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OMB NO. 1124-0002; Expires February 28, 2014

U.S. Department of Justice
Washington, DC 20530

# Supplemental Statement
# Pursuant to the Foreign Agents Registration Act of 1938, as amended

For Six Month Period Ending 6/30/2011
(Insert date)

## I - REGISTRANT

1. (a) Name of Registrant

American Palm Oil Council

(b) Registration No.

4575

(c) Business Address(es) of Registrant
1010 Wisconsin Avenue, NW
Suite 307
Washington, DC 20007

2. Has there been a change in the information previously furnished in connection with the following?

(a) If an individual:

| | | |
|---|---|---|
| (1) Residence address(es) | Yes ☐ | No ☐ |
| (2) Citizenship | Yes ☐ | No ☐ |
| (3) Occupation | Yes ☐ | No ☐ |

(b) If an organization:

| | | |
|---|---|---|
| (1) Name | Yes ☐ | No ☒ |
| (2) Ownership or control | Yes ☐ | No ☒ |
| (3) Branch offices | Yes ☐ | No ☒ |

(c) Explain fully all changes, if any, indicated in Items (a) and (b) above.

**IF THE REGISTRANT IS AN INDIVIDUAL, OMIT RESPONSE TO ITEMS 3, 4, AND 5(a).**

3. If you have previously filed Exhibit C[1], state whether any changes therein have occurred during this 6 month reporting period.

Yes ☐ No ☒

If yes, have you filed an amendment to the Exhibit C? Yes ☐ No ☒

If no, please attach the required amendment.

1 The Exhibit C, for which no printed form is provided, consists of a true copy of the charter, articles of incorporation, association, and by laws of a registrant that is an organization. (A waiver of the requirement to file an Exhibit C may be obtained for good cause upon written application to the Assistant Attorney General, National Security Division, U.S. Department of Justice, Washington, DC 20530.)



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4. (a) Have any persons ceased acting as partners, officers, directors or similar officials of the registrant during this 6 month reporting period?

Yes ☐ No ☒

If yes, furnish the following information:

| Name | Position | Date Connection Ended |
|---|---|---|

(b) Have any persons become partners, officers, directors or similar officials during this 6 month reporting period?

Yes ☐ No ☒

If yes, furnish the following information:

| Name | Residence Address | Citizenship | Position | Date Assumed |
|---|---|---|---|---|

5. (a) Has any person named in Item 4(b) rendered services directly in furtherance of the interests of any foreign principal?

Yes ☐ No ☒

If yes, identify each such person and describe the service rendered.

(b) During this six month reporting period, has the registrant hired as employees or in any other capacity, any persons who rendered or will render services to the registrant directly in furtherance of the interests of any foreign principal(s) in other than a clerical or secretarial, or in a related or similar capacity? Yes ☐ No ☒

| Name | Residence Address | Citizenship | Position | Date Assumed |
|---|---|---|---|---|

(c) Have any employees or individuals, who have filed a short form registration statement, terminated their employment or connection with the registrant during this 6 month reporting period? Yes ☐ No ☒

If yes, furnish the following information:

| Name | Position or Connection | Date Terminated |
|---|---|---|

(d) Have any employees or individuals, who have filed a short form registration statement, terminated their connection with any foreign principal during this 6 month reporting period? Yes ☐ No ☒

If yes, furnish the following information:

| Name | Position or Connection | Foreign Principal | Date Terminated |
|---|---|---|---|

6. Have short form registration statements been filed by all of the persons named in Items 5(a) and 5(b) of the supplemental statement?

Yes ☐ No ☐

If no, list names of persons who have not filed the required statement.

N/A

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## II - FOREIGN PRINCIPAL

7. Has your connection with any foreign principal ended during this 6 month reporting period? Yes ☐ No ☒
If yes, furnish the following information:

| Foreign Principal | Date of Termination |
|---|---|

8. Have you acquired any new foreign principal(s)[2] during this 6 month reporting period? Yes ☐ No ☒
If yes, furnish th following information:

| Name and Address of Foreign Principal(s) | Date Acquired |
|---|---|

9. In addition to those named in Items 7 and 8, if any, list foreign principal(s)[2] whom you continued to represent during the 6 month reporting period.

Malaysian Palm Oil Promotion Council
Kuala Lumpur, Malaysia

10. (a) Have you filed exhibits for the newly acquired foreign principal(s), if any, listed in Item 8?

Exhibit A[3] Yes ☐ No ☐

Exhibit B[4] Yes ☐ No ☐

If no, please attach the required exhibit.

(b) Have there been any changes in the Exhibits A and B previously filed for any foreign principal whom you represented during this six month period? Yes ☐ No ☒

If yes, have you filed an amendment to these exhibits? Yes ☐ No ☒

If no, please attach the required amendment.

2 The term "foreign principal" includes, in addition to those defined in section 1(b) of the Act, an individual organization any of whose activities are directly or indirectly supervised, directed, controlled, financed, or subsidized in whole or in major part by a foreign government, foreign political party, foreign organization or foreign individual. (See Rule 100(a) (9)). A registrant who represents more than one foreign principal is required to list in the statements he files under the Act only those principals for whom he is not entitled to claim exemption under Section 3 of the Act. (See Rule 208.)

3 The Exhibit A, which is filed on Form NSD-3 (Formerly CRM-157) sets forth the information required to be disclosed concerning each foreign principal.

4 The Exhibit B, which is filed on Form NSD-4 (Formerly CRM-155) sets fourth the information concerning the agreement or understanding between the registrant and the foreign principal.

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## III - ACTIVITIES

11. During this 6 month reporting period, have you engaged in any activities for or rendered any services to any foreign principal named in Items 7, 8, or 9 of this statement? Yes ☒ No ☐

If yes, identify each foreign principal and describe in full detail your activities and services:

SEE ATTACHMENT #1

12. During this 6 month reporting period, have you on behalf of any foreign principal engaged in political activity[5] as defined below?
Yes ☐ No ☒

If yes, identify each such foreign principal and describe in full detail all such political activity, indicating, among other things, the relations, interests and policies sought to be influenced and the means employed to achieve this purpose. If the registrant arranged, sponsored or delivered speeches, lectures or radio and TV broadcasts, give details as to dates, places of delivery, names of speakers and subject matter.

13. In addition to the above described activities, if any, have you engaged in activity on your own behalf which benefits your foreign principal(s)? Yes ☐ No ☒

If yes, describe fully.

5 The term "political activity" means any activity that the person engaging in believes will, or that the person intends to, in any way influence any agency or official of the Government of the United States or any section of the public within the United States with reference to formulating, adopting or changing the domestic or foreign policies of the United States or with reference to political or public interests, policies, or relations of a government of a foreign country or a foreign political party.

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## IV - FINANCIAL INFORMATION

14. (a) **RECEIPTS-MONIES**

During this 6 month reporting period, have you received from any foreign principal named in Items 7, 8, or 9 of this statement, or from any other source, for or in the interests of any such foreign principal, any contributions, income or money either as compensation or otherwise? Yes ☒ No ☐

If no, explain why.

If yes, set forth below in the required detail and separately for each foreign principal an account of such monies.[6]

| Date | From Whom | Purpose | Amount |
|---|---|---|---|
| SEE ATTACHMENT #2 | | | |

$354,353.40
Total

(b) **RECEIPTS - FUNDRAISING CAMPAIGN**

During this 6 month reporting period, have you received, as part of a fundraising campaign[7], any money on behalf of any foreign principal named in Items 7, 8, or 9 of this statement? Yes ☐ No ☒

If yes, have you filed an Exhibit D to your registration? Yes ☐ No ☐

If yes, indicate the date the Exhibit D was filed. Date _____

(c) **RECEIPTS-THINGS OF VALUE**

During this 6 month reporting period, have you received any thing of value[9] other than money from any foreign principal named in Items 7, 8, or 9 of this statement, or from any other source, for or in the interests of any such foreign principal?

Yes ☐ No ☒

If yes, furnish the following information:

| Foreign Principal | Date Received | Thing of Value | Purpose |
|---|---|---|---|

6, 7 A registrant is required to file an Exhibit D if he collects or receives contributions, loans, moneys, or other things of value for a foreign principal, as part of a fundraising campaign. (See Rule 201(e)).

8 An Exhibit D, for which no printed form is provided, sets forth an account of money collected or received as a result of a fundraising campaign and transmitted for a foreign principal.

9 Things of value include but are not limited to gifts, interest free loans, expense free travel, favored stock purchases, exclusive rights, favored treatment over competitors, "kickbacks," and the like.

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15. (a) **DISBURSEMENTS-MONIES**

During this 6 month reporting period, have you

(1) disbursed or expended monies in connection with activity on behalf of any foreign principal named in Items 7, 8, or 9 of this statement? Yes ☒ No ☐

(2) transmitted monies to any such foreign principal? Yes ☒ No ☐

If no, explain in full detail why there were no disbursements made on behalf of any foreign principal.

If yes, set forth below in the required detail and separately for each foreign principal an account of such monies, including monies transmitted, if any, to each foreign principal.

| Date | To Whom | Purpose | Amount |
|---|---|---|---|
| SEE ATTACHMENT #3 | | | |

$326,877.19
Total

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(b) **DISBURSEMENTS-THINGS OF VALUE**

During this 6 month reporting period, have you disposed of anything of value[10] other than money in furtherance of or in connection with activities on behalf of any foreign principal named in Items 7, 8, or 9 of this statement?

Yes ☐ No ☒

If yes, furnish the following information:

| Date | Recipient | Foreign Principal | Thing of Value | Purpose |
|---|---|---|---|---|

(c) **DISBURSEMENTS-POLITICAL CONTRIBUTIONS**

During this 6 month reporting period, have you from your own funds and on your own behalf either directly or through any other person, made any contributions of money or other things of value[11] in connection with an election to any political office, or in connection with any primary election, convention, or caucus held to select candidates for political office?

Yes ☐ No ☒

If yes, furnish the following information:

| Date | Amount or Thing of Value | Political Organization or Candidate | Location of Event |
|---|---|---|---|

10, 11 Things of value include but are not limited to gifts, interest free loans, expense free travel, favored stock purchases, exclusive rights, favored treatment over competitors, "kickbacks" and the like.

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## V - INFORMATIONAL MATERIALS

16. (a) During this 6 month reporting period, did you prepare, disseminate or cause to be disseminated any informational materials?[12]
Yes ☒ No ☐

If Yes, go to Item 17.

(b) If you answered No to Item 16(a), do you disseminate any material in connection with your registration?
Yes ☐ No ☐

If Yes, please forward the materials disseminated during the six month period to the Registration Unit for review.

17. Identify each such foreign principal.
Malaysian Palm Oil Promotion Council

18. During this 6 month reporting period, has any foreign principal established a budget or allocated a specified sum of money to finance your activities in preparing or disseminating informational materials? Yes ☐ No ☒

If yes, identify each such foreign principal, specify amount, and indicate for what period of time.

19. During this 6 month reporting period, did your activities in preparing, disseminating or causing the dissemination of informational materials include the use of any of the following:

☐ Radio or TV broadcasts ☐ Magazine or newspaper ☐ Motion picture films ☐ Letters or telegrams
☐ Advertising campaigns ☐ Press releases ☒ Pamphlets or other publications ☐ Lectures or speeches
☐ Other *(specify)* _____

**Electronic Communications**

☐ Email
☐ Website URL(s): _____
☐ Social media websites URL(s): _____
☐ Other *(specify)* _____

20. During this 6 month reporting period, did you disseminate or cause to be disseminated informational materials among any of the following groups:

☐ Public officials ☐ Newspapers ☐ Libraries
☐ Legislators ☐ Editors ☐ Educational institutions
☐ Government agencies ☐ Civic groups or associations ☐ Nationality groups
☒ Other *(specify)* Trade Associations

21. What language was used in the informational materials:

☒ English ☐ Other *(specify)* _____

22. Did you file with the Registration Unit, U.S. Department of Justice a copy of each item of such informational materials disseminated or caused to be disseminated during this 6 month reporting period? Yes ☒ No ☐

23. Did you label each item of such informational materials with the statement required by Section 4(b) of the Act?
Yes ☐ No ☐

12 The term informational materials includes any oral, visual, graphic, written, or pictorial information or matter of any kind, including that published by means of advertising, books, periodicals, newspapers, lectures, broadcasts, motion pictures, or any means or instrumentality of interstate or foreign commerce or otherwise. Informational materials disseminated by an agent of a foreign principal as part of an activity in itself exempt from registration, or an activity which by itself would not require registration, need not be filed pursuant to Section 4(b) of the Act.

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## VI - EXECUTION

In accordance with 28 U.S.C. § 1746, the undersigned swear(s) or affirm(s) under penalty of perjury that he/she has (they have) read the information set forth in this registration statement and the attached exhibits and that he/she is (they are) familiar with the contents thereof and that such contents are in their entirety true and accurate to the best of his/her (their) knowledge and belief, except that the undersigned make(s) no representation as to truth or accuracy of the information contained in the attached Short Form Registration Statement(s), if any, insofar as such information is not within his/her (their) personal knowledge.

| (Date of signature) | (Print or type name under each signature or provide electronic signature[13]) | |
|---|---|---|
| August 01, 2011 | /s/ Mohamed Salleh Bin Mohd | eSigned |
| | | |
| | | |
| | | |

13 This statement shall be signed by the individual agent, if the registrant is an individual, or by a majority of those partners, officers, directors or persons performing similar functions, if the registrant is an organization, except that the organization can, by power of attorney, authorize one or more individuals to execute this statement on its behalf.

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**American Palm Oil Council**
Registration #4575
Reporting Period: January 1, 2011 to June 30, 2011.

Attachment #1

11. During this 6 month reporting period, have you engaged in any activities for or rendered any services to any foreign principal named in 7,8, and 9 of this statement?

Yes.

If yes, identify each such foreign principal and describe in full detail your activities and services.

During this 6 month period, the registrant has continued to represent Malaysia Palm Oil Promotional Council at various exhibits, conferences, meetings and seminars throughout the country.

| January 1 – June 30, 2011 | | |
|---|---|---|
| | | |
| **Date** | **Exhibitions/Conferences** | **Venue** |
| | | |
| February 6-9 | National Biodiesel Conference | Phoenix, AZ |
| | | |
| February 24-25 | USDA Agricultural Outlook Forum | Arlington, VA |
| | | |
| March 10-13 | Natural Products Expo West | Anaheim, CA |
| | | |
| March 13-15 | National Institute of Oilseed Products Annual Meeting | Scottsdale, AZ |
| | | |
| May 1-4 | American Oil Chemists' Society Annual Meeting | Cincinnati, OH |
| | | |
| May 21-24 | National Restaurant Association Show | Chicago, IL |
| | | |
| June 11-15 | Institute of Food Technologies Annual Meeting | New Orleans, LA |



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**American Palm Oil Council**
Registration #4575
Reporting Period: January 1, 20011 to June 30, 2011

Attachment #2

14. During this 6 month reporting period, have you received from any foreign principal named in Items 7,8, and 9 of this statement, or from any other source, for or in the interests of any such foreign principal, any contributions, income or money either as compensation or otherwise?

Yes.

| DATE | FROM | PURPOSE | AMOUNT |
|---|---|---|---|
| | | | |
| 01/05/2011 | MPOC | OPERATING FUNDS FOR JANUARY | $30,000.00 |
| 01/05/2011 | MPOC | OPERATING FUNDS FOR JANUARY | $30,000.00 |
| | | | |
| 02/01/2011 | MPOC | OPERATING FUNDS FOR FEBRUARY | $30,000.00 |
| 02/01/2011 | MPOC | OPERATING FUNDS FOR FEBRUARY | $30,000.00 |
| 02/09/2011 | SDBSB | EXHIBITION DEPOSITS | $5,474.00 |
| | | | |
| 03/01/2011 | MPOC | OPERATING FUNDS FOR MARCH | $25,000.00 |
| 03/01/2011 | MPOC | OPERATING FUNDS FOR MARCH | $25,000.00 |
| 03/04/2011 | MPOC | OPERATING FUNDS FOR MARCH | $25,000.00 |
| 03/25/2011 | MPOC | OPERATING FUNDS FOR MARCH | $20,000.00 |
| 03/25/2011 | MPOC | OPERATING FUNDS FOR MARCH | $20,000.00 |
| | | | |
| 04/05/2011 | MSK | NPEW 2011 ADVANCE HOTEL DEPOSITS | $920.78 |
| | | | |
| 05/02/2011 | PENTON | REFUND FOR DOUBLE PAYMENT | $2,000.00 |
| 05/18/2011 | MPOC | OPERATING FUNDS FOR MAY | $25,000.00 |
| 05/18/2011 | MPOC | OPERATING FUNDS FOR MAY | $25,000.00 |
| 05/27/2011 | MPOC | OPERATING FUNDS FOR MAY | $25,000.00 |
| 05/27/2011 | MPOC | OPERATING FUNDS FOR MAY | $25,000.00 |
| | | | |
| 06/03/2011 | MSK | DEPOSIT | $10,958.61 |
| | | | |
| | TOTAL FUNDS RECEIVED | | $354,353.40 |



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**American Palm Oil Council**
Registration #4575
Reporting Period: January 1, 2011 to June 30, 2011

Attachment #3

15. (a) During this 6 month reporting period, have you

(1) disbursed or expended monies in connection with activity on behalf of any foreign principal named in Items 7, 8, and 9 of this statement?

Yes.

(2) transmitted monies to any such foreign principal ?

Yes.

| MONTH | DESCRIPTION | AMOUNT |
|---|---|---|
| | | |
| JAN | SALARIES | $5,000.00 |
| | TAXES AND LEGAL DUES | $2,174.31 |
| | OFFICE AND HOUSING RENTALS | $9,203.96 |
| | OFFICE AND HOUSING PARKINGS | $240.00 |
| | OFFICE AND HOUSING UTILITIES | $511.15 |
| | TELEPHONE SERVICES | $391.65 |
| | OFFICE MACHINE - LEASE | $136.60 |
| | PRINTING / PRESS CLIPPINGS | |
| | OFFICE SUPPLIES | $190.68 |
| | TRAVEL | $1,464.00 |
| | COURIER SERVICES | $50.26 |
| | EXHIBITIONS | $1,350.00 |
| | ADMINISTRATION | $8,900.00 |
| | INSURANCE - HEALTH / BUSINESS | |
| | ASSOCIATION MEMBERSHIP | $108.08 |
| | SUBSCRIPTIONS | $57.02 |
| | POSTAGES | |
| | PETTY CASH | |
| | MISCELLANEOUS | $15,814.35 |
| | MEDIA RELATIONS INC | $109.22 |
| | | |
| | | |
| | | |
| | **TOTAL** | **$45,698.97** |
| | | |

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| MONTH | DESCRIPTION | AMOUNT |
|---|---|---|
| FEB | SALARIES | $5,000.00 |
| | TAXES AND LEGAL DUES | $2,116.00 |
| | OFFICE AND HOUSING RENTALS | $10,263.96 |
| | OFFICE AND HOUSING PARKINGS | $240.00 |
| | OFFICE AND HOUSING UTILITIES | |
| | TELEPHONE SERVICES | $375.89 |
| | OFFICE MACHINE - LEASE | $176.85 |
| | PRINTING / PRESS CLIPPINGS | |
| | OFFICE SUPPLIES | $386.15 |
| | TRAVEL | $215.00 |
| | COURIER SERVICES | $451.59 |
| | EXHIBITIONS | $11,262.89 |
| | ADMINISTRATION | $3,600.00 |
| | INSURANCE - HEALTH / BUSINESS | |
| | ASSOCIATION MEMBERSHIP | |
| | SUBSCRIPTIONS | |
| | POSTAGES | |
| | PETTY CASH | |
| | MISCELLANEOUS | $19,162.21 |
| | MEDIA RELATIONS INC | $2,472.75 |
| | **TOTAL** | **$55,723.29** |

| MONTH | DESCRIPTION | AMOUNT |
|---|---|---|
| MARCH | SALARIES | $5,000.00 |
| | TAXES AND LEGAL DUES | $2,116.00 |
| | OFFICE AND HOUSING RENTALS | $15,275.02 |
| | OFFICE AND HOUSING PARKINGS | $240.00 |
| | OFFICE AND HOUSING UTILITIES | $25.55 |
| | TELEPHONE SERVICES | $432.57 |
| | OFFICE MACHINE - LEASE | $164.44 |
| | PRINTING / PRESS CLIPPINGS | |
| | OFFICE SUPPLIES | $507.60 |
| | TRAVEL | $22,090.00 |
| | COURIER SERVICES | $115.14 |
| | EXHIBITIONS | $1,721.40 |
| | ADMINISTRATION | $3,600.00 |
| | INSURANCE – HEALTH / BUSINESS | $265.88 |
| | ASSOCIATION MEMBERSHIP | |
| | SUBSCRIPTIONS | |
| | POSTAGES | |
| | PETTY CASH | |





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| | | | |
|---|---|---|---|
| | MISCELLANEOUS | | $2,773.35 |
| | MEDIA RELATIONS INC | | $5,000.00 |
| | | | |
| | | | |
| | | | |
| | **TOTAL** | | **$59,326.95** |
| | | | |
| **MONTH** | **DESCRIPTION** | | **AMOUNT** |
| | | | |
| APRIL | SALARIES | | $5,000.00 |
| | TAXES AND LEGAL DUES | | $4,073.00 |
| | OFFICE AND HOUSING RENTALS | | $15,132.99 |
| | OFFICE AND HOUSING PARKINGS | | $240.00 |
| | OFFICE AND HOUSING UTILITIES | | $26.15 |
| | TELEPHONE SERVICES | | $395.24 |
| | OFFICE MACHINE - LEASE | | $165.57 |
| | PRINTING / PRESS CLIPPINGS | | |
| | OFFICE SUPPLIES | | $78.99 |
| | TRAVEL | | |
| | COURIER SERVICES | | $153.95 |
| | EXHIBITIONS | | $3,233.45 |
| | ADMINISTRATION | | $3,600.00 |
| | INSURANCE - HEALTH / BUSINESS | | |
| | ASSOCIATION MEMBERSHIP | | |
| | SUBSCRIPTIONS | | $63.12 |
| | POSTAGES | | $190.00 |
| | PETTY CASH | | |
| | MISCELLANEOUS | | $7,583.59 |
| | MEDIA RELATIONS INC | | $16,653.00 |
| | | | |
| | | | |
| | | | |
| | **TOTAL** | | **$56,588.95** |
| | | | |
| **MONTH** | **DESCRIPTION** | | **AMOUNT** |
| | | | |
| MAY | SALARIES | | $5,000.00 |
| | TAXES AND LEGAL DUES | | $2,141.00 |
| | OFFICE AND HOUSING RENTALS | | $15,132.99 |
| | OFFICE AND HOUSING PARKINGS | | $240.00 |
| | OFFICE AND HOUSING UTILITIES | | $48.98 |
| | TELEPHONE SERVICES | | $544.57 |
| | OFFICE MACHINE - LEASE | | $234.01 |
| | PRINTING / PRESS CLIPPINGS | | |
| | OFFICE SUPPLIES | | $558.74 |
| | TRAVEL | | |
| | COURIER SERVICES | | $47.86 |
| | EXHIBITIONS | | |





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| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | ADMINISTRATION | | | | | $3,600.00 |
| | | INSURANCE - HEALTH / BUSINESS | | | | | |
| | | ASSOCIATION MEMBERSHIP | | | | | |
| | | SUBSCRIPTIONS | | | | | |
| | | POSTAGES | | | | | |
| | | PETTY CASH | | | | | $200.00 |
| | | MISCELLANEOUS | | | | | $14,096.09 |
| | | MEDIA RELATIONS INC | | | | | $65.00 |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | **TOTAL** | | | | **$41,909.24** |
| | | | | | | | |
| **MONTH** | | **DESCRIPTION** | | | | | **AMOUNT** |
| | | | | | | | |
| JUNE | | SALARIES | | | | | $5,000.00 |
| | | TAXES AND LEGAL DUES | | | | | $2,116.00 |
| | | OFFICE AND HOUSING RENTALS | | | | | $15,132.99 |
| | | OFFICE AND HOUSING PARKINGS | | | | | $240.00 |
| | | OFFICE AND HOUSING UTILITIES | | | | | $13.87 |
| | | TELEPHONE SERVICES | | | | | $471.18 |
| | | OFFICE MACHINE - LEASE | | | | | $244.96 |
| | | PRINTING / PRESS CLIPPINGS | | | | | |
| | | OFFICE SUPPLIES | | | | | $305.62 |
| | | TRAVEL | | | | | |
| | | COURIER SERVICES | | | | | $69.30 |
| | | EXHIBITIONS | | | | | $1,782.52 |
| | | ADMINISTRATION | | | | | $3,600.00 |
| | | INSURANCE - HEALTH / BUSINESS | | | | | $459.98 |
| | | ASSOCIATION MEMBERSHIP | | | | | |
| | | SUBSCRIPTIONS | | | | | |
| | | POSTAGES | | | | | |
| | | PETTY CASH | | | | | |
| | | MISCELLANEOUS | | | | | $33,280.05 |
| | | MEDIA RELATIONS INC | | | | | $4,913.35 |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | **TOTAL** | | | | **$67,629.79** |
| | | | | | | | |
| | | | | | | | |
| | | | **TOTAL DISBURSEMENT** | | | | **$326,877.19** |





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**American Palm Oil Council**
Registration #4575
Reporting Period: January 1, 2011 to June 30, 2011

Attachment #4

23. Did you label each item of such informational materials with the statement required by Section 4(b) of the Act.

The attached materials are distributed by the American Palm Oil Council on behalf of the Malaysian Palm Oil Promotional Council. Additional information is available at the Department of Justice, Washington, DC.



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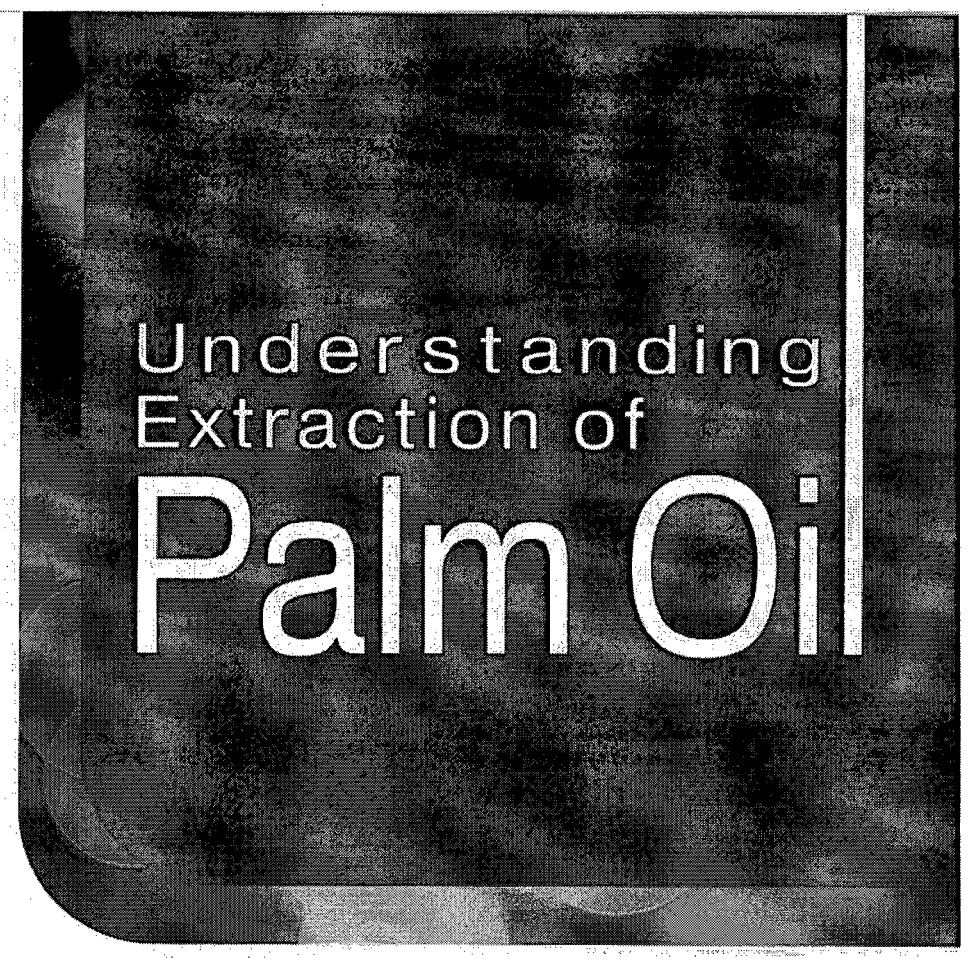


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Ng Say Bock

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# Understanding Extraction of Palm Oil

Ng Say Bock
Palm Oil Consultant

This article explains how oil is extracted from fresh fruit bunches (FFB) in a palm oil mill. It can be difficult to understand the underlying principles of extraction as the internals of the machinery cannot be seen when it is in operation.

The intention of this article is to present the mill process in a non-technical manner – from the time the FFB arrives at the mill up to the time the oil is recovered. Bear in mind that the explanation is a general one; that there are variations in the machinery used; and that kernel extraction is not covered here.

The 30cm ruler in Photo A gives us an idea of the general size of a bunch which is big and packed with fruits. Photo B – of a cross-section of a spikelet from the bunch – shows that, internally, it is also filled with fruits. The inner fruits are embedded deep within. It would be difficult to take out all these fruits from the bunch without the aid of machinery.

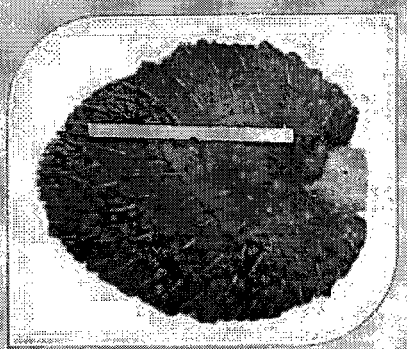

**Photo A: Compact bunch**

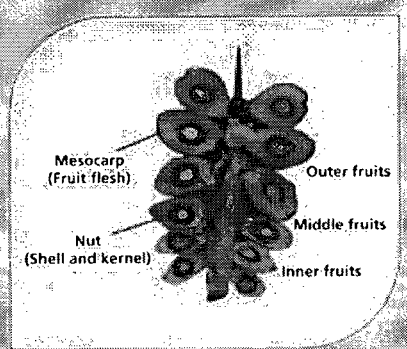


**Photo B: Cross-section of a spikelet**

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## THE MILLING PROCESS

The objective of milling is to extract the maximum amount of palm oil from all the fruits at minimum cost. A description follows of the 10 basic steps in the extraction process, from bunch to storage. A schematic diagram explains each processing step. Some of the sketches are deliberately drawn in such a way as to enable easier grasp of the operating principles.

If you can imagine that we are dealing with only one 'super-sized' bunch weighing 100kg, then it will be easier to grasp the explanation. We will also identify the areas where oil is lost.

### 1. STERILISATION

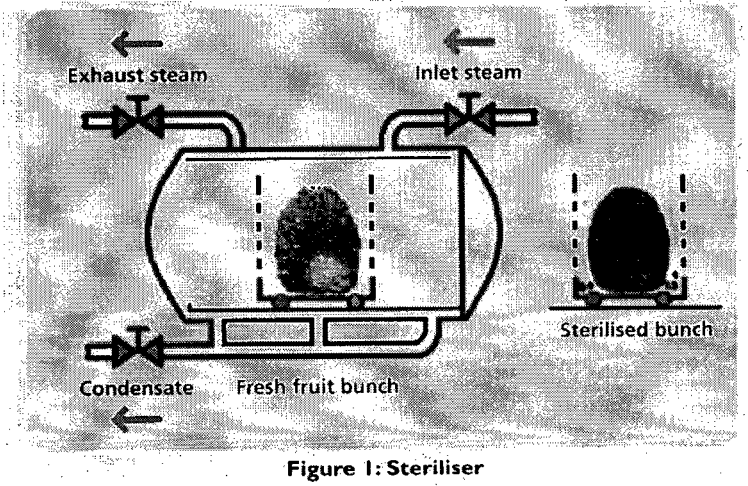


**Figure 1: Steriliser**

***Objective***

To detach fruits from the bunch, deactivate the enzyme responsible for quality deterioration and pre-condition the fruits for further processing.



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***Operating principle***

Sterilisation is carried out in batches in a large steel cylindrical pressure vessel. The fruit bunch is cooked for 90 minutes by means of a pre-programmed cooking cycle. The process involves subjecting the fruits to saturated steam gauge pressure of 3 kg/cm$^2$ and at a temperature reaching 143°C. To visualise what 3 kg/cm$^2$ gauge pressure is like, picture placing a 3kg weight on an area slightly smaller than a 5 sen coin – that's a lot of pressure by my reckoning.

Saturated steam is hot moist vapour which can condense easily by turning into water and giving up its heat. It is invariably used for heating. The sterilisation is rigorous and, by the end of the process, almost all the fruits will have softened and detached themselves from the bunch.

The elements of the sterilisation cycle include 5 minutes of de-aeration to remove air trapped in the steriliser, as its presence will hamper the transfer of heat to the fruits. For the next 85 minutes, the fruits undergo three cycles of charging and discharging of steam, called the 'Three peaks cycle'. The third peak is the longest as the fruits are exposed to at least 20 minutes of steam at maximum pressure.

***Oil loss***

Condensate is continuously produced as steam condenses on the bunch. When there are damaged fruits, oil will ooze out together with the condensate. The amount of oil will depend on the extent the fruits are bruised or damaged during handling; the ripeness of the bunch (riper fruits are softer and are more prone to bruising); and the volume of loose fruits that comes in with the FFB. A major contributor to high loss in the condensate is the amount of fruits damaged at the ramp-top during unloading.



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## 2. THRESHING

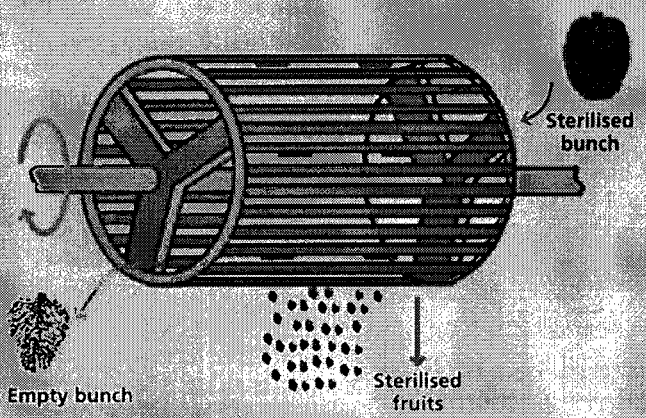


**Figure 2: Thresher**

***Objective***

To remove fruits detached during sterilisation and separate these from the empty bunch

***Operating principle***

The sterilised bunch is fed in from one end of the thresher. The lifter plates in the drum pick up the bunch as it rotates, up to a point where it falls back into the drum due to the action of gravity and centrifugal force created by the rotating drum. In a sense, the bunch rolls and tumbles forward in a semi-circular manner thereby dislodging the sterilised fruits. The empty bunch is discharged from the other end of the thresher and the gaps between the bars allow the sterilised fruits to fall through.



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***Oil loss***

There are three types of oil loss that have to be accounted for in the threshing operation.

*(i) Oil in empty bunch*

An empty bunch, especially from over-ripe bunches where the stalk and spikelet are fibrous, can absorb a lot of oil from damaged fruits during sterilisation or threshing.

*(ii) Oil in fruits trapped in empty bunch*

After sterilisation, the fruits can normally be easily dislodged from the bunch but some of these loose fruits are trapped in between the spikelets of the empty bunch and are lost. This is generally due to improper operation of the thresher such as over-feeding.

*(iii) Oil in unstripped bunch*

Sometimes the bunch is inadequately sterilised or cannot be properly sterilised because of the nature of the bunch. Some of the fruits or the bulk of the fruits remained intact and cannot be dislodged. This is classified as an unstripped bunch. Such bunches need to be recovered for re-sterilisation. This is one potential area for high oil loss.

## 3. DIGESTION

***Objective***

To separate sterilised fruit flesh from the nuts and break up oil cells in the fruit flesh



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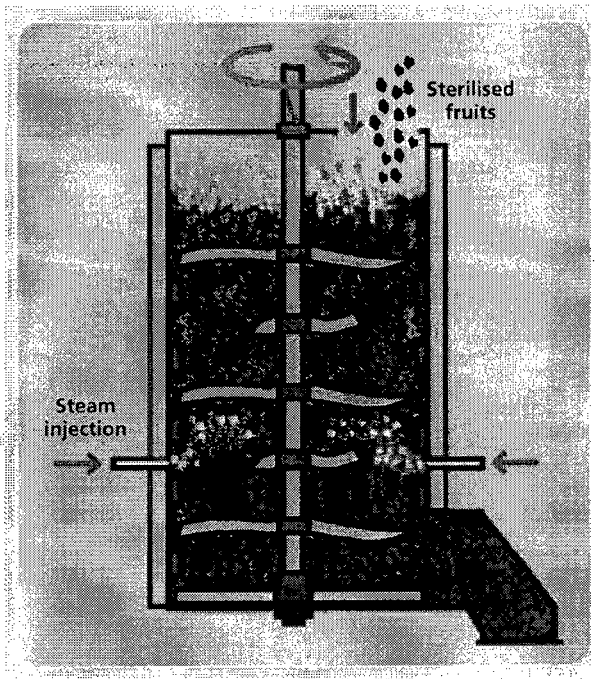


**Figure 3: Digester**

***Operating principle***

Sterilised fruits from the thresher are continuously fed into the digester from the opening at the top. Here they are mechanically beaten into a pulp by the rotating blades. The digester is fitted with baffles, whose function is to prevent the fruits from moving along with the stirring arms as they rotate.

The fruits are digested for about 20 minutes and 'live' steam is injected to keep the temperature at 95°C to facilitate the separation. The digester is steam-jacketed to ensure the contents remain hot throughout. The last set of expeller blades at the bottom of the digester 'pushes out' the digested mash into the chute, into a screw press.

***Oil loss***

In essence, the digester operates as one contiguous unit with the screw press. There is no discharge from the digester and all the digested mash goes directly into the screw press. Hence, there is no oil loss here.



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## 4. PRESSING

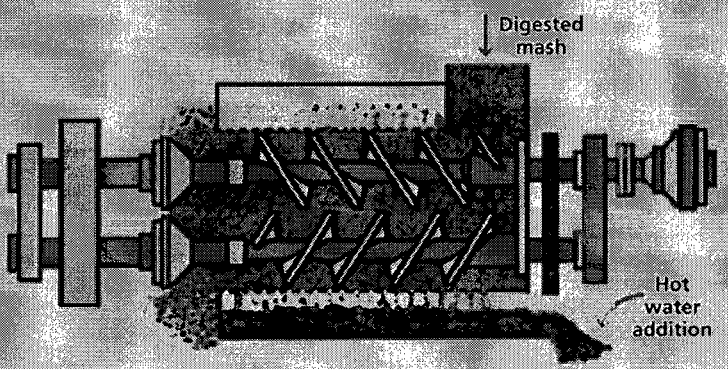


**Figure 4: Screw press**

***Objective***

To separate the digested mash into liquid and solid fractions

***Operating principle***

The two main screws inside the press continuously draw in the digested mash and try to convey it out of the press cage. The hydraulic cones at the outlet resist them by forcing them back into the enclosure. The net effect is that the liquid, called underflow – which comprises oil, water and fruit residue – is expelled through the perforations in the press cage.

The movement of the digested mash in the screw presses is akin to a kneading action and helps to rupture oil cells that have not been broken up in the digester. The dried solids – called press cake, which is made up of semi-dried fibre and nuts – are discharged between the gaps of the hydraulic cones and press cage to another part of the process for kernel recovery.

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***Oil loss***

Pressing is a compromise between oil and kernel recoveries. Too high a pressure at the press will lead to a large amount of broken nuts and kernels and hence, lower kernel extraction. Too low a pressure will end up with high oil losses in the fibre. The oil and kernel losses are not obvious as the fibre is burnt to generate steam. Kernels, when pulverised, cannot be seen with the naked eye unless tested on sophisticated laboratory equipment.

In many instances, the pressing operation needs careful monitoring as it is another potential area for high oil loss. The amount of oil left in the fibre is tested together with oil that still adheres to the nut surface after the pressing operation.

## 5. SCREENING

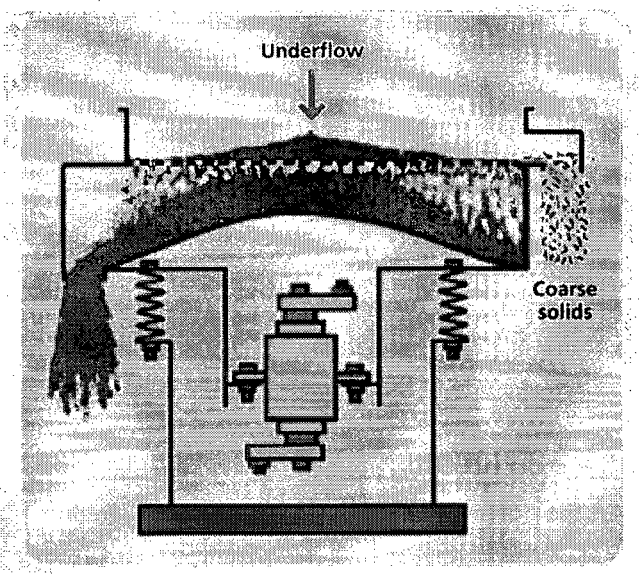


**Figure 5: Vibrating screen**



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***Objective***

To remove coarse solids, such as loose fibre and large fragments of mesocarp, that will interfere with oil separation

***Operating principle***

The underflow, which is thick and viscous, needs to be cleared of solids to avoid interfering with oil separation later on. This is done by adding hot water and some steam to ensure that the temperature is above 95°C before it enters the top of the vibrating screen.

The screen's vertical and horizontal motions can be changed by adjusting the lengths of the arms attached to the upper and lower part of the motor. Varying the weights attached to the arms will alter the flow of the liquid towards or away from the centre of the screen. The liquid flow is regulated by adjusting the weights attached to the motor such that the coarse solids move in a spiral manner away from the centre of the screen towards the discharge for recycling to the digester.

***Oil loss***

There is no oil loss from the vibrating screen itself, as the coarse solids are recycled to the digester. In the vicinity of the vibrating screen, however, there are a series of holding tanks. As such, care should be taken to ensure that spillage – especially from overflowing tanks – is kept to a minimum.

## 6. CLARIFICATION

***Objective***

To separate the underflow into oil and fat sludge



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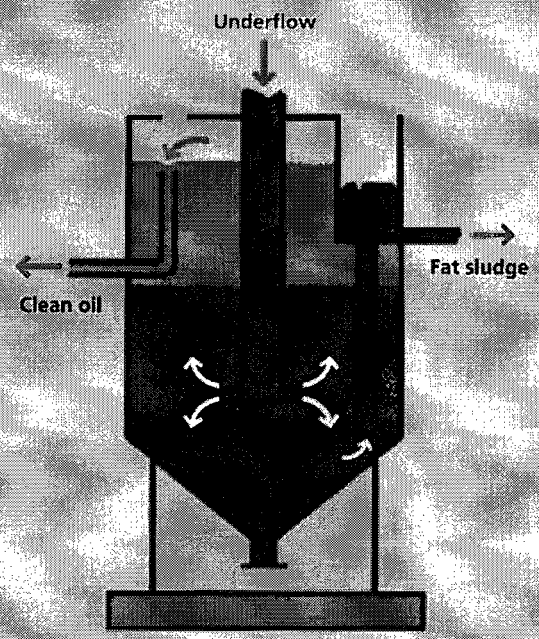


**Figure 6: Clarifier**

***Operating principle***

The clarifier is a simple static tank. The incoming underflow enters the feed pipe at the centre towards the bottom half of the tank. Oil, being lighter, floats and accumulates at the top, while the heavier fat sludge settles at the bottom. As fresh underflow enters the clarifier, oil is displaced into the clean oil pipe and fat sludge is ejected via the sludge raiser pipe. The skimmer setting, which is the height difference between the outlet of the sludge raiser pipe and the inlet of the clean oil pipe, is used to regulate both the discharges to meet specified process parameters.



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The key to good oil separation in the clarifier is to optimise the viscosity (a measure of the fluid's resistance to flow) of the underflow. This can be done by dilution (adding hot water to the underflow), ensuring the temperature is above 95°C, or installing a low-speed stirrer in the clarifier. Care must be taken to avoid adding too much water, as this will lead to a high volume of effluent.

***Oil loss***

There is no oil loss from the clarifier except for occasional discharge of accumulated solids at the tank bottom.

## 7. CENTRIFUGING

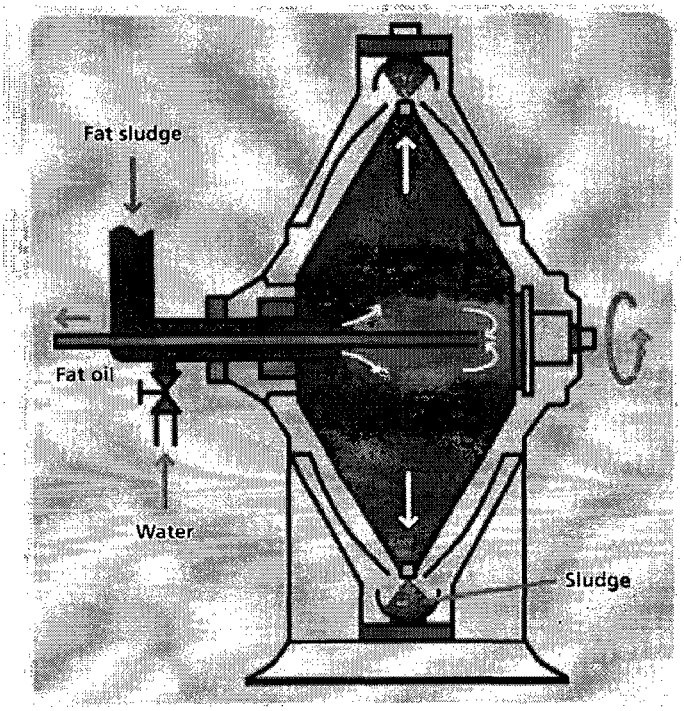


**Figure 7: Sludge separator**



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***Objective***

To recover remaining oil from the fat sludge

***Operating principle***

The sludge separator does the job when the clarifier cannot recover the oil by gravity. The separator running at 1,450 revolutions per minute creates a force that is about 1,000 times that of gravity. That means that a 1mg particle going through the machine will become 1gm at the discharged outlet.

When fat sludge is introduced through a feed pipe, oil droplets – being very much lighter – coalesce and congregate at the centre while the heavier sludge moves towards the nozzles. Oil is recycled back into the clarifier via the fat-oil pipe and sludge is discharged from the 1.9mm diameter nozzles, ending up in effluent ponds for anaerobic digestion.

***Oil loss***

Oil loss can be regulated by choosing a smaller nozzle size but this will be at the expense of a lower throughput for the separator. The problems associated with high oil losses in the separator are generally worn-out nozzles, too big a nozzle size, and incorrect skimmer-setting of the clarifier or inadequate dilution and temperature.

**8. PURIFYING**

***Objective***

To remove impurities and moisture from clean oil after it goes through the clarifier

***Operating principle***

Clean oil is introduced into the centre and it travels down the distributor at the bottom and moves upwards through the holes into the inclined plates. This high-speed purifier operates with a force more than 8,000 times that of gravity. Fine impurities in



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the oil are thrown again the bowl wall and are automatically discharged at regular intervals. The heavier phase – i.e. water – moves up from the outer part of the stacked plates along the top disc and leaves the purifier. The purified oil travels upwards along the inclined plates towards the top and leaves the purifier.

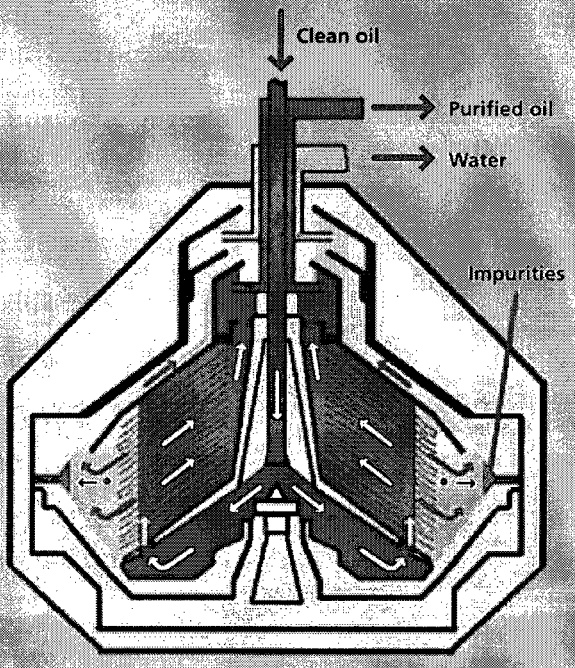


**Figure 8: Purifier**

***Oil loss***

There is negligible oil loss; whatever occurs is mainly due to purifier discharge and occasional cleaning of the disc stacks.

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## 9. VACUUM DRYING

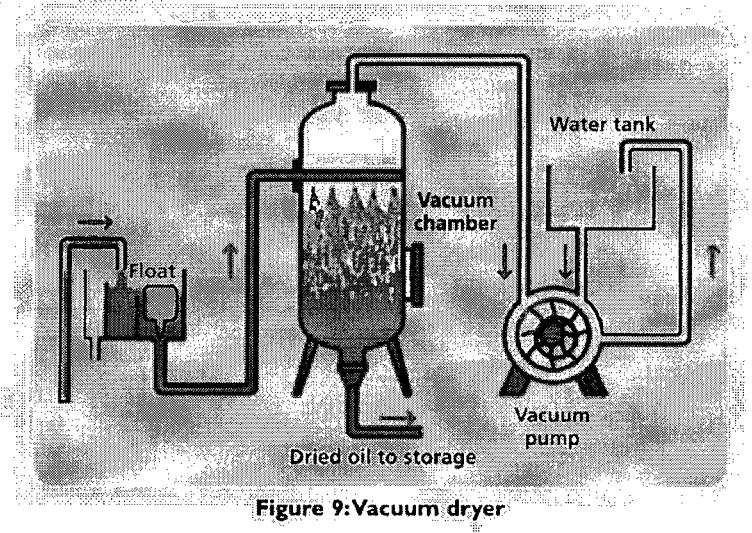


**Figure 9: Vacuum dryer**

***Objective***

To dry production oil to a moisture level that meets contractual specifications

***Operating principle***

Hot oil enters a small float tank which has a tapered spindle float. When there is no incoming oil, the float sits snugly in the inlet pipe thereby maintaining the vacuum in the chamber. From the float tank, the oil is then sucked into the vacuum chamber through nozzles, which release sprays of oil droplets for drying. Under vacuum, water vapourises and is taken up by the vacuum pump. The dried oil settles at the bottom and is pumped out of the chamber.

The heart of vacuum drying is the vacuum pump. When the pump starts, the impeller creates a liquid ring on the outer wall of the pump, which acts as a seal. The trapped space between the impellers is then used to draw in air from the vacuum chamber, thereby creating the vacuum.

***Oil loss***

There is no oil loss as the float tank is equipped with an overflow compartment to return the oil to a holding tank to prevent spillage when the float tank is full.



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## 10. OIL STORAGE

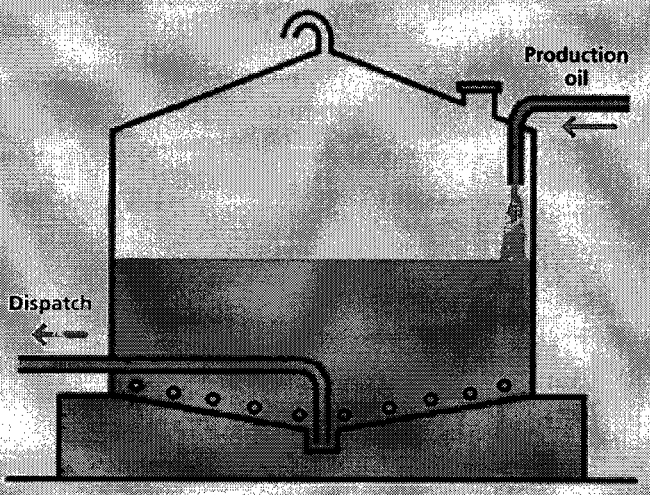


**Figure 10: Storage tank**

***Objective***

To store oil for dispatch when there are sufficient quantities

***Operating principle***

Storage of oil is a necessary part of mill operations. The conditions *vis-à-vis* temperature, impurity content, moisture of the final oil and cleanliness of the tank at the beginning of storage play an important part in the final quality of the oil. The oil should be stored below 60°C. Oil quality tests must be carried out daily on all storage tanks to ensure it is within contractual specifications.



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***Oil loss***

Normally the first 200-400 litres of discharge from the storage tank are recycled to the process, before actual dispatching starts. This is done because there will be some settling of impurities and water in the storage tank overnight. There is in effect no oil loss here.

## PUTTING IT TOGETHER

***Material balance***

If we put all the equipment together, we can see the linkage between the machinery. The material balance will show us what the product and by-products are and the respective quantities of that fruit bunch. Intermediate holding tanks and kernel extraction have been omitted from Figure 11. In practice, multiple units of the machinery are in use at any one time.



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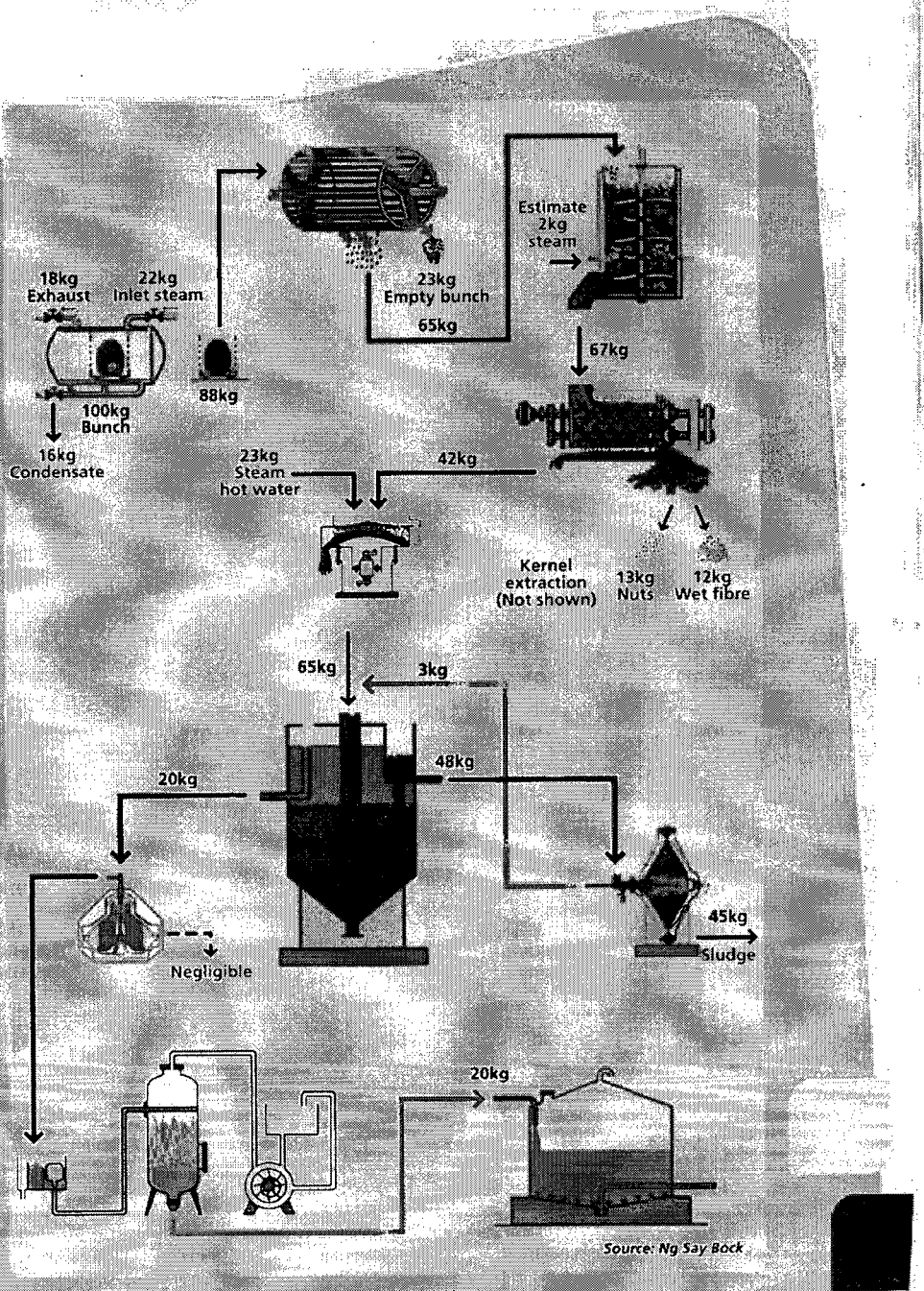


Figure 11: Material balance

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### *Mill capacity*

The capacity is rated according to the number of screw presses that a mill has. Each screw press can handle 10 tonnes FFB/hour. Thus, a 30-tonne FFB/hour mill has three screw presses running most of the time. Such a mill can process about 192,000 tonnes of FFB per year running at 20 hours per day and 320 days a year.

### *Extraction efficiency*

The efficiency of a mill is a measure of how much oil it can recover from bunches with known oil content. Unfortunately we do not know how much oil there is in incoming bunches so we have to resort to finding this out indirectly.

If we know how much oil we recover plus how much we have lost throughout the process, then the sum of the two would be the oil in the bunches at the start of processing. The amount of oil recovered is readily available. What's left is to determine the oil losses throughout processing by sampling and testing via process control. A typical example of the areas of oil loss in a mill and the quantum of loss is given in Table 1.

**Table 1: Areas of Oil Loss**

| | | Volume (kg) | Oil in sample (%) | Oil loss on FFB (%) | Range of oil loss on FFB (%) |
|---|---|---|---|---|---|
| 1. | Condensate | 16 | 1.0 | 0.16 | 0.12 - 0.64 |
| 2. | Oil in empty bunches | 23 | 1.8 | 0.41 | 0.35 - 0.51 |
| 3. | Fruits trapped in empty bunches | 23 | 0.1 | 0.02 | 0.01 - 0.04 |
| 4. | Unstripped bunches* | - | - | 0.03 | 0.02 - 0.60 |
| 5. | Fibre | 12 | 4.0 | 0.48 | 0.45 - 0.76 |
| 6. | Nuts | 13 | 0.5 | 0.07 | 0.05 - 0.09 |
| 7. | Sludge | 45 | 1.0 | 0.45 | 0.40 - 0.60 |
| 8. | Washings & spillage | 20 | 0.8 | 0.14 | 0.13 - 0.26 |
| | **Total oil loss/FFB** | | | **1.76** | **1.53 - 3.50** |
| | **Oil recovered/FFB (OER)** | | | **20.00** | **20.00** |
| | **Total oil in FFB/Total losses + OER)** | | | **21.76** | **21.53 - 23.50** |
| | **Efficiency (OER/Total losses x 100)** | | | **91.90** | **92.89 - 85.11** |

*Notes*

1. ** Unstripped bunches are computed from calculated cages less actual cages recovered.*
2. *Oil loss varies from mill to mill. Every mill needs to carry out process control tested to determine its own oil loss limit.*



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***Financial significance of oil losses***

The problem with process control in an oil mill is that numbers are small and may give rise to the impression that these are insignificant. For example, a 0.1% increase in oil losses looks minute. At a price of RM3,320 per tonne of crude palm oil (March 2011), a 30-tonne FFB/hr mill processing 192,000 tonnes of FFB could lose RM637,440 without realising or 'feeling' the loss, which would otherwise be a saving. The efficiency of a mill can vary significantly and it's really a case of 'what you don't see, you don't know'. Oil losses can be inconspicuous and this really underscores the importance of process control.

***Self-sufficiency in power generation and waste utilisation***

This article would not be complete without mentioning a unique feature of the palm oil milling process – self-sufficiency in power generation. The mill generates its own power by burning waste fibre from the fruit flesh and dry shells from the nuts as fuel in the water-tube boilers. The steam from the boiler is in turn used to drive a turbine to produce electricity. Steam exhaust from the turbine is utilised for sterilisation, heating and processing.

The mill's entire power consumption, plus supply to the office and residential units, is generated by the mill itself. Empty bunches can also be used as fuel after dewatering should the need arise, and as mulch for the plantation. With the advent of the Clean Development Mechanism, organic waste from effluent ponds is being tapped to reduce greenhouse gas emission.

## 'CRUDE' OR 'VIRGIN' PALM OIL?

From the foregoing, it can be seen that the extraction of palm oil is, to a large extent, physical in nature. In many respects, it is similar to the way in which olive oil is extracted. This leads us to the question as to whether 'crude' palm oil can be described as 'virgin' palm oil. This is best answered by looking at the definition of 'virgin' oil. The definitions of two authoritative organisations – the Codex Alimentarius (Codex) Commission and the International Olive Oil Council (IOOC) – are examined.



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### Codex Commission

This was created in 1963 by the UN Food and Agricultural Organisation (FAO) and World Health Organisation (WHO). The aim is to develop food standards, guidelines and related texts such as codes of practice under the Joint FAO/WHO Food Standards Programme. In addition, it helps to protect the health of consumers and to ensure fair practices in the food trade.

*Codex definition of virgin fats and oils*

Virgin fats and oils are edible vegetable fats and oils obtained without altering the nature of the oil, by mechanical procedures (e.g. expelling or pressing) and the application of heat only. They may be purified by washing with water, settling, filtering and centrifuging only *(taken from STAN 19-1981, Rev. 2-1999, Section 2.2)*.

### IOOC

This is the world's only intergovernmental organisation to bring together producing and consuming stakeholders in the olive oil and table olive sectors. This places it in a unique position as a forum for authoritative discussion on issues of interest to the olive industry.

*IOOC definition of virgin olive oils*

Virgin olive oils are the oils obtained from the fruit of the olive tree solely by mechanical or other physical means under conditions, particularly thermal conditions, that do not lead to alterations in the oil, and which have not undergone any treatment other than washing, decantation, centrifugation and filtration. Virgin olive oils are fit for consumption as they are.

Let's take a closer look at the extraction of palm oil in light of these definitions. What is clear is that the process of extracting palm oil is highly mechanical; no solvent is used; and it is done without altering the nature of the oil.



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Steam detaches and softens the fruits *(thermal)*; a rotating drum removes the fruits *(physical)*; a digester tears out the fruit flesh *(physical)*; a screw press squeezes out the oil admix *(expelling)* and adds hot water and steam *(dilution)*; and a vibrating screen removes coarse solids *(filtering)*.

Next, the liquid admix is allowed to stand so that the oil floats up by itself *(settling)* and is displaced by incoming liquid admix *(decanting)*. A machine recovers oil from the fat sludge *(centrifuging)*; a high-speed machine purifies the oil *(centrifuging)*; and finally the oil is vacuum-dried *(thermal, vacuum)* for storage.

If we want to be pedantic and strictly follow the IOOC definition, there is only one area that we have not covered – direct consumption of the oil. Note that this is not in the Codex definition. This raises the question: Can palm oil be consumed directly? The answer is 'Yes'. People in some African countries consume palm oil in raw form – i.e. without refining. Others could do the same too. It is a matter of choice as it is an acquired taste. Palm oil is therefore fit for consumption as is, in line with the IOOC definition.

