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A Typical EU Compromise?

Focus on Palm Oil

Comment

**'Business as Usual' Not an Option Anymore
In Defence of Palm Oil**

Headwinds in Palm Oil Industry Will Persist

Sustainability

Removing the EU's Blinkers

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**Malaysian Palm Oil – Performance
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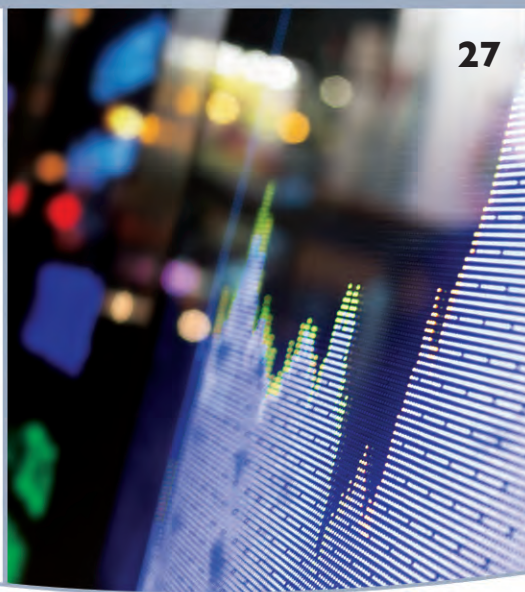
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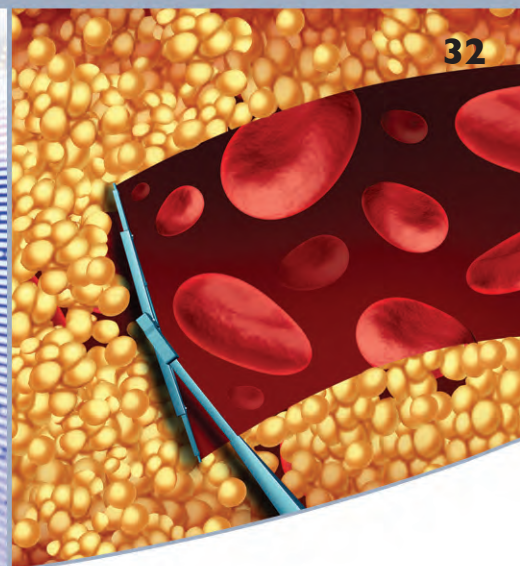
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Editor-in-chief

Datuk Dr Kalyana Sundram

Editor

Belvinder Sron

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For advertising information, contact:

Razita Abd. Razak
 Global Oils & Fats Business Magazine
 Malaysian Palm Oil Council
 Tel: 603-78064097
 Fax: 603-78062272
 e-mail: razita@mpoc.org.my

For subscriptions, contact: anizah@mpoc.org.my

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Malaysia's palm oil environmental leadership

Mere days after the World Resources Institute issued new greenhouse gas (GHG) protocols, the organisation felt it important to re-post an enlightening article about agricultural emissions. The article brings clarity to issues related to deforestation and GHG emissions. To each of their points, information is added about how the Malaysian palm oil industry leads the world in environmental stewardship.

Point 1: The agricultural sector is the world's second-largest GHG emitter:

Oil palm plantations in reality efficiently remove CO₂, due in part to the extensive green foliage carried throughout their lifespan of 25-30 years. Malaysia has agreed to periodically report on its national GHG emissions and measures taken to address climate change. Among the 106 countries which reported their GHG inventories to the UN Framework Convention on Climate Change in 2000, Malaysia was ranked among the lowest GHG emitters. At the other end of the scale, the US, EU and Australia ranked among the 20 largest CO₂ emitters.



Only 11 countries stood out as net carbon sinks; Malaysia was one of these. This trend will continue since Malaysia pledged to retain at least 50% of its land mass under forest and green cover as far back as 1992 at the Earth Summit. Today, it still proudly upholds this commitment. Palm oil produced sustainably will continue to be a mainstay of the Malaysian economy.

Point 2: Most farm-related emissions come in the form of methane and nitrous oxide.

Cattle belching is a top source of farm-related emissions. Livestock accounts for 71% of all agricultural land use, or 30% of land surface on the planet. The area occupied by oil palm is miniscule by comparison, just 0.31% of global agricultural land use.

Point 3: Global agricultural emissions are projected to continue increasing, driven by production of vegetable oils and animal products, in response to increased food demand.

Amidst concern over food security and available arable land to support increased food production, the oil palm's superior productivity comes into the picture. It produces, on average, 4 tonnes of oil per ha compared to canola (0.59), sunflower (0.42) and soybean (0.36). Each oil palm tree also produces fruit for up to 30 years, enabling plantations to also sustain a healthy secondary fauna and flora ecology.

Point 4: Most land-use emissions are connected to agriculture, many resulting from deforestation as farms expand into tropical forests.

Around the world, oil palm is grown on the least amount of land area among the four major oil crops. Between 2010 and 2015, four times more land were cleared to plant soybean than oil palm.



The oil palm is a big perennial tree which grows and bears fruit throughout the year. Soybean, canola, rapeseed and sunflower remain on the ground for a few months – they flower and fruit before they are harvested. Within a short duration, they are then uprooted or left to decay in the field. If a situation arises similar to the debate on banning palm oil biofuels in Europe, then industry would need to substitute with less efficient oil crops such as soybean, canola and sunflower. Large areas of forest and grassland are likely to be destroyed to plant these crops.

Here is another example of Malaysia's progressive environmental policies. The palm oil milling process creates a waste by-product called palm oil mill effluent. This holds a high concentration of biodegradable organic material. It is, by law, ponded in effluent treatment tanks, where it is decomposed to meet strict environmental standards. The breakdown creates potent methane biogas (GHG) that can harm the environment.

Many Malaysian palm oil mills now have in place systems to trap and recycle that biogas. Such methane trapping facilities are projected to be made mandatory. The country will build biogas facilities across all mills and educate millers on how to recycle the gas, which is a ready and useful source of energy. It is already used to generate green electricity in some parts of the country.

Point 5: To manage GHG emissions, farmers need to understand their emissions sources.

Malaysian oil palm cultivation and palm oil processing are already more environmentally friendly than most other major oilseed crops. The cultivation and processing of oil palm requires less input of fertilisers, pesticides and fuel energy to produce one tonne of oil.

Palm oil is the world's most produced, affordable and consumed edible oil. And it is in fact the leading edible oil that is certified sustainable by a number of independent schemes and standards. It is enjoyed by more than three billion people in 160 countries. As the world's population increases, Malaysia is poised to help meet the growing demand for this staple dietary macronutrient.

Malaysia's palm oil industry is also always open to greater intergovernmental collaboration and cooperation with NGOs and industry end users, to work toward common goals of sustainability.

Datuk Dr Kalyana Sundram,
CEO, MPOC



BIOTECHNOLOGY PROTECT
HYBRID ENERGY
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On June 14, 2018, the Council of the EU (the Council), the European Parliament and the European Commission (EC) reached a political agreement during the 'trilogue' negotiations on the update of the Renewable Energy Directive (RED II).

While the compromise – reached behind closed doors – must be formally approved by the European Parliament and the Council before entering into force, no changes are expected. The agreed text is not yet publicly available, but key aspects have been detailed with the announcement of the compromise.

Contrary to what has been announced by certain involved parties, in particular by Members of the European Parliament (MEPs) and then picked up by the media, the RED II compromise does not yet include an express 'ban' on palm oil biofuels. Rather, it hides the 'ban' on palm oil biofuels behind rules that will apply to all biofuels crops.

The RED II calls for the determination of 'low indirect land-use change-risk biofuels'. The use of such biofuels was agreed to be frozen at their 2019 level, with the EC then required to recommend phase-out strategies for the period between 2024 and 2030.

The RED II might still lead to a gradual phase-out of palm oil, if palm oil biofuels are considered (as expected) a high rather than a low indirect land-use change-risk biofuel by the EU. The devil is in the detail and the details are not out yet with respect to the criteria that will be used to define indirect land-use change (ILUC) and the factors that will determine which commodities are to be phased out for biofuels production.

In 2016, the EC had submitted its RED II proposal to the other EU institutions. The Council and the European Parliament adopted their positions in December 2017 and January 2018,

A Typical EU Compromise?

In 'phase out' of palm oil biofuels

respectively. In February 2018, the EU institutions started their 'trilogue' negotiations.

In its position, the European Parliament had included a controversial phase-out of biofuels made from palm oil from as early as 2021. This proposed 'ban', and all other aspects of the legislation, were discussed during the 'trilogue' negotiations between February and June 2018. Considering that an express 'ban' on palm oil would clearly be held incompatible with international trade rules, the EC and a number of EU member-states consistently opposed the proposed ban.

At the end, the EU drew up a compromise that allows all involved parties to claim victory, but which leaves businesses wondering about the future rules. The RED II does not contain an express 'ban' on palm oil biofuels or any specific biofuel. However, the notion of 'low indirect land-use change-risk

biofuels', which is yet to be defined, was clearly included with palm oil (and perhaps soybean oil) on the negotiators' mind. While the EC insists that there is no 'ban' on palm oil, MEPs touted the compromise as the end for palm oil and soybean oil biofuels by 2030.

The RED II tasks the EC with drafting the methodology to define 'low indirect land-use change-risk biofuels' and their production processes by February 2019. It can be expected that the EC will now begin working on defining the concept of 'low indirect land-use change-risk biofuels' and the criteria to calculate it.

ILUC refers to the unintended consequence of releasing more carbon emissions due to land-use change around the world, through the expansion of croplands for biofuels production.

In 2015, the EU had introduced rules to amend relevant legislation on biofuels, including the RED, which aimed at reducing the risk of ILUC and to prepare the transition towards advanced biofuels (biofuels not made from food crops). In order to reduce ILUC, the amendments limited the share of biofuels from crops grown on agricultural land that can be counted towards the 2020 renewable energy targets to 7%.

In 2015, no further requirements were introduced in relation to ILUC, which was only fair considering the controversy over the methodologies used to calculate the respective greenhouse gas emissions.


Such calculations are complex and, historically speaking, should be considered hypocritical. This is in view of the vast areas of land changed within the EU in the past (i.e. land-use changes), which will likely not be factored in by the EC, as well as all the vast areas that, around the world, are destined for economic activities other than biofuels production (e.g. beef or other meat production, dairy farming, industrial expansion). ILUC will now become the deciding factor for market access to the EU, admittedly only with respect to biofuels at first.

Legal on paper, illegal in practice?

While the details of the methodology are yet to be defined by the EC, the direction is clear. It indicates that certain products that do not meet the EU's new requirements for renewable energy will no longer be eligible to be counted for the renewable energy targets and will, therefore, no longer be viable (i.e. incentivised or *de facto* subsidised) within the EU Single Market.

A definite legal assessment will only be possible once all details to define 'low indirect land-use change-risk biofuels' are known. However, on the basis of what is already known, it is clear what aspects would likely be the ones to be legally scrutinised and possibly challenged.

