

# Free Trade Agreement – The Way Forward for the Malaysian Palm Oil Industry

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## ABSTRACT

*Free Trade Agreements (FTA) have gained prominence in recent years arising from the long delayed conclusion of the World Trade Organisation (WTO) Agriculture and Non-agriculture Negotiations (NAMA). However, member countries of the WTO are keen on fostering greater trade liberalisation with their major trading partners, either bilaterally or regionally to enhance greater market access opportunities. In this context, although Malaysia is a late starter to FTA, it has picked up rather aggressively of late. Malaysia thus far has been involved in the successful completion of five bilateral and regional FTA respectively, both of which have proven to a large extent increased trade dealings and the removal or reductions of trade impediments, especially high tariffs, coupled with increased market access opportunities through flexible rules of origin (ROO). This article will attempt to provide the importance of FTA, features of FTA and the involvement of Malaysia in FTA, both concluded and currently under negotiations.*

## FREE TRADE AGREEMENT

Free Trade Agreement (FTA) is an agreement made between two or more countries under which countries involved agree to eliminate tariff and non-tariff barriers affecting trade among them, while each participating country applies its own independent schedule of tariffs to imports from countries that are not party to the agreement. FTA could be bilateral or regional in nature. Each country will continue its normal trade policies with other countries outside the FTA arrangement. Many governments, have either signed FTA, or are negotiating or contemplating new bilateral free trade and investment agreements.

FTA are generally aimed at providing the means to achieve quicker and higher levels of liberalisation that would create better market access between the participants of the FTA. Apart from liberalisation and market opening measures, the trade agreements are comprehensive and include investment, trade facilitation, sanitary and phytosanitary measures, technical barriers to trade, intellectual property rights as well as economic co-operation in areas, such as science and technology, research and development, information & communication technology and other areas.

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## WHY FREE TRADE AGREEMENT?

As a result of the establishment of the General Agreement on Tariffs and Trade (GATT) after World War II, the multilateral approach was the preferred method of trade liberalisation. The World Trade Organisation (WTO) was brought into existence after GATT to fix the anomaly resulting from special treatment allowed under GATT for its member nations to subsidise the agriculture sector and exports, and limit market access. This practice ultimately resulted in decreased commodity food prices, distortions in global agriculture trade and frustrations from non-subsidised agriculture exporting nations. One of the noble objectives of the WTO was to eradicate this trade distortion and improve food prices thereby, improving the welfare of farmers. The Uruguay Round of trade talks from 1986-1994 touched upon issues ranging from agriculture, international property rights and technical barriers to trade. Since the Agreement on Agriculture was just an interim agreement while the final goal was for full liberalisation, it was agreed that the negotiations would resume in 1999.

The Doha Development Round, which was launched in 2001 and followed by subsequent rounds of negotiations, had reached deadlock in negotiations. The discussions were halted in July 2006, revived in June 2007 in Germany, after which discussions were halted again. One of the thorniest issues dividing the developed and developing countries was the issue of agriculture subsidies, even though agriculture makes up less than 8% of world trade. As a result of globalisation, there is the possibility of buying and selling goods and services anywhere in the world. If this is left to market forces

alone, it can create distortions in development patterns and will be vulnerable to foul play by the few, *i.e.* produce the agricultural products destined for exports below the actual cost of production.

In order to harness the true benefit of globalisation there was need for an organisation that represents all societies and ensures that both developed and developing countries benefit equally in the era of globalisation. Hence, the WTO was formed on the basis of a fair multilateral trading system. The WTO is the only global international organisation dealing with the rules-based trade between nations. At its heart is the WTO agreement, to be negotiated and signed by the bulk of the world's trading nations and to be ratified in their parliaments. The goal is to help producers of goods and services, and how exporters and importers conduct their businesses. While no one denies the benefits to be derived from such a multilateral trade agreement, in reality it has been difficult for the developed and developing countries to agree on the end result. A direct consequence of the slowdown in the Doha Round was the resurgence of bilateral and regional FTA.

