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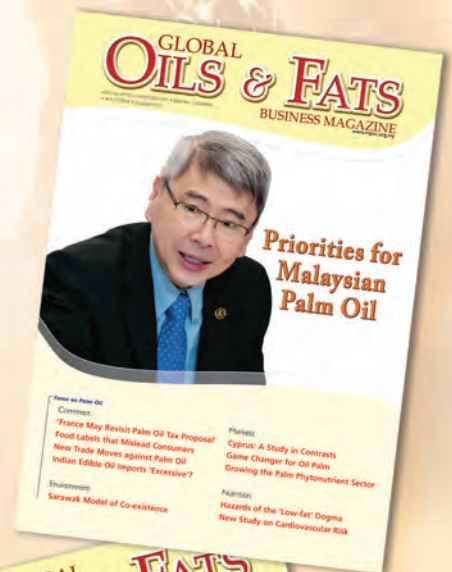
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### **New look at how palm oil powers the world economy**

Food and fuel; fuel and food – these are the two essentials that humanity has sought to produce, and provide for, since time immemorial.

Palm oil – first cultivated by the ancient Egyptians, then more recently in west Africa and latterly in Malaysia and Indonesia – is a valuable source of both. Whether as a cooking oil, food ingredient, biofuel or feedstock for energy generation, the world is truly powered by palm oil.

A new study by the consultancy Europe Economics measures, for the first time, the benefits that palm oil brings to the global economy – billions of dollars in GDP benefits; millions of jobs created and sustained; and downstream industries nourished. The scale and reach of palm oil's positive impact on the global economy is stunning.



In Malaysia, we know all about the benefits of palm oil. Oil palm cultivation is a source of income and pride for 300,000 small farmers in Malaysia, bringing investment and prosperity to previously desolate rural communities. Over 1 million Malaysians are engaged in the palm oil sector, and the tax revenue for producer countries is invaluable.

What is different about this groundbreaking new work by Europe Economics is that it does not measure those impacts in producer countries. Rather, it measures purely the impact that palm oil has on countries that import the commodity – China, India, European Union (EU) member-states and the US, among others.

#### **Insidious reason for criticism**

It is no secret that campaigns are underway in some countries to restrict the use of palm oil – often on the basis that it is harmful to the environment (it isn't) or that there are 'possible' health concerns (there aren't).

Malaysia has strict and well-enforced environmental laws and regulations, and its government protects over 50% of the land area as forest, a unique environmental commitment recognised by the United Nations.

As a food ingredient, palm oil is a balanced fat, typically used as a replacement in food for dangerous industrially-produced trans fats. The phasing out of trans fats and other less-efficient fats explains much of the increase in palm oil exports, which have quadrupled since 1997.



The real reason for the ongoing criticism of palm oil is far simpler, and far more insidious. The protectionism that stalks world markets is readily apparent in the rhetoric of palm oil's opponents.



The simple fact is that a lower-cost, more efficient, more versatile oil from Asia is gaining market share in Europe and elsewhere, and domestic competitors are worried. They are right to be: in an open marketplace, palm oil has been consistently proven as the best option for businesses and consumers.

Domestic lobbies, though, are politically powerful, and have pushed governments around the developed world to tilt the market in their favour – whether through restrictions in Italy, taxes in France or the straitjacket of NGO-led certification systems. The palm oil industry faces all of these challenges and yet continues to succeed.

When the next lobbying to restrict palm oil comes – which, surely, it will – governments must consider the whole picture. The same competitive advantage that endears palm oil to producers, brings with it the range of benefits outlined by Europe Economics: jobs, growth, investment, tax receipts.

Taxing palm oil – as recently proposed in France – hurts the economy; restricting use for protectionist reasons – as proposed in some Italian regions – hurts the economy. This is before we even mention the knock-on effects of palm oil's use, such as lower costs leading to lower food prices for consumers.

Restricting or demonising palm oil imports is an economic strategy headed for disaster. This is true not only intuitively, but now quantitatively, as proved by this latest research. Almost every major economy benefits from palm oil imports, often to the tune of thousands of jobs and millions of dollars.

Palm oil has been a blessing for Malaysia for many decades, bringing development, employment and hope. Those benefits, in the era of globalisation, are now being shared with everyone.

Dr Yusof Basiron  
CEO, MPOC



## ***Lessons from the Past***

For palm oil producers and their critics

On Oct 12, Tun Musa Hitam received the prestigious 2016 Palm Oil Industry Leadership Award from the Malaysian Palm Oil Council. The annual award recognises industry personalities who have contributed significantly to development of the palm oil sector (see p.12-13). A slightly edited version of Tun Musa's acceptance speech follows.





“Malaysia is a country full of awarders and awardees. All year through, the print media, I suspect, thrives on full-page, half-page and quarter-page congratulatory messages relating to honours and awards for one thing or another. I must humbly boast – if it makes any sense at all – that I rarely accept awards even though quite a few have come my way.

No offence to any awarders, but I must confess that it's quite a tiring and often-times expensive affair. So, just to let you know that tonight's honour that is being bestowed on me is really an offer I simply could not say 'No' to. So, thank you, Malaysian Palm Oil Council, and thank you all, for your presence.

During the course of my long life for over 80 years now, I have always been around or been part of events that relate to the oil palm. Whether at the village level, or at town, state, national and international levels, I have been there. You might ask: how come? Well, let me elaborate.

As I grew up in Kampong Bahru, Johor Bahru, I remember the patches of oil palm growing wild around village areas. These trees were never appreciated until during the war years, when I learnt that the fruit could be crushed; as a child, I found out that the oil could be used for frying and cooking.

It was during the war years too that, in Johor Bahru, I witnessed the ingenuity of the Japanese occupying forces who created some very crude-looking machines to drive lorries; the machines belched smoke as a result of the crude palm oil used to drive these lorries! Only on looking back, did I realise that this was biofuel in its crudest form!

Much later on, as an assistant district officer in the district of Kluang, I literally lived among rubber and oil palm trees, as well as people from different strata of society whose lives were dependent on these agricultural crops. I am talking about those who worked the fields, those who supervised the work, those who managed, and those who supported the industry in one way or another. Indeed, the whole district of Kluang was mainly economically dependent on the plantations.

One needs to say here that it was the plantation industry spearheaded by rubber and later oil palm that was the real basis of our country's economic development. It was the political foresight and responsible national leadership after Independence that made Malaysia the No. 1 rubber and palm oil producer and exporter in the world ... until rather recently, of course.

Let us then, at the start of this very significant night, pay tribute to Malaysians and foreigners alike who have contributed so much to our success in making these two commodities the pillars of our economic growth. We learnt, we applied and we laboured. We learnt from the early British and other foreign managers; then we ourselves became managers and applied the knowledge and lessons learnt.

As it happened, my comeback into government at the beginning of the 1970s as a young man, after being out on a 'sabbatical', was as chairman of FIDA. It was during that stint that FIDA became FELDA. That was the time within FELDA that I reunited with some of my best university classmates such as Raja Alias and Nasir Yusof. They were two of the many personalities of dedication and integrity who were chosen to lead the government's charge against deprivation and poverty through FELDA.



Those were actually the early days of our dependence on rubber, and rightly so. But then, even while enjoying the national benefits from rubber, the leadership was already working on agricultural diversification. This awareness was well demonstrated by the establishment, on [then Prime Minister] Tun Razak's initiative, of a palm oil research centre in the middle of Pahang, amidst plantations, under the management of FELDA. That, I must admit, was my first 'formal' introduction to the oil palm as a recognised agricultural industry.

We need to remind ourselves though, that being successful does bring along with it serious challenges. It is because we are successful that the world started to take notice of us. We were the 'new kid on the block', growing very fast into a giant. Trying to rein in the perceived threat of this giant was not easy for others, since we were well organised, efficient, productive and, most important of all, competitive.

Within just around a decade of our emergence as a major world player, we were everywhere. Whether in the US or in Europe as



It was as early as that, at the first ASEAN-EEC meeting in Brussels, that I was designated as 'advisor' on palm oil to the ASEAN delegation. That was how I literally jumped into matters relating to palm oil internationally, a matter that has increased in importance in ASEAN-EEC (now the EU) and overall economic relations with the rest of the world.

### **Consequences of success**

There is no doubt that Malaysia has made a great success of the oil palm plantation industry. When in the oil palm's region of origin in west Africa, it was a common sight to see people daily picking the fruit from the few trees around their houses in order to crush the fruit and use the oil for cooking, we in Malaysia had already introduced the estate concept successfully and were benefitting from it.

two of the most developed regions of the world, palm oil was fast emerging to be an important part of daily dietary needs.

Within the developing world earlier on, palm oil was dominated by the so-called 'Basra Contract' which restricted it to the only channel through which the commodity could be sold. Worse still for us producers was that palm oil was designated as an 'industrial oil', just allegedly to restrict its accessibility.

It was in this sort of competitive environment that the anti-palm oil lobby resorted to scaring consumers with claims that consuming palm oil was a health hazard. But thanks to intensive scientific research, it was proven that the allegations are untrue; as a bonus, it was discovered that the palm oil actually brings about positive health benefits!



rapid development of the US, and particularly Washington, there must be forests cut down and even natives of the land displaced.'

- When I was with quite a few NGOs in Holland to face their criticism of our palm oil production, I simply praised Holland for its success. I also praised the beautiful setting for our meeting at a lodge in a rather small area of forest.

But then I said: 'Driving through here, I could not help but think how much of forest there must have been that are now replaced by wheat and tulip fields, not to mention the thousands of acres for cattle grazing. Maybe we will never know what animals of different species have roamed here, but have become extinct!'

My message was simple. You have developed, but we also want to develop. You committed mistakes, but we must avoid those mistakes and learn from those big mistakes. While your development much earlier was never based on sustainability, we on our part must base ours on sustainability. We surely wish it to be so and we will deliver.

So, let us be sure of these promises, and let us get on with it with hard work, dedication and confidence. There rests my case.

May Allah bless us all, and thank you again for the honour you have bestowed upon me. ”

In searching for anti-palm oil arguments, though, they have found a very credible and strong case against us. The oil palm plantations, they claimed, have destroyed the environment, destroyed wildlife and destroyed the eco-system ... believe me, those are very strong arguments indeed.

To begin with, let us admit that we did do what was claimed about us, in the process of developing the oil palm industry. Personally, I thought that we used to exploit our forests as though they were vending machines! We cut down valuable forests. We caused havoc for wildlife.

Much to our credit, though, we ourselves accepted accountability and responsibility and, within a few years, took various steps to ensure sustainable development. As Minister of Primary Industries, I did say: 'Malaysia should be ashamed of ourselves to be the No. 1 exporter of tropical timber. That means we are raping our forests!'

Following that statement, the numerous legislative steps taken – like the formation of the National Forestry Council,

and other steps that led to the formation of PORIM and related bodies – were indeed meant to develop awareness and ensure that our palm oil is produced with sustainability in mind.

Let the lobbying and explanations of our method of sustainable palm oil development be left to the real experts, among whom is [MPOC CEO] Tan Sri [Dr] Yusof Basiron and his dedicated team. Tan Sri Yusof deserves mention here because he is the one I regard as being indefatigable in pursuing our case on palm oil.

On my part, whenever I am involved in arguments and discussions on the subject, I always offer a simple counter-argument as per these brief examples:

- In Washington I would remark: 'Today I had such a smooth landing and, as a Malaysian, I am thankful for the rubber that we produce that makes up the resilience of the tyres that aeroplanes use. It is unfortunate, though, that rubber trees have to be planted on huge areas of land. Forests have had to be cut to make way for rubber trees, and surely wildflowers and fauna must have been sacrificed. Looking around at the very



Malaysian Palm Oil Industry Awards, 2016  
PALM OIL INDUSTRY LEADERSHIP AWARD  
**Tun Musa Hitam**

Tun Musa Hitam has been closely associated with the plantation industry and the palm oil industry in particular. He holds the unique distinction of having led the industry from both the business and government perspectives.

His active involvement in the oil palm industry began when he was appointed as Chairman of the Federal Land Development Authority (FELDA) from September 1971 to December 1972.

This was during a period of crop diversification in Malaysia, when oil palm was increasingly being planted to replace rubber. The conversion from rubber to oil palm not only rescued the plantation industry but also made it one of the biggest employers in Malaysia and possibly in Southeast Asia.

Tun Musa is a firm believer in research and development (R&D). His realisation of the need for a concerted effort in R&D to empower the oil palm industry paved the way for the establishment of the Palm Oil Research Institute Malaysia (PORIM) in 1979. This move was instrumental in ensuring continuous and rapid development in all aspects of the oil palm industry.

PORIM and another oil palm entity, PORLA, were merged in May 2000 to become the Malaysian Palm Oil Board. Today, it is synonymous with oil palm research; this is in many ways attributed to the vision and inspiration of Tun Musa.

Tun Musa held various portfolios in the Cabinet – Deputy Minister of Commerce (later, Trade) and Industry (1971-74); Minister of Primary Industries (1974-78); Minister of Education

(1978-81); and Minister of Home Affairs and Deputy Prime Minister (1981-86).

Between 1990 and 1991, he was Malaysia's Special Envoy to the UN. He led the Malaysian delegation to the UN Commission on Human Rights from 1993-98; and was elected Chairman of the 52<sup>nd</sup> Session of the Commission in 1995. From 1995-2002, he was the Prime Minister's Special Envoy to the Commonwealth Ministerial Action Group.