It is obvious that palm oil fits the definition of 'virgin oil' to the hilt and as such, is entitled to be called 'Virgin Palm Oil'. The use of 'crude palm oil' is a misnomer that gives rise to wrong connotations and an unwarranted image problem. It highlights the necessity for the palm oil industry to work towards changing the term 'crude palm oil' to perhaps 'Malaysian Palm Oil'.

Olive oil is categorised as 'extra virgin', 'virgin' and 'ordinary virgin' based primarily on the free fatty acid content. The palm oil industry must, with a concerted effort, improve on its qualities and efficiencies and head in the same direction if it wants to remain competitive in a constantly changing oils and fats market.



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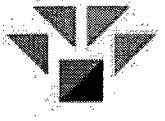

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MALAYSIAN PALM OIL
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# Halal Market for Palm Oil in Sub-Saharan Africa

THE global halal market is estimated to be worth RM10.9 trillion a year and is growing fast, with the global Muslim population alone approaching two billion. Halal products are not only for Muslim consumption but also widely appeal to non-Muslim consumers looking for high quality and ethical products, especially in food, cosmetics and personal care products and in the banking, financial and insurance industry as well.

Halal food now accounts for 18% of the global food market and its value is expected to increase to US$650 billion this year. Among factors that contribute to the increasing demand for Halal food are growth in the Muslim population, which is the primary market for Halal food; rising incomes and purchasing power of Muslims, increasing demand for safe and high quality food, demand for a greater variety of products and greater awareness among Muslims on the need and necessity to consume only Halal food.

**The Concept of 'Halal'**

From the Islamic perspective, Halal products mean products permitted or allowed to be consumed or used by Muslims. However, there is another term that is used together with Halal, which is Thoyibban. When used together, "Halalan Thoyibban" refers to food that not just permissible to be consumed but also contains good or wholesome, nutritious value in terms of quality, safety and is hygienically prepared.

The concept of Halal is quite simple, but the industry has become more complex and consumers are sometimes confused. The breathtaking pace of development and the diversification of sources acquired globally for processing and producing consumer products has made available a numerous amount of processed products in the market. It is therefore becoming increasingly difficult, and challenging, for Muslims to ensure the Halal status of consumer goods. This trend has raised concerns among Muslim consumers over the new, processed food and other products entering the consumer market.

Three basic principles must be adhered to before any food can be considered Halal. First, the foodstuff must be permitted by Allah. Second, the food must be obtained through Halal means. Even if a food product is Halal but when it is obtained through non-Halal means, then it is considered Haram. Finally, the material or food ingredients must be good and safe for consumption by all humankind. Muslims are forbidden to consume food or use products that can cause a detrimental effect to the body and mind.

**Palm Oil as Halal Alternative**

Malaysia, as one of the largest producers of palm oil and the pioneer in establishing Halal laws and certification, has great potential to be a major supplier of Halal foods and products all over the world.

Today's consumer preference for healthier alternatives to products using animal-based oils is boosting the demand for products using vegetable oils. Solid shortening from palm oil is a good alternative to shortening made from animal fat or hydrogenated fat.

Various products have been made available, through research and development to replace non-Halal fat in foods with palm oil. Examples of these are shortening, butter oil substitutes and cheese analogue. The advantages offered by palm oil and its fractions are that they are free of cholesterol and of trans fatty acids, which are harmful to the human body.

In the effort to find an alternative for butter, because of its high price, butter oil was substituted with lard, tallow and hydrogenated oils. Palm oil and palm stearin were found to have the characteristics imitating the properties of animal fats and hydrogenated oils, and therefore their use eliminates undesired, non-Halal ingredients in food products.

Palm-based shortening, which is ideal for frying in fast food restaurants, has been found to be an excellent substitute for solid animal fat, and it also provides a better frying performance. Palm oil is also widely used in bakeries as shortening, since it does not require hydrogenation.

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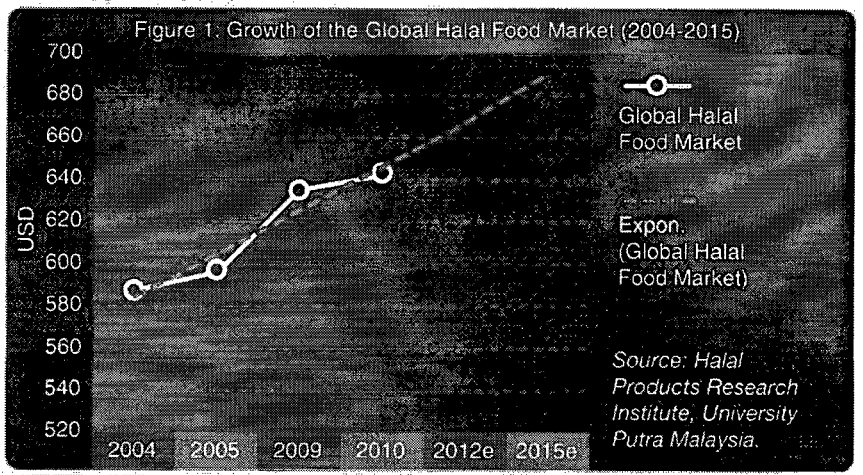
Figure 1. Growth of the Global Halal Food Market (2004-2015)

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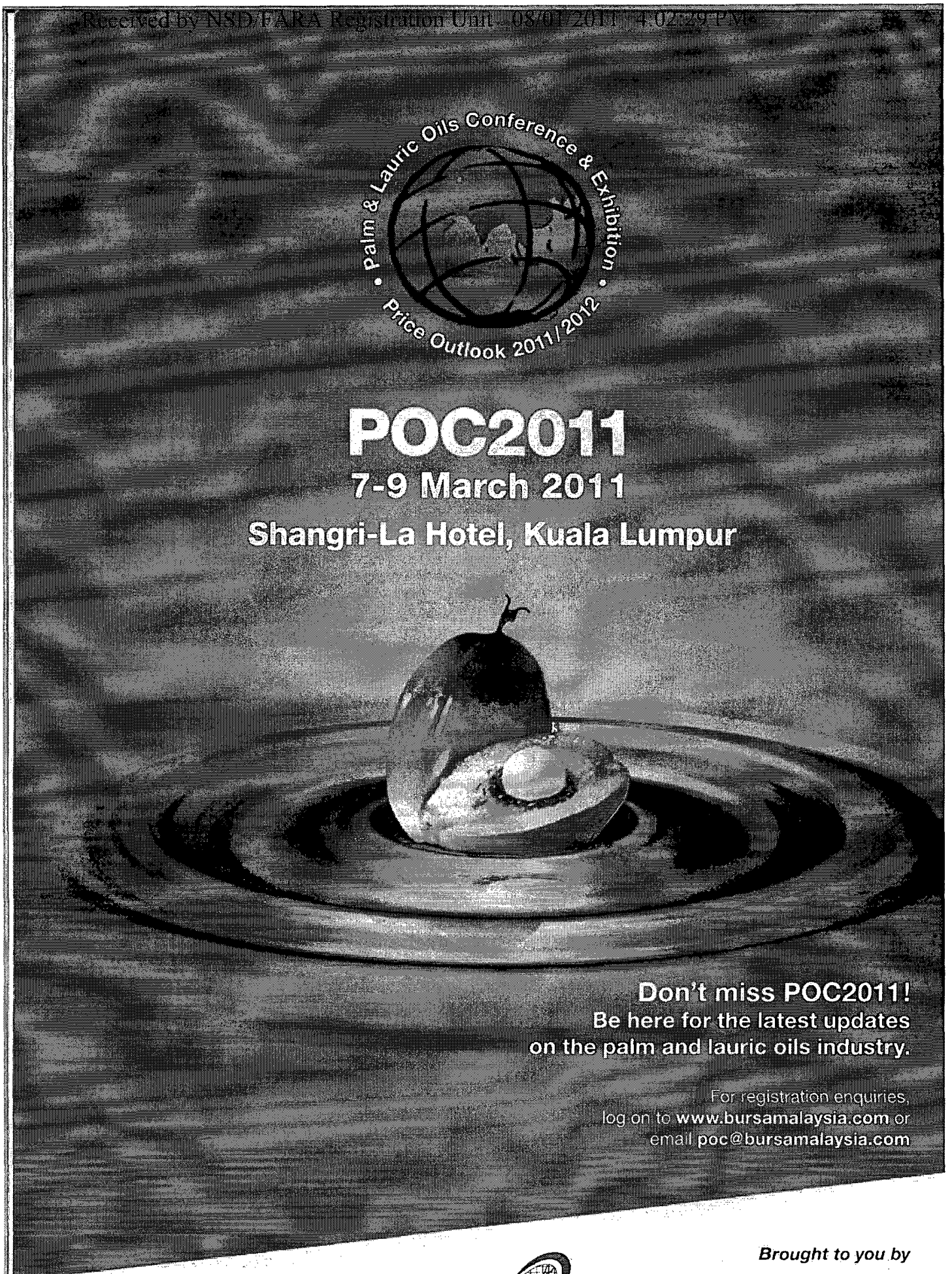


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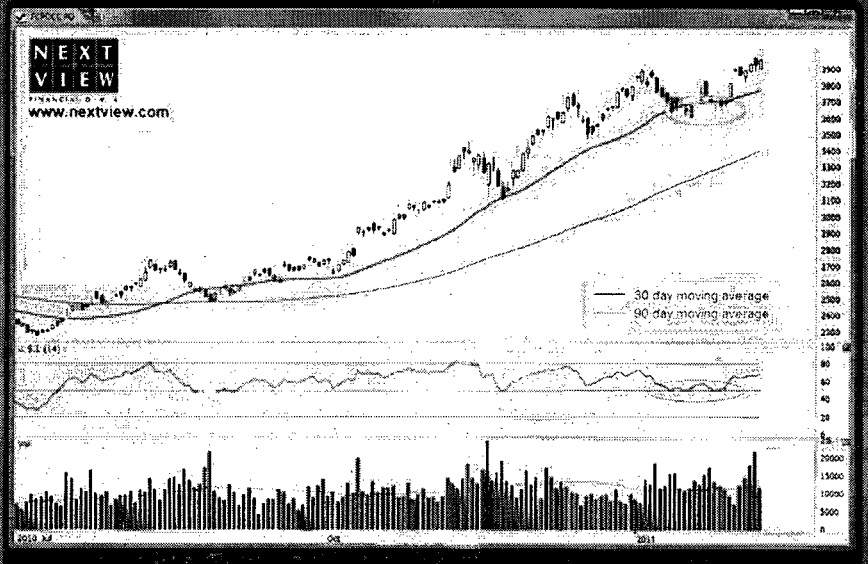
# CPO futures set to test RM4,100

*by Benny Lee*
*Chief Market Strategist of NextView Group*

DESPITE a weaker momentum in the month of January, the price of crude palm oil futures (FCPO) in Bursa Malaysia continues to surge on low supply and strong demand. FCPO rose 6.8% in one month, breaking the resistance level of RM3,880 to RM3,955 per metric tonne on 11 Feb 11.




*FCPO daily chart as at 11 February 2011.*
*Charted by Benny Lee using NextView Advisor Professional*

The price of FCPO is now at its highest in 33 months. The palm oil market once again becomes a hot topic of the industry and market players. The number of contracts traded on Bursa Malaysia increased from a daily average of 11,024 in January to 12,424 contracts in the same period in February.

In January, Malaysia's palm oil output fell 14%, compared with December, to 1.06 million MT, according to the monthly report of the Malaysian Palm Oil Board (MPOB), which also notes that palm oil exports fell 6.2% to 1.21 million MT while palm oil stocks were down 12% to 1.42 million MT. The low production in the month of January has prompted the price climb in February.

The reversal pattern last month, based on the head and shoulder chart pattern, did not materialise as the price stayed above the RM3,600 neckline. FCPO continues to stay in the uptrend, with the short- to long-term 30- to 90-day moving averages still increasing.

I was expecting the uptrend to change its course last month because of weak technical indications, but the unexpected low palm oil output caused the price of FCPO to continue to show resilience in the uptrend. After testing the short-term 30-day moving average twice in January, FCPO is continuing its upward rally. The 30-day moving average is currently at RM3,780.

The momentum indicators, which showed weakness in the uptrend in January, became stronger in the short-term following the rally in February. The MACD indicator has crossed above its trigger line, suggesting that the short-term uptrend is continuing.

The RSI and Momentum Oscillator indicators bounced-off from the middle level, showing that the bulls are still in control. However, in the longer term, the uptrend momentum is still weak. The long-term divergence between the momentum indicators and the price uptrend still exists.

Technically, the price is geared to making newer highs in the short-term. Price target is at RM4,100, based on a triangle chart pattern formed since early this year when the uptrend consolidated. The Fibonacci expansion from the short-term uptrend has a price objective of RM4,060. The immediate support level is at RM3,880, the previous resistance level and if the price breaks below this support level, it may move into a correction more again and find support at the uptrend level of RM3,700. This means that long as the price stays above the support level of RM3,700, the uptrend may continue.

The price uptrend should be able to be supported as long as the fundamental figures of supply and demand fall within the expectations. The month of February normally has the lowest figure for palm oil output. With this and continuous growth in demand, the price may be supported fundamentally.

In the recent export data, Malaysia's palm oil exports rose significantly on-month. SGS (Malaysia) Bhd estimated a rise of 28.5% of 432,000 MT for the Feb 1 to 10 period. Intertek Agri Services Sdn Bhd estimated a rise of 45.7% on-month at 437,480 MT.

With the technical and fundamental indicators, there is a high chance of the price moving higher and technically set to test RM4,100. There is also a possibility of the price climbing to historical highs.

With the current bullish price data, my longer-term forecast for FCPO price for the next six months is revised from RM3,700 to RM4,100. A stronger Malaysian ringgit against the US dollar may also help the FCPO uptrend. ■

*Mr. Benny Lee is a private trader, trainer and sought-after speaker in the financial market. He is the Chief Market Strategist for NextView Group. NextView Group is a group of companies in the Asian region that provides a leading real-time investment tool for both professional and retail investors. NextView is also a leading Investor Education training provider. For more information, log on to www.nextview.com.*

*The above analysis and commentary is based on the writer's personal opinion towards the price of crude palm oil using technical analysis and should not be construed as any form of investment advice. The writer will not be responsible for any decision made from using the above article.*

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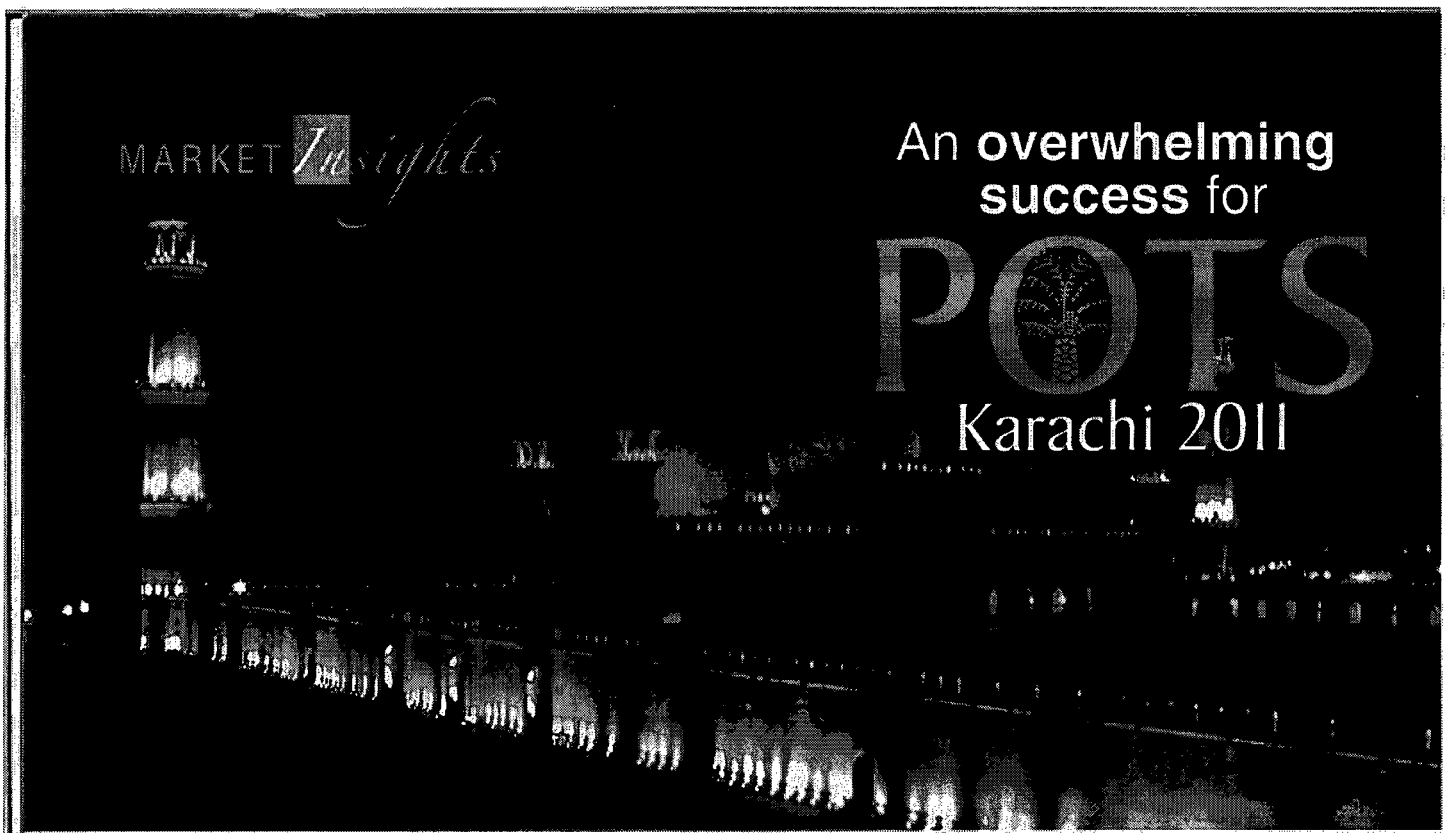


# An overwhelming success for POTS Karachi 2011

IT WAS only the second time that the Malaysia-Pakistan Palm Oil Trade Fair & Seminar (POTS) was held in the city of Karachi, in January this year, and it turned out to be a grand success, largely due to the overwhelming, enthusiastic response from both Pakistani government agencies as well as industry players in the country and from Malaysia.

The event was held from Jan 17 to 19 at the Sheraton Hotel in Karachi, with "Retaining Leadership, Reinforcing Relations" as the theme. Jointly organised by the Malaysian Palm Oil Council and Malaysian Palm Oil Board, the three-day function saw not just the seminar but also an exhibition and a visit to Port Qasim Authority.

POTS Karachi 2011 had more than 200 people taking part, among them the Malaysian Minister of Plantation Industries and Commodities Tan Sri Bernard Dompok, Pakistan's Federal Minister for Industries and Production Mir Hazar Khan Bijrani, and also the senior management of MPOC, MPOB, MPIC and leading industry members in both the countries.

Despite being an agriculture-based economy, Pakistan is a net importer of oils and fats. Indigenous production of oilseeds only meets 25% of its total requirements, which have reached 3.5 million MT a year. Malaysian palm oil has always played a pivotal role in the edible oil sector in Pakistan and accounts for about 62% of the country's total consumption and 95% of the total imports.

Pakistan has been one of the most consistent and dependable export destinations for Malaysia and the import volume exceeded 2.1 million MT last year, making Pakistan the second largest buyer of Malaysian palm oil. MPO is one of the most significant commodities in the bilateral trade between the two countries, which is valued in excess of US$2 billion.

Minister Mir Hazar Khan Bijrani in his opening remarks expressed appreciation for the efforts of MPOC and MPOB in organising POTS Karachi, bringing together the key players in the palm oil industry of both countries.

He also praised the cordial relations between the two countries and called for the further enhancement of this relationship through meaningful cooperation in economy and trade, suggesting that Malaysian investors also consider opportunities in agriculture, livestock, IT, construction and infrastructure development in Pakistan.

Tan Sri Dompok in his remarks recognised Pakistan as one of the most important buyers of palm oil from Malaysia, noting that this was also aptly reflected in the number of successful Pakistan-Malaysia joint ventures that have created a landmark in the global oils and fats industry.

The Malaysian Minister also called on more Malaysian companies to look into collaborating with Pakistani companies in developing other oils and fats areas, such as oleochemicals, biomass utilisation and animal feed.

Officially supported by the three leading industry associations in Pakistan – the Pakistan Vanaspati Manufacturers Association, the Pakistan Edible Oil Refiners Association and the Pakistan Soap Manufacturers Association, POTS Karachi received overwhelming response from the industry in Pakistan and Malaysia, with the sponsors – Dalda Food Pvt Ltd, Sime Darby Bhd, KL-Kepong Bhd, Hamza Vegetable Oil Refinery, Punjab Oil Mills, Madina Group, Mapak Edible Oils, Bursa Malaysia, IFFCO Pakistan, Mujahid Group and Waheed Group – quickly taking up the exhibition slots.

The plenary paper was presented by MPOC Chief Executive Officer Tan Sri Dr Yusof Basiron, followed by papers on nutrition, palm olein blending, palm kernel cake application and price outlook, which were presented by both local and international speakers. Dr David Jackson of LMC was unable to participate in the seminar due to unavoidable circumstances.

The event also received wide coverage from the local media, with some 20 news stories printed the next day and eight news channels airing footages of the press conference and POTS Karachi functions.

Overall, POTS Karachi 2011 can be described as an overwhelming success, not just for the participation of individuals from numerous organisations but also for the encouraging response and support from the Pakistani government officials.

Truly meaningful meetings and discussions took place, and Malaysians returned home convinced that the trade relations between our two countries have been further strengthened, and that more investments, not just in palm oil but in other industries as well, are certain to take place.


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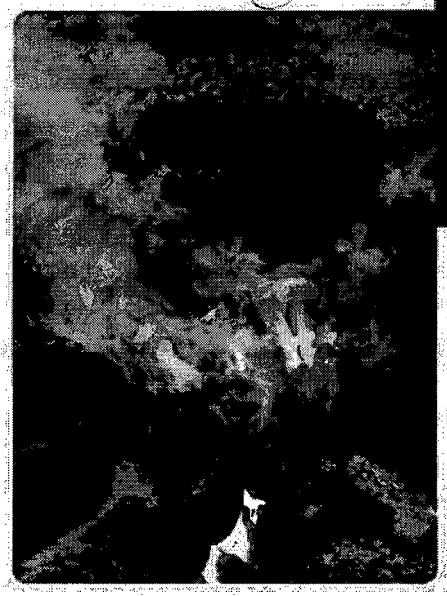
MARKET Insights

PART 2

# Incentives to attract MPO sector to plant and refine oil palm in Cameroon



THE oil palm tree in Cameroon generally grows in the wild. The industrial exploitation of the tree began back in 1907, when the country was under German colonial rule. In fact, the first industrial plants, established in Edéa, were promoted by German settlers. More were then set up on the coastal plains and around Mount Cameroon.

The oil palm crop was further developed under the Franco-British regime. By the 1960s, Cameroon's annual production of palm oil had reached 42,500 MT and palm kernel oil, 37,200 MT. Today production stands at around 190,000 MT a year, of which 40% is from small village and community plantations and the rest from large commercial plantations such as the CDC, Pamol, SOCAPALM and Ferme Suisse.

The existence of small and community plantations makes the Cameroonian palm oil sector very unique, compared with those in Indonesia, Malaysia, Thailand and other countries where the industry is dominated by large plantation companies. Village plantations have been promoted by the government through several mechanisms.

First, community cooperatives are encouraged around big plantations, with financial assistance from the state. Second, oil palm plantations set up by villagers receive technical and small subsidies or long-term credit facilities from the large industrial plantations.

At the beginning of the 1990s, SOCAPALM set up a third mechanism, through which planters received what they required directly from the agro-industrial firm, with the costs incurred repayable over a period. As of Jan 1, 1999, these plantations were situated in Ndian, (1,629 ha), Lobé (2,508 ha), Bota (191 ha), Bénoé (508 ha), Dibombari (3,574 ha), Eséka (2,024 ha) and Edéa (1,963 ha), covering an area of 12,397 ha in total.

Since palm oil has traditionally constituted (and remained) the dominant source of consumable oil in Cameroon, a combination of smallholdings and large plantations has enabled the country to keep up with the demands of its rising population, and even being able to supply to neighbouring countries such Gabon, Equatorial Guinea, Chad and Northern Nigeria.

The modern palm oil plantations blend well in the national economy, creating diverse and dynamic sub-industrial sectors such as the manufacture of soap. A new and emerging sub-sector currently being experimented by the Cameroon Development Corporation is the opening of the vast plantation lands to cattle rearing.

Cattle-rearing constitutes an economic activity confined to North Cameroon, essentially because of the existence of large open spaces for grazing. Early trials have been successful and may open an additional economic expansion only possible because of the existence of oil palm plantations.

In short, without the palm oil industry, local ways of life and traditions may die. The economy of entire regions – the South West Littoral and Central regions of Cameroon and the surrounding villages – may collapse. Oil palm plantations have offered stable, long-term employment for 50,000 people. In addition, suppliers and the diverse and dynamic sub-sectors that depend on these plantations employ another 40,000 workers.

There are three categories of imported products: free-to-import products which do not incur any restriction, products that require a technical permit or a certificate of conformity from a competent government ministry (Health, Security, etc) and products that are prohibited from import. However, every import must be inspected for quality, quantity, price and so on before it is allowed to land.

Reforms have been made to facilitate inter-zone export and import and to create a customs barrier in harmony with the rest of the Economic Community of Central African States.

For this purpose, there is a Common External Tariff (CET) comprising five rates – 0%, 5%, 10%, 20% and 30% – according to the nature of the goods but not depending on the origin of the goods); General Preferential Tariff (GPT) related to inter-zone export and import; a temporary additional tax applied for a period of three to six years that aims to protect certain local sectors in the zone; excise tax of 25%; and TCA, a tax on the business turnover, which is like VAT.

The are more: the fee for health and veterinary inspection (products of animal origin): 3% on CIF value, and there is also the Phytosanitary Tax (Chapters 6 to 24 and some goods of Chapters 1 and 3) at 50 CFA per tonne.

This puts the current import duty on refined palm oil at US$3/litre and for crude palm oil, it is 35%.

**Import duty restrictive**

Cameroon heightened the import duty on cooking oil to US$3/litre in effort to increase local production of edible oils and fats, particularly palm oil. Since the increase in import duty, there has not been any new import of cooking oils, including palm olein, in jerrycans. The increase has increased the local price of palm oil further, which has been welcomed by refineries and plantation companies, and brought about new investments in refining capacities and oil palm plantations.

The new import duty is applied only to cooking oil in consumer packs. 'Crude palm oil is allowed to be imported by manufacturers at a lower import duty under a number of permits given by the government, meaning that the quantity imported is still controlled by the government. Thus, refineries are the beneficiaries of the new duty structure as they have no competition from imported cooking oils. The cooking oil brands from two local refineries have been dominating the edible oil market after the new duty structure came into force.

**Positive outlook for the Malaysian Palm Oil Industry**

The new duty structure is in fact a form of incentive to attract investments in the refining and plantation sector. It is therefore recommended that Malaysian palm oil exporters consider entering

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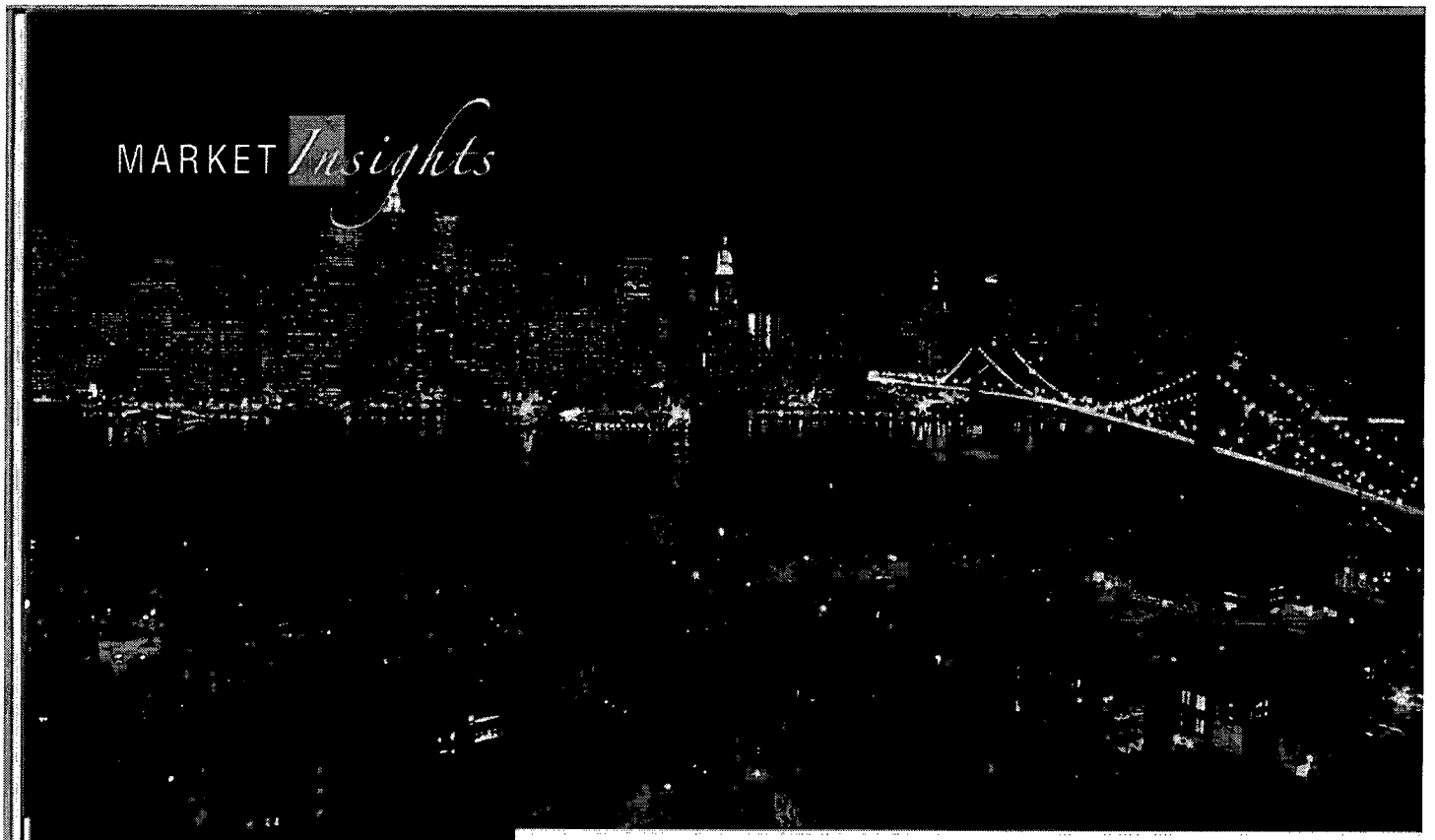

# Palm Oil: A **Great Future** in the United States

IMPROVING economic conditions in some countries, along with a weakening US dollar, have contributed largely to the steady increase in global commodity prices since early last summer. However, there still remains a stronger demand for vegetable oils in many countries, including China, India and the United States.

As a result of this increase in demand, the United States Department of Agriculture (USDA) and other experts are expecting global vegetable oil stocks to fall sharply this year, closely resembling the situation in the mid-1970s. Furthermore, the USDA projects a rise in vegetable oil prices due to increased demand by the food sector, rather than a demand for fuel, which seems to have stabilised.

The current and projected scenario for vegetable oils has created a scenario for palm oil to enjoy further increased demand in countries where factors of public policy, nutrition science and consumer attitudes create a favourable landscape for driving continued demand. In the United States, for instance, there has been an overall steady increase in palm oil usage in the past 10 years. In 2010, the United States was the fifth largest importer of Malaysian palm oil.

This steady increase in US demand for palm oil can largely be attributed to the continuous move towards removing trans fatty acids from the food supply. The move away from trans fats began with food manufacturers responding to demands from the public health community for its removal and a growing desire by consumers for trans fat-free products. However, in more recent years, public policy has begun to help drive the removal of trans fats as well. With bans on the usage of trans fats by food service establishments in municipalities in over 15 US states and a growing number of pending proposals in the remaining 35 states, there is a great likelihood that more food service providers will be seeking a suitable trans fat replacement.

The public health policy agenda of many of these municipalities and states is not limited to banning or restricting the sale of trans fats. Many state and local governments are attempting to build what many call "healthier communities" by making investments to create environments to help residents lead healthy lifestyles. These investments often include repairing sidewalks and public parks to allow greater access to physical activity, along with community events to promote healthy eating. These efforts, coupled with the ongoing national dialogue on nutrition and health, are contributing to a change in the way consumers view the food they consume.

This change in consumer attitudes is compounded by a growing trend among health experts to speak up on the environmental impact of dietary behaviour. In making decisions on what foods to buy, consumers are increasingly considering factors beyond the nutritional quality or calorie content of the food items. More and more consumers are looking at what many are calling the "wellness factor" of food.

This translates to consumers weighing how the food they consume contributes to their wellness, their families and the environment. This idea was commonly understood by many in the food industry as consumers looking for "organic" on the labels. However, recent consumer research shows that consumers have a greater interest in seeking out products that carry some type of certification for sustainable growing and harvesting practices, as well as animal welfare.

The current climate around public policy and consumer perception is complicated by the US government's slowly evolving dietary guidance. Current advice from the government, embodied in the Dietary Guidelines for Americans (DGA), has been at the heart of much of the confusion consumers have over fatty acids. With guidance that concentrates on advising consumers to "eat a low fat diet" and "choose foods low in saturated fat," many health experts and consumer researchers agree that the government is causing more confusion, rather than educating the public on what they really should be consuming.

This "low fat" trend in the DGA has been constant since the 1990s and does not seem to be headed for any drastic change. Many experts agree that the DGA guidelines on fat are a key driver in guiding the public away from fats with no tangible health benefits. These experts base their opinion of this situation on a

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MARKET Insights

◀ Continued from page 1

# Halal Market for Palm Oil in Sub-Saharan Africa

The Malaysian Palm Oil Board, through research and product development, has introduced widely-accepted alternatives to hydrogenated oil with the use of palm oil. One example of this is soft margarine, which has been formulated to be an easy spread on bread or biscuits, just by squeezing the container. This product requires some hard stock from palm stearin, with the other ingredients being liquid oils.

Another Halal product already in the market is SAFAR or speciality animal fat replacer. It is a solid product made from 100% palm oil derivatives and formulated to replace raw beef fat, chicken fat and chicken skin in the production of meat products such as burgers, sausages, meatballs and nuggets. Solid fat made from palm oil binds well in the product preparation, thus being an excellent replacement for animal fats. Solid fat contributes to about 30% in reconstituted meat products such as sausages and burgers. A simple blend of palm oil and palm stearin will provide the animal fat replacement needed, with the desired texture.

Various other palm oil-based products that can be used as substitutes to the existing ingredients in the market include cream and confectionery fillings, palm-based santan substitute, palm-based mayonnaise and palm-based chocolate spread.

**Halal Beauty and Cosmetics Industry**

The global market for Halal cosmetics and personal care products is growing at remarkable pace, leading to increasing customer awareness of the need for Halal-based cosmetics and beauty products. The global cosmetics and personal care industry was estimated to be worth US$318 billion in 2010. The Halal cosmetics business alone is estimated to be worth US$560 million dollars annually and is seen as next in line for growth after the lucrative Halal food and Islamic finance sectors.

Research indicates that this growth is being driven by increased consumer knowledge about the ingredients used and the way they are produced. A survey conducted by KasehDia Consulting revealed that the level of awareness about Halal cosmetics is slowly and steadily increasing, with consumers set to opt for Halal cosmetics, if and when they are readily available.

With so much cosmetics and personal care products now containing ingredients from palm oil, Malaysia is in prime position to establish itself as the leading supplier of Halal products in this industry. Industry players need to carry out more aggressive promotions and create awareness, not only among Muslim consumers, that they should be concerned about the composition of the cosmetic products they use, make them aware that Halal products are available and that Malaysia is able to provide them.

**Halal Market of Sub-Saharan Africa**

It is estimated that Muslims make up 240 million or about 30% of the 800 million population of Sub-Saharan Africa. Nigeria has the largest Muslim population in Africa, with about 78 million or half of the country's population. Other countries in the region that have sizeable Muslim populations include Ethiopia, Niger, Tanzania, Mali and Senegal.

Countries in the region with high percentages of Muslims are Mauritania, Niger, Somalia, Mayotte, Djibouti, Senegal, Gambia and Mali, where Muslims make up more than 90% of their total populations. Sierra Leone and Guinea have Muslim populations of between 70% and 85%.

The export of Malaysian palm oil (MPO) to countries in the Sub-Saharan region from January to December 2010 touched 1.33 million metric tonnes, mainly made up of cooking oil and palm olein. Aggressive efforts are therefore required to increase exports of other products, such as Halal food substitutes and Halal cosmetics and personal care products to 240 million Muslim populations in the region.

**Halal Product Requirements**

The food industry needs to have a full understanding of the requirements for producing products for the Muslim market. It also needs to understand the import requirements of countries with Muslim populations. Many countries have passed laws and established Halal guidelines, not only for imported products but also for food manufactured for the domestic market.

Malaysia is recognised internationally as a pioneer in establishing Halal standards and the Halal certificate issued by the Department of Islamic Development Malaysia (JAKIM) is accepted worldwide. Malaysia is one of the leaders in the manufacture of Halal food and is a world model for Halal certification.

The issue of Halal certificates by JAKIM has become a standard for other countries to follow as it involves very strict guidelines and also balances Islamic requirements and complies with other global standards, such as the ISO compliant standard MS1500:2004, Good Manufacturing Practice (GMP) and Good Hygiene Practice (GHP).

Besides the Halal certificate issued by JAKIM, there are 51 Halal bodies worldwide as of November 2010, including in Sub-Saharan Africa, which are recognised by JAKIM. The Malaysian Palm Oil Council (MPOC) has a very close working relationship with the South African National Halal Authority, which is based in Durban, South Africa.

**Recommendation**

Halal products have become mainstream consumer goods and Halal products are a serious matter for Muslims all over the world. At the same time, these products provide good business opportunities for Malaysian palm oil industry players. Properly processed, Halal-certified consumer products are they key to capturing the lucrative Halal market. Halal products have their own

Continued on page 10 ▶

Table 1: Countries in Sub-Saharan Africa with large Muslim Populations (2009)

| Countries | Total Population | Muslim Population | Percentage of Muslims |
|---|---|---|---|
| Nigeria | 154,437,000 | 78,055,000 | 50.4% |
| Ethiopia | 82,782,000 | 28,063,000 | 33.9% |
| Niger | 15,290,000 | 15,075,000 | 98.6% |
| Tanzania | 43,768,000 | 13,218,000 | 30.2% |
| Mali | 13,016,000 | 12,040,000 | 92.5% |
| Senegal | 12,530,000 | 12,028,000 | 96.0% |
| Burkina Faso | 15,750,000 | 9,292,000 | 59.0% |
| Somalia | 9,030,000 | 8,895,000 | 98.5% |
| Guinea | 10,073,000 | 8,502,000 | 84.4% |
| Ivory Coast | 21,104,000 | 7,745,000 | 36.7% |
| Rest of the region | 422,000,000 | 47,618,000 | 11.3% |
| Regional Total | 800,000,000 | 241,531,000 | 30.1% |

*Source: Pew Research Center's Forum on Religion & Public Life • Mapping the Global Muslim Population, October 2009*

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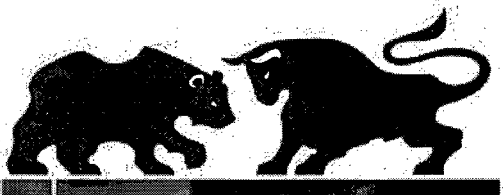

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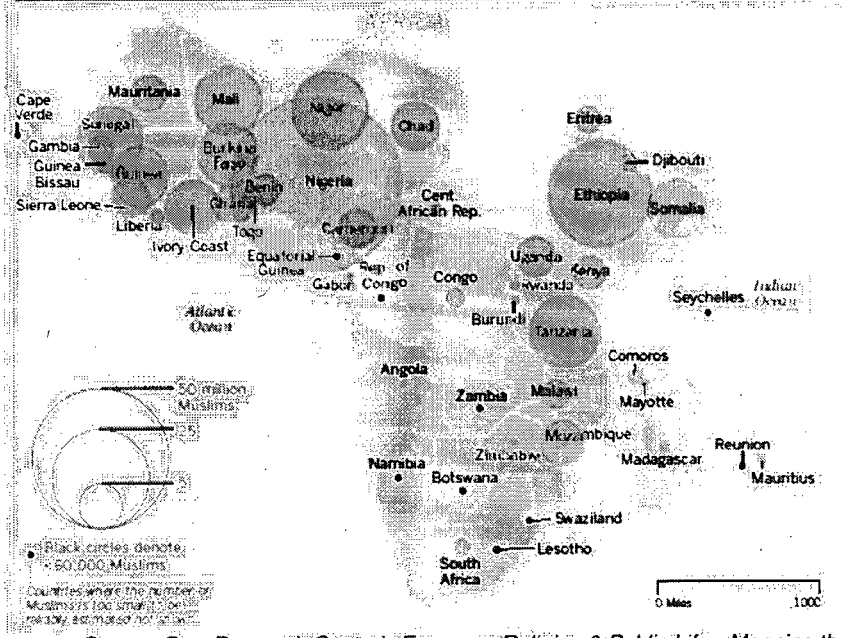
MARKET Insights

# Halal Market for Palm Oil in Sub-Saharan Africa

◀ Continued from page 7

Figure 2: Geographical Distribution of Muslim Population in Sub-Saharan Africa




*Source: Pew Research Center's Forum on Religion & Public Life • Mapping the Global Muslim Population, October 2009*

advantages, also because they are suitable for everybody, Muslims and non-Muslims alike.

As exporters, Malaysian palm oil players have many advantages, since they already have established global networks and strategic marketing strategies in place. With help from government agencies such as JAKIM, Halal Industry Development Corp, Matrade, MPOB and also MPOC, our palm oil industry should work to become a world leader not only in terms of palm oil exports but also in providing Halal products for the food, cosmetics and personal care industries.

Despite Malaysia being the pioneer in the Halal products market, other countries have overtaken us as leading players in this segment. Industry players must put more concerted efforts to capture this lucrative market and reclaim the country's position as the leading provider of Halal food and products, and help establish Malaysia as the Global Halal Hub ■ Iskahar

MARKET Insights

◀ Continued from page 5

# Incentives to attract MPO sector to plant and refine oil palm in Cameroon

Cameroon's palm oil refining sector as there is a ready local market, besides a huge neighbouring market, for the oil and its products.

Malaysian plantation companies should also consider investing in offshore plantations in Cameroon, where weather conditions are suitable for oil palm, besides there being ample fertile volcanic land. Politically, the country is very stable and arable land is very cheap and underdeveloped.

Water supply is available from rainfall and rivers and labour is also relatively cheap. The regional markets for palm oil are huge, and there is no stringent scrutiny from NGOs on palm oil export to Europe. There are already successful private investors in the sector in Cameroon.

**Opportunities abound**

Cameroon has not been doing very well in the oils and fats sector despite having huge areas of underdeveloped land. The country does not produce enough oils and fats for its own requirement. It produces some 200,000 MT of palm oil a year and smaller amounts of other oils such as groundnut and cottonseed, and thus imports palm oil to fill the gap.

Imported palm oil products have been cheaper than locally-produced palm oil despite the import tax of about 55% imposed. The local industry was not too happy about this situation and urged the government to increase the import duty on palm oil on the pretext that it would expand local production of palm oil.

In April 2009, Cameroon raised the import duty on cooking oil to a high of US$3/litre. This put a sudden stop to the import of palm oil into the country, but refineries were allowed to import crude palm oil. The high duty rate encouraged local refineries to increase their capacities to meet the local demand. Soap factories were also allowed to import crude palm oil and palm stearin for production at the normal import duty rate. Other palm oil products are not affected by the new import duty.

The price of locally produced crude palm oil has always been higher than the world price of crude palm oil, although the production cost of crude palm oil is cheaper than in Malaysia or Indonesia. With cheap land and labour, it is clear that investments in oil palm plantations, mills and refineries in Cameroon will be very profitable.

This situation has already brought about the opening of a number of new plantations by the government and private sectors. Cameroon is a ready market for palm oil. It is perhaps timely for Malaysian investors to look towards this part of Africa for offshore plantations. It may be a little risky, but the potentials are huge and competition, little. ■ Kumar

| The other taxes are: | |
|---|---|
| Withholding Tax: | 1% on CIF value |
| Excise Duty: | 25% on CIF value |
| VAT: | 17.5% |
| Municipality surcharge: | 10% VAT |
| CEMAC Municipality Tax: | 1% CIF value |
| Information Fee: | 0.45% on CIF value |
| OHADA Tax: | 0.05% on CIF value |



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# Antistatic Filterelements
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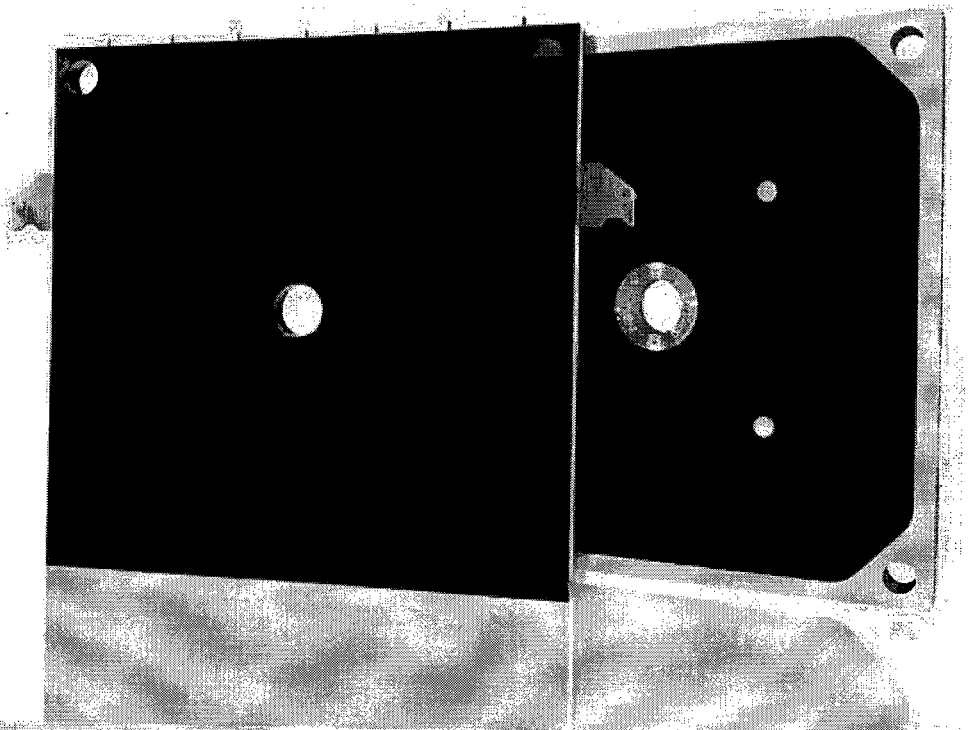

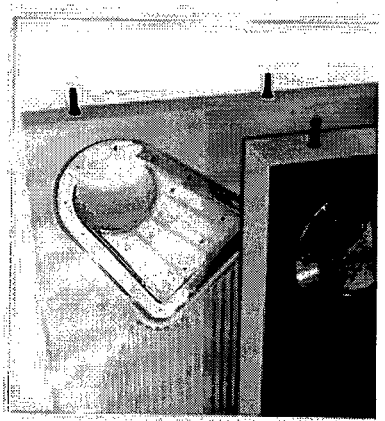

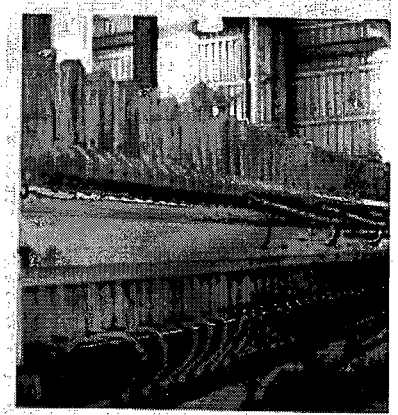

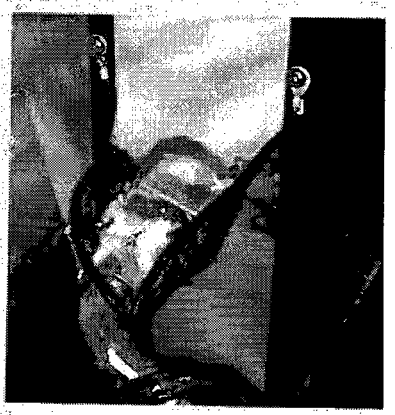

## Antistatic Filterelements
## »For Edible Oil Fractionation«

For several years, membrane filter presses have been utilized in the palmoil fractionation industry.

During the filtration of the oil slurry, electrostatic charges are generated with high charge density. These electrical discharges induce an aging process on the membrane surface causing the material to become brittle. This results in premature failures of the membrane filter plate.

To avoid these damages and to prolong the life of the membrane filter plate, Klinkau has developed a special antistatic material compound with excellent flexing properties.

The special Klinkau antistatic material compound also ensures a safe working environment and is certified according to LMBG for the Food Industry (German utility patent Nr. 20 2006 007 248.9). An appropriate grounding of the membrane filter plate is essential to protect the membrane. With proper grounding, the harming electrostatic charges are dissipated, therefore, prolonging the life of the membrane filter plate.

The antistatic material compound is available for all of Klinkau's membrane plate product lines including welded and replaceable membrane designs. The Klinkau product line meets all international standards to satisfy any capacity requirement.

The Klinkau antistatic membrane plate product line is also recommended for winterization applications. High flow rates, which are a prerequisite for polishing filtration applications, can be easily accomplished with Klinkau membrane filter plates.

For mid fractions or palm kernel oil, Klinkau has developed membrane filter plate systems designed for 30 bar squeezing or higher if requested.

1 **High Pressure Plate**
30 bar high pressure plate with special feed eye arrangement.

2 **Membrane Filter Press**
Membrane filter press equipped with Klinkau antistatic membrane filter plates in a typical single fractionation.

3 **Grounding Connections**
Membranes with grounding connections to dissipate the electric charges.

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growing body of evidence that shows a weak connection between saturated fat and heart disease, weight gain and diabetes.

The positive forecast for palm oil exports to the United States, the ongoing removal of trans fats from food, changing consumer attitudes towards food and the conventional wisdom on fats pose both opportunities and challenges for driving greater demand for the use of palm oil in the United States.

As more trans fats are removed from the US food supply, food manufacturers will continue to look for suitable replacements for this highly functional ingredient. The opportunity will be to effectively drive food manufacturers to palm oil as the preferred trans fat replacement by building consumer support through communicating the new scientific findings on fatty acids, along with promoting the sustainable practices of the Malaysian palm oil producers. To be successful in driving the demand for palm oil, this approach must be strategic, coordinated and well thought-out.

As food manufacturers remove trans fats from their products, it will be important for the palm oil industry to tell its very positive story to the food industry on how palm oil is a functional replacement for trans fats. Of course, in the United States, like virtually everywhere else, the consumer is the ultimate driver for the success of many food ingredients. As consumers continue to seek out information about the foods they buy, it will be important to promote not only the positive nutritional properties of palm oil, but also to provide them with information on the sustainable and animal-friendly practices of the Malaysian palm oil industry. Moreover, a contrary voice to challenge the conventional wisdom on fatty acids will go a long way in helping build consumer confidence in choosing products that contain a functional trans fat replacement, such as palm oil.

The American Palm Oil Council and its industry partner, Loders-Croklaan, have in recent years teamed up to capitalise on the opportunities the United States holds for Malaysian palm oil. Together, they have achieved a significant amount of success in the areas mentioned above, as well as in other efforts in science and research. However, this is a critical time now in the United States when it comes to food. The palm oil industry will be missing out on a great opportunity if it does not take full advantage of what the future holds for palm oil in the United States. ■ APOC

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# Bangladesh Buys More Vegetable Oils

## This, despite a drop in the Import of Palm Oil

BANGLADESH is a potential market for essential commodities, including edible oils, because of insufficient local production, a steadily growing population that now exceeds 150 million, and its improving economy. The per capita consumption of oils and fats is around 9.4kg at present, as against 6.6kg in 2000.

Rural consumers play a vital role in determining the market size, since this is where about 80% of the Bangladeshis live. But the rural people have a limited purchasing power, which is also a determining factor for the marketing of any commodity. If the price of any commodity exceeds the purchasing power of the rural people, its demand declines, which happened last year in the case of palm oil.

Palm oil, soybean oil and canola/mustard oil are the three major edible oils consumed in Bangladesh. Palm oil is the highest consumed edible oil, catering to 65-70% of the demand. Loosely-packed edible oils occupy about 75% of the market share in the country, while the bottled edible oils take up the remaining 25%. Palm oil dominates in the loose oil market, but soybean oil leads in the bottled edible oil market.

**Import of MPO**

The volume of Malaysian Palm Oil (MPO) imported by Bangladesh increased to 164,320 MT in 2010, registering a 3.24% rise despite a decline in the total import of palm oil (CPO, CPL and RBD PL) by 9.09% over the 2009 figure. The import share of MPO went up to 18%, as against 16% in 2009. The rest was taken by Indonesian palm oil (IPO).

In the early part of 2010, from January to March, the import of MPO by Bangladesh showed a promising trend, with its share increasing to 22%. It was the positive outcome of POTS 2009 held in Dhaka in December 2009, which was organised to develop greater understanding and relationship between MPO suppliers and local refinery owners-cum-palm oil importers. After POTS 2009, MPO suppliers were found to be active in the Bangladeshi market, which increased the import of MPO. But in the later months of the year, the presence of MPO suppliers was not so conspicuous. Had they been active during the rest of the year, the MPO import share in the country could have been much higher in 2010.

Undoubtedly, price plays a vital role in choosing the sources for import. Importers are usually inclined to seek cheaper sources, such as Indonesia for

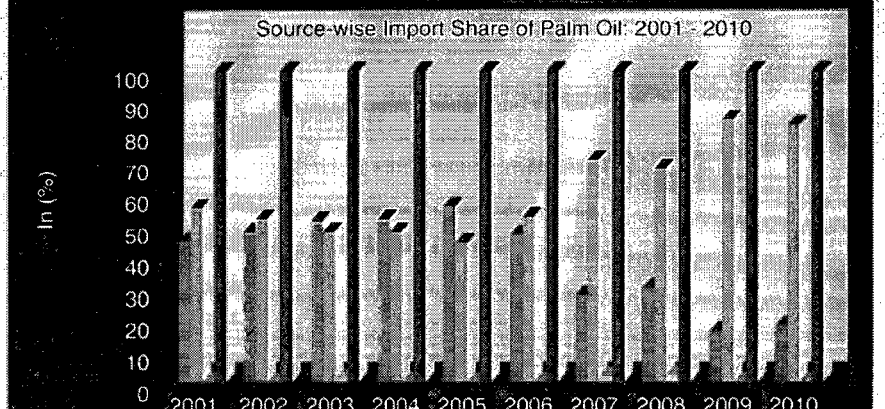
*Continued on page 7* ▶

Table 1: Indigenous Production of Oils and Fats (2005 - 2009)

| ('000 MT) | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Soyabean Oil | 3.9 | 5.6 | 6.0 | 0 | 2.3 |
| Mustard Oil | 70.3 | 82.2 | 60.4 | 58.0 | 60.6 |
| Coconut Oil | 11.0 | 10.8 | 10.8 | 12.9 | 10.7 |
| Butter | 22.3 | 21.2 | 20.3 | 19.5 | 19.1 |
| Linseed Oil | 2.3 | 2.4 | 4.4 | 3.1 | 0.8 |
| Total | 109.8 | 122.2 | 101.9 | 93.5 | 93.5 |

*Source: Oil World Statistics, May 2010*

Figure 1: Source-wise Import Share of Palm Oil: 2001-2010 (in percentage)




| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Malaysia | 45 | 48 | 51 | 52 | 56 | 47.25 | 27.5 | 30 | 16 | 18 |
| Indonesia | 55 | 52 | 48 | 48 | 44 | 52.5 | 71 | 68 | 84 | 82 |
| Others | 0 | 0 | 1 | 0 | 0 | 0.25 | 1.5 | 2 | 0 | 0 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

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# FCPO expected to rebound, but rally unlikely

*by Benny Lee*
*Chief Market Strategist of NextView Group*

THE crude palm oil futures price uptrend was not able to sustain last month, as I was expecting the price to hit RM4,100 provided it stayed above RM3,880. The crisis in the Middle East put some fear into traders.

The immediate support level then was broken in mid-February and plunged to an intra-day low of RM3,336 on Feb 24, before rebounding and settling at RM3,472 at the end of February, 9% lower than last month's price. It was a volatile month for palm oil, with the price ranging between RM3,336 and RM3,967.

Trading volume was relatively high as traders in the futures market who were in long positions started to exit in the past few weeks and this can be identified with strong volumes. The average daily volume for the past 20 days has been 15,500 contracts, if compared with 12,600 contracts during the same period at the end of January. A record 30,500 contracts were traded on Feb 24 alone.

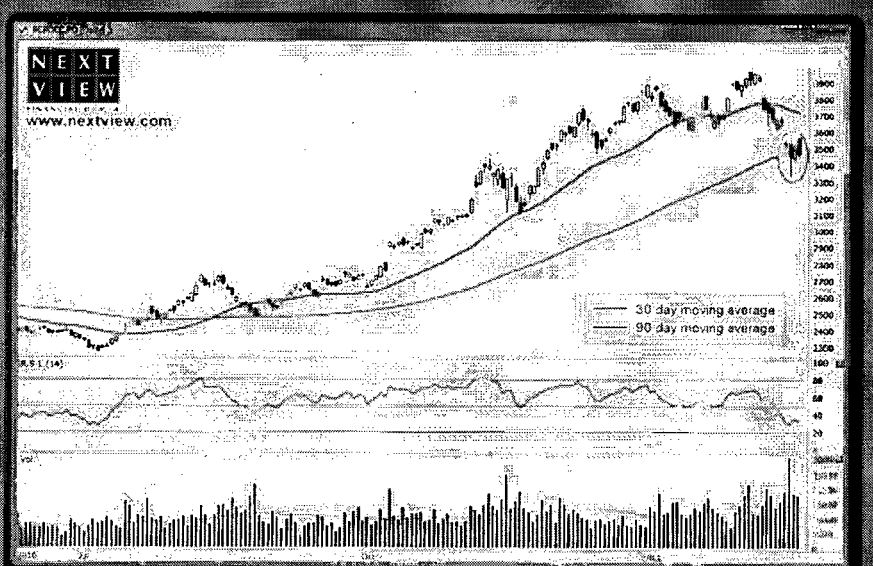
Supply for palm oil normally picks up in March. With the crisis looming in the Middle East, traders are being cautious. Palm oil exports were down in February. Cargo surveyor SGS estimated a decline of 9.1% at 1.09 million metric tonnes for February while Intertek Agri Services estimated a fall of 10% at 1.11 million MT.

There was a strong increase in the first half of February, but exports started to fall sharply in the second half of the month. The latest news report from Golden Agri-Resources says Nestle, Unilever, and Burger King have not resumed palm oil purchases.

Technically, price is in a major correction. The short-term 30-day average, which has been increasing since July last year, has started to decline. The longer-term 60- and 90-day moving averages are still increasing, but the FCPO price is below the averages.

The long-term 90-day moving average is at RM3,500. The price needs to break above the previous key support level of RM3,600 to resume the uptrend or we may see a reversal in the trend. The reduce slightly because of the Middle East/North Africa crises and strengthening of the US dollar. Investors are getting out of the overbought pan-Asia and heading back to the West, where the equity markets are behind the Asian markets.

Based on the technical and fundamental readings, the price of FCPO may slide further downwards. However, immediate support level is at RM3,400, and therefore expect a short technical rebound to test the RM3,600 level.




*FCPO daily chart as at 28 February 2011.*
*Charted by Benny Lee using NextView Advisor Professional*

FCPO price has been staying above the Ichimoku Cloud indicator since July last year and is now below the cloud. All these trend indicators show that the uptrend is currently being tested.

The diverging momentum indicators against the price trend have started to show their effect on the trend. These indicators, which have been showing a weak momentum in the trend since December last year, are now below the middle level. This indicates that the market is dominated by the bears.

The Bollinger Bands has started to aggressively expand with the FCPO price trading near the bottom bands. This indicates a volatility breakout on the downside. These momentum indicators indicate a change in market sentiment.

There is a high chance that RM3,900 may be the top for this year. Technically, the price should be where it is now in the uptrend, at the longer-term uptrend average. It has to stay above RM3,600 to maintain the uptrend momentum. The long-term average, however is at RM2,500.

Fundamentally, supply is expected to increase while demand is expected to

Chances of an uptrend rally are thin because of the weak uptrend momentum and sentiment. If the price is unable to stay above RM3,600, then it may just continue to move sideways between RM 3,200 and RM3,600. My average for this year is revised again to my earlier forecast, at between RM3,300 and RM3,600. ■

*Mr. Benny Lee is a private trader, trainer and sought-after speaker in the financial market. He is the Chief Market Strategist for NextView Group. NextView Group is a group of companies in the Asian, region that provides a leading real-time investment tool for both professional and retail investors. NextView is also a leading Investor Education training provider. For more information, log on to www.nextview.com.*

*The above analysis and commentary is based on the writer's personal opinion towards the price of crude palm oil using technical analysis and should not be construed as any form of investment advice. The writer will not be responsible for any decision made from using the above article.*

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MARKET Insights

# Indian Economy Sees Remarkable Recovery, Despite it Being a Difficult Year

THE fiscal year 2009-2010 began as a difficult one for India's economy. Yet, it posted a remarkable recovery, with growth improving to 7.2%. A major concern during the fiscal year, especially in the second half, was the emergence of high double-digit food price inflation. The global financial meltdown and consequent economic recession in developed economies was clearly a major factor in India's economic slowdown.

As far as the vegetable oils sector was concerned, 2010 was another record-breaking year for imports by India. At 9.12 million metric tonnes, total imports set a new record. The domestic production of vegetable oils in the 2009-10 oil year was lower, at 7.88 million MT compared with 8.21 million MT in 2008-09. To bridge the demand-supply gap, the country had no option but to increase its dependence on imports.

**Domestic production**

A glance at the production of oilseeds and oils, in the table below, shows the stagnation or fall in the production of the major oils.

**Imports**

Table 2 shows the composition of the Indian import basket. The overall increase of 3% in import quantities worked in favour of soft oils at the cost of palm oil. The biggest gainer was soybean oil, which accounted for an increase of 42% compared with the 2009 import, due to the narrowing of price premiums for SBO compared with palm oil products.

The decrease in palm oil products was reflected mainly in lower imports of RBD olein and in the non-edible grades. CPO import maintained its 2009 level.

