Palm Oil Supply and Disappearance: A Quarterly Review

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INTRODUCTION

The palm oil industry has continued to be a significant driver of the Malaysian economy and has established as one of major players in the international oils and fats business. Export earnings from oil palm products recorded RM 80.4 billion in 2011, a substantial increase of 34.4% from RM 59.8 billion in the previous year due to better prices of palm products.

The supply and demand of Malaysian palm oil products in 2011 had gone under tremendous pressure such as weather uncertainties, rising crude oil price that has led to high input prices, stiff competition from Indonesian palm oil due to restructuring of palm oil export tax, non-trade barrier in the form of environmental issues, global and regional economic situations among other reasons.

On the supply side, the average FFB yield in 2011 had increased by 9.6% to 19.70 t ha^{-1} as against 17.98 t ha^{-1} achieved in 2010, while the oil extraction rate (OER) posted 20.35%, which was slightly lower than the previous year of 20.45%. However, the oil yield recorded an increase of 8.8% to 4.01 t ha^{-1} in 2011. The Malaysian palm oil production rose by 11.3% from 16.99 million tonnes in 2010 to 18.91 million tonnes in 2011.

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The opening stock of palm oil in 2011 was 1.61 million tonnes, and with imports of palm oil at 1.31 million tonnes and the year's production of 18.91 million tonnes, total palm oil available for trade was 21.83 million tonnes. Out of that, about 17.99 million tonnes of palm oil was exported and together with estimated disappearance within the country, this resulted in 2.04 million tonnes of stocks-carry-over in January 2012.

In the first quarter of 2012, the production of crude palm oil (CPO) was 3.68 million tonnes, a decrease by 1.35 million tonnes from 5.03 million tonnes in the fourth quarter 2011 and slightly high compared to the same period in 2011 *(Table 1).*

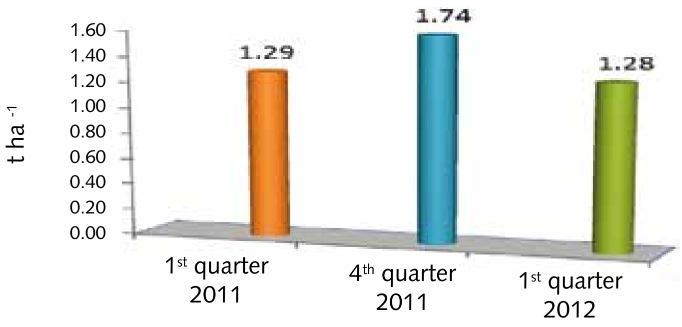
The average FFB yield declined by 0.46% to 1.28 t ha^{-1} compared to the previous quarter of 1.74 t ha^{-1} and marginally lower than 1.29 t ha^{-1} of the same period last year. *(Figure 1).* The low yield against the previous quarter was mainly due to low production period by oil palm trees that normally occur during the first quarter of a year. The average OER was 20.25%, which was better than 19.66% recorded during the same period last year. Hence, the oil yield recorded 0.78 t ha^{-1} for the first quarter of 2012, which was slightly better than 0.77 t ha^{-1} in 2011.

Meanwhile, the opening stock of 2.06 million tonnes comprised 1.07 million tonnes crude palm oil (CPO) and 0.99 million tonnes processed palm oil (PPO). The total amount was slightly higher as compared to 2.04 million tonnes in 2011. In addition, import of palm oil in the first quarter of 2012 had grown by 20.4% to reach about

TABLE 1. MALAYSIAN PALM OIL PRODUCTION (million tonnes)

Quarter	1st 2011	4th 2011	1st 2012
Production	3.57	5.03	3.68

Source: MPOB statistics.



Source: MPOB statistics.

Figure 1. Average Malaysian FFB yield.

0.59 million tonnes to meet the demand of the processing sectors. As a result, the total supply of palm oil for the first quarter 2012 was estimated 6.33 million tonnes.

On the demand side, the total exports of Malaysian palm oil products for the first quarter of 2012 had accumulated to 3.94 million tonnes, comprising 0.61 million tonnes of CPO and 3.3 million tonnes of PPO. The amount was higher compared to the same period last year by nearly 25% and 8% for CPO and PPO respectively.

