An Overview of Malaysian Palm Oil Market Share in Selected Markets

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ABSTRACT

Palm oil is the leading edible oil traded in the world market. Both Malaysia and Indonesia are the world's largest exporters of palm oil, commanding more than three-quarters of the world market. In 2007, these countries contributed 83.5% of the production and 89.6% of the world trade in palm oil. Malaysia herself accounted for 47.9% of the production and 57.5% of the trade. However, over the years, Malaysia has been losing her market share to her closest rival, Indonesia. This article attempts to provide an overview of Malaysia's market share of palm oil in five major markets compared to Indonesia. Apart from describing the share in the various markets in absolute terms, an index was also used as a bench-mark to overview the trend in real terms.

INTRODUCTION

According to international trade economics, a country can have international specialization if her firms and macro-economy are competitive. Variables considered in competitiveness include openness, government, finance, infrastructure, technology, management, institutions, labour and human capital (Asopa and Mohd Arif, 2005). These variables enable the country to maintain superiority over others in accessing and attracting markets. For many years, the Malaysian palm oil industry had the largest market share in the world. The main importers are India, China and Pakistan. However, Indonesia has now gained a significant market share earlier controlled entirely by Malaysia. Indonesia started planting oil palm in late 1960s but it was only since the mid 1980s that the Indonesian oil palm sector has really expanded. At the moment, Indonesia's palm oil production is larger than Malaysia's.

Market share is a yardstick to bench-mark competitive strength in a sector by comparing competing companies. If only the element of sales is used to measure performance, it will not take into account the market conditions. Sales may have increased because of increased popularity of the products, or they may have declined because of a drought or recession. However, by measuring market share, a company can exist with competitive strength. Increasing market share is the most important objective of the corporate world. In terms of palm oil competitiveness, Malaysia

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can assess her trading position compared to other countries by continuous monitoring of her market share in specific markets. This article will attempt to give an overview of the performance of the Malaysian palm oil market share vis-à-vis Indonesia in five major markets, *i.e.* China, European Union, Pakistan, India and USA over the 1998-2007 period.

PALM OIL MARKET SHARE IN CHINA

China is the biggest market for palm oil. Imports of palm oil have increased significantly due mainly to economic development and population increase. In 2007, the population of China had reached 1.3 billion people. China's import had grown from 1 373 200 t in 1998 to 5 499 000 t by 2007. Palm oil's greatest rival in China is soyabean oil, available through local production or import of beans from South America. Soyabean oil occupies 37% of the edible oil market in China compared to palm oil's 21% share. Palm oil will thus face challenges as China continues to strive to increase imports of soyabean from low cost producing countries. Imported soyabean is crushed to produce oilmeal for the domestic livestock industry. Edible oil is produced during crushing.

Palm oil is relatively cheap compared to other oils in the China's market. Palm oil imported from Malaysia or Indonesia has an advantage in shipping time. It takes only a voyage of about five to 11 days to reach China depending on which part of the country is the destination. This voyage time is far shorter compared to that of soyabean oil imported from South America which takes 40 to 45 days. A longer voyage time will result in higher shipping freight costs. As more and more soyabean is being imported, this factor becomes irrelevant. China imports most of the palm oil for her food industrial sector, especially in the noodle industry.

Malaysia is the major palm oil exporter to China, while Indonesia is the second largest. In 1998, Malaysia had 66.5% of the market share and Indonesia had only 22.1%. However, the situation might be different in the next few years. Although Malaysia's market share had increased by 4.5% in 2007 compared to 2006, Indonesia's market share showed a stronger growth in China. In 2007, Indonesia's market share had risen to 30.7% compared to only 22.1% in 1998 (*Table 1* and *Figure 1*).

In 2006, China liberalized her import quota system for palm oil and this boosted the demand for Indonesian crude palm oil (CPO) in that year. Indonesia sells mainly CPO, while Malaysia exports are mostly refined palm oil products. Imports of CPO may receive a further boost if state-owned enterprises are successful in lobbying the government to cut tariffs on CPO to encourage more domestic processing. In real terms, the Malaysian palm oil market share in 2007 had increased by only 12.64% compared to 1998 as indicated by the share index of 112.6 in *Figure 2*. Indonesian palm oil market share in real terms had actually increased to 121.6 which implies an increase by 21.55% for the same period. This development should be monitored closely.