Soft oils increased their share of the import basket, from 20% in 2009 to 25% in 2010, with a corresponding decrease from 80% to 75% for palm oil products. The 2010-11 oil year is expected to see a resurgence in domestic production, expected to rise to the 2009 level of 8.2 million MT, with trade sources projecting this increase to have a direct, negative impact on imports.

High international prices are proving to be a boon to local farmers, but, at the same time, they are contributing to a sharp rise in inflation, especially in food costs. Monetary measures are being adopted to curb inflation and consumption. In spite of the improving economic situation and increase in purchasing power, imports are bound to trend lower, unless prices fall to levels that can give consumption a boost.

Policy makers continue to be faced with the dilemma of striking a balance between controlling inflation and the reported decrease in production due to poor returns to farmers. On the one hand there are calls for an increase in import duties and on the other hand, there are pressures of rising prices and inflation, which have shown signs of receding in the previous year but have reared their ugly heads again.

The rise in the prices of agricultural products, including vegetables and cooking oils, has been seen to be a major contributor to the rise in inflation. Stagnation in domestic production of oilseeds is perceived to be the result of uneconomic returns to farmers because of the zero rating of import duties on vegetable oils. Trade associations are strident in their calls for increases in import duties but India's policy makers have had to tread carefully, lest an increase in import duty results in higher inflation.

**Future projections**

In keeping pace with the economic growth and the continuous increase in the size of the middle-income group, the Indian per capita consumption of vegetable oils has increased appreciably. Coupled with stagnation in the domestic production of oilseeds, this has led to India's emergence as the largest importer of vegetable oils, making it a significant contributor to the development of the global trade in these oils.

The per capita GDP has shown an appreciable increase, crossing the

*Continued on page 6* ▶

Table 1: Domestic Quantity in Lakh Tonnes (10 Lakhs = 1 Million)

| Oilseeds/ S.E.Oils | Oil Extr.% | 2009-2010 Season Oilseeds Prodn. | 2009-2010 Season Marketable Surplus | 2009-2010 Season Total Oils Aavail. | 2008-2009 Season Oilseeds Prodn. | 2008-2009 Season Marketable Surplus | 2008-2009 Season Total Oils Aavail. |
|---|---|---|---|---|---|---|---|
| OILSEEDS | | | | | | | |
| Groundnut (inshell) | 40 | 51.2 | 15.2 | 6.1 | 59.2 | 20.4 | 8.2 |
| Soybean | 17 | 85.0 | 75.0 | 12.8 | 89.0 | 78.0 | 13.3 |
| Rape/ Mustard/Toria | 33 | 64.2 | 62.2 | 20.5 | 63.5 | 61.5 | 20.3 |
| Sunflower | 35 | 9.9 | 9.8 | 3.4 | 11.5 | 11.4 | 4.0 |
| Sesame | 45 | 7.6 | 4.6 | 2.1 | 5.8 | 3.8 | 1.7 |
| Castor | 45 | 9.3 | 9.3 | 4.2 | 9.8 | 9.8 | 4.4 |
| Niger | 30 | 0.8 | 0.5 | 0.2 | 0.8 | 0.4 | 0.1 |
| Safflower | 30 | 1.5 | 1.4 | 0.4 | 1.7 | 1.6 | 0.5 |
| Linseed | 43 | 1.6 | 1.6 | 0.7 | 1.3 | 1.3 | 0.6 |
| Sub Total | | 231.1 | 179.6 | 50.4 | 242.6 | 188.2 | 53.1 |
| OTHER OILSEEDS | | | | | | | |
| Cottonseed ** | 12.5 | 91.5 | 86.5 | 10.8 | 89.3 | 84.3 | 10.5 |
| Copra | 65 | 6.6 | 6.6 | 4.3 | 6.5 | 6.5 | 4.2 |
| Sub Total | | 98.1 | 93.1 | 15.1 | 95.8 | 90.8 | 14.7 |
| SECONDARY SOURCE | | | | | | | |
| Rice Bran | 15 | -- | -- | 8.0 | -- | -- | 8.5 |
| Rapeseed Cake | 9 | -- | -- | 2.3 | -- | -- | 2.1 |
| Sunflowerseed Cake | 12 | -- | -- | 0.5 | -- | -- | 0.7 |
| Groundnut Cake | 7 | -- | -- | 0.0 | -- | -- | 0.5 |
| Cottonseed & Others | 7 | -- | -- | 0.5 | -- | -- | 0.5 |
| Minor Oils-Inds (TBOs) | -- | -- | -- | 0.2 | -- | -- | 1.0 |
| Local Palm Oil | -- | -- | -- | 0.0 | -- | -- | 0.7 |
| Sub Total | | 0.0 | 0.0 | 13.3 | 0.0 | 0.0 | 14.3 |
| Grand Total | | 329.2 | 272.7 | 78.8 | 338.4 | 279.0 | 82.1 |

*Source: SEA*



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MARKET *Insights*

# It's been a **Good Year** in Middle East

## And Now, for a Better Year Ahead!

WHEN 2010 started, there had been some projection that the export volume of Malaysian palm oil (MPO) will be at 16 million metric tonnes (MT). Given a conservative CPO price forecast of RM2,800 per MT, Malaysia's palm oil export earning was expected to touch more than RM65 billion by end of 2010. However, as the year came to a close, there was some shake-up in the industry as a result of the upward and downward movements of CPO prices.

When 2011 began, the MPOB export statistics for 2010 showed that it has indeed been a very good year for MPO, compared with the lame 2009 period. Malaysia, the world's second largest producer of palm oil and products, is expected to rake in export revenue touching RM53.9 billion in 2010 from this star commodity. MPO exports during January to December 2010 registered at more than 16.66 million MT, besides another 2.1 million MT to the EU-27 nations. This is a 5.3% increase compared with 15.9 million MT (plus 1.89 million MT to EU-27) in 2009.

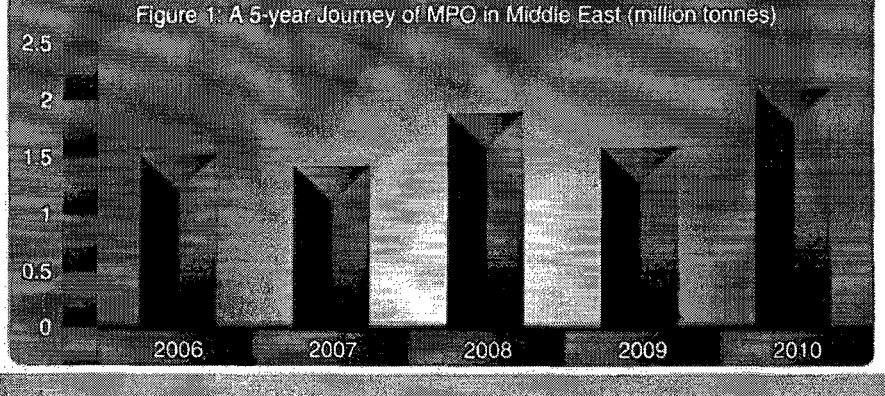
All this has been due to the global economic and financial recovery from the chaos between the ends of 2008 and 2009. Some parts of the world are still in the recovery process, but some other parts, including the Middle East, are now breathing comfortably after being strongly affected by the downturn. This was the cause for the improvement in exports of MPO to Middle East last year.

Even though exports to some of the Middle Eastern countries have been lower, the overall exports of MPO to the region in 2010 have been the highest since 2006. Five years ago, our exports to the Middle East were recorded at 1.54 million MT and since then it has experienced some fluctuations, dropping to the lowest at 1.44 million MT in 2007. The figure jumped up to 1.9 million MT in 2008, dropped again in 2009 to 1.6 million MT, but rebounded to a record high of 2.12 million MT last year, or a 29.2% increase over the 2009 exports (Figure 1). This situation was helped by stronger demands from two of the region's biggest importers – Egypt and the United Arab Emirates (UAE). Exports to these two countries accounted for 65.3% of the total exports to the region in 2010.

Table 1: Middle East - 2010 Export of Malaysian Palm Oil (MT)

| | Jan-Dec 2009 | Jan-Dec 2010 | Change (Vol) | Change (%) |
|---|---|---|---|---|
| **East of Suez** | | | | |
| Armenia | 256 | 0 | -256 | -100.0 |
| Azerbaijan | 0 | 0 | 0 | 0.0 |
| Bahrain | 4,983 | 1,944 | -3,040 | -61.0 |
| Georgia | 575 | 5,699 | 5,124 | 891.0 |
| Iran | 342,273 | 272,944 | -69,329 | -20.3 |
| Iraq | 1,149 | 14,514 | 13,365 | 1,163.3 |
| Jordan | 3,858 | 5,327 | 1,469 | 38.1 |
| Kuwait | 21,525 | 7,132 | -14,393 | -66.9 |
| Oman | 98,602 | 63,836 | -34,766 | -35.3 |
| Qatar | 1,479 | 976 | -503 | -34.0 |
| Saudi Arabia | 49,305 | 37,819 | -11,486 | -23.3 |
| Turkey | 19,589 | 17,604 | -1,985 | -10.1 |
| UAE | 186,879 | 447,792 | 260,913 | 139.6 |
| Yemen | 76,795 | 52,733 | -24,062 | -31.3 |
| Sub-Total | 807,268 | 928,317 | 121,049 | 15.0 |
| **West of Suez** | | | | |
| Algeria | 10,335 | 31,578 | 21,243 | 205.5 |
| Cyprus | 114 | 39 | -75 | -65.7 |
| Djibouti | 136,240 | 162,501 | 26,261 | 19.3 |
| Egypt | 609,210 | 938,722 | 329,513 | 54.1 |
| Eritrea | 0 | 1,378 | 1,378 | 1,377.7 |
| Ethiopia | 17,533 | 13,822 | -3,712 | -21.2 |
| Lebanon | 4,324 | 7,243 | 2,919 | 67.5 |
| Libya | 457 | 169 | -288 | -63.0 |
| Morocco | 1,929 | 5,058 | 3,129 | 162.2 |
| Somalia | 9,677 | 7,796 | -1,881 | -19.4 |
| Sudan | 520 | 551 | 31 | 6.0 |
| Syria | 15,349 | 4,154 | -11,195 | -72.9 |
| Tunisia | 31,281 | 22,319 | -8,962 | -28.7 |
| Sub-Total | 836,969 | 1,195,331 | 358,361 | 42.8 |
| **Total in Region** | 1,644,237 | 2,123,647 | 479,410 | 29.2 |

*Source: MPOB*




**UAE making come back, Iran still intact**

Exports of MPO to the East of the Suez sub-region were higher by 121,049 MT (or 15%) than the 807,268 MT exported in 2009, with one reason being higher demands from key importers such as the UAE and the smaller importers in the region, including Georgia (higher by 5,124 MT) and Iraq (higher by 13,365 MT). The UAE is making a strong comeback and leads the Middle East again with an enormous import volume of 447,792 MT,

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MARKET Insights

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# Indian Economy Sees Remarkable Recovery, Despite it Being a Difficult Year

US$1,000 mark. In terms of actual PPP, it is close to the US$3,000 mark, with expectations of it crossing US$4,000 by 2015. The Indian economy, already in the trillion dollar club, is ranked fourth in PPP terms by the International Monetary Fund and is set to grow steadily. Though it is currently ranked 12th in size as a consumer market, it is expected to become the fifth largest by 2025.

Since the country embarked on the path of economic liberalisation in the early 1990s, the Indian GDP has been reaching for the skies. With an annual GDP growth rate of 8% for the last few years, the middle-income group has burgeoned, injecting a vast purchasing power into the consumer market and impacting the per capita consumption of oils and fats, as reflected in the table below.

Over this five-year period, the Indian per capita consumption has increased from 11.6kg to 14.2kg. This is way below the global average, which ranged 21.39kg to 24.08kg during the same period. With this scenario on the economic front, the Indian per capita consumption is set to increase at a fast pace, adding further to the demand-supply shortfall, which can only be met by increased imports.

Table 2: Vegetable Oils Imports

| | Jan-Dec 2010 | Jan-Dec 2009 | Changes (Vol.) | Changes (%) |
|---|---|---|---|---|
| SFO | 647,672 | 632,883 | 14,789 | 2 |
| SBO | 1,568,752 | 1,107,149 | 461,603 | 42 |
| RAPE OIL | 8,074 | 52,238 | -44,164 | -85 |
| COTTON OIL | 13,438 | 5,069 | 8,369 | 165 |
| CPL | 990 | 4,183 | -3,193 | -76 |
| CPO | 5,243,508 | 5,263,738 | -20,230 | 0 |
| CPKO | 223,094 | 216,161 | 6,933 | 3 |
| RBDPL | 1,141,408 | 1,223,779 | -82,371 | -7 |
| PKFAD | 8,970 | 20,801 | -11,831 | -57 |
| PFAD | 235,631 | 277,935 | -42,304 | -15 |
| CPS | 21,099 | 57,531 | -36,432 | -63 |
| CCN OIL | 999 | 16,893 | -15,894 | -94 |
| OTHERS | 7,987 | 5,[illegible] | 2,901 | 57 |
| TOTAL | 9,121,622 | 8,883,443 | 238,179 | 3 |

Source: SEA

**Sensitivity analysis**

The two main factors influencing total off-take of vegetable oils are population and per capita consumption. A sensitivity analysis in the next table highlights the possible increase in total vegetable oils demand based on these factors, following the improvement in disposable incomes.

In this table, the year-on-year population increase has been factored on the net incremental rate of 1.8% a year, the national average rate of growth. At current per capita consumption of about 14kg, the annual demand for vegetable oils was projected at 16.1 million MT for 2010. A cross-referencing of changes in population with the changes in per capita consumption will provide the projected vegetable oils demand in million MT.

At an annual growth rate of 1.8%, the population is expected to grow from 1.15 billion in 2010 to an estimated 1.25 billion by 2015. If the per capita consumption were to remain unchanged at the current level of 14kg, the total vegetable oils demand is expected to rise to 17.6 million MT from the 2010 demand level of 16.1 million MT; but per capita consumption cannot be expected to stagnate at current levels.

With increases in disposable incomes, the consumption rate will definitely show an increase as well. An increase by 1kg to 15kg will push up the total demand to 18.86 million MT and an increase to 16kg will push this up to 20.11 million MT by 2015.

The potential for further increases in total demand is mind boggling. If the Indian per capita disposable level of vegetable oils were to rise to the current world average of 24.08kg, the total demand for these oils by 2015 could rise to an astronomical 30.27 million MT! Although a demand of this magnitude may seem unlikely in the near-term, the scenario cannot be completely ruled out for sometime in the future, with the Indian growth engine gaining momentum.

This analysis provides food for thought. For India, the option is to strike a reasonable balance between total food sufficiency on the one hand and extreme dependence on imports on the other. All options for increasing domestic production will have to be explored. Increasing agricultural productivity would be a top priority, including the planting of GM crops, if necessary.

The global trading community, on its part, needs to position itself to be part of this food chain. Countries with resources suitable for vegetable oils production need to gear themselves to meet the challenges of the demand arising from not only from India, but on a global level as well. ■ Bhavna

Table 3: Indian Per Capita Consumption (kg)

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Population (Millions) | 113[illegible] | 1147 | 116[illegible] | 1131 | 1198 |
| Per Capita (kg) | 11.60 | 11.90 | 12.40 | 12.90 | 14.20 |
| World Average (kg) | 21.[illegible] | 22.[illegible] | 23.03 | 23.[illegible] | 24.08 |

Source: Oil World

Table 4: Vegoils Demand Sensitivity Analysis (in Million MT)

| Year | Populace | Oil Consumption (kg/capita) | | | | | |
|---|---|---|---|---|---|---|---|
| | Millions | 14.00 | 14.50 | 15.00 | 15.50 | 16.00 | 24.08 |
| 2010 | 1,150 | 16.10 | 16.68 | 17.25 | 17.83 | 18.40 | 27.69 |
| 2011 | 1,170 | 16.39 | 16.9[illegible] | 17.56 | 18.15 | 18.73 | 28.19 |
| 2012 | 1,192 | 16.68 | 17.28 | 17.87 | 18.47 | 19.06 | 28.69 |
| 2103 | 1,213 | 16.98 | 17.59 | 18.19 | 18.80 | 19.41 | 29.21 |
| 2014 | 1,235 | 17.29 | 17.91 | 18.53 | 19.14 | 19.76 | 29.74 |
| 2015 | 1,257 | 17.60 | 18.23 | 18.86 | 19.49 | 20.11 | 30.27 |

Source: India Online, 2010 Population



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MARKET Insights

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# Bangladesh **Buys More** Vegetable Oils

## This, despite a drop in the Import of Palm Oil

palm oil. However, there is another important factor in choosing the import source, which is the presence of suppliers. It has been seen that if the Malaysian suppliers are active in the market, the import share of MPO will move up, irrespective of its price. Most of the local importers are aware of the quality of MPO and the commitment of MPO suppliers as well, which is why they are ready to pay a little higher for MPO, provided the suppliers are active in the market.

Before 2000, about 80-90% of the palm oil imported by Bangladesh came from Malaysia. But the following years witnessed a decline, though this did improve again from 2002 till 2005. After that, the downward trend continued and dropped to 16% of the country's total edible oil imports in 2009. Nevertheless, there was a slight improvement last year – which can be advanced further in the coming years if the approaches of MPO suppliers are more enterprising.

**Import of Palm Oil**

The import of palm oil (CPO, CPL and RBD PL) declined by about 9.09% compared with 2009, with demand among consumers in 2010 declining because of its higher price in the international market, causing the price of refined olein to rise in the local market. As palm oil is consumed by the masses who have limited purchasing power, its higher price compelled them to reduce their use of the oil. Otherwise, the import volume of palm oil in 2010 would have exceeded one million metric tonnes, as it was in 2009.

Increase in the average C&F and landed prices of CPO, CPL & RBD PL in 2010 ranged from 24% to 30% while the average wholesale price of refined olein increased by about 23% compared with 2009, causing the demand for palm oil, as well as its import by the country, to drop.

**Import of CDSBO, Soyabean and Canola/Mustard Seed**

The import of CDSBO in 2010 touched 425,984 MT, an increase of 17.13% despite the higher price of CDSBO in the international market and consequently, a higher price of refined soybean oil in the local market. The average C&F and landed prices of CDSBO increased by 14.57% while the average price of refined soybean oil increased by only 9.14%, which did not adversely affect the import of CDSBO by the country. The import volume of CDSBO increased as the consumers of refined soybean oil are mostly urban people having higher incomes and therefore, able to afford the higher price of refined soybean oil.

Also 52,783 MT of soybean, the oil equivalent of which is 9,500 MT, were imported. The import quantity of soybean was lower by 71.34% compared with 2009. Despite the higher import of CDSBO, the import volume of CPO, CPL and RBD PL together was more than two times higher than that of CDSBO in 2010.

The import volume of canola/mustard seed was 151,003 MT, the oil equivalent of which is 57,381 MT. The import quantity of canola/mustard seed was higher by 30.65% compared with the 2009 import.

**Import of Total Oils and Fats**

The total oils and fats imported by Bangladesh dropped by 2.93% in 2010 compared with the 2009 figure. Edible oils and fats constitute about 98% of the total oils and fats imported. Despite the higher import of CDSBO and canola/mustard seed, total import of oils and fats declined due to the lower import of palm oil, which constituted 64% of the total oils and fats imported. Palm oil consumers lowered their demand for the oil due to its higher price in 2010.

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Table 2: Source-wise Import Share of Palm Oil: 2001-2010 (in percentage)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Malaysia | 45 | 48 | 51 | 52 | 56 | 47.25 | 27.5 | 30 | 16 | 18 |
| Indonesia | 55 | 52 | 48 | 48 | 44 | 52.5 | 71 | 68 | 84 | 82 |
| Others | - | - | 1 | - | - | 0.25 | 1.5 | 2 | - | - |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

*Source: MPOC Market Intelligence*

Table 3: Import of Palm Oil (CPO, CPL & RBD PL) in MT

| | Jan-Dec 2010 | Jan-Dec 2009 | Change (volume) | Change (%) |
|---|---|---|---|---|
| CPO, CPL & RBD PL | 930,147 | 1,023,128 | -92,981 | -9.09 |

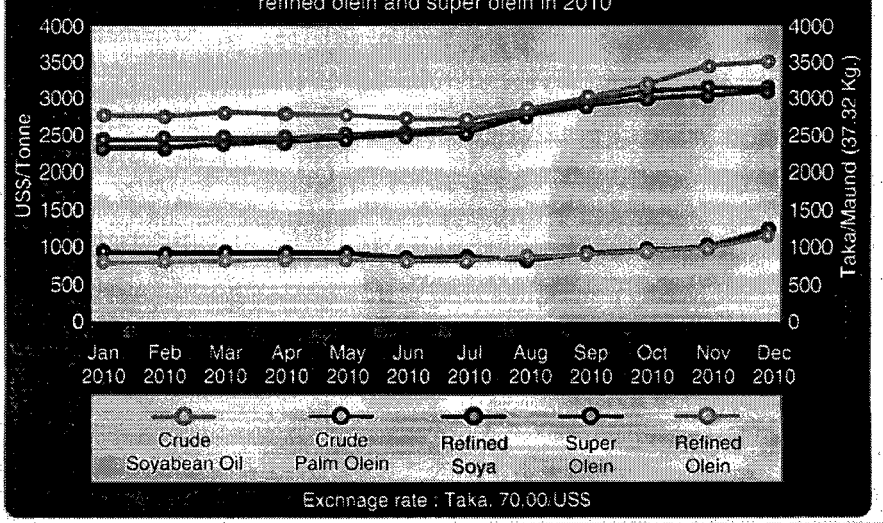
*Source: MPOC Market Intelligence*

Table 4: Average C&F Price of CDSBO vis-à-vis average wholesale Price of Refined Soyabean Oil

| In US$/MT | 2010 | 2009 | Change (Volume) | Change (%) |
|---|---|---|---|---|
| Average C&F Price of CDSBO | 936 | 817 | 119 | 14.57 |
| Av. Wholesale Price of Refined Soyabean Oil | 1,146 | 1,050 | 96 | 9.14 |

*Source: MPOC Market Intelligence*

Figure 2: Month-wise C&F prices of imported CDSBO and CPL vis-à-vis local wholesale prices of refined soybean oil, refined olein and super olein in 2010



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MARKET Insights

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# Bangladesh Buys More Vegetable Oils

## This, despite a drop in the Import of Palm Oil

20,448 MT of oleochemicals were imported from Malaysia in 2010, an increase of 6.31% compared with the 2009 figure. The oleochemicals included 2,868 MT of glycerine, 8,380 MT of soap noodles and 6,978 MT of stearic acid.

**Import Duty Structure**

Since July 2007, there has been no import duty on CPO, CPL and CDSBO and hence the C&F and landed prices of these oils are the same. The import duty on refined olein, refined soybean oil and refined sunflower oil is zero, provided these oils are imported in consumer packs. The bulk import of RBD palm olein is also duty-free, provided it is imported as raw material for vanaspati/shortenings. Import duty on oilseeds such as canola/mustard seed and soybean has also been zero for a long time, while import duties on RBD palm stearin, crude PKO, other PKO, PFAD and copra are 12%, 12%, 25%, 12% respectively and 5% on C&F values. The import of all edible oils, except soybean and canola/mustard seed, are subjected to 15% VAT.

**Palm Oil Importers In Bangladesh**

Among the palm oil importers who also operate refineries, only eight edible oil refinery groups are major importers of palm oil in the country and they are also major importers of CDSBO, soybean and canola/mustard seeds. In 2010, they imported about 98% of the palm oil requirements of the country, with the remaining by minor importers-cum-refinery owners. Major

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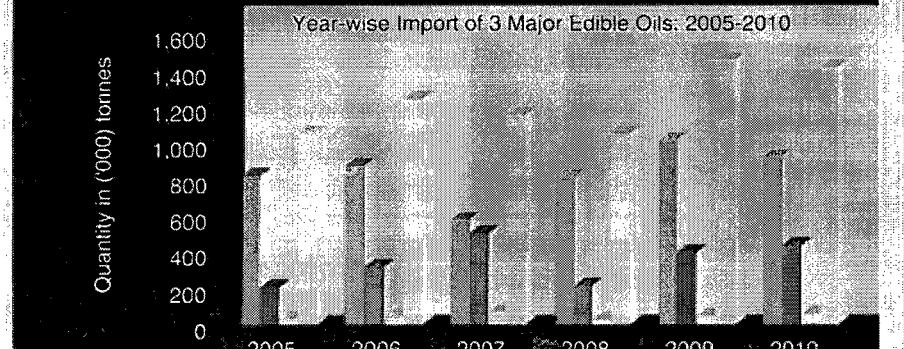
Table 5: Total Oils and Fats Import in Bangladesh (MT)

| | 2010 | 2009 | Change (Volume) | Change (%) |
|---|---|---|---|---|
| Total Oils & Fats | 1,452,464 | 1,496,235 | -43,769 | -2.93 |

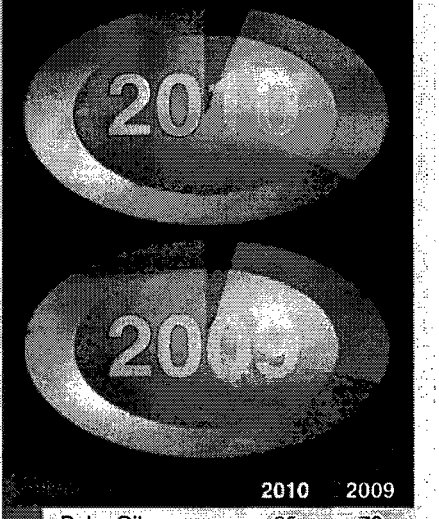
*Source: MPOC Market Intelligence and MPOB*

Figure-3: Year-wise Import of Three Major Edible Oils: 2005-10




| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| Palm Oil | 826 | 879 | 581 | 816 | 1,023 | 930 |
| Soybean Oil | 207 | 320 | 508 | 217 | 397 | 436 |
| Rape/Mustard Oil | 29 | 49 | 73 | 27 | 44 | 57 |
| Total | 1,062 | 1,248 | 1,162 | 1,060 | 1,464 | 1,423 |

Figure 4: Import shares of Palm, Soybean and Rape/mustard oils in 2010 and 2009




| | 2010 | 2009 |
|---|---|---|
| Palm Oil | 65 | 70 |
| Soybean Oil | 31 | 27 |
| Rape/Mustard Oil | 4 | 3 |

**Import of Palm Oil and Palm Oil Products**

In 2010, the total import of palm oil and palm oil products declined by 8.91%. Import of CPO declined by 7.66% while that of CPL increased by 2.99%. On the other hand, the import of RBD PL declined by 45.72%. It is to be noted that CPL is the highest imported palm oil component, making up about 77% of the total palm oil imports in 2010 while CPO and RBD PL occupied about 10% and 13% respectively.

The import of crude/RBD palm stearin declined by 33.42% and 21.05% respectively while that of PFAD/Acid Oil increased by about 55.19% compared with the 2009 import. It is to be noted that 7,990 MT of crude/RBD palm stearin, 6,655 MT of PKO, 6,150 MT of PFAD/Acid Oil, 665 MT of crude/RBD palm stearin, 4,189 MT of PKO and 3,068 MT of PFAD/Acid Oil and the entire quantity of 1,250 MT of palm-based shortenings/margarines were of Malaysian origin. Besides these items,

Table 6: Import of Palm Oil and Palm Oil Products (MT)

| | 2010 | 2009 | Change (Volume) | Change (%) |
|---|---|---|---|---|
| CPO | 90,570 | 98,086 | -7,516 | -7.66 |
| CPL | 713,570 | 692,885 | 20,685 | 2.99 |
| RBD PL | 126,007 | 232,157 | -106,150 | -45.72 |
| Crude/RBD PS | 7,990 | 12,001 | -4,011 | -33.42 |
| PKO | 6,655 | 8,429 | -1,774 | -21.05 |
| PFAD | 6,150 | 3,963 | 2,187 | 55.19 |
| Palm Based Shortenings/Margarines | 1,250 | 1,011 | 239 | 23.64 |
| Oleochemicals | 20,448 | 19,234 | 1,214 | 6.31 |
| Total | 972,640 | 1,067,766 | -95,126 | -8.91 |

*Source: MPOC Market Intelligence and MPOB*



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MARKET Insights

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# It's been a **Good Year** in Middle East

## And Now, for a Better Year Ahead!

after a drastic plunge as a result of a massive disruption in its economy in 2009. About 21% of the total MPO exports to the Middle East – the bulk of it being RBD Palm Olein (336,506 MT) and RBD Palm Oil (86,374 MT) – go to the UAE. For the record, UAE also imported 7,057 MT of Palm Kernel Oil (PKO), 64,835 MT of oleochemicals and 8,548 MT of palm-based finished products.

As a result of increasing difficulty in getting companies in Malaysia to accept Letters of Credit (LC) from Iranian banks, Iran, which is the second biggest importer of MPO in the Middle East, is compelled to source its palm oil supply from other countries, particularly Singapore. Even though strong support for MPO remains intact, recent MPOB statistics show that exports to Iran have declined by about 20% to 272,944 MT in 2010, or about 13% of the total MPO imported into the region.

The other palm products imported by Iran were PKO (16,380 MT), oleochemicals (35,641 MT) and palm oil products (13,400 MT). Shortening, Cocoa Butter Substitutes (CBS) and vegetable fats have been the key finished products imported by Iran and these are widely used in the manufacture of various local pastries, breads and confectioneries. The demand patterns for these products are usually higher between late February and March, for the week-long Persian New Year that Iran celebrates on March 21 every year, when local traders beef up stocks in preparation for the loads-of-food celebration.

**West of the Suez imports more**

The other part of the Middle East, the West of the Suez, was the biggest importer of MPO in the region last year. Our palm oil exports to the western part hit 1.2 million MT last year, or a significant increase of 43% compared with 2009. Besides Egypt, emerging markets such as Djibouti and Algeria accounted for this increase. Djibouti imported 162,501 MT of MPO in 2010, a 19% increase from 2009, while Algeria's import touched 31,578 MT or 21,243 MT more than in 2009. In addition, Eritrea, which wasn't in the 2009 import list, returned by taking in 1,378 MT of MPO last year.

Table 2: 2010 Export Performances – by product (MT)

| PRODUCTS | BY-PRODUCTS | TONNES | % |
|---|---|---|---|
| Palm Oil | RBD Palm Olein | 1,256,390 | 59 |
| | RBD Palm Oil | 362,492 | 17 |
| | RBD Palm Stearin | 174,874 | 8 |
| | Others | 329,891 | 16 |
| Palm Kernel Oil | RBD PK Oil | 16,155 | 11 |
| | RBD PK Olein | 46,756 | 33 |
| | RBD PK Stearin | 5,378 | 4 |
| | Others | 72,669 | 52 |
| Oleochemicals | Glycerin | 14,219 | 9 |
| | Soap Noodles | 108,854 | 56 |
| | Palmitic Acid | 15,182 | 9 |
| | Others | 50,984 | 26 |
| Finished Products | Shortening | 71,924 | 55 |
| | Veg Ghee / Vanaspati | 31,392 | 24 |
| | Margarine | 5,653 | 4 |
| | CBS / CBR / CBE | 4,839 | 4 |
| | Others | 16,941 | 13 |

Table 3: Prospects for the MENA Region]

| MENA Region | 2009 | 2010 | 2011 |
|---|---|---|---|
| Real GDP growth | 2.8 | 3.6 | 4.5 |
| Real GDP growth (PPP) | 2.7 | 3.6 | 4.5 |
| Exports (change %) | -9.5 | 2.6 | 5.2 |
| Imports (change %) | 1.2 | 4.9 | 6.6 |
| CA balance (% of GDP) | -0.1 | 1.5 | 0.9 |

**Egypt grows bigger and stronger**

One of the most populous countries in the Middle East as well as in the African continent, Egypt is the largest consumer and biggest importer of oils and fats in the region, with an import volume of about 1.5 million MT a year. Palm oil was the major commodity imported in 2010, with about 44% of the total MPO imported by the Middle East going to Egypt. With low or nearly zero import duties on oils, easy entrance to export markets through the Free Trade Agreement (FTA) signed under the Common Market for Eastern and Southern Africa (COMESA), the Arab Free Trade Zone and FTAs with other countries such as Turkey and the EU, as well as the elimination of import duties for all palm oil products since April 2009, have given MPO a boost in Egypt.

Based on MPOB's statistics for the 2010 export performance, exports to Egypt rose 54% to a record high of 938,722 MT. Half of the volume (55%) was RBD Palm Olein, while RBD Palm Oil and Palm Stearin contributed 18% and 14% respectively. Egypt also controls 51% of region's import of PKO from Malaysia, at 71,959 MT last year. Officially known as the Arab Republic of Egypt, the country also imported about 28,733 MT of oleochemicals and 7,332 MT of finished products last year.

Economic growth, financial recovery and expanding population trends in the region will boost stronger demands for oils and fats, including palm oil, this year. An International Monetary Fund (IMF) analysis of growth determinants indicates that greater integration with international markets could provide a substantial boost to income and economic growth in the Middle East. As a strategic commodity in this dynamic market, palm oil is seen to continue with its positive growth and MPO will be further strengthened in the Middle East region. With continuous support by the MPO industry for the palm oil market of the region, there is all likelihood that every year from this year on be a good year for the Malaysian palm oil industry in the Middle East. ■ Haznita



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MARKET Insights

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# Bangladesh **Buys More** Vegetable Oils

## This, despite a drop in the Import of Palm Oil

importers-cum-refinery owner groups are listed in Table 7. From the table, it appears that traditional importers and refiners of palm oil are gradually lagging behind the new importers/refiners.

Considering the increasing demand for palm oil in this market, a few existing refiners have started to increase their refining capacities and a few new entrepreneurs are in the process of setting up palm oil refineries, all of which will be in operation this year. Thus, it is expected that 2011 will be a landmark year for palm oil imports by Bangladesh.

■ Fakhrul

Table 7: Major Palm Oil Importers and Refineries in 2010

| COMPANY | Plants In Operation | Capacity / Day | Palm Olein Brand | PO Import in 2010 |
|---|---|---|---|---|
| NURJAHANGROUP | 2 Refineries<br>1 Dry Fractionation | 1300 MT<br>500 MT | Nil | Total PO: 290,910 MT<br>CPL: 290,910 MT<br>CPO: Nil, RBD PL: Nil<br>% of total PO Import: 31.32<br>MPO: 57,488 MT |
| | 3 Refineries<br>2 Dry Fractionation | 1,700 MT<br>800 MT | HILSHA FAMILY | Total PO: 201,843<br>CPL: 119,981 MT<br>CPO: 70,270 MT<br>RBD PL: 11,592 MT<br>% of total PO Import: 21.73<br>MPO: 32,500 MT |
| | 1 Refinery<br>1 Dry Fractionation | 150 MT<br>120 MT | Nil | Total PO: 134,257<br>CPL: 134,257 MT<br>CPO: Nil, RBD PL: Nil<br>% of total PO Import: 14.46<br>MPO: Nil |
| MEB GROUP | 2 Refineries<br>1 Dry Fractionation | 800 MT<br>300 MT | DADA SUPER | Total PO: 103,200 MT<br>CPL: 103,200 MT<br>CPO: Nil, RBD PL: Nil<br>% of total PO Import: 11.11<br>MPO: 5,000 MT |
| | 2 Refineries<br>2 Dry Fractionation | 1050 MT<br>1,100 MT | PURE | Total PO: 79,699 MT<br>CPL: Nil, CPO: 13,500 MT<br>RBD PL: 66,199 MT<br>% of total PO Import: 8.58<br>MPO: 20,499 MT |
| | 3 Refineries<br>2 Dry Fractionation | 2,300 MT<br>1,800 MT | NATURAL | Total PO: 46,786 MT<br>CPL: Nil, CPO: Nil<br>RBD PL: 46,786 MT<br>% of total PO Import: 5.04<br>MPO: 8,000 MT |
| S. A. GROUP | 3 Refineries<br>2 Dry Fractionation | 1,150 MT<br>1,000 MT | Nil | Total PO: 31,387 MT<br>CPL: 31,387 MT<br>CPO: Nil, RBD PL: Nil<br>% of total PO Import: 3.38<br>MPO: 22,887 MT |
| Mostafa | 1 Refinery<br>1 Dry Fractionation | 300 MT<br>300 MT | SHAKTI | Total PO: 21,800 MT<br>CPL: 21,800 MT<br>CPO: Nil, RBD PL: Nil<br>% of total PO Import: 2.35<br>MPO: 4,500 MT |

*Note: Total Import of PO by 8 Major Importers: 909,882 MT*
*Market Share of total PO Imported by 8 Major Importers: 97.97%*



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# Malaysia-South Korea Palm Oil Trade Fair and Seminar 2011

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- Exciting line-up of seminar papers
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- Networking opportunity with participants from South Korea
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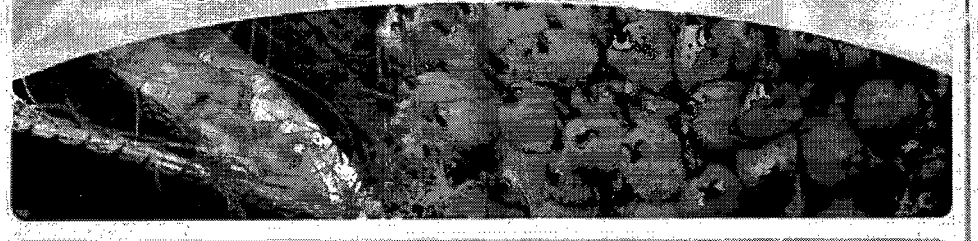

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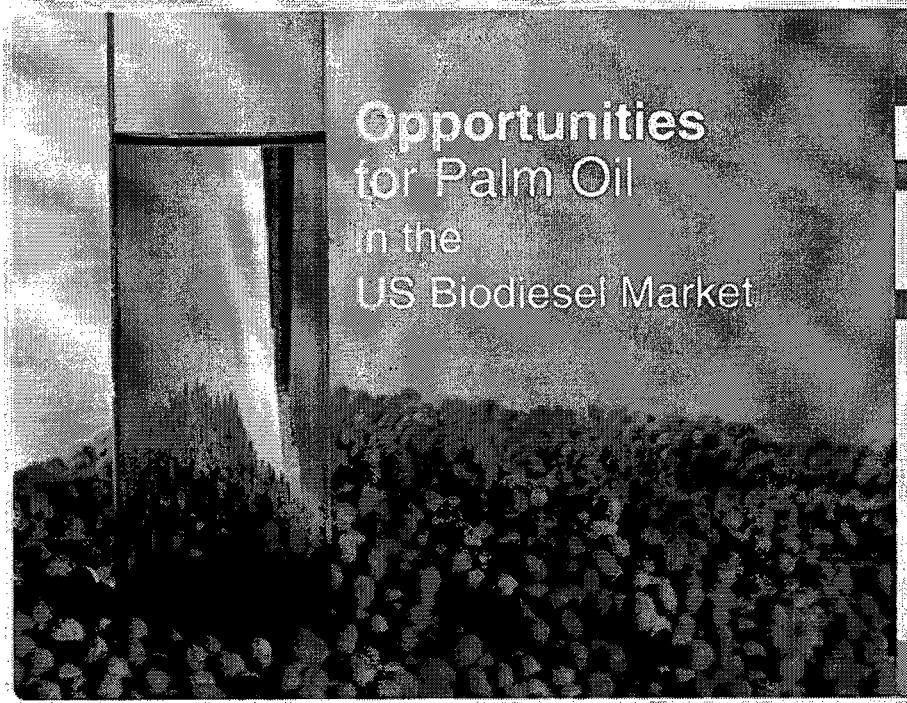

# Opportunities for Palm Oil in the US Biodiesel Market

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THE year that just passed seemed to be an endless free fall for the biodiesel industry in the United States. From a production high of 933 million gallons (3.5 billion litres) in 2008, the industry encountered a multitude of obstacles, leading to a drastic fall in production to just 350 million gallons in 2010.

Soft market demand due to the global economy, questions of sustainability, green house gas (GHG) reductions, European trade restrictions and the removal of the US$1 per gallon subsidy led to a 33% drop in the country's biodiesel production capacity. Many producers closed shop in 2009 and 2010, with those still in business struggling to survive.

However, 2010 had some signs of a turnaround as well. The new Renewable Fuel Standard (RFS2) was officially implemented by the Environmental Protection Agency (EPA) on July 1, 2010, obligating the use of 345 million gallons of biomass-based diesel in that year.

While the federally-mandated market in the US improved the industry's prospects, any upturn in demand was delayed over confusion on how the requirements of the RFS2 were to be met as the US Congress continued to delay the extension of the US$1/gallon biodiesel blender tax credit.

Without the subsidy in place, and no clear timeline for its renewal, obligated parties delayed their mandated purchases until 2011 or tried to meet their obligations using the Renewable Identification Numbers (RINs), a tradable credit used to track biodiesel production and sales.

With a glut of RINs in the market, obligated parties have been able to purchase the RINs to meet their biodiesel usage obligations without actually buying biodiesel. This method of meeting obligations is being curtailed this year, thus raising the consumption of biodiesel.

Finally, in December 2010, Congress extended the biodiesel blender tax credit, again providing a US$1 per gallon subsidy for biodiesel blended with petroleum.

**Looking Towards 2011**

US biodiesel producers finally have reason to feel optimistic. Many of the weaker producers were weeded out during the previous two years and the regulatory environment appears to be set. From the beginning of this year, obligated parties under RFS2 are required to use 840 million gallons of biomass-based diesel a year, an increase of 143%.

A mandated market alongside the blender tax credit and a newly robust market for RINs have created an environment for biodiesel to be integrated into the US fuel system through mandates and become cost-competitive with diesel. Rising oil prices have led many to believe that cost competitiveness will bring a lot more biodiesel into the fuel supply system.

The US biodiesel market seems to be set for producers and feedstock, but what about foreign products and feedstock?

**Palm Oil and Biodiesel**

The primary impediment to the use of palm oil as a viable feedstock by the US biodiesel market are restrictions imposed by the US Environmental Protection Agency (EPA) on qualified feedstock under RFS2.

Feedstock acceptable under RFS2 must have two designations from the EPA. First, the EPA has to determine a "pathway" for the feedstock and the biodiesel produced bring about a greater than 50% reduction in GHG emissions as opposed to traditional diesel fuel. Second, the feedstock has to qualify under the EPA's definition of "renewable biomass".

*Continued on page 5* ▶



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# FCPO to trade sideways

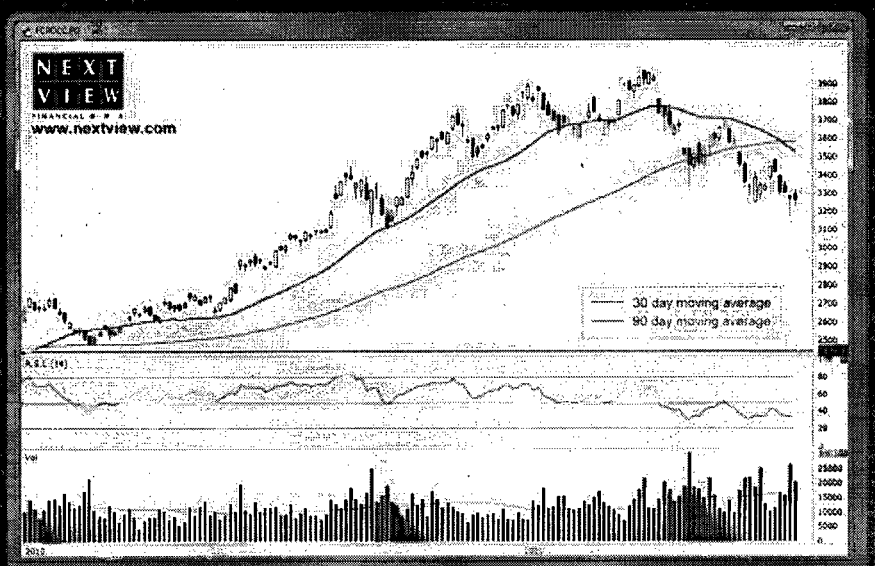
*by Benny Lee*
*Chief Market Strategist*
*of NextView Group*

THE price of crude palm oil price plunged last month after a slight rebound at the end of February. FCPO was trading at slightly below averages last month and I was expecting a technical rebound but an unlikely rally.

The price rebounded from RM3,457 per metric tonne to a high of RM3,695. I have also mentioned that if the price is unable to stay above RM3,600, then more downside correction is expected. The FCPO price continued to fall and settled at RM3,261 on March 25. So, the price movement was expected. However, it was quite a volatile month on the downside as the price traded in a range of between RM3,163 and RM3,700.

More recently, cargo surveyor SGS (Malaysia) Bhd estimated Malaysia's export to fall 0.3% to 954,441 MT for the period March 1-25, as compared with the same period in February, while another surveyor, Intertek Agri Services, estimated exports to fall 3.7% to 937,501 MT. This shows no improvement on the export of palm oil and production is expected to increase further. This has caused traders to have a bearish sentiment towards palm oil.

Technically, the price is in a major trend reversal. The longer-term 60- and 90-day moving averages have started to turn bearish in the past one week. The short-term 30-day moving average has been bearish since mid-February.




*FCPO daily chart as at March 25, 2011.*
*Charted by Benny Lee using NextView Advisor Professional*

Traders took profit on the high FCPO price as February data showed lower palm oil exports and higher production output. According to the MPOB monthly report, February's palm oil output and stock rose 3.5% and 4.2% respectively as compared with January, while exports fell 8.5%.

Trading volume in the Bursa Malaysia Derivatives market was relatively higher, if compared with the previous month, at an average daily trading volume of 16,500 contracts. February's average was 15,500 contracts, showing some bearish pressure.

The Ichimoku Cloud has also indicated a strong bearish momentum forming since a few weeks ago. The averages are currently between RM3,500 and RM3,600 and the trend is expected to continue to be bearish, as long as the FCPO price stays below these averages. Based on Elliott Wave technical study, the correction should be over when the price hits a low at RM3,163. The question now is whether the correction is over and a new trend will start to develop. To answer that, we will have to look at the other technical indicators.

Momentum indicators are mixed in the short-term. The MACD and the volatility-based Bollinger Bands indicators indicate a stronger bearish momentum, while the Relative Strength Index (RSI) and the Momentum Oscillator indicators indicate a weak downtrend momentum in the short-term. However, in the longer term, the sentiment is more bearish as the momentum indicator levels are below the middle levels.

The price of FCPO has corrected quite significantly in the past one month. Just a month ago, FCPO was trading at slightly above RM3,900 and is now 18% lower. The fundamental data and estimates in the near future do not encourage the price of FCPO to climb higher.

There is not much help from currencies as well. The US dollar against the Malaysian ringgit has been trading sideways for the past one month. We may expect a technical rebound because the price is below the average, but resistance will remain strong.

With a strong bearish move in the past one month, I'd expect price of FCPO to take a breather and at the current price, there is a high chance that it may rebound in the short term. Immediate resistance is between RM3,500 and RM3,600 and I am expecting the price to rebound to this resistance level.

Therefore, I am expecting the price to trade sideways, with a support and resistance range of between RM3,200 and RM3,500 in the next one month. However, if the price breaks below RM3,200, then there may be an extension to the bear correction since February, with the next target level of RM3,040. ■

*Mr. Benny Lee is a private trader, trainer and sought-after speaker in the financial market. He is the Chief Market Strategist for NextView Group. NextView Group is a group of companies in the Asian region that provides a leading real-time investment tool for both professional and retail investors. NextView is also a leading Investor Education training provider. For more information, log on to www.nextview.com.*

*The above analysis and commentary is based on the writer's personal opinion towards the price of crude palm oil using technical analysis and should not be construed as any form of investment advice. The writer will not be responsible for any decision made from using the above article.*

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# Call for proposals

In the scope of its development strategy, the Port of Marseille Fos (France) is launching a call for proposals in order to accommodate an agro-industrial complex including notably storage and refining facilities for vegetable oils within the port industrial area on 5 to 15 hectares of land located beside the Lavera Terminal in the Western harbour.

Further information and full set of documents related to the call for proposal are available and downloadable at the following internet address : https://marches.local-trust.com, under the reference n°201101001.


For any additional request, please contact Mr François Lasbleiz

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Marseille Fos

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MARKET Insights

# The ambition and the means to be the Palm Oil hub for the Mediterranean *(South Europe and Africa)*

The French port reform conducted by the French government being about to be definitely achieved in April 2011, terminals in Marseille Fos will be then privately operated and be able to ensure operational reliability of its terminals. This significant change in the organization of the Port of Marseille Fos will provide unique opportunities of investment for industry players that wish to benefit from the geostrategic assets of the French port.

The Port of Marseille Fos being among the world's top petrochemical complexes, and being connected to other industrial areas by barge, train and pipeline in Europe (France, Switzerland, Germany and other part of Europe), its need of vegetable oil for blending purposes reaches 300KT per year. The ambition of the port authority is to use the inducement of this traffic to consolidate the set up of a vegetable oil refinery in its vicinity.

The strategy implemented by the Port Authority is to develop an agro industrial cluster that will naturally integrate a Palm Oil refinery ; this refinery will indeed not only provide its local biofuel and blending facilities with vegetable oil, but also foster downstream agro activities (food processing, industrial bakery and others).

The Port of Marseille Fos is about to be confirmed as the Halal Hub for the Med (co-founder and member of the Halal Hub to Hub Network with Port Klang and host of the World Halal Forum Europe in Oct 2011) and seeks for industrial & trade synergies with this project.

There is no doubt that Palm Oil industry leaders will look at the recent "Call for Proposals" issued by the French port as a unique opportunity to address the promising Mediterranean market, such a premium site and location being rare in the market.

MARKET Insights

◀ Continued from page 1

# Opportunities for Palm Oil in the US Biodiesel Market

The first hurdle, a "pathway" designation, has been cleared for canola oil. The Malaysian palm oil industry has been diligently pursuing a "pathway" for palm oil the last 18 months. Though the lifecycle analysis of palm-based biodiesel has been widely acknowledged to have a GHG profile that is well beyond the 50% reduction required under RFS2, the EPA has been slow on its decision – and this is expected by March this year.

However, foreign producers of canola and palm oils believe that the second hurdle, qualification as a "renewable biomass", takes more time to overcome.

As at January this year, the EPA has not made any decision on foreign-produced canola/rapeseed oil, nor palm oil, as it pertains to acceptance under the "renewable biomass" definition. At the inception of the RFS2, the EPA looked at the US agricultural sector in aggregate and determined that feedstock grown in the country would automatically qualify for acceptance under the "renewable biomass" definition.

However, no foreign country's agricultural sector was granted this blanket acceptance. One of two stipulations must be met for foreign grown feedstock to qualify under RFS2, even if granted a GHG "pathway". One way is by a biofuel producer submitting to a process that shows complete transparency and traceability of the supply chain, proving to EPA that the feedstock meets the standards of the "renewable biomass" definition.

Or, a third party group representing multiple feedstock producers can provide EPA with proof that all feedstock produced in a certain region or by certain producers meets its definition.

The most likely scenario for full approval of most feedstock is for individual countries to work with the EPA to qualify their agricultural sectora, or certain parts of the sector, under the "renewable biomass" definition.

Most observers feel the EPA is being very careful in its determination of compliance for the Canadian canola sector, as it will set the standard for qualifying other foreign produced feedstock. Whatever the outcome, the decision on Canadian canola is expected to take some more months, and this means the move to determine whether palm oil qualifies will probably take place much later in 2011.

In the meantime, palm oil-based biodiesel sold in the US is eligible for the biodiesel blender tax credit, giving some hope of a cost competitive market developing for palm oil-based biodiesel in 2011.

Another bright spot for palm oil biodiesel is in the Canadian market. Canadian provinces have a variety of biodiesel mandates and incentives in the books, and Canadian markets have been much more reliable than US markets.

Interestingly, one of the largest supplies of biodiesel into the Canadian market has been palm-based renewable diesel produced by Nestle Oil. The Canadian market is set for more expansion in 2011, and there is no discrimination against palm oil, like in the US.

The US biodiesel market continues to develop and deserves attention from foreign producers and feedstock suppliers. However, a large increase in demand for palm-based biodiesel is not likely to materialise before late this year.

■ Salleh

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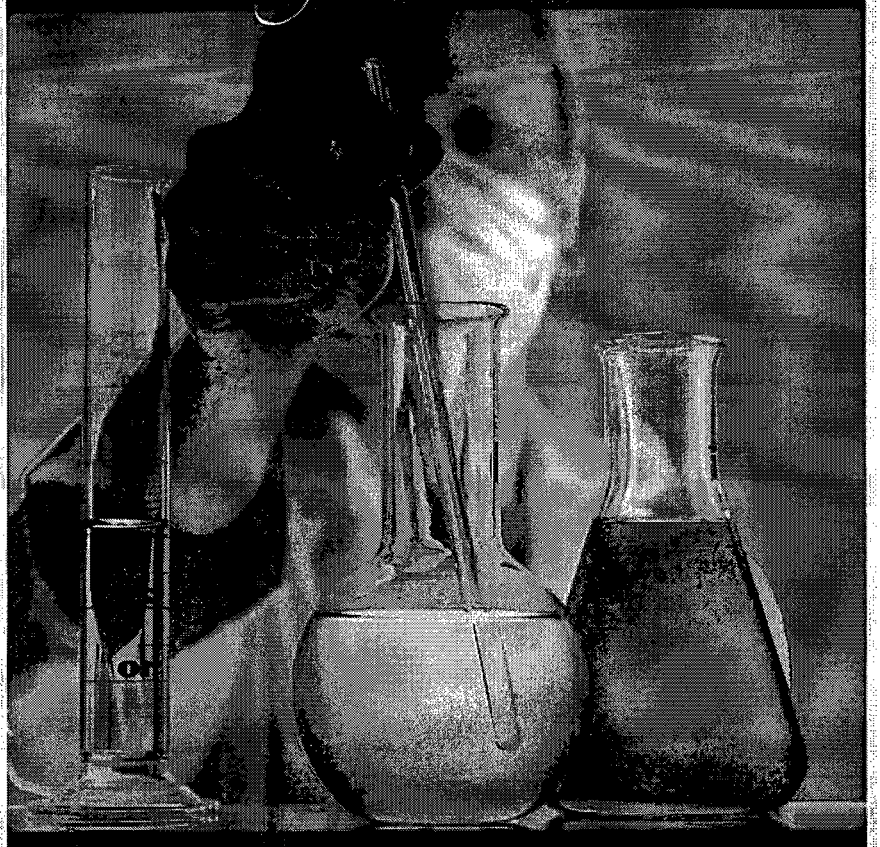

# Malaysian Palm Oil the **solution** to a **new global crisis**

MORE than one billion people – or 15% of the world's population – today do not have sufficient food on a regular basis. This has become a serious global crisis and in November 2009, these and other issues related to food were addressed at the World Summit on Food Security in Rome, Italy.

Solutions are urgently needed, for we are seeing more and more violence and other problems breaking out, much of this in the developing world, as a result of poverty and the lack of food. These have led the World Bank, in April last year, to launch the Global Agriculture & Food Security Programme (GAFSP) to improve food security and income in low-income countries.

So, what are people around the globe to do when there is a huge demand for food, but not enough land to grow it? The amount of arable land for food and other agricultural crops all over the world is either stagnant or shrinking due to the population growth of 70 to 80 million a year. By 2020, arable land will drop to less than one acre per capita.

What then is to be the solution to the impending global food crisis? One very important, super crop that has indeed become a blessing to the human race is the oil palm tree, from which numerous products are derived – from food to animal feed, paper to garden furniture and oleochemicals to biofuel.

This, in essence, was the message delivered by Malaysian Palm Oil Council Chief Executive Officer Tan Sri Datuk Dr Yusof Basiron in his paper, "Why Buy Malaysian Palm Oil", at the Palm Oil Trade Seminar in Pakistan in mid-January this year.

The future of palm oil, Tan Sri Dr Yusof said, will be driven by increasing demand for food, oleochemicals and biofuel as a result of population and economic growth. With the world population increasing by 70 to 80 million a year and requirements for oils and fats expanding by four to five million metric tonnes (MT) a year, how is the growing demand to be met?

The solution can only come from the oil palm tree, which will also solve the issue of stagnant and shrinking arable land for food crops. This is because it requires only one million hectares of land to produce five million MT of palm oil a year, unlike the 10 million hectares required to produce the same amount of soybean oil.

This situation is becoming even more crucial, with more and more mouths to feed, and the urgency is that with the world population to hit nine billion by 2043, or a 50% increase, urgent efforts need to be put into food production to meet this rate of population increase.

Malaysia's total crude palm oil production in 2010 is estimated at 17.25 million MT, 1.76% lower than in 2009 because of lower fresh fruit bunch (FFB) yield due to higher rainfall in the major producing states and the dry spell in the early part of the year.

Backed by research and development as well as sustainable practices, Malaysia will continue to remain one of the world's largest producers of palm oil. Strict regulations in ensuring that all palm oil produced is of good quality has made Malaysia a highly reliable supplier, making it world class producer today with palm oil and its products being exported to more than 150 countries.

In the case of Pakistan, Tan Sri Dr Yusof said, the country is becoming an important consumer of MPO and its products. Malaysia's first bilateral Free Trade Agreement (FTA) with Pakistan was the first with an Organisation of Islamic Countries (OIC) member – and Pakistan's first agreement with any ASEAN member country.

This agreement, which came into force on Jan. 1, 2008, provides palm oil and its products imported into Pakistan a duty discount of 10% in 2008-09 and 15% from 2010-14, for the objectives of the FTA are to facilitate and strengthen two-way trade and investment, as well as enhance bilateral economic and industrial cooperation on a long-term basis.

In line with this, the MPO industry has moved to sustain its market in Pakistan through various moves, including the establishment of joint-venture activities, through Mapak Qasim Bulkers (Pvt) Ltd, Mapak Edible Oil (Pvt) Ltd and Felda Westbury Qasim Enterprise (Pvt) Ltd, which set up the FWQ Liquid Cargo Terminal.

Pakistan, like many other countries of the world, has opted for MPO for the numerous benefits the oil provides,

*Continued on page 11* ▶

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MARKET Insights

# Saudi Arabia's Industrial Sectors Offer New Opportunities for Malaysian Palm Oil

THE Saudi Arabian economy has progressed rapidly, with its oil wealth raising the standard of living of most Saudis. In 2009, falling oil prices and the global economic slowdown reduced the country's economic growth, prompting the postponement of a number of development projects.

However, the earlier five years of high oil prices, from 2004-08, gave the kingdom ample financial reserves to manage the impact of the global financial crisis. Saudi authorities supported the banking sector during the crisis by making direct capital injections into banks, reducing rates and publicly affirming the government's guarantee for bank deposits.

Saudi Arabia has about 20% of the world's proven petroleum reserves, ranks as one of the largest exporters of petroleum and plays a major role in OPEC. The petroleum sector accounts for roughly 80% of the kingdom's revenue and contributes to 45% of its GDP and 90% of the export earnings.

The country's GDP growth increased dramatically, from 2.4% in 2007 (after a drop from 6.5% in 2006) to 4.4% in 2008 and dropped again in 2009 to around 0.6% due to the global economic crisis and fall in oil price. The economic recovery in Saudi Arabia is now at a good pace, with renewed vigour in corporate finance flow, supported by a stronger non-oil based sector.

Inflation is expected to remain manageable, with GDP growth registering at 3.8% in 2010. Steady oil prices as well as record highs in budget spending and rising activity within the private sector will help the Saudi Arabian economy to improve by 4.2% this year and, according to a leading bank in the kingdom, it is expected to climb to 4.4% by 2012.

Saudi Arabia has adopted a free market economic model. The financial, industrial and trade sectors of the economy have made rapid progress, enabling the private sector to play an increasingly important role in the development and diversification of the economy (as shown in Chart 1).

Under the Eighth Development Plan (2005-10), the government has sought to allocate some of its petroleum income to transform its non oil-based sector to be more active and to contribute higher revenue to the country. The government has set a target of creating 817,300 new jobs for Saudi nationals and increasing the per capita income.

The government has also provided a range of incentives to encourage the private sector to take part in the kingdom's industrial efforts. Most of the industrial estates provide private Saudi manufacturing companies with the necessary infrastructure and services at a very low cost. Credit facilities on generous terms are readily available for such enterprises.

These initiatives will further improve the country's economic activities, with even some of the oils and fats companies taking interest in setting up refineries in Saudi Arabia, including Malaysian companies. This will increase the local consumption of oils and fats in Saudi Arabia and improve its re-export market as well.

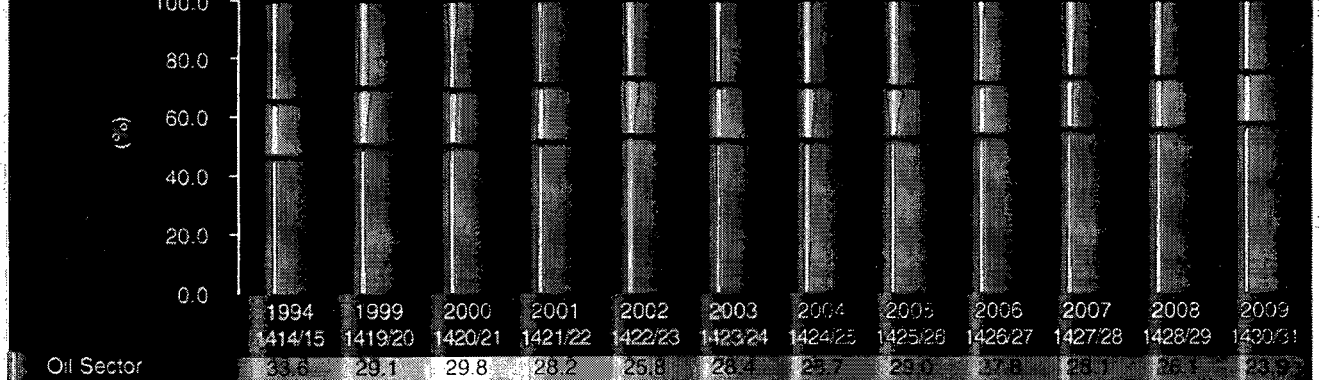
**Uptrend demand of oils and fats**

Saudi Arabia has had a consistent uptrend in the demand for oils and fats for

*Continued on page 9* ▶

Chart 1: Improvement in the private sector GDP

Structure of real GDP in Producers' Values* 1994 - 2009 (1414/15 - 1430/31)




| | 1994 1414/15 | 1999 1419/20 | 2000 1420/21 | 2001 1421/22 | 2002 1422/23 | 2003 1423/24 | 2004 1424/25 | 2005 1425/26 | 2006 1426/27 | 2007 1427/28 | 2008 1428/29 | 2009 1430/31 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Oil Sector | 33.6 | 29.1 | 29.8 | 28.2 | 25.8 | 28.4 | 25.7 | 23.0 | 27.8 | 28.1 | 36.1 | 23.9 |
| Government Sector | 18.8 | 19.7 | 19.3 | 19.6 | 20.0 | 19.1 | 18.5 | 18.1 | 17.9 | 17.9 | 17.8 | 18.1 |
| Private Sector | 47.6 | 51.2 | 50.9 | 52.2 | 54.2 | 52.5 | 52.8 | 52.3 | 54.3 | 54.0 | 56.5 | 51.0 |

* Excluding import duties

*Source: Saudi's Central Department of Statistics & Information (value in SAR billion)*

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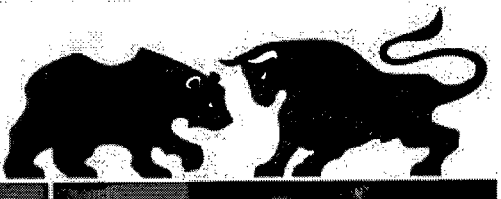

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MARKET Insights

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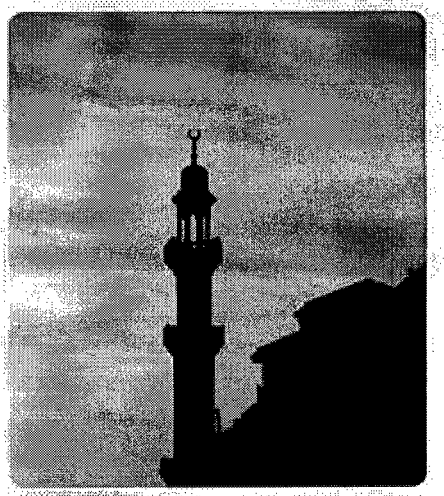
# Saudi Arabia's Industrial Sectors Offer New Opportunities for Malaysian Palm Oil



more than a decade, especially since 2005 when it showed a significant increase from 378,000 metric tonnes to 593,100 MT in 2009 (Chart 1). Consumption increased substantially in 2005-06 and kept an upward trend despite the unfavourable economic situation of 2007-08, thus proving the country's stable and promising market for oils and fats.