The challengeable aspects appear to be the very issue of ILUC and the potential discrimination against certain crops. ILUC has been controversial all along, largely due to the lack of an appropriate methodology to determine its undesired effects. The EC will now have to come up with a scientific methodology that can withstand scrutiny under international trade law.



*In order to reduce ILUC,
the amendments limited the
share of biofuels from crops grown
on agricultural land that can be counted
towards the 2020 renewable energy targets to 7%.*



In the context of the applicable international legal obligations, in particular of the World Trade Organisation (WTO), the EU and its member-states are bound to the General Agreement on Tariffs and Trade 1994 (GATT) and the Agreement on Technical Barriers to Trade (TBT Agreement).

Article III:4 of the GATT and Article 2.1 of the TBT Agreement require non-discriminatory treatment between 'like' products. Such 'like' products could include biofuels derived from a variety of sources, such as palm oil, coconut oil, rapeseed oil and sunflower oil. 'Like' products may even include first-generation and second-generation biofuels (i.e. biofuels derived from food crops versus biofuels derived from non-food biomass).

Traditionally, the approach used to determine 'likeness' includes the consideration of:

- The properties, nature and quality of the products;
- The end uses of the products;
- Consumers' perceptions and behaviour in respect of the products; and
- The tariff classification of the products.

Where Article 2.1 of the TBT Agreement is concerned, the WTO Appellate Body has found that the determination of 'likeness' using the traditional factors listed is also a determination of the competitive relationship between the compared products.

When applied to biofuels, it is indeed questionable whether the secondary effects, such as the alleged ILUC and deforestation,

are issues that could be considered when assessing 'likeness'. If this interpretation were to be confirmed, the varying levels of effective market access afforded to different types of first-generation biofuels could be deemed as *de facto* discriminatory.

WTO rules do provide for a number of exceptions to its non-discrimination rules and principles, including, under certain conditions, for environmental considerations. The EU could invoke Article XX of the GATT, which allows WTO members to adopt measures otherwise inconsistent with WTO law in order to attain certain specific objectives of environmental nature. It is imaginable to expect that the EU could argue that the ILUC distinction in the RED II would be 'necessary to protect human, animal or plant life or health' or relate 'to the conservation of exhaustible natural resources'.

However, in order to benefit from these exceptions, the measure at stake would have to comply with the relevant requirements. These include providing evidence that the measure is necessary to protect human, animal and plant life or health, or that it concerns the conservation of exhaustible natural resources; but most importantly that it is (*de facto* and *de jure*) non-discriminatory, as well as the least trade-restrictive choice available from a WTO and trade policy perspective.

On the basis of the available information and considering the statements noting that this will be a phase-out of palm oil and soybean oil, this justification appears hardly available. The scientific criteria to be adopted by the EU to define the ILUC test will be the final turf on which a legal challenge before the WTO may be fought.

Unilaterally setting of rules

The biofuels sector is only the latest sector to come under increased EU scrutiny and be subject to stringent laws and regulations related to sustainability. The EU, with its important market, is setting the rules for an increasing number of sectors and products, forcing trading partners around the world to comply and often to implement elaborate and costly schemes to certify the legality and/or sustainability of certain products.

This is understandable and at times even necessary when EU regulators are confronted domestically with demanding consumers and public opinion, as well as non-cooperating or foot-dragging third countries. Sometimes domestic competing industries also fuel these sentiments and add to the trade complexities.

Examples such as the EU's Forest Law Enforcement, Governance and Trade scheme for timber production and trade, the EU's framework for Illegal, Unreported and Unregulated Fishing, or the EU's rules applying to conflict minerals, show the way that biofuels regulation and trade in related commodities, such as palm oil and possibly soybean oil, could be headed.

The key objection to this approach does not concern the legitimate objectives pursued by the EU. Rather, it is the unilateral approach to policies that significantly affect trading partners, and which are global in nature and should be addressed globally/multilaterally.

On the one hand, the EU is negotiating comprehensive trade agreements. On the other hand, and on the basis of complex rules and methodologies that are unilaterally defined, the EU effectively threatens to 'ban' important commodities from third countries, such as palm oil and soybean oil.

There is no phase-out of specific biofuels yet, but the soon to be drafted methodology to define 'low indirect land-use change-risk

biofuels' looks poised to be detrimental for palm oil and possibly soybean oil.

Indeed, domestic reactions to the EU's compromise have been clear, noting that the revised RED II is clearly targeting certain food crops, in particular oil palm. While palm oil biofuels will still be allowed to be imported into the EU, it will not count towards the renewable energy targets, which would likely render it unmarketable for biofuels production. Indonesia and Malaysia have vowed to work together to address this blatant, though still un-adopted, undefined and 'disguised' *de facto* discrimination.

With the EC to start working on the methodology, this is the last chance to influence this important process and ensure that the legitimate environmental objectives are not pursued by the EU at the expense of other countries' trade opportunities; the application of the principles of international trade; and in discriminatory fashion. The 'ban' on palm oil biofuels has not been averted, it appears only to be postponed.

It appears politically inevitable for the EU to move ahead with such initiative and with defining sustainable and unsustainable products. This should not be done unilaterally, but rather through the definition of an internationally-agreed standard for sustainable palm oil.

As often argued, this is a drive that palm oil producing countries, ideally within the Council of Palm Oil Producing Countries, should be championing and taking forward, if need be in partnership with key export markets such as the EU, the US, China and India. Waiting with the head buried in the sand for the EU to act unilaterally is a gamble that the industry should not take.

FratiniVergano
European Lawyers

'Business as Usual' Not an Option Anymore

For Malaysia's palm oil sector

The oil palm industry in Malaysia is at a tipping point. It is faced with multi-dimensional challenges that need action and long-term vision. The exponential growth in the cultivation of oil palm has helped feed the world's growing demand for food, feed, fuel and fibre, and brought about many economic benefits.

However, the success story of the oil palm has raised its international profile, resulting in heightened public scrutiny and criticism. Detractors claim that the success of oil palm has come at a huge cost in terms of the environmental and social damage. Oil palm cultivation has been associated with problems linked to

deforestation, loss of biodiversity, human rights breaches, and land and labour issues. Palm oil also has to contend with quality issues like process contaminants.

In addition to these challenges, climate change resulting in fluctuation of precipitation and increasing frequency of floods and droughts adds another layer of complexity. Tackling the complex environmental, social and technical issues in the palm oil supply chain requires transformation of the entire industry. Transformation is contingent upon concerted action by all stakeholders and committed work on the ground.



The EU challenge

On account of the perceived negative impacts of the oil palm, there have been repeated threats of boycott of palm oil. In April 2017, the European Union (EU) passed a resolution banning the use of palm oil in various products including palm oil biofuels after 2020. The self-interest of the European agricultural sector lies at the core of the ban, as palm oil competes with European-grown rapeseed as a feedstock.

In August 2017, the EU launched the 'International Palm Oil Free Certification Accreditation Programme' in efforts to discourage the use of palm oil in food products. Fortunately the EU recently softened its stand and the European Parliament plans to retract its demand for post-2020 restrictions on palm oil, proposing instead to cap the use of biofuels from food or feed crops.

Such actions would adversely affect Malaysia's balance of trade, given the central importance of palm oil as a commodity export. Simply banning or capping the use of palm oil is not the answer. It is more important to ensure commitments to sustainability are implemented more effectively.

The industry cannot be in denial mode. It must acknowledge existing problems and forge a positive narrative for change. It needs to seriously change and adopt stringent standards. There is an urgent need for engagement with stakeholders and the international public to show the



obtuseness of proposed bans against palm oil. Emotive outbursts among concerned European consumers need to be offset by a more mature response that acknowledges the concerns, but also explains the benefits and opportunities.

Increasing environmental activism and actions like those of the EU articulate the need for sustainable practice. The financial payoff of a proactive sustainability strategy can be substantial as it will improve international competitiveness, social and environmental performance, and increased profitability.

A commitment to sustainability will catalyse closer examination of production processes, resulting in improved product designs, product quality, production efficiency and yields in tandem with environmental improvements. This would increase global exports over the longer term. It is thus important to have a credible framework for sustainability.

Mechanisation the way forward

The oil palm industry is highly labour-intensive. All its operations, from planting to processing, are highly dependent on manual labour and this is especially so in the plantation sector. Although this creates job opportunities, it does not appeal to local workers because of the 3D perception – that the work is dangerous, demeaning and difficult.

Instead, we have become reliant on foreign workers. As at May last year, there is an estimated 427,000 workers in the Malaysian oil palm plantation sector; about 77% are foreign workers employed largely in high labour demand operations, especially crop harvesting and replanting.

Over-dependence on foreign workers creates risk to the oil palm industry. This is especially so when there is a policy change in their home country or they are no longer interested in working in

Malaysia. Competition from Indonesia, which has larger land and labour reserves, emphasises the importance of reducing dependence on foreign workers. Any disruption to the labour force would have a significant impact on the industry.

The new Malaysian government had set the minimum wage at RM1,500 in its election manifesto, and the new minimum wage for the private sector is undergoing a review process. The proposed minimum wage will still hurt the oil palm industry as it will significantly increase the cost of production. It was estimated that it would translate into an additional cost of RM185 per tonne of crude palm oil.

Mechanisation of the oil palm plantation sector is thus not a luxury; it is an imperative. It cuts dependence on foreign labour and costs, including foreign exchange losses as a significant portion of wages are repatriated out of the country. Sustainability and competitiveness of Malaysia's oil palm industry hinges on extensive mechanisation in all the field operations.

Biotechnology revolution

Biotechnology has revolutionised agriculture and transformed the global economy into a bio-based economy. While we develop tools to fit the oil palm, genomics is opening new horizons for breeding and developing palms to fit the tools available. With the sharing of the genome sequence by MPOB, industry is directing efforts on genomic

selection for short palms to mitigate harvesting problems associated with tall palms. Planting *virescens* palms – the fruits of which have a distinct colour change on ripening – will also improve harvesting standards. The discovery of the *virescens* gene by MPOB allows for the selection of *virescens* at the seed or nursery stage.

Sustainability entails efficiency along the entire supply chain. High-yielding planting material is a critical component of sustainable oil palm production. This is especially so since the oil palm is a perennial crop with a replanting cycle of 20-25 years. The importance of eliminating *dura* and *pisifera* contamination in nurseries and subsequent commercial plantings cannot be over-emphasised. *Dura* and *pisifera* palms yield 30% and 100% less oil respectively than *tenera* palms and, if not removed early, will be out in the field for the 25-year duration of their economic life span. Getting it wrong at the upstream affects the entire value chain.

Supply Side and R&D Have Qualified Positives

New biotechnologies and crop breeding systems promise breakthroughs in the ability to manipulate the architecture, performance and quality of the crop, including designer oil composition (eg 70%+ oleic)

Over the past five years progress has been especially impressive in genomics, marker assisted selection and new gene editing technologies for application in breeding

Although most of industry insists that the level of *non-tenera* contamination is less than 2%, the discovery of the *SHELL* gene by MPOB and subsequent availability of a *SHELL* gene assay for identifying *tenera*, *dura* and *pisifera* have unequivocally confirmed that this is not the case; the *non-tenera* contamination in Malaysia is around 10% across all sectors and not just smallholdings.

