

Impact of Labelling on Palm Oil in the US Market

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INTRODUCTION

Palm oil has been used in food preparation for over 50 centuries in many parts of the world. Nowadays, it is accepted by consumers worldwide in many forms, such as cooking oil, margarine and shortening, and also is used extensively as an ingredient in fat blends and a vast array of food products. Food manufacturers prefer palm oil because it has unique quality, does not require hydrogenation process, and lengthens the shelf-life of products. These advantages are difficult to imitate at the same cost with soft oils, which often have higher market prices and need additional processing such as hydrogenation for the same characteristics.

USA is one of major soyabean oil producers and also produces other liquid oils, whereby the production share of the country accounts for 10% of the global production of oils and fats that totalled about 16.4 million tonnes in 2009. Food manufacturers solidified part of the oils by the process of hydrogenation, to produce solid fats as imitation of traditional butter and named it margarines. The process increases the melting point of fats and gives food a longer shelf-life, but little did that they realized that partial hydrogenation process produced undesirable *trans* fatty acids.

Naturally, palm oil is the right choice that can fulfill their need without any chemical process, which has been known years ago. Palm oil has a long history and definitely has a roller-coaster trend in the US market. *Figure 1* shows that palm oil has been imported by US since the 1960s, but usually grouped together with coconut oil as tropical oils then. As early as 1934, the US Congress imposed a tax of 3-cents-per-pound on

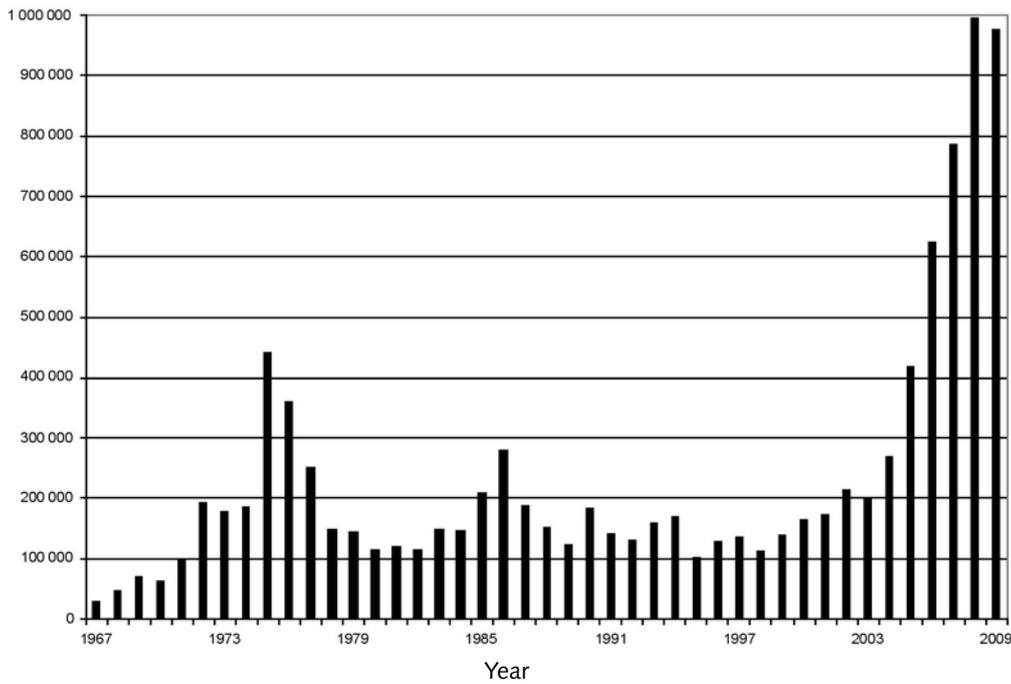
tropical oils intended for food, but not for industrial use. According to the US Department of Agriculture, the act was 'principally to protect domestically produced vegetable oils in their use in the production of edible products'. The tax was suspended from 1957 to 1963. Subsequently, Coconut Oil Users Committee, comprising many US food companies that were using imported coconut and palm oils in their food products, sought a repeal of the tax in 1965 and Congress complied with the request and suspended the tax permanently in the following year.

