

Trends and Potentials of Malaysia's Plantation Sector

**By
Tan Sri Datuk Dr Yusof Basiron
CEO
Malaysian Palm Oil Council**



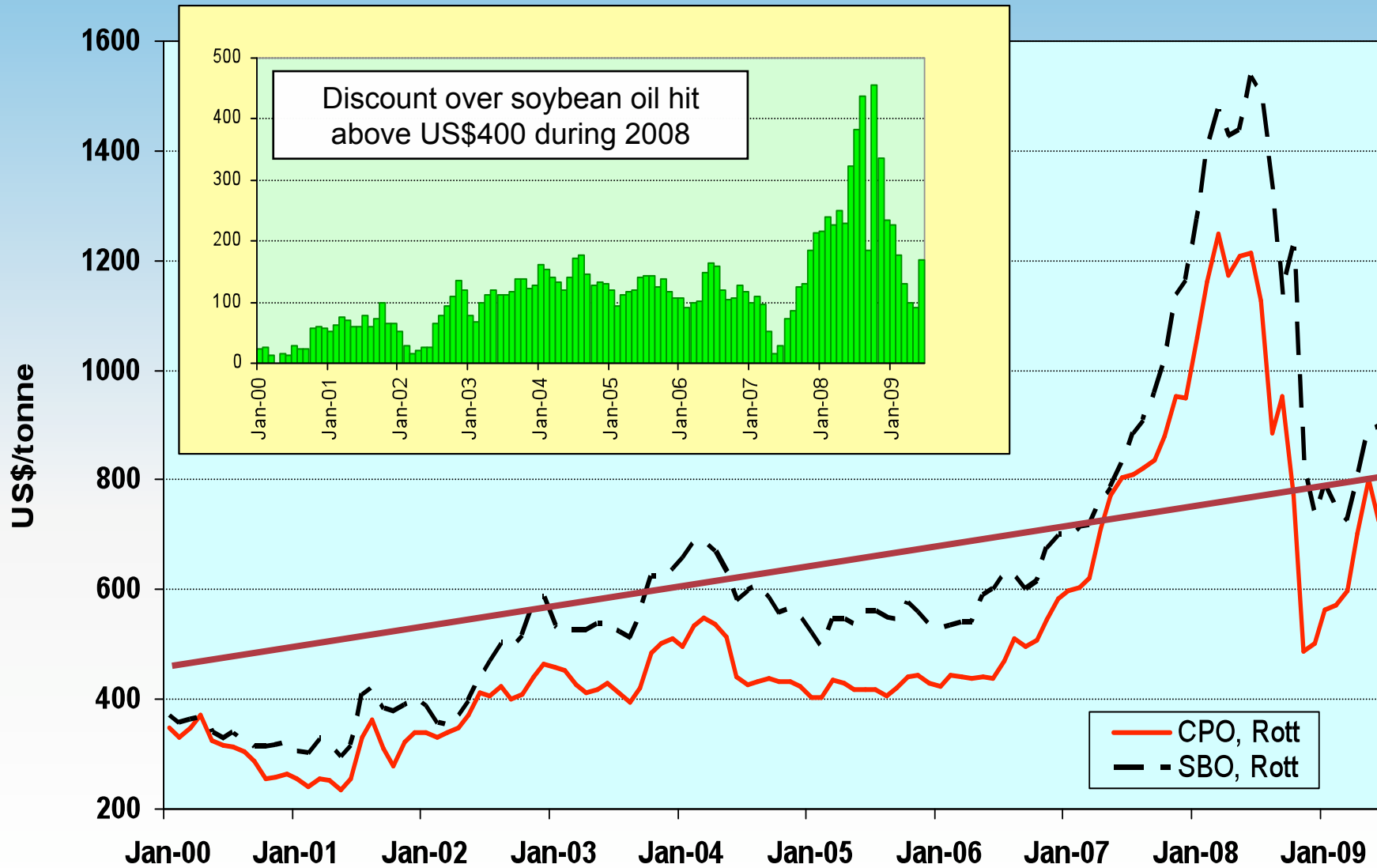
Palm Oil and Other Commodities Industry

- Palm oil industry is fairly **recession proof**.
- Adequate **supply rationalisation CAPACITY**. Opportunities to sustain prices at remunerative levels.
- Strong **demand trends** favouring palm oil for future sustained profits.
- Oil palm is dominating **land allocation** through superior economic viability ... It impacts other commodities.
- New forms of **trade barriers** using **environment** and global warming issues may erode palm oil's competitiveness.

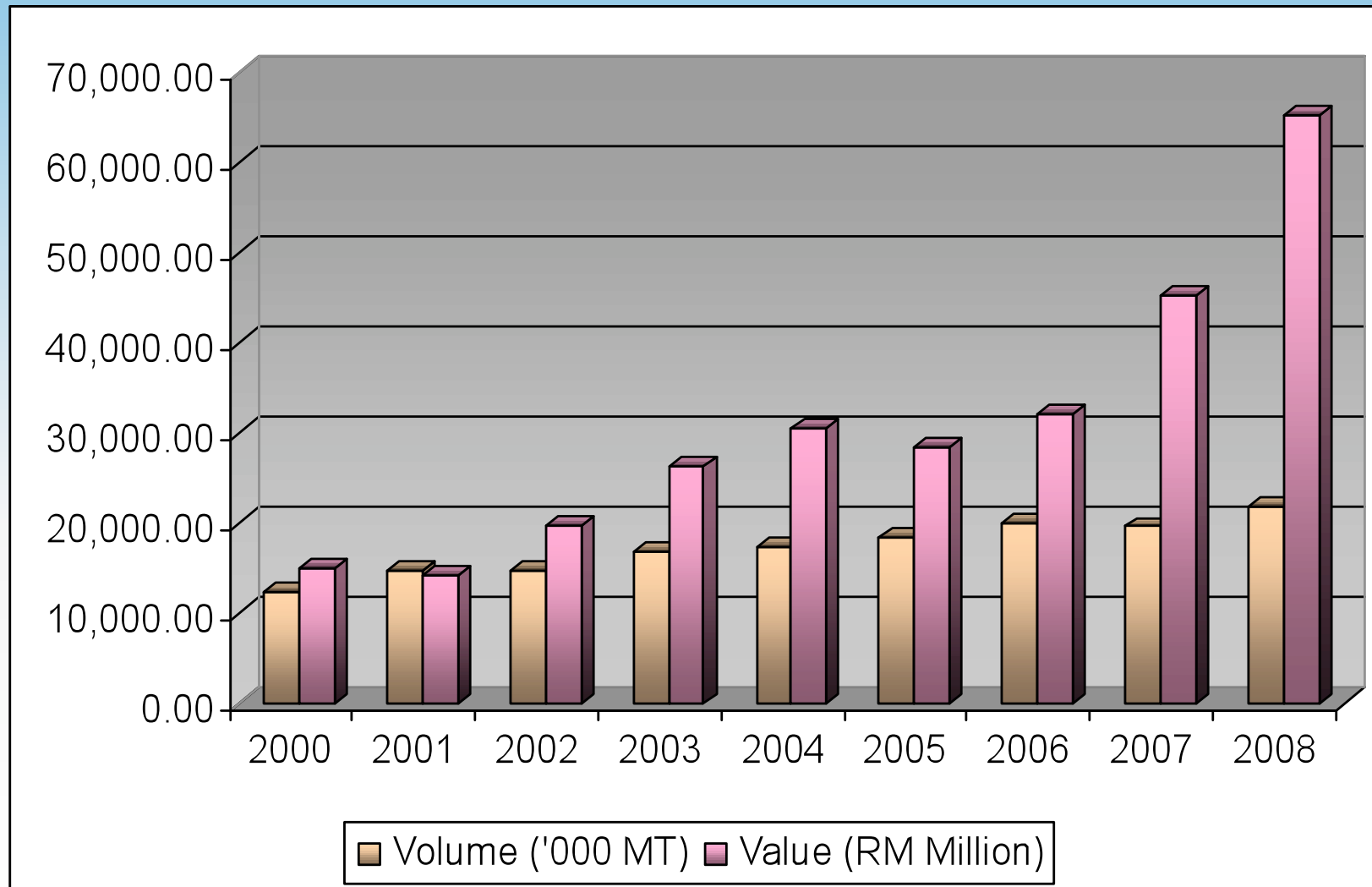
Sustaining Remunerative Prices for Palm Oil - The Way Forward

1. Design Biodiesel Policies
2. Stock Management – Replanting Strategy
3. Capitalise on Net Excess Supply Position with Indonesia
4. Increasing Demand & Promotion
5. Tackling Issues on Environment
6. Branding and Brand Support

Recession Proof : Prices Recovered Quickly



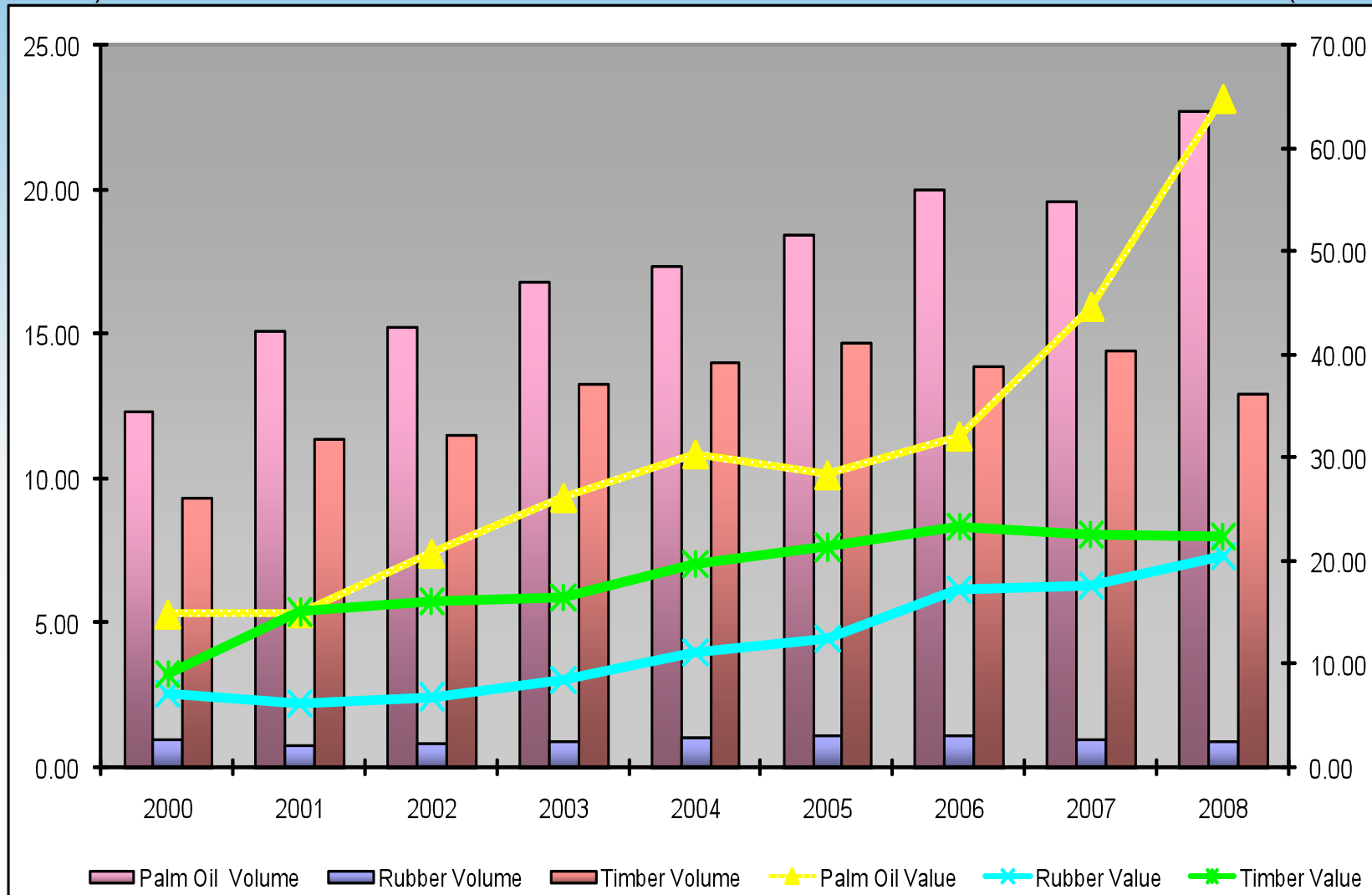
Export Volume and Value of Palm Oil Products