There are many reasons the momentum of FTA has picked up in recent years. One reason is that they can be negotiated quickly, since only a limited number of countries are involved. Apart from this, it can enter other areas of interest such as investment, trade competition, intellectual property rights, standards, environment provisions and can be selective on the FTA partners. Furthermore, it is more flexible, whereby negotiations can be concluded on important areas of interest first (*e.g.* the agreement on trade in goods) before going into other difficult areas. In addition, a developing country negotiating such an agreement with a developed

country can also expect non-trade preferential benefits such as, development assistance and freer market access, thus gaining a point over other competing WTO members. In comparison with the US and Europe, Asia was a latecomer in pursuing FTA as an instrument for trade policy. ASEAN Free Trade Area (AFTA) was the only significant regional trade pact in existence before 1998. Since then, there has been a proliferation of FTA.

According to the Asian Development Bank, the rapid rise in the number of FTA initiatives in Asia is driven by a number of factors including:

- (i) a defensive response to the proliferation of trading blocs and FTA in other major regions;
- (ii) uncertainty over progress in global trade talks under the WTO framework;
- (iii) the need to improve productivity in the face of heightened competitive pressure from the economic emergence of China, PR and India, in particular with respect to economies of scale through market integration;
- (iv) the perceived need for deeper integration with trading partners, due in part to the demonstrated effect of successful regional integration accords elsewhere; and
- (v) the promotion of 'beyond the border' structural reforms as part of the competitiveness strategy (*e.g.*, investment liberalization, promotion of domestic competition, harmonisation of standards, and the upgrading of technology development).

The recent increase in FTA has also been driven by the richest and largest economies in the region, such as China, PR; Japan, Republic of Korea and Singapore, suggesting a link between FTA growth and economic prosperity. FTA are here to stay and have been given their due importance by being included in the Doha Development Agenda. However, due to the time and attention diverted to the pursuit of regional trade agreements, the commitment to conclude a successful global trade agreement faces a setback. The WTO supports the existence of such FTA as long as they are transparent and help deepen trade and economic liberalisation without raising trade barriers for non-members or creating trade diversion resulting in imports from an inefficient supply base.

#### FEATURES OF FREE TRADE AGREEMENT

FTA implies the following features, as listed below:

- trade of goods without or lower taxes (including tariffs) or other trade barriers (such as quotas on imports or subsidies for producers);
- trade in services without taxes or other trade barriers;
- The absence of 'trade-distorting' policies (such as taxes, subsidies, regulations or laws) that give some firms or households an advantage over others;
- free access to markets;
- free access to market information;
- the free movement of labour between and within countries, and
- removal of import restrictions/ non-tariff barriers

#### MALAYSIA'S FREE TRADE AGREEMENT INVOLVEMENT

FTA is one of the best ways to open up foreign markets for Malaysian exporters. Malaysia's objectives in negotiating FTA are to seek better market access by addressing tariffs and non-tariff measures, to further facilitate and promote trade, investment and economic development, enhance the competitiveness of Malaysian exporters and build capacity development in specific targeted areas through technical co-operation and collaboration.

International trade is an important contributor to Malaysia's economic growth and development. Malaysia's trade policy is to pursue efforts towards creating a more liberalising and fair global trading environment. While Malaysia continues to accord high priority to the rules-based multilateral trading system under the WTO, Malaysia is also pursuing regional and bilateral trading arrangements to complement the multilateral approach to trade liberalisation.

The coverage of Malaysia's FTA include market access (trade in goods), trade facilitation, investment, standards, services, sanitary and phytosanitary measures, technical barriers to trade, intellectual property rights, economic co-operation, government procurement, environment provisions and others. However, the coverage may differ between one trade agreement and another depending on the scope of the negotiations by the partner countries involved.

