MPOB Daily FFB Reference Price: TOWARDS A MORE TRANSPARENT MARKET

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ABSTRACT

The objective of this paper is to give a detailed explanation regarding the dissemination of the MPOB Daily Fresh Fruit Bunches (FFB) Reference Price. The paper will highlight the price formula used and the computation of the Reference Price according to the various regions. The Reference Price is meant as a guide to assist the smallholders in determining their FFB price in relation to crude palm oil (CPO) and palm kernel (PK) prices. The single reference price will create a transparent market in FFB trading, which will help towards ensuring a more harmonious relationship amongst smallholders, FFB traders and millers.

INTRODUCTION

The continued decline in CPO and PK prices since February 1999 had a direct impact on the price of FFB. The monthly average price of FFB (mill-gate basis) was down by 72% from RM 22.43 for 1% oil extraction rate (OER) equivalent in January 1999 to RM 6.20 in January 2001. In other words, based on the smallholders' average OER of 17.5% for their FFB, the price of FFB had declined from RM 393 to RM 109 per tonne during this period. This was the lowest price level attained since October 1990 (*Figure 1*).

The decline in FFB prices had not only affected the smallholders' income, but also threatened the harmonious relationship prevalent in the industry. Distrust and accusations amongst the smallholders, dealers and millers are getting more acute and serious.

Attention should be focused on the stability in the smallholders' sector because it plays an important role not only in the development of the palm oil industry, but also in the socio-economic development of the country. The total number of independent smallholders had increased significantly from a mere 12 384 in 1980 to 87 718 in 2000. The oil palm planted area by this sector had increased sharply from 46 917 ha to 320 818 ha during the same period. The area accounted for 9.5% of the total Malaysian oil palm planted area in 2000 (*Table 1*).

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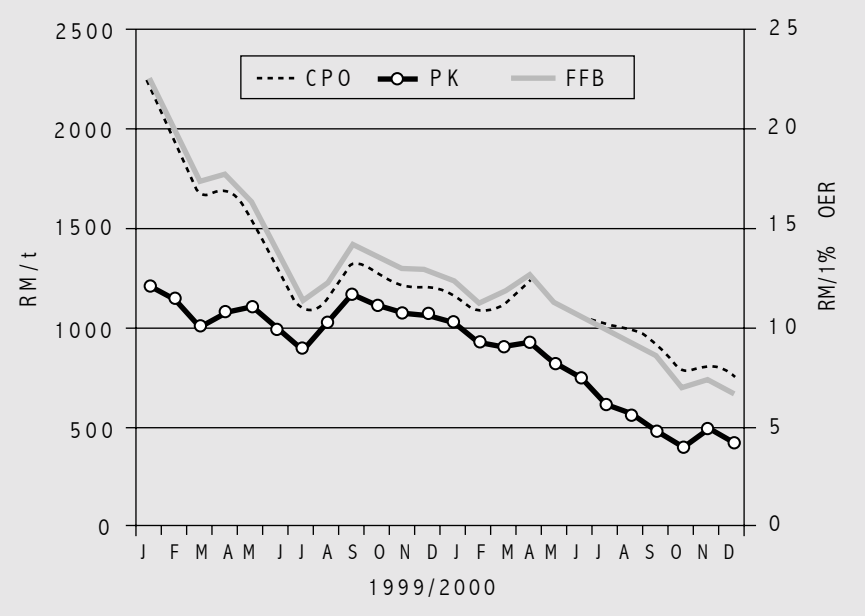

Figure 1. Prices of palm oil products.

TABLE 1. STATUS OF INDEPENDENT OIL PALM SMALLHOLDERS

Year	No. of Smallholders	Area (ha)
1980	12 384	46 917
1990	53 985	174 290
2000	87 718	320 818

Source: MPOB.

LACK OF TRANSPARENCY IN FFB TRADING

In general, the smallholders' FFB trading mechanism is not satisfactory and lacks transparency. The monthly FFB price determination system poses difficulties for smallholders in monitoring the daily traded prices. All this while, smallholders have been selling FFB without knowing their traded prices (*Fugure 2*).

Most of the smallholders experience difficulties in understanding and applying the FFB pricing mechanism, despite the fact that MPOB has issued guidelines for computing FFB prices since 1996. This steams from the fact that there are many factors that have to be taken into consideration for the price computation. This has ultimately weakened the bargaining power of smallholders whenever they deal with the FFB dealers.

The FFB dealers, on the other hand, play an important role in the smallholders' FFB marketing system. The dealers provide a service to the smallholders, namely, by collecting, loading, unloading and transporting FFB from the farm to the mill. However, the charges for the services they provide vary and are not controlled, thus causing further problems to the smallholders.