Saudi Arabia's oils and fats consumption reached 593,100 MT in 2009, with palm oil being the major oils and fats consumed at a volume of 307,000 MT or 52% of the total consumed. Other major oils and fats consumed were sunflower oil at 70,000 MT (12%), corn oil 65,500 MT (11%) and soybean oil 60,000 MT (10%). With a population of around 25.7 million, Saudi Arabia's per capita consumption is fairly high, standing at 23.1kg a year. Based on a population estimated to be around 26.81 million and per capita consumption stable, the consumption of oils and fats in the country this year will be around 619,300 MT.

**Industrial growth raising local production and imports of oilseeds**

Since the introduction of Saudi Arabia's Eighth Development Plan, the country's industrial sectors have shown good progress. More industrial areas have been opened by the government, providing good infrastructure and attractive financial facilities. These have also supported the development of the country's oils and fats industry, especially for crushing and refinery plants.

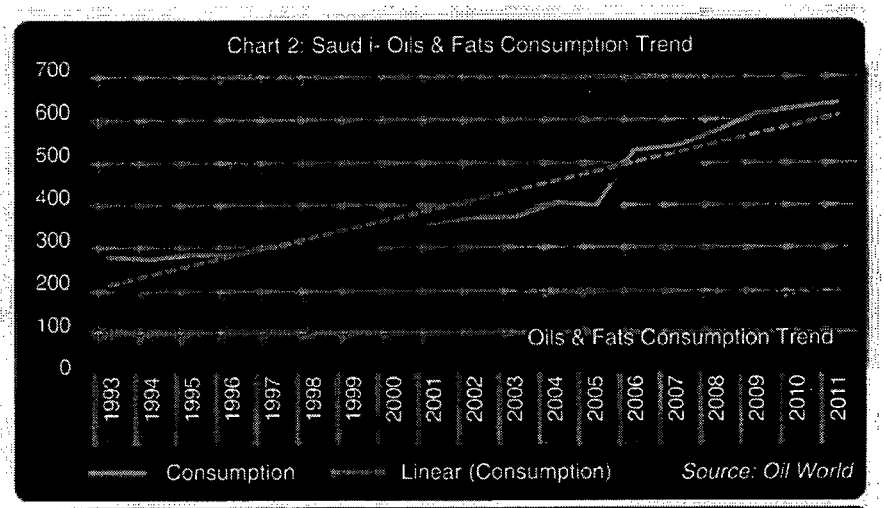



Table 1: Saudi's Oils & Fats and Oilseeds Trend

| 000 Tonnes | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| Oils & Fats | | | | | | |
| Consumption | 384.9 | 378 | 508.7 | 519.4 | 552.8 | 593.1 |
| Production | 0 | 0 | 0.1 | 3.5 | 21.5 | 49.6 |
| Exports | 24.1 | 48.4 | 30.9 | 54.4 | 56.5 | 63.5 |
| Imports | 432.4 | 467.7 | 565.8 | 553.7 | 611.9 | 590.0 |
| Oilseeds | | | | | | |
| Imports | 70.9 | 99.9 | 75.2 | 106.3 | 238.4 | 346.1 |
| Soybeans Crushing | 0 | 0 | 0.5 | 19.5 | 118 | 272.6 |

Source: Oil World

The kingdom is only 8% self-sufficient in edible oils and is therefore highly dependent on imports to support local demand. Nevertheless, local production has been on the uptrend in recent years. Imports of oilseeds and crushing of soybean increased to 388% (275,200 MT) and 272.6% (272,600 MT) respectively in 2009, compared with five years earlier (Table 1). This is expected to improve further in 2010 and 2011, with imports of oilseeds and crushing of soybean increasing by 30,200 MT and 23,000 MT respectively from October 2009 to September 2010, if compared with the previous corresponding period.

Malaysia only exports processed palm oil to Saudi Arabia, mainly RBD palm oil, RBD palm olein and RBD palm stearin, making up about 82% of palm oil products the country imported in 2010. Saudi Arabia has further established its processing sectors, including vegetable oil refineries and the packaging sector. Hence, unprocessed materials such as crude palm oil and oilseeds have become greater in demand. Looking at this situation, Malaysian palm oil exports will decline further if there are no proactive actions put into place.

**Challenges and Opportunities for MPO in the Saudi Market**

Imports of Malaysian palm oil have dropped significantly, from 186,144 MT in 2005 to 37,819 MT in 2010. This was partly due to higher imports of palm oil from the United Arab Emirates, estimated at 95,000 MT, which is mostly Malaysian palm oil. For the record, UAE imported 352,328 MT of Malaysian palm oil as at October 2010, and 46,000 MT of Indonesian palm oil during the same period.

Corn oil, sunflower oil and palm oil are the three main oils imported by Saudi Arabia and they make up about 80% of total oils and fats imported. The total imports of these oils declined by 115,000 MT during the Jan-Oct 2010 period, compared with the previous corresponding period (Table 2). Higher palm oil prices in 2010 partly contributed to the drop in its import volume, with local companies preferring to produce oils locally by increasing crushing, especially soybean seed, to gain better profit margins.

Continued on page 11 ▶

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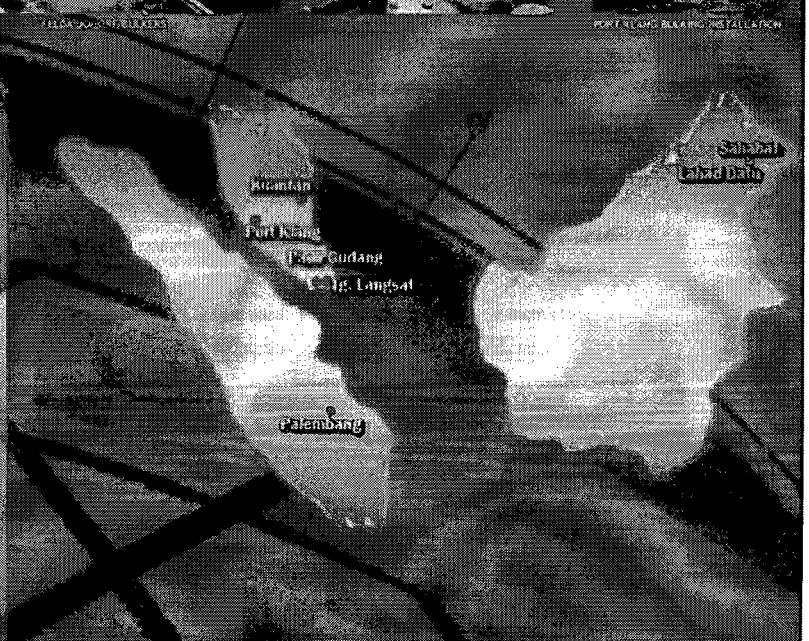



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MARKET Insights

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# Malaysian Palm Oil the solution to a new global crisis

besides the technical support, trade seminars and other customer familiarisation and appreciation programmes provided by the Malaysian Palm Oil Board (MPOB) and MPOC.

Others reasons are for the competitive price of MPO, the semi-solid nature of the oil which further reduces the cost of producing solid or specialty fats, and the absence of trans fats.

The many other reasons for the increasingly global acceptance of palm oil include:

- Its versatility in various food and non-food applications offers vast options in its utilisation;
- It is highly stable as a frying oil and a preferred natural ingredient in the production of solid fats, including margarine, shortenings, bakery and frying fats;
- Being free of trans fats, palm kernel stearin and palm mid-fractions are excellent cocoa butter substitutes and highly geared for the confectionery industry; and
- Palm and palm products are major raw materials for the oleochemical industry for the production of soaps, detergents, personal health care products and the like.

Another important fact that has to be emphasised is that Malaysian oil palm plantations are established totally on legitimate agriculture land. New plantings are on land legally gazetted as agricultural land, 100% sustainable and all are licensed and legally registered.

*(Edited from paper "Pakistan - Malaysia Palm Oil Trade: Why Buy Malaysian Palm Oil?" presented by Tan Sri Datuk Dr Yusof Basiron at the Malaysia-Pakistan Palm Oil Trade Fair and Seminar 2011)*

MARKET Insights

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# Saudi Arabia's Industrial Sectors Offer New Opportunities for Malaysian Palm Oil

Malaysian palm oil exports to Saudi Arabia are expected to be higher this year, provided the palm oil price stays above RM3,000 (US$1,000) and the Indonesian government maintains its export tax ratio (Chart 3) at more than 10%. This will make processed Malaysian palm oil more competitive, compared with Indonesian crude palm oil.

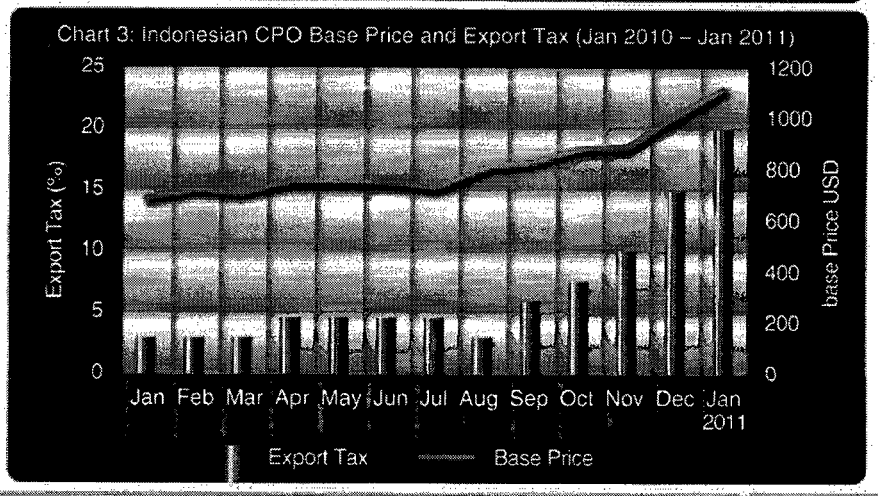
The average price of palm oil this year is expected to be more than RM3,000, and more than RM3,300 in the first half of 2011. This scenario will give Malaysian palm oil players a better opportunity to penetrate and strengthen their market in Saudi Arabia.

Participation of Malaysian palm oil companies in Saudi Arabia's five-year development plans will also give them further advantages in the long run and establish their position in the Saudi market and in the neighbouring countries as well. Recently, these challenges and opportunities have been taken up by one Malaysian company, which has established a refinery and packaging plant in an industrial area opened by the Saudi government. ■ Suhaili

Table 2: Three main oils imported by Saudi Arabia ('000 MT)

| Product | Exporter | Jan-Oct 2009 | Jan-Oct 2010 |
|---|---|---|---|
| Corn oil | USA | 55.6 | 74.6 |
| **Total corn oil** | | **55.6** | **74.6** |
| Sunflower oil | Ukraine | 35 | 34 |
| **Total sunflower oil** | | **35** | **34** |
| Palm oil | Indonesia | 172 | 39 |
| Palm oil | Malaysia | 41 | 30 |
| **Total palm oil** | | **172** | **39** |
| **Total Oils Imported** | | **262.6** | **147.6** |

*Source: Oil World & MPOB*

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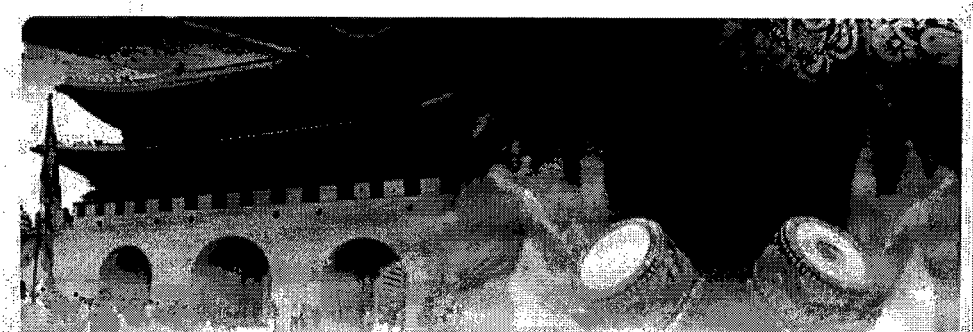

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# SCANDAL UNMASKED

*Focus on Palm Oil*

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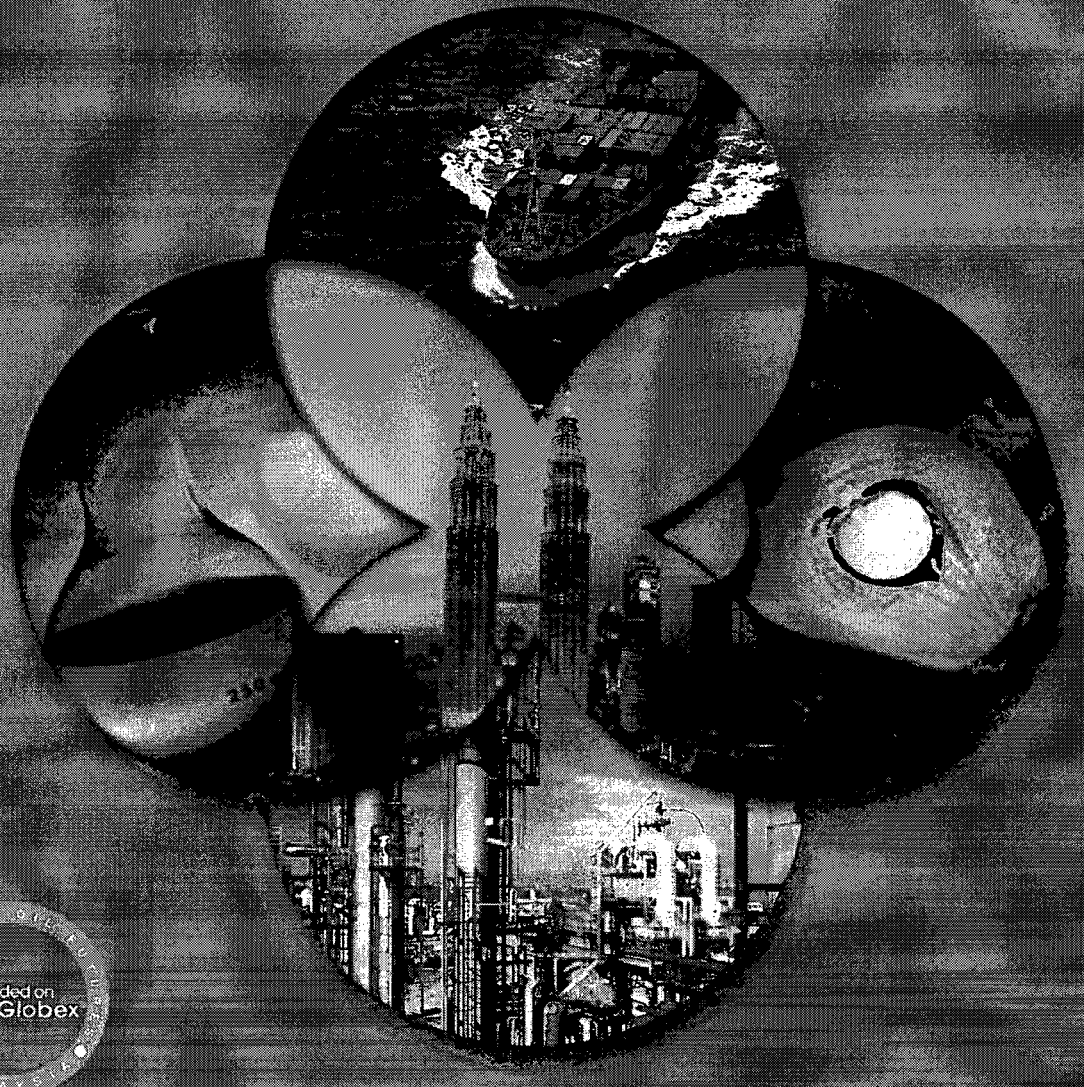

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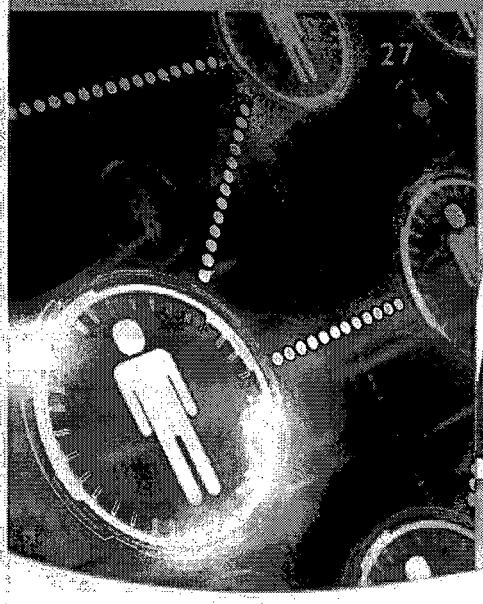


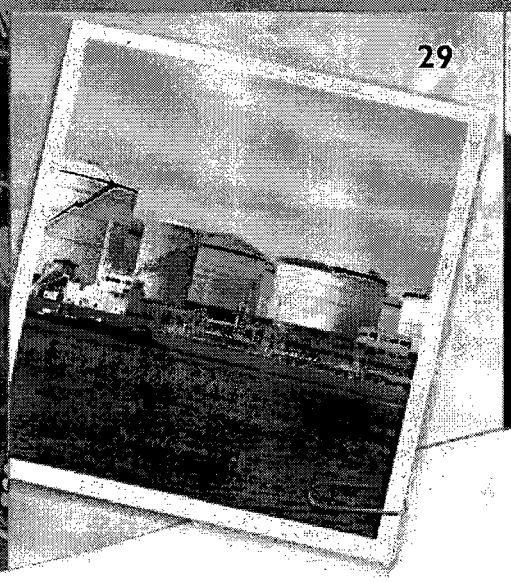


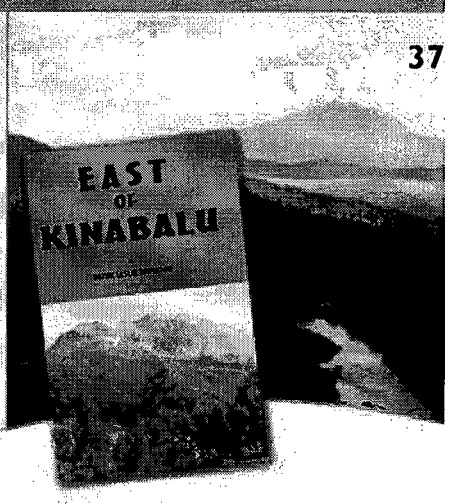



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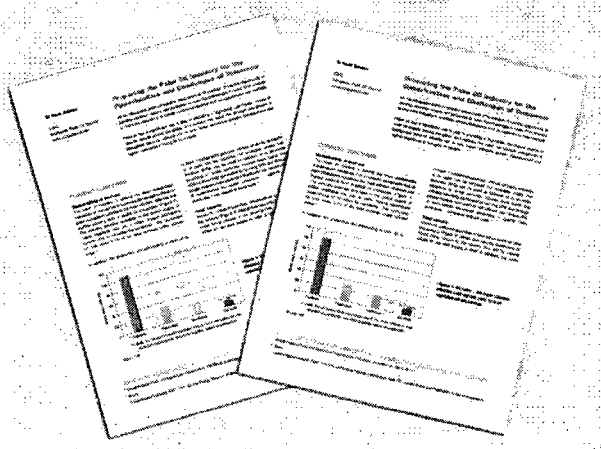



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# *from the desk of the* editor-in-chief

One of the biggest challenges the world will face over the next half-century is how to feed a global population that is rapidly increasing. Some estimates have the world population topping out at nine billion by mid-century, a near 50% increase.

World demand for calorie-rich, nutritious fare is starting to jump. Feeding so many hungry mouths is a complex task. But it will never happen unless we substantially increase food yields, especially the yields of staple foods such as palm oil which is already used by over one billion consumers around the world.

The good news is that the oil palm industry has the potential to meet the rising demand. We have invested in productivity-enhancing technology to boost yields. And we have done this while protecting the global environment. Palm oil is the world's most sustainable vegetable oil as it produces significantly more calories per hectare than competing products.

Thus our industry contributes safe food products to enhance global food security, protects valuable natural resources such as forests, and provides good jobs and careers for an aspiring middle class.

But there are potential roadblocks to feeding the world's billions. These obstacles come from a small but loud minority of misguided policy makers and activists who wish to put parochial interests ahead of the broader public interest.

Take, for example, the World Bank. For many years it supported oil palm development and other plantation agriculture projects in poorer, less developed countries. Its mission is to kick-start economic growth, so supporting plantation agriculture was long viewed as a worthy goal.

But now the World Bank has bowed to the wishes of a few environmental groups that have pressured it to halt funding for plantation agriculture in the developing world and impose far-reaching regulations that will stifle the future of the palm oil industry.

Environmental groups claim that planting oil palm harms forests and wildlife. Knowledgeable observers have pointed out that this isn't true; and that it is likely that these Western-based environmental groups are instead trying to help Western agriculture interests.

Whatever the reason for the NGO opposition, it is worrisome that the World Bank has bowed to pressure. This is especially troubling when the need to feed three billion more people looms on the horizon.

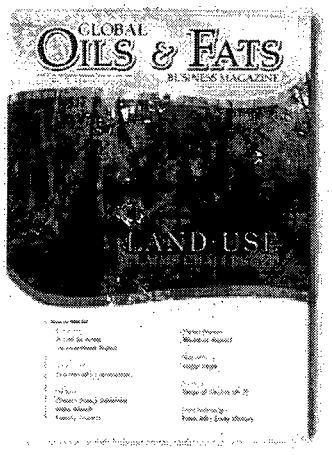
Most worrisome of all, the World Bank is not alone. Regulators throughout the West are starting to question the industrial practices of companies in tropical Asia. This is ironical.

After all, Western nations had harnessed the natural resources and endowments of their colonies in seeking their own development and wealth. Asian nations are just following this time-honoured path to success.

It is important that all stakeholders keep their eyes set firmly on what's most important – the pressing need to feed the billions of people who live on less than US$2 per day now, as well as the billions more who will need to be fed in the coming decades.

To do that, we must produce food that is safe, inexpensive and sustainable. Palm oil is the anchor of that global strategy.

Dr Yusof Basiron
*www.ceopalmoil.com*

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Cover Story

# SCANDAL UNMASKED

## Europe's hidden tactics against palm oil

As the palm oil industry has grown, so too has the scrutiny it has received wherever its products are consumed. In some countries, the industry has been criticised for its business practices and the alleged effect on the environment and local communities. But according to a new report, much of this criticism is manufactured by the industry's competitors as they seek to extend market share.

The TaxPayers' Alliance is a citizens' watchdog group based in the United Kingdom (UK). It conducts research and issues reports that highlight misuse and abuse of tax revenue by UK and European governments. It recently issued a stunning report titled 'Taxpayer Funded Environmentalism', which describes an extensive system of 'taxpayer-funded lobbying'. The lobbying is designed to protect the domestic agriculture and alternative fuels industries, and harm foreign competition.

Here's how it works. European and UK tax revenue is given to environmental and labour organisations. These groups present themselves to the public as independent and well-intentioned stewards of the commonwealth. But the reality is much different. The NGOs and activist organisations take taxpayer funds (Table 1) and lobby aggressively against the palm oil industry. They wage smear campaigns, peddling distortions and untruths about the products and the industry's commercial practices.

A favourite claim is that rampant deforestation has been committed in Malaysia, which conveniently ignores the country's commitment to conserve 50% of its forests when the global average is only 10%. Ironically, if not more hypocritically, Belgium boasts a forested area of only 22% of its total land area, while natural forests account for a mere 12% in the UK. It's at best duplicitous for European countries


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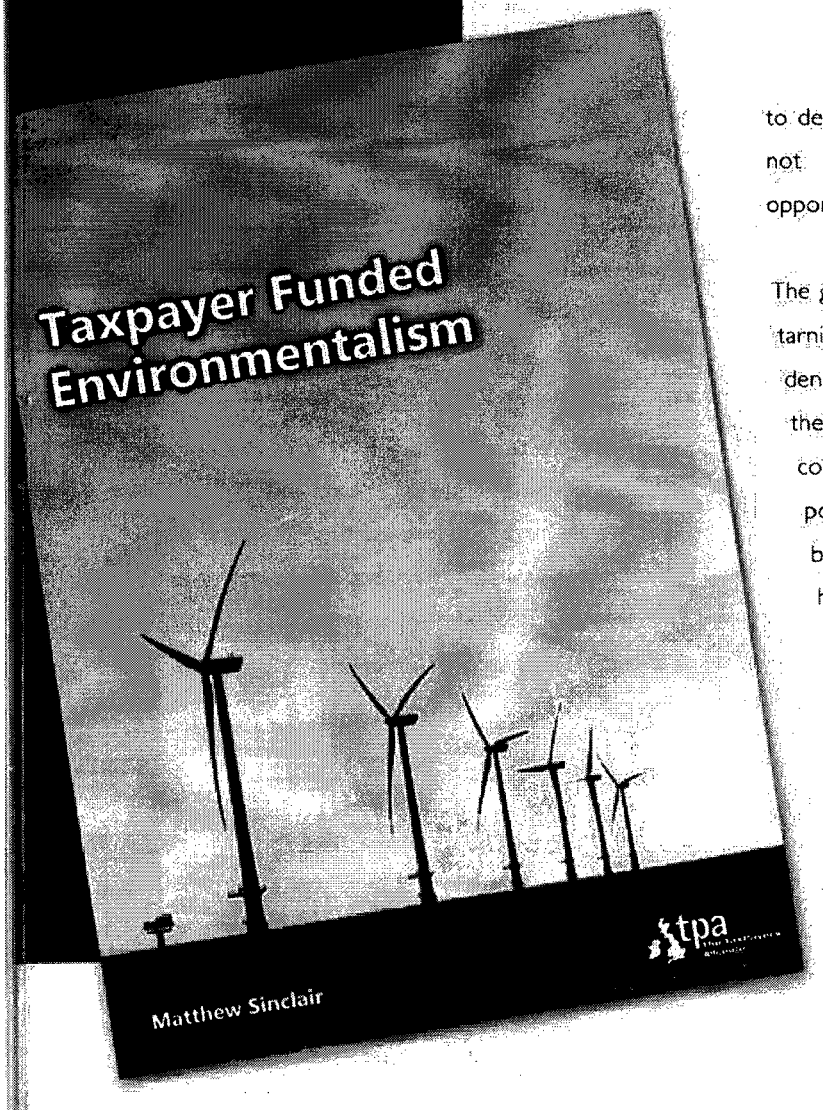


to develop their forest lands for commercial purposes, but not allow Southeast Asia the right to the same opportunities.

The goal of these campaigns is two-fold. The NGOs aim to tarnish palm oil products in the eyes of the public. By denouncing palm oil as unsafe or environmentally harmful, they hope Europeans will cease purchasing food products containing palm oil, or using palm-derived bio-diesel to power utilities and transport. And the campaigns have been effective. In recent months some major buyers have reviewed their practices and are seeking alternatives.

The campaigns also serve as a pretext for policy makers in Europe to push bureaucratic discrimination against palm oil. This includes the European Union's (EU) Renewable Energy Directive, which blatantly discriminates against Asian palm oil. And bureaucrats too have felt emboldened to bring in anti-palm oil rules and regulations. There is an unprecedented move by the World Bank to

**Table 1: The Green 10: Sources of Funding and Lobbying Expenditures**

| Organisation | Year | Income (implied)[16] | DG ENVI Grant | | Expenditure on Lobbying the European Union[17] | |
|---|---|---|---|---|---|---|
| | | € | € | % of total income | € | % of total income |
| Birdlife European Division | 2007 | 1,137,905 | 379,605 | 33 | 360,000 | 32 |
| CEE Bankwatch Network | 2009 | 660,985 | 422,700 | 64 | - | - |
| Climate Action Network Europe (CAN-E) | 2007 | 374,610 | 207,047 | 55 | - | - |
| European Environmental Bureau (EEB) | 2008 | 1,713,861 | 898,920 | 52 | 700,000 - 750,000 | 41-44 |
| European Federation for Transport and Environment (T&E) | 2009 | 774,251 | 261,000 | 34 | 400,000 - 450,000 | 52-58 |
| Friends of the Earth Europe (FoEE) | 2008 | 1,508,535 | 790,020 | 52 | 696,000 | 46 |
| Greenpeace European Unit | 2008 | 1,196,553 | 0 | 0 | 750,000 | 63 |
| Health & Environment Alliance (HEAL) | 2007-08 | 669,119 | 383,338 | 57 | 150,000 - 200,000 | 22-30 |
| International Friends of Nature (IFN) | 2009 | 542,296 | 255,747 | 47 | - | - |
| WWF European Policy Office (WWF-EPO) | 2009 | 4,281,229 | 661,878 | 15 | 450,000 - 500,000 | 11-12 |

*Source: International Policy Network, Friends of the EU, 2010, p8*



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**Table 2: Annual DG Environment Funding to Environmental NGOs[48]**

| Year | Amount | Year-on-year increase |
|---|---|---|
| 1998 | €2,337,924 | - |
| 1999 | €2,500,584 | 7% |
| 2000 | €2,562,561 | 3% |
| 2001 | €3,100,010 | 21% |
| 2002 | €3,904,071 | 26% |
| 2003 | €4,981,499 | 28% |
| 2004 | €6,049,624 | 21% |
| 2005 | €7,402,966 | 22% |
| 2006 | €7,899,677 | 7% |
| 2007 | €8,199,998 | 4% |
| 2008 | €8,495,809 | 4% |
| 2009 | €8,749,940 | 3% |
| **Total** | **€66,184,663** | **Average 13%** |

*Source: International Policy Network, Friends of the EU, 2010, p10*

restrict lending for oil palm plantation agriculture in the developing world. This proves just how widespread and penetrating the taxpayer-funded campaign against palm oil has become.

The money involved in targetting palm oil is enormous. Consider some programmes highlighted by the report. The EU funds an effort called the Financial Instrument for the Environment (LIFE+) programme. Over £7.5 million in European Commission grants were administered to activist groups under this programme from 2009. The UK Parliament supports green NGOs in a similar manner. Over £2.5 million in largesse was handed out to fund them and their efforts against palm oil in the UK.

## Covert agenda

European policy makers claim that all this is part of broad efforts to support civil society. They claim that support for NGOs will improve discourse and domestic policy. But who really benefits from anti-palm oil campaigns, besides those receiving funds? Certainly not the consumers.

As Matthew Sinclair, Director of the TaxPayers' Alliance, said after the report was released: "Environmentalist campaigns are politicised groups, so it's unfair and undemocratic that they are getting taxpayers' money. If people want to give their own cash that's one thing, but with ordinary families facing higher taxes, the last thing they want is for politicians and bureaucrats to give on their behalf or put contracts to such groups.

"Taxpayers pay twice, once for the money given to green groups and then again when they campaign for regulations that push up electricity bills and other costs. The expensive scandal of taxpayer-funded environmentalism in Britain and the EU has to end."

**Figure 1: A cycle of convenience**

*Source: International Policy Network, Friends of the EU, 2010, page 9*

This development should come as little surprise to those who have watched the zealous 'green' movement take over Europe. Ignoring consumers and the good of economics, European politicians have raised the issue of climate change to a priority above any other.

The International Policy Network, a UK-based think-tank, reported in 2010 on the self-sustaining influence of NGOs in the context of the climate change debate (Figure 1). Not content to



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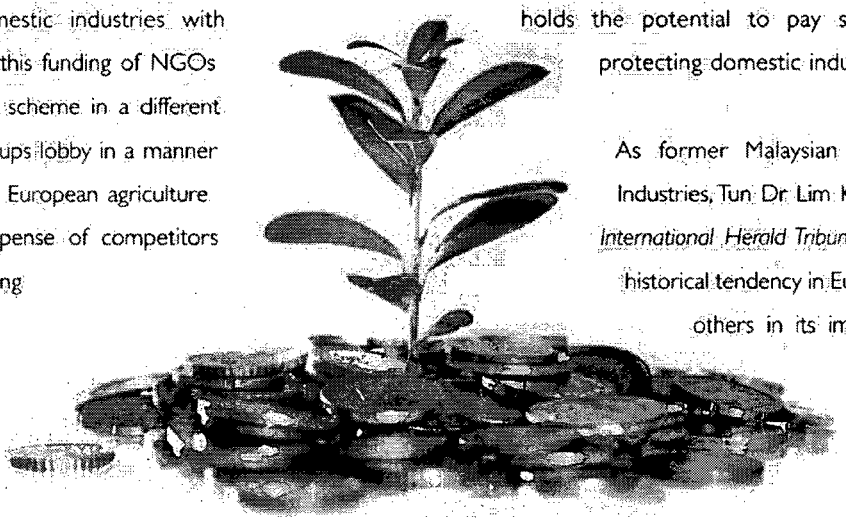
fund environmental NGOs, the EU has "delegated public relations work to 'independent' NGOs in order to advance its own agenda on climate change".

In reality the true beneficiaries of green funding in the EU are domestic agriculture producers. Global trade norms forbid European governments from propping up uncompetitive domestic industries with direct subsidies. So this funding of NGOs serves as a subsidy scheme in a different form. The green groups lobby in a manner that helps domestic European agriculture interests at the expense of competitors from the developing world.



At least seven green NGOs receive large amounts of funding from either the UK Parliament or the EU Commission, or both. The money is used for active and visible campaigns against palm oil specifically and bio-diesel generally. The groups include:

- Birdlife International
- Climate Action Network – Europe
- European Environmental Bureau
- European Federation for Transport & Environment
- Friends of the Earth (UK and Europe)
- Pesticide Action Network (UK and Europe)
- World Wildlife Fund (UK and Europe)

A total of £10.1 million was given to a range of environmental groups by the UK government and the EU in 2009-10. Other funding sources were the Foreign and Commonwealth Office in the UK, the Hackney Council and the Big Lottery Fund which delivered another £0.5 million in recent years.

Of these groups, Friends of the Earth and the World Wildlife Fund have the deepest pockets and are the most aggressive. They run sophisticated anti-palm oil campaigns in Europe and elsewhere. And they coordinate their efforts with their friends in the media, civil society and government to maximise the pressure on the palm oil industry. European governments know that this investment in green NGOs holds the potential to pay sizeable dividends by protecting domestic industries.

As former Malaysian Minister of Primary Industries, Tun Dr Lim Keng Yaik posited in an *International Herald Tribune* editorial: 'There is a historical tendency in Europe to seek to mould others in its image. This was part of what some styled the 'white man's burden' during the colonial era. Has this tendency reasserted itself as the Green man's burden?'

Funding green NGO is nothing more than green neo-colonialism. Western nations dictated how their colonial economies would evolve and develop. And Europeans once believed that colonies must serve European wants and prejudices. It appears that little has changed.

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***Further reading***

- Full report at: http://www.taxpayersalliance.com/tfe.pdf
- Speech by Roger Helmer, Member of the European Parliament for the East Midlands, at: http://www.mpoc.org.my



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## Executive Summary: 'Taxpayer Funded Environmentalism'

This report exposes for the first time the true extent of taxpayer-funded environmental campaigning in the UK and the European Union (EU). In opposition, the Conservatives pledged to end all taxpayer-funded lobbying. The Department for Communities and Local Government has since prohibited councils and quangos from hiring lobbyists.

This funding of particular political campaigns creates similar problems. At a time when there are cuts in other areas of public spending and rising taxes, taxpayer-funded environmentalism should be stopped.

Information obtained through detailed scrutiny of environmental groups' accounts, Freedom of Information Act requests, and reports detailing European Commission (EC) funding of environmental NGOs shows that a large number of groups are receiving taxpayer funding to influence environmental policy.

The key findings:

- A total of £10.1 million was given to a range of environmental groups by the UK government and the EU in 2009-10. The total includes £2.5 million from various UK councils, departments and Quangos. It also includes £7.6 million in EC grants under the Financial Instrument for the Environment (LIFE+).
- The European Environmental Bureau was the NGO that received the most funding from the EC, receiving £825,888 in 2009-10.
- The Foreign and Commonwealth Office made the largest UK payment of £342,929 to WWF UK.
- Hackney Council made the largest payment from a UK council at £141,246 to Global Action Plan.
- Big Lottery Fund made the largest payment from a UK quango at £73,994, again to Global Action Plan.

As highlighted in a previous TaxPayers' Alliance report, funding of lobbying and political campaigning by government bodies has a number of negative effects.

- It distorts policy making in favour of the interests and ideological preoccupations of narrow political elites.
- It slows adjustments in the direction of policy in reaction to new evidence or circumstances.
- It increases political apathy among the public.
- Taxpayers are forced to fund views with which they may seriously disagree.

The government has taken some important strides towards making public spending more transparent and addressing the issue of taxpayer-funded campaigning and lobbying. They need to go further and end taxpayer-funded politics.

Source: TaxPayers' Alliance



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# Green Camouflage

## Non-tariff barriers thwart development

Governments and large agribusinesses are increasingly using the environmentalist movement and its policy arm of green NGOs to justify imposing protectionist non-tariff barriers (NTBs) on developing country producers while skirting World Trade Organisation (WTO) rules. Green' NTBs have become the primary vehicle for erecting trade barriers, which hinder economic freedom and growth.

This trend began innocently enough decades ago, when *Silent Spring*, a book by Rachel Carson, led to an almost complete ban on DDT, the most effective pesticide to kill malaria-carrying mosquitoes. Carson claimed to find serious dangers from using DDT – claims later shown to be deeply flawed. Nevertheless, the book became a foundational document in the creation myth of modern environmentalism. Zealous environmentalists cajoled governments first to ban DDT and then other products and practices that activists linked to environmental concerns.

Environmental activists and monopoly rent-seeking businesses have since become partners in lobbying governments for statutes and regulations that have erected *de facto* NTBs. Public relations campaigns have been used to demonise certain products or to insert discriminatory double standards into relevant EU and US laws and regulations. For example, these regulations arbitrarily categorise certain agricultural production methods in developing countries as 'illegal' or a 'threat to biodiversity'.

Green NGOs have expanded their efforts to take on entire sectors of the world economy. The newest targets include forest products and vegetable oils produced in developing countries for export to the developed world. In each case,



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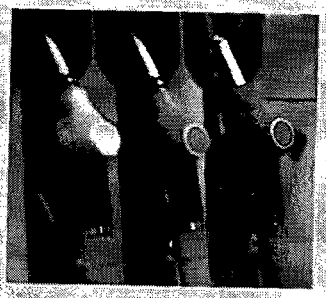
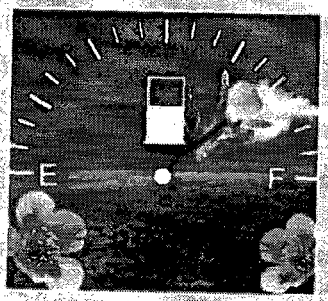
unbalanced public relations campaigns by green NGOs have increased their membership through heightened public awareness, and benefited competing producers in developed counties. The following sections describe some of the campaigns.

## Public relations wars

Greenpeace and other green NGOs emphasise 'corporate social responsibility', which they apparently define as the willingness of private companies, governments, and Western consumers to let the green agenda trump sound business practices and common sense. Of late, green NGOs have taken to 'Greenmailing' Western multinational companies to forswear buying certain products from Asia.

Along with timber and paper, palm oil produced in the tropical belt is valued for its high quality and low cost. However, radical greens oppose any commercial development in the tropics, which they want to preserve as pristine wilderness. Therefore, they harass the multinationals, accusing them of razing the rainforest and destroying habitats for the *orang utan*, tigers and other endangered species.






This gambit has worked. Procter & Gamble, global food giant Nestlé, and Unilever recently suspended palm oil imports from Asia. Retailers Wal-Mart and Carrefour are under fire for buying paper goods from Asia, and mega-bank HSBC is being pressured to halt economic development projects in Indonesia, Malaysia and other developing countries.

Retailers now have been converted from targets of the green NGOs to active participants and supporters in the green campaign to demonise multinational corporations' sourcing policies until they capitulate. Western retailers are helping to do the bidding of green NGOs, such as Greenpeace, the Rainforest Action Network and WWF, as they dictate environmentalist agendas worldwide.

For example, Unilever is spearheading a campaign to force oil palm growers to adopt environmentalist-influenced sustainability requirements, which would ban further conversion of forested land for development. These sustainability standards would negatively affect smallholders in Africa and Asia and consequently stifle economic prosperity among the poor in the developing world. Europe's producers of vegetable oils, which do not like competition from Asia, are the real driver of the anti-development campaigns led by green NGOs.

European policy makers know that protectionism is illegal under WTO rules, but are trying to block imports on environmental and public relations grounds. EU member states support radical green groups, which then demonise trade in foreign goods. What European policy makers and companies cannot do legally in global trade courts, they are trying to accomplish in the court of public opinion.

## Renewable Energy Directive (RED)

The EU's regulatory RED is another example of the European Commission (EC) trying to impose its environmental policies outside its borders, limit agriculture expansion, and deny developing countries the ability to manage their resources.

Notwithstanding evidence supporting the sustainability of crops such as sugar cane and oil palm, the EC has sought to impose arbitrary sustainability criteria without a firm basis in science. These criteria limit the producers' ability to export to the EU. The vegetable oils sector is fiercely competitive; European growers of rapeseed cannot compete internationally.

The RED applies 'default' values to the various bio-fuel sources, as a means of identifying which bio-fuels offer sufficient greenhouse gas (GHG) savings to achieve the minimum 35% GHG savings compared to the alternative fossil fuel used that is required by the directive. Palm oil, despite being given one of the highest GHG savings rates



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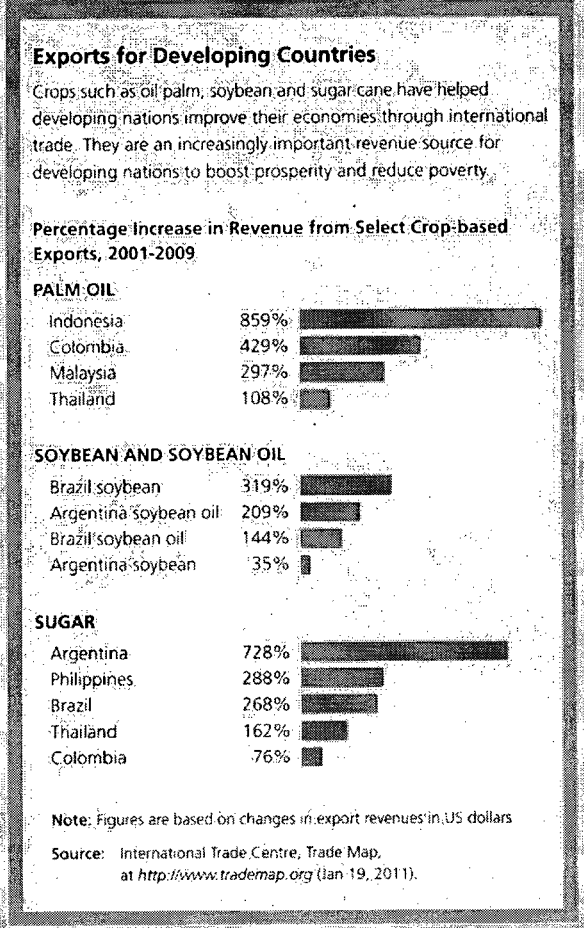
**Figure 1: Exports of Developing Countries**




of any bio-fuel, does not qualify because the directive establishes a double standard and assigns palm oil a default GHG savings rate of just 19%. This contradicts other credible assessments of palm oil's sustainability and works to the advantage of European bio-fuel – a product of rapeseed.

The EC has undertaken a consultation on indirect land use change as criteria for bio-fuels. Introducing these criteria could both prevent developing countries from expanding their agriculture land, which is central to economic development, and apply a criterion that is not scientifically supported or reliably measurable. It would severely restrict, if not halt, any export of Malaysian palm based bio-fuels to Europe if the criteria were applied. Efforts to limit land conversion also ignore future population growth and the inevitable need for more food, which will require agriculture expansion.

Limiting the ability of developing countries to develop and expand their agriculture production ignores how the West benefited from its own agriculture expansion. This provided prosperity to the West that has benefited Europe and the US. It can potentially provide the same benefit to developing countries.

The RED is protectionist and violates WTO rules. The General Agreement on Tariffs and Trade (GATT) requires equal treatment of all 'like' products. Because palm-based bio-diesel is no different from rapeseed bio-diesel, restricting palm oil's access to the same market that allows rapeseed is a violation.

In addition, it has been argued that the sustainability criteria and default values are legitimate under the general exception in Article XX of the GATT. However, previous WTO rulings have required such exceptions to demonstrate a direct link to the behaviour being discouraged or effect being avoided. This is not the case for palm oil, and hindering its development may in fact have detrimental environmental effects in developing countries.

As Europe and the US grapple with the unpopularity of increasing the costs and regulations on domestic industries imposed by environmental policies, they are seeking to export their policies to sovereign states that depend on international aid and trade. This appeases environmentalists in the developed world, but denies opportunities to developing countries.

## Double-cross in the UK?

Caroline Spelman, UK Secretary of State at the Department for Environment, Food and Rural Affairs, announced in July 2010 that her department will review palm oil use in the UK. This is intended to map private and public use of palm oil and how the use of palm oil in the UK 'contributes to deforestation' in countries that produce palm oil. The real aim of this government plan is to help green NGOs in running boycott campaigns against products with palm oil. In announcing the review, Spelman incorrectly stated that deforestation is due primarily to the palm oil industry and that the review would benefit producers and consumers alike. She never explained exactly how they will benefit.



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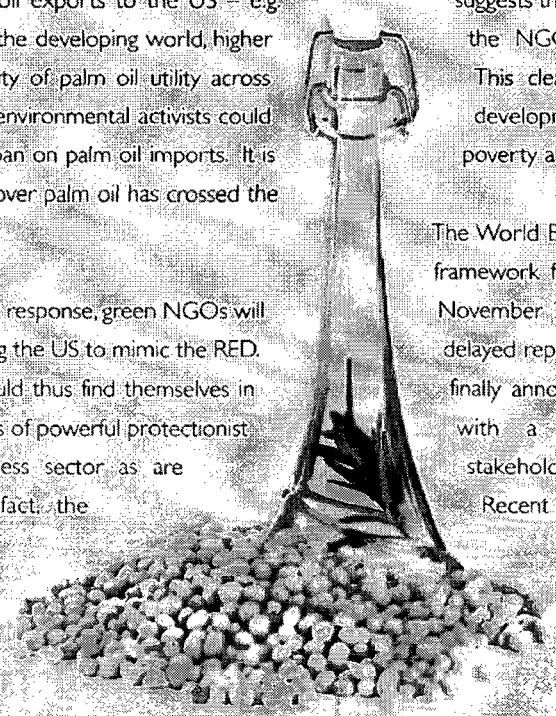
Ironically, Spelman recently announced a new government policy that will see a majority of Britain's publicly owned forest land sold to the highest bidder. This may be logical, but it is also hypocritical and a blatant illustration of green imperialism at the hands of the British. As the UK seeks to improve its finances, it recognises the benefits of using its natural resources more efficiently, but it is denying that same right to developing nations like Malaysia. [In mid-February, however, the UK government backed off the proposal in light of strong public objections.]

### 'RED' light for the US?

A recent National Wildlife Federation (NWF) report was authored by several activists from WWF and other environmentalist groups, which have long been opposed to oil palm cultivation. Although the report includes the many beneficial reasons for palm oil exports to the US – e.g. higher rural employment in the developing world, higher crop yields, and the versatility of palm oil utility across many product groups – US environmental activists could use the report to call for a ban on palm oil imports. It is a clear indication the battle over palm oil has crossed the Atlantic to the US.

If this occurs without a direct response, green NGOs will have succeeded in persuading the US to mimic the RED. These American NGOs would thus find themselves in collusion with the same types of powerful protectionist forces in the US agribusiness sector as are operating in Europe. In fact, the references in the NWF report to US-produced soybean oil could indicate that this collusion has already begun.



For example, the report notes that the 'US and Canada rely primarily on domestic production of soybean, corn and canola oils for cooking oils', but that palm oil 'is an attractive substitute' for domestic vegetable oils for a number of reasons, including price. With its numerous negative examples about palm oil, the NWF report could be laying the groundwork for potential collusion between US agribusinesses and US environmental NGOs, perhaps in the form of a campaign to shame palm oil producers and to block its trade into North America.

### World Bank policy

In September 2009, after allegations by environmental NGOs that Wilmar International, a Singapore-based conglomerate that operates oil palm plantations, had ignored social and environmental impact laws, the World Bank's International Finance Corporation (IFC) froze all funding of oil palm–related development projects, denying US$132 million to existing projects.

Although Wilmar was found in breach of internal IFC rules, no evidence of a violation of national or international law was found. However, caving in to green pressure, World Bank President Robert Zoellick's announcement suggests that his primary concern was to meet the NGOs' arbitrary sustainability criteria. This clearly contradicts the World Bank's development mandate and subordinates poverty alleviation to environmentalism.

The World Bank was expected to announce its framework for oil palm funding at the end of November 2010, but this timeframe has been delayed repeatedly. The revised framework was finally announced in early January 2011 along with a 30-day comment period for stakeholders and observers to respond. Recent news coverage indicates that the World Bank is about to commit itself to imposing sustainability criteria on loans for oil palm development, a clear break from its stated mandate of poverty alleviation through economic development.

The evidence does not support World Bank claims that these environmental criteria are for the benefit of developing countries. For example, in October 2010, more than a year after the World Bank froze funding of oil palm projects, reports suggest it suspended a US$123 million investment to support the oil palm sector in Nigeria and



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other African countries. The new framework is expected to be submitted to the World Bank Group's Management Board for its approval by March.

At the Convention on Biological Diversity summit in Nagoya, Japan, in October 2010, Zoellick affirmed his commitment to imposing sustainability standards on the World Bank's loans and development programmes, prioritising environmental goals over reducing poverty. Writing in the *Guardian*, he reaffirmed his commitment to restrict forest conversion and this time to save the tiger, even while acknowledging that illegal poaching was to blame. Zoellick's support for international trade controls to save endangered species is a controversial position for the president of the World Bank. In advocating them, he appears to be moving closer to supporting WWF's call for 'green global governance' to save the environment.

These examples demonstrate a reversal in the World Bank's mandate. In essence, the green NGOs are trying to turn the World Bank into a global version of the US Environmental Protection Agency.

The World Bank has already set a precedent of ceding development policy to NGOs. The World Bank/WWF Alliance for Forest Conservation and Sustainable Use was established in 1998, with the sole purpose of promoting conservation. Although the World Bank's mandate of economic development and poverty alleviation is mentioned on the alliance's website, its importance is clearly subordinated to efforts to limit agriculture expansion and forestry.

Members of the US Congress have begun to criticise World Bank policy and its forays into environmental regulation. Several members recently expressed concerns in a letter to Zoellick that 'the World Bank's reconsideration of its pro-agriculture policies is worrisome given the proven economic success of this development model'.

## What the West should do

The West can take steps to reverse the damage caused by misguided environmental policies.

- The EU, the US Congress and the Obama Administration should review, revise and eliminate protectionist policies and regulations that are masquerading as environmental safeguards.
- The US Congress, UK and EU should end the improper use of taxpayer funds to support US- and foreign-based environmentalist NGOs.
- The US Congress should investigate the potential trade violations and collusion between US agribusiness and forestry interests with environmentalist NGOs to block the imports of agricultural and forestry goods from developing countries.
- The US Congress should summon the World Bank's senior management to explain the growing prioritisation of environmentalist criteria over support for poverty alleviation through agricultural and economic development.
- The European Parliament and EC should stop implementing legislation that violates WTO agreements and blocks developing world exports from entering EU markets. As necessary, affected developing countries should challenge such legislation in the WTO.

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*The paper and references on which this edited article is based can be read in full at http://www.heritage.org/.*



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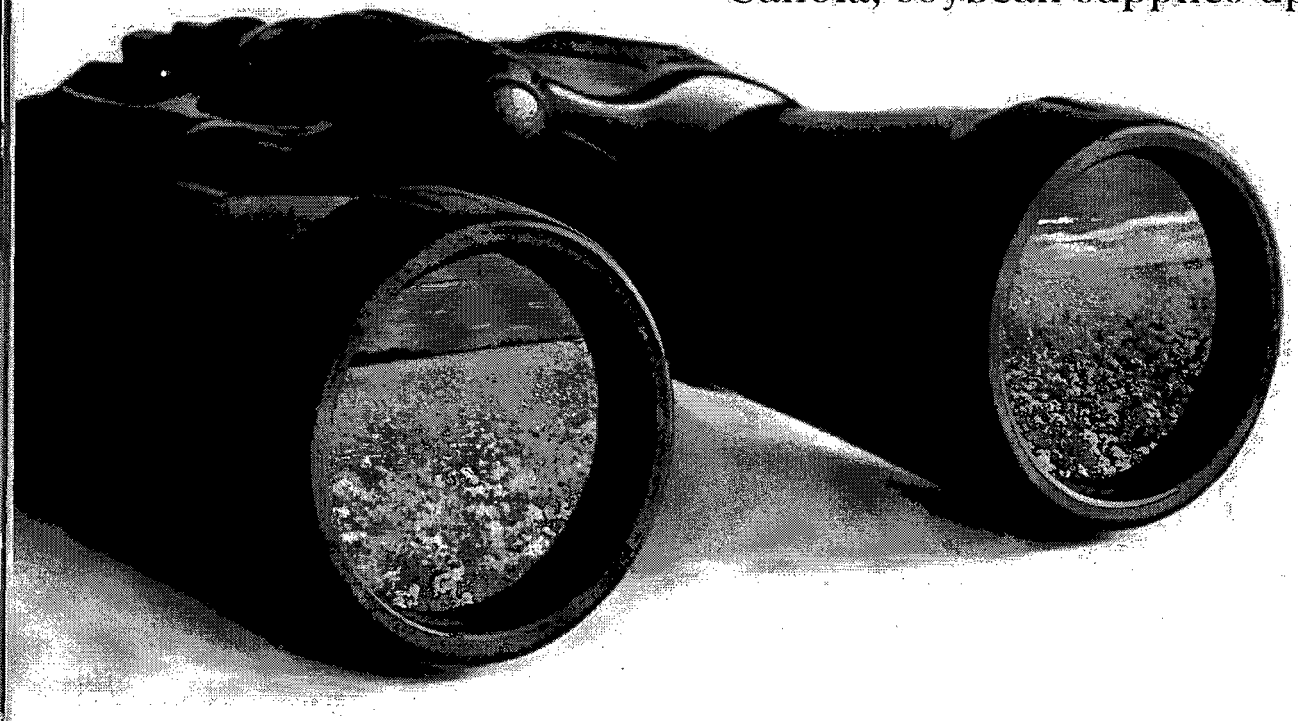
# CANADA WATCH

## Canola, soybean supplies up



Canada is becoming a formidable supplier of canola (rapeseed) to the global market. It is now the third-largest producer of canola after the EU and China and, at the current rate of growth, will likely soon surpass China.

Almost the entire crop is grown in the prairie provinces of Alberta, Saskatchewan and Manitoba, with much smaller amounts in Quebec and British Columbia. Efforts are being made to get farmers to grow more canola in Quebec to supply a new oilseed crushing plant opened there last year, but thus far the effort has not been successful.

Canola has been expanding in the Prairie provinces, mainly at the expense of barley, oats and wheat. Farmers have found canola to be a profitable crop to grow in rotation with small grains and pulses. However, the acreage is restricted by the necessity to limit plantings to once every four years to avoid diseases and pests.

Practically all of the canola is planted in spring because of harsh winters, but some winter varieties are being tested in Quebec. The average yield in Canada over the last five years has been 1.8 tonnes/ha with the highest being 1.95 tonnes/ha in 2009.

The bulk of the output is exported as unprocessed seed. In CY 2009, Canada exported 3.14 million tonnes to China, 1.96 million tonnes to Japan, 1.07 million tonnes to Mexico, and 569,000 tonnes to the US. Other significant customers included Pakistan, the United Arab Emirates and Bangladesh.

The share of canola that is crushed domestically has been growing as a result of the increased availability of crushing capacity. There are now 10 dedicated processing plants: three each in Alberta and Manitoba, and four in Saskatchewan. These have an estimated annual capacity of 6.2 million tonnes. Two plants in Ontario and one in Quebec crush both canola and sunflower seed, with an annual capacity of about 3.26 million tonnes.

On Jan 28, 2011, a Canadian company and a Chinese company announced a joint plan to explore building a 600,000



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tonnes/year canola crushing plant in western Canada. If canola production continues to expand, it is likely that additional plants will be built in the Prairie provinces.

Currently, the bulk of the canola oil is exported. USDA estimates only 465,000 tonnes, or about 19.5% of production, will be consumed in Canada in the 2010/11 marketing year. The largest markets in CY 2009 were the US with imports of 1.01 million tonnes, and China with 0.44 million tonnes. Canola oil has greatly benefited from the US *trans*-fats labelling requirement, which has led to a sharp decline in consumption of hydrogenated soybean oil.

This year, some canola oil is being shipped from Quebec to Europe where it is used for bio-diesel. The fact that practically all the canola produced in Canada is from biotech varieties greatly reduces its potential to be exported to Europe for food use.

Canada's canola meal is also mainly exported. USDA forecasts that only 24.8% of the output will be consumed domestically. The main export market is the US, where it is predominantly used in dairy and beef cattle feeds. Some is exported to Mexico, China, Thailand and Ireland. Prices have been depressed by the large amount of distillers dried grain in the US and Canadian feed markets.

Canada's Ministry of Agriculture and Agri-Food forecasts that canola plantings will surge by 9.7% in 2011, with farmers expected to plant a record 7.47 million ha versus 6.81 million ha in 2010. This is in response to high canola prices. New-crop canola is currently trading around US$525/tonne – enough to get farmers to shift land out of dry beans, dry peas and lentils.

The area of land to lie fallow in the summer of 2011 is expected to decline by a third. If the weather cooperates, it is likely that Canada's 2011 canola crop will exceed 13.5 million tonnes, a new record.

**Table 1: Canada – Canola Supply and Distribution ('000 tonnes)**

| | 2006/07 | 2007/08 | 2008/09 | 2009/10 | *2010/11 |
|---|---|---|---|---|---|
| Beginning Stocks | 2,016 | 1,809 | 1,462 | 1,661 | 2,123 |
| Area harvested ('000 ha) | 5,240 | 6,227 | 6,494 | 6,376 | 6,500 |
| Production | 9,000 | 9,601 | 12,643 | 12,417 | 11,866 |
| Exports | 5,450 | 5,775 | 7,898 | 7,169 | 6,400 |
| Crush | 3,579 | 4,144 | 4,280 | 4,766 | 5,770 |
| Feed and Waste | 381 | 208 | 387 | 148 | 350 |
| Total Consumption | 3,960 | 4,352 | 4,667 | 4,914 | 6,120 |
| Ending Stocks | 1,809 | 1,462 | 1,661 | 2,123 | 1,739 |

*Source: USDA; Note: *Forecast*

**Table 2: Canada – Canola Oil Supply and Distribution ('000 tonnes)**

| | 2006/07 | 2007/08 | 2008/09 | 2009/10 | *2010/11 |
|---|---|---|---|---|---|
| Production | 1,500 | 1,725 | 1,780 | 1,980 | 2,385 |
| Imports | 136 | 36 | 111 | 196 | 140 |
| Exports | 1,265 | 1,307 | 1,527 | 1,805 | 2,025 |
| Domestic Consumption | 380 | 395 | 405 | 410 | 465 |

*Source: USDA; Note: *Forecast*

**Table 3: Canada – Canola Meal Supply and Distribution ('000 tonnes)**

| | 2006/07 | 2007/08 | 2008/09 | 2009/10 | *2010/11 |
|---|---|---|---|---|---|
| Production | 2,108 | 2,440 | 2,490 | 2,775 | 3,360 |
| Imports | 1 | 5 | 6 | 0 | 0 |
| Exports | 1,482 | 1,857 | 1,861 | 1,927 | 2,530 |
| Domestic Consumption | 621 | 593 | 630 | 808 | 830 |

*Source: USDA; Note: *Forecast*

## Soybean production

Soybean has mainly been grown in Ontario and Quebec, which together produce 72% of total output. Increasing amounts are now being grown in southern Manitoba and southern Saskatchewan. Production reached a record 4.35 million tonnes in 2010, an increase of 23.9% over 2009. The crop was a result of a record average yield of 2.94 tonnes/ha.

Canada has traditionally been a large producer of food-grade soybean for export primarily to Japan. However, the greatest growth in production in recent years has been in biotech soybean for crushing. About 60% of the soybean grown in Quebec comprised food-grade varieties, but the share fell to less than 40% in 2010 as farmers chased high prices for genetic soybean.



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**Table 4: Canada – Soybean Supply and Distribution ('000 tonnes)**

| | 2006/07 | 2007/08 | 2008/09 | 2009/10 | *2010/11 |
|---|---|---|---|---|---|
| Beginning Stocks | 636 | 675 | 150 | 175 | 136 |
| Harvested Area ('000 ha) | 1,201 | 1,172 | 1,195 | 1,380 | 1,477 |
| Production | 3,466 | 2,696 | 3,336 | 3,507 | 4,345 |
| Imports | 234 | 309 | 387 | 375 | 350 |
| Exports | 1,683 | 1,753 | 2,017 | 2,247 | 2,625 |
| Crush | 1,524 | 1,383 | 1,286 | 1,292 | 1,425 |
| Feed and Waste | 454 | 394 | 395 | 382 | 400 |
| Total Consumption | 1,978 | 1,777 | 1,681 | 1,674 | 1,825 |
| Ending Stocks | 675 | 150 | 175 | 136 | 381 |

*Source: USDA; Note: *Forecast*

**Table 5: Canada – Soybean Meal Supply and Distribution ('000 tonnes)**

| | 2006/07 | 2007/08 | 2008/09 | 2009/10 | *2010/11 |
|---|---|---|---|---|---|
| Production | 1,200 | 1,090 | 1,015 | 1,020 | 1,125 |
| Imports | 1,415 | 1,511 | 1,251 | 1,106 | 1,150 |
| Exports | 137 | 120 | 82 | 126 | 130 |
| Domestic Consumption | 2,476 | 2,485 | 2,185 | 2,000 | 2,134 |

*Source: USDA; Note: *Forecast*

**Table 6: Canada – Soybean Oil Supply and Distribution ('000 tonnes)**

| | 2006/07 | 2007/08 | 2008/09 | 2009/10 | *2010/11 |
|---|---|---|---|---|---|
| Production | 278 | 253 | 235 | 236 | 260 |
| Imports | 79 | 80 | 45 | 43 | 35 |
| Exports | 24 | 50 | 38 | 47 | 50 |
| Domestic Consumption | 332 | 305 | 245 | 228 | 245 |

*Source: USDA, Note: *Forecast*

A sizable quantity of the biotech soybean is exported to Europe. The main markets in the first 10 months of CY 2010 were the European Union (613,700 tonnes), Japan (323,300 tonnes), the US (291,700 tonnes) and Malaysia (75,500 tonnes). Total exports for this period were 1.57 million tonnes compared 1.07 million tonnes in the same period in 2009.