To date, Malaysia has signed and is implementing five bilateral and regional FTA. The bilateral FTA signed are with Japan, Pakistan, India, New Zealand and Chile. Together with its ASEAN partners, Malaysia is party to the ASEAN-Japan Comprehensive Economic

Partnership Agreement, ASEAN-Korea Free Trade Agreement, ASEAN-China, P.R Free Trade Agreement, ASEAN-Australia/New Zealand Free Trade Agreement and ASEAN-India Free Trade Agreement. FTA that are still under negotiations are: Malaysia-Australia Free Trade Agreement, Malaysia-Turkey Free Trade Agreement, Malaysia-European Union (EU) and the Trans-Pacific Economic Partnership Agreement (TPP).

#### CONCLUDED FREE TRADE AGREEMENTS

##### Bilateral Free Trade Agreements

##### i. Malaysia-Japan Economic Partnership Agreement

The Agreement on Trade in Goods was signed on 13 December 2005 in Kuala Lumpur and came into force on 13 July 2006. The Agreement resulted in palm products' tariff lines being placed under Category A (Immediate Tariff Elimination) by Japan, except for products under HS 1517, *i.e.* Margarine (HS 1517.10 000), which will gradually be reduced to 0% within six years, *i.e.* by 2012. Meanwhile, other mixtures of vegetable fats (HS 1517.90 290, 1517.90 400 and 1517.90 900) were put under Category R, which can be negotiated in the fifth year (2011), on issues, such as improving market access conditions (*Table 1*).

**Impact.** Japan is considered as a matured market for Malaysian palm products. Malaysia still maintains its position as the largest exporter of palm products to Japan, especially palm oil products. According to *Oil World Annual*, Malaysian palm oil controlled 96.8% of the Japanese palm oil market in 2010. In 2010, Malaysia's export of palm oil and palm-based products to Japan amounted to 551 614 t (valued at RM 1476.9

million), refer to *Table 2*.

All tariffs imposed on palm products exported to Japan were eliminated as from the date of entry into force (1 January 2009) of this Agreement (Category A), except for HS 1517.10 (margarine, shortening and other products that were grouped under this HS Code). These excluded products which fell under Category C, of which the base rate will apply from

the date of entry into force of this Agreement, *i.e.*,

- margarine – 29.8%;
- mixtures of vegetable fats and oils and their fractions – 13.20 Yen/kg;
- shortening – 12.8%; and
- others – 21.3%.

## ii. Malaysia-Pakistan Closer Economic Partnership Agreement

The Malaysia-Pakistan Closer Economic Partnership Agreement was signed on 8 November 2007 and came into force on 1 January 2008. The agreed modality on palm oil and palm-based products is as below:

- Margin of Preference (MoP) Track 1. For product put under this track, the import tariff will be reduced by 5% MoP on 1 January 2008, followed by an additional 5% MoP every year up to year 2011 (MoP 20%). There are five palm-based products under this category and the import tariff reduction schedule is as stated in *Table 3*.
- MoP Track 2. For products under MoP Track 2, the import duty will be reduced by 10% MoP on 1 January 2008, followed by an additional 5% MoP starting from

**TABLE 1. MODALITY OF THE MALAYSIA – JAPAN ECONOMIC PARTNERSHIP AGREEMENT**

No	Track	Description
1.	A	Zero duty upon enforcement.
2.	B3	Duty elimination in 4 equal annual installments.
3.	B5	Duty elimination in 6 equal annual installments.
4.	B6	Duty elimination in 7 equal annual installments.
5.	B7	Duty elimination in 8 equal annual installments.
6.	B9	Duty elimination in 10 equal annual installments.
7.	B10	Duty elimination in 11 equal annual installments.
8.	C	Duty as per base rate.
9.	R	Reduction according to specified modality in Column 5 of Section 2: Schedule of Japan.

Source: Ministry of International Trade and Industry.

**TABLE 2. IMPORTS OF MALAYSIAN PALM OIL PRODUCTS (1000 t) BY JAPAN (2005-2010)**

Year	2005	2006	2007	2008	2009	2010
Malaysian palm oil import - MPO <sup>1</sup>	472.5	517.1	527.3	547.5	538.9	551.6
Total world palm oil import - TPO <sup>2</sup>	479.0	517.1	532.2	547.5	551.4	569.4
% of MPO share	98.6	100	99.0	100	97.7	96.8

Source: <sup>1</sup>MPOB (2009).

