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100
ANNIVERSARY

MALAYSIAN PALM OIL INDUSTRY 1917 - 2017

Focus on Palm Oil

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UK – Brexit and 'Biodieselgate'

Positive Profit Indicators

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A Rare Apology

'Social Case' to Deter Palm Oil Use

Fake News on Palm Oil

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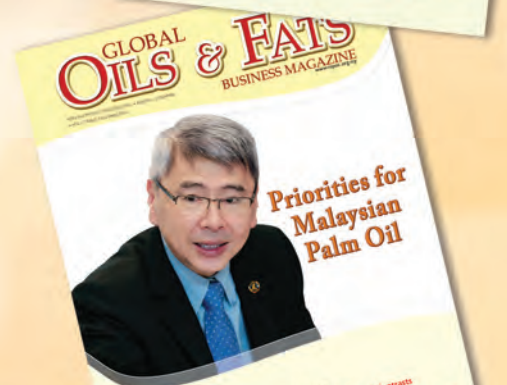
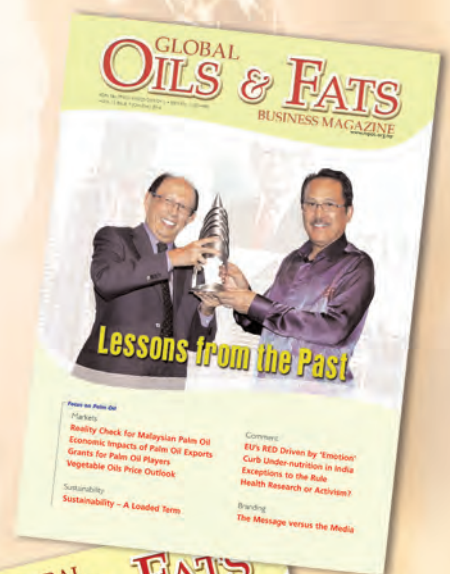
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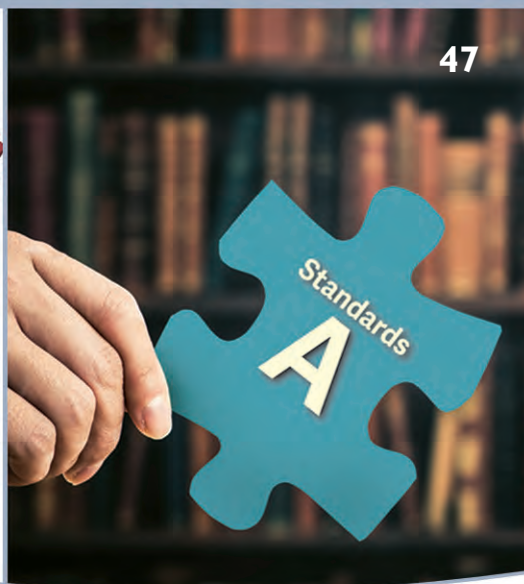
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Misinformation about palm oil and cancer

The palm oil industry is regularly confronted by misinformation which is then absorbed by the media and churned into a frenzy of inaccurate reports and opinion pieces, designed ostensibly to inform and educate, but achieving neither objective. Unfortunately, ever so often, such misinformed frenzy is unsupported by facts. The recent hype over *Nutella* and the quoted cancer health concerns about palm oil is a classic case in point.

First let us, the Malaysian palm oil industry, take the opportunity to congratulate Ferrero S.p.A. Italy, the manufacturers of *Nutella* – the chocolate spread millions of people have grown up with – on their 70th anniversary celebrations. We would especially like to congratulate the company for its bold move in stating to the world that its premier product depends on Malaysian palm oil for its taste, quality and consumer acceptance.

Ferrero has gone the full mile in all its raw materials sourcing, which includes substantial quantities of Malaysian palm oil. This includes the procurement of certified sustainable palm

oil with premiums voluntarily paid, and quality enhanced palm oil with near-zero content of the contaminants 3MCPD and its glycidyl esters (GE).

Under normal circumstances, Ferrero would have been congratulated and celebrated for its commitment to producing consumer products of the highest quality, using raw materials of unquestionable repute. Malaysian palm oil is thus proud to be part of a major quality-assured global consumer brand and product that is so iconic; it is the eponymous chocolate spread, enjoyed in many parts of the world, not just Europe.

The underlying issue, headlined in the press report about palm oil and cancer, relates to the occurrence of 3MCPD and GE in all oils and fats – and we emphasise this again: in all oils and fats. All oils and fats producers and the food industry have known this for more than a decade now. The compounds occur in olive oil, soybean oil, rapeseed oil, corn oil, sunflower oil and palm oil as well.

This knowledge triggered a lengthy period of evaluation not only in Europe but also at the Malaysian Palm Oil Board (MPOB) laboratories. MPOB has previously published its findings in scientific journals and acknowledged the higher content of these compounds in palm oil compared to other oils and fats. The reasons for their occurrence are several-fold, starting from cultivation due to soil conditions through to final processing and refining.

As a first step and since palm oil is used in several leading infant food formulations, the occurrence of these contaminants was voluntarily reduced or eliminated in palm oil

intended for infant formulations. The better known global infant formula manufacturers use such premium palm oil fractions in their infant formulas. This was acknowledged in the European Food Safety Agency's (EFSA) report cited by the media.

When the EFSA report was made public in mid-2016, the Malaysian palm oil industry initiated a focused dialogue among its plantations, millers, refiners and end-users. Collectively we agreed to work towards adoption of production and processing technologies that aim to reduce or eliminate these contaminants in palm oil.

The matter was highlighted to the Malaysian Cabinet through the Ministry of Plantation Industries and Commodities. The Hon. Minister, Datuk Seri Mah Siew Keong, correctly impressed upon the Cabinet the urgency and need to innovate and reduce/eliminate these contaminants in palm oil.

A special allocation to assist in such technology adoption was granted through the Malaysian government. We are currently executing measures to tackle these contaminants and possibly be ahead of all other edible oils in eliminating their occurrence in Malaysian palm oil.

Serious response

The current media reports create an unwarranted frenzy about palm oil and cancer; and we respond to these allegations as follows:

1. We assessed if since mid-2016, when the EFSA report was released, what impact – if any – it had on the palm oil industry and palm oil imports into Europe. In general,



European food manufacturers, oils and fats refiners and producers have indicated that, for the largest part, the EFSA report has been accepted for its regulatory context; and they have begun to source all oils and fats and not just palm oil, which are reduced in these contaminants.

2. Neither EFSA nor any other national food safety authority has advocated or suggested a ban on the consumption or use of palm oil or any other vegetable oil for that matter. The market that was most diverged from the regulatory context of the EFSA report was Italy, home of Ferrero's operations, where it was unfortunately and inaccurately categorised as a 'palm problem' instead of an issue that affects all refined vegetable oils, including olive oil.
3. The European food industry, which is highly regulated and observes the highest standards of safety, has not moved to remove palm oil following the release of the EFSA report, but maintains that the regulatory context of EFSA is relevant.
4. Is the Malaysian palm oil industry concerned about a possible future impact of EFSA's opinion? We have taken the recommendations of EFSA seriously; certainly more seriously than other oils and fats producers around the globe. This year, empowered

by the special R&D grant from the government, we will aim to reduce or eliminate the stated contaminants from Malaysian palm oil.

5. Our industry succeeds only when consumers trust that what they buy is healthy, sustainable and, above all, safe. The safety and quality assurance of our products remains of the highest priority. The palm oil we sell to any part of the world is subject to the highest standards of quality and safety controls. With respect to these contaminants that are found in all vegetable oils, we will institute measures for close monitoring and take specific actions to reduce the levels of 3MCPD and GE.

The palm oil industry is already actively engaged with the European association FEDIOL, in addressing the level of contaminants in all fats and oils. In the near future, palm oil produced in Malaysia will be free of these contaminants. This affects all refined vegetable oils and is an issue that the entire food industry must take extremely seriously.

6. We also have concerns that EFSA itself has not stepped in to clarify the misinformation surrounding palm oil, when the media is quoting extensively its evaluation of the underlying risks associated with these contaminants.

7. We wish to reiterate that the Malaysian palm oil industry views the occurrence of the contaminants 3MCPD and GE with much concern, although the actual risk to human health has yet to be clearly defined, and appears small in light of the accumulated data of potential exposures through foods. Nevertheless, our industry is urgently

innovating and improving processing technologies for palm oil that should result in the reduction or elimination of these compounds, as has been explained.

8. Meanwhile, we ask refrain from reference to palm oil and its association with cancer. There is no scientific evidence for these accusations. Indeed, palm oil is endowed with naturally occurring nutritional minor constituents including the tocotrienols, carotenes and phenolics. These have proven nutritional benefits including in stroke prevention, as antioxidants and even as anti-cancer agents.

Some of these compounds are being tested for their potential anti-cancer and health benefits. This is work in progress; and it would amount to killing the goose that lays the golden egg, if the media continues to vilify palm oil based on unproven evidence.

If you have any questions or concerns on this subject, we urge you to contact our experts at MPOB or MPOC. We are fully supportive of responsible media reports that seek to inform and educate the public at large. In the current context, the information provided by the media has been inaccurate and misleading. The many nutritional benefits of palm oil are well documented but sometimes not so well known. We would be happy to provide scientifically robust information for your use.

Dr Kalyana Sundram
CEO, MPOC





A 100 Year Journey

Celebrating Malaysian palm oil

The oil palm has been the bedrock of Malaysia's economy, socio-development, political stability and ability to innovate. As we mark the centenary of its cultivation this year, we look back at the first five of 10 milestones to understand the challenges and efforts that have gone into producing palm oil. As a sustainable crop, the oil palm plays a critical role in helping to feed more than three billion people in over 150 countries. Feeding an additional two billion people by 2050 with limited arable land will be no small task.



These oil palm trees provided seeds for then-Malaya's first commercial oil palm estate in Batang Berjuntai, Selangor.



The oil palm (*Elaeis Guineensis*) is native to West Africa. It was introduced to Malaya by the British in the 1870s.



Small farmers have been important players from the early years of the Malaysian palm oil industry. They now own about 40% of the planted area.

The oil palm is eight to ten times more productive than other major oilseed crops; highly efficient with a high output-to-input energy ratio; and extremely versatile in its uses, including the biomass waste generated. In 2015, Malaysia produced 32% of the global palm oil output on a mere 0.1% of global agricultural land.

Malaysian palm oil is renowned for its high quality and usability. With improvements in processing technologies, it can be easily tailored to meet specifications of end-users. It is highly sought after for various applications in food and non-food industries, making it a true global product. We record the first five milestones in the history of Malaysian cultivation of the oil palm.

Milestone 1

1917



The oil palm is a perennial, yet highly productive oil crop. On maturity, it has an economic lifespan of 25-30 years.

Then-Malaya's first commercial oil palm plantation was established at Tennamaram Estate in Batang Berjuntai, Selangor.

The oil palm (*Elaeis Guineensis*) is indigenous to West Africa where it is found in the region between Angola and the Gambia. It was introduced to Southeast Asia when planted at the Bogor Botanical Garden, Indonesia, in 1848. In the 1870s, Malaya received its first batch of oil palm from the Royal Botanic Gardens in Kew, England; this was planted at the Singapore Botanic Garden. Its appearance made it suitable for use as an ornamental plant; soon, the tree became a common sight along major roads, in front of government buildings and in public parks.

The 19th century Industrial Revolution in Europe prompted many young entrepreneurs, including a young Frenchman Henri Fauconnier, to travel to the Far East to make their fortune. In 1905, Fauconnier arrived in Malaya and months later established a coffee plantation with his friends in Rantau Panjang, Selangor. In 1911, he visited Andrien Hallet's oil palm development in the Deli region of Sumatra and was impressed. He purchased some oil palm seeds from Hallet and brought them back for experimentation at his estate.

When rubber and coffee prices began depreciating, he returned to Sumatra in 1912 to obtain more oil palm seeds. He planted these at Tennamaram Estate in Batang Berjuntai, Selangor, in 1917. This first commercial oil palm estate laid the foundations of Malaysia's palm oil industry.

Large-scale planting of oil palm by Malaysia's Federal Land Development Authority (FELDA) became a successful model as a poverty-eradication programme for developing countries.

After Malaysia gained Independence in 1957, the government faced a huge challenge in redistributing economic wealth among the people. While those in urban areas enjoyed a good quality of life, there was rampant poverty in rural areas. Expansion of agriculture was considered a major priority to bridge the gap and improve the livelihood of the rural poor. The government established FELDA to take on that formidable challenge through a policy of providing 'land for the landless, jobs for the jobless'.

Initially, the small farmer land development scheme involved rubber cultivation, but progress was slow and the price was falling. The crucial need for crop diversification was soon realised – for an alternative cash crop that would be more viable and give faster returns on investments.

It was not until the oil palm was introduced in 1961 to settlers at the FELDA Taib Andak scheme that the pace of land development picked up. Each settler received eight acres planted with oil palm, two acres of subsidiary crops, usually fruit trees, and a house on a quarter-acre lot. By 1990, a total of 112,635 rural poor, of whom 80% were dependent on the oil palm, had found employment in FELDA schemes. Today, FELDA is a major player in the global oils and fats industry, accounting for more than 0.7 million ha of the oil palm planted area; and 3 million tonnes of crude palm oil production, the highest in the world.

Since 1990, FELDA has diversified to other economic ventures and has established several private corporate entities. The FELDA programme has since been acknowledged by the United Nations and the World Bank as a successful model of poverty alleviation for developing countries.

Milestone 2

1961



Since 1956, FELDA has provided 112,635 of the landless poor in Malaysia with a livelihood, making this an acknowledged poverty-alleviation model for developing countries.

Milestone 3

1962



The oil palm species commonly planted in Malaysia is *Tenera* (DxP), a cross between *Dura* and *Pisifera*.

The formation of the Oil Palm Genetics Laboratory consortium set the stage for Malaysia to become a global R&D centre.

Research has been an integral part of the development of the oil palm industry in Malaysia. In the early period it was driven mainly by foreign-owned plantations and the Department of Agriculture (DoA). In the early years, the focus was on breeding, processing and oil palm productivity, with significant progress being achieved before World War II. The tempo was then stepped up, stimulated by falling commodity prices and escalating production costs. Between the 1950s and 1960s, plantation group Socfin invested significantly in research, resulting in its estates becoming among the most efficient in the country. Guthrie and Harrisons & Crosfield also opened a new research station in Seremban and Banting respectively.

When the DoA initiated an exchange programme with West African economies in the 1960s, Guthrie, Harrison & Crosfield and others came together to form the Oil Palm Genetics Laboratory consortium in 1962, to carry out joint research into oil palm breeding, genetics and crop physiology. The investment brought about spectacular results in pest management, fertiliser utilisation, improved planting materials, labour productivity, processing efficiency and oil quality.

The research expanded when the Malaysian Agricultural Research and Development Institute was established in 1969, taking over the mandate for oil palm research from the DoA. This was accelerated by the establishment of Universiti Pertanian Malaysia in 1973, the Palm Oil Research Institute of Malaysia (PORIM) in 1979 and the Malaysian Palm Oil Board – a merger of PORIM and the Palm Oil Registration and Licensing Authority – in 1998.

Through the work of these institutions and private entities, Malaysia became a global R&D centre for oil palm research, particularly in the fields of agronomy, disease management, good agricultural practices, genome, biodiesel, utilisation of palm biomass, food and non-food applications and sustainability standards.

Milestone 4

1981



Of the few weevil species studied for the purpose of increasing oil palm's productivity in Malaysia, *Elaeidobius kamerunicus* was the best choice thanks to its ability to carry more pollen and adapt to a new climate.

The introduction of weevils to the oil palm pollination process significantly accelerated Malaysia's palm oil production.

Prior to 1981, yield of oil palm fruit bunches in Malaysia was very low. Hand-assisted pollination became necessary to increase the yield, but this was laborious and costly. The introduction of *Elaeidobius kamerunicus* weevils, a pollinating insect from Cameroon, at Mamor Estate in Kluang on Feb 21, 1981 was a turning point for the Malaysian oil palm industry. It came about because of a refusal to accept the established norm – that oil palm fruits could only be wind-pollinated.

With research assistance from the Commonwealth Institute of Biological Control, *Elaeidobius kamerunicus* was identified as the most efficient insect pollinator of oil palm due to its ability to pollinate in wet and dry seasons and carry more pollen. However, there were concerns that the weevil could also become a pest to other local crops. After a series of experimentation, an import permit was issued and *Elaeidobius kamerunicus* was finally released in Malaysia.

Its introduction into plantations raised the yield of oil palm fruit bunches per hectare dramatically. A year after its introduction, Malaysia recorded an increase of 0.4 million tonnes of palm oil and 0.3 million tonnes of kernels. Since then, the production of palm oil and kernels has continued to climb, saving the industry a cumulative total of more than RM44 billion in manual pollination costs to date.

Using scientific evidence, Malaysia successfully defeated the 'anti-tropical oil' campaign which manipulated the perception that saturated fat content in palm oil was harmful to health.

In the 1980s, Malaysia's palm oil industry came under attack when the public became alarmed by a concerted campaign communicating that food products containing tropical oils were linked to increased risk of coronary heart disease (CHD).

The campaign came about at a time when tropical oils were making inroads into the US soybean oil market as an alternative vegetable oil. It was built on the realisation that tropical oils are higher in saturated fats – then theoretically associated with the risk of CHD. The campaign forced food manufacturers to remove tropical oils, including palm oil, from their products and to replace them with partially hydrogenated vegetable oils. Ironically, this was to lead to an increased intake of harmful trans fats, which later became the target of the same advocacy groups.

In response, the Malaysian government, through PORIM, intensified research on palm oil nutrition and its effects on health. Several collaborative studies with foreign institutions were also conducted independently. Interestingly, the results of these scientific studies discovered that palm oil, despite its relatively high degree of saturation, is nutritious and exhibits several health attributes. These revelations effectively uncovered the truth about palm oil, debunked the allegations made against it and later led to the demise of the 'anti-tropical oil' campaign.

