

# Palm Oil Supply and Disappearance: A Quarterly Review

A Borhan A Nordin\*, Norhidayu Abdullah\* and Norrafidah M. Rapiee\*

## INTRODUCTION

The palm oil industry has continued to be a significant contributor to the Malaysian economy and has been one of the major players in the global oils and fats market. Export earnings from oil palm products recorded RM 71.4 billion in 2012, a sizeable decrease of 11.2% from RM 80.4 billion in the previous year due to lower prices of palm products.

The supply and demand of Malaysian palm oil products in 2012 had gone through various pressures in terms of weather uncertainties, stiff competition from Indonesian palm oil due to restructuring of the palm oil export tax, non-trade barriers in the form of environmental issues, global and regional economic situations, and a few others.

On the supply side, the average fresh fruit bunch (FFB) yield in 2012 had decreased by 4.1% to 18.89 t ha<sup>-1</sup> against 19.69 t ha<sup>-1</sup> that was achieved in 2011, while the oil extraction rate (OER) posted 20.35%, remaining at the same level as the previous year. Subsequently, the oil yield recorded a decrease of 4.2% to 3.84 t ha<sup>-1</sup> in 2012. Hence, the Malaysian palm oil production declined slightly by 0.63% from 18.91 million tonnes in 2011 to 18.79 million tonnes in 2012.

The opening stock of palm oil in early 2012 was 2.06 million tonnes, and with imports of palm oil at 1.39 million tonnes and the year's production of 18.79 million tonnes, the total amount of palm oil available for trade was 22.24 million tonnes. Out of that, about 17.56 million tonnes was exported either as crude or processed oils. Together with an estimated disappearance of 2.05 million tonnes within the country, this resulted in an unexpected level of stocks-carry-over in January 2013, amounting to a record high of 2.63 million tonnes.

In the first quarter of 2013, the production of crude palm oil (CPO) was 4.22 million tonnes, a decrease by 1.39 million tonnes from 5.61 million tonnes in the fourth quarter of 2012, and slightly higher compared with the same period in 2012 (*Table 1*).

Average FFB yield declined by 0.51% to 1.42 t ha<sup>-1</sup> compared with the previous quarter of 1.93 t ha<sup>-1</sup>, and was marginally higher than 1.28 t ha<sup>-1</sup> of the same period last year (*Figure 1*). The low yield was mainly due to the low production period of the palms that normally occurs during the first quarter of a year. The average OER was 20.31%, which was better than 20.25% recorded during the same period last year. Hence, the oil yield was recorded at 0.87 t ha<sup>-1</sup> for the first quarter of 2013, which was slightly better than 0.75 t ha<sup>-1</sup> in 2012.

Meanwhile, the opening stock of 2.63 million tonnes comprised 1.58 million tonnes CPO and 1.05 million tonnes processed palm oil (PPO). The total amount was substantially bigger as compared

\* Malaysian Palm Oil Board  
6, Persiaran Institusi, Bandar Baru Bangi,  
43000 Kajang, Selangor, Malaysia  
E-mail: bordin@mpob.gov.my

**TABLE 1. MALAYSIAN PALM OIL PRODUCTION (million tonnes)**

Quarter	1 <sup>st</sup> 2012	4 <sup>th</sup> 2012	1 <sup>st</sup> 2013
Production	3.69	5.61	4.22

Source: MPOB Statistics.

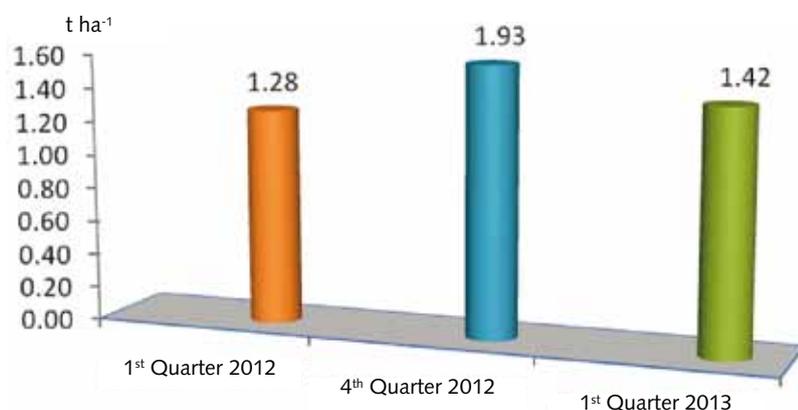


Figure 1. Average Malaysian FFB yield.

with 2.06 million tonnes in 2012. This was due to a high production of CPO, and also a slowdown in terms of exports of PPO due to stiff competition from Indonesian processed products in the world market. Consequently, import of palm oil in the first quarter of 2013 decreased by 50.8% to 0.29 million tonnes. As a result, the total supply of palm oil for the first quarter 2013 was estimated at 12.16 million tonnes.