In 2005, the Association of Southeast Asian Nations appointed him the Chairman of its Eminent Persons Group, set up to provide practical recommendations on the directions and nature of its Charter.

Upon retirement from active politics, Tun Musa was appointed Chairman of Kumpulan Guthrie Bhd in August 2002, a post he held until the merger of three plantation giants – Kumpulan Guthrie Bhd, Golden Hope Plantations Bhd and Sime Darby Bhd in November 2007.

The smooth and synergistic process of integration was testimony to his excellent leadership. In addition, his bold initiative in leading Sime Darby Bhd to venture into Liberia paved the way for many Malaysian plantation companies to expand their operations to Africa.

He was named the Chairman of the Governing Council of Yayasan Sime Darby on Oct 16, 2008. He retired as Chairman of Sime Darby Bhd in November 2012, but has remained involved in the corporate world.



Malaysian Palm Oil Industry Awards, 2016

LIFETIME EXCELLENCE AWARD – PALM OIL INDUSTRY

## Dr N Rajanaidu

Dr N Rajanaidu holds a PhD in Genetics from University of Birmingham, UK, and is a Fellow of the Academy of Sciences Malaysia. Recruited from MARDI to the Palm Oil Research Institute of Malaysia (PORIM), he then served out his career at the Malaysian Palm Oil Board (MPOB), where he remains a Senior Research Fellow. In all, he has spent over 40 years as an oil palm breeder, a feat not many can match.

His contributions towards the development of novel ideas and methodologies in plant breeding, as well as continuous efforts to improve the oil palm, have brought about immense value to the industry.

Dr Rajanaidu was involved in the collection and establishment of oil palm breeding materials from 1973, evaluation of these collections, their utilisation and, ultimately, their conservation. These activities were aimed at expanding the genetic base of the oil palm in Malaysia. We salute the vision and foresight that triggered this lifetime activity.

He assembled the world's largest oil palm germplasm collection from various African and South American countries, on behalf of the MPOB. The collection has played a crucial role in the landmark sequencing of the oil palm genome by MPOB scientists; and this led to the discovery of the genes related to the shell and fruit colour. The research was published in the

prestigious journal *Nature*, and stands as a benchmark for Malaysian science and technology achievements.

Due to Dr Rajanaidu's efforts, the industry has benefitted from the release of elite oil palm genetic materials known for traits such as 'dwarf-ness'; higher unsaturated oil composition; and compact fronds enabling higher-density planting. The materials provide valuable genetic variations that can be commercially exploited by the industry for preferred breeding programmes.

In addition, Dr Rajanaidu led a team of scientists that developed and released three types of planting materials; PS1.1 (high-yielding and 'dwarf' value), PS2 (high-yielding and high iodine value) and PS3 (high-yielding for kernel value).

For over 20 years, he shared his skills and expertise at local universities, through a lecture series on oil palm genetic resources. He trained and supervised Master's and PhD students, and developed talent in young breeders, specifically in the area of managing and utilising oil palm genetic resources.

Dr Rajanaidu further provided consultancy services on oil palm breeding; as well as organised symposiums and workshops under the auspices of the International Society for Oil Palm Breeders. His contributions to the industry are outstanding and unparalleled.



# Reality Check for Malaysian Palm Oil

*Industry captains raise concerns*

At the CEO Forum during the Palm Oil Trade Fair and Seminar (POTS) 2016, organised by the Malaysian Palm Oil Council (MPOC), heads of leading plantation firms shared their thoughts on key challenges ahead. The issues ranged from stagnating yields and the need to integrate technology into operations, to those related to sustainability certification.

Moderated by MPOC CEO Tan Sri Dr Yusof Basiron, the forum saw the participation of Kuala Lumpur Kepong Bhd (KLK) CEO Tan Sri Lee Oi Hian; IOI Corp Bhd CEO Datuk Lee Yeow Chor; Sime Darby Plantation Managing Director Datuk Franki Anthony Dass; and Olam International Ltd Global Head of Plantations Supramaniam R Ramasamy.

Tan Sri Yusof described the forum as a platform for industry captains to share their views and visions. The event, he added, was a fitting end to the two-day POTS held in Kuala Lumpur from Oct 12.

## **Stagnating yields and labour**

KLK's Tan Sri Lee spoke about stagnating yields in the oil palm industry, saying there is major cause for concern. He contrasted the situation with that of the US soybean industry, which expects a record crop due to yields that have gone up 10%.

"It was not too long ago that 3.6 tonnes of soybean per ha was seen as a reasonably good figure, but this year, the US is producing an average of 4.3 tonnes per ha. This is alarming, as our yields are still stagnating at around 4 tonnes of oil per ha," he said.

He cautioned that plantations that are unable to achieve 6 tonnes of oil per ha are in for a difficult time, especially when prices collapse.

Lee said it is possible to improve the yield if companies make an effort to understand the basics of agronomy and ways to improve practices.

"There is a lot of technology these days that can tell you, for example, which parts of your fields are yielding lower or not up to expectation. I feel that our industry is not adopting the available technology fast enough to increase productivity," he said.

Another major challenge, he said, is the increasing cost of labour and the issue of labour productivity.

"There is no magic bullet to increase labour productivity overnight, but this is an area we have to look at. The government is talking about mechanisation, and this is a good move.

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"We certainly cannot be working on a ratio of one man to 8 ha, when the soybean industry is working on a ratio of one man to 1,000 ha. We need to narrow this. Even one man to 15 ha will be a very good improvement for us."

## **Coping with sustainability and NGOs**

IOI's Datuk Lee outlined the communications crisis the company had faced when its sustainability certification was temporarily suspended in early April by the Roundtable on Sustainable Palm Oil (RSPO). This was compounded by NGO activism and negative publicity.

A complaint by an NGO involved a relatively small area of IOI's Indonesian plantations, but the RSPO decided to suspend the sustainability certification for the entire group – thereby also affecting its global downstream operations.

After much work on the ground, the company managed to get the suspension lifted when the RSPO was convinced that improvements had been made.

"The complaints were related to events that had happened two to six years ago. Since then, we had improved our practices, but the decision by the RSPO only came much later," Datuk Lee explained.

As a company that has been in the oil palm business for many years, IOI is good at managing plantations, he said, but is unfamiliar with the challenge of dealing with NGOs and the online media.

"Following agronomic practices, for example, is no problem. But today we find that [this] is not enough. Now, besides being a plantation specialist, I have to be a communications specialist and [this] is a very new area for [the company]."

"We had to learn to use the right words. And, as we were dealing with the online media and western NGOs, communications had to be maintained round the clock."

Datuk Lee said IOI believes in openness and engagement with all parties and "was responsive, right from the beginning".

Another issue, he said, was that a variety of consultants and specialists had offered advice on how the group should handle the situation. This meant that the company had to be cautious about what proposals it accepted.

"There are several kinds of forest specialists, such as peat specialists. Some work on the ground, while others offer services such as landscape planning. And then, of course, there are communications specialists.

"Even among communications specialists, there are different types – some specialise in stakeholder engagement and some specialise in media engagement."

Datuk Lee said the company would have had to engage many consultants if it had listened to all the proposals it received.

The management, he added, had to be very perceptive and selective, as some advice was unsuited to the company's needs.

**Malaysian brand and new technology**

Datuk Franki of Sime Darby Plantations agreed that it is no longer business as usual for plantation companies.

He said 2015 was undoubtedly one of the toughest for the industry, with *El Nino* hitting production and prices falling in the second half of the year. Increasing demands related to sustainability have become another area of concern.

"We have earned RSPO certification but it is not enough, as Green NGOs, social NGOs, human rights NGOs and many other groups continue their attack or make more sustainability demands on palm oil, and this will only get more intense."

He suggested that the Malaysian brand should be positioned as the preferred global supplier of sustainable palm oil.

"The big companies are already RSPO-certified. The Malaysian Palm Oil Certification Council could accelerate the certification of smaller companies and smallholders. In that way, we can go out and declare that Malaysia produces 100% sustainable palm oil."

He further said there are opportunities in moving towards premium oil and differentiated products, which would help mitigate the impact of low commodity prices.

On dealing with labour costs, Franki said plantation companies need to mechanise, automate and move to digital technology to enhance productivity and operational efficiencies. However, labour will still be required; as such, associated problems will have to be overcome.

"Every time there is an issue with labour recruitment and approval, operations get delayed and this has an impact on the company's bottom line," he said.





"We contribute some RM60-70 billion to the GDP. The government should make it easier for the industry to bring in workers and reduce the levies, as it is currently a very expensive process."

Another major challenge is getting those of 'Gen Y' to take up careers in the industry upon graduation, as many now do not find this an attractive proposition.

"We have to think about how to attract them to join the industry. We need to go out and attract the best brains from universities," he said.

He noted that adopting new technology, mechanising and automating certain procedures could draw young people into the industry.

### **Production and demand growth**

Olam International's Supramaniam highlighted the positives of venturing into Africa's palm oil industry, citing his company's experience with this.

In Africa, palm oil production stands at about 2.2 million tonnes, while demand hovers at about 5 million tonnes. The deficit of 3.5-3.8 million tonnes is only going to widen, he said.

One reason is the growing population, now at 1.2 billion and projected to double by 2050. Of this number, 48% will be below 18 years old. In addition, the GDP of the middle-income group is rising rapidly alongside purchasing power.

Supramaniam said that for every increase of one billion people, demand for edible oil will rise by 24 million tonnes. This points to huge demand growth.

"Today, there are about 30 democratically elected governments [in Africa] and they understand the need for agriculture to feed the people. We should take advantage of this to invest in these countries," he said.

However, he noted that consumption of oils and fats in Africa is still low and that it will take a long time for this to reach the global average.

There is good public private partnership and equity participation of the government in African countries. However, infrastructural development remains a challenge as some countries are still developing, and this will raise the cost of doing business. There is also a need to institute sustainability measures from the start.

MPOC





# Economic Impacts of Palm Oil Exports

... on downstream sectors

Palm oil plays an important role in the global economy. While its impacts on exporting countries are obvious, the scale and importance to importing countries are often neglected.

From 2013-14, global imports of palm oil – mostly from Malaysia and Indonesia – amounted to over 52 million tonnes.

Europe Economics was asked by the Malaysian Palm Oil Council to study the scale and the importance of the downstream industries associated with palm oil imports. This is an executive summary of the study.

Palm oil is part of a complex supply chain due to its diverse usage, from edible oil to cleaning products to biodiesel. It is used by both large multinational companies such as Wilmar and IOI, and SMEs in a broad range of sectors.

The top importing countries in 2013-14 were India, China, the Netherlands, Germany and the US. Together, they accounted for 46% of the total palm oil imports by value.

Our key findings are that palm oil imports made a substantial contribution to the world economy, based on 2013-14 figures, including:

- o Around US\$44 billion of traded palm oil was associated with an indirect contribution to value added in downstream industries of nearly US\$17 billion; or an indirect and induced contribution to GDP of nearly US\$39 billion. The total is equivalent to the GDP of Kuala Lumpur.
- o Palm oil was associated with 1.9 million jobs in downstream industries and 2.9 million jobs including the impact of a resulting rise in demand. The total is just less than twice the population of Kuala Lumpur.

### Contribution to economic growth

We observed large impacts in larger economies. China ranked the highest in terms of the indirect and induced contribution to GDP and India ranked the highest in terms of the indirect and induced contribution to employment.

This reflects that:

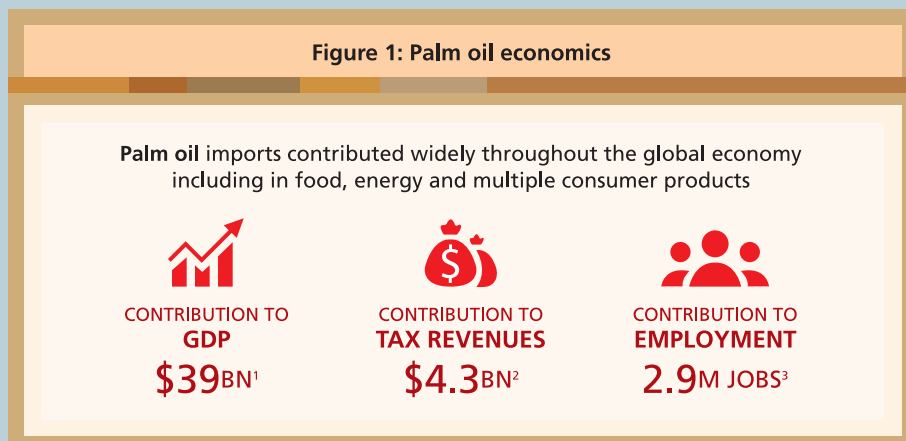
(a) Most of the value added comes in the manufacture of final food products and their distribution to final consumers.

(b) Money earned by workers and investors is more likely to be spent on goods and services made in the same country.

In addition, employment impacts vary substantially depending on the labour intensity of economic activities.




The sectors where the contribution to GDP was the largest related to the production of food. However, there were also substantial contributions to the wider agriculture sector. Other sectors involved in the supply chain, such as hotels and restaurants, also saw significant additional activity.