Thus, both oils could enter the country duty-free. As a result, import of palm oil had risen steadily in the early 1970s to reach nearly 450 000 t in 1975, whereby palm oil import share from Malaysia comprised approximately 85%. The situation instigated lobbying efforts to protect domestic oils. Another bill introduced in Congress in 1977 that would have re-imposed the 3-cents-per-pound tax on these imported oils used with products such as potato chips. The bill failed, but caused detrimental effect on the import of palm oil, which had declined substantially to 100 000 t annually later on.

Although these imported oils represented only a very small fraction of oils used in food processing in US market, domestic oil producers were concerned that the lower prices of the imported oils would not only be attractive for increased domestic sales but also would threaten to become global competitors.

In the early 1980s, import of palm and coconut oils into US market started to rebound again due to the advance of new fad, *i.e.* fast food industries. The imported palm oil reached nearly 300 000 t in 1986, but the amount garnered only 2% share of the American

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Source: Department of Commerce, US Census Bureau, Foreign Trade Statistics.

Figure 1. Annual import of palm oil, 1967-2009.

market. However, that had caused the domestic oil industry to view with alarm the competing interest of palm oil. At that time, tropical oils were common ingredients in many foods and were used extensively because they gave foods desirable properties.

In 1986, with endorsements from other farm groups, American Soybean Association (ASA) launched a series of attacks that became known as the *tropical grease campaign*. The campaign coined the term, *tropical oils*, and used the phrase derisively. The term was inaccurate because some oils such as peanuts, soybeans and other oil-bearing plants, which are produced in temperate climates, are also produced in tropical climates. The real targets were palm and coconut oils, and the confrontation was not between tropical and temperate-climate oils, but rather between domestic and imported

ones. The ASA attempted to block competition in 1987 by trying to persuade lawmakers to introduce legislation against cholesterol-raising saturated fats. The ASA viewed potential legislation on labelling as its 'biggest weapon' against foreign-oil producers.

Legislation was introduced in 1987 to discriminate against tropical oils by imposing special labelling restrictions on food products containing them. The bill was withdrawn following stiff opposition, including criticism by the Food and Drug Administration (FDA), the United States Trade Representative, and the scientific community. The campaign against palm oil was unprecedented. Even though palm oil is widely used throughout the world, no governmental body ever labelled it as unhealthy. However, the damage was done, and the image of palm oil was badly tainted.

Subsequently, the import of palm oil from Malaysia had slowed down and hovering around 100 000 t annually for nearly two decades.

Continuous allegations against palm oil made life harder for the oil to access the US market and the description of palm oil as unhealthy oil lingered in the mind of US consumers. However, after extensive promotion efforts to correct wrong perceptions of palm oil, including new research findings, the market started to make wiser choice by being more receptive to palm and the oil has become one of the best alternative sources of fat for the country.

Starting from 1998, the import of palm oil showed positive trend and the momentum was further boosted by *trans* fat issue. In November 1999, after years of study and deliberation, FDA issued proposed regulations requiring disclosure of

trans fat on food labels and limiting the types of claims regarding *trans* fat that are allowed on food labels. In a comprehensive review of available scientific evidence, FDA concluded that *trans* fats increase the risk of cardiovascular disease, and that Americans' dietary intake of *trans* fats is high enough to warrant 'serious attention from a public health perspective'. In 2001, nearly 80% of the vegetable oils in the United States comes from soyabeans of which 75% is partially hydrogenated, which contain up to 50% *trans* fatty acids. So, in July 2003, FDA issued final regulations requiring food manufacturers to disclose *trans* fat content on the Nutrition Facts label beginning 1 January 2006, and limiting labelling claims that can be made about foods which are high in *trans* fat.