On the demand side, the total exports of Malaysian palm oil products for the first quarter of 2013 had accumulated to 4.56 million tonnes, comprising 0.93 million tonnes of CPO and 3.63 million tonnes of PPO. The amount was higher as compared with that of the same period last year by nearly 50% and 9% for CPO and PPO, respectively. However, the total exports of palm oil were smaller by 10.4% than

the previous quarter but higher by nearly 16% than the same period last year (Figure 2). For palm kernel products, namely palm kernel oil (PKO) and palm kernel expeller (PKE), the exports of PKO had contracted by 5.6%, while exports of PKE had increased by 22.7% over the previous quarter. Meanwhile, exports of finished products had dropped by 19.7% from the previous quarter and by

nearly 6% from the same period last year. Likewise, exports of oleochemical products showed a similar trend, declining marginally by less than 1% either on a quarterly or yearly basis. On the other hand, exports of biodiesel had recovered substantially to reach about 30 000 t in the first quarter of 2013, which was nearly double that of the same period last year, and was nearly quadruple that of the previous quarter.

The total exports of CPO for the first quarter of 2013 had accumulated to 0.93 million tonnes. The amount was lower by 37.6% from 1.49 million tonnes in the previous quarter, but had increased by nearly 50% from 0.62 million tonnes of the same period last year (Figure 3). The imposition of the new CPO export tax beginning in January 2013 that starts at 4.5% when the price of CPO exceeds RM 2250 t<sup>-1</sup> and rising 0.5% for every RM 150 t<sup>-1</sup> increase in price has contributed partially to the higher increase of exports of CPO. At the same time, the CPO export duty-free scheme has been suspended in order to increase the export competitiveness of Malaysian palm oil processed products. In fact, the CPO export

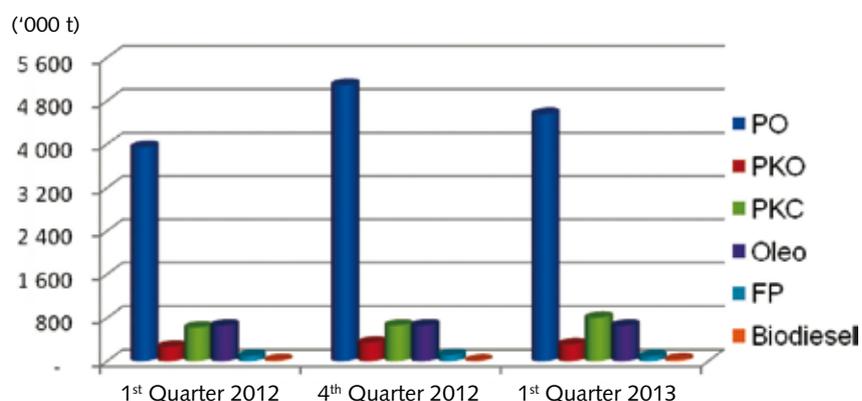


Figure 2. Quarterly exports of oil palm products.

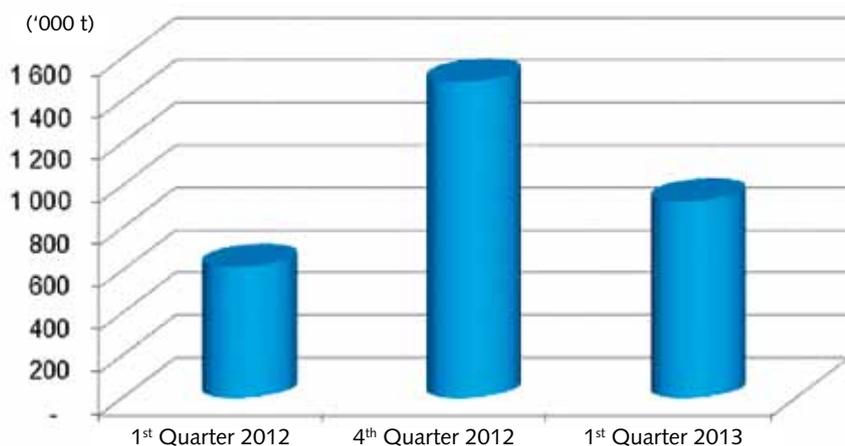


Figure 3. Quarterly exports of crude palm oil.

tax was really imposed only in March 2013 because in the previous two months, the price of CPO had been less than RM 2250 t<sup>-1</sup>. Although, it is too early to evaluate the impact of the new CPO export tax, it will be interesting to monitor its effects on the exports of CPO and PPO in the later part of the year.