TABLE 1. MARKET SHARES OF PALM OIL FROM MALAYSIA AND INDONESIA IN CHINA (1998-2007)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Palm oil imports from: Malaysia ('000 t)	913	835	982	1 296	1 678	2 309	2 578	2 904	3 454	3 724
Indonesia ('000 t)	303	367	621	619	666	856	1 146	1 372	1 934	1 690
Other countries ('000 t)	156	143	160	204	316	186	125	43	73	84
Total import ('000 t)	1 372	1 345	1 763	2 129	2 660	3 351	3 849	4 319	5 461	5 498
Malaysia's share (%)	66.5	62.0	55.7	61.1	63.1	68.9	67.0	67.2	63.2	67.7
Indonesia's share (%)	22.1	27.3	35.2	29.2	25.0	25.5	29.8	31.8	35.4	30.7

Source: *Oil World* (various issues).

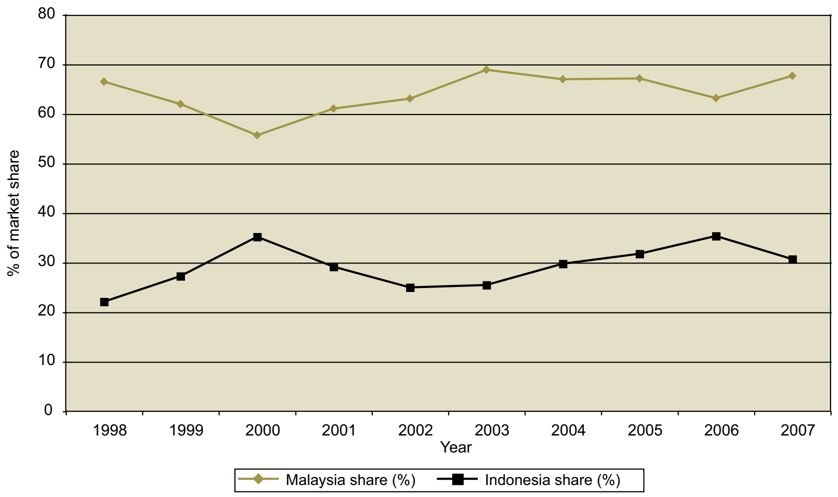

Figure 1. Trends in the market share of Malaysian palm oil vs. *Indonesian palm oil exports to China.*

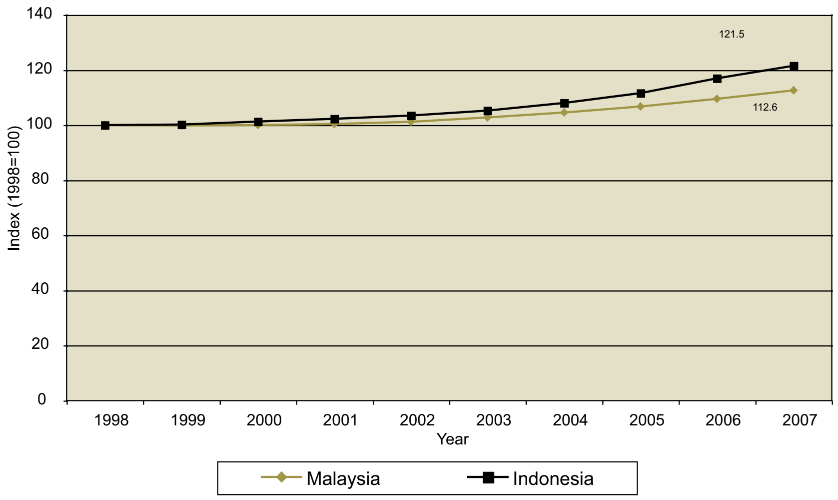

Figure 2. Market share index of Malaysian palm oil vs. Indonesian palm oil exports to China (1998=100).