Missed opportunities

Valorisation of palm oil mill by-products, an example of extraction of natural products from agro- industrial waste, is attractive from both the socio-environmental and economic aspects. The extraction of phenolics from the aqueous waste stream of palm oil milling is one example which integrates health with socio-environmental and economic aspects. It is heartening that this innovative technology developed by MPOB caught the attention of Mexican investors; the world's first commercial oil palm phenolics production plant is currently under construction in Mexico.

The absence of buy-in of this technology by players in the Malaysian oil palm industry shows the risk averseness of the industry to new home-grown technologies and reluctance to do things differently. In general, the downstream value addition technologies developed locally by MPOB and others is an area that the industry has failed to fully capitalise on and may be a missed opportunity. Income growth from oil palm can mainly come from price increase or downstream value

addition. While technology initiatives continue to intensify, they are often thwarted by a lack of adoption rather than the merits of the technology. Change is a significant hurdle.

There is also the need for the government to review current tax incentives for pioneer manufacturers to register patents because the process to protect their intellectual property (IP) rights can be time consuming and costly. This is perhaps one of the key reasons why a great deal of research and innovation is not commercialised within Malaysia.

There is no specific tax incentive in Malaysia for registering IP protection on a worldwide basis. There is also no government funding for commercialisation of research in pilot testing and field/clinical trials. It is a long and winding process to bring an idea to the drawing board and eventually commercialise it. This is costly because experimentation involves heavy upfront investments.

In summary, major transformations leveraging scientific knowledge and policy changes are imperative along the entire supply chain of the oil palm industry to meet the multiple challenges. The volatility of the market and tariff and non-tariff barriers emphasise the fact that just producing palm oil as a commodity is no longer enough.

Value addition through innovative downstream activities is imperative. Continuous improvement and innovation are essential, as the market becomes



Potential Economic Gains to Industry by 2025 - Evaluated by MPOB		
	Current Value	Potential Value
Tocotrienols	\$230mil	\$380mil
Carotenoids	\$1.2bil	\$1.5bil
Fatty Acid Sulphonates & Esterquats	\$0.6mil	\$2.2bil
Cosmetic & PCP	\$40bil	\$60bil
Polyurethene	\$53bil	\$80bil
Phenolics	Diabetics market = 380 mil individuals + 1.8 bil pre diabetic world wide. At 1% penetration, it translates to: \$17bil	
Biomass (untapped 90% of a palm tree)	Biofertilisers, Renewable Energy, Biocomposites, Biobased chemicals = \$\$\$\$\$	

Sources: MPOB

more complex and competitive with escalation of market access barriers, policy barriers, and technical and non-technical barriers. Sustainable development calls for long-term actions and requires ownership, capacity and consensus.

We are way off the RM178 billion revenue targeted by 2020 under the National Key Economic Area for the oil palm industry. Government-initiated total restructuring of the industry may be

necessary in order to realise the economic potential and for it to be the global stalwart for the food, feed, fibre and fuel industries. Therefore, 'business as usual' is NOT an option anymore.

M R Chandran

Director & Past National Chairman,
The Incorporated Society of Planters

This is an abridged version of the Keynote Address presented at the 14th ISP National Seminar, held from July 16-17 in Kuala Lumpur, Malaysia.



In Defence of Palm Oil

Private sector must back government stance against EU discrimination

Malaysia is a country that is built for business and trade. We are relatively small geographically and in population terms; but we have a dynamic economy, a skilled and educated workforce, and we are situated at the crossroad of strategically important trading routes.

It is therefore natural that Malaysia's trade, as a percentage of GDP, is 133% - compared with a global average of just 56%.

As Malaysia's business leaders look around the world, it is clear that there is a lack of leadership in international trade. The US, China and the European Union (EU) are locked in bitter bilateral and trilateral disputes over trade, and other countries risk being caught in their lines of fire.

For a global exporter such as Malaysia, and for our strategic national commodities, this is potentially highly damaging. If and when

this impacts Malaysia, we will need to take decisive action.

Prime Minister Tun Dr Mahathir Mohamad has identified the importance of Malaysia standing up to those who wish to undermine our overseas exports.

Recently, the Prime Minister stated that Malaysia must "fight their argument that the palm oil industry is behind deforestation and has a bad impact on climate". He rightly pointed out that "this is not true at all".

Dr Mahathir was referencing the EU, which has spent much of the past 12 months attempting to ban palm oil biofuel exports.

Dr Mahathir is right, not just in his analysis of the EU's flawed arguments – it is a scientific fact that palm oil is far more efficiently produced than

competitor oils, and therefore has a significantly lower environmental footprint, but also in his strategic approach. Malaysia should not wait for others to lead or to continue making claims before we respond.

The private sector has an important role to play. The Prime Minister and the government cannot be expected to shoulder the burden of leadership alone. Those of us in the industry must be ready and willing to do our share of the work.

After all, Malaysia's palm oil business leaders have daily interactions with customers, suppliers, traders, multinationals, NGOs, multi-stakeholder groups, certification bodies and journalists.

In each of these encounters we must strongly defend Malaysia's record of environmental and social stewardship.

The recent EU attempt to ban palm oil biofuels was an excellent example of how Malaysians utilising this approach can defeat a major threat to our exports. The small farmers of Malaysia led a strong campaign that ultimately won the day in Brussels.

The palm oil biofuels ban is no more. But new threats are already surfacing, however, and will require immediate action in Europe.

What are these new threats facing the palm oil sector in the weeks and months ahead – the issues where, as the Prime Minister states, we will need to “fight the argument”?

First, the EU is now considering whether to classify palm oil biofuels as ‘high risk’. They will use unproven scientific methodologies – Indirect Land-Use Change (ILUC) and High Carbon Stock (HCS) – in their attempt to install a *de facto* ban. Despite Malaysian oil palm being grown on lands largely converted from coffee, cocoa and rubber which were planted since the earlier part of last century, there have been calls from the EU to disqualify palm oil using the ILUC methodology.

This fight will unfold quickly: between July 2018 and February 2019, the EU will determine whether Malaysia’s palm oil biofuels are high risk. If this happens, it will provide the EU with a convenient ‘justification’ to discriminate against palm oil biofuels imports.

Secondly, the EU is pursuing a ‘deforestation regulation’ (known in Brussels as the Action Plan on Deforestation). This seeks to regulate and restrict all palm oil imports into the EU. It has the potential to wholly undermine the Malaysian palm oil industry, regardless of Malaysia’s excellent track record in maintaining its forests.

This is not a secret. European leaders, including the ambassadors of France, the UK and the EU itself who are stationed in Kuala Lumpur, have signalled clearly that the new efforts to restrict palm oil are coming. The deforestation regulation will target not only palm oil from Malaysia, but potentially almost all commodities and crops from developing nations.

The opportunity is there for cooperation with our friends and allies across the developing world, to build a mutually

beneficial stance against this regulation. The Council of Palm Oil Producing Countries can take a leading role in defending the industry.

However, our first duty must be to Malaysia. We must protect our model of oil palm development, our small farmers, and our exporters. This will require both defending Malaysia’s track record, and also proactively communicating the positive differentiators that make Malaysia the world’s gold standard for oil palm cultivation.

We know from experience that this will not be easy, nor without complications. That, though, is what leadership entails.

The Prime Minister is right that Malaysia must counter the EU’s arguments. It is time for the private sector and Malaysian citizens at large to do our part once again.

Datuk Lee Yeow Chor
Chairman
Malaysian Palm Oil Council

(The article appeared in The Star, Aug 17, 2018)



HEADWINDS IN PALM OIL INDUSTRY WILL PERSIST

Industry must step up social media engagement to fight fake news



Attempts to tarnish the image of palm oil

Many misunderstandings exist about palm oil, with several myths having found their way into public discourse due to aggressive campaigning by NGOs. These public relations campaigns have several disguised goals. The underlying intention, however, is to tarnish the image of palm oil in the eyes of the consumer, and ultimately, influence their purchasing behaviour.

The campaigns also serve as a push for policy makers to implement barriers or further discriminate against palm oil.

With the help of these aggressive campaigns, and dominance of the media

debate, the lobbying power of these policy makers is increased, and they can find willing allies in governments and parliaments across Europe to push for further anti-palm oil laws and regulations.

Blatant discrimination

Among the most evident forms of discrimination against palm oil is the use of 'no palm oil' labels on food products. Manufacturers are taking advantage of consumer sentiment and using these labels on their products to gain market share. This is damaging as it suggests that palm oil, and products containing palm oil, are harmful and should be avoided. Unfortunately, the governments of many European countries are still refusing to enforce the law and put a stop to this practice.

The 'no palm oil' labels are a clear form of discrimination by manufacturers as the EU Food Information to Consumers (FIC) Regulation already includes the mandatory labelling of palm oil on all food products.

Tough competition

European agriculture – particularly oilseeds – is famous for being inefficient and expensive. It is therefore no surprise that palm oil - its more efficient and cost-effective rival - commands significant market share. Finding this difficult to accept, European oilseed giants are believed to be backing multi-million-dollar lobbying campaigns in favour of protectionist laws against palm oil in Europe.





It is the three-pronged nexus of NGO campaigns, the rich European industry, as well as protectionist politicians, which is driving anti-palm oil efforts in Europe.

Complacency not an option

A crucial point to remember is that, so far, none of these campaigns have succeeded. Palm oil remains a major player in both the food and biofuel market in Europe – and around the world.

However, complacency is not an option. Consumers who have been exposed to the campaigns either through social media or other media platforms, have begun lobbying for their Parliamentarians to impose more regulations on palm oil. Parliamentarians, in response, are seizing this as an opportunity to garner votes.

In 2010, the “Truth in Labelling – Palm Oil Bill”, which requires the labelling of palm oil in food products, was tabled in the Australian Parliament. MPOC was invited to present a testimony on the Bill to the Senate Community Affairs Committee, after which, the Australian Senate dropped the Bill. Clearly, the claims made against palm oil were unsubstantiated.

New strategies employed by NGOs

The most recent campaign launched by Greenpeace, using the orang utan as a symbol to gain sympathy, is a clear example of using emotional, consumer-focused messages to achieve an agenda.

This was confirmed by Greenpeace’s UK head John Sauven himself, who said that the NGO hopes taking a “heart over head” approach in its latest campaign will engage consumers at an emotional level, rather than just hitting them with “cold hard facts”. Sauven says, “Too often people get lots of statistics thrown at them regarding biodiversity and environmental concerns that can come across as quite cold. I don’t think people can really use that information. If you want people to take action, you need to find a way to motivate them to take action”.