While this report does not address the question of what might happen if palm oil imports were to be restricted due to policy change or other



Source: Europe Economics, July 2016 – The Downstream Economic Impacts of Palm Oil Exports  
Note: More data available at: <http://theoilpalm.org/palmoileconomics/>

**Table 1: Palm Oil Contribution in Key Markets**

	 CONTRIBUTION TO GDP	 CONTRIBUTION TO TAX REVENUES	 CONTRIBUTION TO EMPLOYMENT
USA	\$8.76BN	\$860M	62,000 JOBS
EU28	€6.42BN	€1.2BN	936,200 JOBS
India	Rs221BN	Rs23.84BN	1,134,000 JOBS
China	¥59.31BN	¥6.16BN	929,000 JOBS
Rest of the World	€8.92BN	€1.56BN	411,000 JOBS

Source: Europe Economics, July 2016 – The Downstream Economic Impacts of Palm Oil Exports

exogenous shocks, it does establish the importance of the product in the world economy.

As an affordable and available primary input for a wide range of industries, palm oil is associated with substantial downstream economic activity in many countries around the world.

The results reinforce the conclusion that imports of palm oil are important, on an at least somewhat similar scale, to the importer as well as the exporter.

Andrew Lilico  
Executive Director & Principal  
Europe Economics, London

# Grants for Palm Oil Players

*In Malaysia*



To encourage Malaysia's palm oil industry to move downstream and add value to end-products, the government has allocated RM280 million in grants under the 11<sup>th</sup> Malaysia Plan (11MP).

Apart from targeting the big players, the government is assisting small and medium

enterprises (SMEs) by dedicating RM50 million of the grants to this group for the first time.

Plantation Industries and Commodities Minister, the Hon. Datuk Seri Mah Siew Keong, said the grants are aimed at encouraging domestic manufacturing of palm-based food and health products, as

well as chemicals or high-value palm oleo-derivatives.

"We want to invite the industry to work with us, and take up these grants," he said in an interview.

Of the grants, RM100 million is allocated for the manufacture of high-value palm oleo-derivatives or chemical products; RM100 million for food and health products; RM30 million for clinical trials; and RM50 million for SMEs.

SMEs are not expected to produce oleo-derivatives, as this involves costly technology, but could incorporate the derivatives into products, Datuk Seri Mah said.

For example, adding red palm olein to a food product would enable the business operator to add value and market the item as a health food.

In 2015, 68.6% of Malaysian palm oil exports were within the upstream and midstream segments, consisting of CPO and processed oil. The export value of CPO was RM12 billion, while processed oil brought in RM28.2 billion.

The downstream sector, although accounting for only 30.1% of total exports, saw oleochemicals raking in RM14.9 billion. Exports for finished products were valued at RM1.7 billion.

The Minister noted that the export value of finished products is significantly higher and stressed that industry players have the potential to earn much more by moving further downstream.

“We really need to add value to our exports, and that is why we are offering these grants. If we want to be a game-changer and to increase our export value, we have to shift our focus to downstream and end-products. This is the strategic shift that we want to see,” he said.

In 2015, the export of commodities and commodity products generated RM117.16 billion, the second-largest revenue earner after electronics. Palm oil exports were valued at RM63.2 billion.

### **New product categories**

Moving activities further downstream would also increase the demand for CPO, and the entire industry would benefit, the Minister said.

“When the CPO price is high, the upstream segment will generate the bulk of profits, but when prices are low, planters tend to benefit from the downstream segment. This is because input costs are lower and planters will gain from end-products,” he said.

“Companies that have strength in upstream as well as downstream [activities would] be able to leverage [on the situation], whether CPO price is high or low.”

Palm oil derivatives are found in various daily products – from toothpaste to shampoo and food to health items, as well as in biodiesel.

Under the 10<sup>th</sup> Malaysia Plan (10MP), the government had set aside RM416 million in grants for commercialisation projects, while the private sector committed RM2.9 billion in investments.

The projects utilising these grants are in various stages of implementation. Under the segment allocated for commercialisation projects, clinical trials have been implemented in five countries.

Datuk Seri Mah cited a successful project initiated in December 2014 in China, in collaboration with Lanzhou University in Longxi District.

Under this, students were given biscuits made with palm oil derivatives, to enrich

the carotene and Vitamin A content. The programme has helped reduce malnutrition among the students, as well as resulted in a significant decline in eye disease.

Since the 10MP, the government has emphasised five additional product categories for industry players to explore:

- surfactants, which are used in detergents;
- bio-lubricants, which are chemicals used in industries and cars;
- bio-polyols used to produce foams and plastics;
- agrochemicals; and
- glycerol derivatives, which can be used in food and non-food products.

Malaysia has close to 1 million smallholders involved in commodities, with 568,354 of them in the palm oil industry and farming 40% of the oil palm land.

*Source: Star Online, Oct 31, 2016*

*This is an edited version of the article.*



# Vegetable Oils Price Outlook

Testing conditions



The year began on a challenging note with major sell-offs in equities, crude oil and related commodities. To many of us, the selling in vegetable oils, including palm oil, seemed to be coming from macro players like hedge funds who were using the broad situation as a reason to short vegetable oils.

These players made a lot of money in the crude oil and related markets, but may have come unstuck in the vegetable oils market. The fundamentals of supply and demand had already begun to tighten from December 2015.

2015 was the year of a severe *El Nino* phenomenon; the effects of dry weather are being noticeably felt in current CPO production. The Indonesian government and industry have launched a National Biodiesel Programme. It is performing better than expected with monthly production and consumption running well in excess of my earlier projection of 200,000 tonnes of palm biodiesel, and touching almost 250,000 tonnes.

Last year, crude oil prices declined dramatically as sanctions on Iran were lifted and we have seen Brent go down to levels we

could not have imagined. There have also been some fears about China and its transition from an export- and asset-based economy to a consumption- and services-based nation.

Given these and other headwinds, the vegetable oils market has come through well and prices have recovered to very remunerative levels. Once again, India has been the stellar performer. Its economy remains an island of high growth in an otherwise shaky world. This has translated to high growth in the consumption and import of vegetable oils.

## **Palm oil performance**

From the time dry weather commenced in May 2015, the question on everyone's mind has been: 'What effect is this *El Nino* having on 2015-16 palm oil production?' The answer, we now know, can be summed up in one word: 'Enormous'.

CPO production in Malaysia peaked in October 2015 and, from November, began a descent which is currently in full swing. Despite almost record production in the period between March and October 2015, palm oil production in Malaysia for the 2015 calendar year fell short of that in 2014. Production in Indonesia

suffered in the last quarter but not to the same extent; I believe Indonesia produced 32 million tonnes, as expected in calendar year 2015.

Let me explain what I call the 'triple whammy' in palm oil production that we are currently experiencing. The biological high cycle ran from March to October 2015 – a normal duration of eight months. From November, a normal new low cycle started. A double whammy comes from the dryness of February-March 2015 and May-October 2015 as a result of the *El Nino*. And the effects of this were felt most in the lean production season from November-March. So that makes this a 'triple whammy'.

The anaemic production run is likely to continue until June when the biological low cycle may be expected to end after eight months. Consumers may only be able to heave a sigh of relief from July. Replenishment of stocks may take a bit longer – possibly until September.

As a result of these factors I have been compelled to reduce my estimates of palm oil production in Malaysia and Indonesia for the oil year ending September 2016. These figures are quite alarming.

I have reduced my estimate of calendar year 2016 palm oil production in Malaysia by 1 million tonnes to just under 19 million tonnes. For oil year 2015-16, ending in September 2016, the drop will be even more drastic – by an unheard of 1.5 million tonnes, from 19.87 million tonnes to 18.44 million tonnes.

Data on Indonesia is much more difficult to obtain, examine and extrapolate. The severest effect of the *El Nino* has been limited to southern Sumatra and to parts of Kalimantan. The season in many parts of Indonesia is between one and two months behind Malaysia. Therefore, at this stage, I am only reducing my estimate of Indonesian production from 32 million tonnes to 31 million tonnes for calendar year 2016 and by 1.2 million tonnes for the oil year ending September 2016.

There are drought-related problems in other territories also, but these are almost insignificant compared to the ravages in Malaysia and Indonesia. Overall, when we look at the global incremental supply and demand for the oil year 2015-16, palm

oil production will be lower by almost 3 million tonnes – a very daunting prospect.

I have examined the severe *El Nino* of 1997-98 and the damage it caused to production. These are my findings:

- The mature area expanded by 4.5% in Malaysia and by 8.5% in Indonesia (Table 1).
- The yield dropped by 8.7% in Malaysia and by 12.5% in Indonesia (Table 2).
- Production dropped by 8% in Malaysia and by 5.2% in Indonesia (Table 3).

**Table 1: Oil Palm Mature Area (mil ha)**

Year	Malaysia	Indonesia
1997	2.45	1.52
1998	2.56	1.65

Source: Oil World

**Table 2: Oil Palm Yield (tonnes/ha)**

Year	Malaysia	Indonesia
1997	3.70	3.55
1998	3.25	3.10

Source: Oil World

**Table 3: Palm Oil Production (mil tonnes)**

Year	Malaysia	Indonesia
1997	9.06	5.38
1998	8.32	5.10

Source: Oil World

I must caution you that the *El Nino* of 1997-98 was not identical to that of 2016. But it gives a good idea of whether – and by how much – production could be lower. You can see that my estimates of production in 2016 are quite conservative.

### Other vegetable oils

Overall for 2016, we are not going to see improvement in the availability of high oil-bearing seeds like sunflower and rapeseed.

We entered the year with big stocks of soybean, but most analysts believe soybean acreage in the US and Argentina will decline.

The anticipated decline in soybean prices as a result of devaluation in Argentina has not happened. Instead, demand for soybean has been very strong at its current price level of around US\$9 per bushel. Soybean oil prices have held up quite well, despite less than impressive demand from countries other than India.

We must expect soybean oil to continue to take market share from sunflower oil and, to some extent, also from palm oil, particularly if palm oil prices begin to narrow the discount to soybean oil. The reinstatement of the Blenders' Credit in the US has yet to make its effect felt on soybean oil futures in Chicago.

#### **Rapeseed/Canola**

The outturn in Canada has surprised us by the recovery of the 2015 crop. In India, the outlook for rapeseed-mustard is better than we had expected and the crop is likely to be an improvement over the disastrous crop of 2015.

One cannot be too sure about Canadian plantings for the 2016 crop and Europe will definitely produce less rapeseed in 2016 than in 2015. The main reduction appears to be in the Ukraine.

#### **Sunflower oil**

Sunflower oil priced itself at too much of a premium and is steadily losing market share to soybean oil. This is despite very weak currencies in the Ukraine and Russia. Sunflower is the most fragile of all the major oilseeds and therefore we

**Table 4: India – Vegetable Oil Imports (thousand tonnes)**

	2015-16	2014-15	2013-14	2011-12
SBO	4,200	2,986	1,951	1,080
PO	9,750	9,478	7,960	7,670
SFO	1,200	1,542	1,510	1,140
Lauric oils	200	250	220	200
Others	250	356	200	100
<b>Total</b>	<b>15,600</b>	<b>14,612</b>	<b>11,818</b>	<b>10,200</b>

Source: GGN Research

must keep our fingers crossed that the Ukraine and Russia will again produce big crops in 2016.

#### **Lauric oils**

Coconut oil production has not recovered as much as expected. Some of the loss is due to a long-term shift towards farming younger coconuts for coconut water rather than for copra and oil. This may tighten the supply of copra and coconut oil. Palm kernel production has suffered in line with CPO production.

The end result is that both lauric oils are far too expensive. Oleochemicals are losing ground to petrochemicals and this is not good for the long-term health of our industry.

#### **Vegetable oil demand**

The world's 'swing consumer' is India and it is in this market that price relationships between oils are determined. Table 4 shows that India's imports have soared by almost 50% over the period 2011-12 to 2015-16. The volume of palm oil increased by only 25%, while soybean oil recorded an increase of almost 400%.

This year, if India has a good rapeseed crop, local demand for soybean oil may

weaken; that will give palm oil a chance to regain some market share. Higher prices may also curb the projected growth in per capita consumption, but this is all work in progress.

China continues to concentrate on soybean imports and to crush locally for oil and meal. The feature of 2015 was the fall in its vegetable oil imports. These are unlikely to recover in 2016, but will also not decline much further. China has been releasing significant volumes from its massive 6 million tonnes in reserve stock of rapeseed oil. This is a new development and affects the world's incremental supply and demand situation. It is a step in the right direction.

I also estimate that world energy demand will expand in 2015-16 by more than my previous estimate of 1.5 million tonnes. The US EPA has already announced its proposals. The Indonesian biodiesel programme is now functioning well.

However, I hope that the Indonesian biodiesel programme will be implemented in a flexible manner to ensure remunerative prices for oil palm



growers, but without impoverishing the millions of loyal consumers of palm oil in the developing world.

Low prices gave us a robust increase in food demand by 4 million tonnes in 2014-15. Growth in 2015-16 will be tempered by higher prices, likely by 3 million tonnes only.

The gap between incremental supply and incremental demand will turn out to be almost a record 4.2 million tonnes. World stocks will be drawn down dramatically. We are already seeing this happen with palm oil in Malaysia and will see it soon in Indonesia as well. Stocks in consuming countries like India and China will thin down. This will have a profound impact on vegetable oil prices for the rest of the year.

A shortfall of almost 4 million tonnes inevitably leads to rising prices. The higher prices will impact on consumption and demand from price-sensitive markets like India, Bangladesh, Pakistan and parts of Africa. Eventually we must reckon that the net shortfall and stock draw-down may narrow down to about 3 million tonnes only.