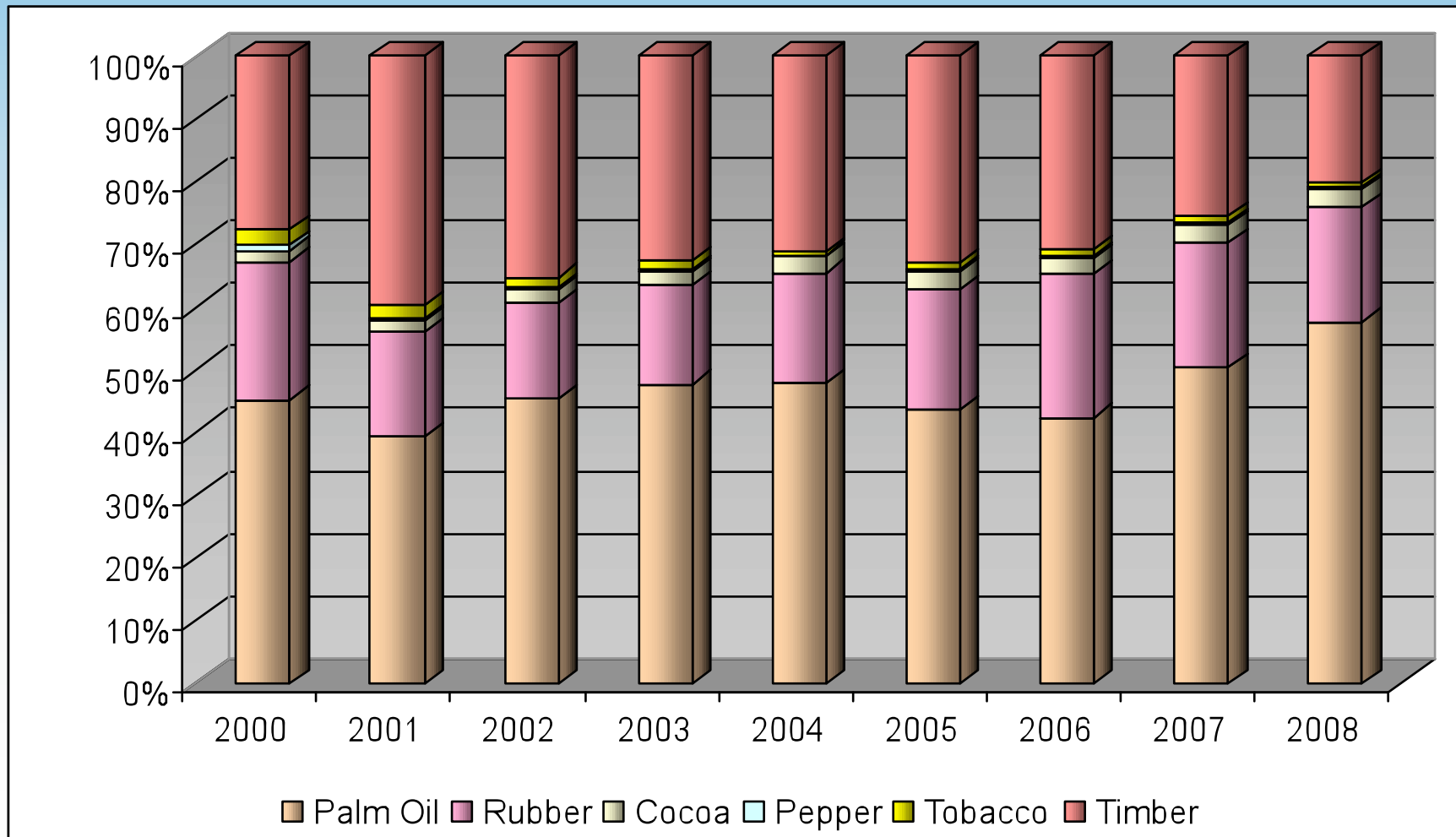
Export Volume and Value of Selected Primary Commodities & Commodity Based Products

Volume
(Million MT)

Value
(RM Million)

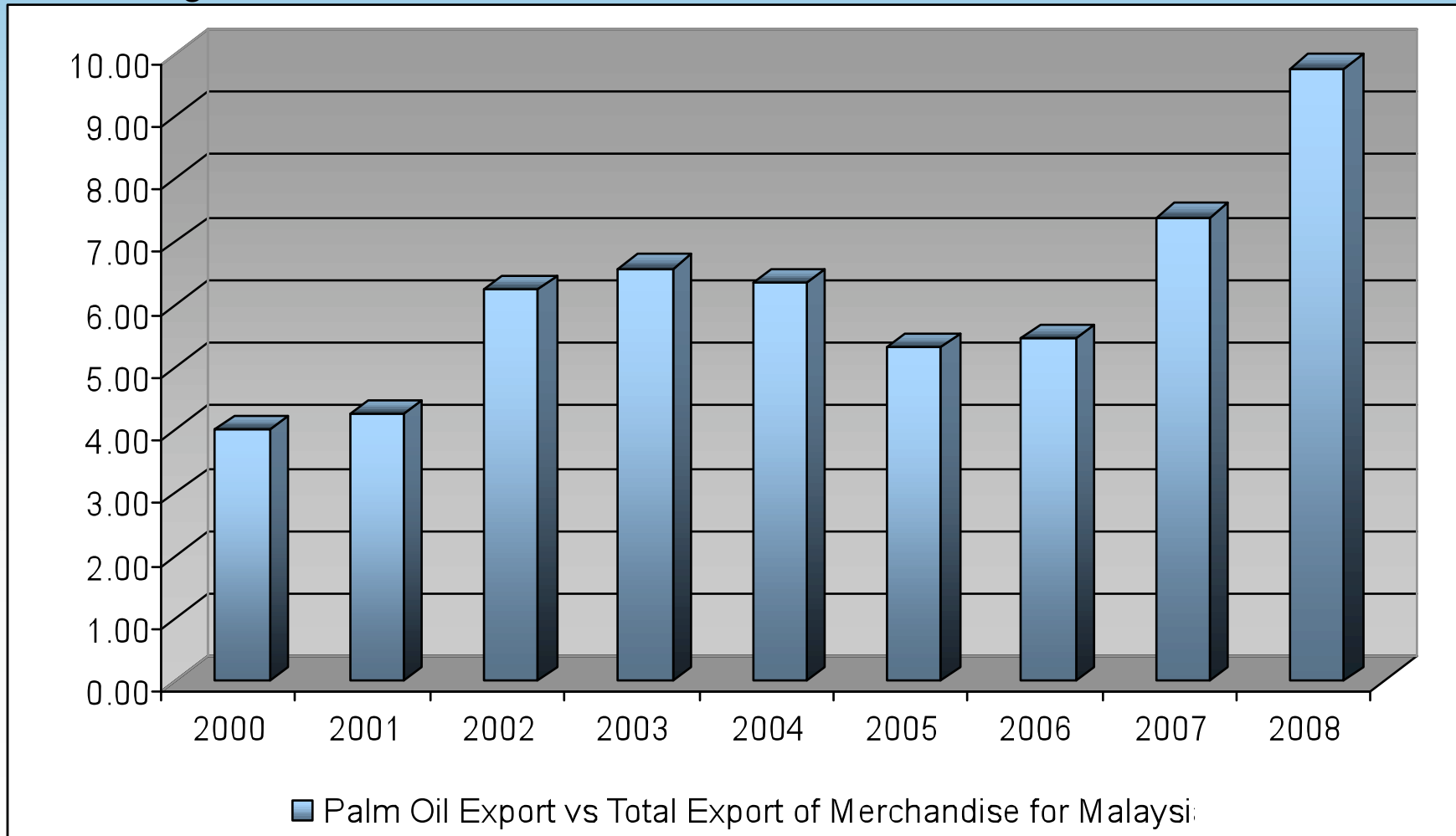


Export of Primary Commodities & Commodity Based Products



Percentage of Palm Oil Export Over Total Exports

Percentage



CPO Prices Maintained To Deliver Desired Margin

Cost (RM)	Margin (as % of Price)							
	15%	20%	25%	30%	35%	40%	45%	50%
1,000	1,176	1,250	1,333	1,429	1,538	1,667	1,818	2,000
1,100	1,294	1,375	1,467	1,571	1,692	1,833	2,000	2,200
1,200	1,412	1,500	1,600	1,714	1,846	2,000	2,182	2,400
1,300	1,529	1,625	1,733	1,857	2,000	2,167	2,364	2,600
1,400	1,647	1,750	1,867	2,000	2,154	2,333	2,545	2,800
1,500	1,765	1,875	2,000	2,143	2,308	2,500	2,727	3,000
1,600	1,882	2,000	2,133	2,286	2,462	2,667	2,909	3,200
1,700	2,000	2,125	2,267	2,429	2,615	2,833	3,091	3,400

Average Cost of Production vs. Average Price

	Production Cost (RM)	Average Price (RM)	Margin (RM)	Margin (%)	Cost as % Price
2004	600	1,610	1,010	63%	37%
2005	800	1,394	594	43%	57%
2006	900	1,511	611	40%	60%
2007	1,000	2,531	1,531	60%	40%
2008	1,200	2,778	1,578	57%	43%

**per tonne basis*



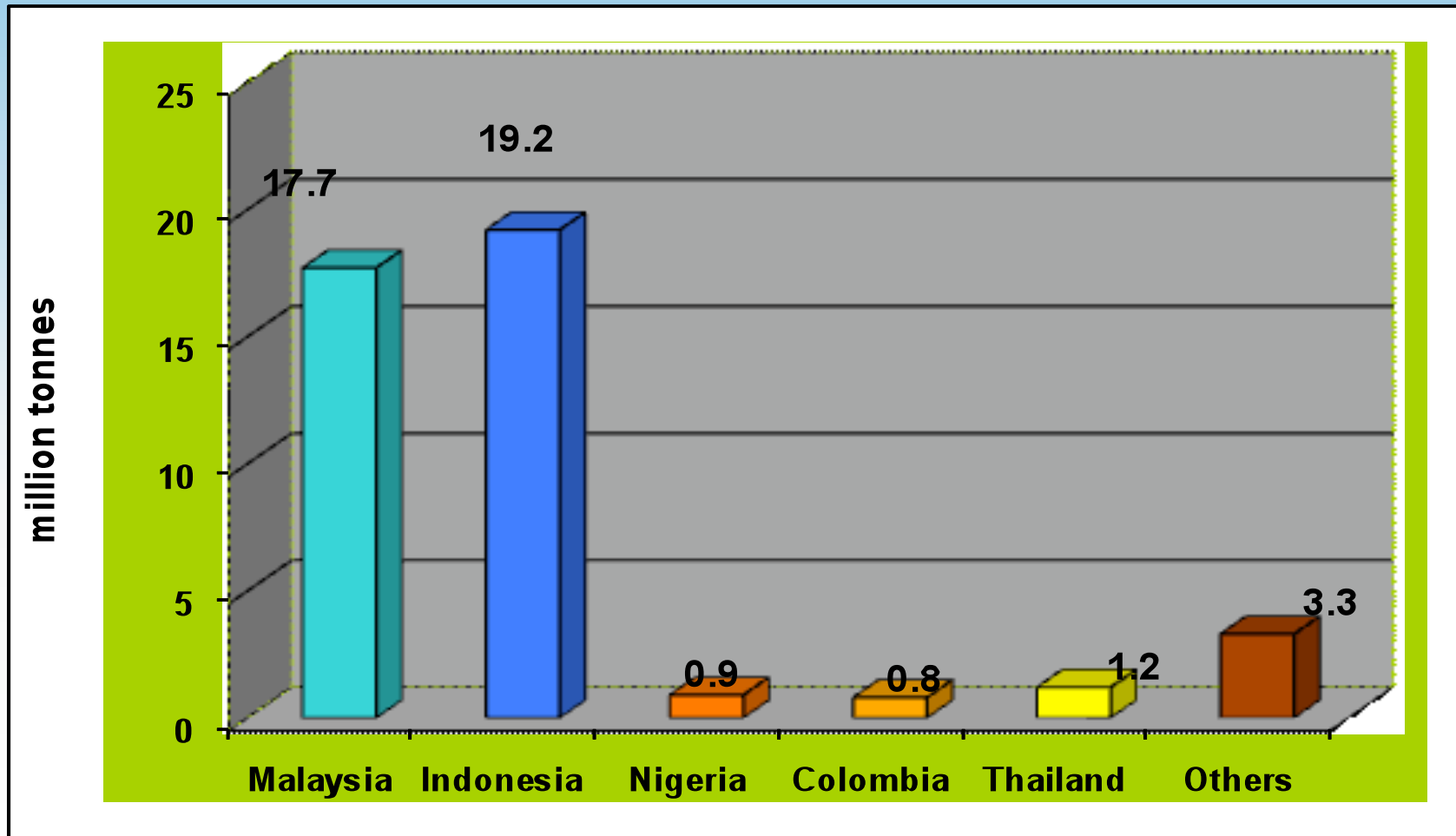
Importance of The Palm Oil Industry

- Total area under oil palms = **4.48 mil ha** or 13.1% of total land area or 67 % of agricultural area. Future trend >> limited land for agriculture.
- 41% of world's palm oil production and 47% of world's exports. Malaysia is No 2 in production and **No 1 in exports**.
- 11.1% of world's total oils and fats production and **27% of world's oils and fats exports**.
- Provides direct employment to 570,000 people, excluding other multiplying effects and spin-off activities.