As a result, total import of palm oil had jumped by nearly 55%

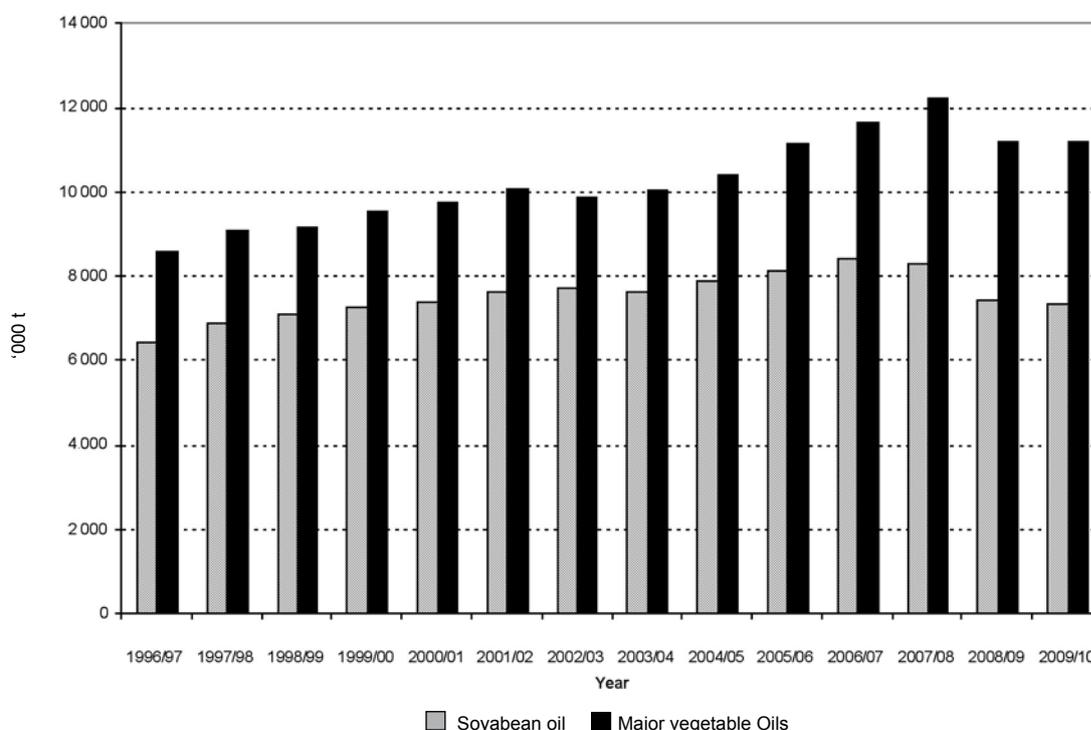
in 2005 from the previous year, while the import had expanded by nearly 50% in the following year to exceed 600 000 t. In 2008, total import of palm oil by the US nearly reached 1 million tonnes, with 90% from Malaysia, 7% from Indonesia while the rest from other countries like Brazil, Singapore, Netherlands and few African countries. This new rule has pushed many food manufacturers to look for alternatives free from *trans* fatty acids and as a result of its properties and relatively low cost, palm oil is a leading option in the efforts to produce processed foods with zero *trans* fatty acids. The US food companies chose palm oil for its functionality and versatility.

CONSUMPTION OF OILS AND FATS IN THE US

The United States is one of big players in the world's oils and fats

market, while the import share comprises about 5% of the world trade.