Canada has three solvent-extraction plants for soybean. Two are in Ontario (Hamilton and Windsor). A new plant located on the St Lawrence River was opened in 2010 in Becancour, Quebec. The combined capacity of the plants is 3.26 million tonnes. However, all three are switch plants and sometimes process canola. There are two small mechanical extraction plants in Ontario (Winchester) and Manitoba (Winkler) with a combined annual capacity of only 75,000 tonnes. Besides crushing Canadian soybean, the plants in Ontario and Quebec periodically also crush soybean imported from the US.

As in the US, demand for soybean meal is the main driver of soybean processing in Canada. However, soybean meal consumption is Canada has declined substantially in the last two years as a result of a contraction in swine production and aggressive competition from canola meal and distillers dried grains.

Consumption in 2009/10 was 19.5% below that of two years earlier, while consumption in 2010/11 is projected to rise by 6.7% over 2009/10. It will likely be several years before production reaches the amount consumed in 2007/08. Canada's processing of soybean is constrained by sizable imports from the US (Table 5).

Most of the US soybean meal is imported into the Prairies provinces. However, unit trains of soybean meal periodically move from Iowa and Nebraska into Ontario and Quebec when supplies are burdensome in the Midwest. Small quantities of US soybean meal also move into Ontario and Quebec from crushing plants located in Indiana and Ohio.

Canadian consumption of soybean oil is falling due mainly to *trans*-fats labelling and plentiful supplies of canola oil. Food manufacturers are required to list the *trans* fats content on product labels, which has in turn reduced the use of hydrogenated soybean oil. Since canola oil is free of *trans* fats, food manufacturers are using it as a substitute.

John Baize

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## CSPO sales top 55% in 2010

The combined annual production capacity of RSPO-certified oil palm plantations and smallholders went up in 2010, from 1.4 million tonnes in January to 3.4 million tonnes in December.

The RSPO online Market Centre said the volume of actual CSPO swelled from 1.3 million tonnes in 2009 to 2.3 million tonnes in 2010. Sales of sustainable palm oil more than tripled from 0.4 million tonnes in 2009 to about 1.3 million tonnes in 2010. While there is a delay in market uptake, 56% of certified palm oil was purchased as such in 2010 – a substantial percentage.

Palm growers also sold GreenPalm certificates covering the production of about 180,000 tonnes of palm kernel in 2010, which amounts to about 35% of the RSPO-certified sustainable palm kernel supplied the same year.

*Source: http://www.rspo.eu/market*

## RSPO certifies first South American producer

Colombian organic tropical crop producer Daabon has been certified to adhere to RSPO's principles and criteria for sustainable palm oil production, the first outside Southeast Asia.

Last November, Daabon had more than 4,400 ha of its oil palm planting areas certified. The company will add about 27,000 tonnes per year to the growing global stream of CSPO. It hopes to add other palm oil production units and its supply base of 1,800 ha to global RSPO-certified production capacity over the next few years.

Daabon, a family-owned company, employs about 2,000 Colombians directly, and supports more than 450 oil palm and cocoa smallholders organised in *Alianzas por la Paz* (Co-operation for Peace). Such *Alianzas* support the establishment of agricultural co-operatives in some of the country's conflict ridden regions, focusing on high-potential crops such as oil palm and banana.

*Source: http://www.rspo.eu/market*

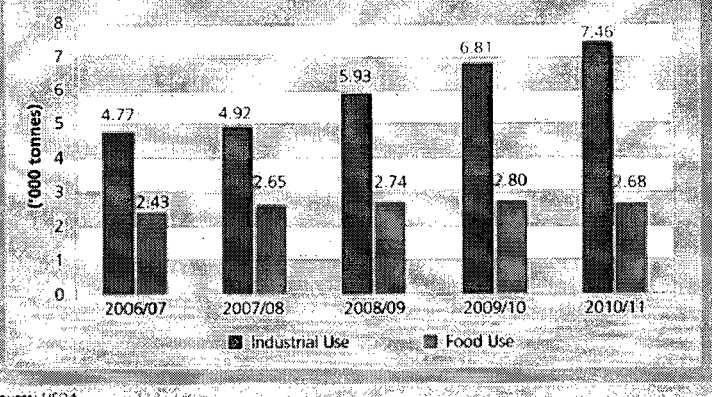
## EU bio-diesel sector may switch feedstock

Rising rapeseed oil prices in Europe may soon result in reduced volumes being used to make bio-diesel. Rapeseed oil is trading at the equivalent of US$1,415/tonne. This is near the point where it is cheaper for fuel blenders to pay fines for not blending bio-diesel than to buy the bio-diesel.

It may also cause manufacturers to shift away from rapeseed oil as the main feedstock, to less expensive vegetable oils like soybean oil. The high price of rapeseed oil has also driven rapeseed prices to a 34-month high.

*Source: Ag Perspective*

**Table 1: EU-27's Use of Rapeseed Oil for Industrial Products and for Food 2006/07 - 2009/10 and USDA Forecast for 2010/11**




*Source: USDA*



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## More invest in Brazil's oil palm sector

ADM announced in February that it plans to develop 14,000 ha of oil palm in the state of Para, indicating that global demand for palm oil is driving new investments in Brazil. Mining company Vale is to buy 70% of a palm oil company, while oil company Petrobras is investing in palm oil production.

These investments make sense since global demand for palm oil for food and bio-diesel production is exceeding supplies and likely will continue to do so. Brazil is the world's ninth-largest palm oil producer, although its output is miniscule compared to Indonesia and Malaysia.

However, the potential to expand the oil palm sector in the Amazon Basin is huge as there are large amounts of unused land suitable for planting. Also, the location is near the equator and there is high rainfall.

The greatest limitation will be restrictions imposed on new area developments by the government and the requirements of buyers in Europe and elsewhere that the palm oil be produced in a sustainable manner. ADM has announced it will comply with RSPO guidelines in developing the plantation and its processing plant.

*Source: Ag Perspective*

## Argentine bio-diesel exports rise

New capacity helped Argentina to export 1.23 million tonnes of bio-diesel in the first 11 months of CY 2010, compared to 1.03 million tonnes in the same period of CY 2009.

The EU was the largest market, absorbing 1.18 million tonnes versus 970,000 tonnes over the comparative period of CY 2009. The only other significant market was Peru, with 50,000 tonnes.

*Oil World* estimates that Argentina produced 1.84 million tonnes of bio-diesel in CY 2010, an increase of 660,000 tonnes over CY 2009.

*Source: Ag Perspective*

## Higher soybean acreage in the US?

USDA's World Agricultural Outlook Board chairman Gerald Bange has told the American Farm Bureau Federation's annual meeting that, despite high corn and cotton prices, US soybean plantings may be higher than expected in 2011.

He suggested this may be because of high fertiliser prices making corn and cotton plantings less interesting to farmers. He also indicated that farmers see soybean as less subject to adverse weather than corn.

As many as 10 million additional acres of land may move into crop production in the US this year due to strong prices for corn, soybean and cotton, he said. It is assumed that much of the additional land will be that used for growing hay and small grains, as well as land removed from the Conservation Reserve Programme.

Many farmers see soybean as a lower-risk crop with about the same profit potential as higher-cost crops. Those in the Midwest were also greatly disappointed with corn yields in 2010. For this reason, it would not be surprising to see an additional 1-2 million acres of soybean being planted this year.

*Source: Ag Perspective*



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## Cutback in US bio-diesel sector

US consumption of oils and fats for bio-diesel production fell sharply in the first 11 months of CY 2010 compared to the two previous years. This was because there was no blenders tax credit in place in 2010, as well as due to high oils and fats prices which made bio-diesel production unprofitable.

However, the scenario should improve sharply in 2011 because of the restoration of the US$1/gallon bio-diesel tax credit and a larger blending mandate. Soybean oil should capture most of the increase because of its plentiful supply and lower price compared to competing vegetable oils. Still, producers will maximise their use of cheaper alternatives to soybean oil, depending on supply.

*Source: Ag Perspective*

**Table 2: US Consumption of Oils and Fats to Produce Bio-diesel ('000 tonnes)**

| | Jan-Nov 2008 | Jan-Nov 2009 | Jan-Nov 2010 |
|---|---|---|---|
| Soybean Oil | 1,410 | 817 | 513 |
| Tallow | 268 | 333 | 197 |
| Other Oils and Fats | 838 | 507 | 309 |
| **Total** | **2,516** | **1,657** | **1,019** |

*Source: Oil World*

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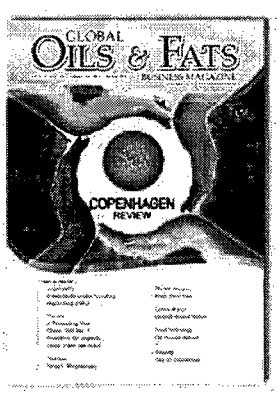


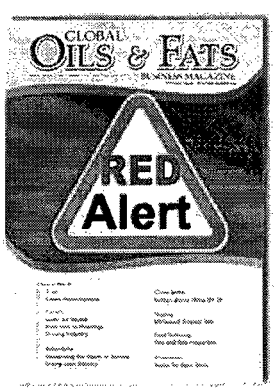


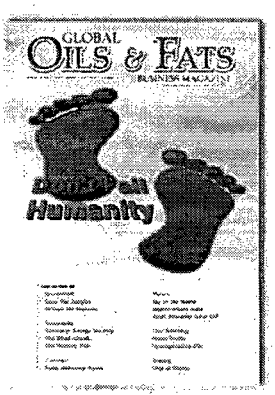


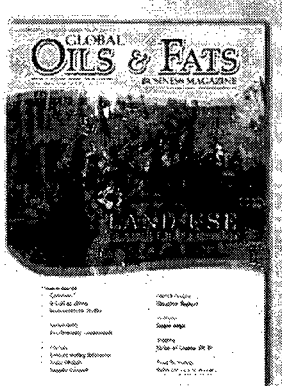



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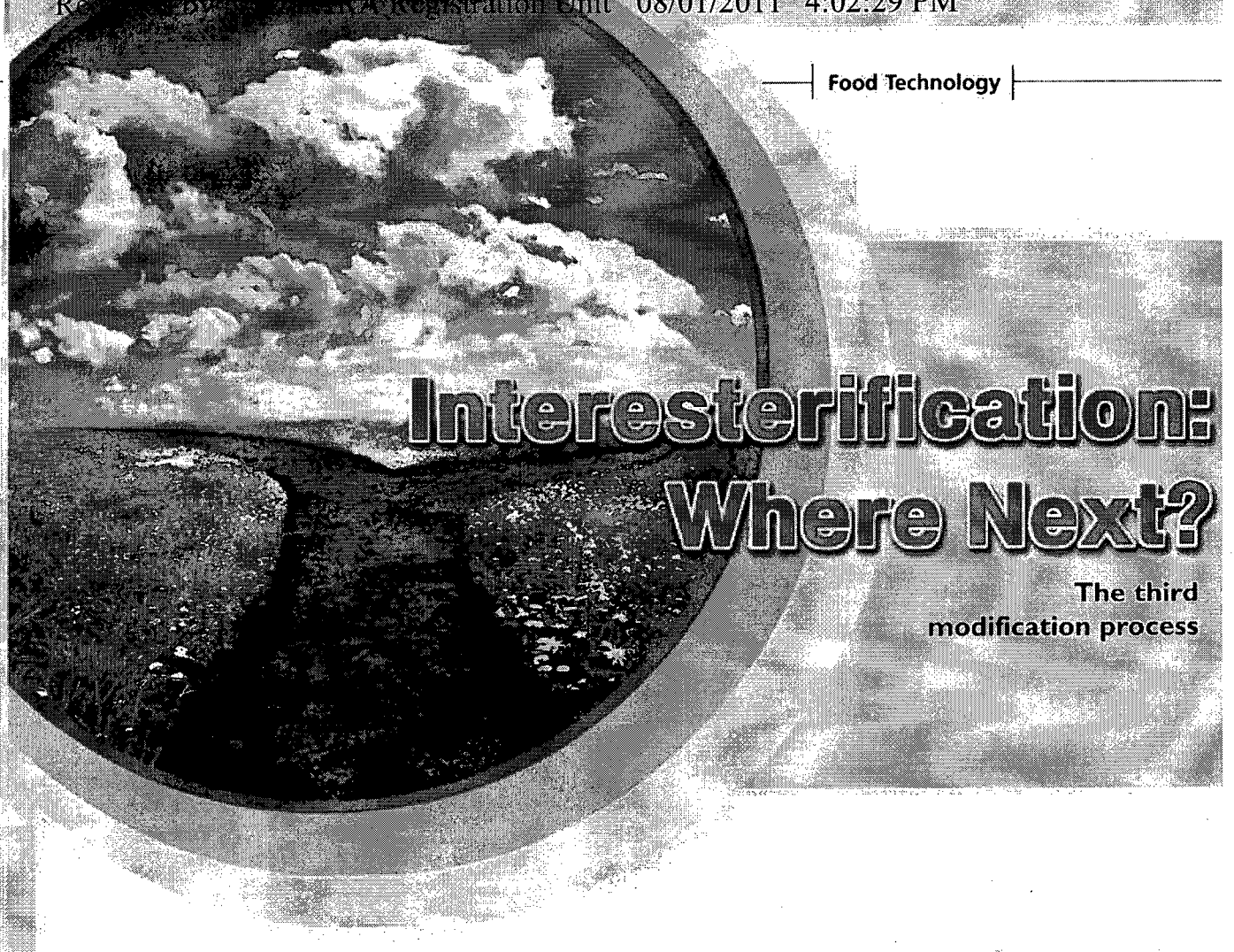


# Interesterification: Where Next?

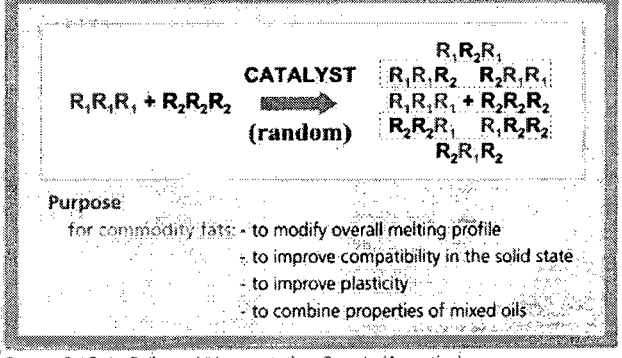
## The third modification process

Earlier articles in this series considered oil processing from production to refining, fractionation and, in a recent issue of this publication, hydrogenation. The latter two topics form part of a group of processes generally referred to as modification processes.

This article is designed to consider interesterification, the third process in this group. Before doing so it may be helpful to address the question – why interesterify? Why cannot simple blending of different oils, each having its own profile of liquid and solid triglycerides, achieve the desired objective of producing a product having the required physical properties? The answer is to be found in the nature of the triglyceride molecule, which has three fatty acid chains firmly attached to a molecule of glycerol. Blending of different oils does nothing to change the composition of the components of such a blend but simply increases the number of triglyceride species present. Interesterification, on the other hand, rearranges the fatty acid chains, either randomly (Figure 1) or in a targeted manner. By this means it facilitates the production of a composition which meets the physical requirement of a particular product. One of the purposes of this article is to examine the effect of the link between this requirement and the type of plant needed to achieve it.

The basic concept of interesterification in fact pre-dates its application in the edible oils industry by some time, and its first study in the middle of the 19th century made use of much simpler molecules than triglycerides. Wilhelm Normann, who was already well known in the field of edible oil processing for his application of hydrogenation on the industrial scale, filed a German patent for the process in 1925, in which he claimed a reduction in melting point when heating a mixture of tristearin

**Figure 1: Chemical Interesterification – Principle**




**Purpose**
for commodity fats:
- to modify overall melting profile
- to improve compatibility in the solid state
- to improve plasticity
- to combine properties of mixed oils

*Source: De Smet Ballestra NV presentation, Rosario (Argentina)*



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and soybean oil in the presence of a catalyst to 250°C and holding it at that temperature for upwards of 9½ hours.

In the years following the publication of Normann's patent a number of further publications, mainly in the form of patents, showed a growing interest in interesterification. This interest was primarily in random interesterification, the object of this being the complete randomisation of the triglyceride species present. Eckey, in a key paper published in 1948, confirmed the importance of catalyst preparation in commenting on a patent issued in the early 1930s, noting that the use of sodium alkoxide as the catalyst allowed the reaction to proceed rapidly provided the reaction mixture is free of moisture and free fatty acids before addition of the catalyst.

**Directed interesterification**

Eckey was in fact interested primarily in the process of directed interesterification, in which more saturated triglycerides are formed and then removed from the mixture by crystallising due to their higher melting point. Directed interesterification has to be followed by a separation process, as the crystallised components must be removed for the interesterification process to continue. This may be either by centrifugation or filtration, which means that this form of the process is – unlike the process of randomising the initial material, whether a single oil or a blend – a two-stage process in addition to the initial refining plus post-refining stages. As the heat of crystallisation has to be removed during the process, the rate of agitation of the crystallising mixture requires careful control, particularly as the viscosity of the mixed liquid-solid system can have a decisive effect on heat transfer. A scraped-surface heat exchanger, similar in principle to the kind used in margarine production, may be used to provide high, controlled forms of heat transfer from the crystallising mixture.

Directed interesterification continued to interest the industry in subsequent decades, though much less so than in an earlier period. (This decline in interest was almost certainly due to the falling share of lard use in the US in the post-war years – the directed interesterification of lard was a major objective of Eckey's work.) In 1984 a paper given at a conference in Kuala Lumpur by Laning noted that a catalyst consisting of a sodium/potassium alloy is best suited to this form of interesterification because of its enhanced activity at the relatively low processing temperature found to be most suitable. The alloy has the further advantage of being a liquid within a certain temperature range, thus facilitating dispersion in the oil to be processed. A high-shear agitator is required to ensure efficient use of the catalyst and short reaction times.

The process is operated as a continuous process, as the material which has crystallised must be removed in order for the interesterification process to continue. In his 1948 paper Eckey included information on the use of this form of the process for the modification of palm oil, although no application of this process has been recorded. A report published some years later compared the effect of both random and directed interesterification on palm oil in terms of the changes produced on the triglyceride composition. Although current production data are not available, directed interesterification continues to be used, primarily in the US, to process lard but the process has also been considered for applications involving confectionery fats.

The patent literature of the period 1930-1950 discloses a growing interest in the development of more efficient catalysts, primarily in order to reduce the processing temperature from the high level (~250°C) used in the earliest work. In the inter-war years metallic tin and stannous hydroxide were regularly mentioned as being used to accelerate interesterification above the rate obtained when not using a catalyst, but this only made it possible to reduce the process temperature to 200-225°C, still far higher than the range achieved later. Sodium methoxide (also referred to as sodium methylate) subsequently gained favour in the industry for a number of reasons, including cost (it is effective at 0.1% use), operating temperature and ease of dispersion. Other alkali catalysts, including the alkali metals sodium and potassium, and the sodium-potassium alloy, have also been studied and used. The earlier interest in other metallic catalysts does not appear to have been maintained.

Random interesterification, in which the fatty acid groups present in the blend components are virtually fully randomised, has for many years now been the process principally used by the oils and fats industry. Catalyst choice and level of use as well as significantly lower processing temperature than those advocated by earlier users of the technology have been important factors in improving the cost of processing, which can be carried out batch-wise, semi-continuously or fully continuously. Interest in random interesterification has grown in recent years as a result of the pressure to minimise the presence of *trans*-fatty acids in hydrogenated fats, which can be avoided by complete hydrogenation of the fat to be used, followed by interesterification with a soft oil that has not been hydrogenated. At the end of the process the catalyst must be removed before post-refining can be undertaken, and this is accomplished either by the addition of water or of either citric or phosphoric acid. The use of water for this purpose can lead to the formation of



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troublesome emulsions, and the use of acid for the purpose of deactivating the catalyst is therefore preferred.

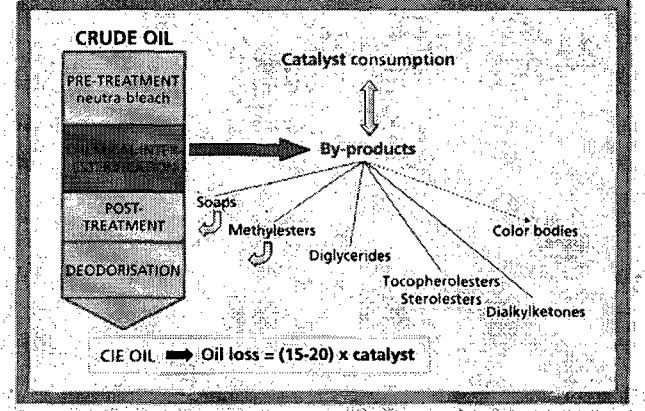
## Controlling losses and costs

An important factor in the use of interesterification is the oil loss incurred. This loss is caused by the reaction of the catalyst with either moisture or free fatty acid and the minimisation of oil loss is therefore achieved principally by ensuring that the oil to be processed is substantially dry (<0.01%) and that its free fatty acid content has been reduced to 0.05% or even lower. It is also important that the Peroxide Value of the oil to be processed is low (<1.0 mequivalents/g, preferably <5 mequivs/g), as this affects catalyst activity. Very thorough refining of the oil before interesterification is therefore essential if losses are to be minimised. If additional catalyst is added to the reaction mixture in order to accelerate the start of the reaction, an increase in oil loss will occur, which obviously adds to the process cost. It has been estimated that the oil loss, when using 0.1% catalyst, is approximately 1.7%, but may be considerably higher if tight control is not exercised over catalyst use. Processing costs are also incurred in the removal of the catalyst residues after the reaction and the bleaching required in order to remove the colour formed during the reaction. The use of adsorptive silica to remove fatty acid soaps formed during interesterification will reduce the cost of catalyst removal.

The cost of catalyst used represents approximately 10% of the total processing cost. Energy (steam, power) can account for 25-30% of total processing cost, but the largest contribution is likely to be due to oil loss, possibly as much as 30%, depending on site location, when using chemical interesterification. The cost of post-refining is responsible for a significant share of the overall processing cost due to the need to remove the colour formed in processing.

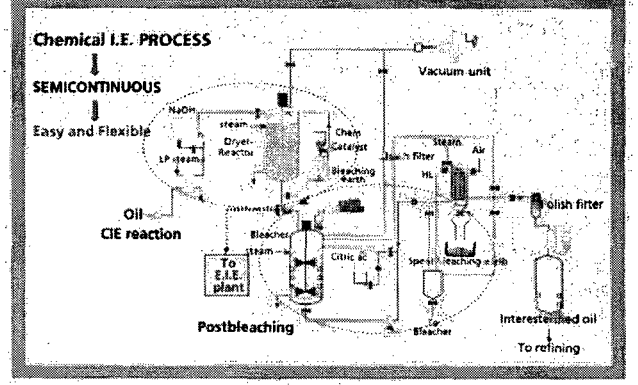
The concept of Hazard Analysis and Critical Control Points has been used in the food processing industry for a number of years as a means of identifying the key points in a food production process from the point of view of ensuring the safety of the product, as well as the production plant. A related concept has been used in a recent book on oil processing in order to identify the stages in interesterification which require special care and attention if the process is to be operated efficiently. In addition to the critical control points listed, it is also important to pay special attention to safety, primarily due to the nature of the catalysts used. The sodium alcoholates – sodium methoxide and sodium ethoxide – are toxic chemicals and are highly reactive. They are

**Figure 2: Chemical Interesterification – Process Stages**




*Source: De Smet Ballestra NV presentation, Rosario (Argentina)*

**Figure 3: Chemical Interesterification – Flow Sheet**




*Source: De Smet Ballestra NV presentation, Rosario (Argentina)*

generally supplied in pre-weighed quantities in special small drums in order to reduce manual handling to a minimum. These must be handled with great care, as it is important to prevent absorption of moisture and to avoid the risk of fire. Catalyst dust is another factor to be considered, calling for the use of a high quality of protective clothing for process operators. Where the process uses the alkali metals – sodium, potassium or their alloy – it equally requires much attention to safety, particularly of the pump used to introduce the metal into the reactor.

Wolf Hamm
Edible Oil Processing Consultant (Retired)

*Illustrations and diagrams courtesy of De Smet Ballestra NV, Belgium*

***Further Reading***


- *EW Eckey, Industrial & Engineering Chemistry (40) 1183 (1948)*
- *SJ Laning, Journal of the American Oil Chemists' Society (62) 400 (1985)*

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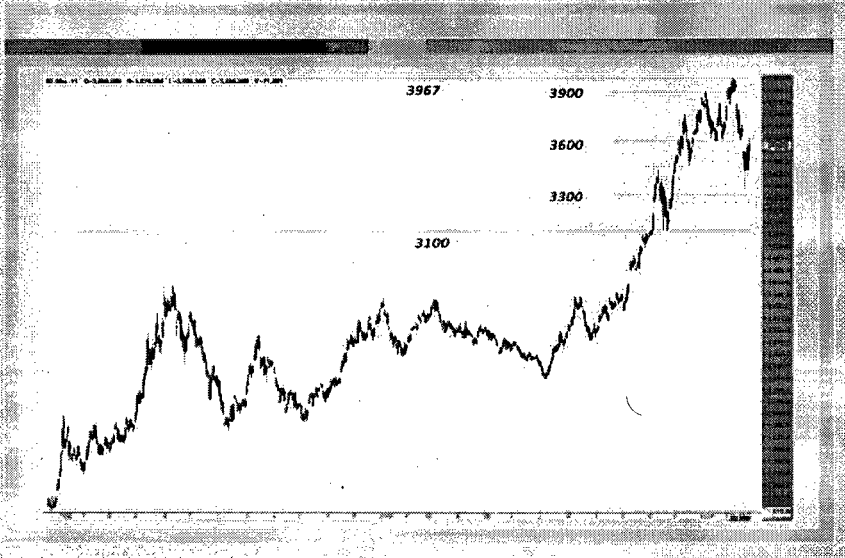
# RECORD HARVESTS IN STORE?

## Edible oil supply will expand

The Crude Palm Oil Futures contract (FCPO) traded on Bursa Malaysia Derivatives ended 2010 with a 41% gain. The price thrust continued through early 2011 and momentarily flirted with RM4,000 – or RM3,967 to be exact – albeit with a negative divergence in RSI on Feb 10 before a correction set in.




As opposed to popular belief, there has not been any reduction in open interest that would suggest active long liquidation. On the contrary, open interest has amassed more than 10,000 lots as the price dipped 10-15% from the peak.

Improving weather conditions have boosted the global edible oil supply outlook. The *La Nina* phenomenon shows signs that it will weaken towards the later part of the year. The NOAA's Climate Prediction Centre recently predicted a return to ENSO-neutral conditions between May and July. In fact, a mild *La Nina* which brings moderate rains to Asia, is hugely favourable for the oil palm crop. A weaker *La Nina* also means less dryness in South America ahead of soybean harvesting.

The USDA has forecast that global palm oil output will climb to a record 47.9 million tonnes this year. Indonesian and Malaysian output may hit 24 million and 17.8 million tonnes respectively. Malaysia's production in February is thought to have increased by approximately 4% month-on-month to about 1.1 million tonnes. This reflects a fantastic crop recovery since February is a short month and included a long festive break this year.

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Producers must have maximised sales to capture high prices for the month. February exports should hold around 1.1 million tonnes, bringing end-month stocks marginally lower to around 1.4 million tonnes. The turning point should be in March where a possible double digit (percentage) month-on-month output growth will likely be the start of a stock build-up process. Supply tightness will start to ease by May.

Global soybean output for 2010/2011 is pegged at 256.1 million tonnes by USDA. The department hiked Brazil's soybean production forecast by 1 million tonnes to a near record 68.5 million tonnes. Argentina's output forecast was trimmed by 1 million tonnes to 49.5 million tonnes, compared to 55 million tonnes last year due to dryness in the early part of the planting season. By end March, more soybean shipments will be coming out of South America. Brazil started its new crop harvest in early February – *Oil World* was positive on its output this year, putting this at a record 71 million tonnes.

Economic theory suggests that high price can itself be the best cure for soaring prices. A high price would encourage higher production and at the same time ration demand. With better planting weather ahead, the global agricultural output will jump as farmers step up production. According to a recent report by the Australian Bureau of Agricultural and Resource Economics and Sciences, wheat prices may tumble by 19% and soybean by 8% as world harvests expand.

Malaysia's palm oil export trend over the past two months has shown signs of softening demand, amidst high prices. Exports in January were -6.2% (month-on-month) and -17% (year-on-year). February exports, to be announced on March 10 by MPOB, may show a reduction of 10% (month-on-month) and 15% (year-on-year).

## Geo-political uncertainty

The Solvent Extractors' Association of India estimates that the country imported 10% less edible oil from November 2010 to January 2011. Refined edible imports were down 22%, while CPO intake dropped by 3%. India imported 8.8 million tonnes of edible oil in the 2009-2010 crop year, representing an 8% increase over the previous year. This year's intake is expected to be flattish due to high global prices and larger local supply. There have been calls by certain quarters for the abolition of import duty for refined edible oil to cool local prices, which may benefit Malaysian exporters.

China will still be the biggest importer of Malaysian palm oil in the foreseeable future. The world's most populous country, it imported 3.5 million tonnes of palm oil from Malaysia last year. China is facing a prolonged drought and has allocated close to US$2 billion to bolster grain production and fight drought to keep consumer prices stable. An actively managed stockpile policy will remain in place as inflation rose to a 30-month high in January. Recent market speculation about China scrapping its soybean oil import duty, while retaining status quo for palm oil, caused a kneejerk price reaction in the palm oil market.

Nymex Crude Oil is trading within an uptrend channel which may touch the US$120 per barrel mark if supply concerns elevate as a result of political unrest spreading to more oil-producing nations. The price should hold above the US$90 support level to stay within the price channel. High crude oil price sparked by the unrest in Libya now acts as the backbone for the palm oil price, as supply fundamentals improve.

We opine that the benchmark 3rd month FCPO contract will trade within a range of RM3,300-3,950 per tonne in Q1 2011. Geo-political uncertainty has overtaken weather uncertainty. There are two likely price scenarios with the crude oil price being the main catalyst:

- If crude oil price moves higher to the US$120 level as supply concerns heighten, the FCPO could rebound to RM3,900 before stabilising around RM3,600.
- If crude oil price dips below US$100 as supply concerns ease, we expect to see FCPO struggling with RM3,650 resistance before consolidating lower at RM3,300 by June.

*Report as at March 4, 2011*

Ryan Long
Vice-President
OSK Investment Bank Bhd
(Futures and Options)



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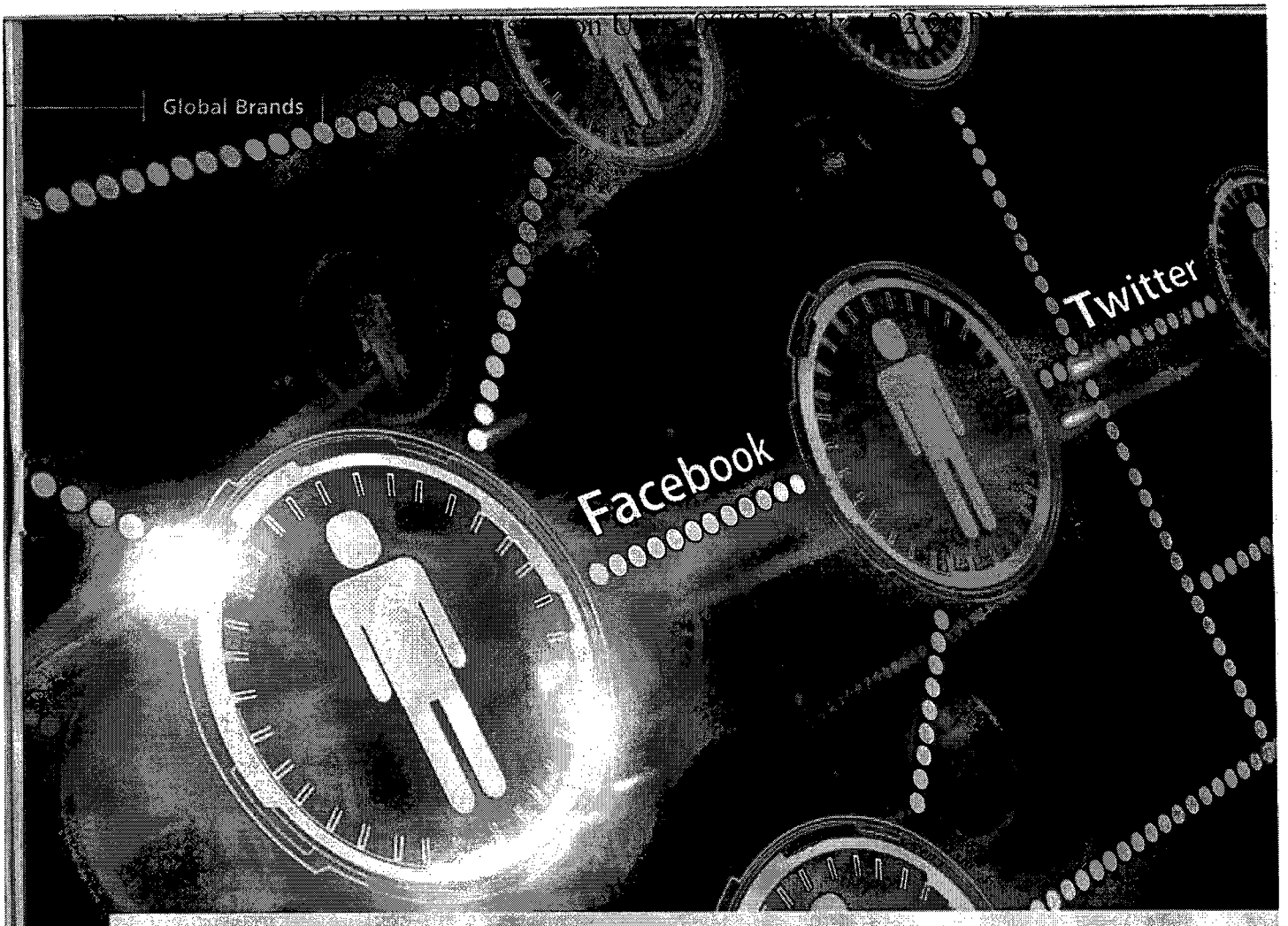


# BRANDING IN THE DIGITAL AGE

## Adopt a social mindset

A report from the Direct Marketing Association and David Shepard Associates says that more marketers are using digital media for sales and to strengthen their relationship with customers.

The report found social networking sites to be the most frequently used platform by digital-media marketers. However, many businesses still consider themselves as operating in the learning, transitioning and integrating phases.

'Not surprisingly, the study shows many companies are continually testing targeted messages across various media to find optimal cost efficiency and marketing effectiveness," says Rus Rempala of David Sheppard Associates.

"We expect to see much more advanced strategic testing in the near future as more and more marketers navigate the multichannel digital age."

Highlights of the report:

- Most marketers cite brand building (71%) as their main purpose of digital marketing.
- Direct mail including email still represents 17% of the overall marketing budget, which is larger than the share held by any other media.

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- 35% of companies use CPM (cost per 1,000 impressions) to manage online programmes.

"One finding comes through loud and clear from this report. Most marketers today are using digital media to both sell and nurture a stronger bond with their customers," says George Orme of David Shepard Associates.

"But the study also underscored that very few companies have mastered the analytics and found ways to accurately measure the incremental effect of each media within a multimedia campaign."

**The transparency factor**

Consequently, there can be no denying that branding is a different animal today than it was 10 or 20 years ago. With the ability to connect instantly and globally, successful brands require interactive discussion between business entities and their consumers.

People no longer want to be told how to feel about a commodity, product or service – they base their decisions on the opinions of other consumers and on their assessment of the *personality* of an organisation or company that lie *behind* the facade of advertising.

How many times have you read customer comments posted on *Amazon*, before buying a new book or album? I personally check and track comments on travel sites such as *TripAdvisor.com* before booking a hotel or holiday resort.

Organisations and companies that encourage transparency in *Facebook* and *Twitter* have the ability to address consumer concerns regarding customer service and products, and therefore build confidence and loyalty through the process.

I think an important aspect of brand building online is to have it centered on the organisation's or company's site, using social media to create a hub around the organisation's digital domain. This way the brand does not get swallowed up by the social media brand, such as *Facebook*, and you can monitor site traffic numbers easily too.

Cheray Unman wanted to market a commodity – wine – as a luxury brand using social media. He had this to say: "I also wanted to explore how a luxury brand could be built from social media, thus I launched a few of my own called *Wine Luxe*.

"It has been a very powerful tool since you have a global reach to build relationships at very little cost if the time is put in to build real relationships and communication. Now I have business coming to me based on the brand I have created through *Facebook*, *Twitter*, blogs, *Plancast* and others."

Finally, it is important to remember that it will be difficult to build a brand through social media without having a social mindset within your organisation. It is crucial therefore, to empower all employees to join *Twitter* and interact while representing the brand.

It is a social organisation or company and it would come across this way in social media in building the brand. It's a big circle, but you have to lay the foundation internally before you can find success through social media.

LS Sya
Brand Specialist
London Brandmagic



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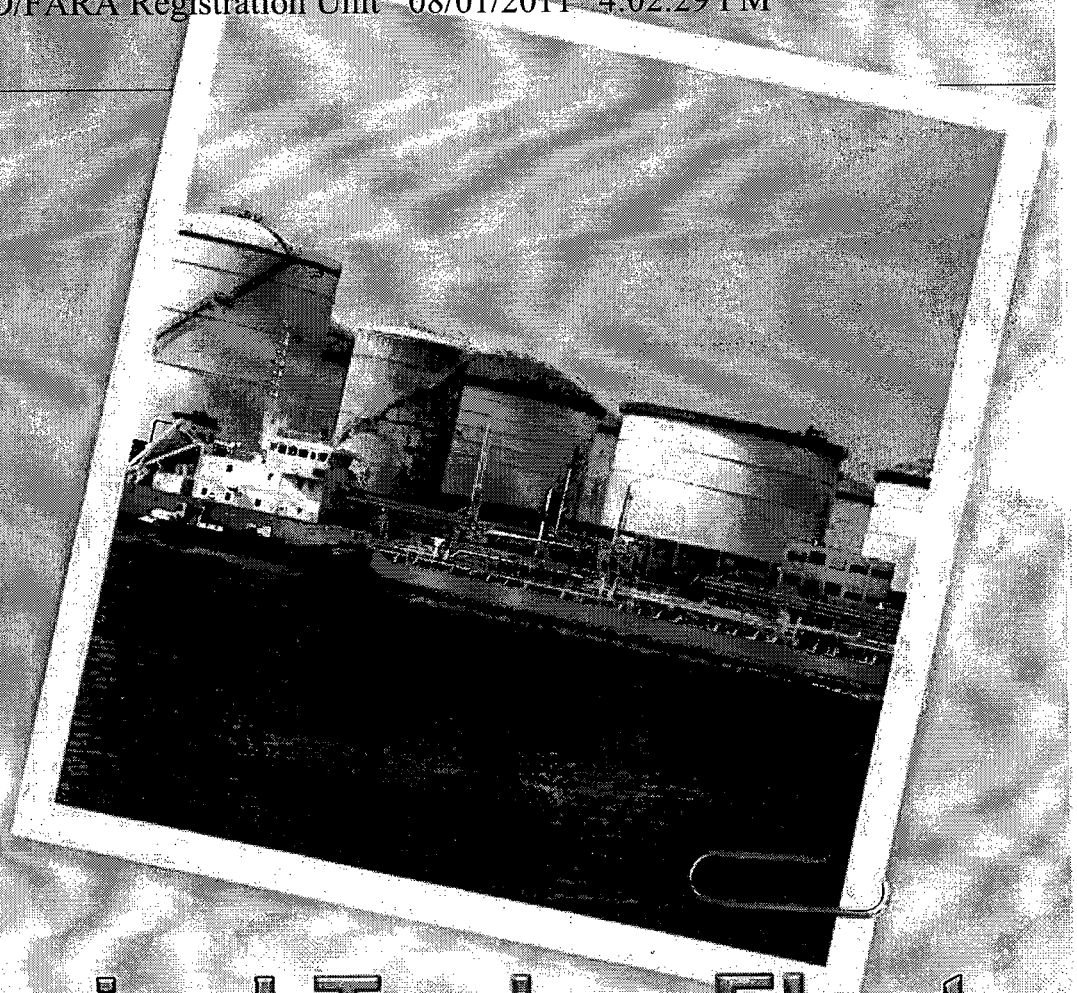

# Chemical Tanker Fleet

## The global fleet reviewed

This series will review the global chemical tanker fleet of ships above 1,000 tonnes deadweight (dwt), except for barges, and update the data on quarterly basis. All the data used in this article are based on a fleet listing as at Dec 31, 2010, as produced by the writer.

The size ranges used are designed to break the fleet into the different segments utilised in different trades. The quarter-on-quarter changes cannot be calculated by the number of deliveries against the number of ships scrapped. Many ships are ordered as, say, 30,000 dwt (in the 10,000-30,000 dwt range) but are delivered as 30,300 dwt, for example; this places the ship in the 30,000 dwt and above range. The writer's comments are based on year-on-year figures.

Over the last year, the short range size group of 1,000-10,000 dwt increased by 85 ships (5.6%) and 391,000 dwt (4.7%). Many of the ships comprising this

**Table 1: Fleet Development, 2004-2010**

| Year | Size (dwt) | | | | | | Total Fleet | |
|---|---|---|---|---|---|---|---|---|
| | Short Range 1,000-10,000 | | Medium Range 10,001-30,000 | | Long Range 30,001-40,000 | | | |
| | *No.* | *dwt ('000)* | *No.* | *dwt ('000)* | *No.* | *dwt ('000)* | *No.* | *dwt ('000)* |
| 2004 | 1,152 | 6,036 | 594 | 10,684 | 638 | 26,016 | 2,384 | 42,736 |
| 2005 | 1,212 | 6,351 | 642 | 11,515 | 712 | 29,283 | 2,566 | 47,149 |
| 2006 | 1,264 | 6,616 | 717 | 12,591 | 800 | 33,162 | 2,781 | 52,369 |
| 2007 | 1,334 | 7,003 | 817 | 13,982 | 885 | 37,109 | 3,036 | 58,094 |
| 2008 | 1,423 | 7,611 | 982 | 16,438 | 1,021 | 43,433 | 3,426 | 67,482 |
| 2009 | 1,528 | 8,297 | 1,098 | 18,224 | 1,130 | 48,487 | 3,756 | 75,008 |
| 2010 | 1,613 | 8,688 | 1,158 | 19,083 | 1,191 | 51,593 | 3,962 | 79,364 |

*Source: CBA-Associates*
*Note: 2010 data based on Dec 31, 2010 listing and will change as 2010 deliveries are reported late*



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increase are older, as new information on Japanese domestic ships was received. The impact of this size of ship on the total tonnage is small, being less than 1% of the total. Many of the smaller ships are confined to domestic trade, or very limited international trade.

The increase in the medium range size group between 10,000 and 30,000 dwt was only 60 ships (5.5%) and 859,000 dwt (4.7%). This range contains several standard size groups: 12,500-13,500 dwt, 16,500-17,500 dwt, 19,000-20,000 dwt and 20,000 dwt and above. The increase for the long range size group – 30,000 dwt and above – was 61 ships (5.4%) and 3,106,000 dwt (6.4%).

Although many of the larger sizes are of IMO class, in most cases these are basic IMO 3 ships with limited certificates of fitness, and few are expected to trade in chemicals or vegetable oils. The majority of these are built for the petroleum products trade. A large number has moved away from chemicals and vegetable oils and is trading solely in clean petroleum products (CPP) today. Within the overall fleet, there are four main categories of ship (Table 2).

**Table 2: Categories of Ship**

| Category | DC Code | Definition |
|---|---|---|
| IMO 2 | A | Vessel with all her space IMO 1 and/or IMO 2 |
| IMO 2/3 | B | Single-sided vessel with a combination of IMO 1/2 and IMO 3 space |
| IMO 3 DH | C | Vessel with all IMO 3 space and with a double hull |
| IMO 3 non-DH | D | Vessel with all IMO 3 space and with no double hull |

**Table 3: Global Chemical Tanker Fleet by Type and Trading Status**

| Type | Size (dwt) | | | | | | Total Fleet | |
|---|---|---|---|---|---|---|---|---|
| | Short range 1,000-10,000 | | Medium Range 10,001-30,000 | | Long Range 30,001-40,000 | | | |
| | *No.* | *dwt ('000)* | *No.* | *dwt ('000)* | *No.* | *dwt ('000)* | *No.* | *dwt ('000)* |
| | | | | ***IMO 2 (A & AA)*** | | | | |
| Chemicals | 927 | 5,093 | 817 | 13,456 | 276 | 11,014 | 2,020 | 29,563 |
| CPP | 116 | 653 | 159 | 2,555 | 187 | 8,364 | 462 | 11,572 |
| *Sub-total* | *1,043* | *5,746* | *976* | *16,011* | *463* | *19,378* | *2,482* | *41,135* |
| | | | | ***IMO 2/3 (B & BB)*** | | | | |
| Chemicals | 123 | 655 | 41 | 661 | 16 | 578 | 180 | 1,894 |
| CPP | 28 | 161 | 8 | 142 | 1 | 47 | 37 | 350 |
| *Sub-total* | *151* | *816* | *49* | *803* | *17* | *625* | *217* | *2,244* |
| | | | | ***IMO 3 DH (C & CC)*** | | | | |
| Chemicals | 155 | 760 | 43 | 683 | 70 | 3,187 | 268 | 4,630 |
| CPP | 95 | 581 | 58 | 960 | 634 | 28,105 | 787 | 29,646 |
| *Sub-total* | *250* | *1,341* | *101* | *1,643* | *704* | *31,292* | *1,055* | *34,276* |
| | | | | ***IMO 3 NDH (D & DD)*** | | | | |
| Chemicals | 116 | 518 | 5 | 97 | 2 | 85 | 123 | 700 |
| CPP | 53 | 267 | 27 | 529 | 5 | 213 | 85 | 1,009 |
| *Sub-total* | *169* | *785* | *32* | *626* | *7* | *298* | *208* | *1,709* |
| | | | | ***TOTAL IMO*** | | | | |
| Chemicals | 1,321 | 7,026 | 906 | 14,897 | 364 | 14,864 | 2,591 | 36,787 |
| CPP | 292 | 1,662 | 252 | 4,186 | 827 | 36,729 | 1,371 | 42,577 |
| **Total** | **1,613** | **8,688** | **1,158** | **19,083** | **1,191** | **51,593** | **3,962** | **79,364** |

*Source: CBA-Associates*
*Note: Data based on Dec 31, 2010 listing and will change*

It must be mentioned here that several owners describe their ships as IMO 2/3 ships when in fact all their space is IMO 2. They do this because some inexperienced charterers and brokers have assumed ships described as IMO 2 are unable to carry IMO 3 cargoes.

Non-IMO ships are able to carry ethanol. However, while the increase in bio-fuels business is causing ethanol to become an increasingly important cargo, almost all ethanol is carried in IMO class ships for quality reasons and because ethanol is an ideal last cargo for all the IMO class products.

Each of the four main categories of vessel is sub-divided to reflect whether the ship is currently trading in chemicals and vegetable oils, or in CPP. Those normally trading in CPP are denoted by a double DC Code – i.e. fully IMO 2 ships trading in CPP are listed as Code AA.

## Existing ships

It has been discovered that a large number of the older, smaller ships are being traded as bunker tankers; this is especially true of older double bottom and single hull ships. It is not possible to obtain confirmation that these no longer



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have IMO certificates so they remain in our figures. There are 50 trading on the African coast alone.

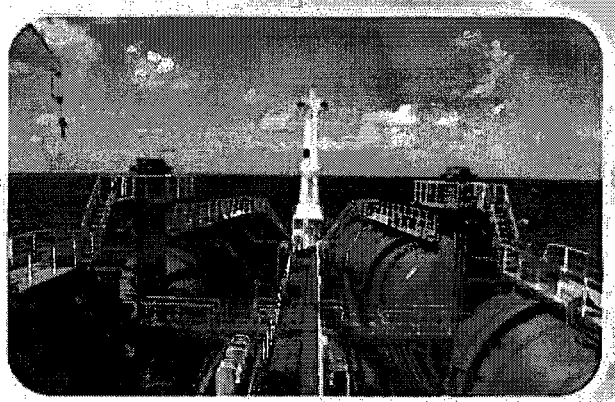
It needs to be emphasised that almost all the ships trading in CPP – or, in some cases, Dirty Petroleum Products – have the ability to move back into the chemical trades if the returns became attractive again.

There are 3,962 ships and 79.36 million dwt capable of carrying chemicals or vegetable oils as at Dec 31, 2010; of which an estimated 65.4% or 2,591 ships are active in the chemical or vegetable oil trades (Table 3). These ships cover only 46.3% of the tonnage, with an average size of 14,200 dwt, because it is mostly the larger product tankers with IMO 3 or even IMO 2 class, with an average of 31,055 dwt, that are trading in CPP. The numbers will change as information is received on ships both delivered and scrapped in the last days of 2010.

Overall, during 2010, the fleet increased in size by 206 ships or 5.5% and by 4.36 million dwt (5.8%). The fleet deemed to be trading in chemicals or vegetable oils decreased by 35 ships (1.3%), while the fleet trading petroleum products increased by 241 ships or 21.3%. This reflects the poor chemical market. Ships carrying chemicals or vegetable oils decreased by 3.02 million dwt (7.5%) while those carrying petroleum products increased by 7.36 million dwt or 20.6%.

Table 3 also demonstrates that the CPP trades involve more of the 30,000 dwt size of ship and above. There are 827 ships (60.32%) above 30,000 dwt that are trading in CPP with a total of 36.7 million dwt (86.3%), against 364 ships of this size and 14.86 million dwt trading in chemicals or vegetable oils.

These figures contrast with the 2,227 ships (86%) below 30,000 dwt, totalling 21.92 million dwt (59.6%), trading in chemicals or vegetable oils versus 544 ships of this size and 5.85 million dwt in the CPP trade. It becomes clear that a swing of many smaller ships from one trade to another has minimal impact, as opposed to a swing of just a few in the larger size ranges.



Several ships are still laid up. Some ships are completed but are still at anchor or alongside at the yard where they have been built, as owners refuse delivery for technical reasons or late completion. Many others are laid up awaiting an improvement in the market or good scrapping opportunities, whichever comes first.

The number of ships without full double hull continues to reduce. The total was 514 ships and 5.54 million dwt at the end of 2009 and 425 ships with 3.95 million dwt a year later. This was a reduction of 17.3% in the number of ships and 27.7% in the tonnage. As ships aged, the swing to petroleum product trades actually saw an increase in those ships, from 110 to 122 (10.9%). However the tonnage decreased from 1.41 million dwt to 1.36 million dwt (3.4%) as the smaller ships moved into bunker trades. The corresponding chemical or vegetable oil fleet decreased from 404 ships to 303 ships (25%) and 1.54 million dwt (37.3%).

Some of the double bottom ships are trading with empty wing tanks, effectively making them fully IMO 2 at the reduced capacity. They are left in the figures as IMO 2/3 because they are carrying IMO 3 cargoes in the wing tanks from time to time. Finally, there are ships that are relegated to trading domestically, especially in large countries such as Indonesia. When this happens, it is unusual for such ships to reappear in international trade.

**Size of orderbook**

As at Dec 31, 2010 the orderbook of 456 ships is 13% of the number of ships and the 11.23 million dwt is 14% of the existing tonnage (Table 4).

The orderbook is constantly changing as ships are delivered, orders are changed or cancelled and new information is discovered. Often ships are delivered without the fact being revealed that they were ever on order; such is the secrecy of some of the business. 2010 was a difficult year as the extremely poor

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**Table 4: Global Chemical Tanker Orderbook by Type and Expected Trading Status**

| Type and Employment | Year | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | | | |
| | No. | dwt ('000) | No. | dwt ('000) | No. | dwt ('000) | No. | dwt ('000) |
| IMO 2 Chemicals (A) | 248 | 3,892 | 58 | 1,066 | 9 | 251 | 315 | 5,209 |
| IMO 2 CPP (AA) | 15 | 584 | 2 | 94 | 0 | 0 | 17 | 678 |
| IMO 3 DH Chemicals (C) | 13 | 320 | 1 | 50 | 0 | 0 | 14 | 370 |
| IMO 3 DH CPP (CC) | 80 | 3,449 | 24 | 1,225 | 6 | 295 | 110 | 4,969 |
| **Total** | **356** | **8,245** | **85** | **2,435** | **15** | **546** | **456** | **11,226** |
| *Employment (anticipated)* | | | | | | | | |
| Chemicals | 261 | 4,212 | 59 | 1,116 | 9 | 251 | 329 | 5,579 |
| CPP | 95 | 4,033 | 26 | 1,319 | 6 | 295 | 127 | 5,647 |

*Source: CBA-Associates*

**Table 5: Chemical Tankers Delivered or on Order, 2004-2013**

| Year | Size (dwt) | | | | | | Total Fleet | |
|---|---|---|---|---|---|---|---|---|
| | Short Range 1,000-10,000 | | Medium Range 10,001-30,000 | | Long Range 30,001-40,000 | | | |
| | No. | dwt ('000) | No. | dwt ('000) | No. | dwt ('000) | No. | dwt ('000) |
| 2004 | 64 | 368 | 45 | 809 | 89 | 3,682 | 198 | 4,859 |
| 2005 | 78 | 406 | 56 | 1,011 | 85 | 3,650 | 219 | 5,067 |
| 2006 | 74 | 362 | 94 | 1,515 | 93 | 4,022 | 261 | 5,899 |
| 2007 | 91 | 495 | 116 | 1,794 | 112 | 4,915 | 319 | 7,204 |
| 2008 | 124 | 787 | 180 | 2,772 | 154 | 7,020 | 458 | 10,579 |
| 2009 | 120 | 776 | 151 | 2,416 | 133 | 6,035 | 404 | 9,227 |
| 2010 | 80 | 518 | 109 | 1,778 | 95 | 4,345 | 284 | 6,641 |
| 2011 | 131 | 880 | 113 | 2,046 | 112 | 5,319 | 356 | 8,245 |
| 2012 | 20 | 160 | 30 | 581 | 35 | 1,694 | 85 | 2,435 |
| 2013 | 3 | 24 | 4 | 77 | 8 | 445 | 15 | 546 |

*Source: CBA-Associates*
*Note: Highlighted data are estimates*

market meant that many orders were cancelled while, for many, the delivery dates were delayed, sometimes by as much as three years.

The orderbook, as known at the end of 2010, decreased by 39.7% from 756 ships to 456 ships and by 39.6% in deadweight terms from 18.6 million dwt to 11.2 million dwt. Much of this decrease is represented by cancelled orders. There could well be more cancellations as owners receive their pre-payment refunds; often, that is the first clue to the outside world that a ship is cancelled. Other ships that were completed have been rejected by the owners as below standard for IMO classification and sold to others for the petroleum product trade without any IMO certificates.

In the high market of 2006-2008, many owners ordered chemical tankers, several with no previous experience of operating them. They saw high profits, had taken profits in their own segment of the ship owning business, and needed to reinvest. Likewise, shipyards saw the demand and started building chemical tankers with no idea as to the complexities involved.

The result was a slowly melting snowball of ships that was due to be delivered in 2010 and which now rolls into 2011. While this has reduced through deliveries, confirmed cancellations and confirmed deferrals to 2011 or even 2012 and 2013, there is still a large number of ships not yet delivered and with no word as to the due date. We do expect more clarification over 2011 as the orderbook reduces further. Table 5 demonstrates that the 'snowball' is reducing but that the biggest impact will be on the smaller sizes.

One impact of the extraordinary number of chemical tankers delivered in the last three to four years has resulted in a serious shortage of qualified officers and crew to man the ships. While the training centres in the Philippines, Myanmar and Vietnam are expanding, they are not graduating officers fast enough to keep up with demand. It is thought that this shortage is contributing to the number of ships trading in CPP for the moment, where the additional certificates are not required. A large number of officers from Eastern Europe have entered the trade and this is helping the situation.

## Ship demolition

In all projections, a scrapping age of 30 years is assumed; however, most of the ships going to the scrap yards are, in fact, younger. The majority of those scrapped



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**Table 6: Scrapping of Ships**

| Year | Size (dwt) | | | | | | Total Fleet | |
|---|---|---|---|---|---|---|---|---|
| | Short Range 1,000-10,000 | | Medium Range 10,001-30,000 | | Long Range 30,001-40,000 | | | |
| | No. | dwt ('000) | No. | dwt ('000) | No. | dwt ('000) | No. | dwt ('000) |
| 2005 | 16 | 79 | 9 | 192 | 11 | 372 | 36 | 643 |
| 2006 | 18 | 82 | 18 | 410 | 7 | 237 | 43 | 729 |
| 2007 | 22 | 120 | 19 | 441 | 27 | 970 | 68 | 1,531 |
| 2008 | 25 | 143 | 16 | 335 | 18 | 685 | 59 | 1,163 |
| 2009 | 25 | 119 | 33 | 623 | 26 | 1,024 | 84 | 1,766 |
| 2010 | 49 | 315 | 49 | 923 | 38 | 1,538 | 136 | 2,776 |
| 2011 | 36 | 188 | 5 | 90 | 8 | 317 | 49 | 595 |
| 2012 | 15 | 81 | 11 | 177 | 8 | 321 | 34 | 579 |
| 2013 | 25 | 124 | 13 | 250 | 5 | 208 | 43 | 582 |
| 2014 | 47 | 266 | 14 | 270 | 3 | 120 | 64 | 656 |
| Backlog 30 yrs old or more on 31/12/2010 | 139 | 534 | 7 | 107 | 6 | 212 | 152 | 853 |

*Source: CBA-Associates*
*Note: Highlighted data are estimates*

in 2010 were between 20 and 30 years old (103 ships and 2.3 million dwt). Only 21 ships totalling 281,000 dwt were 30 years of age or above.

In Table 6 it can be seen that there is a backlog of ships above 30 years of age that are still trading. Of this backlog, the majority are below 10,000 dwt – 139 ships or 91% of the number of ships (only 19% of total dwt). There are many of these small ships trading domestically where the age is not considered important and others may well have been scrapped without the information being released internationally.

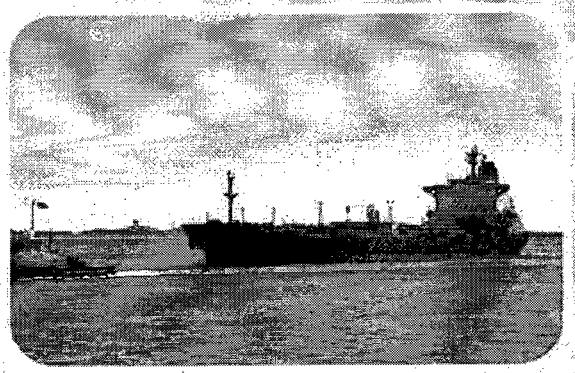
Scrapping can be expected to maintain a similar level during the next two years assuming the market stays at the depressed levels seen in 2010. This, however, will have a minimal effect on the total, and almost every ship built in 1995 (8.38 million dwt) or before would have to be scrapped to compensate for the expected deliveries in 2011 (8.25 million dwt).

The 'Major' chemical charterers impose stringent inspection procedures on owners that, while causing extra strain on the officers and crew, do enforce high maintenance levels. As the supply of ships increases, the choice offered to the charterers also increases, so they can be more stringent with inspections. This may become counter-productive as their demands on officers during peak operational times causes a reduction in efficiency in port. The requirement for 'Majors Approval' has almost certainly contributed to the swing of ships into the CPP trades although approvals are required there as well, albeit not as stringent.

At the end of 2009 we could not see any hope of recovery until 2011 or 2012. There was such a backlog of orders that it was difficult to be optimistic about 2010. We forecast a slow recovery in 2011 as being possible, as long as ordering did not pick up too much pace in 2010. There was certainly no improvement in 2010.

The situation has not changed for the better in spite of the lack of orders and the cancellations. There are so many ships with the chemical carrying IMO class ability that any improvement in the market will be quickly offset by the swing back to chemicals from those ships now in the CPP trade.

A recovery towards the end of 2011 is possible but not a certainty. There is a lot of 'swing tonnage' with the IMO class trading in CPP. Unless those trades improve considerably, we do not see the chemical and vegetable oil sector improving in the near term.