In the first quarter of 2012, the total exports of Malaysian oil palm products were 5.68 million tonnes, which amounted to 20.1% higher than the same period last year, but slowed down by 19.5% than the previous quarter *(Figure 2)*. The exports of palm oil products had accumulated to 3.94 million tonnes, comprised of 0.61 million tonnes of CPO and 3.3 million tonnes of PPO. The amount slowed down by nearly 23% compared to the previous quarter, but was higher by 10.3% compared to the same period last year. For palm kernel products, namely palm kernel oil (PKO) and palm kernel expeller (PKE), the exports had contracted by 26% and 13% compared to the previous quarter, respectively. Similarly, exports of finished products dropped by 22%, while biodiesel volume had dropped by nearly 38%. Only exports of oleochemical products posted increasing growth by nearly 6% as compared to the previous quarter. On yearly basis, the export of these products had shown significant growth, particularly biodiesel, oleochemicals and PKE.

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

The amount of export to China, estimated about 0.78 t had slowed down from the previous quarter, but had increased slightly by 2.6% as compared to the same period last year *(Table 3)*. Refined, bleached and deodorised (RBD) palm olein was the major export product that had decreased marginally from the previous quarter, and lower as compared to first quarter 2011, amounting to almost 0.58 million tonnes *(Figure 3)*. Meanwhile, the export of RBD palm stearin in the first quarter of 2012 was 0.16 million tonnes that had decreased by 23% from the fourth quarter 2011 and increased by 6% from the first quarter 2011. The lower export in the first quarter of 2012 was mainly due to stock build up in the previous quarter. However, the demand in March of palm oil had strengthened slowly due to the depletion of palm oil stock level.

In China, the government encourages the imports of oilseeds for domestic crushing over imports of vegetable oils. Among the measures taken is exemption of import duty for soyabean from Tariff Rate Quota (TRQ) as compared to 9% for palm oil, soyabean oil and rapeseed oil. Furthermore, an agreement was signed at the end of last year by the government to purchase 13.4 million tonnes of soyabean from United States in 2012.

The total exports of palm oil products to European Union (EU) had decreased by 28% to 0.44 million tonnes in the first quarter of 2012 compared to 0.61 million tonnes in the previous quarter, and had increased by 14% from the

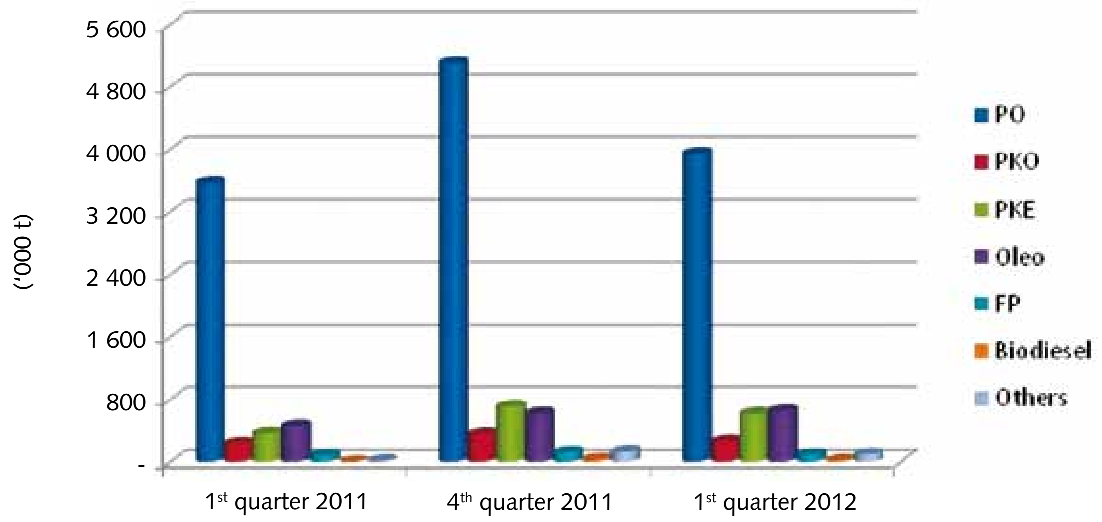
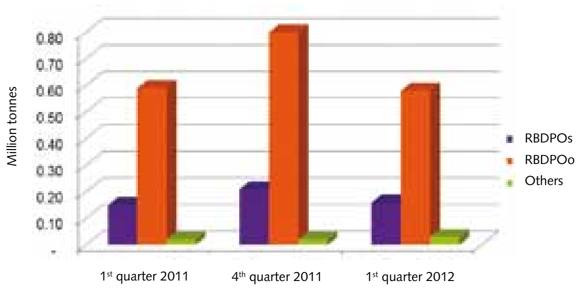
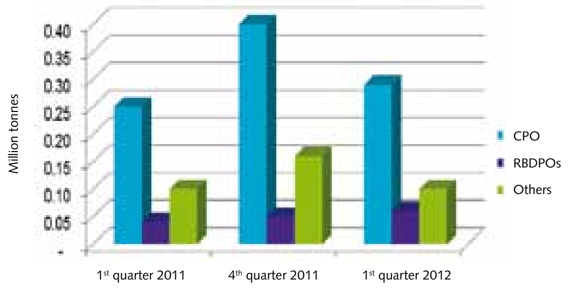