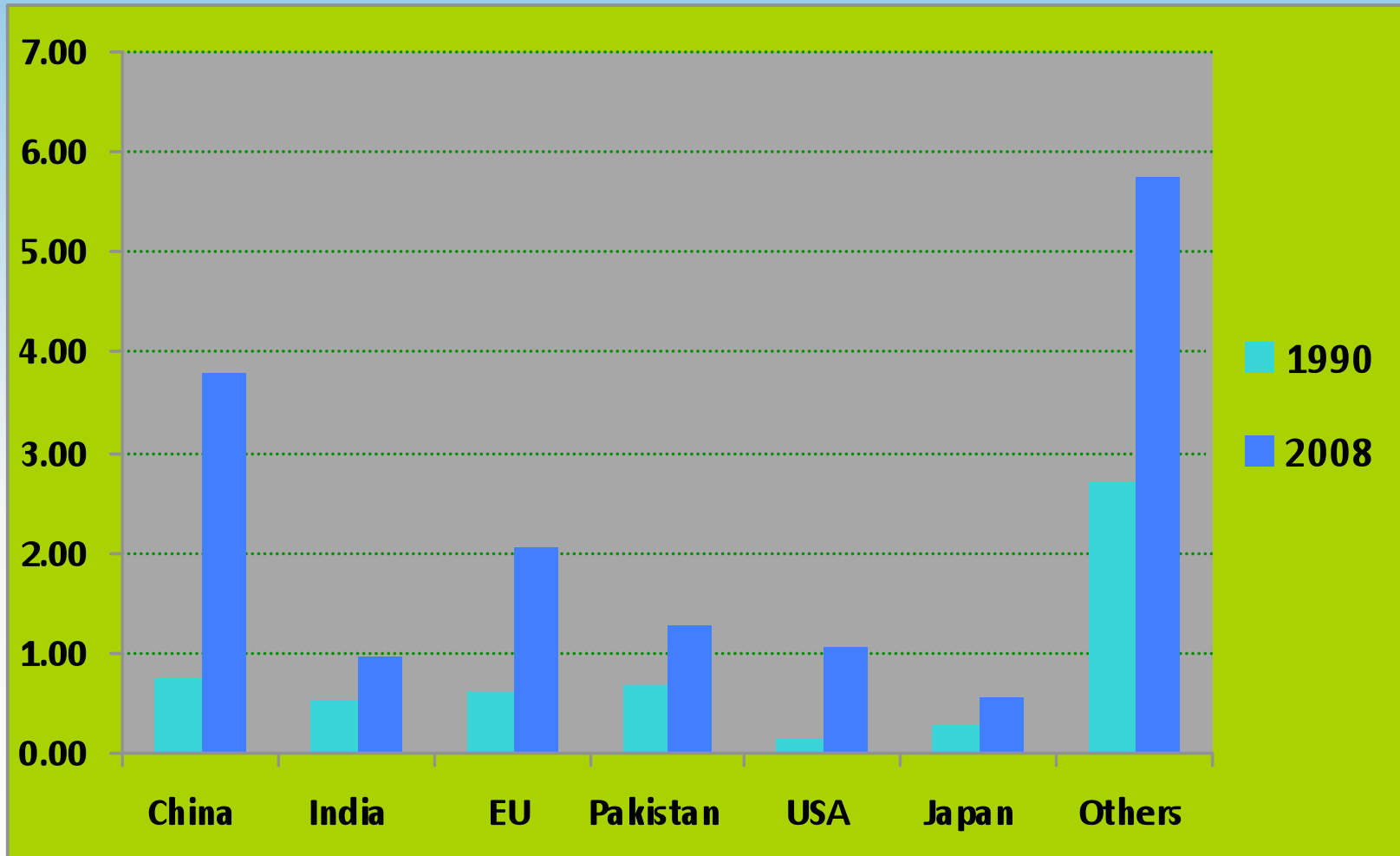
Importance of The Palm Oil Industry

- Oil palm occupies **4.48 million ha** or **less than 2%** of the total area (233 mil) under global oilseed cultivation or **0.09% of world total agriculture areas**.
- NGOs claim palm oil cause of deforestation and global warming **BUT What about 99.91 % of agricultural land** in other countries that was formerly mostly forest land?
- Significant foreign exchange earner: RM 65.2billion in 2009.
- Oil palm is the backbone of country's development especially for rural development and political stability.
- Malaysian palm oil is consumed in over 150 countries worldwide. Latest trend in **Friends of Earth (FoE)** headlines:- "***Palm oil Plantations not helping anyone***". The NGOs must be getting desperate to issue such negative statements.

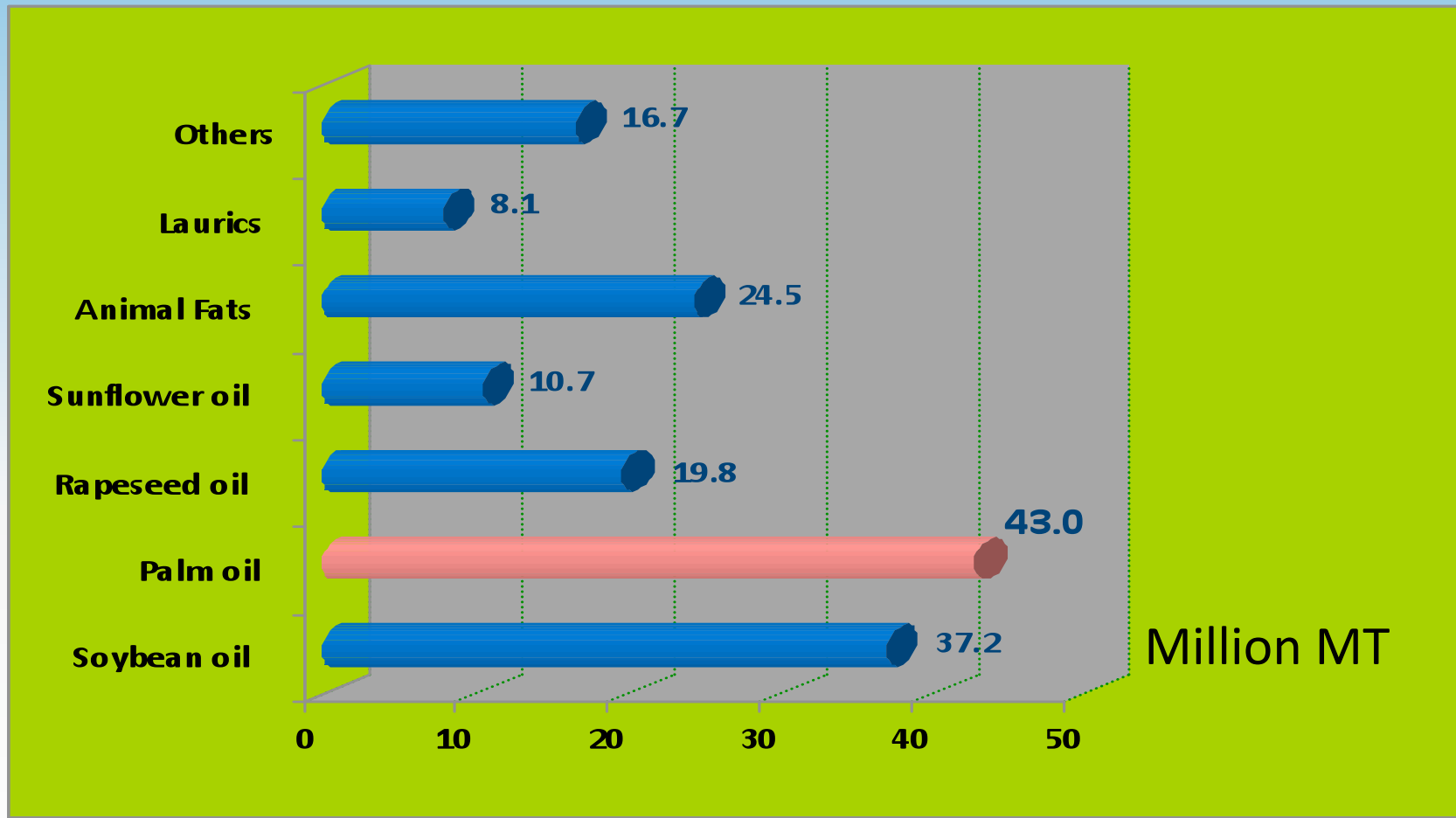
Comparison Between Malaysia & Other Palm Oil Producers - 2009



Major Importers of Malaysian Palm Oil



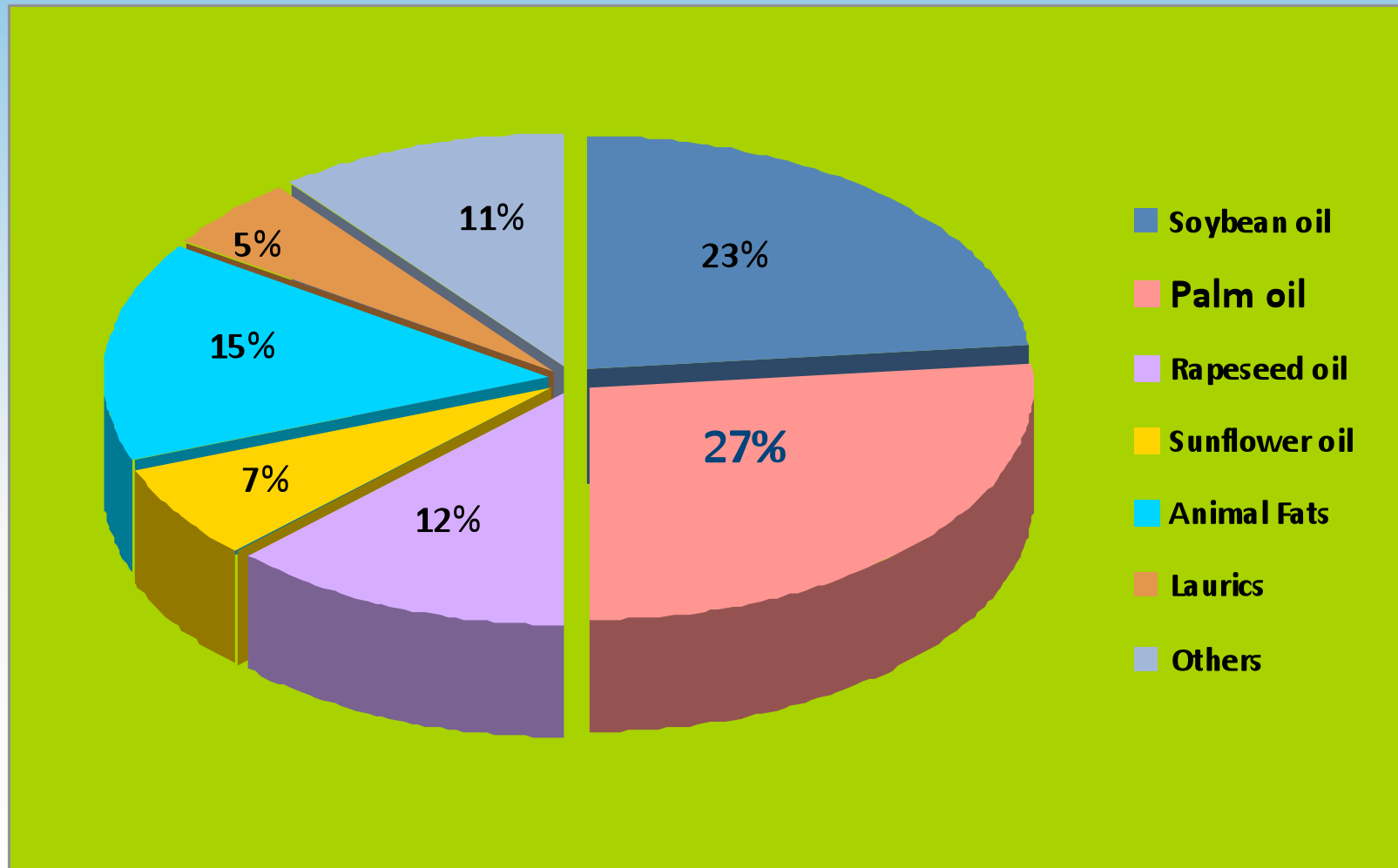
Total World Oils & Fats Production 2008 : 160 mil MT