Charles Barton
Maritime Consultant



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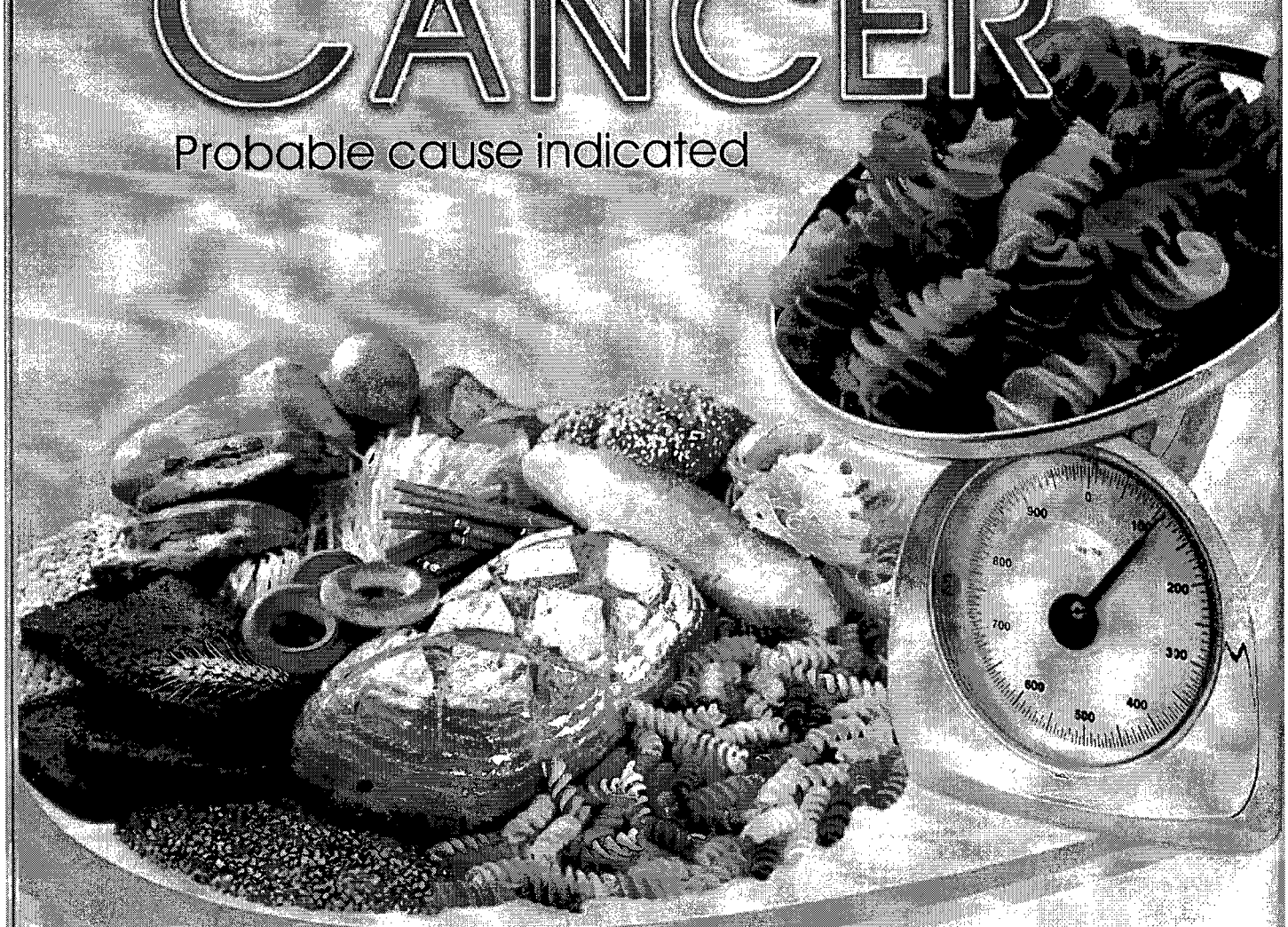
# CARBS and CANCER

## Probable cause indicated



In the pre-civilisation era, people used meat as their main source of nutrition. They used green leaves, seeds, fruit and wild plants for supplement. Their dietary style is now called the 'Hunter-gatherer's Diet' or 'Paleolithic Diet'. According to reports, during the era, there were no signs of diseases such as coronary artery disease or cancer, and very little sign of any other diseases.

Since the advent of agriculture, people have increasingly replaced the traditional diet with products of agriculture, such as grains, fruit and vegetables. With the technological advancements that have been applied to agriculture, people have fallen in love with the sweetness of these products, especially sugar, refined grains and grain products, and fruit.

In more recent decades, thanks to the national policies of the US and other countries, which serve to protect their agricultural production, people have consumed more grains and fruit, which are abundant in carbohydrates.

During the same period, nutritional and medical professionals have believed that carbohydrates are the best source of nutrition. They reason that carbohydrates generate only 4 kcal/g of energy, while fats generate 9 kcal/g and proteins 4kcal/g. Based



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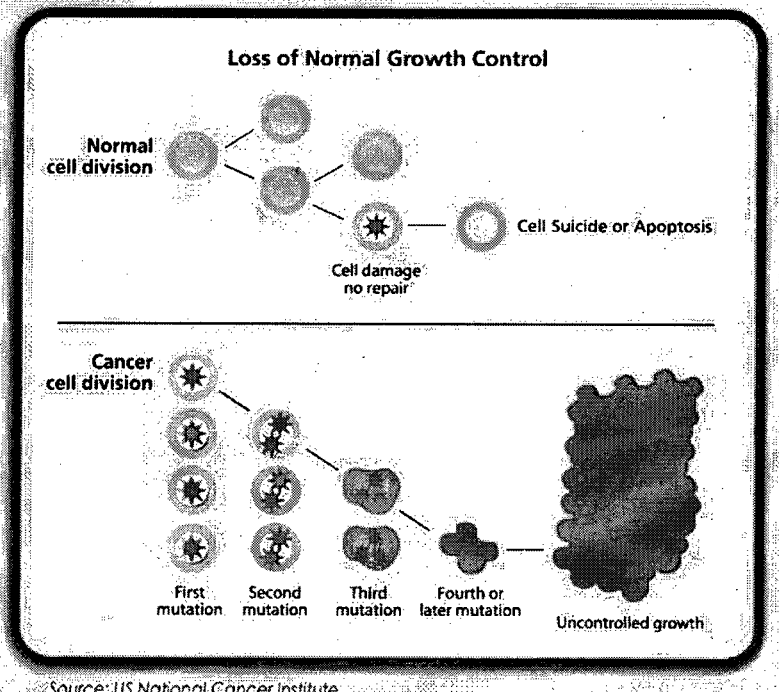
Figure 1: Loss of Normal Growth Potential




*Source: US National Cancer Institute*

on an individual's daily energy requirement, carbohydrates can afford the individual to eat a wider variety and a greater amount of foods than if eating higher fat foods.

Furthermore, nutritional and medical professionals alike have also believed that fats are the cause of obesity/overweight, cardiovascular diseases, stroke, cancer, and other disorders. They have become 'lipophobic'. At the same time, they are still unsure of the impact on our health from using more protein for our nutrition. They are somewhat 'aminophobic'.

A majority of nutritional and medical professionals continue to promote the consumption of carbohydrates, but not of fats and proteins. Also, the latest Dietary Guidelines for Americans and the food pyramid still recommend heavy consumption of carbohydrates.

## Emerging evidence

In recent decades, we have encountered a rapid rise in the number of difficult medical problems, especially overweight/obesity and diabetes mellitus, as well as their complications.

Concurrently, we have witnessed a growing number of cancers. Until recently, fats had been thought responsible for the development of cancers. Now, more evidence shows a link between hyperglycemia and some, if not all, cancers. With better design of research projects, we can expect that this link will become apparent.

Most importantly, we must recognise and bear in mind that excessive carbohydrate intake causes hyperglycemia, diabetes mellitus, and overweight/obesity. What we have known about glucose and some, if not all, cancers so far is:

1. Cancer heavily utilises glucose for its rapid growth.
2. Hyperglycemia is inflammatory and pro-inflammatory.
3. Inflammation facilitates the growth and proliferation (metastasis) of cancer.
4. Hyperglycemia promotes glycation both inside and outside cells and is implicated in genetic mutation.
5. Cancer facilitates glycolysis that increases non-enzymatic glycation between glucose and proteins.

Applying the behaviours of cancers, we are able:

- to detect cancers, with radioactive tracer attached to glucose derivatives, e.g. PET Scan tracer attached to FDG, an analog of glucose, $^{18}$F-2-fluoro-2-deoxy-d-glucose; after cancer cells take in the glucose analog, which is attached to the tracer, PET Scan can locate the site(s) and measure the size(s) of cancers; and

- to develop carbohydrate-based cancer vaccines.

Can we do something about preventing cancers in the first place? While we are still unsure of the real cause(s) for ordinary cells becoming cancer cells, we blame genes, inflammation, biochemical reactions, physical irritation, infections, environmental pollutants, fats, and many others for the initiation of cancer.

Until recent years, we had never suspected carbohydrates to be a possible cause. However, we do not have to become 'carbophobic'. We just have to mindfully use carbohydrates.

While hoping that more research projects will focus on the relationship between carbohydrates and cancer, several articles already exist that implicate carbohydrates in the development of various cancers.

Robert Su, Pharm B, MD
Author, *Carbohydrates Can Kill*

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# 'A Fine Balance'

Peatlands are found in many parts of the world, with notable areas present in Canada, the former USSR, Europe and Southeast Asia. They occupy about 3% of the earth's surface and cover about 450 million ha of land. About 90% of peatlands are found in temperate regions, with tropical and subtropical areas contributing the rest.

Peat is a versatile material. Since time immemorial, it has been excavated and used as fuel for energy and heating purposes. In some temperate regions, this is still done today. Peat is also a good medium for horticultural practices and brings revenue to countries which export it.

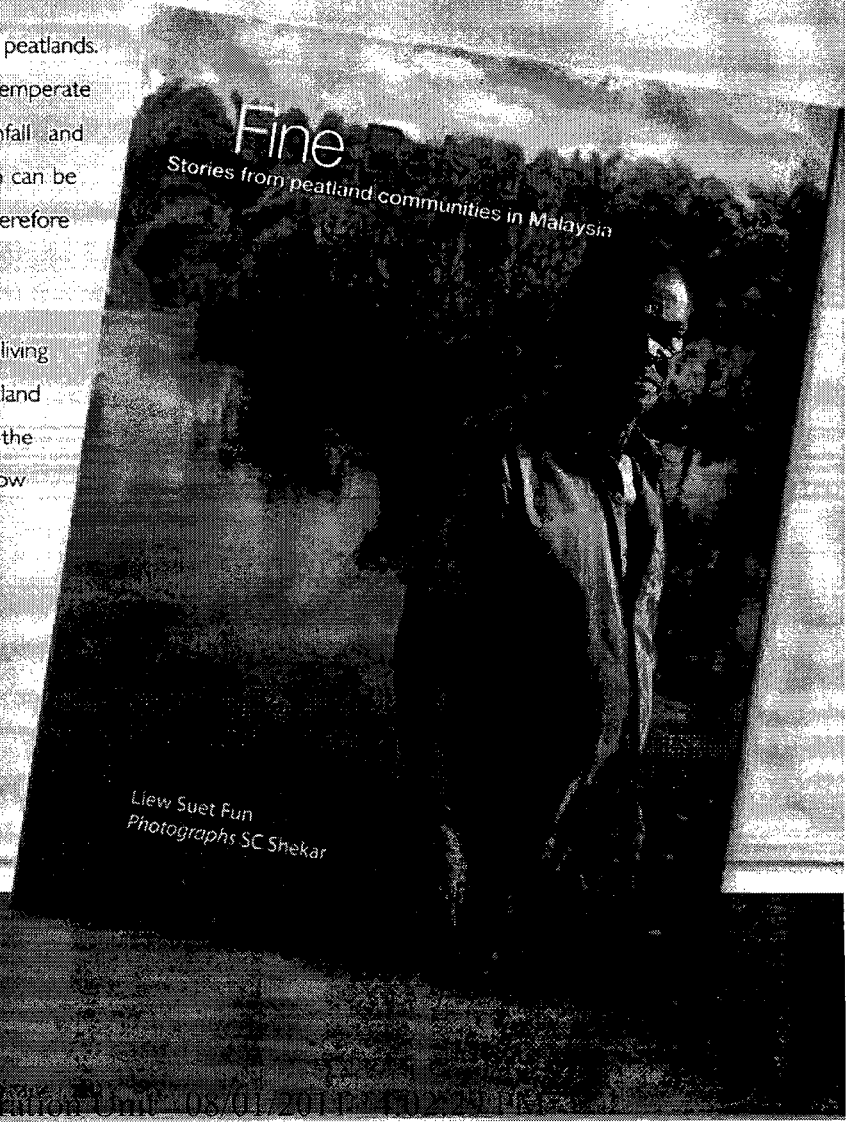
Peat soils require extra effort and input if they are to be used successfully for agriculture. In their original state, they are waterlogged and pose serious problems for accessibility and crop cultivation. The fertility of peat soils is low. Yet, some countries – like the Netherlands – have excelled in using them for agriculture.

The demands are greater in making use of tropical peatlands. The inherent problems are similar to those of temperate peatlands, but are compounded by high rainfall and presence of deadly diseases such as malaria, which can be rampant in waterlogged regions. Peatlands are therefore not the favoured soil for farming in the tropics.

For some agrarian societies, the need to make a living has driven families to make their homes in peatland areas. This book, by Liew Suet Fun, tells us about the life of communities in peatlands in Malaysia and how oil palm planting has transformed their lives.

*This is an edited version of the Foreword to the book.*

*The book, published in 2010, is available from the MPOC headquarters*

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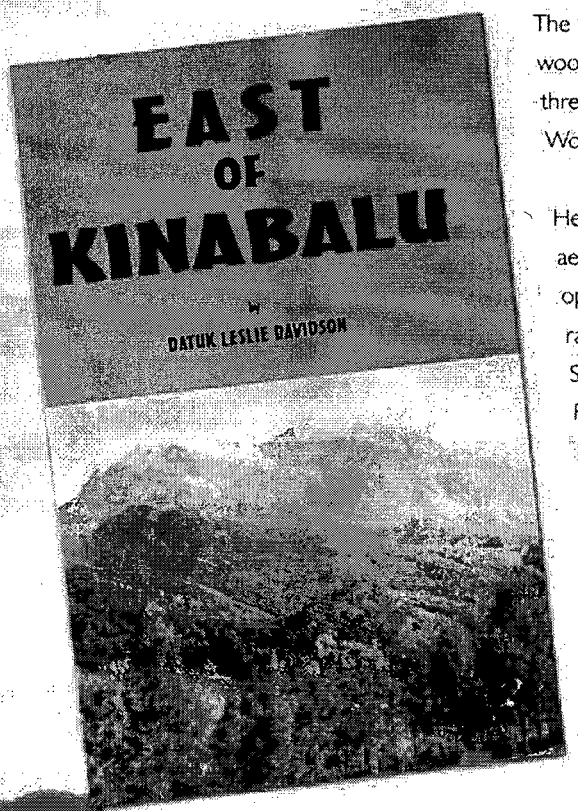
# The Sandakan Geckos

## Livening up a briefing




The Sandakan Residency was situated on the first floor of a two-storey wooden lap-strake building with a roof of *belian* wooden shingles. The three of us were ushered into the Resident's office. The Hon. Keith Wookey got up from his paper-strewn desk to shake hands.

He was dressed extremely informally in khaki shorts and a blue aertex shirt. Mr Wookey had made two other concessions to the oppressive equatorial heat. First, on a small table at his elbow a rather incongruous bright blue electric fan oscillated to and fro. Second, since the cavernous gloomy office had no ceiling, the Resident had a 10-foot square of whitewashed *kajang* matting hanging a few feet above his head.

Colin Black introduced us: "John Galpine and I are but birds of passage, Mr Resident. We will be returning to Singapore in a few days. Leslie Davidson here will be staying on to develop our new plantation. ... He's been in the planting business for 10 years or so."

Turning to me he asked, "You speak some of the local lingos, don't you?" I confessed that I spoke Malay and that, in addition I had, when stationed in Johore, passed the ISP examination in the Chinese dialect *Moy Yen Hakka*: an achievement which had resulted in Unilever posting me almost immediately to the Cameroons for a year.

"Our main purpose in calling on you Mr Resident is to introduce ourselves and to ask you to give us a briefing on the local situation before we go up-river to visit our new concession," Colin lied unblushingly. His sole objective was in fact to persuade him to lend us his Government launch for our forthcoming trip up the Labuk.

John had arranged that we would take a Land Rover inland to the Gum Gum. This was a small creek, navigable only by very small craft, which twisted its way down to Labuk Bay, thus cutting off a large part of the sea journey. At Gum Gum we were to hire a small canoe, to take us through the bay and up the river to the property. Colin had put his foot down very firmly. Nothing, he said, absolutely nothing, would



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persuade him to get into a dug-out and paddle halfway across the Sulu Sea.

"We'll go and see the Resident," he had announced. "I'll butter the old bastard up and persuade him to lend us the Residency launch." Colin skilfully guided the conversation round to the subject of our trip. To his great relief, Mr Wookey readily agreed to this.

"There is one point however," Mr Wookey added. "We have, as an economy measure, got rid of the cook/steward. Whilst we are on the *Mantanani* we live entirely on local food."

Since I had left Malaya for West Africa two years ago I had not eaten eastern food. The very words were music to my ears. John was equally enthusiastic. Our leader grew ominously quiet however.

"And now," said Mr Wookey, "where shall we start our briefing? Perhaps some background facts and figures about the Residency, and then perhaps a word or two about the history of the Colony and of the Labuk Valley in particular...."

The heat in the office was oppressive and I was finding it very difficult to keep my eyes open. I had fully expected Colin to bring our audience to a speedy close after we had been promised the use of the *Mantanani*, but far from it. He seemed, inexplicably, to be almost enjoying the briefing. He even had his small red notebook out and was taking notes. Mr Wookey noted this with a glance of approval.

"And now," said the Resident, "Let us consider civil aviation. Here is a list showing the increase in the number of passengers .... No need to write this down Mr Black. I can let you have a copy of my annual report."

Colin had stopped writing, however. He was sitting in his chair, obviously quite entranced. He seemed to be hanging on the Resident's every word. I could hardly believe my eyes. Colin leaned back, his fingers arched characteristically under his chin. His eyes seemed to be fixed on a point just above Mr Wookey's head, as if he was trying to memorise every word.

I stole a quick glance at John. He had been a prisoner-of-war of the Japanese and had survived a spell on the Death Railway in Siam. As a result of his privations, John had a well known propensity for dropping off to sleep at odd moments. He was also leaning forward, peering at the Resident short-sightedly through the thick lens of his horn-rimmed spectacles. Not so much at the Resident perhaps. Like Colin he seemed to be focusing on a point just above the Resident's head. I followed his gaze.

**'Fascinating briefing'**

On the under-side of the *kajang* matting, a pair of house geckos was behaving in an amorous fashion, quite unsuited to the dignity of the British Raj. The three-inch long lizards confronted each other eye-ball to eye-ball. The one which was obviously the female was swishing her tail to and fro seductively. The male inched forward making lecherous undulating movements with his torso.

"You understand of course...," Mr Wookey was now launched into the history of the Colony.

The male gecko tried to dart into position behind the female but, with a clever flick of her flirtatious tail, she eluded him. The eye-ball to eye-ball confrontation recommenced.

"The tobacco industry in North Borneo was started mainly by Dutch Planters from Java and Sumatra. The Tungud concession which you have purchased was leased in November 1887, in the first instance to the Borneo Sumatra Company, on a 999-year lease ...." Mr Wookey was warming to his subject.



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The male gecko now resorted to the last tactic of frustrated lovers of all species. He pretended he had lost interest. He wandered off and looked hard at a small moth. The female twitched her tail seductively a couple of times and the male was persuaded to return to the fray.

"The tobacco industry in North Borneo and indeed, throughout the Far East, was virtually killed off by the import tariff imposed by President McKinley of the USA, in the early 1890s..."

This time the male gecko was successful. He made a feint to the left, then darted in from the right. He manoeuvred behind the female, grabbed the back of her neck and wriggled into the coital position.

"Perhaps a word or two about the development of the barter trade with Indonesia and the Philippines?" asked the Resident.

"Most interesting," he was assured.

The two lizards were now copulating furiously above the Resident's head. The female finally chirruped loudly and shuddered. In her frenzy she shook the male loose. He twisted in mid-air and landed with a plop on the polished surface of the Resident's desk. He casually flicked it off like someone flicking the ash off a cigar. The lizard landed on the floor, and scuttled off into a corner, probably reflecting that sex would be the death of him one of these days.

"Well now, the barter trade has been going on for many years. The basis of it..."

"My God!" exclaimed Colin, jumping to his feet and looking at his watch, "I had no idea it was so late...We must not keep you from your duties a moment longer Mr Resident. I really cannot remember when I enjoyed a more fascinating briefing."

As we were about to get into the taxi to go back to the hotel, Colin whipped out his red notebook. He tore out the page he had been writing in. The reason for our leader's apparent fit of conscientiousness now became clear.

"Here Leslie, take this list down to the Cold Storage before it closes. I want you to buy all these items and have them put on the *Mantanani* before we sail tomorrow morning. You planters can eat that local rubbish if you like, but if I'm going to be three days on a boat on a jungle river, I want to make sure I have some civilised food with me."

Mr Black's idea of civilised food was interesting. He was a man of catholic tastes, and obviously, he was on a largely liquid diet. His list read:

4lb smoked salmon; 6 tins sausages; 6 tins baked beans;
4lb cheese (Brie); 3 pkts sweets (Liquorice Allsorts);
3 tins cream crackers; 6 bottles white wine (Chablis);
6 bottles red wine (Claret); 3 bottles whisky (Cutty Sark);
2 bottles gin (Gordons); 24 bottles beer (Anchor);
12 bottles each, tonic/soda water (Schweppes)

I was going to have an interesting half-hour with the Chinese shopkeeper. What was the Chinese word for Liquorice Allsorts, I wondered?

Datuk Leslie Davidson
Author, *East of Kinabalu*
Former Chairman, Unilevel Plantations International

*This is an edited chapter from the book published in 2007. The book may be purchased from the Incorporated Society of Planters, email isphq@tm.net.my*

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First Announcement

# GOFF 7

APOC

# Oils and Fats

## Market Watch

## Opportunities and Challenges

Gaylord National Resort & Convention Center

National Harbor, MD

September 29 - 30th, 2011

Global Oils & Fats Forum 2011

Organizer: American Palm Oil Council

Registration fees: US $450 Tel : 202-3330661 Fax: 202-3330331

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**Dr Yusof Basiron**

CEO,
Malaysian Palm Oil Council
*www.ceopalmoil.com*

# Preparing the Palm Oil Industry for the Opportunities and Challenges of Tomorrow

As the Malaysian palm oil industry takes stock of its position, it has the opportunity to develop common visions and purposes to meet the challenges in store. This process is vital if the industry is to satisfy current demand as well as expand into new markets.

Palm oil has a significant role to play in providing a high-yield, low-impact source of food for people around the globe. As it delivers this need, the strength and growth of Malaysia's palm oil industry will, in turn, foster economic growth, development and higher standards of living for its people.

## CURRENT CONCERNS

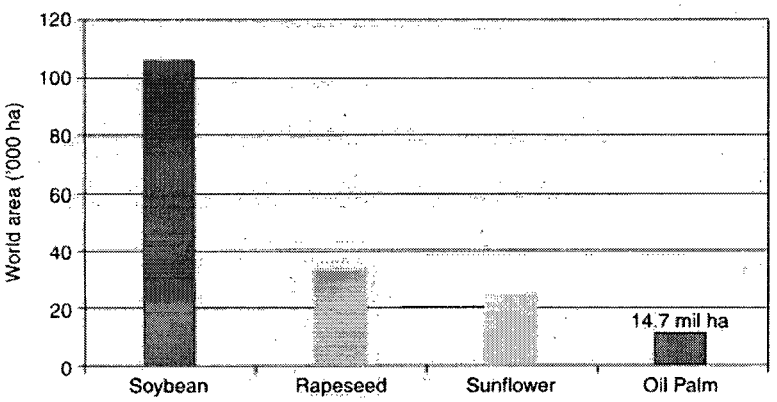
### *Sustainability of land use*

The palm oil industry is among the most sustainable industries on the planet. It is universally recognised that oil palm plantations contribute the most efficient, effective and highest yielding form of edible oil production (Figure 1). The industry provides one-third of the global supply of edible vegetable oils; yet, in 2009, mature plantations covered only 12.14 million ha worldwide.[1] This accounted for only about 4.7% of the total acreage under oilseed crops.[2]

In addition, the production and processing of palm oil is, in itself, a sustainable process. Almost all the by-products of oil palm can be recycled. For example, empty fruit bunches (EFB) can be used as fertiliser, or to generate electricity or fortify concrete. Studies have found that utilising electricity generated by burning EFB and through biogas capture from palm oil mill effluent can remove 99% of palm-based bio-diesel emissions – against 59% previously – compared to fossil fuels.[3]

### *Food security*

Access to sufficient quantities of food will be a critical issue this century (Figure 2). Global food security, particularly for those living closest to the poverty line, will be heavily reliant on low-cost supply of food. In addition, the world




In 2009, the oil palm industry occupied only 5.7% of the global oil crop area but accounted for one-third of global edible oil production

*Source: FAO*

**Figure 1: Oil palm – the most efficient, effective and highest yield form of vegetable oil production**

[1] United Nations Food and Agriculture Organisation, FAOStats, accessed on Jan 6, 2011

[2] Above

[3] CarbonCapital Solutions, 2007, 'The $CO_2$ and Energy Balance of Malaysian Palm Oil: Current Status and Potential for Future Improvements'

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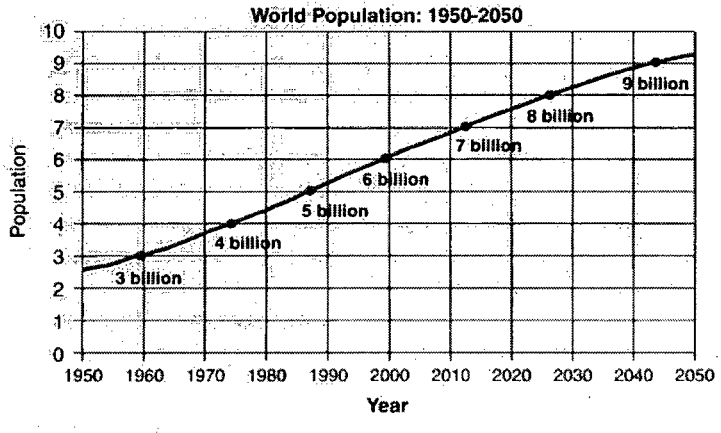
population is expected to increase by 2.3 billion by 2050.[4] The United Nations (UN) Food and Agriculture Organisation (FAO) has forecast a 70% increase in food demand to feed the additional mouths.[5]

According to the FAO, food security exists when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life.[6] As it is, more than 1 billion or 15% of the people in the world still do not get enough food on a regular basis.[7]

In September 2010, the UN expounded eight Millennium Development Goals. At the top of the list is the goal to

- What is food security?
  - FAO: All people should have physical & economic access to sufficient, safe and nutritious food to meet their dietary needs as well as food preferences for an active and healthy life
  - Over 1 billion people or 15% of the world population does not have enough food
- Eradication of extreme poverty and hunger tops the list of the UN's 8 Millennium Development Goals
- Anti-growth campaigns of ENGOs will accelerate the early arrival of limits to growth, creating a food shortage disaster especially for developing countries

**Figure 2: Food security**




The world population is projected to grow by 2.3 billion by 2050. FAO estimates that a 70% increase in food supply is required to feed this additional population.

*Source: US Census Bureau, International Data Base, June 2009 Update*

**Figure 3: Food security – a growing global concern**

- Access to sufficient food will be a global concern due global population increase. An increase of 80 million people annually will require an additional 2.5 million tonnes of oils and fats, plus another 2.5 million tonnes increase from higher income effect.
- Food security is also vital to those living in poverty, thus low-cost supply of food is needed.
- 5 million tonnes of additional oils and fats would require 10 million ha of new soybean land or 1 million ha of new oil palm land.

[4] 'World Population Prospects: The 2008 Revision'. Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat. June 2009. http://www.un.org/esa/population/publications/popnews/Newsltr_87.pdf

[5] Food and Agriculture Organisation, How to Feed the World in 2050, October 2009

[6] FAO [Food and Agriculture Organisation], Trade Reforms and Food Security: Conceptualizing the Linkages, 2003

[7] FAO [Food and Agriculture Organisation of the United Nations], 2010a. The State of Food Insecurity in the World 2010, FAO, Rome.

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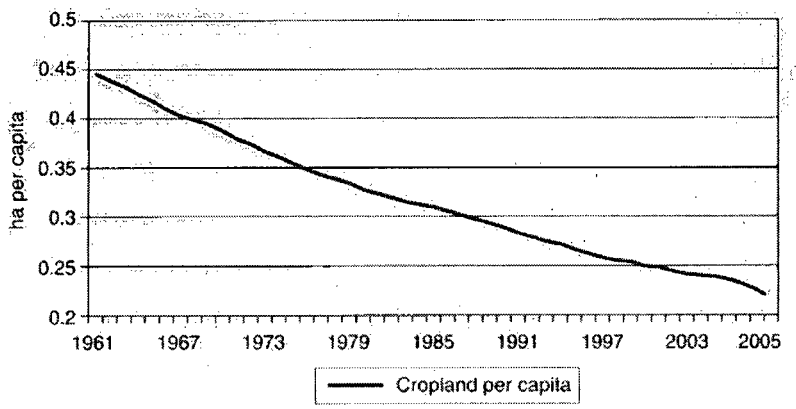
eradicate extreme poverty and hunger. The need to address this important issue was echoed at the World Summit on Food Security held in Rome, Italy, in November 2009. In April 2010, the World Bank launched the Global Agriculture and Food Security Programme, a new multi-donor trust fund, to improve food security and incomes in low-income countries through assistance to agriculture.

Palm oil supplies the bulk of the world's production of oils and fats. It contributed 26.6% of the market share in 2010 when its production was 45.5 million tonnes. Soybean oil ranked second at 23.5%, with a volume of 40.2 million tonnes; animal fats were third at 14.3% (24.4 million tonnes); and rapeseed oil followed at 13.8% (23.7 million tonnes). The two major palm oil producers were Indonesia and Malaysia, with volumes of 21.8 and 17 million tonnes respectively in 2010; jointly, they supplied 85.2% of global output.

Palm oil can continue to play a significant role in ensuring food security. Through its research and development efforts and investments in advanced technology, the Malaysian palm oil industry can balance the need to meet increased demand with the need to achieve higher yields with the lowest possible environmental impact. Research in Malaysia has already produced clonal oil palm materials that are capable of increasing fresh fruit bunches by 25-50%.

There are, however, major hurdles to overcome in the pursuit of food security. The first of these is the diminishing availability of already scarce arable land (Figure 4). It decreased from 0.75 ha per capita in 1922 to 0.23 ha in 2005, and will decrease further to 0.19 ha in 2030. There is, therefore, a crucial need to optimise the use of land.

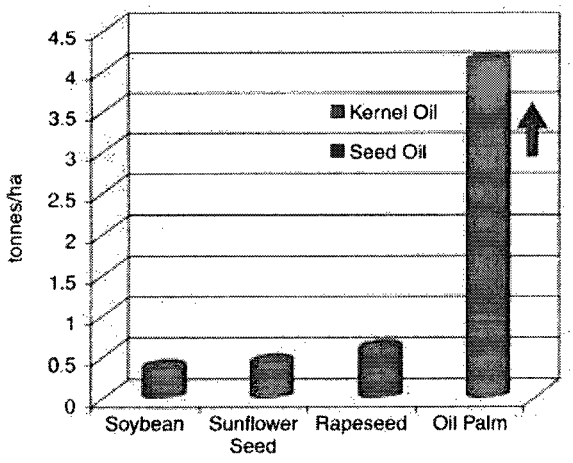
Oil palm has demonstrable high land-productivity (Figure 5), producing an average of 4.1 tonnes of oil per ha,




Per capita crop land has declined since the 1960, thus there is more pressure on farms to increase yields

*Source: FAO Stats*

**Figure 4: World arable and permanent cropland per capita**




Productivity of oil palm is:

- 11x more than soybean
- 10x more than sunflower seed
- 7x more than rapeseed

**Figure 5: Oil palm has the highest productivity/ha of land**

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compared to rapeseed (0.59 tonnes), sunflower seed (0.42) and soybean (0.36 tonnes). Simply put, if rapeseed were substituted with oil palm, seven times less land would be needed to obtain the same amount of oil.

A second concern in food security is the emerging competition in the use of vegetable oils for food and fuel. According to the US Department of Agriculture, the European Union (EU) will require an additional 12 million tonnes of oils and fats to meet its bio-fuel target of 10% of road transport fuel by 2020.[8] Given that the national plans of its member-states already predict an increase in domestic production of bio-fuels, it is likely that the region will remain partially reliant on imports, including palm oil, to meet its renewable energy target.

To minimise the use of vegetable oils for fuel, work is underway to convert biomass to this purpose. In this respect, the oil palm has a sustainability edge over soybean, rapeseed and sunflower seed. As a perennial crop, the oil palm produces large amounts of biomass all year round. Among other applications, palm kernel is being used as a source of fuel, while EFB is made into palm briquettes.

A third factor in food security is linked to food price inflation. There is currently a shortage of oils and fats in some parts of the world, due to weather-induced disasters, political unrest, infrastructure problems and trade distortions, among other factors. But abundant amounts of palm oil remain available all year round at an affordable price, lending a reliable hand in efforts to curb hunger.

***Food safety***

Palm oil is a nutritious and calorie-rich food. Several nutritional studies, including those conducted in Australia – at the University of Sydney, University of Queensland, and the Commonwealth Scientific and Industrial Research Organisation in Adelaide – bear testimony that palm oil is safe for human consumption and is neutral in its effects on blood cholesterol. Indeed, the human dietary trials conducted at the University of Sydney provide evidence that palm oil (olein) and olive oil have similar beneficial effects on blood cholesterol.[9]

Refined palm oil, as used in food products, is a rich source of tocopherols and tocotrienols that support Vitamin E activity.[10] Red palm oil is the only commercially available rich source of carotenoids, which facilitate pro-Vitamin A activity.

Palm oil is also naturally free of *trans* fats, which scientists caution can have harmful consequences for cardiovascular health when consumed in large amounts. The American Heart Association has consistently stated that *trans* fats are far more harmful to heart health than saturated fats. Consequently, many national and local governments have restricted or banned the use of *trans* fats.

***Societal advancement***

The oil palm industry has been central to ensuring that Malaysia is able to build better, stronger and wealthier communities. Research has shown that the operation of oil palm plantations is capable of increasing standards of living and lifting people out of poverty, more so than any other commodity crop.[11]

The export value of Malaysian crude palm oil and its derivatives rose from US$903 million of merchandise exports in 1980 (6.1% of the total) to US$3.8 billion in 2007. By the time of the Asian financial crisis of 1997-98, palm oil was Malaysia's most important source of foreign exchange. The 10th Malaysia Plan, released in June 2010, aims to increase annual palm oil export earnings by US$7.2 million (RM21.9 million), to US$22.9 million (RM69.3 million) over the five-year period.[12]

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[8] Brief Analysis of the EU National Plans. United States Department of Agriculture, Foreign Agriculture Service, December 2010, accessed at: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Brief%20Analysis%20of%20the%20EU%20National%20Plans_The%20Hague_EU-27_12-16-2010.pdf

[9] See for example: Choudhury N, Tan L, Truswell A.S (1995) Comparison of palm olein and olive oil: Effects on plasma lipids and Vitamin E in young adults; American Journal of Clinical Nutrition 61:1043-1051; Sundram K, Hornstra G, von Houwelingen A.C Kester A.D (1992) Replacement of dietary fat with palm oil: Effect on human serum lipids, lipoproteins and apolipoproteins, Br. J. Nutr. 68:677-692; Ng T.K, Hayes K.C, DeWitt G.F, Jegathesan M, Satgunasingam N, Ong A.S, Tan D (1992) Dietary palmitic and oleic acids exert similar effects on serum cholesterol and lipoprotein profiles in normocholesterolemic men and women; Journal of the American College of Nutrition 11:383-390

[10] Tan, Khor et al, Effect of a palm oil-Vitamin E concentrate on the serum and lipoprotein lipids in humans, American Journal of Clinical Nutrition, 199l;53

[11] Simeh (2001) Malaysia, Malaysia Plans: various issues

[12] 10th Malaysia Plan, 2011-2015, http://www.epu.gov.my/html/themes/epu/html/RMKE10/rmke10_english.html

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***Sustainability of forests***

There is some worry that feeding an additional 2.3 billion people by 2050 will place unacceptable levels of stress on national forests, as a means of overcoming the shortage of arable land. However, Malaysia provides a clear example that robust economic growth can go hand-in-hand with conservation of flora and fauna.

More than 50% of the land is covered by forest, in keeping with the Government's pledge at the Rio Earth Summit in 1992. This commitment is significantly greater than that offered by most Western nations. In terms of implementation, the rate of forest clearing in Malaysia has declined from 0.66% from 2000-2005 to 0.42% from 2005-2010[13], and is set to drop further.

Large tracts of forest are permanently preserved. For every hectare planted with oil palm, 4 ha of permanent forest are maintained; this is a healthy balance in terms of land use policy. The fact that many animals foray into agricultural areas is another positive factor – it implies that the oil palm not only provides food for humans, but also for the *orang utan*, birds, squirrels, monkeys and other animals.

Alongside this, action is being taken to ensure the security of *orang utan* populations in the wild, by protecting their habitats permanently against development. In the states of Sabah and Sarawak - where the *orang utan* population is concentrated in Malaysia – at least 50% of the land area is maintained as permanent forest.

Several locations known to have large groups of *orang utan* are preserved as wildlife sanctuaries, national parks or forest reserves. For example, the Ulu Segama-Malua Forest Reserve in Sabah, spanning over 0.24 million ha, has 6,000-7,000 *orang utan*, the largest population in the state. In Sarawak, the Lanjak-Entimau Wildlife Sanctuary has about 1,400 *orang utan*.

## CHALLENGES AHEAD

***EU Renewable Energy Directive***

The Malaysian palm oil industry must confront many new challenges. One of these is the Renewable Energy Directive (RED) which took effect in late 2010. Palm oil falls within the purview of this regulation as it is a renewable source of energy. In applying this regulation, the EU is able to pick winners and losers from among renewable fuel sources.

Although palm oil is among the most sustainable of commodities, European regulators have elected to discriminate against it. Contrary to the best available evidence, the EU claims that palm oil does not meet the criteria for sustainability. Yet, lower yielding oilseed crops with a higher rate of carbon emissions – such as rapeseed oil and sunflower oil – are automatically deemed to meet these criteria.

It is clear why this path of regulation has been taken – to support and protect European producers of the vegetable oils used as fuel. The move potentially violates globally accepted trade rules and norms. Failure by the palm oil

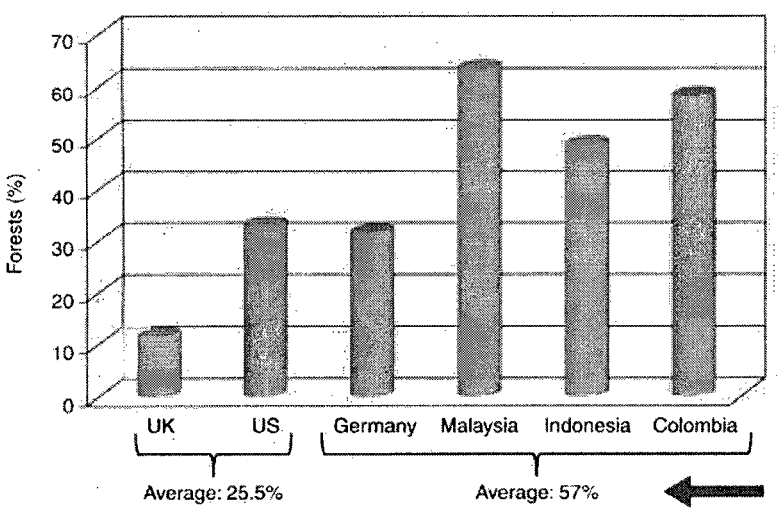


**Figure 6: Producing palm oil helps save forests in many developing countries**

[13] Food and Agriculture Organisation, 2010 Global Forest Resource Assessment

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industry to contest this regulation will set a disturbing precedent that would allow nations to restrict trade based on perceived harm to the environment – whether proven or not.

***Food labelling proposal***

Another major challenge involves efforts in Australia to label food products containing palm oil, in support of a broader campaign to 'protect' tropical forests and the *orang utan*. This, too, is a discriminatory measure designed to harm palm oil in the market place. The European Parliament is considering the same action.

Defenders of the scheme say they merely want to give consumers information to make a better choice. Their claim is questionable. Highlighting the inclusion of palm oil – in the context of the proposed policy – is intended to warn consumers and pressure food manufacturers into using alternatives.

The proposal would see the authorities eschew their proclaimed goal to protect the health and safety of the public, and instead endorse a marketing scheme on behalf of the World Wildlife Fund (WWF). If implemented, it will lead to consumers being frightened off a healthy food that contains important vitamins and nutrients for their health. It will also allow Western environmental NGOs to expand their influence and control over international trade and consumer choice.

The concept also smacks of hypocrisy in terms of the purported 'protection' accorded to flora and fauna. The Australian government supports the removal of the *orang utan* from their natural habitat and keeping them in captivity in zoos. The UK government had proposed selling off some of its publicly owned forests, until public pressure put an end to the idea in mid-February.

The labelling proposal is nothing less than a form of brand discrimination. Again, the Malaysian palm oil industry cannot allow a precedent to be set, which would enable environmental NGOs to influence the endorsement and marketing of palm oil in export markets.

***World Bank policy***

Yet another challenge is posed by the World Bank. It is a key lender to developing countries for large-scale plantation agriculture. Indeed, to this end it has done noble work in its history. But in 2009, it elected to review its support for palm oil. It did so in response to pressure from European activist groups.

In taking this step, the Bank made a grave error. It put politics and the ideological interests of the green lobby ahead of the economic, humanitarian and health interests of people in the developing world.

The Malaysian oil palm sector is more mature than that in other regions, and less in need of funds from international institutions. But it views the Bank's decision as an assault on the global industry as a whole, and in particular on Malaysian businesses that invest globally in new oil palm projects. It is essential, for the sake of all developing nations seeking parity in economic growth and development, that the Bank does not turn its back on its central goal of poverty alleviation in favour of acting as an arbiter of good environmental practice. Such a system would be highly vulnerable to the well funded campaigns of Western environmental NGOs, industries and lobby groups.

***The carbon footprint***

Still another challenge comes from the concept known as Indirect Land-use Change (ILUC). In recent years, several researchers have claimed that the expansion of vegetable oil plantations, including those used for bio-fuels, has led to the emission of larger amounts of carbon dioxide. The argument is that carbon emissions resulting from ILUC would undermine any greenhouse gas (GHG) savings from the eventual use of the clean burning bio-fuels that are produced.

Several activist groups hastily latched on to these claims and began pushing for regulations based on ILUC criteria. Indeed, many of these concerns lie behind the RED and European discrimination against the palm oil industry.

Subsequent researchers from respected organisations, such as the Oak Ridge Laboratory in the US, have challenged the ILUC claims. They are finding out what common sense would tell anyone – that switching from black, carbon-intensive fuels, such as coal, to cleaner renewable sources, such as bio-diesel from palm oil, can only improve the environment.

Some detractors envy the palm oil industry's success and do not want to compete on a level playing field. Others have an ideological aversion to economic advancement in

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the developing world, and advocate that it must be stopped because it 'harms the planet'.

There is little use in trying to persuade them to change their mind. It would be far more effective to inform the court of public opinion that the industry is being unfairly indicted. On this, as with the previous challenges, the Malaysian palm oil industry must present a united front.

***Environmental NGOs (ENGOs)***

The single greatest challenge is posed by the claims of ENGOs. Just about every challenge the industry faces is largely due to the campaigns of a vast array of ENGOs. These are well-funded groups, located mainly in Europe, but with offices that span the globe.

While these groups present themselves as independent advocates of consumer, worker, and planetary welfare, the truth is far different. In many cases, these groups receive large sums of money from governments, trade unions and industries that are eager to push protectionist agendas.

Take the WWF as a case in point. It is the tip of a spear of activism pressing for far-reaching 'green' certification standards. In principle there is nothing wrong with efforts to certify that goods are produced and manufactured honestly and according to best business practices. But the certification standards pushed by WWF serve only one purpose: to drive down global demand for palm oil.

The WWF advocates the use of certification schemes like that of the Roundtable on Sustainable Palm Oil (RSPO) to fundamentally alter how markets work, in what appears to be a coordinated strategy to require producers to meet RSPO standards by pressuring the buyers of the product (retailers), whether or not there is consumer demand for it.

One of the key thought leaders behind RSPO has remarked that the grouping was established following the failure of the World Trade Organisation to include trade policies based on environmental standards. RSPO was therefore created to control and reduce the trade in palm oil deemed 'not sustainable'. The ultimate goal, however, is reduce the production and trade of palm oil across the world.

The problem with any certification scheme is that it lacks transparency. Who is setting the standards? What conflicts of interest do standard-setters have? How are the standard-setters selected? What credentials must they have? And so on. As it stands, there are no convincing answers to these questions.

In addition, sustainability certification schemes often set benchmarks that change randomly and without explanation. This indicates a process that is subject to political manipulation, not carefully considered scientific measures.

There are also biases built into ENGO-backed systems. Specifically, there is a bias toward ENGO-sponsored research reports that are then used to guide findings and subsequent analysis, as opposed to reliance on recognised external authorities. This is not a process that any industry should be expected to embrace, and it should be firmly resisted.

## THE WAY FORWARD – MALAYSIAN STANDARDS

The Malaysian palm oil industry needs to develop a strong set of certification standards. This will bring about several benefits for the industry, consumers and market potential.

It will help the industry communicate and reinforce best practices. Malaysians are best positioned to set reasonable benchmarks for Malaysian products and methods. These benchmarks will be rooted in experience and the best available science. They will reflect the accumulated wisdom of millions of man-hours spent building up a respectable industry.

Such certification will have the added benefit of creating a global brand for Malaysian palm oil. While there is a time- and cost-burden for the undertaking, there are clear reasons to embark on it:

- Other nations and regions are already creating their own certification systems. Malaysia must not be caught out or be disadvantaged by a refusal to move forward.

- Increasingly sophisticated consumers are looking to buy from industries that set goals for themselves. And they want these goals to be made public and accessible to them. If Malaysia proceeds with a robust set of certification standards for palm oil, this will place its product in good standing in the global market, while bolstering marketing and outreach efforts.

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A key need will be to work out exactly what such a certification system should look like, so that it is respected and recognised worldwide. The trouble with many of the current certification schemes is they reflect the priorities of politically biased and unaccountable ENGOs. These all too often fail to reflect scientific, economic or even ethical reality.

The Malaysian palm oil industry already contributes to positive social change through transfer of its knowledge and capabilities to local communities. However, it has to move beyond conventional approaches to corporate social responsibility and sustainability, to a new phase of activity.

It needs to engage directly with stakeholders in addressing issues such as GHG reduction, the carbon footprint and impact of climate change; food safety; and responsible global development of the oils and fats sector. It must continue to strive to minimise harm and maximise benefits to society, just as it seeks to minimise business risks and maximise opportunities for itself.

The good news is that the Malaysian palm oil industry has blazed the trail for many of the world's best practices in the sector. It now has the opportunity to develop the best-in-class certification standards. These would first and foremost advance ethical business practices.

The understanding of ethics must exceed the narrowly targeted understanding that is encapsulated in other certification efforts. Those schemes too often fail to account for poverty eradication, economic growth, income mobility, technological advance, new capital formation, knowledge accumulation and all the other positive spillover effects that are part of the palm oil business practices.

Only a fair and more complete certification standard will accord the Malaysian industry the credit it has earned. Only an honest and objective standard will hold other industries and nations to account when they fall short by not helping their communities, or not generating sustainable economic growth. Only a certification effort that emerges from the experiences of the Malaysian palm oil industry will suffice for the sector in this day and age.

*This is an edited and updated version of the paper presented at Reach & Teach, held in Putrajaya in January 2011.*

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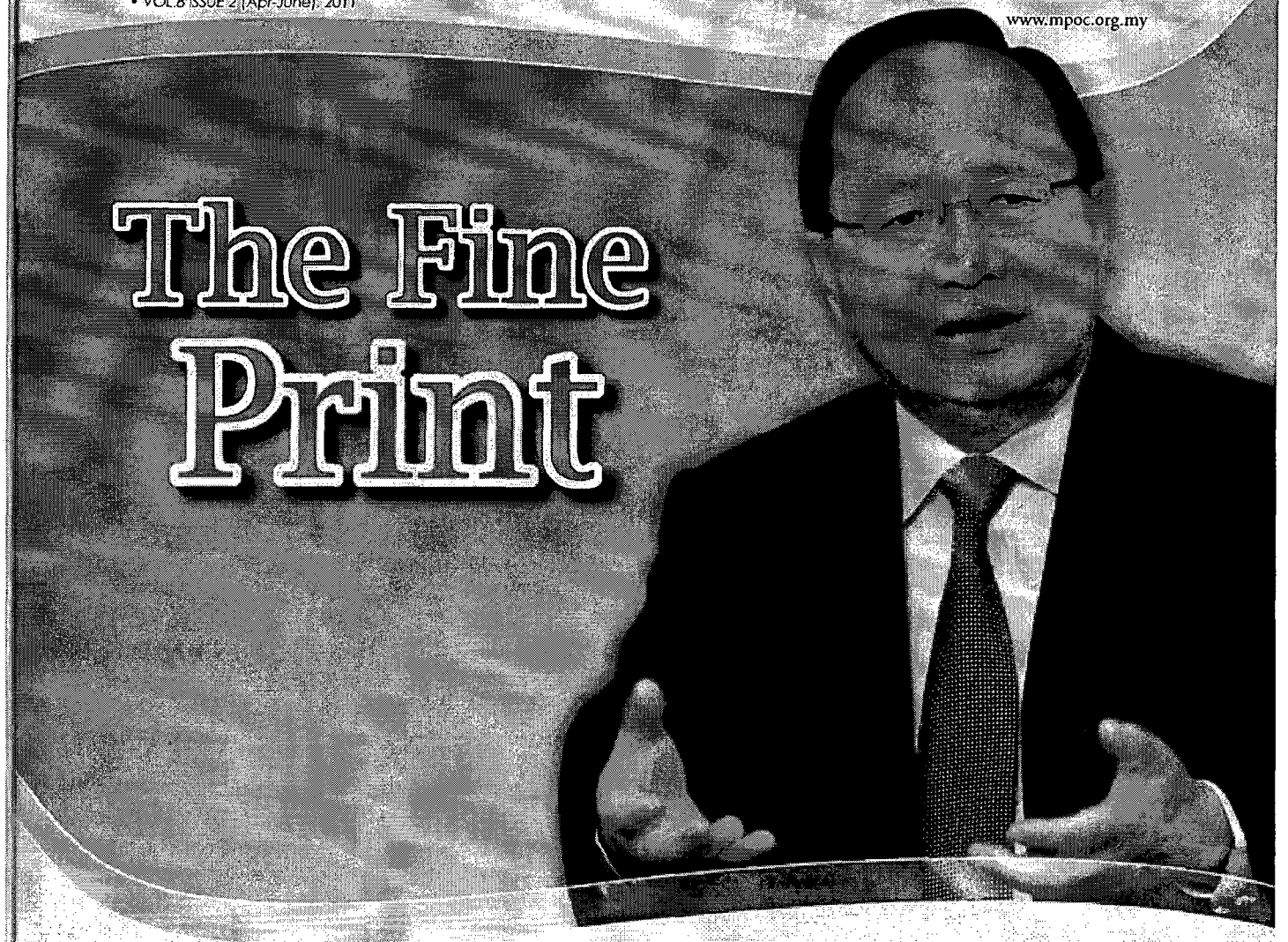

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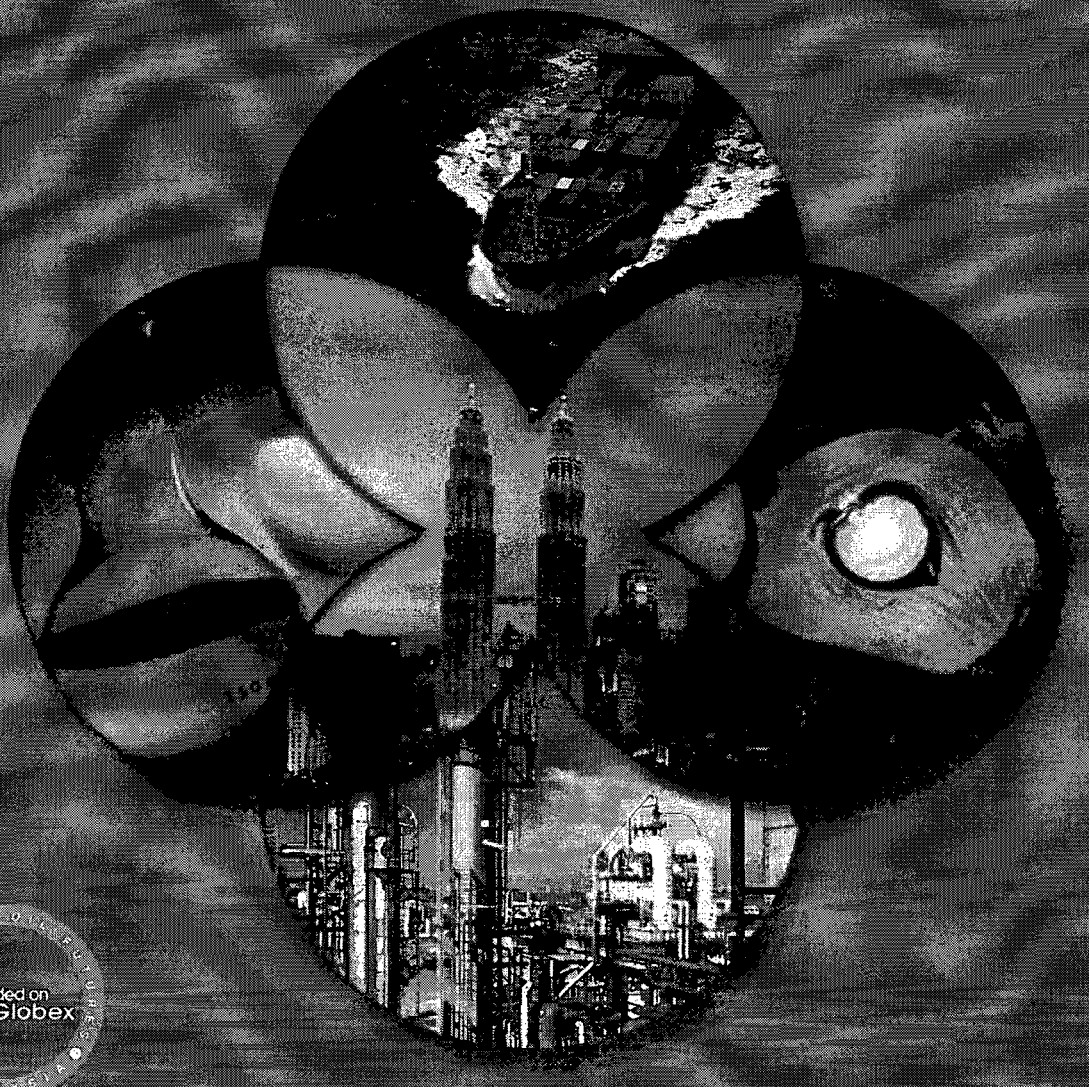

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# *from the desk of the* editor-in-chief

Since its introduction in Malaysia over a century ago, the oil palm has become a symbol of opportunity for millions of Malaysians. Many recognise the industry's domestic role in uplifting the landless and others out of poverty and its global role in supplying a vital food source.

Further development of the industry is a critical component of Malaysia's National Key Economic Areas, with its contribution to the Gross National Income expected to increase to RM178 billion in 2020, compared to RM52.7 billion in 2009.

Yet, challenges are being mounted in Europe – and possibly now in Australia – through discriminatory labelling of palm oil in food products, purportedly to protect the environment. As Malaysia has argued and will continue to argue, many of these efforts are based on misunderstanding and unsubstantiated claims by environmental groups.

Any myopic provision toward mandatory labelling of palm oil will harm producer countries in developing world. At the same time, food manufacturers and consumers in the countries sponsoring such legislation will be affected by way of additional cost burdens, restriction of choice and potential risks to human health.

It is instructive to recall the origins of *trans* fats, which can be traced back to previous campaigns against tropical oils including palm oil. These erroneous attacks resulted in the replacement of palm oil with hydrogenated oil that turned out to be a silent killer.

Similarly, today's campaigns against palm oil risks forcing the end-user to turn to other, less understood and potentially hazardous replacements.

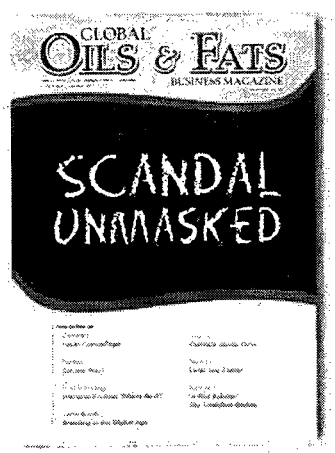
On a wider front, labelling laws represent a significant threat to bilateral relationships. Such provisions seek to create prejudice towards the products of developing economies, and in turn hinder growth and free trade. In Malaysia's case, palm oil makes up 5% of the total exports to the EU.

Unfettered market access between economies will benefit businesses and consumers worldwide. Governments should therefore turn their focus to supporting economic development and investment. Removing barriers to trade will manifest itself in significant benefits all round.

The war against palm oil continues to be waged in other guises on other fronts but there is one commonality in every battle: False claims are floated, like balloons filled with hot air, in the hope that constant repetition will influence the choices of end-users.

The industry must, just as tenaciously, shoot down every such balloon with facts that are repeated loudly and confidently, for as long as it takes to overcome every negative campaign. No quarter will be give, and none should be expected.

Dr Yusof Basiron
*www.ceopalmoil.com*

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# The Fine Print

## *Unfairness in palm oil trade*

Employing the tiniest of fine print, food package labels have always been complex to read. And it promises to get worse – this time for the palm oil industry, as regulations loom on the environmental front.

Malaysia's Minister of Plantation Industries and Commodities, the Hon. Tan Sri Bernard Dompok described the ongoing movement in Europe to shift the goal-posts in palm oil trade, and in Australia to mandate labelling of palm oil in food products, as unfairly singling out the commodity for scrutiny.

The European Parliament is debating amendments to the Food Labelling Bill, while Australia is considering enacting the Truth in Labelling – Palm Oil Bill 2010.

"It is yet another campaign orchestrated by environmental NGOs seeking to influence consumer behaviour and dictate company sourcing policies," Tan Sri Dompok said in an interview.

This is because environmentalists are basing their campaigns on unsubstantiated claims that forests are being indiscriminately cleared for oil palm cultivation and in the process destroying wildlife habitats, in particular that of the *orang utan*.

Europe's Renewable Energy Directive (RED) already discriminates against the use of palm-based bio-diesel, compared to competing oils. Furthermore, the European Union (EU) is considering factoring in land-use change requirements when determining the sustainability value of palm oil, among other vegetable oils. The aggregate of these two measures is a disadvantage to palm oil from the perspective of its use as a source of renewable and sustainable form of energy.



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*"Malaysia has demonstrated a firm commitment to conservation and protection of its forests"*



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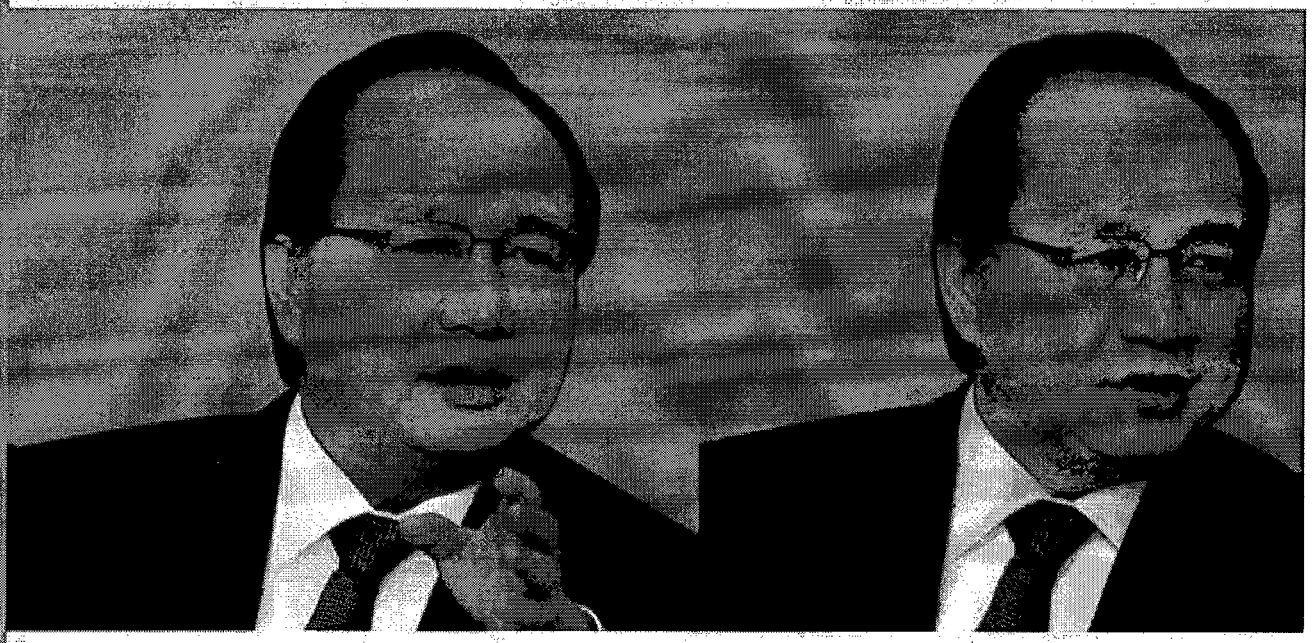

The palm oil industry is an important pillar in Malaysia's economy. The industry contributed RM62.7 billion (US$21.09 billion) to export earnings in 2010. In addition, it employs close to one million people and has contributed immensely towards raising the income levels of the rural and agriculture sectors.

Australia's intended rules will single out palm oil as the only product to be mandatorily labelled for reasons other than health. Malaysia will raise the issue in July, during an official mission led by Tan Sri Dompok.

"I will communicate directly to the highest levels of the Australian Government the unfair and biased attack they are waging against such an important industry. This action against palm oil has direct implications for regional trade relations," he said.

"This is conveniently overlooked by activists opposed to palm oil, but the fact remains that without the prosperity afforded through oil palm development, poverty alleviation would be significantly less sustainable. It is our intention to bring this message to key government leaders, and to ask that they categorically reject the attacks against the industry and drop the campaign against palm oil.

"Malaysia has demonstrated a firm commitment to conservation and protection of its forests. While environmentalists are a particularly shrill constituency, it is our hope that the welfare of Malaysians and Australians will be put before the interests of a highly vocal minority."

The Hon. Minister also responded to related concerns. Edited excerpts of the interview follow.



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*"These campaigns, while targeting the expansion of palm oil, are actually attacks on the development strategies of the two countries, and ignore the organic global demand for vegetable oils that palm oil satisfies"*

**With a food crisis threatening global growth, are such developments untimely?**

Commodity prices are rising globally, complemented by increasing demand. In addition, supply shortages put further pressure on existing stocks. Introducing unsubstantiated regulations will impede market access and will have a detrimental impact on consumer prices. In this regard, the labelling debate in Australia will have a significant impact on its consumers, as they will be denied a source of food that is competitively priced and nutritional.

However, the Australian debate is not occurring in isolation; other efforts are being made globally to apply political pressure on the major producer countries, Malaysia and Indonesia. These campaigns, while targeting the expansion of palm oil, are actually attacks on the development strategies of the two countries, and ignore the organic global demand for vegetable oils that palm oil satisfies.

Unfortunately, this is also occurring with important international institutions. The World Bank has undertaken new guidelines that do not prioritise the needs of smallholders but which endorse NGO criteria that will harm the future of the palm oil industry. The new guidelines are devoid of acknowledgement of the need for countries like Malaysia to continue agriculture development to meet domestic and international demand.

At a time when there is a rise in both world population and commodity prices, it is important that a production increase be supported through open trade.



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*"We are both fully committed to the continued development of the sector to meet increasing demand for vegetable oils and fats worldwide"*

**Do you consider this to be a major trade barrier in the making?**

Palm oil is being wrongly characterised in the media and the political sphere due to inaccurate information promoted by environmental NGOs. There are also competing producers who stand to benefit from limiting palm oil's market access, especially agriculture producers in the West who have long benefited from highly interventionist policies that distort trade in favour of shielding domestic producers from foreign competition.

