

Some Problems in the Definition and Classification of Palm Oil Products

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Malaysian palm oil was mostly exported as crude till 1975, after which exports were mostly of processed palm oil. In 1975, exports of crude palm oil accounted for 82.5% of Malaysia's total exports of palm oil. In 1984, the country exported 59 341 tonnes of crude palm oil (CPO) against 3 124 110 tonnes of processed palm oil (PPO), so that CPO accounted for only 1.86% of the total exported. Even though Malaysia has been successful so far in marketing all the PPO produced, many obstacles, still need to be overcome in order to further strengthen the existing markets for palm oil as well as to open up new ones, especially since Malaysian palm oil production is forecast to reach 5.6 million tonnes by 1990.

Internationally, two modes of classification for trade are in wide use. These are the Standard International Trade Classification (SITC), and the Brussels Tariff Nomenclature (BTN). BTN-based classifications are used in Western Europe, French-speaking Africa and South America, while classifications based on the SITC are used in the rest of the world, except in the countries with centrally planned economies, which use the classification of the Council for Mutual Economic Assistance (CMEA).

This article brings to light some of the problems in the definition and classification of palm oil products. These problems need to be overcome so as to improve the acceptance by importers of Malaysia's wide range of palm oil products.

Definitions and Classifications of Palm Oil Products

a) Definitions

The Harmonized Commodity Description and Coding System (Structured Nomenclature) proposed by the Customs Co-operation Council has already been drafted and is expected to be implemented in early 1987. Chapter 15 of the Structured Nomenclature deals with animal or vegetable fats and oils and their cleavage products, prepared edible fats, and animal or vegetable waxes.

In this chapter, the definition of palm oil is as follows:—

'Palm oil is a vegetable fat, solid at room temperature, obtained by extraction from the fibrous pulp of the fruits of the different species of the genus *Elaeis*. It ranges in colour from yellow orange to brownish orange.'

The Structured Nomenclature also states the uses of palm oil as follows:—

'Palm oil is used for making soap, as a cutting-tool lubricant, for hot dipped tin coating, as a plasticiser in rubber processing, in cosmetics or toilet preparations, etc. The refined oil is used in margarine.'

These passages have serious weaknesses as they do not provide a true picture of the origin, nature or uses of palm oil. The definition as

well as the uses given in the Structured Nomenclature are already obsolete and date back as far as World War I. At that time, palm oil was only available from primitive village production in West Africa. Its quality was very poor by present-day standards and it was mainly used for industrial purposes as indicated. Since then the production of palm oil in large-scale plantations has developed and the quality of the oil has improved so that its principal uses today are in the food industry. Thus it is proposed that the definition in the Structured Nomenclature be corrected to read as follows:—

‘Palm oil is a semi-solid or consistent vegetable fat, and is obtained by extraction from the fibrous mesocarp of the fruits of the different species of the genus *Elaeis*. It ranges in colour from yellow orange to reddish orange.’

On the range of uses, the updated version should read as follows:—

‘Refined palm oil is used mainly for edible purposes, i.e. cooking and frying and the manufacture of products such as margarine, shortenings and vegetable ghee. Non-edible applications of palm oil include its use in tin plating and the manufacture of soaps, lubricants and oleochemicals such as fatty acids and other derivatives.’

Crude fractionated palm oil products cannot be treated as crude for tariff or tax purposes. They are regarded as processed and often carry a higher rate of duty. This is a result of the definition of ‘crude oil’ which appears in the Structured Nomenclature, and which is as follows:—

‘Fixed vegetable oils, fluid or solid, obtained by pressure, shall be considered as “crude” if they have undergone no processing other than decantation, centrifugation or filtration, provided that, in order to separate the oils from solid

particles only mechanical force such as gravity, pressure or centrifugal force, has been employed, excluding any absorption filtering process, *fractionation* or any other physical or chemical process. If obtained by extraction an oil shall continue to be considered as “crude” provided it has undergone no change in colour, odour or taste when compared with the corresponding oil obtained by pressure.’

In the above quotation ‘fractionation’ has been italicized, since this word is the source of the problem: it seems that once an oil has undergone fractionation it can no longer be regarded as crude. However, palm oil can be fractionated in the crude, semi-refined or fully refined forms, so that the fractionated products obtained — and their degree of ‘crudity’ or ‘refinement’ — depend on what the inputs are. Hence consideration should be given to treating some fractionated palm oil products — especially crude palm olein and crude palm stearin — as ‘crude’.

A proposal for a new definition of crude oil is as follows:—

‘Fixed vegetable oils, whether fluid or solid, or any fraction obtained from them by pressure, shall be considered as “crude” if they have not undergone refining or neutralization, bleaching or deodorizing.’

b) **Classifications**

For Customs purposes, palm oil is classified as follows:—

15.11	Palm oil and its fractions whether or not refined but not chemically modified.
	1511.10.000 — crude oil
	1511.10.900 — others
	1511.90.200 — in packing not exceeding 20 kg.
	1511.90.900 — others

According to the definition of crude oil quoted above, only crude palm oil would fall under the code 1511.10.000. All the other palm oil products, ranging from crude fractionated products to processed palm oil products, would fall into the category of 'others' under the code 1511.10.900.

