Fats by Type & Quantity) (2005 -2012)



## Consumption

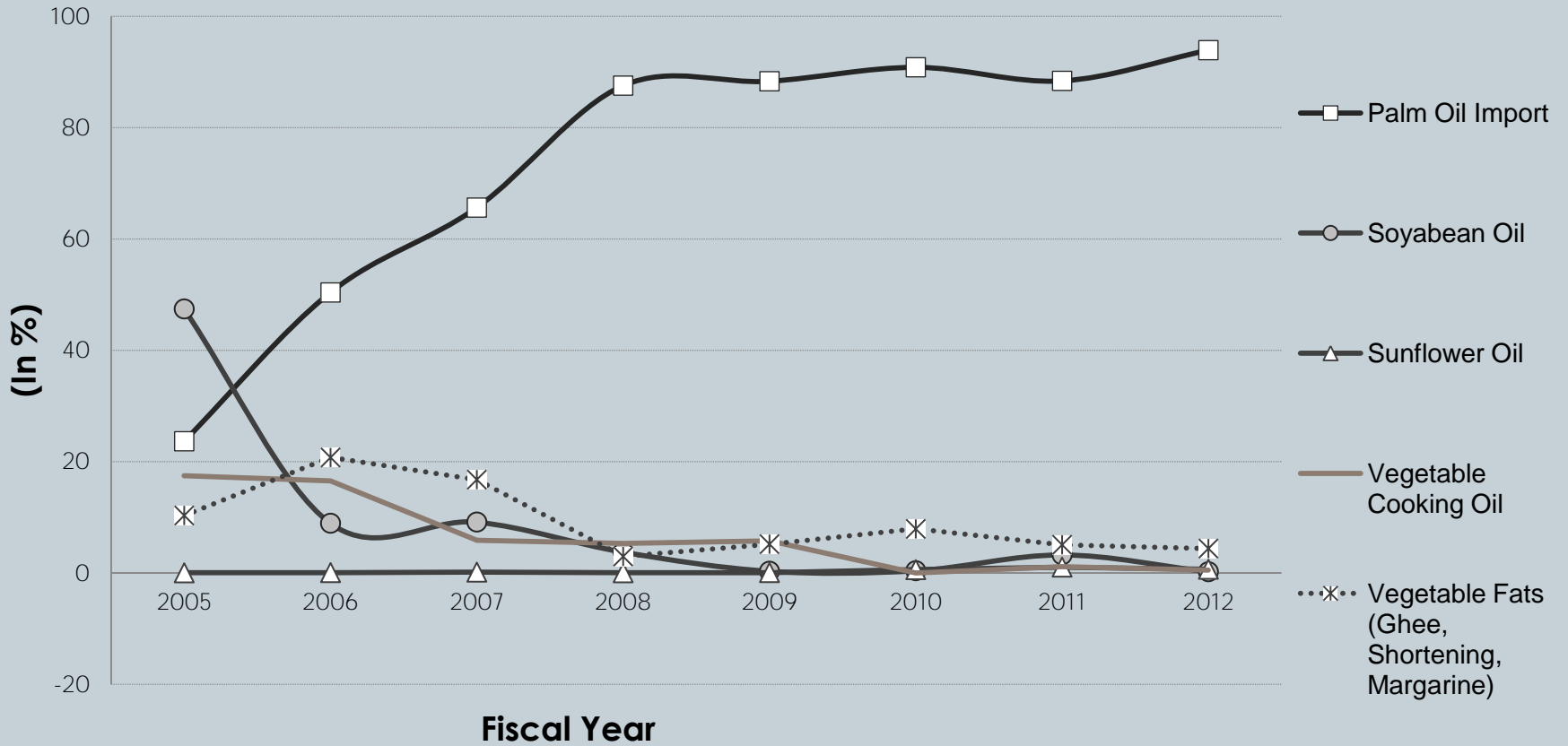
- The household consumption takes the major share followed by HoReCa
- The industrial and institutional consumption would take the third place.
- The estimated per capita consumption of edible oil is 4.0KG per annum
- The overall growth for the demand for the edible oil and dependency on the importation is irreversible in the short-run.
- Palm Oil will be the leading consumed edible oil in Ethiopia and in the sub-region for the coming five years, despite the fact that there are substitution efforts by the Ethiopian side to replace by locally produced soft oil (Soybean, Cottonseed, Sunflower, safflower, Rapeseed, Groundnut oils)