### Price outlook

These are my assumptions [as at March 9]:

- Brent crude oil to trade in a range US\$30-50 per barrel
- I am not expecting the US Federal Reserve to increase interest rates until June 2016
- I expect the Malaysian Ringgit, Indonesian Rupiah, Brazilian Real and Argentinian Peso to have bottomed out and to be stable against the US Dollar

**Table 5: Global Incremental Supply and Demand (thousand tonnes)**

	Oct 2013 – Sept 2014	Oct 2014 – Sept 2015	Oct 2015 – Sept 2016
SBO	+ 1,800	+ 2,700	+ 3,500
RSO	+ 400	- 300	*
SFO	+ 1,600	- 600	-
GNO & CSO	-	-	- 300
PO	+ 3,400	+ 1,600	- 3,000
Lauric oils	+ 300	+ 200	-
<b>Supply Increase</b>	<b>+ 7,500</b>	<b>+ 3,600</b>	<b>+ 200</b>
<b>Demand Increase</b>	<b>+ 5,200</b>	<b>+ 2,500</b>	<b>+ 4,500</b>

Source: Godrej International Research

\* World supply of rapeseed oil in 2015-16 falls by almost 1.2 million tonnes, but that shortfall is made up by releases by China from its State Reserve.

We must now cast aside all ideas of CPO futures at RM2,600 or RM2,700 Ringgit. We have to take prices to levels where demand does not expand and is made to shrink somewhat in price-sensitive markets like India. That will be mean BMD futures trading with a 3 rather than a 2.

What happened to prices in the *El Nino* of 1997-98? CPO futures rose from US\$500 in January 1998 to a peak of US\$700 in June; and having accomplished the mission of rationing demand, this ended the year at US\$550.

I had earlier forecast that soybean oil futures on the CBOT will rise to 33 cents and this was fulfilled. I believe that rise was too quick and inevitably those gains were given up very soon. I expect soybean oil futures to climb once again, which may even lead to higher prices for beans. I believe cash soybean oil FOB Argentina will reach US\$800 FOB.

It is possible that for a short time, RBD palm olein FOB and crude soybean oil

FOB will be very close in price. Sunflower oil prices will keep a premium over soybean oil. Rapeseed oil prices will trade at par with soybean oil. I expect palm kernel oil to trade in a range of US\$1,100 and US\$1,200 CIF Rotterdam. Coconut oil will gradually increase its premium over CPKO.

The industry in most parts of the world is in good shape. Food demand is robust and we can look forward to better times. Soon we shall have to track the planting weather in North America. After five back-to-back bumper soybean harvests (three in South America and two in North America) can we confidently expect a sixth bumper crop? And if that does not happen, will it prolong this current bull market?

Dorab E Mistry  
Director, Godrej International Limited

*This is an edited version of a paper delivered at the Palm & Lauric Oils Conference Price Outlook 2016 in Kuala Lumpur in March.*

## Record global palm oil output expected in 2017

Palm oil output in top two producers Indonesia and Malaysia will rise next year and likely surpass the 2015 record, as trees recover from a crop-damaging *El Nino* weather pattern, said leading industry analyst Dorab Mistry.

The recovery in palm oil output will lead to a "massive rebuilding of stocks" in the oil year ending Sept. 30, 2017, he said at an industry conference in Kuala Lumpur.

"It is too early to forecast Malaysian and Indonesia production for calendar year 2017 but it is more than likely to exceed the record production of 2015."

The expectations of rising stockpiles could weigh on benchmark palm oil prices, which are up nearly 7% this year on tight supplies after yields were impacted by the lingering effects of last year's *El Nino*.

Mistry maintained his global outlook for a strong output recovery of nearly 6.5 million tonnes for the oil year 2016-17 and calendar year 2017.

However, he adjusted his crude palm oil price target, saying it would drop to RM2,200 by end December – Instead of in November as earlier expected – because of recovering production and rising stocks.

"Most of the additional supply will simply replenish stocks," said Mistry, the director of Indian consumer goods company Godrej International. "Currently I do not expect stocks to become burdensome."

Crude palm kernel oil prices are also expected to decline from current levels around US\$700 per tonne higher than crude palm oil values, to premiums of US\$200-250 on slower demand, he said.

Palm kernel oil prices reached a five-year top of RM6,200 per tonne in late August, highest since March 2011, on tight supplies, according to assessment prices by *Thomson Reuters*.

### Price recovery seen

At the same conference, another leading analyst, Thomas Mielke, said global palm oil output will grow by 5.5 million tonnes in the new oil year beginning October,

Global supplies of palm oil will still be tight until March, but production will rebound by 5.7-6.3 million tonnes in calendar year 2017, said Mielke, editor of Hamburg-based newsletter *Oil World*.

Global output in calendar year 2016 is expected to drop by 3.3 million tonnes to 59.2 million tonnes, he said.

He lowered his 2016 output forecast for top producer Indonesia by 100,000 tonnes to 32.2 million tonnes, and for second-largest producer Malaysia by 300,000 tonnes to 17.8 million tonnes.

He cut his Malaysian output forecast for 2017 by 100,000 tonnes to 20.5 million tonnes, and maintained expectations for Indonesian production next year at 35 million tonnes.

Mielke also said benchmark Malaysian crude palm oil prices are expected to climb to RM2,900-3,000 per tonne in the fourth quarter or in early 2017.

"Palm oil prices are undervalued at the moment," Mielke said, adding that prices will recover as importing countries start to make more purchases.

Palm oil output, though, will continue to be under pressure due to the lingering effects of *El Nino*.

"I don't expect that yields will come back next year ...The real increase in yields is going to be in 2018," Mielke said.

Lauric oils are set to decline in the next 12 months on account of weak demand and recovering production, he noted.

"Once production starts increasing next year, for palm kernel oil in particular and also coconut oil, stocks will increase because demand is poor. Premiums of lauric oil prices versus palm oil is set to narrow in 2017," he added.

Source: Reuters, Oct 13, 2016

## Indonesia imposes mandatory biodiesel blend for non-subsidised diesel

According to *The Jakarta Post*, a new regulation issued last week by Indonesia's Energy and Mineral Resources Ministry makes it mandatory for non-subsidised diesel fuel to also contain a 20% mix of biodiesel. A penalty of Rp 6,000 per litre will be imposed on those who violate the regulation.



The Biofuels Producers Association said the government still needs to clear up some details in the policy to ensure business certainty.

If implemented and enforced, the move is positive for palm oil prices as the biodiesel demand is then expected to more than double year-on-year from the 2016 demand of 2.6-2.7 million kilolitres to 5.6-6 million kilolitres in 2017 (this is after doubling in 2016 from 2015).

However, execution is key; and Indonesia's track record, especially on the biodiesel front, has been patchy.

Are the subsidies enough? Yes, says the Indonesia Estate Crop Fund which manages the collection of the US\$50 per tonne export levy on palm oil (imposed since July 2015) to subsidise biodiesel.

It forecasts that the levy fund will increase 14% year-on-year in 2017 to US\$830 million, as exports should recover in 2017 alongside production.

So far 85% of the subsidy fund has been used to subsidise biodiesel and the surplus is enough to maintain the biodiesel programme until the first quarter of 2017.

Source: Credit Suisse, Oct 26, 2016

## India cuts import taxes on CPO, refined vegetable oils

India has cut import taxes on crude palm oil, refined vegetable oils and wheat, as part of efforts to curb food inflation.

Import duty on crude palm oil and refined edible oils has been reduced by five percentage points to 7.5% and 15% respectively, according to the order on a government website. The wheat import tax has been cut to 10% from 25%.



The cut in taxes is expected to increase demand for palm oil from Malaysia and Indonesia, major suppliers that are already enjoying strong demand from China.

India is the world's biggest edible oil importer. However, domestic crushers believe the cut to the import duty is mistimed.

"We're a bit disappointed as we're on the verge of harvesting a new oilseed crop. The reduction in the duty will put pressure on local oilseed prices," said Atul Chaturvedi, president of industry body Solvent Extractors Association of India.

"The government should have rather raised the differential between the duties of crude and refined oils to support the domestic refining industry."

Local vegetable oil prices have surged by 20% since July.

Source: Reuters, Sept 29, 2016

## Malaysia allocates RM80 mil to oil palm sector in Budget 2017

Malaysia has proposed a RM50 million allocation for scientific research to raise the quality of palm oil products. Another RM30 million is proposed for replanting, reflecting the position of palm oil as a major export commodity.



The allocations were included in the 2017 Budget Speech delivered on Oct 21, but awaits approval by the two chambers of Parliament.

A day earlier, Plantation Industries and Commodities Minister, the Hon. Datuk Seri Mah Siew Keong, said replanting is crucial in order to boost yields. Much of the area under cultivation has mature oil palm trees that are more than 30 years old.

These are too tall for harvesting, and this has caused a fall in productivity, he noted. A replanting grant would encourage growers, especially smallholders, to replace old trees.

He said this year's palm oil production is expected to be less than 20 million tonnes due to the impact of *El Nino*.

Last year, the oil palm industry contributed 5.1% to agriculture in terms of gross domestic product. Export earnings stood at RM63.2 billion and accounted for 8.1% of total exports.

Source: Compiled from media reports, Oct 20 & 21, 2016

## Argentina postpones soybean export tax cut to 2018

Argentina will not reduce soybean export taxes this year or in 2017 as previously announced, and will instead reduce the tax by 0.5 percentage points per month from January 2018 to December 2019, President Mauricio Macri said on Oct 3.



Shortly after taking office in December, Macri eliminated corn and wheat export taxes as part of his plan to revitalise the country's massive farm sector.

He also cut the export tax on soybean, the country's main cash crop, from 35% to 30%. The government had planned further cuts beginning this year.

In September, cabinet chief Marcos Pena told *Reuters* the government was considering postponing the reduction planned for the end of this year, as recession in Latin America's third-largest economy ate into fiscal revenue and the government anticipated difficulties meeting planned budget cuts.

Macri has pledged to rein in public spending after the previous government's generous social programmes contributed to a ballooning deficit. Last month, the government announced a 2017 budget with a fiscal deficit worth 4.2% of GDP, higher than the 3.3% previously planned.

The new soybean tax plan will include a 5 percentage point rebate to producers in the country's northern provinces – which do not include the main soybean belt – to account for higher transportation costs, Macri said.

The government decided to reduce the tax gradually month by month, to prevent "speculation" amidst concern that farmers would hold off on planting and harvesting until the tax was reduced, Agriculture Minister Ricardo Buryaile said on Oct 3.

"Surely there would have been a significant holding-back of the crop" if the government announced a larger annual tax cut, Buryaile said.

Argentina is the world's third-largest producer and exporter of soybean after the US and Brazil, according to the US Department of Agriculture.

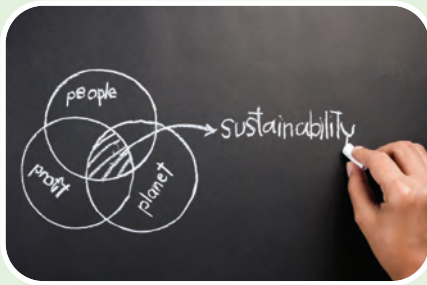
It is expected to produce 57 million tonnes of soybean and export 10.7 million tonnes in the 2016-17 crop year, which began in October.

The country is also the world's top exporter of soybean meal and soybean oil. Macri's government lowered export taxes on those products by 5 points to 27% last year.

*Source: Reuters, Oct 4, 2016*

## Indian palm oil sustainability framework in the works

India, the world's biggest importer of edible oils, will develop its own sustainability framework for palm oil production considering the domestic ecology, a leading trade body said on Oct 4.



The Solvent Extractors' Association of India (SEA) said it has tied up with Hong Kong-based Solidaridad to develop a sustainability framework for India, since the local environment and farming practices are different from those of Indonesia and Malaysia, the top two palm oil-producing countries.

Palm oil, used in everything from chocolate to cosmetics, has become one of the world's fastest expanding crops, but the industry has been facing intense pressure over deforestation and methods used to clear land. That has driven many buyers to demand certification of environmentally-sound behaviour.

India's import dependency in edible oils has risen to 70% and expansion of oil palm plantations will help reduce imports, BV Mehta, executive director of SEA, told reporters.

India produces just 200,000 tonnes of palm oil from 250,000 ha of plantations and imports nearly 9 million tonnes per annum, according to the SEA.

"There is limitation on expansion of oil palm [planting] in Indonesia and Malaysia, but in India it could be expanded in the southern and north-eastern states," said Shatadru Chattopadhyay, managing director of Solidaridad Network Asia Ltd.

*Source: Reuters, Oct 4, 2016*

## MOU signed on oil palm research in Nigeria

The Nigerian Institute for Oil Palm Research (NIFOR) and PZ Wilmar have signed a Memorandum of Understanding (MOU) towards the country's self-sufficiency in oil palm production.

The MOU was signed in Abuja by Chief Audu Ogbe, the Minister of Agriculture and Rural Development, and Chief Kola Jamodu, the chairman of PZ Cussons Nigeria Plc. It covers capacity building and knowledge sharing for the research institute.

The collaboration will devote attention to developing a Nigerian climate-specific high yield variety through joint development of early maturing, high yielding, drought-tolerant and disease-resistant hybrids.

The scope includes study visit by NIFOR on the biotechnology approach to elite oil palm planting material development in Wilmar facilities in Asia.

The exchange of visits will also explore end-uses of palm oil and palm kernel oil through isolation of nutraceuticals from palm oil and bio-energy development from waste products.