Palm oil is deemed a suitable replacement for partially hydrogenated vegetable oils. It is recognised by the WHO/FAO as wholesome and nutritious for human consumption. It is also the world's most popular vegetable oil, consumed by more than 3 billion people in more than 150 countries.

Milestone 5

1980s



Foods made from palm oil as the main ingredient are not only enriched with a natural antioxidant, but also have a longer shelf-life.

MPOC

Part 2 will appear in the next issue.

100 ANNIVERSARY

MALAYSIAN PALM OIL INDUSTRY 1917 - 2017

A FORCE FOR GOOD

Malaysian palm oil has changed the world



Datuk Seri Mah Siew Keong
Minister of Plantation Industries and
Commodities

2017 marks the first 100 years of the Malaysian palm oil industry. The initial commercial oil palm plantation was established at Tennamaram Estate in Batang Berjuntai, Selangor, in 1917.

The Hon. Datuk Seri Mah Siew Keong, Minister of Plantation Industries and Commodities, knows well the history of oil palm development in Malaysia. It has played an important role in the economic success of his home state of Perak, both by way of cultivation and downstream processing. In an interview, he considers the impact the industry has had on Malaysia and the world.



Malaysian palm oil has come far to become a successful commodity. Would the planters of 1917 have been amazed by the state of the industry today?

I think they would be amazed by what Malaysia – not just its palm oil industry – has achieved. So much has changed over 100 years. We were not even an independent nation in 1917. It is a testament to the brilliance and foresight of the palm oil community that it has remained a constant success and a force for good throughout the historical, technological and political changes of the past century. It is a truly remarkable achievement.

I am sure the founders of Tennamaram Estate would recognise one thing about the modern industry – that the commodity and its fundamentals remain the same: a high-yielding, cost-effective, versatile oil that is far superior to any competing oil. In Malaysia we have turbo-charged those fundamentals with world-class R&D; cutting-edge agricultural techniques; and a strong commitment to responsible and socially beneficial planting.

What have been the major historical turning points for the Malaysian industry over the past 100 years?

Obviously the establishment of the first plantation in 1917 was a major landmark. Two other key turning points also come to mind.

The first is the development of larger-scale integrated processing and exporting in the 1930s. This involved the transport of fruit to standardised processing facilities designed for the export market. So, the final product was of a higher quality than from African processors, which were still operating small-scale plants. This set a benchmark for palm oil quality globally – and helped the young industry in Southeast Asia get ahead of the curve.

The second was in the 1970s. At this time the Malaysian government pushed for the development of downstream processing industries and the diversification of export products. This included the founding of the Palm Oil Research Institute of Malaysia. This visionary step set the scene for successful collaboration between the private sector and government. It also created the platform from which the palm oil sector could expand: not just exporting a raw commodity, but also leading in higher-value economic activity.




A prime achievement is the success of the smallholder programme. This has transformed the lives of millions of Malaysians and brought many people out of poverty.

We should not underestimate our place in history. I believe that historians will look back on these years as a golden age for palm oil. And we have tremendous technological advantages that, if harnessed, can take Malaysian palm oil to even greater heights.

If you had to pick the industry's greatest achievement, what would it be?

A prime achievement is the success of the smallholder programme. This has transformed the lives of millions of Malaysians and brought many people out of poverty.

The Federal Land Development Authority (FELDA) was instituted on the eve of Malaysia's independence. It began planting oil palm in 1961. In 1968, the first settler oil palm project commenced. This was a watershed moment for FELDA and for Malaysia. The idea of granting freehold land titles to participants – rather than making them contract workers – was brilliant.



This concept has set in motion a level of economic security and personal pride for generations of Malaysians. Secure land tenure and titling means families are able to use the land as collateral for loans for improvements, purchase more land, start businesses, finance their children's education, and much more. The FELDA projects have pulled more than 100,000 families out of poverty across 30 years. By one estimate this represents more than 1 million Malaysians. Its benefits are still being felt today, especially in rural areas.

It's no accident that Malaysia has a significant middle class today and that the country is considered an upper middle-income country. Palm oil has played a major part in this. The success story of Malaysia is linked to the success story of its palm oil industry.

Do you think Malaysian palm oil is sometimes under-appreciated?

Yes. It is often overlooked that Malaysian palm oil has almost single-handedly changed both the global vegetable oil and oleochemical markets. The work undertaken by Malaysia from the 1970s in terms of research, product development, branding, promotion and marketing established the foundations of a thriving industry.

In 20 years from 1962, the global market for palm oil increased by almost 500%. This was because we tailored products for

specific export markets, and did so efficiently. In doing so, we were able to capture a larger share of the world's edible oil market.

When the Malaysian oleochemicals industry was launched in 1979, its impact was also significant. What we sometimes fail to appreciate is that our products were so competitive that they prompted companies in the US and Europe to move away from using feedstocks such as tallow and only use palm oil products. Malaysian palm oil has really changed the world.

The downside is that palm oil was then – and still is – considered a threat by many industries in other countries. This has led to some difficult times, with sustained protectionist campaigns against palm oil, especially in Europe. But the centenary year is a time to remember the successes and to congratulate the industry for its growth and prosperity.

What are the recent developments that have made a difference to the industry?

A matter of current pride is that Malaysia is a true leader in terms of sustainability. As I mentioned earlier, the inclusivity of the FELDA projects has been a model for sustainable social and economic development. It is so successful that other countries, for example in Africa, now wish to copy the Malaysian model.

Malaysia is also a genuine leader when it comes to environmental sustainability. Our planting and harvesting techniques under the Malaysian Good Agricultural Practices scheme, Malaysian Sustainable Palm Oil standard and that of the Roundtable on Sustainable Palm Oil have set the benchmark for this.

This is something that the private sector generally recognises, although palm oil has come under fire from environmental activists in Europe. This criticism is unwarranted. But informed participants in the debate are beginning to recognise that palm oil is not the environmental bogeyman that it has been made out to be.

Look instead at the deforestation caused by beef – it is nearly 10 times higher than that attributed to oil palm. Yet, there are no anti-beef campaigns in Europe. I believe this will change, and I believe that our good work in defeating anti-palm oil campaigns will prevail.

What do you think the future holds for Malaysian palm oil?

There is no doubt that vegetable oil demand is going to increase over the medium and long term. The increase in the global population is the main reason for this. Malaysian palm oil companies are well equipped to meet that demand, both in existing and new markets. With

innovation, our yields will improve: this will be a critical challenge in the coming years. Mapping of the oil palm genome was only completed in 2013. Through selective breeding we will be able to develop more robust, higher yielding stocks.

Malaysian companies will continue to invest in new markets. Africa is obviously one place that they have gravitated towards as its population grows and becomes more urbanised. There is a pleasing symmetry that, after the oil palm was brought to Malaysia from Africa, we are now exporting our agricultural know-how to assist Africa in developing its oil palm sector.

I also think we will continue to lead the way when it comes to more diversified products. I'm talking specifically about projects such as the SIRIM Bioplastics plant, which produces biodegradable plastics from palm oil by-products. These innovative developments are going to become more significant as populations become more concerned about overcoming environmental problems such as solid waste and landfills, and demand cleaner, greener products and solutions.

However, we must be aware of ongoing challenges. The opponents of Malaysian palm oil would like this to be our last centenary celebration. Their goal is nothing less than eliminating the industry. It is only if we defend our brand – if we spend the time and energy needed to robustly address those opponents – that Malaysian palm oil will continue to thrive.

Innovation is what drives this industry forward, but vigilance and strong campaigning against threats is what keeps it alive. Despite all the challenges, I am pleased that it is in excellent health after 100 years. I strongly believe the next 100 years of Malaysian palm oil will be as innovative, fruitful and productive as the first 100.

MPOC



Italy's Robust Demand for Palm Oil

Promising outlook



Italy may be the third-largest economy in the Eurozone, but it is experiencing many problems. After strong GDP growth of 5-6% annually from the 1950s to the early 1970s, there was a progressive slowdown in the 1980s and 1990s. Over the past decade, the average annual growth rate has been poor, at 1.23% compared to the EU average of 2.28%.

Political efforts to revive the economy with massive government spending since the 1980s have produced a drastic increase in public debt. According to the EU's statistics body Eurostat, Italian public debt stood at 132.3% of GDP in 2015, up from 116% in 2010. That is the second-largest debt ratio after Greece, which clocks in at 177.4%.

After a shocking decline in economic output of about 9% in 2008 compared to the pre-crisis level, Italy enjoyed its first signs of growth of 0.8% in 2015. Exports

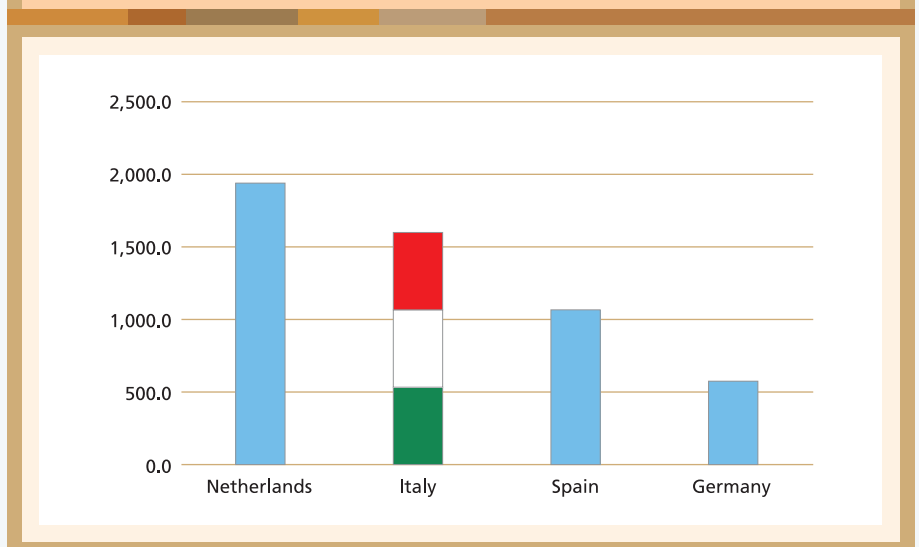
and imports grew again, by 3.7% and 3.3% respectively. The trade surplus of goods expanded and, at last count in 2015, stood at 50.14 billion Euros.

Italy is a substantial market for oils and fats, with domestic production of some

1.3 million tonnes per year. More than one-third of this is olive oil, a staple in traditional cuisine.

The country is the second-largest market for palm oil in Europe, surpassed only by the Netherlands. The high intake has to

Figure 1: EU-28 – Palm oil imports, 2015 (thousand tonnes)



Source: Oil World Annual 2015 & 2016

be attributed primarily to a vibrant food processing industry and strong consumer demand.

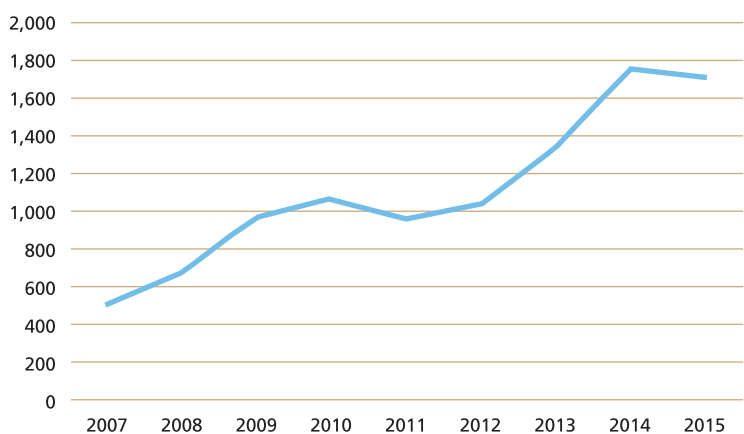
It is interesting that the combined purchases of only four of the EU-28 countries in 2014 – the Netherlands, Italy,

Spain and Germany – accounted for well over two-thirds of the EU's palm oil imports. Figure 1 shows only aggregates of imports from Indonesia and Malaysia. However, given the dominance of both countries in the trade, the results are representative of the overall picture.

The impressive quantity imported by Italy has more than tripled over the past 10 years (Figure 2). Palm kernel oil imports, though, remained flat during the same period at an average of 33,000 tonnes.

In 2015, around 93% of Italy's palm oil was imported directly from Indonesia and Malaysia alone (Figure 3).

Figure 2: Italy – Palm oil imports, 2007-2015 (thousand tonnes)



Source: Oil World Annual 2015 & 2016

Prospects for palm oil

The relatively healthy picture for the palm oil industry has been somewhat dampened by negative campaigns.

For example, in May 2016, it was reported that Italy's largest food retail chain, Cooperativa di Consumatori (Coop), had banned food products containing palm oil from its shelves.

Coop, which operates supermarkets and hypermarkets called Ipercoop as well as the discounter Dico, advertises the move on its website with the words 'goodbye palm oil'.

The country's energy supply is characterised by high dependence – of about 79% – on imports. Demand for energy is covered to about 36% by oil; to 35% by gas; to 15% by renewable energy; to 9% by solid fuel; and to 5% by imported electricity.

In the renewable energy sector, solar and wind power expect a slow growth rate. The biomass and biogas industry is gradually gaining importance, but at a low level. Legislation introduced in June 2014 restricts the subsidies available for renewables.

Italy produces biofuels in reasonable quantities. As stated in the GAIN Report 'Italy – Biofuels Overview 2015',





compiled by the US Agricultural Service, Italy's biodiesel production stood at about 2.5 million tonnes in 2015.

Biodiesel is produced mainly from imported rapeseed oil (40%), soybean oil (30%) and palm oil (25%). The small amount remaining is made from recycled vegetable oils, sunflower oil and vegetable fat.

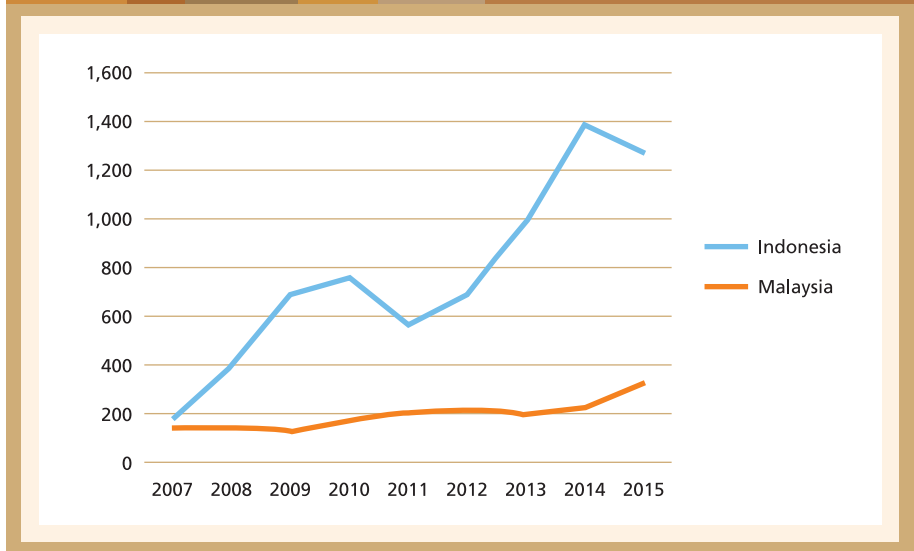
Most of the rapeseed oil is imported from EU countries, while soybean oil is imported from the EU or made from imported beans. Palm oil is mainly obtained from Malaysia and Indonesia. Biodiesel is blended with standard diesel for transport use or for heating.

A few years ago, Italy seemed poised to jump on the renewable fuels bandwagon with determination, but fell back to seventh spot in the 2013 ranking of the largest biofuels producers in Europe (Figure 4). According to statistics from the European Biodiesel Board, it has regained momentum. Overall, European biofuel production grew strongly year-on-year between 2013 and 2014.

Demand for palm oil is projected to remain robust, especially from the food processing industry. After all, Italy is home to the world-famous hazelnut spread *Nutella*, in which palm oil is a key ingredient.

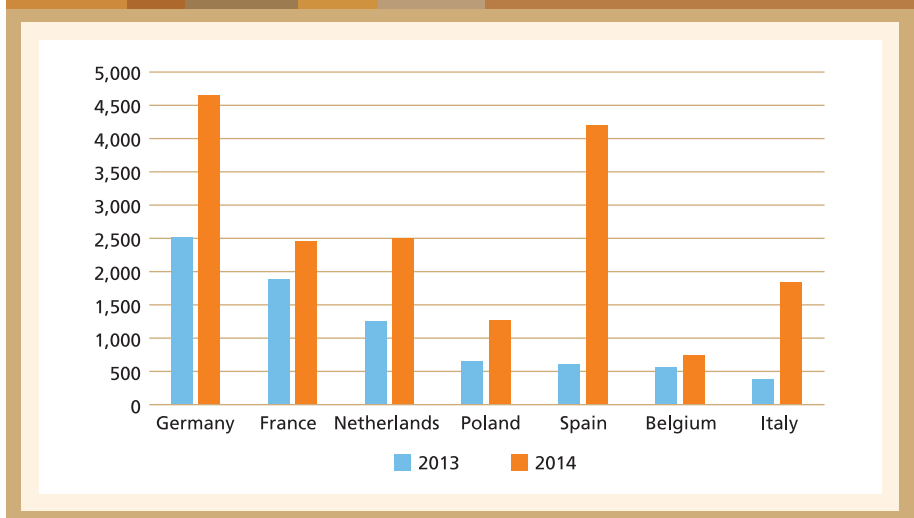
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Figure 3: Italy – Palm oil imports from major producers, 2007-2015 (thousand tonnes)



Source: Oil World Annual 2015 & 2016

Figure 4: Europe – Biodiesel production, 2013 and 2014 (thousand tonnes)



Source: <http://www.ebb-eu.org/stats.php#>

UK BREXIT and 'Biodieselgate'

Uncertain market for palm oil

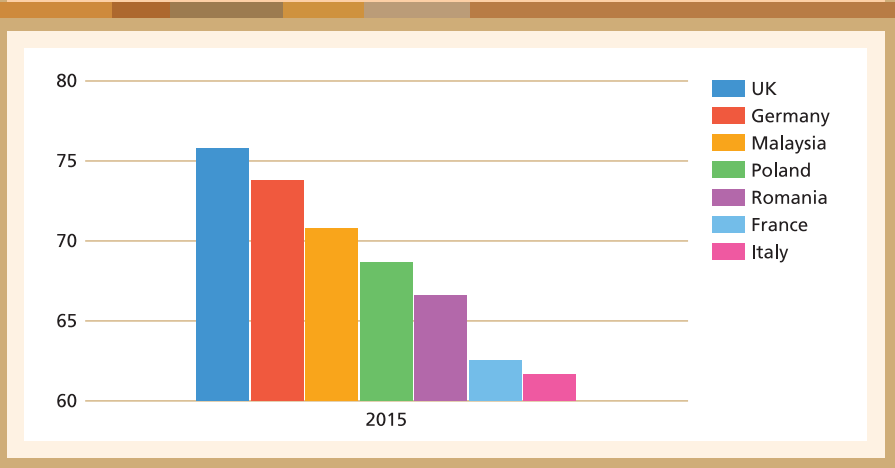
The UK has one of the most deregulated and privatised economies in the world, based on the principles of liberalisation, the free market, low taxation and reduced regulation. This heritage is displayed in the Economic Freedom Index (Figure 1). The index (with 100 being the maximum) measures 10 components under four broad categories: rule of law; limited government; regulatory efficiency; and open markets.