<sup>2</sup>*Oil World Annual* (2010).

**TABLE 3. TARIFF REDUCTION SCHEDULE FOR PALM-BASED PRODUCTS UNDER MARGIN OF PREFERENCE (MoP) TRACK 1**

HS code	Product	Normal tariff Rs/t	Rate of duty in percentage (%) or otherwise indicated (Rs/t)		
			1/1/2008	1/1/2009	1/1/2010
1517.1000	Margarine	10 260	10 260	9 720	9 180
1517.9000	Other (shortening, vanaspati, CBS, CBE, etc.)	10 260	10 260	9 720	9 180
1520.0000	Glycerol	19%	19%	18%	17%
3402.1300	Non-ionic (soap)	19%	19%	18%	17%
4411.9900	Medium density fibreboard	19%	19%	18%	17%

Source: Ministry of International Trade and Industry, MPOB (2009).

**TABLE 4. TARIFF REDUCTION SCHEDULE FOR PALM-BASED PRODUCTS UNDER MARGIN OF PREFERENCE (MoP) TRACK 2**

HS code	Product	Normal tariff Rs/t	Rate of duty in percentage (%) or otherwise indicated (Rs/t)		
			1/1/2008	1/1/2009	1/1/2010
1511.1000	Crude palm oil	9 000	8 100.0	8 100.0	7 650.0
1511.9010	Palm stearin	9 050	8 145.0	8 145.0	7 692.5
1511.9020	RBD palm oil	10 800	9 720.0	9 720.0	9 180.0
1511.9030	Palm olein	9 050	8 145.0	8 145.0	7 692.5
1511.9090	Other	10 800	9 720.0	9 720.0	9 180.0
1513.2100	Crude palm kernel oil	9 050	8 145.0	8 145.0	7 692.5
1513.2900	Other	10 800	9 720.0	9 720.0	9 180.0

Source: Ministry of International Trade and Industry, MPOB (2009).

**TABLE 5. IMPORTS OF MALAYSIAN PALM OIL PRODUCTS (1000 t) BY PAKISTAN (2005-2009)**

Year	2005	2006	2007	2008	2009	2010
Malaysian palm oil import - MPO <sup>1</sup>	957.0	968.4	1 070.0	1 257.4	1 769.3	2 134.6
Total world palm oil import - TPO <sup>2</sup>	1 645.7	1 767.7	1 711.0	1 756.0	1 843.3	n.a
% of Malaysian palm oil share	58.1	54.7	62.5	71.6	95.9	n.a

Note: n.a – not available.

Source: <sup>1</sup>MPOB (2009), <sup>2</sup>*Oil World Annual* (2010).

1 January 2010. There are seven palm-based products (HS1511.1000, HS1511.9010, HS1511.9020, HS1511.9030, HS1511.9090, HS1513.2100 and HS1513.2100) under this category (*Table 4*).

**Impact.** Sources from Pakistan informed that the lower import tariff enjoyed by Malaysian palm oil products since the implementation of Malaysia-Pakistan FTA in 2008 continues to provide cost advantage for Malaysian palm oil. The preferential import tariff discount is getting higher with a reduction of up to 15% since 1 January 2010. In 2010, Pakistan became the second largest importer of Malaysian palm oil after China, PR. Pakistan's import of palm oil hit a record level of 2.13 million tonnes in 2010, increasing significantly by 99.5% from 1.07 million tonnes in 2007 (*Table 5*). The main reason for this increase is a lower duty enjoyed by Malaysian palm oil products as a

result of the implementation of the Malaysia-Pakistan FTA.