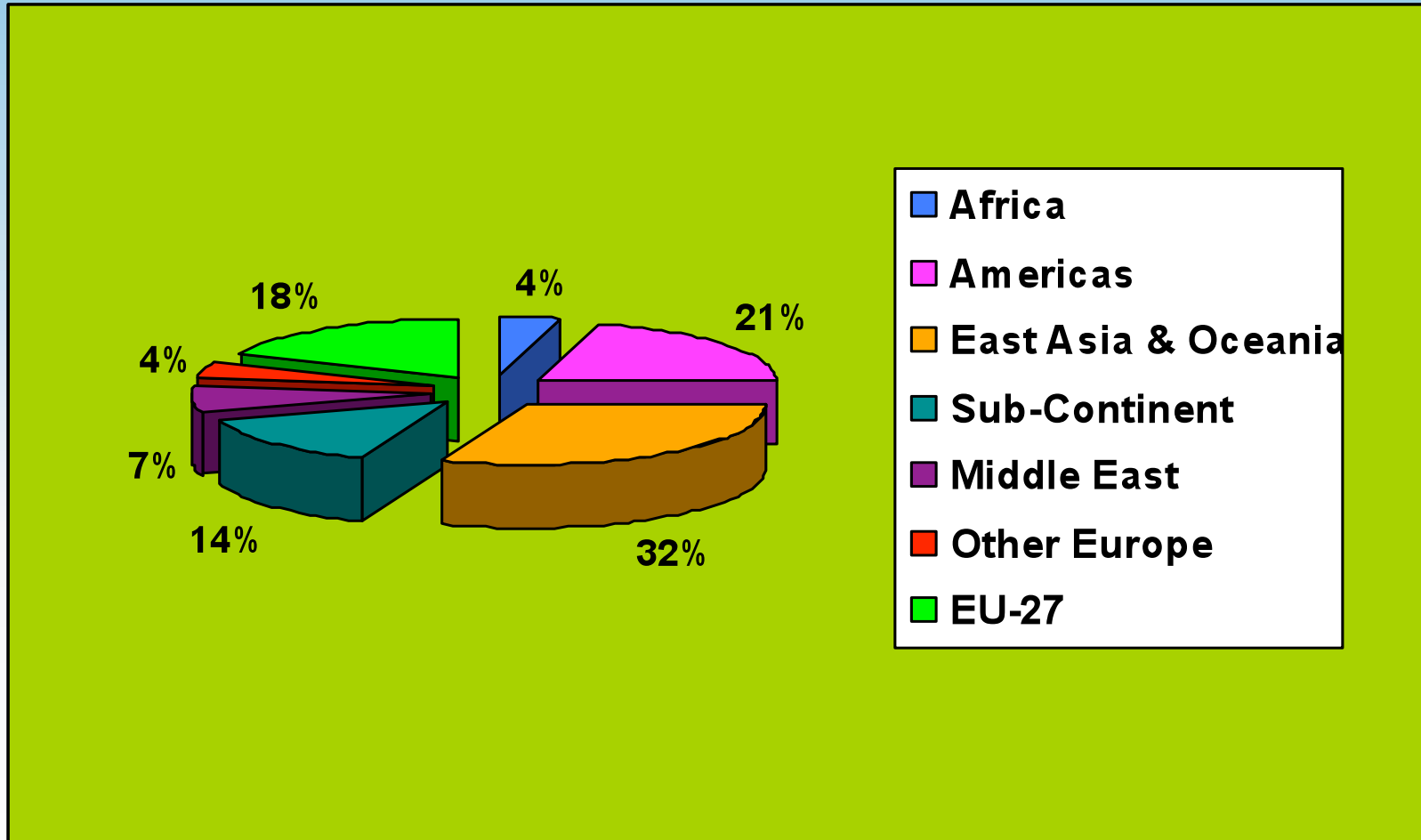
Production Average Growth

- Annual global production growth during 2003-08 was 5.8% per annum.
- Palm oil had the highest **growth at 11.1% per year** during this period. Soybean and rapeseed growth rates were **4.5% and 8.3%** respectively.
- In 2008, average growth of all oils estimated at 4.1%, with palm oil at 11.2%, rapeseed at 5.9% while soybean dropped by 0.5%.

World Oils & Fats Production Share



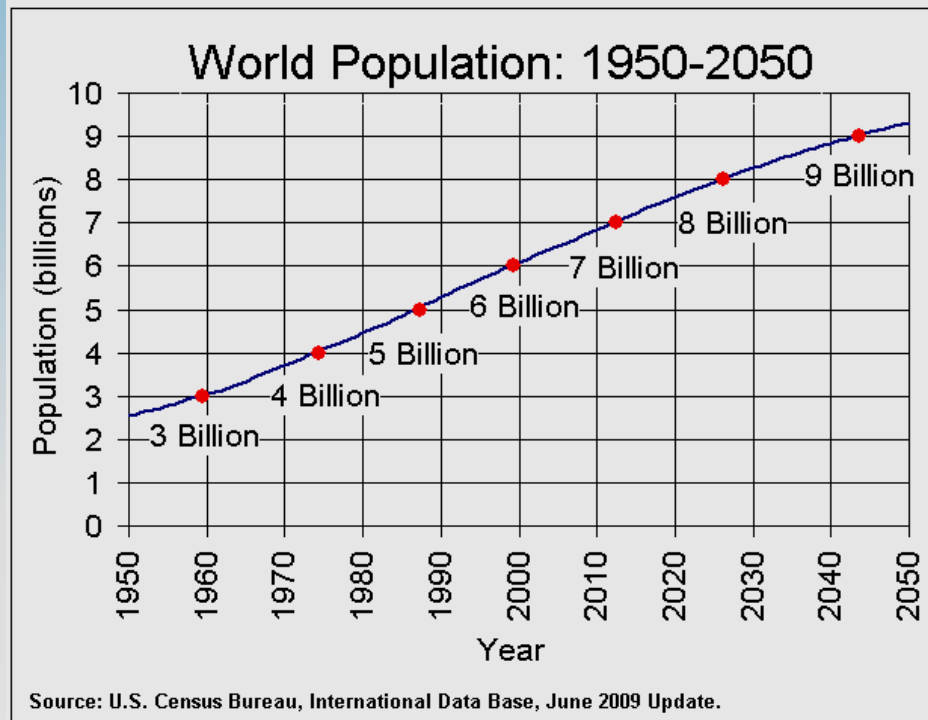
Oils & Fats Consumption By Region



Demand

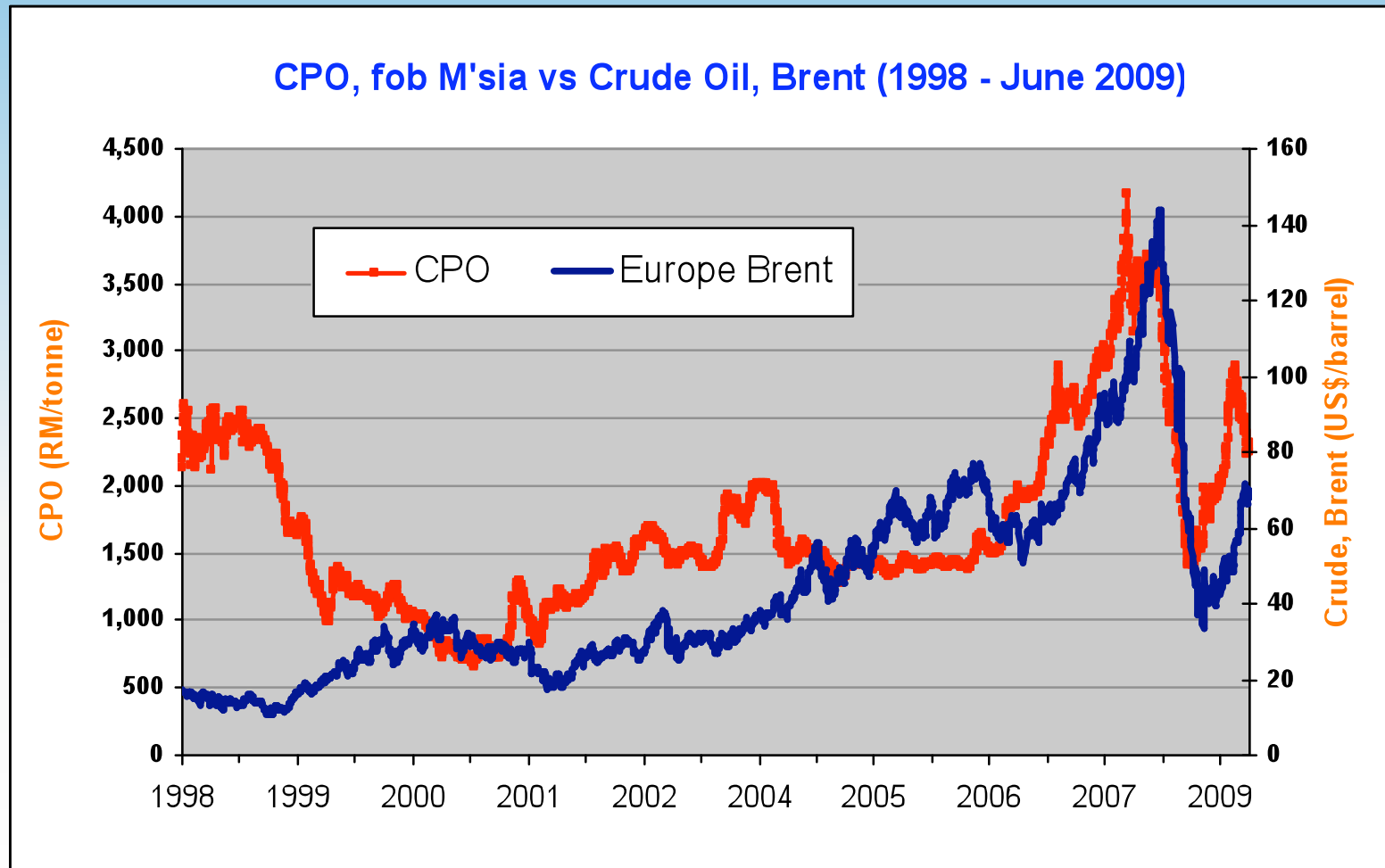
Future of palm oil is driven by growth in demand for food, oleochemicals and bio fuel due to population and economic growth