With a GDP of about US\$85 trillion in 2015, the UK has the world's sixth-largest economy and Europe's second-largest GDP after Germany. It is in eighth place measured by purchasing power parity. Economic growth was recorded at 2.2% in 2015. The agricultural sector is small by European standards, at 0.9% of GDP.

UK palm oil imports amounted to 499,400 tonnes in 2015, with a total of 81.8% supplied by Papua New Guinea (PNG), Malaysia and Indonesia.

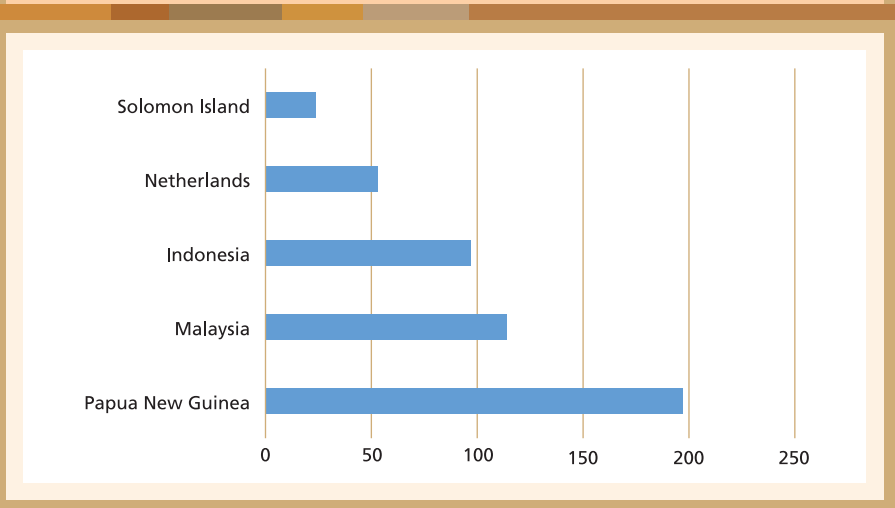
The unusual scenario of PNG being the largest provider of palm oil requires an explanation. The previously UK-owned New Britain Palm Oil Ltd – a leader in the European palm oil industry – has

Figure 1: Economic Freedom Index (scale 0-100)



Source: The Heritage Foundation

Figure 2: UK – Palm oil imports, 2015 (thousand tonnes)



Source: Oil World 2015 & 2016

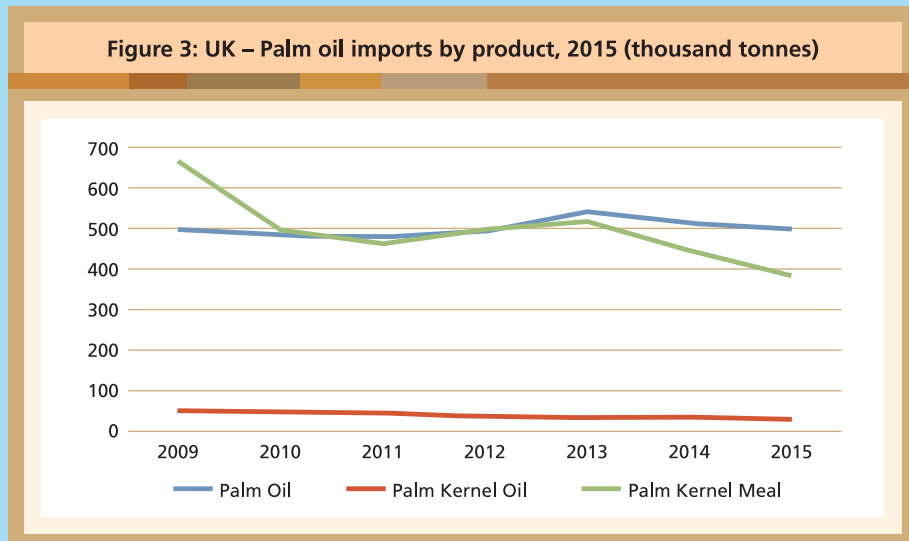
since March 2015 become a wholly-owned subsidiary of Malaysia's Sime Darby Plantation Bhd. New Britain sources palm oil from its plantations in PNG and the Solomon Islands. It also owns two refineries, one in PNG and one in Liverpool (England).

Another remarkable thing about the UK market is that it imports similar quantities of palm oil and palm kernel meal, with the latter being mainly for the production of animal feed. According to a report by the UK Association of Animal Feed Producers, 11 million tonnes of feed were produced in 2014 – equivalent to 8% of the EU total and 1.2% of global output.

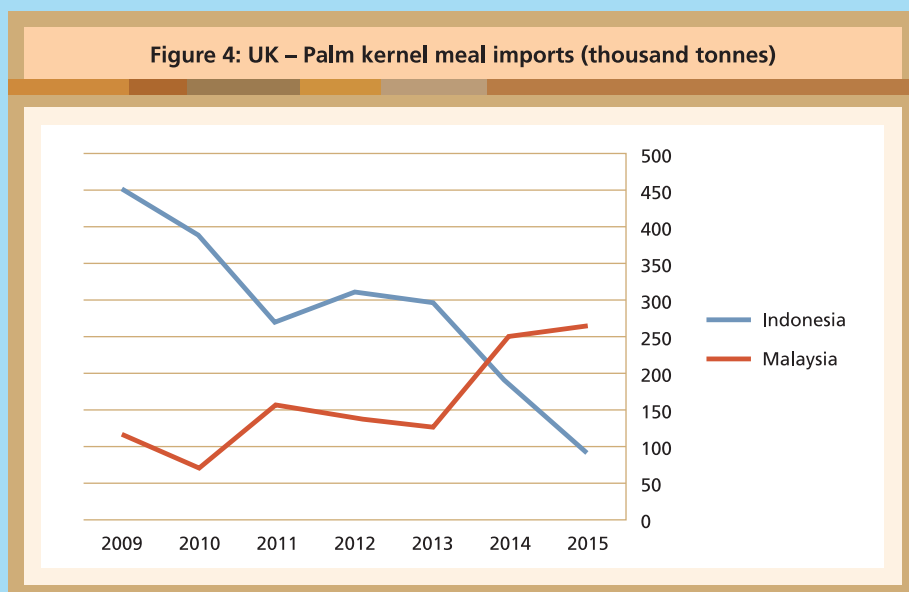
Malaysia, and Indonesia supply 93.2% of the palm kernel meal (Figure 4). In 2014, Malaysia became the leading exporter of the product to the UK, and maintained the lead in 2015.

Question marks now surround the future of the UK palm oil market. There may be some fallout from possible political instability. After the Brexit vote on June 23, 2016, the value of the Pound Sterling fell to a 30-year low. A weak currency would make imports more expensive, and demand may slump.

Sustainability issues may also come into play. For instance, a report by the green NGO Transport & Environment has claimed that 45% of all palm oil used in Europe in 2014 was in the form of biodiesel (*edie.net, June 1, 2016*). This represented a six-fold increase since 2010, and was swiftly dubbed 'Biodieselgate'.



Source: Oil World 2015 & 2016



Source: Oil World 2015 & 2016

Reacting to the report, the UK Renewable Energy Association said that 'UK import and consumption of palm oil-based biodiesel has fallen dramatically, and stands at zero so far in 2015/16'.

Brexit – if followed by a recession – may present an opportunity for the palm oil

industry because buyers will start looking for competitively-priced options. However, zero consumption of palm oil for biodiesel would turn out to be a hard blow indeed.

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Positive Profit Indicators

... for oil palm planters



The current steep CPO price trading above RM3,000 per tonne and the lower palm oil inventory are positive profit indicators for Malaysian oil palm plantation companies moving into the current year.

But analysts say that planters' profit margins could be undermined by

escalating production costs, particularly in fertilisers, due to the weakening Ringgit against the US Dollar, the full-year impact of minimum wage implementation and uncertain export markets outlook.

This year, established planters could stand to gain from the CPO average selling price of between RM2,500 and RM2,800

per tonne – albeit almost the same level as last year, according to analysts.

This is on the back of their efficient average cost of production between RM1,400-1,500 per tonne compared with less-efficient or new planters, whose cost of production could be as high as RM1,800 per tonne.

Among the plantation companies, a mere RM100 increase in the CPO price per tonne could translate into additional “hefty” contributions to group profits.

According to Maybank Kim Eng's latest regional plantations report, companies that are most sensitive and leveraged to the CPO price movement with relatively higher cost of production per tonne include TH Plantations Bhd, Felda Global Ventures Holdings Bhd (FGV) and Boustead Plantations Bhd.

For every RM100 per tonne change in CPO prices, TH Plantations' earnings sensitivity is the highest at about 28.8% followed by FGV at 28.6%, Boustead Plantations (21.8%) and Sarawak Oil Palms Bhd (14.2%), says the research unit.

Maybank Kim Eng points out that the earnings sensitivity to CPO price movement is mostly lower among big planters with diversified upstream and downstream businesses. IOI Corp Bhd earnings sensitivity is at 5.8%, Kuala Lumpur Kepong Bhd at 6.9%, Sime Darby Bhd at 7.4% and Ta Ann Holdings Bhd at 8.6%.

Sime Darby had said that every RM100 per tonne change in the CPO price could result in an “addition or reduction of about RM250 million” to its group profit while for FGV, it could result in an addition or reduction of about RM100 million.

Maybank Kim Eng also envisaged that large-cap plantations would continue to benefit from the changing investment landscape in Malaysia, where there has been a growing emphasis on Syariah-compliant stocks.

“And the Employees Provident Fund has joined the bandwagon as it launched a RM100 billion Syariah retirement savings fund for contributors effective this month as a start,” adds the research unit.

Maybank Kim Eng also suggests focusing on small firms such as Sarawak Oil Palms and Boustead Plantations.

“We believe Budget 2017 announced a mandate to fund proper research for small-cap to mid-cap stocks in 2017 [and it] will benefit the non-large cap plantation stocks, given their valuation gap.”

Its sector “buys” are Sarawak Oil Palms and Boustead Plantations. Boustead Plantations, for example, has a high dividend yield of 7.8%.

While Maybank Kim Eng has no “buy” recommendations among the large caps due to their steep valuations, it believes Sime Darby offers the best trading opportunity in the first half of 2017 due to its liquidity, good proxy to the recent CPO price rally and ongoing initiatives to enhance shareholders' value.

Higher cost of production

JF Apex Securities, in its 2017 outlook report, has estimated the year's CPO average price at RM2,580 per tonne.

“We expect the CPO average selling price in the first half [...] to be at RM2,818 per tonne. It will range from RM2,637-2,921 per tonne in view of the persistent low inventory level despite gradual recovery of production from the weak spell.

“We anticipate inventory levels to stock up in the second half as a result of recovery from the weak spell effect on production, coupled with seasonal higher production [...]”

It points out that the profit margin in the plantation sector notched up 50 basis point in 2016 compared with 2015.

“Looking forward, we expect margins to remain at the same level after taking account [of the] slight increase in CPO average selling prices [this year] despite recovery in production, coupled with higher fertiliser cost in view of a weaker Ringgit and a full-year impact of the minimum wage.”

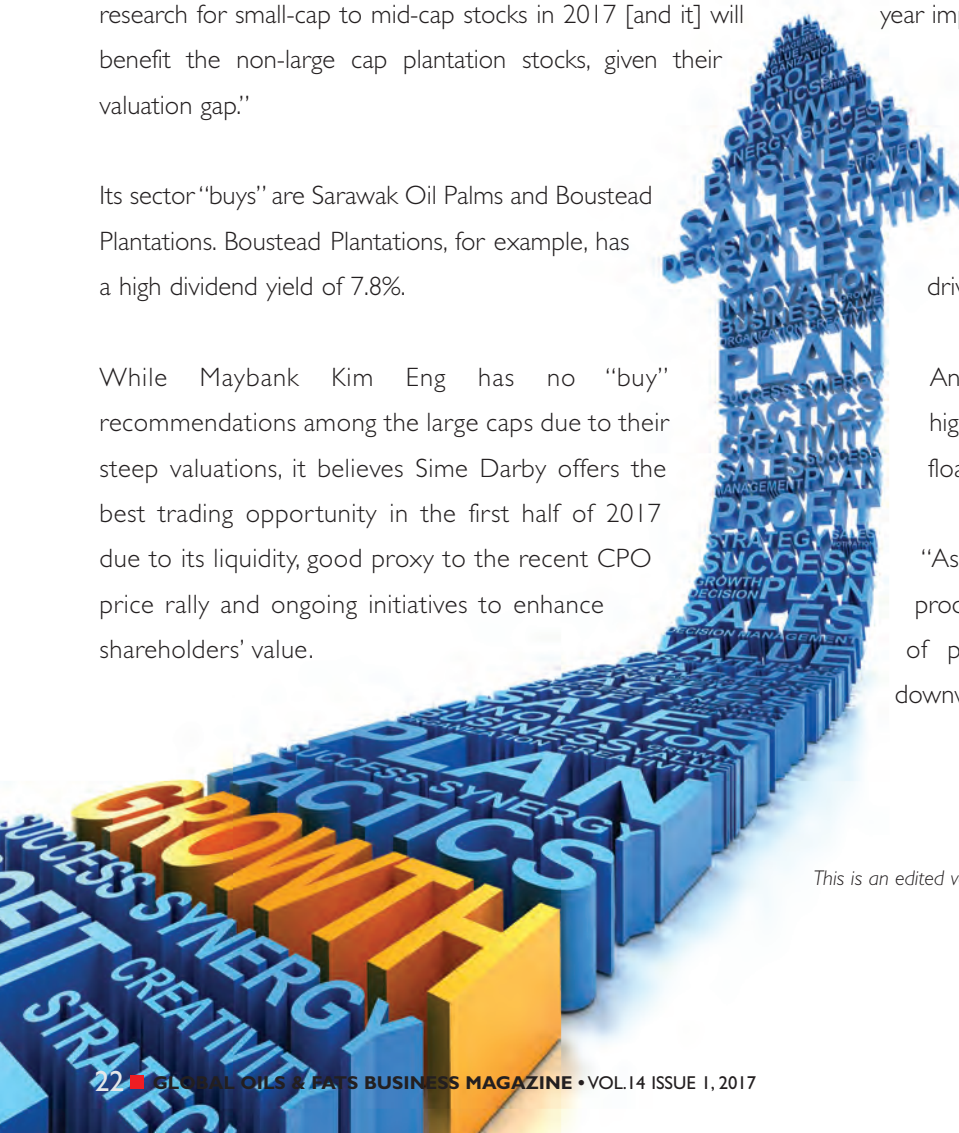
The minimum wage implemented on July 1 last year is RM1,000 for Peninsular Malaysia and RM920 for Sabah and Sarawak. JF Apex says this will put pressure on the manpower-driven plantation sector and erode margins.

Another factor to pressure planters' margin is the higher fertiliser cost, with a weak Ringgit that is floating around RM4.35 to the US Dollar.

“As the fertiliser cost makes up 25-50% of palm oil production costs, the weaker Ringgit has lifted the cost of production in plantation companies, exerting downward pressure to the margins,” adds the brokerage.

Source: The Star, Jan 7, 2017

This is an edited version of the article.



Malaysia targets higher revenue from export commodities

The Plantation Industries and Commodities Ministry is aiming to grow Malaysia's exports of commodities by 5-8% this year through the implementation of strategic measures.

"This will be done by expanding our market share while penetrating new markets, including [negotiating] a free trade agreement with Iran and exploration of new markets in south Asia and southern Europe," said the Minister, Datuk Seri Mah Siew Keong.



These initiatives are expected to maintain the momentum of the country's commodities segment, which consists of palm oil, rubber, wood, cocoa, pepper and kenaf products.

"[From] January to October 2016, [exports of] commodities grew 2% to RM99.2 billion from the year before. The commodities sector also accounted for 15.6% of national exports," the Minister said.

The Ministry will continue to invest in research and development in order to develop higher value-added downstream products, as well as to improve current export products.

"The R&D work will increase the marketability and competitiveness of our exports in the global arena," Datuk Seri Mah said.

Source: Malaysia Reserve, Jan 6, 2017

Change at the helm of Malaysia's FELDA

Tan Sri Shahrir Abdul Samad has been named the new Chairman of the Federal Land Development Authority (FELDA) in line with the Malaysian government's aspiration to strengthen the agency's leadership.