New threat for the industry

While we may have thought that palm oil producers can now relax, with the ban on palm biofuels having been lifted under the Renewable Energy Directive (RED), the most recent campaign by Greenpeace shows that this is just the first of many bumpy rides ahead.

The simple reality is that the opponents of palm oil in Europe will not stop. Their opposition may be irrational, but it is consistent.

The #1 regulatory threat facing palm oil in Europe is a new plan to develop a list of “high risk” biofuels to be phased out in the coming years. This “high risk” debate has far wider consequences than the RED Directive episode.

The outcome will be used by anti-palm oil campaigners to push for restrictions across-the-board for “high-risk” products.

Emotionally-driven campaign

Anti-palm oil activists have released an animation, with timing that is designed to pressure officials in Brussels and convince them to place palm biofuels in the “high risk” list. It was released on 19th August, in conjunction with International Orang Utan Day.

It shows “Rang –tan” causing mischief in a little girl’s bedroom. The little girl asks the animal why it ended up in her room, and it replies that its home has been destroyed due to palm oil. The NGO uses animation to engage with its audience, making them imagine how an animal would feel about losing its home. The NGOs continuously and consistently recycle their emotionally-driven messages through multiple channels of communication, creating a multiplier effect and ensuring that their messages get maximum exposure.

The truth about deforestation

It is far too simplistic to claim that palm oil is the cause of deforestation. The FAO in the past has stated that the cause of deforestation in developing countries is poverty – the clearing of land for habitat, subsistence farming and fuel.

A study by the EU Commission in 2013 revealed that the primary agricultural cause of global deforestation is livestock farming and soy production. It states that about 28% of global deforestation is due to crops and 24% is from livestock farming. This makes livestock the actual biggest source of global deforestation. The largest source of deforestation from crops, on the other hand, is soy (5.4 %), followed by maize (3.3 %) and then oil palm (2.5 %).

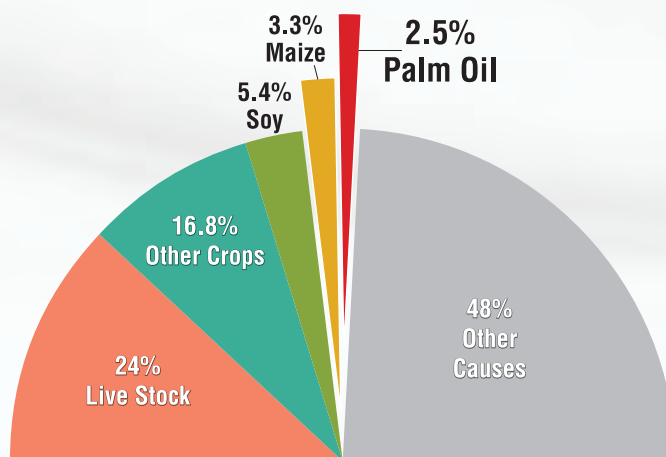
According to Imazon, a Brazilian NGO, deforestation in Brazilian Amazon continues to trend higher. Deforestation increased most sharply over the past year in the states of Pará and Tocantins, both of which saw forest clearing rise by more than 2,000 percent relative to the prior year. Both states — which ranks second in gross forest loss over the past year — produce large volumes of soy and cattle, which are the largest direct drivers of deforestation in the Amazon. Given the recent trade spat between China and US, exports of soybean and beef to China are expected to increase.

It is important to note that the oil palm is the most productive and land-efficient oilseed crop. Substituting oil palm with other oil seed



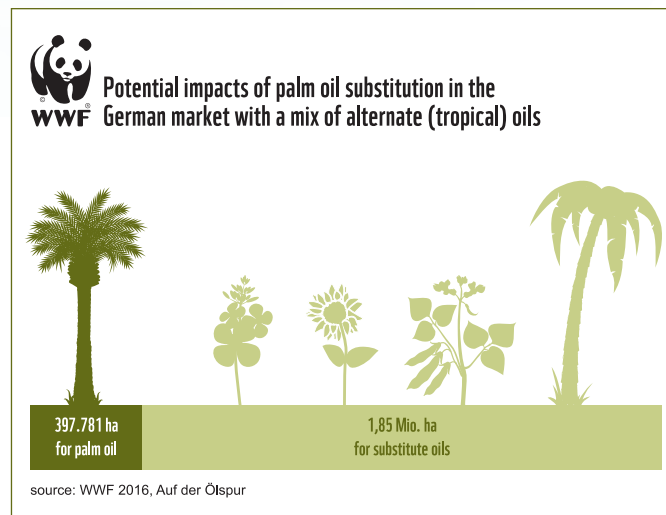
Global Deforestation Facts 1990 -2008

Total global deforestation:
239Mha. 55 percent from forestry and agriculture



Live stock is the biggest single source of global deforestation contributing 10 times more than palm oil. Soy contributes more than double.

Source: EU Report 2013 - The impact of EU consumption on deforestation: Comprehensive analysis of the impact of EU consumption on deforestation



crops would result in a higher utilisation of land area, an increase in GHG emissions and more damage to wildlife, according to a 2016 WWF report.

Prudent use of land

The Malaysian Government's decision to adopt an agricultural diversification policy led to the introduction of oil palm. The shift brought substantial benefit to the country, ensuring the social and economic well-being of its people. In Malaysia, oil palm occupies only 5.8 million ha while the global oil palm area stands at only 19 million ha.

Across the world, increasing demand for food, in line with a growing population, has resulted in the conversion of forests into agricultural land in Europe, the US, Latin America and even in Asia.

Malaysia, on the other hand, has pursued a balanced and prudent model. More than 20 years since it made a promise at the Rio Earth Summit in 1992 to maintain at least 50% of land as forest cover, Malaysia still maintains 54% of its land area under forest cover.

Sharing the burden of sustainability

NGOs should change their tune and support sustainable land-use in developing countries, rather than resorting to campaigns that harm small farmers. Small farmers will readily adopt more stringent sustainable practices if they are fairly compensated for their efforts.

Unless there is a premium obtained for the end-product, small farmers may not see the benefit of adopting of such practices.

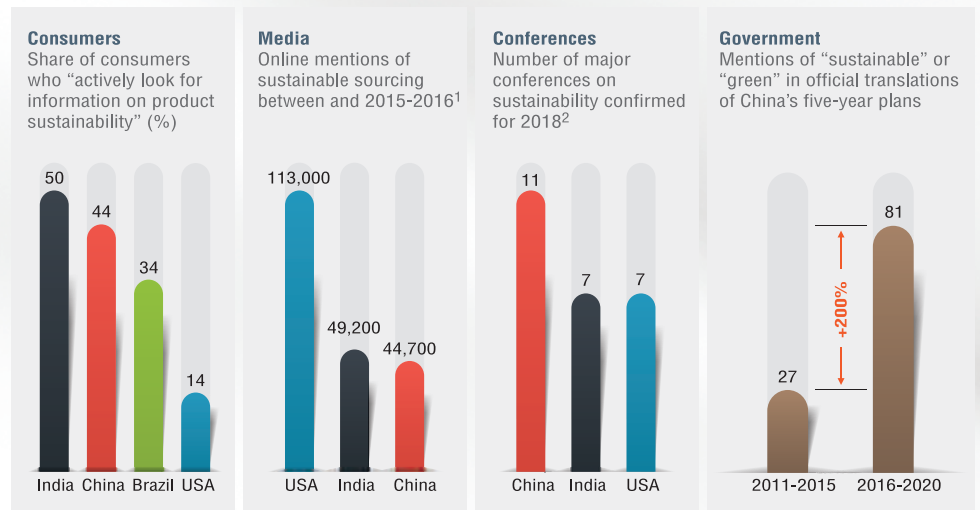
NGOs should focus their efforts on pushing buyers to pay a premium for certified sustainable palm oil. It is only fair that the cost and burden of sustainability is shouldered by all players and not only by producers.

Social media as the new battleground

The reality is that the industry will continue to face challenges from the triple threat of NGOs, Western competitors, and protectionist politicians. However, today, much of the debate about what is fact and what is fiction is happening on the social media platform.

Sustainability awareness in emerging markets is gaining traction

SELECTED EXAMPLES



¹ Online mentions include phrases such as: "sustainability", "sourcing", and "environment"

² Major conferences include those with global attendance, public- and private sector participation, and at least one session on sustainable land use and development

SOURCE: Accenture & United Nations Global Compact; Google; Conference Alerts; national government sources; AlphaBeta analysis

Smartphones, tablets and laptops have become the battleground for public opinion, and it is crucial that the industry recognises this and strive to engage with the public. Otherwise, they will not hear us.

Winning this battle in today's challenging environment, requires effective engagement with a wide range of audiences. We need to have an on-going conversation about palm oil with consumers and stakeholders.

Making consumer education a priority

Consumer campaigns are another form of engagement that we must pay attention to in addition to public affairs and political engagement. Many catastrophes such as the famous Nutella Tax, and the RED, have been prevented by aggressively defending Malaysian palm oil through campaigns. This work must continue.

The burden of debunking misconceptions about palm oil and preventing consumers from being misled by NGO propaganda lies largely on the shoulders of palm oil producers.

Responding to external pressures and fake news – and ensuring that they are instead presented with fairly and accurately is no small task, but the industry must make it a priority to educate and enlighten our consumers and stakeholders. The time to do this is NOW.

