

Eastern Europe: The Untapped and Potential Growth Markets for Malaysian Palm Oil

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INTRODUCTION

Palm oil is the most traded oil in the world due to its demand and versatility in both food and non-food (e.g. oleochemicals and biofuels) applications. Malaysia is the second largest producer of palm oil in the world and the oil palm industry contributed RM 67.6 billion in 2016 in export earnings. It is important for the industry to remain viable and competitive taking into account its importance to the economy of the country. However, for Malaysian palm oil, one of the challenges faced is competition from other palm oil producers (mainly Indonesia) and competition from other vegetable oils traded globally such as soyabean, sunflower seed and canola oils. Therefore, there is a need to continually explore potential growth markets to ensure that there is sufficient demand for Malaysian palm oil. Eastern Europe is a promising growth market due to *inter alia* opportunities arising from the break-up of the Soviet Union and Yugoslavia. Countries in Eastern Europe include Belarus, Bulgaria, the Czech Republic, Hungary, Moldova, Poland, Romania, the Russian Federation, Slovakia

and Ukraine. Driving factors for potential market growth in the region are the possible substitution or replacement of the traditional vegetable oils and fats used in the food sector, price and availability of supply, health benefits of vegetable oil, and sustainability.

MALAYSIAN OIL PALM INDUSTRY

The Malaysian oil palm industry is celebrating its 100-year anniversary in 2017, and in doing so will reflect on the journey, efforts and other measures undertaken by the industry to supply palm oil for food and non-food applications to the global community. This historic achievement is an aggregation of the efforts by all stakeholders in the industry.

The oil palm industry is very important to Malaysia, particularly in socio-economic development. In 2016, Malaysia produced 17.32 million tonnes of crude palm oil (CPO) and exported 16.05 million tonnes of CPO and processed palm oil. The export value of palm oil and its products was recorded at RM 67.6 billion. Palm oil is not only important to Malaysia but is also crucial to more than 160 countries all over the world which consume palm oil and palm products. The exports of Malaysian palm oil to

selected major destinations for the last three years are shown in *Table 1*.

EASTERN EUROPE

The boundaries of the Eastern European region are subject to considerable overlap and fluctuation depending on the context in which they are used, making differentiation difficult. However, Eastern Europe as defined by the United Nations Statistics Division includes Belarus, Bulgaria, the Czech Republic, Hungary, Moldova, Poland, Romania, the Russian Federation, Slovakia and Ukraine (New World Encyclopedia, 2017).

POPULATION

The total population of Eastern Europe is estimated at 300 million people in the year 2015, which is 10 times more than Malaysia with a population of 30 million (The World Bank, 2017). The most populated country is the Russian Federation with 144 million people, followed by Ukraine with 45 million and Poland with 38 million. The population of these three countries accounted for 75% of total population in the region. *Table 2* shows the estimated population of Eastern Europe in 2015.

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TABLE 1. EXPORTS OF MALAYSIAN PALM OIL TO SELECTED MAJOR DESTINATIONS (2014–2016)

Destination	Exports of palm oil ('000 t)		
	2014	2015	2016
India	3 252	3 686	2 826
European Union	2 411	2 433	2 059
China, P R	2 839	2 380	1 882
Pakistan	816	728	880
USA	783	703	590
Philippines	494	648	625
Vietnam	604	584	556
Japan	514	545	456
Turkey	78	399	657
South Korea	374	379	389

Source: MPOB (2017).

TABLE 2. ESTIMATED POPULATION IN COUNTRIES IN EASTERN EUROPE (2015)

Country	Population (est.)
Belarus	9 513 000
Bulgaria	7 177 990
Czech Republic	10 551 220
Hungary	9 844 690
Moldova	3 554 150
Poland	37 999 490
Romania	19 832 390
Russian Federation	144 096 810
Slovakia	5 424 050
Ukraine	45 198 200
Total	293 191 990

Source: The World Bank (2017).