He has wide experience in government administration, having previously held three Cabinet portfolios at different times. He was once the Chairman of the Malaysian Palm Oil Board and of the parliamentary Public Accounts Committee.

Tan Sri Shahrir replaces Tan Sri Mohd Isa Abdul Samad whose term ended, although he remains Chairman of Felda Global Ventures Holdings Bhd. During his tenure, FELDA had implemented many community activities and programmes to enhance the quality of life of settlers and their families.

In a statement, Prime Minister Datuk Seri Najib Abdul Razak said that with the restructuring, there is a division of responsibilities in regard to the settlers' welfare and socio-economic status, and FELDA's business activities.

Source: Bernama, Jan 7, 2017

Malaysia, Indonesia to discuss common CPO tax structure

Malaysia is open to negotiations with Indonesia over the possibility of harmonising the CPO export duty structure of both countries.

Malaysian Plantation Industries and Commodities Minister Datuk Seri Mah Siew Keong said a meeting will be held in the coming months.

“When I say harmonise the CPO tax structure, it doesn't mean Malaysia will compromise to our disadvantage. We want to discuss [...] the possibility of a common tax structure which does not conflict the trading of our palm oil in the world market,” he explained.



Currently, the wide gap in Indonesia's export duty differential between CPO and refined palm oil encourages more production of refined palm oil; this has resulted in increased competition with Malaysia, particularly in the downstream sector.

“When you add a new system, there will be some losses and benefits to the respective players, but we will try to combine it to strike a balance for our overall exports,” the Minister said.

On export performance, he noted that the Malaysian palm oil market share in China had fallen to 45.7% in 2015 from 52% in 2014, while Indonesia's market share rose to 53.9% from 47% over the same period. However, efforts are being made to woo back buyers.

Datuk Seri Mah also stressed the significance of diversification to new products and securing new markets.

“We want to go to the Middle East, as well as ASEAN countries such as the Philippines and Vietnam. I am going to Iran [this month] to negotiate higher imports for our palm oil. These are the new markets,” he added.

Source: The Star, Jan 16, 2017

RM30mil fund set up to mechanise oil palm fruit harvesting in Malaysia

Malaysia is establishing a RM30 million fund to improve the mechanisation of oil palm fruit harvesting,

Plantation Industries and Commodities Minister Datuk Seri Mah Siew Keong said: “We have to be more committed in finding more efficient ways to harvest oil palm fruit. We cannot go on being so reliant on manual labour.”

Some 70% of Malaysia's oil palm estate workers are foreigners.

“This year, we are celebrating 100 years of commercial oil palm planting, but we have yet to improve on mechanisation of fruit harvesting. Of the RM30 million mechanisation fund, RM5 million will be privately-funded,” the Minister said.

It has been reported that Malaysia's oil palm industry is facing a shortage of workers, resulting in many planters not being able to fully harvest the fruit.

Source: New Straits Times, Jan 17, 2017

Malaysian CPO output has doubled every 10 years over centennial

Malaysia, one of the world's largest producers of CPO, enters the milestone centennial celebration of the sector in 2017 amidst tremendous growth.

Output has doubled every 10 years and the country's track-record of providing quality vegetable oil to consumers worldwide, at reasonable prices, has helped alleviate poverty in many Third World countries.

Dorab Mistry, a leading industry analyst at Godrej International Ltd, endorses the country's palm oil as its "Jewel in the Crown". He said Malaysia has done wonders in terms of boosting export revenue.

"For 90 years, you [Malaysia] have been on your own. You are the Number One producer as you are doing all the propagation. You are being challenged by Indonesia on all fronts," he said.

"So, while Malaysia celebrates 100 years, it has to re-dedicate itself to really take its competitor head on. At the same time, Malaysia must ensure that the markets it has, and the new markets that [it is] developing, go according to plan."



Although Malaysia's palm oil industry is expanding rapidly, labour shortage has been an issue – and it is becoming more difficult to source additional workers.

"Malaysia has got to do something about its labour regulations because the labour shortage is really strangling your plantations. It has been the biggest challenge facing the country's CPO sector," he said.

"However, against this backdrop, congratulations to Malaysia. I think if there is an example of a country which has nursed and nurtured an industry into great prosperity, I would hold Malaysia as a fine example."

James Fry, Chairman of commodities consultancy LMC International, agreed that the Malaysian government needs to address the labour shortage issue, following its policy to reduce the number of foreign workers by 110,000.

"It is all right if you tell the industry how they will manage with fewer workers, but you have seen the impact, you have longer harvesting periods, lower quality and it hits your yield," he said.

ISTA Mielke GmbH Executive Director Thomas Mielke said Malaysia has been the forerunner in palm oil and food research. He said palm oil has made major inroads not only into Asia, but also the African continent and central and South America.

"There has been tremendous increase in palm oil imports and consumption in Europe, as well as in the Commonwealth of Independent States countries," he noted.

Source: Bernama, Nov 20, 2016

More palm oil for Indonesia’s biodiesel sector by 2020



Indonesian demand for CPO for biodiesel use will grow nearly 70% by 2020 as the price gap with conventional diesel narrows and more subsidies for blending become available.

Indonesia, the world's top producer of palm oil, is pushing to increase usage of biodiesel to cut its oil import bill and curb greenhouse gas emissions. Its so-called B20 programme required a minimum 20% blend of bio-content in diesel fuel in 2016, up from 15% in 2015.

The biodiesel sector's appetite for palm oil will increase to 10.6 million tonnes by the start of the next decade, from 6.3 million tonnes forecast for 2016, said Bayu Krisnamurthi, Chief Executive of the Indonesia Estate Crop Fund.

"Looking forward, we've calculated that by 2020, 26% of palm oil will go to biodiesel, so biodiesel becomes the new demand for the palm oil industry," he said at a conference on Nov 23, 2016.

The fund is a government agency in charge of collecting palm oil levies to finance biodiesel subsidies in the country.

"The gap is getting thinner," he said, referring to the spread between prices for biodiesel and conventional diesel coming down by around 30% in 2016 as oil prices strengthened.

The palm oil industry hopes the drive towards biodiesel will provide underlying support for prices of the edible oil.

The country is also targeting a 90% increase in unblended biodiesel consumption in 2017 to 5.5 million kilolitres, from an estimated 2.9 million kilolitres in 2016.

The 2017 target is "with the assumption that there is an expansion of subsidies", said Dadan Kusdiana, Secretary of the Renewable Energy Directorate.

Indonesia started collecting a levy on its palm oil exports in July 2015 – US\$50 per tonne for CPO and US\$30 for processed palm oil products – and uses part of this to help fund biodiesel subsidies.

Levies collected by the Indonesia Estate Crop Fund would also need to be increased to pay for additional biodiesel subsidies, Kusdiana said, adding that his office had proposed an incremental increase. The fund is targeting a 14% increase in levies collected in 2017.

Indonesia – Estimated CPO Demand for Biodiesel Industry	
Year	Volume
2016	6.3 million tonnes
2017	6.5 million tonnes
2018	6.7 million tonnes
2019	7 million tonnes
2020	10.6 million tonnes

Source: Indonesia Estate Crop Fund

Source: Reuters, Nov 25, 2016

Phase I of new smallholder traceability system in place

GeoTraceability, Wilmar International Ltd and Wild Asia have announced that the first phase in the development of a new smallholder traceability system has been successfully completed.

The system enables mills to map their smallholder supply base and trace smallholder fresh fruit bunch (FFB) deliveries from the mills back to their farms. A key innovation in this project is the ability to provide smallholders with agronomic recommendations from mills and supporting organisations for increasing productivity, as part of their participation in the traceability system.

This project, supported by the Sustainable Trade Initiative (IDH), is currently underway in Wilmar's Sapi Plantation in Sabah, Malaysia. The ability to trace smallholder FFB supply is critical to Wilmar in ensuring compliance by its third-party mill suppliers and independent smallholder suppliers, under its 'No Deforestation, No Peat and No Exploitation' policy.



Since July 2016, more than 90% of the smallholder supply base of the mill has been surveyed and mapped, with 1,400 traceable deliveries of smallholder FFB recorded. The next steps in the project are to roll out the system to an additional Wilmar-owned mill, as well as a third-party supplier mill, both in Sabah.

Jeremy Goon, Wilmar's Chief Sustainability Officer, said: "Smallholders are a key stakeholder group in our pursuit of a sustainable and transparent supply chain. We have committed substantial resources to empowering smallholders to improve their livelihoods and to ensure they share in the benefits of oil palm development.

"Our collaboration with GeoTraceability and Wild Asia to develop this smallholder-specific traceability tool is a win-win for the industry and smallholders. Benefiting from agronomic expertise is an important incentive that will further strengthen sustainability take-up among smallholder producers. We hope this tool can help facilitate the traceability agenda of our external mill suppliers and the wider industry."

Dr Reza Azmi, Executive Director and Founder at Wild Asia said: "Our Wild Asia Group Scheme is a programme to promote traceability and better production among groups of small independent oil palm producers.

"Systematic electronic data on the small producers means that we can accelerate our work, and that our agronomists can deliver individualised support to our group members. More importantly, we want to be able to empower local producers with tools that can provide meaningful insights to their own production data."

Pierre Courtemanche, Chief Executive Officer at GeoTraceability, said: "Our software and training is designed to support mills, NGOs, development agencies and governments in better delivery of support to smallholders. This combination of tools supports a 'New Deal' for farmers: allow us to use your data to improve transparency and you'll receive improved support services."

GeoTraceability's Digital Agronomist is a new software technology which allows the delivery of agronomists' expertise to each individual smallholder farmer, and his or her fields.

The agronomic recommendations for increasing smallholder productivity are compiled in individual 'Farm Business Plans', which can be further supported with field-input credit, training and ultimately Roundtable for Sustainable Palm Oil group certification. This package of opportunities to improve productivity and profitability for smallholder farmers presents a compelling alternative path to the farm expansion model.

IDH has been working with industry actors to coordinate and accelerate progress on traceability since 2014 and is supporting platforms such as GeoTraceability as critical innovations on the path to sustainability. IDH is supporting the project financially and has informed project design with the objective of maximising lessons learnt, that may be of value to the wider industry.

Source: foodingredientsfirst.com, Nov 8, 2016

Global edible oils market valued at US\$130bil in 2024

The global edible oils market is segmented into palm, soybean, sunflower, olive, corn and canola oils, as well as specialty blended oils and others. The palm oil segment is projected to register the fastest growth rate through the forecast period, with the segment accounting for over 32% share in the global market in terms of volume in 2015.

Soybean oil is projected to register a slight negative growth owing to the surplus availability of raw materials and shifting consumer preferences towards healthier edible oil options such as olive and canola oils. This shifting market trend is a result of increasing disposable income levels in households worldwide and growing awareness with regard to healthy eating.



According to a new report published by Persistence Market Research, 'Global Market Study on Edible Oils: Industry Analysis and Forecast 2016-2024', the global edible oils market is expected to register a CAGR of 5.1% through the forecast period to reach the value of US\$130.3 billion at the end of 2024. The projected market trend can be attributed to rising health concerns across the globe and growing demand for healthy edible oils, such as canola and olive oils.

Manufacturers are adopting new techniques – such as cold pressing – to increase production of edible oils. This, combined with growing disposable incomes and the growing demand for snacks and fried food globally, are major drivers in the global market. The rising retail sector is a major boon, as the wide network organised market has helped bolster growth of edible oils.

In terms of end-users, the global market is segmented into the food service, food processor, and retail sectors. Established chains and a strong supply chain of edible oil products are expected to drive the retail segment, which is expected to register a CAGR of 5.3% through the forecast period. The food service segment is projected to register a CAGR of 5.1%, due to the lower prices and easy availability of palm oil.

The global edible oils market is segmented on the basis of region, into North America, Europe, Asia Pacific, Latin America, and Middle East and Africa (MEA).

Asia Pacific is projected to dominate the global market, accounting for 41.2% share in 2015, and is expected to account for 42.4% at the end of 2024. The projected market trend can be ascribed to growing demand for edible oils in India and China, especially in the food and beverage industries.

Europe and MEA are anticipated to register negative growth in terms of market share, owing to shifting consumer preferences towards high-quality edible oils in the regions.

Source: <http://satprnews.com>, Dec 7, 2016

Brazil's grain export lull sets stage for record shipments



If there is a silver lining to Brazil's recent shortcomings in grain exports, the country is now more prepared than ever to pump out big volumes in 2017, perhaps to the dismay of its competitors.

Brazil is the No. 1 and 2 shipper of soybean and corn respectively, but early in 2016, the drought-stricken country found itself with much less exportable supply than expected at the wrap-up of harvest.

Brazil should be at the height of the corn shipping season from October through December; but saying that corn exports have been dismal over the last two months might be far too generous.

Shipments of corn and its by-product, ethanol, were down by nearly 80% in October and November 2016 versus a year earlier. Soybean fared slightly better with exports down two-thirds over the same timeframe, although exports of the oilseed do not usually get going until February or March.

But with the drought of 2016 mostly in the rear-view mirror, record corn and soybean crops are a real possibility heading into 2017, particularly if favourable weather holds. And although Brazil has notoriously faced transportation and logistical issues at ports in the past, that is much less the case today.

The upcoming 2016/17 export season could be one of the smoothest Brazil has seen in recent years. And if domestic soybean and corn prices are internationally competitive once the products arrive to market, the US, one of the country's main trade rivals, will start feeling the pressure.

In 2015/16, the Brazilian soybean and corn harvests were originally projected to top 100 million and 80 million tonnes respectively, but late-season drought cut the volumes to 95.4 million and 66.6 million tonnes. The second crop corn, also called safrinha, was hit especially hard.

But the 2016/17 season is already showing promise as both soybean planting and development is ahead of normal, and 94% of the first corn crop is in good condition. Analysts polled by *Reuters* expect both crops to set new records this year – 102.64 million tonnes for soybean and 86.58 million tonnes for corn.

Good weather and an early harvest would place the oilseed a little sooner than usual in the market place, potentially cutting into the US business. It would also mean an earlier start to the sowing period for safrinha, which accounts for roughly two-thirds of Brazil's total corn output.

Corn does not typically start being shipped out en masse until August, as the safrinha crop is more heavily exported than the full-season corn, which is mostly dedicated to domestic use, since the ports are full of soybean when it is harvested.

Brazil is expected to ship a record volume of soybean in its 2016/17 marketing year, which begins in February 2017 and runs through January 2018. Current industry estimates range from 57.5-60 million tonnes, well above figures for the 2015/16 year which stand at or just above 50 million tonnes.

Relatively speaking, the drought has impacted corn exports much more than soybean, as shipments in the current marketing year will fall up to 50% from the record 2014/15 campaign. Industry estimates for Brazilian corn exports range from 16-19 million tonnes for the 2015/16 season, which will conclude at the end of February 2017.

Analysts peg Brazil corn exports to be the second-largest volume on record in the 2016/17 marketing year, beginning in March 2017. Shipments are likely to range between 25 million and 30 million tonnes. If the weather remains supportive and export prices are attractive to buyers, trade competitors have good reason to start getting nervous.

Source: Reuters, Dec 8, 2016

Sabah to gazette forest as orang utan protected area

The Sabah Forestry Department is to gazette a forest rich in *orang utan*, as a fully protected area.

This comes with a sudden change in the ownership of the 101,000ha Forest Management Unit 5 (FMU 5), which also contains 13,000ha of flora and fauna.

State Forests Chief Conservator Datuk Sam Mannan said the area in central Sabah is being classified as a first-class reserve and will become part of the Trusmadi Forest Reserve.

FMU 5, owned by logging and reforestation company Anika Desiran, was purchased by wood products maker Priceworth International for RM260 million in October 2016.

Anika Desiran had been working with conservationists, including WWF Malaysia, over the past three years to create a model example of a conservation economy. The sudden sale of the property took the conservationists by surprise.



Mannan said the forest region had been logged a few times since the 1980s and that the Forestry Department had allowed it to be parceled out under the FMU programme in 1997 because it did not expect *orang utan* to inhabit such highland areas.

He said a WWF study had since found *orang utan* in FMU 5, so the high-conservation area within it will now be turned into a first-class reserve.

Once done, the new owner will have to provide a development master plan which must be approved before any kind of work can take place on the land.

Source: *The Star*, Jan 5, 2017

Palm Oil Faces New EU Offensive

Disturbing proposal

The European Parliament's Committee on the Environment, Public Health and Food Safety (ENVI Committee) published its Draft Report on 'Palm Oil and Deforestation of Rainforests' on Nov 3, 2016. It was prepared by the rapporteur and Member of the European Parliament (MEP) Kateřina Konečná.

At the same time, reports on the felling of protected EU forests to assist production of biofuels showcased the clearly two-faced approach by and within the economic bloc, and the need for palm oil producer countries to bring about a more balanced debate on the issue.

The ENVI Committee had held a Public Hearing on 'Palm Oil and Rainforests: What can the EU do to stop deforestation?' on March 17, 2016. The aim was to exchange views on the 'environmental impact' of the palm oil industry. However, the tone of several statements was clearly against palm oil; consequently, producers were cast in a negative light.

MEP Konečná's Draft Report contains a motion for a European Parliament Resolution and an explanatory statement on the issue. Such reports often lead to legislative proposals and are an important tool of the European Parliament to influence the legislative agenda and the surrounding public debate. More importantly, they aim at influencing the work of the European Commission (EC).

The European Parliament's final resolution could lead to repercussions related to trade in palm oil, and may influence the debate on the EU's regulatory approach to biofuels and sustainability.

During a debate on the Draft Report on Nov 28, 2016, MEPs from a number of political groups took the floor. Several times, the 'balanced and measured' nature of the Draft Report was highlighted, which can only be characterised as a clear overstatement of the current text.