PALM OIL MARKET SHARE IN THE EUROPEAN UNION

The demand for palm oil in the European Union (EU) has been increasing over the years. In 1997, EU imported only 2 141 900 t of palm oil. However, in 2007, imports of palm oil had increased by more than 100% to 4 653 000 t. This shows that palm oil is well accepted, mainly due to its lower price compared to other competitive oils. The EU market faced stiff competition between countries that export palm oil. Although Malaysia is the major exporter of palm oil to the European countries, Indonesia is making a significant presence there. In 1998, Malaysia had 44.21% market share while Indonesia had only 37.37%. After 10 years, the proportions of the market share still remain, with Malaysian having 46.66% of the market share compared to Indonesia's market share of 37.57% in 2007 (*Table* 2 and *Figure* 3).

In real terms, as indicated in *Figure* 4, Malaysian and Indonesian palm oil market shares have increased at almost the same rate from 1998 to 2007. Malaysian palm oil increased by 6.91% (index of

TABLE 2. MARKET SHARE OF MALAYSIAN AND INDONESIAN PALM OIL IN EU (1998-2007)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Palm oil imports from: Malaysia ('000 t)	946	1 056	1 020	1 439	1 492	1 790	1 920	2 050	2 129	2 171
Indonesia ('000 t)	800	755	904	1 095	1 449	1 338	1 587	1 731	1 939	1 748
Other countries ('000 t)	394	476	494	484	428	465	511	708	553	734
Total import ('000 t)	2 140	2 287	2 418	3 018	3 369	3 593	4 018	4 489	4 621	4 653
Malaysia's share (%)	44.21	46.18	42.17	47.68	44.29	49.82	47.78	45.67	46.07	46.66
Indonesia's share (%)	37.37	33.01	37.39	36.27	43.01	37.24	39.50	38.56	41.96	37.57

Source: *Oil World* (various issues).

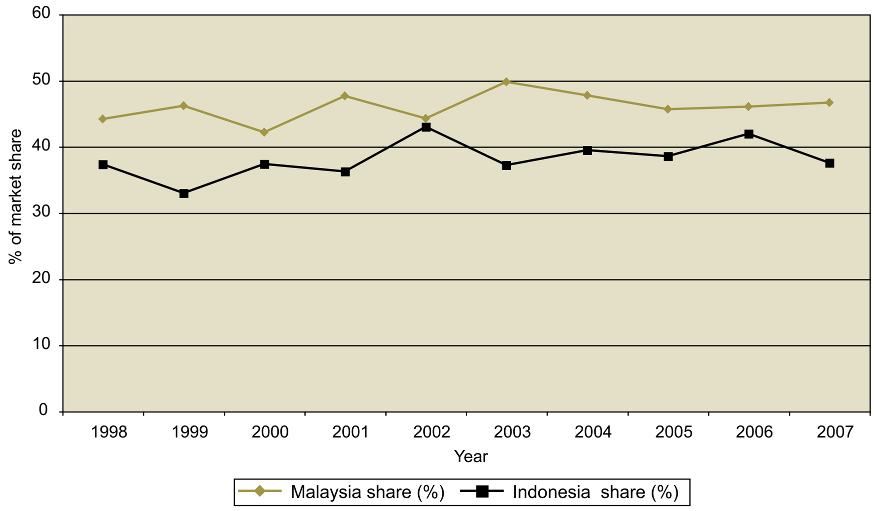

Figure 3. Trends in market share of Malaysian palm oil vs. *Indonesian palm oil in European Union (EU).*