### iii. Malaysia-New Zealand Free Trade Agreement

The Agreement was signed on 26 October 2009 and came into force on 1 August 2010. Import tariffs on palm oil and palm products were eliminated on entry into force of the Agreement, except for soap for toilet use (HS Code 3401.11.00), which is to be eliminated by 2014. The end-date for margarine (HS Code 1517.10.00) still remains at 2016. Both these products are categorised as highly sensitive by New Zealand.

### iv. Malaysia-Chile Free Trade Agreement

The negotiation was concluded on 13 May 2010 and the Agreement was signed on 13 November 2010. The Agreement is expected to be implemented during the first half of 2011. On market access, Malaysia on its part succeeded in

obtaining significant gains for its products of export interest. Almost 99% of tariff lines were offered by Chile for tariff concessions. The 90.2% of tariff lines enjoy tariff elimination upon entry into force of the Agreement, which included major products, such as palm oil, cocoa powder, textile and textile products, rubber product (surgical gloves), footwear and wood products (furniture), wherein the import duties were generally reduced from 6% to 0%.

### v. Malaysia-India Close Economic Co-operation Agreement (Malaysia-India CECA)

The Malaysia-India CECA was signed on 18 February 2011 and came into force on 1 July 2011. This Agreement is to complement the ASEAN-India-Plus agreement and it has benefits for both sides. India will still retain the 45% import duty on refined palm oil (RPO), however, the reduction

to this level from 90% will now be brought forward from January 2019 to January 2018. The import duty on crude palm oil (CPO) will continue to remain at 37.5%.

## Regional Free Trade Agreements

### i. ASEAN-China, P R Free Trade Agreement

The Agreement on Goods was signed in November 2004 and entered into force in July 2005. Prior to the ASEAN-China, P R Free Trade Agreement, an Early Harvest Programme (EHP) was implemented in 2004 for selected manufactured and agricultural products. Import duties for the products in the EHP were

eliminated in January 2006. Under the FTA, import duties were progressively reduced and eliminated beginning 2005. The tariff liberalisation process was completed by 1 January 2010 for Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand and China, P R and by 1 January 2015 for Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV). The agreed modality is as stated in *Table 6*.

**Impact.** From 2005 to 2010, total trade of palm oil products in terms of tonnage between ASEAN and China, P R had increased by 34.0% to 5.8 million tonnes in 2010 from 4.3 million tonnes in 2005 as a

result of the implementation of the FTA. *Table 7* illustrates the trade performance.

Imports of Malaysian palm oil by China, P R had increased by 17.7% to 3.5 million tonnes in 2010, as compared to 3.0 million tonnes in 2005. Among the ASEAN member countries, Malaysia is the largest source of palm oil products for China, P R.

### ii. ASEAN-Korea (ROK) Free Trade Agreement.

The Agreement was signed on 13 December 2005 and entered into force on 1 July 2006. The agreed modality is as in *Table 8*.

**TABLE 6. MODALITY OF THE ASEAN-CHINA, P R FREE TRADE AGREEMENT**

Agreed modality	Description
Early Harvest Programme (EHP)	<ul style="list-style-type: none"> <li>EHP commenced on 1 January 2004 involving tariff elimination of selected products by 1 January 2006 for China and ASEAN-6, and by 1 January 2010 for CLMV.</li> <li>Ministry of Plantation Industries and Commodities products under EHP included articles of rubber.</li> </ul>
Normal track (NT)	<ul style="list-style-type: none"> <li>Eliminated in four phases, <i>i.e.</i> 2005, 2007, 2009 and 2010.</li> <li>Extended time-frame for tariff elimination up to 2012 will be given for not more than 150 tariff lines, which included footwear, rubber tyres and tubes.</li> </ul>
Sensitive track (ST)	<ul style="list-style-type: none"> <li>Products in the sensitive track (ST) are divided into sensitive list (SL) and highly sensitive list (HSL).</li> <li>For SL, ASEAN-6 and China, P R will reduce tariff to 20% by 2012 and to 0%-5% by no later than 2018. While for HSL, tariff will be reduced to 50% by 2015, with no further reduction commitments.</li> </ul>

Source: Ministry of International Trade and Industry.