Figure 2. Quarterly exports of oil palm products.



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

Figure 3. Export composition of palm oil products to China.



Note: CPO=Crude palm oil.
RBDPOs=Refined, bleached, deodorised palm oil stearin.

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

TABLE 3. EXPORT OF PALM OIL PRODUCTS TO CHINA (million tonnes)

Quarter	Amount
1st 2011	0.76
4th 2011	1.03
1st 2012	0.78

Source: MPOB statistics.

TABLE 4. EXPORT OF PALM OIL PRODUCTS TO EU (million tonnes)

Quarter	Amount
1st 2011	0.39
4th 2011	0.61
1st 2012	0.44

Source: MPOB statistics.

same period last year *(Table 4).* Major palm oil products imported by the EU were CPO, followed by RBD palm stearin and other processed products *(Figure 4).* The export of CPO had dropped significantly by 27% from the previous quarter, and increased about 16% compared to the same period last year.

According to Dutch Board for Margarine, Fats and Oils (MVO), the demand for palm oil in EU would likely be in the range of 5.5 million tonnes this year, similar to 2011. Demand for certified sustainable palm oil (CSPO) has grown in EU, particularly Netherlands, whereby 20% palm oil used in the country is CSPO. In addition, the Dutch government proposed the EU import tariffs for CSPO to be lower than conventionally produced palm oil.

India has been one of major export destinations of Malaysian palm oil products. For the first quarter of 2012, the amount of palm oil exported to India was 0.33 million tonnes, smaller by 36% than the fourth quarter 2011, but 50% higher than the same period last year *(Table 5).* The export of CPO that amounted to 0.16 million tonnes, had shrunk substantially by 57% from the previous quarter, while the exports of RBD palm olein had increased by 27%. Export of both products increased more than 50% when compared to the equivalent period last year.

In India, the production of domestic oilseeds is expected to increase marginally from 25.45 million tonnes in 2010/2011 to 26.01 million tonnes in 2011/2012, while production of rapeseed oil will drop by nearly 1 million tonnes to 6.03 million tonnes in 2011/2012. These developments will drive imports of edible oils, particularly palm oil, either from Indonesia or Malaysia. However, Indonesia has the competitive edge considering shorter distance and lower export tax imposed on processed palm oil.

The export of Malaysian palm processed products to the United States was 0.24 million tonnes for the first quarter 2012, which was 18% lower than the previous quarter and 13% for the first quarter 2011 *(Table 6).* Export of RBD palm oil had decreased by 21% and 8% from final quarter and first quarter of last year, respectively. Meanwhile, export of RBD palm stearin had marginally increased *i.e.* by 0.3% on quarterly basis and decreased 6% on yearly basis, amounting to 0.06 million tonnes in the first quarter 2012 (*Figure* 6).