The major destinations for Malaysian palm oil products are China, the European Union (EU), India, United States of America (USA) and Pakistan. Developments in these markets will have some bearing on the export performance of Malaysian palm oil.

The amount of exports to China, estimated at about 0.92 t, has slowed down from the previous quarter, but has increased slightly by 17.9% as compared with the same period last year (Table 2). Refined, bleached and deodorised (RBD) palm olein was the major export product that had decreased marginally from the previous quarter, but is still higher as compared with the first quarter of 2012, amounting to almost 0.58 million tonnes (Figure 4). Meanwhile, the exports of RBD

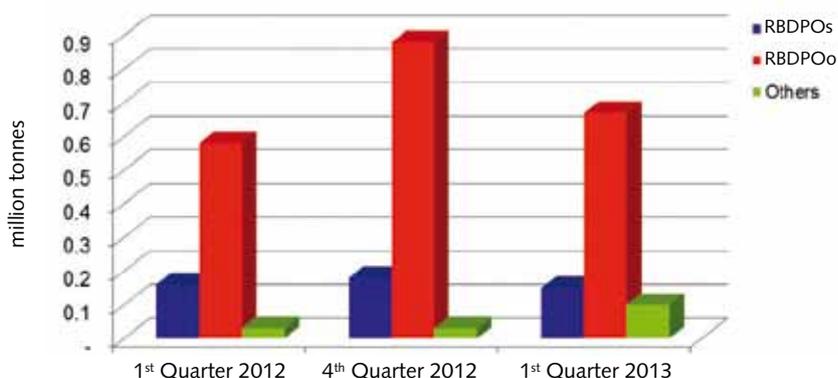
palm stearin in the first quarter of 2013 were 0.15 million tonnes, having decreased by 16.7% from the fourth quarter of 2012 and increased by 6.3% from the first quarter of 2012. It is also interesting to note that exports of CPO, crude palm stearin and RBD palm oil had increased quite substantially either on a quarterly or yearly basis.

Two regulations were enforced by the government of China, effective on 1 January 2013, that can potentially affect the demand of palm oil. The first one is the *trans*-fat labeling regulation stipulating a maximum level of 0.3% in food products; this will encourage the wider application of palm oil because it is a *trans*-fat-free product. The second one is the full enforcement of Regulations on Edible Oils Imports: Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) 229 (2012). This enforcement means that all edible oil exporters must ensure that their shipment quality meets the landed quality specifications instead of the previous 'shipped quality at origin'. A consignment that does not meet the specifications will be turned away and no longer be allowed to be re-refined in China. The China Entry-Exit Inspection

TABLE 2. EXPORTS OF PALM OIL PRODUCTS TO CHINA (million tonnes)

Quarter	Amount
1 <sup>st</sup> 2012	0.78
4 <sup>th</sup> 2012	1.11
1 <sup>st</sup> 2013	0.92

Source: MPOB Statistics.



Note: RBDPOs = refined, bleached, deodorised palm oil stearin.  
RBDPOo = refined, bleached, deodorised palm oil olein.

Figure 4. Export composition of palm oil products to China.

and Quarantine Bureau (CIQ) regulation also holds the refiners and exporters responsible for any deterioration of the edible oils without the imposition of additional charges.

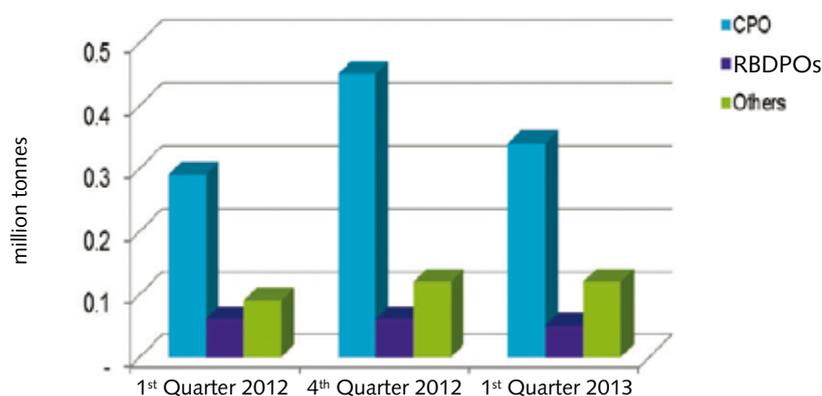
The total exports of palm oil products to the European Union (EU) had decreased by 19% to 0.51 million tonnes in the first quarter of 2013 compared with 0.63 million tonnes in the previous quarter, and increased by 15% from the same period last year (Table 3). Major palm oil products imported by EU were CPO, followed by RBD palm stearin and other processed products (Figure 5). The export of CPO had dropped significantly by 24% from the previous quarter, and increased about 17% compared with the same period last year.