Average Share of Imported Edible Oil by Type & Quantity  
(2005-2012)

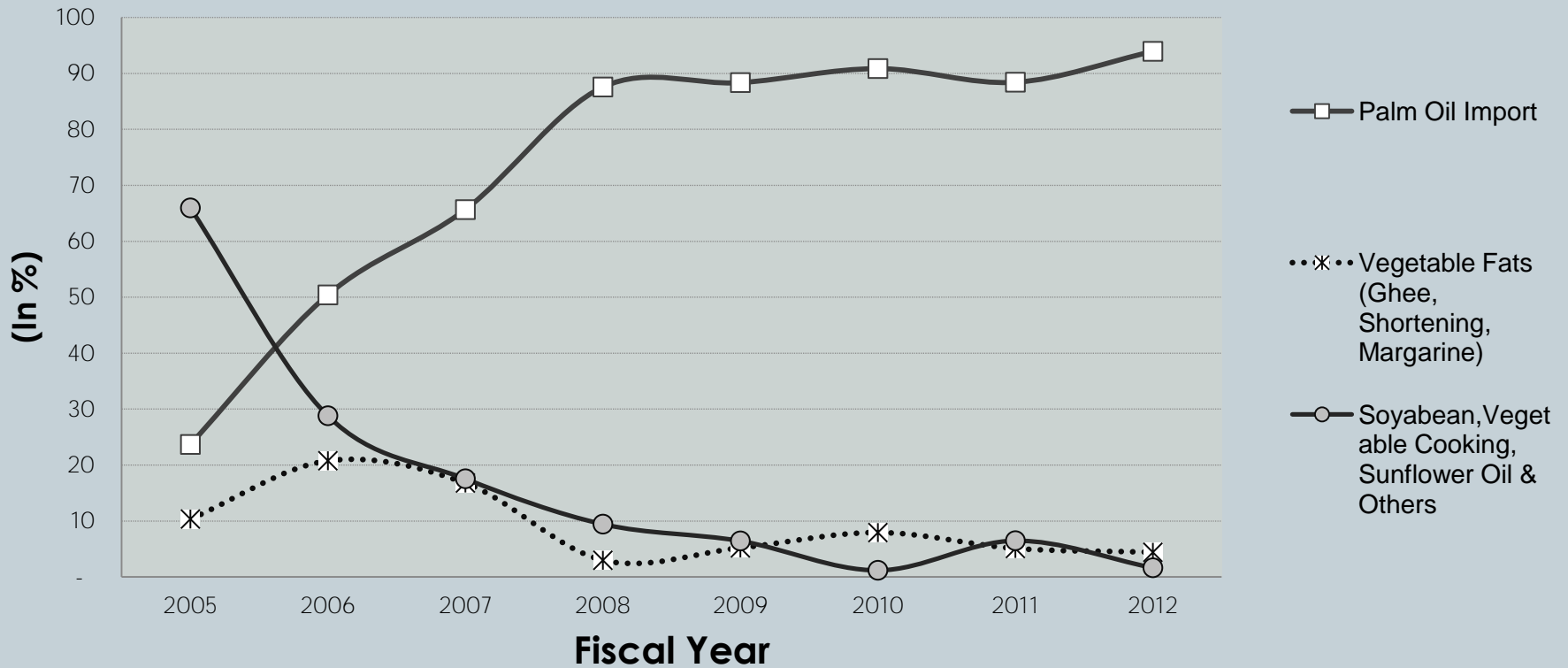




# Demand & Supply (Share of Edible Oil by Type & Value)



# Demand & Supply (Share of Imported Edible Oils & Fats by Type & Value)



# Demand & Supply (Average Share for the Period 2005 – 2012)

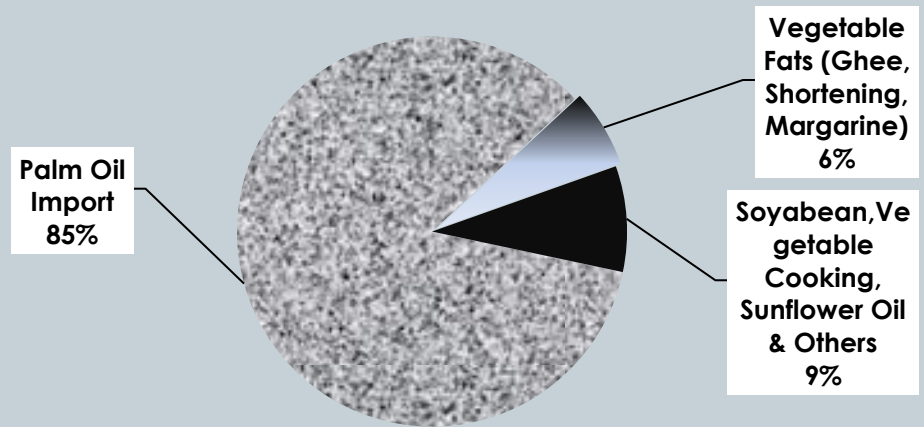


**Table 11. Share of Imported Edible Oil by Type & Value**

No.	Products	Average Share (2005 - 2012)
1	Palm Oil	84.7
2	Vegetable Fats (Ghee, Shortening, Margarine)	6.5
3	Soyabean, Vegetable Cooking, Sunflower Oil & Others	8.8
4	Total	100.0

Source: Ethiopian Revenues & Customs Authority

**Share of Imported Edible Oil by Type & Value**



# 3. Overview of Oils and Fats Market (Downstream Activities)



## Competition

- Currently, the market for edible oil is shared by very few importers and distributors who are dealing with only soft oil mainly Soybean oil and sunflower oil on the one hand and the Government owned enterprise on the other which is dealing mainly with Palm Oil on the other hand dominating all in all the edible oil market in the Country.
- Over the past one and half years the competition on the edible oil is almost absent as it moved to one importer and distributor. The Competition of the soft oil is almost negligible as the quantity has been diminishing from time to time as the prices of the products have been soaring from time to time coupled with the existing inflation.

## Suppliers and Importers

- The main Suppliers of edible oil, of course palm oil which takes the major share, are all coming from Malaysia, Singapore and Indonesia. They are now limited to four companies who are dealing with the government owned enterprise. The total volume that will be made available during April 2012 – March 2013 by these companies amounted to 300,000MT of Palm Oil (olein).