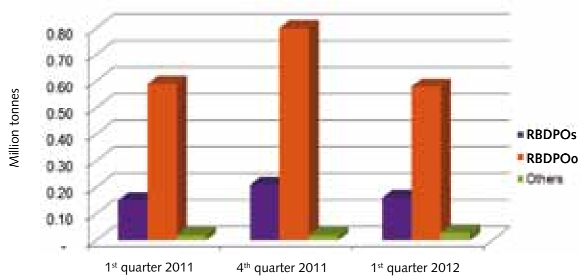
At the end of 2011, the Environmental Protection Agency (EPA) in US had released a notice that biodiesel and renewable diesel produced from palm oil have estimated lifecycle greenhouse gas (GHG) emission reductions of 17% and 11% respectively. This indicates that both palm oil-based biofuels would fail to qualify as meeting the minimum 20% GHG performance threshold for renewable fuel under the Renewable Fuel Standard (RFS) program. This issue may hinder growth of Malaysian palm biodiesel production since US is one of major markets of biofuels.

For the first quarter of 2012, the amount of palm oil exported to Pakistan had decreased by 61% to 0.23 million tonnes from the previous quarter, and by 35% as compared to the same period in 2011 *(Table 7).* RBD palm olein which constituted nearly 52% of palm oil products to Pakistan, had decreased by 40% on quarterly basis and by 51% on yearly basis. Similarly, export of CPO also showed similar trend *i.e.* reducing by 73% from the previous quarter and about 30% compared to the same period last year.

TABLE 5. EXPORT OF PALM OIL PRODUCTS TO INDIA (million tonnes)

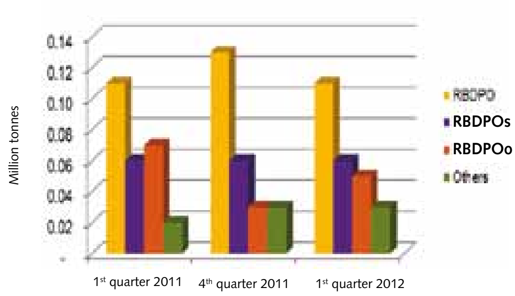
Quarter	Amount
1st 2011	0.21
4th 2011	0.52
1st 2012	0.33

Source: MPOB statistics.



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

Figure 5. Export composition of palm oil products to India (million tonnes).



Note: RBDPO=Refined, bleached, deodorised palm oil.
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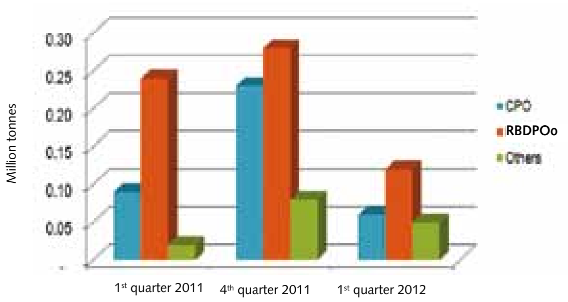
Figure 6. Export composition of palm oil products to USA (million tonnes).



Note: CPO=Crude palm oil.
RBDPOo=Refined, bleached, deodorised palm oil olein.

Figure 7. Export composition of palm oil products to Pakistan (million tonnes).

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

Quarter	Amount
1st 2011	0.27
4th 2011	0.29
1st 2012	0.24

Source: MPOB Statistics.

TABLE 7. EXPORT OF PALM OIL PRODUCTS TO PAKISTAN (million tonnes)

Quarter	Amount
1st 2011	0.35
4th 2011	0.59
1st 2012	0.23

Source: MPOB Statistics.

The development in Pakistan that may affect Malaysian palm oil market share was the agreement between Pakistan and Indonesia on Preferential Trade Agreement (PTA) that was signed on early February 2012. This will result Pakistan in lowering its duty by 15% MoP (Margin of Preference) on Indonesian palm oil. The deal is expected to raise Indonesia palm oil market share in Pakistan and compete on the same level with Malaysia that has received lower duties since 2007.