References to the 'reckless cultivation of [oil] palm'; calls for an increase in the applicable import duties; and advocating a ban on palm oil as a component of biodiesel do not appear to be 'balanced and measured' statements leading to an equitable resolution by the European Parliament.

In its draft opinion on the Draft Report, the European Parliament's Committee on Agriculture and Rural Development

underlined again the nature of palm oil as a 'driver of deforestation'. The Committee on International Trade called for a ban on imports of biodiesel derived from palm oil and even argued that the EU-Indonesia negotiations for a free trade agreement (FTA) should not cover palm oil.

Eco-link to import duties

A key element of the Draft Report is the issue of market access of palm oil. Recommendation No. 10 calls on the EC to increase import duties on palm oil that is directly linked to deforestation and that does not reflect the real costs associated with the environmental burden; and notes that this instrument will require the involvement of certification schemes.

This must be analysed to determine its consequences for trade in palm oil. In today's globalised world, the issue of tariffs and import duties is delicate and highly regulated through multilateral (World Trade Organisation rules), bilateral (preferential FTAs) and unilateral (such as the Generalised System of Preferences, GSP) commitments. The commitments define the potential scope of measures affecting duties levied at importation.

EU duties on palm oil depend on the specific product being imported:

- Almost 50% of palm oil imports currently enter the bloc duty free.
- CPO for foodstuffs is subject to a most-favoured nation (MFN) duty rate of 3.8%, while countries benefitting



from GSP (excluding Indonesia), GSP+ and Economic Partnership Agreements, benefit from a 0% duty rate.

- Biodiesel imports are subject to a 6.5% MFN duty rate and, again, a 0% duty rate under the GSP (excluding India and Indonesia) and GSP+ schemes.

When dealing with import duties on palm oil, it must also be considered that the EU is negotiating preferential FTAs with a number of countries including

Indonesia and Malaysia, the world's biggest palm oil producers.

In the negotiations, the issue of import duties and, more generally, palm oil and sustainability, will undoubtedly play a significant role. Therefore, the recommendation of the European Parliament's Committee on International Trade to exclude palm oil from such negotiations appears highly misplaced.

At the same time, analysis of the proposed recommendation emphasises the impracticalities and its likely illegality under WTO rules. It aims at increasing import duties only for palm oil that is 'directly linked to deforestation and that does not reflect the real costs associated with the environmental burden'.

That this approach might pose a problem is reflected by the second element, noting that this would require 'the involvement of certification schemes'. What exactly is palm oil that is 'directly linked to deforestation'? How are the 'real costs associated with the environmental burden' to be determined and taken into account?

Under WTO rules, the EU may only increase import duties on a MFN basis if its bound rates allow this. If there is no margin for manoeuvre – i.e. if the import rates are bound at 0% or if the applied rates are already as high as the bound rates – the EU can only increase the import duties through complex tariff renegotiations under the GATT or by breaking WTO rules, which is not really an option.

The Draft Report further calls on the EC 'to support the development of multilateral certification schemes that will guarantee that the palm oil certified has not led to deforestation or the destruction of peatlands or other ecologically valuable habitats; has not given rise to social problems or conflicts; [and] enables small-scale [oil] palm cultivators to be included in the certification system and ensures that they receive their fair share of profits'.

Two-faced debate

In parallel to the debate in the European Parliament, reports have indicated that protected forests are being felled for the production of biofuels – not in distant countries, but in the EU itself. The use of wood pellets and chips has sharply increased over the last few years. Officially, bioenergy from wood is to be sourced from residue, such as forest waste.

However, current regulations do not require bioenergy plants in the EU to provide proof that wood products were produced sustainably. A report by a NGO has alleged that logging in preservation zones was disguised as, *inter alia*, flood-risk mitigation, when in fact the timber was intended for bioenergy production.

High demand for raw materials by large power plants is blamed for this development. The increased EU and global demand for biofuels does have significant effects on demand for raw materials that appear to have been neglected during the original elaboration of rules on bioenergy and biofuels. The EU is

working to update its biofuels policies and is expected to publish its legislative proposals this year.

The Draft Report, meanwhile, calls on the EC 'to push for the use of palm oil as a component of biodiesel to be phased out by 2020 at the latest'. MEPs at the Nov 28, 2016 discussion did note that this should only apply to unsustainable palm oil, while one MEP noted that biodiesel used in the EU should be sourced from crops grown within the bloc.

The issue of illegal logging of EU forests for wood pellets and chips underlines once again that the debate on sustainability, deforestation and energy must not focus only on palm oil. Additionally, such debate must be based on facts, the law and scientific evidence.

A vote within the ENVI Committee on the final version of the Draft Report is scheduled for March 9. The Report will then be submitted to the European Parliament and a plenary vote will likely take place in the first half of this year.

While work on the issue is well-advanced in the ENVI Committee, the timeframe still allows for the Malaysia (or its EU customers) to have a say in the process, and to fight against unilateral, discriminatory and protectionist policies.

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France vs Palm Oil

... Again

New plans revealed

Every year since 2012, France's Socialist Party politicians – often supported by the government – have attempted to bring in a tax on palm oil products. The most recent move was defeated in July 2016, thanks to a robust response by producer countries.

However, the lawmakers have since announced two plans of action. They want to re-examine taxation on all vegetable oils; and to draw up sustainability criteria for the production of vegetable oils and other commodities.

The second proposal will be led by the newly-established Sustainability Criteria Commission. It will be of particular interest to palm oil producers, who have been down a similar path before.

When the European Union (EU) introduced the Renewable Energy Directive (RED) about seven years ago, sustainability criteria were included to

ensure that the biofuels in use had been produced based on 'environmental' standards – even though these were clearly prone to politicisation and protectionism.

The RED scheme was a boon for biofuel producers, both in Europe and elsewhere. However, better-value imports (notably palm oil) claimed a substantial share of this new market. European producers then looked for strategies to keep out imported biofuels.

They came up with multiple methods to fix the sustainability criteria in ways that disadvantaged palm oil:

- 'Default values' were set for estimated greenhouse gas (GHG) savings, although these evidently favoured domestic oils.
- Producers worked with protectionist politicians to remove palm oil products from approved lists.

- They also supported the introduction of Indirect Land-use Change criteria. This was a complex way of exaggerating the emissions count of biofuels, based on numbers that were arbitrary and unprovable. In the end, the EU rejected the plan as being simply unworkable.

Inherent weaknesses

The RED precedent has taken on fresh relevance today because of the French proposal to impose new sustainability criteria for vegetable oils that will allow the same protectionist, anti-palm oil traps to be set.

The criteria are expected to cover more than just GHG emissions savings. These are likely to encompass forest conversion, biodiversity, land use, social and political concerns, farming and conservation methods, supply chain traceability and economic factors.

It is generally understood that the more vague the terms of reference, the more



politicised the outcome will be. On this basis, it is worth noting that the terms of reference for the Sustainability Criteria Commission appear to be non-existent.

The Commission's membership is also puzzling. Its members have impressive credentials in terms of administration and politics, and long careers in related fields such as agriculture and environmental policy.

However, there is a clear absence of expertise on economic and sustainable development. Given that the bulk of the world's vegetable oils – palm oil and soybean oil – is produced in the Global South, shouldn't such expertise be deemed vital?

There is a fundamental reason why this needs to be the case. 'Sustainability' in the European context is often narrowly defined in environmental terms. The UN takes the broader approach – it defines 'sustainable development' as also involving the

social and economic aspects. The French Commission is not currently set up to consider this.

This is not the Commission's only weakness. Its eventual recommendations will be turned into a *de facto* standard that can be used by France in its regulations and in restricting imports.

Yet, the Commission's members do not include a technical expert on international standards and conformity. That this is not considered vital is indication that the process is already politicised, and should be of major concern to palm oil producers.

Foregone conclusion?

Compare the French process to that of the Roundtable on Sustainable Palm Oil (RSPO), now the largest international palm oil certification system. The RSPO standard took years to develop, through a multi-stakeholder process that included producers, purchasers, processors and NGOs.

Although the RSPO standard is not perfect as a certification system and does not follow best practice in terms of standards and conformity, it does at least attempt to address the concerns of all major stakeholder groups through a structured process.

The Commission in France does not look like a serious attempt to deliver a credible sustainability recommendation. The terms of reference are yet to be released. Methods for stakeholder input are yet to be made public. Valuable fields of expertise have been overlooked entirely.

Instead, the Commission looks like a Potemkin process set up to justify a pre-determined outcome – that palm oil imports will be restricted, and taxes on the commodity will be increased.

It will only go through the motions – a trip to Malaysia and Indonesia is being planned, so that the members can see the situation on the ground in relation to palm oil production. But neither country should be fooled, as French Ministers have openly admitted they are seeking a new tax on palm oil. The Commission is merely the vehicle for delivery of that goal.

France's intended action should also be of concern to the EU's trade directorate. It is no secret that European trade policy is in disarray. The EU is attempting to negotiate free trade deals with Malaysia and Indonesia. Unilateral moves by member-states would only undermine good-faith negotiation.

Brussels had issued a warning to France over its last attempt to penalise palm oil. Is it prepared to do so again?

MPOC



Ending Tropical Deforestation

Have we got our priorities backwards?

In working to change the world, there's always a need to keep asking ourselves whether we're focusing on what's most important. This certainly applies to the effort to end tropical deforestation, which is why I and my UCS colleagues have put a lot of emphasis on figuring out what causes – and in particular, which businesses are the main drivers of – deforestation.

Unfortunately, a recent study indicates that the global corporations that have committed to ending the deforestation they cause, have got their priorities backwards. And it suggests that the NGO community – and that definitely includes me – may have had our priorities wrong too.

The study, by Climate Focus and many collaborators, is part of an assessment of the impact of the New York Declaration on Forests two years ago. That Declaration, launched at the September 2014 Climate Summit that also featured a march of 400,000 people through the streets of New York, highlighted commitments by hundreds of companies, governments, NGOs, Indigenous Peoples' groups and others to work towards a rapid end to deforestation.

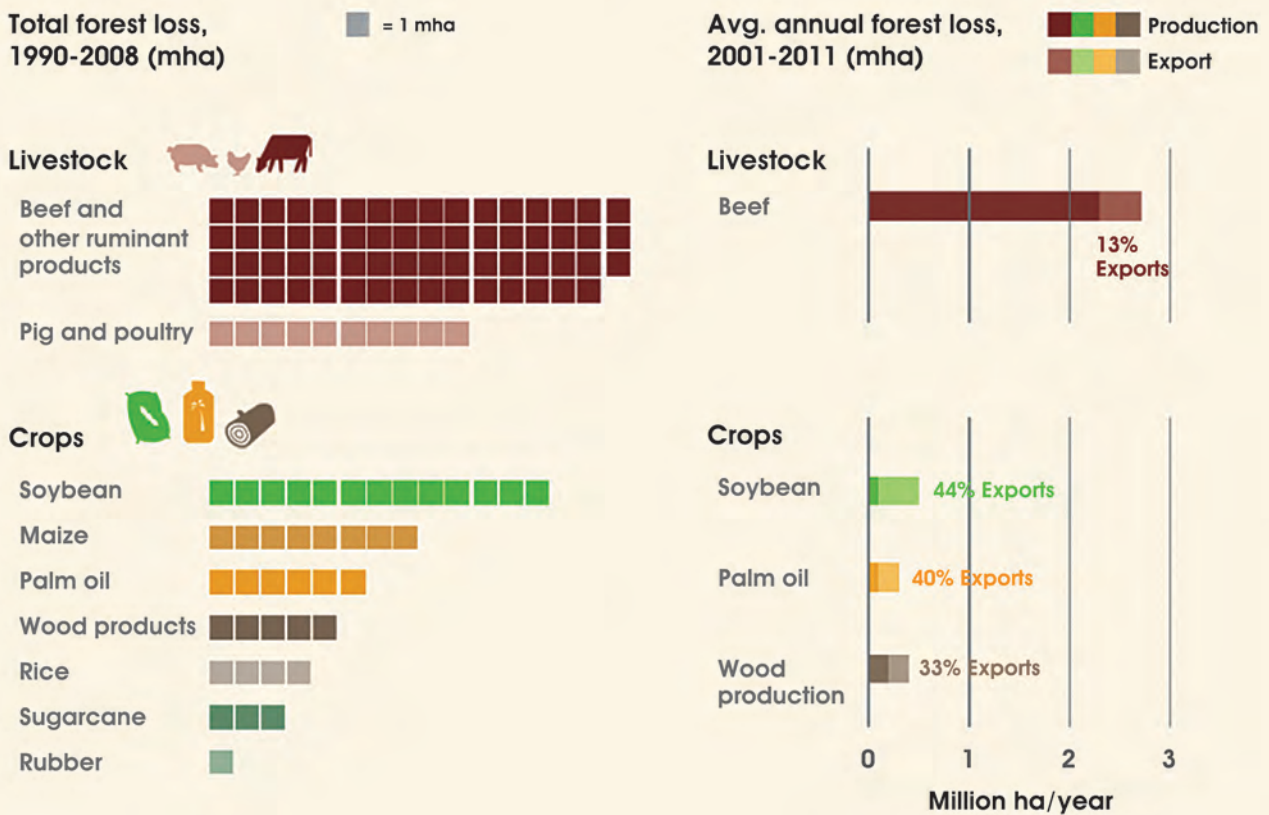
The Climate Focus report looked in particular at the Declaration's 'Goal 2': 'Support and help meet the private-sector goal of eliminating deforestation from the production of agricultural commodities such as palm oil, soybean, paper and beef products by no later than 2020, recognising that many companies have even more ambitious targets.'



The September 2014 Climate March through the streets of New York, with yours truly on the left, helping to carry the UCS banner. The New York Declaration on Forests was launched just a few days later.

Source: Doug Boucher, UCS

Figure 1: Deforestation linked to major agricultural commodities



The main commodities driving deforestation, from the analysis of Climate Focus based on two different data sources.

Source: Climate Focus 2016. <http://climatefocus.com/publications/progress-new-york-declaration-forests-goal-2-assessment-report-update-goals-1-10>

In evaluating progress toward achieving Goal 2 by 2020, Climate Focus looked at the most recent data showing the main drivers of deforestation. Figure 1 gives these results, from two different data analyses (on the left, from Henders *et al*, 2015; on the right, from the European Commission 2013).

The data is pretty clear: by far the biggest driver of deforestation is beef. Soybean is second, but far behind in terms of importance. And palm oil and wood products are even smaller drivers, causing only about a tenth as much deforestation as beef.

You'd expect that corporate priorities, as shown by their pledges to eliminate deforestation, should reflect the relative importance of these four drivers, at least approximately. But Climate Focus found that in fact, it's the opposite. This is the percentage of active companies that have made pledges concerning each of these four drivers:

- Palm oil – 59%
- Wood products – 53%
- Soybean – 21%
- Beef – 12%

So, it's not just that the percentage of commitments doesn't reflect the

importance of the drivers. It actually reverses them. The more important a commodity is, the less likely that a company will have pledged to eliminate the deforestation that it's causing. We're just three years away from the Declaration's deadline, but only one out of eight corporations have even stated a pledge to reach that 2020 goal for what is the largest driver of deforestation by far.

The Climate Focus report goes into more depth about this, but in all honesty, and in a self-critical spirit, I have to admit that one reason that companies have

emphasised palm oil and wood is that we NGOs have pushed them the hardest on those commodities. And the 'we' here includes UCS, and me personally during most of the time that I directed UCS' Tropical Forest and Climate Initiative (2007-2015).

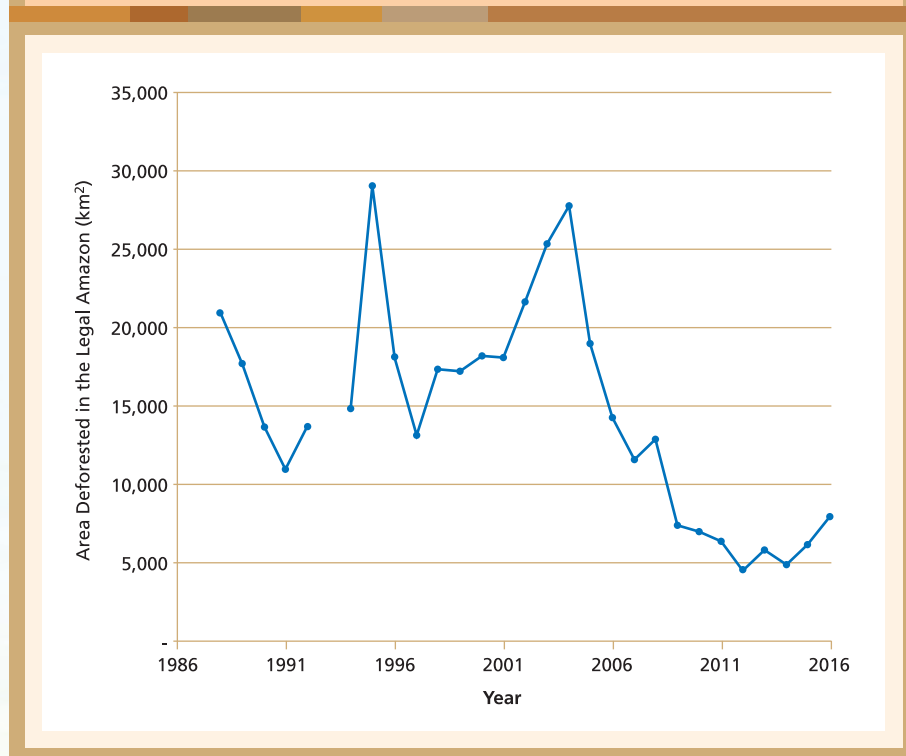
Sure, we had good strategic reasons to focus on palm oil. Some of these were based on data – palm oil was growing rapidly in terms of global consumption, and was linked to the tropical peat clearance that releases large amounts of global warming pollution.

Other reasons were more emotional – we could see that *orang utan*, which are threatened by the expansion of oil palm plantations, are incredibly cute and charismatic. But the end result was that we concentrated on getting corporate zero-deforestation commitments relating to crops that weren't the main causes of deforestation.

