IMPORTS of oils and fats by China peaked, but weakened towards the later part of 2010. Between October and December 2010, China imported 2,304,580 metric tonnes (MT) of vegetable oil, which was a decline of 36,111 MT or 1.54% as compared with same period in 2009.

The decline was largely for soybean oil and palm oil, especially a decrease in soybean oil imports by 27.01% or 172,927 MT. In general, there are always huge purchase and sales deals for edible oils at the end of year, due to several traditional festivals in the ensuing months that stimulate higher consumption.

To fill the shortfall created by the lower amounts of oils and fats imported, China bought more soybeans for crushing. Soybean imports touched 14,635,154 MT for the October-December 2010 period, growing by 4,447,679 MT or 43.66%, compared with the same period in 2009. The United States was the largest source, with 9,223,980 MT of soybean.

Beginning this year, vegetable oil imports by China dropped significantly. According to the latest statistics released by China’s customs, vegetable oil imports were 685,000 MT and 495,000 MT in January and February 2011 respectively, a pronounced decrease when compared with 729,000 MT and 940,000 MT in November and December 2010. It is believed that imports in March will continue to decline.

It is predicted that China is set to continue buying more soybean from the Latin American region in 2011. This could possibly be led by the 12 million tonnes increase in China’s crushing capacity this year.

**Palm Oil Market**

Domestic palm oil stocks in mainland ports have been maintained at the level of around 300,000 MT. Tianjin, Guangzhou and Zhangjiagang still play important roles in palm oil imports. According to the latest customs data, palm oil imports totalled 748,512 MT in January-February 2011, down 20% compared with the same period in 2010. Malaysia was the source for 454,454 MT, while Indonesia exported 293,564 tonnes.

In general, palm oil imports will increase moderately in the coming months with increasing demand, favourable weather, attractive prices and sufficient supplies from Southeast Asia, even though the situation of import cost being higher than the
The soaring prices of edible oils have led most oil manufacturers to reduce the purchase of raw materials, while some small- and medium-scale manufacturers have had to stop operations altogether. In terms of prices of the major oils, the spot prices of soybean oil, rapeseed oil and palm oil exceeded the level of 10,000 RMB a tonne in January 2011 and hit 11,000 RMB a metric tonne the following month. This led to government intervention in domestic supply in a move to control edible oil prices.

Firstly, oil manufacturers were not allowed to increase prices of edible oils and at the same time, had to ensure sufficient supply for the festive season. This measure caused some difficulties for most domestic industrial players. Secondly, in an effort to ease market price fluctuations, the relevant government agency has since last November been regularly auctioning off oils and meals held in the national reserve. In fact, this practice, coming at a special preferential price, only benefited state-owned and big players. This measure will continue with the existing high inflationary pressure on food prices.

Another factor is that Chinese farmers are unwilling to plant oilseeds with low returns, especially rapeseed. They are inclined to cultivate cotton and corn, which provide higher profit margins. Some consulting companies have estimated a decrease of 11% in China’s soybean planting area this year. During the National People Congress (NPC) and Chinese People's Political Consultative Conference (CPPCC) 2011, the Beijing government set a goal for the state to support the planting of oilseeds, such as soybean, groundnut and rapeseed, in order to maintain a self-sufficiency rate of 40%.

It has been speculated that China’s Ministry of Commerce will adjust soybean and soybean oil import duties from 3% to 1% and from 9% to 5% respectively. In the early part of this year, speculation was also rife that the import tax revision will only apply to soybean oil and that there will be no change in the palm oil import duty.

Subsequently, the Ministry of Finance responded that there was no plan to reduce import duties on soybean and soybean oil in the short term. The Chinese government had considered reducing vegetable oil import taxes with the objective of bringing down domestic prices. Any lowering of the import tax on soybean or soybean oil will have a negative impact on palm oil imports, since most Chinese buyers will opt to import soybean oil or soybean for crushing.


Business Opportunities

The continuing high movement of vegetable oil prices and unsteady supplies have also caused oil manufacturers to change their long-term strategic business plans. Oil manufacturers are being encouraged to expand overseas businesses, including investments in oilseed plantations. For instance, the Julong Group has purchased 100,000ha of land in Kalimantan (Indonesian Borneo) for oil palm planting. At present, its palm oil output provides 20,000 to 30,000 MT a year and in the longer term, Julong plans to invest US$2 billion to buy another 200,000ha of palm oil plantations in the Southeast Asian region.

Another domestic agricultural products manufacturer, the Beidahuang Group, also intends to expand its overseas business by investing in oil palm plantations. Guanfeng Seed Company has established a 50,000ha oil palm plantation in Brazil, which is projected to generate 280,000 MT of palm oil annually. These players are paying close attention to the upstream industry – and this is expected to generate some opportunities for cooperation between Chinese and Malaysian companies in the development of oil palm and the palm oil industry.

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