Problems

Some of the problems arising from the manner in which palm oil products are classified are as follows:—

- (i) **Tariffs:** Tariffs on imports of palm oil are based on the classification of the products. Higher tariff rates are imposed on imports of processed palm oil (PPO) products than on crude palm oil. For instance, imports of processed palm oil into the EEC are subject to a 12% duty, while imports of crude palm oil are subject to a 4% duty. Similarly, in Kenya a tariff of 16% is imposed on imports of crude palm oil while the tariff on imports of PPO is 40%. Nevertheless, semi-processed palm oil requires further processing, and the tariff imposed, if any, should therefore be based on the level of processing the oil has undergone, so as to reflect its true value.
- (ii) **Definition:** The manner of classifying fractionated palm oil products leads to misunderstanding in some countries. For example, 'stearin' suggests stearic acid, which is normally derived from tallow and is used, furthermore, by the soap and oleochemical industry. Thus when the solid fraction of palm oil is called palm stearin, it is interpreted to have originated from tallow and hence is considered inedible. In Sudan, the import of palm stearin

is only allowed if it is called tallow substitute. On the other hand, in Tunisia 'olein' means the inedible grade of olive oil used for making soap, and accordingly the term 'palm olein' is likely to be misconstrued there.

Trade Comparisons

Seventeen different palm oil products are exported by Malaysia: the products, as well as the quantities traded, in the years 1979 to 1983 are shown in *Table 1*. In the same Table, trade data of some other selected oils and fats are listed for the purpose of comparison.

It can be seen from *Table 1* that the quantity of some of the palm oil products traded fluctuates from time to time. For instance, the amount of NBD palm oil traded in 1979 was 79 451 tonnes, while in 1980 it was 107 980 tonnes, increasing to 129 577 tonnes in 1981, then declining to 6 576 tonnes in 1982, and rising again in 1983 to 10 355 tonnes. For NBD olein, the quantities traded followed a fluctuating pattern like that of NBD palm oil. However, the trade in RBD palm oil and RBD palm olein has shown a continual increase.

Trade statistics for eight oils or fats, *viz.* groundnut oil, butter, palm kernel oil, lard, cottonseed oil, rapeseed oil, fish oil and olive oil are included in *Table 1*. It can be seen that, by 1983, the amount of RBD palm oil traded far exceeded the amounts of any of these. The quantity of RBD palm olein traded in 1983 also exceeded the trade in all the selected oils except butter. The volume of trade in RBD stearin is now comparable with that of olive oil and in 1982 actually exceeded it.

The trade in some individual palm oil products is obviously as important as that of any other oil or fat. This makes it all the more necessary to improve the definitions and classifications of Malaysian palm oil products.

TABLE 1. COMPARISON OF TRADE IN PALM OIL PRODUCTS AND OTHER OILS AND FATS, 1979 – 1983.

	Quantity Traded (tonnes)				
	1979	1980	1981	1982	1983
Palm Oil Products					
RBD Palm Oil	234 238	383 563	695 837	997 908	1 276 561
RBD Palm Olein	219 013	591 165	714 832	922 780	938 931
RBD Stearin	35 572	106 853	209 241	341 078	278 724
Fatty Acid Oil	53 860	12 054	16 978	57 856	214 450
N Palm Oil	187 107	82 281	59 022	79 684	122 074
C Palm Oil	358 113	197 659	138 779	78 146	89 653
NB Palm Oil	–	–	4 010	6 740	26 270
NBD Palm Oil	79 451	107 980	129 577	6 576	10 335
C Olein	38 590	3 399	794	5 686	7 429
N Olein	1 581	1 497	30	8 942	6 697
NB Olein	21	30	–	2 111	1 999
NBD Olein	236 870	274 268	157 509	75 739	37 775
C Stearin	315 204	208 125	119 341	106 868	59 468
N Stearin	81 950	159 342	70 701	13 269	784
NB Stearin	–	329	4 003	1 024	511
NBD Stearin	21 836	20 747	20 048	3 729	1 015
Palm Acid Oil	90 900	121 930	144 826	116 841	34 233
Others					
Groundnut Oil	507 300	496 800	346 400	463 500	514 600
Butter	1 099 000	1 183 000	1 245 700	1 120 300	1 044 100
Palm Kernel Oil	359 000	386 600	388 500	461 700	499 100
Lard	591 700	562 800	559 700	501 000	494 700
Cottonseed Oil	370 100	448 700	463 300	518 000	340 100
Rapeseed Oil	625 100	698 000	853 800	809 700	855 300
Fish Oil	810 800	798 900	769 200	763 100	782 200
Olive Oil	305 000	280 300	263 100	245 300	410 600