In the last year, UCS has changed the emphasis of its zero-deforestation campaigning to beef cattle and soybean, and I've helped by pointing out its overwhelming importance in other reports that I've written. But looking backward, even though the companies can't escape their fundamental responsibility for their own actions, pledges and priorities, we in the NGO community should have done better too.

This issue of misplaced priorities was made all the more poignant by the recent release of the past year's annual data on deforestation in the Brazilian Amazon. It's not good news – almost 8,000 km² of forest were cleared from August 2015 to

Figure 2: Annual deforestation in the Brazilian Amazon (km² per year, August through July)



Source: Brazilian National Institute for Space Research: <http://www.obt.inpe.br/prodes/index.php>

July 2016. Figure 2 shows the data for the last two decades, from the Brazilian National Institute for Space Research.

You can see that this is the second year in a row, and the third of the past four years, that deforestation has risen. Although the level is still down about 60% from the average for the decade around the year 2000, the recent trend is in the wrong direction.

Why is this relevant to the issue of priorities? Simply because beef is by far the biggest driver of deforestation in the Amazon, and soybean is the second. There are lots of factors related to the increase (e.g. the political turmoil leading up to the impeachment of Brazil's President Dilma Roussef and her removal from office in August) but it's hard to

argue that the lack of corporate commitments to ending Amazon deforestation was totally irrelevant.

I don't want to go overboard with the *mea culpa* here. Companies have to take responsibility for their actions, and their lack of action. They can't just say "the NGO community made me do it". But the Climate Focus report and the new data from the Amazon demonstrate forcefully that when we get the priorities wrong, there are consequences.

Doug Boucher,
Scientific Adviser, Climate and Energy
Union of Concerned Scientists

This blog-post dated Dec 14, 2016, is reproduced with permission.

A Rare Apology

But does it go far enough?

NGOs and campaign groups almost never admit that the oil palm industry is in the right as far as deforestation claims are concerned. However, the Union of Concerned Scientists (UCS) – a US-based campaign group – has bucked the trend.

In a blog-post on Dec 14, 2016, (see page 37) it pointed out that oil palm cultivation is not the environmental bogeyman that NGOs have made it out to be. Why? Because it is not a major contributor to global deforestation.

What changed the UCS stance is a 2016 report by Climate Focus, written for signatories to the New York Declaration on Forests. In particular, it looked at the Declaration's 'Goal 2' – to support and help meet the private-sector goal of eliminating deforestation from the production of agricultural commodities such as palm oil, soybean, paper and beef products by no later than 2020, recognising that many companies have even more ambitious targets.

The study found that agricultural commodities such as beef, soybean and maize have a significantly higher deforestation footprint than the oil palm. In the case of beef, it is about 10 times more. The analysis also examined data from the European Commission (EC), which has previously looked at the deforestation footprints of the commodities.



The study pointed out that oil palm companies have made significantly bigger commitments to zero deforestation than any other commodity group, despite being a much lower contributor.

The UCS *mea culpa* has larger implications for environmental campaigning. As the blog-post states in part:

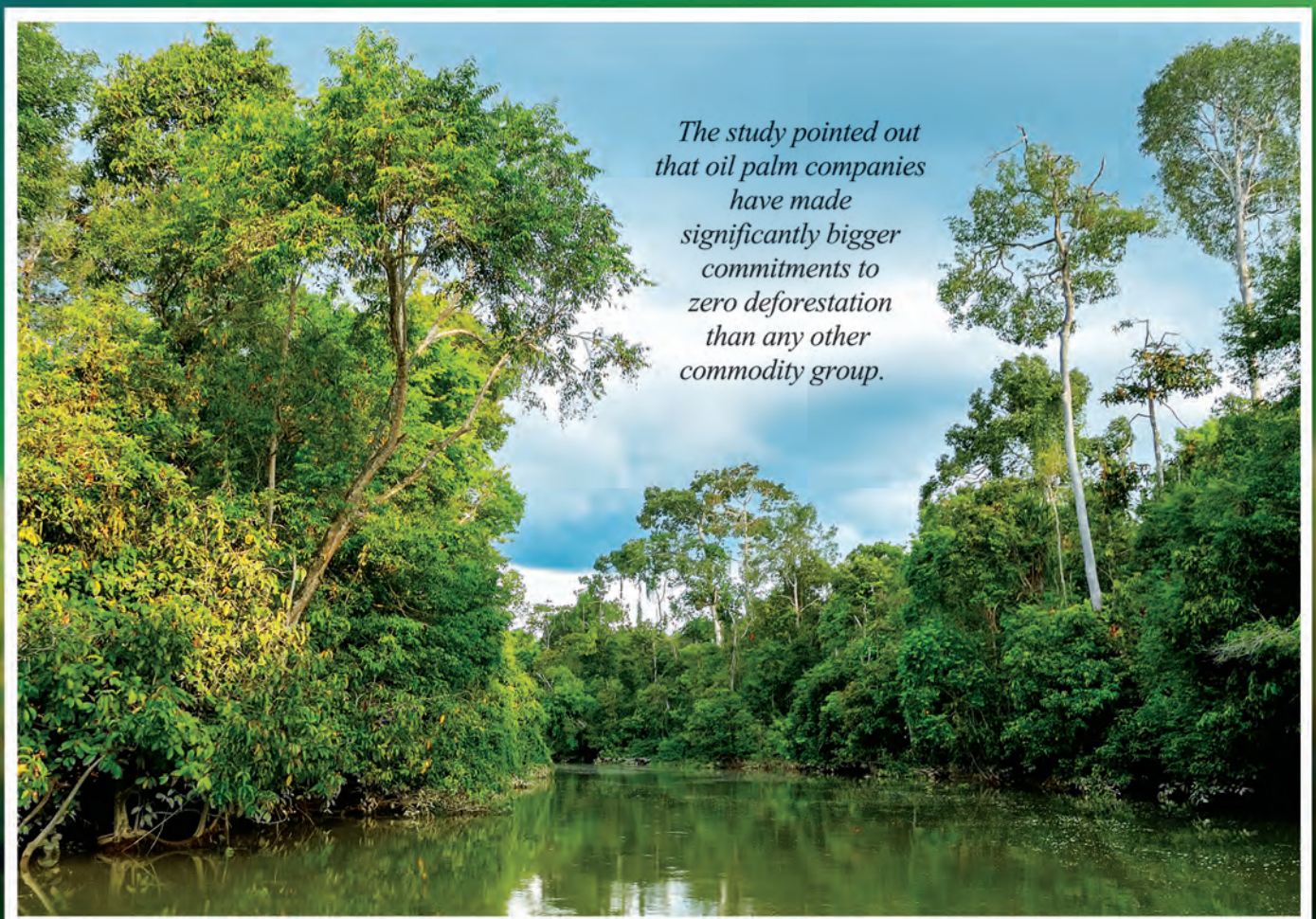
'In working to change the world, there's always a need to keep asking ourselves whether we're focusing on what's most important. This certainly applies to the effort to end tropical deforestation, which is why I [scientific adviser Doug Boucher] and my UCS colleagues have put a lot of emphasis on figuring out what causes – and in particular, which businesses – are the main drivers of deforestation.

Unfortunately, a recent study indicates that that global corporations that have committed to ending the deforestation they cause, have got their priorities backwards. And it suggests that the NGO community – and that definitely includes me – may have had our priorities wrong too.'

The issue for the broader campaigning community is whether they will now cease their absurd attacks on the oil palm industry and if they will apologise for erroneous claims.

Damage done

A bigger question, though, involves the funding that continues to be associated with such NGO campaigns.



The Climate and Land Use Alliance, a coalition of US-based foundations, has funded myriad activities against palm oil. A look at its Global Grants list indicates that it has spent more than US\$13 million across 38 such projects – including US\$3 million to Greenpeace.

Compare this with its spending on five activities involving soybean (US\$2.5 million) and several on beef (US\$759,000). The beef projects were not even exclusive activities; these also looked at different commodities.

Greenpeace is in the middle of utilising a US\$1 million grant directed at palm oil, as is the Rainforest Action Network. Friends of the Earth is working through a US\$400,000 grant. It's no wonder the campaigning against palm oil and the subsequent commitments have been skewed: there was simply more money thrown at it.

Another factor is that there is no substitute for beef. And since the world's largest beef producers are the US and the EU, negative campaigns are simply not politically tenable.

In the EU, palm oil can be substituted with competing domestic products such as sunflower and rapeseed oils. As such, generating an environmental case against the oil palm – which is really only grown in two countries that are not major trading partners – is a no-brainer.

This is not the first time that environmentalists have declared war on a particular industry and got the underlying facts wrong.

During the 1990s and most of the 2000s, campaigners concentrated heavily on the timber industry. There was an assumption that demand for wood was leading to global forest loss. This resulted in campaigns against paper products and raised an entire industry of consultants working on illegal logging policy. But it was not timber demand that was the problem: it was the need to grow food.

But there is little disadvantage for NGOs if they are proved wrong. Greenpeace claimed for a long time that tropical deforestation was responsible for about 25% of global carbon emissions. The estimate is now much closer to 10%. Greenpeace would no doubt justify this by saying it had brought attention to the issue.

In the case of palm oil, though, erroneous information has harmed the commodity's reputation and affected the livelihood of some three million small farmers who grow oil palm. While they are surely the ones who could do with an apology, will this be enough to repair the damage done?

MPOC



'Social Case' to Deter Palm Oil Use

Campaigners' latest move



happened in many countries. There has been considerable pressure to have palm oil specifically labelled in Europe. Lobbying by NGOs is now focused on extending this to the US, Australia and New Zealand.

Once palm oil is identified by consumers through labelling, the second and more insidious part of the campaign takes off. This pushes for products to be 'free of palm oil'. The outcome can already be seen in the proliferation of the 'No palm oil' label affixed to products by food manufacturers across Europe.

Use of the label, though, is clearly illegal. There are rules governing the use of negative claims in food labelling in the EU and Australia. There needs to be justifiable cause as to why something is labelled 'free' of a particular ingredient. In most cases this is for health reasons, as in the case of dairy or soybean products; these are known sources of allergens. The label should not be applied to palm oil, as it is not an allergen.

The real goal is to poison the minds of consumers. When enough products indicate and advertise that they do not contain a specific product, consumers are led to believe that these are 'socially unacceptable' to consume.

Campaigns against palm oil have evolved over the years. In the 1980s and 1990s, the US soybean lobby campaigned against it on purported health grounds. Since 2000, the campaign has shifted to alleged environmental concerns, largely supported by the rapeseed and sunflower industries in Europe and led by radical Green NGOs.

In recent years, this has taken on a new and more comprehensive approach. Its clear objective is to make palm oil 'socially unacceptable'. This new approach has been aggressive.

Even Britain's Prince Harry has been drawn into the debate, remarking that products containing palm oil should carry a label "like cigarettes", as a form of health warning. His comments, reported in the UK's *Sunday Express* newspaper (Dec 4, 2016), were made during a visit to the Iwokrama International Centre in the Guyana rainforest.

His misinformed proposal is reminiscent of radical tactics that attempt to shut down or restrict products to which campaigners raise objections for various reasons. Palm oil has been in their sights, but they have a new playbook.

The first part of the campaign is well underway. That is the push to make palm oil consumption more visible – an easy-to-see target in food products, as has

Tenuous claims

The arguments used by anti-palm oil campaigners remain weak. First, the case on health grounds has been tested over a 30-year period. New evidence has closed it comprehensively from a scientific perspective. The NGOs, however, do not care for science.

Second, there is the environmental case, with the justification for avoiding palm oil taking on many guises. This has gone through the wildlife conservation case; the climate change case; the tropical peatlands case; and more recently, the forest fires and haze case.

In all these cases, the claims have been rebutted with evidence. But what they lack in evidence, the campaigners will make up with persistence. They know that if a message is repeated often enough, people will simply accept it.

Third – and this is the newest part of the campaign – is the attempt to make

a social case against palm oil. The most recent attacks have been based on allegations of child labour, human rights abuses and land rights infringements.

This last part of the campaign is particularly dangerous, and has mainly been projected to a US audience. It must be urgently dealt with if palm oil is to avoid this narrative becoming as ingrained in the minds of end-users, as is the environmental narrative in Europe.

In most cases, no distinction is made in relation to the source of palm oil – whether by company or country, and whether sustainably produced or not. The target is the commodity itself.

And as is often the case in western markets, people do not necessarily need legitimate reasons to think something is unacceptable. If they are convinced by consistent NGO and media claims that a

product is socially or morally unacceptable, they will ignore scientific evidence and legal rulings.

Tobacco, of course, is the ultimate socially unacceptable product. Prince Harry's comments were not an accident. The comparison with tobacco is the dream of palm oil's opponents. This is how they would like palm oil to be treated – taxed, restricted, ostracised.

The weak arguments against palm oil have not changed. Neither has the determination of opponents. What has changed is that there is now a concerted plan using all methods available to send palm oil down the same well-trodden path to social banishment as products like tobacco. The palm oil industry must act fast to avoid this fate.

MPOC



Prince Harry's comments were not an accident. The comparison with tobacco is the dream of palm oil's opponents.



Fake news on Palm Oil

The fear factor

During the 2016 US presidential election, the term 'fake news' gained popularity. In essence, the discourse centred on news articles, especially those frequently shared on popular social media websites, that arguably provided biased or even false information regarding the candidates, and may have even contributed to determining voters' choices.

However, the concept of 'fake news' is not new to the palm oil industry which is regularly confronted by articles that use incomplete or manipulated data; which are regularly supported by competitors to distort trade; and which create fear among consumers against consuming palm oil.

In particular, large corporations that cultivate oil palm and retailers that sell goods containing palm oil are regularly shamed by the media, as well as by dedicated organisations and websites. Oil palm cultivation is, for example, is blamed

as the one and only source of all deforestation and biodiversity loss, and as being wholly unsustainable.

There have certainly been cases of unsustainable business practices within the whole spectrum of the vegetable oil, cattle and forestry industries. However, the palm oil industry has made unmatched efforts to improve its production processes and procedures over the past decades, including signing up to global and/or national sustainability standards. This is seldom highlighted.

The reality is simply manipulated through 'fake news' that take occurrences out of context or place all the blame on oil palm cultivation, without objectively factoring-in all the sustainable features of this industry; particularly if compared with competing vegetable oils in terms of the yield per hectare, and the reduced use of pesticides, herbicides and fertilisers, among other aspects of production.

Another way in which palm oil is attacked is from the nutritional and health angles. In early 2016, when asked to prepare a scientific and technical report on the possible toxicity of palm oil as a food ingredient, the Directorate General of Food Hygiene and Nutrition of Italy's Ministry of Health found that palm oil was no worse than butter in terms of consumption of saturated fats. Plus, it is a good source of Vitamin E and does not require hydrogenation to become solid. In other vegetable oils, hydrogenation produces trans fats, which are linked to an increased risk of cardiovascular disease and other health problems.

Similarly, a rash of news stories emerged in May 2016 posing the question as to whether palm oil causes cancer. The reports appear to have originated from the misinterpretation of an opinion published by the European Food Safety Authority (EFSA), which found that certain process contaminants in vegetable oils, margarines and processed

foods may raise potential health concerns, including an increased risk of cancer. Again, the stories improperly singled out palm oil, while failing to tell the whole story.

After studying process contaminants, which are chemical substances produced during food processing, the EFSA found that substantial quantities of such contaminants are present in many oils – including maize, olive, peanut, soybean, sunflower, walnut, coconut and palm oils.

Regardless, the palm oil industry has been aware of this matter and has taken considerable steps to mitigate the presence of process contaminants. The EFSA, in its opinion, recognised these efforts, noting that their levels were halved from 2010 to 2015.

A German consumer organisation conducted independent testing, finding that other vegetable oils actually contained higher levels of process contaminants in certain chocolate spreads. Reportedly, when oil palm fruit is harvested at the correct time, pressed quickly and processed at the appropriate temperature, it results in insignificant levels of contaminants, if any at all.

Real effort required

Unfortunately, the narratives created by ‘fake news’ result in proposed, and sometimes implemented, laws and regulations that run counter to the interests of the palm oil industry and the needs of the consumer:

With respect to deforestation, the European Parliament’s Committee on the Environment, Public Health and Food Safety published its Draft Report on ‘Palm oil and deforestation of rainforests’, and debated it in November 2016. The Draft Report and ensuing debate were clearly influenced by biased news and sources of information, including even references to the ‘reckless cultivation of oil palm’.

The potential effects of such one-sided debates are real – at the European Parliament’s public hearing, there were calls for an increase in import duties on palm oil and a ban on the use of palm oil as a biofuel in the EU. These were then included in the draft Resolution of the European Parliament.

The Draft Report is scheduled to be finalised by March. Even if it does not result in some of the proposed measures, the precedent set by the rhetoric and the allegations voiced during the debate is disturbing.

By driving the narrative and by systematically requiring the palm oil industry to be on the defensive, competitors and detractors can admittedly get away with other non-legal and/or illegal initiatives as well. This is related, in particular, to the

increasing use of ‘No palm oil’ or ‘Palm oil-free’ labels on food products in the EU market.

Arguably, in the EU at least, such labels are non-permitted nutritional claims and misleading and/or self-evident, given that EU law already requires palm oil to be included in the list of ingredients of food products when it is present. Nonetheless, EU institutions and member-states have not been targeting and sanctioning these labelling schemes.

It is the duty of stakeholders in the palm oil industry to increase efforts to counteract ‘fake news’. They should also explore more avenues for legal, commercial, political and/or diplomatic engagement that could lead to better enforcement of existing laws and regulations, or work on clearer legislation that adequately protects the commercial rights and interests of all operators.

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A Fragmented Market

Multiple palm oil certification schemes



Recent media reports have praised yet another sustainable palm oil standard and label, called 'Palm Done Right'. The standard was started by Natural Habitats, a business organisation formed by various operating companies and which has offices in Ecuador, Sierra Leone and the Netherlands. Natural Habitats produces, collects, processes and trades organic, fair trade and sustainable palm oil.