*Source: www.vanguardngr.com, Sept 26, 2016*

## French Parliament rejects palm oil tax proposal

France's National Assembly has rejected the latest move to introduce an additional levy on palm oil, the widely used food and cosmetics ingredient.

On Oct 27, Green party lawmakers in the lower house of Parliament failed to win support from both the government and main opposition parties for an amendment to the 2017 Budget Bill.

This would have applied an extra tax of 300 Euros per tonne in 2017, then rising progressively to 900 euros in 2020; it would have further increased each year from 2021. The current tax is 104 euros a tonne.

Provincial French daily *Ouest-France* reported that members of the social affairs committee of Parliament followed the recommendation of Budget Minister Christian Eckert in rejecting the move.

Only a few environmentalist deputies present in the chamber voted for the levy, the paper reported.

However, the French government has said it would propose by February a new scheme to harmonise taxes on vegetable oils and include an exemption for those that are sustainably produced.

Top palm oil-producing countries Indonesia and Malaysia have lobbied against such tax increases.

*Source: Compiled from Reuters, Oct 27 & www.just-food.com, Oct 28, 2016*

## Edible oil producer in India gets more land to plant oil palm

Edible oil maker Ruchi Soya Industries has signed an agreement with the Arunachal Pradesh state government in India, for oil palm planting on additional land to boost domestic production.

The agreement gives the company permission for oil palm development on 25,000 ha in the districts of West Siang, East Kamang, Lower Subansiri and Papumpare. Last year, it had obtained access to 20,000 ha in the East Siang district.

"We are pleased by the efforts put by Ruchi Soya Industries for oil palm development in East Siang district through the timely set-up of a state-of-the-art nursery [...]," said state Agriculture Secretary Talem Tapok.

Ruchi Soya founder and MD Dinesh Shahra said the company has always strived for the betterment of Indian farmers and to help them achieve higher yields by providing the right technology and assistance.

The company is involved in palm oil processing with 0.52 million tonnes capacity per annum. It has a turnover of US\$4 billion, with its brands including *Nutrela, Mahakosh, Sunrich, Ruchi Star and Ruchi Gold*.

*Source: Press Trust of India, Oct 6, 2016*

## China's 2016-17 soybean imports to hit record level

China's soybean imports are forecast to hit a record high of 86 million tonnes in the 2016-17 marketing year that begins Oct 1, up from an estimated 83 million tonnes in 2015-16, according to a GAIN report filed on Aug 30 by the Foreign Agricultural Service of the US Department of Agriculture (USDA).



The forecast was slightly lower than the official USDA data forecast of 87 million tonnes. Increased Chinese demand for industry feed and protein meal as a result of a recovery in swine production and steady growth in the poultry sector was seen as the driver for the increase in soybean imports.

"China's recent sale of stored oilseed and oilseed product reserves (soybean and rapeseed oil) is expected to absorb the market share for food soybean and vegetable oils," the GAIN report said.

"However, forecast lower imports of [distillers' dried grains with solubles] as a result of China's anti-dumping investigation may increase demand for soybean meal and thus support growth in soybean imports."

Domestic production of soybean is set to grow during the same period as a result of increases in the planted area, reflecting government efforts to restructure the crop mix and better yields.

The China Agricultural Outlook Committee (affiliated to the Agriculture Ministry) forecast 12.86 million tonnes of soybean in 2016-17 on higher yields and favourable weather, up from the previous projection of 12.76 million tonnes. The China National Grain and Oilseed Information Centre has issued a forecast of 12.6 million tonnes for 2016-17, up 8.6% from the previous year.

In addition, an independent oilseed information source predicted China's domestic production of soybean in 2016-17 will total 14.1 million tonnes, up 3.67 million tonnes from the 10.43 million tonnes estimated in 2015-16.

Forecast lower rapeseed and cotton seed production in China in 2016-17 was expected to increase soybean imports for protein meal. The GAIN report forecast 2016-17 imports of rapeseed to China at 3.9 tonnes, above the USDA official forecast of 3.8 tonnes.

Peanut imports in 2016-17 were estimated to decline to 400,000 tonnes, down from 550,000 tonnes in 2015-16 as a result of strong domestic production. The expected decline reflected strong gains in domestic acreage coupled with a continuing depreciation in the value of the Chinese currency.

The GAIN report also indicated a decline to 8.3 million tonnes in Chinese cotton seed production in 2016-17, partly as a result of an expected decline of 10% in acreage, and down from the estimated 8.9 million tonnes in the previous marketing year.



China's imports of vegetable oils are expected to be flat in 2016-17 after declining in 2015-16, as a result of the high crush of oilseeds and sales of domestic oilseed product reserves. The forecast for 2016-17 imports:

- Soybean oil to be unchanged from the previous marketing year at 650,000 tonnes
- Rapeseed oil to fall to 700,000 tonnes from an estimated 750,000 tonnes
- Peanut oil higher at 130,000 tonnes compared with an estimated 120,000 tonnes the previous year
- Sunflower seed to be about unchanged from 2015-16
- Palm oil higher at 5.2 million tonnes from about 5 million tonnes in the previous crop year, but significantly lower than the average of 5.95 million tonnes in 2012-14 and 2014-15

"Weaker palm oil imports are due to a combination of factors, resumption of export duty in exporting countries; weak demand for palm oil; an adequate supply of other vegetable oils; and depreciation of the Chinese currency," the report said.

*Source: World-Grain.com, Sept 2, 2016*

## Better returns for Malaysian oil palm smallholders

Smallholders in Malaysia can sell fresh fruit bunches (FFB) at RM50 per tonne higher (by 13%) to the Oil Palm Planters Cooperatives, compared to selling to oil palm fruit traders.

Plantation Industries and Commodities Minister, the Hon. Datuk Seri Mah Siew Keong, said the involvement of cooperatives in ensuring the production of quality FFB and palm oil direct to mills, has provided better returns for smallholders.



As at September, 33 cooperatives had been established – 13 in the peninsula, 11 in Sarawak and nine in Sabah. Of these, 20 have started direct integrated FFB sales to mills.

"Under the 11<sup>th</sup> Malaysia Plan, the government allocated RM200,000 to each cooperative to build FFB weighing stations.

"The Malaysian Palm Oil Board (MPOB) is working with Agro Bank for overdraft facilities for cooperatives, for revolving capital to undertake the business of the sales and purchase of FFB."

He said this in a speech delivered at the opening of the Oil Palm Smallholders National Conference in Ipoh on Oct 11. The text was read by MPOB chairman Datuk Wira Ahmad Hamzah.

The area under oil palm cultivation has reached 5.67 million ha, covering more than 70% of the country's agricultural land.

Of this area, 40% is managed by individual smallholders and those under the patronage of federal and state government agencies.

*Source: Bernama, Oct 12, 2016*

# EU's RED Driven by 'Emotion'

*Biofuels policy not based  
on science*



Those following the palm oil debate in Europe know that the EU's Renewable Energy Directive (RED) has been used for years as a tool to protect domestic oilseeds by restricting market access for imported vegetable oils.

Previous versions of the RED have included obvious and at times incredible attempts to discriminate against palm oil: however, all had been dismissed as anti-scientific, unworkable and contradictory to facts.

That the RED is anti-scientific is widely known, but this has now been confirmed by the most unlikely of sources – the European Commission (EC) itself.

On Oct 12, *EurActiv.com* quoted Marie Donnelly, the EC's Director of Renewables, Research, and Energy Efficiency, as saying at a conference: "We cannot just be led by economic models and scientific theories [...], we have to be very sensitive to the reality of citizens' concerns, sometimes even if these concerns are emotive rather than factual [...] or scientific."

She added that the first concern regarding conventional biofuels is a purely emotive reaction to 'food versus fuel': "There are many people in Europe who feel that if we take food and put in our tanks and cars, we are taking food from people who are starving elsewhere in the world."

It is important to take a moment to consider the implications of this statement. It reveals that the EU accepts that its flagship emissions-reduction, renewable energy policy is not based on facts or science. This is a damning indictment of the weakness and the discrimination of the policy-making process.

The admission – which confirms what has been known to be true in any case – is of greater concern because, in some important ways, the RED has worked well. An important area of achievement has been in the transport and energy generation sectors, where imported palm biodiesel has been used as a renewable energy source to great effect.

The use of palm biodiesel in Europe has increased because:

1. Palm oil is an incredibly cost-effective commodity. Its yield is superior to that of competing oilseeds, such as rapeseed. Rapeseed produces about 0.79 tonnes of oil per ha; palm oil produces 4 tonnes per ha.

The incredible efficiency and productivity of palm oil leads to cost benefits for businesses and consumers in Europe – not to mention environmental benefits, as far less land needs to be used to produce the oil.

2. Malaysian palm biodiesel meets stringent sustainability standards both at home and abroad. Malaysia has a world-leading palm oil sector, with strict government and industry regulation. The Malaysian Sustainable Palm Oil standard aims to cover all domestic production, and is a guarantee of quality and sustainability.

To qualify for biofuel imports under the RED, Malaysian palm oil must meet further sustainability criteria, in the form of certification schemes that are recognised by the EC. Malaysian producers have no problem with meeting demanding criteria, such as those under Germany's ISCC certification.

### **Protectionism behind policy decisions**

There is incontrovertible proof that Malaysian palm oil is both beneficial and sustainable. Why, then, would EU leaders try so hard to fix the RED process against palm oil? The simple answer: protectionism.

Ms Donnelly was correct in admitting that the RED is not based on science – however, her assertion that 'emotive' factors drive EU policy is misleading. What drives EU policy is the fact that palm oil is taking market share from less efficient, less competitive crops such as Europe-grown rapeseed.

Protecting uncompetitive domestic rapeseed is why the EU previously attempted to introduce Indirect Land-use Change criteria that would have harmed palm oil. It is also why some MEPs tried to remove palm oil from 'approved' biomass lists, without evidence – while the position of other crops on the list was never questioned.



And it is the reason that new campaigns against palm oil (see p.36) have kicked off ahead of the revision of the RED in 2017.

The campaign is about discrimination, pure and simple. In June 2014, Indonesia filed a case in the World Trade Organisation on an unrelated issue of EU discrimination against palm oil imports. The EC appears to be inviting more such cases if it continues to ignore facts and science in favour of discrimination against imports under the RED.

The EC's admission that protectionism and anti-science views will be promoted and accepted as part of the policy-making process is a warning.

The next 12 months of biofuel negotiations will be difficult – and the market share of Malaysian palm oil is clearly under threat. EU claims about 'emotion' or 'public opinion' must be rejected: what is involved is discrimination for protectionist reasons, and should be treated as such.

MPOC

## Campaign Heats Up against Palm Biofuel

Green NGOs, anti-biofuel campaigners and competing vegetable oil producers are escalating their campaign against palm oil ahead of the revision of the Renewable Energy Directive (RED) that will take place later this year.

The campaign has recruited politicians, including Member of the European Parliament and 'centre-right liberal' Maria Teresa Giménez Barbat, to launch one of the first attacks. In July, she authored a parliamentary question that condemned the use of palm oil in biofuels, claiming that its production leads to deforestation.

What she should have said is that poverty leads to deforestation, and that clearing land and growing crops – oil palm, rice or anything else – is a way of escaping poverty. This is known as forest transition, a key step in a developing the economic path to prosperity.

Ms Gimenez Barbat should have also mentioned that, by growing oil palm, Malaysia has lifted millions out of poverty and built a new rural middle class. Forest transition for oil palm cultivation in Malaysia is done sustainably and in accordance with the law.

Unfortunately, her complaints echo the same tired line propagated by Transport and Environment (T&E), which has released a 'new' report attacking palm oil, although such arguments have already been discredited. The United Nations and others clearly recognise Malaysia's internationally renowned forest protection commitments. Key policy experts also understand that it is unproductive to blame complex social and economic drivers on deforestation.

In response, MPOC CEO Dr Yusof Basiron wrote: 'The core of T&E's complaint is that the use of palm oil for biodiesel is rising. This is true though the real increase is nowhere near the amount that T&E claims. Statistics show that more than 50% of the biofuel used in Europe from vegetable oil comes from rapeseed, and only 15% from palm oil. Yet European oilseeds are spared criticism, while NGOs make continuous unfounded allegations against palm oil.'

Here are a few more inconvenient facts for T&E and MEP Giménez Barbat:

- All palm oil imported into the EU as biodiesel must by law, under the RED, meet environmental criteria. That is the case for Malaysian palm oil.
- Malaysia is the world leader in palm oil sustainability – and its government protects over 67% of the land area as forest. It is a commitment unmatched by any EU member-state.
- Malaysian palm oil has an excellent track-record of environmental protection, and this is recognised around the world.
- Malaysian policy ensures that land is available for agricultural development (including palm oil), as well as for forest protection and conservation.
- Palm oil is the world's most efficient oilseed crop; it produces vastly more oil, using less land, fewer pesticides and less fertiliser than any other vegetable oil, including rapeseed or soybean oils.
- Palm oil supports the livelihood of more than 300,000 smallholders and their families in Malaysia, and around 3 million smallholders in Asia, Africa and Latin America.

*This is an edited version of the article posted on 'The Oil Palm' on July 27, 2016.*

# Curb Under-nutrition in India

... by distributing edible oil

With robust macro-economic fundamentals, India has emerged as one of the world's fastest growing significant economies. GDP growth, rising incomes, population pressure, age profile and appetite for consumption have all combined to drive demand up for various goods and services. Food, of course, tops the list.