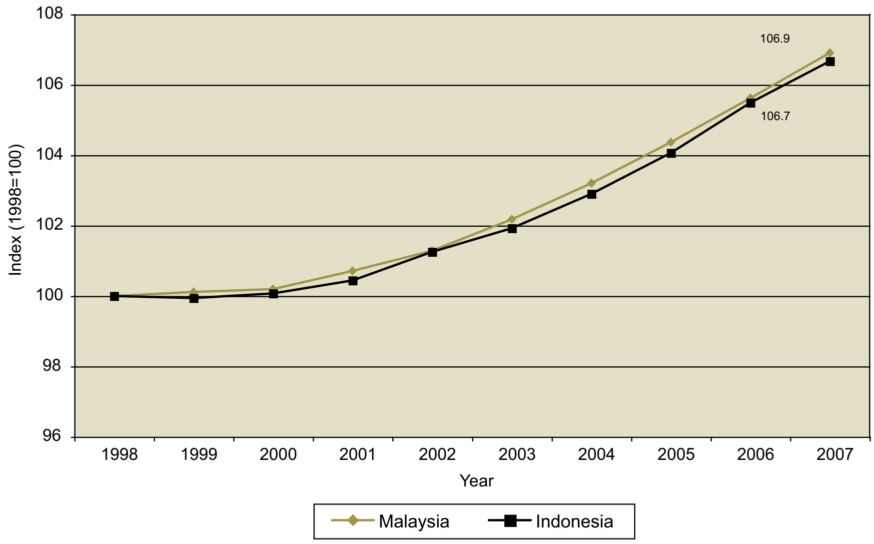

Figure 4. Market share index of Malaysian palm oil vs. *Indonesian palm oil in the European Union (EU) (1998=100).*

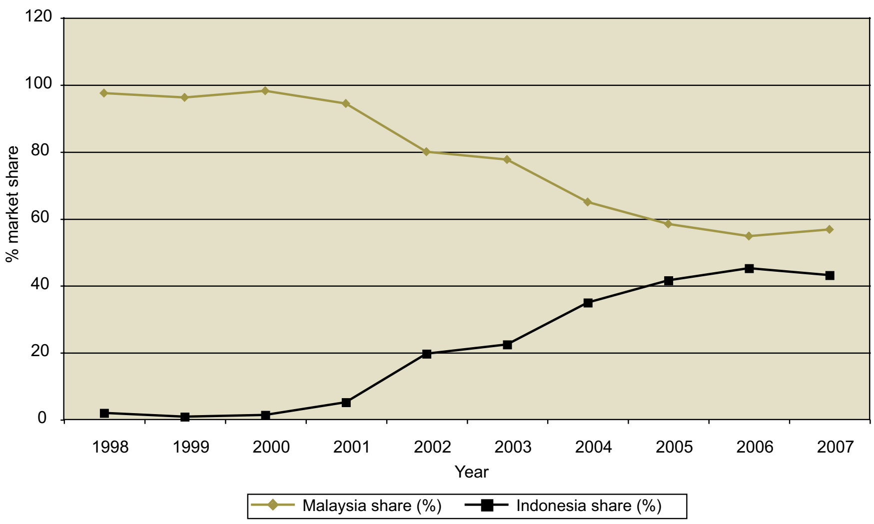

Figure 5. Trends in market shares of Malaysian palm oil vs. *Indonesian palm oil in Pakistan.*

106.9) while Indonesian palm oil increased by 6.67% (index of 106.7) over the years in real terms.

PALM OIL MARKET SHARE IN PAKISTAN

Pakistan spends more than USD 800 million on edible oil imports annually. Almost 200 000 t of oils and fats are used in commercial frying and food manufacture every year. Pakistan, among the world's top four importers of palm oil, has been aggressively buying from producers in Malaysia and Indonesia. Pakistan buys most of her palm oil from Malaysia. However, Indonesia is fast eroding Malaysia's dominance in the Pakistan market as the Indonesian oil production has been rising rapidly. In 1998, Pakistan imported 1 114 400 t of palm oil, with 97.5% of it coming from Malaysia. Malaysia only began to lose her market share dramatically in 2002, when her market share dropped from 94.4% to 80%. Meanwhile, over the same period, Indonesia's market share increased from 5.2% to 19.7%. By 2007, Malaysia's market share had dwindled to 56.8% while Indonesia's market share had risen to 43.1% (*Table 3* and *Figure 5*).