World Population: 1950-2050

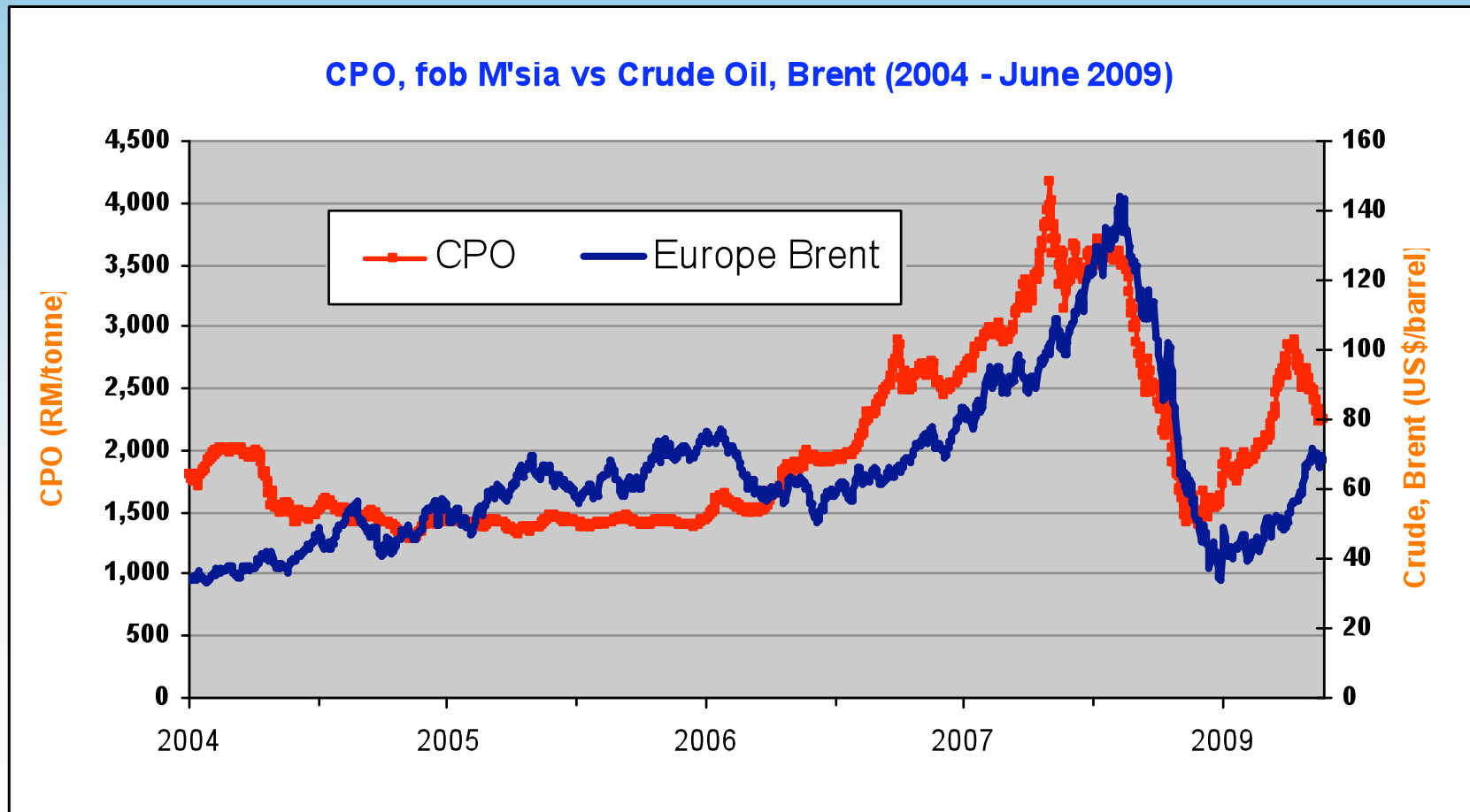


The world population is projected to grow from 6 billion in 1999 to 9 billion by 2043, an increase of 50 percent.

Demand : Correlation between CPO and Crude Oil Prices



Correlation between CPO and Crude Oil Prices

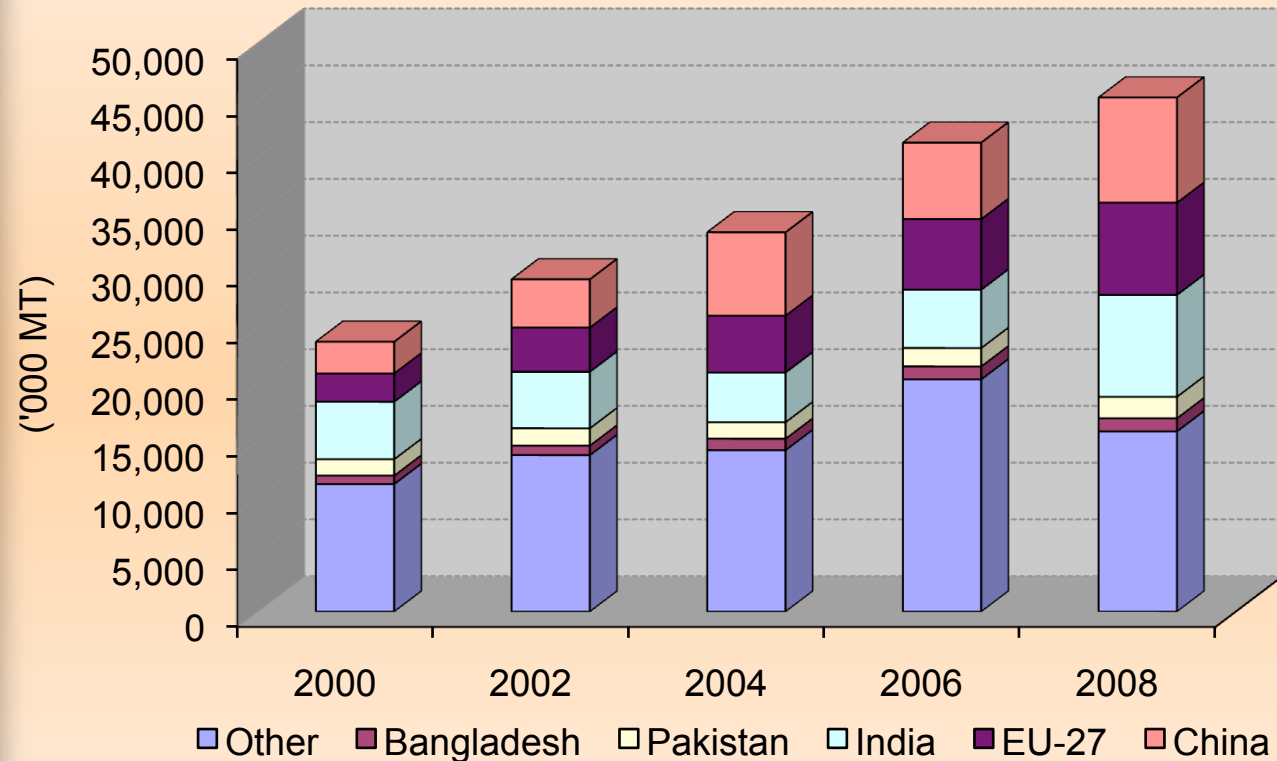


Nett Excess of Supply Position Presents Unique Scenario

- Very few countries are in a position of net excess to supply oils and fats to the world market. Most countries are net importers of oils and fats, even when the biodiesel industry has not taken off in a big way.
- This future will portray potential supply shortages, if biofuel usage is factored in. Consumption will be affected if there's global recession, but more than 80% vegetable oils end up in food, which is a basic need. Palm oil should be able to fill in the supply gap on its competitive pricing to shift demand from more expensive vegetable oils.
- This provides a unique scenario for the oils and fats suppliers and exporters, as they can expect the demand to be sustainable in the near future.

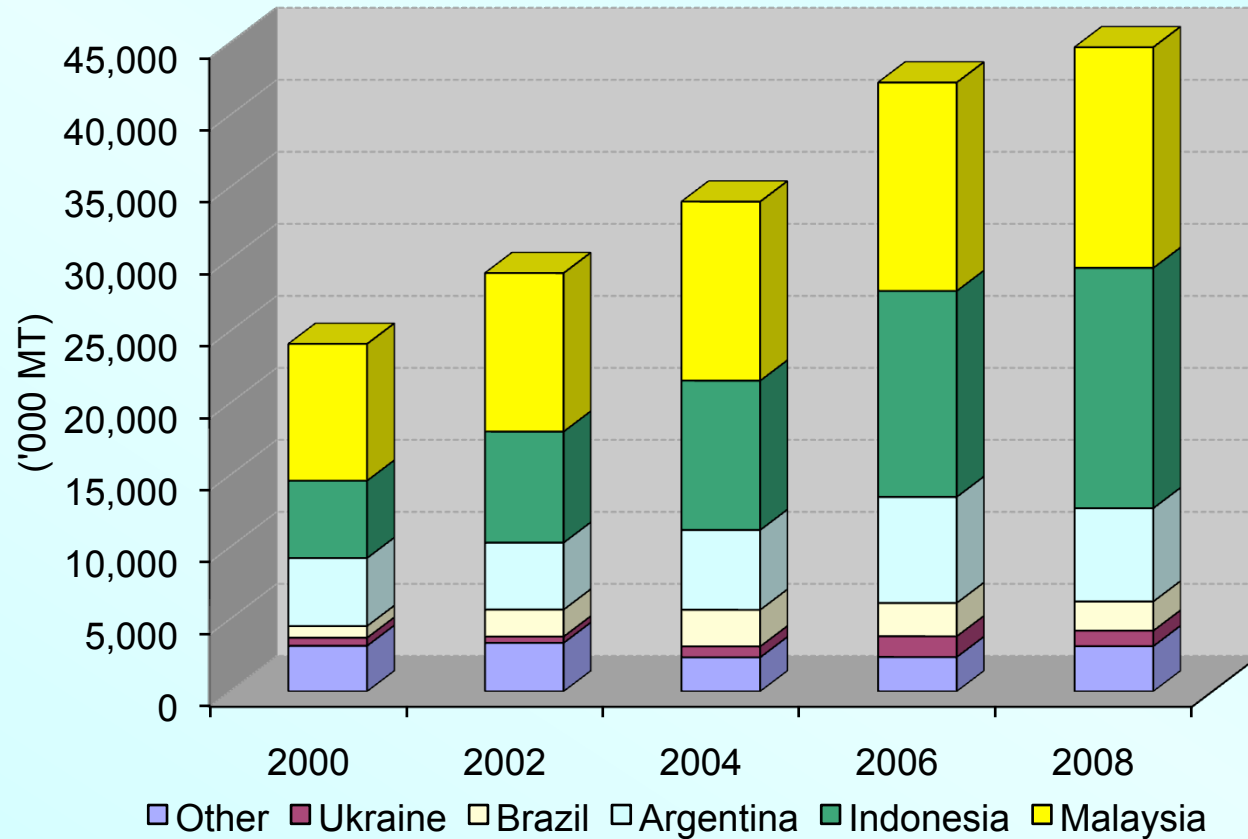
World Nett Importing Countries

- Most countries are net importers, including the US since 2006.
- Developed countries e.g. in the EU with ambitious bio-diesel programmes & future targets are already major net importers of oils and fats – even when the bio-diesel industry has not yet taken off in a big way.
- This provides an optimistic scenario for oil and fats suppliers and exporters as they can expect prices to remain remunerative.