**TABLE 7. IMPORTS OF PALM OIL PRODUCTS FROM ASEAN COUNTRIES BY CHINA, P R (1000 t) (2005-2010)**

Year	2005	2006	2007	2008	2009	2010
Malaysia	2 960.5	3 577.8	3 840.4	3 794.5	4 027.2	3 483.8
Indonesia	1 372.3	1 934.1	1 690.3	1 905.5	2 579.1	2 331.7
Thailand	7.1	20.4	12.6	28.8	0	0
Viet Nam	0	0.7	5.8	5.7	0	0
Other ASEAN countries	0	0	0	0	0	0
Total ASEAN palm oil	4 339.9	5 532.3	5 549.1	5 734.5	6 606.3	5 815.5
% of Malaysian palm oil share	68.2	64.6	69.2	66.1	60.9	59.9

Source: MPOB (2009), *Oil World Annual* (2010).

**TABLE 8. MODALITY OF ASEAN-KOREA (ROK) FREE TRADE AGREEMENT**

Agreed modality	Description
Normal track (NT)	<ul style="list-style-type: none"> <li>• Republic of Korea (ROK) to eliminate tariffs of at least 70% of its products listed in NT by 1 June 2007 and the remaining tariffs will be eliminated by 1 January 2010. This includes palm oil and palm-based products.</li> <li>• For ASEAN-6, tariffs will be eliminated in four phases beginning July 2006 and concluded by 2012.</li> <li>• Vietnam is given an additional six years while Cambodia, Lao PDR and Myanmar are given an additional eight years.</li> </ul>
Sensitive track (ST)	<ul style="list-style-type: none"> <li>• Maximum ceiling for ST is 10% of total tariff lines subject to 10% of the total value of imports based on 2004 trade statistics.</li> <li>• Products in the ST are divided into SL and HSL.</li> <li>• HSL is limited to 200 tariff lines at the HS 6-digit level or 3% of total tariff lines subject to 3% of the total value of imports.</li> <li>• Duties for products under the SL will be reduced to 20% by 1 January 2012 and subsequently to 0%-5% by 1 January 2016.</li> </ul>

Source: Ministry of International Trade and Industry.

**TABLE 9. IMPORTS OF PALM OIL PRODUCTS FROM ASEAN COUNTRIES BY KOREA (ROK) (1000 t) (2005-2010)**

Year	2005	2006	2007	2008	2009	2010
Malaysia	229.3	216.2	222.0	196.5	293.2	318.5
Indonesia	1.8	8.9	4.4	10.1	0.5	0
Other ASEAN countries	0	0	0	0	0	0
Total ASEAN palm oil	231.1	224.3	226.4	206.6	293.7	318.5
% of Malaysian palm oil share	99.2	96.0	98.1	95.1	99.8	100

Source: MPOB (2009), *Oil World Annual* (2010).

**Impact.** Korea (ROK) has placed the majority of palm products' tariff lines under normal track, either under immediate elimination (beginning 1 July 2006) or import tariffs eliminated by 2008. Some of the major palm products, which enjoy the duty-free status are all palm oil products (categorised under HS 1511), palm kernel cake (HS 2306.60 0000), some oleochemical products, *i.e.* all products grouped under HS 2905.17, HS 2905.19 9090 and HS 2915.90 9090), linoleic acids (HS 2916.15 1000), linolenic acids (HS 2916.15 2000), medicated soap (HS3401.11 1000) and biodiesel (HS 3824.90 9090).

Major products with tariff elimination effective in 2008 were all palm kernel oil and its

fractions (HS 1513), palm oil and its fraction (HS 1516.20 2020), margarine and other products under HS 1517, glycerol (HS 2905.45 0000), oleochemical products (HS 2915.70), oleic acid, its salt and esters (HS 2916.15 1000), vitamins (HS 2936), oleic acid (HS 3823. 12) and palmitic acid (HS 3823.19).