At the end of last year, there was a negative effect from the palm oil-free campaigns in France seeking to ban the use of palm oil in the country's food sector due to false claims of palm oil's alleged adverse impact on health and the environment that were widely circulated in the French media. It became worse when the French Senate proposed an amendment that would see a 400% increase in tax on palm oil coming into France which was called the 'Nutella Tax'. The present French tax on palm oil imports is about EUR 100 t<sup>-1</sup>. Such aggressive false allegations by the French threaten to disrupt palm oil exports to EU. Even though the Nutella Tax was rejected by France's National Assembly, palm oil producers are concerned that the actions taken by the French may cause a domino effect in the rest of EU.

TABLE 3. EXPORTS OF PALM OIL PRODUCTS TO EU (million tonnes)

Quarter	Amount
1 <sup>st</sup> 2012	0.44
4 <sup>th</sup> 2012	0.63
1 <sup>st</sup> 2013	0.51

Source: MPOB Statistics.



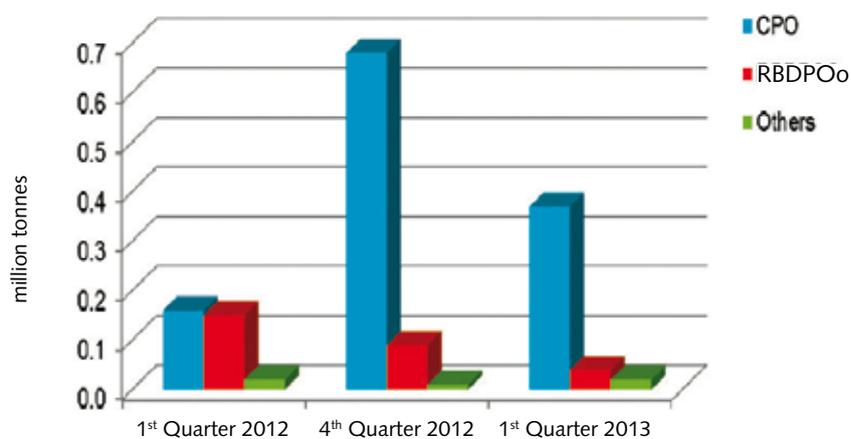
Note: CPO = crude palm oil.  
RBDPOs = refined, bleached, deodorised palm oil stearin.

Figure 5. Export composition of palm oil products to EU.

TABLE 4. EXPORTS OF PALM OIL PRODUCTS TO INDIA (million tonnes)

Quarter	Amount
1 <sup>st</sup> 2012	0.33
4 <sup>th</sup> 2012	0.78
1 <sup>st</sup> 2013	0.42

Source: MPOB Statistics.



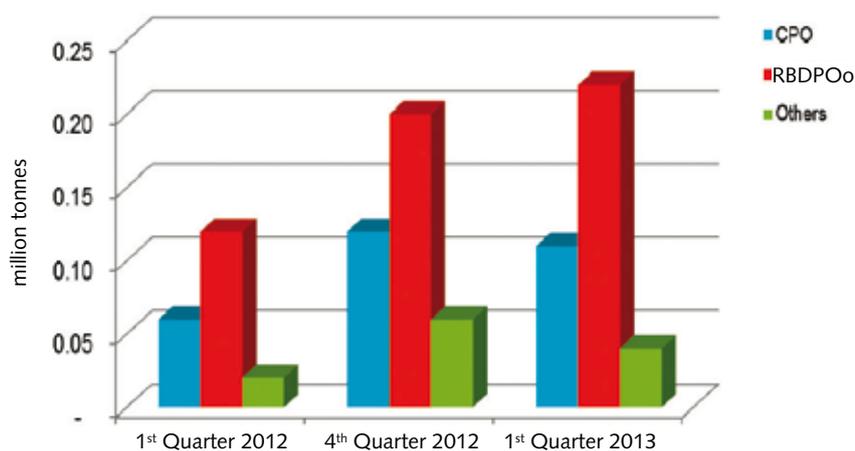
Note: CPO = crude palm oil.  
RBDPOo = refined, bleached, deodorised palm oil olein.

Figure 6. Export composition of palm oil products to India.