Belvinder Sron
Deputy CEO/Editor GOFB
bel@mpoc.org.my

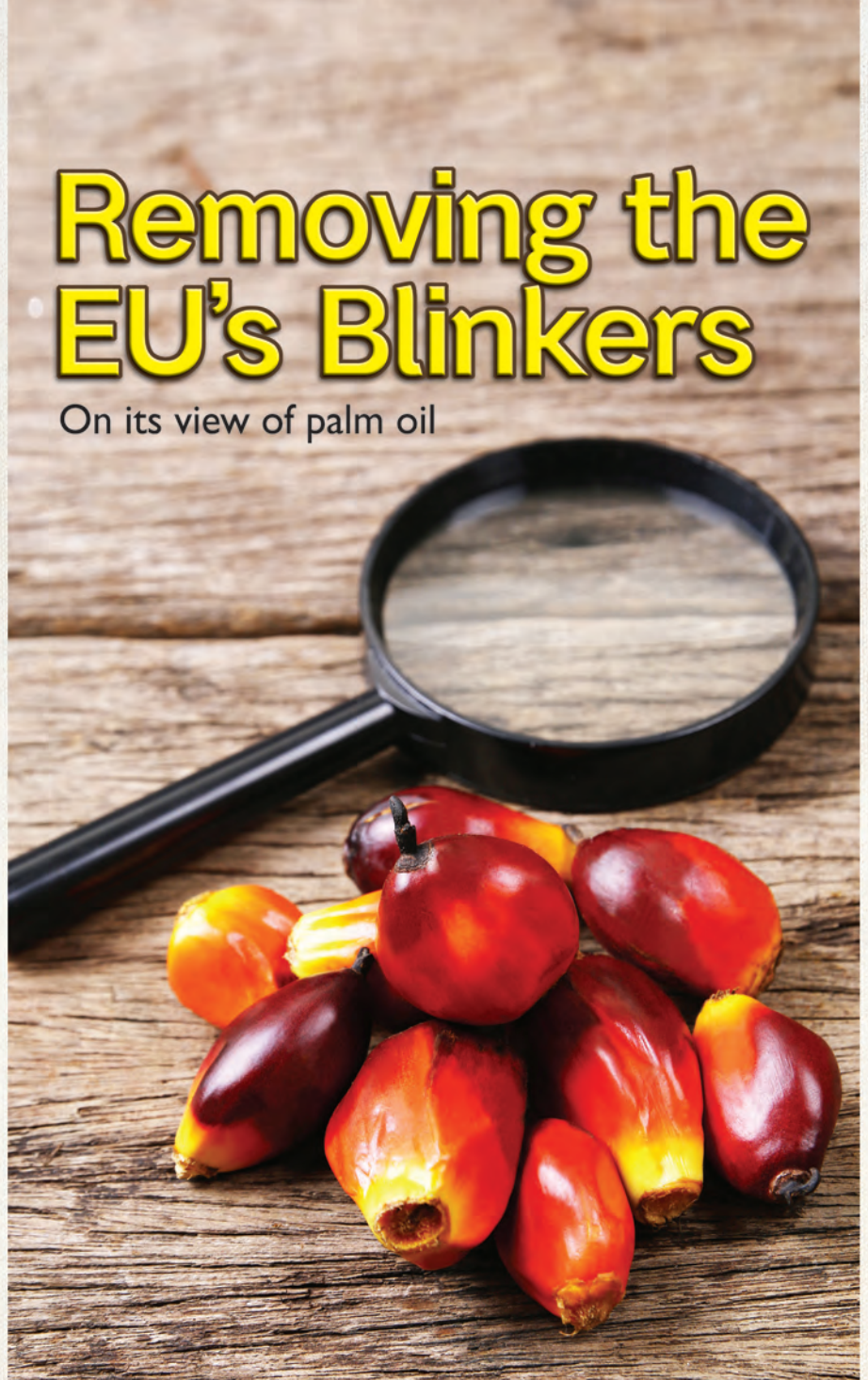
The European Commission (EC) has released the findings of its 'Study on the environmental impact of palm oil consumption and on existing sustainability standards', which had been requested by its Directorate General for Environment. Published on March 16, 2018, it appears to be motivated by the EC's initiatives with respect to environmental protection and policy measures against deforestation.

The EC stated that it had launched the dedicated study 'with a view to strengthening the knowledge base on a subject which is prominent in the public debate both at EU level and in many member-states'.

It is only timely that the EU's knowledge base on palm oil be strengthened. It must now ensure that this study informs the public and corrects the biased, discriminatory, protectionist and often misguided policy initiatives, in particular those of Members of the European Parliament (MEPs).

It is also high time for balanced and objective information to be introduced into the debate on palm oil and sustainability. This concerns, in particular, initiatives by the European Parliament, which has been the driving force in linking palm oil with issues of deforestation and sustainability.

This included organising a public hearing on the issue in 2016. Following this, the European Parliament's plenary adopted a 'Resolution on Palm Oil and the Deforestation of Rainforests' on April 4, 2017. It was blatantly anti-palm oil and, while not binding on any EU institution, put further



Removing the EU's Blinkers

On its view of palm oil

pressure on the EC and the Council of the EU, as well as garnered media attention.

The Resolution contained a number of statements and calls for action in ways and forms that would be detrimental to palm oil, and which were often arguably inconsistent with WTO rules. Perhaps most worrisome was the call on the EU 'to introduce minimum sustainability criteria for palm oil and products containing palm oil that enter the EU market'.

Evaluation of palm oil production

The EC awarded the contract for its study to external consultants at the end of 2016. It noted that the objectives were to:

- Review the environmental, social and economic aspects of palm oil production and consumption, and the actions undertaken by economic operators, EU governments and third parties, focusing on palm oil

- Analyse existing sustainability standards and schemes, including those of the Roundtable on Sustainable Palm Oil (RSPO), Indonesian Sustainable Palm Oil (ISPO) and Malaysian Sustainable Palm Oil (MSPO), to evaluate their completeness (especially concerning biodiversity and carbon aspects), and to map such schemes and how they relate to the environmental objectives in relevant EU and international policy instruments

resulted in deforestation, biodiversity loss and net greenhouse gas (GHG) emissions – and that oil palm had, in some instances, expanded onto land traditionally used by indigenous and local communities.

However, it puts this into perspective. It notes that other sources of vegetable oils, the most important of which is soybean, occupy much larger areas per tonne of oil produced, and have their own

information to assess the likelihood of significant future expansion of oil palm cultivation into peatlands and, hence, whether its contribution to global GHG emissions is likely to increase.

More importantly, the study notes that, when oil palm trees are planted on grassland or scrubland, there could actually be a net uptake of carbon dioxide. The plantations can also contribute to a reduction in GHG



- Summarise and examine existing initiatives at the EU level and in member states, as well as in India and China, concerning the sustainable production and consumption of palm oil

The study provides a rather objective assessment of palm oil production and a detailed analysis of existing sustainability schemes. It supports evidence that the expansion of oil palm cultivation had

environmental and social impacts to overcome and improve. These have received much less attention by institutions like the European Parliament.

According to the study, expansion of oil palm cultivation had in certain areas contributed to peat swamp deforestation, drainage and fires, with related impacts on biodiversity and GHG emissions. However, there is insufficient

emissions through the use of palm oil biofuels and biomass in power boilers, thereby replacing fossil fuels.

Throughout the study, the various benefits of palm oil and its production become apparent. It notes that oil palm cultivation often provides higher income opportunities for smallholders than other forms of livelihood, and thereby contributes to the development of rural

economies and to the overall economy of palm oil producing countries.

In terms of economics and agronomics, palm oil is by far the most important source of vegetable oil in the world, having overtaken soybean oil in 2006. The high yield of the oil palm means that significantly less area is required per tonne of oil produced than for competing oil crops. This makes oil palm cultivation a very attractive source of income for smallholder farmers.

With regard to its benefits for food production, the study holds that palm oil is an important ingredient in the production of confectionery, snacks and many baked goods, particularly in markets where products are required to be free of trans fats. An initiative by the World Health Organisation intends to ban artificial trans fats from the global food supply by 2023.

Artificial trans fats are usually made by partially hydrogenating vegetable oils, which turns them solid at room temperature and increases shelf-life. Food companies often use palm oil as a replacement for partially hydrogenated vegetable fats. On this basis, it would be misguided to ban palm oil or restrict its use as a food ingredient, as often proposed by EU legislators.

Analysis of sustainability standards

The study comes to the conclusion that 'credible and rigorous certification' is the only option in providing a degree of confidence among consumers, by showing that 'palm oil supply chains are free from the worst forms of environmental and social impacts'.

At its core, the study assesses four sustainability standards – two voluntary industry standards by the RSPO and the International Sustainability and Carbon Certification (ISCC) respectively; and two government schemes, namely the mandatory ISPO standard and the MSPO standard, which will become mandatory by the end of 2019.

The study finds that all four schemes rely on third-party independent audits in order to verify compliance with the standards, and that surveillance audits are repeated annually. Still, there are certain differences in the approaches, with significant implications, that should be considered.

While the voluntary schemes might be more ambitious, their reach is limited to those operators who agree to meet the standards. By contrast, the two government standards are applicable to the entire industry and have the potential of raising the bar across the sector.

Initially, the level of ambition of mandatory standards, as noted by the study, does not always match the level of the voluntary schemes. With respect to the four standards, the study says that the ISCC standard generally addresses the environmental objectives of a range of EU and UN policies, principally because of its stringent definition of High Carbon Stock forests.

The RSPO certification system appears to address, to the largest extent, policy objectives relating to social and labour rights. The ISPO standard least addresses

the various policy objectives under consideration in this study, while the MSPO occupies an intermediate position.

The study confirms that the governance and transparency of the four schemes, in particular their level of independence *vis-à-vis* relevant interest groups, also vary. Although most palm oil producing countries have by now introduced environmental and social regulations relating to palm oil production, their enforcement remains at times 'selective, incomplete or ineffective' and should be improved.

According to the study, critical elements concern the 'vested interests of established plantations and political elites in some major producing countries', as well as a 'lack of legal and geographical clarity around protected areas and concession boundaries', which appears prone to cause conflicts between the various parties involved.

The advantage of public and mandatory sustainability standards, and their industry-wide application, cannot be ignored. Over time, these standards would need to be improved, so as to increase their scope and effectiveness.

Support for multilateral standard

The study appears to support the idea of a general, multilateral sustainability standard for palm oil. At the very least, it provides the key rationale for this. Most notably, it underlines that none of the analysed sustainability schemes address all environmental and social aspects that form part of EU and UN policy objectives.

At the same time, it finds that the ever-increasing number of palm oil sustainability standards and commitments lead to 'a promising ready-made platform', creating a good basis for improvements.

It is only natural that this be driven by the governments of palm oil producing countries, in a collaborative approach with producers, processors, trade associations, consumers and trading partners. Indeed, the study holds that public policy would play an important role in overcoming existing issues and in further developing public-private partnerships.

The issue of standardisation should not be left to the EU alone, without taking into account the positions and interests of palm oil producing countries. The study reconfirms the need for a balanced and fair multilateral standard for sustainable palm oil that is developed by producer countries, as well as importing countries.

The development of an international standard does not mean that national standards, such as the ISPO or MSPO, would have to be given up. Rather, an international standard could align domestic standards and set an international baseline to which the EU and other importing countries would be required to adhere or explain why their own standards deviate from the baseline.

All 396 pages of the study should be mandatory reading for MEPs. This being rather unlikely, the study should be used

vis-à-vis the EU and its member-states. This should especially be the case should the EU consider imposing a unilateral standard, as proposed by the European Parliament's Resolution. The study provides a much more objective take on palm oil than EU officials or MEPs have so far been willing to recognise and factor into their proposals.

The study provides, for the most part, an objective and balanced review of palm oil production and sustainability standards, noting the good aspects and those in need of improvement.

While certain findings could be taken out of context to further denigrate palm oil, the study provides strong arguments for balanced discussion with stakeholders and public authorities, while serving as an authoritative source of information. Of particular relevance is that the study cannot be discredited as originating from palm oil producing countries – it was commissioned by the EU and prepared by UK-based consultancies.

MPOC Brussels



Malaysian Palm Oil - Performance and Prospects

Industry update

The Malaysian oil palm industry had put in a sterling performance in 2017. Crude palm oil (CPO) production and fresh fruit bunch (FFB) yield were significantly better, following recovery from the impact of the *El Nino* phenomenon a year earlier. According to the Department of Statistics Malaysia, higher palm oil prices and improved demand helped push export earnings to RM77.85 billion, up from RM67.92 billion in 2016.