- There are many others suppliers for soft oil and vegetable ghee, shortening and margarine as there are many brands in the market, however, the aggregate volume of the two category combined would not exceed 20,000MT.

## Channel of Distribution

- Products are sold through own channel, sub-distributors and wholesalers located in Addis Ababa and up-country town. Almost all the importers and distributors uses similar go-to-market channel of distribution which is not very well defined and developed. There are no data or information as to how many outlets are available in Ethiopia; however, estimated number throughout the country could reach 120,000 in aggregate.
- MEWIT uses Consumer cooperative and other similar institutions to distribute the palm oil, sugar and wheat in addition to the traditionally available channel of distribution.
- Palm oil in consumer packs of 25, 20, 10, 5 and 3 Liters are distributed throughout Ethiopia at the subsidized and fixed prices. The only price difference visible between different regions of the country would come because of the transportation cost that would be added on the prices they are getting from the importer of the product.
- Similarly soft oil and fats are also made available by their importers and producers to the market using similar channel and the competition with palm oil is almost impossible given the price advantage the consumers are getting.

## Future Supply Plan

- It seems that the government intervention on the importation and price stabilization would continue until mid 2013 as the said suppliers already committed to supply MEWIT until April 2013. However, though it is difficult to definitely say when, it would come out once things set in order. It would happen possibly in the near future.