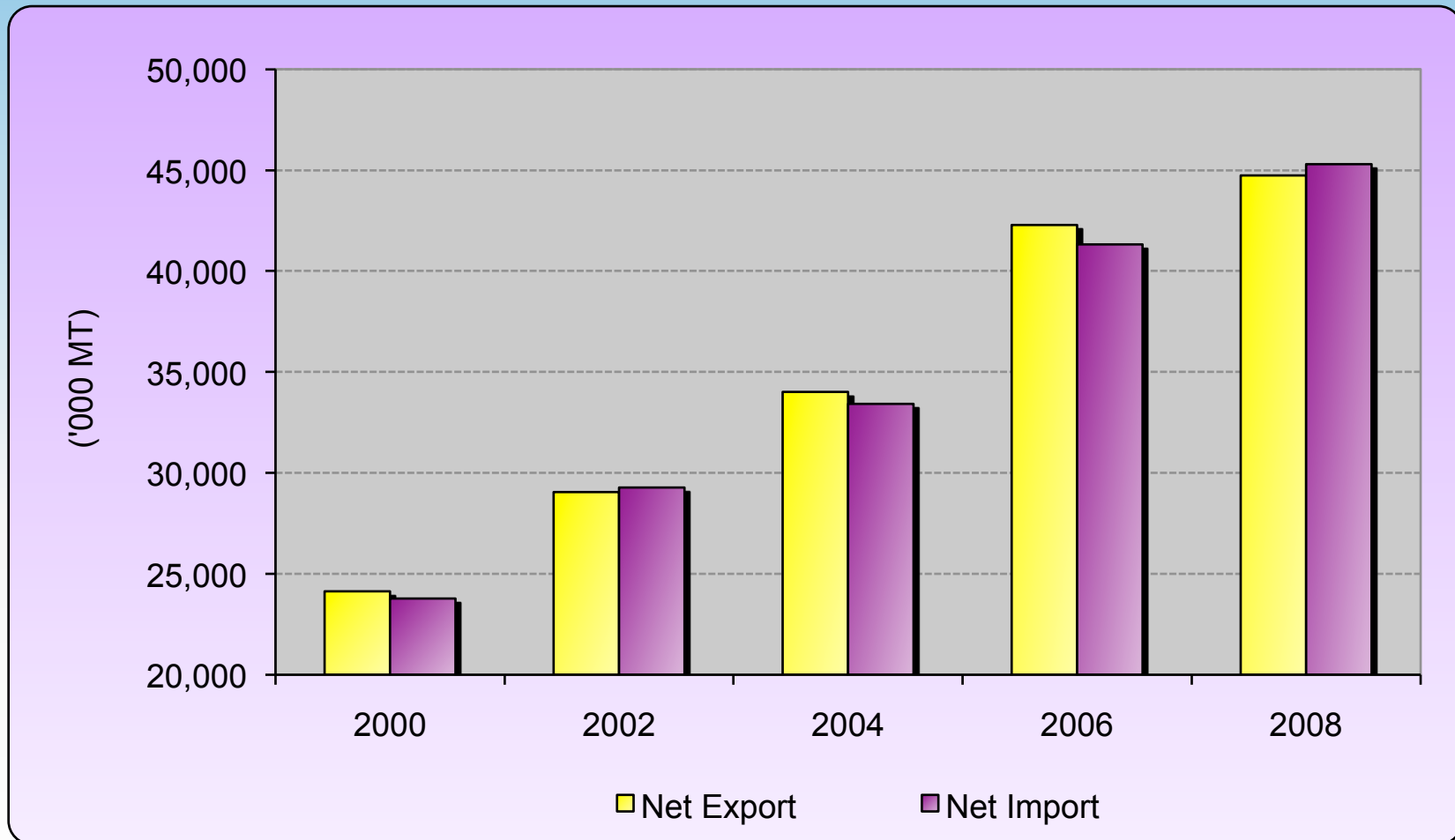


World Nett Exporting Countries

▪ *Very few countries are in a position of nett excess to supply oils & fats to the world market*

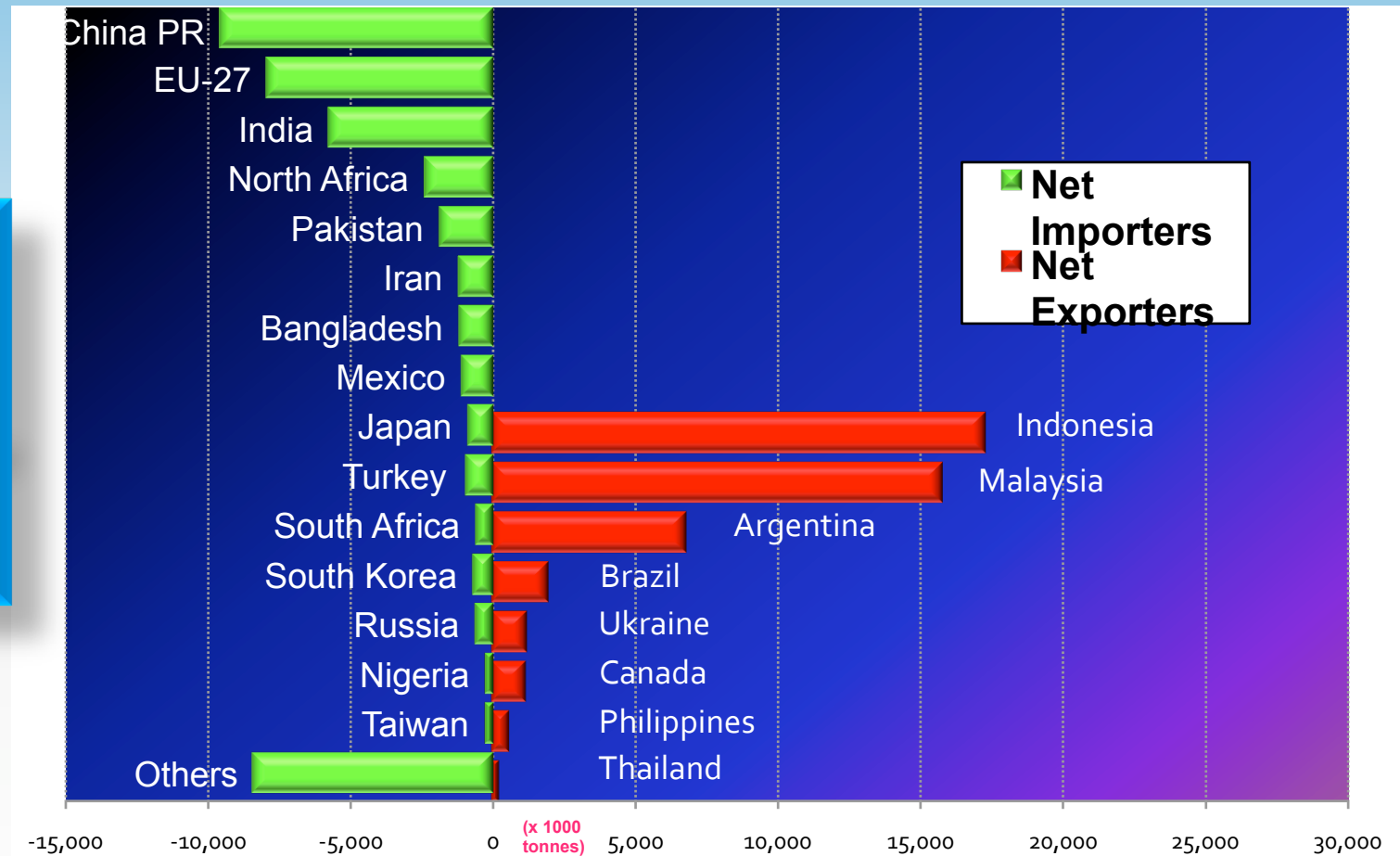


World Total Nett Export vs World Total Nett Import



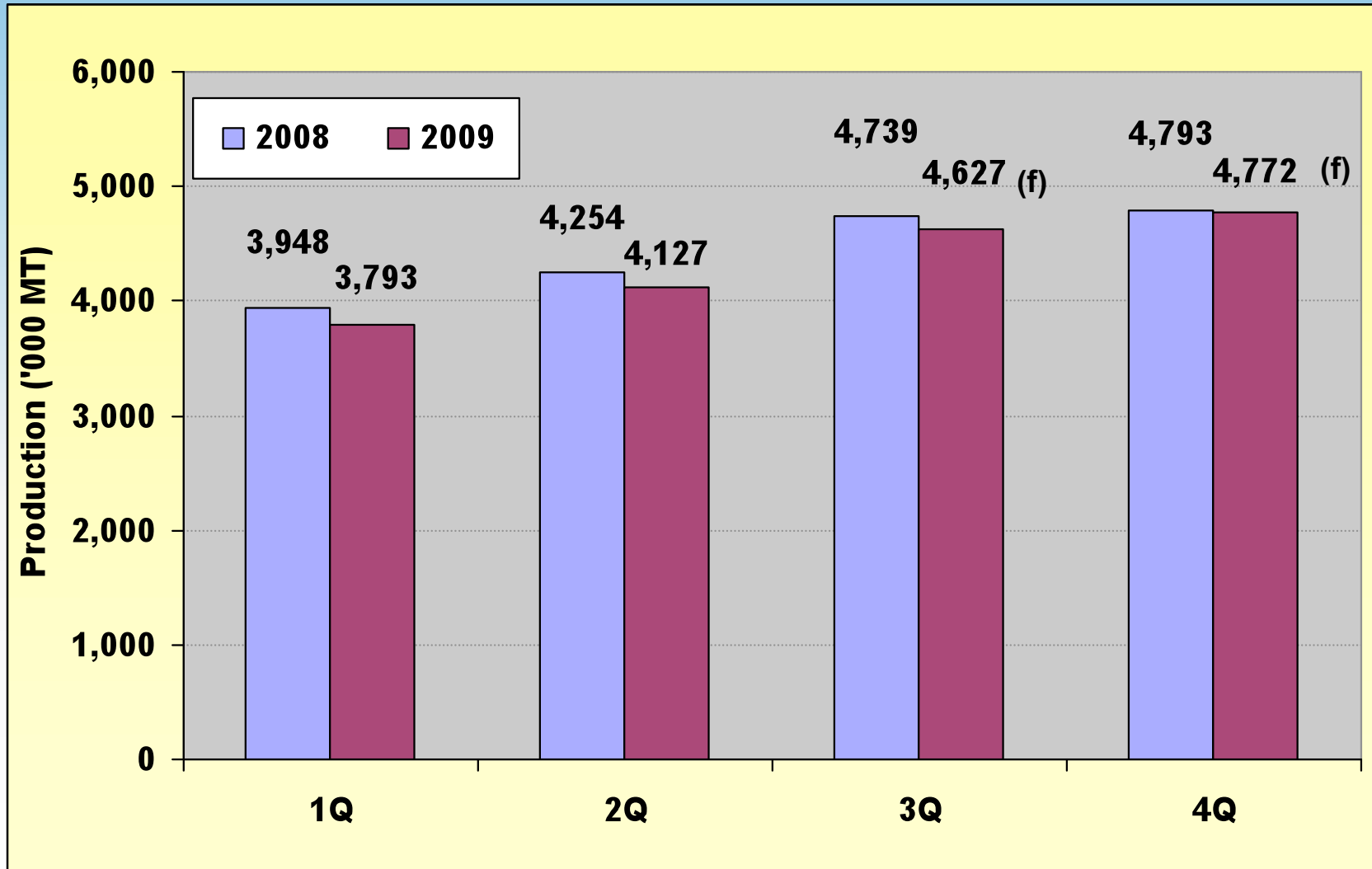
Net Importing & Exporting Countries for Oils & Fats (2008)

Malaysia, Indonesia & Argentina – are major net exporters of oils and fats.