Despite an impressive show on the economic front, India's development indicators are far from satisfactory. The proof of this comes from the country's low ranking in the Human Development Index and high rank in the Global Hunger Index. While India demonstrates economic growth, progress on social development front lags far behind.

A pernicious but under-appreciated challenge India currently faces is pervasive malnutrition or specifically, under-nutrition. This is prevalent especially in the rural areas and among the urban poor.



The National Family Health Survey revealed that as many as 42% of children below the age of five are under-weight with a high prevalence of stunting. An alarming 70% of women are found to be anaemic. They include pregnant women and lactating mothers. There is pervasive protein and calorie deficiency, leading to serious acute malnutrition.

The importance of nutrition to human well-being is well known. Under-nutrition exerts long-term adverse effect on human health, impairs labour productivity and general well-being.

Perpetual under-nutrition results in low resistance to infections and increased morbidity. It imposes higher healthcare costs on individuals and, worse, imposes huge hidden, unaccounted and unrecognised losses on society and the nation at large.



As a result, funds are frittered away and results on the ground are less than desirable. All schemes to address malnutrition need to be dovetailed so as to deliver better service and capture value.

Inflation hurts, especially food inflation; and it hits the poor the hardest. The poor need food and nutrition security. In a price-conscious market such as India, high prices often lead to demand compression, especially among the vulnerable sections of the population – a section that suffers from under-nutrition and desperately needs to consume more oils and fats.

One way in which India's nutrition security can be advanced is through inclusion of edible oil for supply under the Public Distribution System (PDS) or the National Food Security Act.

Within the country, we find stark inter-state variations in the nutrition profile of people. For instance, Tamil Nadu, Kerala, Goa and Punjab do reasonably well, while the nutrition profile of states like Uttar Pradesh, Bihar, Madhya Pradesh and Rajasthan leaves much to be desired.

### Stem nutrition insecurity

India risks a move toward nutrition insecurity if the issue of under-nutrition is not addressed with the great urgency it deserves. For a rapidly emerging economy like India with aspirations to become a developed economy, it is critical that the extant nutrition challenge is recognised at the highest policy-making level and steps are initiated to ameliorate it.

To address malnutrition, the government runs several schemes, but these are fragmented and there is little coordinated action among different ministries that implement different schemes.

Of the 250 million families, as many as 150 million families deserve to be supported with wholesome but economically priced food. Currently, there is access to rice, wheat and sugar under the PDS. This list should be expanded to include edible oil and pulses. Supply of even 1 kg of fortified edible oil per family per month will go some way in addressing the nutrition issue.

For the purpose, I estimate the quantity of edible oil involved at approximately 2 million tonnes a year which is about 10% of India's annual consumption. The supply of packaged edible oil (in half- or one-kilo packs) will ensure that consumers get unadulterated safe edible oil to meet at least a part of their nutrition requirement.

Without doubt, there will be political, social and economic benefits that would flow from such a policy initiative. To be sure, supplying edible oil through the PDS would be nothing new for India.

Until 2002, consumers had benefited from supplies of economically priced refined palm olein. In its wisdom, the then government decided to discontinue the service. It is time for revival of the scheme. If it involves some subsidy, so be it.

### **Wake-up call**

It is often said in jest that the Indian government does the most rational things, but only after exploring other possibilities. It looks like policy makers are still exploring. One reason could be that, unlike pulses – the shortage and strident price rise of which over the past year has put the government on the defensive – edible oil prices have not evoked any strong consumer response.

But it may only be a matter of time. Vagaries of nature and vicissitudes of the market are less predictable. What happened in the case of pulses can happen in edible oil too. So, this article should be treated as a wake-up call.

India's self-reliance is low and dependence on the world market for meeting domestic shortfall is rather high at about 65%. This makes the country tremendously vulnerable to external factors over which it will have little control. This risk needs to be mitigated.

The oilseeds and oils sector deserves policy support, research support and investment support. Lessons from the so-called 'dal-shock' lend a sense of urgency to designing a progressive long-term policy for the country's oilseeds and oils sector, so as to make it less vulnerable and more competitive.

Trade and industry associations have an opportunity to demonstrate their vision and strategic action plan for the sector by providing policy inputs.

G Chandrashekhar  
Global Agribusiness and Commodity Sector Specialist  
India



# Exceptions to the Rule

When compromise is necessary

The Roundtable on Sustainable Palm Oil (RSPO) is generally considered the 'gold standard' for palm oil certification. There are good reasons for this.

The organisation and its processes have been in place for more than 10 years. It has a broad range of stakeholder input. It has 'brand recognition' among producers, financial institutions, purchasers and other bodies.

But there is no doubt that the focus of the scheme is Southeast Asia. This isn't surprising. Close to 90% of the world's oil palm is grown in the region. The scheme's genesis came from concerns about the environment in Southeast Asia.

This also means there is a level of antipathy – albeit unintended – to other parts of the world where oil palm is grown. Because of this, there are certain elements of the RSPO that simply don't work in other contexts.

Take, for example, the RSPO's criteria and indicators on natural pest control. They require the reduction or elimination of all

pesticides that are classified under the heading IA or IB in terms of their toxicity by the World Health Organisation. They also require the same of any substances listed under the Rotterdam Convention.

Now look at blast disease, which affects oil palm crops – particularly pre-nurseries – in Africa. Blast disease is very destructive.

A severe case decimated the Ghana Oil Palm Development Company's growing stock in 1994. The only effective treatment is the application of carbofuran (carbamate family). This is a pesticide that falls under the IB classification (highly hazardous). It is toxic.

But most parts of the world, with a few exceptions, permit its use. Those exceptions are the US, Canada, the EU and a number of African countries that don't grow oil palm at an industrial level.

Carbofuran comes under the Rotterdam Convention requiring certain handling protocols, but this is not the same as a ban. It is recognised as the only treatment

for blast disease in oil palm by the International Fund for Agricultural Development – a UN agency.

## Policy vacuum

Leaving blast disease untreated can wipe out operations. One agricultural development programme suspended loan repayments from farmers following a blast disease incident. But because the disease and the insect thought to carry it aren't prevalent in Southeast Asia, there's no need to follow this treatment pathway.

The RSPO Principle and Criteria (P&C) state that 'there is no prophylactic use of pesticides, except in specific situations identified in national best practice guidelines'.

But prophylactic use is essential with blast disease. When soil moisture drops below a certain point, trees become susceptible, and national best practice guidelines don't exist in most African countries.

The P&C also state that the organisation will 'urgently' identify alternatives for these chemicals. But the fact is that, there is no urgency outside of Africa.



This is something of a policy vacuum here. There's no doubt that, when the P&C were written, all the best intentions were there – whether it was the development of national guidelines and interpretations, or coming up with an alternative to carbofuran. But at this stage, this is a problem that has fallen through the cracks.

Here's an example of the dilemma. Carbofuran itself has been recommended as an alternative to other more toxic pesticides that are banned under the Stockholm Convention. So what are farmers in Africa supposed to do?

The obvious pathways are to have national interpretations completed or to develop national best practice guidelines. But this is easier said than done. This takes time and money and often requires a level of political and bureaucratic will that is often lacking.

### **Catch-22 situation**

What this particular gap underlines is that the RSPO P&C may have been put together in Singapore or Geneva, but they aren't applicable to every context.

It also underlines the fact that sometimes the will and the financial means may be there to implement RSPO rules at the firm level, but at the national level, it is not high on the list.

A 'watering down' of the P&C on pesticides would not be acceptable. Perhaps, instead, it would be possible for the RSPO to accept interim national interpretations or national interpretations on specific issues.

Under the RSPO's organisational rules, it is likely such a measure could work via a measure under the board of directors. It would also be likely to be subject to push-back from the NGO members.

But what are the alternatives? Plantation developers are likely to go ahead and develop in Africa, whether or not certification is available. There are alternative means of financing. The market for vegetable oil in Africa is large and getting larger. This means that these operations will be subject to no RSPO rules.

One of the points that has been made about palm oil certification is that it is the only agricultural commodity with such

widely accepted and high standards. No other crop has the same level of scrutiny. One of the dangers is that, if the bar is set too high for many operations for palm oil, those who are able to access forest and land for plantation development will either develop or switch to another crop with low (or no) level of scrutiny whatsoever.

Rules that the RSPO has in place around high conservation value or conservation set-asides, will be nowhere to be seen.

This can't be an outcome that the RSPO or NGOs will be happy with. This will mean worse environmental, social and economic outcomes across the board.

In other words, a compromise isn't just preferable, it's necessary – particularly if the overall objective is sustainability.

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*This is an edited version of the article posted on Star Online, on Sept 26, 2016.*





# Health Research or Activism?

*New study raises questions*



Two US universities launched an unprovoked attack on the palm oil industry in September, peddling erroneous mortality statistics attributed to the haze event of 2015 in parts of Southeast Asia.

Since then, Greenpeace has used these figures to spread misplaced health-related fears, including at the European Palm Oil Conference in Warsaw, Poland, from Oct 5-6.

The study, a collaboration between Harvard and Columbia universities, attempted to quantify the number of deaths from the 2015 haze event. It claimed that 91,600 premature deaths in Indonesia, 6,500 in Malaysia and 2,200 in Singapore were linked to this.

Immediately rejecting the claim, Malaysia's Deputy Director-General of Health, Datuk Dr S Jeyaindran, said: "No such thing! We had no deaths last year directly related to the haze."

The results were similarly rebuffed by the governments of Indonesia and Singapore.

Indonesia's disaster mitigation agency said the research "could be baseless or they have the wrong information". Singapore's Ministry of Health said the study was "not reflective of the actual situation".

Let's establish this from the start: there is zero doubt that haze events have an impact on public health. That is clear

and inarguable. And there is zero doubt that, if the level of haze is reduced, there will be a reduction in these health impacts.

However, advancing good management of land-clearing fires or public health was not on the mind of the researchers. Rather, their goal was to advance an agenda that appeases their rich New York City donor class, at the expense of 300,000 hard-working Malaysian small farmers, among others in the oil palm industry. This must count as western greed and alarmism at its worst.

## **Health data overlooked**

It is of no surprise that health officials in the three Southeast Asian countries reacted angrily.

First, the research does not consider the extensive empirical data available on emergency attendances and hospital admissions in Singapore and Malaysia. Both have quite reliable hospital and public health data. Most of this is published regularly or is accessible to the public. Yet none of this was sourced for the study.

The available data was previously utilised for at least two public health studies on hospital admissions in the Klang Valley (Malaysia) and in Singapore. The Malaysian study examined hospital admissions between 2000 and 2007, based on particulate data. Neither of these studies appears in the research citations of the Harvard-Columbia study.

Second, the Harvard-Columbia study cites the haze events of 1997 and 2006 as baselines. It appears to ignore the possibility that public health measures – such as warning systems and public service announcements – have improved significantly over two decades, particularly in Singapore and Malaysia.

Therefore, awareness of potential risks has likely lessened the impact of the haze. This can be verified with empirical data from national health systems.

There is one possible reason why much health data was overlooked or left out: the Harvard-Columbia study is not about health – it is really about environmental dogma.

The analysis and data collection on actual health impacts is quite small. The bulk of the study is about improving land tenure in Indonesia. The lead authors are overwhelmingly from environmental schools; there is only one pure health academic among the 12 authors.

The underlying question, then, must be: why was it necessary to highlight '100,000 premature deaths' in the headline of a report on the study? This was posted on the website of the Harvard University's School of Engineering and Applied Sciences: 'Smoke from 2015 Indonesian fires may have caused 100,000 premature deaths'.

The answer is simple: opportunism. This narrative the researchers alighted upon was public health, linking the shocking headline to the (environmental) haze event. This is despite the study conceding that fire hotspots in oil palm concessions have actually fallen:

'Although oil palm concessions have previously been implicated as a major driver of peat burning in Indonesia (Koh *et al*, 2011), we find that burning in oil palm concessions in 2006 accounted for only 11% of total FRP [i.e. hotspots] in Sumatra and 32% in Kalimantan. In 2015, these contributions declined to just 5% and 20%, respectively.'

The Harvard and Columbia researchers would have been well aware that NGOs would jump on this figure and use it as a stick with which to beat the palm oil industry. In this context, it is not

surprising that the paper's lead researcher had undertaken joint research with Greenpeace in the past.

It is also vital to consider who paid for the study. It was backed by nearly US\$4 million in grants from the US-based Rockefeller Foundation, which has a history of supporting groups that are against palm oil.

### **Complex problem**

What the researchers ended up doing was to generate a simplistic headline that betrays the difficulty of finding a solution to a complex problem on the ground. The net result is environmental advocacy masquerading as public health concerns.

This matters because it undermines some important research principles. A goal of attempting to quantify public health outcomes in one country, based on land-use management policy and practices in another, is a minefield.

Land tenure is an inherently political issue that touches on governance, legal systems and property rights. Land-use management is intertwined with economic considerations. Fire management – and environmental management more broadly – has at its core financial management and administrative capacity.

Each of these issues is big enough on its own; each should be resolved for its own sake. To manufacture a headline around public health as a way of glossing over these challenges is just opportunistic and unprofessional.

The study provides a clear example of where 'research' has crossed over into advocacy. A fundamental question therefore needs to be posed and answered: are these health researchers or environmental campaigners?

The scholars involved should now publicly decry the Greenpeace action in Warsaw, reiterate the actual intentions of the study, and emphasise what is proven (or not) by the little hard health data in their study.

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# Sustainability - A Loaded Term

## Whose norms apply?

The Centre for International Forest Research (CIFOR) recently asked the question: What will it take to make sustainable palm oil the norm?