The first half of 2018, however, showed a mixed performance against the same period in 2017 (Table 1). CPO production and export demand grew, but imports declined. Higher carry-over stocks, coupled with vigorous production, pushed palm oil stocks above 2 million tonnes in the first half of 2018. Weaker vegetable oils prices took a toll on the CPO price, thereby affecting export revenue.

	Jan-June 2018	Jan-June 2017	Difference	
			Vol/Value	%
CPO production (mil tonnes)	8.92	8.72	0.20	2.3
FFB yield (tonnes/ha)	7.93	7.85	0.08	1.0
Oil extraction rate (%)	19.85	19.69	0.16	0.8
PO exports (mil tonnes)	8.23	7.83	0.40	5.1
PO imports (mil tonnes)	0.30	0.36	(0.06)	(16.7)
Closing stocks (mil tonnes)	2.19	1.53	0.66	43.1
CPO price (RM/tonne)	2,437.00	2,977.50	(540.5)	(18.2)
Export revenue* (RM bil)	29.91	32.26	(2.35)	(7.3)

Sources: MPOB, *Department of Statistics Malaysia

CPO production in the first half of 2018 went up by 2.3% to reach 8.92 million tonnes, compared to 8.72 million tonnes in the first half of 2017. The larger output was attributed to the amount of FFB processed, arising from improved FFB yield. The yield rose by 1% to 7.93 tonnes per ha, from 7.85 tonnes per ha during the corresponding period in 2017. The oil extraction rate (OER) increased by 0.8% to 19.85%.

Palm oil exports rose by 5.1% to 8.23 million tonnes, against 7.83 million tonnes in the first half of 2017. But prices were lower, thereby reducing export earnings from oil palm products including palm oil. Due to its lower price, palm oil imports declined by 16.7% to 0.3 million tonnes, from 0.36 million tonnes previously.

Supply and demand scenario

Opening stocks

2018 started with 63.9% higher carry-over stocks of palm oil, which stood at 2.73 million tonnes compared to 1.67 million tonnes in 2017. This was due to increased CPO production in 2017 – up by 15% or 2.6 million tonnes to 19.92 million tonnes, against 17.32 million tonnes in 2016.

CPO production

CPO production in the first half of 2018 registered 8.92 million tonnes, up by 2.3% or 0.2 million tonnes against 8.72 million tonnes in the first half of 2017 (Table 2). Higher FFB yield enabled mills to process more FFB, leading to additional CPO output. Production in Peninsular Malaysia and Sabah recorded an increase of 4% and 2.3% respectively, to 4.69 million tonnes and 2.43 million tonnes. Production in Sarawak showed a slight decline of 1.6%, to 1.8 million tonnes.

Malaysia's FFB yield performance in the first half of 2018 was 7.93 tonnes per ha, or 1% more than the 7.85 tonnes per ha achieved during the comparative period in 2017 (Table 3). The increase in FFB yield was partly attributed to conducive weather conditions.

Peninsular Malaysia and Sabah showed an increase of 4.1% and 2.1% respectively in FFB yield to 8.15 tonnes per ha and 8.66 tonnes per ha in the first half 2018. Sarawak registered a decline of 3.7% to 6.94 tonnes per ha in the first half of 2018 from 7.21 tonnes per ha previously. This was associated with additional mature areas coming into production.

The average national OER for the first half of 2018 was 19.85%, slightly higher by 0.8% against 19.69% during the same

	Jan-June 2018	Jan-June 2017	Difference	
			Vol	%
Peninsular Malaysia	4,692,248	4,514,105	178,143	4.0
Sabah	2,430,510	2,375,540	54,970	2.3
Sarawak	1,797,098	1,826,539	(29,441)	(1.6)
Malaysia	8,919,856	8,716,184	203,672	2.3

Source: MPOB

	Jan-June 2018	Jan-June 2017	Difference (%)
Peninsular Malaysia	8.15	7.83	4.1
Sabah	8.66	8.48	2.1
Sarawak	6.94	7.21	(3.7)
Malaysia	7.93	7.85	1.0

Source: MPOB

	Jan-June 2018	Jan-June 2017	Difference
Peninsular Malaysia	19.54	19.21	1.7
Sabah	20.54	20.31	1.1
Sarawak	19.78	20.12	(1.7)
Malaysia	19.85	19.69	0.8

Source: MPOB

period of 2017 (Table 4). This was mainly due to the better quality of FFB processed by mills. On a regional basis, the OER in Peninsular Malaysia and Sabah increased by 1.7% and 1.1% respectively to 19.54% and 20.54%. Sarawak showed a marginal decline at 19.78%, or 1.7% lower than 20.12% in the first half of 2017.

Exports

Exports of oil palm products for the first half of 2018 amounted to 12.27 million tonnes, higher by 9.1% against 11.24 million tonnes during the same period in

2017 (Table 5). However, due to the lower prices in the world market, the total export value declined by 9.4% to RM33.53 billion, against RM37 billion during the first half of 2017.

Palm oil exports increased by 5.1% to 8.23 million tonnes, against 7.83 million tonnes for the period under comparison. Higher demand was registered from major importing countries such as India, Pakistan, China and the EU. The palm oil export value, however, declined by 13.9% to RM21.49 billion, from RM24.95 billion during the first half of 2017.

The decline in export revenue during the first half of 2018 was due to the fact that all oil palm products traded at lower prices compared to the same period in 2017. CPO traded lower by 17.8% or RM524/tonne to record RM2,420.50/tonne, compared to RM2,944.50/tonne during the first half of 2017. The lower price was partly due to India raising its palm oil import duties and weaker soybean oil prices in the world market. In addition, the stronger Ringgit versus the US Dollar made palm oil comparatively more expensive for holders of foreign currencies.

For the first half of 2018, India maintained its position as the largest Malaysian palm oil market with an intake of 1.39 million tonnes or 16.9% of the volume exported (Table 6). The EU was ranked second with 1.04 million tonnes or 12.6% of the palm oil exports. China (10.5%), Pakistan (7.6%), Turkey (4.3%), the Philippines (3.8%) and USA (3.3%) were other important destinations. These seven markets together accounted for 4.85 million tonnes or 58.9% of Malaysian palm oil exports during the first half of 2018.

With respect to market destinations, palm oil exports to India increased by 24.3% to 1.39 million tonnes during the first half of 2018, up from 1.12 million tonnes during the corresponding period of 2017. The increase was partly attributed to the suspension of Malaysia's CPO export duty from Jan 8 to April 30, 2018. India also lowered its intake of soybean oil from Argentina – it went down by 33.4% to 860,000 tonnes from January-May 2018, from 1.2 million tonnes during the same period in 2017.

Exports of palm oil to the EU increased by 11.7% to 1.04 million tonnes *vis-à-vis* 0.93 million tonnes during the first half of 2017. This was due to lower intake of

Table 5: Malaysian Exports of Palm Oil and Oil Palm Products

	Vol (tonnes)			Value (RM million)		
	Jan-June 2018	Jan-June 2017	Difference (%)	Jan-June 2018	Jan-June 2017	Difference (%)
CPO	1,930,243	1,285,310	50.2	4.72	3.86	22.4
PPO	6,301,405	6,546,192	(3.7)	16.76	21.09	(20.5)
PO	8,231,647	7,831,503	5.1	21.49	24.95	(13.9)
Others*	4,033,550	3,407,646	18.4	12.04	12.04	0.0
Total	12,265,196	11,239,148	9.1	33.53	37.00	(9.4)

*PKO, PKC, oleochemicals, biodiesel, finished products & others
Source: MPOB

Table 6: Malaysian Palm Oil Exports to Major Destinations (tonnes)

	Jan-June 2018	Jan-June 2017	Difference	
			(Vol)	(%)
India	1,389,158	1,117,154	272,004	24.3
EU	1,035,684	927,515	108,169	11.7
China	865,637	693,179	172,458	24.9
Pakistan	627,692	438,012	189,680	43.3
Turkey	354,496	274,383	80,113	29.2
Philippines	308,889	335,824	(26,934)	(8.0)
USA	269,982	253,462	16,520	6.5
Others	3,380,109	3,791,974	(411,865)	(10.9)
Total	8,231,647	7,831,503	400,145	5.1

Source: MPOB

sunflower oil by 26.2% to 0.73 million tonnes, compared to 0.99 million tonnes during the same period in 2017.

China's imports of Malaysian palm oil saw a significant increase of 24.9% to 0.87 million tonnes from 0.69 million tonnes previously, due to lower soybean imports from Argentina and Brazil. The soybean import volume fell by 8.9% to 35.74 million tonnes from January-May 2018, compared to 39.25 million tonnes from January-May 2017.

During the first half of 2018, Pakistan recorded a 43.3% increase in Malaysian palm oil imports, which stood at 0.63 million tonnes against 0.44 million tonnes in the same period of 2017. This

was a result of lower imports of Indonesian palm oil – which dropped by 14.7% to 0.66 million tonnes – and lower intake of soybean from Brazil (by 23.2% to 0.51 million tonnes) for crushing activity.

Palm oil intake by Turkey expanded by 29.2% to 354,496 tonnes, compared to 0.27 million tonnes from January-June 2017. This was attributed to lower imports of sunflower oil from January-April 2018, especially from Russia.

Imports

Malaysia's imports of palm oil over the first half of 2018 stood at 0.3 million tonnes, a decline of 18.3% from 0.36 million tonnes during the same period in

2017. The ample local supply satisfied lower demand from the domestic processing sector, especially refineries, given that there was smaller export demand for processed palm oil. This was partly attributed to the suspension of duty on Malaysia's CPO exports. Indonesia remained the major source of palm oil imports, contributing 94.9% or 0.28 million tonnes.

Palm kernel oil imports declined by 27.4% to 77,645 tonnes during the first half of 2018. The local oleochemicals sector registered lower demand for the commodity on the back of lower export demand for oleochemicals – this fell by 0.8% for the period under comparison. Imports of palm kernel increased 2.5-fold to 33,312 tonnes. There was higher demand from the crushing industry, driven by a 24.9% increase in export demand for palm kernel cake.

Closing stocks

Palm oil closing stocks as at end June 2018 increased by 43.4% or 0.66 million tonnes to 2.19 million tonnes. In comparison, 1.53 million tonnes were recorded in June 2017. The situation was mainly due to the higher opening stocks (up by 63.9% or 1.07 million tonnes) and larger output from January-June 2018, which was 2.3% or 0.2 million tonnes more than in the same period in 2017 (Table 7). All regions in Malaysia recorded higher closing stocks in June 2018 against June 2017:

- Peninsular Malaysia – higher by 33.7% to close at 1.11 million tonnes
- Sabah – an increase of 45.5% to 0.71 million tonnes
- Sarawak – 76.8% more to 0.37 million tonnes

Table 7: Malaysian Palm Oil Closing Stocks (tonnes)

	June 2018	June 2017	Difference	
			(Vol)	(%)
Peninsular Malaysia	1,109,418	830,075	279,343	33.7
Sabah	708,725	487,171	221,554	45.5
Sarawak	370,517	209,593	160,924	76.8
Malaysia	2,188,660	1,526,839	661,821	43.4

Source: MPOB

Table 8: Malaysian Palm Oil Industry Performance – 2018 forecast (mil tonnes)

	2H18	2H17	Difference (%)	2018	2017	Difference (%)
CPO production	11.0	11.20	(1.8)	19.9	19.92	(0.1)
PO exports	9.2	8.73	5.4	17.4	16.56	5.1
PO closing stocks	1.99	2.73	(27.1)	1.99	2.73	(27.1)

Source: MPOB

Outlook for second-half 2018

The rise in CPO production in the first half of 2018 is expected to continue into the second half due to anticipated good weather. CPO production in 2018 should keep to its normal upward trend that starts in March and peaks in September. It will decline from October to December, under the normal downward trend.