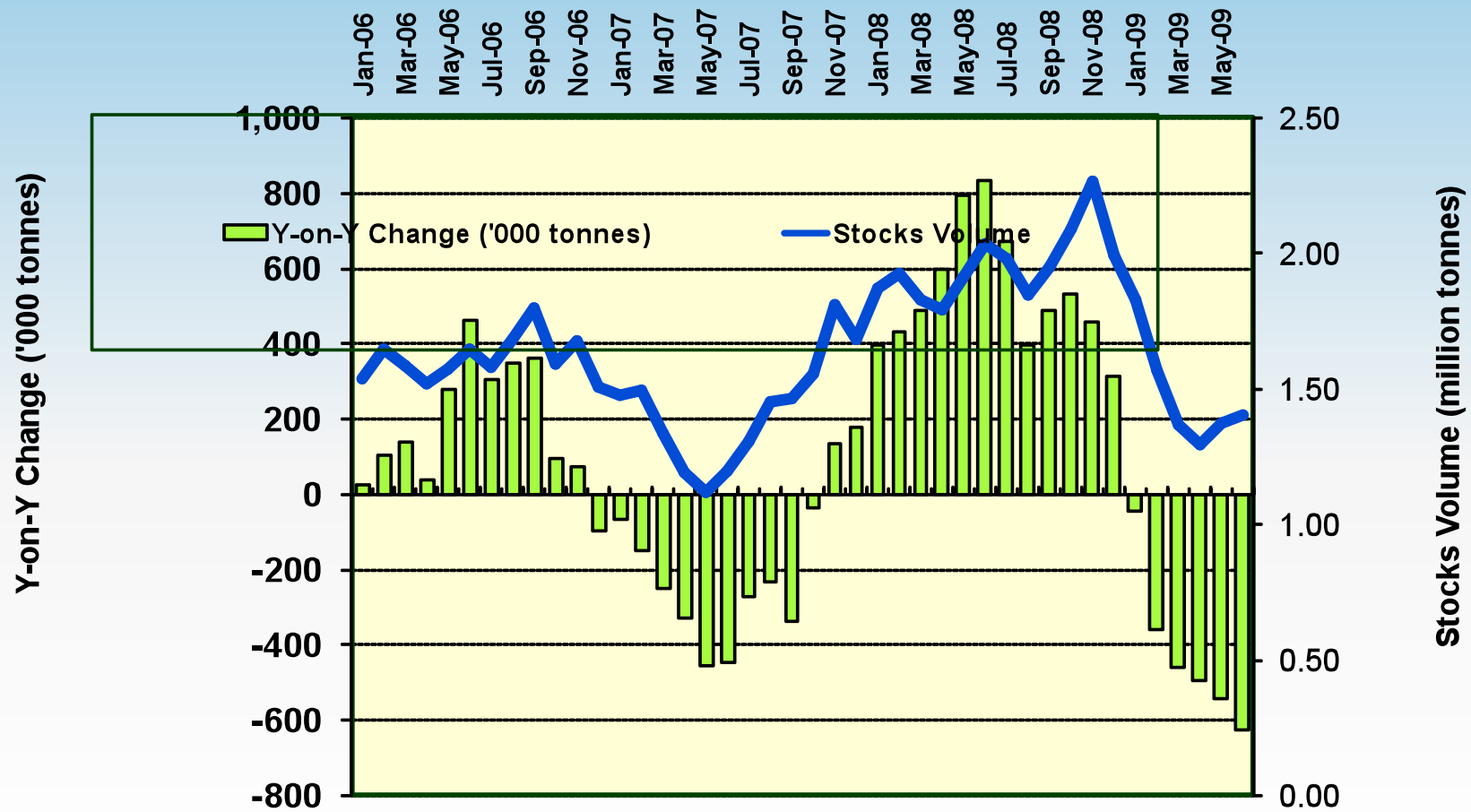


Source: Oil World

Malaysian Palm Oil Quarterly Production (2008 & 2009F)



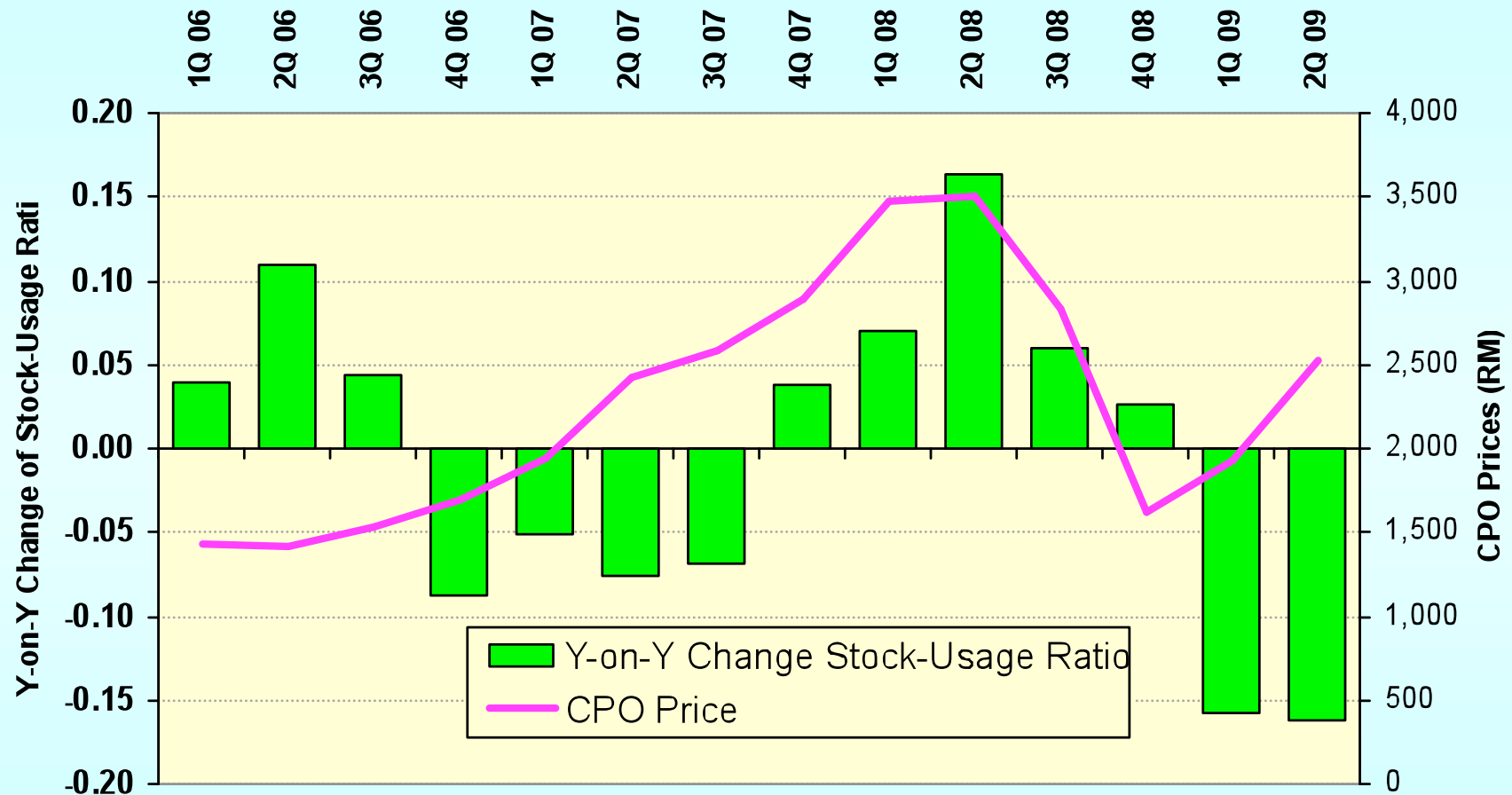
Stocks Have Declined Substantially for 2009



Source: MPOB



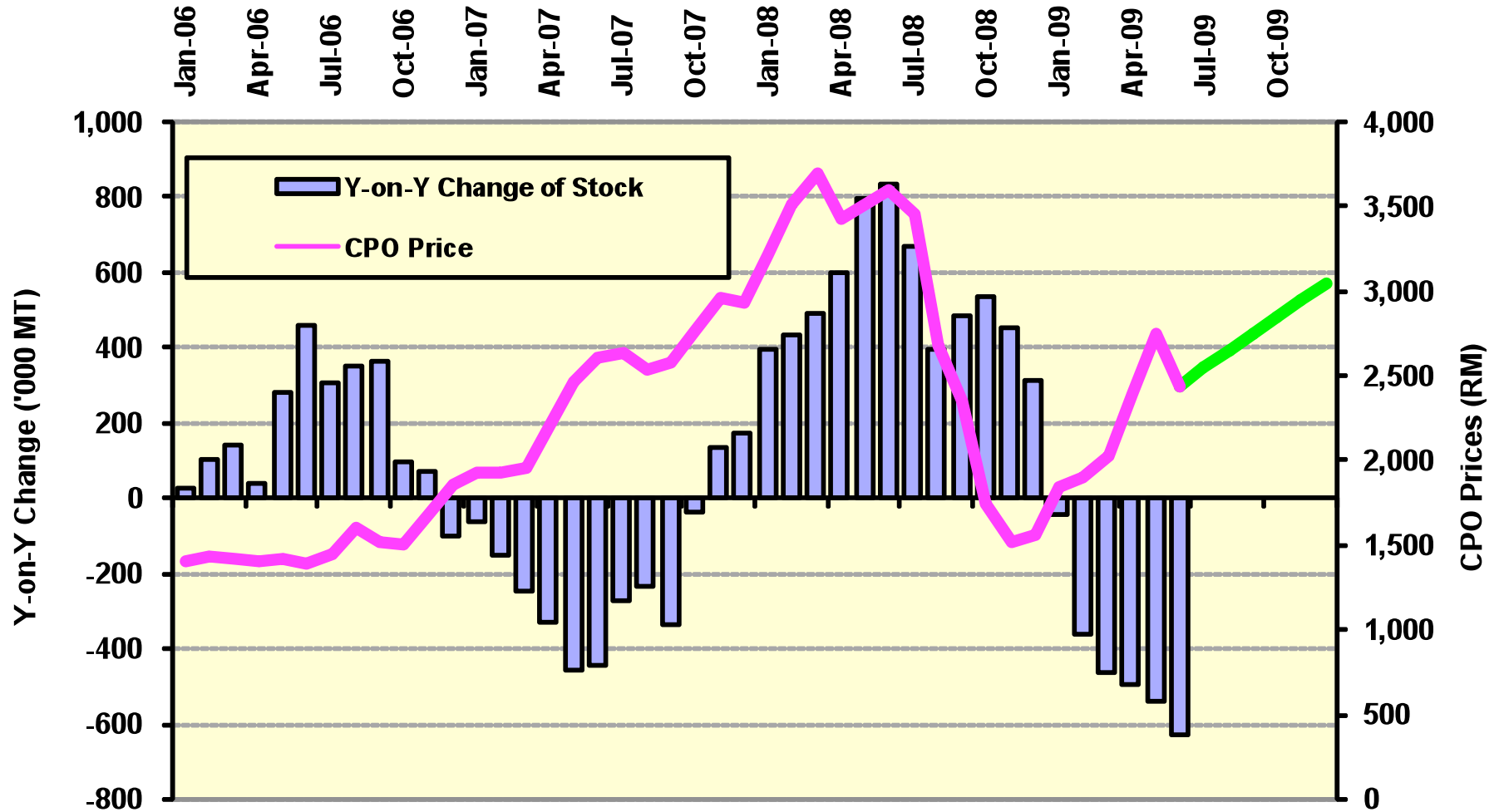
Year-on-Year Change of Stock-Usage Ratio vs. CPO Price



Source: MPOB



Year-on-Year Change of Stock vs CPO Price



Synergy of Blended Oils

- The blend of palm oil, soybean oil and canola oil is marketed commercially in USA and Malaysia under the Smart Balance Brand



- The ideal benefit
 - Increasing HDL-cholesterol
 - Lowering LDL-cholesterol
- A positive synergy with up to 50% palm oil content

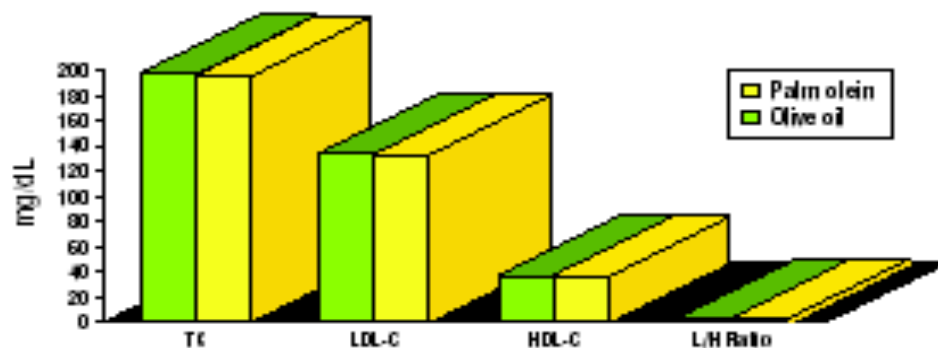


Palm Olein : Naturally Good Nutrition

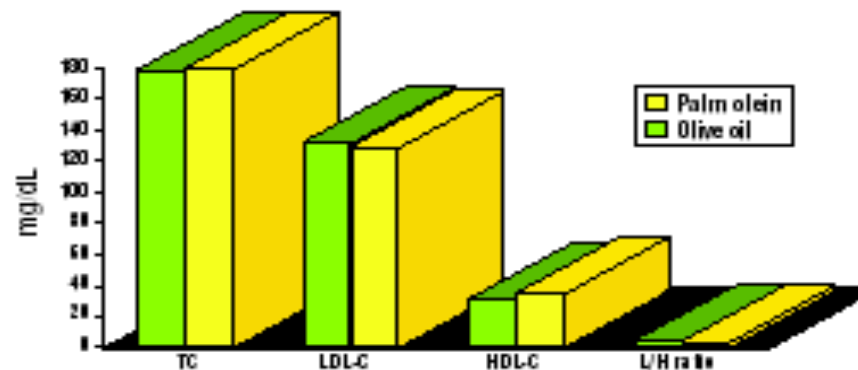
- Palm Olein: Goodness in Every Drop
 - Contains heart-healthy monounsaturated oleic acid
 - High in Vitamin E tocotrienols
 - All-natural