Value-added processed palm kernel oil products (HS 1516.20), soaps (HS3401.20), stearic acid (HS 3823.11 0000), acid oil from refining (HS 3823.19 2000), lauryl alcohol (3823.70 4000) and all medium density fibreboard (HS 4411) were placed under the sensitive list, of which tariffs will be reduced to 5% in 2016.

Imports of palm oil products from ASEAN countries have

increased significantly as a result of the FTA signed (*Table 9*). Imports of Malaysian palm oil by Korea (ROK) has increased by 38.9% to 318 500 t in 2010, as compared to 229 300 t in year 2005. Malaysia is the largest import source of palm oil products for Korea (ROK).

### iii. ASEAN-India Free Trade Agreement

ASEAN and India have concluded negotiations on trade in goods. The Agreement was signed on 13 August 2009 and has entered into force on 1 January 2010. The Agreement will reduce import tariffs on crude palm oil and refined palm oil from 80% and 90% respectively to 37.5% and 45% by 2018.

**TABLE 10. MODALITY OF ASEAN-JAPAN CLOSE ECONOMIC PARTNERSHIP**

Category	ASEAN-6	Japan
<ul style="list-style-type: none"> <li>• Normal track (tariff lines and trade value)</li> </ul>	<ul style="list-style-type: none"> <li>• 90%.</li> <li>• (Immediate as in bilateral EPAs)</li> </ul>	<ul style="list-style-type: none"> <li>• 92%.</li> <li>• 88% immediate elimination upon entry into force.</li> <li>• 2% within five years.</li> <li>• 2% within 10 years.</li> </ul>
<ul style="list-style-type: none"> <li>• Sensitive track (tariff lines or trade value)</li> <li>• Sensitive list</li> <li>• Highly sensitive list</li> <li>• ExclusionI list</li> </ul>	<ul style="list-style-type: none"> <li>• 10%.</li> <li>• 3.8%.</li> <li>• As in bilateral EPA.</li> <li>• As in bilateral EPA.</li> </ul>	<ul style="list-style-type: none"> <li>• 8%.</li> <li>• 4.8%.</li> <li>• 2.2%.</li> <li>• 1.0%.</li> </ul>

Source: Ministry of International Trade and Industry.

**iv. ASEAN-Japan Comprehensive Economic Partnership**

The Agreement was signed on 14 February 2008 and came into force on 1 December 2008. For Malaysia, the Agreement came into force on 1 February 2009. Under the Agreement, both sides agreed to eliminate or reduce import tariffs comprehensively in a phased-in approach on industrial goods by 2018 except for some sensitive products. The modalities of tariff elimination/reduction is as in *Table 10*. Tariff lines for products under fast track category were eliminated in 2009.

**v. ASEAN-Australia and New Zealand Free Trade Agreement**

Under this Agreement, which was signed on 27 February 2009, the duty imposed on the majority of palm products imported into Australia and New Zealand, ranging from 5%-7% would be brought down to 0% by 2020.

**ON-GOING FREE TRADE AGREEMENTS**

**Malaysia-Australia Free Trade Agreement**

The Malaysia-Australia FTA commenced negotiations in April 2005. Malaysia oil palm products exported to Australia are to enjoy 0% import duties in line with

implementation of the ASEAN -Australia and New Zealand Free Trade Agreement in 2010.

**Malaysia-Turkey Free Trade Agreement**

The Malaysia-Turkey FTA negotiation commenced in June 2010. Palm oil interest is focused on trade in goods and rules of origin. To date, six meetings have been held.

**Malaysia-European Union Free Trade Agreement**

The initial discussion started in December 2010. Palm oil interest is focused on trade in goods, rules of origin and sustainable development. Negotiation is expected to be completed within 18 months.