In the second half of 2018, CPO production is projected at 11 million tonnes, reflecting a marginal decline of 1.8%. The corresponding period in 2017 had recorded 11.2 million tonnes because of lower FFB yield, due to lower rainfall (Table 8). For the whole of 2018, CPO production is forecast at 19.9 million tonnes or a decline of 0.1%, compared to 19.92 million tonnes in 2017.

The palm oil export performance during the second half of 2018 is expected to improve over the first

half. Low prices are expected to remain a major factor in supporting the increase in exports in the second half of 2018. The export volume is estimated at 9.2 million tonnes, an increase of 5.4% compared to 8.73 million tonnes during the same period in 2017. Total palm oil exports in 2018 are expected to go up by 5.1% to 17.4 million tonnes against 16.56 million tonnes in 2017.

Based on the anticipated higher exports in the second half of 2018 and likely lower production, closing stocks of palm oil in December 2018 are projected at 1.99 million tonnes, lower by 27.1% compared to 2.73 million tonnes in December 2017 (Table 8).

A Kushairi, Director-General & N Balu, Director, Economics & Industry Development Division, Malaysian Palm Oil Board

Revamp of RBD Palm Olein Futures (FPOL) Contract



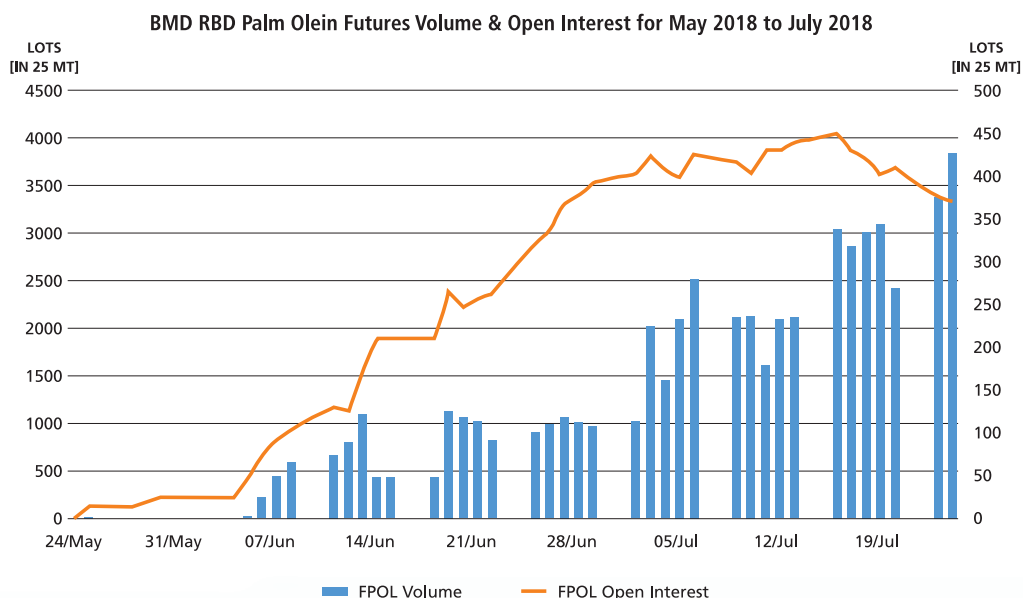
Bursa Malaysia Derivatives (BMD) Berhad has successfully launched the RBD Palm Olein Futures Contract on 24th May 2018.

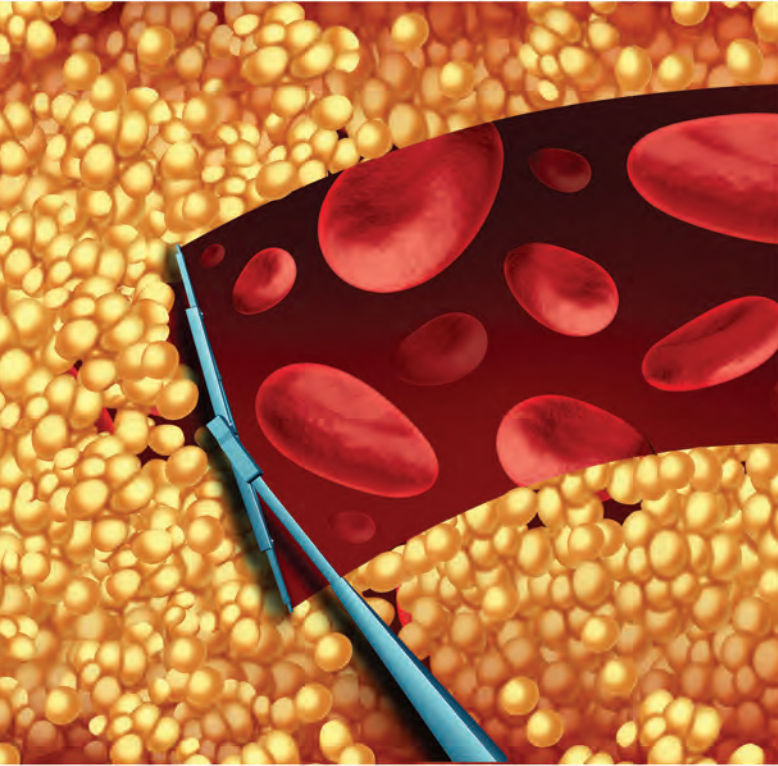
By introducing the improved US Dollar Denominated FPOL it will provide more trading opportunities and flexibility to a wider group of investors, both domestic and foreign, who wish to explore commodity derivatives. This underscores the Exchange's commitment in promoting greater flexibility for the industry, further strengthening our position as a leading ASEAN marketplace with global access.

Offered to both domestic and foreign traders, FPOL is a Free-On-Board (FOB) physical delivery mechanism offered to the trading community on BMD, providing industry players with more trading opportunities in commodity derivatives that allow for transparent price discovery, regulated trading and an instrument for hedging, as palm oil refiners can now hedge against adverse Palm Oil price movements.

Currently the Exchange is offering various incentives to the market participants including a full waiver of exchange and clearing fees for the first six (6) months of trading for FPOL contracts.

Chart 1: Volume and Open Interest since launch to July 2018. FPOL is beginning to gain traction from the market as we can see that the volume and open interest is slowly picking up.





WHO Action Plan to Eliminate Trans Fats

In global food supply

The World Health Organisation (WHO) has released 'REPLACE', a step-by-step guide to eliminating industrially-produced trans fats from the global food supply. This is key to protecting health and saving lives, it says. The global body estimates that, every year, trans fats intake leads to more than 500,000 deaths from cardiovascular disease.



Industrially-produced trans fats are contained in hardened vegetable fats, such as margarine and ghee. These are most often used in making snacks, baked foods and fried foods due to a longer shelf-life than other fats. However, healthy alternatives can be used that would not affect the taste or cost of food.

WHO Director-General Dr Tedros Adhanom Ghebreyesus says in a statement: "WHO calls on governments to use the REPLACE action package to eliminate industrially-produced [trans fats] from the food supply. Implementing the six strategic actions in the REPLACE package will help achieve the elimination of

trans fat[s], and represent a major victory in the global fight against cardiovascular disease [CVD].

REPLACE is aimed at ensuring the prompt, complete and sustained elimination of industrially-produced trans fats from the global food supply. It calls on actors to:

- Review dietary sources of industrially-produced trans fats and the landscape for required policy change
- Promote the replacement of industrially-produced trans fats with healthier fats and oils
- Legislate or enact regulatory actions to eliminate industrially-produced trans fats
- Assess and monitor trans fats content in the food supply and changes in trans fats consumption in the population
- Create awareness of the negative health impact of trans fats among policy makers, producers, suppliers and the public
- Enforce compliance with policies and regulations

Several high-income countries have virtually eliminated industrially-produced trans fats through legally imposed limits on the amount that can be contained in packaged food. Some governments have implemented nationwide bans on partially hydrogenated oils, the main source of industrially-produced trans fats.

In Denmark, the first country to mandate restrictions, the trans fats content of food products has declined dramatically and CVD deaths have declined more quickly than in comparable OECD countries.

'Rectify weak controls'

Action is needed in low- and middle-income countries, where controls of use of industrially-produced trans fats are often weaker, to ensure that the benefits are felt equally around the world.

WHO Global Ambassador for Non-communicable Diseases, Michael R Bloomberg, said: "Banning trans fats in New York City helped reduce the number of heart attacks without changing the taste or cost of food, and

eliminating their use around the world can save millions of lives.

"A comprehensive approach to tobacco control allowed us to make more progress globally over the last decade than almost anyone thought possible – now, a similar approach to trans fats can help us make that kind of progress against [CVD], another of the world's leading causes of preventable death."

Elimination of industrially-produced trans fats from the global food supply has been identified as a priority target of WHO's strategic plan, the draft 13th General Programme of Work, which will guide its work from 2019-23.

As part of the UN's Sustainable Development Goals, the global community has committed to reducing premature death from non-communicable diseases by one-third by 2030. Global elimination of industrially-produced trans fats can help achieve this goal.

"Why should our children have such an

unsafe ingredient in their foods?" asks Dr Tedros. "The world is now embarking on the UN Decade of Action on Nutrition, using it as a driver for improved access to healthy food and nutrition. WHO is also using this milestone to work with governments, the food industry, academia and civil society to make food systems healthier for future generations, including by eliminating industrially-produced trans fats."

There are two main sources of trans fats: natural (in the dairy products and meat of ruminants such as cows and sheep); and industrially-produced (from partially hydrogenated oils).

WHO recommends that the total trans fats intake be limited to less than 1% of total energy intake, or less than 2.2gm/day with a 2,000-calorie diet. Diets high in trans fats increase heart disease risk by 21% and deaths by 28%.