Sources: – *Department of Statistics, Malaysia and Oil World.*

Proposal 1

- 15.11 – Palm oil and its fractions, whether or not refined, but not chemically modified.
- 1511.10.000 – Crude Oil.
 1511.10.100 – Palm Oil.
 1511.10.200 – Palm Oil Liquid Fraction.
 1511.10.300 – Palm Oil Solid Fraction.
 1511.10.400 – Palm Mid-fraction.
 1511.10.900 – Other.
- 1511.90.000 – Others:
 1511.90.100 – Palm Oil.
 1511.90.110 – Neutralized.
 1511.90.120 – Bleached.
 1511.90.130 – Neutralized, bleached.
 1511.90.140 – Neutralized, bleached, deodorized/RBD to 6 Red Max.
 1511.90.190 – Neutralized, bleached, deodorized/RBD to 3 Red Max.
 1511.90.200 – Palm Oil Liquid Fraction.
 1511.90.210 – Neutralized.
 1511.90.220 – Bleached.
 1511.90.230 – Neutralized, bleached.
 1511.90.290 – Neutralized, bleached, deodorized/RBD;
 1511.90.300 – Palm Oil Solid Fraction.
 1511.90.310 – Neutralized.
 1511.90.320 – Bleached.
 1511.90.330 – Neutralized, bleached.
 1511.90.390 – Neutralized, bleached, deodorized/RBD.
 1511.90.400 – Palm Mid-fraction.
 1511.90.410 – Neutralized, bleached, deodorized/RBD.
 1511.90.490 – Other.
 1511.90.900 – Other.

Note:— If it is necessary to distinguish between 'in packings not exceeding 20 kg' and 'other packings', then use the first 8 digits given above and replace the ninth digit (zero) with either '1' or '2' depending on the packings.

Proposal 2

- 15.11 – Palm oil and its fractions, whether or not refined, but not chemically modified.
- 1511.10.000 – Crude Oil.
 1511.10.100 – Palm Oil.
 1511.10.200 – Palm Oil Liquid Fraction.
 1511.10.300 – Palm Oil Solid Fraction.
 1511.10.400 – Palm Mid-fraction.
 1511.10.900 – Other.
- 1511.90.000 – Others:
 1511.90.100 – Palm Oil.
 1511.90.110 – Neutralized or bleached.
 1511.90.120 – Neutralized, bleached.
 1511.90.130 – Neutralized, bleached, deodorized/RBD to 6 Red Max.
 1511.90.190 – Neutralized, bleached, deodorized/RBD to 3 Red Max.
 1511.90.200 – Palm Oil Liquid Fraction.
 1511.90.210 – Neutralized or bleached.
 1511.90.220 – Neutralized, bleached.
 1511.90.290 – Neutralized, bleached, deodorized/RBD.
 1511.90.300 – Palm Oil Solid Fraction.
 1511.90.310 – Neutralized, bleached deodorized/RBD.
 1511.90.390 – Other.
 – Palm Mid-fraction.
 1511.90.410 – Neutralized, bleached, deodorized/RBD.
 1511.90.490 – Other.
 1511.90.900 – Other.

Note: If it is necessary to distinguish between 'in packings not exceeding 20 kg' and 'other packings', then use the first 8 digits given above and replace the ninth digit (zero) with either '1' or '2' depending on the packings.

Suggestions for Classification

Considering the wide range of palm oil products available, their importance to the trade in oils and fats and the different characteristics and specifications of each of the products, it is essential that each of these palm oil products should be given a proper classification. Separate codes should be assigned to each of the different products and the system should provide for expansion in case new products appear in the course of time. Two alternative proposals for an improved classification are given below. These proposals would need to be brought to the attention of the Customs Co-operation Council in Brussels. In proposal 1, for crude oil, code numbers are given to crude palm oil, crude palm liquid fraction, crude palm solid fraction and crude palm mid-fraction. The code number 1511.10.900 is allocated for other crude oil products that may be produced in the course of time or crude oil products not specified as yet. Similarly, provision for expansion is also made for palm oil other than crude.

Proposal 2 is a simplification of proposal 1. In proposal 2, palm oil products that have undergone either neutralization or bleaching are given the same code number. For instance, neutralized palm oil and bleached palm oil are both given the code number 1511.90.110.

Proposal 1 seems to be better than proposal 2 because it provides for the wide range of palm oil products which exists. Nevertheless both proposals enable one to know the stages of processing a product has undergone.

Conclusion

If the suggestions for improving the manner in which palm oil is classified in the Structured Nomenclature are accepted in Brussels, this could improve the acceptance by importers of the wide variety of palm oil products produced by Malaysia. Negotiations for reductions

in the tariffs imposed on palm oil imports could be undertaken, relating tariffs to the level of processing undergone by each product. Hopefully, the tariffs charged on semi-processed palm oil products could be set so that they would be in between those on CPO and those on fully processed products. If so, countries with existing refining facilities would be able to utilize semi-processed palm oil products at a lower cost. Thus improvements in classification would also open more markets for palm oil, which is important in view of the expected future increase in palm oil production.

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