Currently, only two companies supply palm oil under the standard developed by Natural Habitats and Dr Bronner's, a US-based personal care company with operations in Ghana. But it appears that any company that sources palm oil within the 'Palm Done Right' supply chain may use the logo on its products and marketing materials.

The presence of yet another palm oil sustainability standard complicates the market for businesses and operators in

general. Natural Habitats prefers to refer to 'Palm Done Right' as an education programme, but has developed its own sustainability standard and has trademark rights to a logo to be placed on products.

In particular, the standard is for 'conflict-free palm oil', which it believes means that such palm oil is produced organically – using natural pest management, multi-cropping and composting – in a vertically integrated supply chain. Moreover, the oil palm must only be cultivated on existing crop land or on degraded land, be handpicked, and preferably be transported using animal labour.

Natural Habitats is of the view that its standard goes beyond other certification schemes, such as that of the Roundtable on Sustainable Palm Oil (RSPO), which is the most widely-used internationally.

Another popular certification standard is by the Palm Oil Innovation Group. Its

Charter is intended to build upon the RSPO's 'Principles & Criteria' with regard to deforestation, carbon stocks, biodiversity, greenhouse gas emissions, pesticide use and social relations.

At the national level, the best-known and well-structured sustainability standards and related certifications naturally come from the two countries that produce the most palm oil: Indonesia and Malaysia.

- The Indonesian Sustainable Palm Oil (ISPO) standard is a mandatory system. It recognises the differences in capability between large plantations and smallholders, and thus does not serve as an overly burdensome standard on smallholdings around the country.
- The Malaysian Sustainable Palm Oil (MSPO) standard is still voluntary, but has come as a welcome addition for small- and medium-size oil palm growers

who cannot afford the cost of RSPO certification. The MSPO is intended to become mandatory in future.

Even more sustainability schemes relevant to palm oil exist, including the International Sustainability and Carbon Certification (ISCC); the certification by the Rainforest Alliance/Sustainable Agriculture Network; the Roundtable on Sustainable Biomaterials; the Sustainable Palm Oil Manifesto guidelines; and the High Carbon Stock Approach, which itself is built into other schemes.

A viable solution

The lack of cohesion and coherence within the palm oil value chain is resulting in unnecessary pressures on oil palm growers and processors. Each sustainability scheme includes different specific conditions that must be met in order to attain certification.

Although there are some areas of overlap, there are significant differences in the areas covered by each scheme, and in the level of traceability and transparency. Operators must choose which standard, if any, provides the best value; but in some cases, especially with smallholders, many certification schemes are too costly.

Some schemes are also more relevant to certain industries, such as the ISCC scheme, which is more relevant to palm oil that is used to produce biofuel. However, farmers provide bulk quantities of palm oil. So, they must be able to satisfy a wide range of schemes if they

want to sell palm oil to a sustainable biofuel producer as well as a sustainable food manufacturer, depending on which certification each purchaser uses.

Although RSPO certification is the most widely used, its global membership of 3,000 includes actors throughout the palm oil supply chain. Many of them have interests that conflict with those of oil palm growers and palm oil producers.



In some cases, the marketing materials and product packaging of certain RSPO members even incredibly advocate against the use of palm oil through the use of controversial and arguably illegal 'Palm oil-free' or 'No palm oil' labels. Such campaigns and labels significantly influence public opinion and consumer choices against palm oil.

Conversely, national-level standards such as the ISPO and MSPO are realistic and properly account for the plight of small- and medium-size enterprises. In addition, with over 80% of the market for palm oil production, Indonesia and Malaysia hold the power and understanding to shape the industry and its perception, if they wish.

Indonesia and Malaysia have already increased cooperation with the establishment of the Council of Palm Oil Producing Countries (CPOPC), but concrete actions must be pursued. A regional/international standard of palm oil sustainability must be developed, possibly first regionally and then globally at the multilateral level.

An example lies in the chocolate industry. The International Organisation for Standardisation (ISO) is in the process of reviewing a series of new standards (ISO 34101) on sustainable and traceable cocoa beans. There, the standard was originally developed at the regional (European) level, before being proposed as a Draft International Standard before the ISO.

Without any such regional and international agreement on sustainability standards in the palm oil industry, additional schemes will continue to develop, adding costs to businesses and confusion among consumers.

To get there, the world must rely upon the expertise and experience of countries such as Indonesia and Malaysia, which must drive the process within the CPOPC and then internationally. A reasonable standard that accounts for all levels of production can be achieved and will help the industry grow in a responsible and sustainable manner.

FratiniVergano
European Lawyers



How to Beat the Odds

Learn from others

A recurring theme with branding, especially for an industry as removed from mainstream branding as edible oils and fats, is to learn from other areas and then apply the lessons to your own.

Mostly this means looking at product- or industry-branding, but the US presidential election is no exception. The most recent one involved such a strange mixture of surprises that we can only think that there must be useful lessons to be learnt.

Branding and marketing have something in common with events in history in general: after they have happened, events take on an air of inevitability. It is as if, as human beings, we have a strong leaning to look at an event, after it has happened, to say: 'Well, I guess it just had to be that way.'

Now that we are in the wake of Donald Trump's victory, it is all too tempting to think along similar lines. But it wasn't that long ago that not only the US population generally, and Trump's own party particularly, regarded him as a no-hope outsider:

Near enough every poll had Jeb Bush – with fatherly and brotherly links to two previous US Presidents being massive factors – for an easy win for the presidency, with nomination by the Republican Party being almost a given.

Putting all this together meant that Trump's odds of becoming president were miserably low:

- In October 2013, 150/1 against
- In June 2015, 55/1 against

Right before the election, Hillary Clinton was the pollsters' favourite to win. Yet all these 'expert opinions' turned out to be wrong. So what happened?

Moral of the story

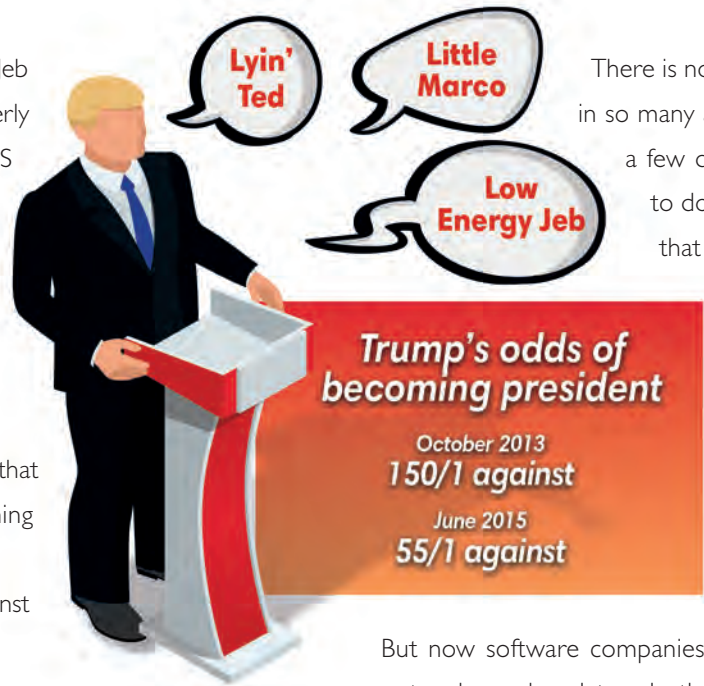
It is a remarkable story, with quite a few important lessons for any industry, including oils and fats. Here are a few of my personal favourites.

Style versus substance

Trump was, without doubt, one of the most flamboyant and controversial candidates that US voters have ever seen. His loud confident style (even to the point of appearing arrogant) made him starkly different from the much more reserved Clinton and most previous presidential hopefuls.

But then this contrast is not entirely new. Back in the 1960s, with the US presidential race between John F Kennedy and Richard Nixon, there was a parallel contrast. The flamboyant and outgoing character was Kennedy and the sterner one with the more stilted, think-a-bit-before-speaking style was Nixon.

Flamboyance won the day, with one factor being that people viewed it as a breath of fresh air. They probably don't remember much about the facts and policies of that election. To a much greater degree, it was about personalities.



There is no doubt that personalities matter in so many areas of branding nowadays. Just a few decades ago, branding had more to do with products and function, but that is changing. A good example would be software. When I went to university in the 1970s, one of the most boring and socially-alienating topics for a young student was code and computer programmes.

But now software companies like Google and Facebook are not only cool and trendy, they are also highly personalised. Everybody knows Mark Zuckerberg, Serge Brin and Larry Page. Not only are they socially acceptable as people, they are treated like rock stars everywhere they go. Along the way, their companies have become bigger than those of manufacturers or oil corporations in terms of market capitalisation.

Label, label, label

A good general rule is that people like labels. Unfortunately, labels are also the cornerstone of prejudice whether we are talking about race, nationality, age, gender or religion. We all know labels are not the nicest thing to apply to a fellow human being and that these are unintelligent, but they still have a timeless appeal to all kinds of people in general and US voters in particular.

After all, we want to simplify our lives, and prejudices save us all that tedious thinking time and mental energy. Trump made the most of this. He used the manoeuvre of labels time and time again. This happened to the degree of Trump becoming something of a master of the 'belittling moniker', the likes of which most of us have not heard since leaving school.

There's a long list of examples, but these are Trump's most famous and often-quoted ones:

- Ted Cruz became "Lyn' Ted"
- Marco Rubio became "Little Marco" (as if height was ever a key factor)
- Jeb Bush became "Low Energy" Jeb

Get in first

Following on from the previous point, Trump's opponents made the classic mistake of becoming inflamed by his silliness and reacting in kind to his somewhat school-boyish tactics. This, as a response tactic can be fatal. Roman historian and senator Tacitus said it well: 'Abuse, if you slight it will gradually fade away, but if you show yourself irritated you will be thought to have deserved it.'

This hot news is around 2,000 years old, but it has mysteriously not caught on in some circles. Also, it points out a key point: if you are going to react, don't do it in such a way that shows your irritation (and in some way deserving of it).

Marco Rubio, responded to Trump's abuse by playing the same game and calling him "Big Donald", which failed on several counts:

- Abusing in kind gives credibility to the first salvo. If you're going to play that game, then you are always going to be playing catch-up. Trump was first.
- "Big" isn't exactly an insult.
- If you're going to play the 'silly insults game', there is one rule: be first. And if you can't be first, be interesting. Unless you have the withering sarcastic wit of Oscar Wilde, then the message is simple: don't play in a game where you know you are going to lose!

Jeb Bush managed a similar super-shot to his own foot by countering Trump's accusation with "Ever ready". Witty it wasn't. Forgettable it was.

Play the outsider

A great rule in branding is: people get bored easily, so do something to make yourself look different. This has been the case for centuries, but the pace has accelerated in recent years with the smartphone, Facebook and Twitter. Whether you like it or not, we are now in 'generation mouse-click' and boredom sets in quicker each year.

Now this is one area where the oils and fats industry has something in common with politics. Let's face it, most people would rather be watching TV, chatting with friends or having a nice meal, rather than analysing politicians.

Don't sweat the detail

Most people would have thought that Trump's comments – caught on tape

too – on inappropriate sexual behaviour with women, would have been the end of his political life. But this was not the case at all. In the end, all he had to do was say that he regretted those "locker room comments" and most voters forgot it. Life just seemed to move on.

Keep it simple

Education is a funny thing. Many, when they get out of university with the prized

Abuse, if you slight it will gradually fade away, but if you show yourself irritated you will be thought to have deserved it.

Tacitus, Roman historian and senator





degree gripped in their hands, end up with a disproportionate amount of faith in two things – facts and logic.

But people in general, and the voting population in particular, couldn't care less about either. The whole game of 'connecting with your market' has far more to do with funny human things like how engaging the speaker is; and how easy it is to understand the message.

Trump had an abundance of both. Yes, love him or hate him, one had a tendency to listen to him, just to see what he was going to say next. As for the critical topic of 'how he said it', Trump was a master of simple language.

Quite a few academics have looked at language complexity and a standard measure (i.e. how many big words are used) is the Flesch-Kincaid scale. According to *The Boston Globe*, presidential hopefuls ranked as follows:

- Donald Trump: 4.1
- Hillary Clinton: 7.7
- Bernie Sanders: 10.1

In other words, Trump talks at the level of a schoolboy (4th grade in the US system), mostly with words of one syllable;

when he did venture into three-syllable words, it was mainly the use of "tremendous". By contrast Sanders sounded like a university graduate, while Clinton was somewhere in the middle.

Trump's method was to keep it blunt and keep it simple. Shock value didn't do him any harm either, such as his infamous reference to Mexicans as "rapists". This meant he kept getting in the news and reinforced the old adage: there's no such thing as bad publicity.

To what degree do these lessons apply to the oils and fats business? Well, I'd say they all give useful insights on how the masses and the media work generally, in the western world in particular:

Take all of the above on board, but if you want a one-liner (which is the message), forget facts, forget logic, and focus on Trump. You won't beat the odds with intellect – but with the right delivery.

Dr Ian Halsall
Author & Researcher

Bullish on US Biofuels Industry

Five reasons for optimism



On Nov 23, 2016, the US Environmental Protection Agency (EPA) finalised the 2017 Required Volume Obligations (RVOs) for biofuels under the Renewable Fuel Standard (RFS). The overall volume was increased to 19.28 billion gallons versus the 18.8 billion gallons proposed by the agency on May 18.

This was the fourth consecutive year the EPA has boosted final volumes from the initial proposal and only the third time they have been finalised by the Nov 30 statutory deadline. The announcement was welcome news for the renewable fuels sector and will mean growth in both ethanol and biodiesel production, as well as consumption, in 2017.

The 428 million gallon boost in the renewable fuel volume (Table 1) was based on the increases of 200 million gallons for the implied conventional biofuel (i.e. corn ethanol) category and 228 million gallons for the advanced category.

Why WPI is bullish:

- Increased RFS volumes will boost demand for biodiesel and ethanol
- Higher RINs prices will support blending of ethanol and biodiesel
- Exports will help add value to ethanol producers
- Fulfilling the advanced biofuels mandate will require more biodiesel
- Loss of the biodiesel blenders' credit will lower biodiesel profitability

Table 1 : US – Required Volume Obligations (billion gallons)

	2016	2017 proposed	2017 final
Total Renewable Fuel	18.11	18.80	19.28
Overall Advanced	3.61	4.00	4.28
Biomass-based Diesel	1.90	2.00	2.0
Cellulosic Biofuel	230	0.311	0.311
Implied Conventional (corn ethanol)	14.50	14.80	15.0

Sources: EPA, WPI

Biodiesel producers generally maintained profitable margins last year and will see slightly higher supply and demand in 2017 as a result of the RVOs (Figure 1).

While the 2017 and 2018 RVOs for biodiesel remained the same as the proposed rule, the increase in the overall advanced category will likely rely on that particular fuel to meet the target. This is because there is neither enough cellulosic nor other advanced biofuels supply to meet the overall volume requirements. Indeed, on the day of the EPA's announcement, the January soybean oil futures contract rose from \$0.34 to \$0.37 based on the assumption that more biodiesel production would draw down end-of-the-year stocks.

However, the soybean oil market seemingly overreacted given the nuances of the biofuels market. Back in May 2016, the EPA proposed the advanced category be set at 4 billion gallons, which would be split between biodiesel and cellulosic biofuels with important implications for Renewable Identification Numbers (RINs).

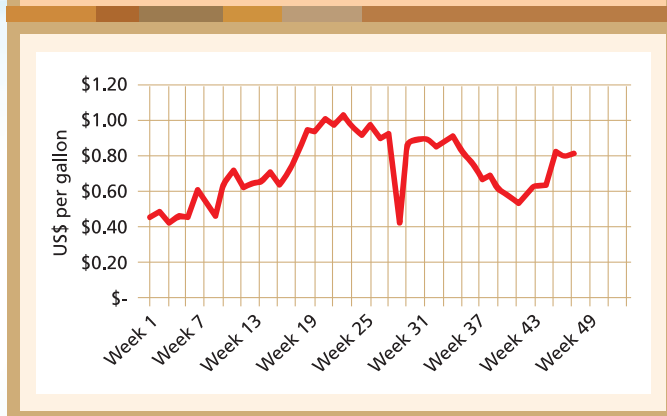
Biodiesel RINs are based on an ethanol gallon equivalency of 1.5-1.7, depending on the type of biodiesel. Thus, one wet gallon of biodiesel generates 1.5 or 1.7 RINs. The weighted average for the overall supply of biodiesel is about 1.54 RINs/wet gallon.

Accordingly, the 2 billion gallon volume established for the biodiesel category will actually generate about 3.08 billion ethanol-equivalent RINs. Adding to the biodiesel RINs is the cellulosic category of 311 million RINs. As a result, the proposed volumes provided for a residual volume for undifferentiated advanced biofuel of 609 million gallons.

In setting the final volume for advanced biofuel at 4.28 billion gallons, however, 280 million gallons were added to the overall advanced biofuel category, making the undifferentiated category grow to 889 million gallons. There is unlikely to be a supply of either cellulosic or other qualifying undifferentiated biofuel to fulfil this category, meaning most of it will be made up by excess biodiesel. Indeed, if biodiesel were to make up all of this category, it would require about 577 million wet gallons of physical biodiesel, implying a mandate of 2.577 million gallons.

Trends through September in biomass-based diesel and renewable diesel production in the US plus imports indicate the total biodiesel supply is likely to reach nearly 2.5 billion gallons.

Figure 1: WPI-estimated biodiesel gross margin (returns per gallon for soybean oil methylester)



Sources: USDA, EIA, WPI

This would suggest the market overreacted to the EPA announcement, and yet the January soybean oil contract closed the month at \$0.37.