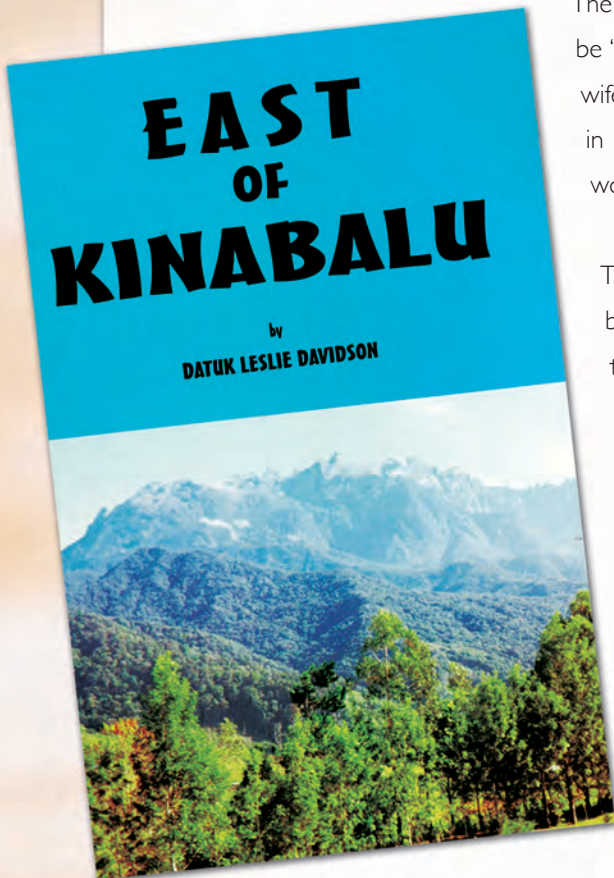
Source: WHO, May 14, 2018

This is an edited version of the news release.



The Flood, Part 1

The Tungud bursts its banks



The prediction in my December report, that the 1963 monsoon would be 'comparatively mild' was the worst weather forecast since Noah's wife told him it was only going to be a passing shower! It turned out in fact to be the heaviest and most prolonged monsoon, and the worst flooding in the recorded history of the Labuk.

The north-east winds blew steadily in from the Sulu Sea from the beginning of December. From then on, we had heavy rain on no less than 105 out of the succeeding 110 days. The sun virtually disappeared for the duration and we recorded an average of only 1.8 hours of sunshine per day for the entire period.

The rainfall statistics understated the real figures, because our weather station was actually submerged for a couple of days during the floods, when the rainfall went unrecorded. In spite of this our rain-gauge showed a total of 117 inches of rain for the period of the monsoon.

We had of course, seen heavy rains during the previous monsoons. This was different, however. For the first few days of

January, the rain poured down with such intensity that it looked almost as if a giant hand was scooping the water out of the Sulu Sea and emptying it down on us in sheets. The Tungud River, which had been rising steadily throughout December, rose to levels which no one had seen before.

The flooding came in three phases. In the first phase, the storm was centred over the estate. In the second phase, the storm surged on up the Labuk Valley, as far as the eastern foothills of Kinabalu. Although the rainfall on the estate eased off, the Labuk River rose to amazing levels and a wall of water swept down on us with a ferocious and frightening power.

The third phase, when we all thought the worst was over, consisted of a series of smaller storms, sweeping in one after the other from the Sulu Sea. Minor flooding continued on and off until March 20 and these floods, although less dangerous to life and limb, actually caused the most serious damage to our planted areas.

Very fortunately, Olive and the children were still in Devon. Following the departure of Moray Graham and the Wyngartens, the only two expatriates on the estate were myself and Donald Pettit, the new assistant manager.

Donald was a bachelor, a large, typically unflappable Englishman. He had worked with me previously in Africa. I had specifically asked London office to transfer him to us because I knew he would be able to take the vicissitudes of life in Borneo in his stride. Throughout the floods, although he could not as yet speak more than a few words of Malay, he was a tower of strength.

After our experience with the previous monsoon, we had taken as many advance precautions as we could think of. We ensured that the shops were fully stocked and that there was enough rice to feed all our workers for a month. Each headman and overseer had been provided with a canoe and a small Seagull outboard-motor.

We had fortunately managed to complete the workers' permanent houses in the new Ulu Village by the end of November, and all the married families had been moved up there from the temporary camp downstream.

After the huge deluge in the first two weeks of January, the Tungud River burst its banks and the entire planted area was flooded. Day by day, as the rain poured down without a break, the floodwater continued to rise, until the whole village site was inundated to a depth of a few feet.

We were fortunate in one respect. The Tungud is a comparatively short river, compared to the Labuk. Since the rainstorm was centred on the estate and its immediate surroundings, there was no serious current to contend with. The water spread out over the palms like a placid pond, and there was little chance of anyone being swept away.

However, with the rain still teeming down, the level of the Tungud rose further. Eventually it came up almost to the floors of the houses. The water was now too deep to wade from one house to another and the families were marooned in their homes.

The headmen patrolled the whole village night and day in their canoes, to reassure the wives and families. Donald himself had a little motorboat and he buzzed around his division tirelessly, his pipe clenched in his teeth, exuding an air of calmness and imperturbability.

As the water continued to rise, something had to be done. Donald and I held an emergency meeting with the JCC, the headmen and overseers. We decided that, in the interests of safety, we had to evacuate the whole village to higher ground before the flood rose any higher. There was plenty of hilly land further away from the riverbanks, but of course it was still under jungle and not reachable by boat.

The only accessible patches of dry land within the cleared area were the two hills on which we were currently building the first two management houses. The hills, perhaps 100 feet high and no more than perhaps an acre each in extent, were

now like small islands, emerging from a lake. Fortunately the first house was now roofed. Using every inch of the roofed area, it could shelter, in an emergency, most of our married families for a few days.

Hilltopsanctuary

Every boat we owned was pressed into service for the move. All the men, women and children and their possessions and livestock were loaded on the boats. It was like the evacuation of Dunkirk. Our flotilla – consisting of our new scow, our diesel kumpit, the management launch, the catamaran and several assorted canoes – set off, loaded to the gunwales. Sailing right over the top of our submerged palms, they disembarked their passengers on the slopes of our management hill.

There was a lot of building material on the two sites, such as lengths of wood, concrete blocks and roofing sheets. We also raided the central company store for tarpaulins and corrugated iron sheets. Kong Miew and his building team, helped by every able-bodied man on the site, swiftly erected dozens of small huts and tents all round the hill.

That afternoon, 20 or 30 of the Kadazans from the upper Tungud came downstream to seek sanctuary. For the first time any of them could remember, their houses had been submerged and Ranga thought they would be safer on our estate. I was pleased to find my old gardener Urut Turut amongst them.

To the consternation of our Muslim workers, they had brought with them a few domestic pigs. We

swiftly sorted this situation out by allocating the second hill on its little island to the Kadazans, and to Changai and his group of pagan Dyaks. We erected more temporary huts for them. The two hills began to look like South American shanty towns, but at least everyone was now secure, dry and had a roof over their heads. In all we had over 500 people to look after.

As regards food, we were in good shape. Titi had already transferred all the rice and provisions from his shop up to the hill site. I purchased his entire stock from him and we decided that for the duration of the flood, food would be distributed free of charge. The ever-resourceful Maria commandeered one of the bathrooms and served a continuous supply of hot sweet coffee out of the window. Each headman arranged a central point for his own group.

Some of the wives had brought their precious kerosene cooking-stoves with them, and the distribution and cooking of food proceeded fairly smoothly. Fires were lit in the little huts outside the main house and soon they had clothes hanging up to dry around them. The children thought the whole thing was great fun, and they scampered around naked in the rain.

Although food was no problem, I was worried about drinking-water. The only water supply was of course the muddy river, and there was a danger of an outbreak of dysentery or cholera. Fortunately our storekeeper reminded us that he had dozens of water-filters in stock. We distributed them around our emergency camp.

Our dresser, Mr Mathen, patrolled all the huts tirelessly, ensuring that the water was first filtered and then boiled before consumption. It was a miracle that we did not have a single serious case of stomach trouble amongst the workers or families during the period of the floods.

What we did have however, was an outbreak of babies! The records show that Ivy John, our redoubtable midwife, during the lengthy 110 days of the monsoon, delivered no less than 15 healthy babies, often in conditions of extreme discomfort to herself as well as to the mothers.

The first night after the evacuation, the flood reached its peak and the water now came halfway up the walls of the evacuated houses. This meant that it was 10 feet over the ground level at the village. We were relieved that we had managed to get all the inhabitants up to safety in time.

After the community had been living a few days on the two hills, the rain started to ease off. We caught a glimpse of sunshine and blue sky for the first time in ages, and the level of the Tungud River began to recede. Ranga and our Kadazan friends loaded their possessions and their livestock into their canoes and set off back upstream. I was surprised how cheerful they all were.

Ibrahim told us that with their semi-nomadic lifestyle, they were quite used to moving their huts

at the drop of a hat. It was their custom to move house whenever they had a death or even sickness in the family, and all the construction materials they needed were readily available in the surrounding jungle. When they got back upstream, they could carry out any repairs needed to their houses in a matter of hours.

One day later, the flood at the new village had dropped to only a foot or so over the ground. The houses emerged undamaged, except that we would have to give them another coat of paint when things dried up. The wives were eager to get back to start the cleaning up operations while there was still water under their houses to use for washing off the mud.

There was an hour or two of sunshine and we took the opportunity to get the Armada loaded up and underway for the return journey.

Datuk Leslie Davidson
Author, *East of Kinabalu*

Former Chairman, Unilever Plantations International

The second part will be published in the next issue. This is an edited chapter from the book published in 2007. It can be purchased from the Incorporated Society of Planters; email: isph@tm.net.my

100 facts on Malaysian Palm Oil



Malaysia's palm oil industry started

100 years ago

WHEN FRENCHMAN HENRI FAUCONNIER WAS THE FIRST TO COMMERCIALY PLANT THE OIL PALM IN BATANG BERJUNTAI (BESTARI JAYA), SELANGOR.

History

1980 Malaysia began producing fatty acids using palm oil as feedstock

1875
THE OIL PALM WAS INTRODUCED TO MALAYSIA, THEN MALAYA, AS AN ORNAMENTAL PLANT

1975
MALAYSIA BEGAN EXPORTING PROCESSED PALM OIL; DIVERSIFYING INCOME FROM CRUDE PALM OIL



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It can be physically separated into liquid (palm olein) and solid (palm stearin) portions

Malaysian palm oil is sustainable and environmentally friendly.

The Malaysian palm oil industry adheres to the principle of 3Ps of sustainability.

PEOPLE PLANET PROFIT



MALAYSIAN PALM OIL IS



processed using physical refining and not chemical refining.

The versatile Malaysian palm oil MULTIPLE PRODUCTS DERIVED FROM 1 OIL



PALM OLEIN
Widely used as cooking oil



CRUDE PALM OIL



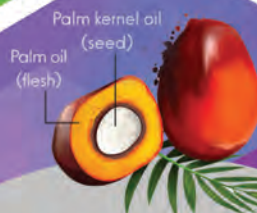
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Major application as confectionary fats



SUPER OLEIN
Cooking oil suitable for cool climates



PALM STEARIN
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WHEN PROCESSED,
the palm fruitlets produce
2 types of oils

- i) Malaysian palm oil
- ii) Malaysian palm kernel oil

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