# 4. Challenges



## Challenges

- Most oilseed crops such as Soybean, sunflower, linseed, cottonseed and rapeseed grown in Ethiopia are also grown in other countries in more economically efficient and large volumes. For these commodities, it will be difficult for Ethiopia to compete on the world market due to relatively low volume, high handling and transport costs, and low efficiency and productivity of small holding farmers.
- The main challenges for the oil-crushing and refining sector in Ethiopia are to ensure adequate and steady supply of oil seeds and to compete with world market prices. Local production of oilseeds like Niger Seed (Noug), linseed, groundnut seed and rapeseed and locally crushing and refining them exceeds world market prices.
- A great concern for Ethiopian Millers lies in the Government's discriminatory Taxation treatment of different oils privileging Palm oil with tax exemption of all kinds that put the local miller into disadvantage to compete in the market. The total taxation and duties imposed on the imported soft oil such as Soybean, sunflower, olive oil, corn oil, etc will accumulate to 55%.
- Palm oil being the cheapest of all edible oil available for consumption to the vast majority of consumers, it would continue to dominate the supply and the market even in the presence of the said taxes. It has the lowest per unit value that justifies for its dominance.
- Even though the low income masses and lower and upper middle income group consume palm oil, most of these consumers lack awareness about the usefulness of palm oil. It is considered as high Cholesterol product for being solidifies at room temperature especially in highlands. It is mostly associated with health problem.

# 5. Opportunities



## Opportunities

- The upside potential for edible in Ethiopia over the next 5 years will be 500,000MT which could be valued at an average price of FOB \$1400.00 per MT amounts to \$700 million. It is apparent that due to growth in the economy over the last 9 consecutive years there could be growth in demand for consumer products, and other industrial inputs which of course could open windows of opportunities for further exploitation.
- Hence, addressing this sector growth opportunities should be the main priority for each and every stakeholder in the Country. In particular the government should tune its strategies in addressing the growth in demands of such products that could not be left unmet in the years to come.
- There would be a gap in supply for the coming five (5) to ten (10) years until some of the already started oil palm plantation combined with other oilseed plantation and processing comes to fruition. This is an opportunity for those producers and supplier to make their presence felt in the Ethiopian Edible Oil Market. However, those who are supplying need to make smart move as well to consider strategic business decision whereby they would involve in sort of investment jointly with local as well as with government, government holding minor shares. Partnering with the Government would have such incentives and advantages as; Government has a capacity that could mobilize a very huge capital; Easy Access to farming land; Facilitation of infrastructure development; and Workforce availability very cheap compared to any other country
- There are agri-business companies from Asia that are involved in oilseed plantation including oil palm. The total land so far made available for the agri-business is 3,000,000 Ha, out of which the allotted land for oil palm plantation by the developer would not exceed 10,000 Ha; It would require them at least 4 years to develop and to cover by the oil palm plantation; As the demand for the cheap oil would grow in the mean time, the locally processed palm oil would not cover more than 20% of the Aggregate Demand for edible oil.

# 6. Recommendation



## Recommendation

- **As the demand for edible oil is growing from time to time whereby the local capacity could not meet the growing demand in the short-run, the plantation houses as well as refiners need to give a considerable attention to engage not only in trading activities but also try to maintain trading itself through arranging or preparing themselves to involve in up-stream and mid-stream activities that would give them a competitive advantage in terms of supplying the whole sub-region which constitutes Ethiopia, Somalia, Kenya, Eritrea, Djibouti, Republic of Southern Sudan, and the Sudan Republic with an estimated population size of 180 Million and associated potential demand of possibly of 1.26 million MT per annum which would possibly grow within the coming 5 years at the rate of 10% per annum to 2.0 million MT.**
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- **Ethiopia's climatic condition and soil is suitable to involve in extensive oilseeds plantation including oil palm plantation in some areas whereby adequate water is available. Establishment of refineries for soft oil in strategically selected location is possible. This of course needs a thorough study. The potential investor needs to visit to get the first hand information to engage in the investment activities.**
- **Having examined the overall market situation and opportunities in Ethiopia, investors in collaboration with the local partner and/or government if need be, have to come up with a new strategy that will produce a solution and serve both the short-term (supplying) and long-term (Producing locally) objectives. The strategy setting would take into consideration the unfulfilled market demand and the incentive provision from the Government side to encourage foreign suppliers to involve in investment activities in partnership with their local companies and/or with the Government.**

# 7. Conclusion



## Conclusion

- Ethiopian being located in one of geopolitically and economically strategic region and yet the seat of Africa Union and yet having a prestigious place in regional politics and having a very good and conducive investment policies and environment and most of all humble and friendly people, it is worth considering coming to Ethiopia which would definitely benefit investors.
- Ethiopia has been registering a very dramatic economic growth at an average rate of 10% for the last 9 consecutive years which has put her as one of the fastest growing non-oil producing economies in Africa.