**The Trans-Pacific Strategic Economic Partnership Agreement**

The Trans-Pacific Partnership (TPP) was originally known as the Pacific 4 (or P4). The P4 membership includes New Zealand, Chile, Singapore and Brunei. Negotiations to expand the TPP to include USA, Australia, Peru and Vietnam began in March 2010. According to the Ministry of International Trade and Industry (MITI), Malaysia views the TPP as a positive step towards deeper economic integration within the

Asia Pacific region, similar to efforts currently undertaken through the ASEAN Free Trade Agreement (AFTA) and the ASEAN FTA initiatives with its dialogue partners. In 2009, Malaysia’s bilateral trade with the TPP member countries totalled RM 285.8 billion or 28.9% of Malaysia’s total trade. The top trading partners of Malaysia in TPP are Singapore and the US.

**ASSESSMENT OF FREE TRADE AGREEMENT BENEFITS TO THE MALAYSIA PALM OIL INDUSTRY**

Among the benefits which can be derived from the FTA to the Malaysian palm oil industry are as stated below:

- palm oil exporters in Malaysia will benefit from FTA through preferential treatment and market access. Palm oil exporters will also enjoy cost savings from elimination or reduction of import tariffs in partner country and from mutual recognition agreements, trade facilitating customs procedures and removal of onerous regulations. For service providers, FTA provide improved market access for various commercial and professional services from

Malaysia. FTA also provide for easier entry for businessmen as well as more predictable terms for investment in the FTA partner country.

- FTA brings positive impact to bilateral trade, especially in area that Malaysia are strong or competitive by reducing tariff and non-tariff barriers in export, such as palm oil.
  - FTA can be used by Malaysian palm oil industry to expand and penetrate overseas market. With the easier market access, Malaysian palm oil industry can embark on joint ventures or acquisition into the overseas market.
  - the elimination and reduction of import tariff on negotiated palm oil and palm-based products serve as an opening for Malaysian palm oil products to be introduced into the overseas market especially the value-added products as well as niche products, apart from increasing existing market share. Malaysian palm oil companies in Malaysia should take advantage of import tariff elimination or substantial import tariff reduction as they now have an edge over their competitors from countries not enjoying the preferential treatment.
  - FTA would enable Malaysian palm oil industry to source inputs and outsourcing at more competitive prices from the partner countries, especially in the case of regional FTA, such as ASEAN Free Trade Agreement.
  - bilateral FTA enable Malaysia to expand its services and products into third countries through partnerships with enterprises from FTA members.
- FTA provides access to cheaper imports from the FTA partner countries, which can then be used as inputs for value-adding in the manufacture of Malaysian palm-based finished products.
  - the Agreement will enable the Malaysian palm oil industry to use the partner countries as the springboard to also expand their business with partner countries trading partners. As an example, the concluded Malaysia-Chile FTA will have advantage to the Malaysian palm oil industry to further penetrate Chile's neighbouring countries that have bilateral or regional arrangement with Chile.
  - enhance Malaysia's position as an attractive destination for business and investment as well as attract inflow of foreign direct investment.
  - partner countries business community can also leverage on Malaysia's strong business links with ASEAN and East Asia to expand their economic interest in the region.
  - the Agreement will further facilitate and strengthen the two-way trade and investment as well as enhance bilateral economic and industrial co-operation on a long-term basis between Malaysia and the partner countries.

## CONCLUSION

The delay in concluding WTO Negotiations has necessitated a proliferation of FTA being negotiated and concluded. Overall benefits from FTA can be seen in terms of market opportunities and sourcing of raw materials. Malaysian products will be more competitive in all the FTA markets as import tariffs will be reduced or eliminated. At the same time, Malaysia will gain more profits due to tariff reduction or elimination of imported materials from FTA partners. FTA also enhance the competitiveness of the commodity sector through tariff liberalisation. The implementation of the FTA is expected to help develop the downstream processing industries for exports to both ASEAN and the rest of the world.

However, while Malaysia is not to be left behind in this race, towards more FTA signings, thorough benefit analysis and impact on the country's overall economic performance will be essential whenever Malaysia undertakes any future FTA with its trading partners. In short, FTA are now increasingly considered as 'The Way Forward for the Malaysian Palm Oil Industry'.

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