The dealers, in turn, are faced with the problem of non-uniformity in the quality of the FFB supplied by smallholders. Furthermore, the dealers are also unable to do grading on small quantities of FFB delivered by individual smallholders. As a result, the dealers have to accept the monthly average graded OER of the FFB from the mills. This situation has aggrieved smallholders who sell high quality FFB.

There are also variations in the CPO price reference and cost deductions between millers. The processing charges, for instance, are not only based on the mill efficiency, but also on the quality mix of the FFB and the competition among mills to procure a sufficient supply.

MPOB DAILY FFB REFERENCE PRICE

The dissemination of the Daily FFB Reference Price is yet another market information service offered by MPOB. Thus far, the daily prices released by MPOB covers CPO, processed palm oil products, PK and palm kernel oil. In addition, the monthly industry indicators released include production, stock, export and OER. In general, the objective of disseminating such information by MPOB is not only to assist the industry in making accurate marketing decisions, but also to enable them to monitor the efficiency of their respective companies performance.

The objective of the Daily FFB Reference Price is to provide the FFB price in relation to the daily CPO

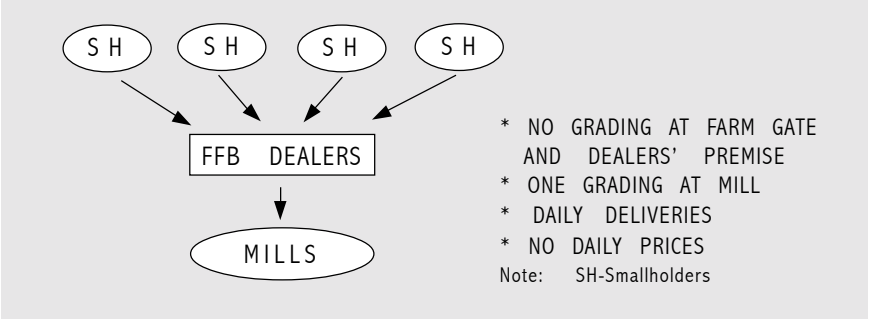

Figure 2. FFB Marketing system.

and PK prices. The Daily FFB Reference Price release is primarily meant to act as a guide or a reference not only to the smallholders, but also to the dealers and millers. The price is neither mandatory nor compulsory to be used by any parties concerned. By having a single reference price, it is hoped that the good relationship between the three parties concerned, will be maintained. In addition, the daily prices will also overcome the difficulties experienced by smallholders in applying the FFB pricing formula to derive the FFB price. The price will also enable the smallholders to use it as a base to negotiate for a better price or to lower the charges imposed by the dealers. The quality of the FFB traded will also be further improved since both smallholders and mills will strive for better quality FFB to maintain high OER. Better quality FFB means better prices for smallholders.

MPOB DAILY FFB REFERENCE PRICE COMPUTATION

Formula

To avoid any confusion and adverse repercussion, the current MPOB FFB pricing formula will continue to be applied with only slight adjustments made. This is because the formula, which was developed in 1996 with the collaboration of the industry, is now well-accepted and understood by most independent mills, dealers and smallholders. The quality control element built into the formula has been effective in improving the quality of FFB delivered to the mills. This is because the formula requires the FFB to be graded and the quality deductions to be undertaken as prescribed in the MPOB FFB Grading Manual.

The only adjustment made is in computing the price per tonne by using the actual average OER of mills by regions instead of the Graded OER of the FFB. This is because MPOB does not have the information on Graded OER. Thus, the mill OER is considered the most appropriate to represent the Graded OER since both are highly correlated.

With this adjustment, the millers will strive to improve their OER performance by further enhancing the management and efficiency of the mill as well as controlling the quality of the FFB received. The smallholders will be encouraged to deliver good quality FFB to the mill, whilst the dealers take efforts not to contaminate their deliveries.

The Base Kernel Extraction Rate for Peninsula Malaysia and Base FFB Oil Extraction Rate for East Malaysia are also adjusted to 5.5% and 20% respectively to reflect the current status of performance.

The formula which emphasizes on higher OER and better FFB quality, will definitely compensate the income of the smallholders during the low FFB prices. The formula for computing the MPOB Daily FFB Reference Price is shown in *Figure 3*.

Daily CPO and PK Price Estimate

The daily regional CPO and PK prices have to be estimated before MPOB is able to compute the daily regional FFB prices. This is no doubt a time consuming and difficult task. However, special care and diligence will be undertaken to ensure the accuracy and reliability of the estimates.