CONSUMPTION OF VEGETABLE OILS

Figure 1 shows the consumption of vegetable oils in 2015 by the 10 countries in Eastern Europe (Oil World Annual, 2016). A total of 7.4 million tonnes of vegetable oil, of which 20% or 1.48 million tonnes was palm oil, were consumed. This

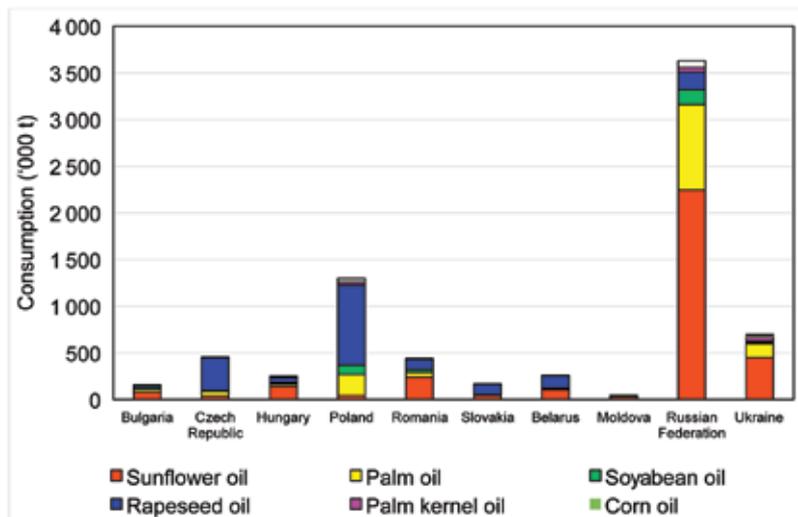
shows that palm oil has entered or penetrated Eastern Europe, with the Russian Federation, Poland and Ukraine being the major consumers. Total consumption of the remaining seven countries collectively accounted for only half of the total consumption in the Russian Federation.

For Eastern Europe, most of the palm oil is imported directly from Indonesia and Malaysia. The remaining share is sourced through trade hubs in the Netherlands and Germany. In this context, the palm oil most likely originated also from Indonesia and Malaysia, the two major producers of palm oil in the world. The re-exporting of palm oil is necessary because half of these countries are landlocked with no direct access to seaport facilities that are important for trading of vegetable oils, including palm oil. The landlocked countries include Belarus, the Czech Republic, Hungary, Moldova and Slovakia.

OPPORTUNITIES FOR THE MALAYSIAN OIL PALM INDUSTRY

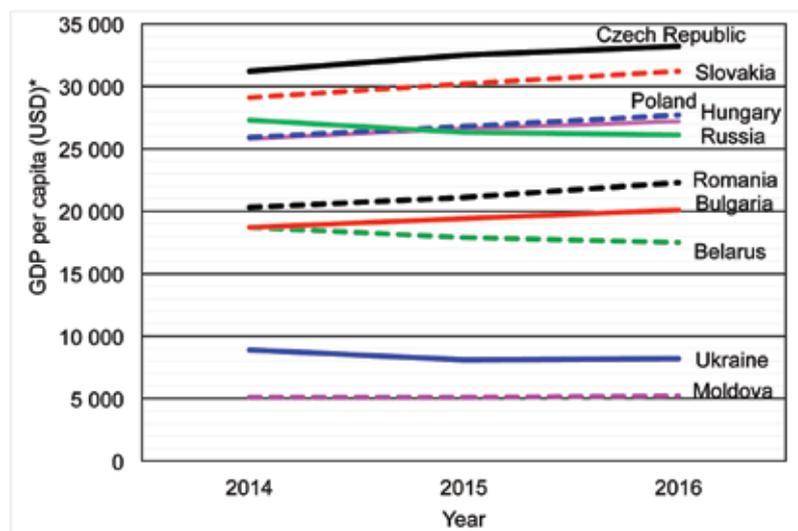
Economic growth of the Eastern European countries has been experiencing a depression due to geopolitical tensions. However, the economies are moving towards recovery beginning in 2016, thus, contributing to a positive economic outlook for the region. Lower inflation rate coupled with positive growth in gross domestic product (GDP) have been observed and these will contribute to better economic performance. The higher GDP growth rate will boost per capita disposable income. Per capita consumer expenditure is also recovering and subsequently is expected to increase.

The latest GDP per capita (USD 2016) of the 10 countries in the Eastern Europe region is shown in Figure 2. The six European Union member countries, namely, Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia, recorded positive growth in GDP per capita, implying a better



Source: Oil World Annual (2016).

Figure 1. Total consumption of vegetable oils in Eastern Europe (2015).



Note: *Data are in USD (in 2016). Source: CIA (2017).