**TABLE 5. EXPORTS OF PALM OIL PRODUCTS TO PAKISTAN (million tonnes)**

Quarter	Amount
1 <sup>st</sup> 2012	0.23
4 <sup>th</sup> 2012	0.38
1 <sup>st</sup> 2013	0.37

Source: MPOB Statistics.



Note: CPO = crude palm oil.  
RBDPOo = refined, bleached, deodorised palm oil olein.

*Figure 7. Export composition of palm oil products to Pakistan.*

India has been one of the major export destinations for Malaysian palm oil products. In the first quarter of 2013, the amount of palm oil exported to India had accumulated to 0.42 million tonnes, smaller by 46% than in the fourth quarter of 2012, but 27% higher than in the same period last year (Table 4). Exports of CPO that amounted to 0.37 million tonnes, had dropped substantially by 46% from the previous quarter, while exports of RBD palm olein had decreased by 55.6%. Exports of both products decreased by more than 50% when compared with the equivalent period last year (Figure 6).

According to the Solvent Extractors' Association of India (SEAI), demand for cooking oil in 2013 will grow by 6% to

17.5 million tonnes due to rising population growth and disposable income. However, the Indian Government has re-imposed a 2.5% duty on imports of crude edible oils in January 2013 which is aimed at slowing down purchases of crude edible oils from foreign sources and to protect the interests of domestic oilseed growers. In addition, the six-year-old freeze on the base price/tariff value of edible oils was lifted which will make imports more costly.

In the first quarter of 2013, the amount of palm oil exported to Pakistan had decreased by 2.6% to 0.37 million tonnes from the previous quarter, and increased by 60.9% as compared with the same period in 2012 (Table 5). RBD palm olein, which constitutes nearly 61% of the palm oil products to Pakistan, had increased by 10% on a quarterly basis and by 83% on a yearly basis. Similarly, exports of CPO also showed similar trends, i.e. reducing by 8.3% from the previous quarter and about 83.3% compared with the same period last year (Figure 7).

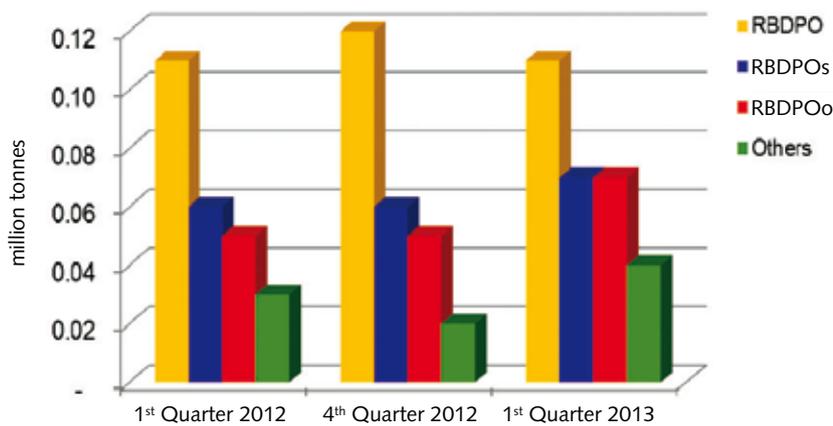
A Preferential Trade Agreement (PTA) between Pakistan and Indonesia was signed in early February 2012. As a result, Pakistan has lowered her duty by a 15% MoP (Margin of Preference) on Indonesian palm oil. Although exports of Malaysian palm oil products are unlikely to drop drastically, eventually, Pakistan will become a challenging market as well as a difficult one to sustain due to the price-sensitiveness of the market.

Exports of Malaysian palm processed products to the United States had accumulated to 0.30 million tonnes for the first quarter of 2013, which was 15.4% higher than in the previous quarter and 25% higher than for the first quarter of 2012 (Table 6). Exports of RBD palm oil had decreased

**TABLE 6. EXPORTS OF PALM OIL PRODUCTS TO USA (million tonnes)**

Quarter	Amount
1 <sup>st</sup> 2012	0.24
4 <sup>th</sup> 2012	0.26
1 <sup>st</sup> 2013	0.30

Source: MPOB Statistics.



Note: RBDPO = refined, bleached, deodorised palm oil.  
 RBDPOs = refined, bleached, deodorised palm oil stearin  
 RBDPOo = refined, bleached, deodorised palm oil olein.

Figure 8. Export composition of palm oil products to USA.

by 8% from the previous quarter, but still remained at the same level compared to the first quarter of last year. Meanwhile, exports of RBD palm olein and RBD palm stearin had increased by 40% and 16.7%,

respectively, either on a quarterly basis or a yearly basis, amounting to 0.07 million tonnes for each of the products in the first quarter of 2013 (Figure 8).