This is also a question that NGOs ask. And when they do, it's a loaded question. It is directed at western companies and policy makers. It goes hand in hand with assumptions that:

1. Oil palm growers are a large, homogenous group.
2. Oil palm growers are mostly part of large corporations.
3. Everyone everywhere considers environmental sustainability to be the No. 1 priority.
4. Western developed markets are the only markets that matter.
5. 'Sustainable' means all aspects of sustainability – including poverty reduction – are covered.

Anyone who has a basic understanding of palm oil production and palm oil markets knows that none of these assumptions are true. But there is such great misunderstanding in the debate over palm oil that western NGOs have been able to move it in the opposite direction.

Consider how the NGOs are pushing for tighter, more expensive standards that are completely out of reach for small farmers, and which exclude them from supply chains.

The most egregious example of this is the 'zero deforestation' traceability model. This was the model that resulted in Unilever having to cut 80% of its smallholder suppliers from its network.

What this underlines is that most of the NGO arguments around sustainability are simply a string of western moral arguments about the environment. These have little to do with balanced perspectives or producing strong social and economic outcomes on the ground.

The CIFOR research bears out these fallacies – but don't expect NGOs and campaign groups to leap on the findings.

Take this from the report's executive summary in relation to uptake of certified sustainable palm oil and 'zero deforestation' commitments by major companies:

'... oil palm growers are a diverse group, operating in a range of contexts; this means that current high profile signs of change by large multinational companies may not be representative of the entire sector.'

Or on the importance of sustainability among smallholder growers:

'In regions such as Sumatra with long-established oil palm sectors, the number of independent smallholder farmers is growing rapidly. These smallholders have access to an escalating number of independent mills, which offer competitive pricing opportunities. These mills rely heavily on fresh fruit bunches purchased on the open market and often do not have corporate purchasing policies or checks in place for legality and sustainability concerns.'

And on the importance of western markets:

'...growers are catering to rapidly growing import markets in China and India, which place much less focus on environmental and social principles, compared to western markets.'

### **Difficulties for smallholders**

The research also bears out the reluctance of oil palm growers in Indonesia to take on sustainability commitments and certification standards.

The basic and overarching problem is simple: cost. This is now a generally accepted point in the debate. Certification is expensive, and small farmers can't afford it without assistance from aid agencies or other groups.

Failing that, more NGOs have called for greater certification by the Roundtable for Sustainable Palm Oil (RSPO). The problem there is that demand for, and uptake of, RSPO-certified palm oil is approximately 50%.

Why is uptake so low? First, there is almost zero consumer demand, at least in some parts of Europe. Second, because the demand is not there; there is no premium that can be offered to producers; so there is zero incentive for small farmers to sign up to certification initiatives such as that of RSPO.

What few people have suggested is that there should be attempts to make certification cheaper. It could be argued that some western companies are already attempting this via support for small farmer initiatives. But this misses the point, as these schemes only serve western markets.

### **Cost-effective solution**

There is a better way: national standards. The Malaysian Sustainable Palm Oil (MSPO) standard is the best example of this. It implements government sustainability policy consistent with broader national sustainability goals. It is cost-effective because it has to be. It also articulates the balance between social, economic and environmental concerns.

One of the key differences between RSPO and conventional international standards is that the RSPO is a private body which is not subjected to legislative checks and balances. As a body, it effectively decides who is and isn't accredited to audit a standard, while developing the standard itself. That is not how standards are formed or work in practice.

Standards development and accreditation are distinct and separate processes at both national and international levels. This is why, for example, a tyre maker can make tyres according to an official standard without having to be a member of a tyre-producing body.

So, producers don't have to pay membership fees; they only pay audit

fees. It also means that auditors can be competitive without cutting corners, as they need to maintain their credibility via a separate accreditation process.

But one of the reasons that NGOs remain wedded to the RSPO is that it is weighted towards western interests.

The CIFOR report states:

'The majority of motions submitted by the growers target the governance of [the] RSPO, generally requesting better representation of their needs. Private sustainability standards, with their origins or leadership in Europe or America, may be perceived as a new manifestation of western control, as reported by four of our key informants.'

One of the problems with the western environmental movement is that it has taken on a moral position that is generally fixed.

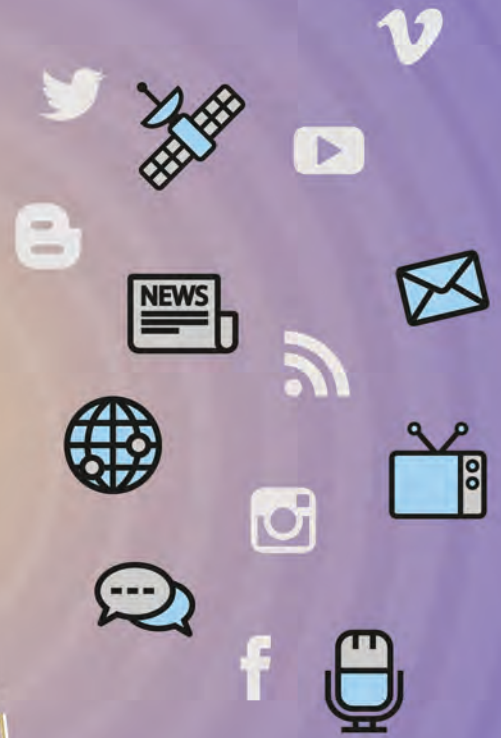
CIFOR's report on sustainability demonstrates that if the movement is genuinely interested in improving environmental outcomes, it needs to dispense with the notion that tougher, more expensive standards are always better.

It needs to accept that solutions developed on the ground – such as the MSPO standard – will provide an improvement. And that any improvement is better than no improvement.

MPOC



*reflections*  
*reaction* *concepts*  
*viewpoint* *news*  
*opinion*  
*ideas* *principles*  
*comments*  
*suggestions*



# The Message versus the Media

*Manage brand-building*

One of the most common mistakes some industries make in branding is to spend too much time working on what message to send out, and not enough time on selecting the right medium with which to send that message.

Habits also kick in as to what medium or media to use; the years roll by and the brand declines without anybody taking much notice. Markets and audiences change, but organisations stay with the same old promotion methods in the same old media. I have found that the oils and fats industry suffers with this more than many others.

In wanting to build their brand, few industries realise that a 'half-okay' message in a hot medium with a lot of traffic will have a lot

more traction (as marketers say) than a super 'bang on' message in a tired old medium that nobody bothers with any more.

But many are stuck on the 'what' of a message and spend little time on the 'how', which is far more important for these reasons:

- If something is scappily written, we often won't bother reading it, let alone pass an opinion as to whether it's any good in the first place.
- If something looks appealing, we are more likely to give it more of our attention. That can cover anything from what makes us want to read a book, to what makes us want to listen to a person.

When it comes to a person, the phenomenon is so common that psychologists have a term for it: 'the halo effect', where we are more likely to believe or generally give extra credibility to someone who is good looking.

When you talk to enough people on their preferences with media, the range is very broad. Also, there's not a whole lot of logic in how preferences are arrived at. In many ways it parallels food preferences. Sometimes there's a practical easy-to-understand reason for a preference, but often there isn't. It can be a general impression of aesthetics or something even more whimsical.

If you think the answer is to focus on which new social media to use for communications – email, LinkedIn or Facebook, for example – it's more complicated than that. Some people have stopped with social media altogether.

For most of human history, there has really been one technology for the media: the printed word. But a hundred years

ago, that changed with more technologies: radio, TV, PCs, the Internet, smartphones and now tablets.

And the number keeps on growing – it's not as if one medium falls into disuse because a new one comes along. It's a pluralistic word.

### **Other areas of life**

In many areas of human activity, it's easy to get stuck on 'the thing', rather than to pay attention to 'how easy' or 'how appealing' is 'the how' of doing 'the thing'.

One stark example is the topic of suicide. One of the biggest drops in the suicide rate of the UK was in the late 1960s and early 1970s, and it was of the order of 20%. Why? Had Brits become more cheerful? Nope, big things like wars and economic ups and downs were ticking along about the same.

The big change was the conversion of the gas supply from town gas, with its fatal levels of carbon monoxide, to natural gas. That meant the quick and easy suicide

method of sticking one's head in an oven was no longer available and some other method was needed.

When something becomes harder to do (and we're talking about a difference of a few minutes in this case), people do less of it.

It's a similar story with the rise in the use of remote controls for television sets. Just a few decades ago, remote controls were not standard items. The argument was so simple: how lazy have people got to be in order to not get out of a seat and change channels?

And one simple fact should have settled it: a remote control costs money and needs batteries as well. This means more money and, on top of that, batteries are bad for the environment. Still, it's near enough impossible to find a television set today that will work without a remote.

### **So what do you do?**

With so much change in the world of communications technology, there's some comfort to be got from the fact that many of the old key messages of branding still apply, with the big one being: track.

You've got to track all of your various media operations, with the obvious ones being:

- Number of visits to your website
- Number of views on YouTube videos
- Number of 'likes/dislikes' on Facebook postings



In the 1950s, the main branding budgets went on radio and newspaper adverts; but, in a campaign, it was really hard work to figure out what activities worked and what didn't. Back then brand building was a strange cocktail of focus groups, statistical estimating and guesswork.

Now it's all so much easier. With all of the three examples mentioned, you can get real-time data and, often, from large population groups.

The final step is to analyse numbers. Generally, there are three categories you need with building a brand:

1. Input measures – what you put in is usually in two categories: money and time.
2. Activity measures – this is the first measure of the results of inputs and include tangible results of efforts such as TV ads made, TV ads aired, number of column-inches in a newspaper, number of words in a magazine article or number of hits on YouTube.

Sample Analysis of Brand-campaign Outcomes			
Medium	Money Spent	Hours Spent	Result Obtained
Newspaper 1			
Newspaper 2			
Magazine 1			
Magazine 2			
YouTube Video 1			
YouTube Video 2			
Facebook			

3. Output measures – or the actual result. In the case of a business, that would be sales profits.

Needless to say, very few organisations look deeply at all three, and a depressingly large number look at just the first two. To do all three perfectly across a range of media is near enough an impossible job, but just a rudimentary analysis could be highly valuable (see Box).

This gets easier to manage if you can blend the 'spent' items into one number

with a '\$ per hour' rate. Even if it's an approximate number, a '\$ per customer got' for all your various media activities can be a massive upgrade to managing your brand-building.

Dr Ian Halsall  
Author & Researcher

ANALYTICS

BIG DATA





# Why Blend Oils?

*It helps balance dietary needs*

Oils and fats provide about 9 kcal/g of metabolisable energy compared to 4 kcal/g from protein or carbohydrates. In addition to their caloric and nutritional value, oils and fats carry, enhance and release the flavours of other foods, as well as increase palatability. Oils and fats are a good carrier of Vitamins A, D, E and K with excellent bioavailability.

Polyunsaturated fatty acids (PUFA) cannot be synthesised in the body; therefore, oils and fats provide an excellent source of these essential fatty acids (EFA). Saturated and monounsaturated fatty acids are also very important for several vital functions of the body.

For these reasons, oils and fats and different types of fatty acids should now be considered key nutrients that affect early growth and development, as well as nutrition-related chronic diseases later in life.

Oils and fats are structural bodily components; they are involved in vital physiological processes, including growth, development, inflammation and brain function. Combinations of lipid and protein (lipoproteins) are important cellular constituents, occurring both in the cell membrane and in the mitochondria, and further serve as a means of transporting lipids in the blood.

Globally, the nine major oils consumed are palm, soybean, rapeseed, sunflower, peanut, palm kernel, cottonseed, coconut and olive oils. Various other oils and fats are also consumed depending on local priorities and availability. All the dietary oils and fats are composed of a mix of polyunsaturated, monounsaturated and saturated fatty acids.



Omega-6 and Omega-3 fatty acids are essential fatty acids commonly known as PUFA; their deficiency may cause several health problems like cardiovascular disease, diabetes, cancer and age-related functional decline.

High amounts of Omega-6 fatty acids, namely linoleic acid (LA), are present in corn, soybean, sunflower, safflower, cottonseed and sesame oils among others. Omega-3 fatty acids, namely linolenic acid (LnA), are found in select sources like flax seed, soybean and mustard oils.

Fish oil is a unique source of long chain Omega-3 fatty acids, namely eicosapentaenoic acid (EPA) and docosahexaenoic acid (DHA). Over the last decade, some algal oils have been produced as a source of EPA and DHA.

EFA, namely LA and LnA, are involved in many physiological processes and vital functions such as blood clotting, wound healing and inflammation; they also convert to longer chain fatty acids like arachidonic acid, EPA and DHA. They are further converted to compounds such as prostaglandins, thromboxanes, lipoxin, resolvins and leukotrienes, with hormone-like or inflammatory properties.

PUFA are known for lowering blood total and LDL-cholesterol and slightly increasing HDL-cholesterol. Monounsaturated fatty acids (MUFA) are found in olive, canola, peanut, rice bran, mustard, high oleic sunflower and soybean oils, and are part of animal fats such as chicken, pork and

beef. MUFA have a blood total and LDL-cholesterol-lowering effect.

Saturated fatty acids (SFA) are found in the greatest amounts in palm, coconut and palm kernel oils, as well as in cocoa butter, butter and animal fats like beef, pork and chicken. SFA increase blood total, LDL-cholesterol and HDL-cholesterol concentrations and decrease fasting triglyceride concentrations.