Figure 2. Gross domestic product (GDP) per capita (USD) of Eastern Europe.

standard of living. The remaining four non-European Union (EU) member countries experienced relatively constant GDP per capita. Although GDP per capita of the Russian Federation was relatively constant, it is in the range of that of the European Union member countries, *i.e.* more than USD 25 000.

Exports of finished palm products from Malaysia are

on upward trends (Figure 3). Shortening is one of the major products exported into the region. This is mainly attributed by the health concerns related to *trans* fatty acids produced by partial hydrogenation of soft oils to produce shortenings. The competitive price of shortening from palm oil in addition to its wide applications makes it the preferred choice. The confectionary industry is growing in the region which further enhances the demand for shortening.

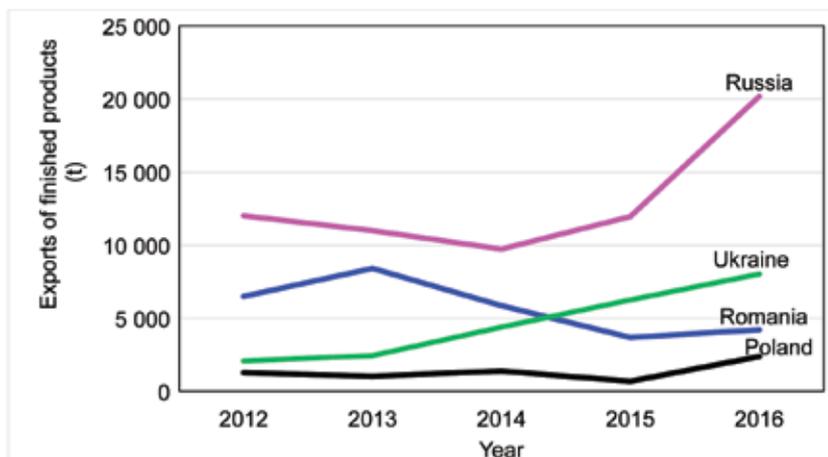
The oleochemical industry is also expected to have growth potential in Eastern Europe. Two countries, the Russian Federation and Poland, have increased their imports of oleochemical products from Malaysia, beginning in 2014 (Figure 4). A research company reported that the sales of personal care products (such as for body care and hair care) show a growing trend in the Russian Federation. This provides an opportunity for Malaysian basic oleochemical producers to continue increasing their share in the sector. The main oleochemical products exported to the Russian Federation include fatty alcohols, palmitic and stearic acids, while soap noodles is the main export to Poland.

CONCLUSION

Eastern Europe has growth potential for the Malaysian palm oil industry. The Russian Federation and Ukraine are the two largest non-European Union potential growth markets while Poland is a potential growth market among the European Union countries. Population growth has stagnated in Eastern Europe but the potential demand growth will possibly come from increasing per capita consumption in line with GDP growth and higher demand for downstream products (e.g. oleochemicals).

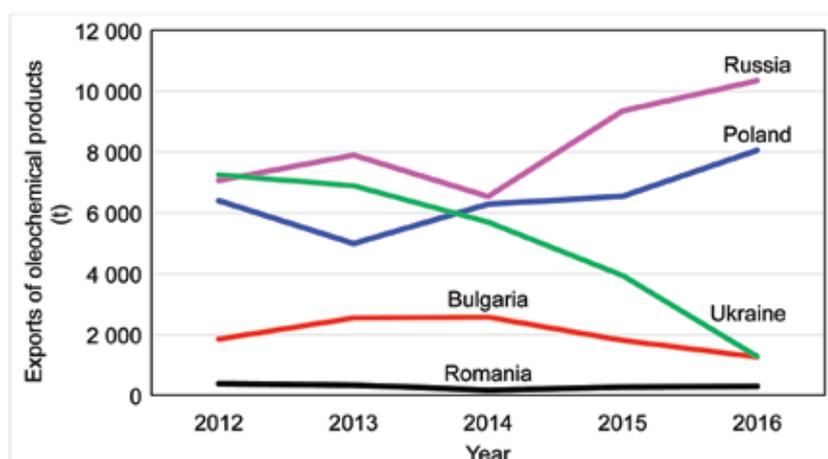
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Source: MPOB (2017).

Figure 3. Exports of finished palm products from Malaysia.



Source: MPOB (2017).

Figure 4. Exports of oleochemical products from Malaysia.

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