The domestic consumption of major vegetable oils has increased over the years, with average annual growth rate of 2.13% since 1967/1968. The amount was 11.2 million tonnes in 2009/2010, where soyabean oil comprised about 66% or 7.3 million tonnes (*Figure 2*). The domestic consumption of soyabean oil has grown also over the same period, but slightly slower, with average annual growth rate of 1.07%. Therefore, the domestic consumption of soyabean oil was not significantly affected by the increasing import of palm oil into the US market. The slowdown in 2008/2009 and 2009/2010 was mainly caused by financial economic recession that hit badly on the US economy and also rest of the world. So, the role of palm



Source: Department of Commerce, US Census Bureau, Foreign Trade Statistics.

Figure 2. Domestic consumption of soyabean oil and major vegetable oils, 1967-2009.

oil is not to replace soyabean oil in the US market, but basically to complement as well as to fill the gap as needed by US food consumers.

The edible oil and fats sector accounts for about 78% of the total oils and fats usage. The salad/cooking oil segment is the most dominant segment, accounting for 64% of the total edible oils, followed by baking and frying about 30%, margarine by 4%. Palm oil is mainly used by the ramen noodles sector (33%), shortening (40%), infant formulas (9%), fatty acid (12%) and others (6%).

In 2002, the Americans spent an estimated 46% of their total food budget on away-from-home foods, up from 27% in 1962. Increasingly, even food consumed at home may be a take-out meal from a restaurant, a drive-through meal from a fast-food outlet, a ready-

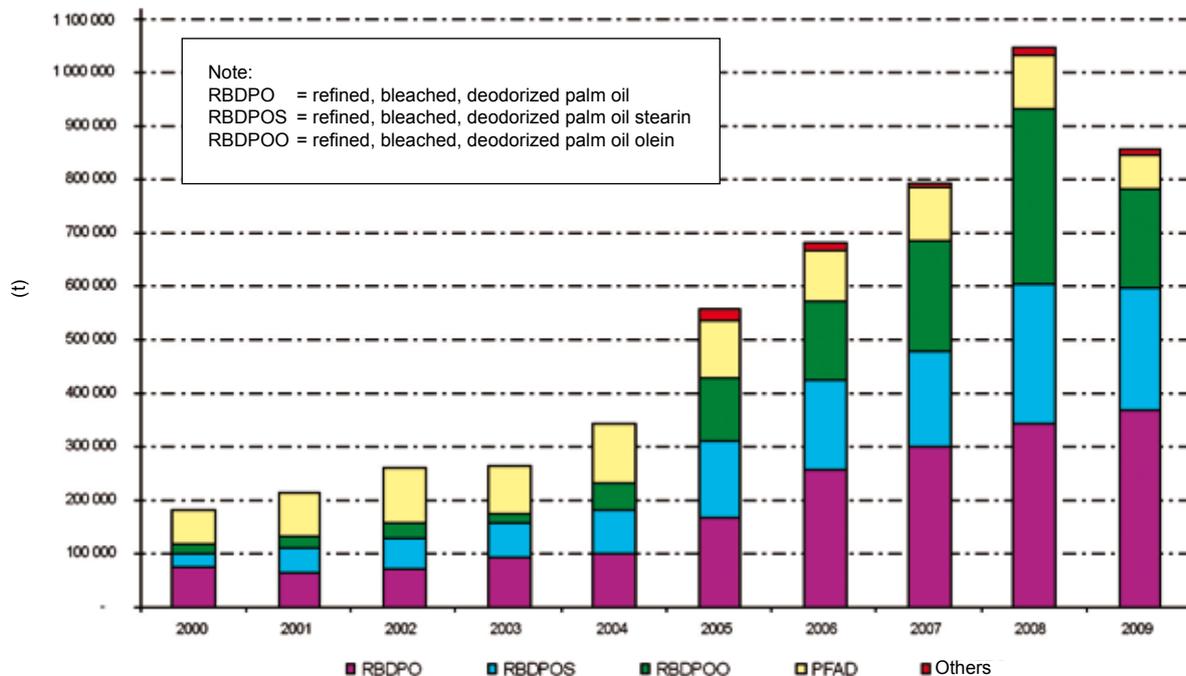
to-eat meal from a supermarket, or a meal delivered to the home. The USDA's food intake surveys show that between 1977-1978 and 1994-1996, the share of daily caloric intake from away-from-home food increased from 18% to 32%. While there are clear convenience benefits to consumers for substituting ready-to-eat foods prepared away-from-home for foods prepared at home, there are also costs. Studies suggest that foods consumed away-from-home are more calorie-dense and nutritionally poorer compared with foods prepared at home. Some studies have found an association between eating away-from-home and overweight and obesity in adults and children. The FDA estimates that the Americans adults eat 5.8 g of *trans* fats per day that is about 2.6% of daily calories. They eat four to five times more saturated fat per day. About 40% of their *trans* fat intake comes