To derive at the daily estimated CPO price, the previous day's average traded MPOB price will be used as a basis. It will then be adjusted with both the nett price change of CPO in the Malaysian Derivatives Exchange (MDEX) at 11.00 am and price estimates/quotes received from selected mills and brokers on the same day. In the case of PK, the same method will be applied except for the MDEX prices. The prices that will be applied to the formula are current month prices. However, if there is no price information available for the previous day or for the current month, then the latest available daily current month prices or nearest forward month prices will be used.

Deductions

The average cost and charges to be deducted in the formula was obtained from a special random survey undertaken by MPOB. The deductions applied in the formula by regions are shown in *Table 2*.

- **PRICE FOR 1% BOER**
  [(CPOp -C-M-T)% BOER + (PKp x BKER) – PC] ÷ BOER
- **PRICE FOR 1 TONNE**
  PRICE FOR 1% BOER x MOER

Notes:
CPOp = Crude palm oil price local delivered
PKp = Palm kernel price ex-mill
BOER = Base OER
BKER = Base KER
MOER = Mill OER
C = Cess
M = Commission
T = Transport cost
PC = Processing charges

Figure 3. MPOB Daily FFB Reference Price Computation.

TABLE 2. AVERAGE COST/CHARGES DEDUCTIONS (RM/t)

Cost/charges	North	South	Central	E.Coast	Sabah	Sarawak
Commission	2.00	2.00	2.00	2.00	2.00	2.00
CPO transport	15.00	15.00	15.00	15.00	20.00	21.50
Processing charges	28.50	30.00	27.50	30.00	38.50	38.50

Source: MPOB.

FFB Grades

For the purpose of price release, the prices of three FFB Grades will be introduced based on the regional actual monthly average mill OER. The Grades are as follows:

Grade A = actual average mill OER + 1%.
Grade B = actual average mill OER.
Grade C = actual average mill OER - 1%.

The actual average monthly OER will change monthly by regions according to the mills' performance. Arrangements will be made to use weekly OER submitted by selected mills to enhance the reliability and accuracy of the FFB price derived.

Based on the historical data and the close correlation between mill OER and the quality of FFB processed, the grades which are based on actual mill OER can be accepted to be reflective of the Graded FFB OER as follows:

Grade A • 19%.
Grade B = 18% - 18.9%.
Grade C = 17% - 17.9%.

The prices of lower Grades are not computed in order to encourage mills to maintain high OER and for the smallholders to deliver good quality FFB.

Price Basis

The MPOB Daily FFB Reference Price is on mill-gate basis. This is to ensure that dealers reveal to smallholders the service charges deducted for handling and transporting the FFB from the farm to the mill. Productive interactions between dealers and smallholders will reduce exploitation and enhance the price discovery mechanism for FFB at the farm-gate.

Price Release

In order to ensure smallholders are able to receive and understand the MPOB Daily FFB Reference Price, due consideration will be given to the media used, timing and language. The daily FFB prices will be announced through the radio in Malay, Mandarin and Tamil and on television at 1.00 pm. In order to promote information and communication technology (ICT) culture among oil palm smallholders, the release will also be made available in the MPOB Homepage (http://www.mpob.gov.my) and obtained via MPOB telephone Infoline (03-7045061/2/3/4) from 12.00 noon daily. Selected newspapers will also publish the prices the following day. The various price release dissemination modes are shown in *Table 3*.

TABLE 3. MODE OF RELEASE

MEDIA	PROGRAM	TIME
Radio 1	National News	1.00 pm
Radio 5	Mandarin	1.00 pm
Radio 6	Tamil	1.00
Television	Bisnes M'sia (TV1)	1.00 pm
MPOB Homepage (http://www.mpob.gov.my)		12.00 pm
Infoline (03-7045061/2/3/4)		12.00 pm
Newspapers	The Star, Utusan Malaysia Sin Chew Jit Poh and Tamil Namban	The next day

ACTION PLAN

MPOB will organize a nation-wide briefing for smallholders, FFB dealers and mills to ensure that all parties understand the concept of the Daily FFB Reference Price.

Consultation and fine-tuning of the price computation method, the deductions involved and determining the daily CPO and PK price estimates will continue to be undertaken regularly to ensure that the FFB price released daily are reliable, accurate and in line with the regional CPO and PK prices.

Immediate attention will be given to all problems that might surface as a result of the price release to ensure that no parties are adversely affected and to maintain the good relationship and harmony that exist amongst the smallholders, FFB dealers and millers.

CONCLUSION

The MPOB Daily FFB Price is only a reference price for the industry. It is our hope that this price will create a more transparent FFB marketing system. With a single reference price, we also hope that the harmony amongst smallholders, dealers and millers will be further enhanced.

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