However, allowing environmental concerns to be cited as justification will reverse decades of healthy growth in trade and global economic integration. In addition, this is against the spirit of open trade expounded under the ambit of the World Trade Organisation.

This is compounded by the fact that palm oil is being unfairly targeted due to its competitive advantage and the desire of radical environmental organisations to halt economic development in the developing world.

**How are Malaysia and Indonesia cooperating to counter the attacks?**

Malaysia and Indonesia together account for more than 90% of the global supply of palm oil. We recognise the importance of cooperation and share mutual concerns about the veracity of Western NGO campaigns against the industry and the efforts of some of our trading partners to impose interventionist trade policies.

We are both fully committed to the continued development of the sector to meet increasing



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demand for vegetable oils and fats worldwide. A Joint Task Force has been established to coordinate our response to unsubstantiated allegations and counter them through measures to promote the image of palm oil.

**Do you foresee other producer countries *joining in?***

We feel strongly that we must support companies and industry stakeholders in key regions such as Africa in their development and growth. Africa is currently experiencing a boom in investment, while new opportunities are emerging in South America.

We are also equally concerned about ensuring that these new producers are able to operate without interference from NGOs and trade barriers. This is one of the reasons we are so concerned about the direction the World Bank has taken. Whereas Indonesia and Malaysia have limited land available for future expansion of oil palm, countries in Africa and South America have enormous potential but are being excluded from World Bank support and Western markets due to rules against land conversion.

**The World Bank has lifted an 18-month global ban on lending for new oil palm investments. What are the challenges ahead?**

While the World Bank's decision to lift the moratorium on lending is a step in the right direction, our primary concern with the direction of its new framework remains. The new standards set for lending represent the views of environmental organisations that were instrumental in the establishment of the moratorium, and fail to account for the needs of smallholders and the poor.

For instance, the Roundtable on Sustainable Palm Oil (RSPO) is specifically endorsed by the Bank for demonstration of compliance, ignoring entirely the important role of national certification standards. It should also be noted that the International Finance Corporation, the private lending arm of the World Bank, is a member of the RSPO. This brings into question the impartiality of the new framework.

Furthermore, the new framework ignores the national development strategies of palm oil producing countries and their right to develop land identified for agricultural purposes. As a lending organisation tasked with alleviating poverty and supporting economic development, it is entirely contradictory for the World Bank to impose lending rules that directly undermine the successful development strategies of recipient countries.

**Industry players who have complied voluntarily with the RSPO's sustainability criteria have been left frustrated by a change in direction. Please comment.**

Malaysia has been supportive of the RSPO since its establishment in 2004. However, industry leaders and the government are increasingly concerned that the organisation does not reflect its original values and mandate. There has been a concerted effort to diminish the role of producers within the organisation, undermining a critical aspect of the organisation as a voluntary, consensus-driven association.



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*"Smallholders have proven the sustainability of their production processes time and again"*

It is increasingly used as a tool by environmental NGOs both within and outside its membership to push for RSPO as the only certification option and for additional stringent sustainability criteria. This strategy will effectively harm the demand for and supply of palm oil.

We remain committed to the spirit of intent behind the RSPO, while seeking to ensure the rights of planters and smallholders in particular are equally respected.

**Are our smallholders ready to take on sustainability criteria?**

In the face of challenges posed by such criteria and the administrative costs that go along with this, smallholders have proven the sustainability of their production processes time and again.

Just recently, smallholders associated with the Federal Land Development Authority were certified under the International Sustainability and Carbon Certification system, a German system developed to certify bio-fuel sources for compliance with European criteria. Despite the high wall erected against palm oil in Europe via RED, our smallholders have proven that they can meet the standards. This contradicts the allegations consistently made by environmental NGOs.

MPOC



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# 'Food Label' Assault

## 'Origin' labelling plot

European environmental activists wage their assault on the palm oil industry on many fronts. Consider the latest, in the form of food labelling. Critics are trying to manipulate labelling laws in a blatant effort to discriminate against palm-based products from Southeast Asia.

The European Union (EU) is currently revising food labelling laws in effect throughout the community. The stated aim is to offer enhanced, simplified nutritional information to consumers, while mitigating the costs to business. No one should oppose reasonable labelling requirements that enhance consumer welfare and are fair to all stakeholders.

But a coalition of Socialist and Green Party Members of the European Parliament, working with a handful of Liberals on the Parliament's Environment, Public Health and Food Safety Committee, are promoting a radical and unjustifiable scheme that will codify a discriminatory measure against plant-derived oils, including palm oil. They are advancing a provision that would mandate the labelling of vegetable and fruit oil sources.

The provision was recently approved by the Committee on Environment, Public Health and Food Safety as an amendment to the food labelling regulation, and will now be considered along with other amendments in negotiations between the EU Commission, Council and Parliament. Both the Council and the Commission have already stated their opposition to mandatory oils/fats origin labelling on the basis of its cost and impracticality, as this will also have an impact on Europe's food industry and consumers.

On first appearances this measure seems less harmful to the palm oil industry than Australia's irresponsible and



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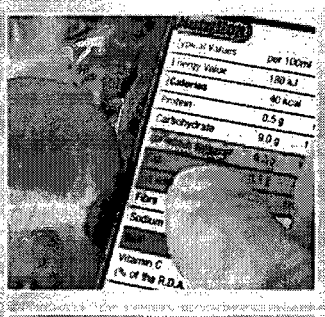
unjustifiable Truth in Labelling - Palm Oil Bill 2010. But the official reason for the measure in Europe mirrors the anti-palm oil campaigns of environmental NGOs.

And as with the measure in Australia, the European campaign is a collaborative effort between the NGOs and zoos that have been lobbying Parliamentarians for the measure expressly in relation to palm oil. The European Association of Zoos and Aquaria has made no attempt to disguise its efforts as anything other than a direct attack on palm oil.

According to the rationale offered by European Socialists:

> Consumers must be appropriately informed with regard to the food they consume and recognise that their decisions are influenced by, *inter alia*, health, economic, environmental, social and ethical considerations. The use of certain vegetable oils (e.g. palm oil) in food products results in the harvesting of plants which may be associated with serious negative environmental consequences (e.g. deforestation or the destruction of the *orang utan* habitat). Consumers have the right to know if these ingredients are contained in the products they purchase.

It is clear that the measure is not designed to deliver enhanced nutritional information to consumers. The rationale is purely environmental, even when it is questionable.



In Australia, the Malaysian Palm Oil Council (MPOC) sought to correct these misconceptions during a hearing before the Australian Senate Committee on Community Affairs. MPOC CEO Dr Yusof Basiron not only emphasised the industry's efforts to improve production processes of palm oil, but also the long history of conservation that it has financed.

As he stated: "Malaysia pledged at the United Nations' Rio Earth Summit in 1992 to retain at least 50% of its land area under forest. In addition, plantation crops are only permitted on land set aside for agriculture. Malaysia has greatly exceeded its pledge, considering that 56% of its land is under forest. ...For every hectare of oil palm grown, the country preserves four hectares of permanent forest, which is a very healthy balance in terms of land-use policy."

Indeed it's ironic that Europe of all places would support such a measure. European countries decimated their forests in the 18th, 19th and 20th centuries. And today Europe has nowhere near the level of forest cover as Malaysia. So on what reasonable grounds could such a continent discriminate against a nation that protects the majority of its forest land?

The promoters of labelling also argue that growing oil palm prompts widespread destruction of wildlife habitat, including that of the *orang utan*. But any fair labelling effort would have to trumpet Malaysia's multiple industry-funded conservation efforts, including *orang utan* sanctuaries. Oil palm expansion is severely constrained by these commitments. Despite this, both government and industry continue to offer complete support.

## Unproductive move

Origin labelling is at best unnecessary. Vegetable and fruit origin labelling does little to inform the average – or even the highly informed – consumer. 'Saturated fat', 'Unsaturated fat' and '*Trans* fats' are all already identified and measured for the consumer, independently of specific vegetable origin labelling.

Indeed, if nutritional concerns genuinely motivate the labelling lobby, it would insist on promoting the many beneficial effects of palm oil consumption. Palm oil is far more nutritious and vitamin-dense than rapeseed, soybean and other vegetable oils. It is an important source of tocotrienols and beta-carotene, contributing to cardiovascular health and staving off neuro-degenerative disorders.

Furthermore, only those who have very little understanding of the complexities and intricacies of the global oil and fats market could believe that origin labelling can be enacted without severe negative repercussions on producers and consumers alike. Identifying the specific fruit or vegetable oil will only add a burden to industry and limit sourcing policy.



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Labelling advocates seem unaware of the significant potential for major supply disruptions. It is telling that the EU's Oil and Proteinmeal Industry (FEDIOL) and the International Margarine Association for the Countries of Europe (IMACE) are opposed to the labelling provision. The industry understands that the measure would severely restrict flexibility in sourcing policies.

Due to the high cost of changing labels and segregating supplies, which will be required under a strict origin labelling requirement, FEDIOL and IMACE will be unable to engage in sourcing policies that ensure that prices are kept low. European markets would also be unable to respond to supply shocks in a timely or cost-effective manner by sourcing alternative supplies.

This was confirmed by testimony before the Australian Senate Committee on Community Affairs. The Australian Food and Grocery Council asserted that mandatory labelling of palm oil would represent an unnecessary cost burden, and that the measure would have no positive impact on the environment or economic development.

What's more, in Brussels the European Association of Food and Drink Industries is against any origin labelling, as this does not take into consideration the fluidity and the dynamic nature of the market.

FEDIOL and IMACE also highlight that the measure is an assault on core intellectual property rights. Mandatory vegetable origin labelling would expose oil/fat formulation blends, which are the strict property of businesses and are valuable trade secrets.

As industry participants are well aware, the specific composition of vegetable oil blends for spreads and processed foods is generally kept between oil/fat blenders and the businesses they source. Undermining this confidentiality imposes an unjustifiable burden on industry. Industry participants will be reluctant to innovate via partnerships and cost-saving cooperation.

## Different growth-model

It's worth noting that the labelling campaign is being advanced by campaigning organisations that have attacked businesses that source palm oil. NGOs such as Rainforest Action Network, Friends of the Earth and Greenpeace target companies that source palm oil.

Far from seeking to inform consumers as to the nutritional properties of food products through vegetable oil origin labeling, the measure is being advanced to penalise Malaysian palm oil. By using tools like the World Wildlife Fund's 'Palm Oil Buyers Scorecard' these organisations target companies that have not adopted their politicised sourcing policies, and apply pressure on developing world industries by turning customers against them. This is immoral, unethical and is bad for European consumers and the developing world's prosperity.

Indeed, considerations of the developing world's economic and social needs are clearly lacking in regulatory efforts of this kind. European policy makers seem to believe that all nations and regions will develop as they did – that is, by destroying nature as they industrialise and grow.

But Malaysia and other nations in Southeast Asia are following a different model. They are committed to raising living standards for all their people, and providing jobs and educational opportunities for all who want these. Millions of men and women base their livelihood and future on the oil palm industry and its progress. Many millions more satisfied customers across the globe have come to depend on safe, reliable and affordable palm-based products.

At the same time, Malaysia refuses to foul its nest in the way that Europe did during its industrial history. That's why the oil palm industry has taken great pains to protect forests, wildlife habitats and other natural endowments. This has been done knowing that economic growth and environmental protection can indeed go hand in hand.

The activists and their supporters who are targeting the oil palm industry seem to think economic development and environmental stewardship are at odds. It would be best if they step aside and allow Malaysia to set an example for the world.

MPOC



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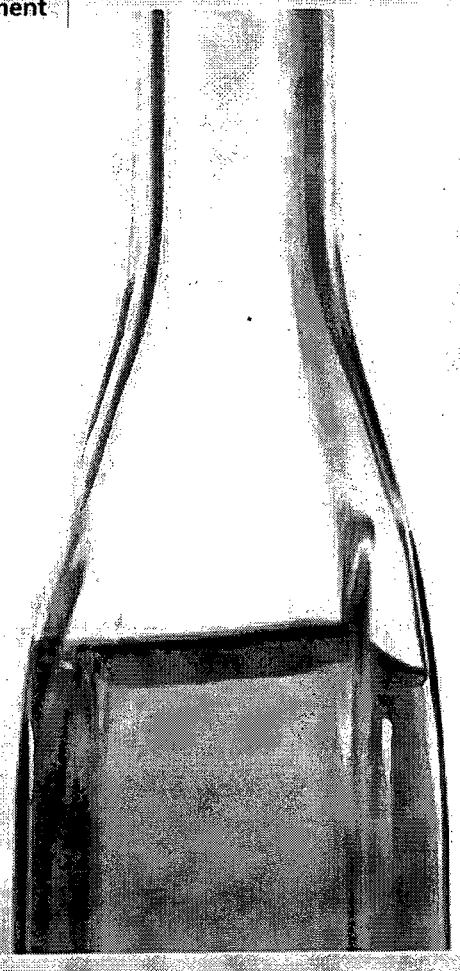
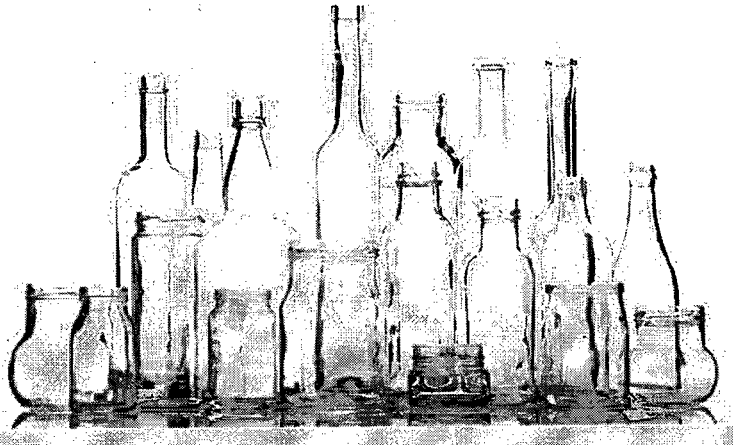


# Deceptive Labelling

**The case against this**



The Truth in Labelling – Palm Oil Bill 2010 is currently before Parliament in Australia. Its main considerations are prompted by environmental activists' claims that:

- Consumers have a right to be provided with accurate and truthful information to enable them to make an informed choice about the products they are purchasing and eating.
- Allowing palm oil to be listed as a 'vegetable oil' on food packaging would mislead consumers.
- The impact of palm oil production on wildlife, specifically the *orang utan* in Southeast Asia, is significant unless done sustainably.
- Sustainable palm oil can be produced with low impact on the environment and wildlife and with better labour laws on plantations.
- Manufacturers should be encouraged to use sustainable palm oil in their production process and subsequently label products as having 'Certified Sustainable Palm Oil' (CSPO) status.

The Malaysian Palm Oil Council (MPOC) was one of several parties that presented testimony on the Bill to the Senate Community Affairs Committee in April.

At a hearing held in Canberra, MPOC CEO Dr Yusof Basiron spelt out the consequences of the Bill for Malaysia and its oil palm sector. He corrected NGO allegations against the industry and demonstrated the negative impact that labelling would have on producers.

His presentation can be read in full at *www.theoilpalm.org* – an updated version follows.



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## Livelihood under Threat

In April, the National Secretary of one of Australia's most influential trade unions said that his union would not support the government if just one of the members of his union loses his or her job as a result of the carbon policy. Other unions have made similar statements.

The MPOC and indeed the Malaysian government take the same view when the livelihood of some 570,000 Malaysians is threatened. This Bill, and the campaign that has been associated with it, has that potential. Like your trade unions and like your constituents, the Malaysian palm oil industry will act to protect the jobs and livelihood of workers and their families.

This Committee and through it, the Parliament of Australia, will have before it fact, not fiction; truth, not wild allegations, and the views of workers, not these who presume to understand their day-to-day life. In short, our focus is on the human face of the industry.

Truth in labelling should be driven by health issues, not political expedience, which is behind some of the campaigns revolving around this Bill. It may give the adherents and supporters of Greenpeace and the World Wildlife Fund (WWF) a great degree of self-satisfaction as they sip a skinny *latté*. But to Malaysians and their families, this is a threat to their very survival. Do Greenpeace and WWF want to keep people in poverty? Do they view Malaysians as participants in some sort of case study?

The Malaysian palm oil industry is committed to sustainability and growth. The absence of sustainability would inhibit growth. Without growth, the lives of workers and their families would not improve.

Don't those who work in this industry have the right – and the opportunity – to improve their way of life? Don't they deserve the dignity of providing for their families? Don't they, and their children, deserve a more prosperous future?

Forty-three percent of oil palm plantations are owned by smallholders. Oil palm companies, meanwhile, have invested significantly in schools, roads, water supply and hospitals for workers. The industry directly employs over half a million Malaysians. Hundreds of thousands more rely on these incomes.

Our nation is not resource-rich like Australia. We do not have mountains of iron ore and other minerals to underpin our national economy and the prosperity of citizens.

Palm oil is a major commodity and the largest agricultural export in our economy. Malaysia is the world's second-largest exporter of palm oil. We have developed markets and we have grown the industry sustainably and for the betterment of our people. It is an industry of which we are proud and one that we intend to grow further.

### Objections to the Bill

I wish to object to this Bill because it seeks to classify palm oil as a single generic product based on the environmental impact of production methods, without differentiating between countries of origin. This is extremely misleading and defeats the stated purpose of the Bill, which is to protect the environment.

I note that the Bill recommends the use of sustainable palm oil – or CSPO – marking to indicate sustainable oil as a differentiating factor between countries or modes of production. I would note that the process of being certified under the Roundtable for Sustainable Palm Oil is very costly for smallholders.

Any labelling of palm oil, whether indicated as sustainable or not, will significantly harm the Malaysian palm oil industry when combined with the amply funded anti-palm oil campaigns led by western environmentalists.

The greatest impact of the Bill will be to single out palm oil as the only product in Australia to be mandatorily labelled for reasons other than health or nutrition, and to severely hinder the Malaysian Government's attempts to utilise palm oil as a means of alleviating poverty.



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Misleading claims

MPOC considers the Bill to be based on misleading claims and erroneous statistics. It is directly aimed at harming the Malaysian economy.

In reality, the Bill will have no benefit for the environment, forests or *orang utan* populations in Malaysia. It is unfortunate that the orang utan has been used – or, more accurately, misused – in this debate. The oil palm industry is not a rapacious destroyer of either forests or *orang utan*. We have been accused of this, we have been pilloried for it – and it is completely inaccurate.

I will briefly respond to the main claims to highlight the disingenuous nature of this piece of legislation.

1. ***Environment: Oil palm cultivation does not cause deforestation in Malaysia***

Malaysia pledged at the United Nations' Rio Earth Summit in 1992 to retain at least 50% of its land area under forest. In addition, plantation crops are only permitted on land set aside for agriculture.

Malaysia has greatly exceeded its pledge, considering that 56% of its land is under forest. Large tracts of forest are preserved permanently. For every hectare of oil palm grown, the country preserves four hectares of permanent forest, which is a very healthy balance in terms of land-use policy.

The Government and the oil palm industry are actively advancing programmes to protect the *orang utan* in Sabah and Sarawak, where at least 50% of the land area is maintained as permanent forest. The two state governments have gazetted a number of forests known to contain large populations of *orang utan*, as wildlife sanctuaries, national parks or forest reserves.

Leading conservationists have noted that the primary threats to the *orang utan* in Borneo come from poachers, hunting by local people, poor enforcement of conservation laws, and mining.

2. ***Sustainability: The oil palm is an eminently viable plantation crop***

It produces more oil per hectare of land, requires less fertiliser, generates 10 times more energy than it utilises, and sequesters more carbon than other major vegetable oil crops. Palm oil also returns a higher income per hectare than almost any other agricultural crop.

3. ***Nutrition: Palm oil has significant health benefits***

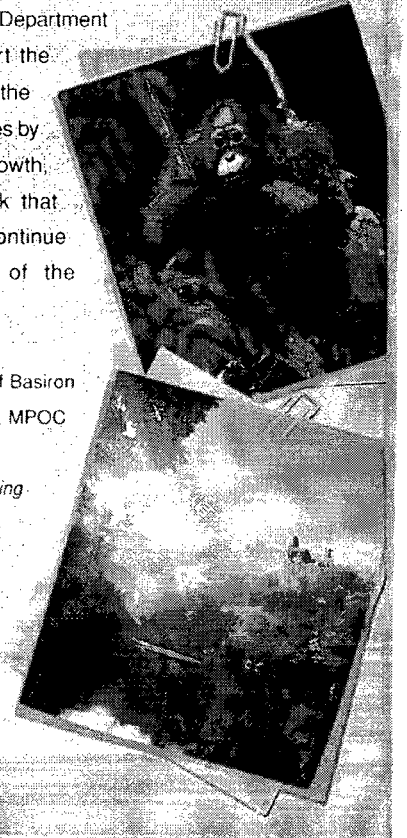
While proponents of this Bill have made much of the saturated fat content of palm oil, I note that Australian consumers already have access to the total saturated fat content of foods through the nutrition panel. Furthermore, palm oil is free of *trans* fatty acids, which have been banned by many sub-national governments in the US as being more harmful to heart health than saturated fats.

I find it strange that proponents of this Bill would seek to mandatorily label palm oil on nutritional grounds at all when such a move – in combination with the anti-palm oil campaigns – is more likely to harm Australian consumers' health than improve it.

In conclusion, I wish to endorse the formal policy of the Australian Government and Department of Foreign Affairs to support the development of countries in the ASEAN and APEC economies by facilitating and promoting growth, trade and investment. I ask that the Committee sees fit to continue this policy for the sake of the Malaysian people.

Dr Yusof Basiron
CEO, MPOC

*At the time this magazine was being printed, the Community Affairs Legislative Committee of the Australian Senate in Canberra decided against the Bill being passed.*





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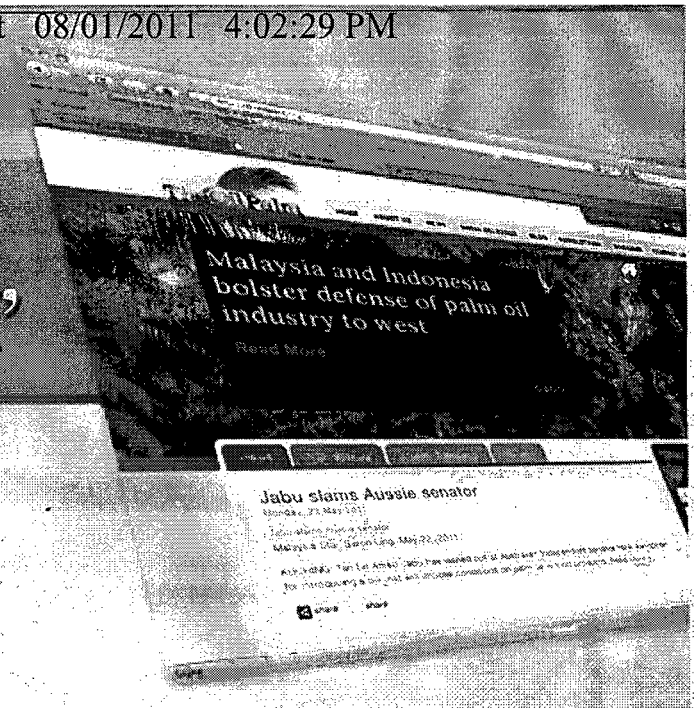
# LAUNCH OF 'THE OIL PALM'




The Malaysian Palm Oil Council (MPOC) has harnessed new media to spread the word on how palm oil contributes to sustainability, food security and societal advancement.

In March, it launched *The Oil Palm*, – a website that highlights the industry's positive contributions to global economic development and food security, and counters propaganda by environmental NGOs.

In announcing the initiative, CEO Dr Yusof Basiron said: "The Malaysian palm oil industry employs more than 570,000 people, more than 40% of who are small farmers. The industry is a leader in protecting the environment. Malaysia has set aside over 50% of its land for primary forest conservation and uses only 23% of land for agriculture.

"Yet these positive contributions to society often go unnoticed, or worse, are denigrated by environmental NGOs. The website will help ensure their campaign of misinformation does not go unchallenged."

Palm oil is integral to lifting the developing world into its own growth trajectory, one rooted in sustainable development. Indeed, countries in every region – from Southeast Asia and Africa to the US and Europe – rely on palm oil imports to create, buy and sell consumer goods.

From vegetable oils to high-yield, energy efficiency pellets, palm oil is embraced because of its high quality, high efficiency and low cost. And as one of the most energy-efficient sources of renewable energy, palm-based bio-fuel delivers a new and clean source of sustainable power.

The website offers a new resource for updates on Malaysian palm oil through news reports, blog commentaries and industry-related data. For instance, recent blogs took on two current issues:

- ***Food security:*** It argued that this can be achieved by investing in palm oil, but noted that the World Bank has redefined its lending criteria for oil palm development. This will affect expansion of the industry and prevent support for national certification schemes, and consequently keep an essential food out of reach of the poor.
- ***Renewable Energy Directive:*** The European Union's protective legislation will limit imports of unsubsidised and cheaper bio-fuels – such as Malaysian palm-based bio-fuel – to preserve the regional market for subsidised and more expensive bio-diesel processed from European rapeseed.

## Intensive promotion

The website uses social media, through Facebook and Twitter pages. Previously silent supporters of palm oil worldwide now have a platform to express their views. One follower wrote: "We use palm oil for goat-milk soap-making. Very high in fats that saponify into excellent skin care products!"

*The Oil Palm* has been marketed among Internet users in Malaysia, Indonesia, the UK and the US. The advertisements have been viewed by several hundred thousand readers of the *New Straits Times, Star, Jakarta Post, Jakarta Globe, New York Times' Green Inc Blog and The Guardian's Environment Blog.*

Advertisements were placed on the Brussels-based news sources *Euractiv* and *EuroPolitics* during the EU Sustainability Week in April – two sites that reported and promoted palm oil-related issues and events during the period. Pro-palm messages were also posted on sites that published baseless attacks against the industry.

Check out *The Oil Palm* at www.theoilpalm.org, sign up to the Facebook and Twitter pages, and tell everyone about what the website has to offer.

MPOC



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# PAKISTAN STOCKS UP

## Edible oil imports rise

As happens each year, industry players had looked to the Price Outlook Conference (POC) in Malaysia to set directions for the edible oils market. Within 24 hours of the conference ending, however, there was a huge correction in the market that created panic in the industry.

The earthquake in Japan wreaked further havoc on global markets. Both the Malaysian market and CBoT fell. The silver lining was that, since most of the destinations were uncovered, the low prices enabled the finding of destination business. This was the case for Pakistan's imports of edible oils.

Pakistan's arrival figure in January was about 238,000 tonnes, which was a record. But in February, this dropped to about 81,000 tonnes, primarily because of high prices and huge carryover.

When markets collapsed immediately after the POC in March, Pakistan again became an active buyer. Based on SGS export data, 110,400 tonnes had been shipped in up to March 25. We expect Pakistan to buy a good volume in April, possibly about 150,000 tonnes.

However, a slowdown will occur in May and June because these are the peak summer months and eating habits will change, particularly in rural areas. People eat fewer cooked meals and go for yogurt and mangoes instead. From July-September, we should see the import volume rising to satisfy demand during the month of Ramadan.

In 2010, Pakistan's overall imports of edible oils stood at 1.93 million tonnes (Table 1) compared to 1.79 million tonnes in 2009 (Table 2). This reflected a growth of about 8% year-on-year. We expect the same growth in 2011.



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Since the import of soybean oil is not workable in Pakistan due to tariff issues, oilseed imports have increased considerably. In 2009, Pakistan imported 976,083 tonnes (Table 3) and in 2010, this went up to 1.16 million tonnes (Table 4), representing growth of about 20%.

On market fundamentals, we believe that the production cycle is increasing in Malaysia and Indonesia. This will put pressure on prices as stocks will go up. However, external factors are reasonably strong, particularly in terms of the crude oil prices due to the crises in the Middle East.

On the soybean oil front, there is a battle for acreage between corn and soybean. There is a general feeling that corn will take the lead. If this happens, soybean oil prices may not come down. Overall the macro indications are that markets have the potential of sustainability at current numbers.

A Rasheed Janmohammed
Vice-Chairman, Pakistan Edible Oil Refiners Association
Director, Westbury Group of Companies, Pakistan

**Table 1: Edible Oil Imports, Jan-Dec 2010 ('000 tonnes) Basis Arrival**

| | RBD PL | RBD PO | CPO | CDSBO |
|---|---|---|---|---|
| January | 74,580 | 24,592 | 14,595 | 0 |
| February | 94,748 | 47,895 | 44,598 | 0 |
| March | 71,878 | 17,499 | 32,843 | 8,500 |
| April | 78,992 | 28,799 | 28,545 | 0 |
| May | 97,429 | 15,047 | 32,240 | 0 |
| June | 42,745 | 3,998 | 6,998 | 8,950 |
| July | 165,516 | 16,347 | 41,332 | 0 |
| August | 115,548 | 4,498 | 45,123 | 12,000 |
| September | 131,505 | 6,048 | 50,166 | 0 |
| October | 122,844 | 10,999 | 54,574 | 12,000 |
| November | 113,287 | 5,000 | 81,395 | 4,500 |
| December | 102,295 | 3,480 | 59,489 | 0 |
| **Total** | **1,211,367** | **184,202** | **491,898** | **45,950** |
| | | | ***1,933,417*** | |

**Table 2: Edible Oil Imports, Jan-Dec 2009 ('000 tonnes) Basis Arrival**

| | RBD PL | RBD PO | CPO | CDSBO |
|---|---|---|---|---|
| January | 59,481 | 76,872 | 31,100 | 3,500 |
| February | 54,568 | 109,474 | 45,457 | 12,000 |
| March | 37,365 | 70,456 | 38,470 | 22,346 |
| April | 74,196 | 67,987 | 34,659 | 10,500 |
| May | 9,999 | 36,963 | 50,231 | 0 |
| June | 20,368 | 59,026 | 43,870 | 0 |
| July | 28,495 | 52,590 | 46,008 | 0 |
| August | 41,109 | 31,947 | 26,049 | 0 |
| September | 88,665 | 59,763 | 27,279 | 0 |
| October | 54,250 | 65,323 | 41,558 | 0 |
| November | 52,840 | 62,788 | 41,746 | 0 |
| December | 34,878 | 39,896 | 27,499 | 0 |
| **Total** | **556,214** | **733,085** | **453,926** | **48,346** |
| | | | ***1,791,571*** | |

**Table 3: Oilseed Imports, Jan-Dec 2009 ('000 tonnes) Basis Arrival**

| | Sunflower | Canola | Rapeseed |
|---|---|---|---|
| January | - | - | - |
| February | 31,303 | - | - |
| March | 103,621 | 49,450 | - |
| April | 32,321 | 133,121 | - |
| May | - | 147,177 | - |
| June | - | 34,650 | - |
| July | - | 103,916 | - |
| August | - | 91,330 | - |
| September | - | - | - |
| October | 97,644 | - | 36,132 |
| November | 37,055 | - | 28,363 |
| December | - | 50,000 | - |
| **Total** | **301,944** | **609,644** | **64,495** |
| | | ***976,083*** | |

**Table 4: Oilseed Imports, Jan-Dec 2010 ('000 tonnes) Basis Arrival**

| | Sunflower | Canola | Rapeseed |
|---|---|---|---|
| January | - | 38,500 | - |
| February | - | 149,650 | - |
| March | - | 159,450 | - |
| April | - | 42,880 | - |
| May | - | 158,633 | - |
| June | - | 157,910 | - |
| July | - | 40,000 | - |
| August | - | - | 44,483 |
| September | - | 48,822 | 43,501 |
| October | - | 41,675 | - |
| November | - | - | - |
| December | - | 239,410 | - |
| **Total** | **-** | **1,076,930** | **87,984** |
| | | ***1,164,914*** | |



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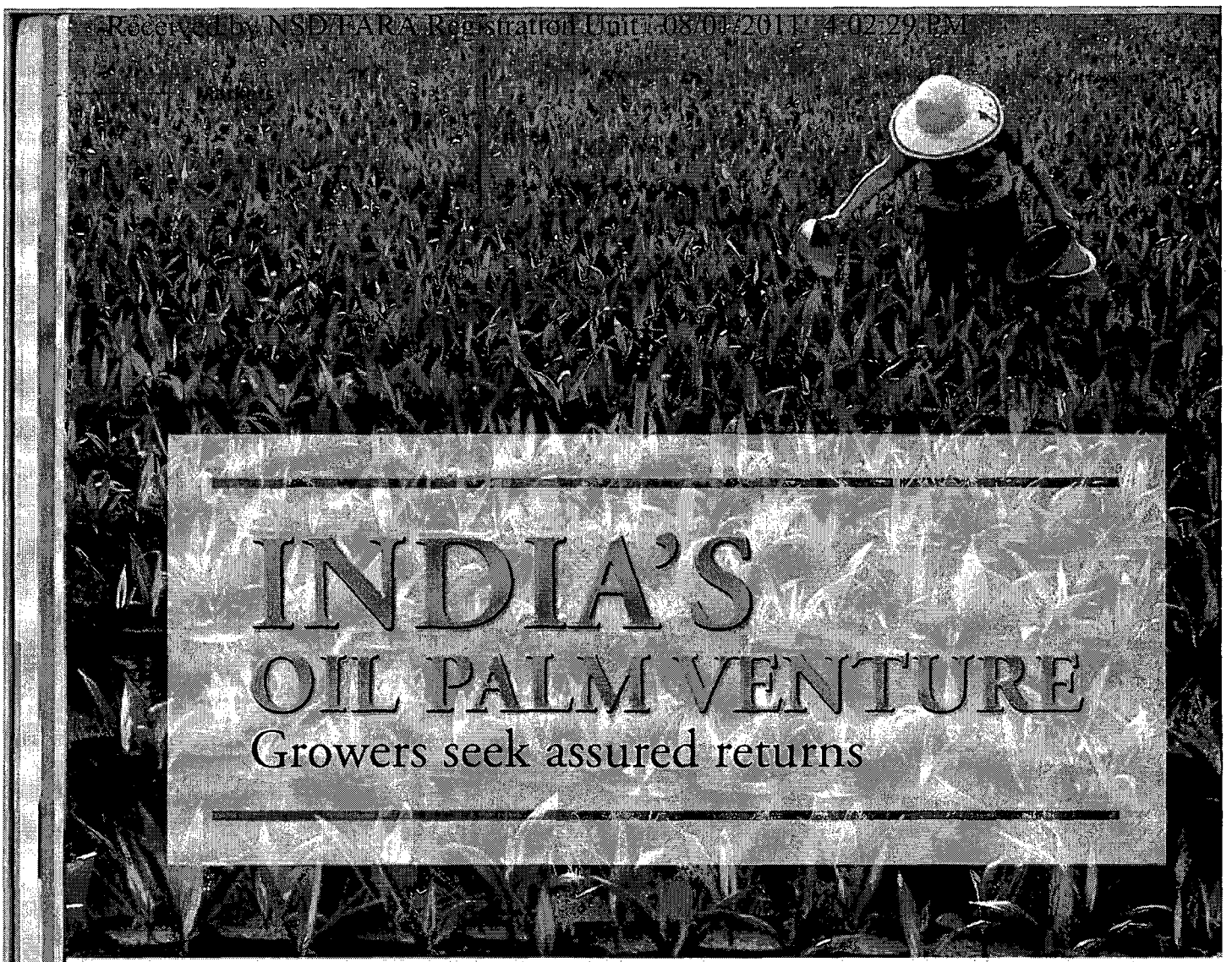

# INDIA'S OIL PALM VENTURE

## Growers seek assured returns

'Masterji' or Ch Keshava Rao of Dosakayalapalli village, some 40km from Kakinada in East Godavari district, India, has been growing oil palm on 10ha of land since 1996. He grows paddy on another 10ha and coconut on another 2ha.

But he is happiest with his oil palm plantation in view of the returns he gets.

"I get around Rs 30,000 a hectare a year. In paddy, I get some Rs 18,000 a hectare only. But more than this, I need not worry about labour, rushing to Agricultural Produce Marketing Committee yards or looking for buyers," said the 70-year-old farmer.

NK Arora, Corporate Head (Palm Business) of Ruchi Soya Industries Ltd's Oil Palm Division, said about 13,000 farmers have taken up oil palm cultivation in and around Peddapuram mandal of East Godavari district.

'Masterji' and Arora were among a cross-section of people who interacted with journalists taken on a company-sponsored trip to the division's corporate office in Peddapuram.

"In the last couple of months, interest in oil palm has increased, since prices of crude palm oil (CPO) in the global market have increased. This helped farmers to get Rs. 7,069 a tonne for a fresh fruit bunch (FFB) in February," says Arora.

The scenario is different from the one that prevailed three months ago when some farmers uprooted their oil palm plantations.

Prices for FFB are fixed every month based on the average CPO price. For each FFB, the farmer gets 12% of CPO price plus 33% of the realised value of palm kernel that makes up 9% of the FFB.



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"The prices have been worked on the assumption that the oil extraction ration from FFB is 18%. However, the ration is around 17.5%," Arora said.

**Support price sought**

When a grower opts to cultivate oil palm, he or she will have to put up with the maturity period of three years. Oil palm begins to yield from the fourth year and productivity peaks from the seventh year until the 25th year.

In the first two years, farmers can earn through inter-cropping in which banana is perceived as the best choice. Farmers also get a subsidy for drip irrigation and micro-nutrients, in addition to Rs 21,000 for four years, if they opt to grow oil palm.

"Ruchi gives an incentive of Rs 2,000 a hectare for drip irrigation," said Arora.

Not just that, once a farmer sells FFB to a miller, the payment is credited within a fortnight to his or her bank account. Sales are made at collection centres from where FFB are transported to crushing units.

"If growers can get through the initial period, oil palm is the best bet since it is trouble- and hassle-free," Arora said, adding that assured returns to growers are a must.

"We expect prices for March to be lower by at least Rs 200 since global prices have dropped. There should be no problem as long as prices stay above Rs 6,000 a tonne. But below that, it could spell trouble."

One way of sustaining farmers' interest in oil palm and making them take proper care of the crop is to ensure a minimum support price (MSP).

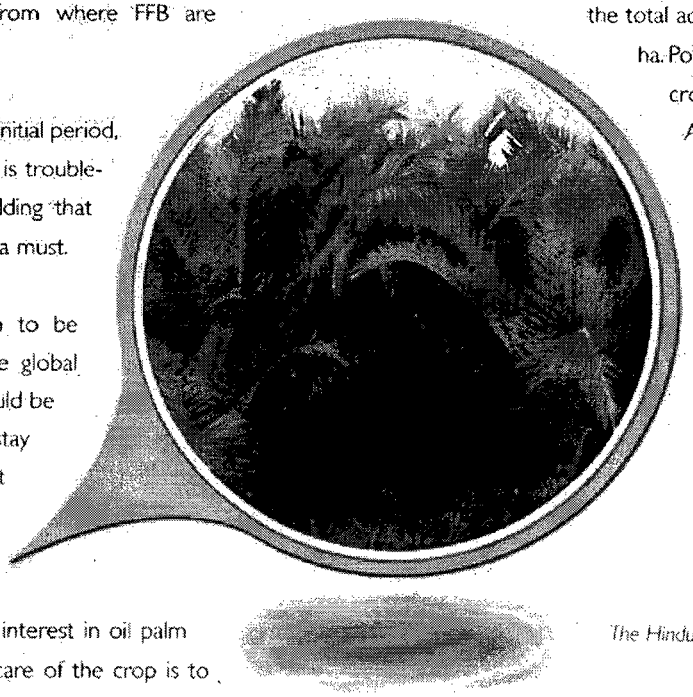
"If the government can fix a MSP between Rs 6,000 and Rs 7,000 for a FFB, it will bring in tremendous change. If market prices drop below the MSP, the government could step in and pay the difference. If prices rise, then the millers can foot the difference," said Arora.

A grower said: "Two years ago, the Andhra Pradesh government came up with the Market Intervention System. This was to ensure remunerative price for growers. While millers have paid their share, there is an outstanding [sum] of over Rs 40 crore [due] from the state government."

The average oil palm yield in India is 10-12 tonnes a hectare, though it is more than 20 tonnes in Andhra Pradesh. In comparison, productivity in Malaysia is 22 tonnes a hectare.

Yield is higher in other producer countries since the crop is grown in regions where there is rain throughout the year. An oil palm requires around 200 litres of water a day in addition to proper nutrition.

Apart from Andhra Pradesh, oil palm is cultivated in Orissa, Karnataka, Tamil Nadu, Mizoram and Gujarat with the total acreage being about one lakh ha. Potential exists for growing the crop in Maharashtra, Bihar, Arunachal Pradesh, Tripura, Kerala and Goa.



This year, the Centre has targeted bringing an additional 60,000ha under oil palm, with 44,000ha of this in Andhra Pradesh alone.

MR Subramani
Commodities Editor
*The Hindu Business Line, March 15, 2011*

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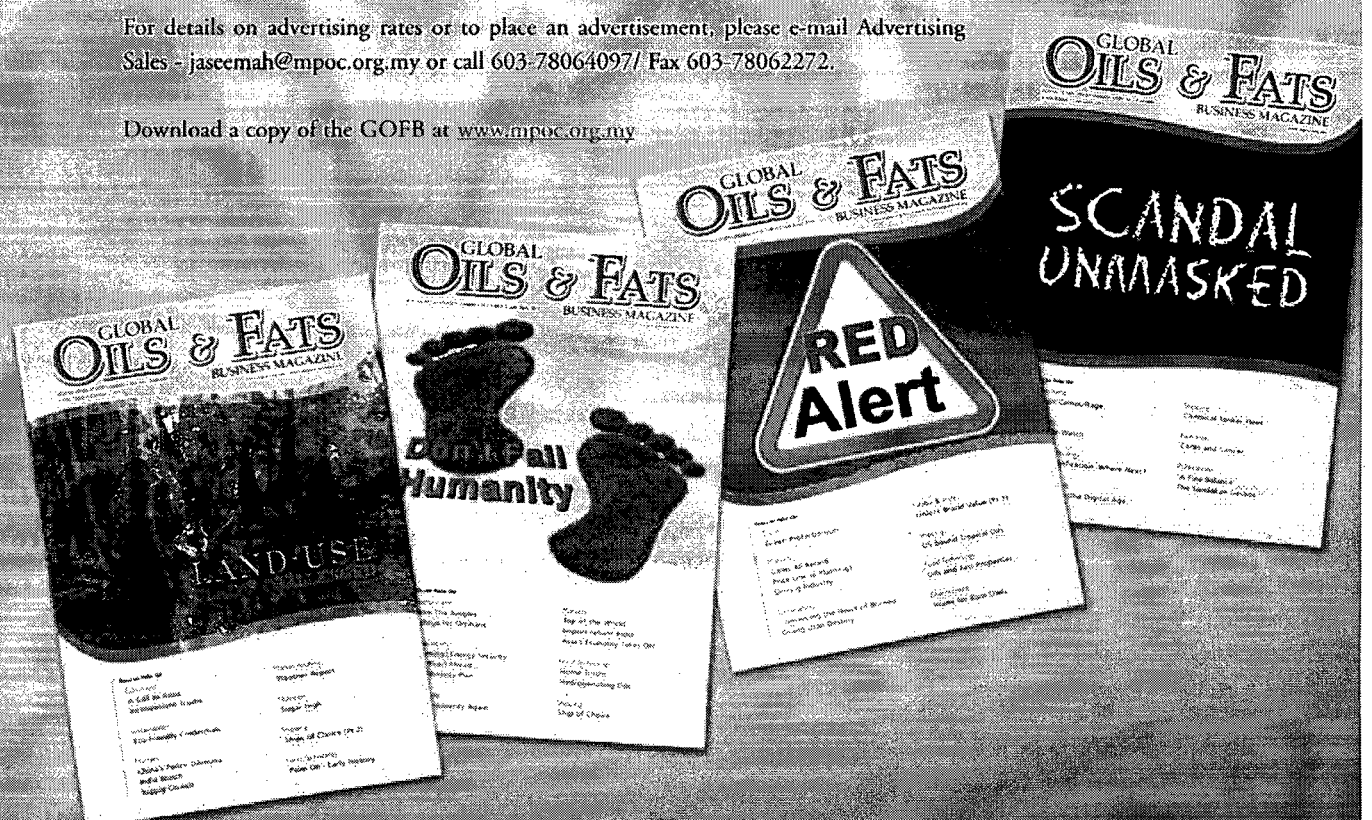



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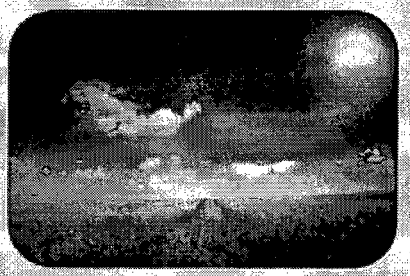
## Smaller European Rapeseed Crop



*Oil World* reported in late April that bad weather may reduce this year's EU rapeseed crop to a three-year low of 20.13 million tonnes. While France, the UK and Poland are likely to see larger crops, smaller harvests are expected in Sweden, Denmark, Hungary and Latvia.

Germany has been hit particularly hard by a very cold winter that resulted in winter kill followed by a dry spring. As a result, its crop may fall to only 4.9 million tonnes versus 5.75 million tonnes last year.

Because of the outlook in Europe and delayed plantings in Canada, rapeseed oil is trading at a hefty premium in Europe to soybean oil and sunflower oil. This may continue into the rest of the year. EU bio-diesel producers will feel the pinch, as they mainly use rapeseed oil as feedstock to comply with bio-diesel regulations.

*Source: Ag Perspective*

## US Reliance on Soybean Exports

For most of the last 30 years, growth in domestic demand for soybean meal and oil has been the prime driver of investments by US oilseed processing firms. New crushing plants have been built in Nebraska, Iowa, South Dakota, Minnesota, Missouri, Michigan, Illinois, and Indiana over the last 20 years.

With few exceptions the plants were built to take advantage of expanded local production of beans and strong local markets for meal. Only one of the plants was located so as to be able to efficiently access export terminals by barge.

The problem for processors is that the domestic market for both beans and meal has declined sharply in the last five years. This is due to increasing supplies of DDG from corn-based ethanol plants and its competition with beans for feed rations; the sharp decline in soybean oil demand stemming from *trans* fats labelling; and the financial difficulties of the domestic swine and poultry sectors.

Plants that were ideally located a decade ago to supply soybean meal to the local swine sector are now surrounded by ethanol plants supplying DDG to the same buyers. To make matters worse, the US crushers face ever increasing competition from those in China.

In order to shift their dependence on the domestic market, several firms owning soybean processing plants have begun making investments focused on supplying beans and meal to the export market.

*Source: John Baize, Ag Perspective*



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## Global Sunflower Seed Production: An Overview

Russia, the EU-27, Ukraine Argentina, China and the US produce 82.5% of the world's sunflower seed (Table 1).

The USDA forecasts that Russian production will bounce back after last year's poor crop to record 7.7 million tonnes or 36% more than in 2007 and 38% more than last year. The Russian government is strongly encouraging plantings this year and if the weather cooperates, the forecast will likely be correct. Practically all of Russia's output is crushed domestically with only about 20,000 tonnes likely to be exported in 2011/12. The USDA expects Russian sunflower oil exports to total 700,000 tonnes over the same period.

**Table 1: Output of Largest Producers, 2007/08 – 2010/11; USDA forecast for 2011/12 ('000 tonnes)**

| | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 4-year change |
|---|---|---|---|---|---|---|
| Russia | 5,650 | 7,350 | 6,425 | 5,350 | 7,700 | 2,050 |
| EU-27 | 4,799 | 7,125 | 6,905 | 6,802 | 7,100 | 2,301 |
| Ukraine | 4,174 | 7,000 | 6,364 | 6,769 | 7,000 | 2,826 |
| Argentina | 4,650 | 2,440 | 2,300 | 3,600 | 2,800 | -1,850 |
| China | 1,250 | 1,790 | 1,956 | 1,900 | 2,000 | 750 |
| US | 1,301 | 1,553 | 1,377 | 1,241 | 1,119 | -182 |
| South Africa | 872 | 801 | 490 | 830 | 850 | -22 |
| Turkey | 700 | 830 | 800 | 1,000 | 850 | 150 |
| India | 1,120 | 1,000 | 820 | 500 | 750 | -370 |
| Pakistan | 583 | 685 | 685 | 685 | 750 | 167 |
| Kazakhstan | 206 | 186 | 368 | 450 | 500 | 294 |
| Bolivia | 319 | 451 | 310 | 355 | 400 | 81 |
| Moldova | 156 | 372 | 284 | 383 | 400 | 244 |
| Serbia | 260 | 490 | 400 | 400 | 400 | 140 |
| Myanmar | 365 | 350 | 350 | 350 | 350 | -15 |
| Paraguay | 162 | 300 | 100 | 150 | 150 | -12 |
| Brazil | 148 | 109 | 96 | 110 | 115 | -33 |
| Canada | 125 | 112 | 115 | 115 | 115 | -10 |
| Other | 330 | 305 | 241 | 260 | 252 | -78 |
| **Total Above** | **27,170** | **33,249** | **30,386** | **31,259** | **33,601** | **6,431** |

*Source: USDA*

EU production has grown substantially over the last four years. However, the increase shown in Table 1 is misleading, since the region had a very poor crop in 2007. Compared to the expansion of EU rapeseed production over the last several years, the growth in sunflower seed output has been quite modest. Most of the growth has occurred in Bulgaria, Romania and Hungary, but France continues to be the largest producer with its 2010 output estimated at 1.66 million tonnes.

The greatest production growth has occurred in the Ukraine, with the 2011 output forecast at 2.83 million tonnes (67.7% higher than in 2007). The crop is the country's top oilseed. The USDA expects 87% of the 2011 harvest to be crushed domestically, with only 450,000 tonnes to be exported. Only 5% of the sunflower oil may be exported.

Argentina's production is projected at 40% lower this year compared to 2007. The decline is because farmers have found it more profitable to produce soybean. Since sunflower oil has historically been the preferred vegetable oil for food locally, the government has restricted seed exports to keep domestic prices low. This has driven farmers toward soybean.

China's production is likely to be 60% more this year than in 2007, partly as a result of government policies aimed at boosting domestic vegetable oil production. However, production of sunflower oil remains a small contributor to total vegetable oil supplies. Moreover, it is unlikely that sunflower seed production will grow much in the future.



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Production in the US remains small compared to soybean. Farmers find it more profitable to produce alternate crops such as soybean, corn and wheat, even though there has been strong demand for the high-oleic sunflower oil produced from varieties mainly grown by US farmers.

The scenario may change this year because of the major delay in corn, soybean and spring wheat plantings in North Dakota. Many farmers there may soon abandon plans to grow those crops and switch to planting sunflowers, which have a shorter growing season. But this is likely to be a one-year aberration if it occurs, since farmers will switch back to growing more profitable crops in years when plantings are not delayed.

*Source: John Baize, World Perspectives Inc*

## Limits to Foreign Farm Ownership

Argentina has joined the list of countries acting to limit the efforts by sovereign funds and others to buy large amounts of foreign farmland. In late April, President Cristina Fernandez said she would send a Bill to the Congress to limit farm ownership. The legislation will restrict foreign ownership to 20% of the total farmland, and further hold each foreign entity's ownership to 1,000 ha. The law will not be applied to land already in foreign hands.

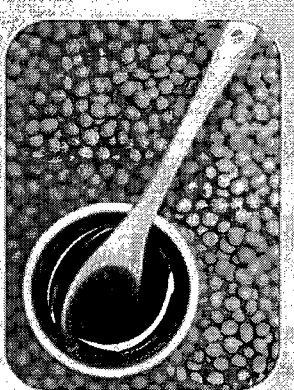
Brazil had earlier taken steps to sharply limit the amount of land foreigners can own. However reports indicate the government is considering applying such limits only to land that is not brought into production in a specified period of time. This is to prevent foreign firms from buying large tracts of undeveloped land strictly on a speculative basis.

Uruguay also is known to be considering limiting foreign ownership of agricultural land. The largest investors have been Argentines who want to avoid paying steep export taxes on the crops they produce domestically.

*Source: Ag Perspective*

## Soybean and Rapeseed Production Fall in China

On May 24, China's National Grain and Oils Information Centre forecast that this year's production of soybean and rapeseed will decline. Soybean output is now projected at 14 million tonnes, a 7.9% decrease from last year and the lowest estimate since 2007. Rapeseed production is forecast to fall by 2.2% to 12.8 million tonnes.



Production of other crops will go up – corn by 2.5% to 181.5 million tonnes; rice by 0.9% to 197.6 million tonnes; and wheat by 0.3% to 115.5 million tonnes. The government has instituted policies aimed at boosting production of these crops although it will lead to a reduction in oilseed plantings.

Clearly the government is concerned about having to import a lot of corn as that would make the country heavily dependent on the US. To offset reduced local soybean production, it will rely on imports sourced from several countries.

*Source: John Baize, World Perspectives Inc*



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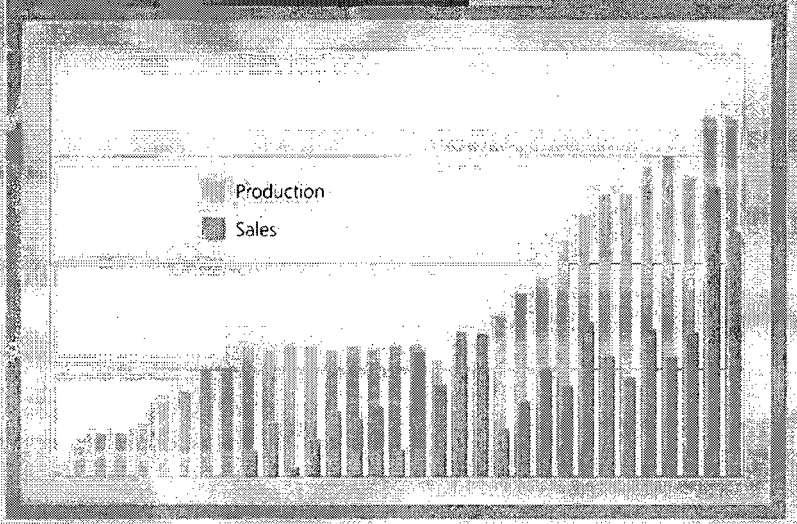
## CSPO – Five Million Tonnes and Counting

RSPO-certified palm oil production facilities touched the five-million tonne mark in output of certified sustainable palm oil (CSPO), early in May. The 10-million tonne level is in sight by the end of this year.

**Figure 1: Production and sales of certified sustainable palm oil**




Sales have increased as well, with a record 269,000 tonnes of CSPO or corresponding certificates having been sold by certified mills in March.

The current estimated annual production capacity – 4.2 million tonnes – equals about 9% of global production of about 46 million tonnes. About 11,500 tonnes of CSPO leave the mills every day.

Malaysia leads with some 54% of certified production capacity, while Indonesia is next with about 35%. Papua New Guinea and Colombia provide the remaining 10% and 1% respectively. In Malaysia, the peninsula holds a little more certified capacity than its states in Borneo; in Indonesia, Sumatra has five times more certified capacity than Kalimantan.

Certified production units also harvest close to 1 million tonnes of palm kernel annually, from which about 450,000 tonnes of sustainable palm kernel oil and derivatives are processed.

*Source: RSPO*

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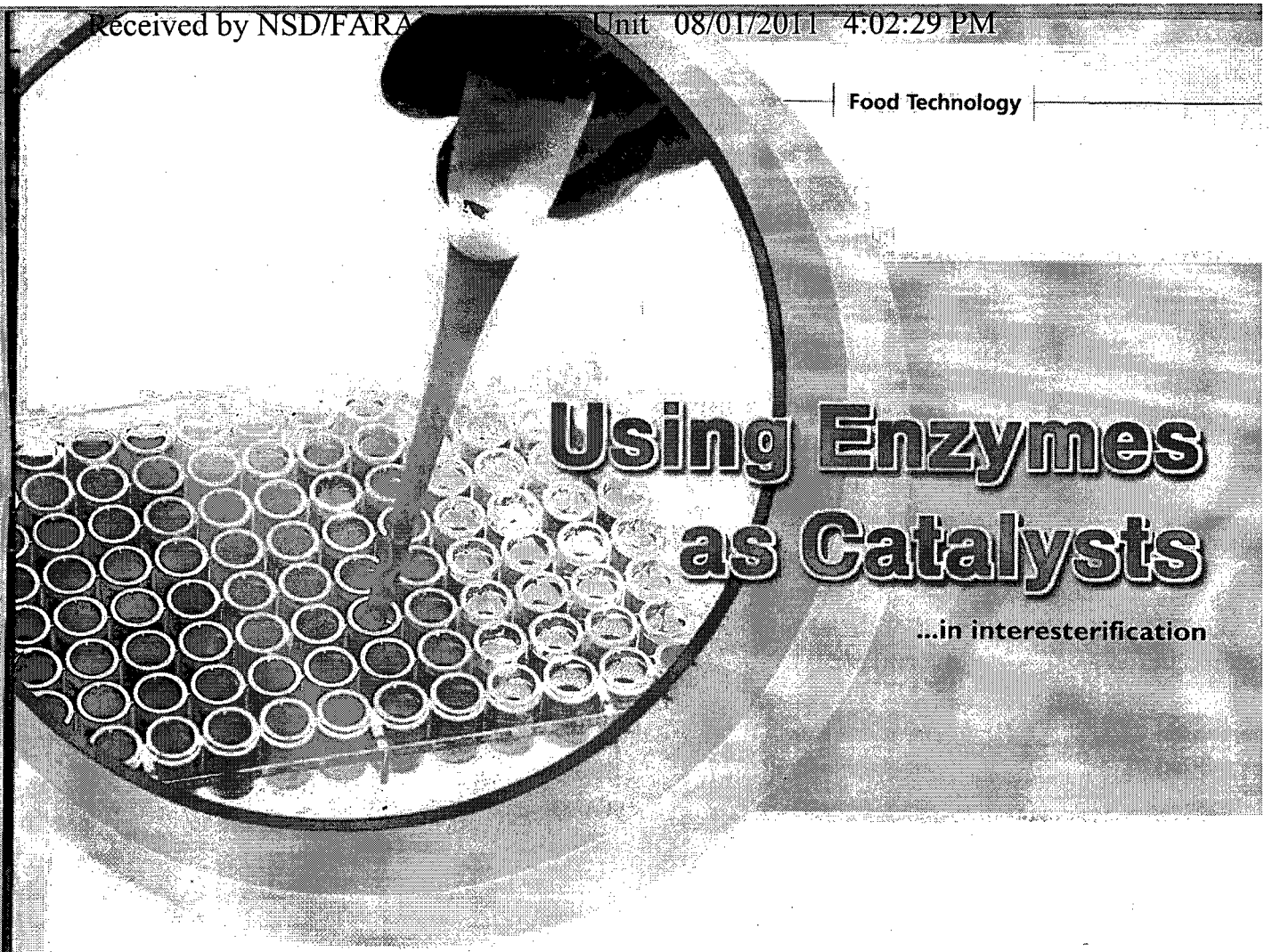

# Using Enzymes as Catalysts

## ...in interesterification

In a previous article, the use of chemical catalysts for interesterification was described from a historical as well as a technical point of view. The technology which was developed in the 1920s served the oils and fats industry well for much of the 20th century – and still does – but progress in other fields, particularly degumming of oils rich in phosphatides, eventually meant that an alternative to chemical interesterification became a practical reality. The patent literature is in fact replete with claims for the use of enzymes to degum oils such as soybean oil. Such patents began to appear in the last quarter of the 20th century, and their success encouraged the search for other uses for enzymes. Initially the enzymes used were derived from animal material but before long plant sources were found to match the performance of the earlier products. This produced a number of benefits, including versatility, acceptability and cost.

Although enzymes have a long history of use in food they have only recently been developed for the large-scale modification of oils and fats. Of principal interest in this field are the lipases, which are ubiquitous in nature, being present in the animal, microbial and plant kingdoms. They are able to detach the fatty acid chains from the triglyceride molecule, either selectively or comprehensively, but can also promote the reverse reaction – i.e. they can also be used to promote the synthesis of esters such as fats. The most extensively studied lipases are those from microbial sources, as these are more readily available and are considered to be more stable than plant or animal lipases. They are particularly interesting because different types display a wide range of activities. However, they have to be handled with great care, as they are very temperature-sensitive and lose their activity rapidly when used above 70°C. A fuller explanation of the functionality of the various lipases can be found in a paper in the journal *INFORM*, which is listed at the end of this article.

Of course lipases are not the only enzymes to find applications when processing oils and fats. Phospholipases had



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for some time already found an application in degumming of vegetable oils.

Fundamentally, lipases catalyse the hydrolysis of fats, but in the presence of low levels of moisture the lipase introduced will catalyse interesterification reactions. This produces results similar to those found when using chemical catalysts for interesterification. Certain lipases have the additional facility of being regio-selective, i.e. of being able to replace fatty acids in specific positions on the triglyceride molecule, a feature which turns out to be very useful in the production of fats having properties that rely on molecular arrangement. As lipases (and other enzymes) are generally not very stable it is usual to deposit them on a carrier prior to use, and various carriers have been tested for suitability, comprising mainly the ability to bind the lipase to the carrier to ensure lipase stability during the process of immobilisation and to ensure particle porosity sufficient to allow full use to be made of the enzyme for the reaction.

The stereo-specific lipases, which act on specific positions on the triglyceride chain, are particularly important due to their ability to act on specific positions in the triglyceride molecule. Of these the best-known are the 1,3-specific lipases, i.e. lipases which specifically act on the fatty acids at the 'outer' positions on the glycerol molecule that forms the 'backbone' of the triglyceride molecule. These can be used to produce symmetrical triglycerides, which are important confectionery fat constituents. Reactions in this category are preferably carried out in a fixed bed, as this facilitates repeated use of the enzyme, thus reducing their unit cost. A further feature of the enzyme-based process is that, compared with that used in the corresponding operation using a chemical catalyst, lower temperatures are needed to achieve interesterification. A temperature of approximately 70°C appears to be most generally advocated for this process, and it has been stated that the enzyme would begin to lose activity if a temperature of 80°C is used.

As in the case of the process using one of the chemical catalysts, the enzymatic process for interesterification requires great attention to safety aspects, in particular focusing on containment of the enzyme. In this respect the enzyme immobilised on an inert carrier is obviously less hazardous than an enzyme freely suspended in the material being processed. Immobilised enzymes offer the user several advantages. The subject of reactor loading with enzyme and end-of-reaction discharge also warrants careful consideration from the point of view of personal safety.

## Chemicals versus enzymes

The enzyme-based process has been used for the production of specialty fats, requiring regio-selective enzymes, and has also been shown to be applicable to the production of fats requiring random interesterification. Although, as pointed out earlier, a wide range of enzymes is available for fat modification, in practice the alkali catalysts, and in particular sodium methoxide, have dominated the field of interesterification applications. Whereas chemical catalysts are single-use initiators of the reaction, enzymes can be re-used, although their activity declines with multiple re-use or with continuous use over an extended period. To operate in this mode in a production environment would result in fluctuating output from the reactor, which is not desirable, and the logical solution is to have several reactors in series. By operating several columns in series, it is not necessary to have full conversion in the first column, as the load can be spread over several reactors. This results in a more even flow and output from the reactor series. Two groups of compounds that have specific relevance for enzyme working life have been identified and are residual inorganic acids from degumming or bleaching earth together with citric acid from deodorisation and oxidation compounds, specifically those contributing to the measured Peroxide Value.