from cakes, cookies, crackers, pies and bread, while 17% comes from margarine.

EXPORT OF MALAYSIAN PALM PRODUCTS TO THE US

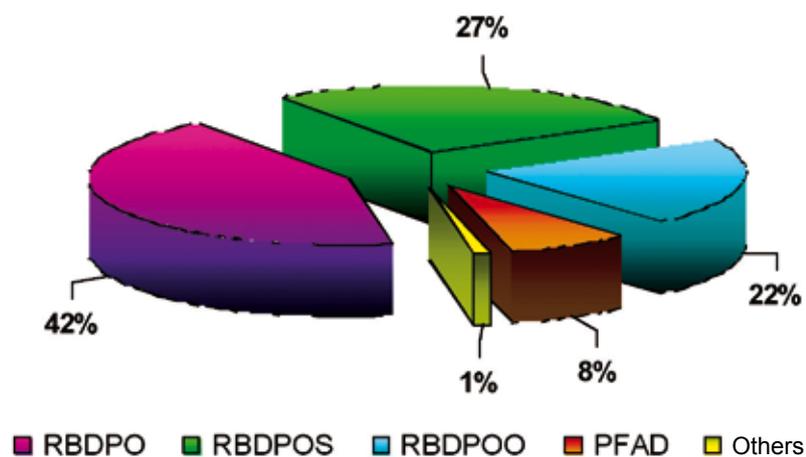
Malaysia has been the major exporter of palm products for the last five decades. *Figure 3* shows increasing trend of Malaysian palm products to the US with average annual growth rate of 20.7% from 2000 to 2009.

A huge increase in the export of palm products to US was recorded in 2005 due to regulations to label *trans* fat in 2006 that prompted food manufacturers to replace partially hydrogenated soyabean oil with naturally saturated palm oil. The smaller export amount in 2009 was mainly caused by economic recession as well as bigger supply of soyabean oil at 10 million tonnes as



Source: *Malaysian Oil Palm Statistics* (various issues).

Figure 3. Export of oil palm products to US, 1997 - 2009 (t).



Source: *Malaysian Oil Palm Statistics* (various issues).

Figure 4. Export composition of palm products to US (2009).

compared to 9.7 million tonnes in the previous year, which suppressed import of palm oil. Only export of refined, bleached, deodorized palm oil had recorded marginal increase, while export of other palm products had shrunk to a certain extent.

In 2009, USA was the fifth largest importer of the Malaysian palm products with import

declining by 18.1% from 1.05 million tonnes in 2008 to 0.86 million tonnes in 2009. Major palm products imported from Malaysia were refined, bleached, deodorized (RBD) palm olein (42%), RBD palm oil (27%), and RBD palm stearin (22%). Other imported products included palm fatty acid distillate (8%) and small amount of palm mid fraction as shown in *Figure 4*.

The *trans* fats disclosure ruling of 2006 had given a good opportunity for palm oil to enter the US market on a positive note and thus gained increasing importance to solve the *trans* fat problem. Meanwhile, palm oil has made inroads in non-traditional segments of the US market, such as instant noodles and specialty fats, but baking, frying as well as the margarine segments offer potential for future growth.