Although logistical problems and doubts about the quality of the oil produced in the country still linger, Indonesia's price advantage has helped to boost her share of the Pakistan market lately. Companies who have refineries in Malaysia are also exporting out of Indonesia because the oil there is USD 2.5 to USD 5 cheaper per tonne. Indonesia sells mainly crude, that tally demand from refineries in Pakistan. In 2007, Malaysia's market share in real terms had reduced marginally to 99.62 while Indonesia's market share increased sharply to 241.46 compared to 1998 (*Figure 6*).

TABLE 3. MARKET SHARES OF MALAYSIAN AND INDONESIAN PALM OIL IN PAKISTAN (1998-2007)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Palm oil imports from: Malaysia ('000 t)	1 086	1 012	1 087	1 251	1 040	1 154	930	960	950	972
Indonesia ('000 t)	22	9	15	69	256	327	500	684	784	738
Other countries ('000 t)	5	30	4	4	2	4	1	1	1	0.7
Total import ('000 t)	1 113	1 051	1 106	1 324	1 298	1 485	1 431	1 645	1 735	1 710.7
Malaysia's share (%)	97.50	96.20	98.20	94.40	80.00	77.60	65.00	58.40	54.80	56.80
Indonesia's share (%)	2.00	0.90	1.40	5.20	19.70	22.40	34.90	41.60	45.20	43.10

Source: *Oil World* (various issues).

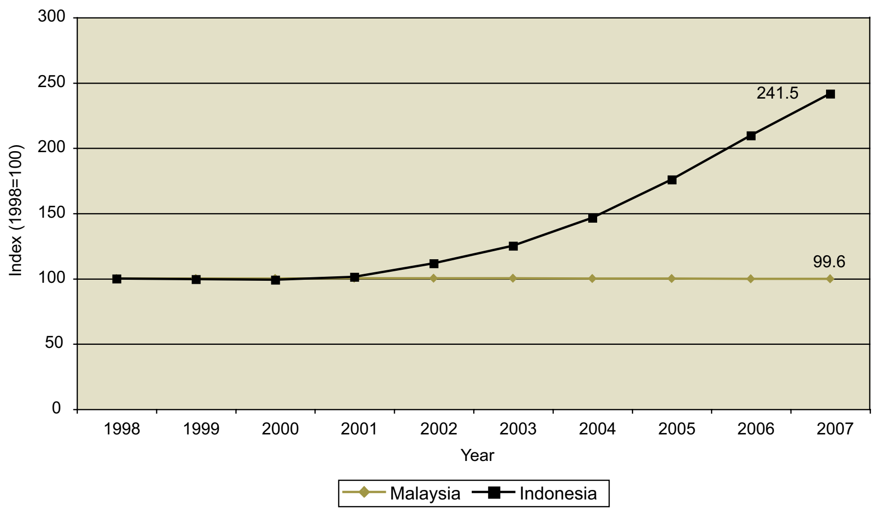

Figure 6. Market share index of Malaysian palm oil vs. Indonesian palm oil in Pakistan (1998=100).

PALM OIL MARKET SHARE IN INDIA

With the population growing from about 550 million in 1970 to over one billion in 2001, and per capita income rising throughout the 1970s (at 1.4% p.a.), 1980s (at 3.1% p.a.), and 1990s (at 3.7% p.a.), consumption growth in India has been almost uninterrupted. India is the second largest market for vegetable oils in the world. Imports represent about 55% of India's edible oil consumption and about half the value of her total agricultural imports (Dohlman, 2003). Palm oil supports many industries in India, such as refining, vanaspati and other industrial sectors. The major importing and trading centres for palm oil in India are Chennai, Kakinada, Mumbai and Kandala. The other centres like Mundra, Kolkata, Mangalore and Karwar also play important roles, but are not as big as the four major trading centres.

Palm oil prices in India depend on whether the imported palm oil is from Malaysia or Indonesia and from which of the various ports. The prices in these countries are directly reflected in the trend of the palm oil prices at the Indian ports. Palm oil trade in India is influenced by the supply-demand scene in the domestic market, including factors which influence the production of various oilseeds in the country. Prices of various domestically produced and imported oils, production and trade policies of the Indian Government, as well as the overall health of the economy have a bearing on the purchasing power of the consumers. In the past, duties on processed palm oil had been a deterrent for imports from Malaysia. Palm oil is usually the lowest priced edible oil in the international market and has had a consistent price advantage over other imported oils in India since 1980. Palm oil from Malaysia and Indonesia also benefits from freight cost and shipping time advantages (compared with leading suppliers of soyabean oil), as well as from the ability to deliver oil in smaller and more frequent shipments.