The biggest threat to the biodiesel sector is the fate of the \$1 per gallon blenders' tax credit, which was set to expire on Dec 31, 2016. Congress did not extend the Bill during the lame-duck session, and any further action on the credit will have to wait until 2017.

There is a slight chance a tax reform package may move through Congress in 2017 that could apply the credit retroactively. Moreover, it is possible that potential legislation could reform it into a producers' credit instead, but the odds are very high that there will be no credit to start 2017. The safer bet is that Congress will take up tax reform in 2018.

The tax credit has faced expiration before. According to a paper by Scott Irwin of the University of Illinois that analysed a representative Iowa biodiesel plant, 'The Profitability of Biodiesel Production in 2016: Feasting on an Expiring Tax Credit?' (*farmdocdaily.illinois.edu, July 27, 2016*), the biodiesel industry was profitable in 2011 and 2013, which were both years when the credit faced expiration. During those years, blenders bid up the price of biodiesel to secure the value of the credit, making biodiesel production profitable.

An analysis of the ratio of biodiesel prices to soybean oil prices (Figure 2) shows that 2016 is following the same pattern as 2011 and 2013, whereby the yearly ratio is exceeding the long-term

average. Based on the price action of 2012 and 2014 (years following credit expiration), biodiesel profitability is likely to fall again in 2017.

Ethanol margins

Ethanol has, in some respects, become a forgotten industry. Production and consumption have been assumed to stay flat, and there is little talk of new ethanol plants being built or of updates or expansions to existing ones. The US is, by most accounts, up against the blend wall unless the percentage of ethanol blended in gasoline is pushed above the 10% level. Gasoline consumption in the US has been declining as the automobile fleet becomes more efficient.

In contrast to a stagnant domestic industry, ethanol production has been better than expected over the past several months, primarily on the strength of ethanol exports. Figures 3-5 show that weekly ethanol stocks have been rapidly declining even while weekly ethanol production has been growing.

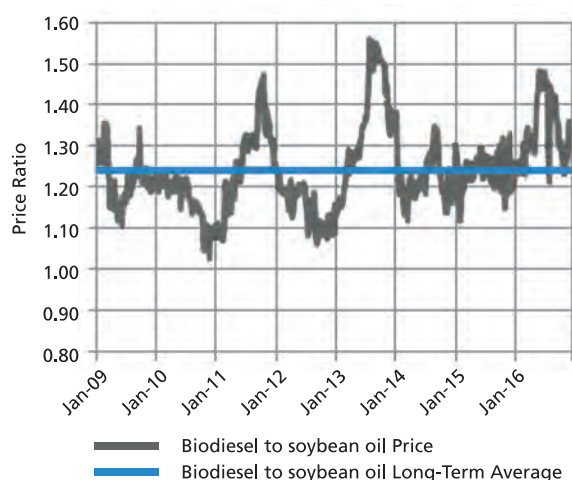
The combination of declining stocks amidst higher production has led to a boom in ethanol margins that started in late April 2016 and has continued since, largely based on cheaper corn prices and strong RIN values.

The profitability of ethanol production is sending more corn into the plants than was previously expected. Figure 6 compares weekly corn use in ethanol production against the weekly amount needed to meet the USDA's goal of 5.3 billion bushels for the 2016/17 corn marketing year. Note the target in the previous two marketing years was 5.2 billion bushels and that 5.3 billion bushels represent 35% of the record 2016 US corn crop.

To meet the USDA's forecast, ethanol producers must use 100.1 million bushels of corn per week; 109.2 million bushels were used during the week of Dec 9, 2016. If the current trend continues, the USDA will have to raise its ethanol demand forecast for the 2016/17 crop year.

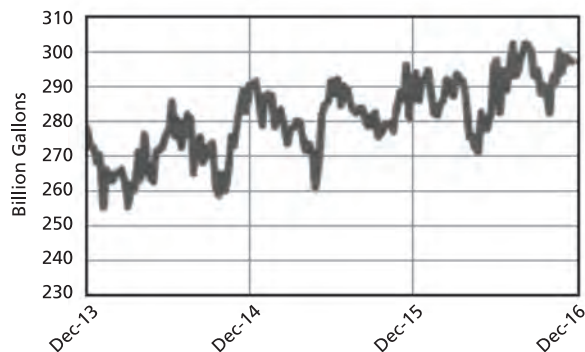
Under the EPA's final RVOs, the implied conventional mandate for corn ethanol is now at the statutory maximum of 15 billion gallons. This is because the agency did not use its general waiver authority to avoid breaching the blend wall. Total motor gasoline consumption is projected to be 144 billion gallons based on the US Energy Information Administration's (EIA's) October Short-Term Energy Outlook. In the proposed rule, the EPA assumed the use of 14.4 billion gallons of ethanol and the conventional

Figure 2: Ratio of biodiesel to soybean oil prices



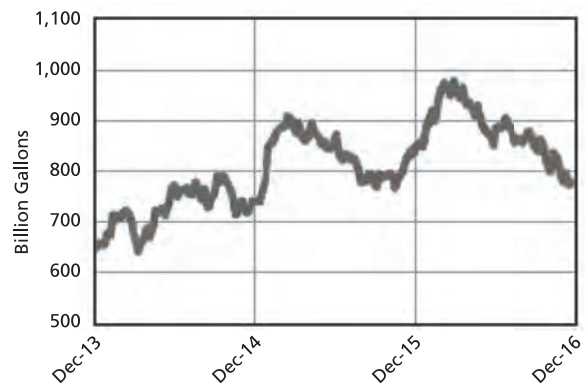
Sources: USDA, WPI

Figure 3: Weekly ethanol production



Sources: EIA, WPI

Figure 4: Weekly ethanol stocks



Sources: EIA and WPI

category's remaining 400 million gallons to be made up of non-advanced renewable fuels.

In the final rule, however, the EPA states it is assuming an increase in motor fuel use in 2017, but the mandated volume is still likely to exceed the 10% blend wall. Ethanol production over the mandated volume will go into stocks and exports. WPI is projecting that 2017 ethanol production will reach 15.5-15.75 billion gallons, which would represent 5.3-5.6 billion bushels of corn use.

Ethanol prices have been more expensive than gasoline blendstock for much of the year. That has limited discretionary blending, but exports are picking up the slack (Figure 7). They accounted for more than 830 million gallons last year and are trending 13% higher through September.

The primary reaction to the EPA's announcement of a higher ethanol volume has been in the RINs market where prices spiked nearly 15%. In addition to being a compliance mechanism under the RFS, RINs are the implicit subsidy to produce ethanol and thus part of the value of each gallon of biofuel to which they are attached.

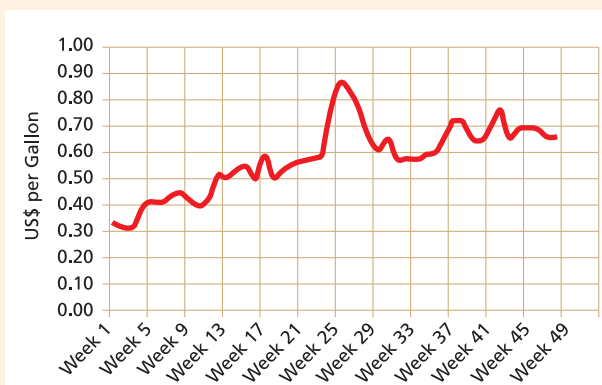
According to the EIA: '[RINs provide] ... an economic incentive to use renewable fuels. If RIN prices increase, blenders are encouraged to blend greater volumes of biofuels, based on their abilities to sell both the blended fuel and the separated RIN.'

Under the RFS, the effective cost incurred by obligated parties is the cost of ethanol-net-of-RINs. This is derived from the ethanol mills' ability, as described by the EIA, to blend the fuel and separate the RIN. Thus, as RIN prices rise, the net marginal cost of blending ethanol at a fixed price is actually reduced for obligated parties.

Ethanol margins should remain strong for the foreseeable future. Corn supplies are certainly plentiful with US ending stocks projected to exceed 2.4 billion bushels. Crude oil prices are near their highs for the year, but will be dependent on the success or failure of an OPEC agreement to limit production going forward.

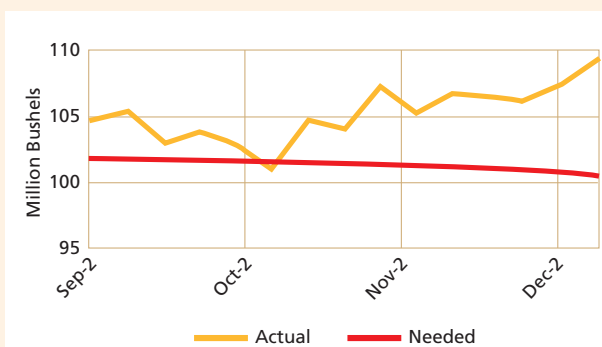
Dave Juday, Mike Kruger & Matt Herrington
 Ag Review Dec 2016
 World Perspectives, Inc

Figure 5: WPI-estimated gross ethanol margin (including corn oil extraction)



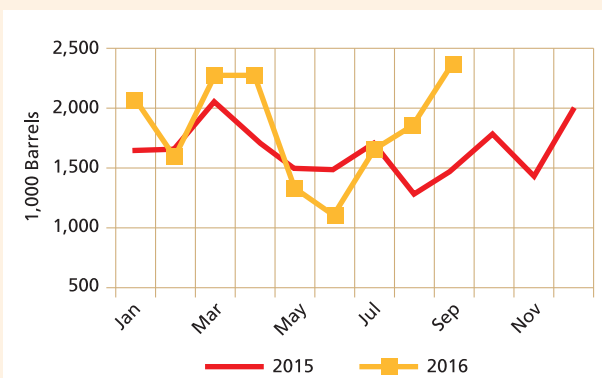
Sources: USDA, EIA, WPI

Figure 6: Weekly corn use for ethanol: Actual vs needed to meet WASDE forecast



Sources: EIA, USDA WASDE, WPI

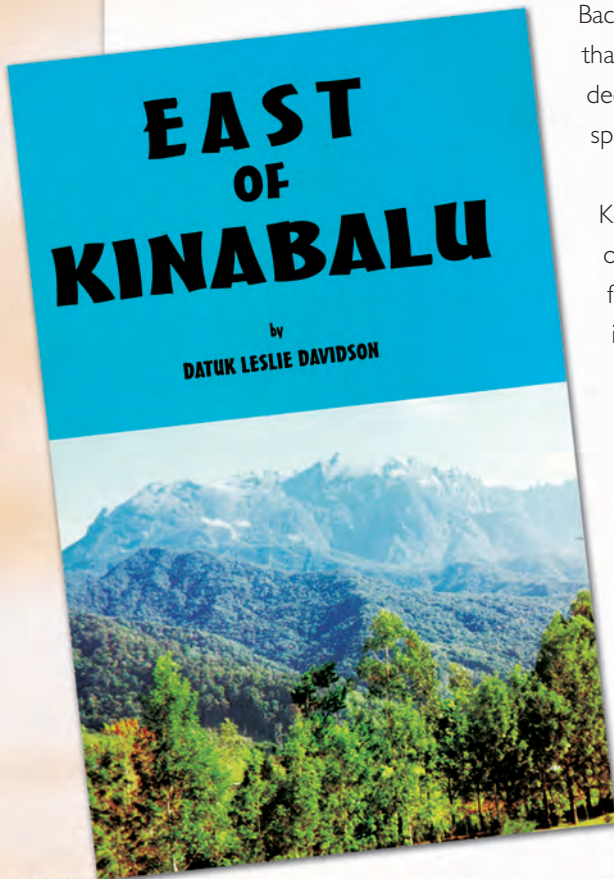
Figure 7: US ethanol exports



Sources: EIA, WPI

The Balanini Pirates, Part 2

Job search



Back at the office jetty There was a hail from the boat and I realised that our friend Ibrahim was one of the passengers standing on the deck. I breathed a sigh of relief. It was obviously not a pirate attack, in spite of appearances.

Keeping a wary eye on the dogs, Ibrahim brought the group to my office and introduced me to the leader. His name was Centi and his father, said Ibrahim, was Panglima Abdul Kalil, a native chief on the island of Tawi Tawi.

Centi was a tall, rather handsome young man. He could speak reasonably good Malay and a smattering of English. He explained that he and his friends were looking for jobs for a few months. Throughout most of the year, he said, they worked as fishermen in the southern Philippines.

However, when the northeast monsoon, from December to February, made the Sulu Sea too rough for their boats to operate, it was necessary to find work on land. His father had heard that we were starting a big development in the Labuk and had sent them over to get temporary work with us. He had asked Ibrahim to put in a word for them.

Apart from Centi, they really were a murderous-looking bunch. They were burned a dark mahogany colour by the sun. They were taller than any of the other races that worked on Pamol. Some of them wore white turbans wound around their heads. Others wore the characteristic round cane-helmet which is common in the southern Philippines. Most of them carried a long parang in a wooden scabbard at their waist.

I was understandably still a bit dubious about them. John Wyngarten came through to my office. As a Dutchman who had spent most of his life in Indonesia, he knew more about the various island races than most Europeans.

He looked at the men standing outside and snorted disbelievingly. "Fishermen? I bet none of them have ever pulled in a fishing net in their lives. They're a bunch of Balanini pirates. I would steer clear of them if I was you."

John spoke in English but Ibrahim obviously got the gist of it. "These men are indeed Balanini," he said to me, "but I have known Centi and one or two of the others since they were boys, and their chief Abdul Kalil is an old friend of mine. I can guarantee there will be no trouble with them on this estate."

Half-turning towards them, he said loudly in Malay: "I am informing the Tuan Besar that any man who creates trouble on Tungud, will not live to see Tawi Tawi again."

"And my father has also asked me to give you his word that none of our Balanini people will cause any trouble on this estate," added Centi.

This was good enough for me. I knew I could trust Ibrahim. After all, I reasoned, we were already employing the sons of Dyak headhunters from Sarawak, whilst our Bugis were supposed to be the most dreaded knife-fighters of the east. A group of pirates would hardly be noticed in this company. We could certainly use a few more workers. I decided to offer them jobs.

Whether it was a result of Ibrahim's guarantee or not, no one can say. But it is a fact that although we must, as the police had warned us, have been a prime target for pirates, never once in the 45 years which have elapsed since we first arrived in the Labuk, has Tungud ever been bothered by pirates; nor have any of the company's kumpits plying between the estate and Sandakan ever been attacked to this day.

Other estates and villages on the east coast have not been so fortunate. Many attacks have been made over the years on shipping in Labuk Bay and the Turtle Islands.

The worst incident was further south, in 1964, when Filipino pirates mounted an attack on the

small coastal town of Semporna. They came in from the sea with bren-guns blazing. They captured the police post, killed the police constables and then took over the entire town, looting and pillaging, for several hours.

No trouble until ...

Although the Balanini who came to us were sea-going types, they were strong and reasonably willing, and were a useful addition to our workforce. They picked up Malay very easily, since it was so close to their own Sulok language.

Centi their leader proved to be a quiet and intelligent young man. He became a member of the Labuk Club, of course, as did all the leaders of our other groups, and he would join us there for an hour or so most evenings. He became a popular figure with the other staff.

I tried to persuade him to stay on permanently as a trainee overseer. It was not to be, however. In late February, when the northeast wind had died down and the perahu were able to return to the sea, they all slipped off back to Tawi Tawi to resume their normal activities – whatever that might have been!

From then on, every year in late November or early December, Centi and his Balanini friends returned to us, along with the northeast monsoon. They would work for us for a few months and then return home.

As Ibrahim had promised us they did not create any trouble, and we never thought it advisable to probe them too closely about the occupations which they followed for the other nine months of the year. Apart from Centi, they mostly kept themselves to themselves. They were Muslims and this helped them to fit in fairly well with the rest of our community.

It was not until 1967 – when they had been coming and going for a few years – that our Balanini friends eventually blotted their copybook. After leaving us as usual at the end of the monsoon, they took off downstream in their perahu. We learned of their subsequent progress through news broadcasts on Sabah radio and from the stories in the *Sabah Times*.

According to the media reports, when they reached the estuary, they attacked the village of Sapi and looted the Chinese shop. They captured a kumpit, which they filled up with the contents of the shop. They also abducted several of the village maidens and cut the throats of one or two of the local men who tried to stop them. They set off for the Philippines in the heavily laden kumpit just before nightfall.

Given reasonable luck, they might have expected to be home in Tawi Tawi before dawn. Apparently, however, they got the captured kumpit stuck on a sandbank in Labuk Bay. While endeavouring to float it off, they were surprised by a police gunboat which happened to be in the area. The *Sabah Times* reported the incident as just another pirate encounter.

Some of the Balanini were killed outright. Others hid in the mangroves but they were eventually tracked down and shot dead one after another over the course of the next few days. The newspaper said that all the abducted girls were returned to Sapi unharmed, and that only one pirate succeeded in escaping alive.

We all hoped that this was Centi, but we never saw him again. I was relieved that the newspaper article omitted to mention the fact that the pirates had been working on Tungud Estate on and off for the past few years. I asked Ibrahim about his guarantee that there would be no trouble from the Balanini.

Ibrahim was quite philosophical about it. “Very difficult for the tiger to forget that he eats deer,” he said, quoting an old Malay proverb. “But Tuan will remember that my guarantee of good behaviour applied only to Tungud Estate, and not to the entire country.”

I never ascertained exactly how Centi’s father had become a friend of Ibrahim, but then there were many things about old Ibrahim which remained a mystery to me.

There was a sequel to this. Years later, when Catriona was at boarding school in Cheltenham, the teacher was telling the children a story one day about the pirates of the Caribbean.

“Please Miss,” said Catriona, “My Daddy says they have pirates in Sabah.”

“No, no,” said the teacher. “There are no nasty pirates nowadays, darling. They all died out many years ago.”

Catriona wrote us a nice letter telling us that we need have no more worries on that score.

Datuk Leslie Davidson
Author, *East of Kinabalu*

Former Chairman, Unilever Plantations International

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

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