The formation of diglycerides as by-products is an important consideration when interesterifying chemically but is relatively insignificant in the case of the enzyme-based process. The fact that the regio-selective properties of specific enzymes provide a functionality not easily obtained with the existing chemical catalysts is another factor to be borne in mind when comparing the chemical and the enzymic catalysts as the agents of the change required. These may be particularly valuable in the case



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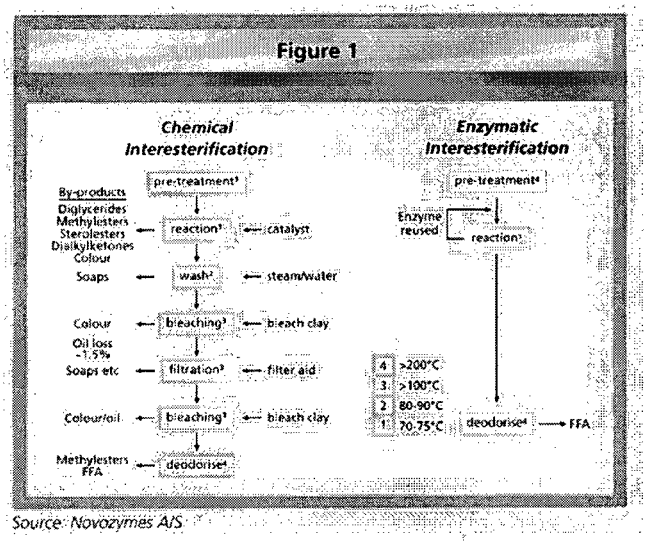
**Figure 1**




*Source: Novozymes A/S*

of structured lipids. The production of diglycerides, which are considered to be useful in managing obesity, provides another application of enzymatic modification of fats. Symmetrical diglycerides produced using enzymes are now being marketed in Japan with the aim of promoting obesity reduction. The range of conversions using enzymes is constantly growing, though in most cases these are niche products having high added value and not large in volume.

At the present time, it is likely that the most important application of the process of interesterification is to be found in its combination with full hydrogenation in order to avoid the formation of *trans*-fatty acids when producing a plastic fat. It remains to be seen whether this is a long-term solution to the *trans*-fats problem. Enzyme interesterification has proved to be of greatest interest because of the wide and growing range of modifications shown to be possible. The cost of enzyme use remains a handicap to the wider use of the technology resulting, at least at present, in the technology being primarily applicable to high value-added products. Studies on enzyme re-use are narrowing the cost gap relative to the use of chemical catalysts, bearing in mind that post-refining costs as well as other processing costs should also be lower in this case.

The methodology of Life Cycle Analysis (LCA), which has been employed in recent years to assess the global impact of various technologies, is also now being used to compare the longer-term effects of the two routes for interesterification discussed above. LCA is coming to be of growing interest in food production across the whole spectrum of its potential relevance. It will be of considerable interest to study the outcome of this comparison, although it needs to be remembered that to a considerable extent the two routes at present target different product areas.

The comparison of chemical and enzymic interesterification processes is shown in diagrammatic form (Figure 1). This illustrates very clearly how much simpler the enzymatic process is than that using a chemical catalyst. On the other hand, the enzymes used are significantly more expensive than the alkaline catalysts generally used when using the chemical process, although multiple re-use of the enzyme – not possible when using a chemical catalyst – reduces this cost difference significantly.

The diagram also shows the temperature ranges prevailing in the various stages. Spent enzyme is generally combined with spent bleaching earth for disposal, thus creating additional solid effluent but no liquid effluent from this source. Whereas chemical interesterification gives rise to a small amount of aqueous effluent (plus oil and fatty acid losses when deodorising the product), enzymic interesterification largely avoids these losses. Overall, the environmental impact of the enzyme-based process is less than that of the process using a chemical catalyst. The enzyme process is also more effective at conserving the tocopherol content of the oil, an important consideration where palm oil is one of the constituents of the blend being processed.

***Further reading***

*Laning Journal of the American Oil Chemists' Society (62) 400 (1985)*

*Villeneuve and Foglia, INFORM, 8(6) 640 (1997)*

*Cowan, European Journal of Lipid Science & Technology (110) 679 (2008)*

Wolf Hamm

Edible Oil Processing Consultant (Retired)



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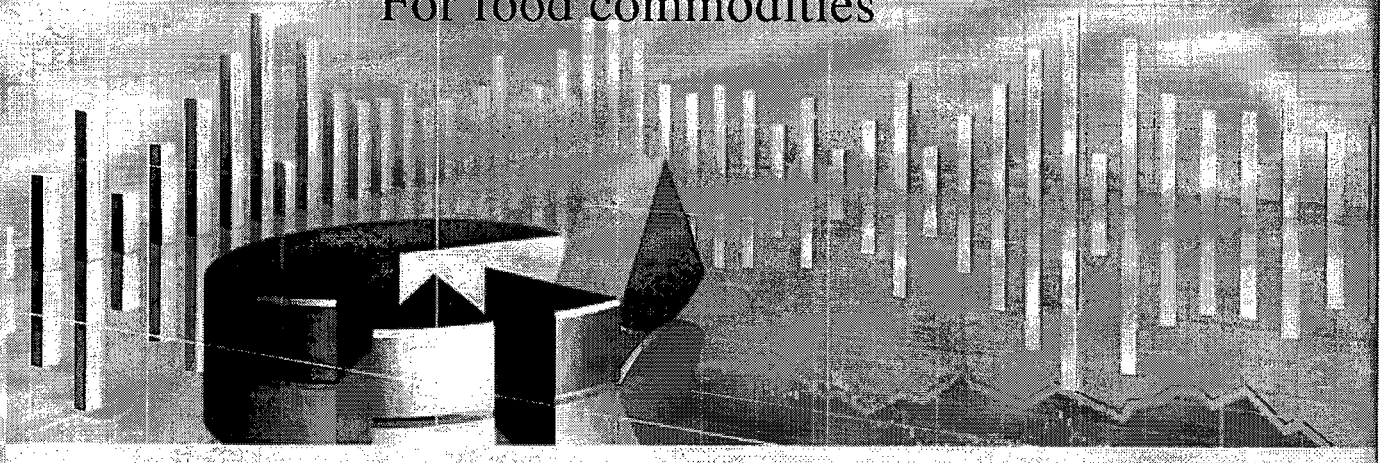
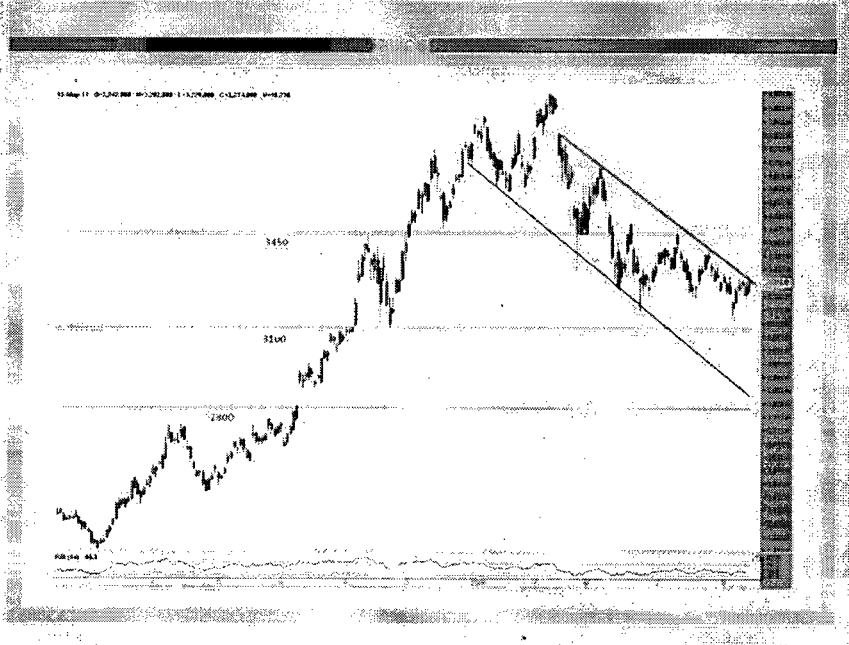
# PRICE RETREAT

## For food commodities



Food commodity prices have retreated from a near-historic high, much to the relief of consumers. Palm oil led the edible oils in the downward move. The Bursa Derivatives 3rd month benchmark CPO futures contract (FCPO) has been trading around RM3,300 per tonne after hitting a high of RM3,967 on Feb 10. It retraced by almost 50% to RM3,148 on May 6 before stabilising at the current level.



In Malaysia, better-than-expected palm oil exports in April prevented end-month stocks from surpassing 1.7 million tonnes. Despite the recent pick up in the pace of shipment, exports to date this year have only totalled 4.9 million tonnes, or 10% lower than last year. High prices in Q1 caused demand rationing.

According to MPOB, Malaysian CPO production rose 8% month-on-month and 17% year-on-year in April to 1.53 million tonnes. Exports improved by 7.8% m-o-m and 3.6% y-o-y to 1.33 million tonnes. Closing palm oil stocks in April surged 3.5% m-o-m to 1.67 million tonnes as imports dipped drastically. The rise in exports was mainly to Egypt (+795%), the EU (+224%), Bangladesh (+38%) and India (+26%). However, y-o-y, most major consumers imported less – Pakistan (-35%), India (-30%), China (-23%) and the EU (-20%).

Surveyor SGS estimated exports from May 1-15 to stand at 601,984 tonnes, or 33.2% higher than the same period last month. Price-sensitive countries like Pakistan and China were estimated to have shipped 52% and 25% more respectively during the period.



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Palm oil production in Malaysia should go up by only 3-5% in May after a bumper crop in March and April. Assuming exports for the month at 1.35 million tonnes, end-month stocks could build up to almost 1.78 million tonnes.

The Malaysian government will launch the long awaited B5 bio-diesel in selected areas come June. Many have doubts about this, due to the involvement of additional government expenditure. Still, this could potentially remove 100,000 tonnes of palm oil from the balance sheet by year's end, if successfully implemented.

In Indonesia, a bumper crop is expected this year with a turn in crop cycle plus conducive weather. As guidance, PT Astra Agro's production numbers to date indicate evident crop improvement. Its April output was 1.6% higher m-o-m and 32.4% higher y-o-y. The company produced 377,239 tonnes of CPO from January-April 2011, or 27.5% higher than the same period last year.

In a recent report, the Solvent Extractors' Association of India highlighted a 15.6% dip in vegetable oil imports at about 3 million tonnes during the first five months of the current crop year (November 2010 – March 2011). Palm oil imports were correspondingly down by 15.8% at 2.2 million tonnes.

The USDA's latest crop progress report shows a delay in both corn and soybean planting. As at May 8, only 40% of corn and 7% of soybean had been planted, against 80% and 28% respectively at the same time last year. Planting progress has also lagged behind the five-year average of 59% and 17%. The delay was due to wet weather in the Midwest, caused by flooding of the Mississippi River. With this, we may expect some switching of planting area from corn to soybean.

According to *Oil World*, soybean crop prospects in Brazil and Argentina have improved. Brazil will produce 73 million tonnes of soybean, up from a record 68.7 million tonnes a year ago; and Argentina will harvest 49.5 million tonnes, up 1% from the previous estimate.

The USDA in its latest WASDE report projected the domestic soybean harvest at 3.3 billion bushels, down marginally from the previous year. However, global oilseed production for 2011/12 is projected at a record 459.2 million tonnes, up 2.2 % from 2010/11. Global soybean production is expected to increase by less than 1% to 263.3 million tonnes. China's soybean imports are anticipated at 58 million tonnes, up 3.5 million tonnes from 2010/11. Global vegetable oil consumption is expected to increase by 3.5% in 2011/12.

*La Nina* continued to weaken in April and the trend should continue in the coming months. The National Oceanic and Atmospheric Administration predicts a return to ENSO-neutral conditions for the rest of the year.

## Commodity prices

The International Energy Agency trimmed its outlook for global oil demand for this year by 190,000 barrels to 89.2 million barrels per day. The forecast was revised on prolonged elevated prices and weaker IMF GDP projections for developed economies. However, the forecast is still 1.5% higher than 87.9 million barrels per day last year.

NYMEX crude oil will continue to trade within US$92 and US$105 per barrel in the near term. But this may drop in the second half of the year as high prices cause demand to shrink. Emerging countries have also been pushing up rates and bank reserves requirement to contain inflation. These measures do not spur economic growth.

We opine that 3rd month FCPO will trade in the range of RM3,100-3,450 in Q2 as fundamentals affecting price remain neutral. However, we see a downside risk in Q3 as uncertainty in world financial market resurrects. There have been apparent concerns about the fiscal health of the Euro zone threatening world economic growth.

The strengthening of the US Dollar on expiry of the Fed's QE2 in June will also weigh on commodity prices. The Dollar index has hit the 76 mark (38.2% rebound) and it may hit the 77 mark (50%) before RSI becomes overbought.

On the technical front, for the immediate term, FCPO movement is still trapped within a downtrend channel. The immediate downside target is at RM3,100, being the 50% retracement level for the rally that started in July last year.

The likely scenarios are that:

1. The price continues to trade within the channel and drift lower to test the RM3,100 support; we do not foresee price going much lower than this, as we expect *Ramadan* demand to kick in.

2. The price breaks the upper barrier and surges towards RM3,450 level when a widespread rebound in commodities take place; demand may start to soften at around RM3,450 level and consumers will have no pressure to stock up amidst the positive supply outlook for palm oil.

*Report as at May 19, 2011*

Ryan Long
Vice-President
OSK Investment Bank Bhd
(Future and Options)



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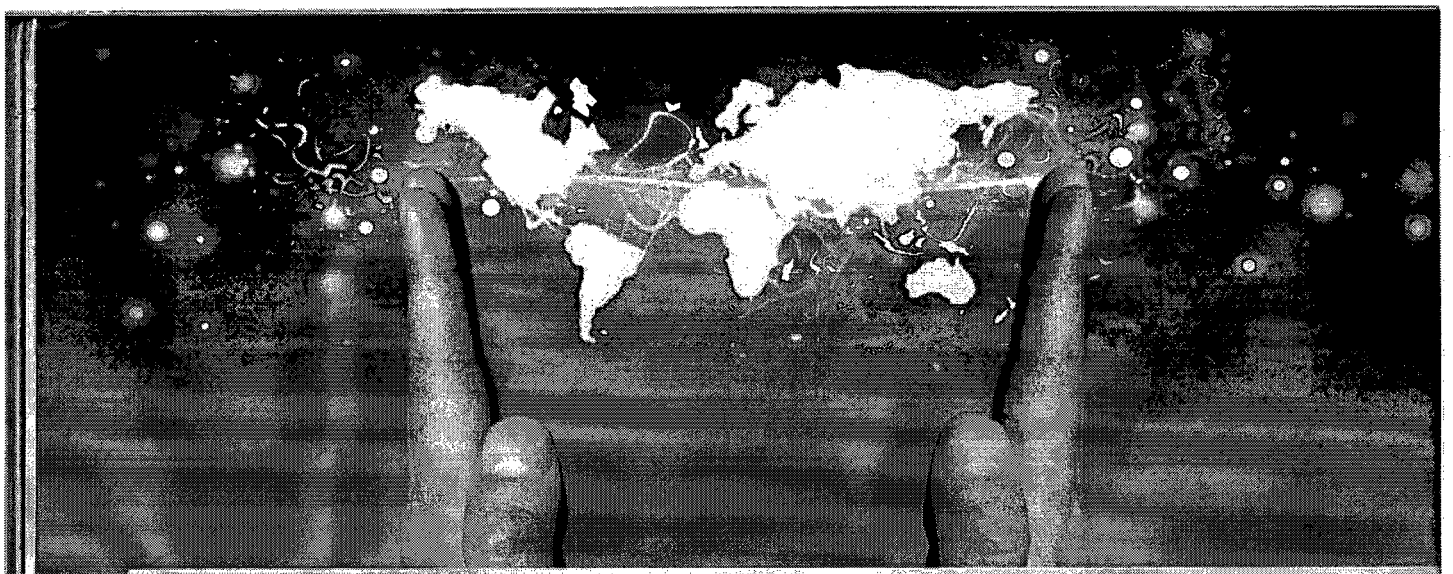

# BRANDING IN THE DIGITAL AGE (PT 2)

## Role of social media

All commodity planters, exporters and brand managers would do well to remember that a brand is not simply a logo, identity or even product. Neither is it what you say it is. Rather, a brand is 'a person's gut feeling about a product, service or organisation – in other words, it's not what you say it is, it's what they say it is'.

Branding is all about creating an emotional clarity by providing a story around what you are selling. Social media will fan the flames of those companies that live up to their brand promise, or quickly take down those that are merely selling a false idea.

But what kind of role do social media play in crafting successful brands today? If, at its core, a brand is 'what they say it is', and we have more of 'they' sharing their thoughts and ideas with the world, then what does it mean for how brands grow in today's market place?

When setting out to launch your product or company and when thinking about what kind of brand you want to help shape, don't start with thinking about the website or the kind of ads you'll run. Instead, focus on how you can foster interaction with customers. It's through such interaction that your brand will be shaped and influenced.

In brand building, five key principles have to be observed:

- Differentiate
- Collaborate
- Innovate
- Validate
- Cultivate

### Prior checks

So where do we begin, and where and how does social media come into all this?

Nowadays it is almost an automatic reflex for potential customers to check up on social media sites such as Facebook as well as search engines such as Google or Yahoo, and pose questions or check for comments and feedback on a particular brand before buying. It is something that I do as well, almost as a matter of habit, especially on big-ticket items like consumer electronics, photographic equipment, motor vehicles and travel.

Just as social media has impacted marketing, customer service and public relations, it is influencing the five core disciplines of brand building. In this article, let's deal with the first two principles.

### *Differentiate*

Great brands start with great products, and this differentiation needs to continue right through to delivering great customer service and attention to their needs. Some have suggested that customer service is the new marketing. Brands are setting themselves apart from the competition through not just a solid product, but through a passionate desire to build relationships with customers.

### *Collaborate*

Perhaps, more than any of the five principles, social media gives companies the ability to collaborate with customers and extended communities. It is more than just crowd-sourcing for 'cheap' advertising. Brands can take it another step further and let customers shape actual products and services as well as engage in logo design, through competitions for instance. The winning designs can then be adopted as the brand logo and added to the product range.

LS Sya
Brand Specialist
London Brandmagic

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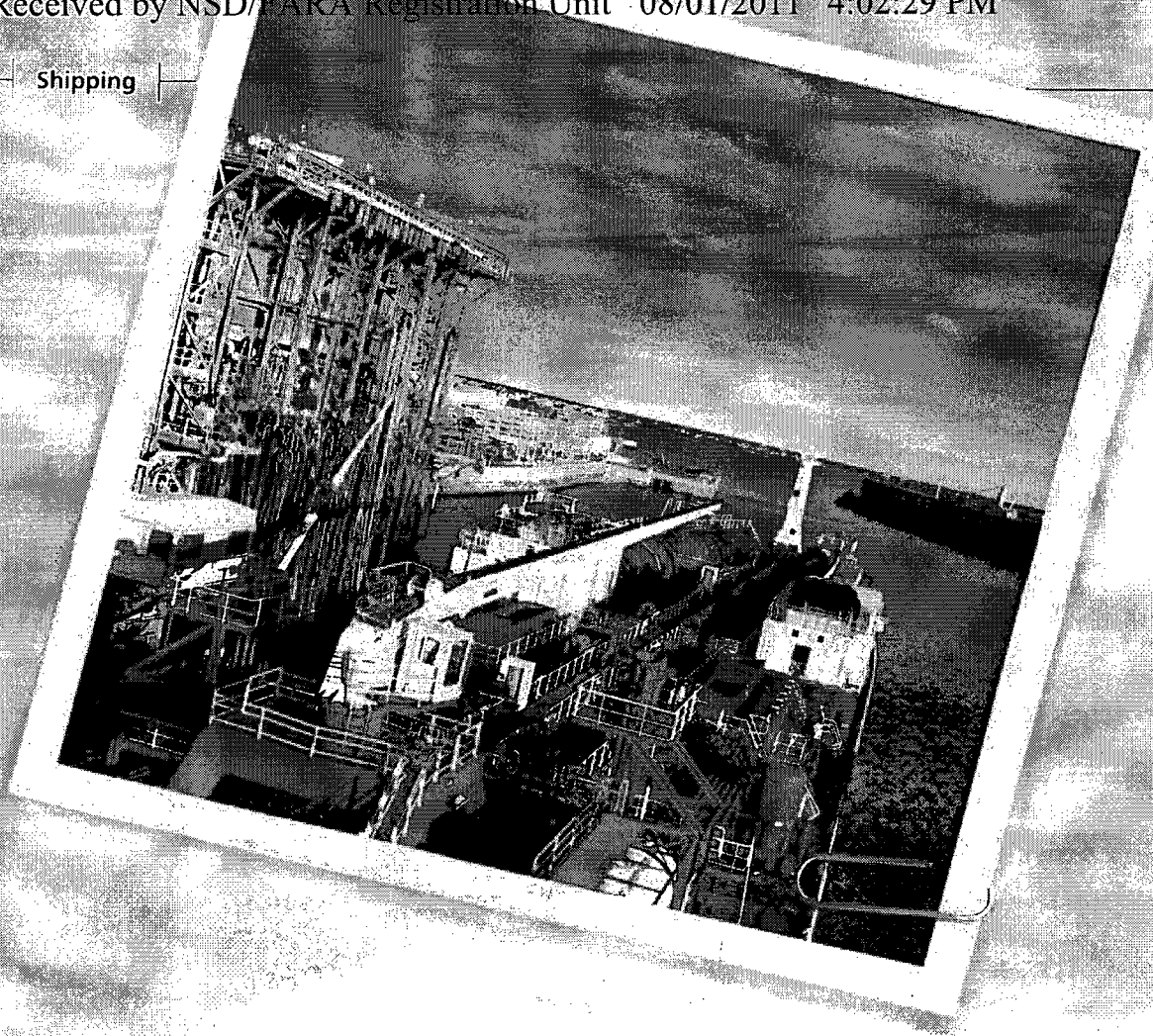

# Chemical Tanker Fleet (Pt 2)

## Changes in Q1 2011

The second part in this series plots the development over the course of the first quarter of 2011 of the entire global chemical tanker fleet of ships above 1,000 tonnes deadweight (dwt), except for barges. All the data used in this article are based on the monthly fleet listing as at March 31, 2011, as produced by the writer.

Over the first quarter of 2011, the short range size group of 1,000-10,000 dwt increased by 21 ships (1.3%) and 99,000 dwt (1.1%). Many of the ships comprising

**Table 1: Fleet Development, 2005-2011**

| Year | Size (dwt) | | | | | | Total Fleet | |
|---|---|---|---|---|---|---|---|---|
| | Short Range 1,000-10,000 | | Medium Range 10,001-30,000 | | Long Range 30,001-40,000 | | | |
| | *No.* | *dwt ('000)* | *No.* | *dwt ('000)* | *No.* | *dwt ('000)* | *No.* | *dwt ('000)* |
| 2005 | 1,212 | 6,351 | 642 | 11,515 | 712 | 29,283 | 2,566 | 47,149 |
| 2006 | 1,264 | 6,616 | 717 | 12,591 | 800 | 33,162 | 2,781 | 52,369 |
| 2007 | 1,334 | 7,003 | 817 | 13,982 | 885 | 37,109 | 3,036 | 58,094 |
| 2008 | 1,423 | 7,611 | 982 | 16,438 | 1,021 | 43,433 | 3,426 | 67,482 |
| 2009 | 1,528 | 8,297 | 1,098 | 18,224 | 1,130 | 48,487 | 3,756 | 75,008 |
| 2010 | 1,613 | 8,688 | 1,158 | 19,083 | 1,191 | 51,593 | 3,962 | 79,364 |
| **2011** | **1,634** | **8,787** | **1,168** | **19,279** | **1,201** | **52,154** | **4,003** | **80,220** |

*Source: CBA Associates*
*Note: 2011 data based on March 31 listing*



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this increase are older as new information on small tonnage is often delayed; they tend to trade domestically. The impact of this size of ship on the total tonnage is small, being less than 11% of the total.

The increase in the medium range size group between 10,000 and 30,000 dwt was only 10 ships and 196,000 dwt, which is about 1%. This range contains several standard size groups: 12,500-13,500 dwt, 16,500-17,500 dwt, 19,000-20,000 dwt and 20,000 dwt and above. The increase for the long range – 30,000 dwt and above size group – was also 10 ships but 561,000 dwt and also an increase of only 1%.

There are 4,003 ships (Table 2) and 80.22 million dwt capable of carrying chemicals or vegetable oils as at March 31, 2011, of which an estimated 65.4% or 2,591 ships are active in the chemical or vegetable oil trades. These ships cover only 46.3% of the tonnage with an average size of 14,200 dwt because it is mainly the larger product tankers with IMO 3 or even IMO 2 class with an average of 31,055 dwt that are trading in clean petroleum products (CPP). The numbers will change as information is received on ships both delivered and scrapped in the last days of 2010.

**Table 2: Global Chemical Tanker Fleet by Type and Trading Status**

| Type | Size (dwt) | | | | | | Total Fleet | |
|---|---|---|---|---|---|---|---|---|
| | Short range 1,000-10,000 | | Medium Range 10,001-30,000 | | Long Range 30,001-40,000 | | | |
| | *No.* | *dwt ('000)* | *No.* | *dwt ('000)* | *No.* | *dwt ('000)* | *No.* | *dwt ('000)* |
| **IMO 2 (A & AA)** | | | | | | | | |
| Chemicals | 944 | 5,182 | 840 | 13,818 | 280 | 11,229 | 2,064 | 30,229 |
| CPP | 128 | 715 | 161 | 2,597 | 206 | 9,283 | 495 | 12,595 |
| *Sub-total* | 1,072 | 5,897 | 1,001 | 16,415 | 486 | 20,512 | 2,559 | 42,824 |
| **IMO 2/3 (B & BB)** | | | | | | | | |
| Chemicals | 116 | 623 | 38 | 613 | 16 | 578 | 170 | 1,814 |
| CPP | 31 | 167 | 8 | 142 | 0 | 0 | 39 | 309 |
| *Sub-total* | 147 | 790 | 46 | 755 | 16 | 578 | 209 | 2,123 |
| **IMO 3 DH (C & CC)** | | | | | | | | |
| Chemicals | 154 | 753 | 34 | 566 | 65 | 2,983 | 253 | 4,302 |
| CPP | 93 | 567 | 56 | 930 | 627 | 27,782 | 776 | 29,279 |
| *Sub-total* | 247 | 1,320 | 90 | 1,496 | 692 | 30,765 | 1,029 | 33,581 |
| **IMO 3 NDH (D & DD)** | | | | | | | | |
| Chemicals | 116 | 518 | 5 | 97 | 2 | 85 | 123 | 700 |
| CPP | 52 | 262 | 26 | 516 | 5 | 214 | 83 | 992 |
| *Sub-total* | 168 | 780 | 31 | 613 | 7 | 299 | 206 | 1,692 |
| **TOTAL IMO** | | | | | | | | |
| Chemicals | 1,330 | 7,076 | 917 | 15,094 | 363 | 14,875 | 2,610 | 37,045 |
| CPP | 304 | 1,711 | 251 | 4,185 | 838 | 37,279 | 1,393 | 43,175 |
| **Total** | **1,634** | **8,787** | **1,168** | **19,279** | **1,201** | **52,154** | **4,003** | **80,220** |

*Source: CBA-Associates*
*Note: Data based on March 31, 2011 listing and will change*

## Changes in fleet

Over the first quarter of 2011, the fleet increased in size by 41 ships (1%) and by 856,000 dwt (1.1%). The fleet deemed to be trading in chemicals or vegetable oils increased by 19 ships (0.7%) while the fleet trading in petroleum products increased by 22 ships (1.6%). This reflects the poor chemical market. The tonnage of ships carrying chemicals or vegetable oils increased by 618,000 dwt (1.7%) and for those carrying petroleum products, by 588,000 dwt (1.4%).

The increase in both sectors over just one quarter may not be representative of the true picture as newly delivered ships often have to find their 'home' in either the chemical trade or the CPP trades and this can take a few weeks.

Table 2 also demonstrates that the CPP trades involve more of the 30,000 dwt size of ship and above. There are 838 ships (69.8%) above 30,000 dwt that are trading CPP with a total of 37.3 million dwt (71.5%) against 363 ships of this size and 14.88 million dwt trading in chemicals or vegetable oils.



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These figures contrast with the 2,247 ships (80.2%) below 30,000 dwt totalling 22.17 million dwt (79%) trading in chemicals or vegetable oils versus 555 ships of this size and 5.9 million dwt in the CPP trades.

The number of ships without full double hull continues to reduce. The total was 514 ships and 5.54 million dwt at the end of 2009 and 425 ships with 3.95 million dwt a year later. At the end of the first quarter of 2011, the number has reduced by a further 10 ships (2.4%) and 136,000 dwt (3.4%).

**Table 3: Global Chemical Tanker Orderbook by Type and Expected Trading Status**

| Type and Employment | Year | | | | | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | | | |
| | *No.* | *dwt ('000)* | *No.* | *dwt ('000)* | *No.* | *dwt ('000)* | *No.* | *dwt ('000)* |
| IMO 2 Chemicals (A) | 208 | 3,272 | 60 | 1,118 | 11 | 312 | 279 | 4,702 |
| IMO 2 CPP (AA) | 6 | 244 | 2 | 94 | 0 | 0 | 8 | 338 |
| IMO 3 DH Chemicals (C) | 13 | 302 | 1 | 50 | 0 | 0 | 14 | 352 |
| IMO 3 DH CPP (CC) | 76 | 3,305 | 26 | 1,326 | 6 | 295 | 108 | 4,926 |
| **Total** | **303** | **7,123** | **89** | **2,588** | **17** | **607** | **409** | **10,318** |
| *Employment (anticipated)* | | | | | | | | |
| Chemicals | 221 | 3,574 | 61 | 1,168 | 11 | 312 | 293 | 5,054 |
| CPP | 82 | 3,549 | 28 | 1,420 | 6 | 295 | 116 | 5,264 |

*Source: CBA-Associates*

## Size of orderbook

As at March 31, 2011 the orderbook of 409 ships is 10.21% of the number of ships and the 10.32 million dwt is 14% of the total existing tonnage. Several cancelled orders in the first quarter of 2011 have contributed to the decrease over the quarter under review. There could well be more cancellations as owners receive their refunds.

Only three ships were confirmed as being ordered in the first quarter of 2011. Two were ordered by Jo Tankers from the Nantong Mingde yard. They are of 30,000 dwt and are to be fully stainless steel with 28 tanks and pumps each. There are options for two more and, possibly, another two later. The third ship is a very small ship ordered for Japanese coastal trade. This level of ordering reflects the poor state of the market and owners' pessimism about the near future.

**Table 4: Chemical Tankers Delivered or on Order, 2004-2013**

| Year | Size (dwt) | | | | | | Total Fleet | |
|---|---|---|---|---|---|---|---|---|
| | Short Range 1,000-10,000 | | Medium Range 10,001-30,000 | | Long Range 30,001-40,000 | | | |
| | *No.* | *dwt ('000)* | *No.* | *dwt ('000)* | *No.* | *dwt ('000)* | *No.* | *dwt ('000)* |
| 2004 | 65 | 368 | 45 | 809 | 89 | 3,683 | 199 | 4,860 |
| 2005 | 79 | 412 | 56 | 1,011 | 85 | 3,650 | 220 | 5,073 |
| 2006 | 74 | 362 | 94 | 1,515 | 93 | 4,022 | 261 | 5,899 |
| 2007 | 92 | 504 | 116 | 1,795 | 112 | 4,914 | 320 | 7,213 |
| 2008 | 124 | 787 | 180 | 2,772 | 154 | 7,020 | 458 | 10,579 |
| 2009 | 121 | 780 | 151 | 2,417 | 133 | 6,035 | 405 | 9,232 |
| 2010 | 86 | 548 | 109 | 1,781 | 97 | 4,444 | 292 | 6,773 |
| 2011 | 123 | 824 | 111 | 2,033 | 112 | 5,337 | 346 | 8,194 |
| 2012 | 19 | 149 | 33 | 644 | 37 | 1,795 | 89 | 2,588 |
| 2013 | 3 | 24 | 6 | 138 | 8 | 445 | 17 | 607 |

*Source: CBA-Associates*
*Note: Highlighted data represent estimates*

Over the next few months we anticipate a further reduction in the orderbook as more cancellations are confirmed. It can also be expected that several ships still outstanding for delivery in 2011 will be deferred into 2012 or 2013. No orders for delivery in 2014 are yet known and some may well be delayed until then from 2012 or 2013.

## Ship demolition

Scrapping has slowed in the first quarter of 2011 and only 23 ships of 461,000 dwt were actually scrapped



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during this period. This contrasts with a quarterly average of 34 ships and 695,000 dwt over 2010.

Bangladesh has, in the past, taken many chemical tankers for scrapping. This activity has stopped since May 2010 while legal issues over environmental concerns were being debated. The go-ahead to resume scrapping was given a few weeks ago, and came from the prime minister; however, the High Court judge only signed the papers to legalise scrapping in the beginning of April. One hopes it is only a matter of a short time before they can resume.

**Table 5: Scrapping of Ships**

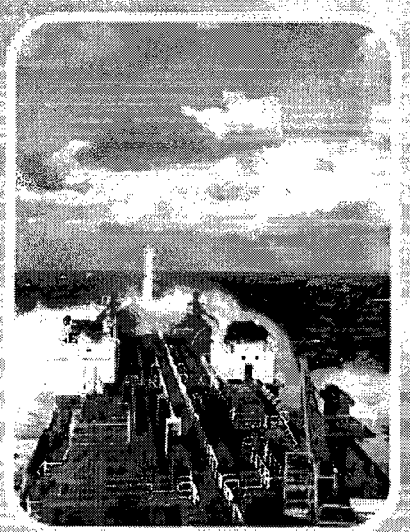
| Year | Size (dwt) | | | | | | Total Fleet | |
|---|---|---|---|---|---|---|---|---|
| | Short Range 1,000-10,000 | | Medium Range 10,001-30,000 | | Long Range 30,001-40,000 | | | |
| | No. | dwt ('000) | No. | dwt ('000) | No. | dwt ('000) | No. | dwt ('000) |
| 2006 | 18 | 82 | 18 | 410 | 7 | 237 | 43 | 729 |
| 2007 | 22 | 120 | 19 | 441 | 27 | 970 | 68 | 1,531 |
| 2008 | 25 | 143 | 16 | 335 | 18 | 685 | 59 | 1,163 |
| 2009 | 25 | 119 | 33 | 623 | 26 | 1,024 | 84 | 1,766 |
| 2010 | 50 | 320 | 49 | 923 | 38 | 1,538 | 137 | 2,781 |
| 2011 | 8 | 42 | 8 | 134 | 7 | 285 | 23 | 461 |
| 2012 | 15 | 81 | 10 | 165 | 6 | 243 | 31 | 489 |
| 2013 | 25 | 124 | 12 | 227 | 4 | 170 | 41 | 521 |
| 2014 | 47 | 266 | 13 | 244 | 2 | 74 | 62 | 584 |
| 2015 | 47 | 275 | 5 | 104 | 5 | 227 | 57 | 606 |
| Backlog 30 yrs old or more on 31/12/2011 | 168 | 687 | 11 | 184 | 12 | 446 | 191 | 1,317 |

*Source: CBA-Associates*
*Note: The shaded area shows the number of ships reaching the age of 30 during these years*

Table 5 shows there is a backlog of ships above 30 years of age that are still trading. Of this, the majority are below 10,000 dwt – 168 ships or 88% of the number of ships, but only 52% of the dwt. This shows the small size of the majority of these older ships.

Scrapping can be expected to maintain a similar level during the next two years assuming the market remains at the depressed levels seen in 2010. This will not compensate for the tonnage of the ships expected to be delivered in the next two years nor will it significantly reduce the total number of ships.

The freight market showed some signs of firming in the first quarter of 2011. However none of the improvement was passed on to the ship owners, most of whom are earning less. The gains were all wiped out by the steep rise in the price of bunker fuel.



In addition, voyages to the west coast of India, the Middle East and through the Suez Canal were penalised by the need to pay a 'war risk' insurance premium due to prevailing piracy issues.

A 20,000 dwt ship sailing with palm oil to the west coast of India and returning with chemicals from the Middle East Gulf faced almost US$200,000 in extra costs due to these factors. They are not getting compensated for much of this.

Charles Barton
Maritime Consultant

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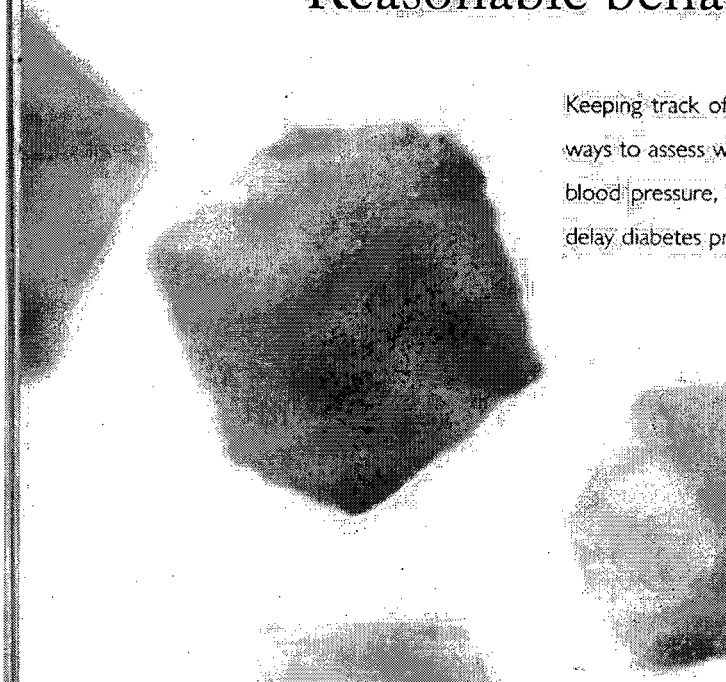
# Diabetes Control

## Reasonable behaviour



Keeping track of your blood parameters, weight and medications are of the many ways to assess whether your diabetes is under control. Keeping your blood glucose, blood pressure, and cholesterol, for example, under control can either prevent or delay diabetes problems.

There several types of diabetes:

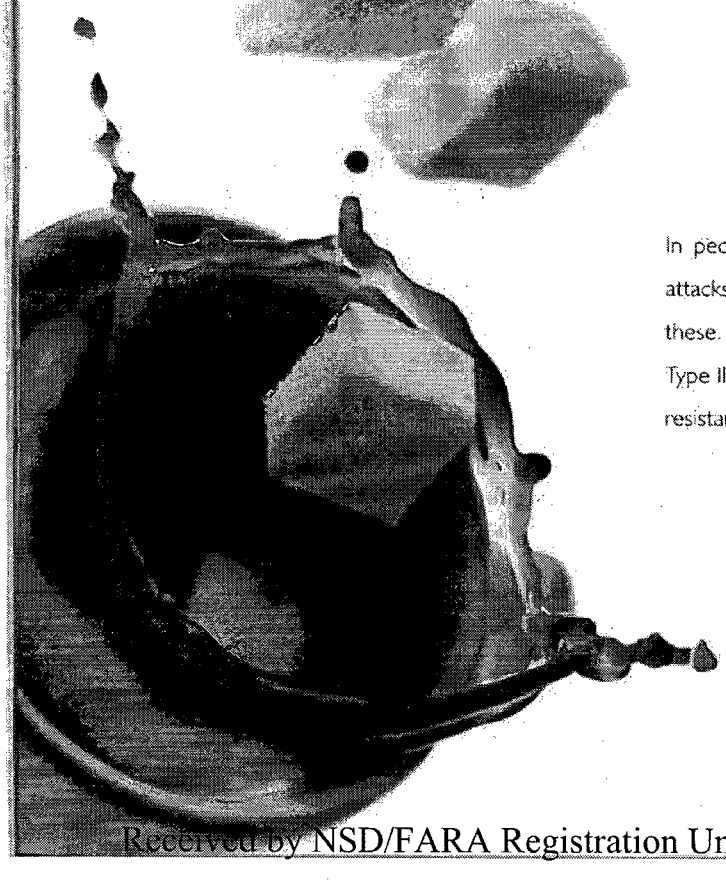
- Type 1: Body does not produce any insulin
- Type 2: Body is not making enough or is losing sensitivity to insulin made
- Gestational diabetes: Diabetes during pregnancy

The American Dietetic Association (ADA) sets goals for blood glucose levels before meals and at bedtime (Table 1).

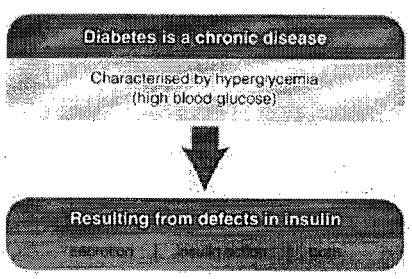
**Table 1: Blood Glucose Targets**

| Average Target Blood Glucose | Blood Glucose (mg/dl) |
|---|---|
| Before meals | 80-120 |
| 2 hours after a meal | Less than 150 |
| At bedtime | 100-140 |

*Source: ADA*



In people with Type 1, the immune system has made a big mistake. It attacks the beta cells (cells in the pancreas that make insulin) and destroys these. People with Type 1 need to take insulin every day. In people with Type II, the pancreas is still making insulin but the body has become insulin resistant, i.e. does not recognise its own insulin.

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After diagnosis, there is a great need for education. A diabetic diet is not that different from anyone else's but it keeps close watch on amounts and quality of macronutrients.

The primary indicators of blood glucose control are blood glucose checks with HbA1C values. When these values are within normal levels, the patient has a lower risk of developing diabetes complications (heart diseases, eye problems and kidney disease).

HbA1C is glycosylated haemoglobin or haemoglobin to which glucose is bound. Glycohaemoglobin increases in the presence of high blood glucose. Since it reflects glucose levels in blood over 6-8 weeks preceding the test, monitoring HbA1C levels helps monitor progress of disease and level of patient control.

If your A1C test result is below 7%, then your blood glucose is in a desirable range and the treatment plan is working. If your result is more than 8%, you may need to change the plan.

## Diabetes control

According to the National Institute of Diabetes and Digestive and Kidney Diseases (NIDDK), you can do some things on a daily basis for proper diabetes control:

- Follow the healthy eating plan that you and your doctor or dietitian have worked out.
- Be active for a total of 30 minutes most days. Ask your doctor what activities are best for you.
- Take your medicines as directed.
- Check your blood glucose every day. Each time, write the number in your record book.
- Check your feet every day for cuts, blisters, sores, swelling, redness or sore toenails.

The NIDDK also suggests that the following be done at least 1-2 times a year:

- A1C test
- Blood lipid (fats) lab tests
- Kidney function tests
- Dilated eye exam
- Dental exam
- Foot exam
- Flu shot
- Pneumonia vaccine

**Table 2**

**What your A1C Results Means**

| A1 Results(%) | Average Blood Glucose |
|---|---|
| 6 | 135 |
| 7 | 170 |
| 8 | 205 |
| 9 | 240 |
| 10 | 275 |
| 11 | 310 |
| 12 | 345 |

***Food plan***

Carbohydrates are the component of food that causes an increase in blood sugar. Diabetics are encouraged to keep track of the amount of carbohydrates they eat by using the Exchange Lists. Foods from the starches, fruit, vegetables and milk groups contain carbohydrates.



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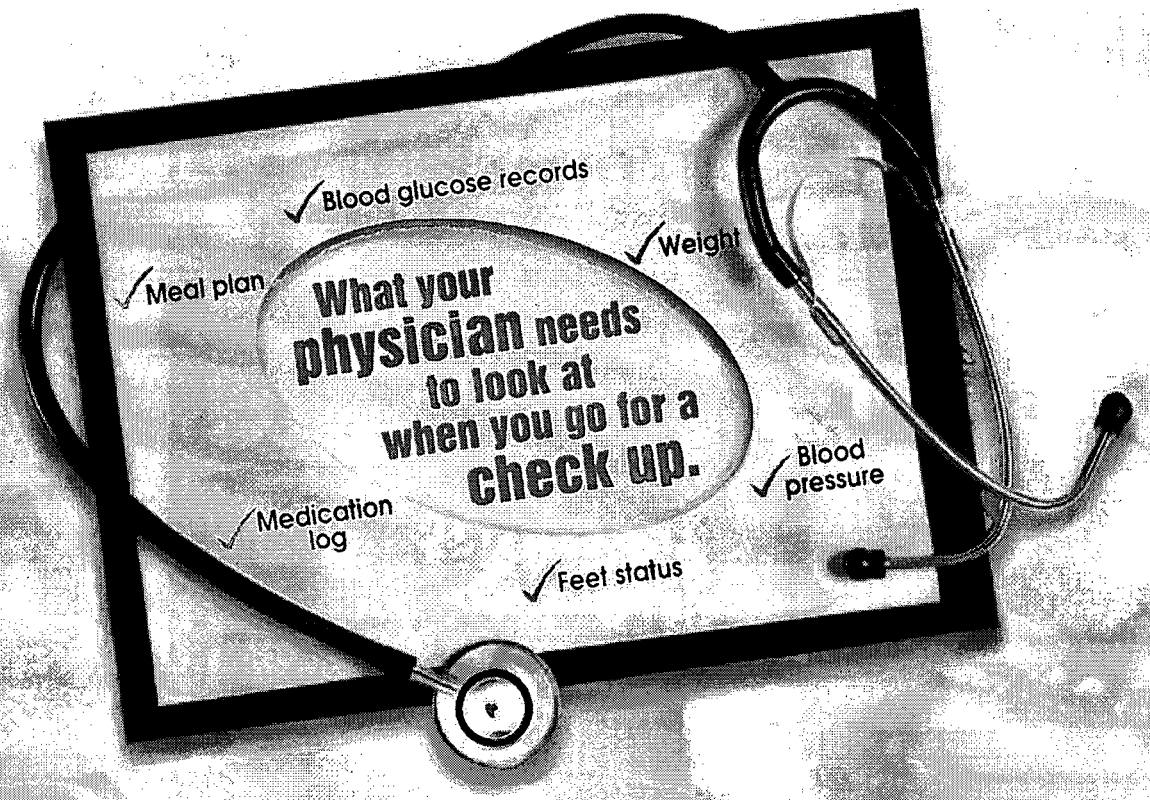


***Helpful tips***

- Keep a food diary.
- Try to eat at the same time each day.
- Write down what and how much you eat. This is the hardest part of to record in the food diary – the measurements.

  The only way to know for sure is to use standard measuring equipment. Avoid vague measurements.
- To make sure your food servings are the right size (Table 3), you can use:
  - Measuring cups
  - Measuring spoons
  - A food scale

According to the National Diabetes Education Programme, a diabetic can improve his/her health status by moving around. Set goals you can meet by making small changes. Try being active for 15 minutes a day this week. Each week, add 5 minutes until you build up to at least 30 minutes five days a week.

Get up, get out and get moving. Walk, dance, ride a bicycle, swim or play ball with your friends or family. It doesn't matter what you do as long as you enjoy it.

*Source: Health & Nutrition 13th Year _ Issue 127 March 2011*

*This is an edited version of the article.*

**Table 3: Servings from Food Groups**

| | For a 1,200-1,600 Kcal diet | For a 1,600-2,000 Kcal diet | For a 2,000-2,400 Kcal diet |
|---|---|---|---|
| Carbohydrates | 6 | 8 | 10 |
| Vegetables | 3 | 4 | 4 |
| Fruits | 2 | 3 | 4 |
| Milk | 2 | 2 | 2 |
| Meat and sustitutes | 4-6 oz | 4-6 oz | 5-7 oz |
| Fats | Up to 3 | Up to 4 | Up to 5 |



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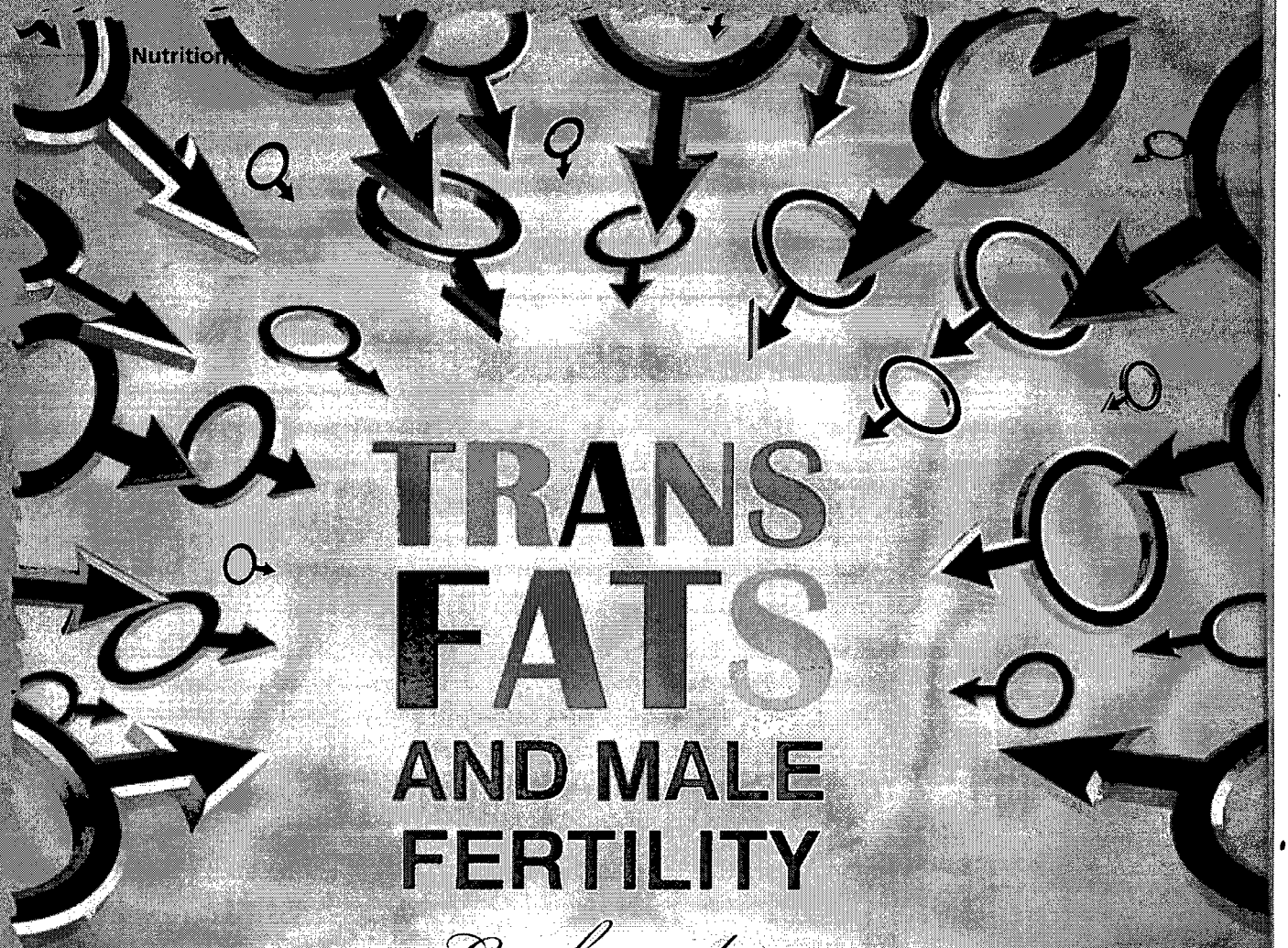

# TRANS FATS AND MALE FERTILITY

## *Link to diet*

Increased intake of *trans* fats may reduce sperm concentration, according to findings of a new study at the Harvard School of Public Health.

This adds to an ever increasing body of science supporting the detrimental effects of *trans* fats, previously linked to increased risks of cardiovascular disease.

"We found that *trans* fats were present in human sperm and were related inversely to sperm concentration," wrote the researchers led Dr Jorge Chavarro in the journal *Fertility and Sterility*.

"Our data are in agreement with experimental data in rodents showing that *trans* fats can affect spermatogenesis profoundly."

They cautioned, however, that their study has limitations. Given the potential clinical and public health implications, they said it is important that the findings be re-evaluated in larger, better-designed studies and that the relation between intake of *trans* fats and sperm levels be examined closely.

Although trace amounts of *trans* fats are found naturally, in dairy and meats, much of this is formed



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during the partial hydrogenation of vegetable oil that converts the oil into semi-solids for a variety of food applications.

*Trans* fats are attractive for the food industry due to extended shelf-life and flavour stability, and have displaced natural solid fats and liquid oils in many areas of food processing.

But scientific reports that *trans* fats raise serum levels of LDL-cholesterol; reduce levels of HDL-cholesterol; could promote inflammation; could cause endothelial dysfunction; and influence other risk factors for cardiovascular diseases, have led to bans in places like New York City.

Denmark introduced legislation in 2004 that required locally and imported foods to contain less than 2% industrially made *trans* fats, a move that effectively abolished the use of partially hydrogenated vegetable oils in the country.

This has been mirrored by an increase in the pressure on the food industry to reduce or remove *trans* fats and to reformulate products.

## Details of study

The new research involved the analysis of 33 semen samples collected as part of a pilot study.

The fatty acid composition of the sperm showed that higher levels of total polyunsaturated fatty acids and the omega-3 docosahexaenoic acid were related to improved sperm concentrations. However, sperm with the highest levels of *trans* fats were found to be linked to lower sperm concentrations.

"To our knowledge, this is the first study demonstrating the presence of *trans* fats in human sperm and a relation between sperm *trans* fats and sperm concentration in humans," wrote the researchers.

"Because human fatty acid metabolism cannot introduce *trans* double bonds into a fatty acid chain, the presence of *trans* fats in a human cell or tissue implies dietary intake and can serve as a biomarker of diet.

"Our results suggest that higher intake of *trans* fats is related to a lower sperm concentration. However, it is not possible to know from our data what dietary intake levels are necessary to achieve the sperm *trans* fat levels associated with reduced sperm concentration nor the timing between intake and any eventual effects on spermatogenesis."

Stephen Daniells

***Further reading***

*JE. Chavarro, J. Furtado, TL. Toth, J Ford, M Keller, H Campos and R Hauser reported their findings in 'Fertility and Sterility', Vol. 95, Issue 5, pp 1,794-1,797.*



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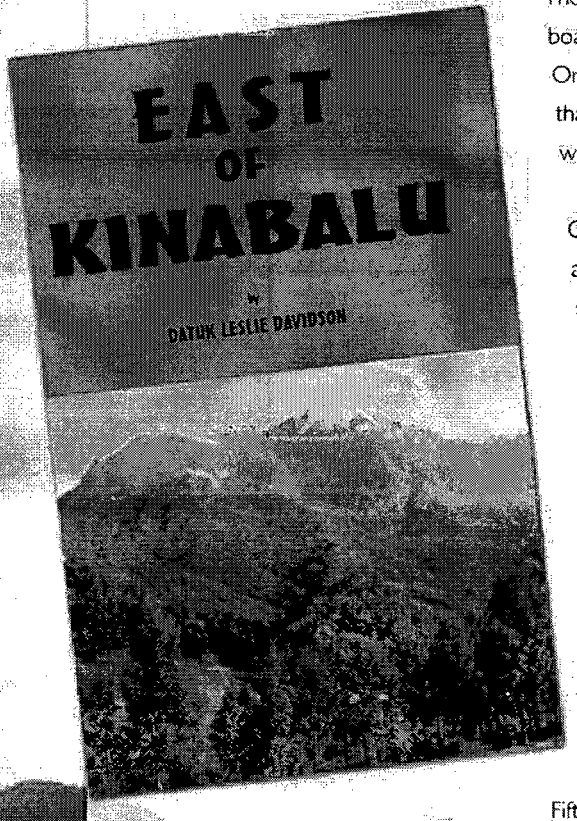
# Perfumes of the Orient

## From Sandakan to Labuk Bay




The Sandakan waterfront was already stirring when we arrived at 6.15am to board the *Mantanani*. We were greeted by a veritable bouquet of assorted Oriental aromas. The morning mist was rolling in from the bay, carrying with it that characteristic acrid tang; a mixture of seaweed, mud, dead fish and ozone which denotes that it is low tide.

Chinese shopkeepers in their singlets and striped pyjama trousers hawked noisily, and clattered round in their wooden clogs, taking down the slats from their shop-fronts, releasing into the streets the unique Sandakan fragrance of *belachan* paste, *sotong*, *ikan bilis*, birds nests, pickled vegetables and assorted spices.

Hakka and Bajau fishermen were still working on their boats, tied up alongside the fish market, unloading their night's catch. Behind the aroma of fresh fish and prawns it was possible to detect a more pungent but not entirely unpleasant whiff from the bales of ribbed smoked-sheet rubber and the sacks of dried copra stacked in the Port Authority's godown another 100 yards up the waterfront.

I breathed in deeply. The vibrant smells were redolent of the east – of the Sulu Sea – of pirates and traders – of adventure – of excitement – of Joseph Conrad. . . . This was a veritable symphony of smells; a Beethoven's Fifth of exotic fragrances.

"My God," said Colin Black, our vice-chairman, "What a bloody pong. Get those villainous-looking bastards out of the way and let's get on board."

The *Mantanani* was a beamy, seaworthy 50-foot launch with a crew of three. It was under the command of Capt Hussein, a Brunei Malay, distantly related on his mother's side, the Resident Mr Wookey had told us, to the Brunei Royal Family.

The state-room was enlarged by a fixed tarpaulin roof which extended over the whole of the front deck. In this area were half a dozen of the inevitable slightly frayed cane chairs, which the Crown Agents must surely have purchased as a job lot before the Japanese invasion. For the first hour or so, the *Mantanani* nodded its way through the brisk chop, out past Kampong Ayer and round the towering red cliffs of Berhala Island.



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It was apparent that in the case of our vice-chairman, human vitality was not at its highest level in the early morning. He had emerged from the VIP Suite in the Sabah Hotel wearing his pioneering outfit. This consisted of knee-length khaki stockings, a white shirt and a pair of those starched, wide-legged khaki shorts, which were the height of fashion in West Africa in the 1940s.

I had already been fully briefed by his wife Eileen, a marvellous lady, loved and revered by every planter in Plantations Group, on the fact that Colin was not a morning-person. He did not, she said, make a practice of greeting the dawn with a merry song on his lips. At 6.15am, he was certainly less than jovial. Once on board, he prowled about morosely, looking I thought, to see if there was perhaps a ship's cat to kick.

An hour or two out of Sandakan the *Mantanani* slowed to a crawl as we threaded our way through the reefs between Pulau Libaran and the scattered southernmost islands of the Philippine archipelago. As I was shortly to discover for myself, the coast between Marudu Bay and Sandakan was one of the most treacherous stretches of water in the eastern seas. Not only were there small uninhabited islands in great profusion, but frequently coral reefs, some of them unmarked on the charts, came out of the deeper channels to within a foot or two of the surface.

The water at this season was still crystal clear although from November to February the north-east monsoon would produce steep waves, which left the water murky. Below us we could see a wonderland of coral with myriads of small fish darting here and there. Flying fish skittered their way over the surface.

I spent most of the time up on the bridge with Capt Hussein. Although he could not speak much English, his Malay was very pure. He was a mine of information about the coasts of the Sulu Sea and about the pirates who infest it.

**Piracy and murder**

For some reason the subject of my own nationality came up in the course of our conversation. I told him I came from the north of Scotland. We were, I said, the Dyaks of the British Isles.

The Captain looked at me with interest. "You know, *Tuan*, there was a famous Scotsman who was killed by Illanun pirates in this very area a long, long time ago, in the time of my grandfather's grandfather. He was a chief of the Kayan tribe. He was the first white man to live on the Bintulu River in Sarawak, near where my father was born. They still tell stories about him there. Maybe you have heard of him in your country? His name was Robert Burns. I think he wrote Scottish poems. He also wrote a dictionary of the Kayan language."

My interest was aroused. However, our national bard died at Dumfries of natural causes in 1796 and never to the best of my knowledge travelled further outside Scotland than Carlisle. It was, I suggested, very unlikely to have been him.

"Yes it was. It's all true *Tuan*," Hussein persisted. "His ghost is often seen around Klagan. You ask my friend Ibrahim the blacksmith at Klagan when you get there. He will tell you more about the ghost. I heard the story of Robert Burns' murder from *Tuan* Harrison the Curator of the Museum in Kuching when he was travelling with us on the *Mantanani*.

"This man, Robert Burns, had chartered a schooner and sailed round to the east coast here to do some trading. The schooner ran aground at Marudu Bay and they were attacked by Illanun pirates. The pirates cut off the *Tuan*'s head and flung the body overboard. They killed the ship's captain and crew also. They sailed the ship round to the Labuk and took it up the Klagan River to hide it. They brought the *Tuan*'s head with them.

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"The chief at Klagan was Sarip Yassin. He was a powerful chief and he was friendly with the British. He was very angry with them because he knew it would cause trouble with the British navy. Sarip Yassin had the pirates killed. He cut off their heads and sent them over to the British at Labuan in large pickle jars. No one ever saw Robert Burns' head again however. It got lost somewhere near Klagan. Ibrahim says that the ghost will continue to appear until the head is found and buried."

It was an interesting bit of folk lore, but I did not place much credence in it at the time. Ibrahim in due course confirmed the story and some years later I found a reference to it in Prof Graham Irwin's treatise 'Nineteenth Century Borneo', and again in Owen Rutter's marvellous book 'The Pirate Wind'.

The facts were very much as Capt. Hussein had told them to me. The victim of the beheading was indeed one Mr Robert Burns, but he was in fact the grandson of the Bard. His sojourn in Borneo and his eventual beheading in September 1851 was one of those little eddies in the great stream of history which create a flurry of interest at the time and are then forgotten.

By lunch time the *Mantanani* had turned due west, and was sailing across Labuk Bay. Colin, John Galpine and I sat on the fore-deck with drinks in our hands, looking at the faint blue mass of Mount Kinabalu which had now appeared far above the clouds, dead ahead. There was a stiffish cooling breeze. The Colony flag fluttered bravely at the mast-head. It was a pleasant interlude.

Colin had regained his joviality. He sat back in his cane chair, swirling the ice round his glass of gin and tonic with a pleasing clinking noise. "Don't forget, Leslie my boy, that we are actually paying you for this."

He anticipated my objection and said hastily: "Well, we *will* be paying you, once you get the local company established and open an official bank account. I imagine that plenty of tourists would pay *us* to have a lovely holiday like this."

For lunch, John and I put to the test the Resident's boast about the culinary prowess of the mate, whilst Colin tucked into his sausages and beans with evident pleasure. After lunch, we stopped briefly at the little port of Beluran to pay our respects to the district officer and to inform him of our development plans.

He was a tall, lonely Englishman who seemed particularly unimpressed by the prospect of a large agricultural development taking place in his parish. I was to discover that he was one of those dedicated colonialists who felt it was his task in life to protect "his natives" from exploitation by developers. Beluran was the furthest inhabited point of the bay. A mile or two onwards we turned into the Labuk River for the final stage of our journey.

Datuk Leslie Davidson
Author, East of Kinabalu
Former Chairman, Unilever Plantations International

*This is an edited chapter from the book published in 2007. The book may be purchased from the Incorporated Society of Planters, email isp@tm.net.my*



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