

THE PALM OIL INDUSTRY, EXPORT TRADE AND FUTURE TRENDS*

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INTRODUCTION

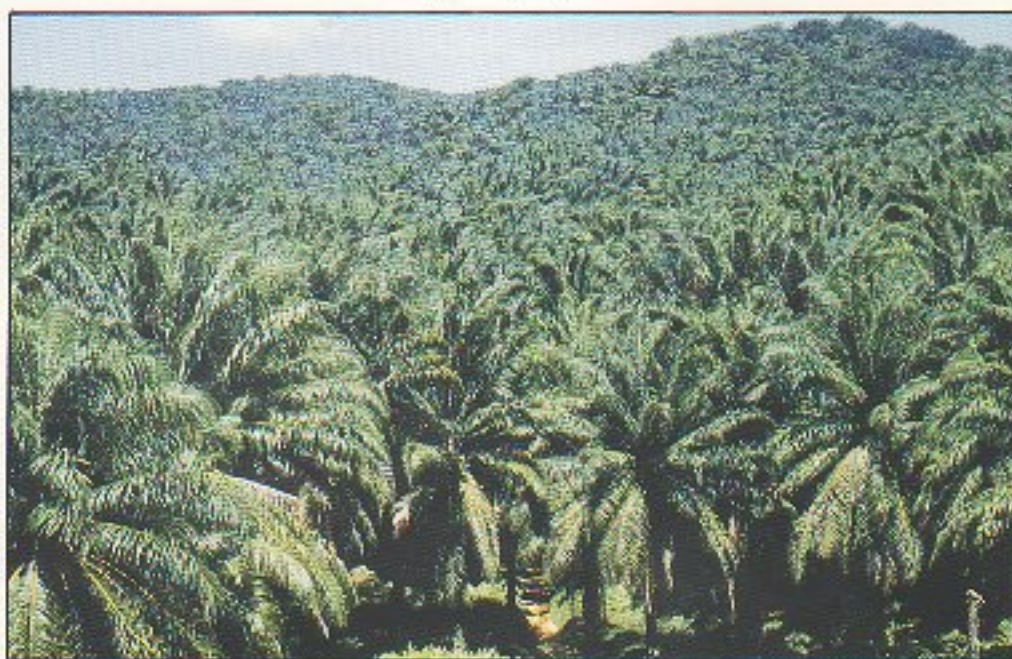
Palm oil contributes significantly in supplying the world's requirement for oils and fats. Total production in 1990 was 10.55 million tonnes and this accounted for 13.2% of the world's total oils and fats output of 79.7 million tonnes. Palm oil together with soyabean, rapeseed and sunflowerseed oils are often recognized as the big four in the oils and fats trade as the total production of these oils - 16.26 million tonnes for soyabean oil, 8.02 million tonnes for rapeseed oil and 7.85 million tonnes of sunflowerseed oils - accounted for 72.7% of the 58.5 million tonnes of major vegetable oils produced in 1990. About 26.52 million tonnes or one-third of world production of oils and fats enter the import-export trade, where palm oil leads the other oils with a 31.5% share of the market.

The workings of the oils and fats trade are influenced by a complex inter-relationship of the demand and supply of not only the seventeen major oils and fats but also their co-products: the meals and further processed oils and fats.

Thus, changes in the supply and demand for feedmeal arising from any imbalance in the meat or dairy producing industry may have an impact on the world oils and fats market. Many of the oils are interchangeable in their end uses, and in addition, there exist processing techniques which can increase such interchangeability.

As a result of the highly versatile approach in securing the supply of oils and fats, trade in these commodities has remained at a high level. Both the developed and

A view of an oil palm plantation



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for both edible and non-edible applications, have been at a discount to their respective competing equivalents. For instance, palm stearin has consistently been cheaper than tallow, while palm oil and palm olein have been cheaper than soyabean oil.

Since the world imports some 7.5 million tonnes of palm oil, importing countries are able to save on costly oilseed cultivation. The equivalent

land area to produce 7.5 million tonnes of oil from oilseeds is 16 million hectares. Thus, because of palm oil imports during 1991, India, Pakistan and China are able to "save" one million hectares, 1.4 million hectares and two million hectares of land respectively from oilseed cultivation, and use them for much needed cereal crops. Similarly, during 1990 importation of palm oil provided huge savings to the European Community

countries as there was no need to subsidize 1.56 million tonnes of oil, made available through palm oil imports. More interestingly, it can also be shown that consuming countries benefit from the research efforts put in by the Malaysian palm oil industry. R&D has enhanced productivity, and the benefits of competitive prices are shared by both producers and consumers.

Export of palm oil : a port scene



Table 5: Instability Indices (I.I.) for Palm Oil and Soyabean Oil

Monthly Data	Prices Instability Indices		Export Instability Indices	
	CPO	SBO	CPO	SBO
1984 - 1990	20.56	23.35	33.64	51.83
1985 - 1990	19.79	23.80	32.07	53.52
1986 - 1990	19.57	25.48	30.56	54.29
1987 - 1990	16.63	27.06	32.28	58.19
1988 - 1990	14.68	30.19	32.08	44.20
1989 - 1990	13.76	34.78	34.29	45.62

Note: I.I. Computed from Coppock's method of the formula:

$$Vlog = \frac{100}{n-2} \sum (\log \frac{x_{t+1}}{x_t} - m)^2$$

Where x_t represents the value of variable in year t ; n represents the number of month; m represents arithmetic mean of the differences between the logs of x_t and x_{t+1} , x_{t+1} and x_{t+2} and so on, and $Vlog$ represents the logarithmic variance of the series.

$$I.I. = Antilog \quad Vlog \times 100$$

PRICE AND EXPORT STABILIZER

Palm oil also serves as the stabilizer in the oils and fats sector. Using Coppocks logarithmic variance method to measure instability, and using monthly price data for crude palm oil and soyabean oil, it can be seen that the price of palm oil is more stable than that of soyabean oil (Table 5). For instance, the price instability index (PII) for palm oil is 20.56 against that of soyabean oil at 23.25 during 1984 - 1990. As shorter time series of monthly price data were used, the price of soyabean oil becomes even more unstable compared to that of palm oil. Similarly, it can be seen that the exports of CPO, using monthly export data is more stable than that of soyabean oil. The export instability index for CPO is 33.64 against 51.83 for SBO during 1984 - 1990. This suggests that palm oil plays a useful role as it exerts a price stabilizing influence for the markets where the two oils dominate.



CONCLUSIONS

The rapid expansion of palm oil production in Malaysia and other exporting countries has contributed in improving the availability of oils and fats in the world market. Palm oil has become an attractive oil to import because of the diversity and versatility of the different forms to suit various edible and non-edible applications. The benefits accruing extend beyond direct financial savings from the lower prices of palm oil products. Countries importing palm oil are able

to avoid their own costly cultivation of oilseeds and instead reserve their land for the cultivation of other more essential food crops.

Most of the world's production of palm oil is exported. This implies that palm oil, being economically competitive, is especially suitable to be produced for the export market. However, only 20% - 30% of the retail value of the oil is retained in the producing countries. Importing

countries thus enjoy even more benefit from the palm oil trade. In this regard, consuming countries may have to take on a greater share of the responsibility of ensuring the continued development of the palm oil trade. Nevertheless, it is projected that palm oil will continue to serve the needs of a broad cross-section of world consumers, especially in making a contribution to the availability of oil for adequate nutrition in many oils and fats deficient countries.

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