In 1998, Malaysia was the major exporter of palm oil to India, commanding 83.1% of the total palm oil imports. However, the Malaysian market share has eroded from year to year up to 2003 when Malaysia began to lose her place to Indonesia as the major exporter of palm oil in India. During that year, Malaysia's market share plunged to 40.4% compared to Indonesia's which had risen to 58.6%. In 2007, the Malaysian market share dwindled further to 13.8% while the Indonesian market share strengthened to 84.7% (*Table* 4 and *Figure 7*). India imports more palm oil from Indonesia because of price differentials. Indians prefer to import CPO which can be readily sourced from Indonesia to support the many industries mentioned earlier. Indonesia gained a larger market share because it could export CPO without the high export duties faced in Malaysia. Indian import duties favour CPO in order to support refiners in the country. *Figure 8* shows that the Malaysian market share in real terms had actually decreased by 1.42% to 98.58 while the Indonesian market share had increased significantly by 60.34% to 160.3 over the period under study.

PALM OIL MARKET SHARE IN THE UNITED STATES OF AMERICA

The United States is a small market for palm oil compared to China, India and the EU. However, consumers in America are increasingly accepting the health benefits of palm oil, as seen from the rise of shipments of palm oil to USA (*Table 5*). In USA, palm oil is used primarily as an ingredient in commercially processed foods. Chocolate products such as candy bars and cake icing may contain palm oil as a substitute for cocoa butter. Ice cream, margarine, peanut butter, coffee whitener, canned cream soups, sauces, baked goods, trail mix and other snack foods, and microwaveable convenience foods may all contain palm oil.

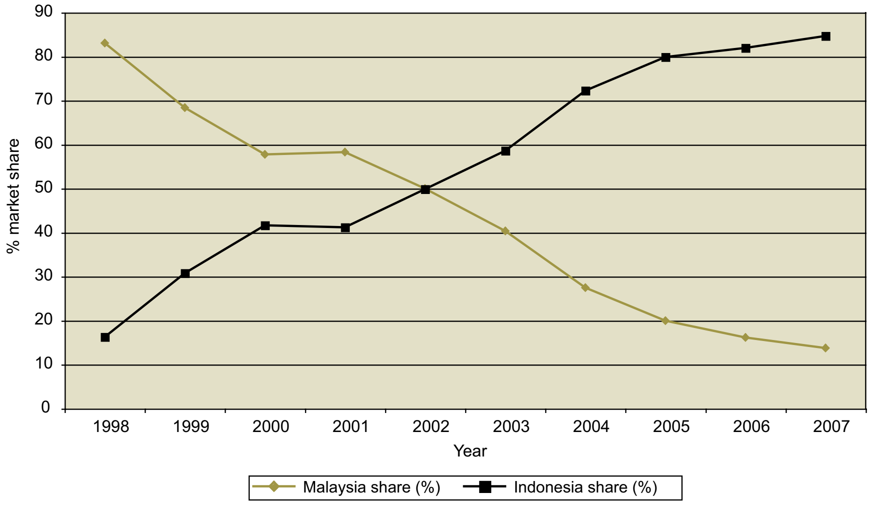

Figure 7. Trends in the market share of Malaysian palm oil vs. *Indonesian palm oil in India.*

TABLE 4. MARKET SHARES OF MALAYSIAN AND INDONESIAN PALM OIL IN INDIA (1998-2007)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Palm oil imports from: Malaysia ('000 t)	1 389	2 229	2 111	2 035	1 729	1 608	949	664	519	508
Indonesia ('000 t)	272	1 003	1 520	1 437	1 727	2 329	2 496	2 647	2 622	3 124
Other countries ('000 t)	10	23	18	18	4	40	7	3	56	55
Total import ('000 t)	1 671	3 255	3 649	3 490	3 460	3 977	3 452	3 314	3 197	3 687
Malaysia's share (%)	83.10	68.40	57.80	58.30	50.00	40.40	27.50	20.00	16.20	13.80
Indonesia's share (%)	16.30	30.80	41.70	41.20	49.90	58.60	72.30	79.90	82.00	84.70

Source: *Oil World* (various issues).