- Palm Olein: Versatility and Value
 - Excellent frying properties
 - Competitively priced

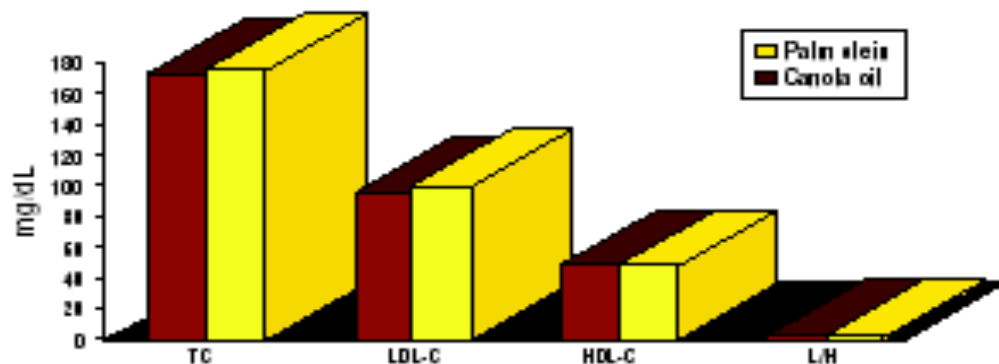
Palm Olein Reduces Cholesterol as Effectively as Olive, Canola and Rapeseed Oils



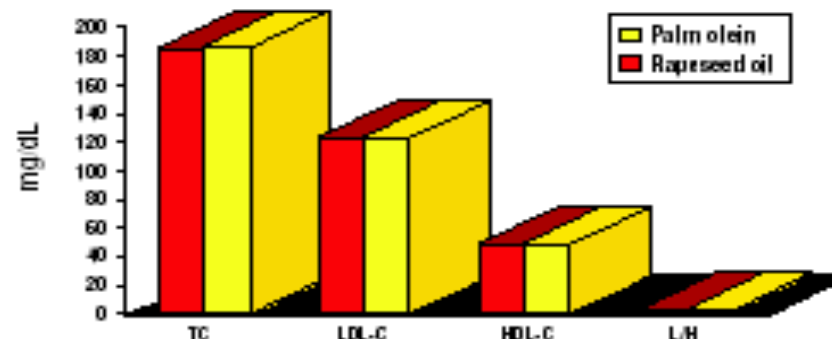
Diets enriched by palm olein or olive oil showed identical plasma cholesterol response in humans.
Ng et al. (1992) J. Am. Coll. Nutr.



Diets enriched by palm olein or olive oil showed identical plasma cholesterol response in humans.
Choudhury et al. (1995), Am. J. Clin. Nutr.

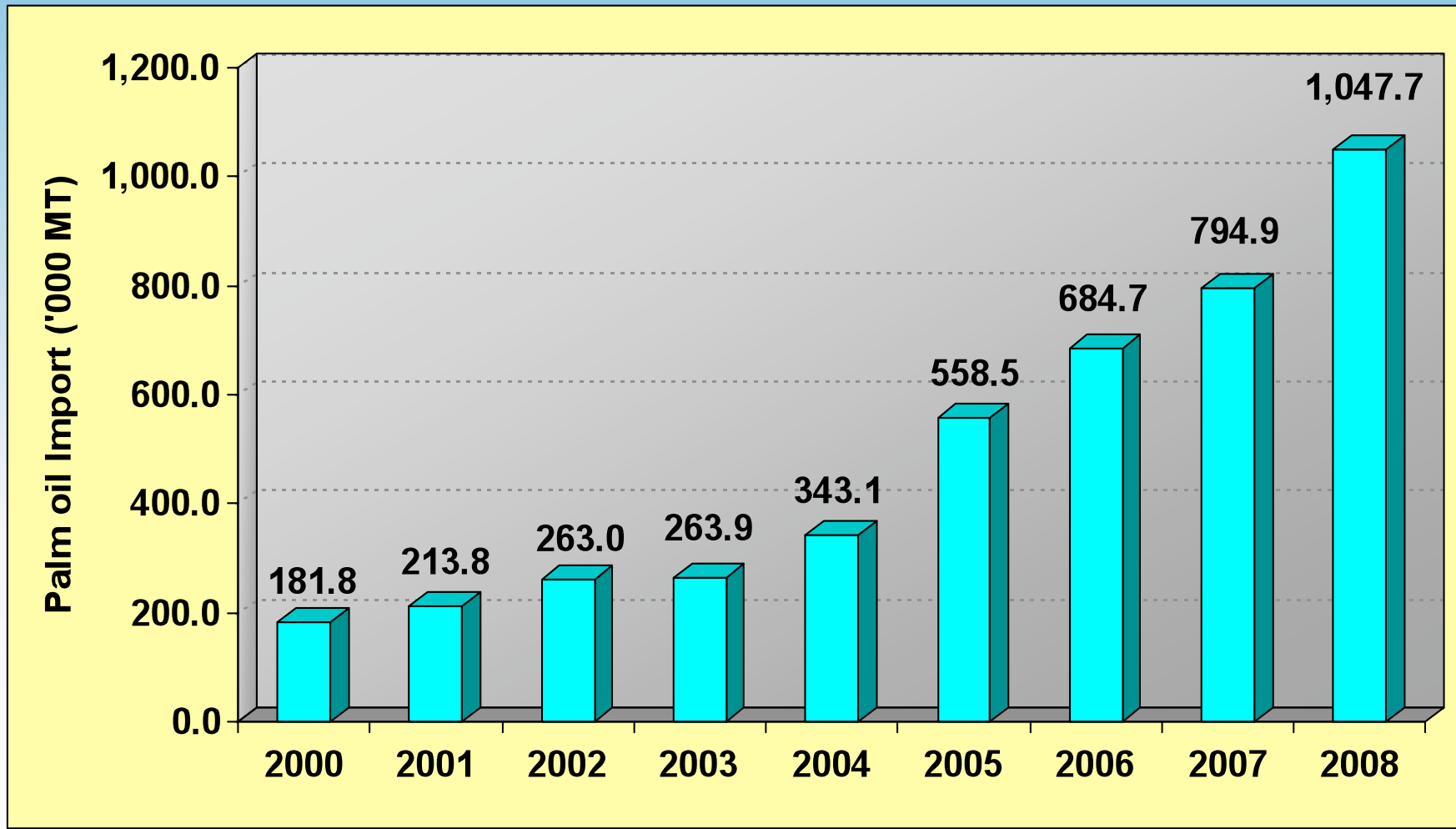


Palm olein or canola oil results in similar beneficial effects on plasma cholesterol.
Sundram et al. (1995), J. Nutr. Biochem



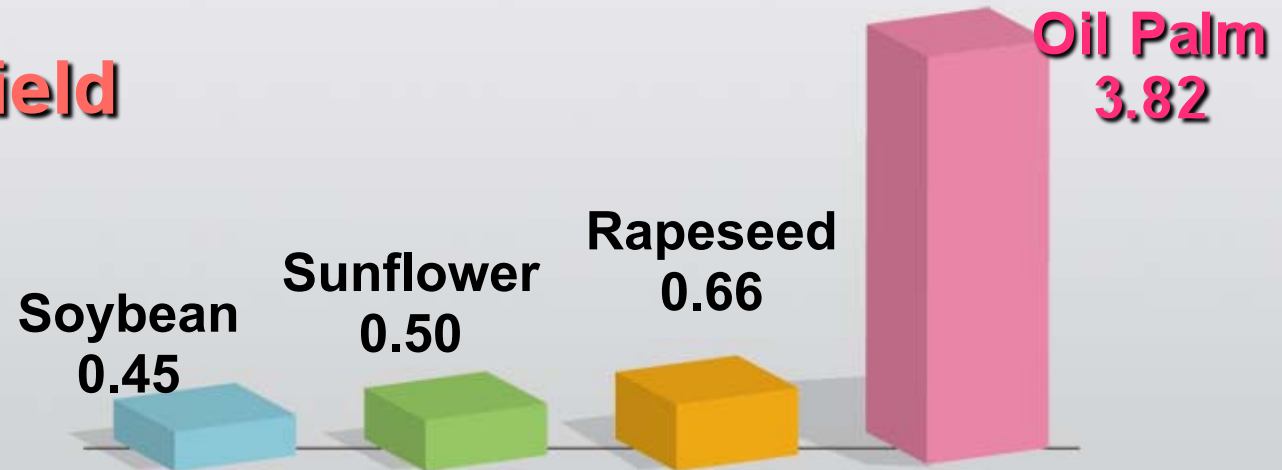
Palm olein or rapeseed oil results in similar beneficial effects on plasma cholesterol.
Sundram et al. (1997) J. Nutrition

Import of Malaysian Palm Oil in USA



Oil Palm vs Other Oilseed Crops

Average Oil Yield (t/ha/year)



Oil Crop	Production (mil tonnes)	% of Total Production	Average Oil Yield (t/ha/year)	Total Area (mil ha)	% Area
Soybean	37.16	30.13	0.45	91.73	41.46
Sunflower	10.69	8.67	0.50	23.37	10.56
Rapeseed	19.85	16.10	0.66	29.502	13.33
Oil Palm	43.01 ^a	34.88	3.82	11.26	5.09
TOTAL^b	123.32			221.26	

Note: ^aonly for palm oil

^bonly for the 7 major oils (groundnut, coconut, cottonseed and the above oils)

Source: Oil World Dec 2007

Branding and Brand Support

- New Demand Dimension – Certified Palm Oil as a way forward.
- Malaysia as a reliable supplier of consistent quality palm oil products. For its good image, Malaysian palm oil to be differentiated into a better brand, to fetch a higher value for its palm oil.
- Certified palm oil can command a premium, US\$50 more per tonne?
- Role of Government in enforcing or expediting the production of sustainable palm oil in the country to ensure sufficient sustainable palm oil to meet the future needs of the refining/processing industry, and to create higher value for our palm based products.



Smart Branding

RSPO

Roundtable on Sustainable Palm Oil



**Branded oil produced
from registered &
licensed sun
drenched farmlands
of Malaysia**

Roundtable on Sustainable Palm Oil

- **Having spent huge amounts of money and time to meet demand from Europeans for certified sustainable palm oil, demand has failed to materialize**
- **Consumers will buy food that is the least expensive more often than not particularly when there is a global recession.**

MALAYSIAPALM BRAND

- **The Scheme provides 'green' brand assurance across the supply chain of palm oil from cultivation to end-consumers and derived products.**
- **The MALAYSIAPALM Brand Scheme is a voluntary scheme.**
- **Involved parties such as growers, millers, refiners and traders can apply to participate.**

Conclusion : Malaysia's Golden Crop Has Become The Gold Mine

- The competitiveness of palm oil implies that it will remain as a source for sustainable and renewable raw material profitable for producers and attractive to users.
- The opportunity to leverage on biodiesel demand means that palm oil prices need no longer be subject to very low prices. Demand dynamics (shortages) suggest upside trends on palm oil prices.

The Survival of World Market Dependent on Palm Oil

- The future direction of the Malaysian palm oil industry is very much dependent on the trade relations it shares with buyers around the world.
- Malaysia relies on market expansion as most of its production is for export. The world is experiencing a chronic shortage of oils and fats in view of growing population, economic growth and demand for bio-fuels.
- This shared future entails that Malaysia must continue to promote trade with a win-win formula that allows for more usage of palm oil in formulations of new and established food and non-food applications.



THANK YOU