### **What fatty acids do**

The fatty acids in oils and fats not only dictate the nutritional properties but also the physical characteristics. The unsaturated fatty acid content of vegetable oils determines their fluidity and other physical and chemical properties of relevance to the food industry.

Oils rich in MUFA are preferred for frying as they are more heat resistant. Oils and fats rich in SFA exhibit higher solid fat content, a property that is required in some food applications (like consistency of fat spreads or formation of layers in pastry), in addition to frying applications.

Oils and fats can also be fingerprinted based on specific nutritional components. For example, palm and rice bran oils

contain tocotrienols; palm oil contains beta carotene; rice bran oil contains oryzanol; sesame oil contains lignans; soybean oil contains gamma tocopherols; and sunflower oil contains alpha tocopherols. Several oils are projected as healthy oils based on the presence of these nutritional components.

### **Advice on dietary fat**

The UN Food and Agricultural Organisation (FAO), World Health Organisation (WHO), US Department of Agriculture, EURODIET, Spain, Germany, UK, the Netherlands, Australia, New Zealand and India are among organisations or countries that offer recommendations on consumption of total fat, SFA, MUFA and PUFA as a part of dietary guidelines.

It is important to keep in mind that these dietary reference values are derived for population groups and not for individuals, whose needs vary depending on personal and lifestyle-related factors. Recommendations vary considerably because some authorities focus on avoiding deficiencies, while others aim to prevent chronic diseases.

One challenge is to translate research findings for different health-related outcomes – such as heart disease, cancer or mortality, with varying consumption levels being beneficial or harmful – to population-based recommendations.

Most organisations, including the FAO and WHO, place the required total dietary fat intake in adults at between 20-35%E. They advise that 20-35% of the total daily energy intake should come from dietary sources of oils and fats. The upper limit for fat intake is to ensure that people do not consume too many daily calories as fat, since it is the most energy-dense macronutrient.

In general, normal-weight women/men should aim for daily energy equivalent of about 2,000-2,500 kcal; of this, they should consume 20-35%E from total oils and fats, which is equivalent to 44-78gm/55.5-97gm of oils and fats.

But there is a parallel need to consider the intake of invisible oils and fats. These are consumed via nuts, vegetables, sweets, snacks, ice cream, pickles, baked goods, coconut, meat, cheese, cream, milk and cereals.

The small amounts of invisible oils and fats add up to a substantial level in the daily diet – up to at least 15gm in the rural population and 30gm among urban middle-income and high-income groups in India, according to the National Institute of Nutrition in Hyderabad. This figure may vary from country to country depending on food consumption habits.

According to some health organisations, the recommended daily intake of visible



oils and fats is about 25gm for a sedentary adult male and about 20gm for a sedentary adult female. However, this should be adjusted to take into account the intake of invisible oils and fats.

### Fatty acid requirements

The recommendations for total fat intake are subdivided for specific fatty acids. Several organisations suggest keeping SFA consumption below 10%E.

However, a meta-analysis published in the *British Medical Journal* in 2015 found no association between high levels of saturated fats in the diet and coronary heart disease

(CHD); and no association was found between saturated fat consumption and other life-threatening diseases like stroke or type 2 diabetes.

It is trans fats that are associated with all-cause mortality, total CHD and CHD mortality. Due to this, the recommendation is to restrict intake to below 1%E.

The recommended PUFA intake ranges between 5% and 12%E. However, some set recommendations for specific PUFA including Omega-3 fatty acids like ALA, EPA and DHA; and Omega-6 fatty acids like LA and, in some cases, also arachidonic acid.

The recommendation for LA (Omega-6) is about 1-10%E, with the FAO/WHO advising 2.5-9%E. For ALA (Omega-3), the recommendation is 0.2-2%E, with the FAO/WHO advising about 2%E. For EPA/DHA, most organisations recommend 0.25-2gm per day.

The majority of dietary recommendations do not have specific advice for MUFA, although there is an indication of 10-20%E by the FAO.

### Finding the right balance

All the fatty acids should be consumed in a balanced manner to prevent deficiency symptoms. Unfortunately, no single vegetable oil or fat can meet all the nutritional and dietetic requirements with a well-defined fatty acid balance.

The solution lies in the blending of oils to provide the proportionate requirements of SFA, MUFA and PUFA. One of the best combinations to obtain the required balanced fatty acid composition could be palm oil and soybean oil in equal proportions.

Soybean oil provides Omega-3 fatty acids. Palm oil contains 40-45% SFA (palmitic acid), 35-40% MUFA (oleic acid) and about 10% PUFA (linoleic acid). Whenever MUFA- or PUFA-rich oils have to be balanced with SFA, palm oil is the only optimum source of SFA. It is also a natural substitute for hydrogenated oils that create trans fats.



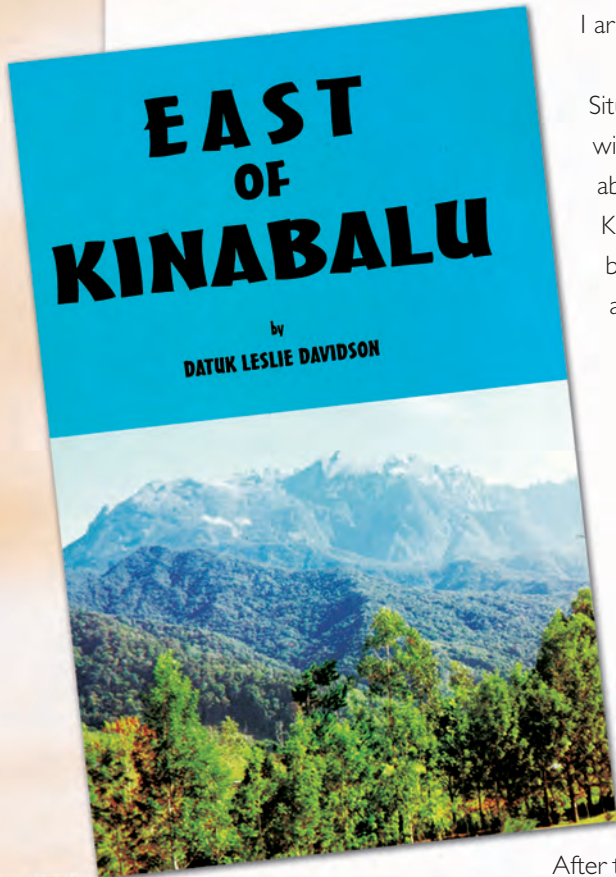
In addition, palm oil contains unique nutraceuticals such as beta carotene and tocotrienols along with tocopherols and squalene. Tocotrienols are isomers of Vitamin E and are known to exhibit powerful antioxidant properties with anti-inflammatory effects. They also impact lipid metabolism via a key regulatory enzyme.

Dr RBN Prasad

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# The Balanini Pirates, Part 1

## Brutal times



The Superintendent of Police in Sandakan had warned me, shortly after I arrived, that Tungud would be an obvious target for Filipino pirates.

Situated as we were on a navigable river running into the Sulu Sea, without a single policeman between us and the Philippines, there was absolutely nothing, he said, to stop a pirate perahu slipping up the Klagan River under cover of darkness, attacking the estate and getting back to the Philippines before anyone in Sandakan knew anything about it.

The police concern was understandable. Throughout the 1960s, Sulok pirates were a constant scourge along the east coast of Borneo. Cases of piracy were on the increase in the Sulu Sea and in the rivers and bays around us. The *North Borneo Annual Report* for 1962 stated:

'Piracy around the northeast coast increased, with 97 cases reported against 42 cases in 1961. There were 8 killings and 45 were wounded or missing. The Police and the Navy obtained convictions against 4 pirate crews consisting of 32 men. In all cases heavy penalties were imposed.'

After the family joined me, the possibility of a pirate attack was very much to the forefront of my mind. The most likely targets for a raid would be the money in the office safe and, of course, the goods in the estate shops. I arranged that in the event of an attack, Olive and the children would be taken to a hut on a hill far back from the river bank, where they were not likely to be bothered.

Our first encounter with the pirates was one afternoon just before the start of the northeast monsoon. Catriona and Fiona, with the two bullmastiffs, had as usual come to the office to meet me. The two dogs had by now grown to their full size. The male, Jonah, was huge. He was a red colour and the bitch, Alex, was fawn.

The girls were playing on the veranda of my office overlooking the river, when the dogs started to bark furiously.

"Daddy, there's a boat coming up the river with a lot of people on it," Catriona told me. I looked out. A large, black, sinister-looking Filipino kumpit with 15 or 20 villainous-looking characters on the deck, was

gliding in to the office jetty. There was no question but that they were Suloks.

I dived for my Colt automatic which I kept locked in the drawer of my desk. I slipped a full magazine into it and stuck it in my belt, hidden under my shirt. I shouted to my secretary to take the girls back to the house, and to collect Olive and take them all up to the hut.

The two dogs galloped down to the jetty barking furiously. One Sulok who had jumped ashore to tie up, took one look at them, shouted, "*Rimau!*" (Tiger) and leapt off, missing the kumpit in his haste and landing with a splash in the river.

### **'Fishers of men'**

The islands of the Sulu Sea and the east coast of Borneo had been centres of pirate activity for many years. Up until the early years of the 16<sup>th</sup> century, the inhabitants of the area were mainly hard-working fishermen, scraping out a living from the surrounding seas.

However, the insatiable European demand for spices and other tropical produce, encouraged western traders and adventurers to venture into the area in increasing numbers.

The Muslim state of Sulu, which encompassed the area between Mindanao and the east coast of North Borneo, became a rich and powerful trading centre. The Sultan was able to play off one European nation against another. Merchants from the west were happy to provide him with guns, gunpowder, cannon and opium, in return for spices and other high-value produce.

At the same time, there was a great demand for slaves to work in the rapidly expanding Spanish-owned sugar estates in Luzon and northern Mindanao. Conditions were ripe for piracy. The Suloks, who were already proficient sailors, were

now armed to the teeth. They became, as one author put it, "fishers of men". The slave trade brought them great wealth.

There were several tribes in the area controlled by the Sultan of Sulu. The two most war-like of the Sulok peoples were the Illanun and the Balanini, and they became the most ferocious of the pirates who preyed on shipping in the eastern seas.

As the two tribes became richer and more powerful they expanded the range of their activities. Huge fleets of fighting perahu were sent out on voyages around the Indonesian archipelago, searching for booty and slaves.

A round-voyage could last anything up to three years. It could take them around New Guinea, past Bali and Java, as far as the Bay of Bengal, and back through the Straits of Malacca and Singapore. They established heavily defended forts throughout the area. One of their main forts was to the north of the Labuk, in Marudu Bay. This was the area where the *Dolphin* had been captured and Robert Burns beheaded, in 1851.

As a general rule, the Illanun activities tended to extend through Brunei, Sarawak and the Malay peninsula, while the Balanini raids were mainly along the south coast of Borneo and on down through the Indonesian islands. This is reflected to this day in the respective languages. The word 'Illanun' is a synonym for 'pirate' in the north of Borneo, while in Kalimantan the word the locals tend to use is 'Balanini'.

There could be as many as a hundred heavily-armed perahu in a pirate fleet. Each perahu had a cannon mounted in front. Its crew consisted of anything up to 80 warriors. They were fearless fighting men. They carried long swords and they dressed in bright scarlet jackets.

The fighting perahu were fast and mobile. Their sails were augmented by a bank of up to a hundred oars manned by slaves. This meant that they could sail against the wind. They could easily out-manoeuvre European sailing ships.

The pirates had no qualms about attacking any merchant ship they came across in their travels. Their main prey was of course the Spanish to the north. Dozens of Spanish ships were captured, and on average, 500 Spaniards were taken into slavery every year.

### **End of dominance**

For nearly 200 years, the Balanini and the Illanun were the Vikings of the eastern seas, feared throughout the whole of Southeast Asia.

No ship, village or even town was safe from attack. In the early 1800s, at the height of piracy, many European ships – British, Dutch and, of course, Spanish – were captured. Questions were asked about this in the British Parliament, and the government was repeatedly asked to do something about it.

Owen Rutter in his marvellous book *Pirate Wind* tells of one instance in 1806, when a Dutch merchant ship was captured by an Illanun squadron in the Straits of Banca. The officers were killed and the crew sold into slavery. The Dutch immediately despatched an armed war-cruiser, the *De Vrede*, to carry out reprisals. The *De Vrede* was itself captured by the pirates, and again its officers were brutally massacred.

The end of the great pirate fleets came about mainly as a result of the introduction of steamships. No longer dependent on sail-power, these new European ships could now sail against the wind. They could outrun, outgun and outfight the war canoes.

The British, in reprisals for the beheading of Robert Burns, sent a naval force which wiped out one of the last pirate strongholds in North Borneo.

The end of Balanini dominance in the region came in 1848, when Spanish warships from Manila attacked the island of Balanini. It was at a time when most of the warriors were away on an expedition.

The Spaniards massacred most of the population and banished the remainder to an island far to the north. They burned every house on the island to the ground and cut down every coconut tree. It was rendered uninhabitable.

When the Balanini warriors returned from their raiding expedition they dispersed throughout the Jolo archipelago. The fate of the Illanun was very similar. Since their dispersal, they have continued their piratical activities, but on a smaller scale.

One Spanish naval captain reported that, whereas previously there were two or three fleets with a hundred perahu in each, now there were a hundred fleets with only two or three perahu in each. This made them very elusive. This situation has continued right to the present day.

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*



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