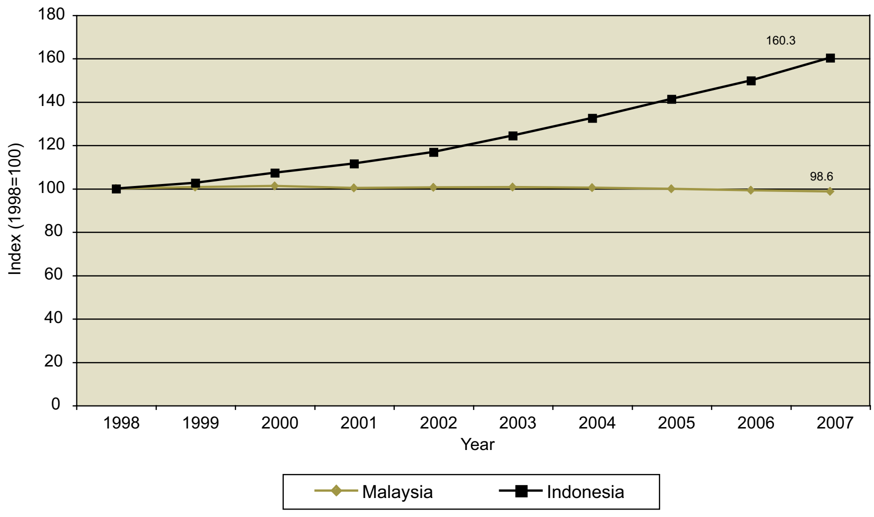

Figure 8. Market share index of Malaysian palm oil vs. Indonesian palm oil in India (1998=100).

Rising palm oil consumption in USA is helped, in part, by the government's move to mandate the declaration of saturated fat and *trans* fat levels separately in nutritional labels beginning on 1 January 2006. In California, the Governor has announced that from 1 January 2010, all 88 000 restaurants in the state will be prohibited from using oil, margarine and shortening containing *trans* fats. FDA declared that eating saturated fats and *trans* fats raises low-density lipoprotein cholesterol levels. This means, *trans* fats – listed in food labels as a partially hydrogenated vegetable oil – can raise bad cholesterol and lower healthy cholesterol, increasing the risk of heart attacks.

In 1998, USA imported only 115 900 t of palm oil, with 99 000 t or 85% of it originating from Malaysia. The demand for oil palm has increased from year to year. In 2007, total palm oil imports increased to 787 800 t. About 712 100 t or 90% of this amount originated from Malaysia, compared to imports amounting to 50 700 t from Indonesia (*Table 5* and *Figure 9*). In *Figure 10*, the Malaysian palm oil market share is shown to have increased in real terms by 18.14% (with an index of 118.14) compared only 4.22% (index of 104.2) for Indonesian exports.

Deforestation and environmental issues have become the biggest obstacles impeding Indonesian palm oil from penetrating the USA market.

CONCLUSION

The Malaysian market share for palm oil is eroding in some major markets, especially the traditional markets like India and Pakistan. In India, Malaysia is no longer the major exporter of palm oil. This situation is also taking place in Pakistan, while over a longer term it will be a challenging task to retain market share in China. Despite problems and issues surrounding the oil palm industry in Indonesia, the prospects and

TABLE 5. MARKET SHARES OF MALAYSIAN AND INDONESIAN PALM OIL IN USA (1998-2007)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Palm oil imports from: Malaysia ('000 t)	99	106	136	159	199	176	246	391	558	712
Indonesia ('000 t)	15	30	24	5	2	2	15	15	54	50
Other countries ('000 t)	1	6	4	6	13	21	9	13	16	25
Total import ('000 t)	115	142	164	170	214	199	270	419	628	787
Malaysia's share (%)	85	74	83	93	93	88	91	93	89	90
Indonesia's share (%)	13	21	15	3	1	1	6	4	9	6

Source: *Oil World* (various issues).

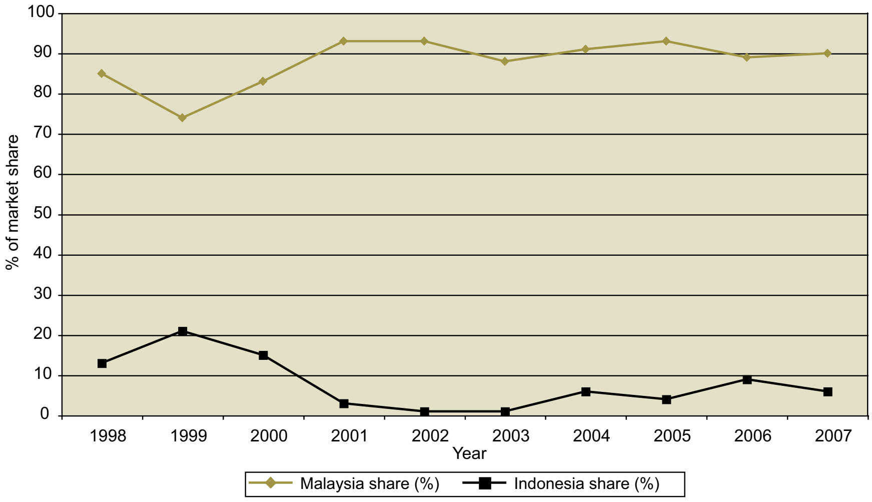

Figure 9. Trends in market share of Malaysian palm oil vs. *Indonesian palm oil in USA.*

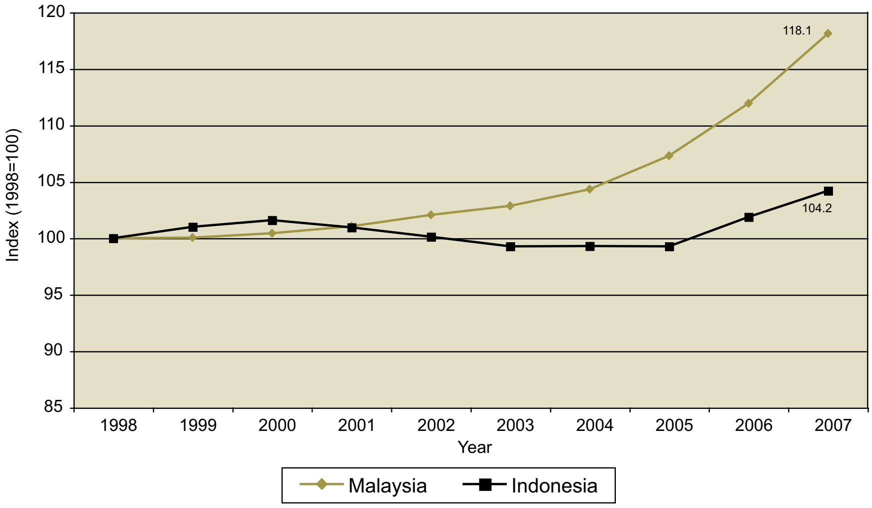

Figure 10. Market share index of Malaysian palm oil vs. *Indonesian palm oil in USA (1998=100).*

competitiveness of her palm oil in the world market seem high. Average cost of production in Indonesia is lower compared to that in Malaysia making the former more cost competitive. Many countries like Pakistan, India and China prefer to import CPO that can be sourced from Indonesia compared to the refined palm oil products originating from Malaysia. These importing countries require mainly CPO to cater for domestic processing and to meet the needs of their local refineries. Malaysia needs to re-strategize her marketing plan to meet the buyers' needs. In addition, Malaysia needs to look and search for new markets like USA and the West Asia, and should no longer depend on just the traditional markets. Aggressive campaigns and promotions need to be undertaken to penetrate these markets.

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